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Centuria Metropolitan REIT

CMA announces strong 1H18 result

Thursday, 8 February 2018

Centuria Property Funds Limited (**CPFL**) as Responsible Entity of Centuria Metropolitan REIT (ASX: **CMA**) is pleased to announce CMA's results for the half financial year ending 31 December 2017.

Financial highlights

- Statutory net profit of $39.2 million
- Distributable earnings[1] of $19.9 million representing 9.4 cents per security (cps)
- Quarterly distributions paid during 1H18 to securityholders of 9.05 cps
- Increased net tangible assets (NTA) to $2.39 per security, up 7 cps or 3.0% from 1H17
- Disciplined gearing of 29.6%[2], within target range
- Inclusion in the S&P/ASX 300 A-REIT index from September 2017
- 12 month total return of 20.9%[3] outperforming S&P/ASX 300 A-REIT Index at 6.4%[3] as at 31 December 2017

Operating highlights

- Strong leasing activity with 20 lease transactions across 9,234 sqm over 1H18
- FY18 lease expiries of 1.2%[4,6] provide solid earnings visibility for remainder of FY18
- Increase in portfolio valuations to $899.7 million since the end of 1H17
    - Like-for-like total portfolio increased by $41.6 million[5], or 7.0%
- Weighted average capitalisation rate (WACR) firmed to 6.87% (44bps) from 1H17
- Strong weighted average lease expiry (WALE) of 4.3 years[6]
- Acquisition of four high quality, fully occupied assets totaling $210.9 million[7]
- Average NABERS energy rating of 3.8 stars

1H18 FINANCIAL RESULTS

CMA increased its statutory net profit by 44.6% to $39.2 million on 1H17. Distributable earnings[1] of $19.9 million reflect 9.4 cps, with total distributions paid of 9.05 cps for 1H18. NTA per security increased 3.0% on the prior corresponding period to $2.39, predominantly driven by asset revaluations of 14.0 cps.

Nicholas Blake, CMA Trust Manager, commented: "The first half continues to be a buoyant time for metropolitan office markets, with occupancy rates in non-CBD locations, in particular in NSW and VIC, outpacing CBD locations. Underlying economic conditions currently remain

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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 reflects the core earnings of CMA
2 Gearing is defined as total borrowings less cash dividend by total assets less cash and goodwill
3 Based on CMA closing price of $2.39 on 31 December 2017
4 Includes 2 Kendall Street, Williams Landing, VIC as if complete
5 Like for like valuation from 1H17 excluding 44 Hampden Road, Artarmon, NSW
6 Weighted by gross income
7 Before transaction costs. Acquisition price for 144 Stirling Street, Perth and 201 Pacific Highway St Leonards are gross price before adjustment for existing outstanding incentives

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relatively positive with strong employment growth and significant infrastructure investment continuing to drive demand into metropolitan locations.

"As the country's leading ASX listed metropolitan office REIT with a high quality portfolio diversified across Australia, we are well positioned to capitalise on this trend and continue to focus on improving key portfolio metrics to the benefit of investors. We remain on track to deliver our full year FY18 earnings guidance of 18.6 cps."

DISCIPLINED CAPITAL MANAGEMENT

Core to CMA's strength is a disciplined approach to capital management. Gearing has remained in the fund's target range at 29.6%[2], a 420 bps reduction since 30 June 2017.

Mr Blake commented: "As we repositioned our portfolio through select transactions, we continue to retain appropriate gearing headroom to fund committed acquisitions and maintain our approach to disciplined capital management. CMA is well placed with a strong balance sheet and high quality tenant covenants underpinning the portfolio's income streams."

Key debt metrics		1H18	1H17
Facility limit	$m	320.0	180.0
Drawn amount	$m	297.6	140.0
Gearing[2]	%	29.6	33.8
Weighted average debt expiry	years	3.0	3.7
Proportion hedged	%	54	60
Weighted average hedge maturity	years	2.6	3.2
Cost of debt[8]	%	3.7	3.9
Interest cover ratio	times	6.1	5.3

WELL POSITIONED PORTFOLIO

Since listing in December 2014, CMA has grown from eight metropolitan assets valued at $182.9 million to a well diversified, investment grade portfolio of 19 assets valued at $899.7 million. The portfolio enjoys strong green credentials, with an average NABERS energy rating of 3.8 stars ensuring our assets remain attractive to tenants.

Portfolio Snapshot		1H18[4]	1H17
Number of assets		19	13
Book value	$m	899.7	417.5
WACR	%	6.87	7.52
1H NOI	$m	26.3	15.2
NLA	sqm	184,360	112,664

Leasing and occupancy

Twenty lease transactions across 9,234 sqm were secured in 1H18, representing 5.0% of the portfolio's NLA – including 3,913 sqm of new leases and 5,321 sqm of renewals. Occupancy and WALE are a robust 97.8%[6] and 4.3 years[6] respectively with remaining FY18 expiries a

8 Including weighted average swap rate, facility establishment fees and all-in margins (base and line fees)

low 1.2%[4,6]. Post 31 December 2017 CMA has agreed terms to renew a further 1,624 sqm at 154 Melbourne Street, South Brisbane, QLD for a five year period.

Asset valuations

Our leasing success was a key contributor to strong growth in asset values, with the total portfolio valued at $899.7 million at 31 December 2017. Like-for-like, since 1H17, the portfolio value increased $41.6 million[5], or 7.0%. The portfolio's total WACR firmed 44 basis points to 6.87%.

Mr Blake commented, "Robust tenancy demand and effective rental growth in several metropolitan markets has driven strong investment demand and valuation growth for high quality, well leased assets like those owned by CMA."

STRATEGIC TRANSACTIONS

During the period, CMA acquired a further four quality assets in key metropolitan markets within NSW and WA. These acquisitions reflected a total consideration of $210.9 million[5], an average initial yield of 7.8%[7], WALE of 3.9 years and 100% occupancy[8].

In December 2017, CMA completed the disposal of 44 Hampden Road, Artarmon, NSW for $10.3 million, reflecting a 14.4% premium to book value and generating an 18.4% annual IRR over CMA's ownership period.

Summary of acquisitions	State	Acquisition price ($m)[7]	Cap rate	Initial yield[7]	NLA (Sqm)	WALE (years)[6]	Occupancy[9]
201 Pacific Highway, St Leonards	NSW	85.8	6.50%	6.60%	16,488	3.5	100%
77 Market Street, Wollongong	NSW	33.3	7.30%	7.50%	6,755	4.3	100%
144 Stirling Street, Perth	WA	58.2	7.50%	9.20%	11,042	3.9	100%
42-46 Collins Street, West Perth	WA	33.6	7.50%	8.70%	8,439	4.5	100%
Total		**210.9**	**7.10%**	**7.80%**	**42,724**	**3.9**	**100%**

GUIDANCE & STRATEGY

Earnings & distribution guidance

CMA's FY18 distributable earnings guidance is reaffirmed at 18.6 cps. CMA's FY18 distribution guidance remains 18.1 cps, an increase of 3.4% on the previous financial year's distribution and generating a strong FY18 distribution yield of 7.6%[3].

Distributions will be paid in equal quarterly installments of 4.525 cps with two quarterly distributions remaining to be paid for FY18.

9 By area

Strategy

CMA's strategy will continue to focus on delivering predictable and growing returns to security holders. This is achieved through strong relationships with tenants to maximise income and occupancy, coupled with asset repositioning strategies that aim to generate additional capital upside for investors.

Mr Blake concluded, "CMA was established three years ago in response to tightening CBD yields and a recognition of value in metropolitan markets for investors. CMA has since established its position as the leading ASX listed metropolitan office REIT and is well placed to capitalise on our investment thesis."

"We remain hands on property managers focused on maximising portfolio income and occupancy to generate a predictable and growing income stream for investors."

- Ends -

A pre-recorded briefing of CMA's 1H18 Annual Results and the 1H18 Results Presentation and Property Compendium is available via our website (www.centuria.com.au/listed-property-funds).

For more information or to arrange a meeting, please contact:

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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 Centuria Industrial REIT (CIP), has approximately $3.7 billion of funds under management in 17 unlisted property funds, one open-ended fiversified property fund and two listed REITs.

CNI is an ASX-listed specialist investment manager with $4.6 billion in total funds under management.