

Direct Property Fund

Quarterly Report

For period ending 31 December 2013

NEW INVESTMENT
OPPORTUNITY

8.7%
p.a. income

See back page for details.



As an investor in the Charter Hall Direct Property Fund (CHDPF or fund), we welcome you to the fund's December quarter update. CHDPF invests in eight Australian direct properties located in four Australian states. CHDPF remains open for investment with a 7.6% target yield on the current unit price.

This quarters highlights

- The fund has 93% portfolio occupancy, a weighted average lease expiry (WALE) of 4.1 years and average annual rental increases are 3.7%.
- Distributions for the quarter were 1.3250 cents per unit (cpu) for ordinary unit class, 1.3590 cpu for wholesale unit class and 1.2951 cpu for retail unit class.
- The unit price increased slightly to \$0.70.
- Fund gearing was 45.8% at 31 December and the debt facility is not due to expire until September 2015.
- CHDPF provided an 9.9%¹ total return in the previous 12 months and 10.8%¹ per annum (pa) return since inception².

Performance

Performance ¹ (net of fees) %	3 months % pa	12 months % pa	Inception ² % pa
Income return	1.9	8.2	8.0
Capital return	0.7	1.7	2.8
Fund return	2.6	9.9	10.8

1. Returns quoted are for ordinary units.

2. Inception for ordinary units was in December 2010.

Note: retail units (which are closed to new applications), returned 8.4% over the last 12 months and 2.0% since inception.

Portfolio update

Asset management continue to concentrate on the strategy for 504 Pacific Highway, St Leonards regarding an alternate use of the property. Over the next 12-18 months necessary government approvals will be requested and if successful this strategy has the potential to provide an uplift in asset value.

Four properties were independently valued at December 2013 resulting in a portfolio value increase of \$2.2 million. This translates to an approximate 0.5 cpu increase in the unit price. Key contributors were 200 Queen Street, Melbourne which had a tightening of capitalisation rate and the increase at 181 St Georges Terrace, Perth was driven from rental growth. 300 Adelaide Street, Brisbane decreased in value due to leases that were signed when the vacancy rate in Brisbane was at historic lows now coming up for renewal into a softer leasing market. 504 Pacific Highway, St Leonards decreased marginally in value as short term leases are being undertaken at the property whilst the long term strategy of repositioning this asset continues.

Sustainability

CHDPF's portfolio has an average NABERS Energy rating of 3.6 stars. We estimate that since the staged implementation of our energy efficiency program in 2007 we have reduced energy consumption by approximately 30% across the portfolio and generated savings of just over \$3 million in energy costs for CHDPF and its tenants.

The resulting reduction in carbon dioxide emissions across this period is equivalent to taking approximately 7,400 cars off the road.

Property portfolio and investments

Location	Total tenants	Occupancy %	Value A\$M
Direct Property			
1 Nicholson Street, Melbourne Vic	5	100	75.5
181 St Georges Terrace, Perth WA	6	100	28.0
2 Wentworth Street, Parramatta NSW	5	88	37.3
68 Pitt Street, Sydney NSW	24	99	120.5
165 Walker Street, North Sydney NSW	4	30	23.1
200 Queen Street, Melbourne Vic	19	100	110.5
300 Adelaide Street, Brisbane Qld	22	83	48.0
504 Pacific Highway, St Leonards NSW	9	58	29.1
Total - Direct property	94	93	472.0
Investments			
Unlisted property fund			25.3
Cash and other assets			5.0
Total - Investments			30.3
Total fund assets			502.3

Withdrawal offer

As previously communicated, Charter Hall intends to provide investors with semi-annual withdrawal offers. The \$7.5 million withdrawal offer will commence as per below:

Withdrawal offer	Date
Opens	Wednesday, 29 January 2014
Closes	Friday, 21 February 2014 (5pm AEST)

Payment made to investors Around Thursday, 6 March 2014

Investors can download the withdrawal offer form from the fund's website: www.charterhall.com.au/chdpfliquidity or call the registry on 1300 137 895. Further information for retail and IDPS investors, including frequently asked questions, can also be found on the website.

The sell spread on the December 2013 withdrawal offer is 2.5%, reflecting the sale costs incurred on the divestment of investment properties now that CHDPF's listed A-REIT portfolio has been exhausted. This cost accrues to CHDPF, not the manager, and ensures that departing investors share in the divestment costs with continuing investors.

Real estate market update

Despite a rise in confidence over the second half of 2013, business conditions remain challenging and labour markets were soft as a result. Over 2013 Australia's employment growth equated to just 0.47%, but this result hides an actual fall in full time employment of 67,500 jobs, which led tenant demand in office markets nationally to notably underperform.

The continued decline in resource-related tenant demand saw negative absorption of office space in Brisbane (-106,000sqm) and Perth (-84,000sqm) particularly soft. Other markets recorded negative take-up, corresponding to a continued level of soft job advertisements for professionals, although some metrics indicate the worst of the employment downturn has occurred. Vacancy rates rose above 10% in all markets.

Perth and Brisbane should see negligible supply until 2015 and 2016 respectively, at which stage significant tranches of new stock will come online. Sydney and Melbourne will continue to be impacted by new supply throughout the period, although Melbourne is nearing the end of its current cycle (and has the lowest relative level of stock underway).

Against the soft tenant demand backdrop, purchaser demand for prime grade assets has been strong and a notable tightening in yields has been evident for assets that carry minimal leasing risk. Despite effective rents falling in all markets (as incentives rose) capital values increased for prime assets.

A moderate recovery in tenant demand is expected in 2014, with early signs of improving corporate revenues and employer requirements. Debt markets are now pricing interest rates marginally higher by the end of 2014 as a result, but investor demand for quality well leased assets remains strong, although there is significantly less demand for assets with exposure to the lack lustre leasing market at present.

Source: Jones Lang LaSalle Research, Preliminary Market Overview Q4 2013 and Charter Hall Group.

Outlook

CHDPF continues to be managed in accordance with its investment objectives and focus on achieving positive total returns for investors. The major review event for the fund is in December 2014 and we are considering liquidity options in readiness for this.

New registry

Boardroom Pty Limited (Boardroom) is the fund's new registry. During the quarter you received notice of a change in registry provider, a new investor number and details of InvestorServe - Boardroom's web portal that provides access to your investment information and historical statements. The temporary password you received is valid for three months from the date of issue so please register for InvestorServe before the end of February 2014. We encourage you to elect to receive electronic communications through InvestorServe if you have not already done so.

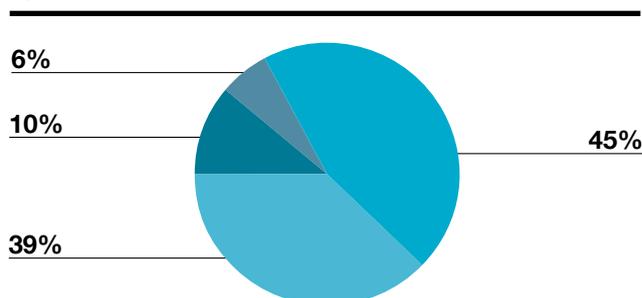
Go to www.investorserve.com.au/charterhallfunds or contact Boardroom on 1300 137 895 with any questions.

New investment opportunity

In December 2013, we launched an office syndicate, the Charter Hall Direct WorkZone Trust. Following unprecedented demand from investors, WorkZone successfully attained its total offer amount of \$72 million in 24 business days. This was well ahead of expectations and demonstrates the appetite for quality direct property. Following the success of WorkZone, we will soon launch a new investment opportunity, the Charter Hall Direct VA Trust. **See the back page of this report for more details on this opportunity.**

Direct property geographic diversification

By current value



New South Wales	45%
Victoria	39%
Queensland	10%
Western Australia	6%

Charter Hall Direct Property Fund Key Financial Metrics

As at 31 December 2013

Fund size

502.3 million

Return over previous 12 months

9.9% (refers to ordinary unit class)

Occupancy across eight direct properties

93%

Unit price

\$0.70 (ex distribution)

Top tenants

By gross income

9%	Australian Government
7%	Barristers' Chambers
7%	Orica

Charter Hall Group

As a property group, we own and manage office, retail and industrial properties that not only serve as innovative accommodation solutions for our tenants, they also deliver sustainable returns for our institutional, wholesale and retail investors. Since launching back in March 1991, our property portfolio has grown to \$10 billion – and counting. That makes us Australia's largest third-party manager of both office space and supermarket-anchored retail centres, and third largest in industrial properties.

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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 Property Fund ARSN 116 064 343 (CHDPF or Fund) are issued by CHDPML and potential investors should consider the Product Disclosure Statement (PDS) dated 20 December 2010 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 CHDPF which, in accordance with the CHDPF Constitution, are calculated by reference to the value of the assets of and performance of CHDPF. Entities within the Charter Hall Group may receive fees for managing the assets of, and providing resources to CHDPF. For more detail on fees, see the PDS. To contact us, call 1300 652 790 (local call cost). 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 31 December 2013 and in Australian dollars unless otherwise stated. © Charter Hall Group.

Office



8.7% p.a. income

(target average distribution yield for the trust's initial two years)

New investment opportunity

Charter Hall will be launching a new investment opportunity soon. Charter Hall Direct VA Trust will be an unlisted property syndicate investing in an A-grade office building located on the fringe of the Brisbane CBD.

A Product Disclosure Statement (PDS) for the trust will be available in early February 2014. Applications for units in the trust may only be made under the application form in the PDS.

To register your interest and receive a PDS, please contact us on **1300 652 790**.

Key features

- \$66 million A-Grade office tower
- 100% occupancy
- 12 year lease term to Virgin Australia
- 3.5% pa annual fixed rental increases
- Sustainable income with the potential for capital growth
- 6 year investment term
- Suitable for self managed super funds

You should contact your financial adviser before making any investment decision.

This information has been prepared by Charter Hall Direct Property Management Limited (CHDPML) (ABN 56 073 623 784, AFSL 226849) without taking account of any particular investor's objectives, financial situations or needs. The responsible entity of the trust is intended to be CHDPML. CHDPML will be the issuer of units in the trust. A product disclosure statement (PDS) is likely to be made available in or around February 2014. Investors should consider the PDS carefully in determining whether to acquire units in the trust. To the maximum extent permitted by law, CHDPML disclaims all liability for any loss or damage which may arise out of the provision to, or by, or use by, any person of the information set out above. This is not an offer to acquire any units or make any investment in the trust.