

# Dexus (ASX: DXS)

## ASX release



15 October 2019

### Board investor presentation

Dexus provides the attached presentation which will be used as a basis of discussion in investor lunch sessions with members of the Dexus Board in Sydney and Melbourne.

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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 \$31.8 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 \$15.6 billion of office and industrial properties. We manage a further \$16.2 billion of office, retail, industrial and healthcare properties for third party clients. The group's circa \$9.3 billion development and concept 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 26,000 investors from 19 countries. With 35 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)

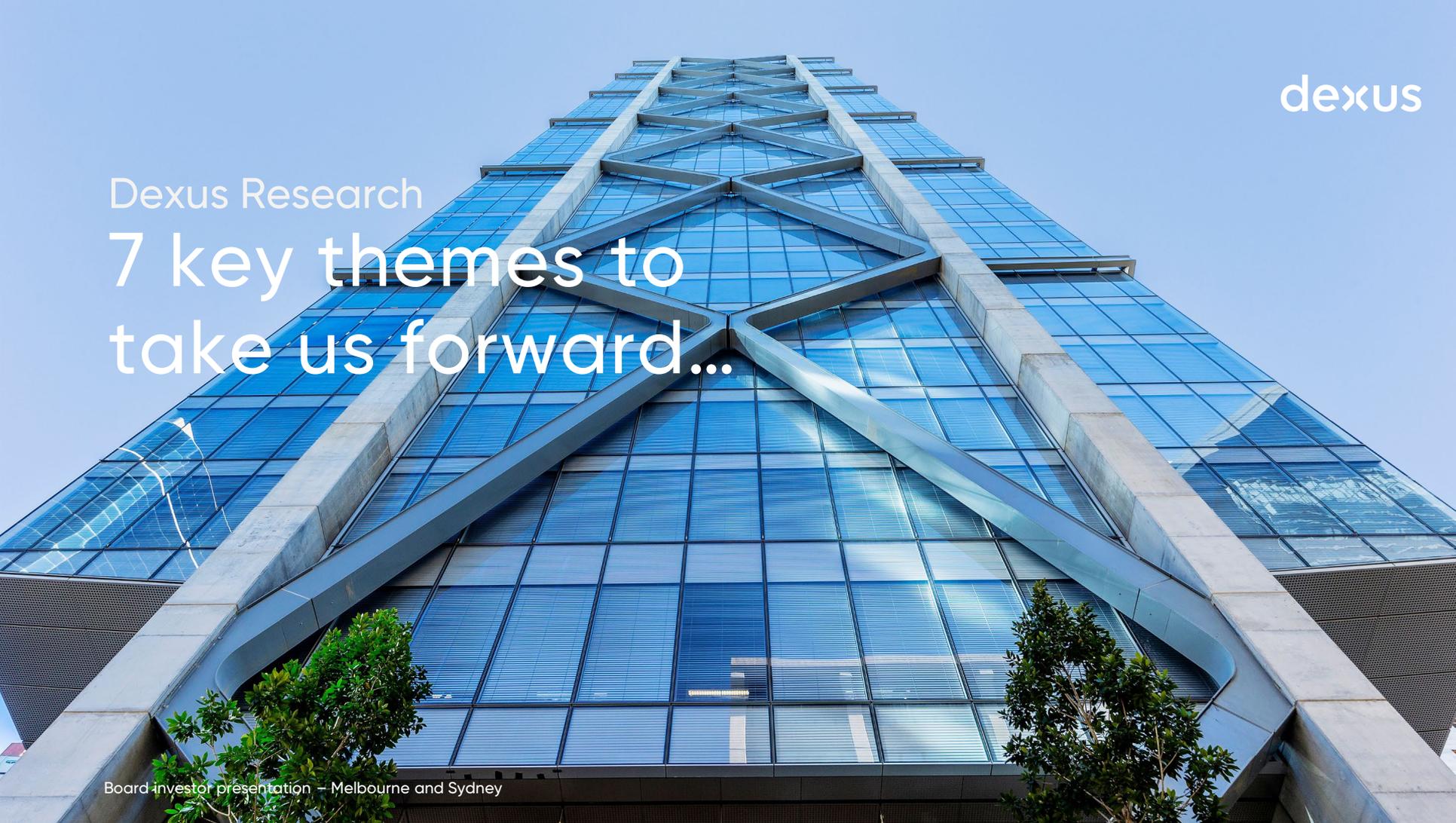


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# Board investor presentation

Melbourne and Sydney  
October 2019

Dexus Funds Management Limited  
ABN 24 060 920 783  
AFSL 238163 as responsible entity for Dexus



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Dexus Research

7 key themes to  
take us forward...

# Theme 1

## Uncertainty is the one thing we can be certain about

### The good...

Population growth

Infrastructure investment

Stimulus measures

### The bad...

Australian housing slowdown

Trade war & slower China

US economy slowing

### Outcomes for FY20...

Volatility in share markets

Softer occupier demand outlook

Lower for longer interest rates

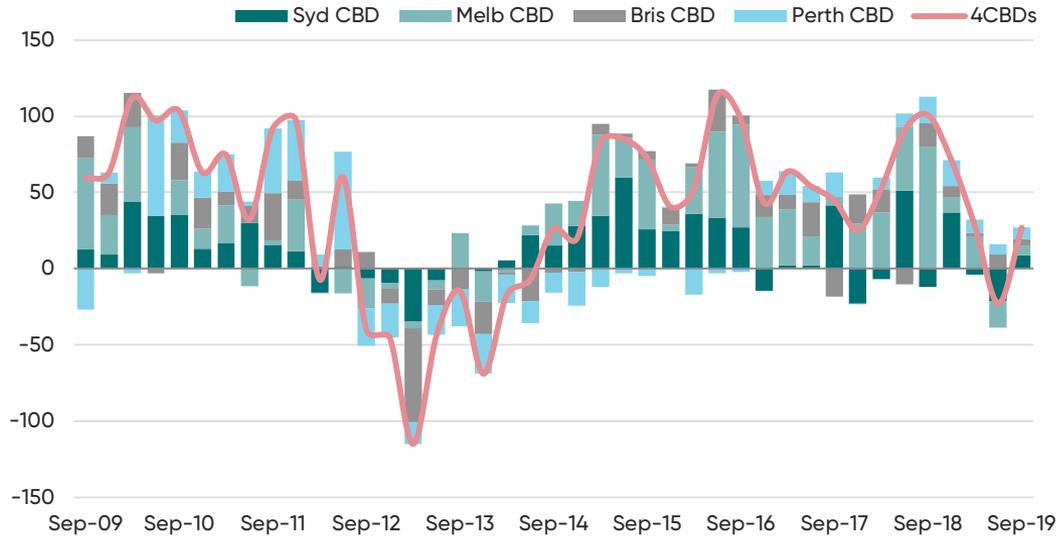
Downward pressure on cap rates on quality assets

# Theme 2

## Occupier demand likely to be influenced by confidence

Office net absorption (qtly)

2009 – 2019, '000sqm

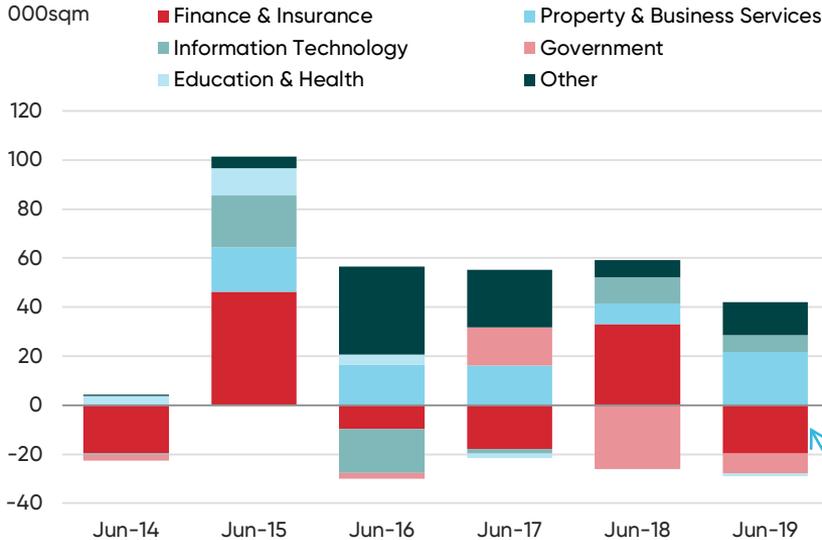


Source: JLL Research, Dexus Research

# Sydney CBD office net absorption

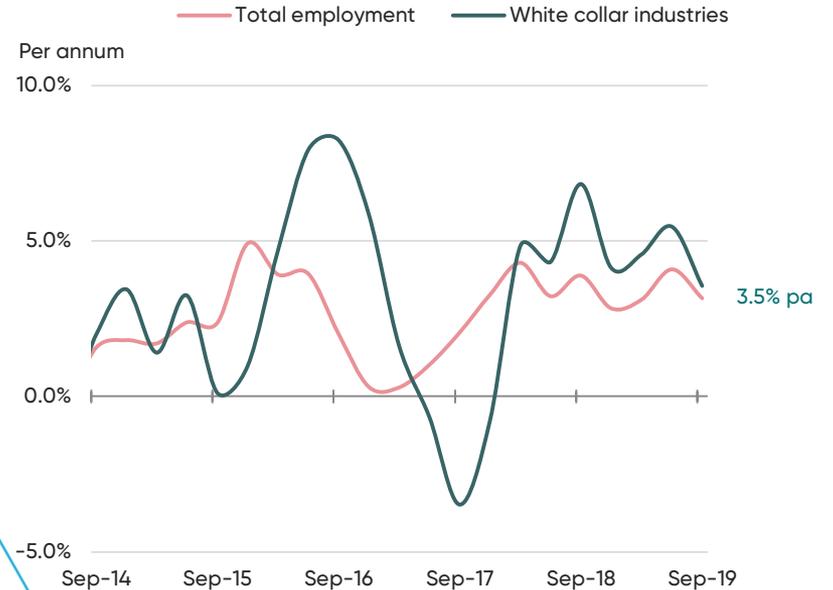
## Employment growth still solid, Government decentralising

Large occupiers net take-up by industry



Source: JLL Research (includes deals >1,000sqm), Dexus Research, ABS, Colliers International

Employment growth NSW

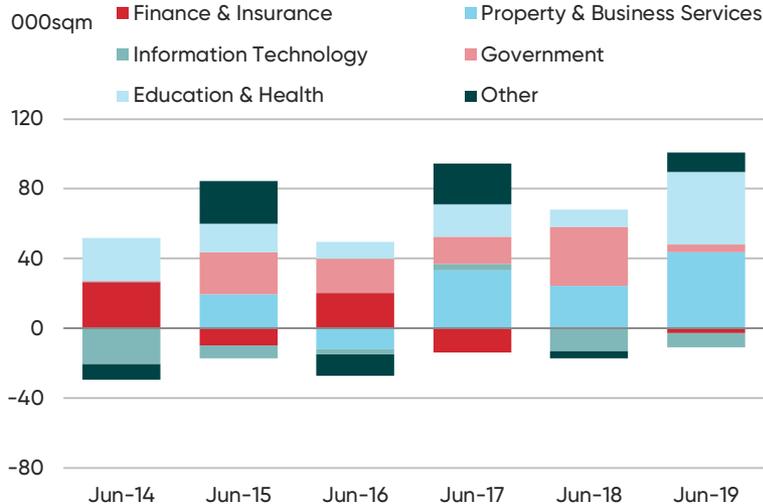


Reflects a reorganisation by a major bank. Finance sector has been the largest source of enquiry and fourth largest for transactions in 2019

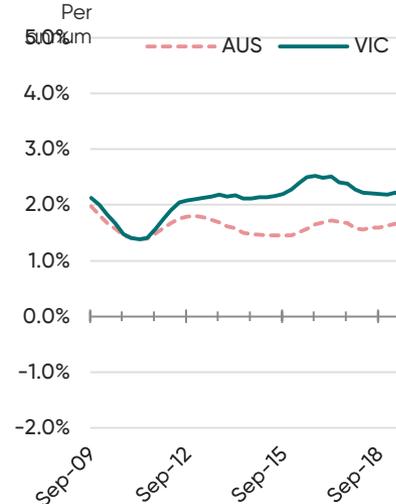
# Melbourne CBD office net absorption

Demand being boosted by super-strong population and jobs growth

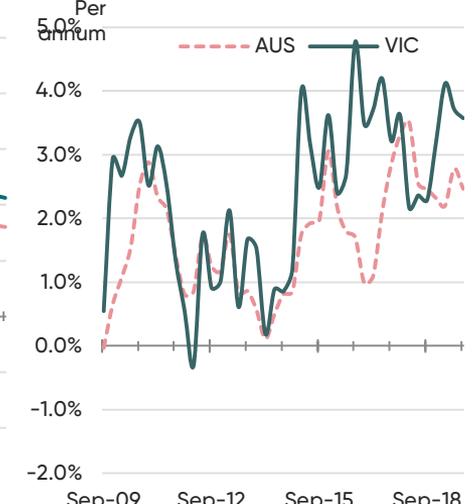
Large occupiers net take-up by industry



Population growth



Employment growth



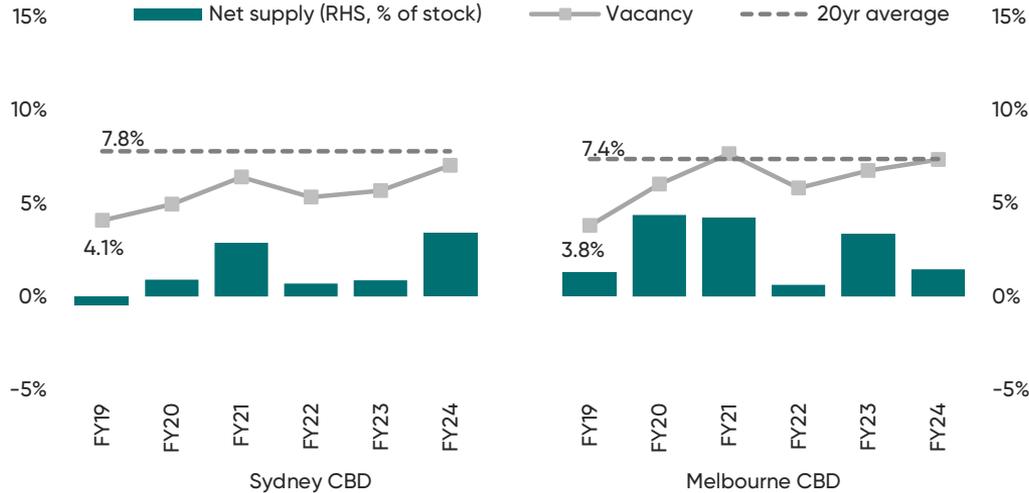
Source: JLL Research (includes deals >1,000sqm), DEXUS Research

# Theme 3

## Low vacancy rates give office markets a high degree of resilience

Vacancy and net supply forecasts – selected markets

*FY19 – FY23, % of stock*

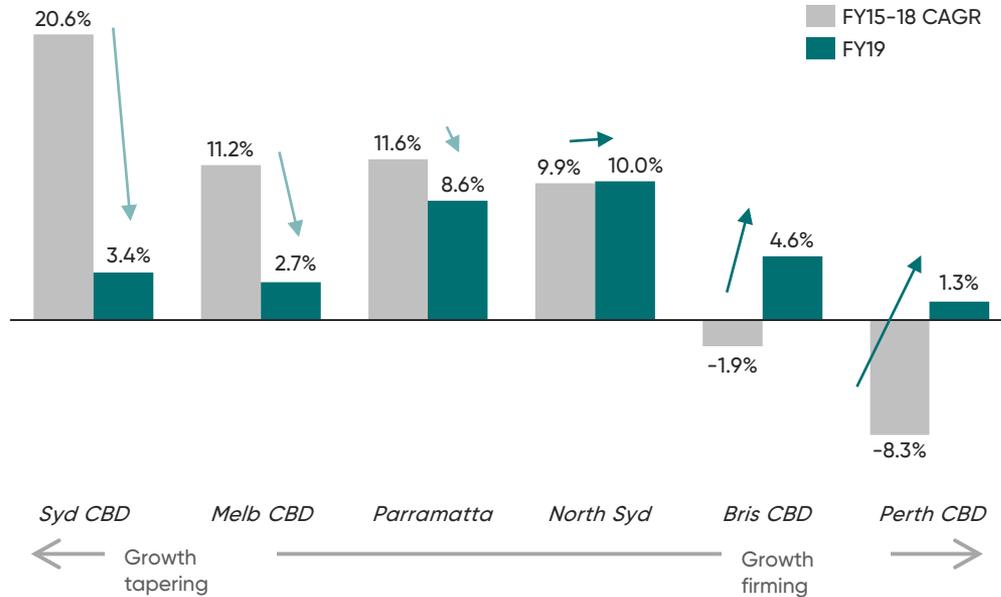


Source: JLL Research (FY19 Actual), Dexus Research Forecasts

# Theme 4

## Office markets are at different points in their cycles

Prime net effective rental growth FY19  
 % pa, FY19 vs previous three years average growth

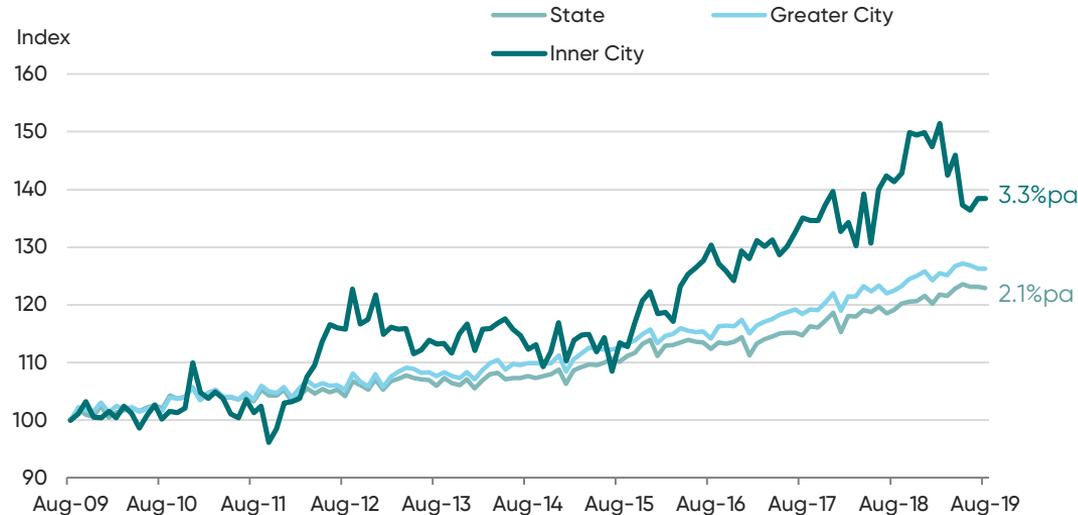


Source: JLL Research, Dexus Research

# Theme 5

## People will keep flocking to CBDs and inner city areas

NSW employment growth by region



Source: ABS

### Focus on attracting talent

- Millennials & Gen Z
- Live/work/play
- Vibrant precincts
- Public transport
- Best technology

### Provision of infrastructure

- Connecting hubs
- Metro rail
- Light rail
- Motorways

### National employment growth – past 10 years:

- White collar industries 2.6%pa
- All other industries 1.9%pa

# Theme 6

## Lower-for-longer interest rates will underpin investment demand

Cash rate, ten year bond yield and discount rate



Implied IRR expectations for different levels of 'normalised' bond yields:

Bond yield	Implied IRR
3.0%	6.6%
2.0%	5.6%
1.0%	4.6%



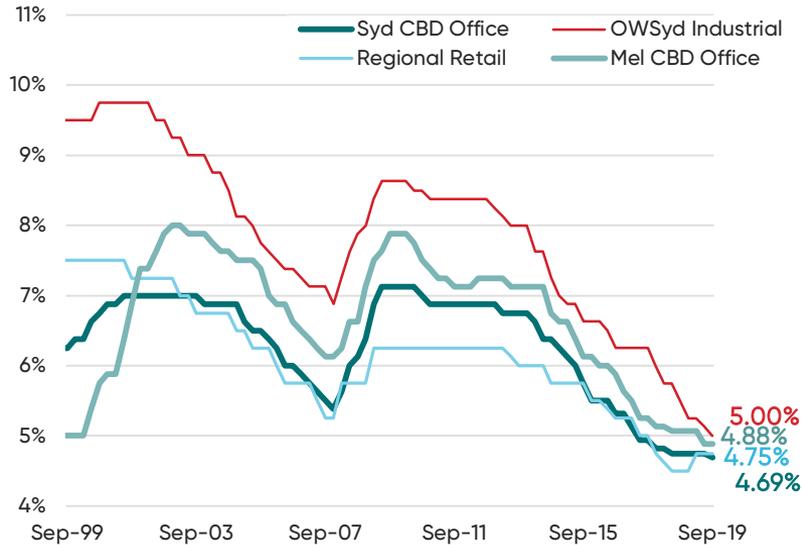
Current valuers' IRR = 6.6%

Source: Bloomberg, MSCI, Assumes a 3.6% risk premium for A-Grade Sydney office

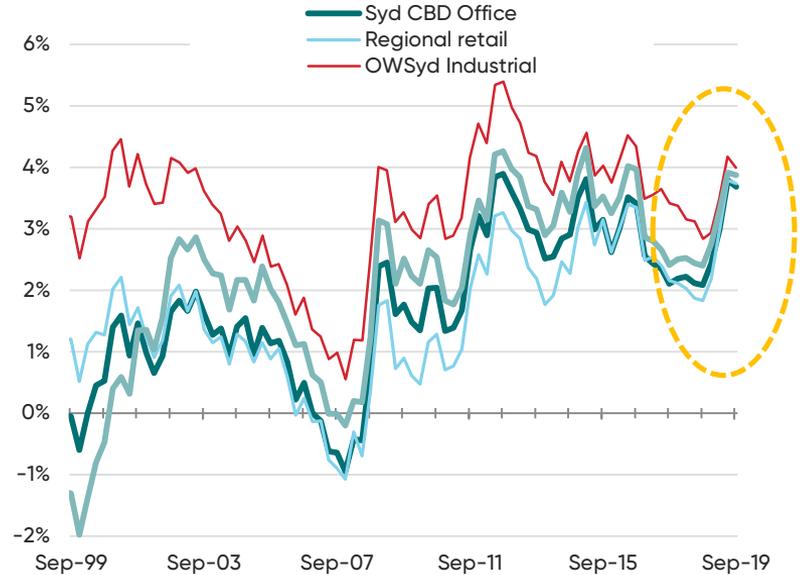
# Yield spreads

## Real estate just became more affordable

Property yields by sector (average prime)  
 Sept 1999 – Sept 2019, %



Property yield spread to Government bonds  
 Sept 1999 – Sept 2019, 10 Yr Australian Government Bonds

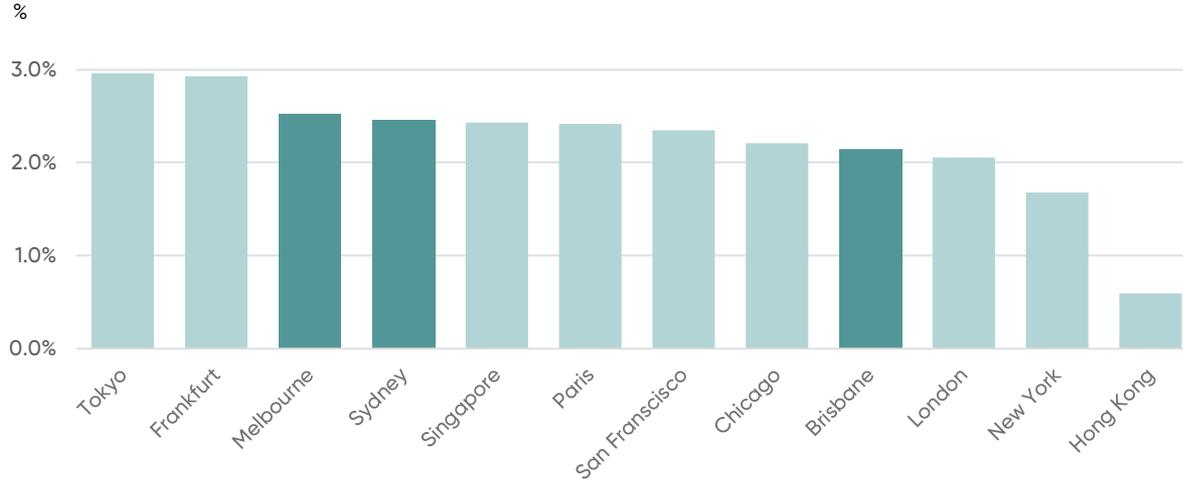


Source: JLL Research, Bloomberg and Dexus Research.

# Relative value

Australian office property doesn't appear expensive on a global scale

Office effective yield\* spread to government bonds



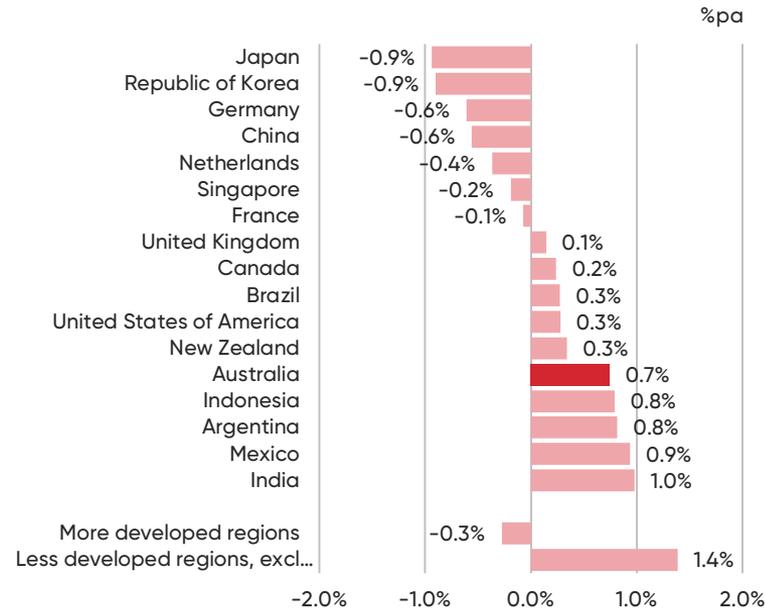
Source: Savills, JLL, Trading Economics, Knight Frank, Dexus Research.

\*Effective yields are based on A-grade office space – Australian, EU & Asia Pacific yields and bond rates as at June-19

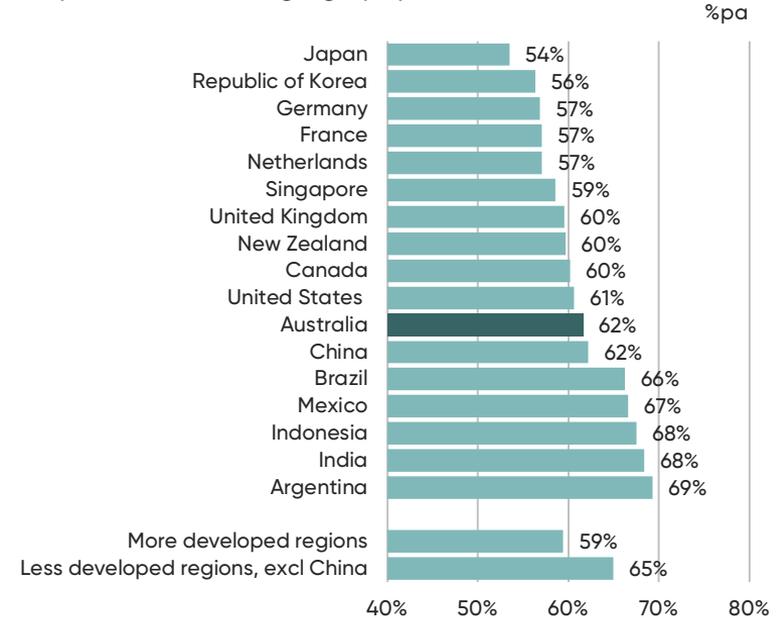
# Theme 7

## Australia has the best demographics in the developed world

Growth in working age population to 2040



Proportion of working age population in 2040



Source: United Nations, Department of Economic and Social Affairs, Population Division (2017). World Population Prospects: The 2017 Revision, custom data acquired via website.



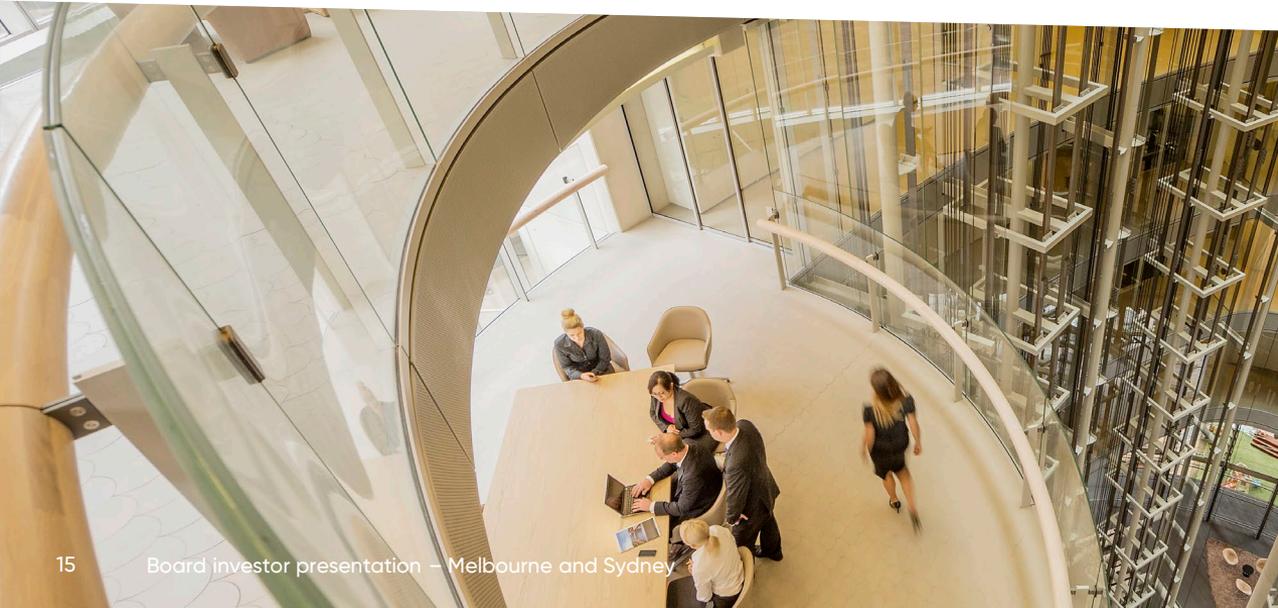
# Environmental, Social and Governance (ESG) factors

# ESG benchmarks

## Leading performance

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- Achieved strong results across leading global ESG benchmarks in 2019
- Strong sustainability credentials have also recently earned Dexus a place on ESG-focused investable indices, including MSCI ACWI Climate Change Index and S&P/ASX 200 ESG Index



Global Industry Leader for  
the Real Estate Sector

**Dow Jones  
Sustainability Indices**

In collaboration with



RobecoSAM brand

Global Sector Leader  
for listed office entities  
(Dexus Office Trust)



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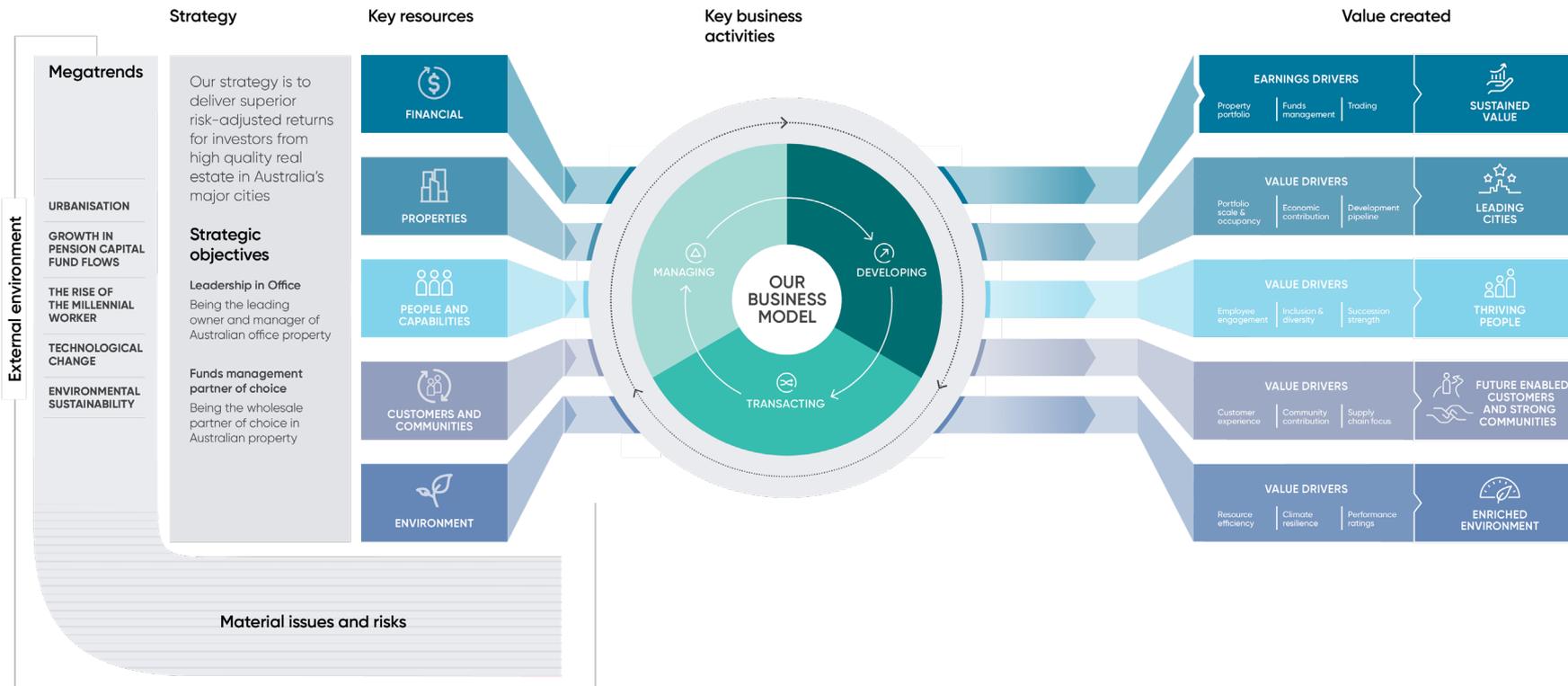
A+ rating for Strategy  
and Governance

A+ rating for Direct  
Property



Principles for  
Responsible  
Investment

# How Dexu creates value



# Environment – our focus areas



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## Transition to a low carbon economy

- Targeting net zero emissions by 2030 – minimising transition risk, creating benefits for the bottom line, and aligning with the ambitions of our third party capital partners
- Achieved a 45.6% reduction in group office emissions intensity since FY08
- Saved over \$136 million through enhanced portfolio energy efficiency since FY08
- Updated our understanding of the physical impacts of climate change across our portfolio, integrating the results into our Environmental Management System

## Focus on water and waste

- Continuing to deploy upgrades to fixtures and fittings, improving fault detection, and optimising cooling tower water efficiency
- Achieved a 22% reduction in group office water intensity since FY08
- Early adopter of the NABERS Waste rating tool, to be rolled out across office properties to benchmark performance and inform improvements

## Increasing renewable energy



**40**

**properties**  
across our NSW  
portfolio powered by  
50% renewable  
energy from 2020

# Social – our focus areas

## Responding to customer needs

- Offering products and services curated to enhance the performance and wellbeing of our diverse customer base including:

- project delivery services
- flexible suite leasing
- 'simple and easy' lease
- Workplace consulting services
- Wellplace



- 50% of customer survey respondents are 'highly likely' to renew their lease (up from 43% in 2018 and 28% in 2013)



Achieved strong  
FY19 customer  
Net Promoter  
Score  
+46

## Supporting thriving people (employees)

- >80% of our employees participate in flexible working
- Recognised as an Employer of Choice for Gender Equality by the Workforce Gender Equality Agency
- Placed internal candidates in 27% of available roles

FY19 employee  
Net Promoter  
Score  
+40

## Contributing to strong communities



FY19 value of  
community  
contribution  
\$1.2 million

## Modern Slavery Act (suppliers)

- Dexus has undertaken work to understand modern slavery risks in its operations and supply chain as well as enhance how it mitigates these risks
- Established an internal Modern Slavery Working Group which has:
  - Updated Human Rights policy
  - Updated precedent contracts and amended existing cleaning and security contracts
  - Held internal briefings with key business units and progressed training for all staff
  - Implemented a whistleblowing hotline for suppliers and contractors
  - Progressed awareness campaign incorporating onsite posters
- The Property Council of Australia launched a modern slavery supplier assessment tool earlier this month, with Dexus a founding member of the consortium
  - Dexus has invited 125 of its key suppliers to disclose information on their labour management practices using the tool
  - Information will assist Dexus to extend its understanding of modern slavery risk across its supply chain, and prioritise supplier engagement

# Governance – our focus areas

- Conducted a detailed review of our corporate governance framework and have **established a dedicated Dexus Governance team**
- **Established a new Board ESG Committee**
- **Best practice corporate governance practices** continue to attract third party capital partners
- **Safety** of our employees, contractors and people visiting our properties is **of paramount importance**



## Who we are

- We are a passionate and agile team who want to make a difference

## Why we come to work

- We create spaces where people thrive

## What we believe in

We are here to create value for:

- Our customers
- Our investors
- Our communities
- Our people

## How we behave and what we value

- Openness and Trust
- Empowerment
- Integrity

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