

Property portfolio

Our office and industrial portfolios achieved strong total returns of 16.9% and 13.6% respectively. Both portfolios continue to outperform the IPD benchmarks over one and three year periods, with the office portfolio also outperforming over five years.

Across Dexus's office portfolio we leased 242,957 square metres of space, in addition to securing future income streams through leasing 52,589 square metres of space within development projects. Portfolio occupancy reduced marginally to 96% driven by the known departure of CBA at Sydney Olympic Park, providing opportunity for us to improve this position in FY19.

Our office portfolio recorded a \$1.1 billion or 10.6% increase on prior book values, reflecting further capitalisation rate compression and increasing market rents. Strong leasing, increasing market rents and further capitalisation rate compression in the core industrial markets of South Sydney, Western Sydney and Western Melbourne led to an industrial valuation uplift of \$141.9 million or 6.7% on prior book values.

Tenant activity and market dynamics have remained positive in all of our core office markets. Strong levels of enquiry in Perth have converted to significant leasing at 240 St Georges Terrace and Kings Square as tenants seek to upgrade to better quality buildings and centralise into the CBD.

Our industrial portfolio continues to benefit from an uptick in logistics and e-commerce demand, which contributed to the leasing of 192,116 square metres of space, driving an improvement in occupancy to 98.3%.

In FY19, we expect rental growth across all of our core office and industrial markets, in addition to continued investment demand for well leased Prime properties which will, in turn, support values.

Progressing the development pipeline

We activated two office projects in Dexus's \$2.2 billion development pipeline at 180 Flinders Street in the Melbourne CBD and 12 Creek Street – The Annex in Brisbane, and in July 2018, commenced development works at 240 St Georges Terrace in Perth. Dexus is also shortlisted or in an exclusive position on potential concept development opportunities valued at circa \$2 billion.

The works at 240 St Georges Terrace include the creation of a new street entry, new end-of-trip facilities, and an improved retail offering. On-floor upgrades will commence from October 2018, prior to Woodside's lease expiry, with 57%¹ of the impending Woodside vacancy now solved.

Works also progressed at 100 Mount Street, North Sydney, where NBN Co. was secured as a new customer across 20,364 square metres. In aggregate, 50%¹ of the space is already committed at these four key office developments with completions scheduled over the next four years.

Our longer dated major development projects also progressed. In Sydney, we received stage 1 approval of the State Significant Development Application for the mixed-use development at 201 Elizabeth Street. In Brisbane, the Queensland Government endorsed Dexus's Waterfront Precinct proposal to progress to the next stage under the Market-Led-Proposal Program. The plan is to revitalise Brisbane's premier dining hub and create a traffic-free precinct that delivers a global-standard business address and tourist destination in the heart of the CBD.

Six industrial developments were completed, all of which were 100% leased. Construction continues over a further 67,200 square metres of industrial space in Greystanes and Laverton North, with 20% of the space pre-leased.

Post 30 June 2018, we replenished the industrial development pipeline through entering into agreements to acquire three industrial development sites in Melbourne, Sydney and Brisbane, one of which will be acquired jointly with DWPF. These developments have a combined end value of circa \$700 million and will be built out over the next five to seven years. They provide the opportunity to leverage Dexus's extensive market knowledge, development and leasing capabilities and track record in each of these markets.

FY19 Focus

- Maintain office and industrial occupancy >95%
- Target like-for-like income growth in office of 4-5% and industrial of 2.5-3.5%
- Manage capital expenditure down to \$155-165 million
- Selective forward leasing to manage expiry risk
- Capture upside in Sydney market

+ Case Study

Enhancing value through active management

At Sydney properties, 45 Clarence Street and 1 Farrer Place, Dexus has improved the customer offer, achieving strong leasing outcomes while enhancing the tenant mix.

The number of tenants at 45 Clarence Street has increased from 30 in 2014 to 54 today, while over the same period the number of tenants at 1 Farrer Place increased from 63 to 108. The end-of-trip amenity at both properties has been enhanced and the on-floor lift lobbies and bathrooms at 45 Clarence Street refreshed, with a retail redevelopment currently underway at 1 Farrer Place.

An active management approach is reflected in the values of these properties. Since 2014, the value of 45 Clarence Street has increased by \$186.7 million, with \$90.3 million of this uplift occurring in the past 12 months. 1 Farrer Place has achieved \$327.2 million¹ of valuation uplifts over the past four years, with \$63.8 million¹ of this occurring in the past 12 months, and both increases driven mainly by rising market rents.

1. Dexus share.

1. Includes Heads of Agreement signed post 30 June 2018.

Funds management

Our funds management business has grown by \$1.2 billion to \$13.9 billion through transactions, developments and strong revaluations.

All funds delivered strong performance, with Dexus Wholesale Property Fund delivering top quartile performance and a one year total return of 13.8%, outperforming its benchmark over all time periods. The Dexus Office Partnership delivered a one year unlevered total property return of 16.0%.

The first equity raise for the Healthcare Wholesale Property Fund was completed, the development of Calvary Adelaide Hospital progressed, and planning approval was received for the North Shore Health Hub in St Leonards.

We undertook \$801 million¹ of transactions on behalf of our third party partners to fulfil their investment objectives. In addition to the acquisition of seed properties by the Healthcare Wholesale Property Fund, the Dexus Office Partnership acquired 140 George Street in Parramatta for \$13.5 million and 56 Berry Street in North Sydney for \$31 million. The Dexus Office Partnership also divested non-core properties at 11 Waymouth Street in Adelaide and 46 Colin Street in West Perth, accompanied by some other small divestments by DWPF.

FY19 Focus

- Deliver fund performance
- Deliver on clients' investment objectives and match capital to opportunities
- Progress the launch of new unlisted funds or partnerships over the next 12-18 months



We continue to deliver strong performance for all of our clients and are progressing the funds management development pipeline which provides a source of organic growth."

Deborah Coakley, Executive General Manager, Funds Management

Trading

We achieved our FY18 trading profit target of \$35-40 million, delivering \$36.6 million net of tax from the sale of 105 Phillip Street and 140 George Street, both located in Parramatta.

The exchange of contracts to sell 32 Flinders Street, Melbourne has de-risked FY19 trading profits.

Progress was made at 12 Frederick Street, St Leonards (North Shore Health Hub) with Stage 1 planning approval received, in addition to the completion of a leasing expression of interest campaign which received strong interest from potential tenants.



We had another strong year in our trading business, achieving our target and de-risking FY19 trading profits."

Ross Du Vernet, Chief Investment Officer

Since 2012 our value-add strategies have led to the sale of 12 properties identified for trading purposes, delivering an average unlevered IRR of circa 30% and \$267 million in trading profits pre-tax to Dexus Security holders.

A total of six projects diversified across sectors and trading strategies have been earmarked to deliver trading profits of \$260-280 million pre-tax in future years.

FY19 Focus

- Target trading profits of \$35-40 million net of tax

1. Includes transactions settled or announced post 30 June 2017 as well as the acquisition of 11-167 Palm Springs Road, Ravenhall VIC, which was announced post 30 June 2018.