

Dexus Industria REIT (ASX:DXI)

ASX release

8 February 2023

Results for the period ending 31 December 2022 – executing strategy in a challenging environment

Dexus Industria REIT (DXI) today announced its results for the half year ended 31 December 2022, confirming a distribution of 8.2 cents per security.

Highlights

- **Funds from Operations (FFO)** increased \$2.3 million (9.2%) to \$27.1 million driven by a full period contribution from Jandakot Airport industrial precinct and contracted rent increases
- **FFO per security of 8.5 cents**, down 9.7% due to the higher average number of securities on issue post the HY22 equity raising
- **Record 67,700 square metres leasing** with industrial re-leasing spreads of +11.1%
- **Portfolio like-for-like growth of 2.7%**
- **\$160.5 million¹ of capital released** through divestment of Rhodes Corporate Park assets
- **Well positioned balance sheet** with gearing of 23.3%, or 29.5% on a look-through basis, below the target range of 30 – 40%, with no refinancing event until FY25

Alex Abell, DXI Fund Manager said: “We have delivered on our strategy in a challenging environment, leasing record volumes, achieving double-digit re-leasing spreads, and releasing capital through divestments. Our balance sheet remains resilient, with gearing below our target range, \$139 million of liquidity and no near-term debt maturities.”

Strategy

“We continue to leverage Dexus’s integrated real estate platform to be the first choice for investors seeking superior risk-adjusted returns from Australian listed industrial real estate. The sale of DXI’s Rhodes Corporate Park assets in a challenging transaction market demonstrates Dexus’s commitment to executing the strategy whilst enhancing portfolio quality, reducing income risk and strengthening the balance sheet.

“The industrial sector is benefitting from vacancy of less than 1% across the major markets, which is contributing to strong rental growth that has offset cap rate expansion. We remain committed to adding value through actively managing existing assets, while focusing on activating development projects that improve portfolio quality and have regard to return hurdles.”

“The Fund remains well-positioned to deliver long-term value given our active management approach, combined with a high-quality portfolio with key characteristics that include being accessible to 80% of the population in each capital city within 60 minutes, strong cash flow generation with a WALE by income of 6.3 years, and 55% of the portfolio generating fixed rental growth of 3.0 – 3.5% per annum with the remainder linked to CPI.”

Financial result

Statutory net profit after tax was \$1.4 million, down from \$113.7 million in the prior corresponding half, predominantly as a result of \$34.0 million net fair value losses on investment properties compared to the \$86.7 million net fair value gain recorded in HY22.

FFO increased 9.2% to \$27.1 million, driven by a full period contribution from Jandakot Airport industrial precinct and contracted rental increases, partially offset by higher finance costs and divested assets.

Tax loss carryforwards in Industria Company No. 1 (IC1) were fully utilised during the half, with IC1 now in a tax-paying position.

FFO per security was 8.5 cents, down 9.7% due to the impact of higher average securities on issue following the \$350 million equity raising in October 2021.

All investment properties were independently valued in the six months to 31 December 2022. The external independent valuations resulted in a like-for-like revaluation uplift of \$4.5 million, representing a 0.3% increase on prior book values. Net Tangible Assets per security decreased eight cents, or 2.2%, to \$3.52² impacted by the divested assets, with an associated \$31.2 million fair value loss compared to 30 June 2022 book value.

Gearing was 23.3%, or 29.5% on a look-through basis, below the target range of 30 – 40%. The weighted average cost of debt increased 110 basis points to 3.4% compared to HY22, primarily driven by higher average floating interest rates. Following the cancellation of \$125 million of surplus facilities, the nearest debt maturity is \$60 million in FY25 and the weighted average debt maturity is 3.8 years.

Property portfolio and asset management

DXI's property portfolio comprises of interests in 93 properties valued at \$1.6 billion.

Property FFO increased \$9.2 million, or 27.6%, supported by contracted rental growth, including CPI increases that averaged 5.7% during the period, and 45% of the portfolio is linked to CPI. The portfolio achieved like-for-like growth of 2.7%, with the industrial and Brisbane Technology Park assets recording like-for-like growth of 2.4% and 4.0% respectively.

A record 67,700 square metres was leased during the period, with industrial assets achieving +11.1% re-leasing spreads. Key industrial leasing activity included a 25,200 square metres at 34 Australis Drive, Derrimut VIC and 10,100 square metres at 1 West Park Drive, Derrimut VIC. At Brisbane Technology Park, 6,000 square metres was leased, supported by continued interest from small users.

The weighted average capitalisation rate for the portfolio is 5.13% and the weighted average lease expiry by income is 6.3 years. Total occupancy by income remained strong at 97.4%.

DXI's portfolio is carbon neutral³, after being one of the first REITs to achieve this certification in August 2021. Across eligible assets, DXI holds an average 4.9 NABERS Energy and NABERS Water rating.

Development

DXI's total development pipeline is \$369 million and equates to interests in 411,100 square metres in Sydney and Perth, providing an opportunity to capture strong market rental growth. The committed pipeline is \$119 million with \$94 million of spend remaining.

At Jandakot Airport industrial precinct, the development of two facilities across 34,300 square metres fully leased to Amazon and Tyremax were completed during the half, and there is 53,600 square metres of total development product pre-leased.

Across the pipeline, there have been slight delays experienced across several committed projects associated with planning approvals and weather events.

Overview and outlook

While the macroeconomic environment is uncertain, tenant demand remains solid across the industrial market with low vacancy. DXI's well-located portfolio is set to benefit from market strength, while continuing to provide a reliable income stream over the long term, with 55% of the portfolio generating fixed rental growth of 3.0 – 3.5% per annum, underpinned by a weighted average lease expiry of 6.3 years.

DXI retains a disciplined approach to capital allocation, including exploring capital recycling initiatives to further reduce debt and fund the development pipeline.

DXI reiterates its FY23 guidance for FFO of 16.7 – 17.5 cents per security and distributions of 16.4 cents per security, based on current interest rate expectations and barring unforeseen circumstances (assumes average floating interest rates of circa 3.25% (90-day BBSW) and no further transactional activity).

Authorised by the Boards of Dexus Asset Management Limited and Industria Company No. 1 Limited

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About Dexus Industria REIT

Dexus Industria REIT (ASX code: DXI) is a listed Australian real estate investment trust which is primarily invested in high-quality industrial warehouses. At 31 December 2022, the fund's portfolio is valued at \$1.6 billion and is located across the major Australian cities, providing sustainable income and capital growth prospects for security holders over the long term. The fund has a target gearing range of 30 – 40%. Dexus Industria REIT is governed by a majority Independent Board and managed by Dexus (ASX code: DXS), one of Australia's leading fully integrated real estate groups, with over 35 years of expertise in property investment, funds management, asset management and development. www.dexus.com

Dexus Asset Management Limited (ACN 080 674 479, AFSL No. 237500) (the "Responsible Entity") is the responsible entity and issuer of the financial products in respect of Industria Trust No. 1 (ARSN 125 862 875), Industria Trust No. 2 (ARSN 125 862 491), Industria Trust No. 3 (ARSN 166 150 938) and Industria Trust No. 4 (ARSN 166 163 186), and Industria Company No 1 Limited (ACN 010 794 957), collectively the Dexus Industria REIT (ASX code: DXI) stapled group. The Responsible Entity is a wholly owned subsidiary of Dexus (ASX code: DXS).

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¹ Reflects gross sale price and excludes transaction costs.

² Calculated as total net assets less goodwill on a look-through basis, divided by total securities on issue.

³ FY22 period subject to final Climate Active certification.