

Media release

Zug, 30 August 2018

Ongoing significant increase of effective and potential gross income based on sustainable portfolio development – positive outlook for 2018

- **Effective gross income of USD 38.9 million (previous year: USD 28.4 million; + 37.0%)**
- **Gain from portfolio value adjustment of USD 7.4 million (previous year: USD 14.9 million; - 50.3%)**
- **Total income of USD 46.4 million (previous year: USD 43.3 million; + 7.2%)**
- **Improvement of profitability:**
 - **Operating profit without revaluation up to USD 16.4 million (previous year: USD 10.2 million)**
 - **Operating margin without revaluation up to 42% (previous year: 36%)**
- **Potential gross income increased to USD 94.3 million (end of 2017: USD 83.9 million; + 12.4%)**
- **Value of property portfolio tops USD 710.6 million as of 30 June 2018 (end of 2017: USD 618.0 million; + 15%), and consists of 50 properties**
- **Total revenue of a constant portfolio between 30 June 2017 and 30 June 2018 increased by 3.6%**
- **Earnings per share of USD 1.38 (previous year: USD 1.83 including higher revaluation)**
- **Distribution of a dividend of CHF 2.50 per share after the 2019 General Assembly confirmed**
- **NAV per share at USD 35.82 (end of 2017: USD 34.38)**
- **Additional equity raised in 2018 fully invested**
- **Full completion of Non-Controlling Interest buy out**

Varia US Properties closed the first half-year of 2018 with favourable results. Varia focused on further promising investments and on the continued implementation of its growth and value-add strategy. Overall, the half-year results are within its expectations in a growing portfolio and reflect the benefits of the positive developments of the US real estate market and the efficiency of Varia's strategy.

Effective gross income of USD 38.9 million – potential gross income up to USD 94.3 million – improvement of profitability

The resulting portfolio, as of 30 June 2018, consisted of 50 properties totalizing 9,162 units in 20 states, representing USD 710.6 million of real estate value appraised by Colliers (end of 2017: USD 618.0 million). The occupancy rate stood at 93.7% (end of 2017: 94.3%). In the first six months 2018, the portfolio generated an effective gross income of USD 38.9 million (previous year: USD 28.4 million) and a total income of USD 46.4 million (previous year: USD 43.3 million).

The average rent per unit was USD 753 per month (end of 2017: USD 716 per month). Total revenue of a constant portfolio between 30 June 2017 and 30 June 2018 increased by 3.6%.

Total operating expenses amounted to USD 22.6 million (previous year: USD 18.2 million). After deduction of the finance cost and the income tax provision, the profit for the period is USD 12.2 million (previous year: USD 12.1 million). Varia also increased its profitability as the total operating expenses ratio on the realised income is down from 64% to 56.5% as of 30 June 2018. The operating profit without revaluation is up to USD 16.4 million (previous year: USD 10.2 million) and the operating margin without revaluation is up to 42% (previous year: 36%).

The net gain from fair value adjustment on investment property amounted to USD 7.4 million (previous year: USD 14.9 million) and reflects the capex investments as well as the execution of the value-add strategy of Varia US Properties.

Manuel Leuthold, Chairman of the Board of Directors of Varia, said: “We are very pleased with the operational performance of Varia in the first six months of this year. The ongoing implementation of our growth and value-add strategy is paying off as expected. Our attractive portfolio in growing suburban markets in the US guarantees a sustainable income base that we gradually built upon.”

Further expansion of the high quality portfolio

The newly capital raised during the January capital increase was fully deployed at the end of June 2018. Varia acquired six properties in the States Arizona, New Mexico, Ohio and Tennessee for USD 132.2 million and with a total of 1,838 units. Some of the new properties are located in markets Varia was not present, thus further diversifying its geographical exposure.

All new acquisitions are fully in line with Varia’s value-add strategy. This means that Varia invests significant amounts of money to rehab about two third of the units acquired and renovate all the common areas and the amenities to improve the quality of the assets and allow a rent premium. The properties are also larger assets mostly situated in locations where Varia consolidates its position to increase its market presence and realise gains in operational efficiency. In addition, Varia placed two more properties in Ohio and Tennessee under contract in July with a total of 419 units. The closing of these transactions is expected to be completed in Q3 2018.

For the business year 2018, Varia confirms its goal of distribution of a dividend of CHF 2.50 per share after the 2019 General Assembly.

Completion of non-controlling interests transfer

Varia completed the transfer of non-controlling interests by the end of May 2018. Based on an agreement with Peak Capital Partners in December 2017, Varia has taken full ownership and control of its assets and liquidated the non-controlling interest position in its financial statements. Varia now owns 50 properties with no more non-controlling interests and is entitled to 100% of the profit of the assets.

Key financial figures half-year 2018

In USD million	As of 30 June 2018	As of 30 June 2017	Δ%
Rental income	35.3	26.2	34.7
Other income	3.6	2.1	71.4
Net gain from fair value adjustment on investment property	7.4	14.9	(50.3)
Total income	46.4	43.3	7.2
Total operating expenses	22.6	18.2	24.2
Operating profit with revaluation	23.8	25.1	(5.2)
Operating profit without revaluation	16.4	10.2	60.8
Profit attributable to Varia	12.2	12.1	-
Potential gross income	94.3	71.1	32.6
Net cash flow	9.9	7.6	30.3
Annualized Cash-on-cash yield	8.2%*	10.4%	(21.1)
Earnings per share (EPS)	1.38**	1.83	(24.6)
Net asset value per share (in USD)	35.82	34.03	5.3

* This reduction of the cash on cash yield is due to the growth of the value-add portfolio.

** This reduction of the EPS is due to a limited improvement of the non-realised income. As of June 30, 2018, 84% of the revenue of the Company is realised (65.6% as of June 30, 2017).

Outlook

The US economy has been developing very positively based on an ongoing solid job growth and positive economic indicators. The unemployment rate was below 4% as of 30 June 2018 and the inflation rate was 2.9% for the twelve months ended July 2018, according to the published data of the US Labour Department on 10 August 2018. These numbers are very positive for the rental housing market characterised by a growing number of tenants and a continuing high demand for B and C properties in secondary and tertiary markets. The fundamentals remain strong and Varia does not foresee a severe modification of the US national economy over the next six months.

To mitigate the currency volatility risk the Board of Directors follows the current Swiss parliamentary works about the modification of the code des obligations, that could allow a conversion of the capital of Varia in US Dollar. It also considers a possible quarterly, instead of a yearly, distribution after the 2019 General Assembly.

Patrick Richard, Delegate of the Board of Directors of Varia, said: “Varia intends to keep on its growth momentum. After having deployed the additional equity raised this January in time, we have a promising portfolio of US multifamily housing in growing secondary and tertiary markets which we will continue to expand with targeted acquisitions. The focus on the second half of 2018 will be on continuing to work on deploying the value-add strategy by further optimising returns and reducing operating expenses to increase our profitability. Therefore, we confirm our positive outlook issued in April 2018 that we will provide this year solid results in US Dollar.”

Additional information

The media release, the analyst presentation of the results and the 2018 half-year report are available on the website of Varia at www.variausproperties.com/investors/financial-statements/.

Key dates

Full-year results 2018	3 April 2019
Annual General Meeting	30 April 2019

Contact information

Juerg Staehelin, IRF Communications

Phone: +41 43 244 81 51, E-mail: investors@variausproperties.com

About Varia US Properties AG

Varia US Properties AG is a Swiss based real estate company exclusively investing in U.S. multifamily housing with a main focus on secondary and tertiary markets. Established in 2015, the Company acquires, holds, transitions and repositions properties in the boundaries of metropolitan regions of the U.S. in order to secure rental income and value growth. More information: www.variausproperties.com

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