22.05.2024

Market Release

FY24 Annual Result – Building a better future

Argosy will present the FY24 annual result via a teleconference and webcast at 10am today. Please visit https://s1.c-conf.com/diamondpass/10038045-5wb7dd.html dial 0800 453 055 and quote the conference ID#10038045. It is recommended that you dial in or log in a few minutes before the start time. A copy of the webcast will be available on Argosy's website later in the day.

Argosy Property Limited ('Argosy' or the 'Company') has reported its results for the 12 months to 31 March 2024.

Key results for the period include:

- Net property income for the period of $116.5 million, up 3.3% on the prior comparable period;
- $111.7 million revaluation loss for the 12 months to 31 March ($50.8 million recognised in the first half), down 5.4% on book value, contributing to a full year net loss after tax of $55.3 million;
- Net distributable income of $55.8 million vs. $64.2 million for the prior comparable period;
- Sound portfolio metrics, with occupancy at 96.7% and WALT of 5.2 years;
- NTA per share of $1.45, from $1.58 at 31 March 2023;
- Portfolio gearing steady at 36.5%, near the middle of the target band of 30-40%;
- Divested four non Core assets for $93.1 million, achieving above book value;
- Successful portfolio leasing and rent review outcomes, including 3.5% annualised rental growth on rents reviewed and 85% tenant retention rate;
- Execution of strategy, including obtaining 6 Green Star Built and 5.5 NABERSNZ certification on 8-14 Willis Street, commencement of 224 Neilson Street targeting 6 Green Stars and continuing the company's portfolio transformation and progress to a 50% green portfolio by 2031; and
- FY25 dividend guidance of 6.65 cents per share, in line with the prior year.

CHAIR'S REVIEW

Chair Jeff Morrison said, "The Board is satisfied with the way the business, management team and staff have performed despite continued weak operating conditions.

Inflation remains outside the Reserve Bank's target band, and consequently interest rates remain at a higher level. These high rates have clearly had a negative influence on property values.

As a Board, we are pleased by the progress Argosy continues to make towards our sustainability goals evidenced by the green buildings completed, certifications achieved, and future new developments.

We also maintained or improved NABERSNZ ratings across rated assets and retained our MSCI ESG Green Rating at AA. We are increasing our focus on the potential impacts of climate change on the business.

Argosy's diversified portfolio remains resilient and the 34% weighting to the Government sector provides a measure of earnings defensiveness. Our portfolio metrics remain sound, although we acknowledge the coming year will certainly be more challenging.

The Board is comfortable with the company's capital position and balance sheet strength over the medium term, having made several strategic asset divestments through the year, all at or in excess of book values. The business has sufficient funding capacity to accommodate short term development requirements and strategic acquisition opportunities should they arise.

Argosy continues to deliver an investment strategy focused on a diversified high quality portfolio underpinned by our sustainability strategy. Key policy targets are an increased weighting in Auckland Industrial and a reduced weighting in Wellington Office. Our commitment to building a better future, particularly for our tenants and the environment, is unchanged.

The Board considers the business to be in a sound position. Based on current projections for the portfolio and subject to delivery against strategic objectives and market conditions, which we acknowledge remain uncertain, the dividend guidance for FY25 is 6.65 cents per share, consistent with this financial year."

MANAGEMENT REVIEW

Argosy's Chief Executive Officer, Peter Mence said "The business is in good shape with a solid capital position. Whilst we experienced positive leasing and rent review results over the period, the extended time to close leasing opportunities persisted and we expect this to continue for the FY25 financial year.

Although our portfolio occupancy at 96.7% is solid, the next 12 months is expected to be challenging in a weaker economic environment as we seek to address near term expiries and vacancy.

I'm pleased the way our Health & Safety framework is working, and we'll continue to work collaboratively with our key stakeholders towards our goal of zero harm.

We are seeing increased market interest and demand for green buildings, particularly in relation to our current industrial development project at Neilson Street.

We have adjusted our Investment Policy target bands, with a 5% increase to our Auckland Industrial weighting and a commensurate reduction to Wellington Office. The continued favourable characteristics of the Industrial sector, coupled with growing demand for green buildings will see the portfolio well placed to benefit from these drivers over the long term.

Despite a muted outlook for the next 12 months, we remain confident in and committed to the delivery of our long term strategy, importantly including the payment of sustainable dividends to shareholders and building a better future for all our stakeholders."

Financial Results

Statement of Comprehensive Income

For the 12 months to 31 March, Argosy reported net property income of $116.5 million for the period, up $3.7 million or 3.3% compared with the prior comparable period.

Net property income was bolstered by solid like-for-like rental growth, driven by contributions from rent reviews and income from completed developments.

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Net interest expense of $43.7 million was up $7.4 million on the prior comparable period, primarily due to higher floating rates, higher average debt and lower capitalised interest.

Annual valuations for the year to 31 March 2024 were performed by CBRE Limited and Colliers International New Zealand Limited. The total unrealised revaluation loss for the year to 31 March was $111.7 million or 5.4% on book value. The softening of the portfolio capitalisation rate by 37 basis points to 6.21% was the key driver of the revaluation decrease. Of the annual decline, $50.8 million was recognised in the interim result at 30 September 2023.

By sector, Industrial decreased $51.2 million or 4.8%. The Office portfolio declined by $49.9 million or 6.1%, and Large Format Retail declined by $10.6 million or 5.1%. The portfolio is 8.6% under-rented, excluding market rent on developments.

As a result of the FY24 revaluations, Argosy's NTA declined to $1.45 per share from $1.58 at 31 March 2023. Following the revaluation, Argosy's portfolio shows a contract yield on values of 6.05% and a yield on fully let market rentals of 6.73%.

The revaluation loss contributed to the net loss after tax of $55.3 million, compared to a net loss of $80.8 million in FY23.

Distributable Income

Net distributable income for the year was $55.8 million compared to $64.2 million in the prior comparable period (which included a $3 million settlement for the failed sale of the Albany Lifestyle Centre).

Portfolio Activity - Portfolio Metrics, Rent Reviews and Leasing

Peter Mence said "The full year has definitely been influenced by a tougher economic environment. However, the team has delivered solid results across our core operating metrics."

As at 31 March, Argosy's WALT was 5.2 years and portfolio occupancy was 96.7%.

For the period to 31 March 2024, Argosy completed 115 rent reviews, achieving annualised rental growth of 3.5%. These reviews were achieved on rents totalling $93 million.

On rents subject to review by sector, Argosy achieved annualised rental growth of 3.4% for Industrial rent reviews, 3.5% for Office rent reviews and 4.0% for Large Format Retail rent reviews.

For the period to 31 March 2024, 65% of rents reviewed were subject to fixed reviews, 28% were market reviews and 7% were CPI based.

Argosy completed 44 leasing transactions across 151,660m^2 of NLA over the period to 31 March. Lease transactions were made up of 20 new leases, 21 renewals and 3 extensions.

Key leasing highlights over the full year include;

- The Mind Lab Limited, 99-107 Khyber Pass, 875m^2 renewed for 4 years;
- Electrix Limited, 15 Unity Drive and Rothwell Avenue, 14,000m^2 renewed for 4 years;
- Instant Offices NZ Limited, 105 Carlton Gore Road for 1,102m^2 on a new 8 year lease;
- The Warehouse, Albany Mega Centre, 908m^2 renewed for 3 years;
- The Warehouse, Taupo, 4,212m^2 renewed for 5 years;

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- NIWA, 82 Wyndham Street, 2,650m^2 on a new 12 year lease
- Colgate Palmolive, 105 Carlton Gore Road for 561m^2 on a new 6 year lease;
- Stantec New Zealand, 105 Carlton Gore Road for 1,647m^2 on a new 8 year lease;
- Harbour Cancer Centre, 105 Carlton Gore Road for 772m^2 on a new 12 year lease; and
- Mainfreight Limited, 32 Bell Avenue, 8,138m^2 on a 13 month extension.

Peter Mence said ” We have retained important tenants, with a retention rate above 85%, as well as attracting very good new tenants to the portfolio.

The softer leasing environment identified at our interim results has persisted over the second half of the financial year. This weakness was offset to a degree by the ongoing strong bottom-up fundamentals for the Auckland Industrial sub-sector. This sector continues to show low forecast vacancy and positive rental growth, coupled with a large reduction in forecast new supply. The Industrial sector is forecast to deliver solid returns over the next three years and we will increase our focus on this sector.

Our portfolio is 51% weighted to Industrial and our pipeline of green Value Add development Industrial sites, such as 224 Neilson Street which is now under construction, continues to improve portfolio quality and resilience over the longer term.”

Divestment of non Core Assets

The non Core asset at 10 Transport Place, East Tamaki, was sold during the second half of the year for $38 million, at a pleasing 7.3% premium to 31 March 2023 book value. Other non Core properties at 302 & 308 Great South Road were sold for $19.9 million. 8 Forge Way, Auckland, was also sold for $35.2 million and is expected to settle 25 March 2025. All proceeds will initially be used to reduce bank debt.

Investment Policy Bands

During the year, the Board and Management made a strategic decision to adjust Argosy’s Investment Policy target bands to increase the portfolio weighting towards the Industrial sector and reduce the weighting to Wellington Office. Accordingly, by portfolio value, the Industrial target is now 60-70% (was 55-65%), Office is now 20-30% (was 25-35%). There is no change to our Large Format Retail band of 5-15%.

Peter Mence said “As you would expect, we consistently monitor changes in the external environment. We have continued to undertake regular assessment of Value Add opportunities within the portfolio, supported by external research & analysis of forecast sector returns.

Auckland Industrial is forecast to be one of the best performing sectors over the medium to longer term. The benefit of having a diversified portfolio is that it allows us to adjust our weightings and allocations based on longer term trends.

The combination of delivering on our Value Add opportunities and strategic acquisitions and divestments along the way, means that we expect to be close to or within our new target bands over the next five years.”

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Developments

224 Neilson Street

This project is the first of Argosy's Value Add green industrial estates and is now under development. On a 3.5ha site and with an expected value on completion of over $110 million, this will be Argosy's largest industrial build to date, when completed in late 2025. This new investment comes at a time when parts of the Auckland region are facing the lowest levels of industrial building construction for over a decade. It is strategically located 8km from the Auckland CBD, with excellent access to both motorway networks. The project is being developed in two phases and is ultimately expected to total around 17,200m^2 of warehouse NLA. The first phase is a 5,000m^2 warehouse targeting completion by March 2025 with phase two, a 12,200m^2 warehouse, expected to be delivered by the end of 2025.

Both high stud, column free warehouses are targeting 6 Green Star Design and As Built ratings. The design team have incorporated a wide range of green initiatives to help achieve the 6 Star rating, including low carbon concrete, rainwater harvesting, solar electricity generation and intelligent lighting and air conditioning. Furthermore, with approximately 1,750 solar panels generating over 1.2GWh of energy annually, on completion the facility will have one of the largest rooftop photovoltaic installations in the country.

"The development is underway and the level of tenant leasing enquiry is encouraging with strong market demand for modern, well located and sustainable buildings. Sustainability driven projects like 224 Neilson Street, coupled with strong market fundamentals for Industrial property over the long term, positions us very well for the future." said Peter Mence.

Mt Richmond

Master Planning continues at this 10.6 hectare Value Add green development site in the central industrial precinct of Mt Wellington, only 15km from the Auckland CBD. The Mt Richmond development remains an important part of our long term strategy given our positive view of the Industrial sector over the long term. With the 224 Neilson Street development now underway, potential commencement of the Mt Richmond development has been deferred and the current leases extended.

Capital Management

As at 31 March, Argosy's debt to total assets ratio, excluding capitalised borrowing costs, was 36.5%[1] compared to 35.1% at 31 March 2023.

The ratio reflects the net impact of revaluation losses, divestments and development activity during the period. Argosy's year end gearing sits towards the middle of its target gearing band of 30-40%, and well below its bank covenant of 50%.

During the period Argosy increased and extended its syndicated bank facilities with ANZ Bank of New Zealand Limited, Bank of New Zealand Limited, The Hongkong and Shanghai Banking Corporation, Commonwealth Bank of Australia, Westpac New Zealand Limited and Industrial and Commercial Bank of China Limited. The total amount of the bank facilities are $525 million.

[1] The ratio excludes the right of use asset at 39 Market Place of $40.0 million, recorded in the period under NZ IFRS 16.

Argosy’s weighted average debt tenor, including bonds, was 2.3 years (3.2 years at 31 March 2023) with the nearest tranche of bank debt expiring in April 2025. The weighted average interest rate was 5.59% (5.39% at 31 March 2023).

Strategy

Jeff Morrison said: “Our vision of building a better future for all our stakeholders remains unchanged. We aim to build a better future for our tenants by creating modern spaces where their businesses and their staff can thrive and grow. We strive to build a better future for the environment through our commitment to sustainability and reducing our carbon footprint.

For our shareholders, we build a better future through our strategy of creating a resilient business through various economic cycles delivering sustainable dividends. Our strategy also provides diversified exposure to a quality portfolio of commercial real estate. Greening our portfolio towards more sustainable buildings, with appropriate certifications validating their quality, will drive long term value. For our people, we aim to provide pathways and opportunities to help them develop, grow and succeed.

The adjustment to Argosy’s Investment Policy bands, increasing our target weighting to Auckland Industrial, reflects the Boards belief in the positive long term structural trends in this sector. We will consequently reduce our weighting to the Wellington Office market over time.”

Succession Planning

Jeff Morrison said “The Board is very focused on the current and future success of the business. A key part of this is ensuring there is appropriate succession planning in place at both the Board and Executive levels. The Remuneration Committee has transitioned to a Remuneration and Nominations Committee and is developing a longer term succession plan for Directors and Senior Management that will position the business well to continue to deliver solid and reliable results for shareholders.”

Dividends and Outlook

A fourth quarter dividend of 1.6625 cents per share has been declared for the March quarter with imputation credits of 0.1633 cents per share attached. This brings the full year dividend to 6.65 cents per share in line with previous guidance. The fourth quarter dividend will be paid to shareholders on 26 June 2024 and the record date will be 12 June 2024. The Dividend Reinvestment Plan remains suspended by the Board until further notice.

Jeff Morrison said “The Board is mindful of maintaining a balance between delivering on near term objectives and the delivery of longer term goals. Dividend guidance for FY25 is 6.65 cents per share, consistent with the FY24 year. The Company is facing an environment of continuing restrictive interest rates and softening market conditions, and some increasing property costs in Wellington. The removal of tax depreciation on buildings from FY25 also imposes a significant additional tax impost on Argosy.

Based on current projections for the portfolio, including the sale of 39 Market Place, we are targeting the dividend to stay within the top end of our dividend policy range of 85-100% of Adjusted Funds from Operations over a three year rolling period.

As we look to the year ahead, the economic environment for FY25 looks demanding for business and consumers. We recognise the team has challenges ahead of them. We expect them to remain focused on delivering on the key operational metrics that drive earnings and dividend sustainability. These include a focus on leasing up current vacancies, addressing near term lease expiries and making good progress with our new green industrial project at Neilson Street.

Our key strategic goal around greening the portfolio remains a key focus, to support resilient and sustainable dividend growth to shareholders over the long term."

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