

# DEXUS Property Group (ASX: DXS)

## ASX Release

29 October 2008

### DEXUS Property Group AGM - Chair and CEO speech

Good morning and thank you all for being here for our 2008 Annual General Meeting.

My name is Chris Beare and this is my fourth Chairman's report since DEXUS Property Group was created as a single stapled security in October 2004 and my first since we rebranded to DEXUS in February this year and became a fully internalised Group.

For many investors this is the only opportunity you have to hear first hand from the Board and Management directly about the Group, so we invite you to participate and ask questions. For the first time, we are webcasting this Annual General Meeting. It's an initiative we hope enables more investors to participate.

Today both Victor Hoog Antink, your CEO, and I will give an overview of the market conditions in which we operate, discuss the performance of the Group in 2008, provide an update on our activities since June and outline our strategy and outlook for 2009.

Ladies and gentlemen, today's meeting is being held in very unpredictable economic times. A year or even 6 months ago, very few commentators or experts anticipated the wide-ranging extent and severity of the economic environment we are in today. Since our last AGM, local and international economies have deteriorated sharply. Financial markets have also shown significant volatility, for example on 30 June this year the Australian Dollar was 95 cents to the US dollar and today is trading around 61 cents. The property sector has been impacted by considerable market pressure and volatility on all listed stock prices. DEXUS Property Group has not been immune from this and we are disappointed with our current equity market price which we do not believe represents fair market value.

Our unit price performance, however relative to our sector has been favourable, as you can see from the slide, which reflects our high quality portfolio, strong financial position and our prudent management approach.

# DEXUS Property Group (ASX: DXS)

## ASX Release

At DEXUS, much of what we have done over the last few years has put us in a strong position for these tough times. During this last year the team have achieved a number of important milestones in implementing our strategy:

- we have substantially reduced debt levels. The disposal of \$1bn of retail assets into our wholesale fund, consistent with our strategy to focus on our core strengths in office and industrial, strengthened our balance sheet and enabled us to redeploy the funds to reduce our gearing, which stands at 37% today, against a target level of 40% to 45% and debt covenants of 55%.
- we reinforced our strong capital management approach. We have an experienced Board Finance Committee and a strong in house treasury team which actively manages interest rate and currency risks.
- we have a high quality, effective management team. In early 2008 the Executive team was expanded and in mid 2008 we reviewed industry remuneration practices, increased some of our executive packages and put in place an extended Long Term Incentive plan to ensure this team is retained.
- we have reduced the number of stakeholders we serve. In October 2007, we bought out Calwest from our US portfolio joint venture to give us the ability to recycle assets and restructure the portfolio. In February we bought out Deutsche Bank's 50% interest, and rebranded to DEXUS Property Group thereby ensuring everything we do is now focused on one set of investors.

### **Strong results underpinning distribution growth**

In these increasingly tough market conditions, DEXUS has continued to deliver strong results across the business. Operating income for the year was \$498 million which is down 2.9% but in line with expectations due to the disposal of the retail assets during the year. Distributions to security holders increased 5.3% to 11.9 cents. This represents an annual compound growth rate of 4.3%, since the stapling of the trusts in late 2004.

# DEXUS Property Group (ASX: DXS)

## ASX Release

### Corporate Responsibility and Sustainability

During the year, DEXUS continued to make significant progress in our Corporate Responsibility & Sustainability programs. From our world's best practice developments to future proofing our existing portfolio, we are committed to delivering operationally superior and sustainable properties, in line with our long-term commitment to Corporate Responsibility & Sustainability.

We are proud of our high quality portfolio and we actively work to ensure this is maintained so that we continue to attract premium tenants as a result of both the sustainable features of our buildings, as well as our reputation and commitment to operating with the highest levels of ethics, integrity and social responsibility.

Transparency is important to us so we've made extra efforts in the last year to keep our key stakeholders engaged and informed about our business. We received our first Australasian Reporting Award for the 2007 Annual Report, and we kept close to our major investors and lenders through a series of tours and briefings by the CEO and CFO over the last year. We have excellent relationships with our lenders and major shareholders, and we maintain a frank and open dialogue with the markets.

We're closer to our tenants. In an effort to increase and improve our service delivery in Office we are internalising the property management of a number of our office properties. To engage our tenants and understand their needs better, we've also rolled out tenant surveys.

Today we have released our Annual 2008 Corporate Responsibility & Sustainability Report and I would urge you to visit our website to view this and find out more about our activities in this important area.

# DEXUS Property Group (ASX: DXS)

## ASX Release

As part of this commitment we have offset both the carbon emissions of our printed 2008 financial reports and the emissions generated at all our major investor events, including this Annual General Meeting, so that these activities are carbon neutral. That is, we have acquired certified carbon credits to offset the greenhouse gas emissions generated by investors travelling to this meeting, the printed materials and the resources to run this event today.

### Corporate Governance

The Board is committed to achieving the highest standards of corporate governance and social responsibility, and has adopted a framework that meets the ASX Principles of Good Corporate Governance. This year the membership of the Board was unchanged, offering security holders a complementary balance of skills, experience and independence, appropriate to the nature and extent of DEXUS's operations.

The Board regularly reviews the structure and responsibilities of its committees and I am pleased to report that the changes to the Board's committee structure, announced at the last AGM, have been implemented and are working well.

In addition, as part of our regular review, we have decided to increase the number of DEXUS Directors. One of the resolutions being put to you today, to increase the non-executive remuneration pool, will enable this expansion.

In conclusion, our focused and prudent approach has put us in a very good position relative to many of our competitors. Our house is in order, however when financial markets are not operating normally it is all the more important that we keep to our strategy, maintain our prudent financial position and leverage off the quality of the portfolio. In these times it is important to have such a highly experienced and capable management team.

In fact, I would like to particularly acknowledge the collective efforts of the entire DEXUS team, led by Victor. We can't predict what the future will bring, but we're in good shape. Confident about the future but we are not taking anything for granted.

# DEXUS Property Group (ASX: DXS)

## ASX Release

On behalf of the Board, I wish to thank you for your support during the year. I will now hand over to Victor.

### Victor Hoog Antink, CEO's address

Thank you Chris, and good morning ladies and gentlemen.

As Chris said at the outset, these are difficult, indeed unprecedented times. Few could have predicted the market downturn that has occurred across all sectors of the economy. The environment within which we are now operating is volatile and it is certain that we can expect these challenging times to continue for some time to come.

DEXUS however, is well positioned to face these tougher operating conditions and we will continue to focus on managing the fundamentals, delivering value from our current portfolio and positioning the Group for the future. Our prudent and cautious approach is now more than ever the non-negotiable cornerstone of our business. What this market is re-enforcing is what has always been important to us at DEXUS: the active management of both our properties and our balance sheet to maximise returns for our investors while enabling sufficient financial flexibility to maintain and protect our strong market position and take advantage of opportunities that this market will provide.

I will now take you through some specific aspects of our performance last year and then address in more detail our results and outlook.

### Operating results

The quality of our portfolio - one of the highest quality portfolios in Australia - has delivered solid results during the last year. Importantly these earnings are very stable and sustainable, with 96% of earnings derived from rental income and strong tenant covenants with major Australian and international companies. Funds management fees and development contributions represent 3% and 1% respectively of earnings, which considerably reduces the risk of non-recurrent earnings.

# DEXUS Property Group (ASX: DXS)

## ASX Release

Transactions undertaken during the year and continued proactive debt management resulted in the Group's gearing reducing to 33% at 30 June, well below our target range of 40 to 45%. As stated last week to the market, following recent significant currency fluctuations, the Group's gearing ratio is 37% - still well below the Group's targeted gearing range, and significantly below the Group's bank debt covenant ratio of 55%.

Consistent with our prudent financial approach, DEXUS's policy is to fully hedge our US and European asset and liability currency exposures. Consequently the size of our balance sheet and the value of our overseas assets and liabilities will change as currencies move, and gearing ratios will fluctuate. This policy ensures that Net Tangible Assets are not affected by currency movements.

In addition, in line with our Group Risk policy, we have implemented hedging strategies to mitigate the impact of further fluctuations to our gearing ratio, in the event of additional adverse currency movements. In short we are applying a prudent and cautious approach to maintain our sound financial position against a background of fluctuating exchange rates.

During the year, our portfolio continued to deliver strong results. Portfolio occupancy remained steady at 94%, average lease duration was 4.8 years and like for like income grew by 4.5%. This was the result of active leasing during the year, where we leased more than 800,000 square metres. To put this in perspective this is the equivalent of leasing 15 Australia Squares. To update you on the September quarter, portfolio occupancy remains at 94% and the average lease duration is steady at 4.8 years.

Looking at our business today there is much to be proud of. By way of summary:

As you know, DEXUS Property Group is one of Australia's largest, diversified property groups. Total funds under management as at 30 June 2008 stood at approximately \$15.3 billion, an increase of 12.5% on the previous year. We are a leading owner, manager and developer of quality property, with two-thirds of these assets owned and one-third held through our third party funds.

# DEXUS Property Group (ASX: DXS)

## ASX Release

As a Group, we are responsible for not only the largest - at more than \$7 billion - but also what we believe is the highest quality office portfolio in Australia.

In Industrial, we are a major player with approximately \$4.5 billion under management, with key developments in both the Sydney and Melbourne markets.

In Retail, where we have a fully integrated service capability, we manage more than \$3.6 billion of assets on behalf of third party owners.

Internationally, we own more than \$2 billion of assets, about 85% of which are in the United States and the remainder in Europe where we own a small portfolio of industrial assets valued at approx A\$300 million.

Turning to management, in times such as these, never has management been more in focus than it is today. At DEXUS we pride ourselves on the quality of our entire team and my Executive team, all of whom are here today, have proven specialist experience, combined with demonstrable leadership capability, which is fundamental in implementing our strategy.

Let me now outline the operational highlights of each of our business areas.

### Office highlights

DEXUS owns and manages the largest and highest quality office portfolio in Australia, including several iconic buildings such as Governor Phillip & Governor Macquarie Towers, 30 The Bond and Australia Square in Sydney and Woodside Plaza in Perth. We have further expanded the potential of your portfolio with the commencement of two of the newest and greenest office towers to be constructed in Australia: 1 Bligh Street in Sydney and 123 Albert Street in Brisbane.

95% of our office buildings are premium or A grade assets. The portfolio is also strategically located with 71% of our assets in the dominant Sydney market, of which 85% is in the Sydney CBD.

# DEXUS Property Group (ASX: DXS)

## ASX Release

Our portfolio continues to perform in line with our expectations. Consistent with our proactive management approach, since June 30 2008, we have negotiated heads of agreement or signed leases for 18,000 square metres of space which represents more than half of our 2009 lease expiries. We have achieved an average rental increase of 6.5%, without a significant change in leasing incentives to date. Looking forward at our major lease expiries we have executed heads of agreement in respect of over 16,000 square meters in Melbourne, thus significantly reducing our 2011 expiries.

Despite some downturn in business confidence, our portfolio remains strong with occupancy by area and average lease duration steady at 98% and 5.7 years respectively, tenant retention steady at 72% and no significant increases in tenant arrears.

Looking ahead, we anticipate that leasing markets will ease in some locations due to falling business confidence. Given our weighting to Sydney, however we see vacancy remaining relatively tight over the next three years and I believe we can still anticipate rental growth in the coming year. This confidence is based on our track record of leasing success and the under-renting embedded in our portfolio.

### Office developments

Turning now to our two new major developments, both of which are designed to achieve world's best practice 6 star Green Star and 5 star NABERS Energy ratings.

#### 1 Bligh Street

Our flagship development in Sydney - 1 Bligh Street - will be a 28 level, 42,000 square metre premium-grade office building, located in one of the nation's most prominent commercial sites near Sydney's Circular Quay.

We can announce today that we have entered into a heads of agreement with Clayton Utz, one of Australia's pre-eminent legal firms to be the anchor tenant at 1 Bligh, taking up approximately 55% of the available space. At this time, we are finalising the Agreement For Lease which we expect to sign in November 2008. Demolition of the existing buildings on the site is scheduled to be completed by Christmas, with the building due to be completed by mid 2011.



# DEXUS Property Group (ASX: DXS)

## ASX Release

### 123 Albert Street, Brisbane

During the year we also commenced our flagship development in Brisbane at 123 Albert Street. Construction of this premium-grade office tower is underway with Rio Tinto taking 68% of the tower's available area with an option to expand to at least 80%. The building is due to be completed by late 2010.

### 60 Miller Street, Sydney

The redevelopment of our A-grade Office tower in Victoria Cross, North Sydney is progressing on track, with completion due in the first quarter of 2009. The construction of a five-level, A-grade office extension on the western portion of the building adds 5,000 square metres to the building, and provides some of the largest floor plates in North Sydney. The new A-grade building has been designed to achieve a Green Star Rating of 4 stars and a NABERS Energy Rating of 4.5 stars. I am pleased to announce that heads of agreement have been signed for all of the newly developed space.

### Industrial highlights

Moving on to our Australian industrial portfolio, this is strategically located in key industrial sub-markets around Australia, with a solid and diverse customer base. The high quality and geographic diversification of this portfolio puts us in a strong position, particularly in these more turbulent times. Our active management approach delivered strong results in the year ending 2008 due to solid leasing activity and the successful delivery of developments. Occupancy remains high at 98% - due in large part to our active approach to management and leasing.

The Australian industrial portfolio's tenant retention is currently tracking in excess of 80%, up from 72% at June. This follows an active leasing quarter with renewals and heads of agreement negotiated over more than 66,700 square metres of the portfolio and rent reviews saw increases of more than 5% being achieved. Occupancy decreased slightly by 1% to 97.6%, due to four small lease expiries, and the weighted average lease term to expiry by income remains steady at 4.4 years.

# DEXUS Property Group (ASX: DXS)

## ASX Release

As you can see the Australian industrial portfolio is continuing to perform well, however reflecting the much more negative business environment today, we are seeing some slow-down in the overall industrial property market and expect that take up in 2009 is likely to ease. In anticipation we have already negotiated over 22,000 square meters of space which is not due to expire until after June 2009.

### Industrial Developments - Australia

#### Greystanes

During the year we acquired a 50 hectare, strategic industrial site in Greystanes, such that we now have significant development capability to meet tenant demand in 2 strategically located logistics markets in Sydney and Melbourne.

We acquired the site at Greystanes fully serviced from Boral with all planning approvals and infrastructure in place, thus de-risking the project in advance and ensuring certainty of delivery. Our strategy for the estate is to offer a premium product to the market, directly targeted to our tenant base offering the type of infrastructure and services our customers expect and demand.

In line with our commitment to sustainability, we are incorporating environmentally sustainable development specifications. For instance, we will recycle up to 150 megalitres of storm and ground water from the site to water the adjacent golf course, a local school and parks in the community.

#### North America

Since June the portfolio has performed in line with our budgets. While the US economic conditions in which our tenants operate has weakened, tenant arrears have not increased significantly, although we are seeing slowing leasing demand. Occupancy remains strong at 92% as at 30 September and our retention rate remains high at 72% - we are seeing existing tenants more likely to renew their lease than relocate. The weighted average lease term to expiry by income increased to 4.1 years.

# DEXUS Property Group (ASX: DXS)

## ASX Release

We have completed the majority of planned developments in the US. In San Antonio, we have four of our nine development projects underway and, reflecting the caution that these times dictate, we are reviewing the staging for the balance of these developments with our joint venture partner. The Whirlpool program, which we commenced in 2006, will complete once we have settled on facilities in Columbus, Ohio in early 2009 and in Seattle and Atlanta over the next 18 months, as planned.

In the US our strategy is to, over time, reduce the number of sub-markets in which we invest to achieve greater scale, strengthen our US platform and create further value for investors.

### Europe

The European industrial market continues to be challenging. Occupancy increased to 87.7% as at 30 September and the weighted average lease term to expiry by income decreased slightly to 3.4 years. In 2009 we will continue to focus on active leasing and maximising rental returns while we look at options to reposition the portfolio over the medium term.

### Third party funds management

Our third party funds increased by approximately 39% to \$6.4 billion in the year to 30 June 2008. A significant part of this increase was due to the acquisition of the retail portfolio supported by an \$800 million capital raising by the DEXUS Wholesale Property Fund, which attracted new international investors including some from North America, Europe and the Middle East.

Consistent with our management approach we have no co-investments in our funds and debt within the funds represents less than 10% of total portfolio value. The funds primarily fall into two categories; our \$3 billion wholesale fund and \$3 billion in our two mandates, STC and AXA.

### Corporate Responsibility & Sustainability

Your Chairman has already touched on our commitment to sustainability. With climate change a dominant topic, it is worth reminding ourselves that, at DEXUS, we have been implementing sustainability features into our portfolio for 10 years. Not only do we own the first five star building in Australia, 30 The Bond, but our most recent flagship developments in Brisbane and Sydney are designed to six star specifications.

Operating sustainably is a fundamental part of our business, our culture and a point of difference for tenants, who increasingly are demanding sustainable buildings with leading edge green features.

In this our 10th year of sustainability programs, we continue to progress the roll-out of portfolio-wide initiatives to improve the performance of our buildings step by step, in line with the individual asset strategies, ensuring our sustainability programs are tailored to each property whilst enhancing economic viability and investor returns.

As Chris mentioned our latest Corporate Responsibility & Sustainability Report is available on our website today and I would encourage you to review this, in conjunction with our Annual Report which provides a comprehensive overview of the business and our key achievements in the last year.

### Outlook

We realise that now more than ever investors want to know what is likely to happen and what you can expect from DEXUS in the future. While the trading conditions are difficult to predict in these volatile times, let me address a number of key issues that are facing the market and DEXUS's response to them.

# DEXUS Property Group (ASX: DXS)

## ASX Release

Firstly, asset valuations. Generally, they are in decline around the world. The key point for DEXUS is that the quality of our portfolio is such that we are better positioned than most to be protected from the downward pressure on values. Across your quality portfolio, leasing remains strong and we expect some rental increases will continue to be achieved. As you know our occupancy and tenant retention levels remain high and arrears are steady. We do anticipate, however that lagging business confidence will see a weakening in demand in 2009. This will particularly impact the lower quality end of the market.

Secondly, focusing on quality developments with appropriate financial returns. We continue to carefully review feasibilities of developments and in the last 12 months have delayed a number of planned developments such as 105 Phillip Street in Parramatta until we achieve suitable tenant pre-commitment.

Thirdly capital management - this has been a matter of concern for many companies and rightly there has been intense market focus on funding needs including short-term debt refinancing. More recently, and as previously discussed, currency fluctuations have impacted our gearing. Let me reassure you of DEXUS Property Group's focus on preserving a sound debt position and active capital management strategies.

As announced at our Full Year Results presentation in August, we had already secured \$250 million of the \$580 million due for refinancing in the 2009 financial year. Since then we have agreed terms to renew an \$80 million facility in respect of the US properties and we are well advanced in refinancing the remainder by this calendar year. Once secured, our attention will turn to our commitments and maturities for following years.

### Distribution Policy

I said at the outset that our prudent and cautious approach is the cornerstone of the DEXUS business and as far as the Board and I are concerned, protecting security holder value is our primary objective.

# DEXUS Property Group (ASX: DXS)

## ASX Release

In this regard, we have also recently completed a review of our distribution policy and the role of the DRP in our capital management process, taking into account global best practice in this area. We believe it prudent to change our distribution policy to retain funding for tenant incentives and ongoing maintenance CAPEX and only distribute cash that is derived from operations.

Accordingly, I announce today that our distribution policy for the year ending 30 June 2009 and thereafter will be to distribute 70% of our funds from operations. This approximates 100% of operating cashflow less the amount necessary to meet tenant incentives and maintenance CAPEX.

We also wish to confirm that the DRP will continue to operate, however will not be underwritten in the foreseeable future.

### Guidance

You'll recall that in August we provided earnings guidance of 12.1 cents per security - comprising 11.8 cents derived from our property portfolio and an additional 0.3 cents from anticipated contributions from development.

Given the increasingly uncertain environment, we do not believe it appropriate to give guidance in respect of earnings from development contributions. Additionally we have reviewed the assumptions underlying our operational performance and believe it appropriate to provide current guidance in respect of funds from operations in the area of 11.7 cents per security.

The effect of the revised guidance and the payout ratio policy change means that we expect to distribute 8.2 cents per security in two payments over the full year, instead of the 12.1 cents previously advised.

I know this will be disappointing for some investors, but we have a strong financial position and it is critical we maintain and protect that. We fully expect this policy will result in higher Earnings Per Security and Net Tangible Assets growth both of which will benefit security holders.

# DEXUS Property Group (ASX: DXS)

## ASX Release

In conclusion, we have an experienced team with a depth of specialist expertise in property, asset and development management and fund management who are well equipped to take DEXUS through the financial volatility in which we now find ourselves.

DEXUS is financially sound with a business focused around a quality portfolio that is better positioned than most in the current environment. The combination of these assets - our property and our people - means we remain confident about the future.

Our 2009 focus is to continue to do what we've always done:

- Actively manage our property portfolio to extract value, driving a high performance culture and delivering service excellence to our customers.
- Actively manage our balance sheet and continue to maintain prudent and diverse funding sources that give us maximum flexibility and we will continue to strive to maximise returns for our investors in the year ahead.

I thank you for your continued support throughout the year, the Board for their continuing wise counsel and in particular the DEXUS team members for their commitment and enterprise. Thank you.

For further information, please contact:

Chief Executive Officer: Victor Hoog Antink (02) 9017 1130

Investor Relations: Karol O'Reilly (03) 8611 2930

Media Relations: Emma Parry (02) 9017 1133

### About DEXUS

DEXUS is one of Australia's largest diversified property groups and a leading owner, manager, developer of world-class office, industrial, retail properties with total assets under management of \$15.3 billion in Australia, New Zealand, the United States, Canada and Europe. DEXUS is committed to the long-term integration of sustainability practices throughout its property portfolio. [www.dexus.com](http://www.dexus.com)