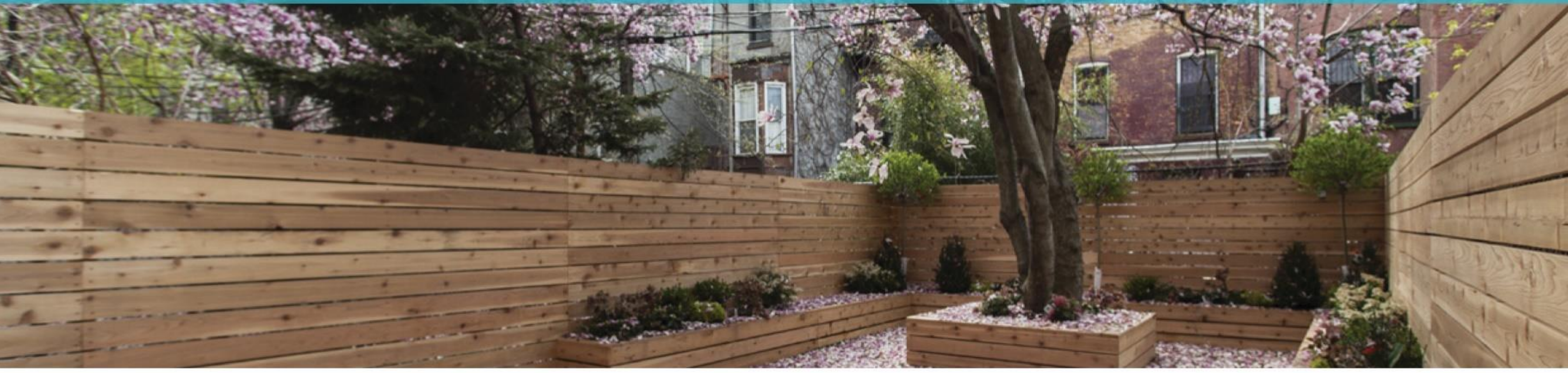

US Masters Residential Property Fund (Fund) ASX Code: URF

Frequently Asked Questions (FAQ)

What is NAV and how is it calculated?

NAV stands for ‘net asset value’, which is a measure of the value of the Fund attributable to ordinary unitholders after all claims on the assets have been accounted for. Typically, this is stated on a per unit basis i.e. the NAV is $X.XX per unit. In URF’s case, the NAV figure is the total assets of the Fund, less all bank debt, URF Notes (Notes II (ASX:URFHB) and Notes III (ASX:URFHC)), and convertible step-up preference units (ASX:URFPA), as well as working capital adjustments and tax. The residual total, or Net Asset Value, is then divided by the number of ordinary units in the Fund to obtain the NAV per unit or the Net Asset Value per unit.

What impact will selling properties have on the NAV of the Fund?

The selling program is intended to reduce gearing and specifically to repay Notes II and III. If URF’s assets are realised by selling some of its properties, and the entire net proceeds used to repay debt, then total assets reduce due to the property sales. However, Notes II and Notes III balances would also reduce, which reduces total liabilities by the same amount.

With respect to how this process of selling properties and reducing gearing impacts NAV, it depends on the sale price of the property relative to its book value and the transaction costs incurred in that sale.

If the sale proceeds less the transaction costs are higher than book value, this will be positive to NAV. Conversely, if the net proceeds are lower than book value, this will negatively impact NAV.

Transaction costs can vary based on how the properties are sold. Transaction costs for portfolios of assets are typically in the low-single digit percentages, whereas the costs of selling properties individually is typically in the mid-to-high single digit percentages, with the largest component being brokerage.

Why are the selling costs so high?

One of the unusual features of the US real estate market which is different from most categories of real estate in Australia is that real estate agents or brokers act for both parties in a sale transaction. Accordingly, transaction fees primarily comprise a sales commission of 2% to 3% for both a buying and a selling agent, and hence total commissions can range between 4% and 6% for a typical sale. These are normal selling costs for this market when selling properties on a one by one basis. The Fund is selling most properties with a 4% brokerage cost, however for certain properties the Fund may agree a 5% brokerage rate where a particular broker has shown that they can offer extra value that justifies the higher fee. Transaction fees also include state transfer taxes.

Where appropriate, the Fund is also pursuing "off-market" transactions which may remove the need for a broker. This is attractive to the Fund due to the reduced commissions that are payable. At all times the Fund is focused on maximising the net sales proceeds (after accounting for transaction costs) from any sale.

For further information on the US real estate market, investors can read an information paper from Douglas Elliman, one of New York's largest residential real estate brokers, that highlights the typical closing costs of selling a property in New York. Page 5 details selling a townhouse and single family home in the state of New York. This includes broker fees of 6%, NYC Real Property Transfer Tax (NYC RPTT) of over 1%, New York state transfer tax, and attorney and title closer fees. The document can be found here.

Are any of the selling costs retained by the Investment Manager?

No. No money from the URF sales are retained by any entity in the Evans Dixon Group.

Why has the URF unit price and NAV diverged?

Many factors can impact the price at which URF trades on the market at any point. While it is not possible to pinpoint the exact factors driving the discount to NAV, we do acknowledge that communications with investors have not been adequate in the past, and investor sentiment has been negatively impacted. This issue is being addressed by the Fund's program of improved communication. The Fund releases regular video updates from the Co-Head's of the US REIT, detailed monthly updates, and the quarterly update has been restructured to include quantitative reporting of the Fund's financial operations in line with investor feedback.

It is important to note that the units are relatively illiquid, around 11% of total ordinary units issued have traded over the past 12 months. This highlights that a relatively small number of unit trades can impact the unit price.

Reducing the discount between the Fund's NAV and unit price is a key priority for the Responsible Entity and the Investment Manager.

What is the Fund doing to address the divergence?

Implementation of the selling program should provide market evidence to support the balance sheet value of the Fund's properties. This is important, as the value of the Fund's property assets underpins the Fund's NAV, which in turn, provides support to the unit price. The Investment

Manager will advise the market, including URF unitholders, through the monthly and quarterly reports as to how the property sales results compare to their balance sheet value as the program proceeds.

What is the timeframe for the asset disposal program?

Implementation of the program can be done in several ways, including:

- Selling properties one-by-one
- Selling portfolios comprising large numbers of properties to institutional and industry players, and
- Corporate transactions, including a partial or full sale of the business as well as other capital initiatives

Depending on which path(s) the Fund takes, the timeline could vary quite a bit, but a key focus of the Fund is executing the process in an orderly way that maximises value for investors.

What is the Fund's valuation process?

In accordance with the Fund's accounting policies, investment properties held by the Fund are measured at fair value, representing the amount that would be received to sell the property in an orderly transaction under current market conditions.

As required by the accounting standards, and in accordance with the Fund's accounting policies, which are reviewed by the Fund's auditors, Deloitte Touche Tohmastsu, renovation costs and borrowing costs incurred for the acquisition or renovation of qualifying investment properties are capitalised (added) to the carrying (or book) value of investment properties. As previously noted by Management, this is consistent with industry practice.

Once the property is out of the renovation phase, the Fund's valuation process, described below, applies.

1. In determining the fair value of the Fund's investment properties at each reporting date (every six months at 30 June and 31 December), the portfolio of properties is segmented by neighbourhood location which is considered the principal characteristic impacting fair values.
2. A sample of properties within each neighbourhood grouping is selected on a sample rotation basis for independent appraisal by the Fund's panel of licenced residential appraisers or licenced real estate agents.
3. The properties selected for independent appraisal are rotated each reporting period to ensure the properties comprising the portfolio are frequently appraised. In accordance with the Fund's policy, each property is selected at least once every three years, although it may be selected more frequently. While the Fund's policy is that each property is independently appraised at least every three years, in practice the Fund independently values approximately 50% of its portfolio by number every six months.
   In addition, the appraisals that are commissioned are rotated amongst the various appraisers to ensure that the same appraiser does not appraise the same property consecutively. In determining which properties are selected for appraisal at each reporting date, priority is given to properties that have not recently been appraised.

4. The independent appraisals for all properties are completed using the “direct comparison” approach. Under this approach, the appraiser identifies relevant and appropriate comparable neighbourhood sales in close time proximity to the valuation date. The comparable sales are then considered alongside other relevant property specific factors, such as property age and condition, size of the property and number of rooms, and general market factors, to determine the fair value of the property.
5. The results of the appraisals are used to determine an appropriate neighbourhood specific extrapolation factor (after excluding outliers) which is applied to the remaining properties in the neighbourhood not subject to independent appraisals, thereby achieving an overall valuation outcome for each neighbourhood grouping and therefore the entire portfolio.
6. The fair value of the Fund’s investment properties at each reporting date is reported in the Fund’s half yearly report and annual report which are reviewed (Half yearly report) and audited (Annual report) by the Fund’s auditor, Deloitte Touche Tohmatsu.

Who performs the valuations?

The US REIT uses a panel of independent appraisers selected on the basis of their certification as either licensed residential appraisers or licensed real estate agents, as well as their experience in each neighbourhood and independence from URF. A list of the panel of appraisers who undertook the appraisals during the period ending 31 December 2019 can be found on page 38 of the Annual Report.

What are the current fees paid by the Fund?

The only ongoing service fees charged to the Fund by the Evans Dixon group are those for the Responsible Entity and Administration, and Fund Accounting services – which total approximately 0.33% per annum of gross assets of the Fund. The current fee schedule is outlined in the Annual Report on pages 56 - 60. In summary, all property management functions are performed by salaried employees of the Fund. Evans Dixon receives fees for some transactional work for the Fund, namely for construction services undertaken by Dixon Projects LLC (**Dixon Projects**). All fees are regularly benchmarked to, or are consistent with, external market providers.

As part of the selling program to pay back the listed Notes II and III, the Investment Manager will waive all disposal fees. It should be noted that the investment management and leasing and acquisition fees were waived from 1 July 2017 and 1 July 2018 respectively, and the debt arranging fee was waived with effect from 1 July 2019 for an indefinite period.

Why does the Fund use Dixon Projects?

Initially, the Fund used third parties to undertake renovation works but found that, to deliver the quality needed and control costs for the scale of projects required, it provided better results for unitholders to assemble those capabilities and manage that process directly through Dixon Projects.

All fees charged to the Fund, including those paid to Dixon Projects, are benchmarked against the industry and reviewed by independent consultants as required.

How many properties are still to be renovated?

The renovation pipeline is almost complete. As at 31 December 2019, 6 properties remain under construction, with all of those remaining scheduled to be completed by 30 June 2020.

Why hasn't the Fund used its buyback and will it buyback units in the future?

The near-term priority for the Investment Manager is to strategically sell some of the Fund's properties and use the net proceeds to repay Notes II and Notes III in full. Conducting a buyback now requires the use of capital which is not consistent with URF's priority of paying down debt.

However, as the Notes are repaid, the Responsible Entity will consider other capital management strategies (including on-market buybacks and tender offers to acquire ordinary units and URFPA's) if the current discount to NAV persists.

Will URFHB and URFHC be paid back in full?

Yes. The selling program proceeds will be used to pay down fully Notes II and III. More specifically, the intention is that the full $100 face value of URF Notes II and III will be paid down prior to the Notes' final maturities of December 2020 and December 2021, respectively. The final instalment of $25 per note for URF Notes II will be paid at the next interest payment date, 31 March 2020. At this point in time only URF Notes III will be outstanding.

What is the plan with URFPA?

The earliest conversion date for URFPA units is 1 January 2023, hence any decision regarding conversion is still several years away.

However, following repayment of URF Notes II and III, the Responsible Entity will consider other capital management strategies (including on-market buybacks and tender offers to acquire ordinary units and URFPAs) if the current discount to NAV persists.

Why has the URF distribution reduced?

URF announced that, consistent with the stated strategy of prioritising the repayment of URFHB and URFHC, the Fund will not be making a distribution to ordinary unitholders for the period ending 31 December 2019. While this is disappointing for ordinary unitholders, the priority is paying down debt, and in line with that objective the Fund will be directing cash flows to manage gearing as effectively as possible. Total distributions received by ordinary unitholders to 30 June 2019, since inception, totalled 71 cents per unit. Management will continue to consider the level of distributions for URF ordinary units in future.

No change to the distribution on the URFPA preference units has been announced, and the annual distribution rate remains 6.25%. Similarly, there has been no change to the interest paid on Notes II or Notes III (7.75%).

What do you think is the sustainable level of distributions once this process is complete?

While no decisions have been made on future distributions, once the Fund is able to achieve its objectives of paying down Notes II and III, as well as reducing overall gearing and operating costs, the Fund's future distributions will be considered in light of all relevant circumstances at the time.

The trend amongst other industry players in the US single-family rental market is distributions in the low single digit percentages with the rest of the returns coming through capital appreciation of the underlying portfolios that compound over time.

Whilst the Responsible Entity does not provide direct forecasts of profit and loss, it will keep investors informed on the progress of the Fund's selling program and strategy.

Why did it take until 12 June 2019 to implement a change of strategy?

In mid-2017, the Fund announced a strategy update to address three key areas:

1. Complete the renovation pipeline and maximise rental income;
2. Optimise the capital structure; and
3. Continue to drive cost efficiencies to maximise rental yields.

Since then, the US REIT has made significant progress in all three areas, as the Fund continued to progress towards a fully stabilised state (i.e. a portfolio of properties that are renovated and leased).

As the construction pipeline for the renovation of Fund properties is nearing completion (6 properties remain as at 31 December 2019 compared to 92 at the time of the strategy update announcement on 28 August 2017), the US REIT and Responsible Entity have determined now is the right time to implement the next phase of the strategy.

For further information, contact:

Investor Relations
1300 027 055
URFInvestorRelations@usmrpf.com

achievements may vary materially from any projections and forward-looking statements and the assumptions on which those statements are based. Readers are cautioned not to place undue reliance on forward looking statements and the Parties assume no obligation to update that information.

Except for any liability which cannot be excluded, the Parties accept no liability or responsibility whatsoever for any loss or damage of any kind, direct or indirect, arising out of the use of all or any part of this material. All information is correct at the time of publication. Additional information may be available upon request.

Level 15, 100 Pacific Highway, North Sydney, 2060 | www.usmastersresidential.com.au | urfinvestorrelations@usmrpf.com | T 1300 454 801 | F 1300 883 159