

DEXUS Property Group

ASX release

22 June 2012

DEXUS Property Group (ASX: DXS) announces completion of sale of United States central portfolio

DEXUS Property Group has today completed the sale of the US central portfolio, consisting of 65 industrial properties, to affiliates of Blackstone Real Estate Partners VII for US\$770 million. The sale was announced to the Australian Securities Exchange on 16 April 2012.

The sale price of US\$770 million is in line with the net book value for the properties, and total transaction costs as detailed in Appendix 1 are in line with our previous disclosure.

As a consequence of this transaction, a restructure of US debt has been undertaken, resulting in the prepayment and repurchase of some US debt obligations and the unwinding of various interest rate swaps. Total costs relating to the debt restructure were also in line with our previous disclosure and are also detailed in Appendix 1. These costs are offset by the benefits of the restructure, with our current cost of debt at 6.1%.

DEXUS CEO, Darren Steinberg said "The sale of the US central portfolio is in accordance with our strategy to exit non-core US markets and allows us to concentrate on the core operations of our business. The residual investment, representing approximately 7% of total Group assets, is a high quality portfolio concentrated in the west coast markets. These are highly attractive markets, with high levels of demand from tenants, strong market fundamentals and good revenue prospects."

DEXUS now owns and manages 24 US industrial properties totalling more than 6.8 million square feet and valued at approximately US\$550 million. DEXUS also manages properties valued at approximately US\$200 million on behalf of US third party clients.

The ongoing US west coast strategy will be considered in conjunction with the overall Group strategic review, and a market update will follow at the Group's full year results presentation in August 2012.

Accounting impacts

The accounting loss on sale of the US central portfolio (including transaction costs and pro-rations) is US\$23 million. After capital management transactions and transfer of a portion of historic foreign currency accounting losses from reserves, the total accounting loss is US\$117 million. The net cash proceeds on sale are US\$655 million. Details are set out in the appendices.

Pro forma NTA per security will reduce by 1.6 cents per security representing the accounting loss on sale (pre-foreign currency translation reserve recycling) of US\$77 million.

Note: all amounts included in this announcement are unaudited

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Capital management - US

Net cash proceeds of US\$655 million are applied to debt repayments as follows:

Debt type	Amount US\$m	Net close out cost US\$m	Comments
Secured loan	80	4	Secured by assets in the US central portfolio
144a bonds (Oct 2014)	175	12	Bought back via tender, reduces maturities in FY15
USPP Series I	96	10	Repaid short duration USPP issue by US entity
Cross currency swap	65	-	Repaid A\$ bank debt. Maturity matched to USPP Series II.
US bank debt	239	-	Repaid under revolving credit facilities
Total	655	26	

The US 144a bond tender initially targeted an amount of US\$100 million, but was upsized to US\$175 million to take advantage of additional participation by investors. The larger take up of the tender improves our debt maturity profile in FY15 (refer appendix 2) and improves our average cost of debt going forward.

US interest rate hedging

In conjunction with the disposal and associated repayment of debt, US\$ interest rate swaps with an average notional value of US\$400 million were terminated at a cash cost of US\$70 million¹. The remaining US\$ debt is 70% hedged through fixed rate debt (US\$250 million 144a bonds maturing in 2021) and interest rate swaps with a weighted average hedge rate of 2.8% (excluding margin).

Capital management - Australia

In addition to the US debt restructure, DEXUS has taken the opportunity to unwind approximately \$180 million of Australian dollar interest rate swaps, in line with anticipated non-core property sales including The Zenith at Chatswood, as foreshadowed in our March 2012 operational update. We will provide an update on these non-core property sales at the Group's full year results presentation in August 2012.

FY12 Earnings confirmation

Guidance of funds from operations (FFO) of 7.65 cents per security and distribution of 5.35 cents per security for the year to 30 June 2012 are reconfirmed.

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About DEXUS

DEXUS is one of Australia's leading property groups specialising in world-class office, industrial and retail properties with total assets under management of \$13 billion. In Australia, DEXUS is the market leader in office and industrial and, on behalf of third party clients, a leading manager and developer of shopping centres. DEXUS is committed to being a market leader in Corporate Responsibility and Sustainability. www.dexus.com

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

¹These mark to market costs were recorded in profit and loss in previous reporting periods and held on the balance sheet as derivative financial instruments

Appendices

Appendix 1 - Accounting impacts

	Accounting US\$m	Cash US\$m	% ¹
Sales proceeds	770	770	
Book value	(773)		
Gross (loss) on sale	(3)		
Transaction costs and pro-rations	(20)	(18)	2%
Subtotal - loss on sale of investment properties	(23)		
Finance costs	(44)	(96) ²	12%
Withholding tax	(10)	(1)	-
Accounting loss on sale impacting NTA	(77)		
Foreign currency translation reserve recycling ³	(40)		-
Total accounting loss/net cash proceeds	(117)	655⁴	

1. Percentage of gross proceeds of US\$770m.
2. Comprises US\$26m in debt close out costs (net of coupon-matched swaps) and US\$70m of interest rate swap termination costs. Coupon-matched swap and interest rate swap termination costs were recorded in profit and loss in previous reporting periods as fair value loss of interest rate swaps in finance costs and held on the balance sheet as derivative financial instruments.
3. Represents the transfer of historic foreign currency accounting losses from the foreign currency translation reserve, upon partial disposal of a foreign operation.
4. Originally disclosed as US\$660m in the 16 April 2012 announcement. Difference primarily relates to close out costs from additional 144a notes bought back via tender.

Appendix 2 - Debt facilities

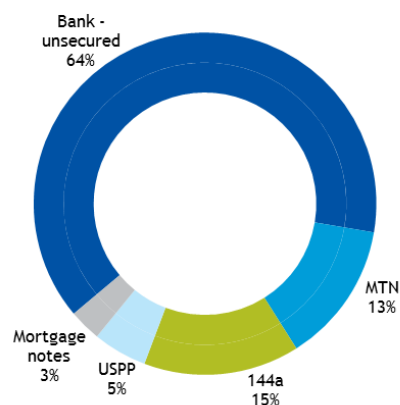
Current position by region

	Drawn debt after cross ccy swaps \$bn	Amount hedged \$bn ¹	Weighted ave cost of debt FY12 ²	Current cost of debt ³
Australia/New Zealand	A\$1.35 ⁴	A\$1.03	7.4%	6.8%
USA	US\$0.54	US\$0.38	4.8%	4.8%
Europe	€0.06	€0.05	4.6%	4.0%
Total	A\$1.97	1.48	6.1%	6.1%

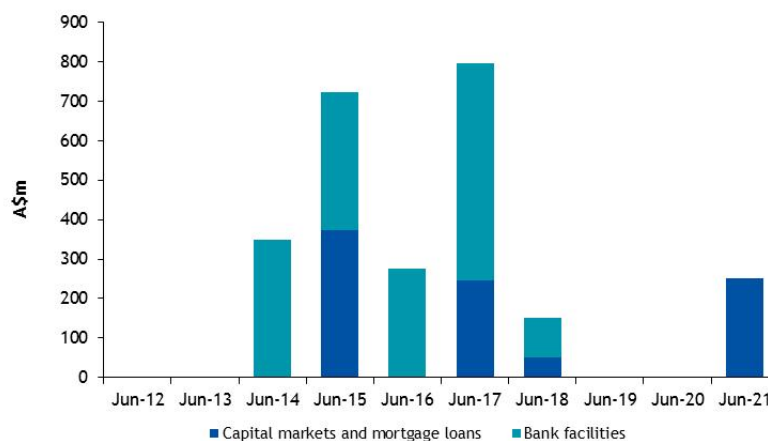
1. Average amount hedged.
2. Weighted average of fixed and floating rates for the 12 month period to 30 June 2012, inclusive of fees and margins on a drawn basis and includes RENTS for the period up to their repurchase on 29 June 2012.
3. Forecast weighted average of the hedged rate and floating rates at 29 June 2012, inclusive of fees and margins on a drawn basis.
4. Adjusted for RENTS repurchase on 29 June 2012.



Debt facility mix



Debt maturity profile



Current facility limit details

	Facility limit (post transaction) A\$m	Maturity dates	Security	Currency	Proceeds reduction by facility US\$m
Bilateral bank debt	250	Sep 13	Unsecured	A\$	
	200	Jan 14 - Sep 14	Unsecured	A\$	
	250	Jan 15 - Feb 15	Unsecured	A\$, US\$	
	225	Oct 15 - Dec 15	Unsecured	A\$	
	195	Jun 16 - Sep 16	Unsecured	A\$	
	254	Oct 16 - Dec 16	Unsecured	A\$, US\$	
	250	Mar 17 - July 17	Unsecured	A\$	
Subtotal bank debt	1,624				304
Mortgage loans	77	Jun 17 - Dec 17	Secured	US\$	80
Medium term notes (MTN)	160	Jul 14	Unsecured	A\$	-
	180	Apr 17	Unsecured	A\$	-
US senior notes (144a)	125	Oct 14	Unsecured	US\$	175
	250	Mar 21	Unsecured	US\$	-
US senior notes (USPP)	130	Dec 14 - Mar 17	Unsecured	US\$	96
Total	2,546				655

Assumes AUD/USD: 1.00

Includes bank facilities completed after December 2011

USPP maturities: US\$78m Dec 14, US\$11m Mar 15, US\$19m Dec 16, US\$22m Mar 17

Appendices

Appendix 3 - Interest rate hedging

Interest rate hedging profile - current position

Period averages	FY12	FY13	FY14	FY15	FY16	Avg FY17+ ⁴
A\$ net fixed coupon debt (A\$m) ^{1,2}	75	75	75	75	75	11
A\$ interest rate swaps (A\$m) ¹	765	888	674	500	398	144
A\$ interest rate caps (A\$m) ¹	70	70	140	140	140	14
A\$ total hedged (A\$m)¹	910	1,033	889	715	613	169
A\$ hedge rate (ex margin) ³	4.98%	4.26%	4.77%	5.23%	5.43%	5.86%
US\$ net fixed coupon debt (US\$m) ^{1,2}	341	250	250	250	250	233
US\$ interest rate swaps (US\$m) ¹	481	135	120	83	83	26
US\$ total hedged (US\$m)¹	822	385	370	333	333	259
US\$ hedge rate (ex margin) ³	3.52%	2.79%	2.85%	3.48%	3.58%	3.59%
€m total hedged (ex margin) ¹	87	50	50	48	30	-
€ hedge rate (ex margin) ³	4.26%	4.27%	4.27%	4.25%	4.03%	-
Total hedged (A\$m)¹	1,819	1,468	1,309	1,096	976	435
Hedge rate (ex margin)³	4.33%	3.89%	4.20%	4.64%	4.74%	4.41%

1. Average amount during the period.
2. Net fixed coupon debt equals fixed coupon debt less the amount that has effectively been converted to a floating rate basis, through use of matched interest rate swaps under which DEXUS receives fixed payments equal to the debt coupon and pays a floating rate.
3. Weighted average rate of fixed debt, swaps and caps for the period. Caps included at rate equal to the lower of cap strike and forecast floating rate for the applicable period.
4. Hedging period FY17 – FY21.

Fixed debt profile - current position

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
A\$m gross fixed coupon debt (avg)	180	180	180	180	180	135	-	-	-	-
A\$ fixed debt rate (coupon)	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%				
Average term (yrs)	4.8									
US\$m gross fixed coupon debt (avg)	836	505	505	362	291	273	250	250	250	167
US\$ fixed debt rate (coupon)	6.17%	5.95%	5.95%	5.68%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%
Average term (yrs)	5.8									