

# Centuria

Quarterly fund update  
December 2023

## Centuria Healthcare Property Fund

(ARSN 638 821 360 APIR CTR0438AU)

### Key points

- Income underpinned by 94.4%<sup>1</sup> occupancy, WALE of 10.1 years and 61.8% of rental increases linked to CPI.
- Target distribution for March 2024 quarter is 4.30 cpu (annualised)<sup>2</sup>.
- The Fund has successfully settled the divestment of five portfolio assets which is 4.8% above book value and the sale proceeds will be utilised for quarterly redemption and ongoing capital requirements.

### Fund summary

The Fund's strategy is to build and manage a portfolio of high-quality healthcare assets leveraging affordable healthcare services to deliver resilient returns to investors. The Fund currently owns a portfolio of 20 properties including medical centres, day and short stay hospitals, life science, specialist centres and dementia care homes. Since inception of the Fund, the Manager has enhanced portfolio quality, increased the WALE, and improved tenant diversification.

	INCEPTION <sup>3</sup>	2023 PORTFOLIO <sup>4</sup>
WALE	6.7 years	10.1 years
Tenant diversification	48 tenants	84 tenants
Largest single tenant exposure	32%	12%
Average portfolio age	7.0 years	8.6 years

### Market commentary

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, 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<sup>5</sup>:

- 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 now than pre-COVID with the largest increase in 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.
- elevated construction costs inhibit new 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 benefit 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.

### ESG initiatives

The Fund is currently working with a solar provider to install solar panels across a number of properties and this is expected to improve property income and may also provide an improvement in value. As part of phase one, the Fund is currently intending to install solar for the below listed properties, subject to council approval. In addition to the below, there are a number of properties earmarked for the installation in phase two.

- 38-44 Gar Road, Sunbury VIC
- 299 Scottsdale Dive, Robina QLD
- Vermont South Medical Centre, VIC

1. Includes rental guarantees. As at 31 December 2023, based on current as-if complete value.

2. The target distribution rate is not a forecast, is predictive in nature and is subject to assumptions, risks and circumstances (both known and unknown) outside of the control of Centuria Property Funds No. 2 Limited, as responsible entity of the Fund. These assumptions include that all tenants will satisfy their contractual obligations under their respective leases within a timely manner, there are no significant unforeseen capital costs or material changes to the Fund's financial obligations, pipeline properties will be acquired by the Fund at current valuations and that funding will be secured at a particular interest rate. Actual returns may differ from the target return. Centuria Property Funds No. 2 Limited does not guarantee the performance of the Fund, the repayment of capital or any income or capital return. Past performance is not a reliable indicator of future performance. In addition, given the current volatility in interest rate forecasts, this assumption may need to be reviewed. Should interest rates differ from forecast levels, distributions may be revised.

3. Inception date is 21 September 2020. Past performance is not a reliable indicator of future performance.

4. Data as at 31 December 2023.

5. CBRE Research

The Fund settled on the acquisition of the brand new development "The Bond" in September 2023. The below are a few highlights on the property from an ESG perspective.

- The property has been designed using state-of-the-art cross-laminated timber (CLT) technology for the floorplates, walls, and stairs, as well as traditional laminated timber columns and beams for the frame plus full-height glazing for natural light. The CLT structure significantly reduced steel and concrete volume, therefore carbon savings are achieved through the life of the building.
- The property is registered for and obtained certification to 5 Green Star Design Review from the Green Building Council of Australia. The building's construction waste management strategies meant The Bond achieved full Green Star points for avoidance of construction waste to landfill, with a benchmark of less than 10kg waste/sqm (GFA).

## Leasing update

During the December 23 quarter, the Fund successfully executed the below summarised leases, reducing the downtime risk and improving the occupancy and WALE of the portfolio.

- **Varsity Lakes, QLD** – A 10-year lease renewal with Temple Gym over 461sqm. The new lease will expire in October 2033.
- **Springwood, QLD** – The anchor tenant, Brisbane Day Hospital has taken an additional space of 171sqm for 10 years with the lease expiry in January 2034. The passing rent of \$475 per sqm is higher than the budgeted/rent guarantee rent of \$450 per sqm.
- **West Lakes** – Western Heart Care Pty Ltd have executed a lease of approximately 168sqm for a term of 10 years expiring in June 2034.

The Manager continues to work with the leasing agent to lease the vacancy at Bloomfield Medical Centre, Orange (level 3 / 2,267 sqm / 28% of NLA of the property). Part of level 3 is currently occupied by a short-term tenant and the tenant is currently paying an annual rent of \$120,000 (13% of level 3 income).

## Redemptions

- Over the past quarter, the Fund has received withdrawal requests which have exceeded the Fund's quarterly liquidity cap. As a result, all redemption requests have been scaled back proportionately for the December 2023 quarter. Further information regarding the scale back is available on the Fund's continuous disclosure website.
- As disclosed in the Fund's Product Disclosure Statement, when withdrawal requests exceed the redemption cap, the Manager will scale back requests on a pro rata basis.
- Any withdrawal requests submitted during a quarter which are not satisfied, either in whole or in part, automatically roll over to the following quarter, unless the Investor requests otherwise or the Manager suspends withdrawals. Any withdrawal requests rolled over to the next quarter do not have priority, but form part of the pool of new withdrawal requests for that next quarter.

## Fund liquidity facility

- The Fund holds an investment property portfolio predominantly consisting of direct and indirect 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 10% of NAV per annum.
- 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 August 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.

## Centuria co-investment

- The recommended investment timeframe within the Fund is five years and we maintain confidence in the long-term view for healthcare property. Centuria is highly aligned with investors in the Fund, being one of the Fund's largest unitholders, with approximately 12% of the units on issue held by related party entities. In addition, Centuria owns redeemable preference units valued at \$28.6 million within the Fund (post redemption of \$6 million by the Fund in December 23). As we go through this property cycle, Centuria is pleased to be able to co-invest alongside our Investors.

## Transactions

### Developments and fund-throughs

#### Weststate Private Hospital, West End QLD

- The property is a short stay hospital with a commencing lease term of 25 years and 100% occupancy upon completion.
- This is a fund-through project developed by Geon Property with coupon income accrued during the construction period.
- The incoming tenant (Weststate Private Hospital) has disputed certain works (both in terms of what is required and who is responsible for the cost) and as a result the Manager has undertaken a detailed review of the scope of works. The dispute with the incoming tenant is currently the subject of court proceedings.
- The property is expected to reach practical completion in June 2024.
- The Manager has allowed a provision in relation to cost overrun and legal costs (refer to Property details section).

## Divestments

- The fund successfully settled on the divestment of five of the portfolio assets on 15 December 2023 for a combined value of \$23.05<sup>1</sup> million, which is 4.8% higher than the book value.
- The net proceeds from the sale will be utilised to fund the ongoing capital commitments, primarily Weststate Private Hospital construction payments as well as the quarterly liquidity that is capped at \$2.5 million.
- The Manager has entered into due diligence to divest two properties located in Western Australia with expected completion of due diligence in February 2024. The Manager will provide a further update to the investors upon completion of due diligence.
- The properties identified for sale are those with no immediate outstanding asset management initiatives.

## Financial snapshot

<b>Fund commencement date</b>	8 October 2019
<b>Unit price</b>	\$0.9110 <sup>2</sup>
<b>Target distribution rate (cents per unit) for December quarter 2023 (annualised)</b>	4.30 <sup>3</sup>
<b>Weighted Average Lease Expiry (WALE) by income (years)</b>	10.08 <sup>4</sup>
<b>Next investor vote on term of fund</b>	August 2025

## Fund performance breakdown

The table below summarises the Fund's performance since inception<sup>5</sup>. The ex div and cum div unit price as at 31 December

1. Prices based on 100% direct interest noting that CHPF only has an 85% ownership interest in 8-10 Warneford Street, Hobart.

2. As at 31 December 2023

23 is \$0.9110 per unit and \$0.9146 per unit respectively and this reflects the valuations undertaken for the portfolio assets owned by the Fund. Unfortunately, due to prevailing market conditions the property sector has experienced headwinds, negatively impacting the near-term capital returns of the Fund. The December 23 valuation movements are highlighted in the Property details section.

AS AT 31 DECEMBER 2023	6 MTH (%)	1 YR (%)	SINCE INCEPTION (% P.A.) <sup>6,7</sup>
Distribution	2.13	4.22	5.02
Capital growth	-9.94	-17.31	-2.86
<b>Total return</b>	<b>-7.81</b>	<b>-13.09</b>	<b>2.16</b>

3. The target distribution rate is not a forecast, is predictive in nature and is subject to assumptions, risks and circumstances (both known and unknown) outside of the control of Centuria Property Funds No. 2 Limited, as responsible entity of the Fund. These assumptions include that all tenants will satisfy their contractual obligations under their respective leases within a timely manner, there are no significant unforeseen capital costs or material changes to the Fund's financial obligations, pipeline properties will be acquired by the Fund at current valuations and that funding will be secured at a particular interest rate. Actual returns may differ from the target return. Centuria Property Funds No. 2 Limited does not guarantee the performance of the Fund, the repayment of capital or any income or capital return. Past performance is not a reliable indicator of future performance. In addition, given the current volatility in interest rate forecasts, this assumption may need to be reviewed. Should interest rates differ from forecast levels, distributions may be revised. <sup>3</sup>Based on the current portfolio as at 31 December 2023 at the as-if complete valuation.
4. Based on the current portfolio as at 31 December 2023 at the as-if complete valuation.
5. Performance is shown for informational purposes only. Past performance is not a reliable indicator of future performance. Performance fees may affect total return performance.
6. Inception date is 21 September 2020.
7. Returns are annualised.

## Property details

PROPERTY	PROPERTY VALUE <sup>1</sup> (\$M)	CAP RATE <sup>1</sup>	DIRECT OWNERSHIP %	OWNERSHIP VALUE (\$M)	WALE (BY INCOME) – YEARS <sup>2</sup>	OCCUPANCY <sup>2</sup>
Vermont South Medical Centre, VIC	68.8	5.00%	85%	58.5	8.6	90.2%
Forrest Family Practice, WA	6.7	6.50%	100%	6.7	7.6	100.0%
Bloomfield Medical Centre, NSW	56.0	5.50%	85%	47.6	9.4	76.5%
Sundew Day Surgery, Joondalup WA	13.7	6.25%	85%	11.7	6.1	100.0%
Cairns Day Surgery, QLD	25.6	5.50%	100%	25.6	6.1	100.0%
Coffs Harbour Medical Centre, NSW	26.0	5.50%	100%	26.0	1.9	100.0%
Perth Clinic, West Perth, WA	47.2	5.13%	100%	47.2	12.1	100.0%
411 Nepean Highway, Frankston VIC	11.7	5.25%	100%	11.7	5.4	100.0%
275 Addison Road, Petersham, NSW	8.6	5.50%	100%	8.6	10.7	100.0%
Weststate Private Hospital, West End QLD <sup>3</sup>	41.5	5.25%	100%	41.5	25.0	100.0% <sup>4</sup>
38-44 Gap Road, Sunbury VIC	26.5	5.25%	100%	26.5	5.9	92.2%
77-97 Ricketts, Mt Waverley VIC	43.5	5.00%	100%	43.5	12.7	100.0%
2 Lake Street, Varsity Lakes QLD	68.0	5.13%	100%	68.0	6.0	86.4%
West Medical Hub, West Lakes SA	14.5	5.50%	100%	14.5	4.9	89.0%
299 Scottsdale Drive, Robina QLD	28.0	4.75%	100%	28.0	10.8	100.0%
168 Corfield Street, Gosnells WA	10.0	5.75%	100%	10.0	5.0	100.0%
60B Kingsvale Road, Myocum NSW	9.1	5.25%	100%	9.1	18.6	100%
50 Montsalvat Drive, Greenfields WA	8.8	5.75%	100%	8.8	8.3	100%
Springwood Health Hub	33.1	5.00%	100%	33.1	11.6	100% <sup>5</sup>
The Bond, 8 Elizabeth MacArthur Dr, Bella Vista NSW	67.0	4.88%	60%	39.9	8.4	100% <sup>5</sup>
Indirect properties – investment in NPUT <sup>5</sup>				9.4		
Current portfolio– As Is Valuation	<b>614.3</b>	<b>5.25%</b>		<b>575.8</b>	<b>9.36</b>	<b>94.5%</b>
Current portfolio– As If Complete	<b>640.8</b>	<b>5.25%</b>		<b>602.3</b>	<b>10.08</b>	<b>94.4%</b>

1. As at 31 December 2023

2. Includes rental guarantees

3. This property is currently under construction. Property value reflects "As Is" valuation. The "As If" complete value is \$68.0 million for Weststate Private Hospital, West End, QLD.

4. Adopted valuation reflected at 59.51% direct ownership by CHPF, the balance of 40.49% is held by Centuria Capital Limited. Ownership may be reported on a consolidated basis at 100% in the financial accounts.

5. The Fund also has an indirect interest in the Nexus anchored properties via Nexus Property Unit Trust (NPUT). NPUT currently owns a 15% interest in Vermont South Medical Centre, Bloomfield Medical Centre and Sundew Day Surgery.



## Valuation movement

The unit price for the Fund has reduced to \$0.9110 per unit (ex div) compared to \$0.9744 per unit as at 29 December 23 due to valuations<sup>1</sup> undertaken as at 31 December 23.

Portfolio valuations were undertaken as at 31 December 23 for the 20 properties owned by the Fund. The valuation resulted in an overall cap rate expansion to 5.25% from 5.06% and this resulted in a unit price movement of 2.5 cpu (excluding Weststate). The reduction in valuation is 1.7% compared to the forecast book valuation.

The three completed properties (non-development) with the largest reduction in valuation driven by cap rate softening (by value) are:

- 2 Lake Street, Varsity Lakes – \$3.1 million
- 21 Havelock Street, West Perth – \$1.6 million
- The Bond, Bella Vista – \$1.6 million

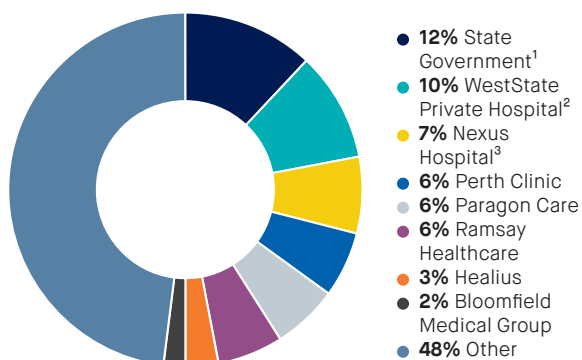
The remainder of the movement primarily relates to Weststate Private Hospital. As outlined in earlier updates, the Fund has forecast to incur additional costs relating to the Fund's investment in the development of Weststate Private Hospital. The Fund conducts regular valuations<sup>1</sup> of the property portfolio for the purposes of unit pricing. In line with the Fund's policies, the 31 December 2023 valuation includes cost adjustments relating to the dispute between the incoming tenant (Weststate Private Hospital) and the Fund.



SPRINGWOOD HEALTH HUB, 4 PAXTON STREET, SPRINGWOOD QLD

1. Includes independent and internal valuations.

## Top tenants by gross passing income<sup>1</sup>



1. Includes Mid North Coast Local Health District at Coffs Harbour Medical Centre, NSW, Peninsula Health at Frankston, VIC, and Queensland Health at Varsity Lakes, QLD

2. Includes rental guarantees.

3. QIC's Global Infrastructure Fund and co-investors acquired a c.75% equity interest in Nexus Hospitals in September 2019.

## Portfolio statistics

	MAR 23	JUN 23	SEP 23	DEC 23
<b>Portfolio occupancy</b>	97.7%	95.6%	96.2%	94.4% <sup>2</sup>
<b>Weighted average lease expiry (WALE) by income (years)</b>	10.1	10.4	10.2	10.1 <sup>2</sup>
<b>Portfolio valuation (at ownership)(\$mil)</b>	585.8	558.2	626.8	602.3 <sup>2</sup>

1. As at 31 December 2023

2. Includes rental guarantees. As at 31 December 2023, based on current as-if complete value.

3. Based on the current portfolio as at 31 December 2023 on an "as-if complete" basis and excludes properties currently contracted or in due diligence.

4. As of 31 December 2023

5. The LVR is based on a drawn debt amount of \$275.7m over the valuations for the current properties as at 31 Dec 23. This calculation attributes 100% of the property value of The Bond in denominator. Notwithstanding, the Fund has only a 59.51% effective ownership of The Bond.

6. ICR is based on Net Rental Income over Interest Expense as at the 31 Dec 23 covenant testing period.

## Debt summary

The table below summarises terms for the existing facility agreements with NAB, BOQ, ANZ and BOC. Proceeds from the ongoing capital raise have been partially utilised to repay debt, improving the Fund's percentage of debt hedged in the current rising interest rate environment.

	CURRENT PERIOD	LOAN COVENANTS
<b>Total facility limit</b>	\$330.0m <sup>4</sup>	
<b>Undrawn amount</b>	\$54.3m <sup>4</sup>	
<b>Weighted average loan expiry</b>	1.7years <sup>4</sup>	
<b>% of debt hedged</b>	66.0% <sup>4</sup>	
<b>Look through gearing</b>	45.6% <sup>4</sup>	
<b>Loan to value ratio (LVR)</b>	46.4% <sup>5</sup>	55.0%
<b>Interest cover ratio (ICR)</b>	2.37x <sup>6</sup>	2.00x

## RG46 statements

The latest RG46 Statement for the Fund is available at [centuriainvestor.com.au](https://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

The Fund's continuous disclosure website can be found in the Investor Centre section of the Fund's website <https://centuria.com.au/healthcare-property-fund/investor-centre/>. These continuous disclosures are updated regularly and include important information relating to the Fund, including details on the operation of the quarterly liquidity facilities and distributions.

Access all information relating to your Centuria investments at [centuriainvestor.com.au](https://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).

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