dexus

Half Year Review 2018

Positive momentum

Dear Security holders,

We are pleased to report that Dexus delivered a strong result in the first six months of FY18 and upgraded its guidance for distribution per security growth for FY18.

Financial performance

Net profit after tax of $997.1 million was up $281.1 million from HY17, driven by revaluation gains of investment properties combined with an increase in Funds from Operations. Distribution per security for the six months ended 31 December 2017 was 23.7 cents, up 9.2% on the previous corresponding period.

Property values continued to grow in the six months to 31 December 2017, with our office and industrial portfolio recording a $730.2 million or 6.4% increase on prior book values, $334.2 million higher than the previous corresponding period. Most of the valuation uplift was due to further capitalisation rate compression experienced in both Sydney and Melbourne, supported by market sales evidence, with the remainder from market rent growth.

We continued our active approach to managing our capital, enhancing our duration of debt to seven years through the completion of our largest ever debt raising.

Transactional activity

We had a busy period of transactional activity which included the settlement of the acquisition of the MLC Centre (25% interest), 100 Harris Street in Sydney and 90 Mills Road, Braeside. Alongside our Office Partner, we also acquired 56 Berry Street, North Sydney and exchanged conditional contracts to sell 11 Waymouth Street, Adelaide, consistent with our strategy of divesting assets from non-core markets.

Strong property portfolio performance

Our office and industrial portfolios achieved returns of 15.8% and 15.4%, driven mostly by valuation uplifts and leasing.

Across Dexus's office portfolio we leased 82,577 square metres of space, in addition to 35,828 square metres of development leasing, locking in future income streams.

The high levels of office enquiry in Perth has materialised into significant leasing at 240 St Georges Terrace, while Brisbane is showing signs of improvement.

In Sydney, we have benefited from large companies in the health, insurance and pharmaceutical sectors centralising into the CBD, while in Melbourne the education sector has grown its CBD footprint.

Moving into 2018, we expect the underlying fundamentals in the markets of Sydney and Melbourne, along with improving fundamentals in Perth and Brisbane, to support rental growth and drive valuation upside. We expect to see low capitalisation rates, especially for well leased Prime properties, continuing to support values in our key markets.

Our industrial portfolio continues to benefit from an uptick in logistics and e-commerce demand, which contributed to leasing of 118,537 square metres of space, resulting in an improvement in occupancy to 97.5%.

From a sustainability perspective, Dexus was rated No.1 globally in listed office by the Global Real Estate Sustainability Benchmark, the leading global real estate benchmark dedicated to assessing the sustainability performance of the property sector.

Progressing the development pipeline

We activated new office projects in the group's $4.2 billion development pipeline, to create future value for Dexus and our third party clients.

Construction progressed at 100 Mount Street in North Sydney where NBN was secured, being the first major leasing deal for the project since commencement in early 2016. As a result, the building is now 60% committed ahead of its completion in early 2019.

Two industrial developments leased to Isuzu and Anmar were completed in Laverton North, Victoria and five projects are underway in NSW and Victoria, all 100% pre-leased.

Delivering continued performance for funds

We announced the completion of the first equity raise for the Healthcare Wholesale Property Fund, adding three new clients onto our $13.4 billion funds management platform. All funds delivered strong performance, with Dexus Wholesale Property Fund outperforming its benchmarks over all time periods and the Dexus Office Partnership delivering a one year unlevered total property return of 16.5%.

Trading profits on track

We secured $14.3 million of trading profits primarily from the sale of 105 Phillip Street, Parramatta. Progress was made at 12 Frederick Street, St Leonards with the completion of a leasing expression of interest campaign in late 2017 and submission of development concepts for planning approval. We remain confident of achieving our FY18 trading profit target of $35-$40 million post tax, through the sale of one other trading property, which is expected in the second half of FY18.

Summary

Our long-standing strategy is working for investors. The combination of earnings from our properties, funds management and trading, has enabled us to deliver consistent growth in distributions, through a variety of market conditions, over the past six years. Australia is expected to continue to benefit from global economic growth, population growth and considerable construction activity in the infrastructure sector over the next two years, which we believe will have a positive flow on effect to demand for office and industrial space. We are well positioned to continue to benefit from strong and improving property fundamentals and deliver future growth. Our guidance for distribution per security growth has been upgraded to 4.5-5.0% from 4.0-4.5% for FY18.

Darren Steinberg
Chief Executive Officer

Statutory net profit
$997.1m

Distribution per security
23.7c

Gearing
26.5%

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Development activity

Our $4.2 billion pipeline of development projects, $2.1 billion of which sits in our funds management business, will make a significant contribution to investment performance over the next three to five years.

We have activated two office development projects that will leverage our leasing and development expertise, while enhancing future income streams. Located in Melbourne and Brisbane these projects are set to deliver double digit returns and provide the opportunity to add new customers to our portfolio. These include:

- 180 Flinders Street in Melbourne where we will develop approximately 20,100 square metres of A-grade workspace above the existing carpark and reposition the property
- The Annex at 12 Creek Street in Brisbane will involve the demolition of the existing retail building and development of circa 6,700 square metres of workspace and retail amenity

We continue to evolve our capabilities to apply to our developments, including city retail, healthcare and mixed use expertise, which is increasingly important in identifying and unlocking value from our portfolio.

Dexus today

This year marks the 10th anniversary of Dexus's formation, when the group internalised and became independent from Deutsche Bank.

Today, Dexus is the largest owner and manager of prime grade office properties in Australia with a significant position in the Sydney office market, Australia's strongest performing market.

Dexus has a growing funds management business which continues to achieve strong performance and attract new capital, in addition to an established trading capability that has delivered significant trading profits since FY11.

Dexus's development pipeline provides opportunities to grow future investor returns. Underpinning everything Dexus does is a strong balance sheet, which also provides capacity for future opportunities.

Investor Information

If you have any questions regarding your security holding or wish to update your personal or distribution payment details, contact:

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Australian Securities Exchange
ASX Code: DXS

Key Dates
30 August 2018
Final distribution payable
Attribution Managed Investment Trust
Member Annual Statements dispatched

24 October 2018
Annual General Meeting

Dexus IR App
Download the Dexus IR App to your preferred mobile device to gain instant access to the latest DXS information.

Available on the App Store

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