Dexus (ASX: DXS)

ASX release

14 February 2023

2023 Half year results – Active six months in subdued market

Dexus today announced its results for the half year ended 31 December 2022, confirming a distribution of 28.0 cents per security.

Highlights

- **AFFO** of 28.9 cents per security increased by 2.8% on the previous corresponding period and **distributions** of 28.0 cents per security were in line with the previous corresponding period
- **Statutory net profit after tax** of $23.1 million, down 97.1% from the previous corresponding period
- **Rent collections** remained strong at 98.9%
- **Maintained a strong balance sheet** with gearing (look-through)[1] at 25.6%, substantial $3.0 billion headroom[2] and 85% of debt hedged across HY23
- **Maintained high occupancy**[3] of 95.3% for the Dexus office portfolio and 97.4% for the Dexus industrial portfolio
- **Raised $553 million of new equity** across the funds platform, including $200 million for Dexus Real Estate Partnership 1 (DREP1) and $220 million for Dexus Healthcare Property Fund (DHPF)
- **Secured $48.7 million post tax trading profits for HY23** and approximately $5 million pre-tax to be realised across FY23 and FY24
- **Announced $773 million balance sheet divestments**, recycling capital into higher returning opportunities
- **Progressed city-shaping developments** at Atlassian Central and Waterfront Brisbane
- **Continued leadership in environmental, social and governance performance** with Dexus being recognised as a global leader in sustainability, achieving a Top 5% S&P Global ESG Score in the S&P Global Sustainability Yearbook

Dexus Chief Executive Officer, Darren Steinberg said: "Despite subdued market conditions, it has been an active six months. We have announced $773 million of balance sheet divestments since the FY22 result, recycling capital into higher returning opportunities and maintaining a strong balance sheet."

Strategy

Darren Steinberg said: "With the upcoming addition of AMP's real estate and infrastructure platform, we have refined our vision to be recognised as the leading real asset investment manager in Australia, with the strategic objectives of generating resilient income streams and being identified as the investment manager of choice. Our balance sheet provides resilient cash earnings from a portfolio of high-quality investments, and our funds business adds capital efficient, higher growth exposure within the overall risk profile of the business.

"As a result of completion being delayed, we have renegotiated terms with AMP and the maximum total consideration payable by Dexus has been reduced to $225 million, which equates to an attractive 1.2% of FUM. Dexus and AMP have entered into a non-binding term sheet which contemplates an alternative transaction structure, that would allow the majority of staff and the business to move across to Dexus if the outstanding condition precedent is not met or waived by 28 February 2023."

Environmental, Social and Governance (ESG)

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

Dexus was again recognised as a global leader in sustainability, achieving a Top 5% S&P Global ESG Score in the S&P Global Sustainability Yearbook. Dexus retained its leadership on the Dow Jones Sustainability Index and achieved an A Score rating in CDP's 2022 Climate Change Assessment up from A- in 2021. In addition, Dexus Office Trust was named a Global Sector Leader in the 2022 Global Real Estate Sustainability Benchmark (GRESB) Real Estate Assessment.

In line with its commitment to support customer wellbeing, Dexus has achieved its first WELL Health and Safety Portfolio Certification across the 45 nominated office properties and achieved a 4.6 Star NABERS Indoor and Environment rating across the Dexus group portfolio.

Dexus's sustainability performance plays a key role in delivering on its purpose of creating spaces where people thrive – ensuring it delivers sustained value for its investors, customers and employees.

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Financial result

Dexus's statutory net profit after tax was $23.1 million, down 97.1% from the previous corresponding period. The reduction was primarily driven by net property devaluations compared with valuation uplifts in the previous corresponding period.

The external independent valuations resulted in a total $242.2 million or circa 1.4% decrease on prior book values for the period to 31 December 2022, with positive rent growth partially offsetting the impact of capitalisation rates expanding by 16 basis points on average across the portfolio. The weighted average capitalisation rate of the Dexus office portfolio softened 14 basis points from 4.75% at 30 June 2022 to 4.89% at 31 December 2022, and for the Dexus industrial portfolio softened 17 basis points from 4.29% at 30 June 2022 to 4.46% at 31 December 2022.

These revaluation reductions primarily drove the 27 cent or 2.2% decrease in net tangible asset (NTA) per security during the period to $12.01 at 31 December 2022[4].

Operationally, Underlying Funds From Operations (excluding trading profits) of $340.4 million was 9.3% lower than the previous corresponding period, driven by higher net interest costs, the impact of divestments and non-recurring income from development impacted properties in the prior half, partly offset by growth in Management operations FFO. AFFO of $310.8 million was 2.8% higher than the previous corresponding period driven by higher trading profits and lower maintenance capex due to the timing of project commencements, partly offset by the reduction in Underlying FFO.

Dexus's Chief Financial Officer, Keir Barnes said: "Since FY22, we have executed over $2 billion of new and refinanced facilities, and have substantial headroom, with $3 billion of cash and undrawn debt facilities. At 25.6%[1], our gearing remains below the 30-40% target range. Combined with our ongoing approach to strategic asset recycling, this provides capacity to fund growth initiatives in funds management and development opportunities."

Rent collections for the Dexus office and industrial portfolio remain strong at 98.9%.

Dexus has a weighted average debt maturity of 5.2 years, no material debt expiries over the next 12 months 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 85% of Dexus's debt was hedged in HY23, with a weighted average hedge maturity of 4.8 years, providing material protection against interest rate movements over the medium term.

Funds Management

Dexus manages $26.3 billion of funds across 19 funds within its diversified funds management business.

Executive General Manager, Funds Management, Deborah Coakley said: "Our fund investors benefit from our diverse range of product choices, strong track record of performance and high standards of corporate governance that are externally tested and focus on delivering outcomes in their best interests. Dexus's global leadership in sustainability aligns to our capital partners' ambitions, with DHPF being recognised as a global sector leader and global non-listed leader for healthcare in the development benchmark by GRESB in 2022."

Dexus's funds platform raised $553 million in new equity during the period. DHPF raised $220 million of equity from both existing and new investors. The fund acquired the remaining 50% of the Australian Bragg Centre in Adelaide from Dexus in December 2022. DHPF's funds under management now stands at circa $1.1 billion across 10 assets with an on-completion value of $1.8 billion[5].

Opportunistic fund DREP1 completed its final close and has raised $475 million[6] of equity since inception, approximately 60% above its initial target and taking its investment capacity to circa $1 billion (including gearing). The fund secured two further opportunities, adding to its first five investments. Dexus expects to launch the second fund in this series in due course.

DWPF continued to outperform its benchmark over one, three, five, seven and ten-year time periods. The fund has also fulfilled $2.0 billion of the AMP Capital Diversified Property Fund (ADPF) legacy redemption requests, in line with its commitment to investors.

Property portfolio

Dexus Office Portfolio

Dexus manages a high-quality $23.5 billion group office portfolio, $12.9 billion of which sits in the Dexus portfolio.

Key metrics	31 Dec 2022	30 June 2022
Occupancy by income	95.3%	95.6%
Weighted average lease expiry (by income)	4.6 years	4.7 years
Average incentives[7]	31.8%	29.4%
Weighted average cap rate	4.89%	4.75%

During the six months to 31 December 2022, Dexus leased 106,751 square metres[8] of office space across 154 transactions as well as 7,789 square metres of office development leasing across six transactions, securing future income streams.

Key leasing activity included:
- **In Sydney**, secured a significant number of leasing deals including 11,217 square metres at 25 Martin Place, 8,301 square metres at 100 Mount Street, North Sydney, 7,215 square metres at 1 Farrer Place, 6,217 square metres at 100 Harris Street, Pyrmont and 3,433 square metres at Australia Square
- **In Melbourne**, secured 7,562 square metres at 180-222 Lonsdale Street, 6,188 square metres at 385 Bourke Street, 5,405 square metres at Rialto Towers, 525 Collins Street, and 3,289 square metres at 80 Collins Street
- **In Brisbane**, secured 21,594 square metres at 480 Queen Street including the renewal of BHP, 5,444 square metres at Waterfront Place, as well as securing development leasing of 7,789 square metres at Waterfront Brisbane
- **In Perth**, leased 4,594 square metres at 58 Mounts Bay Road and 1,361 square metres at Kings Square, 556 Wellington Street

Executive General Manager, Office, Kevin George said: "We continue to outperform the market with portfolio occupancy remaining consistently above 95%, demonstrating the continued attractiveness of high-quality workspaces and the resilience of our high-quality office portfolio despite some market uncertainty. Our stabilised leasing volumes were up materially compared to the second half of FY22, and market data shows that physical occupancy improved during 2022 in all four CBD markets. Large tenant enquiry has picked up, however conversion times have increased given economic uncertainty.

"Incentives have increased to 31.8% largely as a result of leasing in Brisbane. Incentives are expected to remain elevated through FY23, as the existing supply pipeline completes."

Office portfolio like-for-like income growth was +3.2% (FY22: +2.7%)[9].

Dexus Industrial Portfolio

Dexus manages a growing, high-quality $11.6 billion group industrial portfolio, $4.2 billion of which sits in the Dexus portfolio.

Key metrics	**31 Dec 2022**	**30 June 2022**
Occupancy by income	97.4%	98.1%
Weighted average lease expiry (by income)	4.7 years	4.7 years
Average incentives[7]	10.9%	13.5%
Weighted average cap rate	4.46%	4.29%

During the six months to 31 December 2022, Dexus leased 153,989 square metres[8] of industrial space across 34 transactions as well as 60,179 square metres of space across five industrial development leasing transactions. Portfolio occupancy reduced slightly to 97.4%, driven predominantly by expiries at Axxess Corporate Park and Dexus Distribution Centre in Gilman. Occupancy excluding business parks was 99.9%.

Key leasing activity included:

- **In New South Wales**, secured 16,314 square metres at Kings Park Industrial Estate, Marayong, 7,992 square metres at Quarry East, 3 Basalt Road, Greystanes, 6,765 square metres at Quarry West, 9 Dolerite Way, Greystanes, 3,950 square metres at 48 Egerton Street in Silverwater and a further 3,499 square metres at The Mill, 41-43 Bourke Road, Alexandria
- **In Victoria**, renewed 45,493 square metres at Dexus Industrial Estate at 11-17 Distribution Drive, Truganina and an additional 8,004 square metres at 7-9 Distribution Drive Truganina
- **In Queensland**, secured a new customer at 278 Orchard Road, Richlands across 25,804 square metres and renewed 12,104 square metres at 50 & 70 Radius Avenue, Larapinta
- **In Adelaide**, renewed 4,699 square metres at 15-23 Whicker Road, Gillman
- **In Perth**, leased 8,961 square metres at Jandakot, including a new customer over 6,829 square metres at 2 Marriott Road and a renewal across 2,132 square metres at 8b Orion Road

Executive General Manager, Industrial, Retail and Healthcare Stewart Hutcheon said: "Our stabilised leasing volumes were well above those achieved in HY22. Industrial demand remains supported by a broad base of sectors including medical, supermarkets, transport and e-commerce. Thanks to strong market rent growth our portfolio is 9.3% under-rented and is expected to benefit from continued market rent growth. There is the opportunity to grow income by resetting the rents on vacancy and upcoming lease expiries across approximately 20% of the portfolio by FY24."

Industrial portfolio effective like-for-like income growth was +2.4% (FY22: +2.1%)[10].

Developments

The group development pipeline now stands at a cost of $15.8 billion, of which $8.8 billion sits within the Dexus portfolio and $7.0 billion within third party funds.

Dexus has circa $2.5 billion remaining to spend on its committed development projects over the next five years, including Atlassian Central in Sydney and Waterfront Brisbane Stage 1.

Chief Investment Officer, Ross Du Vernet said: “We have circa 2.5 million square metres of well-located land holdings to be developed over the next seven years across our group industrial portfolio. On completion of the group development pipeline, the group's industrial portfolio would grow to an estimated $15.7 billion across approximately 5 million square metres.

“We have commenced construction at our city-shaping office projects, Atlassian Central in Sydney and Waterfront Brisbane. While we have rationalised our pipeline by removing concept projects that we are no longer pursuing in the current market, the remaining pipeline is profitable and the decision to activate uncommitted projects will be assessed on project commerce and capital availability.”

Transactions and trading

Dexus had another active period of transactions, undertaking $2.2 billion[11] of property transactions, comprising $1.9 billion of divestments and $351 million of acquisitions across the group.

During the half, Dexus has announced circa $773 million of balance sheet divestments and no new acquisitions, recycling capital into higher returning opportunities.

Dexus’s FY23 trading profit target was de-risked through the divestment of trading properties at 12 Frederick Street in St Leonards, 20 Distribution Drive in Truganina, and Dexus’s 50% interest in Australian Bragg Centre, North Terrace, for $264[12] million in aggregate. The sale of these trading properties has realised $48.7 million post tax trading profits in HY23, with approximately $5 million pre-tax trading profits to be realised across FY23 and FY24.

Other announced divestments included:

- **8 Nicholson Street, East Melbourne** for $213.7 million[13]
- **586 Wickham Street and 10 Light Street, Fortitude Valley** for $98.0 million
- **19 Stoddart Road, Prospect** for $76.2 million[13]
- **145-151 Arthur Street, Flemington** for $73.3 million[13]

In addition, in July 2022 Dexus settled on the sale of 383-395 Kent Street, Sydney and its 50% interest in 140 & 150 George Street, Parramatta for a combined sale price of $462.3 million. These divestments were announced to the ASX during FY22.

Dexus Chief Investment Officer, Ross Du Vernet said: “We remain focused on asset recycling to provide capacity to fund growth initiatives across developments and the funds platform, as well as continuing to enhance the quality of our portfolio.”

Summary and outlook

Darren Steinberg said: “Dexus has demonstrated resilience in a challenging environment, with our portfolio maintaining strong occupancy and continuing to benefit from the flight to quality. Recycling assets and proactively managing capital has also enabled us to maintain a strong balance sheet.

“The macroeconomic environment remains challenging with rising interest rates, ongoing supply chain disruptions, a global energy crisis and geopolitical risks contributing to continued economic uncertainty. Higher interest rates will continue to impact our results in FY23.

“Barring unforeseen circumstances, Dexus has updated its guidance to deliver distributions of 51.0 - 51.5 cents per security for the 12 months ended 30 June 2023, reflecting the higher end of its previously stated guidance range[14].

HY23 Results

This ASX announcement should be read in conjunction with the HY23 Results Presentation, the HY23 Financial Accounts and Property Synopsis, released to the Australian Securities Exchange today and available on www.dexus.com

Investor conference call

Dexus will hold an investor conference call at 9.30am (AEST) today, Tuesday 14 February 2023, which will be webcast via the Dexus website (https://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 one of Australia's leading fully integrated real asset groups, managing a high-quality Australasian real estate and infrastructure portfolio valued at $62.3 billion (pro forma post completion of the Collimate Capital acquisition). 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 directly own $17.8 billion of office and industrial assets and investments. We manage a further $44.5 billion of investments in our funds management business (pro forma post completion of the Collimate 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 outperformance and benefit from Dexus's capabilities. The group's $15.8 billion development pipeline provides the opportunity to grow both portfolios and enhance future returns. 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. Dexus is listed on the Australian Securities Exchange and is supported by more than 31,000 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 Gearing 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 co-investments in pooled funds was 26.4% as at 31 December 2022.
2 Undrawn available facilities plus cash
3 By income.
4 Post completion of the AMP Capital platform acquisition, NTA is expected to reduce given the consideration in connection with the acquisition of management rights which are classified as an intangible asset.
5 Includes on completion value of assets under development including Dexus ownership interest.
6 Includes circa $100 million co-investment by Dexus.
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. Office like-for-like income growth including the impact of rent relief measures and provisions for expected credit losses was +9.9% in HY23 and +4.4% in FY22.
10 Excluding the impact of rent relief measures and provisions for expected credit losses. Industrial like-for-like income growth including the impact of rent relief measures and provisions for expected credit losses was +5.6% in HY23 and +2.4% in FY22
11 Includes post balance date acquisitions and divestments that have settled or are due to settle post 31 December 2022.
12 Excludes transaction costs.
13 Reflects net sale price and excludes transaction costs.
14 Assumes floating interest rates of circa 3.25% (90-day BBSW), completion (or first stage completion under an alternate transaction structure) of the transition of circa $18 billion of FUM from the acquisition of the AMP Capital real estate and domestic infrastructure equity platform in March 2023, and circa $50 - $55 million of trading profits (post-tax).