

# VARIA U.S. PROPERTIES

## INFORMATION ABOUT THE 3<sup>rd</sup> QUARTER 2019

### INTRODUCTION

#### HIGHLIGHTS

Full deployment of \$50M Fixed-Rate bond issuance with three acquisitions during the quarter.

Strong financial quarter with increasing rental income, unit rates and occupancy.

Varia confirms CHF 2.60 dividend for fiscal year 2019.

US Multifamily market remains positive with interest trending lower although erratic.

Kepler Cheuvreux publishes a positive report on the Company with increased price target.

At the property level:

Q3 Effective Gross Income\*: \$25.1 Million

Q3 NOI\*\*: \$11.9 Million

Total Units: 10,970

Number of properties: 54

Occupancy rate: 94.3%

\* Effective Gross Income (includes rental and other income)

\*\*Net Operating Income (NOI)

Dear Investors,

This report provides an update regarding the latest developments and performance of the Company during the third quarter of 2019. All figures are operating results in USD at the property level, which have neither been consolidated nor audited. This report is not intended to restate the Half Year Report of 2019 that was published on August 29, 2019, but rather focus on activities since the beginning of July. Further information about the company can be found at [variausproperties.com](http://variausproperties.com).

During the third quarter, the Company fully deployed the \$50M fixed rate bond offering from May 2019 with the purchase of three acquisitions adding 1,263 units to the portfolio. Two of the properties are in Kansas City, MO (The Kings and Eastwood Crossings) and the third property in Memphis, TN (Lynnfield Place). Robust capital improvement plans are in place for all three properties, allocating an estimated \$10.7M in value-add improvements in internal and external renovations. These renovations will include unit renovations, new roofs, parking lot repaving, paintings of buildings, property landscaping and the construction of outdoor amenities such trendy dog parks and other modern common area amenities for its residents. The Company also sold a non-strategic 30 unit property (Eagles Nest) in Rifle, Colorado.

In September, Varia confirmed the targeted dividend of CHF 2.60 per share for the business year 2019 to be paid after the Annual General Meeting in April 2020. It includes the quarterly planned and approved distribution of CHF 0.50 per share in August and November 2019 as well as in February and May 2020.

The Company continues to actively explore properties that meet its investment criteria and is poised to execute on these targets when the conditions are right. The US multifamily market continues to remain strong with a favorable supply of available products. Also, interest rates, while somewhat erratic during 2019, have continued to trend downward.

Kepler Cheuvreux published another favorable research paper on Varia US in mid-August. Kepler recommends a Hold position with a target share price of CHF 39.50, an increase of CHF 0.50 from Q1 2019. This research was sent to Kepler's clients based in Europe and it can be obtained directly with this Company ([www.keplercheuvreux.com](http://www.keplercheuvreux.com)).

## Q3-2019 PORTFOLIO PERFORMANCE REVIEW

*A preliminary summary of the Varia portfolio Q3 operating results for 2019 and 2018 is provided below.*

*These figures are calculated at the property level and have not been consolidated at the Company level. They are unaudited and are provided on a purely indicative basis. They do not correspond in all respects to IFRS figures. They are subject to change and the Company shall not be responsible for investment decisions based on them. Only the figures presented in the 2018 Annual Report or the 2019 Half Year Report should be considered.*

RESULTS (for the quarter ended)	Unit	Q3 2019	Q3 2018	Change
Effective Gross Income	USD Mio	25.1	22.3	12.5%
Rental Income	USD Mio	22.6	20.2	12.0%
<i>Rental Income like for like*</i>	USD Mio	21.0	19.7	6.6%
Operating Expenses	USD Mio	11.9	10.3	15.9%
Operating Profit	USD Mio	13.2	12.0	9.6%
NOI	USD Mio	11.9	11.1	7.0%
NOI less Finance Cost	USD Mio	6.7	6.4	5.9%
Properties	Number	54	52	3.8%
Units	Number	10,970	9,581	14.5%
<i>Potential Rent per Month per Unit like for like*</i>	USD	799	773	3.4%
Occupancy Rate	%	94.3%	93.9%	0.5%
Occupancy Rate like for like*	%	94.2%	93.8%	0.4%

\* Like for like compares assets that were held for the full periods presented.

## General overview

At the end of Q3-2019, the Company portfolio had 54 properties for a total of 10,970 units. Overall, the third quarter reflected strong performance on the income side and expenses continued to be controlled and optimized. Occupancy rates remain strong and we believe there is additional upside potential as we continue to increase knowledge as to local markets and competition using new technologies.

## Income

**Effective Gross Income** has increased \$2.8M (or 12.5%) from \$22.3M in Q3-2018 to \$25.1M in Q3-2019, driven by a focus on capturing rental income increases, augmented by increased non-rental income such as utility reimbursements, garage income, renters insurance income, cable income and acquisitions.

**Rental Income**, defined as gross potential rent less economic/physical vacancy, has increased \$2.4M (or 12.0%) from \$20.2M in Q3-2018 to \$22.6M in Q3-2019. Like for like has increased \$1.3M (or 6.6%) from \$19.7M in Q3-2018 to \$21.M in Q3-2019, driven mostly by continuing to push for higher rental rates and occupancy across the portfolio while managing concessions.

**Occupancy** has remained strong in Q3-2019 at 94.3% as compared to Q3-2018 at 93.9%

## Operating Activity and Overall Results

**Operating Expenses** have slightly increased from \$10.3M in Q3-2018 to \$11.9M in Q3-2019. The increases on the expense side are higher real estate taxes in certain markets, property maintenance investments to drive tenant retention, the timing of incurring certain operating expenses, additional costs for new properties and certain start-up expenses related to the transition of certain property managers.

**NOI** has increased \$0.8M (or 7%) from \$11.1M in Q3-2018 to \$11.9M in Q3-2019.

**NOI less Finance Cost** has remained relatively stable period over period.

## Third Quarter 2019 Acquisitions

During the third quarter of 2019, the Company closed on three strategic acquisitions in Memphis, Tennessee and Kansas City, Missouri. The following provides more detail on each of those acquisitions:



### Lynnfield Place

<u>Acquisition Date</u>	<u>City</u>	<u>State</u>
August 2019	Memphis	Tennessee
<u>Number of Units</u>	<u>Net Rentable Area</u>	<u>Gross Potential Income</u>
400	43,216 m <sup>2</sup>	4,327,434 USD

- Lynnfield Place is located in the east part of Memphis and benefits from close proximity to commuting corridors, high end retail and job centers.
- The market has experienced tremendous growth and increased job opportunities which will only serve to position Lynnfield for long term success and growth.
- The Company plans to invest a sizeable cap-ex budget into both the exterior and interior units enabling the property to generate strong rent growth and returns while remaining as the affordable option to tenants.
- The Lynnfield Place acquisition further builds to our presence in the Memphis market alongside The Meadows (200 units) and Cordova Creek (196 units).



### **Eastwood Crossing**

<u>Acquisition Date</u>	<u>City</u>	<u>State</u>
August 2019	Kansas City	Missouri
<u>Number of Units</u>	<u>Net Rentable Area</u>	<u>Gross Potential Income</u>
455	42,277 m <sup>2</sup>	4,252,342 USD

- The property is in the southeast part of the city, directly adjacent to the majority loop highway system in Kansas City providing residents with a short drive time to shopping, services, major employers and entertainment districts.
- This area is in high demand for low to middle income families given its proximity to some of the largest concentrations of blue collar and middle market jobs making Eastwood a desirable property.
- With favorable debt terms and modest rent premiums, Eastwood is poised for strong cash on cash yields over the investment period.
- This property was purchased with the intent of performing extensive physical plant renovations (repainting off all the buildings with new colors, the addition of new roofs, significant landscaping, etc.) as well as significant marketing repositioning (name changed from Maple Hills, additional advertising, strong security presence, etc.), all of which are underway.



### **Kings Apartments**

<u>Acquisition Date</u>	<u>City</u>	<u>State</u>
September 2019	Kansas City	Missouri
<u>Number of Units</u>	<u>Net Rentable Area</u>	<u>Gross Potential Income</u>
408	31,219 m <sup>2</sup>	4,259,241 USD

- Boasting 408 units, The Kings Apartments is one of the largest residences in the burgeoning Kansas City, Jackson County market and contains a North and South division spanning approximately 22 acres of land collectively.
- Built in the early 70's and late 80's, the property is conveniently located near Cerner Corporation, and other major companies providing an attractive destination for young professionals and an even stronger demographic for investors.
- The property's previous ownership invested over \$5 million in both interior and exterior renovations enabling the Company to solely focus on growing the investment, creating a positive experience for residents and strong returns for investors.
- The Kings is considered a more stabilized property so the primary focus will be more on improving operations than property renovation.

## NEXT REPORT

The next report will be the 2019 Annual Report that will be published on March 26, 2020.

## TERMS

<b>Structure</b>	Real Estate Company	<b>Life duration</b>	Unlimited
<b>Incorporation</b>	Switzerland	<b>Market Cap on 30.09.2019</b>	CHF 338.44M
<b>Inception</b>	September 2015	<b>SIX ticker</b>	VARN
<b>Asset Manager</b>	Stoneweg SA	<b>ISIN</b>	CH0305285295

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