MARKET RELEASE

EXECUTING STRATEGY WITH FURTHER OPPORTUNITIES TO ENHANCE PORTFOLIO AND GROW EARNINGS

Key points

- **Profit from operating activities $22.9 million (1H12 $23.9 million)**
- **1H13 normalised earnings per unit (epu) 10.70 cents (1H12 10.68 cents)**
- **1H13 distribution per unit (dpu) 8.60 cents (1H12 8.20 cents)**
- **FY13 guidance reaffirmed - normalised epu 21.0 cents and dpu 17.4 cents**
- **Statutory net profit after tax $20.8 million (1H12 $18.8 million)**
- **Net tangible assets (NTA) $2.74 per unit (FY12 $2.73 per unit)**
- **Balance sheet gearing 30.2%[1]**
- **Property valuations up $10.3 million (1.2%) in 1H13[2]**
- **Occupancy - 94.3%; Weighted Average Lease Expiry (WALE) - 4.8 years**
- **Strategy remains unchanged - focused on portfolio enhancement, improving leasing metrics and active capital management**

5 February 2013, Sydney – Challenger Diversified Property Group (ASX: CDI) today announced profit from operating activities of $22.9 million for the six months ended 31 December 2012 (1H13) with normalised epu increasing marginally (0.2%) to 10.70 cents.

Compared to the six months ended 30 June 2012 (2H12), normalised epu increased 12% from 9.56 cents per unit. The primary driver of the increase on 2H12 was portfolio rental increases, which on a like for like basis increased by 5%.

After adjusting for fair value movements, primarily interest rate swaps, statutory net profit after tax increased by 10% on 1H12 to $20.8 million.

CDI Fund Manager Trevor Hardie said: “The growth in net property income was underpinned by our leasing activities. Our focus on leasing is a key strategic priority, and over the past six months CDI’s future earnings have been strengthened with FY14 expiries now standing at only 2.4% of total portfolio income.

[1] Pro forma after allowance for payment of the 1H13 distribution, $18.4 million, in February 2013.
[2] Fair value movement flat after including capital expenditure and incentives.

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"CDI's strategy remains unchanged, with a focus on portfolio enhancement; improving leasing metrics; and active capital management. Our continued focus on these priorities has been a major driver of CDI's sustained outperformance against the S&P/ASX 200 Property Accumulation Index.

"I am pleased today to reaffirm both our normalised earnings and distribution guidance for the 2013 financial year. Normalised epu guidance is 21.0 cents and dpu guidance is 17.4 cents, representing an increase of 3.8% and 3.6% respectively over FY12. The growth in both earnings and distribution guidance from FY12 is due to our focus on improving both leasing metrics and the portfolio mix.

Portfolio enhancement

In 1H13 the repositioning of the Jam Factory was completed. The repositioning included refining the tenancy mix, upgrading the car park facilities and expanding the office space. The Jam Factory made a significant contribution to the growth in net property income in 1H13.

In 1H13 CDI continued with its strategy of reducing the exposure to the industrial hi-tech office sector with the sale of Giffnock Avenue. CDI's exposure to the industrial hi-tech office sector has reduced from 16% of the portfolio in 2006 to 5% in 1H13.

CDI has identified a number of opportunities to enhance the portfolio, with these opportunities representing the next phase of CDI's portfolio enhancement strategy. CDI will look to capture the latent potential in the portfolio as development opportunities align with tenant lease expiries.

During the half year, DA approval was obtained for both a 3,500 sqm retail expansion at the Innaloo Cinema Centre and a 7,500 sqm office development on excess land at the site. CDI is currently seeking pre-commitments for this office development together with a pre-commitment for a 12,660 sqm industrial warehouse at Stage 3, The Junction Industrial Park, Enfield.

Mr Hardie said "over the past few years we have been focused on ensuring we have the right portfolio mix that will allow further opportunities to develop and enhance the portfolio.

Improve leasing metrics

CDI remains focused on reducing current vacancies and future lease expiries as this strengthens future earnings. Leasing activities were the main driver of the 12% increase in normalised epu over the past six months.

Key leasing deals completed in the half include Cisco renewing their office lease for 7,090 sqm at The Forum Cisco St Leonards with a new lease expiry in FY17, and securing a new industrial tenant for five years over 6,273 sqm at 2-10 Toll Drive, Altona.

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Lease expiries for FY14 have reduced from 6.0% at 30 June 2012 to 2.4% at 31 December 2012.

Occupancy and WALE have remained relatively flat from 30 June 2012. Occupancy at 31 December 2012 was 94.3%, up marginally from 94.1% at 30 June 2012. The WALE of the portfolio has reduced slightly to 4.8 years from 5.0 years at 30 June 2012.

Active capital management

In August 2012, CDI completed a 1 for 4 unit consolidation which has resulted in an improvement in relative liquidity and a unit price more aligned to other AREITs.

CDI's gearing remains conservative, with pro forma balance sheet gearing at 31 December 2012 of 30.2%, which is within CDI's targeted gearing range of 25% to 35%.

The average cost of drawn debt fell slightly during the half year to 6.4%, with an incremental cost of drawing additional Australian debt now at 4.0%.

CDI has a $110 million tranche of debt maturing in July 2013. CDI will engage with its bankers with the objective of refinancing this tranche. This refinancing presents an opportunity to lengthen the term of available debt and further stagger the maturity profile.

CDI operates an on-market buy-back program, with 0.6 million units ($1.2 million) bought back in 1H13. Over the past six months, CDI has deployed capital to enhance the portfolio, rather than buying back additional units as this is presently considered a more strategic long term use of capital.

Portfolio

CDI independently values each property annually. Over the last six months, 52% of the portfolio was independently valued and internal valuations were undertaken for the remainder of the portfolio. Investment property valuations for 1H13 increased by $10.3 million (1.2%) to $854 million as at 31 December 2012. After adjusting for incentives and expenditure on value add initiatives, the fair value movement of investment properties held at 31 December 2012 was flat.

CDI's weighted average capitalisation (cap) rate for the total portfolio softened 13 basis points from 8.22% at 30 June 2012 to 8.35% at 31 December 2012. The majority of cap rates in the Australian portfolio remained unchanged, with the exception of some of the office portfolio.

Distribution

The distribution for the six months ended 31 December 2012 of 8.60 cents per unit will be paid on 28 February 2013. This distribution represents an operating profit payout ratio of 80% and an Available Funds From Operations payout ratio of 90%.

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Outlook

Mr Hardie said "we are pleased with the progress on CDI's strategic objectives, particularly portfolio enhancement and the improved leasing metrics. Both of these strategic objectives, when coupled with our active approach to capital management have had a positive impact on both earnings and distributions. We are well positioned to achieve our 2013 guidance and to grow earnings".

ENDS

About Challenger Diversified Property Group (CDI):

CDI provides investors with exposure to a diversified portfolio of quality, well located properties which offer stable income returns and potential for capital growth. With total assets of $882 million at 31 December 2012, CDI holds investment interests in 27 office, industrial and retail properties located in Australia and France as well as a development portfolio comprising a single industrial land bank. In addition, CDI holds a cumulative leasehold interest in Sydney's Domain car park which expires in 2033. Further details are provided on CDI's website www.challenger.com.au/cdi

Important notice:

The material in this release is general background information about CDI's activities current as at the date of this release. The information is given in summary form and does not purport to be complete. Information in this release, including forecast financial information, should not be considered as advice to investors or potential investors. Any financial information in this release is not audited. Any forward looking statements, estimates and projections contained in this release are not representations as to future performance and nothing in this release should be relied upon as guarantees or representations of future performance.

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