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CENTURIA METROPOLITAN REIT

CMA Announces Strong 1H17 Interim Result

Thursday, 9 February 2017

Centuria Property Funds Limited (**CPFL**), as Responsible Entity of Centuria Metropolitan REIT (**CMA**) announced CMA's half year financial results ended 31 December 2016.

Key Highlights

- Statutory net profit of \$27.1 million
- Distributable earnings¹ of \$10.9 million representing 9.1 cents per security ("cps")
- Increase in total assets of 14.2% to \$440.6 million
- Net tangible assets ("NTA") has increased by 14 cps to \$2.32 per security
- CMA's portfolio value has increased by 4.7% to \$417.5 million²
- Gearing 33.8%³, remains within the target range of 25 to 35%
- Secured 22 leasing transactions across 7,750 sqm, including key leases at 1 Richmond Road, Keswick and 555 Coronation Drive, Toowong
- CMA's portfolio 98.9%⁴ occupied with a 4.2 year WALE⁴
- Agreed sale of 14 Mars Road, Lane Cove at a 21%⁵ premium to book value
- Acquired an 8.8% strategic interest in Centuria Urban REIT (**CUA**)⁶ alongside Centuria Capital Limited (**CNI**) acquiring the Responsible Entity of CUA and a further 19.9% investment in CUA
- FY17 earnings guidance of 18.7 - 19.0 cps and distribution guidance of 17.5 cps reaffirmed

Nicholas Blake, Trust Manager – CMA said "The first half of FY17 was a positive one for CMA with significant leasing success across 22 transactions, or 6.9% of the portfolio, including the elimination of key near term expiries and vacant space. CMA's portfolio is well positioned with nearly 99% occupancy and over 4 years of weighted lease duration from a diverse tenancy base, ensuring regular and predictable earnings. We remain focussed on actively managing the portfolio's lease expiries to mitigate earnings risk over the next 1 to 3 years."

Mr. Blake continued, "The portfolio's value continues to strengthen demonstrating the strong fundamentals and underlying investor demand for quality metropolitan assets. As a result, CMA's NTA has increased 6.4% to \$2.32 per security. Gearing remains conservative at 33.8% after taking into account the acquisition of an 8.8% strategic interest in CUA and before applying the net proceeds from the sale of 14 Mars Road, Lane Cove, which will reduce gearing to approximately 30%. CMA remains well positioned to deliver on its FY17 earnings forecasts with earnings skewed towards 2H17 due to the delayed rent commencement of leasing deals struck in late 1H17."

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 CMA

² Including 14 Mars Road which is held for sale at 31 December 2016 in line with the unconditional contract executed 21 December 2016

³ Adjusted for the acquisition of the 8.8% strategic stake in Centuria Urban REIT (previously 360 Capital Office Fund) settled on 9 January 2017

⁴ By Net Lettable Area ("NLA")

⁵ Excluding costs

⁶ Previously 360 Capital Office Fund (TOF)

Significant Leasing Success

Significant leasing activity continues to be achieved across CMA's portfolio. Since 30 June 2016 CMA has secured 22 leasing transactions across a total 7,750 sqm, comprising 14 new leases over 4,640 sqm and 8 renewals over 3,110 sqm. At 31 December 2016 CMA's portfolio was 98.9%⁴ occupied with a 4.2 year WALE⁴.

Of the 7,750 sqm of transactions secured, 2,420 sqm represents new leasing over previously vacant space, 4,198 sqm relates to upcoming FY17 expiries, and 1,132 sqm relates to FY18 and beyond expiries.

Key leasing highlights include:

- Occupancy in the Fund's Canberra sub-portfolio has increased to approximately 92.5% at 31 December 2016 following the completion of refurbishment works at 54 & 60 Marcus Clarke Street in August 2016 and subsequent let-up of the ground floor retail tenancies.
- Refurbishment works at 1 Richmond Road, Keswick, completed leading to the execution of a new 3 + 3 year lease with DCNS Australia Pty. Ltd. (DCNS Australia) over 1,705 sqm commencing 1 February 2017. This space was previously occupied by the Minister for Transport and Infrastructure who had indicated their intention to vacate at lease expiry being 30 June 2017.

DCNS Australia is a subsidiary of DCNS Group, a French naval shipbuilding company and European leader in naval defence. DCNS Australia has been selected as the preferred international partner for the design of 12 submarines for the Royal Australian Navy, a \$50 billion project spanning 25 years.

In order to mitigate any potential downtime CMA remains focused on proactively marketing the remaining 2,975 sqm Minister for Transport and Infrastructure tenancy ahead of the 30 June 2017 lease expiry.

- At 555 Coronation Drive, Toowong, CMA successfully leased the 891 sqm tenancy previously occupied by Advisian to State Mercantile Pty Ltd for a term of 7 years in addition to extending State Mercantile's existing lease over 921 sqm to be co-terminus with the new 7 year lease. Consequently, asset occupancy and WALE improves to 100% and 3.8 years respectively, eliminating near term Queensland expiry risk from CMA's portfolio.

Average fixed rental growth across the portfolio remains underpinned with 94% of CMA's leases having fixed annual reviews at an average increase of 3.7% p.a.

Appendix 1 outlines leasing activity across CMA's portfolio on an asset by asset basis.

Mr. Blake said, "The leases executed at 1 Richmond Road, Keswick and 555 Coronation Drive, Toowong demonstrate the benefit of pre-emptive marketing and asset positioning in securing the interest and commitment of new tenants. These transactions mitigate significant near term expiry and vacancy risk in CMA's portfolio".

⁴ By Net Lettable Area ("NLA")

Strengthening Asset Valuations

At 31 December 2016, CMA's portfolio was valued at \$417.5 million representing an increase of 4.7 per cent since 30 June 2016. Consequently, NTA has increased 14 cents (6.4%) to \$2.32 per security.

One asset was independently valued at 31 December 2016 being 9 Help Street, Chatswood, where the value increased by \$7.1 million (12.9%) to \$62.2 million. The balance of CMA's portfolio was independently valued earlier in 2016.

The weighted average capitalisation rate of CMA's portfolio has firmed 34 basis points to 7.52%² at 31 December 2016.

Appendix 2 includes a schedule of asset valuations at 31 December 2016.

Mr. Blake continued, "We expect 2017 will continue to be a strong year for valuation growth with capitalisation rates for metropolitan assets continuing to firm relative to prime grade CBD assets and additional upside to be extracted through active management and repositioning strategies. Importantly, most metropolitan markets are experiencing real rental rate growth coupled with contracting incentives and continuing strong tenant demand".

Disciplined Capital Transactions

Sale of 14 Mars Road, Lane Cove

On 21 December 2016 CMA announced that it had entered into an unconditional contract for the sale of 14 Mars Road, Lane Cove, with the incumbent tenant Cochlear Limited. The sale price of \$26.0 million⁴ represents a 20.9% premium to the 30 June 2016 book value of \$21.5 million.

The contract provides for settlement to occur on or before 31 March 2017 at CMA's election. CMA intends to use the proceeds from the sale to reduce debt pending identification of a suitable reinvestment opportunity. Gearing is expected to reduce to approximately 30% following the repayment of debt from the proceeds of sale.

Based on the proposed timing of settlement the asset will have a property IRR of 23.8% since CMA's listing in December of 2014.

Mr. Blake said "The high level of return bears out the value proposition to be found in metropolitan markets and supports the investment strategy CMA has adopted to generate value for its investors."

Acquisition of an 8.8% strategic interest in Centuria Urban REIT

On 9 January 2017 CMA acquired a strategic holding of 8.8% in the ASX listed Centuria Urban REIT (CUA)⁶ for approximately \$14.5 million. This was alongside Centuria Capital Limited's (CNI) acquisition of the Responsible entity of CUA and a further 19.9% investment in CUA. Combined, CNI and CMA's interests total 28.8% of the issued capital in CUA.

² Including 14 Mars Road which is held for sale at 31 December 2016 in line with the unconditional contract executed 21 December 2016

CUA owns three modern, well leased metropolitan office buildings in QLD and VIC with a portfolio occupancy of 99.2% and WALE of 4.6 years. The CUA portfolio is complementary to CMA's property portfolio. Accordingly, the acquisition of the 8.8% strategic holding in CUA represents an investment in, and exposure to, similar underlying assets for CMA securityholders.

CMA's intention in relation to its 8.8% stake is to maintain the investment as a long term strategic investment, to maximise the return on CMA's investment through supporting active asset management initiatives by CUA and to support the ongoing management of CUA.

Nicholas Collishaw, Centuria's CEO Listed Property noted "The Responsible Entities of CMA and CUA may consider the possible merger of CMA and CUA, given the complementary nature of the CMA and CUA portfolios. The two REITs may pursue a mutually beneficial merger in the future but no decision has been made in this regard at this point. Any merger proposal would need to be in the best interests of respective investors and subject to any necessary approvals."

Prudent Capital Management

CMA remains conservatively geared at 33.8%³. CMA's weighted average debt maturity is 3.7 years, with an 'all in' interest cost of 3.9% p.a.⁷

CMA has hedged approximately 60 per cent of its debt facilities, co-terminus with facility maturities, ensuring exposure to interest rate risk is prudently managed in line with CMA's conservative capital management philosophy.

CMA's Interest Cover Ratio is approximately 5.3 times relative to its facility covenant of 2.0 times, demonstrating adequate covenant headroom.

Following the acquisition of an 8.8% strategic interest in CUA for \$14.5 million on 9 January, 2017 CMA has total debt facilities of \$180 million with \$25.5 million in undrawn capacity. CMA's debt facilities are well diversified with multiple lenders and maturities, with CMA's next maturity being December 2019.

Upon settlement of the sale of 14 Mars Road, Lane Cove, CMA intends to use the proceeds to repay debt pending identification of a suitable reinvestment opportunity. This will reduce gearing to approximately 30%.

Earnings and Distribution Reaffirmed

CMA's FY17 earnings guidance of 18.7 – 19.0 and distribution guidance of 17.5 cents per security remain unchanged.

2H17 distributions totaling 8.75 cents per security are forecast to be paid in two quarterly instalments of 4.375 cents per security with record dates of 31 March 2017 and 30 June 2017, respectively.

³ Adjusted for the acquisition of the 8.8% strategic stake in Centuria Urban REIT (previously 360 Capital Office Fund) settled on 9 January 2017

⁷ Including weighted average swap rate, facility establishment fees and 'all in' margin (incl. base rate and line fees)



Mr. Blake said, "CMA's underlying portfolio remains well placed to deliver stable, predictable rental income into the future, providing quarterly distributions to our securityholders and the potential for additional value creation through active asset management."

Corporate Simplification

CMA is currently structured as a stapled trust scheme, where securityholders own securities in each of Centuria Metropolitan REIT #1 and Centuria Metropolitan REIT #2. This gives rise to a number of operational and cost inefficiencies, for example CMA currently produces two sets of audited financial statements, one for each of the stapled entities.

CPFL has taken advice from Ernst & Young in relation to a proposed simplification of CMA's corporate structure (**Simplification Proposal**). The Simplification Proposal will require the approval of CMA securityholders. A separate Explanatory Memorandum and Notice of Meeting will be mailed to CMA securityholders in February 2017 explaining the Simplification Proposal in detail.

The Explanatory Memorandum and Notice of Meeting will include details of the proposed meeting CMA securityholder meeting which is anticipated to be held in March 2017.

1H17 Results Presentation

A prerecorded presentation of CMA's 1H17 Interim Result is available via our website (<http://centuria.com.au/metropolitan-reit/home/>).

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About Centuria Metropolitan REIT

Centuria Property Funds Limited (CPFL) a wholly-owned subsidiary of Centuria Capital Group (CNI), is the Responsible Entity for the ASX listed Centuria Metropolitan REIT (CMA). CMA focusses on investing in real estate assets in metropolitan markets across Australia and holds a portfolio of assets valued at \$417.5 million diversified across Sydney, Brisbane, Canberra and Adelaide.

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

CPFL and CPF2L, have 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 by Asset⁸

1 Richmond Road, Keswick		
Number of leases	#	1
Area leased	sqm	1,705
New leases	sqm	1,705
Renewals	sqm	-
Occupancy	%	100

555 Coronation Drive, Toowong		
Number of leases	#	2
Area leased	sqm	1,812
New leases	sqm	891
Renewals	sqm	921
Occupancy	%	100

9 Help Street, Chatswood		
Number of leases	#	6
Area leased	sqm	1,864
New leases	sqm	726
Renewals	sqm	1,138
Occupancy	%	100

54 Marcus Clarke Street, Canberra		
Number of leases	#	3
Area leased	sqm	448
New leases	sqm	448
Renewals	sqm	-
Occupancy	%	88.0

60 Marcus Clarke Street, Canberra		
Number of leases	#	5
Area leased	sqm	1,148
New leases	sqm	631
Renewals	sqm	517
Occupancy	%	94.5

3 Carlingford Road, Epping		
Number of leases	#	3
Area leased	sqm	589
New leases	sqm	152
Renewals	sqm	437
Occupancy	%	100

44 Hampden Road, Artarmon		
Number of leases	#	1
Area leased	sqm	87
New leases	sqm	87
Renewals	sqm	-
Occupancy	%	100

203 Pacific Highway, St Leonards		
Number of leases	#	1
Area leased	sqm	97
New leases	sqm	-
Renewals	sqm	97
Occupancy	%	100

⁸ Excludes those assets where there was no leasing activity since 30 June 2016

Appendix 2 – Asset Valuations

Property	State	1H17 Book Value (\$m)	1H17 Cap Rate (%)	FY16 Book Value (\$m)	FY16 Cap Rate (%)
Office					
9 Help Street, Chatswood	NSW	62.2	6.75	55.1	7.25
3 Carlingford Road, Epping	NSW	27.0	6.25	27.0	6.25
203 Pacific Highway, St Leonards	NSW	47.5	7.00	45.5	7.50
44 Hampden Road, Artarmon	NSW	8.8	8.25	8.5	8.50
54 Marcus Clarke Street, Canberra	ACT	18.0	9.00	16.9	9.25
60 Marcus Clarke Street, Canberra	ACT	54.5	8.00	52.8	8.25
35 Robina Town Centre Drive, Robina	QLD	50.7	7.25	48.8	7.50
555 Coronation Drive, Brisbane	QLD	32.3	8.25	33.1	8.25
1 Richmond Road, Keswick	SA	27.3	9.00	26.7	9.25
131-139 Grenfell Street, Adelaide	SA	19.5	8.50	20.5	8.75
Industrial					
14 Mars Road, Lane Cove ⁹	NSW	26.0	6.75	21.5	8.00
13 Ferndell Street, Granville	NSW	18.2	7.75	17.8	7.75
149 Kerry Road, Archerfield	QLD	25.5	7.25	24.5	7.50
Total Portfolio		417.5	7.52	398.7	7.86

⁹ Asset held for sale at \$26.0m based on unconditional sale contract with Cochlear Limited dated 21 December 2016