

MARKET RELEASE

**CDI 1H10 OPERATING PROFIT¹ UP 23% TO \$25.6 MILLION;
PROPERTY VALUES EXPECTED TO STABILISE IN 2010;
CLEAN, SIMPLE AND POSITIONED FOR GROWTH.**

Key Points

- **1H10 Net property income: \$33.5 million (up 1%)**
- **Operating profit: \$25.6 million¹ (up 23% mainly due to lower financing costs)**
- **1H10 distribution of 2.05 cents per unit (cpu) confirmed; to be paid on 26 February 2010**
- **Net Tangible Assets (NTA) of 65 cpu impacted by revaluations**
- **Portfolio metrics remain sound with 96.5% occupancy² and 5.3 years WALE³**
- **73% of portfolio independently valued resulting in a \$42.4 million decrement (5.1% across total portfolio)**
- **Entitlement Offer strengthens balance sheet; Covenant gearing⁴ at 25.6% (post DRP)**
- **Full year (FY10) guidance re-affirmed: EPU⁵ of 5.2 cents; DPU of 4.2 cents**

9 February 2010, Sydney – Challenger Diversified Property Group (ASX:CDI) today announced profit from operating activities of \$25.6 million (before development property write downs and disposals). Statutory net profit after tax was negative \$13.7 million after allowing for property revaluations and write downs of \$42.4 million.

Total assets at 31 December 2009 were \$794.0 million and net assets were \$580.2 million. Net tangible assets per unit (NTA) was 65 cents primarily impacted by property revaluations, down from 69 cents following the Entitlement Offer in September 2009.

CDI has confirmed a distribution for 1H10 of 2.05 cents per unit (cpu) to be paid on 26 February 2010. CDI's distribution guidance for FY10 remains at 4.2 cpu.

CDI Fund Manager Trevor Hardie said: "First half operating profit was up 23%, assisted by lower financing costs post the Entitlement Offer in September 2009, and with portfolio occupancy at 96.5% and a WALE of 5.3 years. Statutory NPAT was again impacted by property revaluations.

1 Before development property write downs and disposals

2 By income; excludes areas under construction and includes holdover areas

3 Weighted average lease term to expiry by income; excludes areas under construction

4 Total liabilities to total tangible assets

5 Profit from operating activities before development property write downs and disposals. Excludes net gains or losses on revaluation of financial derivatives, foreign exchange and investment properties

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“The valuations on several properties have been adversely impacted as a consequence of near-term lease expiries, however we can expect some recovery when leases are renewed or new deals are signed. Importantly, we believe that cap rates are peaking and we should see property values stabilising in 2010.”

A \$130 million capital raising conducted in August/September 2009 and other capital management initiatives have strengthened CDI’s balance sheet. Combined with a clean and simple structure CDI is positioned for growth, with acquisitions and development now back on management’s agenda.

“We intend to evaluate acquisition opportunities, as well as reactivating our development pipeline and further enhancing the quality of our portfolio by recycling properties where the opportunity presents itself,” said Mr Hardie. “However, our focus remains on proactive leasing and asset management, to ensure we continue to produce strong cashflows whilst working to close the discount between unit price and NTA.”

Portfolio activity

The CDI investment portfolio comprises interests in 30 quality office, retail and industrial assets located in Australia and France. In addition, CDI holds two properties for development purposes and also holds a cumulative 25 year leasehold⁶ interest in respect of Sydney’s Domain car park. The portfolio is characterised by a high occupancy rate of 96.5%, WALE of 5.3 years, and quality tenants with 80% of the portfolio leased by Government agencies and listed companies. Around 62% of tenants are rated investment grade providing confidence in the security of future rental cash flows.

During 1H10 the sales of the Heidelberg (NSW) property and Smithfield (NSW) new warehouse facility were completed with the sale price in line with 30 June 2009 book values.

Revaluations

Twenty three properties in CDI’s investment portfolio were independently valued as at 31 December 2009, resulting in a decrement of \$35.4 million (4.5% across the investment portfolio). In addition, CDI’s development portfolio, consisting of Cosgrove Industrial Park (stages 2&3) and Smithfield (building 1) were written down by \$7.0 million.

CDI’s weighted average market cap rate for the Australian portfolio has moved from 8.12% to 8.48%, while the French portfolio market cap rate moved from 7.62% to 7.83%, giving a total investment portfolio weighted average cap rate of 8.42%.

Leasing

During 1H10, CDI successfully negotiated 10 leasing transactions covering 11,301 square metres or over \$2.1 million in annual gross rent.

⁶ CDI has two leases - 4 years & 21 years. The latter is subject to CDI completing the upgrade works by 1 May 2012

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In the second half of FY10, 5.8% (by income) of CDI's portfolio leases will expire, followed by a further 7.4% in 1H11. The majority relates to Verizon (expiring in June 2010), Kraft (expiring in August 2010) and Telstra (expiring in October 2010). Current and future vacancies are being pro-actively managed with leasing campaigns being undertaken to secure tenants with tenant enquiry levels improving in Q4 2009 and showing encouraging signs in Q1 2010.

Capital Management

Borrowings at 31 December 2009 totalled \$184 million. CDI's borrowing capacity under its multi-currency facility with domestic banks (Westpac and CBA) remains at \$371 million, of which the undrawn component is \$187 million. Debt facility expiries occur in May, August and October 2010, and CDI has initiated refinancing discussions with the banks.

The short-term debt expiry profile reflects CDI's strategy of maintaining low cost debt. CDI's weighted average cost of debt (including margins) at 31 December 2009 was 4.6%, with the Australian debt component (\$121 million) at 4.6% and the European component (€39 million / \$63 million⁷) also at 4.6%.

CDI's borrowings are hedged 90% against interest rate movements for an average weighted maturity of 3.7 years. At 31 December 2009 the fair market value of CDI's derivatives was a net asset of \$0.9 million, significantly improved from the 31 December 2008 net liability of \$22.0 million. CDI's interest rate swaps have a staggered maturity over the next eight years.

As foreshadowed at the time of the Entitlement Offer, the CDI Distribution Re-investment Plan (DRP) was in operation for the distribution for the 6 months ended 31 December 2009. The participation rate in the DRP was around 60%, and approximately 22.7 million units will be allotted on 26 February 2010 at an issue price of 48.07 cents per unit. In total, \$10.9 million will be retained reducing gearing from 27.0% to 25.6%. CDI's largest unitholder, Challenger Life Group, will increase its holding from 46.3% to around 47.1% as a consequence of its participation in the DRP.

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About Challenger Diversified Property Group (CDI):

CDI was established to provide investors with exposure to a diversified portfolio of high quality, well located properties which offer stable income returns and potential for capital growth. With total assets of \$794 million at 31 December 2009, CDI holds investment interests in 30 office, industrial and retail properties located in Australia and France. In addition, CDI holds two properties for development purposes and a cumulative 25 year leasehold interest in Sydney's Domain car park. Further details are provided on CDI's website www.challenger.com.au/cdi

Important notice:

Any forward looking statements included in this document are by nature subject to significant uncertainties, risks and contingencies, many of which are outside the control of, and are unknown to, Challenger, so that actual results or events may vary from those forward looking statements, and the assumptions on which they are based.

⁷ Spot rate AUD/EUR 0.6268

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