

# 2012 DEXUS PROPERTY GROUP

## SEPTEMBER QUARTERLY UPDATE



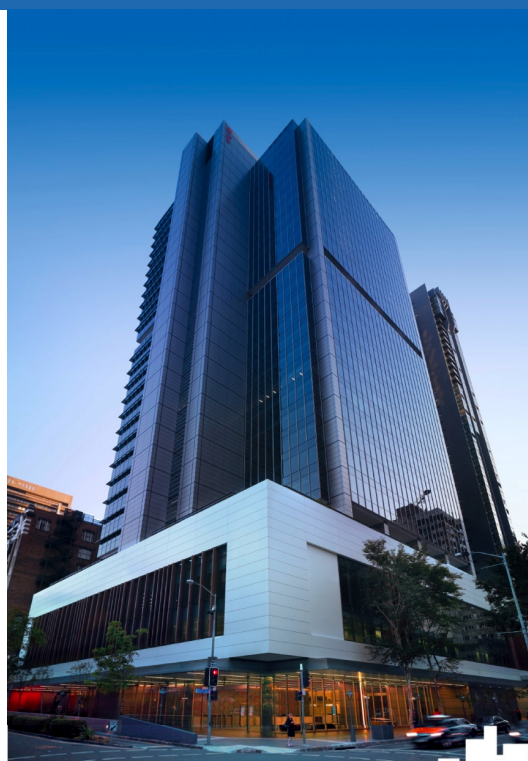
DEXUS Funds Management Limited  
ABN 24 060 920 783  
AFSL 238163 as responsible entity for DEXUS Property Group

**DEXUS**  
PROPERTY GROUP

## AGENDA

- **Strategy**
  - Progress on strategic objectives
- **Portfolio update**
  - Total portfolio
  - Office
  - Industrial
  - US industrial
- **Market outlook**
  - Australian office markets
  - Sydney CBD office market
  - Australian industrial markets
- **Summary**

123 Albert Street, Brisbane, QLD



## STRATEGY

A clear and focused strategy

## OUR VISION

To be globally recognised as Australia's leading real estate company

### OUR STRATEGY

To deliver superior risk-adjusted returns for our investors from high quality Australian real estate primarily comprising CBD office buildings

### OUR STRATEGIC OBJECTIVES

#### OFFICE

Being the leading owner and manager of Australian office

#### CORE CAPABILITIES

Having the best people, strongest tenant relationships and most efficient systems

#### CAPITAL PARTNERSHIPS

Being the wholesale partner of choice in Australian office, industrial and retail

#### CAPITAL & RISK MANAGEMENT

Actively managing our capital and risk in a prudent and disciplined manner

### OUR PEOPLE WILL BE RECOGNISED FOR

Property expertise

Institutional rigour

Entrepreneurial spirit

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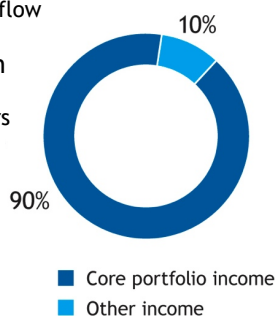


## STRATEGY

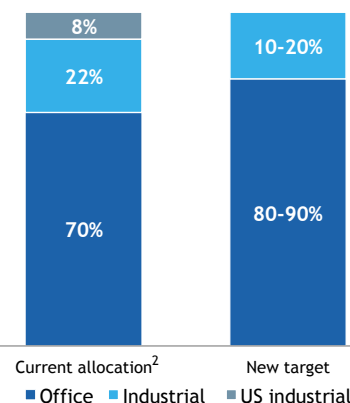
Earnings and portfolio targets

- Australian office – aspire for clear leadership
  - Most efficient and profitable operation
  - Leadership in leasing, tenant relationships and deal flow
- Australian industrial – retain leadership position
  - Industrial exposure provides benefits to DXS investors in terms of yield
  - NPS partnership demonstrates commitment to industrial
  - Developments underway at Wacol, QLD and Erskine Park, NSW
  - Portfolio composition to remain at upper end of target range in short to medium term
- Exit from non-core offshore markets

DXS earnings composition target<sup>1</sup>



DXS portfolio composition target<sup>1</sup>



Maximum of 15% of funds under management exposure to development in DXS portfolio

1. Target of 3-5 year timeframe.  
2. As at 30 September 2012, including the NPS partnership and the acquisitions of 50 Carrington Street, Sydney and 12 Creek Street, Brisbane.

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# STRATEGY

## Progress on strategic objectives and initiatives

### STRATEGIC OBJECTIVES

**OFFICE**  
Being the leading owner and manager of Australian office

**CORE CAPABILITIES**  
Having the best people, strongest tenant relationships and most efficient systems

**CAPITAL PARTNERSHIPS**  
Being the wholesale partner of choice in office, industrial and retail

**CAPITAL & RISK MANAGEMENT**  
Actively managing our capital in a prudent and disciplined manner

### INITIATIVES

- Proactively managing and driving performance
- Redeploying excess capital into core Australian office markets
- Enhancing tenant relationships through implementing new systems and practices

- Implementing programs and systems to enhance core capabilities
- Embedding a culture of service excellence and high performance
- Creating operational efficiencies and reducing costs

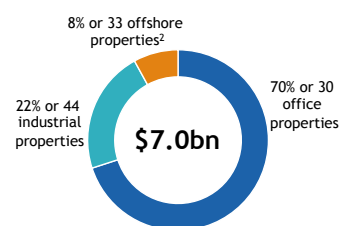
- Growing third party funds management business through
  - Developing new capital partners
  - Partnering with third party funds on investment opportunities

- Progressing the exit of non-core offshore markets
- Reducing the cost and improving the access to capital
- Progressing the recycling of non-core Australian properties

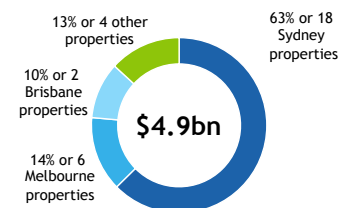
### FY13 PROGRESS



#### Total portfolio by value<sup>1</sup>



#### Office portfolio by value<sup>1</sup>



1. As at 30 September 2012, excludes cash and includes the acquisitions of 50 Carrington Street, Sydney and 12 Creek Street, Brisbane.  
2. Includes US west coast and European portfolios.

# STRATEGY

## Progress on strategic objective – Office

### STRATEGIC OBJECTIVE

**OFFICE**  
Being the leading owner and manager of Australian office

### INITIATIVES

- Proactively managing and driving performance of the office portfolio
- Redeploying excess capital into core Australian office markets
- Enhancing tenant relationships through implementing new systems and practices

### FY13 PROGRESS

- Achieved leasing success at newly acquired properties, prior to settlement
- Exchanged contracts to acquire 50 Carrington Street, Sydney and 12 Creek Street, Brisbane
- Progressed implementation of enhanced property services platform

### Progress in detail

- Early leasing access to newly acquired properties producing positive results
  - At **50 Carrington Street, Sydney** we have renewed 1,781sqm ahead of settlement due on 30 November 2012
    - Commenced \$5.3m capital program including refurbishment of two floors, lobby and lift upgrades and improved amenity
    - Increased WALE<sup>1</sup> from 2.2 years to 2.9 years
  - At **12 Creek Street, Brisbane**<sup>2</sup> we have leased 2,060sqm ahead of settlement due on 31 October 2012
    - Increased WALE<sup>1</sup> from 4.5 years to 5.5 years with occupancy up 0.8% to 95.4%
- Established customer relationship management (CRM) system to enhance tenant relationships
- Enhanced property services platform to be implemented prior to Christmas
  - Platform to improve property services and facilities management capabilities, accessing best in class technology to drive total return outperformance

1. Weighted average lease expiry by income.  
2. Owned jointly with DEXUS Wholesale Property Fund.



## STRATEGY

### Progress on strategic objective – Core capabilities

#### STRATEGIC OBJECTIVE

**CORE CAPABILITIES**  
Having the best people, strongest tenant relationships and most efficient systems

#### INITIATIVES

- Implementing programs and systems to enhance core capabilities
- Embedding a culture of service excellence and high performance
- Creating operational efficiencies and reducing costs

#### FY13 PROGRESS

- ✓ Implemented the DEXUS Leasing Console
- ✓ Decision to relocate our head office to Australia Square
- ✓ Announced a new remuneration framework
- ✓ Appointment of new Head of office and industrial pre Christmas

#### Progress in detail

- Leasing console launched on 30 July
  - Dashboard-style application, enabling leasing analysis and decisions to be made real-time
  - Operates from an iPad and other portable devices, allowing on-the-run analysis
  - 22 active users allowing team to focus on value-add and income generating activities
  - 600+ lease calculations have been completed since 30 July, saving over 200 hours
- DEXUS head office to relocate to levels 25 and 26 of Australia Square from May 2013
  - DEXUS to be located in a building owned by the Group and expected to save approx. \$1m p.a. in rent
  - The move will enable the creation of a new workplace that supports our culture of service excellence and high performance in a location that aligns with our new vision
- DEXUS's new remuneration framework to be voted on at the AGM on 5 November
- The appointment of a new Head of office and industrial to be announced pre Christmas

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## STRATEGY

### Progress on strategic objective – Capital partnerships

#### STRATEGIC OBJECTIVE

**CAPITAL PARTNERSHIPS**  
Being the wholesale partner of choice in office, industrial and retail

#### INITIATIVES

- Growing third party funds management business through
  - Developing new capital partners
  - Partnering with third party funds on investment opportunities

#### FY13 PROGRESS

- ✓ Capital partnership with NPS now established
- ✓ In final stages for new capital for DWPF
- ✓ Currently exploring other capital partnership opportunities

#### Progress in detail

- Partnership with the National Pension Service of Korea (NPS), advised by Heitman, has been established following settlement on 2 October
  - Initial investment of \$360m<sup>1</sup> with potential to increase to \$800m
- DWPF delivered a 12 month<sup>2</sup> total return of 8.6%, outperforming its benchmark over 1, 3 and 5 years
- STC outperformed its benchmark over 1, 3 and 5 years
- DWPF in final stages with a new investor for approximately \$300m of new capital
- DXS partnered with DWPF for the acquisition of 12 Creek Street, delivering an IRR<sup>3</sup> of 10.2% for DXS investors

#### Capital partners seek

- Governance: best practice corporate governance and strong conflict identification and management
- Capability: experienced people with a strong reputation as well as defined, robust processes and established practices
- Performance: track record of outperformance together with financial strength and liquidity

#### DEXUS seeks

- Fewer, deeper relationships with like minded parties
- Alignment with our investment strategy and participation through the cycle
- Market based fees
- Partners who recognise our specialist skills and the value we add

1. Joint venture ownership of 13 industrial properties in Sydney and Melbourne.  
2. 12 months ended 30 September 2012.  
3. Forecast 10 year unlevered internal rate of return including DEXUS funds management fees.

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# STRATEGY

## Progress on strategic objective – Capital and risk management

### STRATEGIC OBJECTIVE

**CAPITAL & RISK MANAGEMENT**  
Actively managing our capital in a prudent and disciplined manner

### INITIATIVES

- Progressing the exit of non-core offshore markets
- Reducing the cost and improving the access to capital
- Progressing the recycling of non-core Australian properties

### FY13 PROGRESS

- ✓ Progressed sale of remaining US portfolio
- ✓ Issued \$180m in four MTN transactions
- ✓ Progressing on-market securities buy-back
- ➔ Non-core Australian properties to be divested over the next 3 years

### Progress in detail

- Sale of the remaining US portfolio is progressing well, with negotiations underway
  - Expect terms to be agreed prior to Christmas
- Issued \$180m in four separate MTN transactions
  - Average all-in yield of 5.75% and 5.8 year tenor
  - Improving the cost, duration and diversity of debt
- On-market buy-back continued with a total of \$128m in securities bought back and now 64% complete
- DEXUS Treasury team awarded Corporate Treasury Team of the Year at the Annual Capital/CFO Magazine award

Capital management	30 Sep 12	30 Jun 12
Cost of debt <sup>1</sup>	6.0%	6.1%
Duration of debt <sup>2</sup>	4.3 years	4.2 years
Hedged debt <sup>3</sup>	71%	73%
Gearing	29.3%	27.2%
Pro-forma gearing <sup>4</sup>	29.9%	n/a
Undrawn facilities (approx.)	\$400m	\$570m
S&P/Moody's credit rating	BBB+/Baa1	BBB+/Baa1

1. Weighted average of the hedged rate and floating rates at period end date, inclusive of fees and margins on a drawn basis.  
2. Weighted average.

3. Average across the period.  
4. Adjusted for the settlement of the NPS partnership and the acquisitions of 50 Carrington Street, Sydney and 12 Creek Street, Brisbane.

## PORTFOLIO UPDATE



## PORTFOLIO UPDATE

### Total portfolio

#### Achievements

- Leased a total of 198,038sqm<sup>1</sup> across the portfolio, in 87 transactions over the quarter
- 6 properties revalued during quarter
  - \$21.6m valuation uplift or 3.6% on book value<sup>2</sup>
- On track to complete four industrial developments by 31 Dec 2012
  - Greystanes: 31,510sqm over two facilities with cost of \$45.5m and 8.8% yield on cost – 67% pre-leased
  - Wacol: 13,630sqm over two facilities with cost of \$17.8m and 9% yield on cost – 57% pre-leased
- Secured \$1.25m of trading profits through the sale of two completed developments<sup>4</sup> as part of the NPS partnership
  - Trading profit guidance for FY13 reduced from approx. \$5m to approx. \$2m as we are considering our options whether to hold or sell several development projects, including Wacol

DXS portfolio	30 Sep 12	30 Jun 12
Total number of properties <sup>3</sup>	107	106
Total NLA (sqm)	2.5m	2.5m
Occupancy by area	94.7%	93.4%
Occupancy by income	95.5%	95.8%
Weighted average lease expiry	4.8 years	4.7 years

Funds under management	30 Sep 12 DXS	30 Sep 12 Group
Total property portfolio <sup>3</sup>	\$7bn	\$13bn
Office portfolio <sup>3</sup>		
Value	\$4.9bn	\$6.8bn
% FUM	70%	53%
Target	80-90%	n/a
Development and repositioning		
Value	\$0.2bn	n/a
% FUM	3%	n/a
Target	<15%	n/a

1. Includes heads of agreement (HOA).

2. Based on prior book values of properties valued.

3. Includes 50 Carrington Street, Sydney and 12 Creek Street, Brisbane.

4. Fastlane and Toll facilities at Laverton North, VIC.

## PORTFOLIO UPDATE

### Office

#### Achievements

- Leased 45,234sqm across 36 transactions, including heads of agreement (HOA) over 11,835sqm
  - Department of Finance exercised a five year option over 23,528sqm at 8 Nicholson Street, Melbourne
  - HOA over 3,847sqm at Southgate in Melbourne
  - HOA over four suites totalling 1,419sqm at 1 Bligh Street, Sydney – now 93% committed
- Occupancy<sup>3</sup> decreased 0.9% to 96.2%
  - Comcare vacated 14 Moore Street, Canberra with active negotiations now underway
- WALE increased to 5 years
- \$19.2m valuation uplift from three properties, 3.6% increase on prior book value
- On track to achieve NABERS Energy 4.5 stars rating by 31 Dec 2012
  - At 30 Sep 2012 the average NABERS Energy rating is 4.3 stars

DXS office portfolio	30 Sep 12	30 Jun 12 <sup>1</sup>
Number of properties <sup>2</sup>	30	30
Occupancy by area <sup>3</sup>	96.2%	97.1%
Occupancy by income	96.2%	96.8%
Number of leases signed	11	48
Number of lease terms agreed	25	30
Retention rate YTD <sup>4</sup>	77%	66%
Retention rate 12 months <sup>4</sup>	72%	66%
Weighted average lease expiry	5.0 years	4.9 years

Office markets	Vacancy	Incentives
Sydney	8.6%	26%
Melbourne	8.3%	22%
Brisbane	8.8%	24%
Perth	4.0%	7%
National average	8.3%	21%
DXS portfolio average	3.8%	8.0% <sup>5</sup>

1. As at 30 June 2012 except leases signed and terms agreed which represent 12 months to 30 June 2012.

2. Includes the acquisitions of 50 Carrington Street, Sydney and 12 Creek Street, Brisbane.

3. By ownership.

4. By area.

5. DXS incentives for quarter ended 30 September 2012, average across all office leases.

## PORTFOLIO UPDATE

### Office

Leasing focus	Tenant	Area (sqm) <sup>1</sup> 16 Aug 2012	Area (sqm) <sup>1</sup> 24 Oct 2012	Ownership	Expiry status	Status
<b>FY13</b>						
1 Bligh Street	Vacant	4,482	3,063	33%	Available	1,419sqm secured under heads of agreement, part of remaining space under negotiation
45 Clarence Street	Vacant	3,735	3,735	100%	Available	Refurbishment completed, part under negotiation
Australia Square	Vacant	7,045	5,135	50%	Available	DEXUS to lease 2,064sqm from May 13. Marketing balance
14 Moore Street	Comcare	7,267	7,267	100%	Sep 12 - May 13	Active negotiations underway
8 Nicholson Street	Government	23,528	0	100%	Jun 13	Tenant exercised five year option
<b>FY14</b>						
Woodside Plaza	Woodside	4,281	4,281	100%	Nov 13	In discussions with current tenant
30 The Bond	Lend Lease	17,547	17,547	100%	Mar 14	In discussions with current tenant
GPT, 1 Farrer Place	Corrs	7,371	7,371	50%	May 14	Marketing
<b>FY15</b>						
GMT, 1 Farrer Place	NSW Gov't	20,406	20,406	50%	Dec 14	Continuing discussions with tenant and marketing the space

1. At 100%.

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## PORTFOLIO UPDATE

### Industrial

#### Achievements

- Leased 96,931sqm across 29 transactions, including HOA over 18,670sqm
- Leased a further 30,057sqm at Whicker Road Gillman
  - Currently 96% leased with average rents 32% higher than June 2012 passing rents
- Occupancy<sup>2</sup> increased 2.3% to 94.0%
- Other major leasing transactions include
  - Minna Close: leased entire warehouse (3,551sqm) for three years commencing 10 September 2012
  - Huntingwood: renewed 6,829sqm for three years commencing 1 December 2012
  - Rosebery: renewed 7,604sqm for five years commencing 1 March 2013
- HOA over a new 18,670sqm development for a seven year pre-lease at Laverton North
- \$2.4m valuation uplift from three properties, a 4.3% increase on prior book value

DXS industrial portfolio	30 Sep 12	30 Jun 12 <sup>1</sup>
Number of properties	44	45
Occupancy by area <sup>2</sup>	94.0%	91.7%
Occupancy by income	93.0%	92.8%
Average incentive	5.1%	5.5%
Number of leases signed	26	91
Number of lease terms agreed	3	—
Retention rate YTD <sup>3</sup>	66%	59%
Retention rate 12 months <sup>3</sup>	57%	59%
Weighted average lease expiry	4.3 years	4.4 years

1. As at 30 June 2012 except leases signed and terms agreed which represent 12 months to 30 June 2012.  
 2. By ownership.  
 3. By area.

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## PORTFOLIO UPDATE

Industrial – 15-23 Whicker Road, Gillman, SA



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## PORTFOLIO UPDATE

US industrial

### Achievements

- Leased 55,873sqm across 22 transactions at market rents and average incentives of 7.2%
- Occupancy<sup>3</sup> increased 1.7% to 98.8%
- Achieved 90% retention year to date
  - Achieved 100% retention at Riverbend Corporate Park, Seattle where 91% of total area was due to expire in FY13
- WALE remains stable at 4.4 years
- Portfolio well positioned for sale

DXS US industrial portfolio	30 Sep 12	30 Jun 12 <sup>1</sup>
Number of properties <sup>2</sup>	27	27
Occupancy by area	98.8%	97.1%
Occupancy by income	99.2%	98.2%
Average incentive	7.2%	7.1%
Number of leases signed	20	49
Number of lease terms agreed	2	1
Retention rate YTD <sup>3</sup>	90%	66%
Retention rate 12 months <sup>3</sup>	77%	66%
Weighted average lease expiry	4.4 years	4.4 years

US industrial market	Vacancy
Los Angeles	6.4%
Inland Empire	11.3%
San Diego	14.3%
Seattle	10.2%
DXS portfolio average	1.2%

1. As at 30 June 2012 except leases signed and terms agreed which represent 12 months to 30 June 2012.  
 2. Comprises 24 properties in west coast markets and 3 land parcels in Texas.  
 3. By area.

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## MARKET OUTLOOK



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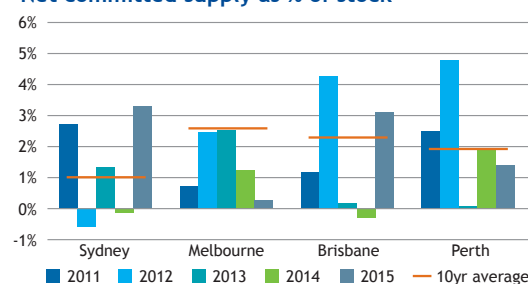
## MARKET OUTLOOK

### Australian office markets – reasonably balanced mid-term outlook

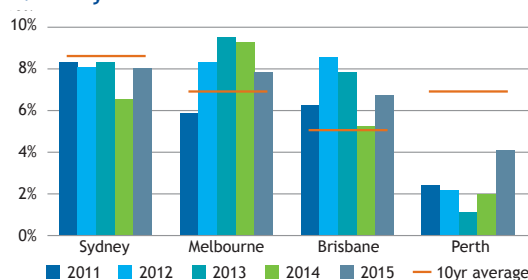
#### Markets well positioned for soft period of demand

- Demand subdued due to weak business confidence and global uncertainty
- Demand is cyclical, expected to improve in FY14 as monetary policy stimulus improves business confidence and jobs growth
- Overall, national committed supply is low during 2013-2014, with vacancy levels close to long term averages
- In Sydney, low supply and below average demand should see vacancy trend sideways and down over the next three years
- In Melbourne, above average supply will cause vacancy to rise, limiting growth in the short term
- In Perth and Brisbane, below average supply will keep vacancy low over the next three years

#### Net committed supply as % of stock



#### Vacancy forecast 2011-15



Source: Jones Lang LaSalle actual and DEXUS forecast.

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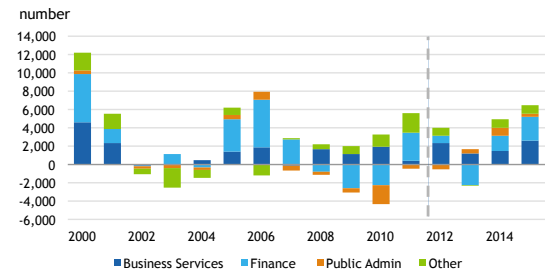
## MARKET OUTLOOK

### Sydney CBD office – demand

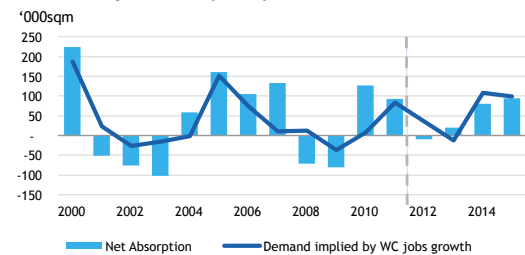
#### Mixed demand outlook in the short term

- Jobs growth in the finance sector expected to remain weak over the next 12 months before improving as lower interest rates stimulate credit growth
- Government sector not a major contributor to jobs growth the CBD in the past – or future
- Business services, including lawyers and accountants to show steady growth medium term
- Medium to longer term view more positive
- Access Economics are forecasting a cyclical improvement in demand in the period 2014 and 2015, which means demand would be peaking at the same time as new supply in 2015

#### White collar employment by industry – Sydney CBD



#### Net absorption – Sydney CBD



Source: Deloitte AE, DEXUS Research.

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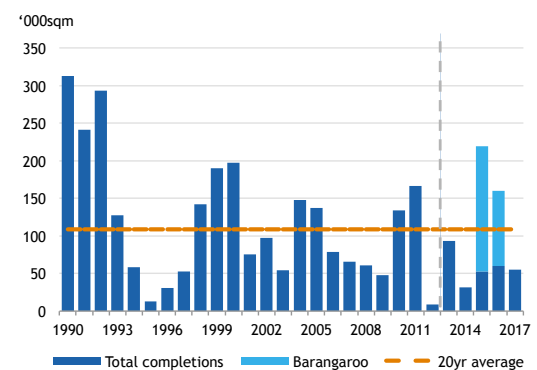
## MARKET OUTLOOK

### Sydney CBD office – supply and availability

#### Below average supply in the short term rising to above average in 2015

- Current vacancy at 8.6%, below the 10 year average of 8.8%
- A large number of prime contiguous floors are available, primarily in the core
- Two projects due to complete in 2013 offset by a number of withdrawals
- Forecast supply is at a similar magnitude to historical supply cycles
- Barangaroo office supply is:
  - Approximately 5% of Sydney CBD's stock
  - 28% of Sydney CBD's forecast gross supply over the next decade

#### Total completions – Sydney CBD



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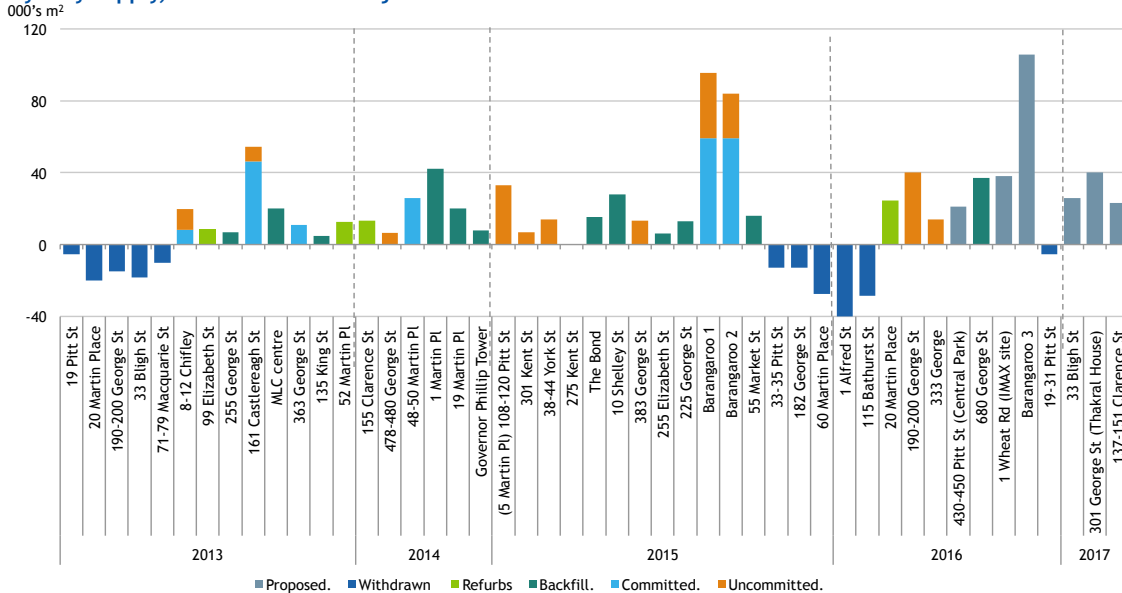


## MARKET OUTLOOK

### Sydney CBD office – supply and availability

- Continual focus on leasing and managing lease expiry risk will be required in Sydney market
  - Proactive asset managers with superior expertise will be the winners

#### Sydney supply, withdrawals and major backfill



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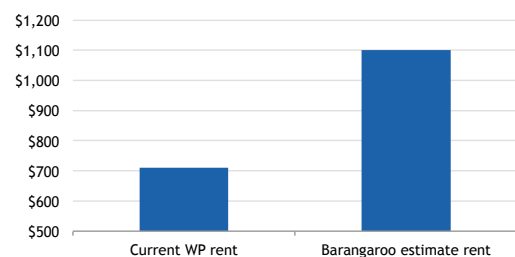
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## MARKET OUTLOOK

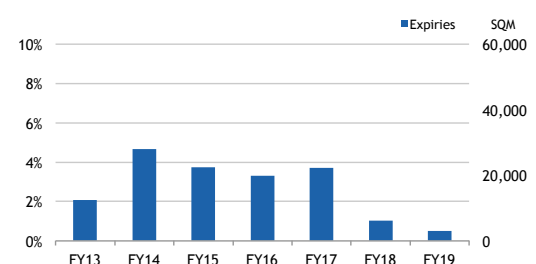
### Sydney CBD office – Barangaroo

- Western Precinct (WP) is undergoing a positive transformation with high quality tenants moving to the area
- Delivery of approx. 300,000sqm of premium office space, world class retail and dining, luxury residential apartments, cultural and entertainment offerings and a premium hotel
- DEXUS properties to benefit from:
  - Improved accessibility with new transport links including buses and ferries along with better access to Wynyard station
  - Rents on existing buildings to re-rate due to higher benchmark rents on new developments
  - Market rent reviews to capture expected uplift in precinct over the longer term

#### Western precinct market rents vs Barangaroo rents



#### DEXUS western precinct lease expiry profile<sup>1</sup>



Source: DEXUS Research \*gross face rents.  
1. As percentage of total DEXUS office portfolio.

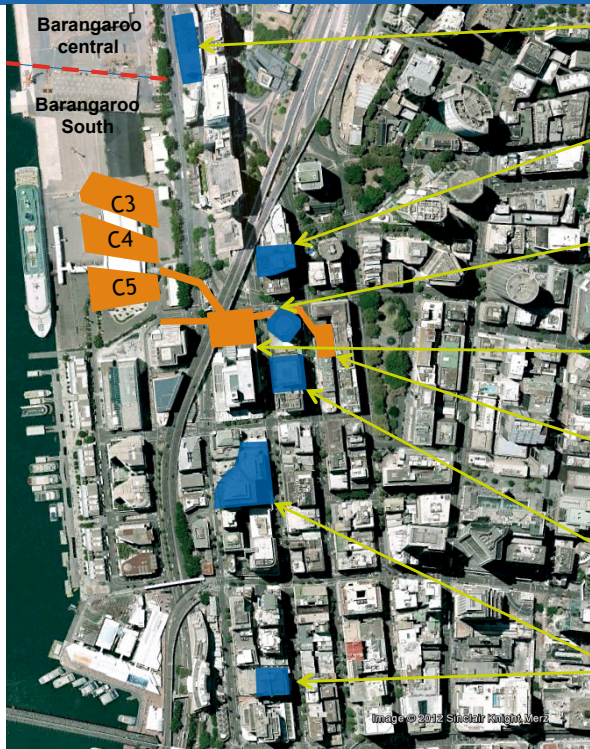
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## MARKET OUTLOOK

### Sydney CBD office – Barangaroo



#### 30 The Bond

- Different product from offering at Barangaroo - building expected to be re-rated

#### 45 Clarence Street

- Benefit from close proximity and entrance via Margaret Street and proximity to Barangaroo

#### One Margaret Street

- New podium entrance into Wynyard Walk to be constructed near property providing direct and improved access to Wynyard railway station

#### Napoleon Plaza

- Proposed pedestrian open space area between the Sussex Street bridge and Wynyard Walk tunnel and will integrate with existing Westpac Place

#### Wynyard Walk

- Proposed underground tunnel connecting Wynyard railway station and lower Western Precinct with a bridge over Sussex Street

#### 83 Clarence Street (Third party property)

- Rents in property benefitted from completion of Westpac Place and are expected to benefit from Barangaroo

#### 309-321 and 383 Kent Street

- Potential increase in amenity from public transport links including buses and ferries

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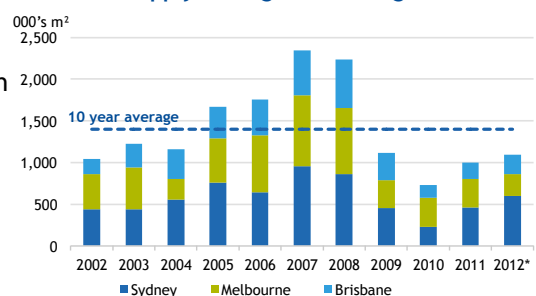
## MARKET OUTLOOK

### Australian industrial markets – well positioned

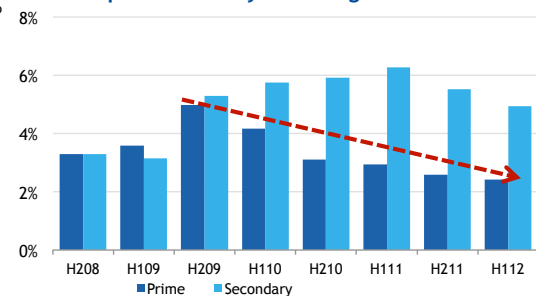
#### Lack of supply leading to low vacancy

- Subdued demand in the short term, expected to improve in FY14 in line with economic conditions and import growth
  - Steady flow of inquiries in western Melbourne and outer western Sydney but overall pre-commitment market competitive
- Prime vacancy has fallen and is expected to stay low in FY13 and secondary vacancy remains high but is beginning to fall
  - Western Melbourne and outer western Sydney prime vacancy <1%
- Net prime face rents are expected to remain relatively stable in FY13, with incentives elevated in Melbourne
- Investment market for prime stock remains strong and well supported
- Opportunity for speculative development based on low construction tenders and lack of quality available stock

#### East Coast supply vs long term average



#### National prime vacancy declining



Source: Jones Lang LaSalle, Savills Industrial Stock Survey, DEXUS Research.

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## SUMMARY

- Solid progress and execution of revised strategy
- Strong leasing results in office and industrial portfolios
- High exposure to deal flow, on and off-market
- We are confident we have the scale, expertise and strategy to continue to grow earnings
- Market guidance<sup>1</sup> for FY13 reaffirmed:
  - FFO per security: 7.75 cents
  - Distribution per security: 5.8 cents

1 Bligh Street, Sydney, NSW



1. Barring unforeseen circumstances and assuming a 75% payout ratio, delivering 2% like-for-like NOI growth in office portfolio, approx. \$2m in trading profits, cost of debt at 6.0% and excluding impacts of any further on-market securities buy-back.

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## IMPORTANT INFORMATION

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