Dexus (ASX:DXS)

ASX release

26 November 2018

Dexus establishes JV with GIC for a circa $2 billion wholesale unlisted logistics trust

Dexus today announced the establishment of a new circa $2 billion unlisted trust that will invest in Australian logistics properties.

The new unlisted vehicle, to be known as the Dexus Australian Logistics Trust ("DALT" or "the Joint Venture") is open-ended with an indefinite term and an active acquisition and development mandate. The Joint Venture will be seeded with assets from Dexus's existing industrial portfolio comprising $1.4 billion of core logistics properties and a $138 million development landbank (circa $0.5 billion on completion).

The establishment of the Joint Venture offers compelling strategic rationale, including:

- Unlocking the growth potential of the Dexus industrial platform through a dedicated open-ended industrial vehicle
- Enabling capital to be recycled into Dexus's development pipeline
- Increasing third party assets under management to $14.3 billion, aligning with Dexus's strategy of being the wholesale partner of choice in Australian property

Subject to FIRB approval, GIC will be DALT's foundation investor taking an initial 25% investment in the core portfolio[1], with put and call rights to acquire an additional 24% by June 2020[2]. GIC will take a 49% interest in the development landbank[3] and fund its share of development spend. Other investors may be added to the Joint Venture in the future, potentially reducing Dexus's ownership stake over time.

Dexus CEO, Darren Steinberg said: "This new vehicle broadens our relationships, providing a stable long-term source of capital to invest alongside us through the cycle. We see further opportunities within the logistics sector as businesses seek to drive supply chain efficiencies and preferences for online retail continue to rise."

"The establishment of this vehicle builds on our track record which has seen us develop and lease 39 industrial development projects across 730,000 square metres in Sydney, Melbourne and Brisbane since 2010."

The Joint Venture's core portfolio will have a weighted average lease expiry of 5.3 years and average occupancy by income of 98%. The portfolio features a 97% exposure to the strong performing Sydney and Melbourne markets and is weighted to traditional logistics facilities, which are leveraged to the growth of e-commerce.

The initial development landbank comprises interests in the three land development parcels announced to the Australian Securities Exchange (ASX) on 14 August 2018. The seed development portfolio includes:

- 50% interest[4] of 11-167 Palm Springs Road, Ravenhall, VIC (first tranche expected to settle in December 2018)
- 100% interest of 54 Ferndell Street, South Granville, NSW (settled November 2018)
- 100% interest of 425 Freeman Road, Richlands, QLD (expected to settle in December 2018)

These development projects are expected to deliver product for the Joint Venture with a total future completion value of circa $0.5 billion.

Dexus's Funds Management business

Following DALT's establishment, Dexus's third party assets under management will increase to $14.3 billion encompassing a range of investment vehicles including diversified pooled funds (and mandate), as well as discrete office and industrial investment mandates. Post DALT's establishment, Dexus's third party assets under management will have increased by $8.7 billion or 155% since 2012.

The funds management business is a valuable source of capital to partner on developments and transactions and provides a source of fee income for Dexus. The business also increases Dexus's footprint in key markets which is important in building high-quality asset management expertise which drives long term investment performance.

Remaining Dexus industrial portfolio providing long-term redevelopment potential

In its direct portfolio, Dexus will retain its existing interests in seven industrial assets valued at $611 million[5]. This portfolio provides long-term redevelopment potential. The redevelopment opportunities are generally expected to be some years away, and in the interim period these properties are expected to generate an attractive income return.

Dexus will also initially retain the DALT interest not acquired by GIC, alongside a 50% interest in the Dexus Industrial Partnership.

Financial impacts[6]

The pricing of the initial 25% investment reflects a $48 million premium to Dexus's 30 June 2018 independent valuations across the seed portfolio (on a 100% basis). Dexus will receive market-based fees for funds and asset management services provided to the Joint Venture. The fees include a performance fee on the seed core portfolio which will initially be calculated in March 2021 with a final wash-up and payment in March 2025.

Proceeds from the sale will initially be used to reduce debt and provide capacity for future funding commitments, including Dexus's broader development pipeline which is growing and stands at $2.0 billion[7], with an additional $2.9 billion of future potential concept developments which Dexus is shortlisted or in an exclusive position on.

Assuming no further acquisitions, the transaction is expected to have an immaterial impact on Dexus's AFFO and distribution per security in FY19. Dexus maintains its market guidance[8] for FY19 of distribution per security growth of circa 5%. Pro-forma gearing is expected to reduce by 1.7% initially, or 3.3% by FY20 including the second tranche and the build-out of the Joint Venture's development pipeline.

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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 $27.2 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 $13.3 billion of office and industrial properties. We manage a further $13.9 billion of office, retail, industrial and healthcare properties for third party clients. The group's $4.2 billion development pipeline provides the opportunity to grow both portfolios and enhance future returns. With 1.7 million square metres of office workspace across 55 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 28,000 investors from 20 countries. With more than 30 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

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Dexus Funds Management Ltd ABN 24 060 920 783, AFSL 238163, as Responsible Entity for Dexus (ASX: DXS)

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1 Dexus will hold the remaining 75% interest in the core portfolio initially.
2 Ongoing put and call rights if not exercised by June 2020.
3 Dexus will hold the remaining 51% interest in the development landbank.
4 Remaining 50% interest owned by Dexus Wholesale Property Fund.
5 Book value as at 30 June 2018. Excludes assets classified as trading inventory.
6 Financial impacts include the aggregate impact of the establishment of the Joint Venture and the three industrial land development parcels (Ravenhall, Granville and Richlands).
7 Based on Dexus's $2.2 billion development pipeline as at 30 June 2018 less GIC's initial 49% stake in the three Joint Venture developments.
8 Barring unforeseen circumstances guidance is supported by the following assumptions: Impacts of announced divestments and acquisitions; FFO per security growth of circa 3%, underlying FFO per security growth of circa 3% underpinned by Dexus office portfolio like-for-like growth of 4-5%, Dexus industrial portfolio like-for-like growth of 2.5-3.5%, management operations FFO and cost of debt broadly in line with FY18; trading profits of $35-40 million net of tax; maintenance capex, cash incentives, leasing costs and rent free incentives of $155-165 million; and excluding any further transactions.