Centuria

Fund Update
September 2023

Centuria 348 Edward Street Fund

(ARSN 636 584 515)

Key points

- Fund income heavily impacted by increased interest rates following expiry of the Fund's 0.96% interest rate swap in December 2023.
- As a result of interest rate increases, FY24 monthly distributions confirmed at 2.75 cpu (annualised).
- The property continues to lease well, with nine leasing deals negotiated over FY23, representing 21% of building NLA.
- The property is 99% occupied with a weighted average lease expiry (WALE) of approximately 2.42 years.
- 30 June 2023 Net Asset Backing confirmed at $0.85 per unit.

Fund summary

Distributions for the **Centuria 348 Edward Street Fund** (Fund) have been paid in line with the FY24 forecast of 2.75 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.**

The asset continues to perform well, both retaining the majority of existing tenants and attracting new tenants where space becomes available. Management completed nine leasing deals during the 2023 financial year, totalling 2,559 sqm which represents 21% of building NLA. We are also pleased to report there has been material leasing interest received for upcoming vacancies on level 6 and level 13.

Deswik Mining, who occupy three floors within the asset, have executed leases to expand into the entirety of level 6 (835sqm or 7.5% by NLA) in advance of the upcoming expiry on 1 October 2023. Management has been proactively working on a refurbishment strategy for level 13 (897sqm or 8% by NLA) for the past 8 months to ensure that we are well positioned in the market to reduce our downtime risk. The tenancy recently became available just two weeks ago and we are pleased to report that we have two prospective tenants interested in occupying the newly created suites on completion.

The quantum of leasing deals completed reflects robust demand for good quality, well located office space in Brisbane. Despite the leasing success achieved at the property, the Fund's distributable income has unfortunately reduced from 5.25 cpu to 2.75 cpu in FY24 primarily as a result of aggressive tightening in monetary policy leading to sharp increase in interest costs. The Reserve Bank of Australia raised the cash rate 400 basis points over an unprecedented thirteen month period from 0.10% to 4.10%.

At the inception of the Fund in December 2019, the Fund's interest rate was locked in at an all-in rate for 3 years at 2.78% (bank margin + fixed interest rate hedge of 0.96%). This fixed interest rate hedge has expired, which was subsequently ~50% hedged, and the Fund is currently incurring an all-in interest rate of approximately 6.0%. This unfortunately has had a material impact on the distributable income of the Fund.

The 30 June 2023 audited financial report is now available to download from our online investor portal at **CenturiaInvestor.com.** The report confirms the Fund's Net Asset Backing (NAB) per unit reduced from $0.87 to $0.85 over the half year to 30 June 2023. The 2.3% change in the NAB is a result of a minor reduction in the value of the Fund's investment property (<1% or $0.5 million) and incentives paid for from drawn debt in line with PDS disclosures. Unfortunately, elevated debt costs, attractive bond yields, term deposit rates and a challenging office sector are all currently having an impact on capital values. Despite these tough market conditions, we still maintain confidence in the resilience of high quality and well located commercial real estate.

Financial snapshot

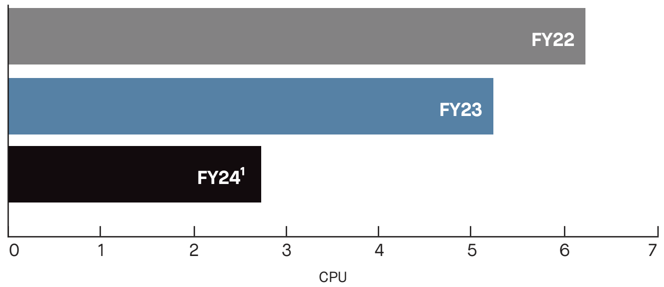
Fund Commencement Date	12 December 2019
Unit Price	$0.89[1]
Net Asset Backing	$0.85[2]
Distribution Rate (cents per unit)	2.75[3]
Weighted Average Lease Expiry (WALE) (years)	2.42[1]
Next Investor Vote on Term of Fund	12 December 2024

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 over five years.

1. As at 30 June 2023.
2. 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 remain at $0.85.
3. September 2023 quarter annualised.

Distribution details

ANNUALISED DISTRIBUTION



1. FY24 Forecast.

The reduction of distributions are primarily a result of significantly higher interest costs following the Fund's interest rate hedge expiring, and to a lesser extent the projected downtime resulting from anticipated vacancy in the property during FY24. As noted in the "Fund Summary' section, the underlying property investment continues to perform well, both retaining the majority of existing tenants and attracting new tenants where space becomes available.

The distribution rate for the remainder of the 2024 financial year is forecast to remain at 2.75 cents per unit (annualised). The Fund has currently hedged ~54% of the drawn debt and therefore the Fund's 'all-in' cost of debt may fluctuate which may negatively (or positively) impact distributable income for the Fund. The Fund will consider entering further hedging arrangements, however any new interest rate hedge pricing will be reflective of prevailing market conditions. Should there be any material departures from the FY24 distribution 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 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 or interest expense obligations.

Looking ahead, noting that the funds existing hedge over ~54% 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. More detail on the 2025 financial year distribution forecast will be provided in the March 2024 Fund Update once there is greater clarity on interest rates.

Property details

ASSET VALUES

Property Address	348 Edward Street, Brisbane, QLD
Purchase Price (Dec 19)	$79.0m[1]
Previous Valuation (Dec 22)	$88.5m
Current Valuation (Jun 23)	$88.0m
Cap Rate (Jun 23)	6.375%
Valuer	Director

The key metrics of the 30 June 2023 valuation are outlined in the table above.

Referencing the market conditions outlined in the 'Fund Summary' section, 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. Asa result, we will continue to monitor the market and take additional protectionary measures where required.

1. Acquisition price / valuation including incentives was $89.0m.

Top five tenants by net lettable area (NLA)

Deswik Lease expires 30 Nov 2027	23.6%
BMT Eastern Australia Lease expires 31 Jan 2028	13.3%
Dealer Solutions Lease expires 31 Aug 2023	7.9%
The Citadel Group Lease expires 31 Jan 2025	7.9%
First Mortgage Services Lease expires 30 Sep 2025	7.5%

The Weighted Average Lease Expiry (WALE) by income is approximately 2.42 years as at 30 June 2023.

Property statistics

	INITIAL[1]	DEC-22	JUN-23
Net Asset Backing	$0.88	$0.87	$0.85
Property Occupancy Rate	88%	100%	99%
Weighted Average Lease Expiry (WALE) (years)	5.10	2.77	2.42

Market overview

- The Brisbane market continues to experience strong leasing momentum, recording 22,750 sqm of net absorption over the quarter. As a result, the Brisbane CBD vacancy reduced from 13.6% to 12.6%.
- Both prime gross effective rents and secondary gross effective rents recorded increases of 3.3% and 1.0% respectively over the June 2023 quarter. The effective rental growth is a welcomed counterbalance to softening cap rates, which expanded further, and now reflect a range of 5.25% - 7.00%.
- Brisbane CBD has no new stock coming to market until 2025, which should continue to support rental growth in the short to medium term.

Source: JLL Research Q2 2023

Debt summary

	CURRENT PERIOD	LOAN COVENANTS
Total Facility Limit	$46.7m[2]	
Undrawn Amount	7.6m[2]	
Loan Expiry	1 Dec 2024	
% of Debt Hedged	53.7%[3]	
Loan to Value Ratio (LVR)	44.2%[4]	60.0%
Interest Cover Ratio (ICR)	2.54[5]	2.00

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 Value Ratio (LVR).

Noting the recent increase in the interest rate expense for the Fund, management is closely monitoring the forward looking ICR for the Fund. Based on the Fund's current ICR forecast, management has proactively requested amendments to the existing facility covenants which we believe will be agreed in the coming months. Management will keep investors abreast of any material developments in future investor updates.

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.

1. Based on the Product Disclosure Statement dated 31 October 2019.
2. As at 30 June 2023.
3. As at 30 June 2023. The Fund's drawn debt is partially hedged 17 June 2024.
4. The LVR is as at 30 June 2023 and based on the most recent independent valuation as defined under the debt facility agreement.
5. The stated ICR figures are based on the most recent audited accounts (30 June 2023).