

ASX Release

Charter Hall Retail REIT 1H FY24 Results

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Charter Hall Retail REIT (ASX: CQR) (CQR or the REIT) today announces its 1H FY24 results for the period ended 31 December 2023.

Financial Highlights

- Operating earnings of \$78.6 million, or 13.52 cents per unit (cpu)
- Statutory earnings of (\$42.1) million
- Distribution of 12.3 cpu
- Net Tangible Assets (NTA) per unit of \$4.54
- Portfolio pro-forma balance sheet gearing of 24.2% and look-through gearing of 31.0%¹
- 73% of FY24 drawn debt hedged and available liquidity of \$518 million²

Operating Highlights:

- Ongoing portfolio curation with \$290 million of divestments, selling four regional, non-core assets
- Acquisition of a 20% interest in Eastgate Bondi Junction shopping centre, NSW, for \$25 million³ on a 6.1% initial yield in partnership with RP6
- Acquisition of the Endeavour Group leased Rye Hotel VIC on a 5.0% initial yield for \$8 million⁴, increasing CQR's ownership of the LWIP2 partnership to 29%
- Record high shopping centre portfolio occupancy of 98.7%, up from 98.6% at June 2023
- Continuing positive specialty leasing spreads of +1.2% with 102 specialty lease renewals (+1.6% leasing spread) and 70 new leases (+0.1% leasing spreads)
- Like-for-like net property income (NPI) growth of 3.7% with shopping centre like-for-like NPI growth of 3.3% and net lease retail like for like growth of 5.7%
- Total MAT growth of 4.1%

¹ Pro-forma for contracted acquisitions and divestments. Balance sheet gearing at 31 December 2023 is 29.3% and look-through gearing is 35.3%

² Consisting of cash and undrawn debt. Includes \$263m of net contracted acquisitions and divestments in 2H FY24

³ CQR share. Total asset value \$127m. Mercer 80% and CQR 20% co-owners through RP6 partnership

⁴ CQR share. Total asset value \$28m.

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Charter Hall Retail's CEO, Ben Ellis said: "It's been another very strong period of portfolio performance from CQR with like-for-like net property income growth of 3.7%. The attractive nature of our assets has seen us sell four regional non-core centres for \$290 million following unsolicited offers that were in-line with our prevailing book values. That's provided significant balance sheet capacity for us to continue improving the portfolio and I'm delighted to announce the acquisition today of Eastgate Bondi Junction shopping centre, in partnership with our wholesale capital partner in RP6.

"This is an outstanding acquisition for CQR, acquiring a premium investment grade convenience retail centre on an attractive 6.1% passing yield. This continues our on-going portfolio curation and further concentrates CQR's portfolio in major East Coast metropolitan markets. It's also pleasing to see new incremental wholesale capital investing in convenience retail shopping centres, recognising the attractive nature of this asset class."

Investment strategy

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

Following unsolicited off-market offers, CQR has divested Dickson Woolworths ACT, Sydney Street Markets QLD, Rosebud Plaza VIC and Southgate Square SA for combined proceeds of \$290 million. The sale of these four assets in-line with prevailing book values demonstrates the resilience and attractiveness of CQR's assets and also suggests the cap rate expansion cycle for convenience retail assets is nearing an end. These sales also significantly reduce CQR's gearing and provide capacity for reinvestment into higher growth opportunities.

As part of CQR's ongoing portfolio curation into higher growth opportunities, CQR has continued to execute on its strategy to increase its investment in the Long WALE Investment Partnership 2 (LWIP2). During the period, LWIP2 acquired the Rye Hotel, VIC for \$28 million with CQR contributing \$8 million of equity to the partnership. This increases CQR's proportional ownership of the partnership to 29%. The Rye Hotel was acquired on a 5% initial yield with a triple net lease (NNN) to Endeavour Group and annual uncapped CPI rent reviews.

CQR is also pleased to have reinvested portfolio sale proceeds into the Eastgate Bondi Junction shopping centre, NSW, in partnership with RP6. Eastgate Shopping Centre is one of only three Sub-Regional shopping centres in Sydney's Eastern suburbs, with 15,046sqm of lettable area and car parking for 907 vehicles. The centre is 5kms south-east of the Sydney CBD, opposite Westfield Bondi Junction and within 150 metres of Bondi Junction Train and Bus station. The centre is anchored by a full-line Coles, Kmart and ALDI. Additionally, the centre includes two mini-majors (Dan Murphy's and Reject Shop) and 27 specialty retail tenancies.

During the period 96% of the CQR portfolio (excluding assets held for sale) was independently revalued as at 31 December 2023. The total portfolio cap rate moved from 5.57% at June 2023 to 5.77% at December 2023. The shopping centre convenience retail portfolio cap rate moved from 5.81% at June 2023 to 6.07% at December 2023 while the convenience net lease retail portfolio cap rate moved from 4.83% to 4.93% over the same period. The overall portfolio valuation movement of 1.1% reflected income growth largely offsetting the capital movement.

Active management

The CQR portfolio continues to be strategically weighted towards high quality major convenience retail tenants. Major tenants Woolworths, Coles, bp, Wesfarmers⁵, Aldi, Ampol, Endeavour and Gull represent 58% of rental income. The total portfolio WALE is 7.1 years and majors WALE is 10.0 years.

The convenience net lease retail portfolio represents 26% of total portfolio by value and 21% of total portfolio income. The leases are NNN with CPI reviews and a WALE of 15.6 years. CQR's convenience net lease retail portfolio has delivered 5.0% rental growth in 2023, underpinning the broader CQR portfolio income growth.

5 Kmart, Target, Bunnings, Officeworks and API

Supermarkets in the convenience retail portfolio continued to perform well with a portfolio record of 70% of supermarket tenants paying turnover rent⁶, up from 67% in June 2023 and those within 10% of turnover thresholds representing 13% of supermarkets. Supermarkets across the portfolio continue to demonstrate resilience delivering 4.6% MAT growth.

CQR also had an active period of leasing with 172 specialty leases completed at an average spread of +1.2%. This was made up of 70 new specialty leases completed at an average +0.1% leasing spread and 102 renewals completed at an average +1.6% leasing spread.

Specialty productivity continues to improve and reached a portfolio record at \$10,710 per sqm. Occupancy costs have fallen slightly and are highly sustainable at 11.3%.

Capital Management

Prudent capital management remains central to CQR's strategy. CQR currently has \$518 million⁷ of available investment capacity 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 \$160 million of additional debt capacity and saw the extension of \$325 million of capacity into FY29. CQR has no debt maturing until March 2026.

CQR's weighted average debt maturity is 3.6 years, with an average hedge maturity of 1.9 years. Portfolio pro-forma balance sheet gearing is 24.2%⁸ and pro-forma look-through gearing is 31.0%⁹, at the lower end of the target 30-40% gearing range. CQR has 73% of drawn debt hedged for the FY24 year. CQR's weighted average cost of debt was 4.3%^{10,11} as at 31 December 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 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 reconfirms that it 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.

Announcement Authorised by the Board

⁶ Includes supermarkets with fixed and CPIrent reviews

⁷ Consisting of cash and undrawn debt. Includes \$263m of net contracted acquisitions and divestments in 2H FY24

⁸ Balance sheet gearing at 31 December 2023 is 29.3%

⁹ Look-through gearing at 31 December 2023 is 35.3%

¹⁰ Calculated as at 31 December 2023 based upon BBSY of 4.4%, look through hedging of \$1.1 billion and drawn debt of \$1.5 billion

¹¹ Includes line fee and usage fee and excludes amortisation of upfront debt costs (including upfront debt costs increases WACD by 0.2%)

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.

For further enquiries, please contact

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