



QUARTERLY UPDATE

October - December 2022

27 February 2023



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 October 2022 to 31 December 2022, to accompany the release of the Fund's Full Year Statutory Accounts for 2022.

The Fund's operational results were strong, with full year General & Administrative expenses (G&A) - excluding one-off items associated with re-structuring and the externalization of the Fund's operating platform - showing a 21% improvement on the same period in 2021. Largely due to previously forecast increases in the Fund's property taxes in the Fund's Jersey City portfolio, the year-on-year portfolio NOI reduced by 1%, however the Fund's FFO loss (excluding one-off items) for the full year was A\$3.9 million, a 61% improvement over 2021's result.

At the end of the quarter, the Fund completed its regular six-monthly valuation process, with the Fund's 1-4 Family portfolio increasing in value by 0.62% for the period 30 June 2022 to 31 December 2022. Growth in the second half of 2022 was driven by the New Jersey Workforce (+1.8%) and New Jersey Premium (+3.1%) segments of the portfolio, with the Fund's New York Premium segment experiencing a modest reduction in value for the period (-1.1%). The fair value of the Fund's portfolio increased 3.6% for the full 2022 year. Further commentary on the portfolio valuation as at 31 December 2022 is provided on page 4.

The 1-4 Family asset sales program continued to progress during Q4, and the Fund closed on US\$8.3 million in sales across seven transactions. As of the end of the quarter, the Fund had US\$22.8 million worth of assets in the sales pipeline which were either under contract, on the market, or being prepared for sale. Additionally, the Fund has completed the steps required under the Right of First Refusal provision for each of the three Urban American multifamily building joint ventures, with the Fund's economic interest in these assets being approximately US\$7.0 million.

Over the course of Q4, the Fund also continued with the previously announced Buyback program for both URF Ordinary Units (ASX: URF) and URF Convertible Preference units (ASX: URFPA). During the quarter, A\$8.8 million was utilised to buy back 14.7 million Ordinary Units and 88,069 URFPAs. Following the end of the quarter, the Responsible Entity (**RE**) announced the intention to increase the Buyback program capacity to 25% of Ordinary Units on issue at the close of trade 28 February 2023, subject to Unitholder approval. It is not guaranteed that the responsible entity will buy back the maximum number of ordinary units permitted under the buyback or any ordinary units at all.

It was also announced on 28 November 2022 that the conversion of URF Convertible Preference Units (ASX: URFPA) would take place on 3 January 2023, with 369,773,875 Ordinary Units issued on the conversion date.

In addition to the Fund's capital management activities, the externalisation of the Fund's US operating platform was finalized on 31 December 2022 through the previously announced strategic joint venture (**JV**) with Brooksville Company LLC (**Brooksville**) and property management agreement with Pinnacle City Living, LLC (**Pinnacle**). Brooksville has been appointed as the asset manager of the portfolio and Pinnacle as property manager of the portfolio. The JV agreement has been structured to create maximum alignment between URF unitholders and Brooksville as operating partner, with the venture's business plan focusing on realising value and returning capital to unitholders. As the operating partner, the JV controls the day-to-day asset management, property management and turnover management for the Fund and reports to the RE Board for approval of annual budgets and strategic decisions.

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





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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 55% of the portfolio by number, and 54% 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:

HY2 2022	Opening Book Value (USD)	Closing Book Value (USD)	Change (USD)	Movement
HC Workforce	\$196,351,871	\$199,856,568	\$3,504,698	1.8%
HC Premium	\$125,146,138	\$128,996,319	\$3,850,181	3.1%
NY Premium	\$321,295,876	\$317,900,033	-\$3,395,843	-1.1%
	\$642,793,885	\$646,752,920	\$3,959,036	0.6%

During Q4 2022 (and into Q1 2023) the US Federal Reserve continued to raise the benchmark interest rate from historic lows in an attempt to temper the rising inflation in the US. While rising interest rates have negatively impacted the purchasing power of potential home buyers, the vast majority of current homeowners in the US have fixed rate mortgages. As a result, while demand for housing has tempered compared to the period immediately following the onset of COVID-19, the Fund has seen a reduced supply of houses coming to market in its target neighbourhoods as homeowners have fixed interest costs and are therefore not feeling the pressure of rising rates. Additionally, many of the Fund's markets – particularly within the New York Premium and New Jersey Premium segments of the portfolio – have buyers that seek to purchase homes using all cash transactions and are therefore less impacted by the rising rate environment. The net result of these two dynamics has thus far had the effect of insulating the Fund's property values from the negative impact of rising interest rates.

The Fund's New Jersey portfolio saw strong performance for the half-year, with the Workforce properties increasing in value by 1.8% for the six months to 31 December 2022. This followed a positive movement of 4.5% for the six months to 30 June 2022. The Fund's New Jersey Premium properties also saw an increase in value of 3.1% for the six months to 31 December 2022, following an increase of 3.2% for the prior six months.

Conversely, the Fund's New York premium segment of the portfolio recorded a modest decrease of 1.1% for the six-month period, taking the full-year 2022 result for this segment to 0.8%. 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 depreciated by 0.9% for the half-year, while the Brooklyn assets decreased by 1.1%.

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





Portfolio Valuation

In addition to the Fund's primary 1-4 Family investment portfolio, the valuation on the Fund's small exposure to large-scale multifamily assets owned with Urban American remains unchanged from 30 June 2022. These investments are externally valued using a capitalised income methodology, with the valuation of the three assets remaining at US\$33.2 million. The Fund's economic interest in these investments is approximately US\$7.0 million (A\$10.3 million).

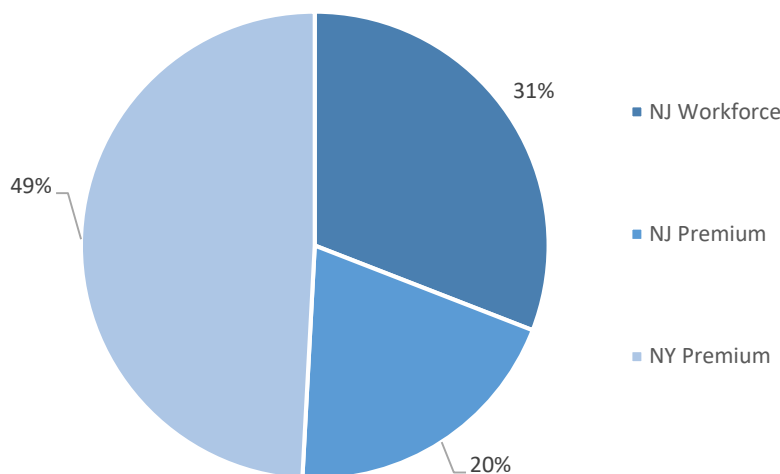
Due to the effect of leverage within the Fund, this aggregate valuation change equates to a 1.2% increase to the pre-tax Net Asset Value (NAV).

Source: US REIT.



Portfolio Composition

The following geographic distribution represents the Fund's 1-4 family portfolio as at 31 December 2022:



Location	Value (USD)	Property Count	Location	Value (USD)	Property Count
NJ Workforce	\$199,856,568	295	NY Premium	\$317,900,033	94
Bayonne	\$33,670,590	54	Bedford-Stuyvesant	\$95,510,464	38
Bergen-Lafayette	\$7,922,209	11	Boerum Hill	\$7,896,838	2
Greenville	\$38,274,000	67	Bushwick	\$21,101,185	14
Jersey City Heights	\$52,620,294	60	Clinton Hill	\$13,752,880	4
Journal Square	\$19,879,208	26	Cobble Hill	\$7,410,289	2
North Bergen	\$5,226,578	9	Crown Heights	\$31,482,450	13
Secaucus	\$530,000	1	Lefferts Gardens	\$3,465,390	1
Union City	\$3,553,128	5	Fort Greene	\$12,193,267	3
West Bergen	\$36,260,555	59	Park Slope	\$36,451,356	7
West New York	\$1,920,005	3	Prospect Heights	\$5,000,000	1
NJ Premium	\$128,996,319	68	Williamsburg	\$18,152,840	6
Downtown	\$120,084,577	62	Hamilton Heights	\$11,279,331	3
Weehawken	\$8,911,743	6	Harlem	\$54,203,742	15

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



Asset Sales

During Q4 2022 the Fund closed on the sale of US\$8.3 million in sales across seven transactions.

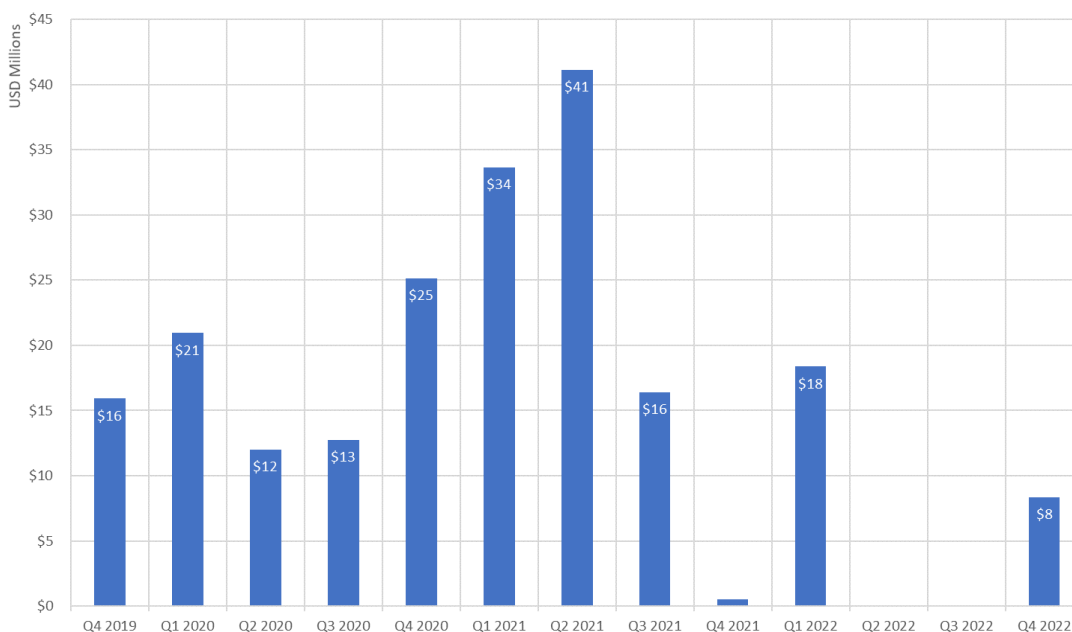
At 31 December 2022, the Fund also had US\$7.3 million of properties under contract or with an accepted offer in place, and US\$15.5 million on the market or being actively prepared for sale. These properties under contract are likely, but not guaranteed, to close.

As referenced in [this announcement](#) dated 3 January 2023, Brooksville's strategy to return capital to unitholders will predominately be driven by a continuation and acceleration of asset sales from URF's 1-4 Family portfolio, subject to market conditions. Given the macroeconomic uncertainty and elevated interest rate environment in the US, Brooksville is using the current pipeline of assets for sale to assess market conditions and develop a more targeted strategy. As the individual asset sales program progresses, Brooksville and the Fund will also look to increase efforts into the possibility of executing smaller, sub-portfolio sales to other investor groups, particularly for the New Jersey Workforce assets. To this end, Brooksville will identify sub-markets with the strongest fundamentals and seek to accelerate the sales program in those locations via a combination of the two sales strategies. Any sub-portfolio sales would require specific approval by the RE under the JV agreement.

The Fund has now completed the steps required under the Right of First Refusal provision for each of the three Urban American multifamily building joint ventures, a selling broker has been appointed for the buildings, and all multifamily assets are in the process of being marketed for sale. Should these assets transact, the proceeds are expected to be dedicated toward a continuation of the buyback program.

These three large-scale apartment complexes are worth a combined US\$33.2 million, with URF being a part owner of the assets, having an economic interest of approximately US\$7.0 million.

Quarterly Closed 1-4 Family Sales



Source: US REIT.



Capital Management

The Fund's debt levels reduced slightly across the quarter, with US\$4.6 million being repaid from the Global Atlantic Term Loan following the settlement of property sales used as collateral for this loan account.

Following the recommencement of the sales program in Q3 2022, as well as the announcement of Brooksville's strategy to return capital to unitholders through an acceleration of the 1-4 Family sales program as market conditions allow, the Global Atlantic Term Loan will be reduced in coming periods as assets 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 continue to be used to fund the on-market buybacks or made available for other capital management opportunities.

Debt Levels & Blended Cost of Interest Calculation

	US\$ Balance at 31-Dec-21	US\$ Balance at 31-Mar-22	US\$ Balance at 30-Jun-22	US\$ Balance at 30-Sep-22	US\$ Balance at 31-Dec-22
Global Atlantic - Term Loan (4.00%)	349,885,636	348,034,311	348,034,311	348,034,311	343,423,092
Global Atlantic - Bridge Loan (5.00%)	0	0	0	0	0
Total	349,885,636	348,034,311	348,034,311	348,034,311	343,423,092
Indicative Annual Interest Cost	13,995,425	13,921,372	13,921,372	13,921,372	13,736,924

Source: US REIT.

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

The Fund's cash holdings reduced during the quarter as surplus cash reserves were used to fund the on-market Buyback program. Following the end of the quarter, the Board of the RE announced its proposal to increase the capacity of the on-market buyback (Buyback) to a maximum of 25% of the number of Ordinary Units on issue as at the close of trade on 28 February 2023 for the 12 months following that date, unless terminated earlier by the RE. It is not guaranteed that the RE will buy back the maximum number of ordinary units permitted under the buyback or any ordinary units at all.

The RE has released an Explanatory Memorandum with information that is material to a Unitholder's decision on how to vote on the Resolution, including the reasons for the Buyback, the applicable terms, the financial implications and the possible advantages and disadvantages of the on-market buyback program. This announcement can be found [here](#).

Month end	Number		Consideration A\$		Total
	Ordinary Shares	CPUs	Ordinary Shares	CPUs	
October	6,313,339	30,262	\$ 1,648,246	\$ 1,638,774	\$ 3,287,020
November	6,651,684	46,723	\$ 1,728,049	\$ 2,603,563	\$ 4,331,612
December	1,690,840	11,084	\$ 472,942	\$ 670,870	\$ 1,143,813
	14,655,863	88,069	\$ 3,849,238	\$ 4,913,208	\$ 8,762,445

The Fund ended the quarter with cash balances of US\$29.9 million.

Source: US REIT.

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.

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 the Fund has been successful in a number of evictions against tenants stemming from the COVID-19 pandemic across New York and New Jersey.

Rent collected includes receipts for Q4 2022, as well as outstanding payments for prior months:

Month	Collection Rate
October 2022	98%
November 2022	95%
December 2022	95%
Q4 2022	96%

Source: US REIT.





Portfolio Occupancy

At 31 December 2022, the Fund's 1-4 family portfolio had 96% 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). Given that the Fund has now re-commenced its sales program, 11 units were vacant as a part of the sales pipeline. It is expected that the number of units that are vacant prior to sale will continue to increase as the Fund continues to progress with the accelerated sales program.

1-4 Family portfolio (as at 31 December 2022)	Unit Count	%
Leased	835	96%
For Lease or In Turnover	28	3%
Vacant pending sale	11	1%
Total	874	100%

Source: US REIT.

Net Operating Income

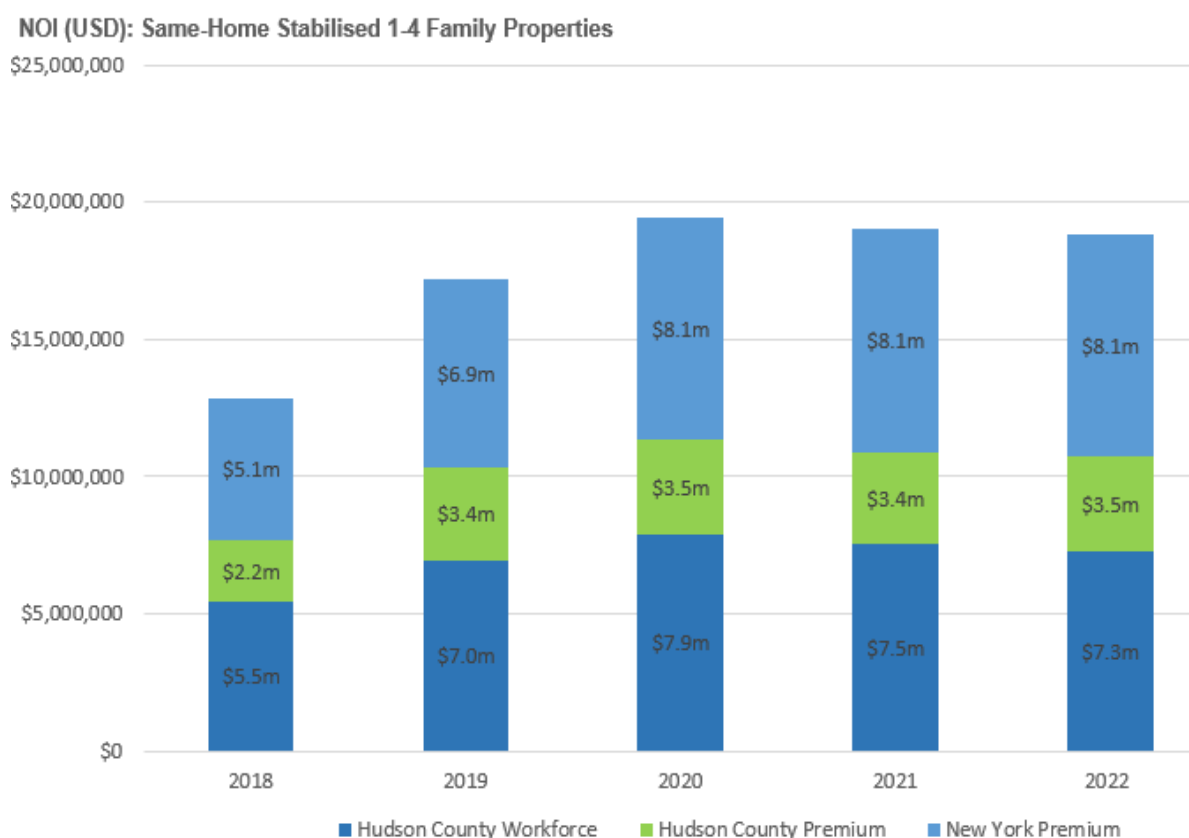
The Fund is focused on managing the portfolio as efficiently as possible in order to maximise its Net Operating Income (NOI), being the net rental revenue that the Fund receives after paying property level expenses.

As a result of the sales program, total portfolio revenue is expected to decrease as the portfolio continues to reduce 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 previewed in the Fund's Q2 2022 report, the Jersey City Board of Education approved a US\$973.8 million budget that was expected to further increase the Fund's Jersey City property taxes by at least US\$500,000 p.a.

The increase in property taxes across the Fund's Jersey City portfolio took effect during the quarter, with the Fund's property tax expense increasing materially from the corresponding quarter in 2021. The Fund does not expect such an increase to occur quarter on quarter, as the updated tax assessments are applied in the final quarter of the year which include a back payment on the taxes for preceding quarters.

Pleasingly, the Fund saw average rent growth of 20% on new leases for the quarter, and the total revenue from rental properties increased 14% year-on-year to A\$43.7 million. Due to investment property expense increases during the year, including the aforementioned increase in the Fund's property taxes, the same-home stabilised NOI reduced by 1% YOY, to a total of US\$18.9 million.



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.





General and Administrative Expenses

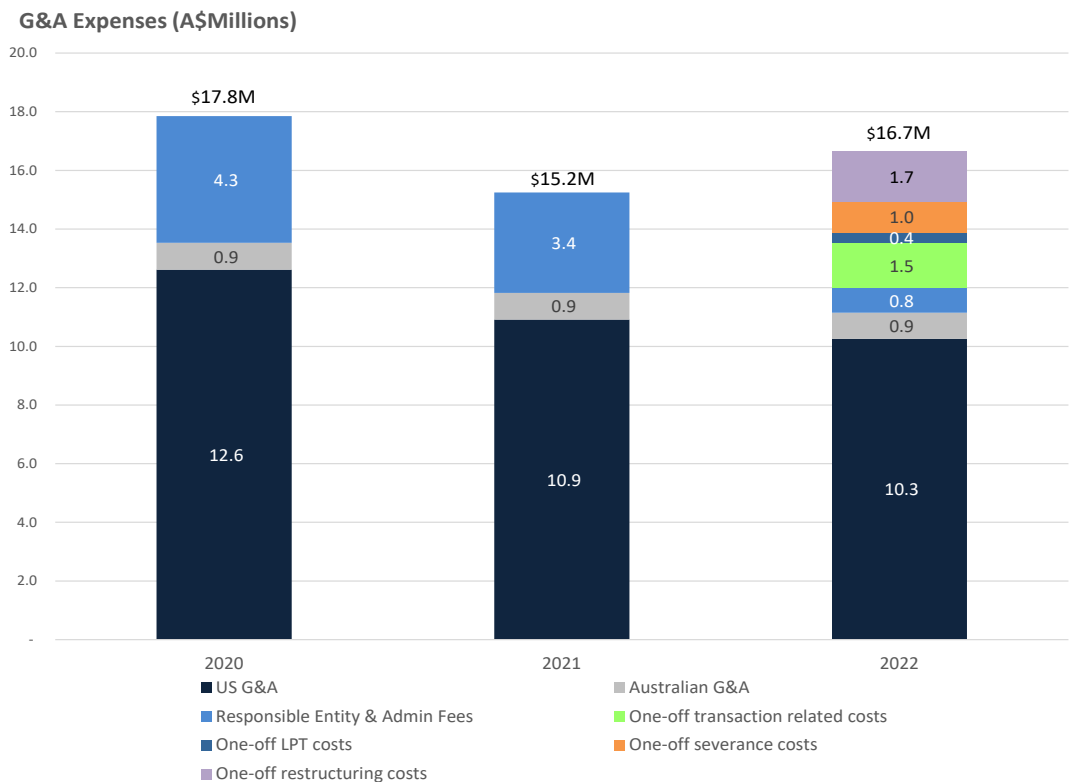
At the end of the quarter, the Fund finalised its externalisation of the operating platform via the joint venture partnership with Brooksville.

As was previewed in the Fund's announcement of the JV, Brooksville's compensation structure was negotiated to minimise operational management fees for the portfolio. The Board of the RE has worked with Brooksville and Pinnacle to build a business plan for 2023. Under the JV agreement, it is not expected that material G&A savings will be recognised, as Brooksville is largely tasked with ensuring the successful execution of a sales program to return capital quickly and efficiently to unitholders. While there may not be material G&A savings, the appointment of Brooksville significantly improves alignment of the manager to URF unitholder outcomes and de-risks the operational aspects of managing the portfolio as compared to the Fund's previous internalised management model.

Full year 2022 G&A expenses – including non-recurring items outlined below – totaled A\$16.7 million, with G&A for H2 2022 coming in at A\$8.2 million.

The half year G&A non-recurring expenses include A\$1.7 million in one-off restructuring costs, comprised of legal fees and professional/corporate advisory fees associated with establishing the Joint Venture. Additionally, 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 in July and December, were a combined A\$2.6 million. Finally, non-recurring G&A expenses also include A\$0.4m in legal fees incurred in December 2022, which the Fund anticipates will be partially recouped in H1 2023.

Removing these nonrecurring items, the adjusted G&A for full year 2022 becomes A\$12.0 million, which is a 21% improvement on the adjusted full year 2021 results.



Source: US REIT. AUD/USD average rate of 0.6910, 0.7513 and 0.6947 for 2020, 2021 and 2022 respectively. Original target for 2022 was based on AUD/USD spot rate of 0.73.

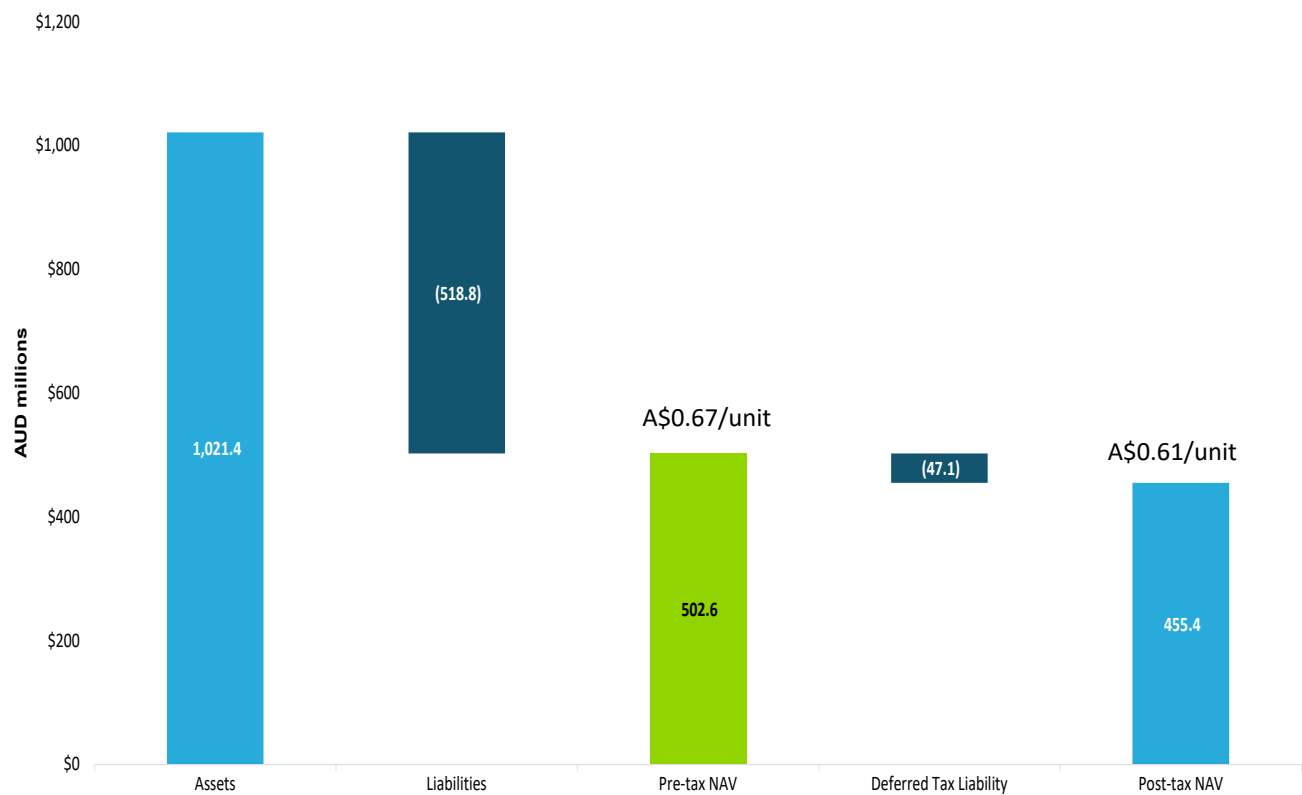


Net Asset Value

At 31 December 2022, the pre-tax NAV was A\$0.67 per unit (A\$0.61 post-tax).

It is to be noted that the conversion of CPUs into ordinary units occurred on 3 January 2023 and resulted in the issuance of 369,773,875 new ordinary units, bringing the total units outstanding to 751,333,477 as at conversion date.

31 December 2022 NAV Breakdown



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 improve its cash flow position. With the reimplementation of the asset sales program (and accompanying transaction costs and drag on portfolio cash flows as assets are held vacant for sale) it is expected that the Fund will likely incur increased operational cash losses while it focuses on efficiently and expeditiously selling assets and returning capital to unitholders.

Excluding disposal costs and non-recurring items, the FFO loss for 2022 was A\$3.9 million. This represents a 61% improvement over 2021's result.

A\$	2018	2019	2020	2021	2022
Revenue from Ordinary Operations	38.1	49.7	45.4	39.7	44.1
One-Off Income			1.9	-	0.3
Investment Property Expenses	(16.3)	(19.2)	(14.9)	(13.1)	(15.7)
Investment Property Disposal Costs	(3.6)	(4.3)	(5.7)	(7.3)	(2.2)
G&A	(25.1)	(22.2)	(16.0)	(15.1)	(12.1)
One-Off Refinancing Costs - G&A	-	-	(1.3)	-	-
One-Off Transaction Related Costs - G&A	-	-	-	-	(1.5)
One-Off Restructuring Costs - G&A	-	-	-	-	(1.7)
One-Off Severance Costs - G&A	-	-	-	-	(1.0)
One-Off LPT Costs - G&A	-	-	-	-	(0.4)
EBITDA	(6.9)	4.0	9.4	4.2	9.7
EBITDA (excluding disposal costs and one-off items)	(3.4)	8.3	14.5	11.5	16.2
Net Interest Expenses (Excluding Notes Interest)	(20.5)	(21.2)	(16.6)	(21.2)	(20.1)
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)	(10.5)
FFO (excluding disposal costs and one-off items)	(45.5)	(32.8)	(15.1)	(10.0)	(3.9)

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 0.6947 for 2018, 2019, 2020, 2021 and 2022 respectively. FFO is reported on a cash accounting basis. Figures in table may not sum due to rounding.



Staff

As detailed in the full year accounts, Kevin McAvey stepped down as sole CEO of the Fund following the appointment of Brooksville on 30 December 2022, and the Board thanks both Kevin, his former co-CEO Brian Disler and CFO Paul McNerney for their contribution to the operating improvements and overall performance of the Fund since their appointment in 2019.

In addition, the Board acknowledges the dedication of the senior management and staff of the Fund over what has been a transformational quarter for the Fund and the successful transition to the externalized operating platform.





Board of the Responsible Entity

Stuart Nisbett INDEPENDENT CHAIR

Peter Shear INDEPENDENT DIRECTOR

Warwick Keneally DIRECTOR

For Further Information

URF Investor Relations

Level 32, 1 O'Connell Street Sydney NSW 2000

www.usmastersresidential.com.au

URFInvestorRelations@usmprf.com

T: 1300 454 801

Important Information

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