

VARIA US PROPERTIES AG

May 2020 Webinar



SPEAKERS

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AGENDA

- Varia US at a glance
- Q1 2020 property level results
- Stock Price and dividends
- COVID 19 update
- Multifamily market 2020 Outlook
- Q&A

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VARIA US PROPERTIES AT A GLANCE

Strategy description



Stable and long-term high yield strategy on U.S. multifamily housing with added value creation.



Focus in middle/low income population on secondary and tertiary markets, where construction activity has been very low, and demand is outpacing supply.

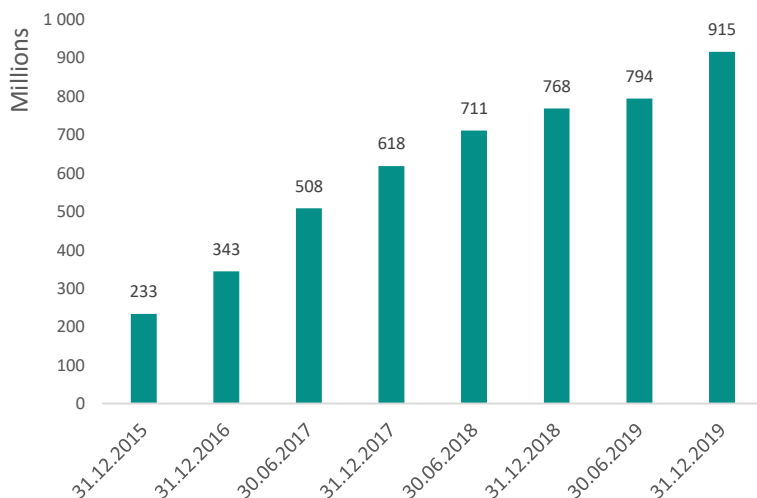


Income strategy with yield of 8%-10% p.a., target 10% - 15% net IRR

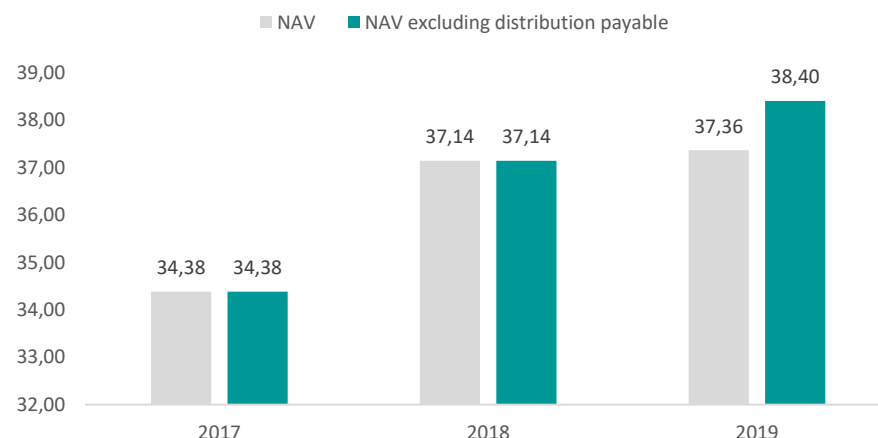
Key indicators

Gross real estate value	USD 915 million
Number of properties	53
Number of units	10'896
2019 gross income (<i>ex-revaluations</i>)	USD 99.4 million
2019 profit	USD 42.8 million
Earnings per share	4.75
Dividend Yield*	6.8%
Market Cap (13.5.20)	CHF 330 million

Portfolio value (\$mio.)



NAV/share



What we said in 2019 and what we achieved

Company Level

<u>Company Level</u>		<u>Comments</u>
Propose quarterly distribution to increase liquidity and attract new investors	✓	Introduced in June 2019 + liquidity strategy increased (Volume traded year-over-year increased 2.54 times)
No large capital increase in 2019	✓	No Capital increase in 2019
Exploring issuance of bond and authorized capital increase	✓	CHF 50 million Bond issued in June 2019 at 3% interest rate
Explore dollar listing to avoid FX issue	—	Not currently possible to implement

Asset management

Optimize existing portfolio and continue to grow returns	✓	Rental income like for like* increased by 3.5% from Q4 2018 to Q4 2019
Further implement value-add strategy and increase rents according to plans	✓	USD 15.6 million invested in capex projects in 2019 (3.6M in unit rehab and 3.2M in new roofs).
Bring security in our assets to the next level (fences, gates, cameras)	✓	Ongoing investment in security systems, cameras, patrols, fences, gates and lightening when needed

Sales

Sale of three properties (low cash on cash due to repayment of principal, small and remote)	✓	2 properties sold in 2019 (34% IRR for Eagle's Nest and 79% IRR for Brentwood Oaks) , with additional sales to occur in 2020
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*Like for like compares assets that were held for the full periods presented.



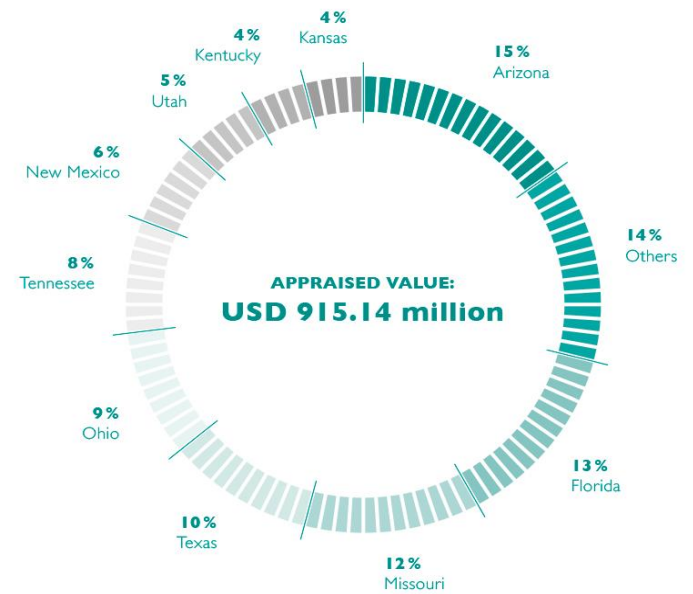
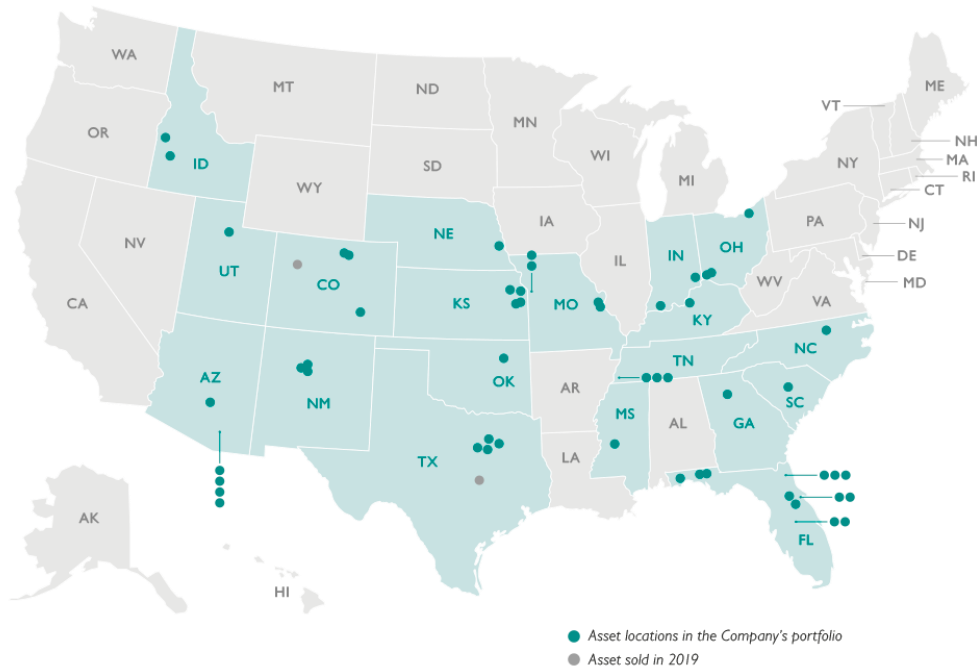
Q1 2020 property results

Q1 2020 property results

	Unit	Q1 2020	Q1 2019	Change \$	Change %
Rental Income	USD Mio	24.3	20.9	3.4	16.3%
<i>Rental Income like for like*</i>	USD Mio	21.9	20.7	1.2	5.8%
Effective Gross Income	USD Mio	27.2	23.1	4.1	17.7%
<i>Effective Gross Income like for like*</i>	USD Mio	24.4	22.9	1.5	6.6%
Operating Expenses	USD Mio	14.3	12.3	2.0	16.3%
NOI	USD Mio	12.9	10.8	2.1	19.4%
<i>NOI like for like*</i>	USD Mio	11.9	10.7	1.2	11.2%
NOI less Finance Cost	USD Mio	7.6	6.0	1.6	26.7%
NOI Margin	%	47.6%	46.8%		0.8%
<i>NOI Margin like for like*</i>	%	48.7%	47.0%		1.7%
Properties	Number	53	52	1	
Units	Number	10,896	9,737	1,159	
Potential Rent per Month per Unit like for like*	USD	820	803	17.0	2.1%
Occupancy Rate	%	93.1%	93.3%		-0.2%
<i>Occupancy Rate like for like*</i>	%	93.9%	93.3%		0.6%

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

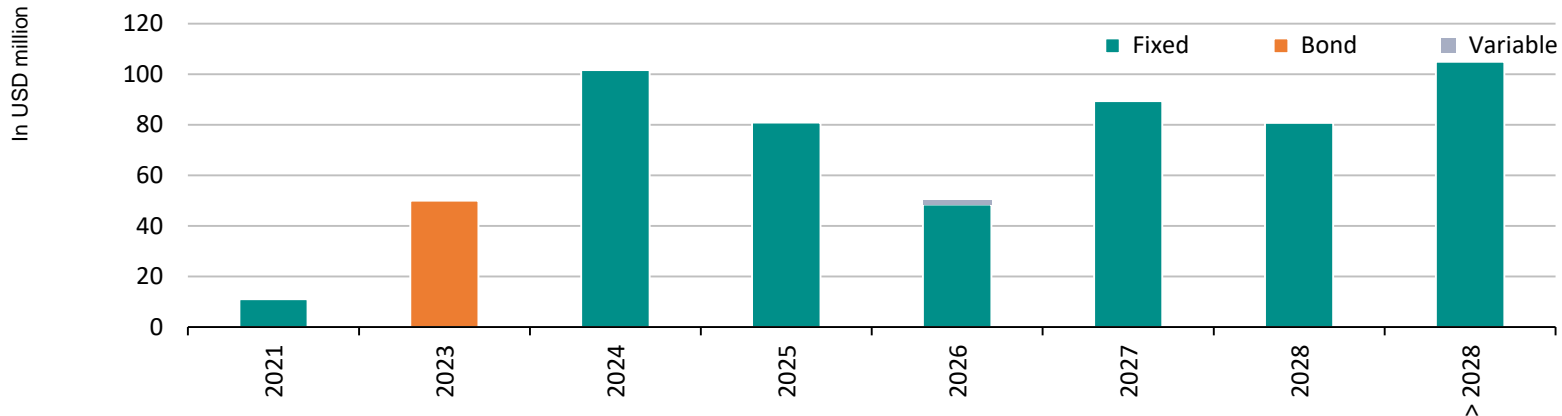
GEOGRAPHIC BREAKDOWN



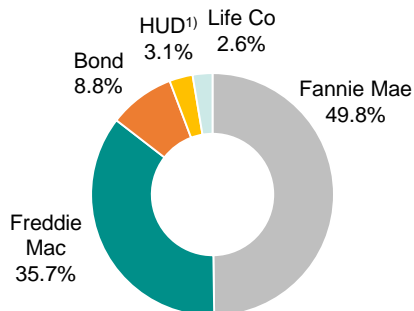
DEBT FINANCING STRUCTURE

March 2020

Loan maturity breakdown



Lender breakdown



Key figures

■ Mortgage	USD 518 m
■ LTV	56.6%
■ Average Rate	4.09%
■ Average Maturity	7.27
■ Total Debt	USD 566 m
■ Debt Ratio (Financial Accounts)	58.9%
■ Debt Ratio (Bond Covenant)	55.6%



Stock price and dividends

Stock price

	Units	YTD (13.5.20)	2020 high to low	Dividend Yield*	
				Current stock price	31.12.19 stock price
Varia US Properties AG	10'896	-13,9%	-29,3%	6,8%	5,9%
Equity Residential	79'065	-27,6%	-40,9%	4,1%	2,8%
Avalon Bay	85'000	-24,4%	-48,4%	4,0%	2,9%
Mid America Apartment Communities	101'954	-18,0%	-44,8%	3,6%	3,6%
Camden Property Trust	56'107	-20,9%	-48,2%	3,8%	3,0%
Independence Realty Trust	15'805	-36,2%	-58,8%	8,0%	5,1%
BRT Apartments Corp	11'362	-49,2%	-67,2%	9,7%	4,9%

- Among highest dividend yield company in Swiss Stock Exchange
- Among highest dividend yield versus US comparables
- Less volatility than peers especially on the downside

Source: Swissquote

* 2019 dividends before any withholding taxes

Value Creation

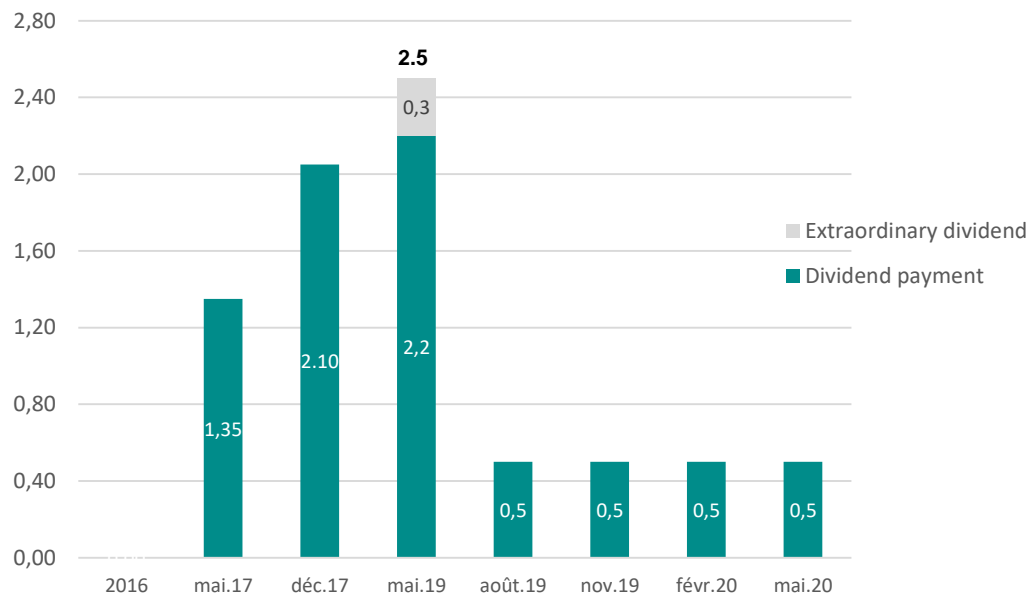
Stock price and dividends in CHF



DISTRIBUTION

At company level

- The AGM approved quarterly distributions from June 2019 onwards
- Objectives:
 - to provide more regular cash flow for investors
 - Avoid accumulation of cash at company level
 - Reduce currency risk on cash distributions
 - Increase liquidity on stock market and attract new buyers
 - dividends be paid in Aug 2019 – May 2020 are advance of dividends regarding the 2019 results



In reference of FY	Payment Date	Dividend paid amount
2016	17-May	1.35 CHF
2017	17-Dec	2.10 CHF
2018	19-May	2.50 CHF
2019	Aug/Nov 2019, Feb/May 2020	2.00 CHF



COVID 19 - ANALYSIS

COVID-19 Update – 1st initiatives

- First priority has been the **safety of the onsite teams** and the implementation of the CDC recommendations.
- Implementation of **virtual touring and leasing**
- Maximize rent collection with **payment plans** if needed
- Keep current tenants and maximize renewals
- Implement immediate expense reduction:
 - **17% controllable costs** cut or deferred for a total of 1.1M USD over next 3 months
 - **CAPEX stopped**
- **Mapping of tenant risks** to focus short term efforts
- **Daily meetings with our property managers** in order to communicate any pivots in strategy where necessary and to stay abreast of the latest developments at each property to react accordingly in real time
- **Re-evaluating each property's budget** to cut unnecessary expenses and preserve cash where possible ensuring our portfolio would be best positioned to weather the storm and maintain value for our shareholders

COVID-19 Update – rent collection level

- Excellent rent collection levels (market average at 92% in April)
- Company executed **Mapping of tenant risks** to focus it's short term efforts
- Rent collection levels expected to remain high despite unemployment thanks to federal and state special packages
- New leases still possible thanks to implementation of virtual touring

97,4%

rent collection for April*

89,0%

current rent collection for May*
as of 12.5.2020

+4,1%

rent collections as of 12 May
versus 12 April

** Using March 2020 as reference point*

Demographic Analysis

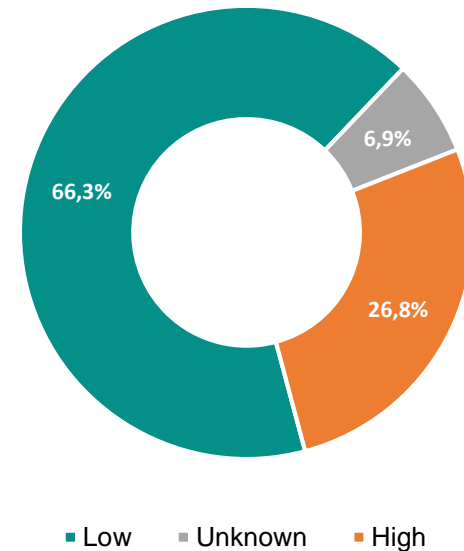
Overview

- Our criteria for determining were as follows:
 - **Low Risk Industries**
 - Healthcare related
 - IT / Tech
 - Construction
 - Fast food
 - Essential Retail (CVS, Kroger, Walmart / Target)
 - Government / school system related
 - Financial related
 - Logistics
 - Real Estate
 - Insurance
 - Retired / Social Security income or disabled income
 - **Unknown** – Employer info not provided by tenant or identifiable
 - **High Risk Industries**
 - Chemical / Heavy Manufacturing / Auto and Airline Industry
 - Sit down restaurants (i.e. Red Lobster)
 - Non-Essential Retail (Hobby Lobby, TJ Maxx)
 - Self Employed
 - Childcare

66.3%

of Varia's portfolio (by unit count)
is at a **lower risk** to potential job loss

Risk of job loss (by unit count)



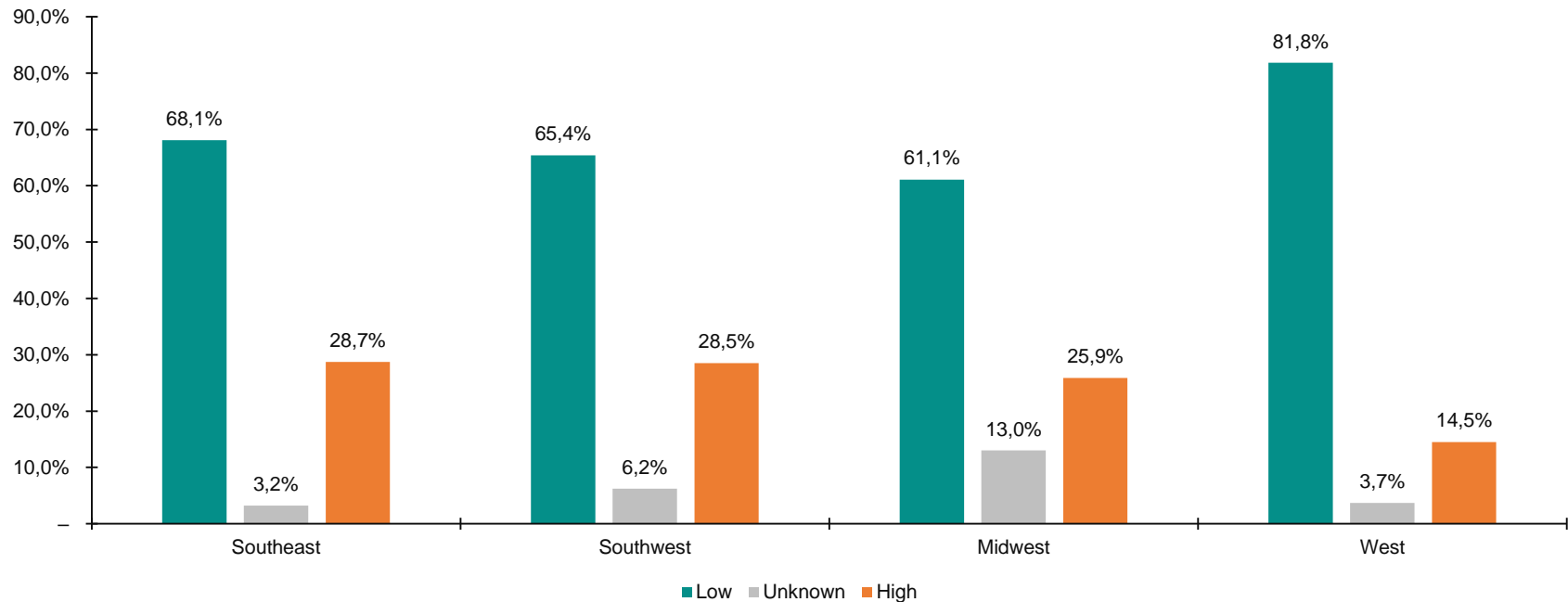
Demographic Analysis

By region

- While Company's West Portfolio is considered to have the highest proportion of lower risk tenants, it accounts for less than 10% of the unit count
- Company's SE, SW and Midwest Portfolios are relatively the same size and have similar risk proportions



Regional Overview



Demographic Analysis

Top 10 lowest exposures

- Below represents Company's Top 10 Lowest Exposure Properties to potential job loss
- Varia's seven "safest" properties are those in which the majority (if not all) of the tenant base is retired, receives Social Security or Disability checks from the US Government
- We don't foresee the Government canceling these payments in the immediate future
- Of these 1,141 occupied units, an impressive 92.6% of the tenant base is considered to be a low risk for immediate job loss**

Top 10 Properties – Lowest Exposure

Rank	Property	Location		Risk (#)				Risk (%)			
		City	State	Low	High	Unknown	Total	Low	High	Unknown	Total
1	Reflections Senior Apartments	Fort Collins	Colorado	72	–	–	72	100,0%	–	–	100,0%
2	Woodbridge Senior Apartments	Fort Collins	Colorado	50	–	–	50	100,0%	–	–	100,0%
3	Washington Heights	Kansas City	Kansas	46	–	–	46	100,0%	–	–	100,0%
4	Cottages of Topeka	Topeka	Kansas	71	1	–	72	98,6%	1,4%	–	100,0%
5	Woodland Manor	Tulsa	Oklahoma	296	7	2	305	97,0%	2,3%	0,7%	100,0%
6	The Woodlands	Jackson	Mississippi	192	8	–	200	96,0%	4,0%	–	100,0%
7	Wyndam Place Senior Apartments	Shawnee	Kansas	46	–	2	48	95,8%	–	4,2%	100,0%
8	Highland Vista	Creedmoor	North Carolina	68	14	–	82	82,9%	17,1%	–	100,0%
9	Beau Jardin	St. Louis	Missouri	146	20	13	179	81,6%	11,2%	7,3%	100,0%
10	Parkview	Caldwell	Idaho	70	16	1	87	80,5%	18,4%	1,1%	100,0%
Total / Wtd. Avg.				1 057	66	18	1 141	92,6%	5,8%	1,6%	100,0%

Demographic Analysis

Top 10 highest exposures

- Below represents Varia's Top 10 Highest Exposure Properties to potential job loss
- While Stoneweg will continue to monitor each property, this list provides a strong starting point for our most at-risk properties in order to pre-identify where we will likely need to allocate our focus
- Of these 1,767 occupied units, 42.7% of the tenant base is considered to be a high risk for job loss**

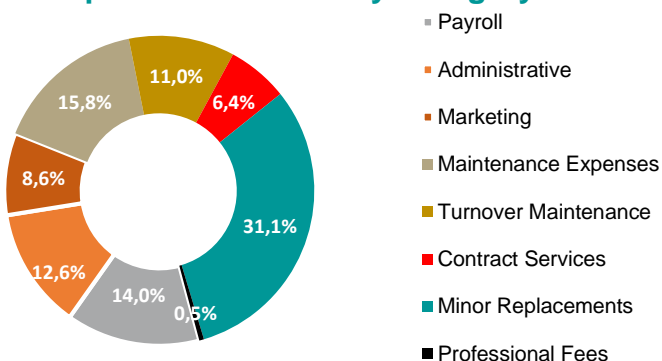
Top 10 Properties – Highest Exposure

Rank	Property	Location		Risk (#)				Risk (%)			
		City	State	Low	High	Unknown	Total	Low	High	Unknown	Total
1	Wood Hollow	Fort Worth	Texas	131	143	26	300	43,7%	47,7%	8,7%	100,0%
2	Devonshire Place	Evansville	Indiana	46	48	8	102	45,1%	47,1%	7,8%	100,0%
3	Broadview Oaks	Pensacola	Florida	47	41	–	88	53,1%	46,9%	–	100,0%
4	Avenue 8	Mesa	Arizona	100	91	7	198	50,5%	46,0%	3,5%	100,0%
5	Woodridge	Fairfield	Ohio	168	143	17	328	51,2%	43,6%	5,2%	100,0%
6	Nova Wood	Daytona Beach	Florida	48	43	9	100	48,0%	43,0%	9,0%	100,0%
7	860 East	Cincinnati	Ohio	117	84	17	218	53,7%	38,5%	7,8%	100,0%
8	Ridge on Spring Valley	Dallas	Texas	89	64	15	168	53,0%	38,1%	8,9%	100,0%
9	Willows of Cumming	Cumming	GA	91	58	7	156	58,3%	37,2%	4,5%	100,0%
10	Branchwood	Winter Park	Florida	64	40	5	109	58,7%	36,7%	4,6%	100,0%
Total / Wtd. Avg.				901	755	111	1 767	51,0%	42,7%	6,3%	100,0%

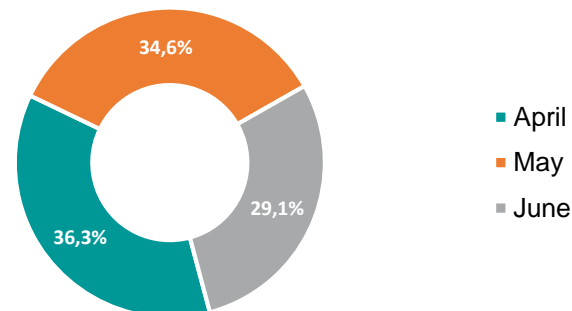
Expense reduction

- In addition to a demographic analysis, the Stoneweg team reviewed each asset's budget to reduce any expenses where possible to preserve cash flow at the property level
- After reviewing the budgets, Stoneweg has identified \$1.1M or \$102/unit of planned expenses that can be cut – this represents a 17.2% reduction of budgeted controllable expenses

Expense Reduction by Category



Expense Reduction by Month



Expense	Reduction Amount			Total	Total per Unit	%
	April	May	June			
Payroll	(\$49,548)	(\$47,880)	(\$57,543)	(\$154,970)	(\$14)	14.0%
Administrative	(50,556)	(61,197)	(28,436)	(140,189)	(13)	12.6%
Marketing	(28,372)	(34,135)	(32,789)	(95,296)	(9)	8.6%
Maintenance Expenses	(67,800)	(56,563)	(50,685)	(175,048)	(16)	15.8%
Turnover Maintenance	(40,434)	(44,342)	(37,630)	(122,405)	(11)	11.0%
Contract Services	(30,694)	(23,182)	(16,813)	(70,688)	(6)	6.4%
Minor Replacements	(133,060)	(114,956)	(96,450)	(344,466)	(32)	31.1%
Professional Fees	(1,800)	(1,800)	(1,800)	(5,400)	(0)	0.5%
Total	(\$402,262)	(\$384,054)	(\$322,145)	(\$1,108,461)	(\$102)	100.0%
Budgeted Controllable Exp.	(\$2,205,550)	(\$2,172,696)	(\$2,083,981)	(\$6,462,227)		
% Reduction	18.2%	17.7%	15.5%	17.2%		



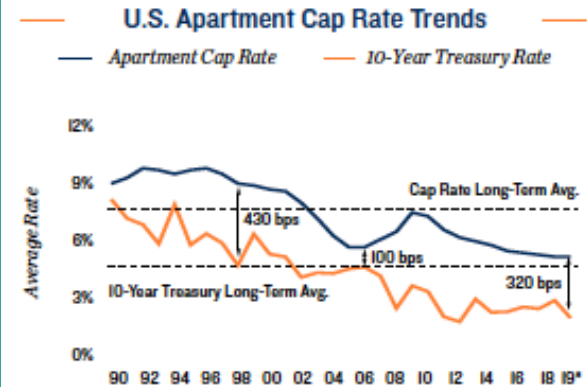
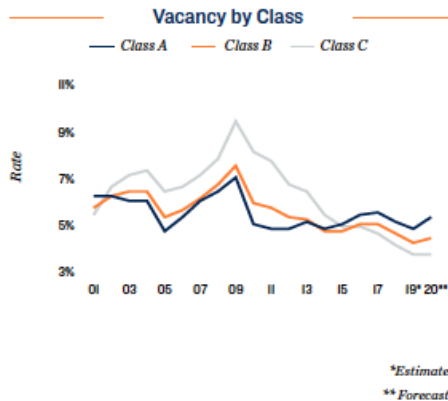
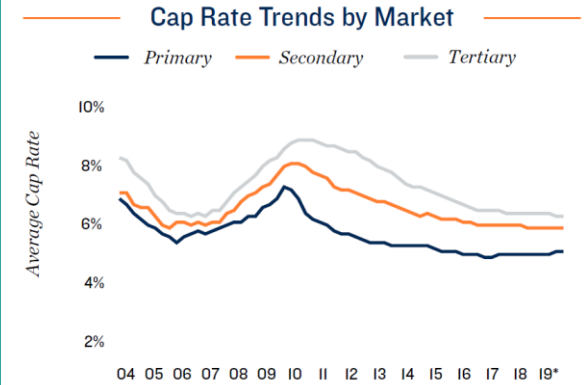
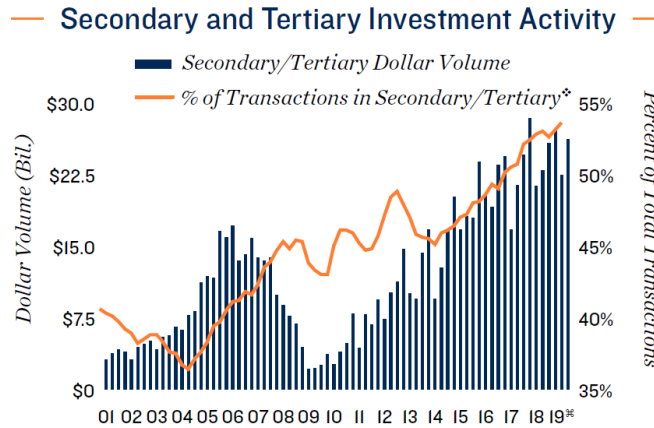
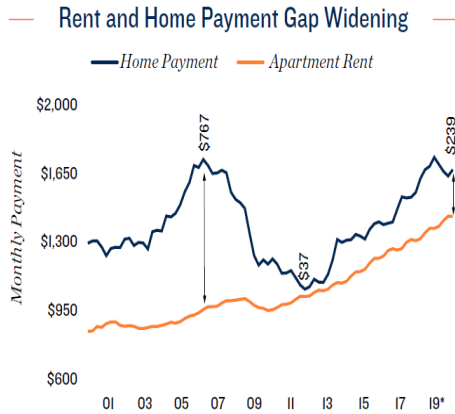
MULTIFAMILY MARKET 2020 OUTLOOK

2020 Market Outlook

- Industrial and multifamily asset classes will remain the darlings of the commercial real estate market this year. (GlobeSt, Jan 07 2020)
- Suburban Multifamily will continue to outperform in 2020. Buying or building in the suburbs will remain the best bet based on market performance and investment returns. Suburban multifamily will outperform urban, maintaining lower vacancy and achieving higher rent growth. (CBRE, Real Estate Market Outlook 2020, US)
- Investors and developers should also consider smaller metros (e.g. less than 2 million population). While liquidity and overbuilding risks are generally higher in smaller markets, there are several metros with exceptional multifamily performance today. (CBRE, id.)
- 2 main risks to be watched in 2020 are :
 - New supply near cyclical peak
 - Rent control legislation (already in place in California, Oregon and New York). (CBRE, id)

2020 Market Outlook – Key Graphs

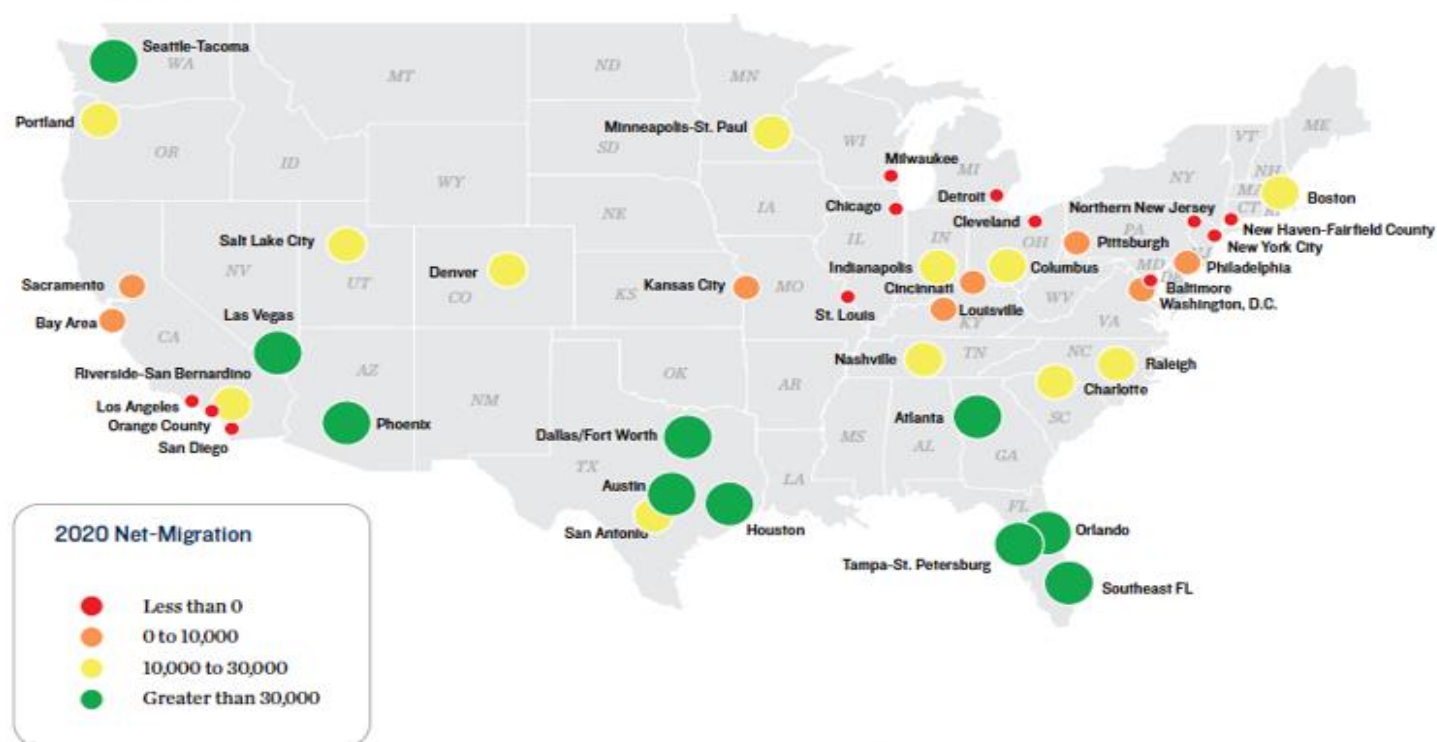
Marcus & Millichap 2020 North America investment forecast



2020 Migration Patterns*

Migration patterns favour South and Southwest

2020 Net Migration



*Source: Marcus & Millichap 2020 North America investment forecast

Targeted markets 2020

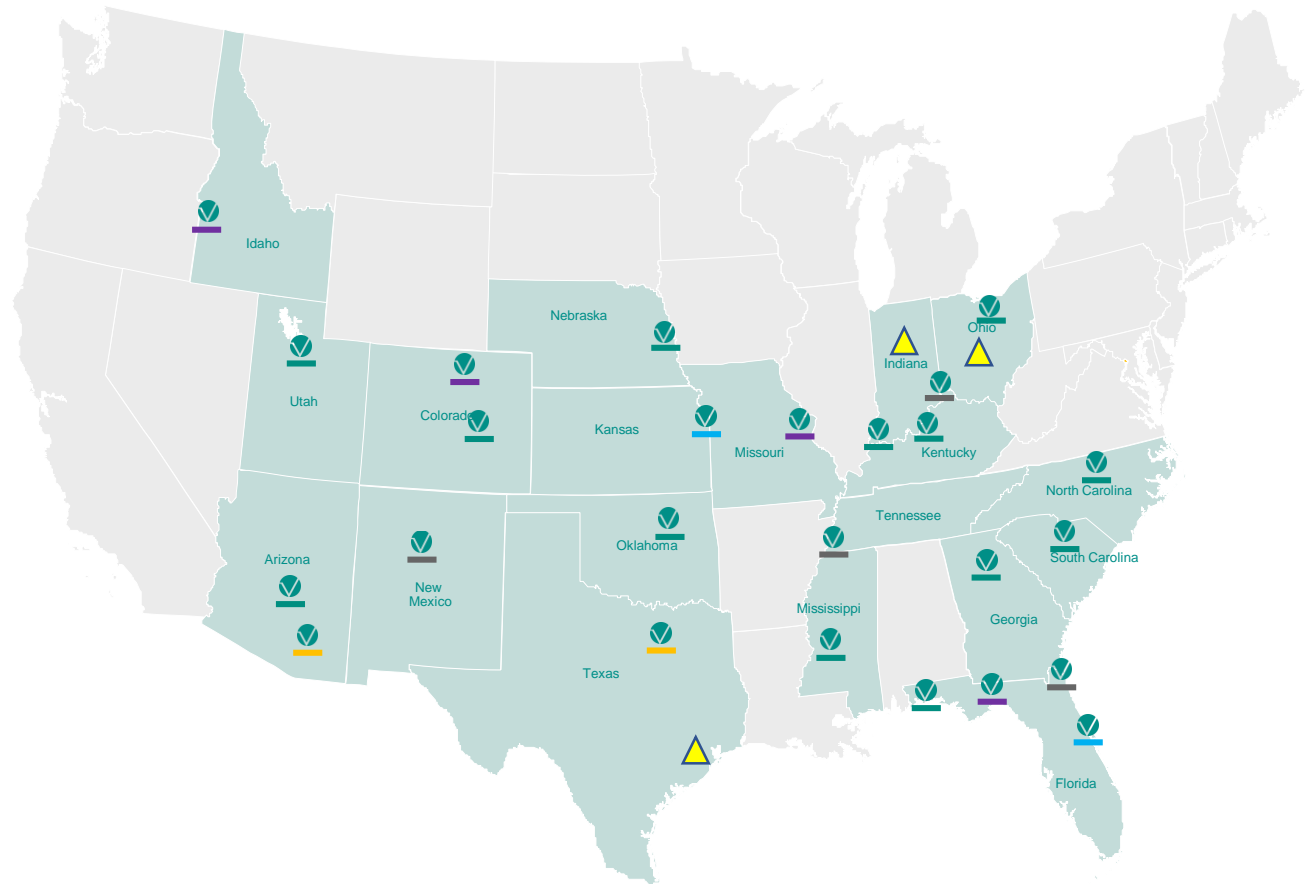
Markets where we currently operate:

- Kansas City, KS
- Louisville , KY
- Cincinnati, OH
- Tucson, AZ
- Memphis, TN

New Markets:

- Columbus, OH
- Indianapolis, IN
- Houston, TX

- 1 property in location 
- 2 properties in location 
- 3 properties in location 
- 4 properties in location 
- 6 properties in location 





Q&A