Charter Hall
Celebrating 30 years

ASX Release

FY21 AGM Addresses

8 November 2021

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Chairman’s Address

It’s my pleasure to address this meeting today.

CQR’s strategy is to be the leading owner of property for Convenience retailers and in doing so, provide investors with a resilient and growing income stream.

FY21 saw a strong demonstration of the resilience of the CQR portfolio. In FY21 we saw net operating earnings grow, portfolio occupancy improve, positive leasing spreads, valuation gains and net tangible asset (NTA) growth. The portfolio remains in a strong position to continue delivering resilient and sustainable income and valuation growth in the future.

This was demonstrated in FY21 as the impacts of COVID-19 continued to be felt across the retail landscape, with mandated store closures a feature during the first half of the financial year. Thankfully, across most of the country, there were periods of reprieve, with normal trading and reduced restrictions seeing sales and trading activity recover quickly across CQR’s portfolio.

Our focus on being the leading owner of property for convenience retailers saw our centres remain open due to the essential role they play in servicing local communities. With non-discretionary retailers making up the majority of our tenant customers, trading volumes remained relatively high during lockdown periods, whilst trading conditions for impacted tenants recovered quickly following the easing of COVID-19 mandated closures and trading restrictions.

Importantly, the processes, systems and procedures put in place in late FY20 and enhanced further in FY21 continued to support those who work in, shop at, and visit our centres. This ensures the ongoing health, safety and wellbeing of our communities as COVID-19 continued to be present.

Our transactional activity during FY21 continued to enhance the portfolio quality by focusing on the resilience and defensiveness of CQR’s income. To this end, we divested West Ryde Marketplace and recycled capital into expanding our bp partnership with the addition of 70 locations in New Zealand and increased our partnership with Coles Group through the acquisition of Coles Adelaide Distribution Centre. Importantly, these two new investments have shown resilience throughout a year that was challenging for the broader retail market.

This resilience has been reflected in the strong valuation gains on these recent acquisitions, with both valued significantly higher than at acquisition. They are also an example of the value of the management platform provided by Charter Hall Group, with both acquisitions secured off-market and delivering growth in earnings and net tangible assets for CQR unitholders.

Moving forward, in a very competitive environment, we remain focussed on a disciplined approach to executing on accretive and strategic acquisitions leased to market leading convenience retailers in strong and growing population catchments.

CQR’s strategy is to provide investors with a resilient and growing income stream by being the leading owner of property for convenience retailers. Central to this strategy is partnering with major convenience retailers to meet their property needs across their value chain. Our major tenants include market leading businesses Coles, Woolworths, bp, Wesfarmers, and ALDI.

We continue to actively manage the portfolio to increase the percentage of CQR's earnings and extend the weighted average lease expiry (WALE) with our major tenants, thereby improving the resilience and dependability of income for CQR unitholders. We've been active in re-shaping the portfolio to deliver this objective by increasing the percentage of major tenants' income from 51.4% of portfolio income in FY20 to 53.5% in FY21 with a majors WALE of 11.4 years. Coles are now the equal largest portfolio tenant customer at 16.6% of rental income following the acquisition of the Coles Adelaide Distribution Centre.

Sustainability remains a critical part of enhancing our portfolio quality and is central to our approach to property management. We continue to explore opportunities to introduce sustainability initiatives to deliver long-term outcomes that are positive to our unitholders, tenants and the communities in which our assets are located.

In this regard, we are pleased to announce that we have brought forward our commitment to 100% net zero carbon emissions (Scope 1 and 2) across our portfolio to 2025, with electricity supply across the portfolio to be 100% renewable by 2025. We continued to make significant progress towards this goal over the last 12 months.

We now have 16.7 Megawatts of solar installations commissioned across 23 centres with a further 3 Megawatt's across four assets to be completed and commissioned early in FY22. In addition, we continue to partner with our major tenants all of whom have also set net zero or renewable energy targets. As part of this we've seen Coles and Woolworths install a further 2.9 Megawatts of solar at our centres to meet their own targets.

Our ESG commitments also extend to recognising the important role our centres play within their respective communities and we continue to undertake a range of community initiatives, supporting 16 local community programs and donating over $500,000 to local fundraising activities.

We are committed to ensuring that our people, systems and practices reflect a high standard of corporate governance and, as such, are constantly looking at what more we can and should be doing to ensure we are meeting best practice.

We also recognise the importance of scrutinising and actively managing modern slavery risk across our entire supply chain. We have adopted the Modern Slavery Statement and have established a working group to monitor our modern slavery and human rights risk.

In line with our efforts to ensure a robust modern slavery strategy, we participated in the pilot of the Property Council of Australia's supplier prequalification tool with our top 100 suppliers, with a further 100 to be added in CY21.

In closing, I would like to extend, on behalf of the Board, our thanks to the dedicated team that manages our portfolio on a day-to-day basis. I am proud to see how the team has continued to navigate the challenges that the pandemic has presented and the support that they have shown to our tenant customers, our communities and each other. This was reflected in an increase in tenant customer satisfaction to a five year high as measured by Monash University in our annual net promoter score survey.

I would also like to acknowledge that the achievements I have outlined today in enhancing portfolio quality, active asset management and prudent capital management, have all been achieved as a result of the management of the REIT by Charter Hall Group. Investors in CQR receive the benefit of the quality and experience of Charter Hall's capabilities including acquisitions, asset management, property management, development, finance, legal and treasury services.

Finally, I would like to thank our unitholders for your continuing investment in CQR. Our dedicated team, along with the Board, are here to protect and enhance your investment by delivering long-term sustainable growth in earnings. We remain committed to this goal.

I will now hand over to Greg Chubb, Charter Hall Group Retail CEO to review the year's financial and operating performance and to discuss the outlook for FY22.

Retail CEO's Address

Thank you, Roger and good afternoon ladies and gentlemen.

As Roger has outlined, FY21 was a year of challenges, but one that also demonstrated the resilience and defensive characteristics of the CQR Portfolio.

The operating performance of our portfolio was strong in FY21. We experienced strong MAT growth, an increase in portfolio occupancy, continued positive leasing spreads and a significant increase in portfolio value and net tangible assets.

Supermarkets are the foundation of our portfolio and achieved MAT growth of 4.3%, continuing their strong growth in sales across our portfolio. Total comparable MAT growth across the portfolio when including specialty sales was 5.4%, up from 3.9% at June 2020.

Over the year we had record leasing activity, with 457 specialty leases completed in the period, achieving positive leasing spreads of 1.6%. This activity translated into improved portfolio occupancy, with the convenience retail portfolio occupancy lifting to 98.3%, up from 97.3% at June 2020.

Additionally, specialty sales productivity rose to more than $10,000 a square metre and specialty occupancy costs decreased to a sustainable 11.2% in FY21.

As Roger has outlined, during the year we expanded our partnership with bp with the acquisition of an interest in 70 Long WALE convenience retail properties across New Zealand and we also grew our relationship with Coles, with the acquisition of the Coles Distribution Centre in Adelaide.

Both of these acquisitions delivered significant valuation gains, materially increasing in value over the year while providing a capital efficient, secure and growing income stream that has been unaffected by the COVID-19 pandemic.

These acquisitions combined with valuation gains saw the portfolio value increase 12.1% over the year to $3,647 million. and net tangible assets increase from $3.75 per unit to $4.01 per unit.

These results translated into operating earnings of $156.2 million for the year, up 9.5% on the prior comparable period. Operating earnings per unit were 27.30 cents, down 10.7% reflecting the impact of the April 2020 equity raise. Distributions for the year were 23.4 cents per unit and more than 100% covered by operational cashflow.

As we ended the financial year, we were also pleased to announce the acquisition of Butler Central Shopping Centre in Western Australia for $51.2 million on a 6.0% cap rate.

Butler Central is a convenience centre located 40kms north of the Perth CBD and was developed by Woolworths in 2018. The 9,000sqm centre is anchored by a Woolworths supermarket with BWS, Best & Less and The Reject Shop mini-majors, 30 specialty shops and 452 on-grade parking spaces. The low site coverage at 25% provides optionality for the introduction of future uses to enhance the overall offering and associated returns. The centre benefits from being located adjacent to the Butler transport interchange with direct rail links to Perth.

This acquisition was secured and negotiated off-market with Woolworths as a direct result of Charter Hall Group's strong relationship with Woolworths. As the dominant convenience retail centre in a large and growing catchment, Butler Central is an excellent addition to CQR.

Turning now to our operational performance in Q1 FY22.

First quarter FY22 trading conditions have continued to demonstrate the resilience of the CQR portfolio with strong trading performance despite the impacts of mandated lockdowns and trading restrictions in New South Wales and Victoria. Supermarket sales have been strong, with 5.1% sales growth for the September quarter, 3.1% MAT sales growth over 12 months and 11.1% MAT sales growth over two years to September 2021.

At the height of the lockdowns during August, 428 or 10.8% of CQR's specialty tenants by total monthly portfolio income were closed. Following the relaxation of lockdown and trading restrictions in NSW, due to vaccination status of staff, all but five of our NSW specialty tenants have now reopened and are trading. Pleasingly since reopening, traffic to centres across NSW is returning to pre COVID-19 levels and communities are observing COVID-19 safe plans.

In Metropolitan Melbourne as trading restrictions have been progressively lifted, all specialty tenants in the two impacted CQR centres have re-opened and recommenced trading. Similar to previous lockdowns, trading conditions have rebounded swiftly with a strong return to foot traffic and sales.

Portfolio occupancy has remained stable at 98.3%. Specialty leasing has temporarily been affected by lockdowns with new lease activity slowing during the first quarter. Pleasingly, renewal activity has continued to be positive, with many tenants opting to take lease extensions during COVID-19 lease support negotiations. Charter Hall's in-house retail leasing team has been focused on prioritising lease support to affected tenants and rental collection across the portfolio.

Rental collections for the period have continued to be strong, reflecting the resilience and defensive characteristics of the CQR portfolio. $67.3 million, or 90% of rent billed for the period has been collected, with $5.0 million or 6.7% rent provided as tenant support and $2.5 million or 3.3% of rent remaining for collection.

Despite the operational challenges provided by COVID-19 mandated shutdowns, the CQR portfolio continues to demonstrate its resilience. Our focus on being the leading owner of property for convenience retailers provides a solid underpinning to income growth and capital values.

It is our expectation that supermarket and convenience retail sales will continue to be strong, driven by customers preference to shop closer to home and focus on everyday needs. CQR remains well positioned to benefit from this trend.

Across the portfolio, visitations have normalised in most regions, highlighting the essential need associated with convenience retail.

We will continue to focus on improving the resilience of CQR's income and growth. Opportunistic divestments will be used to fund acquisition opportunities that further enhance the portfolio, with a focus on partnering with non-discretionary convenience retailers.

Barring any further unforeseen events, FY22 earnings per unit (EPU) is expected to be between 27.8 and 28.2 cents per unit (cpu) representing growth of 1.8% - 3.3% on FY21 earnings per unit.

Distributions per unit (DPU) are expected to be between 23.9 and 24.3 cpu representing growth of 2.1% - 3.8% on FY21 distributions per unit.

It is expected that the 2H FY22 distribution will be greater than the 1H FY22 distribution, reflecting the timing impacts of COVID-19 tenant support.

I'll now hand back to Roger.

Announcement Authorised by the Board

Charter Hall Retail REIT (ASX: CQR)
Charter Hall Retail REIT is the leading owner of property for convenience retailers.

Charter Hall Retail REIT is managed by Charter Hall Group (ASX:CHC). With over 30 years' experience in property investment and funds management, we're one of Australia's leading fully integrated property groups. We use our property expertise to access, deploy, manage and invest equity across our core sectors – Office, Industrial & Logistics, Retail and Social Infrastructure.

Operating with prudence, Charter Hall Group as manager of CQR has curated a diverse $54 billion portfolio of 1,404 high quality, long leased properties. With partnership at the heart of our approach, we're creating places that help grow communities; turning them into the best they can be and unlocking hidden value. Taking a long-term view, our $9 billion development pipeline delivers sustainable, technologically enabled projects for our customers.

The impacts of what we do are far-reaching. From helping businesses succeed by supporting their evolving workplace needs, to providing investors with superior returns for a better retirement, we're powered by the drive to go further.

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