

Centuria

Fund Update September 2023 Centuria 80 Grenfell Street Fund

(ARSN 626 187 022)

Key points

- As at 30 June 2023, the Net Asset Backing of the Fund is \$0.94 per unit
- Forecast distributions for FY24 confirmed at 6.25 cents per unit (annualised)
- The fund term has been extended by two years until 23 July 2025

Fund summary

Distributions for the **Centuria 80 Grenfell Street Fund** (Fund) continue to be paid at 6.25 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 was steady during the June 2023 quarter and the overall vacancy rate remained 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 \$1.02 (as at 31 December 2022) to \$0.94 (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 5.75%. Unfortunately, elevated debt costs, attractive bond yields, term deposit rates and a challenging office sector are all currently having an impact on capital values. Having said that, the strategy is to also add value to the asset through enhancing the property's leasing profile, which is outlined in more detail within the Top Tenants section.



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.

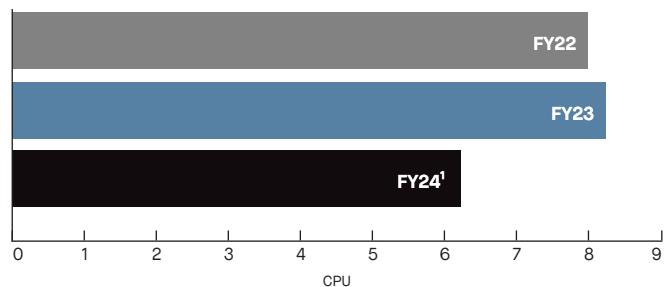
During this period of stabilisation, and dependant on prevailing interest costs, bond yields, term deposit rates and transactional evidence in the market, there may be continued pressure on distributions and valuations moving forward. As a result, we will continue to monitor the market and take additional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

Financial snapshot

Fund commencement date	23 July 2018
Unit price	\$0.95 ¹
Net asset backing	\$0.94 ²
Distribution rate (cents per unit)	6.25 ³
Weighted average lease expiry (WALE) (years)	2.7 ¹
Next investor vote on term of Fund	23 July 2025

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 \$0.94.

3. September 2023 quarter, annualised.

The distribution rate of 6.25 cents per unit (annualised) is in line with the 2024 financial year forecast. Please note, 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 or material changes to the Fund's financial obligations.

However, as previously communicated to investors, given the impending lease expiry of the property's major tenant, Bendigo and Adelaide Bank in November 2025, 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. Depending on leasing progress, we will also aim to give more detail on the 2025 financial year distribution outlook in the March 2024 Fund Update as well.

Property details

ASSET VALUES ¹	
Property address	80 Grenfell Street, Adelaide SA
Purchase price (Jul 18)	\$92.3m
Previous valuation – Independent (Dec 22)	\$96.5m
Current valuation (Jun 23)	\$93.0m
Cap rate (Dec 22)	5.75%
Valuer	Cushman and Wakefield

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.

Top tenants by net lettable area (NLA)

Bendigo and Adelaide Bank Lease expires 17 Nov 2025	91%
RP Data (CoreLogic) Lease expires 30 Sep 2027	5%
Civil Aviation Safety Authority Lease expires 31 Jul 2030	4%

As outlined within the Notice of Meeting and Explanatory Memorandum, Bendigo and Adelaide Bank (BAB) have advised it would like to consolidate onto four levels and relinquish its remaining six and half floors. Therefore, we are continuing our strategy of aiming to secure an early extension over these floors, completing direct renewals with the subtenants that currently occupy levels 9 to 11 and re-leasing the other three and half floors prior to becoming vacant in November 2025.

It is anticipated that discussions with BAB will commence towards the end of the calendar year, however in the interim, all available space is on the market for lease and proposals have also been issued to two of the three subtenants. We look forward to hopefully providing investors an update on any progress in early 2024 and rest assured, management will be doing everything it can to mitigate the impending lease expiry risk.

Note: The latest RG46 Statement for the Fund is available at [CenturiaInvestor.com.au](https://www.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.

- Figures based on the Fund's 50% interest in the property.
- Based on the Product Disclosure Statement dated 4 June 2018.
- Includes an 18-month rental guarantee over the vacant area of approximately 889 sqm on level 4, which expired on 22 January 2020.
- As at 30 June 2023.
- The LVR is based on the Fund's 50% interest and the most recent independent valuation as defined under the debt facility agreement.
- The stated ICR figures are based on the most recent audited accounts as at 30 June 2023.

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Property statistics

	INITIAL ²	DEC-22	JUN-23
Net asset backing	\$0.93	\$1.02	\$0.94
Property occupancy rate	100% ³	100%	100%
Weighted average lease expiry (WALE) (years)	7.3	3.2	2.7

Debt summary

	CURRENT PERIOD	LOAN COVENANTS
Total facility limit	\$42.2m	
Undrawn amount	\$0.7m ⁴	
Loan expiry	31-Jan-24	
% of debt hedged	Nil	
Loan to value ratio (LVR)	44.7% ⁵	57.5%
Interest cover ratio (ICR)	4.68 ⁶	2.0

The debt facility was recently rolled until 31 January 2024 with the aim of reassessing the Fund's position early in the new year. Given the short term nature of the extension, the drawn debt is remains fully floating (in addition to the bank margin of 1.70% p.a.).

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](https://www.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.