

Build to Rent – What does this mean?

NZ Property Institute Conference

Paul Savitz - Director

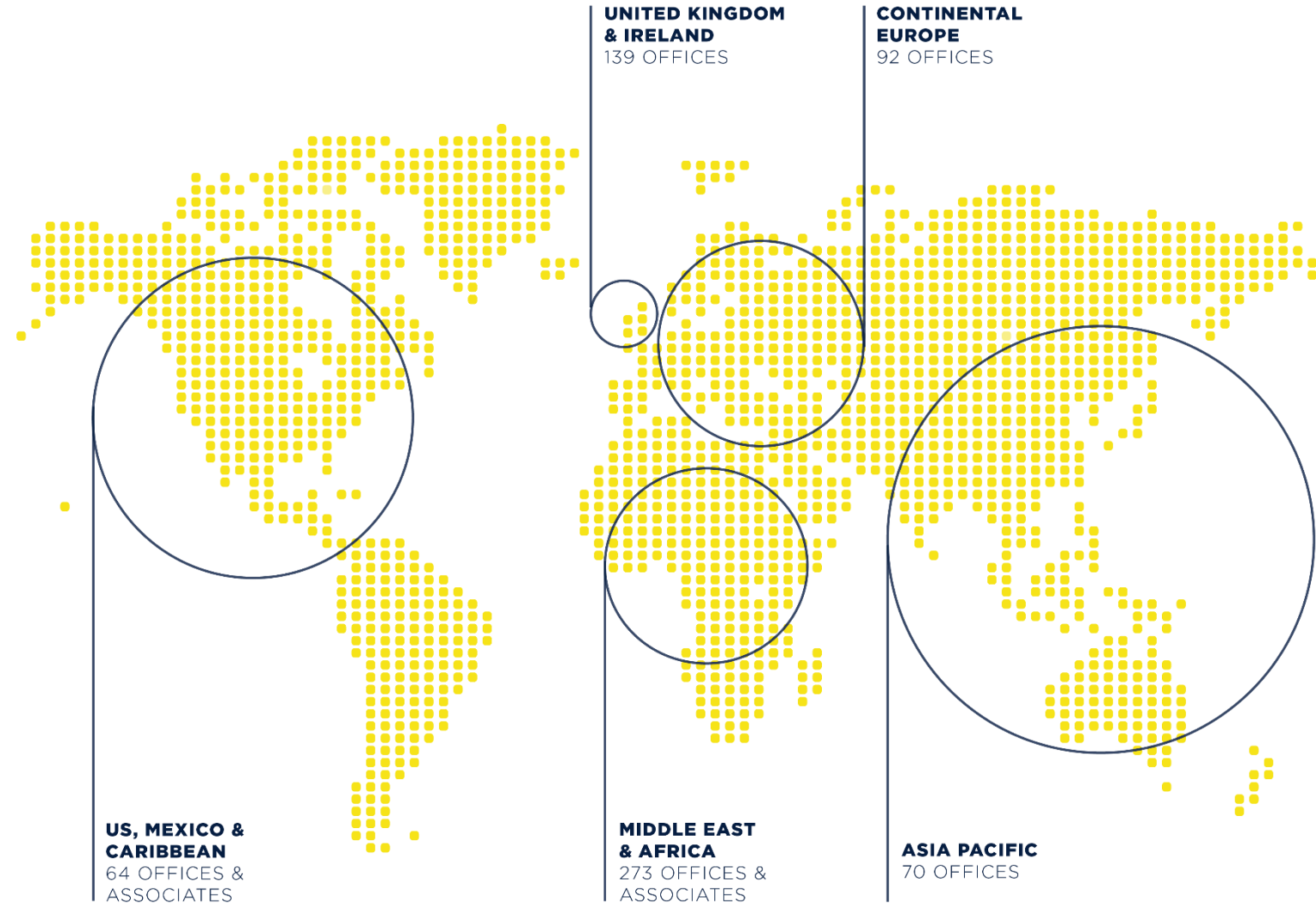
Student Accommodation, Australia & NZ

21 June 2019

Savills: A Leading Global Real Estate Adviser

- £1.76bn revenue in 2018
- FTSE 250 listed
- Unique 160+ year history
- More than 600 offices and 35,000 employees in over 60 countries

We believe strongly in our core values: passion, innovation, leadership, teamwork and excellence.



Build-to-Rent????

Hot topic, buzzword, reality?

Key Terminology | What is Build-to-Rent?

Private Rented Sector (PRS) – Operational Real Estate

**Purpose Built
Student
Accommodation
(PBSA)**

Invest To Rent

*Private individual or
small group of investors

**Build-to-Rent:
“Multifamily”
(purpose built
apartment
blocks)
“Single family”
(purpose built
housing)**

**Senior Living
Aged Care**

Others e.g.

**Intermediate
Social
Affordable**

**Co-living
Micro-living
Serviced
apartments**



- 1 newly developed, or converted from other uses, and designed specifically for renting
- 2 in blocks of at least 50 units (or adjacent blocks providing at least 50 units in aggregate), providing sufficient scale for high quality services to be provided
- 3 specifically dedicated to private rental for a specific period (typically 15 years)
- 4 owned by a single (institutional) owner; or investment group
- 5 managed in an integrated way, delivering high standards of management and service including comprehensive maintenance

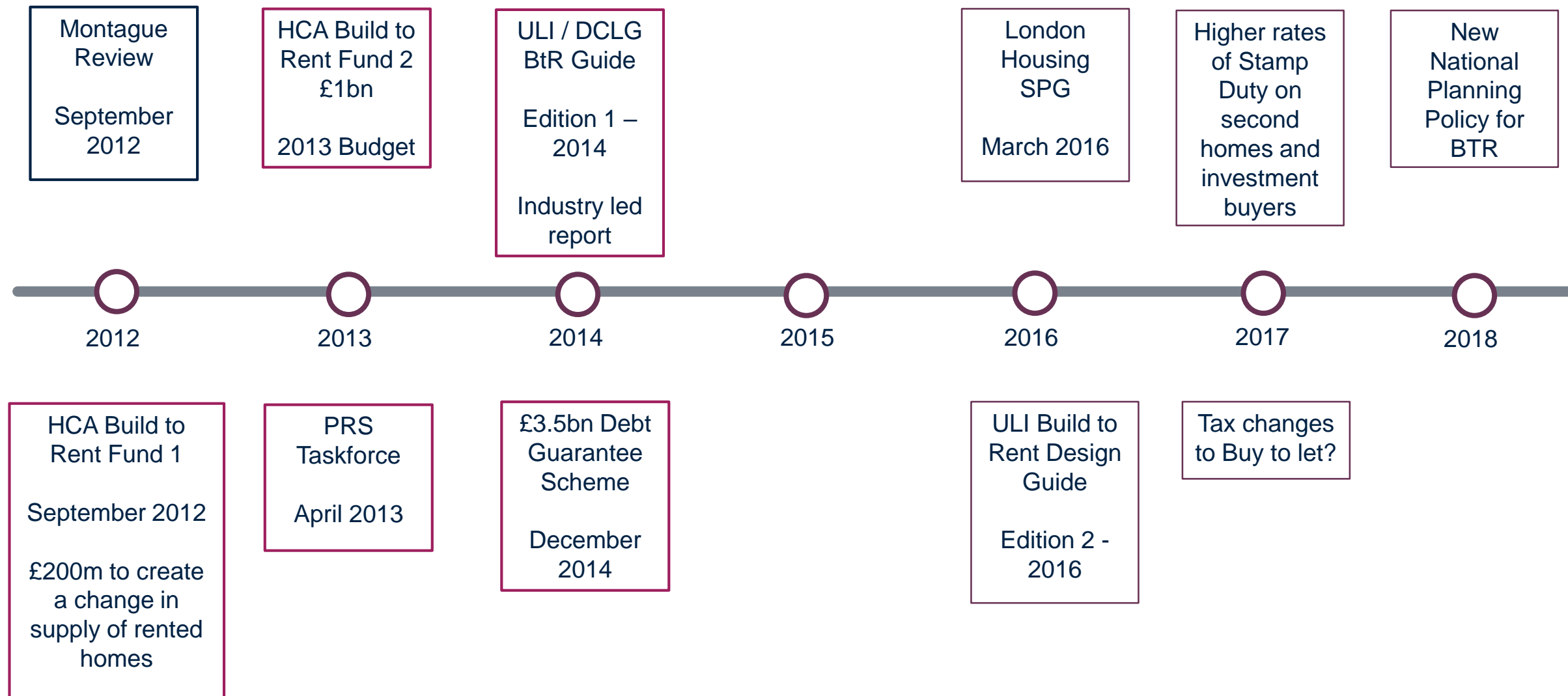
A New Trend

Emerging in the UK

The UK's Build to Rent
pipeline has grown
478% in just **five years**

- Residential Investment 2010 - From buy-to-let to build-to-let
 - 11:30 - Demand for the Private Rented Product, the investment returns, and will collective Investment schemes happen?
- Residential Investment 2011
 - 11:45 - *The institutional demand for Residential as an Asset Class, will collective investment schemes happen?*
 - 14:50 - *Political support for a Professional Rented Sector is needed.*
- Residential Investment 2012
 - 12:30 - *Making the Private Rented Sector and Build to Let in the UK a success. What is required to make it happen? Looking at the US and the lessons that can be learned.*
 - 14:30 - *The Tax issues in Residential Property - understanding and coping with them. How changes to tax legislation could improve investor returns.*
- Residential Investment 2013
 - 14:50 - *Comparing the UK and US Residential Investment Markets and learning why the US Market is more mature. How can the UK investment market become more established and when will it happen?*
- Residential Investment 2014
 - 15:30 - *Making Large Scale Residential Investment Work - The Investment and Asset Management Perspective.*

Government Support | increasing & strong



Emergence of Build-to-Rent at Scale

London Example

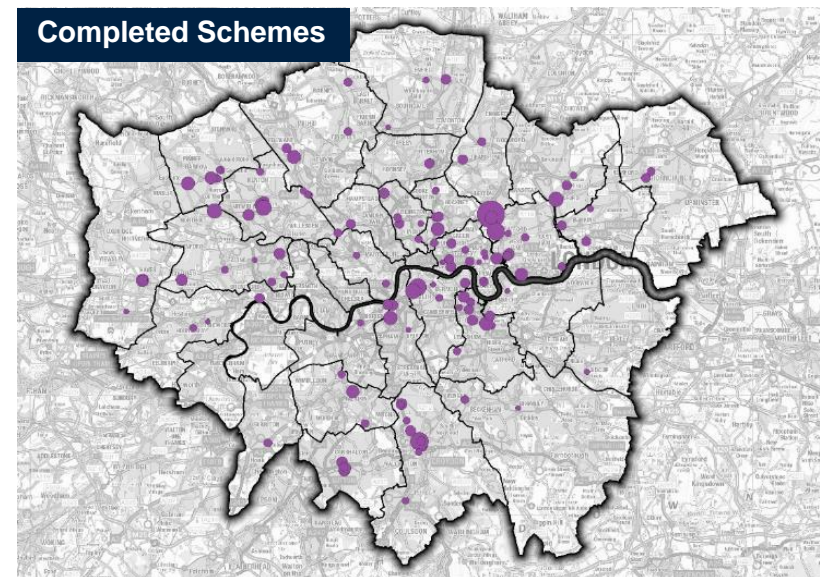
London Development Landscape | Sydney/Auckland 5 years time?



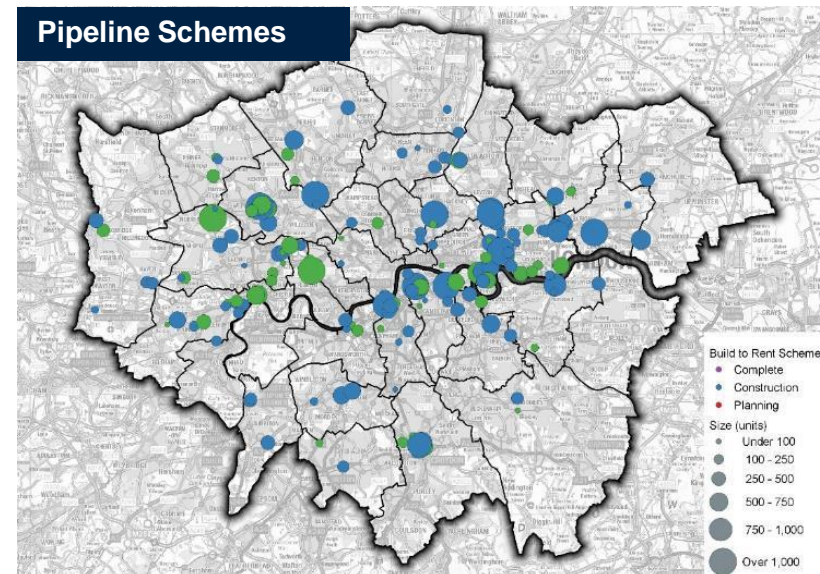
- **133** Build-to-Rent (BTR) schemes **completed**, comprising **16,145** units
- **Completed** schemes average **121 units** in size
- **75** schemes **under construction**, totalling **c16,500** units
- On average these schemes comprise **220 units**
- **41,300** units in the **planning** stage, across **120 schemes**
- Schemes at **planning** stage average **344 units** each

| Q1 2019 | Number of Units | Estimated GDV |
|--------------|-----------------|---------------|
| Complete | 16,145 | £5.9 billion |
| Construction | 16,507 | £7.4 billion |
| Planning | 41,322 | £18.5 billion |

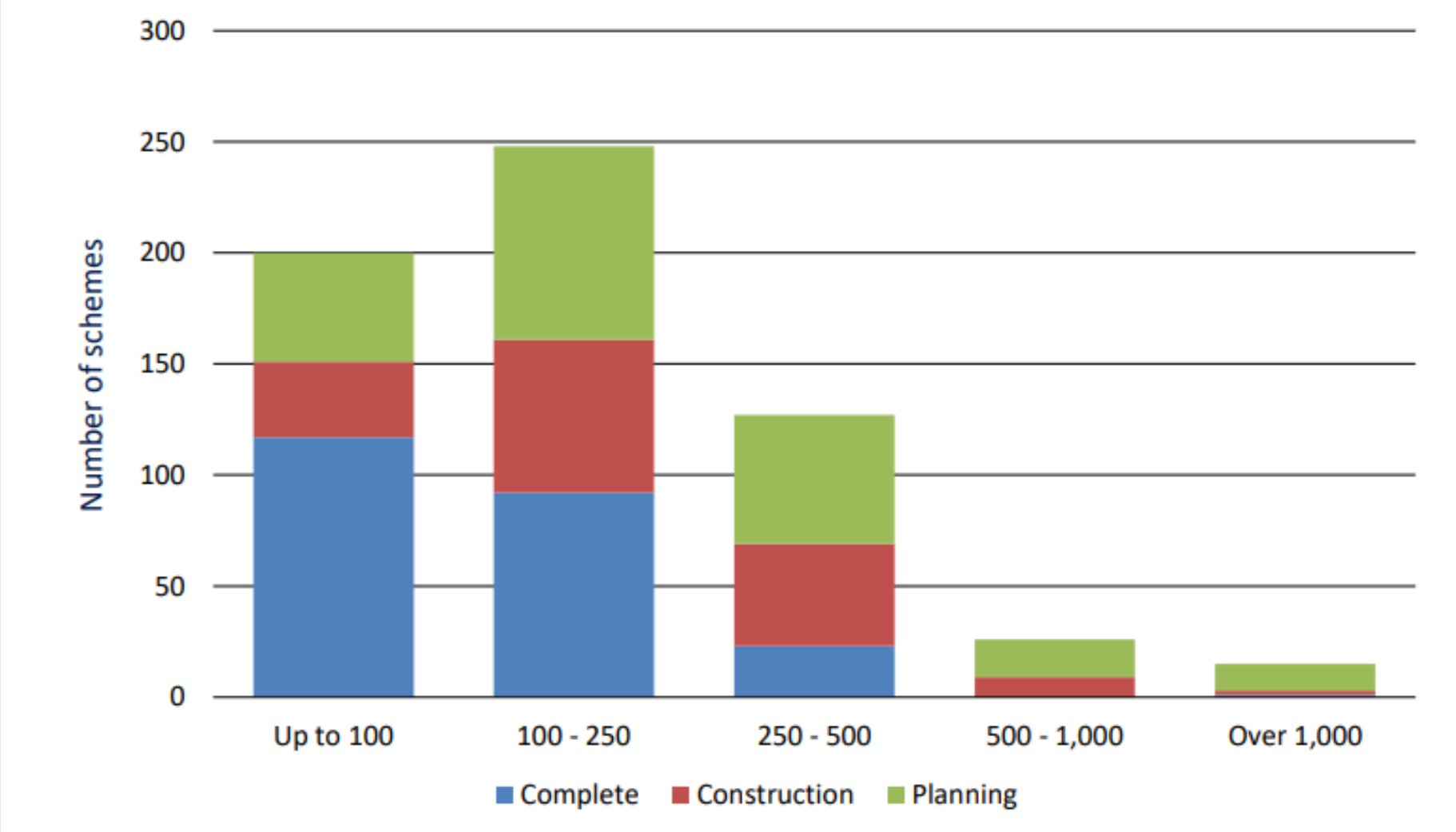
Completed Schemes



Pipeline Schemes



Economies of Scale | the sweet spot



East Village and Get Living London

- Date: August 2011
- Units: 1,439 units
- Sale Price: £557,000,000
- Seller: Olympic Development Agency
- Purchaser: JV: Delancey & Qatari Diar



Fizzy Living and ADIA

Canning Town



Completed September 2012
75 x 1, 2 & 3 bed units

Epsom



Completed March 2013
63 x 1 & 2 bed units

Poplar



Completed March 2013
63 x 1 & 2 bed units

Stepney



Completed March 2014
63 x 1, 2 & 3 bed units

Finchley



Planning submitted March 2015
70 x 1 & 2 bed units

Lewisham



Completed 2016
136 x 1 & 2 bed units

Hayes



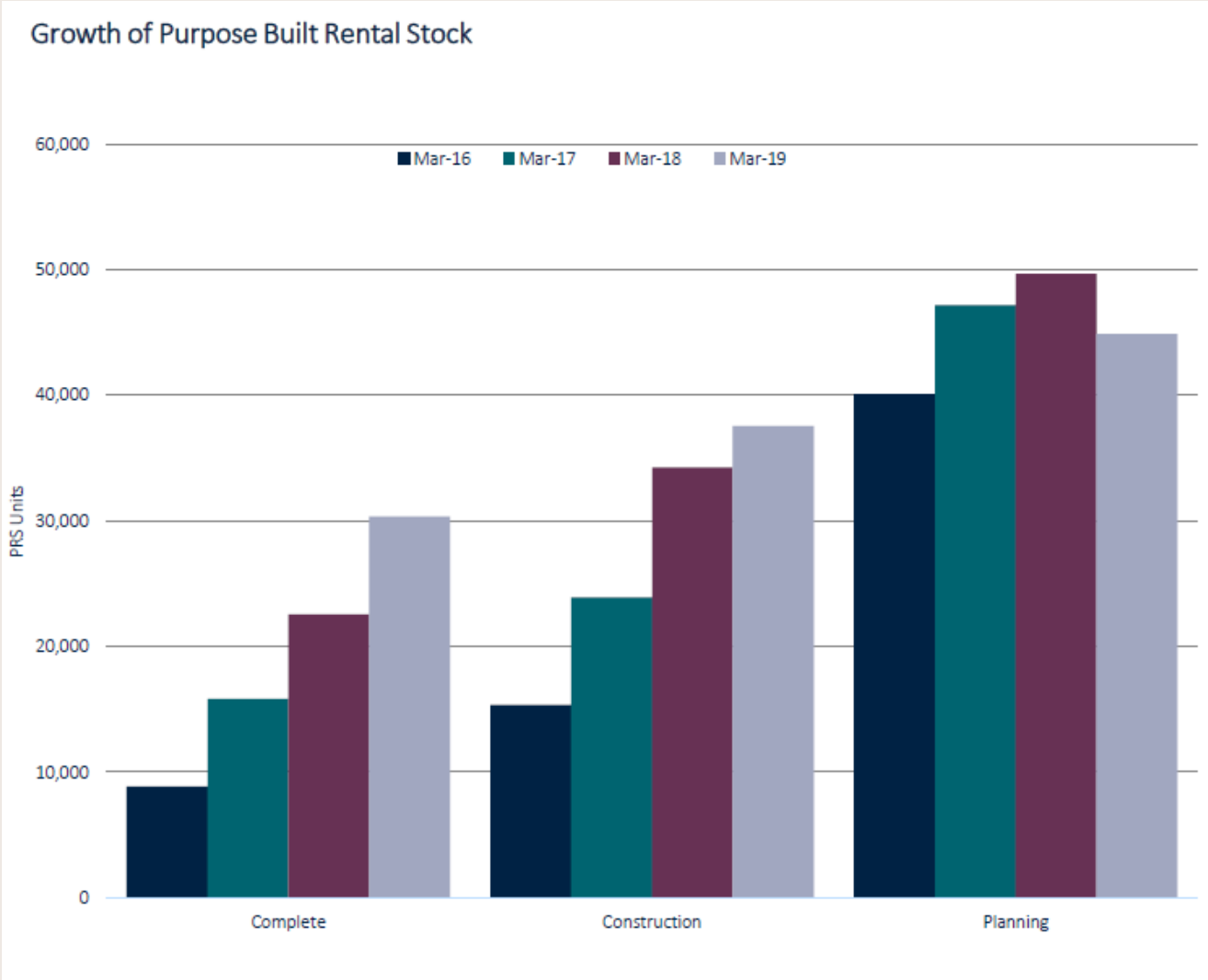
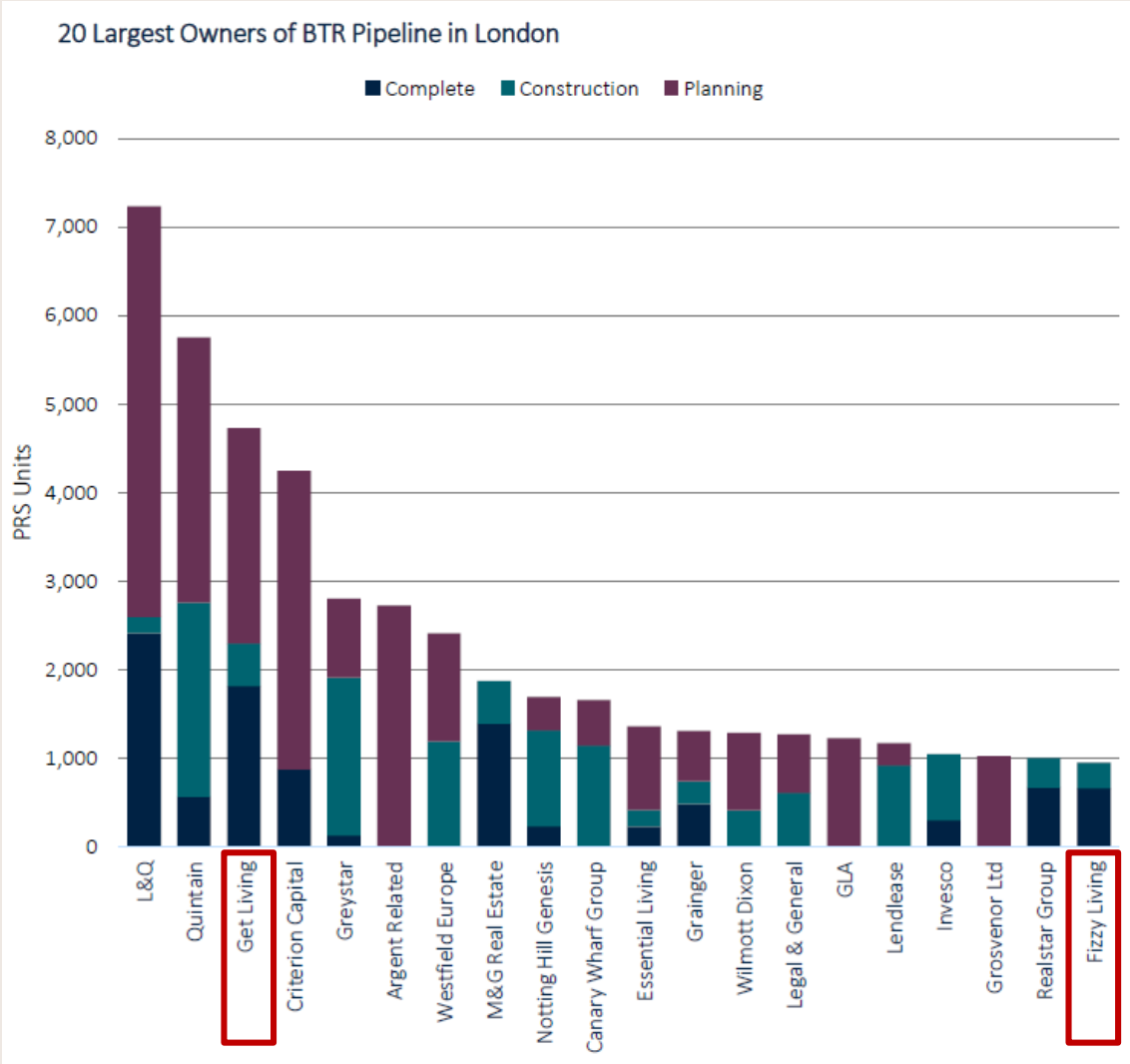
Completed 2018
189 x 1, 2 & 3 bed units

Silvertown Reach



Completed 2018
348 x 1, 2 & 3 bed units

London Investment Landscape | Aus/NZ 5 years time?

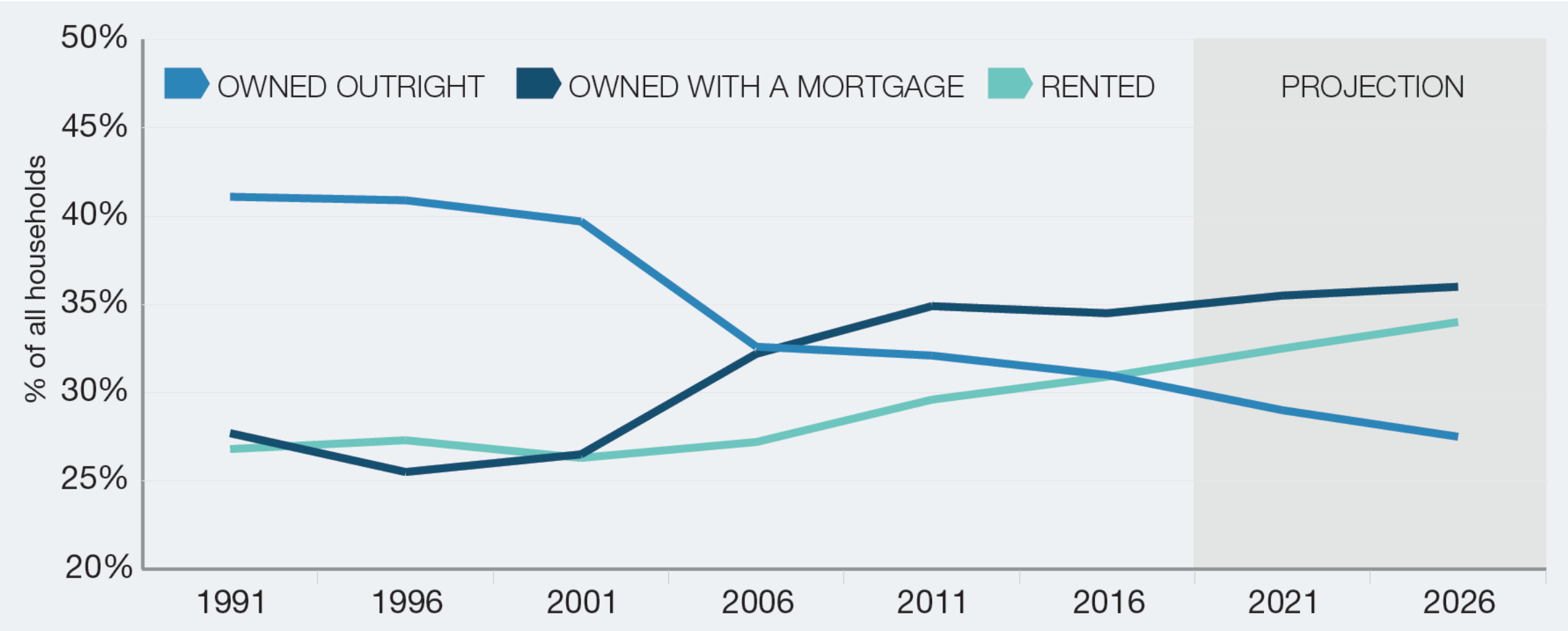


Australian (& NZ) BTR Macro Market Dynamics

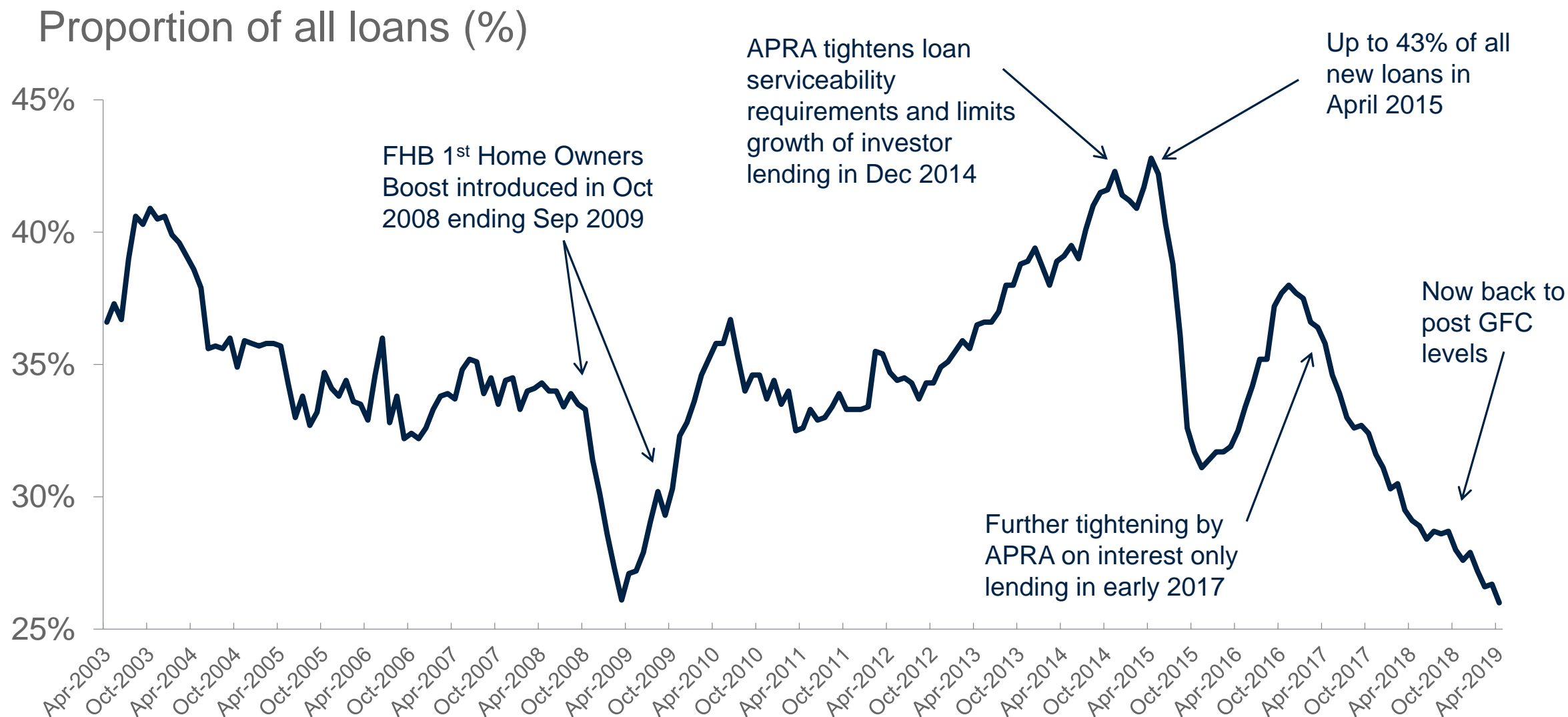
Rented Dwellings | expanding



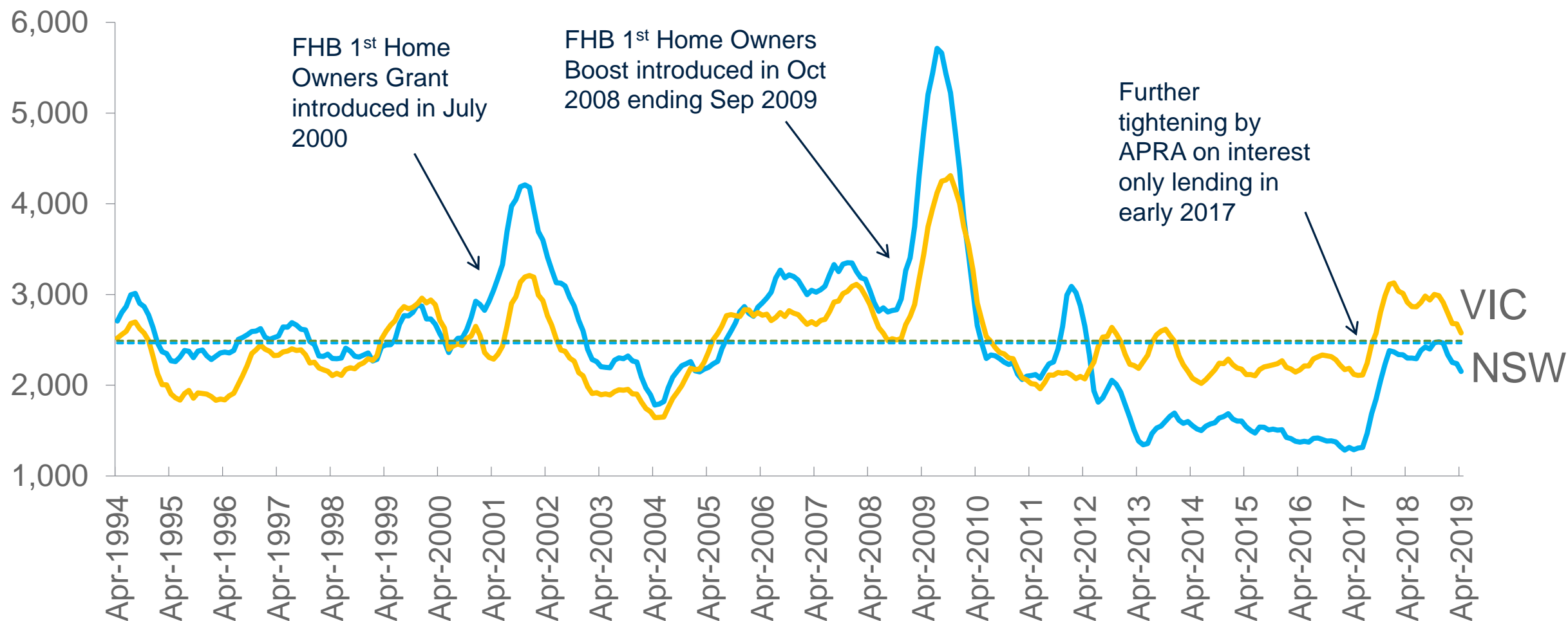
Rented Dwellings | up to 35%?



Investor Loans | squeezing out FTBs



Dwellings financed hovering around long term averages



Millennials | no option to rent or tenure flexibility?



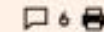
Millennials favour shares and bitcoin over home ownership

Young people regard buying a house as high risk, survey reveals



Bitcoin and other cryptocurrencies have recovered some of the losses that came after a Chinese ban on ICOs.

Aime Williams YESTERDAY



Three-quarters of British millennials would rather put their money in shares, bonds or bitcoin than property, according to research that shows young people turning away from a weakening property market.

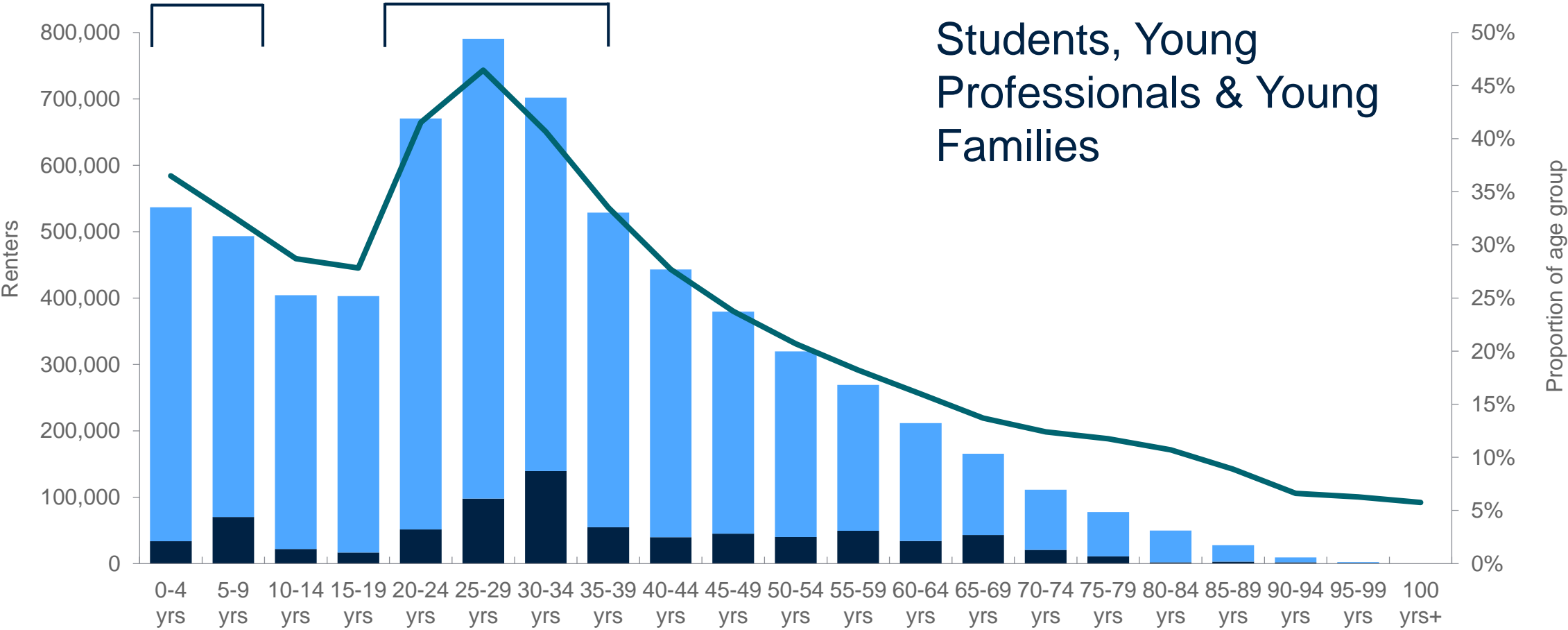


M&D
**THE BANK OF
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Rental Residents | concentrated



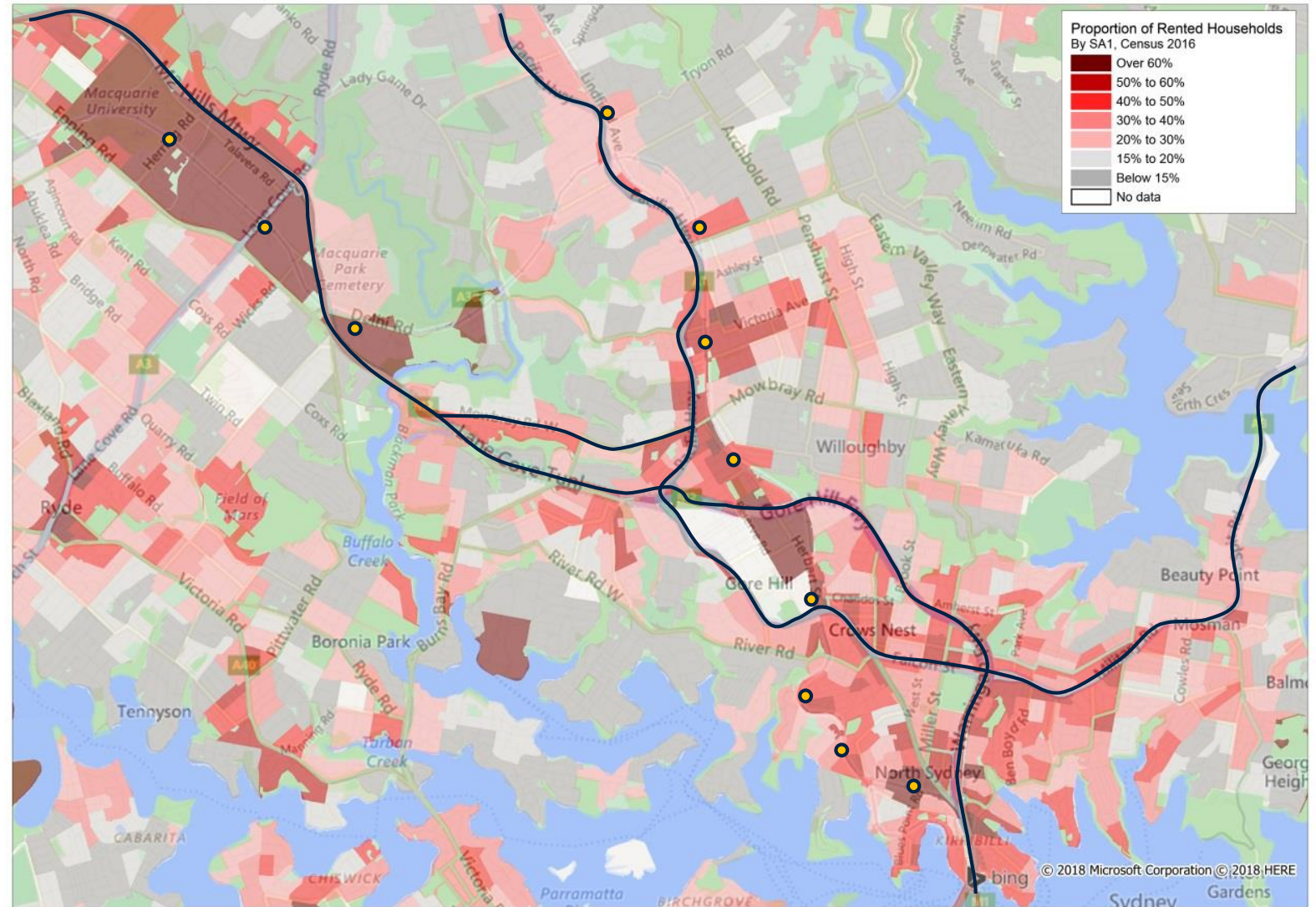
Australia, initial target market for BTR | 20-39



Along **transport routes** –
road, bus & rail

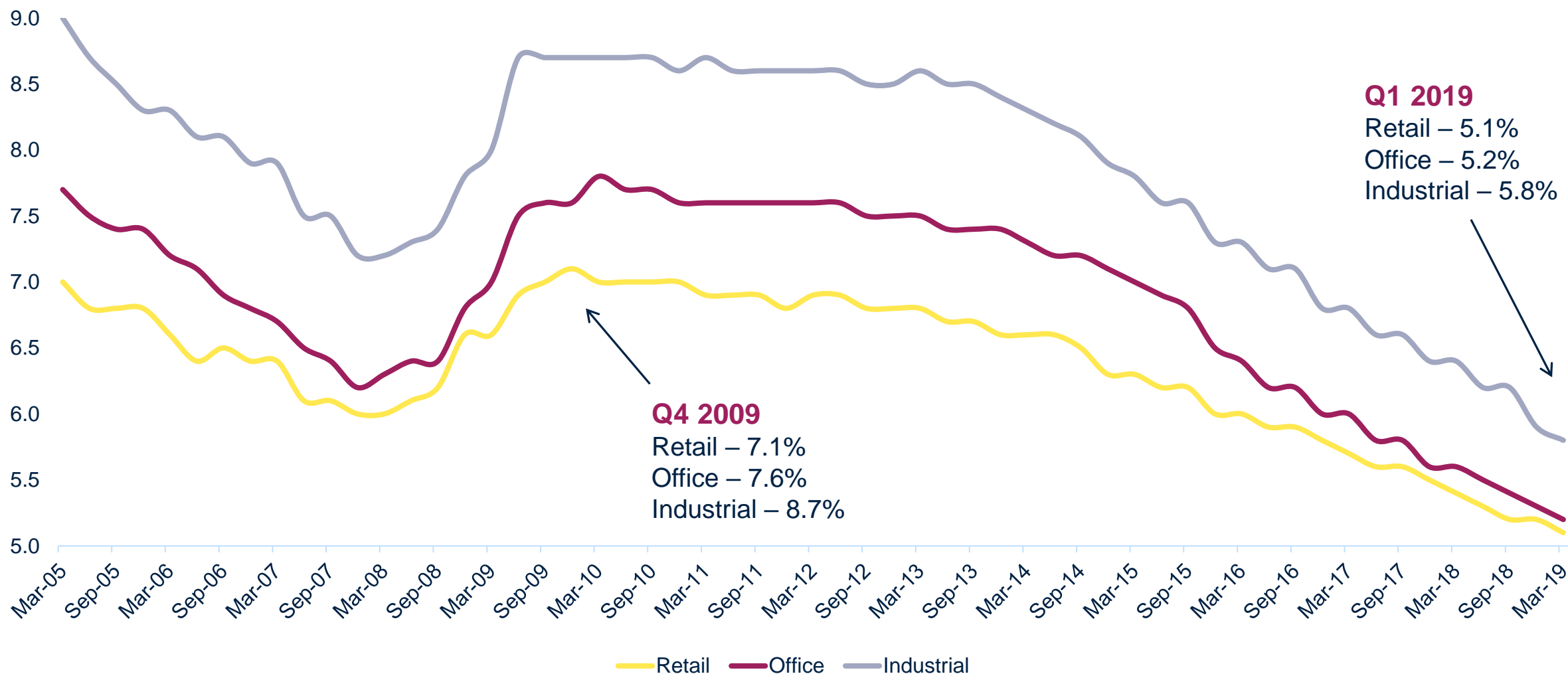
Adjoining areas of **rental significance** – university,
employment, etc.

High density areas with
existing amenity

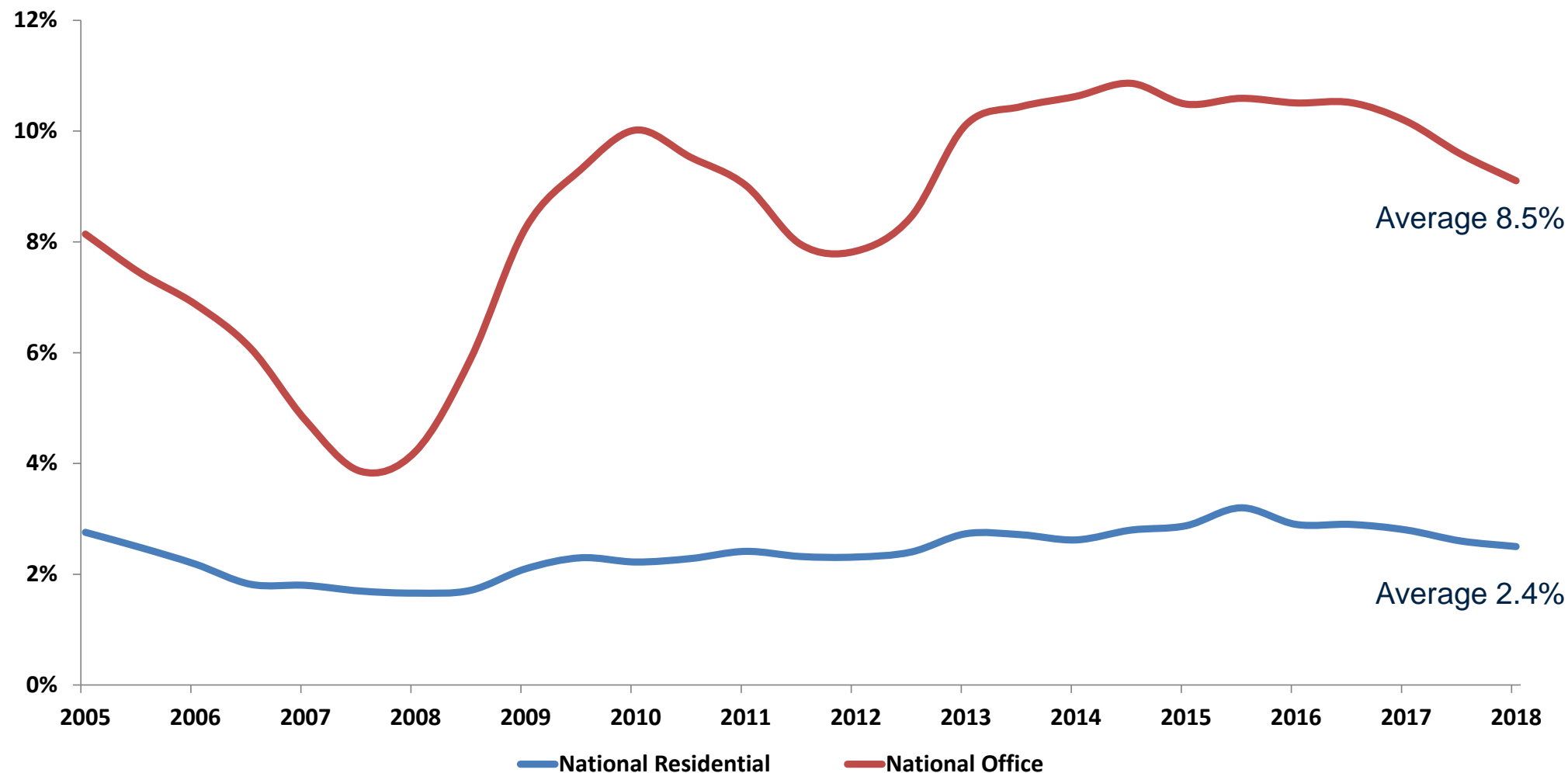


Yields | continue to compress

Australian cap rates (%) by sector: searching for value



Average national vacancy rates by sector



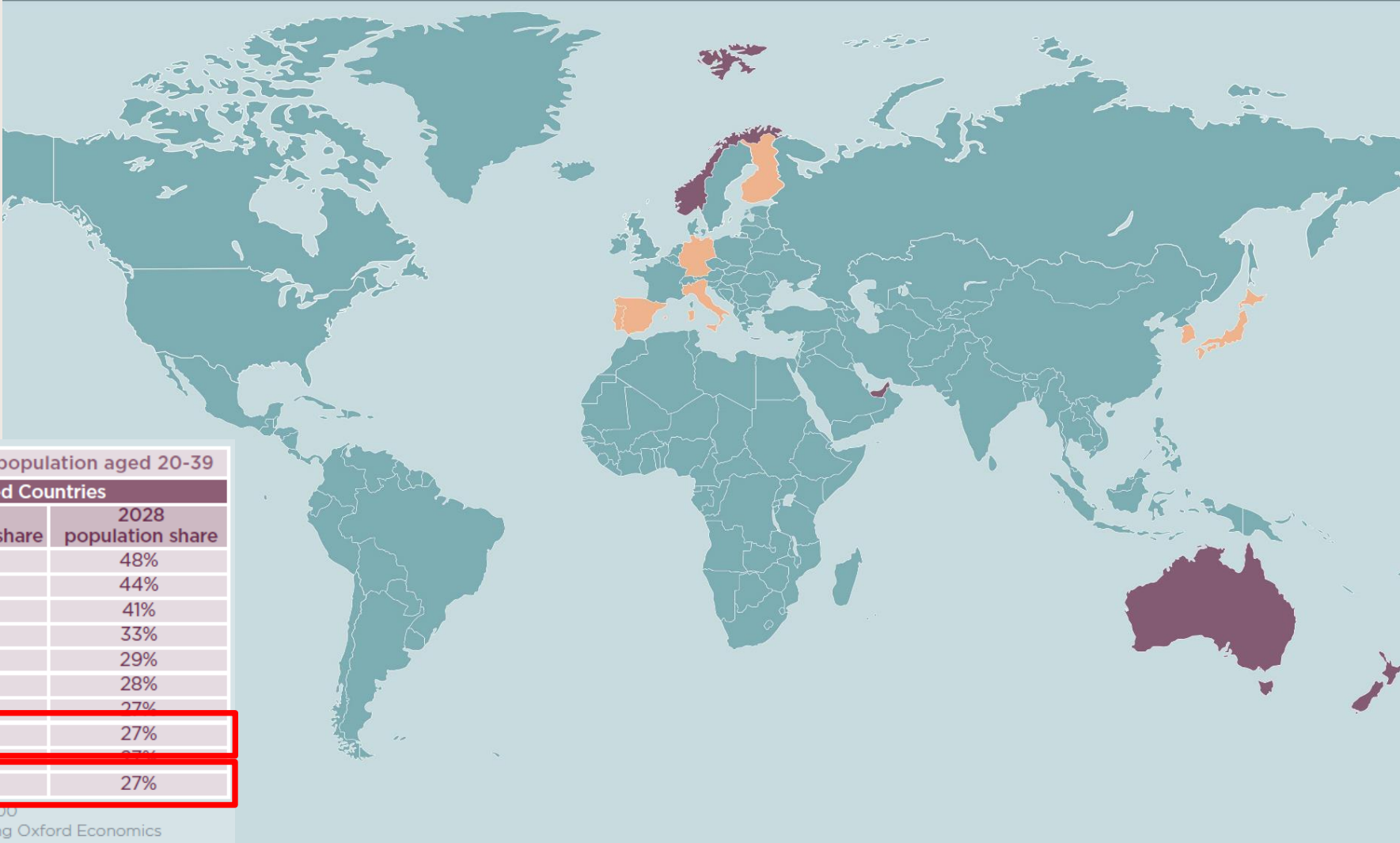
2016-2036 Population Growth % Change

- Over 60%
- 50% to 60%
- 45% to 50%
- 35% to 45%
- 25% to 35%
- 15% to 25%
- Under 15%

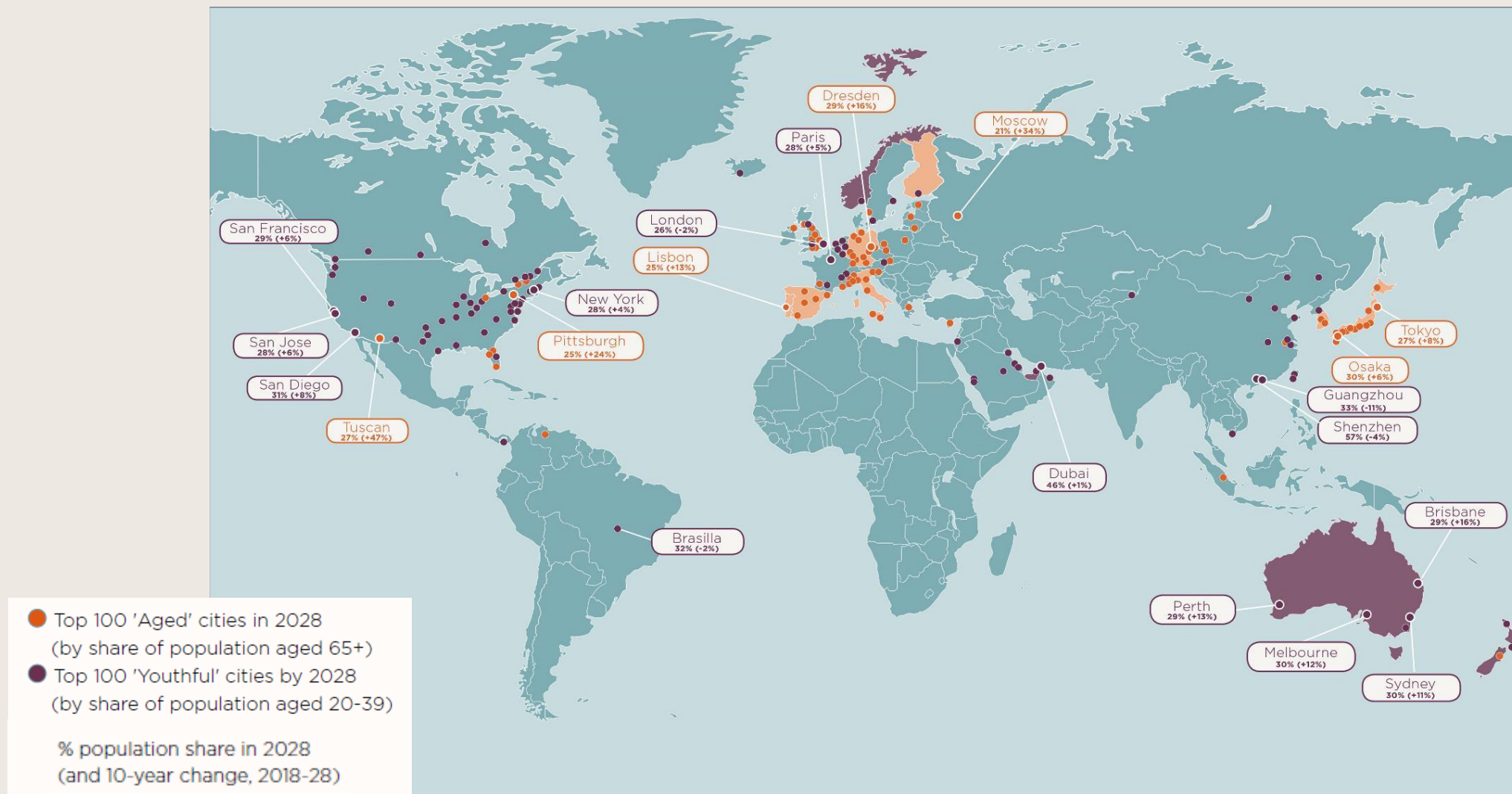
Map labels: Penrith, Blacktown, The Hills Shire, Parramatta, Hornsby, Ku-ring-gai, Northern Beaches, Ryde, Willoughby, Lane Cove, North Sydney, Mosman, Hunters Hill, Canada Bay, Fairfield, Cumberland, Strathfield, Burwood, Sydney, Wollahra, Inner West, Waverley, Randwick, Botany Bay, Rockdale, Georges River, Canterbury-Bankstown, Liverpool, Camden, Campbelltown, Sutherland Shire.



Youthful World – top developed countries in 2028

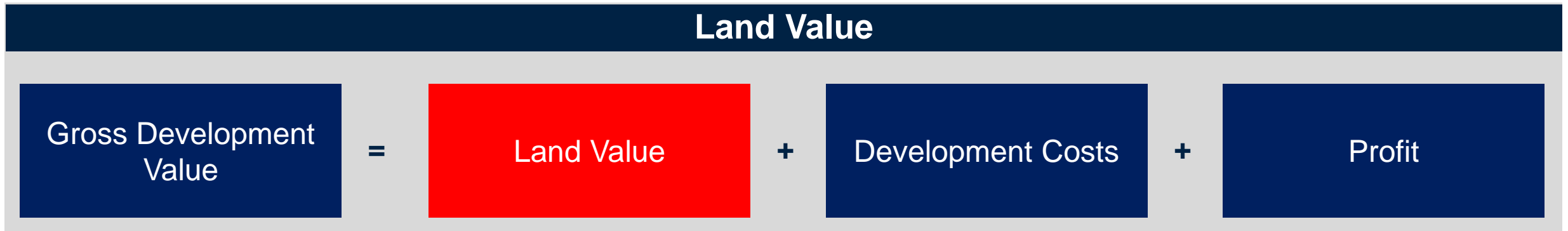


Top 100 'aged' and youthful cities in 2028



A New Real Estate Asset Class?

The Viability Challenge



| Cost Savings / Developer Benefits |
|---|
| Finance saving |
| Stamp duty saving |
| Build cost saving |
| Lower sales and marketing costs |
| Less capital required from developer |
| Developer willing to lower profit on GDV margin due to de-risked sale |

| Investment Value |
|--|
| Key investment valuation drivers: assessing gross rent, operating costs “leakage” and so net operating income. |
| Investors assess value based on an NIY, sense checking IRR / EM after inputting hold period, exit yield & rental growth forecasts. |

... and a range of routes to market



Equity

**Land acquisition and
development**

Joint venture



Equity with / without debt

Forward funding

Forward Commitment

Standing Stock



Debt

**Senior debt /
mezzanine**



“Annuity”

**Long income /
income strip**

We are now:



Coming to the end of the
high density apartment
development cycle



Seeing the early forward
funding deals turn into
built stock

The Australian (& NZ) Government needs to:



Think carefully about
how they legislate



Understand the
opportunity to accelerate
housing delivery



Become more flexible
with planning consent

Developers and Investors need to:



Create future designs
and trust the supply and
demand imbalance

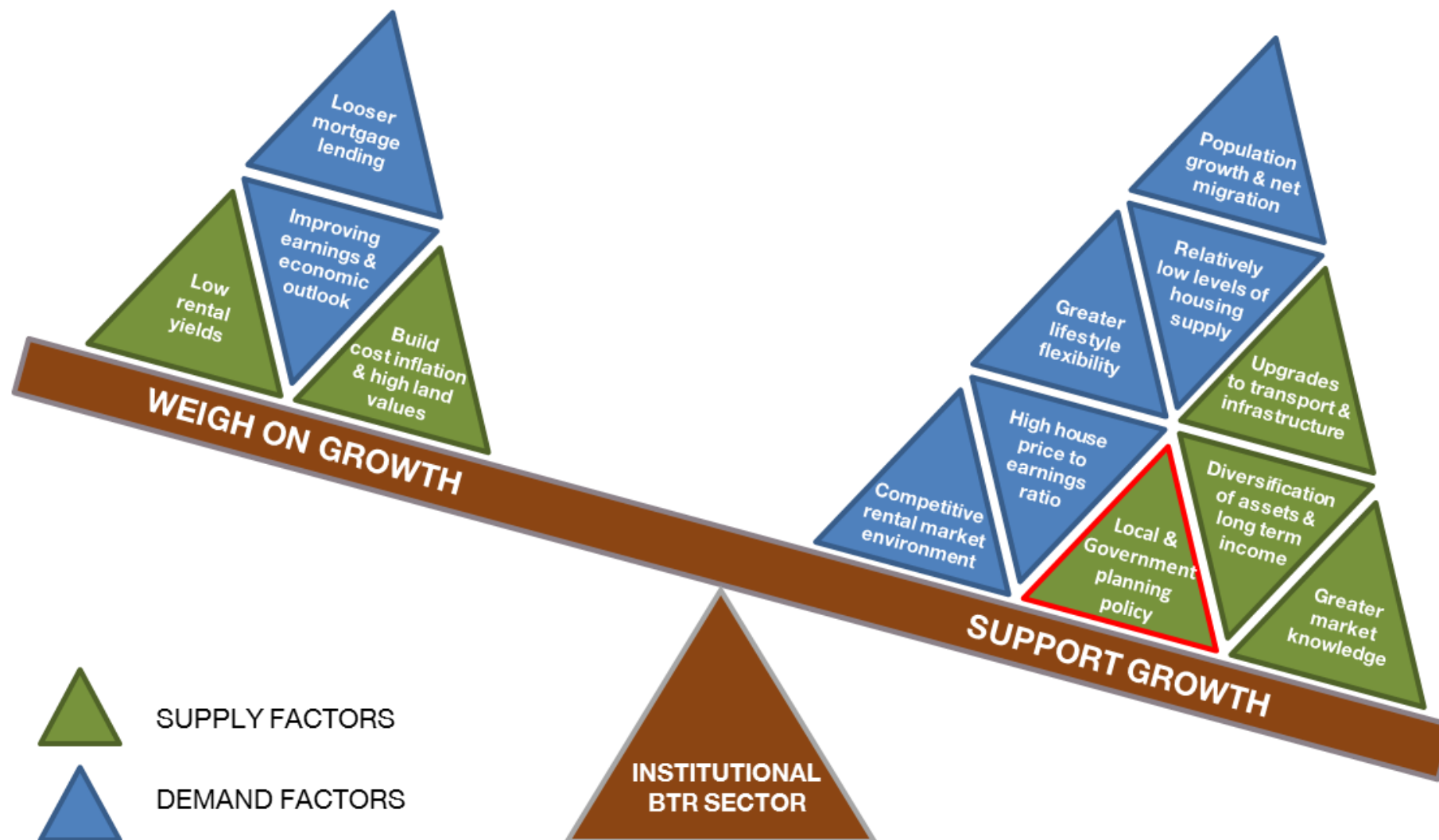


Properly value the
long-dated nature of
income



Work with local
authorities to make
Build-to-Rent a solution

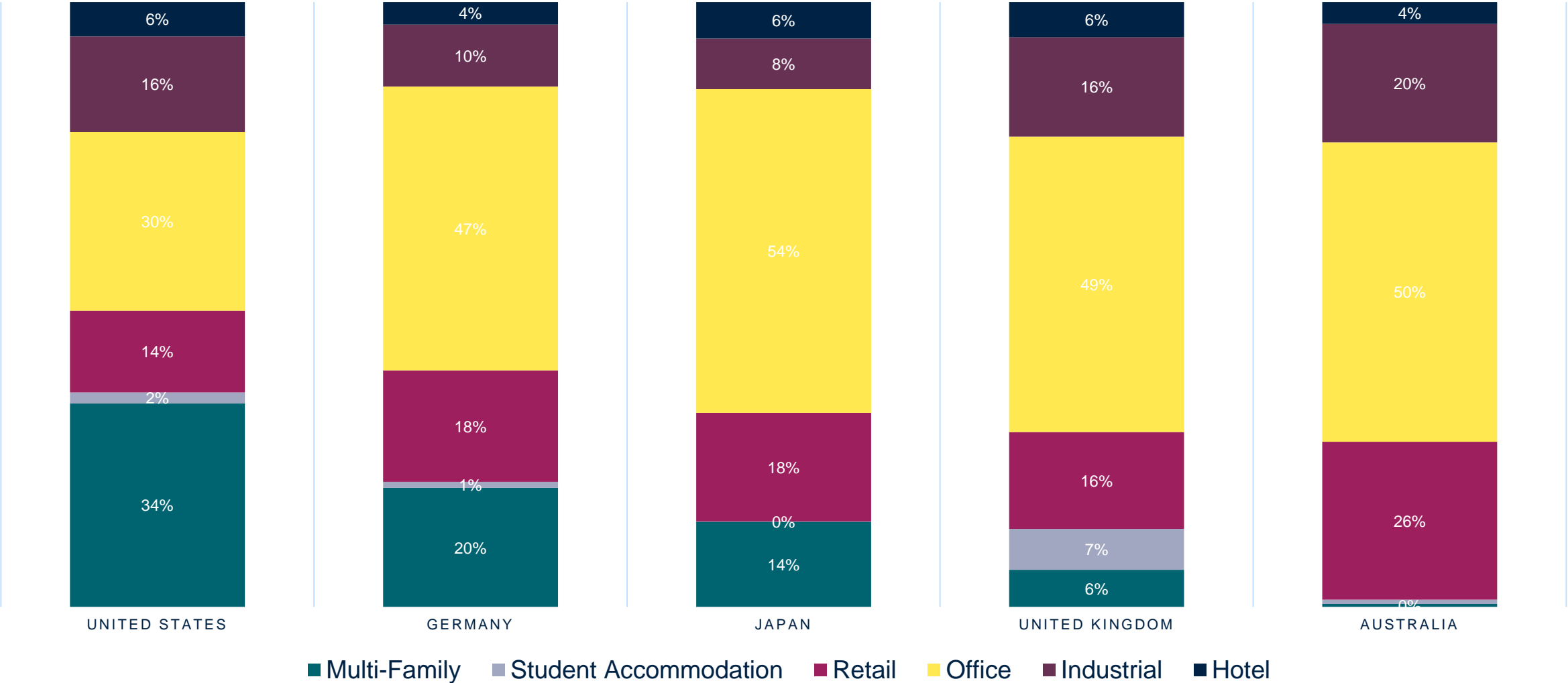
Almost There | growth drivers?



Investment Landscape | 20 years time?



2017 and 2018 transaction volumes split by sector



5 Ways Build-to-Rent Can Help Housing Delivery

1

Build-to-Rent can be delivered faster than housing for sale, as it does not have the same issue of market saturation risk

2

Build-to-Rent investors will often look to build larger schemes than house builders

3

Build-to-Rent offers an attractive option for those who are unable or unwilling to buy their homes, allowing people to live near the jobs and services they need

4

Build-to-Rent is a way of attracting alternative sources of capital into the Australian & New Zealand house building market

5

Build-to-Rent investors are looking for returns over a period of decades, it is hoped that Build-to-Rent investment will be less sensitive to economic cycles than house building for sale and quality of build will increase

Experience | not an overnight sensation

“The build-to-rent sector has not yet made a meaningful contribution to supply. This mainly reflects issues around development viability. Uncertainty over the ability of private landlords’ capacity to meet growing demand adds to the supply pressure. It is in this context that increased interest in build-to-rent developments, increasing and diversifying the level of rental supply, is emerging.”

“The Government has signalled renewed support for the sector by setting up an expert private rented sector taskforce to support investors and boost awareness.”

“The Government, and the political opposition, acknowledges the important role that rental accommodation will have on meeting housing need in the future, whilst seeing the regeneration opportunity of build-to-rent.”

“Creating large scale rental portfolios, enough to make a significant contribution to rental supply, demand large amounts of long-term capital; funding from institutional investors, including pension and insurance funds will be key.”

Paul Savitz, March 2013



Thank You

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