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Centuria Property Funds No. 2 Limited

CENTURIA INDUSTRIAL REIT

CIP FY2018 Financial Results

Tuesday, 21 August 2018

Centuria Property Funds No. 2 Limited (**CPF2L**), as Responsible Entity of Centuria Industrial REIT (ASX:**CIP**) is pleased to announce CIP's full year financial results for the period ended 30 June 2018.

Key Highlights

- Record leasing volumes drive 17.2% Return on Equity¹ (ROE)
- Gross assets increased 19% to \$1.1 billion, Net Tangible Assets² (NTA) increased 8.9% to \$2.56 per unit
- Reduced gearing³ by 470bps to 38.4%
- Agreed leases over 238,189sqm; representing 32.4% of portfolio gross lettable area (GLA)
- Distributable earnings⁴ (EPU) of 19.5 cents per unit (cpu) and distribution (DPU) of 19.4cpu, in line with guidance
- Total Return to Unitholders of 12.3%⁵

FY18 FINANCIAL RESULTS

Financial Snapshot		FY18	FY17
Statutory profit / (loss)	\$m	98.9	50.8
Distributable earnings	\$m	47.6	43.5
Distributable earnings per unit ⁴	cpu	19.5	20.5
Distribution per unit	cpu	19.4	20.5
Total Assets	\$m	1,096.9	921.5
NTA per unit ²	\$	2.56	2.35
Gearing ³	%	38.4	43.1
Return on equity ¹	%	17.2	10.1

Mr Ross Lees, CIP Fund Manager, commented, "We are pleased with CIP's FY18 result, which has been delivered against a backdrop of significant transformation for the portfolio. EPU and DPU are in line with our guidance. Importantly we delivered on our primary objective of reducing CIP's gearing almost 5% over FY18. As a result, gearing is now below 40% for the first time since the Trust's initial public offering (IPO) in 2012."

"Revaluation gains over the year of \$61 million⁶ were driven by a combination of strong leasing outcomes across the portfolio and capitalisation rate compression fuelled by ongoing demand for Australian industrial property. As a result of this revaluation gain, NTA² increased by 8.9% per unit and ROE¹ was a standout 17.2%."

PROPERTY PORTFOLIO

Portfolio Snapshot		FY18 ⁷	FY17 ⁸
Number of assets		37	38
Book value	\$m	999.0	961.2
WACR	%	6.76	7.33
Occupancy by income	%	94.5	92.1
WALE by income	years	5.1	4.4
Tenant Retention	%	78%	45%
Leases agreed GLA	sqm	238,189	134,080

Ross Lees commented, “Proactive customer engagement combined with an active management approach has driven record leasing volumes. CIP achieved lease agreements for over 238,000sqm, equating to more than 32% of the portfolio being leased during FY18.”

“A key focus in FY18 was to improve CIP’s Victorian portfolio where I’m pleased to report substantial progress has been made. CIP re-leased a number of vacancies, mitigated future expiries and divested short WALE assets for premiums to book value. This focus has driven an improvement in the Victorian portfolio occupancy⁹ to over 91% and the WALE⁹ increasing to 4.4 years.”

“CIP’s tenant retention rate of 78%¹⁰, in FY18, demonstrates the value of Centuria’s in-house property management capability. The quality of our tenant customers is reflected through portfolio arrears of less than 0.3% of FY18 billings.”

“As a result of this leasing velocity, CIP’s occupancy⁹ has increased to 94.5% and WALE⁹ increased to 5.1 years. Entering FY19, CIP’s portfolio is well positioned with less than 7% of the portfolio expiring, of which a large amount will occur in the final month of the financial year.”

CAPITAL TRANSACTIONS

Ross Lees commented, “CIP’s portfolio continued to transform in FY18 with over \$160 million of completed transactions growing and improving the portfolio.”

“Four assets were acquired off market for \$78.4 million. These properties compliment CIP’s portfolio with three properties adjoining existing CIP assets. The properties provided an average initial yield of 8.2% with an average WALE over 7 years.”

“Two assets were also divested for \$40.1million¹¹. These sales achieved an average 9.9% premium to book value and were considered to have heightened leasing risk with an average WALE⁹ of 1.8 years. The properties delivered an average internal rate of return (IRR) of 17.0% during Centuria’s management period.”

“Finally, CIP purchased a 7.7% interest in Propertylink (ASX:PLG) in September 2017 for \$44.2 million this stake was sold in August 2018, realising a 13.3%pa IRR during CIP’s holding period with the capital recycled into CIP’s pipeline of direct real estate opportunities.”

“CIP expects to remain active in transactional markets where strategic opportunities arise. Since 30 June 2018, contracts have been exchanged for the \$15.9 million acquisition of a logistics property in QLD and due diligence has commenced on a substantial industrial property in Western Australia.”

SUMMARY & OUTLOOK

Ross Lees commented, “FY18 was the first full year for CIP under Centuria’s management. Our experienced real estate team has identified and swiftly executed a range of strategic initiatives to improve CIP’s portfolio. This has driven significant improvements to occupancy, WALE, gearing and, importantly, NTA and ROE to the benefit of unitholders. Against this backdrop of significant transformation in the portfolio we have also delivered on earnings and distributions guidance.”



“Entering FY19, industrial markets are being well supported by economic tailwinds and themes around e-commerce and last mile logistics. At the same time, traditional manufacturing users are now also benefiting from a lower exchange rate and technology improvements that are increasing their competitiveness. This positive climate for occupiers is driving demand for industrial real estate from both onshore and offshore investors with continued firming of capitalisation rates expected through FY19.

“CIP commences FY19 in a strong position. CIP is forecasting FY19 distributable earnings guidance of 18.5–19.0 cents per unit with distributions guidance of 18.4 cents per unit.”

FY18 results presentation

CIP has provided a market briefing that is available via the Centuria website
<https://centuria.com.au/cip/annual-results/>.

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About Centuria Property Funds No. 2 Limited

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

CIP is Australia's largest ASX-listed income focused industrial investment vehicle and is included in the S&P ASX300 index. CIP owns a portfolio of 37 high quality industrial assets with a value exceeding \$1.0 billion, the properties are located in key metropolitan locations throughout Australia.

CPF2L, combined with Centuria Property Funds Limited (CPFL), the Responsible Entity for the ASX listed Centuria Metropolitan REIT (CMA), has \$4.0 billion of assets under management in 15 unlisted property funds, one open-ended diversified property fund and two listed REITs.

CNI is an ASX-listed specialist investment manager with \$4.9 billion in assets under management.

www.centuria.com.au

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- 1 Return on Equity is calculated as closing NTA minus opening NTA plus distributions divided by opening NTA
2 NTA per unit is calculated as net assets less goodwill divided by closing units on issue
3 Gearing is defined as total borrowings less cash divided by total assets minus cash and goodwill
4 Distributable earnings is a financial measure which is not prescribed by Australian Accounting Standards ("AAS") represents the profit under AAS adjusted for specific non-cash and significant items. The Directors consider that distributable earnings reflect the core earnings of CIP
5 Source: Moelis Australia
6 Gross revaluation of investment properties. Excludes capital expenditure during the year
7 Excludes 39-45 Wedgewood Drive, Hallam which exchanged in FY18 and settled on 13 July 2018
8 Includes post 30 June 2017 acquisitions of Lot 14 Sudlow Road, Bibra Lake, WA and 207-219 Browns Road, Noble Park, VIC
9 By income
10 By area
11 Includes 39-45 Wedgewood Drive, Hallam which exchanged in FY18 and settled on 13 July 2018