National Housing Conference 2022

Build-to-rent in Australia: the state of play

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Part 1: Inst-Build to Rent (IBtR)

How Institutional Build to Rent provides a transformative housing delivery model that responds to emerging demographic trends and declining affordability

Sector Update

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“Perfect Storm”

Ex-Grocon duo to lead Macquarie’s $500m build-to-rent platform

Grocon’s former head of development, Dan McLennan, and former Grocon transactions manager Matthew Berg will spearhead Macquarie’s push to create a $500 million build-to-rent portfolio on behalf of institutional investors in the burgeoning sector.

Melbourne CBD rental apartment stock plunges 46pc

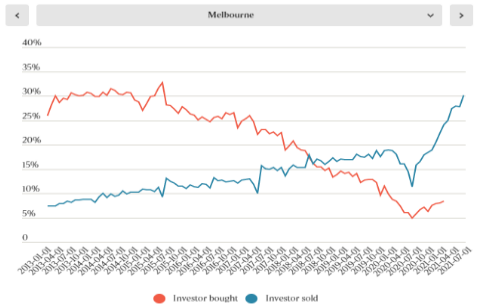
The number of available rental apartments across inner Melbourne has plummeted by 46 per cent since February and is down 24 per cent in inner Sydney, amid rising demand from tenants seeking affordable housing options, new data from CoreLogic shows.

Rental property pool shrinks as investors exit market

An exodus of property investors has resulted in the largest shortfall of homes being bought to lease out in seven years, increasing the pressure on an already stretched rental market.

Investor activity

Share of sales (%)



Build-to-rent projects tagged for $750m impact fund

Property developer Samma Property Group has partnered with impact investment management firm Brightlight to launch a $750 million capital-raising for four “shovel-ready” build-to-rent projects, with plans to more than double that pipeline over the longer term.

Australia needs ‘explosive’ surge of 2 million migrants

Australia needs an explosive post-World War II-style immigration surge that could bring in 2 million people over five years to rebuild the economy and address worsening labour shortages, according to NSW government advice to new Premier Dominic Perrottet.

Gurner joins Qualitas in build-to-rent venture

Melbourne luxury developer Gurner and property manager Qualitas’s ambitious raising to fund their new build-torent enterprise has closed oversubscribed to the tune of nearly $1.2bn.

No vacancy: Australia’s rental crisis worsens

The rental squeeze is hitting hard across the country, worsened by the pandemic--inspired flight from the inner cities and the rush of investors to sell in the hot property market.

New figures show the number of Australia’s rental properties has fallen to a decade low and, where there are available houses or units, the asking rents are soaring.

New build-to-rent platform seeks $200m for Melbourne projects

New build-to-rent platform Alt Living is confident of raising up to $200 million from offshore and local institutional investors to fund its first two projects in Melbourne, after teaming up with local developer Landream.

Greystar Sells Flagship $3.6B Multifamily Fund to Ivanhoe Cambridge

A broad set of institutional investors vied for the portfolio.

Greystar Real Estate Partners will shed a 30-property multifamily portfolio for a price tag of $3.6 billion. The buyer is Ivanhoe Cambridge, according to PERE.

Greystar’s flagship US multifamily value-add fund focuses on acquiring “well-located, institutional quality apartment communities in target markets throughout the US that present significant upside potential through operational efficiency and capital improvements,” the company said in a statement announcing the sale. It has raised $5

Australia on the cusp of a rental affordability crisis

Australia will face a rental affordability crisis as domestic and international borders reopen, with Brisbane hardest hit as insufficient new supply pushes rents up more than 5 per cent a year over the next five years.

The opening up of domestic borders to interstate travel, national borders to international travel and the likely return of immigrants and foreign students will put pressure on all of Australia’s cities, commercial real estate agency JLL’s *Q3 2021 Apartment Market Overview* shows.

Build to Rent (BtR) - Definition

Multi-family Housing

Institutional Build to Rent

- Inst-BtR or MfH comprise residential properties that are designed and built as long-term rental accommodation and are predominantly owned, managed, and operated by an institutional investor as a long-term asset.
- Revenue is generated through the rental lease of the dwellings as the primary source of income.
- These assets are typically medium to high rise apartments and may include a smaller component of ground level retail assets.
- The offering is tailored to a carefully targeted demographic, with opt-in services available that appeal to that market
    - OpCo PropCo / Fund Structure
    - Owned by Institutional Capital
    - Professionally managed
    - Min 150 Apts

Key built form benchmarks

20% - 30% OpEx	6-10 FTE	98% Occupancy	Add income
Amenities	Tenant Profile / Turnover	Rental Premium	Product type

Types of Build to Rent (BtR)

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Pipeline Update

Sector Overview

The current size of the MfH market in Australia is estimated to currently be $10.1b, with expectations that this value will continue to grow in the coming years.

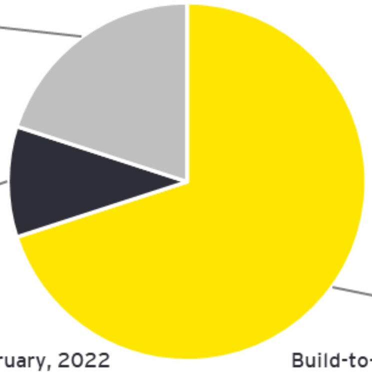
The majority of projects are set to be developed within Melbourne, which will be further exacerbated by the 50% land tax discount announced in the 2020-21 budget.

Sydney is having challenges in establishing its MfH market, due to the lack of suitable land and the cost to acquire that land.

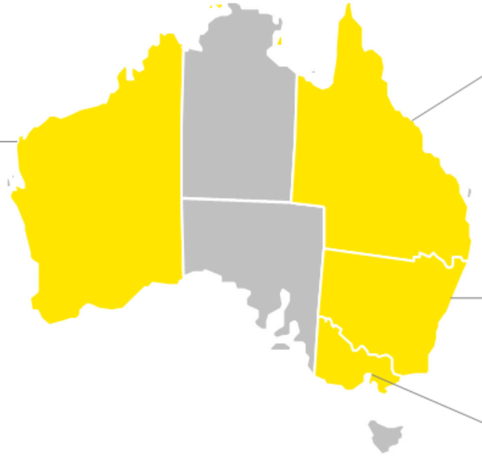
Estimate Value of MfH Sector

$10.1b	17,423	14
Sector Value	Apartments	Operating Platforms

Status of MfH Development Pipeline



MfH Assets Distribution



Source: EY, 2021

MfH Assets Distribution

Proportion of Assets by State			
	Count	Value ($b)	% Value
New South Wales	6	$1.5	15.94%
Queensland	6	$1.6	16.86%
Victoria	29	$6.4	61.99%
Western Australia	4	$0.5	5.21%
Grand Total	**44**	**$10.1b**	**100%**

Source: EY, 2021

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Residential Asset Class in Australia

Residential Real Estate

$9.3 trillion

Australian Superannuation

$3.3 trillion

Australian Listed Stocks

$2.8 trillion

Commercial Real Estate

$978 billion

10.5 million

Number of dwellings

$1.9 trillion

Outstanding mortgage debt

54.3%

Household wealth held in housing

596,622

Total sales p.a.

$404 billion

Gross value of sales p.a.

As at Aug 2021 Source : Colliers and EY

Housing Demand + Demographics

Decreasing housing affordability has increased reliance on rental supply

33%
Households currently renting[1]

66%
Believe they will never own a home[2]

27%
Need help from parents for a deposit[2]

- Decreasing housing affordability is increasing reliance on rental supply, particularly for millennials.
- Increasing demand and reduced supply of quality rental properties available at an affordable price; particularly for key workers.
- Opportunity for BtR developments to increase supply of quality rental dwellings, as an alternative to BtS developments.
- Increased tenancy satisfaction in BtR dwellings due to long term building ownership + management.
- Increasing institutional and Government investment in BtR sector.

BtR provides greater security of long term tenure

BtR performing above BtS in tenant satisfaction scores[3]

Affordable Housing

Crisis Housing → Public Housing → Community Housing → Private Rental → **Built to Rent** → Home Ownership

Social Housing

1. ABC Census, 2016
2.CBRE, 20
4.Homesview, 2021 National Build to Rent Report, Homesview Insights, May 2021

Build to Rent
Design + Amenities

Target Demographic → Product Positioning → Design Efficiencies → Additional Amenities → Stabilised Occupancy → Financial Optimisation

BtR is designed to provide a higher level of tenant amenity and building management than typically offered by BtS, including:

01 A better provision of amenity and opt-in services that meet the demands of the target market typically not included in BtS.

02 Continued upkeep and management of the building over the long term which does not occur at the same level in BtS developments.

03 Building design that provides a superior user experience (e.g. better lifts, larger common areas, wider corridors, 24/7 security).

04 Greater tenancy satisfaction due to 'on-the-ground' property manager and an experienced operator with the operational platform, technology and infrastructure to assist the tenant.


On-site management


24-hour or onsite maintenance


Communal Open Spaces


Generally pet friendly


Electronic parcel lockers


Car parking


Cultural events/placemaking


Gym / Pool / Kitchen facilities

Key Metrics

Key return metrics + benchmarks[1]

Rental Premium	Initial Net Yield on value	Stabilised IRR (ungeared)	Initial yield on Cost	Dev Margin	OPEX
10% to 25%	3.75% - 4.50%	6% to 8%	4.75% to 5.25%	7.0% - 12.0%	25.0% - 30.0%
Rental premium for a BtR asset	Initial Yield on Value assuming fully stabilised	Initial yield plus rental growth	Initial yield on Cost (No Development Margin)	Lower required margin than BTS	Targeted proportion over Gross Revenue
Premium generally achieved on the two operating BtR assets. In the UK premium is generally 15%. Rental premium comes from additional amenities and tenant management.	Gross initial stabilised yield are targeted at 6.5% (pre-tax and financing) Net initial stabilised yield target at 4.25% (pre-tax and financing)	Stabilised yields on par with other institutional grade assets such as core office, retail and hotel. Residential is seen as a less risky asset class and therefore yields are considered lower that other institutional asset.	Initial yield on cost assuming fully stabilised excluding the development margin	The development margin should be treated as how institutional investors treat pre-committed commercial space. Development equity partners consider a % fee over a development margin.	OPEX is expected to be higher in Australia than US and UK due to wage cost and taxes. The US, new MFH projects operate between 18.5 – 22% of Gross Revenue

Additional government investment is required to support the delivery of Affordable BtR.

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Current Government Initiatives

Queensland: Build to Rent Pilot Project

The Queensland State Government committed **$70 million** to a pilot project that partners with the private sector to deliver long-term rental properties for low to moderate income earners. The pilot project will offer a targeted rental subsidy to the private sector in exchange for providing affordable rental housing in proximity to Brisbane's CBD.

In October 2020, QL Govt announced two successful proponents, Frasers and Mirvac, which will deliver up to **240 "Affordable" housing apartments** or 25% to 40% of the stock at a discount of between 20% to 25% market for a period of up to 15 years. Target cohorts are key workers such as nursers, police etc.

2021-22 - QLD now running a further two BTR projects with one located on 50 Quay St (Govt owned) and the second is a bring your own site with EY acting as the commercial and financial advisor.

New South Wales: Communities Plus Development

The NSW Government is facilitating the delivery of Australia's inaugural build-to-rent housing model in Redfern, Sydney under the Communities Plus Program. In the Redfern project – the government will lease land to the investor sector which in turn, will construct and fund affordable / social housing residences whilst collecting income over the lease period. At the end of the lease, land and buildings are to be returned to Government.

Ultimately, the Communities Plus social housing program aims to deliver **23,500 social and affordable dwellings** and up to **40,000 private homes** in NSW over the next decade.

Victoria: Supporting Build to Rent in Victoria

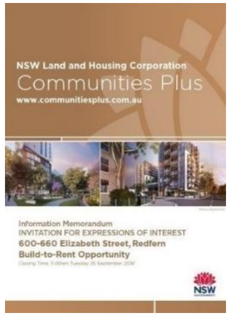
In September 2018, the Premier of Victoria announced that the Victorian Government is seeking to support BTR development in Victoria in an effort to increase supply of more affordable housing stock. This announcement followed changes to Victoria's Residential Tenancy Act, which sought to ensure more fair renting conditions for Victorians.

Proposed actions include; fast-tracked permit applications, facilitation of planning assessment, establishment of an industry working group, financial support of BTR in community housing, lobbying of the Federal Government and amendments to foreign investor stamp duty surcharges and vacancy tax.

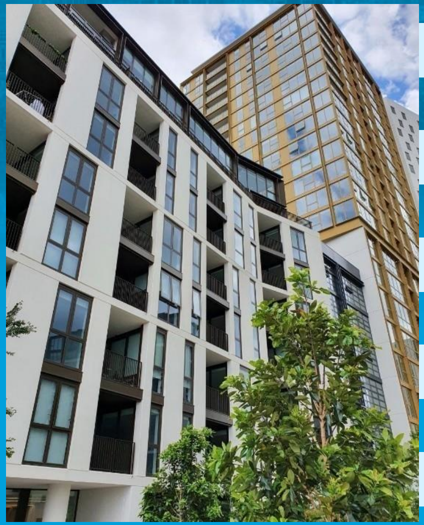
In April 2021 the project was awarded to a consortium led by Tetris Capital and included CHL Group, NHFIC, Citta Property and Icon Kajima. Project will comprise **365 BtR** market rental apts, **126 affordable apts**, **52 SDA apts** and **619 social homes** – **Total project cost** of **$400m**. 40 year ground lease with the project to revert to Govt at the end of the lease term.

South Australia, ACT, TAS + Western Australia:

Whilst Queensland, NSW and Victoria have embraced rental property as a means of achieving affordable housing, South Australia, ACT, TAS and Western Australia are yet to shift focus to BTR for 'affordable-housing' as a mechanism to allow entry-level home ownership for households.



Case Study 1 – LIV Indigo
Mirvac + LIV



Studio	0.3%
1 bedroom	52.2%
2 bedroom	36.0%
3 bedroom	11.1%
4 bedroom	0.3%

Floorplan – 2 bedroom

Workstations

$500 Studio (per week)

$545+ 1 bedroom (per week)

$675+ 2 bedroom (per week)

$721+ 2 bedroom + 2 bathroom (per week)

$1,065 3 bedroom (per week)

- High energy efficiency.
- Designed to achieve 40% less greenhouse emissions
- Amenities:
  - Communal Lounge + Community Room.
  - Meeting Rooms + Work Stations.
  - Chef's Kitchen + associated Dining facilities.
  - Onsite maintenance + service connection.
- No bond required.

316 Apts

44 - 145 avg. sqm

4,481m² land area

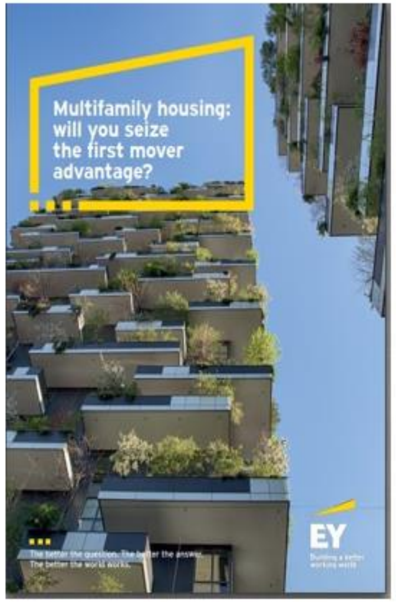
258 car parks

Source: Mirvac, 2020

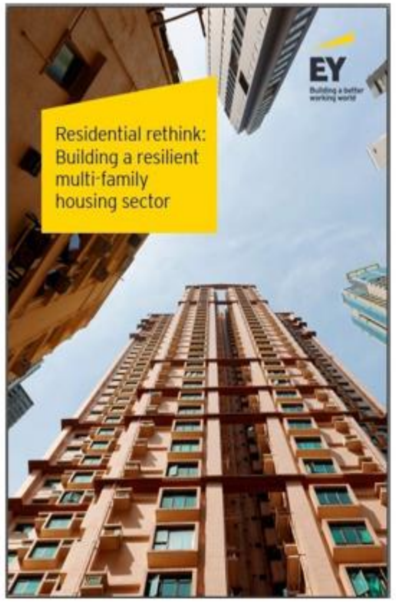
Additional Information

EY Build to Rent Publications

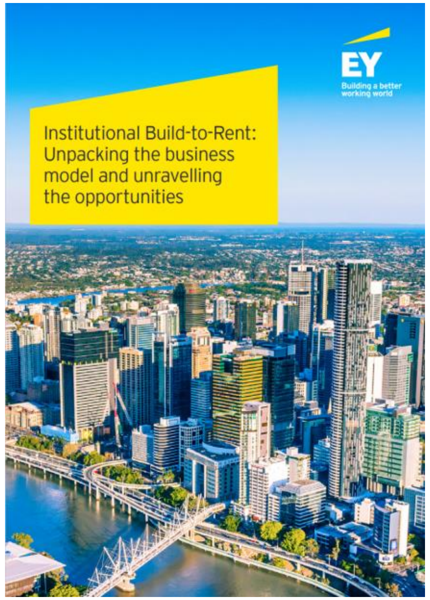
2018



2019



2020



2021

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