INSTITUTIONAL INVESTMENT IN AFFORDABLE HOUSING

AHURI CONFERENCE – October 2016

Adrian Harrington
Head of Funds Management, Folkestone
INSTITUTIONAL INVESTMENT IN UK

Legal and General Invests £225m With Place for People to Help Build 7,000 New Homes  
- 17 March 2014

Estuary Housing Association Plan 400 East London Homes Following £40m M&G Finding Deal  
- 6 July 2015

M&G Agrees £50m Private Placement Loan to Affordable Housing Group  
- 21 July 2016

AVIVA to Launch Private Rented Sector Fund With Housing Associations as Managers  
- 7 October 2014

Dutch Pension Fund PGGM Announce 3,000 New Homes With £600m Build to Rent Partnership  
- 27 January 2016

Legal and General Plan £1bn Private Rental Sector Investment After Signing £25m Deal  
- 27 February 2015

Hearthstone Aims for £150m Investment as Scottish Housing Fund Launches  
- 18 November 2014

£1bn Fund Launched With Backing of Institutions and Governments Homes and Communities Agency to Build 10,000 Homes on Council Land

UK institutions are happy to provide equity into affordable housing
# ASX Listed Real Estate Social Infrastructure

<table>
<thead>
<tr>
<th>A-REIT</th>
<th>Sub-Sector</th>
<th>Market Capitalisation ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Folkestone Education Trust</td>
<td>Childcare</td>
<td>647</td>
</tr>
<tr>
<td>ARENA</td>
<td>Childcare / Medical Properties</td>
<td>468</td>
</tr>
<tr>
<td>Generation Healthcare</td>
<td>Medical / health &amp; Aged Care</td>
<td>419</td>
</tr>
<tr>
<td>Gateway Lifestyle</td>
<td>Manufactured Housing</td>
<td>695</td>
</tr>
<tr>
<td>Lifestyle Communities</td>
<td>Manufactured Housing</td>
<td>405</td>
</tr>
<tr>
<td>Eureka Group</td>
<td>Manufactured Housing</td>
<td>173</td>
</tr>
<tr>
<td>Aspen Group</td>
<td>Manufactured Housing</td>
<td>113</td>
</tr>
<tr>
<td>Aveo</td>
<td>Retirement Villages</td>
<td>1,903</td>
</tr>
<tr>
<td>Regis</td>
<td>Aged Care</td>
<td>1,201</td>
</tr>
<tr>
<td>Japara</td>
<td>Aged Care</td>
<td>488</td>
</tr>
<tr>
<td>Estia</td>
<td>Aged Care</td>
<td>493</td>
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INSTITUTIONAL INVESTMENT IN CHILDCARE

- Two ASX listed Real Estate Investment Trusts (A-REITs)
  - Folkestone Education Trust (FET) - $718m in gross assets across 394 centres
  - ARENA REIT (ARF) - $514m in gross assets across 196 centres and 7 medical centres

**Why Institutions Like Childcare**

<table>
<thead>
<tr>
<th>Thematic</th>
<th>Strong demand for childcare – demographics and female workforce participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long Leases</td>
<td>15 years</td>
</tr>
<tr>
<td>Quality Income</td>
<td>Childcare fees subsidised by government</td>
</tr>
<tr>
<td>Property Yields</td>
<td>5% to 8%</td>
</tr>
<tr>
<td>Low CapEx</td>
<td>Triple net leases – tenants responsible</td>
</tr>
<tr>
<td>Minimal Incentives</td>
<td>Nil (office buildings (10-40% usually)</td>
</tr>
<tr>
<td>Low Vacancies</td>
<td>Less than 5.0% - FET has a 0.5% vacancy rate</td>
</tr>
</tbody>
</table>
THE EQUITY YIELD GAP

- Institutions not attracted to Australian residential property – yields too low relative to commercial property
- Can the yield gap be solved?
  - tax incentives / reduce property taxes
  - planning changes – increase supply and densities

"Institutional investors.... would invest to build and develop affordable housing, provided the risk-adjusted return on investment is appropriate."
- Industry Super Australia, March 2016
Debt capital should be a priority although long-term both debt and equity capital needed. Will require all key stakeholders (government, industry and investors) to work co-operatively together in order to boost the supply of affordable housing.