

# DEXUS Property Group (ASX: DXS)

ASX release

21 June 2016

## Asian Investor Roadshow

DEXUS Property Group (DEXUS) today provides the attached presentation which will be used as a basis of discussion in Hong Kong and Singapore.

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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 \$21.5 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 1.8 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)

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

# DEXUS PROPERTY GROUP

## ASIAN INVESTOR ROADSHOW - JUNE 2016





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# DEXUS TODAY

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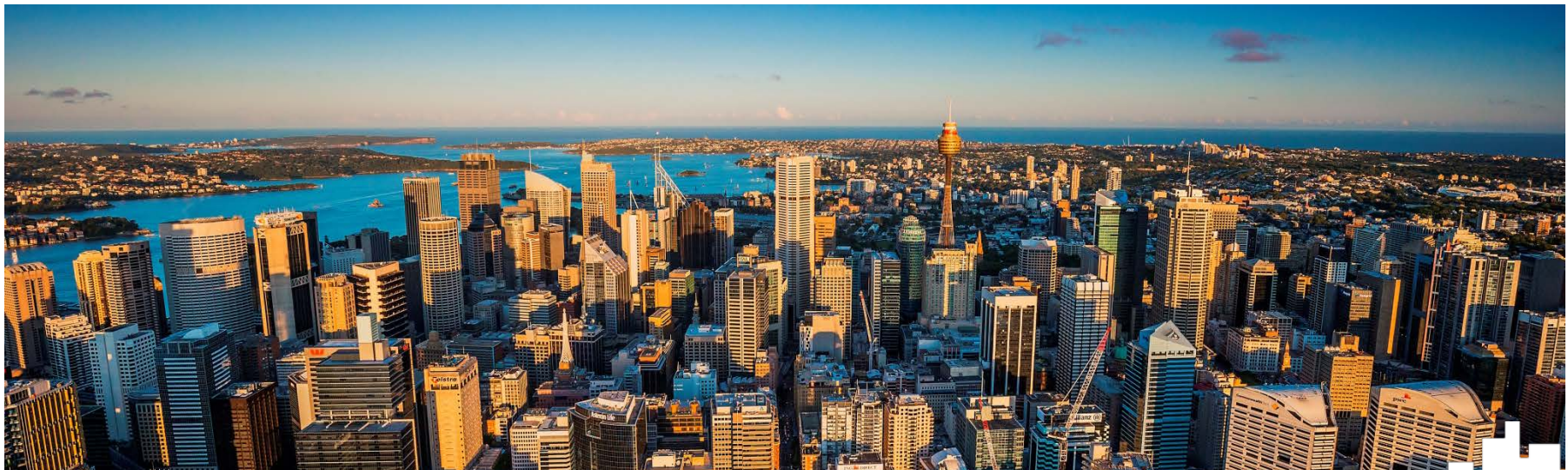
Majority of earnings<sup>1</sup> derived from a high quality, Australian property portfolio

Established Third Party Funds Management business providing annuity-style income

Deep pipeline of value enhancement opportunities across the Group

Track record of delivering above benchmark returns and distribution growth

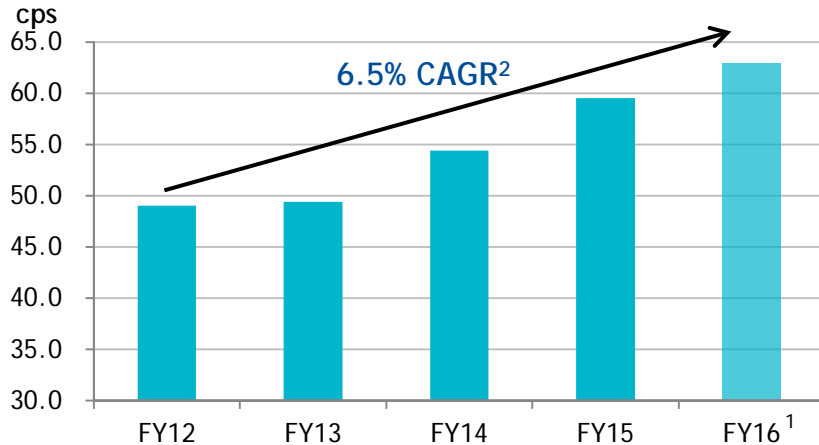
Underpinned by a strong balance sheet



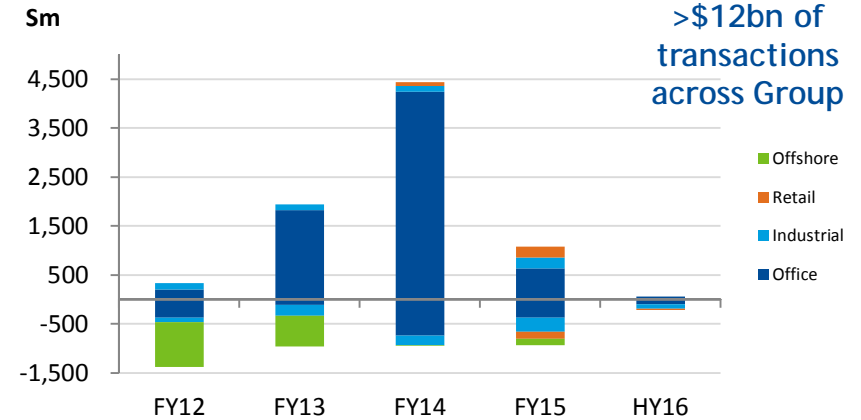
1. Earnings is defined as Funds from Operations (FFO).

# DEXUS TODAY – Track record of delivering for investors

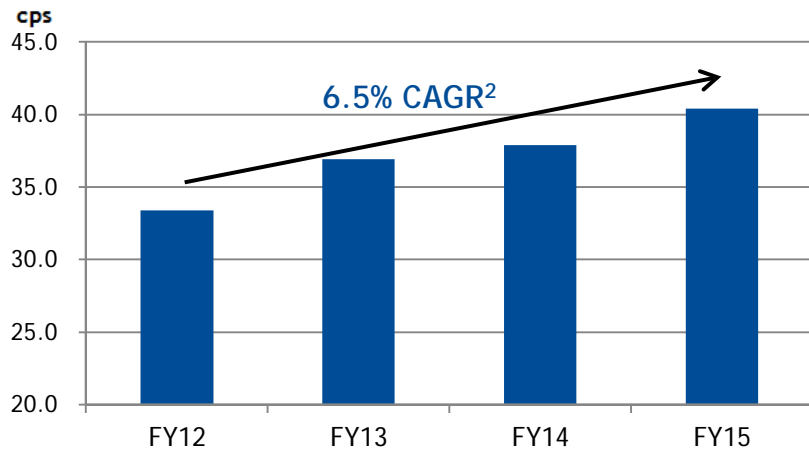
## FFO per security growth from FY12 to FY16<sup>1</sup>



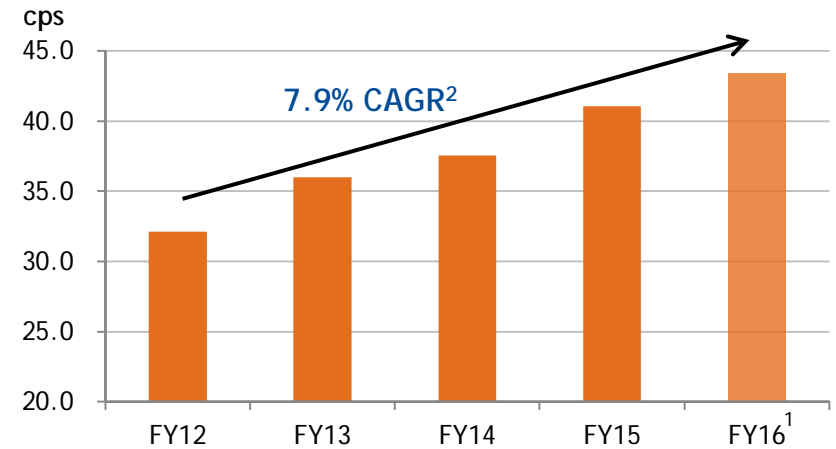
## Group transaction activity since start FY12



## AFFO per security from FY12 to FY15

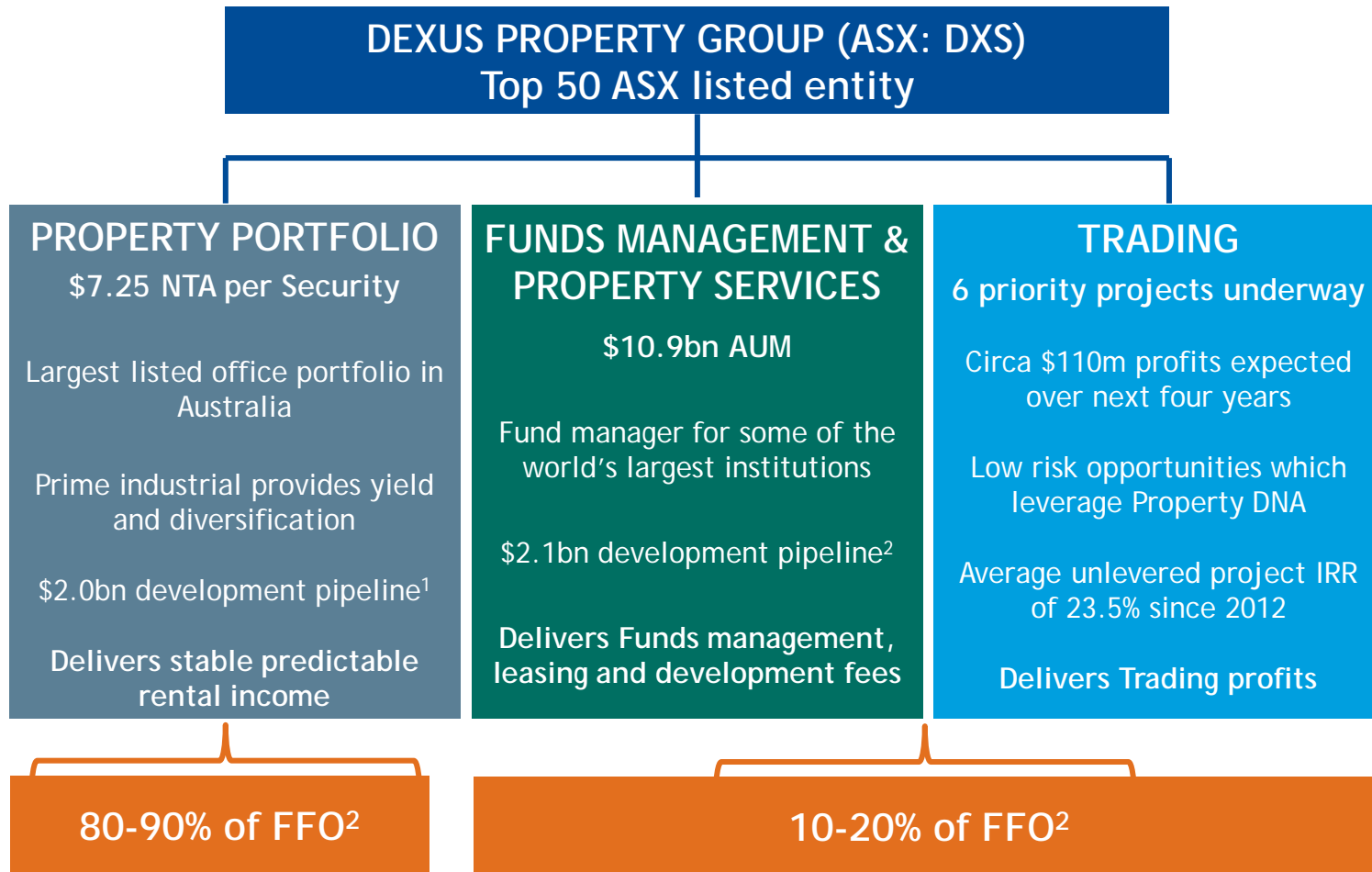


## Distribution per security growth from FY12 to FY16<sup>1</sup>



1. FY16 forecast FFO and DPS are based on the upper end of DEXUS's FY16 guidance range.  
 2. Compound Annual Growth Rate.

# DEXUS TODAY – Strategy setup to deliver through the cycle

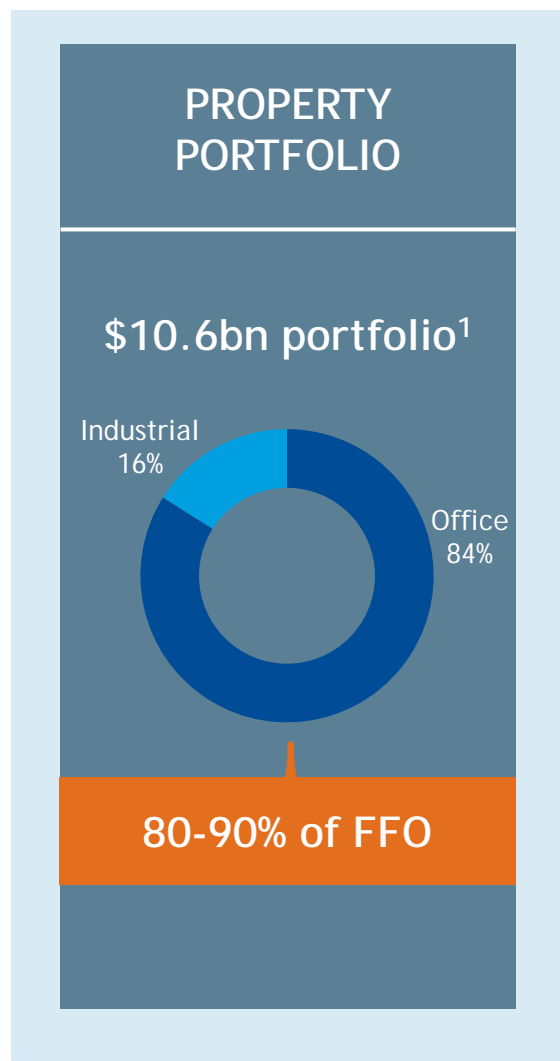


1. Identified DEXUS development pipeline (excluding trading).

2. As at 31 December 2015.

3. Represents target contribution to FFO before Finance costs and Group Corporate costs. 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.

# PROPERTY PORTFOLIO – Stable predictable income representing 80-90% of FFO



- Largest listed office portfolio in Australia
  - 91% Prime grade (Premium and A-grade quality)
- Industrial portfolio focused on major industrial hubs and arterial roadways
- Properties generate a stable and predictable income stream
  - Lease terms contain annual fixed increments of circa 3.0-4.0%
  - Office portfolio weighted average lease term of 4.7 years<sup>1</sup>
  - Largest asset exposure represents 8% of property portfolio by book value<sup>2</sup>
  - Largest tenant exposure represents 4% of property income<sup>3</sup>

1. As at 31 March 2016.

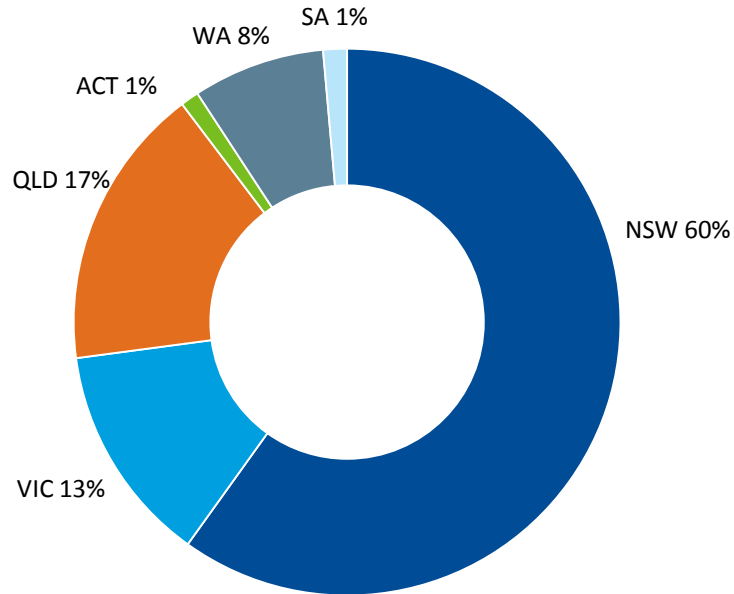
2. Based on 31 December 2015 book valuations.

3. 31 December 2015 fully leased DEXUS Portfolio passing income annualised.



# PROPERTY PORTFOLIO – Concentrated exposure to the Sydney office market

DEXUS office portfolio  
geographic diversification<sup>1</sup>



1. As at 31 March 2016.

# PROPERTY PORTFOLIO – Sydney CBD office market vacancy to tighten quickly

DEXUS expectations as at 31 December 2015

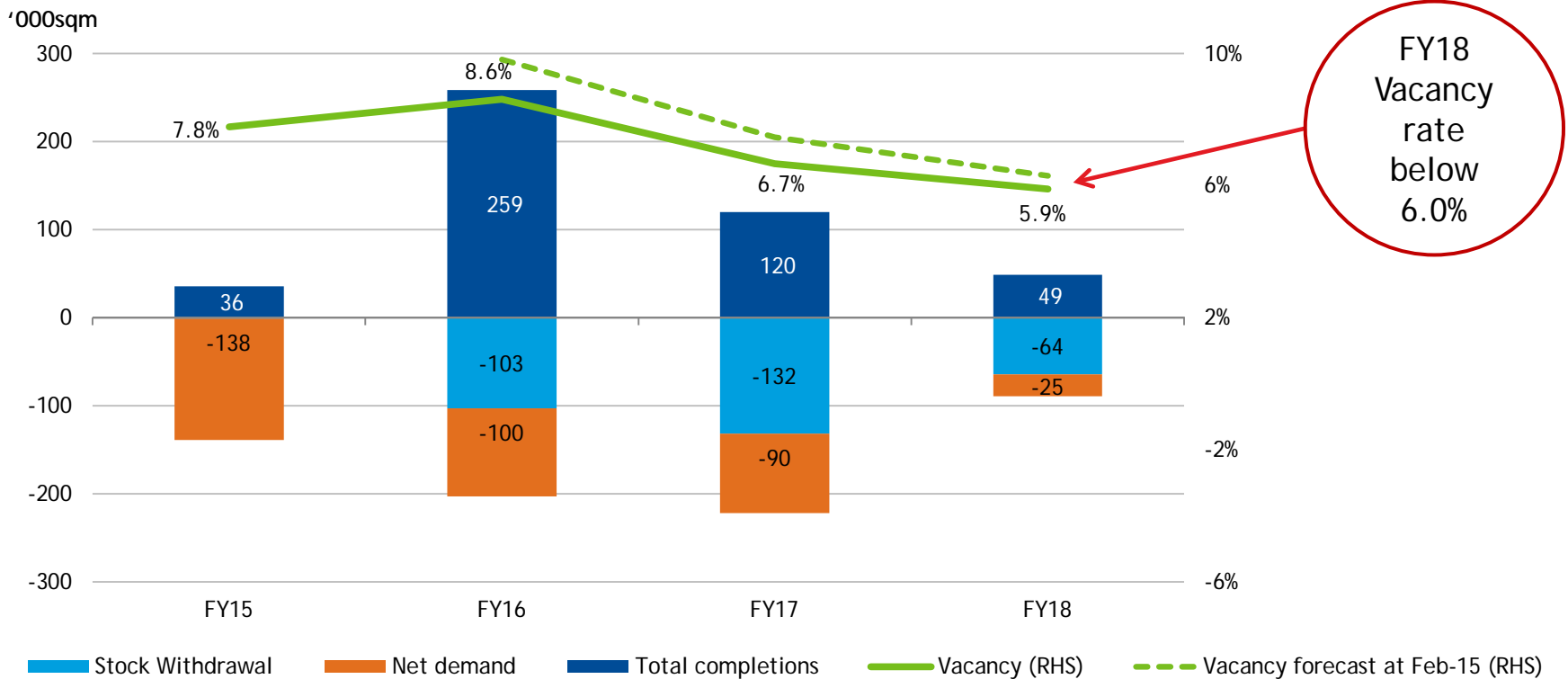
428,000sqm of supply over the next 3 years

299,000sqm of withdrawals over the next 3 years

215,000sqm of net absorption over the next 3 years

Flight to quality above average take up in prime space

Vacancy to increase in FY16 Barangaroo effect

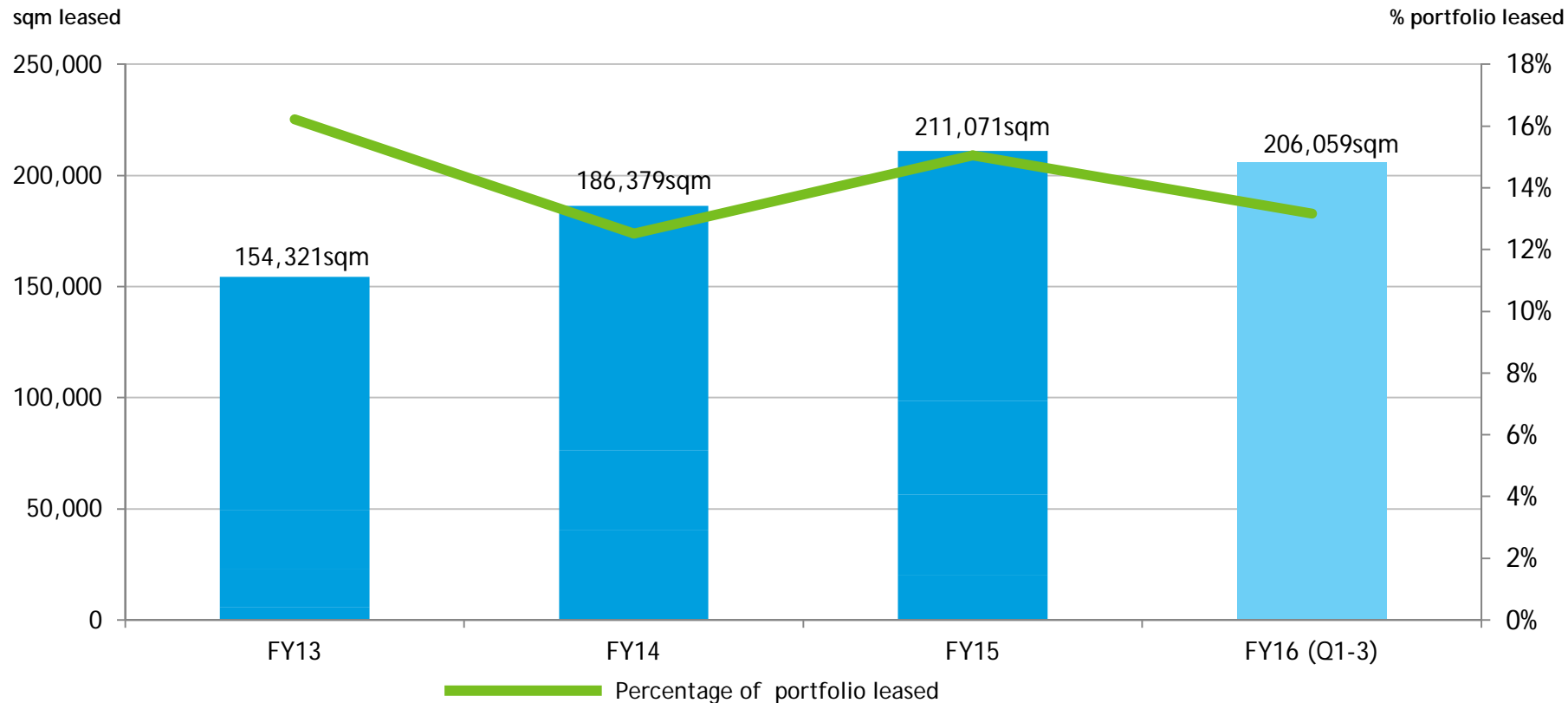


Source: DEXUS Research, JLL Research.



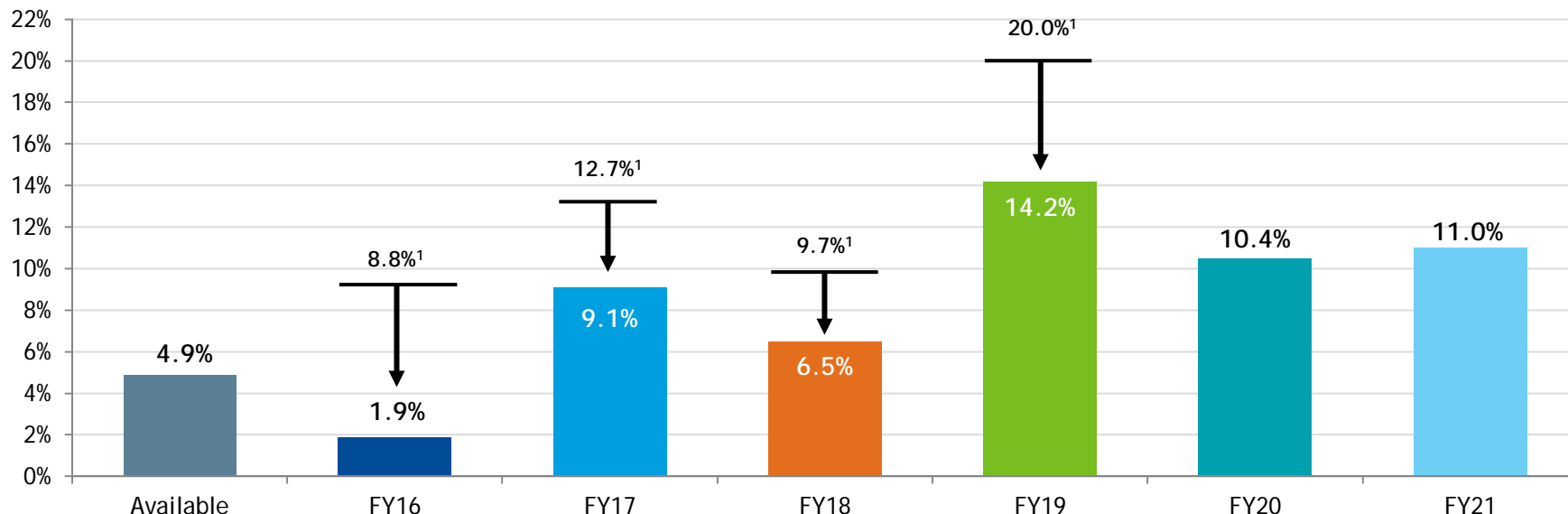
# PROPERTY PORTFOLIO – Significant office leasing volumes in FY16

## DEXUS office portfolio leasing activity



# PROPERTY PORTFOLIO – On track for 95% occupancy target at 30 June 2016

## DEXUS office portfolio lease expiry as at 31 March 2016



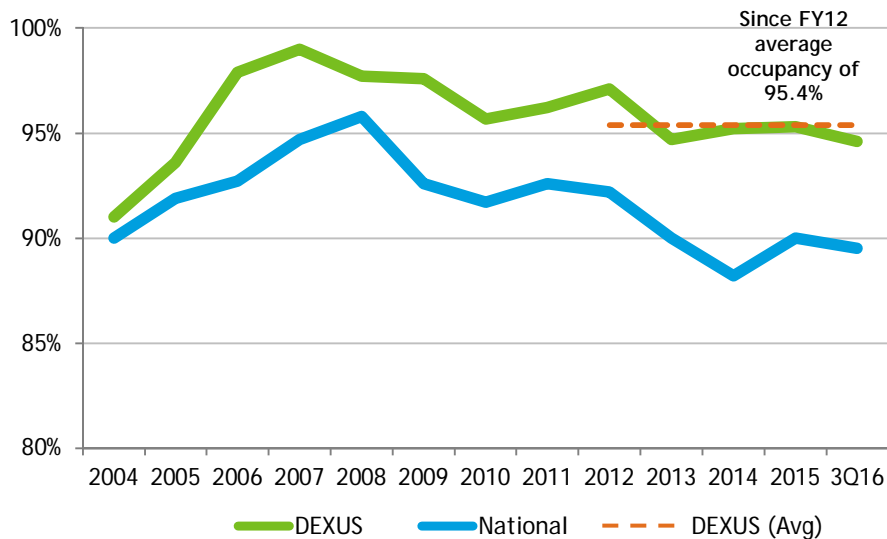
- Adopted strategies, such as fitted suites, to reduce vacancy and maximise cash flow
- Reduced FY16 expiries from 8.8% at 30 June 2015 to 1.9% at 31 March 2016
- Reduced FY19 expiries from 20.0% at 30 June 2015 to 14.2% at 31 March 2016

1. As at 30 June 2015.  
2. By income.

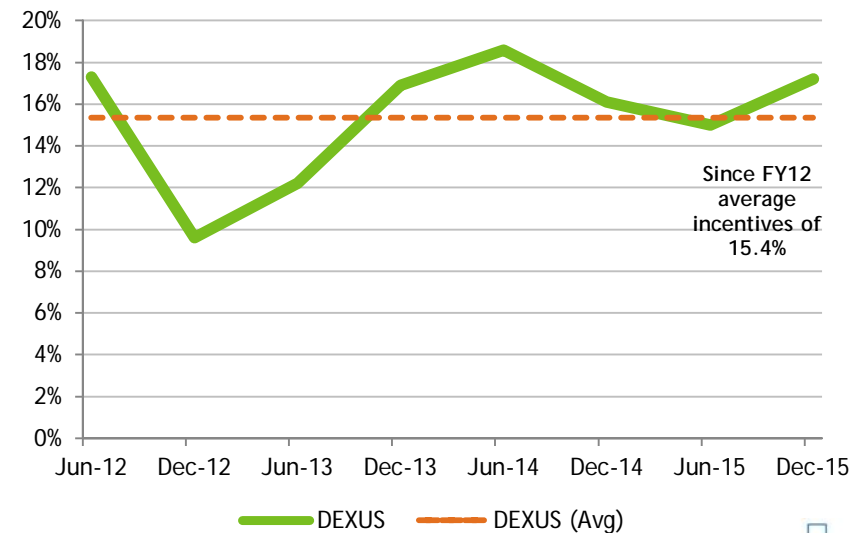
# PROPERTY PORTFOLIO – Delivering superior office metrics

- Maintained office occupancy rates well above National average and 90%<sup>1</sup> since 2004
- Continue to achieve market-low incentives of 17.4% for the first three quarters of FY16
- FY15-16 has seen a period of significant churn across the office portfolio
- Office portfolio like-for-like income growth expected to normalise from FY17

Historical DEXUS office outperformance vs. National occupancy rates



Historical DEXUS office average incentives

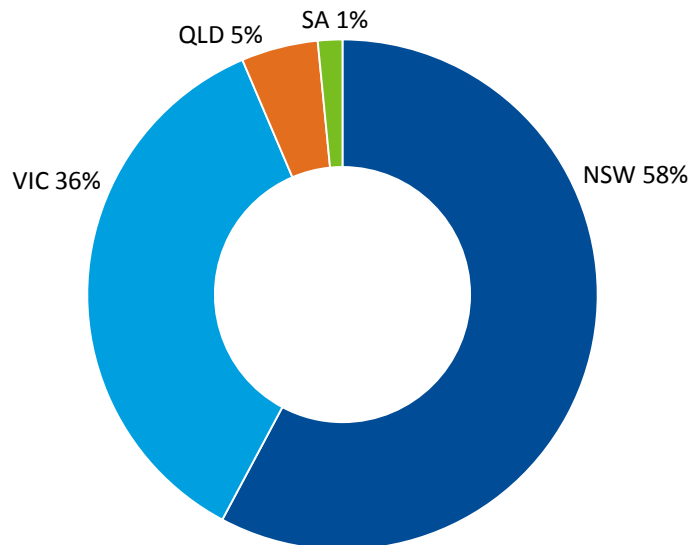


Source: DEXUS Research and Jones Lang LaSalle.  
1. By income.



# PROPERTY PORTFOLIO – Industrial portfolio has large exposure to NSW & VIC

DEXUS industrial portfolio geographic diversification<sup>1</sup>



- Two-thirds of FY17 expiry located in strongest Industrial market of Sydney
- Opportunity to grow portfolio occupancy in FY17

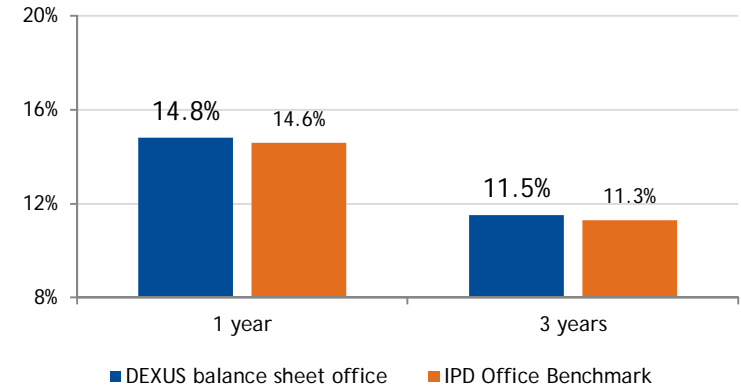


1. As at 31 March 2016.

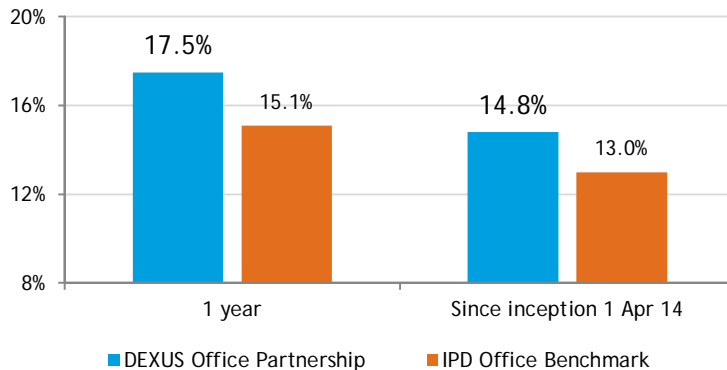
# PROPERTY PORTFOLIO – Track record of outperformance

- Proven track record of delivering returns for investors
  - Above benchmark total returns at the asset level
  - Execute and generate returns from portfolio acquisitions demonstrated by 180bps outperformance by DEXUS Office Partnership (former CPA portfolio) since inception
  - 7.9% CAGR in DXS distributions per security (from FY12-FY16)

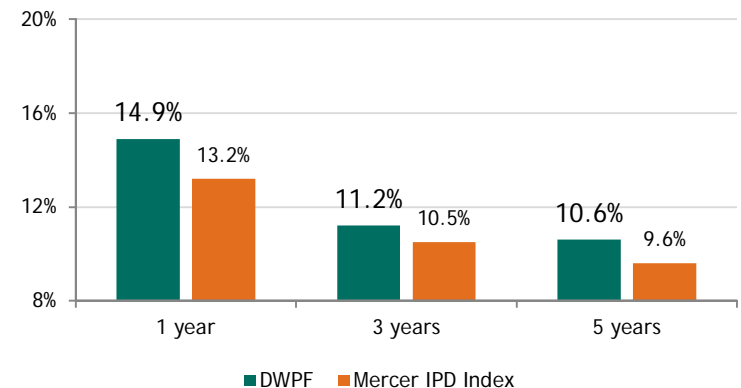
## DEXUS office portfolio outperformance<sup>2</sup>



## DEXUS Office Partnership outperformance<sup>1</sup>



## DEXUS Wholesale Property Fund outperformance<sup>3</sup>



- Based on performance to 31 March 2016. IPD office benchmark total return to 31 March 2016 published by IPD on 19 May 2016 and calculated as sum of capital growth and net income in a single period expressed as a percentage of capital employed, with income reinvested.
- Based on performance to 31 December 2015. IPD office benchmark total return to 31 December 2015 published by IPD on 25 February 2015 and calculated as sum of capital growth and net income in a single period expressed as a percentage of capital employed, with income reinvested.
- Based on performance to 31 March 2016. Mercer IPD Post Fee Net Asset Weighted Index (Net Return, Net Asset Weighted).

# PROPERTY PORTFOLIO – Enhanced quality and returns through development



## Why DEXUS develops office and industrial properties

- Improves portfolio quality and diversification
- Provides access to quality product at favourable rate per sqm and yield metrics when investment markets are tight
- Strong track record in delivering quality office and industrial developments
- Premium Grade office: 1 Bligh Street, Sydney; 123 Albert Street, Brisbane; 240 St Georges Terrace, Perth; 5 Martin Place, Sydney
  - Fund-through office: 480 Queen Street, Brisbane and Kings Square, Perth
  - Industrial: Quarry, Greystanes and DEXUS Industrial Estate, Laverton North
- Up to 15% of DEXUS's portfolio can be allocated to development/trading/ value-add opportunities

## 100 Mount Street, North Sydney<sup>1</sup>

- Commenced development of 41,163sqm premium office tower
- Forecast year-one yield on cost >7%
- Forecast unlevered Project IRR of circa 12-14%
- Staged completion in late 2018, an opportune time in the cycle

1. Owned by DEXUS and DEXUS Wholesale Property Fund.



# ORGANIC DEVELOPMENT PIPELINE - Current identified opportunities

Circa.\$2.0 billion DEXUS development pipeline (excluding trading)

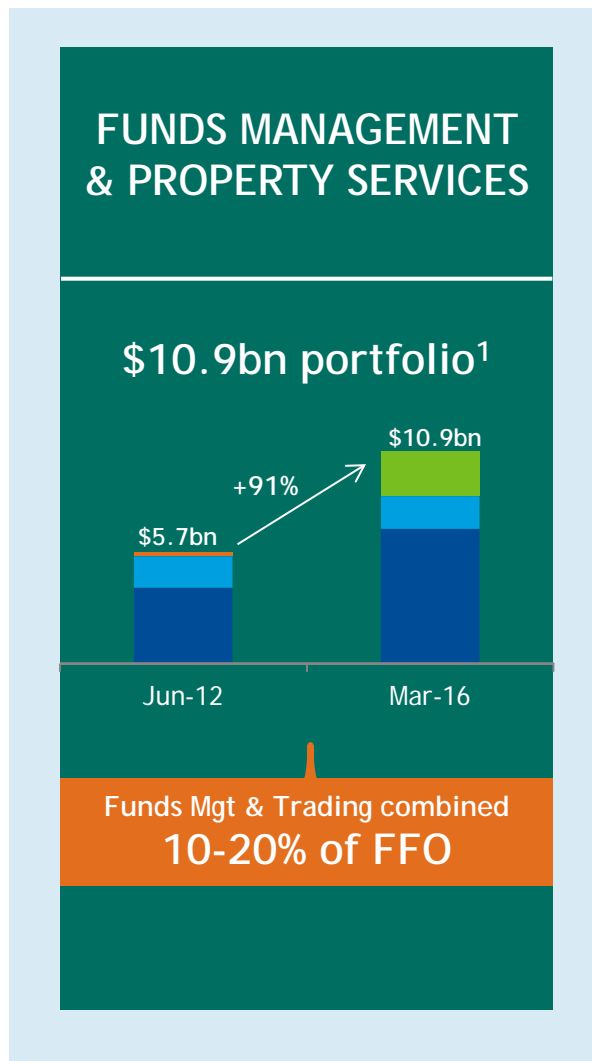
Completion over	Next 2 years	2-5 years	Beyond 5 years
OFFICE	12 Creek Street, Brisbane	100 Mount Street, North Sydney	Waterfront Place Precinct, Brisbane (mixed use)
	8 Nicholson Street, Melbourne	180 Flinders Street, Melbourne	Sydney CBD office opportunity
Total of 6 projects over 327,000sqm / cost of c.\$1.6bn <sup>1</sup>			
INDUSTRIAL	1 Litton Close, Greystanes		Laverton North (two stages)
	Laverton (Wrightson Seeds)		
	Quarrywest, Greystanes (two stages)		
	1 Anton Road, Hemmant		
	Axxess Corporate Park, Mount Waverley		
Total of 6 projects over 309,000sqm / cost of c. \$295m <sup>1</sup>			
TRADING	105 Phillip Street, Parramatta	12 Frederick Street, St Leonards	
	79-99 St Hilliers Road, Auburn	32 Flinders Street, Melbourne	
	Lakes Business Park (South), Botany		
Total of 5 priority trading projects <sup>2</sup>			
CITY RETAIL	321 Kent Street, Sydney	240 St Georges Terrace, Perth	
	175 Pitt Street, Sydney		
	44 Market Street, Sydney		
	385 Bourke Street, Melbourne		
Total of 5 projects over 21,000sqm / cost of c. \$135m <sup>1</sup>			

Note: bold indicates properties identified in DEXUS development pipeline as at 31 December 2015.

1. Estimated total development cost (DXS share).

2. Priority trading projects not yet exchanged.

## FUNDS MANAGEMENT – Established business with opportunities



- High quality wholesale partners
- Annuity-style revenue stream
- Alignment of interests via partnerships and DEXUS co-ownership in direct properties
- Recent partnerships and equity raisings reflect capital partner support of the Group's capabilities and best-practice corporate governance principles
- Additional scale enables the Group to attract and retain top talent
- Management operations profit has increased by more than 150% since FY12 with an FY16 target of circa \$45m

1. As at 31 March 2016.

## TRADING – Established track record and strong outlook

### TRADING

#### Demonstrated strong track record

**\$146.8m** of trading profits<sup>1</sup> delivered across eight properties in four years at an average unlevered IRR of **23.5%**<sup>2</sup>

Funds Mgt & Trading combined  
**10-20% of FFO**

### Six priority projects in progress to generate circa \$110m trading profits<sup>1</sup>

- Capital deployed in trading is modest and relatively low risk
- Trading properties are generally income producing assets where DEXUS uses its development expertise to realise the value from a higher and better use
- Six priority trading projects identified to generate trading profits over the next four years
- Of the six priority projects, Erskine Park has already exchanged for \$50 million, and will contribute \$12 million<sup>1</sup> to FY17 trading profits

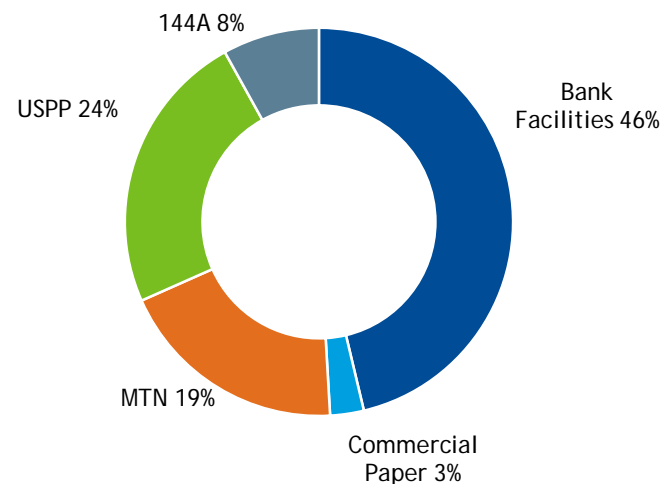
1. Pre-tax.  
2. Calculated as an arithmetic average.



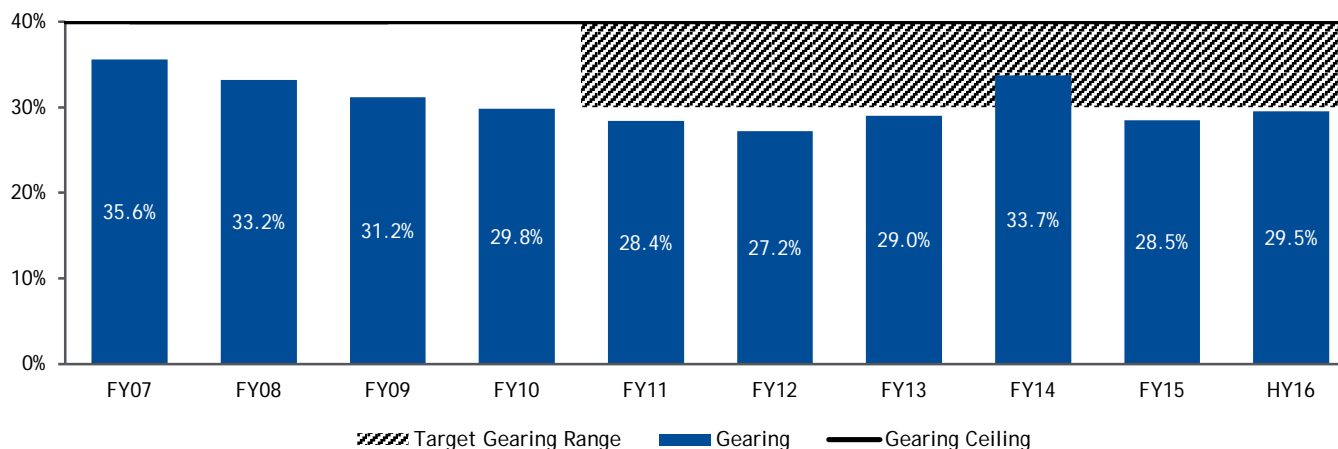
# CAPITAL MANAGEMENT – Strong balance sheet with conservative gearing history

Key metrics	Position at 31-Dec-15
Gearing (look-through) <sup>1</sup>	29.5%
Cost of debt <sup>2</sup>	4.9%
Duration of debt	5.2 years
Hedged debt (ex caps) <sup>3</sup>	64%
S&P/Moody's credit rating	A-/A3

Diversified mix of facilities



## Gearing history



- Adjusted for cash and for debt in equity accounted investments.
- Weighted average across the period, inclusive of fees and margins on a drawn basis.
- Average for the period. Hedged debt (including caps) was 73% for six months to 31 December 2015.

# SUMMARY

- Strong management team in place
- Majority of earnings generated from a high quality, Australian property portfolio
- Concentrated exposure to the Sydney office market where vacancy will tighten quickly
- Deep pipeline of value enhancement opportunities
- Opportunity to take advantage of strong asset markets and pursue selective divestments
- Well positioned to continue to grow earnings and distributions due to diversified nature of business





# APPENDICES





# 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

- Signed a 12-year agreement for lease with Government Property NSW over 100% of the building and staged occupation commencing in March 2018
- Commenced construction in April 2016

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 FY16

### 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





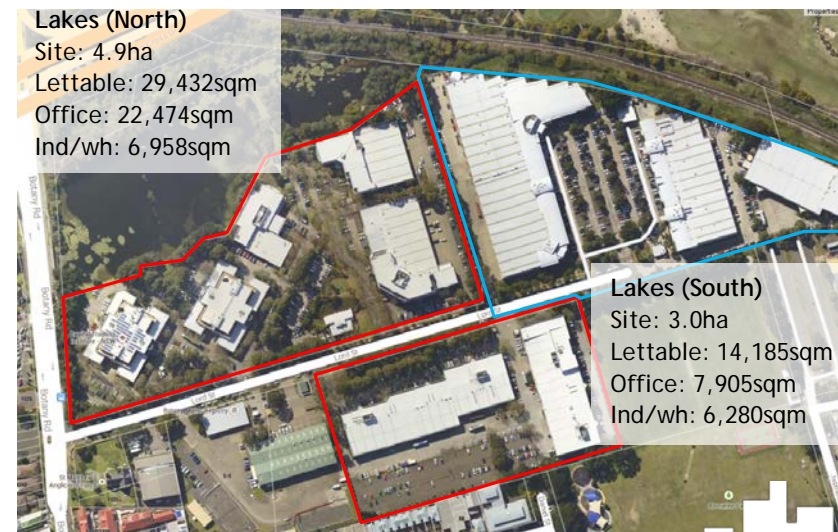
# TRADING – Case study: Lakes Business Park South, Botany

## DEXUS APPROACH

- DEXUS acquired Lakes Business Park in January 2015, comprising two adjoining sites located in southern Sydney
  - Northern site comprising 70% of net property income to be actively managed
  - Southern site comprising 30% of net property income acquired as part of inventory for future trading opportunity and held in trading trust (DXO)
- Potential for:
  - Superior rental growth in the medium term due to constrained supply and competing land use interests in the area
  - Unlocking value through mixed use re-zoning of Southern site

## OUTCOMES SO FAR

- DEXUS obtained Council and community support for a rezoning planning proposal for a mixed use complex providing up to 54,900sqm of residential floor space



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