

Centuria

Quarterly fund update
June 2024

Centuria Healthcare Property Fund

(ARSN 638 821 360 APIR CTR0438AU)

Key points

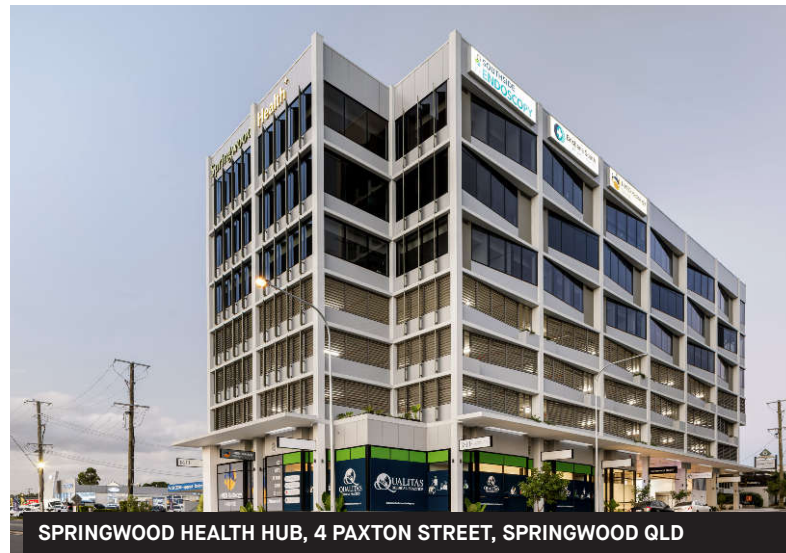
- Property portfolio remains strong with income underpinned by occupancy of 94.4% and a long WALE of 9.9 years¹.
- FY2025 distribution guidance reduced to an annualised rate of 3.00 cpu², earnings impacted by increase in interest cost and the ongoing Weststate Private Hospital dispute.
- Fund continues to execute on the sale strategy and have settled three properties during the June 24 quarter for a combined value of \$28.4 million³.
- The Manager has facilitated redemptions in line with the PDS at 0.5% of Fund's NAV for the June 2024 quarter.
- June 2024 quarterly valuation cycle has been completed, reflecting cap rate softening, reflective of industry wide market conditions.

Fund summary

The Fund's strategy is to build and manage a portfolio of high-quality healthcare assets leveraging affordable healthcare services to deliver resilient returns to investors. The Fund currently owns a portfolio of 17 properties including medical centres, day and short stay hospitals, life science and specialist centres. Since inception of the Fund, the Manager has enhanced portfolio quality, increased the WALE, and improved tenant diversification.

	INCEPTION ⁴	2024 PORTFOLIO ⁵
WALE	6.7 years	9.9 years ⁶
Tenant diversification	48 tenants	84 tenants
Largest single tenant exposure	32%	13%
Average portfolio age	7.0 years	6.6 years ⁷

1. Includes rental guarantees. As at 30 June 2024, based on current as-if complete value. The lease term for Weststate Private Hospital is included in the WALE and occupancy calculation.
2. The target distribution rate is not a forecast, is predictive in nature and is subject to assumptions, risks and circumstances (both known and unknown) outside of the control of Centuria Property Funds No. 2 Limited, as responsible entity of the Fund. These assumptions include that the pipeline properties will be acquired by the Fund at current valuations and that funding will be secured at a particular interest rate. Actual returns may differ from the target return. Centuria Property Funds No. 2 Limited does not guarantee the performance of the Fund, the repayment of capital or any income or capital return. Past performance is not a 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 differ from forecast levels, distributions may be revised.
3. Based on net sale price. Based on 100% interest basis for 24 Sundew Rise, Joondalup WA and the property is co-owned by CHPF and NPUT. CHPF is the largest investor in NPUT. Excludes lease surrender payment for 50 Montsalvat Drive, Greenfields WA.
4. Inception date is 21 September 2020. Past performance is not a reliable indicator of future performance.
5. Data as at 30 June 2024.
6. Includes rental guarantees. As at 30 June 2024, based on current as-if complete value. The lease term for Weststate Private Hospital is included in the WALE calculation.
7. Current portfolio weighted by value. Includes refurbishments and Weststate Private Hospital on an "as if complete" basis.
8. The surrender fee was paid by the tenant on 28 June 2024.



FY25 distribution forecast

The FY25 distribution guidance will be 3.00 cpu (annualised), a reduction from the FY24 distribution of 4.30 cpu. Although the Fund's distributable income increased as a result of lease surrender fees for Greenfields⁸ and rent reviews, this was not sufficient to offset the impact of the following two items.

- The higher cost of debt incurred by the Fund due to the rapid move in interest rates. Since 2021 the cash rate, indicative of the Fund's borrowing rate, has increased from 0.1% to 4.35% today, with a number of favourably priced interest swaps maturing during FY25. This means the cost of debt has significantly increased, which has a negative impact on distributions from the Fund.
- Uncertainty in relation to the Weststate Private Hospital development and delay in completion. We will be providing updates on Weststate's progress and the Fund's capital management via the continuous disclosures portal on the Fund's website.

As the Fund Manager, Centuria has provided, and continues to provide, proactive capital management to the benefit of unitholders. The fund management team is focused on stabilising the portfolio and working through the Weststate development to improve the Fund's performance.

Execution of divestment strategy

The Fund continues to proactively execute the divestment strategy for properties where the near-term value has been maximised, with no further near-term outstanding asset management initiatives. During the financial year ending 30 June 2024, the Fund has completed 8 sale transactions for a combined value of \$51.4 million¹. The net proceeds from the sale will be applied towards the Fund's ongoing capital commitments, including construction payments for current developments, and bolstering quarterly liquidity to satisfy redemptions.

The recent divestments indicated a continued, strong demand for high-quality private day hospitals, medical centres and specialist care facilities. The divestments also reflect the strong calibre of underlying assets within CHPF's portfolio.

The below summarises the settlements that completed during the quarter ending 30 June 2024:

- Joondalup and South Bunbury successfully settled on the 7 June for a combined sale price of \$20.1 million¹. The sale price is in line with the book value as at 31 December 23.
- The Fund also settled on the divestment of Greenfields on 27 June for \$8.225 million. The tenant also paid a surrender fee of \$2.65 million prior to settlement. The total contribution of \$10.875 million is 19% above book value of \$8.8 million and 6% above the purchase price of \$10.26 million.

Furthermore, an on-market campaign for Cairns has commenced with appointed agents JLL and Knight Frank. We look forward to providing investors with an update on the progress of these sale campaigns.

Portfolio leasing traction

During the June 2024 quarter, the Fund successfully executed the below summarised leases for the portfolio. These leases reduce the downtime risk and improves the occupancy and the WALE for the portfolio.

- Sunbury – The manager has successfully completed 2 leasing deals over a total of 150 sqm NLA, improving the WALE of the property to 5.5 from 5.8 years.
- Orange - Lease proposals have been sent to two prospective tenants for a total of 785sqm NLA. In addition, joint leasing agents are actively marketing the space for lease.
- Varsity Lakes – Heads of agreement issued to an existing tenant to take up additional space of 335sqm.
- Vermont Private Hospital – In discussion with several interested parties to take up the remaining space. These include a skin cancer clinic, orthotics/prosthetics centre and osteopath consulting.

Fund liquidity facility and redemptions

The Fund currently holds a portfolio of predominantly direct and indirect real property and a smaller holding in liquid assets. The liquid assets provide liquidity to the Fund that are utilised to offer Investors a limited quarterly withdrawal facility. To bolster the fund's balance sheet during FY25, the Manager has revised the quarterly redemption mechanism in line with the PDS, at 0.5% of the Fund's NAV.

As set out in the Fund's PDS, the Manager determines the amount available to satisfy withdrawal requests in a quarter under the Fund's Limited Quarterly Withdrawal Facility on the day before withdrawals for that quarter are processed. The Manager has determined that the amount available to satisfy withdrawal requests for the June 2024 quarter under the Fund's Limited Quarterly Withdrawal Facility is \$1.5 million.

As disclosed in the Fund's Product Disclosure Statement, when withdrawal requests exceed the available liquidity, the

Manager will scale back requests on a pro rata basis. All redemption requests for the June 2024 quarter have been scaled proportionately. Further information regarding the scale back is available on the Fund's continuous disclosure website.

Any withdrawal requests submitted during a quarter which are not satisfied, either in whole or in part, automatically roll over to the following quarter, unless the Investor requests otherwise or the Manager suspends withdrawals. Any withdrawal requests rolled over to the next quarter do not have priority, but form part of the pool of new withdrawal requests for that next quarter.

Due to the prevailing market conditions, the Fund has received increased levels of redemption requests, which is a common occurrence in the commercial property sector. Current redemption levels sit at ~\$40.3m or ~15% of the net asset value, this means that the majority of investors are not requesting the realisation of their investment in the Fund. Prior to March 2023, the Fund satisfied all redemption requests.

Since inception, more than \$21.7million of redemptions have been facilitated.

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 August 2025. This is in line with the recommended investment timeframe as outlined in the Fund's Target Market Determination.

Centuria co-investment

The recommended investment timeframe within the Fund is five years and 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 14% of the units on issue (~\$41.8m) held by related party entities. In addition, Centuria owns redeemable preference units valued at \$28.6 million within the Fund. As we go through this property cycle, Centuria is pleased to be able to co-invest alongside our Investors.

Weststate private hospital update

The Fund holds an investment in the development of Weststate Private Hospital, a short stay hospital with a commencing lease term of 25 years and 100% occupancy upon completion. The Fund's investment forms a fund-through project developed by Lautaret Pty Ltd. The incoming tenant (Weststate Private Hospital Limited) has issued proceedings against the Manager alleging certain building works do not comply with the Agreement for Lease (both in terms of what is required and who is responsible for the cost) and alleging claims under the Australian Consumer Law. As a result, the Manager has undertaken a detailed review of the scope of works.

The dispute with the incoming tenant is currently the subject of court proceedings. The Manager has allowed a provision in the Fund's unit price (and in valuation) in relation to possible cost overruns and legal costs that are estimated to be incurred in defending the Weststate Private Hospital litigation. This provision will continue to be considered, and revised if required, as matters progress.

The Manager notes that the Weststate proceedings are continuing through the litigation process. The plaintiff (Weststate Private Hospital Limited, the tenant) filed an amended statement of claim on 29 May 2024. The matter returns to Court for review on 8 August 2024.

1. Calculated by net sale price and on a 100% interest basis for 8-10 Warneford Street, Hobart and 24 Sundew Rise, Joondalup WA.

Financial snapshot

Fund commencement date	8 October 2019
Unit price	\$0.8028 ¹
Target distribution rate (cents per unit) for September quarter 2024 (annualised)	3.0 ²
Weighted Average Lease Expiry (WALE) by income (years)	9.9 ³
Next investor vote on term of Fund	August 2025

Fund performance breakdown

The table below summarises the Fund's performance since inception⁴. Unfortunately, due to current market conditions the property sector has experienced headwinds, negatively impacting the near-term capital returns of the Fund. The unit price has reduced by approximately 7.6 cpu to \$0.8028 (ex-div) as at 30 June 2024 compared to \$0.8787 per unit as at 29 June 24, largely driven by 30 June 2024 valuation movements due to cap rate softening from 5.27% to 5.46% (6.3 cpu).

The 30 June 2024 valuation movements are highlighted in the Property Details section.

AS AT 31 MARCH 2024	6 MTH (%)	1 YR (%)	SINCE INCEPTION ⁵ ⁶ (% P.A)
Distribution	2.36	4.25	4.84
Capital growth	-11.88	-20.63	-5.70
Total return	-9.52	-16.38	-0.86

Looking ahead, the Fund is concentrating on resolving the current legal dispute with Weststate Private Hospital, addressing the vacancy at Orange Private Hospital and mitigating debt volatility to provide the Fund with additional stability. We look forward to providing investors a further update as the financial year progresses.

1. Ex-div price as at 30 June 2024.

2. The target distribution rate is not a forecast, is predictive in nature and is subject to assumptions, risks and circumstances (both known and unknown) outside of the control of Centuria Property Funds No. 2 Limited, as responsible entity of the Fund. These assumptions include that the pipeline properties will be acquired by the Fund at current valuations and that funding will be secured at a particular interest rate. Actual returns may differ from the target return. Centuria Property Funds No. 2 Limited does not guarantee the performance of the Fund, the repayment of capital or any income or capital return. Past performance is not a 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 differ from forecast levels, distributions may be revised.

3. Includes rental guarantees. As at 30 June 2024, based on current as-if complete value. The lease term for Weststate Private Hospital is included in the WALE calculation.

4. Performance is shown for informational purposes only. Past performance is not a reliable indicator of future performance. Performance fees may affect total return performance.

5. Inception date is 21 September 2020.

6. Returns are annualised.

Property details

PROPERTY	PROPERTY VALUE ¹ (\$M)	CAP RATE ²	DIRECT OWNERSHIP % ¹	OWNERSHIP VALUE (\$M) ¹	WALE (BY INCOME) – YEARS ²	OCCUPANCY ²
Cairns Day Surgery, QLD	23.8	5.63%	100%	23.8	5.7	100%
Vermont South Medical Centre, VIC ³	67.3	5.38%	85%	57.2	8.3	91%
Bloomfield Medical Centre, NSW ³	55.0	5.75%	85%	46.8	8.9	77%
West Medical Hub, West Lakes SA	14.2	5.75%	100%	14.2	4.8	96%
Perth Clinic, West Perth, WA	45.3	5.38%	100%	45.3	11.6	100%
Coffs Harbour Medical Centre, NSW	26.0	5.75%	100%	26.0	2.6	100%
411 Nepean Highway, Frankston VIC	11.6	5.50%	100%	11.6	4.9	100%
Weststate Private Hospital, West End QLD ⁴	32.6	5.25%	100%	32.6	25.0	100% ²
275 Addison Road, Petersham, NSW	7.8	6.00%	100%	7.8	10.2	100%
38-44 Gap Road, Sunbury VIC	26.0	5.50%	100%	26.0	5.8	92%
77-97 Ricketts, Mt Waverley VIC	40.5	5.38%	100%	40.5	12.3	100%
2 Lake Street, Varsity Lakes QLD	64.8	5.50%	100%	64.8	5.5	87%
299 Scottsdale Dive, Robina QLD	26.8	5.25%	100%	26.8	10.3	100%
168 Corfield Street, Gosnells WA	9.5	6.38%	100%	9.5	4.5	100%
60B Kingsvale Road, Myocum NSW	7.9	6.00%	100%	7.9	18.1	100%
The Bond, 8 Elizabeth MacArthur Dr, Bella Vista NSW ⁵	64.5	5.25%	60%	38.4	7.9	100% ²
Springwood Health Hub	33.3	5.13%	100%	33.3	11.1	100% ²
Indirect Properties – Investment in NPUT ³		5.54%		8.4	8.2	86%
Current Portfolio – As Is Valuation	556.6	5.47%		520.5	9.3	94%
Current Portfolio – As If Complete	592.0	5.46%		555.9	9.9	94%

- The Fund continues to undertake quarterly valuations for all properties held by the Fund with the most recent valuations undertaken in June 2024. The cap rate for the portfolio has softened from 5.27% to 5.46%.
- Real estate valuations have been impacted by the increase in RBA cash rate to 4.35% from 0.1%, since May 2022. As the 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.
- The following is a breakdown of the key property revaluation movements across the portfolio:
 - Bella Vista – Valuation reduced by \$3.7m (-5.4%) to \$64.5m, driven by cap rate softening to 5.25% from 5.00%, which was partially offset by an increase in passing rent and upward revisions to market rents across some of the tenancies.
 - Mt Waverley - Valuation reduced by \$3.3m (-7.6%) to \$40.5m, driven by cap rate softening to 5.38% from 5.25%, which was partially offset by an upward revision to market rental income for the office tenant.
 - Springwood - Valuation reduced by \$2.6m (-7.3%) to \$33.3m, driven by cap rate softening to 5.13% from 5.00%, which was partially offset by an upward revision to tenant retentions.
 - Weststate - \$2.6m reduction. The dispute with the tenant is ongoing and currently working on the ongoing legal process.
 - Varsity Lakes - Valuation reduced by \$2.0m (-3.0%) to \$64.8m, driven by cap rate softening to 5.50% from 5.38%.
 - Cairns - Valuation reduced by \$1.9m (-7.3%) to \$23.8m, driven by cap rate softening to 5.63% from 5.50%, which was partially offset by an increase in passing rents for the June 24 quarter.
- As outlined in earlier continuous disclosure updates, the Fund estimates possibly incurring additional costs relating to the Fund's investment in the development of Weststate Private Hospital. The Fund conducts regular valuations of the property portfolio for the purposes of unit pricing. In line with the Fund's policies, the 30 June 2024 valuation includes estimated costs adjustments relating to the dispute between the incoming tenant (Weststate Private Hospital Limited) and the Fund.

1. As at 30 June 2024.

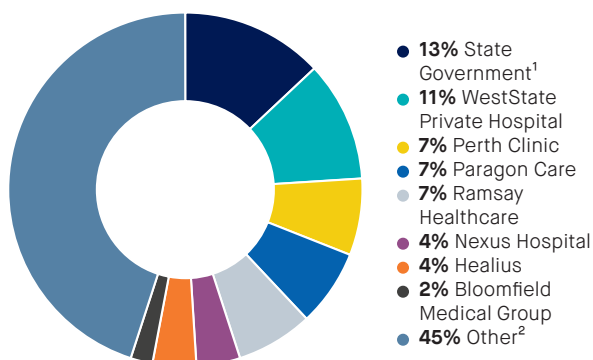
2. As at 30 June 2024, based on current as-if complete value. Includes rental guarantees. The lease term for Weststate Private Hospital is included in the WALE and occupancy calculation.

3. The Fund also has an indirect interest in the Nexus anchored properties via Nexus Property Unit Trust (NPUT). NPUT currently owns a 15% interest in Vermont South Medical Centre and Bloomfield Medical Centre however CHPF is the majority shareholder of NPUT.

4. This property is currently under construction. Property value reflects the "As Is" valuation. The "As If Complete" value is \$68.0 million for Weststate Private Hospital, West End, QLD.

5. Adopted valuation reflected at 59.5% direct ownership by CHPF, the balance is held by Centuria Capital Limited. Ownership may be reported on a consolidated basis at 100% in the financial accounts.

Top tenants by gross passing income¹



1. Includes Mid North Coast Local Health District at Coffs Harbour Medical Centre, NSW, Peninsula Health at Frankston, VIC, and Queensland Health at Varsity Lakes, QLD.

2. Includes rental guarantees.

Portfolio statistics

	JUN 23	SEP 23	DEC 23	MAR 24	JUN 24
Portfolio occupancy	95.6%	96.0%	94.6%	94.5%	94.4% ²
Weighted average lease expiry (WALE) by income (years)	10.4	10.2	10.0	9.9	9.9 ²
Portfolio valuation (at ownership)(\$mil)	558.2	626.8	602.2	597.7	555.9 ³

Debt summary

The table below summarises terms for the existing facility agreements with four lenders.

The LVR as at 30 June 2024 is 48.5%² compared to the LVR covenant of 55%, providing adequate headroom. The Fund also continues to undertake stress testing of financial covenants based on the Fund's forecast.

	CURRENT PERIOD	LOAN COVENANTS
Total facility limit	\$330.0m ⁴	
Undrawn amount	\$69.5m ⁴	
Weighted average loan expiry	1.7years ⁴	
% of debt hedged	38% ⁴	
Loan to value ratio (LVR)	48.5% ⁵	55.0%
Interest cover ratio (ICR)	2.1x ⁶	2.0x

1. As at June 2024.

2. As at 30 June 2024, based on current as-if complete value. Includes rental guarantees. The lease term for Weststate Private Hospital is included in the WALE and occupancy calculation.

3. Based on CHPF's portfolio on an "as-if complete" basis as at 30 June 2024. CHPF has an 85% direct interest in Bloomfield Medical Centre and Vermont South Medical Centre with the remaining 15% owned by Nexus Property Unit Trust (NPUT) however CHPF is a majority shareholder of NPUT. Valuation of 8 Elizabeth MacArthur Drive, Bella Vista, NSW is based on 59.5% direct effective ownership held by CHPF. Also includes Weststate Private Hospital, West End, QLD on an "As If Complete" valuation of \$68.0 million.

4. As at 30 June 2024. Debt balance considers additional repayments made in early July 2024.

5. As at 30 June 2024. The LVR calculation attributes 100% of the property value of The Bond in denominator. Notwithstanding, the Fund owns 59.5% effective ownership of The Bond. Debt balance considers additional repayments made in early July 2024.

6. ICR is based on Net Rental Income over Interest Expense as at the most recent covenant testing period (30 June 2024).

Continuous disclosure website

The Fund's continuous disclosure website can be found in the Investor Centre section of the Fund's website <https://centuria.com.au/healthcare-property-fund/investor-centre/>. These continuous disclosures are updated regularly and include important information relating to the Fund, including details on the operation of the quarterly liquidity facilities and distributions.

Access all information relating to your Centuria investments at centuriainvestor.com.au.

RG46 statements

The latest RG46 Statement for the Fund is available at [CenturiaInvestor.com.au](https://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

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.

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