

Centuria

Quarterly Fund Update
September 2020

Centuria Geelong Office Fund

(ARSN 623 696 800)

Key Points

- The property is 98% occupied with a weighted average lease expiry of approximately 8.0 years.
- Distributions forecast remains robust at 7.35 cents per unit (annualised) for the December 2020 quarter.
- Refinancing process for the Fund's debt facility has commenced.
- Property valuation shows resilience during latest valuation cycle.

Fund Summary

Distributions for the **Centuria Geelong Office Fund** (Fund) have been paid in line with the September 2020 quarter forecast of 7.35 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. The distribution level for the December 2020 quarter is forecast to remain at 7.35 cents per unit (annualised), and makes allowances for agreed changes to tenant rental payments relating to the COVID-19 pandemic.

The Fund has entered into discussions with the incumbent debt provider regarding an extension of the loan facility beyond its current expiry in March 2021. The Fund will also seek to increase the facility limit to address forecast debt requirements over the proposed facility extension term. Discussions to date have been positive and, given the strong covenant headroom, we do not foresee any difficulty securing a facility extension.

The 30 June 2020 audited Financial Report is available to download at CenturiaInvestor.com.au. The report confirms the Net Asset Backing (NAB) of units in the Fund reduced from \$0.95 (as at 31 December 2019) to \$0.92 (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.

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 boarder or are located outside of core CBD areas, remain robust.

Financial Snapshot

Fund Commencement Date	4 Apr 2018
Unit Price	\$0.98 ¹
Net Asset Backing	\$0.92 ²
Distribution Rate (cents per unit)	7.35 ³
Weighted Average Lease Expiry (WALE) (years)	8.01 ⁴
Next investor vote on term of fund	4 Apr 2023

1 As at 30 June 2020.

2 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 \$0.93.

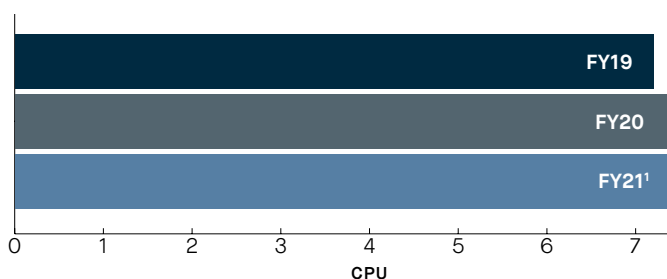
3 September 2020 quarter, annualised.

4 As at 31 August 2020.

As outlined in the Product Disclosure Statement, units were issued at \$1.00 per unit. Thereafter, the unit price reflects 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 remain at 7.35 cents per unit (annualised). The December 2020 forecast makes allowances for likely changes to tenant rental payments relating to COVID-19 pandemic. The Fund is also commencing the refinancing process for the Fund's debt facility, and as a result of current market conditions, it is difficult to forecast the future financing costs, which may impact the Fund's forecast distribution rate. For this reason, 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.

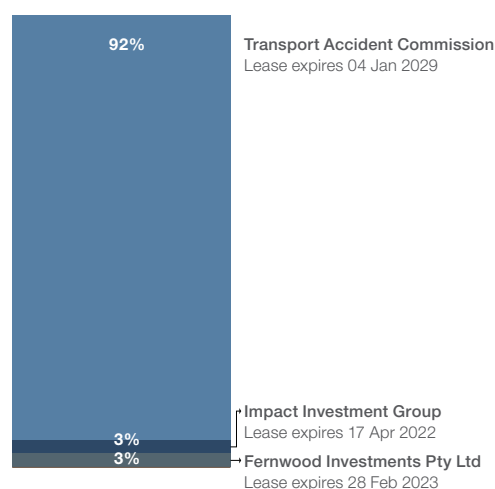
Property Details

Asset Values

Property Address	60 Brougham Street, Geelong, VIC
Purchase Price (Apr 18)	\$115.25m
Previous Valuation – Independent (APR 20)	\$121.0m
Current Valuation (Jun 20)	\$121.0m
Cap Rate (Jun 20)	6.00%
Valuer	Directors

The property was subject to a Director's valuation for the purposes of the 30 June 2020 audited financial report. The key metrics of this valuation are outlined in the table above. Please note, an out of cycle valuation was conducted in April 2020, and outlined in the June 2020 Quarterly Report.

Top Tenants by Net Lettable Area (NLA)



Leasing

The property is 98% occupied with a Weighted Average Lease Expiry (WALE) by income of approximately 8.01 years as at 31 August 2020.

Unfortunately, the pod café operator (c.14sqm area), which was previously on a month-to-month lease, has closed operations. It recently confirmed it is unlikely to reopen operations at the building. The Fund is now taking steps to appoint leasing agents and advertise this space.

Property Statistics

	Initial ¹	Dec 19	Jun 20
Net Asset Backing	\$0.89	\$0.95	\$0.92
Portfolio Occupancy Rate	100%	98%	98%
Weighted Average Lease Expiry (WALE) (years)	10.3	8.6	8.2

1 Based on the Product Disclosure Statement as at 5 February 2018.

Debt Summary

	Current Period	Loan Covenants
Total Facility Limit	\$53.3m ¹	
Undrawn Amount	\$0.755m ¹	
Loan Expiry	29 Mar 2021	
% of Debt Hedged	98.7% ²	
Loan to Value Ratio (LVR)	42.73% ³	57.5%
Interest Cover Ratio (ICR)	5.91 ⁴	2.00

1 As at 31 August 2020.

2 Fund's drawn debt fixed until 29 March 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).

Under the terms of the debt facility, the Fund is required to comply with certain loan covenants during 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](https://www.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](https://www.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.