Centuria

Quarterly Fund Update
September 2020

Centuria 80 Flinders Street Fund

(ARSN 634 979 838)

Key Points

- As at 30 June 2020, the Net Asset Backing of the Fund is $0.90.
- Forecast distributions for FY21 confirmed at 6.60 cents per unit (annualised)
- The Adelaide CBD office vacancy rate has increased slightly from 14.0% to 14.2% over the six months to July 2020.

Fund Summary

Distributions for the **Centuria 80 Flinders Street Fund** (Fund) have increased from 6.50 cents per unit to 6.60 cents per unit (annualised) for the September 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 2020 financial year is now available to download from **CenturiaInvestor.com.au**. The report confirms that the Net Asset Backing (NAB) of units in the Fund reduced from $0.95 (as at 31 December 2019) to $0.90 (as at 30 June 2020). This reduction, as anticipated, is predominately due to a decrease in the property's valuation over this period, which was caused by changes in 'soft leasing drivers' such as growth rates, assumptions on downtime and incentives, as well as deductions required to be made for rent relief provided to tenants. Furthermore, it is anticipated that Insurance Australia will likely vacate part of its tenancy on level 6 (1,078 sqm or 8.6% of Fund NLA) at expiry on 18 August 2021 and this was also reflected within the assessment. In addition to the valuation movement, the change in the Mark to Market value of the Fund's derivatives instruments in the six months to June 2020 resulted in a further $0.01 being deducted off the NAB.

Market/COVID-19 Commentary

There has been significant media coverage regarding COVID since the pandemic was announced almost six months ago. The impact to the major assets classes has progressed as anticipated, with continued appetite for industrial assets driven by online and supply chain drivers and supported by long lease terms. Retail shopping centers have seen a material impact to foot traffic, more so in Victoria, and rental collections have reduced in line with mandatory rent relief governed by the Code of Conduct.

The recent June 2020 results period saw market announcements from various Australian listed office REITs confirming low capital volatility in office valuations and robust rental collection levels. This was also reflected by the Centuria Office REIT, being Australia's largest pure play office REIT.

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

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

Recent media attention toward work from home (WFH) trends may leave some Investors with concerns around 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 share houses, people with young families, or people living in small apartments. 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, company culture, and the day to day learning of younger staff.

Social distaining 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 ongoing appetite for office space. For example, Atlassian recently confirmed their commitment for their 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 outlook for office remains robust.

Financial Snapshot

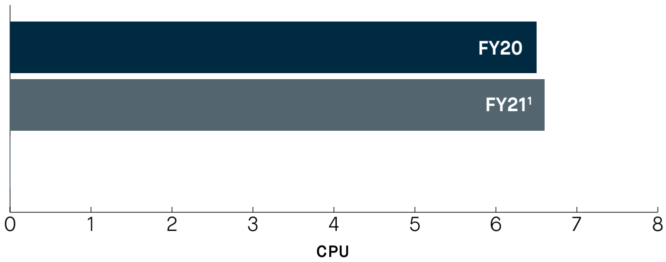
Fund Commencement Date	30 September 2019
Unit Price	$0.95[1]
Net Asset Backing (NAB)	$0.90[2]
Distribution Rate (cents per unit)	6.60[3]
Weighted Average Lease Expiry (WALE) (years)	3.1[4]
Next Investor Vote on Term of Fund	30 September 2024

1 As at 30 June 2020.
2 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 $0.92.
3 September 2020 quarter, annualised.
4 As at 31 August 2020.

As outlined in the PDS, units have been 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 Forecast.

The distribution rate of 6.60 cents per unit (annualised) is in line with the 2021 financial year forecast and the anticipated returns featured within the PDS. 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

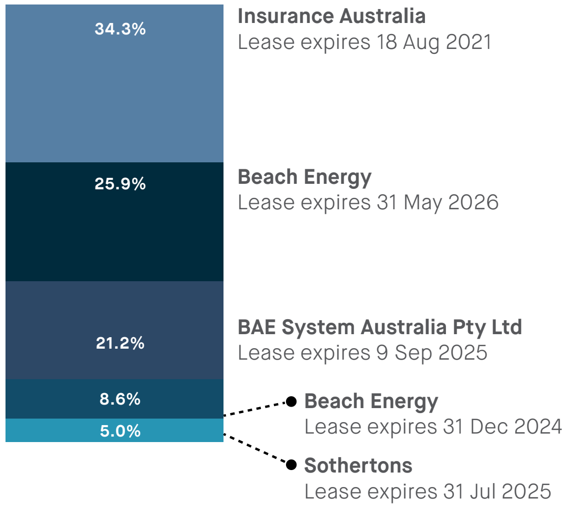
Asset Values

Property Address	80 Flinders Street, Adelaide SA
Purchase Price (Sep 19)	$123.4m[1]
Previous Valuation – Directors' (Dec 19)	$124.0m
Current Valuation (Jun 20)	$121.5m
Cap Rate (Jun 20)	5.75%
Valuer	Savills

1 Acquisition price including outstanding incentives was $127.0m.

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.

Top Five Tenants by Net Lettable Area (NLA)



The property is currently 100% occupied with a Weighted Average Lease Expiry (WALE) by income of approximately 3.1 years as at 31 August 2020.

Following discussions with Insurance Australia, we have unfortunately been advised that at lease expiry on 18 August 2021, the tenant will likely relinquish 1,078 sqm on level 6. However, at this stage, the group has expressed interest in renewing over the remaining 3,212 sqm located on level 7. Therefore, a five year proposal has been issued and we are awaiting a feedback following a future of work review being undertaken by the company's crisis response team.

In order to prepare for the impending expiry in August 2021, marketing of the level 6 space has commenced and we look forward to providing investors an update on any progress in the December Quarterly Fund Update. Please note that both Beach Energy and Sothertons have rights of first refusal over any additional space that may become available within the building. As a result, we will be in touch with these tenants and BAE Systems over the coming months to discuss any potential further requirements.

Property Statistics

	Initial[1]	Dec 19	Jun 20
Net Asset Backing	$0.95	$0.95	$0.90
Portfolio Occupancy Rate	100%	100%	100%
Weighted Average Lease Expiry (WALE) (years)	4.0	3.7	3.2

1 Based on the Product Disclosure Statement dated 14 August 2019.

Debt Summary

	Current Period	Loan Covenants
Total Facility Limit	$60.0m[1]	
Undrawn Amount	$2.85m[1]	
Loan Expiry	30 Sep 2024	
% of Debt Hedged	100.0%[2]	
Loan Value Ratio (LVR)	47.0%[3]	57.5%
Interest Cover Ratio (ICR)	5.24[4]	2.00

1 As at 31 August 2020.
2 The Fund's drawn debt is fully hedged at a rate of 0.86% p.a. (with a margin of 1.50%) until 30 September 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 as at 30 June 2020.

The Fund's drawn debt remains at $57.15 million, which is 100% hedged at a fixed rate of 0.86% (in addition to the bank margin of 1.50%) until 30 September 2022, with the ability to draw an additional $2.85 million for future leasing related costs and base building capital expenditure.

Under the terms of the debt facility, the Fund is required to comply with certain loan covenants over 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 Valuation Ratio (LVR).

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**.