Dexus Australian Property Fund

APIR code: NML0337AU

31 December 2023

Dexus Australian Property Fund

- Over the quarter, the Fund returned 1.37% as a quarterly distribution (or approximately 5.48% on an annualised basis). The total return was -8.5% due to a -9.8% growth component.

Dexus Wholesale Australian Property Fund

- Three properties were sold following on-market campaigns: Building 1: Connect Corporate Centre, Mascot; 124 Walker Street, North Sydney and 12 Moore Street, Canberra.
- The divestments reduce the Fund's exposure to the office market, decrease the average age of the portfolio (124 Walker Street was constructed in 1974 and 12 Moore St was constructed in 1988), increase the average occupancy of the portfolio, extend the average lease expiry profile and improve the capital management strength of the Fund.
- At Bond One, Sydney a major tenant was renewed on a 7-year term increasing cashflow security and helping to maintain the portfolio's occupancy rate above 95%.
- In December, a construction contract was finalised at Crossbank, Brisbane to build a new industrial facility for logistics tenant, Freight Specialists.
- A new $65 million debt facility was finalised with ANZ Bank.

Key Objective

To provide income and long-term capital growth by investing in a diversified portfolio of Australian commercial properties through investing in the Dexus Wholesale Australian Property Fund.

Fund Facts	
Fund size (gross assets)	$91.8 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 December 2023
Distribution cents per unit	1.04
Fund Facts – Wholesale Australian Property Fund	
No. of Properties	27
Portfolio Occupancy	95.5%
Debt (% of gross assets)	32.4%

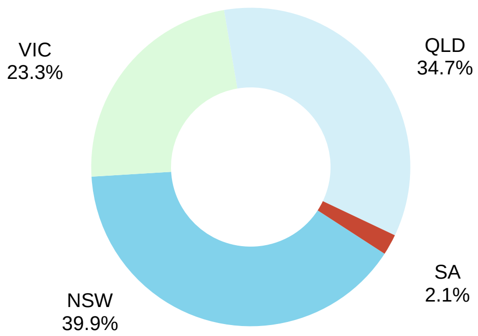
Fund Performance

	3 months %	1 year %	3 years %	5 years %	Since inception %
Distribution return	1.37	5.31	5.26	5.40	7.39
Growth return	-9.84	-23.43	-5.08	-4.13	-1.34
Total return (after fees)	**-8.47**	**-18.13**	**0.18**	**1.28**	**6.05**

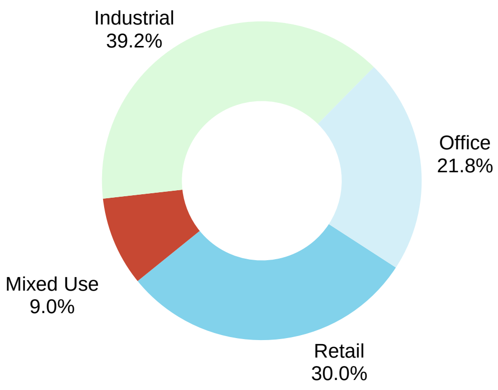
Past performance is not a reliable indicator of future performance.

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

Over the quarter, the Fund returned 1.37% as a quarterly distribution (or approximately 5.48% on an annualised basis). The total return was -8.5% due to a -9.8% growth component.

Dexus Wholesale Australian Property Fund

In 2023, commercial property values softened substantially in response to bond rates rising trended up from approximately 3.25% on 31 March 2023 to 4.99% in October. This was compounded by a lack of confidence in the office and retail markets from global capital and a sense that industrial rental growth had peaked. Rising costs of capital for both debt and equity reduced the amounts buyers were willing to pay for real estate and in parallel, the desire to reduce gearing increased the number of sellers. This resulted in low liquidity and falling values across the market which were reflected in the Fund's third-party valuations.

Property revaluations and sales resulted in a 4.9% 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. Excluding sold properties, the average cap rate across the portfolio sits at 6.18% (up 100 basis points from the peak of 5.18% in June 2022). The growth return at the Fund level was impacted by gearing, transaction costs, hedging and capex.

Three properties were sold following on-market campaigns: Building 1, Connect Corporate Centre was exchanged and settled in December; and 124 Walker Street, North Sydney and 12 Moore Street, Canberra were exchanged in December and are expected to settle in Q1/2024. The divestments reduce the Fund's office allocation to 21.8% (down from 37.0% 3 years ago), decrease the average age of the portfolio (124 Walker Street was constructed in 1974 and 12 Moore St was constructed in 1988), increase the average occupancy of the portfolio, extend the average lease expiry and improve the capital management strength of the Fund. None of the transactions were subject to a capital raising.

At Bond One, Sydney a major tenant was renewed on a 7-year term increasing cashflow security and occupancy at The Mill was increased to 99.2% helping to maintain the portfolio's occupancy rate above 95%. This property is located at Miller's Point in Sydney and is set to benefit from the opening of the new metro line in 2024.

In December, a construction contract was finalised at Crossbank, Brisbane to build a new industrial facility for logistics tenant, Freight Specialists who signed a 10-year lease. Freight Specialists join Visy whose 15-year lease commences in February 2024.

During the previous quarter, all the Fund's debt maturities for 2023 and 2024 were extended beyond this period, substantially reducing risk. In October, a new $65 million debt tranche was agreed with ANZ Bank which takes the total bank facility to $800 million and increases the Fund's capital management options.

As we enter 2024 there is increasing optimism that both inflation and interest rates have peaked and values have recalibrated to a higher interest rate environment. The priorities in 2024 are to maintain the reliable and highly diversified rental base that underpins the quarterly distribution; to strengthen the balance sheet; and to look for opportunities to capture the income growth and translate this to capital uplift.

Market commentary

Australia's headline monthly inflation rate slowed to 4.3% in November 2023 and the 10-year bond yield fell by 50 basis points to 4.0% in the quarter, indicating markets are anticipating that official cash rates are close to peaking and could begin falling in late 2024.

A possible fall in interest rates in FY25 is likely to be a positive for real asset valuations as investors factor in a lower cost of capital. The longer-term demand outlook for all the real asset sectors will be buoyed by population growth. Australia's population increased by 624,100 in the year to Q2 2023 (+2.4%) driven by a surge in net migration to around double the pre-COVID average.

Household consumption was flat in Q3 2023, growing by 1.0% over the year but the total value was held up by strong population growth. Dwelling investment eased reflecting the tightening of monetary policy. The business sector has remained surprisingly resilient despite a sharp weakening in confidence. Business investment grew by 7.7% and the unemployment rate remains low at 3.8%.

The past year was challenging for both real estate performance and transaction markets. Office transactions were the lowest seen in a decade, due in part to significant declines in asset valuations and hesitancy among investors given elevated levels of vacancy.

Looking at the year ahead, with inflation now falling, interest rates appearing close to their peak and price discovery well underway, the transaction market can be expected to pick up as we move through 2024. Impressive performance by the listed real estate market in Q4 2023 may be a lead indicator of the phase shift in attitude which is likely to occur as investors regain confidence.

It's been a year of mixed signals for the office sector with demand being variable between cities and quality grades. Brisbane and Perth continued to perform well relative to Sydney and Melbourne. Leasing demand in Brisbane was twice the 10-year average, driving vacancy down to 11.1% which is tighter than before the pandemic. By contrast, vacancy expanded in North Sydney in 2023. The Victoria Cross over station development projected for completion in 2025 will put further pressure on the leasing market, particularly with availability still high in the CBD.

The office supply pipeline has contracted across Australia's CBDs. Rising construction costs, interest rates and vacancy have pressured feasibilities for uncommitted developments and many have been postponed or put on-hold. This will serve to protect from additional supply risk going forward and help support rent growth through the cycle.

Demand for industrial space normalised during 2023. While gross leasing activity has declined from its peak in 2021, it is still broadly in line with long term averages. Slowing growth in rents and softening cap rates has led to easing capital values during 2023.

Retail rents have generally turned the corner after slumping through COVID. Neighbourhood and sub-regional rents stabilised faster than regional centres. Occupancy costs (ratio of rent to turnover) for some key specialty categories including clothing are below the pre-COVID average, indicating an improving value equation for retailers which should have positive implications for future growth. Vacancies have fallen significantly since the pandemic across the main enclosed shopping centre types.

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'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 group 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	$195.0m	Dec-2023	5.75%	100.0%	64	3.3 yrs
Stud Park SC, Melbourne, VIC	$136.0m	Dec-2023	6.25%	99.0%	63	5.9 yrs
Gasworks Plaza, QLD	$122.5m	Dec-2023	5.75%	94.1%	36	5.4 yrs
Brickworks Centre, QLD	$143.5m	Dec-2023	5.75%	95.8%	56	2.9 yrs
The Mill, Sydney, NSW	$180.0m	Dec-2023	5.38%	99.2%	15	4.5 yrs
Bond One, Walsh Bay, NSW	$114.0m	Dec-2023	6.75%	100.0%	4	2.6 yrs
636 St Kilda Rd, St Kilda, VIC	$60.0m	Dec-2023	8.00%	42.0%	25	1.2 yrs
425 Collins St, Melbourne, VIC	$40.0m	Dec-2023	5.38%	78.2%	5	3.3 yrs
199 Grey St, South Brisbane, QLD	$82.5m	Dec-2023	7.50%	100.0%	13	3.4 yrs
Gasworks Workspace, QLD	$64.5m	Dec-2023	7.00%	84.6%	5	3.2 yrs
33 Park Rd, Milton, QLD	$44.0m	Dec-2023	7.50%	100.0%	10	2.2 yrs
Stanley House, Brisbane, QLD	$29.0m	Dec-2023	6.00%	100.0%	2	7.8 yrs
Connect Corporate Centre 2, NSW	$94.5m	Dec-2023	7.38%	95.8%	9	5.5 yrs
Connect Corporate Centre 3, NSW	$145.0m	Dec-2023	7.38%	91.3%	15	4.6 yrs
Holbeche Industrial Estate, NSW**	$130.0m	Dec-2023	5.00%	100.0%	5	4.5 yrs
CentralWest DC, Laverton, VIC	$92.0m	Dec-2023	6.25%	100.0%	2	5.5 yrs
730 Lorimer St, Port Melb. VIC	$55.0m	Dec-2023	5.25%	92.4%	8	1.8 yrs
384-394 South Gippsland Hwy, VIC	$25.5m	Dec-2023	5.50%	100.0%	1	0.8 yrs
2 Pound Rd West, Dandenong, VIC	$11.5m	Dec-2023	5.00%	100.0%	1	7.8 yrs
200 Greens Rd, Dandenong, VIC	$43.5m	Dec-2023	5.75%	100.0%	2	2.3 yrs
Crossbank Estate, Hemmant, QLD	$88.6m	Dec-2023	4.50%	100.0%	2	15.1 yrs
121 Evans Rd, Salisbury, QLD	$51.0m	Dec-2023	6.25%	100.0%	5	3.7 yrs
Acacia Gate Industrial Estate, QLD	$35.8m	Dec-2023	6.25%	100.0%	10	3.2 yrs
7-9 French Ave, Brendale, QLD	$30.0m	Dec-2023	5.50%	100.0%	1	6.0 yrs
2 Second Ave, Mawson Lakes, SA	$42.0m	Dec-2023	6.63%	100.0%	1	6.9 yrs
124 Walker St, North Sydney, NSW ***	$95.5m					
12 Moore St, Canberra, ACT ***	$50.0m					
Connect Corporate Centre 1, NSW ****						
Cash + other assets	$17.0m					
Total Assets / Portfolio Average	**$2,152.8m**		**6.18%**	**95.5%**	**360**	**4.5 yrs**
Debt	$698.3m	32.4%				
Other liabilities	$63.7m					
Total Liabilities	**$762.0m**					
Net Assets	**$1,390.8m**					

* Weighted Average Lease Expiry ** 50% interest *** Contracted Price: settlement Q1/2024 **** Contract Price $40.54m: settlement Q4/2023

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