

DEXUS Property Group (ASX: DXS)

ASX release

22 June 2015

DEXUS and DWPF acquire Waterfront Place and Eagle Street Pier in Brisbane

DEXUS Property Group (DEXUS) and DEXUS Wholesale Property Fund (DWPF) today announced that they have reached a conditional agreement to jointly acquire Waterfront Place and Eagle Street Pier ("Waterfront Place Complex") located within the prime commercial precinct of the Brisbane CBD known as the "Golden Triangle".

DEXUS and DWPF have jointly agreed to each acquire a 50% interest in:

- Waterfront Place at 1 Eagle Street, Brisbane comprising a 59,448 square metre Premium grade office tower, and
- Eagle Street Pier, at 45 Eagle Street, Brisbane comprising a 6,258 square metre prime riverfront retail precinct

The acquisition price of \$635 million¹ reflects an attractive \$9,664 per square metre for the complex and a capitalisation rate of 6.9%.

Darren Steinberg, DEXUS CEO said: "This acquisition is an excellent long term core investment for both DEXUS and DWPF, and Eagle Street Pier offers one of the best future development sites in the Brisbane CBD. It builds on our established presence in the Brisbane CBD office market, enabling us to leverage our expertise in a market where we have been able to demonstrate leasing success despite subdued conditions.

"Waterfront Place complements our ownership of 480 Queen Street in Brisbane² and reinforces our role as a workspace partner for our customers in Brisbane, as Prime grade office product attracts strong tenant appeal in a recovering leasing market."

Penny Ransom, DWPF Fund Manager said: "We are excited by the opportunity to acquire this strategic, long term asset. For DWPF, this acquisition will be part-funded through raising further equity, following our successful raising earlier this year that was well oversubscribed."

Of the occupied area at Waterfront Place, 68% comprises existing tenants within DEXUS's portfolio, providing the opportunity to further strengthen these established relationships.

Kevin George DEXUS's Executive General Manager of Office & Industrial said: "Waterfront Place is currently 90% leased³ and pleasingly, we have already received some enquiry to lease office space since the market began speculating on this acquisition. Now that a conditional agreement has been reached we can progress leasing discussions."

Further details in relation to the acquisition, impact on DEXUS and funding are provided in the Appendices.

Brisbane CBD office market

In the quarter to 31 March 2015, office demand in the Brisbane CBD gained positive momentum, resulting in vacancy reducing by 1% to 15.8%. Modest demand is anticipated to continue into FY16, driven by the tourism and housing/construction sectors benefitting from a low interest rate environment and flowing through to growth in the business services sector.

The supply cycle in the Brisbane CBD is expected to peak in FY16 with the completion of 180 Ann Street, 480 Queen Street and 1 William Street. No new supply is expected after the completion of the fully pre-committed 1 William Street, allowing the market to work through existing vacancy.

The Brisbane CBD office market fundamentals will also benefit from office stock being permanently withdrawn from the market during FY16-FY17.

A 'flight to quality' trend continues for tenants in the Brisbane CBD office market, with prime vacancy sitting well below secondary vacancy (10.6% versus 20.3%).

¹ Excluding acquisition costs.

² Jointly (50/50) owned by DEXUS and DWPF.

³ Expected occupancy at 30 June 2015.

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Kevin George said: “Consistent with our view on the Sydney CBD office market, prime vacancy in Brisbane is expected to increase in the short term as key developments complete. However a ‘flight to quality’, as we have experienced with 480 Queen Street, will continue as demand improves and Prime grade stock is expected to outperform secondary stock over the medium term.”

Summary

Darren Steinberg said: “Over the past few years, we have demonstrated our ability to recycle properties and selectively invest in compelling acquisition opportunities where we have high conviction.

The acquisition of the Waterfront Place Complex enables both DEXUS and DWPF to access a Premium grade property at an attractive price point in a market where we have established expertise and which is expected to improve over the medium term.”

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About DEXUS

DEXUS Property Group is one of Australia’s leading real estate groups, investing directly in high quality Australian office and industrial properties. With \$18.5 billion of assets under management, the Group also actively manages office, industrial and retail properties located in key Australian markets on behalf of third party capital partners. The Group manages an office portfolio of 1.6 million square metres located predominantly across Sydney, Melbourne, Brisbane and Perth and is the largest owner of office buildings in the Sydney CBD, Australia’s largest office market. DEXUS is a Top 50 entity by market capitalisation listed on the Australian Securities Exchange under the stock market trading code ‘DXS’ and is supported by more than 32,000 investors from 18 countries. With 30 years of expertise in property investment, development and asset management, the Group has a proven track record in capital and risk management, providing service excellence to tenants and delivering superior risk-adjusted returns for its investors. www.dexus.com

Download the DEXUS IR app to your preferred mobile device to gain instant access to the latest stock price, ASX Announcements, presentations, reports, webcasts and more.



DEXUS Funds Management Ltd ABN 24 060 920 783, AFSL 238163, as Responsible Entity for DEXUS Property Group (ASX: DXS)

About DWPF

DEXUS Wholesale Property Fund (DWPF) is an open-ended unlisted property fund with a \$5.7 billion diversified portfolio of high quality retail, office and industrial properties located in key locations across Australia. DWPF has a Standard & Poor’s A (Stable) rating and is supported by 44 Australian and international wholesale investors. DWPF has outperformed its benchmark, the Mercer IPD Unlisted Property Fund Index over the last one, three and five year periods. DWPF is managed by DEXUS. www.dexus.com

DEXUS Wholesale Property Limited ABN 47 006 036 442, AFSL 238166, as Responsible Entity for DEXUS Wholesale Property Fund.

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Appendix 1

Acquisition overview

The Waterfront Place complex comprises a landmark 37 level Premium grade office tower and Eagle Street Pier across 65,706 square metres in total. The property is located within the prime commercial precinct of the Brisbane CBD known as the “Golden Triangle”, between the eastern alignment of Eagle Street and the western bank of the Brisbane River.

Eagle Street Pier is an adjoining two-level retail food and beverage complex occupied by a number of highly regarded operators and is considered one of the Brisbane CBD’s premier dining destinations.

Waterfront Place complex, Brisbane - profile ⁴	Total complex
Acquisition price	\$635.0m
Net lettable area	65,706sqm
Typical office floor plate	1,800sqm
Acquisition (rate per sqm)	\$9,664
Initial yield (pre-costs)	6.3%
Capitalisation rate	6.9%
Occupancy (% by income) ⁵	90.3%
WALE (years by income) ⁵	4.2
Car parking spaces	475
Year built	1990
NABERS Energy rating	5 stars
NABERS Water rating	4 stars
Major tenants	Minter Ellison, Origin Energy, Hopgood Ganim Lawyers
Office Net Property Income (% of complex NPI)	95%
Retail Net Property Income (% of complex NPI)	5%

Location map



⁴ Based on independent valuation as at 30 June 2015.

⁵ Expected occupancy and WALE at 30 June 2015.

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Appendix 2

Impact on DEXUS

As a result of this acquisition, the weighting of office within DEXUS's total property portfolio will increase to 83.2%, and DEXUS's weighting to the Brisbane CBD office market will increase from 10.5% to 14.2%.

The acquisition is expected to settle on or around 1 October 2015 and will be accretive to DEXUS's FFO⁶ and distribution per security for FY16. There is no impact on DEXUS's FFO and distribution per security for FY15.

Acquisition funding for DEXUS

DEXUS was undertaking exclusive due diligence on the Waterfront Place Complex when it announced its \$400 million Institutional Placement in April 2015, with the proceeds initially used to repay debt. DEXUS will fund the acquisition through existing debt facilities. Pro forma gearing is expected to increase by 2.3 percentage points from 28.0%⁷ post the equity raising to 30.3% post the acquisition, remaining at the lower end of DEXUS's target gearing range of 30-40%.

⁶ FFO means Funds from Operations. As previously announced, DEXUS adopted FFO as defined by the PCA White Paper "Voluntary Best Practice Guidelines for disclosing Funds from Operations (FFO) and Adjusted Funds from Operations (AFFO)" for its reporting from 1 July 2014.

⁷ Gearing is adjusted for cash and debt in equity accounted investments. Pro forma gearing assumes a \$400 million institutional placement and \$77.8 million Security Purchase Plan.

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Waterfront Place complex



DEXUS Property Group's Brisbane office portfolio

