

Centuria

Quarterly Fund Update
September 2020

Centuria SOP Fund

Key Points

- The property is 97% occupied with a weighted average lease expiry of approximately 2.49 years.
- Debt facility successfully refinanced, improving finance terms and the cost of debt.
- Distribution forecast remains at 4.00 cents per unit (annualised) for the December 2020 quarter.

Fund Summary

Distributions for the **Centuria SOP Fund** (Fund) have been paid in line with the September 2020 quarter forecast of 4.00 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

The distribution level for the December 2020 quarter is forecast to remain at 4.00 cents per unit (annualised), and makes allowances for agreed changes to tenant rental payments relating to the COVID-19 pandemic. The Fund anticipates the distribution rate will increase in the second half of the financial year following the conclusion of the legislated rent relief period.

We are pleased to report that, following a comprehensive retender process, the Fund has successfully refinanced the debt facility. The refinance resulted in better terms relating to the undrawn debt facility and reset the fixed interest rate component. Unfortunately, the improved cashflows are currently being offset by an unforecast rent relief claim by a tenant covered under the mandatory National Code of Conduct on Commercial Leases.

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 \$1.08 (as at 31 December 2019) to \$1.06 (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.

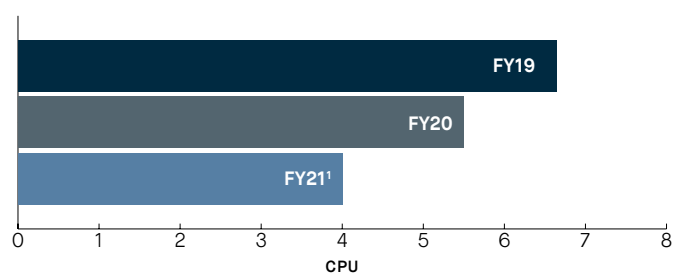
Financial Snapshot

Fund Commencement Date	11 May 2017
Net Asset Backing	\$1.06 ¹
Distribution Rate (cents per unit)	4.00 ²
Weighted Average Lease Expiry (WALE) (years)	2.49 ³
Next investor vote on term of Fund	11 May 2022

- 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 \$1.06.
- 2 September 2020 quarter, annualised.
- 3 As at 31 August 2020.

Distribution Details

Annualised Distribution



- 1 1H2021 Forecast (annualised).

Distributions for the December 2020 quarter are forecast to remain at 4.00 cents per unit (annualised). The December 2020 forecast makes allowances for likely changes to tenant rental payments relating to COVID-19 pandemic and is also reliant on agreed payment plans being adhered to by various tenants.

At the conclusion of legislated rent relief period, depending on any lease restructures, it is anticipated the distribution rate will increase. Due to the impact of the COVID-19 pandemic, the distribution forecast continues to be limited to the quarterly period only. The FY21 distribution rate will 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 continue to 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.

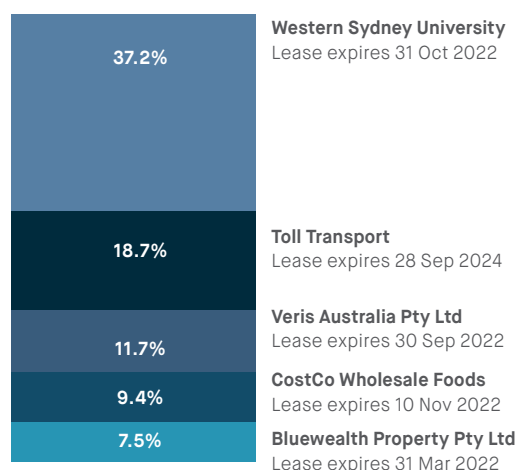
Property Details

Asset Values

Property Address	8 Australia Avenue, SOP, NSW
Purchase Price (Jun 17)	\$44.8m
Previous Valuation – Independent (Dec 19)	\$50.5m
Current Valuation – Independent (Jun 20)	\$50.0m
Cap Rate (Dec 19)	6.25%
Valuer	Knight Frank

The property was independently valued for 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 97.4% occupied with a Weighted Average Lease Expiry (WALE) by income of approximately 2.49 years as at 31 August 2020.

The Fund has received notice from an existing retailer that they will not continue to trade at the building. Centuria has taken steps to access the bank guarantee (as appropriate under the Code) and is seeking to reach a commercial agreement in respect to the outstanding lease term. This space, and the other available retail space, has received some interest from prospective tenants, however, the vacation of CBA has had a notable impact on the precinct's retail trade and may take some time to re-lease. A further update will be provided in the coming months.

Property Statistics

	Initial ¹	Dec 19	Jun 20
Net Asset Backing	\$0.90	\$1.08	\$1.06
Property Occupancy	88%	97%	97%
Weighted Average Lease Expiry (WALE) (years)	3.53	3.05	2.66

- 1 Based on the Investment Memorandum/30 June 2017 Financial Accounts.

Debt Summary

	Current Period	Loan Covenants
Total Facility Limit	\$21.5m ¹	
Undrawn Amount	\$3.2m ¹	
Loan Expiry	18 August 2025	
% of Debt Hedged	100.0% ²	
Loan Value Ratio (LVR)	36.6% ³	55.0%
Interest Cover Ratio (ICR)	5.61 ⁴	2.00

- 1 As at 31 August 2020.
- 2 Fund's drawn debt is partially hedged until August 2025.
- 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).

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.