

Centuria

Fund Update
March 2024

Centuria 8 Central Avenue Fund No. 2

(ARSN 605 264 211)

Key points

- FY24 monthly distributions paid in line with FY24 guidance of 5.50 cpu (annualised) reflecting a yield of 7.5% on remaining original equity.
- 31 December 2023 Net Asset Backing confirmed at \$1.56 per unit, in addition to early capital return of \$0.27 per unit in March 2021.
- The property is 100% occupied with a weighted average lease expiry (WALE) of approximately 7.14 years.
- Fund term extended to 1 January 2026.

Fund summary

Distributions for the **Centuria 8 Central Avenue Fund No.2** (Fund) have to date been paid in line with the FY24 forecast of 5.50 cents per unit (annualised). This distribution rate reflects a yield of 7.5% on remaining initial equity (following the early return of capital in March 2021). 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](https://www.centuriainvestor.com).

The Fund's 50% interest in the 8 Central Avenue is 100% occupied with a strong weighted average lease expiry of 7.14 years as at 31 December 2023. We are pleased to report that at the recent General Meeting of the Centuria 8 Central Avenue No. 2 Fund, Centuria received strong investor support in favour of the Resolution to extend the term of the Fund for a further period of two years expiring on 1 January 2026.

The Fund has provided an exit opportunity to the small number of investors who voted against the resolution. Therefore even though the Resolution was not unanimously passed, the Fund's term will be extended for two years.

The 31 December 2023 audited financial report is now available to download from our online investor portal at [CenturiaInvestor.com](https://www.centuriainvestor.com). The notice of meeting documentation (December 2023) included an estimated NAB with reference to the 31 October 2023 independent valuation. Noting that there has been no material change in comparison to the 31 December 2023 valuation, the forecast NAB provided in the Notice of Meeting is in line with the 31 December 2023 NAB of \$1.56 per unit. Please note that the Fund has previously returned \$0.27 per unit to all investors in March 2021 (in addition to the prevailing NAB).

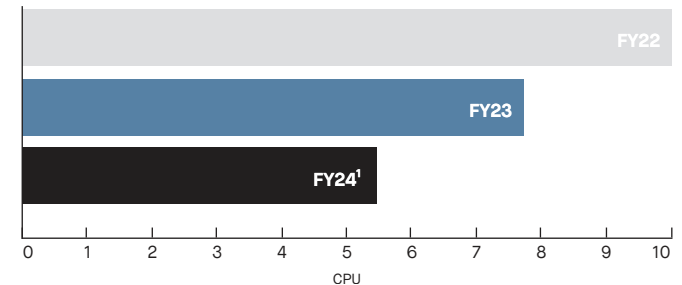


Financial snapshot

Fund Commencement Date	1 July 2015
Net Asset Backing	\$1.56 ¹
Distribution Rate (cents per unit)	5.50 ²
Weighted Average Lease Expiry (WALE) (years)	7.14 ³
Next Investor Vote on Term of Fund	1 January 2026

Distribution details

ANNUALISED DISTRIBUTION



1. FY2024 Forecast.

FY24 monthly distributions have been paid in line with FY24 guidance of 5.50 cpu (annualised) reflecting a yield of 7.5% on remaining original equity (following the early capital return in March 2021). The prevailing distribution rate is a direct result of significantly higher interest costs following the Fund's interest rate hedges expiring in June 2023. Unfortunately, the loan and any fixed rate swaps are unable to be extended prior to the outcome of the Fund term expiry (January 2024). The distribution rate for the remainder of the 2024 financial year is forecast to remain at 5.50 cents per unit (annualised) and reflects a yield of 7.5% on original equity.

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 or interest expense obligations.

1. Based on most recent audited accounts (31 December 2023), and in addition to the \$0.27 early return of capital made in March 2021. Without the Mark to Market of the Fund's interest rate swap, the NAB of units in the Fund would remain at \$1.56.
2. December 2023 quarter annualised.
3. As at 31 December 2023.

Looking ahead, following the leasing success achieved in 2024, it is forecast that the FY25 distribution rate will increase in comparison to the current distribution rate. The FY25 distribution forecast will be confirmed in late June 2024.

Property details

ASSET VALUES	
Property Address	8 Central Avenue, South Eveleigh, NSW
Purchase Price (Jul 15)	\$109.4m ¹
Previous Valuation (Jun 23)	\$201.0m ¹
Current Valuation (Dec 23)	\$190.0m ¹
Cap Rate (Dec 23)	5.75%
Valuer	C&W

The key metrics of the 31 December 2023 valuation are outlined in the table above.

Referencing the market conditions outlined in the 'Fund Summary' section, the Australian property market continues to adjust following what has been a highly aggressive interest rate tightening cycle.

During the past 18 months, valuations in the commercial real estate market have been negatively impacted by the increasing cost of debt due to the Reserve Bank of Australia's (RBA) aggressive interest rate rises. The cash rate rose from 0.10% to 4.35%. Since May 2022, this unprecedented move represents a total of 13 interest rate increases (or the equivalent of 17 rises of 25 bps).

As independent valuations reflect higher capitalisation rates due to increased interest rates, valuations are coming under pressure – regardless of the underlying investment property's performance.

Top five tenants by net lettable area (NLA)

Pacific Magazines Lease expires 31 Dec 2029	25.5%
Government Property NSW (Education) Lease expires 30 Nov 2025	21.1%
NEP Australia Lease expires 31 Dec 2044	18.8%
Seven Network Lease expires 31 Dec 2029	15.8%
Government Property NSW (Transport) Lease expires 30 June 2031	8.2%

The property is now 100% occupied with a weighted average lease expiry (WALE) by income of approximately 7.14 years as at 31 December 2023.

Property statistics

	INITIAL ²	JUN-23	DEC-23
Net Asset Backing	\$0.90	\$1.74	\$1.56 ³
Property Occupancy Rate	100%	100%	100%
Weighted Average Lease Expiry (WALE) (years)	10.97	6.85	7.14

Market overview

- Net absorption recorded in the Sydney Fringe totalled 8,371 sqm over the quarter, which was the first positive quarter since Q1 2023. However, headline vacancy increased 7 bps to 10.4%, primarily attributable to increased total market stock from the completion of The Brewery Yard, 5 Central Park Avenue.
- Prime and secondary gross effective rents increased by 1.8% and 0.9%, driven by an uplift in face rents whilst incentives remained unchanged at 25.8%
- One major transaction (>\$5 million) occurred in the Sydney Fringe market over Q4, totalling \$167 million, which was the sale of 55 Grafton St, Bondi Junction.
- Prime yields softened by 25 bps on the upper end and 50 bps on the lower end over the quarter, to now range between 5.75% to 6.63%.

Source: JLL Research Q4 2023

Debt summary

	CURRENT PERIOD	LOAN COVENANTS
Total Facility Limit	\$92.5m ⁴	
Undrawn Amount	\$10.3m ⁵	
Loan Expiry	31 Dec 2025	
% of Debt Hedged	75.4% ⁶	
Loan to Value Ratio (LVR)	43.3% ⁷	60.0%
Interest Cover Ratio (ICR)	1.87 ⁸	1.75

Following the recent extension of the Fund term, the finance facility was successfully extended by two years. As part of the refinance process the Fund was required to hedge 75% of the drawn debt for 12 months.

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 31 December 2023, the Fund has remained 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).

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 50% of the property.
- Based on the Product Disclosure Statement dated 8 April 2015.
- After deducting the \$0.27 early return of capital made in March 2021.
- The Fund's debt facility has been extended till 31 December 2025, in line with the Fund's new fund term.
- As at 31 December 2023.
- ~75% of the Fund's debt was hedged in early 2024 following the extension of the Fund term.
- The LVR is as at 31 December 2023 and 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 (31 December 2023).

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**.