ALE PROPERTY GROUP

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Property Valuations as at 30 June 2014

Highlights

- In a strengthening but discerning market, ALE's 86 properties increased in value by 5.1% to around $822 million

- Independent valuers this year again assumed that a 10% increase in market rent reviews would apply, mostly in 2018, to each of the 31 properties they assessed

- Weighted average capitalisation rate reduced from 6.59% to 6.42%

- ALE's capitalisation rates have moved within a narrow range over the past eight years reaffirming the stability of the properties' valuations

- ALE continues to enjoy the strength of unique and favourable lease arrangements

- Valuations exclude any premium or discount that may be obtained from a valuation on a portfolio basis.

Property Valuations

Listed property trust and management company, ALE Property Group (ASX code: LEP) today announced it had formally reassessed the valuations of its 86 properties as at 30 June 2014 to $821.68 million. This is an increase of $22.99 million over the half-year since 31 December 2013 and an increase of $40.18 million or 5.14% over the year since 30 June 2013.

ALE's reassessment of the carrying value of its properties was based upon independent valuations on 31 properties by CBRE, Urbis and Colliers. ALE's weighted average capitalisation rate reduced from 6.59% to 6.42%.

It was particularly noteworthy that each of the independent valuers this year again assumed that a 10% increase in the near term market rent reviews (mostly 2018) would apply to each of the 31 properties' and included that in the discounted cash flow based valuations undertaken.

Directors' valuations of the remaining 55 properties (also independently valued over the previous two years) are supported by advice from the valuers that it is reasonable to apply the same percentage movement in the weighted average capitalisation rates, on a state by state basis, that the valuers determined would apply to the 31 properties they independently valued at 30 June 2014.

The valuers provided the following notable perspectives on the valuations and property markets:

- a tightening of capitalisation rates was broadly due to a stronger property market and the continuation of a relatively low interest rate regime, where passive investment opportunities are actively sought and demand typically exceeds supply. It was also noted that gaming venue trading profitability in Victoria had increased, as a consequence of that State's gaming regulations;

- investor appetite had increased for secure long term investments to single tenants. This was particularly the case in terms of the strength of demand from individuals, syndicators and property trusts for properties with tenancies to Woolworths and Wesfarmers (Bunnings & Coles);

- transaction activity had increased for freehold pub properties leased to national operators, notwithstanding that many were in regional locations or subject to lower quality lease covenants that do not benefit from market rent review potential upside in 2018;

- low volumes of sales of directly comparable properties with ALE / ALH style leases were noted. As in prior years, comparable sales evidence included properties other than pubs where leases to high quality tenants on long term leases applied. Increased sales activity in all property classes was also evident; and

- significant evidence remained for continuing demand from individual private investors for lower value and higher quality commercial properties in the Australian market.

All independent and Directors' valuations of the individual properties exclude any premium or discount that may be obtained from a valuation on a portfolio basis.

Valuation Analysis

This table provides a state by state analysis of the changes in property values during the year:

($ Million) State	Property Numbers	Current Net Rent(a)	Weighted Average Cap Rate	Valuations at June 2014(b)	Changes Since June 2013	Current Average Value
NSW	10	$7.47	6.56%	**$113.87**	$3.24	$11.38
QLD	32	$15.26	6.33%	**$240.94**	$8.30	$7.53
SA	7	$2.19	6.52%	**$33.64**	$1.58	$4.81
VIC	33	$26.02	6.41%	**$405.97**	$26.07	$12.30
WA	4	$1.84	6.75%	**$27.26**	$0.99	$6.81
Totals(c)	86	$52.78	**6.42%**	**$821.68**	$40.18	$9.55

a) Net Rent is based upon the current Queensland land tax assessed values at the single holder rate
b) Rounding differences occur due to individual property valuations being rounded to the nearest $10,000
c) Based on 86 continuing properties. Excludes Victoria Hotel, Shepparton, Victoria that sold for $4.5m during the year at a capitalisation rate of 6.35%

The contributions to the full year increase in valuations of $40.18 million are increases derived from:

- annual CPI rent increases: $18.75 million;
- capitalisation rate reductions: $20.50 million; and
- Queensland land tax reductions: $ 0.93 million.

Valuation Stability

The following table provides a summary of the year end capitalisation rates since 30 June 2007:

As at 30 June	Average ALE Capitalisation Rate
2007	6.07%
2008	6.27%
2009	6.45%
2010	6.60%
2011	6.44%
2012	6.57%
2013	6.59%
2014	6.42%

Notwithstanding volatility in other parts of the property and capital markets over the past eight years, ALE's average capitalisation rates have been very stable. This reaffirms the quality of ALE's properties and the wide investor appeal that the higher quality and lower individual value sector of the commercial property market continues to enjoy.

ALE's Unique and Favourable Lease Arrangements

In arriving at their assessments, all of the valuers paid due regard to the strength of ALE's unique and favourable lease arrangements. The particular terms of the leases that were noted as positive and unique included:

- Essentially triple net leases – for 84 of the 86 properties;

- Long term leases - weighted average lease expiry profile of around 14 years;

- Near term market rent reviews – next in 2018 for 79 of the 86 properties.

  The significant amounts of capital expenditure that ALH has funded at the properties and the positive impact that is expected to continue to have on ALH's operating profitability at the properties was noted. The discounted cash flow based analysis by the valuers for all 31 of the properties assessed at June 2014 assumed a 10% increase for the near term market rent reviews. The actual outcome will be a matter for the valuers to assess at the time of the market rent reviews;

- Strong assignment protections – following ALE approved assignments, ALE continues to enjoy the benefit of an effective guarantee from ALH of any new tenant's obligations for the remaining lease term of around 14 years, as ALH is not released on assignment; and

- Strong operating profit protections – subject to regulatory changes and requirements, ALH have provided undertakings that they will not reduce the number of gaming entitlements below 90% of the current numbers across ALE's properties.

The valuers finally noted that other ALH leases available to investors in the pub property market may not have the benefit of all the above positive attributes.

We again bring to stapled securityholders' attention the portfolio valuation analysis announced by ALE in November 2013.

- Ends –

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