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Unlisted Property Trust Report

Centuria 80 Flinders Street Fund

August 2019

Premier Adelaide CBD office asset targeting 6.5%+ p.a. distributions

Centuria 80 Flinders Street Fund

Contents

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 cover 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.

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Centuria 80 Flinders Street Fund

August 2019

The Centuria 80 Flinders Street Fund ("the Fund") is an unlisted property fund that provides an opportunity to invest in a premier office building located in the Adelaide CBD. The Fund's Responsible Entity, Centuria Property Funds Limited (RE or "the Manager") is seeking to raise $74.58M through the offer of 74.58M units at $1.00 per unit ("the Offer"). Funds raised will be used in conjunction with bank debt to acquire the office asset at 80 Flinders Street, Adelaide SA ("the Property"), which includes the adjoining car park at 61-67 Wyatt Street.

The Property provides a well located, A-grade, core CBD office exposure with a strong tenant profile. The office building and car park were both constructed in 2006 as part of the wider Flinders Link project and are fully occupied by multi-national and ASX listed tenants. 80 Flinders Street is a 9-level A-grade office building anchored by IAG, Beach Energy and BAE Systems. 61-67 Wyatt Street is a 7-level car park which is connected to the office building and is leased to Wilson Parking, with a gymnasium on the ground floor.

The Property provides attractive investment metrics for the Fund with: (1) a Weighted Average Lease Expiry (WALE) of 4.0 years (by income); (2) 95% of gross income comes from multi-national and ASX-listed tenants; (3) the third asset in the Community Strata Plan at 57 Wyatt Street includes a Right of Way in favour of 61-67 Wyatt Street; and (4) lease profiles with fixed annual rent increases between 3.00% - 3.75% p.a.

The Fund provides a Core investment strategy to invest in a premier CBD office building in the Adelaide CBD. The value of the Property will be dependent on the Manager maintaining strong occupancy levels, which includes managing the lease expires for IAG and Wilson Parking, which will fall due during the initial term of the Fund. Additionally the Manager has indicated it may consider further value add strategies including the conversion of the level 1 car parking of the office building into office space as well the potential to sell the Property as two separate assets to achieve an optimal exit price for investors. The Property is expected to benefit from significant investment in infrastructure and defence in South Australia, supporting the office market in the Adelaide CBD.

The Fund will have an initial five-year debt facility with an assumed average cost of debt of 2.60% p.a. The Manager will fully hedge the interest rate for the first three years and intends to continue the hedging through to the full five-year term of the Fund. The initial Loan to Valuation Ratio (LVR) of 46.3% is below the bank LVR covenant of 57.5% and the initial Interest Cover Ratio (ICR) of 4.25x is well above the bank ICR covenant of 2.0x.

The Fund enjoys a relatively high initial NTA of $0.95 per unit, due to lower costs from the abolishment of stamp duty costs on the transaction.

Fees charged by the Fund are at the mid-point of what Core Property has seen in the market, however it is noted that the Performance Fee hurdle is an IRR of 8%, which is at the lower end of the range of what Core Property has currently seen in the market.

The Manager is forecasting a 6.5% (annualised) distribution yield in FY20, 6.6% in FY21 and increasing to 7.0% (annualised) in the fifth year.

Core Property estimates the Fund to deliver an Internal Rate of Return (IRR) of between 6.1% - 11.2% based on the Manager's assumptions and assuming a +/- 50 bps movement in capitalisation rates over the initial five-year term. Investors should note the calculations are based on the Manager's assumptions and a change in tenancy may impact distributions, the value of the Property and investor returns. The analysis includes the potential that investors may receive a capital gain or loss, based on market conditions.

Investor Suitability

Core Property considers the Fund will appeal to investors seeking an attractive distribution supported by a core CBD office asset with strong multi-national and ASX-listed tenants.

Investors should be aware that the Adelaide office market is considered a secondary market with different characteristics than the Sydney and Melbourne markets. The Adelaide office market has recently seen increased investment and infrastructure and defence spending. Capital gains will be dependent on the Manager's ability to maintain and enhance the asset, manage and optimise lease expires as well as managing the sale of the Property to maximise investor returns.

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 Funds and not across all products

Fund Details

Offer Open:	14 August 2019
Offer Close:	13 September 2019[1]
Min. Investment:	$50,000[2]
Unit Entry Price:	$1.00
Net Tangible Asset per unit:	$0.95
Liquidity:	Illiquid
Forecast Distributions:	6.5 cpu (FY20 annualised) 6.6 cpu (FY21)[3]
Distribution Frequency:	Monthly
Initial Investment Period:	5 years to 30 September 2024

1. The Manager may close the Offer at any time when sufficient commitments have been received.
2. The Manager may accept lower amounts at its discretion.
3. Based on the Manager's forecasts.

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Trust – Website

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Note: This report is based on the Centuria 80 Flinders Street Fund Product Disclosure Statement dated 14 August 2019, together with other information provided by Centuria Property Funds.

Key Considerations

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

The Property: The Fund will invest in the office building at 80 Flinders Street, Adelaide SA, which includes an attached commercial car parking station at 61-67 Wyatt Street. The two buildings are under separate Freehold titles and form part of a wider three title Community Strata Plan. The car parking station has two access points, including a right of access for cars to travel through the adjoining 57 Wyatt Street property. The office building is a 9-level A grade commercial building that features both office and retail space in addition to a 32-bay car park on level 1. The 7-storey Wilsons Car Park, which is connected to the office building, features a gymnasium on the ground floor and 694 car bays spread across the remaining six levels. In aggregate, the properties are currently 100% occupied, with a WALE of 4.0 years (by income) and an NLA of 12,504 sqm. Key tenants include multi-national and ASX listed companies such as IAG, BAE Systems, Beach Energy and Wilson Parking.

Fund Structure: The two assets will be acquired and placed in separate sub-trusts known as the "Holding Trusts". The Centuria 80 Flinders Street Fund will have 100% interest in each of the sub-trusts. The separation of titles provides flexibility for the assets to be sold separately.

Acquisition price: The Property will be acquired for $127M, which equates to a price of $7,466 per sqm, at the mid-to-upper range of recent transactions in the Adelaide CBD ($6,279 – $8,136 per sqm)

Location: The Property is in Adelaide's core CBD precinct alongside Victoria Square. The area is expected to benefit from $36B planned transport expenditure over the next 30 years as part of Adelaide's greater infrastructure and defence development program. As the Property is in a central location it is surrounded by access to numerous bus and tram stops. The property is located 1km away from the Adelaide Railway station.

Fund Strategy: The Fund primarily offers a Core investment strategy to invest in a premier CBD office asset that is well positioned to benefit from the increase in infrastructure and defence spending in South Australia. The Manager has also identified additional upside from: 1) the possible conversion of the level 1 car parking space of the office building into an office space, thereby increasing the overall income from the building, and 2) the potential to sell the Property as two separate titles on more favourable terms than if sold together.

Debt Profile: The Fund has received credit approved terms for a five-year debt facility of $60.0M, fully hedged for three-years at an assumed average cost of 2.60% p.a. The initial Loan to Valuation Ratio (LVR) is 46.3%, against a bank LVR covenant of 57.5%. The initial Interest Coverage ratio (ICR) of 4.25x is above the bank ICR covenant of 2.0x.

Initial NTA: The Fund's initial NTA is $0.95 per unit with minimal dilution occurring due to the abolishment of stamp duty on commercial property transactions in South Australia in 2018.

Distributions: The Manager is forecasting FY20 distributions of 6.5% p.a. (annualised), FY21 distributions of 6.6% p.a., increasing to 7.0% p.a. (annualised) at the end of five years.

Fees: Core Property considers the management fees to be at the mid-point of what has been seen in the market (*see Figure 5: Fees in Perspective*). Performance Fees are 20% over an 8% IRR hurdle, with the hurdle rate at the lower end of what is currently seen in the market.

Total Returns: Core Property estimates the Fund to deliver a five-year IRR of 6.1% - 11.2% based on the Fund's +/- 50 bps sensitivity to capitalisation rates (see the *Financial Analysis section*). Investors should be aware the Fund is exposed to a capital gain or loss based on the sale price of both assets and the overall market conditions, which may deliver an IRR outside this range.

Illiquid investment: Investors must accept that by their very nature, unlisted property funds are illiquid and expect to remain invested for the initial five-year term of the Fund. The Manager may extend the Fund for two years subject to an Ordinary Resolution (50% of votes in favour). At the end of the extended period the Manager may further extend the Fund, if it receives the approval of 100% of votes, or where there is less than 100% of votes then investors who votes against the extension are provided the opportunity to exit at the prevailing Withdrawal Price.

Investment Scorecard

Management Quality

★★★★★

Governance

★★★★☆

Portfolio

★★★☆☆

Income Return

★★★☆☆

Total Return

★★★☆☆

Gearing

★★★☆☆

Liquidity

★☆☆☆☆

Fees

★★★☆☆

Key Metrics

Trust Structure	
An unlisted property fund investing in in an office building and adjoining car park located in Adelaide's core CBD precinct.	

Management	
Centuria is a subsidiary of the ASX-listed specialist investment manager, Centuria Capital (ASX: CNI). It is a well-regarded Australian fund manager with demonstrable experience in property and finance. Greater representation of non-executive directors' lead to a balance of decision making.	

Property Portfolio	
No. of Properties:	1 (consisting of 2 separate freehold titles)
Valuation:	$127M
Property Location:	Office Building - 80 Flinders Street, Adelaide, SA Car Park – 61-67 Wyatt Street, Adelaide, SA
Property Sector:	Office
Key Tenants:	IAG (34.3% of NLA) Beach Energy (25.9% of NLA) BAE Systems (21.2% of NLA)
Occupancy:	100.0%
WALE:	4.0 years (by income)

Return Profile	
Forecast Distribution:	6.5% (FY20 annualised) 6.6% (FY21)
Distribution Frequency:	Monthly
Tax advantage:	70% tax deferred in FY20, 60% tax deferred in FY21
Estimated Levered IRR (pre-tax, net of fees):	6.1% - 11.2%
Investment Period:	5 years (Initial Fund Period)

Risk Profile	
Property/Market Risk:	Capital at risk will depend on an office building and attached car parking building in Adelaide, SA. Investors will be exposed to a potential capital gain or loss, based on market conditions.
Interest Rate Movements:	The Manager will hedge interest rates for three years. The Manager intends to further hedge interest rates thereafter however will be exposed to any changes in debt costs until this is completed, as well as any additional borrowings, which may impact the distributable income and total returns for investors.
Property Specific Risks:	Property investments are exposed to a change in vacancy rates (including a key tenant lease expiries), prevailing market rents, and economic supply and demand.

For a more detailed list of the key risks, refer to the "Investment Considerations and Risks" section of the Product Disclosure Statement.

Fees Paid	
Core Property considers the Fees charged by the Fund to be at the mid-point of what has been seen in the market (see Figure 5: Fees in Perspective).	
Entry Fees:	Nil
Exit Fees:	Nil
Management Upfront Fee (Property Acquisition Fee):	2.0% of purchase price.
Divestment Fee (Property Disposal Fee):	1.0% of sale price.
Management Fees:	- Management Fee: 0.8% p.a. of GAV. - Custodian Fee: The minimum of 0.015% p.a. of GAV or $15,000 p.a. - Property Expenses: 0.09% p.a. (est.) of GAV
Performance Fee:	20% of the outperformance over an IRR of 8.0%.

Debt Metrics – Indicative Terms	
Initial Debt / Facility Limit:	$57.15M / $60.0M
Loan Period:	5 years[1]
Initial LVR / LVR Covenant:	46.3% / 57.5%
ICR / ICR Covenant:	4.25x / 2.0x

Note 1: 5-year loan term with a 3-year interest rate swap.

Legal	
Offer Document:	Centuria 80 Flinders Street Fund Product Disclosure Statement, dated 14 August 2019
Wrapper:	Unlisted Property Trust
Trustee:	Centuria 80 Flinders Street Pty Ltd and Centuria 61-67 Wyatt Street Pty Ltd
Custodian:	Perpetual Corporate Trust Limited (ABN 99 000 341 533)
Responsible Entity & Manager:	Centuria Property Funds Limited (AFSL 231149)

Fund Overview

The Fund is a closed-ended, unlisted property fund that invests in a commercial office building and adjoining car parking station in the Adelaide CBD. The Fund has an initial term of five years and the Manager is targeting distributions of 6.5% p.a. in the first year (annualised), and 6.6% in the second year.

Centuria Property Funds Ltd, the Responsible Entity ("the RE") is seeking to raise $74.58M in equity through the issue of 74.58M units at $1.00 per unit ("the Offer"). The Fund has a minimum investment of $50,000, however the Manager may accept lesser amounts at its discretion.

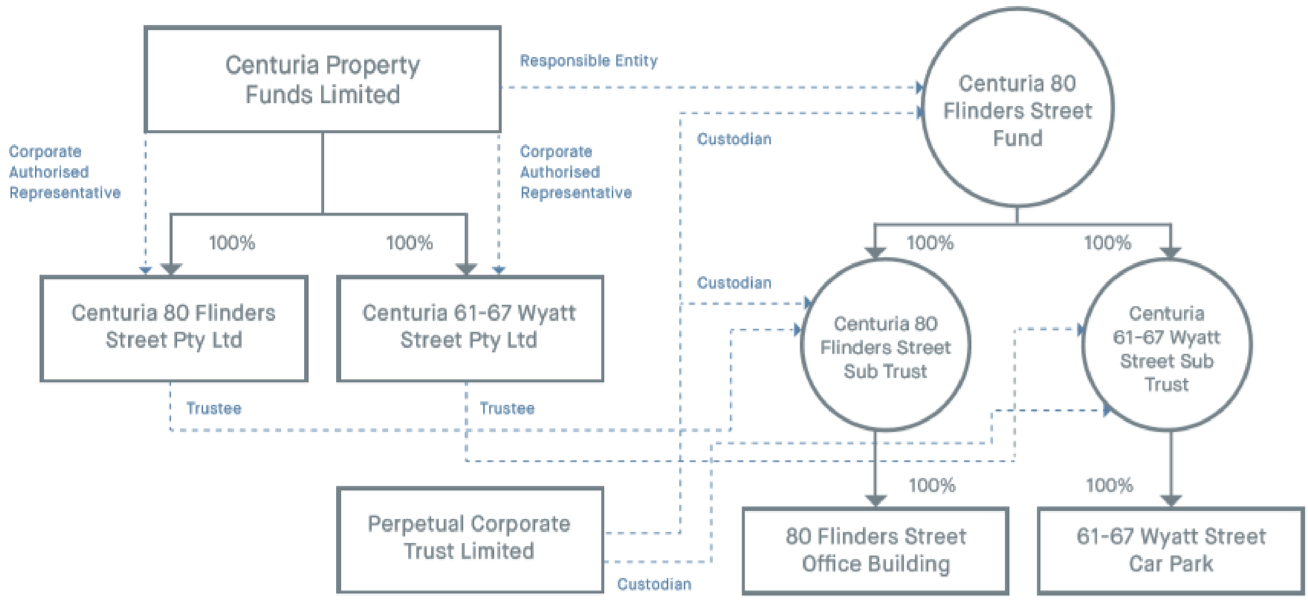
The Property consists of a 9-storey office building at 80 Flinders Street, Adelaide SA which adjoins and is connected to a 7-storey car park at 61-67 Wyatt Street. The buildings were constructed in 2006 as part of the Flinders Link Project and each building sits on a separate freehold title. The buildings are part of a Community Strata Plan with the top two floors of the office building extending over the car parking station. Both the office building and car parking building will be acquired by separate sub-trusts which the Fund will fully own units in.

The office building is currently 100% occupied with a Weighted Average Lease Expiry (WALE) of 4.0 years as at October 2019, with key tenants IAG (34.3% of NLA), Beach Energy (25.9% of NLA) and BAE Systems (21.4% of NLA). The car parking station has space for 694 cars and is fully leased by Wilson Parking as the operator.

The Fund should be considered illiquid and investors should expect to remain invested for the Fund's initial term of five years to benefit from potential returns. The term of the Fund may extend beyond the initial five-year term by up to 2 additional years if approved by more than 50% of votes cast. An extension beyond this will require a Unanimous Vote (100% of votes cast), or where a Unanimous Vote is not received, investors who voted against an extension are provided the opportunity to exit at the prevailing Withdrawal Price.

A summary of the Fund structure is provided below.

Figure 1: Fund structure



Source: Centuria

Fund strategy

The Fund provides a core investment strategy by investing in a well located, premier A-grade office building the Adelaide CBD. The Manager will look to maintaining and improving the value of the Property through its lease initiatives which are supported by a strong demand for quality assets couple with a strong infrastructure and defence investment in South Australia.

The Manager has also identified some additional value add strategies that may further benefit investors in the later years of the Fund. This includes:

- a key opportunity to add value to the asset through the transformation of level 1. Currently serving as a 32-bay car park leased to Beach Energy, the Manager will look to reposition it from a car parking floor to office space. This refurbishment is is expected to increase NLA by an additional 1,000 sqm and is expected to cost $2.5M with a construction period of 9 months. The Manager estimates the works could improve the valuation of the Property by approximately $3.0M (after estimated costs) upon completion. The Manager has not factored this scenario into the forecasts for the Fund as it is dependent on approvals and tenant conditions.
- The Manager has noted that the Property is situated on two freehold titles. Subject to the separation of the level 1 car parking space, the two buildings will no longer have an internal connection, which would make it easier to sell the Property as two separate lots. The two lower price levels would open up the sale to more potential purchasers than if it was offered as a single property, thereby potentially achieving a higher combined sale price for investors.

Liquidity / exit strategy

Investors should view the Fund as illiquid in nature and expect to remain invested for the initial five-year term of the Fund. The Manager may also extend the Fund for two years subject to an Ordinary Resolution (50% of votes in favour).

The Fund may be extended beyond seven years by a Unanimous Vote (100% of votes cast in favour) or, where there is not a Unanimous Vote, if those who voted against the extension are provided the opportunity to exit the Fund at the prevailing Withdrawal Price (being the net asset value of the Fund based on an independent valuation and taking into account estimated transaction costs).

Sources & Application of funds

The PDS sets out the sources and application of funds under the terms of the Offer.

Figure 2: Sources and Application of Funds

	$M	% of purchase price	% of total funds
Sources of funds			
Equity subscriptions	$74.6M	58.7%	56.6%
Bank debt	$57.1M	45.0%	43.4%
Total sources of funds	**$131.7M**	**103.7%**	**100.0%**
Application of funds			
Purchase price	$127.0M	100%	96.4%
Costs (Acquisition Costs, Fees)	$4.6M	3.6%	3.5%
Working Capital & Capital Expenditure Reserves	$0.1M	0.1%	0.1%
Total application of funds	**$131.7M**	**103.7%**	**100.0%**

Source: Centuria, Core Property

Debt Facility & Metrics

The Manager has received indicative terms for a five-year debt facility of $60.0M. The initial drawn debt is $57.15M, which provides sufficient leeway for the Fund's estimated $2.5M capital expenditure to transform level 1 of the building. The Fund will fully hedge the debt for the first three years at an assumed average cost of 2.60% p.a. If the LVR increases above 50%, the total cost of interest increases by 0.2%. After three years, the Manager intends to maintain a fully hedged position on the debt for the remainder of the Fund term.

The initial Loan to Valuation Ratio (LVR) is expected to be 46.3%, against a bank LVR covenant of 57.5%. Core Property calculates that the value of the Property must fall by 19.4% for the bank LVR covenant to be breached. The initial Interest Coverage Ratio (ICR) is 4.25x against a bank ICR covenant of 2.0x. Core Property calculates the net operating income must fall by 52.9% for this covenant to be breached.

The Fund with also undertake a short-term loan with Centuria Capital (ASX: CNI) for $6.625M at a rate of 10% p.a. for approximately two months, to fund the deposit for the purchase of the Property and to provide security for the three-year interest rate swap. The total interest on the loan is estimated at $110,719 and has been included in the costs of the transaction.

Investors should be aware that any change in the final debt terms may impact final returns provided by the Fund. A change in the terms and cost of debt may impact investor returns of the Fund.

Figure 3: Debt Metrics

Details	Metric
Bank	Westpac Banking Corporation
Security	First ranking mortgage over the Property and a general security deed over the assets in the Fund. The financier will also hold a first ranking general security deed over the assets of the Holding Trusts.
Debt Facility Limit/ drawn debt	$57.15M / $60.0M
Loan Period	5 Years from settlement
% Hedged	100%
Average cost of debt	2.60% in Years 1-3, assume 2.98% in years 4-5
Initial LVR / Peak LVR / LVR Covenant	46.3% / 46.3% / 57.5%
Initial interest covered ratio (Lowest ICR) / ICR covenant	4.25x / 2.0x
Amount by which valuation will have to fall to breach LVR covenant	19.4%
Decrease in rent income to breach ICR covenant	52.9%

Source: Core Property, Centuria

Fees Charged by the Fund

Overall, Core Property considers the fees charged to be at the mid-point of what has been seen in the market (see All-in fee analysis below). Core Property notes that the Performance Fee on the Fund is calculated at 20% of the Fund's performance above an IRR of 8.0% p.a. The threshold of 8.0% p.a. is at the lower end of what Core Property currently has seen in the market.

Figure 4: Summary of Fees charged by the Fund

Fee Type	Fee Charged	Core Property Comment
Entry Fee:	Nil	
Exit Fee:	Nil	
Manager Upfront Fee (Acquisition Fee):	2.0% of purchase price.	Core Property considers the Fee to be at the high end of the industry average of 1.0% - 2.0%.
Sale Fee (Disposal Fee):	1.0% of sale price.	The Disposal Fee covers any external agency selling costs and is in the low end of the industry average of around 1.0% - 2.0%.
Fees & Expenses – Management Fee, Property and Facilities, Expenses, Custody Fees:	- Management Fee of 0.8% of GAV. - Custodian Fee: The greater of 0.015% p.a. of GAV or $15,000 p.a. (with annual CPI increases) - 0.09% p.a. (est.) of Gross Assets for Expenses.	Core Property considers the Management Fee to be at the low end of what we have typically seen in the industry (0.7% - 1.1% p.a. of GAV). Other Fees appear appropriate.
Performance Fee:	20% of the Fund's outperformance over an IRR of 8.0%.	Core Property considers the IRR threshold of 8% to be at the lower end of what has been seen in the market.

Source: Centuria, Core Property

All-in fee analysis

Core Property has analysed the fees that accrue to the RE over the term of the Fund as a percentage of all cash flow generated after deducing interest costs but before management fees and performance fees.

Core Property estimates that Centuria is entitled to 7.7% of the total cash flow. Core Property considers the fees paid to the Manager to be in the middle when compared to similar products, which are typically around 7% - 9%. In terms of fees paid to the Manager, Core Property estimates that 28.7% of the estimate fee is paid upfront and the remainder relates to ongoing management fees. Core Property stresses that these estimates of how much investors will receive are not guaranteed amounts. For further details, please refer to the *Financial Analysis* section.

Figure 5: Fees in Perspective – over an estimated five-year period

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:	$0.42
Total cash to investors:	**$1.42**
Acquisition fee:	$0.03
Base management fee:	$0.07
Disposal fee:	$0.02
Debt Arrangement fee:	$0.00
Fees for the RE (excluding disposal/admin):	**$0.12**
Total cash generated by Fund:	**$1.55**
Fees = % of total cash generated (before fees)	7.7%
Up-front fee vs total fees	28.7%

Source: Core Property estimates

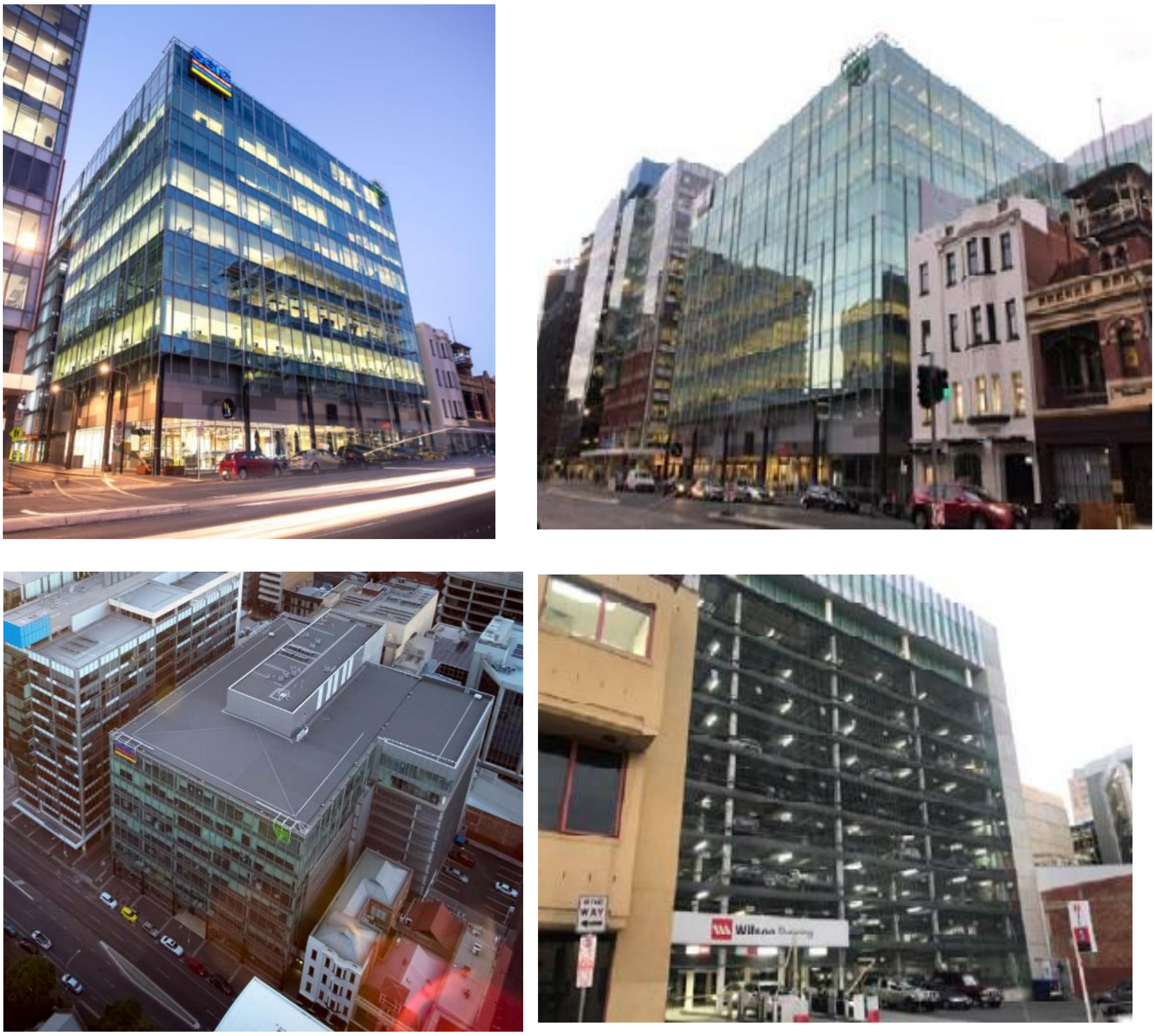
The Property

The Property are an amalgamation of two attached assets located at 80 Flinders Street and 61-67 Wyatt Street. Each asset has its own freehold title which forms part of a three title Community Strata Plan with 57 Wyatt Street. The assets are located in Adelaide's core CBD precinct alongside Victoria square. Both assets were constructed in 2006 as part of the Flinders Link Project.

- **Lot 1 80 Flinders Street** is a 9-level A grade office building that features a car park on level 1 that holds 32 bays. The level 1 car parking is connected to the car park building in 61-67 Wyatt Street. The top two floors of the office building extend over the car park building, delivering floor plates of over 3,200 sqm, which are the largest floorplates in the Adelaide office market. The ground floor recently underwent refurbishments to upgrade its entrance foyer as well as upgrades to the building's end of trip facilities. The asset currently has a 4.5-star NABERS Energy rating and a 5-star Green Star rating. The building is leased to six office tenants and two retail tenants.
- **Lot 2 61-67 Wyatt Street** is a 7-level car park operated by Wilsons Parking. The ground floor of the car park has a gymnasium with 694 car bays being spread over the remaining 6 levels. The car park building has two access points, including an access point via the adjoining 57 Wyatt Street (Lot 3 of the community strata plan) which has a right of way in favour of 61-67 Wyatt Street.

The Property is currently 100% occupied and has a WALE of 4.0 years (by income). It is anchored by multi-national and ASX-listed tenants such as Insurance Australia Group Limited, Beach Energy, BAE Systems and Wilson Parking.

Figure 6: 80 Flinders Street, Adelaide SA



Source: Savills

Property Valuation

An independent valuation was undertaken by Savills in October 2019 valuing the Property at $127M. The valuation is in line with the acquisition price of $127M.

Figure 7: Valuation Metrics

80 Flinders Street, Adelaide SA	
Title	Freehold
Acquisition date:	30 September 2019 (estimated Fund establishment date)
Ownership	100%
Site Area	Community Lots
Net Lettable Area	12,504 sqm
Major Tenant	IAL (owned by IAG) – 4,290 sqm (34.3% of NLA) Beach Energy – 3,239 sqm (25.9% of NLA) BAE Systems – 2,654 sqm (21.2% of NLA)
Weighted Average Lease Expiry	4.0 years as at 30 September 2019
Occupancy	100% (by income)
Initial net passing income	$7.7M p.a.
Net Market income (fully leased)	$7.6M p.a.
Purchase price	$127M
Valuation	$127M
Passing initial yield	6.09%
Capitalisation rate	5.75%
Valuer	Savills (October 2019)
Valuer's Discount rate	7.25%
Value/sqm	$7,487 per sqm[1]
Valuer's unleveraged 10-year IRR	7.27%

Note 1: Excluding car park leased to Wilson Parking. Source: Savills

Leases, tenants and income

The Property has a diverse tenant portfolio with a Weighted Average Lease Expiry (WALE) of 4.0 years (by income) as at 30 September 2019. The Property is 100% occupied with the two largest tenants being IAL (a subsidiary of Insurance Australia Group (ASX: IAG), 34.3% of NLA) and Beach Energy (25.9% of NLA). IAL has a lettable area of 4,290sqm across two offices with the lease expiring in 18 August 2021 with net passing rent of $477 per sqm. Rent reviews are fixed at 3.75% p.a. Beach Energy has a lettable area of 3,239 sqm with the lease expiring in 31 May 2026. A summary of the office tenancies is provided in the table below.

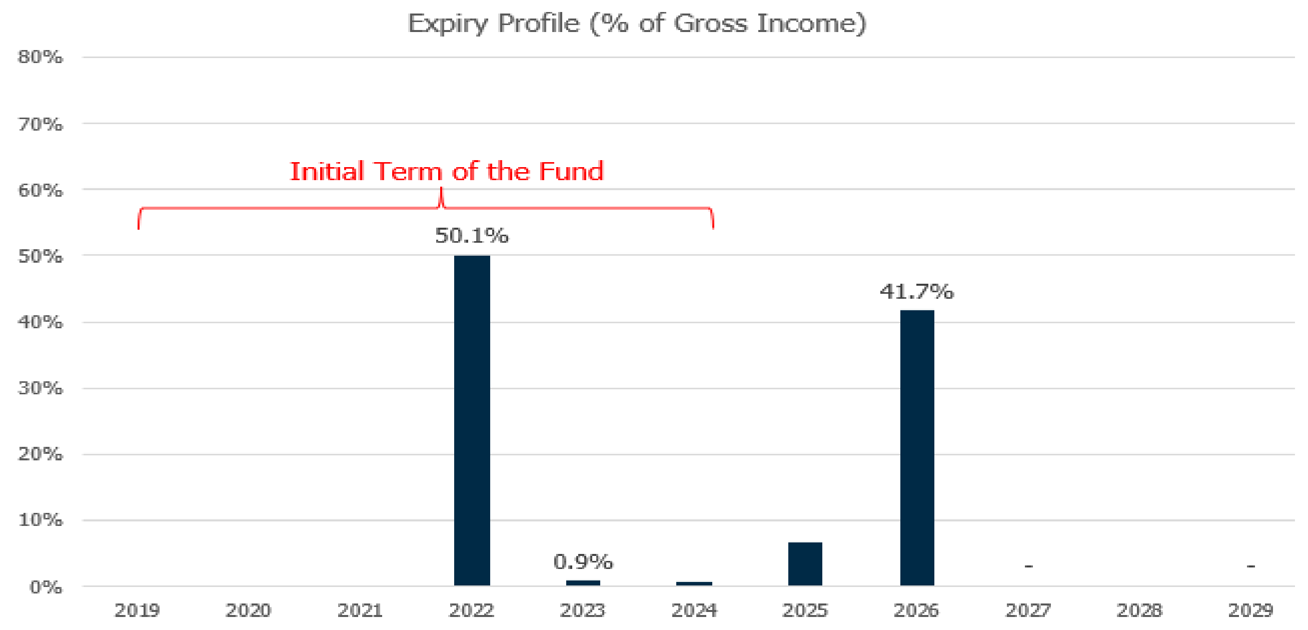
Figure 8: Tenant Metrics

Type	Lease Expiry	Options	Average Net Passing Rent (per sqm)	Rent Review	Area (sqm)	% of NLA
Ying Kun Pty Ltd (Fresh Bites)	21 Jul 2023		$414	3.50%	116	0.9%
Funk Café	31 Aug 2025		$413	3.25%	159	1.3%
BAE Systems	9 Sep 2025	3 years	$455	3.50%	2,654	21.2%
Inabox	31 Dec 2024	5 years	$445	3.50%	1,072	8.6%
Sothertons	31 Jul 2025		$438	3.00%	625	5.0%
IAL (a subsidiary of IAG)	18 Aug 2021	3+3 years	$477	3.75%	4,290	34.3%
Beach Energy	31 May 2026	3 years	$420	3.00%	3,239	25.9%
Santos (gymnasium)	20 Mar 2023		$197	3.50%	350	2.8%
Total			**$407**		**12,504**	**100%**

Source: Centuria, Savills

The figure below represents the Fund's weighted average lease expiry by income. The key lease expiries occur in FY22 where the anchor tenant, IAG and the Wilsons car park lease falls due. The Manager has been advised that the lease to Wilson Parking has been in turnover rent for a number of years.

Figure 9: Property lease expiry (by income)



Source: Core Property

Market Sales Evidence

The table below shows the comparable sales transactions for similar assets that were sold recently in the last two years. The independent valuer has attributed a valuation for the office building at $7,487 per sqm, which is at the mid-to-upper end of comparable transactions in the Adelaide CBD office market of $6,279 - $8,136 per sqm.

Figure 10: Recent transaction evidence - office

Property	State	Sale Date	Sale Price	IRR	Equated Market Yield (%)	Price per sqm
121 King William Street, Adelaide	SA	May-19	$82.3M	7.0%	6.5%	$6,629
77 Grenfell Street, Adelaide	SA	Dec-18	$103.5M	7.6%	7.0%	$6,279
60 Flinders Street, Adelaide	SA	Sep-18	$101.4M	7.2%	7.1%	$6,483
80 Grenfell Street, Adelaide	SA	May-18	$184.6M	7.3%	6.3%	$8,136
11 Waymouth Street, Adelaide	SA	Mar-18	$202.5M	7.6%	6.6%	$6,533
Average			**$134.9M**	**7.3%**	**6.7%**	**$6,812**
Range			**$82.3M - $202.5M**	**7.0% - 7.6%**	**6.3% - 7.1%**	**$6,279 - $8,136**
80 Flinders Street	SA		**$127M**	**7.3%**	**5.8%**	**$7,487**

Source: Savills

Market Rental Evidence

The main office tenants, IAL and BAE systems are currently leased at $595 and $573 per sqm (gross) respectively (or $477 and $420 per sqm (net) respectively). This sits above recent comparable office rentals of $500 - $570 per sqm (average $534 per sqm).

Both the retail tenants at 80 Flinders Street, Funk Coffee and Fresh Bites current pays $400 per sqm (net). This sits below what has been seen in the market.

61-67 Wyatt Street is occupied by the car park operator, Wilsons Parking Australia which current pay $3,320 gross rent per bay. This is in the middle of what has been seen in the market across other car parks at $2,435 - $5,058 per bay. The lease with Wilson Parking expires in November 2021 with a 5-year option for renewal.

The following tables is a summary of comparable office, retail and carpark lease deals as provided by the independent valuer.

Figure 11: Recent rentals – Adelaide CBD office market

Property Address	Tenant	Commence Date	Area sqm	Rent per/sqm
121 King William Street, Adelaide	Jacobs Group	May-19	1,930	$526
	Kaefer	Jul-19	321	$531
70 Franklin Street, Adelaide	Indigenous Land Corporation	May-19	1,235	$500
	Marsh	Mar-19	1,235	$520
60 Flinders Street, Adelaide	Santos	Mar-17	15,732	$564
11 Waymouth Street, Adelaide	Commonwealth of Australia	Feb-17	3,080	$530
	Woods Bagot	Feb-17	670.9	$570
Average				**$534**
80 Flinders Street, Adelaide	**Beach Energy Ltd**	**Jun-19**	**3,239**	**$537**
	BAE Systems Australia Ltd	**Aug-18**	**2,653**	**$573**
	IAL	**Aug-16**	**4,290**	**$595**
	Inabox Limited	**Jan-18**	**1,072**	**$562**

Figure 12: Recent rentals – Adelaide retail market

Property Address	Tenant	Commence Date	Area sqm	Rent per/sqm (net)
25 Grenfell Street	Suncorp	Apr-19	284	$643
25 Grenfell Street	Banh Mi	Oct-18	86	$606[1]
1 King William Street	NNQ Restaurant	Jan-18	125	$880[1]
182 Victoria Square	A&T Nominees	Dec-16	134	$750[1]
80 Flinders Street, Adelaide	**Funk Coffee**	**Sep-18**	**157**	**$400**
80 Flinders Street, Adelaide	**Fresh Bites**	**Jul-18**	**116**	**$400**

Figure 13: Recent rentals – Car Park

Property Address	Tenant	Car spaces	Rent per/bay
West of King William Street	Confidential	600	$2,435
28-30 Hindley Street, Adelaide	Wilsons Parking Australia	614	$3,420
225 North Terrace, Adelaide	Wilsons Parking Australia	1,206	$5,058
East of King William Street	Confidential	300	$2,700
80 Flinders Street, Adelaide	**Wilsons Parking Australia**	**694 spaces**	**$3,320**

Note 1: Gross rent per sqm.
Source: Savills

The Adelaide Office Market

Adelaide is the capital of South Australia, with a population of around 1.35M (as at 31 December 2018, ABS). The city's GDP growth of 2.2% (30 June 2018) continues to outperform the state of 1.8% (30 June 2018), yet it is still below the nation wides growth of 2.75% (expected 2019). This growth is reciprocated into the market with Adelaide being a non-traditional market.

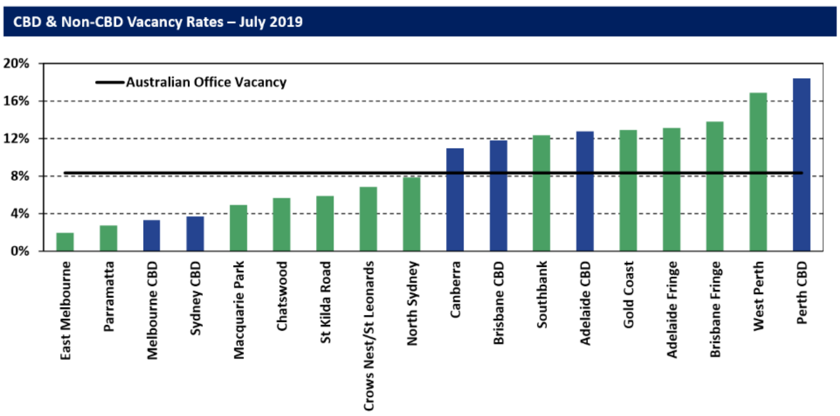
Growth in the Adelaide economy and changes to regulations have helped shift investor interest into non-core markets such as Adelaide. Positive investments in defence and space; and the creative industries have served as catalysts for potential overseas investment. Additionally, the abolishment of stamp duty costs in South Australia which became effective at 1 July 2018 has further supported this shift in sentiment by reducing the transactional costs on commercial properties. This growth in the Adelaide economy is expected to continue through the support of Adelaide's pipeline of approximately $130B of infrastructure and defence projects, with $36B being allocated to transport.

Furthermore, white collar employment and a greater relocation of tenants to the CBD have led to positive net absorption growth. As such, the Adelaide office CBD market has seen vacancy levels drop from 14.7 per cent from July 2018 to 12.8 per cent in July 2019. This market has also seen the continued trend of 'flight to quality' has seen premium vacancy declining to 2.6 per cent, which is the lowest since 2012.

The Adelaide CBD has a high vacancy rate of 12.8% (at July 2019), a reduction of 140bps in the past six months (14.2% in January 2019) with demand outstripping supply during this period.

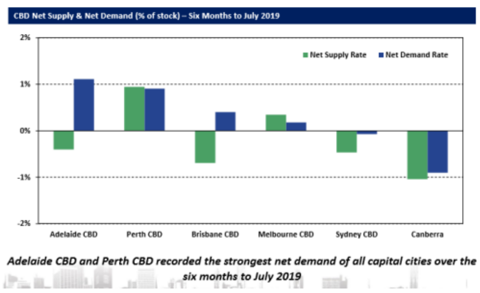
The Leasing market continues to strengthen due to lower vacancy rates and a lack of new stock. Over a 12-month period, premium grade rents in Adelaide CBD grew by 2.3%. Moreover, Adelaide's CBD office market for 'new generation' space (Prime grade office assets constructed between 2006 and 2018) achieved gross face rental growth and gross effective rental growth of 3.6% and 9.1% respectively.

Figure 14: Australian Office Vacancy Rates



Source: PCA/OMR

Figure 15: Net Supply/Demand - Historical



Source: PCA/OMR

Capex

The Manager has indicated $0.7M of capital expenditure over the term of the fund with the majority to be spent on replacing the carpark lifts and the replacement of the Building Management System. This is in line with the valuer's assumptions and an independent technical due diligence report. The capital expenditure will be funded through the remaining undrawn portion of debt.

The Manager's forecasts do not include any amount for the potential converting of the level 1 car park to office space as this is subject to approval and the tenant relinquishing its 32 car spaces. The Manager currently estimates such a strategy to be accretive, at a cost of around $2.5M and adding about $3.0M (after costs) in value to the building.

Financial Analysis

Core Property has reviewed the financial forecasts by the Manager as provided in the PDS. The key observations are:

- The Manager is forecasting distributions of 6.5% (annualized) in the first year, increasing to 7.0% p.a. in the fifth year;
- Forecasts do not take into account any costs to convert the level 1 car park to office space;
- Forecasts assume that debt is hedged for three years and extended for a further two years;
- Assumes lease renewals are undertaken at market levels, with annual rent increases of 3.00% to 3.75% p.a.; and
- Forecasts assume $0.7M of capex is funded from an additional draw down of the debt facility.

A summary of the Manager's forecasts from the PDS is presented below for both the Holding Trusts as well as the Fund.

Figure 16: Profit & Loss Forecast & Balance Sheet

Profit & Loss - Forecast $M	**FY20 (9 months)[1]**	**FY21**
Holding Trusts		
Gross Property Income	7.0	9.4
Property Expenses	-1.4	-1.9
Net Operating Income	5.7	7.5
Straight Lining of Rental Income	-0.3	-0.2
Distributable Funds	5.3	7.3
Centuria 80 Flinders Street Fund		
Trust Income	**5.3**	**7.3**
Fees, Expenses	-0.9	-1.2
Net Operating Income	**4.5**	**6.2**
Net Interest Expense	-1.2	-1.5
Distributable Funds	**3.2**	**4.7**
Distributions from working capital	0.3	0.2
Interest on Centuria Capital Funding	0.1	-
Net Distributable Funds	**3.6**	**4.9**
Distributions per Unit (cpu)	**4.9**	**6.6**
Distribution Yield % (annualised)	**6.5%**	**6.6%**

Balance Sheet – $M	**On acquisition (est 30 Sep 2019)**
Holding Trusts	
Investment Property	127.0
Less: Adjustment for Lease incentives	-4.1
Accumulated cash, receivables and prepayments	4.1
Total Assets	**127.0**
Total Liabilities	**0**
Net Assets	**127.0**
Centuria 80 Flinders Street Fund	
Units in Holding Trusts	**127.0**
Accumulated Cash, Receivables and Prepayments	**0.1**
Total Assets	**127.1**
Borrowings	**57.2**
Capitalised Borrowing Costs	**-0.6**
Total Liabilities	**56.5**
Net Assets	**70.6**
NTA per Unit	**$0.95**
Debt/ Total assets	**45%**

Note 1: Based on a 9-month period from 30 September 2019 to 30 June 2020. Source: Centuria, Core Property

Initial NTA

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 Fund. In this case, the starting NTA is $0.95 per unit, with most of the dilution coming from acquisition costs. Investors should note, South Australia is exempt from stamp duty for commercial assets.

Figure 17: Initial NTA

Amount per unit	$ per unit
Issue Price	$1.00
Less:	
Stamp Duty/Acquisition Costs	-$0.01
Acquisition Fee	-$0.04
Debt & Fund Establishment costs	-$0.01
Working Capital and Capitalised costs	+0.01
NTA per unit (with capitalised costs)	**$0.95**

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).

Core Property has estimated the total return from the Fund based on the assumptions provided by the Manager.

Using these assumptions Core Property expects the Fund to deliver a 5-year Internal Rate of Return (IRR) in the range of 6.1% - 11.2%. The calculation is based on the Manager's forecasts and assumes a +/- 50bps movement in the terminal capitalisation rate and interest rates fixed (the debt is fully hedged for the duration of the Fund).

Investors should be aware the sensitivities include the potential for the valuation of the assets to increase or decrease (depending on market conditions) which will result in either a capital gain or loss for investors.

Figure 18: Pre-tax, 5-year IRR (after fees) sensitivity analysis – Manager's assumptions

Terminal cap rate	Cost of Debt (assuming cost of debt is fully hedged at 2.6% during years 1-3 and 2.98% in years 4-5)
	2.6%
5.25%	11.2%
5.50%	9.9%
5.75% (base)	**8.7%**
6.00%	7.5%
6.25%	6.1%

Source: Core Property

Management & Corporate Governance

The 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 Limited manages 16 closed end funds, a 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 19: The Board of the Responsible Entity

Name & Role	Experience
Peter Done **Non-Executive Chairman** Bachelor of Commerce (Accounting) UNSW and Fellow of Chartered Accountants Australia and New Zealand	Peter was appointed to the Board of Centuria Property Funds in 2007 and has 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, including those involved in property development, primary production and television and film production and distribution. 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** Dip Val, FAPI, FRICS, GAICD, SAFin.	Nicholas was the former CEO of Centuria Listed Property Funds from May 2013 to December 2017. Prior to this Nicholas was the CEO and Managing Director of Mirvac Group (ASX: MGR) from 2005 to 2012 and was responsible for successfully guiding the business through the impact of the global financial crisis and implementing a strategy to position the real estate developer and investor for sustained growth. With over 30 years' experience, he has held senior positions with James Fielding Group, Paladin Australia, Schroders Australia and Deutsche Asset Management.
Mathew Hardy **Non-Executive Director** Bachelor of Science (Urban Estate Surveying), ARICS, GAICD	Mathew has over 30 year's experience at a senior level in direct real estate, equities and funds management. He was 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 General Manager of Mirvac managed, listed REIT, Capital Property Trust, and Head of Investments and Dveelopments for Mirvac Funds Management. Mathew has been a Non-Executive Director of Centuria Property Funds since 2013 and is a member of Centuria's Audit, Risk Management and Compliance Committee.
Darren Collins **Non-Executive Director** Bachelor of Commerce and an Associate of Chartered Accountants Australia and New Zealand	Darren was a former executive of Computer Sciences Corporation (CSC) from 1997 to 2013 where he was Vice President of finance and Administration of several operating divisions. From 2004 to 2009 Darren was also a non-executive director of three IT services companies listed on the Singapore, Hong Kong, and Kuala Lumpur stock exchanges. Darren has extensive experience in accounting, audit and financial management as well as a strong background in corporate governance and regulation and is also a member of Centuria's Audit, Risk Management and Compliance Committee.
Roger Dobson **Non-Executive Director** Master of Laws and Bachelor of Law (Hons)	Roger is the head of Jones Day's Business Restructuring & Reorganisation practice in Australia. He has extensive experience in working on large, complex restructuring and insolvency matters in Australia. Over the past decade he has represented main banking syndicates, offshore funds holding a substantial debt positon, companies experiencing financial distress, liquidators, administrators, and receivers. Roger was appointed to the Board of Centuria Property Funds Limited and Centuria Property Funds 2 Limited in October 2017. 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.

Source: Centuria

Figure 20: Management Team

Name & Role	Experience
John McBain **Joint CEO** Dip.Tech (Valuations), Diploma in Urban Valuation	John joined the Centuria Capital Board (formerly Over Fifty Group) on 10 July 2006 and was appointed as Chief Executive Officer 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 specialised property consultancy and boutique funds manager. Waltus was formed in 1995 and was one of the first dedicated property funds managers in Australia. 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 **Joint CEO** Bachelor of Commerce (Commercial Law)	Jason became the Centuria Group Joint CEO in June 2019 after previously leading Centuria's Real Estate and Funds Management business. Jason was also a founding director and major shareholder in boutique funds manager Century Funds Management, which was established in 1999 and acquired by Over Fifty Group in July 2006. He is an Executive Director of Centuria Capital Group. Jason has extensive experience in the commercial property sector, with specialist skills in property investment and funds management. He is also a past President of the Property Funds Association (PFA), which represents the $125 billion direct property investment body in Australia and continues to serve on their national executive. Jason holds a Bachelor of Commerce (Commercial Law) from the University of Auckland, New Zealand.
Stuart Wilton **Fund Manager** Bachelor of Business (Property)	Stuart joined Centuria in May 2010 and was appointed as a Fund Manager in July 2017. Stuart is responsible for the fund establishment, performance, reporting and investor relations of assets in excess of $900M. The role also involves working extensively with the property team to develop and implement fund strategies, as well as liaise with financiers to secure and renew fund debt facilities where required. Stuart previously held several key positions in the Centuria asset management division, most recently as Portfolio Manager. Prior to joining Centuria, Stuart worked for Potomac Realty Capital in Boston, a specialist real estate finance company focused on structured financial solutions and permanent real estate loans for all commercial property types.
Ross Lees **Head of Funds Management** Bachelor of Business (Property Economics), Master of Applied Finance	Ross is the Head of Centuria's Real Estate Funds Management business, which is responsible for both listed and unlisted property funds. This includes two ASX listed REITs as well as 16 unlisted funds. Ross was previously the Fund Manager, Centuria Industrial REIT (ASX:CIP). Ross joined Centuria in 2017 and has over 15 years of industrial investment management experience having joined from Dexus where he held senior transactional and portfolio management roles. Prior experience includes over six years at Stockland (ASX: SGP) and four years at Logos Property Australia having established and led their asset management platform.
Andrew Essey **Head of Transactions** Bachelor of Business Admin	Andrew joined Centuria Property Funds in February 2013 as National Leasing Manager, was appointed Fund Manager in November 2015, and transitioned to the role of Head of Transactions in July 2017. As Head of Transactions, he is responsible for originating and managing the Group's property transactions and oversight of the Group's acquisitions team. Prior to joining Centuria, Andrew worked for DTZ in Sydney's North Shore Agency from 2007, most recently holding the position of Director. While at DTZ, Andrew's focus was on leasing and sales within Sydney's North Shore industrial and office park markets. Andrew hold a Bachelor of Business Administration from Radford University, Virginia, USA with a Major in Marketing and Economics.
Ben Harrop **Head of Distribution** Bachelor of Economics, Graduate Diploma in Applied Finance, Diploma of Financial Planning, Postgraduate Certificate in Management, Diploma from the Australian Institute of Company Directors	Ben has spent 25 years in wealth management in various senior leadership positions. Ben brings broad market experience across the full advice and product spectrum. Prior to joining the Centuria Group, Ben worked at ANZ Wealth as Head of Strategic Accounts Management and managed the distribution and research of investment, platform, private client and insurance solutions at firms such as AMP Capital, Zurich, Bankers Trust and Macquarie Bank. Ben commenced his career working in his family insurance broking business. Ben is a Senior Associate with FINSIA (the Financial Services Institute of Australasia), and an active member of industry associations having been a judge for the AFA Rising Star of the year award.
Victor Georos **Head of Portfolio & Asset Management** BA (Land Economy), Graduate Dip. (Finance & Investment) (FINSIA)	Victor joined Centuria as Senior Portfolio Manager in April 2013 and was appointed Head of Portfolio and Asset Management in July 2015. He is responsible for overseeing portfolio and asset management of Centuria's portfolio, including the development and implementation of strategies to enhance value through active asset management and development. Victor has extensive experience in asset and investment management, development and funds management, across the office, retail and industrial sectors, with a key focus on results and ability to build high performance teams across all sectors. Prior to joining Centuria, Victor held senior positions with GPT Group and Lend Lease, including Head of Industrial & Business Parks at GPT.

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 all but one of the ASIC guidelines. The guideline that it does not adhere to involves the payment of distributions from cash from operations and the Manager intends to pay a small portion of distributions from capital as a result of the impact of an adjustment for outstanding tenant incentives.

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

The Manager has advised that, since 1999, Centuria Capital Limited has completed 42 funds at a weighted average total return of 20.1% and an average total return of 15.6%.

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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