Charter Hall

ASX Release

AGM – Chair and Fund Manager Address

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Responsible Entity of Charter Hall Long WALE REIT

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Chair's Address

Welcome to CLW's 2023 Annual General Meeting. It's my pleasure to address this meeting today.

It has been a very challenging year for the Australian Real Estate Investment Trust market, including for CLW. I'd like to spend some time today discussing CLW's attributes and performance and then I'll hand over to Avi Anger to provide an update on the operational and financial performance for FY23.

CLW is one of the top 10 Australian real estate investment trusts (A-REITs) listed on the ASX and is Australia's largest diversified long WALE REIT, investing in properties primarily leased to major corporate and government tenants on long-term leases.

This year presented significant economic challenges, with rapidly rising inflation resulting in an historic interest rate rising cycle by the Reserve Bank of Australia. CLW's portfolio continues to be diversified by tenant, industry, geography and property type, which contributes to the stability of the cash flow. CLW's properties were leased to 84 tenants across Australia and New Zealand, and diversified across Long Weighted Average Lease expiry or WALE retail, office, industrial, social infrastructure and agri-logistics sectors.

At year end, the REIT held 549 properties valued at $6.8 billion with a WALE of 11.2 years. 52% of the income of the REIT comes from triple net lease properties. This is an important feature of our portfolio given that under a triple net lease structure, the tenant is responsible for all outgoings, maintenance and capital expenditure. In addition, 79% of our portfolio is located in markets on the Eastern Seaboard of Australia. The quality of CLW's tenants means that we have had no major defaults, and net property income from tenants has risen over the year by 4.4%. The 51% of CLW's leases that are CPI linked benefitted from the current high inflation rate at rent review time.

The performance of the AREIT sector has been very disappointing this past year, with many AREITs trading at substantial discounts to underlying NTA. CLW has not been immune from these trends and is currently trading at over 40% discount to the appraised value of its portfolio. At yesterday's closing , CLW currently offers an attractive 8.2% distribution yield. It's important to acknowledge that interest costs have had a negative impact on the operating earnings and distributions per security that CLW has been able to deliver, both for FY23 and forecast earnings for FY24. The unprecedented rate rising cycle we have just witnessed has seen interest costs more than offset the earnings growth that CLW's underlying portfolio has delivered. This is disappointing, given the underlying portfolio continues to generate strong net property income growth.

In FY23, CLW's portfolio delivered 4.4% like-for-like income growth. When combined with acquisition activity, net property income increased by 10.6%. CLW's underlying portfolio continued to generate strong rental growth in FY23, attributable to the quality of its properties and tenant customers, as well as its 11.2 year WALE.

CLW has a high-quality income stream generated from blue chip tenants with 99% of the tenants of the REIT consisting of Government, ASX listed, multinational or national businesses. Our largest tenants are Government, Telstra, BP and Endeavour Group.

All the leases in our portfolio have annual rent increases providing strong year-on-year income growth. This consists of a mix of fixed and CPI linked annual increases. Our income growth benefits from increases in inflation with 51% of rent increases across our portfolio linked to CPI. This is particularly attractive in the current inflation environment with a weighted average increase in income across our CPI linked leases of 7.1% in FY23. The average fixed increase across our portfolio was a high 3.1%.

As a Board and management team, we continue to focus on what is within our control in order to navigate the challenging economic environment and rising interest rates. The underlying portfolio continues to deliver consistent earnings growth. It is unfortunate that rising interest costs have offset this growth and it has not translated into Operating EPS growth.

From a balance sheet perspective, we have taken additional interest rate hedging and our interest rate exposure is 80% hedged for FY24 and 64% hedged in FY25. This removes much of the risk associated with any further rise in interest rates. As we look further forward, we will continue to selectively put in place further hedging into FY26 and beyond, while also being mindful of preserving some exposure to any rate cuts that may occur in future years.

In response to market concerns about CLW's level of gearing, we have also noted that we intend to sell some assets to lower gearing. In the current environment this seems prudent, and we will provide further details when these sales are sufficiently advanced.

We also remain focused on implementing sustainability initiatives across our portfolio and consider ESG as a driver of long-term value for investor and tenant customers. Charter Hall recently announced that it is targeting Net Zero Carbon by 2025, having accelerated our Scope 1 and Scope 2 targets by five years, a commitment that also covers CLW. Additionally, CLW has been focused on clean energy, with 2 megawatts of solar installed across the portfolio, an increase of 400 kilowatts since FY 2022. Further, the office properties in the portfolio have 100% grid supplied electricity sourced from renewable sources.

CLW's predominantly modern office portfolio features high environmental credentials, including 5.3 Star NABERS Energy and 5.2 Star NABERS Water ratings. CLW remains committed to aligning with best practice frameworks to support transparency and disclosure. The fund achieved a score of 79 in the 2022 GRESB assessment, an increase of 7 points compared to the prior period, evidencing our commitment to continuous improvement.

Good governance is an important element of ESG and is something your Board of Directors is focused on. Our role as Directors is to ensure management adhere to the Strategy of the REIT and manage all aspects of the REIT's operations professionally.

I would like to assure Securityholders that your Directors are ever-mindful of their responsibilities to act in the interests of all Securityholders and we endeavour to ensure CLW continues to provide investors with stable and secure income and the potential for both income and capital growth through an exposure to a portfolio of high-quality properties and tenants with a long WALE. The Board remains committed to aligning with best practice frameworks to support transparency and disclosure.

It is not possible to predict when sentiment towards the sector might change and attract renewed investor support. Most likely the trigger will be when the market believes central bank interest rate rises are over. Share prices in the sector might rally as investors realise that REIT's can be bought cheaply relative to their fundamental value. In the meantime, the current yield on offer of circa 8.2% provides some cushion and relief from the disappointing share price performance.

Finally, I would like to thank you for your ongoing support and interest in CLW.

I will now hand over to Avi Anger, Fund Manager Charter Hall Long WALE REIT to review the year's financial and operating performance and discuss the outlook for FY24.

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Fund Manager's Address

Thank you Peeyush.

I would like to start by briefly discussing the financial performance of the REIT in FY23 and some of the highlights from the year.

I'm pleased to report that we delivered operating EPS of 28 cents per security in line with FY 2023 operating earnings guidance provided.

This was driven by net property income increasing by 10.6% compared to the prior reporting period and was driven by a combination of like-for-like growth of 4.4% from the stabilized portfolio and net acquisition activity.

Finance costs also increased period-on-period, driven by a 0.8% increase in the REIT's weighted average cost of debt from 2.3% in FY 2022 to 3.1% in FY 2023. This was a significant headwind for operating EPS and resulted in negative year-on-year growth in OEPS. Our NTA at 30 June 2023 was $5.63 per security.

The portfolio delivered a weighted average rent review of 5.1%, benefiting from the 51% of income of the REIT being CPI-linked, with a weighted average increase from our CPI-linked leases of 7.1% in FY 2023. As Peeyush discussed, CLW has a long WALE of 11.2 years, providing security and continuity of income to our investors with portfolio occupancy of 99.9% at year-end.

We completed $223 million of transaction activity during the year, with $114 million of strategic divestments, which were recycled into $109 million of portfolio-enhancing investments. We remain focused on prudent capital management, with 80% of drawn debt being hedged, providing protection against the risk of rising interest rates.

Moody's has reaffirmed its Baa1 investment grade credit rating for the REIT, and at year end, our weighted average debt maturity is 4.5 years with staggered maturities to a diversified lender pool. CLW continues to actively manage its balance sheet in order to remain defensive in a high interest rate environment. Balance sheet gearing of 32.9% is within the target 25%-35% range and look-through gearing is 40.1%.

On 15 June 2023, we released updated property valuations, which resulted in a $417.7 million, or 5.8%, net decrease from prior book values. This valuation impact represents a 9.6% decline in NTA per security from $6.23 as at 31 December 2022 to $5.63. Whilst any decrease in valuations is disappointing, our portfolio curation strategy is designed to ensure resilience throughout the property cycle, and it is clear that the sector is navigating its way through a challenging period.

At year end, the REIT consisted of 549 properties valued at approximately $6.8 billion, with 100% of the portfolio independently valued at June. The portfolio average cap rate is 4.77%. The portfolio is virtually fully occupied with an occupancy of 99.9%, with a long-dated WALE of 11.2 years at year end. The properties in the portfolio feature a blend of annual lease review structures, both fixed and CPI-linked. Our average fixed reviews are 3.1%, whilst our CPI-linked leases delivered strong growth with 7.1% growth in FY 2023. This resulted in a weighted average rent review for FY 2023 of 5.1%.

During the year we undertook portfolio curation divesting some short WALE properties at book value and investing in new high quality long WALE investments. The divestments consisted of two short WALE industrial facilities at prevailing book values. The Woolworths Distribution Centre at Hoppers Crossing was sold for $74 million, reflecting a 4.5% cap rate. The property had a three-year lease term remaining at the time of settlement in December 2022. The Toll, Altona North property was sold for $38.3 million, reflecting a 4.75% cap rate. The property had a 2.9-year lease term remaining at the time of settlement in December 2022.

These sales provided support for our book values and the sale proceeds were recycled into new portfolio enhancing long WALE investments. These investments were a 25% interest in the Geoscience Australia headquarters in Canberra for $91 million. The property is a life sciences complex comprising office, specialised laboratory, storage and warehousing. The property was acquired in

October 2022 and featured a 9.6-year WALE with 3% annual rent reviews and the yield at acquisition was 7.4%.

We also further extended our relationship with Endeavour Group acquiring four Endeavour Group leased pubs, the Emu Hotel in South Australia, the Horse and Jockey, Marine Hotel, and Rainbow Beach Hotel, all in Queensland. All pubs are leased to Endeavour Group with new 15-year triple net leases with uncapped CPI increases. The total combined acquisition price was $17.9 million for CLW's 49.9% interest, reflecting a blended 5% cap rate.

The Geosciences and Endeavour pub acquisitions demonstrate our focus on transactions offering attractive long-term risk-adjusted returns, but also mindful of downside protection. Investing in properties that are strategically important to our tenants with strong tenant credit, favouring government and large companies and properties with high underlying land value.

Our portfolio of long WALE properties is leased to high quality tenants, including government, Endeavour Group, Telstra, bp, Ingham's and Coles. The acquisitions completed during the year further increase our exposure to high quality tenants in government and best-in-class Endeavour Group.

CLW’s portfolio has a long-dated lease expiry profile and reflects a low-risk position relative to our peers in the sector. Our portfolio WALE, quality of tenants and proportion of triple net leases provides better downside protection and more resilient income streams for our investors.

Within our overall portfolio, approximately 99% of tenants are ASX listed, government, or multinational or national corporations, with the vast majority of these tenants operating in non-discretionary industries. During the year, we increased our exposure to government tenants.

We also increased our exposure to the pubs and bottle shop sector with best-in-class operator, the Endeavour Group. In the telecommunications sector, we have partnered with another best-in-class operator, Telstra Corporation, which includes our portfolio of 37 exchange properties on long triple net leases.

We also have a high proportion of tenants operating in the non-discretionary grocery and food sectors such as Woolworths, Coles, Ingham's, Arnott's and Metcash, and our bp Australia and New Zealand portfolios of 292 properties on long triple net leases provides us with exposure to the resilient fuel and convenience retail sector.

The REIT's portfolio has a long-dated lease expiry profile and reflects a low-risk position relative to our peers in the sector. Our portfolio WALE is a long dated 11.2 years. We have minimal lease expiries in the next two years and we are in discussions with a number of tenants with expiries in FY 2026 and beyond, regarding lease renewals and extensions. We continue to work to push out our expiry profile as far as possible through acquisition and negotiating lease extensions with our tenant customers. Our portfolio WALE, quality of tenants and proportion of triple net leases provides better downside protection and more resilient income streams for our investors.

I’d now like to re-affirm our FY24 earnings guidance.

Based on information currently available, including current interest rate and inflation expectations and barring any unforeseen events, CLW provides for FY 2024 operating EPS guidance of 26 cents and DPS guidance of 26 cents.

Based on yesterday’s closing price, this represents an 8.2% distribution yield.

In closing, I would like to thank the Directors of CLW for their on-going guidance and support in the running of CLW and you our Securityholders, for your trust and support.

We remain focused on delivering a long WALE resilient portfolio leased to high quality tenants and providing investors with both income and capital growth over the long term.

I would now like to hand back to our Chair, Peeyush to conduct the formal business.

Announcement Authorised by the Board

Charter Hall Long WALE REIT (ASX: CLW)

Charter Hall Long WALE REIT is an Australian Real Estate Investment Trust (REIT) listed on the ASX and investing in high quality Australasian real estate assets that are predominantly leased to corporate and government tenants on long term leases.

Charter Hall Long WALE 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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