

Dexus Australian Property Fund

APIR code: NML0337AU

31 March 2023

Dexus Australian Property Fund

- Over the year to 31 March 2023 the Fund returned 4.2%, which comprised a 5.0% distribution and -0.9% growth return.

Dexus Wholesale Australian Property Fund

- Property revaluations resulted in a 0.1% increase in the portfolio's value, though capital expenditure through the quarter resulted in fund level growth of -0.3%. The industrial valuations rose 1.0%, the office and retail valuations both decreased 0.4%.
- The average portfolio cap rate now sits at 5.44% which was approximately 220 basis points over the 10-year Australian government bond rate at the end of Q1/2023.
- Construction continued at Holbeche Industrial Estate in Sydney. The development is now fully leased and achieved rents have outperformed the underwritten levels. This is expected to be reflected in valuation upside in Q2/2023.
- Drawn debt on 31 March 2023 was 29.0% of gross assets, which is above the target level. In response to this, it is likely that one or more properties will be sold in order to move the Fund closer to the target range.

Key Objective

To provide income and long-term capital growth by investing in a diversified portfolio of Australian office, retail and industrial properties and Real Estate Investment Trusts (AREITs).

Fund Facts

Fund size (gross assets)	\$129.0 million
Inception date	31 July 2001
Minimum investment	\$10,000
Minimum suggested time frame	5 years
Management costs	1.22%
Buy/sell spread	Nil
Distribution frequency	Quarterly
Date of last distribution	31 March 2023
Distribution cents per unit	1.23

Fund Facts – Wholesale Australian Property Fund

No. of Properties	26
Portfolio Occupancy	94.2%
Debt (% of gross assets)	29.0%

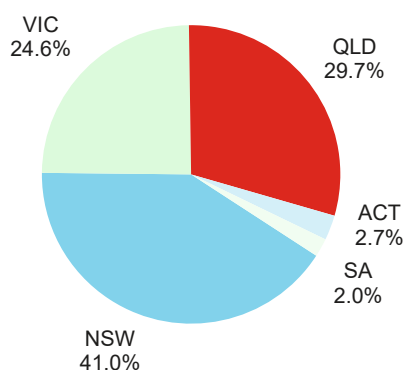
Performance – Australian Property Fund

	3 months %	1 year %	3 years %	5 years %	Since inception %
Distribution return	1.26	5.04	5.49	5.53	7.11
Growth return	-0.25	-0.88	2.56	1.20	0.19
Total return (after fees)	1.00	4.16	8.05	6.72	7.29

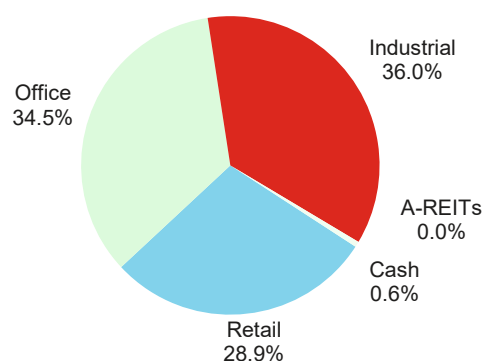
Past performance is not a reliable indicator of future performance.

Performance is annualised for periods greater than one year. Performance figures are calculated using exit prices, are net of management fees, ongoing fees and expenses, assume tax is not deducted. The Distribution return reflects total distributions paid from the Fund, while the Growth return reflects changes in the capital value of units.

Asset Allocation – by state



Asset Allocation – by sector



Important note: Dexus Funds Management Limited as responsible entity of Dexus Property Trust and Dexus Operations Trust (Dexus) recently acquired the responsible entity AMP Capital Funds Management Limited (Responsible Entity) of Australian Property Fund (ARSN 096 853 619) (Fund). Following the acquisition, Dexus intends to change the legal name of the Fund to Dexus Australian Property Fund and the name of the Responsible Entity to Dexus Capital Funds Management Limited. Dexus has registered each name as a business name with the Australian Securities and Investments Commission. Subject to regulatory filings and approvals, the change of name is expected to be completed in 2023.

Fund Commentary

Dexus Wholesale Australian Property Fund

Over the year to 31 March 2023 the Fund returned 4.3%, comprising a distribution of 1.81 cents per unit or 5.3% and -1.0% growth return. The total return over the last three years moved to 8.2%.

Property revaluations resulted in a 0.1% increase in the portfolio's value, though capital expenditure through the quarter resulted in fund level growth of -0.3%. The valuation of the industrial/business park portfolio rose 1.0% and both the office and retail valuations decreased 0.4%. Three of the four retail properties rose in value, though the gains were offset by a 3.1% fall at Stud Park which is located in Melbourne and continuing to feel the after-effects of the Victorian lockdowns. The recent rapid rise in international immigration should assist Victorian businesses.

The average portfolio cap rate now sits at 5.44% which was approximately 220 basis points over the 10-year Australian government bond rate at the end of Q1/2023. The office and retail portfolios are now valued slightly below the level they were in December 2019, immediately prior to the pandemic. The industrial property has risen in value by 30.7% due to strong fundamentals.

Construction continued at Holbeche Industrial Estate in Sydney. The development is now fully leased and achieved rents have outperformed the underwritten levels. This is expected to be reflected in valuation upside in Q2/2023.



Drawn debt on 31 March 2023 was 29.0% of gross assets, which is above the target level. In response to this, it is likely that a range of initiatives will be undertaken in order to move the Fund closer to the target range. A \$75 million tranche of debt was also extended through to 2025.

The occupancy of the portfolio fell from 95% to 94.2% which was largely as a result of an increase in the vacancy rate at 636 St Kilda Road, Melbourne. External leasing agents have been appointed, a major tenant representative event was hosted in March to showcase the property and its 360-degree views and a number of tenancies have been 'fitted out' providing future tenants with an option to move in immediately after signing a lease.

The retail occupancy rate increased sat at 98.5% and the industrial occupancy rate was steady at 98.3%. The average lease term across the 375-tenant portfolio sat at 4.0 years. The diversification of the portfolio and tenant base has enabled the portfolio to maintain long-term occupancy at 97%.

The priorities for the Fund in 2023 will be to maintain a high occupancy rate and to reduce the Fund's level of debt.

Fund Manager



Christopher Davitt

Christopher is the Fund Manager for the Australian Property Fund and has overarching responsibility for setting and executing the Fund's investment strategy and capital management plan.

Christopher works with Dexus' specialist teams to formulate asset plans for the properties, source and evaluate acquisitions and manage the portfolio's debt and equity. He joined the group in March 2010 having previously held research, transaction and funds management roles in Australia and Europe.

Market commentary

After lifting the official cash rate to 3.6% in March 2023 the Reserve Bank of Australia held it steady in April. There are now signs that interest rates are getting closer to peaking. Australia's headline inflation rate (monthly indicator) appears to have peaked and slowed from 8.4% in December 2022 to 6.8% in February 2023. While rents, energy bills and house prices are still inflationary, items like food, transport and accommodation are becoming less so.

A number of other trends are consistent with a market view that short rates are now close to their peak. The market bank bill swap rate forward curve has flattened and the 10-year bond yield has fallen to around 3.2% from a high of 4.0% in December.

The Australian economy slowed mildly in Q4 2022 to 0.5% for the quarter and 2.7% for the year. Private consumption growth slowed in the quarter and dwelling investment and business investment contracted, all signs that interest rates are beginning to bite. GDP growth is forecast to slow to 1.1% in Q4 2023. Business confidence is easing in the face of weak consumer sentiment and points to a general slowing of business activity in the year ahead.

Amid this somewhat challenging picture, there are some positive takeaways for investors. Australia's longer term growth prospects will be supported by improving population growth and high levels of infrastructure spending. Private engineering investment is forecast to lift by 20% over the next three years. According to the IMF, Australia's GDP growth forecast for 2023 of 1.9% is well above the average for advanced economies of 1.1%.

High construction costs will lead to a continued focus on risks and margins for development projects. However, construction cost growth is beginning to ease as timber and steel prices decline and supply chain costs subside.

Transaction markets are likely to remain soft over the next six months but volumes are expected to pick up in 2024 as pricing resets. While the current phase is characterised by rising interest rates and risk, the next phase may well be one of flat to falling interest rates and growth. Occupier demand will be fuelled by Australia's strong population growth, forecast at 1.5% per annum over the next five years, the highest of any advanced economy.

Regarding pricing, a discount to net tangible assets in the AREIT market has led to questions about the values of the underlying real estate. While values are adjusting, history has shown that the listed AREIT market tends to under-sell and oversell compared to the unlisted market because it is more sensitive to both interest rate movements and equity market volatility. Typically, when a wide discount gap closes, it is more due to listed pricing increasing than unlisted pricing easing.

Office demand has been positive in the Melbourne, Brisbane, and Perth markets over the past quarter, while Sydney saw a contraction. Office net face rents have risen despite elevated vacancy rates, though incentives have increased.

The industrial market continued to perform strongly in Q1 2023. Record low vacancy continues to lead to significant rent growth which is generally offsetting any softening in rising cap rates.

Migration has turned positive and is poised to drive sales growth and foot traffic in the retail sector. Visitor arrivals are on track to reach their pre-pandemic levels in the second half of 2023.

Balance Sheet – Dexus Wholesale Australian Property Fund

Assets/Liabilities	Valuation	Valuation Date	Cap rate	Occupancy	No. of Tenants	WALE*
Casula Mall, Sydney, NSW	\$212.0m	Mar-2023	5.25%	100.0%	65	3.6 yrs
Stud Park SC, Melbourne, VIC	\$139.0m	Mar-2023	6.00%	95.7%	61	6.4 yrs
Gasworks Plaza, QLD	\$134.0m	Mar-2023	5.00%	100.0%	38	5.8 yrs
Brickworks Centre, QLD	\$146.0m	Mar-2023	5.25%	97.6%	58	3.2 yrs
124 Walker St, North Sydney, NSW	\$132.0m	Mar-2023	5.63%	79.1%	22	1.8 yrs
Bond One, Walsh Bay, NSW	\$146.0m	Mar-2023	5.25%	100.0%	4	3.3 yrs
12 Moore St, Canberra, ACT	\$61.0m	Mar-2023	6.50%	85.7%	12	3.0 yrs
636 St Kilda Rd, St Kilda, VIC	\$94.0m	Mar-2023	6.00%	41.3%	22	0.7 yrs
425 Collins St, Melbourne, VIC	\$50.0m	Mar-2023	4.25%	89.1%	6	4.1 yrs
199 Grey St, South Brisbane, QLD	\$91.5m	Mar-2023	6.50%	100.0%	13	2.8 yrs
Gasworks Workspace, QLD	\$72.8m	Mar-2023	6.25%	100.0%	6	2.6 yrs
33 Park Rd, Milton, QLD	\$50.0m	Mar-2023	6.75%	87.3%	8	2.2 yrs
Stanley House, Brisbane, QLD	\$30.5m	Mar-2023	5.25%	100.0%	2	0.8 yrs
Connect Corporate Centre 1, NSW	\$56.5m	Mar-2023	5.50%	100.0%	5	3.5 yrs
Connect Corporate Centre 2, NSW	\$127.0m	Mar-2023	5.25%	98.8%	9	6.2 yrs
Connect Corporate Centre 3, NSW	\$199.0m	Mar-2023	5.25%	95.9%	13	3.1 yrs
Holbeche Industrial Estate, NSW**	\$28.3m	Dec-2022	4.50%	100.0%	2	5.0 yrs
CentralWest DC, Laverton, VIC	\$105.0m	Mar-2023	4.75%	100.0%	2	6.3 yrs
730 Lorimer St, Port Melb. VIC	\$58.0m	Mar-2023	4.75%	92.5%	8	1.0 yrs
384-394 South Gippsland Hwy, VIC	\$24.3m	Mar-2023	4.75%	100.0%	1	1.6 yrs
2 Pound Rd West, Dandenong, VIC	\$11.5m	Mar-2023	4.50%	100.0%	1	8.5 yrs
200 Greens Rd, Dandenong, VIC	\$50.5m	Mar-2023	4.75%	100.0%	2	3.2 yrs
121 Evans Rd, Salisbury, QLD	\$49.3m	Mar-2023	6.00%	100.0%	5	4.4 yrs
Acacia Gate Industrial Estate, QLD	\$34.3m	Mar-2023	5.75%	100.0%	10	3.2 yrs
7-9 French Ave, Brendale, QLD	\$31.3m	Mar-2023	5.00%	100.0%	1	6.8 yrs
2 Second Ave, Mawson Lakes, SA	\$44.3m	Mar-2023	6.00%	100.0%	1	7.7 yrs
AREIT portfolio	\$0.0m					
Cash + other assets	\$27.4m					
Total Assets / Portfolio Average	\$2,207.9m		5.44%	94.2%	377	3.8 yrs
Debt	\$640.1m					
Other liabilities	\$37.8m					
Total Liabilities	-\$677.91m					
Net Assets	\$1,530.1m					

* Weighted Average Lease Expiry ** 50% interest

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Important note: AMP Capital Funds Management Limited (ACFM) is the responsible entity of the Australian Property Fund (Fund) and the issuer of the units in the Fund. To invest in the Fund, investors will need to obtain the current Product Disclosure Statement (PDS) from ACFM. The PDS contains important information about investing in the Fund and it is important that investors read the PDS before making a decision about whether to acquire, or continue to hold or dispose of units in the Fund. Neither ACFM nor any other company in the Dexus Group guarantees the repayment of capital or the performance of any product or any particular rate of return referred to in this document. Past performance is not a reliable indicator of future performance. While every care has been taken in the preparation of this document, ACFM makes no representation or warranty as to the accuracy or completeness of any statement in it including without limitation, any forecasts. This document has been prepared for the purpose of providing general information, without taking account of any particular investor's objectives, financial situation or needs. Investors should, before making any investment decisions, consider the appropriateness of the information in this document, and seek professional advice, having regard to their objectives, financial situation and needs. This document is solely for the use of the party to whom it is provided and must not be provided to any other person or entity without the express written consent of ACFM. Dexus Falcon Pty Limited is licensed to use the AMP Capital trade marks by AMP Limited. On 24 March 2023, Dexus acquired the effective day to day management of the majority of the real estate and domestic infrastructure equity business (including AMP Capital Funds Management Limited) of Collimate Capital Limited, a subsidiary of AMP Limited. Dexus is licensed to use the 'AMP Capital' trade marks for a limited period of time. However, Dexus and its products and services are not affiliated with, guaranteed by or endorsed by AMP Limited.