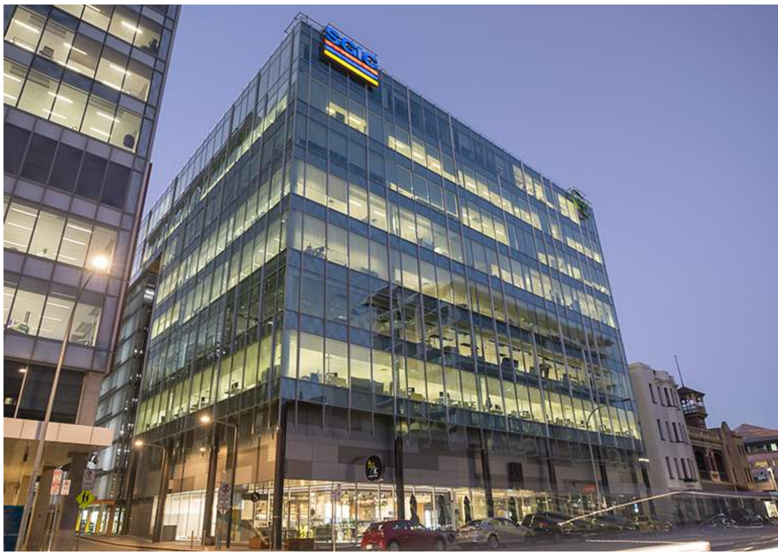
Centuria



Fund Update
September 2023

Centuria 80 Flinders Street Fund

(ARSN 634 979 838)

Key points

- As at 30 June 2023, the Net Asset Backing of the Fund is $1.03 per unit
- Forecast distributions for FY24 confirmed at 3.50 cents per unit (annualised)
- Healthy demand for quality office accommodation in the Adelaide CBD but future supply becoming a factor

Fund summary

Distributions for the **Centuria 80 Flinders Street Fund** (Fund) continue to be paid at 3.50 cents per unit (annualised), which is in line with the forecast for the 2024 financial year. The corresponding distribution statement for the Fund can be accessed from our online investor portal at **CenturiaInvestor.com.au.**

Market Overview

- Occupier demand in the Adelaide CBD office market was steady during the June 2023 quarter and the 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, 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

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**. The report confirms the Net Asset Backing (NAB) of units in the Fund decreased from $1.07 (as at 31 December 2022) to $1.03 (as at 30 June 2023), which was driven by a reduction in the property's valuation due to a further softening in the capitalisation rate by 25 basis points to 6.00%. Unfortunately, elevated debt costs, attractive bond yields, term deposit rates and a challenging office sector are all currently having an impact on capital values. Furthermore, the impending lease expiry risk of BAE Systems on 9 September 2025, which comprises approximately 16.7% of the property's gross income, is also likely to put more pressure on the valuation until an outcome is reached with the tenant.

Australian Cash Rate Update

The Reserve Bank of Australia (RBA) recently 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 to between 2.85% and 3.35% with the potential for cuts in late 2024.

However, it is important to note that economists have highlighted the risk of up to two rate hikes (+0.50%), should inflationary data surprise to the upside. Despite these tough market conditions, we still maintain confidence in the resilience of high quality commercial real estate.

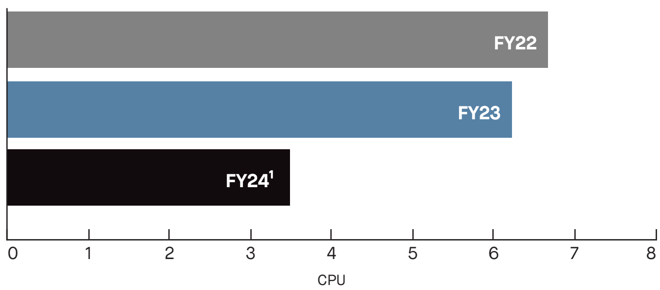
During this period of stabilisation, and dependant on prevailing interest costs, bond yields, term deposit rates and transactional evidence in the market, there may be continued pressure on distributions and valuations moving forward. As a result, we will continue to monitor the market and take additional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

Financial snapshot

Fund commencement date	30 Sep 2019
Unit price	$1.04[1]
Net asset backing	$1.03[2]
Distribution rate (cents per unit)	3.50[3]
Weighted average lease expiry (WALE) (years)	3.8[1]
Next investor vote on term of Fund	30 Sep 2024

Distribution details

ANNUALISED DISTRIBUTION



1. Forecast (annualised).

1. As at 30 June 2023.
2. Based on the most recent audited accounts as at 30 June 2023. Without the Mark to Market of the Fund's interest rate swap, the NAB per unit in the Fund would remain at $1.03.
3. September 2023 quarter, annualised.

The distribution rate of 3.50 cents per unit (annualised) is in line with the 2024 financial year forecast. Please note, this forecast distribution rate assumes all tenants will satisfy their contractual obligations under their leases and there are no significant unforeseen capital costs or material changes to the Fund's financial obligations.

However, given the impending lease expiry of BAE Systems, combined with the uncertainty associated with the cost of debt, this distribution forecast may need to be reviewed during the financial year. If any change is required, an out of cycle update will be provided to investors with as much notice as possible.

Property details

ASSET VALUES	
Property address	80 Flinders Street, Adelaide SA
Purchase price (Sep 19)	$123.4m[1]
Previous valuation – Independent (Dec 22)	$137.0m
Current valuation (Jun 23)	$135.0m
Cap rate (Jun 23)	6.00%
Valuer	Directors'

The property was subject to a Directors' 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.

Top five tenants by gross income

Beach Energy Lease expires 31 May 2026	27%
Wilson Parking Lease expires 28 Feb 2030	26%
BAE Systems 9 Sep 2025	17%
Insurance Australia Lease expires 18 Aug 2026	14%
Lucid Consulting Lease expires 23 Sep 2026	6%

We are pleased to report that Beach Energy has exercised its five-year option over 1,072 sqm until 31 May 2029, which is an excellent result for the Fund and hopefully will lead to a positive outcome on its larger, level 8 tenancy (3,239 sqm), which expires in May 2026.

In June, BAE Systems issued a brief to the market for between 2,500 sqm to 4,000 sqm and the tenant is currently reviewing available options, including remaining within 80 Flinders Street. Management met with representatives earlier in the year, as well as after the Request for Information was submitted. Various alternatives, such as converting the level 1 car park to office space, to accommodate the anticipated growth, have been put forward and it is likely further feedback will be provided during the December quarter.

Property statistics

	INITIAL[2]	DEC-22	JUN-23
Net asset backing	$0.95	$1.07	$1.03
Property occupancy rate	100%	100%	100%
Weighted average lease expiry (WALE) (years)	4.0	4.3	3.8

Debt summary

	CURRENT PERIOD	LOAN COVENANTS
Total facility limit	$62.0m	
Undrawn amount	$3.15m[3]	
Loan expiry	30-Sep-24	
% of debt hedged	Nil	
Loan to value ratio (LVR)	43.0%[4]	57.5%
Interest cover ratio (ICR)	2.75[5]	2.0

The Fund's drawn debt remains at $58.85 million, which is currently fully floating (in addition to the bank margin of 1.50% p.a.) with the ability to draw an additional $3.15 million to provide further liquidity and to fund future leasing related costs, as well as base building capital expenditure. During October, management will also be seeking to hedge a minimum of 50% of the loan until expiry of the Fund term in September 2024 to protect against any further 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 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).

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. Acquisition price including outstanding incentives was $127.0m.
2. Based on the Product Disclosure Statement dated 14 August 2019.
3. As at 30 June 2023.
4. The LVR is 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 as at 30 June 2023.