

DEXUS Property Group (ASX:DXS)

ASX release

22 October 2015

September 2015 quarter portfolio update and Office Insights Tour

DEXUS Property Group (DEXUS) today announced an operational update across its property portfolio for the quarter ended 30 September 2015.

HIGHLIGHTS

- Leased 35,088 square metres¹ of space across 78 transactions in the DEXUS office portfolio
- Leased 50,873 square metres¹ of space across the DEXUS industrial portfolio, including securing a new lease across 18,013 square metres at 2-4 Military Road, Matraville
- Completed the final stage of development at 5 Martin Place, Sydney² with the committed office space increasing to 96% including heads of agreement post quarter-end, from 42% at acquisition
- Achieved \$40.0 million of revaluation gains, including a 9.8% uplift on DEXUS's investment in 1 Bligh Street, Sydney which was independently revalued at 30 September 2015
- Settled on the sale of 25-55 Rothschild Avenue and 5-13 Rosebery Avenue, Rosebery and 154 O'Riordan Street, Mascot, securing FY16 trading profits of approximately \$60 million net of tax
- Divested 36 George Street, Burwood from the DEXUS Office Partnership (in which DEXUS holds a 50% interest) for gross sale proceeds of \$95 million, reflecting a \$29 million or 44% premium to book value as at 30 September 2015

PORTFOLIO UPDATE

September 2015 valuations

Kevin George, DEXUS Executive General Manager, Office and Industrial, said: "The properties DEXUS jointly owns with DEXUS Wholesale Property Fund (DWPF) experienced an uplift in valuation³ and the cap rate for 1 Bligh Street, Sydney tightened by 50 basis points to 5.25%."

The valuations conducted as at 30 September 2015 comprised:

Property	DXS share %	External valuation ⁴ \$m	Variance to book value ⁴ \$m	Variance to book value %	Prior capitalisation rate	New capitalisation rate
1 Bligh Street, Sydney	33%	\$291.6m	\$26.0m	9.8%	5.75%	5.25%
39 Martin Place, Sydney	50%	\$94.1m	\$4.1m	4.7%	Office 6.75% Retail 10.25%	Office 6.50% Retail 10.25%
480 Queen Street, Brisbane	50%	\$193.9m	\$9.1m	4.9%	7.00%	6.75%
12 Creek Street, Brisbane	50%	\$133.8m	\$0.8m	0.6%	6.75%	6.75%
Kings Square, Perth	50%	\$224.5m	\$0.0m	0.0%	7.00-7.50%	7.00-7.50%
Total		\$937.9m	\$40.0m	4.3%		

1 Including Heads of Agreement.

2 5 Martin Place, Sydney is co-owned by DEXUS Office Partnership (50%) and Cbus Property (50%).

3 Properties were independently valued. Excluding Waterfront Place Complex on which DEXUS announced settlement on 1 October 2015.

4 Represents DEXUS's share of value.

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DEXUS office portfolio metrics as at 30 September 2015

Key metrics ⁵	30 September 2015	30 June 2015
Occupancy by income	93.7%	95.3%
Occupancy by area	94.3%	95.5%
WALE by income	4.3 years	4.3 years
Average incentive	16.6%	15.0%

Kevin George said: "Net absorption across the Australian east coast CBD office markets remains solid, with Sydney, Melbourne and Brisbane CBDs recording a combined 77,152 square metres of positive net absorption for the September 2015 quarter. This flowed through to another solid quarter of leasing activity in our portfolio and despite occupancy reducing as a result of expected tenant movements, we remain on track to achieve our occupancy⁶ target of 95% at 30 June 2016."

Over the quarter to 30 September 2015, DEXUS leased 35,088 square metres⁷ of office space across 78 transactions including:

- Securing heads of agreement with a new tenant across 6,056 square metres at 321 Kent St, Sydney
- Securing four new tenants across 3,683 square metres and renewals with two tenants across 1,213 square metres at 10 Eagle St, Brisbane
- Securing a new lease with Aussie Home Loans across 2,973 square metres at Grosvenor Place, Sydney

Occupancy⁶ across the office portfolio of 93.7% was primarily impacted by Ashurst's move from Grosvenor Place to 5 Martin Place, Sydney, however including heads of agreement post quarter end, occupancy⁶ has increased to 94.1% (94.6% by area). The office portfolio's weighted average lease expiry (WALE) remained stable at 4.3 years. While average incentives on face deals were in line with those achieved during FY15, effective deals represented a lower percentage of total leasing in the quarter which meant that overall office portfolio incentives rose marginally compared to FY15.

DEXUS industrial portfolio metrics as at 30 September 2015

Key metrics	30 September 2015	30 June 2015
Occupancy by income	93.4%	92.4%
Occupancy by area	91.1%	91.7%
WALE by income	4.2 years	4.0 years
Average incentive	14.7%	10.8%

Kevin George said: "Our industrial portfolio occupancy improved by one per cent over the quarter, and included the leasing of a major vacancy at Matraville across approximately 18,000 square metres. In South Sydney and Inner West Sydney we continue to see an uptick in tenant enquiry and demand for industrial property, especially where supply is restricted due to withdrawals for alternative use."

Over the quarter to 30 September 2015, DEXUS leased 50,873 square metres⁷ of industrial space across six transactions including:

- Securing a new tenant across 18,013 square metres at 2-4 Military Road, Matraville
- Securing a new lease with Unitrans across 13,607 square metres at Knoxfield Industrial Estate
- Securing a new lease with Flick Anticimex across 4,275 square metres at 145-151 Arthur Street, Flemington

5 Excluding Waterfront Place Complex, Brisbane which settled on 1 October 2015.

6 By income.

7 Including Heads of Agreement.

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Industrial portfolio occupancy⁶ improved from 92.4% at 30 June 2015 to 93.4% at 30 September 2015 primarily due to leasing at Matraville, Flemington and Knoxfield. Average industrial incentives increased as a result of new leasing completed in the competitive Melbourne market. All deals achieved in the quarter were also face deals.

TRANSACTIONS

On 29 September DEXUS announced that the DEXUS Office Partnership (“Partnership”) had entered into an agreement to sell 36 George Street, Burwood. The gross sale proceeds of \$95 million⁸ reflect a \$29 million or 44% premium to book value. Settlement is expected to occur on 24 November 2015 and DEXUS’s share of net sale proceeds will be used to repay debt.

Darren Steinberg said: “This transaction is consistent with our strategy of divesting non-core assets, and delivered an IRR of 32% over the life of the Partnership’s investment in this property.

“While there is future development opportunity at the site, we made the decision to capitalise on strong current investor demand and DEXUS’s share of the gain on sale will flow through to our NTA.”

DEVELOPMENT

During the quarter, the final stage of development at 5 Martin Place, Sydney was completed, which is on track to achieve a forecast unlevered project IRR of 29%. Alongside Cbus Property, DEXUS successfully negotiated an accelerated build program, de-risked the leasing ahead of schedule and achieved rents above original assumptions at the time of acquisition. Including heads of agreement post quarter-end, the committed office space has increased to 96%, from 42% at acquisition.

At Kings Square, DEXUS is on track to achieve a forecast unlevered project IRR of 15%. A rental guarantee secured at the time of acquisition ensures full income on the properties for a further five years from practical completion, with the office space currently 55% committed. Two of the three properties have been completed with the third property expected to be completed in November 2015.

At 480 Queen Street, Brisbane terms have been agreed with Guardian Early Learning Group which will establish a child education and care centre across 1,505 square metres on level 5 of the tower, enhancing the customer experience. In addition, Mitsui Coal has also agreed terms across 815 square metres on Level 24. The office space is currently 85% committed⁹ and due for completion in early 2016.

In industrial, the development of three sites at Quarry at Greystanes is nearing completion, including a 120 seat café which will service the entire estate. At the adjoining Quarrywest site, construction has commenced on the site’s first development which comprises a 12,520 square metre warehouse facility pre-leased to Toshiba as well as three additional speculative facilities across 23,500 square metres.

THIRD PARTY FUNDS MANAGEMENT

DWPF completed a \$200 million equity offer to existing investors that was oversubscribed by approximately \$260 million in July 2015. In addition, DWPF continues to receive a high level of interest from new investors seeking to enter the Fund.

DEXUS continues to progress the development pipeline managed on behalf of its third party clients, a significant proportion of which comprises properties owned in joint venture with DEXUS. Construction has also commenced on the major redevelopment of the retail plaza at Gateway, Circular Quay in Sydney on behalf of DWPF and leasing pre-commitments have been secured with Neil Perry’s The Burger Project and Chat Thai, with terms agreed on approximately 55% of income. The development will convert the existing three storey podium into multiple dining precincts, doubling the retail space to more than 4,500 square metres.

⁸ Gross sale proceeds are before transaction costs and are for the Partnership’s 100% interest in the property, of which DEXUS has a 50% interest.

⁹ DEXUS and DWPF have been provided with a two year income guarantee, from the developer, on any remaining vacancies at practical completion.

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TRADING

In July 2015, DEXUS settled on the sale of 25-55 Rothschild Avenue and 5-13 Rosebery Avenue, Rosebery and 154 O'Riordan Street, Mascot. These settlements result in the securing of FY16 trading profits of approximately \$60 million net of tax.

CAPITAL MANAGEMENT

DEXUS announced on 1 September 2015 the activation of an on-market securities buy-back of up to 5% of DXS securities on issue in response to share market volatility and will utilise the buyback where appropriate to enhance investor returns.

DEXUS continues to maintain a strong balance sheet, with gearing¹⁰ of 28.5% at 30 June 2015 increasing to 29.3% on a pro forma basis at 30 September 2015 post the receipt of proceeds from the divestment of the Rosebery and Mascot trading properties and the acquisition of the Waterfront Place Complex, Brisbane which settled on 1 October 2015.

SUMMARY

Darren Steinberg said: "Despite the negative sentiment on the Australian economy, there remains significant leasing activity across the office, industrial and retail real estate sectors, with expectations that leasing will remain strong in the lead up to the end of the calendar year.

"The valuations we undertook this quarter support our view of a further 25-50bps of cap rate compression across our portfolio over FY16, with approximately 30 of DEXUS's properties to be externally revalued and announced in December 2015."

DEXUS reaffirms its FY16 guidance¹¹ for 5.5-6.0% growth in FFO per security, with FFO from the underlying business (excluding trading profits) expected to grow by 3.0-3.5%. Distributions will be paid in line with free cash flow which is expected to deliver growth in distribution per security of 5.5-6.0% for the 12 months ending 30 June 2016.

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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 \$19.9 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 1.7 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)

10 Gearing is adjusted for cash and for debt in equity accounted investments.

11 Barring unforeseen circumstances guidance is supported by the following assumptions: flat like-for-like income across the DEXUS combined portfolio, weighted average cost of debt of circa 4.9%, trading profits of approximately \$60m net of tax, Management Operations FFO of \$45-50m (including third party development management fees), approximately \$150m net proceeds from non-core property divestments during FY16, excluding any buy-back of DXS securities, and excluding any further transactions.

DEXUS PROPERTY GROUP
OFFICE INSIGHTS TOUR - 22 OCTOBER 2015



RUN OF TOUR

	SESSION	SPEAKERS
2.00pm	Welcome	Darren Steinberg
2.10pm	Enhancing the Customer Experience	Deborah Coakley
2.25pm	DEXUS Place tour	
2.45pm	Fitted suites approach	Richard Garing Andy Collins
2.50pm	Sydney CBD office tour begins	
3.00pm	Grosvenor Place, 225 George Street	Andy Collins Pamela Medich
3.40pm	Governor Phillip & Macquarie Towers	Richard Garing
4.25pm	5 Martin Place	Elizabeth Bors

DEXUS Property Group - 2015 Office Insights Tour

Slide 1



ENHANCING THE CUSTOMER EXPERIENCE – Deborah Coakley



DEXUS Property Group - 2015 Office Insights Tour

Slide 2



ENHANCING THE CUSTOMER EXPERIENCE – Current customer initiatives

We are focused on initiatives to enhance the customer experience throughout their lifecycle

Rental payment initiatives

Intelligent buildings

DEXUS Place

Car park solutions

Community services

Security



RENTAL PAYMENT INITIATIVES – DEXUS Diners Club Card



Extends payment window

- No annual fee
- Up to 44 days to pay
- Card can be used for other expenses

Earns rewards

- Earns rewards on day to day business expenses including rent
- No points cap or expiry date
- Redeem points across a wide range of rewards, including frequent flyer
- Complimentary access to airport lounges worldwide

Enables focus on customers' business

- One payment system for expenses, travel and entertainment
- Gains increased visibility on spending
- Streamlines paperwork through monthly ATO compliant statements
- Complimentary international travel and purchases insurance



INTELLIGENT BUILDINGS

The scale of DEXUS's office platform delivers cost and efficiency benefits



Energy initiatives

NABERS Energy rating of 5.5 stars at 10 of DEXUS's office properties
 Achieved Green Star ratings for new office developments
 Piloted the new Green Star performance rating tool at 60 Castlereagh Street, Sydney



Centralised procurement program

Delivering savings through portfolio wide tendering process for services including security, mechanical, fire, lifts, cleaning



Building Optimisation Services

Centralised analytics via a 'virtual engineering' program across 36 properties

- Enhancing sustainability performance
- Reducing maintenance and energy costs
- Providing optimal customer comfort



Embedded Networks

Delivering discounted electricity to customers and a seamless on-boarding experience

- 44 Market Street, Sydney achieved 90% sign-up

COMMUNITY SERVICES – Better workplace experience for our customers



Customer benefits

- Creating convenience
- Increasing satisfaction from working in a DEXUS building

DEXUS benefits

- One-on-one conversation with each individual working in a DEXUS owned building
- Generating loyalty to the DEXUS portfolio contributing to improved platform retention and reduced downtime

COMMUNITY SERVICES – Car park solutions

60

DEXUS car parks

18,257

Car bays

1.7%

Vacancy in private car parks

Key partnerships



GoGet national partnership
Unique DEXUS/GoGet offer for customers



Wilson Parking

Wilson Parking partnership
More casual parking through “privates” to “public” conversions



Divvy web booking platform
Successful trial at 1 Margaret Street, Sydney

As at 30 September 2015.

DEXUS Property Group - 2015 Office Insights Tour

Slide 7



DEXUS PLACE

VALUE TO INVESTORS

- New revenue stream for the Group
- Acquisition tool for prospective customers
- Improves tenant retention
- Reduces vacancy risk

PRODUCT & SERVICE

- Partnerships in place to ensure the best technology offering
- High end concierge service to ensure a seamless experience every time



MISSION STATEMENT

- Design, develop and deliver premium work environments that foster creativity, innovation and productivity, and make them accessible to a wide range of businesses

DEXUS Property Group - 2015 Office Insights Tour

Slide 9



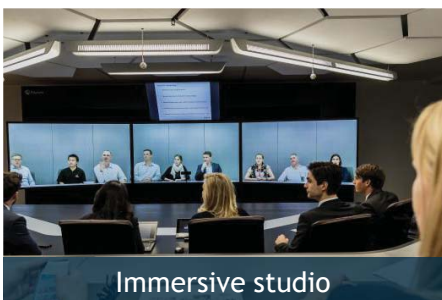
Business lounge/Events



Meetings rooms



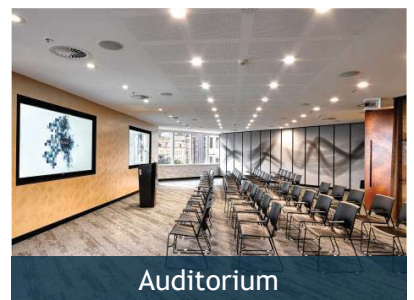
Executive boardrooms



Immersive studio



Training rooms



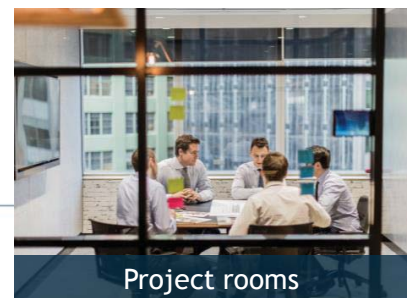
Auditorium



Market research



Breakout areas



Project rooms

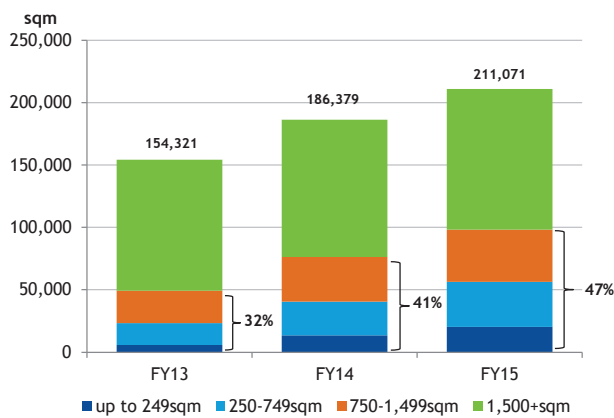
FITTED SUITES – Richard Garing & Andy Collins



FITTED SUITES



Office leasing by tenancy size



- Capturing increased demand from small to medium sized businesses (FY15 and FY16)

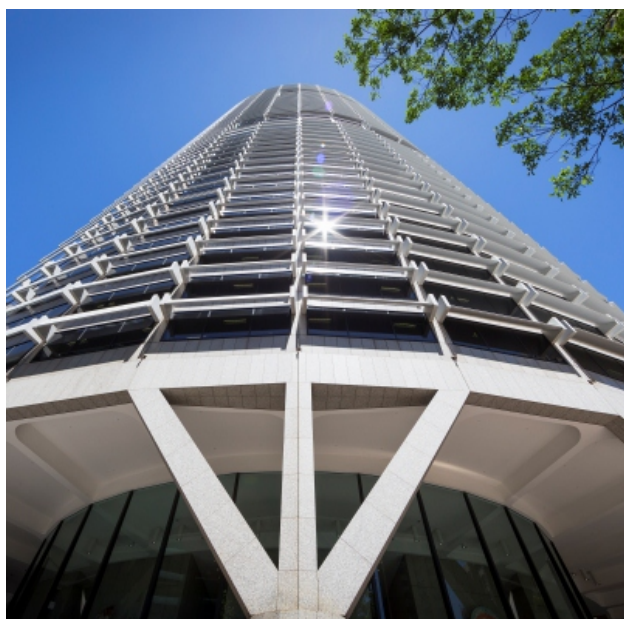
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DEXUS PROPERTY GROUP OFFICE INSIGHTS TOUR – 22 OCTOBER 2015



GROSVENOR PLACE, 225 GEORGE STREET, SYDNEY



Grosvenor Place is a landmark Premium Grade office building located near Circular Quay in the Sydney CBD providing office accommodation over 44 levels, ground floor retail space and car parking for 516 cars. Designed by renowned architect Harry Seidler, the complex also includes The Morrison Hotel and the heritage listed Royal Naval House and Johnson's Building.

The Grosvenor Place complex sits on an entire CBD block overlooking Circular Quay. Grosvenor Place has earned a reputation as one of Sydney's most functional Premium Grade office towers. Its distinctive design features large, highly efficient 2,000 square metre floor plates sitting above a three storey lobby. Floor-to-ceiling windows frame views that capture the beauty of Sydney in a 360 degree panorama. On-site amenities include an undercover casual dining forecourt, The Morrison Hotel and Giovanni's restaurant. Class-leading shower and change room facilities were recently completed and the retail podium is currently being redeveloped.

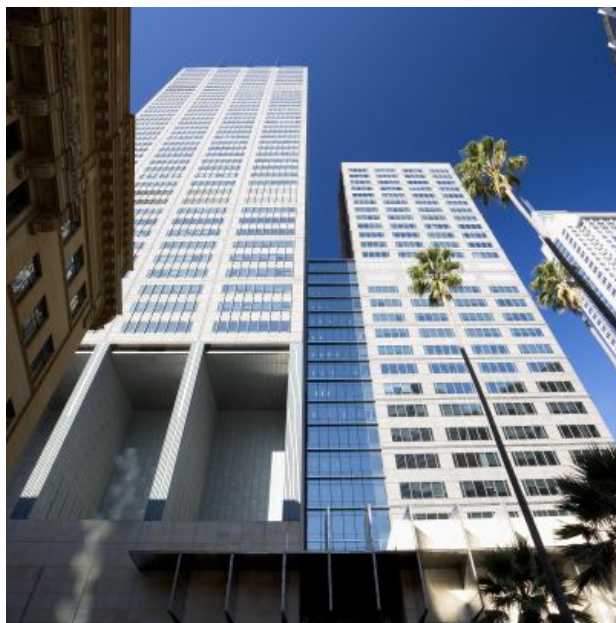
PROPERTY DETAILS AT 30 JUNE 2015

Building type	Premium Grade Office
Title	Leasehold
Site Area (hectares)	0.8
Lettable area ('000 m ²)	84.8
Lettable area adjusted ('000 m ²)	31.8
Typical floor area (m ²)	2,000
Number of buildings	4
Car parking spaces	516
NABERS Energy rating: (with GreenPower)	4.5
NABERS Energy rating: (without GreenPower)	4.5
NABERS Water rating	4.0
Year built	1988
Major tenant	Deloitte
Ownership (%)	DXS 38
Co-owner	Investa, Commonwealth Superannuation Corporation, DEXUS Office Partner

PROPERTY STATISTICS AT 30 JUNE 2015

Metro Area	Sydney
Zoning	Sydney Core Scheme
Acquisition date	Feb 2013
Book value: \$m	456.9
Independent valuation date	Dec 2014
Independent valuation: \$m	450.0
Market cap rate (%)	6.00
Initial yield (%)	5.87
Leased by area (%)	93
Weighted lease term by income: (year/s)	4.7

GOVERNOR PHILLIP & MACQUARIE TOWER, SYDNEY



Governor Phillip & Macquarie Tower complex is one of Sydney's leading Premium Grade office buildings. GPT provides 37 levels of premium office space and GMT provides 25 levels of premium office space. The complex also provides basement parking for 654 cars.

In a prime location selected for Sydney's First Government House more than 200 years ago, 1 Farrer Place offers a positive and productive workplace for businesses, from formal and informal spaces to meet and reflect, to dramatic views from both office towers.

The complex includes GPT, GMT, five historic terraces, two public open spaces, and the Museum of Sydney. The office towers provide highly efficient, column-free rectangular floor plates providing maximum freedom and flexibility. GPT's granite, glass and stainless steel façade is crowned by a six-storey grid of stainless steel blades. The lobby, provides floor-to-ceiling expanses of glass looking over Farrer Place, polished granite floors and sandstone walls, creating a light and airy feel which is complemented by major artworks and comfortable seating. GMT appears as a tower of stepped blocks of granite on a sandstone base. With its 14-metre height, GMT's lobby adjoins GPT's lobby. The complex offers secure parking over eight basement levels for up to 654 cars, end-of-trip and fitness facilities including a 253 space bike facilities, showers/lockers, a premium concierge, formal and informal meeting areas, 24-hour, 7-day onsite security control room. The complex is a few minutes' walk from Circular Quay, Wynyard and Martin Place transport services. By car, there is easy access to all major arterial roads, including the Harbour Bridge approach and the Eastern Distributor.

PROPERTY DETAILS AT 30 JUNE 2015

Building type	Premium Grade Office
Title	Freehold
Site Area (hectares)	0.6
Lettable area ('000 m ²)	86.2
Lettable area adjusted ('000 m ²)	43.1
Typical floor area (m ²)	1,460
Number of buildings	3
Car parking spaces	654
NABERS Energy rating: (with GreenPower)	GPT 4.0 / GMT 4.5
NABERS Energy rating: (without GreenPower)	GPT 3.0 / GMT 3.5
NABERS Water rating	GPT 3.5 / GMT 3.5
Year built	1993
Major tenant	Mallesons
Ownership (%)	DXS 50
Co-owner	General Property Trust & Australian Prime Property Fund

PROPERTY STATISTICS AT 30 JUNE 2015

Metro Area	Sydney
Zoning	B8 Metropolitan Centre
Acquisition date	Dec 1998
Book value: \$m	702.8
Independent valuation date	Dec 2012
Independent valuation: \$m	670.0
Market cap rate (%)	5.84
Initial yield (%)	5.68
Leased by area (%)	84
Weighted lease term by income: (year/s)	5.3

