ASX Release

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Charter Hall Retail REIT Half Year Results

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Charter Hall Retail REIT (ASX:CQR) (the REIT) today announced its results for the half year to 31 December 2015.

Key financial results:

- Statutory profit of $104.4 million, a 23.8% increase from prior corresponding period (pcp)
- Operating earnings of $58.9 million, 15.18 cents per unit, a 2.1% increase from pcp
- Distributions of 14.0 cents per unit, up 2.2% from pcp
- Look through gearing of 35.4% remains in the middle of target range
- Portfolio value of $2.5 billion, up 15% from $2.2 billion at June 2015
- Net tangible assets (NTA) up 4.2% from June 2015 to $3.74 per unit
- Increased debt diversity and duration during the period, increasing the REIT's weighted average debt maturity to 6.7 years[1]
- Moody's Baa1 credit rating assigned
- Cash and undrawn debt capacity of $177 million[2]

Portfolio operating performance:

- Same property net operating income (NOI) growth of 2.4%
- Specialty rent growth of 1.4% achieved from 61 renewals and 90[3] new leasing transactions
- Occupancy maintained at 98.4%
- Weighted average anchor lease duration of 10.3 years

Scott Dundas, Fund Manager of the REIT, said: "Today's positive performance and result reflects our disciplined use of capital and a continued focus on portfolio enhancement during the first half of the financial year. We continued to actively manage our portfolio focusing on strong tenant relationships, optimising tenancy mix and prudent capital management as we recycled out of non-core properties into larger assets with forecast higher growth characteristics.

"We are pleased to have continued to deliver a secure and growing income stream for our investors, reporting operating earnings of 15.18 cents per unit, a distribution of 14.0 cents per unit, up 2.2% on pcp, and stable performance across our portfolio including same property NOI growth of 2.4%" Mr Dundas added.

[1] Includes post balance date debt extensions completed
[2] Includes $9.0 million raised from the February 2016 DRP, $20.3m in proceeds from the sale of Ballajura in February 2016 and Collie in March 2016 and $50m of additional bank debt funding, terms agreed post balance date
[3] Includes 64 non-comparable new lease deals that do not impact specialty rent growth

Positive portfolio performance delivered by an active management approach

The REIT's $2.5 billion national portfolio of 76 supermarket anchored shopping centres delivered stable occupancy of 98.4% 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 1.4% with 90 new leases and 61 renewals completed in the period and a retention rate for specialty tenants of 86%.

Specialty MAT growth increased to 3.5% for the period, reflecting the improved performance of national specialty tenants who represent 59% of the REIT's specialty portfolio. Anchor MAT growth has stabilised at 1.2% for stores in turnover, following the recent challenges for the Woolworths supermarket business.

Property valuations increased by $59.5 million or 2.5% over the six month period, with the weighted average capitalisation rate firming by 26 basis points to 6.89%, 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 forecast higher growth properties and non-core asset disposals.

During the period the REIT contracted to sell two non-core properties valued at $20.3 million at an average yield of 6.5%. The two West Australian centres in Ballajura (sold February 2016) and Collie (forecast to settle in March 2016) have been sold at a combined 4.7% premium to the June 2015 book value.

The REIT selectively acquired four supermarket anchored shopping centres for a total purchase price of $227.8 million at an average initial yield of 7.0%. The four new centres, Brickworks Marketplace, SA, Goulburn Plaza, NSW, Katherine Central, NT and Bateau Bay Square, NSW, are located in either high growth corridors or operate as the primary shopping centre in the region and are 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 $106.8 million announced and forecast for completion in 2017. 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 store, a new 4,050sqm Coles 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 major redevelopments at Caboolture Square, Queensland and 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 and completed redevelopments the REIT's average asset value has increased from $32.7 million at June 2015 to $37.6 million at December 2015.

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 January 2017 represented the next opportunity to further implement this strategy and the following initiatives have been completed:

- As recently announced the REIT has completed another US Private Placement (USPP) issuance of 10 years for US$125 million (A$177.4 million) to refinance this facility well ahead of expiry

- To further improve the REIT's liquidity, terms have been agreed on a A$50 million five year bi-lateral bank debt facility with an international lender
- The REIT has also restructured its hedge book as part of these transactions – offsetting the higher cost of the USPP, extending the weighted average hedge maturity to 4.5 years and stabilising the REIT's average hedge rate at 2.4% per annum over the swap duration

These prudent capital initiatives have increased the REIT's weighted average debt maturity from 5.8 years to 6.7 years and provided increased liquidity enabling the REIT to capitalise on acquisition and redevelopment opportunities.

Strategy and FY16 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 FY16 guidance for operating earnings is unchanged at between 30.25 and 30.75 cents per unit.

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

Mr Dundas said: "With a geographically diverse non-discretionary retail focus and anchor tenant income generated equally from Wesfarmers and Woolworths owned retailers, the REIT is well positioned. With a continued focus on the active management of our portfolio through strong tenant relationships, enhancement of portfolio quality and prudent capital management, we will continue to deliver a secure and growing income stream for investors," 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), is 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 $15.7 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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