

## ASX Release

# Charter Hall Retail REIT FY23 Results

15 August 2023

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Charter Hall Retail REIT (ASX: CQR) (CQR or the REIT) today announces its FY23 results for the period ended 30 June 2023.

### Financial Highlights:

- Operating earnings of \$166.9 million up 1.5% on prior corresponding period (pcp)
- Operating earnings of 28.71 cents per unit (cpu) up 1.1% on pcp
- Distribution of 25.80 cpu up 5.3% on pcp
- Statutory profit of \$37.8 million
- Net Tangible Assets (NTA) per unit of \$4.73
- Portfolio look-through gearing of 34.0% and balance sheet gearing of 29.0%
- Weighted average debt maturity of 4.0 years and 70% interest rate hedging for FY24
- Available liquidity of \$239 million consisting of cash and undrawn debt facilities

### Operating Highlights:

- Ongoing portfolio curation with the \$203 million of divestments including Coles Distribution Centre, Adelaide; Allenstown Square, Queensland; Brickworks Marketplace SA, with sales at or above book values
- \$58 million off-market investment into Gull New Zealand portfolio of 18 Long Wale convenience retail properties
- \$118 million off-market acquisition of Z Energy portfolio of 51 Long WALE convenience retail properties
- \$61 million investment in the Long WALE Investment Partnership 2 (LWIP2) portfolio of 11 Endeavour Group leased pubs
- Shopping centre portfolio occupancy of 98.6%, up from 98.5% at June 2022
- Specialty leasing spreads of +2.5% with 259 specialty lease renewals (+2.7% leasing spread) and 161 new leases (+1.7% leasing spreads)

- Like-for-like net property income (NPI) growth of 3.3%
- Total MAT growth of 5.9%, up from 0.4% at June 2022

Charter Hall Retail's CEO, Ben Ellis said: "CQR's blend of Long WALE and convenience retail assets continues to produce meaningful income growth for investors. FY23 saw CQR deliver 5.3% distribution growth against a backdrop of rising interest rates. With 59% of portfolio income growth linked to inflation, the portfolio also proved its defensiveness as income growth largely offset cap rate movements and CQR experienced a very modest decline in book values. Looking forward, the quality of our portfolio along with the strong sales growth of our tenants and the resilient nature of CQR's assets will see them continue to deliver income growth and support valuations despite a more subdued economic environment."

### Investment strategy

The REIT has continued its disciplined investment strategy to provide a resilient and growing income stream for investors.

In August 2022, CQR acquired a portfolio of 18 Gull service stations in New Zealand. The portfolio is predominantly located in metropolitan centres, with 56% located in Auckland and 5% in Wellington. At the time of acquisition, the portfolio WALE was 15-years and the purchase price of NZD\$64.5 million (AUD \$58.1 million) represented a core cap rate of 6.40%. The portfolio was secured off-market through a sale and leaseback agreement negotiated directly between Charter Hall and the vendor.

In October 2022, CQR acquired a 49% interest in a portfolio of 51 Long WALE convenience retail properties leased to Z Energy Limited in New Zealand. This transaction was negotiated off-market and followed Ampol's acquisition of Z Energy, furthering CQR's relationship with Ampol. CQR's 49% interest was acquired for AUD \$118 million (NZ\$130 million) on a 5.50% cap rate with annual NZ CPI rent escalations (2% floor, 5% cap), triple-net (NNN) leases and a 15.3-year WALE. 78% of the portfolio's 51 assets are located in metropolitan areas.

At the same time, CQR also divested its 52% interest in the Coles Distribution Centre, Adelaide (CDC) at book value. The \$95.1 million proceeds from the sale were used to fund the acquisition of the Z Energy portfolio. This generated an IRR for CQR unitholders of 29.4%.

Post the acquisition, Ampol is now CQR's 5<sup>th</sup> largest tenant customer and represents 4.5% of portfolio income. The transaction was the result of Charter Hall Group's strong relationship with the tenant and demonstrates Charter Hall's ability to access off-market opportunities for the benefit of CQR unitholders.

In April 2023, CQR announced an investment in a convenience long WALE retail partnership with superannuation fund Hostplus, via the acquisition of an initial 18% interest in the Long WALE Investment Partnership 2 (LWIP2). Subsequent to the initial acquisition, CQR has increased its ownership to a 26% stake worth \$61 million through equity injections to fund acquisitions.

LWIP2 now consists of eleven Endeavour Group leased retail assets, with six located in Queensland (32% of portfolio value), three in Victoria (48% of portfolio value) and two in South Australia (20% of portfolio value). The portfolio benefits from NNN leases, the majority of which have uncapped CPI annual rent escalations, whilst ten of the properties include Endeavour-branded off-premise bottle shops (three Dan Murphy's and seven BWS), a 4.80% initial yield and a WALE of 11 years.

The LWIP2 transaction was predominantly funded through reinvesting the sale proceeds from the disposal of Allenstown Square, QLD, which was sold at book value, and Brickworks Marketplace, SA which was sold for a 6.1% premium to the December 2022 book valuation, demonstrating the resilience and attractiveness of CQR's assets.

97% of the CQR portfolio was independently revalued at 30 June 2023. The REIT's total portfolio decreased in value by \$15 million with net acquisitions of \$1 million and a valuation movement of -\$16 million, inclusive of capital investment of \$79 million. The total portfolio cap rate moved from 5.20% at June 2022 to 5.57% at June 2023. The shopping centre convenience retail portfolio cap rate moved from 5.45% at June 2022 to 5.81% at June 2023 while the long WALE convenience retail portfolio cap rate moved from 4.33% to 4.83% over the same period. The overall portfolio valuation decrease of 0.4% for the year was split between +4.8% income growth and -5.2% capital movement.

## Active management

The CQR portfolio continues to be strategically weighted towards high quality major convenience retail tenants. Major tenants Woolworths, Coles, bp, Wesfarmers<sup>1</sup>, Aldi, Ampol, Endeavour and Gull represent 57% of rental income. The total portfolio WALE is 7.4 years and majors WALE is 10.5 years.

The Long WALE convenience retail portfolio represents 25% of total portfolio by value and 19.5% of total portfolio income. The leases are NNN with CPI reviews and a WALE of 15.9 years. CQR's Long WALE convenience retail portfolio has delivered 6.2% rental growth in FY23, underpinning the broader CQR portfolio income growth.

Supermarkets in the convenience retail portfolio continued to perform well with 67% of supermarket tenants paying turnover rent<sup>2</sup>, up from 62% in June 2022 and those within 10% of turnover thresholds representing 18% of supermarkets. Supermarkets across the portfolio delivered 4.3% MAT growth.

CQR also had an active period of leasing with 420 specialty leases completed at an average spread of +2.5%. This was made up of 161 new specialty leases completed at an average +1.7% leasing spread and 259 renewals completed at an average +2.7% leasing spread.

Specialty productivity continues to improve and reached a portfolio record at \$10,489 per sqm. Occupancy costs have fallen slightly and are highly sustainable at 11.4%.

1,173 retail tenant customers participated in an annual CentreSAT survey through Monash Business School in March 2023 achieving a 97% participation rate. Pleasingly, our tenant customers tenant customers ranked Charter Hall 1<sup>st</sup> in likely to recommend (NPS) for the third consecutive year.

## Capital Management

Prudent capital management remains central to CQR's strategy. CQR currently has \$239 million of available liquidity to fund capital investment and enhance portfolio quality.

During the period, Moody's affirmed CQR's Baa1 issuer rating and senior unsecured rating with a stable outlook. Recent financing activity added \$150 million of additional debt capacity and saw the extension of \$180 million of capacity into FY29. CQR has no debt maturing until March 2026.

CQR's weighted average debt maturity is 4.0 years, with an average hedge maturity of 1.9 years. Portfolio balance sheet gearing is 29.0% and look-through gearing is 34.0%, within the target 30-40% gearing range. CQR has 70% of debt hedged for the FY24 year. CQR's weighted average cost of debt was 4.3%<sup>3</sup> as at 30 June 2023.

## Summary and outlook

CQR's strategy is to be the leading owner of convenience retail property, delivering investors a resilient and growing income stream from Long WALE and convenience retail properties. Portfolio curation and active asset management will continue to enhance the portfolio quality through time.

Positive leasing spreads, high occupancy levels and MAT growth are expected to continue. Portfolio income is expected to benefit from direct and indirect inflation-linked rental growth, which will also underpin asset values.

Based upon information currently available and barring unforeseen events, CQR expects FY24 operating earnings to be approximately 27.4 cents per unit.

The distribution payout ratio range is expected to be 90 – 95% of operating earnings.

<sup>1</sup> Kmart, Target, Bunnings, Officeworks and API

<sup>2</sup> Includes supermarkets with fixed rent reviews

<sup>3</sup> Calculated as at 30 June 2023 based upon BBSY of 4.4%, look through hedging of \$1.1 billion and drawn debt of \$1.5 billion

*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). Charter Hall is one of Australia's leading fully integrated property investment and funds management groups. We use our expertise to access, deploy, manage and invest equity to create value and generate superior returns for our investor customers. We've curated a diverse portfolio of high-quality properties across our core sectors – Office, Industrial & Logistics, Retail and Social Infrastructure. With partnerships and financial discipline at the heart of our approach, we create and invest in places that support our customers, people and communities grow.

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