

Dexus (ASX: DXS)

ASX release



26 October 2022

September 2022 quarter update – maintained high occupancy and rent collections

Dexus provides its update for the quarter ended 30 September 2022, with continued progress made against its strategic objectives of generating sustainable income streams and being the real estate investment partner of choice.

Darren Steinberg, Dexus CEO said: “During the period, we continued to work towards the completion of the acquisition of AMP Limited’s real estate and domestic infrastructure equity business. This transaction positions Dexus as a leading real asset manager and delivers on our strategic objectives of being the real estate investment partner of choice and generating resilient income streams.

“Our industrial and office portfolios maintained high occupancy, with significant leasing volumes achieved across the portfolio.”

Highlights

- **Rent collections** remained strong at 98.6% for the September quarter
- **Completed 113 leasing transactions¹** across the Dexus office portfolio (44,785 square metres leased) and Dexus industrial portfolio (130,499 square metres leased), and maintained high occupancy of 95.6% and 97.7% respectively
- **Continued progress at city-shaping developments** including commencing construction on Atlassian Central and receiving Development Approval for Central Place Sydney
- **Recognised as a global leader** by the **Global Real Estate Sustainability Benchmark (GRESB)** in the 2022 Real Estate Assessment, and awarded leading scores by Principles for Responsible Investment (PRI)
- **Transacted approximately \$900 million** in properties across the group, predominantly divestments

Funds management

In line with Dexus’s strategic focus on expanding and diversifying the funds management business, we continue to work towards completing the acquisition of AMP Capital’s real estate and domestic infrastructure equity business. This acquisition will enhance our scale in retail and provide immediate scale in the infrastructure asset class. It will further diversify Dexus’s funds management platform with an expanded investor base and a significantly expanded product offering across real assets. Following the integration of the AMP Capital platform, Dexus’s funds management business will have circa \$44.3 billion of funds under management (FUM)².

Environmental, Social and Governance (ESG) update

Dexus was awarded by Principles for Responsible Investment (PRI), the highest attainable score of 100 for the ‘Investment and Stewardship Policy’ module and 98 out of 100 for the ‘Direct Real Estate’ module, with the scores significantly above the median scores for each category.

Dexus was also recognised as a global leader in sustainability by the Global Real Estate Sustainability Benchmark (GRESB) in the 2022 Real Estate Assessment. Dexus and its funds achieved 90% and above in seven of eight categories submitted and three entities ranked in the top 2% of GRESB participants globally. Dexus Office Trust was also recognised as a Global Listed Sector Leader for Office in 2022.

Property portfolio

Dexus Office Portfolio

Key metrics	30 September 2022	30 June 2022
Occupancy by income	95.6%	95.6%
Occupancy by area	95.2%	95.2%
Weighted average lease expiry (by income)	4.6 years	4.7 years
Average incentives ³	29.6%	29.4%

Over the quarter, a total of 43,787 square metres⁴ of office space was leased across 86 transactions, representing an increase in stabilised leasing volumes on each of the prior two quarters. In addition, 998 square metres was leased across three transactions at Dexus's office developments.

Key leasing activity included:

- **In Sydney**, secured a total of 5,953 square metres across 12 leasing transactions at One Farrer Place, 8,301 square metres at 100 Mount Street in North Sydney, 4,456 square metres across 9 transactions at 25 Martin Place, 2,431 square metres at 100 Harris Street in Pyrmont and 2,171 square metres across 9 transactions at Australia Square
- **In Melbourne**, secured 2,809 square metres across 10 leasing transactions at Rialto Towers and 3,975 square metres across seven transactions at 385 Bourke Street, 2,152 square metres at the 80 Collins Street North Tower, as well as securing a new customer at 180 Lonsdale Street across 1,787 square metres
- **In Brisbane**, secured 1,975 square metres at Waterfront Place across four transactions
- **In Perth**, secured two new customers across 2,350 square metres at 58 Mounts Bay Road

Leasing conditions showed some signs of improvement during the quarter. Flight to quality remains a key theme and many customers continue to upgrade and centralise their occupancy. Net absorption has been higher for prime grade stock than secondary stock for the past six quarters⁵.

Dexus's office portfolio occupancy by income remained high at 95.6% during the quarter, supported by leasing success across Dexus's core markets. Upcoming expiries remain manageable with 6.7% of the portfolio expiring in FY23 and 8.9% in FY24. Properties in CBD locations continue to attract good interest as evidenced by our leasing volumes and enquiry levels.

Average incentives during the quarter were 29.6%, marginally up on the levels experienced on average during FY22 due to leasing at 100 Mount Street in the vacancy-impacted North Sydney market.

Dexus Industrial Portfolio

Key metrics	30 September 2022	30 June 2022
Occupancy by income	97.7%	98.1%
Occupancy by area	98.8%	99.0%
Weighted average lease expiry (by income)	4.7 years	4.7 years
Average incentives ³	9.1%	13.5%

Over the quarter, 127,499 square metres⁴ of industrial space was leased across 21 transactions. In addition, 3,000 square metres was leased across three transactions at industrial developments.

Key leasing activity included:

- **In New South Wales**, secured two new customers across 6,971 square metres at Kings Park Industrial Estate in Marayong, a new customer across 6,765 square metres at 9 Dolerite Way, Greystanes, 3,950 square metres with an existing customer at 48 Egerton Street, Silverwater and a combined 3,499 square metres at The Mill in Alexandria
- **In Victoria**, secured a total of 53,449 square metres with an existing customer at 11-17 Distribution Drive, Truganina and a new customer at 7-9 Distribution Drive, Truganina
- **In Queensland**, secured a new customer across 25,804 square metres at 278 Orchard Road, Richlands and 12,104 square metres with an existing customer at 50 and 70 Radius Avenue, Larapinta
- **In Perth**, secured 8,132 square metres at Jandakot Airport industrial precinct with both existing and new customers

Dexus's industrial portfolio occupancy by income reduced marginally to 97.7% primarily due to an expiry at 15-23 Whicker Road, Gillman in South Australia. Excluding business parks, occupancy by income was 99.5%.

Average incentives reduced to 9.1%, primarily driven by strong customer take up across both new leases and renewals in Sydney and Melbourne markets which continue to benefit from low supply.

Industrial market rent growth remains strong across Dexus's core markets, and the portfolio is now 4.9% under-rented (from 4.0% under-rented at FY22) driven by continued market rent growth across most markets, particularly in parts of Sydney and Melbourne.

Development

Dexus's group development pipeline was \$17.7 billion as at 30 June 2022, of which \$10.3 billion sits within the Dexus portfolio and \$7.4 billion within third party funds.

During the quarter, Dexus completed 63,600 square metres of industrial development, comprising circa 51,000 square metres at 107 Momentum Way, Ravenhall and a circa 12,600 square metre facility at 22 Orion Road, Jandakot.

At Jandakot, construction commenced on a 25,500 square metre industrial project at 8 Centurion Place and continues across a further 62,000 square metres for five additional industrial projects. At Ravenhall construction continues across 160,500 square metres for an additional four industrial projects.

Dexus continues to progress its city-shaping developments and commenced construction on Atlassian Central in August with Built-Obayashi appointed as the builder.

At Central Place Sydney, Dexus Office Partnership and Frasers Property lodged a Stage 3 Unsolicited Proposal and Project Development Agreement with the New South Wales Government and received Development Approval from City of Sydney on 20 October.

At Waterfront Brisbane, 36% of total office space has been committed in the North Tower and construction is expected to commence in the coming months.

Transactions

Dexus has exchanged or settled approximately \$900 million of transactions across the group since 30 June 2022, \$760 million of which were divestments. Key transactions for Dexus include:

- In July, Dexus settled on the sale of 383-395 Kent Street, Sydney and its 50% interest in 140 & 150 George Street, Parramatta for an aggregate sale price of \$462.3 million (reflecting DXS share)
- In October, Dexus agreed to sell 586 Wickham Street and 10 Light Street, Fortitude Valley in Brisbane (known as the Audi Centre), for \$98.0 million, with settlement expected in June 2023. The sale price represents a circa 6% discount to 30 June 2022 book value

In addition, Dexus acquired an industrial property at 311 South Street, Marsden Park NSW in partnership with Dexus Australian Logistics Trust for a total purchase price of \$45.0 million (for 100% of the property, in which Dexus has a 51% interest).

Summary and outlook

Darren Steinberg said: "In this challenging environment with rising interest rates and continued economic uncertainty, we continued to deliver on our strategic objectives and are focused on integrating the AMP Capital platform.

"In addition, we made solid progress on the key development projects of Atlassian Central and Central Place Sydney.

"We remain focused on enhancing the resilience of our portfolio and maintaining high occupancy. Industrial markets remain strong, and we are seeing some signs of improvement in office market leasing conditions."

Based on current expectations relating to interest rates, continued asset sales and barring unforeseen circumstances, Dexus maintains its guidance to deliver distributions of 50.0 - 51.5 cents per security for the 12 months ended 30 June 2023⁶.

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About Dexs

Dexs (ASX: DXS) is one of Australia's leading fully integrated real estate groups, managing a high-quality Australian property portfolio valued at \$44.3 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 in Australia, and directly own \$18.4 billion of office, industrial and healthcare properties and investments. We manage a further \$25.9 billion of office, retail, industrial and healthcare properties in our funds management business, which provides third party capital with exposure to quality sector specific and diversified real estate investment products. The funds within this business have a strong track record of delivering outperformance and benefit from Dexs's capabilities. The group's \$17.7 billion development pipeline provides the opportunity to grow both portfolios and enhance future returns. Dexs is listed on the Australian Securities Exchange and is supported by more than 29,000 investors from 24 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. We consider sustainability (ESG) to be an integral part of our business with the objectives of Leading Cities, Future Enabled Customers, Strong Communities, Thriving People and an Enriched Environment supporting our overarching goal of Sustained Value.
www.dexus.com

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- 1 Including Heads of Agreement and development leasing transactions.
 - 2 Pro forma FUM is on completion of the AMP Capital transaction and includes circa \$18.4 billion of AMP Capital FUM, reflecting AMP Capital FUM at 30 June 2022 net of known transition of FUM from the AMP Capital platform.
 - 3 Excludes development leasing.
 - 4 Including Heads of Agreement and excluding development leasing.
 - 5 Source: JLL.
 - 6 Assumes current interest rate expectations of 2.75% - 3.75% based on an average floating interest rate (90-day BBSW), the transition of circa \$18 billion of FUM from the acquisition of the AMP Capital real estate and domestic infrastructure equity platform and circa \$50 - \$55 million of trading profits (post-tax).