AUSTRALIAN
RESEARCH
PROPERTY INVESTMENT RESEARCH

Centuria Sandgate Road Fund

May 2017

A-grade office building with long term government leases, targeting 6.5%+ distributions

PIR

Contents

IMPORTANT NOTICE

PIR has been commissioned to produce this report. This means that PIR has received a direct fee for reviewing and assessing this product. In compiling this report, PIR's views remain fully independent of influence or conflicts of interest. Our team of analysts undertake an objective analysis of the offer and conclusions are presented to senior officers for review.

Disclaimer & Disclosure of Interests

Centuria Sandgate Road Fund

The Centuria Sandgate Road Fund ("the Fund") is a closed-ended, single-asset fund with an initial term of six years to 1 July 2023. The Fund's Responsible Entity, Centuria Property Funds Limited (RE or "the Manager") is seeking to raise $68.9M through the issue of 68.9M units at $1.00 per unit which will be used in conjunction with bank debt to acquire 1231 Sandgate Road, Nundah Qld ("the Property") for $106.25M.

The Property consists of an 8 floor A grade office building located in the Fringe CBD office suburb of Nundah, Qld, approximately 4km west of Brisbane Airport and 10kms north of Brisbane CBD. The Property is situated approximately 250 metres from the Nundah railway station and is adjacent to the Nundah Shopping Village, anchored by a Woolworths supermarket. Recently constructed in 2012, the Property is 100% occupied with the two government tenants, Energex and Powerlink, accounting for 81% of rental income. The remainder of income is derived from ground floor retail tenancies, including Go Health Clubs plus seven smaller retail spaces. The Weighted Average Lease Expiry (WALE) of 9.4 years (as at 1 July 2017), is outside the initial six-year term of the Fund. The current leases have fixed rent increase of 3.5% - 4.0% p.a., which provide upside support to valuations.

The Fund will have a debt facility initially drawn to $47.8M over the first five years of the initial six-year term of the Fund. Interest will be hedged for the five years with an all-in cost of debt of 3.90%. PIR notes the debt facility will need to be extended or renegotiated in order to maintain funding for the full six years and any possible extension to the term. The Fund will have an initial LVR of 44.3%, against a 57.5% bank covenant. An initial ICR of 3.5x is expected against a 2.0x ICR covenant.

PIR notes the Fund's initial term of six years allows the RE to manage the expiry of 19% of rental income prior to the end of the initial term of the Fund. Centuria has a history of strong property management, and PIR expects that it would commence early lease negotiations in order to mitigate any risks to the tenancies. This includes 37% of net lettable area which are under sub lease arrangements and will need to be managed to maintain occupancy levels. The valuation of the Property will also be impacted by movements in the Fringe CBD office market of Brisbane.

The Manager has forecast a distribution in FY18 of 6.5 cents per units (85% tax deferred), increasing in FY19 to 7.0 cents per units. Additional rental growth is forecast to increase distributions to 8.0 cents per unit by FY23. Based on the RE's forecasts and assuming no change in the terminal capitalisation rate, the pre-tax equity IRR is estimated at 8.4% - 10.4%.

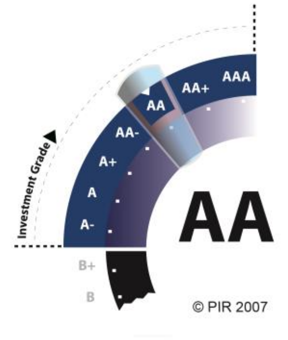
Investor suitability

In PIR's opinion, the Fund would be best suited to investors seeking a relatively secure income yield of 6.5% - 8.0% p.a. (with tax deferrals) over six years, supported by fully occupied office property with 81% government tenants, relatively low gearing, and a long WALE. Fixed annual rent increases of 3.5% - 4.0% p.a. are expected to support valuations and any risks to tenancies.

PIR considers the Property as a low–medium risk asset, with a secure income stream.

Potential investors should consider this as an illiquid fund, and be willing to remain invested for the minimum six-year term.

Investment Rating



See the Appendix for a description of our ratings. The above rating must be viewed in the context of comparable syndicates and not across all products.

Offer Details

Offer Opens	22 May 2017
Offer Closes	30 June 2017 or once fully subscribed
Min. Investment Period	6 years to 1 July 2023
Min. Investment	$50,000
Liquidity	Illiquid
Distributions	Monthly
Initial NTA	$0.90
Forecast Distribution – (cents per unit)[1]	FY18 = 6.50 FY19 = 7.00

1. The Manager has forecast the FY18 distribution to be 85% tax deferred and the FY19 distribution to be 70% tax deferred.

Manager Contact Details

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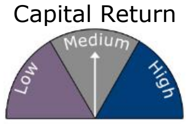
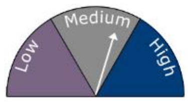
Risk/Return Profile

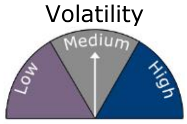
Capital Return



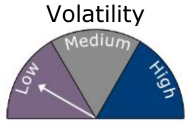
Income Return



Capital Return Volatility

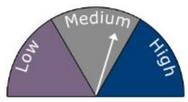


Income Volatility



Risk to Capital

Tax Effectiveness



Note: This report is based on the Centuria Sandgate Road PDS, dated 7 April 2017, together with other information provided by Centuria.

Key considerations

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

The Property consists of an 8 level A grade office building located in Nundah Qld, approximately 10km north of the Brisbane CBD and 4km west of Brisbane Airport. The Property is a Fringe CBD office building constructed in 2012 and is 100% occupied with a WALE of 9.4 years at 1 July 2017. Around 81% of rental income is secured by government tenants Energex (69%) and Powerlink (12%); with the remaining leases to Go Health Clubs (11%) and seven retail tenancies (8%).

Lease expiries. Approximately 19% of leases (by income) will fall due prior to the end of the initial term of the Fund in FY23. In addition, around 37% of the net lettable area is subleased by Energex and Powerlink to other Queensland government departments. The Manager has a strong history of active property management. The initial six-year term of the Fund provides the Manager with the opportunity to manage the lease expiries prior to the end of the initial term.

A Debt Facility with an initial draw down of $47.8M is to be established for the first five years of the initial six-year term of the Fund. The debt will be fully hedged with an all-in cost of debt of 3.9%. The initial LVR is 44.3% (57.5% covenant), and assuming no cap rate compression, is forecast to reduce to 43.8% in 2023. The initial Interest Cover Ratio is 3.5x (2.0x covenant) increasing to 4.0x in 2023. The Fund will need to extend or renegotiate its debt facility for the sixth year of the Fund and any extensions thereafter. A change in the interest rate in the fifth year onwards will impact distributions and the total return of the Fund.

Distribution profile. An initial distribution yield of 6.5% in FY18 is forecast (85% tax deferral) and 7.0% in FY19 (70% tax deferral). The Manager has forecast distributions to reach 8.0% in 2023.

Fees paid by the Fund are at the low end of what PIR has seen in the market (see *Figure 5: Fees in Perspective*)

Total return profile. The pre-tax equity IRR is expected to be between 8.4% and 10.3% (see *Section 4: Investment Analytics*) over the initial term of the Fund.

Starting NTA is calculated at $0.90 per unit after taking into account stamp duty, acquisition and set up costs.

Market risk. Returns to investors may be lower than PIR's estimate if: (a) economic or market conditions deteriorate, (b) the Fund fails to achieve a satisfactory sale price for its assets, or (c) the Fund re-leases space on worse-than-expected terms.

Investment term: The Fund will have an initial term of six years (*initial term*), which may be extended by a further one year if authorised by an ordinary resolution of investors (50% of votes). Subsequent extensions for two year terms will require 100% approval or give investors the chance to exit. Please refer to the PDS for details on exit conditions.

Illiquid investment. Investors must accept that by their very nature, unlisted property funds are illiquid. Investors should be willing to remain fully invested for the minimum six-year term, with the possibility of increasing to seven years if the Fund is extended.

Key Qualitative Criteria

Management	
Track record	★★★★★
Investment process and philosophy	★★★★☆
Corporate Governance	★★★★☆
Product	
Structure	★★★☆☆
Fees	★★★★☆
Liquidity	★☆☆☆☆
Leverage/Capital structure	★★★★☆
Portfolio	
Property Grade/Asset quality	★★★★☆
Property diversification	★☆☆☆☆
Tenancy profile	★★★★☆
Tenant lease term	★★★★★

Investment Profile

Number of properties	1
Property location	1231 Sandgate Road, Nundah Qld 4012
Property sector	Office
Initial Gearing/ Bank covenant	44.3%/57.5%
Initial ICR/ Bank covenant	3.5x/2.0x

Source and Application of Funds

	A$M
Equity sought (includes Fund Set up fees)	68.9
Initial Debt/ Debt Limit	47.8/48.3
Total sources of funds	116.7

Financial Forecasts

Levered IRR[1] (pre-tax, post fees, %)	8.4% - 10.2%
Valuer's 10-year unleveraged IRR[2] (%)	7.66%
Performance fee hurdle (%)	10.0% (Levered IRR)
Min. investment period	6 years
Tax advantage (indicative)	FY18 distributions to be 85% tax deferred. FY19 distributions to be 70% tax deferred.
Distribution frequency	Monthly

[1]IRR base case estimate is post-disposal and performance fees, and assumes no terminal capitalisation rate compression.
[2] Based on the independent valuation report.

2.Fund Overview

The Centuria Sandgate Road Fund ("the Fund") is a closed-ended unlisted property fund that is seeking to raise $68.9M through the issuance of 68.9M units at $1.00 per unit. The funds will be used, along with debt, to purchase a 100% freehold interest in 1231 Sandgate Road, Nundah Qld ("the Property") for $106.25M. The Fund will be managed by Centuria Property Funds Limited ("the Manager").

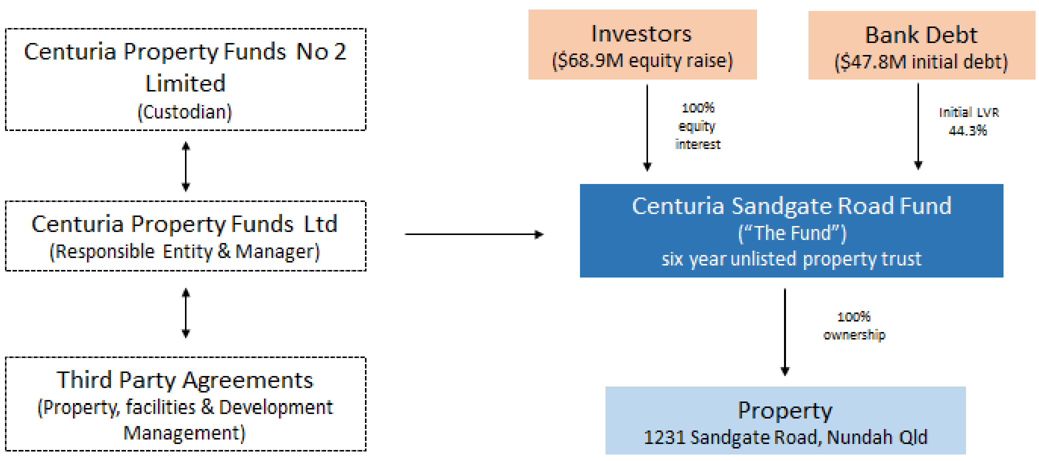
The Fund will have an initial investment term of six years to 1 July 2023, and may be extended by an additional year (to July 2024) by an ordinary resolution of investors (50% of votes cast must be in favour of the extension). The Fund may be extended beyond seven years, for up to two years at a time where a unanimous resolution is passed (100% of votes cast are in favour of the extension) or where a unanimous resolution is not passed but all investors who vote against the resolution are given an opportunity to have their units sold or redeemed at NTA less costs. If these conditions are not able to be met, the Fund will be wound up and the net proceeds will be returned to investors.

The Property is 100% occupied with a WALE of 9.4 years (by Net Lettable Area as at 1 July 2017) with 81% of gross rental expiring in FY28, well outside the initial term of the Fund.

Due to the expiry terms of the current leases, PIR notes the Fund term of six years will allow the Manager the opportunity to manage and remarket around 19% of leases prior to the expiry of the initial term of the Fund, providing support for the Property valuation in the event of sale or rollover of the Fund. Centuria has a good track record on maintaining occupancy rates in office buildings and PIR notes the Fund is structured to remove this uncertainty prior to the end of the term. It should be noted that any decrease in tenancy of rental income may also impact the valuation of the Property.

The Manager has forecasted distributions in FY18 of 6.50% (85% tax deferred) and distributions in FY19 of 7.00% (70% tax deferred). Distributions from the Fund will be paid to unitholders on a monthly basis, usually within 10 business days of the end of the month. An investment in the Fund should be considered illiquid and investors must stay invested for the Fund's initial term to benefit from forecast returns.

Figure 1: Fund structure



Source: Centuria/ PIR

Debt facility and metrics

The Manager will establish a bank debt facility with CBA for the first five years of the initial six-year term of the Fund. Interest rate on the facility will be fixed for the five years at an all-in cost of debt of 3.90% p.a. The Fund will need to establish a new debt facility or extend the existing debt facility in the fifth year in order to maintain funding for the full six-year term of the Fund. Depending on the interest rate at the time. The cost of funding may impact on the distributions and total returns of the Fund.

Based on the Manager's forecasts PIR calculates the peak LVR of 44.3% to occur at the start of the initial term and reduce to 43.85 in 2023, which is well below the LVR Covenant of 57.5%. The initial ICR of 3.5x is forecast to increase to 4.0x by 2023, which is well above the ICR Covenant of 2.0x. As such, both the LVR and ICR positions are well within the bank covenants.

Figure 2: Key debt metrics

Details	Metric
Bank	CBA
Security	First ranked mortgage _ general security deed over the assets of the Trust
Debt Facility Limit ($M)	48.3
Initial Draw Down ($M)	47.8
Initial Loan Period	5 Years
All in cost of Debt	3.90%
Initial LVR	44.3%
LVR Covenant	57.5% (maximum)
Peak LVR / Year	44.3% / 2017
Initial interest covered ratio / bank covenant	3.5x / 2.0x
Low ICR / Year	3.5x / 2017
Amount by which property will have to fall to breach LVR covenant	23.0%
Amount by which income will have to fall to breach ICR covenant	42.1%

Source: Centuria/PIR

Liquidity / exit strategy

The initial term of the Fund is six years from 1 July 2017 to 1 July 2023 based on the assumption the Fund will acquire and settle the Property on 1 July 2017. Investors may extend the Fund for a further year by way of an Ordinary Resolution requiring more than 50% of votes are in favour of the extension. After the first extension, the Fund may be extended by up to two years at a time by way of a Unanimous Resolution requiring 100% of votes to approve the resolution. The Fund may be extended with fewer than 100% of votes if unitholders who did not approve the extension are given the opportunity to sell/redeem units at the Fund's withdrawal price, determined by its NTA less costs.

There is no other means of providing liquidity in the Fund, although units may be transferred (subject to transfer provisions under the Fund's constitution). The RE may facilitate this on a best endeavours basis, but it is not obliged to repurchase these units at any point over the term of the Fund.

Costs over the Term of the Fund

The components of fees and cost recovery charged by the RE are as follows:

Ongoing Management Costs

- Ongoing management fee: 0.8% pa of gross asset value (GAV) of the Fund; and
- Ongoing Fund costs (reimbursed to the RE) estimated at 0.139% per annum of GAV.

The ongoing management fees are consistent with industry practice. The Management Expense Ratio (MER) is at the lower end of range typically seen by PIR (0.7% -1.1%).

Figure 3: Summary of fees charged by the Manager

Fee Type	Fee Charge	Comment
Acquisition fee	2.0% of purchase price	Industry average is 1.5%-2.0%
Ongoing fee (MER)	0.80% of gross asset value	At the lower end of industry peers.
Disposal fee	1% of sale price of property	Third-party agency fees will be paid out of this fee.
Performance fee	20% of the portion of outperformance over a pre-tax levered IRR of 10%pa after all fees and costs.	In-line with industry peers. A performance fee, if owing, will also become payable should investors sell more than 80% of the units on issue.

Source: Centuria/PIR

Sources and Application of Funds

The majority of the capital raised will be used to fund the purchase of the property and associated costs. It should be noted that the Fund has an additional $2.59M in total costs associated with the setup of the structure (see the section below on "Costs over the Term of the Fund). Thus, the Fund needs to raise a total of $116.7M in equity and debt to settle the Property acquisition and launch the Fund. Figure 4 below shows the sources and application of funds.

Figure 4: Sources and Applications of Funds

	($M)	% of purchase price	% of total funds
Sources of funds:			
Equity subscriptions – The Fund	68.9	65%	59%
Bank loan	47.8	45%	41%
Total sources of funds	**116.7**	**110%**	**100%**
Applications of funds:			
Property purchase price	106.3	100%	91%
Stamp duty	6.1	6%	5%
Acquisition Fee	2.1	2%	2%
Debt establishment fee	0.2	0%	0%
Less: Adjustments (Incentives, working capital)	2.0	2%	2%
Total application of funds	**116.7**	**110%**	**100%**

Source: Centuria/PIR

All-in fee analysis

As a percentage of total Fund cash flow

In Figure 5, PIR analyses how much of the Fund's cash goes to the RE in fees, and how much is left over for investors. The key assumptions include:

- Calculations exclude the disposal fee (1% of the sale price) and ongoing administration costs, which we treat as costs to the Fund;
- A performance fee has not been included; and
- The capital gain forecast is based on applying a terminal cap rate of 6.66% (per the valuation report) at the time of sale in FY23, which effectively assumes no cap rate compression. A lower terminal cap rate would lead to a higher sale price and hence, higher performance fees may be payable.

Overall, PIR estimates that the RE takes 7.3% of the total cash generated by the Fund, which leaves investors with $1.58 per unit, or approximately 92.7% of the total.

PIR believes the fees paid to the Manager are at the low end compared to similar products, which are typically around 7%- 9%. PIR stresses that these are estimates of how much investors will receive and not guaranteed amounts. For further details, please refer to the *Investment Analytics* section.

Figure 5: Fees in Perspective

PIR estimates that for every $1.00 of equity invested, the Fund can return:	
Principal repayment to investors	$1.00
Income and capital gains to investors	$0.58
Total cash to investors	**$1.58**
Acquisition fee	$0.03
Base management fee	$0.08
Disposal fee	$0.02
Fees for the RE (excluding disposal/ admin costs)	**$0.13**
Total cash generated by Trust	**$1.71**
Fees = % of total cash generated (before fees)	*7.3%*
Fees = % of gains (before fees)	*17.7%*

Source: PIR/ Centuria

Fund Structure	
Responsible Entity (RE)	Centuria Property Funds Limited ("CPFL"), AFSL 231149
Investment Term:	Minimum of 6 years from the first closing date (refer to Liquidity/exit strategy section, page 6), which investors may extend by one year by an Ordinary Resolution (more than 50% of votes cast in favour of the extension). The Fund may be extended beyond seven years, by up to two years at a time, by passing a Unanimous Resolution (100% of votes are in favour of the extension). The Fund may also be extended where a Unanimous resolution is not passed but all investors who voted against the resolution are given an opportunity to have their units sold or redeemed at the prevailing withdrawal price. CPFL anticipates that the opportunity to exit will not be provided to investors who do not vote on the resolution.
Issue Size/LVR:	Equity issuance of A$68.9M, resulting in an initial LVR of 44.3%.
Cost of Borrowings:	Forecast all-in cost of borrowing for the initial debt facility is 3.90%p.a. (100% hedged) for the first five years out of the initial six-year term of the Fund. The Fund will need to extend the debt facility or arrange alternate financing for the final year of the Fund, and any possible extensions thereafter.
Security:	The bank loan is to be secured by a first ranking mortgage over the Property and a general security deed over the assets of the Fund.
Fund Profile	
Geographic Exposure:	100% in Nundah, Queensland.
Sector Exposure:	100% to the Brisbane Fringe CBD office market.
Tax	
Disclaimer:	Tax consequences depend on individual circumstances. The following comments cannot be considered tax advice and investors should seek their own taxation advice.
Capital gains:	Capital gains tax (*CGT*) is likely to apply upon the winding up of the Fund as capital is returned to investors. As the investment term is in excess of 12 months, Australian resident investors will most likely be eligible for the CGT discount upon sale of the asset and eventual returns to investors as per the current CGT ruling.
Distributions:	Distributions will be treated as income in the year they are earned. Distributions may contain a tax deferred amount, which decrease the cost base and will give rise to a capital gain should the investment be sold at a price higher than the adjusted cost base. Centuria has forecast distributions for the financial year ended 30 June 2018 to be 6.5% with 85% tax deferral; and year ended 30 June 2019 to be 7.0% with 70% tax deferral. Distributions may not be reinvested.
Legal Structure	
Wrapper:	Unlisted Unit Trust.
Custodian	Centuria Property Funds No 2 Limited (ABN 38 133 363 185)
Offer Document:	The Product Disclosure Statement, dated 7 April 2017.
Significant Investor Visa (SIV):	The Fund will be a complying investment for investors seeking nomination for a Significant Investor Visa.
Returns	
Capital vs. Income:	Based on the RE's forecasts, applying a terminal yield of 6.66% (equivalent to the capitalisation rate at acquisition), approximately 75% of the estimated total return would be made up of income.
Distribution Frequency:	Monthly, within 10 business days of the end of each month.
Risks	For a more detailed list of the key risks, refer to the *Risks* section (Section 10) of the PDS.
Property/Market Risk:	Capital at risk depends on a single property located in Nundah, Queensland.
Interest Rate Movements:	The Fund has fixed its interest cost for the first five years of the initial six-year term of the Fund. Any change in the all-in cost of borrowings after the first five years of the fixed debt facility, when the debt facility will need to be refinanced, will affect the Fund's distributable income.
Property specific risks	An increase in vacancy rates, a decrease in prevailing market rents, or functional obsolescence could reduce the market value of the asset and therefore may negatively impact on estimated unitholder returns.
Fees/Expenses	
Base Management Fee:	0.80% p.a. of the gross asset value (GAV) of the Fund. GAV should generally resemble the carrying value of the portfolio. In addition to the management fee, the PDS estimates that other Fund costs will account for a further 0.13% of GAV (custodian, unit registry and admin expenses).
Acquisition Fee:	An acquisition/ placement fee of 2.0% of the purchase price will be payable to the RE when the Fund is operational.
Disposal Fee:	The RE is entitled to an asset disposal fee of up to 1% of the Gross Sale Price, out of which it will pay external agents' fees.
Performance Fee:	The RE is entitled to 20% of the portion of outperformance over an IRR of 10%.

3.The Property

Property Overview

The Property is a modern A-grade commercial office building located at 1231 Sandgate Road, Nundah, Brisbane, Queensland. Constructed in 2012 the Property is 100% occupied with 81% of gross income generated by Queensland state government tenancies: Energex (69% of rental income), and Powerlink (12% of rental income). The building has a net lettable area (NLA) of 12,980sqm across 8 floors of office and retail tenancies. A basement carpark is currently leased to Energex (120 car spaces) and Powerlink (24 car spaces).

Nundah is an established suburb located approximately 4km west of Brisbane Airport and 10kms north of the Brisbane CBD. The suburb has a population of 38,689 (2015) and is situated close to the Airport Link Road that connects the airport to the CBD.

The Property is located on the main route through the Nundah retail and commercial strip and is approximately 250 metres from the Nundah railway station. The building has an irregular shape and is situated on an irregular shaped land parcel that is adjacent to the Nundah Village Shopping Centre, which was opened in 2007 and anchored by a Woolworths supermarket.

The Property has a relatively long WALE of 9.4 years (by income) as at 1 July 2017. Floor plates on the office floors are large, and range between 1,537sqm and 2,150 sqm. Floors have an abundance of natural light and end of trip facilities for tenants. A NABERs rating of 4.5 stars has been maintained since the Property was constructed in 2012.

Figure 6: Property and location view

Source: Centuria Property Funds Limited

Valuation of the property

The key acquisition metrics are in Figure 7 below. The Property was marketed for sale by its vendor, Growthpoint Properties (ASX: GOZ) in late 2016 and Centuria Property Funds Limited was able to secure the Property for $106.25M.

An independent valuation was conducted by Cushman & Wakefield, a well-regarded global real estate agency, with a valuation of $108.0M as at March 2017.

The independent valuation makes several assumptions regarding market rents, tenant incentives, re-letting, and other factors based on available market evidence. The main assumptions below have been adopted in the valuation model.

Figure 7: Property portfolio summary (based on 100% ownership) as at 31 March 2017

	1231 Sandgate Road, Nundah Qld 4012
Title	Freehold, subject to existing tenancies
Construction Date	2012
Ownership	100% Centuria Sandgate Road Fund
Net Lettable Area (sqm)	12,980
Major Tenants	Energex Limited (owned by the Queensland state government) (69% of income) Powerlink (owned by the Queensland state government) (12% of income)
Weighted Average Lease Expiry (WALE)	9.4 years by income (as at 1 July 2017)
Occupancy	100%
Initial net passing income	$7.25M
Net market income (fully leased)	$7.25M
Rent growth	3.50% - 4.00% p.a.
Purchase price	$106.25M
Valuation (Market Value)	$108.0M
Passing initial yield	6.72% (based on independent valuer report)
Cap rate	6.50% (based on independent valuer report)
Valuer	Cushman & Wakefield
Discount rate	7.50% (based on independent valuer report)
Purchase price / sqm	$8,186
Valuer's IRR (%) including Capex	7.66%

Source: Cushman & Wakefield, Centuria, PIR

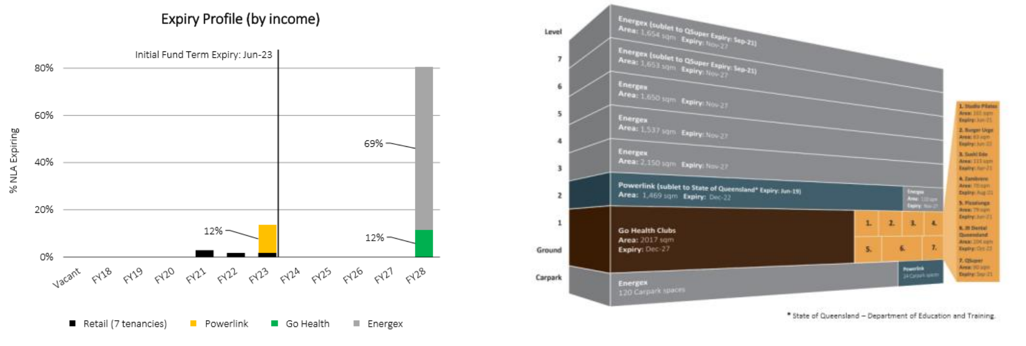
Leases, tenants, and income

Key points on the tenancy profile are:

- Occupancy level of 100% by NLA.
- Weighted Average Lease Expiry (WALE) of 9.4 years (by income). The Property is currently leased to 10 tenants as follows:
  - Energex (69% of rental income): Energex is a subsidiary of Energy Queensland Limited, a Queensland state government owned corporation that operates the electricity distribution network in South East Queensland. Energex leases 8,755sqm of office space across 6 floors, plus 120 of the carpark spaces. The office lease is on a 15-year term expiring in November 2027, with options for 8+5 years. Energex currently sub leases 2 floors (3,307sqm) to QSuper, Queensland's state superannuation fund, with the sublease expiring in September 2021.
  - Powerlink (12% of rental income): Powerlink is a Queensland state government owned organisation that operates the electricity network form North of Cairns to the NSW border. Powerlink leases 1 floor of office space on a 10-year leasing expiring in December 2022, which it currently subleases to the Queensland Department of Education and Training with the sub lease expiring in June 2019.
  - Go Heath Clubs (11% of rental income): Go Health leases the majority of the ground floor retail space on a 15-year lease expiring in December 2027.
  - Seven retail tenancies (8% of rental income): The ground floor is also occupied by seven retail tenancies occupying 740sqm in total, with lease expiries occurring near the end of the initial term of the Fund, between June 2021 and October 2022.
- All current tenants have fixed annual rent increases of between 3.5% - 4.0% p.a.
- Approximately 74% of the initial rental income is derived from the office tenants, with 18% from retail tenants, with 8% from car parking for the office tenants.
- The subleases within the office space accounts for approximately 37% of NLA.

The following figure is a summary of the lease expiry profile, showing the leases which fall due near the end of the current Fund term.

Figure 8: Lease expiry (by Income)



Source: Centuria

Capex

Due to its age, the Manager has forecast around $0.2M in capital expenditure (capex) over the initial six-year term of the Fund, which is in line with capex assumptions from KPMG SGA in an independent report on the Property. In addition, the Manager is forecasting around $0.4M of lease incentives in the fifth and sixth years of the Fund, which may be provided to tenants in the form of refurbishments and rent free periods.

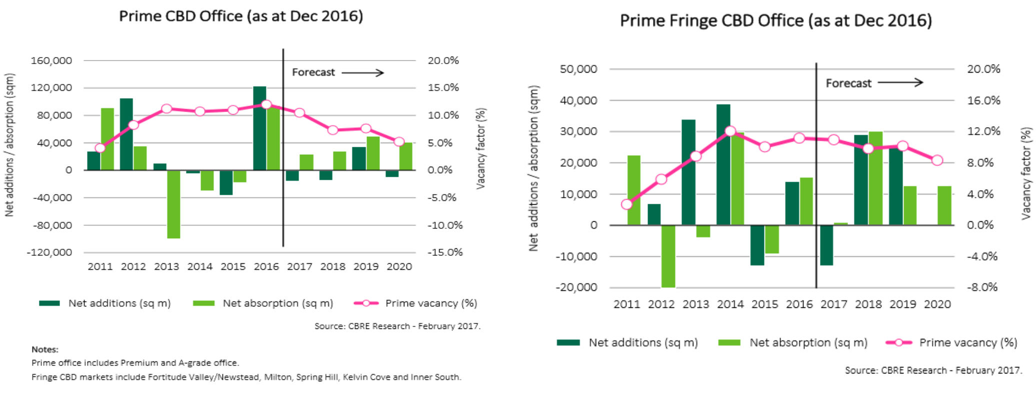
The majority of the capex is funded through debt near the end of the initial term of the Fund. Despite this, the LVR is not expected to go above the initial 44.3% due to forecast increases in rent.

PIR has adopted the Manager's capex assumptions on the basis that they were based on independent technical reports. The inherent assumption here is that the capital expenditure is likely to improve the value of the building. While this has been the case in recent years, PIR reminds investors that this may not be the case in adverse market conditions.

Market Commentary

The Brisbane office market has experienced increasing vacancy levels over the past few years, impacted by a number of factors including a slowing economy and weak government spending. There is some evidence that vacancy levels may have peaked, with forecasts by CBRE expecting a reduction in vacancy levels over the next 4 years. The Property is located in a Fringe CBD location, with similar expectations that Fringe CBD office vacancies will reduce. The following graphs show the historical and forecast levels of net additions/net absorptions and vacancy levels in the Brisbane Prime CBD Office and Brisbane Fringe CBD Office markets.

Figure 9: Brisbane CBD Office & fringe CBD Office



Source: CBRE, Centuria

Market Rental Evidence

In figure 9 below are excerpts from the independent valuer's list of comparable office lease deals completed over the last 12-months.

The office space at the Property is leased on an average $601per sqm. This is 8.6% above the market rental rate of $550 per sqm adopted in the independent valuation undertaken by Cushman & Wakefield.

The retail space at the Property is leased on an average $549per sqm. This is 1.7% below the market rental rate of $558 per sqm adopted in the independent valuation undertaken by Cushman & Wakefield.

Figure 10: Queensland Fringe CBD Office rental evidence

Address	Lease start	NLA (sqm)	Term (yrs)	Passing Gross Face Rent ($/sqm)	Reviews (% pa)
Office					
515 St Pauls Terrace, Fortitude Valley Qld	Jul 16	7,836	5	$560	Fixed 3.5%
520 Wickham Street, Fortitude Valley Qld	Apr 16	7,358	10	$580	CPI
76 Skyring Terrace, Newstead Qld	Jan 16	1,965	5	$545	Fixed 3.25%
1231 Sandgate Rd, Nundah Qld - Office	**Nov 12, Dec 12**	**10,223**	**10,15**	**$601**	**3.5%**
Retail					
41 O'Connell St, Bowen Hills Qld	Jan 16	77	4	$455	4.0%
1231 Sandgate Rd, Nundah Qld – Retail	**Nov 12 – Jul 16**	**2,757**	**5-10**	**$549**	**3.5% – 4.0%**

Source: Cushman & Wakefield / PIR

Market Sales Evidence

Figure 11 below shows the comparable sales transactions in the Brisbane Fringe CBD office market from April 2016 with equivalent yields between 5.7% and 7.0%, and IRRs between 7.0% and 7.8%.

PIR considers the acquisition price to be in line with market expectations and notes the second half of calendar 2016 experienced continued price increases/reduction in yields.

Figure 11: Market sales evidence

Property Address	Sale Date	Sale Price	Price ($/sqm)	Occ (%)	WALE by Income (years)	Equiv Yield (%)	IRR (%)
15 Butterfield St, Herston Qld	Apr-16	$81.47M	$7,239	100%	4.4	7.00	7.45
100 Skyring Terrace, Newstead Qld	Apr-16	$93.1M	$3,773	100%	10.4	6.50	7.80
41 O'Connell Terrace, Bowen Hills Qld	Sep–16	$52.0M	$6,875	100%	17.9[1]	6.72	7.85
505 St Pauls Terrace, Fortitude Valley Qld	Jan-17	$205.5M	$11,668	100%	10.6	5.71	7.00
1231 Sandgate Rd, Nundah Qld	**Jun-17**	**$106.25M**	**$8,186**	**100%**	**9.4**	**6.85**	**7.66**

[1]The WALE of 17.9 years includes a major lease with the Brisbane City council with a break clause which if exercise would reduce the WALE to 9.4 years.
Source: Cushman & Wakefield, Centuria, PIR

4. Investment Analytics

PIR has assessed the Manager's forecast performance of the Trust and makes the following observations:

- Forecast distribution in FY18 is $0.065 per unit (85% tax deferred) and in FY19 is $0.07 per unit (70% tax deferred).
- The Manager is forecasting distributions to increase each year thereafter to reach $0.08 per unit in FY23.

A summary of the Manager's forecast for the Fund's first 2 years is presented in the table below:

Figure 12: Centuria Sandgate Road Fund – Profit & Loss Forecast

Profit & Loss Forecast - $M	**FY18[1]**	**FY19**
Total Income	**9.9**	**9.9**
Trust & Management Expenses	-2.1	-2.1
Net Interest Expense	-2.5	2.2
Total Expenses	**-4.5**	**-4.3**
Straight line rental income/amortised borrowing costs	**-1.0**	**-0.7**
Distributable Earnings	**4.3**	**4.9**
Amount Distributed	4.5	4.8
Forecast Distribution per unit (cpu)	6.50	7.00
Forecast Distribution Yield (annualised)	6.50%	7.00%
Estimated Tax Deferral	85%	70%

[1]The forecasts assumes the Fund settles on the acquisition of the Property on 1 July 2017 and the first-year income of the Fund is from 1 July 2017 to 30 June 2018.

Source: Centuria

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 Figure 13 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 Property to 6.5%, compared to a return of 5.5% if the Property 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 13: Effect of gearing on investor yield

	Yield (%)	Comments
Initial property yield	7.0%	Passing yield
Ongoing MER	(1.0%)	Management expense ratio
Unlevered asset yield	**6.0%**	
Effect of upfront costs	(0.50%)	
Unlevered investor yield	**5.5%**	Pre-gearing
Effect of gearing	1.0%	+ve spread between asset yield and debt cost
Post-gearing investor yield	**6.5%**	Available for distribution

Source: PIR

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 $0.90, with most of the dilution coming from stamp duty.

Figure 14: Starting NTA

Amount per unit		% of initial equity
Issue price	$1.00	100%
Less:		
Stamp duty	($0.09)	-9%
Acquisition fee (paid to RE)	($0.03)	-3%
All Other Costs	($0.02)	-2%
Add:		
Acquisition discount to valuation	$0.03	3%
Working Capital	$0.01	1%
NTA per unit	**$0.90**	

Source: PIR

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).

Figure 15 summarises our expected IRRs.

Based on the RE's forecasts PIR expects a 6-year pre-tax equity IRR of approximately 9.3% based on a 3.90% cost of debt on the initial debt facility and assuming capitalisation rates remaining at current levels. Based on a +/-25bps movement in capitalisation rates and a +/-50bps movement in the cost of debt, the estimated IRR is between 8.4% - 10.2%.

It should be noted that a movement in the cost of debt does not have a material impact on the IRR as the debt is 100% hedged for the first five years of its six-year term.

Figure 15: Pre-tax, 6-year IRR (after fees) sensitivity analysis – terminal capitalisation rate

Terminal cap rate	Cost of debt				
	2.90%	3.40%	3.90%	4.40%	4.90%
6.16%	11.0%	10.9%	10.9%	10.9%	10.8%
6.41%	10.2%	10.2%	10.2%	10.1%	10.1%
6.66% (base)	9.4%	9.4%	9.3%	9.3%	9.3%
6.91%	8.6%	8.5%	8.5%	8.4%	8.4%
7.16%	7.8%	7.7%	7.7%	7.6%	7.6%

Source: PIR

5. Management & Corporate Governance

Background of the Responsible Entity

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 of high quality, growth oriented commercial property investments. At present, CPF has approximately $2.9B of property under management spread across 16 closed-end funds, a recently established open ended diversified fund, and three ASX listed funds.

Board of the Responsible Entity

PIR 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 16: Board of the Responsible Entity and Key Management

Name & Role	Experience
Peter Done Chairman & Non-Executive Director	Appointed to the Board of Centuria Property funds in 2007, with 27 years experience as a partner at KPMG until retirement in 2006. Has been lead audit partner in property development sector.
Matthew Hardy Non-executive Director	Former non-executive director of Mirvac Funds Management Ltd. Also held senior real estate positions at global institutions including Barclays Global Investors, Richard Eillies and Jones Lang Wootton. Over 30 years experience in direct real estate, equities and funds management.
Darren Collins Non-executive Director	Former executive of Computer Sciences Corporation (CSC). Former non-executive director of three IT services companies, listed in Singapore, Hong Kong, and Kuala Lumpur, respectively.
John McBain Group CEO	CEO since 2008. On the Centuria Capital Board since 2006. Over 30 years industry experience. Founding member of Century Funds Mgmt, Waltus Investments Australia Ltd and Hanover Group Pty Ltd.
Jason Huljich CEO – Unlisted Property Funds	Head of Unlisted Property Funds since 2006. On the CPF Board since 2001. Founding member of Century Funds Management. Over 18 years of industry experience and is currently President of the Property Funds Association of Australia.
Nicholas Collishaw CEO – Listed Property Funds	CEO – Listed Property Funds since May 2013. Prior to this was CEO and Managing Director at Mirvac Group. Over 30 years experience with senior positions at James Fielding Group, Paladin Australia, Schroders Australia and Deutsche Asset Management.
Victor Georos Head of Portfolio & Asset Management	Head of Portfolio and Asset Management since July 2015. Experience in asset and investment management, development and funds management, across the office, retail and industrial sectors including at GPT and Lend Lease.
Hadyn Stephens Head of Transactions	Joined Centuria in July 2014. Over 15 years experience in the finance and real estate industry, including working at Merrill Lynch, The GPT Group, LaSalle Investment Management and Stockland.
Michael Blake Head of Sales and Marketing	Joined Centuria in February 2016. Previously held senior positions with Heine Funds Management, Mercantile Mutual, Zurich, HSBC Asset Management and Cromwell Property Group.

Source: Centuria/ PIR

Compliance and Governance

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

Compliance with ASIC Regulatory Guide 46

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.

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

Governance around Related Party Transactions

Centuria Property Funds maintains, and complies with ASIC requirements for, a written policy on related party transactions, including assessment and approval processes for such transactions. All related party transactions will be conducted on an arm's-length basis and will require appropriate sign-offs at the Board level.

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 actually 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. PIR notes that this is a strong feature of the Fund, better than industry norms.

6. Past Performance

Centuria Syndicate Performance

Since 1999, Centuria Capital Limited has managed 35 funds to completion representing $1.3 billion of asset sales, with an average total return to equity investors of 13.11% per annum.

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.

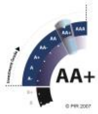
Appendix – Ratings Process

PIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

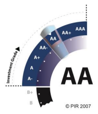
The Ratings

Financial Advisers and investors should note that for all ratings categories, the product may not suit the risk/return profiles of all investors.

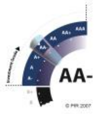
AAA: This is the highest rating provided by PIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and scored exceptionally in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely to effectively manage endogenous and, to the extent that it can, exogenous risk factors with industry best practice.



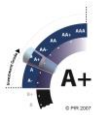
AA+: Indicates that PIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and scored exceptionally in a number of categories.



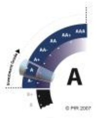
AA: Indicates that PIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives. The Fund should be in a position to effectively manage endogenous and, to the extent that it can, exogenous risk factors. This should result in returns being reflective of the expected level of up-side and down-side risk.



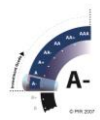
AA-: Indicates that PIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.



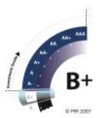
A+: PIR believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation criteria. The product provides some unique diversification opportunities, but may not stand apart from its peers. It has an acceptable risk/return trade-off and should generate risk adjusted returns in line with stated investment objectives.



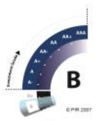
A: PIR believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation criteria but may not stand apart from its peers. There are certain assumptions, the outcome of which is sometime in the future and, therefore, less predictable. The product has an acceptable risk/return trade-off and is potentially able to generate risk-adjusted returns in line with stated investment objectives.



A-: PIR believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation criteria. There are certain assumptions, the outcome of which is sometime in the future and, therefore, uncertain. However, it has an acceptable risk/return trade-off. The product has an acceptable risk/return trade-off and is potentially able to generate risk-adjusted returns in-line with stated investment objectives.



B+: PIR 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 PIR 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. However, concerns over one or more features mean that it may not be suitable for most investors.



B: PIR believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to contain high risks which are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.

This report has been commissioned, and, as such, PIR has received a fee for its publication. Under no circumstances has PIR been influenced, either directly or indirectly, in making statements and / or recommendations contained in this report.

