Dexus Wholesale Australian Property Fund

APIR code: NML0001AU

31 December 2024

Summary

- The quarterly total return in Q4/2024 was 1.49%. This was comprised of a 1.48% distribution and growth of 0.02%.
- Valuations of the retail portfolio increased by 1.5% and the industrial portfolio increased by 0.9% over the quarter. However, this was offset by a 0.2% fall in the value of the office portfolio as well as the net impact of gearing, capital expenditure and transaction, hedging and refinancing costs.
- The Fund's occupancy was maintained above 95% and the weighted average lease expiry was stable at 4.5 years.
- Binding contracts were entered to sell 33 Park Road, Milton and commercial agreement was reached to sell 121 Evans Road, Sailsbury (subject to due diligence). Both properties are expected to settle in H1/2025 and both sales continue a theme of disposing of older properties in favour of new properties such as the Crossbank logistics portfolio.
- Crossbank 141 in Brisbane reached practical completion in November and is now fully leased operational. It is the fifth modern facility added to the portfolio in the last 18 months.
- The Fund's gearing was 37.5% as of 31 December 2024, which is expected to fall as property sales settle.
- All redemptions submitted in the prior 12 months were paid in full over the quarter.

Key Objective

To provide income and long-term capital growth by investing in a diversified portfolio of Australian commercial properties and Real Estate Investment Trusts (AREITs).

Fund Facts	
Fund size (gross assets)	$1,941.6 million
Debt (% of gross assets)	37.5%
No. of Properties	24
Portfolio Occupancy	95.7%
Inception date	31 March 1985
Minimum investment	$10,000
Minimum suggested time frame	5 years
Management costs	1.01%
Buy/sell spread	Nil
Distribution frequency	Quarterly
Distribution cents per unit	1.54
Withdrawal payment time	12 months*

* While the Fund is liquid, the Responsible Entity aims to pay redemptions within 12 months of the applicable window. This may be extended in certain circumstances. Please refer the PDS for the Fund's withdrawal terms.

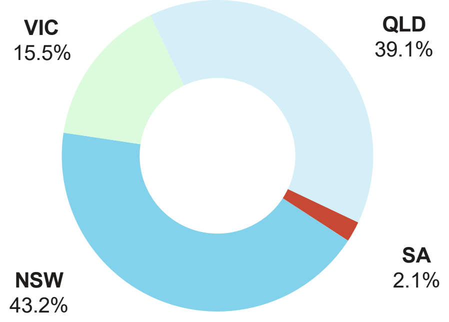
Fund Performance

	3 months %	1 year %	3 years %	5 years %	10 years %	Since inception %
Distribution return	1.48	6.05	5.65	5.71	5.89	7.77
Growth return	0.02	-2.87	-8.77	-5.09	-1.56	0.16
Total return (after fees)	**1.49**	**3.17**	**-3.12**	**0.62**	**4.32**	**7.93**

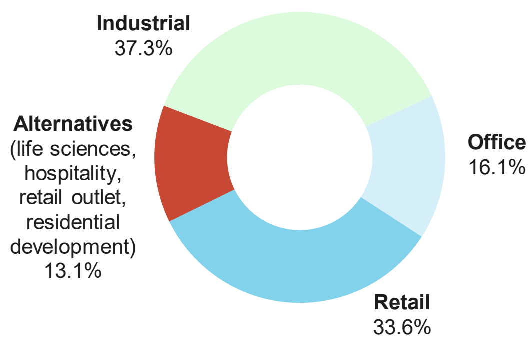
Past performance is not a reliable indicator of future performance.

Performance is annualised for periods greater than one year. Performance figures are calculated using exit prices, are net of management fees, ongoing fees and expenses, assume tax is not deducted. The Distribution return reflects total distributions paid from the Fund, while the Growth return reflects changes in the capital value of units.

Asset Allocation – by state



Asset Allocation – by sector



Fund Commentary

The total return was 1.49%, which was comprised of a 1.48% distribution and growth of 0.02%.

The average cap rate across the portfolio sits at 6.48% which has been stable for six months. Valuations for the retail and industrial sectors increased over the quarter: retail by 1.5%; and industrial by 0.9%. However, this was offset by a 0.2% fall in the value of the office portfolio as well as the net impact of gearing, capital expenditure and transaction, hedging and refinancing costs.

The Fund's occupancy rate was maintained above 95% and the weighted average lease term expiry maintained at 4.5 years. Rent reviews were concluded with Freedom Furniture at Brickworks and with The Grounds at The Mill in Sydney; Kmart affirmed its commitment to Stud Park Shopping Centre; and Conoco Phillips extended its tenure at 33 Park Rd, Brisbane. At Gasworks, Workspace the National Heavy Vehicle Regulator vacated in late December. External leasing agents have been appointed and a bespoke strategy to release the space is being implemented.

Binding contracts were exchanged to sell 33 Park Rd, Brisbane - and a small adjoining property - at a contract price of $46.35 million. This is expected to settle before 30 April 2025. This transaction is not subject to the purchaser raising capital and continues a theme of well-capitalised private investors seeing value in the current market. It also continues a theme of selling the Fund's older assets, with the property constructed in 1988.

During the quarter commercial terms were also reached to sell 121 Evans Road, Sailsbury in Brisbane (subject to due diligence). The property was constructed in 1993 and forms part of a community title precinct. The price achieved reflects the strength of the industrial market, being over 60% higher than the pre-covid valuation of $33.0m.

A combination of undersupply in the residential property market and ongoing weakness in the Melbourne office market have prompted a change of strategy on 636 St Kilda Rd, Melbourne. Having productively engaged with key stakeholders and authorities, Dexus now see the highest and best use of this landmark site as being residential. In 2025, Dexus will seek planning approval for an exciting new development with a view to maximising the value of the site for Fund investors.

The property sales flagged above are expected to create an opportunity to re-establish the Fund's AREIT portfolio in 2025. In addition to providing a liquidity option, the Fund's AREIT portfolio has previously been used to enhance returns through early investments into emerging sectors such as data centres, land lease communities and self-storage. This complements the acquisition of The Mill in 2023, which provides an exposure to a premium life science, hospitality and retail outlet facility.

The Fund's drawn debt was 37.5% of gross assets as of 31 December 2024. This is expected to fall in 2025 as asset sales are settled. During the quarter, $360 million of bank debt was refinanced, with all the relevant lenders re-committing to the Fund.

Crossbank 141, Brisbane reached practical completion. This is fully leased to logistics tenant, Freight Specialists for a 10-year term. This property facility is one of five brand new buildings added to the portfolio since 30 June 2023. Paired with the sale of some of the fund's older assets, the overall quality of the portfolio, depreciation benefits and income security has been improved.

All redemptions submitted in the prior 12 months were paid in full over the quarter.

Market Commentary

Australia's headline monthly inflation rate fell to 2.8% in Q3 2024, the market consensus forecast is that official cash rates will decline in H1 2025 (possibly as early as February) given a further easing in inflation pressures. The 10-year government bond yield is currently 4.5% and are forecasted to trade in the range 4.0%-4.5% in the short term. Any falls in either the cash rate or bond yields through 2025 is likely to be positive for real asset valuations given the improvement in relative yields.

The demand outlook for real asset sectors will continue to be supported by population growth. However, after running at c. 2.5% p.a. in FY23, population growth is forecast to ease back to more normal levels of 1.2% p.a. in 2025 as net migration surge wanes.

The labour market remains surprisingly strong, with the unemployment rate falling to 3.9% in November. GDP growth is forecast to improve to 2.4% p.a. in 2025, supported by consumer spending, an improvement in residential construction, exports and infrastructure projects.

Real estate transaction volumes firmed by 6% in 2024 and there are further transactions in the pipeline. The office sector, which faced elevated uncertainty in 2023, saw transaction volumes surge 16% higher in 2024. This uptick signals improving liquidity and a growing confidence in valuations.

Foreign buyers are increasingly active in Australia. CBRE are reporting that offshore investment in real estate increased by 37% in 2024, totalling $8.3 billion. The largest share of investors came from the United States, Japan and Singapore.

Uncertainty around interest rates is diminishing. Investors are increasingly confident that we are at the peak of the tightening cycle, with the next move more likely down. 2025 is likely to be an even more active year for commercial real estate transactions.

The office sector is likely to improve from 2025, with demand increasing in some markets, notably Sydney. Much of the uncertainty around hybrid working seems to be behind us and the vacancy cycle is likely past its peak in most markets. Demand remains varied across the CBD markets, with the Sydney and Brisbane CBDs recording positive net absorption while Perth and Melbourne were mildly negative. Australian office tenants are engaged in both a flight to quality and a flight to value.

The supply pipeline has significantly contracted, with forecast commencements for FY25-27 down 32% compared to the five-year average, which is attributable to rising construction costs. This deferral of supply which will help to protect existing stock from oversupply and support rent growth through the cycle.

The industrial sector has seen a year of slowing growth, with net face rent growth flattening in the last quarter and incentives rising. The ongoing cost of living pressures have constrained retail spending with flow-on effects for the warehouse leasing market. There are some positive signs for 2025, with retail spending firming in the past few months and online spending rising again, should lead to a firming of demand from retailers and 3PLs.

The retail sector landscape was challenging through 2024 as the cumulative impact of interest rate hikes weighed on spending. In 2025, population growth, a major contributor to retail sales growth, is expected to remain positive, but ease from the high levels of last year. In addition, retail price inflation is expected to ease. However, despite these influences, we do anticipate an increase in headline retail sales growth in 2025 due to a significant turnaround in real per capita spending.

Fund Manager

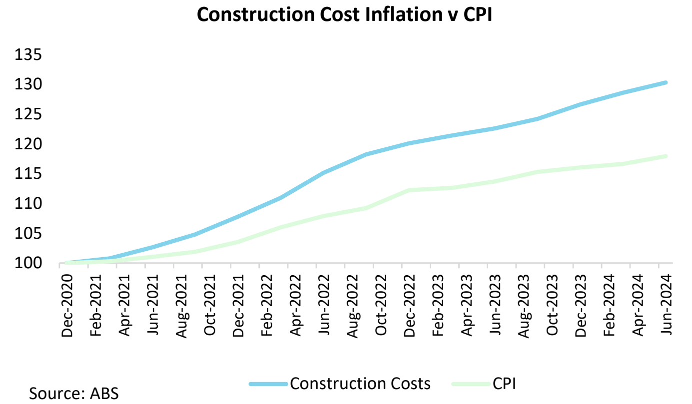
Christopher Davitt

Christopher is the Fund Manager for the Dexus Wholesale Australian Property Fund and has overarching responsibility for setting and executing the Fund's investment strategy and capital management plan.

Christopher works with Dexus's specialist teams to formulate asset plans for the properties, source and evaluate acquisitions and manage the portfolio's debt and equity. He joined the business in March 2010 having previously held research, transaction and funds management roles in Australia and Europe.

Replacement Costs Explained

Construction cost inflation has been nearly 70% higher than consumer inflation over the last 4.5 years. This has sparked increasing commentary around 'replacement costs'. Below we examine what this means and the opportunity it presents investors.



Source: ABS

Replacement cost vs Market value

The market value and replacement cost of a building are not the same thing. They are distinctly different concepts that are estimated using different criteria.

Replacement cost is the estimated cost to construct, at current prices, the same property. The major components of replacement cost are:

- Land value
- Construction costs – which includes both materials and labour
- Professional fees
- Financing costs
- Leasing costs
- Development profit

Market value is the estimated price at which a property would be sold on the open market between a willing buyer and seller in the prevailing market. The major drivers are:

- Rents
- Capitalisation rate – which works the same way as bond yields with a lower cap rate equating to a higher price, and vice versa

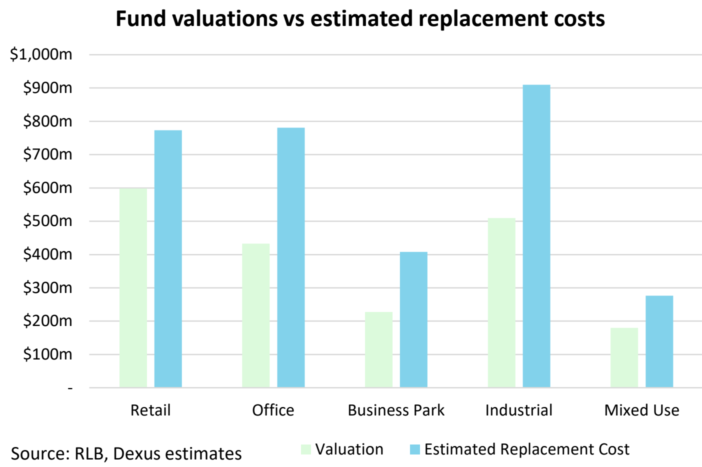
Real estate has a reputation as a hedge against inflation because its intrinsic value is linked to construction costs. If market values fall behind replacement costs, then new development will be curtailed. The resulting undersupply triggers a spurt of rental growth sufficient to bring market values back in line with replacement costs.

Over the last 18 months a substantial mismatch has emerged. Rising interest rates have triggered a correction in real estate values. Simultaneously, construction costs have risen due to supply chain disruption, higher land costs, higher material costs, higher labour costs, higher financing costs, the difficulty of finding a builder, competition from infrastructure projects and a repricing of development margins to reflect the risks above.

CBRE Research have published a paper on this topic which states:

> *there's a sizeable gap between current average value/rent and replacement costs across almost every aspect of Australian real estate. In most cases, the gap is around 30-40%.*[1]

This is corroborated by our analysis of the Fund's properties which indicated that all portfolios are valued below replacement cost. With demand for commercial real estate supported by a 1.65 million increase in the population since December 2021, we see the potential for strong rental growth as undersupply emerges in markets such as the Sydney CBD (where no buildings are forecast to complete in FY2026, sought after industrial markets and subregional retail assets in markets with strong income growth.



Source: RLB, Dexus estimates

Fund Features

The Dexus Wholesale Australian Property Fund (DWAPF) was started back in 1985 and has continued to improve the design of the fund while delivering an average return to investors of 7.9%. The Fund is widely available and offers market leading features, some of which have been recently introduced. Here is a summary:

Availability – the Fund is available for direct investment or via leading platforms including North, Panorama, Asgard, Macquarie Wrap, Expand Extra, FirstWrap, Netwealth, Xplore, Hub24, Dash, Praemium, FNZ and Mason Stevens.

Deceased estates / Legal disability – a legal disability withdrawal mechanism has been introduced that may facilitate monthly redemptions for investors that have passed away or have suffered other forms of 'legal disability' and meet the conditions. This is available up to $500,000 subject to conditions.

Secondary sale of units – Dexus has partnered with PrimaryMarkets, enabling the Fund's investors the potential to list for sale their units and gain liquidity at a price nominated by them (if a buyer is available) through a facilitated secondary market at a 2.5% fee payable to PrimaryMarkets (note, the Fund does not charge a sell spread). This arrangement is designed to provide a potential alternative liquidity pathway if the primary way of exiting the Fund is not practical. Alternatively, eligible purchasers can potentially take advantage of an immediate uplift in the holding value of their investment if they complete a purchase of units through the PrimaryMarkets platform at a discount to the Fund's prevailing unit price.

Financial hardship – is available for investors that meet the ASIC hardship criteria. Investors can submit requests up to four times a year, capped at $100,000.

Recontributions – if investors need to technically redeem and re-invest to facilitate a recontribution strategy, this can be facilitated.

Switching – if investors need to transfer between platforms or onto/off platform or on a super-to-super basis or super-to-pension basis, this can be facilitated.

Bonus Units – direct investors who choose to activate the Distribution Reinvestment Plan are eligible for 2% bonus units.

SIV Compliant – the Fund is 'complying' for the purpose of meeting the Significant Investor Visa requirements.

Ratings – Lonsec and Zenith Investment Partners both rate the Fund.

The Fund continues to offer one of the most competitive liquidity and fee structures amongst comparable unlisted managed property funds. Currently, monthly withdrawal payments are being made based on redemptions lodged 12 months prior.

[1] CBRE Research, September 2024

Balance Sheet – Dexus Wholesale Australian Property Fund

Assets/Liabilities	Valuation / Contract Price	Valuation Date	Cap rate	Occupancy	No. of Tenants	WALE* (years)
Casula Mall	$202.0m	Dec-2024	6.00%	100.0%	62	2.4
Stud Park Shopping Centre	$141.5m	Dec-2024	6.50%	99.0%	63	5.2
Gasworks Plaza	$131.0m	Dec-2024	5.75%	98.4%	34	4.9
Brickworks	$143.5m	Dec-2024	6.00%	98.1%	50	3.5
The Mill, Alexandria	$180.5m	Dec-2024	5.63%	98.0%	20	4.9
Bond One, Walsh Bay	$115.0m	Dec-2024	6.88%	100.0%	5	2.8
636 St Kilda Rd, Melbourne	$60.0m	Dec-2024	8.50%	37.0%	24	1.0
199 Grey St, Brisbane	$86.5m	Dec-2024	7.50%	100.0%	16	2.6
Gasworks Workspace, Brisbane	$63.5m	Dec-2024	7.50%	52.0%	5	2.8
Stanley House, South Brisbane	$31.3m	Dec-2024	6.00%	100.0%	2	6.7
Connect Corporate Centre B2, Mascot	$89.0m	Dec-2024	7.75%	99.0%	8	4.6
Connect Corporate Centre B3, Mascot	$144.0m	Dec-2024	7.75%	99.0%	15	4.4
Holbeche Industrial Estate, Arndell Park**	$65.0m	Dec-2024	5.38%	100.0%	3	3.5
384-394 South Gippsland Hwy, Dandenong	$24.5m	Dec-2024	6.00%	100.0%	1	2.8
2 Pound Rd West, Dandenong	$10.5m	Dec-2024	6.00%	100.0%	1	6.8
202-228 Greens Rd, Dandenong	$49.8m	Dec-2024	5.88%	100.0%	4	4.7
Crossbank 161, Trade Coast, Brisbane	$92.7m	Dec-2024	5.63%	100.0%	1	14.1
Crossbank 141, Trade Coast, Brisbane	$50.0m	Dec-2024	5.63%	100.0%	1	9.9
121 Evans Rd, Salisbury	$53.5m	Dec-2024	6.75%	100.0%	5	3.1
Acacia Gate Industrial Estate, Acacia Ridge	$37.7m	Dec-2024	6.75%	100.0%	12	3.3
7-9 French Ave, Brendale	$30.8m	Dec-2024	6.00%	100.0%	1	5.0
2 Second Ave, Mawson Lakes	$39.0m	Dec-2024	7.50%	100.0%	1	5.9
33 Park Rd, Brisbane***	$46.4m					
425 Collins St, Melbourne***	$40.0m					
Cash & other assets	$14.0m					
Total / Portfolio Average	**$1,941.6m**		**6.48%**	**95.7%**	**334**	**4.5 yrs**
Debt	$727.3m	37.5%				
Other liabilities	$55.3m					
Total	**$782.6m**					
Net Assets	**$1,159.0m**					

* Weighted Average Lease Expiry ** 50% interest *** contracted price: settlement expected H1/2025

www.dexus.com