

# Centuria

Quarterly Fund Update  
September 2020

## Centuria 80 Grenfell Street Fund

(ARSN 626 187 022)

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### Key Points

- As at 30 June 2020, the Net Asset Backing of the Fund is \$0.97
- Forecast distributions for FY21 confirmed at 7.40 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

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### Fund Summary

Distributions for the **Centuria 80 Grenfell Street Fund** (Fund) have increased from 7.20 cents per unit to 7.40 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](http://CenturiaInvestor.com.au).

The audited financial report for the 2020 financial year is now available to download from [CenturiaInvestor.com.au](http://CenturiaInvestor.com.au). The report confirms that the Net Asset Backing (NAB) of units in the Fund reduced slightly from \$0.98 (as at 31 December 2019) to \$0.97 (as at 30 June 2020). This reduction, as anticipated, is predominately due to a small 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 any deductions required to be made for rent relief provided to tenants.

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### 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 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 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	23 July 2018
Unit Price	\$1.01 <sup>1</sup>
Net Asset Backing (NAB)	\$0.97 <sup>2</sup>
Distribution Rate (cents per unit)	7.40 <sup>3</sup>
Weighted Average Lease Expiry (WALE) (years)	5.39 <sup>4</sup>
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.

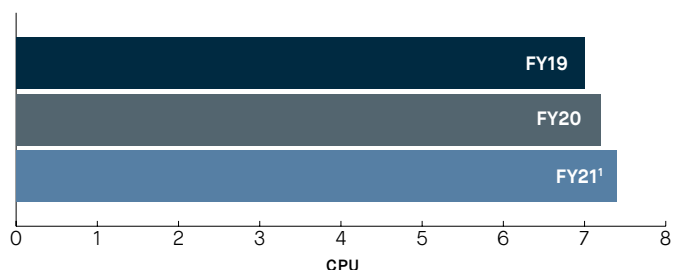
3 September 2020 quarter, annualised.

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 for the 2021 financial year is forecast to increase from 7.20 cents per unit to 7.40 cents per unit (annualised), which is in line with the initial acquisition 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

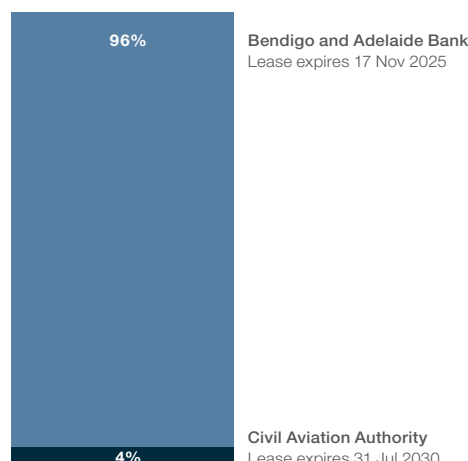
### Asset Values<sup>1</sup>

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.

## Top Tenants by Net Lettable Area (NLA)



The property is currently 100% occupied with a Weighted Average Lease Expiry (WALE) by income of approximately 5.39 years as at 31 August 2020. The tenant continues to pay its rent in a timely manner.

## Property Statistics

	Initial <sup>1</sup>	Dec 19	Jun 20
Net Asset Backing	\$0.93	\$0.98	\$0.97
Property Occupancy	100% <sup>2</sup>	100% <sup>2</sup>	100%
Weighted Average Lease Expiry (WALE) (years)	7.30 <sup>2</sup>	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 <sup>1</sup>	
Undrawn Amount	\$650,000 <sup>1</sup>	
Loan Expiry	23 July 2021	
% of Debt Hedged	100% <sup>2</sup>	
Loan Value Ratio (LVR)	43.5% <sup>3</sup>	57.5%
Interest Cover Ratio (ICR)	5.56 <sup>4</sup>	2.00

1 As at 31 August 2020.

2 The Fund's drawn debt is fully hedged at a rate of 1.41% p.a. (with a margin of 1.65%) until 23 July 2021.

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 \$42.2 million, which is 100% hedged at a fixed rate of 1.41% p.a. (in addition to the bank margin of 1.65% p.a.) until 23 July 2021 to ensure security of interest costs. The facility also provides the ability to draw an additional \$650,000 for capital expenditure and leasing-related costs.

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).

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## RG46 Statements

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