

Centuria

Fund Update September 2023 Centuria Sandgate Road Fund

(ARSN 618 152 702)

Key points

- As at 30 June 2023, the Net Asset Backing of the Fund is \$0.86 per unit
- Forecast distributions for FY24 confirmed at 6.25 cents per unit (annualised)
- The fund term has been extended by 12 months to 7 July 2024

Fund summary

Distributions for the **Centuria Sandgate Road 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

- During the June 2023 quarter, the Brisbane Near City market recorded a seventh consecutive quarter of positive net absorption.
- This resulted in the overall vacancy rate trending down from 16.8% to 14.8% over the three months to June 2023.
- As a result, prime gross face rents also increased by 1.7% over the quarter and incentives experienced a minor reduction to 43.5%.
- The Queensland Government has a number of briefs in the market, which will likely support demand in the Near City market the short-term.
- This combined with no new office stock anticipated to be completed in 2024 and 2025, the vacancy rate is forecast to reach 12.3% by 2027.
- From a capital markets perspective, there remains a disconnect between buyer and vendor expectations. Therefore, midpoint prime yields are anticipated to soften further to 7.00% by the end of 2023, then reverting back to 6.63% by 2027.

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 \$0.90 (as at 31 December 2022) to \$0.86 (as at 30 June 2023), which was driven by a reduction in the property's valuation due to letting up allowances for the impending Energex lease expiry in November 2027 being deducted to reflect the associated risk with approximately 73% of the property's gross income. However please note, if the tenant's lease is successfully renewed, these capital deductions will be removed from the valuation.

1. Based on the most recent audited accounts as at 30 June 2023.
2. September 2023 quarter, annualised.
3. As at 30 June 2023.



Australian Cash Rate Update

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.

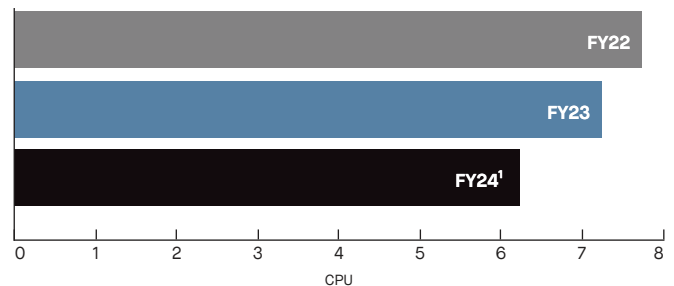
During this period of stabilisation, and dependant on prevailing interest costs, bond yields, term deposit rates and transactional evidence in the market, there may be continued pressure on distributions and valuations moving forward. As a result, we will continue to monitor the market and take additional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

Financial snapshot

Fund commencement date	7 July 2017
Net asset backing	\$0.86 ¹
Distribution rate (cents per unit)	6.25 ²
Weighted average lease expiry (WALE) (years)	4.3 ³
Next investor vote on term of Fund	7 July 2024

Distribution details

ANNUALISED DISTRIBUTION



1. Forecast (annualised).

The distribution rate of 6.25 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 with as much notice as possible.

Property details

ASSET VALUES	
Property address	1231-1241 Sandgate Road, Nundah QLD
Purchase price (Jul 17)	\$106.3m
Previous valuation – Independent (Dec 22)	\$108.0m
Current valuation (Jun 23)	\$106.0m
Cap rate (Jun 23)	6.50%
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 net lettable area (NLA)

Energex Lease expires 14 Nov 2027	67%
Go Health Clubs Lease expires 6 Dec 2027	16%
State of Queensland Lease expires 31 Dec 2027	11%
Sushi Edo Lease expires 2 Apr 2026	1%
Studio Pilates Lease expires 29 Jul 2028	1%

As foreshadowed within the Notice of Meeting and Explanatory Memorandum issued to investors in late May, we have re-engaged with Energex in order to hopefully progress a potential early lease renewal. However, due to several factors, including changes in senior management and increasing headcount, its future accommodation requirements are still uncertain. Our understanding is that a workplace strategist is assisting with this process and in the interim, any tenant briefs that may be suitable are being pursued with the aim of mitigating any potential lease expiry risk. We will advise investors as soon as there are any material updates.

Property statistics

	INITIAL ¹	DEC-22	JUN-23
Net asset backing	\$0.90	\$0.90	\$0.86
Property occupancy rate	100%	98%	98%
Weighted average lease expiry (WALE) (years)	9.4	4.8	4.3

Debt summary

	CURRENT PERIOD	LOAN COVENANTS
Total facility limit	\$48.3m	
Undrawn amount	\$0.50m ²	
Loan expiry	30-Jun-24	
% of debt hedged	Nil	
Loan to value ratio (LVR)	44.3% ³	57.5%
Interest cover ratio (ICR)	4.16 ⁴	2.0

The debt facility was recently extended 12 months to coincide with the Fund term and given the short term nature of the extension, the drawn debt is remains fully floating (in addition to the bank margin of 1.60% 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.

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.

- Based on the Product Disclosure Statement dated 7 April 2017.
- As at 30 June 2023.
- The LVR is based on 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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