ASX Release

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CHARTER HALL EDUCATION TRUST RESULTS FOR THE HALF YEAR ENDED 31 DECEMBER 2018

13 February 2019

Charter Hall Education Trust ("CQE" or the "Trust") today announced its results for the half year ended 31 December 2018.

Key Financial Highlights

- Distribution of 8.0 cents per Unit ("cpu"), an increase of 6.0 per cent on the previous corresponding period ("pcp");
- Distributable income of $21.2 million, an increase of 1.0 per cent on pcp;
- NTA per Unit of $2.87, an increase of 3.2 per cent from $2.78 per Unit at 30 June 2018;
- Statutory profit of $42.2 million, a decrease of 23.8 per cent from $55.4 million on pcp due to lower property revaluation increments in this period; and
- Debt facility of $347.0 million refinanced in August 2018 resulting in weighted average debt maturity increasing from 2.4 years at 30 June 2018 to 4.6 years at 31 December 2018;

Operating Highlights

- 3 developments were completed, with a completion value of $15.0 million and an average development margin of 26.8 per cent;
- 4 existing assets were sold for a total of $4.1 million, a 5.9 per cent premium to carrying values[1];
- Acquisition of 7 development sites and 1 existing childcare centre for a total completion value of $52.1 million; and
- CQE's development pipeline remained constant at 27 sites, with an approximate completion value of $167.4 million.

Property Portfolio Performance

Rent Reviews

The like-for-like rental growth across the portfolio for the 12 months was 2.6 per cent, taking into account both market and annual reviews. During the half year, 9 market rent reviews were finalised, resulting in a 7.8 percent increase on the prior corresponding period.

[1] *Carrying value at contract date.*

Lease Renewals

During the year, 11 of 11 five-year options were exercised, increasing the lease term remaining on these properties from 5 to 10 years. The overall WALE for the portfolio was 9.5 years as at 31 December 2018.

Property Valuations

During the year, a total of 339 properties in the portfolio were revalued. Of these, 57 properties were independently revalued as part of the Trust's three-year independent rolling valuation cycle, with the remainder being Directors' valuations. The Directors' valuations were adopted utilising the parameters drawn from the current independent valuations, to ensure consistency across the portfolio.

Development Program

Three developments were completed and commenced operations during the year, with a combined completion value of $15.0 million. These projects have added quality to the portfolio with an average development margin of 26.8 per cent and an average yield on cost of 7.5 per cent. Three more developments have completed since 31 December 2018 with a fourth due in March 2019.

Acquisitions

During the year, CQE acquired seven development sites and one existing childcare centre for a total completion value of $52.1 million. The development sites are all located in Victoria and all have agreements for lease in place with quality operators. The existing centre was purchased on a sale and leaseback arrangement with Nino Early Learning. The acquisitions provide quality additions to CQE's portfolio, with leases that are consistent with our triple-net structure, long term commitments (15 - 20 year terms with further options), fixed annual rent reviews and appropriate security provisions.

Disposals

CQE's capital and portfolio management strategy includes the selective sale of non-core properties, with proceeds redeployed to new property purchases and/or developments. CQE disposed of four[2] existing centres during the year, totalling $4.1 million of gross proceeds, resulting in a 5.9 per cent premium to carrying values as at the contract date.

Capital Management

Debt Funding

As at 31 December 2018, CQE's debt facilities totalled $347.0 million, comprising bank term debt facilities of $247.0 million split equally with Australia and New Zealand Banking Group Limited and Hongkong and Shanghai Banking Corporation Limited and a $100.0 million institutional loan from AustralianSuper (funds drawn in August 2018). The facilities are drawn to $319.0 million as at 31 December 2018.

CQE's debt facilities have remained at $347.0 million, with $28.0 million of available debt capacity to fund existing developments underway and future opportunities.

Hedging

Consistent with CQE's interest rate management policy, CQE has staggered hedging positions through to June 2023. Additional hedging positions were put in place in conjunction with the debt refinancing in August 2018, resulting in an average hedged position of 52 per cent based on the existing debt of $319 million at an average rate of 2.93 per cent per annum (30 June 2018: 2.87 per cent per annum). For FY19, CQE has hedged 65 per cent of its interest rate exposure at a hedged rate of 2.4 per cent per annum.

[2] *This excludes one development site which was disposed of during the year.*

Cost of Debt

As at 31 December 2018, CQE's cost of debt is 4.0 per cent per annum (30 June 2018: 4.1 per cent per annum), which is based on current interest rates, swap arrangements and bank margins. The all-in-cost of debt was 4.4 per cent per annum (30 June 2018: 4.4 per cent per annum) which includes the amortisation of deferred borrowing costs.

Early Learning Market

The new Government funding package for early learning has been a catalyst for industry self-examination as the sector faced the impact of the new funding package together with the typical economic and demographic pressures that influence its effectiveness.

As forecast in February 2018, childcare trading conditions have been impacted by a combination of increased competition in some locations due to the supply of new centres and the increased cost of living (including childcare) that diminished the effectiveness of the previous $7,613 per annum childcare rebate, since replaced with the recent Childcare Subsidy ("CCS").

However, an increasing participation rate, increased affordability for parents, a rapid slowing in new centre openings and the closure of 77 largely older and smaller centres nation-wide has seen what appears to be much a higher absorption and participation rates than originally expected. ABS data, and the experiences of many operators indicates significant out-of-pocket savings for parents under the CCS which is expected to drive industry participation higher as families adapt to the specifics of the new funding regime.

There is definitely increased certainty for the sector given the largely positive impact of the CCS (although this is not necessarily the case for all centres). The CCS appears to be a net positive to the industry and operators with signs to date exceeding expectations. We expect parents will better utilise the CCS system's key reforms over the next six months and this will add further certainty to the sector.

Strategy and Distribution Guidance

The FY19 forecast distribution is **16.0 cpu.** This is a 6.0 per cent increase on FY18 distributions and is based on continued tenant performance. CQE will continue to pay quarterly distributions.

CQE continues to execute its strategy to be recognised as the leading provider of early learning accommodation and together with quality operating partners, focusing on providing a healthy and safe learning environment for future generations. Investors are expected to benefit from what should be predictable and secure long-term income with the opportunity for capital growth.

CQE is committed to active management of its portfolio to capitalise on growth prospects. Unitholders should note that any investment opportunity is assessed with respect to its consistency with the Trust's characteristics and overall investment objectives.

Nick Anagnostou said "CQE repositioned its portfolio over the last 3 years in recognition of pending industry change. We profited from asset sales and although there was a subsequent impact on the first half's earnings growth, we are now well placed to target new opportunities with conviction. The sector is experiencing improving participation rates and there is greater overall affordability for parents via the CCS regime. This, with a rapid slowing in new supply coupled with our long WALE, near 100% occupancy and large operator register gives us a very sound base to drive future growth."

Investor Teleconference

Management invites investors to join a teleconference where the Trust's results and presentation will be discussed. To join the Teleconference, please deal the numbers below.

Date:	Wednesday, 13 February 2018
Start time:	10.00am AEDT
Dial In Numbers:	Australia Toll-Free: 1800 093 431
	International: +61 2 8047 9393

About Charter Hall Education Trust
Charter Hall Education Trust is the largest Australian ASX-listed real estate investment trust (A-REIT) that invests in early learning properties.

Charter Hall Education Trust is managed by Charter Hall Group (ASX:CHC), one of Australia's leading fully integrated property groups, with over $26.4 billion of high quality, long leased property across the office, retail, industrial and social infrastructure sectors. The Group has offices in Sydney, Melbourne, Brisbane, Adelaide and Perth and oversees a portfolio of 779 properties that is more than 5.4 million square metres in size. The ASX100 Group has over 27 years' experience managing and investing in high quality property on behalf of institutional, wholesale and retail clients.

Charter Hall's success is driven by our focus on our tenant and investor customers. We look to partner with our tenants, growing with them and helping meet their property needs. We invest alongside our capital partners, creating value and generating superior investment returns together. Our $3.7 billion development pipeline creates new assets for our investors, improving future returns, while creating opportunities for our tenant partners to expand and adapt their businesses. Sustainability and innovation are key elements of our approach. By ensuring our actions are innovative, commercially sound and make a difference to our people, customers and the environment, Charter Hall makes a positive impact for its investors, the community and the Group. For further information on Charter Hall Group and Charter Hall Education Trust go to www.charterhall.com.au.

For further information, please contact

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