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Centuria Property Funds No. 2 Limited CENTURIA INDUSTRIAL REIT

CIP 1H17 Interim Results

Thursday, 16 February 2017

Centuria Property Funds No. 2 Limited (**CPF2L**), as Responsible Entity of Centuria Industrial REIT (**CIP**) is pleased to announce CIP's half year financial results ended 31 December 2016.

Key Highlights

- Statutory net profit of \$31.4 million
- Distributable earnings¹ of \$22.9 million representing 10.8 cents per security ("cps")
- Total assets of \$929.7 million
- Transfer of management from 360 Capital Group Limited to Centuria Capital Limited
- CIP's portfolio valuation increased by 0.7%² to \$911.9 million³
- Net Tangible Assets ("NTA") has increased by 4 cents to \$2.36 per security
- Secured 7 key leasing transactions across 77,245 sqm⁴
- CIP's portfolio is 95.1%^{4,5} occupied with a 4.3 year WALE^{4,5}
- Agreed sale of 60 Marple Avenue, Villawood at an 8.1% premium to book value⁶
- Gearing 42.9% reducing to 42.2% upon settlement of 60 Marple Avenue, Villawood

Transfer of management from 360 Capital Group Limited

On 9 January 2017, Centuria Capital Limited (**CNI**) acquired 360 Capital Investment Management Limited (**CIML**), the Responsible Entity of 360 Capital Industrial Fund (**TIX**). CIML was subsequently renamed Centuria Property Funds No. 2 Limited (**CPF2L**). 360 Capital Industrial Fund has subsequently been renamed Centuria Industrial REIT and the ASX identification code has since changed to CIP.

¹ Distributable earnings is a financial measure which is not prescribed by Australian Accounting Standards ("AAS") and represents the profit under AAS adjusted for specific non-cash and significant items. The Directors consider that distributable earnings reflect the core earnings of CIP.

² On a like for like basis

³ Includes 60 Marple Avenue, Villawood, which is scheduled to settle on 17 February 2017

⁴ Includes 3 transactions under HOA subject to lease finalisation

⁵ By Net Lettable Area ("NLA")

⁶ Unconditional sale contract executed 5 January 2017 with settlement scheduled to occur 17 February 2017



In addition to acquiring the Responsible Entity of CIP, CNI also acquired 360 Capital Group's 15.6% investment in CIP ensuring the continuation of the manager's strong alignment of interest with CIP securityholders.

There have been no other material changes to CIP. The investment strategy of CIP remains unchanged. Australia's industrial real estate markets continue to offer sound investment opportunities, providing CIP securityholders with predictable income and the opportunity for capital gain.

Nicholas Collishaw, CEO of Centuria's Listed Property Division has taken responsibility for CIP as acting Trust Manager, pending the appointment of dedicated CIP Trust Manager. An executive search is underway with an appointment expected imminently. Nicholas is supported by a team of property funds management professionals with substantial experience in managing both industrial assets and ASX listed REIT's.

Leasing Update

Reducing vacancy and near term expiry risk in the CIP portfolio remains a key focus. Considerable progress has been made on this front since 30 June 2016 with CIP securing seven key leasing transactions across a total 77,245 sqm⁴, comprising two new leases over 26,217 sqm and five renewals over 51,028 sqm⁴. At 31 December 2016 CIP's portfolio was 95.1%^{4,5} occupied with a 4.3 year WALE^{4,5}.

Of the 77,245 sqm⁴ of transactions secured, 57,162 sqm relate to FY17 expiries or vacant space and 20,083 sqm relate to FY18 and beyond expiries (see Appendix 1).

Portfolio average fixed rental growth remains underpinned at 3.2% p.a. with 71% of CIP's leases having fixed annual reviews.

Nicholas Collishaw, CEO – Listed Property Division, "We have made significant leasing progress with FY17 and FY18 expiries in assets that were acquired as part of the Australian Industrial REIT (ANI) transaction. Five of the seven leasing transactions, over 68,000sqm, are across properties within the ANI sub-portfolio and the balance are renewals."

1H17 Asset Valuations

At 31 December 2016, the value of CIP's portfolio was \$911.9 million^{2,3} representing an increase of 0.7 per cent² since 30 June 2016. Consequently, NTA has increased 4 cents, or 1.7%, to \$2.36 per security.

12 assets were independently valued at 31 December 2016 with the remaining 25 assets subject to Director's valuations. All of CIP's assets have been independently valued in the last 12 months.

² On a like for like basis

³ Includes 60 Marple Avenue, Villawood, which is subject to settlement on 17 February 2017

⁴ Includes 3 transactions under HOA subject to lease finalization

⁵ By Net Lettable Area ("NLA")

The weighted average capitalisation rate of CIP's portfolio has remained relatively stable, firming 3 basis points to 7.42%⁷ at 31 December 2016 (see Appendix 2).

Mr. Collishaw continued, "Investor demand for quality, well leased industrial properties continues to strengthen against a back drop of limited sellers. Additionally, the low interest rate environment is favorable to owner-occupiers seeking to acquire industrial assets, presenting opportunities to divest assets with vacancy and near term expiry from CIP's portfolio."

Capital Transactions

Sale of 60 Marple Avenue, Villawood

On 5 January 2017 CIP announced that it had entered into an unconditional contract for the sale of 60 Marple Avenue, Villawood to an owner-occupier for \$20.0 million⁶ representing an 8.1% premium to the 30 June 2016 book value of \$18.5 million. Settlement is scheduled to occur on 17 February 2017.

Mr. Collishaw said "The sale of this asset at a premium to book value mitigates a significant FY17 expiry that was anticipated to take up to 9 months to lease. Further, the repayment of debt and subsequent reduction in gearing to 42.2% is a key step in CIP's deleveraging strategy."

Capital Management

CIP presently has debt facilities totaling \$420 million expiring in June 2017⁸. CPF2L is currently arranging replacement facilities totaling \$450 million with a blend of 3 to 6 year term from multiple lenders to ensure diversity of funding and reduce future refinancing risk.

CIP currently has hedges over 101 per cent of its debt facilities with maturities differing from the underlying facilities. CPF2L intend to undertake a review of CIP's hedge book to ensure exposure to interest rate risk is prudently managed in line with CIP's conservative capital management philosophy.

CIP's Interest Cover Ratio was approximately 4.3 times relative to a bank covenant of 2.0 times, demonstrating adequate covenant headroom.

Earnings & Distribution Guidance

On 17 August 2016 CIP, under the management of 360 Capital Group Limited, earnings guidance of greater than 21.6 cps was made. Following a detailed review of CIP's leasing

⁷ Includes 60 Marple Avenue, Villawood. If excluded the portfolio WACR is 7.39%

⁸ CIP's syndicated debt facility maturity was amended to 30 June 2017 following the change of management from 360 Capital Group Limited



assumptions since the change in management on 9 January 2017, and acknowledging that as part of CIP's de-levering strategy the proceeds from asset sales will not be reinvested (instead used to retire debt) and taking into account the likely higher 'all-in' interest cost arising from the upcoming refinancing, CPF2L advises that FY17 forecast earnings are restated at 20.5 cps.

CPF2L intends to distribute to CIP securityholders 100% of distributable earnings in FY17.

Mr. Collishaw said, "CIP's core portfolio remains well placed to deliver quarterly distributions to our securityholders and the potential for additional value creation through active asset management."

1H17 Results Presentation

CIP will be providing a market briefing that will be available to securityholders via the Centuria website (www.centuria.com.au).

- Ends -



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About Centuria Property Funds No. 2 Limited

Centuria Property Funds No. 2 Limited (CPF2L), a wholly-owned subsidiary of Centuria Capital Group (CNI), is the Responsible Entity for the ASX listed Centuria Urban REIT (CUA) and Centuria Industrial REIT (CIP).

CPF2L, combined with Centuria Property Funds Limited (CPFL), the Responsible Entity for the ASX listed Centuria Metropolitan REIT (CMA), has approximately \$2.9 billion of property funds under management in 18 unlisted property funds and 3 listed REIT's.

CNI is an ASX-listed specialist investment manager with \$3.6 billion in total funds under management.

Appendix 1 – Leasing Activity

Property	Tenant	Area (sqm)	Commentary
74-94 Newton Rd Wetherill Park, NSW	Weir Minerals	15,378	Part of the ANI sub-portfolio. Whole building became vacant June 2016. New lease to ITW (part office) commenced July 2016. The balance of office and warehouse leased to Weir Minerals commencing 23 December 2016.
23 Selkis Road, Bibra Lake, WA	Orora	18,235	Part of the ANI sub-portfolio. Lease extension for 5yrs with existing tenant (previous expiry June 2017). No downtime.
324-332 Frankston- Dandenong Road, Dandenong South, VIC	Schneider Electric	10,839	Part of the ANI sub-portfolio. New 4yr direct lease with previous sub-tenant (previous expiry January 2017). No downtime.
2 Keon Parade, Keon Park, VIC	Orora	19,527	Part of the ANI sub-portfolio. 7,049sqm extension completed and new 15yr lease entered into over entire building.
9 Fellowes Court, Tullamarine, VIC	McHugh & Eastwood	4,072	Part of the ANI sub-portfolio. Lease extension for 3yrs with existing tenant (previous expiry December 2016). No downtime.
102-128 Bridge Road, Keysborough, VIC	Wallara	3,074	Lease extension with existing tenant over two warehouses to August 2019 expiry (previous expiry March 2017). No downtime.
6 Albert Street, Preston, VIC	Hugo Boss	5,564	Lease extension of warehouse areas to be co-terminus with Hugo Boss office lease June 2020 expiry (previous expiry June 2017). No downtime.
Various	Multiple	556	Multiple leases across various assets

Appendix 2 – Asset Valuations

Property	State	FY16 Valuation (\$m)	1H17 Valuation (\$m)	1H17 Cap Rate (%)
9 – 13 Caribou Drive, Direk	SA	\$9.60	\$9.60	8.50%
54 Sawmill Circuit, Hume	ACT	\$15.25	\$15.30	7.25%
99 Quill Way, Henderson	WA	\$16.30	\$16.30	8.25%
23 Selkis Road, Bibra	WA	\$17.30	\$17.70	8.00%
310 Spearwood Avenue, Bibra Lake	WA	\$50.00	\$48.50	8.00%
21 Jay Street, Townsville	QLD	\$10.80	\$10.80	8.00%
33-37 Mica Street, Carole Park	QLD	\$26.50	\$26.75	7.50%
136 Zillmere Road, Boondall	QLD	\$28.30	\$28.30	7.25%
69 Rivergate Place, Murarrie	QLD	\$29.00	\$29.50	6.50%
1 Ashburn Road, Bundamba	QLD	\$36.60	\$36.60	7.75%
22 Hawkins Crescent, Bundamba	QLD	\$43.30	\$43.50	7.25%
9 Fellowes Court, Tullamarine	VIC	\$3.75	\$4.20	7.25%
24-32 Stanley Drive, Somerton	VIC	\$27.40	\$27.40	7.50%
39-45 Wedgewood Road, Hallam	VIC	\$9.30	\$9.30	7.75%
2 Keon Parade, Keon Park	VIC	\$19.75	\$20.80	7.00%
49 Temple Drive, Thomastown	VIC	\$13.00	\$13.00	8.00%
12-13 Dansu Court, Hallam	VIC	\$14.10	\$14.30	7.50%
14-17 Dansu Court, Hallam	VIC	\$17.40	\$17.60	7.50%
500 Princes Highway, Noble Park	VIC	\$20.00	\$20.30	8.00%
69 Studley Court, Derrimut	VIC	\$20.60	\$20.60	7.25%
6 Albert Street, Preston	VIC	\$25.40	\$25.40	7.75%
324-332 Frankston-Dandenong Road, Dandenong South	VIC	\$27.10	\$27.10	7.50%
102-128 Bridge Road, Keysborough	VIC	\$30.30	\$30.60	7.75%
75 Owen Street, Glendenning	NSW	\$7.75	\$7.75	6.75%
52-57 Quarry Road, Erskine Park	NSW	\$15.20	\$15.30	6.75%
8 Penelope Crescent, Arndell Park	NSW	\$15.50	\$15.50	7.50%
30 Clay Place, Eastern Creek	NSW	\$16.30	\$16.30	6.50%
6 Macdonald Road, Ingleburn	NSW	\$17.90	\$17.90	7.25%
74-94 Newton Road, Wetherill Park	NSW	\$22.80	\$24.20	6.75%
457 Waterloo Road, Chullora	NSW	\$26.00	\$26.00	6.75%
37-51 Scrivener Street, Warwick Farm	NSW	\$26.20	\$26.30	8.00%
12 Williamson Road, Ingleburn	NSW	\$34.00	\$34.20	7.25%
29 Glendenning Road, Glendenning	NSW	\$39.05	\$40.00	6.50%
10 Williamson Road, Ingleburn	NSW	\$36.50	\$36.50	7.50%
92-98 Cosgrove Road, Enfield	NSW	\$37.60	\$37.60	7.50%
2 Woolworths Way, Warnervale	NSW	\$80.85	\$80.85	7.25%
60 Marple Avenue, Villawood ⁹	NSW	\$18.50	\$20.00	8.50%
Total Portfolio		\$905.20	\$911.85	7.42%

⁹ 60 Marple Avenue, Villawood is held for sale based on the unconditional contract executed 5 January 2017