

Centuria

Quarterly fund update
December 2022

Centuria Healthcare Property Fund

(ARSN 638 821 360 APIR CTR0438AU)



HAVELOCK HOUSE, PERTH WA¹

Key points

- The Fund is currently open for investment. Strong investor demand to date.
- Total return of 7.22% p.a. for the 12 months to 31 December 2022².
- Income underpinned by 99.5%³ occupancy, WALE of 10.5 years³ and 69.8% of the rental increases linked to CPI.
- Target distribution rate for the December 2022 quarter is 5.00 CPU (annualised)⁴.



WESTSTATE PRIVATE HOSPITAL, WEST END QLD¹

Fund summary

Monthly distributions for the Centuria Healthcare Property Fund (Fund) remain at 5.00 CPU (annualised), which is in line with the target distribution rate of 5.00 CPU (annualised)⁴ for FY23. 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.au.

Please note, given the current volatility in interest rate forecasts, the target distribution rate is being closely monitored. Should interest rates normalise at higher (or lower) than forecast levels, distributions may be impacted. This target distribution rate also 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.

Property valuation and market update

Centuria Healthcare Property Fund (Fund) undertook independent valuations as at 31 December 2022 for all the existing properties. Notwithstanding the softening of market conditions, we are pleased to report that returns for the healthcare properties have remained resilient with a valuation uplift of 1.0% (+\$5.0 million) across the portfolio. The portfolio valuation uplift was driven by an increase in market rental income due to CPI-linked rental review, offset by softening in capitalisation rate from 4.76% to 4.86%. The Fund's portfolio valuation is reflective of the recent healthcare market transactions.

In the December 2022 meeting, The Reserve Bank of Australia (RBA) increased the official cash rate target by 0.25% to 3.10%. The RBA cited very tight labour market conditions, supply-side constraints, and continued strength in economic growth driving inflation to record high levels. Real estate transaction volume has slowed over the 2H 2022, as investors become wearier of easing economic growth, and aggressive rate hikes spur higher financing costs, broadly placing downward pressure on Australian commercial property valuations.

1. Havelock House and Weststate Private Hospital photos represent the architect's rendered vision of the properties currently under construction.

2. Since 1 October 2021 to 31 December 2022. Past performance is not a reliable indicator of future performance.

3. Includes rental guarantees. As at 31 December 2022, based on current as-if complete value.

4. 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 CHPF at current valuations and that funding will be secured at a particular interest rate. The actual returns may differ from the target return. Centuria Property Funds No. 2 Limited does not guarantee the performance of CHPF, the repayment of capital or any income or capital return. Past performance is not reliable indicator of future performance.

Positively, healthcare-sector property has offered investors lower volatility as valuations held largely flat or in some cases slightly higher, due to strong national demand for high-quality healthcare services.

CHPF maintains a diversified portfolio focused on affordable care with investments in day and short stay hospitals, medical centres and specialist centres, life science and dementia care facilities.

Capital raise and pipeline opportunities

The Centuria Healthcare Property Fund is currently open to applications to fund high quality pipeline developments, as well as a portfolio of stabilised assets held by Centuria Healthcare Direct Medical Fund No.1. Investor appetite for a quality healthcare portfolio has been well received with strong investor appetite since the Fund reopened for applications in December 2022.

The Fund has contracted to acquire a quality pipeline of properties valued at \$106.7 million. The acquisitions will diversify the underlying asset mix and improve the portfolio's overall quality. Details of the contracted properties are detailed below.

The Bond, NSW

- The Bond is located in Bella Vista NSW, and will be acquired for approximately \$68.25m at a yield of 4.6%.
- The property will have a WALE of 7.9 years at practical completion with 100%¹ occupancy. Any available space will be secured by a 2-year rental guarantee
- The property is located directly adjacent to the Norwest Private Hospital.
- The secured tenants will provide oncology, fertility, childcare and psychology services.

Springwood, QLD

- The property will be acquired upon practical completion (est September 2023) at a passing yield of 5.30% for an estimated purchase price of \$28.2 million.
- The property is in the suburb of Springwood, approximately 20km south of Brisbane CBD, providing healthcare and commercial uses.
- Settlement is conditional upon a minimum leasing commitment of 65% (by income) from healthcare tenants. A 24 month rent guarantee is in place for the balance of the space (approximately 35%).

Greenfields, WA

- The property is well located in Greenfields, WA. The medical centre will be acquired for \$10.3 million.
- The property is currently under construction with settlement targeted for early 2023.
- On completion the property, anchored by St John, WA (Apollo Health), will be 100% occupied, with a 9.5-year WALE.
- Greenfields is a primarily residential suburb in the coastal city of Mandurah WA, the state's second-most populous city, and is known to be a popular area for retirees with numerous aged care facilities throughout.

The Manager has recently entered into call option agreements to acquire six healthcare properties from Centuria Healthcare Direct Medical Fund No.1 (CHDMF1) for a gross sale price of \$87.5 million. The settlement of the properties will be subject to capital raising and will be staged. The portfolio is underpinned by high yielding assets underpinned by strong tenant covenants.

Details of the CHDMF1 portfolio of properties under the call option agreement are provided below.

PROPERTY	PURCHASE PRICE	CAP RATE	WALE BY INCOME (YEARS)
Kogarah	\$17,800,000	5.50%	5.4
Chermside	\$21,750,000	5.50%	3.4
North Mackay	\$13,100,000	6.75%	3.5
Rockingham	\$16,500,000	6.60%	2.5
Forest Lake	\$11,100,000	5.75%	2.4
Gympie	\$7,250,000	7.25%	7.6
Total/weighted average	\$87,500,000	6.06%	3.8

Financial snapshot

Fund commencement date	8 October 2019
Unit price	1.1017 ¹
Target distribution rate (cents per unit) for December quarter 2022	5.00 ²
Weighted average lease expiry (WALE) by income (years)	10.5 ³
Next investor vote on term of fund	August 2025

Fund performance breakdown⁴

The Fund closed the quarter with a unit price of \$1.1017 per unit, an increase of 1.0 CPU compared to 30 November 22 unit price. This has resulted in a total return since inception of 9.7% p.a. and 1 year return of 7.2%. The table below summarises the Fund's performance since inception⁵.

AS AT 31 DECEMBER 2022	6 MTH (%)	1 YR (%)	SINCE INCEPTION (% P.A.) ^{5,6}
Capital growth	-0.22	2.34	4.25
Distribution	2.26	4.88	5.42
Total return	2.04	7.22	9.67

1. The ex-div unit price as at 31 December 2022

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 CHPF at current valuations and that funding will be secured at a particular interest rate. The actual returns may differ from the target return. Centuria Property Funds No. 2 Limited do not guarantee the performance of CHPF, the repayment of capital or any income or capital return. Past performance is not 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 normalise at higher (or lower) than forecast levels, distributions may be revised.

3. Based on the current portfolio as at 31 December 2022 at the as-if complete valuation and excludes properties currently contracted or in due diligence.

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 ⁷ (\$M) (100%)	CAP RATE	DIRECT OWNERSHIP %	OWNERSHIP VALUE (\$M)	WALE (BY INCOME) – YEARS ^{1,2}	OCCUPANCY ²
Vermont South Medical Centre, VIC	70.2	4.9%	85%	59.7	9.4	99%
Forrest Family Practice, WA	8.1	5.4%	100%	8.1	8.5	100%
Bloomfield Medical Centre, NSW	67.3	5.0%	85%	57.2	6.2	100%
Hobart Day Surgery, TAS	5.8	6.5%	85%	4.9	1.6	100%
Sundew Day Surgery, Joondalup WA	15.8	5.0%	85%	13.4	7.1	100%
Cairns Day Surgery, QLD	25.6	5.0%	100%	25.6	7.1	100%
Coffs Harbour Medical Centre, NSW	25.5	5.5%	100%	25.5	2.5	100%
18 Lisa Crescent, Castle Hill NSW ³	3.4	5.0%	100%	3.4	13.4	100%
35 Chiltern Crescent, Castle Hill NSW ³	3.4	5.0%	100%	3.4	13.5	100%
Perth Clinic, West Perth WA	52.8	4.4%	100%	52.8	13.1	100%
411 Nepean Highway, Frankston VIC	12.8	4.8%	100%	12.8	6.4	100%
275 Addison Road, Petersham NSW	8.8	4.8%	100%	8.8	11.7	100%
Weststate Private Hospital, West End QLD ³	25.3	5.8%	100%	25.3	25.0	100%
38-44 Gap Road, Sunbury VIC	30.1	4.5%	100%	30.1	7.1	93%
3 Garrick Road, St Ives NSW	4.2	5.3%	100%	4.2	18.8	100%
49 Benaroon Crescent, St Ives NSW	3.4	5.3%	100%	3.4	18.8	100%
77-97 Ricketts, Mt Waverley VIC ⁴	29.5	4.3% ⁵	100%	29.5	13.7	100%
2 Lake Street, Varsity Lakes QLD	75.7	4.5%	100%	75.7	5.7	100%
West Medical Hub, West Lakes SA	14.6	5.5%	100%	14.6	5.1	100%
299 Scottsdale Drive, Robina QLD ³	21.5	4.8%	100%	21.5	10.8	100%
168 Corfield Street, Gosnells WA	11.7	5.3%	100%	11.7	6.0	100%
60B Kingsvale Road, Myocum NSW	8.9	5.3%	100%	8.9	19.6	100%
Indirect properties – investment in NPUT⁶				11.7		
Current portfolio – as is valuation	524.1	4.8%		512.0	9.3	99.4%
Current portfolio – as if complete valuation	588.3	4.9%		576.1	10.5	99.5%
50 Montsalvat Drive, Greenfields WA						
The Bond, 8 Elizabeth MacArthur Drive, Bella Vista NSW	10.3	5.3%	100%	10.3	9.5	100%
4 Paxton Street, Springwood QLD	68.3	4.5%	100%	68.3	7.9	100%
Current and contracted portfolio⁶ – as if complete valuation	28.5	5.3%	100%	28.5	4.9	100%
Total investment portfolio	695.3	4.9%		683.1	10.0	99.6%

1. As at 31 December 2022

2. Includes rental guarantees

3. This property is currently under construction. Property value reflects "As Is" valuation. The "As If" complete value is \$4.4 million for 18 Lisa Crescent Castle Hill, NSW, \$4.4 million for 35 Chiltern Crescent, Castle Hill, NSW, \$60.5 million for Weststate Private Hospital, West End, QLD and \$27.5 million for 299 Scottsdale Drive, Robina, QLD.

4. Property value reflects "As Is" valuation. The "As If" complete value is \$50.5 million.

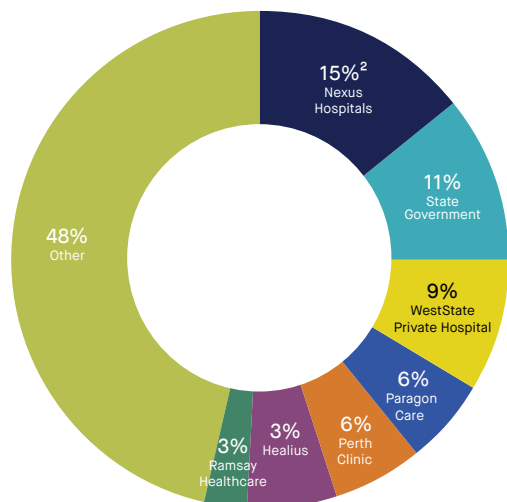
5. Core cap rate for the As If Complete valuation.

6. 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, Bloomfield Medical Centre, Hobart Day Surgery and Sundew Day Surgery

7. Independent Valuations as at 31 December 2022.

Top tenants by gross passing income

Nexus Hospitals, Australia's second-largest day hospital operator is owned by QIC's Global Infrastructure Fund¹, comprises 14.5% of the portfolio's gross passing income as at 31 December 2022. QIC has entered into an agreement to purchase Montserrat Day Hospitals (portfolio of eight hospitals and several clinics) from ASX-listed group Healius for \$140 million. The deal represents a great outcome for investors in healthcare, as it further reinforces strong demand for short-stay hospitals.



The Fund is 99.5%⁴ occupied with a Weighted Average Lease Expiry (WALE) by income of 10.5 years as at 31 December 2022.

Portfolio statistics

	DEC 21	MAR 22	JUN 22	SEP 22	DEC 22
Portfolio occupancy	99.2%	98.3%	99.4%	99.4%	99.5% ⁴
Weighted average lease expiry (WALE) by income (years)	8.9	10.7	10.3	10.6	10.5 ⁴
Portfolio valuation (at ownership)	415.4	507.5	564.6	573.9	576.1 ⁵

Debt summary

The table below summarises terms for the existing facility agreements with NAB, BOQ, ANZ and BOC. Proceeds from the ongoing capital raise have been partially utilised to repay debt, improving the Fund's percentage of debt hedged in the current rising interest rate environment.

	CURRENT PERIOD	LOAN COVENANTS
Total facility limit	\$330.0m ⁶	
Undrawn amount	\$118.9m ⁶	
Weighted average loan expiry	2.7 years	
% of debt hedged	83.8% ⁶	
Loan to value ratio (LVR)	42.2% ⁷	55.0%
Interest cover ratio (ICR)	3.4x ⁶	2.00x

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.

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. QIC's Global Infrastructure Fund and co-investors acquired a c.75% equity interest in Nexus Hospitals in September 2019.
2. Includes Bloomfield Medical Centre where the hospital is owned by Orange Private Hospital Pty Ltd but operated by Nexus under a management agreement.
3. Includes rental guarantees.
4. Based on the current portfolio as at 31 December 2022 on an "as-if complete" basis and excludes properties currently contracted or in due diligence.
5. As at 31 December 2022.
6. As of 31 December 2022.
7. The LVR is based on a drawn debt amount of \$211.1m over the valuations for the current properties as at 31 December 2022.

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