

# Dexus (ASX: DXS)

## ASX release



4 May 2021

### March 2021 quarter update – Initiatives progressed to expand Funds Management business

Dexus today announced an update for the quarter ended 31 March 2021.

In Australia, the March 2021 quarter saw the commencement of the COVID-19 vaccine roll out and an increase in physical occupancy across CBD office locations. Positive economic indicators point to a continued economic recovery, reflected in growing employment numbers, increasing house prices and a rebound in business and consumer confidence.

Darren Steinberg, Dexus CEO said: "We have maintained our focus on maximising property portfolio income and performance while delivering on our strategic initiatives. We maintained high rent collections of 96% for the March quarter, undertook further asset recycling and progressed initiatives in our funds management business including establishing a new office joint venture.

"It is pleasing to see momentum in leasing activity across our CBD office markets. Tenant enquiry and activity across our office portfolio has been strong particularly for smaller tenancies, and larger occupier briefs are starting to emerge. The significant number of leasing transactions completed during the quarter is encouraging and highlights the demand for quality workspace in well-located CBD assets.

"The resilience in values for quality assets has also provided us with the confidence to investigate opportunities to allocate capital, using our balance sheet to enhance prospects for driving growth. We are seeing opportunities across the various asset classes of industrial, healthcare and office."

### Highlights

- Progressed several initiatives to expand and diversify the funds management business including establishing a new office joint venture, securing approval for the merger of the circa \$5.4 billion AMP Capital Diversified Property Fund with Dexus Wholesale Property Fund and obtaining approval of the proposal to simplify the Dexus corporate structure
- Raised \$125 million of new equity for Dexus Healthcare Property Fund
- Completed 108 leasing transactions<sup>1</sup> across 46,703 square metres in the Dexus office portfolio, achieving occupancy of 95.4%
- Leased 117,747 square metres of industrial space across 37 transactions in the Dexus industrial portfolio, increasing occupancy to 97.8%
- Completed the development of the North Shore Health Hub, St Leonards
- Submitted the Development Application for Central Place Sydney

### Funds Management

Consistent with Dexus's strategic focus on expanding and diversifying the funds management business, Dexus progressed several initiatives including:

- Establishing the Mercatus Dexus Australia Partnership (MDAP) joint venture with Mercatus Co-operative Limited. MDAP exchanged contracts to acquire a 33.33% interest in 1 Bligh Street, Sydney for \$375 million<sup>2</sup> in which Mercatus will hold an indirect 90% share in MDAP with Dexus holding the remaining 10%
- Securing approval of the merger of the Dexus Wholesale Property Fund (DWPF) and AMP Capital Diversified Property Fund (ADPF) which was voted on by the respective unitholder bases
- Obtaining approval from Dexus Security holders to simplify the Dexus corporate structure, providing Dexus with greater flexibility in meeting the investment demand from investors for real estate assets, while also providing opportunities to expand the funds management business

Darren Steinberg said: "We are pleased with the continued momentum across the funds platform, as we progressed initiatives in DWPF, healthcare and our new opportunity fund. Our continued focus on our relationships with third party capital partners will assist with opportunities we have in the pipeline."



DWPF continued to outperform its benchmark over 3, 5, 7 and 10 years. Following the approval of the merger of DWPF and ADPF by the respective unitholder bases, circa \$5.4 billion of new assets will transfer to Dexus management, with some assets to be progressively sold down over approximately the next 18 months to provide redeeming ADPF unitholders with liquidity. This transaction provides DWPF unitholders with access to a high-quality portfolio of assets, greater diversification and introduces new investors to the platform.

In the Healthcare Wholesale Property Fund, which is now known as Dexus Healthcare Property Fund (DHPF), the North Shore Health Hub reached practical completion in March 2021, providing a high-quality healthcare facility integrated into the North Shore Hospital precinct. The Fund also raised \$125 million of new equity to assist with future acquisitions.

Post 31 March 2021, DHPF exchanged contracts to acquire Manning Building and Building 4, 399 Royal Parade, Parkville (Parkville) for \$139 million<sup>3</sup>. Located within Melbourne's Biomedical Precinct, Parkville incorporates two of the five buildings within Monash University's Parkville Campus across 13,000 square metres. The asset accommodates the Monash Institute of Pharmaceutical Science, which is ranked second in the world for pharmacy and pharmacology research. Settlement of the acquisition is expected to occur in May 2021.

The fundraising for Dexus Real Estate Partnership 1 continues to progress, targeting a first close in the coming months, with further closes anticipated over the next 12 months. Additionally, a pipeline of potential investment opportunities has been identified.

### Environmental, Social and Governance (ESG) update

During the quarter Dexus established two major community partnerships with the Black Dog Institute and Planet Ark. These partnerships complement the Dexus Sustainability Approach and align with the newly created Social Impact Strategic Framework. Dexus will collaborate with these organisations to maximise its social impact from fundraising activities, employee volunteering, workplace giving, awareness training and community contributions.

### Property portfolio

#### Dexus Office Portfolio

Key metrics	31 March 2021	31 December 2020
Occupancy by income	95.4%	96.0%
Occupancy by area	94.8%	96.0%
Weighted average lease expiry (by income)	4.1 years	4.2 years
Average incentives <sup>4</sup>	24.6%	22.0%

Over the quarter to 31 March 2021, a total of 44,808 square metres<sup>5</sup> of office space was leased across 98 transactions in the core portfolio, in addition to 1,895 square metres of space across 10 transactions at office developments. Dexus office portfolio occupancy reduced to 95.4% as a result of known expiries at 80 Collins Street, Melbourne which offset occupancy increases at MLC Centre and 60 Castlereagh Street in Sydney.

Key leasing activity included:

- Securing leasing across 9,656 square metres at MLC Centre, Sydney through 10 individual transactions including two transactions with 10-year terms
- Renewing a customer across 1,551 square metres at 44 Market Street, Sydney
- Securing leasing across 1,793 square metres at 60 Castlereagh Street, Sydney, increasing occupancy of the property to 86.4%

Dexus saw an increasing level of enquiry, particularly for smaller tenancies from customers in Sydney and Melbourne, which translated to the leasing achieved during the quarter. Despite this activity Dexus maintains its view that the challenging market conditions will see incentives remain elevated for the near term despite some flat lining being reported in market averages.

Dexus's focus on minimising downtime and maintaining high occupancy is supported by its quality portfolio, with a number of customers secured during the period from lower quality buildings located in non-core parts of the Sydney CBD.

## Dexus Industrial Portfolio

Key metrics	31 March 2021	31 December 2020
Occupancy by income	97.8%	95.5%
Occupancy by area	98.9%	97.3%
Weighted average lease expiry (by income)	4.4 years	4.3 years
Average incentives	18.6%	19.7%

Over the quarter to 31 March 2021, 117,747 square metres<sup>5</sup> of industrial space was leased across 37 transactions. Dexus industrial portfolio occupancy increased to 97.8% due to leasing secured across a large amount of previously vacant space at Axxess Corporate Park.

Key leasing activity included:

- Renewing Coles across 42,954 square metres at 12-18 Distribution Drive, Truganina
- Securing leasing across 17,653 square metres at Axxess Corporate Park through 16 individual transactions, improving occupancy of the property from 89% to 98.2%
- Securing development leasing with 19,960 square metres committed by Electrolux for a 10-year term at 11-167 Palm Springs Road, Ravenhall

### Development and Trading

Dexus's group development pipeline now stands at \$11.5 billion of which \$6.1 billion sits within the Dexus portfolio and \$5.4 billion within third party funds.

During the quarter, Dexus completed the development at the North Shore Health Hub in St Leonards, delivering a new healthcare facility for DHPF, while at the same time realising trading profits for Dexus investors for FY21.

Dexus and Frasers Property Australia lodged plans with City of Sydney for the development of approximately 130,000 square metres of workspace space across two premium office towers at Central Place Sydney. The development comprises towers with 35 and 37 levels respectively, including rooftop community spaces and vertical gardens, environmentally responsive façade and structure, and a diverse range of retail and dining options and public amenity. This development will position Tech Central as a key driver of innovation and growth in the Asia Pacific region and significantly contribute to large-scale urban change in Sydney.

Post 31 March 2021, Dexus lodged a planning amendment for the development at 60 Collins Street, Melbourne that would see the height of the proposed tower increased by an additional 55 metres, from 23 to 38 levels, with the net lettable area potentially increasing by circa 15,900 square metres.

At Horizon 3023, Ravenhall, an additional 6.8 hectares of land, adjacent to the existing industrial estate, was acquired by the Dexus Australian Logistics Trust (DALT) and DWPF to improve the existing masterplan and provide the opportunity to create additional industrial stock to respond to an active leasing market. Leasing momentum continued with the Electrolux pre-commitment secured and an adjacent speculative building of 40,000 square metres will be constructed at the same time, to capture synergies in the project delivery. New buildings totalling 175,100 square metres are now completed or under construction across 31% of the expanded site area.

Dexus's focus on progressing its developments is helping to satisfy the demand for quality product in the healthcare and industrial sectors from both customers and third party capital partners. Dexus continues to seek on and off market opportunities to replenish its development and trading pipeline with new opportunities.

### Transactions

Continuing an active year of transactions, the Dexus Office Partnership (in which Dexus holds a 50% interest) conditionally exchanged contracts to sell 10 Eagle Street, Brisbane for \$285 million<sup>6</sup>. Dexus also conditionally exchanged contracts to sell a 50% interest<sup>7</sup> in Grosvenor Place, Sydney for \$925 million.

The acquisition of a 33.33% interest in 1 Bligh Street, Sydney for \$375 million<sup>8</sup> by MDAP (in which Dexus holds a 10% interest) reinforced the ongoing strength of demand from international institutions for high quality Australian office asset exposure under Dexus platform management.

### The Simplification of the Dexus corporate structure

On 23 March 2021, Dexus released a Notice of Extraordinary General Meeting and Explanatory Memorandum relating to a proposal to simplify the Dexus corporate structure. This involves an internal reorganisation from a complex quadruple stapled trust structure to a group comprising two stapled trusts by "top-hatting" three of the existing trusts (DDF, DIT and DOT) with a newly established trust (DPT) which will be stapled to DXO to form the Simplified Group.

On 22 April 2021, Dexus Security holders approved all the resolutions relating to the Simplification. Next steps include obtaining the necessary stamp duty approvals and relief, and then with that information the Board will determine whether it continues to believe that the Simplification is still in the best interests of Security holders, ensuring all Security holders are informed of the timetable in due course.

### Summary and outlook

Darren Steinberg said: "Our diversified property platform has had a busy start to the calendar year. Moving forward, we will continue to execute on our strategic initiatives which include increasing the resilience of portfolio income streams, expanding and diversifying the funds management business, and progressing the development pipeline to drive superior risk-adjusted returns for investors. With the Australian economy in recovery mode, we are optimistic about the opportunities that are before us."

Dexus maintains its guidance of achieving an FY21 full year distribution per security amount that is consistent with FY20, subject to there being no reinstatement of any major lockdowns or unforeseen circumstances. The FY20 full year distribution per security amount was 50.3 cents.

*Authorised by Brett Cameron, General Counsel and Company Secretary of Dexus Funds Management Limited.*

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### About Dexus

Dexus is one of Australia's leading real estate groups, proudly managing a high-quality Australian property portfolio valued at \$32.1 billion. We believe that the strength and quality of our relationships will always be central to our success and are deeply committed to working with our customers to provide spaces that engage and inspire. We invest only in Australia, and directly own \$16.5 billion of office and industrial properties. We manage a further \$15.6 billion of office, retail, industrial and healthcare properties for third party clients. The group's \$11.5 billion development pipeline provides the opportunity to grow both portfolios and enhance future returns. With 1.6 million square metres of office workspace across 51 properties, we are Australia's preferred office partner. Dexus is a Top 50 entity by market capitalisation listed on the Australian Securities Exchange (trading code: DXS) and is supported by more than 29,000 investors from 24 countries. With 36 years of expertise in property investment, development and asset management, we have a proven track record in capital and risk management, providing service excellence to tenants and delivering superior risk-adjusted returns for investors. [www.dexus.com](http://www.dexus.com)

Dexus Funds Management Ltd ABN 24 060 920 783, AFSL 238163, as Responsible Entity for Dexus (ASX: DXS)  
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- 1 Including 98 leasing transactions across the Dexus office portfolio and 10 development leasing transactions.
  - 2 Reflecting the acquisition price for the 33.33% interest in 1 Bligh Street (of which Mercatus will hold a 90% share and Dexus a 10% share) and excludes acquisition costs, other costs and purchase price adjustments
  - 3 Acquisition price excludes acquisition costs, other costs and purchase price adjustments.
  - 4 Excluding development leasing.
  - 5 Including Heads of Agreement.
  - 6 Gross sale proceeds excluding transaction costs.
  - 7 The 50% interest comprises 25% owned by Dexus and 25% owned by the Dexus Office Partnership, in which Dexus holds a 50% interest. The sale will realise total net proceeds before transaction costs of \$925 million for the 50% interest or \$694 million for Dexus.
  - 8 Reflecting the acquisition price for the 33.33% interest in 1 Bligh Street (of which Mercatus will hold a 90% share and Dexus a 10% share) and excludes acquisition costs, other costs and purchase price adjustments.