Core Property
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Unlisted Property Trust Report

Centuria Industrial Income Fund No.2

November 2022

Industrial property fund in well-established precinct in Mackay QLD targeting 6.5%+ distributions

Centuria Industrial Income Fund No.2

Contents

About Core Property Research

Core Property Research Pty Ltd was established in July 2017 to provide market leading and insightful research on the property funds sector for its clients and investors. Our ratings and research cover sector level research, ratings and recommendations on listed and unlisted property funds, and is built upon the extensive research experience of its staff.

The Core Property team collectively, has over 50 years' experience across property, financial services and investment markets. The team has also evaluated over 500 different funds across multiple sectors and a range of investment structures over the last decade.

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Centuria Industrial Income Fund No.2

November 2022

Recommended

See the Appendix for a description of our ratings. The above rating must be viewed in the context of comparable Funds and not across all products

The Centuria Industrial Income Fund No.2 ("the Fund") is an unlisted property fund that invests in an industrial asset in Mackay QLD.

The Fund's Responsible Entity, Centuria Property Funds Limited ("the RE", or "the Manager") is seeking to raise $22.4M through the offer of 22.4M units at $1.00 per unit ("the Offer"). Funds raised will be used, in conjunction with debt, to acquire the industrial property at 69-79 Diesel Drive, Paget, Queensland ("the Property").

The Fund provides an investment exposure to a well-located industrial asset with a Core investment strategy. The property metrics include: (1) the Property is located in a well-established industrial precinct close to the Mackay Airport; (2) with the Property has a strong tenant covenant and is 100% leased to Blackwoods, a subsidiary of ASX-listed Wesfarmers (ASX: WES); (3) contracted rental increases of between 3.0% - 3.5% p.a.

The Property was purpose built for Blackwoods in 2014 and is a key contributor to its operations in Far North Queensland. Blackwoods, as tenant, has expansion rights to increase the warehouse space for a further 1,740 sqm, with a DA already in place. As such, the Manager considers the tenant to have a strong likelihood of renewing the lease or exercising the option when the lease falls due in January 2029.

The Fund has an initial term of 5 years, which would be before the lease expires in 6.1 years. We expect the Manager will manage the Property to maximise its value for the tenant and to ensure the lease term is optimised for investors. This may involve the early negotiation of the lease renewal and/or undertaking a new lease in conjunction with expanding the area for the tenant.

The Fund has terms for an initial debt facility with an initial Loan To Value Ratio (LVR) of 47.5%, providing a buffer to the bank LVR covenant of 60%. The Manager has factored in an all-in cost of debt of 5.12% p.a. for FY23 and FY24 as part of the forecasts.

The Fund will have an initial NTA of $0.86 per unit, with most of the dilution due to stamp duty and acquisition costs.

Core Property considers the Fees charged by the Fund to be within acceptable ranges.

The Manager is forecasting a 6.5% (annualised) distribution yield in FY23, increasing to 6.75% in FY24. Distributions are paid monthly.

Core Property estimates the Fund to deliver an Internal Rate of Return (IRR) of between 7.2% - 9.3% p.a. (midpoint 8.3% p.a.) based on the Manager's assumptions and assuming a +/- 25 bps movement in capitalisation rates over the initial fiver-year term (see *Expected Future Performance (IRR Sensitivity)*). The analysis includes the potential that investors may receive a capital gain or loss, based on market conditions and investor returns are dependent on the sale price of the Properties.

Core Property considers the Fund will appeal to investors seeking a core investment in a well located industrial property. Distribution income is expected to be well supported by a strong tenant covenant in a purpose-built property in an established industrial precinct in a regional location.

The investment value of the Property and for investors will be dependent on the Manager maintaining a strong tenant profile for the Property over the long term.

Capital returns are expected to be low to moderate given the passive nature of the investment strategy. However, demand for well-located industrial properties with quality tenants remains high from investors seeking exposure to the industrial property sector.

The Fund should be considered as part of a Core investment strategy. The Fund is illiquid, and investors should expect to remain invested for the minimum initial term of 5-years.

This report should be read in conjunction with the Target Market Determination provided by the Manager, as required by s994B of the Corporations Act 2001.

Fund Details

Offer Open:	14 November 2022
Offer Close:	1 December 2022[1]
Min. Investment:	$50,000[2]
Unit Entry Price:	$1.00 per unit
Initial Net Tangible Asset per unit:	$0.86 per unit
Liquidity:	Illiquid
Forecast Distributions:	6.50% p.a. (FY23) 6.75% p.a. (FY24)
Distribution Frequency:	Monthly, within 10 business days
Initial Investment Period:	5 years to December 2027

1. The Manager may shorten or extend the Offer period at any time, subject to demand.
2. The Manager may accept lower amounts at its discretion.

Fund Contact Details

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Fund – Website

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Note: This report is based on the Centuria Industrial Income Fund No.2 Product Disclosure Statement dated 14 November 2022, together with other information provided by Centuria.

Key Considerations

Management: Well-regarded fund manager with a solid track record of managing property funds, corporate governance, and maintaining and improving occupancy rates. Since 1999 Centuria has completed 44 funds delivering a weighted average total return of 16.8% p.a. and an average total return of 15.3% p.a.

Fund Strategy: The Fund primarily offers a Core investment strategy to invest in an industrial property located in an established industrial precinct in Mackay QLD.

The Property: The Fund invests in the industrial property located at 69-79 Diesel Drive, Paget, Queensland. Situated on a 3.0 ha site in a well-established industrial precinct, near the Mackay Airport, the Property has 13,843 sqm of gross lettable area. The Property is 100% leased to Blackwoods, a subsidiary of Wesfamers (ASX: WES), which uses the site as a warehouse and distribution site as well as an office and showroom. A small portion of the Property is subleased to CoreGas, another subsidiary of Wesfarmers. The Property has a weighted average lease expiry of 6.1 years, with the lease falling due in January 2029 with 2x 5 year options. Contracted annual rent increases are set at the Brisbane CPI rate, subject to a 3.0% minimum and 3.5% maximum. The Property is currently rented at 7.6% above current market levels.

Debt Profile: The Fund has credit approved terms for a $17.0M debt facility to assist in funding the acquisition of the Property. The debt will have an initial Loan To Value Ratio (LVR) of 47.5% against a bank LVR covenant of 60%. The all-in-cost of debt is estimated at 5.12% p.a. for FY23 and FY24. The initial Interest Coverage Ratio (ICR) is expected to be 3.4x, above the bank ICR covenant of 2.0x.

NTA: The Fund's NTA is estimated at $0.86 per unit following the acquisition.

Distributions: The Manager is forecasting initial distributions of 6.5% p.a. (annualised) for FY23 (1 December – 30 June 2023), increasing to 6.75% in FY24. Distributions are paid monthly.

Fees: Core Property considers the overall fees to be within acceptable ranges.

Total Returns: Core Property estimates the Fund to deliver an IRR of 7.2% - 9.3% p.a. (midpoint 8.3% p.a.) based on the Manager's assumptions and assuming a +/- 25 bps sensitivity to capitalisation rates (see the *Financial Analysis section*). Investors should be aware the Fund is exposed to a capital gain or loss based on the sale price of the assets and the overall market conditions, which may deliver an IRR outside this range.

Illiquid investment: Investors must accept that by their very nature, unlisted property funds are illiquid and expect to remain invested for the initial five-year term to December 2027. The Manager may extend the Fund for two years subject to an Ordinary Resolution (50% of votes in favour). At the end of the extended period the Manager may further extend the Fund, if it receives the approval of 100% of votes, or where there is less than 100% of votes then investors who vote against the extension are provided the opportunity to exit.

Investment Scorecard

Investment Scorecard
Management Quality
★★★★★
Governance
★★★★☆
Asset Quality / Portfolio
★★★☆☆
Income Return
★★★☆☆
Total Return
★★★☆☆
Gearing
★★★☆☆
Liquidity
★☆☆☆☆
Fees
★★★☆☆

Key Metrics

Structure

A registered managed investment scheme that invests in an industrial property located in Mackay Queensland, leased to Blackwoods, a subsidiary of ASX listed Wesfarmers.

Management

Centuria is a subsidiary of the ASX-listed specialist investment manager, Centuria Capital (ASX: CNI). It is a well-regarded Australian fund manager with demonstrable experience in property and finance. Greater representation of non-executive directors' lead to a balance of decision making.

Property Portfolio

No. of Properties:	1	
Property Portfolio:	Location	Valuation
	69-79 Diesel Drive, Paget, QLD	$35.5M
Property Sector:	Industrial	
Key Tenants:	Blackwoods	
Occupancy:	100.0%	
WALE:	6.1 years (by income)	

Return Profile

Forecast Distribution:	FY23: 6.50% p.a. (annualised) FY24: 6.75% p.a.
Distribution Frequency:	Monthly, within 10 business days
Tax advantage:	FY23: est. 70% tax deferred FY24: est. 60% tax deferred
Estimated Levered IRR (pre-tax, net of fees):	7.2% - 9.3% p.a. (midpoint 8.3%) (net of fees)
Investment Period:	5 years to December 2027

Risk Profile

Property/Market Risk:	Investors will be exposed to a potential capital gain or loss, based on market conditions.
Trust Investment Risk:	Illiquid nature of the Trust, gearing and interest rate risk.
Regulatory Risk:	Changes to taxation affecting the tax effectiveness of income and capital distributions.
Diversification Risk:	As a single asset vehicle there is no diversification offered.
Tenant Risk:	Each property is reliant on a dominant single tenant which exposes it to substantial reliance on tenancy performance.

For a more detailed list of the key risks, refer to "Section 10: Investment Considerations and Risks" of the Product Disclosure Statement.

Fees Paid

Entry Fees:	Nil
Exit Fees:	Nil
Property Acquisition Fee:	2.0% of purchase price
Management Fees:	Management Fee: 0.80% p.a. of GAV. Trust Expenses: est. 0.23% p.a. of GAV.
Property Disposal Fee:	1.0% of the sale price. Any external agent's fee will be paid out of the fee.
Performance Fee:	20% of the outperformance over an IRR of 8.0% p.a.

Debt Metrics – indicative

Drawn Debt / Facility Limit:	$16.9M / $17.0M
Loan Period:	3-5 years
Initial LVR / LVR Covenant:	47.5% / 60%
ICR / ICR Covenant:	3.4x[1] / 2.0x

Note 1: ICR calculation is based on the bank (Westpac) definition of Net Property Income divided by interest expense. The ICR based on ASIC RG46 calculation is 2.7x.

Legal

Product Name:	Centuria Industrial Income Fund No.2
APIR Code:	CNT8216AU
ISIN:	AU60CNT82160
Offer Document:	Product Disclosure Statement, dated 14 November 2022
Wrapper:	Unlisted Property Trust
Responsible Entity & Manager:	Centuria Property Funds Limited (ABN 11 086 553 639, AFSL No.231149)

Fund Overview

The Fund is a closed-ended, unlisted property fund that operates as a registered managed investment scheme.

Centuria Property Funds Ltd, the Manager and Responsible Entity ("the Manager", "the RE") is seeking to raise $22.4M in equity through the issue of 22.4M units at $1.00 per unit ("the Offer"). The funds raised will be used, in conjunction with debt, to invest in the industrial property located at 69-79 Diesel Drive, Paget, Mackay Queensland ("the Property"). The Fund has a minimum investment of $50,000, however the Manager may accept lesser amounts at its discretion.

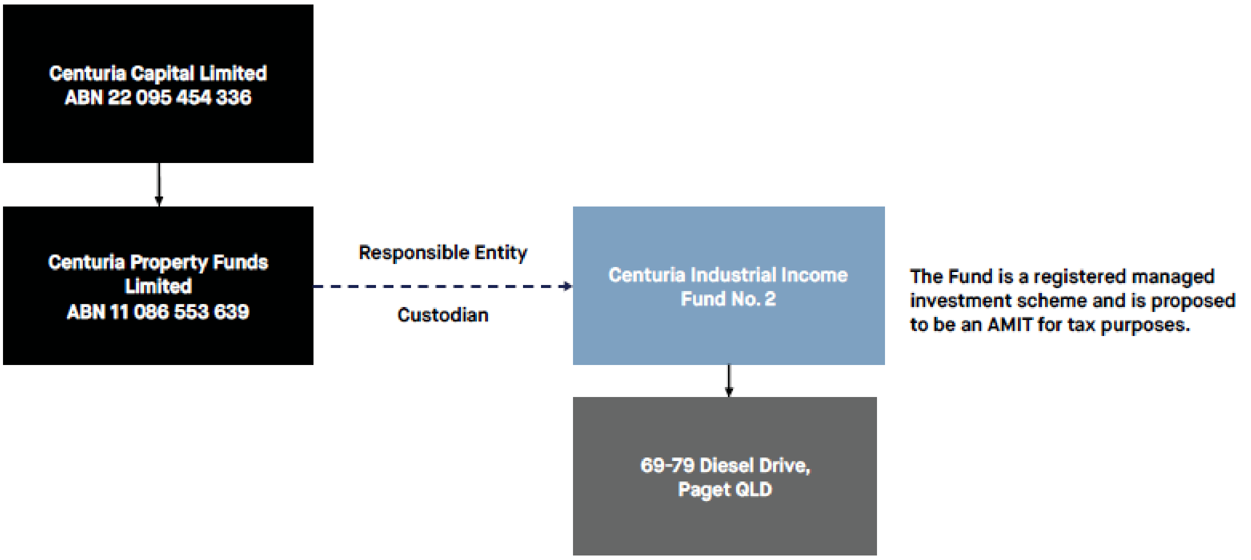
The Property will be acquired for $35.5M in total with settlement estimated on 1 December 2022. The Property is fully occupied with a portfolio Weighted Average Lease Expiry (WALE) of 6.1 years (by income).

Investors should also note the Fund may issue Acquisition Units to facilitate the acquisition of the Property. Acquisition Units rank equally with all units in the Fund however, the Acquisition Units may be redeemed through the issue of new units in the Fund.

The Fund has a target distribution yield of 6.5% p.a. (annualised) for the FY23 period (1 December 2022 – 30 June 2023), increasing to 6.75% p.a. in FY24.

A summary of the Fund structure is provided below.

Figure 1: Fund structure



Source: Centuria

Fund strategy

The Fund provides a Core investment strategy by investing in an industrial property in Mackay, Queensland. The Fund offers an investment in a well located industrial property with an A-grade tenant, from a Wesfarmers subsidiary, which underpins the rental income over the initial term of the Fund. The Property is located in the Mackay suburb of Paget, which is the main industrial precinct in the Mackay region.

Liquidity / exit strategy

Investors should view the Fund as illiquid in nature and expect to remain invested for the initial 5-year term of the Fund.

The Manager may extend the Fund for two years subject to an Ordinary Resolution (50% of votes in favour).

The Fund may also be extended beyond 7-years for up to two years at a time, where a Unanimous Resolution (100% of votes cast in favour) is needed, or, where there is not a Unanimous Resolution, those who voted against the extension are provided the opportunity to exit the Fund at the prevailing Withdrawal Price (being the net asset value of the Fund based on an independent valuation less estimated transaction costs).

The Property

69-79 Diesel Drive, Paget, QLD ("the Property") is an industrial facility located to the south-west of the Mackay CBD. Paget is the main industrial precinct in the Mackay region and is situated on the southern outskirts, adjacent to the Mackay Airport. The Property consists of a large 3.0 hectare site, consisting of a modern warehouse facility that is fully leased to Blackwoods, a subsidiary of ASX-listed conglomerate Wesfarmers (ASX: WES). Blackwoods is Australia's largest provider of industrial and safety supplies that specialise in personal protective equipment, welding and gas, power tools, hand tools and workwear. The Property provides 13,843 sqm of gross lettable area (GLA) across two industrial buildings.

- Building 1 is positioned centrally on the site and consists of an office showroom (2,216 sqm) with warehouse (11,020 sqm). The warehouse space has a high internal clearance of 11-13 metres with access via 18 roller doors. The building is used for warehousing, distribution and retail display for Blackwoods as well as to conduct training.
- Building 2 is positioned to the eastern alignment of the site and provides approximately 607 sqm of GLA (140 sqm of office and 467 sqm warehouse) offering corporate office and clearspan warehouse. Building 2 is subleased to CoreGas, a Wesfarmers subsidiary, and incorporates specialised tenant owned plant and machinery including 4 liquified gas silos, pipe infrastructure and high voltage onsite transformers.

The Property was purpose built in 2014 for Blackwoods entering into an initial 15-year lease term from January 2014-2029. The Property has a Weighted Average lease Expiry (WALE) of 6.1 years (by area and income). The lease has annual CPI increases, subject to a minimum 3.0% p.a and maximum 3.5% p.a.

Figure 2: Property Metrics – as at 1 December 2022

Property	Acqn Date	Site Area (sqm)	GLA (sqm)	Key Tenant	Valn	Cap Rate	Occ %	WALE by income
69-79 Diesel Drive, Paget QLD	December 2022	30,100	13,843	Blackwoods	$35.5M	7.00%	100%	6.1 yrs

Source: Centuria

Figure 3: 69-79 Diesel Drive, Paget QLD

Source: Centuria, Savills, Knight Frank, Nearmap, Google maps

Property Valuation

The Fund's valuation policy requires each property to be valued by an independent valuation at least once every two years. However, the Manager, Centuria, typically undertakes an independent valuation annually for all its properties. A summary of the main assumptions adopted in the valuation is provided below.

Figure 4: Valuation Metrics

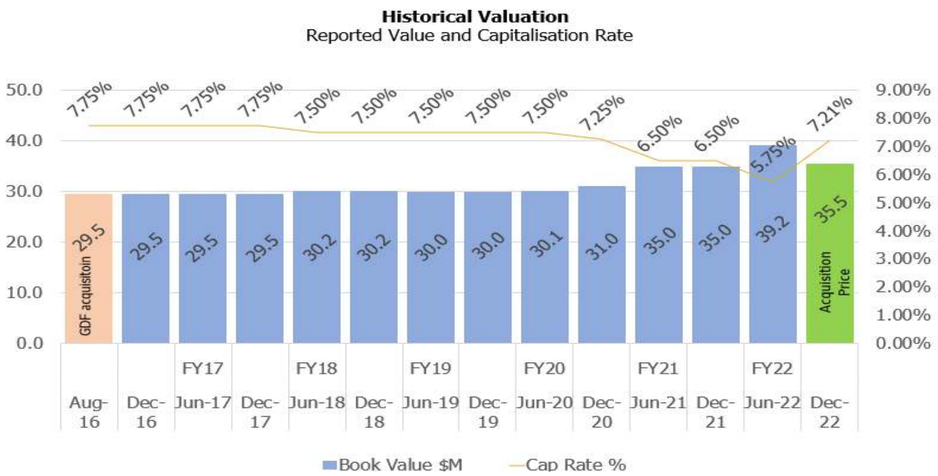
Metric	69-79 Diesel Drive, Paget QLD
Title	Freehold
Acquisition date:	December 2022
Ownership	100%
Site Area	30,100 sqm
Gross Lettable Area	13,843sqm
Major Tenant (% GLA)	Blackwoods (100%)
Weighted Average Lease Expiry	6.1 years
Occupancy	100%
Initial net passing income	$2.68M
Net Market income (fully leased)	$2.49M
Purchase price	$35.5M
Valuation	$35.5M
Passing initial yield	7.55%
Capitalisation rate	7.00%
Valuer	JLL
Valuation Date	October 2022
Valuer's Discount rate	8.50%
Value/sqm	$2,564 per sqm
Valuer's unleveraged 10-year IRR	8.28%

Source: JLL

Historical Valuation

The Property was constructed in 2014 and was acquired by the vendor, GARDA Diversified Property Fund (ASX: GDF) for $29.5M in August 2016. The following is a summary of historical values of the Property from ASX announcements for GDF.

Figure 5: Historical Book Value of 69-79 Diesel Drive, Mackay QLD



Source: GARDA Diversified Property Fund (ASX: GDF) ASX announcements

Leases, tenants and income

69-79 Diesel Drive, Paget QLD is fully leased to Blackwoods, a subsidiary of ASX listed Wesfarmers (ASX: WES), on a 15 year lease which commenced on 6 January 2014 and expires 5 January 2029. The tenant has two 5 year options upon expiry of the lease in 2029.

- **Rent:** Blackwoods are currently paying $2.68M per annum ($193.67 per sqm) in rent, with Blackwoods also responsible for all property outgoings. A small portion of the land (13%) is sub-leased to Coregas, also a wholly owned subsidiary of Wesfarmers.
- **Rent Review:** The lease is subject to annual CPI increases in rent with a minimum of 3.0% p.a. and a maximum of 3.5% p.a. limit set on each CPI review of the rent.
- **Options:** On lease expiry, in January 2029, Blackwoods has 2 x 5-year options to renew. Should Blackwoods exercise it's option, the rent for the new term will not be less than 90% and not greater than 110% of the rent payable for the immediately preceding year.
- **Expansion:** The Property has expansion capability to increase the warehouse by approximately 1,740 sqm with Blackwoods having the right to request upgrade works during the term of the lease, to be completed by the owner. Development approval for the 1,740 sqm extension of the warehouse has been obtained under previous ownership in anticipation of the works. Should Blackwoods exercise the expansion rights an additional rent will be payable equal to 8.25% of the costs of the works and the term of the lease will be extended by 7-years from the date of practical completion. The Lessor's contribution to the upgrade works is limited to $1.0M, unless otherwise agreed.
- **First Right to acquire:** Blackwoods has a first right of refusal should the Fund decide to sell the Property. On deciding to sell the Property, the Fund must write to Blackwoods informing them of the price and giving them 21 days in which to decide whether to exercise the right to buy the Property.

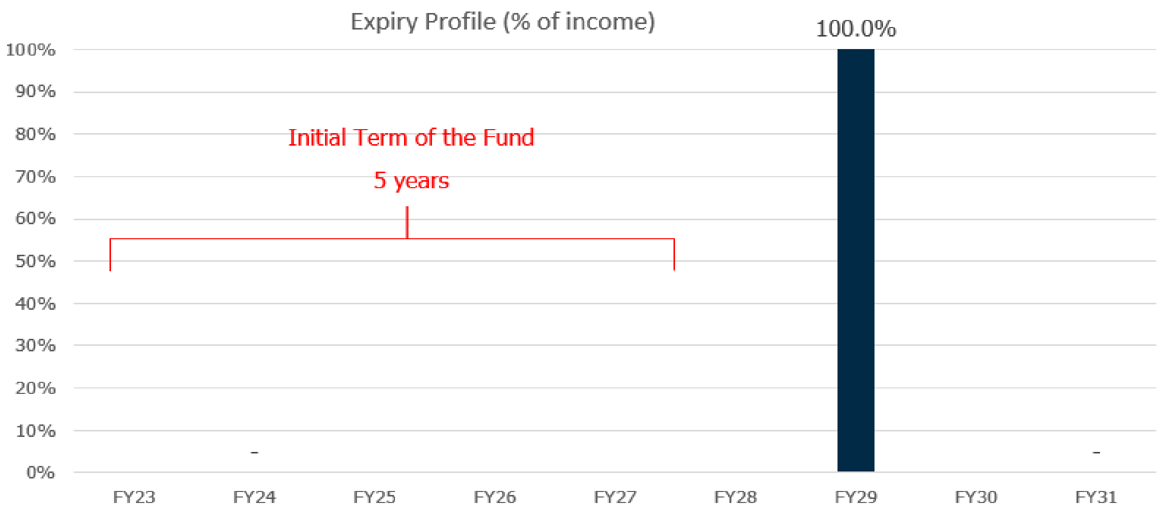
The independent valuer has assessed the Net Passing Income to be approximately 7.6% above market levels.

Figure 6: Portfolio Tenant Summary

Tenant, Location	GLA (sqm)	Lease Term	Options	Net passing rent (p.a.)	Net market rent (p.a.)	Rent Review
Blackwoods, 69-79 Diesel Drive, Paget QLD	13,843	15 years (Jan 2014–Jan 2029)	2 x 5 years	$2.68M	$2.49M	Greater of 3.0% or Brisbane CPI, subject to a maximum of 3.5%.

Source: JLL

Figure 7: Property lease expiry (by income)



Source: Core Property

Market Sales Evidence

The table below is a summary of comparable sales transactions for the Property as provided in the independent valuation report. Core Property notes that on a price per sqm basis the Property is being acquired at the low end of the range when compared to recent transactions.

Figure 8: Comparable sales transactions

Location	Date	Price	$/sqm GLA	WALE	Initial Yield	Equivalent Yield	IRR
344 New Cleveland Road, Tingalpa QLD	Sep 22	$17.5M	$2,669	20.0	5.25%	5.12%	6.43%
99 Sandstone Place, Parkinson QLD (50% Interest)	Jun 22	$177.4M	$6,541	10.1	4.74%	4.32%	5.76%
88 Moreton Street, Heathwood QLD	Feb 22	$75.0M	$3,412	9.1	3.70%	3.70%	5.22%
34 Central Park Drive, Paget QLD	Nov 21	$5.4M	$1,656	0.9	9.50%	9.46%	9.38%
12-15 Forge Court, Bohle QLD	Nov 21	$11.5M	$2,508	5.3	6.40%	6.24%	6.87%
512 Milton Street, Paget QLD	Nov 21	$7.75M	$6,704	7.8	6.61%	6.33%	7.78%
25 Interlink Court, Paget QLD	Mar 21	$5.6M	$1,906	4.3	8.57%	8.50%	8.26%
275-283 McDougall Street, Glenvale (Toowoomba) QLD	Oct 20	$23.0M	$3,281	8.7	6.74%	6.73%	7.42%
69-79 Diesel Drive, Paget, Mackay QLD	**Dec 22**	**$35.5M**	**$2,564**	**6.1**	**7.55%**	**7.52%**	**8.28%**

Source: JLL

Market Rental Evidence

The following is a summary of comparable industrial rentals as provided by the independent valuer. Core Property notes the Property is currently 7.6% over rented i.e. current rent is above market rent. With the current lease expiring post the expected term of the Fund, reversion to market rents is unlikely to occur during the life of the Fund.

Figure 9: Comparable rental evidence

Location	Date	Term	GLA	Review	Incentive	Rent	$/sqm GLA
56-60 Len Shield Street, Paget QLD – Steelarc Engineering	Jul 22	7+5+5	3,330	3.00%	9% (Lessor Works)	$395,000	$119
217 Farrellys Road, Paget QLD – Fenner Dunlop Australia	May 22	10+5+5	7,339	CPI (<3% & >2.5%)	Nil	$1,200,000	$164
27-29 Enterprise Street, Paget QLD – HE Parts Int Mining Solutions	Jun 21	5+5+5	1,688	CPI	Undisclosed	$374,657	$222
40 Gateway Drive, Paget QLD – BIS Industries	Jan 21	5+5	2,215	2.5%	Nil	$593,000	$268
25-29 Interlink Court, Paget QLD – Bryan Industries	Jul 20	5+5+5	2,938	>CPI or 3%	3.3% (Lessor Works)	$480,000	$163
56-68 Maggiolo Drive, Paget QLD – Nepean Longwall	May 20	5	3,188	2.5%	Nil	$675,000	$212
7-39 Interlinl Court, Paget QLD - Sandvik	May 20	10+5	4,694	CPI	Undisclosed	$883,652	$188
25-43 John Vella Drive, Paget QLD	May 20	5	8,514	3%	Nil	$1,279,260	$150

Source: JLL

Capex

The Manager is budgeting around $0.2M of capital expenditure over the initial five year term of the Fund. The amount is in line with the forecasts by the independent valuer.

Financial Analysis

Core Property has reviewed the financial forecasts by the Manager as provided in the PDS. The key observations are:

- Assumes the Property is acquired and settled on 1 December 2022.
- Forecasts assume an all-in-cost of debt of 5.12% p.a. in FY23 and FY24.
- The forecast does not include any expansion of the site.
- Based on the assumptions, the Manager is forecasting the Fund to deliver an FY23 distribution yield of 6.50% p.a. (annualised), increasing to 6.75% p.a. in FY24.

A summary of the Manager's forecasts from the PDS is presented below.

Figure 10: Profit & Loss Forecast

Profit & Loss - Forecast $M	FY23 1 Dec 2022 – 30 Jun 2023 (7 months)	FY24
Gross Property Income	**2.0**	**3.4**
Property Expenses	-0.3	-0.5
Management Fee	-0.2	-0.3
Fund Expenses	-0.1	-0.1
Net Operating Income	**1.5**	**2.6**
Net Finance Costs	-0.5	-0.9
Net Income After Finance Costs	**0.9**	**1.7**
Adjustments: Net change in working capital, straight lining of rental income, amortised borrowing costs, interest on Centuria Capital funding	-0.1	-0.2
Net Distributions Received by Investors	**0.8**	**1.5**
Net Distributions to Investors – cents per unit	3.78 cpu	6.75 cpu
Annualised Return on Cash Distributions	**6.50%**	**6.75%**

Source: Centuria

Figure 11: Pro forma balance sheet on settlement

Balance Sheet – $M	1 December 2022 Pro forma
Cash (working capital)	0.4
Properties	35.5
Total Assets	**35.9**
Borrowings	16.9
Other Liabilities	-0.2
Total Liabilities	**16.7**
Net Assets	**19.2**
Units on Issue	22.4M
NTA per Unit	$0.86 per unit
Loan to Valuation Ratio (LVR)	47.5%
Gearing (total liabilities/ total assets)	47.0%

Source: Core Property.

Sources and application of funds / NTA

The following table show how the Fund intends to use the funds being raised and the impact that costs have on the underlying Net Tangible Assets (NTA). The underlying NTA is an important consideration. It should be assessed in the context of statutory costs and fees paid to the Manager, which dilute investors' return over the term of the Fund. Core Property has calculated the initial NTA at $0.86 per unit (including capitalised borrowing costs) with the majority of the dilution coming from acquisition costs (stamp duty).

Figure 12: Sources and application of funds / Underlying NTA

Sources and application of funds	$M	% of total funds	Underlying NTA	$ per unit
Sources of funds				
Equity subscriptions	22.4	57.1%	Issue Price	$1.00
Bank debt	16.9	42.9%	Less:	
Total sources of funds	**39.3**	**100.0%**	Acquisition costs (stamp duty)	-$0.10
Application of funds			Debt & Fund establishment costs	-$0.02
Purchase price	35.5	90.3%	Property Acquisition Fee	-$0.03
Acquisition costs (stamp duty)	2.2	5.5%	**NTA per unit (excl. Capitalised Costs)**	**$0.85**
Fund/debt establishment costs	0.5	1.2%	Capitalised borrowing costs	$0.01
Manager's fee	0.7	1.8%	**NTA per unit (incl Capitalised Costs)**	**$0.86**
Working Capital	0.4	1.1%		
Total application of funds	**39.3**			

Source: Core Property

Debt Facility & Metrics

The Manager has received credit approved terms for debt facility of $17.0M. The Manager expects the initial drawn debt to be $16.9M.

- The initial Loan to Value Ratio (LVR) is expected to be 47.5%, against a bank LVR covenant of 60.0%. Core Property calculates that the value of the Properties must fall by 20.8% for the bank LVR covenant to be breached.
- The initial Interest Coverage ratio (ICR) is 3.4x against a bank ICR covenant of 2.0x. Core Property calculates the net operating income must fall by 41.2% for this covenant to be breached. The ICR is based on the bank (Westpac) definition for ICR being the Net Property Income divided by interest expense. Based on the ASIC RG46 definition the ICR would be 2.7x.

The Fund has entered into a short-term loan agreement with Centuria Capital (ASX: CNI) for $1.775M (at a rate of 10% p.a. for 30 days) to fund the deposit for the purchase of the Property. The total interest on the loan is estimated at $14,589 and has been included in the costs of the transaction.

Investors should be aware that any change in the final debt terms may impact final returns provided by the Fund. A change in the terms and cost of debt may impact investor returns of the Fund.

Figure 13: Debt Metrics – indicative

Details	Metric
Bank	Westpac Banking Corporation
Security	General security deed over the assets of the Fund as well as first ranking security deed over the assets in the Trust.
Drawn Debt / Debt Facility Limit	$16.9M / $17.0M
Loan Type	Interest only
Loan Period	3 years. The Manager may consider a 5 year debt facility subject to terms.
% Hedged	The Manager may consider hedging a portion of the debt, subject to market conditions
Average cost of debt	5.12% p.a. (expected for FY23, FY24)
Initial LVR / Peak LVR / LVR Covenant	47.5% / 47.5% / 60%
Initial interest covered ratio (Lowest ICR) / ICR covenant	3.4x[1] / 2.0x
Amount by which valuation will have to fall to breach LVR covenant	20.8%
Decrease in net income to breach ICR covenant	41.2%

Note 1: ICR of 3.4x is based on the bank (Westpac) calculation. If the ASIC RG46 definition is used, the ICR is 2.7x. Source: Core Property, Centuria

Fees Charged by the Fund

Overall, Core Property considers the fees charged to be within an acceptable range for the Fund. A summary of the fees is provided below.

Figure 14: Summary of Fees charged by the Fund

Fee Type	Fee Charged	Core Property Comment
Entry Fee:	Nil	
Exit Fee:	Nil	
Establishment and Placement Fee (Acquisition Fee):	2.0% of the gross value of the Property.	Core Property considers the Fee to be at the high end of the industry average of 1.0% - 2.0%.
Management Fees:	Management Fees of 0.80% p.a. of the Fund's Gross Assets. Other costs and expenses are estimated at 0.23% p.a. of the Fund's gross assets.	Core Property considers the Fees to be within the acceptable range of what we have typically seen in the industry (0.7% - 1.1% p.a. of gross assets).
Sale Fee (Disposal Fee):	1% of the consideration received by the Fund for the sale of the Property.	The Fee is at the low end of the industry average of 1.0% - 2.0%. Core Property notes the Manager will pay any external sales agent fees out of this amount.
Performance Fee:	20% of the Fund's outperformance over an IRR of 8.0% p.a.	Core Property considers the Fee to be in line with current industry practice.

Source: Centuria, Core Property

All-in fee analysis

Core Property has analysed the fees that accrue to the Manager over the term of the Fund as a percentage of all cash flow generated after deducting interest costs but before management fees and performance fees.

Core Property estimates the Manager is entitled to 7.2% of the total cash flow. Core Property considers the fees paid to the Manager to be within an acceptable range for the Fund. In terms of fees paid to the Manager, Core Property estimates that 28.8% of the estimate fee is paid upfront and the remainder relates to ongoing management fees. Core Property stresses that these estimates of how much investors will receive are not guaranteed amounts. For further details, please refer to the *Financial Analysis* section.

Figure 15: Fees in Perspective – based on a 5-year term

Core Property estimates that for every $1.00 of equity invested the Fund can return:	Amount per $1.00 unit
Principal repayment to investors:	$1.00
Income and capital gains to investors:	$1.42
Total cash to investors:	**$1.42**
Acquisition fee:	$0.03
Base management fee:	$0.06
Disposal fee:	$0.02
Fees for the RE (excluding disposal/admin):	**$0.11**
Total cash generated by Fund:	**$1.52**
Fees = % of total cash generated (before fees)	7.2%
Up-front fee as a % of total fees	28.8%

Source: Core Property estimates

Expected Future Performance (IRR Sensitivity)

The three main performance drivers in a property syndicate are:

1. The property income profile (lease structure);
2. The terminal value upon the sale of the property (asset quality + market conditions); and
3. The cost of debt (depending on leverage).

Core Property has estimated the total return from the Fund based on the Manager's assumptions and assuming market rent reversions.

Using these assumptions Core Property expects the Fund to deliver an Internal Rate of Return (IRR) in the range of 7.2% - 9.3% p.a. (midpoint 8.3%). The calculation is based on the Manager's forecasts and assumes a +/- 25bps movement in the terminal capitalisation rate and interest rates.

Investors should be aware the sensitivities include the potential for the valuation of the assets to increase or decrease (depending on market conditions) which will result in either a capital gain or loss for investors.

Figure 16: Pre-tax, 5.0-year IRR (after fees) sensitivity analysis – Manager's assumptions

Estimated IRR			Cost of debt		
Terminal cap rate	**4.62%**	**4.87%**	**5.12%**	**5.37%**	**5.62%**
6.50%	10.3%	10.3%	10.2%	10.2%	10.1%
6.75%	9.4%	9.3%	9.3%	9.2%	9.2%
7.00%	8.4%	8.4%	**8.3%**	8.3%	8.2%
7.25%	7.4%	7.3%	7.2%	7.2%	7.1%
7.50%	6.3%	6.2%	6.1%	6.0%	6.0%

Source: Core Property

Management & Corporate Governance

The Manager, Centuria Property Funds Limited ("CPFL") is a wholly owned subsidiary of the ASX listed-Centuria Capital Limited (ASX: CNI). CPFL, formerly Century Funds Management, was formed in 1999 with a specific focus on the purchasing of high quality, growth oriented commercial property investments.

Core Property has reviewed the composition of the RE Board and senior executive team and consider it has the relevant skills and experience to operate the Fund successfully. Core Property notes the Board of the RE consists entirely of independent non-executive directors which provides a higher level of corporate governance.

Figure 17: The Board of the Responsible Entity

Name & Role	Experience
Mathew Hardy **Independent Chairman**	Matthew has been an Independent Non-Executive Director of Centuria Property Funds Limited (CPFL) since July 2013. He is also Chairman of CPFL's Audit, Risk Management and Compliance Committee. He brings more than 30 years, senior-level experience across direct real estate, equities and funds management to the Board. His career spans UK and Australian markets in direct property valuation and consultancy for global companies including Richard Ellis (now CBRE) and Jones Lang Wootton (now JLL). Previous roles include Hambros Equities' senior REIT analyst and Barclays Global Investors' Head of Property and Director of Property Investments, where he managed property securities funds as well as Listed and Wholesale property funds. Since 2002, Matthew has been a founding Director of real estate specialist executive search and consultancy, Conari Partners, and its corporate predecessor, Thomas Hardy. Prior to assuming his current Board positions, Matthew was General Manager to the Mirvac-managed, listed REIT, Capital Property Trust. He was also Mirvac Fund Management's Head of Investments and Developments where he drove strategy and new business development. After leaving his executive position at Mirvac, Matthew served as a Nonexecutive Director of Mirvac Funds Management. He is a member of the Royal Institution of Chartered Surveyors (RICS) and the Australian Institute of Company Directors (AICD). Matthew holds a Bachelor of Science (Urban Estate Surveying) from Nottingham Trent University. Matthew is also an Independent Non-Executive Director of Centuria Healthcare Asset Management Limited.
Peter Done **Independent Non-Executive Director**	Peter joined the Centuria Capital Group Board as an Independent Non- Executive Director in November 2007. He is also Chairman of Centuria Capital Group's Audit, Risk Management and Compliance Committee. He has extensive knowledge in accounting, audit and financial management in the property development and financial services industries, corporate governance, regulatory issues and Board processes through his many senior roles. Peter hails from a 38-year career at KPMG. From 1979, he held the position of Partner until his retirement in 2006. During his 27 years as Partner, Peter was the lead audit partner for many clients, including those involved in property development, primary production and television and film production and distribution. Peter holds a Bachelor of Commerce (Accounting) from the University of New South Wales and is a Fellow of Chartered Accountants Australia and New Zealand.
Darren Collins **Independent Non-Executive Director**	Darren has been an Independent Non-Executive Director of Centuria Property Funds Limited (CPFL) since March 2015. He is also a member of CPFL's Audit, Risk Management and Compliance Committee. He brings extensive accounting, audit and financial management experience to the Board having been the lead financial executive for businesses operating in Asia, Australia and the United States of America. He has a strong background in corporate governance and regulation for listed companies. Between 1997 and 2013, Darren was Computer Sciences Corporation (CSC)'s Vice President of Finance and Administration of several operating divisions. From 2004 to 2009, he was also a non-executive director of three IT services companies listed on the stock exchanges of Singapore, Hong Kong and Kuala Lumpur, respectively. Darren holds a Bachelor of Commerce (Accounting) from the University of New South Wales and is an associate of Chartered Accountants Australia and New Zealand.
Elizabeth McDonald **Independent Non-Executive Director**	Elizabeth has had an extensive 16 year legal career, specialising in property, clean energy, native title and Aboriginal cultural heritage. She is currently a practicing consultant with Chalk & Behrendt and a sessional academic in property law practice at the University of Newcastle Law School as well as being part of the University's Law School Advisory Board. Elizabeth was a 2019 recipient of an Australian Government Executive Leadership Scholarship, focused on facilitating investment in clean energy, land use planning for clean energy projects, ESG reporting and impact investing. She was admitted as a solicitor to the Supreme Court of NSW in 2006. Elizabeth currently sits as on the following Centuria-related boards and committees: Centuria Property Funds Limited (Independent Non-Executive Director); and CPFL Audit, Risk and Compliance Committee (ARCC) (Independent Non-Executive Director).

Figure 18: Senior Management Team

Name & Role	Experience
John McBain **Joint CEO**	John joined the Centuria Board (formerly Over Fifty Group) on 10 July 2006. He was appointed as Chief Executive Officer of the Over Fifty Group in April 2008. John was also a founding director and major shareholder in boutique funds manager Century Funds Management, which was established in 1999 and acquired by Over Fifty Group in July 2006. Prior to forming Century, John founded property funds manager Waltus Investments Australia Limited and Hanover Group Pty Limited a specialized property consultancy. Waltus was formed in 1995 and was one of the first dedicated property funds managers in Australia. Prior to 1990 John held senior positions in a number of property development and property investment companies in Australia, New Zealand and the United Kingdom. John holds a Diploma in Urban Valuation (University of Auckland).
Jason Huljich **Joint CEO**	Jason became the Centuria Group Joint CEO in June 2019 after previously leading Centuria's Real Estate and Funds Management business. Jason was also a founding director and major shareholder in boutique funds manager Century Funds Management, which was established in 1999 and acquired by Over Fifty Group in July 2006. He is an Executive Director of Centuria Capital Group. In his role he is responsible for providing strategic leadership and ensuring the effective operation of Centuria's real estate portfolio and funds management operations. Jason has extensive experience in the commercial property sector, with specialist skills in property investment and funds management. He is also a past President of the Property Funds Association (PFA), which represents the $125 billion direct property investment body in Australia and continues to serve on their national executive. Jason holds a Bachelor of Commerce (Commercial Law) from the University of Auckland, New Zealand.
Stuart Wilton **Co-Head – Unlisted Funds/Fund Responsible Entity, Fund Manager**	Stuart joined Centuria in May 2010 and was appointed Fund Manager in July 2017. Overseeing all operations of nine unlisted property funds, he is responsible for the fund establishment, performance, reporting and investor relations of assets in excess of $870 million. The role also involves working extensively with the property team to develop and implement fund strategies, as well as liaise with financiers to secure and renew fund debt facilities where required. Stuart previously held several key positions in the Centuria asset management division, most recently Portfolio Manager and was primarily responsible for the proactive and efficient management of Centuria's property portfolio across both the Centuria Office REIT, Centuria Industrial REIT and the various unlisted property funds. Furthermore, along with the Transactions team, Stuart was responsible for administering asset disposals and completing the due diligence process for proposed acquisitions. Prior to joining Centuria, Stuart worked for Potomac Realty Capital in Boston, a specialist real estate finance company focused on structured financial solutions and permanent real estate loans for all commercial property types. During his two years as a Capital Markets Analyst, Stuart was involved in closing approximately $500 million worth of transactions across all sectors.
Ross Lees **Head of Funds Management**	Ross Lees is the Head of Centuria's Real Estate Funds Management business, which is responsible for both listed and unlisted property funds in the office, industrial & healthcare sectors. This includes Australia's largest ASX listed pure play office & industrial REITs (ASX:COF & ASX:CIP), an open ended unlisted diversified property fund as well as 22 unlisted funds with AUM of >$6 billion. Ross was previously the Fund Mangager, Centuria Industrial REIT (ASX:CIP), with overall responsibility for the operation, performance and strategy of the REIT. Ross joined Centuria in 2017 and has over 15 years of industrial investment management experience having joined Centuria from Dexus where he held senior transactional and portfolio management roles. Prior experience includes over six years at Stockland, and four years at Logos Property Australia having established and led their asset management platform. Ross holds a Master of Applied Finance from Macquarie University and Bachelor of Business (Property Economics) from UWS.
Andrew Essey **Group Head of Transactions**	Andrew Essey joined Centuria Property Funds in February 2013 as National Leasing Manager, Andrew was appointed Fund Manager in November 2015, and transitioned to the role of Head of Transactions in July 2017. As Head of Transactions, he is responsible for originating and managing the Group's property transactions and oversight of the Group's acquisitions team. Prior to joining Centuria, Andrew worked for DTZ in Sydney's North Shore Agency from 2007, most recently holding the position of Director. While at DTZ, Andrew's focus was on leasing and sales within Sydney's North Shore industrial and office park markets. During his nearly 6 years with DTZ, Andrew was directly involved in over 180 transactions while representing both institutional and private investors.
Victor Georos **Head of Portfolio & Asset Management**	Victor joined Centuria as Senior Portfolio Manager in April 2013 and was appointed Head of Portfolio and Asset Management in July 2015. In his role he is responsible for overseeing portfolio and asset management of Centuria's property portfolio, including the development and implementation of strategies to enhance value through active asset management and development. Victor works closely with the Funds Management and the Development teams. In addition, Victor manages Centuria Property Funds' valuation program and is actively involved with the constant review of best practice policies and procedures. Victor has extensive experience in asset and investment management, development and funds management across the office, retail and industrial sectors, with a key focus on results and building high-performance teams across all sectors. Prior to joining Centuria, Victor held senior positions with GPT Group and Lend Lease, including Head of Industrial and Business Parks at GPT.
Ben Harrop **Head of Distribution**	Ben leads a team of professionals who proactively distribute, service and support Investors and advisers. His team manages the servicing of Centuria's unlisted property funds, the diversified property fund as well as Centuria Life investment bonds. Ben has spent 25 years in wealth management in various senior leadership positions. Ben brings broad market experience across the full advice and product spectrum. Prior to joining the Centuria Group, Ben worked at ANZ Wealth as Head of Strategic Accounts Management and managed the distribution and research of investment, platform, private client and insurance solutions at firms such as AMP Capital, Zurich, Bankers Trust and Macquarie Bank. Ben commenced his career working in his family insurance broking business. Ben is a Senior Associate with FINSIA (the Financial Services Institute of Australasia), and an active member of industry associations having been a judge for the AFA Rising Star of the year award.

Source: Centuria

Compliance and Governance

The Fund's compliance committee comprises of the three independent members of the board of Centuria Property Funds (Matthew Hardy, Peter Done and Darren Collins).

ASIC Regulatory Guide 46 "Unlisted property schemes: Improving disclosure for retail investors" and Regulatory Guide 198 "Unlisted disclosing entities: continuous disclosure obligations" describe ASIC's preferred benchmarks and principles.

Core Property has reviewed the PDS in reference to the six benchmarks and eight disclosure principles recommended by RG46. The PDS adheres to all of the ASIC guidelines.

Removal of the RE

The RE can be removed and replaced with another appropriately licensed responsible entity if investors pass an extraordinary resolution to that effect at a properly convened meeting of investors. If such a resolution is successful (requiring 35% of all units on issue and 50% of all units voted to approve), the RE will be entitled to recover any deferred fees. The RE will not be eligible to receive exit fees if removed prior to the completion of the Fund. Core Property notes that this is a strong feature of the Fund and is better than industry norms.

Conflicts of Interests and Related Party Transactions

Centuria maintains a written policy on related party transactions, including the assessment and approval processes to manage any conflicts of interests. The policy is in compliance with ASIC's Disclosure Principles and Benchmarks set out in RG46.

The PDS also sets out a number of related party transactions that are currently expected by the Fund:

- Centuria Capital has provided an unsecured loan to the Fund of $1.775M to finance the deposit payable for the acquisition of the Property. Interest is charged at 10.0% p.a. and is forecast to be $14,589 for 30 days. This is a related party transaction which was undertaken in compliance with Centuria's Conflicts of Interests policy. If the Offer is not fully subscribed and the Properties are not acquired, then Centuria Capital, not Investors, will meet the cost of forfeiting the deposits.
- On behalf of the Fund, the Holding Trust may engage Centuria Property Services to provide property management, facilities management, development management and leasing services to the Holding Trusts in respect of the Properties. If Centuria Property Services is appointed to provide these services, then it will be paid an amount no higher than what is currently paid to the existing provider and will be undertaken in compliance with Centuria's Conflicts of Interests Policy and in compliance with ASIC Regulatory Guide 46.

Past Performance

Centuria Syndicate Performance

The Manager has advised that, since 1999, Centuria Capital Limited has completed 44 funds at a weighted average total return of 16.8% and an average total return of 15.3%.

Readers should note that that past performance is not a reliable indicator of future performance as each fund, and its respective underlying property, has its own specific risks and attributes.

Appendix – Ratings Process

Core Property has developed a framework for rating property and property related investment product offerings in Australia. The methodology gives consideration to a number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product and underlying portfolio construction; strength and depth of management team, product structure, risk management, financial analysis, and likely outcomes.

It is important for financial planners and investors to view the recommendation and rating in the context of comparable products only and not across all products rated by Core Property.

The Ratings

Financial Advisers and investors should note that for all ratings categories, the product may not suit the risk/return profiles of all investors.

Rating	Definition
Highly Recommended	This is the highest rating provided by Core Property and is indicative of the product exceeding the requirements of our review process across a number of parameters.
Recommended	Indicates that the product has an above average grade profile across a number of Core Property's parameters and has the potential to deliver above average risk adjusted total returns.
Approved	Indicates that the product has met the aggregate requirements of Core Property's criteria. The product has an acceptable risk/return trade-off and is potentially able to generate risk-adjusted returns in line with stated investment objectives.
Speculative	Core Property believes this is a product that has a number of positive attributes; however, there are a number of risks that make investing in this product a speculative proposal. While Core Property does not rule out investing in this product, investors should be very aware of, and be comfortable with the specific risks. The product may provide unique diversification opportunities, although concerns over one or more features mean that it may not be suitable for most investors.
Not Approved	Indicates that the product has failed to meet the minimum aggregate requirements of Core Property's criteria. While the product may have some positive attributes, Trusts in this category are considered high risk.

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