

Dexus (ASX: DXS)

ASX release



23 September 2021

Dexus expands industrial platform with \$1.5 billion of acquisitions and developments

Dexus today announced the acquisition of a portfolio of quality industrial properties alongside APN Industria REIT (ADI) for a combined acquisition price of \$1.5 billion¹, delivering on its strategic objectives of investing in sustainable income streams as well as expanding and diversifying the funds management business.

The acquisition includes:

- Jandakot Airport, Perth, WA (initially 66.7% Dexus², 33.3% ADI), a high-quality industrial portfolio comprising 49 properties, circa 80 hectares of developable land and an airport operating business
- Lot 2, 884-928 Mamre Road, Kemps Creek, NSW (50% Dexus, 50% ADI), a fund-through development
- 2 Maker Place, Truganina, VIC (100% ADI), a logistics facility leased to Australia Post

Darren Steinberg, Dexus CEO said: "These are high-quality investments that will further enhance the resilience of our property portfolio. The near term development potential and scope to enhance returns by introducing third party capital make this a compelling opportunity, and one aligned with our priorities to grow our funds management business and recycle capital into high returning opportunities.

"This transaction also provides the opportunity to achieve a step change for ADI as it secures an interest in quality logistics-oriented real estate with embedded development potential. We see considerable opportunity in ADI and will be supporting the equity raising announced today.

"In addition to the transactions announced today, we remain focused on meeting the investment objectives of our third party capital partners, with the Dexus Industrial Partnership (DITA) in exclusive due diligence on the circa \$123 million acquisition of 113-153 Aldington Road in Kemps Creek, NSW."

Ross Du Vernet, Dexus Chief Investment Officer said: "These transactions will leverage our strong development capabilities and demonstrate how we are allocating more capital to opportunities with development potential and in structures where we are investing alongside third party clients.

"The acquisitions will provide our industrial business with a meaningful footprint in Western Australia and new product in the Sydney market to service our growing customer base. Across the group, the industrial portfolio is expected to grow to \$11.3 billion (4.6 million square metres) post completion of the near term developments and recent acquisitions."

ADI equity raising

ADI will undertake a fully underwritten circa \$350 million equity raising to partially fund its share of the acquisitions at a fixed issue price of \$3.45 per security, comprising a circa \$100 million institutional placement and circa \$250 million 1-for-3 non-renounceable entitlement offer.

Dexus intends to take up its full \$40 million entitlement under ADI's Entitlement Offer, and has also provided a commitment to sub-underwrite circa \$39 million across the retail tranche of the Entitlement Offer. ADI's offer price reflects an attractive FY22 distribution yield of 5.0%.

Further details relating to the equity raising are provided in ADI's announcement released to the Australian Securities Exchange today.

Jandakot Airport, Perth, WA

Dexus has agreed to acquire a 66.7% interest² in the entities that own a 76-year ground lease at Jandakot Airport, WA, with ADI acquiring the remaining 33.3% interest, for a combined acquisition price of \$1.3 billion³. The existing structure includes senior asset-level debt of \$405 million which will remain in place at acquisition, reflecting a combined equity commitment of \$895 million³.

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The acquisition was secured off-market and the \$1.3 billion³ combined acquisition price is attributed as follows:

- \$875 million³ for a diversified stabilised portfolio of 49 modern prime industrial properties⁴ leased to more than 54 tenants across circa 360,000 square metres, reflecting a 5.2% initial yield and 4.7% cap rate⁵
- \$225 million³ for circa 80 hectares of immediately developable land, of which 12 hectares is currently under Heads of Agreement and the remaining 68 hectares is approved under a current master plan
- \$200 million³ for an operating airport deriving income from long term ground leases, landing fees and infrastructure services, reflecting a circa 19x EBIT multiple

Jandakot Airport is the major General Aviation Airport in Western Australia encompassing 620 hectares and located approximately 20km south of the Perth CBD and 25km south west of Perth airport. The location appeals to both first mile and last mile industrial customers due to its proximity to Fremantle Port, major road networks and nearby amenity.

The stabilised portfolio is 100% occupied with a weighted average lease expiry of 7.6 years. The operating airport supports a long-term diverse and secure income stream, with a weighted average lease expiry of more than 14.6 years⁶.

Initial settlement is expected to occur on 31 October 2021, with Dexus acquiring 100% of Jandakot City Holdings Pty Ltd (JCH)⁷ and 49% of the company which owns the ground lease, Jandakot Airport Holdings (JAH)⁸ for circa \$825 million^{3,9}.

Dexus intends to bring in ADI for 33.3% shortly after initial settlement and additional third party equity capital partners into the Jandakot structure prior to settlement of the remaining 51% of JAH, which would result in Dexus's overall balance sheet interest in each of JCH and JAH reflecting an equal minority interest.

Following the securing of equity commitments from additional third party capital partners and receipt of required regulatory approvals, settlement of the 51% remainder of JAH for \$70 million is expected to occur in March 2022.

Lot 2, 884-928 Mamre Road, Kemps Creek, NSW

Dexus and ADI will jointly acquire a 42,500 square metre¹⁰ prime logistics facility at Lot 2, 884-928 Mamre Road, Kemps Creek, NSW as a fund-through development for a combined total consideration of \$125.4 million³ (50% Dexus, 50% ADI).

The facility is located in an emerging strategic industrial precinct, underpinned by extensive public infrastructure upgrades, and provides new development product in the near term to meet significant latent demand from customers in Western Sydney.

The facility is in close proximity to the development land recently acquired by Dexus at 113-153 Aldington Road, Kemps Creek where Dexus has secured a pre-commitment with McPhee Distribution services for a 72,000 square metre logistics facility.

Progressive land and development payments will be made from July 2022 until expected practical completion in May 2023, attracting a 4.25% coupon from the vendor/developer throughout the build period.

2 Maker Place, Truganina, VIC

ADI will acquire 100% of 2 Maker Place, Truganina in Victoria for \$69.0 million³. In August 2021, Dexus exchanged on the property with the ability to nominate an alternate purchaser within the Dexus group. The property will now settle with ADI nominated as the purchaser.

The circa 30,000 square metre property is 100% leased to Australia Post with 4.5 years remaining on the initial term, with a further five year extension option.

The 66,590 square metre site has further development potential across 16,740 square metres of land which could accommodate an additional 11,537 square metres of warehousing.

Overall Impact to Dexus

The combined transactions will be accretive to Dexus's Adjusted Funds From Operations per security for FY22. Dexus will update the market regarding guidance at the HY22 result in February 2022.

Dexus will fund its share of the combined transactions through debt facilities, with gearing expected to initially increase by circa 3.3 percentage points¹¹ before reducing post the introduction of additional third party equity capital partners into the Jandakot structure.

Authorised by Brett Cameron, General Counsel and Company Secretary of Dexus Funds Management Limited

Images of Jandakot Airport can be downloaded [here](#)

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About Dexus

Dexus (ASX: DXS) is one of Australia's leading fully integrated real estate groups, managing a high-quality Australian property portfolio valued at \$42.5 billion. We believe that the strength and quality of our relationships will always be central to our success and are deeply committed to working with our customers to provide spaces that engage and inspire. We invest only in Australia, and directly own \$17.5 billion of office, industrial and healthcare properties, and investments. We manage a further \$25.0 billion of office, retail, industrial and healthcare properties for third party clients. The group's \$14.6 billion development pipeline provides the opportunity to grow both portfolios and enhance future returns. Sustainability is integrated across our business, and our sustainability approach is the lens we use to manage emerging ESG risks and opportunities for all our stakeholders. Dexus is a Top 50 entity by market capitalisation listed on the Australian Securities Exchange and is supported by more than 30,000 investors from 23 countries. With over 35 years of expertise in property investment, funds management, asset management and development, we have a proven track record in capital and risk management, and delivering superior risk-adjusted returns for investors.

www.dexus.com

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1 Includes the fund-through cost of Lot 2, 884-928 Mamre Road, Kemps Creek and excludes forecast future development spend.

2 Dexus will initially acquire 100% of Jandakot City Holdings Pty Ltd (JCH) and 49% of Jandakot Airport Holdings (JAH). Dexus intends to bring in ADI for 33.3% shortly after initial settlement, and additional third-party capital partners into the Jandakot structure prior to settlement of the 51% remainder of JAH, which would result in Dexus's overall balance sheet interest in each of JCH and JAH reflecting an equal minority interest.

3 Before acquisition costs.

4 Excludes three industrial development assets currently under Heads Of Agreement.

5 Reflects leasehold cap rate, with 4.5% core cap rate.

6 Including related JCH ground lease party lease arrangements WALE is 20.1 years.

7 JCH derives its revenue from rent from 49 high quality customers with strong tenant covenants including K-Mart, Amart, Reece, Baker Hughes, Tradelink, WA Government, Schenck, and Yokohama.

8 JAH's income is attributed to ground rent from JCH, infrastructure services, apron licences and airside parking from more than 100 tenants, predominantly associated with the aeronautical industry and private individuals.

9 Comprised of \$757 million for JCH plus an initial \$68 million for JAH.

10 Subject to Council approval.

11 Gearing impact calculated post ADI coming into the Jandakot structure shortly after initial settlement.