

DEXUS PROPERTY GROUP

2011 Sydney Office Tour

Paul Say
Chief Investment Officer & Head of Office



RUN OF THE DAY

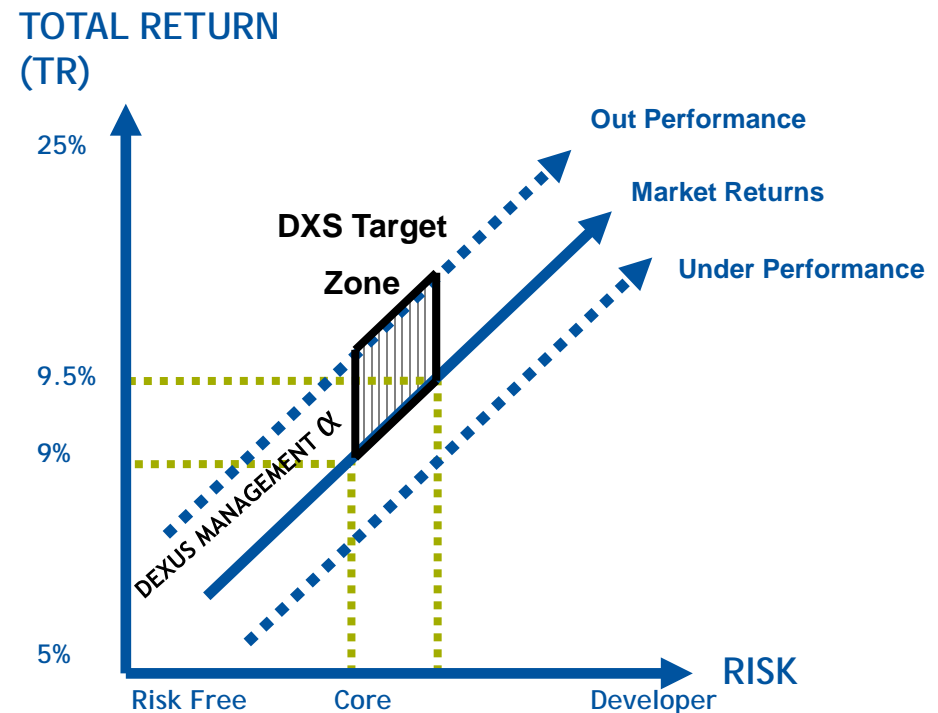
- Our approach
- Research perspective
- Tour starts
 - Western corridor
 - Lunch
 - CBD core
- Conclusion



OFFICE OBJECTIVES

Our vision is to be the market leader in office through a superior approach to owning, managing and developing office property in Australia. Our office portfolio valued at \$6.1 billion, is one of the largest in Australia, comprising the country's most iconic premium office towers.

- Market leadership is a combination of both real performance and perception
- Dominant and sustainable institutional property groups in Australia and around the world tend position themselves in the core/core plus level of the risk spectrum
- Long term total return target for a core/core plus office investor is a 3-5 year IRR of 9% (300-400bp over the long term bond rate)
- Top quartile to exceed average returns by 50-100bps without changing the risk profile



OFFICE PHILOSOPHY

STRATEGIC

The four DEXUS value drivers

- I. Disciplined investment in CBD markets with high barriers to entry
- II. Leverage scale and expertise in selected markets
- III. Tactically time sales and leasing transactions
- IV. Engage in disciplined value-add/development

OPERATIONAL

High performance management

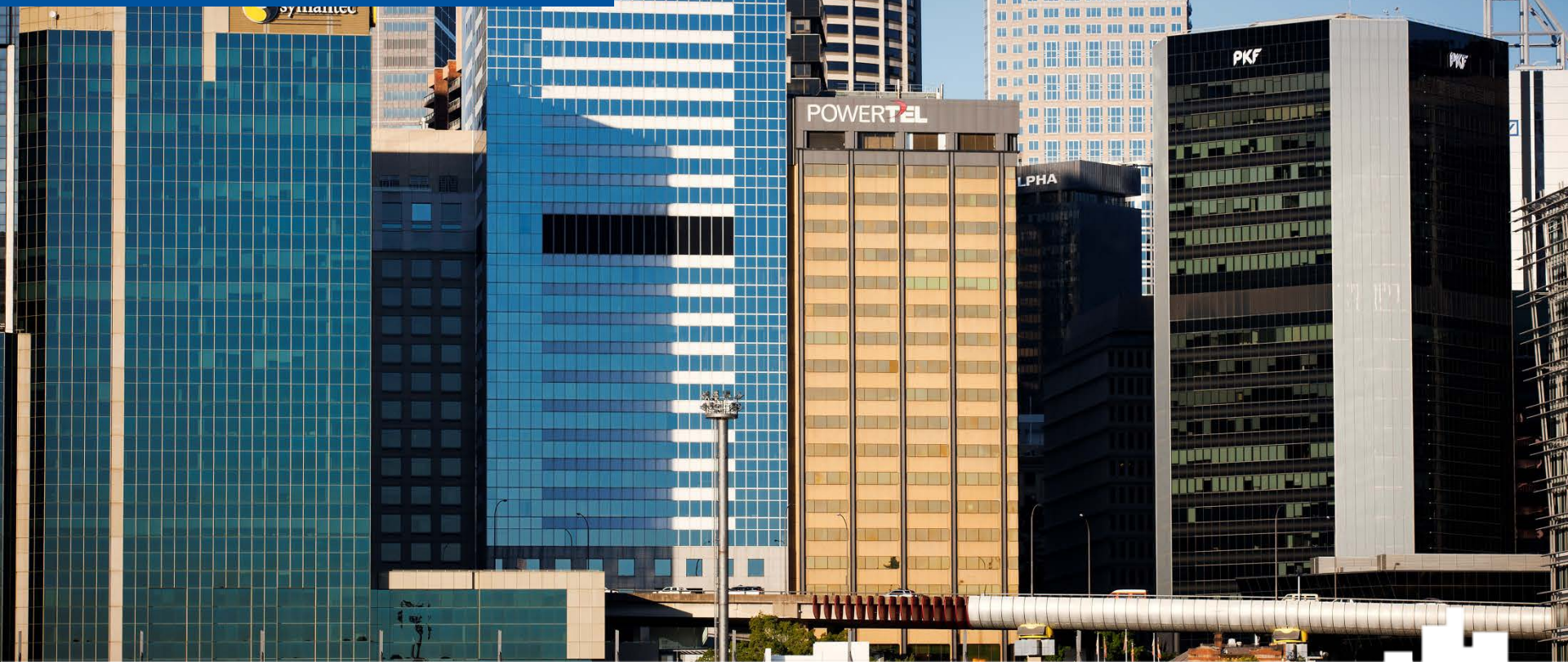
- Robust and meaningful performance metrics and measurement
- Service excellence
- Efficient systems and processes
- Sustainability

Expected core returns + Management premium = Top quartile performance

9.0%—9.5% + 0.5%—1.00% = 9.5%—10.5%



DEXUS OFFICE PHILOSOPHY



DRIVER I: INVEST IN MARKETS WITH HIGH BARRIERS TO ENTRY

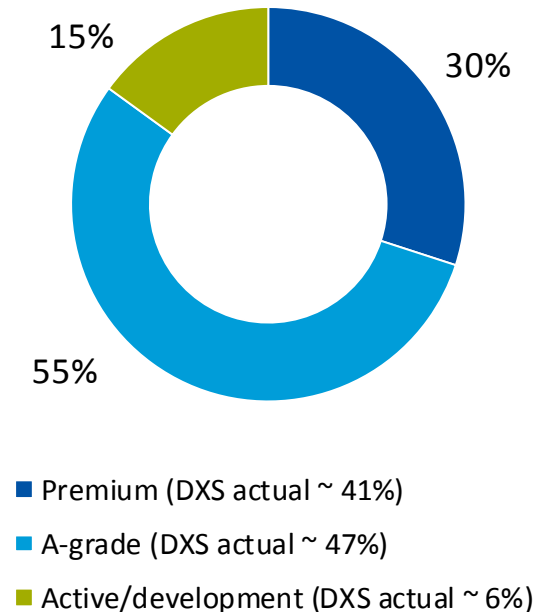
Targeting a tactical mix of Australian office key markets

- Invest in markets with high barriers to entry where tenants want/have to be located
- Primarily the CBD's of Sydney and Melbourne (also Brisbane and Perth) based on liquidity, long term demand growth, barriers to new supply and large diverse tenant base

Hold a target mix of premium, A grade, and development grade assets

- Focusing on prime grades allows us to attract large tenants, extend time to obsolescence and reduce competition from lower capitalised competitors
- Larger and higher grade assets are more efficient and less management intensive
- 10-15% of active/development increases returns while keeping risk at an acceptable level for a core portfolio

Target ratio of asset grade (risk/return)



Source: DEXUS Research.

DRIVER II: LEVERAGE SCALE & EXPERTISE IN SELECTED MARKETS

Create and leverage local scale to build and maintain local relationships

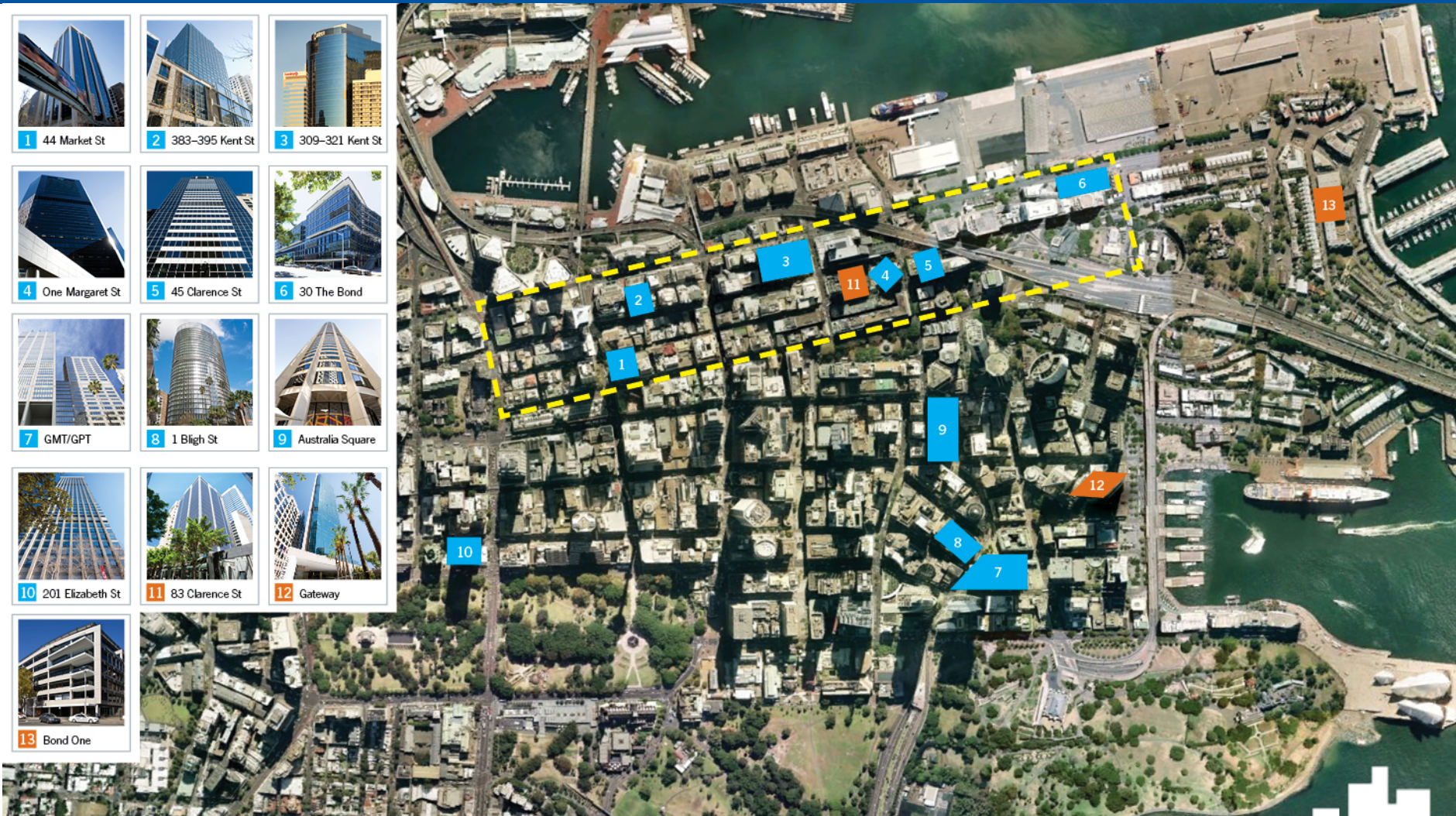
- Hold sufficient properties in each market to:
 - Maximise market knowledge
 - Leverage local relationships
 - Attract and support a high performance local team with superior intellectual property, skill and execution capabilities
- Scale achieved through combination of direct holdings (DXS) and third party relationships with like-minded investors

Sydney CBD view from Gateway rooftop, including 1 Bligh, GPT/GMT and Australia Square



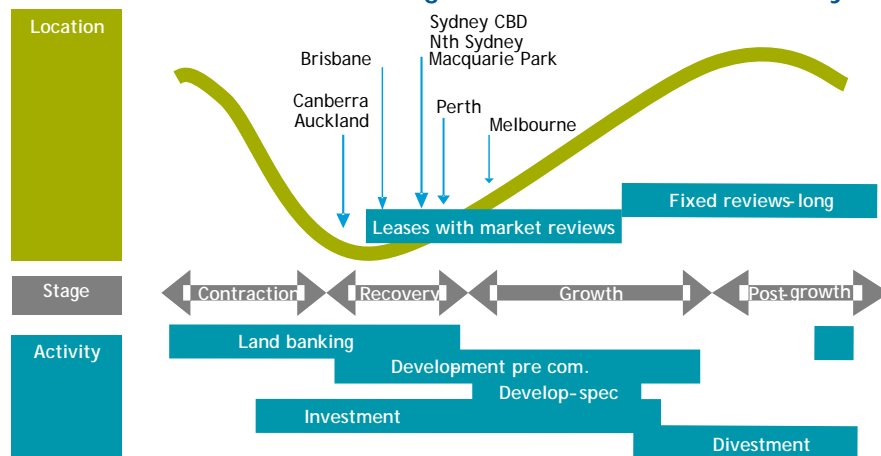
Source: DEXUS Research.

DRIVER II: LEVERAGE SCALE & EXPERTISE IN SELECTED MARKETS



DRIVER III: TACTICALLY TIME SALES AND PROPERTY TRANSACTIONS

Time investment and leasing activities to the market cycle



Investing and divesting according to the market cycle adds approx. 20-30bps to total return



Source: IPD, JLL, DEXUS Research, Cycle includes transaction costs (approx. 30 bps impact).

- Timing the market cycle successfully requires accurate, research-driven, estimation of cycle timing and management discipline
- Matching lease expiry according to the market cycle can increase retention and reduce exposure to increased incentives, adding significant value over time
- Analysis of past cycles indicate that additional value can be created through implementing a disciplined approach to buy/sell and leasing activities

DRIVER IV: ENGAGE IN DISCIPLINED VALUE-ADD/DEVELOPMENT

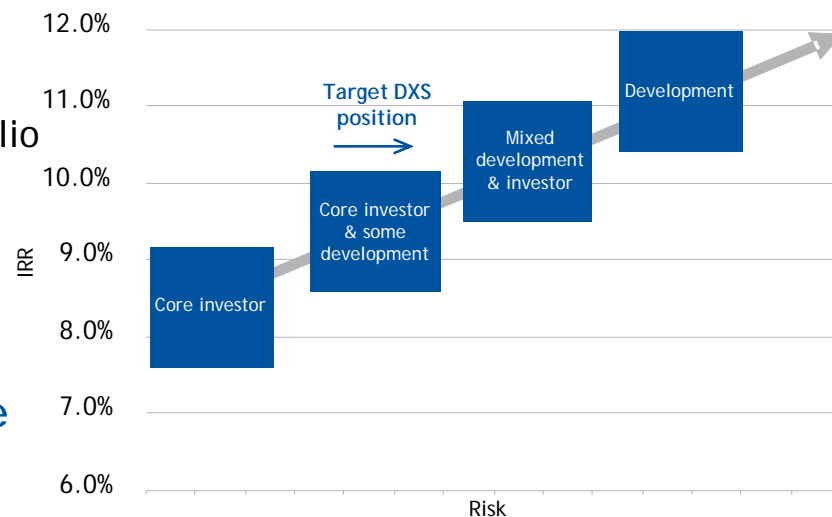
Develop to enhance returns and improve portfolio quality

- Acquire sites and land banks at attractive pricing
- Develop to enhance portfolio yield and improve portfolio quality
- Develop to create 'active earnings'

Acquire properties for repositioning to enhance returns and improve portfolio quality

- Acquire lower grade properties at attractive pricing
- Reposition to enhance portfolio yield and improve portfolio quality
- Reposition and sell to create 'active earnings'

Market positioning



Source: IPD, DEXUS Research.

OPERATIONAL EXCELLENCE



OPERATIONAL EXCELLENCE SUPPORTS SUSTAINABLE COMPETITIVE ADVANTAGE (SCA)

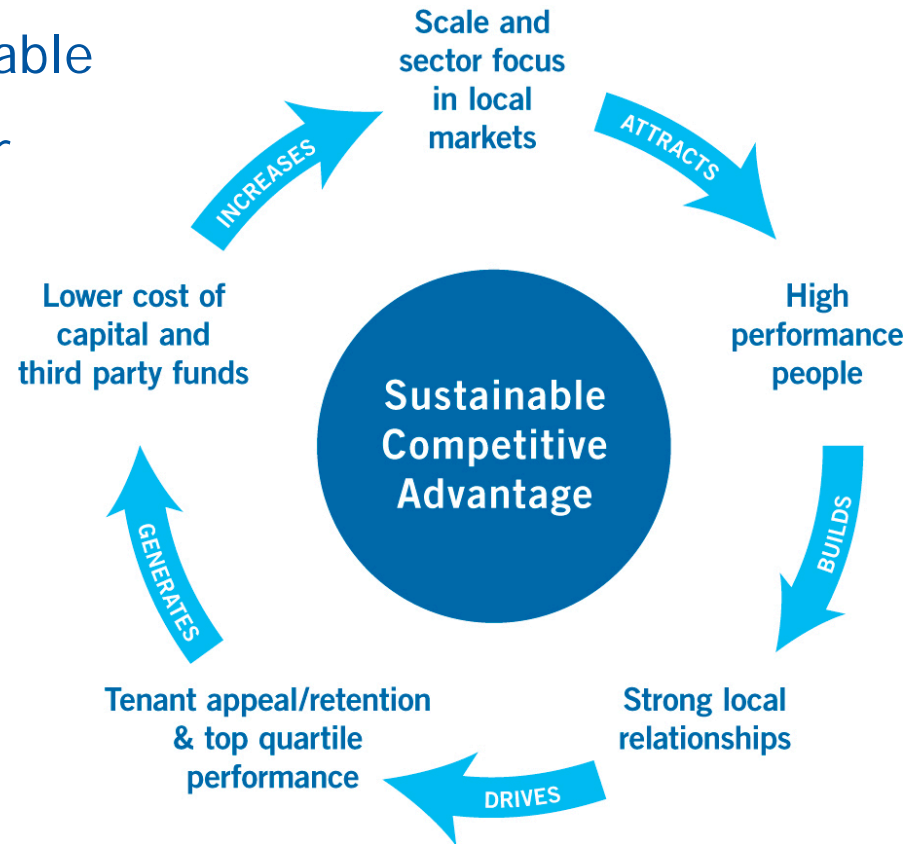
Management alpha delivers top quartile performance through adherence to:

1. Robust and meaningful performance metrics and measurement
2. Service excellence
3. Efficient systems and processes
4. Sustainability



OUR GOAL

Our ultimate goal is to create Sustainable Competitive Advantage (SCA) over our competitors as the market leader in owning, managing and developing Australian office property



DEXUS PROPERTY GROUP

Office market overview

Peter Studley
Head of Research

INTRODUCTION

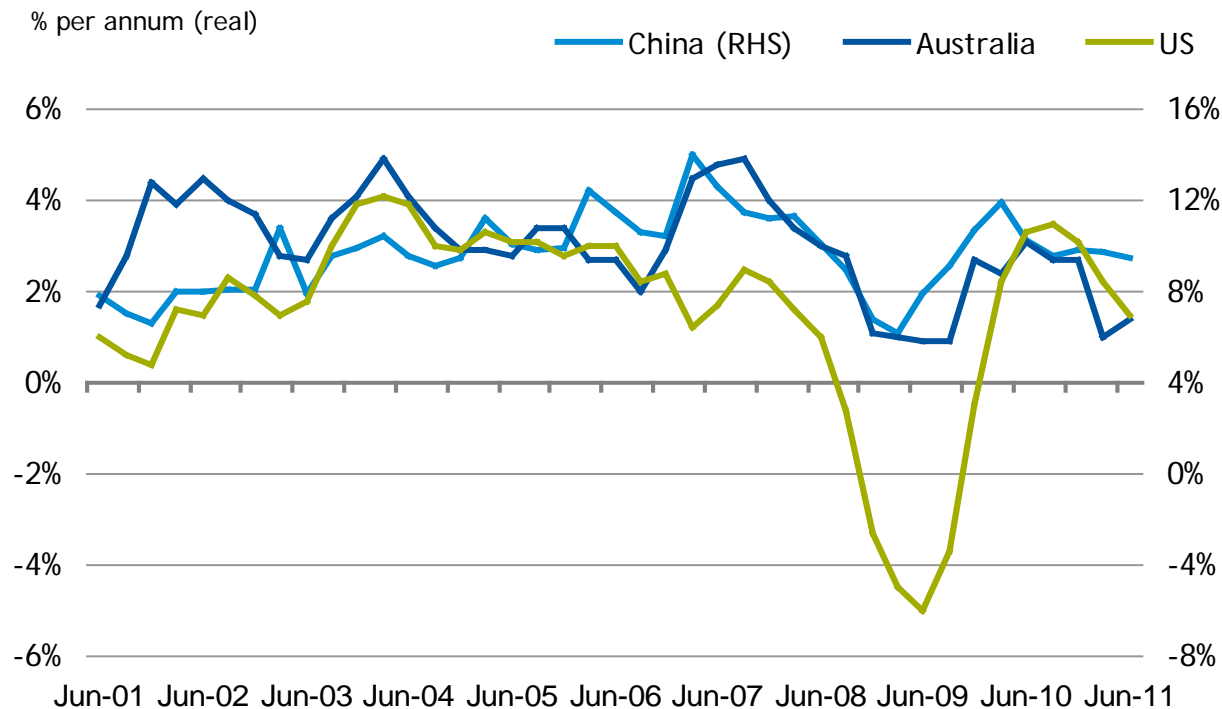
- Australian office markets are not oversupplied and are positioned for long term growth
- CBD office demand has been above average in the past year
- Vacancy has fallen in eight out of the ten major markets
- While there is a degree of uncertainty about the global outlook, Australia has one of the strongest economic outlooks in the developed world

44 Market Street, Sydney NSW

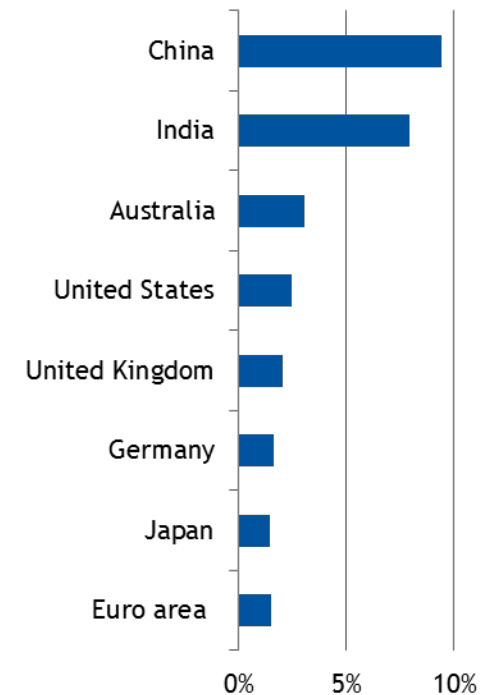


AUSTRALIA WELL-PLACED AMID UNCERTAINTY

Australia's fortunes linked to strong growth in Asia



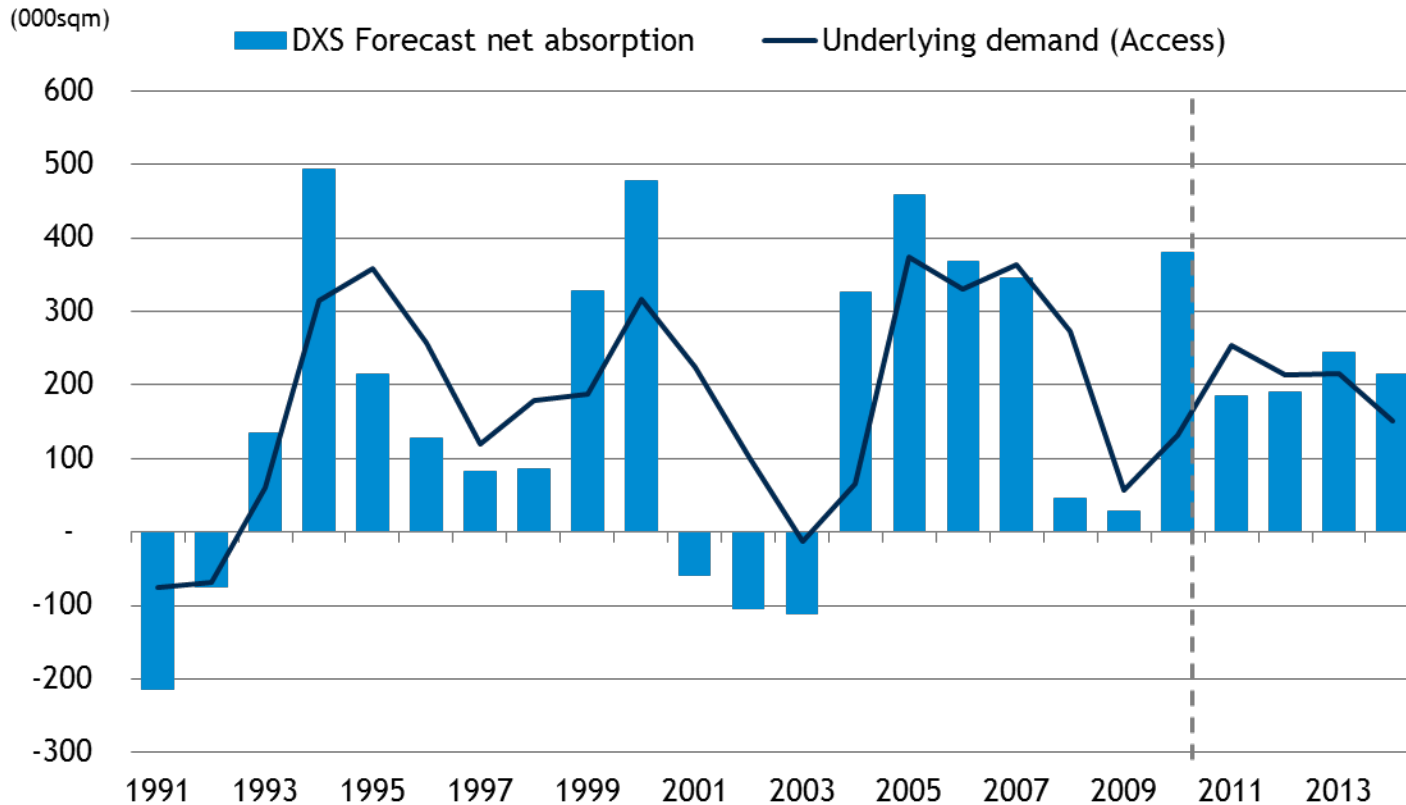
Forecast growth to 2016



Source: IMF, DEXUS Research.

OFFICE DEMAND DRIVEN BY EMPLOYMENT GROWTH

Demand down on last year, but expected to be positive medium term

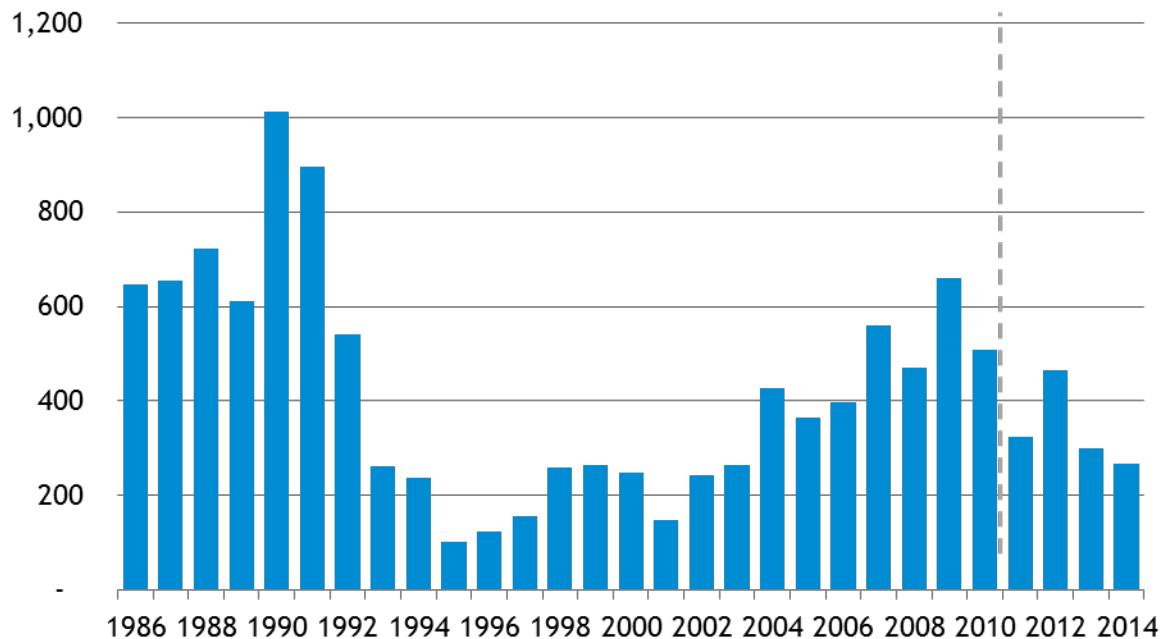


Source: Access Economics, DEXUS Research.

SUPPLY PRESSURE – MARKETS NOT OVERSUPPLIED

Modest CBD completions are a major factor mitigating risk

Total supply as % of stock

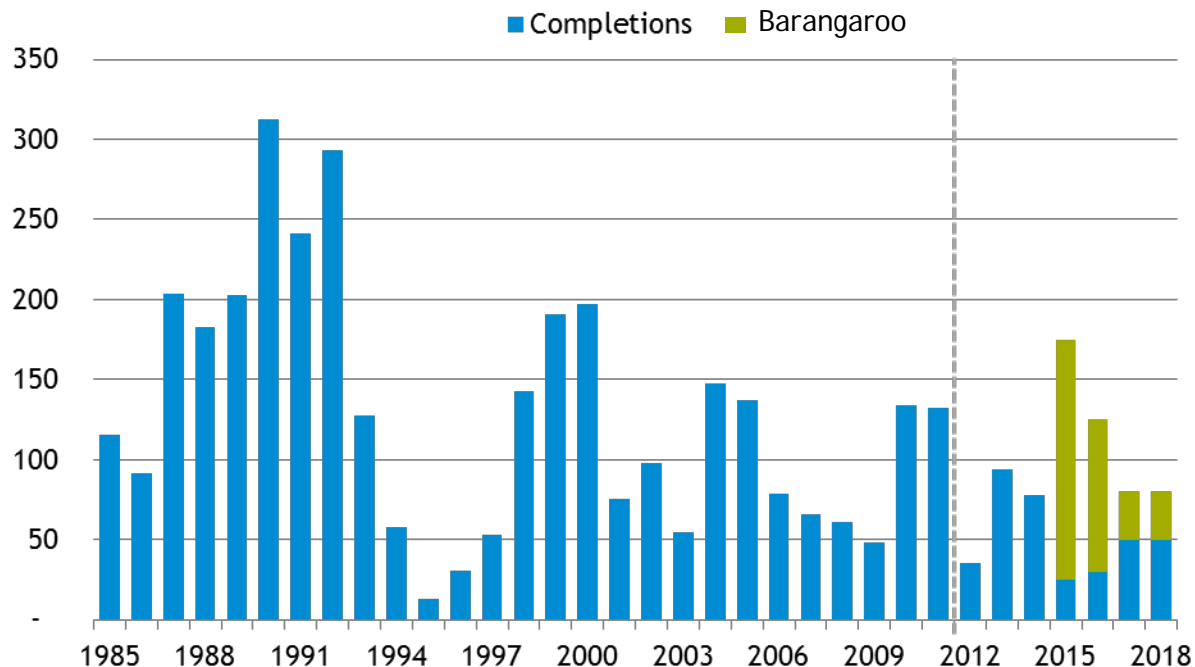


	2012-14 forecast supply	Past 10 year average
Sydney	1.4	2.0
Melbourne CBD	2.6	2.9
Brisbane	2.4	3.2
Perth	2.7	2.7

Source: Jones Lang LaSalle, DEXUS Research.

BARANGAROO SUPPLY MANAGEABLE

Sydney forecast supply including Barangaroo is similar to past cycles

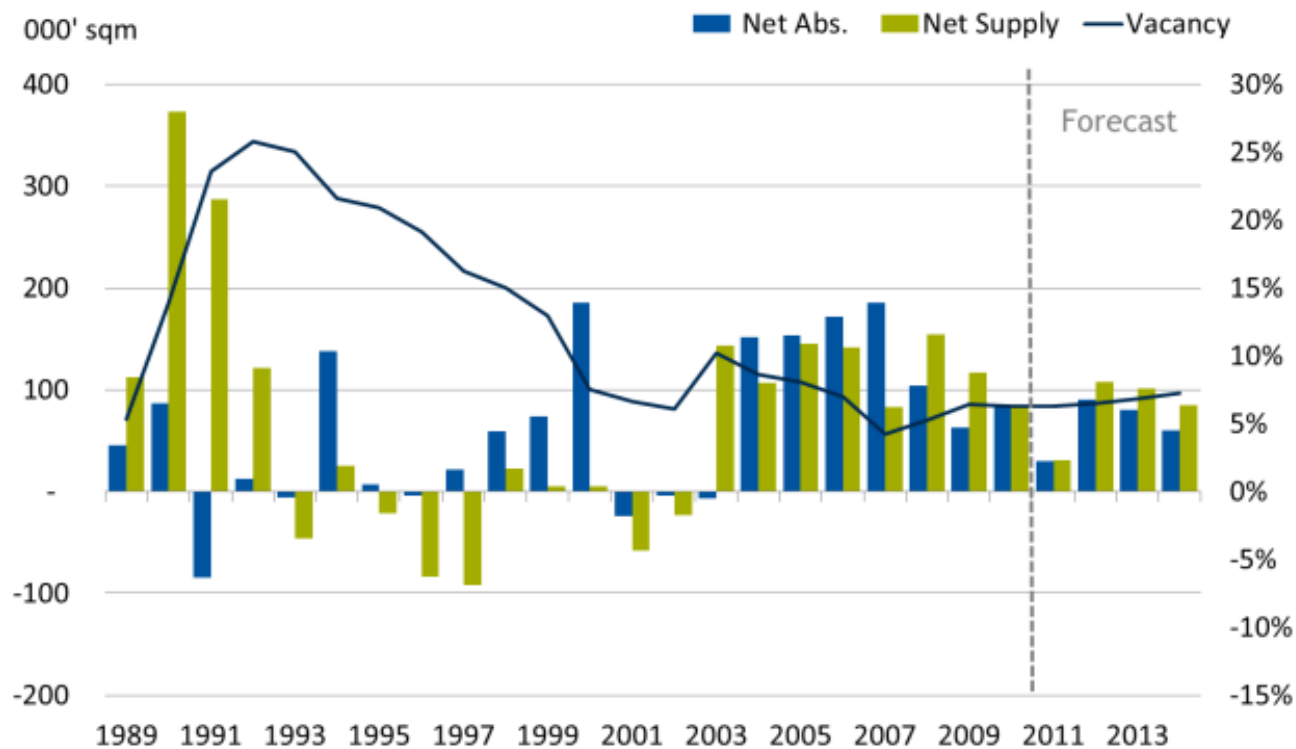


- Will further improve amenity of western and northern precincts of CBD
- Any lengthening of the development period will moderate the market impact

Source: Jones Lang LaSalle, DEXUS Research.

MELBOURNE OUTLOOK STABLE

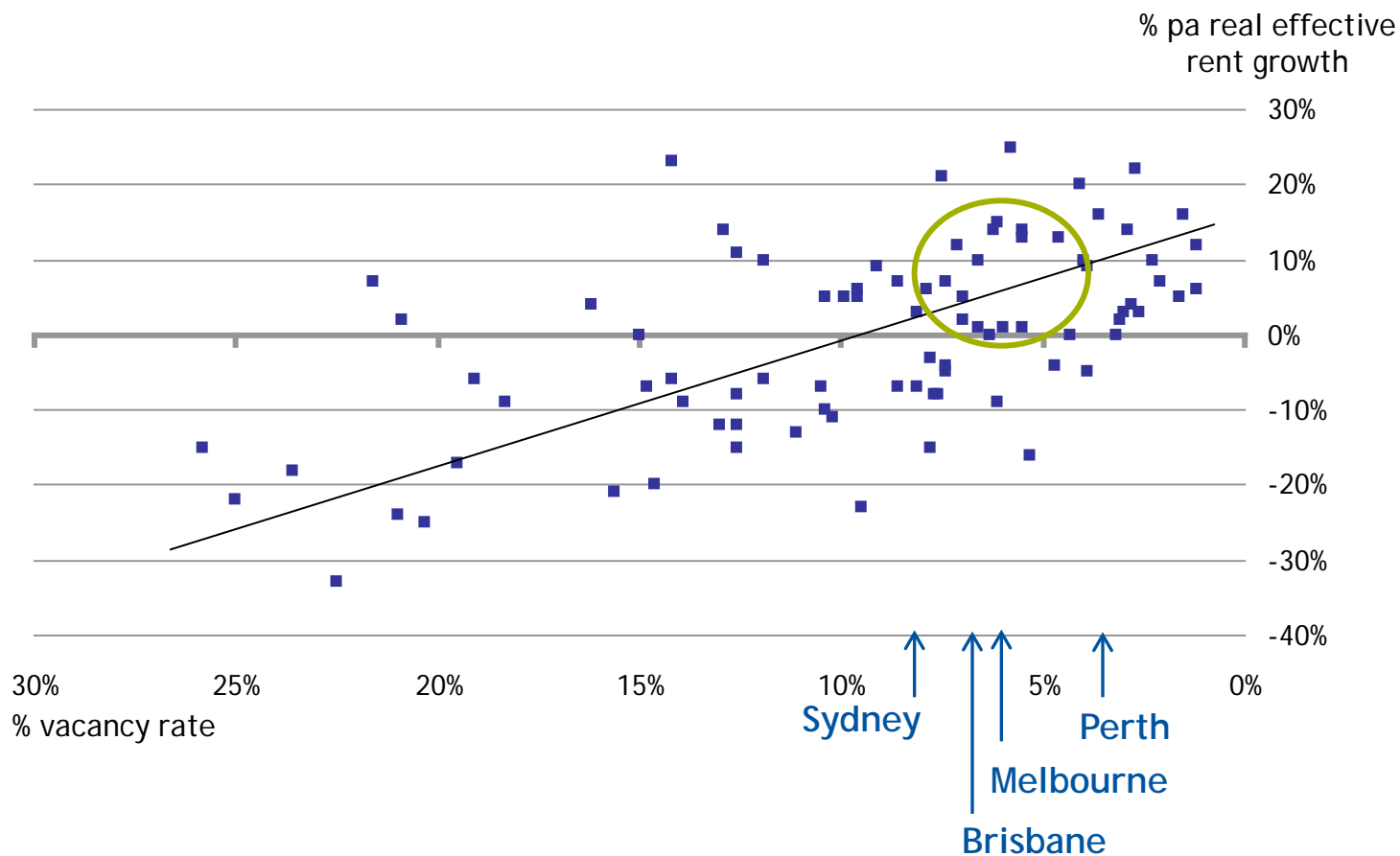
Melbourne supply, demand and vacancy



Source: Jones Lang LaSalle, DEXUS Research.

MARKETS ARE IN THE ZONE WHERE GROWTH OCCURS

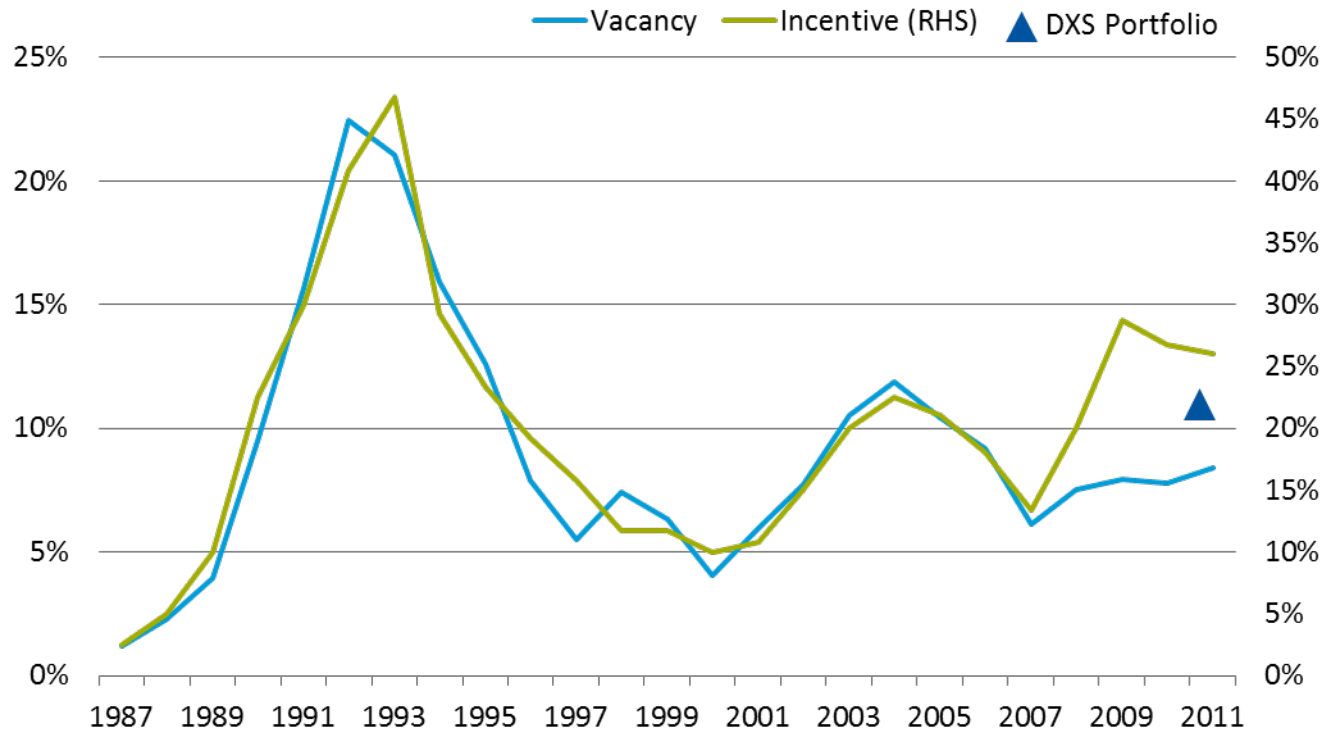
Real effective rent growth vs vacancy



Source: DEXUS Property Group from Jones Lang LaSalle data, North Sydney, Sydney & Melbourne.

SCOPE FOR INCENTIVES TO FALL

Incentives on relocations tend to move with vacancy rates



Source: Jones Lang LaSalle, DEXUS Research, includes incentives on relocations, excludes renewals.

MANAGING UNCERTAINTY - POSSIBLE DOWNSIDE SCENARIOS

Demand and vacancy for the major 4 CBD markets 2012-14

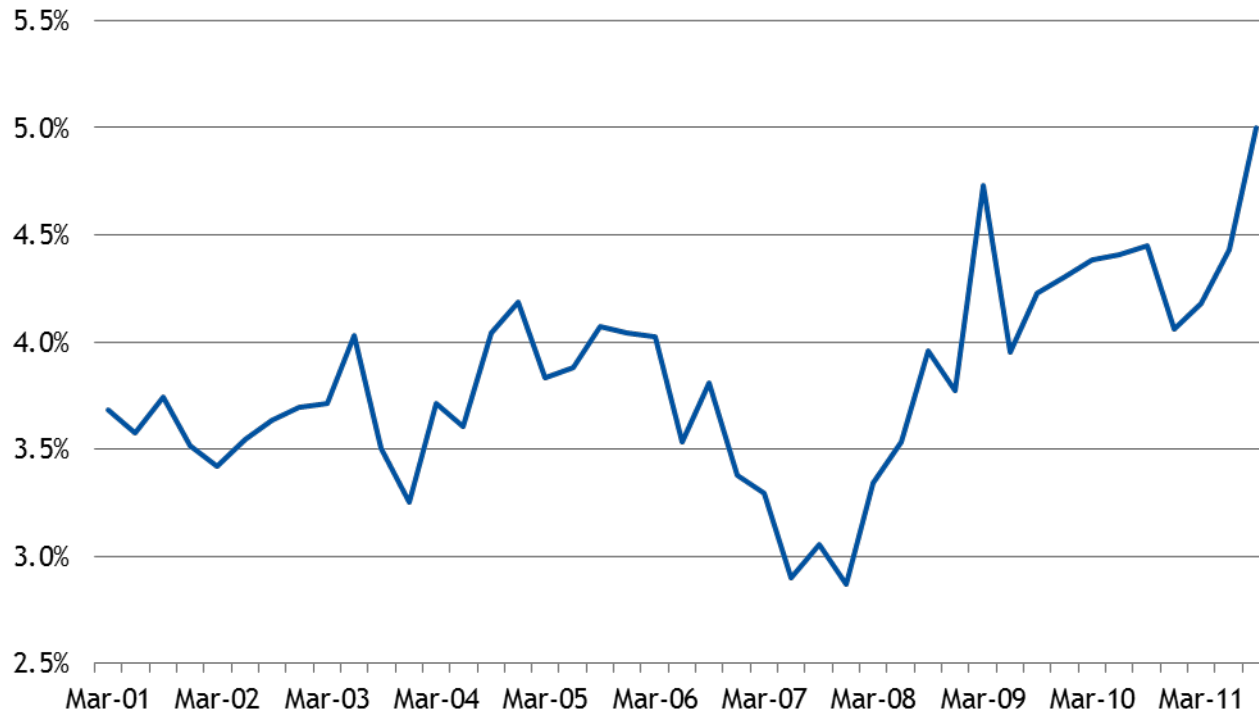
Scenario	Description	Demand 2012-14 (sqm/pa)	Forecast vacancy in 2014	Impact
Base case Most likely	Period of slow global growth Office demand about average	218,000	7.2%	Effective growth in the range 5%-10% pa
Scenario 1 Less likely	Double dip in both Europe and US Demand at similar levels to GFC	140,000	9.0%	Growth about a third to a half of base case
Scenario 2 Least likely	"Hard landing" in China Demand worse than during GFC	45,000	11.0%	Nil growth with some decline in rents possible

- Either downside scenario would have relatively moderate effects on vacancy due to the absence of overbuilding



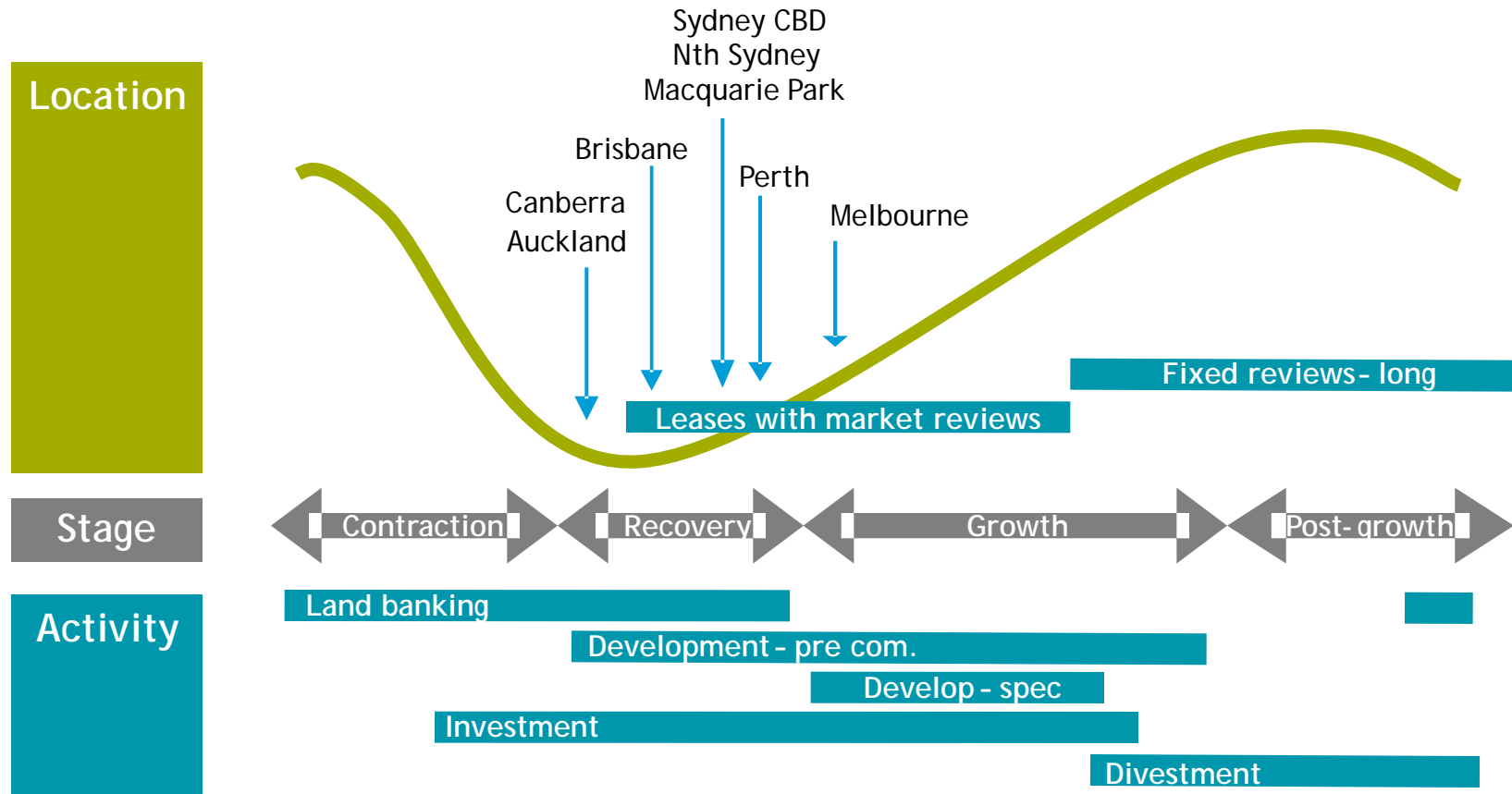
OUTLOOK FOR VALUES POSITIVE

There is a wide spread over the real 10yr bond rate (Sydney prime office)



Source: Jones Lang LaSalle, Reserve Bank of Australia, DEXUS Research.

OFFICE CYCLE IN 2011



Source: DEXUS Research.



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Sustainability

Tony Gulliver
Head of Development & Trading

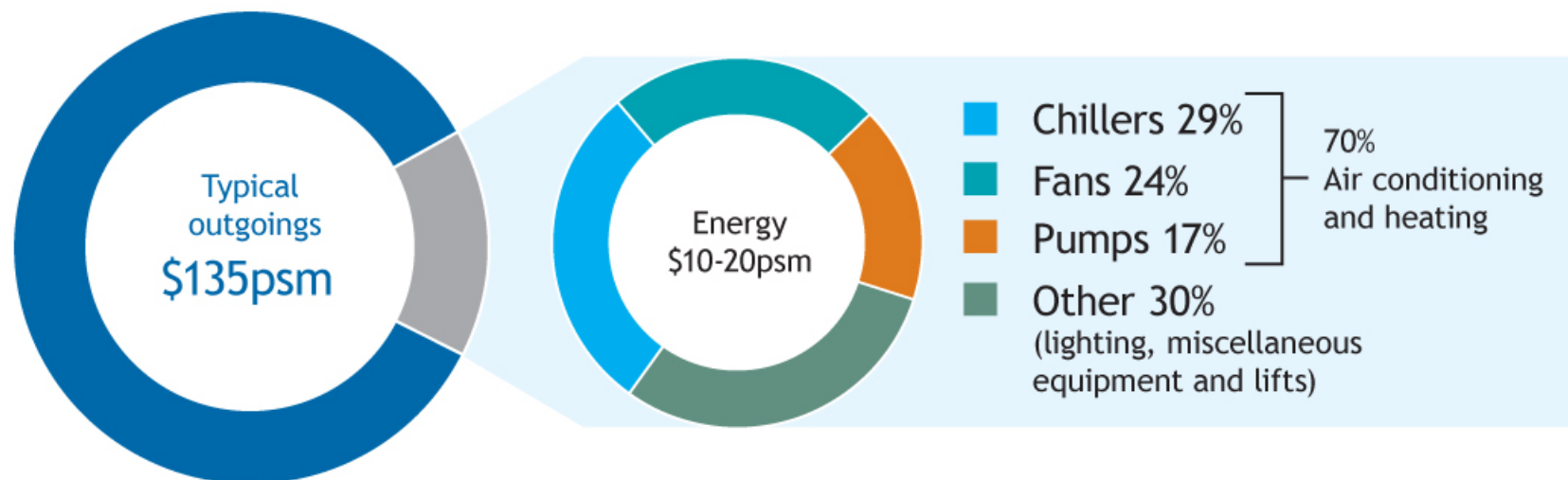
OFFICE 4.5 STAR NABERS ENERGY PROGRAM

September 2009 program approved:

- Average NABERS Energy rating increase to 4.5 Stars
- June 2012 programmed completion
- Projects in 30 properties (DXS 22 buildings, Third Party Funds 8 buildings)
- Capital works program of \$41 million for DXS

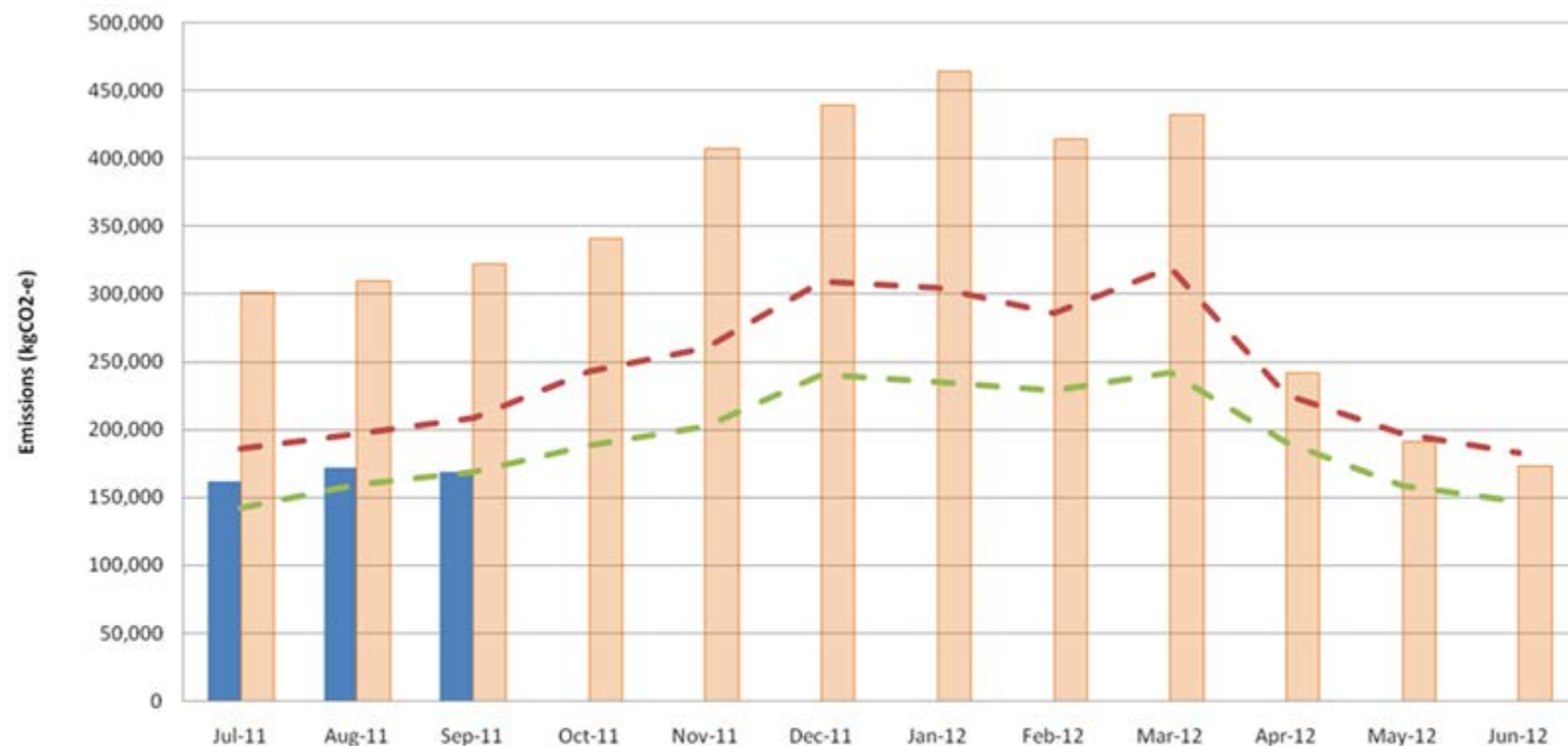


COMPONENTS OF ENERGY CONSUMPTION



45 CLARENCE STREET, SYDNEY

NABERS tracking post project

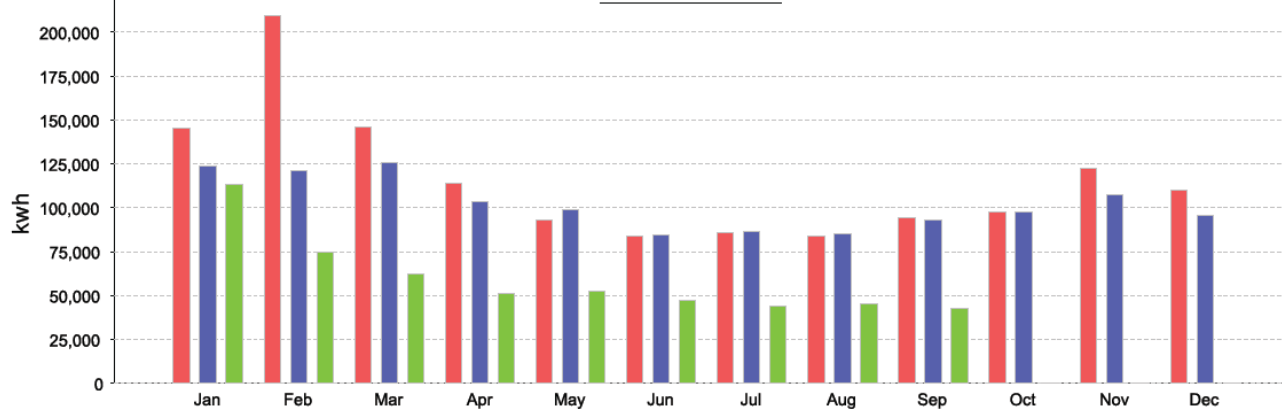


4.5 STAR PROJECT

Performance statistics

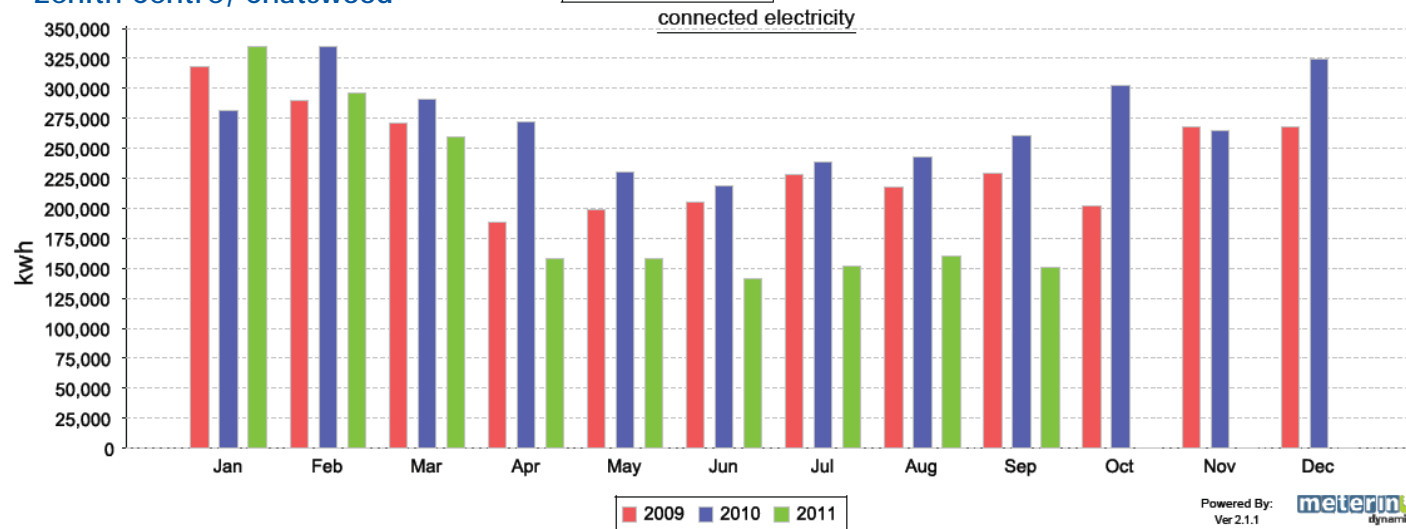
Garema Court, Canberra ACT

connected electricity



Zenith Centre, Chatswood

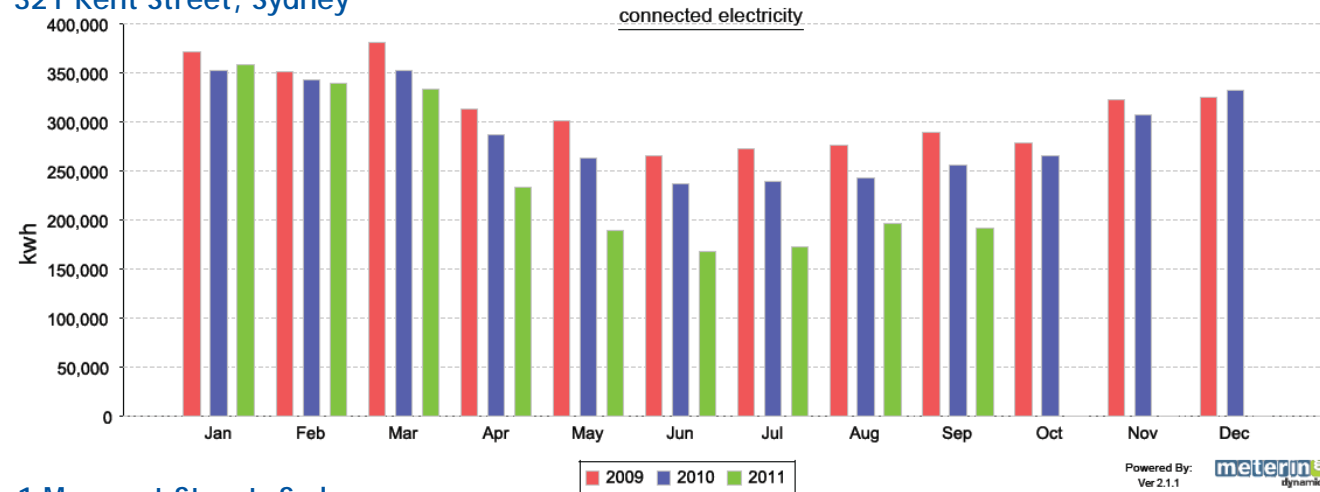
connected electricity



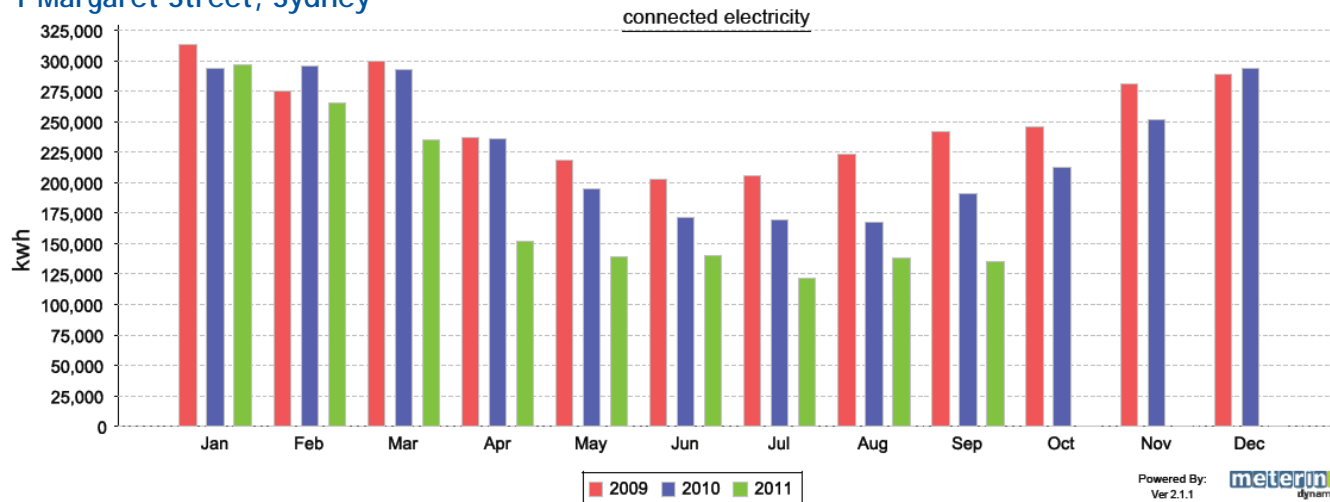
4.5 STAR PROJECT

Performance statistics

321 Kent Street, Sydney



1 Margaret Street, Sydney



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