Argosy

21.05.2025

Market Release

FY25 Year end result – Quality attracts quality

Argosy will present the FY25 year end result via a teleconference and webcast at 10am today. Please visit https://s1.c-conf.com/diamondpass/10045461-jh7y6t.html dial 0800 453 055 and quote the conference ID#10045461. 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 year ended 31 March 2025.

KEY RESULTS FOR THE PERIOD INCLUDE:

- Net property income for the period of $116.9 million, up 0.4% on the prior comparable period;
- $72.7 million revaluation gain for the 12 months to 31 March ($111.7 million revaluation loss in the prior comparable period), up 3.6% on book value, contributing to a full year net profit after tax of $125.9 million (loss of $54.5 million in the prior comparable period);
- Net distributable income of $55.8 million, the same as the prior comparable period (note this year Argosy incurred incremental tax expense of $2.8 million, following the Government's removal of tax deductions for depreciation on buildings);
- Sound portfolio metrics, with occupancy at 96.5% and WALT of 5.1 years;
- NTA per share of $1.53 up from $1.45 at 31 March 2024;
- Portfolio gearing steady at 35.7%, in the middle of the target band of 30-40%;
- Divested and settled the non Core asset at 8 Forge Way for $35.2 million, achieving above book value;
- Successful portfolio leasing and rent review outcomes, including 3.5% annualised rental growth on rents reviewed and 86% tenant retention rate;
- Progress on green developments, continuing our portfolio transformation and progress to a 50% green portfolio by 2031 (37.2% at 31 March 2025);
- Argosy achieved notable success at the annual Property Council of New Zealand (PCNZ) Awards. The company won the Supreme Award for its 6 Green Star Built property located at 8 Willis Street/Stewart Dawsons Corner. This property was also Highly Commended at the World Green Building Council's Asia Pacific Leadership in Green Buildings Awards.

- Additionally, the 6 Star Green Built property at 105 Carlton Gore Road received an Excellence Award at the PCNZ Awards. These accolades further underscore the quality of our portfolio and our commitment to sustainable practices;
- Appointment of Alex Cutler to the Board, as part of the Board succession process; and
- FY26 dividend guidance of 6.65 cents per share, consistent with the prior year.

CHAIRMAN REVIEW

Chairman Jeff Morrison said, “The business has performed well in the second half of the year, despite difficult market conditions. The Board is pleased by the progress made towards our sustainability goals evidenced by the green buildings completed, certifications achieved and the commencement of new developments. We believe greening our portfolio towards more sustainable buildings, with appropriate certifications validating their quality, will drive long term shareholder value.”

The Company won the Supreme Award at the Property Council of New Zealand Awards for the 6 Green Star Built property at 8 Willis Street/Stewart Dawsons Corner. The Property Council Awards is a prestigious awards program that recognises excellence in design and innovation in the built environment. The Board congratulates staff and all the Company’s partners who worked on the project. Additionally, the same building was Highly Commended at the World Green Building Council’s Asia Pacific Leadership in Green Buildings Awards (one of only three buildings to be recognised in this category).

8 Willis Street/Stewart Dawsons Corner continues the Company’s growing expertise in retrofitting existing buildings to create modern, attractive working environments for our tenants and their people. We will continue to target strategic growth opportunities with green potential – with Auckland Industrial being the current focus.

The Board is comfortable with the company's capital position and balance sheet strength. The sale of 8 Forge Way, Auckland, was settled for $35.2 million in March and proceeds will be applied to our green developments at 224 Neilson Street and Mt Richmond. The business has sufficient funding capacity to accommodate medium term development requirements.

Inflation is now within the Reserve Bank’s target band, and interest rates have fallen to more reasonable levels, albeit the cash rate is still higher than the Reserve Bank’s estimate of the neutral rate. The Company has reported a revaluation gain of $72.7 million this year, primarily driven by market rental growth. This compares to a revaluation loss of $111.7 million in the last financial year.

Argosy continues to follow an investment policy focused on a diversified high quality portfolio underpinned by our sustainability strategy. Key policy targets include a weighting to Industrial of 60-70% and a weighting to Auckland of 70-80%.

At the last Annual Shareholders Meeting, the Board noted it is focused on ensuring there is appropriate succession planning in place at Board level. The first step in that process saw Alex Cutler join the Board in October 2024. Alex has global experience working with multinational organisations to assist their understanding of the strategic importance of sustainability. Alex will stand for election at the 2025 Annual Shareholders Meeting.

A fourth quarter dividend of 1.6625 cents per share has been declared for the March quarter with imputation credits of 0.217951 cents per share attached. This will bring the full year dividend to 6.65 cents per share in line with previous guidance. Overseas investors will receive an additional supplementary dividend of 0.098902 cents per share to offset non-resident withholding tax. Please see the dividend announcement today for more details.

Dividend guidance for FY26 is 6.65 cents per share, consistent with the FY25 year. Our dividend policy is to pay between 85-100% of AFFO earnings (note the Board is comfortable being outside policy for limited periods to reduce dividend volatility). Based on current projections, we expect the dividend payout for FY26 to be within, but at the top end, of the policy range.

Whilst the removal of tax depreciation on buildings from 1 April 2024 imposed a significant additional tax impost on Argosy, previous highly restrictive interest rates appear to be behind us. This, along with the prospect of slowly improving economic conditions, provides us with some optimism for the year ahead.

MANAGEMENT REVIEW

Argosy's Chief Executive Officer, Peter Mence said "Difficult economic conditions and restrictive interest rate settings persisted for most of this financial year (although some welcome relief is in sight). The extended time to close leasing opportunities was evident in the first half of the year, but we have been buoyed by a recent improvement in leasing enquiry.

Our portfolio occupancy at 96.5% is solid, however our core focus over the next twelve months will be to address residual vacancy and near term expiries. We continue to receive good enquiry for green properties with their vibrant and engaging environments, which reinforces our overall strategic direction. Our green industrial development projects at 224 Neilson Street and Mt Richmond in Auckland (along with future developments including the industrial property at 291 East Tamaki Road, Auckland) underpin our strategic goal of increasing our Industrial weighting and greening half our portfolio by 2031.

There is growing evidence around rental premiums between green and non-green buildings. A recent CBRE sustainability report found that more than 50% of Prime and B-Grade office occupiers are willing to pay a premium to be in space with high environmental performance (≥ 5 Green Star or NABERSNZ ratings). Green ratings also have a high correlation with building quality and occupancy."

Financial Results

Statement of Comprehensive Income

Argosy reported net property income of $116.9 million for the period, which was consistent with the prior comparable period. Interest expense of $41.6 million was lower than the prior comparable period ($44.0 million). This was due to a combination of lower overall debt levels, lower rates and higher capitalised interest.

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Annual valuations for the year to 31 March 2025 were performed by CBRE Limited, Colliers International New Zealand Limited and Jones Lang LaSalle Limited. The total unrealised revaluation gain was $72.7 million, or 3.6% on book value, which compares to an unrealised revaluation loss for the year to 31 March 2024 of $111.7 million. An increase in market rents was the key driver of the revaluation increase. Of the annual increase, $8.7 million was recognised in the interim result at 30 September 2024.

By sector, Industrial increased by $60.6 million or 5.7%. The Office portfolio increased by $4.1 million or 0.5%, and Large Format Retail increased by $8.0 million or 4.0%. The portfolio is 11.0% under-rented, excluding market rent on developments.

As a result of the FY25 revaluations, Argosy's NTA increased to $1.53 per share from $1.45 at 31 March 2024. Following the revaluation, Argosy's portfolio shows a contract yield on values of 6.00% and a yield on fully let market rentals of 6.85%.

The revaluation gain contributed to the net profit after tax of $125.9 million, compared to a net loss of $54.5 million in the prior year.

Distributable Income

Net distributable income (NDI) for the year was $55.8 million, the same as the prior comparable period. NDI has been negatively impacted in this period by incremental tax expense of $2.8 million, following the Government's removal of tax deductions for depreciation on buildings.

Portfolio Activity - Portfolio Metrics, Rent Reviews and Leasing

Peter Mence said "The financial year was influenced by tight economic conditions, high interest rates and geopolitical uncertainty. The team has worked hard to deliver solid core operating metrics including occupancy, rental growth and leasing outcomes."

As at 31 March, Argosy's WALT was 5.1 years and portfolio occupancy was 96.5%.

Over the financial year, Argosy completed 105 rent reviews, achieving annualised rental growth of 3.5%. These reviews were achieved on rents totalling $76.5 million.

On rents subject to review by sector, Argosy achieved annualised rental growth of 4.2% for Industrial rent reviews, 2.5% for Office rent reviews and 3.3% for Large Format Retail rent reviews. Over the financial year, 81% of rents reviewed were subject to fixed reviews, 10% were market reviews and 9% were CPI based.

Argosy completed 54 leasing transactions across 57,100m² of NLA during the year. Lease transactions were made up of new leases (22), renewals (24) and extensions (8).

Key leasing highlights over the year include;

- Cotton On Clothing Limited, Albany Mega Centre - 1,718m² on a 10 year renewal;
- Mitchell Vranjes Consulting Engineers Limited, 8 Nugent Street - 810m² on a 6 year renewal;
- Trust Investments Management Limited, 105 Carlton Gore Road - 529m² on a new 8 year lease;
- New Zealand Educational Institute, 101 Carlton Gore Road - 984m² on a new 7 year lease;

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- Booths Logistics Limited, 32 Bell Avenue - 8,790m² on a new 3 year lease;
- Henkel New Zealand Limited, 12 Allens Road - 2,344m² on a new 10 year lease;
- Steel E.D. & Patton Limited, 39 Randwick Road - 2,304m² on a new 12 year lease;
- Lighthouse Financial Services, 23 Customs Street - 656m² on a new 5 year lease;
- Farmers, Albany Mega Centre - 3,336m² on a 6 year renewal;
- The Warehouse, Cavendish Drive - 9,427m² on a 6 year renewal; and
- Belton IT Nexus, 101 Carlton Gore Road - 500m² on a new 4 year lease.

Peter Mence said “We are pleased with the efforts of the team this year. We have managed to retain many valued tenants and also attract new tenants to the portfolio.

The softer leasing environment was offset to some degree by the ongoing strong metrics for the Industrial sector. This sector continues to show low forecast vacancy and positive rental growth and is forecast to deliver solid returns over the next four years. Our portfolio was 53% weighted to Industrial at 31 March 2025 and, following the completion of our pipeline of green Value Add development Industrial sites, will continue to increase toward our target weighting of 60-70% over the medium term.”

Divestment of non Core Assets

The non Core property at 8 Forge Way, Auckland, was unconditionally sold in FY24 for $35.2 million and settled in March 2025.

A further seven properties have been identified as non Core, with a combined current book value of $147 million, and these properties are expected to be divested over the medium term.

Developments

224 Neilson Street

This project is the first of Argosy’s Value Add green industrial estates and the development is progressing well. The 3.5ha site is strategically located, 8km from the Auckland CBD with excellent access to State Highway 1, State Highway 20 and the wider transport network.

Argosy has successfully secured a 12-year lease agreement with national business, Bascik Transport, for the first warehouse and this lease commenced in April 2025.

Additionally, the second warehouse at Neilson Street, comprising 15,300 sqm of NLA, is on track for completion in September this year, with solid current leasing enquiry.

Both 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. With approximately 1,880 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.

Following completion, 224 Neilson Street is expected to have an end value of $110 million, with a yield on development cost of 5.7%, and a development margin of 11.2%.

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Mt Richmond

Mt Richmond is a 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 is an important part of our long term strategy given our positive view of the Industrial sector over the long term.

The first building at Mt Richmond has been committed with a new 10-year lease agreement with the global healthcare company Viatris Ltd (with lease commencement in the first quarter of 2026). This building includes 6,633 sqm of NLA and is targeting a 6 Green Star Built rating.

The business park has very solid metrics, including an IRR of 9.4%, a yield on cost of 6.2% and a development margin of 18.7%.

Peter Mence said, “The addition of Bascik Transport and Viatris underscores Argosy's strong market position and the growing demand for high-quality, sustainable warehouse/office space.”

Acquisitions

There were no acquisitions during this financial year. However, in November 2024, Argosy unconditionally contracted to purchase 291 East Tamaki Road (and adjacent titles). This is a 4.6 hectare, level site in a well-established industrial precinct, just 2km’s from State Highway 1.

The initial purchase price and attendant capital works is $60 million, and the fully-let holding return is 5.0%. The site is currently 58% leased, with the balance expected to be leased up soon after settlement, in August 2025. This strategic acquisition, when developed to a high 6 Green Star Built standard, will position the portfolio closer to the target Industrial weighting of 60-70%.

“This location is excellent and is already generating very strong leasing interest. We will be well-placed to capitalise on strong prospective net absorption for Auckland Industrial in the coming years” said Peter Mence.

Capital Management

As at 31 March, Argosy’s debt to total assets ratio, excluding capitalised borrowing costs, was 35.7%[1] compared to 36.5% at 31 March 2024, and 37.2% at the half-year.

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

Banking Facilities

In July, Argosy extended its syndicated bank facilities with ANZ Bank New Zealand Limited, Bank of New Zealand Limited, Commonwealth Bank of Australia, Westpac New Zealand Limited and Industrial and Commercial Bank of China Limited. The new Tranches and expiries are:

Tranche A: $210 million, expiry 1 October 2027.

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[1] The ratio excludes the right of use asset at 39 Market Place of $39.8 million, recorded in the period under NZ IFRS 16.

Tranche B: $215 million, expiry 1 October 2028.

Tranche D: $100 million, expiry 1 October 2029.

Argosy's weighted average debt tenor, including bonds, was 2.7 years at 31 March 2025 (2.3 years at 31 March 2024). The weighted average interest rate was 5.1% (5.6% at 31 March 2024).

Argosy has $100 million of green bonds (ARG010) maturing in March 2026. These bonds will be refinanced during this financial year.

Trends/Outlook

The strong outlook for the Industrial sector will continue to underpin growth. As economic conditions improve, it's expected the imbalance between new supply and net absorption (demand) will abate, reducing vacancy and improving rents.

In the Office sector flexible working environments continue, but full-time remote work is declining and the building environment is increasingly in focus by employers as a means to get staff back to the office. The Government's desire to get more employees back to the office will be positive for Argosy. Although there are some cutbacks in Wellington, past trends indicate that core civil service numbers are resilient. Many firms are looking to increase unassigned seating (hot desking), but are also looking for more collaborative spaces, and Argosy is looking to position the portfolio accordingly.

Although national retail sales decreased over the year to September 2024, confidence is improving. Argosy's retail exposure is limited to Large Format Retail which is expected by CBRE to provide relatively high returns over the next 4 years.

Argosy is very well placed. It has a strong balance sheet and a growing, high quality portfolio of diversified properties with a clear focus on sustainability and green assets. Gradually increasing our weighting to Industrial through our pipeline of green developments will deliver certainty and stability to our cashflows and earnings.

The Management team, as always, will remain focused on addressing near term lease expiries within the portfolio and ensuring that our tenant retention rate remains high.

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