Charter Hall

ASX Release

AGM – Chair and Fund Manager 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 backdrop of a 'higher-for-longer' interest rate environment and an uncertain rate cut outlook, consumer spending in convenience retail has remained incredibly resilient and the CQR portfolio has enjoyed some of the strongest operating statistics in its history, with occupancy, leasing spreads, supermarkets in turnover and footfall across the portfolio all performing strongly.

Our portfolio of net lease and shopping centre convenience retail assets continues to deliver a highly defensive and resilient income stream. In FY24, our like-for-like net property income (NPI) grew 3.6% with shopping centre like-for-like NPI growth of 3.2% and net lease retail like-for-like growth of 5.5%. Our strong income growth is a result of a strategic focus on increasing our exposure to CPI-linked leases with 60% of portfolio income either directly or indirectly now linked to inflation. This has been a key driver of our income resilience in the current high inflation environment.

As a result of higher interest costs offsetting the growth in NPI, our net operating earnings decreased 4.7% to 27.4 cents per unit (cpu) and we paid a distribution per unit of 24.7 cpu. This equated to a payout ratio of 90.3%. Our gearing at 30 June remained modest at 26.7% giving us capacity to selectively acquire and undertake growth initiatives.

During FY24 our independently valued portfolio value decreased $236 million to $4.05 billion as a result of $315 million of asset sales, offset by $119 million of selective acquisitions and net devaluations of $40 million. The devaluations combined with derivative movements led to a 4.7% decline in net tangible assets (NTA) per security. While disappointing, we are comforted that cap rate movements were stabilising in the second half of the financial year and we have continued to sell assets at book values, suggesting that valuations should improve from here.

Ben will discuss the financial highlights in more detail in his address.

Active portfolio curation has been a major focus for CQR this year, divesting of five non-core, regionally located assets and recycling $315 million into selective accretive acquisitions and reducing debt. These sales were the result of unsolicited off-market offers and assets were sold in-line with prevailing book values, demonstrating the attractive nature of CQR's portfolio and the broad investment appeal of the convenience retail asset class.

This year, we were also pleased to announce the purchase of a 20% interest in Eastgate Bondi Junction shopping centre for $25 million on a 6.1% initial yield, in partnership with our wholesale capital partner in RP6. Eastgate Shopping Centre is one of only three sub-regional shopping centres in Sydney's Eastern Suburbs. 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.

Alongside our fund partners in the Long WALE Investment Partnership 2, we acquired the Rye Hotel in Victoria, an Endeavour Group-leased pub, further increasing our exposure to Australia's leading retail liquor and hospitality group. This asset was acquired on an attractive yield with a 15-year triple net lease (NNN) and annual uncapped CPI rent reviews.

We also acquired a strategic 7.5% interest in the c. $700 market capitalised Hotel Property Investments (ASX:HPI) for $49 million. As you would have seen, subsequent to year-end, we have made a joint takeover approach with Hostplus, our partner in the Long Wale Investment Partnership 2, to acquire the remaining securities in HPI of which we now jointly own 15%. We regard our offer as attractive relative to HPI's pre-bid security price. HPI owns a portfolio of 57 Australian convenience hotel properties, predominantly located on the eastern seaboard and leased to the Queensland Venue Company and Australian Venue Company. If our bid is successful, we see this as a highly complementary addition to the CQR portfolio.

Importantly, we remain disciplined. We have already declared our bid final and if we are not successful, we continue to see other good opportunities in shopping centres and net lease retail to continue our on-going portfolio curation, driving earnings growth for investors.

Additionally, we continue to look for opportunities to unlock further value within our existing portfolio. During the year we completed the Dan Murphys pad site development at Carnes Hill in NSW, and are nearing completion of a new NIDO childcare facility at Swan View in WA and the Aquatic Achievers swim school at Arana Hills in QLD.

Moving forward, we will continue to actively manage our portfolio and unlock the low site coverage of our assets to create further value and grow income with another 10 pad sites now actively engaged in seeking development approvals similar to those obtained at Carnes Hill and Swan View.

Turning now to our ESG highlights. CQR continues to deliver on its sustainability commitments and remains on track to achieve net zero carbon emissions (Scope 1 and Scope 2) in 2025 with 100% of energy from renewable sources. Our power purchase agreement with Engie commenced earlier this year and we now have 17.5 megawatts of solar installed on our rooftops with 9.0 Megawatt hours of installed battery capacity and feasibility studies in progress for an additional 5 sites.

Pleasingly, our performance has also been recognised with CQR achieving a ranking of 1st in Australia and New Zealand for listed retail entities in the 2023 GRESB report.

Tennant customer engagement is equally important in driving centre performance and for the 4th year in a row the Group has received the number 1 Net Promoter Score from the CentreSAT Customer Satisfaction survey conducted by Monash University with an NPS of +32.

CQR and the Charter Hall team also recognises the important role our centres play in supporting the communities in which we operate.

Annually, we deliver a number of national and local initiatives within our convenience-based shopping centres and we are deeply committed to our partnerships and our responsibility to create shared social value in our communities and across our supply chain.

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 capital expenditure. 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.

I would also 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 FY25.

Fund Manager's Address

Thank you, Roger.

CQR continues to deliver a resilient and growing income stream for our investors.

For FY24, operating earnings per security was 27.4 cents, in-line with our full-year guidance. Underlying same property NPI growth was 3.6%, up from 3.3% at the same time last year. This growth is driven by our unique blend of inflation linked rental growth from our convenience net lease retail assets, turnover rent from our strong performing supermarkets within our convenience shopping centre retail portfolio and complemented by fixed rental increases from our specialty tenants.

Underpinned by our ongoing focus on the resilient nature of non-discretionary retail, MAT growth remained strong at 3.7%. For the year we completed 313 leasing transactions, once again achieving positive leasing spreads of 2.7%. Pleasingly, this resulted in our Convenience Shopping Centre portfolio occupancy increasing to a portfolio record high of 98.8%, up from 98.6% at June. When combined with our net lease retail assets, our total portfolio occupancy is well above 99%.

During the period we also took advantage of significant off-market, unsolicited interest in our assets and sold five non-core shopping centres. This resulted in reduced balance sheet gearing of 26.7%. This balance sheet capacity provided CQR with the opportunity to invest alongside one of our existing wholesale capital partners in Mercer to acquire Eastgate shopping centre in Bondi Junction NSW, an outstanding addition to the CQR portfolio.

This acquisition demonstrates CQRs continued commitment to asset recycling into high-quality metro centres with strong investment returns and our wholesale equity partners ongoing commitment to invest alongside CQR in acquiring premium investment grade assets.

Eastgate Shopping Centre was secured by the Charter Hall transaction team again demonstrating the value of Charter Hall's management of CQR.

Importantly, as Roger has highlighted, we will remain disciplined in any transactions we undertake. Looking forward, we will continue to curate CQR's portfolio to deliver ongoing and resilient income growth and valuation growth for our investors and we are well positioned to take advantage of attractive acquisition opportunities that may arise.

Given this, it's instructive to look at the impact of cap rate expansion on CQR's portfolio and contrast it with valuation growth. Strong and high-quality income growth remains a major focus for CQR. This has been demonstrated by our active portfolio curation to higher quality assets, our market leading number of supermarkets paying turnover rental and our increasing exposure to capex efficient Net Leased retail benefiting from inflation linked retail growth.

Following two years of cap rate expansion, CQR's convenience shopping centre cap rates are on a like-for-like basis sitting where they were in June 2020, 4-years ago. It is a similar story for our Net Lease assets.

Notwithstanding this, our like-for-like asset values are on average 16.6% higher today than they were 4 years ago. This does not happen without the strong and resilient income growth that has been generated by the CQR portfolio over this period.

The blend of higher quality, predominately metropolitan shopping centre assets and our net leased convenience retail portfolio will continue to drive resilient and increasingly capex efficient income growth, differentiating us from our peers.

During the year our convenience retail shopping centre portfolio occupancy increased to an all-time high of 98.8%.

As noted earlier, CQRs portfolio MAT growth remained strong at 3.7%. This growth demonstrates the resilience of the non-discretionary nature of the portfolio and the strength of the REIT's strategy, including our ongoing commitment to enhancing the portfolio quality through curation of the assets we own.

Portfolio WALE remained stable at 7.2 years following continued strong leasing renewal activity.

Importantly, the CQR portfolio benefits from having 60% of total income growth directly or indirectly linked to inflation with 27% of income growth linked to CPI, and a further 33% of total income growth indirectly linked to inflation through turnover rent mechanisms.

CQRs total portfolio income from major tenant customers is now 57%. 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 with Specsavers our largest specialty tenant at 1.0% of total portfolio income. We retain a clear bias towards everyday needs and convenience-based retail, food and services.

Our convenience net lease retail assets now represent 28% of CQR's total portfolio by value and 22% of total portfolio income. These assets are all triple-net (NNN) leased, meaning they are free of any capital expenditure and provide a true cash yield for CQR investors.

Their rent review mechanisms are CPI-linked, delivering meaningful income growth to the portfolio, with the convenience net lease retail major tenants delivering 4.4% like-for-like rental growth over the year.

These convenience net lease retail assets continue to complement CQR's existing convenience-based shopping centre portfolio and provide valuable diversification benefits, enhanced tenant covenant quality and security of income with a strong major tenant income growth profile. As previously stated, this major tenant income growth profile is unique to CQR and not available in other less mature or lower quality retail portfolios.

If the HPI portfolio acquisition is successful, our exposure to net lease retail assets will increase to approximately 39% of total portfolio value and further improve CQR's long-term portfolio income growth prospects.

As we look ahead to FY25, the strength of the underlying portfolio will continue to deliver growth in portfolio income, offset by the impact of higher interest rates which will reduce earnings in the short-term. Having restructured our hedge book we now see the REIT as well positioned for future growth. We will continue to actively curate our portfolio to deliver long-term growth, with supermarket sales expected to remain strong, and our long WALE NNN portfolios continuing to benefit from embedded CPI-lease structures and strong cash flows.

Our strategy remains focused on being the leading owner of convenience retail property to provide income resilience and growth through a continuation of our acquisition and divestment strategy.

I would like to extend our thanks to our people who manage our portfolio on a day-to-day basis. We continue to be proud of how they partner with and support our tenant customers, our communities and each other.

Finally, on behalf of the Board and Management team, we would like to thank our unitholders for their ongoing support of CQR.

I will now hand back to Roger to conduct the formal business of the meeting.

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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