



360 Capital REIT (ASX:TOT)

Half Year Results 31 December 2023

Strengthening balance sheet in uncertain times

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 2023.

HY24 key highlights

- Completed speculative fit out of remaining level two vacancy at 510 Church Street, Cremorne VIC
- Achieved 5-Star NABERS Energy rating at 34 Southgate Ave, Cannon Hill QLD
- All properties externally valued within the last six months, with a Weighted Average Capitalisation Rate (“WACR”) of 5.33% as at 31 December, reflective of the age and quality of TOT’s portfolio
- PZ Cussons and Monash IVF commenced occupation of their tenancies at 510 Church Street, Cremorne VIC

HY24 key financial highlights

- Statutory net profit of \$2.3 million up on \$17.3 million loss in pcp
- Operating profit of \$1.8 million down 58.1% on pcp due to pcp including PMG disposal gain
- Statutory earnings per security (eps) of 1.6 cps verse pcp eps of (12.1) cps
- Operating eps of 1.3 cps down 58.1% on pcp due to pcp including PMG disposal gain
- Fully franked distributions per security of 3.0 cps in line with guidance and pcp

Property portfolio

TOT’s core direct property portfolio comprises three modern assets located in Melbourne, Canberra and Brisbane with a Weighted Average Lease Expiry (WALE) of 7.0 years¹, average age of 3.2 years², and is now 93.2%¹ occupied following recent leasing at 510 Church Street, Cremorne VIC. The property portfolio comprises:

510 Church Street, Cremorne, VIC was completed in 2021 and is an office/healthcare facility, valued at \$117.5 million (50% interest) comprising 19,749 sqm of lettable area and 145 car parks.

38 Sydney Avenue, Forrest, 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, occupied by Michael Hill International as its global headquarters.

¹ Weighted by gross income including car parking, rental guarantee and excluding outstanding incentives

² Average age assumes from the date of major refurbishment of 38 Sydney Avenue and completion date for remaining portfolio. Weighted by value.



The investment portfolio is well diversified, comprising 50.8% office/healthcare, 32.0% office 15.6% high-tech industrial assets and 1.6% retail across the eastern states¹. TOT has a 4.5% interest in a fund which owns Fortius Sydney Homemaker HQ Trust with a carrying value of \$3.8 million. This asset is considered non-core to TOT and is held for sale as a current financial asset.

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 the period a 5-Star NABERS rating was achieved at 34 Southgate Ave, Cannon Hill QLD. The rating process is continuing on 510 Church Street, Cremorne, VIC and a NABERS improvement process implemented at 38 Sydney Avenue, Forrest, ACT. The portfolio has a targeted average NABERS rating of 5-Stars.

Leasing

In June 2023, PZ Cussons leased 804 sqm on a 5.5 year lease and moved into 510 Church Street in July 2023.

The Fund completed a speculative fit-out over level 2 being the remaining vacant space at 510 Church Street at a cost to the Fund of \$1.6 million, providing prospective tenants seeking fitted out tenancies in the Cremorne locality to relocate immediately.

We have issued a number of proposals over this remaining vacant space at 510 Church Street, however, given the current economic environment, prospective tenants are taking longer to commit to their future tenancy requirements.

Vacancy on the Fund's Canberra asset remains under a rental guarantee until 30 June 2024. Over the past 6 months, the Fund changed leasing agents and relaunched the leasing campaign which has seen the level of enquiry increase. As a result, the Fund issued a number of leasing proposals for the vacancy, however, to date prospective tenants have elected to remain in their current tenancies. The Fund is currently awaiting responses on several lease proposals issued late 2023.

Valuations

An independent valuation was obtained on 510 Church Street, Cremorne, VIC for December 2023 reporting, representing 50.8% of the portfolio by value, and internal valuations undertaken for the remaining two properties which were independently valued as at June 2023, resulting in a portfolio of value of \$227.5 million as at 31 December 2023. The independent valuation of 510 Church Street, Cremorne, VIC was \$117.5 million, up from the carrying value in June 2023 of \$115.0 million, this was primarily due to increasing market rents in the Cremorne area, payment of capital expenditure for the speculative fit-out on level 2 and maintaining the capitalisation rate. The portfolio Weighted Average Capitalisation Rate (WACR) remained at 5.33%¹.

¹ Weighted by value



Capital management and capital raising¹

The Fund's gearing has increased due to the reduction in asset values since acquisition and following the payment of tax liabilities in December 2023. As a result, TOT's gearing² was 41.6% as at 31 December 2023, above its stated gearing range of 30-40%.

TOT has announced today, a 0.8 for 1 non underwritten, pro-rata, non-renounceable Entitlement Offer to raise up to \$46.8 million with net raising proceeds used to reduce TOT's borrowings. The Entitlement Offer is only available to Eligible Securityholders who are Securityholders of TOT on the record date of 7.00pm AEDT on 19 February 2024.

Offer price of \$0.40 per New Stapled Securities representing a 26.6% discount to the last ASX closing price on 13 February 2024. New Stapled Securities will not be entitled to the March 24 quarter distribution but entitled to the June 24 quarter distributions in full in line with Existing Stapled Securities.

Depending on the level of participation in the Entitlement Offer, we expect TOT's gearing to be reduced to as low as 22.0% if 100% participation occurs, and interest expense to be significantly reducing going forward.

Further details of the Entitlement Offer have been announced today, with the Entitlement Offer Booklet available from both the ASX under TOT announcements and 360 Capital's website www.360capital.com.au. The Entitlement Offer will close on 5.00pm AEDT Thursday, 7 March 2024.

As at 31 December 2023, TOT's debt facility of \$110.0 million was drawn to \$98.3 million reflecting gearing (net of cash) of 41.6%² well within its covenant of 50%. The Fund remains in compliance with all debt covenants, including its ICR which was reduced to 1.5 times during the period.

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 and a strong balance sheet post the Equity Raising.

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 4% and 15% 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.

FY24 Forecast Distributions

As a result of the increased interest costs experienced and delays in leasing over the past 6 months, TOT's earnings have been below its level of distribution with TOT declaring a 3.0cps fully franked distribution for the 6 months to 31 December 2023.

¹ Capitalised terms have the same definition as the Entitlement Offer Booklet released to the ASX on 14 February 2024

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



TOT has now decided to rebase its distribution going forward, while maintaining its forecast fully franked distribution of 1.5cps for the March 2024 quarter. Post the completion of the Equity Raising, distributions will be reduced to 0.75cps for the June 2024 quarter, equating to a forecast FY24 distribution of 5.25cps.

TOT is forecasting a 3.0cps distribution for FY25. Although this reduction in distributions is disappointing, post the Equity Raising, TOT will be in a more sustainable position, with a strong balance sheet, modern portfolio with long leases and minimal capital expenditure.

The Fund has a history of paying fully franked distributions and expects to continue to pay fully franked distributions in FY24 and FY25 given its existing franking credit balance. The Fund also has the ability to distribute tax deferred distributions as its modern portfolio has significant depreciation allowances.

Authorised for release by the Board of 360 Capital FM Limited.

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.
