

DEXUS Property Group (ASX:DXS)

ASX release

2 May 2013

March 2013 quarterly update

DEXUS Property Group (DEXUS) today provided a portfolio update and reported on its strategic progress for the quarter ended 31 March 2013.

DEXUS CEO, Darren Steinberg said: "Over the past quarter we have remained focused on improving portfolio metrics, reducing vacancies and working on upcoming tenant expiries. It was also pleasing to see an increase in leasing activity across our core portfolio, particularly in Sydney.

"From a transaction perspective it has been an active period, divesting our remaining US industrial property and reinvesting into a fund-through investment at 480 Queen Street, Brisbane on attractive terms."

PORTFOLIO HIGHLIGHTS

Transactions

- \$2.4 billion of transactions in FY13 to date across the Group
- Jointly acquired 480 Queen Street, Brisbane with DEXUS Wholesale Property Fund (DWPF)
- Sold the remaining US industrial property, Glendale, for US\$56.2 million (A\$54.1 million) in line with prior book value

Total portfolio

- 95,417 square metres¹ of space leased or renewed across 63 transactions
- Occupancy increased from 94.7% at 31 December 2012 to 95.0% at 31 March 2013

Office

- 45,343 square metres¹ of space leased or renewed across 32 transactions including achieving long-term lease extensions for two major tenants and securing the execution of Lend Lease's five-year option at 30 The Bond. Occupancy² improved to 95.5%
- Three office properties were revalued including 123 Albert Street, Brisbane resulting in a \$23.2 million value uplift and an average 12 basis point tightening in cap rates across these properties

Industrial

- 50,074 square metres¹ of space leased or renewed across 31 transactions including 16,244 square metres of development leasing. Occupancy improved to 94.8%

Development

- Continued progress on the \$1.2 billion development pipeline, completing 30,204 square metres, and securing leases for 9,899 square metres over the past quarter, resulting in a total of 92,798 square metres of space completed year to date
- \$1.3 million of trading profit guidance for FY13

DEXUS's new head office workspace

DEXUS's move to its new office in late April supports the Group's strategic objective that is focused on having the best people, strongest tenant relationships and most efficient systems.

Darren Steinberg said: "We have drawn on elements of the flexible based working model to establish an environment which enables choice and flexibility in how and where our people work. We have created a workspace which goes to the core of what we stand for and how we are perceived.

1. Including Heads of Agreement.

2. Excluding the three Sydney office properties acquired on 22 December 2012 and which settled on 28 February 2013. Including these three Sydney office properties, portfolio occupancy was 95.1% at 31 March 2013.

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Kevin George, Executive General Manager of Office and Industrial said: "We are proud to occupy a building we have ownership in and can now demonstrate to our tenants what is possible, by creating a collaborative workspace, from the footprint of a conventional office floor in a building that is almost 45 years old."

Transactions

Since the announcement of the revised strategy in August 2012, DEXUS has been actively involved in \$2.4 billion of transactions that have re-shaped the composition of the portfolio. DEXUS has demonstrated its ability to fully exit from the US industrial market and invest in quality office product across the spectrum through acquiring core and value-add opportunities as well as acquiring property on a development fund-through basis.

On 24 April 2013, DEXUS and DEXUS Wholesale Property Fund (DWPF) entered into an agreement to acquire equal 50% interests in 480 Queen Street, Brisbane, comprising a premium-grade office building to be developed by Grocon. The total consideration payable is expected to be approximately \$543.9 million³ representing a capitalisation rate⁴ of 7.25%, with final consideration and capitalisation rate dependent on the achievement of leasing prior to project completion. The unlevered 10-year internal rate of return (IRR) following completion is expected to be 10.3%. This investment has been acquired with low transaction costs and on a fund-through basis with DEXUS and DWPF jointly acquiring the land and funding the construction costs on a progressive basis.

Darren Steinberg said: "This fund-through acquisition presents an exciting opportunity for us to demonstrate and deploy our core skills in the office sector through active involvement in the leasing process and enhancing the tenant covenants beyond the already de-risked vacancies, which are covered by an income guarantee until February 2018."

PORTFOLIO UPDATE

Total portfolio metrics

Portfolio value:	\$7.1 billion
Total area:	1.7 million square metres
Area leased during period:	95,417 square metres

	31 March 2013	31 December 2012
Occupancy by area	94.9%	94.7%
Occupancy by income	94.7%	95.0%
WALE by income	4.8 years	4.7 years
Retention rate (year to date)	72%	74%
Retention rate (rolling 12 months)	59%	62%

Valuations

Valuations were completed at four properties at 31 March 2013, including three office and one industrial property. An average 12 basis point tightening in capitalisation rates resulted in a \$23.2 million valuation uplift, representing a 3.6% increase on prior book value across the properties re-valued.

Darren Steinberg said: "When you look at what happened in offshore markets such as the United States where cap rate compression came through 12 to 18 months ago, and combine this with the global weight of capital seeking quality Australian office as well as recent transactional evidence, we are confident that there will be cap rate compression. We are forecasting 25-50 basis points tightening across our portfolio over the next 12 to 18 months."

3. At 100% excluding acquisition and other potential costs.

4. Including completion value of 480 Queen Street, Brisbane.

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Office portfolio

Portfolio value:	\$5.5 billion
Total area:	682,232 square metres
Area leased during period:	45,343 square metres

	31 March 2013	31 December 2012
Occupancy by area (like-for-like)	95.5%	95.2%
Occupancy by income (like-for-like)	95.7%	95.3%
WALE by income	5.0 years	4.9 years
Average incentive	11.9%	9.6%
Average rental increase/(decrease) in rent	2.1%	(2.7%)
Retention rate (year to date)	74%	69%
Retention rate (rolling 12 months)	69%	62%

Kevin George said: "The office market leasing conditions remain challenging but pleasingly we have been able to generate good tenant interest in our quality buildings and achieved some leasing, securing tenants early where the total return has demonstrated outperformance. Incentive levels are still competitive for larger space requirements especially in older fit-outs or un-refurbished space."

The office portfolio delivered a strong total return for the 12 months to 31 March 2013 of 10.6%. During the March quarter 45,343 square metres of office space was leased across 32 transactions, including securing Heads of Agreement over 15,680 square metres.

Occupancy increased to 95.5% on a like-for-like basis over the quarter. Taking into account the recent Sydney office acquisitions, occupancy decreased from 95.2% at 31 December 2012 to 95.1% and the weighted average lease expiry increased 0.1 years to 5.0 years, reflecting a solid leasing period and the continued focus on active forward leasing.

Key leasing successes include:

- Lend Lease exercising a five year option over 17,547 square metres at 30 The Bond in Sydney, extending its lease to March 2019
- Minter Ellison Rudd Watt negotiating a new lease over 3,900sqm at Lumley Centre, Auckland for a further six years to 2021, increasing the property WALE to 4.1 years.
- At 383 Kent Street, terms were agreed over 2,300sqm for 11 years from November 2013

Industrial portfolio

Portfolio value:	\$1.6 billion
Total area:	1,070,120 square metres
Area leased during period:	50,074 square metres

	31 March 2013	31 December 2012
Occupancy by area	94.8%	94.4%
Occupancy by income	94.3%	93.9%
WALE by income	4.0 years	4.0 years
Average incentive	6.5%	6.3%
Average rental (decrease)/increase in rent	(0.4%)	(0.7%)
Retention rate (year to date)	73%	78%
Retention rate (rolling 12 months)	57%	63%

Kevin George said: "Tenants continue to seek new, modern facilities with higher specifications located close to major road networks. We have achieved a good leasing result in a challenging market through presenting well located, quality industrial facilities and leveraging our relationships with existing tenants."

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The industrial portfolio delivered a total return for the 12 months to 31 March 2013 of 7.6% with occupancy increasing to 94.8% and the weighted average lease expiry remaining stable at 4.0 years. During the quarter, 50,074 square metres of industrial space was leased across 31 transactions, including securing heads of agreement over 30,055 square metres.

Key leasing successes include:

- At Pound Road West, Dandenong secured heads of agreement with the Commonwealth Government for a seven year lease extension over 7,607 square metres
- At 57-65 Templar Road, Erskine Park secured two heads of agreements for five year terms over 9,899 square metres
- At Kings Park Industrial Estate secured two tenants for five year terms over 6,381 square metres

Developments

DEXUS has a strong track record in delivering high quality office and industrial product to the market. The current \$1.2 billion development book comprises developments underway, industrial and office uncommitted developments, trading/value-add properties and a development fund-through investment.

During the quarter DEXUS completed a 30,145 square metre speculative multi-unit industrial estate at Erskine Park in New South Wales, securing two lease agreements across 33% of the total area.

Kevin George said: "There is strong demand from third party logistics operators seeking turnkey facilities and we have been successful in securing tenant pre-commitments for 66% of the total space under development."

DEXUS has a further six industrial developments across 90,139 square metres underway in New South Wales, Queensland and Victoria at a total cost of \$112 million⁵. These include:

Greystanes

- A \$13.7 million, 10,100 square metre facility pre-leased to Roche Diagnostics on a 15 year term due for completion in October 2013
- A \$29.8 million, 17,815 square metre facility pre-leased to Blackwoods on a 15 year term due for completion in December 2013
- A \$26.0 million, 19,480 square metre speculative warehouse due for completion mid 2014

Laverton North

- An 11,854 square metre speculative facility due for completion in May 2013
- An 18,670 square metre facility pre-leased to Toll due for completion in July 2013 with the lease commencing in October 2013

Wacol Lot 2

- A 12,220 square metre speculative facility due for completion at the end of July 2013.

CAPITAL MANAGEMENT

Key metrics	31 March 2013	31 December 2012
Gearing	29.4%	29.0%
Duration of debt	4.1 years	4.1 years
Cost of debt ⁶	5.8%	5.8%
Hedged debt	58%	70%
Undrawn facilities (approximately)	\$0.3bn	\$0.5bn

As part of the continued strategic and active approach to capital management, DEXUS recently announced that it had successfully priced a long-dated US Private Placement offering for US\$300 million across tenors of 10, 12 and 15 years to refinance the short-term three year bridge facility put in place for DEXUS's joint acquisition of the Sydney office portfolio that was announced in December 2012.

5. At 100% interest.

6. Weighted average across the period.

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When the issue settles in July 2013, it will increase the Group's diversification of funding sources with the proportion of capital markets debt increasing to 48% and will extend the average duration of debt to greater than five years.

DEXUS CFO, Craig Mitchell said: "Our balance sheet remains strong with gearing at 29.4% and we have limited short term refinancing requirements. Upon the completion of the 480 Queen Street, Brisbane acquisition, pro-forma gearing⁷ increases by approximately 2%, comfortably within our target range of 30-40% and our residual gearing capacity positions us well for potential acquisitions should suitable opportunities arise."

With the closing of the sale of the US portfolio and associated repayment of US\$ debt late in the quarter and the settlement of the sale of Glendale in April, the average cost of funds was maintained at 5.8%. Interest rate hedging was lower on average across the period as a result of the increase in A\$ debt due to acquisitions and the termination of US interest rate hedging prior to settlement.

"Following the successful redeployment of US sale proceeds into new office acquisitions and recent DXS security price performance, we chose not to extend the share buy-back program, having completed 64% of the targeted \$200 million," said Craig Mitchell.

THIRD PARTY FUNDS MANAGEMENT

Craig Mitchell said: "In a very active nine months, DWPF continued to outperform its benchmark and raised over \$820 million, including \$350 million from a pro rata offer during the March quarter. The Fund continued to attract strong investor interest, with the pro rata offer being fully subscribed by existing and new investors and excess demand for new equity."

During the quarter DEXUS advanced its strategy of being the wholesale partner of choice through the joint acquisition with DWPF of 480 Queen Street, Brisbane and the Australian Industrial Partnership's acquisition of a further five industrial properties, increasing the partnership to 18 properties with a combined value of \$470 million.

LAUNCH OF DEXUS IR APP

The Group today announced the launch of the DEXUS investor relations app for iPhone, iPad and Android mobile devices which allows users to navigate investor relations material as well as receive a DXS stock quote and other important stock information. The DEXUS IR app provides current and future investors with instant access to the latest stock price, ASX Announcements, presentations, reports, webcasts and more.

David Yates, Executive General Manager of Investor Relations, Marketing and Communications said: "We have launched this application to help ensure that our investors have instant access to our corporate and stock information. We are excited to be one of the early adopters of this mobile technology which assists in creating broader awareness of DEXUS throughout the investment community."

The DEXUS IR app is now available for free at Apple's App Store and at Google Play.

SUMMARY AND OUTLOOK

Darren Steinberg said: "We have made good progress executing our strategy over the past quarter through completing our exit from the US market and focusing on driving value back here in Australia.

"In a challenging market we have progressed all of our strategic objectives alongside achieving solid leasing results. With a strong and conservative balance sheet, we are confident that we can continue to deliver superior risk-adjusted returns for our investors from our quality Australian real estate portfolio."

DEXUS's guidance⁸ for the year ending 30 June 2013 is reaffirmed with FFO or earnings of 7.75 cents per security and distributions of 5.8 cents per security.

7. Pro-forma gearing increases to approximately 32% including remaining costs on 480 Queen Street at February 2016.

8. Barring unforeseen circumstances and assuming a 75% payout ratio, delivering 2% like-for-like NOI growth in the office portfolio, \$1.3m in trading profits and cost of debt at 5.8%.

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About DEXUS

DEXUS Property Group (DEXUS) is one of Australia's leading real estate groups, investing directly in high quality Australian office and industrial properties. With a total of \$13.1 billion of assets under management, DEXUS also actively manages office, industrial and retail properties located in key Australian markets on behalf of third party capital partners. DEXUS has an office portfolio of over 900,000 square metres across Sydney, Melbourne, Brisbane and Perth, and is the largest institutional 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 18,000 investors from 15 countries. With over 25 years of experience in commercial property investment, development and asset management, DEXUS has a proven track record in capital and risk management, providing service excellence to tenants and delivering superior risk-adjusted returns to investors.

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