



QUARTERLY UPDATE

April - June 2019



US Masters
Residential
Property Fund



Executive Summary

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

Strategy Update

It was announced on 1 August 2019 that there would be a change in the Investment Manager to the Fund. Alan Dixon, CEO of the Investment Manager, has decided to take an extended leave of absence for personal reasons. Kevin McAvey and Brian Disler have been appointed as Co-Heads of the US REIT, having worked for the Fund in senior roles for seven and five years respectively. Both Kevin and Brian are well-positioned to continue with the implementation of the previously announced strategy and are committed to achieving its objectives. Kevin and Brian are excited to be leading the Fund and are committed to implementing the next phase of its strategy.

During the quarter, the Responsible Entity instructed the Investment Manager to initiate a program whereby the Fund was to commence selling a select pool of the property portfolio to pay back URF Notes II & III (ASX: URFHB and ASX: URFHC), as well as consider appropriate capital management strategies to maximise returns for Unitholders. This can be done in several ways, including the selling of properties one-by-one, selling portfolios of properties to institutional investors, corporate transactions which may include a partial or full sale of the business, or other capital initiatives.

The Fund announced on 12 June 2019 that it will make a partial payment of URFHB prior to their final maturity date of 24 December 2020, with the first of these repayments being made on 30 September 2019 of at least \$33 per note.

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The Fund intends that further repayments will be made on future quarterly repayment dates until the notes are fully repaid. Further, it was announced that as the Fund focuses on the repayment of URFHB, there would be a reduction in the distribution to ordinary Unitholders to 1 cent per unit for the period ending 30 June 2019, as well as a confirmation of no change to the distribution for convertible step up preference units (ASX: URFPA).

As the Fund commences a strategic sales program to assist in the repayment of URFHB, there will be a greater focus on the disposal progress and pipeline throughout this and future quarterly reports. We have therefore restructured these reports to have a greater focus on the financial and operational areas of the business that are most important to investors.

Q2 2019 in Review

During the quarter, the Fund disposed of 13 assets for a gross sales price of US\$12.1m. In aggregate, these sales transacted for a 0.7% gross premium to the Fund's book values for the properties. The total sales costs of these 12 assets was US\$0.82m, or 6.75% of the gross sales proceeds. These are normal selling costs for this market when selling properties on a one-by-one basis, with the bulk of the costs being real estate broker fees and state transfer taxes. This is explored in further detail on pages 6 and 7.

Q2 2019 saw the Renovation and Restoration Team add 28 newly-renovated homes to the Fund's portfolio. Of these completed projects, 12 were large-scale renovations – bringing in an estimated US\$990,000 in annualised rental income – and 16 were small-scale renovations, bringing in an estimated US\$760,000 in annualised rental income. The Fund has continued to deliver properties from the renovation pipeline that was originally projected in Q1 2018, and at the end of Q2 the Fund had 12 properties in the construction pipeline. The Fund expects that all construction work from this pipeline will be complete by the end of 2020, and the majority completed by Q4 2019.

The Leasing Team had a strong quarter in Q2, signing a total of 98 new leases on properties. Of these leases, 30 were signed on new construction deliveries – bringing in a total annualised rental income of US\$1.47 million – and 68 were new leases on existing Fund properties, bringing in a total annualised rental income of US\$2.88 million. Of these 68 new leases, there was an average increase in rental income of 4.4% over the previous lease price. The Fund experienced another strong quarter for lease renewals, with 75% of leases that were offered to existing tenants being renewed (179). These renewals provide the Fund with a total annualised rental income of US\$7.26 million, a 3.7% increase over last year's lease prices.

Commitment to Communication

The Fund remains committed to improved communications with investors, beginning a series of monthly webinars during Q2 2019. Furthermore, the Fund has prepared and released Frequently Asked Questions (FAQ's), which can be found [here](#). Additionally, all previous and future webinars can be viewed on our website [here](#).

(CONTINUED ON PAGE 4)



We look forward to updating investors on our progress in the coming months. We sincerely thank you for your continued support.



Kevin McAvey
Co-Head of the US REIT



Brian Disler
Co-Head of the US REIT

Quarter Highlights

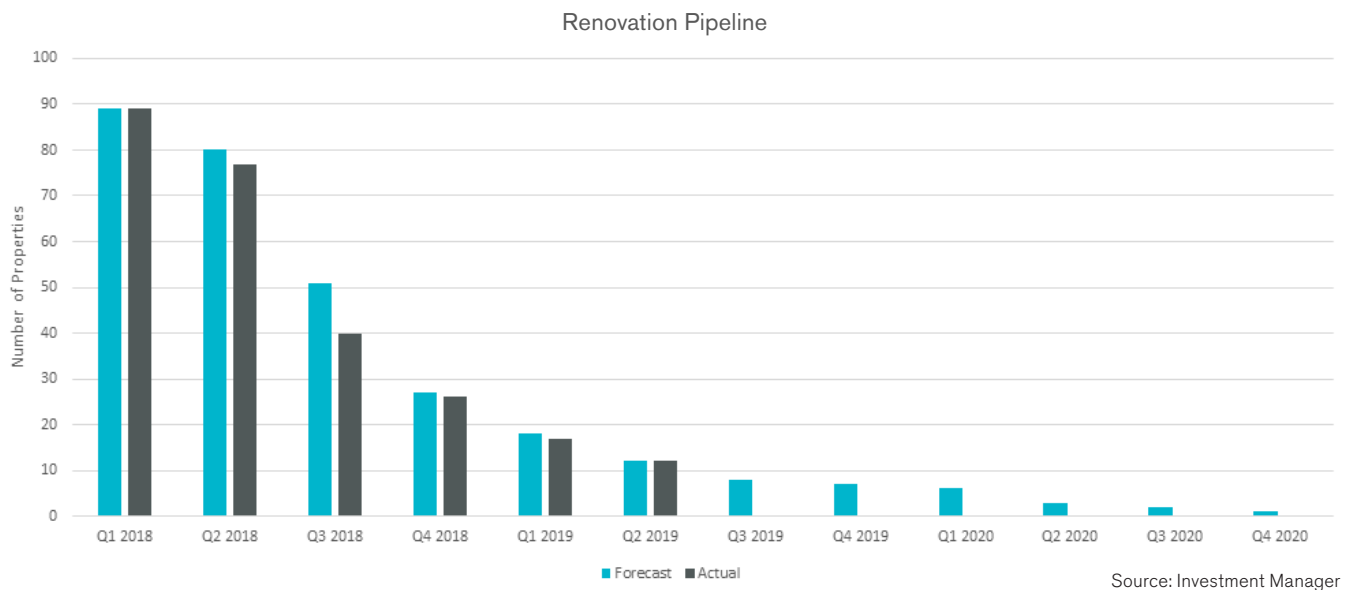
- URF's high-quality property portfolio now comprises **1,626 total housing units** across 600 freestanding houses and 17 multi-family buildings.
- 13 properties sold for a **gross sales price of \$US12.1m**; a 0.7% gross premium to the Fund's book value for these assets.
- The Fund **completed 28 renovations - 12 large scale and 16 small scale - during the quarter**. At the end of Q2 2019, there were 12 properties remaining in the original renovation pipeline.
- **75% of leases up for renewal were renewed** during the quarter, with an average rental increase of 3.7%.
- 68 leases signed on existing Fund properties, with an **average increase of 4.4%** on their previous lease price.
- 30 leases signed on new construction deliveries bringing a **total annualised rental income for those properties of US\$1.47m**.
- The Fund sold a property in Downtown Jersey City for a **44.4% premium to the all-in costs** [see page 7].
- The Fund leased a Fort Greene brownstone on Clermont Avenue for **US\$14,520 per month**, as well as two Harlem Brownstones on West 119th Street for **US\$12,000 and US\$12,272 per month**, all prior to construction completion.
- A unit on Wayne Street in Downtown Jersey City leased for a **72% increase on the previous lease price**, and a unit on Wales Street in Journal Square, also leased for a **50% increase on the previous lease price**, both following a renovation.





Construction Pipeline

In our 2017 half year accounts released 28 August 2017, 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. In Q1 of 2018, we produced our projections for the completion of the projects that were in the renovation pipeline at that time. The exhibit below outlines these projections and now overlays actual results as a comparison.



As outlined by the chart above, in the Q1 2018 quarterly report we had projected that by the end of Q2 2019 there would be 12 properties remaining in the renovation pipeline. We are currently in line with our projections, and as at the end of Q2 2019 there are 12 properties remaining. 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.

Q2 2019 Construction Deliveries

During the quarter, the Fund completed construction on five properties that were in the original Q1 2018 construction pipeline.

As the Fund completes this renovation pipeline and progresses towards full portfolio stabilisation, we continue to place a focused effort on driving cost efficiencies across the portfolio, with particular attention to financing and asset management costs. The delivery of these properties from the renovation pipeline will allow URF to continue to leverage the scale of its stabilised portfolio to drive cost efficiencies at the property level and maximise cash flow to Unitholders.

Quarterly Operational Overview



Property Disposals

At the start of the quarter, the Fund continued with strategic sales within the free-standing portfolio, continuing an asset management strategy that has been employed throughout the Fund's operation. In addition to the existing disposals process, during June the Fund began to assess properties that were appropriate for sale within an immediate timeframe. Despite these immediate timeframes, the disposals strategy is intended to be an iterative one, assessing the market movements of each neighbourhood as we move through the disposals process, and strategically selling across all of the Fund's various segments.

In addition to individual property disposals, the Fund is continuing to explore alternate solutions, including selling sub-portfolios to institutional or industry investors, as well as corporate transactions. As outlined below, the sales costs associated with individual transactions can represent a significant portion of the transaction, therefore each option is being evaluated and the Fund intends to pursue the option that maximises value for investors.

Sales Results

During the quarter, the Asset Management team earmarked a pool of properties across all segments of the portfolio – Hudson County Workforce, Hudson County Premium, New York Premium and multifamily. Ultimately, the Fund disposed of 13 properties during Q2 for a gross sales price of US\$12.1m. In aggregate, these sales transacted for a 0.7% premium to the Fund's book values for the properties. The total sales costs associated with these 12 assets was US\$817,384; 6.8% of the gross sales proceeds.

At the close of the quarter, the Fund had 26 properties on the sales market for an aggregate list price of US\$25.4m. These properties were across all of the Fund's different investment markets, and were strategically listed on the sales market to optimise both sales volumes and sales prices. Five of these 26 properties were under binding contract at the end of the quarter, representing expected gross sales proceeds of US\$4.40m.

Q2 2019 SALES					
ADDRESS	CITY	SOLD DATE	SALE PRICE	SALES COSTS	BOOK VALUE
West 26th Street	Bayonne	3/4/2019	385,000	(21,001)	448,021
East 10th Street	Manhattan	15/4/2019	3,650,000	(268,887)	3,661,177
Greene Avenue	Brooklyn	17/4/2019	1,395,000	(109,499)	1,398,637
64th Street	West New York	17/4/2019	470,000	(40,363)	468,671
Greenwich Drive	Jersey City	18/4/2019	320,000	(16,117)	329,774
Buttonwood Street	Jersey City	24/5/2019	340,000	(19,988)	319,530
Cherry Street	Jersey City	3/6/2019	330,000	(17,624)	356,983
4th Street	Jersey City	6/6/2019	1,297,000	(67,674)	1,202,142
Clendenny Avenue	Jersey City	6/6/2019	370,000	(22,618)	416,945
Fisk Street	Jersey City	13/6/2019	365,000	(31,134)	370,136
Gregory Avenue	Weehawken	18/6/2019	1,200,000	(62,840)	1,140,193
Essex Road	Maplewood	21/6/2019	605,500	(54,313)	553,215
5th Street	Jersey City	20/6/2019	1,377,500	(85,326)	1,355,124
			12,105,000	(817,384)	12,020,547

Source: Investment Manager





Property Disposals - Case Study

The Fund purchased a home on 5th Street in Downtown Jersey City in April of 2012 for US\$430,000. At the time of acquisition, the property was a fully occupied three family home, with each unit having one bedroom and one bathroom. During the course of ownership, each unit was strategically upgraded when vacancies arose to improve the quality of the units, with the Fund investing a total of US\$452,270 on upgrading the three units, resulting in a total investment in the property of US\$895,023 including all costs. Over the duration of Fund's ownership, the property had consistent occupancy and rental revenue, and was a strong asset within the portfolio. Prior to sale, the property had a book value of US\$1.36m.

Following the vacancy of one of the units, an analysis of the market was conducted by the Asset Management team, who concluded that the best strategy for the property would be to put it on the sales market. The team also concluded that the highest total sale price for this home would be achieved by converting it from a three family home (on a single title) into three separate units (each on their own title); ultimately selling the units individually. Following the conversion, each unit was successfully sold on the open market for a total price of US\$1.38m. This was broken down into three individual sale prices of US\$410,000 for unit 1, US\$495,000 for unit 2 and US\$472,500 for unit 3. The end result was a gross sales price that was 1.7% above the Fund's book value for the asset. The total sales costs for the three transactions were US\$85,326 - details below - which is 6.3% of the gross sales proceeds. The net proceeds on the sale of these three apartments was US\$1.29m, a 4.6% discount to book value, and a 44.4% premium to the all-in costs. These are normal selling costs for this market when selling properties on a one-by-one basis.

5TH STREET, JERSEY CITY

Home Type: Three Condominiums

Total gross proceeds: US\$1,377,500

Total Sales Costs: US\$85,326

Commission – Sellers Agent: US\$28,344

Commission – Buyers Agent: US\$26,725

New Jersey Transfer Taxes: US\$8,038

Attorney Fees: US\$11,960

Bank Transfer Fees, Stamp Fees: US\$3,321

Closing Concessions to the Buyer: US\$6,938

Source: Investment Manager

Sales Costs

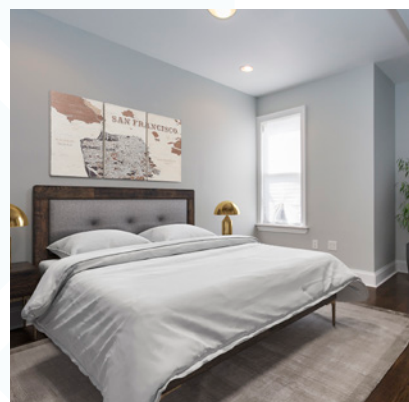
When selling properties on a one-by-one basis, a seller will incur standard costs that can be in the mid to high single digit percentage of the total sales price. These costs are standard for individual transactions, with the bulk of the costs being real estate broker fees, attorney fees, bank fees and state transfer taxes (1.425% in New York).

In New York and New Jersey, real estate broker fees are between 4% to 6%, and are typically split between the seller and buyers agent – 2% to 3% for each broker. Where possible, the Fund negotiates for a discounted sales commission to reduce the end costs to Unitholders.

OPERATIONAL OVERVIEW,
CONT'D



RECENTLY DISPOSED
5th Street, Jersey City



RECENTLY DISPOSED
5th Street, Jersey City



RECENTLY DISPOSED
5th Street, Jersey City



Tenancy

During Spring and into Summer, the market heats up and the Fund experiences a high volume of inquiries, with 2019 following this seasonal trend.

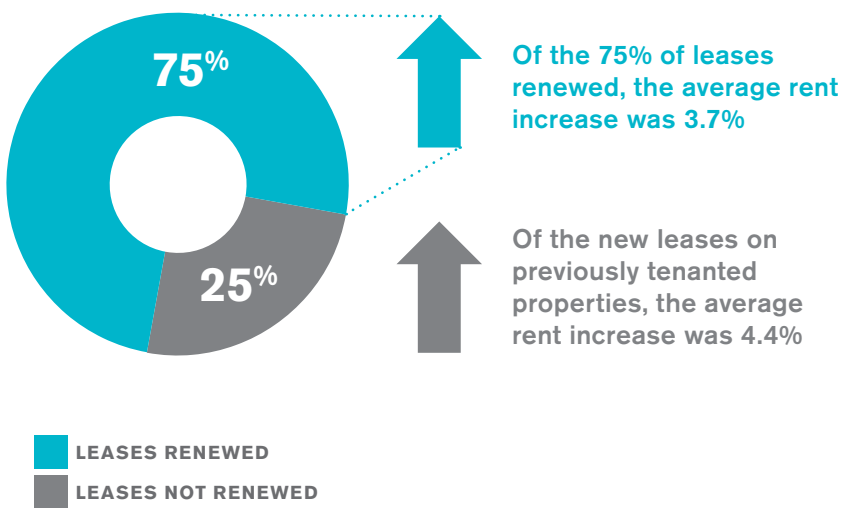
Over the second quarter, the Leasing Team had a total of 98 new leases signed, 68 of which were leases on existing properties, bringing in an annualised rental income of US\$2.88 million. The average increase in rent on these new leases was 4.4%. The remaining 30 leases were signed on new construction properties, bringing in an annualised rental income of US\$1.47 million.

The Fund also experienced another strong quarter for lease renewals, with 75% of leases being renewed (179). These renewals provide the Fund with a total annualised rental income of US\$7.26 million, a 3.7% increase on the previous lease prices.

Notable events:

- A property on Clermont Avenue in Clinton Hill rented prior to construction completion for US\$14,520/month.
- Two properties on West 119th Street in Harlem, both leased before construction completed for US\$12,000 and US\$12,272 respectively.
- A property on Wayne Street in Downtown Jersey City leased at a 72% increase on previous lease price, following a renovation.
- Following a renovation, a property on Wales Street in Jersey City leased for a 50% increase over the previous lease price, after less than a month on the market.

Renewal Rate



Note: the new leases on existing properties are not the exact same pool of properties as the 25% non renewals due to timing reasons.
Source: Investment Manager

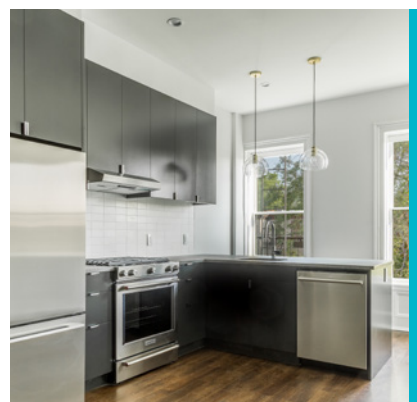
OPERATIONAL OVERVIEW, CONT'D



Recently leased
Clermont Avenue, Brooklyn



Recently leased
West 119th Street, Harlem



Recently leased
Wayne Street, Jersey City

Portfolio Analysis

FREESTANDING PORTFOLIO

AREA	PROPERTIES	VALUE (US\$)
New York Premium	137	483.9 million
New Jersey Premium	105	229.7 million
New Jersey Workforce	358	192.2 million
Total	600	905.8 million

MULTI-FAMILY PORTFOLIO

AREA	UNITS	VALUE (US\$)
Hudson County	400	40.8 million
Manhattan	105	20.6 million
Queens	70	16.2 million
Total	575	77.6 million

TOTAL PORTFOLIO

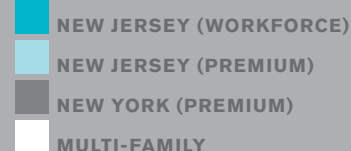
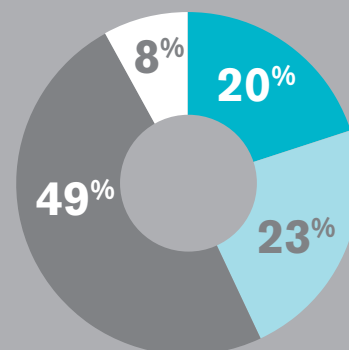
PORTFOLIO TYPE	PROPERTIES	UNITS
Freestanding Holdings	600	1051
Multi-Family Holdings	17	575
Total	617	1626

Source: Investment Manager

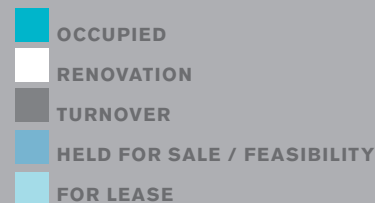
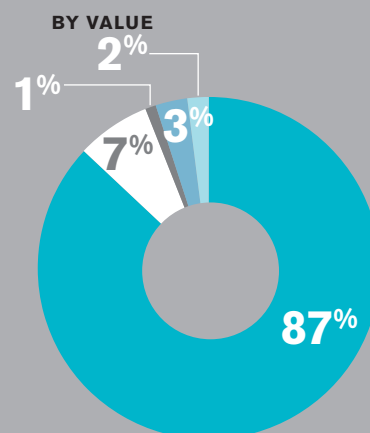
The value of the Fund's portfolio of properties is determined each six months as part of the Fund's statutory reporting obligations. The valuations are completed by a panel of independent, licensed appraisers. Every six months, approximately 50% of the portfolio by number of properties is independently 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 of fair value. Properties that have recently undergone renovation are appraised immediately following the completion of construction.

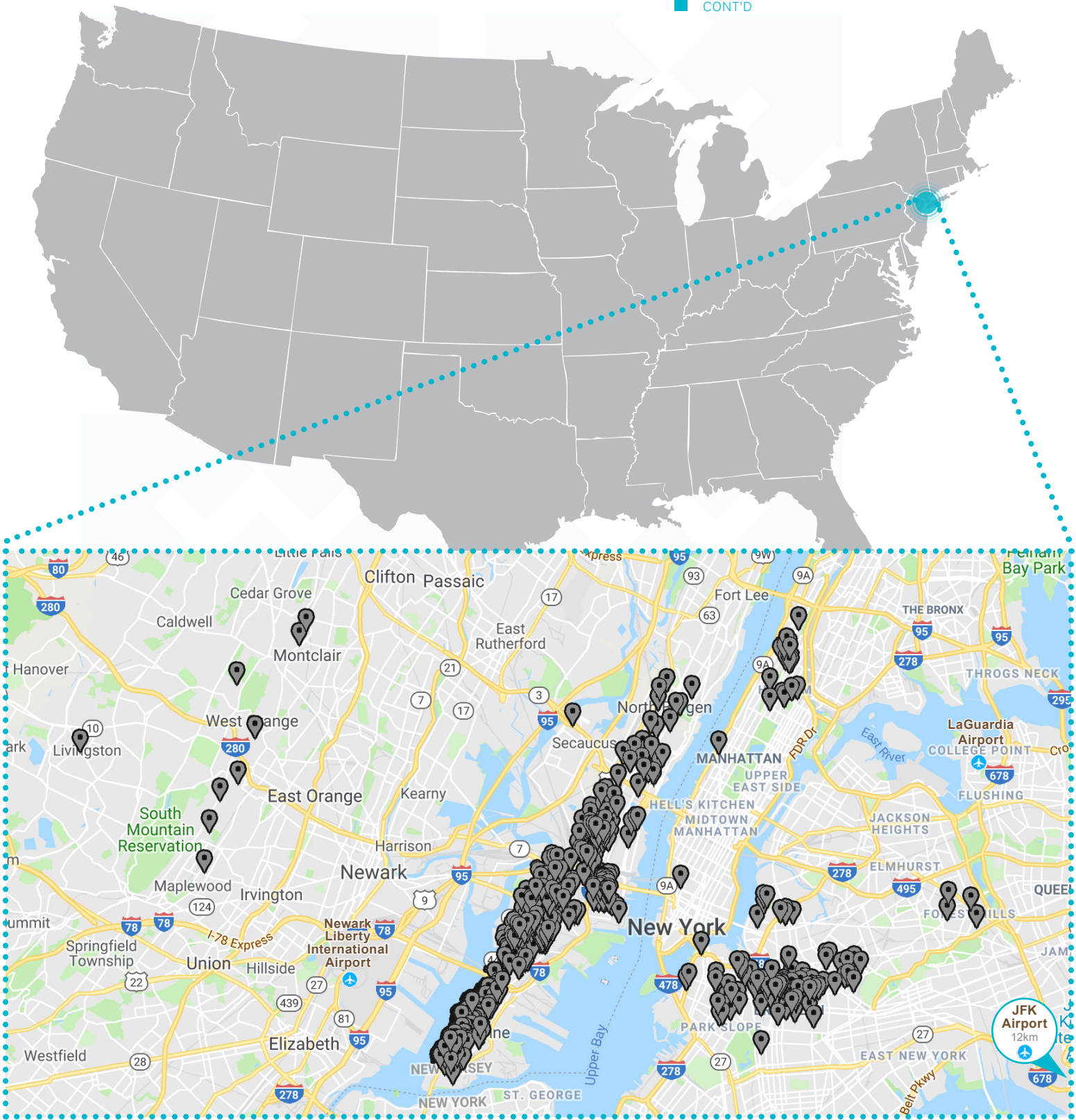
The Fund is in the process of finalising its half-yearly property portfolio valuation exercise. The independent appraisal and property valuation will be included in the 30 June 2019 half year financial report. Accordingly, the above valuations do not take into account any potential changes to the property portfolio fair value that might arise from that revaluation exercise.

PROPERTY DISTRIBUTION BY VALUE



PROPERTY STATUS BY VALUE





KEY: Existing Fund Portfolio

Source: Investment Manager

URF Fund Statistics

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

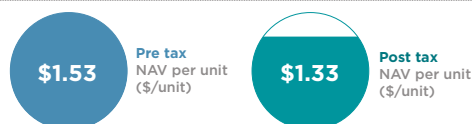
1M	3M	6M	1YR	2YR (PA)	3YR (PA)	5YR (PA)	SI ² (PA)
-8.1%	-18.7%	-30.0%	-39.5%	-26.6%	-20.5%	-8.4%	-2.0%

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

1M	3M	6M	1YR	2YR (PA)	3YR (PA)	5YR (PA)	SI ² (PA)
-3.2%	-0.7%	-4.3%	1.2%	1.2%	-1.9%	4.8%	5.6%

Net Asset Value Breakdown³ AS AT 30 JUNE 2019

ASSETS	\$1,512m	Investment Properties ⁴	Cash	Other
LESS LIABILITIES (excl. tax) ⁵	(\$735m)	Bank debt ⁸	Notes ⁶	Other
LESS CPUs ⁷ (at face value)	(\$199m)	CPUs ⁷		
EQUALS PRE-TAX NAV	\$578m			
LESS DEFERRED TAX LIABILITIES ⁵	(\$76m)			
EQUALS POST-TAX NAV	\$502m			
DIVIDED BY ORDINARY UNITS OUTSTANDING	377m			



Important Information

This Quarterly Update (Update) has been prepared by URF Investment Management Pty Limited (ABN 21 600 188 805 CAR 1009350) (Investment Manager), 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.

This Update may contain general advice. Any general advice provided has been prepared without taking into account your objectives, financial situation or needs. Before acting on the advice, you should consider the appropriateness of the advice with regard to your objectives, financial situation and needs, and consider obtaining advice from a financial advisor. You should obtain a copy of the relevant product disclosure statement or offer document before making any decisions to purchase the product. The past performance of the Fund is not a guarantee of the future performance of the Fund.

Notes

- 1 Returns are inclusive of distributions reinvested and adjusted for rights issues
- 2 Inception date June 2011
- 3 Past performance is not a reliable indicator of future performance.
- 4 The Fund is in the process of finalising its half-yearly property portfolio valuation exercise. The independent appraisal and property valuation will be included in the 30 June 2019 half year financial report. Accordingly, the NAV as at 30 June 2019 of \$1.53 does not take into account any potential changes to the property portfolio fair value that might arise from that revaluation exercise
- 5 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
- 6 Notes refer to URFHB and URFHC at face value
- 7 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
- 8 Bank debt refers to all other borrowings

Source: Investment Manager



US Masters Residential Property Fund | QUARTERLY UPDATE April - June 2019

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

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