

19 August 2016

US Masters Residential Property Fund

ASX Code: URF

Half Year Results for period ending 30 June 2016

US Masters Residential Property Fund (**URF, Fund or Group**) is pleased to release its financial results for the period ending 30 June 2016.

The financial results include:

- Appendix 4D
- Half year financial report

Overview

- Pre-tax net tangible assets backing (NTA) as at 30 June 2016 was \$2.00 per ordinary unit. This represents an increase of 5.8% over the 30 June 2016 month end unaudited pre-tax NTA estimate, due primarily to the positive revaluation of the property portfolio.
- As at 30 June 2016, the Fund owned a total of 581 freestanding properties comprising 1,049 units with a total cost (including acquisition, capitalised interest and renovation costs to date) of US\$602.4 million. These properties were independently valued at US\$704.8 million as at 30 June 2016. This represents an increase of 17% over cost and a 12% increase over the 31 December 2015 independent valuation, reflecting the continued strong growth in the Fund's target property market.
- The Fund continued to selectively add to its investment portfolio during the half-year, with a focus on premium housing in the Manhattan, Brooklyn and premium areas of Hudson County, markets that the Fund believes will deliver strong growth in both rents and capital values. During the period, the Fund increased the capital deployed in these markets by 13%, 10% and 15%, respectively.
- As at 30 June 2016, the Fund also owned, with its joint venture partners, 16 apartment blocks with 506 units, for a proportional acquisition cost of US\$56.0 million and a fair market value of US\$73.1 million. Of the 16 apartment blocks on hand at balance date, three were under contract for sale.

As part of its strategic capital management program, the multifamily properties owned by the Excelsior joint venture entities were disposed of either during the period, or post balance date. Total proceeds of US\$66.4 million were realised on disposal, of which the Group's proportionate economic interest is US\$61.0 million. This represents a 26% premium to acquisition cost (inclusive of all costs).

Construction and development activity

- During the six months ended 30 June 2016, the Group was successfully able to deliver US\$24.2 million of renovations, completing 20 large-scale renovations and 37 small-scale renovations across 52 properties.
- Reflecting the quality of its renovation work and the continued growth of the business, the Group was honoured with the Jersey City Landmarks Conservancy's Excellence in Preservation award during the period. This is the second time the Group has won the award, having previously won in 2014.

Financial performance and subsequent events

- The Fund recorded a pre-tax operating loss of \$29,057 for the half year period ended 30 June 2016. This compares with a profit before tax in the prior period of \$31,754,805. The primary factors contributing to the movement in the pre-tax result include a smaller positive fair value movement on the Group's freestanding portfolio (\$22,465,336 in the current period compared with \$34,779,673 in the prior period), a reduction in the share of profits of jointly controlled entities due to the wind down of the Group's investments with Excelsior (\$888,652 in the current period compared with \$8,706,883 in the prior period), and an increase in interest expense reflected in profit or loss due to additional borrowings incurred in order to fund both property acquisitions and renovations (\$10,588,635 in the current period compared with \$2,450,108 in the prior period). The pre-tax result in the prior period also includes a fair value gain on derivative instruments of \$1,087,365 (nil this period) and a foreign currency gain on financial instruments of \$1,278,040, which in the current financial period was a loss of \$1,294,550.
- Total comprehensive loss for the Fund for the period ended 30 June 2016 was \$27,287,532. The primary contributor to the loss was an unrealised foreign exchange loss for the period on the value of the Group's US based assets of \$14,686,667, which reflects a 2.26% appreciation of the A\$ against the US\$ during the period.
- The Fund continued to generate strong rental growth. Rental income for the period was \$14,685,069, up 58% over the prior comparative period. The Fund anticipates rental revenue to continue to grow during the remainder of 2016 and in 2017 as more completed properties are delivered from the renovation pipeline.
- The Fund has a material proportion of properties in the renovation phase. As at 30 June 2016, 89 of the Fund's 581 freestanding properties (32% by value) are yet to undergo extensive renovation and are yet to generate rental income. The Fund expects to complete the majority of the renovation works of these 89 properties over the course of the next 3 - 24 months.



The Fund estimates a total annual gross rental value of its 30 June 2016 freestanding properties, assuming those properties were renovated and available for leasing as at 30 June 2016, of approximately US\$33.4 million.

- The Fund anticipates that it will continue to benefit from positive fair market value uplifts in future periods, supported by the completion of renovated properties (being then available for independent appraisal), the strong rental income figures being achieved on recently renovated dwellings and an increasing number of comparable sales transactions in the locations in which the Fund holds properties and from which independent appraisers can appraise the value of the Fund's properties.
- During the period, the Fund continued to optimise its capital structure, successfully closing on US\$84.5 million of additional bank debt, primarily to finance properties that had recently completed renovation.
- The Fund retained a strong financial position, with net assets of \$501.0 million and a pre-tax net tangible asset backing of \$2.00 per ordinary unit and post-tax net tangible asset backing of \$1.73 per ordinary unit as at 30 June 2016. During the period, the Fund declared a distribution of 5 cents per ordinary unit.
- On 19 August 2016, a capital raising for the Fund was announced. The capital raising, expected to be open on 22 August 2016, will be conducted via a unit purchase plan and a placement.

For more information:

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