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MARKET RELEASE

CDI ANNOUNCES OPERATING PROFIT[1] OF $20.8 MILLION
OPERATIONAL PERFORMANCE ON PLAN; DISTRIBUTION POLICY ADJUSTED

Key Points

- **Net property income of $33.3 million**
- **Profit from operating activities: $20.8 million (before development property write downs)**
- **1H09 distribution of 3.7 cpu confirmed - to be paid on 27 February 2009**
- **Portfolio fundamentals remain strong with 99.95% occupancy[2] and 5.9 years WALE[3]**
- **Expect to refinance $129 million October 2009 debt maturity - surplus liquidity available if required**
- **Net Tangible Assets (NTA) of 88 cpu impacted by revaluations and mtm adjustments**
- **94% of portfolio independently valued resulting in a $43.9 million decrement (5.0%)**
- **Covenant gearing (total liabilities to total assets) at 45.3% - within financial covenants**
- **Distribution policy adjusted to maintain covenant headroom - prudent capital management in period of uncertainty**
- **Additional capital management initiatives including asset sales to be employed**
- **FY09 distribution guidance of 6.7 cpu**

11 February 2009, Sydney – Challenger Diversified Property Group (ASX:CDI) today announced profit from operating activities of $20.8 million (before development property write downs). Net profit after tax (NPAT) was negative $58.6 million after allowing for property revaluations and write downs ($43.9m), and other financial movements ($35.5m).

CDI's covenant gearing ratio (total liabilities to total assets) was 45.3% at 31 December 2008, compared to 38.7% at 30 June 2008, impacted primarily by property revaluations and mtm adjustments. Whilst CDI remains within bank financial covenants, continuing uncertainty in credit markets and downward pressure on asset values has resulted in CDI prudently adjusting its distribution policy going forward.

CDI has confirmed a distribution for 1H09 of 3.7 cents per unit (cpu) to be paid on 27 February 2009. Under the adjusted policy leasing and debt establishment costs will be retained, in addition to maintenance capital expenditure. Consequently future distributions will now represent 80-85% of operating profit before development property write downs. CDI's distribution guidance for FY09 is 6.7 cpu.

In commenting, CDI Fund Manager Trevor Hardie said: "Our results at the operating level are on plan, supported by continuing sound property fundamentals, with portfolio occupancy at 99.95% and a WALE of 5.9 years. While property revaluations and mtm adjustments on interest rate and foreign currency hedges impacted CDI's results below the operating profit line, these items had no impact on our cash flow.

1 Before development property write downs of $3m
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

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"The adjustments did however impact our covenant gearing ratio resulting in a narrowing of headroom. The future extent of property revaluations and mtm adjustments is currently a volatile variable. Proactively we have adopted a more conservative position by retaining a greater portion of cash flow. In conjunction with other capital management initiatives including asset sales, we look to reduce fund gearing and improve covenant headroom. Importantly, there is no change to anticipated underlying earnings."

Total and net assets

At 31 December 2008 total assets were $874 million compared to $890 million at 30 June. Net assets were $478 million, resulting in net tangible assets per unit (NTA) of 88 cents (30 June 2008: $1.01) primarily due to property revaluations (8 cpu) and mtm movements of financial derivatives (5 cpu).

Revaluations

Ninety four percent of the properties in the CDI portfolio (that is, 30 out of 32 properties) were independently valued as at 31 December 2008, resulting in a decrement of $34.6 million (4.0%). The total carrying value decrement for HY09 was $43.9 million (5.0%) including capital expenditure, deferred assets, straight-lining and development property write downs.

CDI's weighted average market cap rate for the Australian portfolio has moved from 7.54% to 7.94%, while the French portfolio market cap rate moved from 6.38% to 6.99%.

Capital Management

Borrowings at 31 December 2008 totalled $344 million compared to $308 million at 30 June. CDI's borrowing capacity under its multi currency facility with Westpac and CBA remains at $500 million, of which the undrawn component is $156 million. CDI management is confident of securing refinancing for the first expiry of $129 million in October 2009. However, if required, CDI has adequate liquidity to absorb this amount.

Euro denominated liabilities provide a natural hedge against Euro denominated assets, while CDI's foreign exchange hedges cover 100% of forecast distributions from its French assets for the next five years and 90% for years six and seven.

CDI's weighted average cost of debt (including margins) at 31 December was 6.3%, with the Australian debt component ($256 million) at 6.8% and the European component (€44 million / $88 million[4]) at 4.8%.

CDI's borrowings are hedged 93% against interest rate movements for an average weighted maturity of 3.1 years. At 31 December 2008 the fair market value of CDI's interest rate swaps was a net liability of $21.3 million (30 June 2008: $4.1 million net asset) due to the recent significant fall in interest rates. CDI's interest

[4] Spot rate AUD/EUR 0.5016

rate swaps have a staggered maturity over 10 years, $7.3 million of which will unwind in 2009 based on the current mtm liability. The remaining liability will unwind over the duration of the hedge contracts.

Portfolio activity

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 leasehold[5] interest in respect of Sydney's Domain car park. The portfolio is characterised by a high occupancy rate of 99.95%, WALE of 5.9 years, and quality tenants with 79% of the portfolio leased by Government agencies and listed companies. Around 60% of tenants are rated investment grade providing confidence in the security of future rental cash flows.

Leasing

To maintain a high occupancy level (currently 99.95%) CDI focuses on proactively managing lease expiries. During HY09 CDI successfully negotiated 24 leasing transactions covering 40,180 square metres or over $7 million in annual gross rent, equivalent to around 9% of total gross rent. Since IPO in 2006, 56 transactions have been completed and tenant retention is a pleasing 91%.

In the second half of FY09, 1.7% (by income) of CDI's portfolio leases will expire. The majority relates to Tetra Pak (expiring in May 2009) with terms already agreed on a lease of approximately 54% of the property, on expiry of the current lease. In FY10, 11.0% of the portfolio leases will expire. Leasing strategies are underway and we are confident of positive outcomes.

Development projects

Stage 1 of a $2.6 million repositioning of ***Century City Walk*** is now complete. Stage 2, incorporating the introduction of a foodcourt, is currently underway. This development included refurbishment and expansion of the centre's entertainment offering with Strike Bowling Bar as a new tenant on a 10 year lease. The refurbishment caters for greater diversification in the tenancy mix and extends the WALE for the property from 6.1 years at end FY07 to 7.4[6] years at 31 December 2008. The purchase of the remaining 40% of Century City Walk in June 2008 has enabled CDI to take full advantage of this repositioning and the resulting post-completion increase in valuation.

Enfield Stage 1 has now reached practical completion and is fully leased on a 7+3 year lease to KW Doggett, one of Australia's largest privately-owned paper merchants. Stages 2 and 3 will not commence construction without pre-commitment.

Construction of a new 4,830sqm warehouse facility at Smithfield, along with refurbishment of the existing 10,214sqm warehouse, was competed in November 2008. Sale of the warehouses is being actively pursued.

[5] CDI has two leases - 4 years & 21 years. The latter is subject to CDI completing the upgrade works by 1 May 2012
[6] Excludes areas under construction

Summary

In the current economic climate, another challenging year confronts the property sector. 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 investment. We continue to proactively manage our property portfolio to secure rental income, and we continue to manage our capital in a prudent and conservative manner as evidenced by our actions to improve covenant headroom through the use of a number of available levers, including distribution policy and asset sales."

ENDS

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 $874 million at 31 December 2008, CDI holds investment interests in 32 office, industrial and retail properties located in Australia and France. In addition, CDI holds 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

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