Dexus (ASX: DXS)

ASX release

30 April 2019

March 2019 quarter portfolio update

Dexus today announced its property portfolio operational update for the quarter ended 31 March 2019.

Darren Steinberg, Dexus Chief Executive Officer said: "This quarter, we have achieved milestones across leasing, development, funds management, transactions and capital management.

"We also announced the sale out of a non-core market and increased investment into a core market with the acquisition of the MLC Centre in Sydney, consistent with our commitment to drive investment performance for Dexus investors and our capital partners."

Highlights

- Leased 41,874 square metres[1] of office space and 19,225 square metres of office development space across 93 transactions with office portfolio occupancy increasing to 97.5%
- Leased 46,193 square metres[1] of industrial space across 19 transactions, with industrial portfolio occupancy increasing to 96.9%
- Announced the acquisition of the remaining 50% interest in the MLC Centre, Sydney jointly with Dexus Wholesale Property Fund (DWPF), which subsequently settled on 1 April 2019
- Conditionally exchanged contracts to sell Dexus's 100% interest in 11 Talavera Road, Macquarie Park for $231.2 million[2] and in April 2019, exchanged contracts to sell Finlay Crisp Centre[5], Canberra for $62 million[2]
- Post quarter end, Healthcare Wholesale Property Fund (HWPF) received a major equity commitment of $100 million which is subject to FIRB approval
- Dexus was again recognised by Workplace Gender Equality Agency as an Employer of Choice for Gender Equality

Dexus office portfolio

Key metrics	31 March 2019	31 December 2018
Occupancy by income	97.5%	97.3%
Occupancy by area	97.1%	97.0%
WALE by income	4.4 years	4.5 years
Average incentives[3]	13.5%	11.9%

Executive General Manager, Office, Kevin George said: "Leasing enquiry remained robust over the quarter despite uncertainty as a result of external factors, including the NSW State election and upcoming Federal election. Enquiry over the past quarter has converted to significant leasing activity in Sydney and Perth, including our key office developments at 100 Mount Street in North Sydney and 240 St Georges Terrace in Perth.

"Our portfolio occupancy remains very high however we have the opportunity to reset more than 115,000 square metres of vacant or expiring space across our Sydney properties up to the end of FY21. This represents approximately 17% of our total office income."

Over the quarter to 31 March 2019, a total of 61,099 square metres[1] of office space was leased across 93 transactions in the core portfolio and in the development projects that are underway. Notable activity during the quarter included:

- Securing Heads of Agreement across 10,706 square metres at 240 St Georges Terrace in Perth, taking committed space to 92.5%
- Securing St John of God Health Care across 4,882 square metres at 266 Wellington Street, Kings Square resulting in the entire Kings Square complex being 100% leased. The complex became fully leased 19 months prior to the expiry of the 5-year rental guarantee which has been in place since the completion of the development in November 2015

- Leasing 4,795 square metres across 5 transactions at the MLC Centre, 19 Martin Place, Sydney
- Leasing 4,397 square metres at 100 Mount Street in North Sydney, taking leased space to 92% ahead of the development project's completion which is due in May 2019

While FY19 distribution guidance remains unchanged, Dexus notes that its target for FY19 office like-for-like growth may be affected by a tenant dispute in Queensland. While Dexus expects receipt of proceeds from this tenant, it notes that timing is uncertain. This space has already been leased to a new tenant that is now in occupation. Dexus's revised target for FY19 office like-for-like income growth is now circa 3%.

Dexus industrial portfolio

Key metrics	31 March 2019	31 December 2018
Occupancy by income	96.9%	96.8%
Occupancy by area	98.0%	97.8%
WALE by income	5.0 years	5.0 years
Average incentives	8.2%	7.7%

Over the quarter to 31 March 2019, 46,193 square metres[1] of industrial space was leased across 19 transactions, with notable activity including:

- Renewing lease agreements with three tenants across 17,160 square metres at 1 Foundation Place, Greystanes
- Securing heads of agreement across 15,587 square metres at Quarry, 1 Basalt Road, Greystanes extending the WALE to 6.3 years

Occupancy and WALE (by income) have been maintained at 96.9% and 5.0 years respectively, while forward leasing has mitigated future expiry risk with minimal downtime resulting in FY20 expiries reducing from 14.2% at 30 June 2018 to 7.7% at 31 March 2019.

Transactions

In March 2019, Dexus and DWPF entered into an agreement to jointly acquire the remaining 50% interest in the MLC Centre, 19 Martin Place, Sydney for a total price of $800 million[4], with the acquisition settling on 1 April 2019. The acquisition provides opportunities to:

- Benefit from strong Sydney CBD office market fundamentals within the upcoming lease expiry profile,
- Achieve positive rental reversion through the 12,800 square metre ground floor retail development, adding further amenity for Dexus's customers and enables Dexus to activate the development of the retail area in its entirety
- Gain full management and operational control of the asset

Dexus funded its share of the MLC Centre acquisition through the issue of A$425 million of Guaranteed Exchangeable Notes, further diversifying the Group's funding sources through accessing an attractively priced new source of capital.

Dexus and Dexus Australian Logistics Trust settled on the acquisition of the 9-hectare brownfield site at 425 Freeman Road, Richlands, QLD previously announced to the Australian Securities Exchange (ASX) in August 2018.

In addition, Dexus exchanged contracts to sell 11 Talavera Road, Macquarie Park for $231.2 million[2] and in April exchanged contracts to sell Finlay Crisp Centre[5], Canberra for $62 million. The sale of these properties is consistent with our strategy of divesting properties from non-core markets and reinvesting proceeds in development and acquisition opportunities in core markets.

Development

Dexus progressed its $5.0 billion group development pipeline of which $2.6 billion sits within the Dexus portfolio and $2.4 billion within the Funds Management business. Notable activity during the quarter included:

- Securing a conditional agreement for a 45-year lease with the NSW Government at the MLC Centre, paving the way for a private theatre operator to run the Theatre Royal and enabling Dexus to activate the entire development of the retail area. The inclusion of the theatre expands the scope of the development and changes the total development spend to circa $170 million as well as the target yield on cost to circa 6%. Part of the agreement with the NSW Government includes an arrangement taking into account Dexus's inability to activate the development potential on the site.

- The unveiling of the new Sydney flagship Tiffany & Co store at 175 Pitt Street, spanning three levels across 2,270 square metres of office and retail space, located within Sydney's luxury shopping precinct
- The completion of the final stage of development at Dexus's Quarrywest estate in Greystanes. Combined with the adjoining Quarry at Greystanes site, the estate has been developed over the past 9 years into a premium industrial precinct offering high quality industrial facilities across almost 350,000 square metres.

Corporate Responsibility and Sustainability

Dexus was named by WGEA as an Employer of Choice for Gender Equality recognising Dexus's active commitment and progress towards achieving gender equality in its workplace through embedding organisation-wide flexible work practices, tailored parental leave policies to support women and men, and robust analysis and correction of gender pay gaps.

Dexus was also awarded a Gold Class Sustainability Award in the RobecoSAM 2019 Sustainability Yearbook, recognising leadership in environmental performance and reflecting Dexus's commitment to addressing climate change impacts including the goal to achieve net zero emissions by 2030.

Funds management

DWPF undertook an equity raising to fund its acquisition of an additional 25% interest in the MLC Centre acquisition. The offer raised approximately $340 million of equity, attracting six new investors and further diversifying DWPF's unitholder base.

HWPF has made significant progress in its capital raising efforts. Post quarter end, HWPF secured a major equity commitment of $100 million which is subject to FIRB approval. The commitment will enable HWPF to acquire[6] the North Shore Health Hub – Stage 1 of the development at 12 Frederick Street, St Leonards currently held in Dexus's Trading portfolio.

On 5 October 2018 Dexus announced to the ASX that it had entered into conditional agreement to acquire an interest in Heathley Limited and the Heathley Healthcare REIT, a new stapled vehicle proposed to list on the ASX. The agreement was subject to a successful Initial Public Offering, and following discussions with Heathley management, Dexus confirms that it will no longer be progressing with this investment.

FY19 guidance

Darren Steinberg said: "Having achieved a solid third quarter result for FY19, we are well positioned to continue to deliver distribution growth for our investors, with our portfolio benefiting from high portfolio occupancy and continued demand for quality workspace."

Dexus reaffirms its market guidance[7] for the 12 months ending 30 June 2019 for distribution per security growth of circa 5%, with the distribution payout ratio remaining in line with free cash flow.

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1 Including Heads of Agreement.
2 Net sale proceeds are before transaction costs.
3 Excluding development leasing.
4 Reflects acquisition price for remaining 50% interest and excludes acquisition costs.
5 The property is owned by the Dexus Office Partnership ("Partnership"), in which Dexus holds a 50% interest. Settlement is expected in July 2020.
6 Subject to HWPF Board and Advisory Committee approvals.
7 Barring unforeseen circumstances, guidance is supported by the following assumptions: Impacts of announced divestments and acquisitions; FFO per security growth of circa 3%, underlying FFO per security growth of circa 3% underpinned by Dexus office portfolio like-for-like growth of circa 3%, Dexus industrial portfolio like-for-like income growth of circa 8%, management operations FFO broadly in line with FY18; cost of debt of circa 4%; trading profits of circa $35 million net of tax; maintenance capex, cash incentives, leasing costs and rent free incentives of $155-165 million; and excluding any further transactions.

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About Dexus

Dexus is one of Australia's leading real estate groups, proudly managing a high quality Australian property portfolio valued at $28.9 billion. We believe that the strength and quality of our relationships is central to our success, and are deeply committed to working with our customers to provide spaces that engage and inspire. We invest only in Australia, and directly own $13.9 billion of office and industrial properties. We manage a further $15.0 billion of office, retail, industrial and healthcare properties for third party clients. The group's $5.0 billion development pipeline provides the opportunity to grow both portfolios and enhance future returns. With 1.7 million square metres of office workspace across 53 properties, we are Australia's preferred office partner. Dexus is a Top 50 entity by market capitalisation listed on the Australian Securities Exchange (trading code: DXS) and is supported by 27,000 investors from 19 countries. With more than 30 years of expertise in property investment, development and asset management, we have a proven track record in capital and risk management, providing service excellence to tenants and delivering superior risk-adjusted returns for investors. www.dexus.com

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