Core Property
Fund Research & Ratings
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Unlisted Property Trust Report

Centuria 25 Grenfell Street Fund

February 2022

CBD office fund targeting average distributions of 6.5%

Centuria 25 Grenfell Street Fund

Contents

About Core Property Research

Core Property Research Pty Ltd was established in July 2017 to provide market leading and insightful research on the property funds sector for its clients and investors. Our ratings and research cover sector level research, ratings and recommendations on listed and unlisted property funds, and is built upon the extensive research experience of its staff.

The Core Property team collectively, has over 50 years' experience across property, financial services and investment markets. The team has also evaluated over 500 different funds across multiple sectors and a range of investment structures over the last decade.

Centuria 25 Grenfell Street Fund

February 2022

The Centuria 25 Grenfell Street Fund ("the Fund") is a single asset, closed-end unlisted property fund that provides an opportunity to invest in an A-grade office tower located in the Adelaide CBD.

The Fund's Responsible Entity, Centuria Property Funds No.2 Limited ("the RE" or "the Manager") is seeking to raise $48.5M through the offer of 48.5M units at $1.00 per unit ("the Offer"). The funds raised will be used, in conjunction with debt, to acquire a 50% interest in the office property located at 25 Grenfell Street, Adelaide SA ("the Property"). The Property will be co-owned with MA Financial (ASX: MAF), an ASX listed financial services company specialising in asset management, lending, corporate advisory and equities.

The Property is a landmark A-grade office tower located in the Adelaide CBD. Constructed in 1975, the Property is in the heart of the CBD and has historically been occupied by government and blue-chip tenants, which currently represent around 72% of the Property's gross income. Key tenants include the Minister for Transport & Infrastructure (24.5% of gross income), Minter Ellison (9.5% of gross income) and Aurecon (9.1% of gross income). The Property is 88.4% occupied and has a Weighted Average Lease Expiry (WALE) of 3.9 years. The vendor has provided a rental guarantee on the vacant space for 12-24 months.

The Fund's strategy is to provide unitholders with monthly distributions underpinned by high quality tenants while the Co-owners execute an asset management strategy that targets potential upside. This includes 1) undertaking capital expenditure such as upgrading the building's amenities, restructuring the ground floor retail and installing sustainable building features, 2) beginning a leasing campaign to occupy vacant space, and 3) pursuing reductions in outgoings and costs for the building. The Manager also believes the significant public and private infrastructure investments in greater Adelaide will benefit the Property in the long run.

The Fund will have a three-year debt facility, with an initial Loan to Valuation Ratio (LVR) of 45% against an LVR covenant of 57.5%. The initial Interest Coverage Ratio (ICR) of 4.85x is above the ICR covenant of 2.5x. The facility will need to be refinanced prior to the end of the Fund.

The Fund has an attractive initial NTA of $0.97 per unit, as a result of stamp duty concessions on commercial property in South Australia. Fees charged by the Fund are at the low-end of what Core Property has seen in the market.

The Manager is forecasting initial distributions of 7.0% p.a. in FY22 (annualised), increasing to 7.1% p.a. in FY23. Core Property estimates distributions to reduce to around 6.9%, 6.3% and 5.8% p.a. over the following years as a result of higher interest costs and rental abatements. Average distributions over 5 years are estimated at 6.5% p.a.

Core Property estimates the Fund to deliver an Internal Rate of Return (IRR) of between 6.4% - 9.0% p.a. (midpoint 7.8% p.a.) assuming a +/- 25 bps movement in capitalisation rates. The Manager expects further upside to returns to be delivered as a result of its strategy and is targeting an IRR of 10.2% p.a. (see *Expected Future Performance (IRR Sensitivity)*). The analysis includes the potential that investors may receive a capital gain or loss, based on market conditions.

Investor Suitability

Core Property considers the Fund will appeal to investors seeking a core investment strategy with income distributions underpinned by a CBD office property. Investors should expect distributions to moderate as higher interest costs and rental abatements flow through in later years. Capital gains are expected to be modest, with the potential for upside from the Manager's strategy. The Fund is illiquid, and investors should expect to remain invested for the initial five-year term until March 2027.

This report should be read in conjunction with the Target Market Determination provided by the Manager, as required by s994B of the Corporations Act 2001.

Recommended

See the Appendix for a description of our ratings. The above rating must be viewed in the context of comparable Funds and not across all products

Fund Details

Offer Open:	21 February 2022
Offer Close:	18 March 2022[1]
Min. Investment:	$50,000[2]
Unit Entry Price:	$1.00 per unit
Net Tangible Asset per unit:	$0.97 per unit[3]
Liquidity:	Illiquid
Forecast Distributions:	7.0 cpu (FY22 annualised) 7.1 cpu (FY23)[4]
Distribution Frequency:	Monthly
Initial Investment Period:	5 years to Mar 2027

1. The Manager may close the Offer at any time when sufficient commitments have been received.
2. The Manager may accept lower amounts at its discretion.
3. The Manager calculates the NTA at $0.97 per unit which includes adjustments for capitalised interest and the PV of abatements and rental guarantee.
4. Based on the Manager's forecasts.

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Fund – Website

www.centuria.com.au

This report is based on the Centuria 25 Grenfell Street Fund Product Disclosure Statement dated 21 February 2022, together with other information provided by Centuria Property Funds.

Key Considerations

Management: Well-regarded fund manager with a solid track record of managing property funds, corporate governance, maintaining and improving occupancy rates. Since 1999 Centuria has completed 44 funds delivering a weighted average total return of 16.8% p.a. and an average total return of 15.3% p.a.

Fund Structure: The Fund is a registered managed investment scheme which will own all the units in a sub-trust which has a 50% interest in the Property. The Property is owned 50/50 under a tenants in common partnership with MA Financial (ASX: MAF) with a Co-ownership agreement in place.

Fund Strategy: The Manager will work with the Co-owner to undertake a capital expenditure program to improve the Property and attract quality tenants to lease up the vacant space. The higher rental income is expected to support capital returns for investors.

The Property: The Fund will acquire a 50% interest in the 26-level A-grade office building located at 25 Grenfell Street, Adelaide SA. The Property is situated in the heart of the Adelaide CBD, with proximity to a range of retail and hospitality precincts, as well as public transport with the Adelaide train station, bus and tram stops all within walking distance. Originally constructed in 1975, the Property has 24,911 sqm of NLA spread across 23 levels of office accommodation, ground floor retail, two external retail pods and 30 basement carparking bays. The Property is currently 88.4% occupied, with approximately 72% of gross income sourced by government and blue-chip, most of whom are subject to fixed annual rental increases of 3.0% - 3.50%. At the commencement of the investment, the Property will have a WALE of 3.9 years (by income), with rental guarantees by the vendor over the vacant space.

Debt Profile: The Fund will have a three-year debt facility of $41.7M, drawing down $37.5M to acquire the Fund's 50% interest in the Property. The balance will be used to fund the forecasted $3.7M of capex (50% of the Co-owners forecasted capex program of $7.9M). The all-in interest cost over the initial three years is estimated at 2.77%, with the initial facility 80% hedged at 2.94% p.a. The Manager will need to refinance the facility before the end of the Fund term and is forecasting rates to rise to 3.87% for years four and five. The initial Loan to Valuation Ratio (LVR) is 45%, against an LVR covenant of 57.5%. The initial Interest Coverage ratio (ICR) of 4.85x is above the ICR covenant of 2.5x. The Fund will also pay $0.1M in interest costs to Centuria Capital (ASX: CNI) for a short-term loan to fund the deposit on the Property.

Initial NTA: The Fund's initial NTA is $0.97 per unit, with most of the dilution coming from due diligence and acquisition costs. Core Property notes the initial NTA is favourable to investors due to the exemption of stamp duty costs in South Australia commercial property.

Distributions: The Manager is forecasting FY22 distributions of 7.0% p.a. (annualised), increasing to 7.1% p.a. in FY23. Based on the Manager's assumptions, Core Property estimates FY24 – FY26 distributions to reduce to 6.9%, 6.3% and 5.8% as a result of higher interest costs and rental abatements. Distributions are estimated to average 6.5% over 5 years. The Manager estimates distributions to be 100% tax effective in FY22, FY23, FY24, FY25 and FY26.

Fees: Fees are at the low end of what Core Property has seen in the market (*see Figure 5: Fees in Perspective*)

Total Returns: Core Property estimates the Fund to deliver a five-year IRR of 6.4% - 9.0% p.a. (midpoint 7.8% p.a.) based on a +/- 25 bps sensitivity to capitalisation rates (see the *Financial Analysis section*). The Manager is targeting an IRR of 10.2% p.a. over 5-years based on the successful execution of its lease strategy and rerating of the asset (-50bps cap rate movement). Investors should be aware the Fund is exposed to a capital gain or loss based on the sale price of the asset and the overall market conditions, which may deliver an IRR outside this range.

Illiquid investment: The Fund should be considered illiquid and investors should expect to remain invested for the initial 5 years. The Manager may extend the Fund for a further two years subject to an Ordinary Resolution (50% of votes in favour). At the end of the extended period the Manager may further extend the Fund, if it receives the approval of 100% of votes, or where there is less than 100% of votes then investors who vote against the extension are provided with the opportunity to exit at the prevailing Withdrawal Price.

Investment Scorecard

Management Quality

★★★★★

Governance

★★★★☆

Asset Quality / Portfolio

★★★★☆

Income Return

★★★☆☆

Total Return

★★★☆☆

Gearing

★★★★☆

Liquidity

★☆☆☆☆

Fees

★★★★☆

Key Metrics

Trust Structure

An unlisted property fund acquiring a 50% interest in an A-Grade, multi-tenanted CBD office building in Adelaide, South Australia.

Management

Centuria Property Funds No.2 Limited is a 100% owned subsidiary of ASX listed Centuria Capital (ASX: CNI), a highly regarded and experienced real estate manager. Centuria has a successful track record of delivering strong investor returns for over 22 years, with $20.2B of assets under management, with $19.3B of real estate assets held in listed and unlisted funds.

Property Portfolio

No. of Properties:	1
Valuation:	$83.3M (50% interest) $166.5M (100% interest)
Property Location:	25 Grenfell Street, Adelaide SA
Property Sector:	Office
Key Tenants:	Minister for Transport & Infrastructure (24.5% of gross income) Minter Ellison (9.5% of gross income)
Occupancy:	88.4%
WALE:	3.9 years (by income) as 1 April 2022

Return Profile

Forecast Distribution:	FY22: 7.0% p.a. (annualised) FY23: 7.1% p.a.
Distribution Frequency:	Monthly
Tax advantage:	100% tax deferred for FY22 and FY23
Estimated Levered IRR (pre-tax, net of fees):	6.4% - 9.0% p.a. (midpoint 7.8% p.a.). The Manager is targeting an IRR of 10.2% p.a. from the successful delivery of its strategy.
Investment Period:	5 years (Initial Fund Term)

Risk Profile

Property/Market Risk:	Capital at risk will depend on an office building in the CBD of Adelaide, SA. Investors will be exposed to a potential capital gain or loss, based on market conditions.
Interest Rate Movements:	The Manager has obtained an initial debt facility for three years and will need to refinance the facility to cover the full term of the Fund. Interest costs higher than forecasts in years 4 & 5 may impact the distributable income and total returns for investors.
Property Specific Risks:	Property investments are exposed to a change in vacancy rates, prevailing market rents, and economic supply and demand.

For a more detailed list of the key risks, refer to the "Investment Considerations and Risks" section of the Product Disclosure Statement.

Fees Paid

Entry Fees:	Nil
Exit Fees:	Nil
Establishment & Placement Fee (Property Acquisition Fee):	2.0% of the purchase price.
Divestment Fee (Property Disposal Fee):	1.0% of the sale price.
Management Fees:	- Management Fee: 0.80% p.a. of GAV. - Custodian Fee: The minimum of 0.015% p.a. of GAV or $15,000 p.a. - Property Expenses: 0.31% p.a. (est.) of GAV
Performance Fee:	20% of the outperformance over an IRR of 8.0%.

Debt Metrics

Initial Debt / Facility Limit:	$37.5M / $41.7M
Loan Period:	3 years
Initial LVR / Peak LVR / LVR Covenant:	45.0% / 50.8% / 57.5%
Initial ICR / Lowest ICR/ ICR Covenant:	4.9x / 3.6x /2.5x

Legal

Offer Document:	Centuria 25 Grenfell Street Fund Product Disclosure Statement, dated 21 February 2022
Wrapper:	Unlisted Property Trust
Trustee:	Centuria Investment Management (Property) No.5 Pty Limited
Custodian:	Centuria Property Funds No.2 Pty Limited
Responsible Entity & Manager:	Centuria Property Funds No.2 Limited (ABN 38 133 363 185, AFSL No. 340304)

Fund Overview

The Fund is a closed-ended, single asset, unlisted property fund that invests in a 50% share in the CBD office property located at 25 Grenfell Street, Adelaide SA ("the Property").

Centuria Property Funds No.2 Limited ("the Manager ") is seeking to raise $48.5M in equity through the issue of 48.5M units at $1.00 per unit ("the Offer"). Units are available to retail and wholesale investors, with a minimum investment of $50,000, with multiples of $1,000 thereafter.

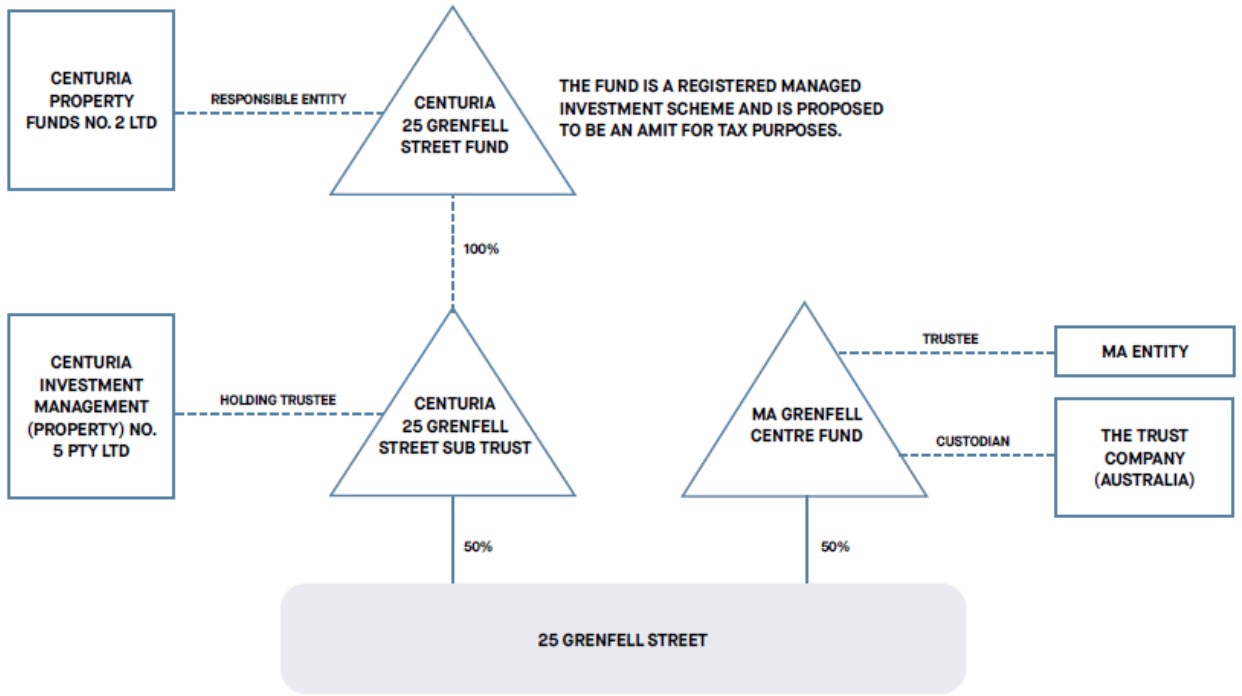
The Property, locally known as "the Black Stump" is a 26 storey A-Grade office building located in the Adelaide CBD. Constructed in 1975, the building is a historic CBD asset that has traditionally housed government and blue-chip tenants. The Property has been heavily refurbished over time and provides 24,911 sqm of NLA spread across 23 levels of office accommodation with ground floor retail, two external retail pods, 30 basement carparking bays and end of trip facilities. The Property is currently 88.4% occupied, with around 72% of gross income sourced by government and blue-chip tenants including the Minister for Transport and Infrastructure, Minter Ellison, Aurecon, Reserve Bank of Australia and JLL. At the commencement of the investment, the Property will have a Weighted Average Lease Expiry (WALE) of 3.9 years (by income), including rental guarantees provided by the Vendor over the vacant space.

The Property was acquired on 20 January 2022 via a tenants in common agreement between the Centuria 25 Grenfell Street Sub Trust ("the Sub Trust") and the MA Grenfell Centre Fund, with each party holding a 50% interest. To facilitate the acquisition of the Property, all of the units in the Sub Trust were initially acquired by Centuria Capital Group (ASX: CNI). The Fund is expected to use the proceeds of the Offer to acquire 100% of the units in the Sub Trust by 31 March 2022. The Fund will have a debt facility for its 50% interest, and the MA Grenfell Centre Fund will have a separate debt facility for its 50% interest. Both debt facilities are with the same financier, National Australia Bank.

The Fund intends to provide investors with monthly distributions that are underpinned by high quality tenants, while executing a strategic capital expenditure program that will improve the buildings amenities and ESG qualities to retain and attract prospective tenants. The Manager believes the significant private and public infrastructure investment occurring in Adelaide, as well as the growing demand for high quality office accommodation to reweight the Property and provide capital uplift for investors.

The Fund has an initial term of five years with the ability to extend by a further two-years subject to Ordinary Resolution, (50% votes in favour) and a further two-years where a unanimous Resolution (100% of votes cast in favour). Initial distributions are forecast to be 7.0% p.a. in FY22 (annualised), increasing to 7.10% in FY23, scaling back to 6.9% in FY24, 6.3% in FY25 and 5.8% in FY26 with average distributions of 6.5% across the initial five-year term.

Figure 1: Fund structure



Source: Centuria

Fund strategy

The Fund's goal is to provide unitholders with regular and considerably tax-deferred income distributions while undertaking a capital expenditure program that will assist in providing capital growth for the Fund.

With the Property currently sitting at 88.4% occupancy, the Co-owners intend to leverage the experience and skill set of each respective party to reposition the landmark office asset and improve the ESG credentials of the building to retain and attract prospective tenants. To do this, the Co-Owners have forecasted approximately $7.9M in capital expenditure, which will be used to install various sustainability initiatives, activate the retail plaza, and upgrade the bathrooms and lift lobbies. Following these works, the Co-owners also intends to reposition vacant space into suites, to capture tenant demand in the sub 500 sqm segment. The Manager believes that following these works, the Property will be able to provide high-quality office accommodation at a considerable discount to asking rents of new major office developments in the Adelaide CBD.

The Manager also considers the significant levels of government investment in Greater Adelaide will help to provide a material uplift to the CBD office market. Key sectors such as defence, resources, health, education, and innovation are emerging as economic drivers of South Australia, benefitting from the state's investment into infrastructure and federal government contracts. These sectors are expected to continue to contribute to new jobs and improve the desirability to live in Adelaide, which has been ranked the third most liveable city by the Economist Intelligence Unit's Global Liveability Index for 2021.

Ultimately, these investments affirm the view by the Manager that over the coming years, the Adelaide CBD will become a key office market for government and blue-chip tenants to conduct business from.

Co-owners' Agreement

- The Fund will acquire a 50% tenants in common interest in the Property, with the remaining 50% held by MA Financial Group (ASX: MAF). Established in 2009, MA Financial Group is an ASX-listed financial services firm specialising in asset management, lending, corporate advisory and equities. The key terms of the Co-owners' agreement are as follows: A Co-owners Committee has been established to review, consider, and make determinations on issues relating to the management and operation of the Property. If the Co-owners fail to reach an agreement, matters will be referred for expert determination.
- Before the Property has been owned for five years, neither of the Co-owners may dispose of their 50% interest in the Property without the prior consent of the Co-owners unless the disposal is to a related party.
- Once the Property has been held for five years, either Co-owner may sell its 50% interest, however each Owner has a first right of refusal over each other's interest.
- Each Co-owner will have a Drag and Tag right, allowing either party to participate in the sale (Tag), or compelling the remaining party to sell (Drag). Any drag right is subject to a minimum price, being the acquisition value plus capital expenditure and incentives paid during the initial ownership.

Liquidity / exit strategy

Investors should view the Fund as illiquid in nature and expect to remain invested for the initial five-year term of the Fund.

The Manager may also extend the Fund for two years subject to an Ordinary Resolution (50% of votes in favour).

The Fund may be extended beyond seven years for up to two years at a time, where a Unanimous Resolution (100% of votes cast in favour) is needed, or, where there is not a Unanimous Resolution, those who voted against the extension are provided the opportunity to exit the Fund at the prevailing Withdrawal Price. The Withdrawal Price is calculated by the net asset value of the Fund based on an independent valuation and takes into account estimated transaction costs.

Sources & Application of funds

The following table sets out the sources and application of funds under the terms of the Offer.

Figure 2: Sources and Application of Funds

	$M	% of purchase price	% of total funds
Sources of funds			
Equity subscriptions	$48.5M	58.2%	56.4%
Bank debt	$37.5M	45.0%	43.6%
Total sources of funds	**$86.0M**	**103.2%**	**100.0%**
Application of funds			
Purchase price	$83.3M	100.0%	96.9%
Acquisition costs	$0.4M	0.5%	0.5%
Debt and Fund establishment fee	$0.5M	0.7%	0.6%
Manager's fee	$1.7M	2.0%	1.9%
Working capital	$0.1M	0.1%	0.1%
Total application of funds	**$86.0M**	**103.2%**	**100.0%**

Source: Centuria, Core Property

Debt Facility & Metrics

The Fund has a debt facility for its 50% interest in the Property. The debt facility is for in a three-year term and is held by the Fund with security over the units in the underlying Property. The debt facility has a $41.7M limit and will have an initial draw down of $37.5M, leaving the remaining $4.2M for future capital expenditure. The all-in interest cost is estimated at 2.77% p.a. over the three years, with 80% of the initial debt hedged. As the initial term of the Fund is five years, the Manager will need to refinance the facility prior to its expiration. The debt facility is with National Australia Bank, which also has a debt facility with the Co-owner, MA Financial.

- The initial Loan to Valuation Ratio (LVR) is expected to be 45%, against an LVR covenant of 57.5%. Core Property calculates that the value of the Property must fall by 21.7% for the LVR covenant to be breached.
- The initial Interest Coverage ratio (ICR) is 4.9x against an ICR covenant of 2.5x. Core Property calculates the net operating income must fall by 48.4% for this covenant to be breached.

To facilitate the acquisition of the Property, Centuria Capital Group (ASX: CNI) also provided a loan for the deposit for the Fund's 50% interest in the Property. The loan was for the $4.2M deposit, charged at a rate of 10% p.a. from 26 October 2021 to 20 January 2022 with a total interest amount of $0.1M.

Figure 3: Indicative Debt Metrics

Details	Metric
Bank	National Australia Bank
Security	First ranking mortgage over assets in the Holding Trust, which includes units in the Fund which owns the Property and a general security deed over the assets in the Fund.
Debt Facility drawn / Limit	$37.5M / $41.7M
Loan Period	3 Years from settlement
% Hedged / Fixed	80% Hedged for initial three years
Estimated Average total cost of debt	2.77% (over 3 years)
Initial LVR / Peak LVR / LVR Covenant	45.0% / 50.8% / 57.5%
Initial interest covered ratio / Lowest ICR /ICR covenant	4.9x / 3.6x / 2.5x
Amount by which valuation will have to fall to breach LVR covenant	21.7%
Decrease in rent income to breach ICR covenant	48.4%

Source: Core Property, Centuria.

Fees Charged by the Fund

Overall, Core Property considers the fees charged to be at the low-end of what has been seen in the market (see All-in fee analysis below). Core Property notes that the Performance Fee on the Fund is calculated at 20% of the Fund's performance above an IRR of 8.0% p.a., which is considered to be reflective of the current market environment for this type of Fund.

Figure 4: Summary of Fees charged by the Fund

Fee Type	Fee Charged	Core Property Comment
Entry Fee:	Nil	
Exit Fee:	Nil	
Acquisition Fee:	2.0% of purchase price multiplied by the Fund's proportionate interest in the Property (50%).	Core Property considers the Fee to be at the high end of the industry average of 1.0% - 2.0%.
Disposal Fee:	1.0% of the sale price.	The Disposal Fee covers any external agency selling costs and is at the low end of the industry average of 1.0% - 2.0%.
Fees & Expenses – Management Fee, Custody Fees, Expenses:	- Management Fee of 0.80% p.a. of GAV. - Custodian Fee: The greater of 0.015% p.a. of GAV or $15,000 p.a. (with annual CPI increases) - 0.32% p.a. (est.) of Gross Assets for Expenses.	Core Property considers the Management Fee to be at the low end of what we have typically seen in the industry (0.7% - 1.1% p.a. of GAV). Other Fees appear appropriate.
Performance Fee:	20% of the Fund's outperformance over an IRR of 8.0%.	Core Property considers the IRR threshold of 8% to be appropriate for Fund.

Source: Centuria, Core Property

All-in fee analysis

Core Property has analysed the fees that accrue to the RE over the term of the Fund as a percentage of all cash flow generated after deducting interest costs but before management fees and performance fees. The calculations assume that any debt arrangement fee and disposal fee is paid to third parties and not retained by the Manager.

Core Property estimates the Manager is entitled to 6.5% of the total cash flow. Core Property considers the fees paid to the Manager to be low when compared to similar products, which are typically around 7% - 9%. In terms of fees paid to the Manager, Core Property estimates that 36.0% of the estimate fee is paid upfront and the remainder relates to ongoing management fees. Core Property stresses that these estimates of how much investors will receive are not guaranteed amounts. For further details, please refer to the *Financial Analysis* section.

Figure 5: Fees in Perspective – based on five-year term

Core Property estimates that for every $1.00 of equity invested the Fund can return:	Amount per $1.00 unit
Principal repayment to investors:	$1.00
Income and capital gains to investors:	$0.38
Total cash to investors:	**$1.38**
Acquisition fee:	$0.03
Base management fee:	$0.06
Disposal fee:	$0.00
Debt Arrangement fee:	$0.00
Fees for the RE (excluding disposal/admin):	**$0.10**
Total cash generated by Fund:	**$1.48**
Fees = % of total cash generated (before fees)	6.5%
Up-front fee vs total fees	36.0%

Source: Core Property

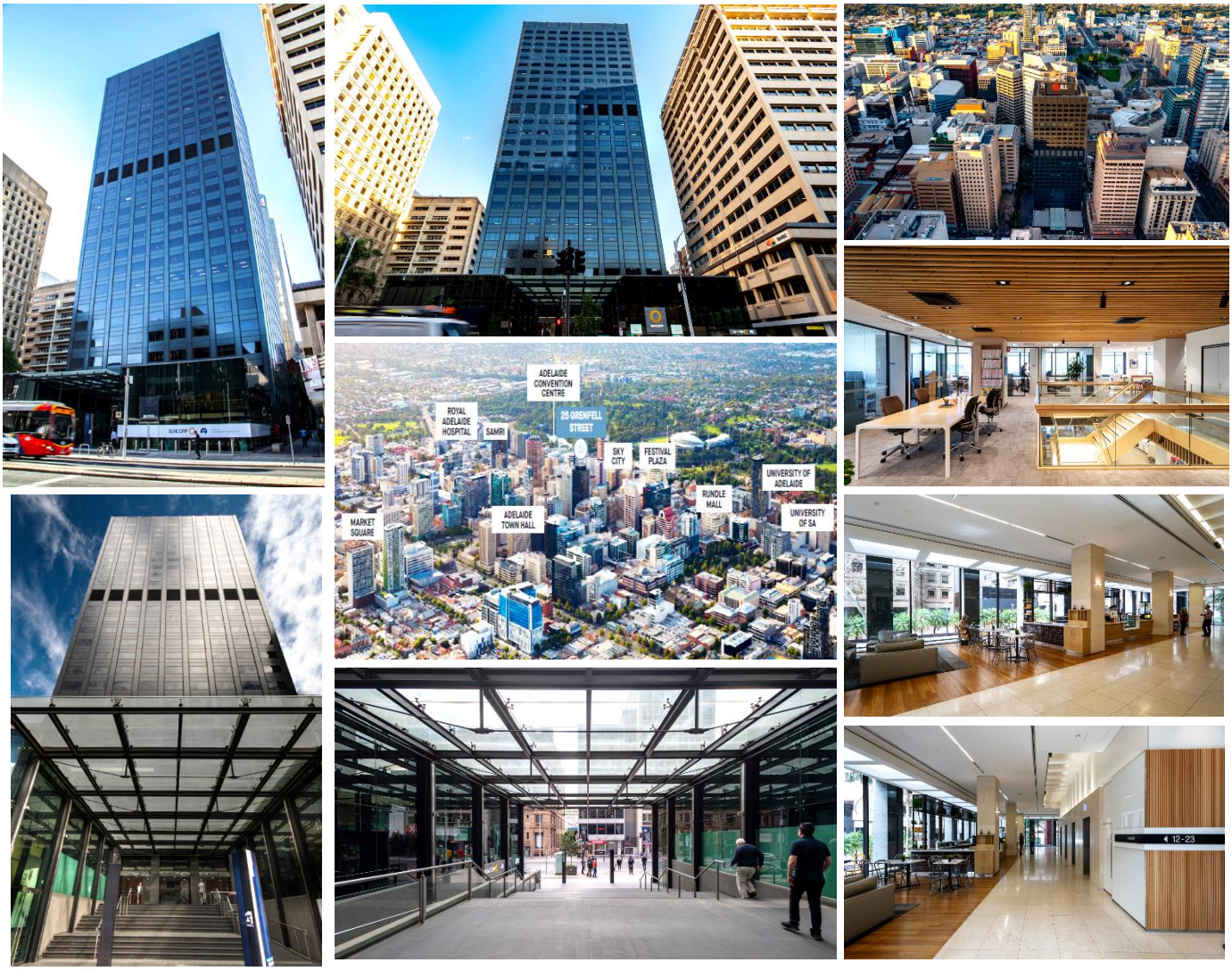
The Property

25 Grenfell Street is a 26 storey A-grade commercial office building located in the Adelaide CBD, SA. Constructed in 1975, the Property sits on a 1,968 sqm rectangular site with 23 levels of office accommodation, a ground floor retail level, 30 underground car parking bays and two external retail pods, which were introduced under the building's refurbishment in 2007. The Property provides 24,911 sqm of net lettable area (NLA), with large floor plates of over 1,000 sqm that receive high levels of natural light due to the building's setback position.

The Property has a 3.5 Star NABERS Energy rating and is 88.4% occupied, with a Weighted Average Lease Expiry (WALE) of 3.9 years (by income) as at 1 April 2022. The Property is multi-tenanted, with approximately 72% of the Property's gross income sourced by the South Australian Government and blue-chip corporate tenants. Currently, there is 2,886 sqm of vacant space within the building, which is mainly located on the lower/ mid-levels of office accommodation and in the retail plaza. The Vendor has agreed to provide rental guarantees over this space with expiry's ranging between 12 – 24 months.

The Property is located in a central position, situated on the southern side of Grenfell Street which is a major east-west thoroughfare extending from East Terrace through to the CBD. The Property benefits from its proximity to multiple modes of transport within a short distance of the Property, including multiple bus and trams stops within 300 metres of the building, and the Adelaide Train station approximately 600 metres north-west of the Property. The Property's central location also provides proximity to a range of retail and hospitality precincts such as Rundle Mall, the main CBD shopping precinct within the Adelaide CBD located approximately 300 metres away.

Figure 6: 25 Grenfell Street, Adelaide South Australia



Source: Centuria

Property Valuation

The Manager has a valuation policy to have the Property valued by an independent valuer at least once every 24 months. However, in practice Centuria typically has independent valuations conducted annually for properties in its funds.

The Property has been assessed with an independent valuation by Savills valuing the Property at $166.5M (or $83.5M for a 50% interest), in line with the acquisition price.

Figure 7: Valuation Metrics

25 Grenfell Street Adelaide, SA	
Title	100% Freehold
Acquisition date:	1 April 2022 (expected settlement)
Ownership	50%
Site Area	1,968 sqm
Net Lettable Area	24,911 sqm
Major Tenant	Minister for Transport & Infrastructure (23.4% of NLA)
Weighted Average Lease Expiry	3.9 years (by income) at 1 April 2022
Occupancy	88.4% (income - excluding rental guarantee)
Initial net passing income	$11.3M p.a.
Net Market income (fully leased)	$11.2M p.a.
Purchase price	$166.5M (100% interest) $83.3M (50% interest)
Valuation	$166.5M (100% interest) $83.3M (50% interest)
Passing initial yield	6.79%
Capitalisation rate	6.25%
Valuer	Savills
Valuer's Discount rate	6.50%
Value/sqm	$6,684 per sqm
Valuer's unleveraged 10-year IRR	6.63%

Source: Savills

Leases, tenants and income

The Property holds a diverse tenant mix with rental income underpinned by a range of government and blue-chip corporate tenants, The top four tenants of the Property represent approximately 52% of the passing income, A brief summary of the major tenants is provided below:

- **Minister for Transport & Infrastructure** (24.5% of gross income) is a South Australian government body that provides planning policy, efficient transport, and social and economic infrastructure. The tenant occupies part of level 12 and all of levels 13 – 17 on an initial eight-year lease term. Expiring in January 2024, the lease is subject to annual rental increases of 3.5% p.a. with 1x 4-year option period thereafter.
- **Minter Ellison** (9.5% of gross income) is one of Australia's largest law firms that provides legal and consulting services through a global network of affiliated and associated companies. The group currently occupies levels 8 – 10, and sub-leases space a suite on level 6 and all of level 7 to Heathgate Resources – who will begin a direct lease for this space in January 2023. The lease has an initial term of 8.3 years expiring in December 2029 subject to annual rent reviews of 3.5% p.a. except for in year two, with 3 + 3-year option periods thereafter. The tenant may hand back the space occupied on level 8 (585 sqm) any time after June 2022.
- **Aurecon** (9.0% of gross income) is a multi-national engineering firm based in over 26 countries with around 7,500 staff members. The company provides engineering, management, design, project management, consulting and advisory across a range of built forms and infrastructure works, with clients in both the private and public sectors. Aurecon holds an initial 10-year lease term expiring in April 2030, occupying part of level 3 and all of levels 4 and 5. The lease is subject to rental increases of 3.0% p.a. with 2 x 3-year option periods available upon expiry.
- **Lipman Karas** (8.4% of income) is a specialist legal firm that focuses on investigative litigation. These include complex commercial litigation, international litigation, cross-border insolvency and asset recovery. The firm occupies the top two levels of the building, with an initial lease term of 10 years expiring in April 2027, subject to annual rental increases by CPI + 1%.
- **Retail tenants** (4.3% of gross income). The Property has two retail "pods" fronting Grenfell Street which are occupied by Suncorp, George Jensen and the Bank of QLD. The ground-floor retail within the building's plaza, offers a range of take-away food outlets. Currently only 3 out of 7 of these tenancies are occupied.
- **Rental Guarantees** (10.2% of gross income). The Property is being acquired with 11 existing vacancies (four retail and seven office suites). The vendor has agreed to provide rental guarantees over these vacancies at the gross market rent, with expiries ranging between 12 and 24 months.

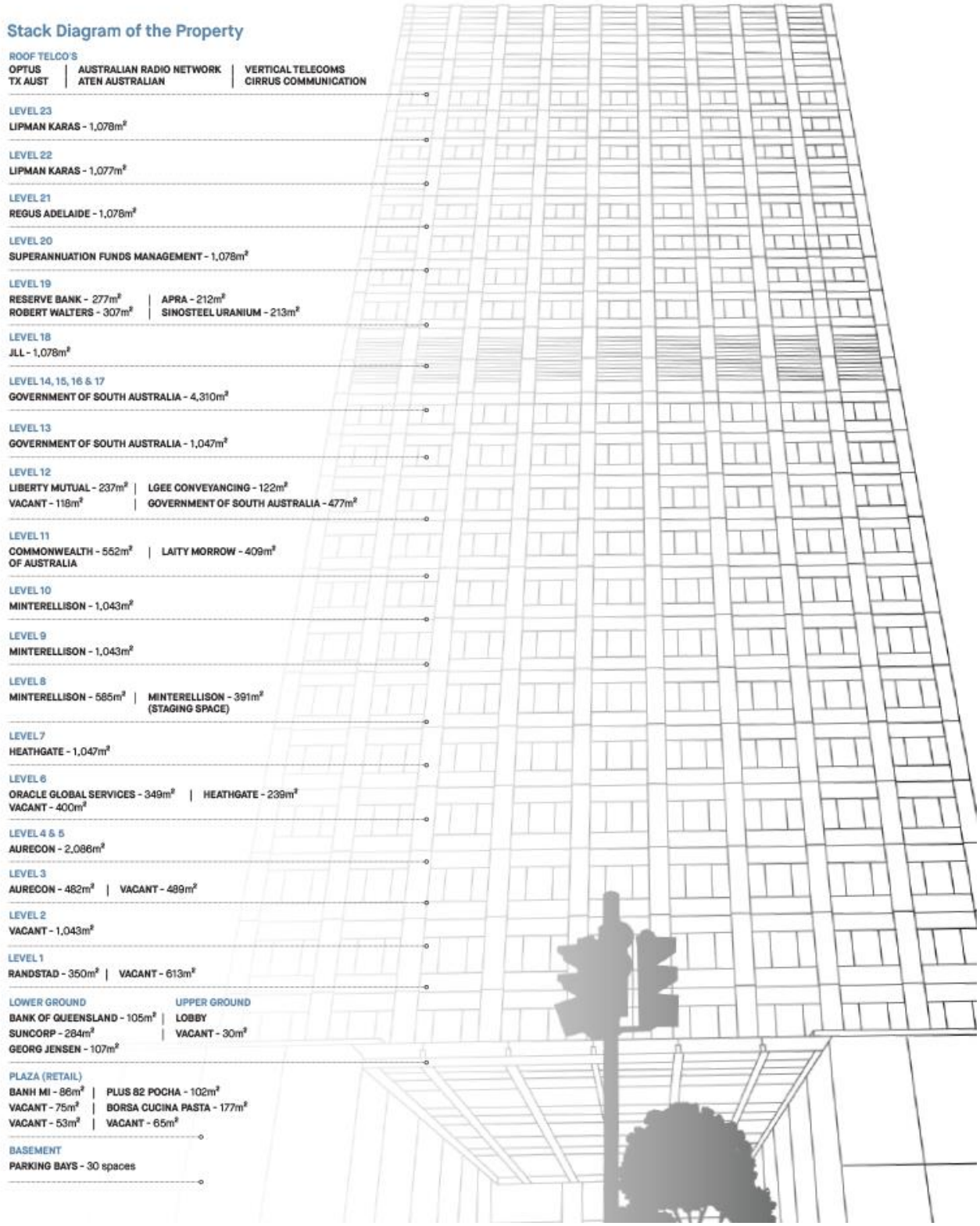
Figure 8: Tenant Metrics

Tenant	Lease Commence	Lease Expiry	Options	Gross Passing Rent per sqm	Rent Review	Area (sqm)	% of NLA	% of Gross Income
Minister for Transport & Infrastructure (PIRSA)	Feb 2016	Jan 2024	1 x 4 yrs	$608	3.5% p. a	5,834	23.4%	24.5%
Minter Ellison	Sep 2021	Dec 2029	3 + 3 yrs	$520	3.5% p.a.[2]	2,672	10.7%	9.5%
Aurecon	May 2020	April 2030	2 x 3 yrs	$515	3.0% p.a.	2,568	10.3%	9.1%
Lipman Karas	Dec 2017	Dec 2027	1 x 5 yrs	$571	CPI + 1.0% p.a.	2,155	8.6%	8.4%
Other office tenants	May 2015-Sep 2021	May 2024 - Oct 2028	Various	$515 - $614	3.0% - 3.75% p.a.	6,652	30.3%	31.3%
Retail		Dec 2022 – Jun 2028	Various	$482 - $932	0 – 3.5% p. a	861	3.5%	4.3%
Rental Guarantee		Mar 23 – Mar 24	NA	NA	NA	2,886	11.6%	10.2%
Other								3.0%
Total / Average				**$566**	**3.0%**	**24,911**	**100%**	**100%**

Source: Centuria, Savills. Note 1: Tenant has the right to hand back Level 8 (585 sqm in July 2022). Independent Valuer & Manager have assumed the tenant will exercise this option. Note 2: No rental increase in year two.

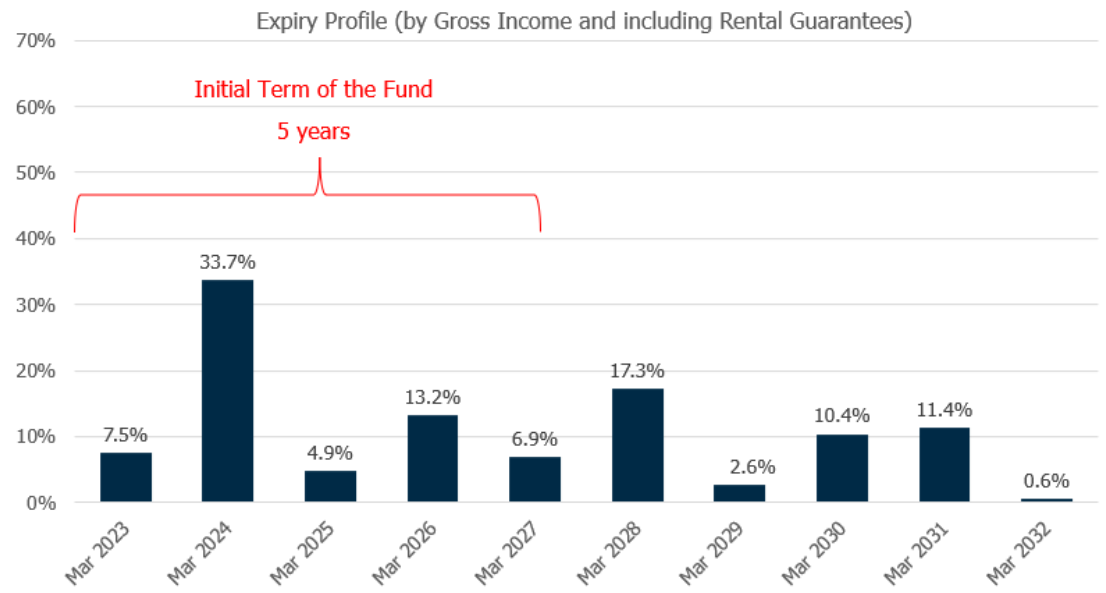
The Property has a moderate level of income expiring during the initial term of the Fund, with majority falling due in FY24 (38.2%). The forecasted income expiry during FY24 is predominately made up of the expiry of the Minister for Transport & Infrastructure, (24.5% of income) and rental guarantees (10.2% of income).

Figure 9: Tenant Stack Diagram



Source: Centuria

Figure 10: Property lease expiry (by gross income)



Source: Core Property

Market Sales Evidence

The table below shows the comparable sales transactions for similar Adelaide CBD office assets as provided by the Independent Valuer. Based on the comparable transactions, the acquisition price of $6,684 per sqm is around the middle of the market range of $3,385 - $8,687 per sqm.

Figure 11: Recent transaction evidence

Property	Sale Date	Sale Price	NLA (sqm)	WALE	Initial Yield (%)	Price per sqm	Equivalent Yield (%)
100 King William Street	Sep 21	$71.5M	18,643	1.4 yrs	8.61%	$3,835	6.79%
75 Hindmarsh Square	Oct 20	$40.5M	4,662	3.9 yrs	6.20%	$8,687	6.05%
22 King William Street	Oct 20	$47.0M	9,604	2.7 yrs	6.86%	$4,811	7.05%
50 Flinders Street	Aug 20	$174.7M	21,745	5.3 yrs	6.68%	$8,032	5.52%
151 Pirie Street	Dec 19	$92.5M	12,529	3.4 yrs	4.96%	$7,383	5.85%
100 Waymouth Street	Dec 19	$85.0M	12, 194	4.6 yrs	4.82%	$6,971	6.22%
Range:	**Dec 19 – Sep 21**	**$40.5M - $174.7M**	**4,662 – 21,745**	**1.4 yrs – 5.3 yrs**	**4.82% - 8.61%**	**$3,835 - $8,687**	**5.52% – 7.05%**
25 Grenfell Street (100% interest)	**Apr 21 (expected)**	**$166.5M**	**24,911**	**3.9 yrs**	**6.79%**	**$6,684**	**6.19%**

Source: Savills

Market Rental Evidence

The following table is a summary of comparable office and retail lease deals as provided by the Independent Valuer. Overall, Core Property notes:

- On average, the office tenants of the Property pay a gross rental of $558 per sqm, towards the top end of the comparable range of between $485 - $575 per sqm but only $9 per sqm above what the valuer considers market for the property at $549 per sqm.
- On average, the retail tenants of the Property pay a gross rental of $732 per sqm, towards the top end of comparable leases.

Figure 12: Recent comparable leasing deals

Property Address	Commence Date	Term	Area sqm	Gross Rent per/sqm	Incentives
80 Flinders Street (part level 7)	HOA	5 yrs	2,211	$575	23.0%
80 Flinders Street (part level 7)	HOA	5 yrs	855	$565	37.5%
30 Pirie Street (part level 22)	HOA	3 yrs	471	$515	10%
80 Flinders Street (level 6)	Nov 21	5 yrs	1,078	$560	37.5%
25 Grenfell Street (part level 8, levels 9 & 10)	Sep 21	8.3 yrs	2,671	$520	40%
25 Grenfell Street (part level 19)	Feb 21	5 yrs	213	$550	40%
30 Pirie Street (level 23)	Nov 19	5 yrs	450	$495	35%
100 King William Street (levels 12 & 13)	Nov 19	5 yrs	1,993	$485	NA
55 Currie Street (part level 7)	Jun 19	7 yrs	1,288	$520	37%
Range:	**Jun 19 – current**	**3 – 8.3 yrs**	**213 – 2,211**	**$485 - $575**	**10% - 40%**
25 Grenfell Street (office)			**24,911**	**$558 (average)**	
Retail Market Comparable Range	**Jul 18 – May 21**	**5 – 15 yrs**	**83 – 630**	**$494 - $843**	
25 Grenfell Street (Retail)			**86 – 284**	**$732 (average)**	

Source: Savills

Adelaide CBD Office market

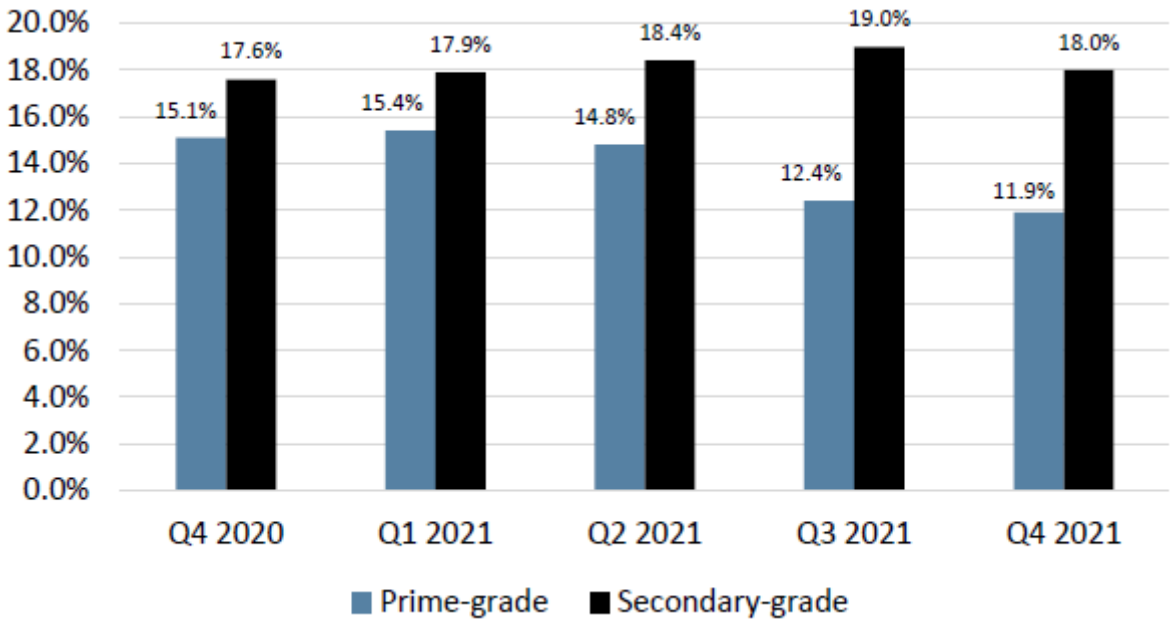
The office market in the Adelaide CBD has proven rather resilient over the course of the pandemic, with total vacancy levels decreasing from 16.0% to 15.7% at June 2021, lower than levels recorded in 2017. The result is a testament to the South Australian government's handling of the pandemic, which saw the state less disrupted by Covid-19 outbreaks.

Vacancy levels within the Adelaide CBD office market are expected to contract in the short term as high levels of demand continues into 2022. The demand for space is mixed, with tenants transitioning to smaller tenancies within new generation prime developments which offer more efficient floorplates and fit-outs. However, majors' tenants are still seeking large proportions of NLA, as inquiries between 2,000 – 6,000 sqm of lettable area remain active.

In the long term however, future office supply is expected to increase with two office developments currently under construction and a further four mooted developments yet to begin. The two properties that are currently being developed include Charter Hall's 40,000 sqm office tower with 3,600 sqm of ground floor retail located at 60 King William Street. The property is substantially pre-leased to Services Australia (71.3% of NLA) and Telstra (15% of NLA) and is expected to be completed by mid-2023. The other property currently being constructed is a 30,000 sqm office tower at 83 Pirie Street, being developed by Cbus Property. The property is 58% preleased to the Minister for Transport and Infrastructure (SA) and is expected to be completed by late 2022. Both buildings are expected to have very high ESG metrics with NABERS Energy ratings over 5 stars.

In the six months leading to August 2021, net absorption in the Adelaide CBD recorded a positive 3,026 sqm, a solid turnaround from the negative net absorption of 9,271 sqm in the prior 6 months. This turnaround was driven by the positive net absorption of prime CBD office space, as tenants continue to follow the flight to quality trend. This growing trend translated to the effective rents of the Adelaide CBD market, with prime stock gross effective rents slightly increasing to $380 per sqm (from $379 per sqm) off the back of a minor reduction in average incentive levels (31.3%). Gross effective rents for secondary stock however declined to $252 per sqm (from $259 per sqm), as average incentives increased to 36.0%, up 2.7% on an annual basis.

Figure 13: Adelaide CBD Office Vacancy Rates by Grade



Source: JLL

Investment in South Australia

The South Australia's government's investment in infrastructure and securing federal government defence contracts has resulted in the education, defence, healthcare, and resources sectors becoming key players to the SA and Australian economy. A summary of the factors expected to benefit the South Australian economy from the government investments include:

Defence: The Osborne naval shipyard will be a key driver in the economic growth of South Australia. The recently announced AUKUS alliance to develop nuclear powered submarines is most likely to be constructed here, as well as Australia's new ~$45.0B Hunter class frigates, which is forecasted to create 2,500 new jobs in Adelaide.

Bio-Med: The $3.6B medical precinct in Adelaide's North Terrace is the largest health cluster in the southern hemisphere. The cluster comprises the new $2.4B Royal Adelaide Hospital, the South Australian Health and Medical Research Institute (SAHMRI 1), the University of Adelaide's new Health and Medical Sciences building and The University of South Australia's health innovation building. The precinct will also include the SAHMRI 2 which is under construction, as well as the new Women's and Children's Hospital expected to be completed in 2025/2026.

Education/ Innovation: Adelaide has become an attractive choice of study for international students, with the state governments initiative 'Study Adelaide' attracting over 35,000 students to Adelaide. Of the 102,000 tertiary students in South Australia, 70,000 were studying in the CBD's universities. The Lot 14 innovation and Entrepreneur Precinct in North Terrace is home to the Australian Space Agency and is expected to house 6,000 workers once complete.

Resources: South Australia is a key resource provider of Australia. The Olympic Dam copper, uranium, gold, and silver deposit is one of the world's largest known accumulation of metals. The state is home to two of the top six ASX listed energy companies and holds approximately 68% of Australia's economic copper.

The quality of life and limited impact of Covid-19 has increased the interstate migration to Adelaide, which is at its highest level in 30 years according to ABS data. According to the Economist Intelligence Unit's Global Liveability Index for 2021, Adelaide is the world's third most liveable city for 2021 and has the lowest residential property prices in Australia's mainland capital cities.

Capex

The Co-owners have forecasted approximately $7.9M of capex over the initial term of the Fund, which includes base building items, upgrades to bathrooms and lift lobbies, activation of retail plaza and various sustainability initiatives. The capex will be split 50:50 between the Co-owners, with the Manager forecasting approximately $3.7M over the initial term of the Fund. It is intended the capex will be funded by debt and is not expected to impact the LVR materially.

Financial Analysis

Core Property has reviewed the financial forecasts by the Manager. The key observations are:

- The forecast assumes the Fund acquires a 50% interest in the Property on 1 April 2022.
- Forecast assumes an all in cost of debt of 2.77% p.a. for the first three years (based on an initial 80% hedged), increasing to 3.68% in years four and five.
- The Manager is forecasting initial distributions of 7.0% p.a. (annualised) for FY22, increasing to 7.1% p.a. in FY23.
- Based on the Manager's assumptions for leasing and an increase in interest rates over the initial term of the Fund, Core Property estimates the forecast distributions for FY24 – FY27 to reduce to 6.9%, 6.3% and 5.8%. Average distributions over the initial five-year term are estimated at 6.5%. Core Property estimates the rental income of the Property to increase over the five-year term, however this is expected to be largely offset by higher interest costs and rental abatements.
- Core Property notes the Manager intends to pay a portion of distributions from Working Capital, however this is being funded by payments made by the vendor:
  - In FY22 the Manager intends to fund $0.3M of distributions from Working Capital. The amount is funded by $0.4M of rental abatements/rental guarantees which are paid by the vendor. The balance of $0.1M is retained by the Fund as cash.
  - In FY23 the Manager intends to fund $1.4M of distributions from Working Capital. The amount is funded by $1.6M of rental abatements/rental guarantees which are paid by the vendor. The balance of $0.2M is retained by the Fund as cash.

A summary of the Manager's forecasts to FY23 from the PDS is presented below.

Figure 14: Profit & Loss Forecast & Balance Sheet

Profit & Loss - Forecast $M	FY22 3 months (1 Apr 2021 – 30 June 2022)	FY23 12 months To 30 June 2023
Holding Trust		
Gross Property Income	1.6	6.0
Property Expenses	-0.4	-1.5
Net Operating Income	**1.2**	**4.5**
Interest Costs	-0.3	-1.1
Interest on Centuria Capital Funding	-0.1	-
Amortised Borrowing Costs (net)	0.0	0.0
Less: Straight-lining of rental income	-0.2	-0.5
Distributable Funds	**0.7**	**2.9**
Net Distributions received by the Fund	**0.7**	**2.9**
Centuria 25 Grenfell Street Fund		
Distribution Income	**0.7**	**2.9**
Fund Expenses	-0.2	-0.8
Net Income	**0.4**	**2.1**
Add: Funds Distributed from Working Capital	0.3[1]	1.4[2]
Net Distributions to Investors	**0.8**	**3.4**
Net Distributions Received by Investors	**0.8**	**3.4**
Distribution Per Unit	**1.7 cpu**	**7.1 cpu**
Annualised Distribution Yield %	**7.0% p.a.**	**7.1% p.a.**

Note 1: Consists of $0.4M paid by the vendor via rental abatements and rental guarantees. The Fund will pay $0.3M as a distribution and retain $0.1M in cash. Note 2: Consists of $1.6M paid by the vendor via rental abatements and rental guarantees. The Fund will pay $1.4M as a distribution and retain $0.2M in cash. Source Centuria

Balance Sheet – $M – Holding Trust	On settlement (est 1 Apr 2022)
Property	83.3
Lee: Adjustment for outstanding rental abatements and rental guarantees	-4.5
Cash, receivables and prepayments	5.1
Total Assets	**83.9**
Net Borrowings (Total Borrowing less Capitalised Borrowing Costs)	37.1
Net Assets	**46.8**
Centuria 25 Grenfell Street Fund	
Units in Holding Trust	46.8
Cash	0.1
Total Assets	**46.9**
Total Liabilities	**0.0**
Net Assets (Total Assets – Total Liabilities)	**46.9**
Units on Issue	48.5
Debt to Assets Ratio	44.6%
Net Assets per Unit	**$0.97**

Source: Centuria, Core Property

Initial NTA

The starting NTA is an important consideration. It should be assessed in the context of statutory costs and fees paid to the Manager, which dilute investors' return over the term of the Fund. In this case, the starting NTA is $0.97 per unit, with most of the dilution coming from acquisition costs. Core Property notes the favourable starting NTA is attributable to lower stamp duty costs in South Australia.

The Manager reports the initial NTA of the Fund at $0.97 per unit, which includes adjustments for capitalised interest costs as well as the present value of rental abatements and rental guarantees.

Figure 15: Initial NTA

Amount per unit	$ per unit
Issue Price	$1.000
Less:	
Stamp Duty/Acquisition Costs	-$0.01
Acquisition Fee	-$0.03
Debt & Fund Establishment costs	-$0.01
NTA per unit (excl adjustments)	**$0.95**
Adjustment for capitalised interest, PV of rental abatements & rental guarantee	$0.02
NTA per unit (incl adjustments)	**$0.97**

Source: Core Property

Expected Future Performance (IRR Sensitivity)

The three main performance drivers in a property syndicate are:

1. The property income profile (lease structure);
2. The terminal value upon the sale of the property (asset quality + market conditions); and
3. The cost of debt (depending on leverage).

Core Property has estimated the total return from the Fund based on the assumptions provided by the Manager.

Using these assumptions Core Property expects the Fund to deliver a 5-year Internal Rate of Return (IRR) in the range of 6.4% - 9.0% p.a. (7.8% p.a. midpoint). The calculation is based on the Manager's forecasts and assumes a +/- 25bps movement in the terminal capitalisation rate. The calculation assumes an average interest cost of 2.77% in the first three years, increasing to 3.87% for the next two years (based on the Manager's assumptions). Investors should note the Manager is targeting an IRR of 10.2% p.a. over the 5-year term, based on its strategy to improve the leasing profile delivering a -50bps movement in the terminal capitalisation rate to 5.75%.

Investors should be aware the sensitivities include the potential for the valuation of the assets to increase or decrease (depending on market conditions) which will result in either a capital gain or loss for investors.

Figure 16: Pre-tax, 5-year IRR (after fees) sensitivity analysis – Manager's assumptions

Terminal cap rate	Estimated IRR (Based on cost of debt 2.77% for first three years, 3.68% for next 2 years)
5.75%	10.2%
6.00%	9.0%
6.25%	**7.8%**
6.50%	6.4%
6.75%	5.1%

Source: Core Property

Management & Corporate Governance

The Manager, Centuria Property Funds No.2 Limited ("CPFL 2") is a wholly owned subsidiary of the ASX listed-Centuria Capital Limited (ASX: CNI). Centuria, was formed in 1998 with the specific focus on the purchasing of high quality, growth oriented commercial property investments. Centuria has $20.2B of assets under management, including $19.3B of real estate assets managed on behalf of retail and wholesale investors across its listed and unlisted portfolio.

Core Property has reviewed the composition of the RE Board and senior executive team and consider it has the relevant skills and experience to operate the Fund successfully. Core Property notes the Board of the RE structure of an independent Chairman and non-executive directors provides a high level of corporate governance.

Figure 17: The Board of the Responsible Entity

Name & Role	Experience
Roger Dobson **Independent Chairman** Master of Laws Columbia University, Bachelor of Law Adelaide University	Roger was appointed Chairman of the Board in July 2020 and having previously been an independent Non-Executive Director of Centuria Property Funds No.2 Ltd and the responsible entity of Centuria Industrial REIT. Roger holds extensive knowledge in large, complex restricting, and insolvency matters in a diverse range of industries, with over a decade representing different entities. Roger heads Jones Day's Business Restructuring and Reorganisation Practice in Australia. Roger is a member of the Australian Restructuring Insolvency and Turnaround Association and INSOL International.
Peter Done **Non-Executive Director** Bachelor of Commerce (Accounting) UNSW and Fellow of Chartered Accountants Australia and New Zealand	Peter was appointed to the Board of Centuria Property Funds in 2007 and has 27 years' experience as a partner at KPMG from 1979 until retirement in 2006. During his years at KPMG, Peter was the lead audit partner for many clients, including those involved in property development, primary production and television and film production and distribution. Peter holds a Bachelor of Commerce (Accounting) from the University of New South Wales and is a fellow of Chartered Accountants Australia and New Zealand.
Jennifer Cook **Independent Non-Executive Director** Master's in Business Administration University of Southern Queensland and Graduate of Australian Institute of Company Directors	Jennifer has been an independent Non-Executive Director of Centuria Property Funds No.2 Limited since July 2021. Jennifer is Managing Director of commercial property consultancy firm, Customer 360, working with Australian businesses to develop place transformation strategies that deliver competitive advantage and growth. Her previous senior roles include AMP Capital Real Estate's Head of Customer Experience for the $10B Australia and New Zealand retail portfolio, Urban Development Institute of Australia's (UDIA Qld) Director of Brand and Innovation, Associate Director of Brand Strategy for Fortune 500 company AECOM, and General Manager of Retail for Virgin Mobile. Ms Cook is also an advisory board member of sharing economy start-up Vennu. Jennifer has an MBA from the University of Southern Queensland (USQ) and is a Graduate of the Australian Institute of Company Directors.
Natalie Collins **Independent Non-Executive Director** Bachelor of Economics (Accounting) and Member of the Australian Institute of Company Directors	Natalie has been an independent Non-Executive Director of Centuria Property Funds No.2 Limited (CPF2L) since July 2020. She also sits on the Boards of Centuria Life Limited, Guardian Friendly Society, Centuria Healthcare Asset Management Limited and is a member of Centuria Capital Group's Culture and ESG Committee. Currently, Natalie is Head of Commercial Partnerships at Woolworths Group, responsible for unlocking value between Woolworths and their largest commercial partners. Prior to this, Natalie was Head of Emerging Ventures and Co-Founder of Amatil X, the corporate venture capital arm at Coca-Cola Amatil, established to leverage the global startup ecosystem to uncover disruptive business models and new technologies to drive growth. Natalie started her career as an auditor with PwC and has since gained 20 years' experience in the global consumer packaged goods and retail industries spanning finance, corporate strategy, supply chain, marketing, and innovation. She holds a Bachelor of Economics (Accounting) from Macquarie University, is an active mentor and advisor to early-stage startup founders, and is a Graduate of the Australian Institute of Company Directors (GAICD).

Source: Centuria

Figure 18: Management Team

Name & Role	Experience
John McBain **Joint CEO** Dip.Tech (Valuations), Diploma in Urban Valuation	John joined the Centuria Capital Board (formerly Over Fifty Group) on 10 July 2006 and was appointed as Chief Executive Officer in April 2008. John has built an extensive reputation over the years within the property industry. John founded property funds manager Waltus Investments Australia Limited and Hanover Group Pty Limited a specialised property consultancy and boutique funds manager. Waltus was formed in 1995 and was one of the first dedicated property funds managers in Australia. Prior to 1990, John held senior positions in a number of property development and property investments companies in Australia, New Zealand and the United Kingdom.
Jason Huljich **Joint CEO** Bachelor of Commerce (Commercial Law)	Jason became the Centuria Group Joint CEO in June 2019 after previously leading Centuria's Real Estate and Funds Management business. Jason was also a founding director and major shareholder in boutique funds manager Century Funds Management, which was established in 1999 and acquired by Over Fifty Group in July 2006. He is an Executive Director of Centuria Capital Group. Jason has extensive experience in the commercial property sector, with specialist skills in property investment and funds management. He is also a past President of the Property Funds Association (PFA), which represents the $125 billion direct property investment body in Australia and continues to serve on their national executive. Jason holds a Bachelor of Commerce (Commercial Law) from the University of Auckland, New Zealand.
Stuart Wilton **Co-Head – Unlisted Funds/ Fund Manager** Bachelor of Business (Property), Member of Australian Property Institute	Stuart joined Centuria in 2010 and was appointed as a Fund Manager in 2017. Prior to this, Stuart worked as a Capital Markets Analyst for Potomac Realty Capital in Boston, and was involved in close to $500M worth of transactions across all sectors. Overseeing all operations of nine unlisted property funds, Stuart is responsible for the fund establishment, performance, reporting and investor relations of assets in excess of over $930M. Stuart previously held several key positions in the Centuria asset management division, most recently Portfolio Manager and was primarily responsible for the proactive and efficient management of Centuria's property portfolio across both the Centuria Office REIT, Centuria Industrial REIT and various unlisted property funds. Along with the Transactions team, Stuart was responsible for administering asset disposals and completing the due diligence process for proposed acquisitions.
Ross Lees **Head of Funds Management** Bachelor of Business (Property Economics), Master of Applied Finance	Ross is the Head of Centuria's Real Estate Funds Management business, which is responsible for both listed and unlisted property funds. This includes two ASX listed REITs as well as 22 unlisted funds. Ross was previously the Fund Manager, Centuria Industrial REIT (ASX:CIP). Ross joined Centuria in 2017 and has over 15 years of investment management experience having joined from Dexus where he held senior transactional and portfolio management roles. Prior experience includes over six years at Stockland (ASX: SGP) and four years at Logos Property Australia having established and led their asset management platform.
Andrew Essey **Head of Transactions** Bachelor of Business Admin	Andrew joined Centuria Property Funds in February 2013 as National Leasing Manager, was appointed Fund Manager in November 2015, and transitioned to the role of Head of Transactions in July 2017. As Head of Transactions, he is responsible for originating and managing the Group's property transactions and oversight of the Group's acquisitions team. Prior to joining Centuria, Andrew worked for DTZ in Sydney's North Shore Agency from 2007, most recently holding the position of Director. While at DTZ, Andrew's focus was on leasing and sales within Sydney's North Shore industrial and office park markets. Andrew holds a Bachelor of Business Administration from Radford University, Virginia, USA with a Major in Marketing and Economics.
Victor Georos **Head of Portfolio & Asset Management** BA (Land Economy), Graduate Dip. (Finance & Investment) (FINSIA)	Victor joined Centuria as Senior Portfolio Manager in April 2013 and was appointed Head of Portfolio and Asset Management in July 2015. He is responsible for overseeing portfolio and asset management of Centuria's portfolio, including the development and implementation of strategies to enhance value through active asset management and development. Victor has extensive experience in asset and investment management, development and funds management, across the office, retail and industrial sectors, with a key focus on results and the ability to build high performance teams across all sectors. Prior to joining Centuria, Victor held senior positions with GPT Group and Lend Lease, including Head of Industrial & Business Parks at GPT.
Ben Harrop **Head of Distribution** Bachelor of Economics, Graduate Diploma in Applied Finance, Diploma of Financial Planning, Postgraduate Certificate in Management, Diploma from the Australian Institute of Company Directors	Ben has spent 25 years in wealth management in various senior leadership positions. Ben brings broad market experience across the full advice and product spectrum. Prior to joining the Centuria Group, Ben worked at ANZ Wealth as Head of Strategic Accounts Management and managed the distribution and research of investment, platform, private client and insurance solutions at firms such as AMP Capital, Zurich, Bankers Trust and Macquarie Bank. Ben commenced his career working in his family insurance broking business. Ben is a Senior Associate with FINSIA (the Financial Services Institute of Australasia), and an active member of industry associations having been a judge for the AFA Rising Star of the year award.

Source: Centuria

Compliance and Governance

The Fund's compliance committee comprises of the two independent members of the board of Centuria Property Funds No.2 Limited (Roger Dobson and Peter Done)

ASIC Regulatory Guide 46 "Unlisted property schemes: Improving disclosure for retail investors" and Regulatory Guide 198 "Unlisted disclosing entities: Continuous disclosure obligations" describe ASIC's preferred benchmarks and principles.

Core Property has reviewed the Manager's reference to the benchmarks and disclosure principles recommended by RG46. The Fund is compliant with eight out of the nine benchmarks and principles. The Fund does not comply with Benchmark 6/Disclosure Principle 6 which requires the payment of distributions to be made from its cash from operations. A portion of distributions is expected to come from capital over the forecast period.

Conflicts of Interests and Related Party Transactions

Centuria maintains a written policy on related party transactions, including the assessment and approval processes to manage any conflicts of interests. The policy is in compliance with ASIC's Disclosure Principles and Benchmarks set out in RG46. The Manager has also set out a number of related party transactions that are currently expected by the Fund:

- Centuria Capital has provided an unsecured loan of $4.2M to finance the deposit paid for the Fund's 50% interest in the Property. Interest was charged at 10.0% p.a. and represents an unsecured loan for the Fund's 50% interest in the deposit. The acquisition of the Property was settled on 20 January 2022, and the total interest costs were $0.1M for the Fund

- The Co-owners may engage Centuria Property Services to provide property management, facilities management, development management and leasing services to the Property. If Centuria Property Services is appointed to provide these services, then it will be paid an amount no higher than what is currently paid to the existing provider and will be undertaken in compliance with Centuria's Conflicts of Interests Policy and in compliance with ASIC Regulatory Guide 46.

Removal of the RE

The RE can be removed and replaced with another appropriately licensed responsible entity if investors pass an extraordinary resolution to that effect at a properly convened meeting of investors. If such a resolution is successful (requiring 35% of all units on issue and 50% of all units voted to approve), the RE will be entitled to recover any deferred fees. The RE will not be eligible to receive exit fees if removed prior to the completion of the Fund. Core Property notes this is a strong feature of the Fund and is better than industry norms.

Environmental, Social and Governance

The Environmental, Social and Governance (ESG) of the Fund can be analysed by looking at the ESG credentials of the property specifically, as well as the commitments and initiatives of the Fund Manager. As a wholly owned subsidiary of Centuria Capital Group (ASX: CNI), the ESG of the Manager is reflected in the commitments and initiatives of CNI. A summary of key credentials and initiatives are provided in the table below.

Figure 19: ESG credentials and initiatives

ESG Quality	Definition / Commentary
Property Accreditation	
NABERS Energy rating	The 3.5 Star NABERS energy rating means the Property is in the range of "average" to "Good" in using the building's energy sources efficiently. This is in below what Core Property has seen in the market, typically between 4.0 – 6.0 stars.
NABERS Water rating	The Property does not have a NABERS water rating.
Manager	
Conscious of Climate Change	Centuria supports the TFCD (task force on Climate Related Financial Disclosures), has over 6,000 solar panels installed across assets within the group and has a NABERS Energy Sustainability Portfolio Index of 4.7 stars (ASX: COF).
Social initiatives	Centuria has demonstrated their commitment to socially responsible initiatives by supporting a number of volunteering and fundraising programs, becoming a member of the Diversity Council of Australia and increasing the group's exposure to asset classes that are critically important to the community – healthcare real estate and social affordable housing.

Figure 20: NABERS rating system

Source: Nabers.gov

Past Performance

Centuria Syndicate Performance

The Manager has advised that, since 1999, Centuria Capital Limited has completed 44 funds at a weighted average total return of 16.8% and an average total return of 15.3%.

Readers should note that past performance is not a reliable indicator of future performance as each fund, and its respective underlying property, has its own specific risks and attributes.

Appendix – Ratings Process

Core Property has developed a framework for rating property and property related investment product offerings in Australia. The methodology gives consideration to a number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product and underlying portfolio construction; strength and depth of management team, product structure, risk management, financial analysis, and likely outcomes.

It is important for financial planners and investors to view the recommendation and rating in the context of comparable products only and not across all products rated by Core Property.

The Ratings

Financial Advisers and investors should note that for all ratings categories, the product may not suit the risk/return profiles of all investors.

Rating	Definition
Highly Recommended	This is the highest rating provided by Core Property and is indicative of the product exceeding the requirements of our review process across a number of parameters.
Recommended	Indicates that the product has an above average grade profile across a number of Core Property's parameters and has the potential to deliver above average risk adjusted total returns.
Approved	Indicates that the product has met the aggregate requirements of Core Property's criteria. The product has an acceptable risk/return trade-off and is potentially able to generate risk-adjusted returns in line with stated investment objectives.
Speculative	Core Property believes this is a product that has a number of positive attributes; however, there are a number of risks that make investing in this product a speculative proposal. While Core Property does not rule out investing in this product, investors should be very aware of, and be comfortable with the specific risks. The product may provide unique diversification opportunities, although concerns over one or more features mean that it may not be suitable for most investors.
Not Approved	Indicates that the product has failed to meet the minimum aggregate requirements of Core Property's criteria. While the product may have some positive attributes, Trusts in this category are considered high risk.

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