BUILD TO RENT

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With Build to Rent the fastest-growing trend in the real estate market today, this report aims to find out more about this burgeoning phenomenon, what it is, whether it will provide a solution to the housing crisis, and whether it is sustainable.

Aurient Limited

Tuesday, 1 March, 2022

CONTENTS

Executive Summary

ABOUT BUILD TO RENT

Simply put, Build to Rent ("BTR") housing is purpose built, institutionally owned and professionally managed private rental accommodation.

BTR is now the biggest trend in the private rented sector in the UK, is well established in Asia and the USA, and although very new, is rapidly gaining momentum in Australia. It is very likely to soon become the hottest real estate trend in Australia.

It is distinct from traditional private rental accommodation in that BTR usually involves one landlord of the entire development, who retains long-term ownership and rents out all the units.

SCALE

The BTR global industry is a trillion-dollar industry in the United States accounting for more than 25% of all rental accommodation, and is rapidly growing in the United Kingdom with investment expected to reach £75 billion by 2025.*

WHO IS INVOLVED IN BTR IN AUSTRALIA?

Large scale institutional investors – such as big property companies, pension and insurance funds, property funds, and listed property developers - as well as overseas Sovereign funds are the main organisations now and in the near future ploughing money into Build to Rent in Australia.

In Australia, declining home ownership levels and the growing popularity of apartment living, plus lifestyle, financial and work changes stemming from the Corona virus, are driving strong underlying demand for BTR in Australia.

Yet to date only around 0.2% of private accommodation has institutional landlords, compared to over 34% of rental accommodation provided by private landlords.*

OPPORTUNITIES

Australia, is in the very early stage of what will be a transformative change in the supply of rental housing which we believe will create potentially one of the greatest real estate investment opportunities seen in Australia for decades.

Yet as has been outlined in this report, opportunities are limited for private investors to get involved in BTR.

However, the changing needs and desires for new housing typology and a 'perfect storm' factors conspiring to restricted new housing supply create a need and opportunity for BTR in Australia and Aurient has identified a "sweet spot" in the BTR market for projects that are too big for private investors, but at the same time, are too small for the large property investment funds.

This sweet spot could provide investors access to opportunities in BTR normally reserved only for institutions and the big players.

And as can be further seen in this report, tenant demand for this product type is likely to far exceed supply for the foreseeable future, and the growth of BTR in Australia is likely to not only grow exponentially but continue for decades to come.

INTRODUCTION

It's hard to argue much with the assertion that Build to Rent is the biggest trend in the private rented sector right now in the UK and is rapidly gaining momentum in Australia.

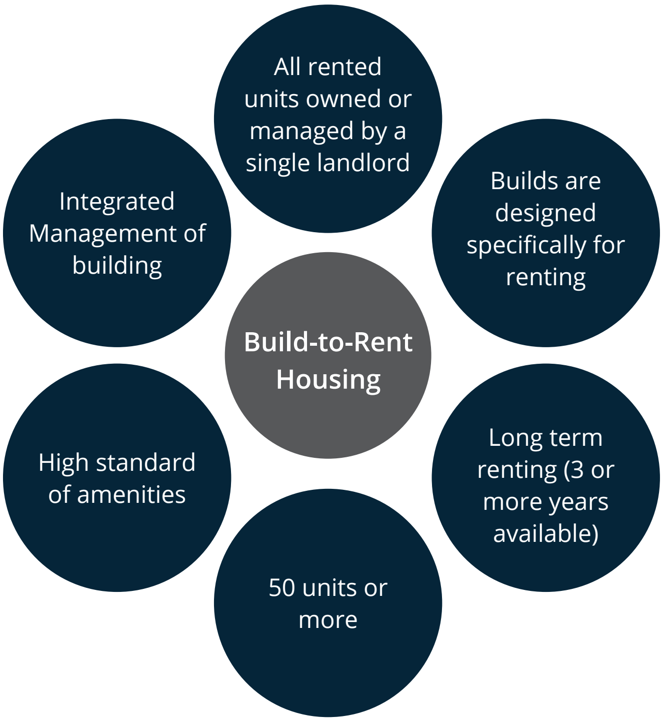
In the United Kingdom, the build-to-rent sector has grown steadily over the past decade from a largely standing start and is now the second largest form of tenure in the UK. Trends that have emerged in London, where the costs of home ownership are high and work and leisure opportunities are largely centralised in inner-city areas, may gain momentum in the Melbourne and Sydney housing markets.

1 WHAT IS BUILD TO RENT? (BTR)

> *BTR housing is purpose built, institutionally owned and professionally managed private rental accommodation*

It is distinct from traditional private rental accommodation in that BTR usually involves one landlord of the entire development who retains long term ownership and rents out all the units long term.

The rapidly growing sector sees purpose-built, professionally managed rental developments – often luxury, often with add-ons – being constructed with tenants specifically in mind.



Large-scale institutional investors – such as big property companies, pension and insurance funds- property funds, and listed property developers as well as overseas Sovereign funds, are the main organisations investing money into Build to Rent.

There are several other terms that are used when referring to the model of Build to Rent including Managed Residential, Flexible Living, Build to Let, Private Rented Sector and Co-living.

However, for the purposes of this report, we shall simply refer to the genre as BUILD TO RENT or BTR for short.

2 A BRIEF HISTORY OF BUILD TO RENT

THE USA

By unit type there are probably more low-rise suburban apartment communities in the US multifamily market than anywhere else.

Most US multifamily rental buildings offer on-site staff, resident common areas and amenities, and a business model that places the tenant at the centre of service delivery as the 'renter".

Most American properties boast an outdoor pool, even if it's on the roof of a downtown block, while others offer less common features such as a climate-controlled wine tasting room or a dedicated lift for pets to ferry them to the rooftop doggie walking track.

The US multifamily market is mature and highly established.

BTR in the USA:

- North America
- An established market
- **BTR reportedly had the highest average returns of any US commercial real estate asset class**
- BTR delivered over 250,000 new units across the key US markets in 2018
- **A trillion US$ industry accounting for more than 25% of real estate investment in the US.**

THE UK

With Build to Rent the private rented sector's fastest-growing marketplace in the UK, it is a major consideration for an increasing number of institutional investors and developers.

However, it still can be considered to be in its infancy and is only a small part of the private rented sector in the UK.

Although still a small-scale, niche part of the private rented sector, it is also one which is growing rapidly. It's hard to argue much with the assertion that Build to Rent is the biggest trend in the private rented sector right now in the UK

A scheme was first launched in the autumn of 2012 by the then-Coalition government to increase the number of homes on offer in the private rented sector, but it didn't immediately catch on. In 2013, the government introduced a £1 billion Build to Rent fund to encourage more developers to enter the sector. While the total allocation for this fund – which closed in 2016 – was never taken up, it did seem to bring the emerging market some much-needed exposure.

In recent years, activity has really grown. According to the most recent Build to Rent market research (Jan 2019), produced by Savills and commissioned by the British Property Federation, the sector continued to grow fast in 2018 with the total number of new units completed, under construction, or in the longer term planning pipeline in the UK standing at 139,508 in Q4 2018, up 22% on Q4 2017.

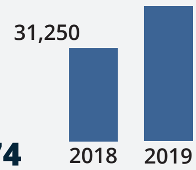
The phenomenon has gone nationwide – with developments everywhere from Cardiff and Newcastle to Glasgow, Norwich and Chelmsford – but London and the North West is hugely dominant, accounting for nearly 106,000 of the overall BTR units.

Build to Rent in Numbers

1st 2nd

UK has the second biggest investment in Europe behind Germany, according to JLL

139,508
Homes either completed, under construction or going through planning



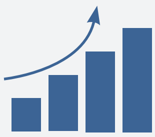
43,374
BTR units currently under construction in 2019. An increase of 39% from 31,250 a year before

Homes under construction in London

24,010
Homes under construction outside the capital, with Manchester a particular hotbed

£75 billion
The amount of investment Knight Frank says will be committed to build to Rent by 2025

£24 billion
Investment in 2017 alone



180%
Growth expected in the next six years

BTR in the UK:

- An emerging market
- Investment in the sector expected to reach £70b by 2020
- Development pipeline has grown 500% in five years
- 20,000 builds to rent units completed in April 2018.

80,000 more are in planning or under construction.(2019)

HONG KONG

The most dynamic region in the world for co-living is Asia. Invesco Real Estate estimates that more than 500 professionally-managed locations exist in Asia today, with more in the pipeline. Asia has exhibited the strongest growth in co-living spaces globally and is gaining increased institutional interest from global investors.

Hong Kong has been at the forefront for Build to Lease properties since the early 1970's. One only has to look up towards mid- levels to see the huge luxury apartment blocks perched on the hill, up Old Peak Road, Tregunter and May Road, to understand how lucrative and profitable this type of property investment can be.

Hongkong Land built many of these blocks back in the 1970's and 1980's; and they have not only stood the test of time but are still considered amongst the most desirable of executive homes.

Upon its completion in 1981, Hongkong Land's visionary Tregunter 3 was the world's tallest all-residential building, and held this distinction until the completion of Trump World Tower in 2001.

The three Tregunter towers share the common facilities which were ahead of their time in the 1980's. These include a clubhouse, a tennis court and an outdoor swimming pool. Within the clubhouse, there are other sport facilities such as badminton, squash, table tennis, basketball, weight training, aerobics, etc. The clubhouse also has a restaurant, and function rooms reserved for the use by the Tregunter residents.

In later years, serviced apartments have been extremely popular in Hong Kong, with many huge projects being Built to Lease. Again, even the 'cheaper' ones tend to command rents out of the budget of many young singles and executives in Hong Kong.

More recently the demand for a completely hip, amenity-rich housing in Hong Kong has put BTR on investors' radars.

Generally referred to in HK as co-living spaces, they cater to a younger, more mobile crowd, and with a different 'price point'. The target group tends to be students, young professionals, and foreigners looking for shared values and interests with fellow residents, as well as more flexibility in lease terms, facilities and convenience.

But difficulties finding suitable real estate – typically other residential properties – has been a major hurdle, even for cash-rich operators, who are having to find new ways to tap into demand.

One solution is acquiring projects built for a different reason, such as hotels and offices, and converting them to co-living spaces.

Co-living company Weave's latest location in Hunghom, which opened in late 2019, was formerly both a hotel and residential building.

The lack of existing en-bloc property means that operators are looking to convert existing properties or built-to-suit development, says Alvin Leung, director for Hong Kong capital markets at JLL.

"Some like Hmlet, Dash Living and M3 International Youth Community have chosen to go asset-light by leasing, rather than owning, converted locations."

Likened to "dorms for adults", the apartment blocks tend to come with a host of amenities, from communal kitchens to living and games rooms.

Some co-living operators were recording up to an 80 per cent occupancy rate for well-established co-living projects before the protests and the corona virus.

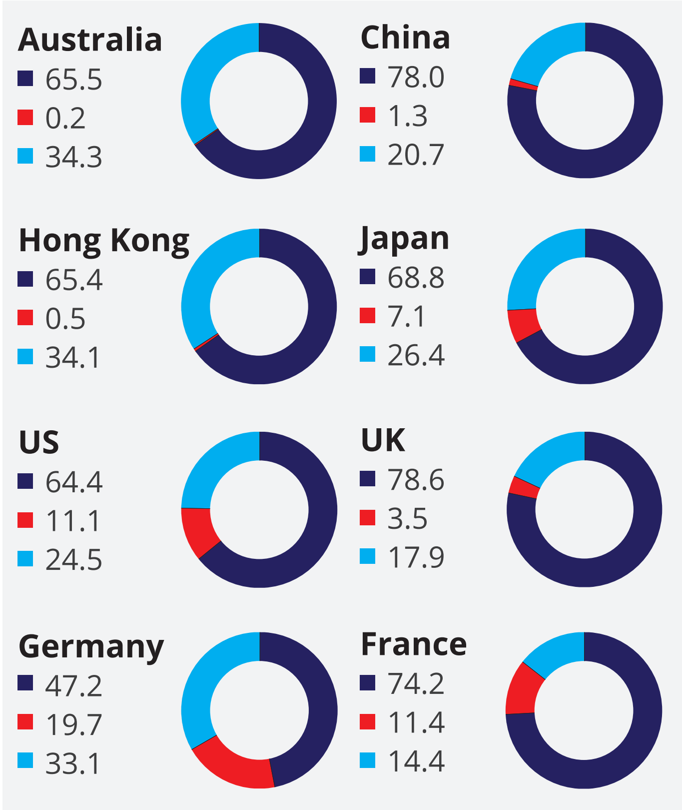
BTR in HK and Asia generally

- Is an established market
- Highest trade of BTR projects outside of the USA

The following chart from Invesco Real Estate shows the low amount of institutional rental accommodation owned in various countries

Private residential market share estimates

- Private: owner - occupied
- Private: rental : institutional
- Private: rental : individual landlords



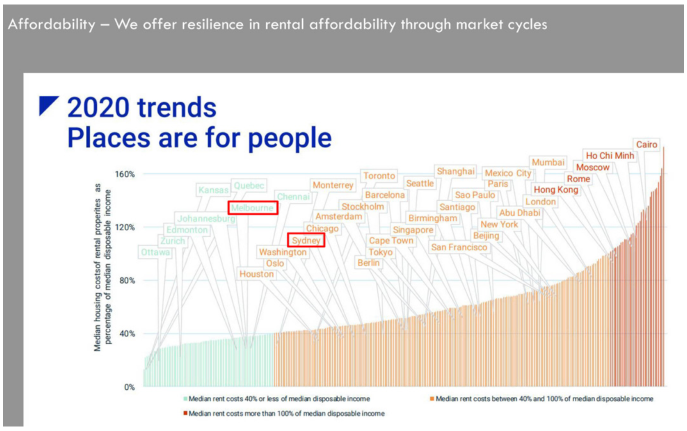
Source: Invesco Real Estate estimates, as of October 2018

AUSTRALIA

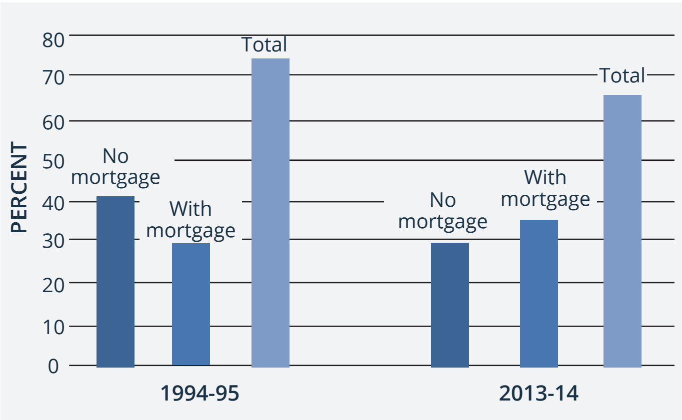
Historically, Australia has high rates of home ownership, which tend against build to-rent projects as a legitimate alternative to build-to-sell.

Typically, to rent an apartment in Australia requires dealing with an unknown owner and a local agent that represents the owner. This leads to a high degree of uncertainty, inefficiency and levels of service and quality of accommodation to the individual renter.

Build-to-rent projects can provide a convenient lifestyle, with greater access to amenities such as in-house cleaning, maintenance, landscaping and property and facilities management provided by the asset's owner.



Proportion of Australian Households that own their home



BTR in Australia:

An emerging market

- BTR hotspots are Sydney, Melbourne and Brisbane
- Since 2017, eight BTR projects have commenced on the Australian East Coast

3 WHAT IS THE DIFFERENCE BETWEEN BUILD TO RENT AND BUILD TO SELL?

Australia's residential developers and investors have long favoured the build-to-sell model, where capital is tied up for a shorter period and returns are quicker and often greater.

Simply, build to sell has evolved in Australia rapidly since inner city living started to take off first in Sydney in the 1970's-1980's, followed by Melbourne in the 1990's. Originally in Sydney developers would complete the project, then sell all the apartments on completion. None were retained.

Then in Melbourne in the 1990's during the recession the state government introduced "stamp duty savings" in a bid to stimulate the building industry and encourage investors to invest off the plan in rental housing. This worked so well that the stamp duty saving on off the plan properties remained for decades in Melbourne. This encouraged developers to sell all the apartments off the plan to home owners and investors.

In recent years, this off plan stamp duty benefit was removed, and new increased taxes and stamp duties for investors introduced, mainly targeting foreign investors.

The unintended consequence of these actions has seen developers withdraw from this market, causing a reduction in supply of investment apartments for rent. This can be seen in Australia's capital cities vacancy rates, which have barely changed for a decade even with thousands of new apartments flooding the market. **BTR is likely to evolve and 'save the government' as the social consequences of rent rises and not enough rental property for the demand has huge repercussions.**

These are decisive benefits for the tenants and drives a sense of community for tenants. Then also not to be underestimated is young people in particular in Australia have been immune from all previous major economic setbacks.

This is their first crisis. Many will want to lower their overhead, rental being one of the main overheads for young people. They will accept smaller spaces, but only if well designed, well fitted out, and well equipped.

They will also be attracted to buildings that offer additional services, usually only found in high end developments, such as security, concierge services, housekeeping or cleaning, laundry services, residential facilities like a BBQ and a roof terrace, and so on.

The traditional student housing, serviced apartment or studio flat does not match any of these requirements. A product like this, that is flexible in (stay, length, market) and offering

"One of the key market differentiators for BTR to traditional residential investment is that Build to Rent operators have come to view occupants as 'customers' as opposed to merely 'tenants'."

Louise Burke

Senior Analyst, Research

JLL

(size, scope, kitchen, laundry) is more aligned to demographic and societal shifts post Covid 19.

4 RENTERS BENEFITS OF THE COMING BTR TREND

The BTR model offers a broad range of benefits to the Australian market.

Even through the corona virus period, housing in its traditional forms has largely remained unaffected by change. Inflexible lease terms, early termination fees and unfurnished premises have pretty much remained and been unchanged for decades.

The principle fundamentals of accommodation, of having somewhere to live, have not changed. But the type of accommodation may have changed forever.

Meanwhile, rents have increased to unaffordable levels particularly for young people, but investors keep demanding rent increases.

While rents have dropped during the pandemic, once things stabilise, they will rise back to previous levels and the shortage of new developments being completed could see further rent increases. More and more tenants have been sharing accommodation in traditional 2- and 3-bedroom apartments, renting a bedroom and in many cases sharing with strangers to keep rental costs down.

This is not a long-term sustainable model.

Enter Build to Rent. BTR seems to be an answer to young people's desire for flexibility, more affordable premium living with access to facilities and amenities, while living in prime locations, and having the benefits of a community lifestyle.

Renters in Australia may not yet know what BTR has to offer, but we are confident that they will very quickly come to recognise the benefits of BTR product over existing rental product.

As the sector grows and becomes increasingly competitive, benefits will become increasingly prevalent and **may attract many renters away from the current strata rental market simply for a better renter experience.**

In a well-run US multifamily community, maintenance response times are often provided on a same day or next day basis. Most buildings employ a maintenance person on-site who is trained to take care of practically any standard requirement.

Should this model apply to Australia, it will be an attractive benefit. Australian tenants are used to having to request repairs through a managing

agent, who then contacts the owner, who often requires two or three quotes. The tradespeople then must arrange with the tenant an inspection. Then provide a quote to the owner.

Then once approved, the tenant again must be home to let the repairman in. Weeks later in many cases.

In the ideal BTR model, appliances are modular and defective units are swapped out directly from stores held on-site. On-site technicians are professionally trained and able to fix everything from bathroom fittings to door locks, so it is unusual to have an external contractor come into any unit to conduct work.

There are several other features which may make BTR attractive to renters in Australia. These include the absence of agency fees and deposits, an emphasis on security and the attraction of putting down roots (with long-term tenancies typically on offer in addition to short term lets) and the inclusion of utilities and broadband in rent. In addition, they typically have communal or social spaces, concierge services, 24/7 support, social events, on-site maintenance teams and keyless entry.

The BTR model for institutional investors is reliant on occupancy and steady rental growth. This objective incentivises landlords to deliver high quality products and services. Generally, the building quality of BTR facilities is improved, as landlords wish for the premises to be attractive to renters.

Control by one owner further avoids 'patchwork' management as there is one landlord responsible for the whole building, enabling the efficiate provision of the single services and other amenities to tenants.

This increases the quality of the rental stock available to the public, while also reducing the number of poorly maintained dwellings, unexpected rent increases and landlords unexpectedly selling the premises will be greatly reduced.

It is important to realise how unusual and traumatic the effects of the Covid pandemic has been on populations, particularly recent Australian generations.

They have never been subjected to such upheavals and a significant re-aligning of their life-priorities and social preferences is probable.

This will flow to the major priorities of finance and daily living needs. Smaller units, reducing daily expenditure and cohesive social facilities - already increasingly popular - will take priority.

In summary, tenants are likely to benefit from:

A. Ease of moving

BTR can provide a simplified moving process for renters, which is particularly relevant considering Australia's increasingly mobile workforce.

Leasing and pricing processes are generally much more streamlined in the BTR sector compared to the private rental market due to economies of scale and result in much clearer product development and understanding.

To expand on this further, with BTR there is no third-party leasing agent involved and renters directly communicate with the operator who recognizes the benefit in building a long term relationship with renters from initial enquiry onwards.

In theory, there is no 'competition' between applicants –if an apartment is available a pre-approved renter can sign a lease and move in.

The renter selects the unit within their budget that they want to live in, rather than a private landlord deciding whether they want a family or a student to live in their investment property for example.

In most BTR agreements some essential services are included (most typically an instantaneous broadband connection), so renters can move into an apartment at the agreed lease date without having to set up utilities with individual providers.

The flexibility that the BTR sector offers resonates with changing societal attitudes largely inspired by the millennial generation.

Such attitudes are also noticeably being adopted by older generations too; so savvy institutional investors are watching this space.

B. Security of tenure

While the flexibility of BTR is a major advantage, BTR can also offer security for those who seek it. Rental insecurity is a major drawback of the current strata-ownership model of rental property in Australia.

There is no guarantee that private investors will keep their properties on the market after a tenancy expires. Length of stays are decided on terms depending on the investors' own short, medium or long term plans.

Private investors may seek to re-develop, sell or occupy their rental properties on a whim at the end of an agreement, leaving the renter to find new accommodation and often with substantial moving expenses.

BTR products on the other hand are much less likely to be removed from the rental market.

In Australia the 'standard' residential non-BTR tenancy agreements are generally initial fixed terms of 6 to 12 months and unfurnished.

As has been seen in the UK model, BTR owners are more than willing to offer much longer agreements –typically three years –to promote longevity of occupation.

These agreements are simultaneously renter friendly in that they offer occupiers the ability to give notice to move out after an initial six month period.

Rents typically rise annually during the three year period, linked to a prevailing index such as the Consumer Price Index, so renters can plan their budgets accordingly.

C. Centralised contact point

A central body of contact for leasing renewals, maintenance and use of onsite services will provide convenience for BTR renters. Onsite management via a mix of on-site staff and bespoke online renter portals should not only enable maintenance and repairs to be addressed quicker (particularly if there is 24/7 onsite management) but, equally importantly, will give residents confidence that their concerns are being immediately acknowledged and promptly dealt with.

D. Modernisation and refurbishment ability

From time to time residential apartments need to be refurbished or renovated. BTR operators will have the ability to undertake refurbishments of their projects with more ease than a traditional strata owned building. Not only will their products be designed with longer term adaptability and durability in mind, but they will also have the ability to manage upgrades efficiently, effectively

and with the minimum of disruption for residents.

En-bloc ownership of BTR projects means that landlords can undertake building upgrades or incorporate new facilities and services with relative ease.

For individual landlords wishing to improve their rental product, the current body-corporate structure in Australia can be complicated. Building-wide works can be difficult to agree on between strata owners or deferred due to funding constraints.

E. Building communities

BTR projects have the ability to create communities of likeminded renters by meeting specific local demographic needs. Investors or individual developments can target particular renter types through design and the inclusion of particular amenities. **In the US, the success of many BTR developments has been attributed to a sense of strong community in buildings.**

Creating thriving communities is already recognized as an important part of residential development in Australia, with many developers employing community engagement managers in residential housing developments.

There is a misconception that BTR only provides homes for affluent young professionals. The JLL study of complete BTR projects in the UK show a much wider section of society is living in BTR. The 7 case studies were mixed communities with occupiers ranging in age from 18 to 55.

The occupiers of the BTR schemes analysed were broadly above-average earners, earning an average of 30% more than the UK full-time median salary. These occupiers are prioritising location and the services that BTR has to offer. But in making this choice, the occupiers in the sample group are not over-extending themselves, with the percentage of income spent on rent ranging from 27.2% to 31.2% across the schemes.

5 DEVELOPER BENEFITS

BTR housing can be delivered faster than build to sell as it does not have the same issue of market oversupply risk as build to sell developments.

Centralised ownership allows for true product differentiation of residential projects by removing the hurdles of individual ownership. This also allows for projects to be well maintained and refurbished when necessary to ensure quality and relevance in the market, like what we see in the Australian office market.

Scale means that costs can be reduced and a variety of service and facilities can be offered within projects. The renter service element and purpose built factor means that operators are solely striving to create a superior rental experience which simultaneously builds convenience for the renter and branding familiarity.

Because BTR developers and owners are looking for returns over a period of decades, investment would be less sensitive to economic cycles than traditional buy-to-sell development.

BTR has the potential to provide an asset with a favourable yield, a long-term income stream, significant collateral backing and well diversified credit risk.

6 BENEFITS TO SOCIETY

BTR also presents unique opportunities in Australia for job creation, housing affordability, domestic and foreign investment and renter satisfaction.

BTR is a way of attracting alternative sources of capital into the Australian home building market. Traditional home building - with high-risk and short investment cycles - does not appeal to superannuation, managed funds and global funds seeking long-term income whereas build-to-rent is ideally suited to them.

The BTR model has the potential for Australian governments to provide affordable and social housing to disadvantaged members of the community.

BTR investors will often look to build larger schemes than traditional unit or house builders to drive economies of scale.

An increase in housing stock means more cost-effective housing and a boost for the construction industry, more rental choice, and possibly, rental containment.

Crucially, BTR investments will provide attractive options for those who are unable or unwilling to buy their homes. **Accordingly, introducing the BTR model will result in increased affordable housing for people to live in well-located areas**. Finally, the changing nature of work. Further exacerbating pressures on urban housing is the changing nature of work.

The age of loyalty work (whereby organizations met employees' basic needs through pay, benefitsand job security in exchange for lifetime commitment) has given way to a new model based on engagement. To attract and retain top talent, organizations have had to rethink how, when and where employees work to provide the flexibility they desire. According to a recent survey, most companies had already adopted some form of flexible work even prior to the corona virus. The ability to move jobs to people and people to jobs also serves to address the worldwide widening skills gap by tapping into broader talent pools. Given the world population's preference for cities, it stands to reason that employees may wish to move between cities but keep their position with their current employer. An employer that can accommodate such a request is much more likely to retain and instil loyalty among their employees.

BTR offer much more flexible housing to accommodate these changing needs of the workforce.

7 WHO CAN INVEST IN BTR?

BTR means a single owner operating all units in the building, so it's difficult for the individual investor to participate in this business model, other than indirectly.

BTR would be an attractive investment for superannuation, pension funds and global seeking longer term and less volatile income streams, and as a result, has the potential to attract new and alternative sources of capital into the Australian housing market.

So, this begs the question: **Is BTR in Australia only for institutional investors, or are there opportunities for individual investors?**

It is true than opportunities for individuals or private investors are limited.

BTR offer a variety of investment models. Significant investors can opt for an equity or debt holding and can take an exposure to the construction and/or operational phase.

Equity - Investors can gain an equity exposure directly, via funds or by purchasing shares of a listed Real Estate Investment Trust (REIT).

Development phase finance - Investors can choose to invest through the development and operational cycle. Under this model they provide upfront funding to cover the costs of the site, the construction and initial operational costs. In return they receive either an income stream that typically starts once the development is operational and return of capital (at eventual sale) or may partake in potential upside with the developer in profit sharing after certain hurdles are met. **This would be an attractive option for many investors.**

Forward funding – Institutional investors can take a capped exposure to the construction phase through a forward funding arrangement. Typically, the investor pays for the build up to a set amount and commits to buying the development at an agreed price, once it has reached a critical stage.

Take-out funding - those institutional investors less familiar with construction phase risks can opt to provide take-out funding whereby, they only provide funding once the build is passed a critical phase (allowing the developer to 'take out' its initial capital).

In general, the earlier in the development cycle an investor invests, the higher the potential for returns, but the larger the risk especially if the site has not been acquired or requires rezoning or similar.

These opportunities for individual investors is limited. Smaller private developers may seek some equity funding from qualified wholesale investors, to assist with the build and construct funding, which could look at long term rental income or exit in the medium term - 4 to 6 years - by way of an asset portfolio sale.

Despite the different risk profile, we expect Australian banks will be willing to lend to build-to-rent developers. However, the debt-to equity ratio **may be less** than for a more traditional commercial or residential development, **which creates some opportunity for the investors as the developer would seek private equity.**

8 RISKS

Build-to-rent projects also have a different risk profile to other asset classes, such as commercial office buildings. These differences will influence how build-to-rent projects will be structured and who the likely players in the sector will be.

Because of high rental demand, BTR does not have the same issues of market saturation risk as build-to-sell developments.

One of the main criticisms of the UK model is its high price points – will it have to evolve in Australia to become more affordable?

Definitely, yes. There's a huge choice of multifamily options in all segments of the market in most US cities ranging from high-end downtown towers to low-rise landscaped communities in the suburbs. There's far more choice in the middle market, especially outside of the priciest city centre locations.

Renting is a normal housing choice for many Americans who have a long history of moving where the opportunities are. Indeed, the phrase "multifamily" probably reflects that you are likely to be living alongside kids, dogs and grandparents in most rental communities across America outside of the downtown areas.

"But Australians like to own not rent." Despite falling home ownership rates, it is true the "great Australian dream" has been to own your own home. But if more affordable BTR options are available, it is likely this will prove popular. One of the biggest risks we see with the current BTR projects underway in Australia is that they are being targeted at the higher end of the rental market.

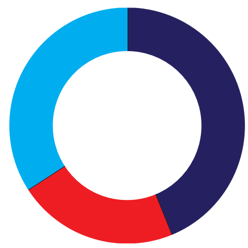
We question when these come on line whether there will be enough potential tenants in this **luxury rental** space?

Another issue we feel the current BTR projects are not addressing is they appear to be going to be offered unfurnished. This we feel will be a huge mistake. There is then little differentiating from a standard apartment to rent apart from perhaps the lease terms.

The "gap" in the market, the opportunity that offers potential, is smaller, more affordable, fully fitted and equipped BTR units in great locations.

US co-living operators' distace from CBD (%)

3-mile radius	44.0
5-mile radius	22.0
10-mile radius	34.0



Source: Invesco Real Estate using data from ESRI and co-living operators' websites as of November 2018

Risk exposures can be separated into several main buckets:

- **Construction risk -** The construction phase considers the design and the physical build. It is capital intensive, subject to regulatory risk and can suffer from time and cost overruns. Whilst planning permission is also a major factor, most funding agreements are implemented once planning permission has been granted.

- **Tenant demand –** Macroeconomic and demographic risks impacting the rental market. For example, the impact of changes in house prices, population growth, wages, government initiatives for first time buyers etc.

- **Property and location risks -** Risks specific to the property, both in terms of its value and desirability for tenants. For example, what if the location of the property becomes less desirable or the facilities outdated?

- **Operational management -** Risks relating to the ability of the operator, including reputational risk and the ability to maintain a high utilisation rate whilst minimising costs.

- **Disposal risks-** The nature of the BTR model is that it imposes significant restrictions on the disposal of the asset if the landlord faces liquidity problems. Landlords who face liquidity problems will find it more onerous to dispose of the entire asset as there are fewer buyers in the market (due to the nature and size of investment) compared to the build-to-sell model.

There may be other risks depending upon the specific projects.

9 Going forward after the pandemic: the future of Build to Rent in Australia?

BTR is similar in many ways to Purpose-built Student Housing with one key difference. They both consider large residential developments, that aggregate a number of individual units; the buildings are designed specifically to rent; the projects involve a construction and an operational phase; and the developments are operated as a business where the primary objective is to maximise occupation and retain tenants (albeit student accommodation is occupied during term time only).

Today, the Australian BTR market can be considered to be in the Initial Phase.

Initial phase

Opportunity identified and a few pioneers help finance initial developments.

Growth Phase

More developments are initiated, funded by the wider institutional market largely through equity finance.

Operational Phase

Developments start to complete and become operational and opportunistic investors look to exit.

A small number of institutional investors provide operational-phase debt. These first-movers are rewarded by a favourable yield. Limited data on occupancy rates and operational costs makes debt difficult to price, dissuading other investors.

Stabilisation phase

The market start to mature. The majority pf developments are complete and fewer new developments are being built. A significant proportion of operational finance is funded through debt finance from institutional investors and the market becomes a largely secondary trade market.

Looking at the evolution of the student housing market may give us insight into how the BTR market will evolve.

The development of the student housing market can broadly be broken down into four phases:

The key difference with BTR is that student housing in Australia is targeted mostly at foreign students whereas the BTR model is not reliant on students, foreign or local.

As the BTR market matures and more operational data becomes available, long-term institutional investors are likely be enticed by the opportunity to receive a long-term stable income, backed by freehold residential property. **For institutional investors it's hard to see how it gets any better than that.**

Longer-term institutional investors will continue to monitor the risk-reward trade off. Early investors that can get comfortable with the lack of real operational data may be rewarded by higher risk-adjusted returns.

"Out of adversity comes opportunity".

The BTR sector is now perfectly placed to be able to demonstrate the value proposition of the very tenets on which it is based. The phrases "renter centric and community" have become part of the BTR bible and never before have they come into sharper focus.

So, when the dust settles, how can the sector build upon this and what can be done to mitigate commercial losses as much as possible?

Product

Affordability (as always) will be the primary driver. **Renters will have less spare money, they will also likely choose to be even more careful with it.**

With this shift in spending will also come a shift in priorities. Many renters are realising how important the space that they inhabit has become and are identifying desirable amenities that they don't currently have access to without paying for them (outside space, facilities, gyms, etc.), or features that don't really work for them that they want to change as soon as possible.

Community remains as important as ever and those who have prioritised this in their placemaking efforts will have engendered loyalty and trust. **This investment now could have a strong return in the months and years to come.**

Operations

Anxiety will be high for many months and may never return to normal, with people having much more concern over things they would not have before.

- Cleaning needs to be seen, not just done.
- Emergency procedures should all be reviewed.
- Staffing will be key.

Many operators in the UK have taken steps to move some of the on-site staff into the building, and in the US this is commonplace even in normal conditions.

According to 2020 ULI Capital Markets Roundtable Survey:

TRANSACTION VOLUMES AND ASSET VALUES TURN SOUTH

Indicators reflect a downtrend in Asia Pacific transactions, together with a 10-15 percent discount in projects values compared to the pre-COVID market.

Projects with leasing or development risk, however, are seeing greater declines.

The wildcard, however, is the stockpile of institutionally-owned capital that has been such a feature of Asia Pacific investment for the past five years, currently amounting to some US$40 billion, according to JLL statistics.

As one capital flows expert said: **"It' s clear there's a huge amount of liquidity that sits on the sidelines, so this is very different from the global financial crisis – there's far and away enough money sitting within funds to satisfy liquidity**

even in the most dire situation."

This means that capital is quickly being pointed at projects that best embody the anticipated story of structural growth over the next decade.

The regional logistics sector, for example, has rebounded to more-or-less previous levels as dry powder moved quickly to bid for discounted projects.

Data centres are also seen as good plays, given increased demand for digital products in the work-from-home era, whether online shopping or Zoom webinars.

Supply for this type of product remains tight.

Rental accommodation will be affected by dropping supply of new buildings, lack of migration in the short term, and changing tenants' requirements. However, what is indisputable is that DEMAND for rental accommodation will always be there.

HOW WILL INVESTMENT DYNAMICS CHANGE?

In some respects, it is likely that the pandemic will serve as a driver of change that undermines a variety of longstanding investment and demographic trends. Fund managers are therefore reassessing their investment strategies to understand how asset values will change over the typical five-to-seven-year investment timeline.

The workspace is an area in flux. Multi-year trends that have favoured greater density and an open-plan approach are now also being reassessed, especially in the context of potential revisions to building codes that may require, for example, allocations of more space per building occupant.

In addition, as work-from home policies continue to gain popularity, some are now asking whether companies need to decentralise their office facilities to support staff working (at least some of the time) from home.

This may ultimately result in increased demand for office space rather than less, as Google CEO Eric Smidt pointed out in a recent article.

One potential catalyst would be if local authorities were to enforce social distancing on public transport, resulting in a substantial decrease in passenger load factors. If so, the impact on both residential and office sectors could again be significant.

Should this happen, well located residential real estate in or near the commercial areas should benefit immensely.

Shared workspaces have been a big driver of new office uptake globally over the last couple of years. But with many users of open-space offices now opting to work from home, there may be a significant uptick in overall office vacancies as co-working spaces shut down. Apart from that, questions linger about the business model. Although the current environment may motivate multinationals to locate more staff in co-working facilities, the rapidity of the downturn suggests that the mis-match between long leases taken out by operators for open-plan workspaces and the monthly terms on which the same space is sublet by operators to members creates an unsustainable degree of risk.

In practice, of course, memories tend to be short, so the impact may prove fleeting if social distancing restrictions are lifted relatively quickly.

That said, where changes relate to evolutionary processes already in motion, those processes are likely to be accelerated by the pandemic. Faster growth in ecommerce sales is therefore assured.

Source: ULI Capital Markets Roundtable Survey

Otherwise, some pre-existing trends are likely simply to continue as before. Pandemic or not, technology continues to disrupt all aspects of real estate from urban planning, to construction and development, to financing and valuations, to operations and asset management. This impacts not only how landlords are operating their buildings, but also where new demand for office space is emerging. Investors are therefore closely tracking location preferences for tech companies as an indicator of where new demand will occur.

NO VOTES FOR HOSPITALITY

Hotels may be cheap, but few investors are bottom fishing. "Too hard to even contemplate", said one investor. Not only are occupancy levels at rock bottom, but even if hotels are shut, the bleeding doesn't stop. "I didn't realise how fixed the cost structure is in hotels", said one global fund manager with a substantial hotel portfolio. “Not much of the cost is variable, so whether we run it at 12 percent occupancy, or we close it down doesn’t make much economic difference.”

Source: ULI Capital Markets Roundtable Survey

Australia lags many parts of the world where there are longstanding and established managed residential industries.

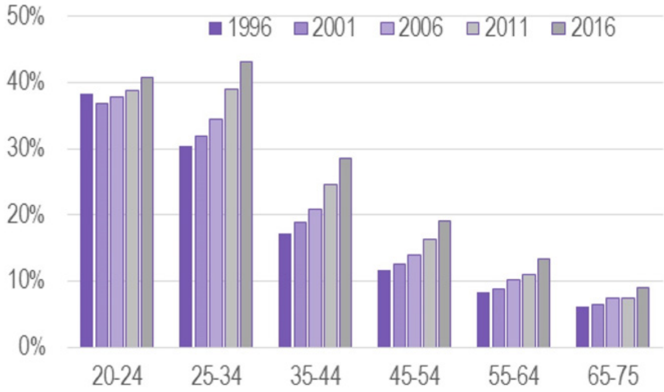
Even before the Corona virus, and increasingly since, worldwide trends around adaptable and flexible space solutions flow from commercial / office and into residential.

There is a strong trend towards “Hotelisation” of real estate where residential accommodation is a service not a space.

Generally, 4 major themes drive this in the residential space:

1. Availability (absolute availability of housing in a major city)
2. Affordability (absolute $ affordability of housing relative to real incomes & cost of living)
3. Flexibility (of spaces, tenure, access)
4. Service and Lifestyle (availability of services, amenities and lifestyle enhancement of both onsite facilities or living in an area with access to the same)

Dramatic increase in propensity to rent across all demographics



10 SUMMARY AND CONCLUSION

Millennials (generally defined as those born between 1982 and 1996) are expected to make up over a third of the global workforce. As Baby Boomers retire in greater numbers, Millennials will take their place, further exerting their influence on the workplace. Australian Millennials have exhibited a strong preference for working abroad, with 71% keen to do so at some point in their careers. Many multi-national companies are beginning to create opportunities for employees to engage in international assignments for shorter periods to fulfil this n eed - c o-living a llows for these employees to obtain institutional housing in the cities they either want or need to be in, without prohibitive long-term commitments. Technological advancements that have facilitated greater work flexibility have a lso contributed to a rise in changing forms of consumption that are disrupting traditional industries. Dubbed “the sharing economy”, the emergence of online platforms that promote “access over ownership” have sprung. This shift has been particularly prevalent in cities, driven out of necessity, cost and consciousness, and has penetrated virtually every sphere of urban consumption – car ownership has been replaced by Uber and Zipcar. ThredUp and Rent The Runway have supplanted clothing ownership; Spotify and Netflix provide content on-demand; LendingClub and WeSura provide shared access to crowdfunding and insurance. **The rapid growth of these business models** and their adoption by young urbanites suggests that there is a high degree of comfort with sharing products and services. **This acceptance has prompted this same audience to envisage**

housing in much the same way; that is, as just another product to be shared. For one payment, a renter gains access to a fully furnished space that includes access to a gym and communal spaces, well-developed programmatic platforms, regularly scheduled cleaning and some utilities utilities included for similar or less than the comparable studio alternative, and significantly less than Airbnb or serviced apartments, let alone the time saved before move, and the flexible lease terms. One may assert then that BTR is borne out of economic necessity. Some may rightly wonder whether BTR and co-living is merely affordable housing in new packaging. With many institutional investors shying away from engaging in affordable housing for a variety of reasons, a word on distinction is in order.

As a sector BTR seems very well-placed to adapt to and succeed under new market conditions.

It's encouraging to know that the comparable US Multifamily sector was one of the fastest in the property industry to recover following the financial crash and ultimately experienced the longest period of sustained rental growth. BTR and co-living is an answer to young people's desire for flexibility, more affordable premium living, access to facilities and amenities, while living in prime locations, and having the befits of a community lifestyle.

We expect that many tenants who would be attracted to the build-to-rent market will appreciate the flexibility of not owning a home. Such tenants will prefer to have a short-lease term to ensure they maintain that flexibility.

One of the most attractive elements of a build-to rent product for young inner-city renters will be the greater access to amenity and services such as in-house cleaning, maintenance, landscaping and onsite property and facilities management. **This model requires a custom designed building, a prime location, an experienced and progressive developer, the right pricing, the right model and management, and the right timing.** In addition, the world is awash with cash looking for a home. **The large global real estate funds and investment companies and looking to buy freehold buildings generating steady and reliable returns for their investors.**

Declining home ownership levels and the growing popularity of apartment living, plus lifestyle changes and work changes with the corona virus is driving strong underlying demand for BTR in Australia. The demand for this type of BTR property is only going to increase, not decrease after the events of 2020-2021.

Accommodation and logistics- essential before the corona virus, and even more essential during and afterwards. People will still, and always, need to live somewhere, with a roof over their head, to rent.

The opportunity to enhance the value perception of Build to Rent has never been higher.

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Sources include:

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ULI Capital Markets Roundtable Summary

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