

# Dexus (ASX: DXS)

## ASX release



30 April 2019

### 2019 Macquarie Australia Conference

Dexus today releases the attached presentation to be presented at the 2019 Macquarie Australia Conference, which is being held at the Sheraton Grand Sydney, 161 Elizabeth Street, Sydney.

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#### About Dexus

Dexus is one of Australia's leading real estate groups, proudly managing a high quality Australian property portfolio valued at \$28.9 billion. We believe that the strength and quality of our relationships is central to our success, and are deeply committed to working with our customers to provide spaces that engage and inspire. We invest only in Australia, and directly own \$13.9 billion of office and industrial properties. We manage a further \$15.0 billion of office, retail, industrial and healthcare properties for third party clients. The group's \$5.0 billion development pipeline provides the opportunity to grow both portfolios and enhance future returns. With 1.7 million square metres of office workspace across 53 properties, we are Australia's preferred office partner. Dexus is a Top 50 entity by market capitalisation listed on the Australian Securities Exchange (trading code: DXS) and is supported by 27,000 investors from 19 countries. With more than 30 years of expertise in property investment, development and asset management, we have a proven track record in capital and risk management, providing service excellence to tenants and delivering superior risk-adjusted returns for 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 (ASX: DXS)

# Macquarie Australia Conference

Ross Du Vernet, CIO

30 April 2019

Dexus Funds Management Limited  
ABN 24 060 921 743  
AFSL 238163 as responsible entity for Dexus

## Agenda

- Dexus overview
- Portfolio update to 31 March 2019
- Australian office sector dynamics
  - Australian office capital markets
  - Australian office market trends
  - Office portfolio resilience
- Outlook



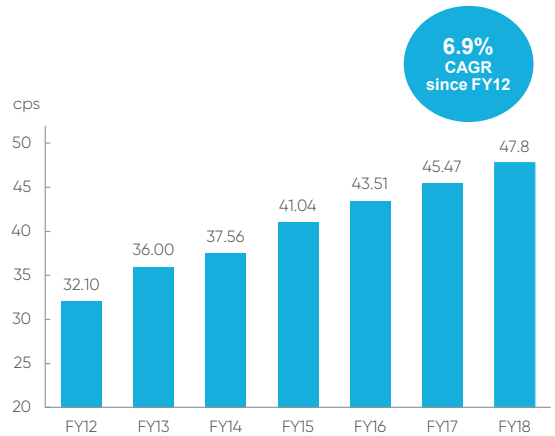
MLC Centre, 19 Martin Place, Sydney NSW.

# Dexus overview

## \$28.9 billion<sup>1</sup> under management

<b>PROPERTY PORTFOLIO</b> \$13.9 billion <sup>1</sup>	- Proxy for Australian office property • Overweight to Sydney market
<b>FUNDS MANAGEMENT</b> \$15.0 billion <sup>1</sup>	- Outperforming and growing Funds Management business
<b>DEVELOPMENT</b>	- \$5.0 billion group pipeline + circa \$1 billion potential concept opportunities
<b>TRADING</b>	- Future trading pipeline of \$210-270 million of profits (pre-tax) from five trading projects
<b>CAPITAL MANAGEMENT</b>	- Strong balance sheet with gearing of 24.6% <sup>2</sup> - Market cap of circa \$13 billion

Dexus distribution per security (cents)<sup>3</sup>



1. Funds under management as at 31 December 2018.  
2. Pro forma 31 December 2018 look-through gearing including the acquisition of remaining interest in the MLC Centre, Sydney announced on 12 March 2019 and the divestment of 11 Talavera Road, Macquarie Park for \$231.2 million (net sale proceeds before transaction costs).  
3. Adjusted for the one-for-six security consolidation completed in FY15. Compound annual growth rate (CAGR) is calculated over six years.



# Portfolio update at 31 March 2019

## Office: Robust enquiry converts to leasing in Sydney and Perth

**61,099sqm**

Office space leased<sup>1</sup>

**13.5%**

Average incentives<sup>2</sup>  
HY19: 11.9%

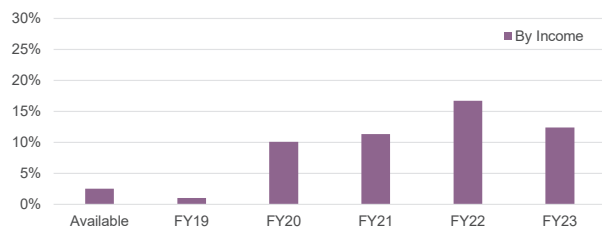
**97.5%**

Occupancy  
HY19: 97.3%

**4.4 years**

WALE<sup>3</sup>  
HY19: 4.5 years

Office lease expiry profile at 31 March 2019

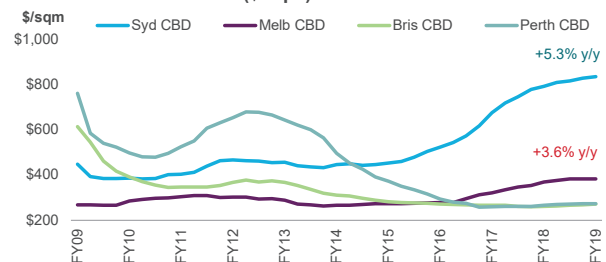


1. Including Heads of Agreement and development leasing of 19,225 square metres.  
2. Excluding development leasing.  
3. Weighted average lease expiry by income.  
4. Source: JLL Research to March 2019, Dexus Research.

Vacancy rates and net supply forecasts<sup>4</sup>



Prime net effective rents (\$/sqm)<sup>4</sup>



# Portfolio update at 31 March 2019

## Industrial: Western Sydney driving leasing volumes

**46,193sqm**

Industrial space leased<sup>1</sup>

**8.2%**

Average incentives  
HY19: 7.7%

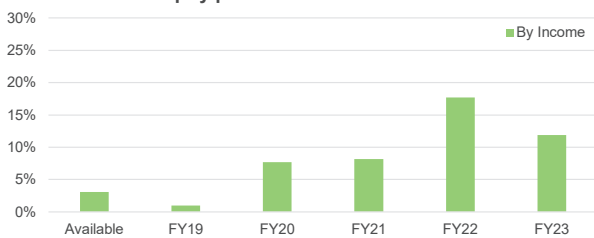
**96.9%**

Occupancy  
HY19: 96.8%

**5.0 years**

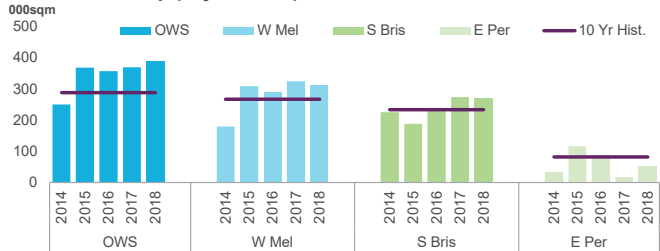
WALE<sup>2</sup>  
HY19: 5.0 years

### Industrial lease expiry profile at 31 March 2019

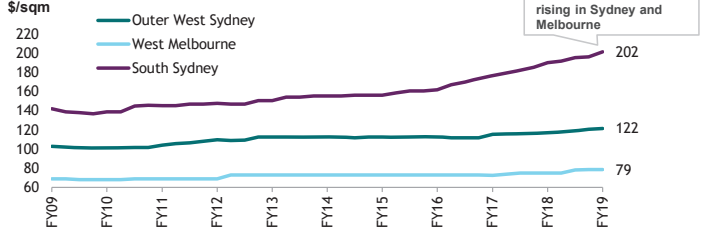


1. Includes Heads of Agreement.  
2. Weighted average lease expiry by income.  
3. Source: JLL Research to March 2019, Dexis Research.

### Industrial take-up (key markets)<sup>3</sup>



### Industrial rent growth in key markets (net face)<sup>3</sup>



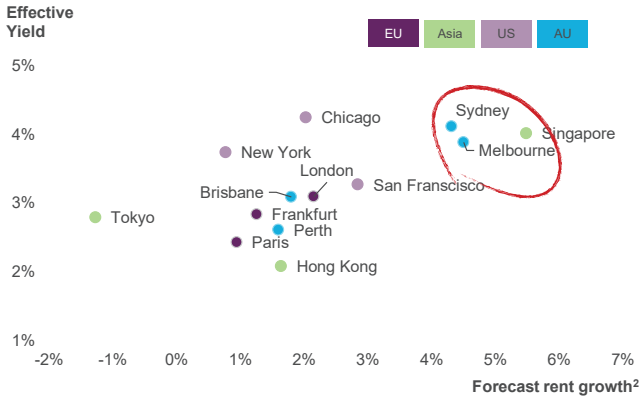
Rents and land values rising in Sydney and Melbourne

# Australian office capital markets

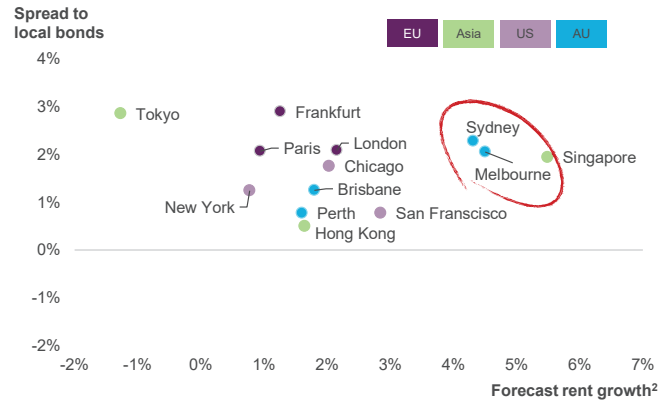
# Comparison of pricing metrics across investment locations

## Relative pricing and rental outlook favourable for Australian office markets

### Global yield and rent growth comparison



### Effective yield spread over local 10 year government bond<sup>1</sup>



Source: Savills, JLL, Trading Economics, Dexis Research.

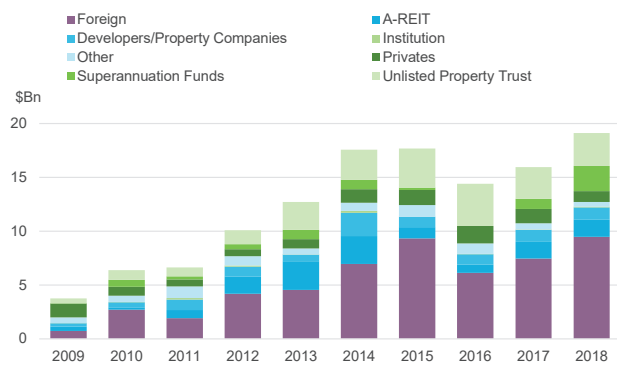
1. Effective yields are based on A-grade office space as at H2 2018.

2. Forecasts are based on JLL data for average prime net face rents for 2019 and 2020 and are not Dexis Research forecasts.

# Investment demand for Australian office properties

## Where has direct demand come from?

### Australian transaction volumes by type of buyer



Source: Dexis Research, RCA.

### Here...

#### Largest cross border buyers of Australian office - past 5 years

1	CPPIB	AMER
2	OMERS	AMER
3	Blackstone	AMER
4	CIC	APAC
5	Suntec REIT	APAC
6	GIC	APAC
7	Morgan Stanley	AMER
8	Shanghai Sheng.	APAC
9	Prudential plc	EMEA
10	Francis Choi	APAC

Source RCA, past 5 years

### Partly here...

#### Big investors with a small stake in Australia

ADIA
NPS
AXA
QIA
Prudential
Gaw Capital
PAG (ASIA)
KKR
Keppel Capital
CDPQ

### Not here...

#### Big investors globally, but not yet in Australia

PGGM
Calpers
NBIM
Allianz
DekaBank
NYSTRS
Swiss Life AM
APG
China Life
CapitaLand

**46%** of office transactions were to cross border buyers

# Australian office market trends

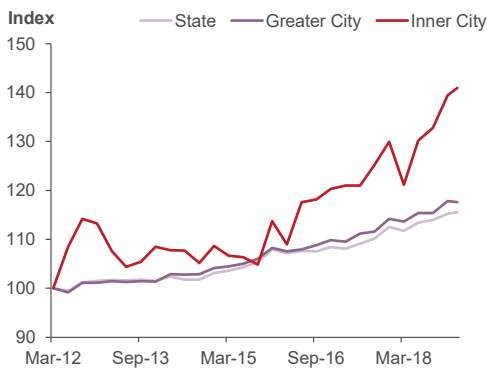


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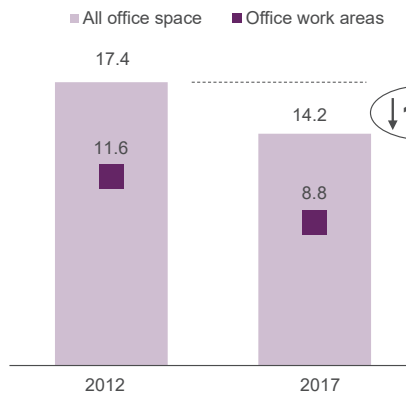
## Workspace trends – office space

People gravitating to CBDs and occupiers increasing workspace density

NSW employment growth by region



Sydney CBD workspace ratio



*Structural:*  
78% of office work areas are now open plan rather than walled/partitioned

*Cyclical:*  
Significant pent up demand as firms squeeze into existing space

Source ABS, Sydney City Council.

# Office portfolio resilience

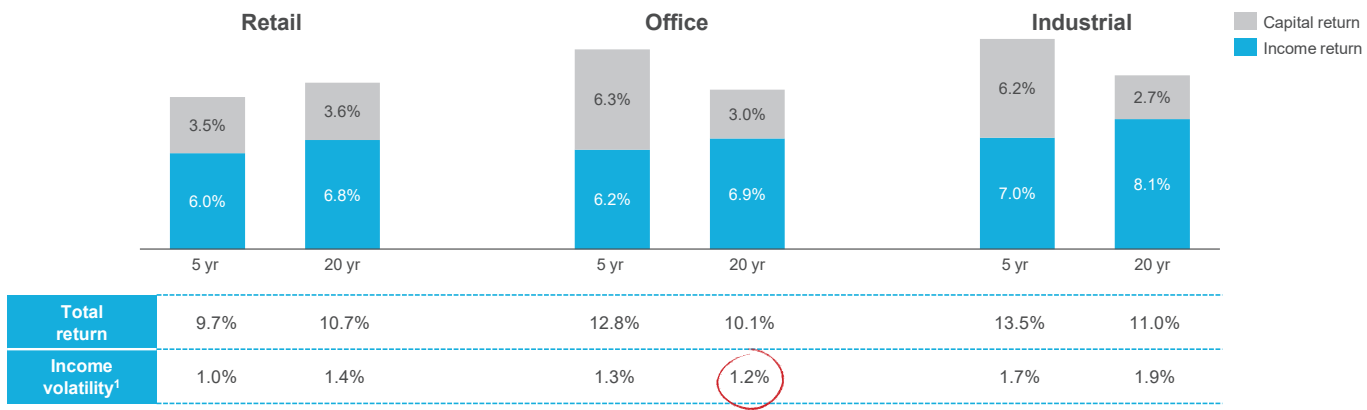


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## All sectors have provided attractive long-term returns Office demonstrates lower income volatility

### Total returns over various periods

Total returns, %, annualised



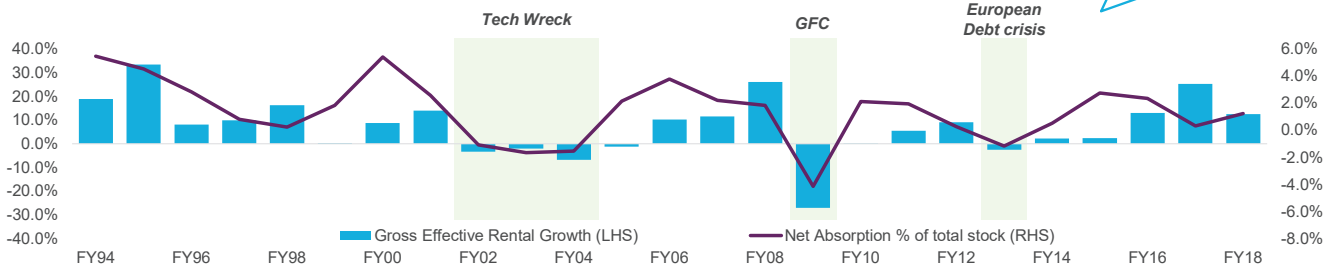
Source: MSCI.  
1. Measured by two standard deviations. Standard deviation based on the annual return on a quarterly basis. Two standard deviations of 1.2% over 20 years means that ~95% of the returns fall within 1.2% of the mean return for the 20 year period.

# Demand for space provides strong support for rental levels

## Correlation between net absorption and rent growth

**Sydney Office – Gross Effective Rental Growth vs. Net Absorption**  
FY94-FY18, %

Where net absorption is positive gross effective rental growth is positive<sup>1</sup>



Net absorption	+	+	+	+	+	+	+	+	-	-	-	+	+	+	+	-	+	+	+	+	-	+	+	+	+	+
Gross effective rental growth	+	+	+	+	+	+	+	+	-	-	-	-	+	+	+	-	+	+	+	+	-	+	+	+	+	+

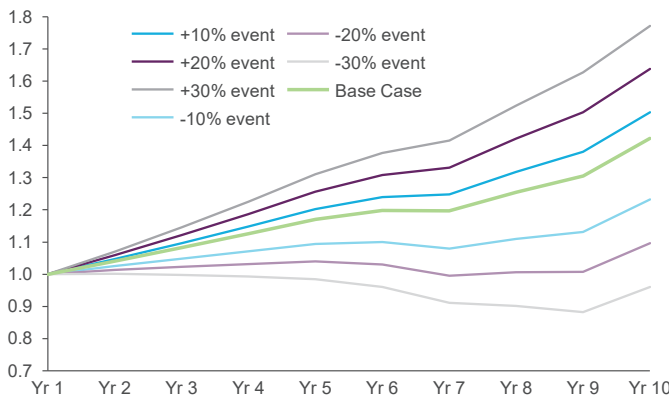
Source: Dexus Research and JLL.  
1. Only exception over the period since 1994 is in 2005 where absorption recovered ahead of gross effective rental growth.



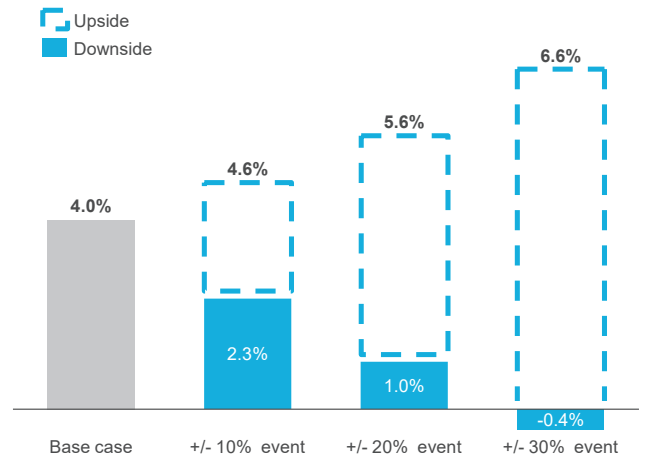
# Real estate will provide investors with stable growth in the long term

## One-off shocks have less impact on a diversified portfolio

**Passing rent (one-off rental growth changes)**  
Indexed, annual



**Rental growth CAGR (one-off rental growth changes)**  
% rental growth

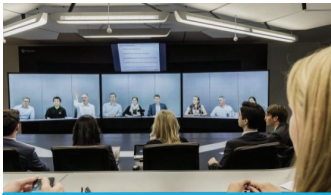


Note: Internal analysis using a mock asset and the following assumptions: Initial WALE of ~4.25, Initial occupancy of ~95%, 9 month downtime on space vacated, 50% retention, 20% incentives, 4% fixed reviews, one year shock of +/- 10 market rental growth for upside/downside, 2% CPI, \$170 p/sqm outgoings, 1.5% capex allowance.





# Benefits of Dexus's scale



## Opportunities to innovate

### Dexus Place

Sophisticated, state of the art meeting and event space

### SuiteX

Flexible space and tenure to align to the business needs of customers

### Products and services

Dexus offers a range of products and services designed to make our customers' daily lives easier, healthier and more enjoyable, including access to childcare, concierge services, end-of-trip facilities and community events



## Sustainability

### Energy Supply Agreement

Supporting Dexus's Net Zero by 2030 target

Contracted terms for one of Australia's first supply-linked renewable energy supply agreements with Red Energy

Provides long-term price certainty and drives down energy costs for our customers



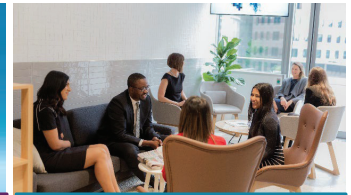
## Customers and market knowledge

**4,770**  
Customers across the Group

**+32**  
Net Promoter Score<sup>1</sup>

**8.3/10**  
Customer satisfaction score<sup>2</sup>

**46%**  
Customer survey response rate<sup>3</sup>



## People and talent

### Employer of Choice for Gender Equality

WGEA recognition

**87%**  
Employee engagement

**40:40:20**  
Senior management gender diversity target

**Gender pay equity**  
In like-for-like roles

1. The Net Promoter Score (NPS) is calculated as the difference between the percentage of Promoters and Detractors. The NPS is not expressed as a percentage but as an absolute number between -100 and +100. Customer survey results for year to 30 June 2018.  
2. The Customer Satisfaction Score is out of 10 points. Customer survey results for year to 30 June 2018.  
3. Customer survey results for year to 30 June 2018.



# Outlook

## Adding value

- Cautious as a result of local and global uncertainty
- Well positioned to continue to add value supported by
  - Positive office market fundamentals driving high portfolio occupancy
  - Significant pipeline of development projects creating future value
  - Quality unlisted partners to invest alongside through the cycle
- Underpinned by Dexus's strong balance sheet
- Reaffirm market guidance<sup>1</sup> for the 12 months ending 30 June 2019
  - Distribution per security growth of circa 5%



1. Barring unforeseen circumstances, guidance is supported by the following assumptions: Impacts of announced divestments and acquisitions; FFO per security growth of circa 3%, underlying FFO per security growth of circa 3% underpinned by Dexus office portfolio like-for-like growth of circa 3%, Dexus industrial portfolio like-for-like income growth of circa 8%, management operations FFO broadly in line with FY18; cost of debt of circa 4%; trading profits of circa \$35 million net of tax; maintenance capex, cash incentives, leasing costs and rent free incentives of \$155-165 million; and excluding any further transactions.

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