

Dexus (ASX: DXS)

ASX release



24 October 2018

September 2018 quarter portfolio update

Dexus today announced a property portfolio operational update for the quarter ended 30 September 2018.

Darren Steinberg, Dexus Chief Executive Officer said: "Strong leasing in Sydney during the first quarter combined with the securing of trading profits from the settlement of 32 Flinders Street, Melbourne have set the group up to achieve our FY19 market guidance of circa 5% growth in distribution per security."

Highlights

- Leased 41,673 square metres¹ of office space plus 4,989 square metres¹ of office development space, across 52 transactions, with office portfolio occupancy increasing to 96.8%
- Leased 57,559 square metres¹ of industrial space across 18 transactions, with industrial portfolio occupancy reducing to 97.2% as a result of lease expiries during the period
- Reached key milestones across the group's \$4.2 billion development pipeline, including:
 - Commencing development works at 240 St Georges Terrace, Perth
 - Replenishing the industrial development pipeline by entering into agreements to acquire three industrial development sites in Melbourne, Sydney and Brisbane with a combined end value of circa \$700 million
- Secured a prime office development site in the Melbourne CBD through entering into agreements to acquire adjoining properties at 60 and 52 Collins Street which, along with the addition of 140 George Street, Parramatta, increases the pipeline of potential concept opportunities to circa \$2.9 billion

Dexus Office Portfolio

Key metrics	30 September 2018	30 June 2018
Occupancy by income	96.8%	96.0%
Occupancy by area	96.6%	95.7%
WALE by income	4.6 years	4.6 years
Average incentives ²	10.9%	13.9%

Kevin George, Executive General Manager, Office & Industrial said: "Leasing across our core office markets has remained solid with a significant proportion of the leasing during the quarter being undertaken in Sydney. This activity has driven a further reduction in average portfolio incentives as well as favourable releasing spreads."

Over the quarter to 30 September 2018, 41,673 square metres¹ of office space was leased across 46 transactions. Notable activity during the quarter included securing Heads of Agreement for a substantial portion of 2 and 4 Dawn Fraser Avenue, Sydney Olympic Park, with 60.6% of the total space across both buildings now committed.

In addition, office development leasing over 4,989 square metres¹ across 6 transactions included:

- Securing Macquarie Group across 3,311 square metres at 240 St Georges Terrace, Perth, resulting in 51% of the building now being leased
- Securing heads of agreement across 1,303 square metres at 100 Mount Street, North Sydney, taking commitments to 63%

Occupancy (by income) increased to 96.8% from 96.0% at 30 June 2018 across the office portfolio, while the weighted average lease expiry (WALE) was maintained at 4.6 years. Dexus has an opportunity to capitalise on the strength of the Sydney office market, which represents 71.1% of expiries, or 151,564 square metres over the next three years to the end of FY21.

Dexus Industrial Portfolio

Key metrics	30 September 2018	30 June 2018
Occupancy by income	97.2%	98.3%
Occupancy by area	98.6%	98.8%
WALE by income	4.9 years	4.8 years
Average incentives	10.8%	12.6%

Over the quarter to 30 September 2018, 57,559 square metres¹ of industrial space was leased across 18 transactions, with notable activity including:

- Securing heads of agreement across 18,644 square metres at 114 Fairbank Road, Clayton
- Securing heads of agreement across 12,506 square metres at 2-6 Basalt Road, Quarry, Greystanes
- Securing heads of agreement across 7,675 square metres at Kings Park Industrial Estate, Marayong

Occupancy (by income) reduced to 97.2% from 98.3% at 30 June 2018, as a result of expiries during the period, while forward leasing mitigated future expiry risk with minimal downtime. FY20 expiries reduced from 14.2% at 30 June 2018 to 12.5%.

Development

During the period, Dexus secured a prime office development site in the Melbourne CBD through entering into agreements to acquire adjoining properties at 60 and 52 Collins Street which, along with the addition of 140 George Street, Parramatta, increases the pipeline of potential concept opportunities to circa \$2.9 billion. The Melbourne acquisitions provide Dexus with a presence in the tightly held 'Paris end' of Collins Street in the CBD. They also present a unique opportunity to undertake an office development creating long term value for investors in the next supply cycle, in a prime location where Dexus receives significant enquiry from its existing customer base.

In addition, Dexus replenished the industrial development pipeline by entering into agreements to acquire three industrial development sites in Melbourne, Sydney and Brisbane, one of which will be acquired jointly with Dexus Wholesale Property Fund. These developments have a combined end value of circa \$700 million and will be built out over the next five to seven years. They provide the opportunity to leverage our extensive market knowledge, development and leasing capabilities, and track record across each of these markets.

In October 2018 on-floor upgrade works commenced at 240 St Georges Terrace in Perth. The extensive ground floor works will include the creation of a new street entry, a new north facing outdoor terrace on level 16 for functions, new end-of-trip facilities and gymnasium, and an improved retail offering.

At 100 Mount Street in North Sydney construction is progressing well and will soon reach its highest level. Works continue to progress at other projects at 180 Flinders Street in Melbourne and 12 Creek Street – The Annex in Brisbane.

Trading

During the period, Dexus settled on the sale of 32 Flinders Street, Melbourne, securing circa \$49 million (pre-tax) of FY19 trading profits.

FY19 guidance

Dexus reconfirms its market guidance³ for the 12 months ending 30 June 2019 for distribution per security growth of circa 5%.

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- 1 Including Heads of Agreement.
 - 2 Excluding development leasing.
 - 3 Barring unforeseen circumstances, guidance is supported by the following assumptions: Impacts of announced divestments and acquisitions; FFO per security growth of circa 3%, underlying FFO per security growth of circa 3% underpinned by Dexus office portfolio like-for-like growth of 4-5%, Dexus industrial portfolio like-for-like income growth of 2.5-3.5%, management operations FFO and cost of debt broadly in line with FY18; trading profits of \$35-40 million net of tax; maintenance capex, cash incentives, leasing costs and rent free incentives of \$155-165 million; and excluding any further transactions.



About Dexus

Dexus is one of Australia's leading real estate groups, proudly managing a high quality Australian property portfolio valued at \$27.2 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 \$13.3 billion of office and industrial properties. We manage a further \$13.9 billion of office, retail, industrial and healthcare properties for third party clients. The group's \$4.2 billion development pipeline provides the opportunity to grow both portfolios and enhance future returns. With 1.7 million square metres of office workspace across 53 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 27,000 investors from 20 countries. With more than 30 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

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