

Centuria

Fund Update
March 2024

Centuria SOP Fund

Key points

- Distribution rate for second half of FY24 revised to 4.25 cents per unit (annualised) following Costco vacation.
- Simplot has executed a 12 month lease extension striking highest office rent in asset.
- Rooftop break-out amenity works completed, improving building amenity.
- Ex-Costco space refurbishment works completed, leasing interest achieved.
- The property is 79% occupied with a weighted average lease expiry (WALE) of approximately 2.37 years as at 31 December 2023.
- 31 December 2023 Net Asset Backing confirmed at \$0.94 per unit.

Fund summary

Distributions for the **Centuria SOP Fund** (Fund) have to date been paid in line with the revised FY24 forecast of 4.25 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 has proactively upgraded common area facilities to attract and retain tenants. The ground floor entry foyer has been completely refurbished, the works improve the presentation and amenity of the foyer. New 'third space' break out areas have been added, allowing tenants a better entry experience and increasing the functionality of the foyer.

The bike storage area has also been upgraded and, in addition, rooftop works have recently been completed which offer views of the Sydney CBD and Chatswood skylines. These works improve the attractiveness of the property to existing and potential tenants and is key in minimising vacancy downtime.

Noting Costco's recent vacation in January 2024, Management actively finalised refurbishment designs, engaged leasing agents, and has recently completed high quality speculative fit out in the ex-Costco tenancies. These works have been well received by the market. Separately, a short term extension has been completed with the sitting tenant on level 5, Simplot Australia (5.4% by NLA). We are pleased to report that favourable terms were negotiated, including the highest office rent / sqm for the building.

The Fund's Net Asset Backing (NAB) per unit, based on unaudited management accounts, decreased from \$1.07 (as at 30 June 2023) to \$0.94 (as at 31 December 2023). 8 Australia Avenue, Sydney Olympic Park was independently valued as at 31 December 2023, showing a reduction from \$51.5 million (as at 30 June 2023) to \$48.5 million (as at 31 December). The independent valuer softened the capitalisation

1. Based on most recent audited accounts (31 December 2023).
2. The Funds distribution rate was reduced from 6.50 to 4.25 in January 2024 following Costco's expiry.
3. As at 31 December 2023.



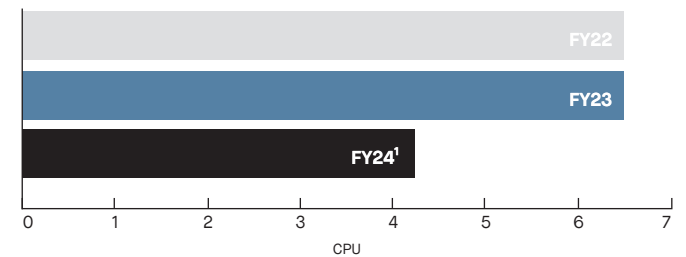
rate by 50 basis points from 6.00% to 6.50%, which is reflective of prevailing market conditions, and applied allowances for approaching vacancies (Costco now vacating 21% of the building's NLA in January 2024, Western Sydney University expiring over 37% of NLA in 2026 now falling into the impending expiry window). 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	11 May 2017
Net Asset Backing	\$0.94 ¹
Distribution Rate (cents per unit)	4.25 ²
Weighted Average Lease Expiry (WALE) (years)	2.37 ³
Next investor vote on term of Fund	Prior to 11 May 2025

Distribution details

ANNUALISED DISTRIBUTION



1. FY2024 forecast.

The distribution rate for the second half of the financial year has been a function of the vacation of Costco (31 December 2023), who previously occupied part level 2 and part level 5. Following their vacation, as foreshadowed, the distribution rate for the second half of the financial year reduced to 4.25 cents per unit (annualised).

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 obligations.

Looking ahead, and subject to the finalisation of securing further leasing outcomes across the ex-Costco tenancies, it is forecast that the FY25 distribution rate will either remain at a similar level or 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 Australia Avenue, SOP, NSW
Purchase Price (Jun 17)	\$44.8m
Previous Valuation (Jun 23)	\$51.5m
Current Valuation (Dec 23)	\$48.5m
Cap Rate (Dec 23)	6.50%
Valuer	Savills

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 25bps).

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)

Western Sydney University Lease expires 31 Oct 2026	37.2%
Toll Transport Lease expires 28 Feb 2029	18.7%
Bluewealth Property Lease expires 31 Mar 2027	7.5%
Simplot Australia Lease expires 30 Jun 2024	5.4%
Coffee Club Lease expires 31 Aug 2032	2.0%

The property is 79% occupied with a weighted average lease expiry of approximately 2.37 years as at 31 December 2023.

Property statistics

	INITIAL ¹	JUN-23	DEC-23
Net Asset Backing	\$0.90	\$1.07	\$0.94
Property Occupancy Rate	88%	100%	79%
Weighted Average Lease Expiry (WALE) (years)	3.53	2.20	2.37

Market overview

- The Sydney Metro West project is currently at the excavation stage and will connect Western Sydney (from Westmead) to the CBD. The metro station at 5 Figtree Drive currently includes a proposal for 2 office towers, totalling 30,440 sqm, which has a scheduled completion date in late 2030.
- SOP/Rhodes market recorded 1,338 sqm of net absorption throughout the quarter, and resulted in headline vacancy decreasing 4 bps to 22.1%.
- No office completions or withdrawals recorded over the December quarter, and no current office projects under construction in the market.
- No sales greater than \$5 million were recorded in the SOP/Rhodes market over Q4 2023
- SOP/Rhodes prime yields softened by 25 bps on both ends to now range between 6.38% to 7.25% as at Q4 2023.

Source: JLL Research Q4 2023

Debt summary

	CURRENT PERIOD	LOAN COVENANTS
Total Facility Limit	\$23.0m ²	
Undrawn Amount	\$3.25m ²	
Loan Expiry	18 Aug 2025	
% of Debt Hedged	100% ³	
Loan to Value Ratio (LVR)	40.9% ⁴	57.5%
Interest Cover Ratio (ICR)	6.33 ⁵	2.00

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).

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.

1. Based on the Investment Memorandum/30 June 2017 Financial Accounts

2. As at 31 December 2023.

3. The Fund's debt is structured as a fixed all-in price until 18 August 2025, and the Fund is not impacted by a movement in interest rates.

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 accounts (31 December 2023).

Disclaimer: Issued by Centuria Property Funds Limited, ABN 11 086 553 639, holder of AFSL 231 149. The information in this document is general information only and does not take into account your personal financial circumstances, needs or objectives. We recommend you speak with your financial and/or taxation advisor before making any decisions in relation to your investment.