

Centuria

Quarterly Fund Update
December 2020

Centuria 111 St Georges Terrace Fund

(ARSN 098 126 660)

Key Points

- 86.4% occupied with a c. 3.92-year Weighted Average Lease Expiry by income as at 31 December 2020.
- December 2020 quarter distributions remain at 28.00 cents per unit (CPU) (annualised).
- Prospective tenant interest for c.506 sqm of vacant space.

Fund Summary

Distributions for the **Centuria 111 St Georges Terrace Fund** (Fund) continue to be paid at 28.00 CPU (annualised) for the December 2020 quarter, which is in line with the forecast for the 2021 financial year. The corresponding distribution statement for the Fund can be accessed from our online investor portal at CenturiaInvestor.com.au.

The audited financial report for the half year ending 31 December 2020 is currently being prepared and is anticipated to be available in late March 2021. A Directors' valuation of the property was recently instructed for the purposes of the 31 December 2020 financial report. The updated Net Asset Backing (NAB) will be posted on CenturiaInvestor.com.au as soon as the financial report is finalised. Investors will also be advised of the new NAB in the March 2021 Quarterly Fund Update.

Market/COVID-19 Commentary

Improvement in Market Sentiment

Centuria is pleased to see positive investment sentiment during the past quarter, in particular:

- The Australian Securities Exchange (ASX) 200 Index showed a c.45% improvement between the lowest point in March 2020 and 1 December 2020.
- Domestic commercial office Real Estate Investment Trusts (REIT's) ASX trading price has trended closer to NTA (or net tangible assets). This means the discount the share market previously priced in has reduced, and confidence is improving. During the past nine months, valuations of office assets have remained resilient – with cap rates holding firm (or tightening), representing continued demand for core office buildings with secure income streams. Centuria has tracked nine office sales, totalling c.\$1.5bn, since February 2020, with an average cap of 5.22% - showing investment appetite at pre-COVID levels.

Office Occupation

Centuria believes work from home (WFH) trends will continue to dissipate as workers are increasingly returning to their workplace in most locations across Australia.



In November, the Property Council of Australia (PCA) conducted a poll that revealed more than 60% of respondents were keen to return to the office once restrictions are eased. The survey also revealed that CBD workers are returning to their offices in increasing numbers with occupancy in Adelaide and Perth at 70%, Brisbane and Canberra above 60%, while Sydney remains at 40%.

From 14 December, the NSW public health order requiring employers to allow employees to WFH was lifted. Centuria expects more workers will return to their offices within the next month or two. Given Victoria's lockdown restrictions were only recently lifted, a similar trend is anticipated to follow in Melbourne.

Centuria expects WFH arrangements will remain part of some organisations moving forward, but there are various apparent considerations which need to be addressed when reviewing this approach, including:

- Social isolation and mental health impacts.
- Inequitable workplace environments.
- Potential distractions at home.
- Additional home office costs.
- Diminished culture, manager and team engagement.
- Reduced work life and personal life separation (risk of overworking).

In addition, Centuria believes the benefits from working in the office outweigh the arguments of WFH (i.e. less commuting or better work/life balance). Several benefits of working in the office include:

- Improved execution of workstreams that require person to person contact.
- Better professional relationships with stakeholders and colleagues.
- More structured and unstructured collaboration.
- Promotion of unscheduled interactions and idea generation.
- Effective mentoring, staff on-boarding, and culture frameworks.

While the final position is yet to play out and there are arguments being mounted for WFH trends, we believe the disadvantages outweigh the advantages, particularly for employers who will ultimately drive decisions post the Pandemic. Therefore, Centuria's view remains firm - high quality, well located commercial office properties, underpinned by strong tenancy profiles, should remain an attractive investment opportunity, particularly in a low interest rate environment.

Financial Snapshot

| | |
|--|---------------------|
| Fund Commencement Date | 31 January 2002 |
| Net Asset Backing (NAB) | \$3.57 ¹ |
| Distribution Rate (cents per unit) | 28.00 ² |
| Weighted Average Lease Expiry (WALE) (years) | 3.92 ³ |
| Next Investor Vote on Term of Fund | 31 January 2022 |

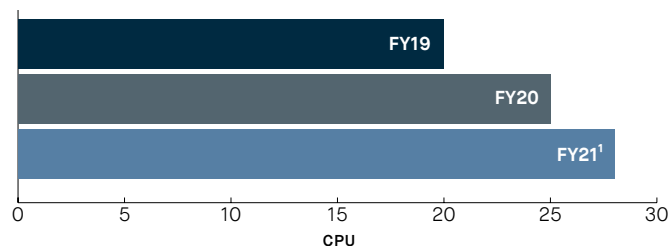
1 Based on the most recent audited accounts as at 30 June 2020. Without the Mark to Market of the Fund's interest rate swap, the NAB of units in the Fund would be \$3.60.

2 December 2020 quarter, annualised.

3 As at 31 December 2020.

Distribution Details

Annualised Distribution



1 FY21 distribution rate forecast is based on 1H2021 actual and March 2021 forecast (annualised).

The distribution rate of 28.00 cents per unit (annualised) is in line with the 2021 financial year forecast. This forecast distribution rate reflects the current performance of the Fund and assumes that all tenants will continue to satisfy their contractual obligations under their respective leases within a timely manner and that there are no significant unforeseen capital costs and no material changes to the Fund's financial obligations. However, allowances have also been made for likely changes to tenant rental payments due to the COVID-19 pandemic.

Property Details

Asset Values

| | |
|--|-------------------------------------|
| Property Address | 111 St Georges Terrace, Perth WA |
| Purchase Price (July 2002) | \$42.5m |
| Previous Valuation – Directors' (Dec 19) | \$155.0m |
| Current Valuation (Jun 20) | \$155.0m |
| Cap Rate (Jun 20) | 6.75% |
| Valuer | Colliers |

The property was subject to an independent valuation for the purposes of the 30 June 2020 financial report. The key metrics of this valuation are outlined in the table above. The result of the 31 December 2020 valuation will be provided in the March 2021 Quarterly Fund Update.

Top Five Tenants by Net Lettable Area (NLA)

| | |
|-----|--|
| 16% | WA Industrial Relations Commission Lease expires 30 Jun 2024 |
| 14% | Administrative Appeals Tribunal Lease expires 31 Dec 2026 |
| 11% | Bank of Queensland Lease expires 31 Jul 2029 |
| 9% | WA Electoral Commission Lease expires 31 Dec 2026 |
| 6% | Fair Work Commission Lease expires 30 Nov 2022 |

The property is currently 86.4% occupied with a c. 3.92-year WALE by income as at 31 December 2020.

Centuria is pleased to report a short-term lease was secured for Suite 901 (488 sqm) until 7 March 21 by WA Electoral Commission. Proposals for an additional 506 sqm were also issued.

Furthermore, the remaining vacancy including Level 8 and two other smaller suites feature speculative fit-outs, as previously communicated. Centuria is also reviewing potentially retrofitting another two tenancies, which will hopefully assist with leasing traction. Investors will be provided with further leasing progress updates in the March 2021 Quarterly Fund Update.

Property Statistics

| | Dec 19 | Jun 20 |
|--|--------|--------|
| Net Asset Backing | \$3.66 | \$3.57 |
| Property Occupancy | 86.5% | 88.8% |
| Weighted Average Lease Expiry (WALE) (years) | 4.20 | 4.08 |

Debt Summary

| | Current Period | Loan Covenants |
|----------------------------|----------------------|----------------|
| Total Loan Amount | \$90.0m ¹ | |
| Undrawn Amount | \$6.0m ¹ | |
| Loan Expiry | 30 June 2022 | |
| % of Debt Hedged | 83.3% ² | |
| Loan to Value Ratio (LVR) | 54.2% ³ | 65.0% |
| Interest Cover Ratio (ICR) | 3.71 ⁴ | 2.50 |

1 As at 30 November 2020.

2 The Fund has hedged \$70.0m until 28 June 2021 at a rate of 1.105% p.a. (in addition to the bank margin of 1.55% p.a.).

3 The LVR is based on the most recent independent valuation as defined under the debt facility agreement.

4 The stated ICR figures are based on the most recent audited accounts as at 30 June 2020.

The Fund's drawn debt has slightly increased by approximately \$600,000 to \$84.0 million, which was required to fund an outstanding incentive owed to the Administrative Appeal Tribunal for its 8.3-year lease over 467 sqm on Level 15.

Approximately 83.3% of the amount is hedged at a fixed rate of 1.105% p.a. (in addition to the bank margin of 1.55% p.a.), which leaves \$6.0 million undrawn to fund future capital expenditure and leasing-related costs.

Under the terms of the debt facility, the Fund is required to comply with certain loan covenants during the course of the year. Based on the most recent audited accounts as at 30 June 2020, the Fund remains compliant with all covenants including the Interest Cover Ratio (ICR) and Loan to Value Ratio (LVR).

RG46 Statements

The latest RG46 Statement for the Fund is available at [CenturiaInvestor.com.au](https://www.centuriainvestor.com.au). It includes the following key information:

- Gearing ratio, calculated using ASIC methodology
- Gearing covenant sensitivities
- Detail of related party transactions in the period
- Further information on the source of distributions

Centuria Investor Website

You can access all information relating to your Centuria investments at [CenturiaInvestor.com.au](https://www.centuriainvestor.com.au).

Contact Details

If you require assistance with your Centuria Investor account or have any questions regarding your investment in the Fund, please contact **Centuria Investor Services on 1800 182 257** (within Australia); **+61 2 9290 9689** (outside Australia) or by email on Property.Enquiry@CenturiaInvestor.com.au.