

Charter Hall Direct Property



Charter Hall Direct Property Fund (CHDPF)

Fund reopening and liquidity offer
November 2010

Charter Hall is pleased to announce its strategy to reopen CHDPF in December 2010. Incorporated within this strategy is a revised limited liquidity mechanism, outlined in more detail in this document. CHDPF is now well positioned to take advantage of the improved outlook for the Australian property market.

Fund strategy

CHDPF's overall business strategy encompasses policies on distributions, diversification, gearing, investment mandate and liquidity initiatives. This is summarised below:

- ◆ **Continue to pay distributions quarterly.** Distributions are expected to grow in line with fixed rental increases for CHDPF's properties and the forecast improvement in the office market.
- ◆ **Focus on Australian property assets** will see CHDPF re-weight to Australia over the medium term.
- ◆ **Successfully renegotiated a \$240 million debt facility** in September; extended all debt for a further three years; and a conservative gearing ratio of 43.4%. CHDPF is now well positioned to take advantage of the opportunities that exist in the Australian property market.
- ◆ **Refreshed Australian Real Estate Investment Trust (AREIT) mandate** to better reflect the changed dynamics of the sector.
- ◆ **Independent valuations** effective 1 December 2010 for the Australian direct property portfolio will be reflected in the Fund's unit price.
- ◆ **Improved earnings and prospects for future capital growth** through active asset management, focused on recycling existing and investing new capital into elective opportunities and growth markets.
- ◆ **Implementation of liquidity initiatives:**
 - current Withdrawal Offer - November 2010;
 - future Withdrawal Offers planned on a six monthly basis; and
 - future Liquidity Events.

The Responsible Entity will seek to make at least 50% of the Fund's equity available every five years through these liquidity initiatives. More detail on the current Withdrawal Offer and hardship redemptions are included in this document.

This document contains information about the Withdrawal Offer and any action you may need to take. It is important to note that if you do not wish to make a withdrawal from your investment, you do not need to take any action.

Australian office market outlook

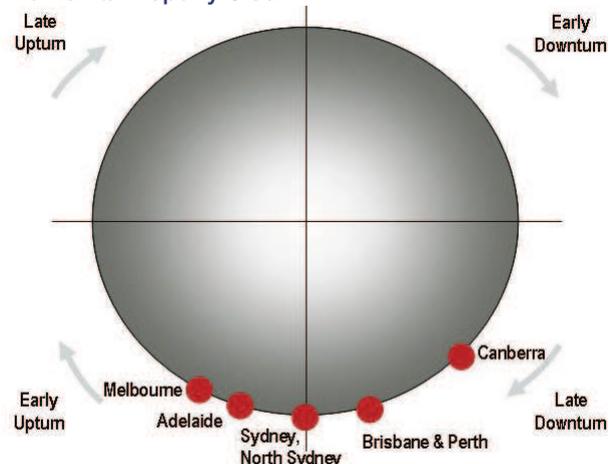
The outlook for the office markets across Australia is positive, with an improved outlook in the domestic economy, comparatively low unemployment rate of 5.1%, GDP growth of 3.3% per annum and solid consumer confidence.

CHDPF is well positioned to benefit from the forecast upswing in the Australian office market. The Fund has 86% of its assets in Australian office markets, split across Sydney 42%, Melbourne 34% and Brisbane 10%. Institutional and international investors currently favour the office sector versus other sectors, given the forecast property fundamentals for office markets.

Source: Jones Lang LaSalle Research, Preliminary Market Overview, Third Quarter 2010 and Charter Hall Group.

Melbourne and Sydney in early upturn; Brisbane moves closer to the cyclical trough

The Rental Property Clock



*Note: Based on prime gross effective rents in the CBD markets.
Source: Jones Lang LaSalle*



200 Queen Street, Melbourne

Australian office market outlook

The Jones Lang LaSalle (JLL) independent research report included in this mailing provides more detail on the Sydney, Melbourne and Brisbane office markets. Below is an extract from the JLL report.

- ◆ The fundamentals of the national office market have improved. Business confidence is up and leasing enquiry has increased.
- ◆ After two years of negative or no growth in capital values, Sydney and Melbourne CBD office markets should see a recovery in values going forward with growth increasing in 2012 / 2013.
- ◆ Prime equivalent yields have tightened in Sydney (6.50% - 7.50%) and Melbourne (6.75% - 8.25%). Both markets are forecast to record compression in property yields, which will increase property values for the period to 2012. Average prime yields in the Brisbane CBD are expected to remain stable at 7.63% out to 2012.
- ◆ Melbourne CBD rents are in the early upturn stage of the cycle, whilst rents are forecast to rise in Sydney in early 2011.
- ◆ Only 12 new projects (above 10,000sqm) have commenced across CBD office markets since the start of 2009. With vacancy low for this stage of the cycle, a number of markets will be pushing up against supply-side constraints in 2011-12.

Sydney CBD office market outlook

JLL forecasts strong demand for office space in 2011, driven by continued growth in white collar employment. Demand is expected to exceed supply over the next three years which will place downward pressure on vacancy.

Melbourne CBD office market outlook

Leasing activity is expected to continue to improve in coming years. With market conditions strengthening and prime vacancy currently at 4.3%, the rental outlook for Melbourne CBD is expected to remain positive in the short to medium term. It is forecast to be the strongest of all Australian office markets in 2010 and 2011.

Brisbane CBD office market outlook

Investment opportunities are expected to appear from institutional owners who have been waiting for the market to recover before divesting their secondary-grade non core-assets. Vacancy is forecast to increase by 2011, due to the significant amount of un-leased office and backfill space created by current construction projects.

Reopening the Fund to new investment

The global financial crisis and the difficulty of obtaining credit resulted in property prices being negatively impacted, which led to a decline in the Fund's unit price in the last two years.

The forecast recovery in Australian commercial property values and stabilisation of credit markets now presents investors with future growth prospects and the opportunity to purchase quality assets with solid underlying property fundamentals at prices that offer Unitholders significant value.

CHDPF will reopen in December 2010. A copy of the new Product Disclosure Statement (PDS) will be available at www.charterhall.com.au/chdpf.

Distributions

CHDPF has continued to provide quarterly distributions since Fund inception. The implementation of Withdrawal Offers and Liquidity Events will not change the distribution policy.

Withdrawal Offer and Liquidity Events

The Fund will provide a number of liquidity mechanisms to enable Unitholders to withdraw their investments, as outlined below.

Current Withdrawal Offer

A \$10 million withdrawal opportunity will commence in November 2010.

Future Withdrawal Offers

In addition to the current Withdrawal Offer, it is Charter Hall's intention that Withdrawal Offers will be provided to Unitholders on a semi-annual basis. Any future Withdrawal Offers will be based on the availability of liquid assets in the Fund.

The forecast timing for future Withdrawal Offers will be advised via the Fund's June and December quarterly reports sent to Unitholders and on the website www.charterhall.com.au/chdpf.

Liquidity Events

In addition to regular withdrawal offers, Unitholders will also have the opportunity to redeem their Units via Liquidity Events. The first Liquidity Event will occur on or about 1 December 2014 and thereafter, every five years. The Responsible Entity intends the amount to be made available through the first Liquidity Event will be 50% of the Fund's Units, less the number of Units redeemed through withdrawal offers up until this date.

Upon each Liquidity Event, the Responsible Entity will communicate formally with investors providing:

- ◆ The total amount available to be redeemed from the Fund;
- ◆ Withdrawal request forms to be completed by investors;
- ◆ Outline of the liquidity strategy the Responsible Entity proposes in order to fund the withdrawal of redeeming investors; and
- ◆ The price that investors will receive if they redeem Units.

Direct Property Fund

Fund reopening and liquidity offer

Current Withdrawal Offer

Before making a decision about whether or not to request a withdrawal for all or part of your investment, you should consider whether you need to speak with a financial planner, stockbroker or other professional adviser.

Withdrawal Offer availability and participation

The Withdrawal Offer is open to all Unitholders in the Fund. **Unitholders who wish to remain invested in CHDPF do not need to take any action.** Participating in the current Withdrawal Offer does not impact a Unitholders ability to participate in future Withdrawal Offers made by CHDPF. Management reserves the right to cancel, suspend or withdraw the liquidity offer at any time.

Unitholders with a margin lender are advised to liaise with their margin lender before applying for the Withdrawal Offer.

Closing date

The closing date of the Withdrawal Offer is **Monday, 20 December 2010 at 5.00pm** (eastern daylight savings time). Requests received after the closing date will not be accepted. New requests will need to be submitted as part of all future Withdrawal Offers.

Amount available to meet withdrawal requests

An amount of \$10 million will be made available for the initial Withdrawal Offer.

Key features

- ◆ Unitholders may make one withdrawal request. If more than one withdrawal request is received, the final request will be the one processed by the Manager.
- ◆ Should a request for redemption not be fully processed in the current Withdrawal Offer, you will need to provide a new request to be considered in any future Withdrawal Offers.
- ◆ Unitholders with a total investment in the Fund of \$1,000 or less who make a full or partial withdrawal request will have their full redemption request satisfied.
- ◆ If after a redemption request is calculated a Unitholder would be left with less than \$1,000 invested in the Fund, they will have their full holding redeemed.
- ◆ If the amount you have requested exceeds your unit holding balance, your unit holding balance will be used to determine the amount to be redeemed.
- ◆ If withdrawal requests exceed the amount set aside for the Withdrawal Offer, all Unitholders who have submitted a request for the Withdrawal Offer will receive a pro-rata amount, naturally capped at 100%. Unitholders withdrawal requests are pooled and treated equally using the following formula:

$$\% \text{ of withdrawal requests paid}^1 = \frac{\text{Total Withdrawal Offer amount}}{\text{Total Unitholder withdrawal requests}}$$

Example

If the total value of all Withdrawal Offer requests is \$20 million and the amount available to satisfy requests is \$10 million, the percentage a Unitholder will receive of their request is 50%. That is, \$10,000,000 / \$20,000,000 = 50%.

1. After making adjustments for small holdings.

Redemption price

The redemption price will be the same for all Unitholders in the relevant Unit Class.

The redemption price is currently \$0.63, which may change as a result of independent valuations of the Australian direct property portfolio, due to be released to the market on or around 1 December 2010.

The final redemption price will be the sell price applicable on the offer closing date (20 December 2010) and will be published on www.charterhall.com.au/chdpf. Unit prices are updated daily and investors should refer to the website for the most up to date price.

The sell spread for this Withdrawal Offer is 1.0%. This covers the costs to the Fund of withdrawals, and is retained by the Fund and not paid to the Manager.

December distribution

The December 2010 quarter distribution is accrued into the unit price on a daily basis and will be reflected in the redemption price an investor receives. As such, investors will not receive a December 2010 quarter distribution for any units that are redeemed.

Payment timing

The payment of the withdrawal proceeds will be made within 20 business days from the Withdrawal Offer close date.

Withdrawal Offer form

Unitholders must use the Withdrawal Offer form included in this mailing to make a redemption request. Alternatively a replacement form can be downloaded at www.charterhall.com.au/chdpfliquidity.

For your current investment holding, please refer to the balance on your September 2010 quarterly statement recently mailed to you.

Frequently asked questions

Some investors may have questions regarding the Fund's reopening and Withdrawal Offer. As such, the Fund has developed frequently asked questions and answers to help explain the key issues. **Visit www.charterhall.com.au/chdpfliquidity**

For further information on the Fund or the offer contact us on:

Phone 1300 652 790 Email directproperty@charterhall.com.au



1 Nicholson Street, Melbourne



300 Adelaide Street, Brisbane



Hardship redemptions

The Fund recently received relief from the Australian Securities and Investments Commission (ASIC) to pay redemption requests received by Unitholders who are suffering financial hardship. If you qualify for financial hardship, you may be able to access some or all of your investment in addition to participating in the Withdrawal Offer outlined in this letter.

To receive a redemption based on financial hardship, you must meet the specified hardship criteria and there must be sufficient liquid assets available in the Fund. Hardship relief can only be permitted in accordance with ASIC guidelines which cover the following circumstances:

- ◆ Severe financial hardship
- ◆ Unemployment
- ◆ Compassionate grounds
- ◆ Permanent incapacity

Accompanying documentation will be required to be submitted with a hardship request to support a Unitholders claim.

Further details on the documents required, payment timing and the hardship redemption form is available at the website www.charterhall.com.au/chdpf.

A Unitholder may apply for redemptions under the Hardship policy as well as apply for redemption under the Withdrawal Offer

Summary

The Fund will continue to actively manage assets to drive income and value, with its property portfolio being well placed to generate rental and capital growth.

Charter Hall would like to thank you for your continued support and will continue to keep you updated on the Fund's activities through its quarterly updates.

Should you have any queries regarding CHDPF's reopening and liquidity event, please contact us on 1300 652 790.

Important Information:

This document 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 or deciding to participate in the Withdrawal Offer, you should consider your own objectives, financial situation and needs or you should obtain financial, legal and/or taxation advice.

Units in the Charter Hall Direct Property Fund (CHDPF) are issued by CHDPML. A Product Disclosure Statement (PDS) for CHDPF will be made available in early December 2010. Potential investors should consider the PDS when deciding whether to invest. To obtain a copy of the PDS, call us on 1300 652 790 (local call cost) or visit the website www.charterhall.com.au/chdpf.

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).

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.

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Further information

Before making a decision about whether or not to request a withdrawal for all or part of your investment, or apply for hardship redemption, you should consider whether you need to speak with a financial planner, stockbroker, other professional adviser or the Manager, Charter Hall.

Charter Hall Group

Charter Hall Group is a specialist property funds management and development company, based in Sydney with offices in Melbourne, Brisbane, Perth, Adelaide, Chicago and Warsaw. Established in 1991 and listed on the ASX in 2005 as a stapled security, the Charter Hall Group has achieved a successful track record in managing wholesale and retail capital and now owns and/or manages over \$10 billion in real estate assets, making it one of Australia's leading property fund managers.

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