ALE PROPERTY GROUP

ASX ANNOUNCEMENT

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Property Valuations as at 30 June 2018

Highlights

- Value of ALE's 86 properties increased by $54.70 million or 5.1% to $1,134.86 million for the year to 30 June 2018

- Weighted average adopted capitalisation rate reduced from 5.14% to 4.98%

- Valuers' assessed DCF valuations of the current year's 35 property sample represented a weighted average capitalisation rate of 4.29%

- 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 2018 to $1,134.86 million. This is an increase of $34.35 million since 31 December 2017 and an increase of $54.70 million or 5.1% since 30 June 2017.

ALE's reassessment of the carrying value of the properties was based upon independent valuations of 35 properties, being a representative sample across the property portfolio, by Savills (QLD), CBRE (NSW), Heron Todd White (VIC/SA) and Opteon (WA). During the year ALE's weighted average adopted capitalisation rate reduced from 5.14% to 4.98%.

The Directors' valuations of the remaining 51 properties (also independently valued over the previous two years) are supported by advice from Savills, 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 2018.

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

- Low and stable long term interest rates 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 five months away and 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 2018	Changes Since June 2017	Current Average Value
NSW	10	$7.75	4.96%	**$156.36**	$6.86	$15.64
QLD	32	$17.31	4.81%	**$359.99**	$19.37	$11.25
SA	7	$2.09	5.13%	**$40.83**	$3.58	$5.83
VIC	33	$27.53	5.04%	**$545.98**	$24.46	$16.54
WA	4	$1.88	5.93%	**$31.70**	$0.43	$7.92
Totals	86	$56.56	**4.98%**	**$1,134.86**	$54.70	$13.20

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.

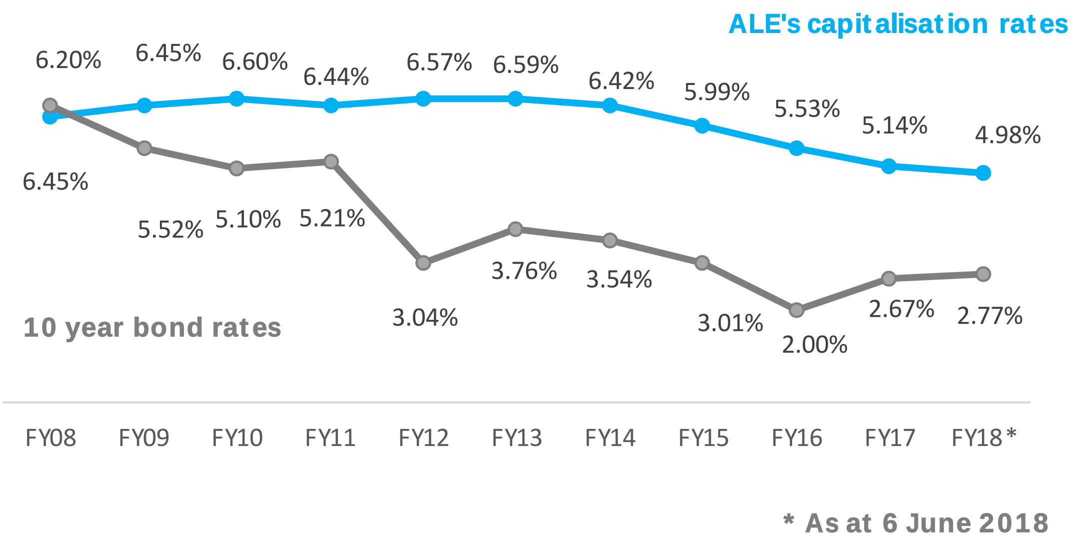
Contributions to the full year increase in valuations of $54.70 million include:

- Annual CPI rent increases: $22.54 million
- Capitalisation rate reductions: $34.90 million
- Queensland land tax increases: ($2.74) million

Capitalisation Rates and Bond Rates

ALE's average capitalisation rates have been stable over the past ten years and 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 370 basis points, yet ALE's capitalisation rates have only fallen by around 120 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 adopted capitalisation rates in future years.

Discounted Cash Flow (DCF) Valuations

This financial year the valuers again considered the statutory valuations of a sample of 35 of ALE's 86 properties by applying a number of methodologies. The valuers confirmed that the sample was materially representative of the other 51 properties. As confirmation of that view, the current year's sample of properties recorded a weighted average adopted capitalisation rate of 4.98%. The valuers applied both traditional capitalisation rate and DCF based valuation methods. Whilst the above statutory valuation results reflect a combination of both methods, the adopted valuations continue to give much greater weighting to the traditional capitalisation rate method.

ALE believes that the DCF valuation method provides 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 35 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: 1.4% p.a.
- 2028 Terminal Capitalisation Rate: 6.3%
- Discount Rate: 7.7% p.a.

Based upon the above assessments and assumptions for the 35 properties, the valuers' assessed DCF valuations totalled $513.19m. On the sample's current net rent, this value represents a weighted average capitalisation rate of 4.29%. This compares to the adopted value of $453.33 million and adopted capitalisation rate of 4.98% 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 rent review the discounted cash flow method will assume more prominence.

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