

ASX Announcement

US Residential Fund (ASX: USR)

31 May 2016

First Multifamily Apartment Complex Completes Due Diligence

The directors of US Residential Fund (“USR” or “the Fund”) are pleased to announce that following the completion of extensive physical due diligence, it will now move to contract on the US\$22 million multifamily residential apartment complex, Patriot’s Pointe, in North Carolina.

Patriot’s Pointe is to be acquired on a projected first-year capitalisation rate of 7.3%.

The Fund anticipates controlling approximately 74% of the contributed equity and plans to manage Patriot’s Pointe alongside its local partner. It is USR’s intention to sell down the majority of its equity position through a property syndication offer to third party investors.

The property syndication offer will enable the company to earn fee income in excess of income returns delivered through passive property investment. It will also enable the Fund to recycle its capital into its next multifamily property investment, with the intention of generating increased fee income while diversifying its portfolio of US residential assets.

Based on USR’s preliminary analysis, Patriot’s Pointe syndicate members can expect to receive a cash distribution of between 7.2% and 7.5% in the first year. The property currently has a very attractive HUD (US Department of Housing and Urban Development) loan of US\$13.2m that has over 30 years to run at a low fixed interest rate of 3.64% (including insurance). This low interest rate enables the property to produce a return on equity above 10% before depreciation and loan principal repayments.



USR Managing Director Andrew Meakin said: "*In a global environment of low interest rates, we believe the yield on Patriot's Pointe will be attractive to investors, while the capital growth potential in the multifamily property segment is also strong. Average total returns to investors in the syndicate are anticipated to be in the vicinity of 12% to 15% per annum over a five-year period.*"

Syndicated participation in Patriot' Pointe is expected to be offered through a Private Placement Memorandum issued in the United States but available to accredited investors globally. This syndication offer document is currently being prepared and discussions are being held with online syndication platforms, which will augment traditional syndication fundraising strategies.

Mr Meakin said: "*Non-US investors (mostly institutional) invested over US\$16 billion into multifamily residential apartment complexes in 2015. This exciting asset class is a great hedge against inflation, with rents increasing most years and no large single tenant risk.*

"USR is rolling out a program where investors, both US and Non-US, can benefit from co-investing with a listed REIT, which has extensive due diligence and oversight processes. This will be a first for Australian investors. Additionally our syndication structure is tax efficient for Non-US investors whilst still attractive for US investors."

As Patriot's Pointe is USR's first US multifamily apartment transaction, the Fund has teamed up with a highly regarded local partner and will share fees and profit on the syndication. It is anticipated that USR will earn around US\$1 million over a five-year period, subject to internalising the Nimble management rights and syndication business as announced 17 February 2016.

In future USR will seek to do similar deals where they are the sole recipient of the fees and profit share. Based on that scenario, fees and profit share flowing to USR would be closer to US\$2.3 million over five years on a similar type of asset. Fees and profit share could be significantly higher if the property required renovation or was of a larger size.

"We are currently looking at several other properties with low interest fixed term HUD loans already in place, and aim to secure an additional property before the end of the year," Mr Meakin said.

"This is an exciting period for USR and we believe we can significantly increase shareholder value by augmenting USR's current property income with fee income, internalising the management and pursuing the syndication model."



About Patriot's Pointe

The complex enjoys the benefits associated with an onsite management team covering administration, leasing and maintenance.

Property Highlights

- A grade asset built in 2004
- Set on approx. 10 hectares (25 acres)
- 240 Apartments
- 1, 2 & 3 Bedroom Units
- Currently 95% leased (as of May 2016)
- Finance available at circa 3.25% pa
- Term circa 30 years
- Transaction size circa US\$22 million

For additional information on Patriots Pointe see: www.usresi.com/home/patriot-s-pointe

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About US Residential Fund: US Residential Fund Is an Australian publicly traded vehicle which offers investors exposure to attractive, Institutional quality US multifamily real estate assets. Additional information about US Residential Fund can be found at www.usresi.com

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