



**US Masters
Residential
Property Fund**



Fund Update & Capital Raising

November 2012

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Tropical Storm Sandy update

- On 29 October 2012, Tropical Storm Sandy impacted the New York metropolitan area
- Majority of Fund's portfolio suffered **minor or no damage**
 - cosmetic wind-based damage and water damage to a small number of properties
- Near-term operational focus on clean-up and repairs
- **Estimated clean-up bill not expected to have material effect on NAV** given limited damage
- **Estimated gross repair bill of US\$430,000** before insurance claims and government relief

Tropical Storm Sandy update — multi-dwelling properties

Urban American JV

13 apartment buildings and 398 units:

- 4 apartments with window leaks
- 1 apartment building with a bent antenna

No issues in remaining buildings and apartments

Excelsior Equities JV

1 apartment building with 67 units closed:

- no issues

2nd apartment building (secured but not closed)

- external visual inspection suggests no obvious issues

Tropical Storm Sandy update — freestanding properties

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| | Estimated Cost (US\$) |
|---|-----------------------|
| Downtown water damage | \$110,000 |
| Bayonne water damage | \$160,000 |
| West Bergen, Hoboken and Jersey City water damage | \$70,000 |
| Wind-related storm damage | \$90,000 |
| TOTAL | \$430,000 |



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**Fund Update
Macro Outlook
Capital Raising**

November 2012

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Introduction



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Overview of US Masters Residential Property Fund (URF)

- First Australian-listed property trust **focused on the US residential property** market
- **c.\$165 million** raised since IPO in June 2011
- Initially targeting the **New York metropolitan region**
- Successfully secured **US\$165.4 million** of residential properties in Hudson County, NJ and also Brooklyn and Harlem, NY¹
- **Local expert staff, partners and high quality advisory board with fully scalable** operations, processes and proprietary technology
- **Easily tradable** structure, SMSF suitable
- **Minimum distribution of 10 cents per Unit** for 2012 and 2013

1. As at 31 October 2012

Macro Outlook



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Capitalising on an historic opportunity

- Most severe US housing downturn since the Great Depression has created a unique opportunity to acquire **high quality residential housing stock at attractive valuations**
- Current housing market dynamics **unsustainable**
 - monthly mortgage payments lower than rent for first time since 1981
 - mortgage rates at historic lows
 - housing starts at a 30-year low
 - population set to grow by 10% over coming decade

Capitalising on an historic opportunity

“...if I had a way of buying a couple hundred thousand single-family homes and had a way of managing [them] I would load up on them and I would...take mortgages out at very, very low rates.”

“...but management is enormous, [it] is really the problem because they're one by one. They're not like apartment houses.”

- Warren Buffett (CNBC, 27 February 2012)

Increased institutional interest

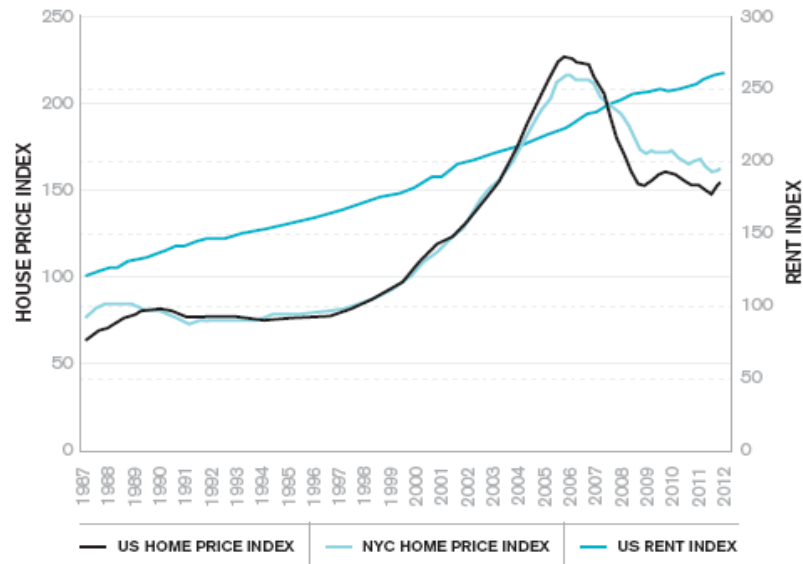
Validation of investment thesis and early entry

- While the Fund is unique for Australian investors, other high quality institutions are pursuing similar strategies
- Recent entry of key private equity players focused on bulk purchases of foreclosed homes:
 - Blackstone: est. 2012; 6,500 homes in AZ, SoCal
 - Waypoint: est. 2009, 2,400 homes in CA, AZ
 - Colony: est. 2012; 3,600 homes in CA, AZ, NV, TX, GA, CO
 - KKR: est. 2012; 200 homes in AZ, NV
- URF remains the only fund focused on the New York metropolitan area with a buy-and-hold approach

Valuations no longer stretched

Even as valuations collapsed, rents continued to rise...

- **Home prices have fallen**
 - down 36% from peaks
 - decline not seen since the Great Depression
 - appear to be stabilising
- **While rents continue to grow**
 - up 16% since 2006
 - only suffered modest flat-line between Feb 09 and Oct 10



Source: S&P / Case Shiller, US Federal Reserve

...significantly increasing yields to investors

Supply / demand dynamics shifting

Market is turning as housing supply shrinks and home starts bottom...

Existing Home Inventory (1992-2012)



Housing Starts: up 15% in September (43% up YOY)



Source: Bloomberg, US Census Bureau, National Association of Realtors

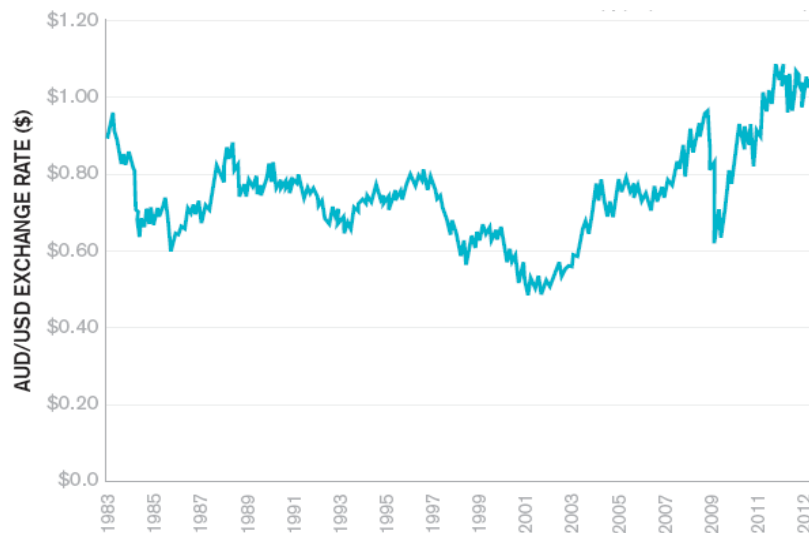
...and very supportive demographics: population to increase by 15 million between 2012 to 2017

Strong A\$

Opportunity to invest in US assets at time of strong A\$

- Australian dollar is facing significant headwinds
 - declining terms of trade
 - falling interest rates
 - strains from 'two speed' economy
- US dollar facing increasing tailwinds as economy recovers
 - cheap currency
 - cheap labour
 - cheap energy (shale gas)

AUD v USD Exchange Rate



Source: Bloomberg

New York metropolitan area

Initial focus on residential properties in Hudson County and more recently, Brooklyn and Harlem

- Solid economic base
- Deep and well-established housing stock, limited development sites
- Positive demographics
- Excellent access to mass transit and proximate distance to midtown and downtown Manhattan
- Attractive rental yields and/or potential for long-term capital growth



Portfolio Update



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Investment strategy

- Target properties with **attractive rental income and/or potential for long-term capital growth**
- **Mix of freestanding** properties (1 - 4 dwellings) and **multi-dwelling** properties (>4 units)
 - **diversity**: structural, geographic, tenant
 - **complementary**: segmented demand cohorts based on life cycle
- Initially focused on **Hudson County, Brooklyn and Harlem**
 - **easy access to Manhattan**, close proximity to public transportation, schools, shops and other public amenities

Overview of Hudson County

- Population of 634,266¹
- Smallest and densest county in New Jersey and 6th densest in the nation
- Deep rental market with low vacancy
- Substantial rental growth
- Diverse communities and housing stock
- Substantial opportunities created by downturn
- Fantastic commuting to Manhattan
- Under-researched & invested by larger players

1. United States Census Bureau, 2010



Overview of Brooklyn

- Population of 2,504,700¹
- Largest population of all New York City boroughs
- 44% of workers have local jobs the rest commute
- Commuting is excellent
- High density of housing stock
- Deep rental market with low vacancy
- Substantial rental growth
- Rapid gentrification – young workers and young families

1. United States Census Bureau, 2010



Overview of Harlem

- Population of approximately 350,000
- Part of Manhattan, the densest county in the USA and a county with a GDP as big as Australia's
- Excellent mass transport access to downtown Manhattan and 15 minutes to midtown on express subway line
- Columbia University expanding its campus
- Rapid gentrification – favourable shift in demographics with increase in young professionals and young families
- Excellent stock of historic brownstone and architecturally significant houses
- Significant long-term potential for capital growth



Highly attractive urban living

Coldwell Banker annual survey of best places to live in USA for urbanites...

Rankings based on:

- Public transport
- Restaurants
- Median income
- Safety
- College graduates
- Nightlife
- Trendiness
- Cultural activities
- Employment
- Accommodation

Target markets ranked among best places to live in US for urbanites

- #1: Manhattan
- #2: Hoboken
- #3: Brooklyn
- #13: Weehawken
- #15: Guttenberg
- #18: Jersey City
- #22: Secaucus
- #33: West New York



- Weehawken beat Cambridge, MA (home of Harvard, MIT)
- Guttenberg beat West Hollywood
- Jersey City beat Boston
- Secaucus beat Santa Monica, CA
- West NY beat Washington, D.C.

...target market leads the survey

Investment update

US\$165.4 million of properties secured³

| | NUMBER | | TOTAL ACQUISITION COST (US\$m) | AVERAGE COST PER UNIT (US\$) |
|--|------------|------------------|-----------------------------------|---------------------------------|
| | Properties | Units | | |
| FREESTANDING | | | | |
| Properties purchased | 277 | 626 | 76.6 | 122,500 |
| Conditional acceptances | 153 | 322 | 53.0 | 164,500 |
| Total Freestanding | 430 | 948 | 129.6 | 136,500 |
| MULTI-DWELLING | | | | |
| Urban American | 13 | 400 ¹ | 25.5 ² | 94,500 |
| Excelsior Equities | 2 | 128 ¹ | 10.3 ² | 89,000 |
| Total Multi-dwelling | 15 | 528 | 35.8² | 93,000 |
| TOTAL VALUE OF PROPERTIES SECURED | | 1,476 | 165.4³ | 121,000 |

1. Includes 8 commercial units

2. Net to the Fund

Includes estimated closing costs of properties yet to close

3. As at 31 October 2012

Multi-dwelling strategy

- 1 Focus on **small & medium sized multi-dwelling** properties
 - attractive niche market
 - below size threshold of larger institutions
 - beyond financial scope of individual investors or local groups
 - require specialised skills in management and construction
- 2 Apartment renovations and capital improvements directly **increase rental income**
- 3 Scale and operational efficiencies in leasing, construction and property management **reduce expenses**
- 4 **Highest quality JV partners – ‘no need to reinvent the wheel’**

Multi-dwelling JV partners

- **Urban American**

- owned and managed by the Eisenberg family
- 15 years of operations and over 12,000 units under management, headquartered in West NY
- JV agreement to manage 13 apartment buildings in Union City, West New York and North Bergen
- 398 units and 2 retail stores with total purchase price of US\$37.8 million
- the Fund has an equity interest of 67.5%

- **Excelsior Equities**

- owned and managed by Andrew Miller and Jacob Schulder
- newer entrants but highly skilled and experienced, very hands-on with the properties
- JV agreement to manage 2 apartment buildings in Union City
- 122 units and 6 retail stores with total purchase price of US\$11.4 million
- the Fund has an equity interest of 90%

Multi-dwelling portfolio overview

15 multi-dwelling apartment complexes acquired for US\$49.2 million

15 APARTMENT
COMPLEXES
TOTALLING
528 UNITS



HIGHLY
EXPERIENCED
US-BASED JOINT
VENTURE
PARTNERS

AVERAGE PRICE
PER UNIT OF
US\$93,000



Freestanding property strategy

Strategy

1

Identify properties worthy of inspection. Sources – New Jersey and New York multiple listing services, outside real estate agents & direct marketing

2

Crucially we are equipped to deal with: short sales; estate sales; divorce situations; and construction jobs

3

Send one of the five acquisition managers to the property

4

Analyst team creates financial model and enters information in to the proprietary database and values the property

5

Property is taken to Investment Committee. Investment Committee determines whether or not to pursue property

Comments

Still significant levels of supply. Only area that has competition is end user-ready product

Each of these non-standard sales situations result in significant value-add and deter many competitors

Full details of the property are gained, construction costs estimated, rents estimated and other relevant info

Team has in-depth knowledge of every type of property to accurately model

A Maximum Allowable Offer (MAO) may be granted

Freestanding property strategy

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| Strategy | Comments |
|---|---|
| 6 If property is pursued, the acquisition manager commences negotiations. They are rewarded based on transactions and beating the MAO | Over 1,500 properties inspected for 430 properties owned or under contract |
| 7 Due Diligence Commences: Legal, Title, Survey, Building Inspection, Environmental. Construction team also prepares scope | A significant number of properties do not make it through this process. Laws favourable to purchasers |
| 8 Property is closed | We close using 100% cash, which is a huge advantage |
| 9 Construction when required is quickly commenced unless architectural drawings are required | Construction team has huge experience and creates massive value add |
| 10 Rental income is maximised. Use of both internal and external leasing agents. Internal and external websites are used | Comprehensive tenant screening is available and conducted. Far better than Australia |

Freestanding property strategy

Strategy

Comments

11

Maintenance Costs are minimised. Use of both internal and external resources

Property Management team is focused on timely service but keeping costs under control

12

Property security is kept high and tenants are regularly inspected

The use of law enforcement officers has been highly effective

13

Conservative leverage is added to the portfolio. 50% mortgages are cheap and have a large margin of safety

Leverage will be particularly important if higher inflation occurs in the future

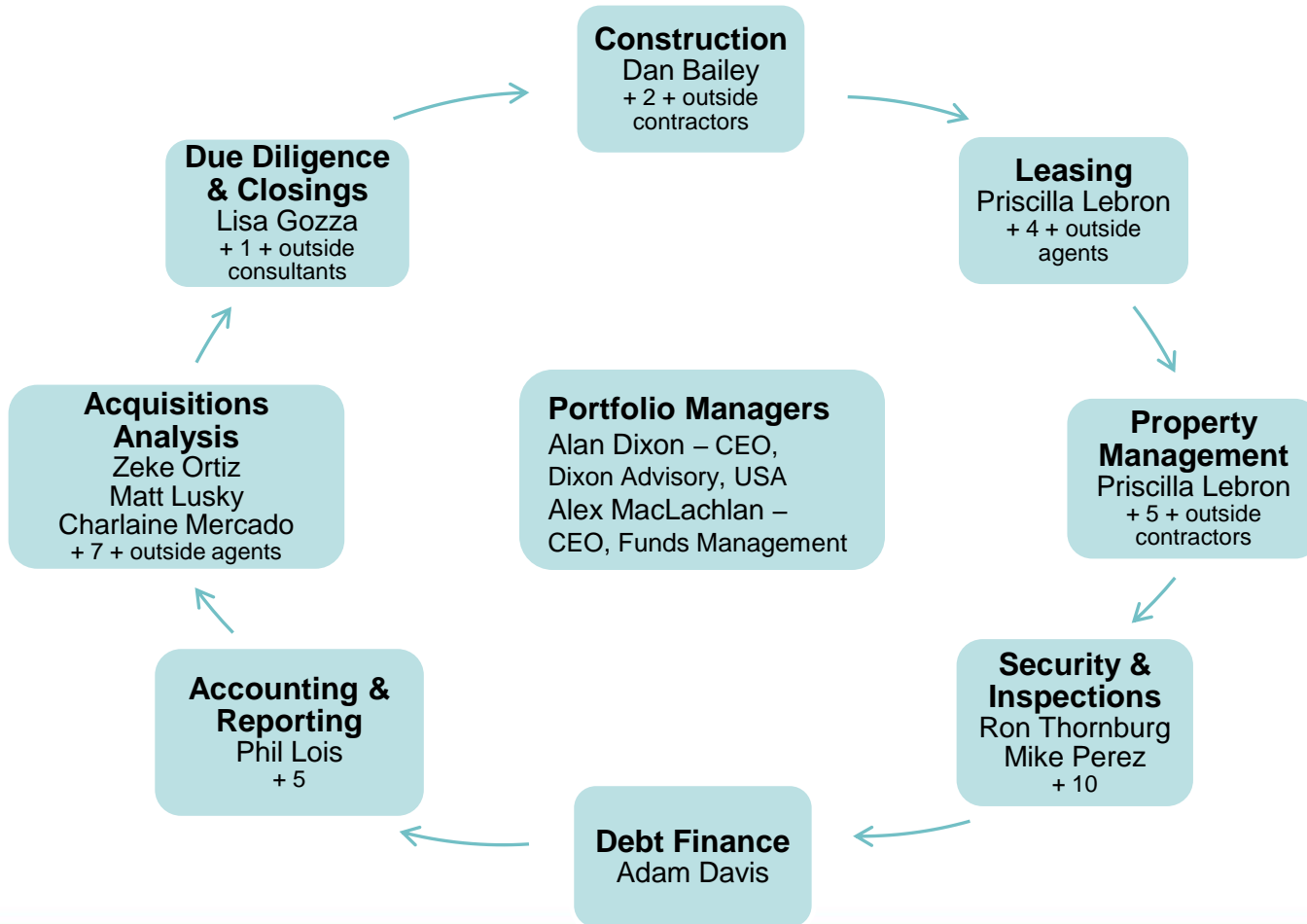
14

Accurate record keeping and assessment of performance to models

Finance team of the highest calibre

This complete lifecycle approach is designed to enhance returns to investors

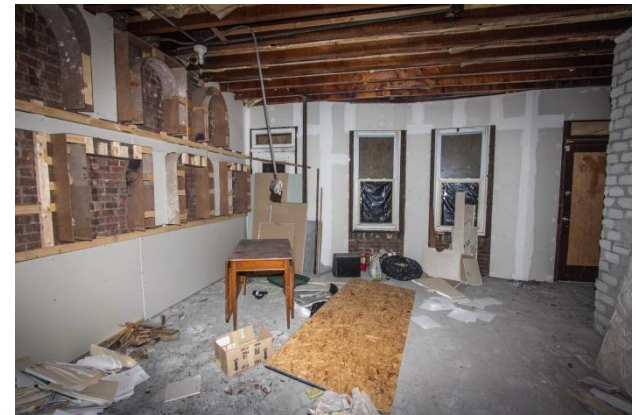
Complete property lifecycle management



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In-house construction capability

- Led by Dan Bailey, Head of Construction
- In-house construction specialists supported by external contractors
- Standardised rehabilitation work (painting, flooring, appliances) minimises costs and offers scale benefits
- Market mispricing for refurbishment properties even after construction costs
 - refurbishment properties are harder to finance and take time and effort



19 HARTLEY PL, BAYONNE

Region

Bayonne

Property type

1-family detached

Apartment type

2 bedroom / 1 bathroom

Price paid

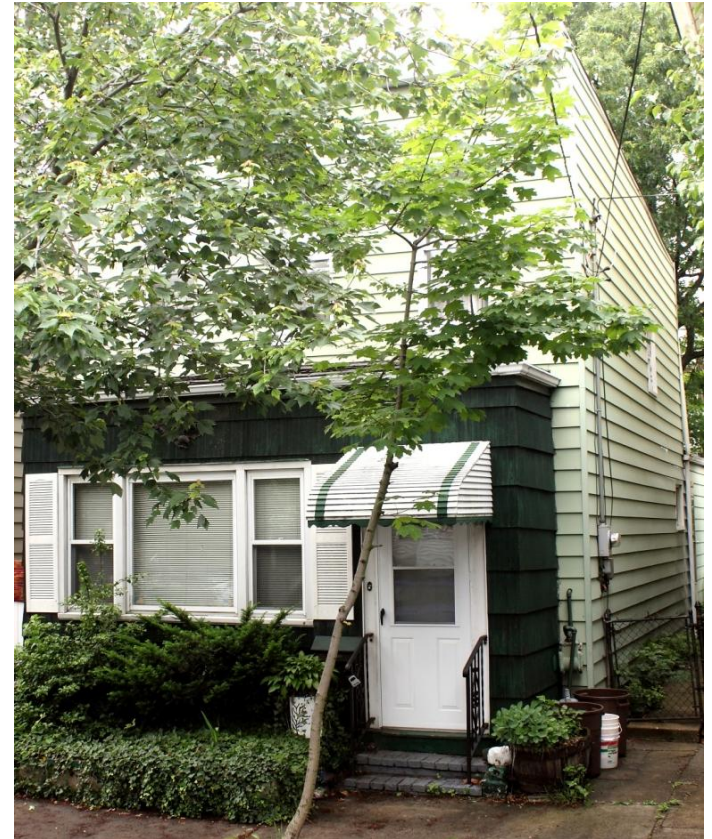
US\$137,000

Renovation cost

US\$30,000

Total acquisition cost

US\$172,895



Before – estate sale in poor condition

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After – attractive single family home



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Before – estate sale in poor condition



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After – attractive single family home



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Before – estate sale in poor condition

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After – attractive single family home



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19 HARTLEY PL, BAYONNE

Total acquisition cost

US\$172,895

Appraised price

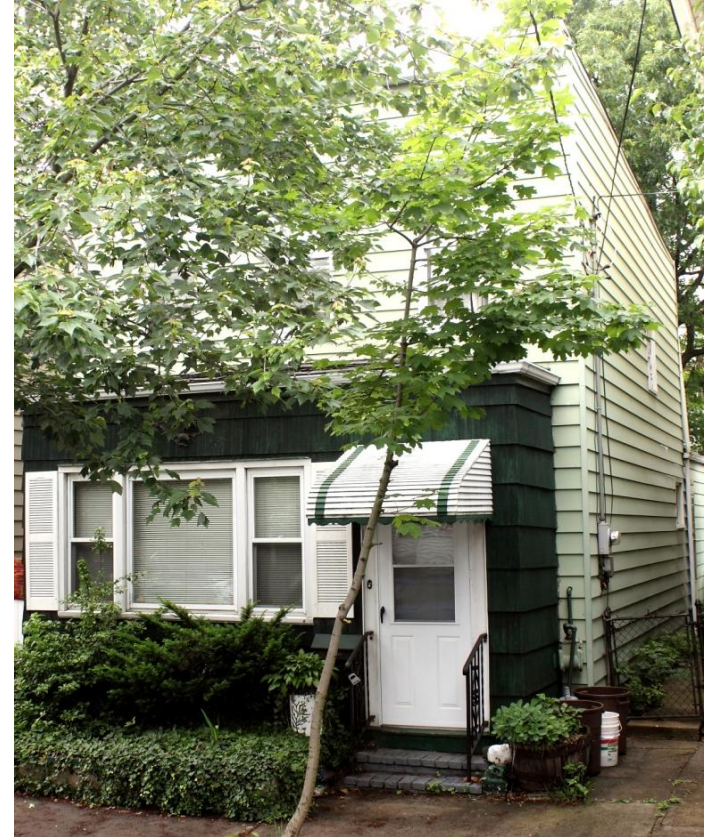
US\$195,000

% Change

12.8%

Estimated net yield

5.2%



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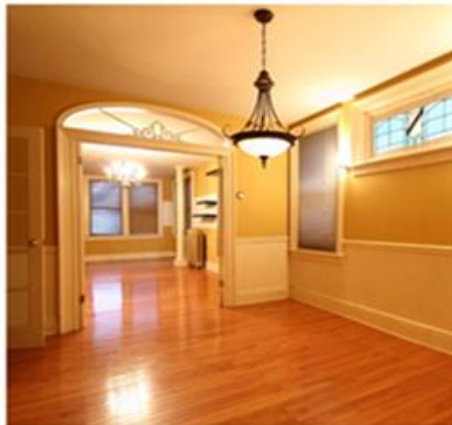
Freestanding portfolio overview

430 freestanding properties secured for
US\$129.6 million

430 ONE-TO-FOUR FAMILY PROPERTIES TOTALLING 948 UNITS



AVERAGE PRICE PER HOUSE OF US\$301,000



ALL LOCATED WITHIN EASY ACCESS TO PUBLIC TRANSPORT TO MANHATTAN



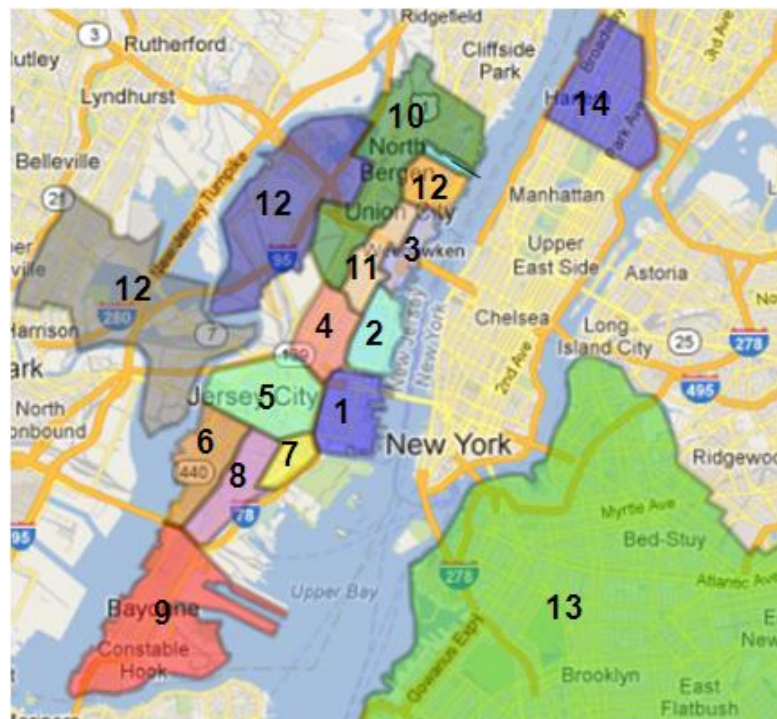
Independent freestanding portfolio appraisal currently underway
Initial appraisals up by 8-10%

Freestanding investment locations

Investments largely focused in Jersey City

| | Area | % of Portfolio ² | No. of Houses | No. of Units | \$(m) |
|----|--------------------------------|-----------------------------|---------------|--------------|----------------|
| 1 | Downtown (Jersey City) | 28% | 47 | 114 | \$35.8 |
| 2 | Hoboken | 7% | 8 | 19 | \$8.2 |
| 3 | Weehawken | 4% | 8 | 16 | \$5.5 |
| 4 | Heights (Jersey City) | 10% | 53 | 123 | \$13.1 |
| 5 | Journal Square (Jersey City) | 7% | 43 | 96 | \$9.1 |
| 6 | West Bergen (Jersey City) | 10% | 66 | 134 | \$12.4 |
| 7 | Bergen-Lafayette (Jersey City) | 3% | 17 | 40 | \$3.3 |
| 8 | Greenville (Jersey City) | 11% | 78 | 175 | \$13.9 |
| 9 | Bayonne | 13% | 79 | 159 | \$17.0 |
| 10 | North Bergen | 2% | 9 | 18 | \$2.0 |
| 11 | Union City | 2% | 9 | 23 | \$2.4 |
| 12 | Other Hudson County | 1% | 9 | 17 | \$2.0 |
| 13 | Brooklyn | 2% | 2 | 6 | \$2.3 |
| 14 | Harlem | 2% | 2 | 8 | \$2.6 |
| | TOTAL | 100% | 430 | 948 | \$129.6 |

1. As at 31 October 2012
2. By value



Debt financing

Targeting gearing ratio of c.50%

Freestanding properties

Tender process, short-listed several regional relationship banks

Tranche 1: US\$3 million, 10-year loan, 3.99% fixed for 5 years against 32 properties (50% gearing)

Tranche 2: US\$3.2 million, 10-year loan, 3.75% fixed for 5 years against 31 properties (c. 50% gearing)

Strategy to put in place successive tranches of debt secured against properties

Multi-dwelling properties

Urban American JV: US\$23 million, 7-year term, 3.42% fixed rate, 61% LTV (closed)

Excelsior Equities JV: US\$8.4 million, 10-year term, 3.63% fixed, 75% LTV (agreed)

Multi-dwelling properties support larger, cheaper financing than freestanding as more 'traditional' strategy

Capital Raising



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Purpose of the Offer

- Take advantage of unique opportunity in US housing as market conditions show signs of improvement
 - Attractive valuations for high quality housing while rents are rising
 - Capital growth potential
 - Attractive rental income and rental yield for investors
- Opportune time to raise more funds to gather scale
 - Maximise efficiency and take advantage of cost benefits
- Larger fund will have greater trading liquidity

Offer details and key dates

Opening Date

12 Nov 2012

Offer Closing Date

6 Dec 2012

Announcement of Offer Price

10 Dec 2012

Offer Allotment Date

11 Dec 2012

Despatch of holding statements

12 Dec 2012

Trading of Units to commence

17 Dec 2012

Offer size (if no oversubscriptions)

\$40,000,000

Maximum Offer Size (if all oversubscriptions
taken up, up to maximum of 52,349,290 Units)

\$80,000,000

Appendix



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Buy vs. rent

No other asset can secure such favourable financing...

- Mortgage financing extremely attractive
 - Long-term fixed rates
 - 30-year 3.36% (record low); 15-year 2.66% (record low)
 - Non-recourse, no prepayment penalties, tax deductible interest
- Cheaper to buy vs. rent
 - After modest down payment, monthly after-tax ownership cost at or below monthly rental payments
 - Workforce (Journal Square, Heights, Bayonne): conventional mortgage halves monthly payments
 - Premium (Downtown, Hoboken, Weehawken): conventional mortgage generally modest discount, at worst equal

Buy vs. rent

Greenville / West Bergen case study

Rent

vs

Own

- Pay **US\$1,250 per month** (annual rent increase)
- **No tax deduction**

- Purchase **2-family home for US\$215,000** using FHA loan (3.5% equity deposit)
- **Live in 1 dwelling and rent out other dwelling** for US\$1,250 per month (annual rent increase)
- **Tax deduction available**

MONTHLY COST OF OWNERSHIP (US\$)

| | |
|-------------------|-----|
| Property Expenses | 400 |
|-------------------|-----|

| | |
|----------------|-----|
| Property Taxes | 480 |
|----------------|-----|

| | |
|--------------------|-----|
| Mortgage Insurance | 215 |
|--------------------|-----|

| | |
|-----------------------|--------------|
| Total Expenses | 1,095 |
|-----------------------|--------------|

| | |
|---------------|-------|
| Rental Income | 1,250 |
|---------------|-------|

| | |
|---------------|------------|
| Profit | 155 |
|---------------|------------|

| | |
|------------------|-----|
| Mortgage payment | 930 |
|------------------|-----|

| | |
|-------------------|------------|
| Total cost | 775 |
|-------------------|------------|

Buy vs. rent

...if you can qualify

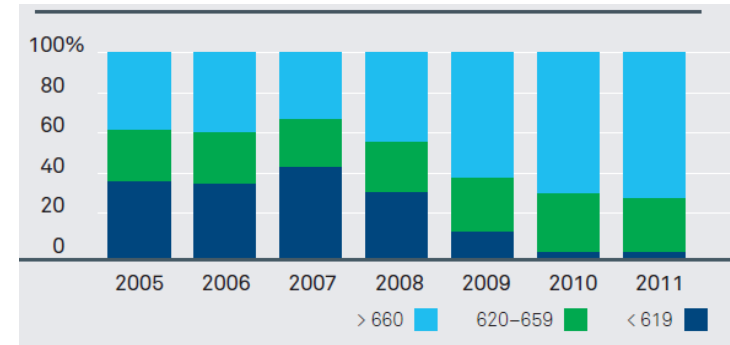
- Banks have tightened mortgage standards
 - Bigger down payments
 - Tougher appraisal standards
 - Higher credit scores
- Drop in mortgage applications despite record low rates
- What drives market is not how cheap it is, but how easy it is to get mortgage
- New York metro has wage earners that will be first to come back

WILLINGNESS TO LEND



Source: ISI and Federal Reserve

FHA FIRST-TIME CREDIT SCORES



Source: HUD and FHA