Centuria

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Centuria Metropolitan REIT

CMA announces strong FY17 result

Sydney, 14 August 2017: Centuria Property Funds Limited (CPFL) as Responsible Entity of Centuria Metropolitan REIT (CMA) (ASX code: CMA) is pleased to announce the following results for the financial year ended 30 June 2017.

Financial Highlights as at 30 June 2017

- Statutory net profit of $37.7 million
- Distributable earnings[1] of $22.8 million representing 19.0 cents per security (cps)
- Increased net tangible assets (NTA) to $2.32 per security[2], up 14 cps or 6.4%
- Gearing reduced to 29.5% (from 33.2% since 30 June 2016)

Operational Highlights during FY17

- Improved portfolio occupancy to 97.3%
- Significant leasing success with 41 transactions across 20,321 sqm
- Increase in portfolio value to $610.0 million, up $234.9 million due to:
  - the merger with Centuria Urban REIT, valued at $210.0 million, and;
  - asset revaluations of $24.9 million
- Portfolio WACR firmed to 7.19% (40bp improvement from 30 June 2016)
- Portfolio weighted average lease expiry (WALE) of 3.9 years[3]
- Exchanged contracts on 2 Kendall Street, Williams Landing, VIC. Currently under construction and leased to Target Australia for 10 years from completion

Significant activity post 30 June 2017

- On-strategy acquisition of two assets in Western Australia valued at $91.8 million[4]
- Successfully completed a $90 million capital raising, increasing CMA's market capitalisation to over $500 million[5] with improved potential for inclusion in the S&P/ASX 300 Index
- Gearing reduced to 27.4% with significant debt headroom to fund the current acquisition pipeline and pursue further assets that align with CMA's strategy
- Further improved portfolio occupancy to 98.2% and increased WALE to 4.5 years

Nicholas Blake, Trust Manager of CMA, said, "This strong FY17 result at the high end of the earnings guidance range reflects CMA's ability to maximise income from the portfolio to the benefit of our securityholders."

CMA remained active in the period following 30 June 2017, executing a number of leasing and strategic transactions which are detailed in this announcement.

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[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 non cash and significant items. The Directors consider that distributable earnings reflect the core earnings of CMA.
[2] CMA's pro forma NTA (adjusted for post 30 June acqusitions)reduces to $2.29 per security
[3] Weighted by gross income
[4] Excluding transactions costs
[5] Based on the closing CMA security price of $2.39 per security on 9 August 2017

WELL POSITIONED PORTFOLIO

Leasing and occupancy

In the period to 30 June 2017, CMA executed 41 lease transactions across 20,321 square metres (sqm) representing 15.5% of the portfolio net lettable area (NLA). This comprised 9,979 sqm of new leases and 10,324 sqm of renewals.

Leasing momentum continued post 30 June 2017, with CMA executing or agreeing a further three lease transactions across 4,614 sqm.

Taking into account the post 30 June 2017 lease transactions, CMA's portfolio occupancy and WALE has improved to 98.2% and 4.5 years[3], respectively.

Mr Blake said, "We remain focused on maximising potfolio income and occupancy to generate a predictable and growing income stream for our investors. Particularly pleasing is the outcome at 1 Richmond Road, Keswick, SA, where, following a minor refurbishment in Q4 CY16, the majority of the 4,680 sqm of space expiring 30 June 2017 has been leased in two separate transactions to new tenants; DCNS Australia and SA Power. These deals, totaling 4,043 sqm, will ensure continuity of income from this asset and demonstrate our ability to create value through asset repositioning in more challenging markets."

Mr Blake continued, "CMA has been successful in securing a new 10 year lease over 622 sqm at 54 Marcus Clarke Street, Canberra, ACT. We have also secured a new 10 year lease over 492 sqm at 42-46 Colin Street, West Perth, WA, representing half of the rental guarantee from the vendor, increasing the asset WALE to 5.2 years."

Asset valuations

The total value of CMA's portfolio at 30 June 2017 was $610.0 million, an increase of 4.2%[6] over the preceding 12 months. The weighted average capitalisation rate for the portfolio firmed 40 basis points to 7.19% at 30 June 2017.

Mr Blake said, "There continues to be strong investment demand for quality, well leased metropolitan assets. Coupled with robust market fundamentals and our active asset management this continues to drive valuation growth."

STRATEGIC TRANSACTIONS

Corporate simplification

On 15 March 2017, CMA securityholders unanimously approved the corporate simplification of CMA. The benefits of the corporate simplification included a streamlining of financial reporting requirements, ongoing cost savings and operational efficiencies and delivering a simpler structure that may facilitate future acquisitions. The corporate simplification was implemented on 22 March 2017.

Sale of 14 Mars Road, Lane Cove, NSW

On 31 March 2017 CMA completed the sale of 14 Mars Road, Lane Cove, NSW to the incumbent tenant, Cochlear Limited, for $26.0 million[4]. This transaction generated a 20.9%

[3] Weighted by gross income
[6] On a like for like basis, excluding 14 Mars Road, Lane Cove, NSW and including the CUA portfolio

premium to the 30 June 2016 book value and a property IRR of 23.8% since CMA's listing in December 2014.

Merger with Centuria Urban REIT
On 29 June 2017 CMA merged with the ASX listed Centuria Urban REIT (CUA) by way of a scheme of arrangement that was overwhelmingly supported by both CMA and CUA investors. The acquisition combined two higly complementary portfolios to provide securityholders with an enhanced investment proposition and was in line with CMA's strategy to invest in metropolitan office markets across Australia.

In addition to being accretive to FY18 distributable earnings, the benefits of the acquisition included a material increase in CMA's investment portfolio of 54% to over $600 million, enhanced portfolio and tenant diversification and improved trading liquidity and market capitalisation. This has increased the potential for CMA to be included in the S&P/ASX 300 Index.

Acquisition of 2 Kendall Street, Williams Landing, VIC
On 29 June 2017, CMA exchanged contracts on 2 Kendell Street, Williams Landing, VIC to acquire a 12,919 sqm asset, 100% pre-leased to Target Australia for 10 years from completion (expected Q1 CY19). The asset was acquired for an on completion value of $58.2 million[4] reflecting a 6.5% initial yield, with CMA paying $2.9 million at exchange and the balance of $55.3 million being due on completion. The asset is currently under construction and is being developed by Cedar Woods Properties, an ASX listed developer established in 1987 with offices in Sydney, Melbourne, Brisbane, Adelaide and Perth.

Acquisition of 144 Stirling Street, Perth, WA (Post 30 June)
On 1 August 2017, CMA acquired 144 Stirling Street, Perth, WA for $58.2 million[4]. The 11,042 sqm asset is 100% leased with major occupiers being the WA Government (WA Police) and international consultancy firm Hatch & Associates. The asset was acquired on an initial yield of 9.2% with a WALE of 3.9 years[3].

Acquisition of 42-46 Colin Street, West Perth, WA (Post 30 June)
On 1 August 2017, CMA acquired 42-46 Colin Street, West Perth, WA for $33.6 million[4]. The 8,439 sqm asset is 100% leased with the major occupier being Insurance Australia Group. The asset was acquired on an initial yield of 8.7% with a WALE of 4.5 years[3]. Taking into consideration the recent 10 year lease over 492 sqm the asset WALE has subsequently improved to 5.2 years[3].

Further acquisitions
On 13 July 2017 CMA announced that it had commenced exclusive due diligence on a new A Grade, 10,000 sqm office asset under construction in South West Sydney, NSW. CMA's exclusive due diligence period ended on 11 August 2017 and has not culminated in a transaction at this time.

CMA remains committed to growing its portfolio by acquiring quality income generating metropolitan office assets that enhance CMA's investment portfolio and are beneficial to CMA securityholders. CMA has sufficient balance sheet capacity to fund commited acquisitions and pursue further attractive acquisitions.

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3 Weighted by gross income
4 Excluding transaction costs

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Mr Blake said, “The past 12 months round out a transformational period for CMA, with the portfolio expanding from eight assets valued at $182.9 million since listing in December 2014 to 18 assets valued at $760 million upon the completion of 2 Kendall Street, Williams Landing, VIC. CMA’s market capitalisation now comfortably sits above $500 million making CMA a strong candidate for S&P/ASX 300 Index inclusion in the near term.”

DISCIPLINED CAPITAL MANAGEMENT

Debt profile

At 30 June 2017, CMA had debt facilities totalling $260.0 million with a weighted average expiry of 3.4 years and drawn borrowings totalling $189.5 million, with an ‘all in’ interest cost of 3.9% and 54.9% of debt hedged. At 30 June 2017, gearing was 29.5% with pro forma[2] gearing reducing to 27.4% taking into account the transactions that occurred post 30 June 2017.

Capital raising (Post 30 June)

On 13 July 2017 CMA announced a fully underwritten $90.0 million capital raising at $2.35 per security that was well supported by both existing and new securityholders. The proceeds from the capital raising were used to fund the acquisitions of 144 Stirling Street, Perth WA and 42-46 Colin Street, West Perth, WA.

Centuria Capital Group supported the capital raising taking up their full entitlement under the offer. Centuria Capital Group[7] is the largest securityholder in CMA, owning a combined 18% of securities on issue, which ensures a strong alignment of interest between the manager and CMA securityholders.

Distribution reinvestment plan (DRP)

Subject to prevailing market conditions CMA intends to activate its DRP for the 30 September 2017 distribution. Further information will be provided closer to the distribution date.

Mr Blake said, “Disciplined capital management remains a core tenet of CMA’s investment proposition with conservative gearing at 27.4%. CMA’s debt facilities are sourced from multiple lenders with staggered maturities ensuring appropriate debt diversification.”

GUIDANCE REAFFIRMED & STRATEGY UNCHANGED

Guidance

FY18 distributable earnings guidance is reaffirmed at 18.6 cps.

CMA’s FY18 forecast distribution is 18.1 cps, an increase of 3.4% on the previous financial year’s distribution generating a strong FY18 distribution yield of 7.6%[5]. Distributions will be paid in equal quarterly installments of 4.525 cps.

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[2] CMA’s pro forma NTA (adjusted post 30 June acqusitions) reduced to $2.29 per security

[5] Based on the closing CMA security price of $2.39 per security on 9 August 2017

[7] Centuria Capital Limited (CNI) and its affiliates. CPFL is a wholly owned subsidiary of CNI

Strategy
CMA's strategy remains unchanged. CMA will continue to actively manage its portfolio with an emphasis on tenant retention to ensure income and occupancy are maximised, coupled with asset repositioning strategies that may generate additional capital upside for securityholders.

Mr Blake concluded, "CMA has delivered a strong total return of 49.5%[8] since listing in December 2014, outperforming the S&P/ASX 300 Index which returned 39.6%[8] over the same period. The trust is well-positioned to continue to deliver predictable and growing returns to security holders, and we will continue to seek opportunities to extract additional value from the portfolio through active asset-management initiatives."

"In Australia's metropolitan office markets, superior asset selection, active asset management and close relationships with tenants are the cornerstones of success. CMA represents an opportunity for investors to gain exposure to an investment-grade portfolio managed by hands-on professional managers, specialised in generating value throughout the property cycle."

A prerecorded briefing of CMA's FY17 Annual Results and the FY17 Results Presentation and Property Compendium is available via Centuria's website (www.centuria.com.au/listed-property-funds).

- Ends -

[8] As at 2 August 2017, Source: UBS

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About Centuria Property Funds Limited

Centuria Property Funds Limited (CPFL), a wholly-owned subsidiary of Centuria Capital Group (CNI), is the Responsible Entity for the ASX listed Centuria Metropolitan REIT (CMA).

CPFL, combined with Centuria Property Funds No. 2 Limited (CPF2L), the Responsible Entity for the ASX listed Centruia Industrial REIT (CIP), has approximately $3.2 billion of funds under management in 17 unlisted property funds and two listed REITs.

CNI is an ASX-listed specialist investment manager with more than $4 billion in total funds under management.