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Listed Property

Centuria Office REIT (ASX Code: COF)

18 August 2020

FY20 Results: A good yield

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Contents

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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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18 August 2020

Centuria Office REIT (COF)

FY20 Results: A good yield

Accumulate

See the end of this document for a description of Core Property's ratings. The rating must be viewed in the context of comparable A-REITs and not across all products.

Forecast Distribution:	8.6%
Forecast 12 Month Capital Return:	35.6%
Total Expected Return:	**44.1%**

Company Data

ASX Code:	COF
Price:	$1.91
Market Capitalisation:	$983M
Securities on Issue:	514.5M
52 Week Range:	$1.375-$3.30

- *FY20 Results delivered FFO of 18.6cpu, slightly below pre-COVID-19 guidance of 19.0cpu.*
- *Rent collection rate of 92% through April-June 2020 as a result of COVID-19. Earnings impacted by -$3.2M.*
- *FY20 distributions of 17.8cpu, management guidance for FY21 of 16.5cpu (or -7.3%).*
- *Management did not provide any earnings guidance for FY21 due to COVID-19 uncertainty.*
- *Metropolitan office portfolio expected to remain resilient through COVID-19. Attractive FY21 yield of ~8.6%. Accumulate.*

COF's delivered a sound FY20 result with Funds From Operations (FFO) of 18.6 cpu, just 2.1% below the pre-COVID-19 guidance of 19.0 cpu. Rent collections were 92% during the April-June 2020 period of COVID-19, with an earnings impact of -$3.2M (or -0.7 cpu).

The portfolio remains robust, providing: 1) 23 properties valued at $2.1B, including $636M of acquisitions during FY20, 2) 98.1% occupancy (down slightly from 98.4% at FY19), and 3) a WALE of 4.7 years (3.9 years at FY19). COF's portfolio provides a strong tenants profile with 79% ASX listed/government/multinational tenants, 8% national tenants and 13% other tenants. Portfolio valuations declined marginally by -0.5% in the second half period.

Guidance for FY21 is for distributions for 16.5 cpu. Whilst no guidance was provided for earnings due to the uncertainty of COVID-19, we expect FY21 to remain strong with earnings benefitting from the full year inclusion of acquisitions as well as a one-off surrender payment for the Foxtel lease at Robina, QLD. We have also factored in an additional impact from COVID-19 and expect FFO per unit to be around 18.5cpu in FY21, representing a -0.7% movement.

At current price levels of $1.91, COF is trading on an attractive yield of 8.6%. In the short term we expect COF will trade at a discount to our DCF valuation of $2.56 whilst COVID-19 uncertainty prevails, providing opportunities for investors to **Accumulate.**

Share price performance

Source: IRESS

Year Ended 30 June	FY20A	FY21F	FY22F	FY23F
NPAT - Reported - $M	23.1	95.0	90.9	92.5
NPAT – FFO basis - $M	85.4	95.0	90.9	92.5
Price/Earnings Ratio	11.5	10.3	10.8	10.6
FFO per unit - cents	18.6	18.5	17.7	18.0
FFO per unit - Growth	-0.5%	-0.7%	-4.3%	1.7%
DPU - cents	17.8	16.5	17.0	17.5
Distribution Yield	9.3%	8.6%	8.9%	9.2%
NTA per unit	$2.49	$2.58	$2.60	$2.64
Gearing	34.3%	34.0%	34.1%	33.9%

Source: Core Property estimates
Note: Gearing = (net debt – cash) / (net debt – cash + net assets)

Key Metrics

Strategy

Acquire quality metropolitan Australian office assets delivering sustainable and quality income streams. Maintain a disciplined and diversified capital structure with gearing between 25 - 35%.

- Focus on maintaining occupancy and extending portfolio WALE
- Execute initiatives to generate income and value uplift through active asset management

Board & Management

Board of the RE consists of independent Chairman (Peter Done) plus three independent directors with extensive property and financial services experience (Nicholas Collishaw, Matthew Hardy, Darren Collins).

Senior Management includes Jason Huljich (Joint CEO), Ross Lees (Head of Funds Management) and Grant Nichols (Fund Manager).

Portfolio

Metric	June 20
No of Properties	23
Valuation	$2,053M
Portfolio Capitalisation Rate	5.93%
Locations	Australia
Sector	Office
Occupancy	98.1%
WALE	4.7 years

Key Properties

June 20	% Portfolio
2 Phillip Law Street, Canberra	12.3%
818 Bourke Street, Docklands	10.9%
8 Central Avenue, Eveleigh	9.2%
235 William Street, Northbridge	9.2%
825 Ann Street, Fortitude Valley	7.9%
Top 5	**49.5%**

Key Tenants (by income)

June 20	% Portfolio
Federal Govt	13.6%
WA State Govt	4.6%
Infosys Technologies	4.5%
Laing O'Rourke	3.7%
Foxtel	3.1%
Top 5	**29.5%**

Geography

June 20	% Portfolio
NSW	25.8%
Queensland	24.0%
Victoria	17.2%
ACT	16.4%
WA	14.0%
SA	2.6%
Total	**100%**

Debt	June 2020
Gearing	34.5%
Target Gearing	25-35%
Drawn Debt	$749M
Facility limit	$880M
Weighted Average Cost of Debt	2.2%
Weighted Average Debt Maturity	3.3 years
% Hedged	75.4%
LVR	36.4%
LVR Covenant	50%
ICR	6.3x
ICR Covenant	2.0x

Expenses	June 2020
RE Fee	0.51% of AUM
Direct Property Expenses	21.2% of gross income
Management & Other Expenses	1.3% of gross income

Historical	FY18	FY19	FY20
EPU – FFO per Unit	19.4	18.7	18.6
DPU – Distributions per Unit	18.1	17.6	17.8
Payout Ratio	93.3%	94.2%	95.8%
Distribution Frequency	Qtrly	Qtrly	Qtrly
NTA per Unit	$2.49	$2.49	$2.49

Summary

COF reported its full year results for the 12 months to 30 June 2020 (FY20) on 5 August 2020. Funds From Operations (FFO) of 18.6 cpu was 2.1% below the pre-COVID-19 guidance of 19.0 cpu. A key feature of the result was COF's performance during the COVID-19 period of April – June 2020 with a reported 92% rent collection rate. This translated to $3.2M in provisions being booked, or a -0.7 cpu impact in earnings which, if not for COVID-19, would have seen COF outperform with an FFO per unit of 19.3cpu. The collection rate provides a reflection of the strong tenant profile for COF with 79% ASX listed/government/multinational tenants, 8% national tenants and 13% other tenants. With a focus on metropolitan office markets, this places COF in a strong position to benefit from any shifts in workplace demands as a result of COVID-19.

The portfolio remains robust, providing: 1) 23 properties valued at $2.1B, including $636M of acquisitions during FY20, 2) 98.1% occupancy (down slightly from 98.4% at FY19), and 3) a WALE of 4.7 years (3.9 years at FY19).

Guidance for FY21 is for distributions for 16.5 cpu. Whilst no guidance was provided for earnings due to the uncertainty of COVID-19, Core Property expects FY21 earnings to benefit from the full year inclusion of acquisitions as well as a one-off benefit from a surrender payment by Foxtel to exit its lease at Robina, QLD. We are forecasting FFO per unit to reduce marginally to 18.5cpu in FY21 (from 18.6cpu), based on the current portfolio. At current price levels, COF is trading on an attractive 8.6% yield, due to uncertainty from the COVID-19 environment as well as leasing risk. As these risks are addressed, we expect COF to trade closer to our valuation of $2.56 per unit over time.

FY20 Results

FY20 results	FY20	FY19	Change
Earnings			
Statutory Net Profit after tax[1]	**$23.1M**	$53.6M	-57.0%
Funds From Operations (FFO)	**$85.4M**	$61.2M	+39.5%
FFO per unit	**18.6 cpu**	18.7 cpu	-0.5%
Distributions	**$84.5M**	$57.6M	+46.7%
Distribution per unit	**17.8 cpu**	17.6 cpu	+1.1%
Payout ratio (% of FFO)	**95.8%**	94.2%	+1.6%
Movement over 12 months	**As at Jun 2020**	**As at Jun 2019**	**Change**
Balance Sheet			
NTA per unit	**$2.49**	**$2.49**	No Change
Gearing	**34.5%**	**34.2%**	+0.3%
Weighted average cost of debt[2]	**2.2%**	**3.2%**	-1.0%
Weighted average debt maturity	**3.3 years**	**4.0 years**	-0.7 years
Borrowings	**$749.0M**	**$498.5M**	+50.3%
Portfolio			
Portfolio Value	**$2,053.3M**	**$1,400.0M**	+46.7%
Occupancy rate	**98.1%**	**98.4%**	-0.3%
Number of assets	**23**	**20**	+3 assets
Weighted Average Capitalisation Rate	**5.93%**	**6.22%**	-29bps
WALE (Weighted Average Lease Expiry)	**4.7 years**	**3.9 years**	+0.8 years

Note 1: Statutory Net Profit after Tax includes non-cash items which distorts operating income. Note 2: Including weighted average swap rate, facility establishment fees and all-in margins (base & line fees). Source: COF

Key Points

- **COVID-19 Impact:** COF's property and tenant portfolio has remained resilient to the COVID-19 pandemic. Around 79% of COF's tenancy mix (by income) is composed of listed/government/multinational tenants, with a further 8% national tenants and 13% non-national tenants. Around 92% of rent was collected during the final quarter April-June 2020, with management noting that the balance was from a number of smaller tenancies including retailers, cafes etc. that were located in the office buildings. The FY20 results included $3.2M in provisions for COVID-19, equating to a reduction in earnings of 0.7 cpu. The provisions included $1.5M of rent waivers, $1.0M of rent deferrals and $0.7M of additional costs such as cleaning.
- **Funds From Operations (FFO)** increased by 39.5% for the year, driven by additional earnings from acquired properties. During the period, COF acquired three additional properties for $636.5M. COF also negotiated leases on 32,378 sqm of space, or 10.6% of the portfolio. FFO per unit was down marginally to 18.6 cpu (from 18.7 cpu in FY19), and below COF's pre-COVID guidance of 19.0 cpu. We note that COF would have delivered an FFO of 19.3cpu, before the 0.7 cpu impact of COVID-19.
- **Distributions** of 17.8 cpu for FY20, increased by 1.1% over FY19. COF delivered on original guidance for 17.8 cpu distributions, despite the impact of COVID-19 on earnings. In doing do, the payout ratio increased to 95.8% (from 94.2% in FY19).
- **The Property Portfolio metrics** were maintained during the year:
    - **Occupancy levels** decreased to 98.1% (from 99.2% at December 2019 and 98.4% at June 2019).
    - **WALE** increased to 4.7 years (from 3.9 years at June 2019). COF highlighted their healthy lease expiry profile with 22.0% of expiries due in FY21 and FY22, and 78.0% of lease expiries occurring at or beyond FY23.
    - **Portfolio value** increased to $2,053.3M (up 46.7% from $1,400.0M at June 2019) due to:
        - The acquisition of three office buildings for $636.5M including William Square, Northbridge WA for $189.5M, Nishi in Canberra ACT for $256.0M and a 50% interest in 8 Central Avenue, South Eveleigh NSW for $191.0M. The assets were acquired on a combined 5.6% average yield, with 100% occupancy and a WALE of 8.0 years.
        - Valuation gains of $23.3M on a like-for-like basis with gains largely attributable to the NSW and WA portfolios – most notably the leasing activity on 144 Stirling Street, Perth, which saw the WA Government become the portfolio's second largest tenant.
    - **The portfolio weighted average capitalisation rate** of 5.93% reduced by 29bps since June 2019. Average portfolio capitalisation rates reduced by 30bps in the first half and increased by 1bps in the second half, through COVID-19, with adjustments made to valuations to take into account rent waivers provided. COF's portfolio remains heavily weighted to the eastern seaboard of Australia, with 26% of assets in NSW, 16% in ACT, 24% in QLD and 17% in VIC.
- **Gearing increased** marginally to 34.5% (from 34.2% at June 2019), which management have expressed is a comfortable level. Drawn borrowings increased 50.3% to $749.0M (from $498.5M in FY19) as a result of the acquisitions, with five new tranches established. This saw COF's weighted average debt expiry decrease to 3.3 years (4.0 years in FY19) with the all-in cost of debt reduced to 2.2% (from 3.2% in FY19).
- **NTA** remained flat at $2.49 per unit for the year.
- **Outlook:** Going forward, COF have underlined the leasing of upcoming expiries, notably 818 Bourke Street, Docklands, and 35 Robina Town Centre Drive, Robina, as key priorities. Despite ongoing COVID-19 complications, COF appears well-positioned to maintain a high level of rent collections, benefitting from the strength of its tenancy portfolio, diversification across markets and focus on metropolitan assets over CBD. The portfolio has a relatively low concentration of SME tenants, with assets that appear to be well placed to benefit from any potential shifts in demand out of the CBD locations and into metropolitan workings hubs as a result of COVID-19.

- **FY21 Guidance:**
  - No guidance was provided on FFO earnings, given the ongoing impact of COVID-19 on business operating conditions.
  - Management provided FY21 distribution guidance of 16.5 cpu (a decline of 7.3% on the 17.8cpu delivered in FY20).

Core Property considers the distribution guidance provides a resetting yield for COF in the current COVID-19 environment. We consider the distribution to be well supported, and we note that: 1) this represents an 89% payout ratio, based on FY20 earnings. To put this another way, FY21 earnings can fall by a further 11% and COF will still be able to meet target FY21 distributions of 16.5 cpu, and 2) We estimate COF will benefit by around +1.8 cpu in earnings in FY21 from the receipt of a surrender payment on the Foxtel lease at the Robina, QLD property. Foxtel is looking to pay out the remaining 3.2 years on the lease and vacate the site by 31 August 2020.

Financial Forecasts & Valuation

We have updated our financial forecasts to take into account the FY20 results, including the current portfolio and securities on issue.

- **FY21 earnings** have been adjusted to include: 1) the full year contribution of acquisitions made in FY20, 2) we have assumed a -$2.0M impact from rental waivers in FY21 (compared to the $1.5M provided in FY20), 3) we have assumed a -$1.0M impact from extra cleaning costs as a result of COVID-19 ($0.7M was spent in FY20), and 4) we estimate an additional +$9.0M in one-off income as a result of the surrender of the Foxtel lease at Robina, QLD.
- **FY22 earnings** have been reduced by $3.2M to take into account the gap in rent as a result of the exit of Foxtel at Robina, QLD. The calculation assumes $4.0M in rent from Foxtel is offset by $0.8M of new leases made directly with sub-tenants.
- **FY23 earnings** have been reduced by $3.3M to take into account the gap in rent as a result of the exit of Foxtel at Robina, QLD. The calculation assumes $4.1M in rent from Foxtel is offset by $0.8M of new leases made directly with sub-tenants.

We value COF on a Discount Cashflow (DCF) basis at $2.56 per unit, with a 12 month roll forward valuation of $2.59 per unit.

Figure 2: Earnings Forecast – Core Property

Financial Forecasts - $M	FY20A	FY21F	FY22F	FY23F
Property Revenue	**149.2**	168.6	158.6	160.9
Property Expenses	**-31.6**	-35.4	-33.3	-33.8
RE Fees	**-10.4**	-13.0	-13.0	-13.1
Finance Costs	**-16.8**	-19.4	-19.4	-19.4
Other Expenses	**-5.2**	-5.9	-2.1	-2.1
Funds from Operations	**85.3**	**94.9**	**90.9**	**92.5**
Earnings per Unit	**18.6**	**18.5**	**17.7**	**18.0**
Payout Ratio	**95.8%**	89.4%	96.2%	97.4%
Distributions per Unit	**17.8**	**16.5**	**17.0**	**17.5**
Guidance – Distn per unit		**16.5**		

Source: Core Property forecasts

Portfolio Metrics

The following table is a summary of COF's portfolio as at June 2020.

COF Property Portfolio – as at 30 June 2020

Property	Valuation $M		Capitalisation Rate %		Occupancy %		WALE (years)	
	Jun20	Dec19	Jun20	Dec19	Jun20	Dec19	Jun20	Dec19
8 Central Avenue, Eveleigh, NSW (50%)	$189.0M	$191.0M	5.38%	5.38%	100.0%	100.0%	8.2	8.3
201 Pacific Highway, St Leonards, NSW (50%)	$106.5M	$107.5M	5.63%	5.63%	99.6%	99.5%	3.7	4.1
9 Help St, Chatswood, NSW	$86.0M	$86.5M	5.75%	5.75%	95.2%	100.0%	2.3	2.5
203 Pacific Highway, St Leonards, NSW (50%)	$69.5M	$69.5M	5.88%	5.88%	100.0%	99.6%	4.7	6.7
465 Victoria Ave, Chatswood, NSW (25%)	$41.9M	$41.8M	5.75%	5.75%	99.8%	100.0%	3.7	4.0
77 Market St, Wollongong, NSW	$35.5M	$36.3M	7.25%	7.25%	100.0%	100.0%	5.0	5.5
2 Phillip Law Street, Canberra, ACT	$253.0M	$255.3M	5.13%	5.13%	99.5%	99.5%	7.5	7.9
60 Marcus Clarke, Canberra, ACT	$62.3M	$62.3M	7.00%	7.00%	87.5%	86.2%	2.4	2.0
54 Marcus Clarke, Canberra, ACT	$20.9M	$21.5M	7.50%	7.50%	93.8%	100.0%	3.3	3.5
825 Ann St, Fortitude Valley, QLD	$163.0M	$165.0M	6.00%	6.00%	97.1%	100.0%	3.3	3.7
154 Melbourne St, South Brisbane, QLD	$88.0M	$88.0M	6.00%	6.00%	100.0%	100.0%	3.0	3.5
100 Brookes St, Fortitude Valley, QLD	$78.5M	$80.1M	6.25%	6.25%	80.9%	100.0%	3.7	3.2
483 Kingsford Smith Drive, Hamilton, QLD	$77.5M	$78.5M	6.25%	6.25%	96.2%	96.2%	5.1	5.4
35 Robina Town Centre Drive, Hamilton, QLD	$52.0M	$53.0M	7.25%	7.25%	100.0%	100.0%	0.8	3.8
555 Coronation Drive, Toowong, QLD	$34.5M	$33.5M	7.00%	7.00%	100.0%	95.9%	5.3	5.6
818 Bourke St, Docklands, VIC	$223.0M	$225.5M	5.13%	5.25%	99.2%	100.0%	2.3	2.7
576 Swan St, Richmond, VIC	$66.5M	$68.0M	5.50%	5.50%	100.0%	100.0%	2.0	2.2
2 Kendall St, Williams Landing, VIC	$64.5M	$66.3M	6.00%	5.88%	100.0%	100.0%	8.4	8.9
235 William Street, Northbridge, WA	$188.0M	$179.2M	6.50%	6.50%	98.9%	99.7%	7.0	7.5
144 Stirling St, Perth, WA	$65.0M	$64.0M	6.25%	6.25%	100.0%	100.0%	8.5	9.0
42-46 Colin St, West Perth, WA	$35.0M	$35.3M	7.25%	7.25%	100.0%	100.0%	2.8	3.3
1 Richmond Rd, Keswick, SA	$36.0M	$36.8M	7.25%	7.25%	100.0%	100.0%	3.0	3.5
131-139 Grenfell St, Adelaide, SA	$17.3M	$17.3M	7.75%	7.75%	100.0%	100.0%	1.4	1.8
Total Portfolio	**$2,053.3**	**$2,063.4**	**5.93%**	**5.92%**	**98.1%**	**99.2%**	**4.7**	**5.1**

Source: COF

Appendix: Financial Summary

Profit & Loss	FY20A	FY21F	FY22F	FY23F
Operating Revenue	149.2	168.6	158.6	160.9
Property Expenses	-31.6	-35.4	-33.3	-33.8
Net Property Income	**117.7**	**133.2**	**125.3**	**127.1**
Other Income & Expenses	-5.2	-5.9	-2.1	-2.1
RE Fees	-10.4	-13.0	-12.9	-13.1
EBITDA	**102.0**	**114.3**	**110.3**	**111.9**
Depn & Amort	0.0	0.0	0.0	0.0
EBIT	**102.0**	**114.3**	**110.3**	**111.9**
Net Interest	-16.7	-19.4	-19.4	-19.4
Pre Tax Profit	**85.4**	**95.0**	**90.9**	**92.5**
Tax	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0
NPAT - FFO	**85.4**	**95.0**	**90.9**	**92.5**
Non Recurring Items	-62.3	0.0	0.0	0.0
NPAT - Statutory	**23.1**	**95.0**	**90.9**	**92.5**

Summary	FY20A	FY21F	FY22F	FY23F
NPAT - FFO	85.4	95.0	90.9	92.5
Price Earnings Multiple	11.5	10.3	10.8	10.6
Revenue Growth	40.4%	12.9%	-5.9%	1.4%
EBIT Growth	41.5%	12.1%	-3.5%	1.4%
Value of Properties	2,085.7	2,107.3	2,122.1	2,150.6
Net Assets	1,283.0	1,326.1	1,336.5	1,358.9
NTA per Unit	$2.49	$2.58	$2.60	$2.64
Prem(Disc) to NTA per unit	-23.4%	-25.9%	-26.5%	-27.7%
DPU	17.8	16.5	17.0	17.5
Payout Ratio	95.8%	89.4%	96.2%	97.3%
DPU Growth		-7.3%	3.0%	2.9%
Yield	9.3%	8.6%	8.9%	9.2%

Cashflow	FY20A	FY21F	FY22F	FY23F
Operating Activities	99.3	133.2	125.3	127.1
Net Interest	-14.5	-19.4	-19.4	-19.4
Tax Paid	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Operating Cashflow	**84.8**	**113.8**	**105.9**	**107.7**
Capex	0.0	-15.6	-15.6	-15.6
Maintainable Operating CF	**84.8**	**98.2**	**90.3**	**92.1**
Distributions	-77.1	-88.2	-86.2	-88.8
Acquisitions	-689.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Free Cashflow	**-681.3**	**10.0**	**4.1**	**3.3**
Change in Debt	242.8	5.2	9.5	12.6
Change in Equity	449.8	0.0	0.0	0.0
Net Cashflow	11.3	15.2	13.6	16.0

Key Ratios	FY20A	FY21F	FY22F	FY23F
EPU (adj)	18.6	18.5	17.7	18.0
EPU - Reported	5.0	18.5	17.7	18.0
EPU (adj) - Growth		-0.7%	-4.3%	1.7%
LVR	35.8%	35.4%	35.2%	34.7%
Gearing	34.3%	34.0%	34.1%	33.9%
Net interest Cover	6.1	5.9	5.7	5.8
Distn / Maintainable CF	91.0%	89.9%	95.5%	96.4%
ROE	6.5%	6.9%	6.7%	6.7%

Balance Sheet	FY20A	FY21F	FY22F	FY23F
Cash	28.8	27.3	22.0	16.1
Debtors	3.3	3.2	3.1	3.1
Investments	0.0	0.0	0.0	0.0
Other Assets	2,087.2	2,108.8	2,123.6	2,152.1
Total Assets	**2,119.3**	**2,139.4**	**2,148.7**	**2,171.4**
Creditors	22.3	22.1	21.0	21.3
Borrowings	746.4	746.4	746.4	746.4
Provisions	0.0	0.0	0.0	0.0
Other Liabilities	67.7	44.8	44.8	44.8
Total Liabilities	**836.3**	**813.3**	**812.2**	**812.5**
Net Assets	**1,283.0**	**1,326.1**	**1,336.5**	**1,358.9**

Valuation		
Discount Rate	9.0%	
Terminal Growth Rate	2.5%	
DCF Valuation per Share	$2.56	
12 Month Target Price	**$2.59**	DCF rolled forward 12 mths
12 month Dividend Yield	8.6%	
12 month Target Price	35.6%	
Total Est. 12 mth return	**44.1%**	

Source: Core Property forecasts
Note: Gearing = (net debt – cash) / (net debt – cash + net assets)

Ratings Process for A- REITs

Core Property Research evaluates recommendations on listed A-REITs continuously, based on a range of qualitative and quantitative criteria ranging from management, appropriateness of the A-REIT's capital structure and the property portfolio metrics. From a quantitative perspective, Core Property's recommendations are based on Total Expected Returns (forecast distribution yield plus forecast capital gain or loss) for a 12-month time horizon, using a range of valuation methodologies. The two most commonly used valuation techniques are Discounted Cash Flow (DCF), which uses an A-REI's expected free cash flow, and the net Asset Valuation (NAV) approach.

The 12-month Total Return is compared with set total return bands and assigned a 12-month recommendation based on the Recommendation Definitions below.

Recommendation Definitions

Recommendation	Definition
Buy	If the 12-month Total Expected Return is forecast to be 15% or more.
Accumulate	If the 12-month Total Expected Return is forecast to be at least 10% and less than 15%.
Hold	If the 12-month Total Expected Return is forecast to be at least 5% and less than 10%.
Reduce	If the 12-month Total Expected Return is forecast to be at least 0% and less than 5%.
Sell	If the 12-month Total Expected Return is forecast to be less than 0%.

At times of extreme volatility, it is quite possible that the recommendations will swing between each of our bands. During such times, Core Property will adopt a more flexible approach to recommending stocks, based on a slightly longer duration, and as such, recommendations may appear to be inconsistent when compared with the bands. This is to avoid clouding value judgments with short-termism.

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