

Dexus Industria REIT (ASX:DXI)

ASX release

14 August 2024

Delivered upgraded guidance, strong rental growth and retained balance sheet flexibility

Dexus Industria REIT (DXI) today announced its results for the year ended 30 June 2024, confirming a distribution of 16.4 cents per security.

Summary

- **Delivered upgraded FY24 guidance** with Funds From Operations (FFO) per security up 1.7% on the prior year to 17.4 cents (initial guidance 17.1 cents), and distributions of 16.4 cents
- **Statutory net loss after tax of \$11.8 million**, resulting from net fair value losses on investment properties and derivatives, offset by strong operating performance
- **Portfolio like-for-like income growth of 7.8%¹**, underpinned by average rent reviews of 4.4% and increased occupancy
- Future growth supported by **industrial re-leasing spreads increasing to 28.3% in the second half**, or 15.7% on a full year basis
- **Achieved record occupancy at Brisbane Technology Park of 98.1%** (by income), up 12.4 percentage points from FY23
- **Executed \$135 million of divestments** to enhance balance sheet resilience and redeployment optionality, with look-through gearing of 27.3%, below the 30-40% target range
- **Reduced near-term debt expiries and optimised overall debt costs** following \$208 million of facility extensions and \$71 million of facility cancellations
- **Completed 43,700 square metres of new, high-quality developments** at ASCEND Industrial Estate at Jandakot Airport, and **secured an initial heads of agreement at Moorebank** which is expected to complete in December 2024

Gordon Korkie, DXI Fund Manager said: “We have delivered on our upgraded guidance, driven by our strong performing portfolio which continues to provide a growing and resilient income stream. Our active management approach has helped achieve close to full occupancy, and we continued to de-risk forward earnings. Our balance sheet is well capitalised, which has moderated the impact of rising interest rates while providing flexibility to invest in higher-returning opportunities as they arise.”

Strategy

“Today’s result demonstrates the benefits of our long-standing active management approach.

“We have divested almost \$300 million of assets over the past 24 months to strengthen our balance sheet, with gearing of 27.3% below the target 30 – 40% target range. We continue to redeploy into our development pipeline, where we achieve higher returns, with target yields on cost of 6.25% and above, while also improving overall portfolio quality with an investment in modern, highly functional warehouses.

“Our well-located industrial portfolio continues to generate strong rental growth, while positive leasing outcomes have reduced upcoming expiries as the leasing market continues to moderate. Pleasingly, we also continued leasing momentum at Brisbane Technology Park with the asset at record occupancy.”

Financial result

The statutory result reflected a net loss after tax of \$11.8 million, primarily impacted by net fair value losses on investment properties.

FFO increased 1.7% to \$55.3 million, or 17.4 cents per security, in line with guidance which was upgraded in May 2024. Strong portfolio like-for-like growth of 7.8%¹ was offset by reduced property income from divestments resulting in property FFO decreasing 2.7%. Net finance costs reduced due to a lower average debt balance following divestments, partly offset by the impact of higher interest rates.

All assets were independently valued in the 12 months to 30 June 2024. The external independent valuations resulted in a like-for-like devaluation of \$66.3 million, representing a 4.6% decrease on prior book values, while the weighted average capitalisation rate expanded 58 basis points to 5.98%. Net Tangible Assets per security decreased 20 cents, or 5.8%, to \$3.24².

Look-through gearing was 27.3%, below the target range of 30 – 40%. Hedged debt averaged 84%, providing material protection from higher interest rates. During the year, DXI extended \$208 million of facilities at lower margins, and cancelled \$71 million of near-term facilities to optimise headroom and overall debt costs. At 30 June 2024, DXI’s weighted average debt maturity is 3.5 years with no debt maturities until FY26.

Property portfolio and asset management

DXI's property portfolio comprises interests in 89 properties valued at \$1.4 billion with a weighted average capitalisation rate of 5.98%. The portfolio generates a secure income yield, underpinned by occupancy of 99.3% (by income), a weighted average lease expiry of 5.9 years (by income) and minimal near-term lease expiries.

The portfolio generates embedded rental growth, with 47% of the portfolio generating average fixed rental growth of 3.2% per annum, and the remainder tied to CPI-linked increases. During the year, the portfolio achieved an average rent review of 4.4%.

Industrial

The industrial portfolio delivered average rent reviews of 4.5%, and like-for-like income growth of 6.3%³. Re-leasing spreads of 15.7% were achieved across 72,100 square metres⁴, which strengthened to 28.3% in the second half. Key leasing deals include entering into a heads of agreement at 2 Maker Place, Truganina, Victoria at a 42% re-leasing spread across 30,100 square metres, and renewing leases at all four assets at Butler Boulevard, Adelaide, South Australia with no downtime.

ASCEND Industrial Estate at Jandakot Airport delivered like-for-like income growth of 4.0%⁵, supported by 59% of income linked to CPI escalations. Growth was impacted by lower occupancy following an early tenant departure at 631 Karel Avenue. Substantial leasing progress has been made with 65% (by area) of the building either leased or at heads of agreement.

Brisbane Technology Park

At Brisbane Technology Park, occupancy (by income) increased 12.4 percentage points to 98.1% following 11,000 square metres of leasing. Positive leasing outcomes supported like-for-like growth of 16.0%⁶, and an income yield of 7.7%. The asset continues to generate interest from a diverse range of tenants, with average rents 50% below the broader Brisbane CBD office market and average incentives 20 percentage points lower⁷.

Development

DXI's total development pipeline is valued at \$250 million and equates to interests in 306,900 square metres in major hubs in Sydney and Perth, providing additional income upside potential. DXI has circa \$163 million of spend remaining on its pipeline, of which \$23 million is committed.

At ASCEND Industrial Estate at Jandakot Airport, three projects were completed over 43,700 square metres. Two of the warehouses were delivered at an average yield on cost of 5.3% and are fully leased to Marley Spoon and Caddy, with positive leasing enquiry on the recently completed speculative development at 8 Centurion.

In Sydney, construction is underway at a 17,900 square metre multi-unit, last mile development project in Moorebank. Solid leasing enquiry has translated to an initial heads of agreement over one of the six units at a record rent for the South West Sydney market. The project is expected to be delivered in December 2024 at a yield on cost of between 6.0 – 6.5%.

Environmental, Social and Governance (ESG)

DXI is committed to delivering meaningful sustainability outcomes and aligns to the Dexus Sustainability Strategy, including an aspiration to unlock the potential of real assets to create lasting positive impact and a more sustainable tomorrow.

Recognising the importance of climate action, DXI retained a carbon neutral position across its business operations and controlled building portfolio, and maintains a 4.8 star NABERS Energy and Water rating across its portfolio. Sustainability initiatives have also been embedded into the Moorebank development including 198 kW of solar, rainwater harvesting and LED lighting.

DXI's focus on customer prosperity has seen 140 kW of onsite solar installed during the year and approvals progressing on a further 2.1 MW. At Brisbane Technology Park, a waste diversion program, with a customer awareness campaign and site interventions, supported a 26% improvement in recycling rates⁸ representing a 100 tonne GHG emission reduction.

Overview and outlook

DXI will remain focused on generating strong risk-adjusted returns for investors over the long term by:

- enhancing portfolio attributes that deliver organic income growth
- maintaining a strong capital position
- continuing its active approach to portfolio management
- remaining disciplined in pursuing growth (including delivering the development pipeline)
- leveraging Dexus's capabilities across transactions, leasing, development and asset management

DXI is well positioned to continue generating a secure income stream with embedded rental growth for investors, supported by minimal near-term lease expiries as well as favourable market dynamics with relatively low industrial vacancy and restricted supply. DXI will focus on retaining balance sheet flexibility, with gearing below the target range, prudent interest rate hedging and liquidity providing additional earnings resilience.

Barring unforeseen circumstances, for FY25 DXI expects to deliver FFO per security of 17.8 cents, reflecting growth of 2.3%, and distributions per security of 16.4 cents, reflecting a distribution yield of 5.7%⁹.

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 30 June 2024, the fund's investment property portfolio is valued at \$1.4 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 asset 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).

The registered office for the Responsible Entity and Industria Company No. 1 Limited is Level 30, 50 Bridge Street, Sydney NSW 2000 and their principal place of business is Level 5, 80 Collins Street (South Tower), Melbourne VIC 3000.

¹ On a face basis, or 5.4% on an effective basis.

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

³ On a face basis, or 4.9% on an effective basis.

⁴ Excludes development. At 100%, or 55,800 square metres at DXI ownership.

⁵ On a face basis, or 3.5% on an effective basis.

⁶ On a face basis, or 9.2% on an effective basis.

⁷ Compared to Brisbane CBD prime stock at June 2024. Sourced from JLL.

⁸ Based on 12-month prior year comparison of site-specific waste densities.

⁹ Based on closing security price as at 12 August 2024.