



Aspen Group Limited
ABN 50 004 160 927

Aspen Property Trust
ARSN 104 807 767

Level 8, Septimus Roe Square
256 Adelaide Terrace, Perth
Western Australia, 6000

Telephone: 08 9220 8400
Facsimile: 08 9220 8401

Email: homemail@aspengroup.com.au

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DISTRIBUTION POLICY UPDATE

Revised Distribution Policy

Aspen Group (ASX:APZ) has announced a change to its annual distribution level, down from 15.50 cents per stapled security (cps) to 10.00 cps. The remaining quarterly distributions for December 08, March 09 and June 09 will be set at 2.04 cps resulting in a full year distribution of 10 cps. Thereafter the distribution rate would be expected to be reset at 2.5 cps per quarter reflecting an annualised distribution rate of 10 cps.

Aspen has until this point been one of the very few participants in the Australian Listed Property Sector to retain its FY08 distribution level. This is testament to Aspen's strong belief in the quality and strength of its earnings outlook.

The decision by the Board to reduce the distribution rate has not been taken lightly. The Board is cognisant of the reliance by many of our security holders on receiving distributions. However it is clear from the more recent pricing of not only Aspen's securities but the sector as a whole, that capital preservation in these times is of paramount importance to long term financial security.

In lowering the distribution rate to an annualised 10 cps, the Board has adopted a distribution payout ratio of 70% to 80% of its expected underlying earnings per security, as compared to 91% for FY08. This revised policy will provide the Group with greater flexibility to retain cash and reduce debt to further strengthen its balance sheet.

Included in this announcement is an update of how Aspen is continuing to address present market issues and provided further clarity for our future earnings and distribution outlook.

Why the Change in Policy?

Aspen has a sound business model, based on strong rental income and recurring funds management fee income. However, a percentage of the Group's funds management income is dependent on transactional activity within the property sector. The Board's view is that transactional activity is now likely to be below its previous expectations for FY09, lowering the outlook for non-recurring funds management income.

Importantly the majority of Aspen's transactional based income will not be completely forgone, rather it will be delayed where development or sales activity is pushed into future financial years as is typical with normal property cycles. This is the case for the following funds:

- The full syndication of the Aspen Villages (6 affordable accommodation sites) and Aspen Communities (3 retirement village properties) Funds is not expected to occur in FY09 given the reduced appetite for illiquid property funds at present;

- Construction and the sale of the next office tower (commonly referred to as Tower 8) for Aspen Development Fund No 1 is now considered more realistically to occur in FY10; and
- Residential sales activity, while showing signs of improving is unlikely to meet our initial FY09 budgeted level.

The impact of the slowdown in transactional activity is that the existing 15.50 cps distribution level is now unlikely to be fully funded by underlying earnings, which is not in keeping with Aspen's distribution policy. Therefore the Board believe the decision to lower the distribution rate to be a prudent course of action especially in the context of current economic and market uncertainty, as evidenced by continued restrictive capital and debt markets, softening property yields and the current high cost of capital.

A further important factor considered by the Board has been the substantial decline in participation rate within its distribution re-investment plan, from some 41% 12 months ago to 11% presently. This has resulted in a significantly increased cash flow requirement to meet the quarterly distribution payment which the Board believes is currently not in the long term best interests of the Group.

This policy, which is reviewed quarterly, is expected to remain in place until such time as market pricing normalises.

How is Aspen Addressing the Current Business Environment?

Overall market conditions remain challenging for those in the listed property sector, with tight financial liquidity and softening economic data contributing to the current equity pricing weakness. Aspen has avoided many of the more serious issues encountered by a large number of organisations such as international expansion, foreign currency exposures, and limited relationships with key domestic financiers. However these issues have led to a substantial loss of investor confidence across the property sector as a whole.

Aspen remains well placed to meet the current challenging market conditions and have actively addressed the industry wide issues facing all participants in the property sector as follows:

Softening Outlook for Property Valuations

- Aspen has traditionally maintained a conservative valuation policy, i.e. cap rate firming has trailed the market
- Latest market evidence suggests a further 120 basis point expansion in capitalisation rates from Aspen's already conservative levels. Internal modelling suggests that the significant rental growth across our portfolio and existing high occupancy levels will see the overall property portfolio carrying value remain relatively resilient in the current market
- All balance sheet assets are in the process of receiving up to date independent valuations
- The imminent completion of the Karratha Accommodation Village will result in an immediate uplift in valuation.

Restrictive Credit Market

- Aspen maintains a conservative gearing policy within a target range of 30%-40%
- Present gearing level of 36% within range
- Long term senior debt facility in place until October 2011 for the Group
- Dealing with NAB to obtain additional head room capacity – likely to involve additional margin costs
- Dealing with shorter term credit facility maturities for Fund syndicates
- Aspen will benefit from lower interest rate environment due to relatively low hedged position of 53%.

Quality of Earnings

- Aspen has a strong rental income outlook, with some 72% of the portfolio exposed to the stronger Perth and Adelaide markets, and over 75% of income is derived from government and major corporate tenants
- Full occupancy of the Karratha Accommodation Village by December 2008 is a further significant boost to FY09 and FY10 revenue
- Maturing funds management income now has a bias toward recurring management fees rather than transaction fees.

Slowing Retail Investor Fund Inflows

- Senior staff (MD & CEO - Property) have been active, holding seminars for financial planners across Australia with excellent response and results
- All Funds remain open to applications and redemptions
- All Funds have existing limited redemption facilities, minimising potential equity outflows
- All Funds have net inflows for the half year to date with an upward trend in December.

Demand for Residential Land

- Aspen manages five quality land estates, with four of these having good levels of stock on hand, including a significant portion catering to the currently active first home buyer market
- Lower variable interest rates and government first home owner scheme initiatives are expected to be positive for the sector in the coming 12 months. Recent signs have been encouraging, particularly in the first home buyer market, with increased levels of activities resulting in significantly higher sale rates.

Earnings and Distribution Outlook

The Group has responded swiftly to the changed market conditions on a number of fronts.

The two largest costs to Aspen's business are debt servicing and payroll.

The outlook of lower interest rates will have a significant positive impact on Aspen's debt funding costs. With only 53% of its current debt obligations hedged, a 1% reduction in interest rates equates to an approximate \$1.4 million positive impact to post tax earnings. This position is replicated throughout the Group's funds management activities, where the average hedged debt percentage as at 30 June 2008 was only 38%.

In terms of Aspen's payroll costs, the cost saving initiatives have been significant and wide ranging and include:

- 10% reduction in the executive directors base remuneration
- 10% reduction in the non-executive director fees
- Employee headcount has been reduced 20% from 88 to 71
- Salary reductions where market conditions warranted.

A review of all other aspects of the Groups overhead costs has been completed, with a wide range of initiatives put in place.

The total of all cost saving initiatives are expected to yield a 12% reduction in the Group's overhead costs in FY09 compared to FY08. The annualised full year benefits in FY10 result in an estimated 20% reduction compared to FY08.

In relation to revenue, rental income and recurring management fees are expected to comprise some 75% of operating revenue in FY09, reflecting the sound underlying revenue base of the Group. Transactional based fees within the Funds Management division are expected to contribute the remaining 25%. Aspen's rental income outlook is strong, having capitalised on the strong commercial property markets in Perth and Adelaide. This along with the commencement of income from the Karratha Accommodation Village indicates a 23% lift in rental income for FY09.

Current estimates for FY10 indicate higher earnings based on organic "locked in" rental growth (including the full 12 months of Karratha village), emerging recovery of the residential sector, lower overhead cost structure and lower interest rate environment.

As previously stated the revised annualised distribution for FY09 of 10 cps is expected to be comfortably met from underlying earnings. It is the Board's intention to maintain as a minimum an annualised distribution rate of 10 cps into the 2010 financial year.

Summary

The announcement today to reduce the distribution level and revise the distribution policy has been arrived at after due consideration by the Board of both short and long term factors. Restrictive credit markets and economic uncertainty provide a clear message that a defensive stance is the most prudent course of action at this time.

The Board remains confident that the Aspen's business model and financial position leaves the Group well placed to endure any downturn and continue to deliver sound investment returns to security holders which in time will see value restored to the Aspen security price.

For further information please contact Aspen Group on (08) 9220 8400.

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For further information please contact:

Angelo Del Borrello
Managing Director, Aspen Group
Phone: (08) 9220 8400
Mobile: 0419 335 411

John McGlue
FD Third Person
Phone: (08) 9386 1233
Mobile: 0417 926 915

Or visit www.aspengroup.com.au

About Aspen Group

Aspen Group is an ASX listed property investment and funds management group, focused on acquiring quality property assets and creating and managing innovative property funds and syndicates.

Formed in 2001, Aspen has progressed rapidly and is now a member of the S&P/ASX 300 index with assets under management now in excess of \$1.4 billion.

Aspen's core strength lies within the Group's broad expertise across property acquisition, development and management enabling the Group to provide leading edge property solutions.

Aspen directly owns and manages a well diversified portfolio of commercial property assets Australia-wide. The portfolio is spread across the office, industrial and retail sectors and has grown through acquisitions and portfolio revaluations of existing properties driven by a strong property management focus.

Aspen also has developed an outstanding reputation for creating unique and successful funds management products and related services. These managed funds have provided investment opportunities across a broad spectrum of property sectors including tourist parks, residential land subdivisions, CBD office developments, private hospital developments and retirement and accommodation villages.