

# Centuria

Quarterly Fund Update  
September 2020

## Centuria 348 Edward Street Fund

(ARSN 636 584 515)

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### Key Points

- High-quality fitouts completed, available space receiving strong interest.
- Lease executed on Level 3, increasing occupancy to 93%.
- Distribution forecast increases to 6.50 cents per unit (annualised) for the December 2020 quarter.

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### Fund Summary

Distributions for the **Centuria 348 Edward Street Fund** (Fund) have been paid in line with the September 2020 quarter forecast of 5.50 cents per unit (annualised). The corresponding distribution statement for the Fund is enclosed with this report and can also be accessed from our online investor portal at [CenturiaInvestor.com.au](http://CenturiaInvestor.com.au).

The distribution level for the December 2020 quarter is forecast to increase to 6.50 cents per unit (annualised). The majority of tenant rental relief claims, relating to the COVID-19 pandemic, has reduced materially allowing the Fund to resume distributions in line with the FY21 PDS forecast. This is a great result, however the distribution rate will continue to be monitored.

We are pleased to report leases have recently been executed on the available Level 3 space and, as previously outlined, Centuria established its new Queensland office on Level 2 of the property. As a result, the occupancy of the property will increase from 91% to 93% upon the Level 3 occupation. Centuria has also completed high-quality fitouts on Level 1 and Level 4, and engagement with prospective tenants has been high on both available spaces.

The 30 June 2020 audited Financial Report is available to download at [CenturiaInvestor.com.au](http://CenturiaInvestor.com.au). The report confirms the Net Asset Backing (NAB) of units in the Fund reduced from \$0.88 (in line with the PDS) to \$0.84 (as at 30 June 2020). The change, as anticipated, was driven by a mild decrease in the property valuation. The valuation incorporated expected changes to 'soft drivers' such as growth rates, assumptions on downtime and incentives, as well as deductions relating to rent relief requirements. The reduction to the NAB was also a result of a negative movement to the point in time measurement of the Fund's fixed interest rate hedge.

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### Market/COVID-19 Commentary

There has been significant ongoing media coverage regarding COVID-19 over the past six-months. The impact on the major assets classes has progressed as Centuria anticipated. There has been continued appetite for industrial assets, underpinned by online and supply chain drivers and supported by long lease terms.



Retail shopping centres have seen a material impact to foot traffic, more so in Victoria. Rental collections have reduced in line with mandatory rent relief, prescribed by the Federal Government's Code of Conduct.

The recent June 2020 results period saw market announcements from various Australian listed office funds confirming low capital volatility in valuations and robust rental collection levels, as exemplified by the Centuria Office REIT (ASX: COF), which is Australia's largest ASX-listed pure play office REIT.

- Centuria currently manages ~\$4.0b of commercial office real estate, and our portfolio has shown resilience during the pandemic period.
- The 30 June 2020 office valuations cycle revealed an average, slight, reduction in valuations between 1%-2% in capital value.
- Centuria's average rent collections between April and June 2020 was 91% across the portfolio.

This performance reflects the stability of well-positioned office assets with strong tenant profiles.

Recent media speculation about work from home (WFH) trends may concern some Investors regarding longer term office demand. Centuria's firm view is that WFH is not a sustainable long-term replacement for office space – it's not equitable for people in rented shared accommodation, people with young families, or people living in small apartments that lack dedicated working spaces.

We expect that current circumstances will accelerate the adoption of WFH trends, with WFH becoming commonplace for a part of the workforce – but it's not a replacement to office space, and it isn't appropriate for all employees. It is anticipated that WFH, long term, will have a negative impact on staff morale, productivity levels, staff collaboration, training and development, company culture, and the day-to-day learning of younger staff.

Social distancing measures mean that there is a contrasting dynamic seeking an increase to office space needed, and development pipeline is being postponed, which means less competing stock in the short-term. More recently, we have witnessed major tenants confirm on-going appetite for office space. For example, Atlassian confirmed its commitment for its Sydney HQ office (\$1.0b project). Likewise, Amazon is expanding its office footprint in US (+ 275,000 sqm of space) and has flagged future office tower commitment in Melbourne (60,000 sqm).

Centuria's view is that the long-term fundamentals of decentralised office markets, that's those that border or are located outside of core CBD areas, remain robust.

## Financial Snapshot

Fund Commencement Date	12 December 2019
Unit Price	\$0.95 <sup>1</sup>
Net Asset Backing	\$0.84 <sup>1</sup>
Distribution Rate (cents per unit)	5.50 <sup>2</sup>
Weighted Average Lease Expiry (WALE) (years)	4.66 <sup>3</sup>
Next Investor Vote on Term of Fund	12 December 2024

1 Based on most recent audited accounts (30 June 2020). Without the Mark to Market of the Fund's interest rate swap, the NAB of units in the Fund would be \$0.85.

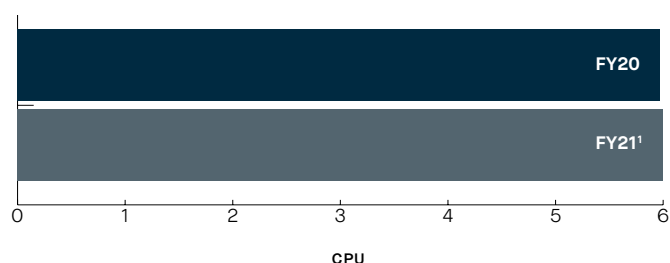
2 September 2020 quarter, annualised.

3 As at 31 August 2020, includes the financial impact of an 18-month rental guarantee from the Vendor.

As outlined in the Product Disclosure Statement, units were issued at \$1.00 per unit. Thereafter, the unit price will reflect the NAB per unit with adjustments made for the amortisation of certain fees and expenses on a straight-line basis over five years.

## Distribution Details

### Annualised Distribution



1 1H2021 Forecast (annualised).

Distributions for the December 2020 quarter are forecast to increase to 6.50 cents per unit (annualised). The December 2020 forecast makes allowances for changes to tenant rental payments relating to COVID-19 pandemic and is also reliant on agreed payment plans being adhered to by various tenants.

Due to the COVID-19 pandemic's impact, the distribution forecast for the Fund continues to be limited to the quarterly period only. The FY21 distribution rate will be reassessed and communicated in the next quarterly report. Should there be any material departures from this forecast, an out of cycle Investor update will be provided.

## Property Details

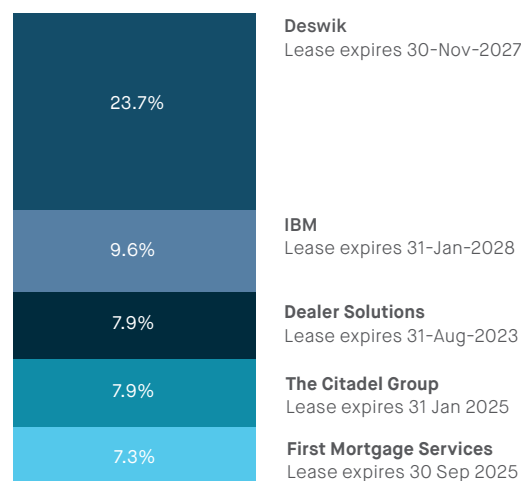
Asset Values <sup>1</sup>	
Property Address	348 Edward Street, Brisbane QLD
Purchase Price (Dec 19)	\$79.0m <sup>1</sup>
Acquisition Valuation – Independent (Dec 19)	\$79.0m <sup>1</sup>
Current Valuation (Jun 20)	\$81.5m
Cap Rate (Jun 20)	6.00%
Valuer	Director's

1 Acquisition price / valuation including incentives was \$89.0m.

The property was subject to a Directors' valuation for the purposes of the 30 June 2020 Financial Report. The key metrics of this valuation are outlined in the table above.

Though the June valuation shows an increase to the 'face' value, the NAB of units have reduced. The increase to the face value of the property is a result of incentives being paid out, which were adjusted at acquisition. These incentives were funded by raising additional debt (in line with the Fund PDS), which means there was no change to the NAB of units. However, the 'face' increase was moderately outweighed by various valuation deductions, resulting in a mild reduction to the property's value / NAB of units.

## Top Five Tenants by Net Lettable Area (NLA)



The Weighted Average Lease Expiry (WALE) by income is approximately 4.66 years as at 31 August 2020 and includes the financial impact of an 18-month rental guarantee from the vendor.

## Property Statistics

	Initial <sup>1</sup>	Dec 19	Jun 20
Net Asset Backing	\$0.88	\$0.88	\$0.84
Property Occupancy Rate	88%	88%	91%
Weighted Average Lease Expiry (WALE) (years) <sup>2</sup>	5.1	5.07	4.79

1 Based on the Product Disclosure Statement dated 31 October 2019.

2 Includes the financial impact of an 18-month rental guarantee from the vendor.

## Debt Summary

	Current Period	Loan Covenants
Total Facility Limit	\$46.7m <sup>1</sup>	
Undrawn Amount	\$13.0m <sup>1</sup>	
Loan Expiry	1 Dec 2024	
% of Debt Hedged	96.0% <sup>2</sup>	
Loan to Value Ratio (LVR)	42.70% <sup>3</sup>	60.0%
Interest Cover Ratio (ICR)	4.32 <sup>4</sup>	2.0

1 As at 31 August 2020.

2 Fund's drawn debt is hedged until 12 December 2022.

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 (30 June 2020).

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## RG46 Statements

The latest RG46 Statement for the Fund is available at [CenturiaInvestor.com.au](http://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

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## Centuria Investor Website

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

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## 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](mailto:Property.Enquiry@CenturiaInvestor.com.au).