Dexus (ASX: DXS)

ASX release

14 February 2024

2024 Half year results – A strong balance sheet and resilient Underlying FFO

Dexus today announced its results for the half year ended 31 December 2023, confirming a distribution of 26.7 cents per security.

Highlights

- **AFFO**[1] of $292.4 million, or 27.2 cents per security decreased 5.9%, and **distributions** of 26.7 cents per security decreased 4.6% on the previous corresponding period
- **Operating earnings measure, FFO** was $364.8 million, 6.2% lower than HY23
- **Underlying FFO** grew by 4.5% to $355.8 million, supported by growth in management operations and higher co-investment income
- **Statutory net loss after tax** of $597.2 million, compared to a statutory net profit after tax of $23.1 million in HY23
- **Gearing** (look-through)[2] of 29.4%, below the target range of 30-40% with **95% of debt hedged** across HY24 and an average hedge maturity of 4.2 years
- **Achieved final completion of the acquisition** of AMP Capital's real estate and domestic infrastructure equity business in November 2023
- **Settled $1.3 billion in asset sales from the Dexus portfolio,** further strengthening the balance sheet and providing capacity to fund committed developments
- **Achieved high occupancy**[3] of 94.5% for the Dexus office portfolio and 99.0% for the Dexus industrial portfolio
- **Continued leadership in ESG performance**, with ongoing global benchmark recognition

Dexus Chief Executive Officer, Darren Steinberg said: "Despite the challenging economic environment, we have generated $292.4 million of AFFO and settled $1.3 billion of balance sheet divestments over the past six months, enabling us to maintain a strong balance sheet and recycle capital into other opportunities such as our committed development pipeline.

"In November 2023, we achieved Final Completion of the AMP Capital platform acquisition, and we will be fully integrated by 30 June 2024. We have now created a $57.1 billion scalable real asset platform."

Strategy

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 platform, setting up the funds management business for future growth."

Sustainability update

Dexus's commitment to delivering strong sustainability outcomes underpins long-term performance.

During the half, Dexus progressed the priority areas of its sustainability strategy:

1. **Customer Prosperity** – Focused on sustainability engagement to support customer attraction and retention, and improved waste diversion rates across the portfolio; expanded the GreenPower Buyers Group program, which has avoided over 1,600 tonnes of greenhouse gas emissions since inception
2. **Climate Action** – Progressed detailed decarbonisation roadmaps with commercially viable solutions across 26 assets to support long-term resilience; expanded the climate resilience program to an additional 55 assets and reviewing program parameters in preparation for climate-related financial disclosure requirements commencing in FY25
3. **Enhancing Communities** – Scaled the approach to community investment, implementing campaigns across 87 assets with major partners Foodbank and the Cerebral Palsy Alliance; and festive activations at multiple shopping centres which increased visitation and partner participation

Dexus was again recognised as a leader across a range of global sustainability benchmarks, achieving a top 10% S&P Global Corporate Sustainability Assessment (CSA) Score and being included in the S&P Global Sustainability Yearbook 2024. The platform has continued its strong sustainability performance in Global Real Estate Sustainability Benchmark (GRESB), with six funds achieving 5 star GRESB ratings for 2023. Dexus, Dexus Office Trust, Dexus Office Partnership and Dexus Wholesale Property Fund ranked in the top 5% of participants globally.

Multiple Dexus funds and investments were also recognised with sector leadership by GRESB, including Dexus Healthcare Property Fund (DHPF), Dexus Wholesale Property Fund (DWPF) and Powerco in New Zealand. In addition, Melbourne Airport (an infrastructure investment) was awarded a 2023 'Airports Going Green Award' by Airports Going Green.

Financial result

Dexus's statutory net loss after tax was $597.2 million, compared to a statutory net profit after tax of $23.1 million in HY23. This movement was primarily driven by greater fair valuation losses on investment property compared to HY23, due to capitalisation rate softening in HY24.

The external independent portfolio valuations resulted in a total $687.3 million or circa 4.7% decrease on prior book values for the six months to 31 December 2023. The weighted average capitalisation rate of the Dexus office portfolio softened 32 basis points from 5.21% at 30 June 2023 to 5.53% at 31 December 2023, and for the Dexus industrial portfolio softened 42 basis points from 4.76% at 30 June 2023 to 5.18% at 31 December 2023.

These revaluation losses primarily drove the 84 cent or 7.7% decrease in net tangible asset (NTA) backing per security during the period to $10.04 at 31 December 2023.

Operationally, Underlying Funds From Operations (excluding trading profits) of $355.8 million was 4.5% higher than the previous corresponding period driven by growth in management operations FFO and fixed rent increases, partially offset by higher cost of debt and group corporate costs. AFFO of $292.4 million was 5.9% lower than the previous corresponding period, driven predominantly by lower trading profits. AFFO excluding trading profits increased by 8.1%.

Dexus's Chief Financial Officer, Keir Barnes said: "Despite lower trading profits which can vary from period to period, underlying earnings remain resilient with $292.4 million of AFFO delivered for the half and rent collections for the Dexus office and industrial portfolio remaining strong at 99.4%.

"We maintained a strong balance sheet with gearing (look-through)[2] of 29.4% remaining below the target range of 30-40%, and $3.1 billion of cash and undrawn debt facilities. Dexus has a weighted average debt maturity of 4.6 years, manageable near-term debt expiries 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 95% of Dexus's debt was hedged in HY24. Dexus's weighted average hedge maturity is 4.2 years, providing material protection against interest rate movements over the medium term.

Funds Management

Dexus manages $41.3 billion of funds across its diversified funds management business.

Executive General Manager, Funds Management, Deborah Coakley said: "Dexus continues to be regarded as a leading real asset manager. While investor appetite for core assets remains soft, we are harnessing pockets of interest from a diverse capital base with our broad real assets offering.

"We also satisfied circa $720 million of redemptions during the half, providing liquidity for investors through the divestment of assets.

"The first fund in Dexus's opportunity series, Dexus Real Estate Partnership 1 (DREP1), completed its final close last year at $475 million of equity commitments and circa $1 billion of investment capacity including gearing. DREP1 is now circa 75% allocated, invested across multiple asset classes taking both equity and debt positions. During HY24, Dexus launched the second fund in its opportunity series, Dexus Real Estate Partnership 2 (DREP2)."

Dexus Healthcare Property Fund (DHPF) continues to attract interest from investors and is currently undertaking an equity raising. In August 2023, the fund acquired Southport Private Hospital, a 90-bed mental health and rehabilitation facility operated by Ramsay Health Care over a 20-year lease. DHPF's funds under management now stands at circa $1.7 billion across 12 assets with an on-completion value of $1.8 billion[4].

Wholesale Airport Fund[5] (WAF), a single asset fund that invests in Australia Pacific Airports Corporation (APAC), the unlisted holding company of Melbourne Airport and Launceston Airport, raised an additional $31 million in equity from private investors, bringing its FUM to $216 million.

During the half, Dexus completed $1.3 billion of fund divestments and $0.2 billion of fund acquisitions[6].

Since transitioning to Dexus's platform, Dexus Wholesale Shopping Centre Fund (DWSF) outperformed its benchmark during the six months to 31 December 2023, supported by leasing success in HY24.

Dexus Diversified Wholesale Property Fund (DWPF) also outperformed its benchmark over three, five, seven and ten-year time periods.

Property portfolio

Dexus Office Portfolio

Dexus manages a high-quality $22.4 billion office portfolio across its platform, $10.9 billion of which sits in the Dexus portfolio.

Key metrics	31 Dec 2023	30 June 2023
Occupancy by income	94.5%	95.9%
Weighted average lease expiry (by income)	4.6 years	4.8 years
Average incentives[7]	29.4%	30.0%
Weighted average cap rate	5.53%	5.21%

During the six months, Dexus leased 66,600 square metres[8] of office space across 135 transactions as well as 8,700 square metres of space across four office development deals, securing future income streams.

Key leasing activity included:
- **In Sydney**, secured leasing across 7,100 square metres at 25 Martin Place, 6,300 square metres at 1 Bligh Street, 3,700 square metres at 56 and 58 Pitt Street, 3,500 square metres at 175 Pitt Street, 2,600 square metres at Australia Square and 2,600 square metres at 1 Farrer Place
- **In Melbourne**, secured 5,000 square metres at 180-222 Lonsdale Street, 4,200 square metres at 80 Collins Street, 4,100 square metres at 385 Bourke Street and 1,500 square metres at Rialto Towers
- **In Brisbane**, secured 6,800 square metres at 480 Queen Street, 3,500 square metres at Waterfront Place, 2,100 square metres at 145 Ann Street and development leasing across 8,600 square metres at 123 Albert Street
- **In Perth**, secured 6,300 square metres at 58 Mounts Bay Road

Executive General Manager, Office, Andy Collins said: "Occupancy of our high-quality portfolio remains strong at 94.5%, well above the market average of 86.5% in a challenging operating environment. The average term of leases agreed during the half was circa 5.6 years.

"Incentives were 29.4%, below the market average, reflecting the quality of the portfolio and a higher proportion of city retail and effective deals. Incentives are expected to stay elevated in the near term."

Office portfolio like-for-like income growth was +4.0% (HY23: +3.2%)[9], supported by fixed rent reviews. Like-for-like growth is expected to soften in FY24, due to lower average physical occupancy in the second half in metro markets, as well as the Melbourne CBD and assets going through a releasing cycle such as Australia Square.

Dexus Industrial Portfolio

Dexus manages a growing, high-quality $11.0 billion industrial portfolio across its platform, $3.6 billion of which sits in the Dexus portfolio.

Key metrics	31 Dec 2023	30 June 2023
Occupancy by income	99.0%	99.4%
Weighted average lease expiry (by income)	4.6 years	4.8 years
Average incentives[7]	18.6%	10.7%
Weighted average cap rate	5.18%	4.76%

During the six months, Dexus leased 102,500 square metres[8] of industrial space across 17 transactions as well as 31,000 square metres of space across three industrial developments. Portfolio occupancy reduced slightly to 99.0%, albeit remaining high.

Key leasing activity included:

- **In New South Wales**, secured 9,600 square metres at 52 Holbeche Road, Arndell Park, 6,400 square metres at 1 Garigal Road, Belrose, 2,800 square metres at Botany Quarter, Botany and 2,300 square metres at 62 Ferndell Street in South Granville
- **In Victoria**, secured 35,200 square metres at Pound Road West, Dandenong South and development leasing of 28,800 square metres at Ravenhall
- **In Queensland**, secured 7,000 square metres at 278 Orchard Road, Richlands
- **In Adelaide**, secured 25,900 square metres at 15-23 Whicker Road, Gillman
- **In Perth**, secured 11,600 square metres across four customers, as well as development leasing across 2,200 square metres at Jandakot

Executive General Manager, Industrial, Healthcare and Alternatives, Stewart Hutcheon said: "Occupancy of our core industrial portfolio remains high and rent growth remains strong. The fundamentals of the Australian industrial sector remain positive although demand is moderating from the high levels of recent years, most notably from discretionary retail segment customers. Non-discretionary customer segments of food, groceries and pharmaceuticals as well as e-commerce remain stable. Vacancy rates in most precincts have increased from the record lows of last year but remain well below global averages.

Our portfolio is 14.9% under-rented, benefiting from continued market rent growth across our key markets. This should underpin future income growth by resetting the rents on upcoming lease expiries across circa 28% of the portfolio by FY26."

Industrial portfolio effective like-for-like income growth was +5.5% (HY23: +2.4%)[10], benefiting from positive reversions achieved in FY23 leasing.

Developments

The platform's real estate development pipeline now stands at a cost of $16.9 billion, of which $8.4 billion sits within the Dexus portfolio and $8.5 billion within third party funds.

The remaining spend on Dexus's committed pipeline is $2.1 billion, of which only circa $800 million is expected to be spent over the next 18 months.

Chief Investment Officer, Ross Du Vernet said: "Dexus's city-shaping developments have been materially de-risked via 82% of weighted average pre-commitments and fixed price contracts. Atlassian Central and Waterfront Brisbane will become next generation assets and enhance portfolio quality for Dexus and our capital partners.

"Over the half, Dexus committed to two attractive industrial developments in Sydney alongside Dexus Industria REIT and DREP1 respectively, while continuing to build out the Ravenhall and Jandakot precincts. The decision to activate uncommitted projects will be assessed on project commerce and capital availability."

Transactions and trading

Transaction volumes slowed significantly across all major Australian real estate sub-sectors in CY23, down 60% compared to CY21. Despite this, Dexus undertook $2.8 billion[11] of transactions, comprising $2.6 billion of divestments and $0.2 billion of acquisitions across the platform.

Since the FY23 result, Dexus has announced and settled circa $300 million of balance sheet divestments including the sale of One Margaret Street, Sydney and a trading property at 20 Distribution Drive, Truganina.

Dexus delivered $9.0 million in (post tax) trading profits, reflecting the majority of FY24 guidance.

Dexus Chief Investment Officer, Ross Du Vernet said: "Our focus on actively recycling capital and optimising our portfolio provides us with optionality to deploy into higher returning opportunities and invest in growth initiatives across a wide opportunity set, with many of our projects being undertaken alongside third party capital partners."

Summary and outlook

Darren Steinberg said: "Markets remain challenging as capital flows and sentiment continue to be impacted by inflation, interest rates and geopolitical risks.

"Despite these challenges, our property portfolio continues to benefit from the flight to quality and our disciplined approach to capital management has enabled us to maintain a strong balance sheet. With the integration of the AMP Capital platform to complete during FY24, our funds platform is set up to grow as we revert to a normalised rates regime.

"Barring unforeseen circumstances, for the 12 months ended 30 June 2024[12] Dexus expects distributions of circa 48.0 cents per security. AFFO excluding trading profits is expected to be broadly in line with that delivered in FY23.

"This is my 26th and final Dexus results. It has been an amazing privilege to have led the company for the past 12 years. One of my proudest achievements is building a talented team of people who I have seen flourish. Together we have positioned Dexus as a leading Australasian real asset manager and I am excited to watch the next phase of growth for the group."

HY24 Results

This ASX announcement should be read in conjunction with the 2024 Half year results presentation, HY24 Financial Statements and 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 14 February 2024 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.

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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 $57.1 billion. 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 $15.8 billion of office, industrial, healthcare, retail and infrastructure assets and investments. We manage a further $41.3 billion of investments in our funds management business 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 platform's $16.9 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 35,000 investors from 22 countries. With four decades of expertise in real estate and infrastructure 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)
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1 AFFO in accordance with guidelines provided by the Property Council of Australia (PCA): comprises net profit/loss after tax 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 investments accounted for at fair value, 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, 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.
2 Adjusted for cash and debt in equity accounted investments, excluding Dexus's share of co-investments in pooled funds. Look-through gearing including Dexus's share of equity accounted co-investments in pooled funds was 30.7% as at 31 December 2023.
3 By income.
4 Includes on completion value of assets under construction, including Dexus ownership interest.
5 The trustee of WAF is Dexus Capital Investment Services Pty Limited, a Dexus Group member. AMP Capital Investors Limited, a Dexus Group member continues to be the manager of WAF, APAF 1-4, DDIT, DCIF, DWSF and various Joint Ventures and Mandates.
6 Excluding transaction costs.
7 Excludes development leasing.
8 Includes Heads of Agreement and excludes development leasing.
9 Excluding the impact of rent relief measures and provisions for expected credit losses. Including these impacts, Office like-for-like income growth was +1.5% in HY24.
10 Excluding the impact of rent relief measures and provisions for expected credit losses. Including these impacts, Industrial like-for-like income growth was +3.7% in HY24.
11 Includes post balance date acquisitions and divestments that have settled or are due to settle post 31 December 2023.
12 Subject to no material deterioration in conditions and assumes circa $10 million of trading profits (post tax).