

# Dexus Industria REIT (ASX:DXI)

## ASX release

7 February 2024

### Further strengthened balance sheet, guidance on track and leasing success at BTP

Dexus Industria REIT (DXI) today announced its results for the half year ended 31 December 2023, confirming a distribution of 8.2 cents per security.

#### Summary

- **On track to deliver FY24 guidance** with HY24 Funds From Operations (FFO) per security of 8.6 cents and distributions of 8.2 cents
- **Statutory net loss after tax of \$10.2 million**, resulting from net fair value losses on investment properties and derivatives, offset by strong operating performance
- **Executed \$135 million of divestments<sup>1</sup>** to repay debt and provide balance sheet resilience and redeployment optionality
- **Enhanced capital position with pro forma look-through gearing of 26.2%<sup>2</sup>** which is below the target range, and average hedged debt of 77% during the half
- **Portfolio like-for-like income growth of 7.3%<sup>3</sup>**, with strong growth expected to be maintained for FY24
- **Significantly increased occupancy at Brisbane Technology Park from 85.7% to 95.7%** (by income)
- **Received development approval for a 17,900 square metre project in Moorebank**, and 18,000 square metres of high-quality developments were completed at Jandakot, fully leased to Marley Spoon and Caddy

Gordon Korkie, DXI Fund Manager said: "We continued to divest properties during the half to ensure the balance sheet is well capitalised, and to provide the flexibility to invest in higher-returning opportunities. We remain on track to deliver FY24 guidance which is in line with FY23 notwithstanding the impact of higher interest rates."

#### Strategy

"Today's result demonstrates the benefits of our active management approach.

"We have leased 163,700 square metres<sup>4</sup> of space over the last 18 months which has reduced upcoming expiries amidst an uncertain economic environment and supported income growth through averaging double-digit re-leasing spreads.

"Across the same time period, we have sold almost \$300 million<sup>1</sup> of assets which has reduced gearing to below the target range and enhanced our interest rate hedging position. We are well placed to fund our future commitments, including the development pipeline at target yields on cost of 6% and above."

#### Financial result

The statutory result reflected a net loss after tax of \$10.2 million, impacted by net fair value losses on investment properties and derivatives.

FFO increased 0.5% to \$27.3 million (8.6 cents per security). Strong portfolio like-for-like growth of 7.3%<sup>3</sup> was offset by reduced property income from divestments resulting in property FFO decreasing 2.6%. Savings in net finance costs were achieved by a lower average debt balance from asset sale proceeds, partially offset by a higher cost of debt due to higher interest rates.

All assets were independently valued in the six months to 31 December 2023<sup>5</sup>. The external independent valuations resulted in a like-for-like devaluation of \$36.1 million, representing a 2.5% decrease on prior book values. The weighted average cap rate expanded 37 basis points on a like-for-like basis to 5.77%.

Net Tangible Assets per security decreased 12 cents, or 3.5%, to \$3.32<sup>6</sup>.

Pro forma look-through gearing was 26.2%<sup>2</sup>, below the target range of 30 – 40%. Hedged debt for the half averaged 77%, and the weighted average maturity of hedges is 2.2 years. The average cost of debt increased 50 basis points half-on-half, driven by higher interest rates. DXI has substantial liquidity of \$146 million and a weighted average debt maturity of 2.8 years.

#### Property portfolio and asset management

DXI's property portfolio comprises interests in 91 properties valued at \$1.4 billion with a weighted average capitalisation rate of 5.77%. The portfolio generates a secure income yield, underpinned by a weighted average lease expiry of 6.1 years and occupancy of 99.0%.

The portfolio generates embedded rental growth, with 46% of the portfolio generating average fixed rental growth of 3.2% per annum, and the remainder tied to CPI-linked increases. During the half, the portfolio achieved an average rent review of 4.8%.

**Industrial:**

The industrial portfolio delivered average rent reviews of 4.9%. Like-for-like income growth was 6.0%<sup>7</sup>, with strong growth expected to be maintained for FY24. Following a record year of leasing in FY23, leasing for the half totalled 23,600 square metres<sup>8</sup>.

Jandakot Airport industrial precinct delivered like-for-like income growth of 5.2%<sup>9</sup>, supported by 59% of income linked to CPI escalations.

**Brisbane Technology Park:**

At Brisbane Technology Park, occupancy (by income) increased 10 percentage points to 95.7% following 4,400 square metres of leasing. Positive leasing outcomes supported like-for-like growth of 15.4%<sup>10</sup>. Retention rates were also strong with 84% of space retained or backfilled within 3 months. Brisbane Technology Park generates an income yield of 7.5%, with incentives circa 15 percentage points below the broader Brisbane CBD office market.

**Development**

DXI has circa \$167 million of spend remaining on its total development pipeline, of which \$42 million is committed. The total pipeline is valued at \$269 million and equates to interests in 331,400 square metres in major hubs in Sydney and Perth, providing additional income upside.

At Jandakot Airport industrial precinct, two projects were completed over 18,000 square metres and are fully-leased to Marley Spoon and Caddy.

In Sydney, development approval was received on a 17,900 square metre multi-estate, last mile development project in Moorebank. The project is expected to be delivered in FY25 at a 6.0 – 6.5% yield on cost.

**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. This also includes delivering against the sustainability priority areas of Customer Prosperity, Climate Action and Enhancing Communities.

Recognising the importance of climate action, DXI maintained a carbon neutral position across its business operations and controlled building portfolio for FY23 under the Climate Active Standard<sup>11</sup>. DXI maintains a 4.9 star NABERS Energy and 4.8 star NABERS Water rating across its portfolio.

DXI's focus on customer prosperity has seen 140 kW of onsite solar installed during the half and approvals progressing on a further 2.0 MW. At Brisbane Technology Park, a waste diversion program, with a customer awareness campaign and site interventions, supported a 20%+ improvement in recycling rates<sup>12</sup>.

**Overview and outlook**

DXI will remain focused on executing its proposition to investors of generating superior risk-adjusted returns over the long term by:

- enhancing portfolio attributes that deliver organic income growth
- maintaining a strong capital position (including managing gearing towards the lower end of the target range)
- continuing an active approach to portfolio management (including a disciplined approach to delivering the development pipeline)
- leveraging Dexus's capabilities across transactions, leasing development and asset management.

Despite continued uncertainty in the macroeconomic environment, DXI's earnings for FY24 are expected to remain resilient underpinned by embedded fixed and CPI linked rental escalations, minimal near-term lease expiries and forecast full-year average hedged debt above 80%<sup>13</sup>.

Barring unforeseen circumstances, DXI reiterates FY24 guidance for FFO of 17.1 cents per security and for distributions of 16.4 cents per security, reflecting a distribution yield of 6.0%<sup>14</sup>.

*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 2023, 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](http://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.

<sup>1</sup> Includes the sale of 32-40 Garden Street, Kilsyth, VIC and 57-67 Mark Anthony Drive, South Dandenong, VIC which settled in January 2024.

<sup>2</sup> Pro forma for the sale of 32-40 Garden Street, Kilsyth, VIC and 57-67 Mark Anthony Drive, South Dandenong, VIC which settled in January 2024. At 31 December 2023, look-through gearing was 28.1%.

<sup>3</sup> On a face basis, or 4.9% on an effective basis.

<sup>4</sup> Excludes development. At 100%, or 125,800 square metres at DXI ownership.

<sup>5</sup> Excluding held for sale assets.

<sup>6</sup> Calculated as total net assets less goodwill on a look-through basis, divided by total securities on issue.

<sup>7</sup> On a face basis, or 4.4% on an effective basis.

<sup>8</sup> Excludes development. At 100%, or 15,800 square metres at DXI ownership.

<sup>9</sup> On a face basis, or 5.0% on an effective basis.

<sup>10</sup> On a face basis, or 9.3% on an effective basis.

<sup>11</sup> Final Climate Active certification expected to be achieved post-reporting period. Covers scope 1, 2 and some scope 3 emissions. Refer to Sustainability Data Pack available on Dexus website for scope 3 inclusions.

<sup>12</sup> Based on 3-month prior year comparison of estimated waste densities.

<sup>13</sup> Based on existing hedges in place as at 31 December 2023 and assuming no further transactional activity.

<sup>14</sup> Based on closing security price as at 5 February 2024.