

Dexus (ASX: DXS)

ASX release



15 February 2022

2022 Half year results – Momentum in funds management and development

Dexus today announced its results for the half year ended 31 December 2021, confirming a distribution of 28.0 cents per security. Dexus raised \$1.3 billion of new equity across its funds management business, secured development precommitments at its city-shaping project at Waterfront Brisbane and completed 154,534 square metres of industrial development leasing.

Highlights

- **Net profit after tax** of \$803.2 million, up 82.0% on the previous corresponding period
- **Adjusted Funds from Operations (AFFO)** of 28.1 cents per security, down 2.4%, and a **distribution** of 28.0 cents per security, down 2.8% on the previous corresponding period, primarily driven by lower **trading profits of \$21.6 million** (post tax) in HY22
- **Rent collections** remained strong at 97.9%
- **Gearing**¹ remains conservative at 31.1%
- **\$1.6 billion of cash and undrawn debt facilities**
- **Continued leadership in environmental, social and governance performance** demonstrated by being the only real estate company to achieve a Gold Class distinction in the S&P Global Sustainability Yearbook 2022, retaining its leadership on the Dow Jones Sustainability Index, and achieving an A- score in the CDP Climate Change survey
- **All funds performing** with Dexus Wholesale Property Fund (DWPF) continuing to outperform its benchmark over three, five, seven and ten-year time periods and Dexus Healthcare Property Fund (DHPF) achieving a one-year return of 18.0%
- Raised \$1.3 billion of **new equity across existing funds** since 30 June 2021
- **High occupancy**² of 95.1% for the Dexus office portfolio and 98.6% for the Dexus industrial portfolio
- **Progressed planning for city-shaping projects** in the group's \$17.8 billion development pipeline

The first six months of the financial year saw the continuation of COVID-19 lockdowns in Sydney and Melbourne, which impacted the economy and the ability for business to trade normally. Despite this, the vaccine was successfully rolled out across Australia enabling the easing of restrictions before Christmas. Subsequently, the Omicron variant of COVID-19 continues to impact confidence, creating challenges in supply chains and delaying the new year return to the office, which is expected to persist for the first quarter of 2022.

Dexus Chief Executive Officer, Darren Steinberg said: "Despite impacts from the pandemic, it has been an active start to the year with growth in our funds management business, continued leasing activity, as well as new acquisitions and selective asset sales. This momentum demonstrates our continued focus on leveraging our platform capabilities to drive performance across our portfolio and in our third party funds."

Strategy

Darren Steinberg said: "This busy period has progressed our strategic objective of expanding our funds management business while enhancing the resilience of our increasingly diversified property portfolio.

"The key megatrends of urbanisation, technology advances and the growth in pension capital flows have evolved and increased in importance as a result of the pandemic. We are well positioned to continue to leverage these trends to support investor returns and deliver on our purpose of creating spaces where people thrive and vision of being globally recognised as Australia's leading real estate company.

"Our strategy is to deliver superior risk-adjusted returns from high-quality real estate and seek opportunities that can deliver sustainable income streams while growing and diversifying our funds management business.

"We expect that sourcing quality properties will remain competitive as global pools of capital increasingly chase the same assets that we invest in, and as a result we will maintain our active approach of utilising alternate ways to unlock and access opportunities."

Financial result

Dexus's net profit after tax was \$803.2 million, an increase of \$361.9 million or 82.0% on the previous corresponding period. The increase in net profit was primarily driven by net revaluation gains of investment properties of \$486.2 million, which were \$341.5 million higher than the previous corresponding period.

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At 31 December 2021, 124 of Dexus's 189³ office, industrial and healthcare properties were independently valued by external valuers. Most of the valuation uplift was seen across the industrial portfolio which increased by 8.9%, with the office portfolio increasing 1.1% on prior book values on the back of leasing success at some assets.

Valuation gains across the total property portfolio for the period to 31 December 2021 contributed to the 35 cent or 3.1% increase in net tangible asset (NTA) per security to \$11.77.

The total property portfolio weighted average capitalisation rate tightened 15 basis points over the past six months from 4.91% at 30 June 2021 to 4.76% at 31 December 2021. The weighted average capitalisation rate of the Dexus office portfolio tightened six basis points from 4.91% at 30 June 2021 to 4.85% at 31 December 2021, and the Dexus industrial portfolio tightened 50 basis points from 4.92% at 30 June 2021 to 4.42% at 31 December 2021.

Underlying Funds from Operations (FFO) per security of 34.9 cents, which excludes trading profits, increased by 15.9% as a result of property acquisitions and growth in management operations income, as well as income generated on Dexus's pooled fund co-investments and lower net finance costs.

AFFO and distribution per security of 28.1 and 28.0 cents were down 2.4% and 2.8% respectively on the previous corresponding period primarily due to the amount of trading profits in the first half of FY22 being lower than those in the first half of FY21, as well as higher maintenance capital expenditure and incentives. The distribution payout ratio remains in line with free cash flow in accordance with Dexus's distribution policy. The distribution will be paid to Dexus Security holders on Monday, 28 February 2022.

Rent collections were strong at 97.9% for the Dexus portfolio in the six months to 31 December 2021.

Dexus continued to maintain a strong and conservative balance sheet with gearing¹ at 31.1%, at the lower end of the target range of 30-40%, and \$1.6 billion of cash and undrawn debt facilities. Dexus has manageable 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.

Chief Financial Officer, Keir Barnes said: "The first half underlying financial result was characterised by strong growth in funds management income driven by the addition of assets to the platform as a result of the merger of AMP Capital Diversified Property Fund (ADPF) with DWPF, the acquisition of APN Property Group and other successful initiatives that are expected to continue to drive growth.

"Despite the extension of the legislation and regulations for the National Commercial Code of Conduct⁴ in some States and the continued economic impacts of the pandemic, we are confident of being able to deliver our FY22 guidance with distributions continuing to be paid out in line with free cash flow."

Funds Management

Dexus undertook many initiatives in an active first half across its \$27.0 billion diversified funds management business, which includes 21 vehicles, consistent with Dexus's strategic focus to expand and diversify the funds management business.

All funds and partnerships have performed well despite the market conditions, with DWPF continuing to outperform its benchmark over three, five, seven and ten years. DHPF continued to deliver strong performance, achieving a one-year return of 18.0%.

Executive General Manager, Funds Management, Deborah Coakley said: "Since 30 June 2021, we have secured \$1.3 billion of new equity across the funds management business which resulted in a number of new investors being welcomed onto the platform.

"We integrated the listed and unlisted funds that comprised APN Property Group onto the Dexus platform, undertaking acquisitions in both Dexus Convenience Retail REIT (DXC) and Dexus Industria REIT (DXI), with both funds also raising equity during the half, as they continued to execute on their respective strategies."

DXI raised \$350 million of new equity to assist in funding the acquisition of a 33.3% interest in Jandakot Airport, Perth (Jandakot) and 2 Maker Place, Truganina while DXC raised \$55.5 million of new equity to further strengthen DXC's balance sheet following recent acquisitions including 7-Eleven Kingston and United Gordonvale.

In January 2022, Cbus Super was secured as a new joint venture investor, agreeing to purchase a 33.3% interest in the newly established Jandakot joint venture which will own 100% of Jandakot. Following the final settlement of the remaining Jandakot interest, the circa \$1.3 billion joint venture will be held by Dexus (33.4%), DXI (33.3%) and Cbus Super (33.3%).

DHPF successfully raised \$250 million of new equity and acquired Arcadia Pittwater Private Hospital and day rehabilitation facility located in Warriewood on the Northern Beaches of Sydney. DHPF's funds under management now stands at over \$1.1 billion across 10 assets with an on completion value of \$1.4 billion⁵.

In Dexus Australian Logistics Trust (DALT), Blackstone's Core+ Real Estate strategy in Asia signed a binding agreement to acquire GIC's 49% joint venture interest in the Partnership, with the existing management arrangements for DALT remaining unchanged.

Dexus Real Estate Partnership 1 (DREP1) has neared its \$300 million equity commitment target, following a \$100 million commitment from Mercer Alternatives. Discussions are underway with a number of investors to participate in another close. DREP1 has already completed its first three investments and is actively pursuing further opportunities.

In April 2021 when unitholders in both DWPF and 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. To date, Dexus has completed or exchanged over \$1.7 billion of asset sales to fulfil ADPF redemption requests and is on track to fulfil all requests before the October 2022 deadline.

Environmental, Social and Governance (ESG) update

From an environmental perspective, Dexus continued to manage its properties for emissions reductions supporting the group's net zero by 30 June 2022 commitment.

Dexus was again acknowledged as a global ESG leader, retaining its position on several ESG benchmarks, including:

- For the third consecutive year, Dexus outperformed 569 real estate companies globally to become the only real estate company to achieve a Gold Class distinction in the S&P Global Sustainability Yearbook 2022, retaining its leadership on the Dow Jones Sustainability Index
- Achieving a score of A- on the CDP Climate Change survey
- Being 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 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, Dexus, 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

Dexus manages a high-quality \$24.9 billion group office portfolio, \$13.7 billion of which sits in the Dexus portfolio.

Key metrics	31 December 2021	30 June 2021
Occupancy by income	95.1%	95.2%
Weighted average lease expiry (by income)	5.0 years	4.6 years
Average incentives ⁶	29.7%	24.9%
Weighted average cap rate	4.85%	4.91%

During the six months to 31 December 2021, Dexus leased 112,601 square metres⁷ of office space across 151 transactions, in addition to 2,273 square metres⁸ of space across six transactions in relation to office developments.

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 13,225 square metres at 4 Dawn Fraser Avenue, Sydney Olympic Park
- In Brisbane, securing leasing across 2,726 square metres at 145 Ann Street and 2,766 square metres at Waterfront Place

Executive General Manager, Office, Kevin George said: "The operating environment has remained challenging for the past two years as a result of the pandemic. Over that time, our office portfolio has proven to be resilient with continued leasing activity and occupancy being maintained above 95%.

"Sub-lease space across our group portfolio decreased in the December quarter and many companies are looking through the current environment to the future, with a number of leases extensions and development leases agreed with large customers. We are well placed for the recovery with a continued focus on customer engagement across our Prime grade portfolio.

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“Average incentives in the period were elevated compared to the first quarter of FY21, but in line with levels experienced since the second quarter of FY21, driven by larger deals secured in lockdown-affected markets. While the Omicron variant has delayed the return to the office, we expect the return to take hold in the coming months and see the potential for incentives to decline in Sydney.”

Face rents remain largely unchanged in the core CBD markets, however effective rents are under pressure as incentives continue to increase. Given the better-than-expected market occupancy levels and strength of key leading indicators, Dexus expects incentives to moderate in some markets over the next 12 months.

Office portfolio like-for-like income growth was +4.4% (FY21: +2.3%), excluding the impact of rent relief measures and provisions for expected credit losses (including these impacts: HY22 +8.4% and FY21 +0.9%). The Dexus office portfolio delivered a one-year return of 6.3% at 31 December 2021.

After a difficult period, Australia’s CBD office markets improved in the latter half of 2021, contributing to positive net absorption across Australia’s four major CBDs. Many of the lead indicators for the office market are positive. Business confidence, an important lead indicator for office markets was positive in January 2022, and professional job advertisements, an indicator of corporate hiring intentions, continued to rise in November 2021 with white collar employment growth remaining positive.

Dexus Industrial Portfolio

Dexus manages a growing, high-quality \$11.0 billion group industrial portfolio, \$4.0 billion of which sits in the Dexus portfolio.

Key metrics	31 December 2021	30 June 2021
Occupancy by income	98.6%	97.7%
Weighted average lease expiry (by income)	5.1 years	4.4 years
Average incentives ⁶	10.6%	17.8%
Weighted average cap rate	4.42%	4.92%

During the six months to 31 December 2021, Dexus leased 115,664 square metres⁷ of industrial space across 40 transactions with 9 development deals completed across 154,534 square metres⁸. Portfolio occupancy increased from 97.7% to 98.6%.

Key leasing activity included:

- Renewing a tenant across 27,612 square metres at Kings Park Industrial Estate, Marayong
- Renewing Toll across 16,915 square metres at 2 Alspec Place, Eastern Creek
- In Perth, securing development leasing across 16,137 square metres at Jandakot

Executive General Manager, Industrial, Retail and Healthcare Stewart Hutcheon said: “Record tenant demand is being driven by logistics firms and retailers investing in extra distribution space to cater for last mile fulfilment as well as the need to house extra inventory to protect against shortages, in addition to continued ecommerce tailwinds. As a result of the strong market rent growth that we’ve seen, our portfolio’s over-rented position has reduced from around 6% at 30 June 2021 to 0.3% at 31 December 2021.

“We continue to work closely with our industrial customers to support their growth across Australia, assisted by our development pipeline, with new leases already secured at Jandakot in Perth.”

Industrial portfolio like-for-like income declined 2.3% (FY21: +3.7%) excluding the impact of rent relief measures and provisions for expected credit losses (including these impacts: HY22 -1.8% and FY21 +4.5%), driven by downtime at business parks which have now been leased up. Dexus is confident of delivering growth across the total portfolio for FY22. The Dexus industrial portfolio delivered a one-year return of 26.3% to 31 December 2021.

Developments

Dexus has a proven track record and significant capabilities in developing office, industrial, retail and healthcare properties. The group development pipeline now stands at a cost of \$17.8 billion, of which \$9.5 billion sits within the Dexus portfolio and \$8.3 billion within third party funds. The development pipeline benefits the group by improving portfolio quality, providing inventory for third party capital partners and enhancing returns for both Dexus and third-party capital partners.

Chief Investment Officer, Ross Du Vernet said: “We secured a number of acquisitions to enhance our group industrial development pipeline during the half, including Jandakot in Perth. We now have over \$750 million of committed projects across the group industrial pipeline after completing 280,000 square metres in calendar year 2021.

“We are well progressed in being able to activate our city-shaping office projects including Waterfront Brisbane and Atlassian Sydney, which we expect to commence this calendar year, as well as 60 Collins Street, Melbourne and Central Place, Sydney, which are both expected to commence next year.”

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Dexus has reduced risk relating to its uncommitted city-shaping developments because the existing assets on these sites are currently income producing and the majority are owned in partnership with third party capital partners, enabling Dexus to progress planning and enhance the optionality of these projects.

During the period, Dexus completed a 51,600 square metre industrial development at 31 Innovation Drive, Merrifield in Victoria.

Dexus currently has circa 380,000 square metres across fifteen industrial development projects owned by Dexus and its third-party capital partners, of which the majority have secured leases.

Transactions and trading

Dexus had an active six months of transaction activity announcing \$9.3 billion of contracted transactions across the group.

A total of \$4.4 billion of acquisitions were undertaken across the group in the industrial, healthcare and convenience retail sectors. The recently announced industrial portfolio acquisition including Jandakot 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.

The Dexus Industrial Partnership also agreed to acquire 113-153 Aldington Road in Kemps Creek, NSW for circa \$123 million.

Dexus announced the following asset sales as part of its capital recycling initiatives:

- Grosvenor Place, Sydney: settlement completed with \$694 million of proceeds received by Dexus on 2 December 2021
- 201 Miller Street, North Sydney: exchanged contracts with \$152 million of proceeds to be received by the Dexus Office Partnership, in which Dexus holds a 50% interest. Settlement is expected to occur in February 2022
- 309-321 Kent Street, Sydney: exchanged contracts with \$401 million of proceeds to be received by Dexus (Dexus ownership: 50%). Settlement is expected to occur in April 2022
- 383 Kent Street, Sydney: exchanged contracts with \$385 million of proceeds to be received by Dexus (Dexus ownership: 100%). Settlement is expected to occur in July 2022
- 140 and 150 George Street, Parramatta: exchanged contracts with \$155 million of proceeds to be received by the Dexus Office Partnership, in which Dexus holds a 50% interest. Settlement is expected to occur in August 2022

Dexus Chief Investment Officer, Ross Du Vernet said: "We continue to transition the portfolio away from lower returning assets into higher returning opportunities, many of which are being undertaken alongside funds management partners and enhance our group development pipeline."

Dexus realised \$21.6 million (post tax) of trading profits in the six-month period through:

- Exercising the option to sell its 100% interest in 436-484 Victoria Road, Gladesville which settled in August 2021
- Exercising the option to sell its 100% interest in 22 Business Park Drive, Ravenhall which settled in November 2021
- Exercising the remaining option to sell a portfolio of six trading assets (Truganina VIC and Lakes Business Park South, Botany NSW) to DALT, with the second tranche settling in November and December 2021 respectively

Summary and outlook

Darren Steinberg said: "Strong momentum has continued across our diversified property platform in the first half of FY22 and despite the uncertainty caused by the Omicron variant we are confident that we can continue to execute on our objectives.

"Our business is supported by a fully integrated platform that comprises a high-quality investment portfolio with upside from a profitable funds management business and significant development pipeline.

"Our funds management business enables capital efficient investment alongside third party clients, with the platform growing by an average 21% per annum over the past 5 years and our \$17.8 billion development pipeline enhances portfolio quality, while providing inventory to grow our third-party relationships."

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.

HY22 Results

This ASX announcement should be read in conjunction with the *HY22 Results presentation* and *HY22 Financial Statements* released to the Australian Securities Exchange today and available at www.dexus.com

Investor conference call

Dexus will hold an investor conference call at 9.30am (AEDT) today, Tuesday 15 February 2022, 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 one of Australia's leading fully integrated real estate groups, managing a high-quality Australian property portfolio valued at \$45.3 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 only in Australia, and directly own \$18.3 billion of office, industrial and healthcare properties, and investments. We manage a further \$27.0 billion of office, retail, industrial and healthcare properties for third party clients. The group's \$17.8 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 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 31.5% as at 31 December 2021.
 - 2 By income.
 - 3 Including Jandakot Airport which comprises 51 assets.
 - 4 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>
 - 5 Includes Dexus ownership interest on completion value of assets under development.
 - 6 Excluding development leasing.
 - 7 Including Heads of Agreement and excluding development leasing.
 - 8 Including Heads of Agreement.