

# Direct Office Fund

(formerly the Direct Property Fund)

## Quarterly Report

For period ending 30 September 2014



# 7.69%

income for investors who  
take up the Entitlement Offer

Annualised distribution forecast for the  
period 14 November 2014 to 30 June 2015.  
Assumes units are acquired under the 1 for  
4 Entitlement Offer at \$0.975 per unit.

**As an investor in the Charter Hall Direct Office Fund (DOF or Fund), we welcome you to the fund's quarterly update. The fund was recently renamed to reflect its investment strategy, focusing on Australian office assets. The fund's existing investors have the first right to participate in an \$87.2 million Entitlement Offer and purchase units at a 2.5% discount.**

## This quarters highlights

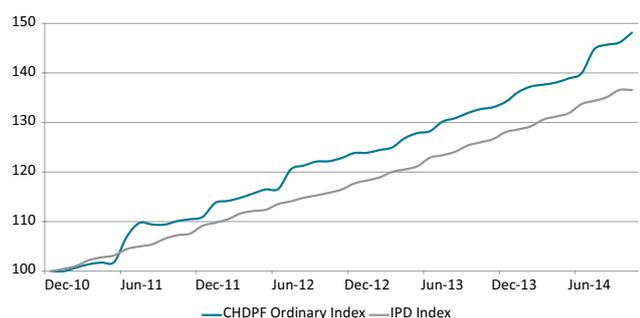
- DOF is seeking to raise equity of \$200 million, with existing investors having the first right to participate in an \$87.2 million Entitlement Offer and purchase units at a 2.5% discount.
- We released a Product Disclosure Statement (PDS) on 15 October 2014. Investors should have received an information package including a letter, PDS, brochure and Entitlement Offer form. **This pack contains important information which we encourage you to read. If you did not receive this, or require a replacement, please contact DOF's registry on 1300 137 895.** The Entitlement Offer closes to existing investors on 14 November 2014.
- Distributions for the quarter were 1.3500 cents per unit (cpu) for ordinary unit class, 1.3857 cpu for wholesale unit class and 1.3177 cpu for retail unit class.
- The unit price for the existing ordinary unit class remained steady at \$0.72 this quarter.
- Fund gearing was 48.3% at 30 September 2014. The fund's debt expiry is not until September 2017.
- The core portfolio is 99% occupied with a 4.2 year weighted average lease expiry (WALE). Non-core assets are being positioned or marketed for sale.
- We achieved an 11.6% total return in the previous 12 months, which compares favourably to the benchmark return of 8.9% over the same period.

Performance <sup>1</sup> (net of fees) %	3 months %	12 months % pa	24 months % pa	Inception <sup>2</sup> % pa
Income return	1.9	8.0	8.1	8.0
Capital return	0.5	3.6	2.0	3.0
<b>Fund return</b>	<b>2.4</b>	<b>11.6</b>	<b>10.1</b>	<b>11.0</b>

1. Returns quoted are for ordinary units. Retail units returned 11.4% over the last 12 months and 3.1% since inception. Ordinary and retail units are closed to new applications.  
2. Inception for ordinary units was in December 2010.

## DOF ordinary unit performance vs IPD Benchmark

Since Charter Hall has managed the fund it has consistently outperformed the Benchmark Index.



## Portfolio update

### Leasing

Our asset management team finalised leasing negotiations on 3,487sqm of space, including two renewals for 10 and 12 years at 200 Queen Street, Melbourne.

The NSW Government exercised their five-year lease option at 2 Wentworth Street, Parramatta over 6,895sqm of space. This lease extension, combined with a renewal on level nine, increased the assets WALE to over five years.

### Divestments

As part of the non-core asset sales, the fund's unlisted wholesale investment, MWREF, was sold in October 2014 at a unit price of \$2.66 vs. the acquisition price of \$1.00. The proceeds of this sale have been temporarily used to reduce DOF's debt balance and following the liquidity event in December 2014 will be utilised to redeem investors who wish to exit the fund.

Following strong leasing success at 2 Wentworth Street, Parramatta, we have commenced marketing the asset for sale. We are mid way through the sale campaign and to date have received good interest from potential purchasers.

300 Adelaide Street, Brisbane has completed a sale campaign and there is a party in due diligence on the asset. An update will follow in the December quarterly report.

### Property portfolio

#### Core portfolio

Location	Total tenants	Occupancy %	Value A\$M
1 Nicholson Street, Melbourne Vic	5	100	77.5
181 St Georges Terrace, Perth WA	6	100	27.0
68 Pitt Street, Sydney NSW	22	98	125.0
200 Queen Street, Melbourne Vic	19	99	112.5
<b>Total</b>	<b>52</b>	<b>99</b>	<b>342.0</b>

#### Additional properties

Location	Total tenants	Occupancy %	Value A\$M
504 Pacific Highway, St Leonards NSW	20	77	30.4
165 Walker Street, North Sydney NSW	5	75	26.5
2 Wentworth Street, Parramatta NSW	6	100	39.5
300 Adelaide Street, Brisbane Qld	21	76	47.0
<b>Total property value (cored &amp; additional)</b>			<b>485.4</b>

## Real estate market update

While a long-awaited improvement in tenant demand became evident in Q3 2014, vacancy rates continued to rise due to new supply. Despite tenancy challenges, investor demand remains buoyant and capital values posted a 5.8% gain on a weighted basis across the Australian CBD's.

Net absorption among the major CBD's was a positive 28,126sqm, the first positive absorption quarter since June 2012. Positive results were recorded for Sydney (15,147sqm) and Melbourne (27,411sqm) while Perth and Brisbane remained in negative territory. Positive net absorption is an encouraging sign of increased office space requirements among tenants. Demand drivers include an 11.6% rise in professional job advertisements, a 6.8% rise in corporate revenues and business confidence remaining near the highest levels in three years.

Supply additions totalled 48,302sqm for the quarter. Major completions included the new Macquarie headquarters in Sydney and 863 and 565 Hay Street in Perth.

Investment demand continues to look through the cycle, with property yields compressing over the past year. This led capital values to rise by 10.2% and 8.4% across Sydney and Melbourne respectively, and largely offset the capital value impact of the softer rental market across Perth and Brisbane. Low interest rates will see the demand for quality property products remain strong for the foreseeable future.

Source: Jones Lang LaSalle Research, ABS, Charter Hall Group.

## Entitlement Offer - closing soon

**As an existing investor, you have the first opportunity to participate in an Entitlement Offer; being an offer to acquire 1 Wholesale A Unit for every 4 Existing Units you held as at 1 September 2014 at a 2.5% discount to the Wholesale A Unit Price of \$1.00 per unit as at 14 November 2014.**

Wholesale A units offered under the Entitlement Offer are a new class of unit valued at \$1.00 at 14 November 2014. The rights and unit value of your existing units remain unchanged.

### Summary of the offer

The offer seeks to raise \$200 million of new equity, which comprises the Entitlement Offer of up to \$87.2 million and the balance by way of a public offer at the prevailing unit price. The proceeds of the offer will be used to maintain the core property portfolio and enhance it through the acquisition of additional quality office properties.

### Key features of an investment in DOF

- The fund is anchored by a core portfolio of established and prominently located CBD properties;
- **A 7.69% p.a. forecast annualised distribution** (payable quarterly) for existing investors under the Entitlement Offer<sup>1</sup>;
- The forecast distribution represents a premium of over 5% to the current Australian cash rate of 2.5% and compares favourably to prevailing income returns on term deposits, bonds and the listed AREIT market. These investments have different risk profiles and investors should have regard to the PDS for more information on the risks associated with an investment in DOF;
- An opportunity for Existing Investors to invest at a **2.5% discount to the Wholesale A Unit Price of \$1.00** as at 14 November 2014;

- A 5-year investment term; and
- Average 3.7% p.a. rental increases on the core portfolio, providing potential distribution growth.

1. This forecast is based on the Entitlement Offer issue price of \$0.975 per unit, being a 2.5% discount to the unit price of \$1.00 at 14 November 2014 and is for the period from 14 November 2014 to 30 June 2015 (annualised). As a forecast, it is subject to factors outside of CHDPM's control.

Please refer to DOF's PDS for further information.

For those who were unable to attend our recent Sydney based information session, you can watch the video from: [www.charterhall.com.au/dof-info](http://www.charterhall.com.au/dof-info)

### What you need to do

**Existing investors have until 14 November 2014 to take up their entitlement.** After this date, any shortfall from the Entitlement Offer will be offered to new investors.

As an existing investor, you may elect to:

- take up your full entitlement;
- take up part of your entitlement;
- take up your entitlement and apply for additional units in excess of your entitlement at the same discounted price; or
- allow your entitlement to lapse.

To take up part, all, or more than your entitlement, complete the personalised green Entitlement Offer form that was sent to you and return it to our registry by no later than 5.00pm AEST on 14 November 2014.

## Upcoming liquidity event

As noted in our June 2014 quarterly report, the fund's upcoming major liquidity event will occur in November/December 2014. We intend to make approximately \$90 million available to fund withdrawal requests and all investors will be sent a withdrawal form on or around 17 November 2014.

Sale campaigns of non-core assets are underway to meet expected redemption requests. We will aim to provide liquidity as close to December 2014 as possible, with the first amount likely to be available in Q1 2015. However, liquidity may be delivered up to 12 months following the liquidity event date and will likely be split over a number of payment dates. In the event that aggregate withdrawal requests exceed the amount of available liquidity, withdrawal requests will be scaled back and processed on a proportionate basis.

For frequently asked questions about the Entitlement Offer and upcoming liquidity event go to our website:

[www.charterhall.com.au/dof-faq](http://www.charterhall.com.au/dof-faq)

## Outlook for the fund

DOF is now open for investment and will maintain a high quality Australian CBD core office portfolio. We will continue to actively manage and grow the fund to deliver a strong yield to investors from a targeted \$600 million office portfolio.

### Key dates

Entitlement Offer closing date	14 November 2014
Liquidity event for existing investors	17 November 2014 to 15 December 2014



Richard Stacker, Head of Direct Property



Steven Bennett, Fund Manager



Coles Distribution Centre, SA

## Charter Hall wins two awards

### PIR Unlisted Fund of the Year 2014

Charter Hall's Direct WorkZone Trust was awarded the Unlisted Property Fund of the Year 2014 at the 20th Annual Property Funds Industry Forum hosted by independent research house PIR. WorkZone was commended for its high level of income return and strong covenants. We are delighted to receive recognition for the trust's structure, excellent tenant profile and potential for capital growth. It also reflects the strong regard for our team, our solid track record and the high quality investments we continue to offer investors.



2014 API NSW Excellence in Property Awards  
**WINNER**  
Funds Management Award

### API Funds Management Award 2014

Charter Hall was awarded the Australian Property Institute 2014 Australia Funds Management Award in October 2014. The award recognises superior industry performance through innovation, financial performance and accountability. Our strong FY14 financial performance, solid earnings growth and commitment to sustainability were all acknowledged. For our investors, this independent recognition indicates you are invested with a smart property group. It highlights that by investing with Charter Hall you are partnered with a superior industry performer with a strong track record in delivering for investors.

## Customer satisfaction survey

You may have seen or participated in a recent customer satisfaction survey we initiated through a global research company. We would like to thank all those investors who participated. Your feedback helps us better understand your needs, assess if we are fulfilling your requirements and lets us know how we can improve our service to you. As a result, we will aim to enhance our product offerings and ensure we deliver quality client services at all times. We will make direct changes, including better addressing your investment objectives.

We welcome your feedback at any time on our investor line 1300 652 790 or [directproperty@charterhall.com.au](mailto:directproperty@charterhall.com.au).

**Contact Registry** for enquiries regarding account balances, unit price and distributions, requesting a statement, changing contact details and assistance with InvestorOnline.

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**Contact the Manager** for enquiries regarding new investment opportunities and the management of your fund, including performance, strategic direction and property portfolio holding.

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### Important Information

This report has been prepared by Charter Hall Direct Property Management Limited ABN 56 073 623 784 AFSL No. 226849 (CHDPML) for general information purposes only, without taking into account any potential investors' personal objectives, financial situation or needs. Before investing, you should consider your own objectives, financial situation and needs and you should consider obtaining financial, legal and/or taxation advice. Units in the Charter Hall Direct Office Fund ARSN 116 064 343 (Fund) are issued by CHDPML and potential investors should consider the Product Disclosure Statement (PDS) dated 15 October 2014 before deciding whether to invest. To obtain a copy of the PDS, call us on 1300 652 790 (local call cost). CHDPML does not receive fees in respect of the general financial product advice it may provide, however it will receive fees for operating the Fund which, in accordance with its Constitution, are calculated by reference to the value of the assets of and performance of the Fund. For more detail on fees, see the PDS. This information consists of forward looking statements which are subject to known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Fund to be materially different from those expressed or implied. Past performance is not a reliable indicator of future performance. Neither this document nor any of its contents may be used for any purpose without the prior consent of CHDPML. All figures stated herein are as at 30 September 2014 and in Australian dollars unless otherwise stated. © Charter Hall Group