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ASX ANNOUNCEMENT

18 May 2020

Aspen Group

Reinstatement of Guidance, Business Update and New Acquisition

Aspen Group (which comprises Aspen Group Limited and the Aspen Property Trust) (ASX: APZ) ("**Aspen**") is pleased to provide this business update and announce the acquisition of a build to rent community in Burleigh Heads, Queensland.

Aspen's Business Model

Aspen is a leading provider of quality accommodation on competitive terms in the residential, retirement and short stay sectors. Aspen's opportunities are enormous within Australia's \$7 trillion residential market given significant unsatisfied demand for suitable accommodation at more affordable prices and rents.

We have a fully integrated platform across operations, asset management, development and capital management that provides a broad spectrum of products and services to our customers under different regulatory regimes and ownership schemes: Rentals – Shared Equity – Sales.

Aspen provides one, some or the entire range of its accommodation products and services at each of its properties. We seek to maximise the profitability and value of properties and reduce risk by optimising customer mix based on demand, relative pricing and expenses, regulation, capital costs and other factors.

Business Update

To date, Aspen has maintained profitability during the COVID-19 outbreak and underlying earnings for the 10 months ending 30 April 2020 are in line with previously provided guidance. This has been enabled by the essential role and versatility of our properties, and proactive management and government initiatives.

Rents for our longer-term accommodation are typically at the lower end of their local markets and at levels that are well supported by household incomes and government subsidies. We estimate that our rents represent 30% or less of household income for the vast majority of our customers, even those entirely dependent on welfare. Of course, higher income households are also attracted by lower rents, particularly when economic conditions deteriorate, as it frees up income for other uses. To date we have not experienced an increase in arrears due to COVID-19 and very few customers have requested rent relief.

Our short stay revenue typically represents about half of total revenue and has reduced to almost nil since COVID-19 restrictions were enacted. However, this has been largely offset by an increase in longer stay business and a material reduction in operating costs. Over 50% of our tourist cabins are now occupied at an average rent of \$243 per week by longer stay customers including essential workers and others seeking to isolate. We have retained the flexibility to move back to shorter stay business and increase rates and profitability when conditions improve, which will hopefully occur by the peak July-October period in the Northern Territory and by summer in NSW.

We have been able to satisfy Woodside's requirement for exclusive use of Aspen Karratha Village so that the added complexities of housing FIFO workers during COVID-19 can be appropriately managed. This has been enabled by our Darwin Freespirit Resort Manager and several of his team relocating to Karratha due to a shortage of labour in the region.

Sales of new houses at our Four Lanterns land lease community have slowed and development profit will fall short of expectations for FY20. However, we have recently contracted to sell two new houses (one at a new record price of \$415,000) and we have acquired two old houses at minimal cost for redevelopment, illustrating one of the benefits of owning mature communities. The redevelopment of Sweetwater Grove (Tomago) is progressing well, and we have decided to pursue a land lease model with house prices of around \$220,000 which is highly attractive in the Newcastle region.

Corporate overheads have been reduced further and interest rates have declined.

New Acquisition

Aspen has entered into conditional contracts to acquire a partially completed build-to-rent development at Burleigh Heads, Queensland under a mortgagee in possession sale. This residential community comprises 18 substantial townhouses that are suitable for families and co-living. Burleigh Heads and the surrounding region attracts more interstate migrants than any other place in Australia for a variety of reasons including a diverse economy, attractive lifestyle, and lower housing costs than other eastern seaboard metropolitan areas.

The purchase price is \$3.15 million plus GST and settlement is expected to occur in a few months after a subdivision is completed. Total all-in development cost is expected to be approximately \$7.2 million, equating to \$400,000 per dwelling and \$1,642 per sqm of dwelling area, which we believe is at least 30% discount to replacement cost. Net rental yield on cost is expected to be about 4.5-5.0% upon completion and letting.

We expect to be able to continue to grow Aspen's business and portfolio profitability in future and we believe the opportunities will increase during this economic downturn.

Guidance

We are pleased to be able to reinstate FY20 earnings and distribution guidance of 6.75-7.00cps and 6.00cps respectively.

Please find attached a presentation with more details.

END

Announcement authorised by the Board of Aspen Group Limited.

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Business Update

Reinstatement of Earnings & Distribution Guidance

New Acquisition - Burleigh Heads Build to Rent

18 May 2020

Burleigh Heads, Queensland



Aspen's Business Model

Aspen is a fully integrated owner, operator and developer of quality accommodation at competitive prices in the residential, retirement and short stay sectors

We operate at the more affordable end of Australia's \$7 trillion residential markets

We offer products and services under different regulatory regimes and ownership schemes - examples:

- Dwellings for rent - freestanding houses, apartments, cabins in mixed-use parks
- Land leases - lifetime leases in retirement communities and shorter term leases in mixed-use parks

Traits that Aspen seeks in properties it acquires:

- Desirable locations – particularly metropolitan
- Large land parcels that are under-utilised
- Existing buildings / dwellings priced at below replacement cost that can be refurbished / repurposed
- Land and development cost at the low end of (or below) local competition
- Competitive operating costs (e.g. tax incentives / subsidies)
- Flexibility / optionality
- Potential for higher value use over time

Increasing Property Value

Camping



Cabins



Manufactured Homes



Residential Homes



Apartments



Aspen's Portfolio Value and Competitive Rents



As at Dec 2019:

Portfolio Book Value	\$160m
Number of Dwellings/Sites	2,183
Average Value per Dwelling/Site	\$73k
WACR	8.2%



Houses



Apartments



Mixed Use Parks



Land Lease Communities



Workforce Accommodation



Average Value per Dwelling/Site

\$251k

\$222k

\$60k

\$85k

\$61k

Average Weekly Rent (Medium/Long Term)

\$345

\$202¹

\$243

\$169

NA

1. Includes residents under Retirement Village leases at below-market rent

Business Update and Reinstatement of Guidance

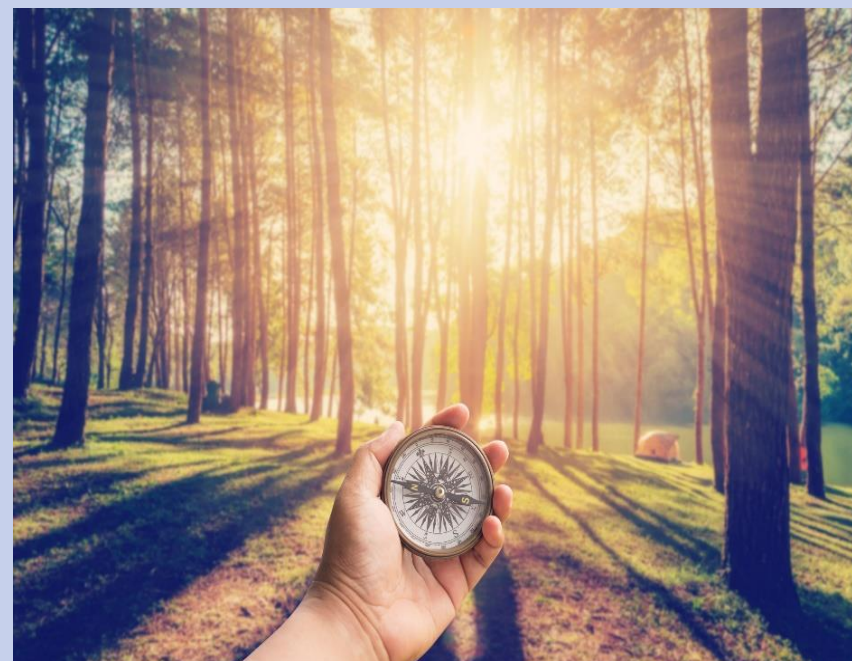
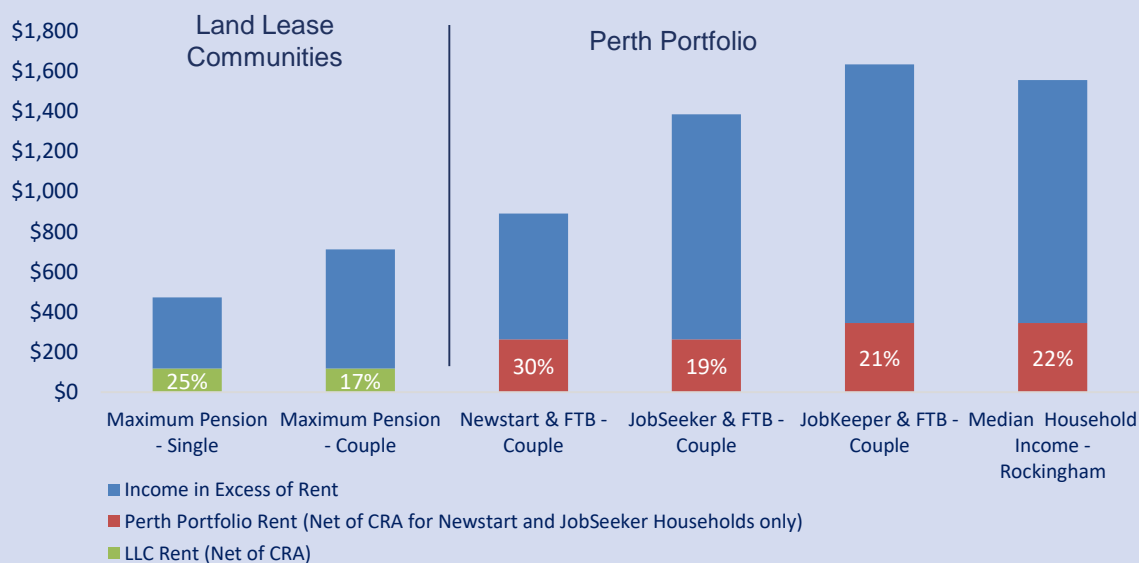
On 23 March as the negative impacts of COVID-19 became evident, Aspen withdrew its FY20 guidance.

Despite the very challenging economic conditions since, management and government initiatives have underpinned Aspen's business and we have reinstated FY20 underlying earnings and distribution guidance of 6.75-7.00cps and 6.00cps respectively.

We have made very good progress to date:

- Underlying earnings were around guidance for the 10 months to 30 April 2020, despite COVID-19 impacts from mid March and the NSW South Coast bushfires over summer which materially impacted profits at our Barlings Beach and Tween Waters parks (we have submitted insurance claims totalling over \$500k and we are awaiting a formal response from our insurers)
- Rents for our longer term dwellings and sites are at the lower end of their markets and are supported by the Government's JobKeeper, JobSeeker and Commonwealth Rent Assistance schemes – to date only a few residents have requested rent relief and arrears have not increased materially

Aspen Average Rents v. Household Income Levels (\$ per week)



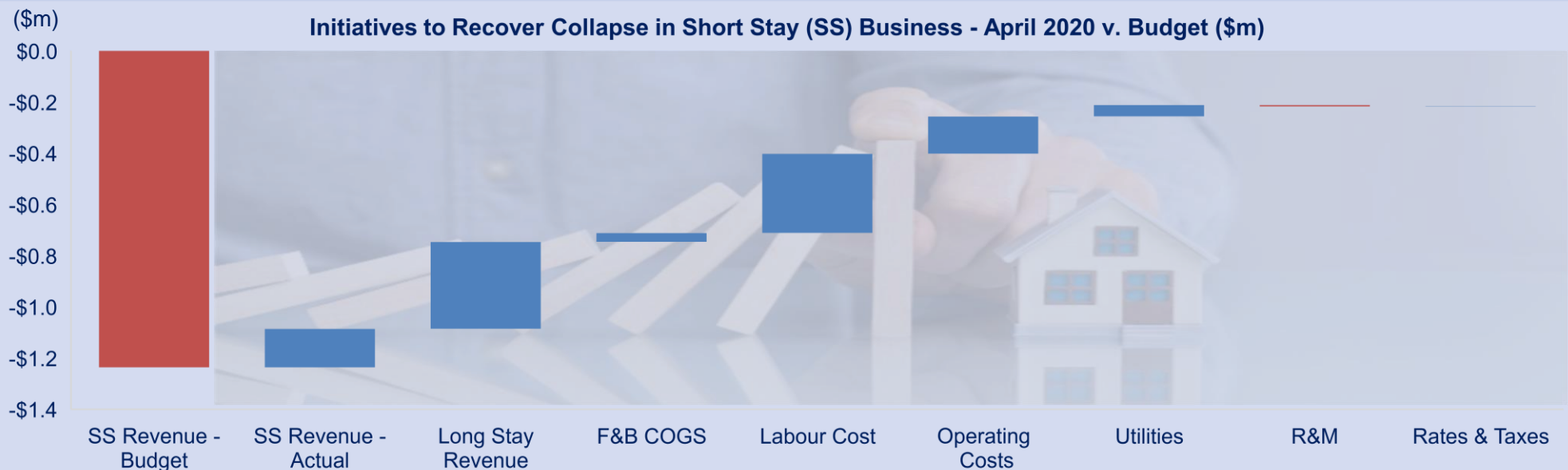
CRA: Commonwealth Rent Assistance – assumes Pensioner, Newstart and JobSeeker households receive CRA which is netted against gross rent

FTB: Family Tax Benefit Part A and Supplement for family with 3 young children – assumes maximum for Newstart and JobSeeker households and base rate for JobKeeper households (included in Median Income)

Business Update – Adaptable Business Model

The short stay component of our business was expected to generate revenue of about \$1.1m per month on average at this time of year. Tourism has been severely disrupted, however:

- Essential workers are still being accommodated at some parks, particularly Highway 1 in Adelaide
- Traditional short stay cabins are now being offered for Longer Stays - 179 cabins leased to date (52% of available cabins) at an average of \$243 per week – we have retained the right to increase rates in the high seasons and the flexibility to rotate back to short stay guests when conditions improve
- Variable labour costs have been reduced materially – nearly all of our longer term casual employees have been kept on the payroll and are being subsidised under the JobKeeper program (they would have received minimal hours of work and pay in the absence of this scheme)
- Other variable costs have declined (eg. energy, administration, marketing)
- We continue to invest in the upkeep of the properties through R&M



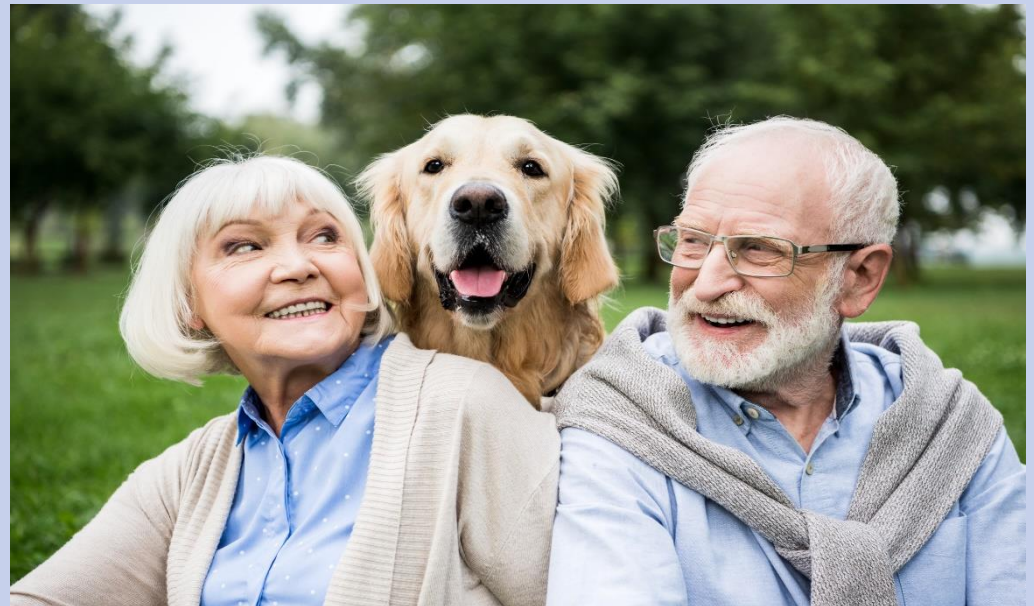
Business Update - Development Risks Mitigated

We have been able to satisfy Woodside's requirement for exclusive use of Aspen Karratha Village (AKV) so that the added complexities of housing FIFO workers during COVID can be appropriately managed – this has been enabled by our Darwin Freespirit Resort Manager and several of his team relocating to Karratha due to a shortage of labour in the region

Development exposure is limited:

- Settlements at Four Lanterns have slowed and development profit will fall short of expectations for FY20, however we have recently:
 - Entered into contracts for the sale of two new houses to be installed in late FY20 / early FY21 - prices of \$415k (new high) and \$363k, with substantial deposits
 - Purchased two old houses at minimal cost, which frees up these sites for new houses, illustrating one of the benefits of owning mature communities
- Stage 1 of Sweetwater Grove (Tomago) is underway and we have decided to pursue a land lease model:
 - Maximum new capital is limited to \$5-6m
 - Aiming to sell houses at c.\$220k price point which is highly competitive for the Newcastle region

Corporate overheads have been reduced further and interest rates are lower.



Business Update – Balance Sheet

Aspen's property values are generally supported by:

- Accommodation being a basic necessity
- Relatively low rents that are not inflated by incentives and are well supported by residents' income and government subsidies
- Adaptable and alternative uses (eg. switching between short stay and long stay customers or dwelling rentals and land leases; development into higher value uses)
- Discount to replacement / production cost
- High yield relative to interest rates

Three properties are being valued externally this half – Mandurah Gardens, Adelaide Caravan Park and Darwin Freespirit Resort

Aspen has a legacy lease over office space in Perth that expires in 2022 and all of this space is subleased to two corporate tenants. The smaller tenant is seeking rent relief and Aspen will provide it to the extent that it can be recovered from the landlord

Debt is manageable:

- Entirely bank debt, expiring in November 2022
- Current LTV of 32% versus 50% covenant
- ICR expected to be over 5x for FY20 versus 2x covenant

Interest rate exposure is limited:

- 55% of interest rate (BBSW) exposure is floating and interest rates have declined
- 45% has been hedged for only 3 years at 81bps
- The current mark-to-market loss on the hedge is offset by the improved terms on the floating component

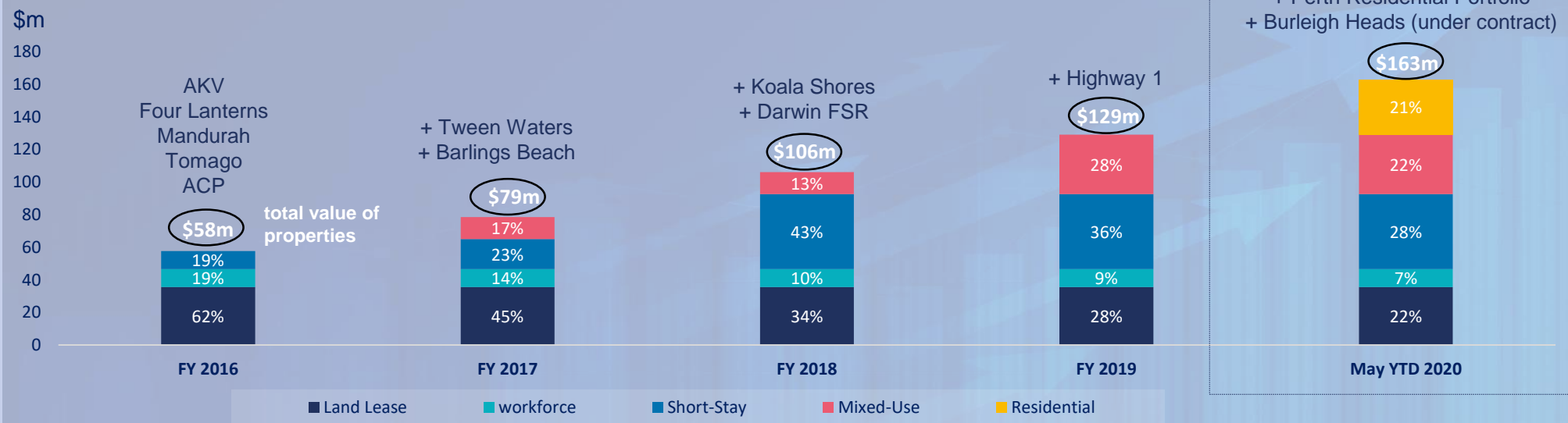


Barlings Beach Holiday Park – cabin leased for longer stays...

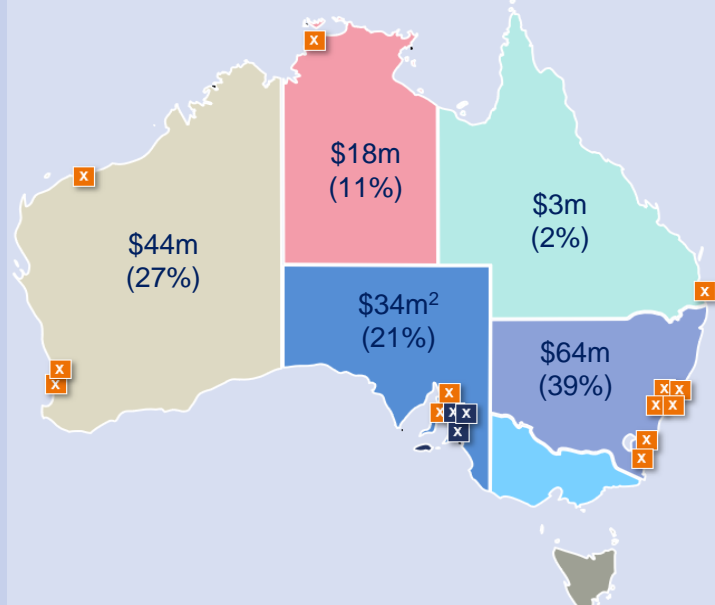


Aspen's Portfolio Growth

Portfolio Composition¹ and Acquisition History



Location of Portfolio¹



Property Type by Location¹



1: Value weighted based on Book Value (\$m) as at 31 December 2019 including Burleigh Heads which is under contract at \$3.15m + GST

2: Excludes value of CREST, Rockleigh and Coorong Quays which are managed by Aspen Group and owned by Funds



Acquisition



Burleigh Heads Residential Community

Aspen has entered into a conditional contract to acquire a quality residential community development in Burleigh Heads through a mortgagee in possession sale

Description

- Location: 4 Fleay Court, Burleigh Heads (SE QLD)
- Land: Freehold, c.1 hectare, currently single title
- Dwellings: 18 already built townhouses with 2-3 bedrooms, 2 bathrooms and 2 car garages averaging 244sqms - suitable for large families and co-living

Development

- Nearly complete development that was subjected to a stop work order due to a land slip behind the site, ultimately resulting in the project falling into receivership
- Issue now resolved with Council constructing a retaining wall and acquiring the affected land
- Requires additional retaining wall along the northern boundary, storm water infrastructure improvements and cosmetic refurbishment of the built houses

Strategy

- Extended settlement timeframe of several months allows pre-planning and positioning during COVID-19 event
- Complete development when timing suits
- Lease on competitive terms
- Retain single title to reduce operating costs (STCA) and maximise yield
- Potential strata and sale of individual townhouses



4 Fleay Court, Burleigh Heads



Video link: <https://vimeo.com/363739799>

Burleigh Heads - Financial Summary

Pricing

Acquisition cost of \$3.4m (including transaction costs and excluding refundable GST):

- \$189k per dwelling
- \$775psm of gross building area

Expected cost to complete of \$3.8m taking total development cost to \$7.2m, equating to:

- \$400k per dwelling
- \$1,640psm of gross building area

In our opinion, at least 30% discount to replacement cost

Estimated Net Yield on Completion

Discounted entry price enables us to offer competitive rent of say \$550 per week: \$100 (15%) discount to average 3 bedroom house and \$30 (5%) discount to average 3 bedroom apartment in Burleigh Heads

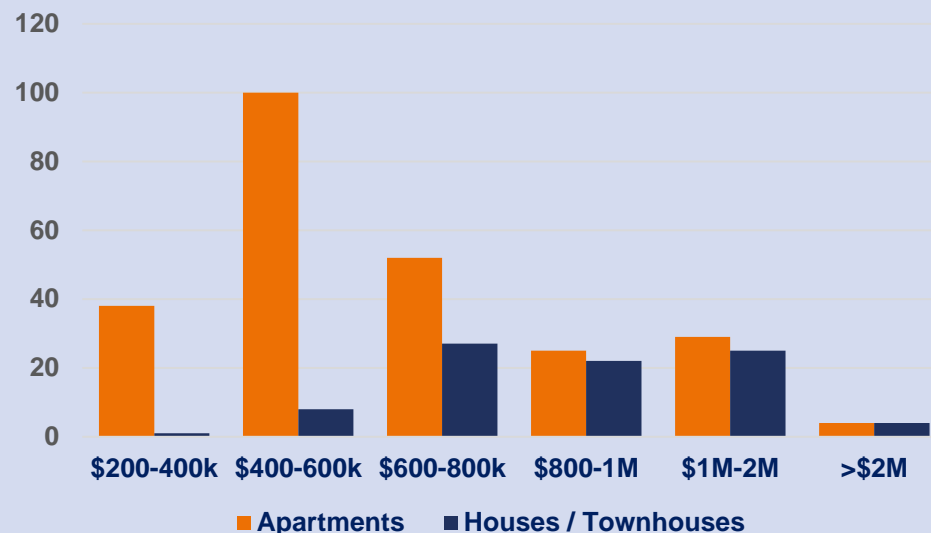
Net Operating Income of c.\$0.33m at margin of 65%

Expected Net Yield: 4.5-5.0% on cost

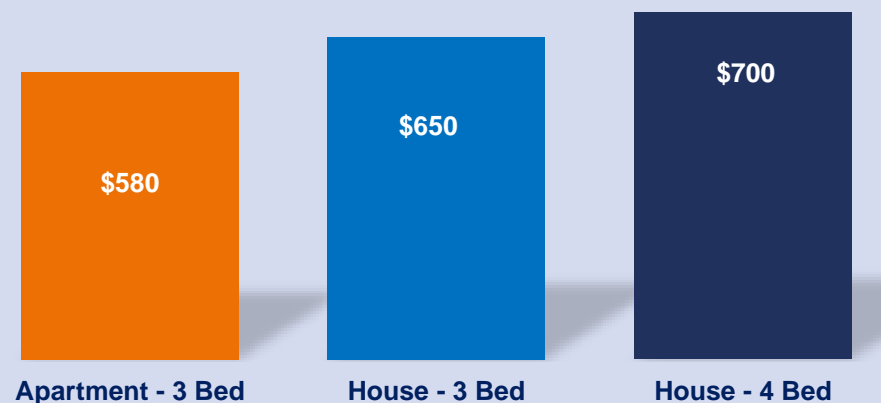
Funding

Acquisition expected to be debt funded - pro forma LTV of 34%

Volume of Sales by Price Category



Burleigh Heads - Average Rents



Burleigh Heads - Investment Case

Entry to South East Queensland market - expanding Aspen's footprint and opportunity set in Australia's \$7 trillion residential, retirement and short stay sectors

Gold Coast Metropolitan Area - high population growth region:

- Population of 600k increasing at over 12k / 2% per annum
- Attracts more interstate migrants than any other region in Australia

Burleigh Heads:

- Mid level sociodemographic compared to Australia with relatively high housing costs (ABS 2016 Census – median comparisons):
 - age 41 – 3 years older
 - household income of \$1,386 - 4% lower
 - mortgage repayment of \$450 per week – 11% higher
 - rent of \$390 per week – 16% higher
- High level of local infrastructure and facilities: employment hub, retail, education, medical, recreation & entertainment
- Supply is more constrained than other parts of the Gold Coast due to geographic and town planning limits (building heights are restricted to protect views from coastline to Burleigh Ridge)

Low entry price enables Aspen to offer quality accommodation at competitive rents to our customers and generate attractive investment returns for our securityholders

Further de-risking of Aspen's portfolio – increased weighting to metropolitan locations, longer term rentals, more liquid markets

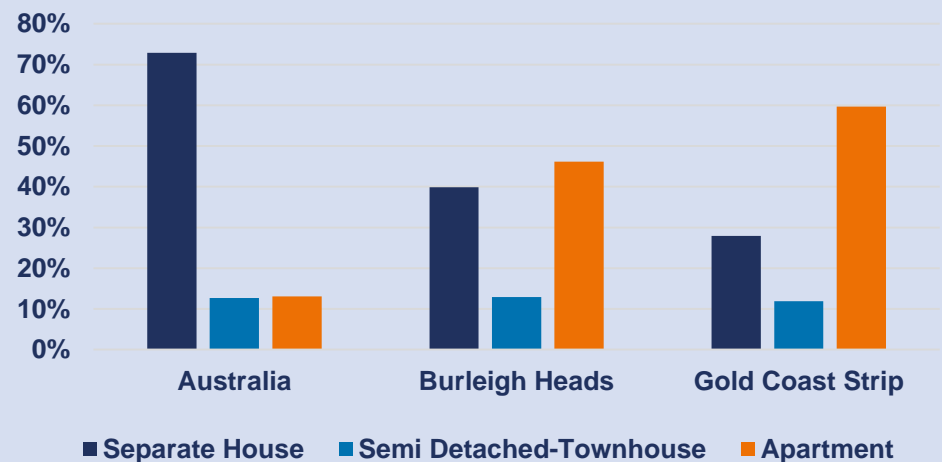
Seeking to match timing with COVID-19 event – delayed settlement, development works during down-cycle, leasing during recovery

Expected to be accretive to NAV and EPS post development completion

Net Interstate Migration



Dwelling Split



ABS Census 2016 – Gold Coast Strip is Broadbeach and Surfers Paradise combined



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