Centuria

Quarterly Fund Update
December 2020

Centuria 8 Central Avenue Fund No. 2

(ARSN 605 264 211)

Key Points

- Fund Term successfully extended for a further 3 years.
- Distribution rate forecast to increase to 9.75 cpu (annualised).
- The property is 96.5% occupied with a weighted average lease expiry of approximately 7.23 years.
- The Fund's debt facility extension has been approved.

Fund Summary

Distributions for the **Centuria 8 Central Avenue Fund No. 2** (Fund) were paid in line with the December 2020 quarter forecast of 8.00 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**.

As outlined in recent correspondence, at the recent General Meeting of the Fund, Centuria received strong Investor support in favour of the resolutions to extend the Fund Term. We are pleased to report that The Fund term has successfully been extended by three years to 1 January 2024. Investors who requested to exit the Fund, will be given the opportunity by way of the Responsible Entity of the Fund facilitating their exit in the Fund. Details will be provided to those Investors who voted against the resolution.

Centuria is also pleased to confirm the Fund's distribution rate is forecast to increase from 8.00 cpu (annualised) to 9.75 cpu (annualised) for the March 2021 quarter. The increase follows rent stabilisation from a select number of tenants who were affected by the COVID-19 pandemic.

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 property valuation 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.

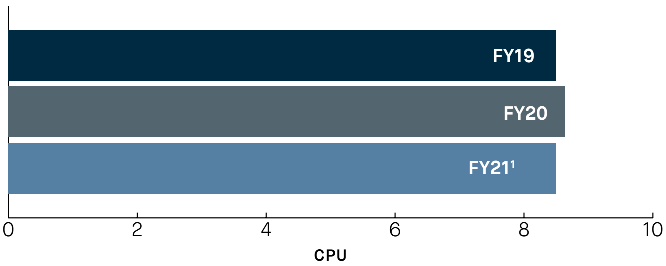
Financial Snapshot

Fund Commencement Date	1 July 2015
Net Asset Backing	$1.91[1]
Distribution Rate (cents per unit)	8.00[2]
Weighted Average Lease Expiry (WALE) (years)	7.23[3]
Next investor vote on term of Fund	1 January 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 remain at $1.91.
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).

Centuria is pleased to confirm the Fund's distribution rate is forecast to increase from 8.00 cpu (annualised) to 9.75 cpu (annualised) for the March 2021 quarter. The distribution rate assumes rent deferral repayments are received in line with rent deferral agreements.

The Fund's distribution forecast continues to be limited to the quarterly period only. The FY21 distribution rate will continue to 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.

This forecast distribution rate reflects the current performance of the Fund and assumes all tenants will satisfy their contractual obligations under their respective leases within a timely manner. It also assumes there are no significant unforeseen capital costs and no material changes to the Fund's financial obligations.

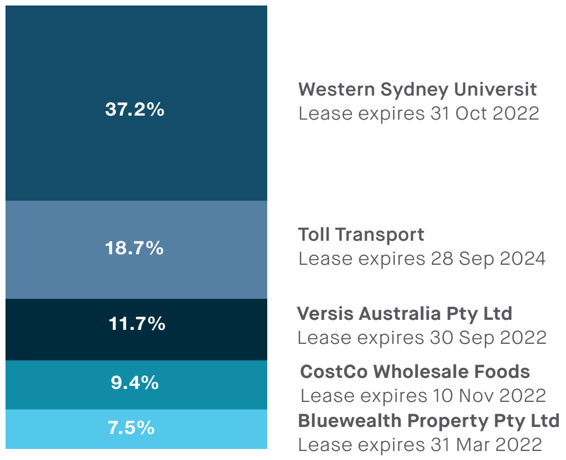
Property Details

Asset Values

Property Address	8 Central Avenue, South Eveleigh, NSW
Purchase Price (Jul 15)	$109.4m[1]
Previous Valuation – Independent (Dec 19)	$191.0m[1]
Current Valuation – Independent (Jun 20)	$189.0m[1]
Cap Rate (Jun 20)	5.38%
Valuer	Cushman & Wakefield

1 Based on 50% of the property.

Top Five Tenants by Net Lettable Area (NLA)



The property is 96.5% occupied with a Weighted Average Lease Expiry (WALE) by income of approximately 7.23 years as at 31 December 2020.

Property Statistics

	Initial[1]	Dec 19	Jun 20
Net Asset Backing	$0.90	$1.93	$1.91
Property Occupancy	100%	100%	100%
Weighted Average Lease Expiry (WALE) (years)	10.97	8.20	7.59

1 Based on the Product Disclosure Statement as at 8 April 2015.

Debt Summary

	Current Period	Loan Covenants
Total Loan Amount	$59.7m[1]	
Undrawn Amount	$5.5m[1]	
Loan Expiry	8 Jan 2021	
% of Debt Hedged	50.7%[2]	
Loan to Value Ratio (LVR)	28.7%[3]	60.0%
Interest Cover Ratio (ICR)	5.90[4]	1.50

1 As at 30 November 2020.
2 Fund's drawn debt is partially hedged until 8 January 2021.
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).

As previously outlined, the façade has potentially combustible elements and is currently being replaced. The costs associated with the required works (c.$3.5m for a 50% interest) will be sourced by increasing the current debt facility.

Centuria has agreed terms with the incumbent financier to extend the debt facility term in line with the expiry of the Fund Term. As outlined in the recent Notice of Meeting, the investor liquidity opportunity will be funded from additional debt, and a partial capital return to all remaining Investors will be considered in early 2021. Further details regarding the new debt facility will be provided in the next RG46 statement.

RG46 Statements

The latest RG46 Statement for the Fund is available at **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**.

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**.