

Dexus (ASX: DXS)

ASX release



30 August 2019

London and US investor presentation

Dexus provides the attached presentation which will be used as a basis of discussion in London and the US.

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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)

London and US investor meetings

Overview presentation September 2019

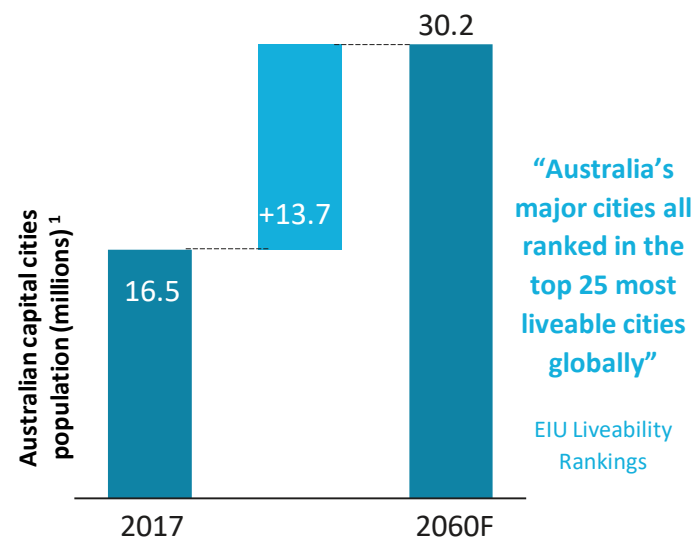
Megatrends

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

1

Urbanisation

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

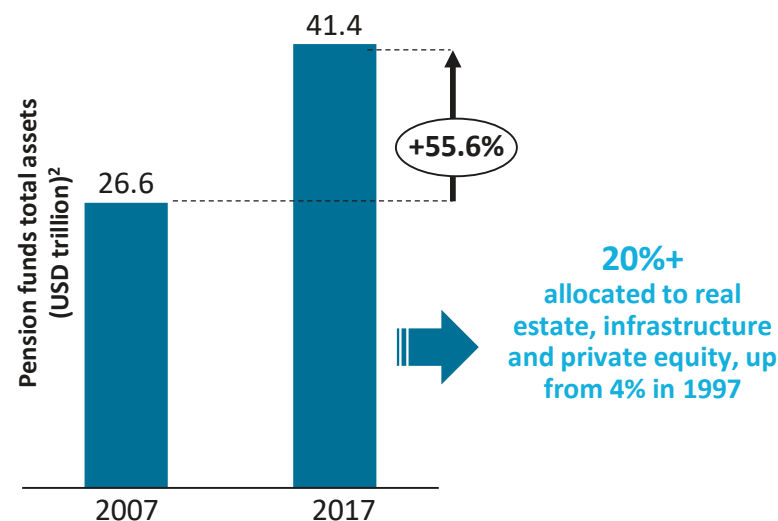


"re-creation of assets in high demand CBD locations to unlock change of use upside"

2

Growth in pension capital fund flows

Increased demand for real assets from growing and ageing populations



"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.

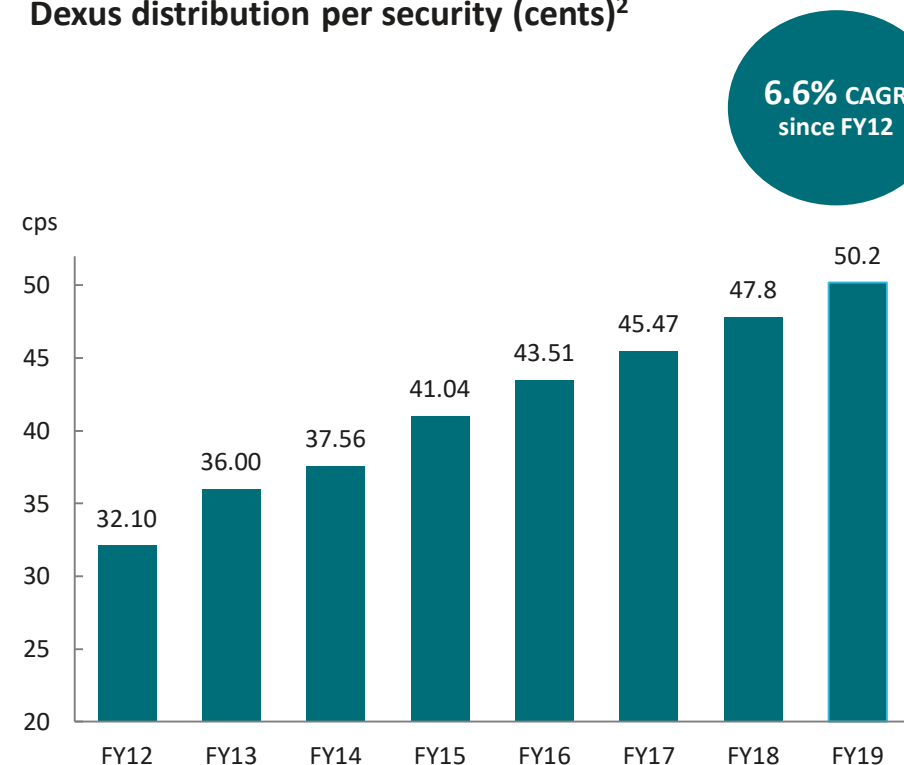
Dexus overview

\$31.8 billion under management¹

dexus

PROPERTY PORTFOLIO \$15.6 billion ¹	<ul style="list-style-type: none">- Proxy for Australian office property<ul style="list-style-type: none">• Overweight position to Sydney market
FUNDS MANAGEMENT \$16.2 billion ¹	<ul style="list-style-type: none">- Outperforming and growing Funds Management business
DEVELOPMENT	<ul style="list-style-type: none">- \$9.3 billion group development and concept pipeline
TRADING	<ul style="list-style-type: none">- Future trading pipeline of \$210-300 million of profits (pre-tax) from five trading projects
CAPITAL MANAGEMENT	<ul style="list-style-type: none">- Strong balance sheet with gearing of 24.0%- Market cap of circa \$14 billion

Dexus distribution per security (cents)²



1. Funds under management as at 30 June 2019.

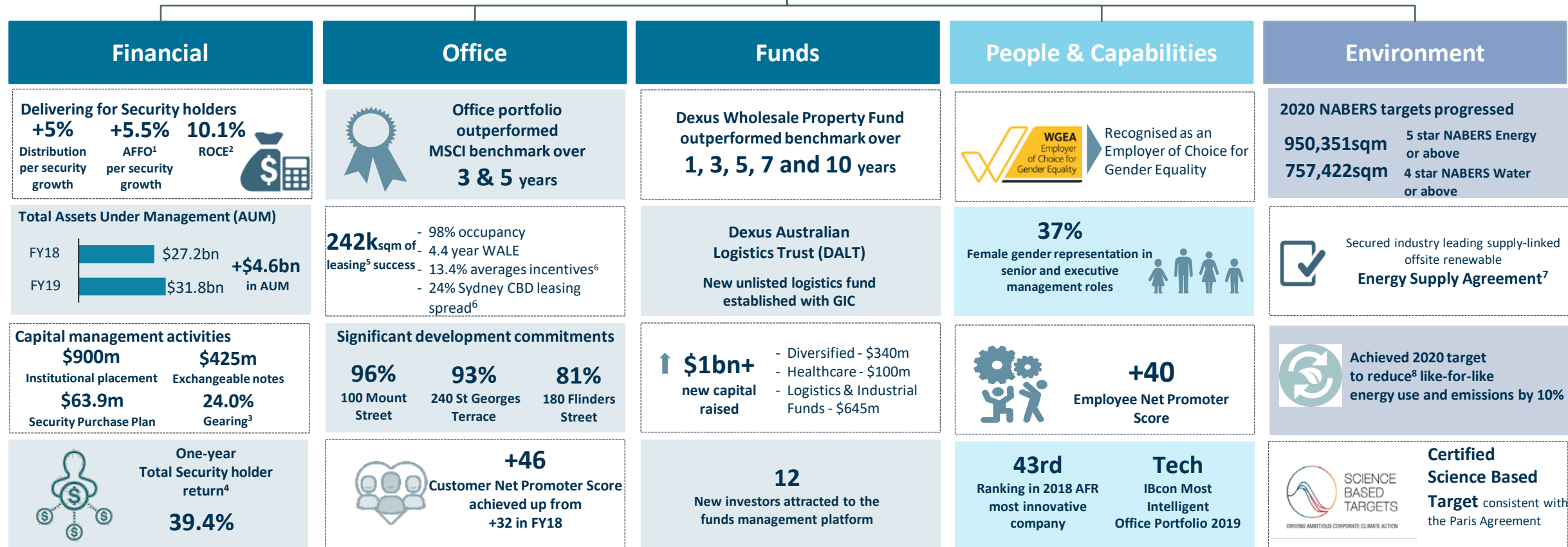
2. Adjusted for the one-for-six security consolidation completed in FY15. Compound annual growth rate (CAGR) is calculated over seven years.

FY19 highlights

Creating sustained value for Security holders

dexus

FY19 highlights



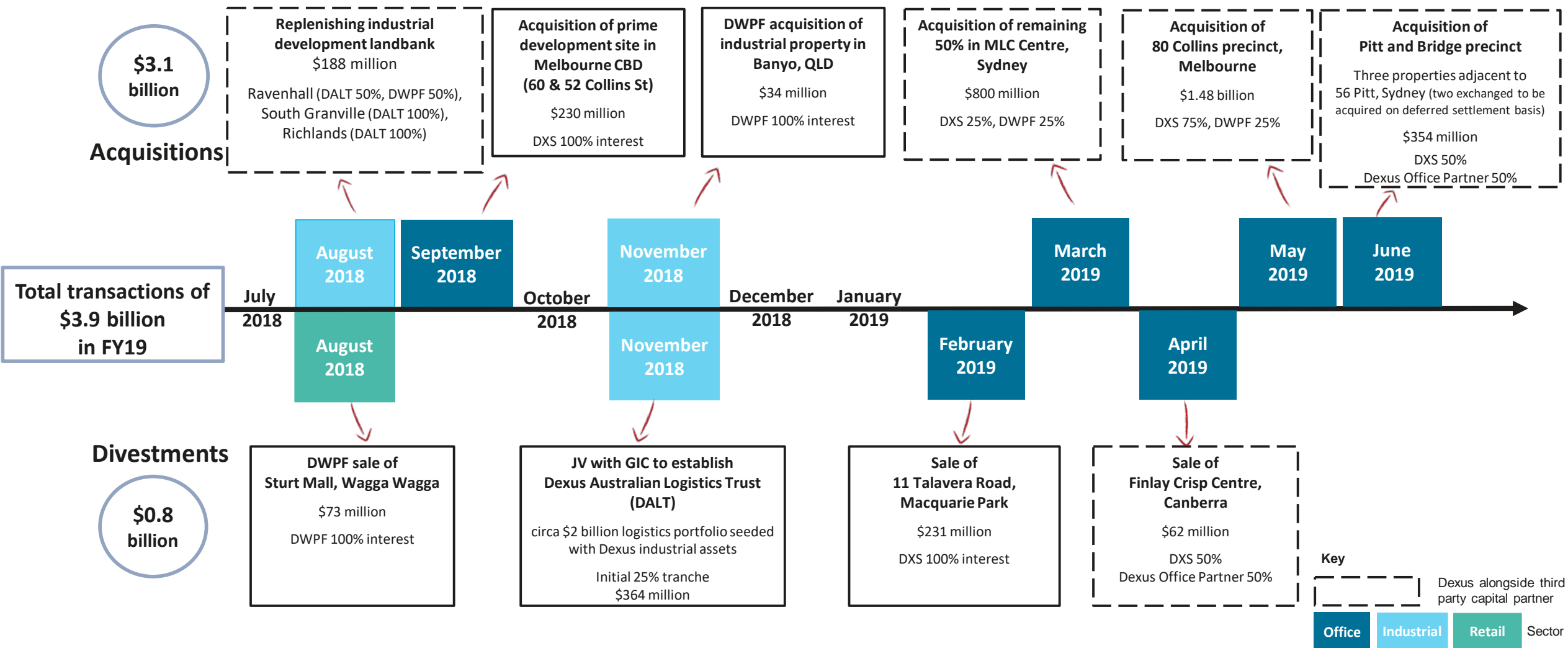
1. Adjusted Funds From Operations.
 2. Return on Contributed Equity.
 3. Adjusted for cash and debt in equity accounted investments.
 4. Source: UBS Australia 30 June 2019.

5. Including development leasing of 52,815 square metres.
 6. Excluding development leasing.
 7. Powering 50% of base building load across 40 NSW properties from January 2020.
 8. FY15 base year.

Active year of transaction activity

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Securing opportunities and recycling capital, alongside third party capital partners



Balance sheet strength maintained

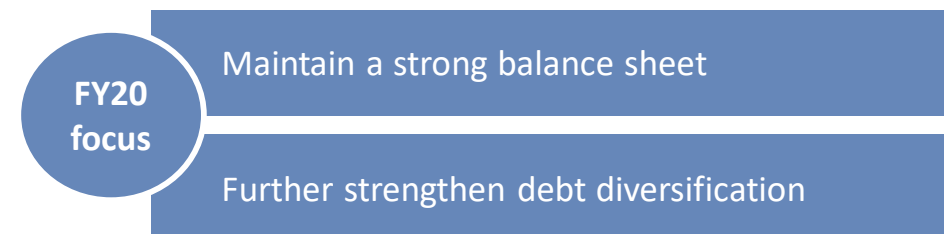
Well positioned on cost, duration and diversification

dexus

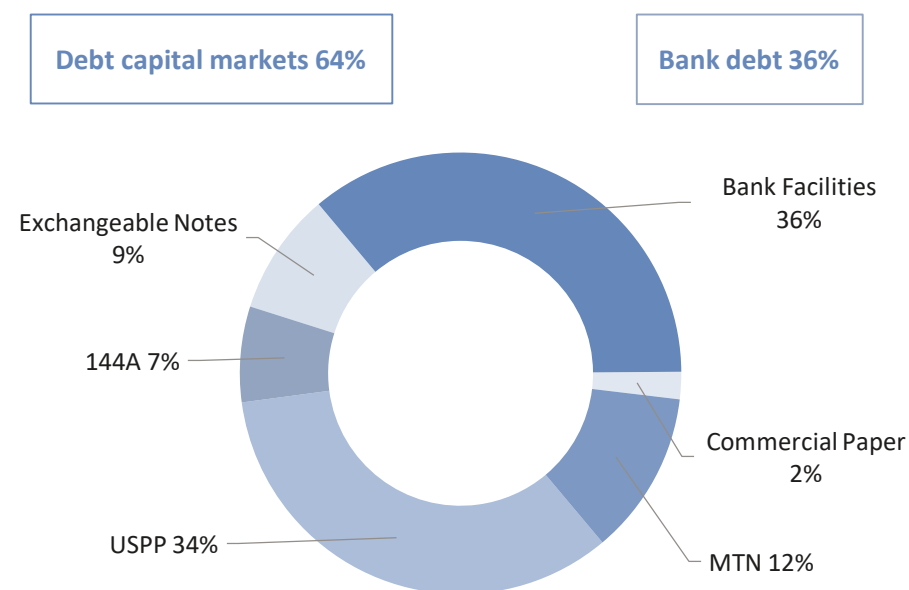
- Further diversified funding sources and maintained low gearing
 - Issued A\$425 million Exchangeable Notes to fund Dexus's acquisition of an additional 25% interest in the MLC Centre, Sydney
 - Completed an Institutional Placement and Security Purchase Plan raising \$964 million to fund Dexus's 75% interest in 80 Collins Street, Melbourne

Key metrics	30 June 2019	30 June 2018
Gearing (look-through) ¹	24.0%	24.1%
Cost of debt ²	4.0%	4.2%
Duration of debt	6.7 years	7.0 years
Hedged debt (incl caps) ³	74%	71%
S&P/Moody's credit rating	A-/A3	A-/A3

1. Adjusted for cash and debt in equity accounted investments.
2. Weighted average for the year, inclusive of fees and margins on a drawn basis.
3. Average for the year. Hedged debt (excluding caps) was 58% for the 12 months to 30 June 2018 and 55% for the 12 months to 30 June 2019.



Diversified sources of debt



Valuations and outlook

Positive outlook for cap rate compression

Total Dexus portfolio FY19 valuation uplift

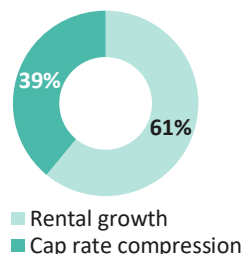
\$773.1m
Total portfolio
valuation uplift¹

5.26% ↓ 26 bps
Total portfolio
cap rate² (FY18: 5.52%)

Dexus office portfolio uplift

\$594.6m
Office portfolio
valuation uplift
FY18: \$1,054.0m

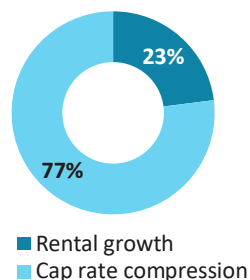
5.15% ↓ 22 bps
Office portfolio
cap rate²
FY18: 5.37%



Dexus industrial portfolio uplift

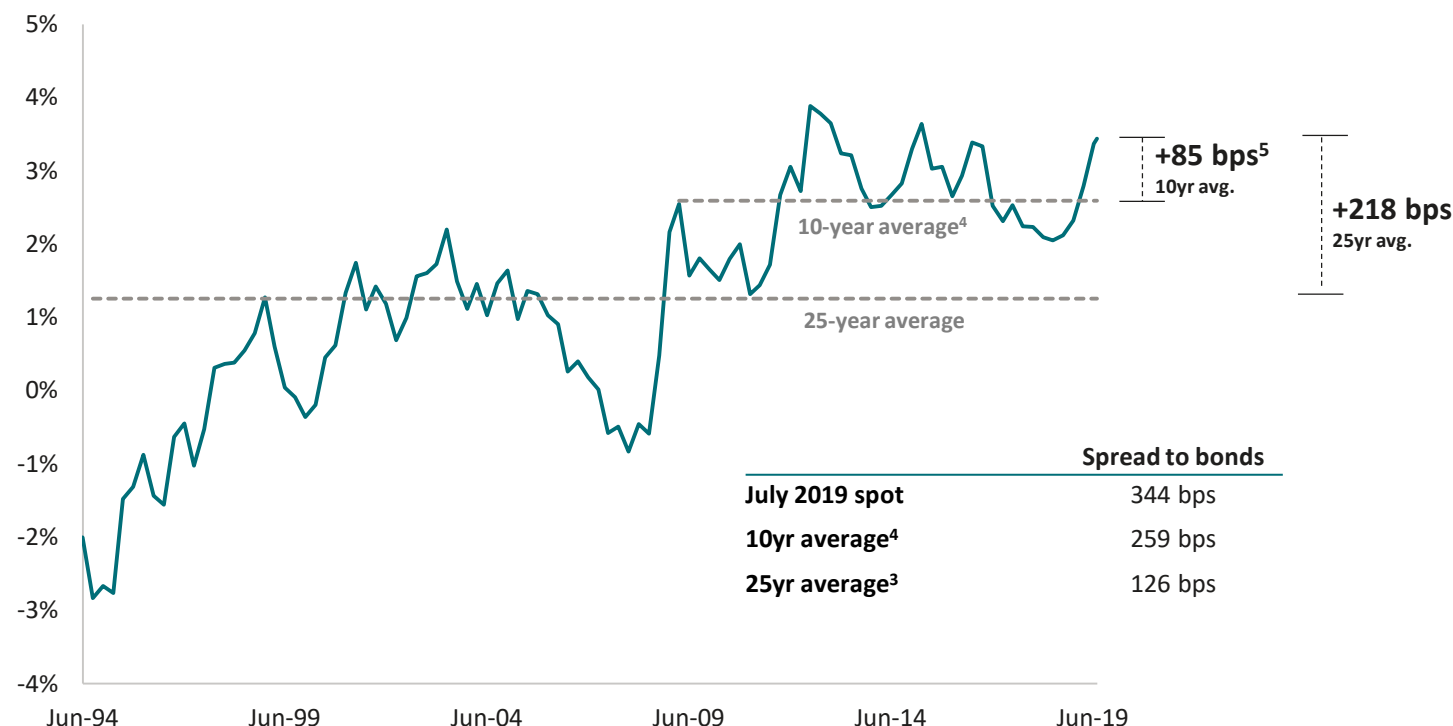
\$170.3m
Industrial portfolio
valuation uplift
FY18: \$141.9m

5.92% ↓ 48 bps
Industrial portfolio
cap rate²
FY18: 6.40%



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

June 1994 – July 2019³, %



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. Includes healthcare property revaluation gain of \$8.2 million in 12 months to 30 June 2019.

2. Stabilised portfolio weighted average capitalisation rate.

3. Prime yield data released quarterly, June 2019 prime yield data carried forward for the purpose of updating 10-year government bond yield data.

4. Post GFC 10-year average taken from March 2009 quarter through to June 2019.

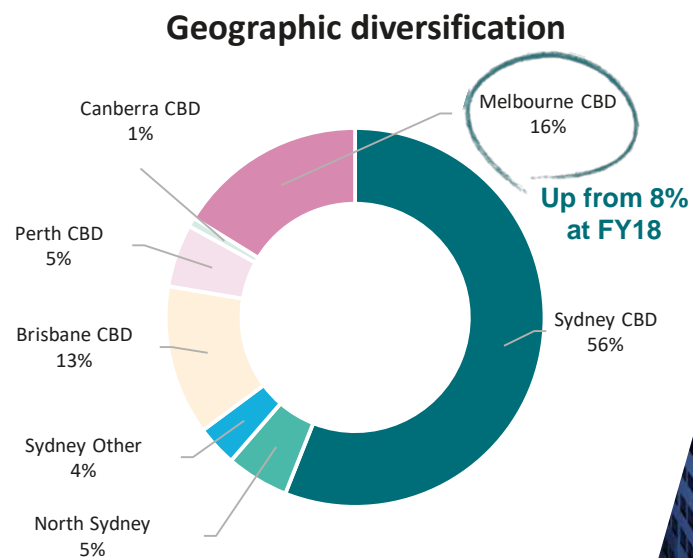
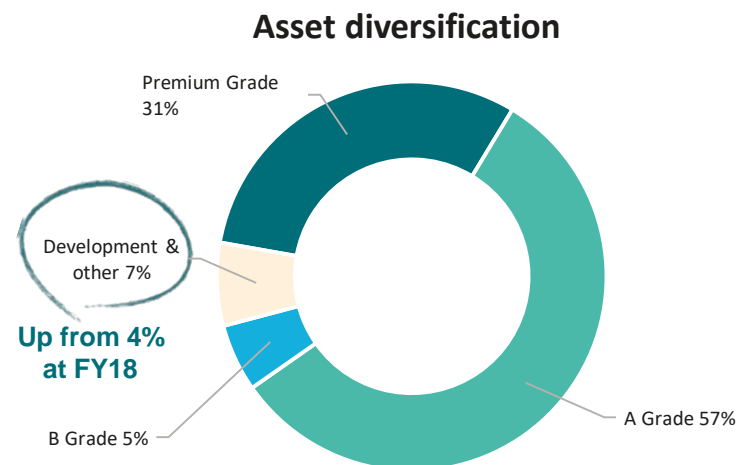
5. Melbourne spot prime yield spread to bonds is currently at a 55bp premium to 10-year average.

Source: JLL, RBA

Office portfolio overview

Improved portfolio quality and geographic diversification

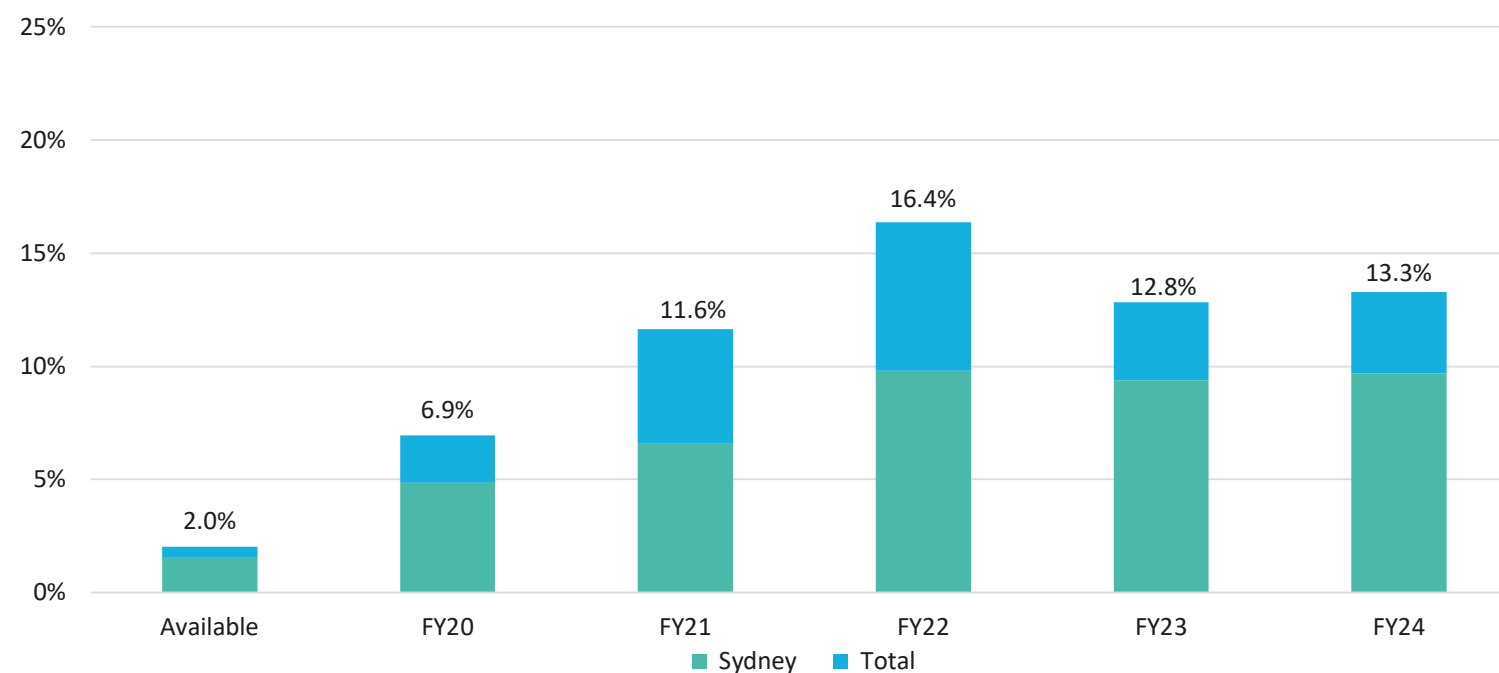
- Capitalising on buoyant Sydney and Melbourne office markets
- Increased exposure in Melbourne CBD
- Improving conditions in Perth and Brisbane
- Positioning to capture long-term value creation through development opportunities
- Divested non-core assets



Office portfolio expiry profile

Upside from diversified expiry profile

- Sydney accounts for **163,992 square metres** of office expiries up to and including FY22, representing **23% of office portfolio** income



FY20 Key expiries

Grosvenor Place (0.8%)
Australia Square (0.7%)
30 The Bond (0.5%)

FY21 Key expiries

80 Collins Street North (1.7%)
45 Clarence Street (0.9%)
Grosvenor Place (0.9%)

FY22 Key expiries

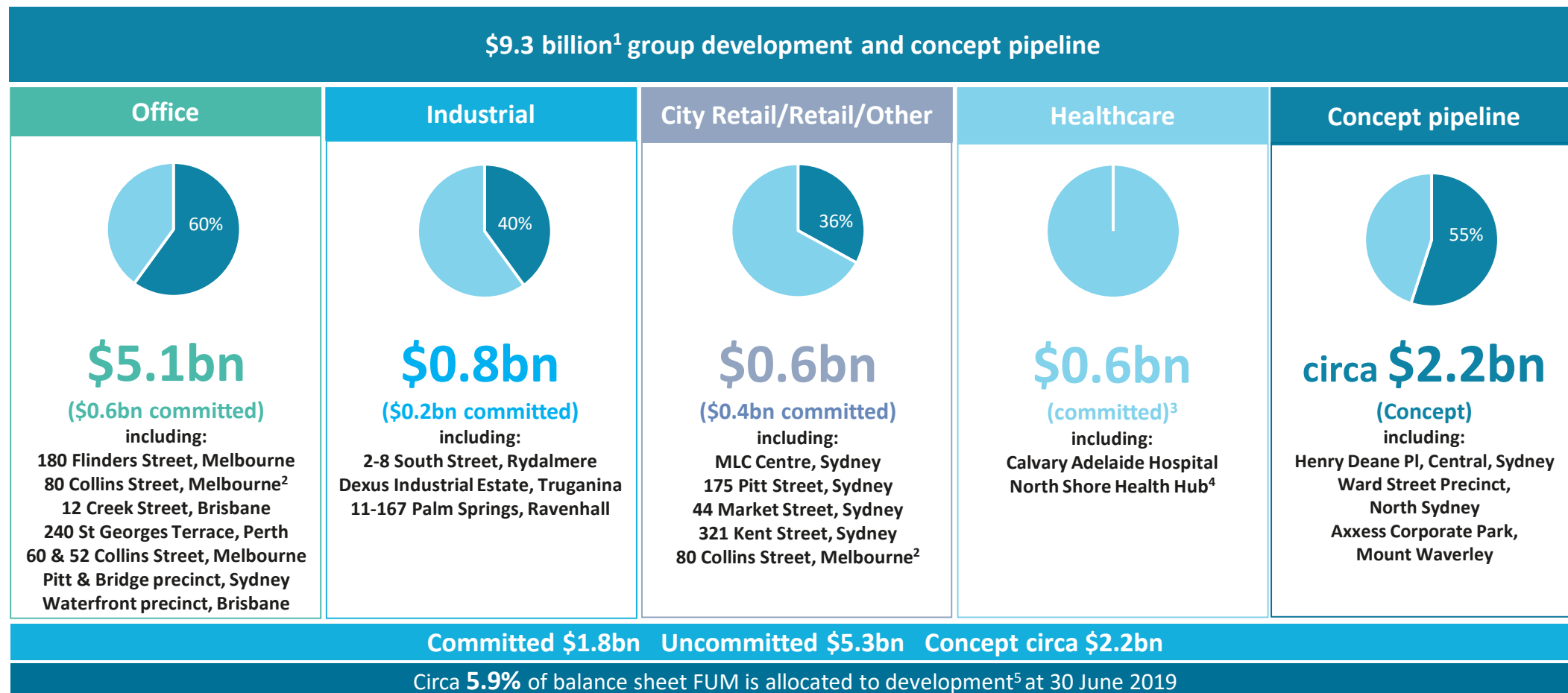
123 Albert Street (3.9%)
383-395 Kent St (1.3%)
44 Market St (1.0%)



c.\$9.3 billion¹ group development and concept pipeline



Diversified across sectors and locations

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1. Group interest in development cost (including cost of land where purchased for development and excludes downtime and income earned through development).
2. 80 Collins Street, Melbourne was acquired as a fund-through development.

3. Calvary Adelaide Hospital and North Shore Health Hub estimated on-completion value.
4. Dexus has progressed the sale of the North Shore Health Hub to HWPf, which is subject to Responsible Entity and Advisory Committee approvals and securing debt financing.
5. Includes committed developments, trading and value-add opportunities.

 Dexus Direct
 Dexus Third Party Funds

Core office development pipeline

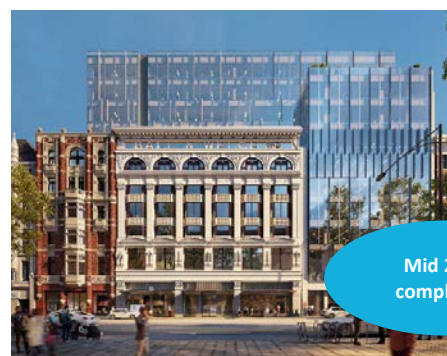
Progressing committed, uncommitted and concept projects across east coast CBDs

dexus



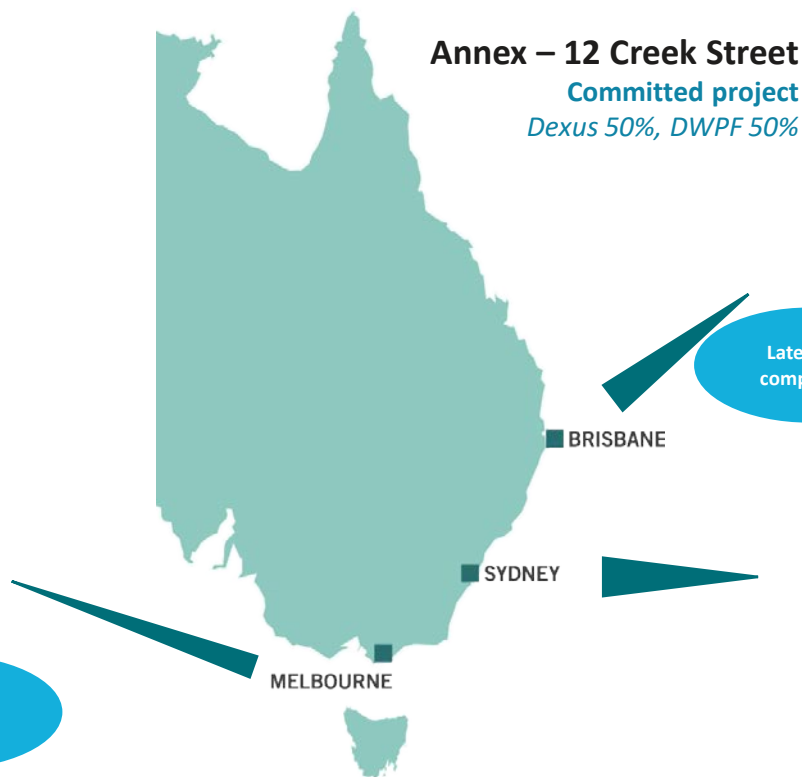
60 & 52 Collins Street

Uncommitted project
Dexus 100% interest



180 Flinders Street Melbourne

Committed project
Dexus 100% interest
81% committed



Pitt & Bridge Street
Uncommitted project
Dexus 50%,
Dexus Office Partner 50%

Waterfront Precinct

Uncommitted project *Dexus 50%, DWPf 50%*



Henry Deane Place – Central precinct

Concept project
Dexus 25%, Dexus Office Partner 25%

Core industrial development pipeline

Progressing committed projects for Dexus and third party capital partners

dexus

Foundation at Truganina

Dexus 100%

- Secured Coles Supermarkets Australia for a 7,300sqm warehouse facility
- Development for Dunlop Flooring for a 9,100sqm distribution and office facility due for completion in September 2019
- Secured Secon Freight Logistics for a 33,400sqm Build to Lease development, prior to completion in June 2019
- Secured HoA across 34,800sqm of industrial facilities with an e-commerce occupier and existing customer



11-167 Palm Springs Road, Ravenhall

Dexus 25.5%,

Dexus Australian Logistics Partner 24.5%,

DWPF 50%

- Stage 1 civil and infrastructure works underway delivering a circa 37 hectare industrial site
- Secured Scalzo for a purpose-built facility across 35,300sqm including manufacturing, warehousing and corporate offices
- circa 34,300sqm Build to Lease development commencing August 2019



54 Ferndell Street, South Granville

Dexus 51%, Dexus Australian Logistics Partner 49%

- Achieved planning approval for a circa 54,800sqm multi-unit development
- Strong pre-commitment interest



425-479 Freeman Road, Richlands

Dexus 51%, Dexus Australian Logistics Partner 49%

- Planning approval received for a circa 53,500sqm multi-unit development



Quarry, Greystanes

Dexus, Dexus Australian Logistics Partner, Dexus Industrial Partner and Australian Industrial Partner

- Estate completed early 2019, delivering >310,000sqm of premium warehouse space and 30,000sqm of office space
- 100% leased
- Dexus achieved an annualised unlevered total property return of 12.3% from inception to 30 June 2019



Trading business

Strong track record and progressed pipeline

Trading profit track record since FY12

14 Trading properties sold and settled

\$319m Trading profits realised (pre-tax)

30% Average unlevered project IRR

- Delivered \$34.7 million (net of tax) from the settlement of 32 Flinders Street, Melbourne in FY19
- Target \$35-40 million trading profits¹ (net of tax) in FY20
- Total of five projects¹, diversified across sectors, have been earmarked to deliver trading profits of \$210-300 million (pre-tax)

			Contracted trading profits	Trading profits progressed	Trading profits yet to be secured	
Trading projects	Current use	Trading strategy	FY20	FY21	FY22	FY23+
201 Elizabeth Street, Sydney ²	Office	Rezoning and development				
North Shore Health Hub, 12 Frederick Street, St Leonards – Stage 1 ³	Industrial	Healthcare development				
Lakes Business Park South, Botany	Industrial	Development				
436-484 Victoria Road, Gladesville	Industrial	Rezoning				
12 Frederick Street, St Leonards – Stage 2	Industrial	Healthcare development				

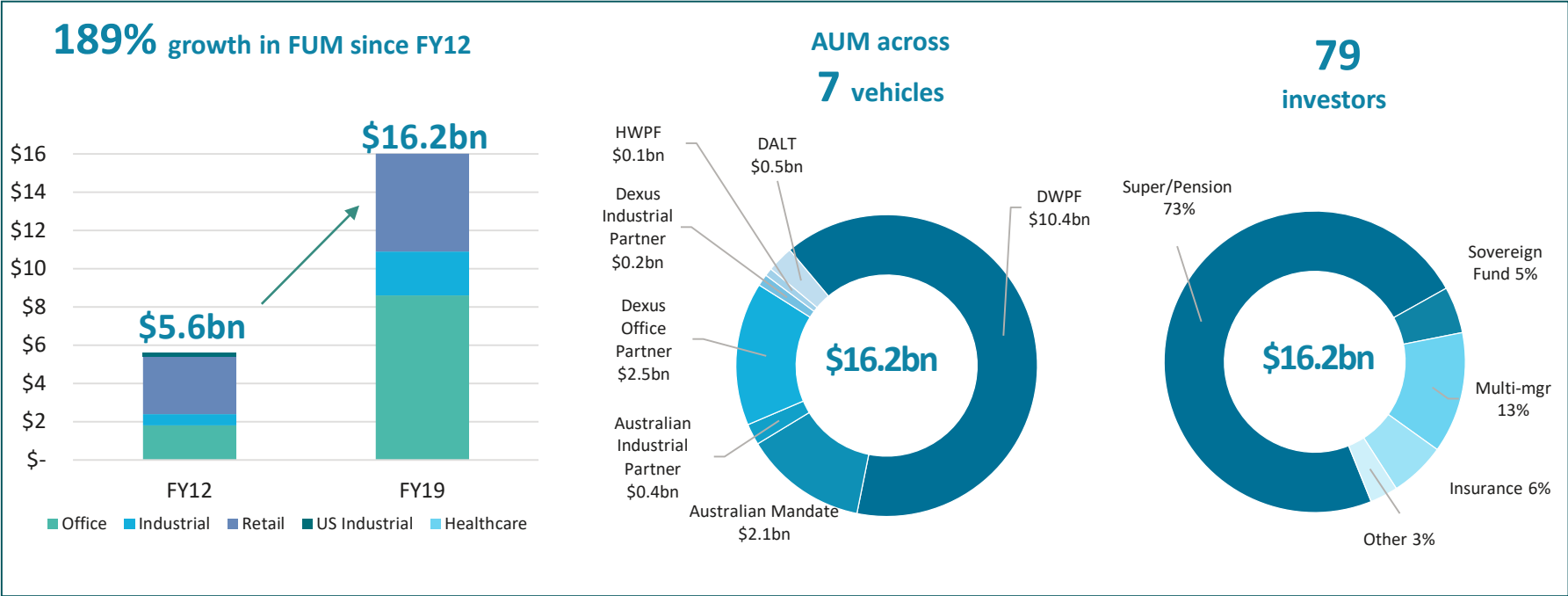
1. Including contribution from 201 Elizabeth Street, Sydney and North Shore Health Hub, 12 Frederick Street, St Leonards – Stage 1.
2. 201 Elizabeth Street, Sydney transferred to trading book in May 2018. Post 30 June 2019, Dexus exchanged contracts to sell a 25% interest in 201 Elizabeth Street, Sydney 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.
3. The sale of the North Shore Health Hub is subject to Responsible Entity and Advisory Committee approvals and securing debt financing.

Funds Management

Growth in unlisted investor base

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Diversified Funds Management platform



Attracted \$9.2 billion of third party equity since FY12



Embedded value

Across key earnings drivers and key areas of focus



1. Net tangible asset backing.

2. Pre-tax.

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. The sale of the North Shore Health Hub is subject to Responsible Entity and Advisory Committee approvals and securing debt financing.

Summary

Securing opportunities. Adding value

- Successful year of securing new opportunities
- Well positioned for continued success despite increased economic uncertainty
- Embedded value within group development and concept pipeline
- Market guidance¹ for the 12 months ending 30 June 2020 for 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 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.

Australian office capital markets

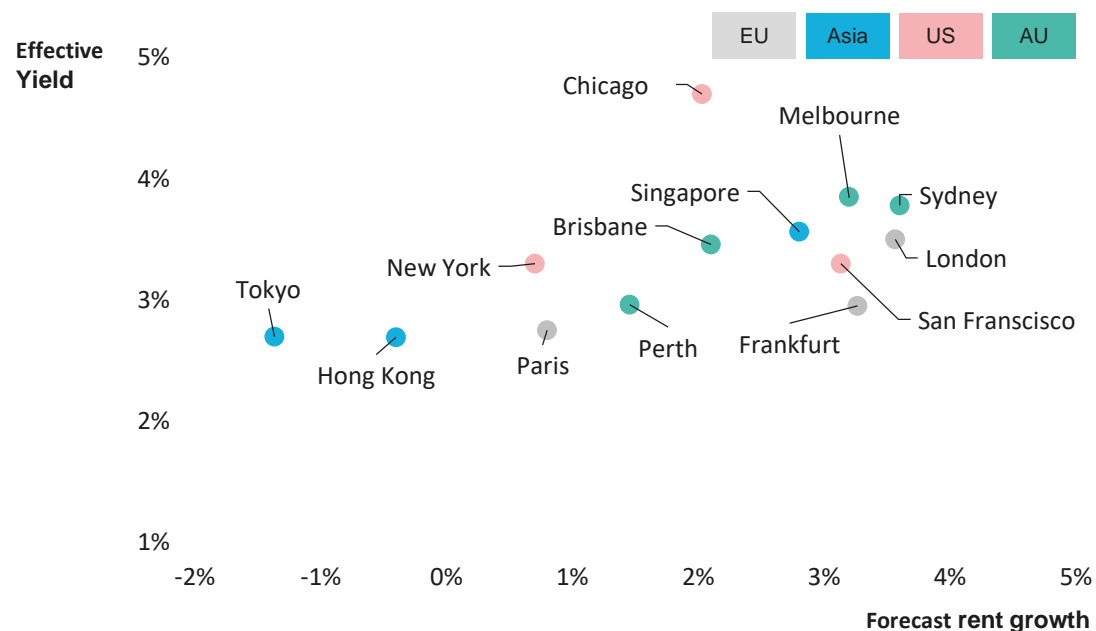
The image shows a spacious, modern office lobby. On the left, a large glass wall is topped with a lush green living wall. Below it, a wooden partitioned area serves as a reception or service point. In the center, several people in business suits are engaged in conversations or walking. The seating area features orange armchairs and small round tables. The ceiling is high with exposed ductwork and linear lighting. Large windows on the right side offer a view of the city outside.

Pricing in Australia remains attractive

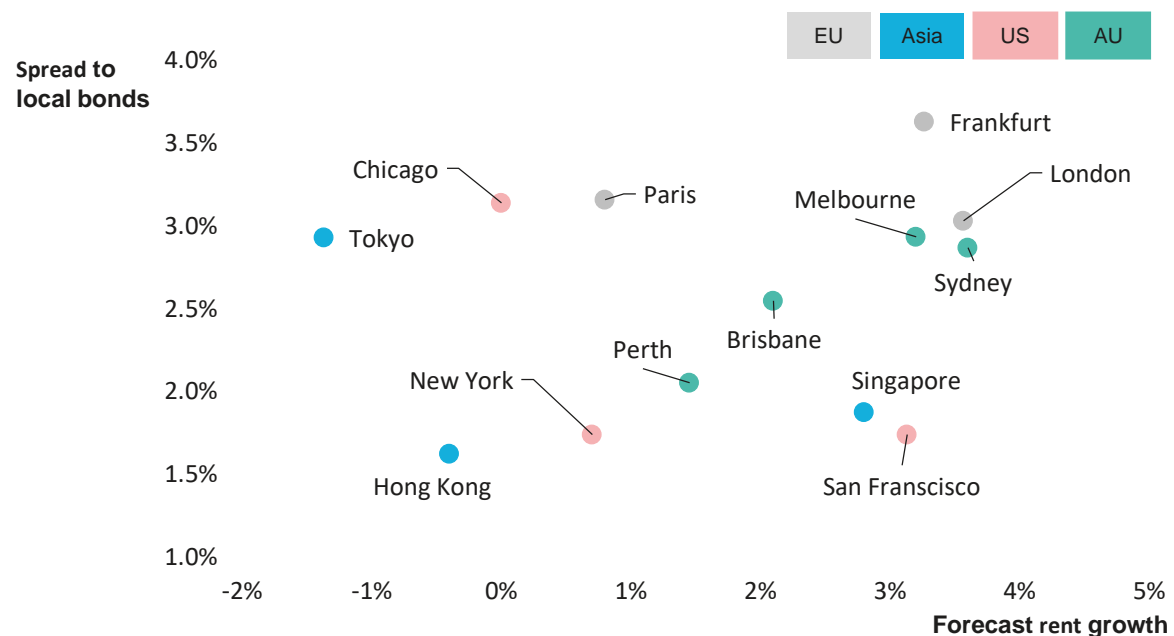
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Relative pricing and rent growth for Australian office compare favourably to global cities

Global yield and rent growth comparison



Effective yield spread over local government bond (10yr)



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

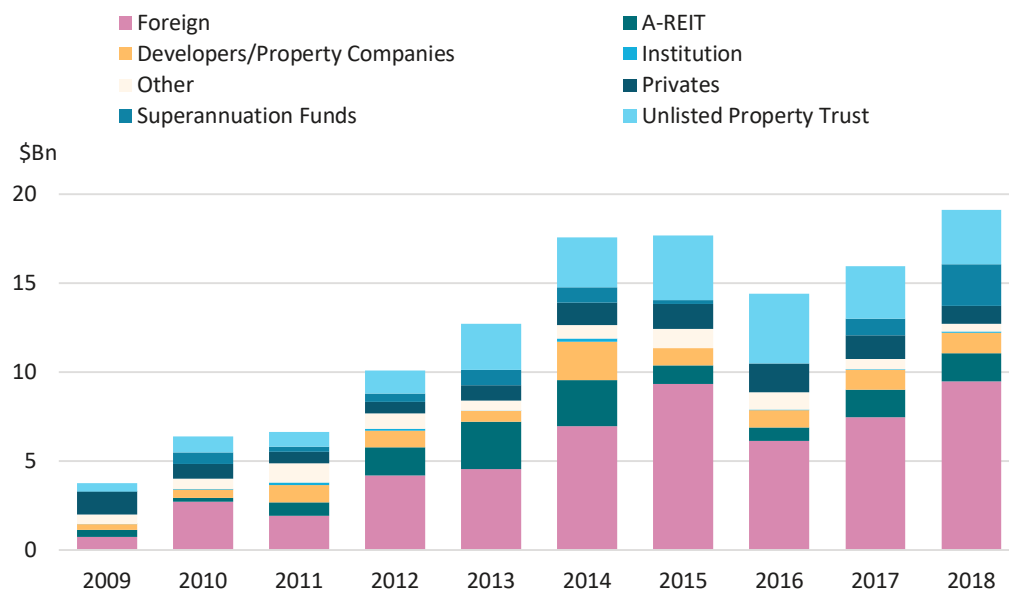
*Effective yields are based on A-grade office space – Australian, EU & Asian yields and bond rates June-19 based on JLL data. US yields are economic cap rates as per Green Street REA's May 2019 Office Sector Snapshot. Forecasts are based on JLL data (for Australian cities) and Knight Frank Global Outlook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

Investment demand for Australian office properties

Where has direct demand come from?

dexus

Australian transaction volumes by type of buyer



Source: Dexus Research, RCA.

Here...

Largest cross border buyers of Australian office - past 5 years

1	CPIB	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

46% of office transactions were to cross border buyers

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

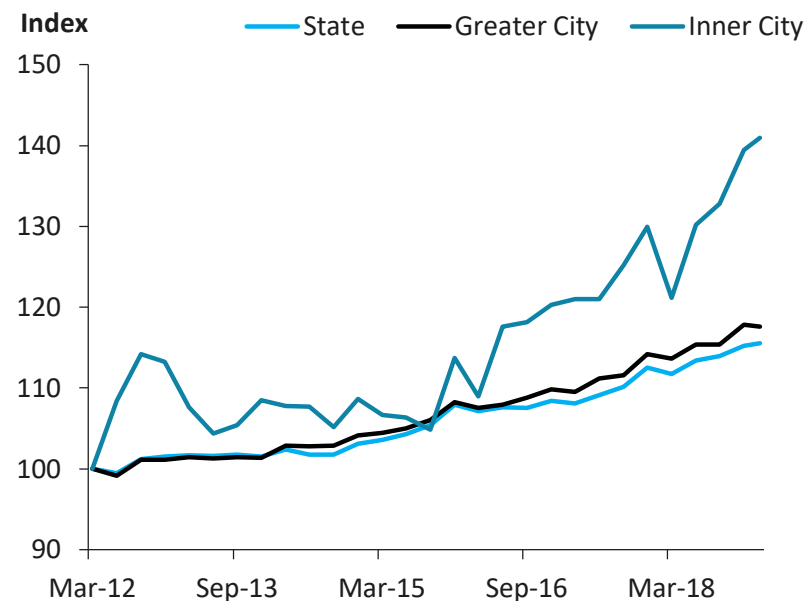
Australian office market trends and outlook

Workspace trends – office space

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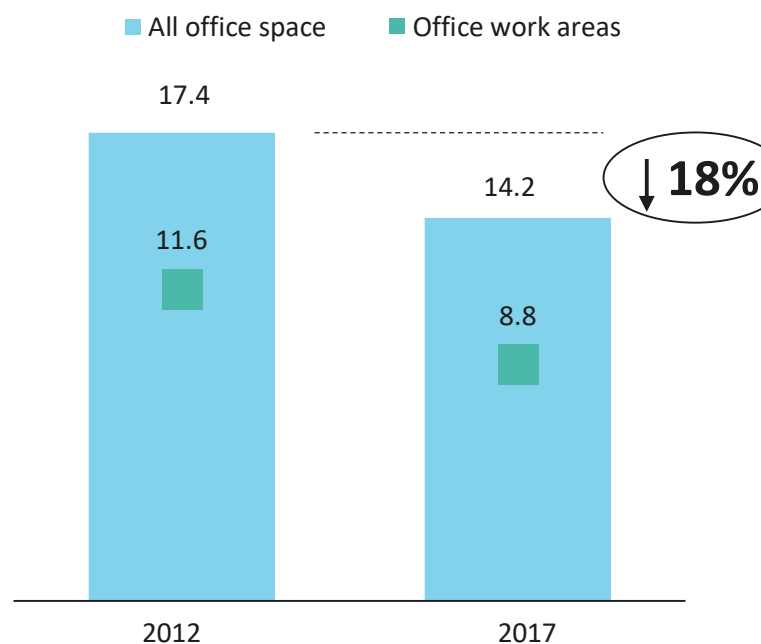
People gravitating to CBDs and occupiers increasing workspace density

NSW employment growth by region



Source: ABS, Sydney City Council.

Sydney CBD workspace ratio



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

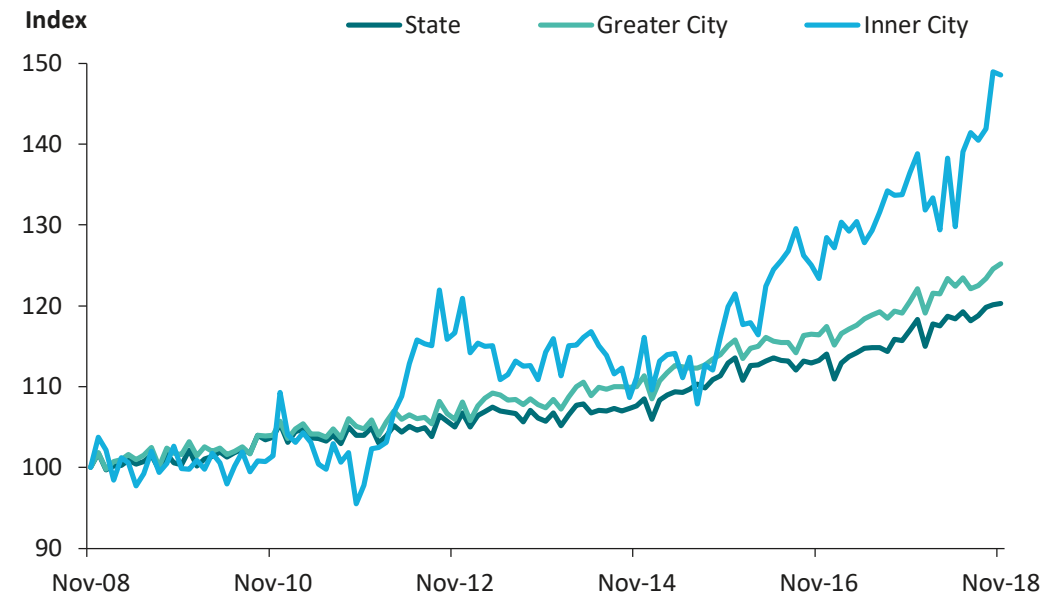
Cyclical:
Significant pent up demand as firms squeeze into existing space

Market outlook

Dexus's CBD office strategy leverages powerful urban growth trend

- Inner city areas and CBDs benefit from faster employment growth than other regions
- CBDs benefit from a virtuous cycle of employment and new infrastructure investment (e.g. light rail, metro rail)
- Trend to inner-city living and a 'live/work/play' ethos
- Businesses value CBD locations for attracting and retaining talented staff
- CBDs foster ideas, collaboration and productivity

NSW Employment growth by region

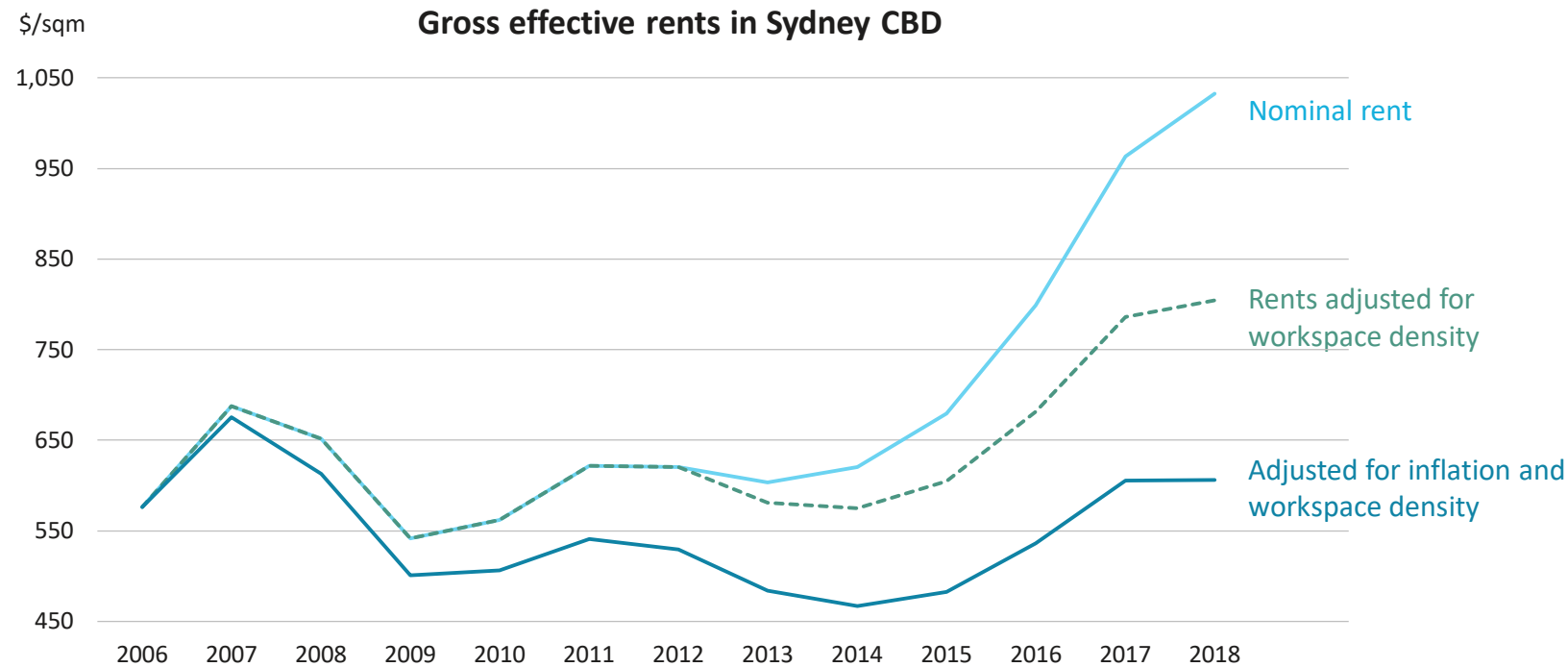


Source: ABS, Dexus Research.

Market outlook

Sydney office rents in perspective

- Companies have steadily increased the density of workers per square metre of office space – so rent paid goes further now than in the past

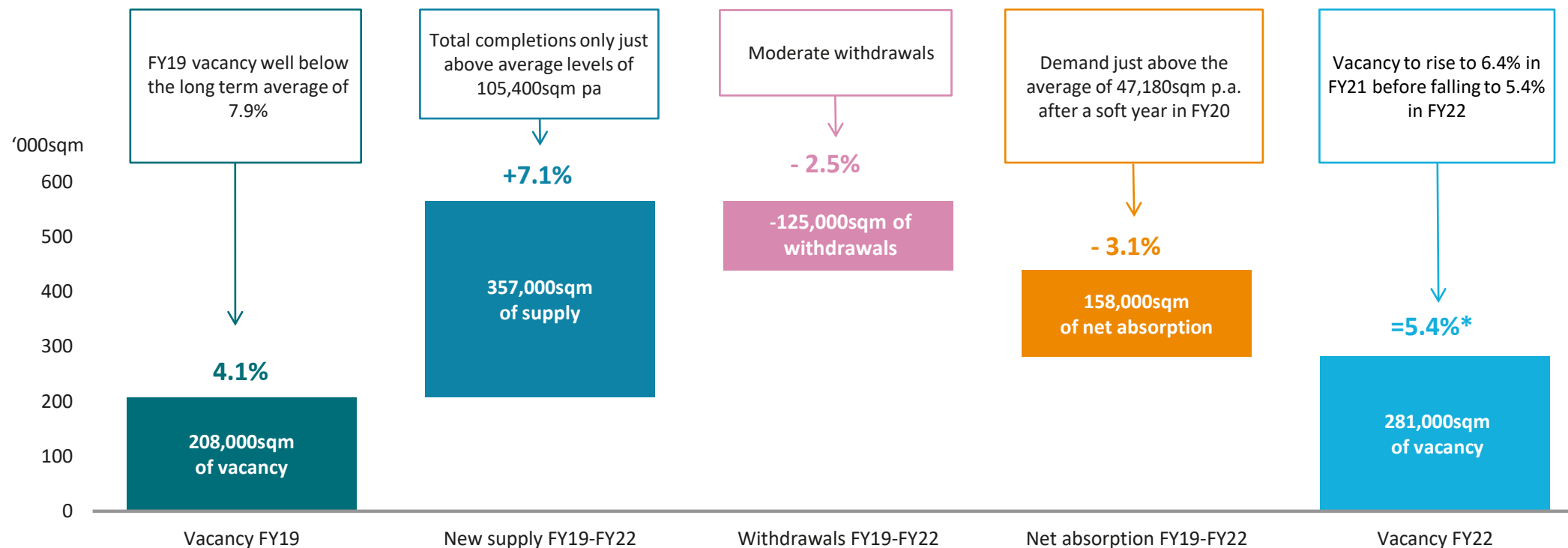


Source: Dexus Research, CBRE, JLL Research City of Sydney, DAE.

Market outlook

Sydney office: well positioned given low vacancy

Sydney CBD waterfall chart - FY19 to FY22

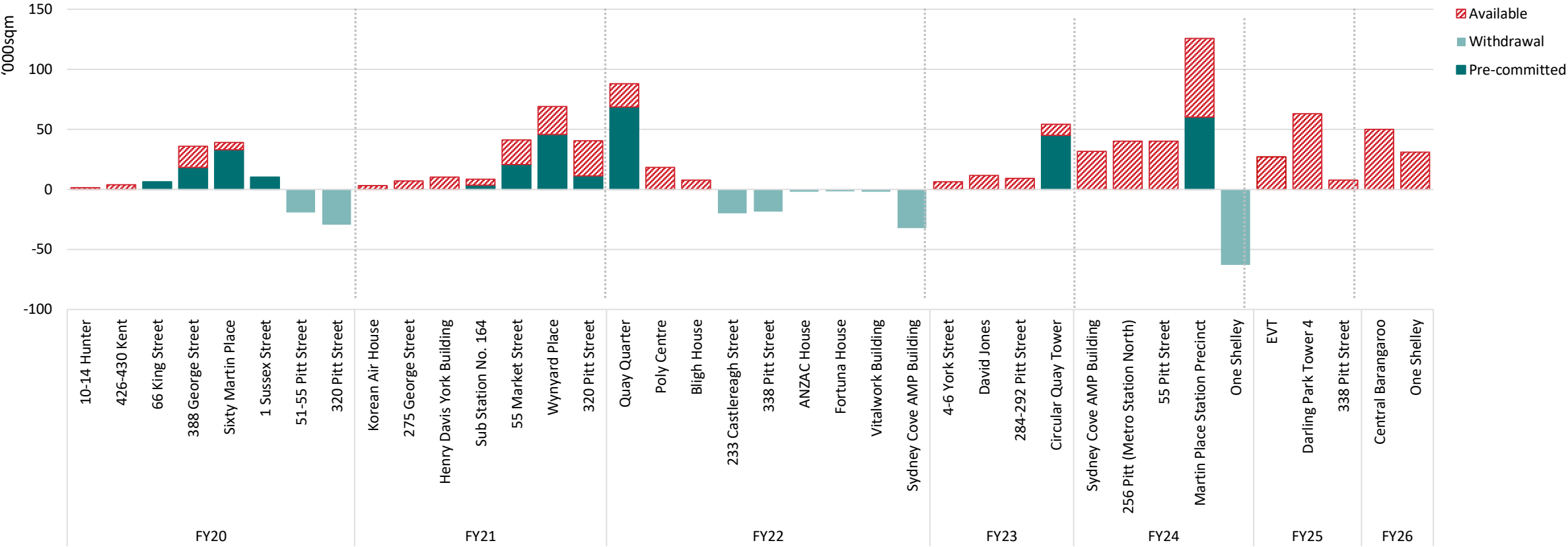


Source: Dexus Research, long-term average based on 20 year average as % of stock.

* Difference due to rounding.

Market outlook

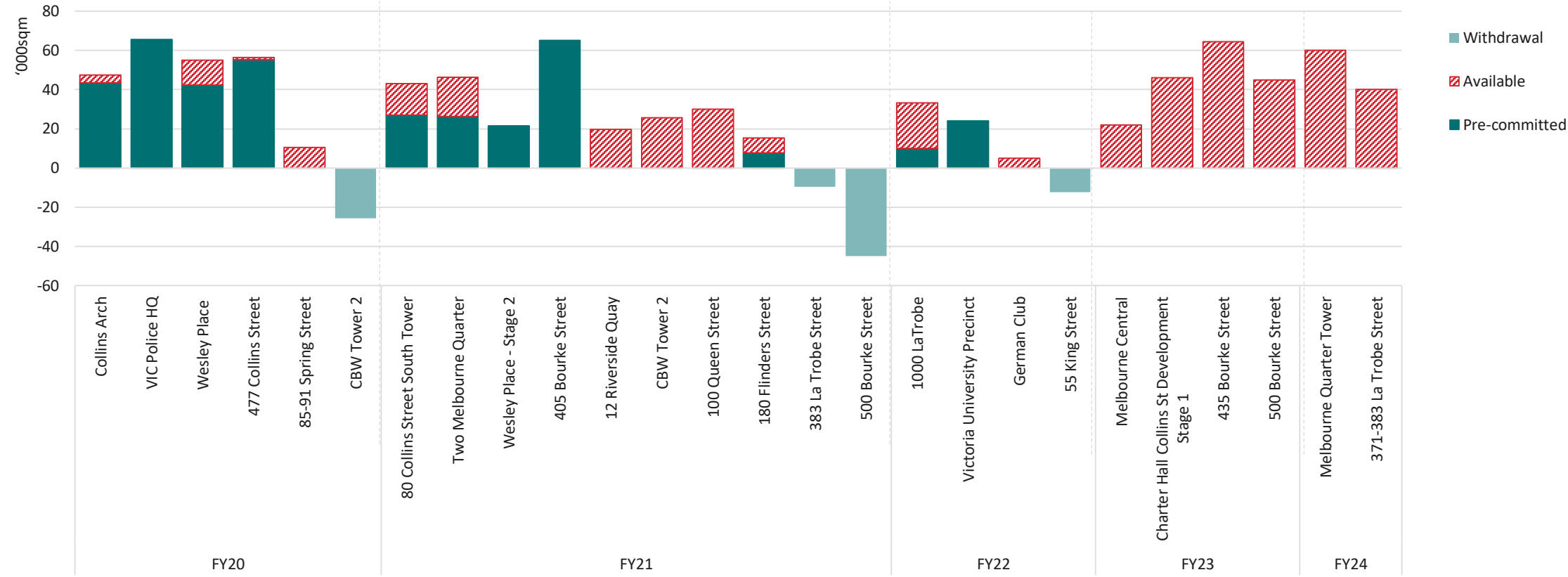
Sydney CBD supply landscape for major office projects



Source: Dexus Research, Company reports, Agent reports.

Market outlook

Melbourne CBD supply landscape for major office projects



Source: Dexus Research, Company reports, Agent reports.

Office portfolio resilience

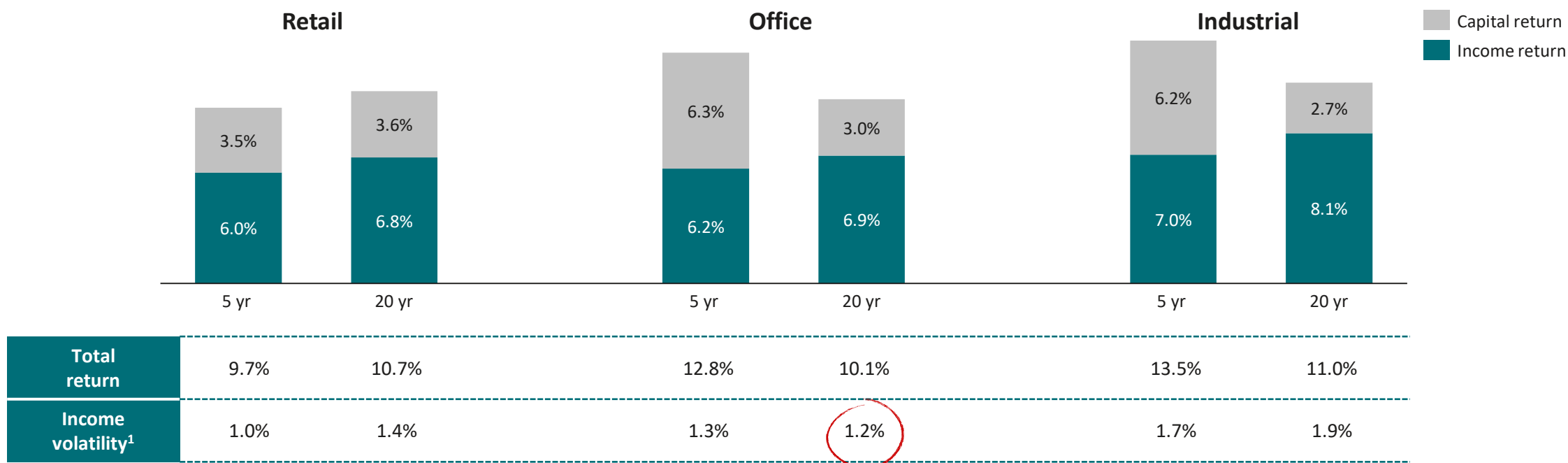
All sectors have provided attractive long-term returns

Office demonstrates lower income volatility

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Total returns over various periods

Total returns, %, annualised



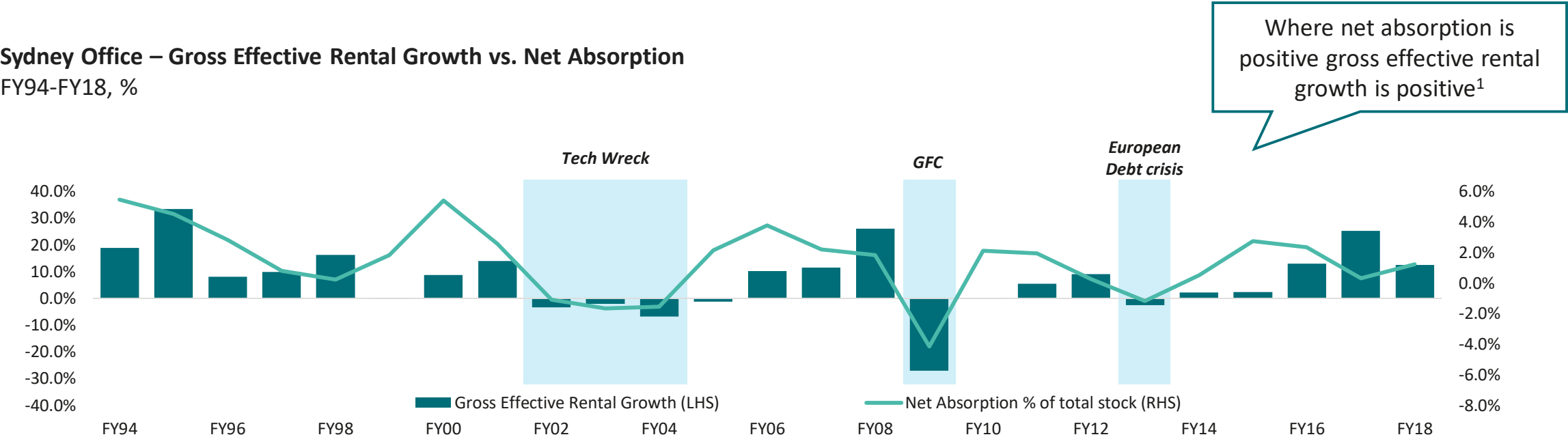
Source: MSCI.

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 **dexus**

Correlation between net absorption and rent growth

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



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

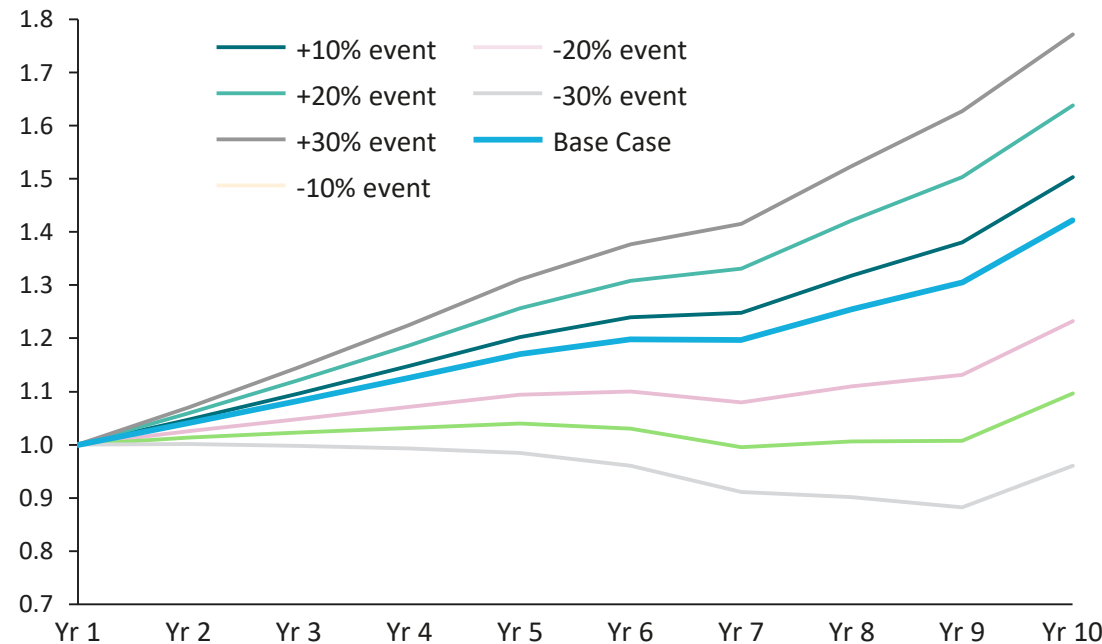
Source: Dexus Research and JLL.
1. Only exception over the period since 1994 is in 2005 where absorption recovered ahead of gross effective rental growth.

Providing investors with stable growth in the long term

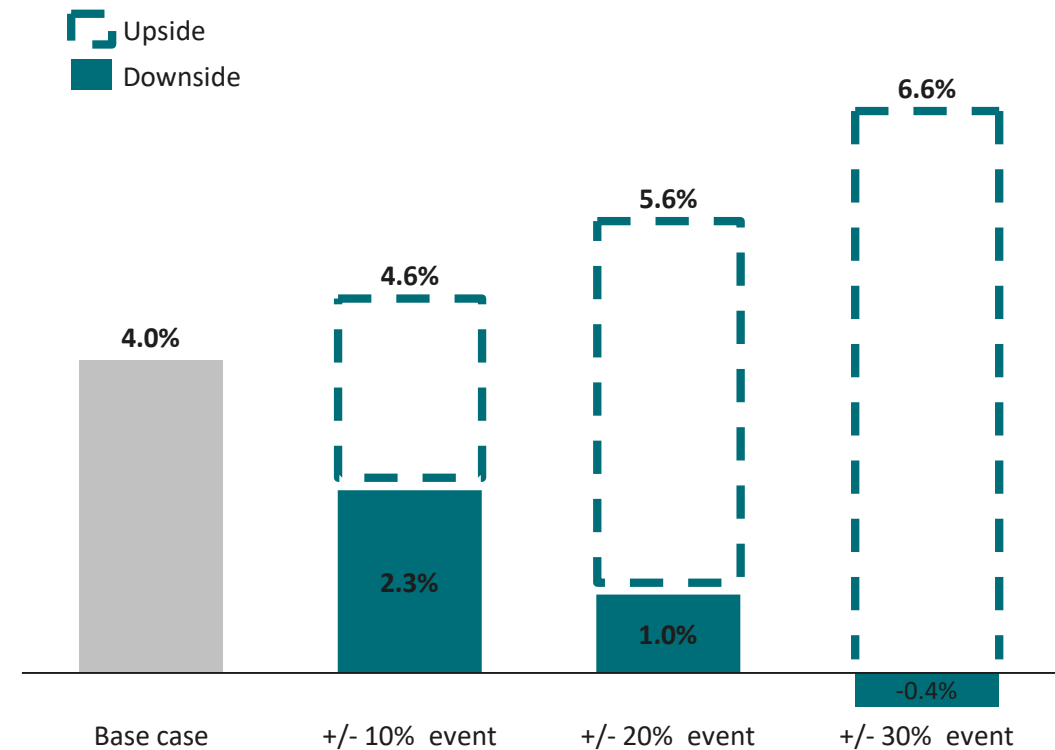


One-off shocks have less impact on a diversified portfolio

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.

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