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2021 AGM – Chair's Address

Welcome to the Annual General Meeting of Aspen Group for the year ending 30 June 2021.

I am very proud of the performance of the group over the past few years while it transitioned into one of Australia's leading providers of truly affordable accommodation. Our core customer base is the roughly 40% of Australian households than can pay no more $400 per week in rent and $400,000 purchase price, and we offer accommodation in metropolitan and regional locations, within residential, retirement and park communities.

Australia's housing affordability issues have become more acute with very low interest rates fueling an increase in land and existing house prices across the country. More recently, the cost of building new houses has escalated due to supply bottlenecks and labour shortages, while demand has been boosted by government incentives. A large proportion of Aspen's customer base has not benefitted from the low interest rates or these incentives as many are unable to secure sufficient debt to buy a house, and those with cash savings (retirees for example) suffer a decline in income. This environment presents even greater opportunities for Aspen to provide genuine assistance to our customers while also generating attractive investment returns for our shareholders.

Aspen has leading ESG credentials. Housing affordability is a major social issue that we are helping resolve. Much of our accommodation has a relatively small ecological footprint and is carbon-positive with solar and energy-saving devices installed. The majority of Aspen's Board members are independent, our Joint Chief Executive Officers own a combined 8% stake in the group, 46% of our senior managers at head office and our properties are female, and we enjoy a very diverse group of employees Australia-wide.

On a per security and annualised basis over the two years to 30 June 2021 Aspen's net asset value increased by 8%, underlying earnings increased by 23% and distributions increased by 15%. Our stock price is trading at a multi-year high after increasing by about 40% since our last AGM. This outstanding performance was delivered against a backdrop of the Covid-19 pandemic and associated lockdowns and border closures, the NSW Black Summer Bushfires, a moratorium on rent increases in WA, and the expiry of Woodside's long-term lease at Aspen Karratha Village. Meanwhile, Aspen has increased its portfolio weighting to relatively low-yielding residential property in metropolitan locations, development projects and land which, in our opinion, has improved future growth prospects.

I would like to thank all of Aspen's employees at head office and the properties for their hard work and commitment throughout the last 12 months. I would also like to thank the existing and new securityholders who strongly supported our recent equity raising to help fund our growth.

Clive Appleton
Chairman

2021 AGM - CEO's Address

1. Aspen's Business Model

Aspen Group is very well positioned to prosper from the growing opportunities in affordable accommodation. We are a customer-centric business typically servicing households that can afford up to $400 weekly rent and a $400,000 purchase price. We have a fully integrated operating and development platform with a high quality and energetic team across our head office and properties. We own a portfolio of quality properties in attractive locations that we provide on competitive terms while still generating attractive returns for our shareholders.

Our customers are varied. Some are retired and want to live in attractive regional locations and some need to stay in metropolitan areas close to jobs, schools, and other facilities. Some want to live in family or group households, some in communities, and some alone. We therefore offer accommodation across a range of residential, retirement and park communities, not just a single narrow segment of the property market or location. This makes optimal use of our platform, maximises opportunities and reduces risk, in our opinion.

Aspen is growing rapidly. We now own over 3,600 dwellings and sites - up about 70% over the past two years. This includes over 500 approved sites for our new development pipeline - a sevenfold increase over the same period – and over 400 dwellings in our redevelopment and refurbishment program. We have been methodically growing the portfolio by acquiring and developing properties that are highly suited to our business model and customer base. For instance, we recently announced the acquisition of the Meadowbrooke Lifestyle Estate near Bunbury, Western Australia. This is a land lease community with approvals in place for 181 houses of which 17 have been built and sold to date. We expect to sell new, modern houses starting from as low as $225,000 with a land rent of $160 per week.

I will now run through our portfolio in more detail.

2. Property Portfolio

Aspen has three accommodation classes, residential, retirement and park communities.

2.1 Residential

Rents for our Lindfield apartments and Perth houses have increased overall by about 10% over the 12 months to September, and tenant quality has improved. Uniresort, Upper Mount Gravatt co-living community has performed above expectations since acquisition, and we are focusing on increasing occupancy from the current level of only 75% which is being impacted by border closures.

We are undertaking major redevelopments and refurbishments at several of our properties. At Burleigh Heads the first six of the townhouses are expected to be ready to lease before the end of December, with the remaining twelve expected to be ready for lease in the second half of FY22. Rents have increased solidly in this market since we acquired the property a year ago. At Cooks Hill we are converting an older style boarding house into 50 modern self-contained studios that we intend to operate under our co-living community model. These apartments should be available for rent around the end of June 2022.

We acquired the Perth Apartment Portfolio in September 2021, and we expect to generate significant income growth from this portfolio from three areas. Firstly, increasing rents from below-market levels for about 150 tenancies that were in good, marketable condition at the time of acquisition. Secondly, from refurbishing apartments to achieve higher sustainable occupancy and rents. Thirdly, by reducing operating costs. We have commenced refurbishment work on around 150 of the apartments and some have already re-entered the rental pool. Last week we leased the first batch of four refurbished apartments at 76 East Street, Maylands at an average weekly rent of $270 for 1-bedroom and $310 for 2-bedroom apartments, compared to the average assumed rent of $275 for the whole portfolio post the refurbishment program. Total acquisition and refurbishment cost for the Perth Apartments is expected to average about $150,000 and the net yield on cost is expected to be over 5%.


76 East Street, Maylands


Refurbished Apartment

We have recently commenced marketing our Mount Barker residential land subdivision and 10 lots are already under contract at prices above our initial expectations. We are working towards completing civil works and settling these purchases this financial year. We have sold 12 houses from our Perth House Portfolio after they were refurbished upon lease expiry, at an average price $435,000, with another 2 under contract. Our remaining 68 Perth Houses have good quality tenants who are taking care of their home and paying rent on time, and we do not intend to sell any more this year.

The residential portfolio is expected to deliver strong income growth in FY23 and FY24 upon completion of the refurbishment and leasing programs.

2.2 Retirement Communities

Our retirement community portfolio is growing quickly through acquisitions and development. We have acquired three communities over the past 6 months at very attractive prices, and five properties are being expanded with the addition of new houses. At our newly acquired properties, Wodonga Gardens, Lewis Fields and Meadowbrooke, we will soon be appointing builders for a total of 22 new houses of which 10 are already under deposit.

The average book value of our retirement community development sites is less than $30,000 which enables us to offer new houses on competitive terms. Being highly disciplined with land purchases has become even more imperative due to rapidly escalating building costs and declining real household incomes. Supply bottlenecks have caused delays at our projects of up to 10-12 weeks, but we have so far managed to increase average profit per house. These delays will mean some houses will settle in the second half rather than the first half of FY22. This financial year to date, we have settled 7 new house sales at an average profit margin of about $110k or 34%. Additionally, the market value of newly leased sites is above current book value.

We expect to increase development sales and profits in FY22 and FY23 with the new projects coming online.

2.3 Park Communities

The performance of our park communities has been varied during the Covid-19 pandemic. Our NSW parks have been negatively impacted by the lockdowns, particularly over the past several months. Also, our Adelaide Caravan Park has been struggling throughout the pandemic due to its near-CBD location. Business activity has been subdued in Karratha over the past 18 months after gas prices collapsed at the onset of the pandemic, and our village has made very little profit over the past 9 months post Woodside's lease expiry. On a more positive note, Darwin Freespirit Resort's performance has improved dramatically over the past 12-18 months, helped by the addition of new entertainment and function facilities. Our mixed-use parks including Barlings Beach and Highway 1 have delivered solid performances despite the impacts of Covid-19 because a large proportion of their customer base are on longer term leases.

As borders are opening, we are experiencing improved performance at our NSW parks. Subject to no further disruption we expect the holiday period trading to be strong based on our current bookings and rates.

Refurbishment program – Aspen Karratha Village

3. Outlook

Aspen's underlying earnings have been relatively flat this financial year to date. We expect profitability to improve for the remainder of the year and beyond for several reasons. Firstly, we will have more good quality residential dwellings to lease as we move through our refurbishment program. Secondly, once Covid-related lockdowns and border closures become a thing of the past, we expect total revenue and profit to increase in our park portfolio. Thirdly, we have recently submitted several Response for Proposals to corporates seeking accommodation at Karratha from early 2022 and we still hope and expect that Woodside will greenlight its major projects in the region shortly. Fourthly, we have more new houses being developed across our land lease communities which will contribute to growing development profits and annuity rental income.

We are carefully monitoring and managing the pressures in the building industry. There have been some increases in the cost of building and delays. We expect the capacity pressure to subside over the next year as the Homebuilder scheme workload reduces and borders reopen.

Finally, our net asset value (NAV) will be reviewed again in December, including the external revaluation of several of our properties. We expect NAV to increase due to an increase in net income since the last valuation and some recent large transactions that have reset capitalisation rates lower.

David Dixon
Joint CEO

John Carter
Joint CEO

Announcement authorised by the Board of Aspen Group Limited.

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