



# QUARTERLY UPDATE

October - December 2021

28 February 2022



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 October 2021 to 31 December 2021.

At the end of the Quarter the Fund completed its regular six-monthly valuation process, and this process saw the Fund's 1-4 Family portfolio increase in value by 1.6%. This follows an increase of 2.7% for the first six months of 2021. Growth in the second half of 2021 was achieved across all investment regions, with the Fund's New York Premium segment experiencing the strongest relative uplift.

Q4 2021 was a successful quarter for the Fund's 1-4 Family operational results;

- Rent payments equal to 99% of the quarter's rent roll were collected;
- The Fund's occupancy rate increased to 96.2%, which is the highest level that has been achieved since the Fund began publishing quarterly statistics;
- Same-home Net Operating Income (NOI) for Q4 2021 was up 5.5% compared to Q4 2020;
- General & Administrative (G&A) costs continued their downward trend, with the second half of 2021 representing an 11% cost reduction compared to the first half of the year.

Excluding disposal costs and non-recurring items, the Funds From Operations (FFO) loss for the second half of 2021 was A\$3 million. This represents a 58% improvement over the first half of the year, and illustrates the ongoing benefits from the Fund's strategic initiatives. Pleasingly, the Fund is expected to achieve a positive FFO run rate within the second half of the 2022 calendar year.

With the Fund's sales program in its final stages, only one asset sale closed during the quarter. Selective sales will continue to occur into the future, and at the end of the quarter there were six properties earmarked for sale. Proceeds from future sales will be available for capital management strategies such as security buybacks and further debt reduction (noting that there are annual limits on early loan repayments against the Global Atlantic Term Loan, above which the Fund is charged a Yield Maintenance Premium).

The local US Management team and the Responsible Entity Board of Directors continue to work closely with Ackman Ziff on potential capital market opportunities for the Fund. Such opportunities may include a full or partial portfolio sale, and we note that additional information on this process is included within the Chair's Letter and CEO Report accompanying the Full Year 2021 Financial Results which have been released alongside this Quarterly Report.

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).



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



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







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# Portfolio Valuation

At the end of the quarter the Fund conducted its regular six-monthly asset valuation process. Consistent with prior periods, this was conducted by obtaining asset-specific appraisals using the comparable sales methodology from a panel of independent brokers and real estate valuers. Specific appraisals were obtained on 48% of the portfolio by number, and 53% of the portfolio by value. These results were then used to calculate neighbourhood-specific adjustment figures, which were subsequently applied to the remainder of the portfolio on a neighbourhood-by-neighbourhood basis. The results of this process for the 1-4 family portfolio are summarised below:

Segment	Starting value (USD)	Closing value (USD)	Change	6-month change
NJ Workforce	\$187,900,648	\$190,166,093	\$2,265,446	1.2%
NJ Premium	\$123,132,463	\$124,479,892	\$1,347,429	1.1%
NY Premium	\$324,411,237	\$330,930,242	\$6,519,005	2.0%
<b>Total</b>	<b>\$635,444,348</b>	<b>\$645,576,227</b>	<b>\$10,131,879</b>	<b>1.6%</b>

Source: US REIT.

The Fund's Workforce properties continued to perform strongly, increasing in value by 1.2% for the six months to 31 December 2021. This followed a positive movement of 8.6% for the six months to 30 June 2021. These investment areas continue to benefit from strong interest from both investors and homeowners.

The Fund also recorded a positive movement across the New Jersey Premium segment of 1.1% for the six-month period, following a reduction in values of 3.1% for the period ended 30 June 2021. The Fund's primary holding in the New Jersey Premium segment is Downtown Jersey City, and while this valuation movement is modest in size, it is a pleasing return to growth for this area following the slowdown experienced over recent reporting periods.

The Fund's New York premium segment of the portfolio saw an aggregate increase of 2.0% for the six-month period, taking the full-year 2021 result for this segment to 3.8%. The Fund's New York Premium segment of the portfolio is largely comprised of assets in Brooklyn and Upper Manhattan. Within this segment the Fund's Upper Manhattan assets appreciated by 0.5% for the half-year, while the Brooklyn assets increased by 2.5%.

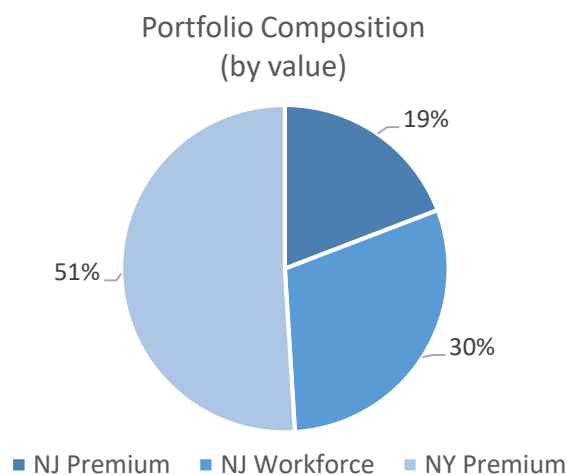
In addition to the Fund's primary 1-4 Family investment portfolio, the Fund's small exposure to large-scale multifamily assets owned with Urban American were also revalued. Large-scale apartment complexes continue to be impacted by the COVID-19 pandemic, and asset values have been affected more significantly than the Fund's primary investments in 1-4 Family housing. These investments were externally valued using a capitalised income methodology, with the value of the assets reducing 4.5% as a result of this process, largely as a result of decreased rent revenues. We remind investors that these assets form only a small part of the Fund's investment portfolio (the Fund's economic interest in these investments is approximately US\$10 million, compared to the US\$645 million value of the 1-4 Family portfolio).

Due to the effect of leverage within the Fund, this aggregate valuation change equates to a 4.5% increase to the pre-tax Net Asset Value (NAV).



# Portfolio Composition

The following breakdown represents the Fund's 1-4 family portfolio as at 31 December 2021:



Location	Value (USD)	Property Count	Location	Value (USD)	Property Count
<b>NJ Workforce</b>	<b>\$190,166,093</b>	<b>300</b>	<b>NY Premium</b>	<b>\$330,930,242</b>	<b>113</b>
Bayonne	\$30,842,842	54	Bedford-Stuyvesant	\$97,167,226	39
Bergen-Lafayette	\$7,845,091	11	Boerum Hill & Brooklyn Heights	\$16,740,000	3
Greenville	\$36,873,406	68	Bushwick	\$20,358,282	14
Jersey City Heights	\$51,355,315	62	Clinton Hill	\$14,984,672	4
Journal Square	\$17,985,306	26	Cobble Hill	\$7,197,016	2
North Bergen	\$5,260,474	9	Crown Heights & Lefferts Gardens	\$33,692,485	14
Secaucus	\$515,000	1	Fort Greene	\$11,072,777	3
Union City	\$2,990,613	5	Park Slope	\$33,840,314	7
West Bergen	\$34,915,860	61	Prospect Heights	\$5,330,000	1
West New York	\$1,582,186	3	Williamsburg	\$15,937,025	6
<b>NJ Premium</b>	<b>\$124,479,892</b>	<b>70</b>	Hamilton Heights & Harlem	\$65,015,443	18
Downtown	\$115,502,580	64	Forest Hills	\$1,600,000	1
Weehawken	\$8,977,312	6	Soho	\$7,995,000	1

Source: US REIT, as at 31 December 2021. Figures may not sum due to rounding.

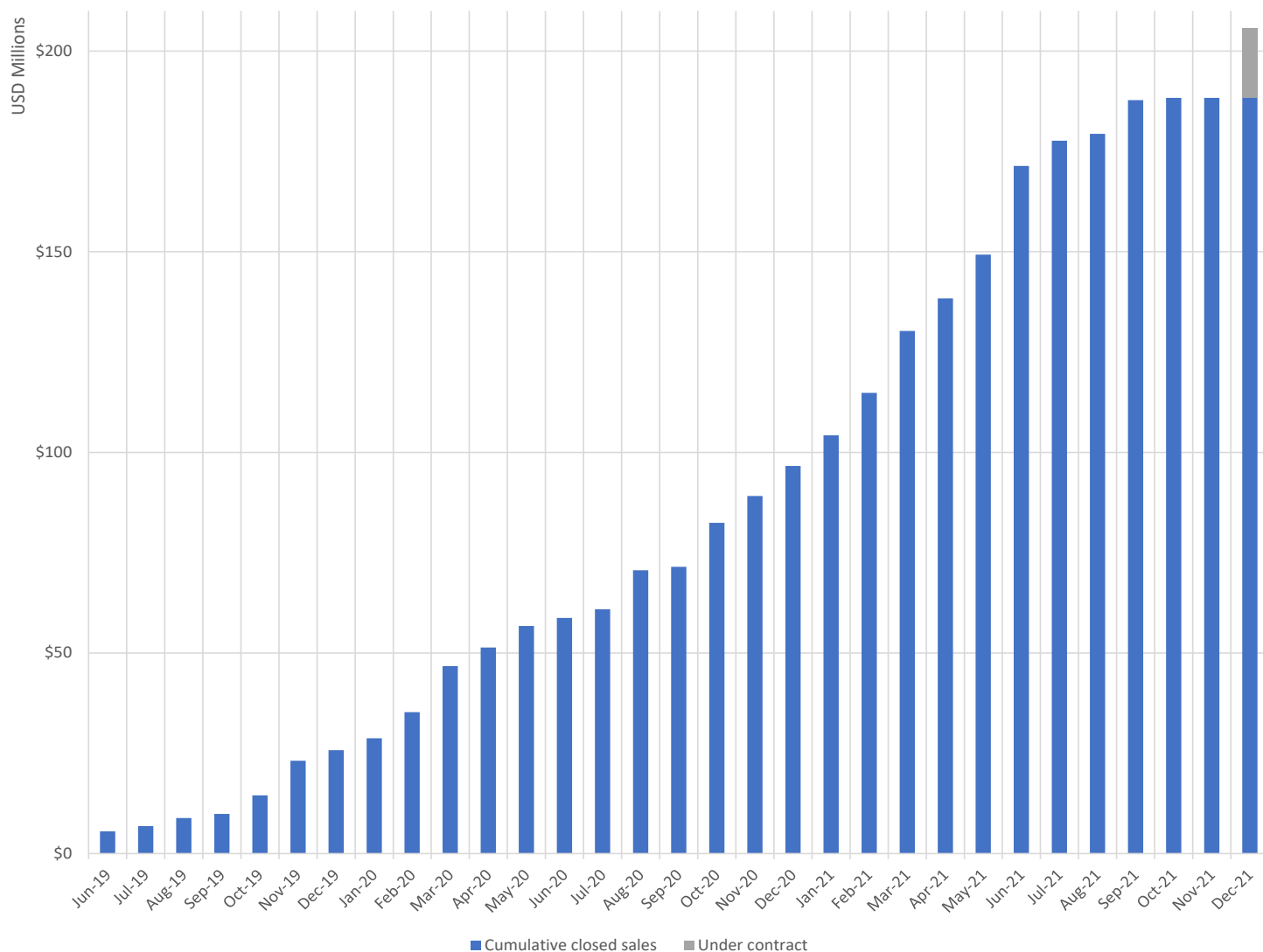




# Asset Sales

The Fund's dedicated sales program is now largely complete, and as at 31 December 2021 over US\$188 million in assets has been sold from the 1-4 Family portfolio since the sales program was first announced in 2019. Selective sales will continue, though at a reduced frequency from the rate achieved during the dedicated sales program.

During Q4 2021 the Fund closed on the sale of one property in Essex County, New Jersey for US\$552,000. At the end of the quarter, there were a further five properties worth US\$18.9m under contract to be sold. All but one of these pending sales are located in the New York Premium segment of the portfolio. Of these pending sales at the end of the quarter, three transactions worth US\$11.6million closed in early 2022. Sales remaining under contract are likely, but not guaranteed, to close.



Source: US REIT.



# Capital Management

The Fund's cash and debt levels were largely unchanged across the quarter. This is to be expected following the full repayment of the Global Atlantic Bridge Loan in September 2021 and the reduction in sales activity.

At 31 December 2021, the Fund held cash reserves of US\$41.2 million and debt of US\$349.9million. This cash balance is likely to increase through Q1 2022, with gross sales of just under US\$11.6million already closed in January and February 2022.

As the Fund finalises its pending sales and moves towards its stated goal of a positive Funds From Operations (FFO) run rate, the level of working capital required by the portfolio will continue to be reviewed and any surplus funds will be strategically deployed for capital management initiatives such as early repayments against the Term Loan or security buybacks. Subject to the aforementioned property sales, surplus funds for these purposes are likely to approach US\$20 million by the end of Q1 2022.

Buybacks of ordinary and/or preference securities and further proactive debt repayments are currently on hold, pending conclusion of the Fund's ongoing assessment and consideration of capital markets options.

The Fund will continue to take a measured approach to its liquidity requirements as the pandemic wanes, ensuring ample funds are retained for short term URSPA distributions, minimum cash reserves required by Global Atlantic, as well as allowances for regular capital expenditure and operating expenses.

	US\$ Balance at 31-Dec-20	US\$ Balance at 31-Mar-21	US\$ Balance at 30-Jun-21	US\$ Balance at 30-Sep-21	US\$ Balance at 31-Dec-21
Global Atlantic - Term Loan (4.00%)	359,146,473	353,764,177	350,913,925	349,885,636	349,885,636
Global Atlantic - Bridge Loan (5.00%)	66,350,305	49,671,212	24,601,050	0	0
Notes III (7.75%)	13,464,500	0	0	0	0
<b>Total</b>	<b>438,961,278</b>	<b>403,435,389</b>	<b>375,514,975</b>	<b>349,885,636</b>	<b>349,885,636</b>
<b>Indicative Interest Cost</b>	<b>18,726,873</b>	<b>16,634,128</b>	<b>15,266,610</b>	<b>13,995,425</b>	<b>13,995,425</b>

Source: US REIT.

Excludes multi-family level debt for investments with Urban American. Notes III balance converted into USD at AUD/USD spot rate of 0.7694 as at 31 December 2020.





# Rental Income Collections

As has been the case since the onset of the COVID-19 pandemic, the Fund continued to work collaboratively with tenants to maximise rent collections during the quarter. 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 were resilient throughout the quarter, equating to 99% of the quarter's occupied rent roll. The rent collected includes receipts for Q4, as well as outstanding payments for prior months:

Month	Collection Rate
January 2021	98%
February 2021	97%
March 2021	97%
April 2021	98%
May 2021	96%
June 2021	99.5%
July 2021	102%
August 2021	99%
September 2021	96%
<b>October 2021</b>	<b>98%</b>
<b>November 2021</b>	<b>97%</b>
<b>December 2021</b>	<b>102%</b>
<b>Q4 2021</b>	<b>99%</b>

Source: US REIT.

Eviction moratoriums expired in January 2022 across both New Jersey and New York. While eviction processing is expected to be substantially delayed due to the backlog of cases before the courts, this represents another step towards a normalised property market.





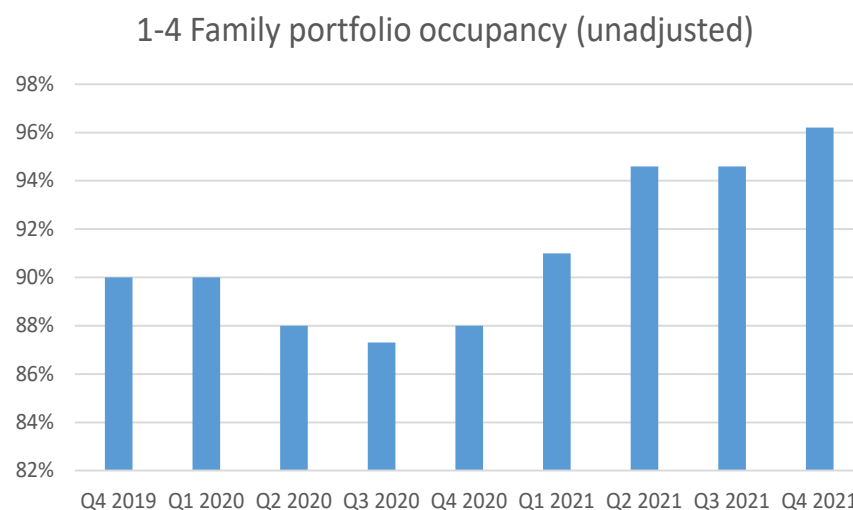
# Portfolio Occupancy

The Fund's goal is to have as many properties fully leased as possible, while noting that properties in the sales pipeline may be intentionally left vacant in order to maximise the potential sales price.

At 31 December 2021, the Fund's 1-4 family portfolio had 96.2% of its units leased. A further 3.1% of units were vacant and available for rent (or undergoing a turnover between leases), while the remaining units (0.7%) were kept deliberately vacant as they progress through the sales pipeline. The Fund's rent ready occupancy (i.e. excluding units deliberately held vacant for sale) increased to 97% at the end of the quarter.

<b>Total Portfolio (as at 31 December 2021)</b>	<b>Unit Count</b>	<b>%</b>
Leased	854	96.2%
Turnover	10	1.1%
Held for sale - on the market (vacant)	1	0.1%
Sale asset - pending closing (vacant)	5	0.6%
For Lease	18	2.0%
<b>Total Units</b>	<b>888</b>	<b>100.0%</b>

This represents a historically high occupancy rate for the Fund, made possible following the conclusions of the prior renovation and sales programs, as well as the Fund's focus on minimising re-leasing time and costs.



Source: US REIT.





# Net Operating Income

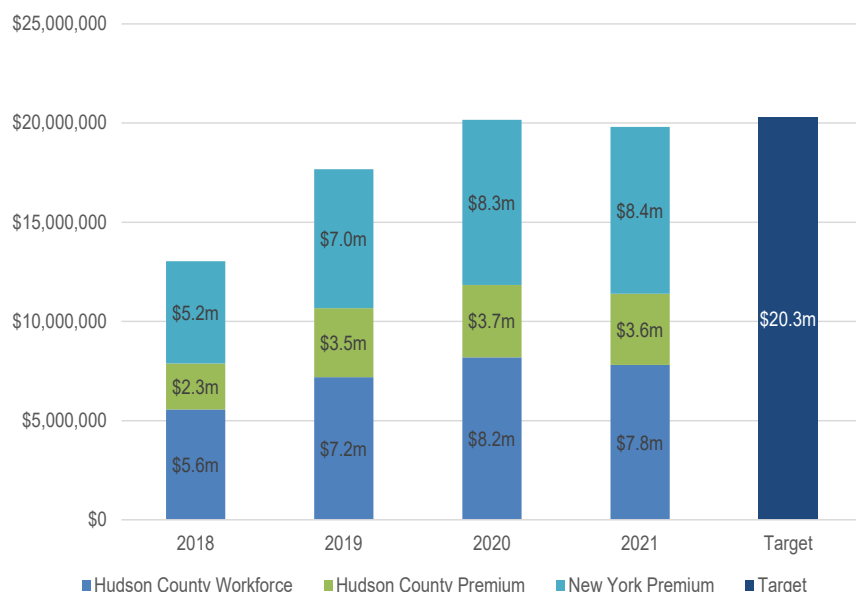
The Fund is focused on managing the portfolio as efficiently as possible in order to maximise its Net Operating Income (NOI), being the net rental revenue that the Fund receives after paying property level expenses.

As a result of the sales program that has taken place over the course of the past two years, total portfolio revenue has decreased relative to historic levels as the portfolio has reduced in size. To remove the impact of the sales program and review income performance in a consistent manner, the following analysis reviews the portfolio on a 'same home' basis, meaning that it only considers assets currently owned and income generating (or for lease), and looks at the income generated by that "stabilised" pool of properties over time. As the Fund is nearing the end of its sales program and beginning to transition to a fully stabilised state, this pool of properties will largely be reflective of the entirety of the portfolio, with the only exclusions being any properties currently on the market for sale or any opportunistic sales that the Fund considers in the future.

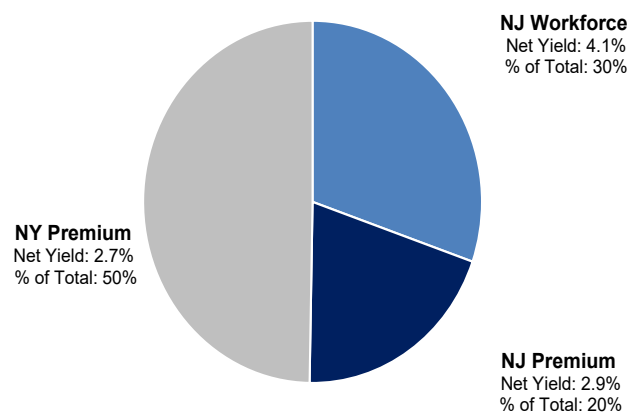
Looking specifically at both Q4 2020 and Q4 2021, the portfolio NOI increased by US\$256,000, or 5.5%, largely driven by improved revenue results in Q4 2021.

At the end of Q4 the Fund's same-home trailing 12-month NOI was US\$19.8 million. This result was down 1.8% on 2020's full year figure, but within 2.5% of the target originally set at the end of 2019 prior to the impact of the COVID-19 pandemic.

**NOI (USD): Same-Home Stabilised 1-4 Family Properties**



**Q4 2021 LTM NOI Yield - Fair Value: Same-Home Stabilised 1-4 Family Properties**



Source: US REIT. Figures may not sum due to rounding.

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

Note: "LTM" refers to 'last 12 months' illustrating trailing 12 month data as at 31 December 2021.





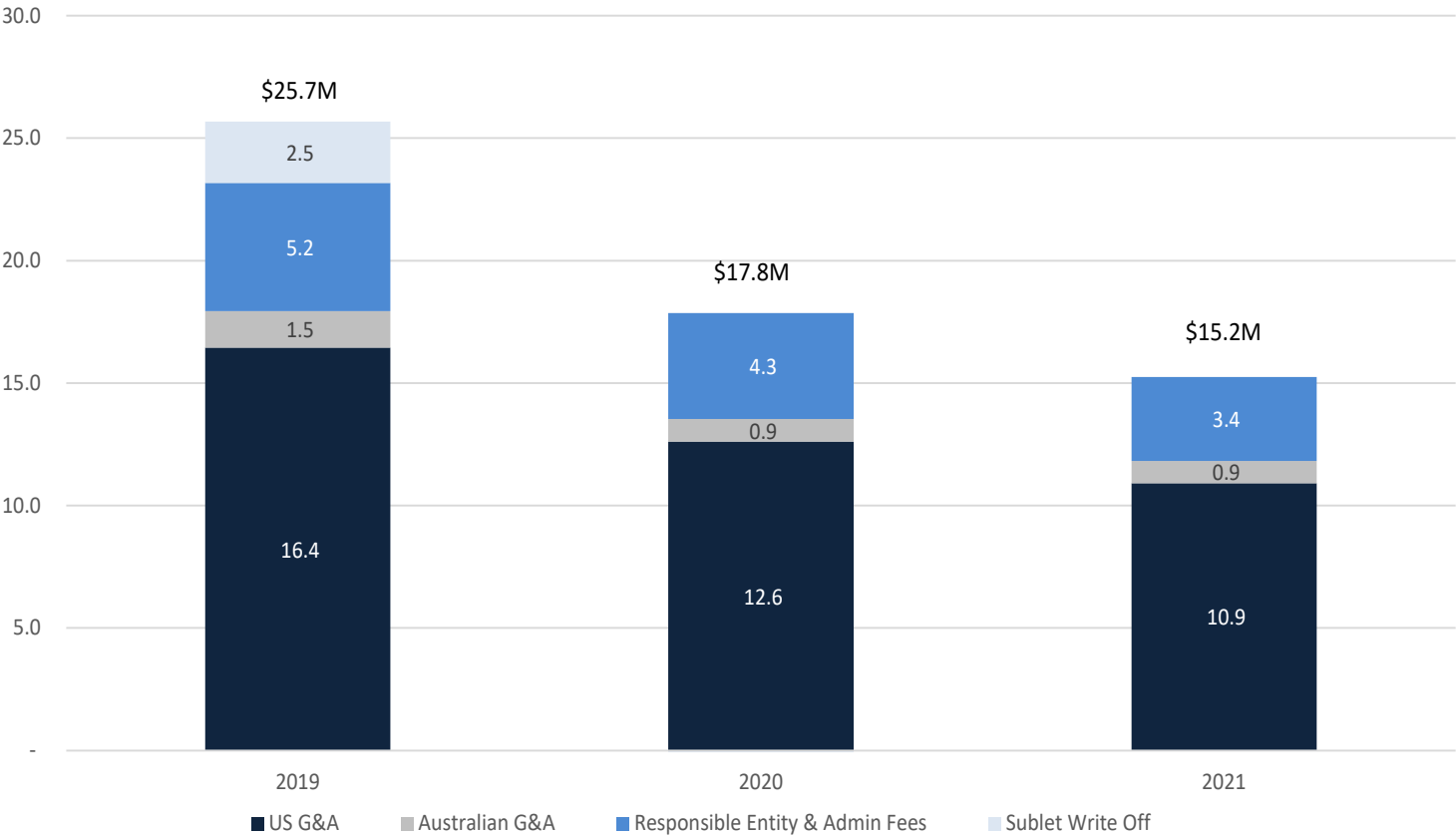


# General and Administrative Expenses

Reducing General and Administrative (G&A) expenses is a key goal for the Fund's management team. For the 2021 calendar year, an annual expense of A\$14-15 million was anticipated, and the year ended at A\$15.2 million. This represents a 14.2% cost reduction compared to 2020. This trend was also evident within the year, with the second half of the year incurring costs 11% lower than the first six months.

Starting 1 January 2022 the Responsible Entity Administration Fee will be waived indefinitely, and this is expected to save the Fund in excess of A\$2 million each year. In addition, further changes to the operations in the US are expected in 2022. As detailed further in the CEO Report of the FY21 accounts, as the Fund entered the capital markets process the operations were kept unchanged so that URF would be able to market the portfolio to the widest universe of potential buyers, including those that would need the operations to remain in place. In the event that no transaction eventuates the current operations will be further reduced, and the business will also move from a co-CEO model to a single CEO model, further reducing G&A costs.

G&A Expenses (A\$Millions)

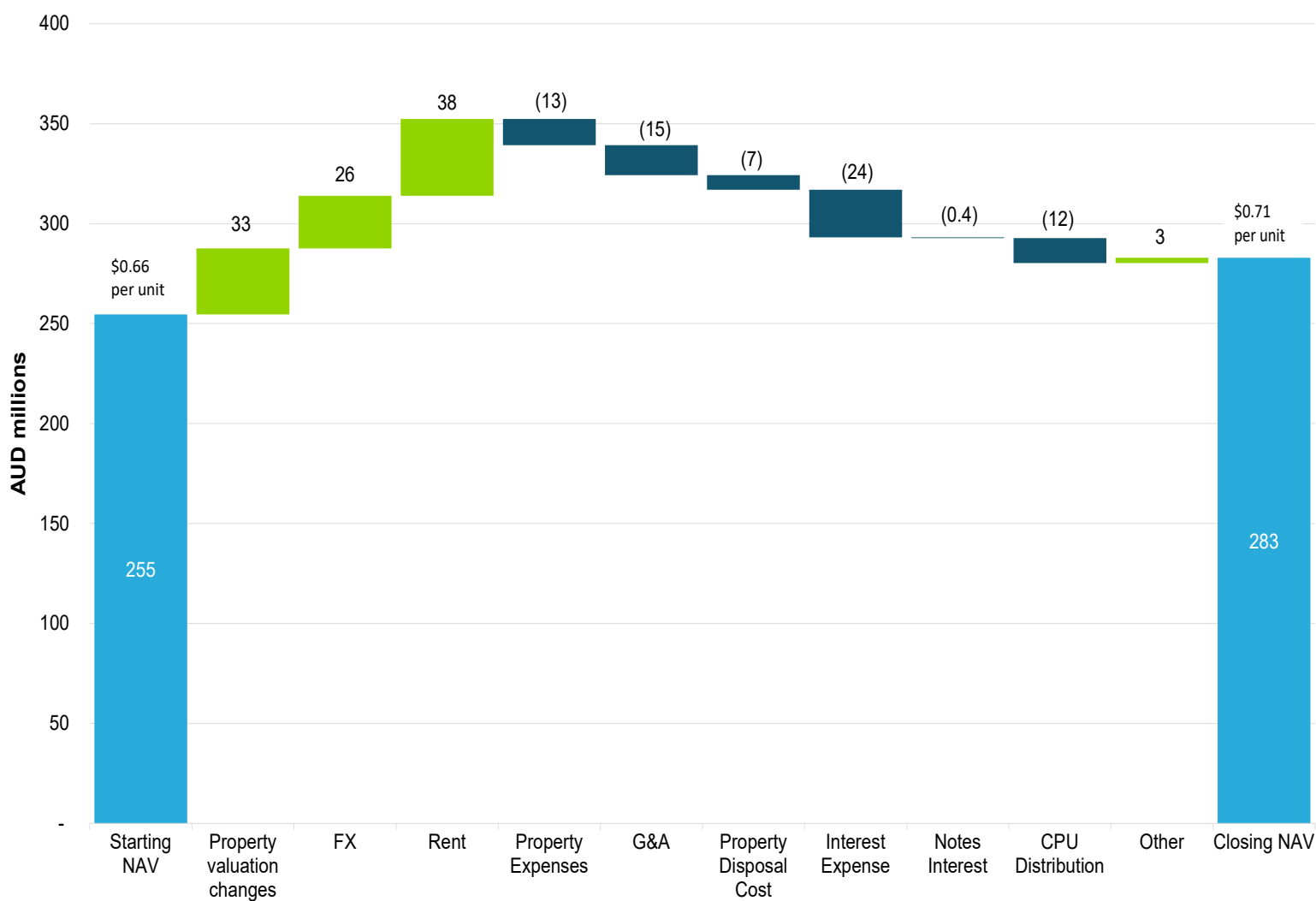


AUD/USD average rate of 0.6953, 0.6910 and 0.7513 for 2019, 2020 and 2021 respectively.  
Source: US REIT.



# Net Asset Value

Changes to the Fund's pre-tax Net Asset Value (NAV) over the period 1 January 2021 to 31 December 2021 are outlined below. At 31 December 2021, the pre-tax NAV was A\$0.71 per unit (A\$0.62 post-tax).

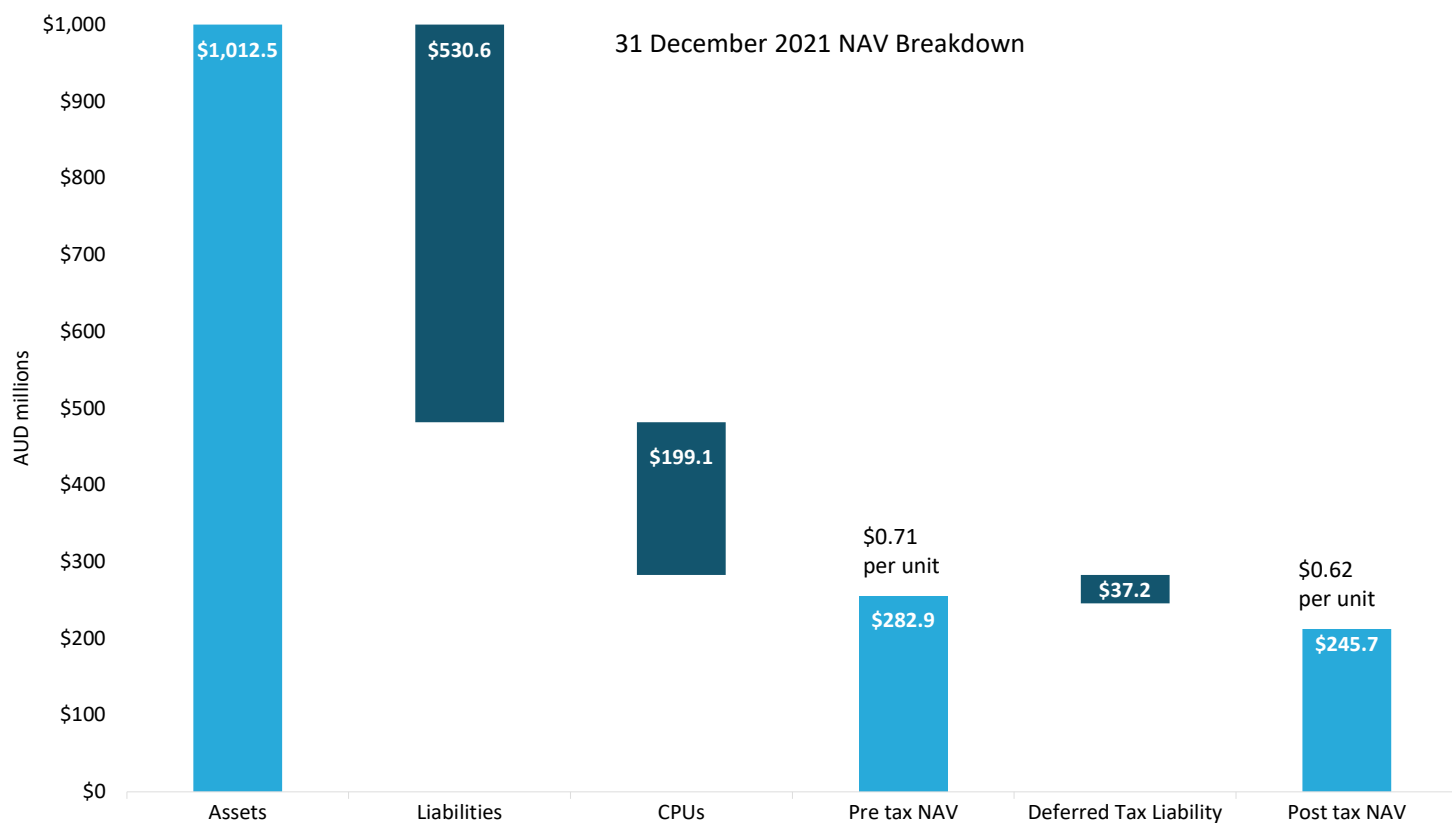


Source: US REIT. Figures may not sum due to rounding.





# Net Asset Value



Note: for the purpose of calculating the NAV, the Fund assumes a cash settlement of the CPUs. No decision has been made regarding the potential conversion of the CPUs. If converted, the Fund's NAV per unit would change based on the conversion price at that time. Please refer to the URFPD Product Disclosure Statement available on the Fund's website for more information.

Source: US REIT. Figures may not sum due to rounding.



# Fund Cash Flow Profile

The following Funds From Operations (FFO) 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 expenses and investor distributions. While these additional factors are vital to reviewing the Fund's overall financial performance, the 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. While asset value growth and favourable currency movements have the ability to outweigh the Fund's operational cash losses and generate a profit, it has been management's goal to reposition the Fund to become cash flow positive from its operating activities alone so that it is not reliant on such factors to reach profitability.

A\$	2018	2019	2020	2021
Revenue from Ordinary Operations	38.1	49.7	45.4	39.7
One-Off Grant Income			1.9	-
Investment Property Expenses	(16.3)	(19.2)	(14.9)	(13.1)
Investment Property Disposal Costs	(3.6)	(4.3)	(5.7)	(7.3)
G&A	(25.1)	(22.2)	(16.0)	(15.1)
One-Off Refinancing Costs - G&A	-	-	(1.3)	-
<b>EBITDA</b>	<b>(6.9)</b>	<b>4.0</b>	<b>9.4</b>	<b>4.2</b>
<b>EBITDA (excluding disposal costs and one-off items)</b>	<b>(3.4)</b>	<b>8.3</b>	<b>14.5</b>	<b>11.5</b>
Net Interest Expenses (Excluding Notes Interest)	(20.5)	(21.2)	(16.6)	(21.2)
One-Off Refinancing Costs - Interest	-	-	(0.4)	-
Notes Interest	(21.7)	(19.8)	(13.0)	(0.3)
<b>Funds From Operations (FFO)</b>	<b>(49.0)</b>	<b>(37.1)</b>	<b>(20.7)</b>	<b>(17.4)</b>
<b>FFO (excluding disposal costs and one-off items)</b>	<b>(45.5)</b>	<b>(32.8)</b>	<b>(15.1)</b>	<b>(10.0)</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, 0.6910 and 0.7513 for 2018, 2019, 2020 and 2021 respectively. FFO is reported on a cash accounting basis. Figures in table may not sum due to rounding.

Excluding disposal costs and non-recurring items, the FFO loss for 2021 was A\$10 million. This represents a 34% improvement over 2020's result, and illustrates the ongoing benefits from the Fund's strategic initiatives.

This improving trend can also be seen within 2021's FFO figures – the first half of the year saw an FFO loss (excluding disposal costs and one-off items) of A\$7.1 million, while the second half of the year saw a FFO loss of only A\$3 million.

Pleasingly, the Fund is expected to achieve a positive FFO run rate within the second half of the 2022 calendar year.

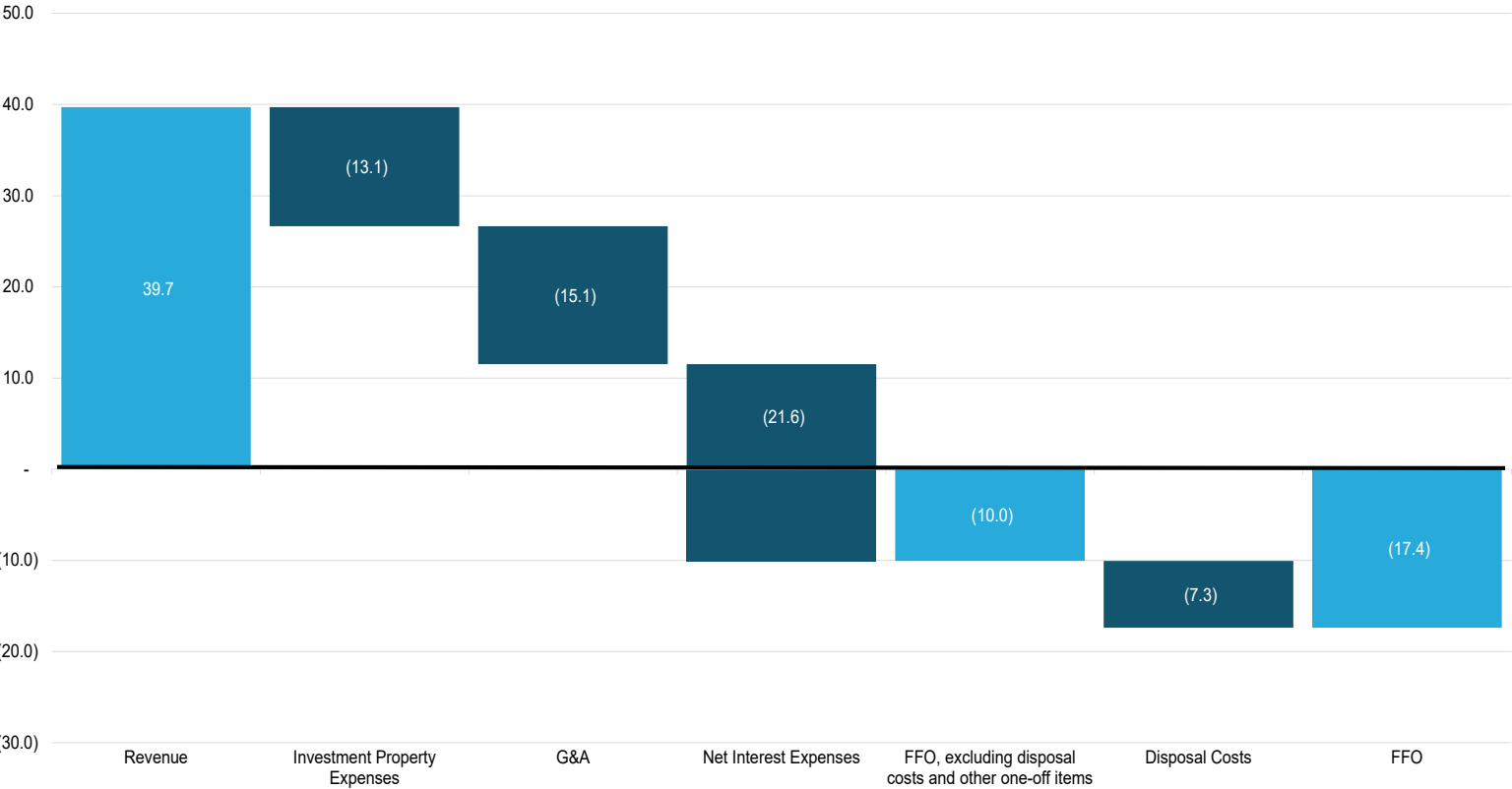






# Fund Cash Flow Profile

2021 Funds From Operations (FFO) - (A\$Millions)



Source: US REIT. Note: Excludes Convertible Preference Unit (URFPA) distributions as they are equity distributions. AUD/USD average rate of 0.7513 for 2021. FFO is reported on a cash accounting basis. Figures may not sum due to rounding.





## Board of the Responsible Entity

Stuart Nisbett

Peter Shear

Warwick Keneally

## US Management Team

Kevin McAvey CO-HEAD OF THE US REIT

Brian Disler CO-HEAD OF THE US REIT

## For Further Information

URF Investor Relations

Level 15, 100 Pacific Highway,  
North Sydney 2060

[www.usmastersresidential.com.au](http://www.usmastersresidential.com.au)

[URFInvestorRelations@usmrpf.com](mailto:URFInvestorRelations@usmrpf.com)

T: 1300 454 801

### Important Information

This Quarterly Update (Update) has been prepared by the US REIT, and issued by E&P 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.

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