Dexus Wholesale Australian Property Fund

APIR code: NML0001AU

30 September 2023

Summary

- Over the year to 30 September 2023, the Fund returned 5.45% as a quarterly distribution at 1.54 cents and the total return was -10.72%. Over FY2023, approximately 80% of the distribution was tax-deferred income.
- Leasing successes included: a 10-year agreement for lease was signed with Freight Specialists at Crossbank Industrial Estate; Visy took possession of their facility at Crossbank on a new 15-year lease; and a major tenant expanded and extended Connect Corporate Centre through to 2030.
- Construction at Holbeche Industrial Estate in Sydney reached practical completion and is fully leased at record market rents. The return on cost was over 130%.
- Property revaluations resulted in a 5.2% decrease in the portfolio's value. Valuation falls were concentrated in the office portfolio where cap rates have expanded by 75 basis points to now sit at an average of 6.73%.
- During the quarter, all of the Fund's debt maturities for 2023 and 2024 were extended beyond this period, substantially reducing risk. In 2023, $535 million of debt has now been financed.

Key Objective

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

Fund Facts	
Fund size (gross assets)	$2,296.9 million
Debt (% of gross assets)	30.2%
No. of Properties	28
Portfolio Occupancy	95%
Inception date	31 March 1985
Minimum investment	$10,000
Minimum suggested time frame	5 years
Management costs	1.01%
Buy/sell spread	Nil
Distribution frequency	Quarterly
Date of last distribution	30 September 2023
Distribution cents per unit	1.54

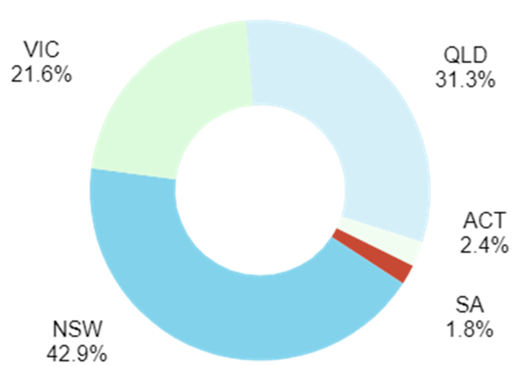
Fund Performance

	3 months %	1 year %	3 years %	5 years %	Since inception %
Distribution return	1.30	5.45	5.52	5.62	7.83
Growth return	-8.24	-16.17	-1.37	-2.11	0.52
Total return (after fees)	**-6.94**	**-10.72**	**4.15**	**3.51**	**8.35**

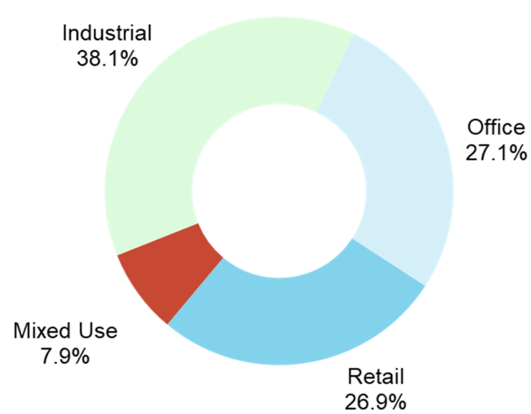
Past performance is not a reliable indicator of future performance.

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



Fund Commentary

Dexus Wholesale Australian Property Fund

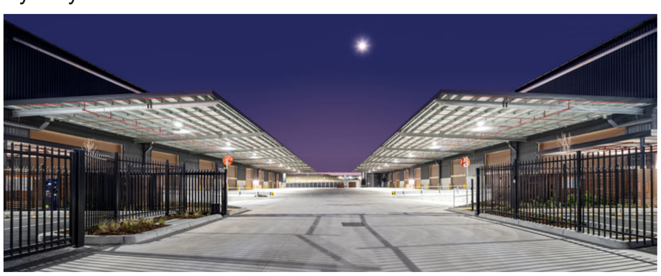
Over the year to 30 September 2023 the Fund returned 5.45% as a quarterly distribution and the total return was -10.72%. Approximately 80% of the Fund's FY2023 distribution was comprised of tax-deferred income.

There were a number of significant leasing successes across the portfolio. A new 10-year agreement for lease was signed with Freight Specialists at the new Crossbank Industrial Estate. Crossbank Estate is a 13-hectare site located in the highly sought-after Trade Coast precinct of Hemmant approximately 17 kilometres east of Brisbane's CBD. The estate is situated close to both Brisbane's seaport terminals and the north–south arterial roads which connect southeast Queensland. Visy pre-committed to the facility and during the quarter, took possession of the site on a new 15-year lease. The latest prelease to Freight Specialists will underpin the development of a further 17,100 sqm high-quality warehouse space which will complete the estate.

The quarter also saw a major tenant at Connect Corporate Centre extend and expand in the building through to 2030. This lease was the largest deal in the market for a number of years and has helped driver other leasing activity in the building which is currently being negotiated. Overall portfolio occupancy was maintained at 95%.

Property revaluations resulted in a 5.2% decrease in the portfolio's value during the quarter. The main reason for this was an increase in the capitalisation rates used to value the properties, especially the office portfolio and at Connect Corporate Centre. Together, these properties fell by 13.0% and cap rates expanded by an average of 75 basis points. The valuation of the retail portfolio and the remainder of the industrial portfolio was unchanged.

Construction at Holbeche Industrial Estate in Sydney reached practical completion. The project was delivered fully leased to three separate tenants, it achieved record rents for the western Sydney industrial market and the return on cost was over 130%.



'Hub@Holbeche', Sydney – fully leased on completion

During the quarter, all of the Fund's debt maturities for 2023 and 2024 were extended beyond this period, substantially reducing risk. In 2023, $535 million of debt has now been financed.

A number of office and industrial properties are expected to be sold to strengthen the Fund's balance sheet. Non-binding agreements have been reached to sell four properties.

The average occupancy of the portfolio is at 95%. The high occupancy of the portfolio is indicative of the generally solid operating performance at the asset level. The average lease term across the +400 tenant portfolio remains consistent at 4.2 years.

Market commentary

The Australian economy slowed mildly to 2.1% per annum GDP growth in Q2 2023. Growth is forecast to slow to 1.0% in Q2 2024. There are signs of a bifurcation in the economy where the business sector remains relatively resilient, while households are feeling the effects of interest rises.

After peaking in December, Australia's headline monthly inflation rate slowed to 5.2% in August 2023. The Reserve Bank of Australia held the official cash rate steady at 4.1% in October. Despite this, the 10-year bond yield lifted to around 4.5%, indicating that markets may be anticipating a 'higher for longer' scenario for interest rates.

Conditions for real estate markets are expected to remain uncertain in the short term due to high interest rates and the prospect of a slowdown in the Australian economy. Such conditions are not uncommon and can create opportunities. A peaking of the interest rate cycle in the year ahead would be a positive signal for real estate.

Demand for real assets is expected to be underpinned by strong population growth. Australia's population increased by 563,000 people in the year to Q1 2023 (+2.2%). Longer term, population growth is forecast to grow by around 380,000 per annum (+ 1.4% p.a.). In rough terms, catering for this population increase is likely to require over two million square metres of industrial space, at least 150,000 new dwellings and enough retail space to support an extra $12 billion of spending every year.

The leasing market has been characterised by consolidations among larger firms and expansions among smaller firms. Vacancy rates declined in Brisbane and Perth and remained stable in Sydney. Melbourne saw a decline in net absorption brought on largely by an increase in sublease space. Flight to quality, is a key theme in the office sector with tenants tending to move from lower-grade spaces to higher-quality office stock and centralising from outside the CBD.

The Australian industrial sector continues to normalise after an abnormally buoyant period of record level retail sales achieved over the past two years. National gross leasing volumes eased in Q3 2023 as businesses exercise a level of caution about weakening growth in retail sales. While industrial rents continued to grow during Q3 2023, the pace of growth is tapering and is expected to ease towards more normal levels in the year ahead.

Shopping centre rents grew modestly in FY23. Occupancy costs (ratio of rent to turnover) for some key specialty categories are now below the pre-COVID average, indicating an improving value equation for retailers with implications for future growth. Shopping centre vacancy continues to decline. Steadily growing tourism and returning office workers should help improve occupancy with vacancy likely to continue tightening through FY23.

Returns for unlisted property were negative in Q3 2023 and transaction volumes fell to the lowest quarterly volume in more than a decade. The high cost of capital is driving investors to re-evaluate pricing across all asset classes putting upward pressure on cap rates. At the same time, demand for real assets is expected to be underpinned by strong population growth and higher construction costs have put pressure on development feasibilities, limiting potential supply in the medium term.

Fund Manager

Christopher Davitt

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

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

Balance Sheet – Dexus Wholesale Australian Property Fund

Assets/Liabilities	Valuation	Valuation Date	Cap rate	Occupancy	No. of Tenants	WALE*
Casula Mall, Sydney, NSW	$200.0m	Sep-2023	5.50%	100.0%	67	3.4 yrs
Stud Park SC, Melbourne, VIC	$135.5m	Sep-2023	6.25%	98.7%	62	6.0 yrs
Gasworks Plaza, QLD	$136.0m	Sep-2023	5.25%	100.0%	38	5.4 yrs
Brickworks Centre, QLD	$143.0m	Sep-2023	5.75%	98.1%	56	2.8 yrs
The Mill, Sydney, NSW	$180.0m	Sep-2023	5.25%	95.2%	17	3.1 yrs
124 Walker St, North Sydney, NSW	$98.0m	Sep-2023	7.13%	68.0%	22	1.8 yrs
Bond One, Walsh Bay, NSW	$126.0m	Sep-2023	6.25%	100.0%	4	2.8 yrs
12 Moore St, Canberra, ACT	$55.0m	Sep-2023	7.25%	92.8%	20	3.4 yrs
636 St Kilda Rd, St Kilda, VIC	$69.5m	Sep-2023	7.25%	42.3%	23	1.2 yrs
425 Collins St, Melbourne, VIC	$40.0m	Sep-2023	5.25%	78.2%	5	3.7 yrs
199 Grey St, South Brisbane, QLD	$84.5m	Sep-2023	7.25%	100.0%	15	3.5 yrs
Gasworks Workspace, QLD	$69.7m	Sep-2023	6.50%	100.0%	7	2.5 yrs
33 Park Rd, Milton, QLD	$46.0m	Sep-2023	7.25%	100.0%	12	2.4 yrs
Stanley House, Brisbane, QLD	$29.5m	Sep-2023	5.50%	100.0%	2	5.3 yrs
Connect Corporate Centre 1, NSW	$46.0m	Sep-2023	7.00%	94.1%	5	3.3 yrs
Connect Corporate Centre 2, NSW	$103.0m	Sep-2023	6.50%	95.8%	7	5.8 yrs
Connect Corporate Centre 3, NSW	$161.0m	Sep-2023	6.50%	91.4%	12	4.4 yrs
Holbeche Industrial Estate, NSW**	$65.1m	Sep-2023	4.75%	100.0%	5	4.8 yrs
CentralWest DC, Laverton, VIC	$105.5m	Sep-2023	5.25%	100.0%	2	5.8 yrs
730 Lorimer St, Port Melb. VIC	$58.0m	Sep-2023	5.00%	92.4%	7	2.0 yrs
384-394 South Gippsland Hwy, VIC	$25.5m	Sep-2023	5.25%	100.0%	1	1.1 yrs
2 Pound Rd West, Dandenong, VIC	$11.5m	Sep-2023	5.00%	100.0%	1	8.0 yrs
200 Greens Rd, Dandenong, VIC	$47.5m	Sep-2023	5.25%	100.0%	2	2.6 yrs
Crossbank Estate, Hemmant, QLD	$88.5m	Sep-2023	4.75%	100.0%	3	13.7 yrs
121 Evans Rd, Salisbury, QLD	$49.5m	Sep-2023	6.00%	100.0%	5	3.9 yrs
Acacia Gate Industrial Estate, QLD	$35.7m	Sep-2023	6.00%	100.0%	9	2.7 yrs
7-9 French Ave, Brendale, QLD	$31.0m	Sep-2023	5.25%	100.0%	1	6.3 yrs
2 Second Ave, Mawson Lakes, SA	$42.0m	Sep-2023	6.50%	100.0%	1	7.2 yrs
Cash + other assets	$14.5m					
Total Assets / Portfolio Average	**$2,297.0m**		**5.95%**	**95%**	**411**	**4.2 yrs**
Debt	$693.3m					
Other liabilities	$39.4m					
Total Liabilities	**-$732.7m**					
Net Assets	**$1,564.3m**					

* Weighted Average Lease Expiry ** 50% interest

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Important note: AMP Capital Funds Management (ABN 15 159 557 721, AFSL 426455) (AMPCFM) is the responsible entity (Responsible Entity) of the Dexus Wholesale 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 AMPCFM. Dexus Funds Management Limited as responsible entity of Dexus Property Trust and Dexus Operations Trust (Dexus) recently acquired AMPCFM. The PDS contains important information about investing in the Fund and it is important that investors read the PDS before making an investment decision about the Fund. A target market determination has been made in respect of the Fund and is available at www.dexus.com/dwapf. Neither AMPCFM, Dexus, 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. While every care has been taken in the preparation of this document, AMPCFM and Dexus make 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 consider the appropriateness of the information in this document, and seek professional advice, having regard to their objectives, financial situation and needs. This document should not be reproduced in whole or in part without the express written consent of AMPCFM. 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.