

# Centuria

Quarterly fund update  
September 2024

## Centuria Healthcare Property Fund

(ARSN 638 821 360 APIR CTR0438AU)

### Key points

- Property portfolio underpinned by occupancy of 94.6%<sup>1</sup> and a long WALE of 9.6 years<sup>2</sup>.
- Fund continues to execute on the sale strategy with the divestment process underway for additional properties.
- The Manager has facilitated redemptions in line with the PDS at 0.5% of Fund's NAV for the September 2024 quarter.
- September 2024 quarterly valuation cycle has been completed, reflecting cap rate softening from 5.48% to 5.61%, reflective of industry wide market conditions.
- The Manager continue to execute the debt strategy, with the facility limit reduced to \$285 million, debt expiry in the current calendar year further extended and additional hedging executed.

### 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 <sup>2</sup>	2024 PORTFOLIO <sup>3</sup>
WALE	6.7 years	9.6 years <sup>4</sup>
Tenant diversification	48 tenants	78 tenants
Largest single tenant exposure	32%	13%
Average portfolio age	7.0 years	6.8 years <sup>5</sup>

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.

- Includes rental guarantees. As at 30 September 2024, based on current as-if complete value. The lease term for Weststate Private Hospital is included in the WALE and occupancy calculation. The WALE excluding Weststate is 7.8 years.
- Inception date is 21 September 2020. Past performance is not a reliable indicator of future performance.
- Data as at 30 September 2024.
- Includes rental guarantees. As at 30 September 2024, based on current as-if complete value. The lease term for Weststate Private Hospital is included in the WALE calculation.
- Current portfolio weighted by value. Includes refurbishments and Weststate Private Hospital on an "as if complete" basis.
- Calculated by net sale price and on a 100% interest basis for 8-10 Warneford Street, Hobart and 24 Sundew Rise, Joondalup WA.



SPRINGWOOD HEALTH HUB, 4 PAXTON STREET, SPRINGWOOD QLD

### 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 completed 8 sale transactions for a combined value of \$51.4 million<sup>6</sup>.

The Fund is currently in due diligence to divest Cairns Day Surgery and have also exchanged contracts to sell Petersham (subject to satisfaction of conditions). Further update will be provided to investors once unconditional sale contracts are exchanged. The Manager is also currently considering the divestment of additional properties (subject to board approval).

### Portfolio Leasing Traction

During the September 2024 quarter, the Fund successfully executed four leases for a total area of 194 sqm at Sunbury Medical Centre. These leases reduce the downtime risk and improves the occupancy and the WALE for the portfolio.

We are continuing to work on leasing the vacant floor (2,267sqm) at Bloomfield Medical Centre. A heads of agreement has been issued to a prospective tenant to lease 335sqm of the vacant floor at Bloomfield Medical Centre and we are awaiting feedback.

### 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, from quarter ending 30 June 2024.

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 September 2024 quarter under the Fund's Limited Quarterly Withdrawal Facility is \$1.3 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 September 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 ~\$39.8m or ~16% 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 \$23 million 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 (\$39.6 million) 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. Upon completion of the development the incoming sole tenant will be Weststate Private Hospital Limited (Weststate), on a lease term of 25 years and with 100% contracted occupancy. The Fund's investment forms a fund-through project developed by Lautaret Pty Ltd. Weststate has issued proceedings against the Manager alleging certain building works do not comply with the Agreement for Lease between Weststate and the Fund (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 Weststate 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 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. Weststate filed an amended statement of claim on 26 August 2024. The Fund's Defence is due in October 2024. The plaintiff's Reply is due on 15 November 2024. The matter will return to Court for review on 12 November 2024.

## Financial snapshot

<b>Fund commencement date</b>	8 October 2019
<b>Unit price</b>	\$0.7604 <sup>1</sup>
<b>Target distribution rate (cents per unit) for September quarter 2024 (annualised)</b>	3.0 <sup>2</sup>
<b>Weighted Average Lease Expiry (WALE) by income (years)</b>	9.6 <sup>3</sup>
<b>Next investor vote on term of Fund</b>	August 2025

## Fund performance breakdown

The table below summarises the Fund's performance since inception<sup>4</sup>. Unfortunately, due to current market conditions the property sector has experienced headwinds, negatively impacting the near-term capital returns of the Fund. The September 2024 quarterly valuation is now completed reflecting a cap rate softening from 5.48% to 5.61% resulting in unit price of 3 cents per unit to \$0.7604 per unit (ex div).

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

<b>AS AT 30 SEPTEMBER 2024</b>	<b>6 MTH (%)</b>	<b>1 YR (%)</b>	<b>SINCE INCEPTION<sup>5</sup> -<sup>6</sup>(% P.A)</b>
Distribution	2.07	4.03	4.70
Capital growth	-13.61	-22.83	-6.62
<b>Total return</b>	<b>-11.54</b>	<b>-18.80</b>	<b>-1.92</b>

1. Ex-div price as at 30 September 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 all tenants will satisfy their contractual obligations under their respective leases within a timely manner, there are no significant unforeseen capital costs or material changes to the Fund's financial obligations, 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 September 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 <sup>1</sup> (\$M)	CAP RATE <sup>1</sup>	DIRECT OWNERSHIP % <sup>1</sup>	OWNERSHIP VALUE (\$M) <sup>1</sup>	WALE (BY INCOME) – YEARS <sup>1,2</sup>	OCCUPANCY <sup>1,2</sup>
Vermont South Medical Centre, VIC <sup>3</sup>	67.3	5.38%	85%	57.2	7.9	90%
Bloomfield Medical Centre, NSW <sup>3</sup>	55.3	5.75%	85%	47.0	8.6	77%
Cairns Day Surgery, QLD	20.4	6.13%	100%	20.4	5.4	100%
Coffs Harbour Medical Centre, NSW	25.0	6.00%	100%	25.0	2.3	100%
Perth Clinic, West Perth, WA	42.7	5.75%	100%	42.7	11.3	100%
411 Nepean Highway, Frankston VIC	11.4	5.63%	100%	11.4	4.7	100%
275 Addison Road, Petersham, NSW	7.7	6.13%	100%	7.7	9.9	100%
Weststate Private Hospital, West End QLD <sup>4</sup>	33.0	5.50%	100%	33.0	25.0	100%
38-44 Gap Road, Sunbury VIC	25.8	5.63%	100%	25.8	5.6	93%
77-97 Ricketts, Mt Waverley VIC	41.8	5.50%	100%	41.8	12.1	100%
2 Lake Street, Varsity Lakes QLD	64.3	5.63%	100%	64.3	5.2	87%
West Medical Hub, West Lakes SA	13.7	6.00%	100%	13.7	4.6	96%
299 Scottsdale Dive, Robina QLD	26.3	5.38%	100%	26.3	10.1	100%
168 Corfield Street, Gosnells WA	9.1	6.38%	100%	9.1	4.2	100%
60B Kingsvale Road, Myocum NSW	8.0	6.13%	100%	8.0	17.9	100%
Springwood Health Hub	33.0	5.25%	100%	33.0	10.8	100%
The Bond, 8 Elizabeth MacArthur Dr, Bella Vista NSW <sup>5</sup>	64.5	5.38%	60%	38.4	7.7	100%
Indirect Properties – Investment in NPUT <sup>3</sup>				7.6		
<b>Current Portfolio – Excluding Weststate</b>	515.9			479.0	7.8	94%
<b>Current Portfolio – As Is Valuation</b>	548.9	5.61%		512.0	9.6	95%
<b>Current Portfolio – As If Complete</b>	583.9			547.0	10.2	95%

- The Fund continues to undertake quarterly valuations for all properties held by the Fund with the most recent valuations undertaken in September 2024. The cap rate for the portfolio has softened from 5.48% to 5.61%.
- 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.
- Cap rates have continued to soften over the last 18 months which has had a widespread impact on property portfolio across the commercial real estate industry. However, the total impact of cap rate softening has been partially offset by the increase in market rents to September 24. Furthermore, the Manager has been able to execute several new leasing deals and lease renewals which improves valuation.
- The following is a breakdown of the key property revaluation movements across the portfolio:
  - Cairns (independent valuation) – Valuation reduced by \$3.4m (-14%) to \$20.4m, driven by cap rate softening to 6.13% from 5.63%.
  - West Perth (independent valuation) – Valuation reduced by \$2.6m (-6%) to \$42.7m, driven by cap rate softening to 5.75% from 5.38%.
  - Coffs Harbour (independent valuation) – Valuation reduced by \$1.0m (-4%) to \$25.0m, driven by cap rate softening to 6.00% from 5.75%.
  - West Lakes (internal valuation) – Valuation reduced by \$0.5m (-3.5%) to \$13.7m, driven by cap rate softening to 6.00% from 5.75%.
  - Robina (internal valuation) – Valuation reduced by \$0.5m (-1.9%) to \$26.3m, driven by cap rate softening to 5.38% from 5.25%.

1. As at 30 September 2024.

2. Includes rental guarantees. As at 30 September 2024, based on current as-if complete value. The lease term for Weststate Private Hospital is included in the WALE and occupancy calculation. The WALE excluding Weststate is 7.8 years.

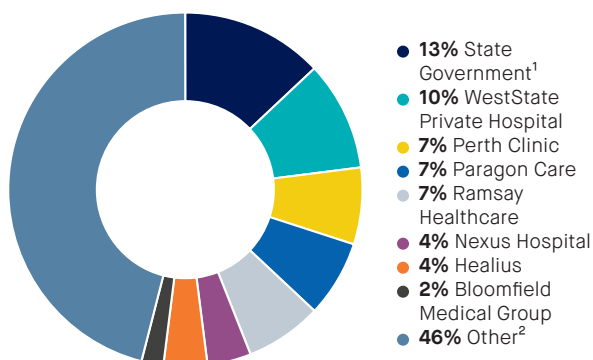
3. The Fund also has an indirect interest in the Nexus anchored properties via Nexus Property Unit Trust (NPUT). NPUT currently owns a 15% interest in Vermont South Medical Centre and Bloomfield Medical Centre however CHPF is the majority shareholder of NPUT.

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.

- Varsity Lakes (internal valuation)- Valuation reduced by \$0.5m (-0.8%) to \$64.3m, driven by cap rate softening to 5.63% from 5.50%, which was partially offset by an increase in passing rents for the September 24 quarter.
  - Springwood (independent valuation) - Valuation reduced by \$0.3m (-0.8%) to \$33.0m, driven by cap rate softening to 5.25% from 5.13%, which was partially offset by an increase in passing and market rents for the September 24 quarter.
  - Sunbury (independent valuation) - Valuation reduced by \$0.3m (-1.0%) to \$25.8m, driven by cap rate softening to 5.63% from 5.50%, which was partially offset by an upward revision to market rental income.
  - Frankston (internal valuation) - Valuation reduced by \$0.2m (-1.7%) to \$11.4m, driven by cap rate softening to 5.63% from 5.50%.
- 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 September 2024 valuation includes estimated costs adjustments relating to the dispute between the incoming tenant (Weststate Private Hospital Limited) and the Fund.

## Top tenants by gross passing income<sup>1</sup>



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

	SEP 23	DEC 23	MAR 24	JUN 24	SEP 24
<b>Portfolio occupancy</b>	96.0%	94.6%	94.5%	94.4%	94.6% <sup>2</sup>
<b>Weighted average lease expiry (WALE) by income (years)</b>	10.2	10.0	9.9	9.9	9.6 <sup>2</sup>
<b>Portfolio valuation (at ownership)(\$mil)</b>	626.8	602.2	597.7	555.9	547.0 <sup>3</sup>

## Debt summary

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

The Manager has executed the below debt strategies during the quarter:

- Two facilities that were due to expire in the current calendar year has been extended and this has improved the Fund's weighted average loan expiry to 1.9 years from 1.7 years.
- The Fund has entered into additional hedging of \$40 million and this has increased the hedging % to 54% from 38% (as at 30 September 2024).
- The facility limit for the Fund has been reduced to \$285 million from \$330 million post the recent divestments of properties. The reduction in the facility limit will save on debt cost (line fee) for the Fund.

The LVR as at 30 September 2024 is 49.2% 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
<b>Total facility limit</b>	\$285.0m <sup>1</sup>	
<b>Undrawn amount</b>	\$25.5m <sup>1</sup>	
<b>Weighted average loan expiry</b>	1.9 years <sup>1</sup>	
<b>% of debt hedged</b>	54% <sup>1</sup>	
<b>Loan to value ratio (LVR)</b>	49.2% <sup>4</sup>	55.0%
<b>Interest cover ratio (ICR)</b>	2.1x <sup>5</sup>	2.0x

## 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](https://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).

1. As at 30 September 2024.

2. As at 30 September 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 CHFP's portfolio on an "as-if complete" basis as at 30 September 2024. CHFP 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 CHFP 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 CHFP. Also includes Weststate Private Hospital, West End, QLD on an "As If Complete" valuation of \$68.0 million.

4. As at 30 September 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.

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

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## 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](mailto:property.enquiry@centuriainvestor.com.au)**.

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