

REAL ESTATE INVESTMENT MANAGEMENT

Date

26 August 2011

Fund

ING Real Estate Community Living Group (ILF)

ILF 2011 Annual Results

ING Real Estate Community Living Group (ASX: ILF) today announced its full year results for the 12 months ended 30 June 2011.

Chief Executive Officer Simon Owen said “Over the past 18 months we have spent considerable time in improving our operational capabilities, developing and executing a strategy for the Australian Garden Villages business and repairing the balance sheet as we continue our transition from passive landowner to active manager.”

“Especially pleasing is the growing performance of the three DMF conversion assets which since launch in late 2010 have recorded 18 sales totalling \$3.1 million with a further \$4.2 million under contract. Management is currently assessing the launch of an additional conversion village as well as an expansion of the existing Gladstone conversion village which collectively will be a key contributor to cashflow over the next 3 to 5 years.”

“The Fund’s liquidity position has strengthened considerably over the past six months following improved operating performance of the Fund’s villages and the divestment of non-core assets at a significant premium to book value. Upon settlement of the recently announced partial sale of the US Seniors portfolio¹, the Australian loan to value ratio will be approximately 40% which provides ILF with a stable platform, a performing asset base and the financial flexibility to consider various go-forward strategies for the business.”

Key highlights for the year include:

- Statutory profit of \$13.1 million compared to \$67.7 million statutory loss in FY10;
- Operating income of \$6.9 million down from \$18.3 million in FY10;
- Operating income per unit of 1.6 cents compared to 4.1 cents in FY10;
- Net assets value per unit up slightly to 25.9 cents compared to 24.9 cents in FY10;
- Operating cashflows of \$8.6 million compared to \$14.6 million in FY10; and
- Garden Villages occupancy rate of 81.0% at 30 June 2011 compared to 73% at 30 June 2010.

The \$11.4 million decrease in operating income was largely due to the loss of earnings from the sale of the US Meridian and Canadian Regency Seniors portfolios which were divested in

¹ ILF ASX announcement 19 July 2011

May and June 2010 respectively, combined with the loss of income from the capital hedges which were terminated in November 2011.

Net asset value per unit has increased slightly to 25.9 cents due to retained earnings for the year and firming valuations offset by appreciation in the AUD against the USD.

Capital Management

The capital position of the Fund at 30 June 2011 has considerably improved following a series of asset sales combined with growing asset level performance.

Overall look-through gearing for the Fund decreased to 69% compared to 73% as at 30 June 2010. The primary contributor to the reduction was the sale of five non-core assets from the Garden Villages portfolio, the proceeds of which were applied to debt reduction.

US Seniors portfolio gearing remained steady at 83%. While the partial sale of the US Seniors portfolio announced in July 2011 will see the Australian gearing improve considerably, the remaining New York portfolio is highly leveraged at 91%. This debt is long-term, non recourse and covenant light creating opportunity from any value uplift while limiting the Fund's downside exposure.

Asset Management

Garden Villages

Within the Garden Villages Rental portfolio, initiatives to drive occupancy growth such as increasing sales lead conversions, providing sales training to front line staff and improved product presentation have been key contributors to occupancy increasing to 81% from circa 73% a year ago. Valuations for the retained Garden Villages portfolio firmed as at 30 June 2011, up 6.9% to \$89.7 million from 31 December 2010 principally due to improving occupancy rates and earnings.

Management will focus on growing and maintaining occupancy rate to the long term maintainable target of 89%.

Settlers DMF

The Settlers portfolio located in and around Perth and Brisbane has been adversely affected by soft residential property markets impacting price growth and time on market. These factors combined with softening discount rates resulted in the valuation for the portfolio declining by \$6.9 million (11.0%) from 31 December 2010 to \$56.5 million at 30 June 2011. Notwithstanding these challenging circumstances, occupancy remains firm at 95.0%, supported by units under contract, unit reservations and sales leads in place.

DMF Conversion

The DMF Conversion strategy launched across three villages in Queensland in late 2010 continues to build momentum with 18 sales totalling \$3.1 million by 30 June 2011 and contracts in place for a further 22 sales totalling \$4.2 million. An additional 176 units worth more than \$30 million are available in these three villages which are forecast to be sold down over the next 3 to 5 years, and will be a key contributor towards operating cashflows over this period.

The Gladstone village on the Central Queensland coast has experienced strong demand in particular and feasibility planning is advanced for an additional 20 units on adjacent land already owned by ILF. Management is also assessing the conversion of an additional rental village to the DMF model with expectations of launch in 2012.

US Seniors (New York) Portfolio

The Bristol (New York) portfolio is tracking well with unit refurbishments and reconfigurations continuing to drive occupancies and support rental rate growth of approximately 4% over the past 12 months. As at 30 June 2011, this portfolio delivered an occupancy rate of 91.9%. Further occupancy improvements are targeted via sales and marketing programs at each village including increased usage of social media and community outreach.

NZ Students

The NZ Student portfolio has seen a decline in student occupancy levels largely due to a fall in international student numbers and a reduction in National Government funding of tertiary education. Despite this, the earnings remain underpinned by an income guarantee from Victoria University of Wellington (VUW) referable to occupancy of 90% throughout the student academic year.

Management is progressing discussions with VUW for the renewal of the income guarantee contracts which expire in 2012 and 2013. It is anticipated that as part of entering into these new long term contracts, the University will require the Fund to commit to considerable capital expenditure to improve the buildings and to meet the increasing expectations of its students. This capital expenditure has been taken into account in the 30 June 2011 valuations which has resulted in the Fund's interest in the portfolio's value falling from NZ\$29.9 million to NZ\$22.5 million.

Development Pipeline

As detailed in the results presentation, ILF now has an internal development pipeline attached to existing villages including the three existing DMF Conversion villages, with an end sales value of \$94 million. The expansion of existing villages typically offers a higher risk adjusted return on capital as compared to commencing a new greenfields village due to existing infrastructure, wait lists and an established presence in the local community.

The timely build-through and sell-down of this development pipeline, subject to rigorous return thresholds, will be a key focus for Management over the coming year and is expected to be a significant contributor to earnings and cashflows over the next five years.

ING Group Update

In June 2010, ING Group (ING) announced that it was conducting a strategic review of its global Real Estate Investment Management (REIM) platform, and its position within the broader ING banking business. The Australian real estate investment management operation, ING Real Estate Investment Management Australia (REIMA), was included in the review. In February 2011, ING announced that as a result of the evaluation, it would undertake a phased withdrawal from the REIMA business in a timely and controlled manner. To date the ING Industrial Fund (previous ASX: IIF), ING Office Fund (previous ASX: IOF) and ING Healthcare Fund (previous ASX: IHF) have changed ownership and/or management structures.

ING will continue to provide full support to REIMA as it completes the transition of the business.

Outlook

On a continuing portfolio basis, the Fund forecasts improved operating cashflows over the course of FY12. Key drivers of this performance include:

- Accelerating sell down of DMF Conversion units across the Gladstone, Forest Lake and Rockhampton conversion villages;
- Continuing occupancy growth across the Garden Villages Rental portfolio; and
- Lower interest expense due to reduced debt and a significant drop in margin once Australian LVR falls below 40%.

Following the recent announcement regarding the partial sale of our US Seniors portfolio, Management is continuing to explore options with various parties to unlock the remaining value within our US Seniors and NZ Students portfolios. These discussions are in preliminary stages and further updates will be provided if and when any agreements are reached.

No distribution is currently forecast for FY12 due to banking covenants however the distribution policy is currently being assessed in the context of the Fund's financial position post settlement of non-New York assets.

Overall the Fund remains focused on providing unitholders with exposure to a quality, high performing portfolio of seniors communities.

A detailed results presentation for ILF is available on our website: www.ingrealestate.com.au



REAL ESTATE INVESTMENT MANAGEMENT

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About ING Real Estate Community Living Group

ING Real Estate Community Living Group (ASX code: ILF) is an externally managed ASX-listed real estate investment trust that owns, manages and develops a diversified portfolio of seniors housing communities. The Fund has total assets under management of \$644 million with operations located predominantly throughout Australia and the United States.

About ING Real Estate Investment Management

ING Real Estate Community Living Group is one of two ASX-listed real estate investment trusts that are managed by ING Real Estate Investment Management Australia. ING Real Estate Investment Management is part of ING Group, a global financial institution of Dutch origin offering banking, investments, life insurance and retirement services to over 85 million private, corporate and institutional clients in more than 40 countries