

Investor newsletter



**Challenger Diversified
Property Group
(ASX:CDI)**

Newsletter – October 2008

\$41 million operating profit in first full fiscal year.

In August, Challenger Diversified Property Group (CDI) announced profit from operating activities of \$41.3 million for year ended 30 June 2008 (FY08) and net profit after tax of \$36.0 million. Distributions per unit (DPU) totalled 8.45 cents, in line with guidance.

CDI also announced a change to its distribution policy electing to pay distributions from profit from operating activities after providing for maintenance capital expenditure. FY09 maintenance capital is forecast to be around \$2.6 million or 0.49 cents per unit. CDI's distribution guidance for FY09 is 7.5 cents per unit¹, primarily as a result of the change in policy and reflecting an increase in the cost of borrowings.

CDI had borrowings of \$308 million at 30 June 2008, with a gearing ratio (debt/total assets) of 34.6%. Refinancing in FY08 extended the maturity profile to 2.3 years and increased the size of the facility to \$500 million.

Portfolio occupancy at financial year-end was 99.97%² with a WALE of 6.2 years³. Property leases were weighted

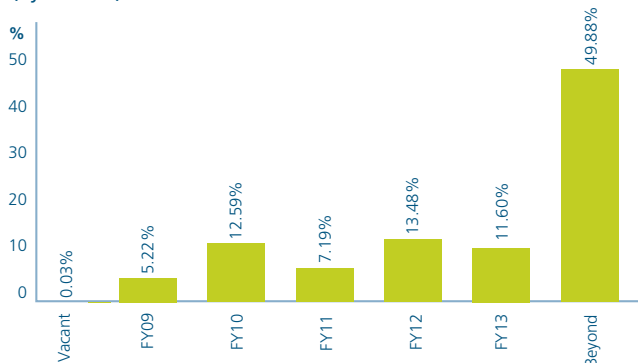
towards stable government and listed company and multi-national tenants with these representing 88% of the portfolio². Strong tenant covenants add to the security of future cash flows, with 60% of tenants rated as investment grade⁴.

Fund Manager Trevor Hardie commented: 'The quality of CDI's portfolio with its Australian focus and reliance on rental income underpinned by long leases and quality tenants makes CDI a back-to-basics property trust.'

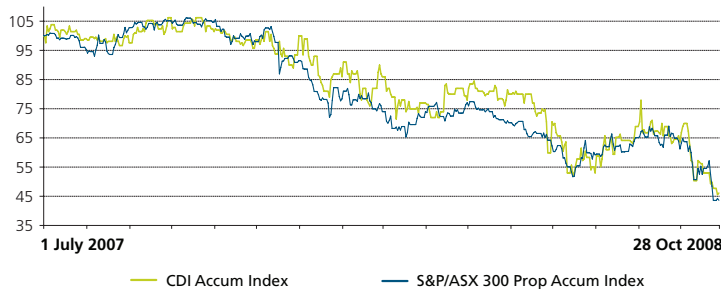
'Our approach is to manage the trust in a conservative manner in these challenging market conditions and focus on the fundamentals of property ownership, with an emphasis on conservative capital management. Our ability to control the pace and timing of our development book puts us in a good position.'

'Now, four months into FY09, CDI is performing to expectations and I am pleased to be able to re-affirm our distribution guidance of 7.5 cents per unit.'

**Lease expiry profile
(by income)**



**CDI Accumulation Index relative to S&P/ASX300
Property Accumulation Index (1 July 2007 to 28 Oct 2008)**



¹ Excludes any realised gains or losses, or asset sales ² By income; excludes areas under construction and includes holdover areas due to possible redevelopment

³ Weighted average lease term to expiry by income; excludes areas under construction ⁴ S&P equivalents derived from independent and Challenger research

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Meet the fund manager



Trevor Hardie BBus, MBA, AAPI
Diploma in Real Estate Management
Fund Manager,
Challenger Diversified Property Group

Mr Trevor Hardie joined Challenger in 1999 and in March 2008 was appointed as Fund Manager for CDI.

In this role, Trevor has specific responsibility for the ongoing management of CDI. This includes responsibility for strategy, financial and investment performance and transaction evaluation and execution.

Prior to his appointment as Fund Manager, Trevor was Portfolio Manager for CDI, responsible for maximising the financial and physical outcomes from the CDI property portfolio. Trevor has held a number of senior roles within Challenger's property division including General Manager of Challenger Income Property Trust (previously Village Entertainment Property Trust), Head of Property Asset Management, and most recently Head of Property for Challenger Life.

Trevor has 26 years experience in the property investment industry, including roles in funds management, asset management and property development.

CDI's management agreement

CDI entered into a management agreement with Challenger Management Services Limited (ABN 29 092 382 842), a wholly owned subsidiary of Challenger, on 11 September 2006. The material terms of this agreement were disclosed in the CDI Product Disclosure Statement dated 13 September 2006, a copy of which is available on CDI's website www.challenger.com.au/cdi. As enhanced disclosure for investors, a copy of the management agreement is now available for viewing on CDI's website under the Corporate Governance tab. This disclosure is also consistent with paragraph 12 of ASX's recently published Guidance Note 26.

CDI Portfolio update

Leasing activity

CDI's portfolio of properties continues to enjoy strong occupancy rates around 99.97%¹. In the current financial year only 5.22% of rental income is subject to lease expiry. Of this, around 80% relates to two leases – Borders (at the Jam Factory) and Tetra Pak, representing 1.1% and 3.1% respectively of portfolio income.

We are pleased to advise that Borders has exercised an option to extend their lease for a further five years.

The lease with Tetra Pak is due to expire in May 2009. Marketing of this property is in progress.

CDI continues to proactively manage lease expiries to maximise occupancy rates and rental income.

Development activity

The \$2.6 million repositioning of Century City Walk is nearing completion. A new foyer and candy bar area has been handed over to Village Cinemas and a reconfiguration to accommodate the Strike Bowling Bar tenancy is complete. A centre re-launch is scheduled for early 2009.

The Development Application (DA) for an \$8.0 million upgrade of Domain Car Park, covering internal works and lifts, has been submitted; completion of work is anticipated by October 2009. The car park continues to perform in line with expectations with patronage growing steadily.

Enfield Stage 1 completion is forecast for mid November 2008. KW Doggett has entered into a seven year lease (subject to DA approval) for approx. 8,000sqm, commencing January 2009. There is strong lease enquiry for the balance of stage 1 (approx. 5,500sqm) and we are hopeful of securing a tenant shortly.

Smithfield's new warehouse addition reached practical completion in September 2008. Refurbishment of the existing warehouse is due for completion by mid November 2008. Marketing of both properties for sale and/or lease is continuing.

Stay in touch with the latest CDI news – register for email news alerts on: www.challenger.com.au/cdi

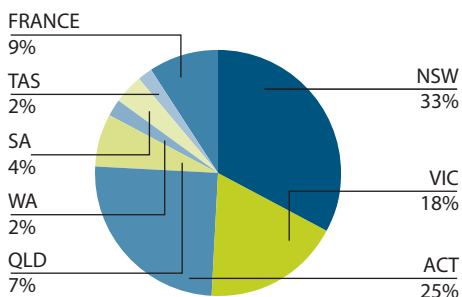
¹ As at 30 June 2008. Based on income; excludes areas under construction and includes holdover areas due to possible redevelopment



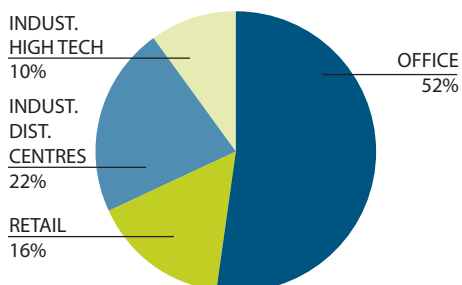
CDI snapshot

ASX code:	CDI
Units issued:	541.9m
Price:	43.5 cents ¹
Market capitalisation:	\$235m
Total assets:	\$890m ²
Net assets:	\$545m ²
NTA per unit:	\$1.01 ²
Price discount to NTA:	57% ¹
Distribution (FY09):	7.5 cents ³
Distribution yield:	17% ⁴
Financial year end:	30 June

Geographic diversification⁵



Sector diversification⁵



¹ As at 28 October 2008

² As at 30 June 2008

³ FY09 guidance announced 14 August 2008

⁴ Yield = FY09 distribution guidance/price

⁵ By value, as at 30 June 2008

About Challenger Diversified Property Group (CDI):

CDI listed in October 2006 and is constituted by two trusts, Challenger Diversified Property Trust 1 and Challenger Diversified Property Trust 2, the units in which have been stapled. Challenger Diversified Property Trust 1 holds CDI's 'passive' property assets. Challenger Diversified Property Trust 2 has been established so that it may undertake 'active' property transactions (including developments) on behalf of CDI.

Investment objective:

CDI's investment objective is to provide investors with secure and sustainable income returns and the potential for capital growth via investment in a strong portfolio of core value-add properties, with returns supplemented where possible through engagement in active, property-related activities.

Investment strategy:

With a diversified portfolio of high quality, well located properties (91% by value in Australia), CDI aims to enhance earnings and capital growth prospects by:

- maximising property performance through pro-active 'hands-on' asset management, development management, property management and leasing;
- utilising Challenger Group's property expertise;
- attracting and retaining high quality real estate professionals;
- repositioning and/or developing assets for both retention and divestment purposes; and
- strengthening the portfolio via the acquisition and divestment of properties to generate net tangible asset (NTA) and/or earnings per unit (EPU) accretive returns.

Investment portfolio:

The CDI portfolio comprises interests in 32 quality office, retail and industrial assets located in Australia and France. CDI 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 99.97%⁷, WALE of 6.2 years⁸, and quality tenants with 88% of the portfolio⁷ leased by Government agencies, listed companies and international companies. Full details of CDI's properties are available from the website www.challenger.com.au/cdi

Business model:

CDI's approach is to focus on the fundamentals of property management, conservatively managing capital, and controlling the pace and timing of developments.

Revenue comes primarily from renting properties (FY08: \$64.7m). The major expense relates to interest on borrowings (FY08: \$15.2m). Other expenses include Responsible Entity and Management fees (FY08: \$5.1m) and operating costs (FY08: \$1.8m). Profit from operating activities for FY08 was \$41.3m. After accounting for unrealised gains and losses net profit after tax was \$36.0m. Distributions in FY08 were paid from profit from operating activities. From FY09, distributions will be further adjusted for expenditure on maintenance capital.

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Challenger alignment:	Challenger Listed Investments Limited (CLIL) is the Responsibility Entity of both trusts that together form CDI. CLIL is a subsidiary of Challenger Financial Services Group Ltd and has a majority of independent directors. CLIL has engaged Challenger Management Services Limited (CMSL) to conduct the day-to-day management of CDI, as well as support services including finance, treasury, tax and legal. For further information refer to the Corporate Governance tab on CDI's website.
Management fees⁹:	Details of management fees are contained in the CDI Product Disclosure Statement dated 13 September 2006 and available on CDI's website www.challenger.com.au/cdi . Refer to Section 5, pages 29 to 37.

Further information

Challenger Investor Relations: +61 2 9994 7633
Website: www.challenger.com.au/cdi
Email: cdi@challenger.com.au
Share registry: Link Market Services 1800 649 099

Key Events Calendar

23 December 2008	Ex-date for 2009 financial year interim distribution
31 December 2008	Record date for 2009 financial year interim distribution
18 February 2009*	Half-year results announced
27 February 2009*	2009 financial year interim distribution paid

* dates are indicative

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

⁷ By income; excludes areas under construction and includes holdover areas due to possible redevelopment

⁸ Weighted average lease term to expiry by income; excludes areas under construction

⁹ In accordance with the Constitution: for further details refer to the CDI Product Disclosure Statement (PDS) 13 Sept. 2006 on CDI website.

Financial highlights

	FY08	FY07*
Net property income (\$'000)	64,660	39,482
Profit from operating activities (\$'000)	41,294	31,856
Distribution (cpu)	8.45	5.48
Total assets (\$m)	890.0	806.5
Net assets (\$m)	545.1	552.1
Net cash inflow from operating activities (\$'000)	45,637	33,319

* CDI listed in October 2006

Substantial unitholders (as at 28 October 2008)

	Date	Units	%
Challenger Financial Services Group Limited	13 Oct 08	217.2m	40.1
APN Funds Management Limited	11 Dec 07	70.9m	13.2

Information contained in this publication is current as at 29 October 2008 unless otherwise specified and is provided by Challenger Listed Investments Limited (ABN 94 055 293 644) (AFSL 236887) ("Challenger"), as Responsible Entity of the Challenger Diversified Property Trust 1 (ARSN 121 484 606) and the Challenger Diversified Property Trust 2 (ARSN 121 484 713) which together comprise the Challenger Diversified Property Group ("Group"). This document has been prepared for general information purposes only and not with regard to any particular recipient's financial situation, objectives or needs nor to solicit offers or invitations for the Group's securities. Nothing contained in this document constitutes investment, legal, tax or other advice. Accordingly, recipients should, before acting on any information in this document, consider its appropriateness, having regard to their objectives, financial situation and needs, and seek the assistance of their financial or other licensed professional adviser before making any investment decision.

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