Charter Hall
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# ASX Release

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## Charter Hall Retail REIT Upgraded Earnings Guidance and 1H FY22 Results

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Charter Hall Retail REIT (ASX: CQR) (CQR or the REIT) today announces its 1H FY22 results for the period ended 31 December 2021.

### Financial highlights:

- Operating earnings of $82.1 million up $6.9 million or 9.2% on prior corresponding period (pcp)
- Operating earnings of 14.22 cents per unit (cpu) up 8.0% on pcp
- Statutory profit of $368.6 million, up $285.8 million on pcp
- Distribution of 11.7cpu up 9.3% on pcp
- Net Tangible Assets (NTA) per unit of $4.54, up 13.2% from $4.01 at June 2021
- COVID-19 tenant support of $7.6 million, or only 5% of 1H FY22 rent
- $670,000 or 0.5% of 1H FY22 rent remains outstanding
- Portfolio look-through gearing of 31.9% and balance sheet gearing of 25.0%
- Available liquidity of $287 million consisting of cash and undrawn debt facilities

### Operating highlights:

- Supermarket MAT growth of 1.5% over 12 months and 10.9% over 2 years to December 2021
- Speciality MAT growth of 2.3% over 12 months despite lockdowns in the period
- Contribution from major tenants to portfolio income 53.9%, up from 53.5% at June 2021
- Shopping centre portfolio occupancy of 98.4%, up from 98.3% at June 2021
- Specialty leasing spreads of +1.8% with 154 specialty lease renewals (+1.9% leasing spread) and 65 new leases (+1.4% leasing spreads)
- Specialty tenant retention rate increased to 88%, up from 80% at June 2021
- Portfolio valuation growth of $312 million or 8.4% for 1H FY22, inclusive of $38 million of capital expenditure
- Portfolio cap rate firmed to 5.38% from 5.81% at June 2021
- Continued expansion of Long WALE convenience portfolio with the off-market acquisition of 20 Long WALE convenience retail properties leased to Ampol

Charter Hall Retail's CEO, Ben Ellis said: "The CQR portfolio continues to demonstrate its strength and resilience, delivering an 8% increase in operating earnings per unit vs pcp, 2.3% Speciality MAT growth and 1.8% positive leasing spreads. All of this was delivered in a period when significant COVID-19 mandated closures and restrictions were in place. Pleasingly, when restrictions have been lifted, we've seen tenants trading rebound quickly in the period that follows.

"The quality of CQR's portfolio has also been recognised with significant revaluation gains across the portfolio, resulting in 13.2% NTA growth over the half. We have also been able to expand our Long WALE convenience retail portfolio with the off-market acquisition of a 49% share in 20 Ampol petrol stations. This further improves our income growth profile with triple-net leases that have CPI-linked annual rental increases and introduces another major convenience retailer to the portfolio. Following this acquisition, 53.9% of portfolio income comes from major retailers and over 50% of portfolio rental growth is linked to inflation"

## COVID-19 Impacts

The CQR portfolio has continued to demonstrate its resilience through COVID-19 mandated closures and restrictions. The 53.9% weighting towards major retailers and heavy bias towards non-discretionary focused specialties has limited the impact to 1H FY22 earnings.

CQR provided $7.6 million, or 5.0% of 1H FY22 rent in COVID-19 tenant support during the year. This compares to $5.9 million of tenant support in 1H FY21. $5.0 million, or 65% of this support was provided as rent-free incentives with $2.6 million, or 35% provided as rent deferrals.

Only $670,000, or 0.5% of 1H FY22 rent remains outstanding.

## Investment strategy

The REIT has continued its disciplined investment strategy to provide a resilient and growing income stream for investors through Charter Hall's strong tenant customer relationships, strategic portfolio curation to improve asset quality and active asset management to drive rental growth whilst maintaining a prudent capital position.

In December 2021, CQR announced the off-market acquisition of a 49% interest in a portfolio of 20 triple-net leased Ampol fuel and convenience retail centres for $50.5 million on an attractive 5.0% cap rate. The portfolio of 20 NNN long WALE convenience retail centres provides CQR with a long-term stable and growing income stream underpinned by the portfolio's 15.6 year WALE and CPI-linked annual rent escalations (2% floor; 5% cap). The portfolio is heavily weighted to metropolitan locations (75% metro and commuter metro) with all sites benefiting from prominent main road locations with high existing land values and further flexibility for alternate uses in the future.

Following the off-market acquisition, Ampol will be CQR's eighth largest tenant customer and represent approximately 1% of portfolio income, adding another major tenant to CQR's tenant mix and further improving the resilience of portfolio income.

The off-market acquisition is expected to settle by the end of the March quarter.

The defensive and resilient nature of the portfolio is evident in the fund's property valuations. 100% of the portfolio was externally revalued at 31 December 2021. The REIT's total portfolio increased in value by $363 million with acquisitions of $51 million, capex of $38 million and net valuation growth of $274 million. The total portfolio cap rate moved from 5.81% at June 2021 to 5.38% at December 2021. The shopping centre convenience retail portfolio cap rate compressed from 6.12% at June 2021 to 5.66% at December 2021 while the long WALE convenience retail portfolio cap rate firmed from 4.69% to 4.37% over the same period.

## Active management

The portfolio is strategically weighted towards high quality major convenience retail tenants. Major tenants Woolworths, Coles, bp, Wesfarmers[1], Aldi, Ampol and Endeavour represented 53.9% of rental income. The total portfolio WALE is 7.3 years and majors WALE is 11.2 years.

1 Kmart, Target, Bunnings and Officeworks

Supermarkets in the portfolio continued to perform well with 62% of supermarket tenants paying turnover rent[2] and those within 10% of turnover thresholds representing 18% of supermarkets. Over the two-year COVID-19 period, $1.9 million of turnover rent has been converted to base rent for 19 supermarket leases. This represents a 9.4% increase in their base rent and means approximately 50% of total turnover rent has now been crystalised as base rent. Supermarkets across the portfolio delivered 1.5% MAT growth, with the 2-year MAT growth of supermarkets a record 10.6%.

CQR also achieved another near record leasing period during the half, with 219 specialty leases completed at an average spread of +1.8%. This was made up of 65 new specialty leases completed at an average leasing spread of +1.4% and 154 renewals completed at an average +1.9% leasing spread.

Specialty tenants MAT grew by 2.3% in the 12 months to 31 December 2021. Whilst our NSW assets continued to experience disruptions associated with COVID-19, they still recorded positive MAT growth of 0.3%. When excluding the NSW assets, specialty MAT growth was strong at 4.8%.

Specialty productivity remained strong at $9,822 per sqm and was moderately impacted by mandated store closures and trading restrictions, Similarly, occupancy costs remain sustainable at 11.5% and when adjusted for COVID 19 rental support, the occupancy costs normalise to 10.8%.

CQR continues to invest in its assets with $38 million of capital investment across the portfolio in 1H FY22. Investment continues alongside our major tenant customers delivering increased WALE, improved shopper amenity, income and value growth. All eight Target conversions have now been leased to high quality tenants delivering, in aggregate, a 17% uplift in rent per sqm.

We continue to invest in sustainability initiatives across energy, water and waste management to reduce our environmental impact and achieve our net zero carbon emissions target by 2025[3].

## Capital management

Prudent capital management remains a core focus of CQR and ensures we can successfully execute our growth strategy and deliver a secure and growing income stream to unitholders. As at 31 December 2021, CQR has $287 million of available liquidity to fund capital investment and enhance portfolio quality.

During the period, Moody's affirmed CQR's Baa1 issuer rating and senior unsecured rating with a stable outlook. CQR's weighted average debt maturity is 4.1 years, with an average hedge maturity of 3.2 years. Portfolio balance sheet gearing is 25.0% and look-through gearing is 31.9%, within the target 30-40% gearing range.

Head of Retail Finance and Deputy Fund Manager CQR, Christine Kelly commented: "With over 50% of our portfolio income growth directly or indirectly linked to inflation, high levels of hedging and $287m of available liquidity, we are well positioned in the current environment to deliver a resilient and growing income stream"

## Summary and outlook

CQR's strategy remains consistent and is to be the leading owner of property for convenience retailers, providing a resilient and growing income stream for investors. Portfolio curation and active asset management will continue to enhance the portfolio quality through time.

Strong MAT growth, positive leasing spreads and high occupancy levels are expected to continue as market conditions normalise. Portfolio income is expected to benefit from inflation-linked rental growth, while investor demand for high quality non-discretionary convenience-based assets will continue to support valuation growth.

CQR's previous earnings guidance as at 1 December 2021 was for FY22 earnings per unit of no less than 28.2 cents per unit and distributions per unit of no less than 24.3 cents per unit.

2 Includes supermarkets with fixed rent reviews

3 Scope 1 and scope 2 emissions in operational control

Today CQR is pleased to announce that barring any further unforeseen events, or a further deterioration in the COVID-19 environment, FY22 earnings per unit is expected to be no less than 28.4 cents per unit representing growth of no less than 3.9% on FY21 earnings per unit.

FY22 distributions per unit are expected to be no less than 24.5 cents per unit representing growth of no less than 4.5% on FY21 distributions per unit.

*Announcement Authorised by the Board*

**Charter Hall Retail REIT (ASX: CQR)**
Charter Hall Retail REIT is the leading owner of property for convenience retailers.

Charter Hall Retail REIT is managed by Charter Hall Group (ASX:CHC). With over 30 years' experience in property investment and funds management, we're one of Australia's leading fully integrated property groups. We use our property expertise to access, deploy, manage and invest equity across our core sectors – Office, Industrial & Logistics, Retail and Social Infrastructure.

Operating with prudence, we've curated a diverse $61.3 billion portfolio of 1,506 high quality properties. With partnership at the heart of our approach, we're creating places that help grow communities; turning them into the best they can be and unlocking hidden value. Taking a long-term view, our $9 billion development pipeline delivers sustainable, technologically enabled projects for our customers.

Charter Hall has also extended its Fund Management capability into another asset class with the 50% acquisition of the $18.2 billion listed equities Fund Manager Paradice Investment Management (PIM), which invests on behalf of wholesale and retail investors across domestic and global listed equities.

The impacts of what we do are far-reaching. From helping businesses succeed by supporting their evolving workplace needs, to providing investors with superior returns for a better retirement, we're powered by the drive to go further.

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