Core Property
Fund Research & Ratings
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Unlisted Property Fund Report

Centuria 80 Grenfell Street Fund

June 2018

A-grade office in the heart of Adelaide SA with bank tenant, targeting 7.0%+ distributions

Centuria 80 Grenfell 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 Grenfell Street Fund

June 2018

The Centuria 80 Grenfell Street Fund ("the Fund") is a single asset, unlisted property fund with an initial term of five years to August 2023. The Fund's Responsible Entity, Centuria Property Funds Limited (RE or "the Manager") is seeking to raise $57.1M through the offer of 57.1M units at $1.00 per unit ("the Offer"). The funds will be used in conjunction with bank debt to acquire a 50% interest in 80 Grenfell Street, Adelaide SA ("the Property"). The Fund provides an opportunity to co-invest with the Lederer Group (managed by successful businessman and investor Paul Lederer) who will own the remaining 50%. A Securityholder Agreement will be in place to establish equal rights to the Fund and the Lederer Group.

The Property will be acquired for $184.6M with the Fund owning a 50% interest. Constructed in 2013 the Property consists of premier A-grade office building located above Rundle Place, a retail centre located in Rundle Mall, the leading retail precinct of the Adelaide CBD. Bendigo and Adelaide Bank has a lease across 96% of the Property with the vendor providing a rental guarantee on the 4% of vacant area for 18 months, with the Manager expected to fit out the vacant space and launch a leasing campaign shortly after settlement of the transaction. The Weighted Average Lease Expiry (WALE) is 7.3 years (by income, as at 1 August 2018).

The current lease with Bendigo and Adelaide Bank expires in November 2025, being 2 years after the initial term of the Fund, with 4x5 year options to renew. The Property has a 5.0-star NABERS energy efficiency rating and is one of only two buildings in Adelaide with floorplates over 2,000 sqm. The lease has rental increases of 3.75% p.a. providing upside support to property valuations. The Property is acquired at a premium to recent transactions, which reflects the quality of the asset and strong tenancy. Gross rent is above market rates at $649 per sqm (market $530-$570 per sqm), however rental reversion is partially offset by new developments already pre-committed at ~$650 per sqm.

The Fund will have an initial three-year debt facility with an all-in cost of debt of 3.06% p.a. which will need to be extended or replaced during the term of the Fund. The initial Loan to Valuation Ratio (LVR) of 45.0% is well below the bank LVR covenant of 57.5% and the initial Interest Cover Ratio (ICR) of 4.2x is well above the bank ICR covenant of 2.0x. The Fund will need to renew or extend its debt facility beyond August 2021 to cover the full term of the Fund.

The Manager is forecasting the Fund to deliver a 7.0% p.a. (annualised) distribution yield in FY19 increasing to 7.2% p.a. in FY20. Core Property estimates that distributions can increase to ~ 7.75% over the five-year term, based on the Manager's assumptions for rental income.

Based on the Manager's forecasts, Core Property estimates the Fund to deliver an Internal Rate of return (IRR) of between 6.1% - 10.9% (midpoint 8.5%) over the initial five-year term. The analysis includes the potential that investors may receive a capital gain or loss, based on market conditions. Fees paid by the Fund are consistent with what Core Property has seen in the market, however the Performance Fee hurdle is lower than historical rates with the Manager receiving 20% of the outperformance above an 8% IRR hurdle rate.

Investor Suitability

Core Property considers the Fund will appeal to investors seeking an attractive distribution supported by a secure tenant on a long-term lease. Capital gains will be dependent on the retention of the tenant to support the Property's value as well as the performance of the Adelaide office market, which is expected to benefit from an increase in investment and development currently underway.

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:	4 June 2018
Offer Close:	6 July 2018[1]
Min. Investment:	$50,000
Initial NTA:	$0.93
Liquidity:	Illiquid
FY19 Forecast Distributions:	7.0 cpu
FY20 Forecast Distributions:	7.2 cpu
Distribution Frequency:	Monthly
Fund Investment Period:	5 years[2]

1. Indicative close date. The Manager may shorten or extend the Offer period.
2. Initial term is five years. The Fund may be extended by up to two years at a time, where certain conditions are met (see "Liquidity/exit strategy" section).

Fund Contact Details

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Jason.Huljich@centuria.com.au
(02) 8923 8923

Note: This report is based on the Centuria 80 Grenfell Street Property Fund Product Disclosure Statement dated 4 June 2018, together with other information provided by Centuria.

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Key Considerations

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

Fund Term: The Fund will have an initial term of five years, which may be extended by an additional two years by an Ordinary Resolution (more than 50% of votes cast are in favour of the extension). Additionally, the Fund can be extended beyond seven years for up to two years where a Unanimous Resolution is passed (see section on "Liquidity/exit strategy").

Fund Structure: The Fund will purchase a 50% interest in the Grenfell Street Office Trust ("the Holding Trust") which owns the Property. The remaining 50% will be owned by the Lederer Group, owned by wealthy businessman and investor Paul Lederer. A Securityholder Agreement is in place to provide equal rights between the Fund and the Lederer Group to ensure alignment of interests.

Property: 80 Grenfell Street, Adelaide SA primarily consists of 23,440 sqm of NLA over 11 levels of A-grade office space (on freehold title) located above Rundle Place, with associated car parking/bike spaces (on a 99-year leasehold). Located in Rundle Mall, the leading retail precinct in the Adelaide CBD, the Property was constructed in 2013, has a WALE of 7.3 years and is 96% occupied by Bendigo and Adelaide Bank under a 12-year lease expiring in November 2025, with 4x5 year options to renew and annual rent increases of 3.75% p.a. The Property will be acquired for $184.6M with the Fund holding a 50% interest. The acquisition price is $7,875 per sqm, above market rates of $5,250 - $7,350 per sqm, reflecting the quality of the asset, long lease and strong tenant. Gross rental of $649 per sqm is above the market range $530 - $570 per sqm, however reversionary risk is partially offset by new developments pre-committed at ~$650 per sqm (GPO Tower under development at 2-10 Franklin St).

Single Asset Fund: The total return to unitholders is dependent on the performance of a single asset located in the Adelaide CBD, as well as the market conditions at the time.

Debt Profile: The Fund will have a three-year debt facility with Westpac for $42.2M with an initial drawn down of $41.5M to fund the acquisition of its 50% interest in the Property. The initial Loan to Valuation Ratio (LVR) of 45.0%, provides a buffer to the LVR bank covenant of 57.5%. The initial Interest Coverage Ratio (ICR) of 4.2x is above the ICR covenant of 2.0x. The Fund will need to renew or extend its debt facility in August 2021 to cover the initial term of the Fund.

Initial NTA: The initial NTA is estimated at $0.93 per unit, including capitalised interest costs.

Distributions: The Manager is forecasting distributions of 7.0% p.a. (annualised) in FY19, increasing to 7.2% p.a. in FY20. Distributions are expected to increase to 7.75% p.a. in FY23, based on the Manager's assumptions.

Fees: Core Property considers the Fund's fees to be appropriate compared to what has been seen in the market. Performance Fees are 20% over an 8% IRR hurdle, with the hurdle rate below what has historically been used in the market (10%).

Total Return: Core Property estimates the Trust to deliver an Internal Rate of Return (IRR) of 6.1% - 10.9% (midpoint 8.5%) based on the Fund's sensitivities (+/- 50 bps sensitivity to the cost of debt and capitalisation rates, see the Financial Analysis section).

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

Investment Scorecard

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

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Fund Structure

An unlisted property fund investing in a single office asset located at 80 Grenfell Street, Adelaide SA.

Management

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

Property Portfolio

No of Properties:	1
Property Valuation:	$184.6M
Property Location:	Adelaide, SA
Property Sector:	Commercial - Office
Key Tenants:	Bendigo and Adelaide Bank
Occupancy:	100% (including rental guarantee) 96% (excluding rental guarantee)
WALE:	7.3 years

Return Profile

Forecast Distribution:	FY19: 7.0 cents per unit FY20: 7.2 cents per unit
Distribution Frequency:	Monthly
Tax advantage:	FY19: 80% tax deferred (est.) FY20: 70% tax deferred (est.)
Estimated Levered IRR (pre-tax, net of fees):	6.1% - 10.9% (midpoint 8.5%)
Investment Period:	Five years to August 2023 (Initial Term)

Risk Profile

Property/Market Risk:	Capital at risk will depend on a single asset property in Adelaide, SA. Investors will be exposed to a potential capital gain or loss, based on market conditions.
Interest Rate Movements:	Interest rates have been 100% hedged for the first three years of the Fund. Any change in the cost of borrowings may impact the distributable income in the remaining term of the Fund.
Property Specific Risks:	Property investments are exposed to a change in vacancy rates, prevailing market rents, and economic supply and demand.

For a more detailed list of the key risks, refer to the Risks section (Section 10) of the Product Disclosure Statement.

Fees Paid

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

Entry Fees:	Nil
Exit Fees:	Nil
Property Acquisition Fee:	2.0% of gross asset purchase price, multiplied by the Fund's proportionate interest (50%)
Property Disposal Fee:	1.0% of proceeds to the Fund from the sale
Ongoing Management Fees:	1.025% p.a. of the Gross Asset Value (GAV) of the Fund, consisting of: • Management Fees (0.80% p.a. of GAV), • Custody Fees ($15,000 or 0.015% p.a. of GAV, whichever the greater), and • Estimated expenses (0.21% p.a. of GAV).
Performance Fee:	20% of the outperformance of the Fund over an equity IRR of 8.0% (pre-tax, net of fees).

Debt Metrics

Initial Debt / Facility Limit:	$41.5M / $42.2M
Loan Period:	3 years to August 2021
Initial LVR / Loan Covenant:	45.0% / 57.5%
Initial ICR / ICR Covenant:	4.2x / 2.0x

Legal

Offer Document:	Product Disclosure Statement, 4 June 2018
Wrapper:	Unlisted Property Fund
Manager & Responsible Entity:	Centuria Property Funds Limited (AFSL 231149)

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Fund Overview

The Fund is a closed-ended, single asset, unlisted property fund that seeks to provide investors with an attractive distribution yield of 7.0%+ p.a. through an investment in an A-grade office building in Adelaide, South Australia. The Fund is seeking to raise $57.1M in equity through the issue of 57.1M units at $1.00 per unit under ("the Offer"). The minimum investment is $50,000, however, the Manager may accept investments that are less than this amount at its discretion.

The funds will be used, in conjunction with bank debt, to acquire a 50% interest in 80 Grenfell Street, Adelaide SA ("the Property"). The Fund will enter into a co-investment with the Lederer Group, the investment group established by successful businessman and investor Paul Lederer. Both the Fund and the Lederer Group will hold a 50% stake in the Grenfell Street Office Trust ("the Holding Trust") which owns the Property. The Fund has entered into a Securityholder's Agreement with the Lederer Group, to confer equal rights and to set out the rights and obligations of each party and govern decision making.

The Property is expected to settle on 1 August 2018, and the first year of the Fund will run from 1 August 2018 to 30 June 2019.

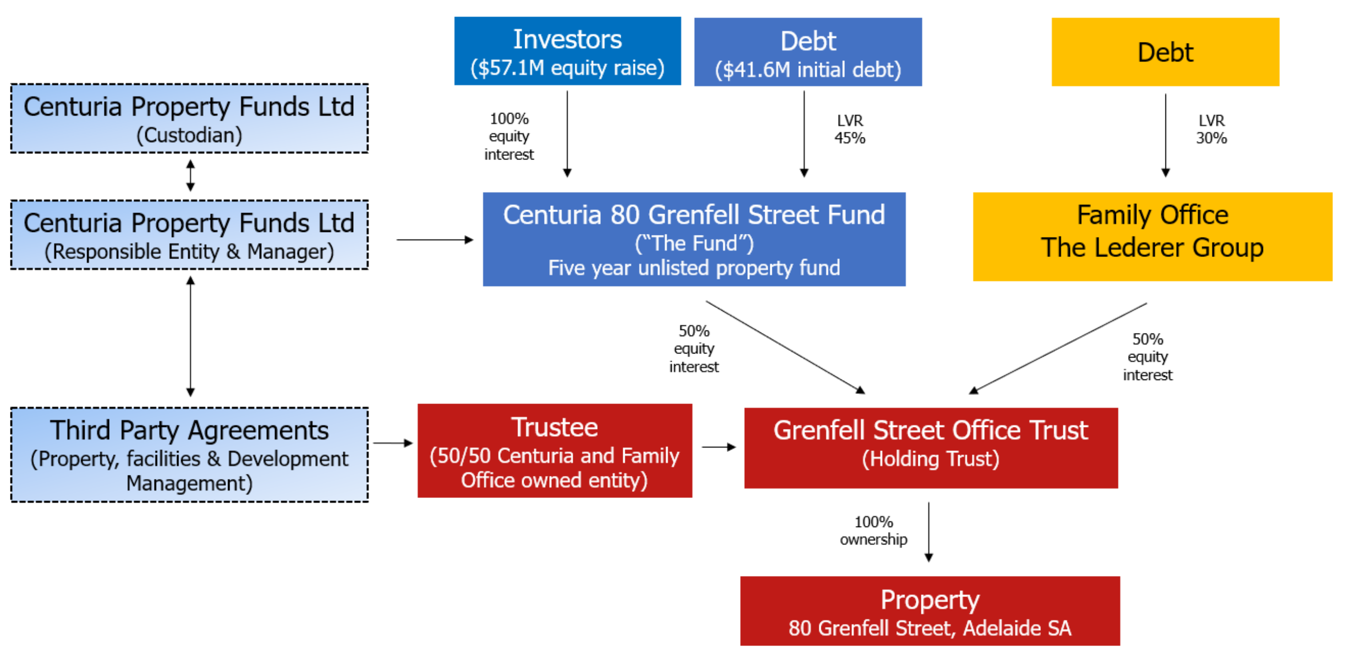
The Property is an A-grade commercial office building located above the Rundle Place retail centre in Rundle Mall, the leading retail precinct in the core Adelaide CBD. Constructed in 2013, the Property is 96% occupied by the Bendigo and Adelaide Bank, with a Weighted Average Lease Expiry (WALE) of 7.3 years (at 1 August 2018) well outside the initial five-year term of the Fund. The current lease includes a 3.75% p.a. rent increase until expiry in November 2025, with 4x5 year options to renew. A rental guarantee for $0.6M has been provided by the vendor to cover rental income for the vacant space over an 18-month period.

The Fund will have an initial investment term of five years, which may be extend by an additional two years by an Ordinary Resolution of investors (50% of votes cast must be in favour of the extension). The Fund may be extended beyond seven years, for up to two years at a time where a Unanimous Resolution is passed (100% of votes cast in favour of the extension) or where a unanimous resolution is not passed by all investors who vote against the resolution are given an opportunity exit at the prevailing Withdrawal Price.

The Manager is targeting a distribution yield of 7.0% (annualised) in FY19, increasing to 7.2% in FY20 with distributions paid on a monthly basis. The Fund does not offer a withdrawal facility however investors will be able to transfer their holdings.

An investment in the Fund should be considered illiquid and investors should be prepared to remain invested for the Fund's initial five-year term to benefit from potential returns.

Figure 1: Fund structure



Source: Centuria, Core Property

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Co-ownership Agreement

The Fund will own a 50% interest in the Holding Trust which owns the Property. The other 50% will be owned by the Lederer Group, a family office associated with successful businessman and investor Paul Lederer. The Lederer Group has a portfolio of investments, including direct properties, and co-invests in other property investments with Centuria Group.

As part of the 50/50 co-ownership in the Holding Trust, the Fund and the Lederer Group will agree to a Securityholder Agreement to set out each parties' rights and obligations. The Manager has advised the Securityholder Agreement confers equal rights to both the Fund and the Lederer Group. This includes restrictions on the sale of the Property during the first five years without the other party's consent as well as first and last rights to purchase the other party's interest.

Core Property considers the Agreement to be appropriate for the structure. However, investors should be aware that by its nature, co-ownership agreements generally require agreement by both parties for material decisions such as the sale of the Property, and this may impact the sale process if first and last rights are exercised.

Further details of the Securityholders Agreement can be found in the Section 4.9 of the PDS.

Debt Facility & Metrics

The Fund has terms for a debt facility for $42.2M with Westpac for 3.0 years with an initial draw down of $41.5M secured by way of a first ranked mortgage over the Property. The Fund has hedged 100% of the loan amount for the three-year loan until August 2021 at an all-in cost of debt of 3.06%. The Manager has assumed an interest rate of 4.63% p.a thereafter, however any movement in interest rates will impact investor returns over the life of the Fund.

The Fund's Loan to Valuation Ratio (LVR) and Interest Cover Ratio (ICR) are forecast to remain within the bank covenants. Based on the Manager's assumptions, the initial LVR of 45.0% is below the bank covenant of 57.5%. Core Property calculates the Property can withstand a 21.7% fall in valuation before it will reach the bank covenant. The initial ICR of 4.2x is well above the bank ICR covenant of 2.0x.

The terms of the loan facility include a provision whereby if the LVR exceeds 55%, the interest rate will increase by an additional 0.1% p.a.

Figure 2: Debt Metrics

Details	Metric
Bank	Westpac
Security	First ranked mortgage secured on the units of the Holding Trust
Debt Facility Limit	$42.2M
Initial Draw Down	$41.5M
Initial Loan Period	3 years
% Hedged	100% hedged for initial 3-year term
All-in cost of Debt 3.0 years	3.06%
Initial LVR / Peak LVR	45.0% / 45.0%
LVR Covenant	57.5%
Initial interest covered ratio / bank covenant	4.2x / 2.0x
Amount by which valuation will have to fall to breach LVR covenant	21.7%
Amount by which income will have to fall to breach ICR covenant	52.3%

Source: Core Property, Centuria

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Sources & Application of funds

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

Core Property notes the following:

- Stamp Duty Costs are relatively low, compared to other property funds, representing the lower stamp duty costs in South Australia.
- Debt & Fund Establishment Costs of $4.5M includes Property Acquisition Fee of $1.8M and upfront debt hedging costs of $1.6M.

Figure 3. Sources and Application of funds

	$M	% of purchase price	% of total funds
Sources of funds			
Equity subscriptions	57.1	62%	58%
Bank Debt	41.5	45%	42%
Total source of funds	**98.6**	**107%**	**100%**
Application			
Purchase price of property	92.3	100%	94%
Stamp duty	1.7	2%	2%
Debt & Fund establishment costs	4.5	5%	4%
Working Capital & Other	0.2	0%	0%
Total application of funds	**98.6**	**107%**	**100%**

Source: Centuria, Core Property

Liquidity / exit strategy

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

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

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

- Investors who voted against the extension are given the opportunity to have their Units sold or redeemed at the prevailing Withdrawal Price via a Liquidity Event. Whether a Liquidity Event is offered is determined by Centuria. If a Liquidity Event is not offered, then the Property will be sold, the Fund will be wound up and the net proceeds returned to Investors. If a Liquidity Event is offered and the Fund is unable to redeem the Units from all the Investors who voted against the Resolution then the Fund will not be extended, the Property will be sold and the Fund will be wound up; and

All Investors are provided with a "Liquidity Event" which may be subject to a scale back on a pro rata basis, in accordance with the Corporations Act.

Fees Charged by the Fund

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

Core Property notes that the Performance Fee on the Fund is calculated at 20% of the Fund's performance above an IRR of 8%. The threshold of 8% p.a. is lower than what Core Property has historically seen in the market (10%).

Figure 4: Summary of Fees charged by the Fund

Fee Type	Fee Charged	Core Property Comment
Entry/Establishment Fee	Nil	
Exit Fee	Nil	
Establishment and Placement Fee (Acquisition Fee)	2.0% of the purchase price of the Property multiplied by the Fund's proportionate interest in the Property.	The Acquisition Fee is at the high end of the industry average of 1.5% - 2.0%.
Sale Fee (Disposal Fee)	1.0% of the proceeds from the sale of the Fund's interest in the Property.	The Disposal Fee is at the low end of the industry average of around 1.0% - 2.0%
Fees & Expenses - Management Fee, Administration Costs & Expenses, Other Indirect Costs	Total Management Fees of around 1.025% p.a. of the Gross Asset Value (GAV) of the Fund, consisting of: • 0.80% p.a. of GAV for Management Fees; plus • 0.015% p.a. of GAV (or $15,000 p.a. whichever the greater) for Custody Fees; and • 0.21% p.a. of GAV for estimated fund expenses.	We consider the Fees to be within the range of what we have typically seen in the industry (0.7% - 1.1% p.a. of GAV).
Performance Fee	20% of the Fund's performance above a per annum IRR of 8% after fees and costs.	Hurdle rate of 8% is lower than the long term industry expectations of 10%.

Source: Centuria, Core Property

All-in fee analysis

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

- Calculations assume a five-year Fund term to August 2023;
- A Performance Fee has been included;
- Core Property assumes there is no change in the forecast portfolio terminal cap rate at the end of the initial term, which effectively assumes no cap rate compression. A lower terminal cap rate would lead to a higher sale price and performance fees may become payable.

Overall, Core Property estimates that the Manager takes 8.1% of the total cash generated by the fund, which leaves investors with $1.42 per unit, or approximately 91.9% of the total. Core Property considers the fees paid to the Manager to be in the middle of the range when compared to similar products, which are typically around 7% - 9%. Core Property stresses that these are estimates of how much investors will receive and not guaranteed amounts. For further details, please refer to the *Financial Analysis* section.

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Figure 5: Fees in Perspective

Core Property estimates that for every $1.00 of equity invested the Fund can return:	Amount per $1.00 unit
Principal repayment to investors:	$1.00
Income and capital gains to investors:	$0.42
Total cash to investors:	**$1.42**
Acquisition fee:	$0.03
Base management fee:	$0.07
Disposal fee:	$0.02
Performance fee:	$0.01
Debt arrangement fees:	$0.00
Fees for the RE (excluding disposal/admin):	**$0.13**
Total cash generated by Fund:	**$1.55**
Fees = % of total cash generated (before fees)	8.1%
Fees= % of gains (before fees)	23.0%
Up-front fee vs total fees	29%

Source: Core Property estimates

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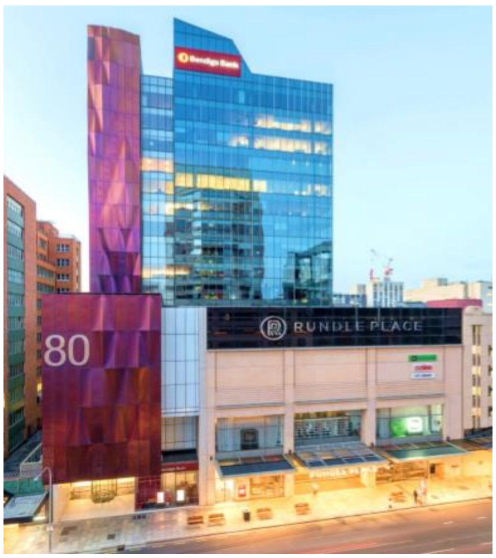
The Property

80 Grenfell St, Adelaide SA is an A-grade, commercial landmark office tower located in Adelaide CBD. The Property was constructed in 2013 and primarily consists of office space situated above Rundle Place, a retail mall situated in the Rundle Mall retail precinct in the core Adelaide CBD. The Property has a net lettable area (NLA) of 23,440 sqm and comprises a ground level entrance foyer and 12 upper levels of office accommodation commencing at level 4. The Property also includes a leasehold interest for 98 car spaces and 151 bike spaces on level 3.

The Property has a relatively long WALE of 7.3 years (by income) as at 1 August 2018, with 96% of the NLA leased to Bendigo and Adelaide Bank (Australia's fifth largest retail bank) and has a five-star NABERS rating. The Property is one of only two buildings in Adelaide with floorplates over 2,000 sqm and the floors benefit from an abundance of natural light.

Figure 6: 80 Grenfell Street Adelaide SA



Source: Centuria

Property Valuations

An independent valuation was conducted by Savills Valuations Pty Ltd, which valued the Property at $184.6M (for the 100% share) as at March 2018. The independent valuation makes several assumptions regarding market rent, tenant incentives, re-letting and other factors based on available market evidence. The main assumptions below have been adopted in the valuation model. The Fund has a policy to undertake an independent valuation once every two years. In practice Centuria may undertake a revaluation of the Property every 12 months.

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Figure 7: Property summary as at: 1 August 2018

80 Grenfell Street, Adelaide SA	
Title	Freehold (office) and leasehold (98 car spaces on a 99-year expiring March 2012 and 150 bike spaces on a 99-year lease expiring May 2110)
Construction Date	2013
Ownership	50%
Net Lettable Area	23,4440 sqm
Major Tenant	Bendigo & Adelaide Bank – 96%
Weighted Average Lease Expiry (WALE)	7.3 years as at 1 August 2018
Occupancy	96%
Initial net passing income	$12.2M p.a. as at March 2018
Net market income (fully leased)	$10.8M p.a. as at March 2018
Purchase price	$184.6M ($92.3M for 50% share)
Valuation (DCF)	$184.6M
Passing initial yield	6.65% as at March 2018
Capitalisation rate	6.30%
Valuer	Savills Valuations Pty Ltd
Discount rate	7.25%
Value/sqm	$7,875 per sqm
Valuer's unleveraged 10-year IRR	7.21%

Source: Centuria, Savills Valuations

Capex

The Property was constructed in 2013 and has relatively low capital expenditure (capex) requirements. The Manager is forecasting around $0.8M in capex over the five-year term. This is above the capex assumptions undertaken by the independent valuation (around $0.6M over five years) and includes incentives to lease the currently vacant space. The capex amounts to 0.8% of the Fund's initial interest in the Property.

The majority of the capex is funded through debt resulting in the LVR increasing slightly to 45.8%, below the bank LVR covenant of 57.5%. Core Property has adopted the Manager's capex assumptions on the basis that they were based on independent technical reports. The inherent assumptions here is that the capital expenditure is likely to improve the value of the building. While this has been the case in recent years, Core Property reminds investors that this may not be the case in adverse market conditions.

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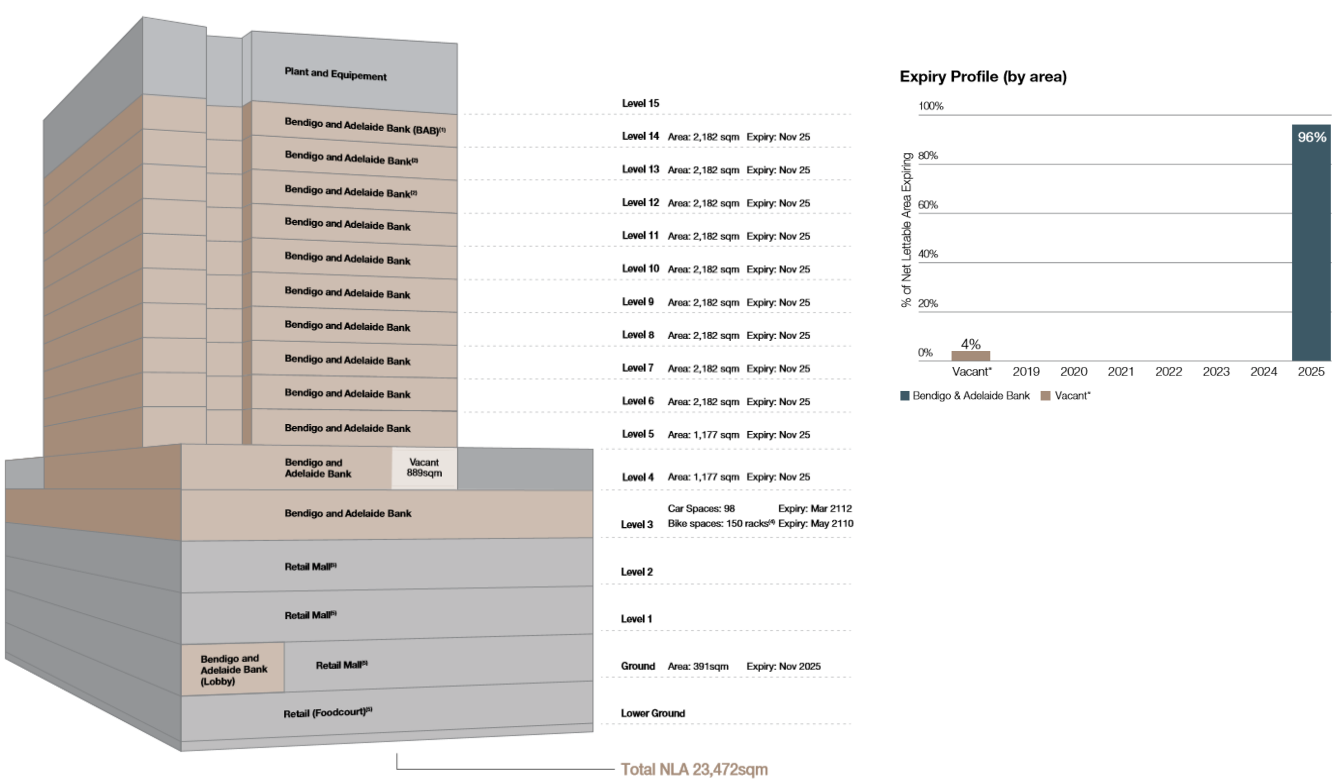
Leases, tenants and income

Key points on the tenancy profile are:

- The Property is currently 96% leased to Bendigo and Adelaide Bank (ASX: BEN), a top 60 ASX listed financial institution that was formed by the merger of Bendigo Bank and Adelaide Bank in 2007. The bank is the fifth largest retail bank in Australia.
- Bendigo and Adelaide Bank currently leases 22,551 sqm across 11 levels. The tenancy is on a 12-year lease term which commenced when the building was completed in 2013 and expiring on 17 November 2025, with 4x5 year options to renew.
- Bendigo and Adelaide Bank currently sublease 5,366 sqm, or 23% of NLA, as follows:
  - Level 12: 1,002 sqm (46% of the floor) is subleased to Elders Limited until November 2025
  - Level 13: 2,182 sqm (the whole floor) is subleased to Elders Limited until November 2025
  - Level 14: 2,182 sqm (the whole floor) is subleased to Australian Health Practitioner Regulation Authority (AHPRA) until November 2025.
- 889 sqm of Level 4 is currently vacant (approximately 4% of NLA) and is subject to a Rental Guarantee by the vendor equivalent to $0.6M over an 18-month period. The Manager intends to refurbish this space and market it for lease soon after settlement of the transaction.
- The Property includes leasehold interests in car parking and bike spaces as follows:
  - Level 3 consists of 98 car spaces and 151 bike spaces which are on a 99-year lease from the vendor, who retain ownership of the retail mall. The leases expire in March 2112 (98 car spaces) and May 2110 (150 bike spaces) and the space is subsequently sub leased to Bendigo and Adelaide Bank to November 2025.
- The Property enjoys an average office rental growth of 3.75% p.a. above the average annual market rental growth of 2.85% p.a.
- The Weighted Average Lease Expiry (WALE) is 7.3 years (by income) as at 1 August 2018.

Figure 8: Lease profile and expiry



Source: Centuria

Market Sales Evidence

The figure below shows the comparable sales transactions for similar sized assets. The comparison shows the Property is acquired at a price of $7,875 per sqm, which is higher than the current market range for premium grade of $5,250 - $7,350 per sqm. Core Property considers the higher price per sqm to reflect a newer, modern office, which is located both in the core CBD and in the heart of the retail precinct of Adelaide. The initial passing yield of 6.65% is within the range of similar sales of 5.3% to 8.3% and the equated market yield of 6.30% reflects the Property being positioned at the upper end of the market.

Figure 9: Recent sales evidence – Adelaide, SA

Property Address	Sale Date	Sale Price	NLA	$ per sqm	Const Date	Initial Passing Yield (%)	Equated Market Yield (%)	IRR	WALE by Income (years)
11 Waymouth St, Adelaide	Mar-18	$202.5M	30,997	$6,533	2007	5.28%	6.57%	7.61%	6.4
45 Pirie St, Adelaide SA	Aug-17	$105.0M	19,855	$5,288	1989	8.30%	8.10%	8.05%	4.6
25 Grenfell St, Adelaide SA	Jan-17	$125.1M	25,221	$4,960	1975	6.26%	7.24%	7.20%	4.9
91 King William St, Adelaide (50% Interest)	Nov-16	$88.5M	31,395	$5,638	1989	6.58%	7.07%	6.93%	3.1
108 North Terrace, Adelaide SA	Sep-16	$86.5M	20,074	$4,309	1999	7.69%	8.65%	8.18%	3.3
100 North Terrace, Adelaide SA	Dec-15	$73.0M	12,305	$5,933	1989	6.83%	6.85%	7.74%	8.1
80 Grenfell St, Adelaide SA	**Aug-18**	**$184.6M**	**23,440**	**$7,875**	**2013**	**6.65%**	**6.30%**	**7.21**	**7.3**
Adelaide CBD Market – Premium Grade				$5,250 - $7,350			6.25% - 7.50%	7.25%-7.75%	

Source: Savills

Market Rental Evidence

The figure below shows recently completed comparable office lease deals in the Adelaide CBD office market.

The office space at the Property is leased on an average $649 per sqm (gross), which is above the current market range of $530 per sqm to $570 per sqm. However, the gross rent is in line when compared to pre-commitments of ~$650 per sqm undertaken by the SA Government and BHP at the GPO Building, 2-10 Franklin St, Adelaide with the development expected to be completed in Q3 2019. Savills Valuations have adopted a gross market rental average of $590 sqm gross for valuation purposes ($457 per sqm net).

Figure 10: Recent rentals – Adelaide Office

Property Address	Tenant	Commence Date	Area sqm	Rent per/sqm (gross)
Level 4, 80 Flinders Street	Inabox Limited	Jan-18	1,072	$533
60 Flinders Street	Santos Ltd	Mar-17	15,731	$565
Part level 14, 11 Waymouth Street	Woods Bagot	Feb-17	670	$570
Levels 10 & 11, 11 Waymouth Street	Commonwealth of Australia	Feb-17	3,080	$530
Levels 6 & 7, 80 Finders Street	IAG	Aug-16	4,290	$531
2-10 Franklin St (GPO)	SA Government	Q3 – 19 (est.)	12,500	~$650 (pre-committed)
2-10 Franklin St (GPO)	BHP	Q3 – 19 (est.)	10,000	~$650 (pre-committed)
80 Grenfell St, Adelaide SA	**Bendigo & Adelaide Bank**	**Nov-13**	**22,551**	**$649**

Source: Savills Valuation

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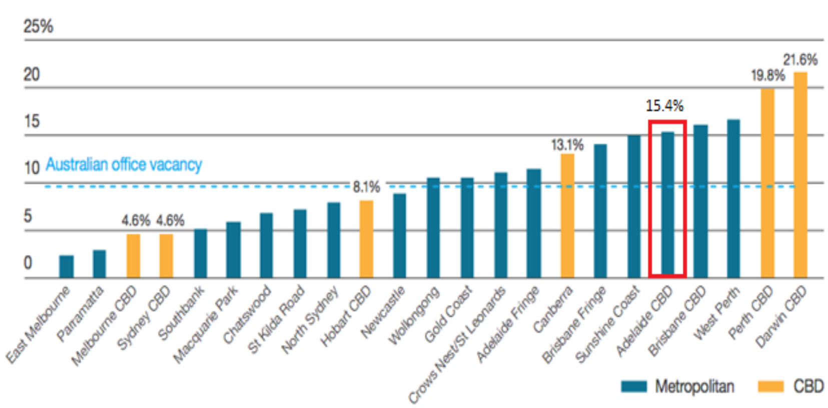
The Adelaide Office Market

Adelaide is the capital city of South Australia and the fifth largest Australian capital city with a population of around 1.73M people (as at September 2017, ABS). Gross Domestic Product (GDP) growth in 2017 was 0.9%, below the national average of 2.0%. Over the 10-year period from 2007 to 2017 the average annual GDP growth was 1.7%. Some key facts consist of:

- Adelaide's population density ranks second in Australia just after Melbourne with 404.2 people per square kilometre.
- Metropolitan Adelaide has relatively affordable residential housing with median house prices of around $470,000 (March 2018).

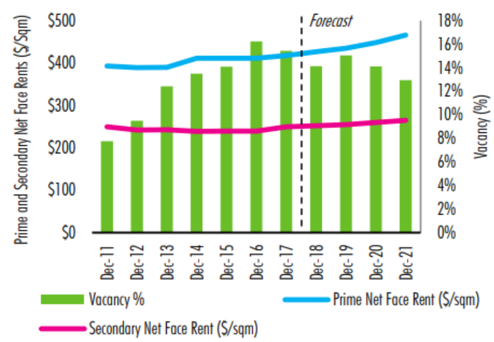
The Adelaide CBD has 1,424,182 sqm of office space with a high vacancy rate of 15.4% (at December 2017), a reduction of 60bps in the past six months. Net absorption of Office space has been positive, with 14,320 sqm of new space in 2017. Combined with an increase in investment appetite, the outlook is for vacancy levels to reduce to around 13% over the next four years (CBRE forecasts).

Figure 11: Australian Office Vacancy Rates



Source: PCA/OMR

Figure 12: Adelaide CBD Office Forecasts



Source: CBRE Research, Q1 2018,

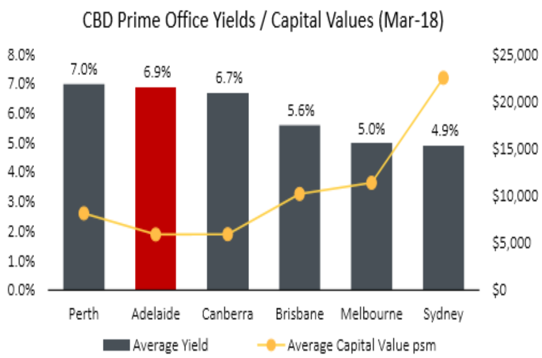
As at March 2018, Adelaide CBD prime net rents ranged from $395 to $460 per sqm (Savills Research). Over time, higher incentives have resulted in a direct reduction in Prime A and B grade space in effective rental terms. Investment appetite for Adelaide remains positive, with continued yield compression in the office market. Adelaide's CBD office yields range between 6.25% to 7.50% for prime office buildings and 7.0% to 8.0% for A grade buildings (Savills Research).

Adelaide's next significant supply of office space is expected in late 2018/early 2019, following the completion of a number of projects:

- **2-10 Franklin Street & 145-149 King William Street, Adelaide SA,** Charter Hall's new GPO Exchange development, located approximately 650m south west of the Property. The development consists of two office towers of approximately 24,500 sqm and 12,500 sqm plus a refurbishment of the heritage GPO building. The project is expected to complete in late 2019 and will also accommodate approximately 3,000 sqm of retail space.
- Construction is in the works on Maughan Church, corner of **Franklin and Pitt Street, Adelaide SA,** located 850 metres south west of the Property. The $80M development over 19 levels will include office space (6,600 sqm), retail, retirement living and disability respite accommodation. Completion is expected completion in Q3 2018 with 66% of the office space to be owner-occupied.
- **200 North Terrace, Adelaide SA,** located 850 metres north of the Property. The $260M redevelopment project will consist of 26,000 sqm of office and 4,000 sqm of retail space across 18 levels with progress dependent on further tenant pre-commitment.

Growth is expected to continue in prime markets within the short term, vacancy rate will remain stable, tenant demand will likely to remain inconsistent (short term) and offshore investments are expected to continue indicating the emergence of counter-cyclical strategies by buyers. Adelaide market Prime yields pose a relatively higher yield return in contrast to assets in NSW, VIC and QLD. Property markets such as Adelaide, continue to attract foreign investment, due to its high risk and high reward nature.

Figure 13: Adelaide CBD Net Face Rents, Vacancy, Prime Office Yields and Capital Values (Mar-18)



Source: CBRE Research, Q1 2018,

Figure 14: Adelaide CBD office Key Indicators – December 2017

Adelaide CBD Key Indicators

Adelaide CBD	Premium		A Grade		B Grade	
	Low	High	Low	High	Low	High
Rental – Gross Face ($/sq m)	510	575	435	515	355	425
Rental – Net Face ($/sq m)	395	460	330	410	265	335
Incentive Level Net	35	40	35	45	40	50
Rental – Net Effective ($/sq m)	245	290	200	245	145	185
Outgoings – Operating ($/sq m)	65	75	55	70	40	55
Outgoings – Statutory ($/sq m)	40	50	40	45	40	45
Outgoings – Total ($/sq m)	105	125	95	115	80	100
Typical Lease Term	7	10	5	10	3	7
Yield – Market (% Net Face Rental)	6.25	7.50	7.00	8.00	8.25	9.50
IRR (%)	7.25	7.75	7.75	8.75	8.50	9.75
Cars Permanent Reserved ($/pcm)	380	450	350	410	300	350
Cars Permanent ($/pcm)	370	450	350	400	300	350
Office Capital Values ($/sq m)	5,250	7,350	4,125	5,850	2,500	4,000

Source: Savills Research NB: All rents equivalent to whole floor mid-rise

Source: Savills Research

Financial Analysis

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

- Initial distribution of 7.0% p.a. (annualised), for FY19, and 7.20% for FY20, Core Property estimates that distributions can increase to around 7.75% over the five-year term, based on the Manager's assumptions.
- Forecasts are based on the Manager's assumptions that the portfolio remains fully leased for term of the Fund. This includes the full allocation of the Rental Guarantee of $0.6M for the 889 sqm of vacant space for 18 months, and the space being fully leased thereafter on lower rent than the Bendigo and Adelaide Bank space.
- Annual rent increases of 3.75% p.a. on the office space as per current lease agreement.
- Based on the Manager's forecasts, approximately $0.2M is being distributed form working capital for settlement adjustments received from the vendor for outstanding rental guarantees.

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

Figure 15: Profit & Loss Forecast & Balance Sheet

Profit & Loss - Forecast $M	**FY19 (1 Aug – 30 June 2019)**	**FY20**
Holding Trust (100% amounts)		
Gross Property Income	**15.6**	**17.2**
Expenses relating to the Property	-3.0	-3.4
Net Operating Income	**12.6**	**13.8**
Less: Straight Line of Rental Income	-1.4	-1.1
Distributable Funds	**11.1**	**12.6**
Distributions Paid to Unitholders – 100%	11.1	12.6
Centuria 80 Grenfell Street Fund (50% share)		
Distributions Received from Holding Trust	**5.6**	**6.3**
Fund Expenses	-0.9	-1.0
Net Operating Income	**4.7**	**5.4**
Interest in Debt Facility	-1.2	-1.3
Distributable Funds	**3.4**	**4.1**
Distributions Paid	3.7	4.1
Distributions per Unit (annualised)	7.00 cpu	7.20 cpu
Estimated Tax Deferral	80%	70%
Centuria 80 Grenfell Street Fund Balance Sheet – Forecast $M		**1-Aug-18**
Units in Holding Trust		92.3
Derivative Financial Instruments		1.6
Cash & Other assets		0.2
Total Assets		**94.1**
Borrowings		41.5
Capitalised Borrowing Costs		-0.4
Total Liabilities		**41.1**
Net Assets		**52.9**
Units on Issue - million		57.1
NTA per unit		$0.93
Debt/ Total assets		44.0%
Debt/ Property Valuation		45.0%

Source: Centuria, Core Property

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Yield Analysis

A notable feature of the Manager's forecasts is that the distribution yield to investors is comparable to the underlying property yield. As the table below highlights, leverage (specifically, the positive spread between the asset yield and debt costs) negates the effects of one-off upfront and ongoing management cost. The overall impact of leverage is calculated to improve the first full year returns of the portfolio to 7.0%, compared to a return of 5.2% if the portfolio was unleveraged. Investors should note that while leverage increases investor returns when the asset yield exceeds interest rates, it reduces returns when this spread is negative.

Figure 16: Effect of gearing on investor yield

	Yield (%)	Comments
Initial property yield	**6.6%**	Passing yield
Ongoing MER	-1.0%	Management expense ratio
Unlevered asset yield	**5.6%**	
Effect of upfront costs	-0.4%	Acquisition Fee and Upfront costs
Unlevered investor yield	**5.2%**	Pre-gearing return
Effect of gearing	1.8%	+ve spread between asset yield and debt cost
Post-gearing investor yield	**7.0%**	Available for distribution

Source: Core Property

NTA Analysis

The starting NTA is an important consideration. It should be assessed in the context of statutory costs and fees paid to the Manager, which dilute investors' return over the term of the Fund. In this case, the starting NTA is $0.93 per unit, with most of the dilution coming from Debt & Fund Establishment costs. Core Property notes that if interested costs were not capitalised, the Fund's initial NTA would be $0.89.

Figure 17: Initial NTA

Amount per unit	$ per unit
Issue Price	$1.00
Less:	
Stamp duty	-$0.03
Debt & Fund Establishment costs	-$0.08
Other	$0.00
Add back:	
Acquisition (premium)/ discount to valuation	$0.00
Working capital & capitalised costs	$0.04
NTA per unit (with capitalised costs)	**$0.93**

Source: Core Property

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Expected Future Performance (IRR Sensitivity)

The three main performance drivers in a property syndicate are:

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

The table below summarises our expected IRRs.

Based on an assessment of the RE's forecasts, Core Property expects a 5-year pre-tax equity Internal Rate of Return (IRR) of approximately 8.5% assuming capitalisation rates remain at 6.30% and the cost of debt is 4.63% in the fourth and fifth year of the Fund. Based on a +/-50bps movement in capitalisation rates and a +/-50bps movement in the cost of debt, the estimated IRR is between 6.1% - 10.9%.

Core Property notes the interest rate on the debt facility has been hedged for three years until August 2021 and the sensitivities are based on movements in interest rates thereafter. Due to this hedging being in place, the performance of the Fund is less sensitive to interest rate movements and is more dependent on the terminal capitalisation rate of the Property.

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

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

Terminal cap rate	Cost of debt in Year 4 and 5 of the Fund				
	3.63%	**4.13%**	**4.63%**	**5.13%**	**5.63%**
5.80%	11.0%	10.9%	10.8%	10.7%	10.6%
6.05%	9.9%	9.8%	9.7%	9.6%	9.5%
6.30% (base)	8.8%	8.6%	**8.5%**	8.4%	8.2%
6.55%	7.6%	7.5%	7.3%	7.2%	7.1%
6.80%	6.5%	6.3%	6.2%	6.1%	5.9%

Source: Core Property

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Management & Corporate Governance

Background of the Responsible Entity & Manager

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

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

Figure 19: The Board of the Responsible Entity

Name & Role	Experience
Peter Done Non-Executive Chairman	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, in the property development sector. In addition, Peter holds a Bachelor of Commerce (Accounting) from the University of New South Wales and is a fellow of Chartered Accountants Australia and New Zealand.
Nicholas Collishaw Non-Executive Director	Nicholas was the former CEO of Centuria Listed Property Funds from May 2013 to December 2017. Prior to his role as CEO, Nicholas was the former Non-Executive Director of Mirvac Funds Management Ltd. With over 30 years' experience, he has held senior positions with James Fielding Group, Paladin Australia, Schroders Australia and Deutsche Asset Management. Nicholas is currently Deputy Chair of the UNSW Faculty of the Built Environment Advisory Council.
Darren Collins Non-Executive Director	Darren was a former executive of Computer Sciences Corporation (CSC) from 1997 to 2013 and former non-executive director of three IT services companies, listed in Singapore, Hong Kong, and Kuala Lumpur, respectively. Darren holds a Bachelor of Commerce (Accounting) from the University of New South Wales and is an associate of Chartered Accountants Australia and New Zealand.
Mathew Hardy Non-Executive Director	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 last a General Manager of Mirvac where he managed Capital Property Trust, a listed REIT, and Head of Investments and Developments for Mirvac Funds Management. Mathew has been a Non-Executive Director of Centuria Property Funds since 2013.
Roger Dobson Non-Executive Director	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 o 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

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Figure 20: Management Team

Name & Role	Experience
John McBain Group CEO	John joined the Centuria Capital Board on 10 July 2006 and was appointed as Chief Executive Officer of Centuria Capital in April 2008. John has built an extensive reputation over the years within the property industry. John founded property funds manager Waltus Investments Australia Limited and Hanover Group Pty Limited a specialized property consultancy and boutique funds manager. Prior to 1990, John held senior positions in a number of property development and property investments companies in Australia, New Zealand and the United Kingdom.
Jason Huljich Head of Real Estate and Funds Management	Jason is responsible for leading Centuria's $3.5 billion Property Fund Management business, including both the listed and unlisted Property Funds, property acquisition, the property services business, and disposal and special property and debt opportunities. Jason has extensive experience in the commercial property sector, where he is a specialist in property investment and funds management. In addition, Jason is also an Executive Director of Centuria Capital Group. Jason has been the President of the Property Funds Association (PFA) and holds a Bachelor of Commerce (Commercial Law) from the University of Auckland, New Zealand.
Stuart Wilton Fund Manager	Stuart joined Centuria Property Funds in 2010 and is responsible for the performance and management of several Unlisted Property Funds. Previously, Stuart held positions in the Centuria asset management division including portfolio manager and was of late appointed as a Fund Manager in July 2017. Stuart holds a Bachelor of Business (Property) from the University of South Australia and is a member of the Australian Property Institute.
Brad Watson Head of Distribution	Brad joined Centuria in September 2014. Brad is responsible for equity raising across Centuria's unlisted property business. With more than 15 years' experience in the real estate sector, Brad has held positions at leading financial institutions including Macquarie Group, Citi and AXA. Brad's broad capabilities include the establishment of real estate investment funds, capital raising, corporate advisory and real estate capital transactions. Brad holds a Bachelor of Commerce from Melbourne University and an MBA from the Australian Graduate School of Management, University of New South Wales.
Andrew Essey Head of Transactions	Andrew joined Centuria in February 2013 as National Leasing Manager, was appointed Fund Manager in November 2015, and recently transitioned into the role of Head of Transactions in July 2017. Andrew is responsible for originating and managing the Group's property transactions and a direct oversight of the Group's acquisitions team. Andrew hold a Bachelor of Business Administration from Radford University, Virginia, USA with a Major in marking and a Minor in economics.
Victor Georos Head of Portfolio & Asset Management	Victor joined Centuria in April 2013 as a Senior Portfolio Manager and was appointed Head of Portfolio and Asset Management in July 2015. Victor is responsible for overseeing portfolio and asset management of Centuria's portfolio, including the development and implementing strategies to enhance value through active asset management and development. Victor holds a Bachelor of Land Economy and a Graduate Diploma of Finance and Investment (FINSIA).

Source: Centuria

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Compliance and Governance

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

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

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

Removal of the RE

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

Past Performance

Centuria Syndicate Performance

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

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

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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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