Dexus Wholesale Australian Property Fund

APIR code: NML0001AU

30 June 2024

Summary

- Over the quarter, the Fund returned 1.48% as a quarterly distribution. On average, over 80% of the quarterly distributions in 2024 were comprised of tax-deferred income. The total return was 1.18%.
- Property valuations increased by 0.7% over the quarter.
- At an operational level, the Fund continued to perform well: maintaining: an occupancy above 95%; a weighted average lease term above 4.5 years; and a low level of income arrears.
- The Fund's gearing was 27.3% as of 30 June 2024.
- In order to maintain low levels of gearing, improve the portfolio occupancy and to reduce the average age of the portfolio, three properties are actively being sold. These are: 121 Evans Rd, Sailsbury; 425 Collins St, Melbourne and 636 St Kilda Rd, Melbourne.
- Construction at Crossbank 141 in Brisbane continued and once complete, it will be the fifth modern facility to be added to the portfolio in the last 12 months.
- All redemptions submitted in the prior 12 months were paid in full over the quarter.

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)	$1,887.4 million
Debt (% of gross assets)	27.3%
No. of Properties	24
Portfolio Occupancy	96.9%
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
Distribution cents per unit	1.54
Withdrawal payment time	12 months*

* While the Fund is liquid, the Responsible Entity aims to pay redemptions within 12 months of the applicable window. This may be extended in certain circumstances. Please refer the PDS for the Fund's withdrawal terms.

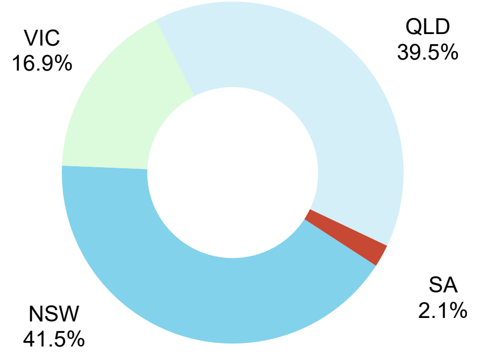
Fund Performance

	3 months %	1 year %	3 years %	5 years %	Since inception %
Distribution return	1.48	5.82	5.56	5.66	7.79
Growth return	-0.30	-20.49	-7.34	-4.92	0.15
Total return (after fees)	**1.18**	**-14.66**	**-1.78**	**0.74**	**7.94**

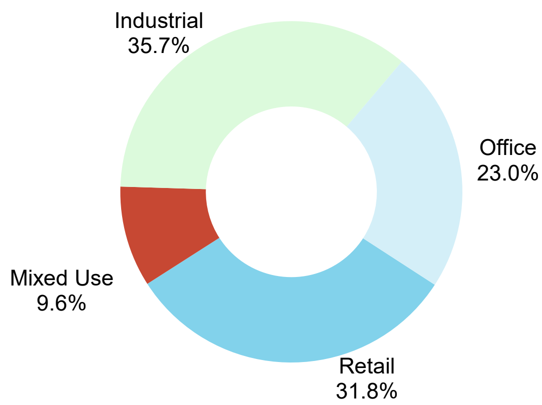
Past performance is not a reliable indicator of future performance.

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

The distribution for Q2/2024 was 1.48%. On average, over 80% of the quarterly distributions in 2024 were comprised of tax-deferred income. The total return was 1.18%.

At an operational level, the Fund continued to perform well: maintaining: an occupancy above 95%; a weighted average lease term above 4.5 years; and a low level of income arrears. Rental escalation provisions contained within the leases resulted in contracted income increasing.

Property revaluations and sales resulted in a 0.7% increase in the portfolio's value during the quarter. Taking into account capital expenditure over the quarter, values were flat. The average cap rate across the portfolio sits at 6.47% (up 129 basis points from the peak of 5.18% in June 2022). The retail portfolio increased by 1.0%, supported by an increase in market rents. The office portfolio increased by 0.3% and the industrial portfolio rose 0.8%. With the exception of 636 St Kilda Rd, Melbourne all properties were either flat or rose in value of the quarter.

In order to maintain low levels of gearing, three properties are actively being sold. These are: 121 Evans Rd, Sailsbury; 425 Collins St, Melbourne and 636 St Kilda Rd, Melbourne.

The Fund's drawn debt was $516 million or 27.3% of gross assets as of 30 June 2024.

The total size of the banking facility is $800 million, which equates to 42.4% of gross assets as of 30 June 2024. The Fund's long-standing strategy is to maintain a buffer of undrawn debt which is available as a contingency. To this end, the maximum amount the Fund may borrow has been temporarily increased to 45% of the gross assets at the time the debt is drawn. The long-term target of holding debt in the order of 0-15% of gross assets has been maintained and the maximum allowable debt is intended to revert to 35% of gross assets from 1 July 2027.

Construction of the Fund's facility at Crossbank 141, Brisbane continued and is on track for a Q4/2024 completion. Logistics tenant, Freight Specialists will then join Visy whose 15-year lease commenced in February 2024. Following the completion of this property, the Fund will have added five brand new buildings to the portfolio within a 12-month period and diversified into the mixed-use sector with the acquisition of the iconic property, The Mill – Alexandria. Paired with the sale of some of the fund's older assets, the overall quality of the portfolio, depreciation benefits and income security has been markedly improved.

All redemptions submitted in the prior 12 months were paid in full over the quarter. A new PDS was published on 29 July which provides for a redemption of an investor's investment which may be applied for if an investor passes away, suffers total or permanent disability and a number of other circumstances. This is available immediately to both direct investors and advisers using a platform or master trust and is subject to certain conditions.

An innovative new initiative has been launched in conjunction with fintech company, PrimaryMarkets. Under the arrangement, investors will have the option to buy or sell units in the Fund on the PrimaryMarkets platform. This is a first of its kind, offering an alternative liquidity solution to unit holders.

We will continue to assess the portfolio over the next quarter taking account: the objective of keeping the Fund's debt level low; the individual prospects of each asset and the markets they sit in; and the support from stakeholders – in particular the major platforms.

Market Commentary

Australia's headline monthly inflation rate lifted slightly to 4.0% in May 2024 but remains well below the 5.5% recorded a year ago and since December 2023, the 10-year bond yield has generally traded in the range of 4.0-4.5%.

The demand outlook for the real asset sectors will be buoyed by population growth. Population growth has been running strongly (circa 2.2% p.a.); however, the net migration surge has now begun to wane with population growth forecast to return to more normal growth rates of circa 1.5% p.a. in 2025.

Infrastructure projects and exports are expected to contribute to economic growth in the year ahead helping offset an easing in residential construction activity. The labour market appears to be softening with the unemployment rate (currently 4.0%) expected to increase to 4.4% in Q4 2024. A slowing in the economy is leading to subdued occupier activity in the short term however, GDP growth is forecast to improve in FY25 to 2.4% p.a.

The real asset transaction markets were subdued throughout FY24. Amid this general picture there were some positive signs such as the improvement in the Australian listed real estate index and relative outperformance of unlisted retail real estate funds. Transaction volumes remained well below average in Q2 2024, though there was a pick-up in the number of office transactions, with the buyers being a mix of institutional and foreign investors. While prices are lower than a year ago, the sales indicate that market values are approaching a level where the market can function more normally. A firming of transaction volumes is anticipated in calendar year 2025 as the interest rate cycle turns.

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In the office sector, demand is starting to build with a second consecutive quarter of positive net absorption in Sydney CBD. Melbourne CBD's soft demand environment continued, with a theme of flight-to-quality. Brisbane CBD was the standout performer over the year with positive take-up, vacancy falling 2.3 ppts and net effective rental growth of 17.2%.

A contraction in the forward office markets supply pipeline is forecasted to be down 31% on the five-year average commencing FY24-27. Rising construction costs and interest rates, have put pressure on feasibilities, limiting project commencements. The pathway to recovery for office markets over the next 3-5 years will be demand benefiting from employment growth, falling supply levels and a tightening of vacancy rates.

Industrial real estate has performed relatively well over the last two years with rents growing by 30-50% in major markets. Rent growth now appears to be slowing and warehouse demand is moderating due to a subdued level of retail sales. Industrial vacancy rates continue to rise but are below pre-COVID averages. However, rising replacement costs should help support rents in the medium to long term.

Retail turnover in Australia grew by a sluggish 1.7% in the year to May 2024, with cost-of-living pressures impacting consumer spending. An improvement is expected in sales growth over the next year with the annual rate rising to 3.5% per annum by Q2 2025. This improvement will be driven off a base effect from the current low level of sales, solid rises in after-tax wages and population growth.

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 / Contract Price	Valuation Date	Cap rate	Occupancy	No. of Tenants	WALE* (yrs)
Casula Mall	$197.0m	Jun-2024	6.00%	99.1%	64	2.7
Stud Park Shopping Centre	$138.5m	Jun-2024	6.50%	99.4%	63	5.6
Gasworks Plaza	$125.5m	Jun-2024	5.75%	99.3%	37	4.5
Brickworks	$137.5m	Jun-2024	6.00%	99.3%	53	2.6
The Mill, Alexandria	$180.0m	Jun-2024	5.63%	100.0%	16	4.2
Bond One, Walsh Bay	$112.0m	Jun-2024	7.38%	100.0%	4	3.4
636 St Kilda Rd, Melbourne	$59.0m	Jun-2024	8.00%	39.9%	24	1.0
425 Collins St, Melbourne	$40.0m	Jun-2024	5.75%	78.2%	5	2.9
199 Grey St, Brisbane	$82.5m	Jun-2024	7.50%	100.0%	13	2.5
Gasworks Workspace, Brisbane	$65.0m	Jun-2024	7.00%	95.9%	6	2.3
33 Park Rd, Brisbane	$44.2m	Jun-2024	7.50%	97.8%	11	1.9
Stanley House, South Brisbane	$30.4m	Jun-2024	6.00%	100.0%	2	7.2
Connect Corporate Centre B2, Mascot	$88.5m	Jun-2024	7.75%	98.8%	10	5.1
Connect Corporate Centre B3, Mascot	$139.0m	Jun-2024	7.75%	96.5%	15	4.5
Holbeche Industrial Estate, Arndell Park**	$65.0m	Jun-2024	5.38%	100.0%	5	4.0
384-394 South Gippsland Hwy, Dandenong	$24.3m	Jun-2024	6.00%	100.0%	1	3.3
2 Pound Rd West, Dandenong	$10.5m	Jun-2024	6.00%	100.0%	1	7.3
202-228 Greens Rd, Dandenong	$47.0m	Jun-2024	5.75%	100.0%	2	5.0
Crossbank 161, Trade Coast, Brisbane	$89.0m	Jun-2024	5.50%	100.0%	1	14.6
Crossbank 141, Trade Coast, Brisbane	$50.0m	Jun-2024	5.63%	100.0%	1	10.0
121 Evans Rd, Salisbury	$52.7m	Jun-2024	6.75%	100.0%	5	3.6
Acacia Gate Industrial Estate, Acacia Ridge	$36.3m	Jun-2024	6.50%	100.0%	10	2.9
7-9 French Ave, Brendale	$30.2m	Jun-2024	6.00%	100.0%	1	5.5
2 Second Ave, Mawson Lakes	$40.0m	Jun-2024	7.25%	100.0%	1	6.4
Cash & Other Assets	$3.6m					
Total / Portfolio Average	**$1,887.6m**		**6.47%**	**96.9%**	**351**	**4.5 yrs**
Debt	$514.7m	27.3%				
Other liabilities	$78.7m					
Total	**$593.4m**					
Net Assets	**$1,294.2m**					

* Weighted Average Lease Expiry ** 50% interest

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