Build to Rent Housing Advice

Affordable Housing Modelling Assessment

Prepared for Property Council of Australia Pty Ltd

Reliance Restricted
26 September 2023

Written by

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EY
Building a better working world

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26 September 2023

Provision of Professional Services Relating to the Build to Rent Sector

Dear Sahil,

In accordance with our Engagement Agreement dated 1 August 2023 ("Agreement"), Ernst & Young ("we" or "EY") has been engaged by the Property Council of Australia Pty Ltd ("you", "PCA" or the "Client") to provide general real estate and tax advisory services including a modelling assessment of the potential impact of a requirement of affordable housing in Build to Rent assets, on the Build to Rent asset class in Australia (the "Project").

The enclosed report (the "Report") sets out the outcomes of our work. You should read the Report in its entirety. A reference to the report includes any part of the Report.

Purpose of our Report and Restrictions on its use

Please refer to a copy of the Agreement for the restrictions relating to the use of our Report. We understand that the deliverable by EY will be used for the purpose of providing information on the Build to Rent sector in Australia and will be used for advocacy purposes (the "Purpose").

This Report was prepared on the specific instructions of the PCA solely for the Purpose and should not be used or relied upon for any other purpose.

This Report and its contents may not be quoted, referred to or shown to any other parties except as provided in the Agreement. We accept no responsibility or liability to any person other than to the PCA or to such party to whom we have agreed in writing to accept a duty of care in respect of this Report, and accordingly if such other persons choose to rely upon any of the contents of this Report they do so at their own risk.

Nature and Scope of our Work

The scope of our work, including the basis and limitations, are detailed in our Agreement and in this Report.

Our work commenced on 1 August 2023 and was completed on 26 September 2023. Therefore, our Report does not take account of events or circumstances arising after 26 September 2023 and we have no responsibility to update the Report for such events or circumstances.

In preparing this Report we have considered and relied upon information from a range of sources believed to be reliable and accurate. We have not been informed that any information supplied to us, or obtained from public sources, was false or that any material information has been withheld from us.

We do not imply and it should not be construed that we have verified any of the information provided to us, or that our enquiries could have identified any matter that a more extensive examination might disclose.

We highlight that our analysis and Report does not constitute investment advice or a recommendation to you on a future course of action. We provide no assurance that our considerations will be accepted by any relevant authority or third party.

Our conclusions are based, in part, on the assumptions stated and on information provided by the PCA and other information sources used during the course of the engagement. Neither Ernst & Young nor any member or employee thereof undertakes responsibility in any way whatsoever to any person in respect of errors in this Report arising from incorrect information provided by the PCA or other information sources used.

This letter should be read in conjunction with our Report, which is attached.

Thank you for the opportunity to work on this project for you. Should you wish to discuss any aspect of this Report, please do not hesitate to contact Luke Mackintosh on +61 438 719 944.

Yours sincerely

Luke Mackintosh
Partner, Real Estate Advisory Project Management

Daryl Choo
Partner, Tax

Release Notice

Ernst & Young was engaged on the instructions of the Property Council of Australia Pty Ltd (“Client”) to undertake general real estate and tax advisory services including a modelling assessment of the potential impact of a requirement of affordable housing in Build to Rent assets in Australia ("Project"), in accordance with the engagement agreement dated 1 August 2023.

The results of Ernst & Young’s work, including the assumptions and qualifications made in preparing the report, are set out in Ernst & Young's report dated 26 September 2023 ("Report"). The Report should be read in its entirety including the transmittal letter, the applicable scope of the work and any limitations. A reference to the Report includes any part of the Report. No further work has been undertaken by Ernst & Young since the date of the Report to update it.

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In preparing this Report Ernst & Young has considered and relied upon information from a range of sources believed to be reliable and accurate. We have not been informed that any information supplied to it, or obtained from public sources, was false or that any material information has been withheld from it. Neither Ernst & Young nor any member or employee thereof undertakes responsibility in any way whatsoever to any person in respect of errors in this Report arising from incorrect information provided to EY.

Ernst & Young does not imply and it should not be construed that it has verified any of the information provided to it, or that its enquiries could have identified any matter that a more extensive examination might disclose.

The analysis and Report do not constitute a recommendation on a future course of action.

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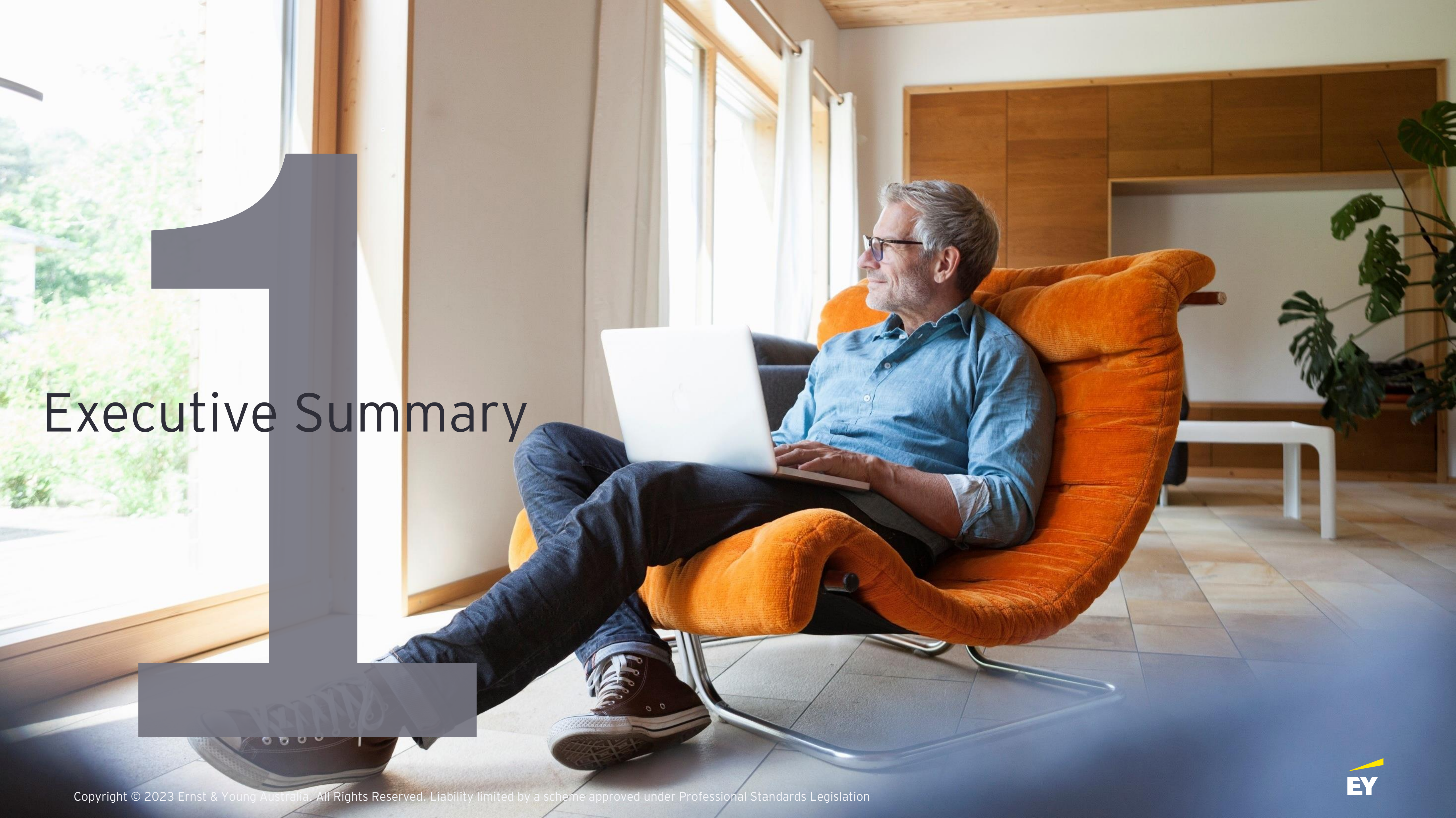


1 Executive Summary

Executive Summary

Introduction

As part of the 2023-24 Federal Budget, changes to tax policy were made in relation to Build to Rent ("BtR") assets as defined by the following criteria:

- The project must consist of at least 50 dwellings or apartments that are made available for rent to the general public. This is in alignment with various state land tax concessions that apply to build-to-rent projects.
- The dwellings must be retained under single ownership for 10 years before being sold.
- Each dwellings must be offered for lease for a term of at lease 3 years.

As at 1 July 2024, Developments which meet the above criteria are eligible for a reduction in the Managed Investment Trust ("MIT") tax rate applicable from 30% to 15%, as well as an increase in the annual depreciation allowance claimable from 2.5% to 4.0%.

This policy change was implemented off the back of previous work that had been undertaken by EY for the Property Council of Australia ("PCA") dated 21 February 2023, in which modelling was conducted to analyse what the potentially growth in the sector would be as a result of such changes.

We note however, the Budget was silent on the potential GST leakage on the development of BtR assets.

This series of reports provides analysis as an input to Government policy on the establishment of an effective Australian Build to Rent asset class and the positive effects for the economy that may result, specifically related to increasing the supply of housing in Australia.

As a capital intense investment, which must compete against other forms of commercial real estate for institutional capital backing, we believe Government could more so align policy in order to promote the establishment of the asset class given BtR is one of the most effective ways to improve housing supply in the short to medium term. This support specifically includes attracting foreign capital to the sector, given there is little current appetite from domestic super funds due to the nascent nature of the sector.

Purpose

EY have been engaged by the Property Council of Australia ("PCA") to conduct an additional modelling study to determine what the impact on the feasibility of BtR projects would be, should this policy change be implemented with the requirement of including a provision of affordable housing within each development. This affordable housing is assumed to be provided through a "discounted market rent" scheme in which nominated units are offered to the market at a pre-defined percentage below market levels.

The potential impacts were modelled against a Base Case assuming the following:

1. Scenario 1 – Assuming No Changes to MIT i.e., 30% MIT.
2. Scenario 2 – Assuming 15% MIT.
3. Scenario 6 – Assuming 10% MIT with 5% Affordable Housing at 25% Discount.

The following models were then compared to Scenario 1 to understand the impact on Project Returns based on the following Scenarios:

A. Scenario 3 - 15% MIT and 5% Affordable Housing at a 25% Discount

B. Scenario 4 - 15% MIT and 10% Affordable Housing at a 25% Discount

C. Scenario 5 - 15% MIT and 20% Affordable Housing at a 25% Discount

Additionally we have estimated the following:

- The potential cost of extending the 15% MIT rate to the Twelve (12) identified operational BtR projects (as they are not eligible under the current policy).

We have not modelled the impact of the increase in depreciation allowance from 2.50% to 4.00% due to the relatively low impact it has on the overall feasibility when considering the initial 10 year cash flow. This is primarily due to the deductions post development completion including depreciation, financing costs and operating costs, resulting in very little if any taxable income during the first ten year period. The only positive tax impact occurs when a transaction happens after the initial 10 year period when Capital Gains Tax (CGT) would be payable.

The following report outlines our facts and findings of the modelling study undertaken.

Results

Table 1: Scenario Outputs

Below we provide the outputs of our modelling assessment.

Output	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
Estimate of Value	$282,600,000	$282,600,000	$278,100,000[2]	$273,500,000[2]	$264,300,000[2]	$278,100,000[2]
Year 1 NOI (Pre-Tax)	$10,950,000	$10,950,000	$10,800,000[2]	$10,600,000[2]	$10,250,000[2]	$10,800,000[2]
Unlevered Pre-Tax Project IRR	7.64%	7.64%	7.44%	7.24%	6.84%	7.44%
Unlevered Post-Tax Project IRR	6.30%	6.98%	6.79%	6.61%	6.23%	7.01%
Levered Post-Tax Project IRR	7.15%	8.13%	7.87%	7.60%	7.06%	8.17%
Bps Change[1]	-	+98 Bps	+72 Bps	+45 Bps	-9 Bps	+102 Bps

Source: EY Assessment, 2023

*The Commonwealth Government is currently proposing reforms to thin-capitalisation which may further erode IRR.

Key Conclusions

Affordable Housing in BtR Needs an Equaliser

- The Government has shown its commitment to put BtR on a level playing field with other commercial asset classes through the reduction in the MIT rate from 30% to 15%. Based on our modelling, this may create up to 150,000 units over 10 years.
- A level playing field is needed to attract institutional capital to the sector, in order to drive housing supply and subsequent economic development. This could be delivered through further MIT changes or incentives.
- An obligation to introduce a percentage of affordable housing will have demonstrable impacts on the competitive nature of BtR against other commercial real estate assets.
- Additionally, the Commonwealth Government is currently proposing reforms to thin-capitalisation which may further erode IRR, and decrease the attractiveness of the sector.

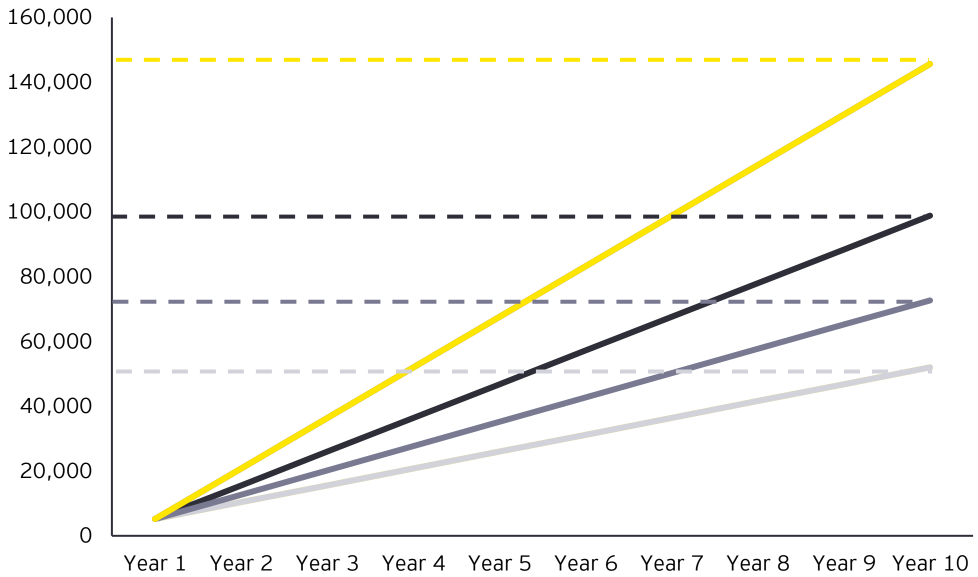
Further MIT Reduction will Deliver Government Affordable Housing Mandate

- The Government is committed to increasing the supply of affordable housing through MIT withholding rate changes, the Housing Australia Future Fund, the National Housing Supply and Affordability Council, and the National Housing Accord.
- A further reduction in the MIT rate to 10%, will facilitate a minimum 5% provision of affordable housing at a 25% discounted market rent.
- This rate change alone may supply up to 10,000 affordable homes committed to by the Commonwealth Government under the National Housing Accord.
- We note this rate is assumed to be applied to all investors, not just foreign ownership and should be revenue neutral from a tax perspective.

Recognising First Movers

- The exclusion of the completed BtR projects from accessing the MIT reduction is disadvantaging those early investors into the sector and may limit the sector's ability to ramp up supply. EY predicts that the implementation of MIT for new and existing assets will result in a $7,150,000 (3.32%) reduction in tax revenue.
- The removal of this provision would signal strong support to the pioneering institutional capital which has already committed to developing the Australian BtR sector, whilst inaction may create "stranded assets" which will be inferior against newer eligible developments, and resultingly make them harder to trade.

Graph 1: Anticipated Number of Future Pipeline Units



Scenario 2 & 6 — ~150,000 Units, 8.10% IRR

A reduction in the MIT rate to both 15%, and 10% with a 5% affordable housing provision at a 25% discounted market rent respectively. Both policy options will help drive the nascent BtR sector, however a reduction to 10% could facilitate the delivery of up to 10,000 affordable units over 10 years.

Scenario 3 — ~100,000 Units, 7.90% IRR

A reduction in the MIT rate to 15%, with a 5% affordable housing provision at a 25% discounted market rent. This Scenario reflects an improvement over the previous policy (30% MIT), however may result in a reduction of return for developers, as well as a reduced provision of affordable housing at approximately 5,000 units.

Scenario 4 — ~75,000 Units, 7.60% IRR

A reduction in the MIT rate to 15%, with a 10% affordable housing provision at a 25% discounted market rent. This Scenario further erodes the benefit the original MIT reduction policy has provided, and would result in a further decrease in the delivery of affordable housing at approximately 3,750 units.

Scenario 1 & 5 — ~50,000 Units, 7.10% IRR

The previous policy (30% MIT), and a reduction in the MIT to 15%, with a 20% affordable housing provision at a 25% discounted market rent may result in a significantly reduced BtR pipeline, as returns fall below that of the previous policy (30% MIT).

Key Conclusions

Key Implications of Modelling

+98 Bps

Net Benefit of MIT Change[1]

-9 Bps

Est. negative Return Due to the Requirement of up to 20% Affordable Housing[2]

Est. Up to circa 100,000

Potential Reduction in Pipeline Units

5% Affordable Housing

MIT reduction could facilitate at least 5% affordable housing at 25% discounted market rent. There is also an opportunity for a Government back-stop financing program to provide similar outcomes.

Conclusions of Modelling Assessment

EY assess the introduction of the 15% MIT rate to increase the levered post-tax IRR by **98 Bps**[1].

The inclusion of a component of affordable housing within a proposed BtR project may have the following impact on project returns, thus negating the positive effect of the proposed MIT reduction:

- Scenario 3 – Reduced Returns to 72 Bps[1].
- Scenario 4 – Reduced Returns to 45 Bps[1]
- Scenario 5 – Reduced to a negative 9 Bps[1] from Scenario 1.

If a further reduction in the MIT rate was offered to developments with a provision of affordable housing, affordable housing may become feasible at c.5% of the scheme.

Additional Administration Costs	Impact on Land Values	Current Operating BtR Projects
▸ EY have not allowed any additional costs to administer the compliance for the affordable housing component. Based on our experience this cost can amount to circa an additional 1.0% to 2.0% per annum. ▸ We have not allowed for any negative impact on the "At Market" rents due to the inclusion of an affordable housing component. ▸ Should we include both the resulting reduction in returns may mean the impending MIT tax change may have little to no effect on the increase in the supply of rental accommodation.	▸ We have not modelled the <u>impact on land value</u> should a requirement for Affordable Housing be mandated. ▸ The inclusion of an affordable housing component will have a <u>corresponding negative impact on the income that can be generated</u>. This negative impact will have a direct impact on lowering the Project Value. A lower Project Value will have a direct impact on lowering the land value a BtR Developer can afford to pay for the site. ▸ This may <u>impact the ability of BtR developers to purchase development sites as Build to Sell Developers</u> will not have the same Affordable Housing requirement. This is not creating a level playing field. ▸ However, where there is say "inclusionary zoning" requirement for Affordable Housing at a State or Council level, both BtS and BtR developers are now competing on the same basis.	▸ As the proposed legislation stands there is no allowance to include the existing identified 12 operating BtR Projects that were the first movers. ▸ Many of these projects are already contained within a MIT holding structure on the assumption that MIT rate would be bought in line with other asset classes. ▸ If the legislation is not extended to these projects it may render these projects unsaleable, as overseas investors (who dominate the sector) will favour newer projects that are contained within the legislation. ▸ This could also mean these assets are withdrawn for BtR and turned into BtS projects. ▸ Our analysis shows the estimates cost should the MIT be extended to these projects may only be equivalent to circa 3.32% of total estimated BtR sector tax revenue (entire pipeline).

1 Levered Post-Tax IRR comparison assuming a stabilised BtR transaction. We acknowledge that a "Develop to Core" BTR Strategy may result in a higher after tax return.
2 When compared to Scenario 1.

2

Methodology & Key Assumptions

Modelling Methodology

Study Methodology

EY has relied on a hypothetical BtR scheme in order to perform project financial analysis using our proprietary valuation and investment model. In doing this, we have utilised our standard industry benchmarks to assume a standard unit mix, sizing, and rents for a typical BtR project.

Our Project is modelled using a 10 year discounted cash flow approach / going concern assessment, accounting for market escalation, OpEx, CapEx, Management Fee and Leasing Fee typical of a BtR asset.

Through our cash flow modelling, we have accounted for provisions of affordable housing under each of the stated Scenarios, and allowances made for the discounted market rent associated with the affordable housing component under each Scenario.

We note that the entirely of our modelling assessment is on a fully stabilised, going concern basis, in which our tax adjustments are only reflective of MIT, Depreciation, and Capital Gains Tax with no other tax considerations contemplated (Other than State based Land Tax and Stamp Duty).

Our assessment assumes stabilisation of the BtR asset and does not include the development phase. We understand that by including the development phase the Levered Post-Tax Project IRR may be higher, however we believe excluding the development cash flow is more relevant for Institutional Capital as they are typically not involved in the development phase.

We highlight, that this modelling does not constitute tax advice on any specific asset, and any advice taken is to be assumed as general policy commentary.

Treatment of Affordable Housing

In our cash flow modelling we have accounted for a provision of affordable housing through a headline loss in revenue reflecting the discounted market rent applied on the affordable housing component. This amount changes through the difference Scenarios performed based on the number of affordable units provided.

Table 2: Indicative Post-Tax BtR Cash Flow Assessment

Input / Year	1	2	3	4	5	6	7	8	9	10
Occupancy Rate	%	%	%	%	%	%	%	%	%	%
Total Gross Accommodation Revenue	$	$	$	$	$	$	$	$	$	$
Less Vacancy / Bad Debt	($)	($)	($)	($)	($)	($)	($)	($)	($)	($)
Net Accommodation Revenue	$	$	$	$	$	$	$	$	$	$
Loss Revenue Due to Discounted Market Rent	($)	($)	($)	($)	($)	($)	($)	($)	($)	($)
Net Revenue- Ancillary and Car Parking	$	$	$	$	$	$	$	$	$	$
Total Gross Operating Revenue	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Operating Expenses	($)	($)	($)	($)	($)	($)	($)	($)	($)	($)
Management Fees	($)	($)	($)	($)	($)	($)	($)	($)	($)	($)
Leasing Costs	($)	($)	($)	($)	($)	($)	($)	($)	($)	($)
CapEx Provision	($)	($)	($)	($)	($)	($)	($)	($)	($)	($)
Total Operating Costs	**($)**	**($)**	**($)**	**($)**	**($)**	**($)**	**($)**	**($)**	**($)**	**($)**
Estimated NOI (EBITDA)	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Debt Service	($)	($)	($)	($)	($)	($)	($)	($)	($)	($)
EBT	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Tax (Expense) / Benefit	($)	($)	($)	($)	($)	($)	($)	($)	($)	($)
Net Profit after Tax	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Terminal Value	-	-	-	-	-	-	-	-	-	$
Net Cash Flow	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**

Source: EY Assessment, 2023

Schedule of Assumptions

Table 3: Global Assumptions

In the table below we provide a schedule of key global assumptions utilised in our modelling assessment across all Scenarios.

Input	Assumption
Development Scheme	
Location	Inner Melbourne
Units	400
Studios (Rent p.w)	84 ($550)
1 Bed, 1 Bath (Rent p.w)	196 ($650)
2 Bed, 1 Bath (Rent p.w)	30 ($700)
2 Bed, 2 Bath (Rent p.w)	70 ($800)
3 Bedrooms (Rent p.w)	20 ($1,000)
Total Construction Cost (TCC)	$165,000,000
Valuation Inputs	
Capital Structure	Assuming 40% Debt 60% Equity
Interest Rate	5.00%
Capitalisation Rate (Initial Yield)	4.25%
Discount Rate	6.50%
Terminal Yield	4.35%
CAGR Rental Growth (10Y)	3.80%

Source: EY Assessment, 2023

In undertaking this assessment we have assumed 40% debt financing. Being a nascent asset class Australian financiers are very conservative on the amount of debt going into these platforms, with LVR's of 0 – 40% being contemplated.

Table 4: Scenario Specific Inputs

Below we provide the key inputs relevant to each individual Scenario. As per discussion with the PCA, we have modelled five different Scenarios accounting for different provisions of MIT, number of affordable units, and discount that affordable units are allowed.

Scenario	MIT Treatment	Number of Affordable Units (% of Scheme)	Discount to Market Rent
Scenario 1	30%	0%	0%
Scenario 2	15%	0%	0%
Scenario 3	15%	5%	25%
Scenario 4	15%	10%	25%
Scenario 5	15%	20%	25%
Scenario 6	10%	5%	25%

Source: EY Assessment, 2023

3 Results and Discussion of Modelling Assessment

Results

Table 1: Scenario Outputs

Below we provide the outputs of our modelling assessment.

Output	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
Estimate of Value	$282,600,000	$282,600,000	$278,100,000[2]	$273,500,000[2]	$264,300,000[2]	$278,100,000[2]
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Unlevered Pre-Tax Project IRR	7.64%	7.64%	7.44%	7.24%	6.84%	7.44%
Unlevered Post-Tax Project IRR	6.30%	6.98%	6.79%	6.61%	6.23%	7.01%
Levered Post-Tax Project IRR	**7.15%**	**8.13%**	**7.87%**	**7.60%**	**7.06%**	**8.17%**
Bps Change[1]	-	+98 Bps	+72 Bps	+45 Bps	-9 Bps	+102 Bps

Source: EY Assessment, 2023
*The Commonwealth Government is currently proposing reforms to thin-capitalisation which may further erode IRR.

Scenario 1

Scenario 1 reflets MIT treatment remaining as is, before any application of the new tax policy. In this Scenario all housing is at market rents, and there is no provision of affordable housing.

The levered post-tax project IRR of 7.15% is reflective of the adopted discount rate of 6.50%, plus the benefit of the 40% leverage applied to the investment.

Scenario 2

Scenario 2 is reflective of the new tax policy in which the MIT tax rate is reduced from 30% to 15%.

The benefit realised in the return on a quantum level, is an additional 98 Bps on the levered post-tax IRR from 7.15% to 8.13%.

The new tax policies significantly reduces the MIT revenue to Government from Scenario 1, with a reduction of the 10 Year present value sum from $18,500,000 to $9,250,000. This is consistent with reduction in taxable income resulting from the halving of tax applicable to the income.

1 Compared to Scenario 1

2 Values reduce due to affordable rents reducing the income

Results

Scenario Outputs (Cont.)

Below we provide the outputs of our modelling assessment.

Scenario 3

Scenario 3 is inclusive of the new tax policy modelled in Scenario 2, however allows for a provision of affordable housing reflective of 5.0% percent of the total scheme, offered at a 25% discounted market rent.

The result of the inclusion of affordable units reflects a decrease in the levered post-tax project IRR from Scenario 2, however still represents a return approximately 72 Bps higher than the Scenario 1. Notably, the inclusion of affordable units also decreases the total MIT revenue that Government would be able to recognise over the lifespan of the asset.

Scenario 4

Scenario 4 is identical to Scenario 3, however increases the provision of affordable housing from 5.0% to 10.0% of the total scheme.

The result is a further decrease in the levered post-tax IRR from Scenario 2 and 3, however is still 45 Bps higher than Scenario 1. There is also a further reduction in MIT revenue when compared to Scenarios 2 and 3.

Scenario 5

Scenario 5 is identical to Scenario 4, however increases the provision of affordable housing from 10.0% to 20.0% of the total scheme.

The result is a further decrease in the post-tax IRR from Scenarios 2, 3 and 4, to a total decrease of -9 Bps from Scenario 1, potentially making the investment less feasible than it would be before any benefit of reduced MIT. There is also a further reduction in MIT revenue when compared to Scenarios 2, 3 and 4, bringing the total loss of MIT revenue to $11,000,000 when compared to Scenario 1.

Scenario 6

Scenario 6 is identical to Scenario 3, however makes a further reduction in the MIT rate from 15% to 10%.

This reduction significantly increases the feasibility of the development up towards a level similar to that of Scenario 2 (which does not include any affordable housing). Within this scenario, the return is 102 Bps higher than Scenario 1, with a post-tax IRR of 8.17%.

At this return, it may be possible to feasibility facilitate affordable housing within a MfH development, given the developer still receives the additional benefit of the reduced MIT rate.

Key Conclusions

Conclusions of Tax and Pipeline Assessment

- EY assess the impact of the extending the reduction in MIT allowance to the 12 operating BtR assets to be approximately a 3.32% reduction in total sector taxable income over the next 10 years.
- Using our analysis from our previous report for the PCA, EY has adjusted the total estimate of collectable tax revenue as follows:

Total Sector Tax Calculations[1]

A: Business as Usual Pipeline (No MIT Benefit)
52,000 Units over 10 years @ $3,081 = $238,425,000

B: Alternative Pipeline (MIT Benefit for New Assets)
141,261 pipeline Units over 10 years @ $1,431 = $202,230,338
4,339 operating Units over 10 years @ 3,081 = $13,370,131
10 Year Sector Tax Revenue = $215,600,468

C: Extended MIT Pipeline (MIT for New & Existing Assets)
145,600 Units over 10 years @ $1,431 = $208,442,083

D: Total Sector Tax Revenue Difference
(B) $215,600,468 – (C) $208,442,083 = (D) $7,158,385 (3.32%)

Total Sector Pipeline Calculations

A: Business as Usual Pipeline (No MIT Benefit)
52,000 Units

B: Extended MIT Pipeline (MIT for New & Existing Assets)
145,600 Units

C: Affordable Housing Requirement
(A) 145,600 – (B) 52,000 = (C) 93,600 Potential Lost Pipeline units

1 Rate per unit calculated using the applicable tax rate applied to the total net rental income (NOI) of the sector, utilising an average net rental yield of 4.25%

Discussion

Impact of MIT and Depreciation on Project Feasibility

Utilising the results of the modelling assessment, it is clear that the reduction of the MIT rate improves the feasibility of BtR projects on a post-tax basis. On a levered post-tax project IRR, the quantum impact was measured at an approximate 98 Bps gain in the project IRR compared to Scenario 1.

Whilst EY utilised a hypothetical development, which assumes benchmark inputs reflective of a scheme located in inner Melbourne, differing schemes to that which has been modelled in this assessment will inherently have different target hurdle rates, and as such result in different quantum's of benefit to the overall feasibility. In recognition to this however, it may be seen that the relative effect on project feasibility when compared to Scenario 1 could be similar, although approximate to that in which has been analysed in this study.

Specifically regarding the impact of the change in depreciation however, ultimately, these increased deductions should only represent a timing difference in the overall assessable income of the trust from the investment as Division 43 deductions are clawed back by way of a reduction in the tax cost base of the underlying asset thereby increasing the capital gain on disposal (or reducing a capital loss arising on disposal). EY has not modelled the impact of the additional depreciation allowance as the sum of existing deductions already reduces the taxable income to nil in some Scenarios. In this case factoring the additional allowance would have little effect on the feasibility over the 10 years contemplated. There may be additional benefits from depreciations over investment timeframes longer than 10 years.

Impact of MIT and Depreciation on Government Tax Revenue

EY concludes that there is a reduction in Government revenue on a per project basis once both the reduction in MIT tax and affordable housing requirement are applied. In our modelling this was a reduction from $18,500,000 to $9,250,000 (Scenario 1 vs 2, Total 10Y Present Value Sum), reflecting an approximate 50% reduction. As discussed in EY's previous works for the PCA (dated 21 February 2023) however, there is a break-even point which this policy push's the entire BtR sector over, in which the increase in number of projects resulting from the policy will offset the entire loss of tax revenue, and result in a net positive in total tax revenue.

Cost of Extending Policy to Existing Assets

Utilising a high level approach, based on our prediction of the total national BtR pipeline in our previous work for the PCA (dated 21 February 2023) and our understanding of the existing 12 operation BtR projects, we consider that extending the MIT reduction and depreciation allowance to the operating assets (4,339 Units) may reduce tax revenues by 3.32% over the next 10 years. This is based on the total tax revenue we anticipate to be collected by the overall pipeline of c.150,000 units as discussed in the executive summary.

Impact of Affordable Housing on Project Feasibility and Government Revenue

Across the three Scenarios which include varying levels of affordable housing provision, the results indicate that there is a reduction in levered post-tax project IRR proportional to the level of affordable housing included.

Overall, the result of Scenario 5, when compared to Scenario 1, is a total quantum loss of -9 Bps in levered post-tax project IRR. The results of Scenario 5, provided a lower return than that of Scenario 1 which excludes any of the benefits of the changes to MIT and depreciation.

Scenarios 3 and 4 still produced project IRR's above that of Scenario 1, however the reduction in benefits that the changes to MIT and depreciation provided are substantial, with Scenario 4 having a levered post-tax project IRR benefit, half of that from Scenario 2.

Additionally, considering the lower taxable income which projects generate as a result of the inclusion of discounted market rents, the Scenarios which include affordable housing generated less tax revenue. The total impact of this was measured at approximately $11,000,000 when comparing Scenario 1 and Scenario 5, with the losses in Scenario's 3 and 4 proportional to the level of affordable housing each included.

Discussion

Impact of Affordable Housing on Project Feasibility and Government Revenue (Cont.)

When analysing the affordable housing Scenarios accounting for a decrease in the MIT rate to 10%, the post-tax IRR's were able to remain above the return in Scenario 1 at 8.17%. This provided an additional return benefit of +102 Bps.

As previously discussed, this may be a way to facilitate affordable housing within BtR schemes, given the developer is still receiving the benefit of the reduced MIT.

Additional Administration Costs

Whilst we have modelled the impact on financial project feasibility, we stipulate that there will be additional intangible / other costs associated with the inclusion of affordable housing that will further reduce the overall project feasibility.

The first of these is the impact in which the affordable housing could have on the "at market" products. Whilst it is always best practice to pepper affordable units across different levels of the development scheme to integrate the affordable units within the community, there may be a resulting discount of market rents / higher turnover associated with the inclusion of these as the terms of the affordable rental agreement get passed through the building simply by word of mouth.

There is also additional complexity in administering the affordable housing provision, in which the developer will factor into the overall project feasibility. These will mostly comprise of intangible costs including the additional management work that the operational staff must do when finding potential tenants, including but not limited to income testing and net worth verification (depending on the eligibility requirements of the affordable scheme).

Potential Impact on Land Values

We have not modelled the impact of land values in this modelling assessment, however we note that the inclusion of affordable housing will in most cases reduce the Gross Development Value (GDV) of projects, and result in lower purchase prices, making BtR developers less competitive in the market, given Build to Sell developers will not be subject to the same affordable housing requirements.

EY estimates that the total impact on land values could be up to -7.0%, and may fully erode any benefit that has been provided to BtR schemes through the reduction of MIT, given the barrier to purchasing sites would be greatly increased.

4

Treatment of Affordable Housing in Build to Rent Assets

Affordable Housing Models

Definition of Affordable Housing Within Australia

Housing affordability is a term that "denotes the relationship between household income and household expenditure on housing costs"[1].

Affordable housing can be defined as "housing where costs are less than 30% of household income for very low to moderate income households, which includes those earning up to 120% of gross median income"[2]. The implication of this is that households which have housing costs exceeding 30% of their income are considered to be in housing stress. High income earners are not considered in this measure, as it may be a preference to spend 30% of their income on rent and this does not cause financial pressure. Affordable housing is then defined as "housing provided subject to access and affordability requirements set by Government"[3].

Affordable housing is generally a private rental property that are priced so that households with very low to moderate income are able to meet other basic living costs such as food, clothing, transport, medical care and education.

Historically, affordable housing has been managed by not for profit Community Housing Providers ("CHP's") however, affordable housing has now become its own housing sub-sector and is managed by both the CHP's and private sector with the difference including access to Federal Government support for registered providers.

We note that there are different definitions for 'affordable housing' that is applicable to various Australian jurisdictions and their respective policies and projects. For example, in a planning context, the Victorian Government amended the Planning and Environment Act 1987 in 2018 to incorporate a new objective and definition of affordable housing. This change is expected to result in an increase in the number of Local Councils who will seek to include an affordable housing contribution as part of planning approval processes for developers by way of an Affordable Housing Agreement ("AHA"). The Victorian Government, through the Planning and Environment Act 1987, defines affordable housing as "housing, including social housing, that is appropriate for the housing needs of very low, low and moderate income households".

International Case Studies

We have undertaken research of international case studies. In consideration of this we have reviewed international case studies in the United Kingdom and United States of America.

Types of Affordable Rent in the UK

There are a range of different affordable rental types. In terms of rental affordability it's a sliding scale from DMR, LLR, LAR and down to Social Rent. a

- *Discounted Market Rent ("DMR")* – Most common form of affordable housing within MfH. Benefits are that it's generally delivered as a blind tenure product and it can be managed by the MfH operator, not a Registered Provider ("RP"). These are the preferred option for developers. DMR units can range from 55-80% of open market rental values, however typically they will come in at around 80% of open market value.
- *London Living Rent ("LLR")* – Rent is set at a third of average gross local earnings. Generally, this equates to approximately 67% of market rents.
- *London Affordable Rent ("LAR")* – Rent is set out on a scale which changes annually. As a guide, a 3 bed unit rent is set at approximately 50% of market rent.
- *Social Rent* – This is an older policy and is being replaced LARs.

Another consideration when considering the UK case studies, is that Registered Providers of Social Housing ("RPs") are the only groups that are allowed to provide social and affordable rental housing. Therefore, a typical occurrence with larger developments is an apartment block will be sold off to an RP and this will satisfy all of the affordable housing requirements for the entire development. As a result, the remaining blocks within the development won't need to provide any affordable housing and MfH rents and open market sales values are not impacted adversely.

Our analysis of 3 key case studies within the UK and 3 key case studies within the US are provided within the appendix.

Source: 1 Source: AHURI, 2006, Housing affordability: a 21st century problem, 2 Source: Affordable Housing Industry Advisory Group, 2015 and 3 Source: AHURI, 2016, Profiling Australia's affordable housing industry

Back Stop Financing Incentives

The UK Model

UK's BtR sector is thriving primarily due to low housing affordability, especially as large institutional landlords are able to achieve greater economies of scale and tax advantages, compared with private investors. In the UK, BtR projects have traditionally been developed on a fund through basis. However, in more recent times banks have taken a pragmatic approach by offering a range of more traditional funding arrangements.

Under these financing transactions there are normally two sets of financial covenants. The first set limits the amount that can be borrowed. The second set apply as maintenance covenants and tend to kick-in at completion. The financial covenants are likely to be a little more relaxed than the drawdown covenants, so as to provide a degree of covenant headroom illustrated in the figure adjacent.

In addition, some lenders prefer Interest Cover (that is interest as a percentage of rental) as an alternative to Debt Yield. Loan to Value levels are not dissimilar to the levels that one might expect for other asset classes. However, development financing is invariably more conservative than investment financing. Loan to Value levels are expected to increase gradually over time, once the relevant BtR project has been let for some years and has established a proven track record.

Non-bank lenders are often prepared to be more aggressive, which may be as much a consequence of the regulatory regime that banks operate under as it is the PRS market. This suggests that in Australia, developers will initially look to alternative sources of funding, including the non-bank lender market and the fund through model, and that like the UK, traditional forms of bank debt will follow once the market is more established.

Financial Covenants

Drawdown covenant

- Loan to Gross Development Value (that is a market value of the property based on the assumptions that the development has completed and rentals have stabilised) of 60 – 65%
- Debt Yield (that is the estimated stabilised rental once the development is completed as a percentage of the Loans) of 8-9%

Ongoing covenants

- Loan to Value (that is the Loans as a percentage of the market value of the property with no special assumptions) of 65 – 70%
- Debt Yield (that is the actual annual rental income as a percentage of the Loans) of 7.5 – 8%

Source: EY, 2023

Back Stop Financing Incentives

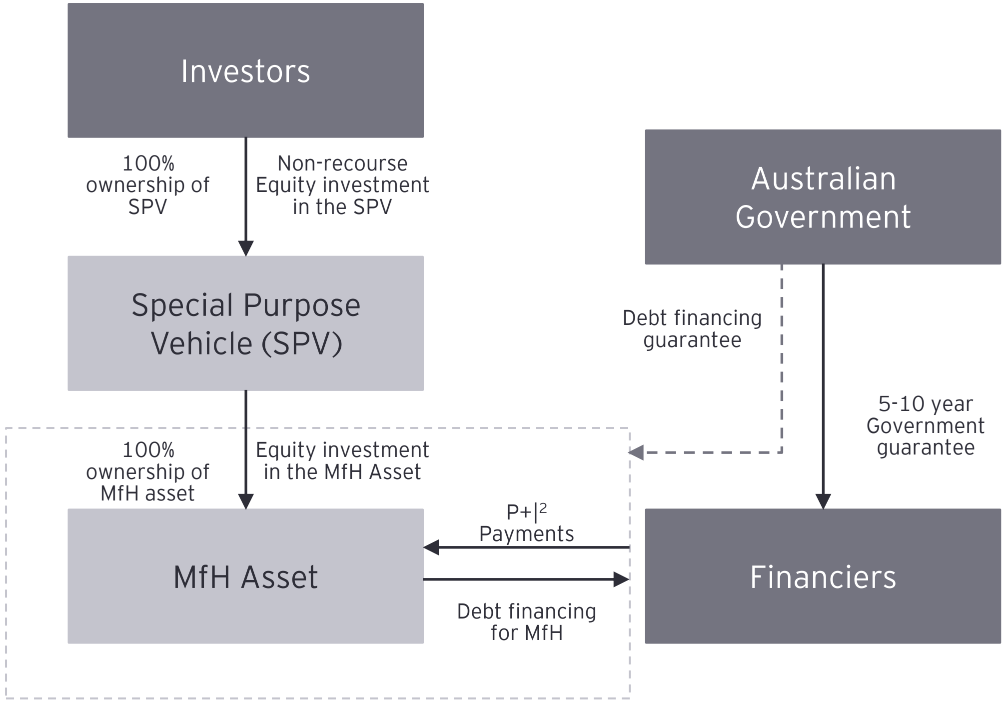
Details of the proposed Government Guarantee for BtR financing

A proposed Government guarantee is expected to play a key role in increasing financers' willingness and capacity to lend on BtR assets and bridge the current funding gap to the BtR sector by de-risking the financing, thereby increasing lenders' willingness and capacity to lend to the sector.

Key features of the Government guarantee include:

- **Eligibility criteria**: access to the guarantee is proposed to be via a competitive process to eligible Tier 1 construction companies for BtR assets with the ability to meet a set of eligibility criteria (as determined by the Government).
- **Structure**: The Government guarantee would act as an important credit enhancement to the BtR loan and may guarantee part or all of the eligible BtR's principal and interest payment obligations (or as a revenue top up mechanism to support minimum ICR thresholds).
- **Tenure**: Proposed to terminate at the earlier of i) 5 - 10 years or ii) the BtR achieving the agreed ICR covenant level, for an agreed period (post stabilised operations).

Proposed Government Back Stop Model



Back Stop Financing Incentives

Key Findings

Australian financiers have appetite to lend to the BtR sector however, financing guidance for the sector is conservative (low LVR and high ICR requirements) due to the relatively new nature of the asset class and corresponding lack of operational benchmarking data in Australia.

- The conservative credit metrics is also a function of the risk weighting associated with commercial property and related assets (including residential property construction and development finance) relative to individual principal and investment loan financing1. Further, Australia's key domestic banks are also subject to additional capital adequacy requirements based on the risk weighting of their assets
- Lower LVR for BtR translates into a higher equity requirement which results in lower return for investors. The higher equity requirement coupled with restrictive tax laws pertaining to the asset class further reduce the attractiveness of BtR investments, particularly for large scale investments
- If an asset class is less attractive to investors, thereby reducing the number of potential buyers, it results in further reduction of financiers' lending appetite as it limits potential financing exit options (important credit assessment and risk management consideration for financiers)

The above factors create a funding gap by restricting financiers' desire to lend to the BtR sector whilst concurrently, making the sector less attractive for investors. Its important to note that in contrast, offshore, BtR is considered to be a relatively lower risk and stable asset class suitable for long term investors

Recommendations

The key findings and analysis herein highlight the strong need for Government intervention to reduce the funding gap and build a case for BtR investing in the Australia market. Specifically, presented below are three potential solutions which may support to bridge the current funding gap for the BtR sector:

- The provision of a temporary backstop Government guarantee in support of BtR financing to be made available to borrowers which meet the Government's eligibility criteria. The Government guarantee may guarantee part or all of eligible BtR loans' principal and interest obligations (or as a revenue top up mechanism to support minimum ICR thresholds);
  - The Government guarantee is proposed to be temporary and terminate at the earlier of potentially i) 5 - 10 years or ii) the BtR achieving the agreed ICR covenant threshold, for an agreed period (post stabilised operations).
- Reduction in APRA's risk weighting of such assets, for example in line with the home mortgage (principal residence / investment property) financing, which in turn will i) reduce the capital required to fund by bank and ii) may allow for increased LVR / decreased ICR requirements, and/or
- The establishment of a Government BtR fund such as the UK Government's PRS guarantee scheme, to directly finance eligible BtR developments, in order to establish asset class performance and bring in commercial lending institutions.

Of the recommended potential solutions outlined above, the back-stop Government guarantee is considered the most efficient means of Government intervention which is expected to catalyse institutional investment and direct funding to the Australian BtR sector.

5 Appendix

Appendix A: Glossary of Key Terms

Build to Rent ("BtR")

- Residential housing developed for the exclusive purpose of renting. Schemes are larger than 50 units, held in single ownership over a long term period, and are professionally managed utilising the same management fundamentals as Purpose Built Student Accommodation and Hotels.

Managed Investment Trust ("MIT")

- A managed investment trust (MIT) is a type of trust in which members of the public collectively invest in passive income activities, such as shares, property or fixed interest assets. A trust qualifies as a MIT if it meets certain requirements for the income year it is in operation.
- The MIT tax rate is the rate which is applicable on income generated through investments in an MIT.

Institutional / Foreign Capital

- Capital which is sourced from sophisticated investment organisations in which are at sufficient scale to fund large scale investment projects.
- Such funds are usually associated with listed or unlisted organisations whose primary purpose is to make investments on behalf of shareholders / members of the organisations.
- Superannuation funds are considered to be institutional, however in the context of this report, we primarily refer to foreign firms when we talk about institutional capital as they currently represent 90% of the investment in the BtR sector.

Discounted Market Rent ("DMR")

- The discounted market rent approach is an affordable housing facilitator in which housing is offered at a pre-defined rental below market levels.
- This is the most widespread way in which we have seen affordable housing be facilitated in BtR projects overseas, and it is typical to have a discount of 10 – 40% below market levels.

Levered Post-Tax Project IRR

- The annualised return, estimated over a 10Y cash flow period which takes into consideration the gearing and tax circumstances around the hypothetical project considered in this report.

Gross Realisation / Development Value

- The total value of a development as estimated through its net operating income. Gross Value is used by developers to estimate their total return, when anticipating the costs associated with development of the asset and purchase of the land.
- For the purposes of this report we have not considered the development of the asset, and have exclusively modelled returns on a stabilised, operational basis.

Appendix B: UK Affordable Definitions

UK Affordable Housing Definitions

Term	Overview
Affordable Housing	New build or private sector property purchased for the use of providing housing for eligible households whose needs are not met by the general market. This includes social rented, affordable rented and shared ownership/ affordable home ownership.
Discounted Market Rent (DMR)	Discounted Market Rent is new a form of affordable housing for the rental market, offering local residents the opportunity to rent within Build to Rent developments at a discount to market rent. The discount for DMR varies for each developer and is decided on a case-by-case basis in partnership with the local council as part of the planning process. Eligibility for the discount varies between boroughs but is primarily aimed at those who live or work in the area and those who have an annual income in a certain bracket.
London Living Rent (LLR)	London Living Rent is a type of affordable housing aimed at helping middle-income households who rent and want to build up savings to buy a home. The level of rent paid varies in different neighbourhoods, but is based on a third of average local household incomes, and adjusted for the number of bedrooms in each home. In most boroughs this will be a significant discount to the market level rent. To be eligible for a LLR home, you must: be renting in London, have a maximum household income of £60,000 per annuum and be unable to currently buy a home (including through shared ownership) in your local area.
London Affordable Rent (LAR)	More recent scheme for new homes built in London. Rents are essential capped at social rental levels.
Social Rent	Social homes are provided by Registered Providers or local councils at a reduced rent for long tenancy terms. As a social tenant, you rent your home from the Registered Provider or council, who are your landlord. Social Rent is primarily for local people with low incomes.
Shared Ownership	Under shared ownership, the home owner purchases a percentage of the home from a housing association and pays a proportionate, regulated rent for the remaining proportion. The home owner is given the option of increasing your "owned" percentage at a later date. Shared ownership within MfH reduces flexibility for investors in the long term and DMR has been offered as the more appropriate approach when dealing with rental product.
Registered Provider	Includes local authority landlords, not-for-profit housing associations and for-profit organisations which principally fund and operate affordable housing

Source: EY, 2023

UK Housing Affordability Scale
Discounted Market Rent (DMR) *Approx.* *55% to 80% of Market Rent*
London Living Rent (LLR) *Approx.* *50% to 60% of Market Rent*
London Affordable Rent (LAR)
Social Rent
Shared Ownership

Affordable

Genuine Affordable

Appendix C: UK Case Studies

Blackhorse Mills

- As mentioned previously, rental figures include high speed internet and Sky Q (pay tv).
- Approximately 90% of units are provided furnished.

Local Market

- When considering the rental tone of the local market we have analysed existing buy-to-let stock in the local area and local MfH developments.
- The quoted rental premium is reflective of poor quality existing rental housing within central Walthamstow.
- The premium to existing MfH within the local area highlights the high quality nature of this development compared to other MfH schemes in the area. The majority of existing MfH stock offers less amenity in comparison to Blackhorse Mills.

Affordable Housing

- As can be observed within the affordable rental figures, DMR rents are slightly above the existing market rental tone. London Living rents are considerably more affordable.
- All affordable units are tenure blind, meaning all are provided to the same quality and specification as private units within the development. Units are scattered throughout the development.
- The affordable units being contained within the same complex as the private units has not had any impact on the market rent levels being achieved.

Overview of Rental Values & Premiums

The following section outlines the rental values being achieved within the Blackhorse Mills and provides a comparison to the local market rental tone and the local MfH market:

Blackhorse Mills - Rental Value Overview			
Unit Type	Unit Size (sqm)	Rent PCM	£/sqm
Studio	41-43	£1,250 - £1,350	£366 - £376
1 Bedroom	$451 - $508 pw	£1,600 - £1,750	£368 - £376
2 Bedroom	$655 - $660 pw	£2,145 - £2,250	£368 - £376
3 Bedroom	$855 - $1,000 pw	£2,600 - £2,700	£300 - £328

Local Market Rental Tone				
Unit Type	Average Rent PCM	£/sqm	% Premium to PRS	% Premium to Local MfH
Studio	£961	£409	30% - 40%	-
1 Bedroom	£1,219	£290	31% - 44%	3%- 8%
2 Bedroom	£1,417	£248	51% - 59%	17% - 22%
3 Bedroom	£1,750	£237	49% - 54%	3% - 16%

On the basis of the above private rental values being achieved, we understand the following affordable rents are being charged at Blackhorse Mills:

Affordable Rental Rates		
Unit Type	DMR at 80% PCM	LLR at 50-60% PCM
Studio	£1,000 - £1,080	£625 - £810
1 Bedroom	£1,280 - £1,400	£800 - £1,050
2 Bedroom	£1,716 - £1,800	£1,073 - £1,350
3 Bedroom	£2,080 - £2,160	£1,300 - £1,620

Source: JLL, 2020

Appendix C: UK Case Studies

Blackhorse Mills, London, UK			
Project Address	Wickford Way, E17 6HG	**Borough**	London Borough of Walthamstow
Construction Start	Q3 2017	**Construction Completion**	Q3 2019 - Q3 2020
Developer	Legal & General	**Operator**	Legal & General
Project Background	Blackhorse Mills is the flagship development for Legal & General and was acquired in 2017 by the Legal & General MfH Fund, PGGM and Legal & General Capital. Upon completion, the development will comprise 479 units in total and is considered market leading in terms of amenity offering and product quality within the UK market. Legal & General own the freehold title for the land.		
Location & Connectivity	Located in Zone 3, adjacent to Walthamstow Wetlands. Oxford Circus can be reached in 24 minutes, the City in 28 mins and London Bridge in 30 mins. Blackhorse Road on the Victoria Line is the closest tube, only 2 minutes walk from the development.		

Overview of Rental Values & Premiums

The following section outlines the rental values being achieved within the Blackhorse Mills and provides a comparison to the local market rental tone and the local MfH market:

Local Market Rental Tone				
Unit Type	Average Rent PCM	£/sqm	% Premium to PRS	% Premium to Local MfH
Studio	£961	£409	30% - 40%	-
1 Bedroom	£1,219	£290	31% - 44%	3%- 8%
2 Bedroom	£1,417	£248	51% - 59%	17% - 22%
3 Bedroom	£1,750	£237	49% - 54%	3% - 16%

Source: JLL, 2020

Affordable Housing – Key Takeaways

- The quoted rental premium is reflective of poor quality existing rental housing within central Walthamstow.
- As can be observed within the affordable rental figures, DMR rents are slightly above the existing market rental tone. London Living rents are considerably more affordable.
- All affordable units are tenure blind both internally and externally, meaning all are provided to the same quality and specification as private units within the development. Units are scattered throughout the development.
- The affordable units being contained within the same complex as the private units has not had any impact on the market rent levels being achieved.

Source: EY, 2023

Affordable Housing Provision

The affordable component of the development is broken down as follows:

No. Affordable Units	105	
Affordable Provision	▸ Discounted Market Rent, priced at 80% of the market rent level ▸ London Living Rent, priced at 50/60% of the market rent level ▸ The affordable is managed by the same operator as the private, L&G. ▸ All affordable units are able to access the same amenity as the private	
Breakdown of Affordable Housing	**No of Units**	**Percentage**
Discounted Market Rent	85	82%
London Living Rent	19	18%
Unit Mix	**DMR**	**LLR**
One Bed	15	12
Two Bed	35	4
Three Bed	35	3
Comments:	▸ The scheme is tenure blind with affordable units scattered throughout the private element. ▸ There are affordable units in Blocks A-C	

Source: JLL, 2020

Appendix C: UK Case Studies

Amenity Provisions Overview

- Blackhorse Mills benefits from a high level of amenity, all of which Is located within a central block of the development. Within the UK market the amenity offering is considered to be market leading in terms of quality and overall provision.
- Key features include a 24 hour concierge, pet friendly units, large gym, fitness studio, roof terrace, resident lounges, coffee and games area, workspace, 2 x dining rooms (space can be booked by appointment), heated outdoor pool and club room, BBQ and landscaped areas, tennis courts.
- The development contains 750 bike spaces and 28 car parking spaces (£200pcm)
- In total, there is approximately 2,031 sqm of amenity space, which equates to 4.25 sqm of amenity per unit.

Management Commentary

- Currently, only Block C (85 units) is being leased up, with the remaining blocks completing in Q3 2020.
- The average lease length of these initial rentals was 15 months.
- Furnished apartments are circa £15-£30 pcm above unfurnished units. Overall within the development 90% of apartments are furnished.
- High speed Wifi and Sky Q (Pay TV) are included within the quoted rent prices.

Unit Specification

The following table provides further detail of apartment specification:

Overview of Apartment Amenity & Specification	
▸ 3-piece Catalonian bathroom suite with rainfall shower, heated towel rail, built-in mirrored storage and soft close toilet seat	▸ Floor to ceiling double glazed windows with sound-proofing
▸ British kitchens with soft closing cabinets and A/A+ Samsung appliances including fridge/freezer, dual-cook oven, electric hob, dishwasher, and washer/dryer	▸ Upholstered king size bed with pocket mattress and foam topper.
▸ EPC Rating B/C with efficient eco-friendly heating	▸ Bespoke fitted wardrobes with full height mirror
▸ Sustainable Austrian flooring throughout	▸ Scandinavian style furniture to the living area with floor to ceiling windows

Source: JLL, 2020

Affordable Housing Provision		
The affordable component of the development is broken down as follows:		
No. Affordable Units	105	
Affordable Provision	▸ Discounted Market Rent, priced at 80% of the market rent level ▸ London Living Rent, priced at 50/60% of the market rent level ▸ The affordable is managed by the same operator as the private, L&G ▸ All affordable units are able to access the same amenity as the private	
Breakdown of Affordable Housing	**No of Units**	**Percentage**
Discounted Market Rent	85	82%
London Living Rent	19	18%
Unit Mix	**DMR**	**LLR**
One Bed	15	12
Two Bed	35	4
Three Bed	35	3
Comments:	▸ The scheme is externally tenure blind with affordable units scattered throughout the private element. ▸ There are affordable units in Blocks A-C	

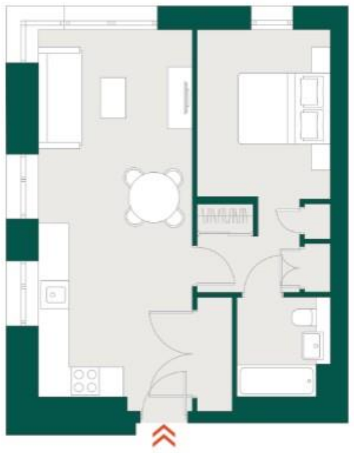
Source: JLL, 2020

Appendix C: UK Case Studies

Typical Floor Plan

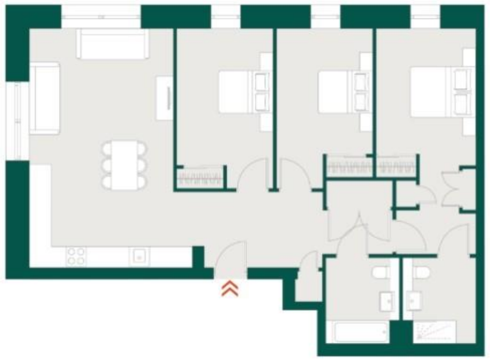
Studio - 40.8 - 43.3 sqm

1 Bed - 50.5 - 57.1 sqm



2 Bed - 69.9 - 71 sqm

3 Bed - 95.3 - 108 sqm



Rental Rates
£1,250 - £1,350 Studio (Per calendar month)
£1,600 - £1,750 1 Bedroom (Per calendar month)
£2,145 - £2,250 2 Bedroom (Per calendar month)
£2,600 - £2,700 3 Bedroom (Per calendar month)

Source: JLL, 2020

Appendix C: UK Case Studies

The Horizon

- The rental figures represent fully furnished apartments with a medium level amenity offering.

Local Market

- Greenwich is an established residential location and provides strong transport connections into Canary Wharf and City office districts. As such, the location popular for young professionals and families and provides relative affordability compared to surrounding locations.
- Local housing stock is a combination of quality new build developments and renovated Victorian housing.

Affordable Housing

- As outlined within the previous sections, affordable hosing has been provided in various tenures across the broader development.
- Our research indicates that affordable housing is provided via DMR and LLR within the units located within Phase 4. We have not been provided the exact affordable rental levels being provided.
- We understand that the redevelopment of the site has resulted in a net residential gain of 236 units within Phase 4.

Overview of Rental Values & Premiums

The following section outlines the rental values being achieved within The Horizon scheme and provides a comparison to the local market rental tone and the local MfH market:

The Horizon - Rental Value Overview			
Unit Type	Average Unit Size (sqm)	Rent PCM	£/sqm
1 Bedroom	54	£1,430 - £1,575	£323 - £355
2 Bedroom	83	£1,650 - £1,900	£194 - £269
3 Bedroom	130	£2,350 - £2,375	£ 215 - £226

Local Market Rental Tone				
Unit Type	Average Rent PCM	£/sqm	% Premium to PRS	% Premium to Local MfH
1 Bedroom	£1,315	£312	14%	11%- 18%
2 Bedroom	£1,600	£301	11%	4% - 6%
3 Bedroom	£2,267	£291	9%	2% - 18%

On the basis of the above private rental values being achieved, we would expect the following affordable rents are being achieved:

Affordable Rental Rates		
Unit Type	DMR at 80% PCM	LLR at 50-60% PCM
1 Bedroom	£1,144 - £1,260	£715 - £945
2 Bedroom	£1,320 - £1,520	825 - £1,140
3 Bedroom	£1,880 - £1,900	£1,175 - £1,425

Source: JLL, 2020

Appendix C: UK Case Studies

The Horizon, London, UK

Project Address	Blackheath Hill, SE10 8DR	**Borough**	London Borough of Lewisham
Construction Start	Q1 2016	**Construction Completion**	Q2 2018
Developer	Peabody	**Operator**	JLL
Project Background	The Horizon is the fourth of six residential apartment blocks which forms part of a wider phased development by Peabody. The site was historically utilised as council housing by Lewisham Council and was sold off to Peabody as part of a wider redevelopment of the site. Primarily, the development comprises affordable housing in various tenures, The Horizon forms the only private rented component of the development. The private units are located across two main blocks which comprise 5 and 15 levels respectively. All affordable housing is located within separate blocks and are operated by registered provider Peabody.		
Location & Connectivity	Located on the boundary of Zone 2/3. The scheme is 0.6 miles from Greenwich mainline and DLR stations, linking to London Bridge in 8 minutes and Canary Wharf in 12 minutes.		

Overview of Rental Values & Premiums

The following section outlines the rental values being achieved within The Horizon scheme and provides a comparison to the local market rental tone and the local MfH market:

Local Market Rental Tone

Unit Type	Average Rent PCM	£/sqm	% Premium to PRS	% Premium to Local MfH
1 Bedroom	£1,315	£312	14%	11%- 18%
2 Bedroom	£1,600	£301	11%	4% - 6%
3 Bedroom	£2,267	£291	9%	2% - 18%

Source: JLL, 2020

Affordable Housing – Key Takeaways

- Affordable housing has been provided in various tenures across the broader development.
- Our research indicates that affordable housing is provided via DMR and social via LLR within the units located within Phase 4. We have not been provided the exact affordable and social rental levels being provided.
- We understand that the redevelopment of the site has resulted in a net residential gain of 236 units within phase 4.

Affordable Housing Provision

The affordable component of the development is broken down as follows:

Affordable Units

121 units (Phase 4)

Affordable Provision

- Majority of units Discounted Market Rent within phase 4 however there are a range of tenures provided within the larger development.
- Affordable housing is managed by Peabody.
- The affordable units do not have access to the private amenity located within the Horizon MfH.
- We have provided a full overview of each phase of the wider development to illustrate how affordable housing was accounted for by developer and local council.

Overall Development & Affordability Context

Phase	No. Units	Breakdown
1	138	(35% private sale, 57% Social Rent, 8% DMR/LLR)
2	190	(56% private sale, 37% Social Rent, 7% DMR/LLR)
3	218	(51% private for sale, 45% Social Rent, 4% DMR/LLR)
4	**236**	**(52% Affordable (DMR/LLR) & 48% Private MfH)**
5/6	443	(78% private, 22% DMR/LLR)
Total 1225		

Comments:

- Phases 1-4 are complete and operating. Phase 5/6 are currently under construction and are due to complete in 2022.
- Peabody is a Registered Provider with more than 66,000 homes in London and the South East.
- We have provided a map overleaf which provides further context to the site layout.

Source: JLL, 2020

Appendix C: UK Case Studies

Phase 4 – Private MfH Summary

Based on our research into the MfH component of development, we have provided summary tables of private unit sizes and recent achieved rents for July 2020:

The Horizon – Private Unit Sizes		
Unit Type	Size Range (sqm)	Average Size (sqm)
1 Bedroom	52 - 61	54
2 Bedroom	78 - 114	83
3 Bedroom	112 - 152	121

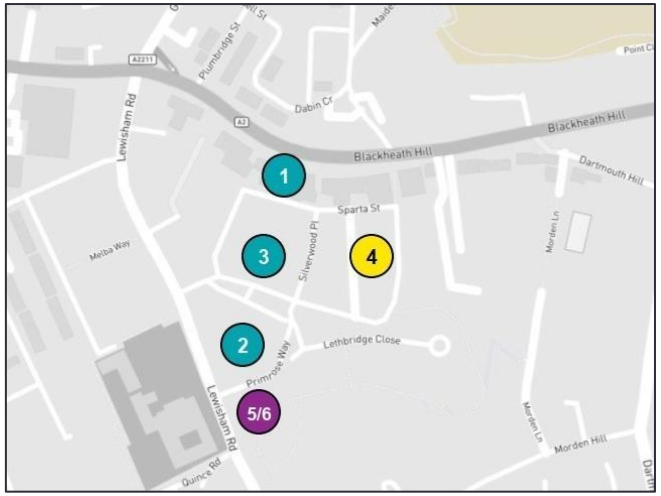
Private MfH Rental Rates	
Unit Type	Achieved Rental Range (per month)
1 Bedroom	£1,430 - £1,575
2 Bedroom	£1,650 - £1,900
3 Bedroom	£2,350 - £2,375

Source: JLL, 2020

Source: JLL, 2020

Development Phase Overview

The graphic below outlines the various phases of the development and the location of the various blocks within the broader development site:



Development Phases Completed	
The Horizon BTR	
Development Under Construction	

Source: JLL, 2020

Appendix C: UK Case Studies

Amenity Provisions Overview

- Overall The Horizon benefits from a medium level of amenity based on the local market.
- Key features include a residents' lounge, working from home/dining room, parcel room, two lobbies and an external courtyard garden.
- Residents have access to free fitness classes located within an external gym.
- In total, there is 200-250 sqm of amenity space, with an additional 500 sqm for the courtyard garden.
- Currently there is 1 FTE working on site handling operations, it is expected that as lettings ramp up this will be increased to 3 FTE.

Management Commentary

- As of August 2020, the scheme was running near full occupancy. The highest void was experienced in June 2020 (the height of UK lockdown), with void rates at 4%.
- Since this period demand has been rebounding which has reduced the overall level of voids observed in June, this level of expected to remain relatively consistent over the near term.
- The average tenancy for private units is c. 2.5 years.
- All units are fully furnished.

Unit Specification

The following table provides further detail of apartment specification:

Overview of Apartment Amenity & Specification

- Bathrooms have neutral colour ceramic floor and wall tiles, heated towel rails, built-in white bath with glass shower screen, wall mounted WC with soft close hinges, thermostatic mixer tap and overhead shower, and a vanity mirror
- Oak engineered flooring to hallway, living room and kitchen
- Carpets to the bedrooms.
- Chrome ironmongery to all internal doors.
- Built in mirrored wardrobes to the bedroom
- Kitchen has modern, white handless units, Bosch appliances including oven, hob, fridge, freezer and dishwasher. Worktops are Quartz stone.

Source: JLL, 2020

Affordable Housing Provision

The affordable component of the development is broken down as follows:

Affordable Units	121 units (Phase 4)
Affordable Provision	▸ Majority of units are Discounted Market Rent within Phase 4 however there are a range of tenures within the larger development. ▸ Affordable housing is managed by Peabody. ▸ The affordable units do not have access to the private amenity located within the Horizon MfH. ▸ We have provided a full overview of each phase of the wider development to illustrate how affordable housing was accounted for by developer and local council.

Overall Development & Affordability Context

Phase	No. Units	Breakdown
1	138	(35% private sale, 57% Social Rent, 8% DMR/LLR)
2	190	(56% private sale, 37% Social Rent, 7% DMR/LLR)
3	218	(51% private for sale, 45% Social Rent, 4% DMR/LLR)
4	**236**	**(52% Affordable (DMR/LLR) & 48% Private MfH)**
5/6	443	(78% private, 22% DMR/LLR)
Total 1225		

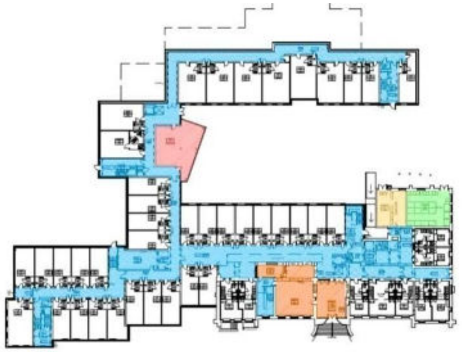
Comments:

- Phases 1-4 are complete and operating. Phase 5/6 are currently under construction and are due to complete in 2022.
- Peabody is a Registered Provider with more than 66,000 homes in London and the South East.
- We have provided a map overleaf which provides further context to the site layout.

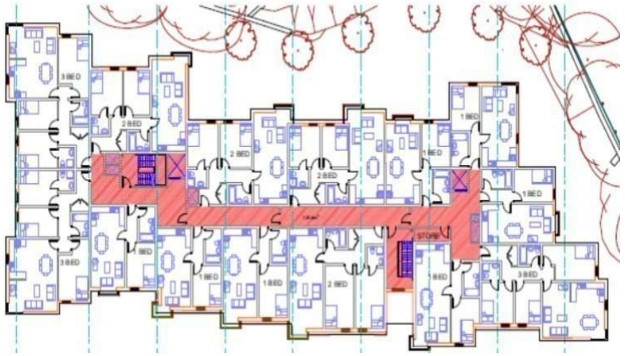
Source: JLL, 2020

Appendix C: UK Case Studies

Affordable Units – Ground Floor Plan



Affordable Units – Ground Floor Plan



Private Rental Rates	
Unit Types	**Achieved Rental Range (per month)**
One Bed	£870
Two Bed	£1,073
Three Bed	£1,447

Internal Unit Specification – Studio & Mezzanine Unit Types

Source: CQ, 2020

Source: CQ, 2020

Source: CQ, 2020

Appendix C: UK Case Studies

Clarendon Quarter

- As Clarendon is a converted MfH scheme and therefore does not benefit from the operational efficiency or preferred unit layouts which would be achieved within a purpose build MfH scheme.
- Despite not offering a high level of amenity, the scheme predominately targets key workers and is very well located with respect to the University of Leeds and major medical precinct. This is likely a major contributor to the low void rates.

Local Market

- There are a strong population of renters within Leeds which is supported by a large student population.
- Existing PRS stock quality varies considerably depending on location, with the majority of stock located within the city centre.
- Clarendon Quarter rents are showing a discount to other local MfH rental values. The discount is reflective of the difference in quality between converted stock and the new purpose build schemes located within Leeds.

Affordable Housing

- Key worker DRM units are capped at 80% of market rents.

Overview of Rental Values & Premiums

The following section outlines the rental values being achieved within the Clarendon Quarter scheme and provides a comparison to the local market rental tone and the local MfH market:

Clarendon Quarter – Private Unit Rental Value Overview			
Unit Type	Average Unit Size (sift)	Rent PCM	£/sqm
1 Bedroom	52	£785 - £936	£181 - £216
2 Bedroom	78	£950 - £1,275	£145 - 195
3 Bedroom	102	£1,350 - £1,500	£159 - £177

Local Market Rental Tone			
Unit Type	Average Rent PCM	% Premium to PRS	% Premium to Local MfH
1 Bedroom	£770	13%	1%
2 Bedroom	£899	19%	-13%
3 Bedroom	£1,230	18%	-13%

We have been advised that the following rental values are being charged for the DRM units within Clarendon Quarter:

Key Worker Rental Rates		
Unit Type	DMR at 80% PCM	LLR at 50-60% PCM
Studio Mezz Small	£695 - £755	£723
Studio Mezz Medium	£730 - £755	£743
Studio Mezz Large	£755 - £765	£780
Studio Small	£730 - £755	£598
Studio Large	£650 -£740	£689

Source: JLL, 2020

Appendix C: UK Case Studies

Clarendon Quarter, Leeds, UK

Project Address	St John's Road, LS3 1FE	**Location**	Leeds
Construction Start	c. 2015.	**Construction Completion**	Q4 2016
Developer	LIV	**Operator**	JLL
Project Background	The development was formerly school a school which has been converted into a MfH scheme comprising of two blocks which comprises 325 apartments. The scheme consists of two parts, The Court and The Gardens. The Court comprises of 263 affordable units for key workers, whilst The Gardens is a collection of 62 private MfH units. The development has been targeted to private key worker accommodation to support local education and healthcare facilities. All affordable key worker units are studios.		
Location & Connectivity	The development is located within the Leeds city centre and benefits from good connectivity. Leeds's major medical precinct and University of Leeds are located within 250m of the development. Other employers located within the city centre are located in proximity. Leeds station is located 0.9 miles from the scheme.		

Overview of Rental Values & Premiums

The following section outlines the rental values being achieved within the Clarendon Quarter scheme and provides a comparison to the local market rental tone and the local MfH market:

Local Market Rental Tone			
Unit Type	Average Rent PCM	% Premium to PRS	% Premium to Local MfH
1 Bedroom	£770	13%	1%
2 Bedroom	£899	19%	-13%
3 Bedroom	£1,230	18%	-13%

Source: JLL, 2020

Affordable Housing – Key Takeaways

- As Clarendon is a converted MfH scheme and therefore does not benefit from the operational efficiency or preferred unit layouts which would be achieved within a purpose build MfH scheme.
- Clarendon Quarter rents are showing a discount to other local MfH rental values. The discount is reflective of the difference in quality between converted stock and the new purpose build schemes located within Leeds.
- Key worker DRM units are capped at 80% of market rents.

Affordable Housing Provision

The affordable component of the development is broken down as follows:

No. Affordable Units	263
Affordable Provision	▶ Discounted Market Rent which is only offered to key workers ▶ All units are studios in various sizes (small, medium & large)
Comments:	▶ Key worker accommodation has been capped at 80% of market rent within the scheme

Source: JLL, 2020

Appendix C: UK Case Studies

Amenity Provisions Overview

- Clarendon Quarter benefits from a good level of amenity which totals approximately 604sqm. We note that the amenity is only available to the 62 private units.
- The amenity provision includes 7 resident lounges, games room, gym, laundry (the key worker block has a centralised laundry room rather than having washing machine / dryers in studios) and roof terrace.

Management Commentary

- JLL are operate both the private and affordable units and have advised that void rates are currently very low.
- Given the scheme is a conversion from a former school ongoing maintenance costs are higher in comparison to other purpose built schemes within the Leeds market. JLL currently employs 7.5 FTE to manage the day to day operations.
- Historically, turnovers for the scheme is high and the average tenancy length is less than 1 year.

Unit Specification

The following table provides further detail of apartment specification:

Overview of Apartment Amenity & Specification	
▸ Kitchen boasts high-gloss units and integrated appliances including: a dishwasher, fridge, microwave/connector oven with a grill and hob. There are large work surfaces and undercounter lighting. ▸ Wood effect flooring runs throughout the living space.	▸ Large amounts of storage units throughout the unit. ▸ Large walk-in shower units with mirrored cabinets and large Vitra sinks ▸ Apartments are fully furnished.

Source: JLL, 2020

Affordable Housing Provision	
The affordable component of the development is broken down as follows:	
No. Affordable Units	263
Affordable Provision	▸ Discounted Market Rent which is only offered to key workers ▸ All units are studios in various sizes (small, medium & large)
Comments:	▸ Key worker accommodation has been capped at 80% of market rent within the scheme

Source: JLL, 2020

Appendix D: US Case Studies

Fifteen Fifty

- As mentioned previously, rental figures include access to an attended lobby with package delivery lockers, complimentary Wi-Fi in the common areas and the entire building will be 100% smoke free.

Local Market

- As of August 2020, asking rents in San Francisco Multi-Family market declined by 7% from the peak in March 2020.
- High-end apartments have been discounted at highest rates, as they face rising competition from new supply and a slow leasing environment.
- Asking rents for 4 - 5 star properties reduced by 12.8% y-o-y. However, fall is lower for 3 star and 1-2 star properties at 6.3% and 2.2% respectively.
- Lease-up velocity in the market's new apartment projects was reduced by 50% in quarter 2020.

Affordable Housing

- There are only a few small pockets of affordable multifamily housing in San Francisco's densely built-out geographically constrained peninsula.
- Many lower-wage workers commute into the city from more affordable areas in the region, and even from Sacramento and the Central Valley.
- The affordable units being contained within the same complex as the market-rate units have not had any impact on the market rent levels being achieved.

Overview of Rental Values & Premiums

The following section outlines the rental values being asked within the Fifteen Fifty and provides a comparison to the local market rental tone and the local MfH market:

Fifteen Fifty - Rental Value Overview		
Unit Type	Unit Size (sq. m)	Rent PCM* (USD)
Studio	20 to 214	$2,950 to $4,050
1 Bedroom	37 to 196	$3,900 to $6,350
2 Bedroom	39 to 363	$5,650 to $8,250
3 Bedroom	134 to 372	$16,000

Local Market Rental Tone					
Region	Minimum Rent PCM	Lower Quartile Rent PCM	Median Rent PCM	Upper Quartile Rent PCM	Maximum Rent PCM
San Francisco - Affordable	$406	$1,046	$1,339	$1,566	$3,265
San Francisco - Market	$1,019	$2,424	$2,896	$3,686	$6,677
West Region	$406	$1,280	$1,645	$2,139	$14,529
United States	$282	$920	$1,233	$1,700	$15,033

On the basis of the above market rental values being asked, we understand the following affordable rents are being asked at Fifteen Fifty:

Affordable Rental Rates		
Unit Type	40% of AMI PCM	50% of AMI PCM
Studio	$1,021	$1,021
1 Bedroom	$1,141	$1,163
2 Bedroom	$1,292	$1,292
3 Bedroom	$1,417	$1,417

Source: Apartments.com, REIS & housing.sfgov.org, 2020

Note:*Per Calendar Month

Appendix D: US Case Studies

Fifteen Fifty, San Francisco, USA			
Project Address	Fifteen Fifty 1550 Mission Street San Francisco, CA 94103	**County**	San Francisco
Construction Start (Phase)	Q4 2017	**Construction Completion Date**	Q2 2020
Developer	Related	**Operator/ Manager**	Related
Project Background	Related California acquired the 2.6 acre site from Goodwill Industries for $65M in 2014. Related California obtained $400 million in financing for the construction from Deutsche Bank, who purchased $316.8 million in tax-exempt bonds and $141.7 million of variable rate demand notes.		
Location & Connectivity	Located on the corner of Mission Street and South Van Ness Avenue at the nexus of three of San Francisco's neighbourhoods; SOMA, The Mission and Hayes Valley. Fifteen Fifty has an easy walk to major tech and finance centres, and is adjacent to the Civic Center districts.		

Source: relatedcalifornia.com & 1550missionbmr.com, 2020

Source: relatedcalifornia.com & 1550missionbmr.com, 2020

Key Project Metrics	
Total Units	550
Market Units	440 (80%)
Affordable Rent Units	110 (20%)
Unit Size (Range incl. Market & Affordable)	20 to 372 sq. m
No of Levels	39 levels
Product Mix	Studio - 110 (22%) 1 Bed - 220 (45% 2 Bed - 55 (11%) 3 Bed - 110 (22%)

Location Map

Source: Google Maps, 2020

Appendix D: US Case Studies

Amenity Provisions Overview

- Fifteen Fifty has a central location and unique architecture, with high-end amenities including an on-site Equinox Fitness Club.
- Key features include access to an attended lobby with package delivery lockers, complimentary Wi-Fi in the common areas, and the entire building will be 100% smoke free.
- For an additional monthly fee, residents may access co-working space with reservable conference rooms, a rooftop outdoor pool with hot tub, fitness centre with cardio and weight-lifting machines, a separate yoga room, a private 1,115 sq. m park, and 40th floor lounge with panoramic views from the terrace.
- The development comprised of 450 covered parking spaces.
- In total, there is 3,716 sq. m of indoor and outdoor amenity space, focused on high-design, entertainment, health and wellness.

Unit Specification

The following table provides further detail of apartment amenities and specification:

Overview of Apartment Amenity & Specification	
▸ Soaring double-height lobby, staffed 24/7	▸ Business Lounge with reservable conference rooms, complimentary coffee and Wi-Fi enabled printing
▸ Onsite Equinox Fitness Club with private resident entrance	▸ Rooftop pool and hot tub with landscaped sun deck and lounge seating
▸ Private landscaped park with grilling stations, dining areas and fire pits	▸ Pool House seamlessly integrated with outdoor sun deck
▸ Library with curated book collection	▸ Sports Lounge with six TV monitors, pool table, and bar
▸ Private Screening Room	▸ Penthouse Club with private dining area
▸ On-site 24/7 valet parking	▸ Electric vehicle charging stations
▸ Private bike storage	

Source: relatedrentals.com, 2020

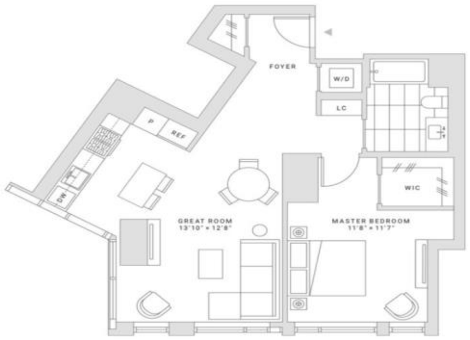
Affordable Housing Provision		
The affordable component of the development is broken down as follows:		
No. Affordable Units	110	
Inclusionary Housing Program	▸ Under the City of San Francisco's inclusionary housing program, inclusionary rules require that new private housing developments with 10 or more units must either pay a fee or include in the project a subset of units that are affordable (for rent or ownership). Developers also have the option of building affordable units off-site (i.e., below market rate or BMR units).	
Affordable Provision	▸ Below-Market-Rate (BMR) apartment homes will be leased to households earning up to 50% of the area median income (AMI) ▸ Upper limit for household size is 8 people ▸ Annual Area Median Income for applicants are capped at $45,160 to $85,120 for 40% AMI units and $43,100 to $81,300 for 50% AMI units ▸ Section 8 housing vouchers and other valid rental assistance programs can be used for this property ▸ Applicants must also qualify under the rules of the building for credit, rental and criminal history. ▸ The affordable is managed by the same operator as the market-rate units: Related Management Company, LP ▸ All affordable units are able to access the same amenities as the market-rate units	
Unit Mix	Average Asking Rent / Month (USD)	Discount from Market Rent (%)
Studio	$1,021	65.4% to 74.8%
One Bed	$1,141 to 1,163	70.5% to 81.9%
Two Bed	$1,292	77.1% to 84.3%
Three Bed	1,417	91.1%

Appendix D: US Case Studies

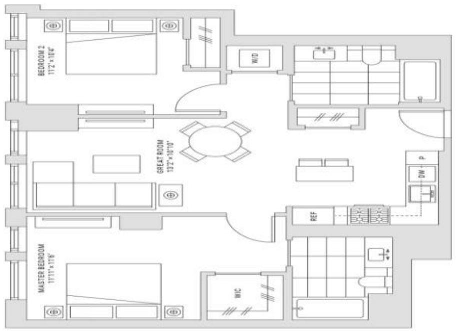
Typical Floor Plan

Studio (Market) - 20.0 – 214 sqm
Studio (Affordable) - 37 – 58 sqm

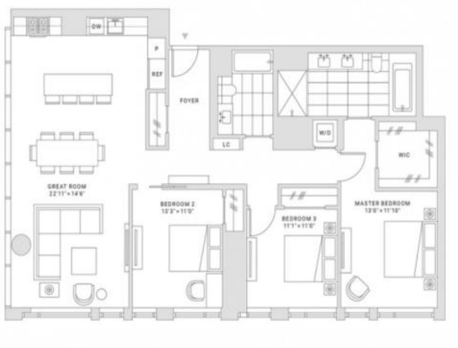
1 Bed (Market) - 37.0 – 196 sqm
1 Bed (Affordable) - 52.0 – 76.0 sqm



2 Bed (Market) - 39.0 – 363 sqm
2 Bed (Affordable) - 87.0 – 106 sqm



3 Bed (Market) - 134 – 372 sqm
3 Bed (Affordable) - 106 sqm



Rental Rates (USD)
Market: $2,950 to $4,050 **Affordable: $1,021** Studio (Per calendar month)
Market: $3,900 to $6,350 **Affordable: $1,141 to $1,163** 1 Bedroom (Per calendar month)
Market: $5,650 to $8,250 **Affordable: $1,292** 2 Bedroom (Per calendar month)
Market: $16,000 **Affordable: $1,417** 3 Bedroom (Per calendar month)

Source: Apartments.com & housing.sfgov.org, 2020
Abbreviations: USD – United States Dollar

Appendix D: US Case Studies

LA Plaza Village

- Two pets are allowed per unit with $250 deposit per pet and additional rent of $50 per pet.
- Unassigned covered parking space is available at a monthly rent of $150 to $300 per space.

Local Market

- Los Angeles's average effective rents fell by 1.0% to $1,979 in June 2020.
- Average apartment asking rents are expected to fall 4.0% in 2020 and fall 0.5% in 2021.
- Effective rents are expected to decline 3.7% in 2020 and fall 0.5% in 2021.
- Both average apartment asking and effective rents are not expected to surpass their respective 2019 highs until 2024.

Affordable Housing

- The high cost of living in Los Angeles drives persistent out-migration, with low-income households departing for more affordable markets like the Inland Empire, Phoenix, and Las Vegas.

Overview of Rental Values & Premiums

The following section outlines the rental values being asked within the LA Plaza Village and provides a comparison to the local market rental tone and the local MfH market:

LA Plaza Village- Rental Value Overview

Unit Type	Unit Size (sq. m)	Rent PCM* (USD)
Studio	40 to 64	$1,775 to $2,200
1 Bedroom	60 to 104	$1,975 to $2,975
2 Bedroom	90 to 112	$2,775 to $3,675
3 Bedroom	117 to 148	$4,690 to $5,875

Local Market Rental Tone

Region	Minimum Rent PCM	Lower Quartile Rent PCM	Median Rent PCM	Upper Quartile Rent PCM	Maximum Rent PCM
Los Angeles - Affordable	$465	$879	$1,013	$1,163	$6,021
Los Angeles - Market	$599	$1,604	$1,934	$2,471	$14,529
West Region	$406	$1,280	$1,645	$2,139	$14,529
United States	$282	$920	$1,233	$1,700	$15,033

On the basis of the above private rental values being asked, we understand the following affordable rents are being asked at LA Plaza Village:

Affordable Rental Rates

Unit Type	60% AMI
Studio	$1,322
1 Bedroom	$1,404
2 Bedroom	$1,693

Source: Apartments.com, REIS & CoStar, 2020

Note:*Per Calendar Month

Appendix D: US Case Studies

LA Plaza Village, Los Angeles, USA			
Project Address	LA Plaza Village 555 N Spring Street Los Angeles, CA 90013	**County**	Los Angeles
Construction Start (Phase)	Q3 2016	**Construction Completion Date**	Q1 2019
Developer	Trammell Crow Company	**Operator/ Manager**	Greystar
Project Background	High Street Residential, a subsidiary of Trammell Crow Company, entered into an agreement with La Plaza de Cultura y Artes and the Cesar Chavez Foundation (CCF) to commence the construction of LA Plaza Village in Los Angeles in August 2016. The project was privately financed and developed for $140 million, and operated by Trammell Crow Company.		
Location & Connectivity	The project provides an extension of the existing Historic Paseo/pedestrian trail from Union Station to Olvera Street, the already planned extension from Olvera Street to LA Plaza Park and the LA Plaza de Cultura y Artes and the El Pueblo de Los Angeles Historic Monument.		

Source: CoStar, 2020

Key Project Metrics	
Total Units	355
Market Units	284 (80%)
Affordable Rent Units	71 (20%)
Unit Size (Range incl. Market & Affordable)	40 to 148 sq. m
No of Buildings	4 buildings
No of Levels	5 to 7 levels
Product Mix	Studio - 116 (33%) 1 Bed - 96 (27%) 2 Bed - 138 (39%) 3 Bed - 5 (1%)

Location Map

Source: Google Maps, 2020

Appendix D: US Case Studies

Amenity Provisions Overview

- LA Plaza Village has a central location and combines retail, dining, cultural and residential venues in a unique setting.
- Key features include a double-height gym, unit laundry, patio/balcony, hardwood floors, a large pool deck, lounge area, and communal spaces in each building.
- In addition to expansive windows, contemporary kitchens, and premium interior finishes, the community includes access to amenities such as a swimming pool and a dog park, along with street-level shops and restaurants.
- The development is comprised of 786 covered parking spaces. This includes dedicated spaces for tenants in addition to unassigned fee parking for guests and retail accommodation. One or more parking spaces is provided for larger units (i.e. 2 and 3 bedrooms).

Unit Specification

The following table provides further detail of apartment amenities and specification:

Overview of Apartment Amenity & Specification	
▸ MERV-13 HVAC Filtration System	▸ Keyless Entry
▸ Hard Surface Flooring	▸ Walk-in Showers
▸ In Home Washer/Dryer	▸ Walk-in Closets
▸ Custom Barn Doors	▸ Downtown Skyline Views
▸ Dodger Stadium Views	▸ Clean Steel Appliances
▸ Patio and Balconies	▸ Dishwasher and Microwave
▸ Custom Tile Backsplash	

Source: laplazavillage.com

Affordable Housing Provision

Affordable component within the project is broken down as follows:

No. Affordable Units	71	
Affordable Provision	▸ Affordable units are reserved for tenants making 60% - 80% of the area median income (AMI) ▸ The affordable is managed by the same operator as the market-rate units: Greystar ▸ All affordable units are able to access the same amenities as the market-rate units	
Unit Mix	**Average Unit Size (sq. m)**	
Studio	52	
One Bed	82	
Two Bed	101	
Unit Mix	**Average Asking Rent / Month (USD)**	**Discount from Market Rent (%)**
Studio	$1,322	25.5% to 39.9%
One Bed	$1,404	28.9% to 52.8%
Two Bed	$1,693	39.0% to 53.9%

Appendix D: US Case Studies

Typical Floor Plan

Studio (Market) - 40.0 – 64.0 sqm
Studio (Affordable) - 52.0 sqm

1 Bed (Market) - 60.0 – 104 sqm
1 Bed (Affordable) - 82.0 sqm

2 Bed (Market) - 90.0 – 112 sqm
2 Bed (Affordable) - 101 sqm

3 Bed (Market) - 117 – 148 sqm

Rental Rates (USD)
Market: $1,775 to $2,200 **Affordable: $1,322** Studio (Per calendar month)
Market: $1,975 to $2,975 **Affordable: $1,404** 1 Bedroom (Per calendar month)
Market: $2,775 to $3,675 **Affordable: $1,693** 2 Bedroom (Per calendar month)
Market: $4,690 to $5,875 3 Bedroom (Per calendar month)

Source: Apartments.com, REIS & laplazavillage.com, 2020
Abbreviations: USD – United States Dollar

Appendix D: US Case Studies

One Santa Fe

- Two pets are allowed per unit with $500 deposit per pet and additional rent of $50 per pet.
- One-time application fee is $51.

Local Market

- Los Angeles's average effective rents fell by 1.0% to $1,979 in June 2020.
- Average apartment asking rents are expected to fall 4.0% in 2020 and fall 0.5% in 2021.
- Effective rents are expected to decline 3.7% in 2020 and fall 0.5% in 2021.
- Both average apartment asking and effective rents are not expected to surpass their respective 2019 highs until 2024.

Affordable Housing

- The high cost of living in Los Angeles drives persistent out-migration, with low-income households departing for more affordable markets like the Inland Empire, Phoenix, and Las Vegas.

Overview of Rental Values & Premiums

The following section outlines the rental values being asked within the One Santa Fe and provides a comparison to the local market rental tone and the local MfH market:

LA Plaza Village- Rental Value Overview

Unit Type	Unit Size (sq. m)	Rent PCM* (USD)
Studio	32 to 62	$1,569 to $2,799
1 Bedroom	57 to 83	$1,852 to $3,348
2 Bedroom	76 to 132	$2,501 to $4,499

Local Market Rental Tone

Region	Minimum Rent PCM	Lower Quartile Rent PCM	Median Rent PCM	Upper Quartile Rent PCM	Maximum Rent PCM
Los Angeles - Affordable	$465	$879	$1,013	$1,163	$6,021
Los Angeles - Market	$599	$1,604	$1,934	$2,471	$14,529
West Region	$406	$1,280	$1,645	$2,139	$14,529
United States	$282	$920	$1,233	$1,700	$15,033

On the basis of the above private rental values being asked, we understand the following affordable rents are being asked at One Santa Fe:

Affordable Rental Rates

Unit Type	50% AMI
Studio	$986
1 Bedroom	$1,056
2 Bedroom	$1,267

Source: Apartments.com, REIS & CoStar, 2020
Note:*Per Calendar Month

One Santa Fe, Los Angeles, USA

Project Address	One Santa Fe 300 S Santa Fe Avenue Los Angeles, CA 90013	**County**	Los Angeles
Construction Start (Phase)	Q1 2012	**Construction Completion Date**	Q1 2015
Developer	McGregor Company	**Operator/ Manager**	Berkshire Communities
Project Background	Site preparation work started in January 2012 for the $160 million project with financing from Canyon-Johnson Urban Fund Investments. Canyon-Johnson entered into an agreement with The McGregor Company, Polis Builders and Goldman Sachs Urban Investment Group. The construction is being financed through sources including the development partners, tax-exempt bonds issued by the California Housing Finance Agency, a long-term FHA loan from the city's Housing Department, and Low-Income Housing Tax Credits (LITHC) tax credits.		
Location & Connectivity	Located along the eastern edge of downtown Los Angeles and northeast of the Southern California Institute of Architecture. The project links directly to the First Street Bridge which carries pedestrian sidewalks, vehicular traffic, and the LA Metro Gold Line at its northern side.		




Source: CoStar, 2020

Key Project Metrics

Total Units	438
Market Units	350 (80%)
Affordable Rent Units	88 (20%)
Unit Size (Range incl. Private & Affordable)	32 to 132 sq. m
No of Levels	6 levels
Product Mix	Studio - 100 (23%) 1 Bed - 173 (39%) 2 Bed - 165 (38%)

Location Map

Source: Google Maps, 2020

Appendix D: US Case Studies

Amenity Provisions Overview

- One Santa Fe is designed by architect Michael Maltan comprised of panoramic picture windows, a chef's kitchen with European cabinetry and the convenience of an in-home washer and dryer.
- Key features include zero-edge saltwater pool, rooftop fire pit, fitness centre with private yoga, pilates studio, and on-site electric vehicle charging station.
- Additionally, community amenities include outdoor dining area with BBQ, custom cabanas, audio hook-ups, outdoor theatre, and concierge service and complimentary WiFi.
- The development is comprised of 750 surface parking spaces.

Unit Specification

The following table provides further detail of apartment amenities and specification:

Overview of Apartment Amenity & Specification	
Central Heat and Air Conditioning	Personal Balcony
Concrete Floors	Spacious Floor Plans
Gourmet Kitchen	Walk-in Closets
Granite Countertops	Downtown Skyline Views
In-Home Washer and Dryer	Stainless-Steel Appliances
Multi-Level and Loft Options	Valet Trash Service
Panoramic Views of the LA Skyline	White or Espresso Cabinets

Source: osfla.com, 2020

Affordable Housing Provision

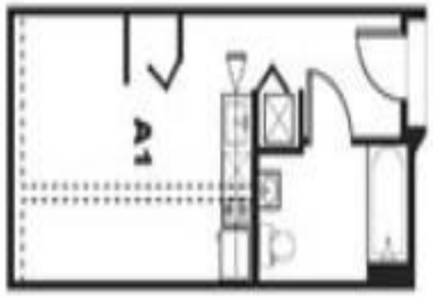
The affordable component of the development is broken down as follows:

No. Affordable Units	88	
Developer Incentive	Development partners obtained New Markets Tax Credit (NMTC) allocation from the U.S. Department of the Treasury's CDFI Fund, which are designated for real estate projects located in low-income census tracts in Los Angeles County.	
Affordable Provision	▸ Affordable units are reserved for tenants making 50% of the area median income (AMI) Income limit by household size 1-person: $55,230 2-person: $63,070 3-person: $70,980 4-person: $85,190 ▸ The affordable is managed by the same operator as the market-rate units: Berkshire Communities. ▸ All affordable units are able to access the same amenities as the market-rate units	
Unit Mix	**Units**	**Unit Size (sq. m)**
Studio	10	32 to 62
One Bed	51	49 to 85
Two Bed	27	76 to 132
Unit Mix	**Average Asking Rent / Month (USD)**	**Discount from Market Rent (%)**
Studio	$986	37.2% to 64.8%
One Bed	$1,056	43.0% to 68.5%
Two Bed	$1,267	49.3% to 71.8%

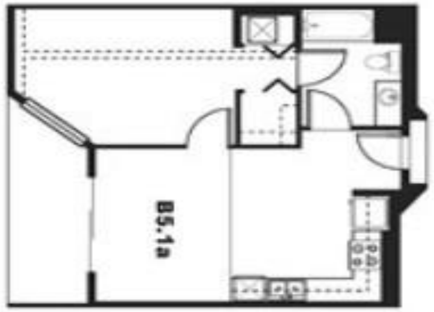
Appendix D: US Case Studies

Typical Floor Plan

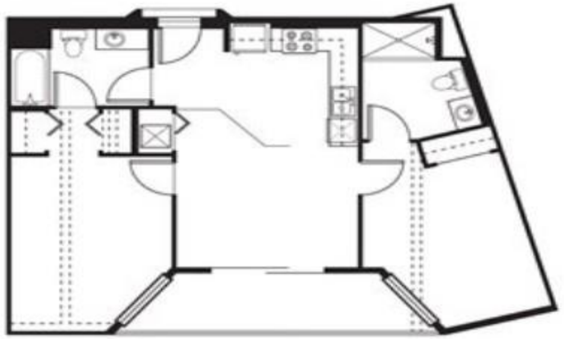
Studio (Market) - 32.0 – 62.0 sqm
Studio (Affordable) - 32.0 – 62.0 sqm



1 Bed (Market) - 57.0 – 83.0 sqm
1 Bed (Affordable) - 49.0 – 85.0 sqm



2 Bed (Market) - 76.0 – 132 sqm
2 Bed (Affordable) – 76.0 - 132 sqm



Rental Rates (USD)
Market: $1,569 to $2,799 **Affordable: $986** Studio (Per calendar month)
Market: $1,852 to $3,348 **Affordable: $1,056** 1 Bedroom (Per calendar month)
Market: $2,501 to $4,499 **Affordable: $1,267** 2 Bedroom (Per calendar month)

Source; Apartments.com, affordablehousingonline.com & One Santa Fe staffing personnel, 2020
Abbreviations: USD – United States Dollar

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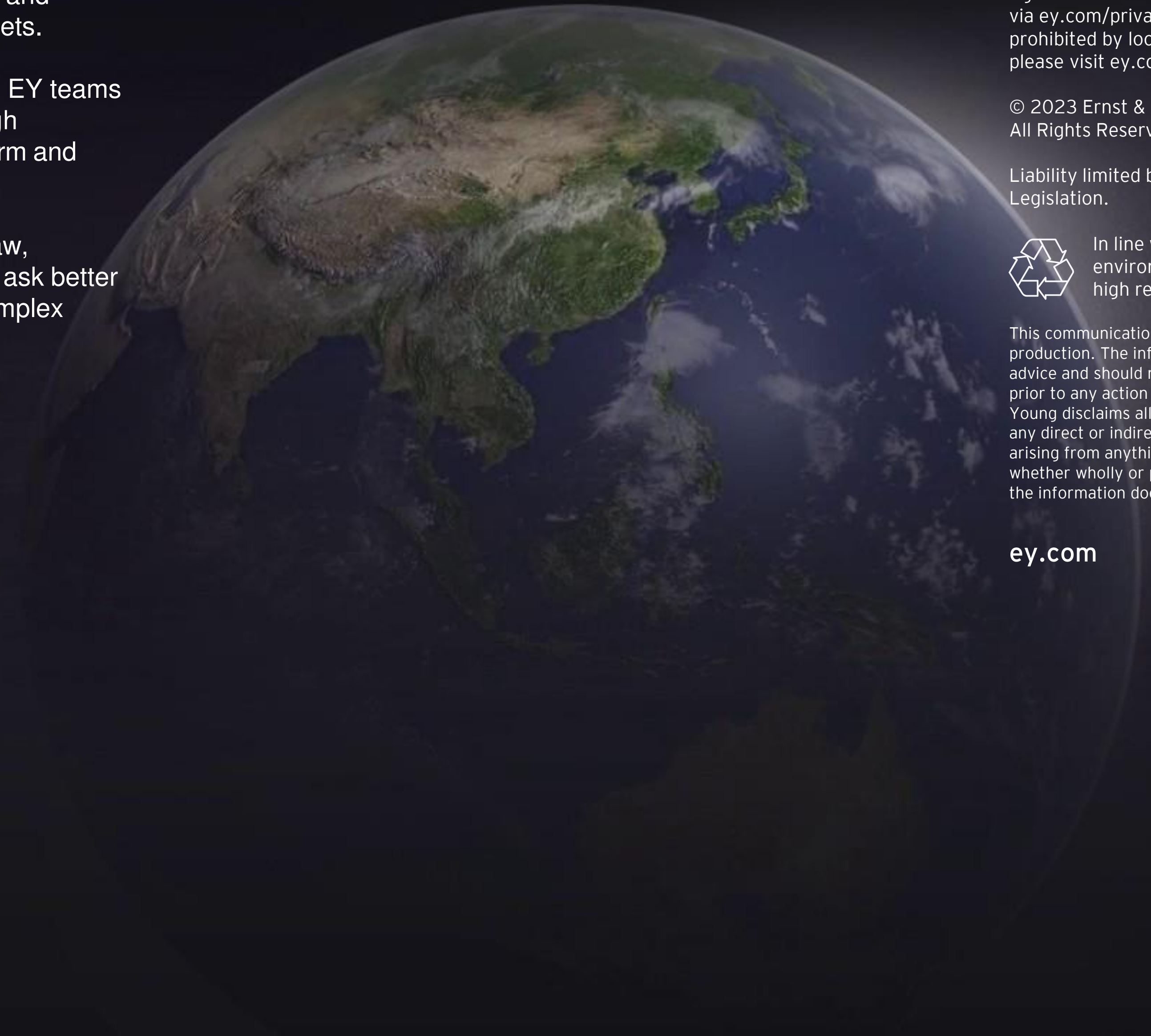

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