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Argosy

Investor Update

MARCH 2017

GREEN STAR UPGRADE OF 82 WYNDHAM STREET IN AUCKLAND

Argosy's property at 82 Wyndham Street in Auckland's CBD is currently undergoing a makeover, incorporating Green Star and NABERSNZ ratings.

The four-level 6,199m² building, with three levels of offices and basement parking was constructed in the 1990s as part of the redevelopment of a large block of land that also included the old Farmers Department store building, now the Heritage Hotel.

Argosy is taking the opportunity to undertake a complete refurbishment of all the building's base services which will be upgraded to a minimum 4 Green Star built rating, with a 4 Star NABERSNZ energy efficiency rating also being sought.

New services will include:

- An "end of trip" facility to encourage cycling to work with bike racks and showers.
- A Variable Refrigerant Flow (VRF) air conditioning system with heat recovery allowing for substantial energy savings in partial-load conditions.
- An increase in the building's cooling and fresh air supply so it can cater for a density of one person per eight square metres.
- A "smart" lighting system linked to automatic blinds.
- All the latest water saving and recovery services including metering to enable usage to be measured for NABERSNZ.

"It's one of the few buildings in its class in the Auckland CBD with floor plates over 1,500m² and also provides an attractive 3.3 metre ceiling stud height, so it's already a very efficient building," says Argosy asset



manager Saatyesh Bhana. "Adding these new green services means we will end up with a good quality, very energy efficient A Grade building which will provide great value for money for tenants.

"A 4 Green Star built rating is very good for an existing building however this will be reviewed during the construction process and, if it is feasible, we will upgrade to a 5 Star built rating as we have done with other recent Argosy refurbishments projects, such as at Te Puni Kōkiri House in Wellington.

Saatyesh says tenants often don't understand the difference between a design and a built Green rating. A high design rating is often used to assist with tenant commitment to long-term leases before the project commences.

"However, it doesn't necessarily mean that the design standards are actually achieved. Commitment to a built rating, which is independently verified by the New Zealand Green Building Council after project completion, gives occupants assurance that what the landlord says will be built is what is delivered."

Saatyesh says NABERSNZ is a useful tool for an owner to understand how energy is used in a building and to be able to improve its performance. "By using this information, energy-management strategies can be instigated to make operational improvements and reduce energy consumption, which is what we will be doing at 82 Wyndham Street." ●

People



KAY MCGORAM
PROPERTY MANAGER

Kay McGoram, Argosy's longest serving property manager, is about to say goodbye to the Argosy team as she heads off on her retirement. Kay was first introduced to the world of property management when she was recruited by Waltus Investments in 2002 to manage the Trafalgar Square Centre in Whanganui. Since then, Kay has seen many changes to the business and for the past 10 years has been working at Argosy's head office in Auckland.

Kay says "the time has come for me to retire from a most exciting position where one never knows what is about to occur from one day to the next. I have experienced many interesting incidents, including a burglar being locked in one of the retail centres while being tracked down by Police dogs where he was found hiding behind a food outlet counter and a cyclone at the Albany Mega Centre which tore off roofing leaving Pink Batts strewn around the site like pink snow.

I have had the good fortune to deal with great tenants and contractors as well as the awesome team at Argosy. Thank you for a wild ride!"

Puhinui Road Acquisition

Argosy recently settled the acquisition of the brand new A Grade industrial property at 240 Puhinui Road in Wiri, Auckland. The new design/build property has the identical design and specifications to the very high, modern standard of the adjacent Argosy owned property at 19 Nesdale Avenue. Both properties are occupied by Cardinal Logistics, with matching 15 year leases in place.

Cardinal Logistics, a 100% New Zealand owned and operated business and one of Argosy's largest tenants, now occupy more than 38,000 square metres of net lettable area across the two properties.



Rental growth on the horizon?

PETER MENCE
CHIEF EXECUTIVE OFFICER



The year ahead looks fairly bright for New Zealand property vehicles as the industry continues to respond to an economy that looks to be solid and better diversified than it has for a number of economic cycles.

The New Zealand dollar, at a more modest level relative to our trading partners, is providing a small tail wind to international earnings. Tourism continues to grow and in the international context New Zealand is a relatively better place to visit than other destinations. Dairy is recovering, albeit from what may have been an unsustainable low base, and the "knowledge economy" has scored some very creditable goals over the last few years. The potential for increased protectionism in the US and Great Britain's exit from the European Union may have some future benefit to New Zealand as trade relationships settle to the new normal.

Looking at the expected economic moves in the years ahead, we can see increased funding costs for business and probably an end to the recent firming capitalisation rate trend. That is not to say that capitalisation rates will necessarily soften significantly, but that stabilisation will be an end to the firming trend of recent years.

This stability will mean that increased costs of construction, compliance and probably also land prices will necessarily be passed on to occupiers, in the form of increased

rentals. The changes in banking security and liquidity requirements too are likely to see decreased availability and increased costs of debt. In addition to the upward influence on development and construction costs, this decreased access to funding is likely to reduce the number of developers and developments that are presenting stock to the market.

With the domestic economy expected to grow respectably during the year ahead it should also be expected that the amount of new space that the economy needs will continue to grow also. Net absorption should continue to be positive and at fairly solid levels.

While the above all bodes well for the real estate investment market and rental growth has been both eagerly awaited and constrained by the firming capitalisation rate cycle, there is also a threshold of affordability for businesses which has the potential to limit achievable rental growth. In a normal cycle this would be balanced by the quality and location range available in the market, however at this point the firming capitalisation rates over an extended period have created quality expectations and stock volume restrictions that have potential to create issues. It is possible that some businesses will find that they are unable to meet the occupancy costs of their planned expansion, particularly in lightly capitalised retail businesses, which would likely also be affected by a slower housing market eroding the perceived opulence from growth in house values. ●

Leasing Update

Leasing activity in the portfolio has remained very busy, especially in the lead up to Christmas which is often seen as a quiet time in the leasing market. Argosy announced that it successfully leased the entire 1,150 square metres of previously vacant space across two levels at 308 Great South Road in Greenlane, Auckland to Housing New Zealand until mid-2020. This space had been fully refurbished following the relocation of Pacific Brands to Argosy's neighbouring building. We also announced that the entire 11,675 square metres of

warehouse space at 320 Ti Rakau Drive has been leased to Target International NZ Limited and Gunnensen Limited, each for 10-year lease terms

As at 31 January 2017, 2.9% of the portfolio's leases (by rental income) were due to expire by the end of the financial year. Good progress is being made on releasing this space, including the 4,154 square metres of office space at 82 Wyndham Street in Auckland City that has recently been vacated by IBM New Zealand. We hope to be able to report some positive outcomes for this space in the very near future.



Argosy's Commitment to the Community

As part of Argosy's commitment to corporate social responsibility, we have made the pledge that "Argosy will actively engage with the communities in which we operate." In 2013, Argosy identified surf life saving as an excellent charity to partner with as we recognise the contribution that lifeguards provide in keeping us and our loved ones safe in the water each year.

Since then Argosy has held a very successful relationship with the Red Beach Surf Life Saving Club.

This year Argosy has decided to extend its social responsibility programme and is seeking to identify three further surf life saving clubs around New Zealand to assist. We are currently busy identifying clubs around the country with worthwhile projects

and will provide further information on the initiative in the 2017 Annual Report.

Argosy is also proud to sponsor two teenagers to participate in the 10-day development voyage on the Spirit of New Zealand, through the Spirit of Adventure Trust. This development programme has been building generations of young kiwis with confidence, resilience and self-esteem since 1972. Argosy is extremely happy to be supporting this programme, especially as NZ Ministry of Youth Research has found that too many young people are arriving at adulthood ill-prepared to contribute productively as citizens of New Zealand and as future employees.

Further information about the Trust can be found at www.spiritofadventure.org.nz.

2017 Investor Roadshow

Argosy's investor roadshow will be held from late May through to mid-June 2017 after the annual results have been released. Senior management will tour the length of the country to present Argosy's 2017 annual financial results and provide an update on strategy and recent activity within the portfolio. We encourage you to take the opportunity to attend and catch up with members of the management team.

The roadshow venues and dates are listed below. Look out for an invitation to the event which will contain further information either in your inbox or post box and let us know if you would like to attend.

Location	Date
Wellington	Monday 29 May
Masterton	Tuesday 30 May
Palmerston North	Tuesday 30 May
New Plymouth	Wednesday 31 May
Tauranga	Thursday 1 June
Hamilton	Thursday 1 June
Auckland	Friday 2 June
Napier	Wednesday 7 June
Whangarei	Friday 9 June
Invercargill	Tuesday 13 June
Dunedin	Tuesday 13 June
Christchurch	Wednesday 14 June
Nelson	Thursday 15 June



Snickel Lane – Auckland's Exciting New Eating Experience

Progress on Argosy's new retail offering known as Snickel Lane is going well with a launch date expected to be during April 2017.

Tucked in between Fort Lane and Commerce Street in Auckland City, Snickel Lane is a brand new shared eating experience, catering for those who work and play in the city.

With it's all weather design, free Wi-Fi and a cluster of innovative cafés and restaurants it'll be the perfect place to escape the hustle and bustle of the CBD and to catch up with friends!

A new website will be launching very soon detailing the retailers and their respective menus at www.snickellane.co.nz.



PROPERTIES

65

TENANTS

186

WALT

5.36 yrs

Weighted average lease term of 5.36 years

PORTFOLIO

\$1.43^b

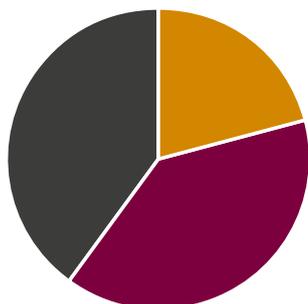
Total portfolio value of \$1.43 billion

OCCUPANCY

98.9%

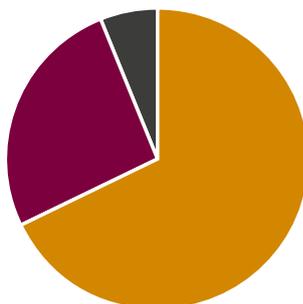
Occupancy (by rent) of 98.9%

TOTAL PORTFOLIO VALUE BY SECTOR



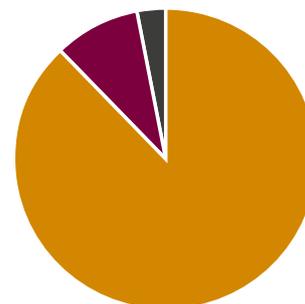
- 21% Retail
- 39% Office
- 40% Industrial

TOTAL PORTFOLIO VALUE BY REGION



- 68% Auckland
- 26% Wellington
- 6% North Island regional and South Island

PORTFOLIO MIX



- 88% Core
- 9% Value Add properties
- 3% Properties and land to divest

Dividend

The **THIRD QUARTER DIVIDEND** for the 2017 financial year of 1.525 cents per share, with imputation credits of 0.427459 cents per share attached, will be paid on 30 March 2017, with the record date being 16 March 2017.

As indicated by the Board last year, a dividend of 6.10 cents per share is expected to continue for the year to 31 March 2017.

IMPORTANT DATES

QUARTER 3 DIVIDEND PAYMENT
30 March 2017

ANNUAL RESULTS ANNOUNCEMENT
25 May 2017

QUARTER 4 DIVIDEND PAYMENT
September 2017

QUARTER 1 (FY18) DIVIDEND PAYMENT
December 2017

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