

# DEXUS Property Group (ASX:DXS)

ASX release

14 August 2014

## 2014 annual results - Successful year drives 4.3% distribution growth

DEXUS Property Group today announced its operational and strategic achievements for the year ended 30 June 2014. DEXUS also announced a strong start to FY15, realising significant profits on the sale of trading properties.

DEXUS Chief Executive Officer, Darren Steinberg said: "We have had a successful year with the underlying business performing solidly and delivering excellent results. This performance has set us up to deliver strong results in FY15 with FFO per security and distribution per security expected to grow by 8.5%"

### RESULTS HIGHLIGHTS

#### Financial

- Achieved Funds From Operations (FFO)<sup>1</sup> of \$410.6 million or 8.34 cents per security, up 7.6%
- Increased distribution per security by 4.3% for the year ended 30 June 2014
- Achieved a statutory net profit of \$406.6 million
- Increased net tangible assets (NTA) per security by 0.8% to \$1.06
- Delivered a Return on Equity (ROE) of 6.7% (8.7% excluding the impact of the CPA transaction)
- Maintained a solid balance sheet with look-through gearing<sup>2</sup> of 33.7%
- Achieved upgrades to credit ratings
- Delivered solid like-for-like net operating income (NOI) growth of 3.1%

#### Transactions

- Undertook \$5.4 billion of transactions across the Group
- Acquired Commonwealth Property Office Fund (CPA) with Canada Pension Plan Investment Board (CPPIB) for \$3.4 billion

#### Total DEXUS portfolio

- Leased or renewed 313,825 square metres of space<sup>3</sup>
- Increased portfolio footprint by 12% to 2.0 million square metres

#### DEXUS office portfolio

- Leased or renewed 174,109 square metres of space<sup>3</sup> across 191 transactions
- Improved occupancy by income to 95.2% with a portfolio WALE of 4.9 years and significantly reduced forward lease expiries (excluding the CPA portfolio)

#### DEXUS industrial portfolio

- Leased or renewed 139,716 square metres of space<sup>3</sup> across 74 transactions including the leasing of 41,034 square metres of industrial development projects
- Occupancy by income reduced from 96.1% to 93.0% due to the timing of expiries and the portfolio WALE decreased slightly to 4.0 years

#### Development and trading

- Completed 90,214 square metres of projects in the Group's \$3.3 billion development pipeline
- Secured a total of \$4.3 million in trading profits and identified future trading opportunities

#### Third Party Funds Management

- Increased third party funds under management by 41% to \$8.7 billion
- 100% of funds delivered outperformance against benchmarks
- Attracted two new capital partners and formed the DEXUS Office Partnership with CPPIB and the DEXUS Industrial Partnership with the Future Fund

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.

2. Adjusted for cash and for debt in equity accounted investments.

3. Including Heads of Agreement.

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## POST BALANCE DATE ACHIEVEMENTS

Since 30 June 2014, DEXUS has made some excellent progress for FY15, achieving some significant transactions in the DEXUS portfolio and on behalf of its third party funds. These achievements included:

Identified trading properties:

- Sold 30 Distribution Drive, Laverton and exchanged contracts to sell 50 Carrington Street, Sydney, 5-13 Rosebery Avenue and 25-55 Rothschild Avenue, Rosebery and 154 O'Riordan Street, Mascot. The sales of these identified trading properties are expected to contribute to the FY15 trading profit target of approximately \$40 million and to FY16/17 trading profits of approximately \$90 million pre-tax
- Progressed the sale of 40 Market Street, Melbourne which is expected to contribute to FY15 trading profits

Other transactions:

- Entered into exclusive due diligence for the sale of 201 Elizabeth Street, Sydney following a compelling offer
- Exchanged contracts to sell Lumley Centre, Auckland, New Zealand at a 14.5% premium<sup>4</sup>, completing DEXUS's exit from offshore markets

Third party funds:

- Acquired two sub-regional shopping centres for a total consideration of \$159.7 million for DWPF, in addition to Beenleigh Shopping Centre acquired during FY14
- Acquired second development site at Larapinta, Queensland adding to the Quarrywest, Greystanes development site acquired in June for the newly formed DEXUS Industrial Partnership

DEXUS Chief Executive Officer, Darren Steinberg said: "Driven by strategic investment decisions and our active and disciplined approach to capital management, we delivered a 7.6% increase in FFO per security and increased distributions by 4.3%."

For the 12 months to 30 June 2014 DEXUS delivered a total security holder return<sup>5</sup> of 9.9%.

## STRATEGIC PROGRESS

Darren Steinberg said: "In FY14 we continued to work towards achieving our vision of being globally recognised as Australia's leading real estate company strengthening our office position and progressing our strategic objective of being a wholesale partner of choice.

"We enhanced the quality and scale of our office portfolio with the successful completion of the takeover of CPA and secured two new long term capital partners attracted to our office expertise and industrial development capabilities, growing our Third Party Funds Management business by 41% to \$8.7 billion."

### CPA transaction

During the year DEXUS undertook a total of \$5.4 billion transactions across the Group, including the joint acquisition of the \$3.4 billion CPA portfolio with CPPIB. The CPA transaction, completed in April 2014, increased the value of the office portfolio to \$7.6 billion and resulted in a further upgrade to DEXUS's FFO and distribution per security guidance for the six months to 30 June 2014.

The major benefit of this transaction is the enhancement to investor returns through the improvement in the quality and scale of the office platform. The acquisition also enables DEXUS to be one of the most cost efficient operators in the office sector, contributing to a reduction in DEXUS's management expense ratio to 49 basis points at 30 June 2014.

By July 2014, 20 of the CPA properties had successfully integrated onto the DEXUS platform and DEXUS had completed 35 leasing deals since the acquisition.

Darren Steinberg said: "Looking at performance over the past three months, the CPA portfolio is exceeding our expectations, and we are confident we can deliver circa 2% of earnings growth from this transaction in FY15."

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4. To 30 June 2013 valuation.

5. DXS security price appreciation plus distributions paid.

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## FINANCIAL RESULTS

Statutory net profit	\$406.6 million (2013: \$514.5 million)
FFO	\$410.6 million (2013: \$365.4 million)
FFO per security	8.34 cents (2013: 7.75 cents)
Distribution per security	6.26 cents (2013: 6.00 cents)
Total portfolio	\$9.1 billion (2013: \$7.3 billion)

Executive Director Finance & COO, Craig Mitchell said: "Net profit attributable to stapled security holders after tax for the year to 30 June 2014 was \$406.6 million, impacted from the prior year by lower property revaluations (compared to FY13), mark to market movements on interest rate swaps and the immediate write-off of transaction costs for the CPA transaction as foreshadowed in the DEXUS Offer Bidder's Statement."

FFO was \$410.6 million or 8.34 cents per security, underpinned by solid like-for-like income growth of 3.1% across the office and industrial portfolio.

Net Tangible Assets (NTA) increased by 0.8% to \$1.06 driven by property revaluation gains, offset by the impact of the CPA transaction. Excluding the impact of the CPA transaction, DEXUS delivered an ROE<sup>6</sup> for the 12 months to 30 June 2014 of 8.7% which is slightly below the target of 9-10% per annum through the cycle. Taking into account the CPA transaction, DEXUS delivered an ROE of 6.7% for the year.

Distribution per security was 6.26 cents for the year, up 4.3%. The final distribution for the six months ended 30 June 2014 of 3.19 cents per security will be paid to security holders on 29 August 2014.

## PORTFOLIO UPDATE

### Total DEXUS portfolio metrics

Portfolio value:	\$9.1 billion
Total area:	2.0 million square metres
Area leased during the year:	313,825 square metres <sup>7</sup>

Key metrics <sup>8</sup>	30 June 2014	30 June 2013
Occupancy by area	94.1%	95.3%
Occupancy by income	94.7%	94.9%
WALE by income	4.7 years	4.8 years
Retention rate	51%	71%

## Valuations

Leasing success, the weight of capital seeking quality Australian office property and strong tenant covenants all contributed to a \$155.3 million or 2.1% increase in valuations on prior book values across the office portfolio. The weighted average capitalisation rate<sup>8</sup> for the office portfolio tightened by 30 basis points from 7.17% at 30 June 2013 to 6.87% at 30 June 2014.

Investment demand for high quality, well-leased industrial facilities remains strong. This contributed to a tightening of capitalisation rates for the industrial portfolio from 8.55% at 30 June 2013 to 8.32% at 30 June 2014, resulting in a modest uplift in valuations of \$10.2 million on prior book values.

Darren Steinberg said: "The flow of offshore and local capital seeking quality Australian office and industrial buildings is expected to continue to contribute to a further tightening of capitalisation rates in buildings with strong fundamentals over the next 12 to 18 months. Recent transactional evidence supports this view and we are expecting a further 25 basis point tightening for well leased properties with strong covenants over the coming year."

6. DEXUS calculates Return on Equity (ROE) by adding the change in NTA per security over the year to the income distribution paid to security holders during the year.

7. Including Heads of Agreement.

8. Excluding CPA portfolio.

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## DEXUS office portfolio

Portfolio value:	\$7.7 billion
Total area:	926,606 square metres
Area leased during the year:	174,109 square metres <sup>9</sup>

Key metrics	30 June 2014 (post CPA)	30 June 2014 (pre CPA)	30 June 2013
Occupancy by area	94.3%	95.7%	94.4%
Occupancy by income	94.6%	95.2%	94.6%
WALE by income	4.7 years	4.9 years	5.0 years
Average incentive	n/a	18.6%	12.2%
Average rental increase/(decrease)	n/a	3.1%	(0.1)%
Retention rate	n/a	61%	72%
Total return - 1 year	n/a	9.2%	10.6%

The DEXUS office portfolio is the largest listed office portfolio in Australia and comprises 88% of prime grade space predominantly located across the Sydney, Melbourne, Brisbane and Perth CBD markets.

Kevin George, Executive General Manager, Office and Industrial said: "We have achieved significant leasing and rebalanced the portfolio in a fragile environment. We leased over 174,000 square metres of office space in FY14 representing a 12% increase on the prior year and had a significant increase in premium grade leasing."

"Our team experienced an increase in office leasing enquiry and achieved encouraging forward leasing results, which were reflected in the reduction in FY15 and FY16 expiries."

The office portfolio delivered a solid total return for the 12 months to 30 June 2014 of 9.2% driven by underlying rental growth and improved property values. Office NOI increased by \$85.7 million to \$394.9 million underpinned by like-for-like income growth of 3.6%.

DEXUS proactively leased 174,109 square metres during the year (2013: 156,024 square metres) on average lease terms of 7.2 years. Occupancy across the office portfolio improved to 95.2% and the WALE was 4.9 years. Tenant retention was 61% at 30 June 2014. New rents increased by 3.1% on average compared with prior rents, with average incentives across all leases of 18.6% (2013: 12.2%).

Key leasing successes included:

- Governor Macquarie Tower, 1 Farrer Place, Sydney: secured a new long term lease across approximately 9,500 square metres with leading law firm Minter Ellison, pre-committing to half of the space from the impending State Government vacancy in FY15
- Governor Phillip Tower, 1 Farrer Place, Sydney: secured a long term lease with existing tenant King & Wood Mallesons across 11,982 square metres commencing in 2016
- Southgate, Melbourne: extended IBM's lease across 11,485 square metres
- 40 Market Street Melbourne: secured a new long term lease with existing tenant, Powercor Australia across 11,615 square metres well ahead of the lease expiry
- Lumley Centre, Auckland: extended leases to Simpson Grierson and Lumley General Insurance, increasing the property's occupancy to 98.6% and WALE to 7.4 years
- 201 Elizabeth Street, Sydney: secured 15 new leases totalling 11,006 square metres, representing 28% of the building's total area
- 39 Martin Place, Sydney: signed 10 new leases totalling 2,577 square metres increasing occupancy to 97.5%, up from 74.0% at acquisition in February 2013

9. Including Heads of Agreement.

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### DEXUS industrial portfolio

Portfolio value:	\$1.5 billion
Total area:	1,067,123 square metres
Area leased during the year:	139,716 square metres <sup>10</sup>

Key metrics	30 June 2014	30 June 2013
Occupancy by area	93.1%	95.9%
Occupancy by income	93.0%	96.1%
WALE by income	4.0 years	4.1 years
Average incentive	11%	7.9%
Average rental increase/(decrease)	(8.6)%	(2.4)%
Retention rate	41%	70%
Total return - 1 year	9.0%	8.8%

DEXUS is a key player in Australian industrial markets with a strong track record in delivering high quality industrial product to the market and actively managing its industrial properties to ensure the best possible returns for investors and strategic partners.

Kevin George said: "Through actively pursuing all operational targets, we achieved an increased portfolio total return in line with our through-the-cycle performance targets. Industrial NOI for the year of \$117.3 million was underpinned by like-for-like income growth of 1.5% and a portfolio total return of 9.0%."

Occupancy decreased by 3.1% to 93.0% due to the timing of expiries at a number of industrial properties and the WALE decreased slightly to 4.0 years. During the year DEXUS leased 139,716 square metres of industrial space across 74 transactions, including 41,034 square metres of development leasing.

Key leasing successes included:

- Signing new tenant Reece Plumbing across 24,236 square metres at Pound Road West, Dandenong on a long term lease
- Renewing Pelikan Artline across 7,675 square metres at Kings Park, eight months ahead of lease expiry
- Renewing Allied Pickfords across 8,672 square metres for a further long term lease at Foundation Place, Greystanes
- Leasing more than 15,500 square metres at Axxess Corporate Park, comprising 18 lease renewals and 12 new leases

Retention of 41% was primarily impacted by intended vacancies, which has enabled DEXUS to investigate potential repositioning opportunities in order to maximise investor returns.

### Developments

DEXUS progressed the Group's \$3.3 billion development pipeline in FY14 which includes \$1.3 billion allocated to high quality industrial and office developments, trading and repositioning opportunities and development fund-through investments in the DEXUS portfolio.

Kevin George said: "We made significant progress on our development pipeline, utilising our development expertise to complete six prime industrial properties in New South Wales, Queensland and Victoria with a total value of \$111.2 million, providing 90,214 square metres of new product to the market.

"Industrial tenants continue to seek new, modern facilities with higher specifications located close to major road networks, evidenced by our successful leasing of more than 40,000 square metres of industrial development space.

"Significant leasing pre-commitments were achieved at our fund-through developments in challenging markets. Kings Square in Perth and 480 Queen Street in Brisbane are 55% and 62% pre-committed respectively."

10. Including Heads of Agreement.

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Development leasing included:

- 480 Queen Street, Brisbane: secured unconditional agreements with Allens and Pricewaterhouse Coopers across a combined 10,514 square metres, increasing the space committed at the building to 62%, well ahead of practical completion expected in early 2016
- Kings Square, Perth: Shell Australia expanded its pre-commitment for an additional 5,487 square metres, increasing its total commitment to 100% of the KS2 office tower and increasing space committed at the development to 55%
- Quarry at Greystanes: Secured Consortium Group across 15,516 square metres and Supply Network for 7,900 square metres with the remaining developments due to commence construction in 2015
- Wacol Industrial Estate: Secured Cotton On across 12,246 square metres
- 57-65 Templar Road, Erskine Park: Secured Icehouse Logistics across 5,372 square metres

### Trading

DEXUS has demonstrated a track record in using its market intelligence to identify product, ensuring it is best placed to opportunistically acquire properties that can be repositioned for trading through asset management and development. DEXUS's approach to trading is focused on creating value at the transaction and property level in order to maximise investor returns.

Trading profits of \$4.3 million were delivered through efficiently executing the sale of two Queensland industrial properties at Archerfield and Wacol.

In FY15, DEXUS has a trading profit target of approximately \$40 million.

### Corporate Responsibility & Sustainability (CR&S)

Kevin George said: "Our commitment to energy efficiency delivered positive results in energy consumption in our office and industrial portfolio, achieving real cost savings."

For the 12 months to 30 June 2014, DEXUS achieved reductions in comparable energy consumption and greenhouse gas emissions across the DEXUS portfolio. There was a 4.3% reduction in greenhouse gas emissions per square metre and energy consumption was down by 3.1%. Water consumption per square metre increased by 6.7% primarily due to landscaping irrigation and new tenancies at industrial developments completed during the year.

DEXUS exceeded environmental performance objectives across the DEXUS office portfolio, achieving an average 4.6 star NABERS Energy rating against its 4.5 star target. An average NABERS Water rating of 3.5 stars was achieved in the DEXUS office portfolio at 30 June 2014 in line with its target.

Maintaining the efficiency of the office portfolio also enabled DEXUS to leverage efficiency upgrades to generate revenue from the sale of Energy Savings Certificates. DEXUS's Sydney head office achieved its targeted 4.5 star NABERS Energy rating in June 2014.

### CAPITAL MANAGEMENT

Key metrics	30 June 2014	30 June 2013
Gearing (look-through)	33.7%	29.0%
Duration of debt	5.2 years	5.4 years
Cost of debt	5.4%	5.9%
Hedged debt <sup>11</sup>	60%	64%

During the year, the Group's Standards & Poor's (S&P) and Moody's credit ratings were upgraded to A- and A3 respectively. This followed an active period of transactional activity and recognised consistent performance and a quality portfolio.

DEXUS secured over \$1.7 billion of new funding, refinanced at competitive margins, which contributed to a reduction in the cost of debt and maintained debt duration.

11. Average for the full year. Actual debt hedged at 30 June 2014 was 64%.



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Craig Mitchell said: "In what is a very pleasing endorsement of our continued active capital and risk management approach, our USPP offering was well supported despite uncertainty of the CPA transaction at that time, resulting in the pricing of a long-dated USPP for US\$200 million."

DEXUS reinstated an on-market securities buy-back of up to 5% of DXS securities on 2 July 2014 and acquired 73.7 million securities at a weighted average price of \$1.02 per security, representing a discount to NTA and providing accretive investor returns.

Craig Mitchell said: "Our balance sheet remains solid with gearing at 33.7% and limited short term refinancing requirements, and over the next 12 months we intend to take advantage of our improved credit ratings to secure new debt funding."

DEXUS remains inside all of its debt covenant limits and target ranges.

## THIRD PARTY FUNDS MANAGEMENT

Craig Mitchell said: "Over the past two years we have developed partnerships with three leading groups, reflecting the confidence these parties have in our capabilities as an investment manager, property manager and developer of Australian property."

Over the year DEXUS established two new partnerships, further diversifying the third party funds platform: The DEXUS Office Partnership with CPPIB and the DEXUS Industrial Partnership with the Future Fund.

DWPF continued to outperform its benchmark over one, three and five years. The Fund secured \$350 million of new equity over the year from a pro-rata offer and reinvested \$172 million of distributions. Enhancing the Fund's portfolio quality and diversity, DEXUS acquired properties for DWPF, valued at \$316.7 million across the office, industrial and retail sectors.

## SUMMARY AND OUTLOOK

Darren Steinberg said: "We have delivered significant achievements in line with our strategy and are well positioned to deliver strong performance for our security holders and capital partners.

"We expect that over the next 12 months economic conditions will strengthen, however we will continue to face competitive leasing markets where vacancy remains elevated."

"Looking ahead we will continue to utilise our capabilities to add value across the business. In FY15 we will maximise performance in the DEXUS property portfolio, drive performance and generate revenues from our funds management and property services business and deliver further income from trading profits."

As foreshadowed 12 months ago, DEXUS will adopt the Property Council of Australia's (PCA) recommended approach for calculating FFO from 1 July 2014.

Barring unforeseen changes to operating conditions, DEXUS's guidance<sup>12</sup> for PCA FFO for the 12 months ending 30 June 2015 is 9.84 cents per security, reflecting an 8.5% increase from FY14 PCA FFO of 9.07 cents per security, on a comparable basis.

DEXUS is targeting a payout in line with free cash flow for FY15 which is expected to deliver a distribution of 6.79 cents per security, also reflecting an 8.5% increase from FY14.

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12. Assumptions: Targeting positive like-for-like income growth across the office and industrial portfolios, weighted average cost of debt of 5.4%, trading profits of approximately \$40m and Management Operations revenue of approximately \$35-40m.

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## About DEXUS

DEXUS Property Group is one of Australia's leading real estate groups, investing directly in high quality Australian office and industrial properties. With \$17.8 billion of assets under management, the Group also actively manages office, industrial and retail properties located in key Australian markets on behalf of third party capital partners. The Group manages an office portfolio of 1.7 million square metres predominantly across Sydney, Melbourne, Brisbane and Perth and is the largest 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 (ASX) under the stock market trading code 'DXS' and is supported by more than 32,000 investors from 20 countries. With nearly 30 years of expertise in property investment, development and asset management, the Group 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



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