Centuria

Fund Update
September 2023

Centuria 111 St Georges Terrace Fund

(ARSN 098 126 660)

Key points

- As at 30 June 2023, the Net Asset Backing of the Fund was $3.77 per unit
- Forecast distributions decreased to 12.50 cents per unit (annualised) for FY2024.
- ~7,420 sqm (39% by NLA) of leasing transactions completed in FY2023.
- Weighted Average Lease Expiry (WALE) (by Income) increased from 2.9 years to 4.32 years (by income) in FY2023.

Fund summary

Distributions for the **Centuria 111 St Georges Terrace Fund** for FY2024 are forecast at 12.50 cent per unit (annualised), a decrease from FY2023 forecast of 30.00 cents per unit (annualised). Distribution statements and 30 June 2023 audited financial report is now available to download from the online investor portal at **centuriainvestor.com.au.**

As previously outlined, the majority change in the Fund's distributable income relates to the lease renewal with the property's largest tenant and a substantial increase in debt costs over the past 15 months. To provide context to these changes an overview of the rationale behind the Fund's forecast is below.

During the course of FY2023 the Western Australian Industrial Relations Commission (WAIRC) (2,903sqm or 15.4% by NLA; the buildings largest tenant) approached Management to discuss a potential early renewal ahead of their lease expiry in June 2024. Given this tenure contributed to 20.6% of the Fund's gross income the Manager deemed this an as opportunity to de-risk the future exposure to income loss should WAIRC vacate.

After nearly 12 months of negotiations, terms were ultimately agreed for an effective six year extension until 30 June 2030. However, to secure the deal, the commencement of the new lease featuring the reduced market rent was brought forward by 12 months to 1 July 2023. The market incentive offered as part of this arrangement has also contributed to the overall impact. However, a surrender payment of $1.45 million was also received in exchange for terminating the original lease one year ahead of their original expiry.

As a result, this agreement has led to a reduction of approximately $1.2 million in the Fund's distributable income, equivalent to a decrease of 6.00 cents per unit. Unfortunately, due to nature of the existing 12 year lease, which included 4% fixed annual increases, the rent paid by WAIRC was considerably higher than the market rate ($996 per sqm net compared to the market rate of $675 per sqm net).

Management believes proceeding with the renewal was in the best interests of Investors. This decision was primarily driven by the significant cost the Fund would have incurred if WAIRC decided to relocate which posed a genuine risk considering WAIRC were considering the exploration of various alternative options. To provide context, if WAIRC vacated, it would have resulted in an approximate annual income reduction of $3.1 million or 16.00 cents per unit for the Fund. It's important to note that this calculation does not include the substantial capital expenditure required for re-leasing the space.

As referenced above the other major impact to Fund's income has been the significant increases in debt costs. As investors are aware, the Fund's term was extended for five years in January 2022 and unitholders were given the opportunity to sell some or all of their units and, subject to availability, acquire more units by offering a matching facility that remained open until 30 September 2022. If the exit/matching facility couldn't be fully funded, it would have resulted in the sale of the property.

As a result, the Fund was unable to enter into additional hedging arrangements until the proposed extension of the Fund's term was finalised. During this period, interest rates experienced significant increases. Consequently, the 'all-in' cost of debt rose from an initial forecast of 4.10% p.a. in FY2024 to approximately 5.65% p.a., which equates to an additional $1.6m or 8.30 cents per unit in debt costs over the 12 months.

Nonetheless, in order to mitigate some of the market volatility, Management secured a two-year swap at 3.64%p.a. over approximately 50% of its drawn debt, which expires in June 2025. Further hedging strategies will also be evaluated in the upcoming months to minimise potential volatility arising from fluctuations in interest rates; the added objective is to provide an opportunity to positively revise distribution forecasts.

Management is pleased to update you that the property continues to perform well with lease negotiations. Over the past 12 months lease negotiations have been undertaken for 39% (by NLA) of the property, which has resulted in an improvement in the WALE to 4.32 years (by income), as at 30 September 2023. This is an improvement of 1.42 years (by income) since the March 2023 Fund Update.

Over the course FY2023, approximately 7,420sqm of leasing transactions have been completed, representing 39% of the NLA.

Although we are still in the early stages of FY2024, in July, we delivered two speculative suites of 241sqm and 264sqm. Management is pleased to confirm a new lease has been signed with Ebury, a financial services firm for 241sqm suite (1.3% by NLA). In addition, Management is in discussions with Consep who are looking to double their footprint within the building which is encouraging we have finalised terms with WAIRC for temporary occupancy on Level 2 as they undertake their new fitout. It's worth noting that this shortnterm lease was not previously anticipated, and it presents upside for the Fund.

The report confirms the Fund's Net Asset Banking (NAB) per unit reduced from $3.83 (as at 31 December 2022) to $3.77 (as at 30 June 2023). The 1.57% change in the NAB is a result of a minor reduction in the value of the Fund's investment property (1.56% or $2,500,000) and whilst the capitalisation rate softened 25 basis points the renewal of the WAIRC lease at $675 per sqm until 2030 has seen an increase in market rents across the building. Despite tough market conditions, we still maintain confidence in the resilience of high quality and well located commercial real estate, such at 111 St Georges Terrace.

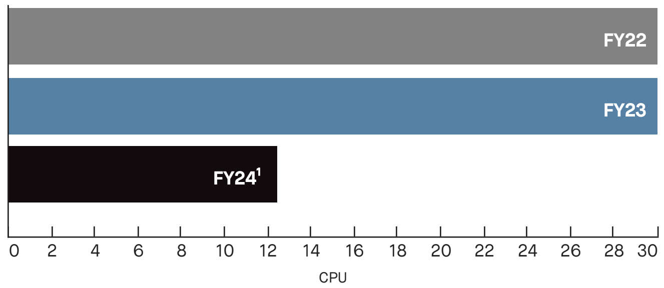
Financial snapshot

Fund commencement date	31 January 2002
Net Asset Backing	3.77[1]
Distribution rate (cents per unit)	12.50[2]
Weighted average lease expiry (WALE) (years) by Income	4.3[3]
Fund Term Expiry	31 January 2027

As outlined in the Product Disclosure Statement, units were 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.

Distribution details

ANNUALISED DISTRIBUTION



1. Forecast (annualised).

The distribution rate of 12.50 cents per unit (annualised) is in line with the 2024 financial year forecast. A detailed explanation of the change in distribution rate from FY2023 is provided in the Fund Summary. Please note that distributions for the Fund have been set at a high payout ratio of Net Fund Income and will be monitored accordingly throughout the year. Should there be any material departures from this forecast, an out of cycle investor update will be provided.

This forecast distribution rate reflects of 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	111 St Georges Terrace, Perth WA
Purchase price (Jul 02)	$42.50m[4]
Previous valuation (Dec 22)	$160.50m
Current valuation (Jun 23)	$158.00m
Cap rate (Jun 23)	6.75%
Valuer	Cushman & Wakefield

The property was subject to an independent valuation and the key metrics of this valuation are outlined in the table above.

Top five tenants by net lettable area (NLA)

Commonwealth of Australia Lease expires 30 Nov 2032	17.8%
WA Industrial Relations Commission Lease expires 30 Jun 2030	15.4%
Bank of Queensland Limited Lease expires 31 Jul 2029	10.2%
21st Century Lease expires 30 Nov 2027	5.1%
NEC Australia Pty Ltd Lease expires 31 Jul 2027	5.1%

1. Net Asset Backing = Net Assets divided by the number of Units on Issue. For investment structures where the Units on Issue are not reflective of the dollar value of investments (i.e. Syndicates), Net Assets are divided by the original investor equity contribution in dollar terms. Net Assets are adopted from Balance Sheets as at 30 June 2023.
2. September quarter, annualised.
3. As at 30 September 2023.
4. Acquisition price excludes puirchaser on costs.

Property statistics

	MAR-23	SEP-23
Net Asset Backing	3.83[1]	3.77[2]
Property occupancy rate	95%	95%
Weighted average lease expiry (WALE) (years) by Income	3.5	4.3

Debt summary

	CURRENT PERIOD	LOAN COVENANTS
Total facility limit	$90.00m	
Undrawn amount	$5.96m[3]	
Loan expiry	30 June 2025	
% of debt hedged	50.0%[4]	
Loan to value ratio (LVR)	57.0%[5]	60.0%
Interest cover ratio (ICR)	4.55[6]	1.75

As at 30 September 2023, the cash rate stood at 4.10%. The Fund's debt facility is hedged 50% of its drawn debt at a rate of 3.64% (in addition to the bank margin of 1.55%), resulting in 0.46% upside for the cost of the debt for the Fund. This hedge offers protection against interest rate fluctuations until its expiration in June 2025. Management will review the Fund's debt facility to determine if further interest rate hedging will be implemented to minimise further potential volatility arising from interest rate fluctuations; the objective is to protect the Fund's income and provide a future opportunity to positively revise distribution forecasts.

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 forecasts as at 30 June 2024, the Fund remains compliant with all covenants including the Interest Cover Ratio (ICR) and Loan to Valuation Ratio (LVR).

Centuria investor website

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

Contact details

If you have any questions about your Fund Update, please contact the WA Centuria Investor Services team; Anthony Hewett or Jason Battaglia by calling **(08) 9321 7133** or emailing **contactus@centuria.com.au**.

Note: The latest RG46 Statement for the Fund is available at **centuriainvestor.com.au**. It includes gearing ratio, calculated using ASIC methodology, gearing covenant sensitivities, details of the related party transactions in the period and further information on the source of distributions.

1. As at 31 December 2022.
2. As at 30 June 2023.
3. As at 30 September 2023.
4. As at 30 September 2023, 50% of the Trust's debt is hedged until June 2025.
5. The LVR is based on the most recent independent valuation as defined under the debt facility agreement.
6. Based on the most recent audited accounts as at 30 June 2023.