

DEXUS Property Group (ASX:DXS)

ASX release

21 October 2014

September 2014 quarter portfolio update

DEXUS Property Group (DEXUS) today announced an operational update across its property portfolio for the quarter ended 30 September 2014.

HIGHLIGHTS

- Leased 48,087 square metres¹ across the DEXUS office portfolio, which included securing a renewal with the State Government of NSW across 13,662 square metres at 14 Lee Street, Sydney, contributing to an improvement in the office portfolio's occupancy² to 95.1%
- Leased 51,209 square metres¹ of industrial space including securing a new lease with Bevchain across 22,924 square metres at Whicker Road, Gillman in South Australia
- Achieved continued leasing success at 480 Queen Street, Brisbane, securing HWL Ebsworth across approximately 5,000 square metres, increasing the total space committed at this fund-through development to 76%¹, from 38% at acquisition
- Exchanged contracts on all properties identified to achieve DEXUS's FY15 trading profit target of approximately \$40 million

CAPITAL MANAGEMENT

During the quarter DEXUS successfully priced a US\$250 million (A\$285.9 million) US Private Placement issuance comprising tranches of notes across tenors of 10 and 12 years, equating to an average duration of 11.6 years and an average margin of 135 basis points.

DEXUS Chief Operating Officer, Craig Mitchell said: "We are very pleased with the pricing of this issue which supports our recently upgraded credit ratings of A- from Standard & Poors and A3 from Moody's. This issue, our fifth issue in the US private placement market over a period of ten years, was again oversubscribed and follows two separate issues last year offering a combined US\$500 million."

"This transaction further improves our diversification of funding sources and will extend the average duration of debt to 5.8 years at 31 December 2014, up from 5.2 years at 30 June 2014."

The new long-dated debt will settle in December 2014 and replace short-term funding put in place for the recent CPA transaction. Following settlement of this issue, capital markets debt will represent approximately 50% of DEXUS's total debt.

As a result of the settlement of the sale of Lumley Centre, Auckland, 50 Carrington Street, Sydney and DEXUS's interest in 201 Kent Street, Sydney, gearing (on a look-through basis) is expected to reduce from 33.7% at 30 June 2014 to 32-33% at 31 December 2014.

DEXUS also announced on 14 October 2014 that it had initiated an on-market securities buy-back following recent market volatility, providing the flexibility to acquire DEXUS securities on-market with a focus on enhancing investor returns.

TRANSACTIONS

The following activity occurred in relation to transactions across the Group:

- DEXUS exchanged contracts for the sale of 40 Market Street, Melbourne, which is the final identified trading property for FY15 which will contribute to DEXUS's trading profit target of approximately \$40 million, with settlement expected in April 2015
- The DEXUS Office Partnership settled on the sale of its 50% interest in 201 Kent Street, Sydney
- 201 Elizabeth Street, Sydney has been withdrawn from the market

¹ Including Heads of Agreement.

² By income.

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PORTFOLIO UPDATE

Total DEXUS portfolio metrics as at 30 September 2014

Portfolio value:	\$9.1 billion
Total area:	2.0 million square metres
Area leased during the quarter:	99,296 square metres ³

Key metrics	30 September 2014	30 June 2014
Occupancy by income	94.6%	94.1% ⁴
Occupancy by area	92.9%	94.7% ⁴
WALE by income	4.6 years	4.7 years ⁴

DEXUS office portfolio

Portfolio value:	\$7.6 billion
Total area:	926,606 square metres
Area leased during the quarter:	48,087 square metres ³

Key metrics	30 September 2014	30 June 2014
Occupancy by income	95.1%	94.6%
Occupancy by area	95.0%	94.3%
WALE by income	4.7 years	4.7 years
Average incentive	15.9%	18.6% ⁴
Average rental increase/(decrease)	0.1%	3.1% ⁴
Retention rate (year to date)	58%	n/a
Retention rate (rolling 12 months)	61%	61% ⁴

Kevin George, DEXUS Executive General Manager, Office and Industrial, said: "Over the quarter, we have seen a continuation in the positive momentum for leasing enquiry and activity, particularly in Sydney and Melbourne and to a lesser extent in Brisbane.

It is pleasing that we have been able to reduce incentives from June 2014 in line with our strategy to hold, or pull back on incentives in those properties that have good momentum and high occupancy.

Another key positive has been the growth in leasing enquiry and activity from corporates in the financial services sector and we expect this to translate into genuine demand and leasing in the Sydney office market over the course of FY15."

Over the quarter to 30 September 2014, DEXUS leased 48,087 square metres³ across 72 transactions including:

- Securing a lease renewal with the State Government of NSW across 13,622 square metres of the entire building at 14 Lee Street, Sydney
- Securing a new lease with the State Government of NSW across 2,121 square metres at The Zenith, Chatswood
- Securing a lease renewal with NDY Management Pty Ltd across 1,938 square metres at 60 Miller Street, North Sydney
- Securing a lease renewal with Talisman Australia across 1,822 square metres at 10 Eagle Street, Brisbane

Occupancy by income across the office portfolio increased marginally to 95.1% and the portfolio weighted average lease expiry (WALE) at 30 September 2014 was 4.7 years.

³ Including Heads of Agreement.

⁴ Excluding the CPA properties.

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DEXUS industrial portfolio

Portfolio value:	\$1.5 billion
Total area:	1,067,123 square metres
Area leased during quarter:	51,209 square metres ⁵

Key metrics	30 September 2014	30 June 2014
Occupancy by income	91.8%	93.0%
Occupancy by area	91.1%	93.1%
WALE by income	3.9 years	4.0 years
Average incentive	9.1%	11%
Average rental increase/(decrease)	(3.0)%	(8.6)%
Retention rate (year to date)	45%	n/a
Retention rate (rolling 12 months)	53%	41%

Kevin George said: “Industrial markets are showing good signs of demand in primarily smaller enterprises supporting infrastructure related projects and third party logistics service providers who are seeking medium to large scale facilities that are well connected to key transport corridors across the major eastern seaboard markets. The limited supply in western Sydney is expected to underpin rental growth in the short term.”

Over quarter to 30 September 2014, DEXUS leased 51,209 square metres⁵ of industrial space across 20 transactions including:

- Securing a new lease with Bevchain across 22,924 square metres at Gillman in South Australia
- Securing Linpac Packaging across 11,886 square metres at DEXUS Industrial Estate, Laverton
- Securing 15 new tenants across 9,447 square metres at AXCESS Corporate Park, Mt Waverley

Industrial portfolio occupancy by income decreased from 93.0% at 30 June 2014 to 91.8% at 30 September 2014 primarily due to the departure of QLS at Pound Road West, Dandenong.

Sustainability

During the quarter DEXUS continued to be recognised as a global leader in managing Environmental, Social and Governance issues and delivering continued performance this space, achieving the following:

- ‘Green Star’ status in the Global Real Estate Sustainability Benchmark (GRESB) for DEXUS and DWPF with top quartile performance globally
- ‘Sustainability Leader’ status in the Dow Jones Sustainability Index
- Scored in the highest ‘A’ band in DEXUS’s submission to the Principles of Responsible Investment
- Certified as carbon neutral across DEXUS corporate operations for fourth consecutive year under the National Carbon Offset Standard (NCOS)
- Retained in the MSCI Global Sustainability Indexes and STOXX Global ESG Leaders index
- Maintained 4.6 stars NABERS Energy portfolio rating for DEXUS office portfolio

⁵ Including Heads of Agreement.

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Office development

Construction works continued to progress at 5 Martin Place, Sydney⁶ and at both of DEXUS and DWPF's fund-through developments at 480 Queen Street, Brisbane and Kings Square in Perth.

- At 5 Martin Place, Sydney, the new glass façade for the office tower is well progressed on the eastern elevation with structural steel close to completion on the highest floor being level 19. Internally, fit-out works for Ashurst's tenancy have also commenced. The project is 42% committed and expected to be complete in mid-2015.
- At 480 Queen Street, Brisbane work continues with the level 8 slab cast and the core now up to level 15. The office space is now 76% committed⁷, with the project due for completion in early 2016.
- Works are also progressing to program at Kings Square in Perth with KS1, KS2 and KS3 close to 50% complete. The KS1 core is now cast to level 16, the final level of KS2 is being formed and level 1 of KS3 has been poured. Façade works are 95% complete to the podium of KS1 and 80% complete to KS2. The overall project is 55% committed and expected to be complete in mid-2015.

DEXUS Executive General Manager, Office & Industrial, Kevin George said: "At 5 Martin Place, Sydney enquiry has increased and the leasing success achieved at 480 Queen Street, Brisbane over the past six months reinforces the trend of a flight to quality in the Brisbane market. In Perth, despite challenging market conditions, Kings Square is generating renewed leasing interest."

Industrial development

At the Quarrywest site in Greystanes, which DEXUS acquired in partnership with the Future Fund as part of the newly established DEXUS Industrial Partnership, Boral is undertaking the landform works to deliver serviced and benched land ready to commence development in April 2015. The development team is progressing the development consent for a masterplan and concept design in order to obtain authority approvals for servicing infrastructure.

At the DEXUS Industrial Partnership's newly acquired site at Larapinta in Queensland, the planning approval process and concept design has commenced.

Trading

Capital works as part of the new 15 year lease renewal secured with Powercor at 40 Market Street in Melbourne are progressing on plan to achieve a practical completion in April 2015. The property is expected to settle ten days post practical completion of the works.

SUMMARY

DEXUS Chief Executive Officer, Darren Steinberg said: "DEXUS has worked hard over the past few years to ensure the Group has the capabilities and diversified business model to deliver long term sustainable earnings growth for investors, despite underlying market conditions."

DEXUS's guidance⁸ for PCA FFO for the 12 months ending 30 June 2015 remains unchanged at 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.

⁶ 5 Martin Place, Sydney is co-owned by DEXUS Office Partnership (50%) and Cbus Property (50%).

⁷ Including Heads of Agreement.

⁸ 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, Management Operations revenue of approximately \$35-40m, and excluding any buy-back of DEXUS securities.

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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 \$18.0 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

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