

Dexus (ASX: DXS)

ASX release



21 October 2020

September 2020 quarter portfolio update – Encouraging activity despite economic conditions

Dexus today announced its property portfolio update for the quarter ended 30 September 2020 and provided FY21 full year guidance for distribution per security.

Dexus expects an FY21 full year distribution per security amount that is consistent with FY20. The FY20 full year distribution per security amount was 50.3 cents. Guidance has been issued as a result of the strength of rent collections and further clarity regarding the extensions related to the Code of Conduct¹, but is subject to there being no reinstatement of any major lockdowns or unforeseen circumstances.

Dexus Chief Executive Officer, Darren Steinberg said: "It is encouraging to see the activity across all parts of our business despite the subdued economic conditions. This activity is testament to the quality of the buildings in our portfolio and our extensive relationships with our existing and prospective customers and third party capital partners."

Highlights

- **Maintained high occupancy²** leasing a total of 141,388 square metres³ across Dexus's office and industrial portfolios
- **Leased 53,600 square metres³ of office space across 63 transactions** in the core portfolio and at development projects
- **Leased 87,788 square metres³ of industrial space across 25 transactions**
- **Maintained high rent collections of 94%** for the September quarter
- **Completed 180 Flinders Street and 80 Collins Street (hotel) developments in Melbourne**
- **Increased expected trading profits across FY21 and FY22 to circa \$95 million pre-tax** following entering into a put and call agreement to sell 436-484 Victoria Road, Gladesville in September
- **Progressed all FY21 priorities** including initiatives to expand our funds management business

Dexus office portfolio

Key metrics	30 September 2020	30 June 2020
Occupancy by income	95.4%	96.5%
Occupancy by area	95.3%	96.6%
WALE by income	4.3 years	4.2 years
Average incentives ⁴	16.8%	17.1%

Over the quarter to 30 September 2020, a total of 53,600 square metres³ of office space was leased across 63 transactions in the core portfolio and at development projects underway or completed, and portfolio occupancy remained high at 95.4%.

Key leasing activity included:

- **In Parramatta**, secured Heads of Agreement for a new government tenant across 13,974 square metres at 101 George Street
- **In Sydney**, secured Heads of Agreement across approximately 5,000 square metres in a prime Sydney asset with an international tenant and renewed existing tenants across 3,106 square metres at 175 Pitt Street and across 3,848 square metres at 321 Kent Street
- **In Melbourne**, secured a lease renewal with Thomson Geer across 3,537 square metres at Rialto Towers
- **Development leasing success** at the recently completed 10-storey, A-grade building at 180 Flinders Street in Melbourne, where financial services firm Netwealth agreed to relocate to a larger premises in the Dexus portfolio, signing a 10-year lease across 2,689 square metres. Netwealth joins John Holland, Cox Architects and flexible Workspace firm Hub Australia, increasing committed space from 72% at 30 June 2020 to 81% at 30 September 2020
- **In Perth**, secured Heads of Agreement for a new tenant across 2,263 square metres at Kings Square

Dexus Executive General Manager, Office, Kevin George said: "Despite the disruption caused by the pandemic, it is pleasing to see signs of life and activity continuing in our core markets. We are seeing tenant enquiry in Brisbane and Sydney improving, driven primarily by companies in the tech, financial and professional services sectors as well as government seeking to upgrade their office space requirements.

"The Netwealth transaction in Melbourne is an example of a successful business taking a longer-term view and positioning themselves for growth post the pandemic despite the current restrictions in that market.

“Notwithstanding, we believe the Melbourne office market will be challenging and given our near-term expiries in this market, we are focused on minimising the impact across our portfolio.

“With the increase in enquiry and leasing activity during the quarter, the Dexus office portfolio occupancy remains high. For leasing completed during the quarter we have seen face rents holding across Sydney and Melbourne.”

The demand outlook has improved from a few months ago with most lead indicators up when compared to the fourth quarter of FY20. Employment in white collar industries was down by only 0.2% in the year to August 2020, helped by growth in the public and finance sectors. A period of subdued demand is expected in the short term, with key lead indicators remaining below pre-COVID-19 levels including:

- Business confidence, which is well up from May 2020, but remains below average
- Job advertisements, which similarly have bounced back since May 2020 rising 7.8% in September

Dexus industrial portfolio

Key metrics	30 September 2020	30 June 2020
Occupancy by income	94.8%	95.6%
Occupancy by area	97.6%	97.9%
WALE by income	4.1 years	4.1 years
Average incentives	10.8%	13.4%

Dexus experienced a strong start to FY21 with 87,788 square metres³ of industrial space leased across 25 transactions over the quarter to 30 September 2020. Portfolio occupancy remained high at 94.8%, however was lower than FY20 occupancy of 95.6% primarily due to a vacancy at The Mill, Alexandria.

Key leasing activity included:

- **In western Sydney**, secured Heads of Agreements for existing tenants renewing across 16,915 square metres at 2 Alspeck Place, Eastern Creek, and across 9,628 square metres at 52 Holbeche Road, Arndell Park
- **In western Melbourne**, secured Heads of Agreement for an existing tenant renewal across 7,955 square metres at 7-9 Distribution Drive, Truganina in Victoria
- **Development leasing success at industrial developments under construction including:**
 - o **Ravenhall in Victoria**, secured Heads of Agreement for a new e-commerce tenant across 25,550 square metres
 - o **Richlands in Queensland**, secured Heads of Agreement for a new logistics tenant across 12,240 square metres

Funds management

Dexus continued to expand its funds management business, launching the unlisted Dexus Real Estate Partnership 1 in August 2020, the first of a series of closed-ended opportunity funds that seeks to provide wholesale investors with an enhanced return via exposure to investments in value-add, development and special situation opportunities.

Dexus Executive General Manager, Funds Management, Deborah Coakley said: “Our new unlisted opportunity fund has received solid investor interest and will capitalise on the emerging pockets of opportunities where we can leverage our platform scale in transactions, active asset management and development to deliver enhanced returns to the new fund’s investors.”

During the quarter, Dexus made an initial approach on behalf of the Dexus Wholesale Property Fund (DWPF) to the Responsible Entity of the AMP Diversified Property Fund (ADPF), in response to ADPF investor encouragement, to consider a merger of ADPF with DWPF.

DWPF also exchanged contracts to sell 452 Flinders Street, a 22-level A-grade tower in the Melbourne CBD, for \$454 million⁵ representing an 11% premium to book value at 30 June 2020 and highlighting the resilience of prime grade office values.

Post 30 September 2020, Dexus and the Healthcare Wholesale Property Fund (HWPF) exchanged contracts to acquire (in 50/50 co-ownership) the Australian Bragg Centre (also known as SAHMRI 2) in Adelaide, which is currently under development. The Australian Bragg Centre is a state-of-the-art clinical and research facility housing Australia’s first proton therapy unit specialising in next generation cancer treatment. This transaction is consistent with Dexus’s priority to accelerate opportunities to expand the funds management platform and provides greater exposure to a growing asset class. On completion it will increase the group’s healthcare exposure to over \$1 billion.

Developments

During the quarter, development projects at 180 Flinders Street and the 80 Collins Street (hotel) in Melbourne were completed, in addition to 9 Custom Place at Truganina in Victoria. Construction continues at the MLC Centre retail redevelopment in Sydney, which is an important part of enhancing the ground floor plane for the office tower.

Dexus's group development pipeline now stands at a cost of \$10.4 billion, of which \$5.2 billion sits within the Dexus portfolio and \$5.2 billion within third party funds. Dexus has only circa \$80 million remaining to spend on its committed development projects.

Transactions and Trading

Dexus exchanged contracts to sell 45 Clarence Street, Sydney on 24 June 2020 subject to FIRB approval, with settlement expected by 31 December 2020. Dexus also continues to progress the sale of Grosvenor Place, Sydney where a preferred bidder is in exclusive due diligence.

Dexus Chief Investment Officer, Ross Du Vernet said: "We are seeing lots of opportunities in the current market and will selectively recycle assets where we can maximise returns."

From a trading profit perspective, during the quarter Dexus:

- entered into agreements to sell a portfolio of six trading assets (Truganina, VIC and Lakes Business Park South, Botany NSW) to the Dexus Australian Logistics Trust (DALT) across two tranches with Tranche 1 of the Truganina assets settling in October
- exercised the option to sell its remaining 25% interest in 201 Elizabeth Street, Sydney which settled in August 2020
- entered into a put and call agreement to sell 436-484 Victoria Road, Gladesville which can be exercised in FY21 or FY22
- continued to progress the North Shore Health Hub development with project completion expected in the third quarter of FY21, which will contribute to FY21 trading profits

These transactions (including the North Shore Health Hub) are expected to contribute circa \$95 million to pre-tax trading profits across FY21 and FY22.

Capital management

At 30 June 2020, Dexus's proforma gearing⁶ (look-through) was 24.3%, well below the 30-40% target range, with \$1.6 billion of cash and committed undrawn bank facilities available, and only circa \$300 million of debt maturing in late FY21. Dexus remains within all of its debt covenant limits, including gearing and interest cover, and continues to retain its strong credit ratings of A-/A3 from S&P and Moody's respectively.

Environmental, Social and Governance (ESG)

Dexus continues to be recognised as a global ESG leader, being recognised in the 2020 Principles of Responsible Investment (PRI) Leaders' Group. Dexus achieved the maximum score available, effectively demonstrating how it integrates ESG across its management platform to manage risks and create long term value for its investors.

Summary

Darren Steinberg said: "We continue to operate in an uncertain environment, with no vaccine and the economy in recession, and still face significant challenges over the coming year as a result of border closures and government restrictions. While the economy will inevitably recover, the timing of the recovery remains unknown.

"In this environment, we have a committed Management team and Board that have a lot of experience in responding to and moving through previous downturns. We are focused on leasing and maintaining occupancy levels, which is supported by our high-quality portfolio and diverse customer base.

"We also have multiple income streams from our expanding Funds Management platform and trading profits, and the business is underpinned by our strong balance sheet."

Subject to there being no reinstatement of any major lockdowns or unforeseen circumstances, Dexus expects an FY21 full year distribution per security amount that is consistent with FY20. The FY20 full year distribution per security amount was 50.3 cents.

Authorised by the Board of Dexus Funds Management Limited

For further information please contact:

Investors

Jessica Johns
Senior Manager, Investor Relations
+61 2 9017 1368
+61 427 706 994
jessica.johns@dexus.com

Media

Louise Murray
Senior Manager, Corporate Communications
+61 2 9017 1446
+61 403 260 754
louise.murray@dexus.com

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- 1 The Code of Conduct is available at <https://www.pm.gov.au/sites/default/files/files/national-cabinet-mandatory-code-ofconduct-sme-commercial-leasing-principles.pdf>
 - 2 By income.
 - 3 Including Heads of Agreement.
 - 4 Excluding development leasing.
 - 5 Excluding transaction costs and settlement adjustments.
 - 6 Adjusted for cash and debt in equity accounted investments. Look-through gearing at 30 June 2020 was 26.3%.

About Dexus

Dexus is one of Australia's leading real estate groups, managing a high quality Australian property portfolio valued at \$32.0 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 \$16.5 billion of office and industrial properties. We manage a further \$15.5 billion of office, retail, industrial and healthcare properties for third party clients. The group's \$10.4 billion development pipeline provides the opportunity to grow both portfolios and enhance future returns. With 1.8 million square metres of office workspace across 51 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 29,000 investors from 21 countries. With 36 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

Dexus Funds Management Ltd ABN 24 060 920 783, AFSL 238163, as Responsible Entity for Dexus (ASX: DXS)
Level 25, 264 George Street, Sydney NSW 2000