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QUARTERLY UPDATE

July - September 2019



US Masters
Residential
Property Fund



Executive Summary

US Masters Residential Property Fund (URF or Fund) is pleased to provide the third quarterly update of 2019, presenting information from the quarter ended 30 September 2019.

During the quarter the Fund made an early repayment on URF Notes II (**URFHB**). This first repayment, initially declared at \$33 per note, was increased to \$40 per note and repaid on 30 September 2019. The Fund will continue with the overarching aim for an early repayment of both URFHB and URF Notes III (**URFHC**), with further repayments to be made on future quarterly repayment dates until the notes are fully repaid. These repayments will assist in reducing the Fund's gearing levels and overall financing costs, with the sale of assets being conducted strategically and patiently to improve the return potential of the overall portfolio.

During the quarter, the Fund made a resolute effort to evaluate and reduce operating expenses across the portfolio. The Fund announced and commenced the relocation from its New York City based office to an alternate more cost effective office space located in Jersey City, New Jersey. In the lead up, the Fund evaluated the staffing requirements to improve operational efficiency, ultimately leading to the restructure of teams and a reduction in head count within the Fund. The Fund anticipates making the transition across to Jersey City during November 2019.

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Operationally, the Fund continued to deliver properties from the construction pipeline, and at the end of the quarter there were 10 properties remaining in the original construction pipeline (a pool of properties which was announced in Q1 2018). Whilst the quarter fell short of original projections, we remain confident that the entire pipeline will be completed as projected, and at the date of release a further three renovations have been completed. These subsequent completions have ensured that the Fund is now on track with the original forecast to lead into Quarter 4, 2019. The leasing team again saw strong renewal rates, with 75% of all renewals signed for an average rental increase of 3% year on year. Finally, the Fund signed 49 new leases on existing properties, for an increased lease price of 4.2%, and 7 leases on new construction deliveries.

We will continue to update investors on our progress over the coming months.



Kevin McAvey
Co-Head of the US REIT



Brian Disler
Co-Head of the US REIT

Quarter Highlights

- **Seven properties sold for a gross sales price of US\$4.3 million**; a 0.7% gross premium to the Fund's book value for these assets.
- At the start of the quarter, the Fund had **12 properties remaining from the original construction pipeline**. During the quarter, construction was completed on two properties, and the Fund ended Q3 with **10 properties remaining**.
- **75% of leases up for renewal were renewed** during the quarter, with an average rental increase of 3%.
- **49 leases signed on existing Fund properties**, with an average increase of 4.2% on their previous lease price.
- 7 leases signed on new construction deliveries bringing a **total annualised rental income for those properties of US\$248,940**.





Cost Saving Measures

Following the appointment of Kevin and Brian as Co-Heads of the US REIT at the start of August, management has been committed to providing transparency on operations, aiming to close the gap between the Fund's Net Asset Value (NAV) and the URF unit price.

Over the two months since appointment, the following changes have been implemented:

1. Since June, staffing positions have been consolidated and significant cost savings realised. Moving forward these changes are anticipated to save approximately US\$2 million in annual costs. These staff were across a number of functions such as security services, leasing and operational roles which were integral to supporting a rapidly growing portfolio of assets. As the portfolio moves towards full stabilisation, more properties become passive assets that are actively tenanted, and these positions are therefore able to be reduced. This approximate level of savings is inclusive of salaries and associated direct staffing costs (insurances, medical coverage, etc.).
2. The Fund has commenced the transition to a new office in Jersey City. The Fund expects to make the transition across to Jersey City in November 2019, with the New York City office now on the market for sublease. We expect that the cost savings to the Fund for this change will be in excess of US\$500,000 per year.
3. The Fund has changed the structure of leasing payments, with tenants now able to pay their rent via credit card with a 3% surcharge. Previously the Fund has waived such costs to build a strong presence in the marketplace and encourage premium rental levels. Given the strong awareness and exposure that URF rentals now enjoy, this has been another area of identified cost savings. We expect that the long term cost savings to be in excess of US\$400,000 per annum.
4. Through the partial repayment of URFHB on 30 September 2019, the Fund's ongoing financing costs have been reduced. As these Notes continued to be repaid at future quarterly repayment dates, we will continue to see the Fund's total interest expense decrease. The interest charge on the repaid URFHB debt was \$2.8 million per annum.

Further cost saving measures have been identified and will be implemented over the coming months. These include, but are not limited to:

1. Reducing the frequency of landscaping at certain properties, where possible;
2. Internalising basic maintenance requests and exploring lower cost vendor arrangements.

These savings will be implemented over the coming months and we will continue to share more quantitative data in future quarterly updates.



Property Disposals

During the quarter, the Fund continued with the strategic asset sales program. As highlighted previously, the disposals strategy is intended to be iterative, with the Asset Management team assessing the market movements of each neighbourhood as we continue with the disposals process. Ultimately, the Fund will strategically sell across the various neighbourhoods to maximise value for unitholders.

Sales Results

During the quarter, the Asset Management team continued to work on building a robust sales pipeline. The Fund disposed of seven properties during Q3 for a gross sales price of US\$4.3 million. In aggregate, these sales transacted for a 0.7% premium to the Fund's book value for the properties. The sales costs associated with these seven sales was US\$259,753; 6.03% of the gross sales proceeds, with the bulk of the costs being real estate broker fees and state transfer taxes.

Q3 2019 SALES					
ADDRESS	CITY	SOLD DATE	SALE PRICE	SALES COSTS	BOOK VALUE
Seaman Road	West Orange	1/7/2019	\$430,000	-\$23,228	\$430,078
7th Street	Jersey City	29/7/2019	\$850,000	-\$45,390	\$855,965
Glen Avenue	West Orange	1/8/2019	\$875,000	-\$46,481	\$875,139
Sherman Avenue	Jersey City	12/8/2019	\$749,000	-\$51,139	\$749,000
61st Street	West New York	21/8/2019	\$390,000	-\$33,369	\$391,227
Constitution Way	Jersey City	5/9/2019	\$465,000	-\$30,690	\$465,366
Brookfield Road	Montclair	26/9/2019	\$549,000	-\$29,455	\$509,621
			\$4,308,000	-\$259,753	\$4,276,395

Sales Pipeline

The quarter saw significant listing activity for the Fund, with the sales season most active in the warmer months. During the quarter, in addition to the seven properties noted above that were successfully sold (US\$4.3 million), there were 13 accepted offers that were placed under binding contract for a combined contract price of US\$12.5 million, and three accepted offers in "attorney review" for a combined contract price of US\$1.2 million.

At the end of Q3, the sales pipeline consisted of 36 properties on the market for sale, under binding contract, or in "attorney review". The estimated gross proceeds from the disposal of the entire pipeline of assets in each of these three stages is US\$48.7 million.



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Leasing

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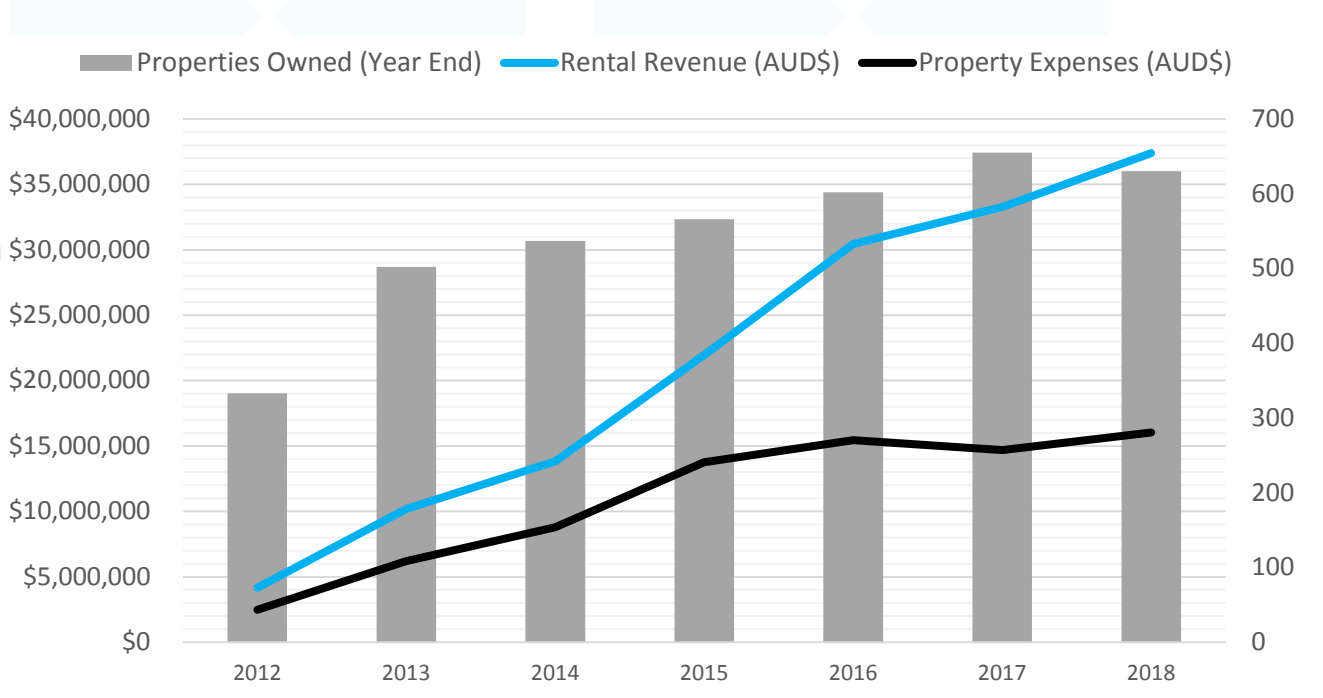
Over the third quarter, the Leasing team processed a high volume of inquiries as well as ensuring that new and renewal lease prices were continuing to increase.

The Fund had a total of 56 new leases signed, 49 of which were leases on existing properties, bringing in an annualised rental income of US\$1.8 million. The average increase in rent on these new leases was 4.2%. The remaining seven leases were signed on new construction properties, bringing in an annualised rental income of just under US\$250,000.

The Fund experienced another strong quarter for lease renewals, with 75% of leases being renewed (175). These renewals provide the Fund with a total annualised rental income of US\$7.1 million, a 3.0% increase on the previous lease prices. The strength of the Fund's renewals continues to be encouraging as re-leasing to an existing tenant is less costly than leasing to a new tenant.

Freestanding Portfolio Leasing Revenue:

As the Fund continues to strive toward full portfolio stabilisation, the portfolio has seen a steady increase in rental revenue as projects have been delivered from the construction pipeline. The Fund has naturally taken advantage of economies of scale to reduce property level expenses, with efforts to continue to reduce property level expenses further.



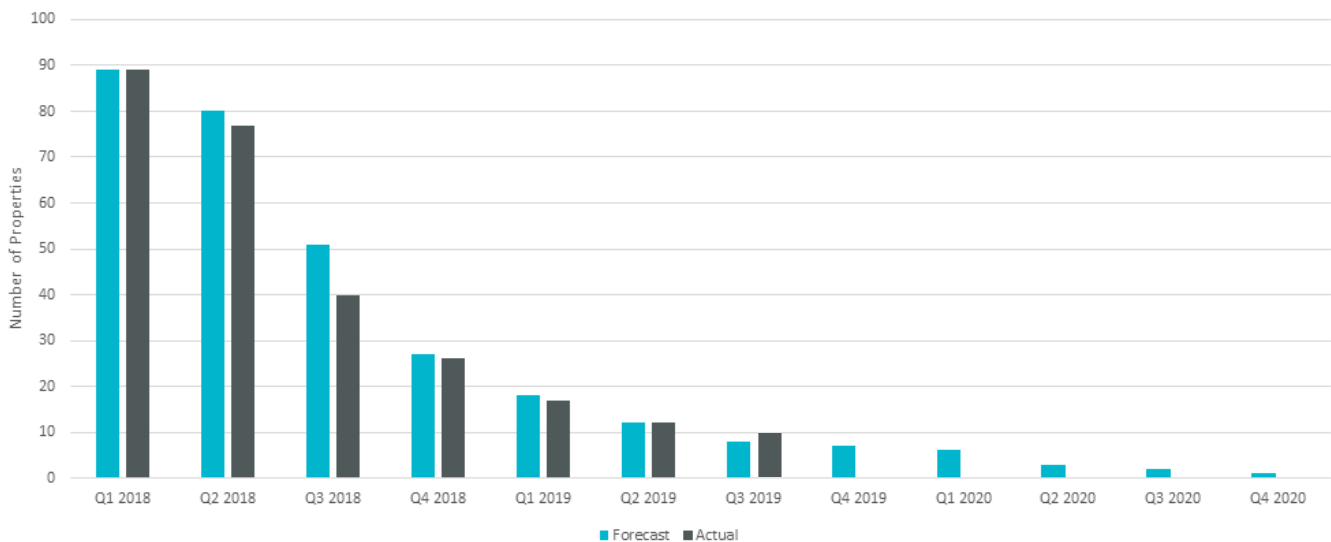
Source: US REIT



Construction Pipeline

In our 2017 half year accounts, we announced as part of our strategic review that the Fund's focus is to finalise completion of the renovation pipeline and work toward full portfolio stabilisation. During the quarter, the Fund completed construction on two properties that were in the original Q1 2018 construction pipeline.

Renovation Pipeline



Source: US REIT

As outlined by the chart above, in the Q1 2018 quarterly report we had projected that by the end of Q3 2019 there would be seven properties remaining in the renovation pipeline. The Fund completed the quarter with 10 properties remaining, slightly more remaining than the original projections, however between the end of the quarter and the date of release, a further three renovations have been completed. These subsequent completions have ensured that the Fund is now on track with the original forecast to lead into Quarter 4, 2019.

The Fund continues to forecast the majority of projects will be completed within the next six months, at which time we forecast that there will be less than five projects remaining.



Portfolio Analysis

FREESTANDING PORTFOLIO

AREA	PROPERTIES	UNITS	VALUE (US\$)
New York Premium	137	159	476.1 million
New Jersey Premium	104	178	226.5 million
New Jersey Workforce	352	706	193.4 million
Total	593	1043	896.0 million

MULTI-FAMILY PORTFOLIO

AREA	PROPERTIES	UNITS	VALUE (US\$)
Hudson County	13	400	43.9 million
Manhattan	2	105	19.7 million
Queens	2	70	13.3 million
Total	17	575	76.9 million

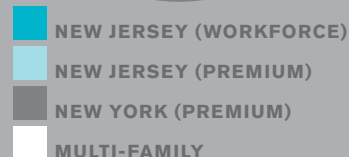
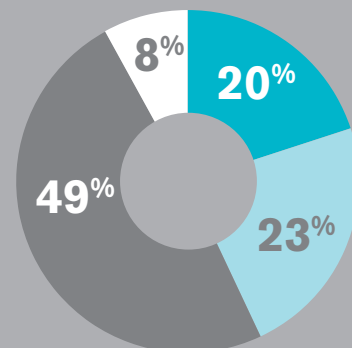
TOTAL PORTFOLIO

PORTFOLIO TYPE	PROPERTIES	UNITS	VALUE (US\$)
Freestanding Holdings	593	1,043	896.0 million
Multi-Family Holdings	17	575	76.9 million
Total	610	1,618	972.9 million

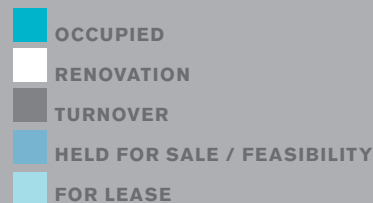
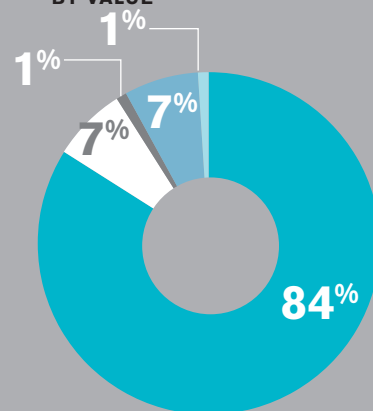
Source: US REIT

The value of the Fund's portfolio of properties is determined each six months as part of the Fund's statutory reporting obligations. The valuations are completed by a panel of independent, licensed appraisers. Every six months, approximately 50% of the portfolio by number of properties is independently appraised. The results of the appraisals are used to determine an appropriate neighborhood specific movement, which is in turn used to mark properties not appraised during the period to fair value. Properties that have recently undergone renovation are appraised immediately following the completion of construction.

PROPERTY DISTRIBUTION BY VALUE

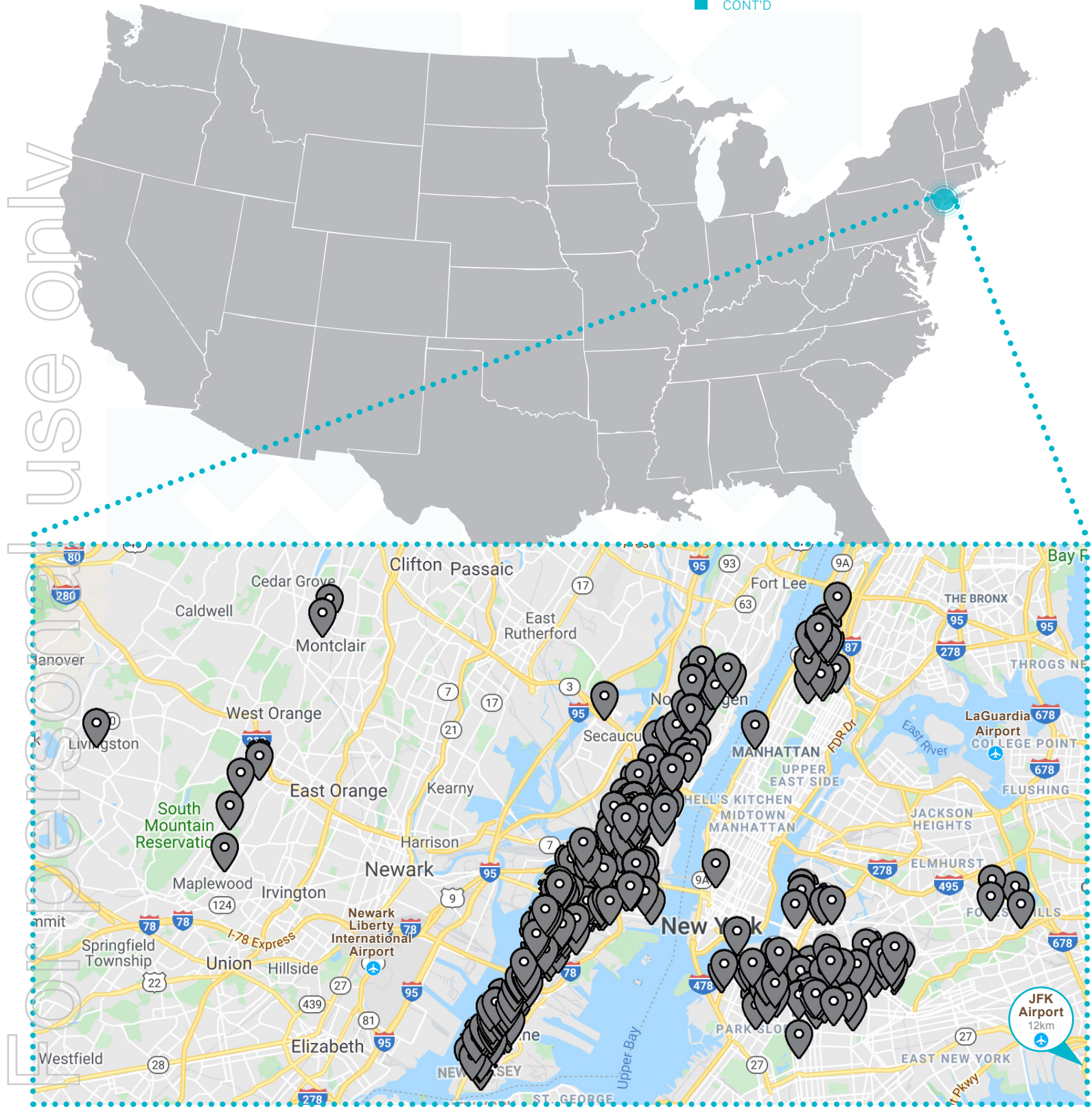


PROPERTY STATUS BY VALUE



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KEY:  Existing Fund Portfolio

Source: US REIT

URF Fund Statistics

URF Unit Price Performance^{1,2,3,4} AS AT 30 SEPTEMBER 2019

1M	3M	6M	1YR	2YR (PA)	3YR (PA)	5YR (PA)	SI ² (PA)
-13.2%	-26.7%	-40.4%	-55.9%	-35.4%	-26.4%	-15.6%	-5.6%

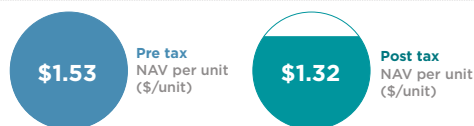
NTA Performance^{1,2,3,4} AS AT 30 SEPTEMBER 2019

1M	3M	6M	1YR	2YR (PA)	3YR (PA)	5YR (PA)	SI ² (PA)
-1.3%	0.0%	-0.7%	-3.1%	2.5%	-1.7%	2.9%	5.2%

Net Asset Value Breakdown^{3,4} AS AT 30 SEPTEMBER 2019

ASSETS	\$1,497m	Investment Properties	Cash	Other
LESS LIABILITIES (excl. tax) ⁵	(\$716m)	Bank debt ⁸	Notes ⁶	Other
LESS CPUs ⁷ (at face value)	(\$199m)	CPUs ⁷		
EQUALS PRE-TAX NAV	\$582m			
LESS DEFERRED TAX LIABILITIES ⁵	(\$80.5m)			
EQUALS POST-TAX NAV	\$501.5m			

DIVIDED BY ORDINARY UNITS OUTSTANDING 380m



Important Information

This Quarterly Update (Update) has been prepared by the US REIT, and issued by Walsh & Company Investments Limited (ACN 152 367 649 | AFSL 410 433) (Responsible Entity) as the Responsible Entity for the US Masters Residential Property Fund (Fund) (ARSN 150 256 161). An investment in the Fund is subject to various risks, many of which are beyond the control of the Responsible Entity.

This Update contains statements, opinions, projections, forecasts and other material (forward looking statements), based on various assumptions. Those assumptions may or may not prove to be correct. None of the Responsible Entity, its officers, employees, agents, analysts nor any other person named in this Update makes any representation as to the accuracy or likelihood of fulfilment of the forward-looking statements or any of the assumptions upon which they are based.

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Notes

- Returns are inclusive of distributions reinvested and adjusted for rights issues
- Inception date June 2011
- Past performance is not a reliable indicator of future performance.
- Source: US REIT
- Liabilities excludes deferred tax liabilities. Deferred tax liabilities is the estimated tax obligations which may arise in connection with the realisation and distribution of taxation capital gains associated with its property assets
- Notes refer to URFHB and URFHC at face value
- CPUs refer to Convertible Step-up Preference Units (ASX: URFPA). For the purpose of calculating the NAV, the above figures assume a cash settlement of the CPUs. No decision has been made regarding the conversion of the CPUs
- Bank debt refers to all other borrowings

Board & Management

Board of the Responsible Entity

Alex MacLachlan
Warwick Keneally
Mike Adams

US Management Team

Kevin McAvey CO-HEAD OF THE US REIT
Brian Disler CO-HEAD OF THE US REIT

For Further Information

Level 15, 100 Pacific Highway,
North Sydney 2060
www.usmastersresidential.com.au
URFInvestorRelations@usmprf.com
T: 1300 027 055