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ASX ANNOUNCEMENT
15 October 2020

Aspen Group Performance – 1Q FY21 Trading Update

37% Growth in Underlying EPS compared to 1Q FY20

Aspen Group (which comprises Aspen Group Limited and Aspen Property Trust) (ASX: APZ) ("**Aspen**") is pleased to provide its unaudited results for the quarter ended 30 September 2020.

Aspen's Business Model

Aspen is a leading provider of quality accommodation on competitive terms in the residential, retirement and short stay sectors. Aspen's opportunities are enormous within Australia's $7 trillion residential market given significant unsatisfied demand for suitable accommodation at more affordable prices and rents. Aspen's weekly rents are typically $270-350 for dwellings and $140-170 for land sites, levels that are well supported by household incomes including those receiving government subsidies.

We have a fully integrated platform across operations, asset management, development and capital management that provides a broad spectrum of products and services to our customers under different regulatory regimes and ownership schemes: Rentals – Shared Equity – Sales.

We provide one, some or the entire range of our accommodation products and services at each of our properties. We seek to maximise the profitability and value of our properties and to reduce risk by optimising customer mix based on demand, length of stay, service offering, relative pricing and expenses, regulation, capital costs and other factors.

Financial Performance

1Q FY21 compared to 1Q FY20

P&L	FY20 $m	1Q FY20 $m	1Q FY21 $m	% Change
Total Revenue	30.38	8.15	8.79	8%
Operating & Development Net Income	**12.46**	**3.22**	**4.20**	**30%**
Margin	41.0%	39.5%	47.7%	
Operations				
Rental and ancillary services revenue	28.13	7.46	7.22	(3%)
Net operating income	**11.78**	**2.98**	**3.64**	**22%**
Margin	41.9%	39.9%	50.4%	
Development & Trading				
Development & trading revenue	2.25	0.69	1.57	128%
Net development income	**0.68**	**0.24**	**0.55**	**129%**
Margin	30.2%	35.2%	35.3%	
Net corporate overheads	**(4.43)**	**(1.22)**	**(1.01)**	**(17%)**
EBITDA	**8.03**	**2.00**	**3.18**	**59%**
Net finance expense	(1.39)	(0.28)	(0.33)	18%
Operating profit	**6.64**	**1.72**	**2.85**	**66%**
Securities (weighted)	97.59	96.32	116.35	
Operating profit per security (cents)	**6.80**	**1.78**	**2.45**	**37%**

Financial information is per internal management accounts that have not been audited. Aspen's earnings are variable, particularly on a quarterly basis, and investors are cautioned against simply annualising the 1Q FY21 result.

Operating Performance

Increased operating profits across all property categories despite challenging conditions in short stay business due to COVID-19

Property Category	Total Revenue*	Operating Profit*
Residential	NM	NM
Land Lease	0.4%	18%
Mixed Use	3%	16%
Short Stay Parks	21%	7%
Corporate (AKV)	3%	16%
Development & Trading	128%	129%

* 1Q FY21 compared to 1Q FY20

NM - % change not meaningful as these properties were not owned for the entire 1Q FY20 period

Residential

- Perth metropolitan residential vacancy rates have continued to decline to only 1.3% in September (REIWA) and rents have generally started to increase. Over the quarter in our Perth portfolio, we continued to improve tenant quality, occupancy increased from about 90% to 98%, rental arrears declined, and average rent was stable at about $343 per week. At our recent open house inspections, typically 10-15 parties have inspected and 6-8 have submitted rental applications
- All but 3 of the 20 apartments at Treatts Road have been refurbished and are being leased to residential tenants at more than three times the rent paid by the previous retirement village tenants. Residential rental conditions continue to be soft in Sydney
- We settled the acquisition of Cooks Hill Co-Living community on 1 July 2020 and it made a small contribution to profits in the quarter. Initial designs have been completed for the redevelopment and our current preference is to make all units fully self-contained and to add more floorspace to the existing building on the available land (subject to Council approval)
- Burleigh Heads acquisition is currently expected to settle in late November

Land Lease

- Rents on land sites continue to increase in real terms across our retirement communities - Four Lanterns, Mandurah and Sweetwater Grove, and mixed-use parks - Barlings Beach and Highway 1

Short Stay

- We have started to pivot back to more profitable short stay business in the holiday and mixed-use parks as we approach summer and the state borders start to reopen - our three NSW parks are now almost fully booked for the peak summer period of late December to late January at average rates above the previous corresponding period
- Despite border closures, Darwin Freespirit Resort's net operating income for the first quarter was flat compared to the previous corresponding period. The park experienced a reasonable recovery in demand for accommodation as the quarter progressed during its traditional peak season, but accommodation revenue still fell well short of last year. The new gaming and entertainment facilities are performing very well and operating expenses were lower. The resort was recently voted Best Holiday Park in the NT by Expedia/Wotif customers

- During COVID-19 Adelaide Caravan Park has performed poorly along with other short stay businesses around the Adelaide CBD due to SA border closures and very few major events in the city. It was Aspen's only property that experienced a decline in net operating income in the quarter compared to the previous corresponding period
- Our insurance claims for lost profits and physical damage due to the bushfires last summer are still being negotiated and are not included in these results – we expect a satisfactory resolution shortly

Corporate

- Aspen Karratha Village (AKV) generated an increase in profits on slightly lower revenue. Activity in the Karratha region continues to be buoyant and growth in demand for accommodation is outstripping growth in supply. According to REIWA, median house rents in Karratha have increased about 46% over the past year to $620 per week. At AKV, we are currently achieving rates of over $200 per night for accommodation and food for the rooms not leased to Woodside, who currently pays about $150 per night per occupied room under its contract that expires in January 2021. We are in continuous discussions with Woodside regarding their future accommodation requirements and we have submitted a tender covering all of AKV to another quality corporate that is seeking accommodation from mid 2021 onwards

Development & Trading

Increased value-add refurbishment and development activity

Aspen Balance Sheet	FY20	1Q FY20	1Q FY21
Settlements			
Four Lanterns	7	2	4
Sweetwater Grove	0	0	2
Total	7	2	6
Average Price (inc. GST)			
Four Lanterns	$352k	$378k	$319k
Sweetwater Grove	NA	NA	$224k
Average Margin (post GST)			
Four Lanterns	$97k	$121k	$112k
Sweetwater Grove	NA	NA	$54k
Pipeline End of Period – Lots*			
Four Lanterns			17
Sweetwater Grove			77
Total			94

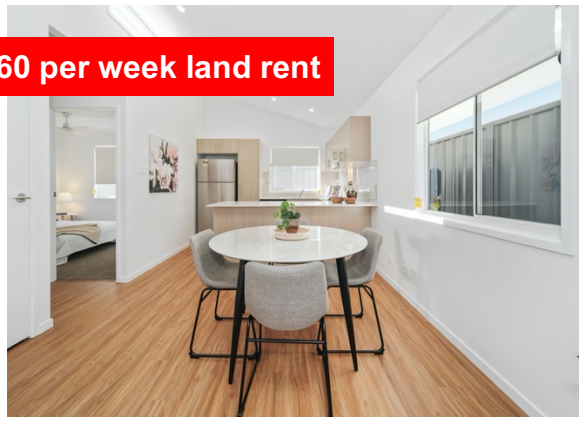
Managed Funds	FY20	1Q FY20	1Q FY21
Settlements	37	4	10
Average Price (inc. GST)	$229k	$211k	$238k
Average Margin (post GST)	$120k	$88k	$135k
Pipeline End of Period – Lots*			659+

* Includes developed and undeveloped lots – some lots have dwellings already built and ready for sale

- There has been a material increase in land and house sales across the group – 47 house and land sales were contracted in 1Q FY21 versus 53 settlements in total for all of FY20
- 6 new manufactured house sales were settled at the Aspen-owned Four Lanterns (4) and Sweetwater Grove (2) versus 7 in total for all of FY20 – average price of c.$260,000 and margin of c.$92,000 (35% margin)
- 6 of 8 additional houses have been fully installed at Highway 1 and are being leased on a longer-term basis achieving over 15% return on incremental capital employed
- At our managed funds' projects Coorong Quays and CREST, 10 house and land sales were settled and 42 were contracted in 1Q FY21 versus 37 settlements in total for all of FY20. We have brought forward the next stages of development on both projects which is expected to lead to an increase in project management fees in FY21 for Aspen
- We believe the improved sales rates are due to our well located, competitively priced products becoming relatively more attractive to consumers during COVID-19 and the recession, lower interest rates and increased government grants for housing

New Xodbox at Highway 1

New House at Sweetwater Grove



Net Corporate Overheads

Continued tight cost control across the platform

- Gross corporate overheads are currently running around $4.7m annualised (excluding the benefit of Job Keeper receipts) which is slightly below FY20. This is expected to increase slightly as borders reopen (more corporate travel) and because we are taking the opportunity to enhance the team as opportunities arise. In recent times we have added an Assistant Development Manager who comes with 6 years' experience at Scentre Group and a Business Administration Manager with 10 years' experience including at CBRE, JLL and John Holland
- Project Management Fee income is expected to increase to about $0.5m in FY21
- Government grants and subsides including Job Keeper are estimated to have contributed approximately $0.5m net to the 1Q result. Aspen has not been eligible for Job Keeper post September due to increased revenues, however we still have the flexibility to reduce labour costs at our parks in the quieter periods given our highly casualised workforce

Balance Sheet

Net Asset Value is up 2% to $1.17 per security due to retained earnings

- Portfolio attractively valued in our opinion:
  - Average value per dwelling / land site of approximately $77,000
  - Weighted average capitalisation rate of 8.1%
- Aspen Karratha Village is the only property due to be externally revalued by 31 December 2020 – current book value of $11 million is about 1/3rd of replacement cost in our opinion
- Current gearing of 22% with no debt maturing until November 2022 – Aspen is well positioned to take advantage of new opportunities as they arise

Outlook

We have been managing the risks of COVID-19 and the recessionary economic environment by entering into more longer-term leases for our traditional short stay cabins and materially reducing operating costs. Importantly, we have maintained the flexibility to shift back to short stay business should demand improve and if it leads to higher profits. Our NSW parks that cater to holidaymakers, Barlings Beach, Tween Waters and Koala Shores, are now almost fully booked for the late December to late January school holiday period at average rates above the previous corresponding period.

Discussions are in progress with Woodside and another large corporate regarding their future accommodation requirements at Aspen Karratha Village. Market conditions are currently buoyant in the region and we are achieving higher rates from short stay customers than currently being paid under the long-term lease with Woodside that expires in January 2021.

Aspen will continue to seek opportunities to grow its portfolio of affordable accommodation properties in the residential, retirement and short stay sectors through development and acquisition. We expect to increase development profits this year given the promising start in the first quarter and a larger pipeline with Sweetwater Grove now onstream. We are seeing increased opportunities to acquire properties on attractive terms in the recessionary environment.

Aspen will not meet the current Job Keeper requirements for the rest of the year, therefore wages expense will increase.

The COVID-19 event is currently ongoing and evolving and it is not possible to accurately predict its impact on Aspen's business. Therefore, we are currently not able to quantify profit and distribution guidance for FY21.

Announcement authorised by the Board of Aspen Group Limited.

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