



QUARTERLY UPDATE

April - June 2022

30 August 2022



**US Masters
Residential
Property Fund**

Executive Summary

Welcome to the US Masters Residential Property Fund's (URF or Fund) Quarterly Report for the period 1 April 2022 to 30 June 2022.

This quarterly update is provided alongside the Fund's half year financial accounts for the six-months ending 30 June 2022. These half-year results culminated in a A\$32.7 million total comprehensive income for the period. Driving this positive result were a A\$26.4 million increase in the value of the Fund's 1-4 Family investment properties, as well as a A\$21.9 million gain due to relative strength of the US dollar against the Australian dollar.

Strong results continued to be achieved at an operational level, with robust occupancy and rent collection levels underpinning revenue of A\$21 million. Expenses continued their downward trend, with General & Administrative expenses (adjusted for non-recurring items) down 17% compared to the same period in 2021. Excluding disposal costs and non-recurring items, overall Funds from Operations (FFO) for H1 2022 was a loss of A\$1.9 million, representing a 74% improvement compared to the same period last year (H1 2021: A\$7.1m loss excluding disposal and one-off costs). Further, the staffing reductions made at the end of the quarter are expected to save A\$1.7 million¹ p.a. across future periods.

In addition to the Fund's regular operating results, it's worth highlighting the structural changes that have taken place since 26 May, when the Fund announced that the conditional Purchase and Sale Agreement for the sale of the 1-4 Family property portfolio had been terminated. Following this termination a number of strategic changes were set in motion, including;

1. Shifting from a dual-CEO model to a single-CEO structure.
2. Reducing the Fund's staffing levels across the US REIT operating platform by 37%.
3. Commencing an on-market buyback of both URF Ordinary Units (ASX: URF) and URF Convertible Preference Units (ASX: URFPA).
4. Resuming the asset-by-asset sales program to provide additional funds for capital management opportunities, including the aforementioned buybacks.
5. For the purposes of the regular Net Asset Value (NAV) calculations, adopting updated assumptions factoring in the likely conversion of URFPA securities at 1 January 2023.
6. Assessing the possible externalisation of part, or all, of the Fund's US operating platform (refer to the Chair's Letter in the Fund's 30 June 2022 financial accounts for more information on this process).
7. Evaluating the sale of the remaining large-scale apartment complex investments held with Urban American.

These changes and ongoing considerations reflect the steps being made to maximise the realisable value of URF securities for investors. I look forward to providing investors with further updates in due course.

As always, investor feedback and questions can be directed to the Fund's Investor Relations team at URFInvestorRelations@usmrpf.com.



Kevin McAvey
Head of the US REIT

¹30 June 2022 spot rate of 0.6903 used (AUD:USD).



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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 41% of the portfolio by number, and 45% 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 Fund's largest neighbourhood exposures (by value) both appreciated across the six-month reporting period, with the Fund's Downtown Jersey City (NJ) assets gaining 4.1% (to US\$120m) and the Bedford-Stuyvesant (NY) portfolio increasing 2.4% (to US\$98m).

Double digit growth rates were achieved across assets in Journal Square (NJ) (+12.6%, to US\$20m) and West New York (NJ) (+15%, to US\$2m), while the Fund's asset values in both Boerum Hill (NY) and Weehawken (NJ) contracted approximately 9% (to US\$9m and US\$8m respectively).

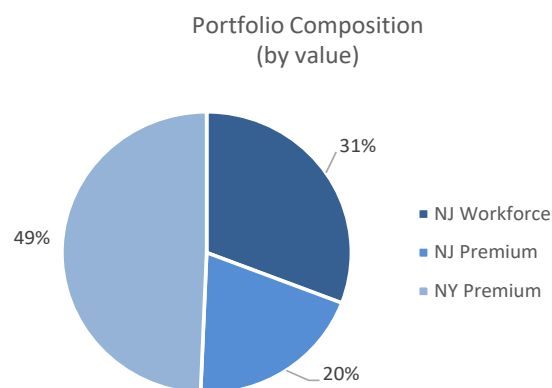
The aggregate results of this process for the 1-4 family portfolio are summarised below (USD):

Portfolio Segment	Opening Book Value	Closing Book Value	Change	Movement
New Jersey Workforce	191,023,080	199,639,344	8,616,264	4.51%
New Jersey Premium	124,657,680	128,649,449	3,991,769	3.20%
NY Premium	313,625,589	319,542,864	5,917,275	1.89%
Total	629,306,349	647,831,657	18,525,308	2.94%

The Fund's large-scale multifamily apartment buildings held with Urban American were also revalued as at 30 June 2022. Because the value of apartment buildings are typically determined based on investor return metrics, the Fund's multifamily assets are appraised using a capitalisation of net income approach (as opposed to the comparable homeowner sales used to appraise the 1-4 family portfolio). In the current period, the assets were appraised using capitalisation rates ranging from 5% to 5.5%, up from 4.75% in the prior period. This expansion in capitalisation rates is primarily due to increased interest rates and significant inflationary pressure (unlike the 1-4 family portfolio, the Fund's investments in multifamily apartment buildings are subject to New York City rent stabilisation rules which limit the ability of landlords to increase rents as a means to offset the impact of rising costs). This has resulted in a US\$5m (or 13%) decrement in the value of the underlying properties. These assets form only a small part of the Fund's investment portfolio – the Fund's economic interest in these investments is approximately US\$7 million, compared to the US\$648 million value of the 1-4 family portfolio.

Portfolio Composition

The following geographic distribution represents the Fund's 1-4 family portfolio as at 30 June 2022:



Location	Value (USD)	Property Count	Location	Value (USD)	Property Count
NJ Workforce	\$199,639,344	300	NY Premium	\$319,542,864	109
Bayonne	\$32,411,908	54	Bedford-Stuyvesant	\$97,828,421	38
Bergen-Lafayette	\$7,938,041	11	Boerum Hill	\$9,185,714	2
Greenville	\$38,282,682	68	Bushwick	\$20,901,789	14
Jersey City Heights	\$55,041,107	62	Clinton Hill	\$14,934,914	4
Journal Square	\$20,337,644	26	Cobble Hill	\$7,488,196	2
North Bergen	\$5,128,341	9	Crown Heights	\$32,601,826	13
Secaucus	\$515,192	1	Lefferts Garden	\$3,100,000	1
Union City	\$2,963,670	5	Fort Greene	\$11,993,086	3
West Bergen	\$35,181,171	61	Park Slope	\$35,036,618	7
West New York	\$1,839,586	3	Prospect Heights	\$5,000,000	1
NJ Premium	\$128,649,449	70	Williamsburg	\$15,837,072	6
Downtown	\$120,464,095	64	Hamilton Heights	\$12,623,003	3
Weehawken	\$8,185,353	6	Harlem	\$53,012,224	15

The following table shows the breakdown of the Fund's 1-4 Family portfolio by property type; whether the asset is a 1-Family property (i.e. a single rental unit), a 2-Family property (consisting of two separate rental units), and so on:

	1-Family	2-Family	3-Family	4-Family
NY Premium	92	14	3	0
NJ Premium	33	16	16	5
NJ Workforce	37	216	34	13

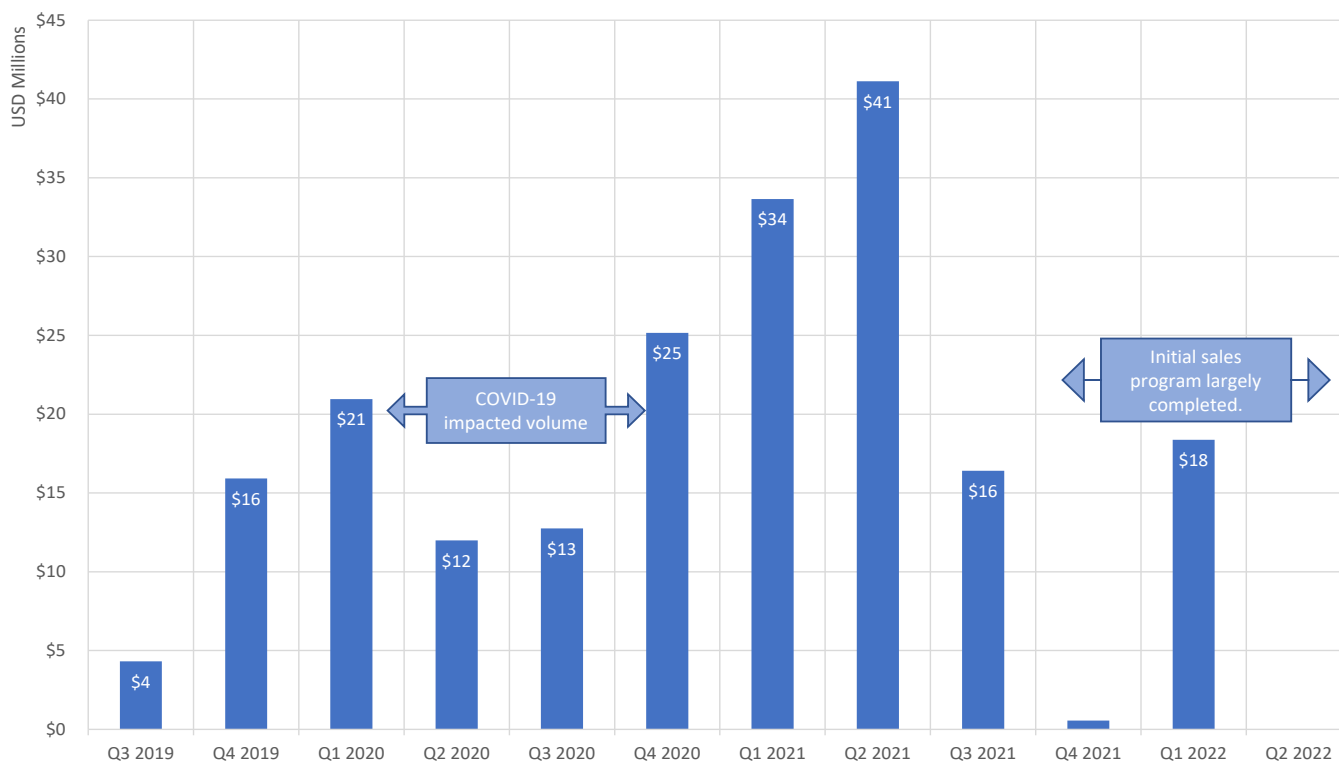
Source: US REIT. Valuation figures may not sum due to rounding.

Asset Sales

While no assets were sold during Q2, following the termination of the Purchase and Sale Agreement for the bulk sale of the Fund's 1-4 family portfolio, the Fund announced the resumption of its asset disposal program. While the Fund remains open to the possibility of completing a large-scale transaction – including a full portfolio or sub-portfolio sale – the Fund intends to reinstate its disposal program by beginning with an asset by asset sales approach, similar to the strategic sales program that the Fund completed over the course of 2019-21. Whereas the previous sales program was focused on selling assets from the NY and NJ Premium segments of the portfolio, this new sales program will see assets sold from all segments of the portfolio, subject to local market conditions.

In addition, the Responsible Entity is reviewing the sale of the remaining multi-family investments with Urban American. These three large-scale apartment complexes are worth a combined US\$33 million, with URF being a part owner of the assets. The Fund's economic interest in these investments is approximately US\$7 million.

Quarterly Closed 1-4 Family Sales



Source: US REIT.

Capital Management

The Fund's debt levels were unchanged across the quarter. Following the resumption of the sales program, the Global Atlantic Term Loan will be reduced in coming periods as assets that are used as collateral are sold. As properties are sold from the collateral pool, a required repayment will be made to Global Atlantic based on the sold property's allocated loan amount. Residual sales proceeds will then be used to fund the on-market buybacks and made available for other capital management opportunities.

Debt Levels & Blended Cost of Interest Calculation

	US\$ Balance at 30-Jun-21	US\$ Balance at 30-Sep-21	US\$ Balance at 31-Dec-21	US\$ Balance at 31-Mar-22	US\$ Balance at 30-Jun-22
Global Atlantic - Term Loan (4.00%)	350,913,925	349,885,636	349,885,636	348,034,311	348,034,311
Global Atlantic - Bridge Loan (5.00%)	24,601,050	0	0	0	0
Total	375,514,975	349,885,636	349,885,636	348,034,311	348,034,311
Indicative Annual Interest Cost	15,266,610	13,995,425	13,995,425	13,921,372	13,921,372

Source: US REIT.

Excludes multi-family level debt for investments with Urban American.

The Fund's cash holdings were also flat across the quarter, ending the period at US\$50.2 million (A\$72.8 million). Post balance date, the Fund's surplus cash reserves began to be used for the Fund's on-market buyback programs, which commenced in July.

The Fund initially expected to have surplus funds of US\$20 million to dedicate to capital management initiatives such as buybacks, however following positive early signs from the asset sales program, surplus funds are expected to increase to US\$25m - US\$30m based on the Fund's current cash levels and anticipated asset disposal timeline.

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.

While COVID-19 era eviction moratoriums have expired across both New Jersey and New York, the eviction process is substantially delayed due to the backlog of cases before the courts. The Fund has a modest number of eviction cases pending, some dating back to 2020. While many cases have been resolved through mediations and settlements, formal eviction hearings have only recently been scheduled and none were conducted within the quarter.

Pleasingly, collection rates remained strong throughout the quarter, equating to 100.9% of the quarter's occupied rent roll. The rent collected includes receipts for Q2, as well as outstanding payments for prior months:

Month	Collection Rate
April 2022	103%
May 2022	101%
June 2022	98%
Q2 2022	100.9%

Source: US REIT.



Portfolio Occupancy

At 30 June 2022, the Fund's 1-4 family portfolio had 97% of its units leased.

The Fund's goal is to have as many properties fully leased as possible, while noting that properties in the sales program may be intentionally left vacant in order to maximise the potential sales price. This is particularly relevant when assets advertised for sale are being targeted to an owner-occupier (rather than an investor).

Three units (across two properties) were vacant as the properties are being sold. Following the end of Q2 additional properties have been vacated and kept vacant in readiness for sale, and as such the Fund's overall occupancy levels are expected to fall in coming reporting periods.

1-4 Family portfolio (as at 30 June 2022)	Unit Count	%
Leased	857	97%
For Lease or In Turnover	25	3%
Vacant pending sale	3	0%
Total Units	885	100%

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.

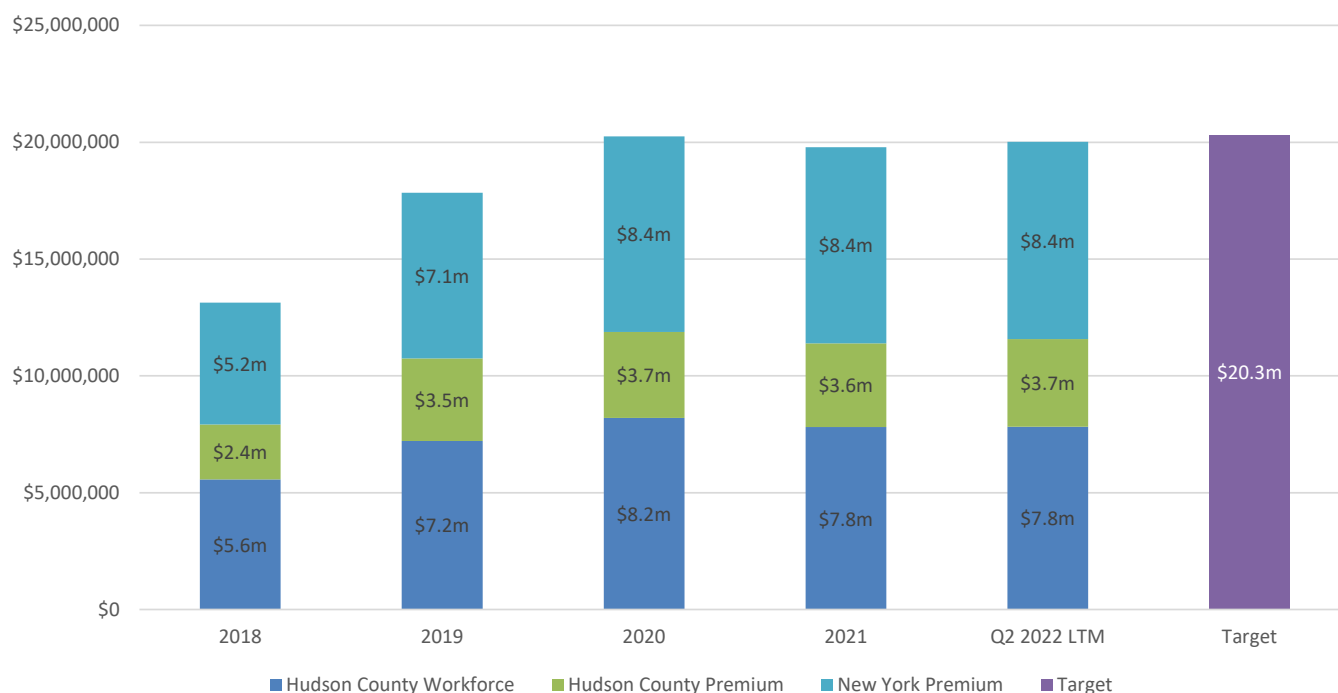
As a result of the sales program, total portfolio revenue has decreased relative to historic levels as the portfolio has reduced in size. To remove the impact of the sales program and review income performance in a consistent manner, the following analysis reviews the portfolio on a 'same home' basis, 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.

Q2 2022 NOI was US\$5.1 million, down slightly compared to Q2 2021 (US\$5.3m) as the Fund incurred higher repair & maintenance costs, as well as recognising increased impairments for historical credit losses. Despite this, for the full six-month H1 2022 period the Fund experienced NOI growth of US\$236,000, led by a 5.3% increase in rental revenue.

Pleasingly, rental conditions were strong throughout the quarter. For leases signed during Q2 2022, the Fund achieved average rent growth of 13.3% on new leases and 9.4% on renewals. The strength of the Fund's rent growth achieved has continued to be driven by the New York Premium (19.2% on new leases signed in Q2, 13.5% on renewals signed in Q2) and New Jersey Premium (18.2% on new leases signed in Q2, 9.7% on renewals signed in Q2) segments of the portfolio. As these leases come into effect they will have a positive impact on the Fund's revenue profile.

Partially offsetting this additional revenue is an expected increase in uncontrollable expenses, particularly in Downtown Jersey City. In a pass-through form of taxation, Jersey City has recently implemented an increase in the cost of municipal utilities, which has resulted in the annual water and sewer costs of the Fund's Jersey City properties increasing by c.20% (expected to increase URF's utility costs by approximately US\$93,000 p.a.). Further, the Jersey City Board of Education recently approved a US\$973.8 million budget that is expected to further increase the Fund's NJ property taxes by at least US\$500,000 p.a.

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



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

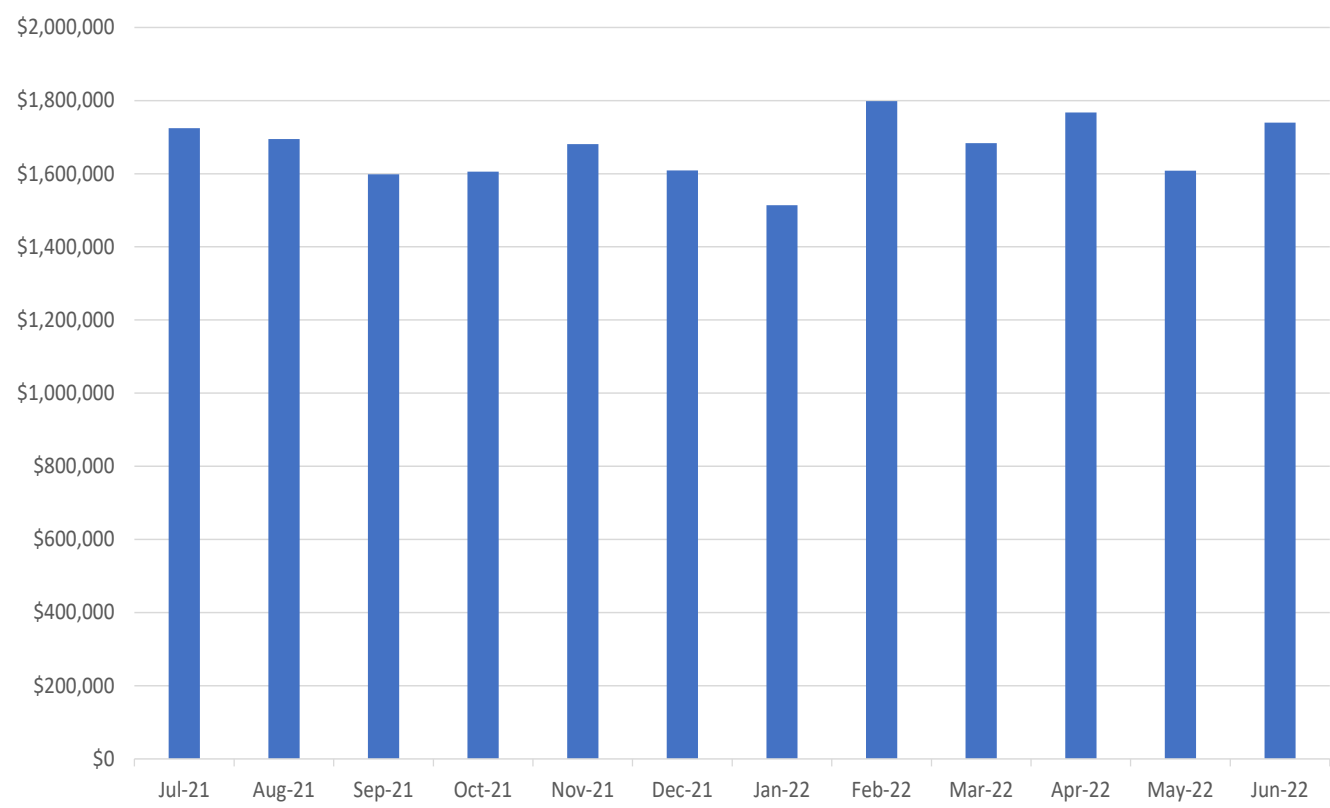
Note: "Same-home" assets by segment will not match the total portfolio distribution as it excludes assets held for sale. LTM refers to last twelve months.

Past performance is not a reliable indicator of future performance.



Net Operating Income

The following graph illustrates the Fund's monthly NOI (USD).



Source: US REIT. Past performance is not a reliable indicator of future performance.



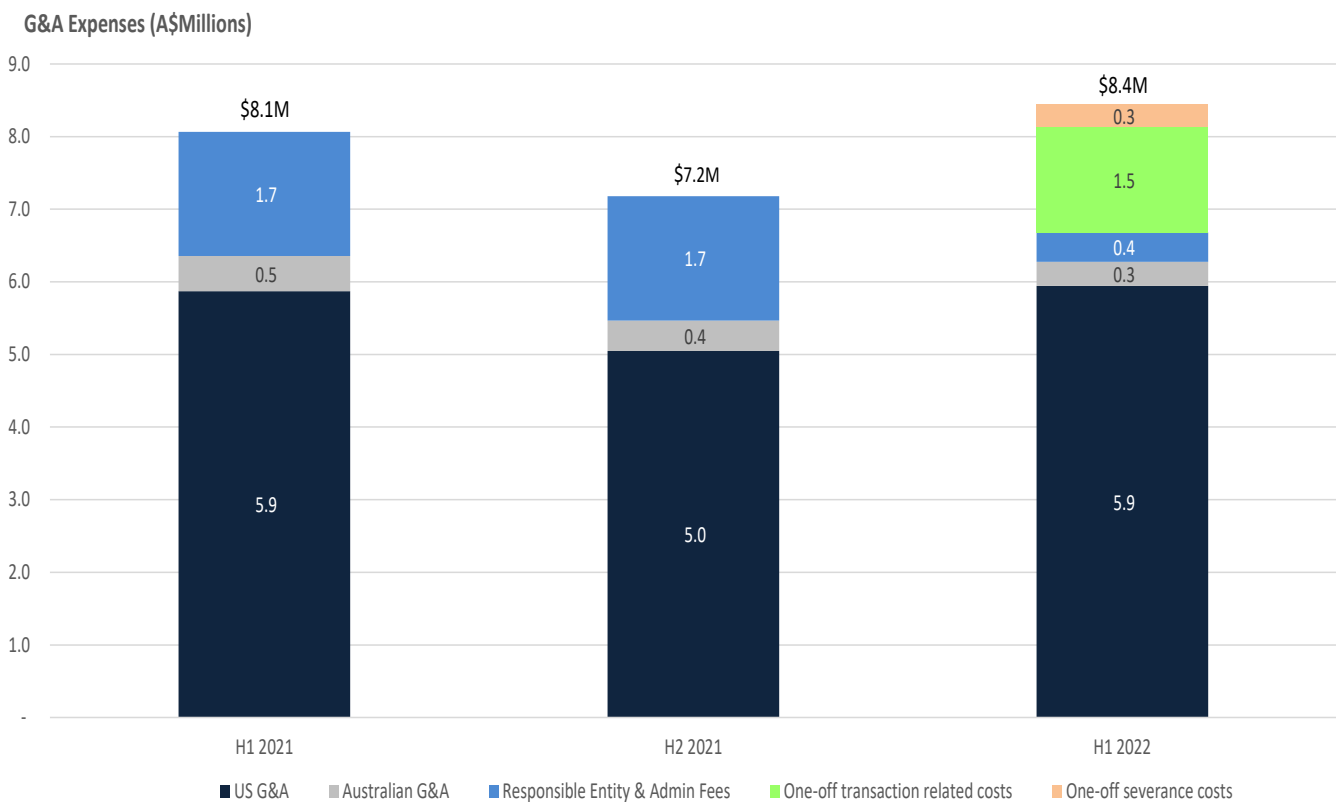
General and Administrative Expenses

Reducing General and Administrative (G&A) expenses has been a key goal for the Fund's management team, with substantial progress being made since the change in management in 2019.

During the quarter a number of changes were made to the Fund's US operating divisions. These included restructuring the management of the US REIT from a dual-CEO model to a single-CEO structure with Kevin McAvey stepping into the single CEO role. In addition, at the end of the quarter the US REIT's staffing levels were reduced by 37% with headcount reduced across a number of teams. These staffing changes are expected to reduce the Fund's future G&A expenses by approximately US\$1.2 million p.a.

For H1 2022 total G&A expenses were A\$8.4 million, including A\$1.8 million in nonrecurring bulk sale transaction-related costs (such as legal, tax and financial advice across both Australia and the US) and redundancy costs associated with the aforementioned staffing reductions. Removing these nonrecurring items, the adjusted G&A for H1 2022 becomes \$6.7 million which is a 17% improvement on H1 2021.

The Fund has recently announced the externalisation of the Fund's operating platform (refer to the Chair's Letter in the 30 June 2022 financial statements). The details of this externalisation will be released once they are finalised, including the likely impact on the Fund's future G&A levels.



AUD/USD average rate of 0.7713, 0.7317 and 0.7194 for H1 2021, H2 2021 and H1 2022 respectively.
Source: US REIT. Figures may not sum due to rounding.

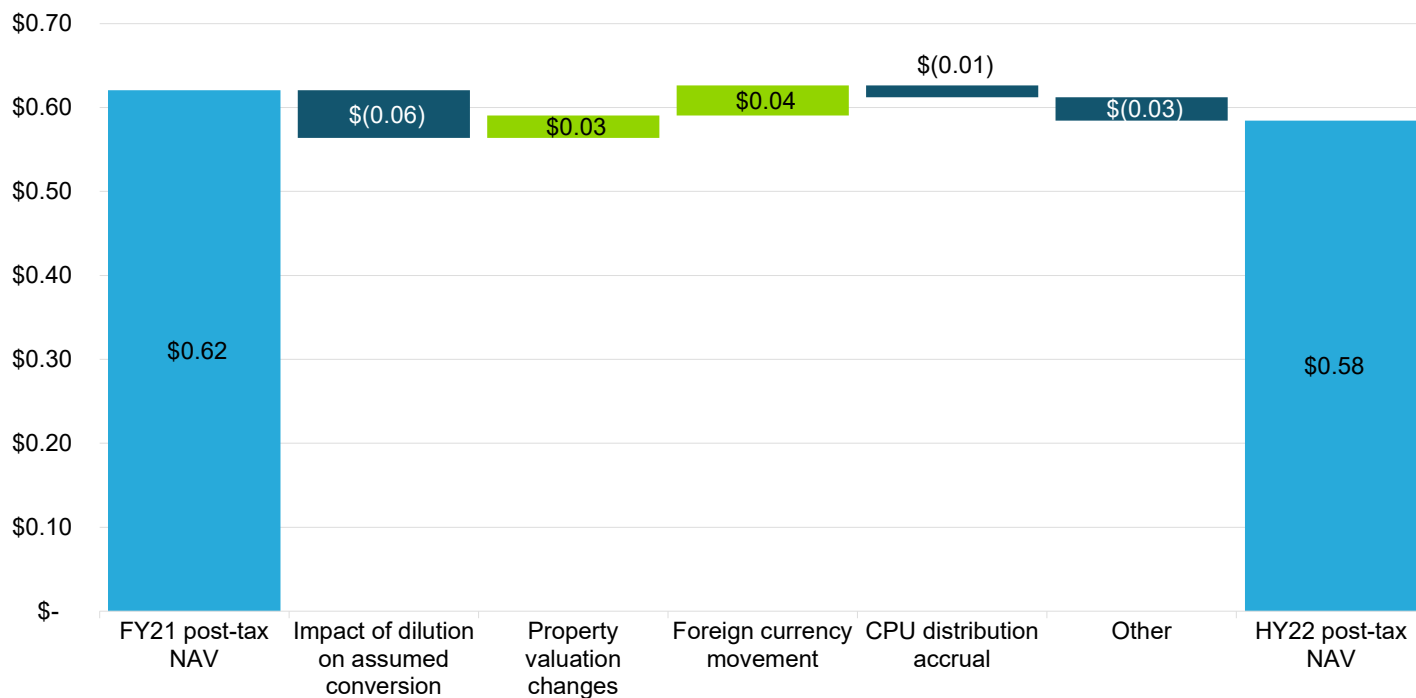
Net Asset Value

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.

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.

A conversion of CPUs into ordinary units would result in the issuance of 408,094,935 new ordinary units, bringing the total to 809,054,625 (conversion calculation accurate as at 30 June 2022). Partially offsetting the dilutive impact of these new units would be the removal of the previous A\$199,070,700 NAV deduction 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 website¹.

Changes to the Fund's pre-tax Net Asset Value (NAV) over the period 1 January 2022 to 30 June 2022 are outlined in the following graphic.



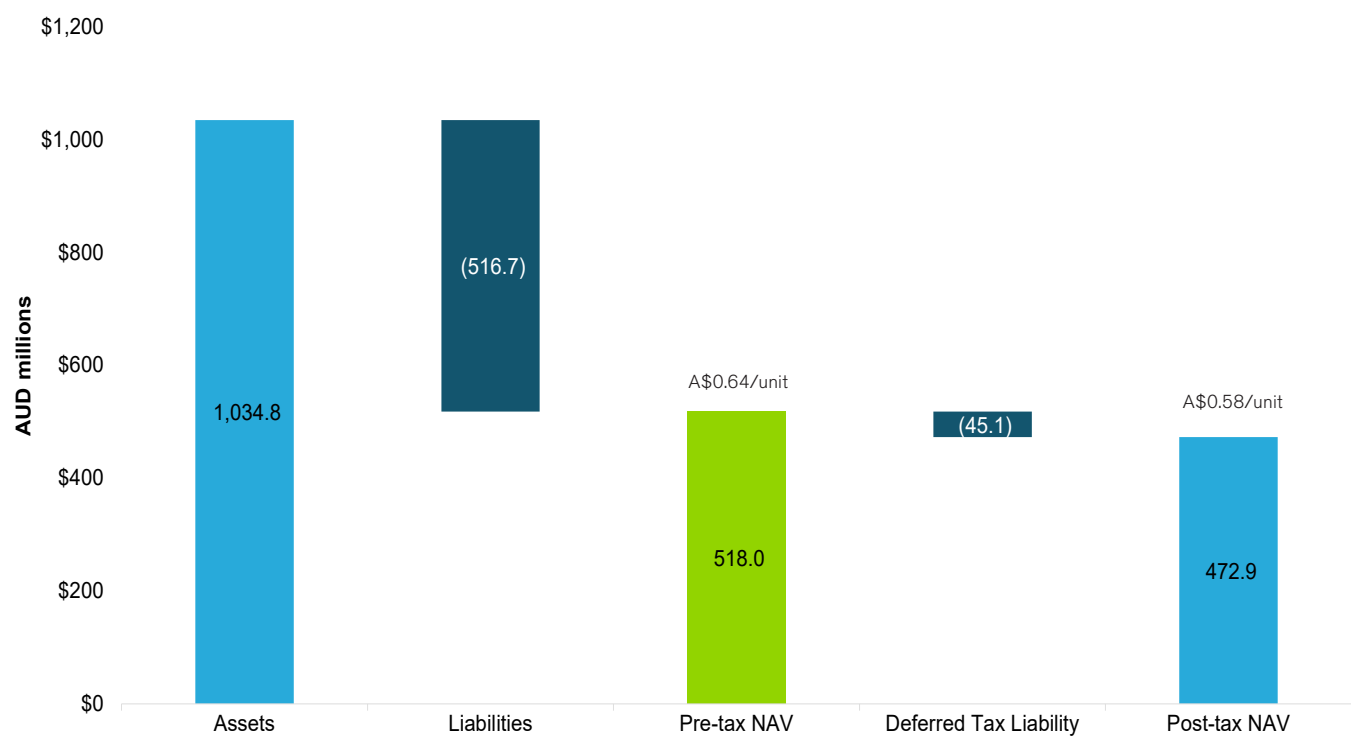
Source: US REIT. Figures may not sum due to rounding.

¹ PDS available at: <https://www.usmastersresidential.com.au/wp-content/uploads/2018/01/URF-PDSCPU.pdf>



Net Asset Value

At 30 June 2022, the pre-tax NAV was A\$0.64 per unit on a fully diluted basis (i.e. assuming CPUs are converted into ordinary units on 1 January 2023). On a post-tax basis, the fully diluted NAV was A\$0.58.



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.

Excluding disposal costs and non-recurring items, the FFO loss for H1 2022 was A\$1.9 million. Compared to the same period last year, this represents a 74% improvement in FFO (H1 2021: A\$7.1m loss excluding disposal and one-off costs). This was achieved following improved results across all contributing metrics – increased revenue and reduced property, G&A and interest expenses. Further, the staffing reductions made at the end of the quarter are expected to save A\$1.7 million¹ p.a. across future periods.

A\$	2018	2019	2020	2021	HY 2022
Revenue from Ordinary Operations	38.1	49.7	45.4	39.7	21.2
One-Off Grant Income			1.9	-	-
Investment Property Expenses	(16.3)	(19.2)	(14.9)	(13.1)	(6.6)
Investment Property Disposal Costs	(3.6)	(4.3)	(5.7)	(7.3)	(1.6)
G&A	(25.1)	(22.2)	(16.0)	(15.1)	(6.7)
One-Off Refinancing Costs - G&A	-	-	(1.3)	-	-
One-Off Transaction Related Costs - G&A	-	-	-	-	(1.5)
One-Off Severance Costs - G&A	-	-	-	-	(0.3)
EBITDA	(6.9)	4.0	9.4	4.2	4.6
EBITDA (excluding disposal costs and one-off items)	(3.4)	8.3	14.5	11.5	7.9
Net Interest Expenses (Excluding Notes Interest)	(20.5)	(21.2)	(16.6)	(21.2)	(9.8)
One-Off Refinancing Costs - Interest	-	-	(0.4)	-	-
Notes Interest	(21.7)	(19.8)	(13.0)	(0.3)	-
Funds From Operations (FFO)	(49.0)	(37.1)	(20.7)	(17.4)	(5.2)
FFO (excluding disposal costs and one-off items)	(45.5)	(32.8)	(15.1)	(10.0)	(1.9)

Source: US REIT.

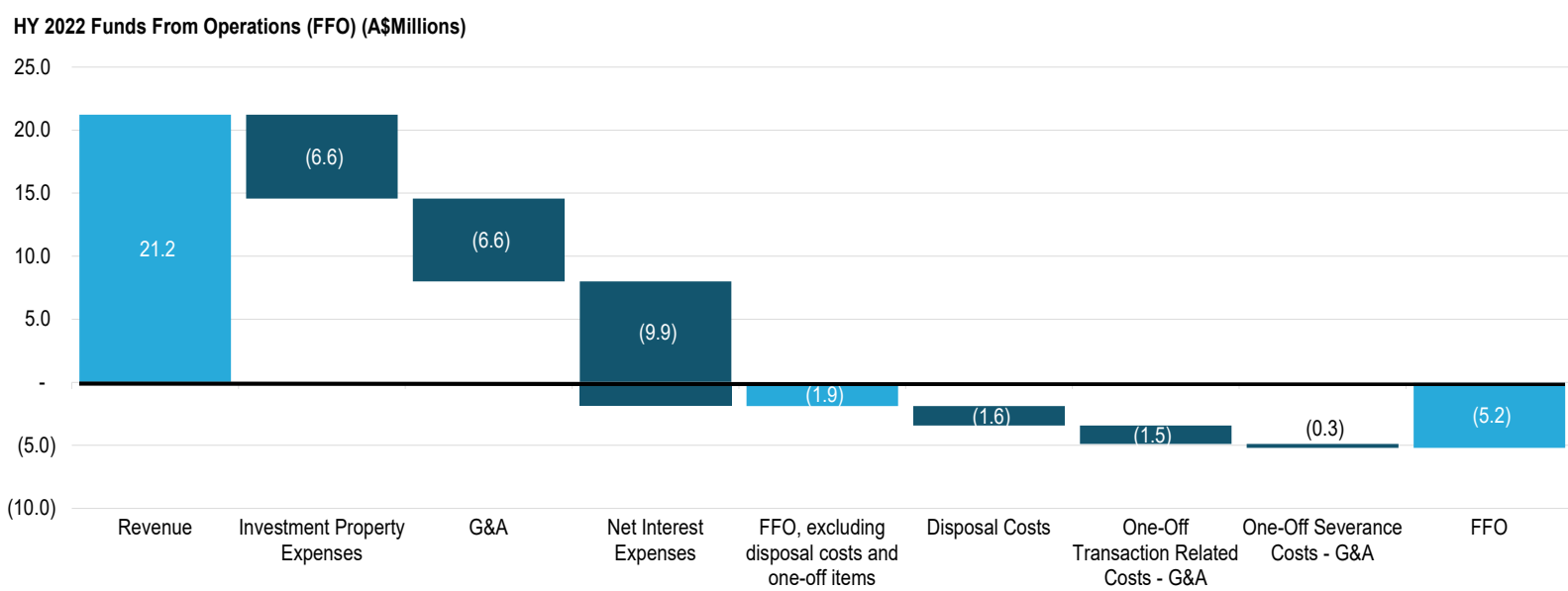
Note: excludes Convertible Preference Unit (URFPA) distributions as they are equity distributions. AUD/USD average rate of 0.7476, 0.6953, 0.6910, 0.7513 and 0.7194 for 2018, 2019, 2020, 2021 and H1 2022 respectively. FFO is reported on a cash accounting basis. Figures in table may not sum due to rounding.

Portfolio cash flows will be negatively impacted in coming reporting periods due to the recently restarted sales process and the associated increased vacancies and sales transaction costs. This will impact the Fund's ability to realise a positive FFO run rate. As such, the Fund no longer anticipates achieving a positive FFO run rate before the end of the 2022 calendar year, as the Fund prioritises assets sales to fund the ongoing buyback and other capital management initiatives.

¹30 June 2022 spot rate of 0.6903 used (AUD:USD).



Fund Cash Flow Profile



Source: US REIT. Note: Excludes Convertible Preference Unit (URFPA) distributions as they are equity distributions. AUD/USD average rate of 0.7194 for H1 2022. FFO is reported on a cash accounting basis. Figures may not sum due to rounding.



Board of the Responsible Entity

Stuart Nisbett INDEPENDENT CHAIR

Peter Shear INDEPENDENT DIRECTOR

Warwick Keneally DIRECTOR

US Management Team

Kevin McAvey HEAD OF THE US REIT

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Important Information

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