



# QUARTERLY UPDATE

April - June 2020



US Masters  
Residential  
Property Fund



# Executive Summary

We welcome investors to the US Masters Residential Property Fund's (URF or Fund) Quarterly Report for the period 1 April 2020 to 30 June 2020.

This quarter has been dominated by the COVID-19 pandemic, which started impacting the greater New York City (NYC) and New Jersey (NJ) areas in mid-March, with both states transitioning into a phased recovery towards the end of the quarter.

While significant attention has justifiably been dedicated to the impact of COVID-19 on individuals, communities and business around the world, it is worth briefly acknowledging the recent health improvements that have been witnessed in New York City and the surrounding metro area, and the cautious optimism that has followed. New York and New Jersey were heavily impacted by COVID-19 in March and April, with New York state recording a peak of over 1,000 deaths per day, 18,000 hospitalisations and an almost complete shutdown of normal business activities. From this low point, the daily COVID-19 fatalities have improved and are now in the single digits, fewer than 600 cases currently require hospitalisation, and many areas of the local economy have successfully reopened, albeit with numerous modifications to accommodate new social distancing requirements. The chance of a second wave of infections cannot be ignored, but at the time of preparing this report conditions in and around New York City are cause for cautious optimism.

Despite the challenges of COVID-19, the Fund's operating results have continued to improve throughout the quarter. Overall cash flows (as measured by Funds from Operations "FFO") improved by an annualised rate of approximately 50% through the six months to 30 June 2020 compared to full-year 2019 figures (after removing one-off grant income, the inclusion of which would show an even larger improvement – more detail is provided in the FFO section of this report). Contributing factors to this strong result include:

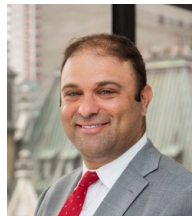
- Resilient rent collection rate of 98% across the first half of the year.
- Stabilised Net Operating Income (NOI) yield increasing to 3.46%.
- General & Administrative (G&A) expenses below both historic and targeted levels.
- Execution of the stated sales program and resulting ongoing debt repayment.

We invite you to review this quarterly report for a detailed update on the operations of the Fund.

We welcome investor feedback on these reporting metrics, and encourage direct communication with the Fund via our Investor Relations team at [URFInvestorRelations@usmrpf.com](mailto:URFInvestorRelations@usmrpf.com).



**Kevin McAvey**  
Co-Head of the US REIT



**Brian Disler**  
Co-Head of the US REIT

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# Portfolio Valuation

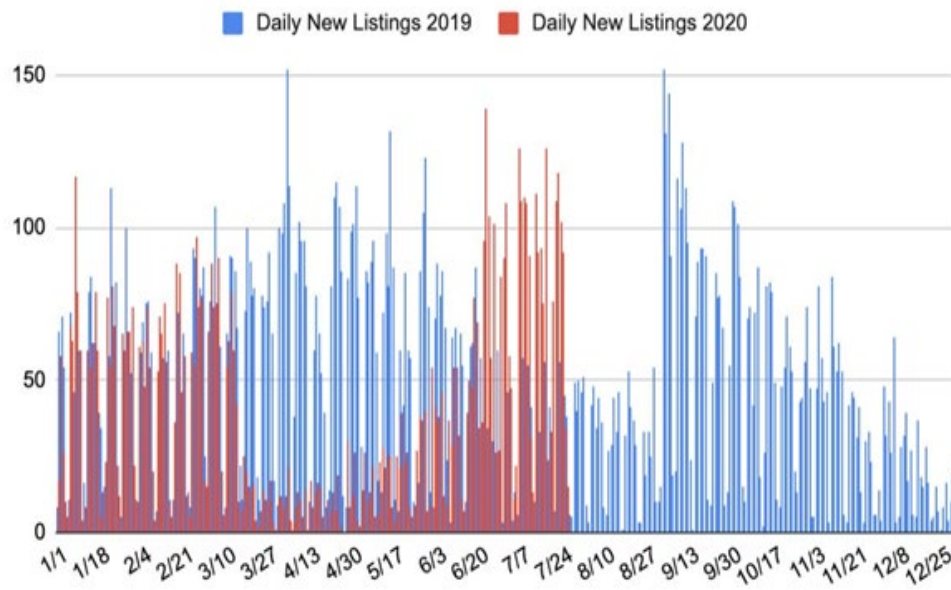
## US Property Market

Since March, the effects of COVID-19 precautions, including stay at home orders and a pause of leasing and sales markets, have significantly reduced transaction volumes across the country. The five most populous cities in the US (including New York City) all experienced significantly reduced transaction volumes over the second quarter of 2020:

Location	Q2 2020 v. Q2 2019 Transaction Volume
New York <sup>1</sup>	(47.4%)
Los Angeles <sup>2</sup>	(43.5%)
Chicago <sup>3</sup>	(24.6%)
Houston <sup>4</sup>	(8.1%)
Phoenix <sup>5</sup>	(19.4%)

Data compiled by UrbanDigs, a data analytics company, provides further insights into this significant reduction in activity by looking at the daily number of new market listings in Manhattan. As illustrated in the following graphic, new listings on market fell markedly in late March, only starting to recover again in late June.

Daily New Listings: 2019 vs 2020



Source: [Curbed](#)

<sup>1</sup> Based on change in sales volume across Brooklyn, Manhattan and Queens; <https://www.elliman.com/corporate-resources/market-reports>

<sup>2</sup> [https://www.elliman.com/resources/siteresources/commonresources/static%20pages/images/corporate-resources/q2\\_2020/losangeles-q2\\_2020.pdf](https://www.elliman.com/resources/siteresources/commonresources/static%20pages/images/corporate-resources/q2_2020/losangeles-q2_2020.pdf)

<sup>3</sup> <https://www.illinoisrealtors.org/marketstats/>

<sup>4</sup> <https://www.har.com/content/mls/?m=5&y=20>

<sup>5</sup> <https://www.valleywidehomes.com/phoenix-homes-sales/#TableZ1>







# Portfolio Valuation

In addition to reduced residential transaction volumes, COVID-19 has financially impacted all property types. This is illustrated by the MSCI US REIT Index, which experienced total returns of -18.45%<sup>6</sup> for the 6-months to 30 June 2020. However, this performance has not been uniform across the property spectrum. The two largest residential exposures in this index, AvalonBay Communities (NYSE: AVB) and Equity Residential (NYSE: EQR), which both hold substantial apartment portfolios, returned -25% and -26% respectively over this time period. Conversely, URF's peers in the Single Family Residential (SFR) space have posted more resilient results, with American Homes for Rent (NYSE: AMH) and Invitation Homes (NYSE: INVH) returning +3% and -7% respectively. This trend reaffirms our experience of lower-density SFR housing increasing in popularity due to the social-distancing realities of the COVID-19 virus, and exhibiting defensive characteristics despite COVID-related uncertainty.

## H1 2020 Portfolio Valuation

Towards the end of the quarter, the Fund embarked on its regular six-monthly valuation exercise as part of the half-year statutory reporting requirements. Historically, the fair value of the portfolio has been determined each reporting period using appraisals performed by a panel of independent licensed appraisers and real estate agents. In completing their appraisals, members of the panel have used the "comparable sales" approach to appraise each property individually. Under this approach, the most comparable recent transactions to an individual property are identified and used to assess the fair value of that specific property. To be effective, this approach relies on a suitably large pool of relevant comparable transactions. For this reporting period to recognise the impact of COVID-19 on the portfolio, relevant transactions needed to reflect the impact of COVID-19 and as such needed to have a contract date after 15 March 2020 (which was the beginning of COVID-19 in the region).

Relevant for URF's portfolio valuation at 30 June, Hudson County (New Jersey) recorded a total of only 72 Hudson County Workforce<sup>7</sup> sales post the beginning of COVID-19<sup>8</sup> (post-COVID) and only seven post-COVID Hudson County Premium<sup>9</sup> sales. By comparison, for the six-months ending 31 December 2019 there were 886 Workforce sales and 73 Hudson County Premium sales on which to base valuation decisions.

New York City transaction volumes also contracted across the Fund's investment regions, with only 34 one-to-four family sales being recorded across Brooklyn and Manhattan post the beginning of COVID-19, compared to 654 in the six months to 31 December 2019.

Ultimately, consultations with the independent appraisal panel in both New York and New Jersey concluded that there were an insufficient number of post-COVID comparable transactions with which to properly conduct a comparable sales appraisal process encapsulating the impact of the pandemic.

<sup>6</sup> <https://app2.msci.com/eqb/reit/indexperf/asof/20200630.html>

<sup>7</sup> Hudson County Workforce refers to: Bayonne, Bergen-Lafayette, Greenville, The Heights, Journal Square, West Bergen, North Bergen, Secaucus, Union City, West New York.

<sup>8</sup> For the purposes of the 30 June 2020 reporting period, the Fund has reviewed transactions on a pre and post-COVID basis; with "pre-COVID" referring to the period up to 15 March 2020, and "post-COVID" being the period after 15 March 2020.

<sup>9</sup> Hudson County Premium refers to: Downtown Jersey City, Hoboken and Weehawken.

# Portfolio Valuation

Due to the inability to rely solely on the comparable sales valuation method, in consultation with the Fund's independent appraisers a number of alternate data sources were used in valuing the portfolio as at 30 June 2020, including:

- Closed transactions within 2020, pre-COVID-19.
- Closed transactions post-COVID-19 up to the 30 June reporting date.
- Transactions throughout July 2020, just outside the reporting period.
- Transactions that went "under contract" post-COVID-19, but had not yet closed.
- Professional opinions and insights from multiple external brokers and appraisers.
- Research publications from real estate brokerages and research providers.

Based on analysis of the data sources listed above, to align the Fund's valuations with current market conditions Walsh & Company Investments Limited as Responsible Entity for the Fund recognised an adjustment of -4.1% across the gross value of the Fund's 1-4 Family portfolio. This adjustment is broken down as follows:

Asset Segment	Average Fair Value Movement	Approx. Gross Portfolio Weighting (pre-adjustment)
Hudson County Workforce (NJ)	0.0%	23.2%
Hudson County Premium (NJ)	(4.8%)	24.8%
New York Premium	(5.5%)	52.0%

Assuming sufficient data points are available, the Fund will return to the prior asset-by-asset "comparable sales" valuation methodology for the 31 December 2020 reporting period.

While any fair value reduction is disappointing, we remain confident about New York's fundamental outlook for income and capital appreciation. New York City is the USA's most populous city, with more than twice the population of Los Angeles in second place. It is also the most densely populated city, and these physical characteristics, combined with its economic credentials, high rates of renters, and quality tenant base, underpin strong long term growth drivers for investors.

The New York City area is well positioned to overcome the impact of the COVID-19 pandemic, just as the city has overcome past challenges such as the 9/11 attacks, the Global Financial Crisis, and Hurricane Sandy. In addition to a broad recovery, single family residential dwellings are likely to attract a growing number of families moving out of high-density apartment complexes who are attracted to the Fund's relatively low-density townhome assets which still offer close proximity to New York City. We expect this to be a tailwind for the SFR industry, as residents are increasingly focused on privacy and the ability to socially distance from neighbours, while also adapting to extended periods of working from home.



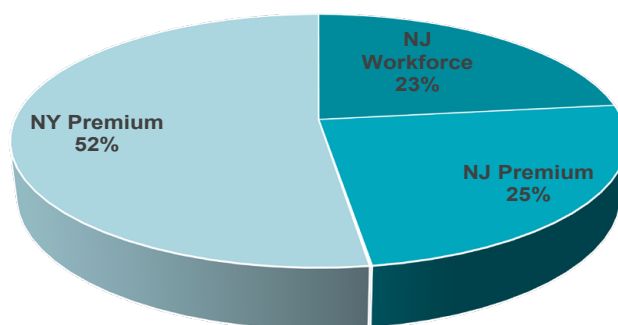
# Portfolio Composition

The Fund's intention is to use the ongoing sales program to reduce the portfolio's current weighting of lower-yielding Premium assets and also to divest itself of non-core exposures. Non-core exposures include the larger multifamily (joint venture) assets, the Fund's small number (17) of rent-regulated properties in Weehawken and North Bergen, and assets located in Essex County (New Jersey). Selective sales will also take place from the NJ Workforce segment as determined on an asset-by-asset basis.

The Fund's portfolio composition will evolve over time, with the pipeline of pending (under contract) sales transactions as at 30 June 2020 being weighted towards the Premium segments in New York (US\$13.3 million) and New Jersey (US\$11.5 million). New Jersey Workforce and Essex County properties account for US\$3.5 million in pending transactions.

This breakdown represents the Fund's 1-4 family portfolio as at 30 June 2020 but excludes the multifamily joint venture assets with Urban American.

Portfolio Composition (by value)



Location	Value (USD)	Property Count	Location	Value (USD)	Property Count
<b>NJ Workforce</b>	<b>\$179,206,178</b>	<b>323</b>	<b>NY Premium</b>	<b>\$380,618,702</b>	<b>131</b>
Bayonne	\$29,574,012	62	Bedford-Stuyvesant	\$98,008,277	41
Bergen-Lafayette	\$7,128,989	12	Boerum Hill, Brooklyn Heights	\$18,844,934	3
Greenville	\$31,127,142	70	Bushwick	\$17,446,555	14
Jersey City Heights	\$55,000,832	68	Clinton Hill	\$20,761,530	6
Journal Square	\$17,905,783	28	Cobble Hill	\$11,443,782	3
West Bergen	\$28,521,948	62	Crown Heights, Lefferts Garden	\$35,366,097	15
North Bergen	\$4,967,499	11	Fort Greene	\$15,518,371	4
Union City, Secaucus	\$3,570,174	7	Park Slope, Prospect Heights	\$42,186,795	10
West New York	\$1,409,800	3	Williamsburg	\$14,313,414	4
<b>Essex County</b>	<b>\$765,301</b>	<b>2</b>	East Williamsburg	\$14,679,311	7
<b>NJ Premium</b>	<b>\$182,958,568</b>	<b>95</b>	Hamilton Heights	\$11,636,183	3
Hoboken	\$9,906,778	4	Harlem	\$61,836,835	17
Downtown Jersey City	\$163,191,912	83	Manhattan	\$15,991,842	2
Weehawken	\$9,859,879	8	Queens	\$2,584,776	2

Source: US REIT



US Masters Residential Property Fund

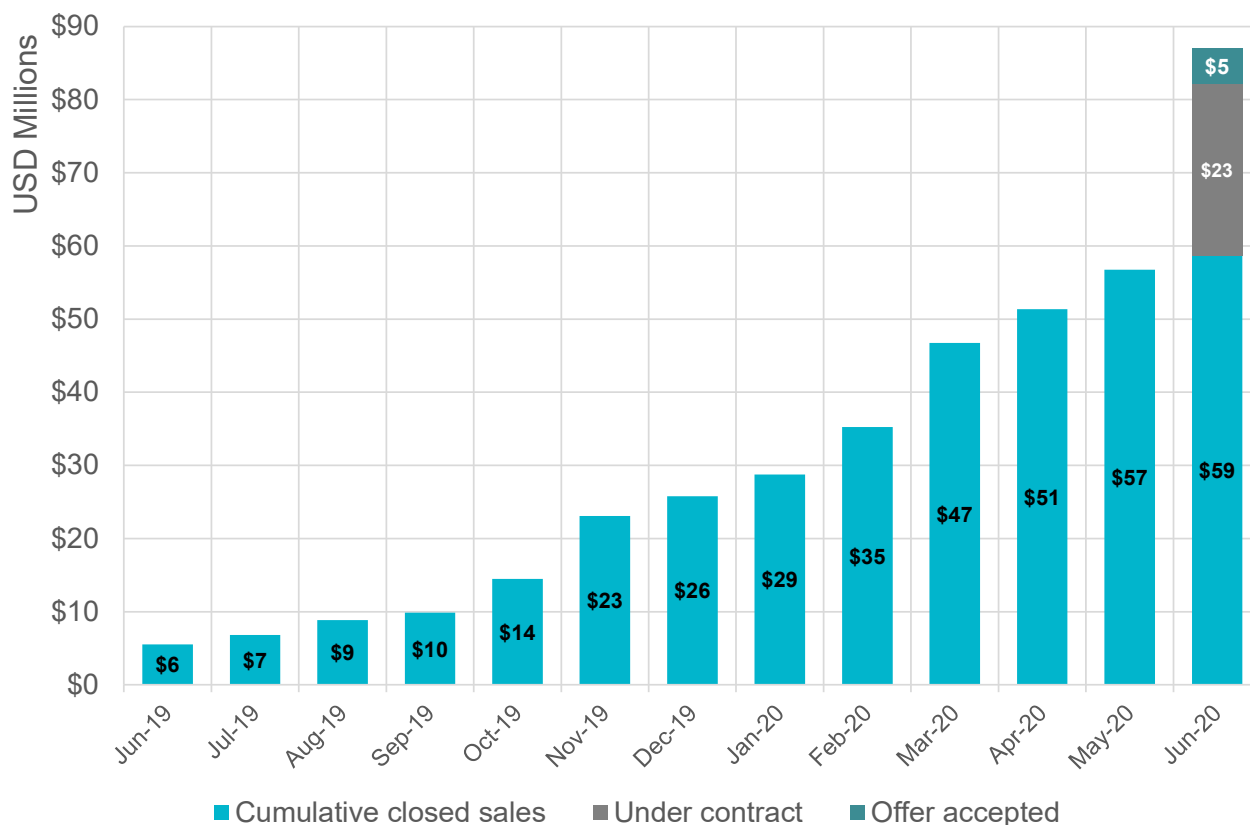
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# Asset Sales

At the outset of the COVID-19 pandemic, the property sales markets in New Jersey and New York were effectively placed on pause due to the Executive Orders issued by Governors Phil Murphy (NJ) and Andrew Cuomo (NY). This significantly hindered any new contracts being entered into as agents were legally unable to physically show properties for sale in New York, and potential purchasers took a “wait and see” approach to the unfolding pandemic across both states.

While new contracts were slower during the quarter, the majority of transactions that were already under contract continued to progress towards closing and the Fund successfully closed US\$11.99m in sales across 11 transactions (with a further three sales totaling US\$2.17m closing in July). Throughout the COVID-19 period, six pending transactions worth US\$13 million were cancelled by purchasers for reasons likely related to COVID-19. Of these six cancelled transactions, three are again under contract with new purchasers at an aggregate 4% discount to their original (pre-COVID) contract prices, one has been leased and two are back on the market for sale.

At 30 June 2020, the Fund had 10 properties worth US\$23 million under contract and five properties worth US\$5 million with an accepted offer. Since 1 July 2020, the Fund has placed a further six properties under contract representing US\$6.05m in additional contracts (as at the start of August).



Source: US REIT

Note: Transactions “under contract” and in “attorney review” are likely, but not guaranteed to close. Transaction data accurate as at 12 August 2020.



# Debt Reduction

The Fund continues to execute its stated goal of reducing debt levels across the portfolio. The rate of debt repayment slowed in the quarter, with lower sales activity reducing the proceeds available for proactive debt repayment, as well as the Fund's strategic decision to maintain liquid cash reserves due to COVID-19 related uncertainty. At 30 June 2020 the Fund held cash and cash equivalents of A\$59 million.

Over the course of Q2 2020 the Fund's senior debt facilities with Wells Fargo and Centennial Bank were reduced by over US\$11 million. Following the end of the quarter, the Wells Fargo facility entered its repayment period, with all proceeds from asset sales from their collateral pool now being repaid to the bank. This will expedite the reduction of this loan account.

<b>AUD Denominated Debt (AUD)</b>	<b>31-Mar-20</b>	<b>30-Jun-20</b>	<b>Change</b>
URF Notes III (ASX: URFHC)	\$157,500,000	\$157,500,000	-
<b>Total</b>	<b>\$157,500,000</b>	<b>\$157,500,000</b>	<b>-</b>

<b>USD Denominated Debt (USD)</b>	<b>31-Mar-20</b>	<b>30-Jun-20</b>	<b>Change</b>
Wells Fargo	\$262,466,222	\$256,856,222	(\$5,610,000)
Centennial Bank	\$75,520,675	\$69,825,717	(\$5,694,958)
<b>Total</b>	<b>\$337,986,897</b>	<b>\$326,681,939</b>	<b>(\$11,304,958)</b>

Source: US REIT

The ultimate goal of this deleveraging process is to improve the Fund's cash flow, reduce Net Asset Value (NAV) volatility, and decrease the Fund's exposure to movements in the AUD/USD exchange rate. The Fund's long-term target is to reduce the gearing ratio from its current level of 53% to 35%-40%.

At the date of this report, the Fund is in the process of refinancing the Wells Fargo Bank debt facility. As a part of this process, the Fund is negotiating loan terms and satisfying financier due diligence requests. Based upon on the status of negotiations to date, it is expected that the Wells Fargo Bank debt facility will be refinanced by 31 December 2020.



# Debt Reduction

## Blended Cost of Interest Calculation

	A\$ Balance at 31-Dec-19	Interest Rate at 31-Dec-19	A\$ Balance at 31-Mar-20	Interest Rate at 31-Mar-20	A\$ Balance at 30-Jun-20	Interest Rate at 30-Jun-20	Fixed / Floating
Wells Fargo *	375,012,423	3.56%	428,096,921	2.79%	372,093,615	1.96%	Floating
Centennial Bank *	109,700,411	6.26%	123,178,396	5.50%	101,152,712	5.50%	Floating
Notes II	22,634,875	7.75%	0	7.75%	0	7.75%	Fixed
Notes III	175,000,000	7.75%	157,500,000	7.75%	157,500,000	7.75%	Fixed
<b>Total ^</b>	<b>682,347,709</b>	<b>5.21%</b>	<b>708,775,317</b>	<b>4.36%</b>	<b>630,746,327</b>	<b>3.97%</b>	

<b>Indicative Interest Cost</b>	<b>35,546,509</b>	<b>30,937,295</b>	<b>25,071,056</b>
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Source: US REIT

\*Floating rate based on 1 month USD LIBOR which was approximately 1.76%, 0.99% and 0.16% at 31 December 2019, 31 March 2020 and 30 June 2020 respectively.

\*The Centennial Bank facility is subject to a LIBOR floor of 1.0%.

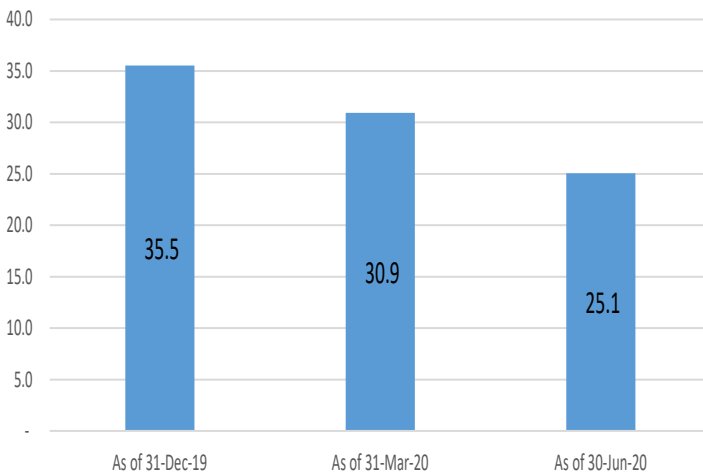
\*AUD/USD spot rate of 0.7021, 0.6131 and 0.6903 at 31 December 2019, 31 March 2020 and 30 June 2020 respectively.

^Excludes multi-family joint venture level debt.

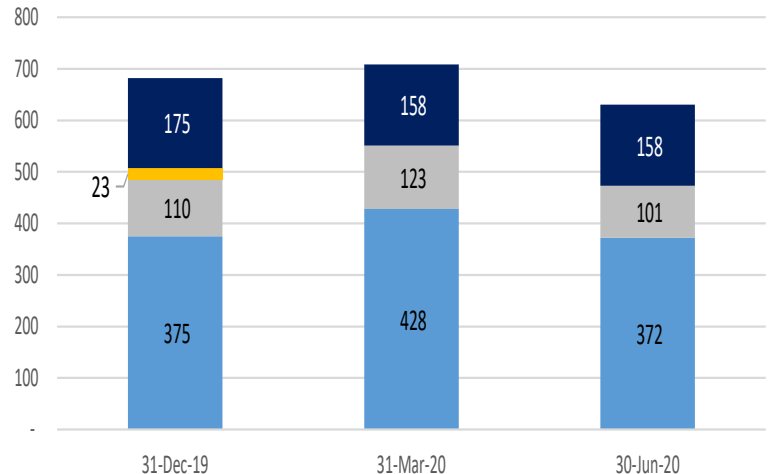
Over the quarter the Fund has benefitted from a falling LIBOR benchmark interest rate, which has reduced the variable interest rate on the Wells Fargo loan facility. The Centennial Bank facility has a LIBOR "floor" of 1.0% which results in a minimum interest rate of 5.50% (unchanged from last quarter).

Note that fluctuations in the Australian-dollar relative to the US-dollar over this period will impact the value of US-denominated debt when converting into Australian dollars (this is relevant for the Wells Fargo and Centennial accounts shown in the table above). While the currencies are largely flat from 31 December 2019 to 30 June 2020 (AUD:USD moving from 0.7021 to 0.6903), this masks the significant fall in the value of the AUD in Q1 2020, and the almost equal recovery throughout Q2 2020. This movement results in the balances of the Wells and Centennial loans appearing larger (in AUD terms) at 31 March 2020, relative to both 31 December 2019 and 30 June 2020.

## Indicative Total Interest Cost (\$Millions)



## Debt Composition (\$Millions)



Source: US REIT.

Note: Gearing Ratio is the total debt as a % of total assets, based on 30 June 2020 values.

AUD/USD spot rate of 0.702, 0.6131 and 0.6903 at 31 December 2019, 31 March 2020 and 30 June 2020 respectively.

Target debt level is 35%-40% of portfolio value.





# Rental Income Collections

Throughout Q2 2020, the Fund has been working collaboratively with tenants to maximise rent collections. In line with state government guidance, the Fund has not pursued any evictions through the pandemic. Tenants who have been financially impacted by COVID-19 have been encouraged to dialogue directly with the Fund, and resolutions have been handled on a case-by-case basis. Pleasingly, collection rates have proven resilient throughout the Quarter, averaging 96% of the monthly rent roll.

Month	Collection Rate %
April	95%
May	97%
June	98%
<b>Q2 Total</b>	<b>96%</b>

## Peer Comparison

The Fund's average collection rate of 96% from April to June 2020 is significantly higher than the NYC rent-stabilized multifamily properties' collection rate of 75% from April to June 2020<sup>10</sup>. The Fund's 1-4 Family portfolio is overwhelmingly "free market" units, with negligible exposure to rent-stabilized units (1.7% of total units).

The Fund's collection rates are consistent with The National Multifamily Housing Council (NMHC)'s Rent Payment Tracker which tracks over 10 million professionally managed apartments across the US. Note that the NMHC collections data tracks the number of tenants making any rent payment (full or partial payments are counted equally) rather than the amount of rent collected for the period. The NMHC recorded collection rates of 95%, 95% and 96% for April, May and June respectively<sup>11</sup>.

Similar strong collection rates were recorded by comparable US single family residential property funds, further highlighting the relative resilience of this asset class. Invitation Homes noted collections of 95%-98% relative to "historical averages" across the quarter, and American Homes for Rent collected 96.5% of second quarter rents.

## Bad Debts

Fund employees having proactive conversations with at-risk tenants have had largely positive results, with the Fund's allowance for expected credit losses (unrecoverable rent) being less than 1.1% of rental income for the six-month period ended 30 June 2020. For comparison, the Fund recorded an expected credit loss of 0.60% of rental income for the six-month period ending 30 June 2019. Allowances for expected credit losses are typically accrued on rental payments that are overdue by more than 90 days, and payments that are owed by ex-tenants who have already vacated their unit are written off. Due to the unique circumstances of COVID-19, this credit loss policy has been expanded, with the team undertaking individual reviews of all outstanding tenant accounts in calculating this allowance.

Source: US REIT

<sup>10</sup> <https://therealdeal.com/2020/06/17/nearly-1-in-4-new-yorkers-skipped-rent-in-june-survey/>

<sup>11</sup> <https://www.nmhc.org/research-insight/nmhc-rent-payment-tracker/>





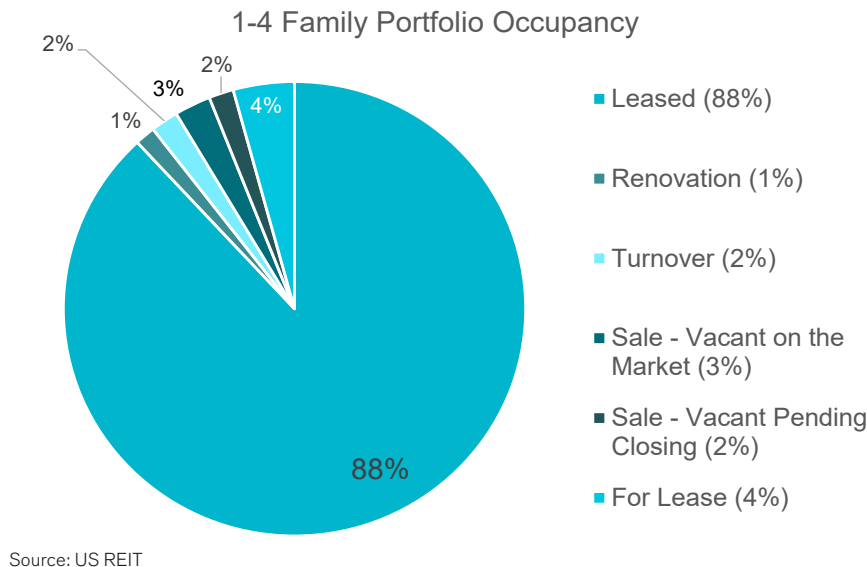
# Portfolio Occupancy

The Fund's goal is to have as many properties fully leased as possible, while noting that some assets being readied for sale need to be vacated to maximise the potential sales price.

At 30 June 2020, the Fund's 1-4 family portfolio had 88% of its units leased and generating income. A further 4% of units were vacant and available for rent, while the remaining 8% were vacant due to either renovation work, undergoing a turnover between leases, or due to the property being actively prepared for sale.

This data excludes the Fund's joint venture assets held with Urban American.

Total Portfolio	Unit Count	%
Leased	865	88%
Renovation	14	1%
Turnover	19	2%
Held for sale - on the market (vacant)	25	3%
Sale asset - pending closing (vacant)	17	2%
For Lease	42	4%
<b>Total</b>	<b>982</b>	<b>100%</b>



Q2 2020 has been an exceptionally busy leasing period for the Fund, with a sharp uptick in activity as local COVID-19 restrictions were eased late in the quarter. Summer is typically a high turnover season for the portfolio, and this seasonal increase has been magnified by very low activity volumes while the COVID-19 stay at home orders were in place. A number of departing tenants have left due to financial difficulties or due to changes in their personal or professional plans, while strong inbound inquiries have come from potential tenants moving out of high-density apartment complexes who are attracted to the Fund's low-density townhome assets which still offer close proximity to New York City.



# Portfolio Occupancy

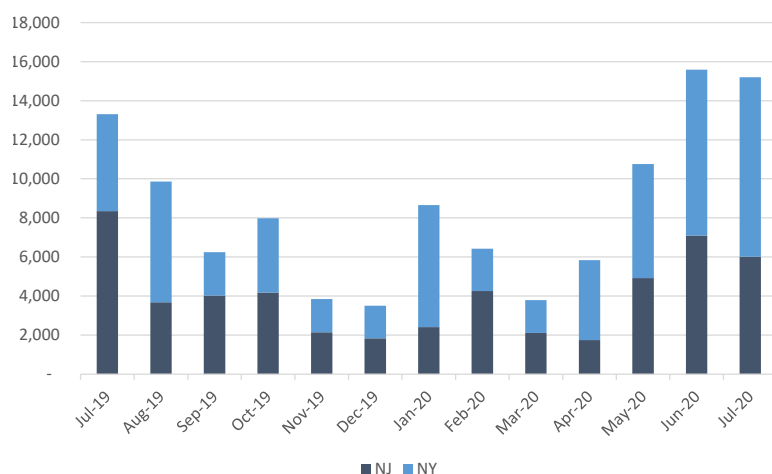
This trend has continued following the end of the quarter, with July 2020 seeing a 12-month high for monthly inbound leasing enquiries for Workforce units (over 4,000), total tenant vacates (35), and total new leases signed (31). Online interest in Premium units was strong across both June and July, with each month surpassing 15,000 clicks compared to a recent low of less than 4,000 in March.

Ultimately, we view this turnover as a positive for the portfolio, with incoming tenants having an evidenced financial ability to withstand the impact of COVID-19. The increased interest in the Fund's properties has also reaffirmed the differentiating factors of our one to four family portfolio compared to large-scale residential apartment complexes. Specifically, the Fund's low-density living, larger internal living spaces, and access to private yards are particularly attractive to prospective tenants at this time.

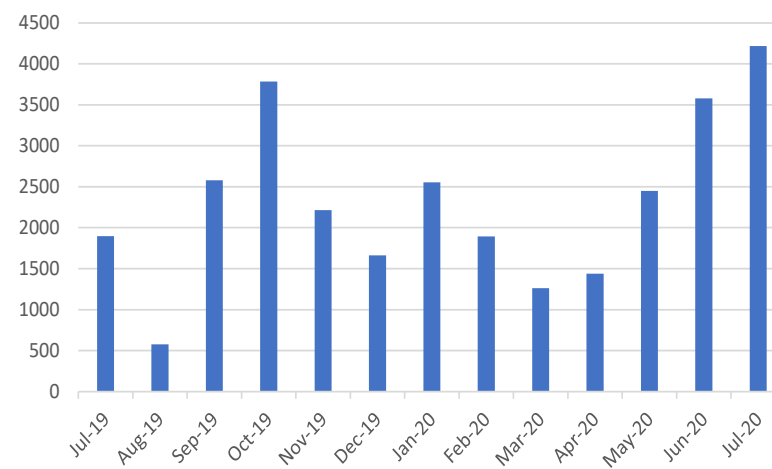
The Fund is focused on maximising leasing velocity by promptly completing turnovers (standard cleaning, repairs and maintenance after a tenant moves out), and attentively following up with prospective tenants. COVID-19 does present logistical challenges through this process, with showings only taking place one household at a time (no open houses or group showings), however the Fund's team continues to work diligently to maximise outcomes for the Fund.

Not all newly vacated units are offered for re-lease. The Fund actively reviews newly vacated properties and considers their suitability to be sold in line with the Fund's stated sales program. Sales assets are left vacant to maximise the likely sales price.

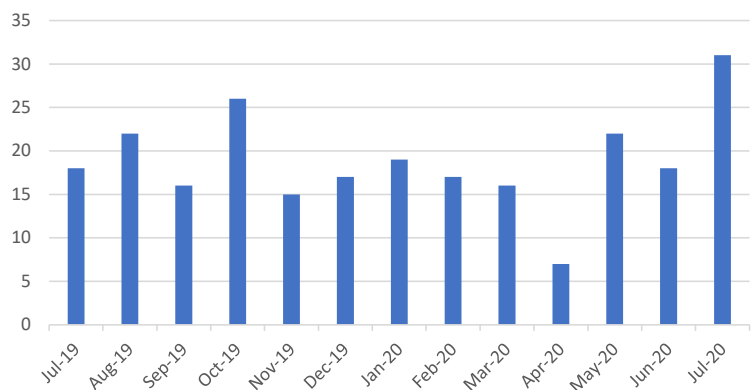
Online clicks for Premium units



Workforce Leads



Total New Leases Signed



Source: US REIT

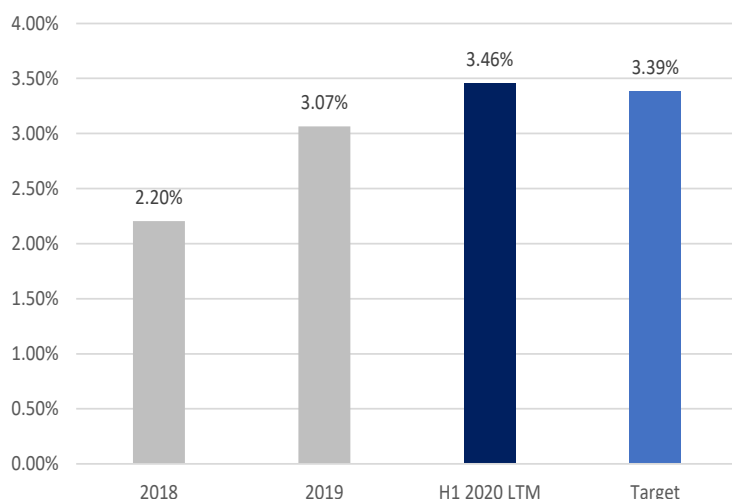


# Net Operating Income

The Fund is focused on improving operations to ensure that the portfolio is being managed as efficiently as possible. Given that the Fund has embarked on a sales program, it is anticipated that total portfolio revenue will decrease as the sales program continues and the portfolio reduces in size. Despite gross revenue decreasing, operational efficiencies and rental growth should result in the Net Operating Income (NOI) yield continuing to improve over time. The NOI yield is the net rental revenue that the Fund retains after paying property level expenses, expressed as a percentage of the portfolio value. Additionally, as the Fund continues to dispose of a higher proportion of lower-yielding assets it will increase the overall portfolio weighting of the higher-yielding assets. This should also have a positive impact on the portfolio's NOI yield.

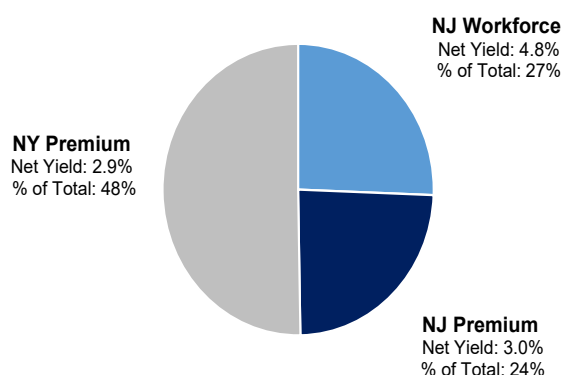
The "NOI Yield: Same Home Stabilised 1-4 Family Properties" chart below tracks the Fund's stabilised portfolio yield, with the Fund having a target of exceeding a 3.39% NOI yield (this target was originally set at 3.25% but has been proportionately increased following the period's valuation changes). We are pleased to be exceeding this target with an NOI yield of 3.46% for the period ending 30 June 2020, although we note that the sustainability of this level of NOI yield will depend on continued positive traction with COVID-19. This improvement is largely a result of minimising property level expenses and disposing of lower-yielding assets through the sales process.

**NOI Yield - Same-Home Stabilised 1-4 Family Properties**



Note: Target has been increased proportionally by the Same-Home Stabilised assets fair value write-down for H1 2020

**H1 2020 LTM NOI Yield - Same-Home Stabilised 1-4 Family Properties by Segment**



In this analysis, a group of assets (excluding assets held for sale or under construction at the end of 30 June 2020) is compared. Across all time periods the NOI (property revenue less expenses) is divided by the 30 June 2020 asset values. By holding the denominator consistent, changes in cash flow over time are isolated, rather than the NOI yield changing due to valuation changes. This analysis is useful for comparing NOI between different time periods, however individual NOI yields for specific years should not be reviewed in isolation using this data. Note that the group of assets being assessed will change each quarter, as properties are sold or move into the sales pipeline.

Source: US REIT.

Note: "Same-home" assets by segment will not match the total portfolio distribution, as it excludes assets held for sale or under construction.



# General and Administrative Expenses

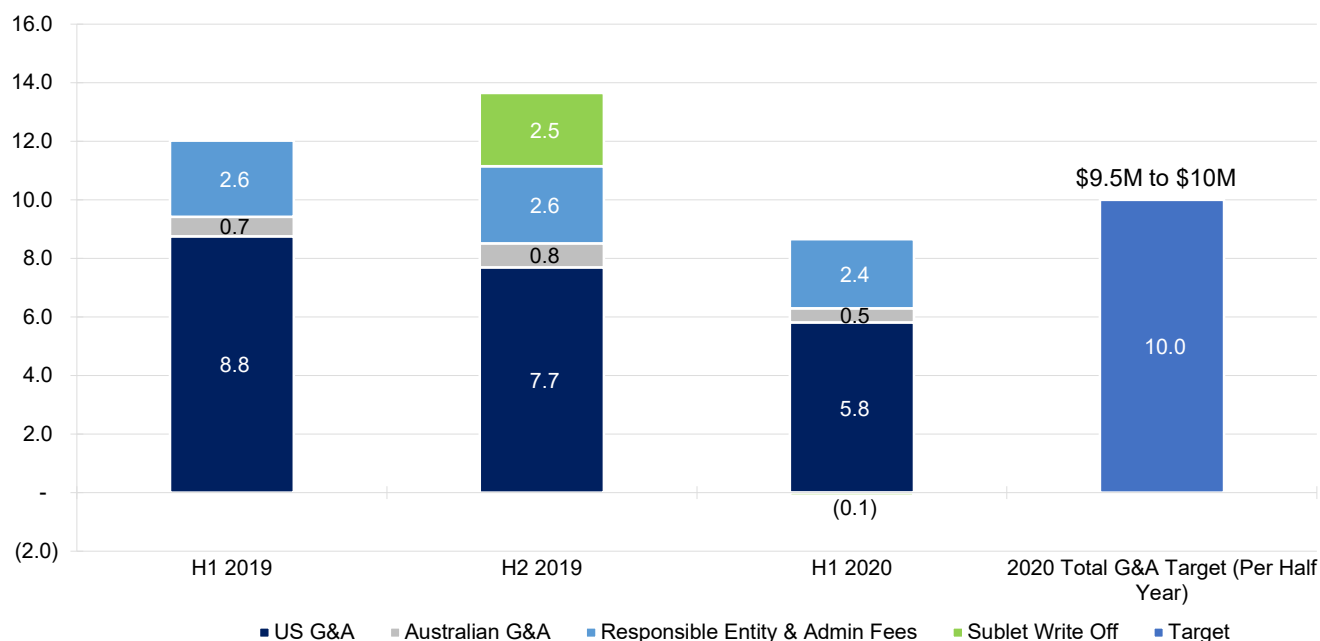
Reducing General and Administrative (G&A) expenses is another key goal for the Fund's management team.

The Fund has set a target of reducing these expenses from the A\$25.7 million incurred in 2019, to A\$19-\$20 million for 2020 (note that the table below shows six-month time periods).

Q2 2020 saw continued progress in minimising these expenses, with the Fund incurring A\$4.2 million in G&A expenses, down from A\$4.4 million in Q1 2020. This was assisted by a minor adjustment to the NY office sublet write off, which deducted A\$0.1m from this period's total expenses. For the full six-month period to 30 June 2020, this resulted in total G&A expenses of A\$8.6 million, comfortably below the targeted range of A\$9.5-\$10 million per half year, and well below the corresponding figure in 2019 of A\$12 million.

While we expect G&A levels to fluctuate from quarter to quarter due to the seasonality of certain expenses and the impact of foreign exchange movements for US-based outgoings, we are pleased that these results are tracking within our stated annual target for 2020.

**G&A Expenses (A\$Millions)**



Source: US REIT.

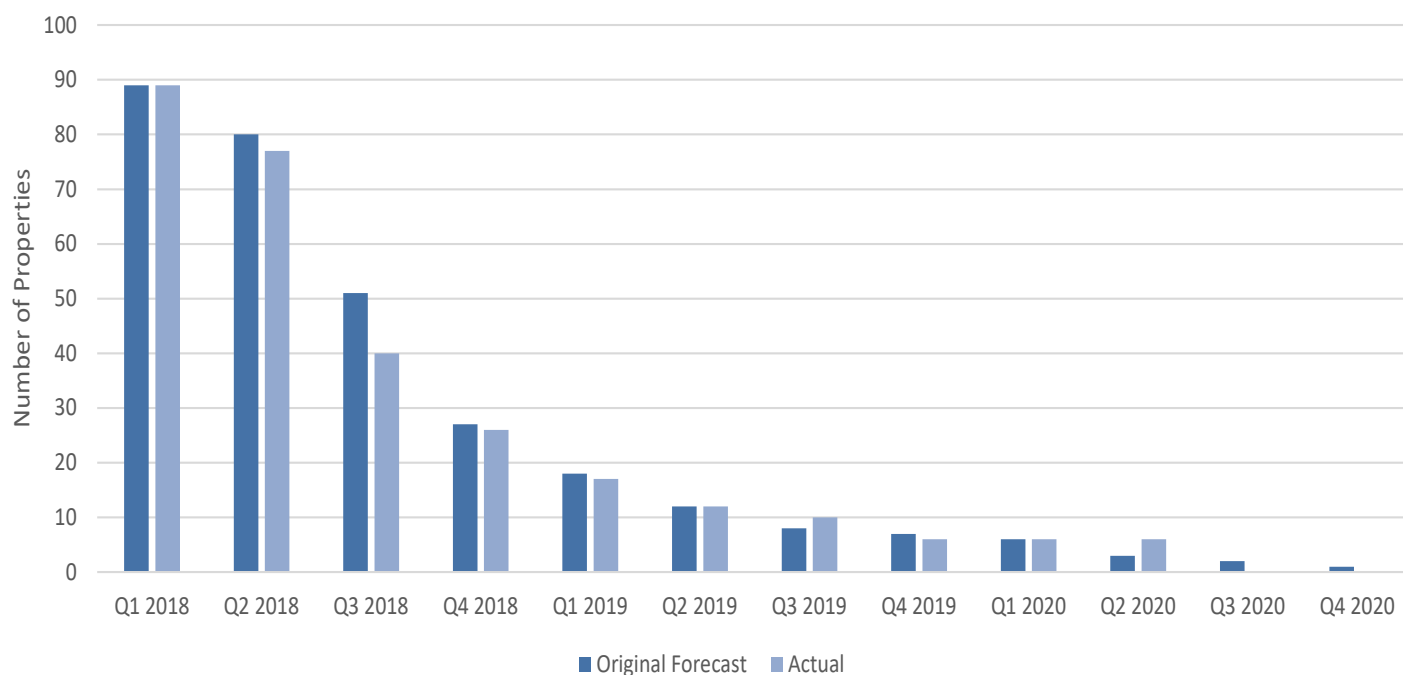
Note: AUD/USD average rate of 0.7063, 0.6846 and 0.6580 for H1 2019, H2 2019 and H1 2020 respectively. Original target for 2020 utilises the 31 December 2019 spot rate of 0.7021.

# Construction Pipeline

At the start of the quarter, the Fund had six properties remaining from the original construction pipeline, and these all remain in progress. Four of the six remaining projects are substantially complete, with relatively minor finish work remaining. The other two active projects are approaching completion though still require more substantial works to be completed.

Physical work on these sites was significantly impeded throughout the quarter, with “non-essential” construction projects being paused due to COVID-19. This follows Executive Orders that were announced by the governors of New York and New Jersey. The majority of work ceased in New York on 30 March, with New Jersey issuing a similar directive on 5 April. These restrictions were lifted on 13 May (NJ) and 8 June (NY). It is anticipated that four of the remaining projects will now be completed during Q3 2020, with the remaining two to be completed early in Q4 2020.

Construction Pipeline

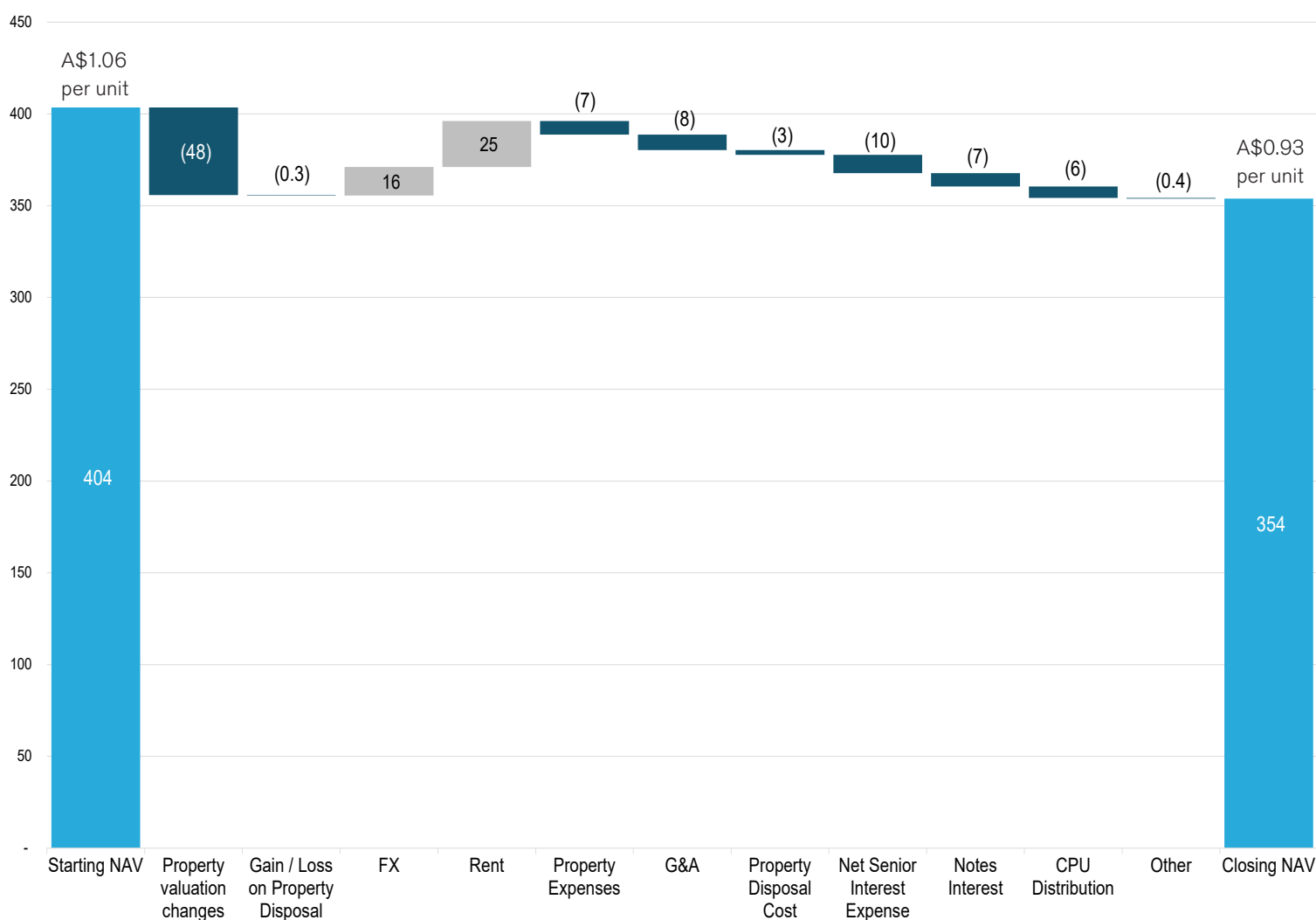




# Net Asset Value

Changes in the Fund's Net Asset Value (NAV) over the period 31 December 2019 to 30 June 2020 are outlined below. At 30 June 2020, the audited pre-tax NAV was A\$0.93 per unit (A\$0.84 post-tax). The reduction in NAV over this period is primarily driven by negative fair value movements for the Fund's property valuations, and the leveraged nature of these returns on investor equity. Please refer to the Portfolio Valuation section of this report and the Fund's Half Year Financial Report for further details.

## NAV Bridge - 31 December 2019 to 30 June 2020 (A\$Millions)



Source: US REIT.

Note: AUD/USD spot rate of 0.7021 and 0.6903 as at 31 December 2019 and 30 June 2020 respectively.

Graph illustrates movements in the pre-tax NAV for the period 31 December 2019 to 30 June 2020.

# Fund Cash Flow Profile

The following analysis outlines the Fund's major cash-flow drivers. This excludes non-cash items, such as depreciation, foreign exchange movements and changes in underlying asset values, as well as capitalised improvements. While these additional factors are vital to reviewing the Fund's overall financial performance, the following FFO analysis provides an important overview of the Fund's cash flow position.

Historically, the Fund has made regular cash losses while it focused on growing and renovating its portfolio. In the past, asset value growth and favourable currency movements have typically outweighed the Fund's operational cash losses. However, it is management's goal to reposition the Fund to become cash flow positive from its operating activities, so that it is not reliant on such factors to generate a profit. This will be achieved by maximising net property-level income, paying down debt, minimising administrative expenses, and rebalancing the portfolio away from low-yielding assets.

Throughout the quarter the Fund was also a recipient of a Paycheck Protection Program loan, in the amount of US\$1.23 million (A\$1.9 million). This was obtained under the US Government's Coronavirus Aid, Relief, and Economic Security (CARES) Act. Since receiving this loan, the Fund has met all requirements to have this loan forgiven, and as such it has been recognised as grant income during the period.

<b>Funds From Operations (FFO) - Pre Tax (A\$ Millions)</b>	<b>2018</b>	<b>2019</b>	<b>H1 2020</b>
<b>Revenue</b>	<b>38.1</b>	<b>49.7</b>	<b>25.1</b>
One-Off Grant Income	-	-	1.9
Investment Property Expenses	(16.3)	(19.2)	(7.4)
Investment Property Disposal Costs	(3.6)	(4.3)	(2.6)
G & A	(25.1)	(22.2)	(8.5)
<b>EBITDA</b>	<b>(6.9)</b>	<b>4.0</b>	<b>8.5</b>
Net Interest Expenses (Excluding Notes Interest)	(20.5)	(21.2)	(9.0)
Notes Interest	(21.7)	(19.8)	(6.9)
<b>Funds From Operations (FFO) - Pre Tax</b>	<b>(49.0)</b>	<b>(37.1)</b>	<b>(7.4)</b>

Source: US REIT.

Note: Excludes Convertible Preference Unit (URFPA) distributions as they are equity distributions.

AUD/USD average rate of 0.7476, 0.6953 and 0.6580 for 2018, 2019 and H1 2020 respectively.

This cash flow position highlights the importance of the current strategic priorities that have been outlined, and the opportunities that exist to improve the Fund's cash flow position into the future.

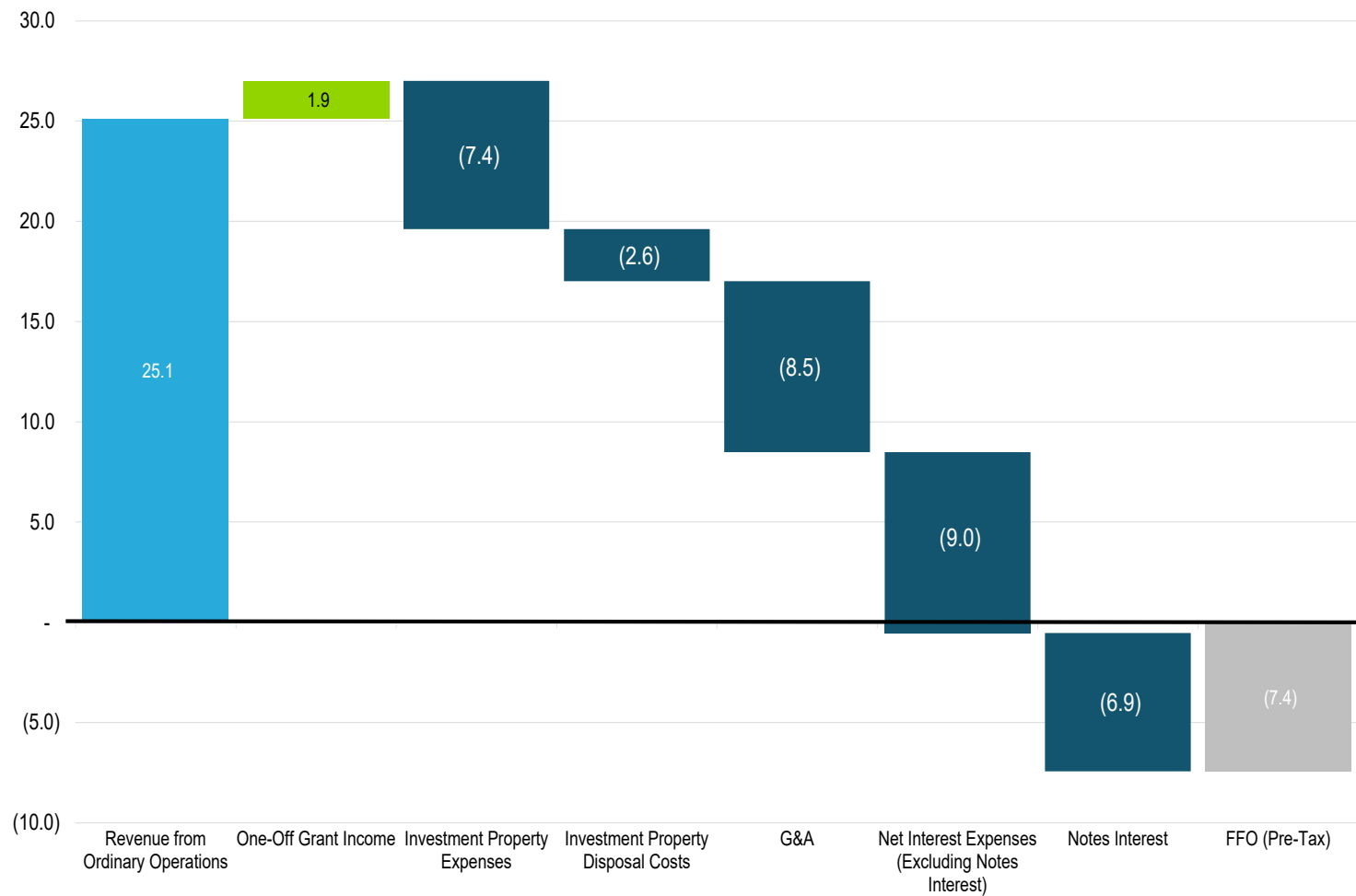
For the six months to 30 June 2020 the Fund continued to see significant improvements to Funds from Operations, with an annualised improvement of approximately 50% compared to 2019's results (excluding the one-off grant income). This improvement is largely due to a reduction in costs relative to prior years across property, G&A and financing expense categories.

This FFO progress has been achieved despite the increased property disposal costs. These property disposal costs will only be incurred for a finite period while the sales process is ongoing. Properties held vacant for sale also have a negative impact on FFO, as property expenses such as taxes and insurance are still incurred, but there is no corresponding revenue to offset these costs. While these cash flow inefficiencies related to the sales process are necessary at the current time as the Fund works through its debt repayment program, once the sales program is concluded this drag on FFO will be removed, further improving future cash flows.



# Fund Cash Flow Profile

## H1 2020 Funds From Operations (FFO) - Pre-Tax (A\$Millions)



Source: US REIT.

Note: AUD/USD average rate for H1 2020 of 0.6580

# Fund Statistics

## Performance Summary<sup>1,2,3,4</sup> AS AT 30 JUNE 2020

	1M	3M	6M	1YR	2YR (PA)	3YR (PA)	5YR (PA)	SI <sup>2</sup> (PA)
URF Ordinary	-9.7%	22.6%	-62.6%	-63.9%	-53.2%	-42.1%	-28.7%	-12.3%
URF NAV*	-17.7%	-30.1%	-12.3%	-39.2%	-21.5%	-15.1%	-9.3%	-0.9%
URF Notes I	All capital returned to investors January 2018							7.75%
URF Notes II	All capital returned to investors March 2020							7.75%
URF Notes III	2.7%	14.8%	-2.5%	3.9%	5.0%	-	-	5.9%
URFPA	13.5%	27.5%	-32.9%	-28.8%	-18.5%	-	-	-14.1%

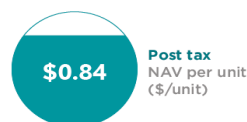
\*Pre-tax

## Net Asset Value Breakdown<sup>3,4</sup> AS AT 30 JUNE 2020

ASSETS	\$1,193m	Investment Properties <sup>4</sup>	Cash	Other
LESS LIABILITIES (excl. tax) <sup>5</sup>	(\$640m)	Bank debt <sup>8</sup>	Notes <sup>6</sup>	Other
LESS CPUs <sup>7</sup> (at face value)	(\$199m)	CPUs <sup>7</sup>		
EQUALS PRE-TAX NAV	\$354m			
LESS DEFERRED TAX LIABILITIES <sup>5</sup>	(\$35m)			
EQUALS POST-TAX NAV	\$319m			

DIVIDED BY ORDINARY  
UNITS OUTSTANDING

381m



## 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 may contain statements, opinions, projections, forecasts and other material (forward-looking statements), based on various assumptions. Those assumptions may or may not provide to be correct. The Investment Manager and its advisers (including all of their respective directors, consultants and/or employees, related bodies corporate and the directors, shareholders, managers, employees or agents of them) (Parties) do not make 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. Actual results, performance or achievements may vary materially from any projections and forward-looking statements and the assumptions on which those statements are based. Readers are strongly cautioned not to place undue reliance on forward-looking statements, particularly in light of the current economic climate and the significant volatility, uncertainty and disruption caused by the outbreak of COVID-19, and the Parties assume no obligation to update that information.

## 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** Source: US REIT.

**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 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.

# Board & Management

## Board of the Responsible Entity

Stuart Nisbett

Peter Shear

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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