

# DEXUS Property Group (ASX:DXS)

ASX release

7 May 2014

## March 2014 quarter portfolio update

DEXUS Property Group (DEXUS) today announced an update on the performance across the Group and its property portfolio for the quarter ended 31 March 2014.

As a result of the completion of the joint takeover of Commonwealth Property Office Fund (CPA) with Canada Pension Plan Investment Board (CPPIB) DEXUS announces an increase to its FY14 guidance<sup>1</sup>:

- Funds from Operations (FFO) increased to 8.34 cents per security reflecting a 0.6% increase on prior guidance and a 7.6% increase from FY13, and
- Distribution increased to 6.26 cents per security

## HIGHLIGHTS

- Leased 47,965 square metres<sup>2</sup> across the office portfolio including securing a new lease with Powercor at its existing tenancy at 40 Market Street, Melbourne and signing a new lease with international law firm Allens at 480 Queen Street, Brisbane, increasing the office portfolio's occupancy<sup>3</sup> to 94.9%
- Leased 20,364 square metres<sup>2</sup> of industrial space and secured a long-term pre-lease with Supply Network at Quarry at Greystanes, NSW
- Settled the sale of two industrial trading properties at Viking Drive, Wacol and Balham Road, Archerfield, which are expected to deliver a combined trading profit of \$4.4 million and achieve DEXUS's trading profit guidance for FY14
- Achieved an upgrade in DEXUS's Standard and Poor's credit rating from BBB+ to A-
- DEXUS Wholesale Property Fund (DWPF) continued its strong performance over the past five years delivering top quartile index performance and benchmark outperformance over the three month, one, three and five year periods to 31 March 2014

## Completion of CPA transaction

On 14 April 2014, DEXUS Funds Management Limited became the responsible entity of CPA following the retirement of Commonwealth Managed Investments Limited.

DEXUS completed the joint takeover of CPA with CPPIB following the compulsory acquisition of the remaining CPA units on 15 April 2014 to create the DEXUS Office Partnership. The DEXUS Office Partnership increases the Group's total funds under management to \$17.6 billion including an office portfolio valued at \$11.7 billion.

The transition of asset and facilities management systems across to the DEXUS platform is underway with a tranche of nine properties completed on 1 May 2014 and the remainder to be transitioned by 1 July 2014.

The impacts as a result of the completion of the CPA transaction on DEXUS's key metrics are in line with the forecasts provided in the Second Supplementary Bidder's Statement released on 10 January 2014, with gearing at 34.6% and net tangible asset backing per security (NTA) at \$1.06 at 31 March 2014.

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<sup>1</sup> 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 and circa 5.6% cost of debt, and including the impact of the CPA transaction.

<sup>2</sup> Including Heads of Agreement.

<sup>3</sup> By income.

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## PORTFOLIO UPDATE

### Total portfolio metrics as at 31 March 2014

- Area leased during the quarter: 68,329 square metres<sup>4,5</sup>

Key metrics <sup>5</sup>	31 March 2014	31 December 2013
Occupancy by income	94.4%	94.5%
Occupancy by area	93.6%	94.1%
WALE by income	4.7 years	4.9 years
Retention rate (year to date)	57%	55%
Retention rate (rolling 12 months)	61%	65%

### Office portfolio

- Portfolio value: \$7.6 billion
- Area leased during the quarter: 47,965 square metres<sup>4,5</sup>

Key metrics <sup>5</sup>	31 March 2014	31 December 2013
Occupancy by income	94.9%	94.6%
Occupancy by area	94.5%	93.9%
WALE by income	4.9 years	5.1 years
Average incentive	17.0%	16.9%
Average rental increase/decrease	6.6%	2.5%
Retention rate (year to date)	67%	59%
Retention rate (rolling 12 months)	65%	69%

Kevin George, DEXUS Executive General Manager, Office and Industrial, said: “Over the quarter, we have seen a reduction in the trend for tenants pushing out leasing decisions, providing further confidence in the Sydney and Melbourne office markets.”

“In Sydney there has been an increase in tenant enquiry for prime grade space and, in some instances, competition between several parties for available space. We are also seeing positive signs in the Melbourne CBD with some office space being withdrawn for residential conversion and some evidence of tenants migrating to the city from the suburbs.”

Over the quarter to 31 March 2014, DEXUS leased 47,965 square metres<sup>4</sup> across 39 transactions including:

- A new lease with existing tenant Powercor across 11,615 square metres covering 10 levels at its existing tenancy in 40 Market Street, Melbourne for a 15 year term
- A lease renewal with Simpson Grierson at Lumley Centre, Auckland across 6,631 square metres
- A new lease with international law firm Allens at 480 Queen Street, Brisbane across approximately 4,000 square metres, increasing the space committed at the building to 50%, well ahead of practical completion expected in February 2016
- Five new or renewed leases at 201 Elizabeth Street, Sydney totalling 3,243 square metres
- Eight new or renewed leases at Australia Square, Sydney across 2,563 square metres

Occupancy by income across the office portfolio increased to 94.9% and the portfolio weighted average lease expiry (WALE) at 31 March 2014 was 4.9 years.

Despite leasing conditions remaining challenging, DEXUS has secured 125 leasing transactions financial year to date across 115,975 square metres<sup>4</sup>, with a weighted average lease term of 7.6 years.

<sup>4</sup> Including Heads of Agreement.

<sup>5</sup> As at 31 March 2014, excluding the CPA portfolio.

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## Delivering enhanced property solutions

DEXUS continued to work with tenants to provide property solutions, successfully securing a long term commitment from existing tenant Powercor at 40 Market Street, Melbourne, 15 months after the property's acquisition and well ahead of lease expiry.

DEXUS acquired the property as a trading opportunity in January 2013 and will undertake a high quality base building upgrade including new lifts, lobby enhancements, upgraded plant and equipment, new end-of-trip facilities and refurbished toilets and amenities.

Kevin George said: "We are pleased to have been able to deliver an enhanced property solution which is mutually beneficial for DEXUS and Powercor at 40 Market Street. The new lease together with the property improvements will reposition 40 Market Street and, in turn, enhance investor returns."

## Value-add through active asset management progresses divestments

During the quarter DEXUS progressed leasing at the Lumley Centre in Auckland and at 50 Carrington Street in Sydney, maximising the properties' values in preparation for divestment.

The Lumley Centre, Auckland, DEXUS's remaining offshore property, is for sale via an expression of interest campaign which is expected to close on 5 June 2014. DEXUS has successfully increased the property's occupancy to 99% and WALE to 7.7 years.

50 Carrington Street, Sydney is an identified trading property to which DEXUS has added significant value over the past 18 months through refurbishment and a targeted leasing campaign. DEXUS has successfully increased the property's occupancy to 97% from 61% at acquisition, and the property's WALE to 4.0 years, from 2.2 years. The property is currently being marketed for sale via an expression of interest campaign which is expected to close on 22 May 2014.

## Sustainability

The NABERS Energy rating for the office portfolio remained steady at 4.8 stars on a like-for-like basis for the quarter ended 31 March 2014. In April 2014, 50 Carrington Street, Sydney achieved a 4.5 star NABERS Energy rating, increasing the rating from 3 stars at acquisition in November 2012 following refurbishments to the property, including replacing the cooling chiller towers and retro-fitting energy saving lighting.

## Industrial portfolio

- Portfolio value: \$1.5 billion
- Area leased during quarter: 20,364 square metres<sup>6,7</sup>

Key metrics <sup>7</sup>	31 March 2014	31 December 2013
Occupancy by income	92.5%	94.2%
Occupancy by area	93.0%	94.3%
WALE by income	3.8 years	4.1 years
Average incentive	9.1%	9.9%
Average rental increase/decrease	(4.1)%	(7.1)%
Retention rate (year to date)	47%	52%
Retention rate (rolling 12 months)	58%	63%

<sup>6</sup> Including Heads of Agreement.

<sup>7</sup> As at 31 March 2014, excluding the CPA portfolio.

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Kevin George said: “We have seen encouraging signs in industrial lead indicators including improved retail turnover and an increase in consumer imports. This has occurred as the consumer and housing sectors respond to low interest rates which are expected to have a positive impact on tenant demand for industrial space.”

Over quarter to 31 March 2014, DEXUS leased 20,364 square metres<sup>8</sup> of industrial space across 25 transactions including a long term pre-lease with Supply Network at Quarry at Greystanes, NSW across 7,900 square metres. DEXUS’s proactive leasing approach has secured 56 leasing transactions across 93,051 square metres<sup>8</sup> for the financial year to date.

Industrial portfolio occupancy by income decreased from 94.2% at 31 December 2013 to 92.5% at 31 March 2014 primarily due to the departure of Spotless at Victoria Road, Gladesville.

## DEVELOPMENT PIPELINE

DEXUS continued to make progress across its \$3.0 billion Group development pipeline which includes developments in DEXUS’s direct portfolio and in the third party funds management business.

Construction works progressed at both of DEXUS and DWPF’s fund-through developments at 480 Queen Street, Brisbane and Kings Square in Perth. At 480 Queen Street, works are progressing to program with the jump form up to level 6. The office space is 50% committed and practical completion is expected in February 2016. At Kings Square, Perth, works at each of the three buildings is underway. The office space is 45% committed and practical completion is expected in mid-2015. Both of the fund-through developments are targeting an initial yield of 7.25% to 8.0%.

As a result of the completion of the CPA transaction, DEXUS has assumed the management of the 5 Martin Place, Sydney development and is implementing a refreshed leasing campaign. The property is currently 41% committed and practical completion is expected in mid-2015. 5 Martin Place is targeting an initial yield of circa 7%.

The settlement of two industrial trading properties at Viking Drive, Wacol and Balham Road Archerfield on 12 March 2014 is expected to deliver a combined trading profit of \$4.4 million.

Darren Steinberg, DEXUS Chief Executive Officer, said: “Achieving the profits from the sale of Wacol and Archerfield delivers on our trading profit guidance for FY14. This builds on our reputation of developing quality industrial product and reinforces our ability to add value through active asset management.”

## CAPITAL MANAGEMENT

Key metrics	31 March 2014	31 December 2013
Gearing	34.6% <sup>9</sup>	30.6%
Duration of debt	5.6 years	6.1 years
Current cost of debt <sup>10</sup>	5.6%	5.7%

On 31 March 2014, DEXUS’s credit rating from Standard & Poor’s was upgraded from BBB+ to A-. The upgrade follows DEXUS’s acquisition of CPA with CPPIB and reflects DEXUS’s strong balance sheet, high quality property portfolio and consistent management of business and credit metrics.

Including the impact of the CPA transaction, gearing as at 31 March 2014 was 34.6%.

Craig Mitchell, DEXUS Executive Director, Finance and COO, said: “It was pleasing to receive recognition for our active and disciplined capital management approach through our credit rating upgrade.”

<sup>8</sup> Including Heads of Agreement.

<sup>9</sup> Adjusted for the CPA transaction.

<sup>10</sup> Weighted average across the period, inclusive of fees and margins on a drawn basis.

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## THIRD PARTY FUNDS MANAGEMENT

DEXUS's third party funds management business has grown by almost 60% since 30 June 2012 and now comprises \$8.5 billion of funds under management, including DEXUS Wholesale Property Fund (DWPF) the Australian mandate, the Australian Industrial Partnership and the newly created DEXUS Office Partnership.

Craig Mitchell said: "We continued to drive performance in our third party funds management business over the quarter, with all of our Funds delivering outperformance. DWPF continued its strong performance over the past five years, delivering top quartile index performance and benchmark outperformance over the three months, one, three and five year periods to 31 March 2014.

"DWPF completed a pro-rata offer for \$350 million which was significantly over-subscribed, demonstrating strong demand for the Fund and reflecting its strong performance and quality portfolio."

In a competitive transaction market, DWPF acquired AM60, 42-60 Albert Street, Brisbane, during the March 2014 quarter on attractive metrics, enhancing the diversity of its portfolio and delivering on its 2014 Investment Plan.

## SUMMARY AND OUTLOOK

Darren Steinberg said: "The completion of the CPA transaction has created an enhanced office portfolio of quality and scale and expanded our third party funds management business. Our continued focus on driving results from our existing portfolio achieved solid leasing results, secured trading profits and delivered performance for our third party capital partners.

"Over the next 12 months, lead indicators are pointing to improving office market conditions including increased business confidence in response to low interest rates, a strengthening in employment growth and a continued migration of tenants to CBD markets.

"International and domestic investment demand remains strong for Australian property across all sectors, positively impacting valuations and creating opportunities to broaden third party capital partnerships.

"As a result of the completion of the CPA transaction, we have increased FFO guidance<sup>11</sup> to 8.34 cents per security and increased distribution guidance to 6.26 cents per security for the 12 months ending 30 June 2014.

"We remain committed to delivering results for our investors and capital partners and will continue to drive the portfolio to achieve this outcome."

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<sup>11</sup> 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 and circa 5.6% cost of debt, and including the impact of the CPA transaction.

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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 \$17.6 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 1.4 million 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 30,000 investors from 21 countries. With nearly 30 years of expertise in 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)

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