

# Dexus (ASX: DXS)

## ASX release



17 August 2022

### 2022 Annual results – Accelerating our strategy

Dexus today announced that it had achieved Adjusted Funds From Operations (AFFO)<sup>1</sup> and distributions of 53.2 cents per security for FY22, up 2.7% on the prior year.

#### Highlights

- **Net profit after tax** of \$1,615.9 million, up 41.9%
- **AFFO and distributions** of 53.2 cents per security, up 2.7% on the prior year
- **Return on Contributed Equity (ROCE)<sup>2</sup> of 9.7%**
- **Gearing** (look-through)<sup>3</sup> remains conservative at 26.9%, with **65% of debt hedged across FY22** and an average hedge maturity of 5.9 years
- **Secured \$1.6 billion<sup>4</sup> of investment onto our funds management platform as we welcomed a number of new investors.** Dexus Wholesale Property Fund (DWPF) continued to outperform its benchmark over one, three, five, seven and ten-year time periods
- **Agreed to acquire AMP Capital's real estate and domestic infrastructure equity business** with up to \$21.1 billion<sup>5</sup> of funds under management
- **Continued leadership in environmental, social and governance performance** with Dexus being the only real estate company to achieve a Gold Class distinction in the S&P Global Sustainability Yearbook 2022, retaining its position as a sustainability leader by the Dow Jones Sustainability Index
- Achieved a **customer Net Promoter Score<sup>6</sup> of +43**
- **Achieved high occupancy<sup>7</sup> of 95.6%** for the Dexus office portfolio and 98.1% for the Dexus industrial portfolio
- **Post 30 June 2022**, Dexus executed binding transaction documents with Atlassian to fund, develop and invest in Atlassian's new Australian headquarters in Sydney. Non-binding heads of agreement were also reached to sell 35% of the project.

Dexus Chief Executive Officer, Darren Steinberg said: "We've achieved a lot this year in what has been a complex environment. We have selectively recycled assets and made investments to support long term growth which involved over \$10 billion of industrial, office, retail and healthcare transactions across the group.

"Sustainability is integrated across our entire business. For more than a decade, we have been focused on energy efficiency as well as reducing the group's emissions and environmental footprint. We are pleased to have achieved net zero emissions for our building operations across the group managed portfolio. Transitioning the Dexus portfolio to achieve operational net zero reinforces our commitment to act to limit global warming to 1.5°C and delivers on our customers' and investors' desire for strong climate action and low carbon investments."

#### Strategy

Darren Steinberg said: "We remain focused on executing on our strategic objectives of generating resilient income streams and being identified as the real estate investment partner of choice. The year culminated in the announcement that we had entered into an agreement with AMP to acquire its real estate and domestic infrastructure equity business. With the addition of the infrastructure platform, this transaction positions Dexus as a leading real asset manager, underpinned by our best practice governance and risk management framework.

"Last month, AMP Capital Wholesale Office Fund (AWOF) unitholders voted in favour of a change of the trustee of the Fund. The initial proposal to replace the fund's trustee commenced during 2021, prior to Dexus entering into the agreement with AMP. As a result of the vote outcome, the maximum potential price has reduced. We remain focused on completing the transaction which, regardless of this outcome, will transform our product offering to investors, with new capabilities and significant scale across retail and infrastructure real assets and up to \$21.1 billion<sup>5</sup> of additional funds under management.

"Integration planning for the AMP Capital platform is advanced and this is testament to the expertise and strength of our people who continue to drive value from our business while working in challenging circumstances. We are working with AMP and third party stakeholders across the AMP platform to achieve the conditions precedent. Based on current progress, the transaction is expected to complete at the end of September 2022."

## Environmental, Social and Governance (ESG) update

From an environmental perspective, Dexus delivered on its commitment to achieve net zero emissions for its building operations by 30 June 2022 across the group managed portfolio.

Dexus was again acknowledged as a global ESG leader, retaining its position on several ESG benchmarks, including:

- For the third consecutive year, outperforming real estate companies globally to become the only real estate company to achieve a Gold Class distinction in the S&P Global Sustainability Yearbook 2022, retaining its leadership on the Dow Jones Sustainability Index
- Achieving a score of A- on the CDP Climate Change survey
- Being recognised as a global leader in sustainability by Global Real Estate Sustainability Benchmark (GRESB) in its 2021 Real Estate Assessment, with Dexus and Dexus Office Trust (DOT) ranking 1st in Public Disclosure for Australian Office entities, and DWPF named Overall Regional Sector Leader for Diversified Office and Retail entities. Dexus Healthcare Property Fund (DHPF) also ranked 1st in Healthcare Centres and 2nd in Developments for Non-Listed Healthcare entities. In addition, Dexus, DWPF and DOT each retained a 5 Star GRESB rating, placing their portfolios in the top 20% of all GRESB participants globally

Dexus's Reconciliation Action Plan was endorsed by Reconciliation Australia. This is an important early step on our reconciliation journey with Australia's First Nations peoples.

Dexus was named as an Employer of Choice for Gender Equality by the Workplace Gender Equality Agency for the fifth consecutive year, demonstrating its active commitment to, and progress towards, gender equality across its workforce. Dexus was also recognised as a Bronze Employer by the Australian Workplace Equality Index, acknowledging Dexus's efforts in LGBTI+ workplace inclusion.

Dexus's ongoing focus on safety is measured by independent external safety audits across its corporate, building management and Dexus Place workspaces, and this year Dexus achieved a score of 99.7%.

## Financial result

Dexus's net profit after tax was \$1,615.9 million, up 41.9% on the prior year. This movement was primarily driven by fair value gains on investment properties, share of net profit of equity accounted investments and a favourable net fair value movement of interest rate derivatives.

The external independent valuations resulted in a total \$926.0 million or circa 5.6% increase on prior book values for the 12 months to 30 June 2022. These revaluation gains primarily drove the 86 cent or 7.5% increase in net tangible asset (NTA) backing per security during the year to \$12.28 at 30 June 2022<sup>8</sup>.

Operationally, Underlying Funds From Operations (excluding trading profits) of \$734.2 million was 10.1% higher than the prior year. AFFO of \$572.2 million was 1.9% higher than the prior year, driven by acquisitions including Capital Square and Jandakot in Perth, non-recurring income on development impacted properties and significant growth in Management operations FFO and co-investment income from pooled funds. These positive impacts were partly offset by higher maintenance capex and incentives, and lower trading profits.

Dexus's Chief Financial Officer, Keir Barnes said: "Dexus achieved 2.7% growth in distributions per security for the 12 months ended 30 June 2022. This result is particularly pleasing given our initial market guidance for distribution growth of not less than 2% which was upgraded in the second half to growth of not less than 2.5%. Our distributions continue to be paid out in line with free cash flow for which AFFO is a proxy, in accordance with our distribution policy."

Rent collections for the Dexus office and industrial portfolio remained strong at 98.5% in FY22, and at 96.1% for the month of July 2022.

Dexus achieved a ROCE<sup>2</sup> for FY22 of 9.7% driven largely by AFFO and revaluation gains from completed developments at 54 Ferndell St, South Granville, 425-479 Freeman Road, Richlands and recently completed projects at Ravenhall.

Dexus maintained a strong and conservative balance sheet with gearing (look-through)<sup>3</sup> of 26.9% remaining below the target range of 30-40%, and \$1.9 billion of cash and undrawn debt facilities. Dexus has a weighted average debt maturity of 5.5 years, minimal debt expiries over the next 12 months and remains within all of its debt covenant limits, retaining its credit ratings of A-/A3 from S&P and Moody's respectively.

On average 65% of Dexus's debt in FY22 was hedged. Dexus's weighted average hedge maturity is 5.9 years.

## Funds Management

Dexus manages \$25.9 billion of funds across its diversified funds management business.

All funds and partnerships continue to perform well, with DWPF continuing to outperform its benchmark over one, three, five, seven and ten-year time periods. DHPF delivered strong performance, achieving a one-year return of 20.4%.

Executive General Manager, Funds Management, Deborah Coakley said: "We implemented major strategic initiatives which grew the funds management business and positioned it for further growth including integrating APN Property Group onto our platform and acquiring Jandakot Airport industrial precinct. We also secured \$1.6 billion of new investment onto our funds platform, which resulted in a number of new investors being welcomed onto the platform."

Dexus established a \$1.3 billion Jandakot joint venture alongside Dexus Industria REIT (DXI) and later introduced Cbus Super into the joint venture.

DHPF raised \$250 million<sup>4</sup> of new equity and acquired Arcadia Pittwater Private Hospital and day rehabilitation facility located in Warriewood on the Northern Beaches of Sydney. DHPF's funds under management now stands at circa \$950 million across 10 assets with an on-completion value of \$1.5 billion<sup>9</sup>.

In Dexus Australian Logistics Trust (DALT), Blackstone's Core+ Real Estate strategy in Asia acquired GIC's 49% joint venture interest in the Partnership, with the existing management arrangements for DALT remaining unchanged.

Dexus also established Dexus Real Estate Partnership 1 (DREP1), the first in a planned series of closed end opportunity funds. The fund is approaching its \$300 million equity commitment target and has secured its first four investments while actively pursuing further opportunities. Dexus expects to launch the second fund in this series during 2023.

DWPF raised \$200 million of new equity during the year. Dexus continues to work through the AMP Capital Diversified Property Fund (ADPF) legacy redemption requests, having fulfilled circa \$1.8 billion to date. DWPF was also named as Regional Sector Leader by GRESB.

Dexus integrated the listed and unlisted funds that comprised APN Property Group onto the Dexus platform. Both Dexus Convenience Retail REIT (DXC) and DXI were able to leverage Dexus's platform capabilities, with both funds undertaking acquisitions supported by successful equity raisings during the year. Both funds have also taken the opportunity to divest assets and initiated on-market securities buyback programs to enhance Securityholder returns amidst market volatility.

## Property portfolio

### Dexus Office Portfolio

Dexus manages a high-quality \$23.9 billion group office portfolio, \$13.3 billion of which sits in the Dexus portfolio.

Key metrics	30 June 2022	30 June 2021
Occupancy by income	95.6%	95.2%
Weighted average lease expiry (by income)	4.7 years	4.6 years
Average incentives <sup>10</sup>	29.4%	24.9%
Weighted average cap rate	4.75%	4.91%

During the year, Dexus leased 152,877 square metres<sup>11</sup> of office space across 292 transactions as well as 96,749 square metres of space across office developments, securing future income streams.

Key leasing activity included:

- **In Sydney**, secured leasing across 11,996 square metres at 25 Martin Place, 10,412 square metres at 1 Farrer Place, 8,575 square metres at 100 Harris Street, Pyrmont, 6,109 square metres at 60 Castlereagh Street, 5,722 square metres at 1 Bligh Street and 4,706 square metres at 44 Market Street, as well as the development leasing deal with Atlassian across 58,457 square metres
- **In Melbourne**, secured two new customers across 10,858 square metres at 180 Lonsdale Street, 26 customers across 9,570 square metres at 80 Collins Street and 13 customers across 6,214 square metres at 385 Bourke Street
- **In Brisbane**, secured leasing across 3,890 square metres at Waterfront Place and across 2,726 square metres at 145 Ann Street, as well as office development leasing across 23,853 square metres at Waterfront Brisbane and 12,056 square metres at 123 Albert Street
- **In Perth**, leased 5,482 square metres at 58 Mounts Bay Road including a new customer across 3,139 square metres as well as securing leasing across 2,141 square metres at 240 St Georges Terrace and 1,926 square metres at Kings Square

Executive General Manager, Office, Kevin George said: “Despite the challenging operating environment, occupancy across our office portfolio was maintained above 95%. We achieved strong leasing, with average terms of new leases at circa 5.6 years across our stabilised portfolio.

“Our Sydney portfolio continues to benefit from flight to quality. Across new leasing transactions around half of the space leased represented customers upgrading the quality of their office space. Incentive levels appear to have peaked across our key markets and we expect incentives to begin moderating over the next six months.

Office portfolio like-for-like income growth was +2.7% (FY21: +2.3%) excluding the impact of rent relief measures and provisions for expected credit losses (including these impacts: FY22 +4.4% and FY21 +0.9%).

#### *Dexus Industrial Portfolio*

Dexus manages a growing, high-quality \$11.6 billion group industrial portfolio, \$4.3 billion of which sits in the Dexus portfolio.

Key metrics	30 June 2022	30 June 2021
Occupancy by income	98.1%	97.7%
Weighted average lease expiry (by income)	4.7 years	4.4 years
Average incentives <sup>9</sup>	13.5%	17.8%
Weighted average cap rate	4.29%	4.92%

During the year, Dexus leased 373,301 square metres<sup>10</sup> of industrial space across 75 transactions as well as 330,097 square metres of space across 21 industrial developments. Portfolio occupancy increased to 98.1%, driven by successful leasing in the core logistics portfolios. Occupancy excluding business parks was 99.6%.

Key leasing activity included:

- **In New South Wales**, secured 38,842 square metres at Kings Park Industrial Estate, Marayong including a renewal across 27,612 square metres, securing Toll across 16,915 square metres at 2 Alspec Place, Eastern Creek, 28,089 square metres across three customers at Quarry Industrial Estate, Greystanes, development leasing of 12,886 square metres at 12 Frederick Street, St Leonards across 9 customers and 9,628 square metres at 52 Holbeche Road, Arndell Park and development leasing of 72,000 square metres at 113-153 Aldington Road, Kemps Creek and 12,886 square metres at 12 Frederick Street, St Leonards
- **In Victoria**, 117,294 square metres were renewed in Melbourne’s outer west fringe, a combined 16,128 square metres was leased at Axxess Corporate Park across 28 customers, and development leasing was secured across 120,810 square metres at Horizon 3023, Ravenhall, and 21,457 square metres at Lot 501, Innovation Drive, Merrifield
- **In Queensland**, renewed leasing across 15,582 square metres at 30 Bellrick Street, Acacia Ridge and secured development leasing of 46,179 square metres at 141 Anton Road, Hemmant and 32,945 square metres at 425 Freeman Road, Richlands
- **In Adelaide**, secured 52,340 square metres at 15-23 Whicker Road, Gillman, including renewing Bevchain across 33,877 square metres
- **In Perth**, secured two new customers in development leasing across 19,987 square metres and one renewal across 2,416 square metres at Jandakot

Executive General Manager, Industrial, Retail and Healthcare Stewart Hutcheon said: “We had an exceptional year of leasing activity which drove up industrial portfolio occupancy, improved our weighted average lease expiry by income and increased committed space at key developments.

“Industrial demand remains supported by a broad base of sectors including medical, supermarkets, retailers, transport and agriculture. It also benefits from the ongoing megatrend of technological change driven by the growth in e-commerce. Significant increases in transport costs also reinforce the importance of well-located industrial property, with our under-rented portfolio set to benefit.”

Industrial portfolio effective like-for-like income growth was +2.1% (FY21: +3.7%) excluding the impact of rent relief measures and provisions for expected credit losses (including these impacts: FY22: +2.4% and FY21 +4.5%). Excluding business parks effective like-for-like income growth was 3.1% in FY22.

#### **Developments**

The group development pipeline now stands at a cost of \$17.7 billion, of which \$10.3 billion sits within the Dexus portfolio and \$7.4 billion within third party funds.

Dexus has circa \$600 million remaining to-spend on its committed development projects until the end of FY23, including its direct 50% interest in the Australian Bragg Centre in Adelaide and Atlassian Central in Sydney.

Chief Investment Officer, Ross Du Vernet said: “We expanded our group industrial development pipeline during FY22 with quality acquisitions including Jandakot in Perth. We now have over \$500 million of committed projects across the group industrial pipeline after completing 322,100 square metres in FY22. On completion of the group development pipeline, the group's industrial portfolio would grow to \$13.0 billion across 4.2 million square metres.

“We are well progressed in being able to activate our city-shaping office projects, Atlassian Central in Sydney, with construction due to commence shortly, and Waterfront Brisbane, which we anticipate commencing later this calendar year. While higher interest rates and construction costs increase the commencement hurdles for our uncommitted projects, many of the projects in our city shaping pipeline provide optionality around timing.”

### Transactions and trading

Dexus had another active year of transactions, undertaking \$10.7 billion<sup>12</sup> of property transactions, comprising \$5.0 billion of acquisitions and \$5.7 billion of divestments across the group.

Dexus recycled capital through the following divestments:

- Grosvenor Place, Sydney realised \$694 million
- 201 Miller Street, North Sydney realised \$152.4 million of proceeds for the Dexus Office Partnership, in which Dexus holds a 50% interest
- 12 Creek Street, Brisbane realised \$391 million (Dexus 50%, DWPF 50%)
- 309-321 Kent Street, Sydney realised \$401 million of proceeds for Dexus's 50% interest
- 171 Edward Street, Brisbane realised \$82 million

Post 30 June 2022, Dexus settled on the sale of 383 Kent Street, Sydney for \$385 million, as well as 140 and 150 George Street, Parramatta for \$155 million for the Dexus Office Partnership, in which Dexus holds a 50% interest.

Dexus Chief Investment Officer, Ross Du Vernet said: “We continue to actively optimise our portfolio and recycle capital into higher returning opportunities, many of which are being undertaken alongside our third party capital partners and enhance our group development pipeline.

“We delivered \$23.4 million in (post tax) trading profits across four projects in line with expectations and we have identified six opportunities within our existing portfolio to replenish the trading pipeline, with the potential to contribute to trading profits in future years.”

### Summary and outlook

Darren Steinberg said: “Dexus has demonstrated resilience, growing or holding distributions over the past few years despite the impacts of the Covid-19 pandemic. Recycling assets has enabled us to maintain a strong balance sheet, giving us capital to fund our development pipeline and growing funds management business.

“We anticipate a challenging period over the next two years with rising interest rates, ongoing supply chain disruptions, a global energy crisis and geopolitical risks contributing to continued economic uncertainty. Higher interest rates are expected to impact our results in FY23.

“Based on current expectations regarding interest rates, continued asset sales and barring unforeseen circumstances, Dexus expects distributions of 50.0 – 51.5 cents per security for the 12 months ended 30 June 2023<sup>13</sup>, below the 53.2 cents per security distribution delivered in FY22.

“In the year ahead, we will integrate AMP Capital's real estate and domestic infrastructure equity platform. Looking beyond FY23, we are set to emerge as one of the leading real asset managers in the Asia-Pacific region positioned to capitalise on underlying structural trends, and we are confident of continuing deliver long-term value.”

### FY22 Results

This ASX announcement should be read in conjunction with the 2022 Annual Results presentation, 2022 Annual Report, 2022 Financial Accounts, 2022 Sustainability Report and 2022 Property Synopsis, released to the Australian Securities Exchange today and available on [www.dexus.com](http://www.dexus.com)

### Investor conference call

Dexus will hold an investor conference call at 9.30am (AEST) today, Wednesday 17 August 2022, which will be webcast via the Dexus website ([www.dexus.com](http://www.dexus.com)) and available for download later today.

Authorised by the Board of Dexus Funds Management Limited

**For further information please contact:**

**Investors**

Rowena Causley  
Head of Listed Investor Relations  
+61 2 9017 1390  
+61 416 122 383  
rowena.causley@dexus.com

**Media**

Louise Murray  
Senior Manager, Corporate Communications  
+61 2 9017 1446  
+61 403 260 754  
louise.murray@dexus.com



**About Dexus**

Dexus (ASX: DXS) is one of Australia's leading fully integrated real estate groups, managing a high-quality Australian property portfolio valued at \$44.3 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 \$18.4 billion of office, industrial and healthcare properties, and investments. We manage a further \$25.9 billion of office, retail, industrial and healthcare properties for third party clients. The group's \$17.7 billion development pipeline provides the opportunity to grow both portfolios and enhance future returns. Sustainability is integrated across our business, and our sustainability approach is the lens we use to manage emerging ESG risks and opportunities for all our stakeholders. Dexus is a Top 50 entity by market capitalisation listed on the Australian Securities Exchange and is supported by more than 29,000 investors from 24 countries. With over 35 years of expertise in property investment, funds management, asset management and development, we have a proven track record in capital and risk management 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)  
Level 25, 264 George Street, Sydney NSW 2000

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- 1 AFFO in accordance with guidelines provided by the Property Council of Australia (PCA): comprises net profit/loss after tax attributable to stapled security holders calculated in accordance with Australian Accounting Standards and adjusted for: property revaluations, impairments and reversal of impairments, derivative and foreign exchange mark-to-market impacts, fair value movements on financial assets held at fair value through profit or loss, fair value movements of interest bearing liabilities, amortisation of tenant incentives, gain/loss on sale of certain assets, straight line rent adjustments, non-FFO tax expenses, certain transaction costs, one-off significant items (including write-off of IFRIC SaaS customisation expenses), amortisation of intangible assets, movements in right of use assets and lease liabilities, rental guarantees and coupon income, less maintenance capital expenditure and lease incentives
  - 2 Return on Contributed Equity (ROCE) is calculated as AFFO plus the net tangible asset impact from completed developments divided by the weighted average contributed equity during the year.
  - 3 Gearing adjusted for cash and debt in equity accounted investments, excluding Dexus's share of co-investments in pooled funds. Look-through gearing including Dexus's share of co-investments in pooled funds as at 30 June 2022 was 27.8%.
  - 4 Includes participation by Dexus in fund equity raisings.
  - 5 Based on AMP Capital FUM as at 30 June 2022 net of the known transition of circa \$10 billion of FUM from the AMP Capital platform. Refer to the ASX announcement dated 27 April 2022 for details relating to the AMP Capital acquisition.
  - 6 Customer Net Promoter Score across office, industrial and healthcare portfolios
  - 7 By income.
  - 8 Post completion of the AMP Capital platform acquisition, NTA is expected to reduce given the consideration in connection with the acquisition of management rights which are classified as an intangible asset.
  - 9 Includes on completion value of assets under development including Dexus ownership interest
  - 10 Excludes development leasing.
  - 11 Includes Heads of Agreement and excludes development leasing.
  - 12 Includes post balance date acquisitions and divestments that have settled or are due to settle post 30 June 2022.
  - 13 Assumes average floating interest rates of 2.75 – 3.75% (90-day BBSW), the transition of circa \$21 billion of FUM from the acquisition of the AMP Capital real estate and domestic infrastructure equity platform and circa \$50-\$55 million of trading profits (post-tax).