

DEXUS Property Group (ASX:DXS)

ASX release

5 May 2015

March 2015 quarter portfolio update

DEXUS Property Group (DEXUS) today announced an operational update across its property portfolio for the quarter ended 31 March 2015.

HIGHLIGHTS

- Leased 58,288 square metres¹ of space across the DEXUS office portfolio, which included securing a renewal with Commonwealth Bank of Australia across 21,964 square metres at 150 George Street, Parramatta
- Leased 40,743 square metres¹ of space across the DEXUS industrial portfolio including securing a new lease with Kathmandu across 25,650 square metres at a new development at DEXUS Industrial Estate, Laverton North
- Delivered a 12.1% unlevered total return for the 12 months ended 31 March 2015 across the DEXUS Office Partnership (formerly Commonwealth Property Office Fund) properties
- Completed a \$200 million equity offer for DEXUS Wholesale Property Fund (DWPF)
- DEXUS completed a \$400m Institutional Placement post quarter end and announced a \$50 million Security Purchase Plan (SPP) which is intended to give DEXUS the flexibility to pursue value enhancing investment opportunities while ensuring gearing remains at the lower end of its target range of 30-40%

PORTFOLIO UPDATE

DEXUS office portfolio metrics as at 31 March 2015

Key metrics	31 March 2015	31 December 2014
Occupancy by income	94.6%	95.0%
Occupancy by area	94.5%	95.2%
WALE by income	4.3 years	4.4 years
Average incentive	15.4%	16.1%

Kevin George, DEXUS Executive General Manager, Office and Industrial, said: “Continued positive leasing momentum for space in core A-grade properties in Sydney and Melbourne has driven leasing volumes across our portfolio. In these markets we have seen solid demand from new smaller space users for our fitted suites as well as customers requiring space across multiple floors.

“Pleasingly, net absorption for east coast CBD office space reached a four-year high in the 2015 March quarter with Sydney, Melbourne and Brisbane recording an increase in occupied stock. Across our portfolio, we have seen leasing momentum continue post quarter end and we are confident of achieving our target of 95% occupancy² at 30 June 2015.”

Over the quarter to 31 March 2015, DEXUS leased 58,288 square metres¹ of office space across 87 transactions including:

- Securing a lease renewal with Commonwealth Bank of Australia across 21,964 square metres at 150 George Street, Parramatta
- Securing renewals with five tenants across 3,385 square metres at 44 Market Street, Sydney
- Securing a lease renewal with NSW Government (Minister for Police) across 2,177 square metres at 201 Elizabeth Street, Sydney
- Securing two new tenants across 4,444 square metres, with minimal down time, after the departure of Lloyds at 45 Clarence Street, Sydney

1 Including Heads of Agreement.

2 By income.

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The DEXUS Office Partnership properties acquired in April 2014 delivered a 12.1% unlevered total return for the 12 months ended 31 March 2015, exceeding DEXUS's original performance assumptions. DEXUS's investment in the Office Partnership delivered a 19% levered return to DEXUS for the 12 month period, demonstrating the value derived from undertaking the CPA transaction.

Occupancy³ across the office portfolio decreased marginally to 94.6% primarily due to NSW Government vacating 4,438 square metres at 130 George Street, Parramatta. Leasing activity has improved the office portfolio's lease expiry profile since 31 December 2014, with FY15 expiries reducing from 2.7% to 0.8%, FY16 expiries reducing from 11.2% to 9.9% and FY17 expiries reducing from 12.9% to 12.5%. The portfolio weighted average lease expiry (WALE) at 31 March 2015 was 4.3 years.

DEXUS industrial portfolio metrics as at 31 March 2015

Key metrics	31 March 2015	31 December 2014
Occupancy by income	93.0%	92.8%
Occupancy by area	92.1%	92.1%
WALE by income	3.8 years	4.0 years
Average incentive	12.4%	9.6%

Kevin George said: "Over the quarter we secured a number of new tenants across the industrial portfolio and expect continued improvement in industrial occupancy over the next six months driven by further leasing at properties such as Pound Road West, Dandenong."

Over the quarter to 31 March 2015, DEXUS leased 40,743 square metres⁴ of industrial space across 12 transactions including:

- Securing Kathmandu across 25,650 square metres at DEXUS Industrial Estate, Laverton North on a development pre-lease
- Securing Yusen Logistics across 4,925 square metres at 1 Foundation Place, Greystanes
- Securing Government Property NSW across 4,356 square metres at 145-151 Arthur Street, Flemington

Industrial portfolio occupancy³ improved from 92.8% at 31 December 2014 to 93.0% at 31 March 2015.

THIRD PARTY FUNDS MANAGEMENT

During the quarter, DWPF completed a \$200 million equity offer that was oversubscribed by approximately \$300 million, providing further endorsement of the Fund's strategy and performance. In addition, DWPF continues to receive a high level of interest from new investors seeking to enter the Fund.

DEXUS continues to progress the \$2.2 billion development pipeline managed on behalf of its third party clients. DWPF opened the first stage of the Drive Industrial Estate, Richlands development in Queensland, which is 86% occupied, and has commenced the next stage of construction.

DEVELOPMENT AND TRADING

The delivery of projects underway in DEXUS's \$1.3 billion development pipeline is progressing on schedule including office developments at Kings Square in Perth, 5 Martin Place in Sydney and 480 Queen Street in Brisbane.

During the quarter, DEXUS secured Kathmandu for a warehouse facility at DEXUS Industrial Estate, Laverton North, with construction commencing in mid-2015 and completion expected in mid-2016.

At 40 Market Street in Melbourne the capital works program, being undertaken as part of the 15 year lease renewal secured with Powercor, achieved practical completion in late April 2015. The divestment of this property is expected to settle shortly, contributing to trading profits for FY15.

³ By income.

⁴ Including Heads of Agreement.

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CAPITAL MANAGEMENT

In April 2015, DEXUS completed a \$400 million Institutional Placement and announced a SPP for eligible security holders in Australia and New Zealand to raise up to approximately \$50 million.⁵

On a pro forma basis gearing was 33% at 31 December 2014, after adjusting for the purchase of Lakes Business Park, Botany which completed in January 2015. The proceeds from the Institutional Placement and SPP will initially be used to repay debt and as a consequence, pro forma gearing will reduce by 4.8 percentage points to 28.2%.⁶

SUMMARY

Darren Steinberg said: “It is pleasing to report solid leasing outcomes achieved across our portfolio combined with the strong performance of the DEXUS Office Partnership properties which exceeded our original assumptions.

“We are well positioned to continue to leverage improving market conditions in Sydney and Melbourne, and drive performance for our investors and third party funds and capital partners.”

Including the impact of the equity raising, DEXUS reaffirms its FY15 guidance⁷ of FFO per security of 59.48 cents and distribution per security of 41.04 cents, representing 9.3% growth on FY14.

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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 \$18.5 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 1.6 million square metres located 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 under the stock market trading code ‘DXS’ and is supported by more than 32,000 investors from 19 countries. With 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 for its investors. www.dexus.com

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⁵ DEXUS may (in its absolute discretion) in a situation where total demand exceeds \$50 million, decide to increase the amount to be raised under the SPP to reduce or eliminate the need for scale back.

⁶ Gearing is adjusted for cash and for debt in equity accounted investments. Pro forma gearing assumes that \$450 million is raised and net proceeds are utilised to repay debt.

⁷ Guidance is supported by: Targeting positive like-for-like income growth across the office and industrial portfolios, weighted average cost of debt of approximately 5.2%, trading profits of approximately \$40m and Management Operations revenue of approximately \$35-40m.