

# Centuria

## Fund Update September 2023 Centuria SOP Fund

### Key points

- FY24 monthly distributions commenced at 6.50 cpu (annualised).
- Distribution rate for second half of FY24 will reduce to 4.25 cents per unit (annualised) due to Costco vacation.
- Toll Transport has executed a lease over 1,221 sqm (19% of building NLA) for an additional 5-years.
- Lobby works complete, with rooftop break-out works due for completion in November 2023.
- 30 June 2023 Net Asset Backing confirmed at \$1.07 per unit.
- The property is 100% occupied with a weighted average lease expiry (WALE) of approximately 2.20 years.

### Fund summary

Distributions for the **Centuria SOP Fund** (Fund) have been paid in line with the FY24 forecast of 6.50 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](http://CenturiaInvestor.com).

The Fund continues to upgrade common area facilities to attract and retain tenants. The ground floor entry foyer has been completely refurbished, the works improve the presentation and amenity of the foyer. New 'third space' break out areas have been added, allowing tenants a better entry experience and increasing the functionality of the foyer. In addition, the bike storage area has been refurbished - lifting the presentation and amenity of this end of trip facility. Rooftop works are well underway. On completion, the rooftop break-out area will offer views of the Sydney CBD and Chatswood skylines, and will further improve the attractiveness of the property to existing and potential tenants.

Costco currently occupies 1,383 sqm across two levels (21% by NLA) at the property. They have recently provided confirmation that they will vacate the property in December 2023, and are moving into short term accommodation in another building within the precinct. Costco are in the process of constructing a purpose built facility in Sydney's south-west and are not long term occupiers within the precinct. Management actively engaged with Costco over the past 18 months, seeking to extend the tenant's lease at the property. Management conducted regular meetings and provided highly competitive commercial leasing terms, reflective of prevailing market leasing conditions within the SOP precinct. The tenant expressed the desire to have contiguous floor space at the property - which we unfortunately are unable to provide. We hoped the recently completed, and ongoing, common area upgrades along with the attractive commercial terms offered would result in Costco remaining at the property. Management will now prepare plans



to refurbish and market the space when it becomes available in early 2024.

Toll Transport has recently renewed over 1,221 sqm (19% of NLA) for an additional 5-years, expiring Feb 2029. As a result, on a stand alone basis, this bolsters the property's WALE by an additional ~0.95 years.

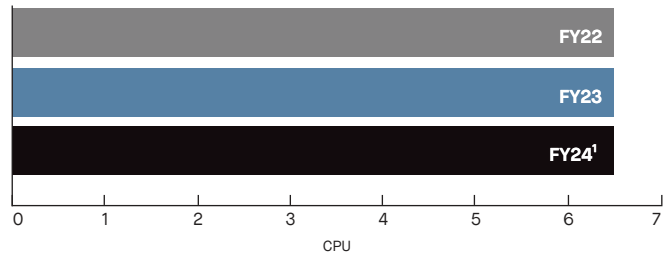
The Fund's Net Asset Backing (NAB) per unit, based on unaudited management accounts has remained moderately stable, decreasing from \$1.08 (as at 31 December 2022) to \$1.07 (as at 30 June 2023). It is pleasing to note there was no change to the prevailing valuation of the property, however there has been a minor reduction in the NAB (0.9%) where capital works has been undertaken without commensurate uplift in valuation. It is management's strong opinion that investing in common area upgrades is critical to improve the attractiveness of the property to existing and potential tenants.

### Financial snapshot

<b>Fund Commencement Date</b>	11 May 2017
<b>Net Asset Backing</b>	\$1.07 <sup>1</sup>
<b>Distribution Rate (cents per unit)</b>	6.50 <sup>2</sup>
<b>Weighted Average Lease Expiry (WALE) (years)</b>	2.20 <sup>3</sup>
<b>Next investor vote on term of Fund</b>	Prior to 11 May 2025

### Distribution details

#### ANNUALISED DISTRIBUTION



1. FY2024 Forecast

The distribution rate for the first half of the 2024 financial year is forecast to remain at 6.50 cents per unit (annualised). As foreshadowed in the initial FY24 distribution guidance, the distribution rate for the second half of the financial year is a function of the approaching lease

1. Based on most recent audited accounts (30 June 2023).  
2. September 2023 quarter annualised.  
3. As at 30 June 2023.

expiry of Costco (31 December 2023), who occupy level 2 and part level 5.

Unfortunately the tenant has elected to move to another building within the precinct, and therefore, the distribution rate for the second half of the financial year will reduce to 4.25 cents per unit (annualised).

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 obligations.

## Property details

ASSET VALUES	
Property Address	8 Australia Avenue, SOP, NSW
Purchase Price (Jun 17)	\$44.8m
Previous Valuation (Dec 22)	\$51.5m
Current Valuation (Jun 23)	\$51.5m
Cap Rate (Jun 23)	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 five tenants by net lettable area (NLA)

Western Sydney University Lease expires 31 Oct 2026	37.2%
Costco Wholesale Foods Lease expires 31 Dec 2023	21.1%
Toll Transport Lease expires 28 Feb 2029	18.7%
Bluewealth Property Lease expires 31 Mar 2027	7.5%
Simplot Australia Lease expires 30 Jun 2024	5.4%

1. Based on the Investment Memorandum/30 June 2017 Financial Accounts

2. As at 30 June 2023.

3. The Fund's debt is structured as a fixed all-in price until 18 August 2025, and the Fund is not impacted by a movement in interest rates.

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 accounts (30 June 2023).

**Disclaimer:** Issued by Centuria Property Funds Limited, ABN 11 086 553 639, holder of AFSL 231 149. The information in this document is general information only and does not take into account your personal financial circumstances, needs or objectives. We recommend you speak with your financial and/or taxation advisor before making any decisions in relation to your investment.

The property is 100% occupied with a weighted average lease expiry of approximately 2.20 years as at 30 June 2023.

## Property statistics

	INITIAL <sup>1</sup>	DEC-22	JUN-23
Net Asset Backing	\$0.90	\$1.08	\$1.07
Property Occupancy Rate	88%	100%	100%
Weighted Average Lease Expiry (WALE) (years)	3.53	2.69	2.20

## Market overview

- The Sydney Metro West project is currently under construction and will connect the Western Sydney region (from Westmead) to the Sydney CBD. The metro station at 5 Figtree Drive currently includes a proposal for two office towers, totalling 30,440 sqm, with a scheduled completion date in late 2028.
- The Sydney Olympic Park vacancy rate increased 1.3% over the quarter to 12.3%. Demand for office space in the Sydney Olympic Park/Rhodes market has been supported by a number of large tenant moves. The largest being CBA taking 5,818 sqm at 10 Dawn Fraser in Q2 2022.
- No office completions or withdrawals were recorded over the June 2023 quarter, with no additional supply currently under construction.
- No sales transactions were recorded over Q2 2023.
- Prime yields softened by 25 bps on both ends to range between 6.00% and 6.75% as at 30 June 2023.

Source: JLL Research Q2 2023

## Debt summary

	CURRENT PERIOD	LOAN COVENANTS
Total Facility Limit	\$23.0m <sup>2</sup>	
Undrawn Amount	\$3.25m <sup>2</sup>	
Loan Expiry	18 Aug 2025	
% of Debt Hedged	100% <sup>3</sup>	
Loan to Value Ratio (LVR)	38.3% <sup>4</sup>	57.5%
Interest Cover Ratio (ICR)	5.91 <sup>5</sup>	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).

## 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](mailto:Property.Enquiry@CenturiaInvestor.com.au).