# Centuria

Quarterly fund update
December 2023

# Centuria Diversified Property Fund (Fund)

(ARSN 611 510 699 & ARSN 645 597 404) (APIR – CNT9370AU)


36 CARIBOU DRIVE, DIREK SA

## December 2023 quarter performance highlights

- December 2023 distributions paid at an annualised rate of 5.10 cpu, reflecting a yield of 5.6% on the 1 January 2024 unit price.
- December 2023 valuation cycle completed – direct portfolio valuation reduction of $4.6m (-2.17%), coupled with unlisted funds holding reduction of $1.9m, resulting in a unit price decrease of 4.02 cents per unit.
- Proactive liquidity strategy – divestment programme for maximised assets.
- Strong occupancy of 93.1% and WALE of 5.10 years as at 31 December 2023.

## Key portfolio metrics[1] as at 31 December 2023

| | |
|---|---|
| **Portfolio assets** | 15 |
| **Carrying value** | $223,111,020 |
| **Weighted capitalisation rate**[2] | 6.57% |
| **Net lettable area (SQM)**[3] | 50,775 |
| **Number of tenants** | 89 |
| **WALE (years)**[4] | 5.10 |
| **Weighted occupancy**[4] | 93.14% |
| **Weighted NABERS rating**[5] | 5.0 stars |

## Market update

The Australian property market continues to adjust following what has been a highly aggressive interest rate tightening cycle.

The RBA held interest rates steady at 4.10% between June 2023 and November 2023, before increasing the cash rate target by a further 25 bps to 4.35%, in order to be more assured that inflation would return to target in a reasonable timeframe.

Looking ahead, Australia's big four banks currently forecast the RBA will reduce the cash rate by 25 and 50 bps in the second half of 2024[6], which is anticipated to positively impact property values.

Furthermore, there are a number of interesting economic and demographic fundamentals that also provide a positive outlook for commercial real estate over the medium term, including the following[7]:

- Australia's population is expected to grow by 1.1 million people from 2023 to 2025 and by 4.0 million to 2033;
- 1.3 million more people are employed than pre-COVID: Healthcare +34%, "traditional white collar" job +27%, Construction +11%, Education +11%, and Transport/ warehousing +7%;
- estimated additional 2.6 million Australians will be working during the next 10 years;
- c.150,000 job vacancies in Australia, broadly in line with pre-COVID figures – illustrating normalisation;
- 11% increase in wages during the past three years;
- CBD visitations are back to 72% of 2019 levels;
- elevated construction costs inhibit new office buildings and lenders typically require +60% pre-leasing commitment.

Centuria anticipates these economic indicators should underpin future demand across property sectors within its portfolio to the potential benefits of investors. As the current environment is constantly evolving, Centuria will continue monitoring market and economic conditions closely and will provide regular updates as necessary.

1. Updated on a quarterly basis and for significant portfolio changes.
2. Weighted by fund allocation.
3. Direct property portfolio only.
4. Weighted by gross income.
5. The NABERs energy rating is for the Fund's office assets only. The Fund's industrial and social infrastructure assets are not subject to rating.
6. Source: Bloomberg's RBA Cash Rate Survey 4 December 2023
7. Source: CBRE Research

## 31 December 2023 direct property valuations and valuation policy

The Fund continued to complete quarterly property valuations for the direct properties to ensure the market value of these investments are accurately reflected in the unit price. The Fund's direct property assets were most recently valued as at 31 December 2023, at which point four of eight assets were independently valued, with the remaining four assets subject to a directors valuation, having been independently valued as at 30 September 2023.

In the six months to 31 December 2023, the Australian market (particularly office) saw minimal transactions, with sales volumes throughout calendar year 2023 illustrating a reduction of ~69% over the preceding year. Transactional evidence suggests there is still liquidity for smaller assets (< $50 million) with high passing yields, in a subsector traditionally dominated by syndicators and private owners.

We believe the lack of tangible evidence has seen valuers place greater reliance on failed campaigns, assets placed in exclusive due-diligence (but yet to complete), as well as spreads from the 10-year bond yield. Despite a lack of liquidity in the market, Based on our experience, valuers are yet to include particularly onerous or unusual reliance clauses in valuation reports, however, this could be subject to change in coming cycles if the market stalemate is prolonged.

The 31 December 2023 property valuations of the Fund's direct portfolio resulted in a decrease of $4.6m (-2.2%). Valuation movement by portfolio sector is as follows: office (-3.06%), industrial (no change), social infrastructure (-0.75%). Increasing interest rates have placed upward pressure on valuation capitalisation rates, broadly affecting most asset classes, resulting in minor softening of values across the portfolio. It is pleasing to see that the industrial and social infrastructure assets have shown resilience, reflecting the tightly held nature of these smaller sized assets.

The Manager maintains and complies with a written valuation policy for the valuation of property assets held by its property funds. Under the valuation policy, direct properties of the Fund will be independently valued at least once every 24 months. To ensure unit pricing is reflective of prevailing market conditions, the Fund has been exceeding this frequency and conducting valuations quarterly[1] for the past couple of years. This means that each property is currently valued independently twice a year which gives Investors confidence that the valuations are up to date.

## Fund gearing, hedging, and covenant sensitivities

The Fund conducted on market sales campaigns for the divestment of two of the Fund's smaller Queensland assets earlier this year. The Fund's portfolio was overweight in Queensland, and a sale of these properties proactively assisted with the portfolio asset allocation and reduces fund gearing. Proceeds from the sales were used to pay down debt, reducing the Fund's gearing to 39.0%, and increasing the undrawn debt capacity for the Fund.

Following the successful refinance of the Fund's debt facility in December 2022, the Fund secured two additional swaps in order to provide cashflow surety throughout FY24 and FY25. The two swaps increase the Fund's forecast hedging to ~99.0% through FY24 which mitigates interest rate volatility.

Looking ahead, noting that 64% of the Fund's existing hedges 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 distributions. As noted earlier, management may enter into additional hedging in the coming months to mitigate future interest rate volatility.

Under the terms of the debt facility the Fund is required to comply with certain loan covenants over the course of the financial year. Based on the audited financial report as at 30 June 2023, the Fund is compliant with all covenants including the Interest Cover Ratio (ICR) and Loan to Valuation Ratio (LVR).

The Fund also continues to conduct stress testing of financial covenants and we are pleased to confirm robust headroom within our debt facility. For example, the value of the properties (based on the latest valuations) would have to fall by 29.4% for the Fund to breach its LVR covenant. Similarly, the income of the Fund would have to fall by 50% for the Fund to have breached its ICR covenant over the past 6 months.

1. Typically, the Fund will value ~50% of the direct portfolio (by quantum) independently, and ~50% of assets internally each quarter.

## Proactive liquidity strategy – divestment strategy for maximised assets

As a result of the increased interest rate environment, the Fund (along with many of its peers) continues to experience increased levels of redemption requests. The majority of CDPF's direct unlisted competitors have responded by suspending redemptions.[1]

Prior to CY23 the Fund had satisfied all redemption requests, however over the past four quarters redemption scaling between 50% - 88% has been required. Importantly the Fund's limited liquidity facility remains open.

In early 2023, CDPF pre-emptively divested two smaller Queensland assets to improve Fund liquidity. Centuria management is again proactively considering the future liquidity requirements of the Fund, prior to the end of FY24. To accommodate continued liquidity needs of the Fund, Management is targeting the sale of two office assets, being 10 Moore Street, Canberra ACT and 8 Market Lane, Maroochydore QLD.

Management has recently renewed the asset's largest tenant at the Canberra asset, Optus, over 2,278 sqm for 3-years (now expiring March 2027), as well as completing a brand-new end of trip and tenant activity space. The recent extension of the major tenant, along with new tenant amenities means that the asset has been optimised in the near term.

The Foundation Place asset is arguably CDPF's most saleable office asset due to its young age, asset size, and strong local market fundamentals.

The Fund remains overweight to office (70.6%) and Queensland (41.1%). In addition to reducing gearing, an office sale will lead to a more balanced portfolio. A sale of one or both assets will not be detrimental to the remaining investment portfolio, in fact the portfolio/investment attractiveness is likely to improve as a result of:

- reduced Fund gearing,
- improved residual weighting to industrial and social infrastructure sectors,
- a reduced weighting to Queensland (Maroochydore asset),
- a reduced portfolio average building age (Moore Street asset),
- an improvement in the residual portfolio WALE.

## Top 10 tenants as at 31 December 2023

| | TENANT | % INVESTMENT WEIGHTED INCOME | PROPERTY |
|---|---|---|---|
| 1 | Entain | 17.54% | 25 Montpelier Road, Bowen Hills |
| 2 | Apex Steel | 12.94% | 36 Caribou Drive, Direk |
| 3 | Transport Accident Commission | 6.68% | 60 Brougham Street, Geelong |
| 4 | Cleanaway | 5.89% | 171 Camboon Road, Malaga |
| 5 | Optus | 5.41% | 10 Moore Street, Canberra |
| 6 | Busy Bees Childcare | 4.11% | 26 Westbrook Parade, Ellenbrook & 40 John Rice Avenue, Elizabeth Vale |
| 7 | Cliftons | 3.37% | 10 Moore Street, Canberra |
| 8 | St Vincent's Care Services | 3.18% | 25 Montpelier Road, Bowen Hills |
| 9 | Carter Grange Home | 2.77% | 13 - 15 Compark Circuit, Mulgrave |
| 10 | Healthia | 2.60% | 25 Montpelier Road, Bowen Hills |

## Distribution rate and fund performance[2,3]

Distributions for the December 2023 quarter were paid at 5.10 cents per unit (annualised). We are pleased to report that the underlying property portfolio has continued to perform well, with a 93.1% occupancy rate and a weighted average lease expiry of 5.10 years as at 31 December 2023. The declared distribution rate of 5.10 cents per unit (for the month of January 2024 annualised) reflects a yield of 5.6% on 1 January 2024 Unit Price.

During the recent period of market volatility, we are pleased to note that the Fund's monthly income returns remained consistent and are underpinned by a diversified portfolio of high creditworthy tenants including national, government, ASX listed and multinational tenants. Unfortunately, due to prevailing market conditions the property sector has experienced headwinds, negatively impacting the near-term capital returns of the Fund.

Further details of the underlying valuations and fund weightings can be found in the Investment portfolio table on Page 5.

| | 6 MTH (%) | 1 YR (% P.A) | 3 YR (% P.A) | 5 YR (% P.A) | INCEPTION (% P.A.)[4] |
|---|---|---|---|---|---|
| **Distribution** | 2.59 | 5.20 | 4.94 | 4.68 | 4.45 |
| **Capital** | -10.86 | -16.03 | -3.98 | -2.14 | 3.61 |
| **Total return** | -8.27 | -10.83 | 0.96 | 2.54 | 8.06 |

1. Based on Centuria's research of open-ended unlisted property funds in Australia.
2. Annualised total return figures reflect compounded monthly returns generated from both capital and income (including reinvestment). Annualised income returns are presented as the sum of the monthly income returns. The returns presented are reflective of any performance fees paid. Returns of less than 1 year are not annualised. Past performance is not a reliable indicator of future performance.
3. Data is as at 31 December 2023. The implementation of the Stapled Fund occurred on 27 May 2022. The performance shown here illustrates the performance of CDPF (standalone) prior to implementation, and the performance of the Stapled Fund (CDPF and CDPF No. 2 consolidated) following implementation. Past performance is not a reliable indicator of future performance.
4. Inception date of CDPF, prior to merger, is 24 June 2016. The implementation of the stapling of CDPF and CDPF No.2 occurred on 27 May 2022.

## Portfolio performance

The long-term performance in the Fund has been strong, with a total return since inception of 8.06% p.a. Despite challenging market conditions, the Fund continued to meet its objective of providing Investors regular monthly income underpinned by 93.1% occupancy, a WALE of 5.10 years, and average annual rental increases of 3.30%. Centuria management is working closely with our leasing team and tenants to maximise performance through this property cycle and we look forward to updating you at the next webinar or via the CDPF website.

## Fund liquidity facility

The Fund holds an investment property portfolio predominantly consisting of direct real property and a smaller holding in liquid assets. The liquid assets provide liquidity to the Fund and are utilised to offer Investors a limited quarterly withdrawal facility capped at up to 2.50% of NAV per quarter.

In addition to the limited quarterly withdrawal facility, the Fund has a rolling five-year investment term, with a liquidity event at the end of each term – next due in December 2025. This is in line with the recommended investment timeframe outlined in the Fund's Target Market Determination.

Investors should note that the quarterly liquidity facility is a limited facility. The Fund has scaled redemption requests for the last three quarters. Any unmet portion of each request is carried over to the following quarter, as a new request, unless the Investor requests otherwise.

## Centuria co-investment

The recommended investment timeframe within the Fund is five years and we maintain confidence in the long-term view for commercial property. Centuria is highly aligned with Investors in the Fund, being one of the Fund's largest unitholders, with approximately 32% of the units on issue held by related party entities. As we go through this property cycle, Centuria is pleased to be able to co-invest alongside our Investors.

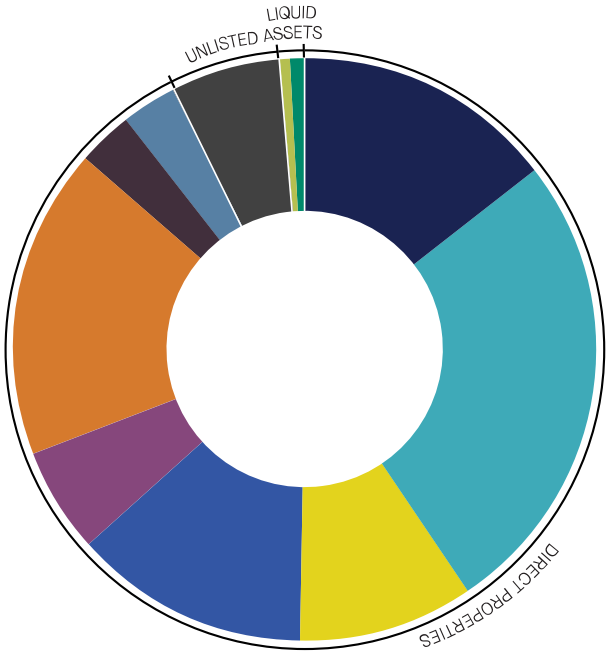
## Debt summary as at 31 December 2023

| | CURRENT PERIOD | LOAN COVENANTS |
|---|---|---|
| **Total facility limit** | 116m[1] | |
| **Undrawn amount** | 27.1m[1] | |
| **Loan expiries** | $1m, 15 Dec 2023<br>$30m, 15 Dec 2024<br>$30m, 15 Dec 2025<br>$30m, 15 Dec 2026<br>$25m, 15 Dec 2027 | |
| **% of debt hedged** | 99.0%[2] | |
| **Loan to value ratio (LVR)** | 43.10%[3] | 60.00% |
| **Interest cover ratio (ICR)** | 4.02[4] | 1.75 |

40 JOHN RICE AVENUE, ELIZABETHVALE SA

1. As at 31 December 2023.
2. As at 31 December 2023, the Fund's drawn debt is mostly hedged with a weighted average swap maturity of 0.36 years.
3. The LVR is as at 31 December 2023.
4. The ICR is as at 31 December 2023, based on unaudited financial accounts.

## Asset allocation as at 31 December 2023[1]




**DIRECT PROPERTY (92.51%)**

**Office assets**
- 10 Moore Street, Canberra ACT **14.57**
- 25 Montpelier Road, Bowen Hills QLD **26.00**
- 13 & 15 Compark Circuit, Mulgrave VIC **9.73**
- 8 Market Street, Maroochydore QLD **13.17**

**Industrial assets**
- 171 Camboon Road, Malaga WA **5.83**
- 36 Caribou Drive, Direk SA **17.26**

**Social infrastructure assets**
- 26 Westbrook Parade, Ellenbrook WA **2.91**
- 40 John Rice Avenue, Elizabeth Vale SA **3.00**

**UNLISTED PROPERTY FUNDS (6.15%)**

**LIQUID ASSETS (1.34%)**
- Cash and deposits for acquisitions **0.64**
- Vanguard Australian Property Securities Index Fund **0.70**

## Investment portfolio as at 31 December 2023[1]

| | FUND WEIGHTING (%) | VALUATION ($M) | PROPERTY VALUATION CAP RATE (%) | OCCUPANCY (%) | WALE (BY INCOME) |
|---|---|---|---|---|---|
| **Direct properties** | | | | | |
| **Office assets** | | | | | |
| 10 Moore Street, Canberra ACT | 14.57 | 32.3 | 7.12 | 100 | 2.56 |
| 25 Montpelier Road, Bowen Hills QLD | 26.00 | 58.0 | 6.88 | 100 | 3.94 |
| 13 & 15 Compark Circuit, Mulgrave VIC | 9.73 | 21.7 | 6.75 | 37.7 | 0.50 |
| 8 Market Street, Maroochydore QLD | 13.22 | 29.5 | 6.88 | 100 | 3.55 |
| **Industrial assets** | | | | | |
| 171 Camboon Road, Malalga WA | 5.83 | 13.0 | 6.25 | 100 | 1.83 |
| 36 Caribou Drive, Direk SA | 17.26 | 38.5 | 5.75 | 100 | 14.08 |
| **Social infrastructure assets** | | | | | |
| 26 Westbrook Parade, Ellenbrook WA | 2.91 | 6.5 | 5.75 | 100 | 17.17 |
| 40 John Rice Avenue, Elizabeth Vale SA | 3.00 | 6.7 | 5.50 | 100 | 17.25 |
| **Total direct properties** | **92.51** | **206.4** | **6.57** | **92.4** | **5.17** |
| **Holdings in Centuria unlisted funds** | | | | | |
| Multiple Holdings | 6.15 | 13.7 | 6.52 | 98.4 | 4.53 |
| **Total Centuria unlisted funds** | **6.15** | **13.7** | **6.52** | **98.4** | **4.53** |
| **Liquid assets** | | | | | |
| Vanguard Australian Property Securities Index Fund | 0.70 | 1.6 | | | |
| Cash | 0.64 | 1.4 | | | |
| **Total liquid assets** | **1.34** | **3.0** | | | |
| **Total investment portfolio** | **100** | **223.1** | **6.57** | **93.1** | **5.10** |

1. Updated on a quarterly basis and for significant portfolio changes. The valuation information is outlined on the Fund's continuous disclosure page.

## RG46 statements

The latest RG46 Statement for the Fund is available at: **centuriainvestor.com.au**.

It includes the following key information:

- Gearing ratio, calculated using ASIC methodology
- Gearing covenant sensitivities
- Detail of related party transactions in the period
- Further information on the source of distributions.

## Centuria investor website

You can access all information relating to your Centuria investments at **centuriainvestor.com.au**.

## Contact details

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