ALE PROPERTY GROUP

**ASX ANNOUNCEMENT**

**14 June 2016**

**Announcement No. 06/16**
**The Manager**
**Corporate Announcement Office**
**Australian Securities Exchange**

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## Property Valuations as at 30 June 2016

### Highlights

- ALE's 86 properties increased in value by $90.0 million to $990.5 million for the year to 30 June 2016

- Uplift in value of 10.0% for the year was driven by a reduction in the weighted average capitalisation rate from 5.99% to 5.53% and the properties' annual CPI based rent increases

- Valuations exclude any premium or discount that may be obtained from a valuation on a portfolio basis

- ALE notes that Australian Government long term bond rates have fallen materially further than the capitalisation rates applying to ALE's properties over the past 10 years

- ALE continues to enjoy the benefits of unique and favourable lease arrangements

### Property Valuations

Listed property trust and management company, ALE Property Group (ASX code: LEP) today announced it had formally reassessed the valuations of its 86 properties as at 30 June 2016 to $990.48 million. This is an increase of $36.62 million over the half year since 31 December 2015 and an increase of $90.01 million or 10.0% over the year since 30 June 2015.

ALE's reassessment of the carrying value of its properties was based upon independent valuations of 31 properties by CBRE and Heron Todd White (HTW). During the year ALE's weighted average capitalisation rate reduced from 5.99% at June 2015 to 5.53%.

The Directors' valuations of the remaining 55 properties (also independently valued over the previous two years) are supported by advice from CBRE and HTW that it is reasonable to apply the same percentage movement in the weighted average capitalisation rates, on a like for like basis, that the valuers determined would apply to the 31 properties independently valued by them at 30 June 2016.

The valuers provided the following notable perspectives on the valuations and property markets:

- A tightening of capitalisation rates across the broader property investment market is evident over the last year in a continuing low interest rate regime where intense competitive pressure exists for commercial property assets as investors seek the relatively favourable yields available. An investment in ALE's pub properties represents a long term securely leased property to a major corporate entity. In a low interest rate environment these types of investments have become increasingly attractive to the long term passive investors;

- A number of significant hotel property transactions occurred during the year that provided strong support for the capitalisation rates adopted. In addition there was strong transactional evidence from retail, liquor store and supermarket assets;

- Market analysis confirmed that ALE's properties are unique investments by virtue of their lease terms and conditions, the quality of the tenant covenant and the nature of the business operations within the venues;

- It was increasingly evident that ALH's capital expenditure and in particular the addition of Dan Murphy's liquor stores was materially adding to the profitability of the tenant's operations and ALE's future rent prospects;

- The fact that the 2018 (capped and collared at 10%) and 2028 (open) market rent reviews are drawing closer made the properties increasingly attractive as investors took this into account; and

- Full access to the tenant's operating profitability at each of the properties (which is currently not publicly available) would be expected to have a positive influence on a purchaser's assessment and accordingly the values of the properties.

All independent and Directors' valuations of the individual properties exclude any premium or discount that may be obtained from a valuation on a portfolio basis.

### Statutory Valuations

This table provides a state by state analysis of the changes in property values during the year:

| ($ Million) State | Property Numbers | Current Net Rent | Weighted Average Cap Rate | Valuations at June 2016 | Changes Since June 2015 | Current Average Value |
|---|---|---|---|---|---|---|
| NSW | 10 | $7.44 | 5.37% | **$138.70** | $9.48 | $13.87 |
| QLD | 32 | $16.87 | 5.46% | **$309.15** | $33.53 | $9.66 |
| SA | 7 | $2.03 | 5.81% | **$34.96** | $2.44 | $4.99 |
| VIC | 33 | $26.55 | 5.54% | **$478.96** | $43.76 | $14.54 |
| WA | 4 | $1.86 | 6.47% | **$28.71** | $0.80 | $7.18 |
| | | | | | | |
| **Totals** | 86 | $54.75 | **5.53%** | **$990.48** | $90.01 | $11.52 |

a) Net Rent is based upon the current Queensland land tax assessed values at the single holder rate
b) Differences arise due to individual property valuations being rounded to the nearest $10,000

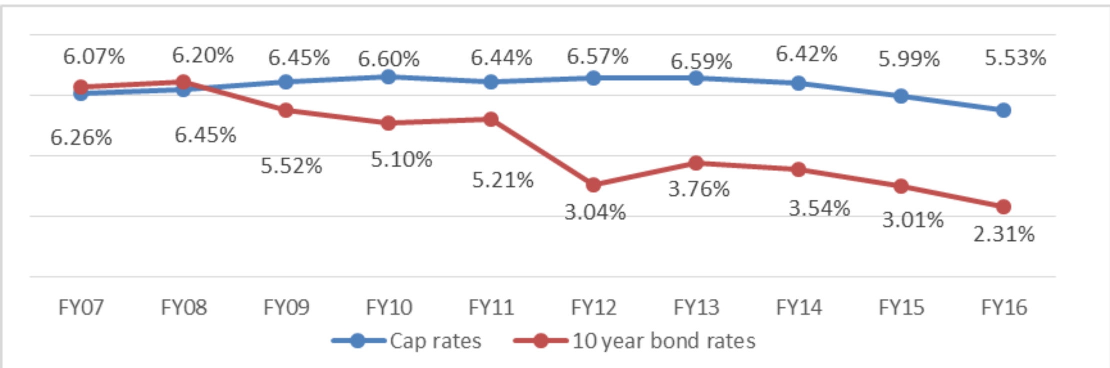
Contributions to the full year increase in valuations of $90.01 million include:

- Annual CPI rent increases: $14.28 million
- Acquisitions $0.36 million
- Capitalisation rate reductions: $76.70 million
- Queensland land tax increases: ($1.33) million

### Capitalisation Rates and Bond Rates

ALE's average capitalisation rates have been stable over the past ten years and more recently have trended lower, notwithstanding volatility in other parts of the property and capital markets. This reaffirms the quality of ALE's properties and the wide investor appeal that the higher quality and lower individual value sector of the commercial property market continues to enjoy.

The chart below compares the movements in ALE's capitalisation rates and Australian Government bond rates over the past ten years.



Over the past two years the fall in long term bond rates has marginally exceeded the fall in ALE's capitalisation rates.

Interestingly, over the past ten years long term bond rates have fallen by around 400 basis points, yet ALE's capitalisation rates have only fallen by around 50 basis points. It is notable that the spread has widened materially over the same period.

ALE considers that the current lower levels of long term bond rates act as positive influence on the stability of ALE's capitalisation rates in future years.

**Discounted Cash Flow (DCF) Valuations**

This financial year the valuers considered the statutory valuations of a one third sample of ALE's 86 properties by applying a number of methodologies. The valuers confirmed that the sample was representative of the balance of the 86 properties. As confirmation of that view, the current year's sample of 31 properties recorded a weighted average capitalisation rate of 5.47%. The valuers applied both traditional capitalisation rate and DCF based valuation methods. The above statutory valuation results reflect a combination of these methods but continue to place significant emphasis upon the traditional capitalisation rate method.

ALE believes that the DCF method can provide a comprehensive view of the quality of the lease and tenant as well as the medium and longer term opportunities for reversion to market based levels of rent.

In making their assessments of the 31 properties, the valuers made their own independent assessment of the tenant's current level of EBITDAR and also adopted industry standard market rental ratios. In calculating the DCF valuations, the valuers used a range of assumptions they deemed appropriate for each of the individual properties. The weighted averages of these assumptions were as follows:

- Tenant's EBITDAR Growth Rate: 1.2% p.a.
- 2028 Terminal Capitalisation Rate: 7.0%
- 13 year Discount Rate: 7.9% p.a.

Based upon the above assessments and assumptions for the 31 properties, the valuers' assessed DCF valuations totalled $427.2m. On the sample's current net rent, <u>this value represents a weighted average capitalisation rate of 4.79%</u>. This compares to the value of $374.1 million or rate of 5.47% which was derived using a combination of the DCF and capitalisation rate methods.

ALE noted in particular that the valuer's assumed EBITDAR growth rate of 1.2% was significantly lower than the rates that have been achieved by the tenant over the short and longer term. It was also noted that ALE's average capitalisation rates have been materially lower than 7.0% during each of the last ten years.

The Board intends to continue to use the valuations assessed by the independent valuers applying a combination of methods for the purposes of ALE's statutory accounts. The valuers advise that as we draw closer to the 2028 review the discounted cash flow method will assume more prominence.

**ALE's Unique and Favourable Lease Arrangements**

ALE reminds investors of the strength of the properties unique and favourable lease arrangements. The particular terms of the leases that are notable include:

- Essentially triple net leases - for 83 of the 86 properties;
- Long term leases - weighted average lease expiry of around 13 years to November 2028;
- Near term market rent reviews - next in 2018 for 79 of the 86 properties, each capped and collared at 10%;
- Capital expenditure - the significant amounts of capital expenditure that ALH has funded and the positive impact that investment is expected to continue to have on ALH's operating profitability at the properties;
- Strong assignment protections - following ALE approved assignments, ALE continues to enjoy the benefit of an effective guarantee from ALH of any new tenant's obligations for the remaining lease term of around 13 years, as ALH is not released on assignment; and
- Strong operating profit protections - subject to regulatory changes and requirements, ALH have provided undertakings that they will not reduce the number of gaming entitlements below 90% of the current numbers across ALE's properties.

It is notable that other ALH leases available to investors in the hotel (or pub) property market may not have the benefit of all the above positive attributes.

We again refer stapled securityholders to the portfolio valuation analysis announced by ALE on 12 November 2013 and note that since that time ALH's EBITDAR has grown while discount rates and capitalisation rates have fallen.

- Ends -

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