



OFFICE

“As one of the largest managers of CBD office properties in Australia, our proactive asset management strategy means we are focused on portfolio composition, through selectively disposing of non-core assets and acquiring, re-developing or repositioning existing assets to ensure they remain attractive to our tenant customers and deliver enhanced value for our investors.”

ADRIAN TAYLOR,
GROUP EXECUTIVE – OFFICE



\$2.09b
TOTAL
DEVELOPMENT
PIPELINE



\$9.1b
FUM



6.5yrs
WALE



50
PROPERTIES



5.87%
CAP RATE



98.5%
OCCUPANCY



\$594m
CHC INVESTMENT



For case studies, please visit
[charterhallFY17.reportonline.com.au/
chc/#our-sector](http://charterhallFY17.reportonline.com.au/chc/#our-sector)

Members of the Charter Hall
Office Team (Clockwise from left):
Adrian Taylor, Dawn Wilson, Margaret Liu,
Andrew Borger and Lorraine Lee.

What are your strategy and key areas of focus for Charter Hall's office sector?

Our strategy remains to proactively manage our portfolio to create enhanced value for our investors and tenant customers.

We manage 50 properties that supply one million sqm of CBD office space nationally with a strong focus on the length of leases and on continually improving the quality and composition of our portfolio.

FY17 has seen our \$9.1 billion national office portfolio deliver strong returns to our capital partners across wholesale, institutional and retail equity sources.

Our ability to attract equity reflects investor confidence in our performance and how, through our strong relationships, we can optimise our portfolio composition via continually improving our existing assets, acquiring suitable assets or disposing non-core assets and originating organic development opportunities. We are not asset accumulators; we are asset managers concerned with the quality, diversity and performance of our portfolio. Our competitive advantage is the skill base and relationships possessed by our team and active management of our portfolio.

What are the performance highlights for office in FY17?

The performance of our portfolio in the past year has been very strong with occupancy of our assets at 98.5%. Funds under management have increased to \$9.1 billion and our WALE is very healthy at 6.5 years. The underlying performance of the funds is top quartile and sector leading. For example; our largest wholesale office fund, the Charter Hall Prime Office Fund (CPOF), provided investors with a 19.2% return in fiscal 2017, the highest return of all funds in the Mercer/IPD Australia Unlisted Wholesale Index. CPOF also formed several new domestic and international investor relationships during an oversubscribed equity raising of \$541 million.

CPOF's \$3.4 billion Prime-Grade portfolio of 21 office properties is well positioned with over 80% located in the strong performing eastern seaboard states with an occupancy level of 98% and an average WALE of 6.4 years. With a young portfolio reflecting a weighted average asset age of just nine years, CPOF acquired 50% of the

NSW government leased 105 Philip St, Parramatta, and post balance date acquired Melbourne Waters Docklands Head Quarters, providing a combined 11 year WALE.

Post balance date, we announced the appointment of Matthew Brown as Fund Manager of CPOF. Mr Brown joins the Fund from GIC where he held the position of Senior Vice President – Deputy Head Asia, Real Estate and has twenty years of Australian and international commercial property investment experience.

Together with a significant development pipeline, CPOF is well placed to grow its portfolio and continue its outperformance.

Similarly, the \$2.6 billion wholesale Charter Hall Office Trust (CHOT) has also delivered exceptional returns: more than 45% in FY17 with an average return of 18% over five years.

The Group's market leading unlisted Direct Office Fund (DOF) has also accepted a further \$250 million in equity from investors since September 2016 and in total has raised \$500 million since reopening in 2015 and continues to see further equity inflow in the new financial year.

The combined impact from both equity raisings and prudent capital management initiatives will see the Group continue to access a pipeline of high quality geographically diverse assets across the office sector.

How have your customer relationships developed in the past year?

We partner in different ways with our customers depending on their needs and relationships with Charter Hall. Over the past year, we have received positive responses to customer feedback from both investor and tenant customers. Our investor client feedback is very positive with four years of continual improvement. On the tenant side, our ratings also improved and level of engagement the highest we have recorded.

A significant development in the past year is the work we have done to turn our business further out to face the customer. We work with our sector colleagues in retail and industrial to map our customers' future needs and provide a whole of property requirement service.

In office asset management in particular, we are putting a customer lens over how we operate. We appointed a new head

of office asset management who has 20 years' experience as a tenant customer. A significant change is to our lease documentation, which is more tenant-friendly, bringing a more considered approach to negotiations and cutting time and expense for tenants. We also created a new role, Innovation Lead – Office, that is dedicated to bringing innovative solutions to our business and our tenancies.

What innovative solutions are you providing your tenant customers?

One innovation is Flexispace, a meeting and workspace solution for Charter Hall customers at our No.1 Martin Place building, who may have a short term need for meeting, workspace or event areas. Flexispace recognises the dynamic nature of business and the need for organisations to be able to easily expand and contract their space requirements.

Within our own tenancy at No.1 Martin Place, we also trialled an Australian first technology called Comfy. One of the challenges that we have been trying to solve is how we provide a superior tenant occupant experience. Comfy helps us achieve part of this by using machine learning, to understand the comfort requirements of individuals and adjusts the temperature to suit.

We will aim to introduce this technology and others across our portfolio as part of our effort to offer an integral suite of services that will assist the Group to provide a new level of customer experience.

What are the main challenges and opportunities in the near future?

Our team is focussed on sustainable, long-term returns for investors and we are confident we will continue to be top performers in the office space market.

As we take a through the cycle view on investing, our office portfolios are well positioned to continue to deliver a balanced income stream, underpinned by the quality of our tenants' profile and the strength and length of our leases, which typically have annual fixed rental increases of over 3.5%.

Placing energy in our innovative customer initiatives is an investment in our future and we will continue to deliver more for our tenant customers, and as always, we will focus on the quality, strength and resilience of our portfolios.◆