

Centuria

Fund Update
September 2023

Centuria Healthcare Aged Care Property Fund No. 1

(ARSN 602 267 514 APIR HTH0015AU)

Key points

- The Fund currently holds 10 properties which are 100% occupied¹ with a portfolio weighted average lease expiry (WALE) of 12 years¹.
- The NTA per unit increased from \$0.6412 as at 31 December 2022 to \$0.6528 as at 30 June 2023 as a result of valuation uplift of \$0.5 million by 0.8%.
- The September 2023 quarter distribution of 3.18 CPU (annualised) is in line with the FY24 guidance.
- 100% of the portfolio is linked to CPI rent reviews² driving strong rental growth in the property portfolio.
- A Notice of Meeting (NOM) has been issued to investors in September 2023 for a vote on divestments and fund term extension.

Fund summary

The **Centuria Healthcare Aged Care Fund No.1 (Fund)** is a multi-asset, closed-ended unlisted property trust that was established to provide investors with stable income return and the potential for capital growth by acquiring residential aged care properties that are diversified by operator and location, with long term leases in place, and multiple exit strategies.

The Fund distribution for the September 2023 quarter is 0.795 CPU, equating to 3.18 CPU annualised, which is in line with the FY24 distribution guidance. Following the previous return of capital, the distribution rate on the residual initial capital (\$1.00 less \$0.51) of \$0.49 per unit reflects a distribution rate of approximately 6.5% (annualised). Further, the average distribution paid to investors is 7.5% p.a. since inception of the fund to 30 June 23.

Independent or internal valuations were undertaken for all properties held by the Fund. Valuations saw an overall uplift of \$0.5m (+0.8%) driven by CPI-linked rent reviews despite being partially offset by softening of cap rate to 6.07% from 5.77%.

On 19 September 23, a Notice of Meeting was sent out to investors recommending investors approve the sale of the properties tenanted by Group Homes Australia (GHA); and to extend the term of the Fund for a further of two years expiring on the 15th of October 2025. The meeting of the holders of units in the Fund is scheduled for 18 October 2023 at 4.30pm.

The rationale for the proposed pathway is as follows:

- The value of the GHA Properties has been maximised in the near term and are likely to be attractive sale prospects given the high creditworthy tenant, small asset size, and long WALE.

1. As at 30 June 2023

2. Hall & Prior leases (Midland and Hurstville) have CPI-linked rent reviews with cap of 5%.

3. Based on the audited 30 June 2023 financial accounts. Past performance is not a reliable indicator of future performance.

4. Annualised. Forecasted FY24 full year distribution. The forecast distribution rate is predictive in nature and is subject to assumptions, risks and circumstances (both known and unknown) outside of the control of the Fund. The actual returns may differ from the forecast returns. The Responsible Entity does not guarantee the performance of the Fund, the repayment of capital or any income or capital return. See Distribution Details section below for forecast assumptions and risks.

5. As at 30 June 2023.



- The sale of the GHA Properties will provide investors an opportunity for liquidity. Based on the feedback from the recent Investor survey, approximately half of investors have indicated they would like to receive liquidity (with the remaining investors indicating that they would like to continue within the Fund).
- For those investors who remain in the Fund, the distribution yield is expected to increase from 6.5% (based on remaining equity of \$0.49 per unit out of the original investment of \$1) post the divestment of the GHA Properties. This is based on the assumption that the GHA Properties are divested at book value and based on obtaining debt for the remaining properties at 45% LVR. The Manager may not be successful in divesting the GHA Properties at or above book value.
- The remaining properties leased to Hall & Prior are aged care properties. Since the Aged Care Royal commission, the demand for aged care properties has been subdued. However, this is expected to improve once the new aged care system is introduced effective 1 July 2024. Further, one of the Hall & Prior assets (Midland) has potential development upside, and the Manager requires additional time to explore the development option with the tenant during the Further Term to maximise the potential value for this asset. The development upside is subject to Hall & Prior agreeing to proceed with the development which is dependent on the stabilisation of construction costs.

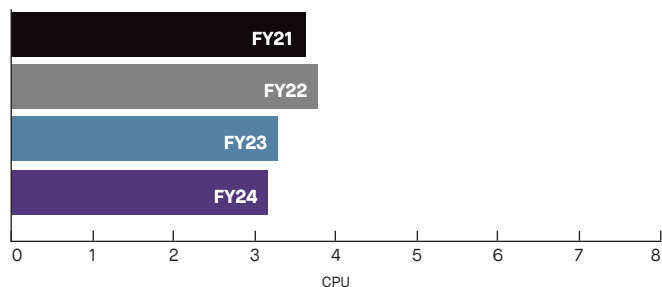
The corresponding distribution statement for the Fund is enclosed with this report and can also be accessed from our online investor portal at [CenturiaInvestor.com.au](https://www.centuriainvestor.com.au). The audited financial report for the 2023 financial year is available to download from [CenturiaInvestor.com.au](https://www.centuriainvestor.com.au). The updated Net Asset Backing (NAB) is also posted on [CenturiaInvestor.com.au](https://www.centuriainvestor.com.au).

Financial snapshot

| | |
|---|-----------------------|
| Fund commencement date | 15 October 2015 |
| Net asset value (NAV) | \$0.6528 ³ |
| Distribution rate (cents per unit) | 3.18 ⁴ |
| Weighted average lease expiry (WALE) (years) | 12 ⁵ |
| Next investor vote on term of Fund | October 2023 |

Distribution details

ANNUALISED DISTRIBUTION



The distribution rate forecast for the financial year 2024 has been set at 3.18 cents per unit (annualised). Please note, given the current volatility in interest rate forecasts, the distribution assumption may need to be reviewed. Should interest rates normalise at higher (or lower) than forecast levels, distributions may be revised. This forecast 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.

Portfolio statistics

| | INITIAL ¹ | JUN-21 | JUN-22 | JUN-23 |
|---|----------------------|-----------------------|----------|-----------------------|
| Net asset backing | \$0.9400 | \$0.5358 ² | \$0.6378 | \$0.6528 ³ |
| Portfolio occupancy rate | 100% | 100% | 100% | 100% |
| Weighted average lease expiry (WALE) (years) | 20.0 | 14.1 | 12.8 | 12.0 |

Top five tenants by net lettable area (NLA)

| | |
|-----------------------|-----|
| Group Homes Australia | 56% |
| Hall & Prior | 44% |

Occupancy is 100% with a 12 year WALE by income as at 30 June 2023. All tenants have continued to pay their rent in a timely manner. The Fund has not received or granted any COVID-19 rent relief requests and as a result the Manager has continued to pay the distribution in line with the guidance provided to investors.

Debt summary

| | CURRENT PERIOD | LOAN COVENANTS |
|-----------------------------------|-----------------------|----------------|
| Total facility limit | \$21.49m ⁴ | |
| Undrawn amount | \$1.374m ⁴ | |
| Loan expiry | 31-Oct-23 | |
| % of debt hedged | - ⁵ | |
| Loan to value ratio (LVR) | 33.96% ⁶ | 50.0% |
| Interest cover ratio (ICR) | 4.28 ⁷ | 2.50 |

The interest cover ratio (ICR) determines the Fund's ability to pay the interest expense on outstanding debt. A higher ICR indicates the Fund has more funds available to pay its interest costs. BOQ (the Fund's lender) requires a minimum ICR covenant of 2.50 times and the Fund's ICR as at 30 June 2023 is 4.28 times.

This number has reduced from 6.13 times as at 31 December 2022 as a result of increasing interest costs driven by the Reserve Bank of Australia (RBA) recent increases to the cash rate in response to inflationary pressures experienced within the economy. The Manager will continue to closely monitor the interest rate/yield curves to consider strategies such as hedging to mitigate future interest rate volatility.

The loan to value ratio (LVR) calculates the amount of debt we have against the value of the Fund's properties. The LVR bank covenant for the Fund is 50% and the Fund's LVR is 33.96%. This has seen a slight reduction from 34.34%, as a result of the recent small valuation uplift. The Manager will continue to update property valuations in line with the fund's valuation cycle policy.

Centuria investor website

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](https://www.centuriainvestor.com.au). The audited financial report for the 30 June 2023 half year financials is available to download from [CenturiaInvestor.com.au](https://www.centuriainvestor.com.au). The updated Net Asset Backing (NAB) is also posted on [CenturiaInvestor.com.au](https://www.centuriainvestor.com.au).

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.

- Based on the Product Disclosure Statement dated 26 November 2015.
- \$0.51 per unit capital returned to unitholders in September 2020 following the disposal of five properties.
- Based on the audited 30 June 2023 financial accounts.
- As at 30 June 2023.
- The Fund's hedging expired in February 2022 and additional hedging will be considered if the fund term is extended.
- As at 30 June 2023. The LVR is based on the most recent independent valuations as defined under the debt facility agreement.
- The stated ICR figures are based on the most recent audited 30 June 2023 financial accounts.

Portfolio details

| PROPERTY ADDRESS | DEC 2022 BOOK VALUE (\$) | DEC 2022 CAP RATE | JUN 2023 BOOK VALUE (\$) | JUN 2023 CAP RATE | JUN 2023 WALE | VALUER |
|--|-----------------------------|----------------------|-----------------------------|----------------------|------------------|----------|
| 98 Alameda Way, Warriewood NSW | \$2,700,000 | 5.25% | \$2,750,000 | 5.50% | 8.6 | Internal |
| 46 Carrington Road, Waverley NSW | \$6,250,000 | 5.25% | \$6,250,000 | 5.50% | 8.6 | Internal |
| 81 Fairlawn Avenue, Turramurra NSW | \$4,550,000 | 5.25% | \$4,550,000 | 5.50% | 8.6 | Internal |
| 29 Earl Street, Hunters Hill NSW | \$5,230,000 | 5.25% | \$5,350,000 | 5.50% | 8.6 | Internal |
| 28 Irrubel Road, Caringbah NSW | \$4,300,000 | 5.25% | \$4,150,000 | 5.50% | 9.4 | Internal |
| 22 Morrison Road, Midland WA | \$12,750,000 | 6.75% | \$12,750,000 | 7.25% | 14.7 | Colliers |
| 107 Carrington Avenue, Hurstville NSW | \$7,600,000 | 7.25% | \$7,800,000 | 7.50% | 15.5 | CBRE |
| 42 Clissold Road, Wahroonga NSW | \$5,200,000 | 5.00% | \$5,200,000 | 5.25% | 10.6 | Internal |
| 30 Kenthurst Road, St Ives NSW | \$5,200,000 | 5.00% | \$5,250,000 | 5.25% | 10.6 | JLL |
| 32 Blaxland Road, Hunters Hill NSW | \$5,000,000 | 5.00% | \$5,200,000 | 5.25% | 10.9 | JLL |
| TOTAL/AVERAGE | \$58,780,000 | 5.77% | \$59,250,000 | 6.07% | 12.0 | |

An internal or independent valuation was undertaken for all the properties for financial reporting purposes as at 30 June 2023. Valuations saw an overall uplift of \$0.5m (+0.8%) driven by CPI-linked rent reviews despite being partially offset by softening of cap rate to 6.07% from 5.77%

Note: The latest RG46 Statement for the Fund is available at [CenturiaInvestor.com.au](https://www.centuriainvestor.com.au). It includes gearing ratio, calculated using ASIC methodology, gearing covenant sensitivities, details of the related party transactions in the period and further information on the source of distributions.

Disclaimer: Issued by Centuria Healthcare Asset Management Limited, ABN 40 003 976 672, AFSL 246368 (CHAML). 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.