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## **ASX ANNOUNCEMENT**

**23 June 2023**

# **Aspen Group Delivering Growth and Distributions**

Aspen Group (ASX: APZ) (“Aspen”) provides the following business update including FY23 earnings guidance, recent external valuations of properties and the estimated distribution for 2HFY23.

### **1. FY23 Earnings Guidance**

At Aspen’s half year results announcement in February, Operating Earnings<sup>1</sup> guidance was upgraded to 11.50-12.00 cents per security, an increase of 33-39% on the strong FY22 result. We are pleased to announce that we currently expect to achieve around the top end of this guidance.

### **2. Business Update**

Australia’s residential markets are experiencing historically low vacancy rates and very strong rental growth. Post the borders reopening, demand for accommodation has rebounded due to massive immigration and people moving more freely around the country for a variety of reasons – work, study, holidaying, lifestyle changes, retirement. Meanwhile, building timeframes and costs have escalated due to supply bottlenecks, labour shortages and an abnormally high level of insolvencies in the building industry. Additionally, interest rates have normalised from artificially low levels which has increased the investment return and therefore rent that landlords require to provide their capital and effort.

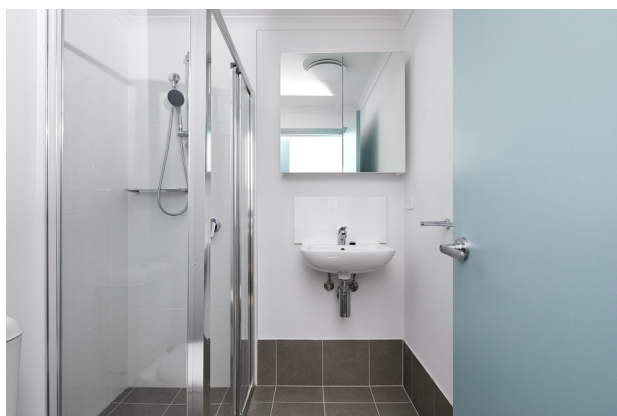
Aspen’s Australia-wide property portfolio is highly occupied by a diverse customer base. Our longer stay residential and retirement properties are essentially full and typically re-lease within a week of becoming available. At our short stay properties, we maximise profitability through dynamic yield management (rate v. occupancy mix) and tight cost controls. We believe our short stay business is outperforming a generally flat market over the past 6 months. Our Adelaide parks have enjoyed strong growth due to major event activity in the city and corporate demand has picked up at our largest parks Aspen Karratha Village, Darwin FSR and Highway 1. Our average in-place rents have increased across the portfolio, but they are still typically below levels achieved on recent leasing transactions, local competition, and economic rents for new supply. Our rents are also well supported by household income, government subsidies and corporate profitability.

Development activity has panned out as planned with lower profits in the second half and more skewed to retirement house sales from which annuity land rents are created. We have no unsold completed houses in inventory (except display houses), and we have successfully passed through the higher building costs to sustain a healthy profit margin of around 30%. We plan to increase development activity again in FY24 and will start the year with contracts / deposits secured on about 30% of planned sales.

The strong performance in FY23 is being generated from a robust and measured balance of Property Net Operating Income (c.80%) and Development Profits (c.20%).

## Redevelopment

The redevelopment of Cooks Hill from a traditional boarding house that was very dated into 50 modern self-contained apartments was completed in June at a total cost of about \$208k per apartment. Its quality, ambience and functionality has exceeded our expectations. This is the first of our CoVE branded co-living communities with smaller apartments and shared communal areas that we intend to roll out in prime metropolitan locations at attractive rent points. 10 studios have already been leased at an average rent of over \$400 per week within 2 weeks of the campaign starting.



The redevelopment of 132 Guildford Road, Maylands is currently on track for completion in 4QFY24. We expect the quality of accommodation to at least match CoVE Cooks Hill, and to enjoy strong demand including from organisations who are keen to secure accommodation for their large customer bases (eg. universities).

## Acquisitions

We have recently exchanged contracts to acquire two properties for \$7.4m including another residential property at Treatts Road, Lindfield NSW and a partly developed mixed-use land lease and rental community about 1 hour drive from the Perth CBD. Net operating income yield (excluding development profits) is expected to be about 3% in the first year and we expect to generate significant income and value uplift from these properties through refurbishment and development over the medium term. We have confidentiality obligations, and more details will be provided once settlement occurs which is subject to various standard conditions for properties of this nature.

We are in advanced contract negotiations on another two appealing opportunities in metropolitan locations.

## Capital Recycling

Nine freestanding Perth houses have been sold / contracted in 2H for an average price of \$538k equating to a 17% premium to book value and net rental yield of about 3% on market rents.

The capital is being redeployed into other properties and projects with lower rent and price points that are more suited to our customer base and expected to generate higher returns.

### 3. External Valuations

Five properties have been externally revalued for the year end accounts with all properties increasing in value, driven mainly by an increase in assumed net income with fairly stable cap rates:

Property	New External Valuation		Book Value 31 Dec 2022	
	Value - \$m	Cap Rate	Value - \$m	Cap Rate
UniResort	\$27.50	6.50%	\$23.91	6.50%
Adelaide Caravan Park	\$17.85	7.00%	\$15.18	8.25%
Mandurah Gardens Estate	\$17.30	6.25%	\$16.21	6.50%
Cooks Hill Co-Living	\$12.25	5.25%	\$10.96	4.50%
76 East Street, Maylands <sup>1</sup>	\$5.35	4.75%	\$4.92	4.75%
<b>Combined</b>	<b>\$80.25</b>	<b>6.25%</b>	<b>\$71.18</b>	<b>6.44%</b>

1. 76 East Street, Maylands is 24 strata-titled apartments within a complex of 48. The individual strata apartments have also been valued using the direct comparison method at a total of \$6.46m (\$269k per apartment) before applying discounts for profit margin on theoretical sale.

The carrying value of the portfolio at 30 June 2023 will be subject to the usual Directors' appraisals and audit.

Aspen's portfolio is generating a higher cash yield than most commercial real estate classes and bond rates. This is very attractive in our opinion considering the essential nature of housing, that our rents are not artificially inflated by leasing incentives, a relatively high component of value is in the underlying land, and the good prospects for real growth over the long term as population density increases and the properties are developed into highest and best use.

### 4. Distribution

The expected distribution per stapled security for the second half is 4.25 cents, taking total distributions per stapled security for FY23 to 7.75 cents, an increase of 17% on FY22.

The second half estimated distribution details are:

Amount: 4.25 cents per stapled security  
 Ex-Distribution Date: Thursday 29 June 2023  
 Record Date: Friday 30 June 2023  
 Payment Date: On or about Friday 25 August 2023  
 Distribution Reinvestment Plan: Suspended

Aspen's full year results are expected to be released on Thursday 17 August 2023.

Announcement authorised by the Board of Aspen Group Limited.

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1. Operating Earnings is a non-IFRS measure that is determined to present, in the opinion of the directors, the operating activities of Aspen in a way that appropriately reflects Aspen's operating performance – refer to financial reports for full definition.