



ASX Release

17 February 2023

360 Capital REIT (ASX:TOT)

Half Year Results 31 December 2022

Long WALE portfolio, reaffirm forecast 6.0cps fully franked distribution for FY23

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360 Capital FM Limited as Responsible Entity for the 360 Capital REIT ("TOT" or the "Fund") is pleased to announce its financial results and operational update for the half year ended 31 December 2022.

HY23 key highlights

- Simplification of TOT's balance sheet and transition to traditional A-REIT complete
- TOT realised proceeds of \$186.9 million from the disposal of investments in Irongate Group (ASX:IAP) and PMG Funds, averaging an Internal Rate of Return (IRR) of 31% per annum.

Key financial highlights for the half year ended 31 December 2022

- Statutory net loss of -\$17.3m down -182% on pcg, largely due to stamp duty on property acquisitions
- Operating profit of \$4.4m up 19% on pcg
- Statutory earnings per security (EPS) of -12.1cps down -180%
- Operating EPS of 3.1cps up 19% on pcg
- Full franked distributions per security of 3.0cps in line with guidance and pcg

Property portfolio

TOT acquired a high quality, modern portfolio as part of the IAP transaction. The three-asset portfolio has a Weighted Average Lease Expiry (WALE) of 7.3 years and is 91%¹ occupied.

Both 510 Church Street, Cremorne and 34 Southgate Ave, Cannon Hill are brand new with 38 Sydney Ave undergoing a major renovation/refurbishment in 2018. As such, there is no near-term building capex required and all three assets have market leading sustainability credentials.

Post COVID occupiers are demanding higher quality accommodation with significant tenant amenity. This is evidenced by the quality of tenant covenants across all three assets, with 85.2% of rental income derived from either government or publicly listed companies, with an average rent review of 3.0% p.a. across the portfolio.

A summary of TOT's portfolio is detailed below:

38 Sydney Avenue, Canberra, ACT

38 Sydney Avenue, refurbished in 2018, is an A-grade office building comprising 8,696 sqm lettable area across 4 levels of office accommodation, ground floor retail and 82 car parks. The gross purchase price was \$81.7 million. The major tenant is the Australian National Audit Office which occupies 54.9% of the lettable area with a lease expiring in December 2034. The property has a 8.6-year WALE and weighted average rent reviews of 3.5% p.a. The building has a NABERS Energy rating of 4.5 stars and NABERS Water rating of 5 stars.

¹ Including the rental guarantee at 38 Sydney Ave, Canberra

510 Church Street, Cremorne, VIC (50% ownership)

510 Church Street is a brand-new A-grade office building comprising 19,805 sqm of lettable area across 9 levels of office accommodation, ground floor retail and 145 car parks. The gross purchase price was \$135.0 million for a 50% ownership share. The property has a diverse tenant mix, a 6.6 year WALE and weighted average rent reviews of 3.0% p.a. The property was constructed to achieve a 5 Star NABERS Energy Rating and 5 Star Green Star Design Rating.

34 Southgate Avenue, Cannon Hill QLD

34 Southgate Avenue is a brand-new A-grade office building comprising 3,585 sqm of lettable area across 3 levels of commercial accommodation and 153 car parks. The building and tenant fit out works were completed in September 2022. The whole property is leased to Michael Hill Jewellers (ASX:MHJ) with a 9.7-year WALE and 3.0% fixed annual rent reviews. The building is designed to achieve a 5 Star NABERS Energy Rating.

Asset management

The major focus of the Fund is the leasing of the remaining vacancies at Church Street, Cremorne and Sydney Avenue, Canberra.

510 Church Street, Cremorne

In order to attract employees back to the office, tenants are focused on high quality buildings with significant amenity. 510 Church Street is well positioned, as the Cremorne/Richmond precinct is the most sought-after Melbourne fringe market, catering to a wide variety of occupier industries. The majority of tenant enquiry is now for fitted out space, as such, the Fund has commenced a speculative fit out of the L3 vacancy in Church Street in response to market demand.

Whilst there are a number of new developments identified for the Cremorne area, rising construction and debt costs have significantly increased the economic rent required to make a new development viable. As such, 510 Church Street is uniquely positioned, providing prospective tenants with a brand-new offering at a price point below competition currently under construction.

38 Sydney Ave, Canberra

Post the 2022 election, the new Federal Government has commenced issuing market briefs for their tenancy requirements. Sydney Ave is well placed with the Forrest market having around 5% vacancy and Level 2 at 38 Sydney Avenue being the only contiguous offering over 1,700sqm.

The rental guarantee on the vacant space expires in June-24 and management remain confident of leasing this space prior to the expiry of the rental guarantee.

Capital management

As part of the acquisition of the portfolio, TOT entered into a 3-year facility with a major Australian bank. The facility limit is \$105 million and was drawn to \$83.8 million as at 31 December 2022, reflecting a 32.6% Loan to Value Ratio² vs a covenant of 50%.

TOT's debt is currently unhedged, the FY23 weighted average all-in interest rate is expected to be 4.6%. TOT will implement its interest rate hedging strategy as part of its overall capital management strategy when interest rates normalise.

² Based on last external valuations

Franking credits

Following the realisation IAP securities, TOT retains a significant franking credit balance of ~9.0cps equivalent to over 4 years of fully franked distributions³. TOT will distribute taxable income generated from the property portfolio and supplement the 6.0cps with a franked distribution (FY23 is estimated to be fully franked) providing TOT investors with a tax benefit (grossed up distribution estimated to be approximately 8.0cps⁴ equivalent) when compared to similar yielding A-REITs.

Outlook and guidance

We remain focused on executing the leasing objectives over the balance of FY23 and expect TOT's high-quality portfolio to outperform secondary assets and portfolios against the current volatile macroeconomic conditions.

TOT maintains FY23 distribution guidance of 6.0cps per annum, paid quarterly which is expected to remain fully franked for FY23.

For further information in relation to the proposal please contact either

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About 360 Capital REIT (ASX: TOT)

The Fund has a demonstrated track record of consistent quarterly distributions, through a selective and disciplined investment philosophy, combined with access to real estate investment opportunities available to TOT through the 360 Capital Group, the manager of the Fund.

³ Based on forecast franking account balance following payment of existing tax liabilities, forecast distribution of 6.0cps p.a. and current number of securities on issue and a franking rate of 25%. Noting the actual franking balance and applicable franking rate may change over the forecast period.

⁴ Based on gross up of fully franked distribution of 6.0 cps at 25% franking rate.