

ASX ANNOUNCEMENT

7 July 2021

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Corporate Announcement Office
Australian Securities Exchange

Property Valuations and Business Update

Highlights

Property Valuations

ALE Property Group (ASX code: LEP, "ALE") has reassessed the valuations of its properties as at 30 June 2021 and is pleased to provide the following update:

- NTA per stapled security increases to \$3.85 (subject to finalisation of audit¹)
 - 18.4% above 30 June 2020
 - 10.6% above 31 December 2020
- 6.95% increase in the value of the 78 Continuing Properties² over December 2020 levels to \$1,225.37m, an increase of \$79.67m
- Average Passing Yield of the Continuing Properties decreased by 32y bps from December 2020 levels to 4.58%
- Under-renting as assessed by independent valuers³ has increased from 32.6% in December 2020 to 35.6%, a 9.2% increase

Business Update

- Tudor Inn Victoria and Royal Exchange Hotel Queensland have been identified as Non-Core and are being offered for sale (combined book value at 30 June 2021 of \$22.5m)

¹ Expected reported ALE NTA as at 30 June 2021

² June 2020 portfolio less properties sold or currently being offered for sale

³ See below for how this is calculated

- Court hearings for the November 2018 Victorian rental determinations litigation are expected to begin on 19 July 2021
- Following the sale of 6 Non-Core properties⁴ ALE has partially restructured its interest rate swap book with the all-in weighted average interest rate reducing to 3.45%pa

Guy Farrands, Managing Director of ALE said: *The independent valuations announced today recognise the very strong investor demand for assets like ALE's that benefit from long-term, triple-net, inflation-linked income streams. However, DCF based valuations, which in our view best reflect the under-renting of the portfolio, are higher than those adopted.*

1. Property Valuations

Following the November 2018 rental determinations, ALE's entire portfolio was independently valued as at 31 October 2020. These valuations were adopted as carrying values for the 31 December 2020 accounts. Consistent with ALE's valuation policy for the period ended 30 June 2021, 36 properties (or 45%) of the portfolio were independently valued and Directors' valuations were undertaken for the remaining 44 properties (or 55% of the portfolio).

The unaudited valuation process has resulted in an increase in aggregate valuations of \$89.71m since December 2020. The increase represents a 7.32% increase in the portfolio value.

The independent valuations were undertaken by: NSW (Charter Keck Cramer⁵ 4, Savills 3), QLD (Charter Keck Cramer⁵ 12), Vic (CBRE 14) and SA (CBRE 3).

a. Changes in key valuation metrics

The increase in valuations was driven by a reduction in capitalisation rates supported by sales evidence, highlighting the strong lease covenant and strategic nature of the ALE portfolio:

- The Continuing Properties value has **increased by 6.95%** since December 2020⁶
- The average Passing Yield of the Continuing Properties has **decreased by 32bps** since December 2020 from 4.90% to 4.58%

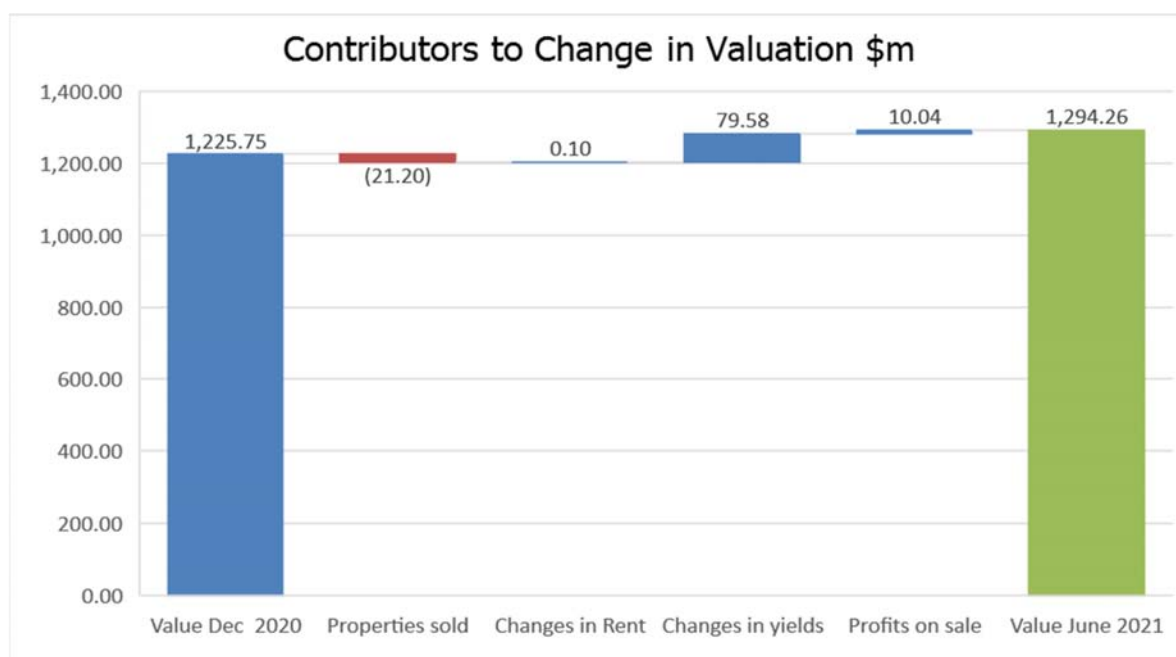
⁴ Not including Tudor Inn Hotel and Royal Exchange Hotel

⁵ New valuer, following rotation

⁶ Excluding the \$4.3m profit on sale for settled properties

As previously announced, since December 2020 ALE has sold six Non-Core properties and those sales have provided the independent valuers with sales evidence for the lease that applies to almost all ALE/ALH assets.

December 2020			June 2021		Movement			
	Passing Adopted Yield	Valuation \$m		Passing Adopted Yield	Valuation \$m	Valuation Increase \$m	% change	Change in Passing Adopted Yield
NSW	4.58%	186.200		4.31%	198.430	12.230	6.57%	(27bps)
QLD	4.70%	349.970		4.38%	375.595	25.625	7.32%	(32bps)
SA	5.20%	42.050		4.95%	44.200	2.150	5.11%	(25bps)
VIC	5.04%	535.000		4.69%	574.670	39.670	7.41%	(35bps)
WA	6.28%	32.480		6.28%	32.480	-	0.00%	-
Continuing Properties	4.90%	1,145.700		4.58%	1,225.375	79.675	6.95%	(32bps)
Properties sold or to be sold	5.45%	80.050		4.71%	68.886 ⁷	10.036	17.10% ⁷	(74bps)
Total properties	4.94%	1,225.750		4.59%	1,294.261	89.711	7.32%	(35bps)



⁷ Excludes the properties sold and settled

b. Discounted Cash Flow (DCF) Valuations for Independently Valued Properties

In assessing each property, independent valuers applied both the traditional capitalisation rate along with DCF based valuation methods. Whilst the valuation results reflect a combination of both methods, the adopted valuations continue to give much greater weighting to the traditional capitalisation rate method.



A greater reliance on the DCF valuation methodology is likely to better reflect the under-renting in the portfolio. Low returns are currently being accepted for well leased assets, with recent sales evidence involving ALE's six Non-Core properties indicating that the estimated purchasers' IRR of the properties sold is lower than that adopted by valuers for the Continuing Properties.

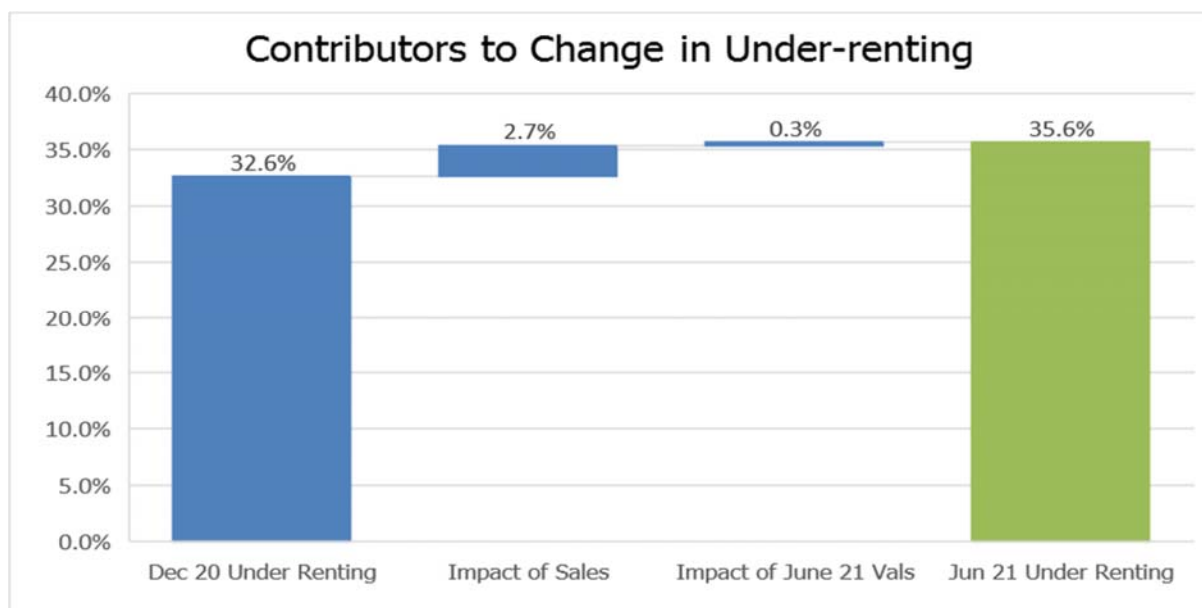
c. Uncapped/Uncollared Rent Levels

Consistent with previous practice, the independent valuers have provided an opinion of the uncapped/uncollared rent of the Continuing Properties. This analysis indicates that at 30 June 2021, the uncapped/uncollared rent for the overall portfolio has increased from 32.6% in December 2020 to 35.6%, a 9.2% increase.

The increase in aggregate under-renting largely reflects the benefits of the strategic decision to dispose of Non-Core properties.

⁸ To determine the extent of under renting of the Continuing Properties:

- For properties independently valued as at 30 June 2021, the independent valuers' assessment as at that date was used
- For properties not independently valued as at 30 June 2021 the independent valuers' assessment as at 31 December 2020 was used



This analysis includes the impact of the possible sale of Royal Exchange Hotel and Tudor Inn hotel, both of which are currently being offered for sale.

Under-renting is not evenly distributed across the portfolio and includes some properties that are leased at market rates and some that are over-rented.

e. Impact of COVID-19

All rental due has been paid.

2. Victorian Litigation Update

ALE has commenced proceedings in the Supreme Court of Victoria to set aside the November 2018 rental determinations for properties in Victoria on the basis that the determinations are the outcome of the application of an incorrect methodology.

The valuations and estimated under-renting announced today do not take into account the potential impact of the proceedings.

The hearing is expected to commence on 19 July 2021.

3. Restructure of Interest Rate Hedges

Following the sale of six Non-Core properties ALE has:

- Unwound a \$30m Nov 2025 interest rate swap at a cost of \$2.73m
- Reset an interest rate swap with a current face value of \$140m (rising to \$280m in August 2022) that expires in November 2022 from a fixed base rate of 3.83% pa to a new fixed base rate of 0.161%pa at a cost of \$8.96m
- As a consequence of this ALE's weighted average cost of debt (including lenders margin) has reduced to 3.45%pa

Further information will be provided with ALE's results for the year ended 30 June 2021, which are expected to be released on 4 August 2021.

This ASX release was approved and authorised for release by the Board of Directors

Contact:

Guy Farrands
Managing Director
ALE Property Group

02 8231 8588
Website: www.alegroup.com.au