Dexus (ASX: DXS)

ASX release

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2024 Annual results – Leading real asset manager with resilient platform

Dexus today announced its results for the 12 months ended 30 June 2024, delivering on its FY24 guidance for distributions of 48.0 cents per security.

Ross Du Vernet, Dexus Group Chief Executive Officer & Managing Director said: “In a challenging environment we have maintained high occupancy across both our office and industrial portfolios, ensuring strong cashflows with AFFO of $516 million. $1.7 billion of balance sheet divestments enabled us to maintain a strong balance sheet with gearing toward the low end of our target band despite the impact of valuation declines.”

Key highlights

- **AFFO[1] and distributions** of $516.3 million or 48.0 cents per security, in line with guidance and 7.0% below the previous corresponding period. **AFFO excluding trading profits** demonstrated resilience, up 0.2%
- **Statutory net loss after tax** of $1,583.8 million, compared to a statutory net loss after tax of $752.7 million in FY23, primarily driven by greater unrealised fair valuation losses on investment property in FY24 compared to FY23
- **Pro forma gearing** (look-through)[2] remains prudent at 32.0%, toward the lower end of the 30-40% target range despite the impact of valuation declines. 92% of debt was hedged on average across FY24
- **Property portfolio continues to demonstrate resilience**, maintaining high occupancy[3] across the Dexus office portfolio of 94.8% and Dexus industrial portfolio of 96.8%, with **rent collections** remaining strong at 99.5%
- **Dexus Real Estate Partnership 2 (DREP2),** which launched in October 2023, raised more than $300 million in equity commitments in its first close, with further equity commitments expected in FY25
- **Dexus Wholesale Property Fund (DWPF)** outperformed its benchmark across all time periods. Since transitioning to Dexus’s platform, **Dexus Wholesale Shopping Centre Fund (DWSF)** continued to generate strong performance and significantly outperformed its benchmark in FY24
- **Secured circa $4.9 billion** of real asset transactions across the platform[4], including $1.7 billion of exchanged or settled Dexus divestments (circa $0.7 billion of which exchanged since FY23), maintaining balance sheet strength and further enhancing portfolio quality
- **Customer net promoter score strengthened further to +44**, reflecting our focus on customer experience and a targeted program of activations

Outlook

Ross Du Vernet said: “We have refreshed our capital allocation framework and shifted to a sector aligned operating model to drive performance in the next phase of the investment cycle. We have also refined our strategy and identified a set of clear action items to support our medium-term priorities of transitioning the balance sheet, maximising the contribution from the funds business and unlocking our deep sector expertise.

“Consistent with our strategy, from FY25 the distribution policy has been updated to pay out 80-100% of AFFO, providing a sustainable source of capital to invest through the cycle into return-enhancing investment opportunities. With a preference to co-invest alongside capital partners, we see attractive opportunities in the industrial, infrastructure and alternative investment sectors.

“Barring unforeseen circumstances, for the 12 months ending 30 June 2025 Dexus expects AFFO of circa 44.5-45.5 cents per security and distributions of circa 37.0 cents per security[5].

“Markets move in cycles and while conditions are presently challenging, we invest for the long term. The assets we own, manage and develop, the capabilities we build, and the relationships we forge with clients and customers continue to position us well to deliver superior risk-adjusted returns for Dexus Security holders and our capital partners over the long term.

"We have successfully divested $7.4 billion of Dexus assets over the past five years, enhancing the quality of the portfolio, which is now heavily weighted to prime grade office assets in core CBD markets as well as core industrial assets.

"A further circa $2 billion of Dexus assets are earmarked for divestment over the next three years which, together with the completion of committed developments, will further enhance the quality of our portfolio while maintaining a prudent level of gearing."

Financial result

Operationally, AFFO of $516.3 million was 7.0% below the prior year. AFFO excluding trading profits of $506.0 million was 0.2% above the prior year, demonstrating resilience largely as a result of portfolio like-for-like income growth, an increased management operations contribution driven by the AMP Capital platform acquisition and performance fees, offset by near-term headwinds to funds under management, together with a higher average cost of debt.

Rent collections for the Dexus office and industrial portfolio remained strong at 99.5%.

Dexus's statutory net loss after tax was $1,583.8 million, compared to a statutory net loss after tax of $752.7 million in FY23. This movement was primarily driven by $1,901.6 million of fair valuation losses on investment property as a result of capitalisation rates softening across the portfolio, compared to $1,183.9 million of fair valuation losses recognised in the prior year.

The portfolio valuations resulted in a total circa 12.9% decrease on prior book values for the 12 months to 30 June 2024. These revaluation losses primarily drove the $1.91 or 17.6% decrease in net tangible asset (NTA) backing per security during the year to $8.97 at 30 June 2024.

Dexus achieved a Return on Contributed Equity (ROCE)[6] for FY24 of 4.0% largely due to valuation losses on 123 Albert Street and 25 Martin Place, partly offset by net valuation gains on industrial developments.

Dexus maintained a strong balance sheet with pro forma gearing (look-through)[2] of 32.0%, toward the lower end of the 30-40% target range, and $2.5 billion of cash and undrawn debt facilities. Dexus has a weighted average debt maturity of 4.8 years, manageable near-term debt expiries 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, 92% of Dexus's debt was hedged throughout FY24, providing material interest rate protection.

Funds management platform continues to deliver for investors

Dexus manages $39.7 billion of funds across its diversified funds management business.

This year we achieved Final Completion and integration of the AMP Capital real estate and infrastructure platform and people. The acquisition has further expanded and diversified our funds management business.

Dexus Real Estate Partnership 2 (DREP2), which launched in October 2023, has raised more than $300 million in equity commitments in its first close from both institutional and private investors, as well as returning DREP1 investors. This fund is expected to be materially larger than DREP1 at $475 million of equity, circa 90% of which has been committed across the real estate subsectors including credit opportunities.

The funds platform continues to deliver performance for investors. Of the funds with a benchmark, 84% by funds under management outperformed their respective benchmarks in FY24[7]. Dexus Wholesale Property Fund (DWPF) outperformed its benchmark across all time periods, and in FY24 outperformed by circa 200 basis points. Since transitioning to Dexus's platform, Dexus Wholesale Shopping Centre Fund (DWSF) continued to generate strong performance, outperforming its benchmark by over 400 basis points in FY24.

The platform again achieved independent recognition across the institutional and retail investor space. All offshore real estate clients from the Peter Lee institutional investor survey consider Dexus to be either above average or excellent and circa 90% of these investors would consider Dexus for the right opportunity. Dexus also ranked first on unlisted real estate relationship strength index for the third consecutive year by asset consultants. Dexus was recognised as a Finalist in the 2023 Zenith Investment Partners Fund Award in the Real Asset category. All retail investor pooled funds are 'recommended' by Lonsec Research and/or Zenith, with Dexus Core Infrastructure Fund (DCIF) upgraded in FY24.

Dexus secured circa $3.2 billion of transactions across the funds platform during the year[8], the vast majority of which were divestments on behalf of a number of funds to maintain strong gearing levels and facilitate redemption requests to meet client needs, an important part of its proposition as a leading fund manager.

High quality property portfolio remains resilient

Dexus's $14.8 billion high quality portfolio comprises mainly $9.8 billion in office and $3.6 billion in industrial.

	Office		Industrial	
Key metrics	**30 Jun 2024**	**30 June 2023**	**30 Jun 2024**	**30 June 2023**
Occupancy by income	94.8%	95.9%	96.8%	99.4%
Weighted average lease expiry (by income)	4.7 years	4.8 years	4.3 years	4.8 years
Stabilised leasing (sqm)[9]	160,400	197,000	170,500	272,100
Number of stabilised lease transactions[9]	271	306	40	71
Development leasing (sqm)[9]	8,700	24,700	82,100	68,610
Number of development lease transactions[9]	4	14	10	8
Average incentives[10]	27.9%	30.0%	16.5%	10.7%
Effective like-for-like income growth[11]	0.5%	5.6%	3.9%	2.4%
Weighted average cap rate	6.05%	5.21%	5.45%	4.76%

In office, location remains a key differentiator for asset performance, with the Sydney core and Melbourne eastern core again reporting materially lower vacancy compared with their respective CBD averages. The Brisbane market continues to improve, benefiting from strong demand and limited medium-term supply.

Despite persistent headwinds, Dexus's office portfolio occupancy reduced only marginally during the year to 94.8% and remains well above the wider market at 86.4%[12]. Average incentives of 27.9%[13] again outperformed the market, reflecting the quality and location of our portfolio. Incentives were lower than FY23, which was impacted by some large renewal deals in higher incentive markets. Incentives in Sydney and Melbourne CBDs are expected to remain elevated in the near term before vacancy normalises. As expected, effective like-for-like income growth[11] slowed to 0.5%, reflecting amortisation impacts and downtime on select vacancies. On a face basis, excluding amortisation, like-for-like growth was 2.5%.

The resilience of the office portfolio is underpinned by its high quality and heavy weighting to core CBD markets, where customers want to be. In Dexus's experience, smaller tenancies generate on average higher returns and present less volatility and leasing exposure than larger tenancies. Dexus's scale enables it to invest in systems and processes to service its customers efficiently.

As a result, Dexus's customer base is more diverse, with an average tenancy size of circa 1,200 square metres, and we have less exposure to large customers than our peers. We have proactively diversified our customer base over many years, and we continue to manage forward lease expiries within acceptable threshold levels.

The industrial portfolio continues to perform well, albeit with some moderation as expected following the very strong run experienced by industrial markets over the past three years. Effective like-for-like growth[11] softened slightly to 3.9%, impacted by a slight reduction in portfolio occupancy as a result of vacancies at select facilities. Average incentives increased to 16.5%, with incentives lower in the second half at 13.7%. Net effective releasing spreads remain strong at circa 17%. The portfolio is 15.4% under-rented, benefiting from continued market rent growth in Dexus's key markets, and circa 26% of the portfolio is set to access rental reversion upon expiry by FY26.

Dexus's national and customer centric industrial portfolio consists of well-located, high-quality assets, and along with its development capabilities, provides a complete solution for customers with growth aspirations and net zero ambitions. Dexus's strategic focus is on building long-term relationships with high value and growing customers. Circa 75% of industrial income is derived from relationships held directly with customers rather than third party logistics operators.

Sustainability

Dexus further progressed the priority areas of its sustainability strategy:

1. **Customer Prosperity** – Enhanced occupier wellbeing by lifting NABERS Indoor Environment rating to 5.2 stars and facilitating mental health training on behalf of Dexus's customers; expanded the GreenPower Buyers Group program, avoiding over 2,200 tonnes of greenhouse gas emissions since inception.

2. **Climate Action** – Progressed detailed decarbonisation roadmaps with commercially viable solutions across assets to support long-term performance and expanded the climate resilience program to an additional 52 assets. Dexus is well progressed in preparation for climate-related financial disclosure requirements commencing in FY26.
3. **Enhancing Communities** – Partnered with Foodbank and the Cerebral Palsy Alliance in community campaigns and delivered meaningful connections through community activations across 120 assets in Australia and New Zealand.

Dexus's focus on its customers has seen it achieve a Net Promoter Score (NPS) of +44, at the high end of the NPS range of -100 to +100, and demonstrating an improvement compared to +40 the prior year.

Dexus was again recognised as a leader across a range of global sustainability benchmarks, achieving the third highest score of global REIT peers in the S&P Global Corporate Sustainability Assessment (CSA) and being included in the S&P Global Sustainability Yearbook 2024. The platform was also recognised for its leadership by Global Real Estate Sustainability Benchmark (GRESB), with DXS and five funds achieving 5 star GRESB ratings for 2023. Dexus, Dexus Office Trust, Dexus Office Partnership and DWPF ranked in the top 5% of participants globally. Dexus Healthcare Property Fund (DHPF), DWPF and Powerco in New Zealand were also recognised with regional sector leadership by GRESB. In addition, Melbourne Airport (an infrastructure investment) was awarded a 2023 'Airports Going Green Award'.

Dexus also launched the second Reconciliation Action Plan (Reflect), endorsed by Reconciliation Australia, articulating its vision to create a lasting positive impact and a sustainable tomorrow for all Australians.

Developments

The Platform real estate development pipeline now stands at a cost of $16.1 billion, of which $7.9 billion sits within the Dexus portfolio and $8.2 billion within third party funds.

Dexus completed the office development at 123 Albert Street in Brisbane and the retail redevelopment at 25 Martin Place in Sydney. At the flagship industrial development precincts of Horizon 3023, Ravenhall and ASCEND at Jandakot Airport, Dexus completed 158,300 square metres of development and progressed construction across a further 85,300 square metres.

Dexus has circa $675 million committed spend on its pipeline until the end of FY25, including Atlassian Central in Sydney and Waterfront Brisbane Stage 1 for which the construction program is on track.

Transactions and trading

Despite a challenging transactions market, Dexus undertook circa $4.9 billion[4] of transactions across the platform, comprising $4.6 billion of divestments and $0.3 billion of acquisitions.

Since the FY23 result, Dexus has secured circa $0.7 billion of balance sheet divestments including the sale of One Margaret Street, Sydney, 5 Martin Place, Sydney and 130 George Street, Parramatta.

Dexus delivered on its FY24 trading profit guidance and is restocking the trading pipeline with potential contributions from FY25.

FY24 Results

This ASX announcement should be read in conjunction with the 2024 Annual Results presentation, 2024 Annual Report, 2024 Financial Accounts, 2024 Management Approach and Procedures, 2024 Sustainability Data Pack and the 2024 Property Synopsis, released to the Australian Securities Exchange today and available on www.dexus.com/investor-centre

Investor conference call

Dexus will hold an investor conference call at 9.30am (AEST) today, Tuesday 20 August 2024, which will be webcast via the Dexus website (www.dexus.com/investor-centre) and available for download later today.

Authorised by the Board of Dexus Funds Management Limited

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About Dexus

Dexus (ASX: DXS) is a leading Australasian fully integrated real asset group, managing a high-quality Australasian real estate and infrastructure portfolio valued at $54.5 billion. The Dexus platform includes the Dexus investment portfolio and the funds management business. We directly and indirectly own $14.8 billion of office, industrial, retail, healthcare, infrastructure and alternatives. We manage a further $39.7 billion of investments in our funds management business which provides third party capital with exposure to quality sector specific and diversified real asset products. The funds within this business have a strong track record of delivering performance and benefit from Dexus's capabilities. The platform's $16.1 billion real estate development pipeline provides the opportunity to grow both portfolios and enhance future returns. We believe that the strength and quality of our relationships will always be central to our success and are deeply connected to our purpose Unlock potential, create tomorrow. Our sustainability approach is focused on the priority areas where we believe we can make significant impact: Customer Prosperity, Climate Action and Enhancing Communities. Dexus is supported by more than 37,000 investors from 23 countries. With four decades of expertise in real estate and infrastructure investment, funds management, asset management and development, we have a proven track record in capital and risk management and delivering returns for investors.
www.dexus.com

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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, 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 Adjusted for cash and debt in equity accounted investments, excludes Dexus's share of co-investments in pooled funds. Pro forma gearing includes committed transactions post 30 June 2024. Look-through gearing at 30 June 2024 was 32.6%. Pro forma look-through gearing including Dexus's share of equity accounted co-investments in pooled funds was 33.2% at 30 June 2024.

3 By income.

4 Includes $4.2 billion real asset transactions that exchanged or settled post 30 June 2023 and $0.7 billion sale of real asset securities across multiple funds.

5 Based on current expectations relating to asset sales, performance fees and trading profits, and subject to no material deterioration in conditions.

6 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.

7 Aggregate of individual fund performance against its respective benchmark and performance period. Funds included are DWPF, DWSF, DHPF, DDIT, CommIF, DXI, DXC and DCIF.

8 Includes disposals of $2.2 billion real assets and $0.7 billion of real asset securities across multiple funds.

9 Including Heads of Agreement.

10 Excluding development leasing.

11 Excluding the impact of rent relief measures and provisions for expected credit losses. Including these impacts, office like-for-like income was -0.9% in FY24, Industrial like-for-like income growth was +3.5% in FY24.

12 Australian CBD average by Property Council Australia July 2024.

13 Average incentives excluding effective deals were 30.1%.