

# Centuria

Quarterly fund update  
September 2023

## Centuria Diversified Property Fund (Fund)

(ARSN 611 510 699 & ARSN 645 597 404) (APIR – CNT9370AU)

### September 2023 quarter performance highlights

- October 2023 distributions declared at an annualised rate of 5.10 cpu, reflecting a yield of 5.31% on the 30 September 2023 unit price.
- September 2023 valuation cycle completed – portfolio valuation reduction of \$6.7m (~3.09%) resulting in a unit price decrease of 4.39 cpu.
- Leases executed with anchor tenant Optus (2,277 sqm) for further 3-year lease at 10 Moore Street, bolstering property WALE by 1.02 years.
- Strong occupancy of 93.1% and WALE of 5.32 years as at 30 September 2023.

### Key portfolio metrics<sup>1</sup> as at 30 September 2023

Portfolio assets	15
Carrying value	\$231,653,924
Weighted capitalisation rate <sup>2</sup>	6.41%
Net lettable area (SQM) <sup>3</sup>	50,876
Number of tenants	90
WALE (years) <sup>4</sup>	5.32
Weighted occupancy <sup>4</sup>	93.14%
Weighted NABERS rating <sup>5</sup>	5.0 stars

### Market update

The Australian property market continues to adjust following what has been a highly aggressive interest rate tightening cycle. Following the board meeting on 3 October, the Reserve Bank of Australia (RBA) has opted to keep the cash rate on hold for a fourth consecutive month, suggesting recent counter-inflationary measures are beginning to take effect.

Prior to this announcement, the four major Australian banks had revised their terminal cash rate expectations down, now sitting between 2.85% and 3.35%, and have forecasted the potential for interest rate cuts in late 2024.



However, it is important to note that major economists have highlighted the lingering risk of up to two rate hikes (+0.50%), should inflationary data surprise to the upside.

Despite these challenging market conditions, we again maintain our confidence in the resilience of high quality and well located commercial real estate.

During this period of stabilisation, and dependant on prevailing interest costs, bond yields, term deposit rates and transactional evidence in the market, there may be continued pressure on distributions and valuations moving forward. As a result, we will continue to monitor the market and take additional protectionary measures where required.

### 30 September 2023 direct property valuations and valuation policy

The Fund continues to complete quarterly property valuations for the direct properties to ensure the market value of these investments are accurately reflected in the unit price. The Fund's direct property assets were most recently valued as at 30 September 2023.

The 30 September 2023 property valuations of the combined Stapled Fund portfolio resulted in a decrease of \$6.7m (~3.09%), when compared to the previous valuation cycle as at 30 June 2023. Valuation movement by portfolio sector is as follows: office (~3.46%), industrial (~2.83%), social infrastructure (no change). Increasing interest rates have placed upward pressure on valuation capitalisation rates, broadly affecting most asset classes, resulting in minor softening of values across the portfolio. It is pleasing to see that the social infrastructure assets have shown resilience, reflecting the tightly held nature of these smaller sized assets.

The Manager maintains and complies with a written valuation policy for the valuation of property assets held by its property funds.

Under the valuation policy, direct properties of the Fund will be independently valued at least once every 24 months. To ensure unit pricing is reflective of prevailing market conditions, the Fund has been exceeding this frequency and conducting valuations quarterly for the past couple of years. This means that each property is currently valued independently twice a year which gives Investors confidence that the valuations are up to date.

1. Updated on a quarterly basis and for significant portfolio changes.

2. Weighted by fund allocation.

3. Direct property portfolio only.

4. Weighted by gross income.

5. The NABERS rating is for Energy and applies to the Fund's office assets only. The Fund's industrial and social infrastructure assets are not subject to rating.

## Change in the application allotment process

To ensure we create a better experience for investors, the Fund has recently changed the application process.

As noted above, the Fund completes valuations on a quarterly basis. The Fund has put in place an application processing blackout period 10 business days before each quarter end. This means Investors can still apply as per usual, either directly or via platforms, however the Fund will not process the application until quarter end when the price is struck reflecting the quarterly property valuations.

The quarterly property valuation cycle may have a positive or negative impact on the unit price. Applications will be allotted at the unit price which incorporates the updated valuations at quarter end. No additional action is required by Investors once the application has been submitted. Investors may withdraw their application at any time prior to allotment.

You can view the related information on the Fund's continuous disclosure website.

## Anchor tenant lease extension 10 Moore Street

We are pleased to report that Optus (Optus Administration Pty Ltd) has executed leases to extend their term for an additional three years at 10 Moore Street, Canberra. This shows appetite for good quality, well located office space and bolsters the WALE of the property by 12 months which is an excellent result for the Fund.

Optus occupy 2,277 sqm (34% by NLA) across part level 1, Level 3 and Level 5 at the property. Management is in the process of upgrading the end of trip facilities at this premises which was a positive factor in Optus' decision to extend their lease term.

## Top 10 tenants as at 30 September 2023

TENANT	WEIGHTED INCOME (%)	PROPERTY
1 Entain	17.72%	25 Montpelier Road, Bowen Hills
2 Apex Steel	13.21%	36 Caribou Drive, Direk
3 Transport Accident Commission	6.60%	60 Brougham Street, Geelong
4 Cleanaway	5.50%	171 Camboon Road, Malaga
5 Optus	5.40%	10 Moore Street, Canberra
6 Busy Bees Childcare	3.95%	26 Westbrook Parade, Ellenbrook & 40 John Rice Avenue, Elizabeth Vale
7 Cliftons	3.45%	10 Moore Street, Canberra
8 St Vincent's Care Services	3.09%	25 Montpelier Road, Bowen Hills
9 Carter Grange Home	2.72%	13 - 15 Compark Circuit, Mulgrave
10 Healthia	2.64%	25 Montpelier Road, Bowen Hills

## Distribution rate and fund performance<sup>1,2</sup>

Distributions for the September 2023 quarter were paid at 5.10 cents per unit (annualised). We are pleased to report that the underlying property portfolio continues to perform well, with a 93.1% occupancy rate and a weighted average lease expiry of 5.32 years as at 30 September 2023. The declared distribution rate of 5.10 cents per unit for the month of October (annualised) reflects a yield of 5.3% on 30 September 2023 Unit Price.

During the recent period of market volatility, we are pleased to note that the Fund's monthly income returns remained consistent and were underpinned by a diversified portfolio of high creditworthy tenants including national, government, ASX listed and multinational tenants. Unfortunately, due to prevailing market conditions the property sector has experienced headwinds, negatively impacting the near-term capital returns of the Fund.

Further details of the underlying valuations and Fund weightings can be found in the Investment portfolio table on Page 5.

	6 MTH (%)	1 YR (%)	3 YR (% P.A.)	5 YR (% P.A.)	INCEPTION (% P.A.) <sup>3</sup>
Distribution	2.58	5.15	4.92	4.67	4.47
Capital	-9.01	-11.64	-1.79	-0.42	4.53
Total net return	-6.43	-6.49	3.13	4.25	9.00

## Centuria co-investment

The recommended investment timeframe within the Fund is five years, and as noted in the 'Market Update' section, we maintain confidence in the long-term view for commercial property. Centuria is highly aligned with Investors in the Fund, being one of the Fund's largest unitholders, with 31.6% of the units on issue held by related party entities. As we go through this property cycle, Centuria is pleased to be able to co-invest alongside our Investors.

## Fund liquidity facility

The Fund holds an investment property portfolio predominantly consisting of direct real property and a smaller holding in liquid assets. The liquid assets provide liquidity to the Fund and are utilised to offer Investors a limited quarterly withdrawal facility capped at up to 2.50% of NAV per quarter. In addition to the limited quarterly withdrawal facility, the Fund has a rolling five-year investment term, with a liquidity event at the end of each term – next due in December 2025. This is in line with the recommended investment timeframe outlined in the Fund's Target Market Determination. Investors should note that the quarterly liquidity facility is a limited facility. The Fund has scaled redemption requests for the last three quarters. Any unmet portion of each request is carried over to the following quarter, as a new request, unless the Investor requests otherwise as detailed in the Fund's PDS.

## Portfolio performance

The long-term performance in the Fund has been strong, with a total return since inception of 9.00% p.a. Despite challenging market conditions, the Fund has continued to meet its objective of providing Investors regular monthly income underpinned by 93.1% occupancy, a WALE of 5.32 years, and average annual rental increases of 3.28%. Centuria management is working closely with our leasing team and tenants to maximise performance through this property cycle and we look forward to updating you at the next webinar or via the CDPF website.

1. Annualised total return figures reflect compounded monthly returns generated from both capital and income (including reinvestment). Annualised income returns are presented as the sum of the monthly income returns. The returns presented are reflective of any performance fees paid. Returns of less than 1 year are not annualised.
2. Data is as at 30 September 2023. The implementation of the Stapled Fund occurred on 27 May 2022. The performance shown here illustrates the performance of CDPF (standalone) prior to implementation, and the performance of the Stapled Fund (CDPF and CDPF No. 2 consolidated) following implementation.
3. Inception date of CDPF, prior to merger, is 24 June 2016. The implementation of the stapling of CDPF and CDPF No. 2 occurred on 27 May 2022. Past performance is not a reliable indicator of future performance.

## Fund gearing, heading, and covenant sensitivities

The Fund conducted on market sales campaigns for the divestment of two of the Fund's smaller Queensland assets earlier this year. The Fund's portfolio was overweight in Queensland, and a sale of these properties proactively assisted with the portfolio asset allocation and reduces fund gearing. Proceeds from the sales were used to pay down debt, reducing the Fund's gearing to 39.0%, and increasing the undrawn debt capacity for the Fund.

Following the successful refinance of the Fund's debt facility in December 2022, the Fund secured two additional swaps in order to provide cashflow surety throughout FY24 and FY25. The two swaps increase the Fund's forecast hedging to ~99.0% through FY24 which mitigates interest rate volatility during FY24.

Looking ahead, noting that 64% of the Fund's existing hedges of the drawn debt will expire in June 2024, the Fund's 'all-in' cost of debt may increase (or decrease) which could have a negative (or positive) impact on distributions. As noted earlier, management may enter into additional hedging in the coming months to mitigate future interest rate volatility.

Under the terms of the debt facility the Fund is required to comply with certain loan covenants over the course of the financial year. Based on the audited financial report as at 30 June 2023, the Fund is compliant with all covenants including the Interest Cover Ratio (ICR) and Loan to Valuation Ratio (LVR).

The Fund also continues to conduct stress testing of financial covenants and we are pleased to confirm robust headroom within our debt facility. For example, the value of the properties (based on the latest valuations) would have to fall by 29.4% for the Fund to breach its LVR covenant. Similarly, the income of the Fund would have to fall by 50% for the Fund to have breached its ICR covenant over the past 12 months.

## Debt summary as at 30 September 2023

	CURRENT PERIOD	LOAN COVENANTS
<b>Total facility limit</b>	116m <sup>1</sup>	
<b>Undrawn amount</b>	27.1m <sup>1</sup>	
<b>Loan expiries</b>	\$1m, 15 Dec 2023 \$30m, 15 Dec 2024 \$30m, 15 Dec 2025 \$30m, 15 Dec 2026 \$25m, 15 Dec 2027	
<b>% of debt hedged</b>	99.0% <sup>2</sup>	
<b>Loan to value ratio (LVR)</b>	40.00% <sup>3</sup>	60.00%
<b>Interest cover ratio (ICR)</b>	3.65 <sup>4</sup>	1.75

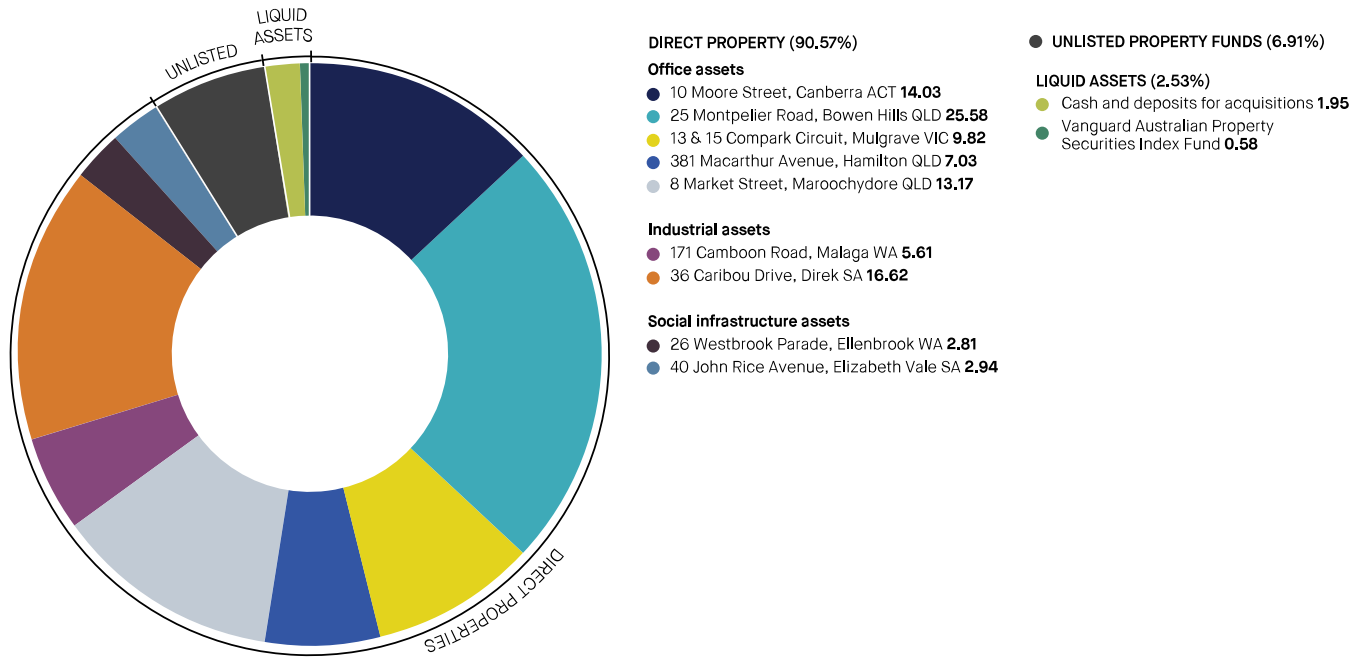


40 JOHN RICE AVENUE, ELIZABETHVALE SA

1. As at 30 September 2023.
2. As at 30 September 2023, the Fund's drawn debt is mostly hedged with a weighted average swap maturity of 0.51 years.
3. The LVR is as at 30 June 2023.
4. The ICR is as at 30 June 2023, based on unaudited financial accounts.



## Asset allocation as at 30 September 2023<sup>1</sup>



## Investment portfolio as at 30 September 2023<sup>1</sup>

	FUND WEIGHTING (%)	PROPERTY VALUATION (\$M)	PROPERTY VALUATION CAP RATE (%)	OCCUPANCY (%)	WALE (BY INCOME)
<b>Direct properties</b>					
<b>Office assets</b>					
10 Moore Street, Canberra ACT	14.03	32.5	7.12	100	2.75
25 Montpellier Road, Bowen Hills QLD	25.58	59.3	6.63	100	4.20
13 & 15 Compark Circuit, Mulgrave VIC	9.82	22.8	6.63	37.1	0.58
8 Market Street, Maroochydore QLD	13.17	30.5	6.63	100	3.81
<b>Industrial assets</b>					
171 Camboon Road, Malaga WA	5.61	13.0	6.25	100	2.08
36 Caribou Drive, Direk SA	16.62	38.5	5.75	100	14.33
<b>Social infrastructure assets</b>					
26 Westbrook Parade, Ellenbrook WA	2.81	6.5	5.50	100	17.42
40 John Rice Avenue, Elizabeth Vale SA	2.94	6.8	5.25	100	17.50
<b>Total direct properties</b>	<b>90.57</b>	<b>209.8</b>	<b>6.44</b>	<b>92.4</b>	<b>5.40</b>
<b>Holdings in Centuria unlisted funds</b>					
Multiple Holdings	6.91	16.0	6.04	99.2	4.68
<b>Total Centuria unlisted funds</b>	<b>6.91</b>	<b>16.0</b>	<b>6.04</b>	<b>99.2</b>	<b>4.68</b>
<b>Liquid assets</b>					
Vanguard Australian Property Securities Index Fund	0.58	1.3			
Cash	1.95	4.5			
<b>Total liquid assets</b>	<b>2.53</b>	<b>5.9</b>			
<b>Total investment portfolio</b>	<b>100</b>	<b>231.7</b>	<b>6.41</b>	<b>93.1</b>	<b>5.32</b>

1. Updated on a quarterly basis and for significant portfolio changes. The valuation information is outlined on the Fund's continuous disclosure page.

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## 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.

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## Centuria investor website

You can access all information relating to your Centuria investments at **centuriainvestor.com.au**.

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## Contact details

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