

Dexus (ASX: DXS)

ASX release



25 October 2023

September 2023 quarter update – Positive momentum across the platform

Dexus provides its update for the quarter ended 30 September 2023 where it continued to execute on its strategic objectives, with the balance sheet strength further enhanced through strategic capital recycling and high occupancy maintained across the office and industrial portfolios.

Darren Steinberg, Dexus CEO said: “Despite the uncertain global macroeconomic and geopolitical environment, we continued positive momentum across the group, settling \$1.3 billion of balance sheet divestments, maintaining a strong balance sheet and providing capacity to recycle capital into higher returning opportunities.

“In our funds management business, we launched a second fund in the Dexus Real Estate Partnership (DREP) series and continue to raise capital for our healthcare fund.”

Highlights

- **Continued asset recycling**, having settled \$1.3 billion of balance sheet divestments since 30 June 2023, \$0.8 billion of which were factored in the 27.9% pro forma gearing at FY23. An additional \$0.5 billion of sales settled post the FY23 results announcement, further strengthening the balance sheet
- **Launched capital raising for the second Dexus Real Estate Partnership (DREP) opportunity fund** following the successful close of the first fund in the series
- **Completed 79 leasing transactions¹** and maintained high occupancy across the Dexus office portfolio of 94.7% and Dexus industrial portfolio of 99.5%
- **Completed 88,000 square metres of developments** across key industrial precincts and healthcare assets
- **Rent collections remained strong** at 99.7%
- **Leadership in sustainability** again recognised by Global Real Estate Sustainability Benchmark (GRESB) for multiple funds and entities across the platform

Funds management

Positive momentum continues across our expanded real assets funds platform.

Dexus Real Estate Partnership 1 (DREP1) continued to deploy its circa \$1.0 billion investment capacity, securing two residential investments in October and is working through a strong pipeline of opportunities under due diligence.

Following the success of DREP1 which successfully raised \$475 million in equity, Dexus launched a capital raising for the second fund in the opportunity series, DREP2, which is expected to be substantially larger than DREP1.

Dexus Healthcare Property Fund (DHPF) acquired Southport Private Hospital in Queensland, a 90-bed mental health and rehabilitation facility operated by Ramsay Healthcare, for \$51 million. In addition, two fund-through developments, Bethesda Clinic in Cockburn Central, WA and the Australian Bragg Centre in Adelaide, both reached practical completion during the quarter. Following two successful capital raisings in the past twelve months, another capital raise is currently underway to meet growing demand.

Wholesale Airport Fund (WAF) raised \$185 million in equity in FY23 to invest in the unlisted holding company of Melbourne Airport and Launceston Airport. Having deployed circa \$130 million in FY23, deployment of an additional \$50 million was agreed in the quarter to 30 September 2023.

Since 30 June 2023, the funds management business has exchanged or settled 14 transactions totalling \$1.0 billion, the majority of which were divestments across a number of funds.

Environmental, Social and Governance (ESG)

Dexus was again recognised for its leadership in sustainability in the Global Real Estate Sustainability Benchmark (GRESB) 2023 results, with six real estate entities, including DXS, being awarded a 5 Star GRESB rating. In addition, the following funds were also recognised as Sector Leaders:

- Dexus Healthcare Property Fund (DHPF) was awarded the Global Non-Listed Leader for Healthcare in the Development Benchmark
- Dexus Wholesale Property Fund (DWPF) was awarded the Regional Sector Leader for Diversified (Office/Retail) in the Standing Investments Benchmark and for Industrial in the Development Benchmark

At an asset level, Royal Adelaide Hospital was awarded a performance score, ranking first out of 638 infrastructure assets globally and has attained a 5-Star GRESB rating for 2023. The Dexus Community Infrastructure Fund (CommIF), Dexus Core Infrastructure Fund (DCIF) and DHPF have a combined 72.79% interest in Celsus Holding Pty Ltd (Celsus), the consortium that manages and maintains the Royal Adelaide Hospital.

With the sustainability strategy recently refreshed, Dexus has been working on embedding the strategy across our business, with three clear priorities: customer prosperity, climate action and enhancing communities.

In July 2023, Dexus marked the start of the next phase of construction of Waterfront Brisbane with the dismantling of Eagle Street Pier almost complete. More than 7,600 tonnes of material have been cleared from the site and at least 95% of that material will be recycled or repurposed.

Property portfolio

Dexus Office Portfolio

Key metrics	30 September 2023	30 June 2023
Occupancy by income	94.7%	95.9%
Occupancy by area	94.1%	95.3%
Weighted average lease expiry (by income)	4.8 years	4.8 years
Average incentives ²	27.7%	30.0%

Over the quarter, a total of 34,088 square metres³ of office space was leased across 71 transactions with smaller customers.

In addition, Dexus secured a customer across 3,959 square metres at its 123 Albert Street development in Brisbane. This brings total committed space at 123 Albert Street to 100%.

Key leasing activity included:

- **In Sydney**, secured 6,179 square metres across five leasing transactions at 1 Bligh Street, 5,774 square metres across four leasing transactions at 25 Martin Place, 1,643 square metres across five leasing transactions at 56 Pitt Street, 1,555 square metres across 11 leasing transactions at Australia Square and 1,454 square metres across six leasing transactions at 1 Farrer Place
- **In Melbourne**, renewed a customer for 2,700 square metres at 180 Lonsdale Street, secured 2,235 square metres at 80 Collins Street, 2,185 square metres across 10 retail customers at QV Melbourne, 2,122 square metres across three leasing transactions at 385 Bourke Street and 1,376 square metres at Rialto Towers
- **In Brisbane**, secured 3,440 square metres across six existing and new customers at Waterfront Place and 3,959 square metres development leasing at 123 Albert Street
- **In Perth**, secured 1,217 square metres with existing and new customers at 240 St Georges Terrace and Kings Square

Flight-to-quality and flight-to-core remain key themes, with well-located higher quality buildings attracting stronger demand⁴.

Dexus's office portfolio occupancy by income reduced slightly to 94.7%, primarily driven by vacancy in three Sydney assets located in fringe markets and outside the CBD core. Smaller customers remain active, accounting for the majority of leasing transactions during the quarter. Upcoming expiries have reduced and remain manageable with 5.1% of the portfolio expiring for the remainder of FY24 and 10.7% in FY25.

Average incentives were 27.7%, slightly below FY23, which included the impact of higher incentive deals with larger customers. Effective deals also accounted for a greater proportion of leasing this quarter compared to FY23.

Dexus Industrial Portfolio

Key metrics	30 September 2023	30 June 2023
Occupancy by income	99.5%	99.4%
Occupancy by area	99.7%	99.7%
Weighted average lease expiry (by income)	4.6 years	4.8 years
Average incentives ²	10.2%	10.7%

Over the quarter, 20,222 square metres³ of industrial space was leased across seven transactions, reflecting a portfolio that is close to full occupancy.

Key leasing activity included:

- **In New South Wales**, renewed customers across 2,620 square metres at Botany Quarter, Botany and 1,155 square metres at Lakes Business Park, Botany
- **In Queensland**, renewed 7,000 square metres at 278 Orchard Road, Richlands
- **In Perth**, secured 9,447 square metres across existing and new customers at Jandakot Airport industrial precinct

Dexus's industrial portfolio occupancy by income remained high at 99.5% due to leasing success across the industrial portfolio. Excluding business parks, occupancy by income was 99.9%.

Average incentives of 10.2% were broadly in line with FY23. We continue to see examples of strong releasing spreads across the core industrial portfolio.

The portfolio is now 14.9% under rented, driven by continued market rent growth across Dexus's core markets, particularly in Sydney and Melbourne.

Development

Dexus's group development pipeline was \$17.4 billion as at 30 June 2023, of which \$8.6 billion sits within the Dexus portfolio and \$8.8 billion within third party funds.

Dexus continues to progress its city-shaping developments, as well as its committed group industrial and healthcare development pipeline across 335,400 square metres.

At Ravenhall, Dexus completed 35,800 square metres of industrial developments, which were fully leased at completion. Construction commenced on a 15,600 square metre project and continued at two development sites across 63,100 square metres. In addition, a 50,900 square metre project is expected to commence construction in December 2023.

At the Jandakot Airport industrial precinct, Dexus completed 18,000 square metres of industrial developments, which were fully leased at completion. Construction continued at four development sites across 65,300 square metres.

Transactions and trading

Dexus has exchanged or settled approximately \$2.4 billion of transactions across the group since 30 June 2023, which were predominantly divestments.

For the balance sheet, in addition to the \$0.8 billion sales factored in the 27.9% FY23 pro forma gearing, Dexus also settled the sale of:

- 1 Margaret Street, Sydney NSW on 22 September 2023 for \$293.1⁵
- 8 Nicholson Street, East Melbourne VIC on 20 October 2023 for \$213.7 million⁵

Furthermore, Dexus has secured the majority of the \$10 million post tax trading profits assumed within its FY24 guidance.

Summary and outlook

Darren Steinberg said: "Despite the challenging macroeconomic environment, our property portfolio continues to demonstrate its resilience with high occupancy and strong rent collections, while the funds business continues to attract new capital from our diverse investor base."

Barring unforeseen circumstances, Dexus reaffirms its guidance to deliver distributions of 48 cents per security for the 12 months ended 30 June 2024⁶.

Authorised by Scott Mahony, Company Secretary of Dexus Funds Management Limited

For further information please contact:

Investors

Rowena Causley
Head of Listed Investor Relations
+61 2 9017 1390
+61 416 122 383
rowena.causley@dexus.com

Media

Luke O'Donnell
Senior Manager, Media and Communications
+61 2 9017 1216
+61 412 023 111
luke.odonnell@dexus.com

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

-
- 1 Including Heads of Agreement and development leasing transactions.
 - 2 Excludes development leasing.
 - 3 Including Heads of Agreement and excluding development leasing.
 - 4 Source: JLL.
 - 5 Reflects net sale price and excludes transaction costs.
 - 6 Subject to no material deterioration in conditions and assumes circa \$10 million of trading profits (post-tax).