

Centuria

Fund Update September 2023 Centuria 25 Grenfell Street Fund

(ARSN 656 250 154)

Key points

- An additional \$3.175 million in debt funding has been secured through the incumbent financier.
- Leasing strategy underway, ahead of the Minister for Transport and Infrastructure (MTI) vacation in January 2024.
- Two additional leasing deals completed during the half, with 5,000 sqm of space now leased since acquisition.
- As at 30 June 2023, the net asset backing of the Fund is \$0.98 per unit.
- An update on monthly distributions to be provided in late October.

Fund summary

In July 2023, the Fund temporarily suspended monthly distributions, pending the outcome of the Fund's proposed increase in the debt facility.

Management is now pleased to report that an additional \$3.175 million has been secured from the incumbent financier, which will facilitate the proposed works to the floors being vacated by the Minister for Transport and Infrastructure, as well as upgrade key common areas of the building. This is anticipated to greatly assist with attracting and retaining high-quality tenants within the property.

Since the additional funding has now been finalised, an update on distributions for the remainder of the 2024 financial year will be provided in late October.

Market Overview

- Occupier demand in the Adelaide CBD office market was steady during the June 2023 quarter and the overall vacancy rate remained relatively unchanged at 16.0%.
- Despite vacancy increasing in the prime market, appetite for modern office space continued to drive rental growth with a 5.9% increase being recorded over the past 12 months.
- However, approximately 153,900 sqm of office supply is currently under construction and expected to be delivered over the next two years, which is anticipated to increase the vacancy rate and put pressure on both rents, as well as incentives.
- Given current market conditions, the depth of prospective purchasers for commercial real estate is somewhat limited. Therefore, prime midpoint yields in the Adelaide CBD are forecast to soften by a further 25 basis points to 6.75% during the remainder of 2023.

Source: JLL Research Q2 2023



30 June 2023 Net Asset Backing

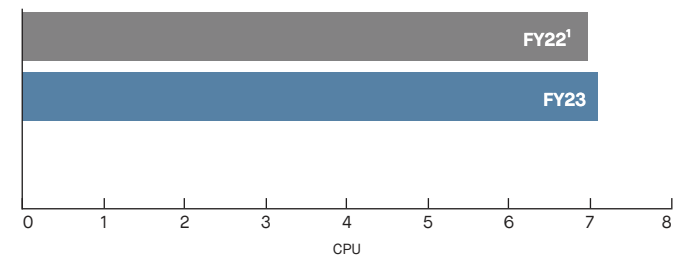
The 30 June 2023 audited financial report is now available to download from the online investor portal at [CenturiaInvestor.com.au](https://www.centuriainvestor.com.au). The report confirms the Net Asset Backing (NAB) of Units in the Fund decreased from \$1.02 (as at 31 December 2022) to \$0.98 (as at 30 June 2023), which was primarily driven by the capital expenditure invested during the period being greater than the increase in the property's valuation.

Financial snapshot

Fund commencement date	1 April 2022
Unit price	\$1.02
Net asset backing	\$0.98 ¹
Distribution rate (cents per unit)	0.00 ²
Weighted average lease expiry (WALE) (years)	3.28 ³
Next investor vote on term of Fund	31 March 2027

Distribution details

ANNUALISED DISTRIBUTION



1. Annualised

2. The Fund has temporarily suspended monthly distributions.

As previously mentioned, the Fund temporarily suspended monthly distributions in July 2023 pending an outcome on the proposed increase in the Fund's debt facility. Given the additional funding has now been secured, an out-of-cycle update regarding distributions will be issued in late October.

1. Based on most recent audited accounts (30 June 2023). Without the Mark to Market of the Fund's interest rate swap, the NAB of units in the Fund would be \$0.95.

2. The Fund has temporarily suspended monthly distributions.

3. As at 30 June 2023.

Property details

ASSET VALUES	
Property address	25 Grenfell Street, Adelaide SA
Purchase price (Feb 22)	\$73.7m ¹
Previous valuation (Dec 22)	\$81.25m
Current valuation (Jun 23)	\$81.50m
Cap rate (Jun 22)	6.50%
Valuer	JLL

The property was subject to an independent valuation for the purposes of the 30 June 2023 audited financial report and the key metrics of this valuation are outlined in the table above.

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. Once again, despite these challenging market conditions, we still maintain 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.

Top five tenants by net lettable area (NLA)

Minister for Transport & Infrastructure Lease expires 31 Jan 2024	23.3%
Minter Ellison Lease expires 31 Dec 2032	10.7%
Aurecon Lease expires 30 April 2030	10.3%
Lipman Karas Lease expires 10 Dec 2027	8.7%
Regus (IWG) Leases expire 30 April 2025 & 30 Nov 2032	8.5%

The property is 100% occupied with a weighted average lease expiry of approximately 3.28 years as at 30 June 2023. Please note these figures include a vendor rental guarantee over approximately 5.0% of the buildings NLA until 30 September 2023. Excluding rental guarantees, the property is 95.0% leased by NLA.

Property statistics

	INITIAL ²	DEC-22	JUN-23
Net asset backing	\$0.97	\$1.02	\$0.98
Property occupancy rate ³	90%	94%	95%
Weighted average lease expiry (WALE) (years) ⁴	3.90	3.76	3.28

Minister for Transport and Infrastructure Expiry and Building Repositioning

In March 2023, the Minister for Transport and Infrastructure (MTI) gave notice that they will be vacating five and a half floors on expiry in January 2024, which represents approximately 23% of the building by NLA. In order to release this space, management is undertaking a comprehensive capital expenditure program that includes a refurbishment of the tenancies, modernisation of the ground-floor lobby, introduction of a plaza-level end of trip and wellness facility and various sustainability initiatives (targeting a minimum 5.0 Star NABERS energy rating). It is important to note that these upgrades are in line with the Fund's original value-add strategy, and will enable the building to compete with newer-generation office stock within the Adelaide CBD.

In terms of timing, we are well-advanced with a majority of the sustainability projects and the lift upgrade is nearing completion as well. The new lobby and end of trip facility is forecast to be delivered by the end of the calendar year and the on-floor works, including a mixture of tenancies to target a wide spectrum of occupiers, will commence in February 2024 once MTI relocates.

Fortunately, the vacating floors (part level 12, levels 13– 17) are situated in the buildings highrise, with excellent access to natural light and views, which will assist with releasing.

Leasing Update

Despite the pending vacation of MTI, the asset continues to lease well, with over 5,000 sqm of space leased since inception of the Fund in April 2022.

A summary of leasing deals completed over the six months to March 2023 is as follows:

- Level 2 Suite 1 (262 sqm) - Three year lease to Trademax, a foreign-exchange business with five offices nationally.
- Ground Floor Shop 2 (107 sqm) - Two year renewal to Goerg Jensen, the luxury scandinavian jeweller.

We look forward to providing investors with further updates on both the leasing and capital expenditure programs in due course.

Debt summary

	CURRENT PERIOD	LOAN COVENANTS
Total facility limit	\$44.8m ⁵	
Undrawn amount	\$7.3m ⁵	
Loan expiry	31-Jan-25	
% of debt hedged	80.0% ⁶	
Loan to value ratio (LVR)	46.1% ⁷	57.50%
Interest cover ratio (ICR)	3.36 ⁸	2.00

1. Gross acquisition price / valuation (excluding outstanding incentives) was \$83.3m.

2. Based on the Product Disclosure Statement dated 21 February 2022.

3. The property is subject to vendor rental guarantees over ~4.8% of the buildings NLA, expiring 30 September 2023. The property is 100% leased including these guarantees.

4. WALE calculations are inclusive of vendor rental guarantees over ~4.8% of the buildings NLA, expiring 30 September 2023.

5. As at 30 June 2023.

6. As at 30 June 2023, the Fund's drawn debt is partially hedged until 28 February 2025.

7. The LVR is as at 30 June 2023 and based on the most recent independent gross valuation as defined under the debt facility agreement.

8. The stated ICR figures are based on the most recent audited accounts (30 June 2023).

The Fund currently has \$37.6 million in drawn debt, which is 80% hedged at a fixed rate of 1.50% p.a. (in addition to the bank margin of 1.425% p.a.) until 28 February 2025, with the ability to draw an additional \$7.26 million for future leasing related costs and base building capital expenditure.

This \$7.26 million is inclusive of the original \$4.08 million undrawn at acquisition and the additional \$3.175 million recently secured at a margin 2.50% p.a. As part of the increased facility limit, management also successfully renegotiated the ICR covenant down from 2.50 times to 2.00 times and importantly, the pricing of the original principle has not changed, which is a great result for the Fund.

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 audited accounts as at 30 June 2023, 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 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**

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.

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