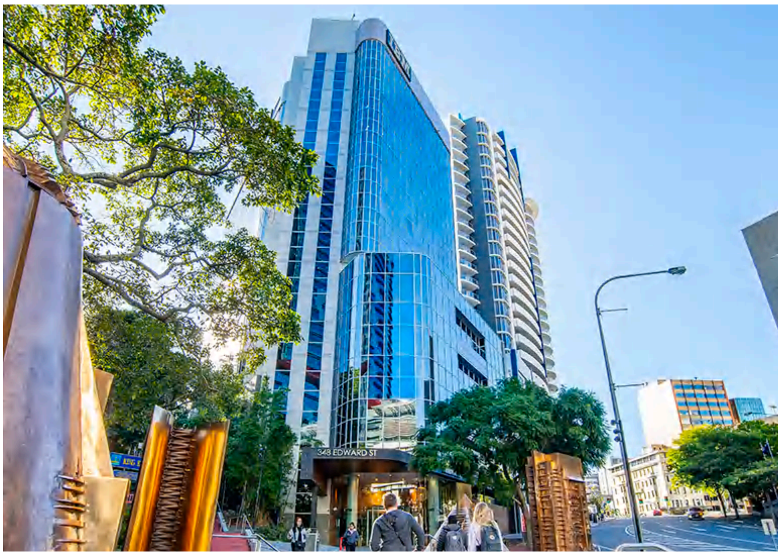
# Centuria

Fund Update
March 2024

# Centuria 348 Edward Street Fund

(ARSN 636 584 515)




## Key points

- Monthly distributions paid in line with FY24 guidance.
- The property has continued to lease well, with nine leasing deals negotiated over FY23, representing 21% of building NLA.
- Valuation negatively impacted by prevailing econimc conditions, independent valuation reduces from $88.0 million (as at 30 June 2023) to $83.0 million (31 December 2023).
- The property is 91% occupied with a weighted average lease expiry (WALE) of approximately 2.48 years as at 31 December 2023.
- 31 December 2023 Net Asset Backing confirmed at $0.74 per unit.

## Fund summary

Distributions for the **Centuria 348 Edward Street Fund** (Fund) have to date been paid in line with the FY24 forecast of 2.75 cents per unit (annualised). 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.**

The Fund's underlying property investment has continued to perform well, retaining the majority of existing tenants and attracting new tenants when space becomes available. Management completed nine leasing deals during the 2023 financial year, totalling 2,559 sqm which represents 21% of the building's NLA. The quantum of leasing deals Centuria has completed reflects robust demand for good quality, well located office space in Brisbane.

Importantly, there has been material leasing interest for recently available vacancies:

- Level 6 – 835 sqm or 7.5% by NLA. Deswik Mining, which occupies three floors, has executed leases to expand across the entirety of Level 6.
- Level 13 – 897 sqm or 8% by NLA. The tenancy became available in September 2023 and Centuria has completed high quality speculative fit outs, split the floor into two tenancies, and has current interest from three prospective tenants.

The quantum of leasing deals completed reflects robust demand for good quality, well located office space in Brisbane. Despite the leasing success achieved at the property, the 31 December 2023 independent valuation reduced reduction from $88.0 million (as at 30 June 2023) to $83.0 million (31 December 2023). Unfortunately, during the past six months, two highly comparable properties entered into exclusive due diligence (relating to potential sales) reflecting equivalent market yields of between 7.00% and 8.00%. The independent valuer took these potential sale transactions into consideration, resulting in 348 Edward Street's capitalisation rate softening by 87.5 bps to 7.25%.

The 31 December 2023 audited financial report is now available to download from our online investor portal at **CenturiaInvestor.com.** The report confirms the Fund's Net Asset Backing (NAB) per unit reduced from $0.85 to $0.74 over the half year to 31 December 2023. Unfortunately, elevated debt costs, attractive bond yields, term deposit rates and a challenging office sector are all currently having an impact on capital values. Despite these tough market conditions, we still maintain confidence in the resilience of high quality and well located commercial real estate.

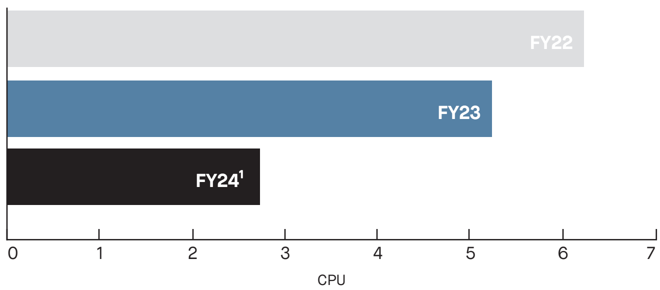
## Financial snapshot

| | |
|---|---|
| **Fund Commencement Date** | 12 December 2019 |
| **Unit Price** | $0.76[1] |
| **Net Asset Backing** | $0.74[2] |
| **Distribution Rate (cents per unit)** | 2.75[3] |
| **Weighted Average Lease Expiry (WALE) (years)** | 2.48[1] |
| **Next Investor Vote on Term of Fund** | 12 December 2024 |

As outlined in the Product Disclosure Statement, units were issued at $1.00 per unit. Thereafter, the unit price will reflect the NAB per unit with adjustments made for the amortisation of certain fees and expenses on a straight-line basis over five years.

## Distribution details

**ANNUALISED DISTRIBUTION**




1. FY24 Forecast.

1. As at 31 December 2023
2. Based on most recent audited accounts (31 December 2023). Without the Mark to Market of the Fund's interest rate swap, the NAB of units in the Fund would remain at $0.74.
3. December 2023 quarter annualised.

The FY24 distribution level of 2.75 cpu is primarily a result of significantly higher interest costs following the Fund's interest rate hedge expiring, and to a lesser extent the projected downtime resulting from anticipated vacancy in the property during FY24. As noted in the "Fund Summary' section, the underlying property investment has continued to perform well, both retaining the majority of existing tenants and attracting new tenants where space becomes available.

The distribution rate for the remainder of the 2024 financial year is forecast to remain at 2.75 cents per unit (annualised). The Fund has currently hedged ~54% of the drawn debt and therefore the Fund's 'all-in' cost of debt may fluctuate which may negatively (or positively) impact distributable income for the Fund. The Fund will consider entering further hedging arrangements, however any new interest rate hedge pricing will be reflective of prevailing market conditions. Should there be any material departures from the FY24 distribution forecast, an out of cycle Investor update will be provided.

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.

Looking ahead, and subject to the finalisation of securing additional hedging of the Fund's debt facility, it is forecast that the FY25 distribution rate will remain at a similar level in comparison to the current distribution rate. The FY25 distribution forecast will be confirmed in late June 2024. Should the Fund achieve leasing traction during FY25, management will consider revising distributions upward commensurate with leasing success achieved.

## Property details

| ASSET VALUES | |
|---|---|
| **Property Address** | 348 Edward Street, Brisbane, QLD |
| **Purchase Price (Dec 19)** | $79.0m[1] |
| **Previous Valuation (Jun 23)** | $88.0m |
| **Current Valuation (Dec 23)** | $83.0m |
| **Cap Rate (Dec 23)** | 7.25% |
| **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.

1. Acquisition price / valuation including incentives was $89.0m.

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

| | |
|---|---|
| **Deswik**<br>Lease expires 30 Nov 2027 | 31.1% |
| **BMT Eastern Australia**<br>Lease expires 31 Jan 2028 | 13.3% |
| **The Citadel Group**<br>Lease expires 31 Jan 2025 | 7.9% |
| **QLD Sugar**<br>Leases expire 31 Oct 2024 and 30 April 2029 | 7.2% |
| **Health Workforce QLD**<br>Lease expires 31 Aug 2025 | 3.4% |

The Weighted Average Lease Expiry (WALE) by income is approximately 2.48 years as at 31 December 2023.

## Property statistics

| | INITIAL[1] | JUN-23 | DEC-23 |
|---|---|---|---|
| **Net Asset Backing** | $0.88 | $0.85 | $0.74 |
| **Property Occupancy Rate** | 88% | 99% | 91% |
| **Weighted Average Lease Expiry (WALE) (years)** | 5.10 | 2.42 | 2.48 |

## Market overview

- The Brisbane CBD recorded positive 9,213 sqm of net absorption over the quarter. As a result of this continuous strong demand, total market vacancy levels were pushed down from 11.5% to 11.1% (lowest since Q3 2019).
- Both prime and secondary gross effective rents grew 1.1% and 1.2% respectively over Q4 2023. We anticipate rents will stabilise in 2024 for both prime and secondary assets following a solid year of rental growth. Prime and secondary face rents are expected to grow by 3.0% and 2.5% p.a. respectively over 2024-27.
- No new office completions were recorded in the Brisbane CBD during Q4 2023, with no significant stock coming to market until 2025. This should continue to support rental growth in the short to medium term.

Source: JLL Research Q4 2023

## Debt summary

| | CURRENT PERIOD | LOAN COVENANTS |
|---|---|---|
| **Total Facility Limit** | $46.7m[2] | |
| **Undrawn Amount** | $6.1m[2] | |
| **Loan Expiry** | 1 Dec 2024 | |
| **% of Debt Hedged** | 51.7%[3] | |
| **Loan to Value Ratio (LVR)** | 48.9%[4] | 60.0% |
| **Interest Cover Ratio (ICR)** | 1.84[5] | 1.50 |

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).

Noting the recent increase in the interest rate expense for the Fund, management is closely monitoring the forward looking ICR for the Fund.

## Centuria investor website

You can 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**.

**Note:** The latest RG46 Statement for the Fund is available at **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. Based on the Product Disclosure Statement dated 31 October 2019.
2. As at 31 December 2023.
3. As at 31 December 2023. The Fund's drawn debt is partially hedged 17 June 2024.
4. The LVR is as at 31 December 2023 and based on the most recent independent valuation as defined under the debt facility agreement.
5. The stated ICR figures are based on the most recent audited accounts (31 December 2023).