

# DEXUS Property Group (ASX: DXS)

ASX release

17 February 2016

## 2016 Half year results presentation

DEXUS Property Group provides its 2016 Half year results presentation.

The property synopsis spreadsheet is also available on our website at [www.dexus.com/synopsis](http://www.dexus.com/synopsis)

For further information please contact:

### Investor relations

Rowena Causley    T: +61 2 9017 1390  
M: +61 416 122 383  
E: [rowena.causley@dexus.com](mailto:rowena.causley@dexus.com)

### Media relations

Louise Murray    T: +61 2 9017 1446  
M: +61 403 260 754  
E: [louise.murray@dexus.com](mailto:louise.murray@dexus.com)

### 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 \$21.1 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 1.8 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 20 countries. With more than 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](http://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)



DEXUS Funds Management Limited  
ABN 24 060 920 783  
AFSL 238163 as responsible entity for DEXUS Property Group



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- Darren Steinberg, CEO
- Alison Harrop, CFO
- Kevin George, EGM Office and Industrial
- Craig Mitchell, COO
- Ross Du Vernet, EGM Group Strategy, Transactions & Developments
- Darren Steinberg, CEO

## GROUP HIGHLIGHTS – Delivering across key earnings drivers in HY16

PROPERTY PORTFOLIO		FUNDS MANAGEMENT & PROPERTY SERVICES		TRADING	
242,596sqm of space leased <sup>1</sup>	Achieved a one-year total return of <b>15.3%</b> across total DEXUS portfolio	11% increase in FUM	14.8% DWP one-year total return <sup>2</sup>	\$63.3m trading profits delivered	Sale of Erskine Park secures circa <b>\$12m</b> of FY17 trading profits <sup>3</sup>
		16.0% DEXUS Office Partnership annualised unlevered total property return since inception		Achieved leasing outcomes at three properties which will contribute to trading profits over the next four years	
Maintained strength of DEXUS balance sheet with gearing of 29.5%					
80% FFO <sup>4</sup>		5% FFO <sup>4</sup>		15% FFO <sup>4</sup>	
<p align="center"><b>84%</b> employee engagement score<sup>5</sup> and a scalable platform that continues to attract talent</p>					

1. Includes development and trading properties.
2. DEXUS Wholesale Property Fund (DWP) return post fees.
3. Before tax.
4. FFO contribution is calculated before Finance costs and Group corporate costs.
5. Towers Watson employee engagement survey 2015.

## RECENT PROPERTY TRANSACTIONS – North Sydney acquisition & Burwood sale

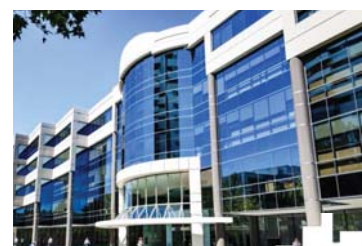


### 100 Mount Street, North Sydney

- Jointly acquired 50/50 by DEXUS and DWP
- Site cost of \$41 million<sup>1</sup>
- Total development cost \$467.5 million<sup>2</sup>
- 41,163sqm premium office tower
- Project expected to commence in July 2016 with staged completion in late 2018
- Completion at an opportune time in the cycle
- Building set to benefit from
  - Improved amenity, including the Sydney Metro line
  - Limited prime grade options for tenants in North Sydney market

### 36 George Street, Burwood<sup>3</sup>

- Sold for \$95 million
- 44% premium to book value
- Achieved a 32% IRR on investment



1. Excluding acquisition costs.
2. Including site cost.
3. Owned by DEXUS Office Partnership, in which DEXUS has a 50% interest.



## IOF MERGER WITH DEXUS

Scrip and Cash Proposal is strongly aligned to DEXUS's strategy and is a compelling proposition for IOF Unitholders and DEXUS Security holders

- **Portfolio benefits** - combination of two high quality complementary portfolios
- **Synergy benefits** - via improved margins and flexibility as well as capacity to unlock development and repositioning opportunities and increased scope to action portfolio leasing strategies for customers
- **Efficient transaction reduces value leakage** - financially attractive merger that is accretive to Underlying FFO
- **Capital market benefits** - increased global relevance for debt and equity investors seeking exposure to a large, high quality, diversified Australian office property portfolio
- **Stable, experienced and aligned management team** - internalised management team with high level of employee engagement across more than 360 employees

Subject to the approval of IOF Unitholders at a meeting expected to be held on 8 April 2016

- **ACCC condition satisfied** - Australian Competition and Consumer Commission (ACCC) has confirmed that it does not intend to conduct a public review of the Proposal
- No facilitation agreement has been reached with Morgan Stanley
- Working constructively with IOF Management and Independent Board of IOF to ensure seamless transition of IOF management should the Proposal become effective and be implemented
- DEXUS has mobilised an integration team with a strong track record of on-boarding assets

## FINANCIAL RESULTS



## FINANCIAL RESULTS – Key financial metrics

Key financial performance metrics		31 Dec 2015	31 Dec 2014	Change	
Adjusted Funds from Operations (AFFO) <sup>1</sup>	\$m	230.7	188.7	↑	22.3%
Distribution per security	cents	23.05	19.68	↑	17.1%
Statutory Net profit	\$m	797.5	257.8	↑	209.3%

Other key metrics		31 Dec 2015	30 Jun 2015	Change	
Gearing <sup>2,3</sup>		29.5%	28.5%	↑	+1.0ppt
NTA per security		\$7.25	\$6.68	↑	8.5%

Business contributions to HY16 FFO		31 Dec 2015	31 Dec 2014	Change	
Underlying FFO <sup>4</sup>	\$m	260.6	240.3	↑	8.4%
Trading profits (net of tax) <sup>5</sup>	\$m	63.3	18.1	↑	249.7%
Funds from Operations (FFO)	\$m	323.9	258.4	↑	25.3%
FFO per security	cents	33.4	28.5	↑	17.1%

- AFFO is calculated in line with the Property Council of Australia definition and comprises PCA FFO and adjusted for: maintenance capex, incentives (including rent free incentives) given to tenants during the period and other items which have not been adjusted in determining FFO. Refer to slide 42 for a detailed breakdown.
- Adjusted for cash and for debt in equity accounted investments.
- Pro-forma gearing excludes the proposed merger with IOF, which would increase gearing by a further 4ppt.
- 'Underlying' FFO contribution excludes Trading profits (net of tax).
- Trading profits generated less associated FFO tax expense.

## FINANCIAL RESULTS – Funds From Operations

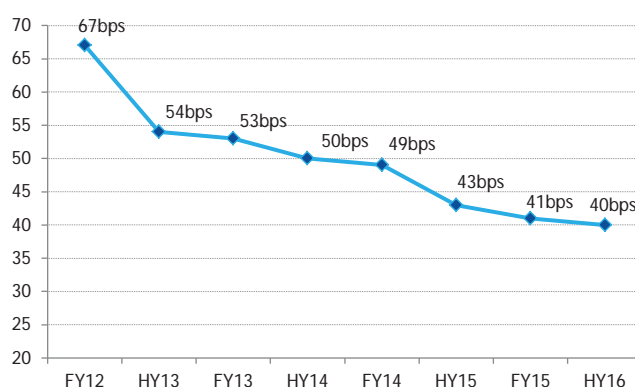
	31 Dec 2015 \$m	31 Dec 2014 \$m	Change \$m	Change %
Office property FFO	272.3	262.8	9.5	↑ 3.6%
Industrial property FFO	52.5	52.0	0.5	↑ 1.0%
<b>Total property FFO</b>	<b>324.8</b>	<b>314.8</b>	<b>10.0</b>	<b>↑ 3.2%</b>
Management operations <sup>1</sup>	18.9	19.4	(0.5)	↓ 2.6%
Group corporate	(16.0)	(14.8)	(1.2)	↑ 8.1%
Net Finance costs	(66.9)	(78.6)	11.7	↓ 14.9%
Other	(0.2)	(0.5)	0.3	↓ 60.0%
<b>Underlying FFO<sup>2</sup></b>	<b>260.6</b>	<b>240.3</b>	<b>20.3</b>	<b>↑ 8.4%</b>
Trading profits (net of tax) <sup>3</sup>	63.3	18.1	45.2	↑ 249.7%
<b>FFO</b>	<b>323.9</b>	<b>258.4</b>	<b>65.5</b>	<b>↑ 25.3%</b>
<b>Adjusted Funds from Operations (AFFO)</b>	<b>230.7</b>	<b>188.7</b>	<b>42.0</b>	<b>↑ 22.3%</b>
Distribution payout (% AFFO)	96.7%	94.4%	2.3pts	2.4%
<b>Distribution</b>	<b>223.1</b>	<b>178.2</b>	<b>44.9</b>	<b>↑ 25.2%</b>

- 'Management Operations' income includes Development management fees.
- 'Underlying' FFO excludes Trading profits (net of tax).
- Trading profits generated less associated FFO tax expense.

## FINANCIAL RESULTS – Management Expense Ratio (MER) and Return on Equity

Gross MER	31 Dec 2015 \$m	31 Dec 2014 \$m
Group corporate	(16.0)	(14.8)
Asset management	(4.7)	(4.6)
A. Total corporate & AM	(20.7)	(19.4)
B. Closing FUM (balance sheet FUM only)	10,467	9,102
Gross MER = 2*A/B	40bp	43bp
C. Total closing FUM	21,053	18,338
Gross MER (on total FUM) 2*A/C	20bp	21bp

HY16 MER down 3bps from HY15



### Return on Equity<sup>1</sup>

	FY13	FY14	FY15	3yr Avg (FY13-FY15)	HY16 <sup>2</sup>
Return on Equity	11.2%	6.7%	11.5%	9.8%	12.0%

- Return on Equity is calculated as the growth in NTA per security plus the distribution paid/payable per security divided by the opening NTA per security.
- Return on equity for the six months ended 31 December 2015.

## CAPITAL MANAGEMENT – HY16 progress

### FY16 focus

Improve diversification and length of the debt profile

Maintain an average cost of debt of circa 4.9% in FY16

Maintain conservative gearing

### HY16 progress

Debt duration remains strong at 5.2 years  
Increased diversification of debt facility mix

Achieved 4.9% average cost of debt in HY16  
FY16 cost of debt expected to remain circa 4.9%

Gearing<sup>1</sup> of 29.5% at 31 December 2015



1. Adjusted for cash and for debt in equity accounted investments and excludes the proposed IOF merger, which would increase gearing by a further 4ppt.

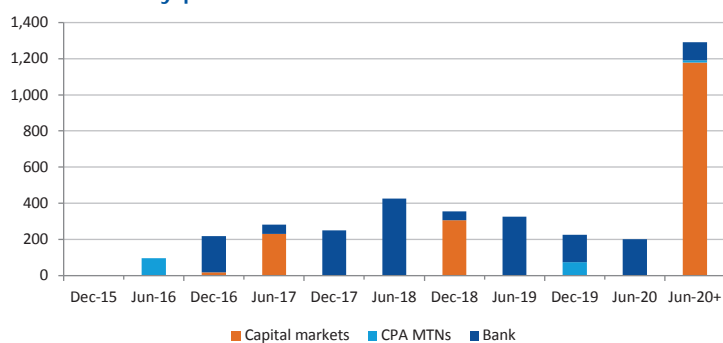


## CAPITAL MANAGEMENT – HY16 update

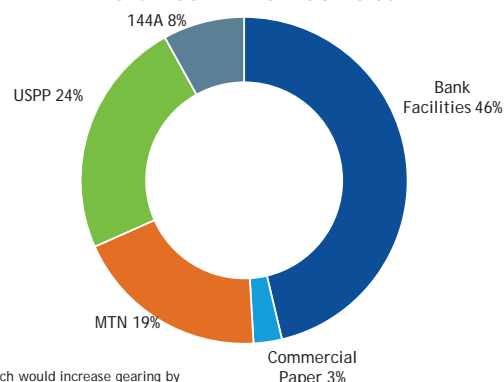
- \$90m of Medium Term Notes issued via reverse enquiry at an average duration of nine years
- DEXUS bought back 2.9m securities at pricing ranging from \$7.055-\$7.200
  - On-market securities buyback was suspended on 7 December 2015 as a result of entry into the process agreement for the IOF Proposal

Key metrics	31-Dec-15	30-Jun-15	Change
Gearing (look-through) <sup>1</sup>	29.5%	28.5%	↑ 1 ppt
Cost of debt <sup>2</sup>	4.9%	5.2%	↓ 30 bps
Duration of debt	5.2 years	5.7 years	↓ 0.5 yrs
Hedged debt (ex caps) <sup>3</sup>	64%	69%	↓ 5 ppt
S&P/Moody's credit rating	A-/A3	A-/A3	

### Debt maturity profile



### Diversified mix of facilities



1. Adjusted for cash and for debt in equity accounted investments and excludes the proposed merger with IOF, which would increase gearing by a further 4 ppt.
2. Weighted average across the period, inclusive of fees and margins on a drawn basis.
3. Average for the period. Hedged debt (including caps) was 73% for six months to 31 December 2015 and 76% for 12 months to 30 June 2015.

## PROPERTY PORTFOLIO



## PROPERTY PORTFOLIO – Developments and Sydney portfolio drive returns

Returns for the 12 months to 31 December 2015

**14.8%**  
Office portfolio  
one-year total return

**16.7%**  
Industrial portfolio  
one-year total return<sup>1</sup>

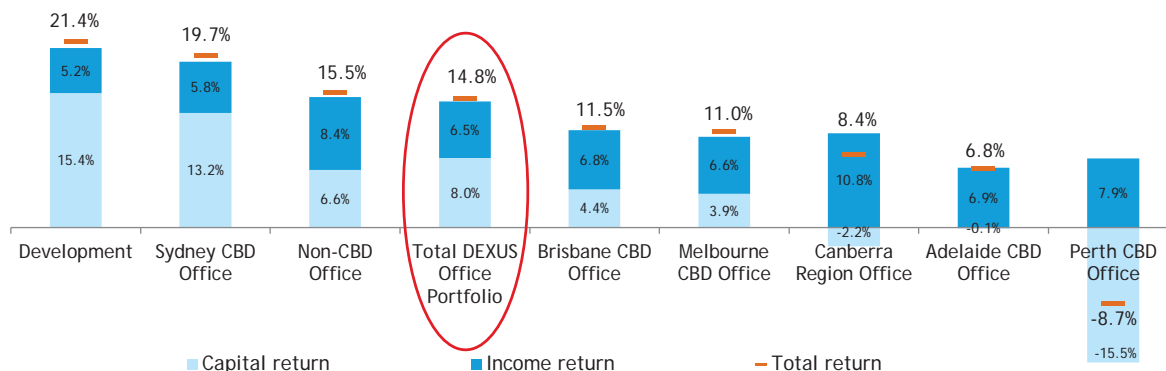
HY16 valuation uplifts

Office portfolio values  
up \$528.0m or 6.4%  
(up \$635.7m for the 12 months)

Industrial portfolio values  
up \$5.7m or 0.3%  
(up \$29.7m for the 12 months)

- Developments boosted total returns, offsetting Perth market softness
- Sydney CBD was the strongest performing portfolio, followed by the non-CBD markets including Parramatta
- Disposals of 36 George Street, Burwood (stabilised) and 40 Market Street, Melbourne (trading) contributed 40 basis points to portfolio total return

Office portfolio total return composition



1. Primarily driven by realised gains on industrial trading properties.

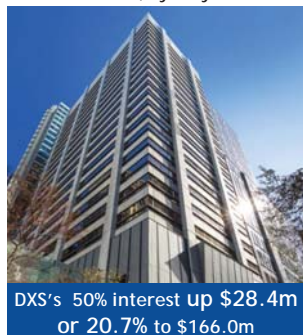


## PROPERTY PORTFOLIO – 40 properties independently valued in the period

5 Martin Place, Sydney



175 Pitt Street, Sydney



1 Farrer Place, Sydney



2-4 Military Rd, Matraville



383-395 Kent Street, Sydney



385 Bourke Street, Melbourne



240 St Georges Terrace, Perth



Knoxfield Industrial Estate, VIC





## PROPERTY PORTFOLIO – Cap rates expected to tighten further

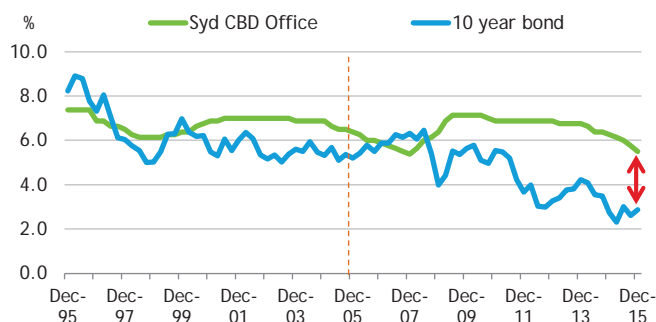
### Capitalisation rates

	31 Dec 2015	Change from 30 Jun 2015
DEXUS Office	6.30%	↓ 41bps
DEXUS Industrial	7.56%	↓ 21bps
Total DEXUS portfolio	6.50%	↓ 38bps

### Outlook

- Investment demand expected to remain solid as investors seek secure yields
- Forecast Prime cap rates to tighten a further 12.5 to 25 basis points
- Value growth positive but aligning more with income growth
- Pricing supported by low interest rate yields
- Current cap rate to bond spread is 2.6% versus 10-year average of 1.9%

### Average Sydney CBD prime yields vs bond rates



1. Driven by realised gains on industrial trading properties.

## PROPERTY PORTFOLIO – HY16 progress

### FY16 focus

Maintain >95% occupancy in office portfolio

Reduce FY17 office lease expiries to 10.0%

Expect flat like-for-like income growth across combined DEXUS portfolio

Continue to focus on reducing incentives and undertake effective leasing deals

### HY16 progress

On target to achieve 95% occupancy at end FY16

FY17 office lease expiries reduced from 12.7% to 11.7%

(1.4)% like-for-like income movement across the combined portfolio

Lower contribution of effective deals, marginally increased office portfolio incentives



## PROPERTY PORTFOLIO – Office: Leasing<sup>1</sup> progress on key properties

Waterfront Place, Brisbane



6 leases over 5,638sqm increasing occupancy<sup>2</sup> from 91.1% at acquisition to 95.6%

309-321 Kent Street, Sydney



7 leases over 15,286sqm, increasing occupancy<sup>2</sup> to 92.3%

45 Clarence Street, Sydney




12 leases over 7,006sqm, increasing occupancy<sup>2</sup> to 98.6%

10 Eagle Street, Brisbane



12 leases over 6,797sqm, increasing occupancy<sup>2</sup> to 91.1%

Grosvenor Place, Sydney



13 leases over 6,356sqm, increasing occupancy<sup>2</sup> to 83.6%

1. Including Heads of Agreement.  
2. Occupancy by area.

## PROPERTY PORTFOLIO – Office: Leasing transaction volumes up

**97,935sqm**

Total office space leased<sup>1</sup>

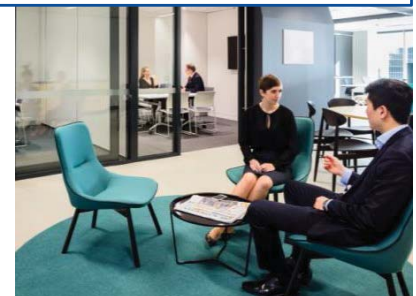
**198** leasing transactions

53 renewals  
across 23,175sqm

131 new deals  
across 70,856sqm

14 development deals  
across 3,904sqm

Take-up of fitted-suites has been strong across the Sydney CBD Prime grade portfolio



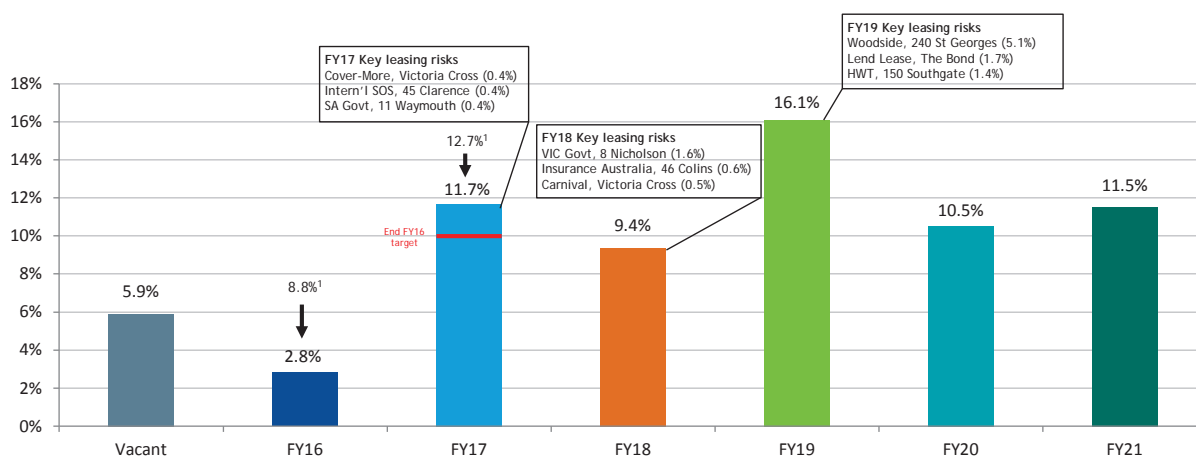
1. Including Heads of Agreement.

## PROPERTY PORTFOLIO – Office: Consistent portfolio performance

OFFICE	OCCUPANCY reflects expected tenant movements	94.1% (June 2015: 95.3%)
	Holding INCENTIVES	17.2% Average incentives (FY15: 15.0%) Secured 62 effective deals
	Maintaining WALE	4.4 years (FY15: 4.3 years)
	RETENTION as forecast	56% (FY15: 61%)
	LIKE-FOR-LIKE INCOME as forecast	1.5% Face (0.3)% Effective
	RE-LEASING SPREADS in line with incentive changes	1.3% Face (2.7)% Effective

## PROPERTY PORTFOLIO – Office leasing improves expiry profile

- Active approach to leasing focused on maximising cash flow
- Reduced FY19 expiries from 20.0%<sup>1</sup> to 16.1%, maintaining Sydney exposure to expected FY18-20 upside
- Continued activity from smaller space users for shorter-term leasing deals
  - Expectation that leases can be recalibrated on better terms in an improved market in FY18-20



Note: Key leasing risks boxes represent tenant; property; and percentage of office income.  
1. As at 30 June 2015.



## PROPERTY PORTFOLIO – Industrial: Leasing re-setting portfolio

**144,661sqm**

Total industrial space leased<sup>1</sup>

**47** leasing transactions

19 renewals  
across 15,901sqm

28 new deals  
across 128,760sqm

25 Distribution Drive, Laverton North	Whicker Street, Gillman	2-4 Military Road, Matraville	2 Alspec Place, Eastern Creek
			
Natures Dairy 15,662sqm whole building	3 leases 18,017sqm, increasing occupancy <sup>2</sup> to 76.1%	Fedex 18,013sqm, increasing occupancy <sup>2</sup> to 100.0%	Toll 16,915sqm, increasing occupancy <sup>2</sup> to 100.0%

1. Including Heads of Agreement.  
2. By area.

## PROPERTY PORTFOLIO – Industrial: Leasing drives occupancy improvement

<b>I N D U S T R I A L</b>	OCCUPANCY increased	<b>93.4%</b> (June 2015: 92.4%)
	INCENTIVES reduced	<b>10.1%</b> Average incentives (FY15: 10.8%) Secured 17 effective deals
	WALE increased	<b>4.6 years</b> (FY15: 4.0 years)
	RETENTION as forecast	<b>32%</b> (FY15: 53%)
	LIKE-FOR-LIKE INCOME as forecast	<b>(4.9)% Face</b> <b>(6.8)% Effective</b>
	RE-LEASING SPREADS in line with over-rented position	<b>(3.0)% Face</b> <b>0.3% Effective</b>

## THIRD PARTY FUNDS MANAGEMENT



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## THIRD PARTY FUNDS MANAGEMENT – HY16 progress

### FY16 focus

Secure pre-commitments for third party development projects

Deliver on third party clients' investment objectives

Drive performance in the third party portfolios through active leasing

### HY16 progress

Pre-commitments secured at Gateway in Sydney, and Quarry at Greystanes

DWPF settled on acquisition of Waterfront Place and divested three non-core properties

Achieved an average one-year total return of 15% across all funds



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## THIRD PARTY FUNDS MANAGEMENT – Delivering on clients' objectives

DWPF  
**outperformed**  
benchmark over all  
periods

DEXUS Office Partnership  
achieved a **16.0%** p.a.  
unlevered property  
return since inception

Third party funds under management  
**increased 11%**<sup>1</sup>

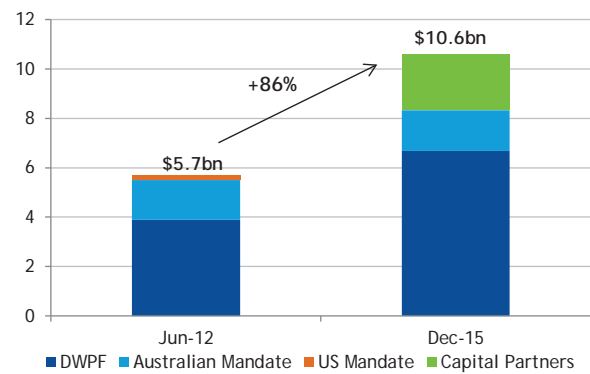
Leased  
**193,229sqm**  
of space across platform<sup>2</sup>

**\$508m**  
Valuation uplift  
across platform<sup>2</sup>  
(\$711m over the past 12 months)

**\$413m**  
equity raised across  
platform<sup>2</sup>

**\$2.1bn<sup>3</sup>**  
Development pipeline  
(\$1.5bn remaining  
spend<sup>3</sup>)

### Growth of third party funds platform



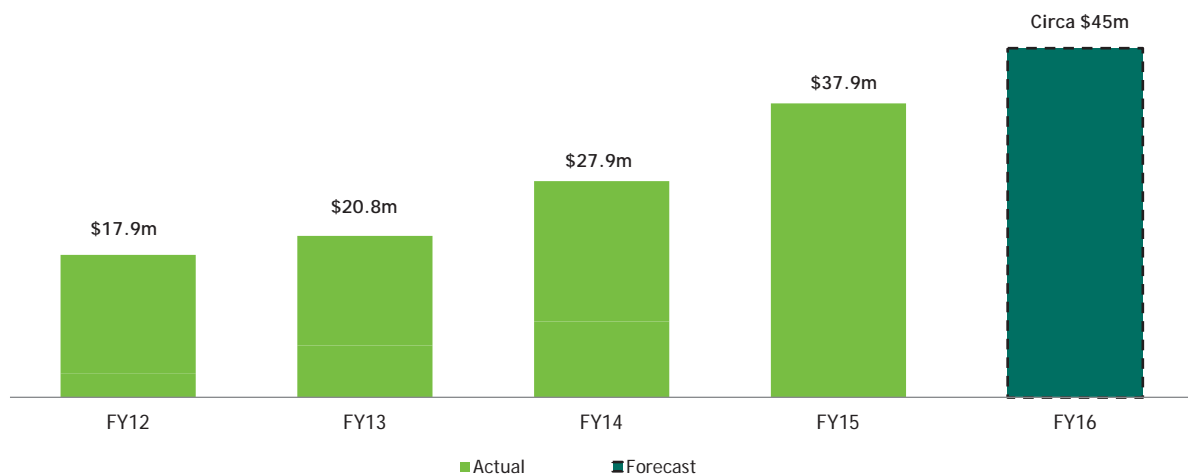
### DWPF performance against benchmark

Total return (post fees)	One year	Three years	Five years
DWPF	<b>14.8%</b>	10.8%	10.3%
Benchmark <sup>4</sup>	12.7%	10.2%	9.6%
<b>Variance</b>	<b>+2.1%</b>	<b>+0.6%</b>	<b>+0.7%</b>

1. Compared to 30 June 2015.
2. Total third party funds management platform.
3. Includes \$718m uncommitted third party development pipeline.
4. Mercer IPD Post Fee Net Asset Weighted Index (Net Return, Net Asset weighted).

## THIRD PARTY FUNDS MANAGEMENT – Management operations<sup>1</sup> profit

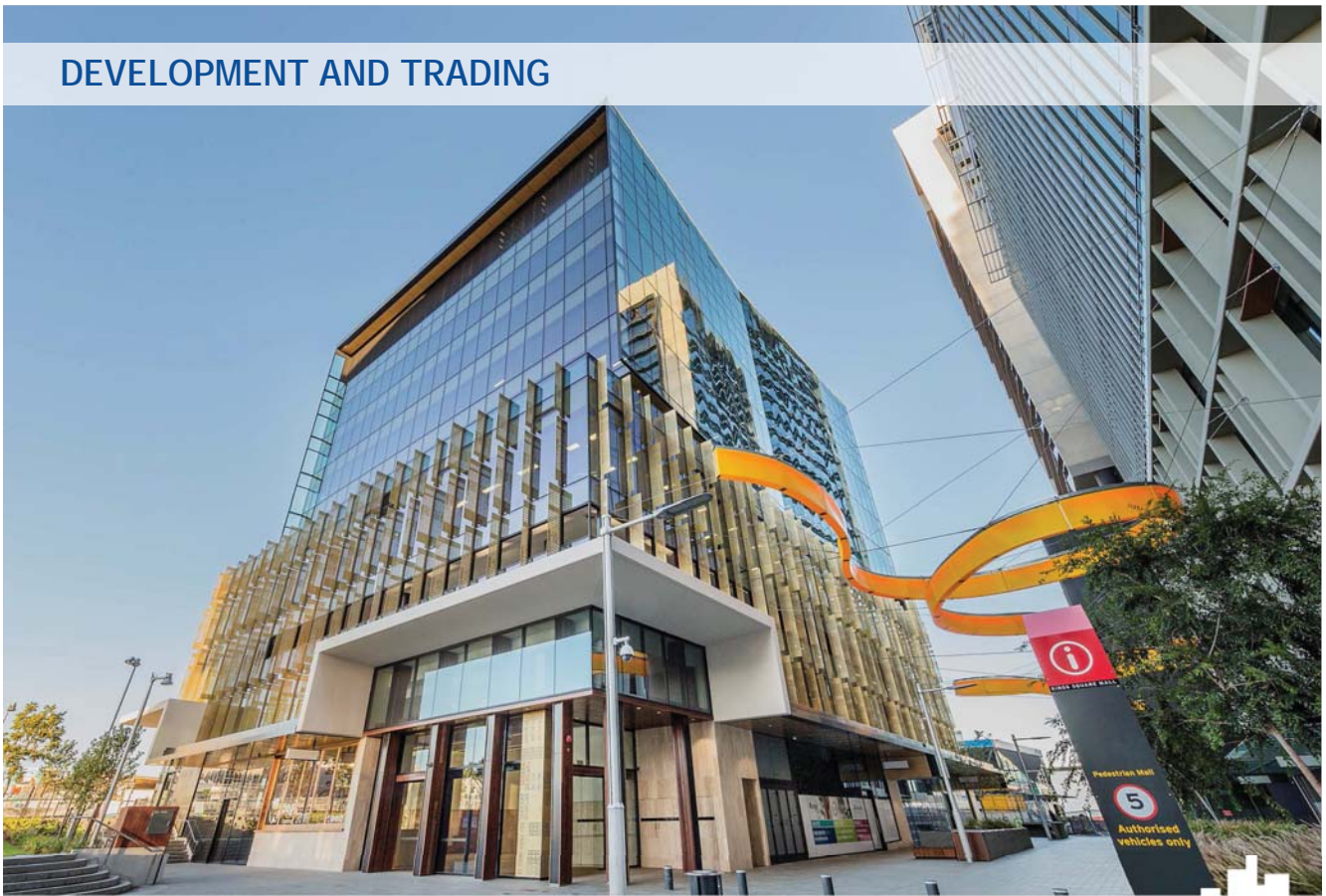
- Management operations profit has increased from additional capital partners and expanded business
  - Annuity-style revenue stream
  - No performance fees
  - Alignment of interests via DEXUS co-ownership in direct properties



1. Funds management and property services (including development management fees).



## DEVELOPMENT AND TRADING



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## DEVELOPMENT AND TRADING – Significant progress on pipeline

### FY16 focus

Deliver key office developments in Sydney, Perth and Brisbane

Progress industrial partnership developments

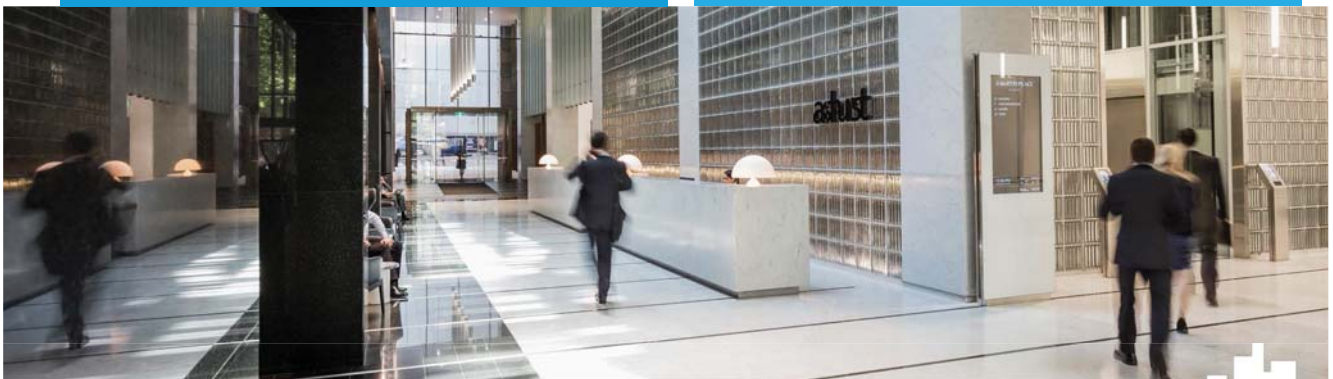
Progress the high priority opportunities in the trading pipeline

### HY16 progress

Final PC reached at 5 Martin Place, Sydney and Kings Square, Perth

Constructing industrial facilities for Toshiba, Reece Plumbing and Kathmandu

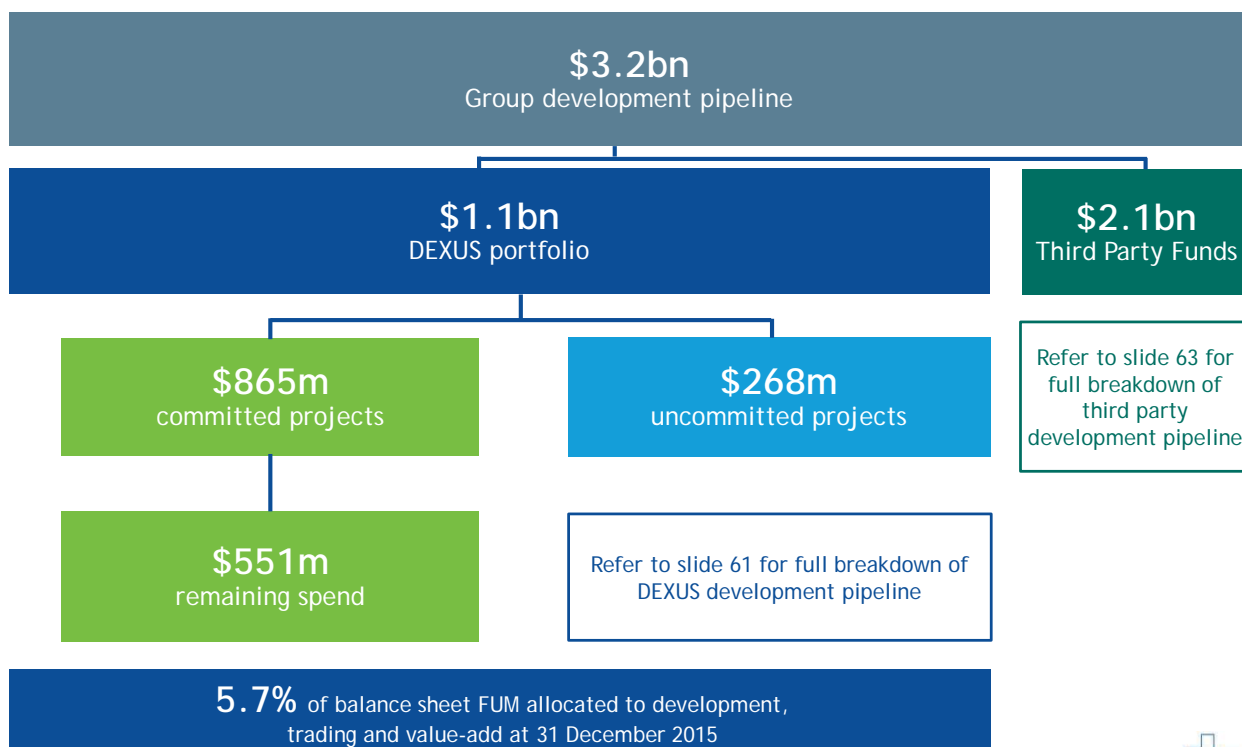
Announced sale of Erskine Park and new priority trading projects



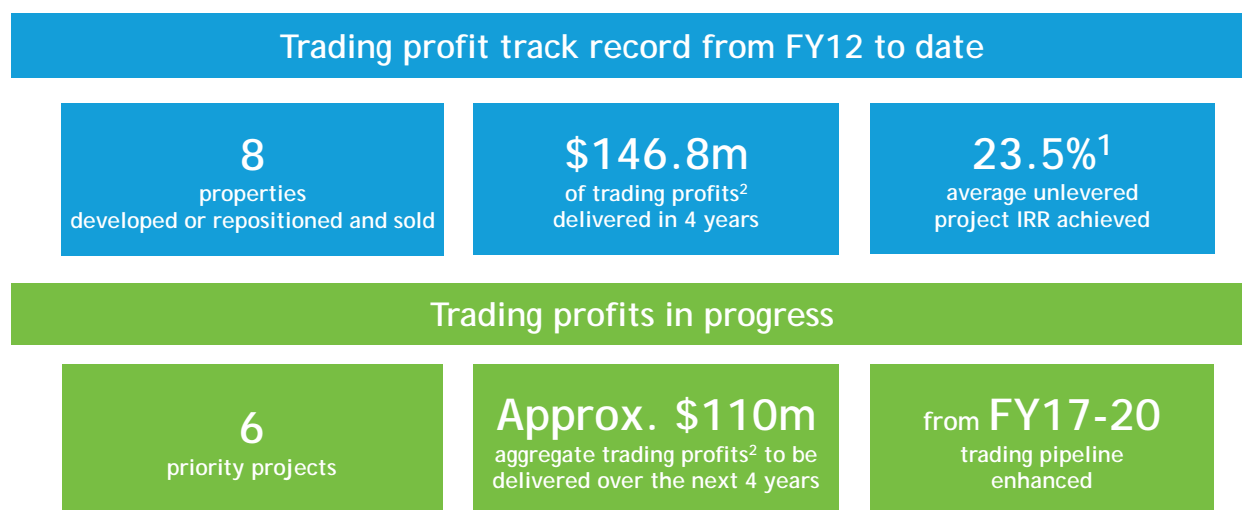
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## DEVELOPMENT – DEXUS pipeline



## TRADING – New priority projects enhance trading pipeline from FY17

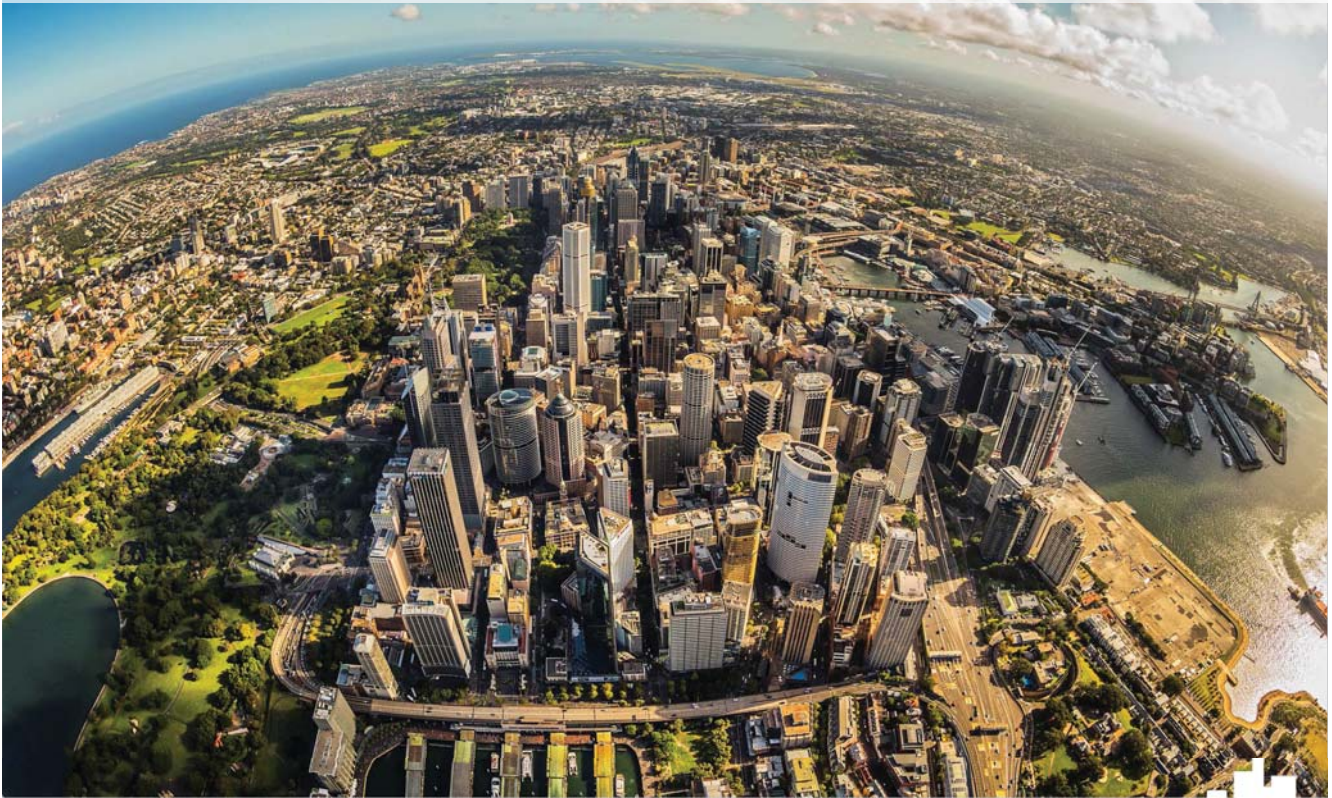


Priority projects	Sector	Trading strategy	Status
57-65 Templar Road, Erskine Park	Industrial	Develop and lease	Exchanged
32 Flinders Street, Melbourne	Car park	Pursuing residential re-zoning	Progressing
Lakes Business Park, Botany (South)	Industrial	Pursuing residential re-zoning	Progressing
105 Phillip Street, Parramatta	Office	Develop and lease	Secured HoA with Government Property NSW
79-99 St Hilliers Road, Auburn	Industrial	Rezone, lease and develop	Secured HoA with Bunnings for warehouse and adjoining office
12 Frederick Street, St Leonards	Mixed use	Rezone, lease and develop	Secured HoA with major tenant for long term lease

1. Calculated as an arithmetic average.  
2. Pre-tax.



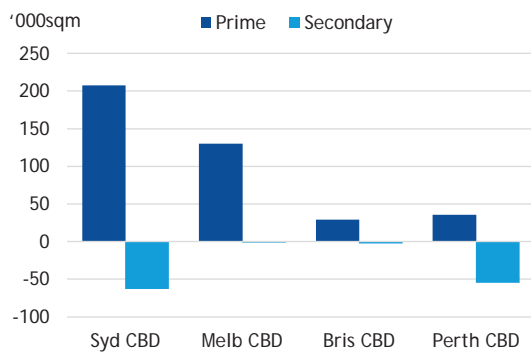
# MARKET OUTLOOK



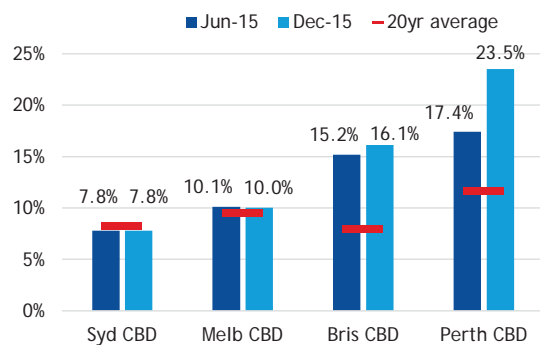
## MARKET OUTLOOK – Nationally Prime space is benefiting from flight to quality

- Net absorption in Prime buildings is far exceeding take-up in secondary
- Flight to quality will accelerate take-up of new supply in FY16
- Vacancy rates are at or below the long term average in Sydney and Melbourne
- Significant new supply has been added in Brisbane and Perth over the past six months

Net absorption by grade (CY15)



Current vacancy vs long term average



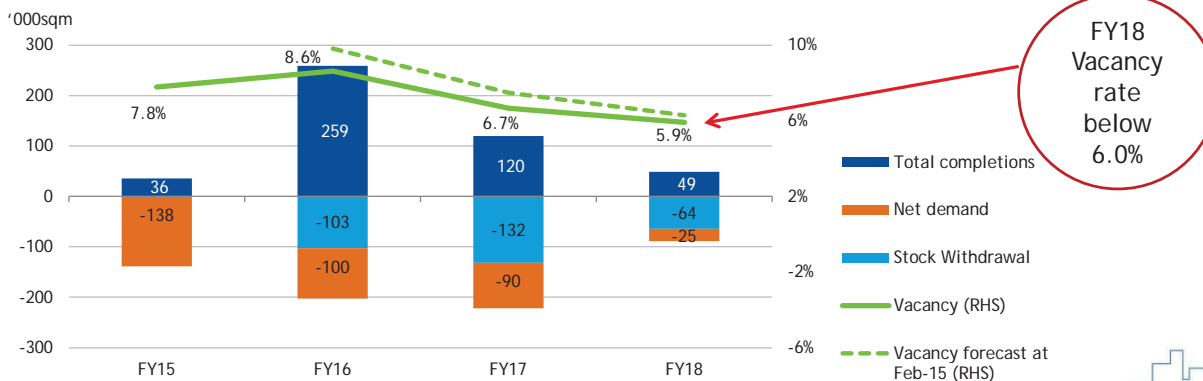
Source: JLL Research, DEXUS Research and MSCI-IPD.



# MARKET OUTLOOK – Sydney CBD vacancy to tighten quickly

## DEXUS expectations

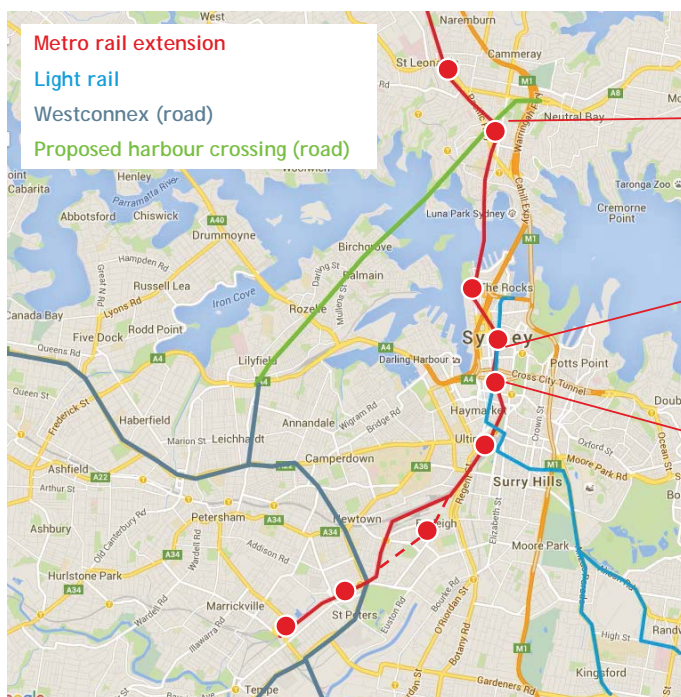
<b>428,000sqm of supply over the next 3 years</b>	<b>299,000sqm of withdrawals over the next 3 years</b>	<b>215,000sqm of net absorption over the next 3 years</b>	<b>Flight to quality above average take up in prime space</b>	<b>Vacancy to increase in FY16 Barangaroo effect</b>
<ul style="list-style-type: none"> <li>8.5% of stock, around 1.5 times average</li> <li>Barangaroo completion in FY17 followed by decline in supply in FY18</li> </ul>	<ul style="list-style-type: none"> <li>20% to be withdrawn for Sydney Metro</li> <li>47% of withdrawals will be permanent</li> <li>Withdrawal rate higher than previous decade average (~40,000sqm p.a.)</li> </ul>	<ul style="list-style-type: none"> <li>Comparable with 20 year historic average net absorption of 87,000sqm p.a. (ex Tech Wreck &amp; GFC) (50,000sqm p.a. inc Tech Wreck &amp; GFC)</li> </ul>	<ul style="list-style-type: none"> <li>Past 12 months +208,000 net absorption of Prime</li> <li>Includes +63,000sqm net movement (secondary to prime)</li> </ul>	<ul style="list-style-type: none"> <li>259,000sqm of supply (81.3% committed)</li> <li>Limited supply FY17-18 will see vacancy quickly reduce</li> </ul>



Source: DEXUS Research, JLL Research.



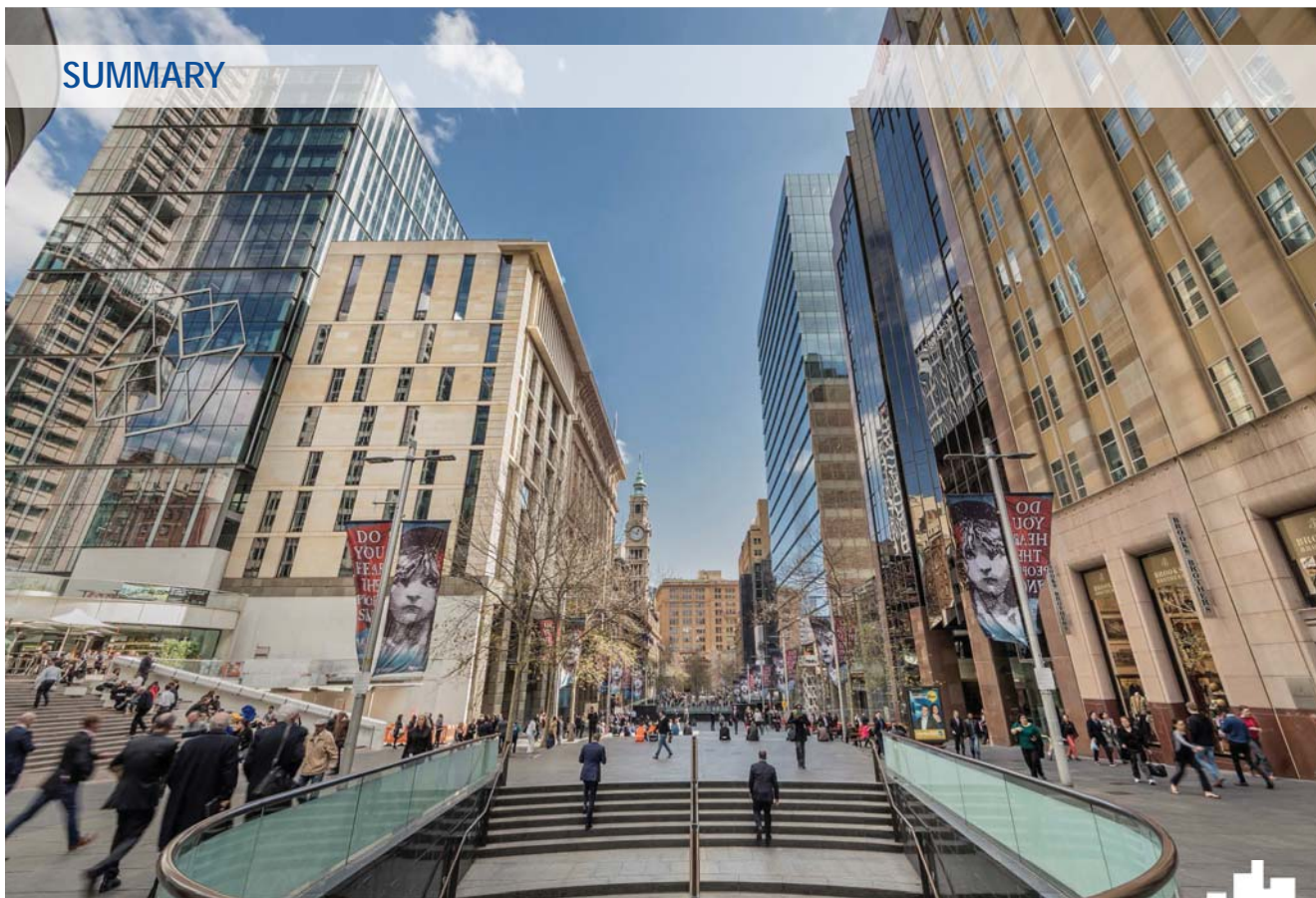
# MARKET OUTLOOK – Sydney withdrawals to increase due to future infrastructure



<b>Victoria Cross Station</b>	<b>16,617sqm</b>
189 Miller Street	3,123
181 Miller Street	12,074
194 Miller Street	1,420
<b>Martin Place Station</b>	<b>45,710sqm</b>
55 Hunter Street	-13,644
5 Elizabeth Street	-8,384
12 Castlereagh Street	-7,341
39 Martin Place	-16,341
<b>Pitt Street Station</b>	<b>13,021sqm</b>
175 Castlereagh Street	-11,848
125 Bathurst Street	-670
131 Bathurst Street	-503



# SUMMARY



## SUMMARY – Outlook

Key areas of the business are in a strong position

PROPERTY PORTFOLIO	FUNDS MANAGEMENT & PROPERTY SERVICES	TRADING
Focus on increasing occupancy >95%	Organic growth supported by \$2.1bn development pipeline <sup>1</sup>	Pipeline enhanced with priority projects to FY20
80%- 90% FFO <sup>2</sup>	10%-20% FFO <sup>2</sup>	

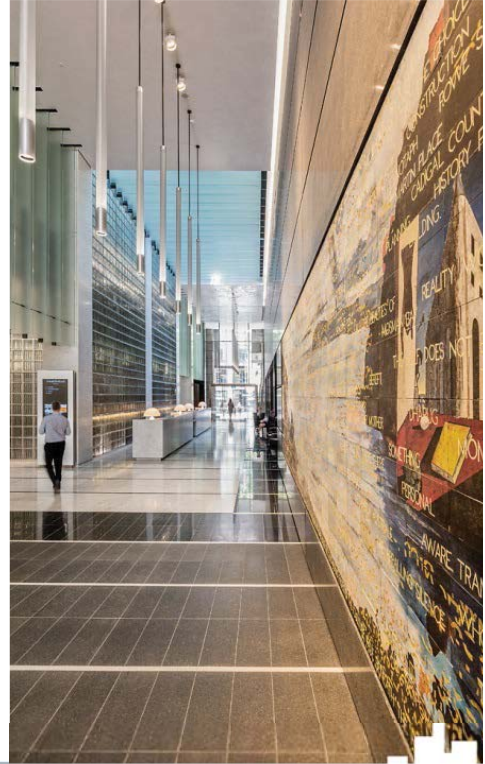
1. Remaining spend on development pipeline is \$1.5bn, including \$718m uncommitted projects.  
 2. FFO contribution is calculated before Finance costs and Group Corporate costs.



## SUMMARY

- Lower for longer domestic interest rate cycle to continue in an uncertain economic environment
  - Office market fundamentals in Sydney expected to continue to improve
  - Investment demand strength retained as investors seek the defensive nature of property
- Maintain market guidance<sup>1</sup> for the 12 months ending 30 June 2016
  - FFO per security growth of 5.5-6.0%
  - Payout in line with free cash flow to deliver growth in distribution per security of 5.5-6.0%

1. Barring unforeseen circumstances guidance is supported by the following assumptions: circa 1% like-for-like income growth across the DEXUS Office portfolio and circa 7% decline in like-for-like income across the DEXUS Industrial portfolio, weighted average cost of debt of 4.9%, trading profits of \$63m net of tax, Management Operations FFO of circa \$45m (including third party development management fees), and excluding the IOF Proposal and any further transactions.



## APPENDICES





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## GROUP HIGHLIGHTS – DEXUS today

DEXUS PORTFOLIO	THIRD PARTY FUNDS PORTFOLIO	TOTAL GROUP PORTFOLIO
\$10.5bn	\$10.6bn	\$21.1bn
DEXUS owned and managed portfolio of Australian office and industrial properties	Management of a diverse portfolio of office, industrial and retail properties on behalf of third party partners and funds	
OFFICE: \$8.8bn	OFFICE: \$5.3bn	OFFICE: \$14.1bn
INDUSTRIAL: \$1.7bn	INDUSTRIAL: \$1.2bn	INDUSTRIAL: \$2.9bn
	RETAIL: \$4.1bn	RETAIL: \$4.1bn
DEVELOPMENT PIPELINE (future growth )		
DEVELOPMENT: \$1.1bn	DEVELOPMENT: \$2.1bn	DEVELOPMENT: \$3.2bn

## IOF MERGER WITH DEXUS – Background

- Proposal to merge with Investa Office Fund (IOF) arose as result of an unsolicited approach from the advisors to the Independent Board Committee (IBC) of Investa Listed Funds Management Limited (ILFML)
- Following completion of due diligence, on 18 December 2015 DEXUS and ILFML each announced that they had entered into a binding Implementation Agreement (MIA) under which DEXUS will seek to acquire all of the units in IOF
- The IBC of ILFML has resolved that they intend to unanimously recommend that IOF Unitholders vote in favour of the Proposal, in the absence of a superior proposal and subject to an Independent Expert concluding that the Proposal is in the best interests of IOF Unitholders
- Implementation will be via an IOF informal trust scheme and requires, among other things, the approval of IOF Unitholders at a meeting on 8 April 2016

### Proposed key timeline of events

First judicial advice hearing	8 March 16
NOM despatched to IOF Unitholders	9 March 16
Cut off for receipt of proxies	10am, 6 April 16
IOF Unitholder meeting to approve the Proposal	10am, 8 April 16
Second judicial advice hearing	12 April 16
Effective date	13 April 16
Implementation date	29 April 16

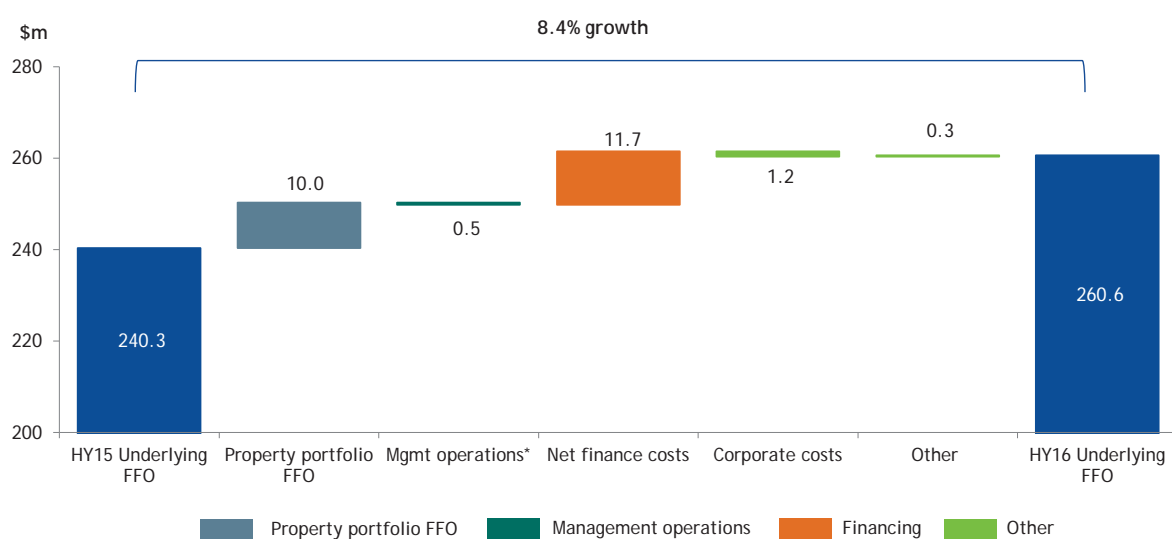


## FINANCIAL RESULTS – Reconciliation to statutory net profit

- The table below shows the breakdown of DEXUS's FFO and AFFO which is in accordance with the PCA definition outlined in the PCA white paper "Voluntary best practice guidelines for disclosing FFO and AFFO"

Reference	Item	31 Dec 2015 \$m	31 Dec 2014 \$m
<b>Statutory AIFRS net profit after tax</b>		<b>797.5</b>	<b>257.8</b>
<b>A Investment property and inventory</b>			
A2	(Gains)/losses from sales of investment property	(15.0)	1.3
A3	Fair value gain on investment property	(533.7)	(109.3)
<b>C Financial instruments</b>			
C2	Fair value (gain)/loss on the mark-to-market of derivatives	(21.2)	20.2
<b>D Incentives and rent straight-lining</b>			
D1	Amortisation of fit out incentives	22.8	21.1
D2	Amortisation of lease fees	3.9	3.0
D4	Amortisation of rent-free periods	23.5	19.3
D5	Rent straight-lining	(4.0)	(4.5)
<b>E Tax</b>			
E1	Non-FFO deferred tax benefits	7.9	9.0
<b>F Other unrealised or one-off Items</b>			
F1	Recycling of foreign currency translation reserve (FCTR)	-	2.1
F2	Other unrealised or one-off items	42.2	38.4
<b>FFO</b>		<b>323.9</b>	<b>258.4</b>
<b>G Maintenance and leasing capex</b>			
G1	Maintenance capital expenditure	(34.8)	(20.3)
G2	Cash incentives and leasing costs paid	(27.7)	(21.9)
G3	Rent free incentives	(30.7)	(27.5)
<b>AFFO</b>		<b>230.7</b>	<b>188.7</b>
<b>Distribution</b>		<b>223.1</b>	<b>178.2</b>
<b>AFFO Payout ratio (Distribution/AFFO)</b>		<b>96.7%</b>	<b>94.4%</b>

## FINANCIAL RESULTS – Underlying FFO growth drivers



\* 'Management Operations' income includes Development management fees.

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## FINANCIAL RESULTS – Management operations profit

### Management operations profit

HY16 (\$m)	Property Mgmt	Funds Mgmt	Mgmt Operations	Dev't & Trading <sup>2</sup>
Revenue	26.8	21.8	48.6	207.7
Operating expenses <sup>1</sup>	(21.4)	(8.3)	(29.7)	(3.0)
Cost of sales –trading	-	-	-	(114.3)
Total operating expenses	(21.4)	(8.3)	(29.7)	(117.3)
<b>HY16 net profit</b>	<b>5.4</b>	<b>13.5</b>	<b>18.9</b>	<b>90.4</b>
HY16 margin	20%	62%		
HY15 margin	30%	59%		

1. Comprises property management salaries of \$8.0m and management operations expenses of \$13.4m.  
 2. Net profit from Development & Trading comprises \$90.4m from trading (\$63.3m net of tax).

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## FINANCIAL RESULTS – Cash flow reconciliation

	31 Dec 2015 \$m	31 Dec 2014 \$m
Cash flow from operating activities	438.5	352.6
add back: payment for inventory acquisition and capex	22.4	21.6
less: cost of sale of inventory	(114.3)	(84.0)
add: proceeds from sale of Rosebery received in advance	1.7	(12.1)
add: receivable from sale of Mascot	5.0	-
add: tax on sale of 88 Shortland Street	4.5	-
less: tax on trading profits not yet paid	(27.1)	(2.3)
add back: capitalised interest	3.7	3.2
adjustments for equity accounted distributions	(38.2)	(53.4)
other working capital movements	4.5	8.4
<b>Adjusted cash flow from operating activities</b>	<b>300.7</b>	<b>234.0</b>
Rent free income	27.7	27.5
Depreciation and amortisation (incl. deferred borrowing costs)	(4.5)	(3.1)
FFO	323.9	258.4
Less: maintenance capex and incentives	(93.2)	(69.7)
AFFO	230.7	188.7
less: gross distribution	(223.1)	(178.2)
<b>Cash surplus</b>	<b>7.6</b>	<b>10.5</b>

## FINANCIAL RESULTS – Interest reconciliation

	31 Dec 2015 \$m	31 Dec 2014 \$m
<b>Total statutory finance costs</b>	<b>73.3</b>	<b>126.3</b>
Less: unrealised interest rate swap MTM loss <sup>1</sup>	(10.3)	(51.2)
Add: finance costs attributable to investments accounted for using the equity method	4.4	4.0
<b>Net finance costs for FFO</b>	<b>67.4<sup>2</sup></b>	<b>79.1</b>
Add: interest capitalised	3.9	3.2
<b>Gross finance costs for cost of debt purpose</b>	<b>71.3</b>	<b>82.3</b>

1. Net fair value loss of interest rate swap of \$16.5m (per note 2) includes realised interest rate swap expense of \$6.2m and unrealised interest rate swap MTM loss of \$10.3m.

2. Excludes interest income of \$0.5m.

## FINANCIAL RESULTS – Change in net tangible assets and revaluations

	\$m	\$ps	Investment portfolio	Valuation change \$m	Cap rate %	% of portfolio
Opening net tangible assets (30 Jun 15)	6,485	6.68	DEXUS office portfolio	528	6.30	84%
Revaluation of real estate	534	0.55	DEXUS Industrial portfolio	6	7.56	16%
Retained earnings <sup>1</sup>	101	0.10	Total DEXUS portfolio	534	6.50	
Amortisation of tenant incentives <sup>2</sup>	(46)	(0.05)				
Buyback of equity	(20)	-				
Fair value movements <sup>3</sup>	(33)	(0.03)				
NTA changes in comprehensive income	536	0.57				
Closing net tangible assets (31 Dec 15)	7,021	7.25				

1. Represents HY16 FFO less distributions.

2. Includes rent straight-lining.

3. Primarily includes fair value movements of derivatives and interest bearing liabilities, deferred tax, gain from sale of investment properties, movement in reserves and other.

## FINANCIAL RESULTS – Direct property portfolio movements

	Office <sup>1</sup> \$m	Industrial <sup>1</sup> \$m	DEXUS total <sup>1</sup> \$m	Trading assets <sup>2</sup> (inventory)
Opening direct property	7,822	1,711	9,533	275
Lease incentives <sup>3</sup>	52	6	58	-
Maintenance capex	25	10	35	-
Acquisitions	347	-	347	-
Transfer to inventories <sup>4</sup>	-	-	-	80
Developments <sup>5</sup>	116	43	159	22
Disposals <sup>6</sup>	(33)	(120)	(153)	(114)
Revaluations	528	6	534	-
Amortisation	(45)	(5)	(50)	-
Rent straightlining	3	1	4	-
Closing balance at the end of the period	8,815	1,652	10,467	263

1. Includes DEXUS's share of equity accounted investments.

2. Assets held by DXO are also included in Office, Industrial and DEXUS total amounts.

3. Includes rent free incentives.

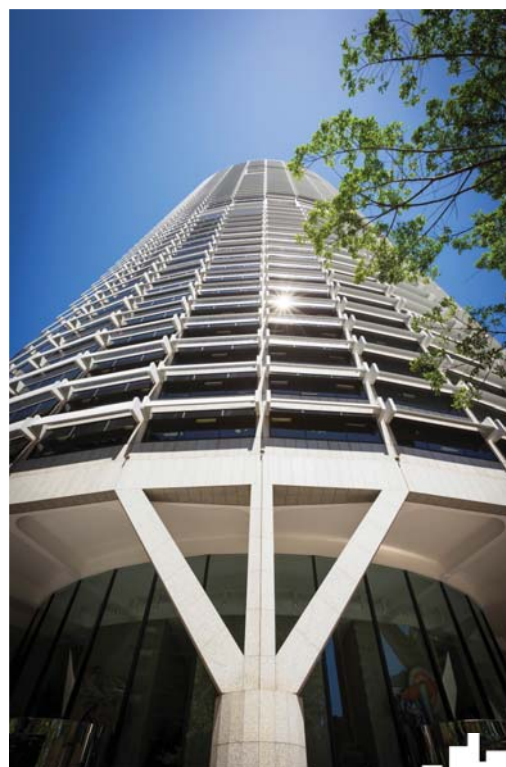
4. Transfers to inventories are eliminated within the Office, Industrial and DEXUS total amounts.

5. Includes capitalised interest.

6. At book value.

## CAPITAL MANAGEMENT – HY16 overview

Key metrics	31 Dec 2015	30 June 2015
Total debt <sup>1</sup>	3,273m	\$2,774m
Cost of debt <sup>2</sup>	4.9%	5.2%
Gearing (look-through) <sup>3</sup>	29.5%	28.5%
Headroom (approximately) <sup>4</sup>	\$0.4bn	\$0.8bn
Debt duration	5.2 years	5.7 years
S&P/Moody's rating	A-/A3	A-/A3
Covenant gearing (covenant <sup>5</sup> <55%)	28.4%	27.2%
Interest cover (covenant <sup>5,6</sup> >2.0x)	4.9x	4.8x
Priority debt (covenant <sup>5</sup> <30%)	0%	0%

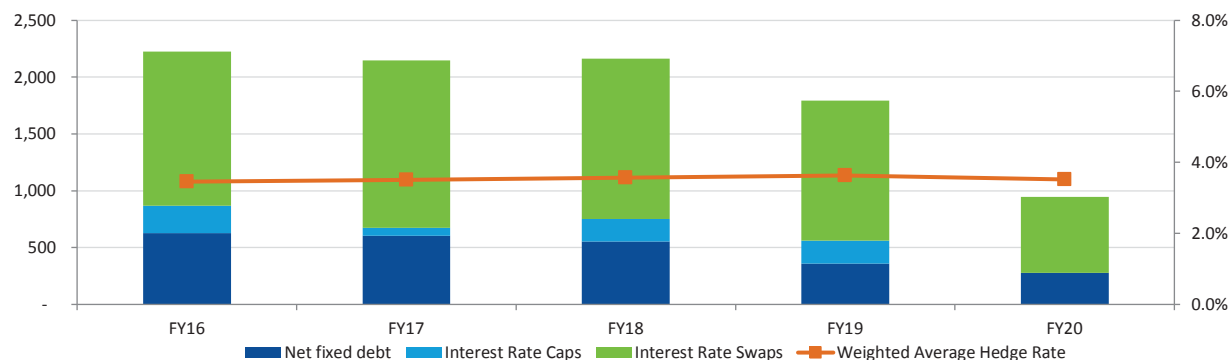


1. Total debt does not include \$183m of debt in an equity accounted investment.
2. Weighted average for the period.
3. Adjusted for cash and for debt in equity accounted investments.
4. Undrawn facilities plus cash. Excluding forward start commitments.
5. As per public bond covenants.
6. Look-through interest cover is 4.6x.

## CAPITAL MANAGEMENT – Interest rate hedging profile

Hedging profile	31 Dec 2015	30 June 2015
Average amount of debt hedged <sup>1</sup>	73%	76%
Average amount of debt hedged excluding caps	64%	69%
Weighted average interest rate on hedged debt <sup>2</sup>	3.5%	3.7%
Weighted average fixed & floating rate <sup>3</sup>	4.9%	5.2%
Weighted average maturity of interest hedges	3.9 years	3.8 years

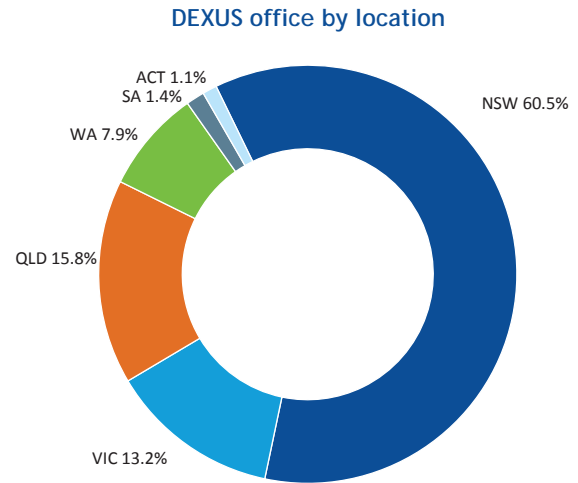
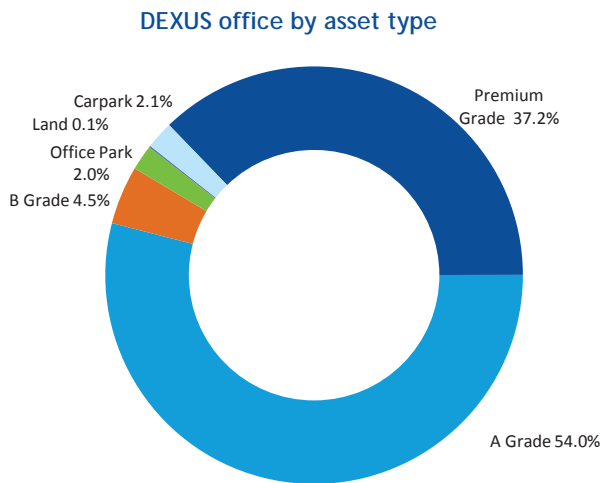
### Hedge maturity profile



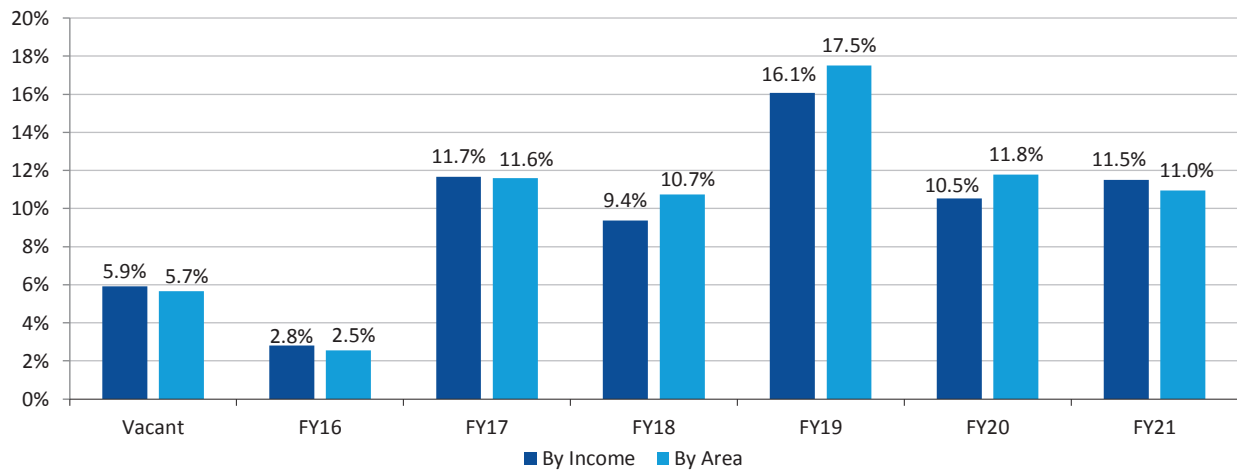
1. Average amount hedged for the period (including caps).
2. Including fixed rate debt (without credit margin).
3. Including fees and margins.



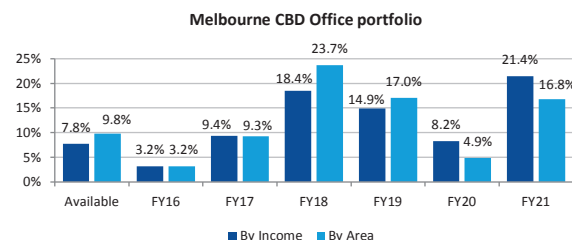
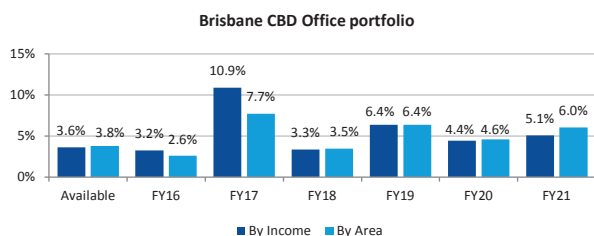
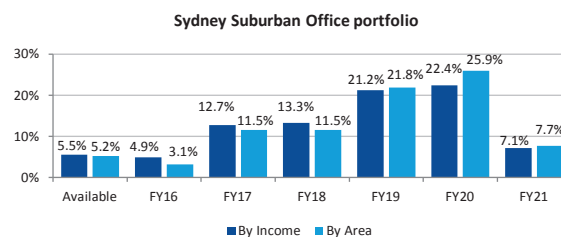
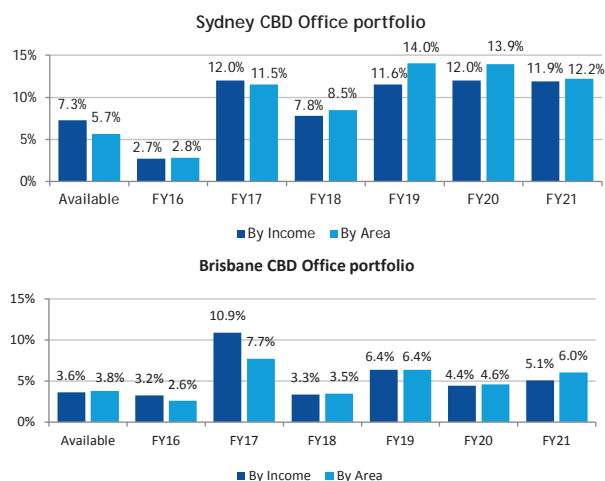
## PORTFOLIO RESULTS – Office portfolio diversification



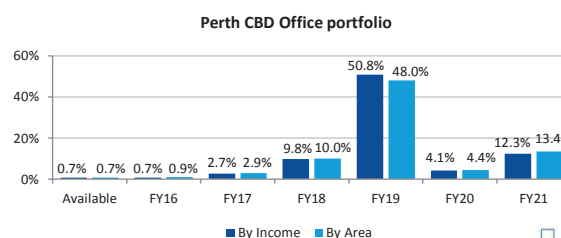
## PORTFOLIO RESULTS – Office lease expiry profile at 31 December 2015



## PORTFOLIO RESULTS – Office lease expiry profiles at 31 December 2015



DEXUS Office <sup>1</sup>	Value (\$m)	Cap rate (%)	Yield (%)
Sydney CBD	4,482.0	5.8	5.7
Sydney Suburban	837.8	7.4	7.4
Melbourne CBD	1,129.3	6.6	6.5
Brisbane CBD	1,159.5	6.5	6.8
Perth CBD	699.7	7.0	8.5

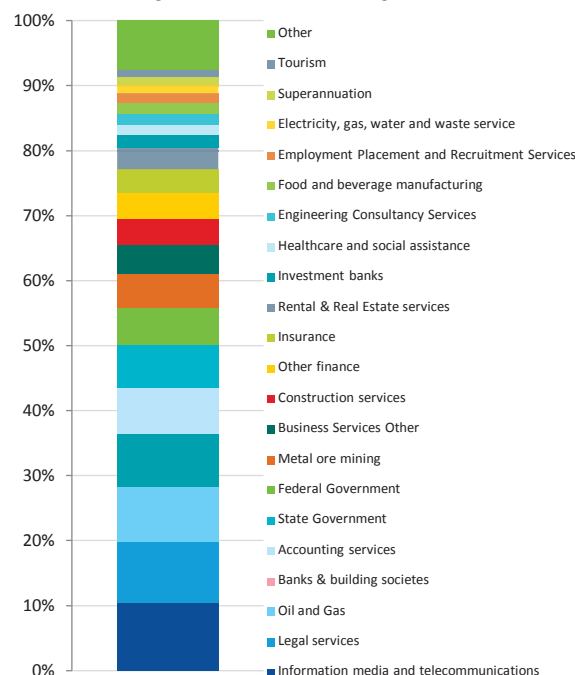


1. Includes stabilised properties only. Excludes Adelaide and Canberra office properties.

## PORTFOLIO RESULTS – Office portfolio top 10 tenants

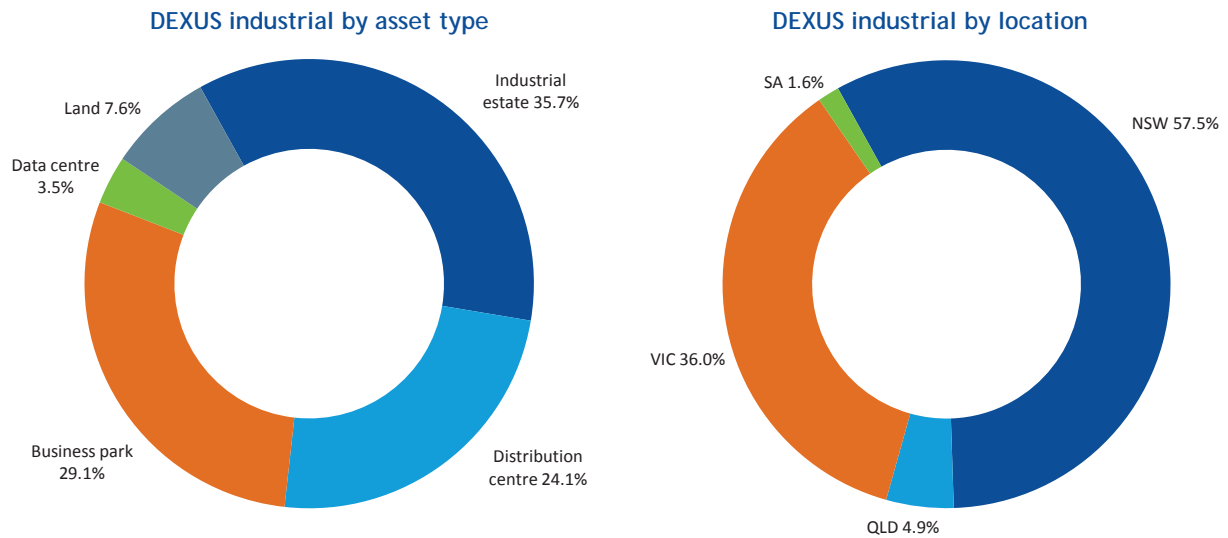
Office tenant	S&P rating	% of income <sup>1</sup>
Woodside Energy	BBB+ positive	4.0%
Commonwealth of Australia	AAA Stable	3.9%
Wilson Parking Australia	Not rated	3.4%
Rio Tinto	A- negative	2.8%
Commonwealth Bank of Australia	AA- stable	2.6%
State of NSW	AAA negative	2.0%
Deloitte Services Pty Ltd	Not rated	1.7%
Lend Lease Management Services	BBB- stable	1.5%
State Of Victoria	AAA stable	1.3%
The Herald & Weekly Times		1.2%

### Diversity of office tenants by income

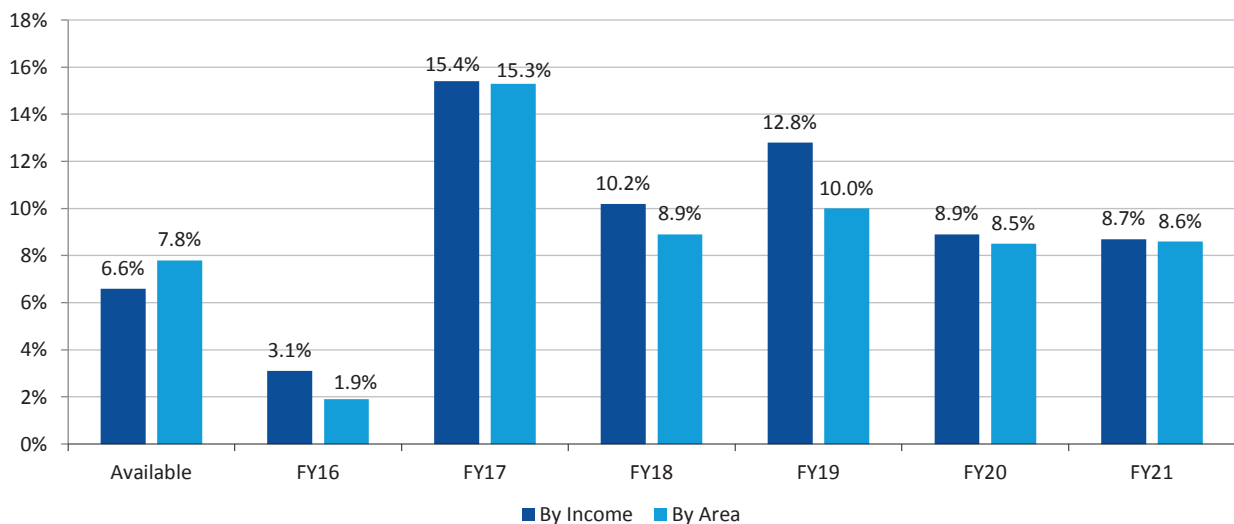


1. 31 December 2015 fully leased DEXUS portfolio passing income.

## PORTFOLIO RESULTS – Industrial portfolio diversification

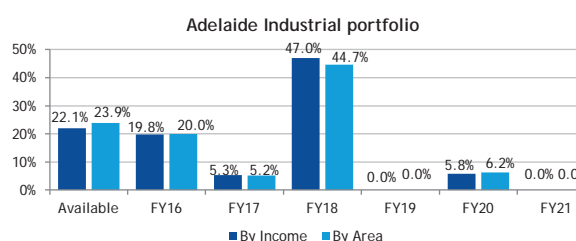
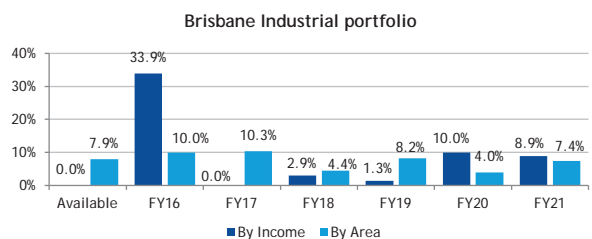
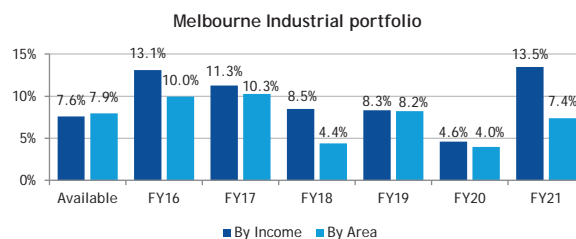
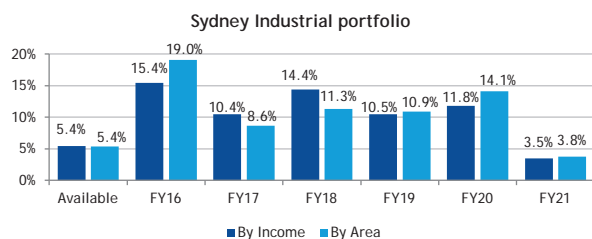


## PORTFOLIO RESULTS – Industrial lease expiry profile at 31 December 2015





## PORTFOLIO RESULTS – Industrial lease expiry profiles at 31 December 2015

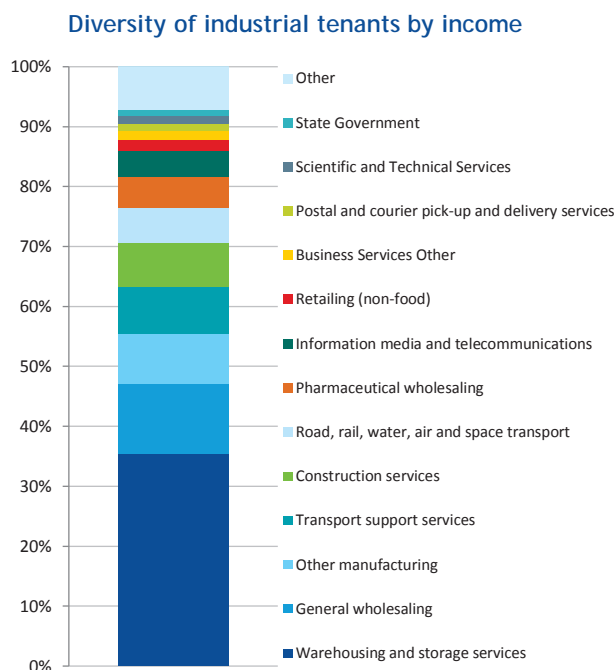


DEXUS Industrial <sup>1</sup>	Value (\$m)	Cap rate (%)	Yield (%)
Sydney	733.2	7.5	6.6
Melbourne	567.0	7.8	7.4
Brisbane	55.8	7.5	8.1
Adelaide	25.9	11.0	12.8

1. Includes stabilised properties only.

## PORTFOLIO RESULTS – Industrial portfolio top 10 tenants

Industrial tenant	% of income <sup>1</sup>
Wesfarmers Limited	1.2%
AWH	0.6%
IBM Australia	0.5%
Visy Industry Packaging Pty Ltd	0.4%
Blackwoods	0.4%
Fedex	0.4%
Fonterra Co-Operative Group	0.3%
Toll Transport Pty Ltd	0.3%
Agility Logistics	0.2%
Reece	0.2%

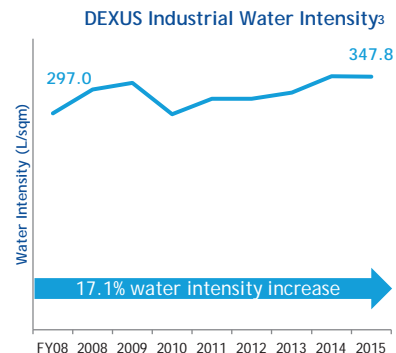
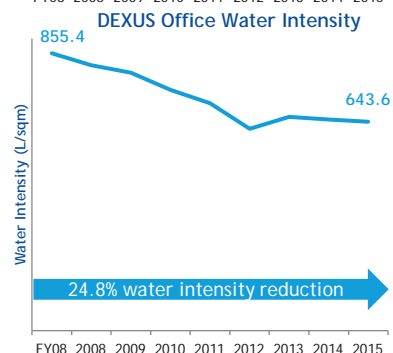
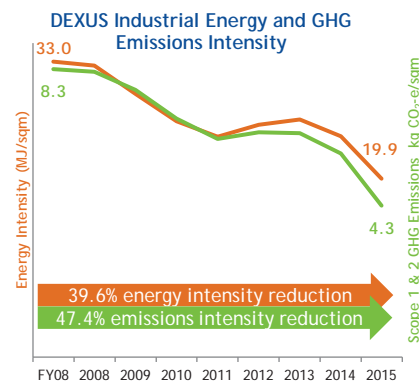
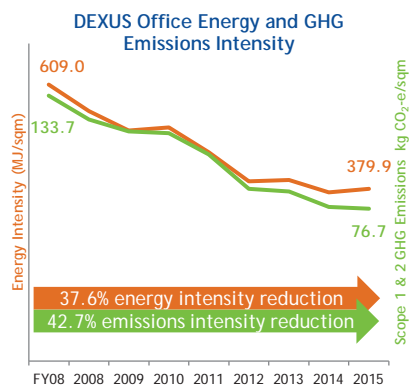
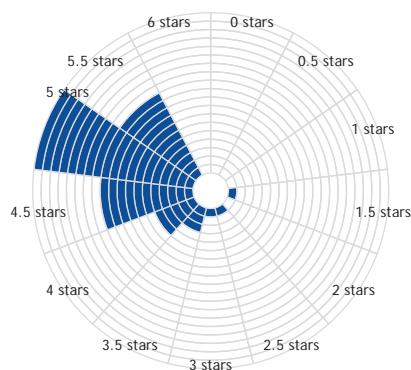


1. 31 December 2015 fully leased DEXUS portfolio passing income.

## PORTFOLIO RESULTS – Office and Industrial portfolio sustainability metrics

DEXUS office portfolio	NABERS Energy average rating	NABERS Water average rating
Dec 12	4.7 <sup>1</sup>	3.5 <sup>1</sup>
Dec 13	4.8 <sup>1</sup>	3.5 <sup>1</sup>
Dec 14	4.6 <sup>2</sup>	3.5 <sup>2</sup>
Dec 15	4.7 <sup>2</sup>	3.8 <sup>2</sup>

### Office: NABERS Energy Ratings by Area



Note: Data in charts is unaudited.

- NABERS ratings on a like-for-like basis.
- NABERS ratings on an absolute basis.
- Water consumption is primarily under the control of tenants, with the increase in 2014 and 2015 due to tenant demand for water at Kings Park Industrial Estate.

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**DEXUS**  
PROPERTY GROUP

## PORTFOLIO RESULTS – DEXUS completed developments and pipeline

Pipeline	Building area sqm <sup>1</sup>	Project cost A\$m <sup>2</sup>	Yield on cost %	Space leased %	Completion
<b>Office</b>					
5 Martin Place, Sydney, NSW	33,639	111	7.03%	96% <sup>3</sup>	Sep-15
Kings Square, Perth, WA	53,493	217	8.06%	100%	Nov-15
<b>Total office</b>	<b>87,132</b>	<b>328</b>			
<b>Industrial</b>					
Supply Network at Quarry, NSW	7,900	15	7.50%	100%	Oct-15
Quarry at Greystanes, NSW	1,831	4	7.20%	100%	Nov-15
<b>Total industrial</b>	<b>9,731</b>	<b>19</b>			
<b>Total developments completed</b>	<b>96,863</b>	<b>347</b>			

### DEXUS development pipeline<sup>6</sup>

	FY16	FY17	FY18+
	480 Queen Street, Brisbane <sup>4</sup> \$298m <sup>2</sup> (\$78m)		
	Existing committed industrial pipeline \$213m <sup>2</sup> (\$129m) – (including Quarry, Quarrywest, Laverton North, Larapinta, Hemmant)		
		100 Mount Street, North Sydney \$234m <sup>2</sup> (\$234m)	
		105 Phillip Street, Parramatta <sup>5</sup> \$120m <sup>2</sup> (\$110m)	
		DEXUS Industrial Estate, Laverton North \$90m <sup>2</sup> (\$67m)	
		180 Flinders Street, Melbourne \$154m <sup>2</sup> (\$154m)	
		12 Creek Street, Brisbane \$24m <sup>2</sup> (\$24m)	
	Developments committed		
	Developments uncommitted		

- At 100%.
- DEXUS interest in development cost.
- 5 Martin Place, Sydney office space is 96% committed and retail space is 71% committed.
- Practical completion expected in February 2016.
- Also included in DEXUS trading pipeline.
- Development pipeline shows total estimated project cost and (est. cost to complete).

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**DEXUS**  
PROPERTY GROUP



## PORTFOLIO RESULTS – DEXUS committed developments and portfolio capex

Pipeline	Building area sqm <sup>1</sup>	Project cost A\$m <sup>2,3</sup>	Yield on cost %	Leased %	Completion due
<b>Office</b>					
480 Queen Street, Brisbane, QLD	56,754	298	7.0%	100%	Early 2016
105 Phillip Street, Parramatta, NSW <sup>4</sup>	20,000	120	8.25-8.75%	100%	n/a
100 Mount Street, North Sydney, NSW <sup>5</sup>	41,163	234	Circa 7.3%	15%	Late 2018
<b>Total office</b>	<b>117,917</b>	<b>652</b>			
<b>Industrial</b>					
1 Litton Close, Greystanes, NSW	20,489	30	Circa 8.0%	100%	Mid 2016
Quarrywest, Greystanes, NSW	90,580	62	Circa 8.0%	0%	Mid 2018
Quarrywest Toshiba & Specs, Greystanes, NSW	36,375	30	Circa 8.0%	59%	Mid 2016
Kathmandu, Laverton, VIC	25,650	26	Circa 7.4%	100%	Mid 2016
Wrightson Seeds, Laverton, VIC	10,194	12	Circa 7.0%	100%	Mid 2016
Radius Industrial Estate, Larapinta, QLD	22,950	13	Circa 8.7%	0%	Early 2016
1 Anton Road, Hemmant, QLD	66,100	41	Circa 8.5%	0%	Mid 2017
<b>Total industrial</b>	<b>272,338</b>	<b>213</b>			
<b>Total developments committed</b>	<b>390,255</b>	<b>865</b>			

DEXUS total portfolio capital expenditure	Actual HY16	Estimated FY16
Maintenance capital expenditure	\$34.8m	\$60-70m
Cash incentives and leasing costs	\$30.7m	\$60-70m
<b>Total capital expenditure</b>	<b>\$65.5m</b>	<b>\$120-140m</b>

1. At 100%.  
 2. Including land.  
 3. DEXUS interest in development cost.

4. Also in DEXUS trading pipeline.  
 5. Acquired post 31 December 2015.

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## PORTFOLIO RESULTS – DEXUS uncommitted developments

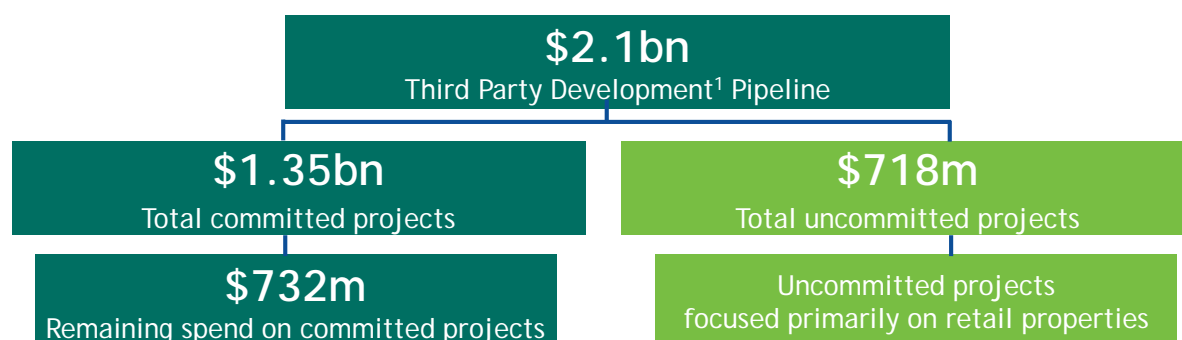
Pipeline	Building area <sup>1</sup> sqm	Project est. <sup>2,3</sup> \$m	Est. cost to completion \$m	Est. yield on est. project cost %
<b>Office</b>				
180 Flinders Street, Melbourne, VIC	17,143	154	154	6.0-6.5%
12 Creek Street, Brisbane, QLD	5,000	24	24	9.0-9.5%
<b>Total office</b>	<b>22,143</b>	<b>178</b>	<b>178</b>	
<b>Industrial</b>				
DEXUS Industrial Estate, Laverton North, VIC <sup>4</sup>	87,443	90	67	7.5-8.0%
<b>Total industrial</b>	<b>87,443</b>	<b>90</b>	<b>67</b>	
<b>Total uncommitted</b>	<b>109,586</b>	<b>268</b>	<b>245</b>	

1. At 100%.  
 2. Including land.  
 3. DEXUS share.  
 4. Stage 3 estimated cost includes cost of land sales and excludes Kathmandu facility which is now committed.

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## THIRD PARTY FUNDS MANAGEMENT – Development pipeline



### Remaining spend on committed projects in Third Party Funds

Committed projects	FY16	FY17	FY18/19
Office - 4 properties		\$419m	
Retail - 6 properties		\$224m	
Industrial - 4 properties		\$90m	
<b>Remaining spend on committed Third Party projects</b>		<b>\$732m</b>	

1. Third party funds' or partners' share of development spend and including DEXUS third party funds' or partners' share of Westfield redevelopments.

## TRANSACTIONS

DEXUS acquisitions <sup>1</sup>	Purchase price \$m	Interest	Cap rate	Settlement date
193 Mary Street, QLD	7.0	50%	7%	30 Oct 15
100 Mount Street, NSW <sup>2</sup>	20.5	50%	n/a	Apr 16
<b>Total</b>	<b>27.5</b>			

DEXUS divestments	Sale price \$m	Interest	Settlement date
36 George Street, NSW	47.5	50%	13 Nov 15
57-65 Templar Road, NSW	50.0	100%	Jul 16
<b>Total</b>	<b>97.5</b>		

DWPF acquisitions	Purchase price \$m	Interest	Cap rate	Settlement date
193 Mary Street, QLD	7.0	50%	7%	30 Oct 15
100 Mount Street, NSW <sup>2</sup>	20.5	50%	n/a	Apr 16
<b>Total</b>	<b>27.5</b>			

DWPF divestments	Sale price \$m	Interest	Settlement date
2 Costello Place, NSW	14.8	100%	25 Sep 15
29-41 Lysaght Street, QLD	21.6	100%	14 Dec 15
Cannon Park, QLD	31.5	100%	23 Dec 15
<b>Total</b>	<b>67.9</b>		

Other third party divestments	Sale price \$m	Interest	Settlement date
36 George Street, NSW	47.5	50%	13 Nov 15
<b>Total</b>	<b>47.5</b>		



1. Note that the acquisition of Waterfront Place was included in reported transaction metrics at DEXUS's FY15 result. The acquisition settled in October 2015.  
2. Acquired post 31 December 2015.

## TRANSACTIONS – Trading versus non-trading opportunities

Origination	Acquisitions <sup>1</sup>		Balance Sheet Assets	
Activity / Strategy	Reposition & Sell	Develop & Sell	Reposition/ Develop & Sell	Divestment (non trading)
Type	Trading asset <sup>2</sup> (inventory)	Trading asset <sup>2</sup> (inventory)	Trading asset <sup>2</sup> (transfer to inventory) <sup>3</sup>	Investment property (no transfer to trading)
Properties	<ul style="list-style-type: none"> <li>50 Carrington Street, Sydney</li> <li>40 Market Street, Melbourne</li> <li>Lakes Business Park (Southern site)</li> </ul>	<ul style="list-style-type: none"> <li>Wacol, Brisbane</li> <li>Laverton North, Melbourne</li> <li>Erskine Park, Sydney</li> </ul>	<ul style="list-style-type: none"> <li>32 Flinders Street, Melbourne</li> <li>105 Phillip Street, Parramatta</li> <li>79-99 St Hilliers, Auburn</li> <li>12 Frederick Street, St Leonards</li> </ul>	<ul style="list-style-type: none"> <li>Lumley Centre, NZ</li> <li>201 Kent Street, Sydney</li> <li>36 George Street, Burwood</li> </ul>
Accounting Treatment	<ul style="list-style-type: none"> <li>Net profit/loss after tax in FFO<sup>4</sup></li> </ul>	<ul style="list-style-type: none"> <li>Net profit/loss after tax in FFO<sup>4</sup></li> </ul>	<ul style="list-style-type: none"> <li>Net profit/loss after tax in FFO<sup>4</sup></li> <li>Transferred at fair value</li> </ul>	<ul style="list-style-type: none"> <li>Profit/loss on sale held in passive trust (DIT/DOT/DDF)</li> <li>Reflected in NTA</li> <li>Not recognised in FFO</li> </ul>

1. Assets or land acquired externally with the intention to sell for profit. 3. Intention changed to significantly participate in profit from change of use (residential, mixed-use or retail), development and subsequent sale. Future use may be uncertain.  
 2. Activities are undertaken in a tax paying entity (DXO). 4. Profits will not be recognised in FFO on any previous impairment amounts.

## TRADING – Track record since 2012

### TRADING PROFITS DELIVERED - developed or repositioned and sold eight properties

Settlement date	Property	Sector	Trading strategy	Sale price (\$m)	Trading profit <sup>1</sup> (\$m)	Unlevered project IRR
15 Jun 12	Lenore Drive, Erskine Park	Industrial	Develop	38.1	4.5	22.3%
12 Mar 14	57-101 Balham Road, Archerfield	Industrial	Reposition	24.5	0.8	9.4%
12 Mar 14	163-183 Viking Drive Wacol	Industrial	Reposition	38	3.2	14.6%
1 Jul 14	30 Distribution Drive, Laverton North	Industrial	Develop	9.5	1.0	16.3%
1 Dec 14	50 Carrington Street, Sydney	Office	Reposition	88	12.2	13.2%
22 May 15	40 Market Street, Melbourne	Office	Reposition	105.3	17.4	26.0%
21 Jul 15	5-13 Rosebery & 22-55 Rothschild Ave, Rosebery	Industrial	Reposition	190	91.8	49.9% <sup>2</sup>
31 Jul 15	154 O'Riordan Street, Mascot	Industrial	Reposition	32	15.9	36.7% <sup>2</sup>
	<b>Total</b>			<b>\$515.3m</b>	<b>\$146.8m</b>	<b>23.5%<sup>3</sup></b>

1. Pre-tax.  
 2. Unlevered IRR and includes the weighted cost of debt at 5.0% for the duration of the project.  
 3. Calculated as an arithmetic average.



## TRADING – Case study: 105 Phillip Street, Parramatta

### APPROACH

- 105 Phillip Street is a 4,500sqm car park site adjacent to 130 George Street, Parramatta
- Identified an opportunity to develop an office tower at the rear of the combined site with a central courtyard/atrium
- Transferred the site into inventory in 2013 and obtained development consent for a 25,000sqm office building
- Submission made to Government Property NSW

### OUTCOMES SO FAR

- Secured Heads of Agreement with Government Property NSW for a 12-year lease over 100% of the building and staged occupation commencing in March 2018



Proposed application to Parramatta City Council.

## TRADING – Case study: 79-99 St Hilliers Road, Auburn

### APPROACH

- The property is an older industrial estate spanning 3.5ha located 16km west of the Sydney CBD
- Demand for the older format warehouse and office product was declining
- Identified higher and better use to increase the site's relevance to the market and capitalise on its prominent location
- Transferred the estate into inventory during the period

### OUTCOMES SO FAR

- Secured Heads of Agreement for lease with Bunnings for a full-scale Bunnings Warehouse and adjoining office spanning 19,300sqm to be redeveloped on a portion of the existing estate
- DA was lodged in December 2015 including a subdivision proposal that will enable DEXUS to maximise the value of both portions of the site



## TRADING – Case study: 12 Frederick Street, St Leonards

### DEXUS APPROACH

- 12 Frederick Street, St Leonards is an industrial estate located across the road from Royal North Shore Private hospital
- DEXUS identified substantially higher and better use potential for the site
- DEXUS transferred the estate into inventory during the period

### OUTCOMES SO FAR

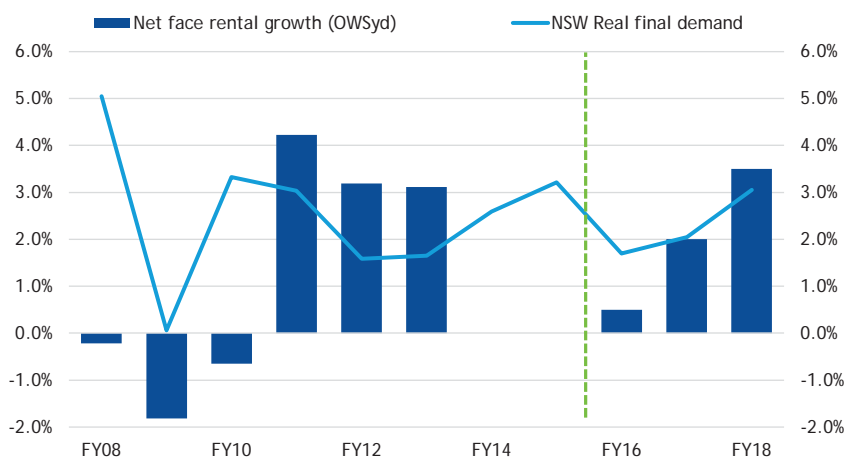
- Secured Heads of Agreement for lease with a major tenant for a long term lease at a new facility to be developed on the site
- Lodged rezoning Planning proposal for a mixed use complex over 70,000sqm



## MARKET OUTLOOK – Industrial market supported by growth in demand

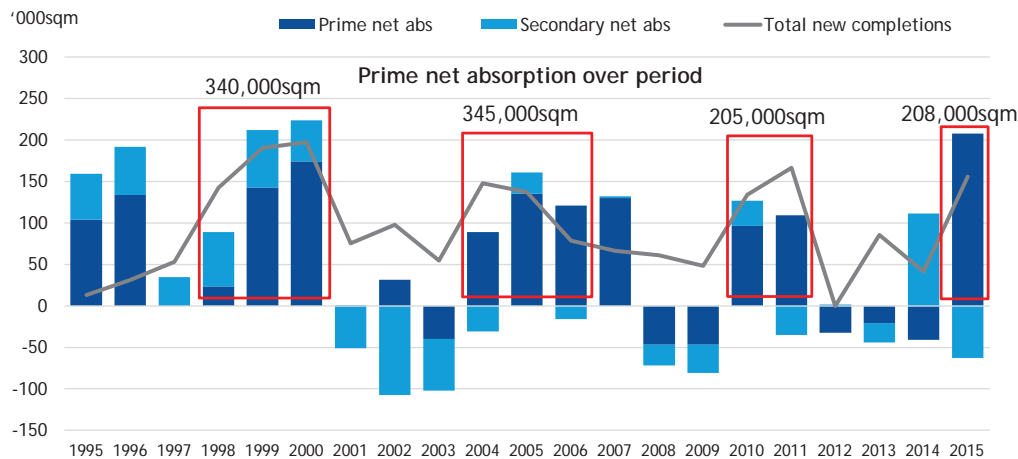
- Industrial demand benefitting from solid economic growth in NSW and VIC
- Activity supported by low interest rates and falling petrol prices
- Retailers and transport/logistics providers are key occupiers
- Increased take-up from growth sectors such as dairy and health/pharmaceutical

### Rental growth vs state final demand



# MARKET OUTLOOK – Sydney CBD absorption increases when new supply is added

## Sydney CBD net absorption by grade and total completions



Source: JLL Research, DEXUS Research.

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# MARKET OUTLOOK – Sydney CBD market has been stronger than predicted

Sydney CBD market has outperformed even DEXUS's positive view for the period FY14-16

- ✓ Actual demand likely to be c260,000 vs predicted 190,000sqm
- ✓ Vacancy rate is tracking lower than predicted

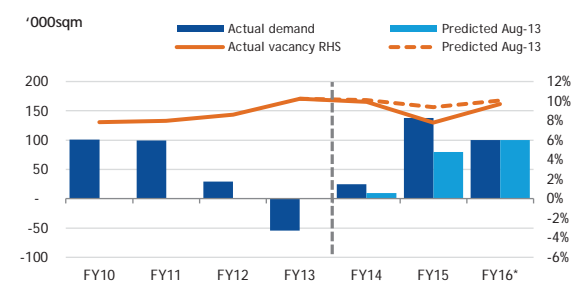
As predicted

- ✓ IT, education, health and business services have led demand
- ✓ Employment growth has outweighed the effect of workplace changes
- ✓ Flight to quality is absorbing prime space

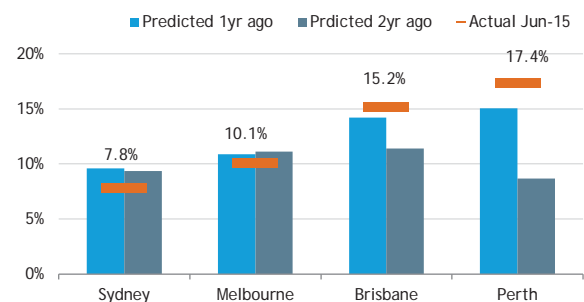
Similarly, Melbourne has outperformed due to solid demand

Brisbane and Perth have underperformed due to weaker than expected state economies

## Office demand for Sydney CBD - actual vs predicted



## Vacancy rate by city - actual and predicted



Note: Vacancy as at Dec-15: Syd 7.8%, Mel 10.0%, Bris 16.1%, Perth 23.4% (JLL)

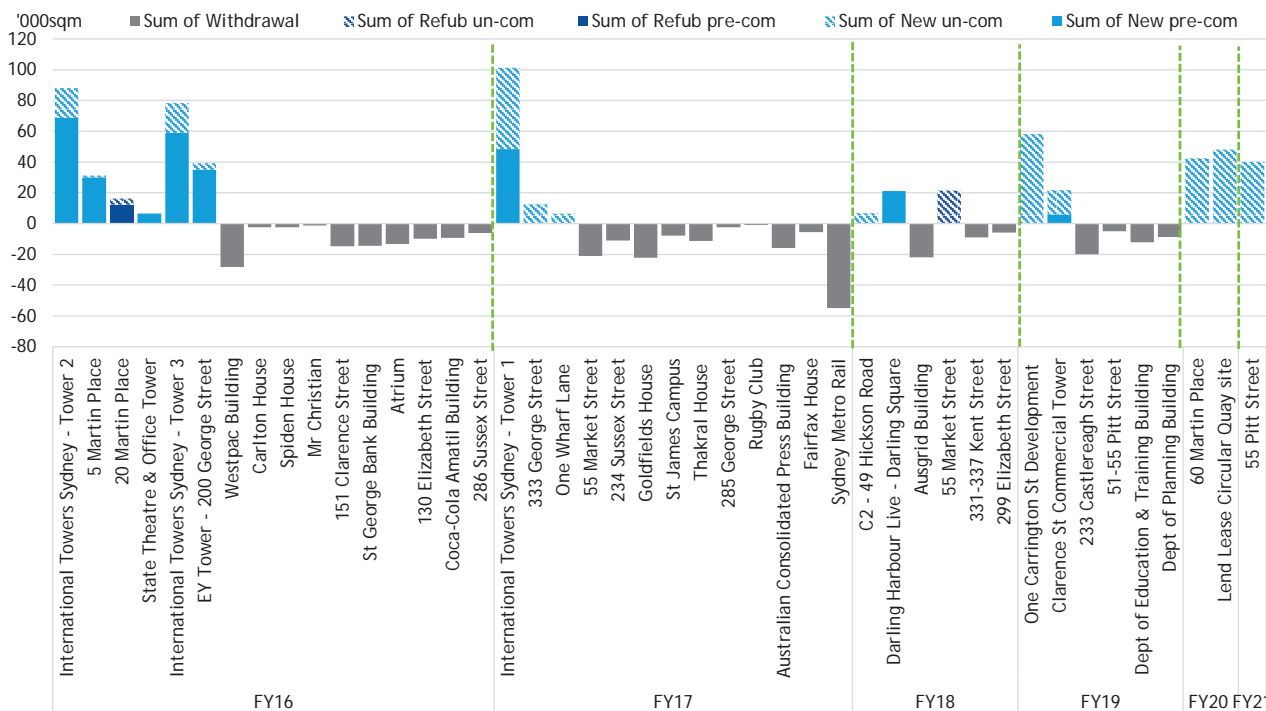
Source: DEXUS Research, JLL Research.

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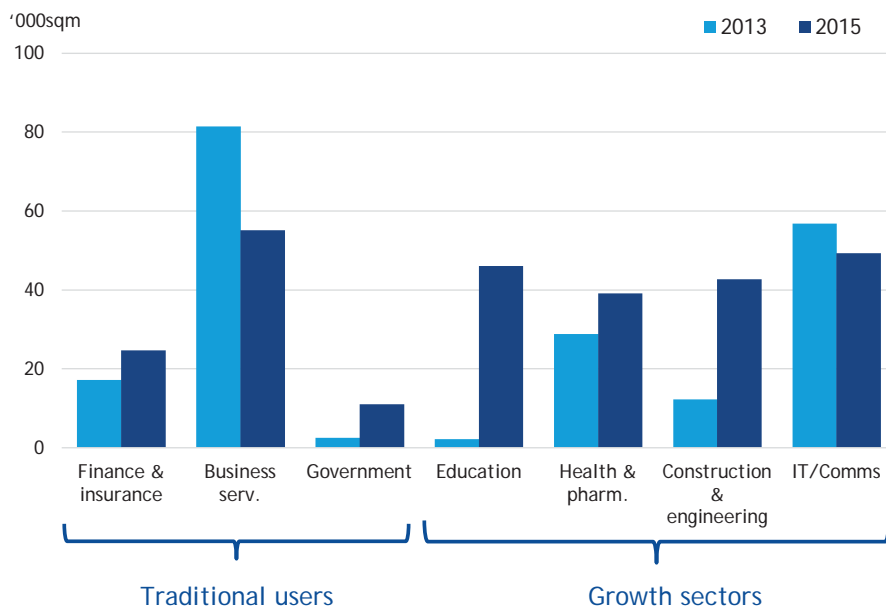
## MARKET OUTLOOK – Limited new Sydney supply from FY17 and substantial withdrawals



Source: DEXUS Research.

## MARKET OUTLOOK – Solid office enquiry from growth sectors

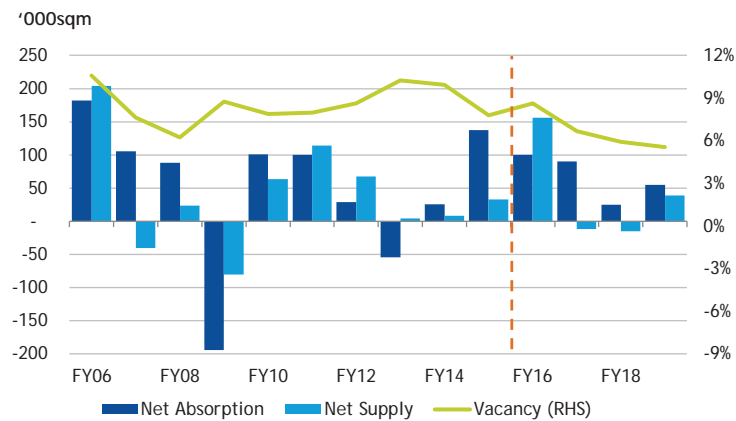
### Sydney CBD Lease enquiry by industry 2013 vs 2015



Source: Colliers International.

## MARKET OUTLOOK – Sydney CBD office

### Sydney CBD office market



Sydney CBD office market		At 31 Dec 2015
Total net lettable area		5.06 million sqm
Prime vacancy average		8.2%
DEXUS Sydney CBD exposure		
Net lettable area		608,300
Number of properties		18
% of portfolio by value		53%
Occupancy by area		94.2%
Occupancy by income		93.5%
Weighted average lease expiry		4.5 years

- Recovery well underway with demand to remain firm FY16-FY17
- Vacancy is sitting at 7.8% (Dec-15), well below the 10 year average
- Vacancy to temporarily lift this year due to significant new supply
- Positive demand and withdrawal of older stock to drive vacancy down in FY18

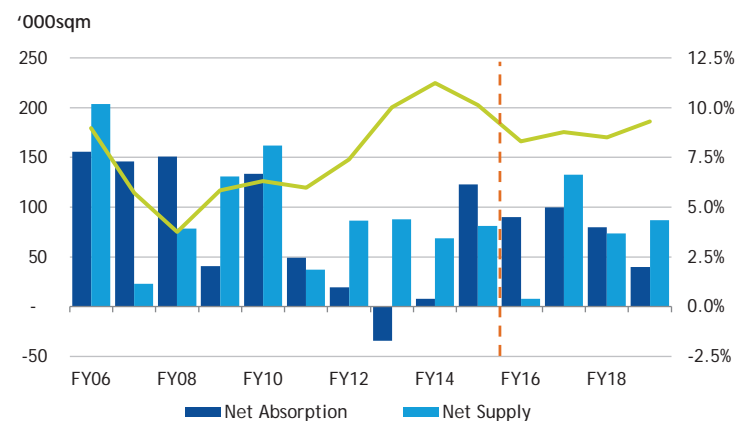
Source: JLL Research actual & DEXUS Research forecast.

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## MARKET OUTLOOK – Melbourne CBD office

### Melbourne CBD office market



Melbourne CBD office market		At 31 Dec 2015
Total net lettable area		4.62 million sqm
Prime vacancy average		9.9%
DEXUS Melbourne CBD exposure		
Net lettable area		275,100
Number of properties		7
% of portfolio by value		13%
Occupancy by area		89.1%
Occupancy by income		90.9%
Weighted average lease expiry		3.9 years

- Solid demand supported by improving state economy and strong population growth
- Tenant migration from the fringe to the CBD anticipated to continue
- Vacancy to tighten over the medium-term due to muted supply

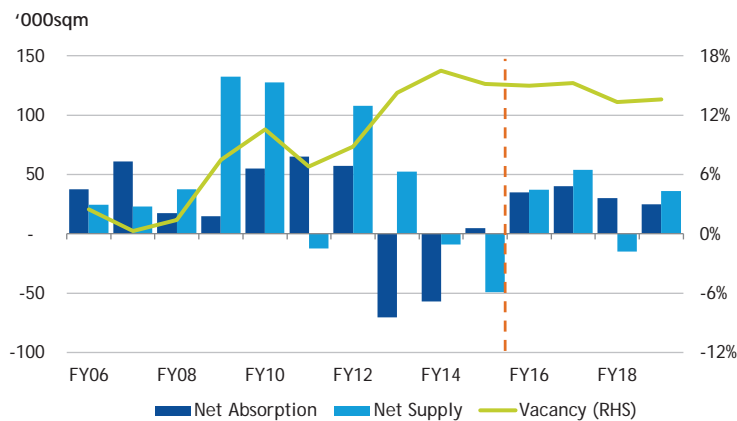
Source: JLL Research actual & DEXUS Research forecast.

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## MARKET OUTLOOK – Brisbane CBD office

### Brisbane CBD office market



Brisbane CBD office market		At 31 Dec 2015
Total net lettable area		2.19 million sqm
Prime vacancy average		13.2%
DEXUS Brisbane CBD exposure		
Net lettable area		194,500
Number of properties		5
% of portfolio by value		14%
Occupancy by area		96.7%
Occupancy by income		96.6%
Weighted average lease expiry		5.1 years

- Demand has turned the corner with 4 quarters of positive demand
- Demand to benefit from centralisation of tenants and improving economy
- Supply high in short term, but to decline post FY17
- Should benefit longer-term from significant withdrawals for residential conversion

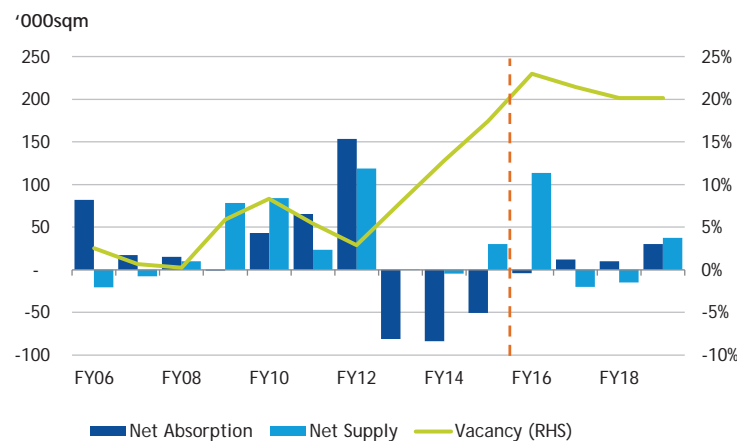
Source: JLL Research actual & DEXUS Research forecast.

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## MARKET OUTLOOK – Perth CBD office

### Perth CBD office market



Perth CBD office market		At 31 Dec 2015
Total net lettable area		1.77 million sqm
Prime vacancy average		23.5%
DEXUS Perth CBD exposure		
Net lettable area		131,100
Number of properties		4
% of portfolio by value		8%
Occupancy by area		99.3%
Occupancy by income		99.3%
Weighted average lease expiry		4.3 years

- Soft demand conditions as falling commodity prices and Chinese slowdown weighs on investment
- Elevated levels of new supply to drive vacancy to circa 23%
- Rents likely to weaken further
- Perth's longer term prospects will be underpinned by rising exports and population growth

Source: JLL Research actual & DEXUS Research forecast.

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## EXCHANGE RATES AND SECURITIES USED IN STATUTORY ACCOUNTS

		31 Dec 2014	30 June 2015	31 Dec 2015
Closing rates for Statement of Financial Position	USD	0.8202	0.7680	0.7286
Average rates for Statement of Comprehensive Income	USD	0.8906	0.8367	0.7231

Post consolidation equivalent amounts <sup>2</sup>	6 mths to 31 Dec 2014	12 mths to 30 June 2015	6 mths to 31 Dec 2015
Average weighted number of securities <sup>1</sup>	905,531,797	915,462,824	969,319,156
Closing number of securities	905,531,797	970,806,349	967,947,692

1. Used to calculate FFO per security.

2. Where the number of securities held by a security holder following the consolidation resulted in a fraction of a security, the fraction was rounded up to the nearest whole number.

## GLOSSARY

Distribution payout policy:	Policy is to distribute in line with free cash flow.
Funds From Operations (FFO):	FFO is in line with Property Council of Australia definition and comprises net profit/loss after tax attributable to stapled security holders calculated in accordance with Australian Accounting Standards and adjusted for: property revaluations, impairments, derivative and FX mark to market impacts, fair value movements of interest bearing liabilities, amortisation of tenant incentives, gain/loss on sale of certain assets, straight line rent adjustments, deferred tax expense/benefit, transaction costs, rental guarantees and coupon income.
Adjusted FFO (AFFO):	AFFO is calculated in line with the Property Council of Australia definition and comprises PCA FFO and adjusted for: maintenance capex, incentives (including rent free incentives) given to tenants during the period and other items which have not been adjusted in determining FFO.
Gearing:	Gearing is represented by Interest Bearing Liabilities (excluding deferred borrowing costs and including the currency gains and losses of cross currency swaps) less cash divided by Total Tangible Assets (excluding derivatives and deferred tax assets) less cash. Covenant gearing is the same definition but not adjusted for cash.
Gearing (look through):	Represents Gearing defined above adjusted to include debt in equity accounted investments.
Portfolio value:	Unless otherwise stated, portfolio value is represented by investment properties, inventories and investments accounted for using the equity method, and excludes cash and other assets.
Responsible Entity fees:	In this presentation Responsible Entity fees are shown at cost following internalisation in Feb 08. This Responsible Entity fee expense and the corresponding management fee revenue are eliminated in the statutory financial statements as the management business is a wholly owned consolidated entity.
Securities on issue:	FFO per security is calculated based on the weighted average number of DEXUS securities for the relevant period.
Weighted Average Lease Expiry (WALE):	A measure in years of the average term to expiry of in-place rent. Includes vacancies.

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## DEXUS PROPERTY GROUP 2016 HALF YEAR RESULTS PRESENTATION - 17 FEBRUARY 2016

