



## ASX/MEDIA ANNOUNCEMENT

### CHARTER HALL DELIVERS STRONG HALF YEAR RESULTS

Thursday, 24 February 2011

#### Key results:

- ◆ Statutory net profit of \$46.8 million, an increase of \$105 million
- ◆ Operating earnings up 118% to \$30.8 million, representing 10.54 cents per security (cps)
- ◆ Half year distribution of \$23.5 million, representing 8.00 cps, an increase of 25%
- ◆ Net tangible assets (NTA) of \$2.21 per security, unchanged from 30 June 2010
- ◆ Balance sheet gearing of 6.8% and look through gearing of 38.6%
- ◆ Funds under management up to \$10.4 billion

Charter Hall Group (ASX:CHC) (the 'Group') today announced its half year results for the six months to 31 December 2010.

Charter Hall's results are reported in three key earnings streams, being property investment, property funds management and development investment.

#### Property investment – EBITDA of \$18.3 million

Property investment comprises the Group's co-investments in its managed funds and one directly held property with a total book value of \$581 million at 31 December 2010.

The Group's investment portfolio remains well diversified across the office, retail and industrial sectors with each sector performing well. At 31 December 2010 the total portfolio occupancy increased to 95% with a weighted average lease expiry of 6.4 years.

Earnings and distributions from co-investments in the managed funds are expected to benefit from the improving property market, ongoing active asset management of the portfolio and initiatives being implemented to increase earnings and NTA per unit across each fund.

Charter Hall will also continue to recycle co-investment capital in the year ahead to fund new growth initiatives and to improve the Group's return on equity. The Group's intention is to sell down its 66% co-



investment in the recently launched Direct Retail Fund (DRF) to around 20% as part of the fund's equity raising. Once the Group's interest reduces to below 50%, DRF will cease to be consolidated in the accounts.

**Property funds management – EBITDA of \$10.3 million**

Charter Hall's funds management business generates annuity style fee income from investment and property management services, in addition to fee income from development management, transaction and leasing services.

Property funds management EBITDA increased 273% to \$10.3 million for the six months to 31 December 2010 over the prior corresponding period. The acquisition of the majority of the Macquarie real estate funds management platform has significantly increased the Group's weighting to annuity style funds management income, which made up 79% of funds management revenue in the first half of the 2011 financial year.

The value of property funds under management increased 2% to \$10.4 billion at 31 December 2010 with negative foreign exchange movements and disposals being offset by acquisitions and revaluations.

*Unlisted wholesale funds*

The Group's Core Plus Office Fund (CPOF) and Core Plus Industrial Fund (CPIF) have largely deployed equity raised over the last year to acquire new assets, with CPOF acquiring \$227 million of A-grade CBD office assets in Melbourne and Brisbane and CPIF purchasing a \$78 million industrial asset in Tasmania during the period.

Following CPOF's acquisition of Brisbane Square for \$300 million with Telstra Super, third party mandate funds under management increased to \$433 million over the period.

In response to current market conditions, the Group will continue to secure high quality development opportunities and progress these projects through partnerships and/or separate mandates with a range of wholesale investor clients, as an alternative to pooled opportunistic funds. The successful partnership with TA Global Berhad on the \$600 million Little Bay project demonstrates the potential for this partnership approach.



#### *Unlisted retail funds*

Charter Hall Direct Property implemented a number of key initiatives during the period which strengthened its platform, including launching Direct Industrial Fund (DIF) and DRF, and reopening the Charter Hall Direct Property Fund.

DIF, launched in July 2010, raised \$44 million as at 31 December 2010 and has acquired \$70 million of new industrial assets which hold substantial pre-leases to Australia Post, Grace and Toll Holdings. DIF will continue to raise equity, with a target raising of \$110 million to acquire a \$200 million portfolio of high quality industrial assets.

DRF was launched in December 2010 following the restructure of the wholesale Charter Hall Core Plus Retail Fund (CPRF) providing retail investors with access to a \$177 million portfolio of six retail shopping centres, with an average occupancy rate of 98.5%, WALE of 7.2 years and yield on current unit price of approximately 8% per annum. The fund was awarded Lonsec's second highest rating 'recommended upper end'.

#### *Listed funds*

Charter Hall Office REIT (CQO) and Charter Hall Retail REIT (CQR) both outperformed the broader A-REIT 200 Accumulation Index over the half year period.

CQR made solid progress on reweighting its portfolio to Australia and remains on track to complete the majority of non-core disposals by June 2011, forecast to release over \$200<sup>1</sup> million of equity. CQR utilised its strong balance sheet position, surplus cash and undrawn facilities for reinvestment into higher value Australian assets since 1 July 2010 acquiring four retail centres for a total consideration of \$131 million.

CQO has also made significant progress on its strategy in the past six months, continuing to strengthen and simplify its balance sheet with the exit of non-core markets and the repayment or refinancing of approximately \$856 million of debt. CQO delivered strong operational results to 31 December 2010 with occupancy of 87%, following leases agreed across 135,656 square metres or 12% of the portfolio.

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<sup>1</sup> Subject to foreign exchange rate movements



### *Development*

The Group has an active development pipeline with a completion value of \$1.29 billion. Six projects commenced during the period with a forecast on completion value of \$628 million.

### **Development investment – EBITDA of \$2.3 million**

The Group's development investment comprises a 50% interest in Commercial & Industrial Property (CIP), a national industrial pre-lease developer, along with investment in both Charter Hall Opportunity Fund No 4 (CHOF4) and Charter Hall Opportunity Fund No 5 (CHOF5).

CIP contributed \$2.1 million of earnings to the Group to 31 December 2010 up 50% from \$1.5 million over the previous corresponding period and has a robust workbook.

The Group has a \$31.1 million co-investment in CHOF4 and CHOF5, diversified across seven projects. Given the opportunistic nature of these development portfolios, Charter Hall anticipates the earnings contributions from these investments to emerge from FY12 onwards. The average anticipated equity multiple to be generated from these development co-investments is circa 1.6x.

### **Corporate responsibility**

Charter Hall remains committed to the implementation of sustainable business practices across all its funds and operations. CQO continues to make positive progress on improving the energy efficiency of its office portfolio, with the Australian portfolio currently achieving a 4.4 Star NABERS Energy rating with a target to achieve a minimum 4.5 Star rating by 2012.

CQO's 50% ownership in the new premium grade office building being constructed at 171 Collins Street Melbourne will, following completion, significantly add to this, with the building targeting a minimum 5 Star NABERS rating and a 6 Star Green Star (v2) As Built rating.

### **Capital management initiatives**

At 31 December 2010 the Group has a total \$53 million<sup>2</sup> of cash and undrawn debt facilities.

The Group implemented a number of capital management initiatives across its managed funds that have continued to improve the balance sheet strength, liquidity positions and debt duration of these funds.

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<sup>2</sup> Excludes DRF cash balance and debt facilities



The number of securities on issue was reduced to approximately 306.3 million following the one for four security consolidation.

### **Strategy and outlook**

Following the acquisition of the Macquarie platform, the Group is well placed to take advantage of improving market conditions.

Commenting on the outlook, Joint Managing Director, David Southon said: “One of our key objectives is to improve the quality of earnings and drive earnings growth within our managed funds. As the cycle improves, we will continue to position the Group’s diversified property investment funds to capture equity flows into the commercial real estate markets. Prospective returns from property are expected to attract increased inflows across all sources of equity Charter Hall services.

“Looking forward we will look to grow our development pipeline through partnership and/or separate mandate transactions,” Mr Southon said.

Joint Managing Director, David Harrison, added, “Management is driving improvements in the Group’s EBIT margins in property funds management activities, whilst recycling its co-investments to improve the return on equity of its balance sheet. We are also capitalising on the improved debt markets to extend maturities and drive down interest expense across all funds which combined with rental growth will enhance income and capital returns to both fund investors and the Group.

“We are well positioned to service the growth in superannuation flows in Australia, some of which will be invested across wholesale, retail and listed real estate markets and are confident about the direction of the property cycle and the flow of equity into those markets. A trend we have recognised and are servicing is the demand from wholesale investors to invest directly via a mandate with Charter Hall to source and manage investments on their behalf,” Mr Harrison said.

Subject to no unforeseen events, the Group confirms FY11 EPS guidance of 20 cents per security, which represents growth of approximately 22% on FY10. Based on this guidance, the Group expects to distribute full FY11 DPS of 16 cents per unit, representing growth of approximately 25% on FY10. In recognition of the Group’s current liquidity position the Distribution Reinvestment Plan has been suspended.



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**About the Charter Hall Group:**

Charter Hall Group (ASX:CHC) is a property funds management and development company, based in Sydney with offices in Melbourne, Brisbane, Perth, Adelaide, Warsaw and Chicago. Established in 1991 and listed on the ASX in 2005 as a stapled security under the code CHC, Charter Hall Group combines Charter Hall Limited with Charter Hall Property Trust, which owns and/or manages over \$10 billion in real estate assets. The Charter Hall Group has achieved a solid track record across its activities demonstrating a 19 year history of managing wholesale and retail capital, making it one of Australia's leading property fund managers. Charter Hall's success has been underpinned by a highly skilled and motivated management team with diverse expertise across property sectors and risk-return profiles.

**Charter Hall Group Funds currently accepting investments**

The responsible entity of Charter Hall Direct Industrial Fund ("DIF") and Charter Hall Direct Retail Fund ("DRF") is Charter Hall Direct Property Management Limited ("CHDPML") (ABN 56 073 623 784, AFSL 226849). CHDPML has issued product disclosure statements ("PDSs") for DIF dated 13 July 2010 and DRF dated 22 December 2010. The DIF and DRF PDSs set out details of the offer to apply for units in each fund. If you are considering an investment in DIF or DRF, you should read the relevant PDS in its entirety and consider the information set out therein in relation to the offer. You can request a copy of DIF's or DRF's PDS, free of charge, by calling CHDPML on 1300 652 790. The responsible entity of Charter Hall Direct Industrial Fund ("DIF"), Charter Hall Direct property Fund ("CHDPF") and Charter Hall Direct Retail Fund ("DRF") is Charter Hall Direct Property Management Limited ("CHDPML") (ABN 56 073 623 784, AFSL 226849). CHDPML has issued a product disclosure statement ("PDS") for DIF dated 13 July 2010 and for CHDPF dated 20 December 2010 and DRF dated 22 December 2010. The responsible entity of Charter Hall Diversified Property Fund ("DPF") is Charter Hall Funds Management Limited ("CHFML") (ABN 31 082 991 786). CHFML has issued a product disclosure statement ("PDS") for DPF dated 25 July 2008 together with a Supplementary PDS dated 13 July 2010. The PDSs for all of the aforementioned funds ("Funds") set out the offer to apply for units in the Funds. If you are considering an investment in a Fund or Funds you should read the relevant PDS in its entirety and consider the information set out in the PDS in relation to the offer. You can request a copy of a Fund's PDS, free of charge, by calling CHDPML or CHFML, as the case may be, on 1300 652 790. Entities within the Charter Hall Group may receive fees for managing the assets of, and



providing resources to each Fund. For more detail on fees, see the relevant PDS. This information has been made available to the recipient for information purposes only. It is not intended to be, and does not constitute a product disclosure statement, prospectus, short form prospectus or profile statement as those terms are defined in the Corporations Act. It does not constitute an offer for the issue, sale or purchase of any securities, or any recommendation in relation to investing in any asset. This document has been prepared without taking account of any particular investor's objectives, financial situation or needs. For this reason, it is important that you consider the PDS for the offer and consider whether to seek appropriate professional advice before making any investment decision.