# Centuria Industrial REIT (CIP)

# Centuria

### ASX Announcement

### Strategic Partnership and Portfolio Valuation

- Strategic partnership formed with an investment vehicle sponsored by Morgan Stanley Real Estate Investing to acquire a c.50% interest in a portfolio of eight existing CIP assets realising \$181m<sup>1</sup>, reflects a 4.7% divestment yield
- Sale proceeds to reduce debt and strengthen balance sheet
- HY23 portfolio valuations:
  - o 47bps portfolio capitalisation expansion to 4.66%, 1.9% reduction in valuations<sup>2</sup>
  - o Rental growth substantially offsetting capitalisation rate movement
- 31% proforma gearing<sup>3</sup> reduced from 33.2% at 30 June 2022, \$4.11 per unit proforma NTA<sup>3</sup>
- 79% of debt funding interest rates now hedged<sup>4</sup>
- Reaffirmed FY23 FFO guidance of 17.0cpu and distribution guidance of 16.0cpu

**SYDNEY** (Thursday, 8 December 2022) - Centuria Industrial REIT (ASX: CIP) announces that it has entered into agreements to establish the Centuria Prime Logistics Partnership ("CPLP"). CPLP is a joint venture between CIP and an investment vehicle sponsored by Morgan Stanley Real Estate Investing (MSREI) which will acquire a c. 50% interest in eight industrial assets held by CIP (Partnership Portfolio).

In addition, CIP announced that it has completed valuations on its investment properties as at 31 December 2022.

#### **Strategic Partnership**

CIP has entered into agreements to form a partnership with an investment vehicle sponsored by MSREI through the sale of a c.50% interest in eight CIP owned industrial assets for a total price of \$180.9 million<sup>1,5</sup>. The transaction allows CIP to realise cash proceeds and bolster its balance sheet by reducing debt and gearing, while retaining exposure to these high-quality strategic assets. The transaction reflects a divestment yield of 4.7%.

Entities associated with Centuria Capital Group will be appointed as the Trust Administrator, Property Manager and Development Manager allowing CPLP to continue to leverage Centuria's deep capability in the logistics sector.

Settlement of the transaction is expected in December 2022.

The Partnership Portfolio is comprised of the following properties:

- 8 Lexington Drive, Bella Vista NSW<sup>6</sup>
- 29 Glendenning Road, Glendenning NSW<sup>6</sup>
- 52-74 Quarry Road, Erskine Park NSW<sup>6</sup>
- 95-105 South Gippsland Hwy, Dandenong South VIC<sup>7</sup>
- 40 Scanlan Drive, Epping VIC<sup>7</sup>
- 69 Studley Court, Derrimut VIC<sup>7</sup>
- 42 Hoepner Road, Bundamba QLD<sup>7</sup>
- 1 Ashburn Road, Bundamba QLD<sup>7</sup>

#### Valuations

CIP completed external valuations on 28 investment properties, representing c.55% of its portfolio by value as at 31 December 2022. The remaining properties were subject to internal or Directors' valuations.

CIP's portfolio Weighted Average Capitalisation Rate (WACR) increased 47bps to 4.66%. Its portfolio value reduced \$72 million or 1.9% from 30 June 2022 book values<sup>2,8</sup>. The reduced value concentrated on two ultra-long WALE assets<sup>9</sup>.

The remainder of CIP's active portfolio remained materially unchanged<sup>10</sup> with portfolio leasing and rental growth offsetting capitalisation rate expansion.

Further details on property valuations will be available in CIP's half year 2023 results expected to be released on 31 January 2023.

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#### Capital Management

CIP entered into \$300million of forward dated interest rate swaps in the first half of FY23, increasing its interest rate hedging to c.79%<sup>4</sup> while maintaining a weighted average hedge maturity of 2.1 years as at December 2022.

On completion of the divestment and valuations, CIP's proforma gearing reduces to 31.2%<sup>3</sup> from 33.2% at 30 June 2022 with proforma Net Tangible Assets (NTA) of \$4.11 per unit<sup>3</sup>.

Jesse Curtis, CIP Fund Manager and Centuria Head of Industrial, said "The formation of this partnership combined with portfolio valuations demonstrate the resilience of CIP's portfolio and the continued demand for high quality industrial assets within urban infill markets in which CIP operates. This strategic partnership further strengthens CIP's balance sheet by reducing gearing and interest costs.

"Occupier demand for industrial property remains strong with low vacancy and limited supply continuing to drive rental growth across industrial markets. While capitalisation rates have widened, this has been substantially offset by the value of CIP's leasing success and growth in market rent with the portfolio value reducing modestly.

"Establishment of this partnership, along with the recent sale of 30 Clay Place, Eastern Creek NSW for \$34.5million, demonstrates CIP's ongoing commitment to capital recycling and portfolio optimisation."

CIP reaffirms its FY23 FFO guidance of 17.0 cents per unit (cpu). Distribution guidance is also reaffirmed at 16.0 cpu, reflecting an annualised distribution yield of 5.0%<sup>11</sup> to be paid in equal quarterly instalments

#### – Ends –

#### For more information or to arrange an interview, please contact:

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Authorised for release by Anna Kovarik, Company Secretary.

#### About Centuria Industrial REIT

CIP is Australia's largest domestic pure play industrial REIT and is included in the S&P/ASX 200 Index. CIP's portfolio of high-quality industrial assets is situated in urban infill locations throughout Australia and is underpinned by a quality and diverse tenant base. CIP is overseen by a hands-on, active manager and provides investors with income and an opportunity for capital growth from a pure play portfolio of high quality Australian industrial assets.

Centuria Property Funds No. 2 Limited (CPF2L) is the Responsible Entity for the ASX-listed Centuria Industrial REIT (CIP) (ARSN 099 680 252). CPF2L is a wholly owned subsidiary of Centuria Capital Group (CNI). CNI is an ASX-listed specialist investment manager with more than \$20 billion in total assets under management (as at 30 June 2022) and strong offerings across listed real estate investment trusts, unlisted real estate funds and investment bonds.

#### **Summary Information**

The following disclaimer applies to this announcement and any information contained in it (the Information). The Information in this announcement is of general background and does not purport to be complete. It should be read in conjunction with CIP's other periodic and continuous disclosure announcements lodged with ASX Limited, which are available at www.asx.com.au. You are advised to read this disclaimer carefully before reading or making any other use of this announcement or any Information contained in this announcement. In accepting this announcement, you agree to be bound by the following terms and conditions including any modifications to them.

#### **Forward Looking Statements**

This announcement may include forward-looking statements. These forward-looking statements are based on CIP's expectations and beliefs concerning future events. Forward looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside the control of CIP, which could cause actual results to differ materially from such statements. CIP makes no undertaking to subsequently update or revise the forward-looking statements made in this announcement, to reflect the circumstances or events after the date of this announcement.

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<sup>4</sup> Proforma as at 30 June 2022. CIP entered into a \$100m interest rate swap commencing December 2022 and \$200m of forward dated interest rate swaps commencing in June 2023

<sup>5</sup> MSREI will have the right to acquire CIP's interest in the Partnership Portfolio in certain default and change of control scenarios for 100% of the fair market value unless a competitor (as defined) of MSREI commences to control the CIP partner, in which case the acquisition price will be 95% of the fair market value. A "shotgun provision" may be triggered by either party in certain deadlock and unresolved dispute scenarios

<sup>6</sup> 49% ownership interest divested

7 50% ownership interest divested

<sup>8</sup> On a like for like basis, excludes capital expenditure incurred

<sup>9</sup> Assets with a WALE of greater than 15 years, being the Telstra Data Centre, Clayton VIC and 46 Robinson Road East, Virginia QLD

<sup>10</sup> CIP's active portfolio reduced \$1.9m or less than 0.1% over the half year to December 2022. The active portfolio represents CIP's assets with a WALE of less than 15 years

<sup>11</sup> Based on CIP unit price of \$3.20 as at 7 December 2022

<sup>&</sup>lt;sup>1</sup> Excluding transaction costs

<sup>&</sup>lt;sup>2</sup> Subject to audit and finalisation of statutory accounts

<sup>&</sup>lt;sup>3</sup> Proforma as at 30 June 2022 adjusted for \$42m development spend, mainly completion of 95-105 South Gippsland Highway, Dandenong South VIC; Acquisition of 119 Studley Court, Derrimut VIC (previously announced); Settlement of 30 Clay Place, Eastern Creek NSW (previously announced); formation of the strategic partnership; and December 2022 portfolio valuations