US Masters Residential Property Fund

24 August 2020

US Masters Residential Property Fund (Fund) ASX Code: URF

Portfolio Valuation & Operating Metrics Update

Operating Metrics

Despite the challenges of COVID-19, the Fund's operating results have continued to improve over the six months to 30 June 2020. Overall cash flows (as measured by Funds from Operations, "FFO") improved by an annualised rate of approximately 50% through the six-months to 30 June 2020, compared to full-year 2019 figures. Contributing factors to this strong result include:

- Resilient rent collection rate of 98% across the first half of the year.
- Stabilised Net Operating Income (NOI) yield increasing to 3.46% for the last 12 months.
- General & Administrative (G&A) expenses reducing by 29% compared to the same period last year.
- Execution of the sales program and resulting ongoing debt repayment.

The Fund's Half Year Financial Report and Q2 Quarterly Report will provide detailed information on all aspects on the Fund's operations. These will be released on 31 August 2020, and will be accompanied by a video update with additional commentary from US REIT CEOs, Brian Disler and Kevin McAvey.

US Property Market

Since March, the effects of COVID-19 precautions, including stay at home orders and a pause of leasing and sales markets, have significantly reduced transaction volumes across the country. The five most populous cities in the US (including New York City) all experienced significantly reduced transaction volumes over the second quarter of 2020:

	Q2 2020 vs. Q2 2019 transaction volume – residential sales
New York[i]	(47.4%)
Los Angeles[ii]	(43.5%)
Chicago[iii]	(24.6%)
Houston[iv]	(8.1%)
Phoenix[v]	(19.4%)

In addition to reduced residential transaction volumes, COVID-19 has financially impacted all property types. This is illustrated by the MSCI US REIT Index, which experienced total returns of -18.45%[vi] for the 6-months to 30 June 2020. However, this performance has not been uniform across the property spectrum. The two largest residential exposures in this index, AvalonBay Communities (NYSE: AVB) and Equity Residential (NYSE: EQR), which both hold substantial apartment portfolios, returned -25% and -26% respectively over this time period. Conversely, URF's peers in the Single Family Residential (SFR) space have posted more resilient results, with American Homes for Rent (NYSE: AMH) and Invitation Homes (NYSE: INVH) returning +3% and -7% respectively. This trend reaffirms our experience of lower-density SFR housing increasing in popularity due to the social-distancing realities of the COVID-19 virus, and exhibiting defensive characteristics despite COVID-related uncertainty.

New York & New Jersey Property Markets and URF Portfolio Valuation

The Fund is in the process of completing its six-monthly property appraisal process for the period ended 30 June 2020.

Historically, the fair value of the portfolio has been determined each reporting period using appraisals performed by a panel of independent licensed appraisers and real estate agents. In completing their appraisals, members of the panel have used the "comparable sales" approach to appraise each property individually. Under this approach, the most comparable recent transactions to an individual property are identified and used to assess the fair value of that specific property. To be effective, this approach relies on a suitably large pool of relevant comparable transactions. For this reporting period to recognise the impact of COVID-19 on the portfolio, relevant transactions needed to reflect the impact of COVID-19 and as such needed to have a contract date after 15 March 2020 (which was the beginning of COVID-19 in the region).

Relevant for URF's portfolio valuation at 30 June, Hudson County (New Jersey) recorded a total of only 72 Hudson County Workforce[1] sales post the beginning of COVID-19[2] (**post-COVID**) and only seven post-COVID Hudson County Premium[3] sales. By comparison, for the six-months ending 31 December 2019 there were 886 Workforce sales and 73 Hudson County Premium sales on which to base valuation decisions.

New York City transaction volumes also contracted across the Fund's investment regions, with only 34 one-to-four family sales being recorded across Brooklyn and Manhattan post the beginning of COVID-19, compared to 654 in the six months to 31 December 2019.

Ultimately, consultations with the independent appraisal panel in both New York and New Jersey concluded that there were an insufficient number of post-COVID comparable transactions with which to properly conduct a comparable sales appraisal process encapsulating the impact of the pandemic.

Data compiled by UrbanDigs, a data analytics company, provides further insights into this significant reduction in activity by looking at the number of new market listings in Manhattan[vii]. As illustrated in the following graphic, new listings on market fell markedly in March, only starting to recover again in late June.

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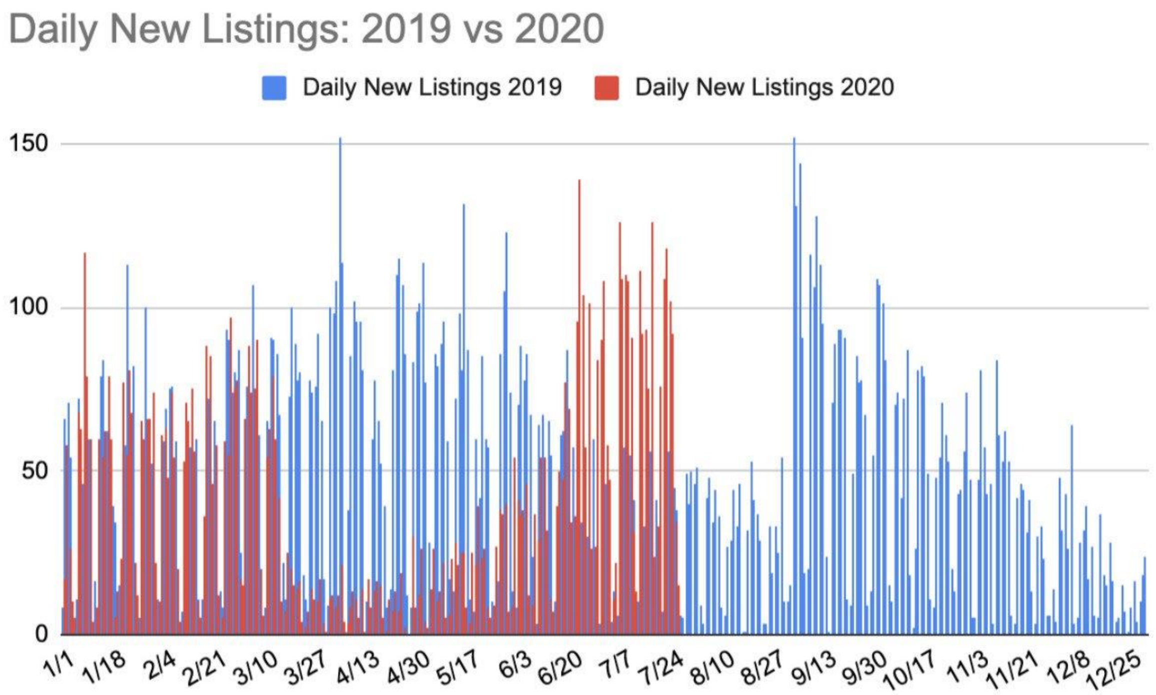
[1] Hudson County Workforce refers to: Bayonne, Bergen-Lafayette, Greenville, The Heights, Journal Square, West Bergen, North Bergen, Secaucus, Union City, West New York.

[2] For the purposes of the 30 June 2020 reporting period, the Fund has reviewed transactions on a pre and post-COVID basis; with "pre-COVID" referring to the period up to 15 March 2020, and "post-COVID" being the period after 15 March 2020.

[3] Hudson County Premium refers to: Downtown Jersey City, Hoboken and Weehawken



Due to the inability to rely solely on the comparable sales valuation method, in consultation with the Fund's independent appraisers a number of alternate data sources were used in valuing the portfolio as at 30 June 2020, including:

- Closed transactions within 2020, pre-COVID-19.
- Closed transactions post-COVID-19 up to the 30 June reporting date.
- Transactions throughout July 2020, just outside the reporting period.
- Transactions that went "under contract" post-COVID-19, but had not yet closed.
- Professional opinions and insights from multiple external brokers and appraisers.
- Research publications from real estate brokerages and research providers.

Based on analysis of the data sources listed above, to align the Fund's valuations with current market conditions Walsh & Company Investments Limited as Responsible Entity for the Fund expects to recognise an adjustment of -4.1% across the gross value of the Fund's 1-4 Family portfolio. This adjustment is expected to be broken down as follows:

Asset segment	**Average fair market value adjustment**	**Approx. gross portfolio weighting** (pre-adjustment)
Hudson County (NJ) Workforce	0.0%	23.2%
Hudson County (NJ) Premium	(4.8%)	24.8%
New York Premium	(5.5%)	52.0%

Incorporating these adjustments, the updated estimated 30 June 2020 pre-tax Net Asset Value (NAV) is $0.93, and post-tax NAV is $0.84 per unit. Similarly, the updated estimated pre-tax NAV at 31 July 2020 is $0.86, and $0.77 on a post-tax basis.

Please note that all results are subject to final audit by Deloitte. Assuming sufficient data points are available, the Fund will return to the prior asset-by-asset comparable sales valuation methodology for the 31 December 2020 reporting period.

While any fair value reduction is disappointing, we remain confident about New York's fundamental outlook for income and capital appreciation. New York City is the USA's most populous city, with more than twice the population of the next largest, Los Angeles. It is also the most densely populated city, and these physical characteristics, combined with its economic credentials, high rates of renters, and quality tenant base, underpin strong long term growth drivers for investors.

We believe the New York City area is well positioned to overcome the impact of the COVID-19 pandemic, just as the city has overcome past challenges such as the 9/11 attacks, the Global Financial Crisis, and Hurricane Sandy. In addition to a broad recovery, single family residential dwellings are likely to attract a growing number of families moving out of high-density apartment complexes who are attracted to the Fund's relatively low-density townhome assets which still offer close proximity to New York City. We expect this to be a tailwind for the single family residential industry, as residents are increasingly focused on privacy and the ability to socially distance from neighbours, while also adapting to extended periods of working from home.

We look forward to sharing additional information with investors once the audit process has been completed, with the Fund's final audited results to be released on 31 August.

If you have any questions prior to the release of the Half Year Accounts and Quarterly Report, please contact our Investor Relations team at URFInvestorRelations@usmrpf.com.

Authorised for release by Walsh & Company Investments Limited (ACN 152 367 649 | AFSL 410 433), the responsible entity of the Fund. The historical performance is not a guarantee of the future performance of the Portfolio or the Fund.

Source data and references:

[i] Based on change in sales volume across Brooklyn, Manhattan and Queens; https://www.elliman.com/corporate-resources/market-reports
[ii] www.elliman.com/resources/siteresources/commonresources/static%20pages/images/corporate-resources/q2_2020/losangeles-q2_2020.pdf
[iii] www.illinoisrealtors.org/marketstats/
[iv] www.har.com/content/mls/?m=5&y=20
[v] www.valleywidehomes.com/phoenix-homes-sales/#TableZ1
[vi] app2.msci.com/eqb/reit/indexperf/asof/20200630.html
[vii] www-curbed-com.cdn.ampproject.org/c/s/www.curbed.com/platform/amp/2020/8/5/21354200/nyc-real-estate-manhattan-home-prices