

# Valuation Policy

## Dexus Core Property Fund

The valuation policy is designed to ensure that the assets of the Dexus Core Property Fund ('DCPF' or 'Fund') are valued at fair market value in a regular and timely manner so that unit pricing reflects the portfolio's market value.

### 1. Applicable Accounting and Valuation Standards

The policy is also designed to comply with Australian Accounting Standard AASB 13 – Fair value measurements ("AASB13") and AASB 140 - Investment Property ("AASB140"), the primary accounting standards applicable to investment property, together with AASB 102 – Inventories ("AASB102"), the accounting standard applicable to inventories, AASB 16 Leases ("AASB16"), the accounting standard applicable to leases, AASB 128 Investments in Associates ("AASB128"), the accounting standard applicable to investments in associates and AASB 9 Financial Instruments ("AASB9") the accounting standard applicable to investments in unit trusts and global listed real estate equities and unit trusts.

#### **Compliance with Australian Accounting Standards will ensure simultaneous compliance with International Financial Reporting Standards (IFRS).**

Valuations of direct real estate assets shall be carried out in accordance with the Dexus Valuation Standards, the Australian Property Institute's ('API') Valuation and Property Standards, the current International Valuation Standards and Guidance Notes of the International Valuations Standards Council ('IVSC'), the Royal Institution of Chartered Surveyors ('RICS') Valuation – Red Book Global Standards, the ASIC/APRA Unit pricing: Guide to good practice (RG94) and any applicable legal and regulatory requirements (including under the owner's governing documents, any relevant financing arrangements and, if applicable, the Corporations Act 2001 (Cth)).

This document should be read in conjunction with the following documents:

- External Valuation of Real Estate (Compliance Policy)
- Dexus Valuation Standard (full and short form)
- Dexus Appointing a Valuation Panel (procedure document)

The Dexus Valuation standards apply to the minimum reporting requirements for all external valuations commissioned on behalf of properties managed by Dexus.

#### 1.1. Valuation of Investment Property

The valuation policy is designed to comply with Australian Accounting Standard AASB 13 – Fair value measurements ("AASB13") and AASB 140 – Investment Property ("AASB140").

AASB13 defines fair value as the price that would be received to sell an asset in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date. Fair value measurement of an asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

AASB140 defines Investment Property as property (land or a building - or part of a building - or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- a) use in the production or supply of goods or services or for administrative purposes; or
- b) sale in the ordinary course of business.

Investment Property under construction is to be recognised at its fair value in accordance with AASB 140 – Investment Property and therefore comply in full with the requirements of this policy, unless it is not possible to reliably determine its fair value. If it is not possible to reliably determine its fair value, the Investment

Property under construction is to be carried at its cost of construction until the earlier of the completion of construction or its fair value is able to be reliably determined in accordance with this policy.

## **1.2. Valuation of Inventories**

The valuation policy is designed to comply with Australian Accounting Standard AASB 102 - Inventories ("AASB102").

In accordance with AASB102, Inventories comprising land, office and industrial developments are currently carried at the lower of cost and net realisable value.

Cost includes the cost of acquisition and development. Borrowing costs are capitalised for developments in accordance with AASB 123 – Borrowing Costs ("AASB123") up to completion at which point they are expensed as incurred.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale (which are not limited to those that are only incremental).

Industry practice is not to obtain external valuations, rather net realisable value is determined using evidence from either the existing project or surrounding market projects.

## **1.3. Valuation of Leased Assets**

Under AASB 16 Leases ("AASB16"), from 1 July 2019 for leases where a Dexu entity is a tenant, the entity is required to recognise a Right of Use Asset and Lease Liability.

There are two types of Right of Use assets recognised by Dexu entities under AASB16:

- Right of Use assets in relation to property leases where a Dexu entity leases space within buildings e.g. head office locations
- Right of Use assets in relation to ground leases where properties owned by a Dexu entity are located on leased land i.e. a ground lease

This policy only applies to ground leases which meet the definition of Investment Property under AASB 140 Investment Property. These leases are referred to as "Leased Assets" and are measured with reference to the value of the lease liability at each reporting period.

The Lease Liability is internally valued using the discounted cashflow method (DCF) that includes lease data i.e. start / end dates, rental amounts, escalations and other assumptions.

No external valuation is required for the lease liability. This approach is adopted to ensure the net of the investment property (including leased assets) and lease liability balances equals the fair value of the investment property located on the leased land.

Our approach to not obtain external valuations for Leased Assets is in line with industry practice.

#### **1.4. Valuation of investments in associates**

The Fund may invest in associates which are defined under AASB 128 Investments in Associates (“AASB128”) as entities over which it exerts significant influence or joint control. Investments in associates are generally required to be accounted for using the equity method. If the associate uses accounting policies or valuation policies, including those described in sections 1.1, 1.2 and 1.3 above, which are inconsistent with the Fund, then adjustments shall be made to materially conform those policies with those of the Fund.

#### **1.5. Valuation of Unit Trusts**

The Fund may invest in assets which are defined under AASB 9 Financial Instruments (“AASB9”) as “Financial Assets at Fair Value through Profit or Loss”. Such assets, which are not investments in associates (section 1.4 above), may include units in an internal Scheme or an externally managed fund/investment vehicle, and these investments will be valued using the latest available redemption or net asset value (NAV) price as provided by the Fund Manager or their appointed agents, third parties or counterparties.

Valuation adjustments may be required to either internally or externally calculated net asset values when a redemption or NAV price:

- is not available (for example when there is a stale NAV price; and/or a known delay in NAV reporting);
- is thought to be an unreliable representation of fair value (for example NAV of infrequently traded funds; the fund is known to trade at a significant premium or discount to its NAV; and/or there has been significant changes in the investment environment since the NAV of the Fund was last reported) and;
- does not reflect cash contributions, distributions and other transactions since the date of the NAV of the fund was last reported.

In these cases, to ensure fair value of each asset is appropriately determined, Dexus (in agreement with the Responsible Entity, where applicable) will consider the use of indexing to the relevant market indices or applying an adjustment to the redemption or NAV price based on:

- observable market transactions; and/or
- premiums or dilutions with respect to capital or distributions (for example dilutive equity changes, changes in retained earnings, etc); and/or
- unobservable valuation inputs, when appropriate (for example external and internal market research; and/or secondary market offers that are considered highly probable of being satisfied).

#### **1.6. Valuation of Exchange Traded Assets**

Exchange traded instruments including but not limited to, equities and listed unit trusts, are generally traded more frequently than non-exchange traded instruments. It is the role of the Custodian to value the assets in a scheme in accordance with its Securities Pricing Policy. The Custodian will review the Pricing Policy on an annual basis and will notify Dexus of any material changes to its policy before such changes are implemented including change of price source.

There may be circumstances when a market price or value may be unavailable or thought to be unreliable. The Fund Manager with the approval of the Investment Committee will consider the use of a valuation overlay adjustment to the market price or value, determined in accordance with the fair value methodology that is relevant to the asset. The Custodian will also maintain appropriate processes to identify zero movement or stale securities. Once a stale price has been identified, the Fund Manager will endeavour to locate the most recent available price to apply at the next valuation point or consider the use of a valuation overlay adjustment to the price, working with the Investment Committee as appropriate.

In the event that an asset has been suspended from a recognized exchange, the Fund Manager and/or the Investment Committee will review the particular asset to determine if the last sale price is appropriate and if a valuation overlay adjustment is required, then all relevant factors will be considered to determine value.

In the event that an asset has been delisted from a recognized exchange, including those companies in liquidation, under appointed or voluntary administration, receivership or bankruptcy, the Fund Manager and/or the Investment Committee will review the particular asset to determine if the last sale price is appropriate and if a valuation overlay adjustment is required, then all relevant factors will be considered to determine fair value.

## **2. Background**

The fiduciary obligations of the Responsible Entity and Investment Manager include:

- act in the best interest of the members, and if there is a conflict between the members' interests and its own interests, give priority to the members' interests;
- ensure that the Funds compliance plan and constitution meets the requirements of the Corporations Act and;
- ensure that the scheme property is valued at regular intervals appropriate to the nature of the property.

The Dexu Compliance Policy 'External Valuation of Real Estate' details how the Investment Manager acts in accordance with this obligation, whilst the Fund's constitution sets out general provisions in relation to the Responsible Entity's ability to value the assets at any time and its obligations to comply with the Corporations Act.

The Dexu External Valuation of Real Estate Compliance Policy sets out details of the external (independent) valuation process adopted by Dexu for directly held real estate assets.

## **3. Valuation of direct real estate assets**

### **3.1. Frequency**

All properties are valued by an independent valuer at least once in each financial year.

The valuation of land and property developments will follow the above mentioned valuation cycle on the principle of fair value supported by an annual external valuation (unless agreed otherwise by the Fund Manager).

Additionally, an independent external valuation is to be obtained for a property in the following circumstances;

- Prior to the purchase of that property:
  - o for a development property, on an 'as is and 'as if complete' basis, and
  - o for all other property, on an 'as is' basis; and
- Within two months of the Investment Manager forming the view that there has been a material change in the value of the property.

### **3.2. External Valuations**

A valuation program for the Fund is established for each financial year. On a best endeavours basis, valuations are staggered so that approximately half the Fund's assets are valued in each half year period, with an allowance for valuations on a quarterly basis if required.

Any independent valuations commissioned, are undertaken as at the end of a quarter, except in the case of acquisitions or other special circumstances as determined by the Fund Manager.

An external valuation may be commissioned if an internal valuation reveals a material movement, generally 3.5% above or below the carrying book value of the property.

### **3.3. Internal Valuation Process**

Where an internal valuation is adopted the process applied to determine the asset value must be robust and mirror the process applied by an external valuer. The Dexu process is as follows:

- the Valuations team create an appropriate valuation model for each property asset utilising accepted methods of valuation including capitalisation of income, discounted cash flow, direct comparison and hypothetical development.
- models are kept up to date with current tenancy data, leasing and capital expenditure assumptions as reviewed by the business monthly.
- information utilised by the Valuations team is identical in all material respects to information that would otherwise be provided to an external valuer
- assumptions that the Valuations team are required to make as part of the normal valuation process (including capitalisation rates, discount rates, rental growth rates, leasing voids, incentives and capital

expenditure) are supported by comparable market sales and leasing evidence obtained through our external valuation cycle

- external valuations of co-owned properties are taken into account in the internal valuation process
- liaison with industry sources, to assist in the monitoring of current market conditions, is constant and proactive (e.g. agency research presentations, external valuers and continuing professional development (API, FINSIA, PCA))

### **3.4. Valuation Review**

All valuations are reviewed by the DCPF Fund Manager, EGM Office, EGM Industrial, Healthcare & Alternates, EGM Retail, Heads of Transactions & Development (as applicable), Head of Funds Finance, together with relevant Head of Office Portfolio, Divisional Portfolio Managers, Divisional Investment & Development Managers ("Divisional Managers"), in conjunction with the Head of Valuations and Valuation Managers.

### **3.5. Valuation Panel**

A panel of valuers will be proposed annually by the Head of Valuations on the basis of expertise and experience under the guidelines of the Dexus Appointing a Valuer procedure document. Thereafter this will be agreed by the DCPF Fund Manager.

The Valuation Panel has been agreed by the DCPF Fund Manager to conduct independent external valuations of the properties in the Fund. The panel is currently comprised of

- CBRE Valuations Pty Limited (CBRE)
- Colliers International Valuation & Advisory Services (CIVAS)
- Cushman & Wakefield (C&W)
- Jones Lang LaSalle (JLL)
- Knight Frank Valuations (KF)
- Savills Valuations Pty Limited (Savills)
- m3property Pty Limited (m3)
- Urbis Pty Limited (Urbis)

Only valuation firms on this panel may be used for independent external valuations, unless otherwise approved by DCPF Fund Manager. The panel may be changed from time to time subject only to approval by the DCPF Fund Manager.

### **3.6. Rotation**

A valuation firm is appointed on the basis they are engaged to perform the valuation of the property asset for no more than two years except in the following circumstances:

- a property asset under development where it may be appropriate to appoint a valuer through the development period up to practical completion or stabilisation;
- a co-owned property asset where it may be appropriate to accommodate co-owner valuation requirements; or
- as directed by the DCPF Fund Manager.

### **3.7. Dexus Valuation Standard**

Valuation firms will be provided with the Dexus Valuation Standard as part of their instruction. The Standard details the requirements which must be adhered to by the valuer when providing their valuation report.

## **4. Exceptions to this Policy**

Any exceptions to this policy must be approved by the DCPF Fund Manager in consultation with the Head of Compliance, except where the proposed amendment is minor or inconsequential in nature and will have no adverse effect on the Fund.

## **5. Approval**

This Valuation Policy is subject to annual review and was approved by the DCPF Fund Manager on 18 March 2024.

**END**

**Document Control Log**

<b>Version</b>	<b>Author</b>	<b>Change Details</b>	<b>Approving Authority</b>	<b>Approved Date</b>
0.1	Michael Ward	New policy	Fund Manager	18 March 2024