

Investor Focus

Charter Hall



Issue 7, July 2013

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We are pleased to have ended the financial year with a distribution of 20.2 cents per security declared for the full year, an 11.0% increase over the prior year.

The increase in our security price over the last financial year reflects increased investor demand for high yielding investments and is also evidence that our business model is being well received by investors as we continue to deliver on our strategy to access, deploy and manage capital across the core property sectors of Office, Retail and Industrial.

We saw a pleasing performance from our wholesale funds with the Core Plus Industrial and Office Funds respectively ranking as the first and second highest performing sector specific funds amongst their peers over the 12 months to 30 June 2013¹. The growth of our partnerships business has also been very strong given both domestic and offshore investors' interest in Australian property.

Within our retail funds management business, 130 Stirling Street Trust (CHIF7) ranked as the third best performing Australian syndicate over the three years to 31 May 2013¹, as unitholders earned a return of 18.0% per annum. CHIF4, launched in 2000, was recently finalised following the sale of the Bushells Building in Sydney, which led to investors earning strong realised returns of 12.8% per annum over the life of the fund. CHIF2 was also finalised during the year, following the sale of its retail asset on the corner of Collins and Swanston Streets in Melbourne, providing investors an exceptionally strong 26.6% per annum return since its inception in 1997. Our Direct Industrial Fund No.2 is seeing pleasing investor support having raised almost half of its targeted \$120 million of equity. The Fund remains open for investment.

Market Update

This time last year², the Australian economy had grown by 4.3% per annum as major resource construction projects commenced, however with mining capital expenditure now declining from a peak, growth has slowed to 2.5% per annum². This slowdown has enabled the RBA to move Australia's interest rates more in line with global peers, which has assisted in reducing the high Australian dollar that was negatively impacting many sectors of the economy.

We believe tenancy markets are likely to remain subdued during this transition period, however are forecast to experience an improvement over coming years as RBA stimulus and the lower Australian dollar take effect. The ASX200 saw a notable downturn from the end of May although has somewhat recovered since. Whilst not a positive for the general economy and business confidence, this continued volatility in the equities market reinforces the attractiveness of prime property with strong lease covenants and generally fixed annual rental increases as an attractive investment. We expect that with the current low interest rate environment, many global fund managers will look to increase their property exposure. As such, Charter Hall will continue its current strategy of offering lower-risk assets with strong covenants that mitigate present tenancy market challenges and deliver attractive investment returns to wholesale, retail and listed investors.

Charter Hall Group was the best performing stock in the S&P/ASX 200 Property Accumulation Index delivering investors an 80.6% total return over the 2013 financial year. We thank investors for their continued support.



David Harrison

David Harrison
Joint Managing Director



David Southon

David Southon
Joint Managing Director

1. According to benchmark provider IPD

2. March quarter

OFFICE

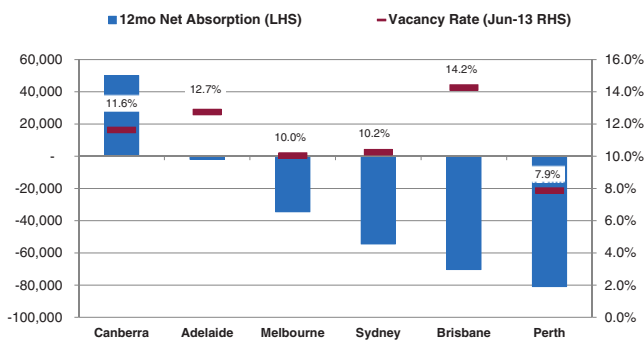
9 Castlereagh Street, Sydney NSW

Our \$6.2 billion office portfolio makes us one of the largest managers of CBD office properties in Australia. In total, we manage almost 1 million square metres (sqm) of quality office space accommodating 643 tenants including the Federal Government, Telstra, Citigroup and Allianz.

Our strategy is to ensure our properties remain desirable, long-term accommodation solutions for our tenants and in order to keep delivering strong returns for our investors, we go to great lengths to enhance and maintain their quality, performance and value.

Market update

Net Absorption & Vacancy – June 2013

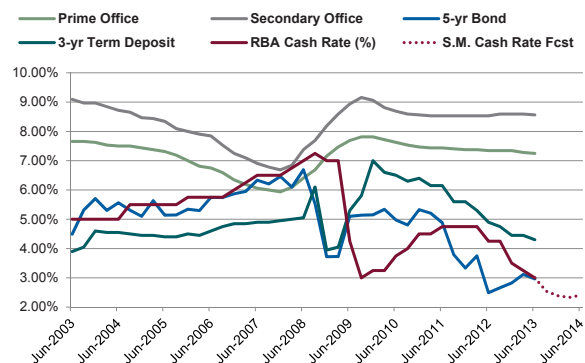


Source: JLL, RBA, Westpac

Office markets are a clear dichotomy at present as a soft tenancy market coincides with strong investment demand. Annual net absorption in the major capitals totaled minus 191,912sqm over the year according to the latest Jones Lang LaSalle (JLL) figures, which confirms the underperformance foreshadowed in our last update. The difference to the start of the year however, is that the strongest leasing contractions are now evident in resource-driven Perth and Brisbane. This is a result of mining and service companies relinquishing space in light of reduced activity, and public sector cuts leading to an increase in sub-lease availability.

All markets, with the exception of Perth, are now showing a vacancy level above 10% and the softer leasing environment has led effective rental levels to fall over the year as landlords offer increased incentives to attract tenants. With the exception of Sydney, the bulk of vacancy is in secondary stock, especially in Brisbane where secondary grade buildings represents almost 70% of tenant options.

Office Yields and Fixed Interest



Source: JLL, RBA, Westpac

Fortunately, stock under construction is minimal in both markets until 2015 so these markets should see vacancy decline in the interim provided tenant demand becomes positive. Sydney was impacted by the completion of the new ANZ headquarters which added 55,600sqm in the first half, but supply is now moderate until the completion of International Towers in 2015. Melbourne is likely to see vacancy continue to rise further in the short term with a substantial 146,000sqm of combined supply due to complete by the end of 2014.

Yield compression has been clearly evident for prime assets over the past six months as the attractive yield spread to debt and fixed interest returns coincided with A-REITs trading above NTA (thereby effectively moving from sellers to buyers) and a strong flow of capital toward the sector. However, in the soft tenancy environment, secondary assets with enhanced risk have seen substantially less demand from purchasers and yields have remained largely stable, but look now likely to tighten over the second half.

Key business highlights

- ◆ Charter Hall has secured via its funds and partnerships \$674 million of quality Australia office properties in the last six months, increasing our office portfolio by 12%. This has included:
 - The acquisition of the \$458 million Bankwest Place in Perth's CBD (full details on this acquisition are below).
 - Core Plus Office Fund's (CPOF) acquisition of:
 - The Harry Seidler designed Sydney CBD office tower 9 Castlereagh Street for \$172.5 million. Located in the heart of Sydney's financial district, 9 Castlereagh Street is a 35 level, A-Grade office building comprising 21,000sqm of net lettable area.
 - The Bank of Queensland Building in Brisbane in a 50:50 partnership with a global institutional partner. The building is currently under development and on completion will comprise approximately 23,800sqm of lettable commercial office area, across 10 levels of PCA A-grade office space and 1,060sqm of retail space. The Bank of Queensland has committed to 12,700sqm of the building's office space on an initial 12 year term and will also occupy approximately 45% of the retail space when the building is completed in late 2014.
 - Charter Hall is providing all investment, property, leasing and financial management services for all acquired buildings.
- ◆ The responsible entity of No.1 Martin Place Trust (1MPT) is currently seeking Unitholder approval to sell its 50% interest in No.1 Martin Place, Sydney to Charter Hall Office Trust (CHOT) who already own a 50% interest. The proposed transaction would be carried out through a Scheme of Arrangement whereby CHOT would acquire all of the units in 1MPT in exchange for a cash payment to existing unitholders, estimated to be \$0.885 per unit. The Independent Directors have recommended unitholders vote in favour of the Scheme of Arrangement at the 16 July 2013 unitholder meeting.
- ◆ In one of the largest leasing transactions in the Sydney CBD this year, global law firm, DLA Piper, committed to 6,000sqm of office space on a 10 year lease term at the jointly owned No.1 Martin Place. A major lease campaign is underway to attract other new tenants to the building.
- ◆ Charter Hall's single property syndicates continue to perform well, with the average total returns for Charter Hall managed syndicates being 13.5% at 31 March 2013. 130 Stirling Street Trust was the third strongest performing property syndicate in Australia over the three years to 31 May 2013 (net return of 18.0%pa) according to IPD. 144 Stirling Street Trust, the office syndicate launched in 2012, produced a total return of 13.0% in the 2012/13 year. Charter Hall aims to launch further high quality office opportunities to retail investors and SMSF's in 2013 and 2014.



Bankwest Place, Perth

Office Case Study: Bankwest Place, Perth

In line with our strategy of raising and deploying capital into high quality real estate investments, Charter Hall formed a partnership between our Core Plus Office Fund (CPOF), a domestic super fund and a global institutional partner to acquire Perth CBD's newest office building, Bankwest Place for \$458 million.

The recently completed building comprises a 45,000sqm office tower; the 9,831sqm three level Raine Square retail complex anchored by a 15 year lease to Coles Supermarkets, and adjoining hotels.

The office tower is 100% leased to Bankwest, a division of the Commonwealth Bank of Australia. The 12 year lease benefits from annual 4% rental increases and four yearly market reviews capped at 10%.

Charter Hall is providing its full suite of integrated property services to the partnership including investment management, asset management and leasing. Charter Hall will put these property services immediately into action, and will leverage our relationships with national retailers to enhance the retail centre's performance through improving the general amenity and addressing the retail mix.

RETAIL



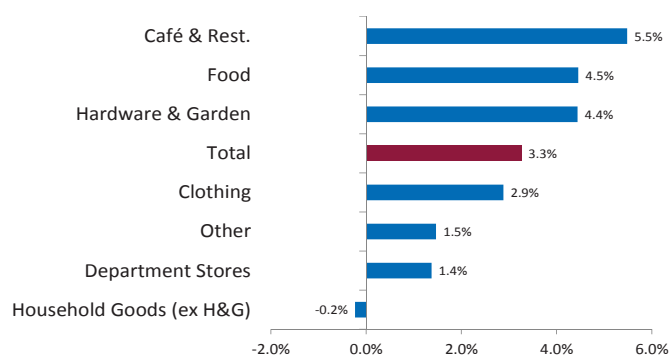
Windsor Marketplace, Windsor NSW

Charter Hall manages a \$2.7 billion portfolio of 99 properties, and is one of Australia's largest managers of supermarket-anchored retail centres.

We optimise returns for our investors, and create enjoyable environments for the 100 million shopper visitations to our centres each year, by providing end-to-end property services for each centre. These services include everything from leasing negotiation through to asset management. We are always focused on opportunities to grow our quality portfolio, as well as enhancing our existing properties through management initiatives and redevelopments.

Market update

Retail Turnover Growth by Category



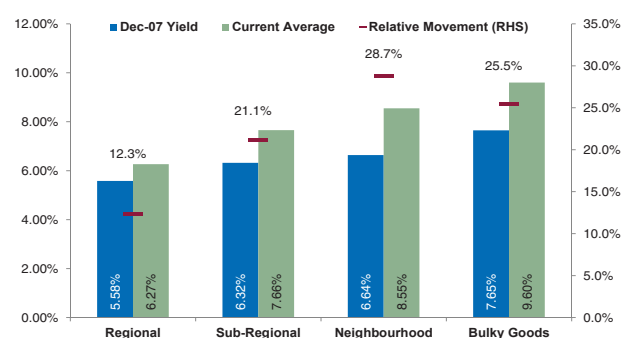
Source: ABS, JLL

Despite record low interest rates, consumer confidence remains subdued and Australians have largely opted to reduce debt as opposed to purchase new discretionary items. While a notable improvement over the same period in 2012, total retail turnover (excluding food) remained soft at 2.4% while the food category rose by a respectable 4.5%¹. Hardware and Garden retailing, the sector behind Charter Hall's recent Bunnings portfolio acquisition, also saw strong growth of 4.4%.

These trends are now being reflected at the property level with rental growth on new leases more apparent in supermarket-anchored centres over recent periods. Neighbourhood centres have emerged as the top performing retail asset class according to the latest figures from Investment Property Databank.

1. ABS Retail Turnover as at May 2013, rolling year figures.

Average Yield and Spread from Market Peak



Source: JLL

Notwithstanding this trade resilience during a period of subdued retail expenditure, yields on Neighbourhood centres also appear to be the most attractive, having shown the highest relative yield expansion following the peak witnessed in December 2007. With the average yield on Neighbourhood centres moving from a tight 6.64% in December 2007 to now stand at 8.55% according to JLL, the relative yield movement implies the category may have stronger capital growth potential than other retail classes as the yield compression cycle commences once more.

According to a recent Morgan Stanley survey, supermarket-anchored centres are also facing significantly lower levels of trade competition from on-line retailing, which further reinforces its position as the primary retail exposure for Charter Hall at present.

Key business highlights



Orange Central, Orange NSW

- ◆ Charter Hall, in partnership with an institutional investor, has acquired the Great Western Super Centre in the Brisbane suburb of Keperra for \$62.9 million, reflecting a 7.75% capitalisation rate. Keperra Shopping Centre is a modern centre anchored by Woolworths and Aldi supermarkets with mini majors including Super Cheap Auto, BCF and national chain retailers Hungry Jacks, Australia Post and Woolworths Petrol Plus. The 17,000sqm centre will be held within a newly established unlisted wholesale trust in which Charter Hall has a \$22 million investment. It is expected that an additional wholesale partner will be secured for the partnership, which would either see Charter Hall's co-investment repatriated or the \$22 million co-investment remain invested as a minority investor in the enlarged partnership.
- ◆ In line with its strategy of reweighting to the Australian market, Charter Hall Retail REIT (CQR) sold its interest in the last United States (US) joint venture entity in March and recently announced the sale of its Polish portfolio for €147.5 million to be settled in September 2013.
- ◆ CQR has continued to reinvest proceeds from offshore sales into acquisition of Australian supermarket anchored centres and towards the \$100 million redevelopment pipeline of its Australian portfolio. Works are almost complete on CQR's \$60 million redevelopment of its centre at Singleton, and works are commencing on the \$30 million Lansell Square refurbishment in Bendigo, Victoria.
- ◆ CQR and the Charter Hall managed Direct Retail Fund (DRF) have recently sold Home HQ Nunawading for \$48 million. The gross sale price is in line with the June 2013 book value and represents a market equivalent capitalisation rate of 10.7%.
- ◆ CQR also acquired the Secret Harbour shopping centre and adjoining vacant land south of Rockingham, Western Australia, for \$33.2 million. The transaction represents an initial yield of 7.8% on the shopping centre component plus vacant land at \$274 per square metre of site area. Planning is underway for the expansion of the centre to sub-regional size.

Charter Hall Retail REIT

Charter Hall Retail REIT (ASX:CQR) (CQR) invests in high quality, Australian supermarket-anchored neighbourhood and sub-regional shopping centres. Our Australian portfolio is geographically diverse and benefits from exposure to key markets along the eastern seaboard and across a number of key growth regions in Western Australia and Queensland.

We have had a busy six months, delivering on our strategy of reweighting to Australia with the sale of the last remaining US joint venture and the sale of our five property Polish portfolio due to close September 2013.

In June we announced the sale of our five Polish assets for a gross sale price of €174.5 million, however the sale is expected to be earnings neutral following a beneficial restructuring of CQR's hedge profile and reinvestment of sale proceeds.

Following these sales, 97% of CQR's net tangible assets will be located in the Australian market, with its offshore portfolio comprising only two assets in Germany, three in the United States and two in New Zealand.

In June, we commenced the reinvestment of the Polish portfolio sale proceeds with the acquisition of the Secret Harbour shopping centre and development land in Western Australia for \$33.2 million.

INDUSTRIAL



24 Muir Road, Chullora NSW

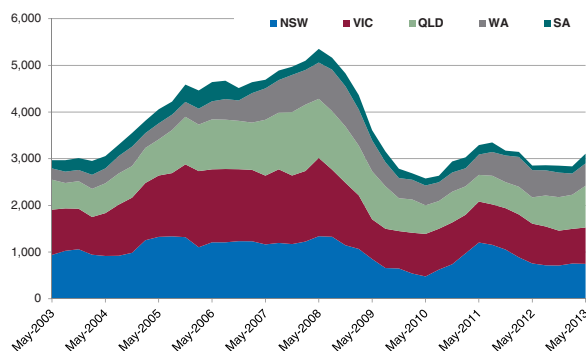
We own and manage 40 long-leased industrial and logistics properties covering approximately 820,000sqm in key growth areas around Australia.

Our circa \$1.2 billion portfolio is leased to high-calibre tenants such as Volkswagen, Coles, Woolworths, Australia Post, Grace, Toll, DB Schenker, Thales, Caterpillar, Australian Electoral Commission and Coates Hire.

Through our 50% interest in CIP, a national industrial pre-lease developer, we also have access to and are involved in the development of high quality industrial and logistics properties. Over the past seven years, Charter Hall has been actively involved in the ownership and delivery of 20 newly developed assets valued in excess of \$600 million and covering approximately 410,000sqm of floor space.

Market update

Real Industrial Development Approvals (\$m)



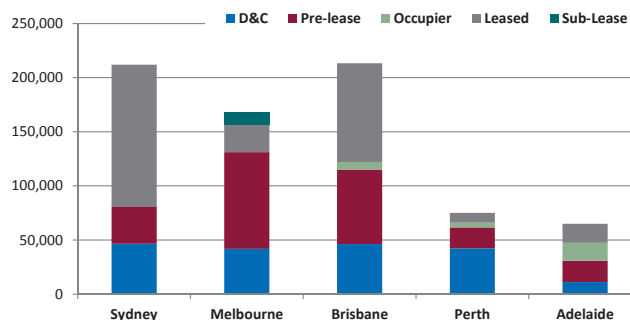
Source: ABS, Jones Lang LaSalle

In line with the slowing economy, leasing demand over the start of 2013 for the industrial sector has been fairly subdued following a very active end to 2012, with just under 735,000sqm of major leases tracked across the country. The perennial outperformers of Perth and Brisbane bore the brunt of the rental growth slowdown as declining mining activity led to an increased focus on cost containment.

Most interesting however is the type of leases recorded, with 57% of space leased over the first six months of the year being for pre-lease and design and construct facilities, and a staggering 92% of total activity being for prime grade assets. Clearly, tenants are largely taking the opportunity to upgrade facilities and, as such, the secondary leasing market remains tough across most of the country. While prime industrial property, with secure long-term lease covenants, has seen a strong rise in purchaser demand of late given the low interest rate environment, secondary yields remain elevated due to the substantially higher risk involved.

1. ABS Figures year to May 2013, CPI Adjusted

2013 Major Industrial Leasing Activity by Type



Source: ABS, Jones Lang LaSalle

Overall supply remains well below long run averages, however the inflation-adjusted value of development approvals rose by 8.9%¹ over the year showing developers are looking to meet demand for new facilities. This is reinforced by JLL numbers showing 718,000sqm of stock is due to complete in the second half of 2013, up from circa 470,000sqm in the first half. With 20% of this being built on a speculative basis, competition for tenants is likely to rise particularly within Sydney, Melbourne and Brisbane.

At present the accretive debt, long-term leasing structures with fixed growth, and spread to fixed interest assets make certain prime industrial assets very compelling in our view and is an asset class to which we have actively increased our exposure. However, asset selection is paramount and those with shorter-term lease expiries, or significant potential competition, may underperform over the longer term despite attractive initial yields.

Key business highlights



Coles Distribution Centre, Perth WA



Melbourne Airport Business Park, Tullamarine Vic

- ◆ In line with our strategy to grow our industrial and logistics platform, we have established a new wholesale core industrial partnership with two Australian institutional investors to acquire and manage core Australian logistics properties. Charter Hall has a co-investment in the new vehicle, the Core Logistics Partnership (CLP). CLP has now acquired five assets which on completion of all the contracted new building projects, will have a portfolio value of \$233 million:
 - The 36,213sqm AMCOR logistics facility at Scoresby in Melbourne, was acquired from AMCOR Limited on a 10 year sale and leaseback for \$41.25 million.
 - A 50% interest in the Metcash Distribution Centre at Canning Vale, Perth for \$63.5 million at a yield of 8.7%. The approximately 100,000sqm facility is 100% leased to a subsidiary of Metcash and has a weighted average lease expiry (WALE) of 11 years.
 - A new 47,000sqm facility at Truganina in Melbourne. Stage 1 settled for \$24.5 million and comprises 22,170sqm leased to Fastline for 10 years. Together with Stage 2 the total expected cost is \$41.7 million providing an initial yield of 8-8.25%.
 - Two development sites in Mackay, Queensland and Darra Brisbane for a total price of \$23 million. The former is pre-leased to a subsidiary of Wesfarmers for 15 years.
- ◆ Demonstrating investors' appetite for long lease industrial properties, Core Plus Industrial Fund (CPIF) has secured \$126 million of the \$150 million equity target for its 2013 capital raising, providing capacity to grow to approximately \$850 million once fully invested. We expect the balance to be committed by September 2013. The proceeds have been used to fund acquisitions and up to \$190 million of pre-leased projects on existing land banks.
- ◆ Charter Hall's managed wholesale fund, CPIF secured national logistics company Northline for a new 16,500sqm logistics facility which will anchor Stage 1 of its \$80 million Smithfield development.
- ◆ Charter Hall's unlisted industrial funds continue to perform strongly, with the Direct Industrial Fund No.1 (DIF1) to increase distributions at the June quarter, providing investors with a strong annualised distribution rate of 8.4% per annum. This has been driven by increased rental earnings from the portfolio. DIF1 is well positioned to provide further distribution growth over the Fund's investment term.
- ◆ Direct Industrial Fund No.2 (DIF2) has raised almost half of its targeted \$120 million of equity since it was launched in late December 2012 and will remain open for investment until the earlier of 31 December 2014 or the total equity amount being raised. DIF2 currently owns two assets and is seeking to acquire further quality long-leased assets.



THE FIGURES
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THEMSELVES

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OPPORTUNITY**

8% **PER ANNUM TARGET INCOME***
Based on \$1.00 unit price.



100%
200 \$M
15 **Year Leases**

Committed occupancy to Coles Group and Australia Post

Targeted total property value

High Quality Tenants

DIRECT INDUSTRIAL FUND NO.2 (DIF2)

Following the highly successful DIF1, Charter Hall invites you to invest in DIF2.

- Sustainable income with the potential for capital growth through investment in a portfolio of prime industrial properties.
- Minimum individual investment \$10,000.
- Wholesale PDS (with additional benefits) minimum investment \$250,000.
- Suitable for Self Managed Super Funds.

To invest contact your financial adviser, or to obtain a PDS:

Phone: 1800 051 296

Visit: charterhall.com.au/dif2

Please refer to the Charter Hall Direct Industrial Fund No.2 (DIF2) (ARSN 161 417 438) Product Disclosure Statement dated 17 December 2012 (PDS) for more details, including any inherent risks in the Fund. Units in DIF2 are issued by Charter Hall Direct Property Management Limited (CHDPML) (ABN 56 073 623 784, AFSL 226849). This information contains forward looking statements which are subject to known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Fund to be materially different from those expressed or implied. The offer of units is made in the PDS. Potential investors should consider the PDS when deciding whether to invest in the Fund. To obtain a copy of the PDS call CHDPML on 1800 051 296 (local call cost). * Potential investors wishing to acquire units need to complete the application form accompanying the PDS. Targeted 8% per annum is based on \$1.00 unit price (DIF2's units are priced daily) and refers to income return over the first two years (payable quarterly).

AN ICON ARRIVES

171 Collins Street Melbourne

Presenting Melbourne's first Premium Grade building in over 20 years, the 33,500sqm building is home to BHP Billiton's new global headquarters, Evans & Partners and Egon Zehnder. International fashion house, Dolce and Gabbana, will also open their first Australian flagship store in August in the buildings retail space fronting Collins Street.

Developed by Charter Hall and Cbus Property and designed by Bates Smart, 171 Collins Street features an impressive nine storey internal glass atrium that contains over 650 individual shards of glass that capture and reflect light to the lobby. The building's exterior is detailed with elegance, creating a weaved crystalline appearance that provides a striking focal point to Melbourne's skyline.

Premium features include:

- ◆ Targeting 6 star Green Star Office As Built and 5 star NABERS Energy ratings
- ◆ Highly sought after east-end Collins Street address
- ◆ Prestigious building finishes throughout
- ◆ Hotel style building concierge service and on-site management team to ensure the very best tenant user experience
- ◆ Highly flexible and efficient side core floor plates coupled with Under Floor Air Distribution system to all floors
- ◆ Floor to ceiling glazing maximising natural light penetration and outlook over the CBD and the Botanical Gardens
- ◆ Extensive end-of-trip facilities

www.171collins.com.au



Contact us

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To access information on your holding or to change your details contact the relevant registry.

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