



360 Capital REIT (ASX:TOT)

Financial Year 2023 Results

Modern portfolio base to grow long term value

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 year ended 30 June 2023.

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FY23 key highlights

- Simplification of TOT’s balance sheet and transition to traditional A-REIT complete:
 - Completed disposal of Irongate Group investment
 - Disposal of PMG Funds in New Zealand
 - Settled three, modern assets for \$257.2 million
- Completed construction of Michael Hill’s new global HQ at 34 Southgate Avenue, Cannon Hill
- Leased 800 sqm of the vacant space at 510 Church Street, Cremorne and commenced speculative fit out over remaining vacancy
- Installed total of 200kW solar systems across 38 Sydney Avenue and 34 Southgate Ave, significantly increasing TOT’s renewable energy generation to 260kW

FY23 key financial highlights

- Statutory net loss of \$47.9m down 242.1% on pcp, largely due to stamp duty on property acquisitions and revaluations across the portfolio
- Operating profit of \$7.1m down 79.9% on pcp due to pcp including Irongate Group profit
- Statutory earnings per security (EPS) of -33.4cps verse pcp EPS of 24.0cps
- Operating EPS of 5.0cps down 80.2% on pcp
- Full franked distributions per security of 6.0cps in line with guidance and pcp

Property portfolio

In line with TOT’s transition to a traditional diversified AREIT, TOT acquired a high quality, modern portfolio from Irongate Group. The portfolio comprises three modern assets located in Melbourne, Canberra and Brisbane with a Weighted Average Lease Expiry (WALE) of 7.4 years, average age of 2.8 years, and is now 93.3%¹ occupied following recent leasing at 510 Church Street, Cremorne VIC.

510 Church Street, Cremorne, VIC is a recently completed office/healthcare facility, valued at \$115 million (50% interest) comprising 19,752 sqm of lettable area and 145 car parks.

38 Sydney Avenue, Canberra, ACT refurbished in 2018, is an A-grade office building, valued at \$74.0 million comprising 8,718 sqm lettable area and 82 car parks.

34 Southgate Avenue, Cannon Hill, QLD was completed in September 2022, comprising a 3,585 sqm high-tech industrial facility, 153 car parks, valued at 36.0 million, and was pre-committed for Michael Hill International’s global HQ.

¹ Including the rental guarantee at 38 Sydney Ave, Canberra



The portfolio is well diversified, comprising 50.1% office/healthcare, 32.3% office 15.7% industrial assets and 1.9% retail across the eastern states. The portfolio has a targeted average NABERS rating of 5 stars.

TOT has a 4.5% interest in a fund which owns Fortius Sydney Homemaker HQ Trust worth \$4.3 million. This asset is considered non-core to TOT and is held for sale as a current asset in TOT's accounts. The Fund is now actively seeking to sell this investment.

Asset management

Following the acquisition of the Irongate portfolio, the asset management team is focused on implementing our asset management plans, namely leasing, monitoring tenant fit outs and defects from the recently completed properties, and further enhancing the ESG credentials of the portfolio.

During FY23, Michael Hill International relocated to their global headquarters at 34 Southgate Avenue, Cannon Hill on a new 10 year lease, Dentsu, and Monash IVF moved into 510 Church Street, Cremorne on new 7 year and 10 year leases respectively, and SRC moved into 38 Sydney Avenue, Canberra on a new 10 year lease.

In June 2023, PZ Cussons leased 800 sqm on a 5.5 year lease giving the Fund confidence to commence a speculative fit-out over the remaining vacant space following significant enquiry from tenants seeking fitted out tenancies in the Cremorne locality.

Vacancy on the Fund's Canberra asset remains under a rental guarantee until 30 June 2024 and with the recent Federal Budget being released, we have seen an increase in leasing enquiry from government departments over the remaining available space. The Fund remains confident of leasing this vacancy prior to the expiry of the rental guarantee in June 2024.

Given the modern nature of the portfolio, the Fund had minimal capital expenditure investing \$0.2 million on the installation of 200kw in solar systems at 38 Sydney Avenue and 34 Southgate Avenue.

Valuations

Two of the Fund's three assets were independently valued in June 2023, representing approximately 50% of the portfolio by value, with an internal valuation undertaken on 510 Church Street, Cremorne VIC.

The valuations resulted in a valuation decrease of \$32.2 million from the acquisition price as a result of softening in capitalisation rates, with the portfolio Weighted Average Capitalisation Rate (WACR) expanding by 67bp to 5.33%.

Capital management

As part of the acquisition of the property portfolio, TOT entered into a 3-year facility with a major Australian bank. The facility limit is \$105.0 million and was drawn to \$83.8 million as at 30 June 2023, reflecting gearing of 34.9%² gearing (net of cash) providing the Fund with \$21.2 million of headroom.

TOT will look to maintain a target gearing range of 30% to 40%.

TOT's debt is currently unhedged, with the recent significant increases in interest rates, the FY23 weighted average all-in interest rate was 4.7% (including margin). TOT will implement its interest rate hedging strategy as part of its overall capital management strategy when interest rates normalise and future investment opportunities present themselves.

² Gearing equal to borrowings less cash, divided by total assets less cash.



Franking credits

Following the realisation IAP securities, TOT retains a significant franking credit balance of approximately 7.6cps equivalent to 3 years of fully franked distributions³. TOT will distribute taxable income generated from the property portfolio and supplement the 6.0cps with a franked distribution (FY24 is estimated to be fully franked) providing TOT investors with a tax benefit (grossed up distribution estimated to be approximately 8.6cps⁴ equivalent).

360 Capital REIT's opportunity to build long term value as an AREIT

As the Group's flagship real estate equity REIT, we remain committed to TOT's strategy to become a more relevant, diversified AREIT. The Fund is well positioned to benefit from this flight to quality with a solid base of modern assets providing strong cashflows from well leased assets with minimal capital expenditure.

Continued upward inflationary pressures have now made many new developments unviable as the economic rents required to replace assets are beyond current market rates. In the short term this has and will continue to constrain new supply, supporting rental growth over the medium term. Based on the replacement cost of each of TOT's assets, the average passing rent in each property is between 8% and 30% below the economic rent required to replace TOT's assets.

As the cycle progresses, bifurcation in asset quality will become more evident, as investors, financiers and occupiers place greater emphasis on modern assets with market leading sustainability credentials.

With the recent increase in interest rates impacting the Australian commercial real estate landscape, as can be seen from the S&P ASX300 AREIT index trading at an approximately 19% discount to the underlying net asset backing as at 30 June 2023. The investment environment is now such where TOT has the opportunity to undertake transactions which will provide greater diversification, scale, and investor appetite, improving returns to TOT securityholders.

Notwithstanding the opportunity to grow TOT's asset base, 360 Capital will assess the asset quality within any potential transaction, taking into consideration the high quality of TOT's portfolio and as part of any potential transaction, it is likely that TOT will dispose of some assets it may inherit (in the case of M&A opportunities) and will look at using proceeds from any non-core sales for capital management activities (including buybacks) (noting TOT's gearing range).

FY24 Forecast Distributions

The Fund's significant retained earnings and franking credits balance as outlined above provide the opportunity to distribute these franking credits back to securityholders in the form of fully franked distributions.

Given the recent and expected future leasing, near peak interest rates and retained earnings balance, the Fund's objective is to maintain its current level of FY23 quarterly distributions for FY24. It is forecast that the FY24 fully franked distribution will be 6.0cps which equates to a fully franked distribution yield of 10.1% (based on the TOT 23 August 2023 closing price of \$0.595 per security). When grossed up for the franking credits, the equivalent yield is 14.4%p.a.

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 30%. Noting the actual franking balance and applicable franking rate may change over the forecast period.

⁴ Based on grossed up of fully franked distribution of 6.0 cps at 30% franking rate.



Authorised for release by 360 Capital FM Limited.

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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.
