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## US RESIDENTIAL FUND

Investor Update – April 2017

**US** RESIDENTIAL  
FUND

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## Presentation Summary

### ***Restructuring Completed Over Last 6 Months***

- Management rights successfully internalised
- Board restructuring completed with reduction of board size and addition of Mr. James Hyndes and Mr. Tim Staermose
- Placement for Patriot's Pointe completed

### ***Patriot's Pointe Operational Update***

- Net operating income higher than budgeted, with 5% increase in occupancy since settlement
- Marketing activities increased, coupled with rising rent
- All urgent maintenance was completed in March below budgeted costs

### ***Change in Single Family Property Managers, New Managers Assigned at Lower Costs***

### ***Forward Strategy Defined***

- Continue sale of single family houses
- Focus on multifamily apartment complexes
- Expected increase in scale for cost reduction
- Actively market the USR story with brokers, fund managers, and high net worth investors

### ***Investment Selection Process Established***

- 7-steps investment selection process
- Top down market identification
- Bottom up asset evaluation

## Restructuring Completed Over Last 6 Months

*Beginning in November 2016, the following restructuring has been completed:*

### ***Successful Internalisation of Management Rights***

- Internalisation of management rights completed in January 2017 for a cash payment of AUD 750,000, and the Syndications business of the former manager acquired for a consideration to be met by the future issue of stapled securities to the value of \$250,000, if certain performance hurdles are met

### ***Restructuring of Board Completed***

- Simple board structure and smaller number of directors to enhance decision making process
- Addition of Mr. James Hyndes as Chairman, and Mr. Tim Staermose as Non-Executive Director. Mr. Hyndes and Mr. Staermose each has more than 20 years of experience in equity markets and equity research, with the relevant experience and networks to effectively market USR to brokers, fund managers, and high net worth investors

### ***Placement Successfully Completed and Patriot's Pointe Successfully Acquired for USD 22m***

- A fully underwritten one for one (1:1) rights issue was under way at year-end and applications closed 17 January 2017, raising \$7,994,999 at 45 cents per stapled security. This equity was used to fund the Group's share in the Patriot's Pointe multifamily property
- Acquisition of Patriot's Pointe multifamily property completed, advantages of Patriot's Pointe include:
  - Strong leasing demand in immediate neighbourhood, with competitors at or nearing maximum capacity
  - Strong projected returns of 12 – 15% total average return per annum supported by improving multifamily market
  - 30-year fixed interest rate finance package at 3.70% pa

**Locality Background**

- Located in an area known as the Research Triangle anchored by the metro areas of Raleigh, Durham and Chapel Hill
- The annual average income for a resident in the area is higher than the national average,
- Due in large part to the high number of research, education, health care and information technology opportunities
- Employers in the area include IBM Corporation, WakeMed Health & Hospitals, SAS Institute Inc., Cisco Systems Inc., BASF Corporation, Biogen Idec Inc. University of North Carolina, Duke University, General Electric and GlaxoSmithKline

**Operational Update**

- Took operational control of the property on 28 January 2017
- Property is under rented when compared to similar properties in the area
- The property has generated Net Operating Income slightly higher than budget
- The property's occupancy at settlement was approximately 85%, and approximately 90% at end of March
- We have increased marketing activity and this has resulted in increased inquiry and conversion to leases
- We are raising rents as new leases commence
- We had a backlog of units requiring maintenance at settlement and the majority of that work is now complete
- Remainder will be completed by end of April 2017
- We have units available for lease in every category
- We completed all maintenance deemed urgent by us, by end of March at below budgeted costs



## Property Management Updates

### *Change in Property Managers*

- In February, Nimble Asset Management (USA) Inc, terminated their single family home master service agreement with USR
- Alternate firms have been appointed to manage the single family home portfolio
- Under the new property management arrangements, the managers will report directly to USR's Chief Financial Officer
- The managers are:
  - Ebby Halliday – in Texas
  - Howard Hanna – in Ohio
  - Top Rentals – in Georgia
- We believe that the change in arrangements will deliver circa USD 40,000 in annual savings, and allow USR to better manage risks relating to the control of the properties
- We continue to explore opportunities to sell down the portfolio of single family homes

### *Our New Single Family Property Managers*



Texas



Georgia



Ohio

### *Defined Forward Strategy to Drive Growth*

- Continue the orderly sale of the existing single family houses at prices at, or above, current book value
- Continued re-focus on multifamily assets
- Ideal target size for individual assets is around USD 20m – though we will consider smaller assets in markets we believe can add significant value
- Continue making regular distributions to shareholders
- Narrow the current NTA discount by presenting investors with an entity where investors' and Directors' interests are more closely aligned, and "fee leakage" has been minimised
- Purchase additional multifamily assets to give USR more scale, reducing the proportion of fixed overhead and management costs as a percent of total revenue
- Actively market the USR story with brokers, fund managers, and high net worth investors



## *USR plans to profitably exit from existing single family houses, and shift resources and focus to multifamily apartment complexes in US*

### *Focus Assets and Markets for Future Acquisitions*

- Following its strategy to focus on US multifamily assets, the management have selected target locations, and will actively evaluate potential multifamily opportunities in these areas
- We seek out value markets that provide the opportunity for higher yields than the broader market
- We apply a top down, bottom up approach
  - We seek to identify broad markets that are under pinned by strong economic fundamentals, then
  - We seek out mismanaged assets within the broader market than can be repositioned through better management and amenity
  - These two key strategies seek to deliver to the Fund increases in income and value

### *Typical US Multifamily Apartment Complex Selection Criteria*

- 240+ apartments within complex
- In preferred locations based on USR research
- Typical price range from USD 15m to USD 30m
- Take advantage of favourable US debt markets
- 9%+ cash on cash yield
- Target areas being, for example, North and South Carolina (including military housing), Atlanta, and selected cities benefiting from increased activity in the oil & gas industries

Multifamily Markets Under Consideration



### 1 **Market Selection**

Target markets identified based on strong economic fundamentals. We expect the target market to be underpinned by strong fundamentals such as above average employment growth, economics growth and cap rates above the national average

### 2 **Property Screening**

Property sourced generally via off-market deals. USR aims to leverage personal contacts or relationships with agents, property owners and operators to source off-market deals

### 3 **Initial Due Diligence**

Initial desktop due diligence will be performed providing initial understanding of the local market conditions, economics, past financial performance and other property specific considerations

### 4 **Site Visit**

Site visit then performed providing visual check on the property. The personnel performing the site visit will check the surrounding competitors and assess property maintaince requirements. The local council will also be visited confirming any new developments, large projects or changes to infrastructure

### 5 **Formal Offer with Deposit**

Upon completion of these steps, a formal offer with deposit will be placed. The due diligence period is generally 60 days

### 6 **Formal Due Diligence**

Formal accounting verification by an external firm will be conducted, together with legal due diligence. Accounting due diligence includes full "cash flow" analysis to ensure the financial information in the systems support the cash flow. Maintaince issues are reviewed closely as this can be expensive to address in target assets

### 7 **Completion of Acquisition**

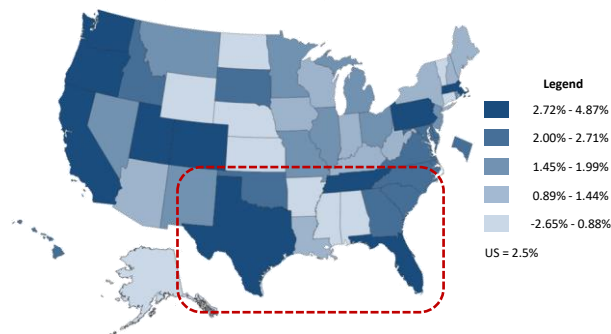
Upon successful due diligence by external firms, and if USR management is satisfied that it is a sound investment, necessary follow up actions to complete the acquisition will be performed

Target markets selected based on strong underlying economic fundamentals:

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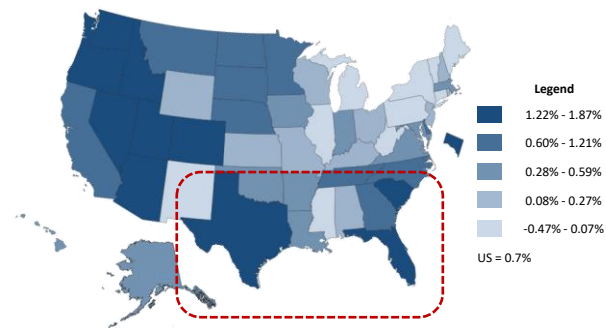
**1) Strong GDP Growth**

US Real GDP Growth, 2014 – 2015



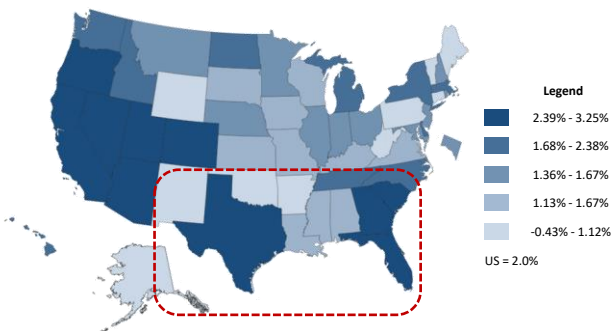
**2) Strong Population Growth**

US Population Growth, 2014 – 2016 CAGR



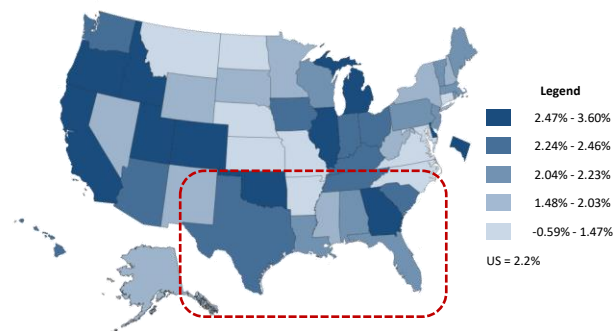
**3) Strong Employment Growth**

US Total Employment Growth, 2012 – 2015 CAGR



**4) Strong Income Growth**

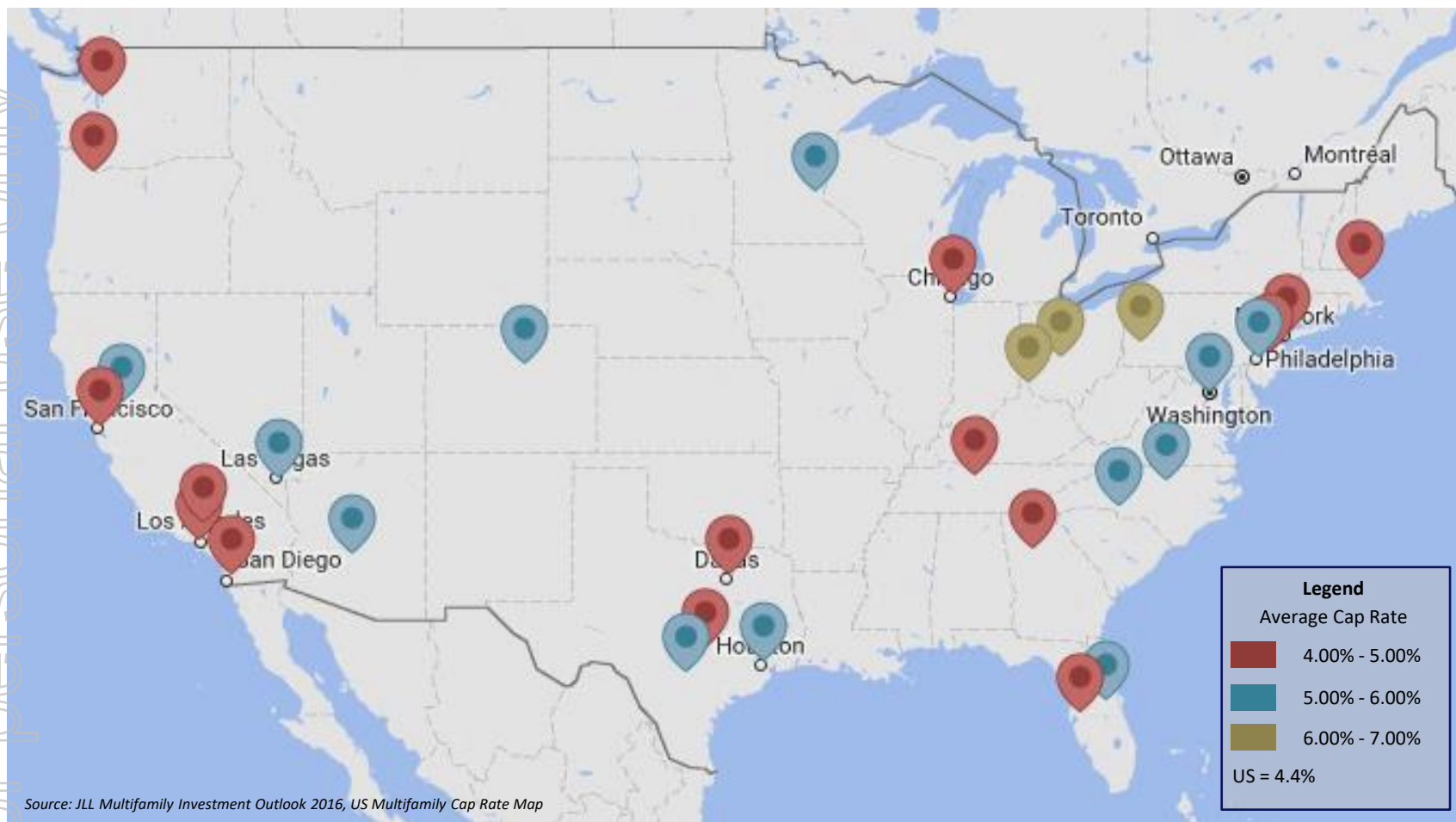
US Per Capita Disposable Income Growth, 2012 – 2015 CAGR



The states with the most promising economic growth are in the southern US region, or more specifically, North Carolina, South Carolina, Georgia, Florida and Texas. We believe these markets allow potential for higher yields while providing a margin of safety given the strong underlying economic fundamentals.

Source: US Department of Commerce, Bureau of Economic Analysis

## Overview of US Multifamily Class A, Capitalisation Rates



Target Market	North Carolina	Atlanta	Florida	Texas
Cap Rate Range*	4.8% - 5.3%	4.8% - 5.3%	4.5% - 5.5%	4.2% - 6.3%

Based on available information, our target region currently exhibits capitalisation rate ranges above that of US average, showing high yield and potential for gains from yield compression. Capitalisation rate ranges are indicative of core market transaction

## Following identification of target markets, properties will be evaluated via a bottom up approach:

- The Fund will seek to buy properties at a discount to their replacement value and cash on cash rates of return exceeding 9 per cent. Investment opportunities are evaluated based on their net operating income, total cost, age since construction, location, capital expenditure requirements, cash flows, and potential for repositioning to improve asset quality and capital value
- Property and neighbourhood specific criteria are carefully considered, in order to understand the best opportunities available to the Fund from both an acquisition and future divestment perspective
- Set out below are some of the considerations that will be taken into account in assessing potential acquisitions:
  - **Market position:** Where the property sits against market medians for valuation, price and rental expectations
  - **Affordability index:** Evaluation of median gross income to housing expense ratio. This assists in identifying undervalued markets, and understanding both the propensity to rent and the potential exit opportunity
  - **Return on investment:** Taking into account any potential capital expenditure costs, expected rental yield and potential for capital gain
  - **Vacancy data:** Evaluation of detailed vacancy data relevant to targeted properties to understand vacancy trends in the neighbourhood
  - **Neighbourhood considerations:** Within a location, consideration of the activity that is occurring at street level
  - **Access to local services and infrastructure:** Whether the property is located near transport infrastructure, suitable school districts, retail shopping and amenities, employment hubs or the central business districts