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ASX ANNOUNCEMENT

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2023 AGM – Chair Address

Welcome to the 2023 Annual General Meeting of Aspen Group. Our mission is to provide quality accommodation on competitive terms. Our core customers are the approximate 40% of Australian households with income of less than \$90,000 per annum who can pay no more \$400 per week to rent or \$400,000 to purchase their housing needs. We offer accommodation in residential, lifestyle and park communities under various lease terms.

The housing crisis for our core customer base has become even more acute over the past 12 months. Nationally, the residential vacancy rate is stuck at historic lows of around 1%¹, rents grew roughly 10% for the third year running¹, and now only 16%² of newly listed rentals are being offered at less than \$400 per week.

There is nothing meaningful on the horizon that will relieve the upward pressure on house prices and rents in our opinion. Population growth is running above average at over 2% per annum³ yet new dwelling approvals are down 14% over the year⁴. Land located where people want to live close to jobs, facilities, and recreation is increasingly scarce. The cost of building has jumped materially and is likely to remain elevated while skilled labour and materials are diverted to the large pipeline of resources and infrastructure projects across the nation. Building regulations and approvals are becoming more onerous and costly over time. Also, higher interest rates increase development cost, and the rent landlords require to provide their capital and effort. Aspen is keen to work with all levels of government and other stakeholders to help increase housing supply and reduce costs.

Ability-to-pay is more likely to be the main handbrake on rents and prices. Unfortunately, this will not help Aspen's traditional customer base who are being crowded out by wealthier households "trading down" to weather the increases and other cost-of-living pressures. Perversely, this is leading to improving tenant credit quality and exceptionally low arrears across our portfolio despite the tougher economic conditions.

We are very proud of Aspen's ESG credentials. Aspen enhances society and reduces inequality by providing quality accommodation on affordable terms. We do not always take the highest price and rent on offer, and we help charities and their customers by providing subsidised accommodation through our Aspen Social program. We adaptively re-use and refurbish existing buildings, saving significant resources compared to building new. Our efficient smaller dwellings in shared communities consume less resources than traditional freestanding houses, and we maximise the use of solar systems, and energy and water saving devices.

I warmly welcome Edwina Gilbert as the newest member of the Board, and I extend my gratitude to all of Aspen's employees at head office and the properties for their hard work and commitment throughout the last 12 months. I believe Aspen is very well positioned to continue to serve its customers well while generating excellent returns for shareholders in FY24.

I would now like to hand over to Patrick Maddern our Head of Asset Management & Development to provide an update on the business. Patrick has been one of the leaders of Aspen since joining with our Joint CEOs in early 2019.

Clive Appleton
Chairman

2023 AGM – Management Address

Aspen's portfolio has more than tripled in scale over recent years to over 5,000 dwellings and sites valued at more than \$500 million. Our portfolio is closely aligned with our target customer base who need more affordable accommodation and it is very well positioned in the current economic environment.

In FY23 across dwellings and land sites, Aspen's rents averaged only \$275 per week and sales price averaged only \$263,000. Many of our customers receive Commonwealth Rent Assistance (CRA) to help pay their rent and the subsidy increased by 17% in September, the largest increase ever, to a maximum of \$123 per week.

Importantly, while we offer competitive terms to customers, we also deliver attractive returns to securityholders. Over the past 3 years Aspen's Operating Earnings⁵ per security increased by 21% per annum and Net Asset Value (NAV) per security increased by 20% per annum. This growth has been driven by the significant value-add of our management platform across operations, development, and capital management, and a severe shortage of quality, well-located affordable accommodation Australia-wide.

Operations

The dwellings and land sites that we offer on longer term leases (6 months to lifetime) are essentially full and typically lease within a week of becoming available. All 50 apartments at our CoVE Cooks Hill project were leased within 12 weeks of completion in June 2023. The Ranges (Sierra) residential project was recently 100% leased before completion to a corporate needing accommodation for its local workers. Tenant enquiry is already very strong for our CoVE Maylands refurbishment project in Perth that is expected to complete in January 2024, particularly from education providers needing to secure accommodation for their student intake in the new year.

Rents are increasing across all our longer stay accommodation. Average in-place rent for our residential dwellings is now \$344 per week, 17% higher than the actual FY23 result. We estimate current market rents are another 10% higher based on recent leasing transactions. Still, our residential rents remain competitive and attractive to tenants, and below the economic level for new supply in our opinion.

Land rents at our lifestyle properties are lower than many of our competitors averaging only \$186 per week in FY23 which is helping drive sales of new and existing houses. We expect to grow our land rents in real terms as they are currently about 25% below the CRA cap, therefore some of the growth will be funded by the government.

We offer some accommodation on a short stay basis where we can increase profitability through dynamic yield management – optimising the mix of rents, occupancy, and costs. We are currently enjoying good growth in demand from transient workers who also face limited choices for accommodation. This is adding to stable tourist demand which is more discretionary. Our parks offer relatively low-cost holidays and forward bookings for the upcoming peak season over summer at our NSW coastal parks are currently ahead of the same time last year.

Relatively high input cost inflation is being mitigated through labour productivity gains and other cost-saving initiatives, and operating margins are similar to last year.

Development

Aspen now has 10 active development projects, and production has increased to over 100 new lifestyle houses so that for the first time some will be available for display and for sale at every project. This should help customers make buying decisions and improve sales rates, with minimal risk to Aspen as our house inventory is still less than 2% of total assets. Building costs have stabilised and building timeframes are shortening.

Despite higher borrowing costs and economic headwinds, demand for Aspen's new houses and land is holding up because we offer quality product at competitive prices. Retirees can right-size from their existing homes to our lifestyle land lease communities, freeing up capital which now earns a decent return on deposit. Residential customers can buy our land lots and build new homes, often at a discount to generally increasing existing local house prices. So far in FY24 we have already contracted⁶ on 61 dwellings and land lots which is 73% of the FY23 result. We offer very competitive prices to customers, yet we make a healthy development profit margin of around 30% and return on invested capital of around 20% because we are very disciplined on costs. Aspen is well placed to increase development activity and profits over the medium term with a secured pipeline of over 1,200 approved sites equating to over 10 years of supply at the current sales rate.

The refurbishment of CoVE Maylands is progressing well, and the apartments are expected to be available for lease from early 2024. The quality has exceeded our expectations, and we expect to achieve 100% occupancy very quickly, average rents of at least \$375 per week, and net income of over \$1.5 million per annum.

Our residential build-to-rent projects to date will deliver about 600 good quality dwellings to the market at an approximate total cost of only \$110m or \$182,000 on average. Once stabilised, we expect these properties to generate net income yield of about 7% on cost and be worth at least \$59 million or 54% more than cost.

Capital

Aspen's balance sheet is in good shape with current gearing⁷ of 28% and interest cover ratio⁸ of about 3.5x.

Aspen has entered into a new syndicated debt facility with Westpac and Bank of Queensland. The new limit is \$40 million larger at \$210 million (plus \$50 million accordion), duration is 3 years with expiry in November 2026, terms are more flexible, and the drawn margin is 200bps.

We continue to recycle capital from properties with relatively high rents and low net income yields of around 3%, into properties and projects with lower rents and higher yields. This helps maintain a portfolio that is suited to our core customer base while also increasing returns for shareholders. One example is the recycling of our Perth House Portfolio. When acquired for \$20 million in late 2019, the portfolio had 84 houses with average in-place rent of \$351 per week generating total net income of about \$0.7 million per annum. To date we have sold 36 of the houses generating gross proceeds of \$18 million, and the remaining 48 houses still generate about \$0.7 million of net income at an average rent of only \$422 per week. The \$18m of equity released has been redeployed into projects such as CoVE Maylands which is expected to generate about 7% net income yield with average rents of only \$375 per week.

We remain very patient and disciplined with our property acquisitions. With Aspen's FY23 results we announced the acquisition of four very attractive properties for a total purchase price of \$11.2 million equating to an average of only \$50,000 for the 223 currently approved dwellings and sites. We are aiming to secure approvals for at least 300 more sites across two of the properties to develop lifestyle and park accommodation. In our opinion, the potential long-term capital growth from these investments is highly skewed to the upside while we enjoy at least 5% net income yield in the meantime. We think Aspen's opportunities will increase over the next 12 months as credit conditions remain restrictive and economic activity weakens further.

Outlook

Aspen is very well positioned to continue to deliver growth in earnings, distributions, and NAV despite increased cost of debt. Accommodation markets are likely to remain undersupplied for the foreseeable future, particularly at lower rent and price points. We intensively operate our properties, offering highly competitive rents while still generating over 6% net income yield from our portfolio – at least twice the rate available from passive residential rental markets across Australia. Additionally, we create significant new income streams and NAV growth by developing and selling new houses and land lots, and by creating residential build-to-rent (BTR) product at relatively low cost and high return on invested capital. Yet, investors can currently buy APZ at a 15% discount to NAV and the value-adding platform for nothing.

Aspen recently reported that its 1QFY24 financial results were ahead of budget and last year.

Patrick Maddern

Head of Asset Management & Development

Announcement authorised by the Board of Aspen Group Limited.

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1. Source: SQM Research– October 2023
2. Source: PropTrack – April 2023
3. Source: ABS
4. Source: ABS – Full year to September 2023
5. Operating Earnings is a non-IFRS measure that is determined to present, in the opinion of the directors, the operating activities of Aspen in a way that appropriately reflects Aspen’s operating performance – refer to Aspen’s financial reports for full definition
6. Contracted includes settled, contracted, and deposited
7. Gearing = (financial debt less cash) / (total assets less cash less retirement village resident loans & deferred revenue)
8. Interest Cover Ratio = Underlying EBITDA / Total Interest Paid

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