22 February 2019

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

Full year results announcement

For the year ended 31 December 2018:

- 12.4% increase in rental revenue to $37.4 million
- Total comprehensive income $55.3 million for the year, driven by improved operating performance and gains in foreign exchange translation on underlying portfolio
- Continued progress on key strategic initiatives:
    - Progression of the renovation pipeline
    - Enhancement of the Group's capital structure
    - Substantial reduction in Group costs
- Distributions of 10 cents per ordinary unit and $6.42 per Convertible Preference Unit during the year

Overview

The Group today announced its results for the year ended 31 December 2018. Chairman of the Responsible Entity, Alex MacLachlan, said "This reporting period marked another successful year of operations for the Group. Highlights of the year included implementation of a number of key strategic initiatives of the Group that facilitated a transition towards portfolio stabilisation. These initiatives were paired with continued operational strength and a favourable currency movement to deliver a strong result for the 2018 year."

"The improvement in the Group's operating performance reflects the transition of the business from its initial phase of accumulating a high-quality portfolio of residential property assets to its current maturer phase, with a focus on driving the operation of its established portfolio of assets."

Strategy update

Complete the renovation pipeline and maximise rental income

In total the Group invested $68.6 million in renovations work during 2018, completing 71 large scale and 74 small scale renovations. The annual rental income that is expected to flow to the Group as a result of the completed renovations is US$11.6 million. As of 31 December, the Group had 26 properties remaining in the renovation pipeline, representing approximately 13% of the total asset value of the portfolio. This is reduced significantly from the 92 properties representing 31% of the total asset value at the time of the Strategic Review. The Group continues to forecast that most of the remaining projects will be completed within the next calendar year.

Optimise capital structure

The origination of a new Wells Fargo Bank debt facility in June 2018 not only represented an attractive opportunity for the Group to refinance its existing bank debt and capitalise on the appreciation of the underlying properties, but also created a cost-effective financing source that will anchor the Group's capital structure as it progresses toward full portfolio stabilisation. As the Group continues to deliver properties from the renovation pipeline, they will be refinanced and transferred into the Wells Fargo facility, resulting in substantial interest savings to the Group. The Group also paid off URF Notes I during the year, which also contributed to significant interest expense savings.

Continue to drive cost efficiencies to maximise rental yields

The Group continues to deliver cost savings, both at the corporate and at the property level. At the corporate level, the Manager has reduced the costs of running the business by US$7.9 million, or 54%, since the Strategic Review, through a combination of the internalisation of certain staff and related costs and reductions in management fees, including the waiver of the investment management, leasing, and asset acquisition fees to reflect the maturity of the business. At the property level, over the past two years the cost to income ratio of the portfolio has been reduced from 51% to 43% currently. The Group continues to evaluate further areas for cost savings and believes it will be able to continue to improve the efficiency of the business as it progresses toward a mature, fully-stabilised portfolio.

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