ASX Release

CQR AGM Addresses

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Chair's Address

CQR's strategy is to be the leading owner of convenience retail property. This year, our portfolio of convenience retail assets has continued to demonstrate its resilience, despite the challenging economic environment for the commercial property sector with high inflation rates and record interest rate rises from the Reserve Bank of Australia.

Importantly, consumer spending in convenience retail has remained incredibly resilient, buoyed by low unemployment, this has unlocked strong 3.3% income growth, 98.6% occupancy, positive leasing spreads and strong footfall across the portfolio. As a result, net operating earnings per unit increased 1.1% to 28.7 cents per unit (cpu) and distributions per unit increased 5.3% to 25.8 cpu.

Asset values proved resilient despite the macroeconomic environment, with net tangible assets (NTA) of $4.73 per unit showing a 3.7% decrease on FY22, following valuation updates for the six months ending 30 June 2023. Ben will talk in more detail to the financial highlights of the year in his address.

The bottom line is that your company's balance sheet remains strong with positive net property income growth, boosted by CPI plus leases in the long WALE portfolio and 59% inflation protected income streams over the entire portfolio, largely offsetting any cap rate and valuation weakness. Conservative balance sheet gearing of 29% only further strengthens our capital management.

Our diversified and well balanced long-term debt maturity profile, with no maturities before 2026, and 70% interest rate hedge levels in 2024 adds further capital management strength and positions us favourably to address much of the interest rate and inflation Challenges the real estate market is currently facing.

As a Board and management team, we've been focused on delivering our Convenience retail strategy. Since 2018, we've been actively curating our convenience retail portfolio and growing our major tenant customer composition. In 2018, CQR had four leading convenience retailers: Woolworths, Coles Group, Wesfarmers and Aldi, representing 48% of the REIT's total portfolio rental income, with less than 3% of major tenant leases benefiting from annual CPI-linked rent reviews and there were no triple net leases within the fund.

Although the percentage of supermarkets in turnover was a market-leading 53% at the time, the rental growth delivered by major tenant customers was modest. By contrast and through active curation of our portfolio, CQR's portfolio and major tenant rental growth profile now looks significantly different.

CQR now consists of a high quality, predominantly metropolitan convenience shopping centre portfolio, complemented by a portfolio of triple net leased convenience long WALE retail assets benefiting from CPI-linked rental reviews.

With the addition of the Ampol, BP, Gull and Endeavour Group portfolios, the fund now has eight major tenant customers that deliver 57% of total portfolio income significantly improving the quality and resilience of our income growth.

For FY 2023, these eight major tenants also delivered 3.7% income growth, over three times what the portfolio delivered prior to the curation and, importantly, over 35% of this income now comes from triple net leases that deliver true and consistent inflation-linked rental growth with no capital expenditure drag.

As we look to the future, CQR's portfolio is structured to continue to deliver stronger underlying rental growth and a resilient and growing income stream for our investors.

CQR continues to deliver on a sustainability commitment of net zero carbon emissions by 2025. CQR has now installed 20.2 megawatts of solar across 38 locations and we have 9-megawatt hours of battery storage installed across five locations.

CQR remains on track to provide 100% renewable electricity to the common areas of all of its shopping centres in 2025, and we've seen an improvement in the NABERS Energy and water portfolio ratings up to 4.9 and 4.2 stars, respectively. Pleasingly, the CQR portfolio also achieved a GRESB score of 90 in the 2022 GRESB assessment, an improvement of 11 points, which ranked CQR in second place for Australian and New Zealand listed retail entities.

In addition to CQR's environmental commitments, we recognize the important role our centres play in our local communities. This year, our shopping centres continue to champion belonging, understanding and inclusion through a National Reconciliation Week, which is an important time that all Australians can learn about our shared histories, cultures and achievements.

As part of CQR's ongoing giveback commitment, we also provided over 3,000 lunchboxes for children within our local communities through our back-to-school campaign and proudly partnered with WorldPride to celebrate their Rainbow Runway Activation. Throughout FY 2024, we'll continue to proactively enhance our environmental achievements and work with our communities to provide ongoing meaningful support.

Finally, Good governance remains an important element of Sustainability and is something your Board of Directors are keenly focused on. We are structured so that we have a majority of independent directors on the Board whose role is to ensure management adhere to the agreed Strategy of CQR and make decisions in the interests of all unitholders. In so doing, the independent Directors maintain oversight of all the services provided by the Charter Hall Group to CQR, ensuring a level of service that is consistent and appropriate for the fees charged.

Within this capacity, we regularly engage external consultants to benchmark these fees to ensure they are appropriate and consistent with market standards and that CQR Unitholders are receiving value for money. In so doing, the independent Directors also approve all major transactions, asset purchases, related party fees and Capex. We also appoint the external auditors to audit the accounts and independently approve CQR's financial statements.

In fulfilling these duties, I would like to again assure Unitholders that your Directors are ever-mindful of their responsibilities to act in the best interests of all Unitholders. Finally, I would like to also acknowledge that the achievements I have outlined today, 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, opportunity identification, acquisitions, asset management, property management, development, finance, legal and treasury services.

The Board remains committed to aligning with best practice frameworks to support transparency and disclosure. Finally, I would like to thank our Unitholders for your support and continued investment in CQR.

I will now hand over to Ben Ellis, Charter Hall Retail CEO to review the year's financial and operating performance and to discuss the outlook for FY24.

Retail CEO’s Address

Thank you, Roger. Good afternoon, Ladies and Gentlemen.

CQR continues to deliver a resilient and growing income stream for our investors. Operating earnings per unit were up 1.1% to 28.71 cents for the period and distributions per unit were up 5.3% to 25.80 cents compared to FY 2022.

This was the result of total net property income growth of 7.2% to $237.6 million for the year. This increase was driven by same property NPI growth of 3.3% with like for like convenience shopping centre NPI growth of 3.1% and like for like convenience long WALE retail growth of 4.7%. Further growth was delivered from the full year impact of our off-market investments in Butler Central and the Ampol portfolio in late FY22 along with the Z energy, Gull and LWIP2 investments in this period.

For the period, we completed 420 leasing transactions and again achieved positive leasing spreads of 2.5%, demonstrating the strong trading of our convenience retail centres. This continued strong leasing activity translated into portfolio occupancy increasing to 98.6%, up from 98.5% in FY 2022.

Same property NPI growth remained strong at 3.3% driven by a unique blend of inflation-linked rental growth from our convenience long WALE retail assets and turnover rent from majors within our shopping centre portfolio complemented by fixed rental increases from our specialty tenants.

MAT growth across the shopping centre portfolio was strong. Total MAT growth of 5.9% was up significantly from 0.4% in FY 2022. This strong portfolio MAT growth was driven by supermarket growth for the period being up 4.3% and exceptionally strong specialty MAT growth of 9%, up from minus 3.7% in FY 2022. This has resulted in an all-time high specialty sales productivity per square metre of $10,489 a square meter, up from $9,894 in FY 2022.

These strong operating metrics and increased exposure to high-quality triple net lease long WALE convenience retail assets benefiting from annual CPI rental escalations again demonstrates the strength of CQR's strategy and our ability to deliver ongoing and resilient income growth for investors.

CQR’s portfolio WALE remains stable at 7.4 years, following the off-market acquisitions of the Z Energy, Gull and LWIP2 portfolios, as well as strong leasing renewal activity.

Importantly, the portfolio now has 59% of total income growth directly or indirectly linked to inflation, with 24% of income growth linked to CPI and a further 35% of total income growth indirectly linked to inflation through turnover rent mechanisms.

Our long WALE convenience retail assets now represent 25% of CQR's portfolio by value and 19.5% of total portfolio income. These assets are all triple net leased, meaning they're free of any capital expenditure and provide a true AFFO yield for CQR investors.

The rent review mechanisms are CPI-linked, delivering meaningful income and growth to the portfolio with the long WALE convenience retail major tenants delivering 6.2% growth in FY 2023. These long WALE convenience retail assets complement CQR's existing convenience-based portfolio and provide valuable diversification benefits, enhanced tenant covenant quality and security of income with a strong major tenant income growth profile.

Looking at our portfolio tenant composition, we are pleased to have added Gull to our portfolio and extended our existing relationships with Ampol and Endeavour Group, again, increasing the diversity of our major tenant customers.

As Roger has mentioned, CQR's total portfolio income from major tenant customers increased to 57% and major tenant rental growth in FY 2023 was 3.7%, up from an average of 1.2% prior to the curation of the portfolio.

Following these off-market acquisitions in FY 2023, Ampol, Endeavour Group and Gull are now the fifth, sixth and ninth largest tenant customers, respectively. Across the major supermarket providers, we remain well balanced between Coles and Woolworths and continue to partner with Aldi.

Importantly, when we look at our exposure to any one specialty retailer, it remains limited, and we retain a clear bias towards everyday needs and convenience-based retail, food and services.

Annually, we continue to engage Monash University's Business School to survey our centre-based tenant customers to deeply understand their satisfaction levels within the CQR portfolio and in their dealings with the Charter Hall team.

For our annual CentreSAT survey, we again achieved a market-leading 97% participation rate from our tenant customers, with over 1,100 tenants providing us with their feedback. Notably, our tenant customers ranked us first amongst our major peers in likely to recommend for the third consecutive year, and we maintained the highest satisfaction score for overall CentreSAT.

We also maintained high satisfaction scores on all key metrics. And once again, our tenant customers told us it's our people and the way we communicate that are our greatest strengths. Throughout the past 12 months, it's the Charter Hall team and their commitment to maintaining strong tenant customer partnerships that has been critical in the ongoing delivery of CQR's strategy.

I would like to acknowledge and thank our teams for their continued efforts and the important work they do each day in our centres and with our tenants. It's this ongoing focus on our tenant customers that leads to high tenant retention and centre occupancy.

In conclusion, I'd like to reiterate that CQR's strategy remains consistent and is focused on non-discretionary convenience retailers, providing income growth and resilience. Our expectation is that positive leasing spreads, high occupancy levels and MAT growth will continue. We also expect to benefit from direct and indirect inflation-linked rental growth and our increasing exposure to capex efficient triple net leases. We will remain diligent in enhancing the portfolio quality through curation and active asset management complemented by increased focus on long WALE convenience retail.

I'd like to reaffirm that, barring any unforeseen events, FY 2024 operating earnings per unit is expected to be approximately 27.4 cents.

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

Based on yesterday's closing price, this represents approximately an 8.3% distribution yield.

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

I'll now hand back to our Chair, Roger to conduct the formal business.

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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