

ASX Release

Charter Hall Retail REIT Half Year Results 20 February 2017

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Charter Hall Retail REIT (ASX:CQR) (the REIT) today announced its results for the half year to 31 December 2016.

Key financial results:

- Statutory profit of \$178.9 million, a 71.4% increase from prior corresponding period (pcp)
- Operating earnings of \$61.7 million, 15.21 cents per unit, a 0.2% increase from pcp
- Distributions of 14.1 cents per unit, up 0.7% from pcp
- Balance sheet gearing of 32.1% remains towards the lower end of the range
- Look through gearing of 35.3% remains in the middle of target range
- Portfolio value of \$2.7 billion, up 6.5% from \$2.5 billion at June 2016
- Net tangible assets (NTA) up 8.2% from June 2015 to \$4.10 per unit
- Weighted average debt maturity of 6.0 years
- Cash and undrawn debt capacity of \$128 million

Portfolio operating performance:

- Same property net operating income (NOI) growth of 2.4%
- Specialty rent growth of 1.2% achieved from 64 renewals and 117¹ new leasing transactions
- Occupancy maintained at 98.0%
- Weighted average anchor lease duration of 10.7 years

Scott Dundas, Fund Manager of the REIT, said: "We continue to transition the portfolio from smaller non-core assets into larger centres where we can add value through active management. The focus of the portfolio continues to remain on predominantly non-discretionary retail uses driven by Australia's leading supermarket brands. Our recent transactions 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 15.21 cents per unit, a distribution of 14.1 cents per unit, and stable performance across our portfolio including same property NOI growth of 2.4%" Mr Dundas added.

¹ Includes 86 non-comparable new lease deals that do not impact specialty rent growth



Positive portfolio performance delivered by an active management approach

The REIT's \$2.7 billion national portfolio of 72 supermarket anchored shopping centres delivered stable occupancy of 98.0% and same property NOI growth of 2.4%. With a firm focus on strong tenant relationships and optimising tenancy mix the REIT achieved specialty rent growth of 1.2% with 117 new leases and 64 renewals completed in the period and a retention rate for specialty tenants of 84%.

Specialty MAT growth was 1.6% for the period, reflecting challenging trading conditions for specialty retailers. Anchor MAT growth has increased to 2.8% for stores in turnover.

Property valuations increased by \$96.8 million or 3.7% over the six month period, with the weighted average capitalisation rate firming by 31 basis points to 6.40%, 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 the portfolio quality through value enhancing redevelopments, selective acquisitions of larger properties with potential higher growth and disposal of smaller non-core assets.

During the period, the REIT contracted to sell three non-core properties valued at \$72.2 million (100% share) at an average yield of 5.6%. The two assets in Victoria and one asset in Queensland have been sold at a combined 10.4% premium to the June 2016 book value.

The REIT selectively acquired one supermarket anchored shopping centre for a purchase price of \$67.1 million at a fully leased yield of 6.00%. The new centre, Arana Hills Plaza, Qld. is located in a high growth corridor and operates as the primary shopping centre in the region and is in line with the REIT's investment criteria.

Value enhancing redevelopments remain a key element of the REIT's growth strategy, with two projects with a total value of \$114 million announced and forecast for completion in 2017 and 2018. This includes the major redevelopment of the Secret Harbour Shopping Centre in Perth, Western Australia, which will comprise a major refurbishment of the existing centre, the expansion of the existing Woolworths supermarket, a new 4,050sqm Coles supermarket, a 1,500sqm Aldi supermarket and a new 1,225sqm Dan Murphy's, and an array of specialty retailers including an improved food and beverage offering.

"The \$59 million investment to revitalise Secret Harbour Shopping Centre continues the REIT's focus on delivering value to our centres, communities and unitholders and follows completion of a major redevelopment at Lansell Square, Victoria in 2015.

"Value enhancing redevelopment is a key element of our growth strategy to ensure we provide an enjoyable and convenient shopping experience and deliver a secure income stream for our investors," Mr Dundas said.

Following acquisitions, disposal of non-core assets, revaluations and completed redevelopments the REIT's average asset value has increased from \$39.7 million at June 2016 to \$43.3 million at December 2016.

Proactive capital management focused on a strong and flexible balance sheet

Following the completion of the restructure of the REIT's debt platform in July 2015 the focus has continued on diversifying and extending the REIT's debt profile. The bank debt expiry in July 2018 represented the next opportunity to further implement this strategy and the following initiative has 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



- The REIT has also extended \$200 million worth of swaps that were due to expire in September 2018 to September 2021 at a reduced swap rate of 1.96% further strengthening the REIT's swap book

Deputy Fund Manager Christine Kelly said "These prudent capital initiatives have increased the REIT's weighted average debt maturity to 6.0 years and provided increased liquidity enabling the REIT to capitalise on acquisition and redevelopment opportunities".

Strategy and FY17 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 non-core disposals.
- Prudent capital management, with a focus on a strong and flexible balance sheet complemented with a sustainable payout ratio.

Barring unforeseen events, the REIT's FY17 guidance for operating earnings is expected to be 30.4 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 larger 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

For further information, please contact

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