

ASX Release
Charter Hall Retail REIT
Delivering on Strategy
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Charter Hall Retail REIT (ASX:CQR) (the REIT) today announced its results for the half year to 31 December 2013.

Key financial results:

- Statutory profit of \$20.6 million, 5.98cpu
- Operating earnings¹ of \$51.1 million, 14.84cpu
- Distribution of 13.65cpu; up 2.6% on pcp
- Australian portfolio value of \$1.9 billion, up 16.1% on June 2013
- Australian balance sheet gearing of 31.6%
- NTA at \$3.36 per unit, up 1.2% on June 2013
- Cash and undrawn debt capacity of \$155 million²

Australian portfolio operating performance:

- Same property NOI growth of 2.5%
- Occupancy of 98.2%
- Specialty rental rate growth of 3.3% from 103 leasing transactions

“We have had an active start to the 2014 financial year, completing two centre redevelopments, commencing three new projects and acquiring three properties. This activity has brought our Australian assets under management to \$1.9 billion and has contributed to our strong result, which is in line with guidance,” said Scott Dundas, the REIT’s Fund Manager.

Investing in the Australian portfolio

The REIT has maintained its disciplined investment strategy, acquiring three well located, supermarket anchored shopping centres for \$193.2 million, reflecting an average initial yield of 7.7%. Secret Harbour Shopping Centre in Western Australia, Southgate Plaza in South Australia and Rosebud Plaza in Victoria, are anchored by a high turnover Coles and/or Woolworths supermarket and benefit from strong trade traffic. The Secret Harbour property also includes an additional 31,000 square metres of development land, zoned District Town Centre, available for expansion, with the REIT to review opportunities for the centre in financial year 2015.

¹ Operating earnings is a financial measure which represents the net profit / (loss) under Australian Accounting Standards adjusted for certain unrealised and non-cash items, reserve transfers, capital transactions and other non-core items. Operating earnings for the current and prior period excludes German operations

² Excludes restricted cash and VAT received on sale of Polish properties and includes \$14.2 million to be raised from the DRP on 28 February 2014 and \$8.0 million raised from the Charter Hall conditional placement, post balance date adjustments



Delivering on its redevelopment pipeline remains a key focus, with the REIT completing \$77 million of redevelopments during the period, including the \$15.7 million project at South Hedland Square. Currently \$59 million of redevelopment projects are underway at Orange Central in New South Wales, Lansell Square in Victoria and Caboolture in Queensland. These three projects have an average forecast yield of 9.6% and are scheduled to complete over the next 18 months.

Offshore update

Following the successful completion of the sale of the Polish portfolio in October 2013 for €174.5 million and the sale of the final three United States properties for US\$25.5 million, the REIT's reweighting to Australia is largely complete.

The REIT's German properties have been independently valued at 31 December 2013 resulting in a A\$20 million (14%) devaluation. This is due to a continued deterioration in market conditions with the REIT now having negligible equity in its German portfolio. Discussions are underway regarding a sale strategy, which is expected to have minimal impact to the REIT given:

- Debt facility is non recourse to the ultimate parent entity, Charter Hall Retail REIT
- Earnings from Germany have been excluded from the REIT's operating earnings and distributions
- Australian NTA and gearing are not affected by a sale.

Consistent Australian portfolio performance

The Australian portfolio continues to deliver solid results, with occupancy of 98.2% and same property net operating income (NOI) growth of 2.5%. Specialty rent growth of 3.3% was achieved following another active leasing period with 29 lease renewals and 74 new leases being completed.

Australian property valuations increased by \$36.9 million or 1.9%¹ with cap rates compressing by 29 basis points over the period. Sub-regional cap rates in particular saw a 35 basis points compression, a pleasing result in the current retail environment.

Specialty occupancy cost of 9.2% continues to differentiate the REIT's portfolio and demonstrate the attractiveness of grocery anchored neighbourhood and sub-regional shopping centres.

Proactive capital management

The REIT refinanced or repaid \$670 million of debt facilities during the period. Refinance of Australian debt facilities reduced the REIT's average margin by 24 basis points on an annualised basis, contributing to a 4.6% interest cost for the six month period, and increased Australian weighted average debt maturity to 3.6 years. This includes the \$90 million increase of its syndicated debt facility limit to \$475 million and securing a refinance of its Australian joint venture debt facility, extending the term by one year to July 2017.

The REIT also undertook an \$80 million institutional placement at a price of \$3.80 per unit in November 2013, with the proceeds used to partially fund the Rosebud Plaza acquisition.

¹ Before write-off of \$13.9 million in acquisition costs predominantly relating to Southgate Plaza, Secret Harbour and Rosebud Plaza



Strategy and outlook

Management remains committed to its strategy of maintaining and enhancing the REIT's Australian portfolio through focusing on:

- Non-discretionary retail spending
- Maximising property returns through leveraging Charter Hall's vertically integrated management platform
- Acquiring high quality Australian supermarket anchored retail properties and enhancing the existing portfolio through redevelopments
- Proactive equity and debt management.

FY14 operating earnings guidance

As previously stated, from 1 July 2013, the REIT's German operations have not been included in the REIT's operating earnings given these properties are being prepared for sale and earnings from these operations are not available for distribution.

Barring unforeseen events the REIT's FY14 guidance for operating earnings, excluding German operations, remains unchanged, at between 29.5 and 30.0 cents per unit. The payout ratio range is expected to be between 90% and 95% of operating earnings excluding German operations.

Mr Dundas said: "With food sales and non-discretionary retail continuing to outperform traditional discretionary spending, the REIT remains well positioned given the majority of its portfolio consists of high quality Australian neighbourhood and sub-regional shopping centres. The active management of our portfolio remains a key focus for management and we will continue to work with tenants to enhance the shopping centre experience and focus on lease management to maximise property returns and deliver a secure and growing income stream for investors".

About Charter Hall Retail REIT

Charter Hall Retail REIT is a leading listed real estate investment trust with a portfolio of high quality Australian supermarket anchored neighbourhood and sub-regional shopping centres.

Charter Hall Retail REIT is managed by Charter Hall Group (ASX:CHC), one of Australia's leading fully integrated property groups, with over 22 years' experience managing high quality property on behalf of institutional, wholesale and retail clients. Charter Hall has over \$10 billion of funds under management across the office, retail and industrial sectors. The Group has offices in Sydney, Melbourne, Brisbane, Adelaide and Perth.

The Group's success is underpinned by a highly skilled and motivated team with diverse expertise across property sectors and risk-return profiles. Sustainability is a key element of its business approach and by ensuring its actions are commercially sound and make a difference to its people, customers and the environment, Charter Hall can make a positive impact for its investors, the community and the Group. For further information on Charter Hall Group and Charter Hall Retail REIT go to www.charterhall.com.au

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