Centuria

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Quarterly fund update
March 2024

Centuria Diversified Property Fund (Fund)

(ARSN 611 510 699 & ARSN 645 597 404) (APIR – CNT9370AU)

March 2024 quarter performance highlights

- March 2024 distributions declared at an annualised rate of 5.10 cpu, reflecting a yield of 5.87% on the 1 March 2024 unit price.
- March 2024 valuation cycle completed – direct portfolio valuation reduction of $3.45m (-1.72%), resulting in a unit price decrease of 2.16 cents per unit.
- Proactive liquidity strategy – divestment programme for maximised assets – two office assets in due diligence.
- Strong occupancy of 93.2% and WALE of 4.89 years as at 31 March 2024.

Key portfolio metrics[1] as at 31 March 2024

Portfolio assets	15
Carrying value	$214,836,886
Weighted capitalisation rate[2]	6.92%
Net lettable area (SQM)[3]	50,775
Number of tenants	89
WALE (years)[4]	4.89
Weighted occupancy[4]	93.15%
Weighted NABERS rating[5]	5.0 stars

Economic outlook

Despite the challenging market conditions, Centuria's investment strategy remains centred on long-term value creation, reflecting the long-term cyclical nature of commercial real estate, and maintains confidence in the resilience of high-quality and well located assets over time.

Looking ahead, Australia's big four banks currently forecast the RBA will reduce the cash rate by 25 and 50 bps in the second half of 2024[6], which is anticipated to positively impact property values.

Furthermore, there are a number of interesting economic and demographic fundamentals that also provide a positive outlook for commercial real estate over the medium term, including the following[7]:

- Australia's population is expected to grow by 1.1 million people from 2023 to 2025 and by 4.0 million to 2033;
- An increase in population by 1 million people is forecast to require; 1 million sqm of additional shopping centre space / 4.5 million sqm of additional industrial space / 1.8m sqm of additional office space / 12,000 additional hotel rooms;
- 1.3 million more people are employed than pre-COVID: Healthcare +34%, "traditional white collar" job +27%, Construction +11%, Education +11%, and Transport/warehousing +7%;
- estimated additional 2.6 million Australians will be working during the next 10 years;
- c.150,000 job vacancies in Australia, broadly in line with pre-COVID figures – illustrating normalisation;
- 11% increase in wages during the past three years;
- elevated construction costs inhibit new office buildings and lenders typically require +60% pre-leasing commitment;
- food security is increasingly a global concern. Australia and New Zealand account for +10% of global trade in barley, beef, canola, lamb, milk powder, sugar cane, wheat and wool;
- future Large Format Retail supply is less than 40% of historical levels.

1. Updated on a quarterly basis and for significant portfolio changes.
2. Weighted by fund allocation.
3. Direct property portfolio only.
4. Weighted by gross income.
5. The NABERS rating is for Energy and applies to the Fund's office assets only. The Fund's industrial and social infrastructure assets are not subject to rating.
6. Source: Bloomberg's RBA Cash Rate Survey 17 April 2024
7. Source: CBRE Research

Proactive liquidity strategy – divestment strategy for maximised assets

As a result of the increased interest rate environment, the Fund (along with many of its peers) continues to experience increased levels of redemption requests. The majority of CDPF's direct unlisted competitors have responded by suspending redemptions.[1]

Prior to CY23 the Fund had satisfied all redemption requests, however over the past six quarters redemption scaling between 50% - 88% has been required. Importantly the Fund's limited liquidity facility remains open.

In early 2023, CDPF pre-emptively divested two smaller Queensland assets to improve Fund liquidity. Centuria management is again proactively considering the future liquidity requirements of the Fund, prior to the end of FY24. To accommodate continued liquidity needs of the Fund, Management has recently conducted on market sales programmes for two office assets, being 10 Moore Street, Canberra ACT and 8 Market Lane, Maroochydore QLD.

The Fund remains overweight to office (69.4%) and Queensland (41.7%). In addition to reducing gearing, an office sale will lead to a more balanced portfolio.

Following competitive on market sales campaigns, run by independent sales agents, we are pleased to report that both assets are in 'due diligence' with separate prospective purchasers. A due diligence period is a non-binding timeframe whereby preferred purchasers complete a detailed analysis of the property(s). Following the completion of the due diligence, which is expected to occur in the coming month, binding exchange of contracts is anticipated to occur.

Subject to successful exchange of contracts for sale, specifics on the sale price can be confirmed and, the Fund's continuous disclosure will be updated. Further detail will also be included in the next quarterly report.

A sale of the assets will change the income profile of the Fund, and therefore will have implications on the future distributions of the Fund.

From a property portfolio perspective, a sale of one or both assets will not be detrimental to the remaining investment portfolio, in fact the portfolio/investment attractiveness is likely to improve as a result of:

- reduced Fund gearing,
- improved residual weighting to industrial and social infrastructure sectors,
- a reduced weighting to Queensland (Maroochydore asset),
- a reduced portfolio average building age (Canberra asset),
- an improvement in the residual portfolio WALE,

Should the sale programmes be successful, CDPF is forecast to have one of the lowest levels of gearing in its peer group.

March 2024 direct property valuations and valuation policy

The Fund continues to complete quarterly property valuations for the direct properties to ensure the market value of these investments are accurately reflected in the unit price. The Fund's direct property assets were most recently valued as at 31 March 2024.

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, with the cash rate rising 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).

Typically as cash rates increase, property yields also increase, which can negatively impact a property's valuation. Increasing property yields are also referred to as 'softening capitalisation rates'. Capitalisation rates reflect the yield a purchaser (or an investor) is willing to accept for a property.

Rental growth has the potential to offset the impact of increasing capitalisation rates. Unfortunately, due to the compressed timeframe and extent of the interest rates rises, rental growth has not been able to offset the extent of capitalisation rate softening in many sectors. As a result, property valuations across many sectors have reduced during the past 18-month period.

The 31 March 2024 property valuations of the Fund's direct portfolio resulted in a decrease of $3.45m (-1.72%). Valuation movement by portfolio sector is as follows: office (-2.53%), industrial (no change), social infrastructure (no change).

Increasing interest rates have placed upward pressure on valuation capitalisation rates, broadly affecting most asset classes, resulting in minor softening of values across the portfolio. It is pleasing to that the industrial and social infrastructure assets have shown resilience, reflecting the tightly held nature of these assets.

The Manager maintains and complies with a written valuation policy for the valuation of property assets held by its property funds. Under the valuation policy, direct properties of the Fund will be independently valued at least once every 24 months. To ensure unit pricing is reflective of prevailing market conditions, the Fund has been exceeding this frequency and conducting valuations quarterly[2] for the past couple of years. This means that each property is currently valued independently twice a year which gives Investors confidence that the valuations are up to date.

1. Based on Centuria's research of open-ended unlisted property funds in Australia.
2. Typically, the Fund will value ~50% of the direct portfolio (by quantum) independently, and ~50% of assets internally each quarter.

Top 10 tenants as at 31 March 2024

	TENANT	WEIGHTED INCOME (%)	PROPERTY
1	Entain	17.50%	25 Montpelier Road, Bowen Hills
2	Apex Steel	13.17%	36 Caribou Drive, Direk
3	Transport Accident Commission	6.66%	60 Brougham Street, Geelong
4	Cleanaway	5.87%	171 Camboon Road, Malaga
5	Optus	5.39%	10 Moore Street, Canberra
6	Busy Bees Childcare	4.10%	26 Westbrook Parade, Ellenbrook & 40 John Rice Avenue, Elizabeth Vale
7	Cliftons	3.36%	10 Moore Street, Canberra
8	St Vincent's Care Services	3.18%	25 Montpelier Road, Bowen Hills
9	Carter Grange Home	2.76%	13 - 15 Compark Circuit, Mulgrave
10	Healthia	2.59%	25 Montpelier Road, Bowen Hills

Distribution rate and fund performance[1,2]

Distributions for the March 2024 quarter were paid at 5.10 cents per unit (annualised), reflecting a yield of 5.87% on the 1 March 2024 Unit Price. We are pleased to report that the underlying property portfolio continued to perform well, with a 93.2% occupancy rate and a weighted average lease expiry of 4.89 years as at 31 March 2024.

During the recent period of market volatility, we are pleased to note that the Fund's monthly income returns remained consistent, underpinned by a diversified portfolio of high creditworthy tenants including national, government, ASX listed and multinational tenants. Unfortunately, due to prevailing market conditions the property sector has experienced headwinds, negatively impacting the near-term capital returns of the Fund.

Further details of the underlying valuations and Fund weightings can be found in the Investment portfolio table on Page 5.

	6 MTH (%)	1 YR (%)	3 YR (% P.A.)	5 YR (% P.A.)	INCEPTION (% P.A.)[3]
Distribution	2.76	5.34	4.99	4.71	4.44
Capital	-12.21	-20.61	-6.19	-4.14	2.58
Total net return	-9.45	-15.27	-1.20	0.57	7.02

Portfolio performance

The long-term performance in the Fund has been strong, with a total return since inception of 7.02%.

Despite challenging market conditions, the Fund continued to meet its objective of providing Investors regular monthly income underpinned by 93.2% occupancy, a WALE of 4.89 years, and average annual rental increases of 3.15%.

Centuria management is working closely with our leasing team and tenants to maximise performance through this property cycle and we look forward to updating you at the next webinar or via the CDPF website.

Fund liquidity facility

The Fund holds an investment property portfolio predominantly consisting of direct real property and a smaller holding in liquid assets. The liquid assets provide liquidity to the Fund and are utilised to offer Investors a limited quarterly withdrawal facility capped at up to 2.50% of NAV per quarter.

In addition to the limited quarterly withdrawal facility, the Fund has a rolling five-year investment term, with a liquidity event at the end of each term – next due in December 2025. This is in line with the recommended investment timeframe outlined in the Fund's Target Market Determination.

Investors should note that the quarterly liquidity facility is a limited facility. The Fund has scaled redemption requests for the last six quarters. Any unmet portion of each request is carried over to the following quarter, as a new request, unless the Investor requests otherwise.

Centuria co-investment

The recommended investment timeframe within the Fund is five years, and as noted in the 'Market Update' section, we maintain confidence in the long-term view for commercial property. Centuria is highly aligned with Investors in the Fund, being one of the Fund's largest unitholders, with approximately 32% of the units on issue held by related party entities. As we go through this property cycle, Centuria is pleased to be able to co-invest alongside our Investors.

1. Annualised total return figures reflect compounded monthly returns generated from both capital and income (including reinvestment). Annualised income returns are presented as the sum of the monthly income returns. The returns presented are reflective of any performance fees paid. Returns of less than 1 year are not annualised. Past performance is not a reliable indicator of future performance.
2. Data is as at 31 December 2023. The implementation of the Stapled Fund occurred on 27 May 2022. The performance shown here illustrates the performance of CDPF (standalone) prior to implementation, and the performance of the Stapled Fund (CDPF and CDPF No. 2 consolidated) following implementation. Past performance is not a reliable indicator of future performance.
3. Performance data is as at 31 December 2023. Inception date of CDPF, prior to merger, is 24 June 2016. The implementation of the stapling of CDPF and CDPF No. 2 occurred on 27 May 2022. Past performance is not a reliable indicator of future performance.

Fund gearing, hedging, and covenant sensitivities

The Fund's direct LVR currently sits at approximately 45.8% providing significant headroom to the conservative LVR covenant of 60%. The Fund debt profile is currently ~97.3% hedged to mitigate interest rate volatility and provide cashflow surety throughout FY24.

Looking ahead, noting that 64% of the Fund's existing hedges of the drawn debt will expire in June 2024, the Fund's 'all-in' cost of debt may increase (or decrease) which could have a negative (or positive) impact on distributions. As noted earlier, management may enter into additional hedging in the coming months to mitigate future interest rate volatility.

Under the terms of the debt facility the Fund is required to comply with certain loan covenants over the course of the financial year. Based on the audited financial report as at 31 December 2023, the Fund is compliant with all covenants including the Interest Cover Ratio (ICR) and Loan to Valuation Ratio (LVR).

The Fund also continues to conduct stress testing of financial covenants and we are pleased to confirm robust headroom within our debt facility. For example, the value of the properties (based on the 31 December 2023 valuations) would have to fall by 28.1% for the Fund to breach its LVR covenant. Similarly, the income of the Fund would have to fall by 50% for the Fund to have breached its ICR covenant over the past 6 months (31 December 2023).

Debt summary as at 31 March 2024

	CURRENT PERIOD	LOAN COVENANTS
Total facility limit	115m[1]	
Undrawn amount	24.6m[1]	
Loan expiries	$30m, 15 Dec 2024 $30m, 15 Dec 2025 $30m, 15 Dec 2026 $25m, 15 Dec 2027	
% of debt hedged	97.3%[2]	
Loan to value ratio (LVR)	45.8%[3]	60.00%
Interest cover ratio (ICR)	3.42[4]	1.75

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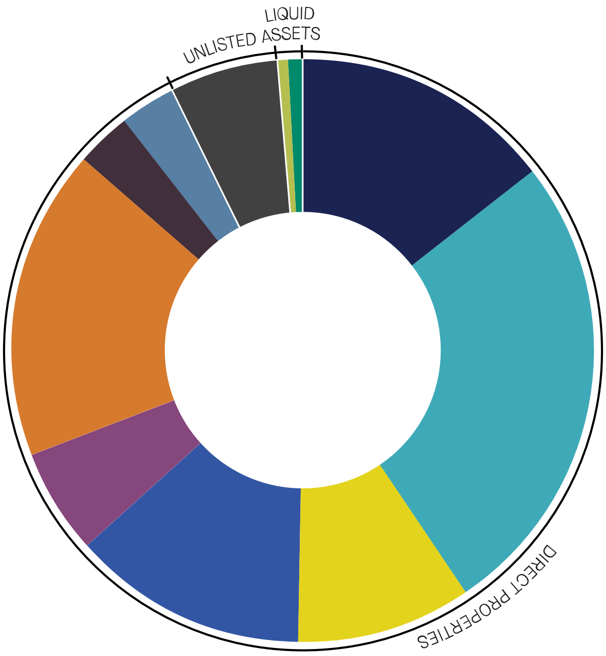
1. As at 31 March 2024
2. As at 31 March 2024, the Fund's drawn debt is mostly hedged with a weighted average swap maturity of 0.25 years.
3. CDPF continues to value the entire direct portfolio on a quarterly basis and the LVR is as at 31 March 2024, based on the most recently completed valuations.
4. The ICR is as at 31 December 2023, based on audited financial accounts.

Asset allocation as at 31 March 2024[1]



DIRECT PROPERTY (92.51%)

Office assets

- 10 Moore Street, Canberra ACT **14.57**
- 25 Montpelier Road, Bowen Hills QLD **26.00**
- 13 & 15 Compark Circuit, Mulgrave VIC **9.73**
- 8 Market Street, Maroochydore QLD **13.17**

Industrial assets

- 171 Camboon Road, Malaga WA **5.83**
- 36 Caribou Drive, Direk SA **17.26**

Social infrastructure assets

- 26 Westbrook Parade, Ellenbrook WA **2.91**
- 40 John Rice Avenue, Elizabeth Vale SA **3.00**

UNLISTED PROPERTY FUNDS (6.15%)

LIQUID ASSETS (1.34%)

- Cash and deposits for acquisitions **0.64**
- Vanguard Australian Property Securities Index Fund **0.70**

Investment portfolio as at 31 March 2024[1]

	FUND WEIGHTING (%)	PROPERTY VALUATION ($M)	PROPERTY VALUATION CAP RATE (%)	OCCUPANCY (%)	WALE (BY INCOME)
Direct properties					
Office assets					
10 Moore Street, Canberra ACT	12.33	26.5	8.50	100	2.31
25 Montpelier Road, Bowen Hills QLD	27.00	58.0	7.25	100	3.69
13 & 15 Compark Circuit, Mulgrave VIC	9.77	21.0	7.25	37.7	0.41
8 Market Lane, Maroochydore QLD	12.68	27.3	7.25	100	3.30
Industrial assets					
171 Camboon Road, Malalga WA	6.05	13.0	6.25	100	1.58
36 Caribou Drive, Direk SA	17.92	38.5	5.75	100	13.83
Social infrastructure assets					
26 Westbrook Parade, Ellenbrook WA	3.03	6.5	5.75	100	16.92
40 John Rice Avenue, Elizabeth Vale SA	3.12	6.7	5.50	100	17.00
Total direct properties	**91.91**	**197.5**	**6.95**	**92.4**	**4.97**
Holdings in Centuria unlisted funds					
Multiple Holdings	6.47	13.9	6.52	98.4	4.29
Total Centuria unlisted funds	**6.47**	**13.9**	**6.52**	**98.4**	**4.29**
Liquid assets					
Vanguard Australian Property Securities Index Fund	0.79	1.7			
Cash and deposits for acquisitions	0.83	1.8			
Total liquid assets	**1.62**	**3.5**			
Total investment portfolio	**100**	**214.8**	**6.92**	**93.2**	**4.89**

1. Updated on a quarterly basis and for significant portfolio changes. The valuation information is outlined on the Fund's continuous disclosure page.

RG46 statements

The latest RG46 Statement for the Fund is available at: **centuriainvestor.com.au**.

It includes the following key information:

- Gearing ratio, calculated using ASIC methodology
- Gearing covenant sensitivities
- Detail of related party transactions in the period
- Further information on the source of distributions.

Centuria investor website

You can access all information relating to your Centuria investments at **centuriainvestor.com.au**.

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