Dexus (ASX: DXS)

ASX release

15 October 2019

Citi Australian and New Zealand Investment Conference presentation

Dexus provides the attached presentation which will be used as a basis of discussion at the Citi Australian and New Zealand Investment Conference, to be held at the Sheraton Grand in Sydney on Wednesday, 16 October 2019.

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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

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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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Citi Australian & New Zealand Investment Conference Presentation

October 2019

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

Key takeaways

Dexus benefits from Australian CBD exposure

Australian office fundamentals are attractive

- Relative pricing and rent growth for Australian office compares favourably to global cities
- Measured supply at a time of record low vacancy levels (Sydney and Melbourne)
- CBDs continue to benefit from strong employment growth

Dexus well positioned for sustained performance

- High quality portfolio with development pipeline weighted to key Australian CBDs
- Diversified lease expiry profile provides upside exposure
- Strong underlying fixed rental increments of 3.5-4.0%
- Customer focus with emphasis on making things 'simple and easy'

Megatrends

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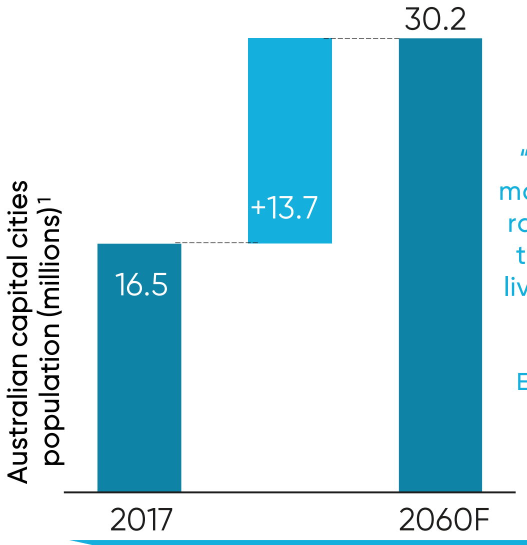
Dexus's strategy is orientated around two key long-term growth thematics

1 Urbanisation

Densification of land use in and around key economic and transport hubs



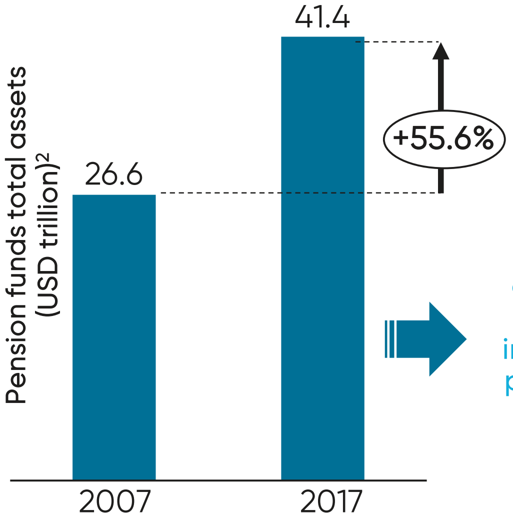
"Australia's major cities all ranked in the top 25 most liveable cities globally"

EIU Liveability Rankings

"re-creation of assets in high demand CBD locations to unlock change of use upside"

2 Growth in pension capital fund flows

Increased demand for real assets from growing and ageing populations



20%+ allocated to real estate, infrastructure and private equity, up from 4% in 1997

"attraction of like minded, long dated, third party capital partners to invest alongside Dexus"

We are in a climate of rapid change and the context in which we operate our business, both today and in the future, is informed by the disruption and opportunity created by global megatrends.

Other megatrends that could impact Dexus's strategy and outlook include:

- The rise of the millennial worker
- Technological change
- Environmental sustainability

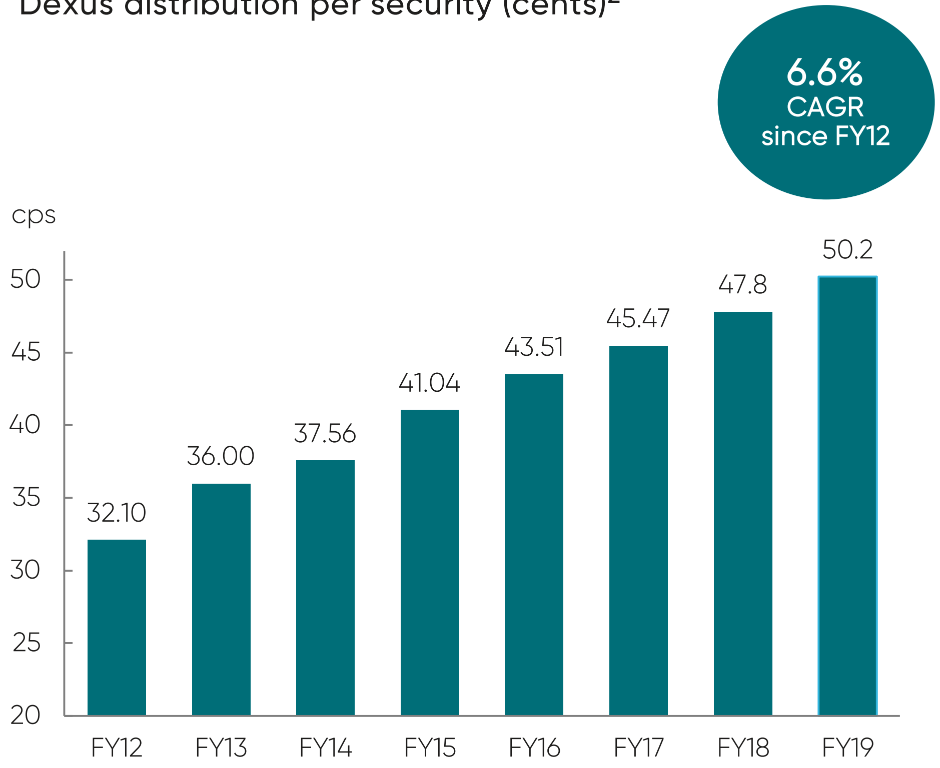
1. Source: ABS
2. Source: Willis Towers Watson, Global pension assets study 2018.

Dexus overview

$31.8 billion under management[1]

PROPERTY PORTFOLIO $15.6 billion[1]	- Proxy for Australian office property • Overweight position to Sydney market
FUNDS MANAGEMENT $16.2 billion[1]	- Outperforming and growing Funds Management business
DEVELOPMENT	- $9.3 billion[1] group development and concept pipeline
TRADING	- FY20 and FY21 trading profits significantly de-risked[3]
CAPITAL MANAGEMENT	- Strong balance sheet with gearing of 24.0% - Market cap of circa $13 billion
FY20 GUIDANCE Confident of achieving circa 5% FY20 distribution growth[4]	- 95% of Property FFO already locked in - Trading profits significantly de-risked[3] - Cost of debt of mid-3% with appropriate levels of hedging

Dexus distribution per security (cents)[2]



1. Funds under management and development and concept pipeline as at 30 June 2019.
2. Adjusted for the one-for-six security consolidation completed in FY15. Compound annual growth rate (CAGR) is calculated over seven years.
3. Post 30 June 2019. Dexus exchanged contracts to sell a 25% interest in 201 Elizabeth Street, Sydney for $157.5 million and entered into a put and call option to sell the remaining 25% interest in late 2020 for a further $157.5 million. Trading profits in FY21 are subject to the exercise of either option.
4. 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 income growth of 4.5-5.5%, Dexus industrial portfolio like-for-like income growth (excluding one-offs) of 3-4%, management operations FFO of $55-60 million, cost of debt of mid-3%; trading profits of $35-40 million net of tax; maintenance capex, cash incentives, leasing costs and rent free incentives of $170-185 million; and excluding any further transactions.

High quality portfolio weighted to Australian CBDs

With positive outlook for cap rate compression

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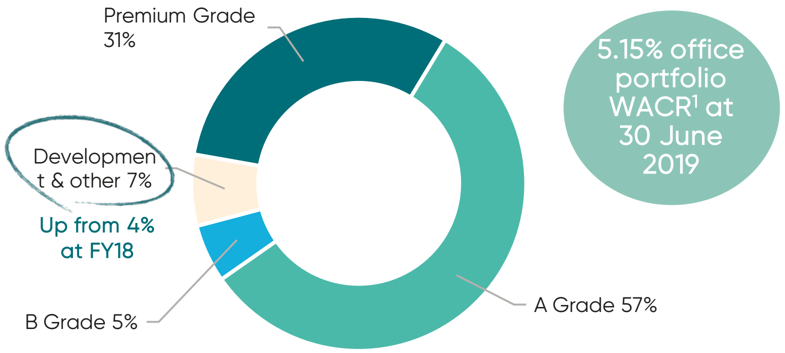
Office portfolio asset diversification

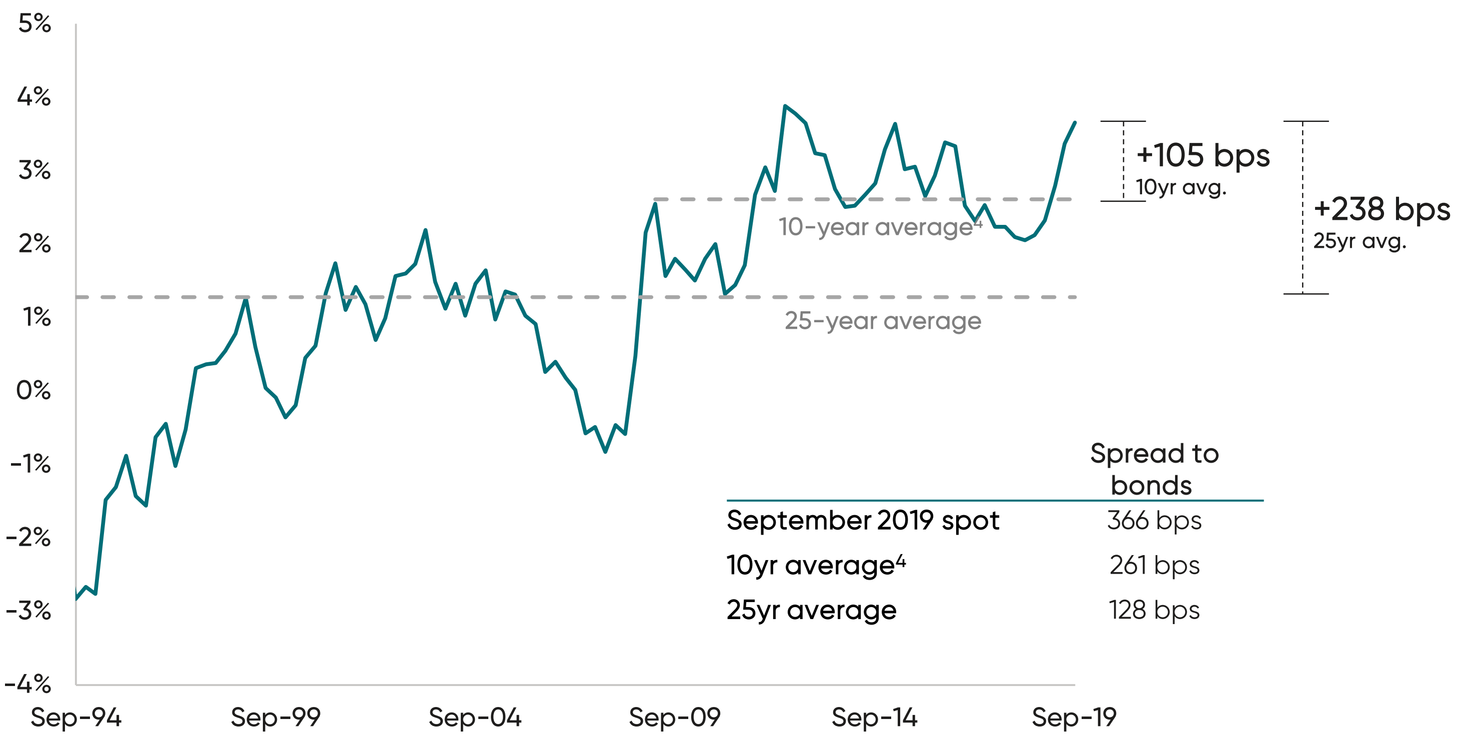


Recent office transactional evidence[2]

Property	Price ($m)	Yield
2 Chifley Square, Sydney	920.0	4.5%
Westfield office towers, Sydney	1,520.0	4.4%
Liberty Place precinct, Sydney	400.0	4.1%
Barangaroo T2 and T3, Sydney	1,079.0	4.8%
242 Exhibition Street, Melbourne	830.0	4.8%

Sydney Office cap rate spread to 10-year Aus govt bonds

September 1994 – September 2019[3], %



	Spread to bonds
September 2019 spot	366 bps
10yr average[4]	261 bps
25yr average	128 bps

12 month capitalisation rate outlook:
Potential 12.5-25 basis point firming for quality office property and at least 25 basis points firming for industrial, supported by spread to bonds and investor sentiment

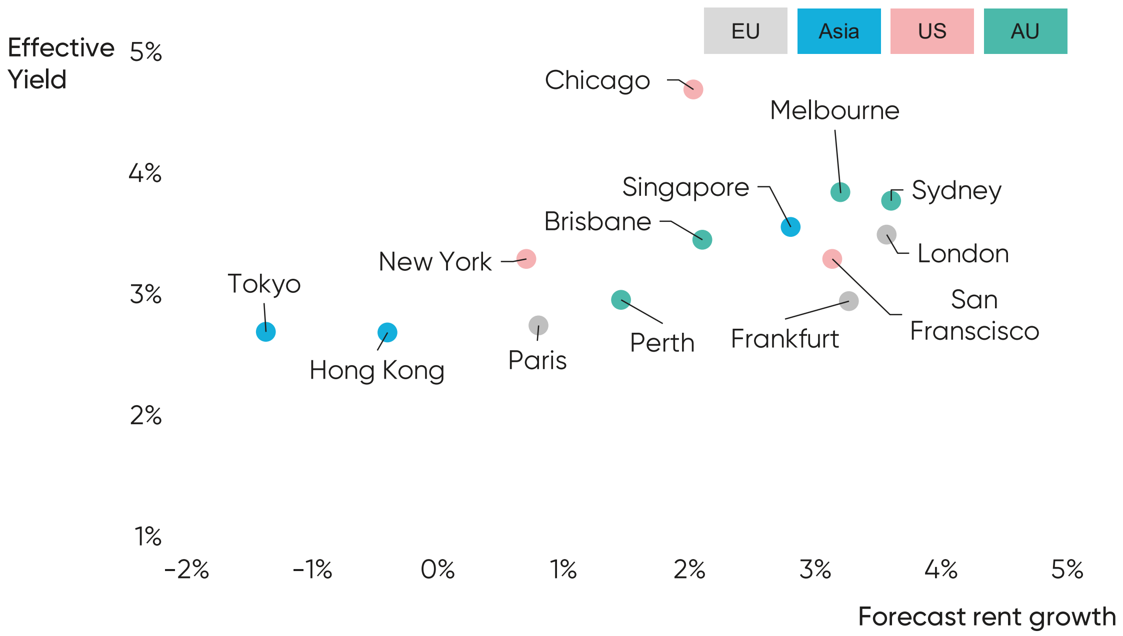
1. Stabilised portfolio weighted average capitalisation rate.
2. Source: JP Morgan Equities Research.
3. Cap rate is equal to the average prime yield for the purposes of this analysis.
4. Post GFC 10-year average taken from March 2009 quarter through to September 2019.

Source: JLL, RBA

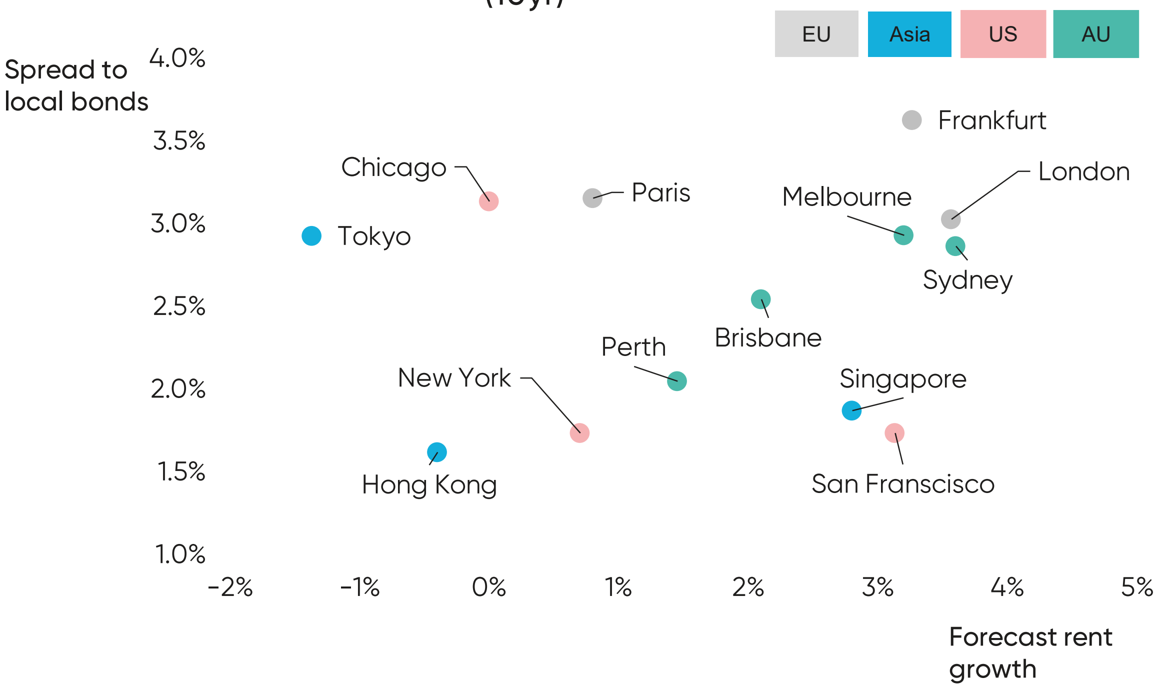
Pricing in Australia remains attractive

Relative pricing and rent growth for Australian office compare favourably to global cities

Global yield and rent growth comparison



Effective yield spread over local government bond (10yr)



Source: Savills, JLL, Trading Economics, Knight Frank, Dexus Research.
*Effective yields are based on A-grade office space – Australian, EU & Asian yields and bond rates June-19 based on JLL data. US yields are economic cap rates as per Green Street REA's May 2019 Office Sector Snapshot
Forecasts are based on JLL data (for Australian cities) and Knight Frank Global Outlook 2019 (for global cities) for average prime net face rents from end 2018 to end 2020 and are not Dexus Research forecasts.

Office portfolio expiry profile

Diversified expiry profile provides upside exposure with limited downside

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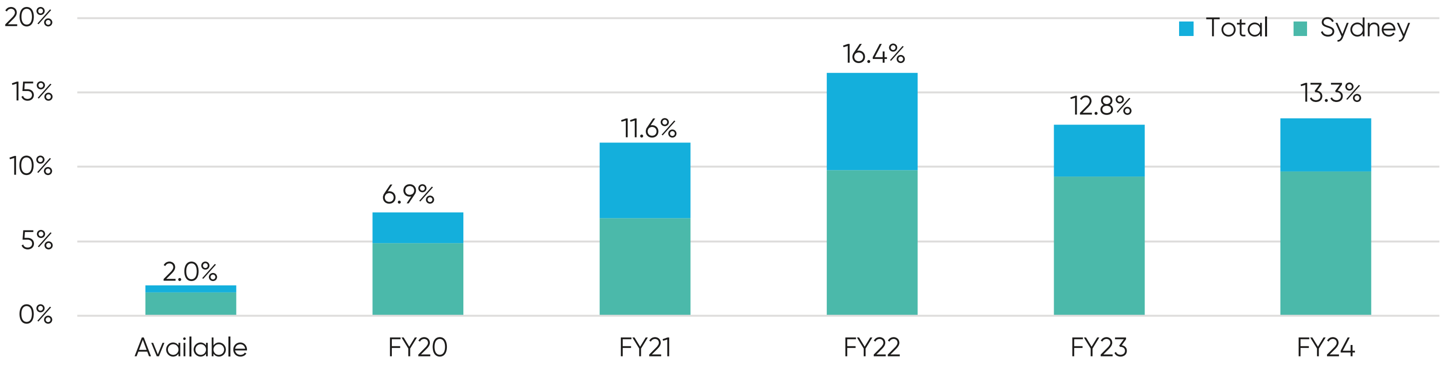
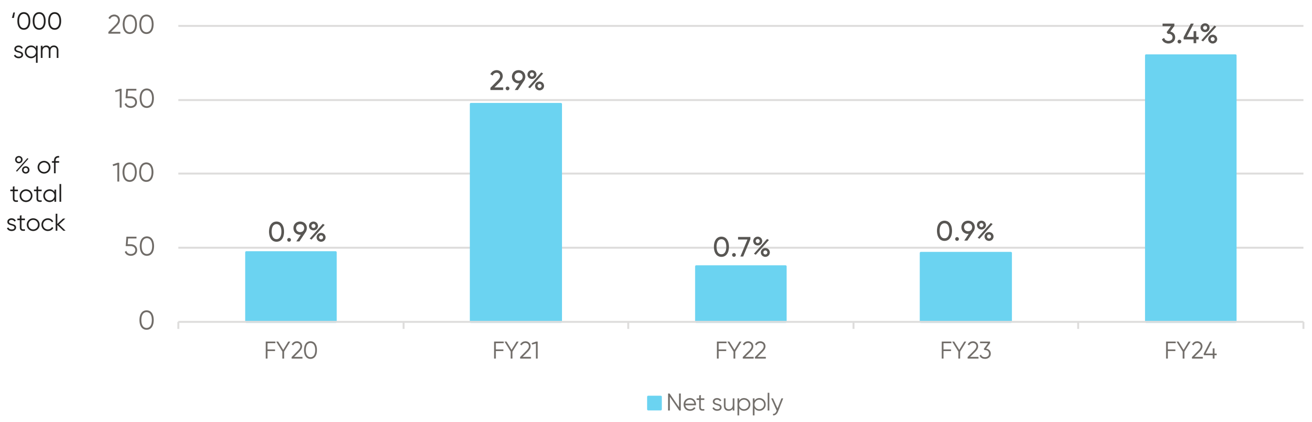
Dexus office lease expiry profile at 30 June 2019



Total portfolio 4% under-rented as at 30 June 2019

Sydney portfolio 8% under-rented with 23% office portfolio income expiring in Sydney up to end FY22

Sydney CBD supply landscape



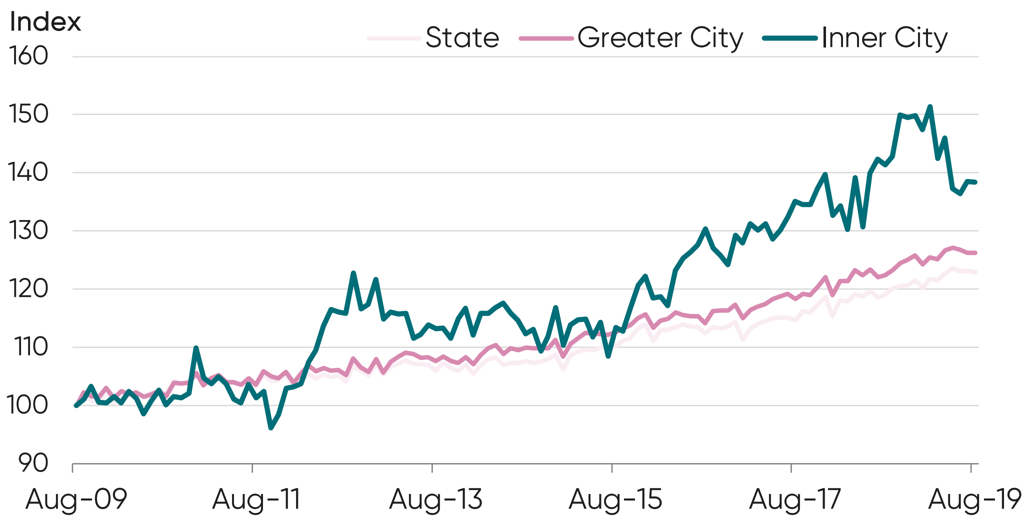
FY20-24 Sydney net supply equates to avg **+1.8%** of total stock per annum, compared to long-run avg of **+1.3%** pa

47% of Sydney supply up to end FY24 is pre-committed

Office market outlook

Dexus's CBD office strategy leverages powerful urban growth trend

NSW employment growth by region



Long-term national growth in white collar employment is running at 2.7%, with total employment at 2.0%

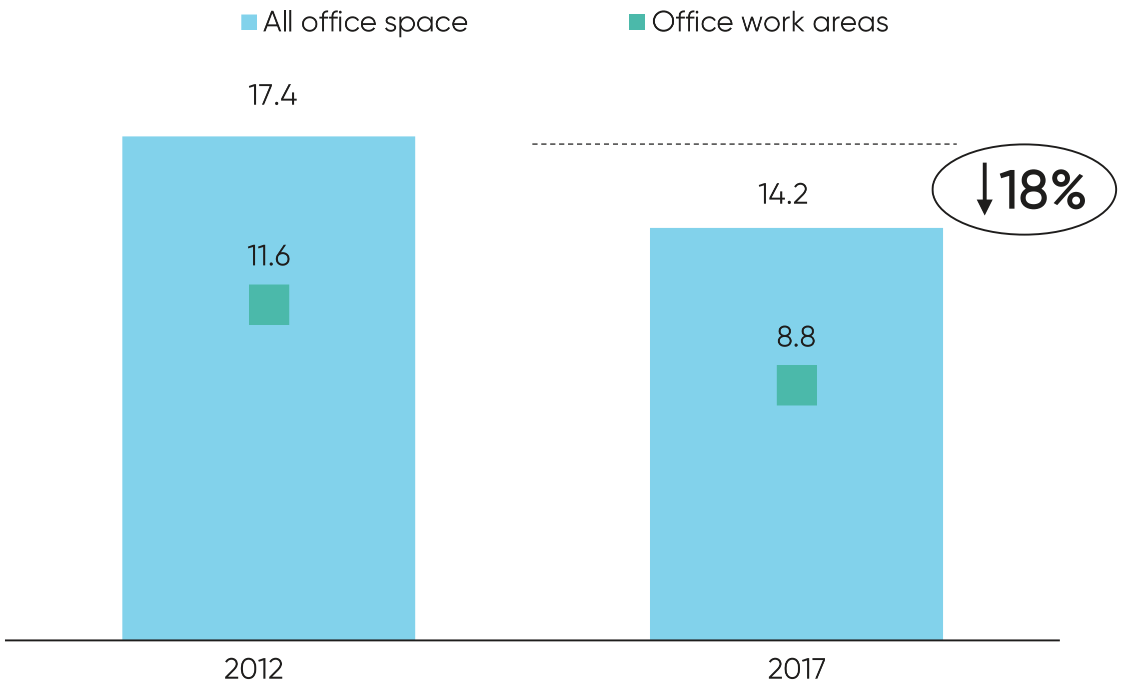
- Job creation remains above average with **job vacancies near record levels**
- Expect some slowing of the labour market however **population growth and infrastructure investment** are key supports
- Over the long-term office markets will continue to benefit from disproportionately strong growth in the service sector, particularly in inner city & CBD areas

Source: ABS, Dexus Research.

Office workspace trends

Workspace density has created significant pent up demand

Sydney CBD workspace ratio



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

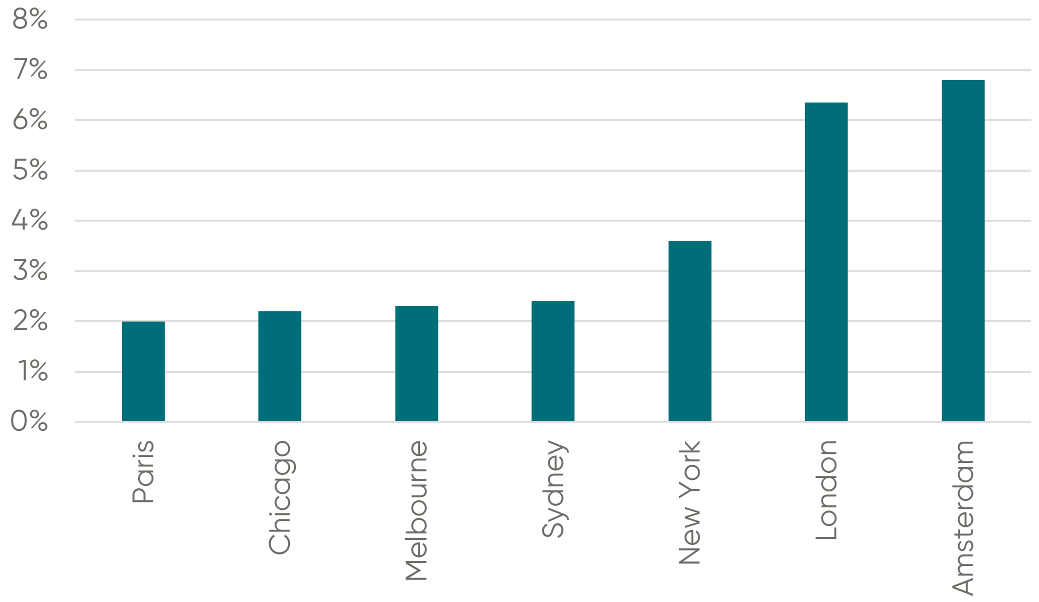
Cyclical:
Significant pent up demand as firms squeeze into existing space

Source: ABS, Sydney City Council.

Flexible workspace offering

Dexus focus on making things 'simple and easy' for our customers

Flexible space penetration rates



Source: Domestic markets sourced from Dexus Research, JLL Research, Colliers, Cushman & Wakefield, June 2019.
Offshore markets sourced from JLL Research, May 2019.

Dexus response

- Co-working competes with other space providers to a degree, however it also increases overall demand by drawing in smaller users and start-ups who might not otherwise be in the CBD
- Dexus is engaged in a range of activities to offer greater flexibility to customers, including offerings such as Dexus Place, Suite X as well as simpler lease agreements
- Dexus has been mindful of diversifying our exposure to co-working providers and taking standard bank guarantees as security on our leases

Dexus exposure

- WeWork makes up 0.6% of Dexus's portfolio income
- Flexible space (which includes co-working and serviced offices) makes up 2% of Dexus's portfolio income

Providing investors with stable growth in the long term

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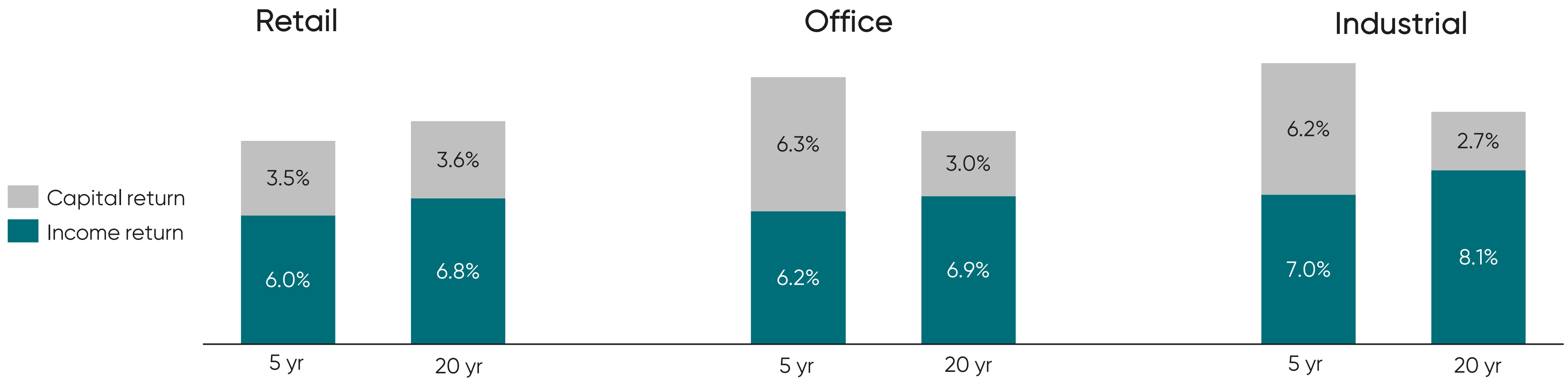
Office demonstrates lower income volatility and diversified portfolios absorb one-off shocks

Total returns over various periods

Total returns, %, annualised



	Retail 5 yr	Retail 20 yr	Office 5 yr	Office 20 yr	Industrial 5 yr	Industrial 20 yr
Total return	9.7%	10.7%	12.8%	10.1%	13.5%	11.0%
Income volatility[1]	1.0%	1.4%	1.3%	1.2%	1.7%	1.9%

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.

Summary

Dexus well positioned

- Relative pricing and rent growth for Australian office compares favourably to global cities
- Dexus well positioned through its high quality property portfolio, development pipeline, diversified lease expiry profile, fixed rental increments of 3.5-4.0%, and ongoing customer focus
- Confident of achieving FY20 market guidance[1] for distribution per security growth of circa 5%
  - 95% of Property FFO already locked in
  - Trading profits significantly de-risked
  - Cost of debt of mid-3% with appropriate levels of hedging

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 income growth of 4.5-5.5%, Dexus industrial portfolio like-for-like income growth (excluding one-offs) of 3-4%, management operations FFO of $55-60 million, cost of debt of mid-3%; trading profits of $35-40 million net of tax; maintenance capex, cash incentives, leasing costs and rent free incentives of $170-185 million; and excluding any further transactions.

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