DEXUS Property Group

PORTFOLIO UPDATE

31 MARCH 2012

During the quarter ended 31 March 2012, ongoing activity in our Australian and US portfolios resulted in an improvement in key operating metrics.

Key highlights of the quarter:

Office

- Leased 41,957 square metres in 23 transactions with average incentives of 20%[1]
- Occupancy at 1 Bligh Street increased to over 85% following leases to Bloomberg, Oil Search and JSH Investments
- Secured a new 10,873 square metre tenant with no downtime on a 12 year term at Garema Court, Canberra

Industrial

- Leased 119,247 square metres in 38 transactions
- Signed a Heads of Agreement for a 7,800 square metre 10 year pre-lease on recently acquired land at Wacol in Queensland
- Secured a new 10 year pre-lease for the construction of a 13,300 square metre facility at Quarry at Greystanes

Industrial US

- Leased 97,600 square metres over 33 transactions
- Increased occupancy of the west coast portfolio from 91.6% to 95.3%
- Signed contracts for the sale of the US central portfolio consisting of 65 properties for US$770 million with settlement due in June 2012

Capital management

We announced the repurchase of DEXUS RENTS effective 29 June 2012.

As a result of the US central portfolio sale on 16 April 2012 we:

- Commenced a $200 million on-market securities buy-back
- Changed the distribution policy to a range of between 70% and 80% of FFO from FY13
- FY12 FFO and distribution guidance remains unchanged

Property portfolio allocation at 31 March 2012[2]

Key portfolio data

	OCCUPANCY BY AREA	OCCUPANCY BY INCOME	WALE BY INCOME
31 Dec 2011	92.0%	95.3%	4.8 years
31 Mar 2012	92.8%	95.9%	4.9 years

Note: All leased areas are stated at 100% and include Heads of Agreement.

1 Excludes development leasing.
2 Pro-forma allocation following the sale of the US central portfolio as announced on 16 April 2012.
3 Excludes cash.

DEXUS PROPERTY GROUP

Governor Phillip & Macquarie Tower Complex and 1 Bligh Street, Sydney, NSW

Top: 2-4 Military Road, Matraville, NSW; Bottom: 4200 E Santa Ana Street, Ontario, CA

Economic conditions and outlook

Australia

In the past quarter, economic growth has continued to be variable across industries with the resource sector contributing to robust business investment, while the manufacturing and retail sectors have been soft. As a result, occupier demand for space has been somewhat subdued in recent months. The IMF is forecasting a mild improvement to 3.0% economic growth in 2012. The European economy and the pace of China's economic growth will remain key influences going forward. The 50 basis point cut to the official Australian cash rate announced on 1 May 2012 should help improve confidence to the benefit of real estate leasing markets over the next year.

Office

Net absorption in the March 2012 quarter was subdued across the main CBD markets and leasing conditions remain reasonably challenging. On a positive note, construction levels have been relatively constrained, keeping vacancy rates below average levels. The national CBD vacancy rate remained stable at 7.2% in the March 2012 quarter. Vacancy rates in Perth and Brisbane continued their downward trend reaching 2.0% and 6.1% respectively while the vacancy rate in Melbourne CBD remained stable at 5.8%. The vacancy rate in Sydney CBD rose slightly to 8.7%. However there are no major new office towers due to complete in Sydney in 2012 which will provide scope for vacancy to fall. Perth and Brisbane experienced rental growth over the past year while rents remained relatively stable in Sydney and Melbourne.

Industrial

Tenant activity has been relatively constrained with occupiers conscious of the costs of relocating. However a positive trend for the market is that levels of supply remain below ten year average levels and are expected to remain subdued during 2012. Consequently, the national vacancy rate fell from 4.5% to just 3.9%, indicating a growing shortage of good quality stock. There has been mild rental growth in prime assets in parts of Sydney and Brisbane in the nine months to March 2012 reflecting a slow and steady recovery.

Industrial US

The US economy experienced another turbulent year in 2011. However, concerns in mid-2011 that the US could experience a recession in 2012 now appear to have abated. Growth remains resilient with the IMF revising its GDP growth forecast up to 2.1% for 2012. Industrial production has remained steady in the past year. The unemployment rate is inching down slowly and retail sales are improving. These mildly positive economic trends, along with population growth and general movement of goods, are generating demand for industrial property. Reflecting the ongoing recovery, availability is falling in most markets across the US and the national vacancy rate in the March 2012 quarter is 13.4%, down from 14.1% a year ago. Availability in the west coast markets is generally less than the national average. Rents are turning the corner, with the leading markets such as Los Angeles and Riverside showing modest growth in the past six months.

L to R: Garema Court, 140-180 City Walk, Canberra, ACT; 45 Clarence Street, Sydney, NSW; Artist's impression of Flinders Gate Complex, Melbourne, VIC

Our property portfolio

Office – Australia and New Zealand

While vacancy rates in our key CBD markets remain stable, subdued demand is evident in Sydney and Melbourne. In both these markets leasing conditions remain challenging with rents remaining flat for the quarter.

In the three months to 31 March 2012, leases and Heads of Agreement of 41,957 square metres were signed at rates on average 1.6% higher than expiring leases and with average incentives of 20%[1]. As at 31 March, we had secured 99% of FY12 income and expect net property income to achieve 5% growth for the year on a like-for-like basis.

The major leasing transaction for the quarter was at Garema Court in Canberra where the Department of Regional Australia, Local Government, Arts and Sport (DRALGAS) leased 10,873 square metres on a 12 year term. The lease to DRALGAS commenced on 1 April 2012, the day after the lease expiry of the previous tenant resulting in no downtime or lost income.

At 1 Bligh Street only four floors remain to be leased (two whole floors and two suite floors) and occupancy is now 85% as a result of the following leases:

- Oil Search for 3,274 square metres (levels 22 and 23) for 12 years commencing October 2012
- Bloomberg for 2,642 square metres (levels 27 and 28) for 12 years commencing January 2013
- JSH Investments for 221 square metres (part level 17) for four years commencing April 2012
- Heads of Agreement for one whole floor

Leases were renewed with both Lloyds and Bankwest at 45 Clarence Street for additional two year terms over 5,665 and 4,178 square metres respectively. Leases transacted during the quarter were at an average term of 7.2 years, which resulted in the portfolio having a weighted average lease term of 5.2 years at 31 March 2012.

	OCCUPANCY BY AREA	OCCUPANCY BY INCOME	WALE BY INCOME	RETENTION RATE ROLLING 12 MONTHS
31 Dec 2011	97.2%	96.5%	5.1 years	73%
31 Mar 2012	97.4%	97.1%	5.2 years	68%

Development update

Flinders Gate Complex – We have secured development approval for the construction of a new 11 level, 20,000 square metre office building over the existing car park with an eight level internal atrium. Subject to leasing pre-commitment, construction is expected to begin in mid-2013 with planned completion scheduled for 2015. The development is targeted to achieve a 5-star NABERS Energy rating and a 5 Star Green Star rating. Tenant marketing has already commenced.

Property sales

As part of DEXUS's strategy to recycle capital from non-core properties into our preferred office markets, we have initiated sale programs for two properties.

The Zenith, Chatswood – A strategic leasing campaign has secured occupancy of over 99% for the property, compared to the broader market occupancy rate of 92%. Taking advantage of investor demand for high quality properties, our 50% share in The Zenith is now being marketed for sale.

Garema Court, Canberra – Following the signing of a 12 year lease term for 100% of the office space, marketing will now commence for the sale of this property.

1 Excludes development leasing.

Industrial – Australia

During the quarter, leases over 119,247 square metres of space were completed in 38 transactions. While new face rents averaged 6.7% below passing rents, reflecting the portfolio's current over-rented position in the inner west Sydney markets, they were above prevailing market rents. Weighted average incentives were 5.2%.

Tenants are deferring leasing decisions and instead, favouring lease renewals over relocation. Tenant retention for the quarter was 89% with a rolling 12 month retention rate of 79%.

Major leases included a five year renewal of 27,300 square metres at Kings Park together with two new five year leases over 18,013 square metres at Matraville and 13,422 square metres at Norwest Business Park.

Occupancy at 31 March 2012 increased 0.6% to 96.7%. The weighted average lease expiry increased from 4.3 years to 4.6 years.

	OCCUPANCY BY AREA	OCCUPANCY BY INCOME	WALE BY INCOME	RETENTION RATE ROLLING 12 MONTHS
31 Dec 2011	96.1%	95.1%	4.3 years	77%
31 Mar 2012	96.7%	95.7%	4.6 years	79%

Development update

Developments underway include:

- Quarry at Greystanes:
  - A $30 million, 23,340 square metre facility which is 46% pre-leased to Cameron's Transport on a five year term. Construction was completed in April 2012 with a forecast yield on cost of 9.0%
  - A $9 million, 5,437 square metre facility which is pre-leased to UPS on a seven year term. Construction is due for completion in July 2012 with a forecast yield on cost of 8.0%
  - A $21 million, 13,310 square metre facility pre-leased to Brady Australia on a 10 year term commencing early 2013. The development will commence in May 2012
- Laverton North: a $26 million, 29,284 square metre facility which is 47% pre-leased to Toll in2 Store on a seven year term. The project is due for completion in June 2012 with a forecast yield on cost of 8.4%
- Wacol: In November 2011 we acquired a 4.7 hectare site at Wacol in Queensland. During the quarter we entered into a pre-lease for a 7,800 square metre warehouse with a leading car manufacturer on a 10 year term. Construction on the $10 million facility will begin in June 2012

Trading activity

In March 2012 we leased a 21,143 square metre warehouse development at Erskine Park on a seven year lease to DB Schenker, a global logistics user. We are currently in negotiations for the sale of the completed development. The total project IRR is forecast to exceed 20%.

Quarry Industrial Estate, Greystanes, NSW

Industrial – US

We have achieved another strong quarter of leasing activity with over 97,600 square metres or 4.5% of the total portfolio leased during the period, at rents 14% below prior rental levels mostly reflecting the reversion to market rents from the peak.

New leases were signed for 52,800 square metres in 14 transactions and over 44,800 square metres were renewed with existing tenants in 19 transactions. The rolling 12 month retention rate increased 5% to 55% showing that tenants are preferring to renew their lease rather than relocate.

On 16 April 2012 we announced the sale of the US central portfolio, comprising 65 properties (including three properties leased to Whirlpool) for US$770 million.

The sale is in line with strategy to exit non-core markets and follows the leasing success of our US team, where occupancy for this portfolio increased to 89.8% at 31 March 2012.

The remaining US portfolio is located in our preferred west coast markets and is a high quality portfolio valued at US$533 million which represents approximately 7% of total Group assets. At 31 March 2012 the occupancy of the west coast portfolio was 95.3%.

	OCCUPANCY BY AREA	OCCUPANCY BY INCOME	WALE BY INCOME	RETENTION RATE ROLLING 12 MONTHS
31 Dec 2011	90.2%	91.8%	4.4 years	50%
31 Mar 2012	91.4%	92.9%	4.1 years	55%

Note: Table above represents total US portfolio including the central portfolio.

Industrial – Europe

In line with our strategy of exiting non-core markets, the disposal program for our European properties continues. In Germany, exclusive negotiations are currently underway for the sale of six properties.

Leasing during the quarter included a lease renewal with Logwin Solutions Fashion GmbH for 11,100 square metres at Langenfeld for three years.

	OCCUPANCY BY AREA	OCCUPANCY BY INCOME	WALE BY INCOME
31 Dec 2011	75.5%	87.2%	2.1 years
31 Mar 2012	74.6%	84.9%	2.1 years

Capital management

On 30 March 2012 we announced that DEXUS RENTS will be repurchased on 29 June 2012. The $204 million repurchase will be funded through existing debt facilities.

Post the announcement of the US central portfolio sale on 16 April 2012 we implemented a number of capital management initiatives.

- **Securities buy-back** – On 30 April 2012 we commenced an on-market securities buy-back of up to $200 million. This equates to approximately 5% of securities on issue. The buy-back will be funded using surplus capital from the sale of the US central portfolio. Subject to price and trading volumes, we expect the buy-back to take up to 12 months to complete and be both earnings and NTA accretive
- **Change to distribution policy** – Effective from FY13 the distribution policy will be amended from 70% of FFO to a range between 70% and 80% of FFO, in line with free cash flow. It is expected that over time the average payout ratio will be around 75% of FFO
- **US debt restructure** – Proceeds from the sale of the US central portfolio will initially be used to repay debt and, as a result, a restructure of US debt will be undertaken. Certain debt obligations will be prepaid and various interest rate swaps associated with the US funding will be unwound

Third party investment management

Third party funds under management as at 31 March 2012 were $6.3 billion.

Strong performance from the $3.8 billion DEXUS Wholesale Property Fund (DWPF) has continued with the rolling 12 month return, post-fees, increasing to 11.43% in the March quarter from 10.95% at December 2011. The Fund maintained its strong position as one of the leading funds in the IPD/Mercer Unlisted Pooled Property Fund Index to 31 March 2012.

DWPF has also continued to receive strong investor support with over $350 million in equity raised since 1 July 2011. The Fund maintains a solid capital management position with gearing of only 16.5% at 31 March 2012 and no outstanding redemption requests. The DWPF management team has been actively implementing the Fund's investment strategy with three strategic acquisitions totalling $300 million undertaken since 1 July 2011.

The STC mandate has continued to outperform its benchmark over one, three and five years and its investment objective to 31 March 2012. DEXUS continues to work closely with STC and their advisers on the active management of this mandate.

DEXUS and AMP are working together to transition fund management of the AXA mandate to AMP by 31 May 2012.

L to R: 1777 S Vintage Avenue, Ontario, CA; 83 Clarence Street, Sydney, NSW

Corporate Responsibility and Sustainability (CR&S)

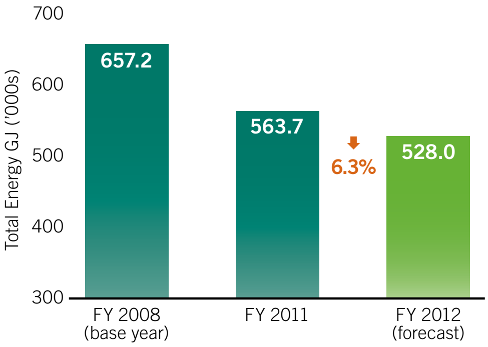
We have again achieved listing on the FTSE4Good Index and have maintained our position as a Sustainability Leader within the global real estate sector on the 2012 Global SAM Corporate Sustainability Assessment.

In addition to being certified carbon neutral, our head office tenancy in Sydney achieved a 4-star NABERS Energy rating without GreenPower, up from 3.5-star. This has resulted from employee engagement focused on reducing resource consumption.

The achievement of our NABERS 4.5-star office portfolio rating target is on track with a number of properties achieving ratings of 4.5-stars and above. We continue to maintain our target date of December 2012 for the completion of the program and are seeing significant energy savings across the portfolio as a result.

Total energy across the whole Group is forecast to be reduced by 19.7% from our base year of FY08, with total reduction during the last year alone forecast to be 6.3%.

DEXUS Australia and New Zealand Total Energy



1 Bligh Street, Sydney, NSW

Group strategic review

Strategic review and organisational restructure

As part of the strategic review currently underway, and as a consequence of the sale of the US central portfolio and the transfer of the AXA mandate, an organisational restructure has been completed. Recognising the synergies and similarities in roles and skill sets, the office and industrial property teams have been merged to maximise efficiencies and operational performance.

As a consequence of the restructure, the Group's overall head count has been reduced, with 32 redundancies across the company.

These changes are designed to position the Group for the future with the appropriate structure and platform to maximise performance and take advantage of opportunities to enhance investor returns. We are focused on driving the most effective outcome from our business, both in terms of returns and overall platform efficiency.

As a result of these changes FY12 guidance remains unchanged and the full strategic review will be presented to the market at the Group's annual results presentation in August 2012.

Further information

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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 $14 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.

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