Core Property
Fund Research & Ratings

Unlisted Property Fund Report

Centuria Geelong Office Fund

February 2018

A-grade office building in Geelong with a long-term government tenant, targeting 7.0%+ distributions

Centuria Geelong Office Fund

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About Core Property Research

Core Property Research Pty Ltd was established in July 2017 to provide market leading and insightful research on the property funds sector for its clients and investors. Our ratings and research covers sector level research, ratings and recommendations on listed and unlisted property funds, and is built upon the extensive research experience of its staff.

The Core Property team collectively, has over 50 years' experience across property, financial services and investment markets. The team has also evaluated over 500 different funds across multiple sectors and a range of investment structures over the last decade.

IMPORTANT NOTICE

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For further information, please refer to the Disclaimer & Disclosure notice at the end of this document.

Centuria Geelong Office Fund

February 2018

The Centuria Geelong Office Fund ("the Fund") is a single asset, unlisted property fund with an initial term of five years to April 2023. An investment may be made in the Fund through the subscription of units at an Offer Price of $1.00 per unit. The Fund's Responsible Entity, Centuria Property Funds Limited (RE or "the Manager") is seeking to raise $74.3M which will be used in conjunction with bank debt to acquire 60 Brougham Street, Geelong VIC ("the Property").

The Property consists of an 8 level A-grade office building located in the heart of Geelong, Victoria, approximately 75km south west of Melbourne's CBD. Constructed in 2009, the Property is 100% occupied and was purpose built for the AAA-rated Transport Accident Commission (TAC) of Victoria who account for 93.9% of the rental income.

The Property has an attractive Weighted Average Lease Expiry (WALE) of 10.3 years (at 1 April 2018) providing a high level of income security for investors. TAC is currently in the tenth year of an initial 20-year lease, with 3x5 year options to extend. The Property is the only office property in Geelong with a 5.5-star NABERS energy efficiency rating, and one of only 13 in Victoria. The existing leases have average rental increases of 3.5% p.a. providing upside support to property valuations.

The Fund will have an initial three-year debt facility with an all-in cost of debt of 3.19% p.a. which will need to be extended or replaced during the term of the Fund. The initial Loan to Valuation Ratio (LVR) of 44.7% is well below the bank LVR covenant of 57.5% and the initial Interest Cover Ratio (ICR) of 4.78x is well above the bank ICR covenant of 2.0x.

Fees paid by the Fund are consistent with what Core Property has seen in the market.

The Manager is forecasting the Fund to deliver a 7.0% p.a. annualised distribution yield in FY18 increasing to 7.2% p.a. in FY19. Core Property estimates that distributions can increase to around 7.6% over the five-year term, based on the Manager's assumptions for rental income.

Based on the Manager's forecasts, Core Property estimates the Fund to deliver an Internal Rate of return (IRR) of between 6.9% - 11.3% (midpoint 9.2%) over the initial five-year term.

Investor Suitability

Core Property considers the Fund will appeal to investors seeking a property income exposure with a high level of income security from a AAA-rated government tenancy on a long-term lease. Capital gains will be dependent on the retention of the tenant to support the Property's value as well as the performance of the Geelong office market, which is currently supported by the relocation of other government tenancies into the Geelong region.

The Fund should be considered as part of a Core investment strategy. The Fund is illiquid, and investors should expect to remain invested for the minimum initial term of five years.

Recommended

See the Appendix for a description of our ratings. The above rating must be viewed in the context of comparable syndicates and not across all products

Fund Details	
Offer Open:	5 February 2018
Offer Closes:	21 March 2018[1]
Min. Investment:	$50,000
Initial NTA:	$0.89
Liquidity:	Illiquid
FY18 Forecast Distributions:	7.0 cpu (annualised)
FY19 Forecast Distributions:	7.2 cpu
Distribution Frequency:	Monthly
Fund Investment Period:	5 years[2]

1. The Manager may close the Offer early if fully subscribed.
2. Initial term is five years. The Fund may be extended by up to two years at a time, where certain conditions are met (see "Liquidity/exit strategy" section).

Fund Contact Details

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Note: This report is based on the Centuria Geelong Office Fund, Product Disclosure Statement dated 5 February 2018, together with other information provided by Centuria.

Investment Summary

Management Experience: Well-regarded fund manager with a solid track record of managing property funds, corporate governance, and maintaining and improving occupancy rates.

Fund Term: The Fund will have an initial term of five year's however, it may be extended by an additional two years by an Ordinary Resolution (more than 50% of votes cast are in favour of the extension). Additionally, the Fund can be extended beyond seven years for up to two years where a Unanimous Resolution is passed (100% of votes cast must be in favour of the extension).

Property: The Property metrics are attractive: 1) a single-asset site anchored by the Victorian Transport Accident Commission (TAC). 2) An A-grade commercial office building in Geelong, Victoria. 3) 100% occupancy with TAC representing 93.9% of gross rental income, 3) WALE of 10.3 years with TAC lease expiry in 10.3 years and 3x5 year options to extend.

Single Property: The total return to unitholders is dependent on the performance of a single asset that is currently leased to TAC, a AAA-rated Victorian state government entity as well as the market conditions prevalent at the time.

Debt Profile: The Fund will establish a three-year debt facility with a major bank for $53.3M with an initial drawn down of $51.9M to fund the acquisition of the Property. The initial Loan to Valuation Ratio (LVR) is expected to be 44.7%, providing a buffer to the LVR bank covenant of 57.5%. The year one Interest Coverage Ratio (ICR) of 4.78x is above the ICR covenant of 2.0x. The retention of TAC as the key tenant provides the Fund with sufficient rental income to comfortably manage its debt servicing requirements.

Initial NTA: Core Property calculates the initial NTA of the Fund to be $0.89 per unit on the basis that acquisition costs are written off.

Distributions: The Manager is forecasting distributions to be 7.0% p.a. (annualised) in FY18, increasing to 7.2% p.a. in FY19.

Fees: Core Property considers the Trust's fees to be appropriate compared to what we have seen in the market.

Total Return: Core Property estimates the Trust to deliver an Internal Rate of Return (IRR) of 6.9% - 11.3% (midpoint 9.2%) based on the Fund's sensitivities (+/- 50 bps sensitivity to the cost of debt and capitalisation rates, see the Financial Analysis section).

Liquidity: Investors must accept that by their very nature, unlisted property trusts are illiquid. The Manager does not provide any withdrawal facility during the initial five-year term of the Fund and Investors should expect to remain fully invested during this period. The Fund may be extended beyond the initial five-year term, by up to two years at a time, where certain conditions are met (refer to the "Liquidity/exit strategy" section).

Investment Scorecard

Management Quality	★★★★★
Governance	★★★★☆
Portfolio	★★★★☆
Income Return	★★★★☆
Total Return	★★★★☆
Gearing	★★★☆☆
Liquidity	★☆☆☆☆
Fees	★★★☆☆

Trust Structure

An unlisted property Trust investing in a single office asset located in Geelong, Victoria.

Management

Well regarded Australian fund manager with demonstrable experience in property and finance. Greater representation of non-executive directors leads to a balance of decision making.

Property Portfolio

No of Properties:	1
Property Valuation:	$116M
Property Location:	Geelong, Vic
Property Sector:	Commercial
Key Tenant:	Transport Accident Commission (Vic) – 93.9% of total income
Occupancy:	100%
WALE:	10.3 years (at 1 April 2018)

Return Profile

Forecast Distribution:	FY18: 7.0 cents per unit (annualised) FY19: 7.2 cents per unit
Distribution Frequency:	Monthly, in arrears
Tax advantage:	100% tax deferred distributions in FY18 and FY19
Estimated Levered IRR (pre-tax, net of fees):	6.9% - 11.3%
Investment Period:	Five years

Risk Profile

Property/Market Risk:	Capital at risk will depend on a single office property with a major government tenant (93.9% of income), located in Geelong, Victoria.
Interest Rate Movements:	Any change in the cost of borrowings may impact the distributable income of the Trust's underlying investments.
Property Specific Risks:	Property investments are exposed to a change in vacancy rates, prevailing market rents, and economic supply and demand.

For a more detailed list of the key risks, refer to the Risks section (Section 11) of the Product Disclosure Statement.

Fees Paid

Fees paid by the Fund are consistent with what Core Property has seen in the market (see Figure 5: Fees in Perspective).

Entry Fees:	Nil
Exit Fees:	Nil
Property Acquisition Fee:	2.0% of purchase price
Property Disposal Fee:	1.0% of sale price
Ongoing Management Fees:	0.945% p.a. of the GAV, inclusive of management fees and fund expenses, administration costs.
Performance Fee:	20% of the outperformance of the Trust over an equity IRR of 9.0% (pre-tax, net of fees).

Debt Metrics

Initial Debt / Facility Limit:	$51.9M / $53.3M
Loan Period:	3 Years
Initial LVR / Loan Covenant:	44.7% / 57.5 %
Initial ICR / Low ICR / ICR Covenant:	4.78x / 3.9x / 2.0x

Legal

Offer Document:	Product Disclosure Statement, 5 February 2018
Wrapper:	Unlisted Unit Fund
Manager & Responsible Entity:	Centuria Property Funds Limited (AFSL 231149)
SIV:	The Fund is a complying investment for investors seeking an Australian Significant Investor Visa (SIV).

Fund Overview

The Fund is a single asset property that seeks to provide investors with an attractive distribution yield of 7.0%+ p.a. through an investment in an A-grade office building in Geelong, Victoria.

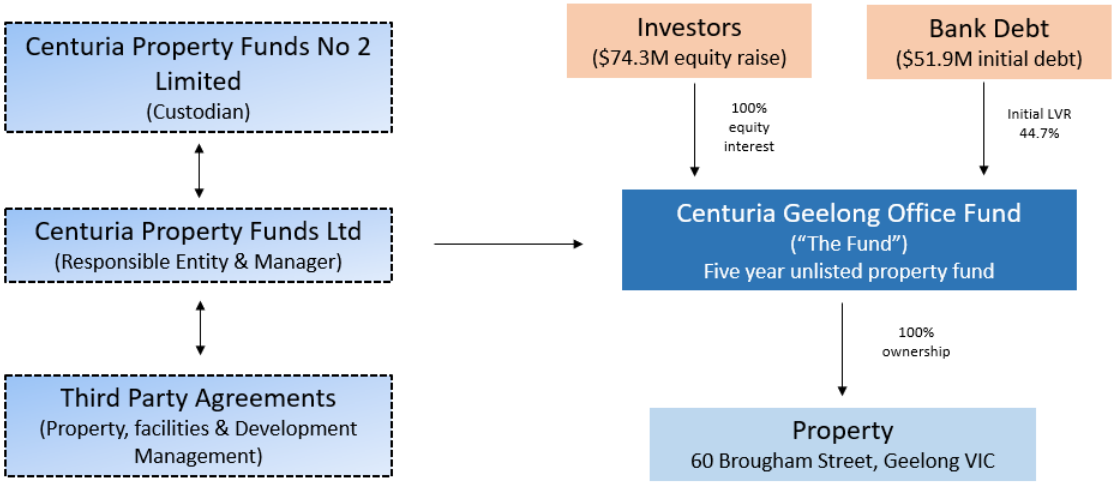
The Fund is seeking to raise $74.3M in equity subscription, through the issue of 74.3M units at $1.00 per unit under ("the Offer"). The minimum investment is $50,000, however, the Manager may accept investments that are less than this amount at its discretion. The amount raised will be used, in conjunction with bank debt, to acquire 60 Brougham Street, Geelong VIC.

The Property is a modern A-grade commercial office building on a 16,098sqm site that was constructed in 2009 for the Transport Accident Commission. The Property is 100% occupied with the Transport Accident Commission occupying 93.9% (by income) and the remainder leased to five tenants including Impact Investment Group (3.2% of income), Fernwood Investments (3.0% of income), Rush Hour Café (1.5% of income) and a CBA ATM (0.2% of income). The Property has a long WALE of 10.3 years (by income) as at 1 April 2018.

The Property is well located close to Westfield Geelong, Deakin University and Geelong Train Station. The current TAC lease expires in January 2029 and TAC has a 3x5 year options to renew. TAC is an AAA-rated Victorian state government department, which provides a high certainty of income for investors. Additionally, the modern A-Grade office asset has a 5.5-star NABERS energy efficiency rating.

The Fund is forecasting initial distributions of 7.0 cpu (annualised) in FY18, increasing to 7.2 cpu for FY19. Distributions are paid to investors on a monthly basis. The Fund will only pay distributions from its cash from operations (excluding borrowings) available for distribution unless otherwise disclosed by Centuria as Responsible Entity for the Fund. The Fund does not offer a withdrawal facility however investors will be able to transfer their holdings. The Fund should be considered as illiquid and investors should be prepared to remain invested for the initial five-year term of the Fund.

Figure 1: Fund structure



Source: Core Property, Centuria

Debt Facility & Metrics

The Trust has arranged a $53.3M debt facility with Commonwealth Bank Australia and will initially draw down $51.9M to fund the acquisition of the Property. The terms of the debt facility are for three years and the Manager has fixed the interest rate at an all-in cost of 3.19% p.a. The Fund will need to extend or refinance its debt after three years in order to maintain its financing over the initial five-year term of the Fund. Based on the Manager's forecasts the LVR is estimating to be between 38.2% and 44.7% over the five-year term against a bank LVR covenant of 57.5%. The debt metrics of the Trust are set out in the following table:

Figure 2: Debt Metrics

Details	Metric
Bank	CBA
Security	First ranked mortgage secured against the Property.
Debt Facility Limit	$53.3M
Initial Draw Down	$51.9M
Initial Loan Period	3 years
Assumed all-in cost of Debt	3.19%
Initial LVR	44.7%
LVR Covenant	Property will have to fall by 22.2%
LVR Range	38.2% - 44.7%
Initial interest covered ratio / bank covenant	4.14x / 2.0x
Low ICR / Year	3.9x / 2022
Amount by which valuation will have to fall to breach LVR covenant	22.2x
Amount by which income will have to fall to breach ICR covenant	51.6%

Source: Centuria, Core Property

Sources & Application of funds

The PDS sets out the sources and application of funds for the initial $74.3M raised under the terms of the Offer.

Figure 3. Sources and Application of funds

	$M	% of purchase price	% of total funds
Sources of funds			
Equity subscriptions	74.3	64%	59%
Bank Debt	51.9	45%	41%
Total Source of funds	**126.2**		
Application			
Purchase price of property	115.3	100%	91%
Stamp duty	6.3	6%	5%
Debt & Fund establishment costs	4.4	4%	3%
Working Capital	0.2	0%	0%
Total applications of funds	**126.2**		100%

Source: Core Property, Centuria

Liquidity / exit strategy

Investors should view the Fund as illiquid in nature during the initial five-year term of the Fund. Investors may not withdraw from the Fund during this period, however units may be transferred/sold to other Investors.

After the initial five-year term the Fund may be extended by up to an additional two years by an Ordinary Resolution (more than 50% of votes cast are in favour of the extension).

The Fund may be extended beyond seven years for up to two years at a time where a Unanimous Resolution is passed (100% of votes cast are in favour of the extension). The Fund may also be extended beyond seven years, by up to two years at a time where a Unanimous Resolution is not passed, if the following conditions are met:

- Investors who voted against the extension are given the opportunity to have their Units sold or redeemed at the prevailing Withdrawal Price via a Liquidity Event. Whether a Liquidity Event is offered is determined by Centuria. If a Liquidity Event is not offered, then the Property will be sold, the Fund will be wound up and the net proceeds returned to Investors. If a Liquidity Event is offered and the Fund is unable to redeem the Units from all the Investors who voted against the Resolution then the Fund will not be extended, the Property will be sold and the Fund will be wound up; and
- All Investors are provided with a "Liquidity Event" which may be subject to a scale back on a pro rata basis, in accordance with the Corporations Act.

Fees Charged by the Trust

Overall, Core Property considers the fees charged to be appropriate and in line with what has been seen in the market (0.7% – 1.1%).

Core Property notes that the performance fee on the Fund is calculated at 20% of the Fund's performance above an IRR of 9.0% p.a. The threshold of 9.0% p.a. is marginally lower than what Core Property has previously seen in the market (10%).

Figure 4: Summary of Fees charged by the Trust

Fee Type	Fee Charged	Core Property Comment
Entry/Establishment Fee	Nil	
Exit Fee	Nil	
Establishment and Placement Fee (Acquisition Fee)	2.0% of the purchase price of the property.	The Acquisition Fee is at the high end of the industry average of 1.5% - 2.0%.
Sale Fee (Disposal Fee)	1.0% (excluding gst) of the sale price of property.	The Disposal Fee is at the low end of the industry average of around 1.0% - 2.0%
Fees & Expenses - Management Fee, Administration Costs & Expenses, Other Indirect Costs	Total Management Fees of around 0.945% of the Gross Asset Value (GAV) of the Fund, consisting of: • 0.80% p.a. of GAV for Management Fees; plus • 0.015% p.a. of GAV (or $15,000 p.a. whichever the greater) for Custody Fees; and • 0.13% p.a. of GAV for estimated fund expenses.	We consider the Fees to be within the range of what we have typically seen in the industry (0.7% - 1.1% p.a. of GAV).
Performance Fee	20% (excluding GST) of the Trust's performance above a per annum IRR of 9% after fees and costs.	Fee is in line with industry expectations and considered appropriate.

Source: Centuria, Core Property

All-in fee analysis

In the table below, Core Property analyses how much of the Fund's cash goes to the fund's in fees, and how much is left over for investors as a percentage of the total fund cash flow. The key assumptions include:

- Calculations assume a five-year Fund term to April 2023.
- A Performance Fee has not been included;
- Core Property assumes there is no change in the forecast portfolio terminal cap rate at the end of the initial term, which effectively assumes no cap rate compression. A lower terminal cap rate would lead to a higher sale price and hence, higher performance fees may be payable.

Overall, Core Property estimates that the Manager takes 7.6% of the total cash generated by the fund, which leaves investors with $1.48 per unit, or approximately 92.4% of the total. Core Property believes the fees paid to the Manager are appropriate compared to similar products, which are typically around 7% - 9%. Core Property stresses that these are estimates of how much investors will receive and not guaranteed amounts. For further details, please refer to the *Financial Analysis* section.

Figure 5: Fees in Perspective

Core Property estimates that for every $1.00 of equity invested the Fund can return:	Amount per $1.00 unit
Principal repayment to investors:	$1.00
Income and capital gains to investors:	$0.48
Total cash to investors:	**$1.48**
Acquisition fee:	$0.03
Base management fee:	$0.07
Disposal fee:	$0.02
Performance fee:	
Debt arrangement fees:	$0.00
Fees for the RE (excluding disposal/admin):	**$0.12**
Total cash generated by Fund:	**$1.6**
Fees = % of total cash generated (before fees)	7.6%
Fees= % of gains (before fees)	20.1%
Up-front fee vs total fees	28%

Source: Core Property estimates

The Property

Property Overview

60 Brougham St, Geelong VIC is an eight level, A-grade commercial office building that was purpose built for the Transport Accident Commission (TAC) in 2009. The building has a net lettable area (NLA) of 16,098 sqm on a large island site of 5,475 sqm with four street frontages.

The Property is located on the south-eastern corner of Brougham and Clare Streets in the core of the Geelong commercial precinct. It is surrounded by retail facilities, high rise office developments as well as lower rise commercial sites. Westfield shopping centre, retail strips, and Deakin University. Geelong railway station is located approximately 500 metres to the west of the property.

The Property has a relatively long WALE of 10.3 years (by income) as at 1 April 2018. Floors have an abundance of natural light, concrete frame, glazed curtain walls, and end of trip facilities for tenants. The property has a NABERS energy efficiency rating of 5.5 stars (one of only 13 in Victoria and the only one in Geelong).

Figure 6: 60 Brougham Street, Geelong VIC

Source: Centuria

Valuation of the property

An independent valuation was conducted by Cushman & Wakefield, a well-regarded real estate agency, with a valuation of $116.0M as at 7 December 2017. The independent valuation makes several assumptions regarding market rent, tenant incentives, re-letting and other factors based on available market evidence. The main assumptions below have been adopted in the valuation model. The Fund has a policy to undertake an independent valuation once every two years. In practice Centuria may undertake a revaluation of the property every 12 months.

Figure 7: Property summary as at 7 December 2017

60 Brougham Street, Geelong VIC	
Title	Freehold, subject to existing tenancies
Construction Date	2009
Ownership	100%
Site Area	5,475 sqm
Net Lettable Area	16,098 sqm
Major Tenant	Transport Accident Commission (TAC) – 93.9%
Weighted Average Lease Expiry (WALE)	10.3 years
Occupancy	100%
Initial net passing income	$7.96M p.a. as at April 2018
Net market income (fully leased)	$7.96M p.a. as at April 2018
Purchase price	$115.25M
Valuation (DCF)	$116.0M
Passing initial yield	6.91% as at April 2018, based on purchase price
Cap rate	6.75%
Valuer	Cushman & Wakefield
Discount rate	8.0%
Value/sqm	$7,206 per sqm
Valuer's unleveraged 10-year IRR	8.09%

Source: Cushman & Wakefield

Leases, tenants and income

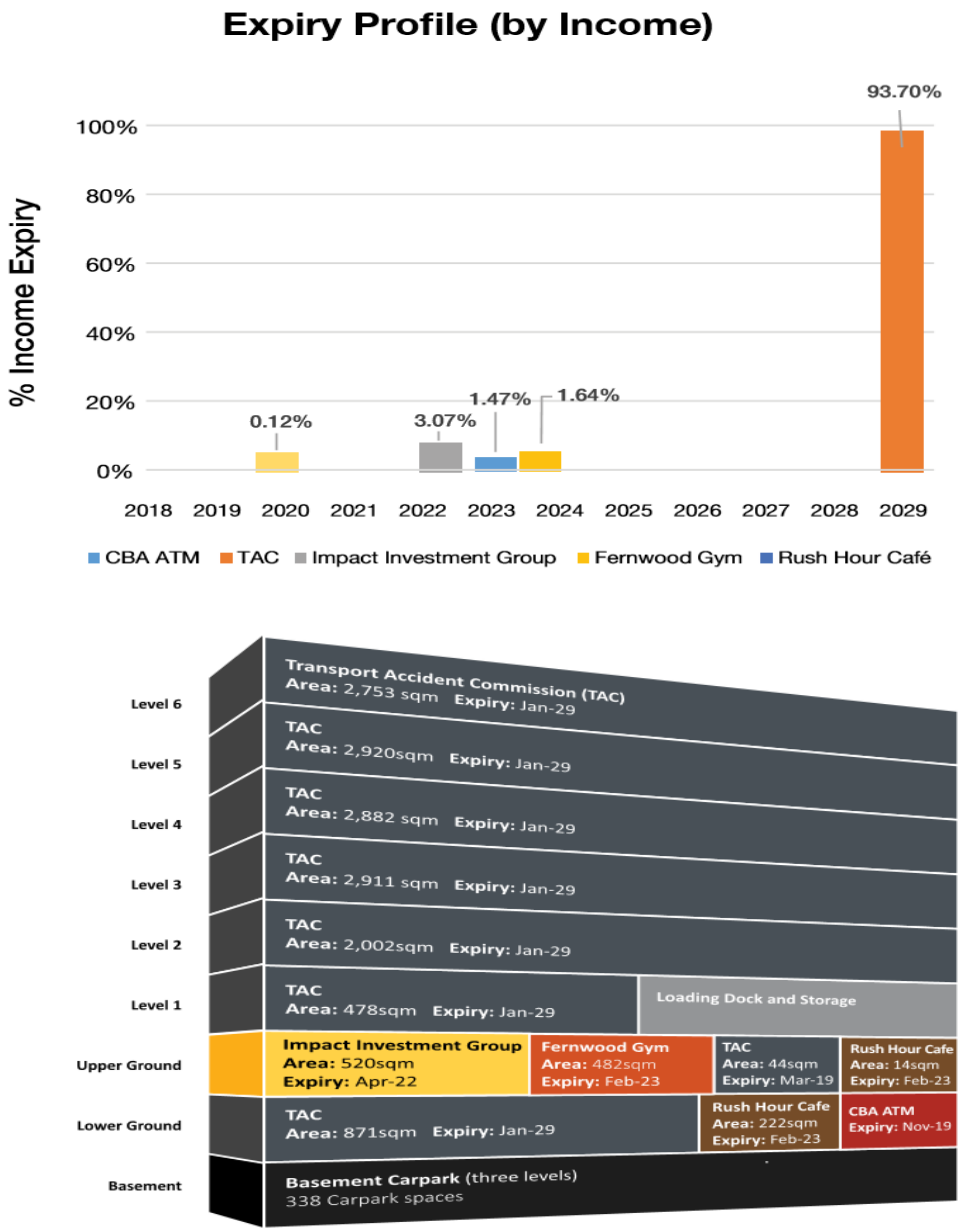
Key points on the tenancy profile are:

- The Property is currently 100% occupied.
- The Property enjoys an average office rental growth of 3.5% p.a.
- Weighted Average Lease Expiry (WALE) of 10.3 years (by income). The property is currently leased to the following tenants:
    - **Transport Accident Commission** (93.9% by income): TAC is a Victorian Government-owned insurer of third-party personal liability (CTP insurance in other states) for road accidents in the State of Victoria, Australia. It was established under the Transport Accident Act 1986, to reduce the social and financial cost of transport accident injuries and prevent deaths and injuries on Victorian roads. TAC leases 14,861sqm of office space across seven floors as well as 327 of the 338 car parking bays in the building. TAC's office lease expires in January 2029, with 3x5 year options to renew.

- **Impact Investment Group** (3.1% by income): Impact Investment Group is a leading Australian investment funds manager. In addition to occupying 520sqm of NLA, Impact Investment Group are also the vendors of the Property.
- **Fernwood Investments Pty Ltd** (1.3% by income): occupies 482sqm of NLA, with a lease expiry of February 2023.
- **Rush Hour Café Pty Ltd** (1.5% by income) occupies 236sqm of both the Lower and Upper ground levels.
- **Commonwealth Bank of Australia** (0.2% by income) with a lease expiry of November 2019.

The following figure is a summary of the lease expiry profile:

Figure 8: Lease expiry (by income)



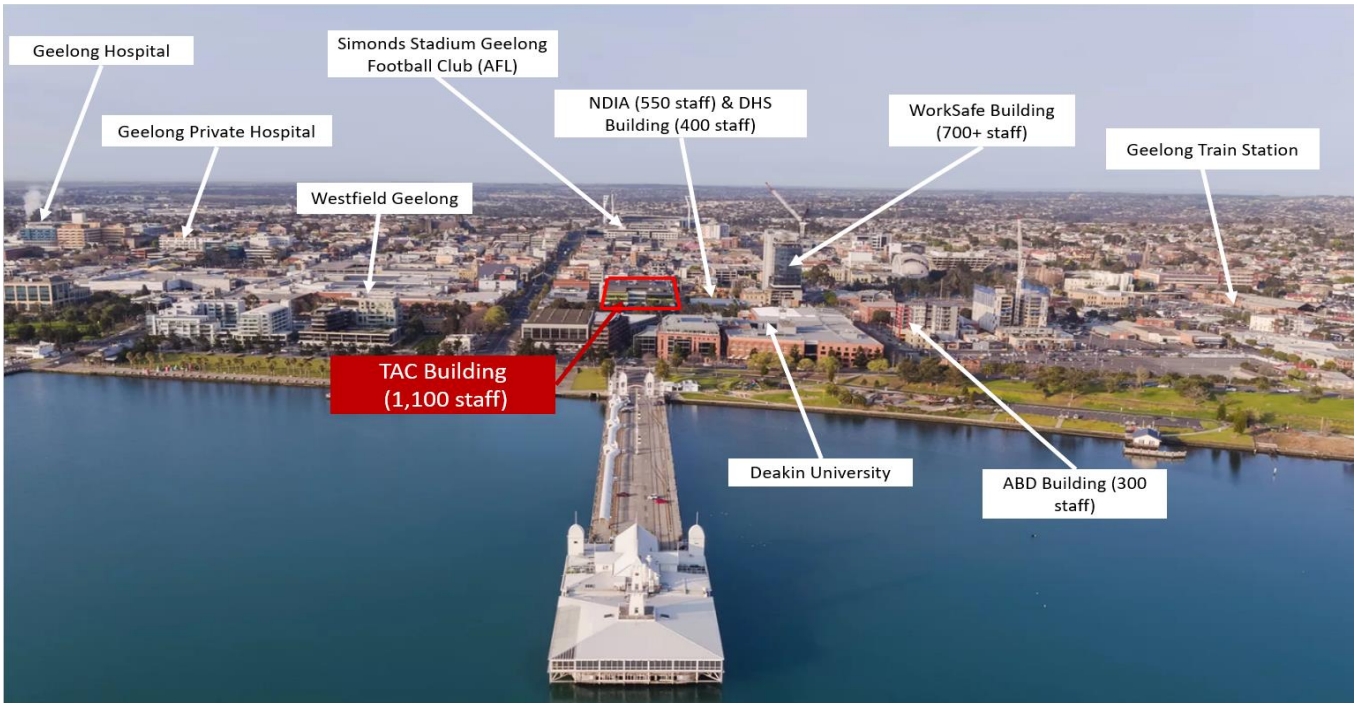
Source: Centuria

Figure 9: Lease expiry (by Income)

Property	Key Tenants	Property Type	NLA (sqm)	Lease Expiry	% of Income
60 Brougham Street, Geelong VIC	Transport Accident Commission	Office	14,861	Jan-29	93.9%
	Impact Investment Group	Retail	520	Apr-22	3.1%
	Fernwood Investments Pty Ltd	Retail	482	Feb-23	1.3%
	Rush Hour Café Pty Ltd	Retail	236	Feb-23	1.5%
	CBA ATM	ATM		Nov-19	0.2%

Source: Centuria, Core Property

Figure 10: Location Map



Source: Core Property, Google

Capex

The Manager has forecasted around $1.9M in capital expenditure (capex) over the initial five-year term of the Fund, which is in line with capex assumptions pointed out within the independent valuation conducted by Cushman & Wakefield.

The majority of the capex is funded through debt and based on the Manager's assumptions. Core Property estimates the LVR will remain in the range 38.2% - 44.7% well below the bank LVR covenant of 57.5%. Core Property has adopted the Manager's capex assumptions on the basis that they were based on independent technical reports. The inherent assumptions here is that the capital expenditure is likely to improve the value of the building. While this has been the case in recent years, Core Property reminds investors that this may not be the case in adverse market conditions.

Market Sales Evidence

Figure 11 below shows the comparable sales transactions for similar sized and quality assets, the sales below demonstrated large modern commercial assets found from other regional and metropolitan locations along the eastern seaboard. The comparable sales transactions provided by the valuer suggests the Property is reasonably priced on an equivalent yield of 6.7%, at the high end similar sales of 5.7% to 6.7%.

Figure 11: Recent sales evidence – Commercial office buildings

Property Address	Sale Price	Sale Date	Occupancy	WALE by Income (years)	NLA (Net lettable Area)	$ per sqm	Equiv Yield (%)	IRR
2 Kendall St, Williams Landing	$58.2M	Jun-17	100%	9.2	12,919	$4,505	6.49%	7.59%
800 Toorak Rd, Hawthorn East	$281.0M	Jan-17	100%	13.2	41,898	$6,707	5.63%	7.07%
1231-1241 Sandgate Road, Nundah	$106.2M	Apr-17	100%	9.6	12,980	$8,186	6.58%	7.90%
41 O'Connell Terrace, Bowen Hills	$52.0M	Sep-16	100%	17.9	7,564	$6,875	6.72%	7.85%
505 St Pauls Terrace, Fortitude Valley	$205.5M	Jan-17	100%	10.6	17,613	$11,668	5.71%	7.00%
60 Brougham St, Geelong Vic	**$115.2M**	**Apr-18[1]**	**100%**	**10.3**	**16,098**	**$7,206**	**6.71%**	**8.09%**

Note 1: Estimated settlement date
Source: Cushman & Wakefield

Market Rental Evidence

In figure 12 below are extracts from the independent valuers list of comparable office lease deals completed over the last 12-months.

The office space at the property is leased on an average $428 per sqm. With a market rental rate of $555 per sqm adopted in the independent valuation undertaken by Cushman & Wakefield.

The retail space at the Property is leased on an average $424 per sqm. With a market rental rate of $488 per sqm adopted in the independent valuation undertaken by Cushman & Wakefield.

Figure 12: Recent rentals – Office

Property Address	Tenant	Comm Date	NLA sqm	Term (yrs)	Current rent (per sqm)
1 Malop Street, Geelong	Worksafe	Apr-18 (est.)	14,400	15	$447
237 Ryrie Street, Geelong	Dept. of Treasury & Finance	Mar-17	603	3	$408
Part Level 3, 1 Malop Street, Geelong	Dept. of Treasury & Finance	Jan-18	877	6+5	$460
43-45 Brougham Street, Geelong	NDIS	Mar-17	1,943	2	$302
60 Brougham St, Geelong Vic	**TAC**	**Jan-09**	**14,816**	**10.3**	**$428**

Source: Cushman & Wakefield, Centuria

Figure 13: Recent rentals – Retail

Property Address	Tenant	Comm Date	GLA sqm	Term (yrs)	Rental Rate (per sqm)
Lot 2, 6-8 Eastern Beach Road, Geelong	Restaurant	Dec-15	120	5+5	$608
95 Malop St, Geelong	Bank Branch	Oct-15	237	7	$1,050
95 Malop Street Geelong	Bank Branch	Nov-15	115	5	$600
60 Brougham St, Geelong Vic	**Rush Hour Cafe**	**Apri-18**	**236**	**10**	**$424**

Source: Cushman & Wakefield

The Geelong Office Market

Geelong, is located approximately 75km south-west of the Melbourne CBD. The city is the second largest city in Victoria (after Melbourne). Geelong has a diverse economic profile and significant exposure to many of Victoria's growth sectors. Some key facts include:

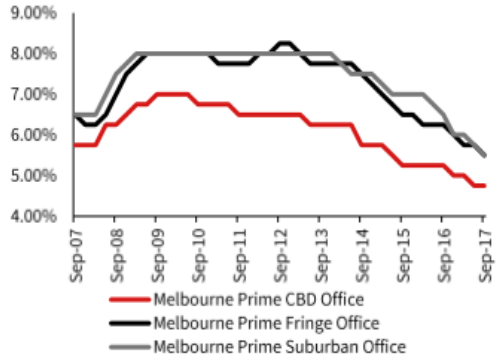
- Geelong has a resident population of 238,600 people, forecast to reach around 296,000 in 2031 by the ABS.
- Geelong has a high proportion of young people with around 48% of the population in the 20-34 year old age bracket.
- Geelong has relatively affordable residential housing with median house prices of around $445,000 compared to Melbourne of around $675,000.

The Geelong office market comprises 236,000 sqm of office space with A-grade office rents ranging between $250 per sqm to $450 per sqm, as compared to Melbourne CBD rents of $542 per sqm in 3Q17 (JLL Research). Geelong has been an attractive market for major government agencies and is a direct beneficiary of the Victoria government' s decentralisation policy which has relocated a number of departments to regional markets. The Australian Tax Office and Centrelink occupy 6,210sqm, and TAC occupies 14,861sqm. In addition, Worksafe and NDIA (National Disability Insurance Agency) are pre-committed to new projects totaling 30,737 sqm as follows:

- 1 Malop St, Geelong is a new office development, located approximately 150 metres west of the Property and will become WorkSafe Victoria's new headquarters in Geelong. The site will provide 15,301 sqm of NLA and will be leased on a net office rent of $447 per sqm. The property is estimated to be completed by April 2018.
- 13-19 Malop St, Geelong (the former Carlton Hotel) is located 500m from the TAC building and is currently being developed into the new national headquarters for NDIA. The property will provide 15,436 sqm of A-grade office space, and is expected to be leased at $490 per sqm. The $120M project is expected to be completed in 2019.

Upon completion, the new properties are expected to further solidify Geelong's position as a focal point for government agencies outside of the Melbourne CBD market

Figure 14: Melbourne Office Yields



Source: JLL

Financial Analysis

Core Property has undertaken a financial forecast of the Fund, based on the Manager's assumptions. Our key observations are:

- Initial distribution of 7.0% p.a. (annualised), estimated to increase to 7.6% p.a. at the end of the initial term of the Fund.
- Assumes the Property remains fully leased for ten years, with lease renewals based on the existing terms rolling over.

A summary of the Manager's forecasts from the PDS is presented in the table below:

Figure 15: Profit & Loss Forecast and Pro Forma Balance Sheet

Profit & Loss - Forecast $M	FY18 (1 April – 30 June 2018)	FY19
Net Property Income	**2.9**	**11.4**
Property & Fund Costs	-0.7	-3.0
Net Finance Costs	-0.7	-2.2
Amortised Costs, Interest on funding, other costs	-0.1	-0.8
Funds from operations	**1.3**	**5.4**
Cash distribution	1.3	5.4
Cash distribution per unit (cents)	1.75	7.2
Annualised distribution yield	**7.0%**	**7.2%**

Balance Sheet – Forecast $M	FY18
Assets	
Property value	116.0
Cash & Other assets	1.4
Total Assets	117.4
Liabilities	
Interest-bearing debt	**51.9**
Capitalised Borrowing Costs	-0.5
Total Liabilities	51.4
Equity	
Paid-up capital	74.3
Retained earnings	-8.3
Total equity	**66.0**
Net Assets	**66.0**

Source: Centuria

Yield Analysis

A notable feature of the Manager's forecasts is that the distribution yield to investors is comparable to the underlying property yield. As Figure 16 below highlights, leverage (specifically, the positive spread between the asset yield and debt costs) negates the effects of one-off upfront and ongoing management cost. The overall impact of leverage is calculated to improve the first full year returns of the Property to 7.0%, compared to a return of 5.7% if the Property was unleveraged.

Investors should note that while leverage increases investor returns when the asset yield exceeds interest rates, it reduces returns when this spread is negative.

Figure 16: Effect of gearing on investor yield

	Yield (%)	Comments
Initial property yield	6.9%	Passing yield
Ongoing MER	-0.8%	Management expense ratio
Unlevered asset yield	**6.1%**	
Effect of upfront costs	-0.5%	Acquisition Fee and Upfront costs
Unlevered investor yield	**5.7%**	Pre-gearing return
Effect of gearing	1.4%	+ve spread between asset yield and debt cost
Post-gearing investor yield	**7.0%**	Available for distribution

Source: Core Property

NTA Analysis

The starting NTA is an important consideration. It should be assessed in the context of statutory costs and fees paid to the Manager, which dilute investors' return over the term of the Trust. In this case, the starting NTA is $0.89, with most of the dilution coming from stamp duty costs.

Figure 17: Initial NTA

Amount per unit	**$ per unit**
Issue Price	$1.00
Less:	
Stamp duty	-$0.085
Debt & Fund Establishment costs	-$0.061
Other	-$0.001
Add back:	
Acquisition (premium)/ discount to valuation	$0.010
Working capital & capitalised costs	$0.025
NTA per unit (with capitalised costs)	**$0.8879**

Source: Core Property

Expected Future Performance (IRR Sensitivity)

The three main performance drivers in a property syndicate are:

1. The property income profile (lease structure);
2. The terminal value upon the sale of the property (asset quality + market conditions); and
3. The cost of debt (depending on leverage).

The table below summarises our expected IRRs.

Based on an assessment of the RE's forecasts, Core Property expects a 5-year pre-tax equity IRR of approximately 9.2% assuming capitalisation rates remaining at current levels. Based on a +/-50bps movement in capitalisation rates and a +/-50bps movement in the cost of debt, the estimated IRR is between 6.9% - 11.3%.

Core Property notes the debt on the Fund has been hedged for the first three years at 3.19%. Our forecasts assume the cost of debt increases to 3.84% thereafter.

Figure 18: Pre-tax, 5-year IRR (after fees) sensitivity analysis

Terminal cap rate	Cost of debt (in years 4+5)				
	2.84%	3.34%	3.84%	4.34%	4.84%
6.25%	11.4%	11.3%	11.2%	11.1%	10.9%
6.50%	10.5%	10.4%	10.3%	10.1%	10.0%
6.75% (base)	9.5%	9.4%	**9.2%**	9.1%	8.9%
7.00%	8.5%	8.3%	8.2%	8.0%	7.8%
7.25%	7.5%	7.3%	7.1%	6.9%	6.8%

Source: Core Property

Management & Corporate Governance

Background of the Responsible Entity & Manager

Centuria Property Funds Limited ("CPFL") is a wholly owned subsidiary of the ASX listed-Centuria Capital Limited (ASX: CNI). CPFL, formerly Century Funds Management, was formed in 1999 with the specific focus on the purchasing if high quality, growth oriented commercial property investments. At present, ASX listed Centuria Capital and Centuria Property Funds, which is the responsible entity to 16 closed end funds, the Centuria Diversified Property Fund and two listed A-REITS.

Core Property has reviewed the composition of the RE Board and senior executive team and consider it has the relevant skills and experience to operate the Fund successfully.

Figure 15: The Board of the Responsible Entity

Name & Role	Experience
Peter Done Non-Executive Chairman	Appointed to the Board of Centuria Property Funds in 2007, with 27 years' experience as a partner at KPMG from 1979 until retirement in 2006. During his years at KPMG, Peter was the lead audit partner for many clients, in the property development sector. In addition, Peter holds a Bachelor of Commerce (Accounting) from the University of New South Wales, and is a fellow of Chartered Accountants Australia and New Zealand.
Nicholas Collishaw Non-Executive Director	Nicholas was the Former CEO of Centuria Listed Property Funds from May 2013 to December 2017. Prior to his role as CEO, Nicholas was the former Non-Executive Director of Mirvac Funds Management Ltd. With over 30 years' experience, he has held senior positions with James Fielding Group, Paladin Australia, Schroders Australia and Deutsche Asset Management. Nicholas is currently Deputy Chair of the UNSW Faculty of the Built Environment Advisory Council.
Darren Collins Non-Executive Director	Former executive of Computer Sciences Corporation (CSC) from 1997 to 2013. Former non-executive director of three IT services companies, listed in Singapore, Hong Kong, and Kuala Lumpur, respectively. Darren holds a Bachelor of Commerce (Accounting) from the University of New South Wales, and is an associate of Chartered Accountants Australia and New Zealand.
Mathew Hardy Non-Executive Director	Over 30 year's experience at a senior level in direct real estate, equities and funds management. Mathew has been a founding Director of real estate specialist Executive Search and consultancy Conari Partners. In addition, Mathew has worked as a valuer and consultant in varies global groups in the UK and Australia, and has held senior real estate positions at global institutions including Barclays Global Investors, Richard Ellis and Jones Lang Wootton. Mathew was last a General Manager of Mirvac where he managed Capital Property Trust, a listed REIT, and Head of Investments and Developments for Mirvac Funds Management. Mathew has been a Non-Executive Director of Centuria Property Funds since 2013.
Roger Dobson Non-Executive Director	Appointed to the Board in October 2017, Roger has extensive experience in working on large, complex restructuring and insolvency matters in Australia. Roger has been representing main baking syndicates, offshore funds holding a substantial debt positon, companies experiencing financial distress, liquidators, administrators, and receivers. Roger holds a Master of Laws from Columbia University in the City of New York and a Bachelor of Law from the University of Adelaide.

Key Management

Name & Role	Experience
John McBain Group CEO	John joined the Centuria Capital Board on 10 July 2006 and was appointed as Chief Executive Officer of Centuria Capital in April 2008. John has built an extensive reputation over the years within the property industry. John founded property funds manager Waltus Investments Australia Limited and Hanover Group Pty Limited a specialized property consultancy and boutique funds manager. Prior to 1990, John held senior positions in a number of property development and property investments companies in Australia, New Zealand and the United Kingdom.
Jason Huljich CEO – Listed & Unlisted Property Funds	Jason is responsible for leading Centuria's $3.5 billion Property Fund Management business, including both the listed and unlisted Property Funds, property acquisition, the property services business, and disposal and special property and debt opportunities. Jason has extensive experience in the commercial property sector, where he is a specialist in property investment and funds management. In addition, Jason is also an Executive Director of Centuria Capital Group. Jason has been the President of the Property Funds Association (PFA) and holds a Bachelor of Commerce (Commercial Law) from the University of Auckland, New Zealand.
Doug Hoskins Fund Manager	Doug joined Centuria Property Funds in 2006 and is responsible for the performance and management of several Unlisted Property Funds. With a diverse skill base in the commercial property sector spanning over ten years, Doug has an extensive oversight over the fund establishment process, fund strategies, daily operations and investor communications. Doug holds a Masters of Business Administration (MBA), Masters of Operations Management, Full Property License and an Industry Diploma in Property Development.
Michael Blake Head of Sales and Marketing	Michael joined Centuria in February 2016 and has previously held senior positions with Heine Funds Management, Mercantile Mutual, Zurich, HSBC Asset Management and Cromwell Property Group. Michael is Head of Sales and Marketing at Centuria Property Funds Limited. Michael holds a Bachelor of Financial Administration, Diploma of Financial Planning, Master of Business Administration and is a Graduate of the Institute of Company Directors.
Andrew Essey Head of Transactions	Andrew joined Centuria in February 2013 as National Leasing Manager, was appointed Fund Manager in November 2015, and recently transitioned into the role of Head of Transactions in July 2017. Andrew is responsible for originating and managing the Group's property transactions and a direct oversight of the Group's acquisitions team. Andrew hold a Bachelor of Business Administration from Radford University, Virginia, USA with a Major in marking and a Minor in economics.
Victor Georos Head of Portfolio & Asset Management	Victor joined Centuria in April 2013 as a Senior Portfolio Manager and was appointed Head of Portfolio and Asset Management in July 2015. Victor is responsible for overseeing portfolio and asset management of Centuria's portfolio, including the development and implementing strategies to enhance value through active asset management and development. Victor holds a Bachelor of Land Economy and a Graduate Diploma of Finance and Investment (FINSIA).

Source: Centuria

Compliance and Governance

The Fund's compliance committee comprises of the three independent members of the board of Centuria Property Funds (Peter Done, Mathew Hardy and Darren Collins).

ASIC Regulatory Guide 46 "Unlisted property schemes: Improving disclosure for retail investors" and Regulatory Guide 198 "Unlisted disclosing entities: continuous disclosure obligations" describe ASIC's preferred benchmarks and principles.

Core Property has reviewed the PDS in reference to the six benchmarks and eight disclosure principles recommended by RG46. The PDS adheres to the ASIC guidelines.

Removal of the RE

The RE can be removed and replaced with another appropriately licensed responsible entity if investors pass an extraordinary resolution to that effect at a properly convened meeting of investors. If such a resolution is successful (requiring 35% of all units on issue and 50% of all units voted to approve), the RE will be entitled to recover any deferred fees. The RE will not be eligible to receive exit fees if removed prior to the completion of the Fund. Core Property notes that this is a strong feature of the Fund, and is better than industry norms.

Past Performance

Centuria Syndicate Performance

Since 1999, Centuria Capital Limited has managed 37 funds to completion representing $1.6 billion of asset sales, with an average total return to equity investors of 14.21% per annum as at January 2018.

Readers should note that that past performance is not a reliable indicator of future performance as each fund, and its respective underlying property, has its own specific risks and attributes.

Appendix – Ratings Process

Core Property has developed a framework for rating property and property related investment product offerings in Australia. The methodology gives consideration to a number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product and underlying portfolio construction; strength and depth of management team, product structure, risk management, financial analysis, and likely outcomes.

It is important for financial planners and investors to view the recommendation and rating in the context of comparable products only and not across all products rated by Core Property.

The Ratings

Financial Advisers and investors should note that for all ratings categories, the product may not suit the risk/return profiles of all investors.

Rating	Definition
Highly Recommended	This is the highest rating provided by Core Property and is indicative of the product exceeding the requirements of our review process across a number of parameters.
Recommended	Indicates that the product has an above average grade profile across a number of Core Property's parameters, and has the potential to deliver above average risk adjusted total returns.
Approved	Indicates that the product has met the aggregate requirements of Core Property's criteria. The product has an acceptable risk/return trade-off and is potentially able to generate risk-adjusted returns in line with stated investment objectives.
Speculative	Core Property believes this is a product that has a number of positive attributes; however, there are a number of risks that make investing in this product a speculative proposal. While Core Property does not rule out investing in this product, investors should be very aware of, and be comfortable with the specific risks. The product may provide unique diversification opportunities, although concerns over one or more features mean that it may not be suitable for most investors.
Not Approved	Indicates that the product has failed to meet the minimum aggregate requirements of Core Property's criteria. While the product may have some positive attributes, Trusts in this category are considered high risk.

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