Centuria

Fund Update
March 2024

Centuria Geelong Office Fund

(ARSN 623 696 800)

Key Points

- Monthly distributions paid in line with FY24 guidance.
- TAC's initial accommodation review has recently been completed, tenant representative appointed. Centuria continuing to engage regarding future lease terms.
- Valuation negatively impacted by prevailing economic conditions, independent valuation reduces from $131.0 million (as at 30 June 2023) to $119.0 million (31 December 2023).
- The property is 97% occupied with a weighted average lease expiry (WALE) of approximately 4.86 years as at 31 December 2023.
- 31 December 2023 Net Asset Backing confirmed at $0.88 per unit.

Fund Summary

Distributions for the **Centuria Geelong Office Fund** (Fund) have to date been paid in line with the FY24 forecast of 5.50 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 underlying investment property has continued to perform well. 60 Brougham Street, Geelong has delivered regular monthly distributions since inception, and distributions are currently underpinned by strong occupancy of 97% and a weighted average lease expiry of 4.86 years as at 31 December 2023. Management continues to meet with TAC on a regular basis to discuss the tenant's future accommodation requirements. The TAC are undertaking a multi staged process to confirm their future accommodation needs which is likely to continue throughout 2024 - being a significantly more protracted time frame than originally communicated by the TAC.

Their initial accommodation review has recently been completed, and the TAC have now appointed a tenant representative. The tenant representative is likely to canvas the Geelong market for available accommodation in order to meet fiduciary requirements. This process is anticipated to be followed by negotiations between the Fund and the appointed tenant representative. It is possible that the TAC's space requirements may differ from existing usage, however management needs to await the feedback from the TAC following the current process. Currently there are very limited alternative accommodation options for the TAC to consider.

On a positive note, we have a strong relationship with the TAC, have achieved early engagement with the tenant, and have triggered the TAC to commence an accommodation review well before their lease expiry in 2029. The TAC's new Chief Executive Officer is focussed on driving TAC staff to be back in the office 4-5 days a week. Centuria are partnering with the TAC marketing team on activating the foyer and increasing employee engagement which has been well received so far. Management remains focused on securing a long term, beneficial partnership between the TAC and the Fund and we look forward to providing a further update following further meetings with the TAC.

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 $1.04 to $0.88 over the half year to 31 December 2023.

The property was independently valued as at 31 December 2023, showing a reduction from $131.0 million (as at 30 June 2023) to $119.0 million (31 December 2023). The independent valuer softened the capitalisation rate by 62.5 basis points from 6.00% to 6.625%, which is reflective of prevailing market conditions and considers the lease expiry of the Transport Accident Commission (TAC) (97% of the building by NLA) is now less than five years away. The capitalisation rate softening has been partially offset by an increase to the upper-end of applied market rents (from $455 to $460 per sqm).

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

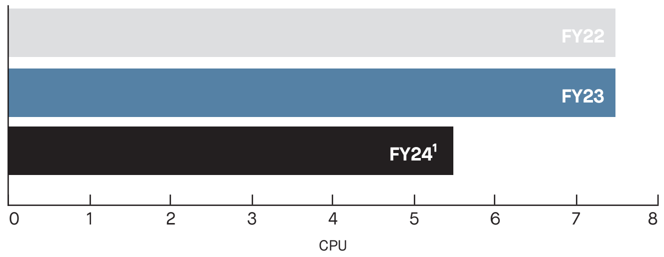
Fund Commencement Date	4 April 2018
Unit Price	$0.88[1]
Net Asset Backing	$0.88[2]
Distribution Rate (cents per unit)	5.50[3]
Weighted Average Lease Expiry (WALE) (years)	4.86[1]
Next investor vote on term of Fund	Prior to 4 April 2025

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.

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 $0.88.
3. December 2023 quarter annualised.

Distribution Details

ANNUALISED DISTRIBUTION



1. FY24 forecast.

The FY24 distribution level of 5.50 cpu is directly a result of significantly higher interest costs following the Fund's interest rate hedges expiring in March 2023. Unfortunately, the loan and the fixed rate swaps were unable to be extended prior to the outcome of the unit holder vote in February 2023, at which time interest rates had materially increased.

The distribution rate for the remainder of the 2024 financial year is forecast to remain at 5.50 cents per unit (annualised). Should there be any material departures from this forecast, an out of cycle Investor update will be provided. Following the Fund term extension, ~75% of the Fund's drawn debt was hedged at a rate of 4.79% (plus bank margin), expiring 15 June 2024. A small portion of the Fund's debt remains unhedged, and therefore the Fund's 'all-in' cost of debt may fluctuate which may negatively (or positively) impact distributable income for the Fund.

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 (~75% of the drawn debt will expire in June 2024) it is forecast that the FY25 distribution rate will remain at a similar level in comparison to the current distribution rate. Please note that management is closely monitoring the renewal discussions with the TAC - depending on the progression of these discussions, the FY25 distribution rate may be revised (reduced or potentially suspended) to commence accumulating funds to accommodate future leasing costs. The FY25 distribution forecast will be confirmed in late June 2024.

Property Details

ASSET VALUES

Property Address	60 Brougham Street, Geelong, VIC
Purchase Price (Apr 18)	$115.25m
Previous Valuation (Jun 23)	$131.0m
Current Valuation (Dec 23)	$119.0m
Cap Rate (Dec 23)	6.63%
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 Tenants by Net Lettable Area (NLA)

Transport Accident Commission Lease expires 4 Jan 2029	92.1%
Victorian Chamber of Commerce & Industry Lease expires 18 Apr 2027	1.4%
Parliament of Victoria Lease expires 31 Jan 2029	0.9%
WestVic Lease expires 28 Feb 2028	0.4%

The Fund has executed leases with a new tenant, WT Partnership, over Shops 9-11 (210 sqm) on a 4+2 year term. WT Partnership are a multi-national quantity surveyency business with 13 offices across Australia and a presence in all major cities. The new lease with WT Partnership will be reflected in the 31 December 2023 property valuation and reported metrics.

The Fund is also in the process of undertaking refurbishment works on the ex-Fernwood tenancy, following Fernwood's vacation in February 2023. The tenancy has excellent exposure to natural light, however, will require refurbishment in order to secure a suitable tenant on market terms.

Property Statistics

	INITIAL[1]	JUN-23	DEC-23
Net Asset Backing	$0.89	$1.04	$0.88
Property Occupancy Rate	100%	95%	97%
Weighted Average Lease Expiry (WALE) (years)	10.30	5.31	4.86

Debt Summary

	CURRENT PERIOD	LOAN COVENANTS
Total Facility Limit	$57.5m[2]	
Undrawn Amount	$3.9m[2]	
Loan Expiry	29 March 2025	
% of Debt Hedged	72.6%[3]	
Loan to Value Ratio (LVR)	45.1%[4]	57.5%
Interest Cover Ratio (ICR)	3.28[5]	2.00

The Fund's debt facility has been extended in line with the Fund term, and will now expire on 29 March 2025. In addition to the extension of the Fund's debt facility, management has also taken out an interest rate swap over 75% of the Fund's drawn debt until June 2024, which will helps to mitigate interest rate volatility over the 2024 financial year.

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 remains compliant with all covenants including the Interest Cover Ratio (ICR) and Loan to Valuation Ratio (LVR).

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 5 February 2018.
2. As at 31 December 2023.
3. The Fund's debt is partially hedged at a rate of 4.79%, expiring 15 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).