

Dexus (ASX: DXS)



ASX release

19 October 2021

September 2021 quarter update – Platform expansion in line with strategy

Dexus today announced an update for the quarter ended 30 September 2021 which saw the continuation of COVID-19 lockdowns in Sydney and Melbourne and acceleration of the COVID-19 vaccine roll out, with restrictions easing recently.

Darren Steinberg, Dexus CEO said: "It's been an active start to the financial year, in which we have continued growth in our funds management business. We finalised the acquisition of APN Property Group and helped to deliver significant initiatives for both listed REITs through acquisitions and equity raisings.

"Despite the disruption caused by the lockdowns in Sydney and Melbourne, leasing activity has continued across our portfolio and occupancy remains above 95%. Continued evidence of a flight to quality within our leasing results highlights the demand for quality workspace in well-located CBD assets."

Highlights

- Following the approval by APN securityholders, Dexus implemented the acquisition of all the APN stapled securities on 13 August 2021 and rebranded to Dexus on 5 October 2021
- Undertook equity raisings of circa \$405 million for Dexus Industria REIT (Industria) and Dexus Convenience Retail REIT (DXC), facilitating quality acquisitions with Dexus investing alongside Industria to acquire a \$1.5 billion¹ industrial portfolio and achieve transformational growth for Industria
- Completed 95 leasing transactions² across 129,043 square metres in the Dexus office portfolio and Dexus industrial portfolio, and maintained high rent collections of 97.9% for the September quarter

Funds Management

Consistent with Dexus's strategic focus to expand and diversify the funds management business, Dexus undertook several initiatives in an active first quarter, including acquisitions and equity raisings for DXC and Industria mentioned above. The funds business now has 20 vehicles across \$25.7 billion.

Dexus Healthcare Property Fund (DHPF) recently acquired Arcadia Pittwater Private Hospital and day rehabilitation facility located in Warriewood on the Northern Beaches of Sydney, growing DHPF's funds under management to over \$1.3 billion³ across nine assets. Dexus now has \$1.8 billion³ of healthcare property and investments across the group.

Dexus Real Estate Partnership 1 has received first capital commitments, with multiple closes anticipated over the next 12 months. The fund is in the process of executing its first two investments and is actively pursuing further opportunities.

In April 2021 when unitholders in both Dexus Wholesale Property Fund (DWPF) and AMP Capital Diversified Property Fund (ADPF) approved the merger of the two funds, ADPF was subject to a meaningful volume of redemption requests from existing ADPF Unitholders, which Dexus expects to satisfy on a pro rata basis over an approximate 18-month period through the divestment of a number of assets. During the quarter DWPF completed two asset sales from the portfolio of Dexus ADPF Identified Assets. This will enable the first partial settlement of redemptions of approximately \$620 million to be paid to Dexus ADPF Unitholders in the coming quarter.

Environmental, Social and Governance (ESG) update

Dexus has once again been recognised as a global leader in sustainability by Global Real Estate Sustainability Benchmark (GRESB) in its 2021 Real Estate Assessment, with Dexus and Dexus Office Trust (DOT) ranking 1st in Public Disclosure for Australian Office entities, and DWPF was named Overall Regional Sector Leader for Diversified Office and Retail entities. DHPF also ranked 1st in Healthcare Centres and 2nd in Developments for Non-Listed Healthcare entities. In addition, DXS, DWPF and DOT each retained a 5 Star GRESB rating, placing their portfolios in the top 20% of all GRESB participants globally.

Property portfolio

Dexus Office Portfolio

Key metrics	30 Sept 2021	30 June 2021
Occupancy by income	95.1%	95.2%
Occupancy by area	94.6%	94.6%
Weighted average lease expiry (by income)	4.8 years	4.6 years
Average incentives	31.3%	24.9%

Over the quarter to 30 September 2021, a total of 45,138 square metres⁴ of office space was leased across 73 transactions. In addition, 323 square metres⁴ was leased across one transaction at an office development. Dexus office portfolio occupancy reduced marginally to 95.1%.

Key leasing activity included:

- **In Melbourne**, securing two new customers across 10,858 square metres at 180 Lonsdale Street
- **In Perth**, securing leasing across 2,141 square metres at 240 St Georges Terrace
- **In Sydney**, renewing a customer across 3,139 square metres at 383-395 Kent Street and securing leasing across 8,575 square metres at 100 Harris Street, Pyrmont

The lockdowns have extended for longer than anticipated back in early August, however enquiry volumes have remained buoyant, predominantly driven by the finance, government, IT and business services sectors. The path to recovery is clearer, with the return to work expected to gain momentum from early CY22. In addition, during the quarter a number of customers were secured from lower quality buildings, a continuation of the trend observed in FY21. While companies will continue to experiment with different workplace models, the majority see the office as a very important part of their organisational strategy.

Average incentives in the quarter were elevated compared to FY21, driven by larger deals secured in lockdown-affected markets. As the return to work takes hold from early 2022, we expect incentives to moderate once again and continue to see the potential for incentives to decline in Sydney and Premium grade Melbourne assets, albeit the latest lockdowns could slow the rate of improvement.

Dexus Industrial Portfolio

Key metrics	30 Sept 2021	30 June 2021
Occupancy by income	97.2%	97.7%
Occupancy by area	98.2%	98.7%
Weighted average lease expiry (by income)	4.6 years	4.4 years
Average incentives ⁵	8.2%	17.8%

Over the quarter to 30 September 2021, 53,326 square metres⁴ of industrial space was leased across 15 transactions. In addition, 30,257 square metres⁴ was leased across 6 transactions at industrial developments.

Dexus industrial portfolio occupancy reduced slightly to 97.2% following the completion of the development at 425-479 Freeman Road, Richlands. WALE increased slightly to 4.6 years due to development completions and acquisitions.

Key leasing activity included:

- Renewing a tenant across 27,612 square metres at Kings Park Industrial Estate, Marayong
- Securing a new tenant across 3,761 square metres at 1 Foundation Place, Greystanes
- Securing development leasing of 6,099 square metres at 12 Frederick Street, St Leonards

Development and Trading

Dexus's group development pipeline increased to \$15.4 billion, of which \$9.0 billion sits within the Dexus portfolio and \$6.4 billion within third party funds.

During the quarter, Dexus completed a 51,600 square metre industrial development at Lot 401 Innovation Drive, Mickleham in Victoria and progressed five other industrial projects, all in Victoria.

Transactions

Continuing an active year of transactions, \$1.6 billion of acquisitions were undertaken across the group in the industrial, healthcare and convenience retail sectors. The recently announced industrial portfolio acquisition including Jandakot Airport in Perth provides a meaningful industrial footprint in Western Australia and new Sydney product to service our growing customer base, with scope to enhance returns through development and the introduction of additional third party capital.

Post 30 September, the Dexus Industrial Partnership completed the circa \$123 million acquisition of 113-153 Aldington Road in Kemps Creek, NSW.

Summary and outlook

Darren Steinberg said: "Strong momentum has continued across our diversified property platform in the first quarter of FY22. Moving forward, we will continue to deliver superior risk-adjusted returns for investors by executing on our strategic objectives of increasing the resilience of portfolio income streams, while expanding and diversifying the funds management business.

"It is encouraging that with high vaccination rates there is a roadmap out of the intermittent lockdowns that Australia has experienced over the past 18 months, and with the Australian economy in a good position we expect office markets to strengthen from early next year."

Dexus maintains its guidance of delivering distribution per security growth of not less than 2% for the 12 months ended 30 June 2022 based on current expectations relating to COVID-19 and barring unforeseen circumstances.

Authorised by Brett Cameron, General Counsel and Company Secretary of Dexus Funds Management Limited.

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About Dexus

Dexus (ASX: DXS) is one of Australia's leading fully integrated real estate groups, managing a high-quality Australian property portfolio valued at \$42.5 billion. We believe that the strength and quality of our relationships will always be 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 \$17.5 billion of office, industrial and healthcare properties, and investments. We manage a further \$25.0 billion of office, retail, industrial and healthcare properties for third party clients. The group's \$15.4 billion development pipeline provides the opportunity to grow both portfolios and enhance future returns. Sustainability is integrated across our business, and our sustainability approach is the lens we use to manage emerging ESG risks and opportunities for all our stakeholders. Dexus is a Top 50 entity by market capitalisation listed on the Australian Securities Exchange and is supported by more than 30,000 investors from 23 countries. With over 35 years of expertise in property investment, funds management, asset management and development, we have a proven track record in capital and risk management and delivering superior risk-adjusted returns for investors. www.dexus.com

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- 1 Reflects combined acquisition price and includes the fund-through cost of Lot 2, 884-928 Mamre Road, Kems Creek and excludes forecast future development spend.
 - 2 Including Heads of Agreement and development leasing transactions.
 - 3 Includes Dexus ownership interest on completion value of assets under development. Includes Spring Hill Medical Centre and Herston Car Park expected to settle in the coming months.
 - 4 Including Heads of Agreement.
 - 5 Excludes development leasing. FY21 industrial incentives were previously stated including development leasing at 19.1%. Including development leasing, industrial incentives were 15.3% for the quarter to 30 September 2021.