dexus

Dexus Wholesale Australian Property Fund

APIR code: NML0001AU

31 March 2025

Summary

— Over the year to 31 March 2025 the Fund returned 7.22% of which, 6.03% was the distribution and 1.19% was growth. The quarterly total return in Q1/2025 was 2.36%.

— The valuations of all properties in the portfolio either increased or were stable over the quarter, with an average increase of 0.9%. The retail portfolio increased by 0.6%, office portfolio increased by 1.3% and the industrial portfolio increased by 1.2%. There was no cap rate compression and growth was underpinned by successful leasing / rent review outcomes and/or market rental growth. Valuations have now increased for four consecutive quarters, though are still well-below replacement cost.

— The Fund's occupancy was maintained above 95% and the weighted average lease expiry was stable at 4.5 years.

— In Brisbane, 121 Evans Road was sold for $55.4 million, 3.6% higher than the 31 December valuation. The property was developed in 1993 and is part of a community title scheme which has multiple owners. The sale continues a theme of disposing older properties in favour of new properties. Settlement will take place on 31 May 2025.

— Redemptions are currently being paid within 12 months of a withdrawal request being made, or sooner in the case of hardship and other special circumstances. *

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)	$1,871.5 million
Debt (% of gross assets)	37.0%
No. of Properties	22
Portfolio Occupancy	95.5%
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.

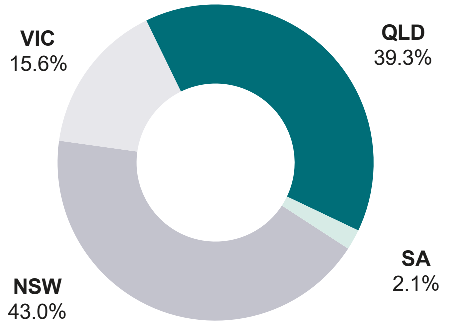
Fund Performance

	3 months %	1 year %	3 years %	5 years %	10 years %	Since inception %
Distribution return	1.46	6.03	5.70	5.72	5.86	7.76
Growth return	0.90	1.19	-9.23	-3.96	-1.61	0.19
Total return (after fees)	**2.36**	**7.22**	**-3.52**	**1.75**	**4.25**	**7.94**

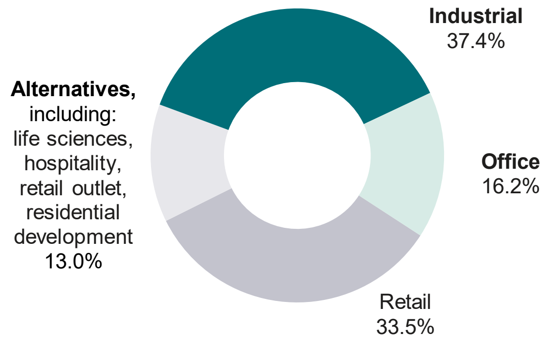
Past performance is not a reliable indicator of future performance.

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

Over the 12 months to 31 March 2025 the Fund returned 7.22% of which, 6.03% was the distribution and 1.19% was growth. The total return in Q1/2025 was 2.36%. The tax-deferred component of the distribution in the 12 months to 31 December 2024 was 72%.

The valuations of all properties in the portfolio either increased or were stable over the quarter, with an average increase of 0.9%. The retail portfolio increased by 0.6%, the office portfolio increased by 1.3% and the industrial portfolio increased by 1.2%. There was no cap rate compression and growth was underpinned by successful leasing outcomes and/or market rental growth. The average cap rate was broadly stable at 6.48%. Valuations have now increased for four consecutive quarters though are still well-below replacement cost.

In Brisbane, 121 Evans Road was sold for $55.4 million, 3.6% higher than the 31 December valuation and over 67% higher than the pre-covid valuation of $33.0m. The property was developed in 1993 and is part of a community title scheme which has multiple owners. The sale continues a theme of disposing older properties in favour of new properties. Settlement will take place on 31 May.

In 2024, contracts were exchanged on 425 Collins St, Melbourne and 33 Park Road, Milton. These properties have now settled.

The Fund's occupancy rate was maintained above 95% and the weighted average lease expiry was maintained at 4.5 years.

A market rent review resulted in a substantial rental uplift at 199 Grey St, Brisbane and this helped offset capital expenditure provisions for the removal of aluminium coated panels on the façade. Work to refurbish vacant office space at Gasworks is now largely complete which has resulted in an uptick in interest and several offers being issued. Leasing this space is a high priority.

Commercial terms were agreed for a 15-year lease at Casula Mall, which would see disused storage space in the roof converted into a childcare centre. At Stud Park Shopping Centre, Woolworths added a Direct-To-Boot offering, enhancing customer convenience and satisfaction and resulting in an uplift in the rent paid by the tenant.

A combination of undersupply in the residential property market and ongoing weakness in the Melbourne office market have prompted a change of strategy on 636 St Kilda Rd, Melbourne. Dexus are currently seeking planning approval for an exciting new residential development with a view to maximising the value of the site for Fund investors. The design phase – led by Bates Smart architects – is progressing well.

In Q2/2025, the Fund plans to re-establish a small portfolio of AREITs. In addition to providing a liquidity option, the Fund's listed portfolio has previously been used to enhance returns through early investments into emerging sectors such as data centres, land lease communities and self-storage. This complements the acquisition of The Mill in 2023, which provides an exposure to a premium life science, hospitality and retail outlet facility.

The Fund's drawn debt was 37.0% of gross assets as of 31 March 2025. In Q2/2025, opportunities are expected to emerge which would allow Dexus to reduce the Fund's average interest costs. Through our Treasury team, we will be actively looking to take advantage of these opportunities.

Redemptions requests are currently being paid within 12 months of a withdrawal request being made, or sooner in the case of hardship and other special circumstances.

Market Commentary

The global growth outlook has become more uncertain due to a series of tariff announcements by the United States. In relation to impacts on Australia, Australia's direct trade exposure to the US is only minor at less than 5% of total exports, so the main concern is the indirect effect of a possible US recession or a slowdown in China. Financial market volatility could also affect confidence.

In the event of a global slowdown, there are mitigants which could smooth the impact on Australia. The Reserve Bank has scope to reduce interest rates, the Federal government has capacity for fiscal stimulus and Australia's population growth is a good buffer against global shocks.

Looking domestically, Australia has begun a new phase of the economic cycle comprising easing interest rates and firming private sector growth. Employment is growing at around 2.7% p.a., and the unemployment rate remains low at 4.1%. Australia's GDP expanded by 1.3% in 2024 and is forecast to grow by 2.2% in 2025.

The headline annual inflation rate fell to 2.4% in Q4 2024, the lowest reading since Q1 2021. Accordingly, the Reserve Bank lowered the cash rate by 25 bps in its February meeting to 4.1% and maintained the cash rate in the April meeting. Further falls have become likely due to the US tariffs. The market interest rate swap curve has steepened and implies the cash rate will fall further to 3.2% in 2026.

Historically, low points in the value cycle have led to good returns, for example, a buyer of an office building after the previous downturn in 2010 saw the value grow by 7.8% p.a. in the ten years following, which is more than double the average growth rate over the index's 35-year history. Industrial and retail investments have also offered good growth from low points in the cycle.

Investors and their advisers will be cautious about making any new investments until the consequences of tariffs are better understood. However, as funds start flowing again, there are good reasons for them to increase allocations toward real assets.

The office sector has exhibited signs of improvement in the first quarter of 2025, with positive trends emerging across the main CBD markets. Vacancy rates dipped in most CBDs. Sydney, Melbourne and Perth CBDs experienced declines in vacancy, while Brisbane CBD's vacancy edged up to 10.2% from 9.8%. Sydney CBD net effective rents increased by 5.8% over the quarter, while prime incentives decreased to 33%, the lowest since 2021. Whilst Brisbane CBD had negative net absorption over the quarter, net effective rents grew by 3.6%.

The office supply pipeline has contracted significantly, and a significant supply gap is likely to emerge in the next few years. Forecast commencements for Sydney CBD in the next 5 years are just half of what was completed over the last 5 years.

The Australian industrial market has continued to stabilise after a period of rapid growth. Prime net face rents are growing but the rate is tapering as growth moves back to more normalised levels. Rent growth was most pronounced in Adelaide in Q1 2025 ranging between 7-11% in different precincts.

Australia's retail sector showed encouraging signs of life in the first quarter of 2025. The retail property market continues to demonstrate resilience. Investor sentiment towards retail assets is firming, underpinned by steady income streams and favourable supply dynamics.

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.

Capitalising on Defence as a theme

Thematic investing

Thematic investing is an investment strategy focused on identifying and benefiting from long-term trends that are expected to shape the global economy, such as technological advancements, demographic shifts or geopolitical realignments.

In the U.S., several commercial real estate markets allow investors to take a thematic exposure to specific industries or ideas. For example, cities like San Francisco, Seattle, and Austin are known for their strong tech industries; and markets such as Boston, San Diego, and the Research Triangle in North Carolina are prominent for healthcare and life sciences.

Defence as a global theme

A theme which has been brewing for decades but is shaping up as an emerging megatrend in 2025 is global defence spending. Under President Trump, the U.S. has called for European countries to step up military commitments from an average of 2% of GDP to 5%. Current spending is approximately US$1.3- trillion by NATO countries and US$2.3 trillion globally, so any meaningful growth off this base will be a needle mover.

In response, the UK has committed to raising military spending to 2.5% of GDP by 2027, with a long-term goal of reaching 3% and the French government has committed to doubling its defence budget by 2030. In Germany, the Bundestag recently voted to reform the 'debt brake,' freeing up €500 billion and allowing more borrowing for critical areas such as defence, and Denmark scrapped a public holiday for higher defence spending.

The Australian response

Australia has also had to make double time and respond. The Australian defence budget is currently around 2% of GDP, or approximately $56 billion, shy of the U.S. administration's 3% benchmark. The March federal budget, brought forward $1 billion in defence spending and this measure was part of a broader $10 billion increase over the next four years, aimed at boosting military capabilities, including guided weapons manufacture and the establishment of a submarine base in Adelaide.

At the same time as Europeans were scrambling to increase military security in the face of the prospect of wavering US commitment to NATO, Australia has been caught off-guard by a flotilla of Chinese warships circumnavigating the continent and conducting live fire exercises in the Tasman Sea. This has underscored local calls for defence spending to increase to 3% of GDP, which would see the budget increased to $130 billion in a decade – another needle mover.

A growing opportunity

The scale of the defence opportunity is causing investors to take notice. For example, Global X Defence Tech ETF launched in September 2023 and has grown to hold $1.25 billion of assets in just 18 months. The ETF owns shares in stocks such as BAE Systems, Lockheed Martin, and SAAB, and since inception, the fund is up 50%[1].

Interestingly, in Australia all the above tenants, along with global giants Raytheon Technologies, Kongsberg Defence & Aerospace and SNC are all located in Adelaide. Most are clustered in a tight precinct next to the University of South Australia known as Technology Park. The park was established in 1982 and has grown to become a hub for high-tech companies in sectors like defence, aerospace, health, and information communication technology. It is strategically located being approximately 10 kilometres south of Edinburgh Defence Precinct and 20 kilometres east of the naval shipyards at Osbourne.

AUKUS

Defence already contributes approximately $1.7 billion to the South Australian economy - nearly twice the per capita level of any other state. The renewed global interest in national security comes on top of the AUKUS agreement being signed in 2021. AUKUS is a trilateral security pact between Australia, the United Kingdom, and the United States, the centrepiece of which is the Australian navy's acquisition of three Virginia-class nuclear-powered submarines. Adelaide will play a role in building the subs, educating the workforce and developing the ongoing research and development capability needed to maintain the fleet over the coming decades.

Economic growth and job creation

AUKUS is expected to result in investment of $268-368 billion in infrastructure projects over the next 30 years to construct and operate nuclear powered submarines, as well as to construct new military bases, research facilities, and support services. CBRE estimate that over 10,000 potential jobs may be created by the influx of investments in defence infrastructure, technology and related industries.

Playing the theme

In 2016, DWAPF acquired one of the premier assets in Technology Park to thematically invest in defence and aerospace: 2 Second Avenue, Mawson Lakes. This property is leased to Australian success story, Codan Limited. Codan was established in 1959 and listed on the ASX in 2003. The business manufactures communications equipment and major customers include the US military and NATO. In 2024, its revenues were $550 million, up 225% on 2016 when the Fund purchased the property. Codan has occupied the property since 2015 on a 15-year lease and hold a 10-year option. The campus offers amazing on-site amenity and is in proximity to other defence and technology companies, universities and major naval and air force defence facilities.

The property is valued at $39 million using a cap rate of 7.50%.

[1] As at 31 March 2025

Balance Sheet – Dexus Wholesale Australian Property Fund

Assets/Liabilities	Valuation / Contract Price	Valuation Date	Cap rate	Occupancy	No. of Tenants	WALE [1] (years)
Casula Mall	$203.5m	Mar-2025	6.00%	99.6%	62	3.0
Stud Park Shopping Centre	$141.5m	Mar-2025	6.50%	99.0%	63	5.0
Gasworks Plaza	$132.0m	Mar-2025	5.75%	98.2%	34	5.3
Brickworks	$145.0m	Mar-2025	6.00%	99.2%	50	3.1
The Mill, Alexandria	$181.0m	Mar-2025	5.63%	98.3%	20	4.7
Bond One, Walsh Bay	$116.0m	Mar-2025	6.88%	100.0%	5	2.6
636 St Kilda Rd, Melbourne	$60.1m	Dec-2024	8.50%	35.1%	24	0.9
199 Grey St, Brisbane	$87.5m	Mar-2025	7.50%	100.0%	16	2.5
Gasworks Workspace, Brisbane	$64.5m	Mar-2025	7.50%	52.1%	5	2.9
Stanley House, South Brisbane	$32.2m	Mar-2025	6.00%	100.0%	2	6.6
Connect Corporate Centre B2, Mascot	$89.0m	Mar-2025	7.75%	98.8%	8	4.4
Connect Corporate Centre B3, Mascot	$145.0m	Mar-2025	7.75%	99.4%	15	4.2
Holbeche Industrial Estate, Arndell Park [2]	$65.1m	Mar-2025	5.38%	100.0%	3	3.3
384-394 South Gippsland Hwy, Dandenong	$25.0m	Mar-2025	6.00%	100.0%	1	2.6
2 Pound Rd West, Dandenong	$10.5m	Mar-2025	6.00%	100.0%	1	6.5
202-228 Greens Rd, Dandenong	$52.3m	Mar-2025	5.88%	100.0%	4	4.4
Crossbank 161, Trade Coast, Brisbane	$93.6m	Mar-2025	5.63%	100.0%	1	13.9
Crossbank 141, Trade Coast, Brisbane	$50.7m	Mar-2025	5.63%	100.0%	1	9.6
Acacia Gate Industrial Estate, Acacia Ridge	$37.9m	Mar-2025	6.75%	100.0%	12	3.1
7-9 French Ave, Brendale	$30.9m	Mar-2025	6.00%	100.0%	1	4.8
2 Second Ave, Mawson Lakes	$39.0m	Mar-2025	7.50%	100.0%	1	5.7
121 Evans Rd, Salisbury [3]	$55.4m					
425 Collins Street, Melbourne [4]						
33 Park Road, Milton[5]						
Cash & other assets	$13.8m					
Total / Portfolio Average	**$1,871.5m**		**6.47%**	**95.5%**	**329**	**4.5 yrs**
Debt [6]	$692.7m	37.0%				
Other liabilities	$53.4m					
Total	**$746.1m**					
Net Assets	**$1,125.4m**					

[1] Weighted Average Lease Expiry [2] 50% interest [3] contracted price: settlement expected Q2/2025 [4] settlement on 31 March 2025 [5] settlement on 1 April 2025

[6] Pro-forma, applying settlement proceeds from 425 Collins St, Melbourne and 33 Park Rd, Milton