

# DEXUS Property Group (ASX: DXS)

## ASX release

6 May 2013

### DEXUS and DWPF to acquire strategic office investment in Perth

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

DEXUS and DWPF have entered into an agreement to acquire equal 50% interests in Kings Square, Wellington Street, Perth (Kings Square) comprising three A-grade office buildings to be developed by Leighton Properties.

The total consideration payable is expected to be \$434.8 million<sup>1</sup>, representing a blended capitalisation rate<sup>2</sup> of 8.0%. The blended unlevered 10-year internal rate of return (IRR) following completion is expected to be 9.9%.

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.

The acquisition follows the recent announcement of the joint acquisition of 480 Queen Street, Brisbane by DEXUS and DWPF. Both acquisitions will provide DEXUS and DWPF with ownership of newly constructed, high quality office properties, 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.

Darren Steinberg, DEXUS CEO said: "The announcement of two strategic office investments worth approximately \$1 billion in close succession demonstrates our team's ability to source quality real estate in an environment where there are limited opportunities.

"DEXUS has demonstrated its ability over the past nine months to invest in quality office property across the spectrum through acquiring core and value-add opportunities and on a development fund-through basis."

### DWPF secures first Perth investment

Graham Pearson, DWPF Fund Manager said: "This acquisition represents DWPF's first allocation to the tightly held Perth office market. Together with the recently announced joint acquisition of 480 Queen Street, Kings Square further demonstrates successful implementation of DWPF's Investment Plan which targeted increased allocations to the Perth and Brisbane CBD office markets.

"It is pleasing that the Fund has been able to secure interests in such high quality assets with attractive financial metrics which will further broaden exposure and enhance diversification within the Fund's office portfolio."

On completion of both acquisitions, the Fund's office portfolio will increase to \$2.1 billion<sup>3</sup>, with the allocation to prime grade assets increasing to 94%. Allocation to the office sector will increase from 40.3%<sup>4</sup> to 42.6%<sup>5</sup>, consistent with the Fund's strategic sector allocation ranges and will complement the execution of the Fund's \$760 million predominantly retail development pipeline.

### Transaction overview

DXS and DWPF will jointly acquire Kings Square for an estimated cost on completion of \$434.8 million<sup>1</sup> based on capitalised income at project completion. Kings Square 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.

Kings Square comprises three A-grade office buildings located in an emerging precinct of commercial, residential, retail and public space. This urban renewal and redevelopment project is supported by significant federal, state and local Government investment including improved public transport connectivity.

Bound by Wellington and Roe Streets, Kings Square is well located with various transport options. It is in close proximity to Perth's transport hub of underground rail and bus infrastructure and is a short walk to St Georges Terrace and the Perth Arena.

1. At 100% excluding acquisition.
2. Including completion value of Kings Square.
3. 31 March 2013 pro-forma for approved acquisitions.
4. Pre 480 Queen Street, Brisbane and Kings Square acquisitions.
5. Includes DWPF's committed developments.

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Darren Steinberg said: "Kings Square will inject new life into the Perth market which is currently dominated by older stock. These buildings will provide office space with large efficient floor plates and 5 star NABERS Energy ratings. With a rental entry point, 25-35% lower than the core Perth CBD, Kings Square provides affordable office space to tenants who require the amenity of a well-located modern building."

The buildings will comprise Kings Square 1 (19 levels), Kings Square 2 (11 levels) and Kings Square 3 (9 levels) providing 52,781 square metres of combined office and retail space. Tenant pre-commitments have already been secured across 45% of the total office area to major corporate tenants including Shell Australia and John Holland. Leighton Properties has provided DXS and DWPF with a five-year income guarantee on any remaining vacancies at practical completion.

The transaction is subject to a number of approvals, with settlement of the land expected to occur by 31 May 2013. Construction will commence by July 2013 with completion of all three buildings expected to be achieved by mid-2015.

Further information relating to the three office buildings at Kings Square 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 combined blended average initial yield for the three towers is 8.0% on completion, based on current pre-commitments and income guarantees. During the construction period, DXS and DWPF will receive coupon payments of 7.75% per annum from Leighton Properties.

Craig Mitchell, Chief Financial Officer 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 remain well placed to make further acquisitions should suitable opportunities arise. On completion of Kings Square and the recently announced acquisition of 480 Queen Street, Brisbane, DXS's pro-forma gearing will increase by approximately 4%."

### Acquisition funding for DWPF

Over the past 12 months, DWPF has raised over \$830 million of equity and has access to additional equity of approximately \$150 million per annum from the Fund's Distribution Reinvestment Plan (DRP). Following the Perth and recent Brisbane office acquisitions, DWPF's gearing will increase from a low 8% to the mid-point of the Fund's target gearing range of 10% to 20% throughout the fund-through period.

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 EGM of Office & Industrial said: "Like the recently announced Brisbane fund-through investment, this acquisition presents a great opportunity for us to become actively involved in the leasing process. We will draw on our market knowledge and core skills in the office sector to enhance tenant covenants beyond the already de-risked vacancies, which are covered by income guarantees."

Following this acquisition, DXS's weighting to the Perth CBD office market will increase to 11.7%.

### Perth CBD office market

The Perth CBD office market is considered a key long term investment location due to positive economic and population growth prospects and its proximity to Asian markets. Over the medium term, the Western Australian economy is expected to experience a transition from investment in resource projects to more of an operational focus. Total vacancy has recently increased to 6.5% as a consequence of the resource sector moderating. A lack of supply and a stabilisation of demand from mid-FY14 will keep vacancy moderate over the medium term.



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The current slowdown in tenant demand is delaying development decisions, reducing the risk of a supply influx mid-decade. Prime capitalisation rates are above the 10-year average and are expected to tighten over the short term.

Kevin George said: "The Perth CBD office market has strong underlying fundamentals and limited committed supply which is expected to result in moderate mid-term vacancy, coinciding with the completion of Kings Square. There is a lack of quality, affordable stock in the Perth CBD with this product likely to be highly sought after. The attractive acquisition metrics of Kings Square, together with an income guarantee through to 2020, provides certainty against any near-term market softness."

### Summary

Darren Steinberg said: "Our team's ability to execute on two strategic fund-through investments in a matter of weeks reinforces our strength and ability to originate and execute deals in a competitive market.

"With a shortage of new and affordable office space with large floor plates in the Perth CBD, we are confident that Kings Square will provide enhanced returns for our investors."

For further information please contact:

#### Investor relations

David Yates  
T: +61 2 9017 1424  
M: 0418 861 047  
E: david.yates@dexus.com

#### Media relations

Louise Murray  
T: +61 2 9017 1446  
M: 0403 260 754  
E: louise.murray@dexus.com

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

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

Download the DEXUS IR app to your preferred mobile device to gain instant access to the latest stock price, ASX Announcements, presentations, reports, webcasts and more.



### 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 40 wholesale investors. 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](http://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

### Kings Square, Perth - property profile

	Kings Square 1	Kings Square 2	Kings Square 3	Total on completion
Acquisition price <sup>1</sup> (\$m)	200.7	173.8	60.3	434.8
Lettable area (sqm) <sup>2</sup>	23,156	20,440	9,185	52,781
Acquisition rate per sqm	\$8,669	\$8,503	\$6,565	\$8,239
Capitalisation rate (%)	8.0	7.9	8.25	8.0
Initial yield (pre-costs) (%)	8.00	7.90	8.25	8.00
Initial yield (post-costs) (%)	7.95	7.84	8.22	7.95
IRR (10-year unlevered) (%) <sup>3</sup>	9.7	9.9	10.4	9.9
Pre-commitment (% by area)	3	70	97	45
Occupancy (% income) <sup>4</sup>	100	100	100	100
WALE (years by income) <sup>4</sup>	5.1	8.5	10.7	7.3
Parking spaces <sup>5</sup>	42	76	16	134
Major tenants	-	Shell	John Holland <sup>6</sup>	

1. Estimated cost on completion at 100%.
2. Comprising all licenced areas.
3. From practical completion.
4. Including a five-year income guarantee from Leighton Properties on remaining vacancies post completion.
5. Excluding 19 motorbike bays.
6. John Holland's lease provides flexibility to occupy either Kings Square 1 or Kings Square 3.

### Artist's impression of Kings Square

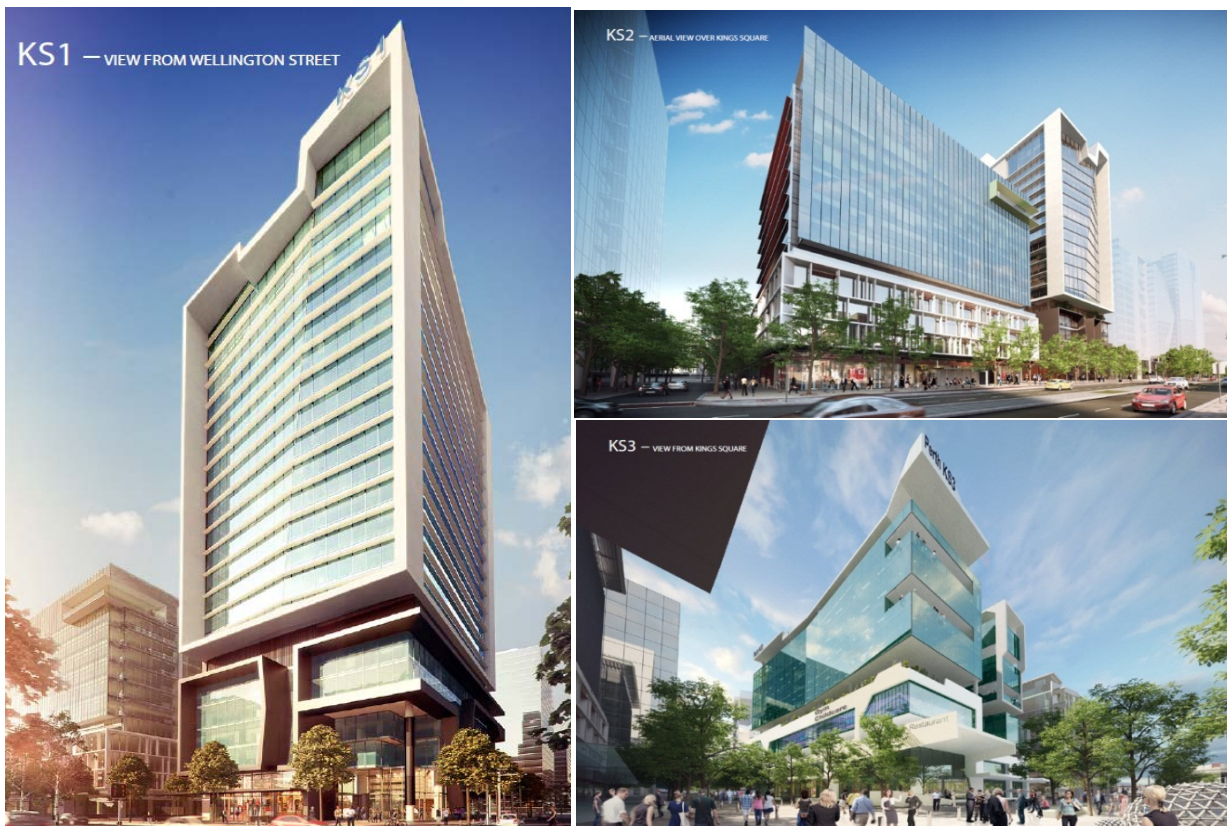


KS1, KS2, KS3 Office properties that DXS and DWPF are acquiring through Kings Square transaction.

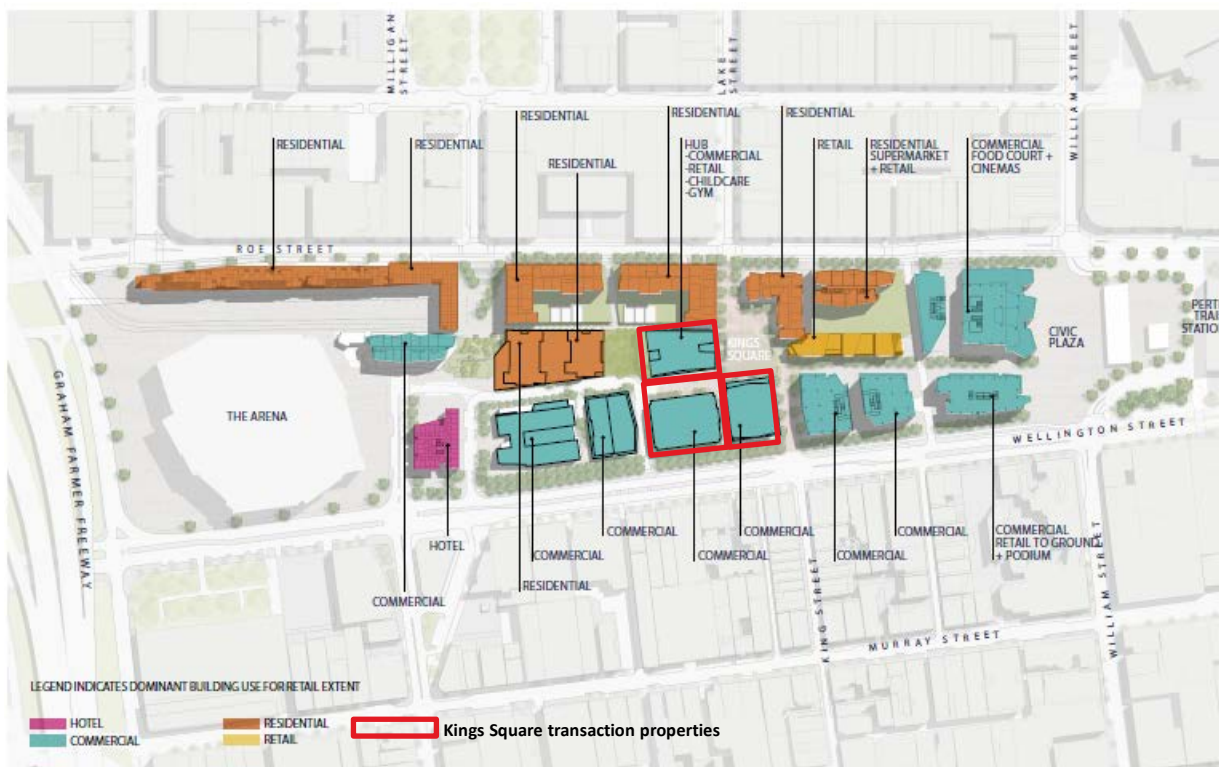
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Artist's impressions of Kings Square 1 (KS1), Kings Square 2 (KS2) and Kings Square 3 (KS3)



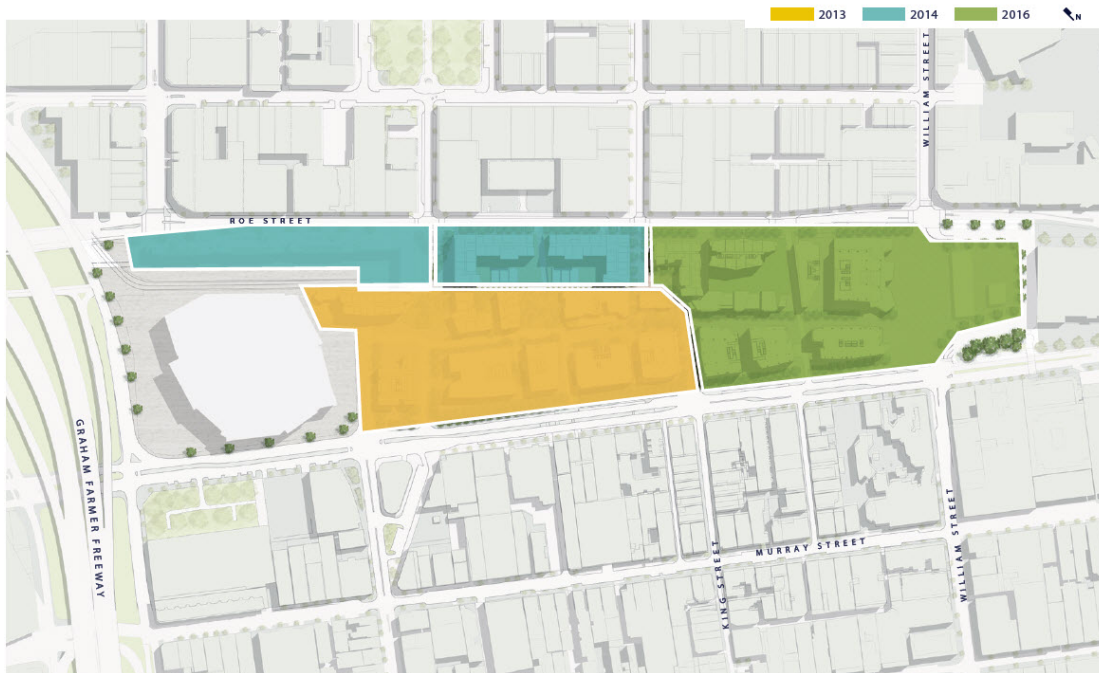
## Kings Square precinct



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## Kings Square precinct - estimated timings for land release for development



## Perth CBD - Kings Square precinct

