Investor Focus

Issue 5, July 2012

What's inside

Welcome to the latest edition of Charter Hall Group's **Investor Focus** newsletter.

While the global market remains uncertain, Australia is positioned significantly better than the majority of its peers in the developed world, as proven by the standout economic growth result for the first quarter of 2012 of 4.3%. While not immune to global volatility, the Australian market possesses a number of positive economic drivers, such as the record level of investment in new resource projects and related infrastructure, with $231 billion in the advanced planning stages[1], and sustained low levels of unemployment, which makes it highly attractive for investment.

As a result, Australia is seeing a significant amount of interest from international and local investors, with property, given its defensive nature and growth potential, being a particular focus.

A material reduction in the cost of debt during the last 12 months, coupled with initial income yields on quality property assets remaining near historic highs, means the return prospects from Australian commercial real estate are currently attractive. This is particularly evident when looking at the prospective return of prime property income relative to bonds, with five year bonds yielding under 3% at the time of writing.

As an integrated property group with over 20 years' experience in investing and managing quality properties across each core sector – office, retail and industrial – we are actively working to meet the increased demand for our retail, wholesale and listed investors.

Last month, our Direct Property business launched a new Perth office building syndicate targeting high net worth and self-managed super fund investors. The Charter Hall Direct 144 Stirling Street Trust, which is now open to investors, aims to provide investors with sustainable, stable and tax-advantaged income and is forecast to deliver a first year income yield of 8.85%, growing to over 9% during the life of the Trust.

We have also continued to provide our institutional and listed investors with access to quality properties over the last six months, with our listed Charter Hall Retail REIT acquiring two quality sub-regional centres in Western Australia[2] and Victoria and our Core Plus Office Fund acquiring the remaining 50% interest in 225 St Georges Terrace, a prime office tower in Perth.

While the current market will continue to be challenging, we remain focused on taking advantage of the opportunities that arise and continuing to respond to the demand from our investors. With over $9 billion in funds under management and strong financial and stakeholder relationships, we look forward to capitalising on current market conditions for the benefit of our clients and securityholders.

1. Bureau of Resources and Energy Economics
2. 50% interest

David Harrison
Joint Managing Director

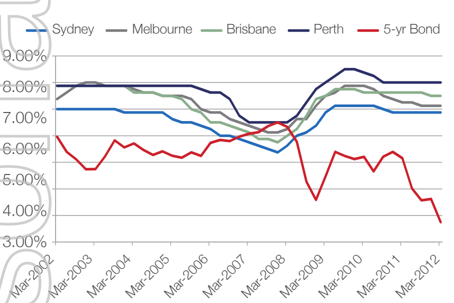
David Southon
Joint Managing Director

Charter Hall Research

Chris Freeman
Research Manager

Moving forward our Investor Focus newsletter will incorporate a snapshot of key market conditions to provide some insight into the economic and property market drivers influencing our investment and operational decisions.

The charts below detail what we believe are some of the key factors relevant to the office, industrial and retail sectors at present.



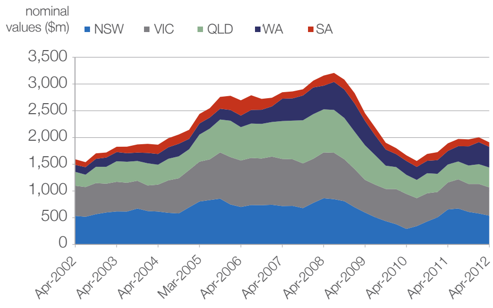
Office Sector
Average prime yields and bond spreads

For office markets, and indeed all commercial asset classes, the standout trend at present is the wide disparity between bond returns and yields on prime assets.

As can be seen in the graph above, after increasing sharply following the GFC, prime office yields have remained relatively stable despite bond yields falling to historic lows. This has led to a record spread to risk free rates, which is a sharp contrast to 2007, where yields were up to 100 basis points tighter than the return on bonds.

Across all sectors this yield gap provides a considerable buffer for capital values should the global economy worsen as well as significant scope for yield compression should conditions improve. Prime defensive assets with strong lease covenants are proving highly attractive to investors at present when compared to the low returns on cash or volatile equity markets.

Chart Source: Charter Hall Analysis of JLL Research Data, RBA

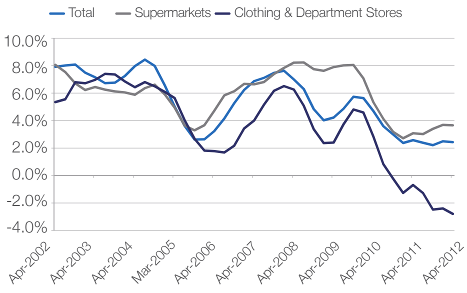


Industrial Sector
Real value of industrial developments

In the industrial sector, despite employment growth and tenant demand being below the long term average since the GFC, supply levels (hindered by a lack of pre-commitments and more stringent bank lending requirements) have fallen at an even sharper rate. This trend is illustrated in the above chart, which shows the real (CPI adjusted) value of industrial development approvals across the major states, which are now more than 40% below the 2008 peak.

This notable fall in supply has seen vacancies fall in the majority of markets and placed moderate upward pressure on rentals. While industrial tenant demand has been below average in recent years, strong corporate profits in the warehousing and logistics sector (bolstered by distribution requirements behind internet retailing) is seeing tenant demand improve, albeit at a time when the manufacturing sector continues to face headwinds.

Chart Source: ABS, Charter Hall Research



Retail Sector
Turnover growth by category

While retail sales in general have performed poorly since the GFC, and had no shortage of negative press, the majority of this underperformance has stemmed from the discretionary sectors of department stores and clothing retail, whereas the non-discretionary food sector has performed significantly better.

Charter Hall, and in particular its listed Charter Hall Retail REIT, have long favoured supermarket anchored retail centres, that have less reliance on more volatile discretionary income. Despite the soft headline figures for retail sales growth, the REIT's focus on food-based centres has led to continued improvements in rental rates achieved on recent lease renewals.

These trends in turnover and leasing spreads are now being reflected in total return performances, with the latest IPD numbers showing neighbourhood and sub-regional centres as the top performing retail asset class over the past 12 months.

Chart Source: ABS, Charter Hall Research

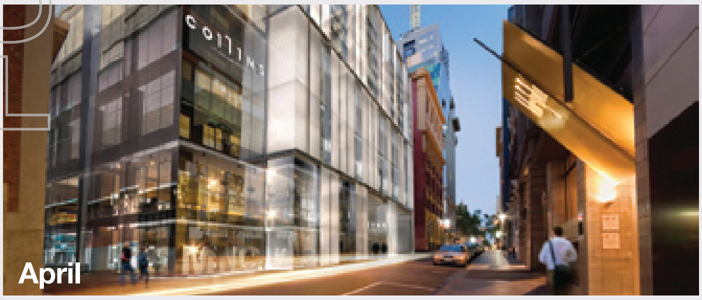
Key highlights

- Charter Hall Retail REIT settles the acquisition of Lansell Plaza, a sub-regional shopping centre located in the Bendigo suburb of Kangaroo Flat, for $32.5m at an initial yield of 9.0%.

- Charter Hall and Charter Hall Retail REIT deliver solid half year results.
- Core Plus Industrial Fund completes its $150m equity raising.
- Charter Hall and Charter Hall Retail REIT donate $10,000 in Coles vouchers to flood impacted communities in Moree, Queensland through its Balo Square shopping centre.
- Paul Altschwager joins Charter Hall as Chief Financial Officer to lead the Group's team of finance and accounting professionals.

The Governor of NSW, Professor Marie Bashir, AC, CVC (front row, centre) and the Charter Hall team

- Charter Hall sponsors the annual Property Industry Foundation's (PIF) Garden Party in Sydney, marking the official start of PIF's 2012 Year of charitable events to raise money for homeless and at risk youth.
- Core Plus Industrial Fund acquires a 50% freehold interest in the Metcash Regional Distribution Centre in Perth, Western Australia for $61.5m and signs a new $200m syndicated debt facility.



- Charter Hall Office REIT is de-listed from the ASX and becomes a Charter Hall managed unlisted fund, named Charter Hall Office Trust.
- Charter Hall Office Trust and Cbus Property's premium grade office project at 171 Collins Street, Melbourne secures its third major lease pre-commitment with Egon Zehnder International joining BHP Billiton and Evans & Partners.
- Charter Hall Retail REIT acquires a 50% interest in Wanneroo Central Shopping Centre in Perth, Western Australia for $35m.

- 94% of the first release apartments at Charter Hall and TA Global's Little Bay Cove development have been presold.
- Charter Hall's national offices raise $2,000 for the Cancer Council's Biggest Morning Tea.
- Scott Dundas appointed as Fund Manager of Charter Hall Retail REIT.
- Direct Industrial Fund acquires its fifth asset, the Woolworths National Distribution Centre in Hoppers Crossing, Victoria for $39.5m, increasing the Fund's assets under management to $155m.
- Charter Hall Direct Property launches a new single property syndicate, 144 Stirling Street, Perth with a first year forecast income yield of 8.85%.
- The $1.5b Core Plus Office Fund acquires the remaining 50% interest in 225 St Georges Terrace, Perth, Western Australia for $96m. The equity utilised for this acquisition was sourced from the Fund's $200m capital raising which was announced in late 2011.
- Charter Hall's 130 Stirling Street in Perth, Western Australia achieves a 5.5 Star NABERS Rating without greenpower, demonstrating the benefits of the Group's active property management approach.
- David Deverall is appointed to the Charter Hall Board as a non-executive director.
- Charter Hall Retail REIT refinances its €81m German debt facility.

- Over the past year, Charter Hall has been one of the industry's strongest performing A-REITs, outperforming the S&P/ASX 300 A-REIT Accumulation Index by 2.56% (as at 31 May 2012).
- Charter Hall announces a distribution of 9.1 cents per security (cps) for the half year ending 30 June 2012. The total distribution per security for the year ending 30 June 2012 will be 18.2cps, a 10.0% increase on the 16.5cps for the corresponding year ending June 2011.
- Charter Hall Retail REIT announces a distribution of 13.1 cents per unit (cpu) for the half year ending 30 June 2012 equating to a full year distribution of 26.1cpu.

Charter Hall Direct Property

Richard Stacker
Head of Direct Property

Charter Hall Direct Property manages unlisted property funds for retail investors and self-managed super funds, providing access to institutional grade property with a focus on quality tenants and long weighted average lease expiries in the office, retail and industrial sectors.

Charter Hall's suite of direct funds invest in property sectors forecast to enter a period of relatively moderate new supply, lower vacancy and above average rental growth, pointing to a positive performance through the medium term.

Currently there are four funds open to investment – the Direct Property Fund, Direct Industrial Fund, Direct 144 Stirling Street Trust and the Property Securities Fund.

9%p.a.
RETURNS*

OPEN FOR INVESTMENT

144 STIRLING STREET TRUST

Charter Hall Direct 144 Stirling Street Trust presents a limited opportunity to invest in an A-grade building. As manager we aim to provide investors with sustainable and stable tax-advantaged income and the potential for capital growth.

THE BUILDING: Valued at $54.8 million, this A-grade building is 100% occupied with a remaining weighted average lease term of over seven years and fixed annual rental increases.

THE TENANTS: Long term leases by global engineering company Hatch, Western Australian Government and Wilson Parking.

THE LOCATION: Perth has been Australia's best performing office market with additional projected growth over the medium term. The building is prominently located at the northern fringe of Perth CBD and is close to public transport links.

THE RETURNS: Forecast 9% per annum yield over the first two years* (payable monthly) with the potential for income and capital growth over the remainder of the five year investment term.

THE MANAGER: Charter Hall is one of Australia's leading fully integrated property groups, with more than 20 years of experience managing high-quality property on behalf of institutional, wholesale and retail clients.

THE CHOICE: The Charter Hall Direct 144 Stirling Street Trust is available for investment by retail investors and self-managed super funds and has a minimum investment of $50,000.

TO FIND OUT MORE INFORMATION
CONTACT CHARTER HALL ON:

1300 652 790
www.charterhall.com.au/144stirling

Charter Hall

*This forecast yield is subject to no unforeseen events and after all trust fees and costs but does not take into account any additional fees or expenses your adviser may charge you. Prior to $16 million being raised investors will receive a cash return. Please refer to the PDS for more details.

Charter Hall Direct Property Fund (CHDPF)

CHDPF invests in a portfolio of high quality Australian office property. On the back of significant refurbishments and repositioning initiatives, 68 Pitt Street, Sydney is now 100% occupied with a new lease to Officeworks. CHDPF has a portfolio occupancy of 96% and average fixed rental increases of 3.7% per annum. In line with the Fund's strategy to selectively exit non-core assets to focus on opportunities in higher growth office markets, the sale of 154 Pacific Highway, St Leonards was successfully completed in May 2012.

CHDPF achieved positive total return of 13.6% over the 12 months to 31 March 2012 and remains well positioned to deliver on increased distribution and capital growth over the medium term.

Direct Industrial Fund (DIF)

DIF is a highly rated unlisted property fund which invests in a portfolio of five prime industrial assets in key logistics markets in New South Wales, Victoria, Queensland and Western Australia. DIF recently added a fifth asset to its portfolio, a Woolworths Distribution Centre . The property is well located 25 kilometres southwest of the Melbourne CBD with direct access to the Princes Highway and is leased until 2021. The property is the national distribution centre supplying Woolworths' new Master Home Improvement centres and has surplus land allowing for future growth.

DIF provides regular income streams sourced from long-dated leases to investment-grade tenants, fixed rental increases and minimal ongoing capital expenditure. DIF closes to investment on 31 July 2012.

130 Stirling Street Trust (CHIF7)

The Trust is a single asset trust investing in a contemporary A-grade office building in the growth corridor of the Perth CBD. The building recently achieved a 5.5 Star NABERS Rating (the first in the Perth CBD to do so without purchasing greenpower), exceeding the previous year's rating and demonstrating the benefits of an active property management approach.

The Trust was rated as the number one performing fund in the IPD Australian Pooled Property Fund Index – Unlisted Retail for the 12 months to 30 April 2012. The index measures monthly (net of fees) NAV total returns for unlisted retail funds and syndicates. The Trust is currently paying a monthly distribution rate of 8.97 cents per unit per annum which is increasing to 9.45 cents per unit from 1 July 2012.

Charter Hall Umbrella Fund (CHUF)

CHUF provides exposure to more than 55 office, industrial and retail properties spread across Australia and New Zealand. CHUF provides investors with the ability to access limited redemptions through ongoing six-monthly withdrawal offers, with the most recent offer closing in late May 2012. More significant liquidity is intended to be provided around the review dates of CHUF's major investments during 2013 and 2014.

Property Securities Fund (CHPSF)

CHPSF is a property securities fund developed to meet demand for a liquid property product with active stock selection relative to the Benchmark (S&P/ASX 300 A-REIT Accumulation Index). An investment in the Fund provides a liquid, diversified exposure to some of Australia's highest quality office, retail and industrial property assets in one efficient investment structure. A-REITs offer a unique combination of a stable dividend yield with defensive earnings growth.

No.1 Martin Place Trust (1MPT)

1MPT retains a 50% interest in the prime office tower and carpark located at No.1 Martin Place, Sydney. Major tenant, Macquarie Group has advised it will be moving to its own new premises on Martin Place upon the expiry of its existing leases. There are a number of initiatives underway to ensure No. 1 Martin Place is positioned to attract high quality tenants, including a revised leasing, marketing and capital expenditure strategy. Management continues discussion with potential tenants and have offers out with a number of parties with upcoming lease requirements post Macquarie's major December 2014 lease expiry.

Diversified Property Fund (DPF)

DPF invests in six assets across the office and industrial sectors in New South Wales, Victoria and Western Australia, with a high percentage of the Fund's net income generated from national, international and Government tenants. DPF's portfolio occupancy increased to 97% following a new lease to Visual Design Concepts at 400 Kent Street, Sydney. Management continue to work towards finalising negotiations for the few remaining vacancies and actively manage the Fund through lease extensions and renewals in the lead up to the Fund's review event scheduled for October 2012.

Charter Hall Retail REIT

Scott Dundas
Fund Manager,
Charter Hall Retail REIT

Charter Hall Retail REIT (ASX:CQR) (the 'REIT') provides unitholders with investment exposure to a portfolio of high quality predominately Australian supermarket anchored neighbourhood and sub-regional shopping centres as well as freestanding supermarkets. The portfolio offers an investment product which is forecast to provide a growing and secure income stream.

I am pleased to introduce myself as the new Fund Manager of Charter Hall Retail REIT, following the departure of Steven Sewell earlier this year. Bringing over 30 years of property experience and over 14 years' experience with the REIT, most recently as Chief Investment Officer, I am focused on driving value for our investors from our high quality portfolio.

The REIT recently declared a distribution of 13.1 cents per unit for the six months ending 30 June 2012. The distribution of 26.1 cents per unit for the financial year ended 30 June 2012 represents an increase of 5.2% over the distribution paid in the last financial year.

Strong performance

We have continued to deliver solid results across our portfolio with our Australian portfolio of 73 retail centres delivering high occupancy of 98.5% and average speciality rental rate growth of 8.3% on new leases and renewals, as at 31 March 2012.

The non-discretionary nature of our portfolio continues to help drive this performance, with our anchor tenants (primarily Woolworths and Coles supermarkets) delivering moving annual turnover (MAT) growth of 4.1%, supported by speciality tenant MAT growth of 3.0%.

We have continued to build on the Australian portfolio, acquiring a 50% interest in the Wanneroo Central Shopping Centre in Perth, Western Australia, for $35m in joint venture and settling the acquisition of Lansell Plaza, a sub-regional shopping centre located in the Bendigo suburb of Kangaroo Flat in Victoria, for $32.5 million.

The REIT's Polish assets continue to perform well with same property net operating income growth of 2.6% for the 12 months ended 31 March 2012. Management has also been proactively managing the upcoming anchor tenant expiries at its German property, Alt Chemnitz.

Proactive debt management

The REIT has extended its €81 million German debt facility to December 2014, from its current July 2012 maturity. The refinancing is in line with the REIT's stated strategy to exit the European portfolio in the short to medium term by initially facilitating the sale of the German assets.

RETAIL REIT AS A 31 MARCH 2012 (AUSTRALIAN PORTFOLIO)	
Number of properties	73
Occupancy	98.5%
Anchor WALE	10.9 years

Building on our Australian portfolio

Wanneroo, a northern suburb of Perth, is one of Australia's highest population growth areas having seen an average growth well above 6% over the past five years.

With this exceptional population growth forecast to continue, the REIT saw the acquisition of the suburb's primary shopping centre, Wanneroo Central, as a key opportunity to invest in this growth corridor and strengthen its Australian portfolio.

In line with the REIT's investment criteria, the 16,300sqm centre is anchored by Coles and IGA supermarkets and a Kmart discount department store, with 48 speciality retailers complementing the retail offering. The property also includes 12,000sqm of additional land available for development.

The centre benefits from a 100% occupancy level and a weighted average lease expiry of 9.6 years for all tenants. The Coles, Kmart and IGA tenancies have lease terms out to 2028, 2029 and 2024 respectively with these three anchor tenants occupying 63% of the gross lettable area of the centre. Wanneroo is also expected to benefit from the implementation of Sunday trading in Western Australia.

The REIT is currently exploring opportunities with its JV partner to improve the property's competitive positioning by maximising income and capital growth prospects, while also providing the local community with an enhanced retail experience.

Residential investment opportunity

Aquilo, Artist's Impression

Artist's Impression

Aquilo, Mentone Vic.

Located in the sought-after Melbourne bayside suburb of Mentone, Aquilo offers brand new contemporary living, situated just two kilometres from iconic Mentone Beach.

Aquilo offers two storey architecturally designed parkfront and courtyard luxury townhouses featuring quality finishes, high ceilings, generous living areas, timber floors, stone bench tops, European appliances and a 5 Star Energy rating.

Only 7 townhouses remain, priced from $665,000* for a 3 bedroom, 2.5 bathroom home.

1300 455 509 www.aquilo.net.au

Artist's Impression

Lacrosse, Docklands Vic.

Situated just 200m from the Victoria Harbour waterfront, Lacrosse comprises 312 apartments in the heart of Docklands.

Lacrosse offers a modern urban lifestyle with all the luxuries of harbourside living, in a convenient location on the fringe of the CBD with easy pedestrian access to Southern Cross Station.

This is the final opportunity to purchase one of the last remaining apartments, priced from $390,000* for a 1 bedroom, 1 bathroom, 50sqm apartment.

Call now to organise an inspection of the newly completed apartments.

03 9940 7222 www.lacrossedocklands.com.au

Artist's Impression

Little Bay Cove, Little Bay NSW

Little Bay Cove is one of Sydney's last remaining beachside communities located on the iconic eastern suburbs coastline. The estate features breathtaking ocean views and is surrounded by open parkland, a tranquil lake, a stunning secluded beach and four elite golf courses – all only 20 minutes from the CBD.

Only a few one bedroom architecturally designed apartments remain at 'Solis', the community's first release, with prices from $510,000*.

A limited availability of prime coastal eastern suburbs land lots are also for sale, starting from under $1 million.

Visit the display suite. Open Thursday and Saturday, 11am - 4pm.
1408 Anzac Parade, Little Bay.

1300 2036 2036 www.littlebaycove.com.au

*Prices correct as at 30 June 2012

Charter Hall Charity

Charter Hall presents a Variety Liberty Swing to William Stimson Public School, Wetherill Park

Charter Hall was honoured to donate a new Variety Liberty Swing to William Stimson Public School in Wetherill Park, NSW last month.

Charter Hall raised the $35,000 for the swing through its corporate partnership with Variety – the Children's Charity and its national shopping centre campaign, 'Decorate to Donate', which ran across 39 of its centres last December. As part of the Christmas campaign shoppers at the participating centres decorated the in-centre Christmas tree with heart-shaped bauble stickers distributed by retailers, with every sticker representing $1 for Variety.

The money raised enabled Variety to purchase a Liberty Swing, an innovatively designed swing developed with wheelchair bound children in mind, on behalf of Charter Hall for the school. Of the 567 enrolled students at William Stimson Public School, 48 have severe and multiple disabilities.

The Liberty Swing allows these children the opportunity to experience the fun and thrill of a swing, while the swinging action is also highly therapeutic.

Charter Hall is committed giving back to the communities in which it works and has donated over $130,000 to its four chosen charities this financial year through donations and in-kind activities.

Contact us

Should you have any questions about your investment, please contact Charter Hall Investor Relations:

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To access information on your holding or to change your details contact the relevant registry.

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