ASX Release

Charter Hall
Retail Management Limited
ACN 069 709 468
AFSL 246996

Responsible entity of
Charter Hall Retail REIT
ABN 34 357 213 849

Level 20, No.1 Martin Place
Sydney NSW 2000
GPO Box 2704 Sydney NSW 2001

T +61 2 8651 9000
F +61 2 9221 4655

www.charterhall.com.au

Charter Hall Retail REIT FY17 Results

15 August 2017

Charter Hall Retail REIT (ASX:CQR) (the REIT) today announced its results for the full year to 30 June 2017.

Key financial results:

- Statutory profit of $251.3 million, a 39.1% increase from prior corresponding period (pcp)
- Operating earnings of $123.3 million, 30.4 cents per unit, in line with pcp
- Distributions of 28.1 cents per unit, in line with pcp
- Net tangible assets (NTA) up 9.0% from June 2016 to $4.13 per unit
- Balance sheet gearing of 33.1% remains towards the lower end of the range and weighted average debt maturity of 6.1 years

Operating Highlights:

- Purchased three properties for $282.6 million at a yield of 6.0% and divested eight properties for $157.2 million at an average yield of 6.5%[1]
- Completed the $63 million redevelopment of Secret Harbour Shopping Centre WA
- Portfolio value of $2.8 billion, up 8.4% from $2.5 billion at June 2016
- Total net property income (NPI) growth of 2.5%
- Specialty rent growth of 0.2% achieved from 156 renewals and 79 new leasing transactions
- Occupancy maintained at 98.0%
- Weighted average anchor lease duration of 10.4 years and Portfolio WALE of 6.8 years

Scott Dundas, Fund Manager of the REIT, said: “We continue to transition the portfolio from lower growth assets into centres where we can add value through active management. The focus of the portfolio continues to remain on non-discretionary retail uses driven by Australia’s leading supermarket brands. Our transactions during the year demonstrate our ability to execute on this strategy.

We are pleased to have continued to deliver a secure income stream for our investors, reporting operating earnings of 30.4 cents per unit, a distribution of 28.1 cents per unit, and stable performance across our portfolio including total NPI growth of 2.5%” Mr Dundas added.

1. Divestments calculated at 100% values and includes acquisitions and divestments settling post balance sheet date.

Positive portfolio performance delivered by an active management approach

The REIT's $2.8 billion national portfolio of 71 supermarket anchored shopping centres delivered stable occupancy of 98.0% and same property NPI growth of 1.0%.

The REIT's supermarkets continued to perform well with 38% of Supermarket tenants now paying turnover rent, up from 31% at June 2016. A further 14% are within 10% of their turnover thresholds. Supermarket MAT growth for stores paying turnover rent was 3.8% over FY17.

Including the REIT's Discount Department Stores, anchor tenant MAT growth has continued to strengthen, increasing to 4.0% for stores paying turnover rent.

With a firm focus on strong tenant relationships and optimising tenancy mix the REIT achieved specialty rent growth of 0.2% from 79 new leases and 156 renewals completed in the year reflecting an increased retention rate for specialty tenants of 87%.

Specialty MAT growth was 0.2% for the year, reflecting challenging trading conditions for specialty retailers.

Property valuations increased by $118.0 million or 4.5% over the year, with the weighted average capitalisation rate firming by 40 basis points to 6.31%, demonstrating continued strong investor interest in the asset class.

A disciplined investment strategy that is enhancing the portfolio quality

The REIT has continued its disciplined investment strategy to enhance portfolio earnings through value accretive redevelopments, selective acquisitions of properties with potential higher growth and divestment of lower growth assets.

During the year, the REIT contracted to divest eight lower growth properties valued at $157.2 million (100% share) at an average yield of 6.5%. All assets were sold at or above book value.

In the first half, the REIT acquired Arana Hills Plaza in Queensland for a purchase price of $67.1 million at a fully leased yield of 6.0%. On 29 May 2017, the REIT contracted to purchase the Salamander Bay Shopping Centre in New South Wales for $174.5 million and on 14 June 2017, the REIT contracted to purchase the Highfields Village Shopping Centre in Toowoomba, Queensland, for $41.0 million. Both assets were acquired at a yield of 6.0% and settled post balance date on 14 July 2017 and 3 July 2017 respectively. All assets are located in high growth corridors and operate as the primary shopping centre in the respective locality.

During the year, the major redevelopment of the Secret Harbour Shopping Centre south of Perth, Western Australia, was completed. The redeveloped centre was subject to a major refurbishment, expansion of the existing Woolworths supermarket, a new 4,050m^2 Coles supermarket, a 1,550m^2 Aldi supermarket and an array of specialty retailers including an improved food and beverage offering. A pad site comprising 1,225m^2 Dan Murphy's liquor store will be completed in December 2017.

The $63 million investment to revitalise Secret Harbour Shopping Centre demonstrates the REIT's focus on delivering value to our centres, communities and unitholders.

"Value enhancing redevelopment is a key element of our growth strategy to ensure we provide an enjoyable and convenient shopping experience for our customers and deliver a secure income stream for our investors. In FY18 we will commence the redevelopment of the Lake Macquarie/Mount Hutton Shopping Centres in NSW and the Wanneroo Central Shopping Centre in Western Australia," Mr Dundas said.

Following acquisitions, divestment of lower growth assets, revaluations and completed redevelopments the REIT's average asset value has increased from $39.7 million at June 2016 to $44.7 million at June 2017.

Proactive capital management focused on a strong and flexible balance sheet

The REIT has continued to focus on diversifying and extending the REIT's debt profile and the following initiatives have been completed:

- Repayment of $100 million of the $150 million syndicated facility that expires in July 2018. This has been replaced by a new lender to the fund with a $150 million bi-lateral bank debt facility with an expiry in FY23
- Establishment of a new $175 million five year bi-lateral bank debt facility with another new lender that was completed in June 2017. The increased capacity from this facility will be used to fund the ongoing development pipeline and assist in managing liquidity through the ongoing recycling program
- Downsizing a $235 million JV bank debt facility to $220 million, introducing a new bank to the JV and extending expiry to FY22

Deputy Fund Manager Christine Kelly said, "These prudent capital initiatives have maintained the REIT's weighted average debt maturity at 6.1 years, increased bank lending group from three to five and provided increased liquidity enabling the REIT to capitalise on acquisition and redevelopment opportunities".

Strategy and FY18 operating earnings guidance

The REIT's performance is underpinned by a focus on three key areas:

- Active asset management, maintaining strong tenant relationships, optimising tenancy mix through proactive leasing and enhancing the overall shopper experience.
- Enhancing the portfolio quality, through value enhancing redevelopments, selective acquisitions and lower growth divestments.
- Prudent capital management, with a focus on a strong and flexible balance sheet complemented with a sustainable payout ratio.

Barring unforeseen events and the timing of the portfolio reconstruction, the REIT's FY18 guidance for operating earnings is expected to be 30.2 to 30.6 cents per unit.

Distribution payout ratio range is expected to remain between 90% and 95%.

Mr Dundas said: "Consistent with our strategy, sale proceeds from divestments will be allocated to optimise returns via acquisitions, development, buy back or return of capital. We continue to re-weight the portfolio towards higher growth non-discretionary focused assets in metro or commuter metro based locations. We believe this will position the portfolio to optimise long term growth prospects."

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 24 years' experience managing high quality property on behalf of institutional, wholesale and retail clients. Charter Hall has over $19 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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For further information, please contact

Scott Dundas
Fund Manager
Charter Hall Retail REIT
T +61 2 8651 9273
scott.dundas@charterhall.com.au

Christine Kelly
Head of Retail Finance & Deputy Fund Manager
Charter Hall Retail REIT
T +61 2 8651 9401
christine.kelly@charterhall.com.au

For investor enquiries, please contact

Philip Cheetham
Head of Listed Investor Relations
Charter Hall
T +61 2 8651 9214
philip.cheetham@charterhall.com.au

For media enquiries, please contact

Angus Booth
Group Manager – External Affairs
Charter Hall
T +61 2 8651 9223
angus.booth@charterhall.com.au
