Centuria

Fund Update
September 2023

Centuria Government Income Property Fund

(ARSN 650 901 812)

Key points

- As at 30 June 2023, the Net Asset Backing of the Fund is $0.84 per unit
- Forecast distributions for FY24 confirmed at 5.40 cents per unit (annualised)
- Leasing demand remains strong in the Melbourne Fringe but future supply becoming a factor

Fund summary

Distributions for the **Centuria Government Income Property Fund** (Fund) continue to be paid at 5.40 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

- The prime office vacancy rate within the Melbourne Fringe market reduced by 2.3% to 14.3% during the June 2023 quarter.
- This robust demand is expected to continue throughout the remainder of 2023 with an annual net absorption of 90,000 sqm anticipated.
- However, the supply pipeline remains active, with 18 new projects currently under construction, which are expected to deliver 177,477 sqm of office space into the Melbourne Fringe market, with a majority expected to be completed in the second half of 2023.
- Consequently, there is likely to be pressure on both vacancy rates and effective rents over the next two years.
- Prime yields are forecast to soften to a range of 5.75% to 6.75% by the end of 2023, before compressing by 0.25% in 2025.

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 $0.93 (as at 31 December 2022) to $0.84 (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 5.00%. Unfortunately, elevated debt costs, attractive bond yields, term deposit rates and a challenging office sector are all currently having an impact on capital values. Despite these challenging market conditions, we still maintain confidence in the resilience of high quality, fully leased and well located commercial real estate, such as 1 McNab Avenue, Footscray VIC.

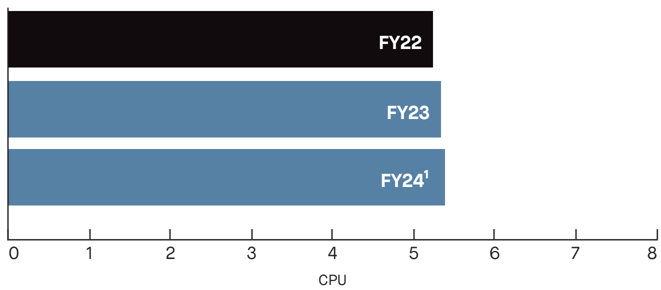
Financial snapshot

Fund commencement date	11 Aug 2021
Unit price	$0.93[1]
Net asset backing	$0.84[2]
Distribution rate (cents per unit)	5.40[3]
Weighted average lease expiry (WALE) (years)	10.2[1]
Next investor vote on term of Fund	11 Aug 2026

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.

Distribution details

ANNUALISED DISTRIBUTION



1. Forecast (annualised).

The distribution rate of 5.40 cents per unit (annualised) is in line with the 2024 financial year forecast. However, 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, which includes interest rates. If any change to the forecast distribution rate is required, an out of cycle update will be provided to investors.

Moving forward, given the existing hedging arrangements, which are outlined in the Debt Summary section, the Fund's 'all-in' cost of debt is likely to increase from approximately 2.78% p.a. to around 4.00% p.a.

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 be $0.80.
3. September 2023 quarter, annualised.

during the 2025 financial year. This will have an impact on distributions, however management may seek to enter into additional hedging in the coming months to minimise or smooth the reduction. 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	1 McNab Avenue, Footscray VIC
Purchase price (Aug 21)	$223.7m
Previous valuation – Directors' (Dec 22)	$225.0m
Current valuation (Jun 23)	$215.0m
Cap rate (Jun 23)	5.00%
Valuer	Colliers

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)

State Trustees Lease expires 12 Jun 2034	32%
City West Water Lease expires 22 May 2034	31%
Department of Treasury and Finance Lease expires 31 May 2034	27%
McConnell Dowell Lease expires 31 Aug 2027	8%
Carina Ford Lawyers Lease expires 31 May 2027	2%

Property statistics

	INITIAL[1]	DEC-22	JUN-22
Net asset backing	$0.87	$0.93	$0.84
Property occupancy rate	100%	100%	100%
Weighted average lease expiry (WALE) (years)	11.8	10.7	10.2

Debt summary

	CURRENT PERIOD	LOAN COVENANTS
Total facility limit	$113.5m	
Undrawn amount	$3.6m[2]	
Loan expiry	11-Aug-26	
% of debt hedged	75.1%[3]	
Loan to value ratio (LVR)	51.1%[4]	60.0%
Interest cover ratio (ICR)	3.91[5]	2.0

Under the Fund's five-year facility, the drawn debt remains at $109.85 million, which is 75.1% hedged at a fixed rate of 0.57% p.a. (in addition to the bank margin of 1.20% p.a.) until 30 June 2024, with the ability to draw an additional $3.60 million for future leasing related costs and base building capital expenditure. Furthermore, a two-year swap at 1.34% p.a. over 50% of the forecast drawn debt ($55.0m) has also been secured from 1 July 2024.

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.

1. Based on the Product Disclosure Statement dated 1 July 2021.
2. As at 30 June 2023.
3. The Fund's drawn debt is 75.1% hedged at a rate of 0.57% p.a. until 30 June 2024.
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.