

Centuria

Quarterly fund update
March 2024

Centuria Healthcare Property Fund

(ARSN 638 821 360 APIR CTR0438AU)

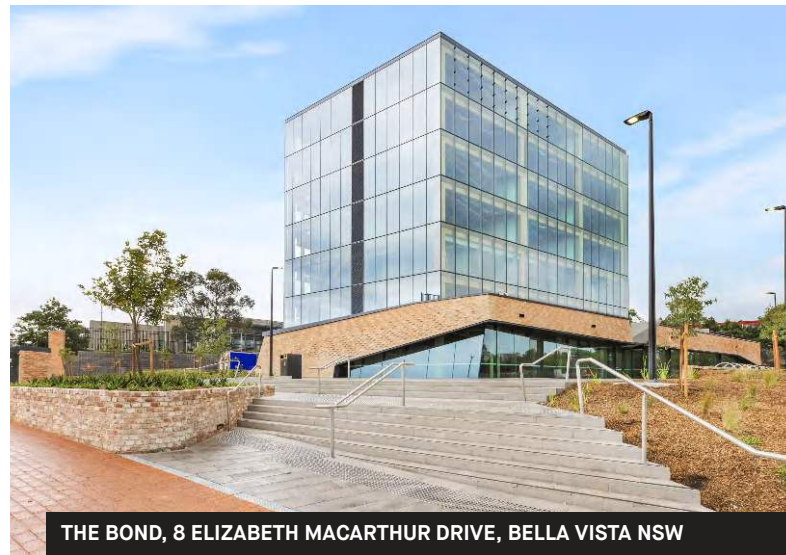
Key points

- Distributions for the March 2024 quarter paid in line with FY24 distribution guidance - 4.30 CPU (annualised)¹
- March 2024 quarterly valuation cycle completed, reflecting minor cap rate softening reflective of industry wide market conditions, resulting in a slight unit price decrease of 2 CPU.
- The Fund has successfully executed new leasing and renewals at Coffs Harbour and Sunbury retaining high occupancy and long WALE.
- The Fund continues to execute on the sale strategy and has successfully exchanged sale contracts for Joondalup and Bunbury (at or above valuations) with expected settlement in June 2024. Non-binding terms for sale of Greenfields was achieved. The Sale process is expected to meet near term capital commitments and bolster Fund liquidity
- Income underpinned by robust occupancy at 94.5%² and a long WALE of 9.9 years².

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 and specialist centres. Since inception of the Fund, the Manager has enhanced portfolio quality, increased the WALE, and improved tenant diversification.

	INCEPTION ³	2024 PORTFOLIO ⁴
WALE	6.7 years	9.9 years
Tenant diversification	48 tenants	84 tenants
Largest single tenant exposure	32%	13%
Average portfolio age	7.0 years	8.8 years



Economic Outlook

Despite the challenging market conditions, Centuria's investment strategy remains centred on long-term value creation, reflecting the long-term cyclical nature of commercial real estate, and maintains confidence in the resilience of high-quality and well located assets over time.

Looking ahead, Australia's big four banks currently forecast the RBA will reduce the cash rate by 25 to 50 bps in the second half of 2024⁵ 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 following⁶:

- Australia's population is expected to grow by 1.1 million people from 2023 to 2025 and by 4.0 million to 2033;
- An increase in population by 1 million people is forecast to require; 1 million sqm of additional shopping centre space / 4.5 million sqm of additional industrial space / 1.8m sqm of additional office space / 12,000 additional hotel rooms;
- 1.3 million more people are employed than pre-COVID with the largest increase in Healthcare by 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;
- food security is increasingly a global concern. Australia and New Zealand account for +10% of global trade in barley, beef, canola, lamb, milk powder, sugar cane, wheat and wool;
- future Large Format Retail supply is less than 40% of historical levels.

1. 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 the 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.

2. Includes rental guarantees. As at 31 March 2024, based on current as-if complete value.

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

4. Data as at 31 March 2024.

5. According to Bloomberg survey April 2024.

6. Source: CBRE research.

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.

Portfolio Leasing

During the quarter, the Fund successfully executed the leases below, which further de-risks the downtime risk and improves the occupancy and WALE for the portfolio.

- **Coffs Harbour** – 2 and 3 year lease renewals with Mid North Coast Local Health District for total area of 1,541 sqm; and
- **Sunbury** – A new 3 year lease signed for suite 1.06 for 13 sqm with Chanrith Hean. In addition, a heads of agreement has been signed for 3 suites totalling 38sqm for 5 years.

Bloomfield Medical Centre Update

The Manager has appointed Benchmark Property Advisory in addition to Colliers to actively market the vacant space at Bloomfield Medical Centre. The short-term tenant continues to occupy part of level 3 and is currently in discussion to occupy a larger space on level 3.

The Manager also executed a new 20 year lease with Ramsay in July 2023 for 2,267sqm, minimising the vacancy risk at Bloomfield Medical Centre.

In addition, the Manager is in advanced discussions with prospective tenants for the vacant space at Vermont South Medical Centre

Fund Liquidity Facility and Redemptions

The Fund currently holds a portfolio of predominantly direct and indirect real property and a smaller holding in liquid assets. The liquid assets provide liquidity to the Fund that are utilised to offer Investors a limited quarterly withdrawal facility capped at up to 10% of NAV per annum with a cap of \$10 million.

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 as outlined in the Fund's Target Market Determination.

Due to the prevailing market conditions, the Fund has received increased levels of redemption requests, which is a common occurrence in the commercial property sector. Current redemption levels sit at ~\$38m or ~13% of the net asset value, this means that the majority of investors are not requesting the realisation of their investment in the Fund. Prior to March 2023, the Fund satisfied all redemption requests.

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. All redemption requests for the March 2024 quarter have been scaled proportionately. Further information regarding the scale back is available on the Fund's continuous disclosure website.

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.

Centuria's 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 14% of the units on issue (~\$45m) held by related party entities. In addition, Centuria owns redeemable preference units valued at \$28.6 million within the Fund. As we go through this property cycle, Centuria is pleased to be able to co-invest alongside our Investors.

Weststate Private Hospital Update

Fund holds an investment in the development of Weststate Private Hospital, the property is a short stay hospital with a commencing lease term of 25 years and 100% occupancy upon completion. The Fund's investment forms a fund-through project developed by Geon Property. The incoming tenant (Weststate Private Hospital) has disputed certain building works during the development programme (both in terms of what is required and who is responsible for the cost). 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 Manager has allowed a provision in the Fund's unit price (and in valuation) in relation to cost overruns and legal costs. This provision will continued to be considered, and revised if required, as matters progress.

By way of update on the court proceedings, the matter was considered in court in late February 2024. Weststate Private Hospital presented an amended statement of claim to introduce new allegations. The parties are scheduled to appear in Court again in April 2024. The court hearings are a highly fluid process and may be a protracted process. As a result, it is difficult to articulate the impact to the Fund until the legal proceedings are concluded. The Manager will continue to keep the investors updated on the court proceedings as matters progresses.

Execution of Divestment Strategy

The Fund continues to proactively execute the divestment strategy for properties where the near term value has been maximised, with no further near term outstanding asset management initiatives. To date the Fund has successfully divested 5 assets (\$23m), at an average sale value above valuation. The net proceeds from the sale will be applied towards the Fund's ongoing capital commitments, primarily Weststate Private Hospital construction payments as well as bolstering the quarterly liquidity.

In the December 2023 quarter, the Fund successfully settled on the divestment of 5 of the portfolio assets on the 15th of December 2023 for a combined value of \$23.05 million, which is 4.8% higher than the book value:

The Manager has exchanged contracts for sale to divest two properties (South Bunbury and Joondalup, as at March 2024 the combined valuation of \$20.3m is based on 100% ownership) with settlement expected in June 2024. We are pleased to report that the sales are in line with the most recent independent valuation. In addition, non binding terms for the sale of Greenfields (March 2024 valuation of \$8.8m) has been agreed with expected settlement in mid 2024. Further information in relation to the sale will be provided to investors upon settlement.

Financial snapshot

Fund commencement date	8 October 2019
Unit price	\$0.8802 ¹
Target distribution rate (cents per unit) for December quarter 2023 (annualised)	4.30 ²
Weighted Average Lease Expiry (WALE) by income (years)	9.93 ³
Next investor vote on term of fund	August 2025

1. As at 31 March 2024

Fund performance breakdown

The table below summarises the Fund's performance since inception⁴. The unit price has reduced to \$0.8802 (ex div) as at 31 March 2024 compared to \$0.9003 per unit as at 28 March 2024, largely driven by March 2024 valuation movements due to cap rate softening. Unfortunately, due to prevailing market conditions the property sector has experienced headwinds, negatively impacting the near-term capital returns of the Fund.

The March 2024 valuation movements are highlighted in the Property Details section.

AS AT 31 MARCH 2024	6 MTH (%)	1 YR (%)	SINCE INCEPTION ⁵ ⁶ (% P.A)
Distribution	2.18	4.09	4.93
Capital growth	-10.67	-19.54	-3.61
Total return	-8.49	-15.45	1.32

Looking ahead, the Fund is concentrating on opportunities to protect FY25 distributions. The resolution of the current legal dispute with Weststate Private Hospital, addressing the vacancy at Bloomfield Medical Centre, and mitigating debt volatility (including hedging of drawn debt) will provide the Fund with additional stability. We look forward to providing investors a further update as matters progress.

2. The target distribution rate is predictive in nature and is subject to assumptions, risks and circumstances (both known and unknown) outside of the control 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. The actual returns may differ from the target return. The Responsible Entity 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, should interest rates normalise at higher (or lower) than forecast levels, target distributions may be revised.
3. Based on the current portfolio as at 31 March 2024 at the as-if complete valuation.
4. Performance is shown for informational purposes only. Past performance is not a reliable indicator of future performance. Performance fees may affect total return performance.
5. Inception date is 21 September 2020.
6. Returns are annualised.

Property details

PROPERTY	PROPERTY VALUE ¹ (\$M)	CAP RATE ²	DIRECT OWNERSHIP %	OWNERSHIP VALUE (\$M)	WALE (BY INCOME) – YEARS ^{2,3}	OCCUPANCY ³
Vermont South Medical Centre, VIC	68.8	5.00%	85%	58.5	8.6	90%
Forrest Family Practice, WA	6.6	6.50%	100%	6.6	7.6	100%
Bloomfield Medical Centre, NSW	56.0	5.50%	85%	47.6	9.4	77%
Sundew Day Surgery, Joondalup WA	13.7	6.25%	85%	11.7	6.1	100%
Cairns Day Surgery, QLD	25.3	5.50%	100%	25.3	6.1	100%
Coffs Harbour Medical Centre, NSW	26.0	5.50%	100%	26.0	1.9	100%
Perth Clinic, West Perth, WA	46.3	5.13%	100%	46.3	12.1	100%
411 Nepean Highway, Frankston VIC	11.8	5.25%	100%	11.8	5.4	100%
275 Addison Road, Petersham, NSW	8.4	5.50%	100%	8.4	10.7	100%
Weststate Private Hospital, West End QLD ⁴	33.5	5.25%	100%	33.5	25.0	100% ³
38-44 Gap Road, Sunbury VIC	26.5	5.25%	100%	26.5	5.9	92%
77-97 Ricketts, Mt Waverley VIC	43.0	5.00%	100%	43.0	12.7	100%
2 Lake Street, Varsity Lakes QLD	66.5	5.13%	100%	66.5	6.0	87%
West Medical Hub, West Lakes SA	14.7	5.50%	100%	14.7	4.9	96%
299 Scottsdale Drive, Robina QLD	27.0	4.75%	100%	27.0	10.8	100%
168 Corfield Street, Gosnells WA	10.0	5.75%	100%	10.0	5.0	100%
60B Kingsvale Road, Myocum NSW	8.8	5.25%	100%	8.8	18.6	100%
50 Montsalvat Drive, Greenfields WA	8.8	5.75%	100%	8.8	8.3	100%
Springwood Health Hub	33.5	5.00%	100%	33.5	11.6	100% ³
The Bond, 8 Elizabeth MacArthur Dr, Bella Vista NSW ⁵	67.3	4.88%	60%	40.0	8.4	100% ³
Indirect properties – investment in NPUT ⁶				8.8		
Current portfolio– As Is Valuation	602.4	5.33%		563.2	9.41	94.6%
Current portfolio– As If Complete	636.9	5.32%⁶		597.7	9.93	94.5%

- The Fund continues to undertake quarterly valuations for all properties held by the Fund with the most recent valuations undertaken in March 2024.
- Real estate valuations have been impacted by increase in RBA cash rate to 4.35% from 0.1%, since May 2022.
- As cash rates increase, property yields also increase, which can negatively impact a property's valuation. Increasing property yields are also referred to as 'softening capitalisation rates'. Capitalisation rates (cap rate) reflect the yield a purchaser (or an investor) is willing to accept for a property.
- The cap rate for the portfolio has softened from 5.25% to 5.33%, resulting in a reduction in unit price by 2 CPU to a unit price of \$0.8802 per unit.
- The reduction in valuation for the portfolio recognised during the period is \$7.0 million. This also includes CAPEX and incentives spent during the quarter that may not have translated in an increase in valuation.
- As outlined in earlier Continuous Disclosure Notice, 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 of the property portfolio for the purposes of unit pricing. In line with the Fund's policies, the 31 March 2024 valuation includes costs adjustments relating to the dispute between the incoming tenant (Weststate Private Hospital) and the Fund.

1. Valuations as at 31 March 2024

2. As at 31 March 2024. The WALE for as-is valuation is based on valuation and as-if complete valuation is based on passing income.

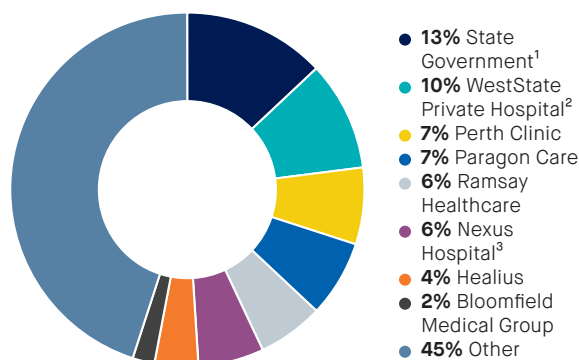
3. Includes rental guarantees

4. 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.

5. Adopted valuation reflected at 59.5% direct ownership by CHPF, the balance is held by Centuria Capital Limited. Ownership may be reported on a consolidated basis at 100% in the financial accounts.

6. 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.

Top tenants by gross passing income¹



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	MAR 24
Portfolio occupancy	97.7%	95.6%	96.2%	94.4% ²	94.5% ²
Weighted average lease expiry (WALE) by income (years)	10.1	10.4	10.2	10.1 ²	9.9 ²
Portfolio valuation (at ownership)(\$mil)	585.8	558.2	626.8	602.3 ³	597.7 ³

1. As at 31 March 2024

2. Includes rental guarantees. As at 31 March 2024, based on current as-if complete value.

3. Based on the current portfolio as at 31 March 2024 on an "as-if complete" basis and excludes properties currently contracted or in due diligence.

4. As of 31 March 2024

5. The LVR calculation attributes 100% of the property value of The Bond in denominator. Notwithstanding, the Fund owns 59.5% effective ownership of The Bond.

6. ICR is based on Net Rental Income over Interest Expense as at the most recent covenant testing period (audited 31 Dec 23 financials).

Debt summary

The table below summarises terms for the existing facility agreements with NAB, BOQ, ANZ and BOC. The LVR as at 31 March 2024 is 47.9%² compared to the LVR covenant of 55%, providing adequate headroom. The Fund also continues to undertake stress testing of financial covenants based on the Fund's forecast and we are pleased to confirm there is robust headroom for the covenants.

	CURRENT PERIOD	LOAN COVENANTS
Total facility limit	\$330.0m ⁴	
Undrawn amount	\$50.3m ⁴	
Weighted average loan expiry	1.7years ⁴	
% of debt hedged	57% ⁴	
Loan to value ratio (LVR)	47.9% ⁵	55.0%
Interest cover ratio (ICR)	2.3x ⁶	2.00x

Continuous Disclosure 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.

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

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**.

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