

# DEXUS Property Group (ASX: DXS)

ASX release

3 March 2014

## 2014 Citi Global Property CEO Conference

DEXUS Property Group today releases an overview presentation for the 2014 Citi Global Property CEO Conference. The conference will be held from Monday 3 March to Wednesday 5 March 2014 at the Westin Diplomat, Hollywood, Florida, USA.

For further information please contact:

### Investor relations

David Yates  
T: +61 2 9017 1424  
M: +61 418 861 047  
E: david.yates@dexus.com

### Media relations

Louise Murray  
T: +61 2 9017 1446  
M: +61 403 260 754  
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 \$14 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 manages an office portfolio of 900,000 square metres across Sydney, Melbourne, Brisbane and Perth and is one of the largest institutional owners 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 19,000 investors from 22 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)

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.



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

# DEXUS PROPERTY GROUP

## CITI GLOBAL PROPERTY CEO CONFERENCE MARCH 2014



# AGENDA

- Overview
- Strategy
- Commonwealth Property Office Fund (CPA) transaction
- Portfolio overview
- Third party funds management
- Capital management
- Financial results
- Market outlook
- Summary

Note: All figures in Australian dollars as at 31 December 2013, and all portfolio figures include the CPA transaction unless otherwise stated, with 5 Martin Place, Sydney included at reported cost to complete.

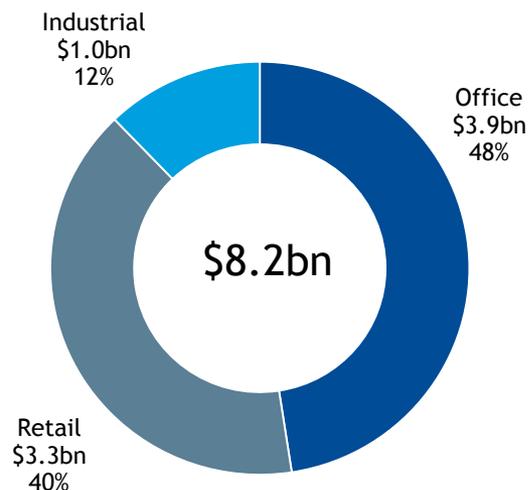
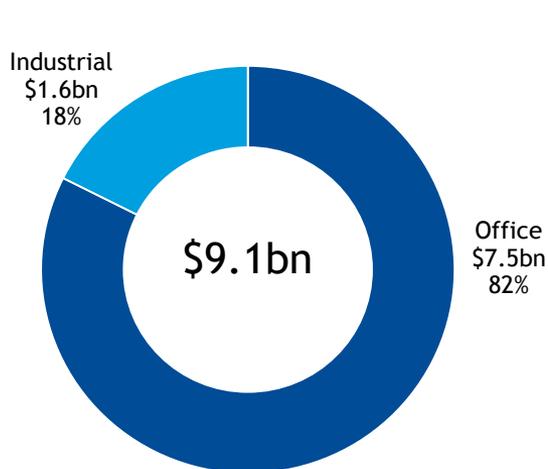
# OVERVIEW

## DEXUS Property Group

### DEXUS Property Group platform \$17.3bn AUM

DXS portfolio investments  
\$9.1bn

Third Party Funds Management  
\$8.2bn



## Top 50

Listed entity<sup>1</sup>

## 29 years

Property, funds & development  
management expertise

## 34.6%

Conservative gearing<sup>2</sup>

1. On the Australian Securities Exchange (ASX), by market capitalisation.
2. Adjusted for cash and including CPA transaction.

# STRATEGY

A clear and focused strategy

## OUR VISION To be globally recognised as Australia's leading real estate company

### OUR STRATEGY

To deliver superior risk-adjusted returns for our investors from high quality Australian real estate, primarily comprising CBD office buildings

### OUR STRATEGIC OBJECTIVES

#### OFFICE

Being the leading owner and manager of Australian office

#### CORE CAPABILITIES

Having the best people, strongest tenant relationships and most efficient systems

#### CAPITAL PARTNERSHIPS

Being the wholesale partner of choice in Australian office, industrial and retail

#### CAPITAL & RISK MANAGEMENT

Actively managing our capital and risk in a prudent and disciplined manner

### OUR PEOPLE WILL BE RECOGNISED FOR

Property expertise

Institutional rigour

Entrepreneurial spirit

# COMMONWEALTH PROPERTY OFFICE FUND (CPA) TRANSACTION

## Overview

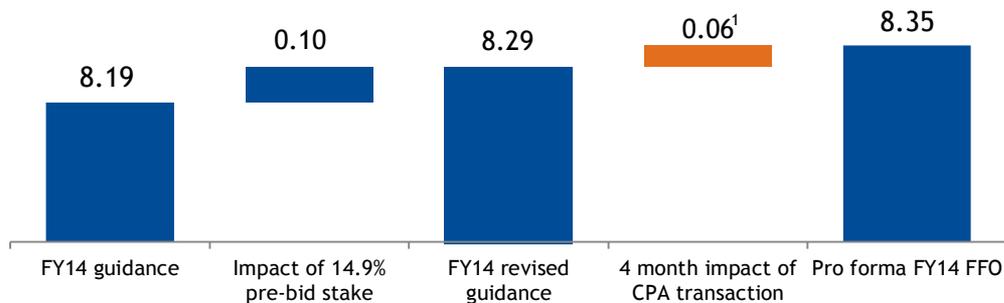
- DEXUS and Canada Pension Plan Investment Board (CPPIB) announced a joint takeover offer for CPA in December 2013
  - Acceptances of 88.2% as at 27 February 2014
  - Expect to proceed to compulsory acquisition of CPA Units by the end of March 2014
  - Transition of management of the CPA portfolio expected to occur during the second quarter of 2014
- CPA transaction increases Group FUM by \$3.3bn and adds a portfolio of 21 office properties



# COMMONWEALTH PROPERTY OFFICE FUND (CPA) TRANSACTION

## Pro forma impact on DEXUS's key metrics

### FY14 FFO cents per security impact assuming 1 March 2014 implementation



### DEXUS Gearing

	Pre CPA transaction	Post CPA transaction
30 Jun 13	29.0%	33.9% <sup>2</sup>
31 Dec 13	30.6%	34.6% <sup>3</sup>

### DEXUS NTA (per security)

	Pre CPA transaction	Post CPA transaction
30 Jun 13	\$1.05	\$1.03 <sup>2</sup>
31 Dec 13	\$1.08	\$1.06 <sup>3</sup>

1. Assumes 100% acceptances based on Option B cash/scrip offer, 1 March 2014 implementation date and GPT Wholesale Office Fund asset sales, as contemplated in the Second Supplementary Bidder's Statement dated 10 January 2014.

2. Pro-forma impact as outlined in the Second Supplementary Bidder's Statement dated 10 January 2014.

3. Pro-forma impact as outlined in the Second Supplementary Bidder's Statement dated 10 January 2014 adjusted for DXS's half year results announced on 12 February 2014.

# COMMONWEALTH PROPERTY OFFICE FUND (CPA) TRANSACTION

## Pro forma impact on DEXUS's key metrics



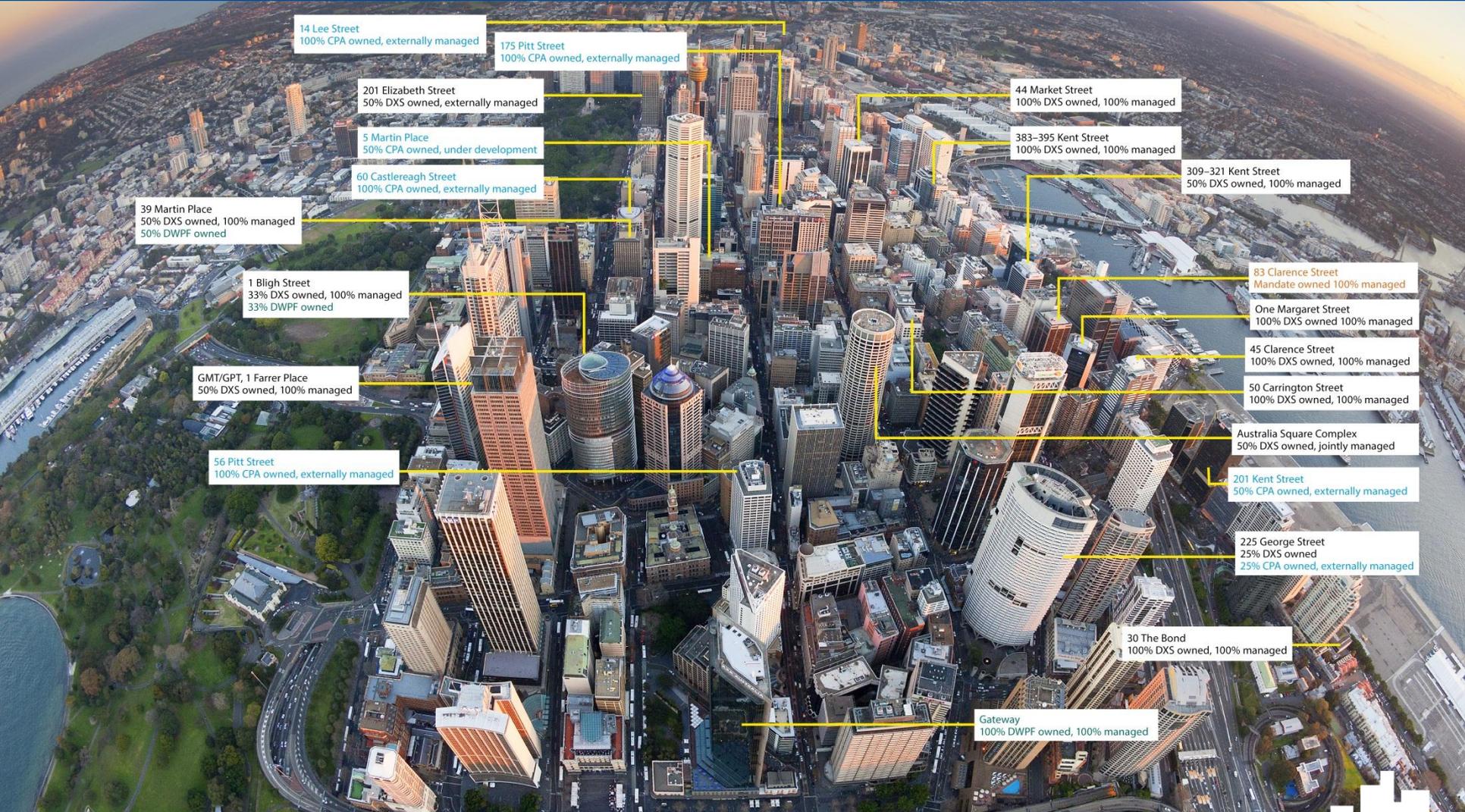
1. AUM includes assets owned by DEXUS, CPA and DEXUS Third Party managed funds. Represents assets within the CBD, as defined by the Property Council of Australia (PCA) Office Market Report plus DEXUS Core Target Markets of Kings Square, Perth and Southbank, Melbourne. Values based on book values as at 30 June 2013.

2. NLA represents Net Lettable Area. Proportional for ownership percentage.

3. Represents the percentage of total NLA in Prime Grade assets within each CBD market in which the merged entity will have a representation via assets under management.

Calculation excludes developments in progress and is not proportional to ownership percentage. Total market NLA sourced from PCA July 2013 Office Market Report and company filings. Market includes PCA defined boundaries plus DEXUS Core Target Markets of Kings Square, Perth and Southbank, Melbourne.

# PORTFOLIO OVERVIEW



DEXUS existing owned and managed portfolio and CPA portfolio to be acquired - Sydney CBD, NSW

# PORTFOLIO OVERVIEW

Group property portfolio including third party funds

## \$17.3bn

Total funds under management

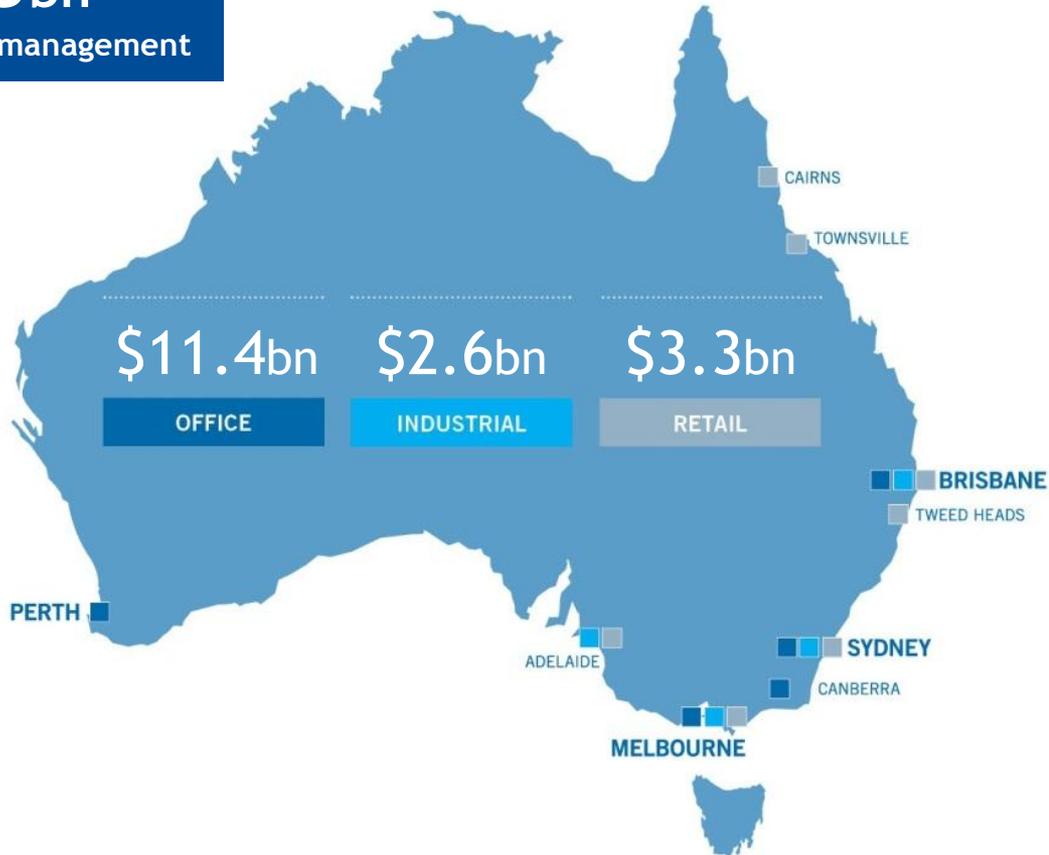
**PERTH**  
4 OFFICE  
\$0.8 BILLION



**CANBERRA**  
3 OFFICE, \$0.2 BILLION

**ADELAIDE**  
2 OFFICE, \$0.2 BILLION  
1 INDUSTRIAL, \$0.1 BILLION  
1 RETAIL, \$0.2 BILLION

**OTHER REGIONS**  
1 OFFICE, \$0.1 BILLION  
3 RETAIL, \$0.7 BILLION



**BRISBANE**

6 OFFICE \$1.3 BILLION	8 INDUSTRIAL \$0.2 BILLION
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3 RETAIL, \$0.5 BILLION

**SYDNEY**

34 OFFICE \$7.0 BILLION	45 INDUSTRIAL \$1.6 BILLION
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4 RETAIL, \$1.3 BILLION

**MELBOURNE**

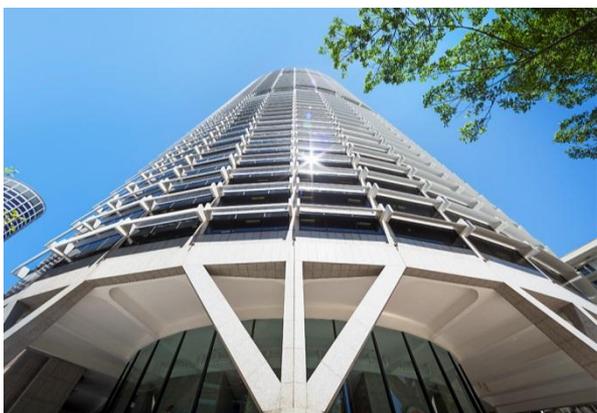
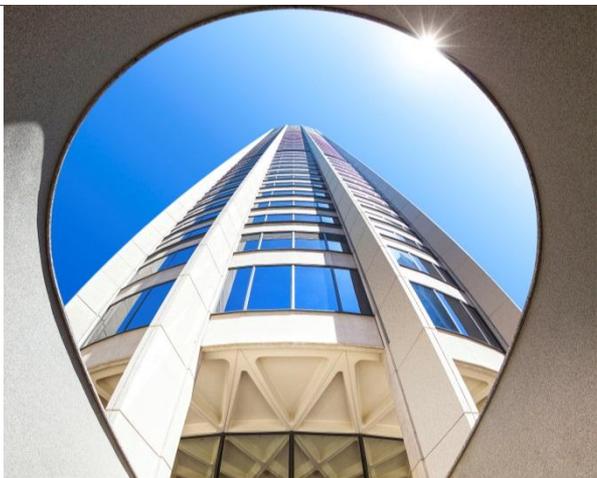
11 OFFICE \$1.8 BILLION	21 INDUSTRIAL \$0.8 BILLION
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2 RETAIL, \$0.7 BILLION

# DIRECT PORTFOLIO OVERVIEW

Office portfolio – 82% of balance sheet with 87% prime grade



T: Australia Square, 264-278 George Street, Sydney  
A-grade \$311m (50% interest)  
B: Grosvenor Place, 225 George Street, Sydney  
Premium grade \$291m (25% interest)



1 Bligh Street, Sydney, Premium grade \$251m  
(33% interest)



Governor Phillip & Macquarie Towers 1 Farrer Place, Sydney  
Premium grade \$674m (50% interest)

Note: all values are at DXS ownership level.

# DIRECT PORTFOLIO OVERVIEW

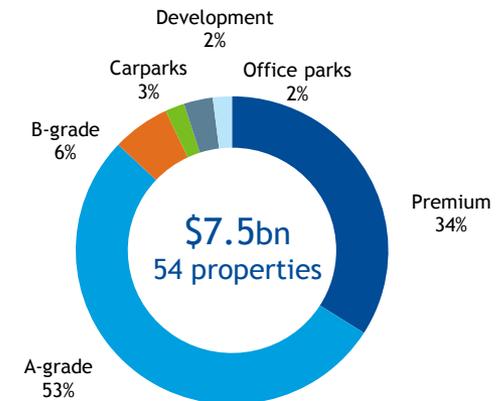
## Office portfolio

**\$7.5bn**

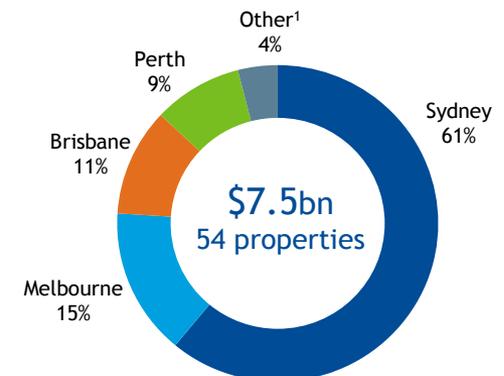
Prime quality office portfolio

- Largest listed office portfolio in Australia
  - Largest institutional owner of office in Sydney CBD with 26% share
  - DEXUS direct portfolio (DXS) owns interests in 54 office buildings
  - DEXUS and its capital partners own interests in four of the seven premium grade towers in Sydney
- HY14 achievements:
  - Achieved strong total return of 10.3%
  - Adopted proactive forward leasing approach which resulted in significant reduction in future lease expiries
  - Leased over 67,000sqm<sup>2</sup> during the period across 86 transactions
  - Generated solid same store rental growth of 3.8%

Property type by book value



Geographical weighting by book value



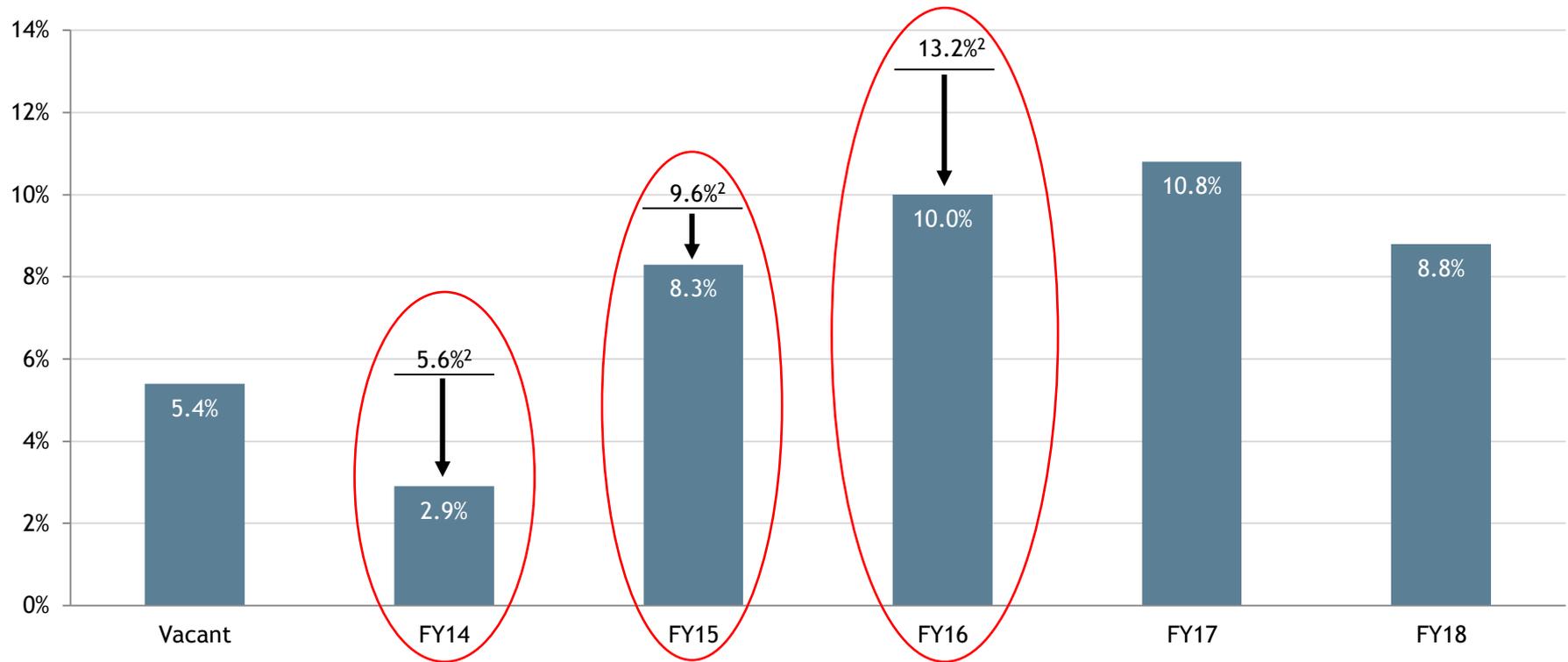
1. Including Canberra, Adelaide and Auckland, NZ.

2. At 100%, including Heads of Agreement (HOA).

# DIRECT PORTFOLIO OVERVIEW

## Office portfolio – lease expiry profile

### Lease expiry profile<sup>1</sup> by income as at 31 December 2013



1. Excluding CPA portfolio.  
2. 30 June 2013 position.

# DIRECT PORTFOLIO OVERVIEW

## Industrial portfolio – 18% of balance sheet



T: DEXUS Industrial Estate, 27 Distribution Drive, Laverton North \$9.2m (50% interest)  
B: Quarry Industrial Estate, 1 Bellevue Circuit, Greystanes \$15.4m (50% interest)

T: DEXUS Industrial Estate, 1-3 Distribution Drive, Laverton North \$6.0m (50% interest)  
B: Quarry Industrial Estate, 3 Basalt Road, Greystanes, \$14.3m (50% interest)

Note: all values are at DXS ownership level.

# DIRECT PORTFOLIO OVERVIEW

## Industrial portfolio

**\$1.6bn**

Prime quality industrial portfolio

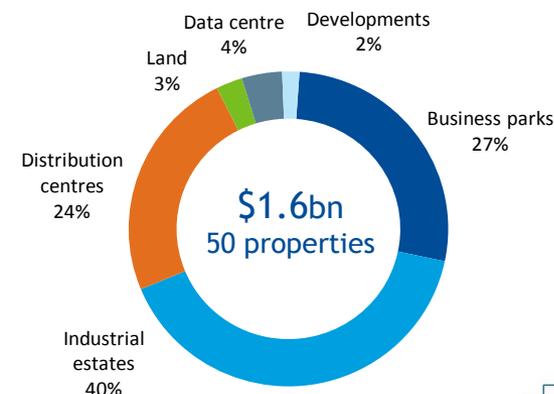
- Focused on major industrial hubs and arterial roadways in Sydney, Melbourne and Brisbane
- Allocation to value add/repositioning and development
- HY14 achievements:
  - Achieved total return of 9.2%
  - Leased 72,687sqm<sup>1</sup> across 31 transactions in challenging market
  - Maintained stable WALE<sup>2</sup> of 4.1 years

1. At 100%, including Heads of Agreement (HOA).  
2. By income.

Geographical weighting by book value



Property type by book value



# DIRECT PORTFOLIO OVERVIEW

## Corporate Responsibility and Sustainability

**4.8 stars**

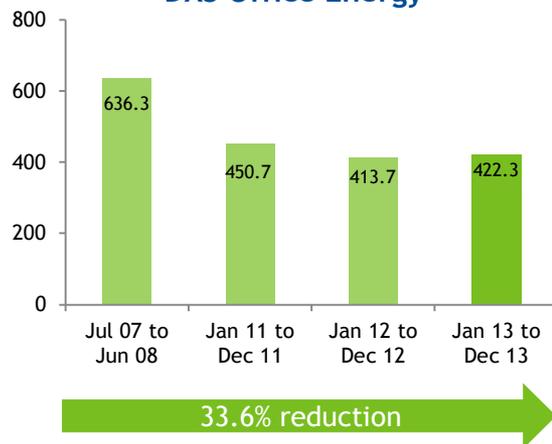
NABERS Energy rating<sup>1</sup>

**3.5 stars**

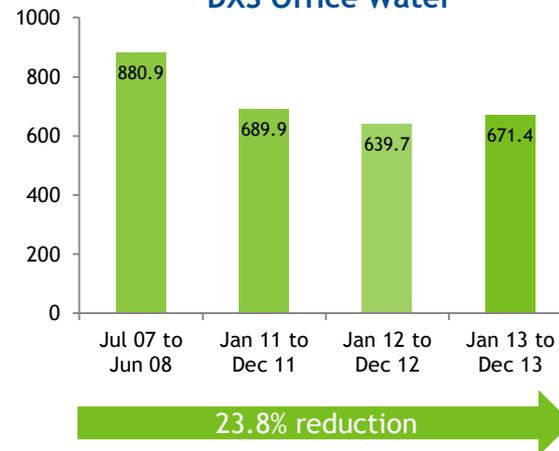
NABERS Water rating<sup>1</sup>

- Achieved \$5.3 million p.a. savings from energy efficiency improvements and reductions in tenant outgoings
- Outperformed in IPD Green Building Index in both Green Star and NABERS Benchmarks
- Included on the Carbon Disclosure Project's Performance Leadership Index in 2013

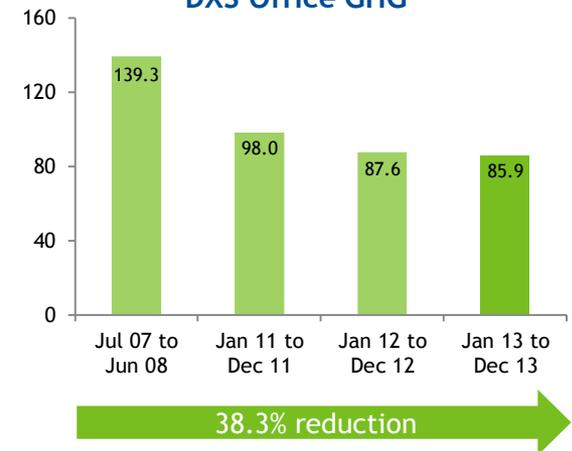
**DXS Office Energy**



**DXS Office Water**



**DXS Office GHG**



Note: Data in charts is unaudited.

1. On a like-for-like portfolio basis, including GreenPower and excluding the CPA portfolio.

# PORTFOLIO OVERVIEW

## Development and fund-through pipeline – Group

**\$2.8bn**

Total Group development pipeline

DXS developments and fund-throughs	Total est cost <sup>1</sup>	Est cost to complete <sup>1</sup>	Total estimated project cost		
			FY14	FY15	FY16+
DEXUS Industrial Estate, Laverton North	\$122m	\$97m		\$122m	
Quarry at Greystanes	\$77m	\$46m	\$23m	\$54m	
105 Phillip Street, Parramatta	\$120m	\$112m		\$120m	
12 Creek St, Brisbane <sup>2</sup>	\$19m	\$19m		\$19m	
180 Flinders Street, Melbourne	\$230m	\$148m			\$230m
480 Queen Street, Brisbane <sup>2</sup>	\$272m	\$213m		\$272m	
Kings Square, Perth <sup>2</sup>	\$217m	\$168m		\$217m	
<b>DXS pipeline</b>	<b>\$1,057m</b>	<b>\$803m</b>			
Completed developments for trading	\$72m	\$4m			
<b>DXS pipeline including trading</b>	<b>\$1,129m</b>	<b>\$807m</b>			
Third party development pipeline	\$1,234m	\$1,112m			
Third party fund-through pipeline	\$489m	\$381m			
<b>Total Group pipeline</b>	<b>\$2,852m</b>	<b>\$2,300m</b>			

	Developments underway
	Uncommitted development pipeline
	Fund-through office investments

DXS value-add and repositioning	Inventory <sup>3</sup>
50 Carrington Street, Sydney	\$59m
40 Market Street, Melbourne	\$47m
57-101 Balham Road, Archerfield	\$22m
1-15 Rosebery Avenue, Rosebery	\$59m
25-55 Rothschild Avenue, Rosebery	\$37m
154 O'Riordan Street, Mascot	\$14m
<b>Total DXS value-add properties</b>	<b>\$238m</b>

1. Costs shown at 100%, including land.
2. DXS share.
3. Acquisition or transfer price excluding costs and does not represent the trading price for the property.

# THIRD PARTY FUNDS MANAGEMENT



# THIRD PARTY FUNDS MANAGEMENT

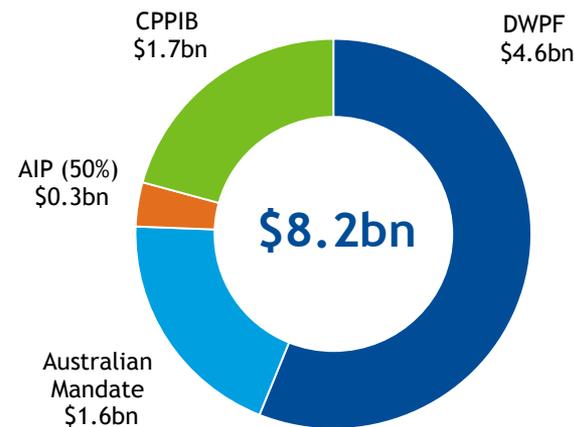
## Delivering on strategy

**\$8.2bn**

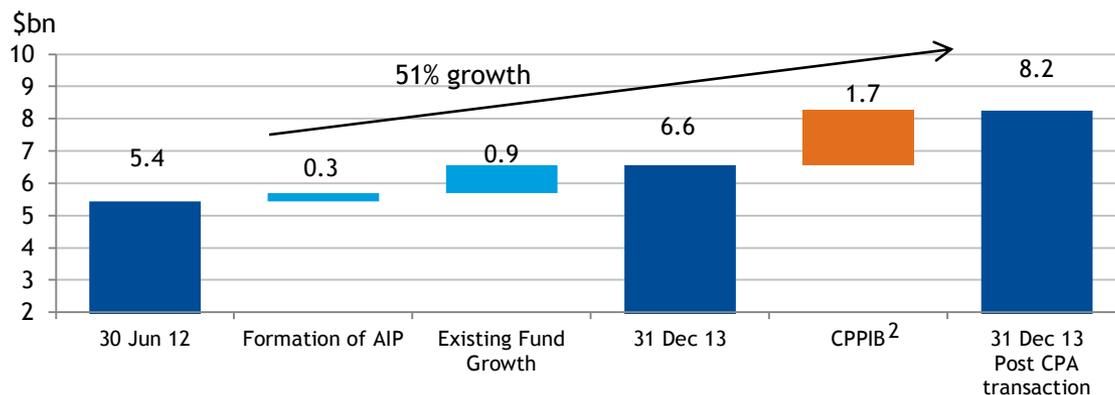
Third party funds management platform

- Substantial funds management platform including
  - \$4.6bn DEXUS Wholesale Property Fund (DWPF) - diversified
  - \$1.6bn Australian mandate - diversified
  - \$0.3bn Australian Industrial Partnership (AIP)<sup>1</sup> with a global pension fund
  - New \$1.7bn capital partner Canada Pension Plan Investment Board (CPPIB)

Third party funds under management post CPA transaction



Growth in funds under management since 2012<sup>1</sup>



1. AIP total portfolio value is \$0.5bn, held in a 50:50 joint partnership with DEXUS direct portfolio.

# CAPITAL MANAGEMENT

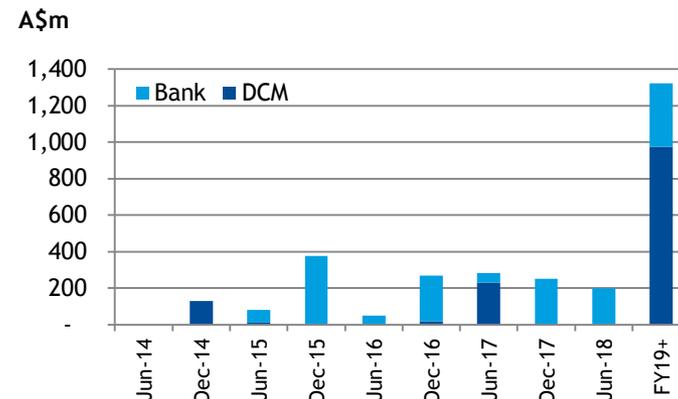


# CAPITAL MANAGEMENT

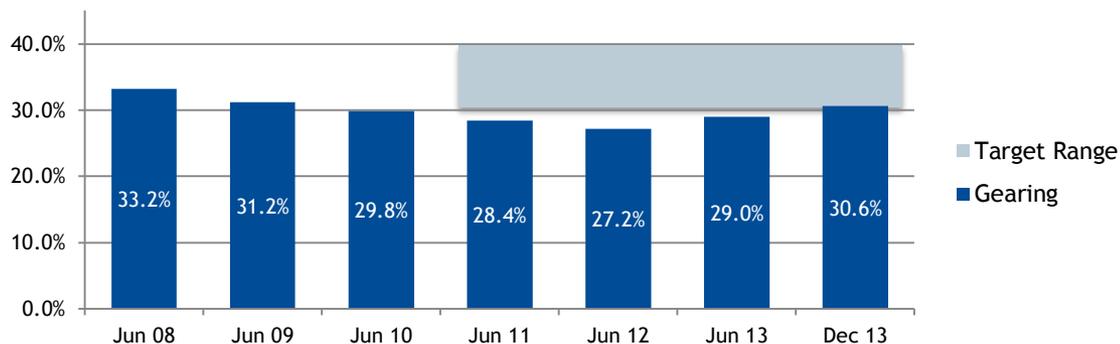
## Prudent and disciplined capital management

- Active approach to capital and risk management
- Solid stable credit ratings – Standard & Poor’s BBB+ (Credit Watch Positive) and Moody’s Baa1 (developing outlook)
- \$245 million (5%) buy-back announced 2 July 2013
  - 73.7 million securities bought to date at 5.5% discount to NTA
- HY14 achievements:
  - Reduced cost of debt to 5.7% and increased duration to 6.1 years
  - Issued US\$200 million long dated US Private Placement notes
  - Sourced \$1.3 billion of new funding commitments for CPA transaction

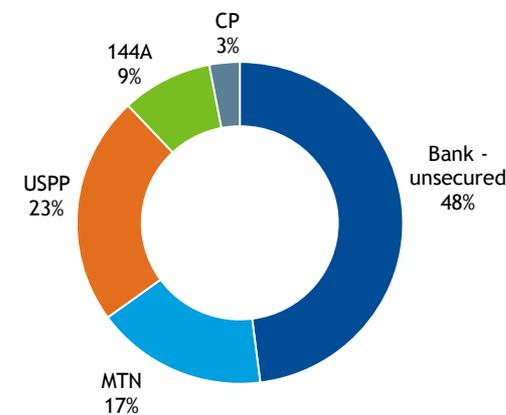
### Debt maturity profile<sup>2</sup>



### Historical gearing ratio



### Diversified mix of facilities<sup>2</sup>



1. Weighted average across the period, inclusive of fees and margins on a drawn basis.  
 2. Including US\$200m USPP that settles in February 2014.

# FINANCIAL RESULTS



# FINANCIAL RESULTS

		6 months to 31 Dec 2013	12 months to 30 Jun 2013	12 months to 30 Jun 2012	12 months to 30 Jun 2011
<b>Key financial metrics</b>	Statutory net profit	\$277.2m	\$514.5m	\$181.1m	\$553.0m
	FFO <sup>1</sup>	\$189.8m	\$365.4m	\$367.8m	\$358.0m
	FFO per security	4.08c	7.75c	7.65c	7.40c
	Distribution per security	3.07c	6.00c	5.35c	5.18c
	Gearing	30.6%	29.0%	27.2%	28.4%
	NTA per security	\$1.08	\$1.05	\$1.00	\$1.01

- Achieved 6.2% distribution growth per security for six months to 31 December 2013
- Increased NTA by 2.9%
- 95% of earnings derived from property EBIT

1. DEXUS's FFO comprises net profit/loss after tax attributable to stapled security holders calculated in accordance with Australian Accounting Standards and adjusted for: property revaluations, impairments, derivative and FX mark to market impacts, fair value movements of interest bearing liabilities, amortisation of certain tenant incentives, gain/loss on sale of certain assets, straight line rent adjustments, deferred tax expense/benefit, rental guarantees, coupon income and distribution income net of funding costs.

# FINANCIAL RESULTS

## Corporate revenue and expenses

### Net profit from management operations

HY14	Property management	Development & trading <sup>1</sup>	Funds management	Total (\$m)
Revenue	16.6	4.1	14.5	35.2
Operating expenses <sup>2</sup>	(12.1)	(1.1)	(6.3)	(19.5)
Cost of sales – active trading	-	(3.3)	-	(3.3)
Total operating expenses	(12.1)	(4.4)	(6.3)	(22.8)
<b>Net profit from management operations</b>	<b>4.5</b>	<b>(0.3)</b>	<b>8.2</b>	<b>12.4</b>

### Group corporate & asset management

HY14	Total (\$m)	Management Expense Ratio (MER)	Total (\$m)
Group corporate expenses	(12.9)	HY14 Gross MER <sup>3</sup>	
DXS asset management	(5.5)	A) Group corporate & asset management	(18.4)
<b>Group corporate &amp; asset management</b>	<b>(18.4)</b>	B) Funds under management	7,418
		<b>Gross MER = 2*A/B</b>	<b>50bps</b>

1. Including nil trading profits and net development expense of \$1.1m.

2. Comprises property management salaries of \$4.3m and corporate & administration expenses of \$15.2m.

3. Gross Management Expense Ratio: calculated as annualised domestic costs arising from managing DXS assets and corporate activity divided by funds under management.

# MARKET OUTLOOK

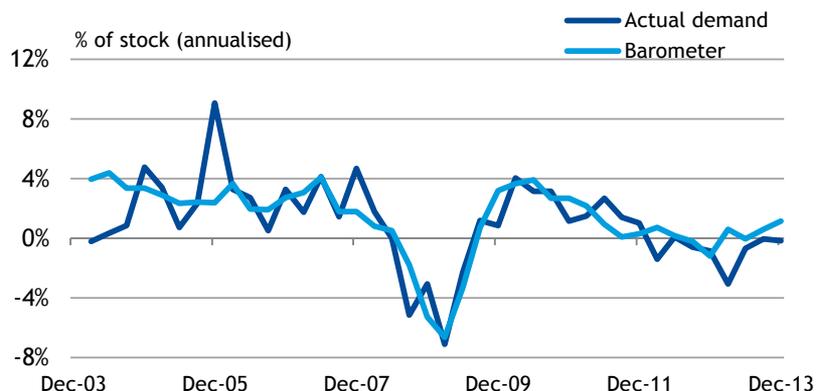


# MARKET OUTLOOK

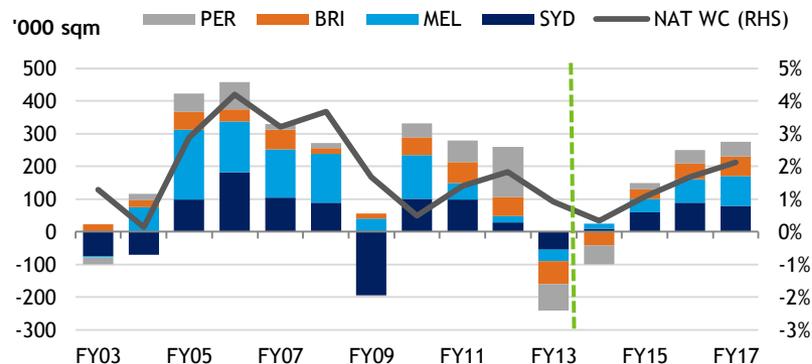
## Why office demand will improve from FY15

- Demand to improve in FY15 due to
  - Economy responding to easing monetary policy and lower AUD
  - Improving business conditions and confidence
  - Recovery in employment to be led by business services, accounting, legal, IT, education and pharmaceuticals
  - Tenant migration into CBD areas
  
- Sydney and Melbourne to lead improvement with Brisbane and Perth to follow

DEXUS Office Demand Barometer points to improvement



Office demand in the four main CBDs vs employment growth



Source: Jones Lang LaSalle, Bloomberg, NAB, DEXUS Research.

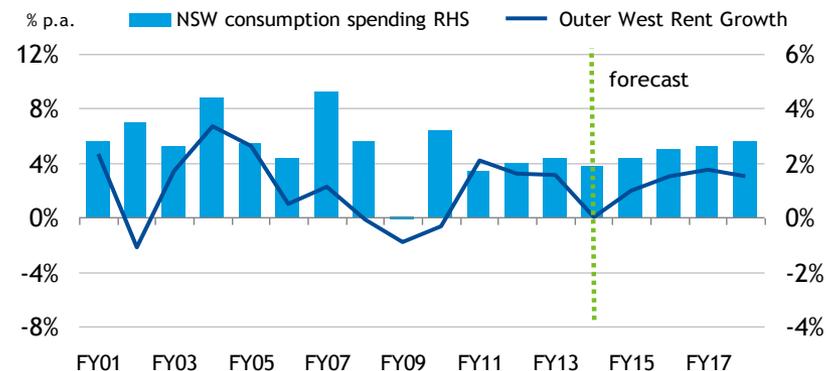
DEXUS Office Barometer includes five variables: S&P/ASX 200 Index, NAB Business Confidence Index, ANZ job ads, US ISM Manufacturing Index and short-term business travel departures.

# MARKET OUTLOOK

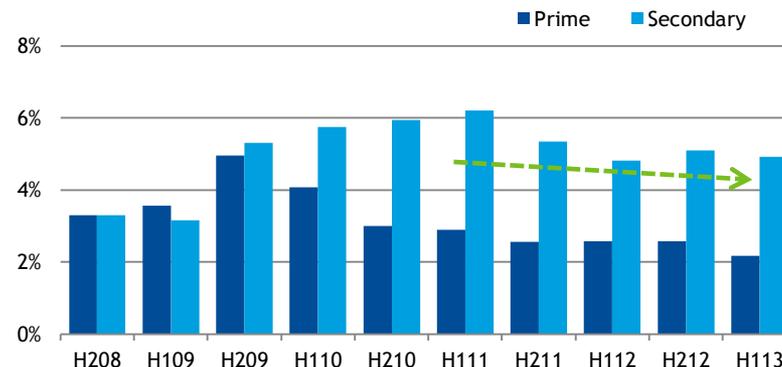
## Industrial markets relatively stable

- Lead indicators for demand now improving (business confidence, consumer confidence)
- Demand to be driven by tenants consolidating and seeking efficiencies eg. logistics and retail
- Limited availability of prime space
- Rents flat in FY14, then upside in medium term
- Melbourne very competitive
- Sydney subdued but stable
- Brisbane has paused but could recover quickly

### Consumption - to drive rental growth



### National prime vacancy remains low



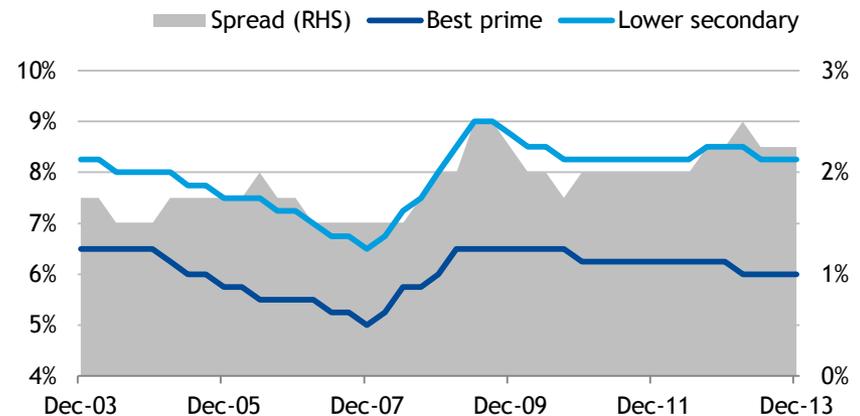
Source: Jones Lang LaSalle, Savills, Deloitte Access Economics, DEXUS Research.

# MARKET OUTLOOK

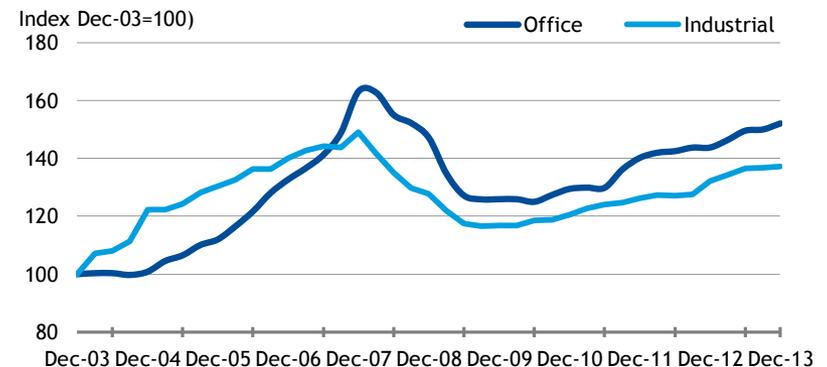
## Investment demand

- Markets nearing low point of rent cycle - growth anticipated medium/long term
- Further declines in capitalisation rates should lead to firming of capital values
- Strong investment demand for quality stock due to solid income yield
- Wide spread in pricing of assets depending on risk, based on
  - duration of leases
  - prime vs secondary assets
  - CBD vs fringe/metropolitan
- Pricing spreads expected to narrow in the medium term for quality properties, but likely to remain uneven

Capitalisation rates - prime and secondary (Sydney CBD)



Capital values - office and industrial (Sydney)



Source: Jones Lang LaSalle, DEXUS Research.

# SUMMARY



# SUMMARY

- Delivered a solid result in a challenging market
- Expect office market conditions to improve in FY15
- Focus moving forward:
  - Ensure CPA portfolio is successfully integrated
  - Continue to drive earnings from existing business
- Market guidance for FY14<sup>1</sup>
  - FFO per security 8.29 cents, representing 7.0% growth
  - Distribution per security 6.24 cents

1. Barring unforeseen circumstances. Assumptions include: 75% payout ratio, delivering 2.5-3.5% like-for-like income growth across the office and industrial portfolios, \$4-5m in trading profits, circa 5.7% cost of debt and excluding impact of CPA transaction.

Foyer, Australia Square, 264 George Street, Sydney NSW



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