

DEXUS Property Group (ASX:DXS)

ASX release

12 August 2015

2015 Annual results - Strong results across key business areas

DEXUS Property Group (DEXUS) today announced its results for the 12 months ended 30 June 2015, delivering strong results across key business areas, ensuring that it is well-positioned to continue to create value for investors. Key financial and operational highlights for the year included:

FINANCIAL HIGHLIGHTS

- Funds from Operations¹ (FFO) of \$544.5 million, up 21.9% on FY14
- Adjusted Funds from Operations² (AFFO) of \$369.8 million, up 19.0% on FY14
- Statutory net profit of \$618.7 million, up 52.2% on FY14
- FFO per security of 59.5 cents and distribution per security of 41.04 cents, both up 9.3% on FY14³
- Return on Equity⁴ (ROE) of 11.5%, above the 9-10% through the cycle target
- Group Management Expense Ratio⁵ of 41bps, down 8bps from FY14
- Net tangible assets (NTA) per security of \$6.68 at 30 June 2015, up 5.0% or 32 cents from 30 June 2014
- Balance sheet gearing⁶ of 28.5%, maintaining DEXUS's strong financial position

OPERATIONAL HIGHLIGHTS

DEXUS property portfolio

- Office portfolio occupancy by income of 95.3% at 30 June 2015, up from 94.6% at 30 June 2014
- Office portfolio average incentives of 15.0%, down from 18.6% at 30 June 2014
- Announced the joint acquisition of the Waterfront Place Complex⁷ in Brisbane for \$635 million⁸ alongside DEXUS Wholesale Property Fund (DWPF)
- Industrial portfolio one-year total return of 11.3%, compared to 9.0% for FY14

Third Party Funds Management

- Increased third party funds under management to \$9.6 billion, up 10% from 30 June 2014, achieved through acquisitions, developments and revaluations
- Achieved an unlevered total return of 12.7% in FY15 for the DEXUS Office Partnership portfolio

Trading

- Realised \$42.6 million⁹ of trading profits net of tax, in line with the FY15 target
- More than 60% of FY15 trading profits before tax were generated from the active repositioning of office properties at 50 Carrington Street, Sydney and 40 Market Street, Melbourne

DEXUS Chief Executive Officer, Darren Steinberg said: "We achieved strong financial outcomes in a market characterised by mixed economic news, both domestically and globally. Our performance during the year met or exceeded all of our financial objectives, delivering on upgraded guidance for FFO and distribution per security, both up 9.3% on the prior year.

"Our strong operational result was driven by additional income from the DEXUS Office Partnership properties, an increase in management operations income and trading profits.

"Revaluation gains of \$241.0 million, primarily achieved across our office portfolio, drove a 5.0% or 32 cent increase in NTA per security to \$6.68, reflecting the contribution of leasing success on capital values and capitalisation rate compression at properties with strong tenant covenants. We expect capitalisation rates to tighten by a further 25 to 50 basis points over the next 12 months, as significant investor demand for high quality assets continues.

"We controlled our costs, reducing our gross Management Expense Ratio from 49 basis points at 30 June 2014 to 41 basis points."

STRATEGIC PROGRESS

Darren Steinberg said: "Our strategy continued to deliver for investors in FY15. We strengthened our office position through improving the performance of our property portfolio, leading to increased occupancy and valuation upside.

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“Delivering on our objective to be the wholesale partner of choice, we satisfied the investment objectives of our third party clients, achieving a 12.7% unlevered total return for the DEXUS Office Partnership exceeding our original performance assumptions. Our investment in the DEXUS Office Partnership delivered a 20.4% levered total return to DEXUS for the year.

“We also saw strong inflows as evidenced by the recent capital raisings for DWPF, and demonstrated our abilities to attract potential new capital partners.

“We conducted these activities while maintaining a solid balance sheet, with gearing ending the year below our target range.”

POST BALANCE DATE ACHIEVEMENTS

- \$200 million in equity raised for DWPF, oversubscribed by \$260 million, following the successful completion of a \$200 million equity offer in February 2015
- Settled on the sale of trading properties at Rosebery and Mascot, securing DEXUS’s FY16 trading profit target of approximately \$60 million

FINANCIAL RESULTS

Statutory net profit	\$618.7 million (FY14: \$406.6 million)
FFO	\$544.5 million (FY14: \$446.6 million)
AFFO	\$369.8 million (FY14: \$310.7 million)
FFO per security	59.5 cents (FY14: 54.4 cents ³)
Distribution per security	41.04 cents (FY14: 37.56 cents ³)

DEXUS delivered a 21.9% increase in FFO to \$544.5 million, or 59.5 cents per security reflecting a 9.3% increase. This increase was primarily a result of additional income from the DEXUS Office Partnership properties, growth in other third party funds under management, and the realisation of \$42.6 million⁹ in trading profits net of tax. The underlying business excluding trading profits delivered FFO per security of 54.8 cents, and grew by 1.7% on the prior year.

Statutory net profit after tax was \$618.7 million, an increase of 52.2% from the prior year. This movement was driven primarily by the \$97.9 million increase in FFO and \$241.0 million of net revaluation gains of investment properties, which were \$75.5 million higher than the FY14 gains. The FY14 statutory net profit was also impacted by costs associated with the Commonwealth Property Office Fund (CPA) transaction.

ROE for the 12 months to 30 June 2015 was 11.5%, above the target of 9-10% through the cycle, and ahead of the prior year, which was impacted by the CPA transaction.

Distribution per security was 41.04 cents for the 12 months ended 30 June 2015, up 9.3% on the prior year, with the payout ratio remaining consistent with free cash flow. The final distribution for the six months ended 30 June 2015 of 21.36 cents per security will be paid to security holders on Monday, 31 August 2015.

Capital Management

Key metrics	30 June 2015	30 June 2014
Gearing (look-through)	28.5% ⁶	33.7%
Duration of debt	5.7 years	5.2 years
Cost of debt	5.2%	5.4%
Hedged debt ¹⁰	69%	51%

Executive Director Finance & COO, Craig Mitchell said: “We maintained the strength of our balance sheet with gearing⁶ at 28.5%, securing new debt at competitive margins and reducing the overall cost of debt during the year by 20 basis points to 5.2%, which was supported by our upgraded credit ratings in late FY14.”

DEXUS undertook an equity raising in April that included a \$400 million institutional placement, and a Security Purchase Plan for eligible security holders which raised a further \$77.8 million. This equity raising enabled DEXUS to pursue compelling acquisition opportunities while maintaining conservative gearing. DEXUS remains within all of its debt covenant limits and target ranges.

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PORTFOLIO UPDATE

DEXUS office portfolio

Portfolio value:	\$7.8 billion
Total area:	1,403,255 square metres
Area leased during the year:	211,071 square metres ¹¹

Key metrics	30 June 2015	30 June 2014
Occupancy by income	95.3%	94.6%
Occupancy by area	95.5%	94.3%
WALE by income	4.3 years	4.7 years
Average incentive	15.0%	18.6% ¹²
Average rental increase/(decrease) ¹³	0.1%	3.1% ¹²
Retention rate	61%	61% ¹²
Total return - 1 year	9.6%	9.2% ¹²

Kevin George, Executive General Manager, Office and Industrial, said: "We improved occupancy and maximised cash flows across our office portfolio by capturing demand from diverse tenant groups and increasing the number of effective leasing deals. Continued positive momentum for space in core A-grade properties in Sydney and Melbourne has driven leasing volumes across our office portfolio, resulting in occupancy increasing to 95.3% and delivering on our 'above 95%' target set at the start of the year.

"We continued to roll out our fitted suites offering across a number of properties and signed 275 leases across 98,340 square metres for spaces less than 1,500 square metres, representing 47% of all leasing undertaken by area."

The combination of improved tenant demand and increased acceptance of effective deal structures allowed DEXUS to maintain a focus on reducing incentives, resulting in average incentives of 15.0% across all office leasing, an improvement from 18.6% at 30 June 2014.

During the year, DEXUS leased 211,071 square metres¹¹ of office space across 303 transactions on average lease terms of 5.5 years. Office portfolio occupancy by income improved from 94.6% at 30 June 2014 to 95.3% and portfolio WALE reduced to 4.3 years. Despite tenant retention of 61%, DEXUS successfully re-leased 51% of the area vacated during the year, with average downtime of only four months.

DEXUS's office portfolio delivered a one-year total return of 9.6% (FY14: 9.2%) driven by a strong revaluation uplift across the DEXUS Office Partnership properties, partially offset by a reduction in the valuation of 240 St Georges Terrace in Perth. Office property FFO increased by \$77.9 million to \$533.3 million underpinned by the additional income from the DEXUS Office Partnership properties, with office like-for-like income growth of 0.2%.

DEXUS industrial portfolio

Portfolio value:	\$1.7 billion
Total area:	1,294,735 square metres
Area leased during the year:	183,062 square metres ¹¹

Key metrics	30 June 2015	30 June 2014
Occupancy by income	92.4%	93.0%
Occupancy by area	91.7%	93.1%
WALE by income	4.0 years	4.0 years
Average incentive	10.8%	11.0%
Average rental increase/(decrease) ¹³	(4.6)%	(8.6)%
Retention rate	53%	41%
Total return - 1 year	11.3%	9.0%

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Kevin George said: “Low interest rates are boosting businesses supported by housing construction and infrastructure projects, which is translating into demand for functional industrial facilities aligned to key transport corridors. With the increasing conversion of South Sydney and Inner West industrial sites into residential and mixed uses, the central and outer western Sydney markets are benefiting from increased demand from a wide user category seeking to be centrally located and in proximity to major arterial roads.”

During the year, DEXUS leased 183,062 square metres¹¹ of industrial space across 75 transactions including 44 leases with new tenants. Tenant retention improved to 53% from 41% during FY14. DEXUS’s industrial portfolio occupancy by income reduced from 93.0% at 30 June 2014 to 92.4%, driven by an increase in vacancy at large scale facilities including Matraville, Flemington and Dandenong. DEXUS expects industrial occupancy to improve over the next six months driven by further leasing at properties such as Dandenong which secured a new 10,612 square metre tenant in FY15 and now has 10,920 square metres remaining to lease.

Portfolio WALE remained flat at 4.0 years. New rents reduced 4.6% on average compared with prior rents, driven by reversions on renewals and new leases, as the industrial portfolio remains 6.9% over-rented. Average incentives decreased slightly to 10.8% (FY14: 11.0%).

DEXUS’s industrial portfolio delivered a one-year total return of 11.3% (FY14: 9.0%) driven by underlying property income and improved property values. Industrial property FFO of \$112.3 million was down 8.6% on FY14, primarily as a result of divestments and lower occupancy at properties such as Rosebery. Like-for-like income growth was 0.7%, driven by fixed increases across our portfolio, leasing at 15-23 Whicker Road, Gillman and 30 Bellrick Street, Acacia Ridge, offset by vacancy at Pound Road West, Dandenong.”

DEXUS acquired Lakes Business Park, Botany, NSW for \$153.5 million⁸ in January 2015, investing in one of DEXUS’s core industrial markets. The Northern site has the potential for superior rental growth in the medium term due to the lack of greenfield land options, combined with strong momentum with competing land use opportunities in the area.

Developments

DEXUS continued to enhance future investor returns by progressing its \$1.2 billion development pipeline with two key office projects nearing completion.

The first stage of the 5 Martin Place, Sydney¹⁴ development reached practical completion on 30 June 2015, with Ashurst moving into levels 5 to 11 across 12,644 square metres in July 2015, and the entire project is due for completion in September 2015. The office space is currently 82% committed from 42% at acquisition and the retail space is 73% committed.

Two of the three towers at Kings Square, Perth were completed, with Shell to fully occupy one of the towers as its new corporate headquarters. The remaining tower is expected to be completed in September 2015. A rental guarantee secured at time of acquisition ensures full income on the properties for a further five years from practical completion, with the office space currently 55% committed.

The Premium grade 480 Queen Street, Brisbane development topped out on 16 July 2015, with the office space 81% committed prior to the development’s scheduled completion in early 2016.

A pre-commitment has been secured for a warehouse facility at Quarrywest, Greystanes, which will be the first project for the site.

Over the year, the Group development pipeline grew to \$3.5 billion, of which the DEXUS portfolio accounts for \$1.2 billion and the Third Party Funds Management portfolio accounts for \$2.3 billion.

THIRD PARTY FUNDS MANAGEMENT

Craig Mitchell said: “We enhanced performance across our third party funds management business, undertaking transactions, progressing developments and satisfying the investment objectives of our third party clients.

“DEXUS’s third party funds under management increased by 10% through a number of transactions including the acquisition of three sub-regional shopping centres for DWPF, and a further three properties for the DEXUS Industrial Partnership.”

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During the year, the third party development pipeline grew to \$2.3 billion with redevelopment works commencing across a number of retail and industrial projects. These developments provide an opportunity to improve the quality of clients' property portfolios and enhance future returns.

DEXUS continued to deliver performance for its clients, with DWPF outperforming its benchmark over the past three and five years, and the DEXUS Office Partnership portfolio delivering a 12.7% unlevered total return for the 12 months to 30 June 2015.

TRADING

Trading profits of \$42.6 million⁹ were realised in FY15, with more than 60% of FY15 trading profits before tax generated from the active repositioning of office properties at 50 Carrington Street, Sydney and 40 Market Street, Melbourne.

DEXUS continued to grow its trading pipeline, identifying a number of properties as potential opportunities for repositioning or development and trading in future years including 32 Flinders Street, Melbourne and the Southern site of Lakes Business Park, Botany.

The initial payment for Rosebery contributed to FY15 trading profits and the remaining proceeds will be realised in FY16. In July 2015, DEXUS settled on the sale of 22-55 Rothschild Avenue and 5-13 Rosebery Avenue, Rosebery and 154 O'Riordan Street, Mascot. These settlements will deliver FY16 trading profits of approximately \$60 million net of tax.

SUMMARY

Darren Steinberg said: "We delivered strong results across key business areas and are well-positioned to continue to create value for investors.

"Looking ahead to FY16, despite the subdued economic outlook for the year, we expect leasing momentum to continue in Sydney and Melbourne, where the majority of our properties are located. Investment demand is expected to remain positive for high quality office properties in these markets, providing upside for property values."

Barring unforeseen changes to operating conditions, DEXUS's guidance¹⁵ for the 12 months ending 30 June 2016 is for 5.5-6.0% growth in FFO per security, with FFO from the underlying business (excluding trading profits) expected to grow by 3.0-3.5%.

Distributions will be paid in line with free cash flow which is expected to deliver growth in distribution per security of 5.5-6.0% for the 12 months ending 30 June 2016.



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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 \$19.1 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 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 21 countries. With more than 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

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.



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

1. FFO in accordance with guidelines provided by the Property Council of Australia (PCA): 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 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. AFFO is calculated in line with the Property Council of Australia definition and comprises PCA FFO and adjusted for: maintenance capex, incentives (including rent free incentives) given to tenants during the period and other items which have not been adjusted in determining FFO.
3. FY14 per security figures are adjusted for the one-for-six security consolidation completed in November 2014.
4. Return on Equity is calculated as the growth in NTA per security plus the distribution paid/payable per security divided by the opening NTA per security.
5. Gross Management Expense Ratio is calculated as annual costs arising from managing DEXUS assets and corporate activity divided by balance sheet funds under management at the end of the period.
6. Gearing is adjusted for cash and for debt in equity accounted investments. Pro-forma gearing is 29.3% post the receipt of proceeds from the divestment of the Rosebery and Mascot trading properties and the acquisition of Waterfront Place Complex, Brisbane which is expected to settle in October 2015.
7. Waterfront Place and Eagle Street Pier, Brisbane ("Waterfront Place Complex") was jointly acquired by DEXUS (50%) and DEXUS Wholesale Property Fund (50%) and is expected to settle on or around 1 October 2015.
8. Excluding acquisition costs.
9. Trading profits generated less FFO tax expense recognised for Rosebery in the year.
10. Average for the full year (excluding caps). Average for the full year (including caps) was 76%. DEXUS was 95% hedged (including caps) as at 30 June 2015.
11. Including Heads of Agreement.
12. Excluding the DEXUS Office Partnership properties.
13. Average change in face rents for leasing undertaken during the year.
14. 5 Martin Place, Sydney is co-owned by DEXUS Office Partnership (50%) and Cbus Property (50%).
15. Barring unforeseen circumstances guidance is supported by the following assumptions: flat like-for-like income across the DEXUS combined portfolio, weighted average cost of debt of circa 4.9%, trading profits of approximately \$60m net of tax, Management Operations FFO of \$45-50m (including third party development management fees), approximately \$150m net proceeds from non-core property divestments during FY16, excluding any buy-back of DEXUS securities, and excluding any further transactions.