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Investor Update – Acquisition of Perth Residential Portfolio

Aspen Group (which comprises Aspen Group Limited and the Aspen Property Trust) (ASX: APZ) (Aspen) is pleased to announce that it has entered into contracts to acquire a portfolio of 84 residential properties in Perth, Western Australia. The contracts are now unconditional and are expected to settle in early December 2019.

The properties are located in the high population growth corridors of Rockingham LGA, in the southern beaches and Swan LGA in the north east. These are attractive regions for lifestyle, located along beaches and national parks, with easy access to Perth CBD. They also have good quality education, healthcare, retail and recreation facilities. The dwellings are family-oriented, typically with 3-4 bedrooms, 2 bathrooms and 2 car garages or carports. The average dwelling size is 190sqm and the average land size is 414sqm per dwelling.

The portfolio is being acquired for \$20 million (pre transaction costs), which equates to approximately \$238,000 per dwelling and \$1,258psm of dwelling area. The price reflects discounts of at least 20% to current retail prices of the individual houses and 33% to replacement cost, in our opinion. The average gross rent across the portfolio is \$351 per week and the expected fully let yields are 7.7% gross and 4.2% net (after all costs including management, leasing, rates and taxes, insurance, repairs and maintenance). The passing net yield is approximately 3.5% at 90% occupancy.

Post the acquisition, the majority of Aspen's portfolio will be located in major metropolitan areas and leased on a long-term basis (ie. not short stay).

FY20 guidance remains unchanged for underlying earnings per security of 6.75-7.00 cents and distribution per security of 6.00 cents.

Please refer to the attached presentation for more information.

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Aspen is a leading provider of quality accommodation on competitive terms in the Retirement, Residential and Short Stay sectors. Aspen has a fully integrated platform across operations, asset management, development and capital management which enables it to provide a broad spectrum of products and services to its customers under different regulatory regimes and schemes: Rentals – Shared Equity – Sales.

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Perth Residential Portfolio Acquisition

22 October 2019

Port Kennedy, WA



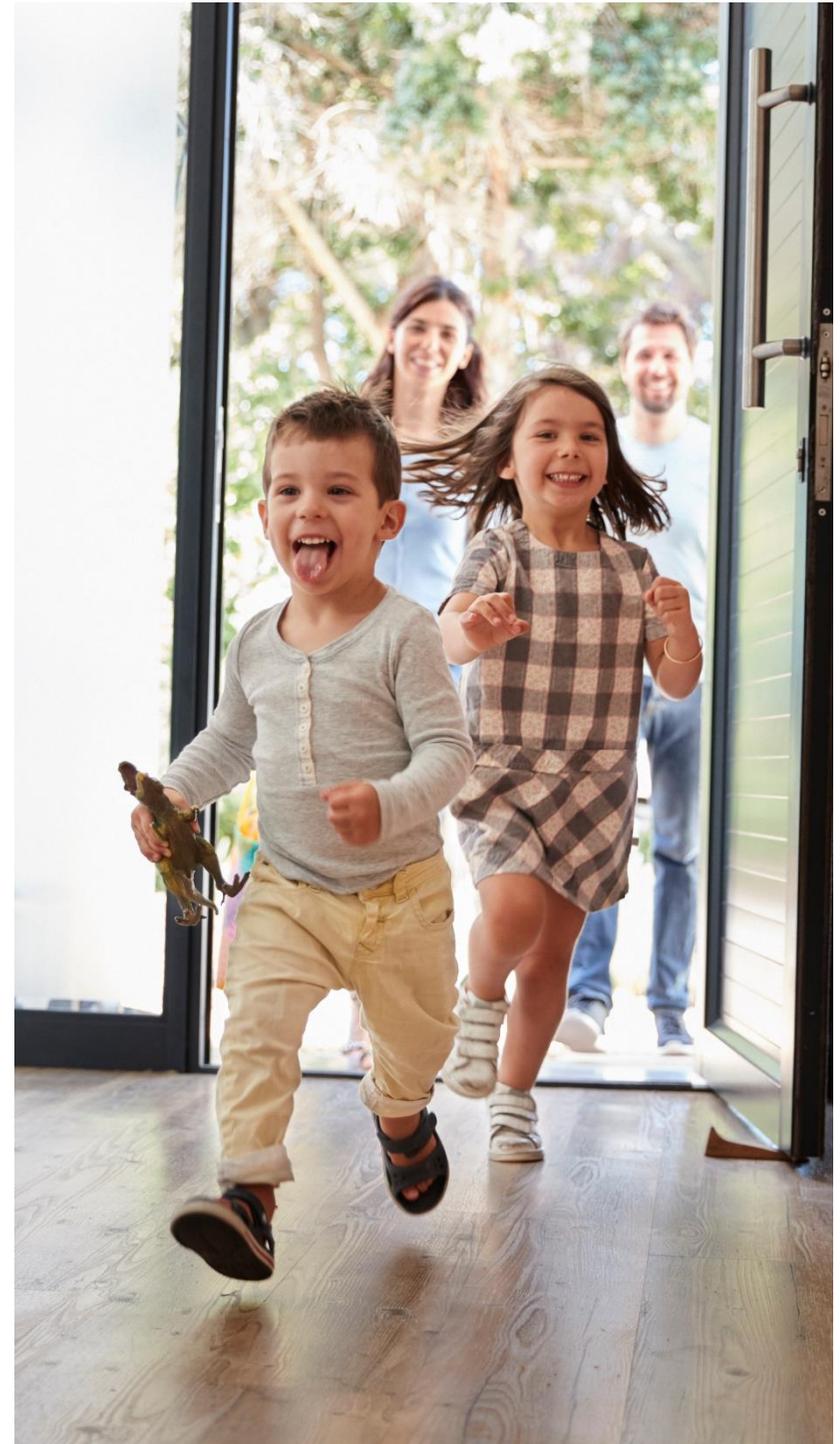
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Perth, WA

1

Summary



- Aspen is a fully integrated provider of quality accommodation on competitive terms in the residential, retirement and short stay sectors, under various regulatory regimes and schemes: Rentals - Shared Equity – Sales (refer to Appendix for summary of Aspen's business model)
- Aspen continues to grow its business and has entered into contracts to acquire a portfolio of 84 residential dwellings in Perth:
 - Located in the local government areas of Rockingham and Swan – high population growth corridors, near education, healthcare, retail and recreation facilities, with good transport links to Perth
 - Typically family homes with 3-4 bedrooms, 2 bathrooms and 2 car garage / carports with an average build date of 2008
 - Average rent of \$351 per week
- Purchase price of \$20 million (pre transaction costs):
 - Equates to:
 - Approximately \$238,000 per dwelling
 - \$1,258psm of dwelling floorspace (with land value included)
 - \$604psm of dwelling floorspace (excluding Valuer General land value of approx. \$10.4m at 30 June 2019)
 - Estimated to be at least 20% discount to current retail price and 33% discount to replacement cost
 - Expected fully leased gross yield of 7.7% and net yield of 4.2% (current net yield of 3.5% at c.90% occupancy)
- Aspen continues to possess good growth prospects post the acquisition:
 - Aspen's total portfolio valued at an average of c.\$72,000 per approved site and weighted average capitalisation rate (WACR) of 8.3%
 - The majority of Aspen's portfolio by asset value and net operating income is now in major metropolitan locations and leased on extended terms (ie. not short stay)
 - The Perth Residential Portfolio and the recently acquired Lindfield Apartments have material embedded capital growth in our opinion
 - Aspen Karratha Village and Darwin Freespirit Resort are in highly cyclical markets that have been in downturns
 - Aspen has an addressable market valued at over \$1 trillion from which to take advantage of opportunities
- FY20 EPS and DPS guidance maintained at 6.75-7.00 cents and 6.00 cents respectively



Port Kennedy – Freestanding House

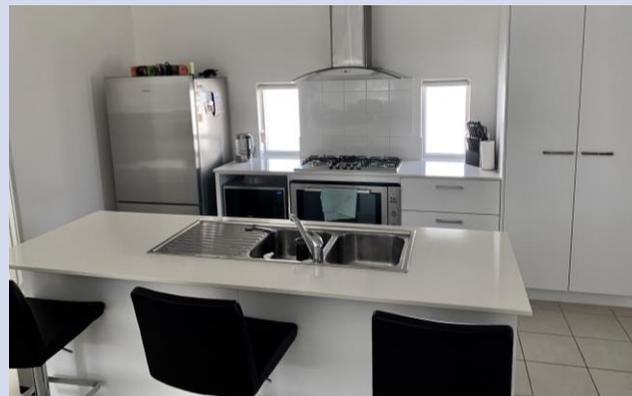


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Acquisition of Perth Residential Portfolio

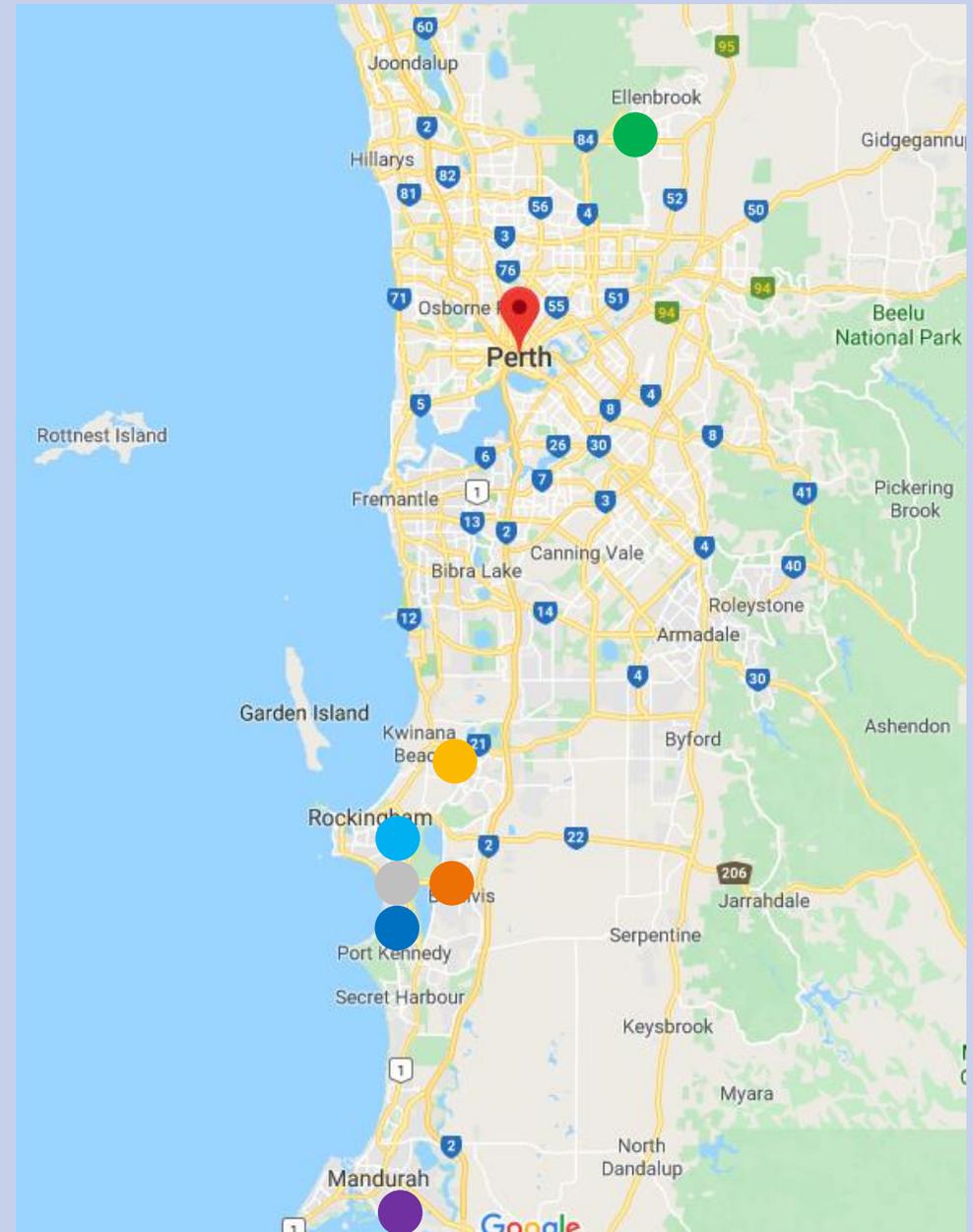
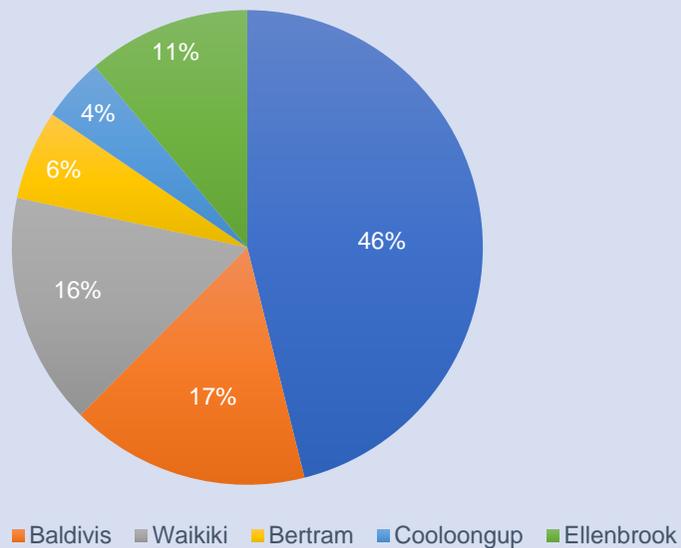


- 84 residential dwellings
- Family-oriented housing product:
 - Typically 3 or 4 bedrooms, 2 bathrooms and 2 car garage / carports averaging 189sqm per dwelling (total floorspace of c.16,000sqms)
 - Good mixture of land sizes - courtyards through to large yards averaging 414sqms of land per dwelling (total land area of c.35,000sqms)
- Built between 2000 – 2016 (average age - 11 years)
- Built for rental purposes with durable maintenance-saving initiatives – eg. external and internal brick, floor tiles in living areas, high use of paving and some artificial turf



- Perth Metropolitan growth corridors:
 - Predominantly in the City of Rockingham’s southern beachside suburbs of Port Kennedy, Waikiki, Coo loongup, Baldivis and Bertram (southern cluster with Mandurah Gardens)
 - Ellenbrook in the City of Swan, northeast of Perth
- Attractive lifestyle locations near beaches and national parks
- Along major transport routes:
 - Proposed new rail line to Ellenbrook
 - Proposed new train/bus station near Port Kennedy (Karnup)
- Good quality education, healthcare, retail and recreation facilities

Composition of Portfolio Value by Location



Perth Residential Portfolio – Location Overview

2.3



Perth CBD



Karratha Gas Plant – North West Shelf



Murdoch University - Rockingham



Warnbro Beach, Waikiki



Rockingham General Hospital



Rockingham Regional Mall



Rockingham Railway Station

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Perth Residential Portfolio - Demographics

2.4

ABS Census 2011 and 2016:

- High population growth regions over the period:
 - Rockingham +3.7% per annum
 - Swan +4.5% per annum
- Relatively young families – median age of 34 years versus 38 years Australia wide
- Household incomes – around average for WA and 10% above Australian average
- Relatively high levels of home ownership with mortgages

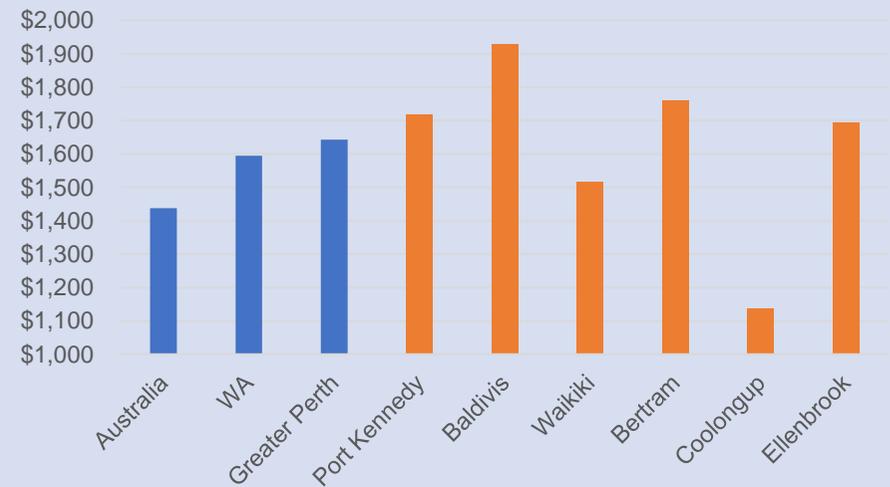
Annual Population Growth: 2011-2016



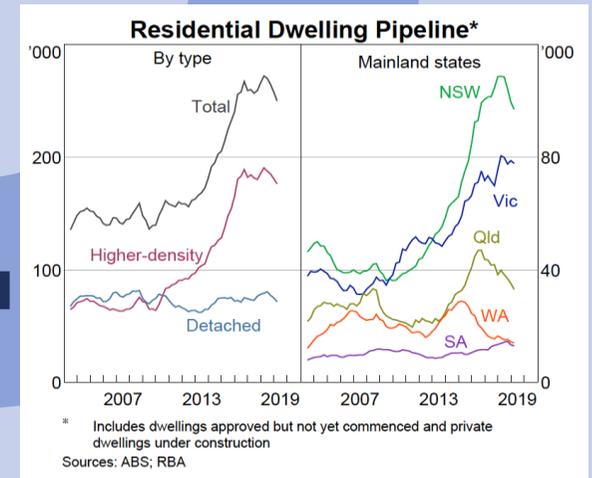
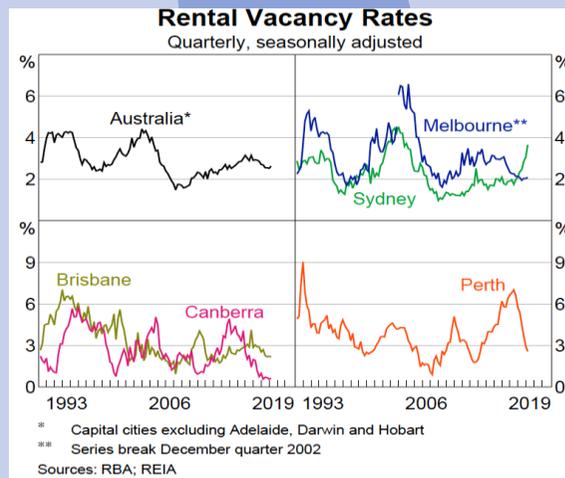
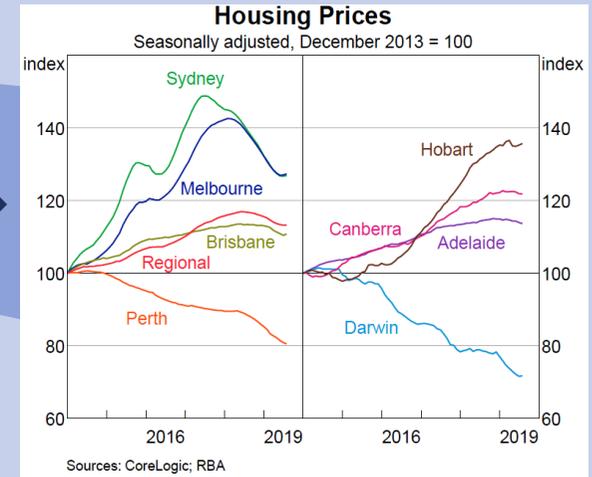
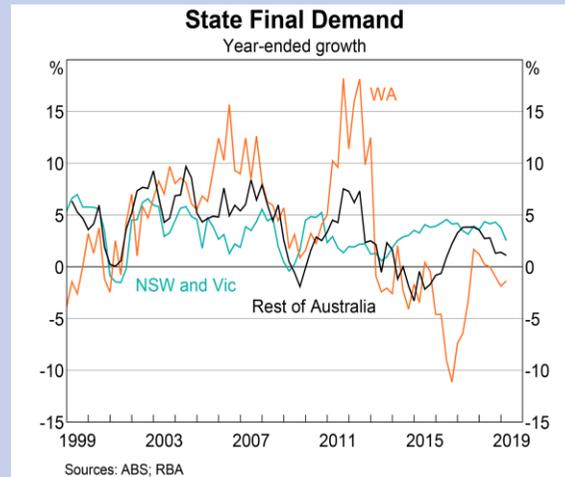
Home Tenure: 2016



Median Weekly Household Income: 2016



- Over the long run, WA and Perth have experienced higher population and economic growth than the Australian average
- WA's economy has a relatively high exposure to the mining and resources sector. The latest boom ended around 2013 and the economy contracted in the subsequent 5 years – it has stabilised and is showing early signs of recovery
- Perth's residential markets have also been in cyclical decline over the same period
- Housing prices have fallen around 20-30% from peak, are at 10+ year lows, and now often well below replacement cost of comparable product (in regions with new housing estates)
- Growth in supply of new dwellings has halved over the past 3 years
- Residential vacancy rates have quickly declined over the past year from the highest in the country at above 6% to below 3%
- Rents have generally started to rise



- Purchase price of \$20m pre transaction costs:
 - Approximately \$238,000 per dwelling
 - \$1,258 per sqm of dwelling floorspace
 - Valuer General's (VG) unimproved land value of approx. \$10.4m equates to \$300psm of land:
 - At its new land releases, PEET is asking c.\$425psm at Golden Bay (near Rockingham) and c.\$450psm at Greenlea Baldivis
 - VG land value implies residual dwelling price of \$9.6m which equates to \$604psm of dwelling floorspace
- Estimated to be at least 20% (\$5m) discount to current total retail price and 33% (\$10m) discount to replacement cost
- Government support for buyers:
 - WA Keystart loans with only 2% deposit and no mortgage insurance
 - First Home Buyers stamp duty exemption for houses up to \$430k = \$14k saving

Purchase Price v. Suburb Median Price



Port Kennedy: 16 Camberton Green - amongst the portfolio's 12 houses on the same street - Aspen's average price \$272k



Waikiki: 1 Abbeytown Circle – nearby portfolio's #7 and #11 Ennerdale Boulevard – Aspen's average price \$362k



Baldivis: 27 Starflame Road – comparable to Aspen's Baldivis properties – Aspen's average price \$173k



Yield

- Average rent of \$351 per week
 - Commonwealth Rent Assistance (CRA) of up to \$91 per week for a family with 2 or more children
- Yields - fully leased basis (pre transaction costs):
 - 7.7% gross
 - 4.2% net after all costs including management, leasing, rates and taxes, insurance, repairs and maintenance
 - 55% NOI margin
- Passing net yield of 3.5% at 90% occupancy

Growth Opportunities

- Opportunities to refurbish homes and provide better customer service to improve occupancy and rent, whilst keeping a lid on operating costs (cluster synergies with Mandurah Gardens)
- Opportunities to reposition portfolio / recycle capital which would generate capital profits and improve ROCE given retail prices are already higher than purchase price
- Capital growth as population growth outstrips new supply and pushes vacancy rates lower causing rents and values to recover towards replacement cost to justify new supply
- Potential upside above replacement cost given highly cyclical nature of WA / Perth

Cashflows (per house)	Household Renters	Landlord Aspen	Household Buyers
Rent / Interest* - per week	\$351		\$229
Rent / Interest - per annum	\$18,277	\$18,277	\$11,905
Rates, Water, Insurance, R&M	\$0	-\$5,182	\$5,182
Management & Leasing	\$0	-\$1,451	\$0
Land Tax	\$0	-\$1,540	\$0
Net Cashflows - no CRA	\$18,277	\$10,103	\$17,087
CRA - maximum (family)	-\$4,761		
Net Cashflows - with CRA	\$13,516		
Purchase Price / Retail Price*	\$238,095	\$238,095	\$297,619
Cash Yield - no CRA	7.7%	4.2%	7.2%
Cash Yield - with CRA	5.7%		

* Assumes no transaction costs and household buyer pays retail price and is 100% debt funded at 4% interest

- Aspen has doubled the size of its accommodation portfolio over 2 years
- Portfolio valued at \$158m – average value per approved site of only c.\$72,000 and weighted average capitalisation rate (WACR) of 8.3%
- The majority of the portfolio by value and NOI:
 - Is located in major capital city metro locations
 - Relates to properties that are leased (eg. Four Lanterns) or predominantly leased (eg. Barlings Beach) on an extended basis and therefore not subject to the seasonality and volatility of lower margin short stay business
- At Aspen's two large short stay parks - Darwin Freespirit Resort and Highway One – we are progressively converting underutilised short stay cabins and spare land into more profitable longer term leased accommodation
- We continue to pursue short stay customers where this is the most profitable opportunity. For instance, at two of our pure short stay parks – Adelaide Caravan Park and Tween Waters Merimbula – we generate an attractive cash yield of 8.5% whilst waiting for the best opportunity to take advantage of their existing medium density residential zoning

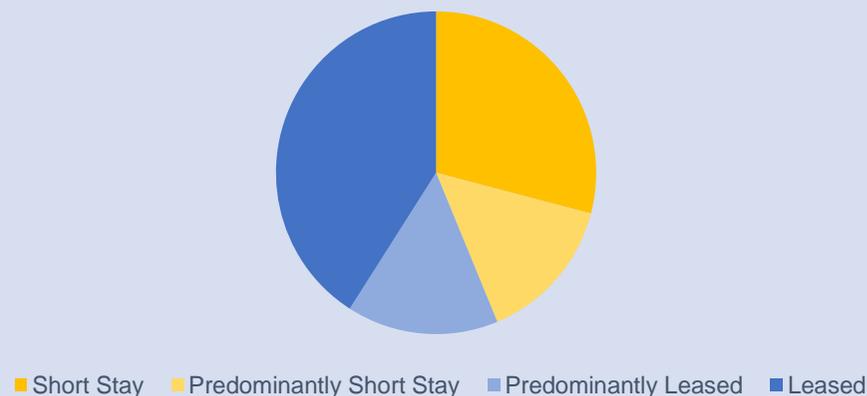
Portfolio Aggregates	Aspen Group	Funds/ Projects	Combined
Properties* (#)	12	3	15
Value (\$m)	\$158		
Land Area (Hectares)	61	577	638
Value per Hectare (\$m)	\$2.58		
Approved Sites (#)	2,183	983	3,166
Value per Approved Site	\$72,478		
Sites per Hectare	36	2	5
Dwellings Owned (#)	760	91	851
Dwelling / Sites Ratio	35%	9%	27%

* The 2 Lindfield Apartment Buildings and the 84 Perth Residential Dwellings are counted as 2 portfolios

Property Type by Location (value weighted)



Property Type by Lease Tenure (value weighted)





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Aspen Group Financials



Aspen Group Financials

3.1

Pro Forma Adjustments (\$m)	
Source of Funds	
Lindfield - release of 10% deposit	\$0.9
Debt	\$29.3
Total	\$30.2
Application of Funds	
Acquisition of Lindfield Apartments	\$9.1
Acquisition of Perth Residential	\$21.1
Total	\$30.2

- Since 30 June 2019, Aspen has settled the acquisition of Lindfield Apartments and entered into contracts to acquire the Perth Residential Portfolio
- Upon settling the Perth Residential Portfolio, Aspen's total assets will be \$171m and gearing will be 29% on a pro forma basis
- Aspen's FY20 EPS and DPS guidance remains unchanged at 6.75-7.00 cents and 6.00 cents respectively

Balance Sheet (\$m)	30 June 2019	Adjustments	Pro Forma
Property plant & equipment	\$128.0	\$30.2	\$158.2
Cash	\$6.5	\$0.0	\$6.5
Other assets	\$7.2	-\$0.9	\$6.3
Total assets	\$141.7	\$29.3	\$171.0
Debt	\$24.5	\$29.3	\$53.8
Payables & provisions	\$8.5	\$0.0	\$8.5
Total liabilities	\$33.0	\$29.3	\$62.3
Net assets	\$108.7	\$0.0	\$108.7
Securities	96.3	0.0	96.3
NAV – cents	113		113
Gearing (net debt / TA less cash)	13%		29%

Underlying Earnings (\$m)	FY20 Guidance	Subsequent Adjustments	Updated Guidance
Property NOI	\$12.4	\$0.3	\$12.7
Development profit	\$1.0	\$0.0	\$1.0
Total income	\$13.4	\$0.3	\$13.7
Corporate overheads	-\$5.2	\$0.0	-\$5.2
EBITDA	\$8.2	\$0.3	\$8.5
Net interest expense	-\$1.6	-\$0.2	-\$1.8
Tax	\$0.0	\$0.0	\$0.0
Underlying earnings	\$6.6	\$0.1	\$6.7
Securities	96.3	0.0	96.3
EPS – cents	6.75-7.00		6.75-7.00
DPS – cents	6.00		6.00
Total distribution	\$5.8		\$5.8
Retained earnings	\$0.8		\$0.9
Interest cover ratio (ICR)	5.1x		4.8x



4

Appendix



- Fully integrated platform with strong operating, asset management, development and capital management capabilities that enables us to provide the broad spectrum of products and services that our target customer base needs:
 - Provider of capital under different regulatory regimes and ownership schemes: Rentals – Shared Equity (eg. land lease) – Sales
 - Low to moderate level of ongoing services at an effective cost (not high care, aged care or social)
- Target market is enormous:
 - Australia's residential market is worth over \$6.5 trillion
 - 70% of households either have a mortgage (37%) or rent (33%)
 - Significant unsatisfied demand for suitable accommodation at below median price and rent



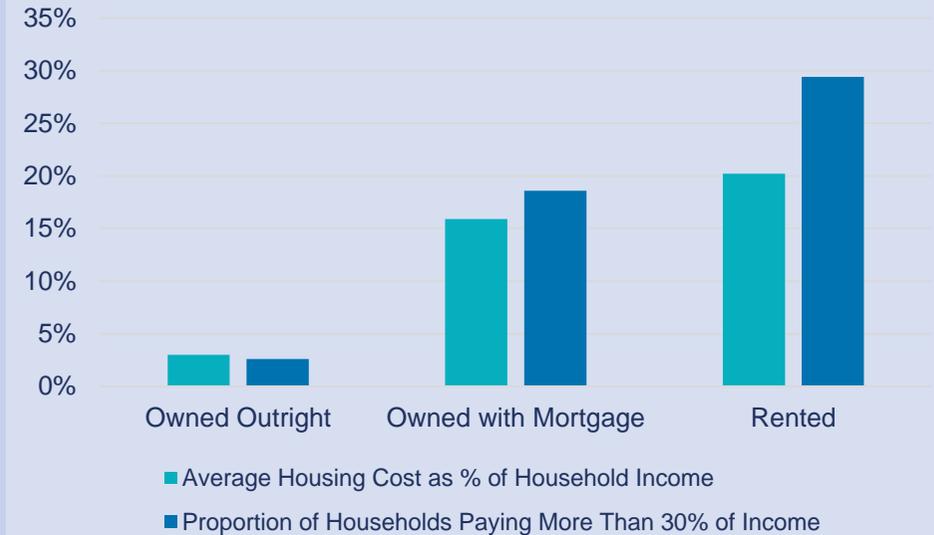
Composition of Australia's 9.3 Million Households by Tenure (source: ABS)



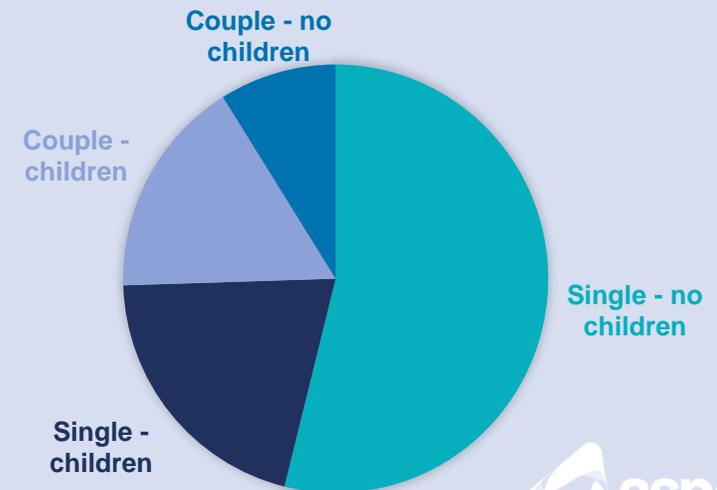
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- About 1.5 million or 17% of households are considered “stressed” – ie. pay more than 30% of their gross income on housing costs:
 - 57% are renters (despite Commonwealth Rent Assistance)
 - 39% are owners with a mortgage (despite historically low interest rates)
- Commonwealth Rent Assistance (CRA) is the major policy tool to help make private (non-social) housing more accessible:
 - Total expenditure of \$4.4 billion per annum (growing at >5% pa)
 - About 45% of renters of private housing receive a subsidy
 - Not just for retirees:
 - 61% of recipients are under 50 years old
 - 37% have dependent children (average of 2 per household)
 - Subsidy is limited:
 - About \$65 per week average subsidy per household
 - Subsidy caps out at \$91 per week (for large families with 5+ members)
 - Rent above \$153 per week for a single person with no children and \$240 per week for large families is not subsidised

HOUSING COSTS AND STRESS

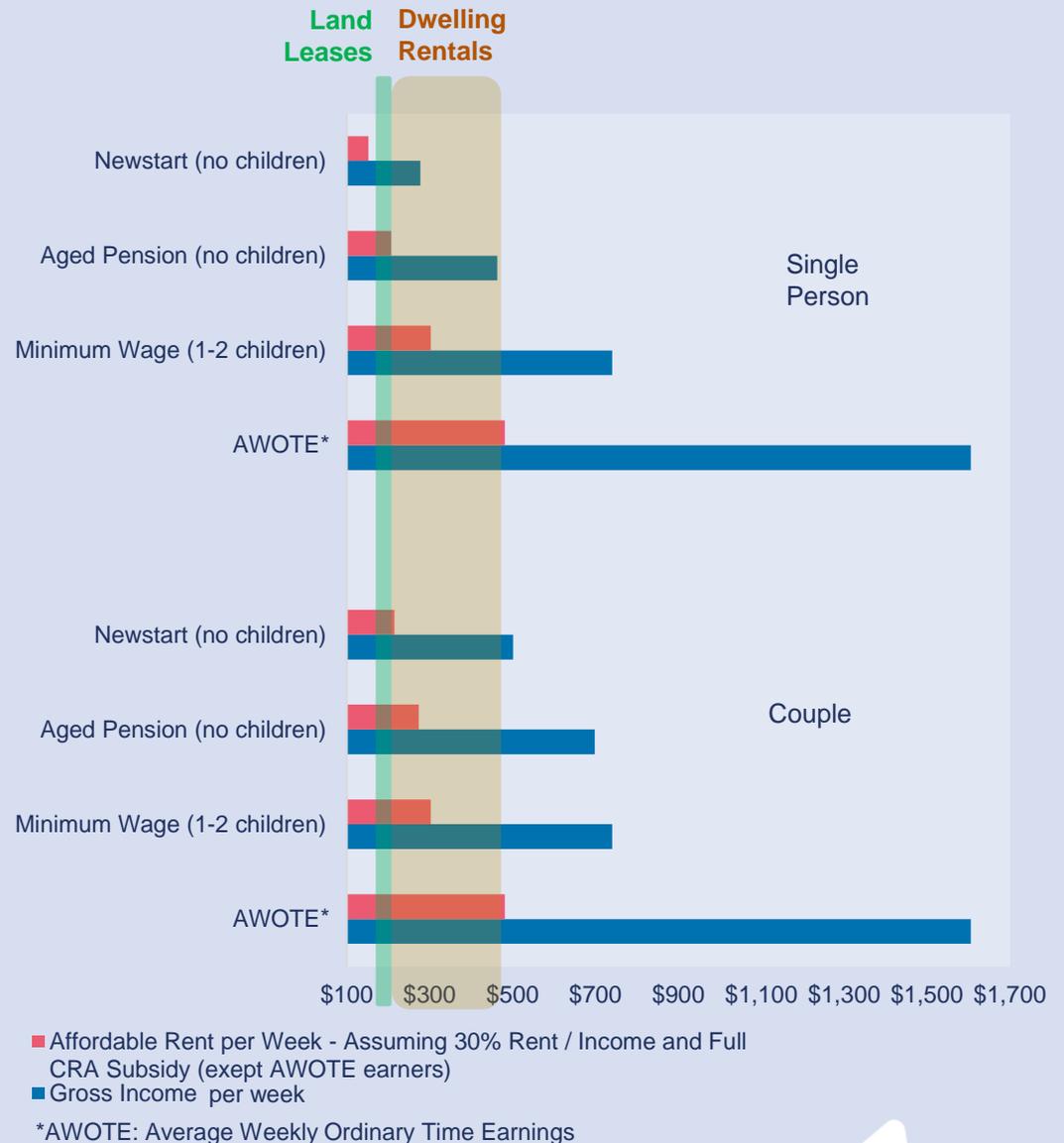


CRA RECIPIENTS BY HOUSEHOLD STRUCTURE



Aspen is highly selective and opportunistic when acquiring and developing properties to ensure they are suitable for the delivery of quality accommodation on competitive terms to our customer base

- Aspen's accommodation products consider our customers' needs and the availability of government subsidies (eg. CRA, first-homeowner grant, pension loan scheme, stamp duty exemptions, land tax exemptions)
- CRA incentivises the lower cost accommodation products such as:
 - Land leases at around \$150-225 per week – LLCs (eg. Four Lanterns, Mandurah Gardens) and park sites (eg. Highway 1)
 - Small, second-hand dwelling rentals (eg. Darwin FreeSpirit Resort)
- But there are significantly greater opportunities in supplying customers with limited or no access to subsidies and/or are located where production costs and land values, and therefore rents, are higher than the CRA caps. They need:
 - Lower cost dwelling products with low land value at around \$300-500 per week – eg. high density apartment rentals for singles/couples (eg. Lindfield Apartments) and house rentals that are suitable for families (eg. Perth Portfolio)



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