

# DEXUS Property Group (ASX: DXS)

ASX release

20 December 2012

## Significant premium achieved on the sale of United States industrial portfolio

DEXUS Property Group has today announced the sale of the majority of its United States (US) industrial portfolio at a significant premium to prior book value.

In two separate transactions, 26 of 27 US properties have been sold, comprising 23 US industrial properties and three land parcels in Texas for a total consideration of US\$561.0 million.

DEXUS CEO, Darren Steinberg said "Our goal from the outset has been to ensure that we maximise value for investors and the sale of all but one of the US industrial properties is a key milestone for the Group in line with our objective of exiting offshore markets. The transaction has demonstrated our ability to match capital with particular properties through the sale of a portfolio to a large core property investor and an individual property to an owner-occupier.

The portfolio generated significant interest from a number of institutions and real estate companies, with more than 40 individual parties expressing interest when the sale campaign was launched by Eastdil Secured in September 2012."

An entity advised by Chicago-based Heitman LLC has exchanged unconditional contracts to acquire a portfolio of 25 properties for a total consideration of US\$542.8 million. Settlement of this transaction is expected to occur on 31 January 2013. In a separate transaction, an owner-occupier has acquired and settled on 1777 S Vintage Avenue, Ontario for a total consideration of US\$18.2 million.

One property, 3550 Tyburn Street & 3332-3424 North San Fernando Road, Los Angeles (known as "Glendale"), has been excluded from the sale process in order to ensure that the property is sold at fair value (latest book value of US\$58.0 million).

The total transactions represent a 13% premium to the net book value for the portfolio prior to selling costs and debt restructure/finance costs. The details include:

	Number of properties	Book value US\$m	Price US\$m	Expected/actual settlement date
Portfolio of US industrial properties	25	478.9 <sup>1</sup>	542.8	31 Jan 2013
1777 S Vintage Avenue, Ontario	1	15.6	18.2	21 Nov 2012
<b>Transaction total</b>	<b>26</b>	<b>494.5</b>	<b>561.0</b>	
Glendale - to be held	1	58.0	n/a	12-18 months
<b>Total</b>	<b>27</b>	<b>552.5</b>		

1. Estimated book value at 31 January 2013 including capital expenditure since 30 June 2012.

Darren Steinberg said "This transaction significantly improves the quality of our earnings and allows us to concentrate on our core operations in Australia. As a consequence of selling the portfolio as an entity sale we are now in a position to wind down and close our US operations, saving approximately US\$5 million per annum."

With the Group's gearing expected to reduce from 29% to 24% as a consequence of the transaction, we are very well placed to invest in new opportunities in our core CBD office markets and make further progress on our objective of being the leading owner and manager of office property in Australia.

We have been able to demonstrate our abilities to reinvest in Australian office opportunities on favourable buying metrics over the past few months, and continue to have significant access to deal flow in our core Australian CBD office markets. We will reinvest in acquisition opportunities that are in line with our strategy and generate long term value for investors."

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Craig Mitchell, DEXUS CFO said: "The portfolio sale is a great result and builds on our existing relationship with Heitman following the establishment of the Heitman advised National Pension Service of Korea partnership in August."

The net proceeds realised from the sale will be used to repay existing US debt facilities.

### Estimated financial impacts and transaction costs

Craig Mitchell, DEXUS CFO said: "It is pleasing that we have been able to achieve several key outcomes from the sale. The transaction is expected to be accretive from an NTA perspective and our FY13 FFO guidance remains unchanged. We will also maintain the diversity and duration of our debt book through maintaining the long-dated 144A debt."

### **Accounting and cash impacts**

The gross accounting profit on the transactions is expected to be US\$66 million. After transaction costs, pro-rations, finance costs and transfers of a portion of historic foreign currency accounting losses from reserves, the total accounting profit is expected to be US\$11 million. The net cash proceeds on sale will be approximately US\$500 million. Details are set out in the Appendices.

Pro forma NTA per security is expected to increase by 0.8 cents per security based on the accounting profit on sale (pre-foreign currency translation reserve recycling) of A\$38 million.

### **Capital management - US debt restructure**

Net cash proceeds will be applied to outstanding US\$ debt. With the exception of US\$50 million of 144A senior notes due in 2014, all US\$ debt will be repaid or swapped back to A\$. The US\$50 million of 144A senior notes will be retained to match the Glendale property and to defer and reduce future make-whole costs.

The US\$250 million 144A senior notes maturing in March 2021 and the US\$65 million USPP senior notes maturing between December 2014 and March 2017 will not be repaid. These notes will be swapped back into A\$ using cross currency swaps, maintaining debt diversity. As a result, short-dated Australian debt facilities will be cancelled to maintain our target headroom.

The US\$250 million 144A senior notes are out-of-the-money relative to current base US interest rates. Consequently a US\$29 million upfront cash payment will be applied to the cross currency swap to reduce the conversion costs back to A\$, resulting in an all-in rate that is broadly in line with our current A\$ cost of funds of 6.3%.

All outstanding US\$ interest rate hedges will be cancelled.

The close out costs associated with US capital management will be US\$17 million as well as the \$29 million swap payment mentioned above. Details are set out in the Appendices.

### **Capital management - Group impacts**

As a result of the transaction and associated US debt restructure, our duration of debt will be maintained above 4 years and our diversity of debt is expected to be maintained with approximately 45% of total debt sourced from capital markets. While Group cost of debt is expected to increase marginally following this transaction, due to the higher weighting to A\$ debt, our average cost of debt for FY13 is expected to be in line with our previous guidance of approximately 6.0%.

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## Glendale

Glendale comprises seven quality industrial facilities and is located in close proximity to a major arterial freeway in Los Angeles. We have commenced a process to rectify the further groundwater contamination issues from neighbouring sites that were identified during the sale due diligence process. The property was therefore excluded from the portfolio sale process to ensure that it did not materially reduce the appeal of the larger portfolio to core property investors.

It is expected that the property will be sold in the next 12 to 18 months.

## Impact on FFO and distributions

The transaction will not have any impact on FY13 guidance, with FFO or earnings of 7.75 cents per security and distribution of 5.8 cents per security reaffirmed.

For further information please contact:

## **Investor and media queries**

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## **About DEXUS**

DEXUS's vision is to be globally recognised as the leading real estate company in Australia, with market leadership in office. With \$13 billion of assets under management, DEXUS invests in high quality Australian office and industrial properties and, on behalf of third party clients, is a leading manager and developer of industrial properties and shopping centres in key markets. The Group's stock market trading code is DXS and more than 18,000 investors from 15 countries invest in the Group. At DEXUS we pride ourselves on the quality of our properties and people, delivering world-class, sustainable workspaces and service excellence to our tenants and delivering enhanced returns to our investors. DEXUS is committed to being a market leader in Corporate Responsibility and Sustainability.

[www.dexus.com](http://www.dexus.com)

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

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## Appendices

### Appendix 1

#### List of properties sold

Property	Metro	Lettable area '000 sf
13602 12th Street, Chino	Inland Empire	104.6
2250 S Riverside Avenue, Colton	Inland Empire	48.0
3590 De Forest Circle, Mira Loma	Inland Empire	250.6
1450 E Francis Street, 1951 S Parco Street & 1401 E Cedar Street, Ontario	Inland Empire	224.8
4190 Santa Anna Street, Ontario	Inland Empire	98.8
3691 North Perris Boulevard, Perris	Inland Empire	1,686.6
11653 6th Street, 9357 Richmond Place & 9371 Buffalo Avenue, Rancho Cucamonga	Inland Empire	217.2
12000 Jersey Court, Rancho Cucamonga	Inland Empire	88.1
9545 Santa Anita Avenue, Rancho Cucamonga	Inland Empire	212.3
4200 E Santa Ana Street, Riverside	Inland Empire	62.4
6530 Altura Boulevard, Buena Park	Los Angeles	67.4
1100 Hatcher Avenue & 17521 & 17531 Railroad Street, Industry	Los Angeles	157.3
14489 Industry Circle, La Mirada	Los Angeles	112.9
14501 Artesia Boulevard, La Mirada	Los Angeles	277.6
14555 Alondra Boulevard, La Mirada	Los Angeles	237.1
DEXUS Valley View, 6711 Valley View Street, La Palma	Los Angeles	292.1
Summit Oaks, Vanderbilt Way, Santa Clarita	Los Angeles	147.0
9210 San Fernando Road, Sun Valley	Los Angeles	181.6
7510-7520 Airway Road, San Diego	San Diego	123.1
Kent West Corporate Park, 21902 64th Avenue South, Kent	Seattle	402.8
Riverbend Commerce Park, 8005 South 266th Street & 26507 79th Avenue South, Kent	Seattle	128.3
19700 38th Avenue East, Spanaway	Seattle	891.6
Garland Jupiter, Garland	Dallas	land
Plano Parkway, Plano	Dallas	land
Tri County 2, Tri County Parkway, Schertz	San Antonio	land
1777 S Vintage Avenue, Ontario	Inland Empire	284.6
<b>Total</b>		<b>6,296.8</b>

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### Appendix 2

#### Estimated accounting and cash impacts

	Accounting US\$m	Cash US\$m	% <sup>1</sup>
Sales proceeds (Heitman portfolio and S Vintage Avenue)	561	561	
Book value <sup>2</sup>	(495)		
Gross profit on sale	66		
Transaction costs and pro-rations	(15)	(15)	3
Finance costs	(13)	(46) <sup>3</sup>	8
Accounting gain on sale impacting NTA	38		
Foreign currency translation reserve recycling <sup>4</sup>	(27)		
<b>Total</b>	<b>11</b>	<b>500</b>	<b>11%</b>

1. Cash transaction costs as a percentage of gross proceeds of US\$561 million.

2. Estimated book value at settlement including capital expenditure since 30 June 2012.

3. Comprises an estimated US\$17 million in debt close costs (net of coupon-matched swaps) and interest rate swap termination costs and US\$29 million of cross currency swap up-front costs. Coupon-matched swap and interest rate swap terminations were recorded in profit and loss in previous periods as fair value loss on interest rate swaps in finance costs and held on balance sheet as derivative financial instruments.

4. Represents the transfer of historic foreign currency accounting losses in the foreign currency translation reserve, already in NTA, to retained earnings as a foreign operation is being ceased (in accordance with AASB121). To be recognised in the financial statements at settlement.

#### Application of proceeds

	Estimated debt repaid US\$m	Comments
Secured loan	77	Secured by assets being sold
144A senior notes (Oct 2014)	75	Partial repayment, reduces maturities in FY15
Cross currency swap	250	Repay A\$ bank debt. Maturity matched to 2021 US 144A notes
Cross currency swap	65	Repay A\$ bank debt. Maturity matched to USPP Series II
Bank debt	33	Repay under revolving credit facilities
<b>Total</b>	<b>500</b>	

Note: US\$50 million of 144A senior notes (maturing in Oct 2014) have been retained in order to maintain a natural hedging position for Glendale, pending the sale of this property.