

Centuria

Fund Update September 2023 Centuria Geelong Office Fund

(ARSN 623 696 800)

Key Points

- Fund term extended in February 2023 for two years, now expiring 4 April 2025.
- TAC continues to conduct a strategic space requirement review.
- Leases executed with new ground floor tenant, WT Partnership, shops 9-11 (210 sqm) for a 4+2 year term.
- FY24 monthly distributions confirmed at 5.50 cpa (annualised). Additional hedging secured, reducing interest rate volatility throughout FY24.
- 30 June 2023 Net Asset Backing confirmed at \$1.04 per unit.
- The property is 95% occupied with a weighted average lease expiry (WALE) of approximately 5.30 years as at 30 June 2023.

Fund Summary

Distributions for the **Centuria Geelong Office Fund** (Fund) have been paid in line with the FY24 forecast of 5.50 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](https://www.centuriainvestor.com).

In February 2023, we are pleased to report that Investors provided overwhelming support to extend the Fund term for an additional two years, which now expires 4 April 2025. The Fund term extension allows Management additional time to progress ongoing lease negotiations with the property's major tenant (Transport Accident Commission / TAC) and for capital markets to stabilise.

Management continues to meet with TAC on a regular basis. Management last met with the TAC in July 2023, where the tenant's future accommodation requirements were once again discussed. The tenant continues their strategic workplace review for their future space needs. The TAC have very recently confirmed that they will undertake a multi staged process to confirm their future accommodation needs which could take 18 months to complete, being a significantly more protracted time frame than originally communicated by the TAC.

Their initial accommodation review is forecast to be completed by the end of this year, and thereafter the TAC have confirmed they will then proceed to canvas the Geelong market for available accommodation in order to meet fiduciary requirements. This process is anticipated to be followed by negotiations between the Fund and the appointed tenant representative. It is possible that the TAC's space requirements may differ from existing usage, however management needs to await the feedback from the TAC following the current process. Currently there are very limited alternative accommodation options for the TAC to consider.



On a positive note, we have a strong relationship with the TAC, have achieved early engagement with the tenant, and have triggered the TAC to commence an accommodation review well before their lease expiry in 2029. Management remains focused on securing a long term, beneficial partnership between the TAC and the Fund and we look forward to providing a further update following further meetings with the TAC.

The 30 June 2023 audited financial report is now available to download from our online investor portal at [CenturiaInvestor.com](https://www.centuriainvestor.com). The report confirms the Fund's Net Asset Backing (NAB) per unit remained stable at \$1.04 as at 30 June 2023.

Financial Snapshot

Fund Commencement Date	4 April 2018
Unit Price	\$1.04 ¹
Net Asset Backing	\$1.04 ²
Distribution Rate (cents per unit)	5.50 ³
Weighted Average Lease Expiry (WALE) (years)	5.31 ¹
Next investor vote on term of Fund	Prior to 4 April 2025

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.

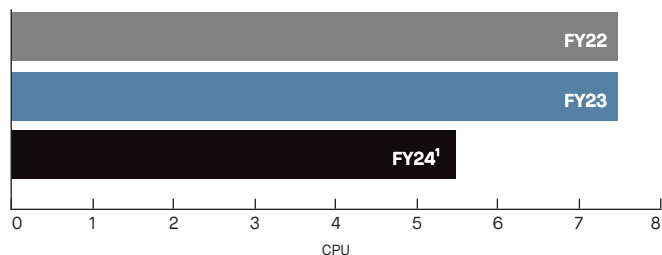
1. As at 30 June 2023.

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 \$1.04.

3. September 2023 quarter annualised.

Distribution Details

ANNUALISED DISTRIBUTION



1. FY24 forecast.

The reduction of distributions are directly a result of significantly higher interest costs following the Fund's interest rate hedges expiring in March 2023. Unfortunately, the loan and the fixed rate swaps were unable to be extended prior to the outcome of the unit holder vote in February 2023, at which time interest rates had materially increased. Specifically, the forecast cost of interest in FY24 has increased by ~\$1.9m (or >2.5 cents per unit) in comparison to the prior year. The underlying property investment continues to perform well, with 95% occupancy and a weighted average lease expiry (WALE) of approximately 5.3 years as at 30 June 2023.

The distribution rate for the remainder of the 2024 financial year is forecast to remain at 5.50 cents per unit (annualised). Should there be any material departures from this forecast, an out of cycle Investor update will be provided. Following the Fund term extension, ~75% of the Fund's drawn debt was hedged at a rate of 4.79% (plus bank margin), expiring 15 June 2024. A small portion of the Fund's debt remains unhedged, and therefore the Fund's 'all-in' cost of debt may fluctuate which may negatively (or positively) impact distributable income for the Fund.

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 the funds existing hedge over ~75% 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 future distributions. Management may enter into additional hedging in the coming months to minimise or smooth the potential impact. 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	60 Brougham Street, Geelong, VIC
Purchase Price (Apr 18)	\$115.25m
Previous Valuation (Dec 22)	\$131.0m
Current Valuation (Jun 23)	\$131.0m
Cap Rate (Dec 22)	6.00%
Valuer	Director

The key metrics of the 30 June 2023 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. 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. As a result, we will continue to monitor the market and take additional protectionary measures where required.

Top Tenants by Net Lettable Area (NLA)

Transport Accident Commission Lease expires 4 Jan 2029	92.1%
Victorian Chamber of Commerce & Industry Lease expires 18 Apr 2027	1.4%
Parliament of Victoria Lease expires 31 Jan 2029	0.9%
WestVic Lease expires 28 Feb 2028	0.4%

The Fund has executed leases with a new tenant, WT Partnership, over Shops 9-11 (210 sqm) on a 4+2 year term. WT Partnership are a multi-national quantity surveying business with 13 offices across Australia and a presence in all major cities. The new lease with WT Partnership will be reflected in the 31 December 2023 property valuation and reported metrics.

The Fund is also in the process of undertaking refurbishment works on the ex-Fernwood tenancy, following Fernwood's vacation in February 2023. The tenancy has excellent exposure to natural light, however, will require refurbishment in order to secure a suitable tenant on market terms.

Property Statistics

	INITIAL ¹	DEC-22	JUN-23
Net Asset Backing	\$0.89	\$1.05	\$1.04
Property Occupancy Rate	100%	98%	95%
Weighted Average Lease Expiry (WALE) (years)	10.30	5.80	5.31

Debt Summary

	CURRENT PERIOD	LOAN COVENANTS
Total Facility Limit	\$57.5m ²	
Undrawn Amount	\$3.9m ²	
Loan Expiry	29 March 2025	
% of Debt Hedged	~ ³	
Loan to Value Ratio (LVR)	40.9% ⁴	57.5%
Interest Cover Ratio (ICR)	4.86 ⁵	2.00

The Fund's debt facility has been extended in line with the Fund term, and will now expire on 29 March 2025. In addition to the extension of the Fund's debt facility, management has also taken out an interest rate swap over 75% of the Fund's drawn debt until June 2024, which will help mitigate interest rate volatility over the 2024 financial year.

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](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.

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.

1. Based on the Product Disclosure Statement dated 5 February 2018.
2. As at 30 June 2023.
3. Although no hedge was in place as at 30 June 2023, 75% of the Fund's debt was hedged in early FY24 at a rate of 4.79%, expiring 15 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).

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