

ASX Release

Charter Hall Social Infrastructure REIT HY21 Results

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Charter Hall Social Infrastructure REIT ("CQE") today announced its results for the half year ended 31 December 2020. Key financial and operational highlights for the period are:

Financial Highlights

- Statutory profit of \$57.8 million
- Operating earnings of \$29.1 million
- Operating earnings of 8.0 cents per unit
- Distribution of 7.5 cents per unit
- NTA of \$3.03 per unit
- Balance sheet gearing of 24.8%¹ with investment capacity of \$130¹ million
- 99.6% of rent collected in the period

Operating Highlights

- Weighted Average Lease Expiry ("WALE") increased by 1.3 years to 14.0 years
- Extension of 58 Goodstart lease expiries by an average of 12 years
- Acquisition of Mater Health corporate headquarters and training facilities for \$122.5 million
- Acquisition of South Australian Emergency Services Command Centre for \$80 million
- Divestment of 30 existing childcare assets for \$55.6 million including remaining 20 New Zealand assets and interest in the unlisted Charter Hall CIB Fund for \$18.4 million
- Net property valuation increase of \$25.3 million or 2.2%

Charter Hall Social Infrastructure REIT's Fund Manager, Travis Butcher said: "Consistent with CQE's strategy, our focus during the period has been on enhancing income sustainability and resilience by improving the quality of tenants and leases within the portfolio. This has included the extension of 58 leases to an average 20 years with CQE's major tenant, Goodstart and the acquisition of two new social infrastructure properties with strong tenant covenants. CQE is well positioned in the current economic environment with low gearing and \$130 million of investment capacity to deliver secure income and capital growth to investors".

Property Portfolio Performance

During the period, CQE has continued delivering on strategy, improving portfolio quality and metrics. CQE has increased the portfolio's weighting to larger social infrastructure assets, diversifying from a pure childcare social infrastructure focus, resulting in the following:

- Increase in WALE to 14.0 years from 12.7 years;

¹ Adjusted to include the settlement of the two social infrastructure acquisitions together with the divestment of the New Zealand childcare portfolio. As at 31 December 2020, CQE's gearing was 16.7% and look-through gearing was 18.1%

- Majority of leases (63.3%) now on fixed rent reviews up from 53.6% as at 30 June 2020;
- Lease expiries within the next five years at 4.7% of rental income; and
- 99.7%² occupancy.

Social Infrastructure Acquisitions

During the period, CQE acquired two social infrastructure properties with on-completion value of \$202.5 million, providing improved income quality and diversification.

In October 2020, CQE agreed to acquire a 100% freehold interest in an A-grade, 11-storey building located in Newstead in a sale and leaseback transaction with Mater Misericordiae Limited, Queensland's largest Catholic, not-for-profit health provider.

The purchase price of \$122.5 million on completion reflects a passing yield of 4.84%, underpinned by a new 10-year lease to Mater and fixed annual rental increases of 3.0%. The building is currently under construction with settlement to occur following practical completion, expected to be in the June 2021 quarter.

In November 2020, CQE contracted to purchase the new purpose-built South Australian Emergency Services Command Centre and adjacent multi-deck carpark currently under construction. On completion, it will be leased to the South Australian Government (85% of property's total income) and occupied by four Government emergency services agencies on a 15-year lease, with fixed 2.5% annual rent escalations and two 5-year options.

The settlement of land and works completed to date totalling \$23.0 million occurred in December 2020 and CQE will fund the remainder of the development on a progressive basis for a total consideration of \$80 million. Completion is expected in October 2021. The purchase price reflects a passing yield of 4.8%.

Childcare Portfolio

Key leasing activity during the period was the 58 new leases agreed with Goodstart, which extended the average term on these leases by 12 years to 20 years and included fixed annual increases. In addition, 4 of 5 five-year options due to be exercised were renewed by the tenants.

Childcare acquisition activity during the period included the settlement of 2 existing childcare properties for \$8.4 million at a purchase yield of 6.5% with a further childcare property contracted for \$4.2 million at a purchase yield of 6.3%. These acquisitions are all leased to ASX listed tenants on average lease expiries of 20 years.

CQE continued to divest non-core assets to recycle capital into properties with more favourable property fundamentals. During the period, there were 30³ property divestments totalling \$55.6 million which included the remaining 20 New Zealand assets, which will settle in June 2021. The New Zealand portfolio consists of properties which have a WALE of 6.6 years as at 31 December 2020. The sale price of NZD40.1 million represents an initial yield of 6.1% and is equal to the 30 June 2020 book value for these properties.

CQE's childcare development pipeline comprises 19 properties with a forecast completion value of \$123.0 million. Five developments were completed in HY21 with a completion value of \$31.6 million at a yield on cost of 6.2%. Another 2 developments have completed since 31 December 2020 with a forecast completion value of \$12.1 million. It is forecast that a further 3 developments will complete in FY21 which will improve the quality of the portfolio and add to the earnings profile of CQE.

Property Valuations

During the period, 340 childcare properties were valued, which resulted in a valuation increase of 2.9% over 30 June 2020 values and a passing yield of 6.1%.

² One property contracted for sale

³ 28 of these assets are contracted to settle by June 2021

Transaction yields continue to compress with transactions of \$132 million since June 2020 at a weighted average yield of 5.8%⁴, reflecting limited supply and ongoing strong demand for long WALE assets in 'essential nature' industries with stable income.

Capital Management

CQE has debt facilities of \$500 million, providing undrawn capacity of \$250 million to fully fund contracted existing property acquisitions and the development pipeline.

CQE's gearing level is expected to increase from 16.7% as at 31 December 2020 to 24.8% following the settlement of the two social infrastructure assets together with the contracted divestment of the New Zealand childcare portfolio. On the same basis, look-through gearing is 26.0%. Available investment capacity is expected to be \$130 million.

CQE has diversified funding sources with no debt maturity until March 2023 and a weighted average debt maturity of 3.5 years.

Childcare Market

The key drivers of increasing childcare demand remain and there has not been any structural change to the market as a result of COVID-19. Childcare continues to be both an essential labour supply mechanism to the Australian economy, whilst providing significant learning benefits to young children.

There has been a strong recovery in childcare attendances post the COVID-19 pandemic and associated restrictions with operator's occupancy levels returning to pre COVID-19 levels. Government funding, which was critical to support the operators during the pandemic period continues to grow, underlining the importance to the economy and educational and learning benefits being provided.

As at 31 December 2020, there are 8,188⁵ LDC centres in Australia, a net increase of 294 (3.7%) for CY20. The annual growth rate of 3.7% has moderated from 4.2% growth which occurred in CY19.

Strategy and Outlook

CQE will continue with its strategy to provide investors with secure income and capital growth through exposure to social infrastructure property. CQE is well positioned in the current economic environment with predictable and growing income, low gearing and \$130 million of investment capacity.

Recent acquisitions and completion of developments will add to earnings and distribution growth in future years.

CQE confirms that based on information currently available, continued tenant performance and barring any unforeseen events, the FY21 forecast distribution guidance has been increased from 15.0 cpu to 15.7 cpu. CQE will continue to pay quarterly distributions.

Announcement authorised by the Board

⁴ CQE data

⁵ ACECQA data

Charter Hall Social Infrastructure REIT (ASX: CQE)

Charter Hall Social Infrastructure REIT is the largest Australian ASX-listed real estate investment trust (A-REIT) that invests in social infrastructure properties.

Charter Hall Social Infrastructure REIT is managed by Charter Hall Group (ASX:CHC). With over 29 years' experience in property investment and funds management, we're one of Australia's leading fully integrated property groups. We use our property expertise to access, deploy, manage and invest equity across our core sectors - office, industrial & logistics, retail and social infrastructure.

Operating with prudence, we've carefully curated a \$45 billion diverse portfolio of over 1,300 high quality, long leased properties. Partnership and financial discipline are at the heart of our approach. Acting in the best interest of customers and communities, we combine insight and inventiveness to unlock hidden value. Taking a long term view, our \$6.8 billion development pipeline delivers sustainable, technologically enabled projects for our customers.

The impacts of what we do are far-reaching. From helping businesses succeed by supporting their evolving workplace needs, to providing investors with superior returns for a better retirement, we're powered by the drive to go further.

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