

DEXUS Property Group (ASX: DXS)

ASX release

26 April 2013

DEXUS and DWPF acquire strategic office investment in Brisbane

DEXUS Property Group (DEXUS or DXS) and DEXUS Wholesale Property Fund (DWPF) today announced the joint acquisition of a strategic office investment in the Brisbane CBD.

DEXUS and DWPF have entered into an agreement to acquire equal 50% interests in 480 Queen Street, Brisbane, comprising a premium-grade office building to be developed by Grocon.

The total consideration payable is expected to be approximately \$543.9 million¹ representing a capitalisation rate² of 7.25%, with final consideration and capitalisation rate dependent on the achievement of leasing prior to project completion. The unlevered 10-year internal rate of return (IRR) following completion is expected to be 10.3%.

This investment has been acquired with low transaction costs and on a fund-through basis with DEXUS and DWPF jointly acquiring the land and funding the construction costs on a progressive basis.

Darren Steinberg, DEXUS CEO said: "This strategic office investment for DEXUS and DWPF as capital partners is an excellent outcome for the Group and enhances the value of the Group's office portfolio. It also leverages our exposure to quality real estate in the core Brisbane CBD office market, adding to 123 Albert Street and 12 Creek Street.

"480 Queen Street will provide DEXUS and DWPF with ownership of a newly constructed, high quality property, mitigating the normal risks associated with an office development through mechanisms such as a fixed construction price and income guarantees supporting any vacancy on completion."

DWPF continues implementation of office portfolio strategy

Graham Pearson, DWPF Fund Manager said: "This acquisition provides a strong strategic fit with DWPF's Investment Plan. It demonstrates continued implementation of the Fund's office sector strategy by further diversifying and broadening exposure across core state capital CBDs, significantly increasing its allocation to the Brisbane market and Brisbane's 'Golden Triangle' office precinct."

On completion of the acquisition, the Fund's office portfolio value will increase to \$1.9 billion³ and the allocation to prime grade assets will increase to 93%.

Graham Pearson said: "This investment further consolidates DWPF's position as one of the highest quality unlisted office portfolios in Australia, complementing the Fund's significant, predominantly retail, \$760 million development pipeline.

"This acquisition demonstrates the Fund's ability to work with partners on quality investments which will deliver attractive returns in excess of the Fund's hurdle rates."

Transaction overview

DXS and DWPF will jointly acquire 480 Queen Street for an estimated cost on completion of \$543.9 million¹, based on capitalised income at project completion with differentiated capitalisation rates for anchor tenants, pre-committed space and vacancy on completion. 480 Queen Street has been acquired with low transaction costs and on a fund-through basis with DEXUS and DWPF jointly acquiring the land and funding the construction costs on a progressive basis.

480 Queen Street is a 31-level premium-grade office development project across 55,561 square metres located in Brisbane's Golden Triangle, with dual access via Queen Street to the south-east and from Adelaide Street to the north-west.

Targeting 6 Star Green Star and 5 star NABERS Energy ratings, the building will become one of the few premium office towers in the Brisbane CBD, offering the largest floor plates in the market of approximately 2,800 square metres. The building will attract the highest quality corporate tenants.

1. At 100% excluding acquisition and other potential costs.
2. Including completion value of 480 Queen Street.
3. 31 March 2013 pro-forma for approved acquisition.

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Tenant pre-commitments have already been secured across 38% of the total office area to major corporate tenants including BHP Billiton, Herbert Smith Freehills and The Executive Centre. Grocon has provided DXS and DWPF with a two year income guarantee on any remaining vacancies at practical completion. DEXUS has secured substantial guarantees to ensure contractual obligations including construction and income guarantees are met.

Construction will commence immediately with completion expected to be achieved by February 2016.

Further information relating to 480 Queen Street is detailed in Appendix 1.

Acquisition funding for DXS

DXS will fund the acquisition through a combination of existing and new debt facilities. DXS will make an initial payment for a 50% share of land and development costs to date and will pay the balance of costs on a fund-through basis throughout the construction period. The forecast initial yield is 7.25% on completion, based on current pre-commitments and income guarantees. During the construction period, DXS and DWPF will receive a coupon payment of 7.0% per annum from Grocon until September 2014 at which time the coupon increases to 7.25% per annum until practical completion.

Darren Steinberg said: "The acquisition does not initially have a material impact on gearing and the Group currently remains at the bottom of its target gearing range of 30-40%. The residual gearing capacity enables us to be well placed to make further acquisitions should suitable opportunities arise. On completion of the property, DXS's gearing is expected to increase by approximately 2%."

Acquisition funding for DWPF

DWPF raised over \$830 million of equity in the last 12 months resulting in low gearing of only 8%, just below the Fund's target gearing range of 10% to 20%. In addition, DWPF has almost 70% participation in its Distribution Reinvestment Plan (DRP) providing additional equity of approximately \$150 million per annum.

The fund-through progressive payment structure enables DWPF to effectively fund the acquisition via its DRP whilst maintaining debt capacity to fund its development pipeline and further acquisition opportunities.

Impact on the DXS portfolio

Kevin George, DEXUS's EGM of Office & Industrial said: "This acquisition presents an exciting opportunity for us to demonstrate and deploy our core skills in the office sector through active involvement in the leasing process and enhancing the tenant covenants beyond the already de-risked vacancies, which are covered by an income guarantee."

DXS's office portfolio weighting is expected to increase by 1% to 79% on a fully completed pro-forma basis and is expected to increase DXS's weighting to the Brisbane CBD office market to 11.6%.

Brisbane CBD office markets

In the Brisbane CBD office market, the short-term demand outlook is mixed with expected long-term white collar employment growth and medium term business services growth offsetting Government space reductions and a weakening mining sector over the next 12 months. Vacancy is expected to peak at 10.2% by mid-2013, before falling to around 5.8% in FY15 and Brisbane's small development pipeline means that tenant demand for premium and A-grade office stock is expected to remain firm. Mild effective rental growth of 3.0% is expected over the next three years with rental growth slowing as the next supply cycle comes online.

"Despite mixed short-term fundamentals in the Brisbane office market, we remain confident in the overall metrics for quality, well located properties such as 480 Queen Street which provides premium grade office space with superior specifications and is ideally located in Brisbane's Golden Triangle.

"Income guarantees expiring around September 2018 will provide security against any near-term uncertainty within the Brisbane market." said Kevin George.



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Summary

Darren Steinberg said: “We believe that this acquisition provides the potential to gain valuation uplift as investment yields re-rate. Over the medium-term, the quality of this property, its location within the Brisbane CBD office market and its secure cash flow are expected to deliver attractive risk-adjusted returns to investors.”

“In an environment where there are limited opportunities to acquire quality prime grade properties, DEXUS has demonstrated its ability over the past nine months to invest in quality office product across the spectrum through acquiring core and value-add opportunities as well as acquiring this property on a development fund-through basis.”

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About DEXUS

DEXUS Property Group (DEXUS) is one of Australia’s leading real estate groups, investing directly in high quality Australian office and industrial properties. With a total of \$13.1 billion of assets under management, DEXUS also actively manages office, industrial and retail properties located in key Australian markets on behalf of third party capital partners. DEXUS has an office portfolio of over 900,000 square metres across Sydney, Melbourne, Brisbane and Perth, and is the largest institutional owner of office buildings in the Sydney CBD, Australia’s largest office market. DEXUS is a Top 50 entity by market capitalisation listed on the Australian Securities Exchange under the stock market trading code ‘DXS’ and is supported by more than 18,000 investors from 15 countries. With over 25 years of experience in commercial property investment, development and asset management, DEXUS has a proven track record in capital and risk management, providing service excellence to tenants and delivering superior risk-adjusted returns to investors. www.dexus.com

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

About DWPF

DEXUS Wholesale Property Fund (DWPF) is an open-ended unlisted property fund with a diversified portfolio of high quality retail, office and industrial properties in key locations in Australia, valued at approximately \$4.2 billion. DWPF has a Standard & Poor’s A (Stable) rating and is supported by over 45 Australian and international wholesale investors. DWPF has outperformed its benchmark, the Mercer IPD Unlisted Property Fund Index over the last one, three and five year periods. DWPF is managed by DEXUS, one of Australia’s leading real estate groups with total assets under management of \$13.1 billion. www.dexus.com

DEXUS Wholesale Property Limited ABN 47 006 036 442, AFSL 238166, as Responsible Entity for DEXUS Wholesale Property Fund



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Appendix 1

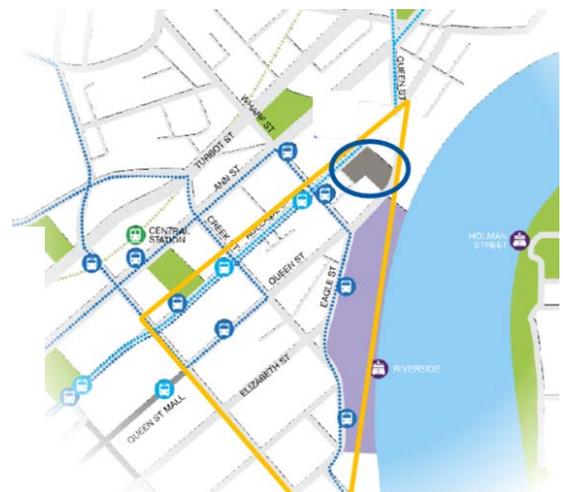
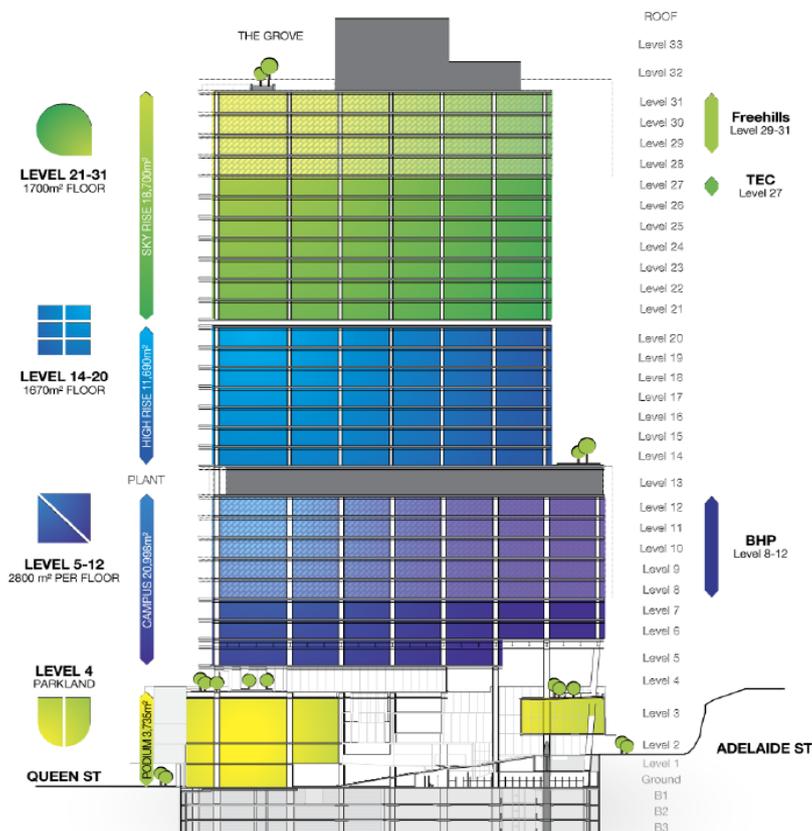
480 Queen Street, Brisbane - property profile at practical completion

	At 70% pre-leased	At 100% pre-leased
Acquisition price ¹ (\$m)	543.9	592.5
Lettable area (sqm)	55,561	55,561
Acquisition rate per sqm	\$9,789	\$10,664
Capitalisation rate (%)	7.25	7.06
IRR (10 year unlevered) (%)	10.3	9.7
Pre-commitment (% by area)	38	38
Occupancy (% income) ²	100	100
WALE (years by income) ²	7.3	9.6
Car spaces	271	271
	BHP	BHP
Major tenants	Herbert Smith Freehills The Executive Centre	Herbert Smith Freehills The Executive Centre

1. On completion at 100%.

2. Including a two-year income guarantee from Grocon Constructors Pty Limited on remaining vacancies post completion.

480 Queen Street - section plan



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Artist's impressions of 480 Queen Street, Brisbane



480 Queen Street, Brisbane - Queen Street entry



480 Queen Street, Brisbane - Level 4 Parkland

