

## ASX Release

### Charter Hall Retail REIT Delivering on Strategy 20 August 2014

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Charter Hall Retail REIT (ASX:CQR) (the REIT) today announced its results for the year to 30 June 2014.

#### Key financial results:

- Statutory profit of \$85.2 million
- Operating earnings<sup>1</sup> of \$105.3 million, 29.6cpcu, 3.0% growth
- Distribution of 27.3cpcu; up 1.9%
- Australian portfolio value of \$2 billion, up 20% on June 2013
- Balance sheet gearing reduced 6.6% to 33.2%<sup>2</sup>
- NTA at \$3.40 per unit, up 2.4% on June 2013
- Cash and undrawn debt capacity of \$129 million<sup>3</sup>

#### Australian portfolio operating performance:

- Same property NOI growth of 2.0%
- Occupancy of 98.5%
- Specialty rent growth of 2.6% from 294 leasing transactions
- Portfolio and anchor WALE increased to 7.4 years and 11.3 years

"We have had another active year which has seen us deliver a 3% increase in operating earnings per unit and 20% growth in the value of our Australian portfolio to in excess of \$2 billion in funds under management. In line with our Australian focused strategy we completed the sale of our European and US portfolios, acquired four new supermarket anchored centres at an average yield of 7.6% and completed 294 leasing transactions," said Scott Dundas, the REIT's Fund Manager.

#### Growing the Australian portfolio

In line with its disciplined investment strategy, the REIT acquired four supermarket anchored shopping centres for \$252.4 million, including one post balance date, reflecting an average initial yield of 7.6%. Secret Harbour Shopping Centre in Western Australia, Southgate Plaza in South Australia, Rosebud Plaza in Victoria, and Coomera City Centre in Queensland are all within the REIT's \$20 million to \$100 million investment criteria, anchored by a high turnover Coles and/or Woolworths supermarket and forecast to deliver a five year unlevered IRR of at least 8.5%.

Coomera City Centre, which was acquired post balance date, is located in one of South East Queensland's key growth corridors with a forecast population growth of 4.5% per annum over the next five years. The centre is 98% leased and has an 8.8 year weighted average lease expiry, with the Woolworths and Dan Murphy's leases contributing 48% of annual base rent.

<sup>1</sup> 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. The REIT's Australian interest rate swaps were restructured from 1 July 2013

<sup>2</sup> Restated for post balance date events including the sale of German assets, Glen Innes and acquisition of Coomera City Centre

<sup>3</sup> Excludes restricted cash and includes \$9.5 million to be raised from the DRP on 29 August 2014, post balance date



The REIT has also continued to deliver on its existing redevelopment pipeline, completing \$84 million of redevelopments during the period and commencing a further \$61 million of projects. Market conditions have meant that a number of the REIT's redevelopments are taking longer to stabilise. However, pleasingly, the South Hedland development opened fully leased and is trading well post completion.

### Positive Australian portfolio performance

Active management of the Australian portfolio is the REIT's key focus. The leasing team has worked closely with existing and new tenants to deliver increased total portfolio occupancy of 98.5% and a portfolio WALE of 7.4 years, despite the softer leasing market. This strong result follows 179 renewals and 115 new lease agreements completed during the year.

Australian property valuations increased by \$58.3 million<sup>4</sup> or 3%, with total weighted average cap rates firming by 43 basis points across the portfolio. Woolworths and Wesfarmers anchor tenant leases continue to provide 53% of Australian annual base rent with an average unexpired lease term of 11.3 years.

### Proactive capital management

The REIT refinanced or repaid \$828 million of debt facilities during the period, reducing the average Australian debt margin by 24 basis points on an annualised basis. This contributed to a weighted average interest cost of 4.5% for the year to 30 June 2014.

The REIT also sold a small asset in Glen Innes NSW, comprising a Bi Lo and Target anchored shopping centre, post balance date for \$3.6 million. This sale further enhances the Australian portfolio quality and was completed in July 2014.

Following the offshore sales completed during the period, the REIT's balance sheet gearing has reduced by 6.6% to 33.2%, a highlight for the REIT which is in line with its focus on maintaining a strong and flexible balance sheet.

The REIT raised \$118 million in new equity, including \$30 million through the Distribution Reinvestment Plan. These funds, combined with proceeds from the offshore sales, have enabled the REIT to capitalise on acquisition and redevelopment opportunities.

### Strategy and FY15 operating earnings guidance

With the major offshore sales finalised, the REIT's strategy is wholly focused on managing its Australian supermarket anchored portfolio to provide a secure and growing income stream for its unitholders. The REIT's strategy is delivered through:

- **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.

<sup>4</sup> Before taking into account acquisition costs of \$13.9 million incurred during the year



Barring unforeseen events, the REIT's FY15 guidance for operating earnings is between 29.6 and 30.0 cents per unit. FY15 operating earnings guidance represents approx. 7% growth on FY14 Australian operating earnings of 27.75 cents per unit, reflecting:

- Organic growth
  - Same property NOI growth (2% – 3%)
  - Contribution from redevelopment pipeline (1.5%)
- Non-recurring growth
  - Deployment of offshore proceeds into Australia (3%)

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

Mr Dundas said: "Despite the tougher trading conditions, ongoing strength in food retailing has resulted in a significant uplift in demand for neighbourhood and sub-regional centres during 2014. These factors have resulted in yields on high quality assets tightening sharply over the past six months and as such we are expecting to see growth in the value of the REIT's portfolio over the 2015 financial year.

"The management of our Australian portfolio is a key focus and we will continue to work with tenants to create an enjoyable shopping centre experience while focusing on leasing and development to maximise property returns," Mr Dundas added.

#### **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 23 years' experience managing high quality property on behalf of institutional, wholesale and retail clients. Charter Hall has over \$10.6 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](http://www.charterhall.com.au)

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