# Dexus (ASX: DXS)

# **ASX release**

#### 16 August 2023

# 2023 Annual results – A leading, diversified real asset manager with a robust balance sheet

Dexus today announced its results for the 12 months ended 30 June 2023, confirming a distribution of 51.6 cents per security.

dexus

# **Highlights**

- AFFO<sup>1</sup> and distributions of \$555.0 million or 51.6 cents per security, down 3.0% on the previous corresponding period
- Statutory net loss after tax of \$752.7 million, compared to a statutory net profit after tax of \$1,615.9 million in FY22, primarily driven by unrealised fair valuation losses on investment property in FY23 compared to gains in FY22
- Return on Contributed Equity (ROCE)<sup>2</sup> of 8.0%
- Pro forma Gearing (look-through)<sup>3</sup> remains conservative at 27.9%, with 86% of debt hedged across FY23 and an average hedge maturity of 4.8 years
- Achieved First Completion of the acquisition of AMP Capital's domestic real estate and infrastructure equity business in March 2023
- Raised \$1.6 billion<sup>4</sup> of new equity across the platform, including \$440 million for Dexus Healthcare Property Fund (DHPF), circa \$200 million for Dexus Real Estate Partnership 1 (DREP1), and \$185 million for the newly established Wholesale Airport Fund (WAF)
- Delivered \$1.8 billion in asset sales from the balance sheet portfolio, further strengthening the balance sheet and providing capacity to organically fund higher returning opportunities
- Achieved high occupancy<sup>5</sup> of 95.9% for the Dexus office portfolio and 99.4% for the Dexus industrial portfolio
- Continued leadership in ESG performance, with ongoing benchmark recognition and the Sustainability strategy refreshed during the year

Dexus Chief Executive Officer, Darren Steinberg said: "Over the past decade, Dexus has continued to grow and evolve. This year we added circa \$18 billion to funds under management following the AMP transaction, (including \$10.9 billion of infrastructure). This transaction has positioned Dexus as a leading Australasian real asset manager of scale with \$61 billion of funds under management and new capabilities in infrastructure.

"Operating in an uncertain economic environment remains challenging. In this environment we have continued to diversify our capital sources, and grow and diversify our funds management business, while we re-weight the Dexus portfolio. We have announced \$1.8 billion of balance sheet divestments since the FY22 result, maintaining a strong balance sheet and enabling us to recycle capital into higher returning opportunities."

#### Strategy

The first stage completion of the AMP Capital transaction in March 2023 enabled the first set of integration milestones to be achieved, with 430 employees, as well as assets and a number of systems being successfully integrated onto the Dexus platform.

Darren Steinberg said: "We remain focused on our strategic objectives of generating resilient income streams and being identified as the real asset investment manager of choice. The acquisition of the AMP Capital business has grown and diversified our funds management business, expanding our existing real estate capability set and enabling entry into the highly attractive infrastructure sector."

# Sustainability update

Dexus's commitment to delivering strong sustainability outcomes underpins long-term performance. During the year Dexus renewed its sustainability strategy with an aspiration "to unlock the potential of real assets to create lasting positive impact and a more sustainable tomorrow", that is supported by the priority areas where it believes it can make significant impact: Customer Prosperity, Climate Action and Enhancing Communities.

Dexus was again recognised as a global leader in sustainability, achieving a Top 5% S&P Global ESG Score in the S&P Global Sustainability Yearbook and retaining its leadership on the Dow Jones Sustainability Index. In addition, Dexus Office Trust was named a Global Sector Leader in the 2022 Global Real Estate Sustainability Benchmark (GRESB) Real Estate Assessment.

Our Customer Net Promoter Score of +40 indicates Dexus is effectively supporting and helping its customers across the group portfolio.

In July, Dexus was recognised as a Bronze Employer by Pride in Diversity's Australian Workplace Equality Index, the definitive national benchmark for LGBTQ+ workplace inclusion.

As the AMP Capital assets continue to be integrated onto the platform, Dexus is leveraging existing renewable energy procurement arrangements to accelerate the transition to net zero emissions across base building operations, while balancing emissions in the short term.

In line with its commitment to support customer wellbeing, Dexus has achieved its first WELL Health and Safety Portfolio Certification across 45 nominated office properties with 39 assets remaining under Dexus ownership following divestments throughout the year, and also achieved a 4.8 Star NABERS Indoor and Environment average rating across the Dexus group portfolio.

# **Financial result**

Dexus's statutory net loss after tax was \$752.7 million, compared to a statutory net profit after tax of \$1,615.9 million in FY22. This movement was primarily driven by \$1,183.9 million of fair valuation losses on investment property on the back of capitalisation rates softening across the portfolio, compared to \$926.0 million of fair valuation gains recognised in the prior year.

The portfolio valuations resulted in a total \$1,183.9 million or circa 6.9% decrease on prior book values for the 12 months to 30 June 2023. These revaluation losses primarily drove the \$1.40 or 11.4% decrease in net tangible asset (NTA) backing per security during the year to \$10.88 at 30 June 2023. The AMP Capital platform acquisition impacted NTA per security by 26 cents as a result of transaction costs incurred and management rights and goodwill which are classified as intangible assets.

Operationally, Underlying Funds From Operations (excluding trading profits) of \$688.3 million was 6.3% below the prior year. AFFO of \$555.0 million was 3.0% below the prior year, driven predominantly by higher net finance costs. The impact of higher interest rates was partly offset by higher trading profits, growth in management operations FFO (assisted by contribution from development milestones being achieved) and industrial development completions.

Dexus's Chief Financial Officer, Keir Barnes said: "Despite the significant impact of the increase in floating rates this year, we achieved a distribution at the top end of our guidance range, with growth in our management operations, trading profits and industrial portfolio income. Our distributions continue to be paid out in line with free cash flow for which AFFO is a proxy, in accordance with our distribution policy."

Rent collections for the Dexus office and industrial portfolio remained strong at 99.6% in FY23, and at 96.8% for the month of July 2023.

Dexus achieved a ROCE<sup>2</sup> for FY23 of 8.0% driven largely by AFFO and revaluation gains from completed industrial developments at Jandakot WA and Ravenhall VIC.

Dexus maintained a strong and conservative balance sheet with pro forma gearing (look-through)<sup>3</sup> of 27.9% remaining below the target range of 30-40%, and \$2.5 billion of cash and undrawn debt facilities. Dexus has a weighted average debt maturity of 5.1 years, manageable debt expiries over the next 12 months and remains within all of its debt covenant limits, retaining its credit ratings of A-/A3 from S&P and Moody's respectively.

On average 86% of Dexus's debt was hedged throughout FY23. Dexus's weighted average hedge maturity is 4.8 years providing material protection against interest rate movements over the medium term.

# **Funds Management**

Dexus manages \$43.6 billion of funds across its diversified funds management business.

Executive General Manager, Funds Management, Deborah Coakley said: "We continued to execute on our strategic initiatives which significantly expanded and further diversified our funds management business, providing new avenues for us to create value for investors. We successfully raised \$1.6 billion<sup>4</sup> in new equity across the platform, including for our opportunity and healthcare strategies as well as a newly established Wholesale Airport Fund.

"In January this year, we opened a Singapore office to support the growth in Dexus's funds business and our expanding relationships across the region, capitalising on the attractiveness of Australasian real asset investments to international capital partners." Opportunity fund DREP1 completed its final close and has raised \$475 million<sup>6</sup> of equity since inception, approximately 60% above its initial target and taking its investment capacity to circa \$1 billion including gearing. The fund is now circa 60% allocated, having secured eight opportunities across healthcare, industrial, office and residential sectors and across the capital stack. Dexus expects to launch the second fund in the series post further deployment of DREP1.

DHPF raised an additional \$220 million of new equity in the second half of FY23, bringing total equity raised to \$440 million in FY23. In December 2022, DHPF acquired the remaining 50% of the Australian Bragg Centre in Adelaide from Dexus. DHPF's funds under management now stands at circa \$1.6 billion across 11 assets with an on-completion value of \$1.8 billion<sup>7</sup>.

In May 2023, Dexus Community Infrastructure Fund (CommIF), Dexus Healthcare Property Fund (DHPF) and Dexus Core Infrastructure Fund (DCIF) acquired a combined 30.6% interest in Celsus Holding Pty Ltd (Celsus), the consortium that manages and maintains the Royal Adelaide Hospital under a Public-Private Partnership (PPP), taking the total stake in Celsus held by Dexus funds to 72.8%.

In June 2023, Dexus launched a new Wholesale Airport Fund<sup>8</sup> (WAF) and successfully raised \$185 million in equity, above its \$130 million target. The fund owns a 1% investment in Australia Pacific Airports Corporation (APAC), the unlisted holding company of Melbourne Airport and Launceston Airport and has the excess capacity to grow its stake in APAC.

DWPF and AMP Capital Diversified Property Fund (ADPF) successfully merged, after fulfilling circa \$2.3 billion in legacy ADPF redemption requests. DWPF continues to outperform its benchmark over one, three, five, seven and ten-year time periods. DWPF also attained a 5 Star rating for 2022 in GRESB.

The expanded funds platform is now Australia's largest investor in on-campus student accommodation, a sector benefiting from strong international demand. During FY23, Dexus Diversified Infrastructure Trust (DDIT) and the Dexus Core Infrastructure Fund (DCIF) acquired a newly developed 731-bed facility from the Australian National University in Canberra, bringing the total Dexus portfolio of on campus beds to over 7,000 across leading Australian universities.

# **Property portfolio**

#### Dexus Office Portfolio

Dexus manages a high-quality \$24.3 billion group office portfolio, \$12.3 billion of which sits in the Dexus portfolio.

Key metrics	30 June 2023	30 June 2022
Occupancy by income	95.9%	95.6%
Weighted average lease expiry (by income)	4.8 years	4.7 years
Average incentives <sup>9</sup>	30.0%	29.4%
Weighted average cap rate	5.21%	4.75%

During the year, Dexus leased 196,998 square metres<sup>10</sup> of office space across 306 transactions as well as 24,703 square metres of space across 14 office development deals, securing future income streams.

Key leasing activity included:

- In Sydney, secured leasing across 19,044 square metres at 1 Farrer Place, 16,751 square metres at 25 Martin Place, 10,847 square metres at 1 Bligh Street, 9,988 square metres at Australia Square, 8,362 square metres at 100 Mount Street, North Sydney, and 7,731 square metres at 60 Castlereagh Street
- In Melbourne, secured 16,426 square metres at Rialto Towers, 9,348 square metres at 80 Collins Street, 7,562 square metres at 180-222 Lonsdale Street and 6,694 square metres at 385 Bourke Street
- In Brisbane, secured 25,945 square metres at 480 Queen Street including the renewal of BHP, 5,551 square metres at Waterfront Place and 5,391 square metres at 145 Ann Street, as well as office development leasing across 12,625 square metres at Waterfront Brisbane and 11,801 square metres at 123 Albert Street
- In Perth, secured 4,859 square metres at 58 Mounts Bay Road and 1,598 square metres at Kings Square

Executive General Manager, Office, Andy Collins said: "Against a challenging operating environment our high-quality portfolio occupancy remains strong at 95.9%. The average terms of new leases and renewals was circa 6.2 years, and 57% of new leases were represented by customers upgrading to higher quality space.

"Incentives increased slightly to 30.0% largely due to a higher proportion of leasing done in Brisbane, a higher incentive market, partially offset by a higher proportion of effective deals. In the Sydney CBD, while vacancy is higher in the Barangaroo and Western corridor markets than the core CBD, market incentives are expected to remain elevated in the near term."

Office portfolio like-for-like income growth was +5.6% (FY22: +2.7%)<sup>11</sup>, predominantly reflecting improved income producing occupancy in Melbourne.

# Dexus Industrial Portfolio

Dexus manages a growing, high-quality \$12.1 billion group industrial portfolio, \$4.1 billion of which sits in the Dexus portfolio.

Key metrics	30 June 2023	30 June 2022
Occupancy by income	99.4%	98.1%
Weighted average lease expiry (by income)	4.8 years	4.7 years
Average incentives <sup>9</sup>	10.7%	13.5%
Weighted average cap rate	4.76%	4.29%

During the year, Dexus leased 272,059 square metres<sup>10</sup> of industrial space across 71 transactions as well as 68,609 square metres of space across 8 industrial developments. Portfolio occupancy increased to 99.4%, reflecting the sale of Axxess Corporate Park and continued leasing success.

Key leasing activity included:

- In New South Wales, secured 28,789 square metres at Quarry Industrial Estate, Greystanes, 23,988 square metres at Kings Park Industrial Estate, Marayong, 8,367 square metres at 1 Foundation Place, Greystanes, and development leasing of 4,682 square metres at 12 Frederick Street, St Leonards
- In Victoria, secured 45,493 square metres at 11-17 Distribution Drive, Laverton, 10,612 square metres at 47-69 Pound Road West, Dandenong South, 10,954 square metres at Axxess Corporate Park, 8,004 square metres at 7-9 Distribution Drive, Laverton, and development leasing across 30,437 square metres at Horizon 3023, Ravenhall
- In Queensland, secured 25,804 square metres at 278 Orchard Road, Richlands and renewed 23,136 square metres at 50&70 Radius Avenue, Larapinta, as well as securing development leasing of 17,100 square metres at 141 Anton Road, Hemmant
- In Adelaide, secured 18,609 square metres at 15-23 Whicker Road, Gillman
- In Perth at Jandakot, secured 45,316 square metres across 10 customers, as well as development leasing across 16,390 square metres across two customers in development leasing

Executive General Manager, Industrial, Healthcare and Alternatives, Stewart Hutcheon said: "Our core industrial portfolio remains near full occupancy. In an environment of moderating retail activity, industrial demand remains supported by non-discretionary categories such as medical, supermarkets and materials supporting infrastructure investment, underpinned by the tailwind of population growth. Our portfolio is 13.6% under-rented, benefiting from continued market rent growth. We look forward to opportunities to grow income by resetting the rents on upcoming lease expiries across circa 17% of the portfolio by FY25."

Industrial portfolio effective like-for-like income growth was +2.4% (FY22: +3.1%)<sup>12</sup>, impacted by reversions and downtime at two of our larger facilities. Like-for-like growth was +3.6% excluding recent divestments.

#### **Developments**

The group real estate development pipeline now stands at a cost of \$17.4 billion, of which \$8.6 billion sits within the Dexus portfolio and \$8.8 billion within third party funds. During the year, Dexus rationalised the development pipeline by removing circa \$1 billion in concept projects that are no longer being pursued in the current market.

Dexus has circa \$349 million remaining to spend on its committed development projects until the end of FY24, including Atlassian Central in Sydney and Waterfront Brisbane Stage 1.

Chief Investment Officer, Ross Du Vernet said: "During the year we achieved key milestones across the development pipeline, with construction commencing at our city-shaping developments Waterfront Brisbane (now 52% leased) and Atlassian Central (100% leased). We invest for the long-term, and these projects will produce iconic, irreplaceable assets that will deliver attractive long-term returns, while also providing organic growth for the funds platform.

"Our committed city-shaping developments are materially de-risked through a high level of precommitments and fixed priced contracts. The decision to activate uncommitted projects will be assessed on project commerce and capital availability."

# **Transactions and trading**

Dexus had another active year of transactions, undertaking \$5.4 billion<sup>13</sup> of transactions, comprising \$4.1 billion of divestments and \$1.3 billion of acquisitions across the group.

Since FY22, Dexus has announced circa \$1.8 billion of balance sheet divestments (including trading properties), recycling capital into higher returning opportunities including the development pipeline and \$0.5 billion of co-investments in funds.

We delivered \$50.2 million in (post tax) trading profits across the following two projects:

- 12 Frederick Street, St Leonards for \$118.5 million
- Dexus's 50% interest in Australian Bragg Centre, North Terrace for \$102.5 million

We expect trading profits to be lower in FY24, with circa \$14 million of pre-tax trading profits already secured across two projects.

Other divestments included:

- 44 Market Street, Sydney for \$393.1 million<sup>14</sup>, which settled in August 2023
- Axxess Corporate Park, Mount Waverley, Victoria for \$306.2 million<sup>14</sup>, which settled in August 2023
  The Mill, 41-43 Bourke Road, Alexandria and 145 Anton Road, Hemmant to Dexus Wholesale
- Australian Property Fund (DWAPF) for a combined \$274.5 million in exchange for units in the fund
- 8 Nicholson Street, East Melbourne for \$213.7 million<sup>14</sup> which is expected to settle in October 2023
- 586 Wickham Street and 10 Light Street, Fortitude Valley for \$98.0 million which settled in June 2023
  19 Stoddart Road, Prospect for \$76.2 million<sup>14</sup> which settled in December 2022
- 19 Stoddart Road, Frospect for \$70.2 million which settled in December 2022
  145-151 Arthur Street, Flemington for \$73.3 million which settled in February 2023

Dexus Chief Investment Officer, Ross Du Vernet said: "We remain focused on actively recycling capital

and optimising our portfolio. This provides us with optionality to deploy into higher returning opportunities across a wider opportunity set and invest in growth initiatives across the expanded platform. Many of these initiatives, including our city-shaping developments, are being undertaken alongside our third party capital partners."

# Summary and outlook

Darren Steinberg said: "We anticipate that FY24 will remain a challenging period as capital flows and market sentiment continue to be impacted by inflation, higher interest rates and geopolitical risks. This environment is expected to put further pressure on the valuations of real assets.

"Higher interest rates will continue to impact our result in FY24, along with the impact of cycling a relatively strong year of trading profits in FY23. Barring unforeseen circumstances, for the 12 months ended 30 June 2024<sup>15</sup> Dexus expects distributions of circa 48.0 cents per security, below the 51.6 cents per security delivered in FY23 predominantly driven by lower trading profits. AFFO excluding trading profits is expected to be broadly in line with that delivered in FY23.

"Despite the challenges, we have continued to execute on our strategy, diversifying our capital sources, growing our funds business, re-weighting the Dexus portfolio and commencing next generation developments. Our disciplined approach to capital management has enabled us to maintain a strong balance sheet, and as the world reverts to a normalised rates regime, we are well positioned as a leading real asset manager."

# FY23 Results

This ASX announcement should be read in conjunction with the 2023 Annual Results presentation, 2023 Annual Report, 2023 Financial Accounts, 2023 Sustainability Approach and Data Pack and 2023 Property Synopsis, released to the Australian Securities Exchange today and available on www.dexus.com/investor-centre

#### Investor conference call

Dexus will hold an investor conference call at 9.30am (AEST) today, Wednesday 16 August 2023, which will be webcast via the Dexus website (www.dexus.com/investor-centre) and available for download later today.

Authorised by the Board of Dexus Funds Management Limited.

#### For further information please contact:

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#### About Dexus

Dexus (ASX: DXS) is a leading Australasian fully integrated real asset group, managing a high-quality Australasian real estate and infrastructure portfolio valued at \$61.0 billion (pro forma post final completion of the AMP Capital acquisition). We believe that the strength and quality of our relationships will always be central to our success and are deeply connected to our purpose: Unlock potential, create tomorrow. We directly and indirectly own \$17.4 billion of office, industrial, healthcare, retail and infrastructure assets and investments. We manage a further \$43.6 billion of investments in our funds management business (pro forma post final completion of the AMP Capital acquisition) which provides third party capital with exposure to quality sector specific and diversified real asset products. The funds within this business have a strong track record of delivering performance and benefit from Dexus's capabilities. The group's \$17.4 billion real estate development pipeline provides the opportunity to grow both portfolios and enhance future returns. Our sustainability aspiration is to unlock the potential of real assets to create lasting positive impact and a more sustainable tomorrow, and is focused on the priorities of customer prosperity, climate action and enhancing communities. Dexus is supported by more than 34,000 investors from 25 countries. With four decades of expertise in property investment, funds management, asset management and development, we have a proven track record in capital and risk management and delivering returns for investors. www.dexus.com

Dexus Funds Management Ltd ABN 24 060 920 783, AFSL 238163, as Responsible Entity for Dexus (ASX: DXS) Level 30, 50 Bridge Street, Sydney NSW 2000

AFFO in accordance with guidelines provided by the Property Council of Australia (PCA): comprises net profit/loss after tax 1 attributable to stapled security holders calculated in accordance with Australian Accounting Standards and adjusted for: property revaluations, impairments and reversal of impairments, derivative and foreign exchange mark-to-market impacts, fair value movements on financial assets held at fair value through profit or loss, fair value movements of interest bearing liabilities, amortisation of tenant incentives, gain/loss on sale of certain assets, straight line rent adjustments, non-FFO tax expenses, certain transaction costs, one-off significant items (including write-off of IFRIC SaS customisation expenses), amortisation of intangible assets, movements in right of use assets and lease liabilities, rental guarantees and coupon income, less maintenance capital expenditure and lease incentives

Return on Contributed Equity (ROCE) is calculated as AFFO plus the net tangible asset impact from completed developments 2 divided by the weighted average contributed equity during the year.

Adjusted for cash and debt in equity accounted investments, excludes Dexus's share of co-investments in pooled funds. Pro forma З including proceeds and payments for transactions post 30 June 2023 that have settled before 16 August 2023. Excluding these impacts, look-through gearing is 30.3% at 30 June 2023. Look-through gearing including Dexus's share of co-investments in pooled funds is 31.7% at 30 June 2023.

Represents new equity raised (excluding DRP and transfers).

By income.

Includes circa \$100 million co-investments by Dexus. 6

Includes on completion value of assets under construction, including Dexus ownership interest. The trustee of WAF is AMP Investment Services Limited, a Dexus Group member. AMP Capital Investors Limited continues to be 8 the manager of WAF, APAC Funds 1-4, DDIT, DCIF, ASCF and various Joint Ventures and Mandates. Excludes development leasing.

<sup>9</sup> 

Includes Heads of Agreement and excludes development leasing. 10

Excluding the impact of rent relief measures and provisions for expected credit losses. Including these impacts, Office like-for-like 11 income growth was +8.9% in FY23 and +4.4% in FY22.

Excluding the impact of rent relief measures and provisions for expected credit losses. Including these impacts, Industrial like-for-like 12 income growth was +4.0% in FY23 and +2.4% in FY22.

Includes post balance date acquisitions and divestments that have settled or are due to settle post 30 June 2023. 13

<sup>14</sup> Reflect net sale prices and excludes transaction costs

Subject to no material deterioration in conditions and assumes circa \$10 million of trading profits (post-tax). 15