



Australian Securities Exchange - Company Announcements Platform

CENTURIA PROPERTY FUNDS No. 2 LIMITED

CENTURIA URBAN REIT

CUA Announces 1H17 Interim Result

Thursday, 9 February 2017

Centuria Property Funds No. 2 Limited (**CPF2L**), as Responsible Entity of the Centuria Urban REIT (**CUA**) announced CUA's half year financial results ended 31 December 2016.

Key Highlights

- Transfer of Management Rights from 360 Capital Group Limited to Centuria Capital Group
- Statutory net profit of \$7.8 million
- Distributable earnings¹ of \$5.8 million representing 7.9 cents per security ("cps")
- Increase in total assets of 1.1% to \$213.3 million
- CUA's portfolio value increased by 1.2% to \$210.4 million²
- NTA has increased by 2.0 cents to \$2.27 per security²
- Secured leases across 6,712 sqm (23.2%) of CUA's portfolio, including key transactions at 154 Melbourne Street, South Brisbane that reduce FY17 expiries from 12.8%³ to nil
- CUA's portfolio is 99.2% occupied with a 4.6 year WALE³
- Gearing of 19.7%²

Doug Hoskins, Trust Manager CUA said "The first half of FY17 resulted in CUA successfully leasing 6,712 sqm representing 23.2% of the property portfolio, significantly mitigating short term lease expiry risk. As a result of these transactions CUA's occupancy and WALE have improved to 99.2% and 4.6 years respectively. Tenant diversity and contracted rental growth underpin CUA's earnings, with 78 percent of rental income subject to a fixed average annual review of 3.8 percent."

Mr. Hoskins continued, "Ongoing investment sentiment in metropolitan markets generated a valuation uplift during the period. The majority of the portfolio was independently valued in December resulting in the average capitalisation rate firming 26 basis points to 6.86 percent, generating an increase in total portfolio value to \$210.4 million dollars. As a result, CUA's NTA has increased 2.0 cents per security to \$2.27."

¹ Distributable earnings is a financial measure which is not prescribed by Australian Accounting Standards ("AAS") and represents the profit under AAS adjusted for specific and non-cash significant items. The Directors consider that distributable earnings reflect the core earnings of CUA

² Based on 31 December 2016 audited Financial Report

³ By Net Lettable Area (NLA)



Transfer of management from 360 Capital Group Limited

On 9 January 2017, Centuria Capital Group (CNI) acquired 360 Capital Investment Management Limited (CIML), the Responsible Entity of 360 Capital Office Fund (TOF). CIML was subsequently renamed Centuria Property Funds No. 2 Limited (CPF2L) and 360 Capital Office Fund has subsequently been renamed Centuria Urban REIT. The ASX identification code has since changed to CUA.

In addition to acquiring the Responsible Entity of CUA, Centuria Capital Limited and its associates acquired 360 Capital Group Limited's 28.8% investment holding in CUA ensuring a strong alignment of interest between Centuria, CPF2L and CUA securityholders. CUA's investment strategy and distribution policy remain unchanged.

Australia's metropolitan office real estate markets continue to offer sound investment opportunities and provide CUA securityholders with stable income and the opportunity for capital gain through active management.

Nicholas Collishaw, CEO Listed Property for Centuria advised "Senior Fund Manager, Mr Doug Hoskins has been appointed as CUA's Trust Manager with over 10 years of property funds management experience. He is supported by a team of professionals with substantial experience in managing both office assets and ASX listed REIT's."

Leasing Update

During the period, CUA successfully leased 6,712 sqm across its portfolio. Of these, 3,699 sqm relate to FY17 expiries, and 1,086 sqm relate to FY18 expiries. As a result of these transactions CUA's occupancy and WALE have improved to 99.2% and 4.6 years³ respectively.

At 154 Melbourne Street, South Brisbane, CUA secured a 3,699 sqm lease extension of 2 years to the Department of Housing & Public Works (Queensland Government), substantially mitigating the Trust's near term expiry risk. In addition Queensland Government expanded into the adjoining 534 sqm area achieved through the early surrender of Pradella Development's tenancy. A further 1,263 sqm was secured within the building representing a combination of new leases over previously vacant space and renewals of existing tenants.

As announced on 23 December 2016, SMEC Australia (SMEC) has confirmed they will not be renewing their 2,180 sqm lease at 154 Melbourne Street expiring in October 2017. Leasing agents have been appointed to commence marketing this space with a focus to secure a tenant prior to October 2017 to mitigate any potential reduction in rental income from SMEC's departure. SMEC will continue to pay rent through to their expiry.

CUA also successfully leased 1,216 sqm at Kingsford Smith Drive to Domino's Pizza Enterprises for a four year term, representing an expansion of Domino's presence in the building.

³ By Net Lettable Area (NLA)



The portfolio's average fixed rental growth remains underpinned at 3.8% p.a. with 78% of CUA's leases having fixed annual reviews.

Doug Hoskins, Trust Manager - CUA commented, "The quality and location of the Trust's assets has been the key reason for its leasing success. With our proactive leasing approach we expect to generate interest in the SMEC space prior to their departure."

Asset Valuations

At 31 December 2016, the value of CUA's portfolio increased to \$210.4 million, up 1.2 per cent from 30 June 2016. NTA has increased 2.0 cents to \$2.27 per security over the period.

Two assets, representing 65% of the portfolio's value, were independently valued at 31 December 2016 being 154 Melbourne Street, South Brisbane, and 576 Swan Street, Richmond. 154 Melbourne Street's value remained stable at \$77.5 million with forecast medium term expiries being taken into consideration. With 576 Swan Street, Richmond increasing in value by \$2.5 million (4.5%), to \$58.5 million, as a result of capitalisation rate compression and improving market rents. The value of 438-517 Kingsford Smith Drive, Brisbane, previously independently valued at April 2016, was reaffirmed by the Directors at \$77.4m.

The weighted average capitalisation rate of CUA's portfolio has firmed by 26 basis points to 6.86% at 31 December 2016.

Property	State	Valuation	Valuation	Cap Rate
		(\$m) Jun 16	(\$m) Dec 16	
Office				
154 Melbourne Street, South Brisbane	QLD	77.5	77.5	7.00
438-517 Kingsford Smith Drive, Brisbane	QLD	74.4	74.4	7.00
576 Swan Street, Richmond	VIC	56.0	58.5	6.50
Total Portfolio		207.9	210.4	6.86

Mr. Hoskins stated "We expect 2017 will continue to deliver strong investor demand for well leased and well located assets. Rental growth in Brisbane remains subdued, however incentive levels are stabilising. Calendar year 2016 saw an increase in sales volumes in metropolitan Brisbane with sales of approximately \$460 million.

Melbourne's fringe markets have been beneficiary of the CBD's strong rental growth, and we expect this to continue given the forecast withdrawals of office buildings within Melbourne's CBD for residential conversion. The capital market outlook for Melbourne's fringe CBD markets remains positive with a strong investor appetite providing the platform for a robust calendar year 2017."



Capital Transactions

Acquisitions

Given CUA's low gearing, and the earnings dilution associated with not reinvesting the proceeds from the sale of 33 Allara Street, Canberra, the Fund continues to review investment opportunities. CUA will remain patient and diligent in its approach to acquiring assets in order to enhance the current portfolio and provide stable earnings and distributions growth.

Centuria Metropolitan REIT Investment

On 9 January 2017 Centuria Metropolitan REIT (CMA) acquired a strategic holding of 8.8% in CUA. This was alongside Centuria Capital Group's (CNI) acquisition of both the Responsible Entity of CUA and a further 19.9% investment interest in CUA. Combined, CNI and CMA's interests total 28.8% of the issued capital in CUA.

Nicholas Collishaw noted "CMA has advised its intention in relation to its 8.8% stake is to maintain the investment as a long term strategic investment, to maximise the return on CMA's investment through supporting active asset management initiatives by CUA and to support the ongoing management of CUA. CMA believes that the property portfolios of CMA and CUA are highly complementary and intends to consider a merger of CMA and CUA at some point in the future."

The Responsible Entities of CUA and CMA are separate with independent directors appointed to each entity's board. No decision regarding a potential merger has been made at this point. Any merger proposal would need to be in the best interests of respective investors and subject to any necessary approvals including CUA Investor support.

Prudent Capital Management

CUA's existing debt facilities mature in April 2017. CPF2L is in advanced stages of negotiations with lenders in relation to a multi-bank syndicated loan facility. Given CUA's low gearing and the quality of its portfolio, CPF2L expects to conclude the refinance of its debt facilities prior to the April maturity.

CUA currently has hedging in place over 96% of its drawn debt facilities through to January 2020. CPF2L will review of CUA's hedge book as part of the refinancing process to ensure interest rate risk is appropriately managed.

CUA's Interest Cover Ratio was approximately 6.8 times as at 31 December 2016, relative to a bank covenant of 2.0 times demonstrating adequate covenant headroom. Similarly, CUA's loan to valuation covenant showed significant headroom with CUA's portfolio gearing significantly under the 50.0% bank covenant.



Earnings and Distribution Update

CUA's distributable earnings of 7.9 cents per security, for the six month period ending 31 December, 2016, is in line with the Trust's FY17 base case guidance. Actual distributions paid by the Trust over the period of 8.5 cents per security are as per the previous manager's statement on 17th August, 2016.

The Trust's second half distribution will be adjusted to ensure full year distributions are no greater than the actual full year FY17 distributable earnings of the Trust, presently expected to be 16 cents per security assuming no acquisitions during the period.

Mr. Hoskins said, "We remain focused on positioning CUA to deliver securityholders sustainable distributions underpinned by tenants in quality fringe CBD and suburban office assets with strong rental covenants."

1H17 Interim Result Presentation

A prerecorded presentation of CUA's 1H17 Interim Result is available via our website (<http://centuria.com.au/urban-reit/home/>).

- Ends

For further information, please contact:

Douglas Hoskins

Trust Manager, CUA

Centuria Urban REIT

Phone: 02 8923 8923

Email: doug.hoskins@centuria.com.au

Shalome Ruiter

Investor Relations Manager

Centuria Urban REIT

Phone: 02 8923 8923

Email: shalome.ruiter@centuria.com.au

Nicholas Collishaw

CEO – Listed Property

Centuria Capital Group

Phone: 02 8923 8923

Email: nicholas.collishaw@centuria.com.au

Carden Calder

Media Enquiries

BlueChip Communication

Phone: 0404 333 904

Email: carden@bluechipcommunication.com.au

About Centuria Urban REIT

The ASX-listed Centuria Urban REIT, is a registered managed investment scheme, (ARSN 106 453 196) investing in urban office assets within Australia. The REIT's portfolio comprises three office assets located in Brisbane (2) and Melbourne (1). These assets have been valued at \$210.4 million as at 31/12/2016.

Centuria Property Funds No. 2 Limited (CPF2L), a wholly-owned subsidiary of Centuria Capital Group (CNI), is the Responsible Entity for the ASX listed Centuria Urban REIT (CUA) and Centuria Industrial REIT (CIP).

CPF2L, combined with Centuria Property Funds Limited (CPFL), the Responsible Entity for the ASX listed Centuria Metropolitan REIT (CMA), has approximately \$2.9 billion of property funds under management in 18 unlisted property funds and 3 listed REIT's.

CNI is a specialist investment manager listed on the ASX with \$3.6 billion in total funds under management.