ASX ANNOUNCEMENT

09 June 2017

Announcement No. 09/17
The Manager
Corporate Announcement Office
Australian Securities Exchange

Property Valuations as at 30 June 2017

Highlights

- ALE's 86 properties increased in value by $89.68 million to $1,080.16 million for the year to 30 June 2017
- Weighted average adopted capitalisation rate reduced from 5.53% to 5.14% based on market sales evidence and the increasing importance of the discounted cash flow (DCF) valuations
- Valuers' assessed DCF valuations of the current year's 33 property sample represented a weighted average capitalisation rate of 4.48%
- ALE notes that a material gap between Australian Government long term nominal bond rates and the capitalisation rates applying to ALE's properties continues to prevail
- ALE continues to benefit from the majority of properties being subject to long term triple net 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 2017 to $1,080.16 million. This is an increase of $75.71 million since 31 December 2016 and an increase of $89.68 million or 9.0% since 30 June 2016.

ALE's reassessment of the carrying value of the properties was based upon independent valuations of 33 properties, being a representative sample across the property portfolio, by CBRE and Heron Todd White (HTW). During the year ALE's weighted average adopted capitalisation rate reduced from 5.53% to 5.14%.

The Directors' valuations of the remaining 53 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 adopted capitalisation rates, on a like for like basis, that the valuers determined would apply to the properties independently valued by them at 30 June 2017.

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

- Low and stable interest rates, increased international competition for assets and limited supply of investment grade properties has seen a tightening of capitalisation rates across the broader property investment market. Investors continue to seek favourable yields and an investment in ALE's pub properties is characterised by a long term securely leased property to a major corporate entity. These types of properties have become increasingly attractive to the long term passive investors;

- The fact that the 2018 (capped and collared at 10%) and 2028 (open) market rent reviews are drawing closer has made the properties increasingly attractive as investors take this into account. The 2018 review is now 17 months away and the market is fully aware of the rent being below market for the majority of the properties. The valuers believe this would provide a significant incentive for a potential purchaser of ALE's properties;

- While there were only a small number of freehold pub property transactions during the year, there was significant transactional evidence from retail, liquor store and supermarket properties, providing strong support for the adopted capitalisation rates;

- 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; and

- 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.

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 2017	Changes Since June 2016	Current Average Value
NSW	10	$7.59	5.08%	**$149.50**	$10.80	$14.95
QLD	32	$17.09	5.02%	**$340.62**	$31.47	$10.64
SA	7	$2.06	5.52%	**$37.25**	$2.29	$5.32
VIC	33	$26.94	5.16%	**$521.52**	$42.56	$15.80
WA	4	$1.86	5.96%	**$31.27**	$2.56	$7.82
Totals	86	$55.54	**5.14%**	**$1,080.16**	$89.68	$12.56

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

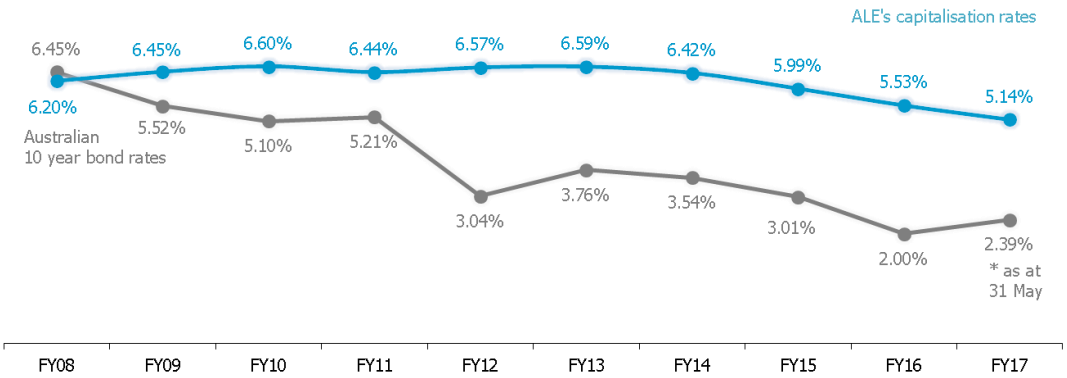
Contributions to the full year increase in valuations of $89.68 million include:

- Annual CPI rent increases: $16.24 million
- Capitalisation rate reductions: $75.31 million
- Queensland land tax increases: ($1.87) 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 nominal bond rates over the past ten years.



Over the last ten years long term bond rates have fallen by around 400 basis points, yet ALE's capitalisation rates have only fallen by around 100 basis points. It is notable that the spread remains at an elevated level.

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 sample of 33 of ALE's 86 properties by applying a number of methodologies. The valuers confirmed that the sample was materially representative of the other 53 properties. As confirmation of that view, the current year's sample of properties recorded a weighted average adopted capitalisation rate of 5.13%. The valuers applied both traditional capitalisation rate and DCF based valuation methods. Whilst the above statutory valuation results reflect a combination of both methods it also continues to give much greater weighting to the traditional capitalisation rate method.

ALE believes that the DCF valuation 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 33 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: 1.0% p.a.
- 2028 Terminal Capitalisation Rate: 6.9%
- Discount Rate: 7.3% p.a.

Based upon the above assessments and assumptions for the 33 properties, the valuers' assessed DCF valuations totalled $454.6m. On the sample's current net rent, this value represents a weighted average capitalisation rate of 4.48%. This compares to the adopted value of $396.0 million and adopted capitalisation rate of 5.14% which was derived using a combination of the DCF and capitalisation rate methods.

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 Lease Arrangements

ALE reminds investors that the strength of the properties is derived from the fact that they are subject to long term triple net 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 11 years to November 2028, with ALH also holding four 10 year options to extend to 2068;

- 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 continued positive impact that investment is expected to have on ALH's operating profitability and ALE's market rent prospects at the properties;

- Change of control protections – a change in more than 20% of the ownership of ALH requires ALE's consent based on its reasonable opinion that ALH will continue to have the financial capacity, business skills, other resources and authorisations to enable it to conduct the permitted operating uses profitably and perform all of its the lease obligations (an exception applies if ALH becomes an ASX listed entity);

- 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 12 years, as ALH is not released on assignment; and

- Operating profit protections - subject to regulatory changes and requirements, ALH has agreed that it will not reduce the number of gaming entitlements below 90% of the current numbers across ALE's properties.

- Ends -

Contact:
Andrew Wilkinson
Managing Director
ALE Property Group

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