14 June 2022

US Masters Residential Property Fund (Fund) ASX Code: URF

Buyback of URF securities, monthly NAV estimate (including updated assumption for URFPA), and US REIT management restructure

Following the termination of the Purchase and Sale Agreement for the sale of the Fund's 1-4 family portfolio, E&P Investments Limited as Responsible Entity of URF provides investors with the following update.

As outlined in the sections that follow, the Fund has commenced further significant cost reductions to its operating platform and is exploring alternative structures such as outsourcing to drive further cost reductions as well as revenue growth through increases in rents. The Fund is also resuming its asset disposal program and will commence a buyback program. The buyback program will initially be funded with available cash reserves, with further funding provided as asset sales progress.

The Fund will continue to explore opportunities for a larger or full portfolio sale. However, initially, property sales are expected to be limited to the asset disposal program. Macroeconomic and local market conditions have changed considerably in the last three months with factors including the length of the Ukraine conflict, May's reported 40-year high inflation rate and sharply rising mortgage rates in the US having a negative impact. Given the current fluid environment we are currently assessing how this impacts the various asset realisation options to maximise equity value for investors.

Ongoing communications will be provided to investors as to the progress of these initiatives. Sales program updates will continue to be provided in the monthly NAV updates.

1. Monthly Net Asset Value (NAV) estimate and updated URFPA assumption

Following the termination of the bulk sale transaction, the Fund's portfolio is no longer classified as 'held for sale' under the accounting standards. As such, the accounting standards require that fair value again be determined with reference to the 'unit of account' of the underlying properties, which is determined using individual property appraisals completed by an independent panel of appraisers. A Deferred Tax Liability has also again been recognised in the NAV calculation following this adjustment. These changes are consistent with the Fund's calculation of NAV prior to the conditional Purchase and Sale Agreement being executed.

The following 31 May 2022 NAV estimate is based on property values as at 31 December 2021, adjusted for the operational results and asset sales, investor distributions and foreign exchange movements over this time period. The Fund's next property revaluation exercise will occur alongside the 30 June 2022 half-year accounts.

Further, in calculating the Fund's NAV it is necessary to make an assumption on the treatment of URF Convertible Preference Units (**CPUs** or **URFPA**) beyond 1 January 2023 (being the first possible conversion date). While no final decision has yet been made by the Board of the Responsible Entity, based on current factors the Responsible Entity is likely to convert the CPUs into ordinary URF units per the terms of the CPUs under the Fund's constitution. This does not definitively mean that the CPUs will be converted; a final decision will be made not later than 10 business days prior to the date for conversion. The likelihood of CPU conversion is based on the Fund's stabilised free cash flow being insufficient to cover the increased distribution rate of 8.75%, which will be payable on the CPUs from 1 January 2023 onwards. While the Fund is expected to achieve a positive Funds from Operations (**FFO**) [1] run rate by the end of 2022, necessary capital expenditure is expected to result in the Fund continuing to experience a negative overall cash flow, even after the expected conversion of the CPUs.

Based on current pricing for URF ordinary units, a conversion of CPUs into ordinary units would result in the issuance of 408,094,935 new ordinary units. Partially offsetting the dilutive impact of these new units would be the removal of A$199,070,700 previously deducted from the NAV, which had reflected a repayment of CPUs at Face Value. The terms of the CPUs and the potential conversion ratio and mechanics can be found in the PDS on the Fund's website[2].

The unaudited fully diluted NAV before tax as at 31 May 2022 is therefore estimated to be $0.59 per ordinary unit. If estimated tax on unrealised portfolio gains or losses were recognised, the unaudited fully diluted post-tax NAV as at 31 May 2022 would be estimated to be $0.55 per ordinary unit. As "fully diluted" figures, these assume the conversion of CPUs into ordinary units.

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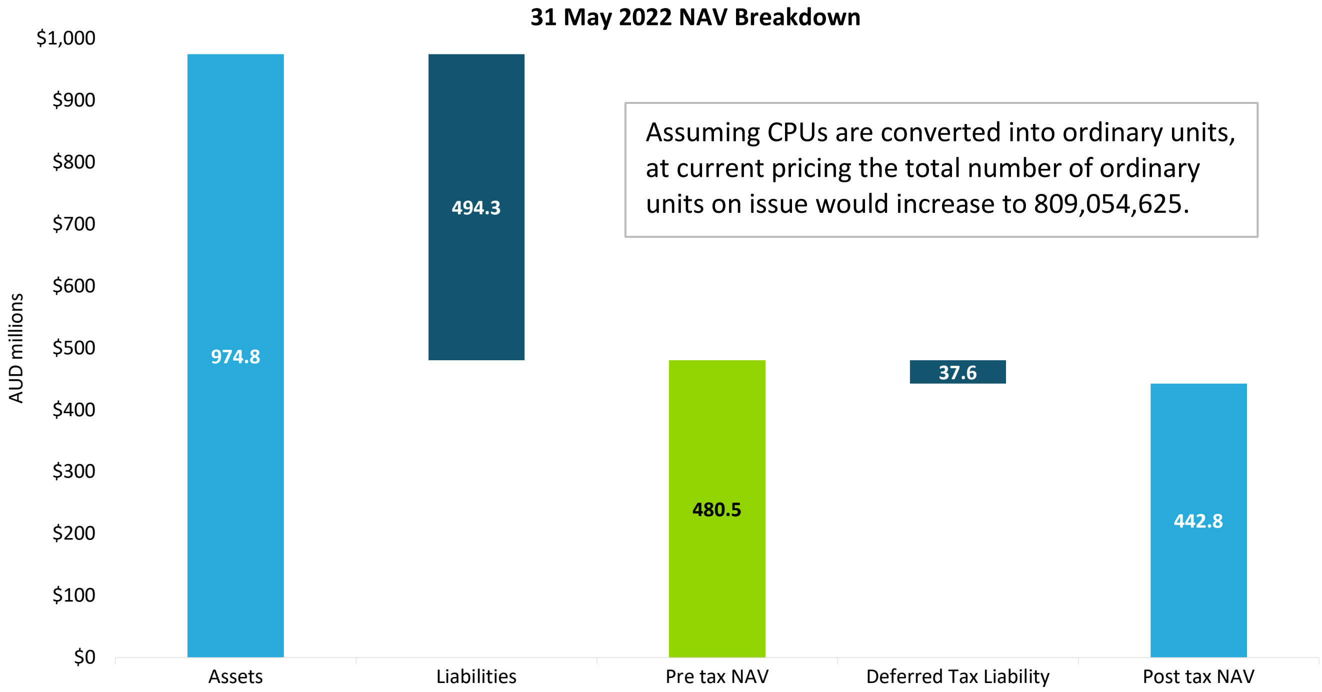
[1] For further details on FFO, and its calculation, refer to the March 2022 Quarterly. Note: FFO excludes CPU distributions as they are equity distributions. Quarterly available at: https://www.usmastersresidential.com.au/wp-content/uploads/2022/05/URF-Q1-2022-for-release-11-May-2022.pdf

[2] PDS available at: https://www.usmastersresidential.com.au/wp-content/uploads/2018/01/URF-PDSCPU.pdf



2. Restructure of US REIT operating platform

With the Fund's portfolio now stabilised, further significant cost reductions and restructuring to its US operating platform are under way. The Fund will target an annual A$9 million General & Administrative (G&A) expenses run rate following the initial cost reductions. Further possible cost reduction opportunities are being assessed, including externalising part, or all, of the Fund's operating platform.

These reductions will assist with the Fund's transition to a positive FFO run rate, which is expected to be achieved within the current calendar year.

Inclusive in these changes, effective immediately the management of the US REIT has been restructured, shifting from a dual-CEO model to a single-CEO structure with Kevin McAvey stepping into the single-CEO role. The Board would like to acknowledge the substantial improvements that have taken place under the stewardship of Brian Disler and Kevin McAvey as co-CEOs. Since stepping into the role in August 2019, the Fund has successfully executed a strategic restructuring plan, which has allowed the business to reduce its total debt by over A$245 million. Together with the significant operational changes that have taken place to date, these initiatives have allowed the Fund to move from an FFO loss of A$32.8m in 2019, to expecting a positive FFO run rate in 2022.

In addition to the changes to staffing and overhead costs actively under way and being considered, the Fund will continue to investigate further opportunities to maximise revenue at the property level. Pleasingly, the Fund has been able to drive strong rental growth in 2022, with the Fund achieving average rent growth of 11% on new leases and 8% on renewals thus far in Q2 2022. This strength has been most pronounced in the Fund's New York portfolio, with new leases increasing by an average of 16% and renewals by an average of 14%.

3. On-market buyback

With the bulk sale of the Fund's property portfolio no longer proceeding, the Responsible Entity has again considered the Fund's capital management and the possibility of increased liquidity for investors in addition to what is available through market trading. As a result, an on-market buyback program for URF securities will be put in place in coming weeks. The Fund will consider the purchase of both URF Ordinary Units (ASX: URF) and URF Convertible Preference Units (ASX: URFPA), with the actual units bought back to be dictated by market pricing and available liquidity. The allocation of buybacks between ordinary units and CPUs will be based on an assessment at the relevant time of acquisitions that represent the best return for the Fund overall. This approach will ensure fair treatment between investors in the two classes of units who wish to sell.

The initial buyback will be limited to the purchase of less than 10% of the number of units in the Fund (including both ordinary units and CPUs) over a 12-month period, with the initial split between the two classes of units being up to 10% of either class of securities. Should the Fund anticipate purchasing more than 10% of units within a 12-month period, investor approval will be sought via an ordinary resolution in line with the Fund's obligations under the Corporations Act. The Responsible Entity and its associates hold 3,695,106 ordinary units and 250 CPUs.

As previously disclosed in recent quarterly reports, the Fund is expected to have surplus funds of US$20 million to dedicate to capital management initiatives such as security buybacks and potential early repayments against the Global Atlantic Term Loan, where appropriate. Subject to the trading levels of ordinary and CPU units, the Fund intends to fund its buyback program through these existing surplus funds, as well as a continuation of the asset sales program from the Fund's 1-4 Family portfolio. The buyback program will be reassessed on an ongoing basis, subject to local market and broader economic conditions, and the Fund will also ensure that ample liquidity is retained for ongoing operating activities. The Fund also intends to evaluate and explore the sale of its remaining large scale multi-family investments with Urban American.

4. Rent Collection Update

The Fund's rental collection rate continues to be closely monitored. Throughout May, the Fund's 1-4 family portfolio collected funds equivalent to 101% of the month's rent roll. The rent collected includes receipts for May, as well as outstanding rents from prior months.

Authorised for release by E&P Investments Limited (ACN 152367649 AFSL 410433), the Responsible Entity of the Fund.

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