ALE PROPERTY GROUP

ASX ANNOUNCEMENT

5 August 2020

Announcement No. 12/20
The Manager
Australian Securities Exchange

Property Valuations as at 30 June 2020

Highlights

- The assessed value of ALE's 86 properties increased by $10.93 million or 0.94% to $1,174.16 million as at 30 June 2020
- Passing net rent increased 0.76% to $59.62 million following rent reviews during the year on 43 properties
- 43 properties remain subject to rental determination
- Weighted average adopted yield decreased marginally from 5.09% to 5.08%
- Valuers' assessed DCF valuations of 82 properties represented a weighted average yield of 4.50% (FY19 sample of 34 properties: 4.61%)
- ALE notes that the spread between falling Australian Government long term bond rates and the yields applying to ALE's properties has materially expanded
- ALE continues to benefit from the properties being subject to long term triple net lease arrangements with most having options for ALH to extend the leases out to 2068.

Property Valuations

Listed property trust and management company, ALE Property Group (ASX code: LEP) today announced it had reassessed the valuations of its 86 properties as at 30 June 2020 to $1,174.16 million. This is an increase of $10.93 million (or 0.94%) since 30 June 2019.

The rent determinations for 43 properties were not yet completed at 30 June 2020. Of the remaining properties, 36 were accepted for 10% increases in FY19 and received CPI increases during FY20, four properties have later review dates and three properties have non-standard leases.

There have been 43 properties that received rent increases during FY20 which resulted in an increase in ALE's total passing net rent as at 30 June 2020 to $59.62 million, an increase of 0.76% on the prior year.

ALE now expects the determinations for the remaining 43 properties will be handed down during the first quarter of FY21. As a result the passing gross rent for those individual properties may increase or decrease by up to 10%.

ALE's reassessment of the carrying value of the properties was based upon independent valuations of 82 properties by Savills (QLD/NSW) and CBRE (VIC/SA). During the year ALE's weighted average adopted yield marginally decreased from 5.09% to 5.08% based upon those independent valuations.

The Directors' decided to keep valuations of the remaining four WA based properties unchanged from their 31 December 2019 valuations.

The valuers provided the following perspectives on the property markets, the tenancy / lease arrangements and the nature of the valuations in the current environment:

- "Since the COVID-19 outbreak a significant decline in transactional activity has occurred. Comparable transactions and market evidence since the outbreak are limited";

- "The licenced hotel industry has been significantly impacted by the COVID-19 pandemic with the hotels subject to nationwide Government enforced restrictions which included forced closures on 23 March 2020. Bottle shops and liquor barns were able to continue to trade during the closures. Restrictions have eased in both NSW and QLD, however social distancing and other restrictions remain in place. There are concerns that further outbreaks, as is currently happening in VIC, will potentially result in further shutdowns";

- "There remains strong demand for property assets that are considered defensive in nature with limited to no change in yield from pre-COVID 19 levels. Investments similar to the subject i.e. long term securely leased property to a major corporate entity in this prevailing low interest and competitive investment environment, continue to be attractive to long term passive investors"; and

- "Whilst it is still too early to gauge the impact of the outbreak on licenced hotel asset values and the uncertainty around the impact on the economy, it is anticipated that demand for prime assets secured by strong tenant covenants will remain strong".

COVID-19

The COVID-19 pandemic has impacted market activity in many sectors in the economy and this has been particularly evident in the pub sector where trading restrictions have been put in place. Notwithstanding the uncertainty that the COVID-19 pandemic is currently having on property values, the valuation assessment undertaken by the Group indicates that demand still exists for prime assets secured by strong tenant covenants with long lease terms and yields are holding to pre COVID-19 levels. In the event that the impacts of COVID-19 become material or more prolonged than anticipated, and ALH does not continue to meet its rental obligations (being a key assumption underlying the valuations), this may have an adverse impact to the fair value of ALE's property portfolio.

Statutory Valuations

This table provides a state by state analysis of the changes in property values during the year:

($ Million) State	Property Numbers	Current Net Rent	Weighted Average Yield	Valuations at June 2020	Changes Since June 2019	Current Average Value
NSW	10	$8.44	5.02%	**$167.90**	$5.60	$16.79
QLD	32	$18.42	5.01%	**$367.97**	$2.92	$11.50
SA	7	$2.13	5.12%	**$41.60**	($0.30)	$5.94
VIC	33	$28.63	5.07%	**$564.90**	$2.71	$17.12
WA	4	$2.00	6.31%	**$31.79**	-	$7.95
Totals	86	$59.62	**5.08%**	**$1,174.16**	$10.93	$13.65

Net Rent is based upon the current Queensland land tax assessed values at the single holder rate.
Differences arise due to individual property valuations being rounded to the nearest $10,000.

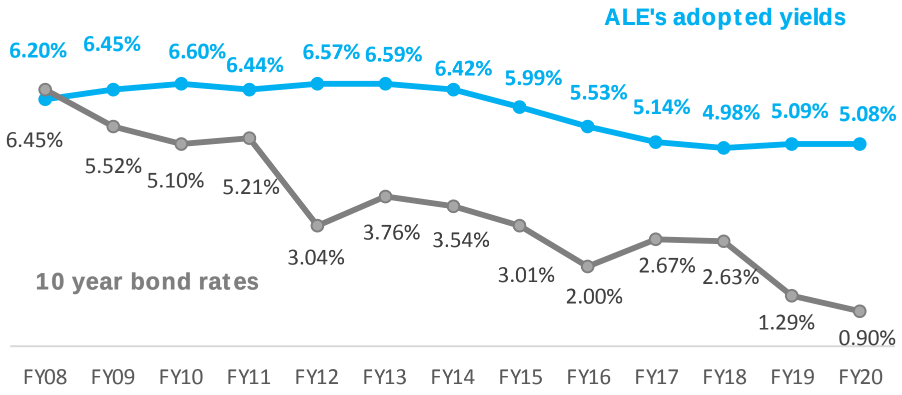
Contributions to the full year increase in valuations of $10.93 million include:

- Rent increases: $11.25 million
- Yield changes: $2.38 million
- Queensland land tax increases: ($2.70) million

Yields and Bond Rates

ALE's average yields have been relatively stable over the past twelve years and have trended lower, notwithstanding volatility in other parts of the property and capital markets. This reaffirms the quality of ALE's properties and the wide investor appeal that the higher quality and lower individual value sector of the commercial property market continues to enjoy.

The chart below compares the movements in ALE's adopted property yields and Australian Government bond rates over the past twelve years.



Over the last twelve years long term bond rates have fallen by around 555 basis points, yet ALE's adopted yields have only fallen by around 112 basis points. It is notable that the spread has expanded materially over the past financial year.

ALE considers that while the current lower levels of long term bond rates are sustained, they act as positive influence on future property valuations.

Improvements to properties that enhance tenant earnings and shorter timeframes to 2028 open rent reviews are also both positive contributions to future property valuations.

Discounted Cash Flow (DCF) Valuations for Independently Valued Properties

This financial year the valuers again considered the statutory valuations of virtually all of ALE's properties (82 of 86) by applying a number of methodologies. The valuers applied both traditional capitalisation rate and DCF based valuation methods. Whilst the above statutory valuation results reflect a combination of both methods, the adopted valuations continue to give much greater weighting to the traditional capitalisation rate method.

ALE believes that the DCF valuation method provides a comprehensive view of the quality of the lease and tenant as well as the medium and longer term opportunities for the uncapped rent reviews of properties commencing from November 2028.

In valuing the 82 properties, the valuers made their own independent assessment of the tenant's current level of EBITDAR and also adopted industry standard rental ratios. In calculating the DCF valuations, the valuers used assumptions they deemed appropriate for each of the individual properties. The ranges of these assumptions were as follows:

- CPI Growth Rates: 1.29% - 2.60% p.a.
- 2028 Terminal Capitalisation Rates: 5.25% - 7.75%
- Discount Rates: 5.25% - 8.68% p.a.

The valuers' assessed DCF valuations of the 82 properties represented a weighted average yield of 4.50%.

Property Valuations at 30 June 2020

The overall valuation of the portfolio results in the total adopted sum of property values of $1,174.16 million and an average adopted yield of 5.08%.

The Board intends to seek updated independent revaluations of all 86 properties following the receipt of the determination results, which are expected during the first quarter of FY21.

The Board intends to continue to use the valuations assessed by the independent valuers applying a combination of methods for the purposes of ALE's statutory accounts. The valuers advise that as we draw closer to the 2028 rent review the discounted cash flow method will assume more prominence.

This ASX release was approved and authorised for release by the Board of Directors

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