



US Residential Fund

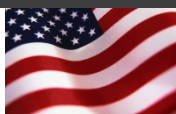
September 2015



US Residential
Fund

US Residential Fund

About the Fund	<ul style="list-style-type: none">• Simple, transparent, ASX listed stapled security offering exposure to US residential rental market• Listed on ASX in February 2015<ul style="list-style-type: none">– 13.37 million USR stapled securities and 13.81 million USRO options
Strategy	<ul style="list-style-type: none">• Provide investors with opportunity to capitalise on rising demand for rental accommodation in the United States• Targeting returns from 3 key areas:<ul style="list-style-type: none">– Rental income from the portfolio of 145 single family homes– Strategic repositioning and upgrade of single family homes for potential re-sale– Diversifying into apartment complexes
Current Portfolio	<ul style="list-style-type: none">• Portfolio of 145 single family homes valued at AUD 20.5m<ul style="list-style-type: none">– These single family homes have generated average gross returns of 10.7% pa• Five homes purchased for strategic repositioning – 1 completed• Diluted earnings for half year of 7.14 cents per stapled security
Benchmark	<ul style="list-style-type: none">• Targeting<ul style="list-style-type: none">– Total return 10% - 12% p.a.– Distribution 6c to 8c per annum
Distributions	<ul style="list-style-type: none">• Half yearly
Currency	<ul style="list-style-type: none">• Currently unhedged
Management	<ul style="list-style-type: none">• Hands on US residential experience,<ul style="list-style-type: none">– In the US property market since 2010



Overview of Fund

NTA:

- At listing \$1.01
- 30 June 2015 \$0.97*
- 31 August 2015 \$1.03**

Benchmarks for Manager:

Total return 10% - 12% p.a

Distribution:

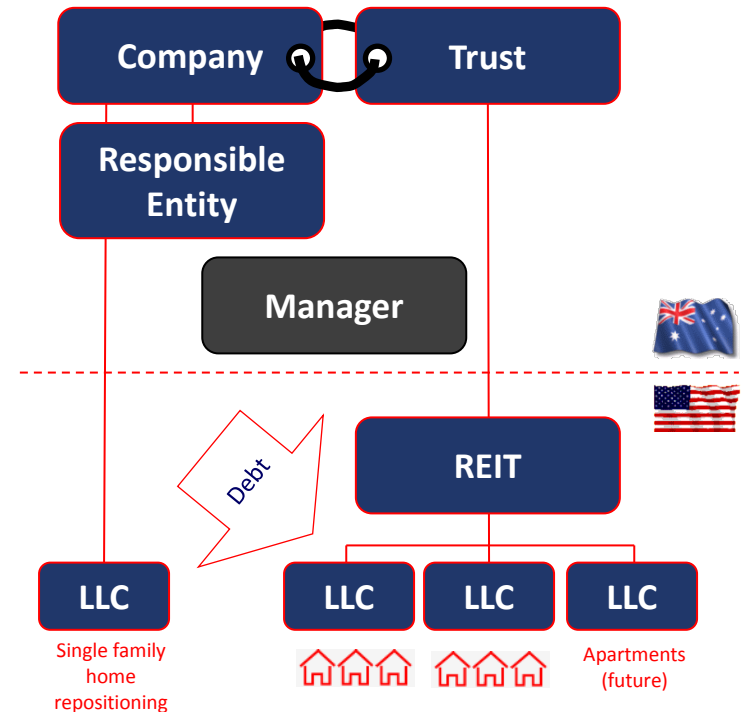
- Distribution 2.3 cents
- 7.55% pa at current price

Structure:

- Tax efficient (no US filing by investors)
- Asset protection

Look-through gearing:

- 50% - 60%
- USD to match asset values



*The funds NTA per stapled security as shown in the interim financial statements at 30 June 2015 of A\$0.9663 reflects impact of movements in the exchange rate of 0.7731 as at listing date to 0.7680 as at 30 June 2015, offset by taxation provisioning required under Australian Accounting Standards and provision of distribution of 2.3 cents per stapled security. **At the current exchange rate of 0.7168 the comparable NTA per stapled security would be approximately \$1.03. Note: Liability Company (LLC) is a form of US business organisation with the liability-shield advantages of a corporation and the flexibility and tax pass-through advantages of a partnership. An LLC is formed in the state in which it operates. An LLC may also be registered to do business in another state

Strategy

Three strands of US residential investment

Residential property portfolio

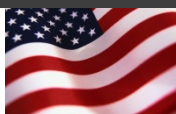
- Rental income from the portfolio of 145 single family homes
 - Driving management efficiencies across portfolio
 - Recycling capital into other strands of the strategy
 - Recently sold 16 residential properties in Atlanta, at 7% above book value
 - Paid down USD 1.24 m in debt
 - Released 12 homes from debt pool

Strategic repositioning

- Strategic repositioning and upgrade of single family homes for potential re-sale
 - Underway via a JV wholesale fund, structure USR controlled
 - 5 properties acquired to date – one already listed for resale

Apartments

- Diversifying into apartment complexes
 - Commercial property
 - Scalable
 - Professional onside management
 - Deep liquidity
 - Consistent yields
 - Australian institutions already in market, AMP, Future Fund, REST Super



Residential property portfolio



Locations

- Texas: Houston
- Texas: Dallas
- Georgia: Atlanta
- Ohio: Cleveland

GA and TX above US average

- GDP growth
- Job growth
- Population and household growth

Single Family Houses in Portfolio

145

Portfolio Valuation

AUD 20.5m

(as at June 30, 2015)

Net Rental Yield

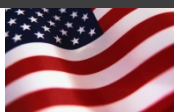
7.0%pa

(from Feb 10 to June 30, 2015, excluding debt & before Fund fees and costs)

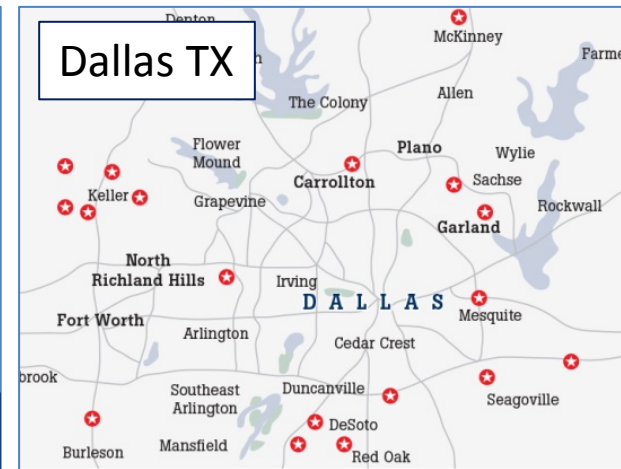
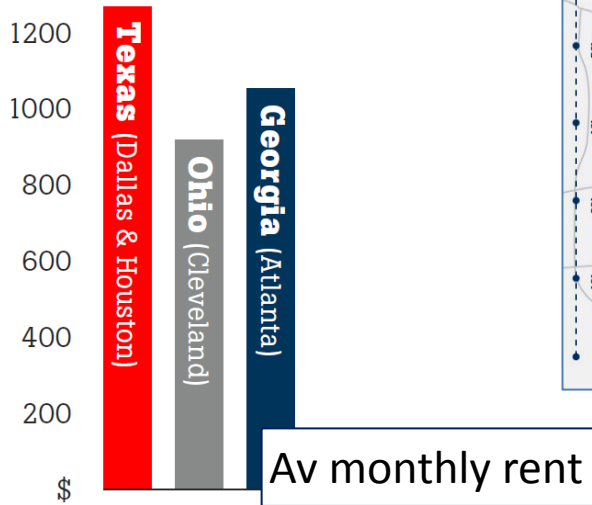
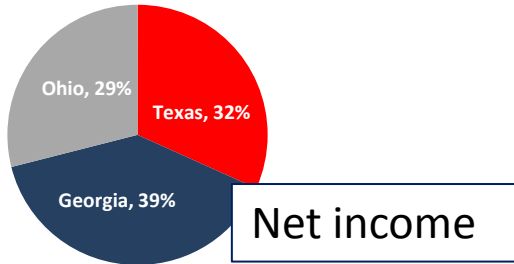
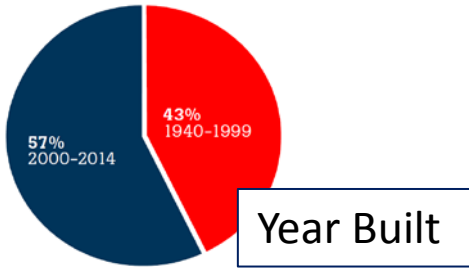
Gross Rent Roll

\$911k

(from Feb 10 to June 30, 2015)



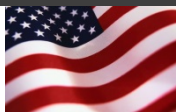
Residential property portfolio



Developments since listing

Progressing all aspects of the strategy

- **Achieving operational efficiencies**
 - Engaged national maintenance group
 - Provide integrated field services and property claims to the fund assets
 - Our asset management team has co-located with the maintenance group
- **Recycling capital from mature assets**
 - Some assets in Georgia are experiencing strong sales demand
 - Seek to sell these down, with a view to recycle the capital into apartment and repositioning strategies
- **Single home repositioning strategy**
 - Established JV
 - Acquired initial assets
 - Expect returns on equity 12%+
- **Reviewing apartment complex opportunities**



Single family home repositioning strategy

Enhancing yield by.....

- Renovating and resell for profit
- Partner with rehab service providers
- Capital recycled & yield enhanced

... created a repositioning JV...

- Co investor contributing 3rd of capital
- Co investor arranged debt
- We manage project and payments

... 5 homes purchased for repositioning, 1 completed

- Purchase of 5 Dallas based properties for the purpose of refurbishment and re-sale
- 1 property, Goodfellow completed and listed for sale

... incremental target return

- 12% + from these transactions

The initial assets purchased in May



3054 Ponder Place

Acquisition costs

\$257,500

Rehabilitation costs

\$30,000

Return on cash (circa)

12%+



1545 Driftwood Drive

Acquisition costs

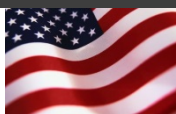
\$153,500

Rehabilitation costs

\$30,000

Return on cash (circa)

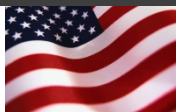
12%+



The next phase: Apartment complexes

Multifamily complexes:

- 7.0+% net income yield
- Purpose built for rental – on one title
- A commercial property asset class
- On-site management
- Often include a resort style clubhouse, a pool, gym
- Landscaped grounds
- IRR circa 12% - 15%



Apartment complexes

Market is large:

- Estimated more than 16m complexes
- Upwards of \$75 billion trading each year
- New supply met by demand
- Slowing completions of new stock
- Rental growth 5.9% pa over last 12 months

The Fund will target complexes:

- With 50+ apartments, prefer 200+
- In preferred locations – south and south west
- Acquisition price range \$5m to \$30m

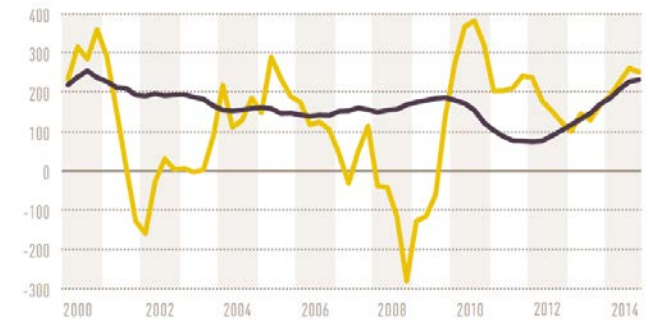
Use debt to enhance return:

- Favourable long term fixed rate debt
- 10 year debt 4.61% pa – 30 year amortisation
- Debt is transferrable

“demand for rental housing over the next 15 years will dramatically increase—and we as a nation are not prepared” Urban Institute June 2015

Apartment Supply and Demand Continue to Rise in Tandem

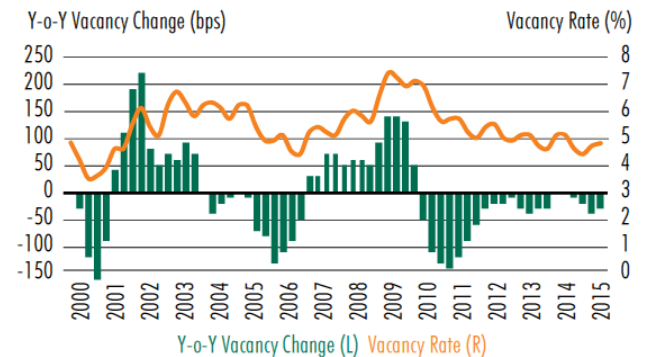
Annual Change (Thousands)



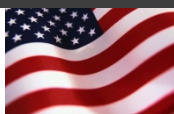
● Change in Occupied Units ● Completions of New Units

Note: Data are for investment-grade multifamily properties.
Source: JCHS tabulations of MFF Research data.

Multifamily Vacancy Rate for Major Markets



Source: CBRE Econometric Advisors, Q1 2015.



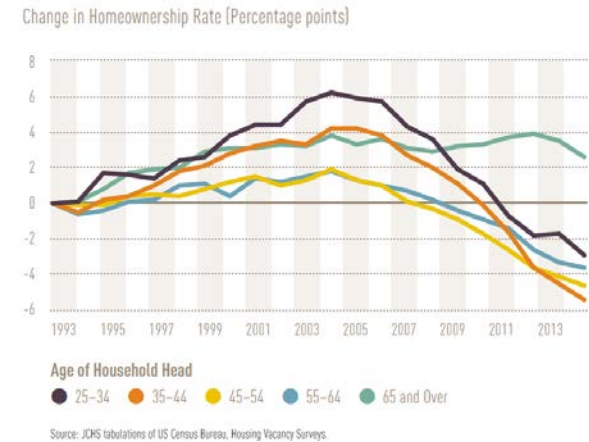
Demographics

Home ownership continues to fall:

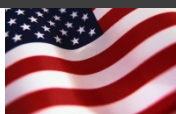
- Number of households renting grew at average of 770,000 pa since 2004
- 107 million rental residents
- 42% live in apartments
- 35% live in family homes
- 4% live in mobile homes

Student loans:

- 19% of 20-39 aged renters have repayments = to 14% of income



"Rental growth is likely to remain strong as members of the huge millennial population enter the housing market." Urban Institute June 2015





**Large
USR target
market**
77,000 complexes with
50 apartments or more



How it works

Apartment complex examples

- Complex are commercial property
- Rated A to D
- Returns – Net operating income

A - Atlanta	B - Atlanta	C - Atlanta
6.50%	7.00%	7.75%

- Borrowing rate 4.61%, 10 years, interest only 5 years, LTV 80%
- The difference between LTV (USA) and LVR (Australia) is important, see explanatory note on slide 18
- Complexes come in vertical and garden style



How it works

Vertical – High and Mid Rise



Video <https://www.youtube.com/watch?v=J2crkkAHcZ8>

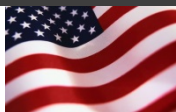
- A Grade
- 35 floor – 300 Apartments
- USD 160m
- Los Angeles California
- Located near Staples Center & LA Live, downtown
- Tenant
 - Disney Center staff
 - US Bank employees
 - PWC
 - Entertainers – Demi Lavarto
 - America’s top model films there. Penthouses vacant for filming
 - 1 bedroom \$3088 per month

Garden Style



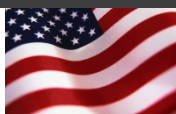
Video <http://www.forrent.com/apartment-community-profile/1043397.php>

- B Grade
- 168 Apartments
- USD 7m
- Dallas Texas
- Located near Dallas Fort Worth Airport
- Tenants
 - American Airlines staff
 - American Eagle pilots
 - Military
 - Hospital staff – nurses
 - Bell Helicopter employees
 - 1 bedroom \$630 per month

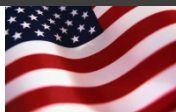


Summary

- Current portfolio reduced to 145 single family homes generating rental income
 - 16 homes sold down at above book value in last quarter
 - Proceeds recycled to reduce debt and into other elements of the strategy
- Incremental growth from single family home repositioning strategy targeting 12% + returns on these transactions
- Reviewing apartment complex opportunities
- Strengthening US residential property markets provides a favourable outlook
 - Underpinned by strong property fundamentals



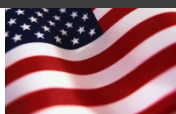
Appendix



What are apartments ?

US multifamily – “5 or more apartments on one title”

- \$2.0 Trillion market making up 25% of all US commercial property income
- Over 77,000 apartment complexes with more than 50 doors
- Over 100 million American's live in rental properties with over 50 Million living in apartments
- Currently occupancy rates are high (Avg 96%) and rents are continuing to increase
- There is the ability to lock in record low long-term debt, which increases cash flow to equity
- US population is growing and the slowing of building starts during the GFC has created supply constraints
- Popular asset class on the crowd funding platforms
- Institutional grade investment with sophisticated management systems
- Very fragmented market with listed REITS owning less then 10%



Securitisation - loans

In the US the vast majority of loans for apartment complexes are securitised

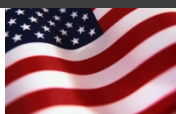
Therefore their structure is different from loans in Australia

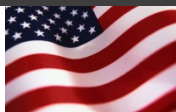
Key area's of difference

- Loan to Valuation Ratio's (LVR) in the Australian context are NOT the same as US Loan To Valuation ratio's(LTV)
- LTV's are a risk tool used by US lenders at loan establishment date
- Unlike Australia LTV's are NOT revisited until maturity
- This means in a market downturn the lender can not request a revaluation
- Lenders are Income Ratio Focused
- This means they will not lend unless current cash flow supports interest after expenses
- Fixed term rates are fixed and not subject to resets due to economic circumstances
- Lenders are very reluctant to take possession if breaches occur – they prefer workouts
- Lenders expect higher LTV's than we typically see in Australia

Downside

- Paying out loans early has a break fee
- Sourcing low LTV loans is uncommercial for USR and the lenders





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