

Centuria

Quarterly Fund Update
December 2020

Centuria 80 Grenfell Street Fund

(ARSN 626 187 022)

Key Points

- 100% occupied with a c.5.00-year Weighted Average Lease Expiry by income as at 31 December 2020.
- December 2020 quarter distributions remain at 7.40 cents per unit (CPU) (annualised).
- Successfully completed the Fund's debt facility extension, resulting in significant interest cost savings.

Fund Summary

Distributions for the **Centuria 80 Grenfell Street Fund** (Fund) continue to be paid at 7.40 CPU (annualised) for the December 2020 quarter, which is in line with the 2021 financial year forecast. 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. An independent property valuation was recently been instructed for the purposes of the 31 December 2020 financial report and 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	23 July 2018
Unit Price	\$1.01 ¹
Net Asset Backing (NAB)	\$0.97 ²
Distribution Rate (cents per unit)	7.40 ³
Weighted Average Lease Expiry (WALE) (years)	5.00 ⁴
Next Investor Vote on Term of Fund	23 July 2023

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 \$0.98.

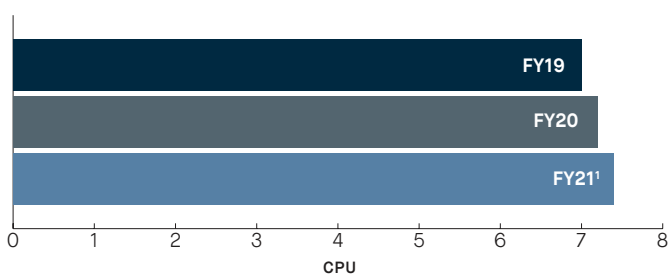
3 December 2020 quarter, annualised.

4 As at 31 December 2020.

As outlined in the PDS, 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 FY21 distribution rate forecast is based on 1H2021 actual and March 2021 forecast (annualised).

The distribution rate of 7.40 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 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.

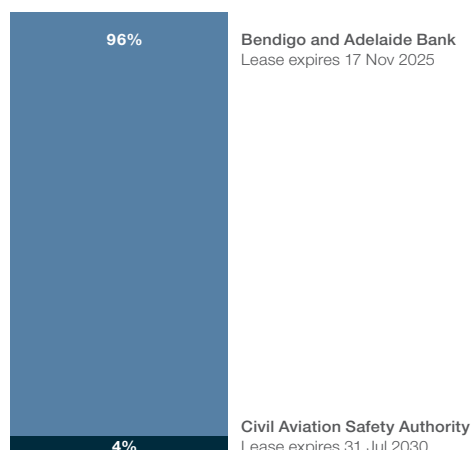
Property Details

Asset Values ¹	
Property Address	80 Grenfell Street, Adelaide SA
Purchase Price (Jul 18)	\$92.3m
Previous Valuation – Independent (Dec 19)	\$95.5m
Current Valuation (Jun 20)	\$95.0m
Cap Rate (Jun 20)	6.00%
Valuer	Directors'

1 Figures based on the Fund's 50% interest in the property.

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. The result of the 31 December 2020 valuation will be provided in the March 2021 Quarterly Fund Update.

Top Tenants by Net Lettable Area (NLA)



The property is currently 100% occupied with a c.5.00-year WALE by income as at 31 December 2020. The tenants continue to pay rent in a timely manner.

Property Statistics

	Initial ¹	Dec 19	Jun 20
Net Asset Backing	\$0.93	\$0.98	\$0.97
Property Occupancy	100% ²	100% ²	100%
Weighted Average Lease Expiry (WALE) (years)	7.30 ²	6.00	5.50

1 Based on the Product Disclosure Statement dated 4 June 2018.

2 Includes an 18-month rental guarantee over the vacant area of approximately 889 sqm on level 4, which expired on 22 January 2020.

Debt Summary

	Current Period	Loan Covenants
Total Facility Limit	\$42.2m ¹	
Undrawn Amount	\$650,000 ¹	
Loan Expiry	23 July 2021	
% of Debt Hedged	100% ²	
Loan Value Ratio (LVR)	43.5% ³	57.5%
Interest Cover Ratio (ICR)	5.56 ⁴	2.00

1 As at 30 November 2020.

2 The Fund's drawn debt is fully hedged at a rate of 0.62% p.a. (in addition to the bank margin) until 23 July 2023.

3 The LVR is based on the Fund's 50% interest and 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 \$41.55 million with an additional \$650,000 available for capital expenditure and leasing-related costs. However, Centuria is pleased to report successfully agreed terms with Westpac to extend the debt facility and restructure the swap until 23 July 2023, which coincides with the expiry of the initial Fund Term. Consequently, the Fund's 'all-in' cost of debt will reduce from 3.06% p.a. to approximately 2.32% p.a., saving approximately \$300,000 p.a. This is an exceptional result for Investors and removes any refinancing risk prior to 23 July 2023.

The restructured swap of 0.62% p.a. (1.41% p.a. previously) commenced on 23 October 2020 and the extension of the loan facility, including a five basis point increase on the margin to 1.70% p.a., is anticipated to be finalised in early 2021. A 25 basis point establishment fee will also be payable, however, all other terms remain the same as the existing loan agreement.

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 Value 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.