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US RESIDENTIAL FUND

Sovereign Man – Total Access Conference – Las Vegas USA

Investor Update – May 2017

US RESIDENTIAL
FUND

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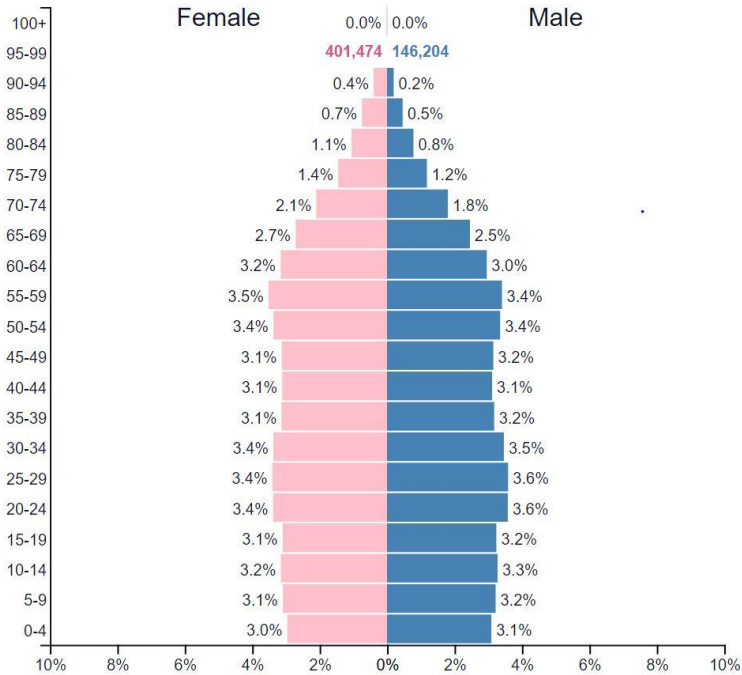
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RECENT MACROECONOMIC TRENDS

US Population Distribution 2017

2017

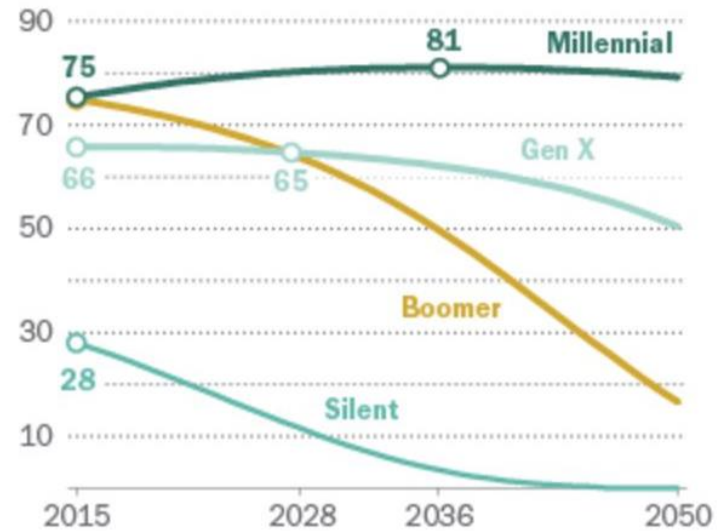
Population: **326,474,013**



Source: Pew Research Center tabulations of US Census Bureau population projections released December 2014 and 2015 estimates

Projected Population by Generation

In millions

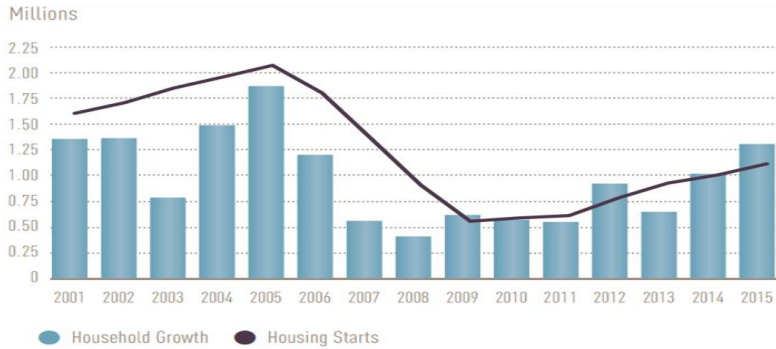


Note: Millennials refer to population ages 18 to 34 as of 2015.

Source: Pew Research Center tabulations of US Census Bureau population projections released December 2014 and 2015 estimates

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Construction Lags Household Formations



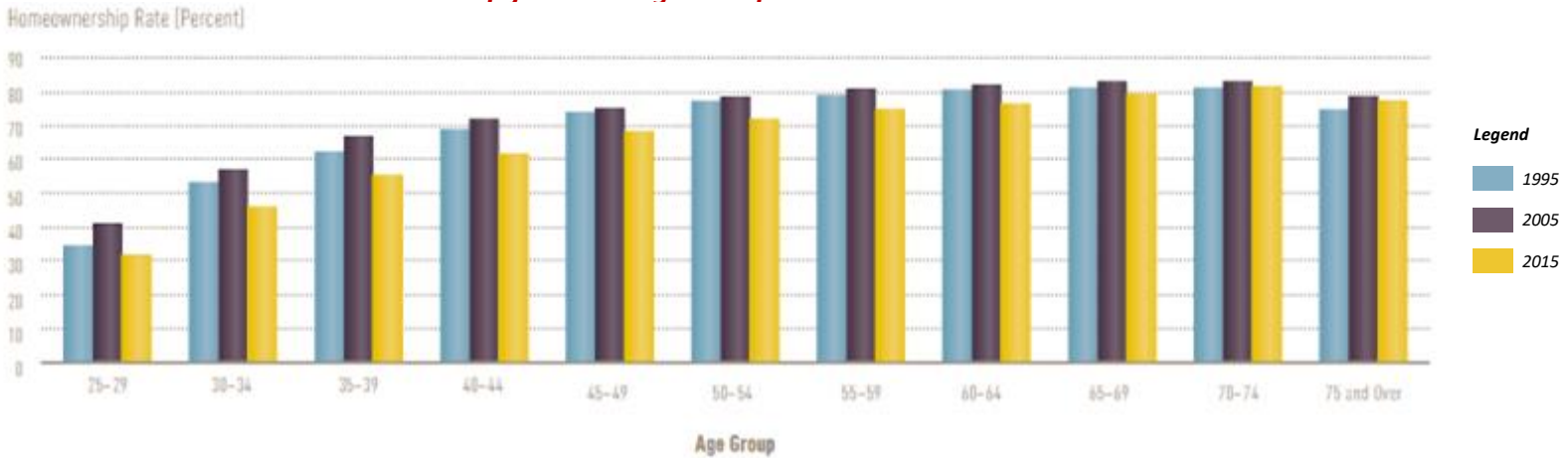
Source: US Census Bureau, Housing Vacancy Survey and New Residential Construction Data

Number of Existing Home for Sales Dipped Again in 2015



Source: JCHS Tabulation of NAR, Existing Home Sales

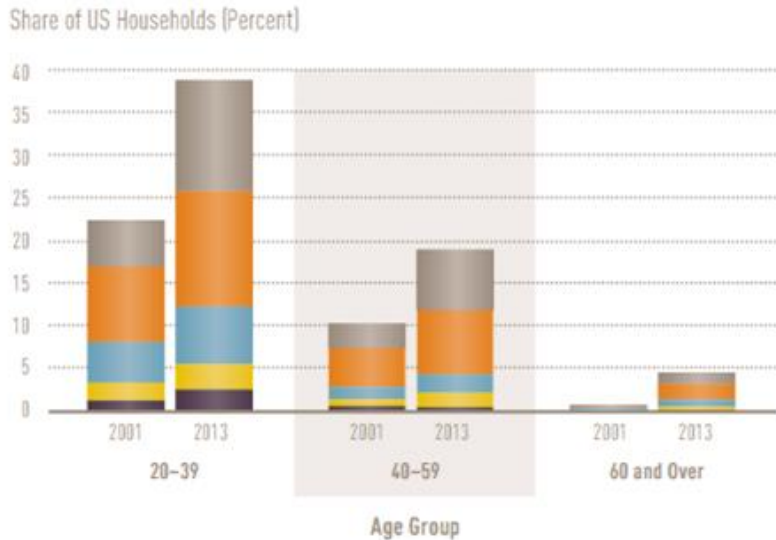
Home Ownership for Most Age Groups Have Fallen Well Below Pre-Boom Levels



Source: US Census Bureau, Housing Vacancy Survey and New Residential Construction Data

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Many Younger Households Have to Devote a Significant Share of Income to Student Loan Payments



Legend – Student Loan Payments as a Percentage of Income

- Not Yet in Repayment
- 3 and Under
- 4 - 7
- 8 - 13
- 14 and Over

Note: Households not yet in repayment have student loans deferral, due to schooling, military service, emergency hardship, or other reasons

Source: JCHS Tabulation of Federal Reserve Board of Governors, Survey of Consumer Finances

Markets Under consideration



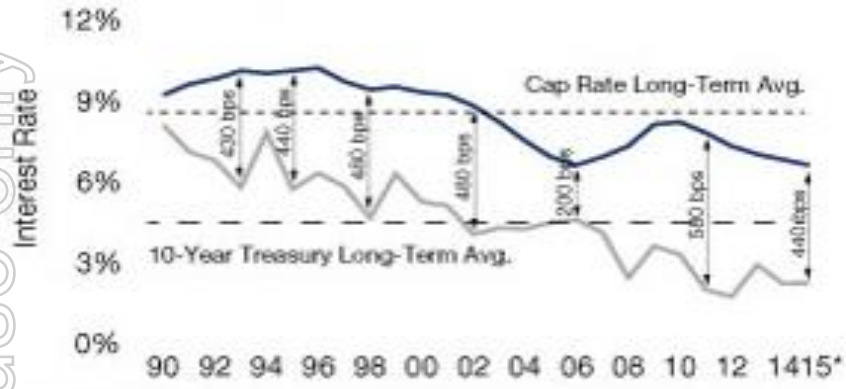
Typical US Multifamily Apartment Complex Selection Criteria

- 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

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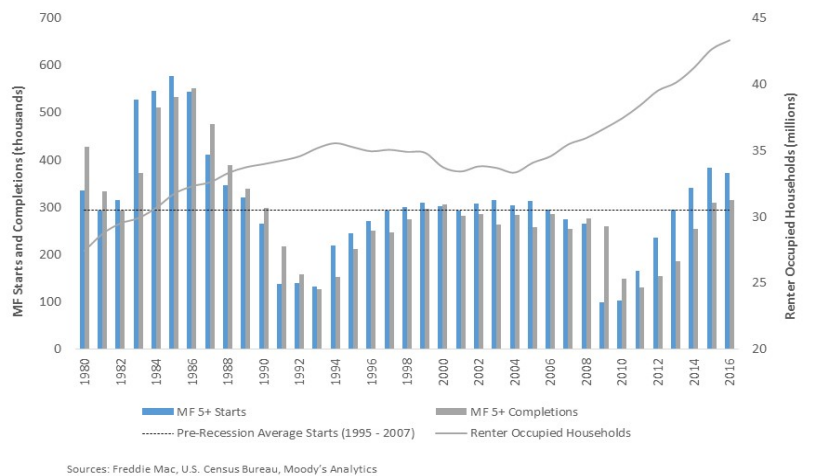
Multifamily Apartment Opportunities Remain Attractive

Commercial Real Estate Cap Rate Spreads to 10yrs Treasury



* Through September 17
 Includes apartment, office, retail, and industrial sales \$1 million and greater
 Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Real Capital Analytics; Federal Reserve

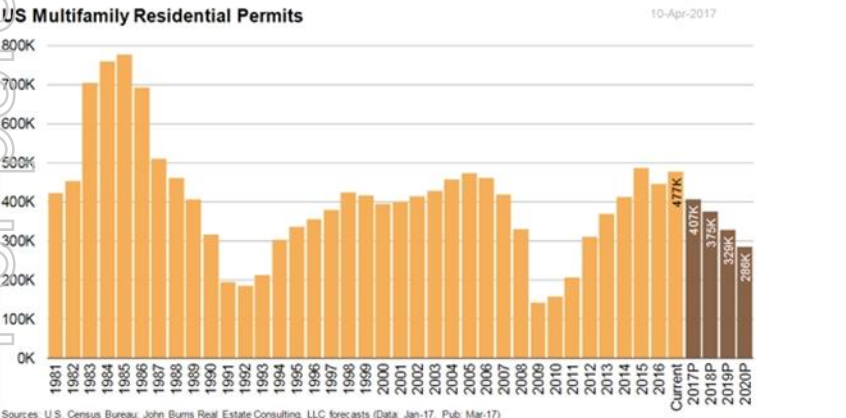
Apartment Starts and Renter Households



Sources: Freddie Mac, U.S. Census Bureau, Moody's Analytics

Apartment Construction Appears to be Peaking

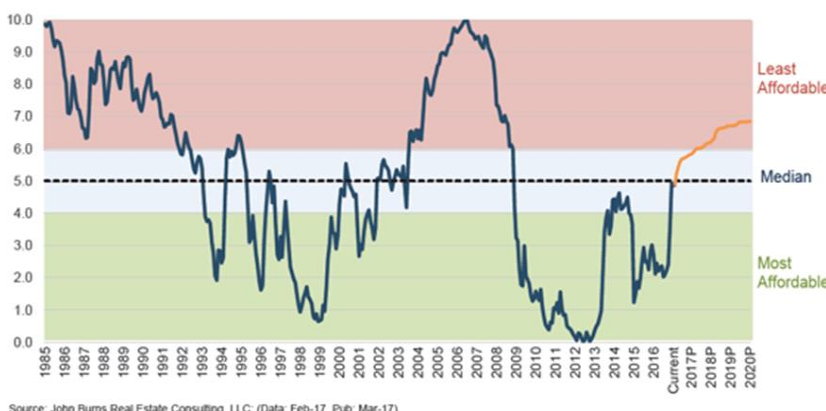
Multifamily permits will fall to 407K in 2017 (-8% YOY) and total only 286K by 2020. We believe overbuilding in energy and tech markets, slowing job growth in 2017 and beyond, and more risk averse development capital will slow construction.



Sources: U.S. Census Bureau; John Burns Real Estate Consulting, LLC forecasts (Data: Jan-17, Pub: Mar-17)
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Purchasing a Home is Becoming Less Affordable

Burns Affordability Index™
 Index ranges from 0 to 10 based on the relationship between the median household income and the annual housing costs (mortgage plus taxes, insurance, and mortgage insurance for a home equal to 80% of the median-priced home).



Source: John Burns Real Estate Consulting, LLC. (Data: Feb-17, Pub: Mar-17)
 JOHN BURNS

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- Millennials have surpassed Baby Boomers as the nation's largest living generation, according to population estimates
- Millennials aged 18-34 in 2015, now number 75.4 million, surpassing the 74.9 million Baby Boomers (ages 51-69)
- Generation X (ages 35-50 in 2015) is projected to pass the Boomers in population by 2028

The Problem Children

Since 2004, homeownership rates for people under 35 have dropped by 21 percent, easily outpacing the 15 percent fall among those 35 to 44; the boomers' rate remained largely unchanged

- Millennials include an economy where job growth has been largely in service and part-time employment, producing lower incomes; Millennials earn, even with a full-time job, \$2,000 less in real dollars than the same age group made in 1980
- Millennials, face far longer period of unemployment and suffer low rates of labour participation
- More college debt, with around half of students borrowing for their education during the 2013-14 school year, up from around 30 percent in the mid-1990s
- Since 2004, homeownership rates for people under 35 have dropped by 21 percent, easily outpacing the 15 percent fall among those 35 to 44; the boomers' rate remained largely unchanged

MULTIFAMILY CAP RATES AND RETURNS

Positive US Economic Outlook

- The biggest economic fear was that another recession was around the corner, but that idea has faded, with experts finding themselves optimistic for the year ahead
- In larger markets, job growth is continuously increasing and in 2017 we will experience greater economic growth
- Although the interest rate hike is something that may seem drastic at first, most people were expecting the announcement and took advantage of contracts that were made before this change took place
- Typically vendors need to adjust sale price expectations where interest rates rise

National Apartment Overview

- Projected job creation and rental household formation will support demand, while demographic trends also support low vacancy
- Steady pace of rent increases. Notably, the ongoing flow of Millennials into the workforce, a segment of the population with a high propensity to rent, represents a robust driver of growth in the multifamily sector
- Disciplined construction lending prevails
- Proposals of increased government infrastructure spending could elevate competition for construction materials and labour needed for multifamily construction and crimp development
- National apartment vacancy will end 2017 at 4.0 percent as rapidly increasing household formation generates robust net absorption that supports a 3.8 percent rise in the average effective rent

Multifamily Supply

- Oversupply is not a major concern in most of the country because apartment development is generally highest in areas where demand is strong
- However, there are some metros with huge pipelines of new high end product that may cause a market imbalance
- The most pressing issue is that rents have risen much higher than income
- Supply is complicated by:
 - Building costs
 - Local building codes
 - Availability of financing and land
- Roughly three-quarters of new inventory built in this cycle encompasses luxury units
- Demand is concentrated at lower pricing points

Multifamily Returns

- Increasingly returns will be driven by:
 - Strong property fundamentals
 - Macroeconomic trends such driving demand, such as:
 - population growth
 - falling homeownership
 - later marriage
 - lower birth rates and
 - urbanisation
 - Restricted supply
- Improved asset management
- Multifamily apartment complexes have long-term structural advantages over other commercial property

Commercial Long Term Debt Finance

Long term real estate debt financing markets in the US provide a wide range of options from many providers. Typically, longer loan terms, more flexible conditions are available than what is available in Australia and many other countries

it is also the case that many terms that seem familiar else where in the World operate differently in the US

Most significantly for investors considering the operation of US property debt finance to key areas of consideration are:

- Loan to Value (LTV) - In the US the LTV is a ratio used by the lender to assess its risk before approving a mortgage. Typically, assessments with high LTV ratios generally carry a higher interest rate
- In Australia lenders use a similar assessment known as the Loan to Valuation Ratio (LVR). US lender's application of this calculation varies to that of their Australian counterparts, because unlike in the main US lenders do not have the ability to recalculate the LTV, until loan maturity
- Debt Coverage Ratio (DCR), US lenders typically focus closely on the amount of cash flow available to meet annual interest and principal payments on debt, including sinking fund payments
- Typically lenders require a DCR over 1. That would mean the property is generating enough income to pay its debt obligations

WHY APARTMENTS ARE COOL

1

Financial

The number one benefit of living in an apartment is the financial aspect of renting. Rent is generally cheaper than a mortgage. In addition to an overall lower monthly payment, other financial components such as upkeep and utilities are generally lower because of the smaller space and the overall responsibility of a landlord/owner versus a tenant

2

Maintenance

As discussed in the financial benefits, maintenance expenses are generally lower due to responsibility generally falling on landlord/owner. Not only is the lack of maintenance worries a financial blessing, but it's also a check off the "Things to Do" list. When it snows, no need to shovel, when the lawn looks a little rugged, it's not your concern – Ovation will take care of that. The peace of mind associated with the mental freedom of renting is priceless

3

Amenities

Unlike houses, apartment complexes are generally built with specific amenities such as pools, gyms, convenience stores and laundry facilities directly on the premises or at the least in very close proximity. Although you could always have these elements built into your home, the financial obligation is not as rewarding. Apartment living can prove to be a very convenient living arrangement

4

Safety

Although homeowners often invest in some form of home security system or another, apartment complexes also invest in the overall safety of its residents. The close proximity of neighbors (in contrast to being the only one in a house at any given moment) and typical apartment complex safety measures prove that multi-unit dwellings are the safest locations for single women, children, families and the elderly

5

Size

Apartment proportions are, simply put, convenient. A newly graduated college student is generally looking for a place to call home; a living room, bedroom, bathroom and maybe a kitchen for show. This space does not have to be large and lavish, it just needs to feel safe and quaint (even for the guys). This same basic need is apparent in most people, college kids, single women, bachelors and even friends who chose to live as roommates

6

Community

Other great benefits of apartment living are the social implications of the close proximity and connections one develops during their residency. Although a sense of community exists in both rural and suburban areas, the close proximity of apartment life enhances the probability of creating life long connections

7

Short-Term

Parallel to buying a home, apartment rentals make great short-term options. Deciding to buy a home is a life long dream but you have to live somewhere while you prepare to make that dream come true. Whether you are working on credit, saving money or mentally preparing for the responsibility of owning a home, an apartment is the best interim option

8

Savings

The financial benefits discussed here are gateways to our future. While we endure less burden and responsibility while renting, this is the opportune time to invest into your future. By placing the money saved into a “rainy day” account, this can be the beginning of a brighter financial outlook

9

Lower Responsibility

So far we have discussed money savings from rent, lack of need to maintain the property and, well, that's it. The lack of need to maintain property is not only a financial windfall but also a stress reliever. Homeownership comes with a lot of headaches and issues and deciding to rent will help you avoid these types of setbacks. Instead of using the "rainy day" fund to fix the boiler, it can be used for a much-needed vacation to a tropical island

10

Accessibility

One of the best things about an apartment complex is the close proximity of anything you need. Shopping center locations are typically chosen by the overall demographic of a community. The greater the chance for possible patrons, the larger the need for the shopping center. This little tidbit of information is useful. No matter what you need, there is a shopping center nearby to suit you

Conclusion

Overall, apartments are perfect for anyone who wants a place to call home. Considering the financial advantage of renting and the many underlying benefits that result, apartment rentals are a great choice for a great home