

# Centuria

Fund Update  
March 2024

## Centuria Healthcare Direct Medical Fund No. 2

(ARSN 602 267 514 APIR HTH0015AU)

### Key points

- Distributions for the March 2024 quarter paid in line with distribution guidance for FY24.
- The fund has successfully negotiated a new 10-year lease to Cura Day Hospitals Group (Cura) at the Fund's Wagga Wagga asset, including a \$1.57m acquisition of adjoining properties resulting in uplift to asset valuation.
- The Manager has completed 4 new leasing extensions across Maroochydore, Chermside, Cleveland and Wagga Wagga totalling 4,082sqm – portfolio WALE / occupancy improved.
- Minor reduction in NAV driven by softening in portfolio cap rate, partially offset by successful leasing within the portfolio.
- The portfolio is underpinned by Weighted Average Lease Expiry (WALE) by income of 5.6 years<sup>1</sup> and portfolio occupancy of 98%.<sup>1</sup>
- Before the initial fund term ends on 27 June 2024, all investors will receive a notice of meeting containing the Manager's recommendation regarding the future strategy of the fund.

### Fund Summary

The **Centuria Healthcare Direct Medical Fund No.2** (Fund) distribution for the March 2024 quarter is 1.7125 CPU, in line with the FY24 guidance provided to investors. 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.au**.

Following the most recent portfolio valuation cycle, NAV per unit saw a minor reduction of 2.01 CPU to \$1.2362 in December 2023. The valuations were impacted by minor capitalisation rate softening across the portfolio (5.49% June 23 / 5.59% Dec 23), which was evident broadly across the commercial real estate sector. We are pleased to report that the impact of softening capitalisation rates has been partially offset by leasing progress within the Fund's portfolio.

As at 31 March 2024, the portfolio's occupancy and WALE has improved to 5.6 years and 98% respectively from 5.3 years and 97%, primarily driven by the below leasing deals.

- 5-year new lease executed by Thompson Brain and Mind Healthcare at Maroochydore (551 sqm);
- 7-year lease renewal executed by ICON at Chermside (1,145 sqm);
- 5-year lease renewal executed by Qld X-Ray at Cleveland (579 sqm);
- 10-year lease renewal executed by Cura at Wagga Wagga (1,807 sqm).

As part of the successful 10 year lease extension at the Wagga Wagga asset, the Fund acquired two residential lots with an aggregate site area of 1,403sqm for \$1.57 million, which are directly adjacent to the existing Riverina Day Surgery, Wagga Wagga. Whilst the size of the transaction is



not material (~0.5% of Fund size), the acquisition provides the following benefits to the Fund:

- The tenant (Cura) has executed a new 10 year lease for the hospital, inclusive of the properties that were acquired. This has improved the WALE of the property from 0.3 years to 10.0 years<sup>2</sup>;
- The acquisition of the properties eliminates vacancy, leasing and sale risk;
- The acquisition is earnings accretive;
- The acquisition of the properties and execution of the lease forecast to improve the valuation of the property (0.39 CPU).

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.au**. The audited financial report for the half year ending 31 December 2023 is available to download from **CenturiaInvestor.com.au**.

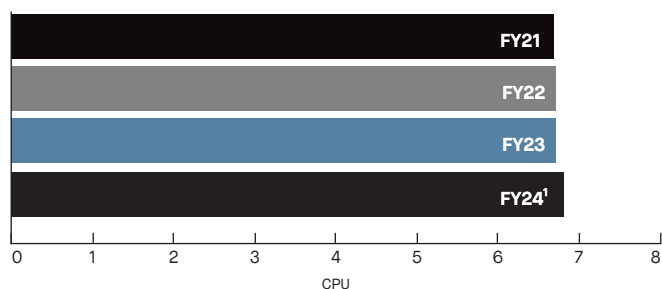
1. As at 31 March 2024

## Financial snapshot

Fund commencement date	June 2017
Net Asset Value (NAV)	\$1.2362 <sup>1</sup>
Forecast distribution rate (cents per unit)	6.85 <sup>2</sup>
Weighted average lease expiry (WALE) (years)	5.6 <sup>3</sup>
Next investor vote on term of Fund	June 2024

## Distribution details

### ANNUALISED DISTRIBUTION



1. Annualised forecast

The distribution for the September 2023 quarter is 1.7125 CPU, which is in line with the FY24 forecast of 6.85 CPU (annualised).

The Manager is currently in the process of preparing FY2025 budgets and the distribution rate will be confirmed to the investors in June 2024. However, given the Fund's stable income profile, it is anticipated that there will be no significant change to the current year's distribution rate. This is only an indicative forecast and significant change to the underlying assumptions will impact the forecast distribution rate.

Past performance is not reliable indicator of future performance. Given the current volatility in interest rate forecasts, the distribution assumption may need to be reviewed. Should interest rates normalise at higher (or lower) than forecast levels, distributions may be revised. This forecast distribution rate also 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 obligations.

1. Based on the audited 30 June 2023 financial accounts.
2. Annualised. Forecast FY24 full year distribution based on 1.7125 CPU per quarter. The 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. The actual returns may differ from the target/forecast 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 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 normalise at higher (or lower) than forecast levels, distributions may be revised.
3. As at 31 March 2024

## Portfolio statistics

	INITIAL <sup>1</sup>	JUN-22	DEC-22	JUN-23	DEC-23
Net asset value (NAV)	\$0.8362	\$1.3328	\$1.3487	\$1.2563	\$1.2362 <sup>2</sup>
Portfolio occupancy rate	100%	94%	94%	97%	98% <sup>3</sup>
Weighted average lease expiry (WALE) (years)	8.7	7.1	6.9	5.9	5.6 <sup>3</sup>

## Top five tenants by net lettable area (NLA)

Healius	20%
GenesisCare	11%
Queensland Health	11%
Vision Eye Institute	9%
Cura Day Hospitals	8%
Other	41%

Occupancy is 98% with a WALE by income of 5.7 years as at 31 March 2024.

## Debt summary

	CURRENT PERIOD	LOAN COVENANTS
Total facility limit (\$m)	\$142.0M <sup>4</sup>	
Undrawn amount (\$m)	\$1.0M <sup>4</sup>	
Loan expiry	27-Jun-24	
% of debt hedged	49%	
Loan to value ratio (LVR)	41.74% <sup>5</sup>	55%
Interest cover ratio (ICR)	3.15x <sup>6</sup>	2.5x

The interest cover ratio (ICR) determines the Fund's ability to pay interest expense on outstanding debt. A higher ICR indicates the Fund has more funds available to pay its interest costs. The Fund's lender requires a minimum ICR covenant of 2.00 times and the Fund's ICR is 3.15 times.

The loan to value ratio (LVR) calculates the amount of debt against the value of the Fund's properties. The LVR covenant for the Fund is 55% and the Fund's actual LVR is 41.74% as at December 2023. This has been held relatively constant from previously 40.91% under the previous covenant test undertaken on 30 June 2023.

The fund has increased its debt facility from 140.0m to 142.0m and has drawn on this facility to support the acquisition of the adjoining properties at Wagga Wagga. LVR following this acquisition is 42.3%<sup>7</sup>.

The fund expects to extend the debt facility expiry following in line with the determined fund strategy voted at the next general meeting. A notice of meeting outlining the proposed strategy and instructions to vote, will be circulated to all investors prior to the general meeting.

## Centuria investor website

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.au](https://centuriainvestor.com.au). The audited financial report for the financial year ending 30 June 2023 is available to download from [Centuriainvestor.com.au](https://centuriainvestor.com.au).

You can 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).

1. Based on the PDS dated 26 June 2017.

2. Based on audited 31 December 2023 financials.

3. As at 31 March 2024.

4. As at 29 February 2024

5. The LVR is based on the most recent independent valuations as defined under the debt facility agreement as at 31 December 2023.

6. The stated ICR figures are based on the most recent audited financial statements as at 31 December 2023.

7. As at 31 March 2024.

## Portfolio details

PROPERTY ADDRESS	JUNE 2023 VALUATION	DECEMBER 2023 VALUATION	JUNE 2023 CAP RATE	DECEMBER 2023 CAP RATE	WALE	OCCUPANCY
332-342 Old Cleveland Road, Cooparoo QLD	\$21,800,000	\$21,800,000	5.50%	5.50%	4.1	100%
401-409 Milton Road, Auchenflower QLD	\$47,250,000	\$46,750,000	5.38%	5.50%	2.5	89%
18 Prowse Street, West Perth WA	\$11,250,000	\$11,500,000	5.35%	5.50%	4.5	100%
2-24 Waldron Street, Yarrabilba QLD	\$13,300,000	\$13,300,000	6.00%	6.00%	7.4	100%
16-24 Weippin St, Cleveland QLD	\$44,700,000	\$44,800,000	5.50%	5.50%	4	100%
56 Rosemont Street, Wollongong NSW	\$2,800,000	\$2,850,000	5.50%	5.50%	4.3	100%
11-19 Riverview Place, Murarrie QLD	\$62,000,000	\$59,000,000	5.00%	5.25%	11.7	100%
375A/377 Concord Rd, Concord NSW	\$17,500,000	\$16,250,000	5.25%	5.50%	5.5	100%
6 Lubich Way, Mira Mar WA	\$4,100,000	\$4,100,000	5.75%	5.75%	5.2	100%
60-62 Dalton Drive, Maroochydore QLD	\$45,400,000	\$45,500,000	5.75%	6.00%	2.9	100%
4 Baker Court, West Albury NSW	\$6,300,000	\$5,800,000	6.50%	6.50%	1.5	100%
2-6 Meurant Ave, Wagga Wagga NSW	\$10,100,000	\$9,700,000 <sup>1</sup>	6.25%	6.50%	9.9	100%
42-44 Ord Street, West Perth WA	\$14,800,000	\$15,250,000	5.75%	5.75%	4.5	100%
956 Gympie Road, Chermshire QLD	\$10,750,000	\$14,800,000	5.75%	5.25%	6.1	100%
100 Murdoch Drive, Murdoch WA	\$19,600,000	\$19,600,000	5.50%	5.50%	7.7	100%
<b>TOTAL/AVERAGE</b>	<b>\$331,650,000</b>	<b>\$331,000,000</b>	<b>5.49%</b>	<b>5.59%</b> <sup>2</sup>	<b>5.64</b> <sup>3</sup>	<b>98%</b> <sup>4</sup>

The Manager undertook independent valuations for nine assets and directors' valuations for eight assets as at 31 December 2023. The portfolio valuation decreased by \$0.65 million from \$331.65 million to \$331.00 million due to softening in cap rate from 5.49% to 5.59%. The negative impact to valuation has been offset by execution of leasing deals, primarily the 7 year lease renewal with ICON at Chermshire.

Key portfolio valuation changes were:

- Murarrie: -\$3.0m reduction in value (-4.8%) to \$59.0m driven by cap rate softening of 25 basis points in line with market evidence;
- Concord West: -\$1.3m reduction in value (-7.1%) to \$16.3m driven by cap rate softening by 25 basis points;
- West Albury: -\$0.5m reduction in value (-7.9%) to \$5.8m driven by lease renewal discussions with the tenant and allowances for renewal incentives which was partially offset by a CPI-linked rent review;
- Chermshire: +\$4.1m valuation uplift (+37.7%) to \$14.8m driven by cap rate compression of 50 basis points driven by ICON's 7-year lease renewal.

**Note:** The latest RG46 Statement for the Fund is available at [Centuriainvestor.com.au](http://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.

1. Wagga Wagga post-acquisition valuation is \$12m.
2. Weighted average cap rate as at 31 December 2023.
3. Weighted average lease expiry by income as at 31 March 2024.
4. Weighted average occupancy by income as at 31 March 2024.

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