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22 April 2024

Ms Diane Brown
Deputy Secretary
Revenue Group
Treasury
Langton Cres
Parkes ACT 2600

By email: btr@treasury.gov.au

Dear Deputy Secretary Brown,

Mirvac welcomes the opportunity to make a submission to the Treasury's Consultation into the Treasury Laws Amendment Bill 2024: Build to Rent Developments and the Capital Works (Build to Rent Misuse Tax) Bill 2024 (together, **Exposure Draft**) and thanks Treasury for your early engagement.

As one of Australia's largest listed property companies, blending business operations that include development, construction, investment management and long term ownership of Australian real estate including Build to Rent, we welcomed the Government's announcement last May to encourage investment and construction in Build to Rent, expanding Australia's housing supply and reducing the withholding tax rate on eligible fund payments from managed investment trust (MIT) investments from 30%-15%.

In June 2023, Mirvac announced that it had established a new $1.8bn Build to Rent Venture (Venture) with well-capitalised cornerstone investors, including the Clean Energy Finance Corporation (CEFC) Mitsubishi Estate Asia (MEA). Mirvac retains a 44 per cent interest in the Venture.

The Venture comprises Mirvac's operational build to rent assets (LIV Indigo, Sydney and LIV Munro, Melbourne), as well as its build to rent pipeline assets (including LIV Anura, Brisbane, and LIV Aston and LIV Albert Fields, Melbourne), all of which will be operational by 2025, delivering homes for more than 3,300 residents. Mirvac has invested significantly in establishing LIV Mirvac, it's operating platform and provides investment management, property management, development management and construction services to the BTR Venture.

Mirvac is Australia's first large-scale owner and operator of build to rent assets, with around 2,200 lots in our secured pipeline. The establishment and capitalisation of the Venture supports our vision to increase our exposure to the Build to Rent sector, grow our portfolio to at least 5,000 apartments in the medium term, and play a key role in helping solve the housing and rental shortfall in Australia.

As drafted, we consider that the legislation fails to meet the objectives of expanding Australia's housing supply and misses the opportunity to encourage further growth in the BTR sector.

Mirvac is a market leader in the sector with a meaningful commitment to invest further capital to facilitate housing supply however cannot access the proposed concessions as drafted and is at a significant disadvantage to new market participants who have not yet delivered any BTR projects. Overall, the Exposure Draft unfairly penalises those who introduced the BTR sector to Australia and continue to be the largest owners and operators, and hinders the ability to compete effectively, impeding sector growth.

Without meaningful changes to the legislation to level the playing field for passive investors into BTR to the same as those for investors in office, industrial or purpose-built student accommodation, BTR will remain at a permanent disadvantage to other passive asset classes.

This will place further strain on the housing market and impede any progress on addressing the housing supply crisis with more stable, long-term rental options owned by institutional investors. It is critical that this legislation be amended to remove existing barriers and create a conducive environment for the sustained growth and investment in the BTR sector.

We support the submission of the Property Council of Australia, and wish to highlight the following recommendations to address critical issues surrounding the application of tax arrangements in the BTR sector, with a focus on ensuring equity and fostering growth in the housing supply:

- **Apply the 15 per cent MIT WHT rate to capital gains as well as income.**
- **Ensure the 15 per cent MIT WHT rate is made permanently available and not limited to 15 years.**
- **Ensure the 15 per cent MIT WHT rate is extended to BTR assets that were operating or in development prior to the 2023 Budget announcement.**
- **Provide a differentiated 10 per cent MIT WHT rate to attract investment in affordable BTR housing for domestic and international investors.**
- **Reduce complexity and compliance burdens within the legislation (e.g. Misuse tax provision applies without any safe harbour provisions which are more consistent with other asset classes).**

We believe it is important that these recommendations are included in the amended draft legislation to ensure that the policy will deliver on its intent to encourage investment and construction in Build to Rent to expand Australia's housing supply.

Thank you for the opportunity to contribute to this critical policy dialogue. For further discussion, please contact Stephanie James, Director – Government Relations & Stakeholder Engagement (stephanie.james@mirvac.com; 0438 329 762).

Yours faithfully

Angela Buckley
Fund Manager – BTR Sector Lead

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Property Council of Australia

22 April 2024

Ms Diane Brown
Deputy Secretary
Revenue Group
The Treasury
Langton Crescent
Parkes ACT 2600

By email: btr@treasury.gov.au

Dear Deputy Secretary,

Treasury consultation: *Treasury Laws Amendment Bill 2024: Build to Rent Developments* and the *Capital Works (Build to Rent Misuse Tax) Bill 2024*

The Property Council of Australia welcomes the opportunity to make a submission to the Treasury's consultation into the *Treasury Laws Amendment Bill 2024: Build to Rent Developments* and the *Capital Works (Build to Rent Misuse Tax) Bill 2024* (together, **Bills**). Thank you for your early engagement.

The Property Council of Australia is the leading advocate for Australia's largest industry. The property industry represents 13% of Australia's GDP, employs 1.4 million Australians (more than mining and manufacturing combined) and generates $72 billion in tax revenues. Property Council members invest in, design, build and manage places that matter to Australians across all major built environment asset classes and all of Australia's key capital and regional cities.

Our membership represents the largest global investors in build-to-rent (BTR) housing and the most experienced owners, operators, and investors in Australia's own nascent BTR sector.

For the past decade, the Property Council has advocated for an Australian investment regime that attracts institutions to BTR housing by ensuring investment parity with other property asset classes.

The Property Council has been the most vocal supporter of the Federal government's 1.2 million new well-located homes target by 2029.

Likewise, we have invested substantial organisational credibility in publicly backing a clear 15 per cent Managed Investment Trust (MIT) withholding tax (WHT) rate to encourage BTR in Australia over the past decade. Never more so than over the past year.

The benefits of a plain 15 per cent MIT WHT rate, like those that apply to other property assets, have been independently and publicly modelled.

We note further work to support BTR housing is needed beyond the scope of the current Bills, including GST treatment. GST credits are unable to be claimed on BTR projects whereas they can be claimed on *build-to-sell (**BTS**) projects. The absence of GST credits means construction costs for BTR projects are 10 per cent higher than BTS.*

Unamended, the Bills would be worse than the current unattractive regime.

EY modelling demonstrates that the Bills as drafted will result in lower rates of return on BTR projects at the proposed 15 per cent tax rate than at the existing 30 per cent rate.

It is therefore hard to understand what the government is trying to achieve.

The Bills should stimulate investment in BTR by creating a level playing field with other asset classes. Instead, they will freeze investment in the potential pipeline of 160,000 extra BTR homes (being 150,000 at-market rental apartments and 10,000 affordable rental apartments).

Unamended, the effect would be to repel a deep pool of patient institutional capital from Australian housing to other markets where settings are highly inductive, such the US and UK.

Immediate action is needed to correct the negative perception investors hold about the viability of Australia as a destination for long term investment in BTR housing.

Most urgent areas of concern

As the most experienced owners, operators, and investors of BTR housing in Australia and overseas, our National BTR Roundtable has reviewed the Bills and explanatory material. We provide feedback in the attached submission and urgently highlight the following:

1. **Apply the 15 per cent MIT WHT rate to capital gains as well as income -** as it stands, the 15 per cent tax rate only applies to rental income, not capital gains. This is inconsistent with other asset classes, fails to create a level playing field and disadvantages BTR housing.
2. **Ensure the 15 per cent MIT WHT rate is made permanently available and not limited to 15 years –** currently the 15 per cent rate is only available for a 15-year period. This is again inconsistent with treatment of other asset classes, significantly impacting incoming investment in open-ended BTR funds and limiting the value of assets to subsequent investors.

As shown in the submission, the impact of these two issues alone will ensure the legislation is completely ineffective. It will explicitly deter institutional investors from Australian BTR projects and risk the entire potential pipeline of 150,000 new rental homes.

3. **Ensure the 15 per cent MIT WHT rate is extended to BTR assets that were operating or in development prior to the 2023 Budget announcement -** at the time of the 2023 Budget announcement, there were twelve existing BTR projects. Failing to extend the measure to assets operating or under construction risks stranding these assets. They will be at a value disadvantage to later projects, as well as subject to a higher rate of MIT WHT compared to other BTR assets.
4. **Provide a differentiated 10 per cent MIT WHT rate to attract investment in affordable BTR housing for domestic and international investors -** affordable housing within BTR projects can only be achieved in a commercially viable way. Our modelling shows the proposed mandating of 10 per cent affordable tenancies (adding significant complexity due to interaction with similar state, territory, and local government initiatives) will erode over half the benefit otherwise gained in moving from a 30 per cent MIT WHT rate to 15 per cent. An additional 10,000 affordable BTR apartments will be lost and over 75,000 homes from the projected at-market BTR pipeline will no longer meet investor requirements.
5. **Misuse tax creates risk for prospective seller and purchaser within a 15-year compliance period** - the MIT requirement that the property be held primarily for the purpose for deriving rent provides sufficient protection and integrity. In the case of a subsequent transaction on the asset, the clawback exposes taxpayers to the behaviour of other parties outside their control.

Uncertainty caused by the long legislative delay since May 2023 and lack of clarity of eligibility requirements has already resulted in a real loss of investment.

Capital flows are stalling. Thousands of rental homes that should be currently under construction are not.

The Property Council seeks the opportunity to meet with you and discuss our submission in more detail. Please contact Frankie Muskovic, National Policy Director on 0413 587 898 or fmuskovic@propertycouncil.com.au to arrange a meeting.

Kind regards,

Mike Zorbas
Chief Executive
Property Council of Australia

The impact of the Bills on project feasibility

Commissioned by the Property Council, EY revisited its previous analysis of the impact of different policy settings on the potential pipeline of BTR projects in Australia. EY's analysis, an excerpt of which is provided here (Appendix A for full analysis and model) shows the impacts of the Bills on BTR project feasibility.

EY's previous analysis (see Appendix B and Appendix C) showed that providing a 15 per cent MIT WHT rate to Australian BTR projects could deliver an additional 150,000 new rental homes across the next 10 years. EY also showed that lowering the MIT WHT rate to 10 per cent for BTR with an affordable housing component could accelerate the delivery of an additional 10,000 affordable homes over 10 years. These two measures combined could result in an additional 160,000 rental homes.

The scenarios modelled to demonstrate the impact of the Bills are:

- ***Scenario 1*** – The base case status quo) with the existing 30 per cent MIT WHT
- ***Scenario 2*** – The Bills
- ***Scenario 3*** – status quo, combined with a 10 per cent affordable housing requirement at a 25 per cent discount
- ***Scenario 4*** – The Bills, without any affordable housing requirement
- ***Scenario 5*** – The Bills, with an extension of the 15 per cent MIT WHT rate to capital gains as well as rental income, and
- ***Scenario 6*** – An extension of the 15 per cent MIT WHT rate to capital gains and rental income, without any affordable housing requirement.

The modelling shows that the Bills will reduce the levered post-tax project IRR by 34Bps when compared to the status quo.

Table 1: Results from EY analysis that shows the impact of the draft Bills to the feasibility of a hypothetical BTR project.

Table 1: Scenario Outputs

Output	Scenario 1 *(Existing Policy) Base Case MIT WHT 30/30 No Affordable*	Scenario 2 *(Proposed Bill) MIT WHT 15/30 10% Affordable*	Scenario 3 *(Existing Policy+) MIT WHT 30/30 10% Affordable*	Scenario 4 *(Proposed Bill+) MIT WHT 15/30 No Affordable*	Scenario 5 *(Proposed Bill+) MIT WHT 15/15 10% Affordable*	Scenario 6 *MIT WHT 15/15 No Affordable*
Current Market Value Comparison	$282,600,000	$272,500,000	$272,500,000	$282,600,000	$272,500,000	$282,600,000
Year 1 EBITDA (Pre-Tax)	$10,950,000	$10,575,000	$10,575,000	$10,950,000	$10,575,000	$10,950,000
Unlevered Pre-Tax Project IRR	7.64%	7.20%	7.20%	7.64%	7.20%	7.64%
Unlevered Post-Tax Project IRR	5.82%	5.87%	5.54%	6.22%	6.39%	6.78%
Levered Post-Tax Project IRR	*7.15%*	*6.81%*	*6.73%*	*7.36%*	*7.60%*	*8.19%*
Bps Change (From Scenario 1)	-	*-34 Bps*	*-42 Bps*	*+21 Bps*	*+45 Bps*	*+104 Bps*

Affordable Housing Modelling Assumptions:

- *The income test of 30% of the income band does not apply to the rents, for example, 3 Bed units would require a circa 40% rental reduction to fit within the income band affordable rent. We have assumed it will not apply.*
- *Market Rent is based off of rents in the Subject Property only. As BtR projects have more amenity, and more people working on site, rents tend to be higher than the general market, as BtR is a different product to Build to Sell ("BtS").*
- *Rental growth rates are based on market growth rates and not linked to the Housing component of the CPI.*
- *Compliance costs and additional property management costs at $1,500 plus GST per annum per unit.*

Source: EY Assessment, 2024

Feedback on key issues

1. Application of the 15 per cent MIT withholding tax rate (WHT) to rental income but not capital gains and only over a 15-year compliance period.

Exclusion of capital gains: The Bills only apply a 15 per cent MIT WHT rate to rental income derived during the 15-year holding period post completion. Any exit gain from disposal of a project will remain taxed at a 30 per cent MIT WHT rate.

The inclusion of capital gains in the internal rate of return (IRR) for BTR projects is the same approach as any other asset class (office, retail, industrial etc) and consistent with standard valuation approaches. It is critical to offer a level playing field for BTR projects.

<u>The severe impact of this issue is evident in Scenario 2 of EY's analysis, combined with affordable housing requirements, it results in a net negative impact compared to *current* tax settings. It will act as a *further disincentive* for BTR projects.</u>

<u>The Bills must be amended so that the 15 per cent MIT WHT rate is made available to capital gains as well as rent.</u>

Concession limited to 15 years: The concessional rate is only available for a 15-year period from post completion. This presents a significant issue. It will significantly impact incoming investors in open-ended BTR funds and limit the value of assets to a secondary buyer closer to the end of the 15-year period, given the potential buyer will not be eligible for the concessional rate.

A 15-year term is inconsistent with treatment of other asset classes and with other measures to enhance the ongoing supply of secure housing. The HAFF, for example, contemplates longer term investment.

<u>The Bills must be amended so the 15 per cent MIT WHT rate is made available on permanent basis and not limited to 15 years</u>.

These issues combined, will result in lower rates of return on BTR projects at the proposed 15 per cent MIT WHT rate than at the existing 30 per cent rate. The legislation will be completely ineffective, will repel institutional investors from Australian BTR projects, risking the entire proposed pipeline of 150,000 new at-market BTR rental homes.

2. Commencement date and retrospectivity

Exclusion of assets operating prior to the 2023 Budget announcement: As it stands, application of the 15 per cent MIT WHT rate will exclude the 12 projects in Australia operating prior to 7:30PM (AEST) on 9 May 2023. These projects have pioneered the early development of BTR in Australia and provide a vital foundation of skills and experience that will enable the accelerated growth we would expect to see with the application of a clear 15 per cent MIT WHT.

Failing to extend the measure risks stranding these assets, at a value disadvantage to later projects, in addition to being subject to a higher MIT WHT rate compared to other BTR assets. This would be a perverse and inequitable outcome. It will wrongly penalise early investors in Australia's BTR sector and risks removing rental stock from the market if these assets are broken up for sale due to their competitive disadvantage with newer BTR assets.

EY's original analysis for the Property Council (Appendix B) showed the cost of extending the measure to existing new and operating assets would budget neutral, at $7.2 million over 10 years.

<u>Eligibility must not be contingent on the project commencement date, but instead confined to other measures detailed in the Bills around the number of dwellings, lease terms offered etc.</u>

Clarity needed on construction commencement: The meaning of construction is not clear. Further detail is needed in explanatory memorandum section 1.16 to clarify the definition of commencement, as the Bills seems in contradiction and set the conditions of 'commencement' as satisfying the compliance criteria. This fails to outline whether BTR developments commence at "opening", when affordable apartments are leased, "demolition" and "early/enabling works", or project takeovers as a result of administration or sale. More clarity on this important eligibility test is critical.

Neither is it clear whether existing BTR projects that fail to meet the 9 May 2023 deadline can increase the number apartments to become compliant - before example, a BTR project with 40 apartments prior to 9 May 2023 that subsequently adds a further 10 apartments. Clarity is needed on how Treasury would consider this BTR project for compliance.

3. Incentivise affordable housing separately

Provide a differentiated 10 per cent MIT WHT rate to attract investment in affordable housing for domestic and international investors: We support the provision of affordable housing in a manner that protects project feasibility by offering an incentive to offset loss in rental income. A differentiated 10 per cent MIT WHT rate for projects that include affordable housing for domestic and international investors can accelerate the delivery of 10,000 affordable homes, according to EY's analysis (Appendix C). This is the best way to achieve the desired outcome of more affordable homes by sending a simple, clear signal to investors.

4. Impact of affordable housing requirements

The current approach to mandate 10 per cent of affordable tenancies will add cost and complexity that will deter investors: these requirements duplicate many already imposed by state and territory, and in some cases, local governments. This provides a ***significant disincentive*** and will deter investors, who will instead invest in other asset classes or other markets in a globally competitive environment for capital.

The modelled impact of these requirements, if excluding the impact of issues raised in item 1, provides a modest accretion (only if assuming a 15 per cent MIT WHT rate for income and capital gains) but erodes over half the benefit that would otherwise be gained from moving from a 30 per cent MIT WHT rate. It will not only sacrifice an additional 10,000 affordable BTR apartments, but over 75,000 homes from the projected at-market BTR pipeline.

Affordable and social housing contributions are already dealt with at the state and local government level. Adding additional Commonwealth requirements will make it harder to deliver any project.

Regardless, clarification is needed that the requirement for 10 per cent of dwellings to be offered as affordable is not additive to the requirements of state, territory or local governments to access state-based concessions: although you have advised us verbally that the requirement to provide 10 per cent of dwellings as affordable does not impose a requirement for additional dwellings over and above the requirements to access state, territory or local government based incentives. This is not explicit in the Bills or explanatory material.

If the requirement to deliver affordable housing is maintained a mechanism is required to ensure that state or local governments do not 'double dip' on affordable housing via contributions or frustrate the provision of affordable housing with additional and differing eligibility requirements. If not explicitly rectified, this will become a major issue for investors and asset owners.

Ministerial discretion to change requirements by instrument: any ability to change requirements by instruction provides untenable risk for operators. To have income bands reduced or materially altered could potentially result in assets be deemed 'non-compliant' and operators liable for punitive penalties. We note members' and investors' serious reservations on this point, not least because of past policy reversals upon changes in government.

Clarification on income tests and changed circumstances: clarification is needed on satisfying the income test to applied for BTR developments. Several scenarios require clarification:

- it is unclear how single residents who cohabitate with partners or enter relationships, and/or start families would be treated. Any perverse effect could lead to eviction in order for developments to remain compliant.
- whether affordable dwellings revert if the occupant breaches the thresholds, and whether this is automatically triggered. If this is the case, guidance on the required level of monitoring is needed.

We note the Clean Building MIT provisions allow for a 6-month rectification period for certain breaches. This would be useful to replicate, and our members' experience would be useful for Treasury to consider this scenario.

Breaking leases: It is not clear whether the breaking of leases by residents render non-compliance with the eligibility criteria. If so, this would greatly impact the tax liabilities of asset owners who inadvertently become non-compliant.

5. 15-year holding period by a single entity

15-year holding period by a single entity precludes tenants in common: we welcome provisions for BTR owners to sell if required and appreciate early feedback taken on board in this respect. Currently the definition of 'single entity' precludes tenants in common, which is important when different types of investors partner with each other – for example, a private developer (who might operate with higher debt) partnering with a pension fund with lower debt. Ownership by tenants in common allows for different levels of debt and permits each party to deal with their interests more seamlessly. This type of ownership is not in conflict with the policy intent and must be provided for.

6. Compliance and Misuse Tax

Misuse tax creates risk for prospective seller and purchaser within compliance period: we agree with the need for integrity measures to defend against misuse of the 15 per cent MIT WHT rate where the BTR development ceases to be an active BTR development during the relevant compliance period. The MIT requirement that the property be held primarily for the purpose for deriving rent is sufficient protection, as it is for all other real estate asset classes.

We are keen to understand Treasury's concerns on this point and how this could be managed. There is potential for unintended consequences when assets are sold where both the purchaser and vendor will be seeking indemnities around compliance and how the purchaser propose to use the asset. Currently, the clawback exposes taxpayers to the behaviour of other parties outside their control should an asset be sold.

In a sale scenario, the purchaser will seek indemnities and a 'clean bill of health', and confirmation of compliance from the seller. Likewise, the vendor will seek indemnities from the purchaser regarding how they propose to use the asset.

The risk to BTR developers is the current design of the misuse tax and broader compliance is too complicated. Other asset classes have safe harbour provisions which avoid immediate non-compliance. This inconsistency will disincentivise foreign and domestic capital and existing or sceptical institutional investors who otherwise will invest in more established markets, or other asset classes. The scheme will be undermined and rendered a deterrent if this is not addressed.

Additionally, any 'notification of changes' to a BTR development as outlined in 1.63 are too tight for a 28-day deadline. This timeframe should be expanded to 90 days to guarantee BTR developments are not arbitrarily punished as a result of an onerous compliance regime.

7. Other eligibility requirements

Floorspace restrictions: the Bills include floorspace restrictions that will disincentivise BTR developments from having practical and accepted facilities such as gyms, renewable battery storage, car spaces, and pools. The risk is these facilities are not available to renters who qualify for affordable BTR, and this would ultimately reduce the attractive qualities of residing in a BTR development. It is positive that the concession can be applied for mixed use buildings, but it will harm assets that are solely BTR. We seek clarity on whether the concessional MIT WHT rate will apply to spaces such as gyms, renewable battery storage, car spaces, and pools that are solely used by BTR residents.

Eligibility of leased entity: we seek clarification on whether the concessions will continue to apply if a project holding entity ("Project Trust") leases the BTR development project to an operating vehicle ("Op Co"), with the Op Co then leasing the dwellings to the public (as opposed to the Project Trust leasing the dwellings to the public directly). If this example does not qualify for the concessional MIT WHT rate, the legislation must be updated to clarify that it will.

Minimum of 50 dwellings: Large scale BTR projects are needed to grow supply and establish the sector in Australia. We note that BTR developments can be a whole building, part of a building or more than one building. However, it is important BTR developments have minimum requirements to foster a sector at scale and make the sector effective in tackling the housing crisis. Therefore, we support the requirement for eligible BTR developments to consist of 50 or more residential dwellings for the general public. However it is important to note at a state level, the requirement varies with some states requiring fewer than 50 dwellings. This may invertedly harm a small amount of BTR projects underway. We seek clarification if this will be taken into account.

8. Expand the Clean Building MIT WHT concession to include BTR projects

Owners and operators of existing BTR projects in Australia have strong ESG credentials and the government should seek to align its ambition to drive increased energy performance of Australian buildings with desire to increase the supply of rental housing.

The Property Council welcomed the measure contained in the government's recently released National Energy Performance Strategy to *'Expand the Clean Building Managed Investment Trusts withholding tax concession to more types of green buildings*.[1]' The government must to immediately modernise the 10 per cent Clean Building MIT WHT regime by:

- expanding the regime to all buildings held for rental purposes, including living sectors such as BTR, purpose-built student accommodation and retirement living (the regime is currently limited to offices, hotels, shopping centres and warehouses)
- applying the rate to buildings that have been refurbished to achieve the necessary NABERS or Green Star ratings (the regime is currently limited to newly constructed buildings)
- applying the test on an asset-by-asset basis (the regime currently requires all of the MIT's assets to satisfy the Green Star rating requirements).

[1] Australian Government, National Energy Performance Strategy, April 2024 (p 32).

Build to Rent and the Australian Housing Sector

Analysis of the Build to Rent Bill 2024 Exposure Draft

Reliance Restricted

22 April 2024

Written by

Luke Mackintosh

Partner | Strategy and Transactions

Building a better working world

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The results of Ernst & Young’s work, including the assumptions and qualifications made in preparing our work, are set out in Ernst & Young's report dated 22 April 2024 ("Report“, “White Paper”). 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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Introduction and Context

Introduction

In April 2024, an exposure draft was released by the House of Representatives for the Capital Works (Build to Rent Misuse Tax) Bill 2024 (“Bill”, “The Bill”, “The Proposed Bill”). It relates to taxes imposed on certain Build to Rent (“BtR”) assets, as well as other criteria which would apply to BtR assets. Policies provided by the exposure draft as per the understanding of EY include (“The Proposed Bill”):

- The reduced Managed Investment Trust Withholding Tax (“MIT WHT”) rate which would be applicable to foreign ownership on BtR assets (15%) would only be applicable on the rental income derived from a BtR asset. Any income generated through capital gains, would still be taxed at the standard 30% MIT WHT rate.
- The reduced MIT WHT rate would only be applicable for 15 years after completion of the asset.
- Introduced a requirement to include 10% of units within the asset as affordable housing units, utilising a Discounted Market Rent (“DMR”) model, in which rents are discounted approximately 25% from comparable market rents.
- Introduced a tax misuse clawback mechanism which is broadly designed to unwind any BtR tax benefits previously received through the operation of the BtR asset.
- The BtR tax concessions do not apply to assets where construction commenced prior to the original 2023 budget announcement.
- Increases the depreciation rate for capital expenditure from 2.5% to 4.0% per annum.
- A requirement for single ownership of the asset which relates to a single entity having a 100% stake in the property.

This white paper is indented to be a consolidation of feedback on The Proposed Bill by leaders of the Australian BtR sector.

EY, the Property Council of Australia, and the wider BtR sector aims to work with policy makers in aligning legislation to help promote the development of the BtR asset class within Australia and, ultimately, help contribute to the Federal Governments’ wider objective of delivering 1.2 million new homes to reduce Australia’s current chronic undersupply of housing.

Feasibility Study

EY, in conjunction with the Property Council of Australia (“PCA”) and leaders within the wider BtR sector, has produced a feasibility study which analyses the impacts of The Proposed Bill on the feasibility of a hypothetical BtR project. This study is built off previous feasibility work which was completed for the PCA dated 04 April 2023 and updated Report dated 26 September 2023, otherwise referenced to as the (“Previous Report”) and utilises the same hypothetical development which was analysed in the Previous Report.

Below we provide an overview of the differing scenarios in which the feasibility study was undertaken:

- ***Scenario 1*** – The base case with the existing policy of a 30% WHT rate on rental income and capital gains with no requirement for affordable housing..
- ***Scenario 2*** – The Proposed Bill which implements a 15% MIT WHT rate on rental income (but not capital gains), and a requirement for 10% of units to be affordable housing at a 25% DMR, an increase in the depreciation rate from 2.5% to 4.0%, as well as an adjustment to account for the additional administration costs to comply with the regime.
- ***Scenario 3*** – The base case adjusted to include the 10% affordable housing plus deprecation rate uplift, as well as administrative costs (30% WHT on rental income).
- ***Scenario 4*** – The Proposed Bill, without the requirement for any affordable housing (15% MIT WHT on rental income, 30% on capital gains).
- ***Scenario 5*** – Scenario 2, adjusted to include a 15% MIT WHT rate to capital gains.
- ***Scenario 6*** – Scenario 5, with no requirement for affordable housing.

We present the results of our findings overleaf…

The Modelling is based on operating the asset for 10 years. EY have not undertaken a develop and hold model i.e. 3 years development and 7 years holding. Year 10 assumes a “notional sale” of the asset in order to determine the 10 year Internal Rate of Return (IRR) which is the standard method of comparing returns from different asset classes.

Results

Table 1: Scenario Outputs

Output	Scenario 1 *(Existing Policy) Base Case MIT WHT 30/30 No Affordable*	Scenario 2 *(Proposed Bill) MIT WHT 15/30 10% Affordable*	Scenario 3 *(Existing Policy+) MIT WHT 30/30 10% Affordable*	Scenario 4 *(Proposed Bill+) MIT WHT 15/30 No Affordable*	Scenario 5 *(Proposed Bill+) MIT WHT 15/15 10% Affordable*	Scenario 6 *MIT WHT 15/15 No Affordable*
Current Market Value Comparison	$282,600,000	$272,500,000	$272,500,000	$282,600,000	$272,500,000	$282,600,000
Year 1 EBITDA (Pre-Tax)	$10,950,000	$10,575,000	$10,575,000	$10,950,000	$10,575,000	$10,950,000
Unlevered Pre-Tax Project IRR	7.64%	7.20%	7.20%	7.64%	7.20%	7.64%
Unlevered Post-Tax Project IRR	5.82%	5.87%	5.54%	6.22%	6.39%	6.78%
Levered Post-Tax Project IRR	***7.15%***	***6.81%***	***6.73%***	***7.36%***	***7.60%***	***8.19%***
Bps Change (From Scenario 1)	-	*-34 Bps*	*-42 Bps*	*+21 Bps*	*+45 Bps*	*+104 Bps*

Affordable Housing Modelling Assumptions:

- *The income test of 30% of the income band does not apply to the rents, for example, 3 Bed units would require a circa 40% rental reduction to fit within the income band affordable rent. We have assumed it will not apply.*
- *Market Rent is based off of rents in the Subject Property only. As BtR projects have more amenity, and more people working on site, rents tend to be higher than the general market, as BtR is a different product to Build to Sell ("BtS").*
- *Rental growth rates are based on market growth rates and not linked to the Housing component of the CPI.*
- *Compliance costs and additional property management costs at $1,500 plus GST per annum per unit.*

Source: EY Assessment, 2024

Results

Key Outcomes of Feasibility Modelling

When comparing Scenarios 1 and 2 (Current Policy vs The Proposed Bill), we find that the inclusion of a 10% affordable housing requirement in The Proposed Bill at a 25% DMR would result in a material decrease to the feasibility of BtR investments, with the overall return for our hypothetical scheme being reduced by 34 Bps. The reduced return could be construed by investors that the Proposed Bill discourages investment in BtR projects.

This would be met with a decline in confidence from institutional capital considering investment into BtR, as the asset class would effectively be regulated to a larger extent than that of the other core commercial real estate asset classes (Office, Industrial, and Retail). This overall, would make BtR an uncompetitive asset class, and see valuable foreign capital be re-directed to other markets and investments.

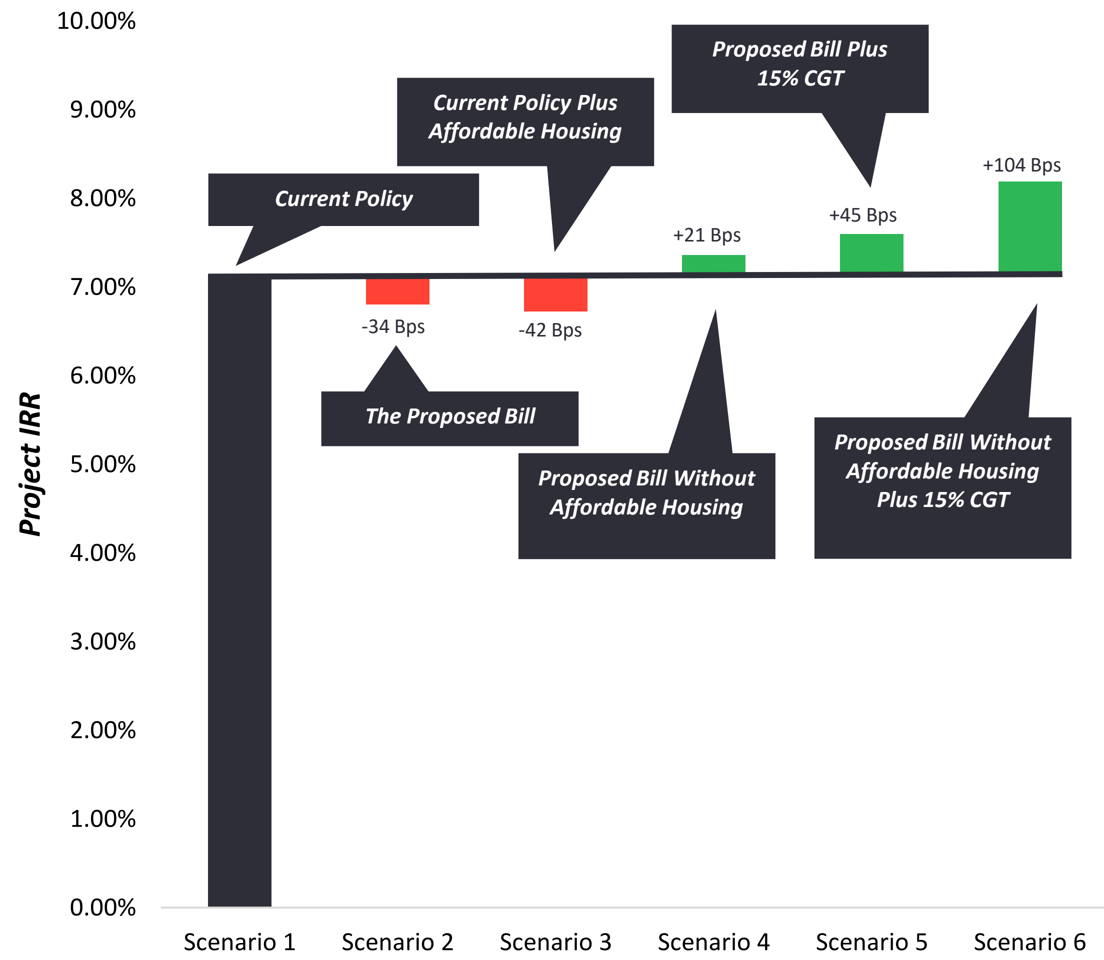
Notably, the Canadian BtR market (discussed in detail overleaf) represents a similar narrative to that of the nascent Australian market. The Canadian Federal Government however has implemented policies which have successfully resulted in the development of the BtR sector, including:

- No inclusion requirements on affordable housing.
- Full GST credits on development costs.
- Less stringent regulation on investment from domestic and international pension funds.

In the consolidated view of EY, the Property Council of Australia, and leaders of the BtR sector, The Proposed Bill in its current form has the potential to make the Australian BtR asset class uncompetitive against other forms of domestic commercial real estate, and critically, other international BtR markets such as Canada.

We support the Federal Governments' target of delivering 1.2 Million new homes over the next 5 years, as well as the inclusion of affordable housing. However, if affordable housing is a component, it is important that the tax incentives are set to a level that fosters capital investment in this asset class.

Graph 1: Feasibility Stack (Scenarios 1 – 6)



Source: EY Assessment, 2024

A Policy Comparison of Nascent Build to Rent Market – Canadian BtR

The Canadian Example

Similar to Australia, Canada is in the midst of a severe housing crisis, with a chronic undersupply of housing in dense populations centres such as Toronto and Vancouver. This has resulted in unprecedented rental growth within metro areas. Cognisant of this, developers have pivoted to the nascent BtR sector in order to capture this rental uplift potential. As such, in recent years the sector has expanded substantially, with government policy being shaped in a way that promotes the delivery of rental units on a large scale. With these changes, we have seen capital previously destined for the Australian BtR Sector now move to Canadian BtR sector.

Canada's Approach to BtR Affordable Housing

1. ***The Canadian Federal Government has not mandated any affordable housing requirements on BtR assets, leaving this to state governments to consider.***
2. ***The Canadian Mortgage and Housing Corporation ("CMHC") has provided low-cost financing to residential developments offered for rent in perpetuity. Backstop financing as detailed in our Sep 2023 Report. UK also implemented a similar scheme for BTR Apartments***
3. ***Although some state governments have affordable housing requirements, they waive developer contribution requirements in return, as to preserve feasibility.***

GST / Value Added Tax

In an almost carbon copy example of the current GST treatment of BtR assets in Australia, Canada previously only offered GST credits to Build to Sell ("BtS") developments, with BtR being ineligible to receive such credits. Because of this, BtR developments were ***typically 10% more costly to construct on average***.

However, in September 2023, the Canadian Federal Government announced BtR projects will also be eligible for GST credits in order to level the playing field between the BtS and BtR development market and help spur further housing supply within Canada. ***There are no affordable housing requirements to be eligible for these credits, with the only requirements being aligned with the delivery of a product that is consistent with the BtR model (i.e. 90% of units must be intended for long term rental).***

The BtR GST credit policy has been one of the most successful policies in spurring the development of new rental housing, with a significant increase in interest from capital to invest in new BtR projects.

Capital Landscape

Domestic Capital	Foreign Capital
Domestic pension funds are incredibly active in the Canadian BtR sector, contributing to the majority of the capital which has historically backed these projects. ***Notably, the investment restrictions imposed on pension funds in Canada are not as strict as what the domestic superannuation funds in Australia experience. This has contributed to the significant levels of involvement in the sector from pension funds.***	Foreign investors in both Canadian or Australian are subject to higher tax rates than their domestic equivalents. ***However, Canada's foreign investment policies are more lenient than Australia's. For example, Canada allows for foreign investors to hold 100% equity in assets with minimal consequences, whereas Australia imposes penalties once foreign investors reach above 50% equity.***

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A new form of housing supply for Australia: Build to Rent housing

Prepared for Property Council of Australia Pty Ltd

Reliance Restricted

4 April 2023

Written by

Luke Mackintosh
Partner | Strategy and Transactions

EY
Building a better working world

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 ("Project"), in accordance with the engagement agreement dated 18 November 2022.

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 4 April 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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4 April 2023

Property Council of Australia Pty Ltd
Level 1, 11 Barrack Street
Sydney NSW 2000

A new form of housing supply for Australia: Build to Rent housing

Dear Francesca,

In accordance with our Engagement Agreement dated 18 November 2022 (“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 (the “Services”) in relation to the Build to Rent sector 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 18 November 2022 and was completed on 4 April 2023. Therefore, our Report does not take account of events or circumstances arising after 4 April 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.

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Nature and scope of our work (cont.)

The work performed as part of our scope considers information provided to us and only a combination of input assumptions relating to future conditions, which may not necessarily represent actual or most likely future conditions. Additionally, modelling work performed as part of our scope inherently requires assumptions about future behaviours and market interactions, which may result in forecasts that deviate from future conditions. There will usually be differences between estimated and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We take no responsibility that the projected outcomes will be achieved, if any.

We highlight that our analysis and Report do not constitute investment advice or a recommendation to you on a future course of action. We provide no assurance that the scenarios we have modelled 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. The modelled outcomes are contingent on the collection of assumptions as agreed with the PCA and no consideration of other market events, announcements or other changing circumstances are reflected in this Report. 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

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Executive summary

Housing affordability crisis

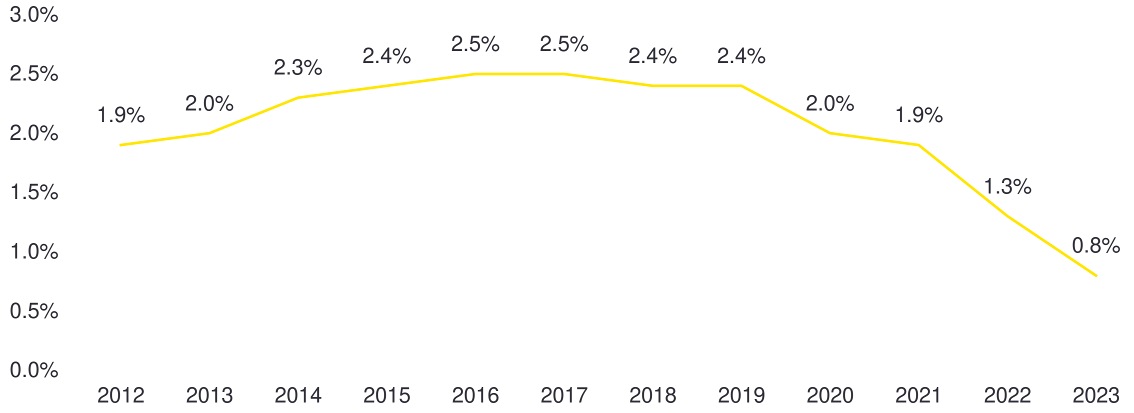
- The research shows that **Australia is experiencing a severe housing affordability crisis**, with supply of housing coming to a standstill.
- Supply has been inadequate in meeting housing demand, fuelled by population growth, underpinned by net overseas migration (particularly post Covid-19) and the significant fall in the production of investment properties.
  - Increased interest rates, construction costs (further constraining supply), and the return in overseas students/skilled migrants (elevating demand) is likely to worsen the issue.
- **National vacancy rates are now the lowest on record** and likely to continue to fall.
- These factors **place significant pressure on the housing market** including vacancy rates tightening, rents increasing, supply falling, limited demand from investors, no FIRB buyers.

The emergence of Build to Rent housing

- Australia's **demographics and needs are changing** and therefore planning and delivering a **diversity of housing options** to suit individual circumstances is critical to success.
- EY considers that the emerging **Build to Rent sector is a component of the solution** in offering a diversity of housing at scale and at velocity, to alleviate Australia's housing crisis. Key benefits include:
  - **Sustainable long-term delivery model:** Not a short-term cyclical response and provides improvements to the management and quality of rental stock;
  - **Increasing housing supply in desirable inner-middle ring locations:** Leveraging off private and public infrastructure including amenity and public transport;
  - **Accelerated supply due to removal of pre-sale requirement:** Providing supply into the market more rapidly
  - **Customer experience:** Longer-term security of tenure, superior building amenity and tenancy management services promoting a greater sense of well-being.

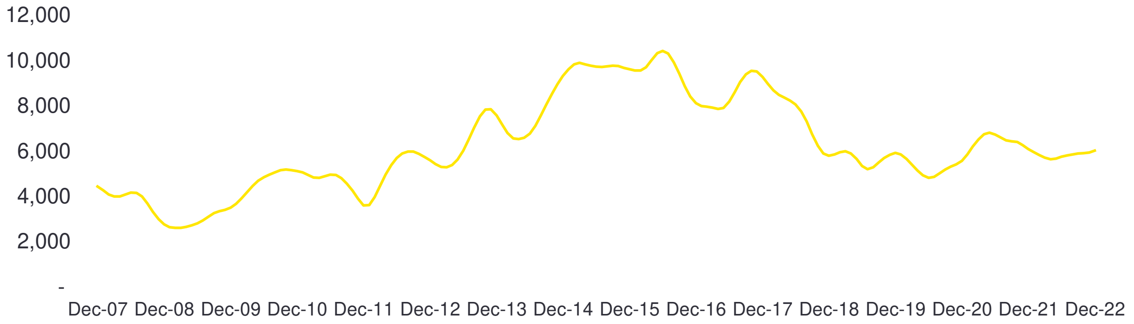
A functional housing market where a diversity of housing supply is delivered consistency across the housing continuum is needed.
Build to Rent housing is potentially a logical part of the solution; with the right incentives Build to Rent may help to deliver the 1 million homes target.

National vacancy rate as at January



Source: SQM Research / Domain, 2023

Private sector dwelling approvals – excluding houses (December)



Source: ABS Data, 2023

Benefits to Government include longer-term budgetary savings, tangible reductions in homelessness and the opportunity to provide economic impacts in the community (social, physical and mental).

Executive summary

The Government is to be commended for taking an interest in the Build to Rent sector, through the National Housing Accord and beyond. However, despite the numerous pilot projects, a viable market that is liquid enough to meet demand is still not realistic in Australia. In order to create a viable market, capital investment is required which is likely originated from overseas foreign investors in the short to medium-term. As such, Australia needs to remove barriers to entry to allow the flow of foreign capital and the creation of a liquid and viable investment proposition.

EY is a leading advisor in the Build to Rent sector and based on our experience, the below illustrates some of the key challenges and barriers that the industry is currently facing.

Current managed investment trust tax settings discriminate against investment in Build to Rent

- Foreign investment in Build to Rent currently attracts a 30% managed investment trust withholding tax rate.
- Currently, the majority of the capital invested in the Build to Rent sector comes from offshore.
  - These foreign institutional investors are experienced and have a strong understanding of the asset class and are seeking to support ‘first mover’ projects.
  - Given the tax impediments, Build to Rent is less attractive in comparison to other asset classes (on an after-tax basis) which attract a 15% withholding tax rate.
  - Managed investment trust tax concessions has the power to ‘supercharge’ foreign investment into Build to Rent by threefold, enabling houses to be delivered faster.

Challenges in delivering affordable (key worker) housing

- Affordable Housing components of Build to Rent projects are currently being taxed at the same rate as other more established asset classes which provide stable and reliable returns for institutional investors.
- Additionally, there is a duplication in services such as property/facility management due to the requirements for Affordable Housing dwellings to be managed by a Community Housing Provider.
- Key Worker Housing can be managed by Build to Rent operators and does not require oversight from Community Housing Providers which can add an additional layer of cost and complexity.

Additional costs for GST

- Build to Rent developers are unable to claim the GST input tax credits for land, construction, consultant costs and operations.
  - This effectively makes Build to Rent projects 10% more expensive to construct and operate than Build to Sell projects (in which input tax credits can be claimed).
  - Furthermore, the extra cost can result in a competitive disadvantage against Build to Sell developers when bidding for development sites.
  - This cost burden is not seen in any other country with an active Build to Rent market.

Limited support in promoting the Build to Rent sector

- Currently there is a limited presence of Build to Rent housing in Australia in comparison to North America, Europe, the UK and Japan.
- This is largely due to the limited public support and Government messaging.
- Build to Rent does not fit neatly into the existing set of definitions and regulatory settings for housing, including tax, planning and other regulatory frameworks.
- Additionally, income returns from residential property in Australia have been traditionally low until recent years, therefore not attracting interest from institutional investors.

Australian Superfunds face barriers to investment

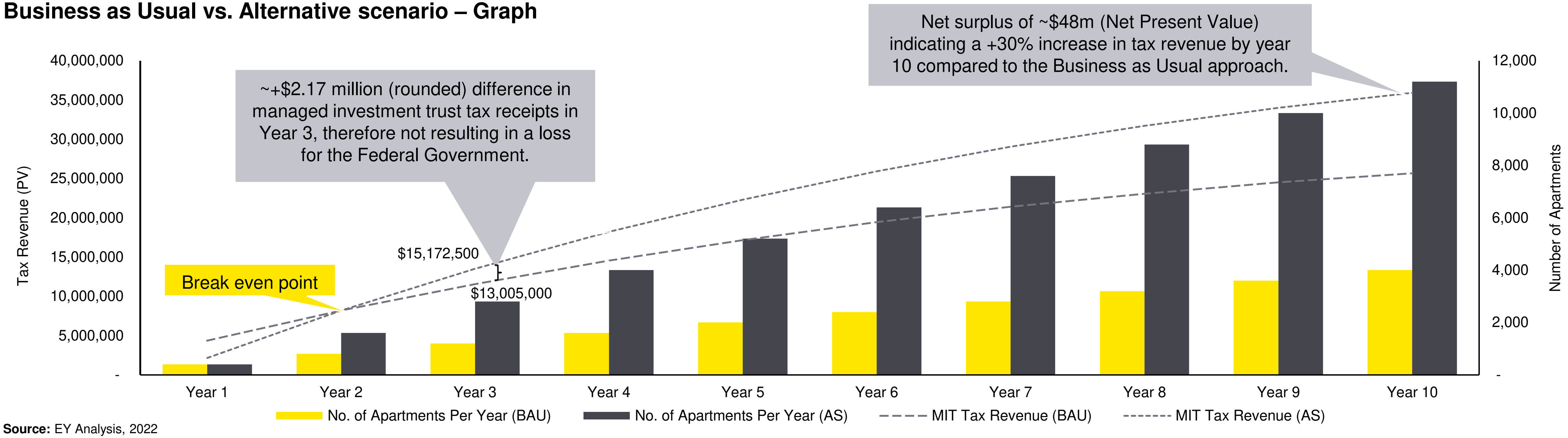
- Superfunds are required to make investments that are in the best interests of their members. This makes it difficult to invest in residential housing at scale due to the marginal nature of returns, particularly for affordable rental product which is by definition below-market rents.
- Introduction of the ‘Your Future Your Super’ performance benchmark test creates an additional hurdle that must be accepted or overcome.
- Investments in property trigger stamp duty which is required to be disclosed under ASIC’s Regulatory Guide 97, unlike other types of taxes. This can deter funds from investing directly into property.

Executive summary

Accelerating the Build to Rent sector

Amending the managed investment trust tax regime to be on a ‘level playing field’ with other institutional asset classes could be a powerful lever to utilise in providing housing supply efficiently and at scale. EY has undertaken high-level analysis, based on the current Business as Usual approach and an Alternative Scenario, in which the managed investment trust tax was halved to 15% in line with domestic Superannuation funds and comparable to rates charges in the US and UK on their Real Estate Investment Trust regimes. Our analysis highlights that under an Alternative Scenario, an acceleration of projects in the industry could occur by threefold, with Government potentially earning a +30% increase in tax receipts over a 10-year period.

Business as Usual vs. Alternative scenario – Graph



Source: EY Analysis, 2022

Note: All figures expressed in the above graph is reflected in Present Value. Additionally, EY notes that generally a project can take between 4-5 years from the acquisition of the site through to completion and operation of the asset. This can be dependent on location.

The Alternative Scenario above assumes one hypothetical developer delivering three projects per year, and a total of ~11,000 apartments over a 10-year period. In reality, based on our research, we believe there could be up to ~150,000 apartments delivered over a 10-year period based on our knowledge of the active platforms in the sector, together with the potential for investment from new market entrants.

By supporting the sector now, this may assist in alleviating the current supply pressures and affordability constraints and will provide a greater opportunity to diversify into different parts of the market once scale is reached.

Executive summary

Key recommendations

In order to increase the supply of housing in an already undersupplied rental market, and to aid in the establishment of a new institutional asset class in Australia, EY believe the following five key points should be considered by Government. These considerations are targeted to assist the rental crisis and relieve current rental pressures experienced in the market.

EY believe both Federal, State and Territory Governments can take the lead on these points, which will send a clear message of support to the sector and will encourage investment from both domestic and institutional investors.

1 Allow a 15% managed investment trust withholding tax rate for foreign investors

- **Allow** managed investment trust distributions that are attributable to investments in Build to Rent housing to be eligible for the 15% withholding tax rate.
  - Allow for greater investment into effectively a new housing asset class creating more employment and providing more housing.

2 Improve incentives for Affordable Housing and reform the role of the Community Housing Provider

- **Provide** an incentivised tax rate of 10% for investors, domestic and international, that choose to incorporate the supply of Affordable Housing dwellings within their Build to Rent projects.
- Remove the requirement of Affordable Housing dwellings to be managed by a Community Housing Provider as part of a Build to Rent development.

3 Allow developers to claim GST

- **Remove** the irrecoverable GST expense on land and development costs.
  - This will be consistent with other commercial assets and create a ‘level playing field’ within the sector.
  - This change, combined with MIT, may allow for greater investment into housing in Australia creating more employment and deliver more housing.

4 Promote the sector

- **Signal** the Governments strong support for the sector through public messaging to further boost domestic and foreign investor participation.
  - This includes through the National Housing and Homelessness Agreement and Strategy.
  - Collaborate with the Build to Rent industry, State and Territorial Governments and regulatory bodies to resolve definitional and technical challenges arising from the nascency within the sector.

5 Address the regulatory barriers for domestic Superfund investors

- **Remove** stamp duty from the ASIC Regulatory Guide 97 Fees and Cost Disclosure requirements.
- **Work** with the superannuation industry to improve the operation of the Superfund Performance Benchmark Test.

Note: EY notes that the consideration of a concession for managed investment trust tax is in line with shadow treasurer Chris Bowen’s recommendation in 2019 as part of the Labor Government’s election proposal. Additionally, EY also recommends considering exploring options to partner with Superfunds, industry, business and non-Government organisations.

What is Build to Rent housing?

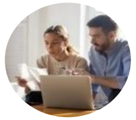
What is Build to Rent?

Build to Rent housing

Definition

'Purpose built and designed long-term residential rental accommodation which is predominantly owned, managed and operated by an institutional investor for a long-term investment period. Revenue is generated through the rental of the dwellings as the primary source of income, with additional income generated from opt-in and ancillary services'.

Consumer proposition



Ability to customise apartment (i.e. paint walls, change floor coverings). Ability to scale up or down within the one complex as life circumstances change.

Provision of tenancy management services including repairs and maintenance requests managed by on-site staff.

In many cases, no bond payments and tenure security through the form of long-term occupancy.

Superior building amenity to foster a strong community within the building. This includes the use of event areas, co-working and co-living spaces and a pet friendly environment.

Characteristics of Build to Rent

01 **Targeted towards the Millennial & Generation Z cohort. This includes predominantly young single and couple households**

02 **Investors are typically patient capital including pension funds, sovereign funds and insurance companies**

03 **Developments typically comprise between 300 – 400 apartments per project, however there is a place for smaller, well located projects**

04 **Professionally managed properties, with on-site management and operating teams**

Source: EY, 2022

What is Build to Rent?

Build to Rent housing (cont.)

Key attributes

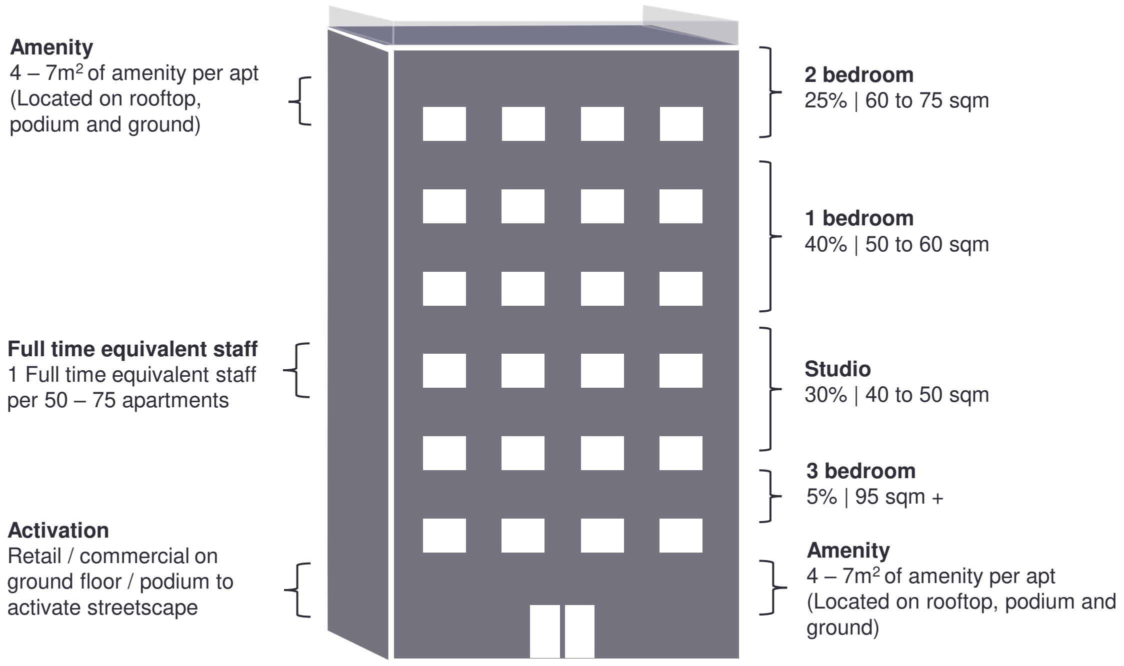
Based on EY industry knowledge and experience, in order to have a successful and profitable Build to Rent project, the key attributes outlined below and at right should be considered.

- **Location:**
  - Generally within close proximity to employment nodes and within walking distance to public transport including light and heavy rail. Areas that are 'gentrifying' are in high demand for the Build to Rent sector.
- **Project size:**
  - Minimum size - ~200 apartments;
  - Typical size - ~350 – 450 apartments;
  - Average size - ~320 apartments across the 72 recognised Build to Rent projects.
- **Product mix (dependent on demographic/target cohort):**
  - Generally, 70% studio and one bedroom product, 25% two bedroom product, 5% three bedroom product (see example at right).
  - Build to Rent encompasses a diverse range of rental options, ranging from below-market and at-market product, through to premium accommodation offerings.
- **Full time equivalent staff:**
  - ~1 full time equivalent staff member per 50 - 75 apartments.
- **Amenity:**
  - Superior amenity provision including co-working space, gym, pool, rooftop terrace, pet friendly facilities, BBQ area, etc.;
  - Amenity benchmark generally 4-7 sqm per apartment (in comparison to 1 sqm per apartment in Build to Sell developments).
- **Ancillary income / opt-in services:**
  - Additional services as outlined at right (non-exhaustive list):

Ancillary income / opt-in service offering

Book Club	Hair Salon	Cooking Classes	Childcare	Dog Walking/ Grooming	Yoga Classes	Function / Events

Build to Rent – Example of mid-high rise development



'Supplying the right product, in the right place, at the right price'

What is the Build to Rent investor proposition?

Residential housing is a necessity and provides shelter and security to individuals

Investing in Build to Rent assets is likely to provide investors with a secure income stream, as the assets are professionally managed and tenants commit to residential lease agreements with limited vacancy periods. This is in contrast to other residential asset classes which are generally not professionally managed and maintained to the same standard and do not provide the opportunity for ancillary services. Additionally, asset classes such as office or retail are utilised for a different purpose and have different characteristics including less secure tenure and cash flows (as seen during the Covid-19 pandemic). The below commentary highlights the investor proposition for investing in Build to Rent assets.

Stable Returns	Build to Rent assets have maintained **lower yields** in comparison to other asset classes (particularly in transactions observed overseas). This is largely due to being perceived as lower risk given the consistent and resilient returns, stability of cashflow, minimal downtime and incentive allowances, consistent rental growth (generally in line with CPI) and the provision of opt-in services. Capitalisation rates in Australia range from 3.75% - 4.50% depending on the capital city, location and quality of product offering.
Stability	Build to Rent assets typically exhibit **low income volatility.** This provides investors with an attractive proposition in comparison to other asset classes. EY have observed Build to Rent platforms experiencing strong lease take-up with stabilised assets achieving **occupancy rates of between 95% - 98%** and minimal allowances for bad debts. In many cases the operators are not requiring a rental bond to be paid by the tenant.
Diversification of income	Investors can obtain a **diversified income stream**, as portfolios typically consist of **multiple developments** spread geographically. This can reduce risk and potentially create synergies between projects. Additionally, Build to Rent developments generally incorporate additional **opt-in**/**ancillary services** and **retail** / **commercial** opportunities. This provides additional sources of revenue and creates placemaking opportunities in and around the site.
Greater customer experience	**Tenants feel at 'home'** in these developments, as they are offered **long-term occupancy arrangements** (in many cases with no bond payments), apartment customisation options, superior amenity and a **strong customer experience** through a professionally managed on-site team. As such, tenants are generally more satisfied, with the typical retention length ranging between 3-4 years. This ensures consistency in cashflow during the operation period, together with economic and social benefits.
Prime locations	Build to Rent developments are generally **located in highly desirable and sought after locations, in close proximity to public transport, employment nodes and education** / **employment opportunities**. Generally these locations include a high proportion of young professions (i.e. singles or couples with / without children) who have strong disposable incomes and can afford to pay the rent and additional opt-in services if required. These locations experience a high demand for rental housing with low vacancy rates and limited supply within the foreseeable pipeline, hence putting upwards pressure on rents and subsequent values.

Resilience of Build to Rent in economic downturns

Strength in the Build to Rent asset class

Based on our experience, the current housing supply in Australia is dire and has limited prospects of returning to the high supply era of 2011 – 2016.

With increased interest rates, construction costs and subsequent building timelines, momentum has slowed significantly – These headwinds are likely to be present for the foreseeable future.

Counter-cyclical supply

Build to Rent provides a consistent supply of housing in comparison to traditional Build to Sell product, particularly when the Build to Sell market is challenged and supply becomes constrained.

- **During these times, Build to Rent appears to have a greater prominence –** This is important in the current Australian context with strong population growth and flow-through pressures on house prices and rents.
- **Build to Rent can deliver through cycles, with the overall supply of housing becoming less volatile –** As Build to Rent is not reliant on the pre-sale market, this allows supply to come to market quicker, leading to greater outcomes by reducing the volatility in the rental market and ensuring a stable supply is available to meet tenant needs.

A well-functioning market should be able to swiftly respond to swings in demand and, over the long-run, provide a steady annual supply.

Build to Rent during the Global Financial Crisis and Covid-19

Based on our knowledge, Build to Rent has remained resilient through economic downturns including the Global Financial Crisis and Covid-19 pandemic. Our analysis highlighted that:

- There was a shift to more affordable units and 'stop-gap' housing, given income and employment was uncertain;
- Once the economic downturn ended, rents quickly recovered and re-bounded back to pre-downturn levels at a faster pace than other asset classes (i.e. commercial, hotel, retail);

Build to Rent during the Global Financial Crisis and Covid-19 (cont.)

- International experience in the UK and US highlighted that rent collection remained strong during economic uncertainty, with rent collection remaining at high levels and asset values bouncing back to previous peaks at a faster rate than other institutional assets.

Yields

Build to Rent yields have also remained resilient during economic downturns. This is underpinned by the understanding that this asset class has a lower risk profile, despite being a nascent sector compared to the other commercial asset classes. Other asset classes demonstrated:

- Susceptibility to higher vacancy periods;
- Greater down-time and incentive allowances to obtain new tenants;
- More susceptibility to external macro-market factors.

In an inflationary environment, yields in Australia are likely to be shielded based on UK's precedence of stabilised Build to Rent transactions over the medium to long-term.

During periods of low housing activity, development of Build to Rent could more rapidly bring forward investment activity in the delivery of much needed housing.

This increases the confidence of Built to Rent as a product and stimulates construction activity and jobs.

Benefits of Build to Rent

Accelerate delivery of additional housing supply at scale

- The rental sector is currently under severe strain with supply levels -34% below long-term averages, historically low rental vacancy rates nationally and rents increasing by over +20% across all cities over the past year[1];
- Build to Rent projects could contribute towards alleviating some of this stress through the delivery of additional housing at speed and scale;
  - This is due to not requiring pre-sales to obtain construction financing (in comparison to Build to Sell product) and projects generally being between 300 – 400 apartments;
  - This counter-cyclical supply provides employment, without competing with labour and supplies in the Build to Sell sector.

Benefits of Build to Rent

Tap into new money such as institutional capital

- The US, UK, Japan, Canada, and other countries have used institutional capital to improve the housing supply dynamic and rental experience for tenants;
- Build to Rent may also tap into this capital to invest in the Australian residential sector at scale. This is currently predominantly being sourced offshore;
- Currently ~67% of equity in the current Australian Build to Rent sector originates from overseas, with 9 out of 11 operating platforms coming from foreign capital based on EY's research of publically available data.

Supply affordable / key worker rental housing

- With the right incentives, new affordable and key worker housing may be incorporated into Build to Rent developments. This can be supported through institutional investment and an on-site professional team;
  - An example of this includes the Queensland Government's Build to Rent Pilot Project. This project aims to partner with the private sector to provide rental subsidies for long-term rental accommodation for key workers.

[1]**Source:** CoreLogic, 2022

Increase the diversity of rental stock

- Typically located in gentrifying areas, within close proximity to employment nodes and within walking distance to public transport including light and heavy rail;
  - These areas offer strong employment/education opportunities and amenities that contribute to the renter experience;
- The diversity of product in Build to Rent projects provides longer-term solutions for tenants as they transition through life and improves their lifestyle and way of living.

Why is Build to Rent important in Australia?

The Build to Rent asset class is important as it has the potential to increase housing supply at scale, at a time when there is an acute shortage of new rental stock. Incentivising the sector is likely to result in the delivery of tens of thousands of new homes across Australia, creating an institutional asset class and employing hundreds of thousands of jobs in both the delivery and operations phase, whilst at the same time attractive billions in new investment.

Key statistics

As evidenced below and at right, the constraints to home ownership is becoming more challenging. Our analysis of the latest available ABS data illustrates:

- An **increasing trend of individuals renting** (29% in 2011 to 31% in 2021).
- A **decline in dwellings owned outright** (35% in 2011 to 31% in 2021).
- A decrease in median house/unit values across most capital cities from January 2022 to October 2022, with a subsequent **increase in monthly mortgage repayments** due to the increasing cash rate.

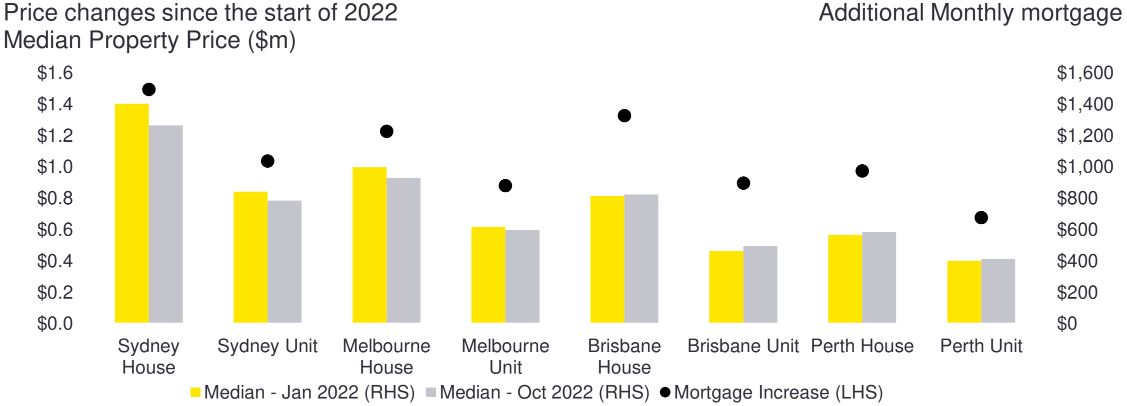
As such, there is becoming a greater shift in priorities when it comes to household tenure, with the Millennial generation actively choosing a rental lifestyle due to the flexibility it offers as well as the existing affordability constraints.

Australian occupied dwelling pool

2,842,378
of 9,275,217 occupied dwellings are rented…

Source: ABS Census (2021)

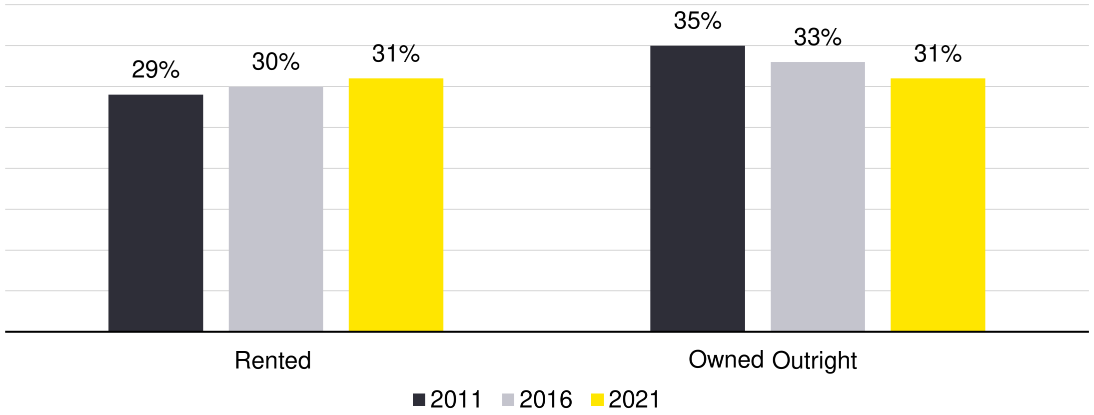
Housing Affordability and Monthly Mortgage Repayments



Source: CoreLogic, RBA EY : 3 Year fixed new mortgage January 22 rate 2.42%; October 2022 rate 5.46% (adjusted based on RBA data)

Note: The median house price in Sydney has fallen by ~$140,000 from January 2022 to October 2022, however mortgage repayments have risen by $1,500 to nearly $6,500 per month in the respective period. Home ownership is becoming increasingly out of reach for many Australians.

Dwelling ownership – 2011 to 2021



Source: ABS Census (2021) (2016) (2011) (excludes 'Not Stated' and 'Not Applicable' households).

Build to Rent sector in Australia and overseas

Current size of the Build to Rent Sector in Australia

Sector Overview

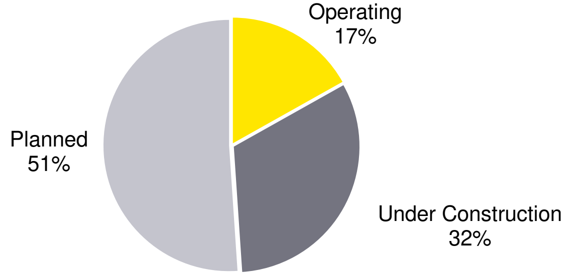
- As outlined on page 22, EY estimates that the current size of the Build to Rent sector in Australia is $16.87 billion (this equates to ~0.2% of the total value of the residential housing sector),[1] with the expectation that this value will continue to grow in the coming years.
- As at February 2023, there are 11 operating Build to Rent projects, 9 of which are funded from foreign capital. This illustrates the traction for Build to Rent in the rental market;
- The majority of the 72 projects within the pipeline are located in Melbourne, followed by NSW, QLD, and lastly WA, with an average of 320 apartments per project;

There is now proof of concept in many states of Australia and at a range of scale and service offering. EY notes many groups are expressing interest in entering the sector, now that operating assets have been able to demonstrate operational capacity.

Estimate value of Build to Rent Sector

$16.87b[2]	$11.61b[2]	23,175[3]
Sector Value	Foreign Investment	Apartments

Status of Build to Rent development pipeline



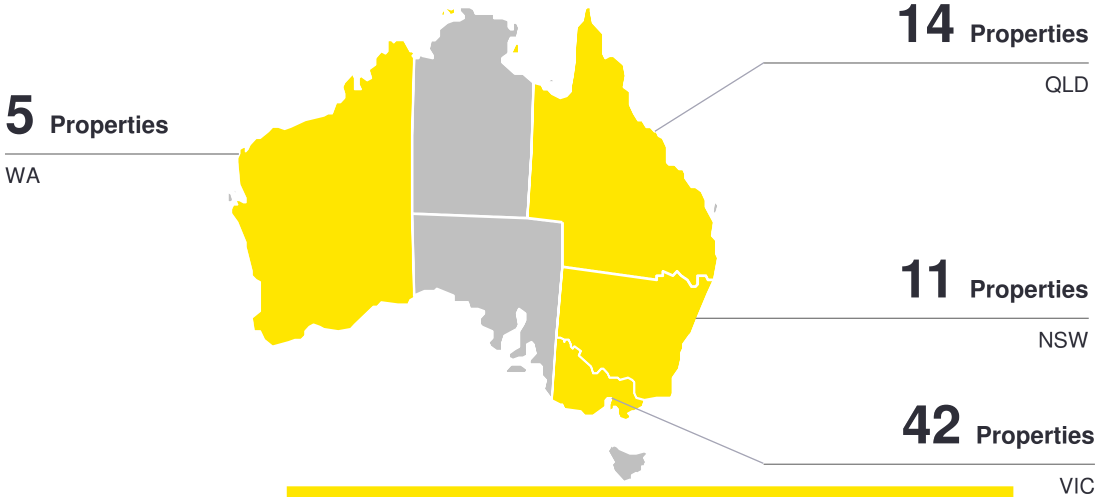
Source: EY, 2022

[1] ABS Data as at September 2022 notes the Australian residential sector to be valued at ~$9.67 trillion

[2] As at February 2023, EY Analysis.

[3] Total for all apartments known in the development pipeline.

Build to Rent assets distribution – Map



Source: EY, 2022

Largest proportion of Build to Rent projects predominantly due to lower land value rates (compared to NSW) and accessibility to 'shovel ready' sites, together with strong population growth, flexible planning policies and a high proportion of renters.

Build to Rent assets distribution

Proportion of Build to Rent apartments by State and Status

	Operating	Under Construction	In Planning	Total	Value ($b)	% Value
New South Wales	315	430	2,826	3,571	$3.37	20.0%
Queensland	1,710	1,797	771	4,278	$2.99	17.7%
Victoria	1,711	4,938	8,143	14,792	$10.16	60.2%
Western Australia	173	266	95	534	$0.35	2.1%
Grand Total	**3,909**	**7,431**	**11,835**	**23,175**	**$16.87**	**100%**

Source: EY, 2022

Current size of the Build to Rent Sector in Australia

Current operating platforms, capital source and project pipeline

Based on our research, EY has identified 21 operating platforms in various stages which align with the definition of Build to Rent.

Major investors and platforms

#	Developer	Investor / Capital	Foreign / Local Capital	Operating[2]	Under Construction[2]	In Planning[2]	Total No. of Apartments
1	Home	GIC	Foreign	2	2	3	2,816
2	Super Housing Partnerships	HESTA	Local	-	-	6	2,310
3	Liv Mirvac	Mirvac / TBC	Foreign	2	3	-	2,170
4	Greystar	APG, Ivanhoe Cambridge, Ilmarinen	Foreign	-	3	2	1,971
5	Investa	Oxford	Foreign	-	1	2	1,370
6	UBS	ADIC	Foreign	1	-	-	1,251
7	Altis	Aware Super	Local	-	-	5	1,195
8	Tetris Consortium	Community Housing	Local	-	-	3	1,160
9	Samma Group	TBC[1]	TBC[1]	-	-	3	1,135
10	Gurner – GQ Tower	GIC	Foreign	-	1	2	1,037
11	Local	Macquarie	Foreign	-	1	2	899
12	Pellicano Group	N/A	Local	1	5	2	885
13	Hines	Cadillac Fairview	Foreign	-	-	3	870
14	Sentinel	Hermes / BTPS	Foreign	2	3	1	706
15	Arklife	Adco	Local	1	1	1	681
16	Blackstone	Blackstone	Foreign	2	-	-	650
17	Alt Living	TBC[1]	TBC[1]	-	-	2	523
18	Morgan Stanley	HomeCorp / MSREI G9	Foreign	-	1	-	446
19	Novus	M&G Real Estate	Foreign	-	1	1	382
20	Canvas	BentallGreenOak, Partners Group	Foreign	-	-	1	364
21	Frasers Property Australia	Frasers	Foreign	-	1	-	354
Total				**11**	**23**	**39**	**23,175**

Source: EY Research, 2022
[1]TBC - Currently going through capital raise
[2] Based on No. of Projects

Australian Build to Rent – Case study (LIV Munro)

Property Description

LIV Munro is located adjacent to the Queen Victoria Market in the north of Melbourne's Central Business District. The development includes a 41 level building characterised by lower podium and upper tower construction. The podium serves as a hotel, with the tower component of the building from levels 5 to 39 providing Build to Rent accommodation.

LIV Munro includes 490 apartments with a varying mix of studio, 1 bedroom, 2 bedroom and 3 bedroom product accompanied by an array of residential amenity which include (but not limited to) a swimming pool, spa, co-working spaces, sky gardens, gyms, and lounge areas. In addition the property includes 136 residential car spaces, 257 bike spaces (excl. visitor) and 247 storage cages.

Project Overview	
Property Address	101 Therry Street, Melbourne
Total Dwellings	490
Apartment Typologies	Studio, 1, 2 and 3 Bedroom product
Total Gross Floor Area	87,363 sqm
Total Residential Net Lettable Area	31,997 sqm
Amenity	2,167 sqm
Land Area	457 sqm
Car Parking	134 car spaces

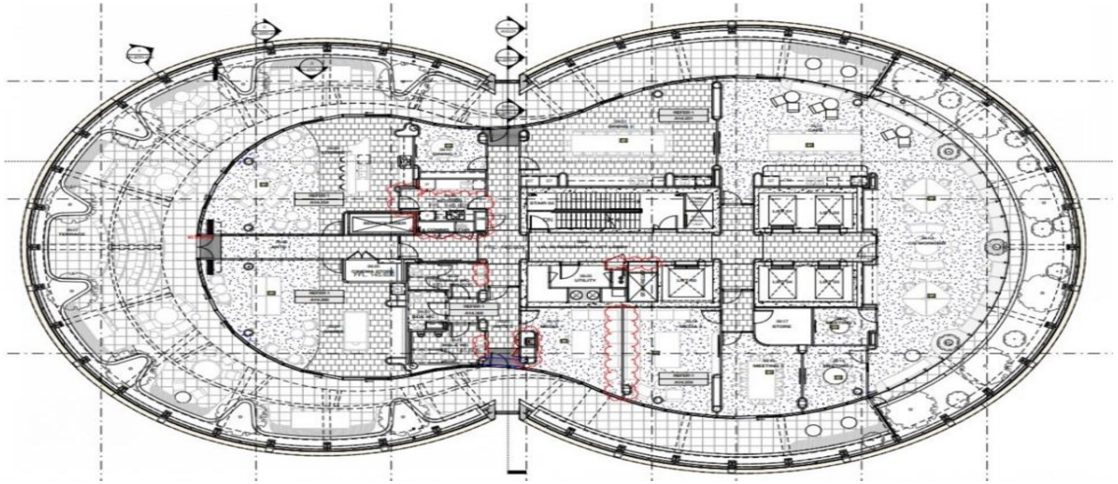
Apartment Overview	Studio	1 Bed	2 Bed 1 Bath	2 Bed 2 Bath	3 Bed 2 Bath
Number of Apartments	95	140	12	217	26
Average Internal Area	38 sqm	51 sqm	67 sqm	80 sqm	111 sqm
Asking Rent by Typology (p.w.)	$550	$600	$780	$840	$1,390
Asking Rent $/sqm/p.w.	$14.47	$11.76	$11.64	$10.50	$12.52

Source: EY Analysis, 2022
Note: Project is only recently completed, as such EY have adopted asking rents as at December, 2022.

LIV Munro – Render

Source: Mirvac, 2022

Amenity floorplate – Level 39



Source: BatesSmart, 2021

Australian Build to Rent – Case study (LIV Munro)

Project Amenity

Residential Amenity Types	▸ Residential Lobby & Reception ▸ Swimming Pool ▸ Steam & Sauna Room ▸ Change Rooms ▸ Indoor & Outdoor Gyms ▸ Multipurpose Rooms ▸ Media Rooms / podcast studio ▸ Sky Gardens ▸ Landscaped Gardens	▸ Dog Park ▸ Outdoor Deck ▸ Private Dining Rooms ▸ Lounge Area ▸ Games Room ▸ Café ▸ Co-working Space ▸ Meeting Rooms ▸ Communal BBQ Areas

- The total amenity of the proposed development amounts to 2,167 sqm (internal 1,299 sqm and external 868 sqm);

ESG Commitments

Ratings

- Green Star (5 Stars);
- NatHERS (minimum 7.4 stars, average 8.1 stars);

Resources

- Purchase carbon offsets for scope 1 gas emissions;
- Solar panels;
- Induction cooktops.

Construction

- Pod bathroom design;
- Recycled construction materials via rating tools.

Community

- Tenant engagement strategy;
- Stakeholder engagement strategy.

Social Inclusion

- Review of partnership with social enterprise.

LIV Munro, Melbourne CBD

Source: EY Inspection, 2022

Potential size of the Build to Rent sector in Australia

Potential size of the Build to Rent sector

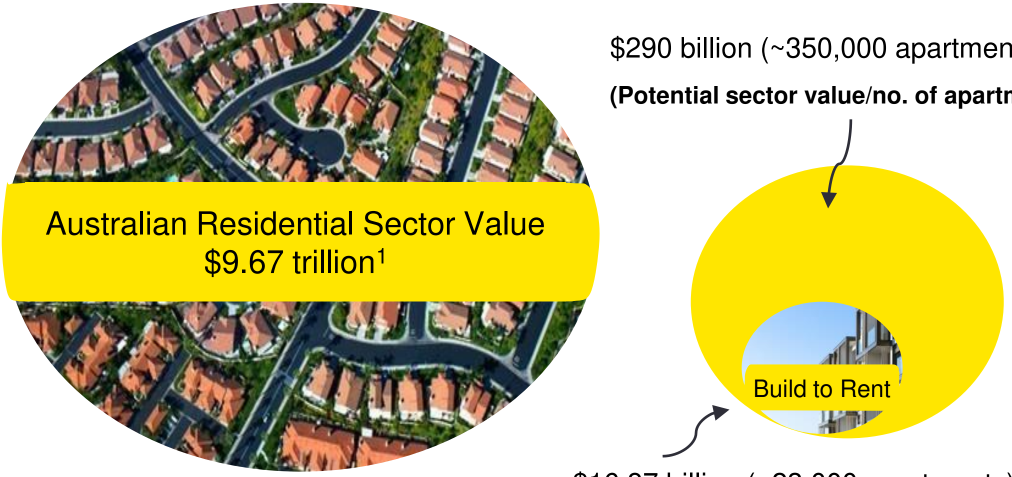
Australia

- The Build to Rent sector in Australia has the potential to grow significantly. Currently, it makes up just ~0.2% of the value of the total Australian residential sector;[1]
  - If this were to increase in the longer-term to ~3% of the total value (which is below the UK and US), this could equate to a **potential Build to Rent sector worth ~$290 billion or the equivalent of ~350,000 apartments.**

Overseas

- In comparison, the Build to Rent sector comprises of 5.4% of the total value of the residential sector in the UK and 12% in the US.

Potential size of Australian Build to Rent market relative to residential sector



$290 billion (~350,000 apartments)

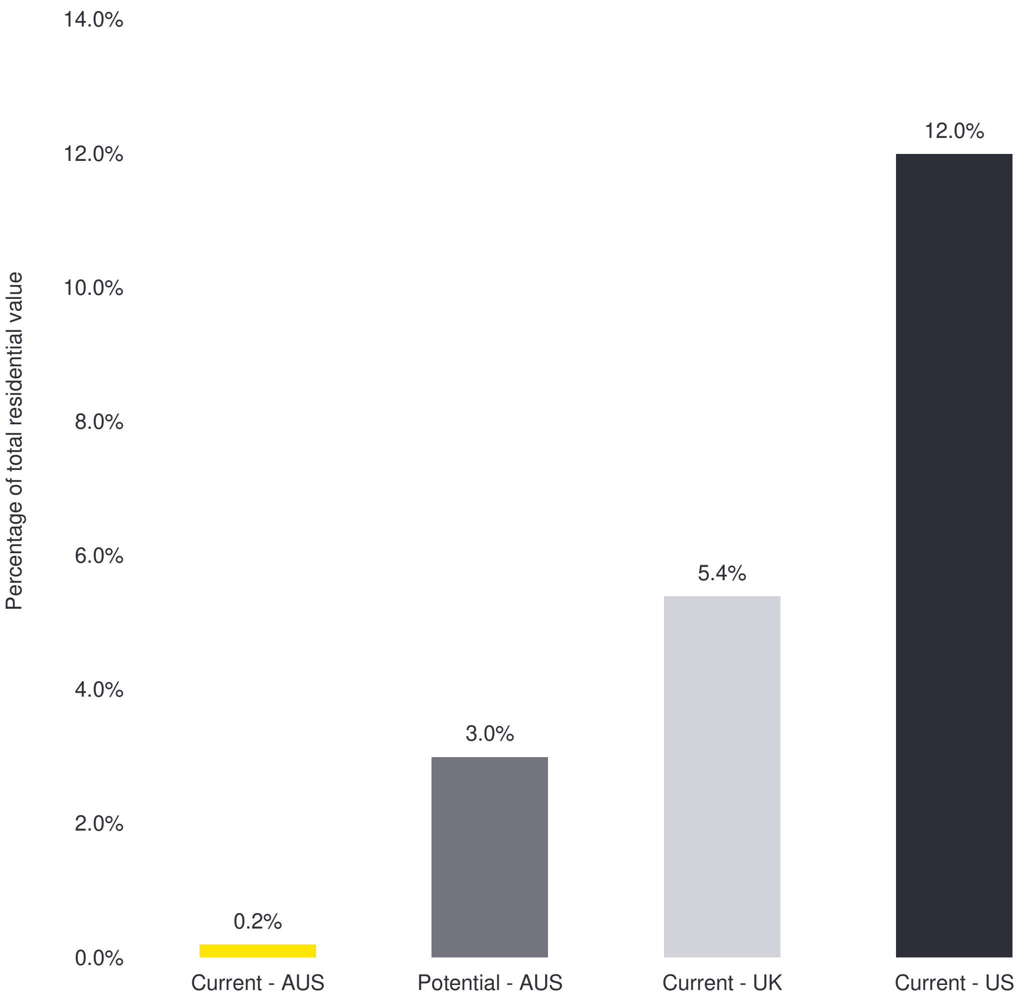
(Potential sector value/no. of apartments)[2]

$16.87 billion (~23,000 apartments)

(Current sector value/no. of apartments)

1**Source:** ABS, 2022
2**Source:** EY Estimate, 2023

Current and potential size of the Build to Rent sector in Australia



Source: EY Analysis, 2022

Potential size of the Build to Rent sector in Australia

Operating Build to Rent assets

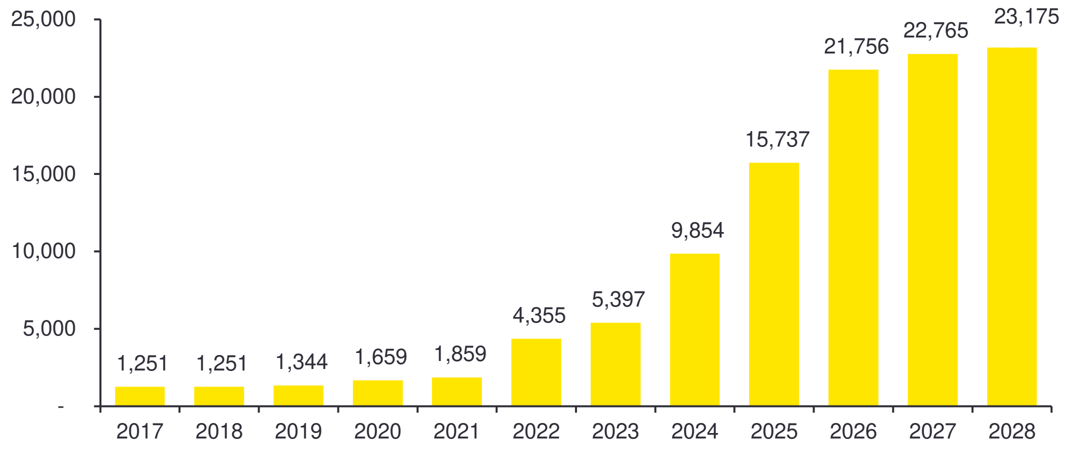
Pipeline

- Based on our research of publically available data, EY have currently identified circa 23,175 apartments either completed, under construction or in planning within 72 projects across the 21 operating platforms in Australia;
- By the end of 2023, we expect the number of operating apartments to grow to a total of 5,397 apartments across the market, with continued growth expected.
- Additionally, based on our research, EY expect 2026 to be a peak year for the sector with 6,019 operating apartments to be added across the country;
- EY notes that if a 'level playing field' was created, this is likely to increase the number of operating assets that would enter the market and assist in easing the rental crisis.

End of 2023	2028
5,397	23,175
No. of Apartments	No. of Apartments

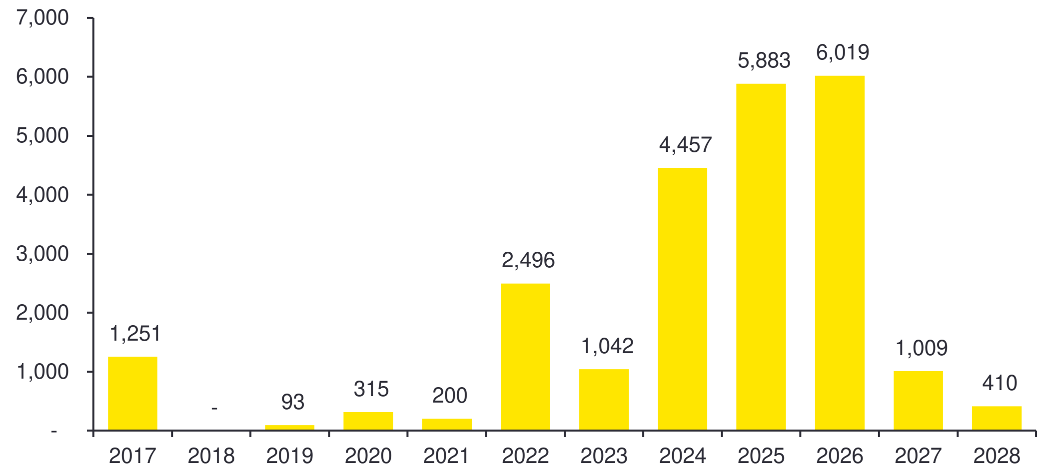
The sector is expected to see the operating pipeline increase over fourfold by 2028.

No. of Apartments Operating - Cumulative



Source: EY, 2022

No. of Apartments Operating by Start date



Source: EY, 2022

Potential size of the Build to Rent sector in Australia

Construction outlook of Build to Rent apartments in Australia

Short-term

- EY estimates that in 2023, a cumulative total of over 1,488 Build to Rent apartments are under construction across Australia;
  - As the sector begins to mature in Australia, EY expect planning approvals of Build to Rent assets to be more widely accepted and the majority of the pipeline of assets to begin construction in the coming years.

Medium-term

- Given the time and work involved prior to construction commencement (i.e. due diligence, planning approval, contractor selection, etc), EY expect 2026 to be the year in which the majority of Build to Rent projects will commence construction.

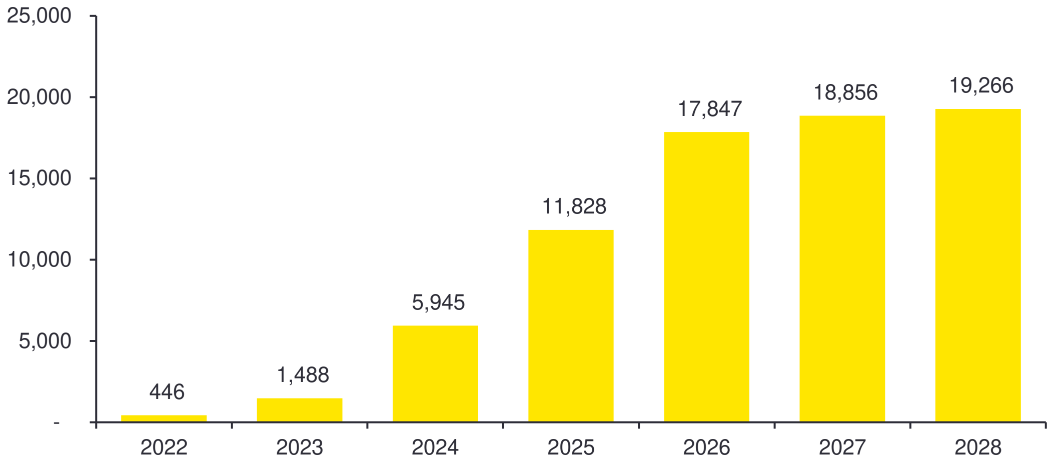
Construction outlook

- Based on EY's knowledge and experience, the upcoming pipeline of Build to Rent apartments can play a role in delivering housing supply at scale and providing dwellings for young professionals, students and skilled migrants.

  However, there is still a significant shortfall of rental housing in Australia as evidenced by the rental vacancy rates, and EY believe Build to Rent housing can assist in helping bridge the gap and easing the impending rental crisis.

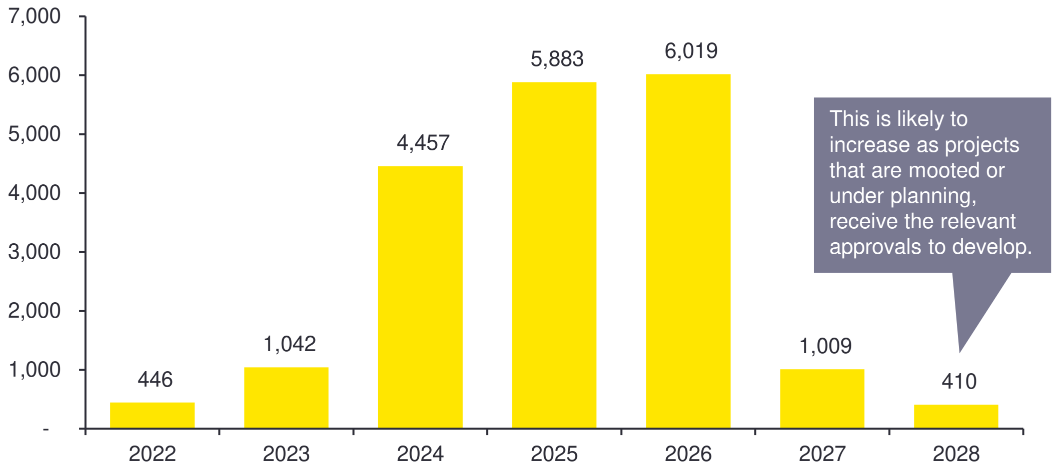
  - The Build to Rent asset class will not replace 'mum and dad' investors, however due to its scale overseas and potential size in Australia, **this nascent asset class is one that has not been fully explored by overseas and domestic institutional capital.**

No. of Build to Rent Apartments under construction – Cumulative



Source: EY, 2022

No. of Build to Rent Apartments under construction – Per Year



Source: EY, 2022

Status of Australian investors in the sector

Build to Rent in Australia is a nascent and emerging asset class compared to the US and UK. However, Australia is illustrating similar demographic trends and affordability constraints observed overseas. By creating a 'level playing field', this is likely to assist in accelerating the supply of Build to Rent housing in Australia. Below outlines a number of factors as to why there is a lack of Australian investors in the sector.

Build to Rent is growing predominantly from foreign investors working with local developers

- Currently, the majority of investment is sourced from offshore capital. These groups have a strong knowledge and understanding of the asset class;
- Foreign capital is 'teaming up' with local developers who have on the ground experience and access to shovel ready development sites;
  - Examples include platforms such as Novus, Home, Alt Living, and Liv Mirvac.

Domestic superannuation funds are hesitant to investment in the sector

- Domestic investors prefer to see a proof of commercial model in Australia, more scale opportunities for investment, a depth of market in investible product and a deep pool of other investors prior to investing in the sector;
- Given the nascent sector, the majority of investment is likely to continue to come from offshore capital until the Australian superannuation funds feel comfortable pursuing investment opportunities.
- Regulatory barriers including investing in the best interest of their members, performance benchmark tests and cost disclosure requirements.

Marco-economic environment including inflationary pressures

- Rising interest rates and construction costs associated with labour/material prices are making Build to Rent projects less feasible;
- This is putting a 'pause' or slow-down on future acquisitions in the short-term as groups reassess their strategy and hurdle requirements;
- **Tax reform, including managed investment trust concessions, is one consideration that is likely to accelerate projects and bring forward much needed housing supply.**

Financing Build to Rent projects

- Local financiers appear to have appetite to explore financing within the sector, however their capacity and willingness to lend is limited due to a limited track record of operating assets in Australia.
- Build to Rent projects often require significant upfront capital for land acquisition, design, and construction, which can be a barrier for potential investors.
- Build to Rent projects often involve multiple stakeholders, such as developers, contractors, and property managers, which can make financing arrangements more complex.

Overseas financing arrangements

- In the UK, the majority of Build to Rent funding relies on non-bank lenders and fund-through models;
- This is slowly becoming more common in Australia as seen by:
  - **Liv Munro** – Fund-through agreement between Mirvac and PDG;
  - **Caulfield Village** – Fund-through agreement between Blackstone and Beck;
  - **Local, South Melbourne** – Fund-through agreement between Local and Blue Earth Group.

[1]SQM Research, 2022

Overview of the UK Build to Rent sector

Summary

Genesis of Build to Rent in the UK

Based on our research, the Build to Rent sector in the UK emerged post-GFC in which there was substantial growth in house prices and rising mortgage costs, leading to an increase in the percentage of the UK population seeking to rent. As such, a number of key events occurred including:

- **Montague Review (2012):** This review identified that institutional investment into the private rental sector was a way in which construction activity could be increased and housing stock could be provided to make up the shortage in housing supply;
- **Build to Rent Fund (2012/13):** The Housing and Communities Agencies commissioned a £200 million Build to Rent fund as part of a recommendation from the Montague Review;
  - The fund was to provide equity finance to support the Build to Rent market and increase investor confidence.
- Additionally incentives were also provided including policy changes (where developers did not need to pay key infrastructure contributions) and tax breaks such as lowering the tax rate on Build to Rent investments and discouraging private investment in dwellings through penalties on vacant properties.

Growth in the sector

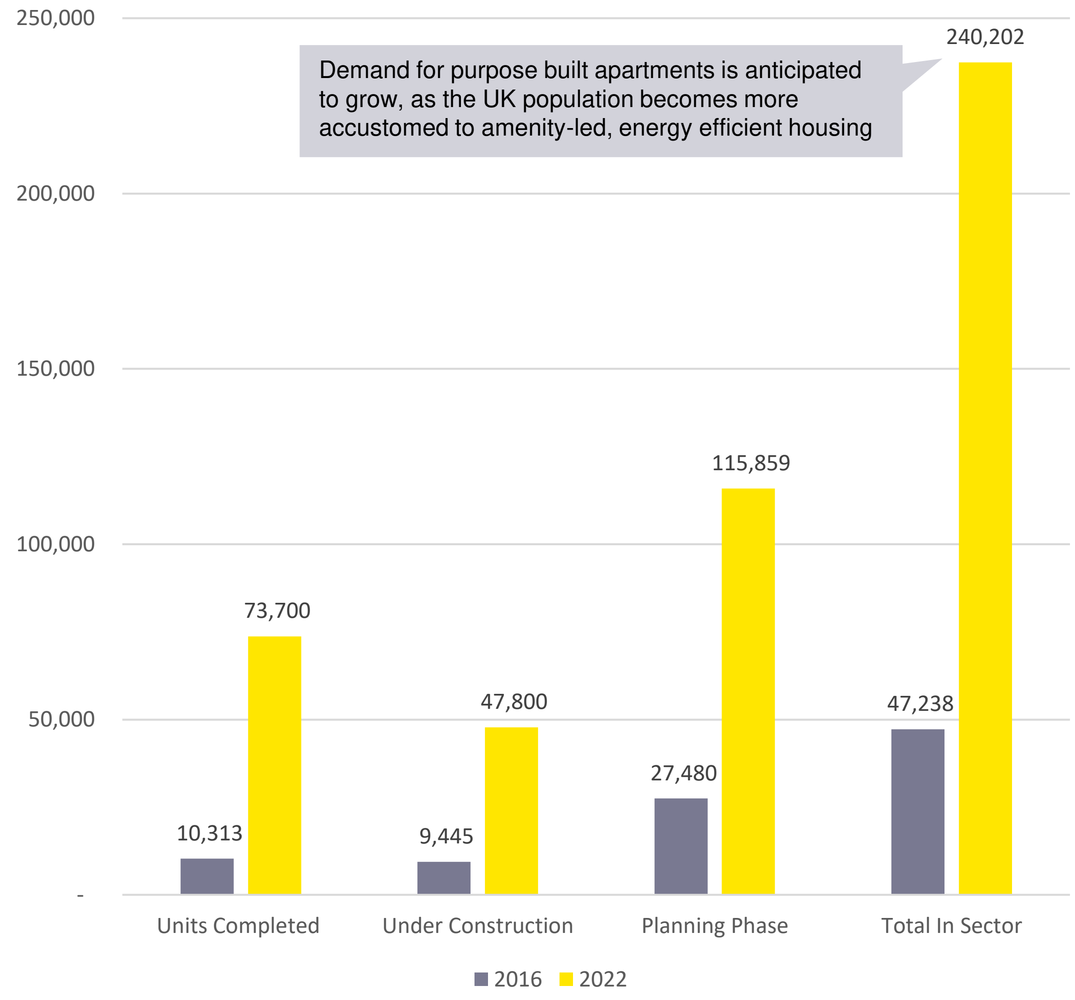
Based on the key events above, momentum has built within the sector.

- As seen in the graph at right, **the UK Build to Rent sector has grown exponentially over the last 6 years** from 47,238 units in total in 2016, to 240,202 units in 2022 (+508% growth. This takes into consideration the combined pipeline of completed units and those in the construction and planning phase;
  - This is primarily due to the strong interest from investors and institutional capital, with proof of the commercial model, strong yields experienced in the market and declining

Key takeaways for Australia

- For Australia to grow the Build to Rent sector, institutional investment is critical to prove the commercial model and create a liquid and viable investment proposition.

UK Build to Rent 2016 – Q3 2022 – Pipeline



Source: British Property Federation, 2022

Overview of the US Build to Rent sector

Summary

Genesis of Build to Rent in the US

Build to Rent or Multi-family housing in the US is an entrenched system which dates back to the inception in the mid-1800s and has evolved over time to what it is today. Much of the product is legacy stock and not comparable to Australia or the UK.

Growth of Build to Rent Housing in US

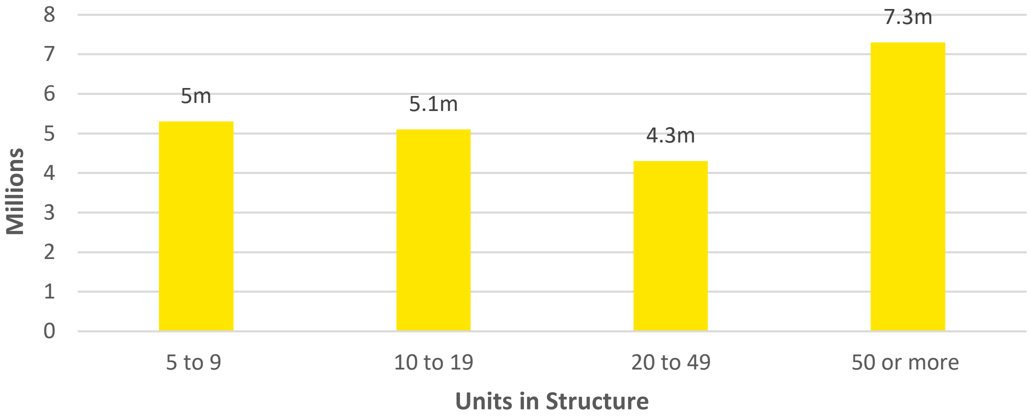
- Multifamily housing is a significant and growing part of the overall housing market. In 2019, there were over **20 million Build to Rent** housing units in the US, representing around **17% of the country's total housing stock**[1].
- Growth has been spurred by several factors, including the increasing number of young adults who are **choosing to rent** rather than own their own homes, as well as the growing preference for urban living among many Americans;
- This has led to the development of new apartment buildings / Build to Rent housing in **cities and urban areas**, with the trend expected to continue in the coming years, as the demand for rental housing remains strong and the urbanisation of the US continues.

The shift towards larger Build to Rent buildings

- The shift in the US rental stock away from **smaller properties** primarily reflects the robust new construction of **larger buildings**. According to the residential construction data, Build to Rent units accounted for about **89%** of all completions intended for the rental market between 2014 and 2019[2].
- The nation's rental stock continues to shift toward larger Build to Rent buildings. The recent spate of **conversions of single-family rentals** to **owner occupancy** has also helped to **fuel** this trend. At the same time, longstanding restrictions on Multifamily construction in communities across the country have left renters with **few housing options** in many neighbourhoods. Despite the rapid pace of new construction, the rental stock is **aging** and in **need of investment** to ensure it is **structurally sound**, accessible to the **growing number of older adults**, and **fortified against climate-related risks**.

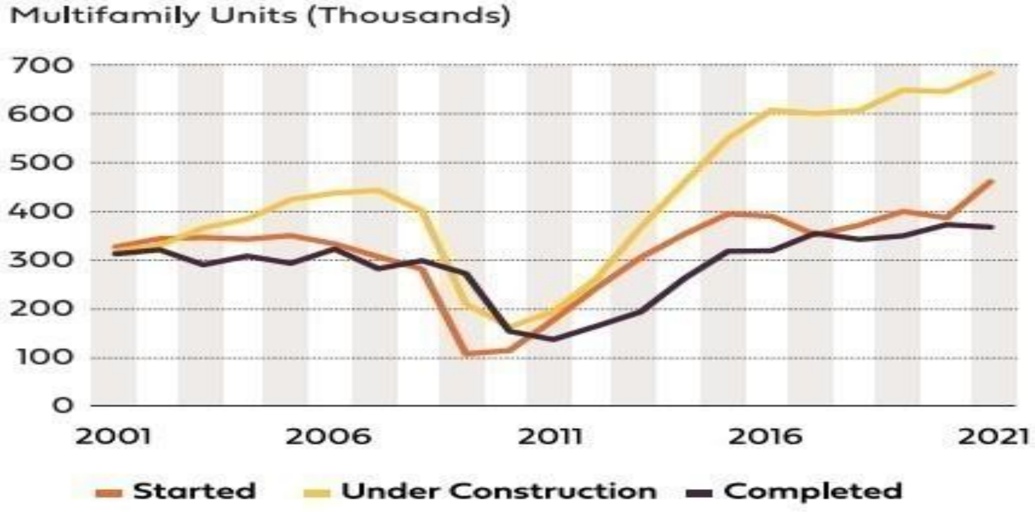
[1]**Source:** America's Rental Housing, 2022
[2]**Source:** US Census Bureau, 2022

Size of the US Build to Rent Housing sector

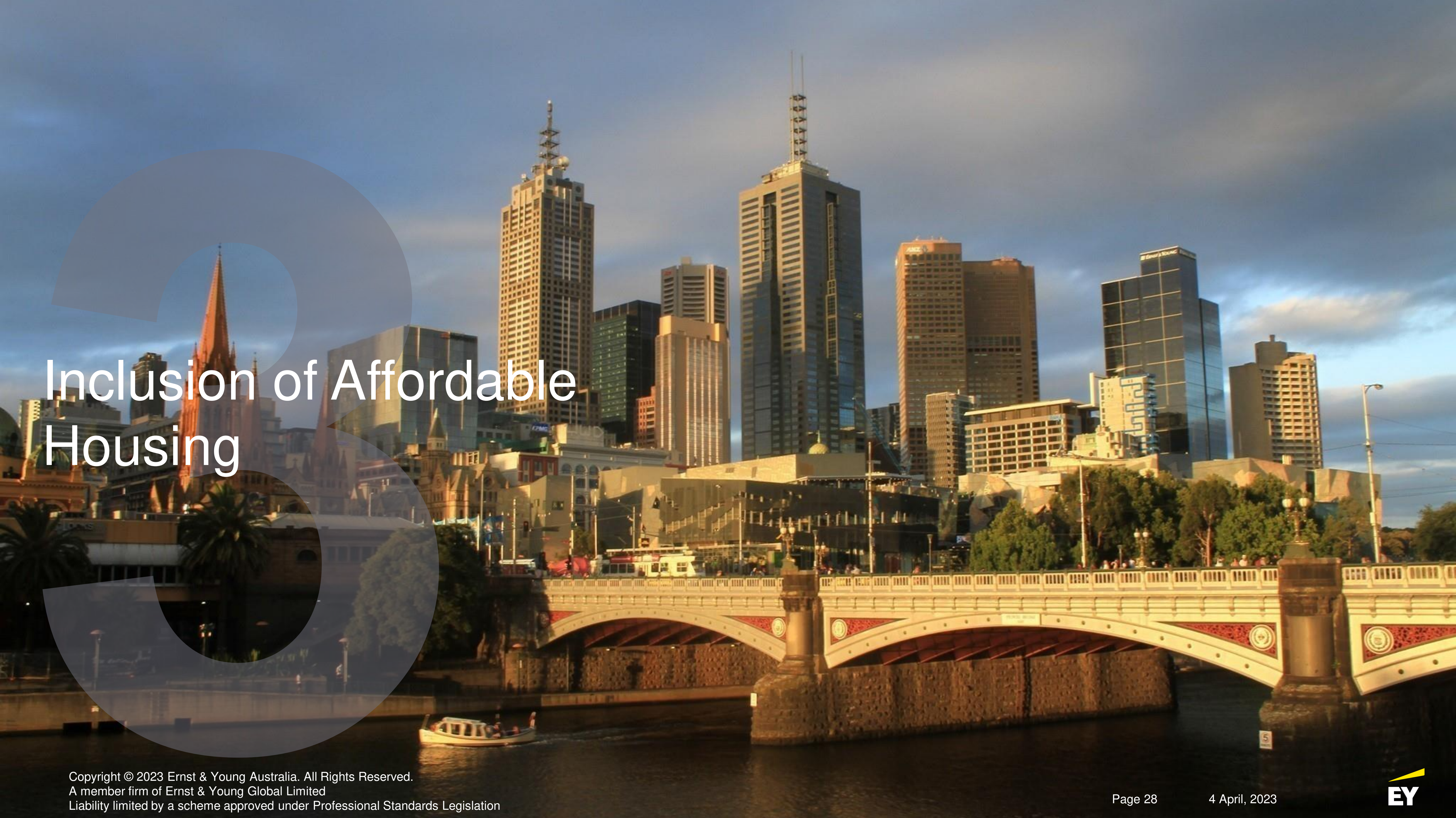


Source: US Census Bureau, 2022

US Build to Rent Housing Pipeline



Source: America's Rental Housing, 2022



3 Inclusion of Affordable Housing

What is Affordable Housing?

Defining Affordable Housing

Affordable Housing is generally a private rental property that is 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, this has been managed by a Community Housing Provider, however; Affordable Housing has now become its own housing sub-sector and is managed by both Community Housing Providers and the private sector, with the difference including access to Federal Government support for registered providers.

Inconsistency in the definition

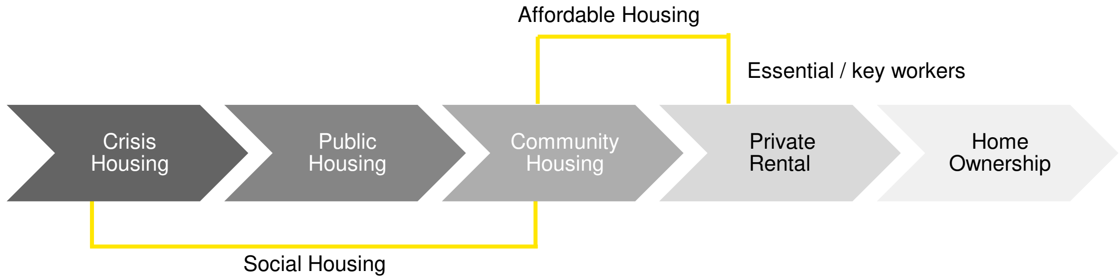
The definition of Affordable Housing in Australia is inconsistent and varies due to the different definitions from Government, not-for-profit organisations, private developers and state policy. The definition also changes over time due to increases in the cost of living. Examples of this include:

- *Planning context* – In 2018, the Victorian Government amended the *Planning and Environment Act 1987* to incorporate a new objective and definition of Affordable Housing, which requires developers to contribute to Affordable Housing through an Affordable Housing Agreement.
- *Managed Investment Trust context* – The definition refers to State and Territory legislation with no consistent definition at the Federal level.

The Housing Continuum and application to Affordable Housing

- In Australia, the Housing Continuum is a framework used to describe the range of housing options available to individuals and families.
  - The Housing Continuum includes categories of housing from 'Crisis Housing' such as emergency and temporary accommodation for individuals and families who are experiencing homelessness, through to 'Private Rental / Home Ownership' housing which is typically housing rented or purchased at market rates.

Housing Continuum diagram



Source: EY Analysis, 2022

Essential / key worker housing

- At the upper end of the Affordable Housing spectrum includes 'Essential / key worker' housing. This sub-set is targeted towards employees who provide a vital service, especially in the essential services, health or education sectors. Examples include healthcare workers, teachers, first responders, and other public servants (i.e. police officers.
  - These individuals are generally on moderate incomes, however may not be able to afford market-rate housing in areas in proximity to employment.
  - Various rental relief measures may be applicable to these individuals including the payment of ~70-80% of market rent, with the Government paying the difference.
  - Eligibility requirements may include providing proof of income / employment, assets, expenses, and other relevant information.
- As such, key worker housing can be integrated into Build to Rent developments given the similar needs of the tenants.
- As seen on the following page, various Build to Rent groups are targeting the essential / key worker housing cohort as part of their strategy and investment mandate, and are subsequently allocating a proportion of their product mix to cater for this cohort.

Examples of Build to Rent projects that include Affordable Housing

Social infrastructure is an important consideration for investors and can be defined as *'physical assets that underlie the social services needed to create strong communities, and includes real estate'*[1]. Given the strong population growth and stalled Government expenditure, this has led the private sector to enter into this space. Below are three platforms identified which are contributing to social infrastructure.

Super Housing Partnerships

2,310 Affordable Housing apartments[2].

Overview

- Specialist Affordable Housing fund manager Super Housing Partnerships is supported by founding investment partner HESTA to commit $240 million to seed its first fund initially focused on developing a pipeline of Build to Rent apartment projects in Victoria.
- Super Housing Partnerships will provide institutional investors with access to equity investment in new Build to Rent housing projects, with a focus on Social and Affordable Housing.
- The aim is to generate stable, long-term returns for members, whilst helping catalyse an emerging investment sector.
- Super Housing Partnerships first fund will partner with Assemble, a leading Affordable and sustainable housing developer and Housing Choices Australia, one of the largest nationally accredited Community Housing Providers.

Source: Super Housing Partnerships, 2022

Mirvac

99 Affordable Housing apartments[2]

Overview

- Mirvac have created a platform called Liv, in which they currently have five assets (two of which are operating).
- Liv Anura, located in Newstead (currently under construction), has allocated 25% of their product mix to Affordable Housing dwellings.
  - This totals 99 Affordable (key worker) housing dwellings as part of the project which will be leased at a discount to market rent.
  - State Government will provide a rental subsidy as a 'top up' for the discounted rental offering.

Source: Mirvac, 2022

Aware Super

470 Affordable Housing apartments[2]

Overview

- Aware Super is one of Australia's largest superannuation funds with a mandate of 100% Affordable / key worker housing.
- In 2021, Aware Super partnered with Altis Property Partners in a $300 million joint-venture to construct a 34 storey Affordable Housing tower in western Sydney's Liverpool. Construction for the project is expected to commence in 2022 and once complete will comprise 300 Affordable Housing apartments.
- Aware Super has committed more than $800 million nationally in developing Key Worker Affordable Housing assets. This portfolio comprises of ~eight assets across NSW, VIC, WA and ACT.

Source: Aware Super, 2022

Not all Build to Rent capital intends to invest in Affordable Housing product, as the capital is often originated from various sources with particular investment mandates. It is noted that Affordable Housing can and does work in Build to Rent developments, however for this to be deployed at scale, **there needs to be additional incentives / subsidies (with supporting regulatory policies)** for developers to be attracted to the product. It is important that Community Housing Providers assist and are consulted throughout this process, however they should not manage / own the end product as this creates a duplication of services (i.e. facility management) and additional costs/complexities.

[1] **Source:** Charter Hall Social Infrastructure, 2022
[2] **Note:** These apartments are proposed and are not currently operating

Barriers to the inclusion Affordable Housing

The long-term commitment of incorporating Affordable Housing product in Build to Rent developments can be a complex and challenging process. However, with careful planning, strong partnerships and industry expertise and a commitment to meeting the needs of the target cohort, it can be achieved. Outlined below include a number of these barriers:

Funding

The scale of investment required is capital intensive and requires a significant level of debt and equity which have different risk profiles, return hurdles and other requirements (such as timing). Additionally, investment capital generally has a specific mandate and seek to maximise returns. Given Affordable Housing is typically rented at below-market rent, subsidies, grants and tax incentives are usually required to subsidise the cost of delivering and operating the product, which may not be readily available or sufficient to meet investor hurdle requirements.

Zoning and land use regulations

In some instances, local Council guidelines including the zoning and associated land use regulations/planning controls make it difficult to develop mixed-use / Affordable Housing product at scale. The characteristics of Build to Rent and Build to Sell product differ vastly, together with height limits which make it difficult to construct the requisite number of apartments to allow the project to be financially feasible.

Limited incentives to promote Affordable Housing

Managed Investment Trusts and domestic Superfunds have a legal duty to maximise returns for their members. Given there is limited incentives within the industry, this makes it difficult to invest in residential housing at scale due to the marginal returns, particularly for Affordable Housing product which contributes to lower than market rent within typical Build to Rent developments. Incentives in successful projects include rental top-ups, providing access to Government land or inclusionary planning mechanisms to assist in achieving the required rates of return .

Duplication of service provision

There is a duplication in services such as property/facility management due to the requirements for Affordable Housing dwellings should it have to be managed by an external Community Housing Provider. This only creates additional costs in an already low-margin asset class and therefore it should be left for a singular Build to Rent operator to manage, with input from the Community Housing Provider in a consultation capacity.

Uncertain policy settings, regulation and tax

Changes in Government, changed and discontinued policies/programs and a lack of continuity across political and bureaucratic leadership make it difficult to expand the Affordable Housing sector. In addition, Affordable Housing is currently being taxed at the same rate as other more established asset classes which provide stable and reliable returns for institutional investors. Having certainty across all regulatory and program settings and incentivising investors through tax change will provide investors with confidence, in turn investing further into the sector.

Incentives for the inclusion of Affordable Housing in Australia

Build to Rent projects in Australia can incorporate Affordable Housing in their developments via a number of avenues, including voluntarily, through industry partnerships or via regulatory requirements. It can be delivered at scale and much more efficiently than any of the current frameworks.

These efforts can assist in providing housing for low-moderate income households at scale and assist in alleviating the housing affordability crisis. Outlined below is a summary of approaches that are currently being implemented within the sector.

Industry partnerships

Build to Rent developers can enter into partnerships with Government, Superannuation funds and Community Housing Providers to support the development of Affordable dwellings.

This may include the provision of concessional finance through the National Housing Finance and Investment Corporation (“NHFIC”) or a state body such as the Victorian Treasury Corporation, or innovative models such as ground lease projects and taxation/finance structures which may allow for risk adjusted returns to be in line with Build to Rent projects.

Inclusionary zoning

Local Government utilises inclusionary planning mechanisms which requires developers to set aside a proportion of their development for Affordable Housing units (i.e. 10% of all dwellings).

This can be done through a variety of mechanisms such as fee waivers, density bonuses, a reduction in car parking requirements, a requirement to provide public infrastructure or other incentives that translate to monetary value to the developer. These incentives can make proposed developments more favourable from a feasibility perspective and can assist in offsetting / subsidising the cost of delivering the product.

Voluntary agreements

Build to Rent developers may choose to enter into voluntary agreements with local Councils in order to provide Affordable Housing. This may be part of a proposal to rezone land or as part of a planning permit application.

These agreements may include financial incentives or other forms of support to encourage development (i.e. providing access to Government owned land for free or at a significant discount).

Gap subsidies

‘Gap’ subsidies can be provided from Government/private philanthropy to cover the short-fall between the Affordable Housing rent and market rent.

The subsidy can range in size depending on the target cohort and their capacity to pay and could be in the form of a capital grant, tax concession or recurrent subsidy.

Queensland Pilot Project (Key Worker Housing) - Case study

Queensland – Build to Rent Pilot Project – Case Study	
Description	► EY have provided a high level analysis of the Queensland Build to Rent Pilot Project, based on publically available information. As part of this project the Government selected two Build to Rent projects in inner city Brisbane. This included: 1. A 25 level building including ~354 apartments located at 210 Brunswick Street, Fortitude Valley to be developed by Frasers Property (currently under construction). 2. A two tower development comprising ~390 apartments located at 60 Skyring Terrace, Newstead to be developed by Mirvac (currently under construction). ► These projects will comprise ~750 apartments in total, with ~32% of dwellings to be provided at a discount of 25% below market rent. ► State Government will provide a rental subsidy as a 'top up' for the discounted rental offering.
Management	► Frasers and Mirvac to own and operate their respective developments with the Queensland State Government subsidising the apartments offered at discounted market rent. ► The remaining apartments will be rented at market rents and will operate as a typical Build to Rent platform with an experienced operating team including on-site staff / concierge. ► The eligibility for this program is income tested based on income thresholds and is currently highly confidential.

Key Outcomes / opportunities

- Opportunity for Government to partner with the private sector to deliver Affordable Housing dwellings to market for key workers.
- Established a multi-staged Expression of Interest and Request for Proposal process for State-owned and privately owned sites.
- Established targeted subsidy for Affordable / Key Worker rental housing.
- Following the selection of proponents for the Pilot Projects, Queensland Treasury have added an additional two tender processes comprising a privately-owned site and a State-owned site.
- Overall, the projects are expected to provide residents with a high amenity rental experience and service delivery. It will introduce a new type of institutional residential grade asset providing a better long-term rental environment for future tenants.
- Whole of life asset risk managed by owner and developer.

Mirvac – LIV Anura, Newstead

Source: Mirvac, 2022

UK Case study - Inclusion of Discount Market Rent in Build to Rent projects

Blackhorse Mills project

Description

Blackhorse Mills was acquired in 2017 and is the flagship development for Legal & General. The development comprises 479 apartments in total (incl. 104 Affordable Housing units) and is considered market leading in terms of amenity offering and product quality within the UK market. This Affordable Housing component includes the provision of:

- **Discounted Market Rent Units –** This offers local residents the ability to rent within Build to Rent developments at a 80% discount to market rent and was in partnership with the local Council as part of the planning permit process. Eligibility is primarily aimed at those who live or work in the area and those who have an fall within the annual income threshold.
- **London Living Rent Units –** Aimed at assisting 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 this case 50-60% of market rent). To be eligible, you must be renting in London, have a maximum household income of £60,000 per annum and be unable to currently buy a home (incl. shared ownership) in your local area.

These apartments are targeted at key workers including those that work within emergency services, local Council, prison and education.

Project Overview

Property Address	Wickford Way, E17 6HG
Total Apartments	479
Apartment Typologies	Studio, 1, 2 and 3 Bedroom product
Construction Start	Q3 2017
Construction Completion	Q3 2019 – Q3 2020
Developer / Operator	Legal & General
Borough	London Borough of Walthamstow

Source: EY Research, 2023

Product mix and rents

Unit Type	Average Rent (p.w.)	% premium to private rental stock	% premium to local Build to Rent product
Studio	£222	30% - 40%	-
1 Bedroom	£281	31% - 44%	3% - 8%
2 Bedroom	£327	51% - 59%	17% - 22%
3 Bedroom	£404	49% - 54%	3% - 16%

Affordable Housing provision

No. of Affordable Housing apartments	104	
Breakdown of Affordable Housing	**No of Units**	**Percentage**
Discounted Market Rent	85	82%
London Living Rent	19	18%
Unit Mix	**Discounted Market Rent**	**London Rent**
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 whilst sharing the amenity	

Affordable Housing – Key takeaways

- The provision of Affordable Housing units allowed the developer to fulfil their obligation of providing Affordable Housing without having to build a separate building and hand it over to a housing association. This assisted in the feasibility / viability of the project.
- 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 and share the same amenity provision.

Incentives in the US for the inclusion of Affordable Housing

Low Income Housing Tax Credits

- This program is a Federal program that **promotes the development** of Affordable Housing by subsidising the acquisition, construction and rehabilitation for **low-income households.**
- Incentives such as annual taxation credits are provided which can be claimed over a 10-year period. They are generally sold to investors to raise capital for the projects, thereby reducing the amount of funds needed to borrow and enabling the developer to offer lower, more affordable rents.
- The developer can agree to rent a **certain percentage** of their units to households with incomes at or below certain levels, **typically 60% of the area median income.**

Section 8 Vouchers

- Section 8 is a program that provides **rental assistance** to low-income households, the elderly and the disabled to afford decent, safe and sanitary housing.
- Vouchers are provided to rent units in the private market or in Build to Rent projects, in which the voucher **covers a portion** of the household's rent. The household is subsequently responsible for paying the difference between the **voucher amount** and the full rent amount.
- Landlords participating in the program must agree to **rent their units to voucher holders** and meet certain requirements set by the **local public housing agency.**
- The voucher program entitles the choice of housing to the individual / household and encourages them to secure the best housing for the family needs.

State and Local Incentives

- **Tax abatements:** Some states and localities offer tax abatements or exemptions to developers of Build to Rent projects. These incentives may reduce the overall cost of the development and make it more **financially feasible.**
- Other incentives can be offered to developers who agree to Build to Rent projects in specific areas, such as areas in need of **revitalisation or where Affordable Housing is in high demand**. These incentives may include **relaxed zoning regulations** or **fast-tracked planning permit processes.**
- **Land acquisition assistance**: Some states and localities may offer assistance to developers seeking to acquire land for Build to Rent projects, including with **site selection, financing,** and other aspects of the land acquisition process.

Grants and Loans

- **Grants or low-interest** loans to developers of Build to Rent projects are provided to **assist financially and encourage development.**
- These grants / loans may be targeted towards specific types of projects, such as those **serving low-income households** or located in **certain areas.**

Incentives in the UK for the inclusion of Affordable Housing

Affordable Housing Guarantees

- The 'Affordable Housing Guarantee Scheme 2020' is a £3 billion scheme to support the delivery of 17,000 critical homes for lower income families over a three year period.
- The scheme is managed by ARA Venn (a subsidiary of ARA Asset Management) and provides long-term cost effective loans (of up to 30 years) to registered providers developing Affordable Housing product.
- This allows developers to finance projects at a lower fixed cost and subsequently support the delivery of affordable rental product.

Section 106 Agreements

- A significant proportion of Affordable Housing provision is delivered through the land use planning system using *Section 106 of the Town and Country Planning Act 1990*. These are legal agreements between developers and local planning authorities that outline the **terms and conditions for a development**.
- These agreements allow local Governments to negotiate with private developers more flexibly outside of regular planning mechanisms and can include requirements such as the requirement to provide **Affordable Housing, transport and other local infrastructure, amenities, and financial contributions.**
- Section 106 agreements help local authorities **manage and mitigate** the impacts of new developments and ensure the needs of the local community are taken into account.

Social rent

- Social rent incentives are financial incentives provided to developers of Build to Rent projects to **encourage the development** of properties for **social rent**.
- These incentives may be provided by the Government or local authorities and may take the form of **grants, loans, tax breaks,** or other forms of **financial assistance.**
- Social rent incentives are intended to help developers **offset the costs** of developing properties for social rent and increase the **availability** of housing in a given area.

Rent to Buy

- Rent to buy / shared ownership is a housing arrangement in which a household rents a property from a landlord and has the **option to purchase the property** at a later date.
- This option may be available for certain units within a Build to Rent project and can involve the household **paying a lower rent than market** in exchange for the **option to purchase** the property.
- This is attractive for households who want to eventually become homeowners but may **not have the upfront funds** to purchase a property outright. It also assists the landlord in **increasing occupancy rates** and providing a **long-term revenue stream.**

4

Policy considerations

Federal taxation policy

Status of the Build to Rent investor landscape

- **Majority of Build to Rent investment capital is foreign** – Based on EY's analysis and research of publically available data, 80% of the investment in the Australian Build to Rent market has comprised foreign capital funded by institutional investors (e.g. sovereign wealth funds and pension funds). This is due to Build to Rent being a globally recognised real estate asset class with a strong investment track record in other jurisdictions (e.g. in the US, where it is known as Multi-Family Housing).
- **Domestic institutional investment in Build to Rent is lacking** – In contrast to foreign investors, domestic institutional investors remain hesitant to deploy their capital into a sector that is domestically in its infancy, lacks depth and has limited perceived liquidity options despite a compelling investment thesis with respects to Australia's stable housing market.
- **Foreign capital is needed to underpin the growth of Build to Rent in Australia** – Until Australian institutional investors observe operational capability in this new asset class, foreign institutional capital will be fundamental in supporting 'first mover' projects in developing Build to Rent into a new asset class with a proven investment track record in Australia.

Managed investment trust eligibility

- Managed investment trusts exist as a form of collective investment vehicle for the pooling of capital from both 'mum and dad' investors and institutional investors to invest in passive income assets such as real estate that is held for the long term to derive rent.
- The regime was introduced in 2008 in recognition by the Government that Australia needed to be competitive in the global market for passive investment capital. As a result, they benefit from a concessional withholding tax rate of 15% which is the same as the tax rate paid by domestic Superannuation funds and is comparable to the rates charged in the US and UK on their Real Estate Investment Trust ("REIT") regimes.
- Foreign institutional investors consider Build to Rent as a core investment (i.e. long-term passive investment to derive a stable rental yield), similar to investments in commercial, retail and logistics assets. Accordingly, their expectation is that **Build to Rent should be taxed as a core asset** at the 15% concessional managed investment trust withholding tax rate.
  - At present, managed investment trust investments in Build to Rent are subject to the 30% non-concessional withholding tax rate. This means a higher tax cost to those investors and thus lower after-tax returns that do not support investors' investment return hurdles.
- Overseas performance of Build to Rent assets (particularly in the US, UK and now Japan), has brought **increased interest in this asset class** from foreign institutional investors. However, the high tax rate (versus an investment in the same asset class outside Australia) is an impediment to growth in this sector.
- **Affordable** / **key worker housing** elements of Build to Rent projects can qualify for the concessional 15% rate. However, due to the discounted rent, the **commercial returns generally fall short of the internal investment return hurdles** required by institutional investors. As such, without extra incentive, foreign investors choose investment in the established, stable, income-producing asset classes, rather than in affordable / key worker housing.

Goods and Services Tax recoverability

- Under the existing **Goods and Services Tax rules**, there is a distinction between "new residential premises", "residential premises", "commercial residential premises" and other kinds of commercial property that significantly **disadvantages Build to Rent projects**.
- **Build to Rent projects are input-taxed** due to not being "commercial residential premises" and prior to any future sale of the entire building, would involve 5 or more years of continuous leasing. This means the Goods and Services Tax incurred on costs relating to the acquisition, construction and lease of Build to Rent is not recoverable, effectively **increasing capital and operating costs by up to 10%**. This leaves Build to Rent developments at a significant disadvantage from a feasibility perspective compared to most other real estate sector asset classes.

Source: EY, 2022

Federal Government – National Housing Accord, 2022

National Housing Accord

Policy overview[1]

- The Albanese Government has recently announced the National Housing Accord to address the supply and affordability of housing in Australia. The policy aims to align all levels of Government, institutional investors and the construction sector to help tackle the nation's housing problem. The shared ambition is to:

> "Build one million new well-located homes over five years from 2024"

- As part of the Accord, the Government will establish a National Housing Supply and Affordability Council to review barriers to institutional investment, finance and innovation in housing (i.e. Build to Rent housing).[1]

Housing supply

- It is recognised that the majority of the new housing supply will come from the private market, with the Government playing a key role in enabling and kick-starting investment;
  - This assistance will incentivise institutional investors to include affordable / key worker housing as part of their developments (i.e. by covering the gap between market rent and subsidised rent);

[1] National Housing Accord (Ministers treasury), 2022

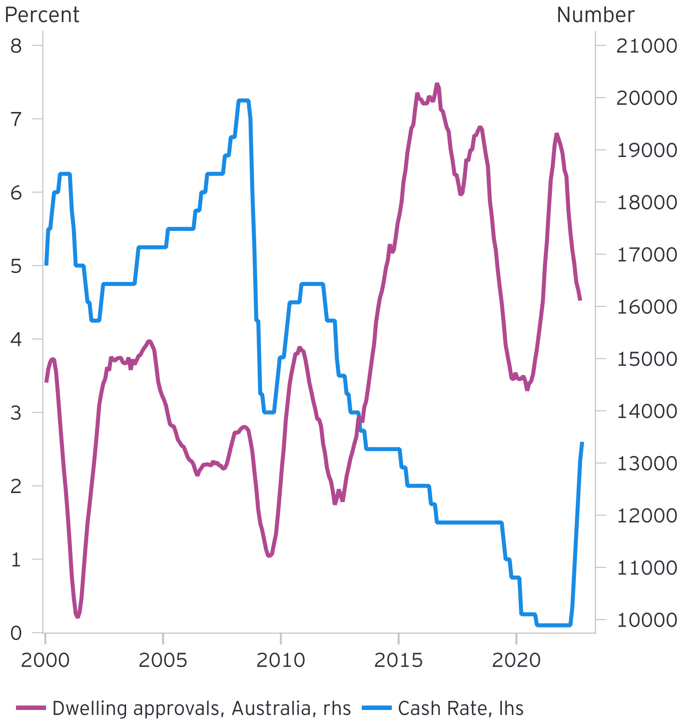
We believe that the Build to Rent sector can significantly contribute to the shared goal of the National Housing Accord, due to the accelerated delivery of construction given the absence of pre-sale requirements

Macro-economic environment

Challenging times ahead

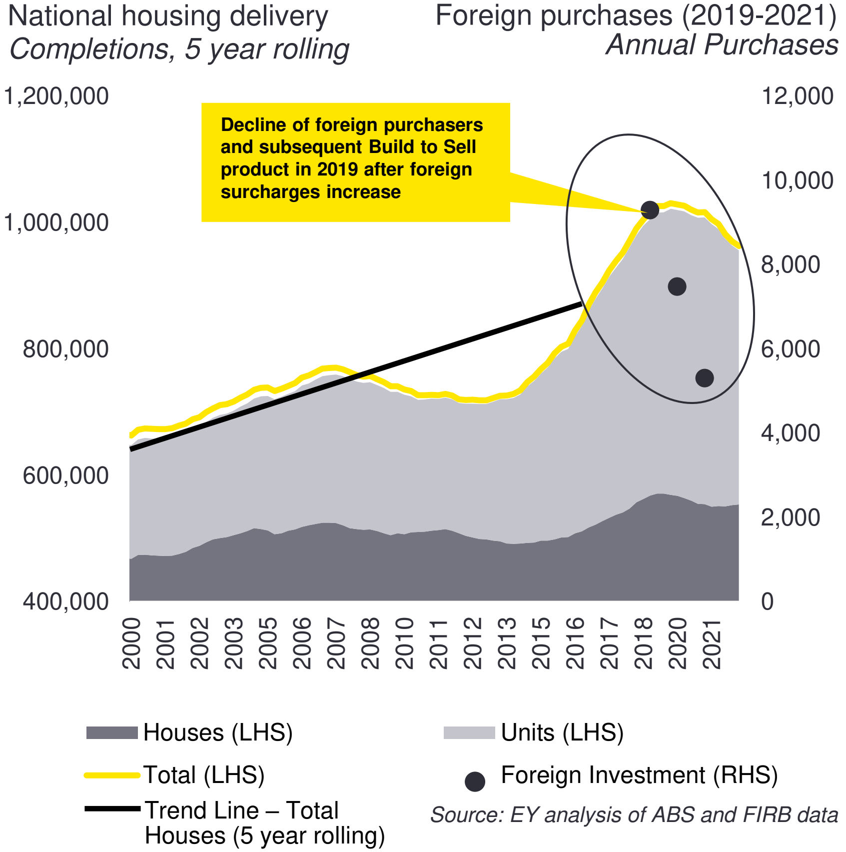
The macro-economic environment and policy framework has a significant impact on housing supply and affordability in Australia. As evidenced in the graphs below, as the cash rate has increased, dwelling approvals have subsequently reduced dramatically. This puts further strain on the rental market as seen by vacancy rates continuing to decline and asking rents increasing to all time highs. Further, with the additional surcharges imposed on foreign purchasers, annual purchases are decreasing, making it even more challenging for Build to Sell developers to obtain pre-sale requirements in order to commence construction and bring forward additional built-form product.

Dwelling approvals fall as cash rates rise



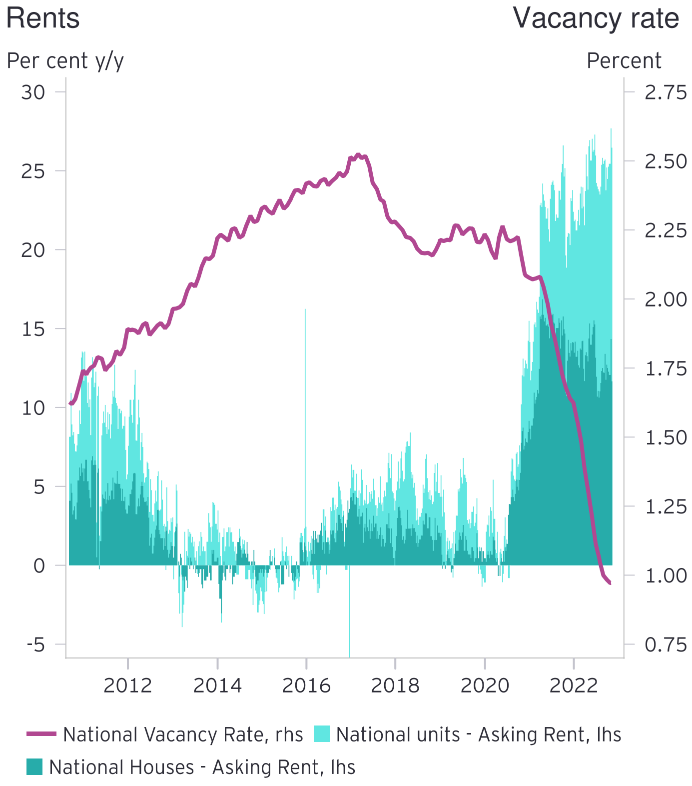
EY analysis of ABS and RBA data, Macrobond

Foreign purchases and housing completions decline



Source: EY analysis of ABS and FIRB data

Vacancy rates fall while asking rents increase



EY analysis of SQM data, Macrobond

Technical inconsistencies in legislation regarding planning / design

Overview of the planning / design process

The existing planning process in Australia is managed by local Governments/Councils and can act as a barrier to growth due to the **complex and time-consuming process**. Developers must satisfy a range of requirements and obtain approval from multiple stakeholders, which can **delay projects** and **increase costs**. The lack of **consistent guidelines** can also create challenges and uncertainty for developers. **Streamlining and simplifying the planning approval process** can help to reduce these barriers and support the growth of the Build to Rent sector. Examples include:

Raise local Council's awareness on Build to Rent

- E.g. Does Build to Rent product need to be compliant with Better Apartment Design Standards (particularly studios)?;
- Is Co-Living product viewed as 'commercial residential', therefore having differing planning and building requirements.

Provision of a streamlined planning approval process

- This will serve as a lever to increase the speed of housing delivery to market and will reduce the impact of development costs that are affected by certainty of approvals, design standards and density provisions. Currently this has resulted in delays and dissuaded developers and investors to participate.

Fast track Build to Rent projects

- In Victoria, the Build to Rent committee has suggested that the Minister act as the Responsible Authority for permit approvals. However, justification for intervention is currently limited because Build to Rent projects are not considered to be of "State Significance".

Amenity considerations within developments

- Consideration of the amenity differences in Build to Rent and Build to Sell buildings is critical, given the long-term nature and varying target cohort. Raising awareness between developers, town planners and architects/building designers is important to ensure the design responds to the purpose of the asset.

5 Federal tax regimes

EY

Managed Investment Trust – Tax considerations

Current setting

- While Build to Rent assets can be held in a managed investment trust-compliant Australian trust structure, any income derived from the asset will be non-concessional income and be **subject to 30% withholding tax** rather than the concessional 15% rate. This **creates a barrier to investment from foreign institutional investors** as they will effectively be:
  - Comparing Build to Rent investment proposals against those comparable real estate asset classes that are subject to managed investment trust withholding tax at 15%;
  - Subject to double the rate of tax compared to their domestic equivalents (i.e. Australian superannuation funds which are subject to 15% tax); and
  - Potentially subject to higher tax rates compared to Build to Rent investments in other jurisdictions.

'Levelling the playing field'

In order to create a 'level playing field', the below items could be considered:

- **Foreign investors could be given access to the withholding tax rate of 15% for any income derived from Build to Rent assets**. Such an outcome would align the direct tax outcomes with those of commercial residential premises, core office, retail, industrial investments and would be the same rate payable by domestic Superfund investors.
- This proposal would mirror the Build to Rent tax models from the US and the UK, which are, respectively, mature and emerging Build to Rent markets. In those markets, foreign investors are broadly not fiscally disadvantaged by choosing to invest in Build to Rent over alternative 'core' real estate assets.
- Overall, a change to 15% withholding tax could deliver immediate net economic benefits, resulting in additional Government revenue in the short-term and long-term as investment in new Build to Rent assets may result in:
  - Income to the Australian developers and construction companies as assets are being built.
  - Income to indirect service providers (e.g. architects, structural engineers, quantity surveyors etc.).
  - Post-completion of the Build to Rent asset, income generated by Build to Rent operators, investment managers, property managers, cleaners etc.
  - Indirectly, income to the employees / contractors involved in both the pre and post-completion activities set out above.

  All the above activities could result in assessable income subject to corporate tax of 30% or personal tax of up to 47% in Australia.
- The Australian Government could benefit from those tax revenues from Build to Rent activities between 18-24 months before the foreign institutional investors receive, and are taxed on, the rental income from the completed buildings.

Affordable / key worker housing

- Build to Rent can have a role in providing affordable / key worker housing. However, at present, there is no tangible or workable incentive to support foreign institutional investment in below-market-rent housing, to increase their ability to incorporate more affordable / key worker housing whilst meeting required rates of return. It has to compete for investment against more established asset classes that are also in the **15% concessional rate sphere**, but which provide more stable, reliable returns.
- In order to attract foreign investment into this sector, one consideration may be that **returns on investments in affordable / key worker housing that is Build to Rent could be subject to the same 10% concessional rate** that is applied to investments in clean buildings (buildings that are built to a certain Green Star or NABERS ratings).
- Furthermore, consideration in the **removal of the eligibility of the Community Housing Provider requirement could remove red tape in terms of incorporating affordable / key worker housing elements into Build to Rent projects**. Removal could allow Build to Rent managers to adopt a holistic, 'whole development', property management approach, delivering an enhanced customer experience to affordable / key worker housing tenants. Community Housing Providers would still, however, play an collaborative role in setting the tenant eligibility criteria.
  - These tax and regulatory changes could enable the private sector to provide affordable/ key worker rental housing to supplement the Australian housing market and the Government's commitment to provide 10,000 affordable / key worker dwellings over the next five years.

Recovery of Goods and Services Tax

Current setting

- Input GST is likely to be incurred at all stages of a Build to Rent development, namely on:
  - the acquisition of the land (unless there is an existing residential premises on the land or the seller is not registered or required to be registered for GST);
  - the costs incurred on construction and development; and
  - the costs incurred in respect of the ongoing letting out of the premises.
- Where a property meets the definition of *commercial residential premises* – which includes hotels, motels, inns, hostels, boarding houses, caravan parks, camping grounds or similar premises – full input tax credits can be claimed on input GST. This is because the supply of *commercial residential* premises is taxable, not input taxed.
  - However, where the supply of *commercial residential premises* is predominantly for long-term accommodation (i.e. for a continuous period of 28 days or more), output GST payable by the supplier of the premises is applicable on only 50% of the GST-inclusive price of the accommodation, which equates to roughly half the amount of GST ordinarily payable. This means that full input tax credits are available for input GST and the output GST is greatly reduced. A common example of this is the supply of student accommodation
- **Typical Build to Rent assets do not fall within the definition of *commercial residential premises*** and, because the period prior to any future sale of the entire building would involve five or more years of continuous leasing to various tenants for multiple one to two year terms, the letting and sale of Build to Rent assets would be an input-taxed supply. **This means that while GST is not payable on the rent received from a tenant, the GST (10%) incurred on costs relating to the acquisition, construction and leasing of the Build to Rent asset would not be recoverable.**
- Therefore, for the purposes of modelling investments in Build to Rent assets, irrecoverable 'input GST' has to be modelled in as a project cost, which impacts Build to Rent's competitiveness as against other 'core' real estate investment opportunities, as explained opposite.

'Levelling the playing field'

- The GST setting for Build to Rent of non-commercial residential premises is to be contrasted with the GST models for Build to Sell residential properties, Build to Rent "commercial residential premises" and Build to Rent commercial office and industrial properties. These arrangements are all taxable.
  - This means that any GST incurred on costs relating to the construction, sale or lease is recoverable in full. It also means that GST is payable on the purchase price received for the sale, or on the rent received for the lease.
- To achieve closer parity with those other investment classes and student accommodation, **one possible solution could be to amend the GST legislation to include Build to Rent in the definition of *commercial residential premises*.** This would:
  - allow Build to Rent developments to claim in full input tax credits associated with acquisition, construction and leasing costs;
  - allow the leasing of the Build to Rent apartment to be subject to an effective 5% concessional rate of GST on rent; and
  - make the property taxable on any ultimate sale of the asset.
- A corollary effect of such a change could be to move Build to Rent income from being treated as non-concessional managed investment trust income to being treated as concessional managed investment trust income, and therefore being subject to the 15% managed investment trust withholding tax rate.
- Another possible solution could be to provide full input tax credits upfront, with a staged repayment over a period of time or triggered at the point of sale.
- It is however acknowledged that any GST solution would require the agreement of all States and Territories, and thus would require the Government to lead that discussion to settle on a workable and accepted solution.

Business as Usual approach – Tax treatment

Overview of approach and assumptions

EY has undertaken high-level analysis to calculate the managed investment trust withholding tax receipts Government could earn under a Business as Usual approach. This approach assumes a foreign investor is investing in a hypothetical platform that delivers one typical project of 400 apartments per year (end value of $340m per project) for 10 years. This is the current approach of 'early movers' in the industry including Mirvac, Greystar and Home.

Based on our industry expertise, a net rental yield of 4.25% has been applied when calculating the Earnings Before Interest, Tax, Depreciation and Amortisation, with a 30% tax rate applicable based on the current legislation. The table below outlines the calculation and the associated results.

Business As Usual approach – Calculation

Year		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
No. of Projects Per Year (cumulative)		1	2	3	4	5	6	7	8	9	10
No. of Operating Apartments (cumulative)		400	800	1,200	1,600	2,000	2,400	2,800	3,200	3,600	4,000
Typical Project Value (cumulative) *(4.25% - Capitalisation rate)*		$340,000,000	$680,000,000	$1,020,000,000	$1,360,000,000	$1,700,000,000	$2,040,000,000	$2,380,000,000	$2,720,000,000	$3,060,000,000	$3,400,000,000
EBITDA[1] (cumulative)		$14,450,000	$28,900,000	$43,350,000	$57,800,000	$72,250,000	$86,700,000	$101,150,000	$115,600,000	$130,050,000	$144,500,000
Managed investment trust withholding tax (cumulative)	30%	$4,335,000	$8,670,000	$13,005,000	$17,340,000	$21,675,000	$26,010,000	$30,345,000	$34,680,000	$39,015,000	$43,350,000
Net Present Value of cumulative managed investment trust withholding tax[2]	**$160,232,041**										

Source: EY Analysis, 2022

Note: The analysis only considers the ongoing rental income stream and does not consider any tax implications (i.e. capital gains tax) relating to the sale of the asset as part of an exit.

1. EBITDA - This is reflective of the Earnings before Interest, Tax, Depreciation and Amortisation of the operating asset.

2. Net Present Value calculation includes a 6% discount rate based on EY knowledge and experience in the sector.

Business As Usual approach – Results

Based on the analysis and the adopted assumptions as described above, the Net Present Value of the cumulative managed investment trust withholding tax over the 10 year horizon equates to ~**$160 million**. This assumes a 30% tax rate in line with current legislation.

Alternative scenario approach – Tax treatment

Overview of approach and assumptions

Under the Alternative scenario, EY have assumed that the managed investment trust withholding tax rate has been reduced to 15% in line with other commercial asset classes and our key considerations.

Based on EY research and industry sector knowledge, this change is likely to increase the delivery of projects threefold, with a hypothetical developer potentially delivering three projects per year (instead of the one project currently being delivered)[1]. All other assumptions regarding capitalisation rate and discount rate have remained constant. The table below outlines the calculation and the associated results.

Alternative scenario approach – Calculation

Year		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
No. of Projects Per Year (cumulative)		1	4	7	10	13	16	19	22	25	28
No. of Operating Apartments (cumulative)		400	1,600	2,800	4,000	5,200	6,400	7,600	8,800	10,000	11,200
Typical Project Value (cumulative) *(4.25% - Capitalisation rate)*		$340,000,000	$1,360,000,000	$2,380,000,000	$3,400,000,000	$4,420,000,000	$5,440,000,000	$6,460,000,000	$7,480,000,000	$8,500,000,000	$9,520,000,000
EBITDA[2] (cumulative)		$14,450,000	$57,800,000	$101,150,000	$144,500,000	$187,850,000	$231,200,000	$274,550,000	$317,900,000	$361,250,000	$404,600,000
Managed investment trust withholding tax (cumulative)	15%	$2,167,500	$8,670,000	$15,172,500	$21,675,000	$28,177,500	$34,680,000	$41,182,500	$47,685,000	$54,187,500	$60,690,000
Net Present Value of cumulative managed investment trust withholding tax[3]	**$208,442,083**										

Source: EY Analysis, 2022

Note: The analysis only considers the ongoing rental income stream and does not consider any tax implications (i.e. capital gains tax) relating to the sale of the asset as part of an exit.

1. Based on our industry expertise, EY have assumed that multiple parties will commence construction on their 'shovel ready' sites, with the added potential of developers purchasing/re-purposing existing sites and buildings for a Build to Rent use. This is further warranted given vacancy rates are at historic lows, implying underlying demand together with the amount of capital seeking to be deployed in the sector based on our research.

2. EBITDA - This is reflective of the Earnings before Interest, Tax, Depreciation and Amortisation of the operating asset.

3. Net Present Value calculation includes a 6% discount rate based on EY knowledge and experience in the sector.

Alternative scenario approach – Results

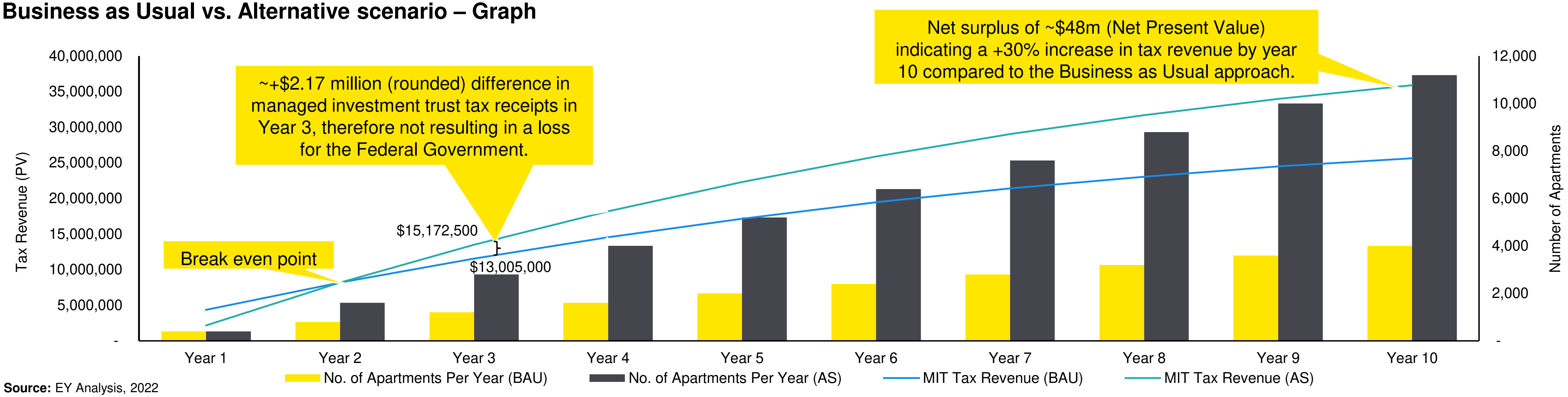
Based on the analysis and the adopted assumptions as described above, the Net Present Value of the cumulative managed investment trust withholding tax over the 10 year horizon equates to ~**$208 million**. This assumes a change in the tax rate to 15% in line with our key considerations.

Business as Usual vs. Alternative scenario – Results

Results of analysis

As evidenced on the previous slides, under the Business as Usual approach Government is likely to earn ~**$160 million (Net Present Value)** of tax revenue based on a hypothetical platform delivering one typical project per year. This revenue is likely to increase to ~**$208 million (Net Present Value)** under the Alternative scenario in which managed investment trust withholding tax is halved and a hypothetical developer accelerates their project delivery to three projects per year. This results in an additional net surplus of ~**$48 million (Net Present Value)** (+30% increase) in tax receipts for the Government over a 10-year period. Below outlines the results of the two approaches.

Business as Usual vs. Alternative scenario – Graph



Source: EY Analysis, 2022

Note: All figures expressed in the above graph is reflected in Present Value.

Conclusion

The above graph highlights that there appears to be **no loss of revenue for Federal Government** over a 10-year period under the Alternative scenario. EY estimate that it will take approximately two years to break-even based on the proposed tax changes with the third year achieving a net surplus for the Federal Government.

The Alternative scenario assumes one hypothetical developer delivering three projects per year, and a total of ~11,000 apartments over a 10-year period. **In reality, based on our research, we believe there could be up to ~150,000 apartments delivered over a 10-year period based on our knowledge of the active platforms in the sector.**

As illustrated, proceeding with the consideration of halving the tax is critical to accelerating and establishing the Build to Rent sector in Australia.

Note: Generally a project can take between 4-5 years from the acquisition of the site through to completion and operation of the asset. This can be dependent on location.

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Build to Rent Housing Advice

Affordable Housing Modelling Assessment

Prepared for Property Council of Australia Pty Ltd

Reliance Restricted

26 September 2023

Written by

Luke Mackintosh
Partner | Strategy and Transactions

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

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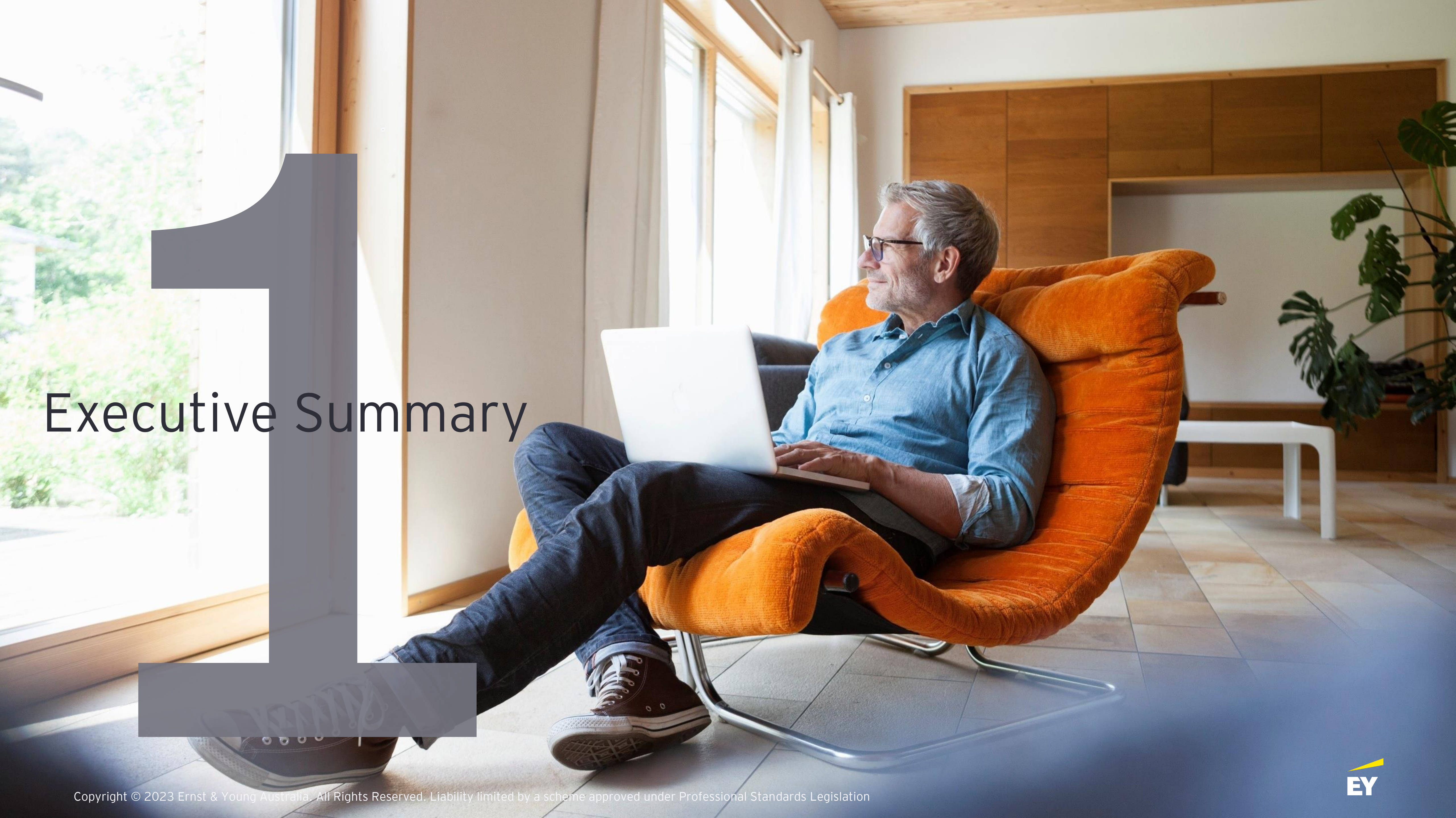


1 Executive Summary

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.

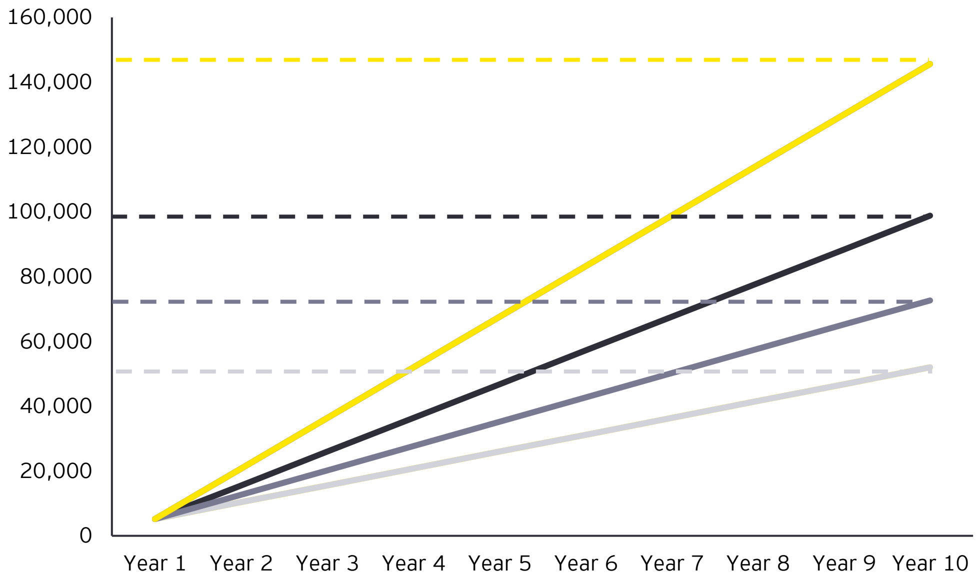
Further MIT Reduction will Deliver Government Affordable Housing Mandate

- 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 impact on land value should a requirement for Affordable Housing be mandated. ▸ The inclusion of an affordable housing component will have a corresponding negative impact on the income that can be generated. 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 impact the ability of BtR developers to purchase development sites as Build to Sell Developers 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]
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.

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.

1 Compared to Scenario 1

2 Values reduce due to affordable rents reducing the income

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.

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

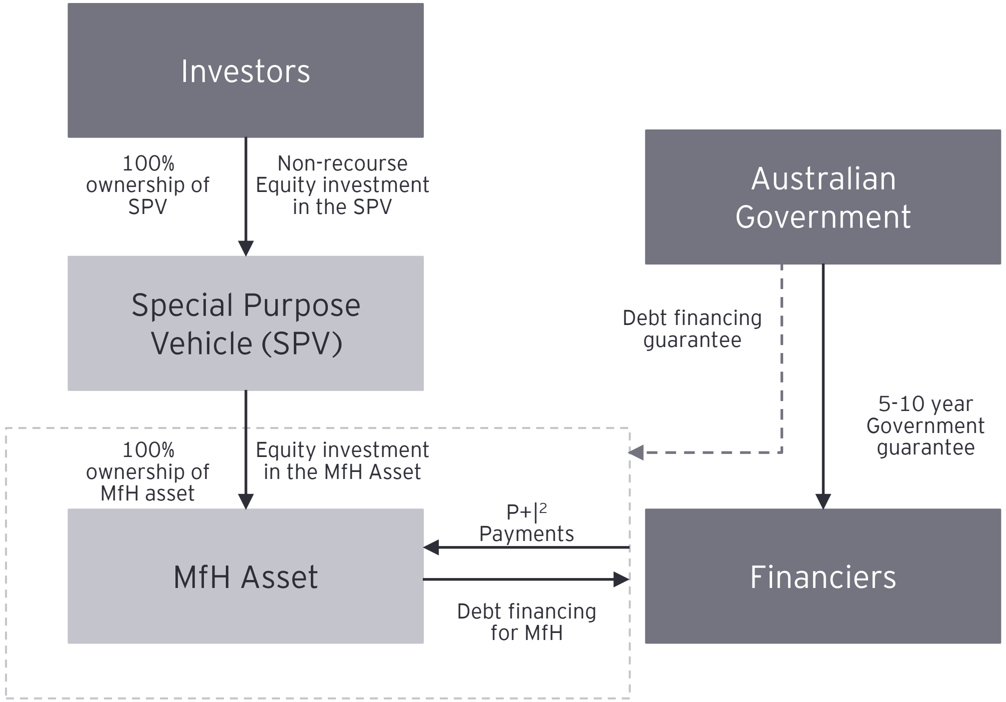
Details of the proposed Government Guarantee for BtR financing

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*	Affordable
London Living Rent (LLR) *Approx.* *50% to 60% of Market Rent*	
London Affordable Rent (LAR)	
Social Rent	
Shared Ownership	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

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Local Market Rental Tone

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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 ▸ British kitchens with soft closing cabinets and A/A+ Samsung appliances including fridge/freezer, dual-cook oven, electric hob, dishwasher, and washer/dryer ▸ EPC Rating B/C with efficient eco-friendly heating ▸ Sustainable Austrian flooring throughout	▸ Floor to ceiling double glazed windows with sound-proofing ▸ Upholstered king size bed with pocket mattress and foam topper. ▸ Bespoke fitted wardrobes with full height mirror ▸ 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	

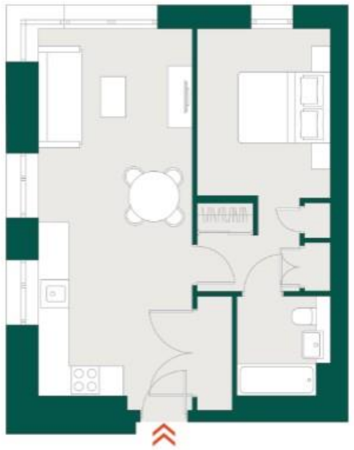
Source: JLL, 2020

Appendix C: UK Case Studies

Typical Floor Plan

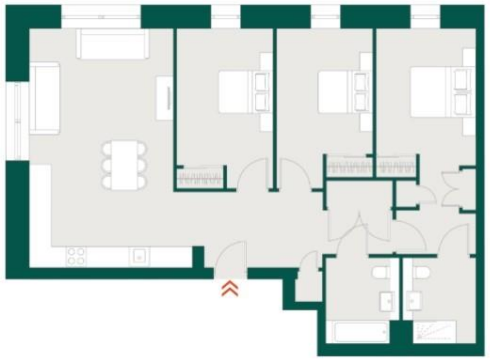
Studio - 40.8 – 43.3 sqm

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

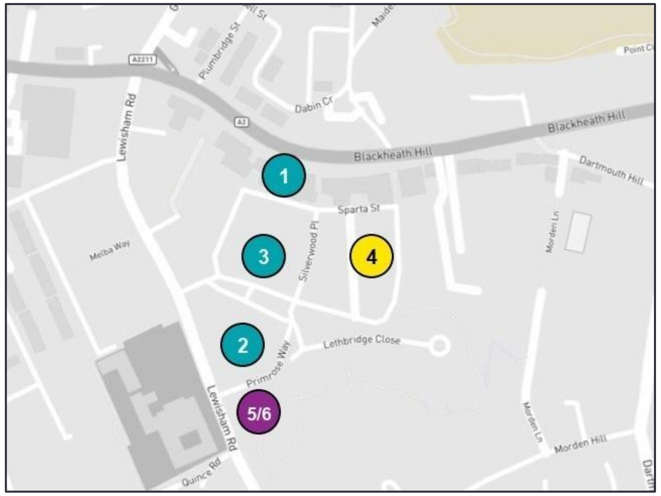
Private MfH Rental Rates	
Unit Type	Achieved Rental Range (per month)
1 Bedroom	£1,430 - £1,575
2 Bedroom	£1,650 - £1,900
3 Bedroom	£2,350 - £2,375

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.

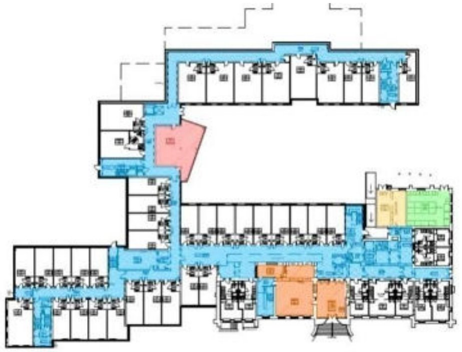
Source: JLL, 2020

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.		

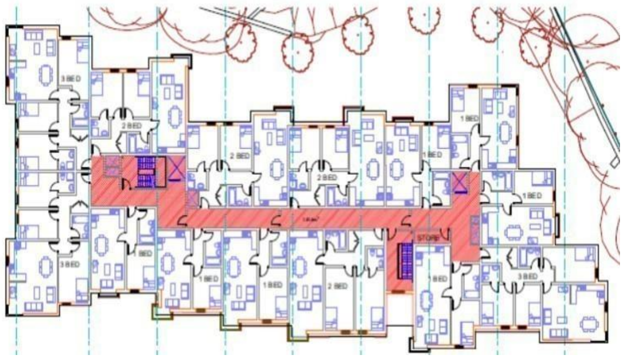
Source: JLL, 2020

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

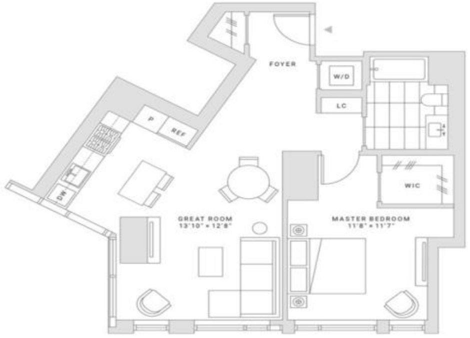
Unit Mix	Average Asking Rent / Month (USD)	Discount from Market Rent (%)
Studio	$1,021	65.4% to 74.8%
One Bed	$1,141 to 1,163	70.5% to 81.9%
Two Bed	$1,292	77.1% to 84.3%
Three Bed	1,417	91.1%

Appendix D: US Case Studies

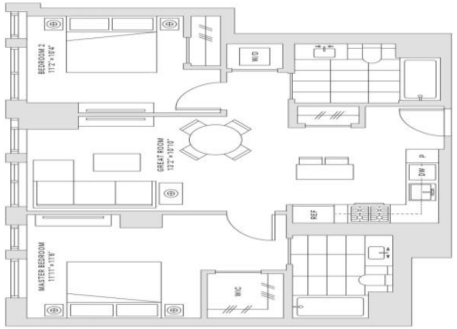
Typical Floor Plan

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

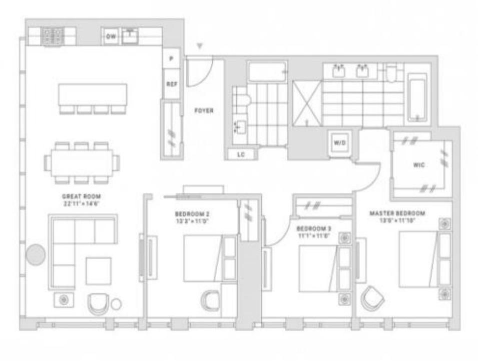
1 Bed (Market) - 37.0 – 196 sqm
1 Bed (Affordable) - 52.0 – 76.0 sqm



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

Appendix D: US Case Studies

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

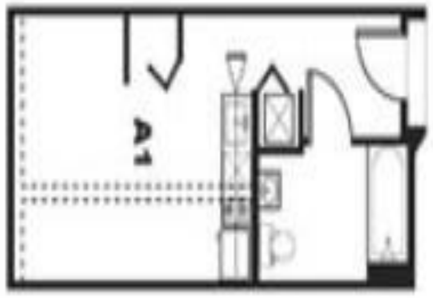
The affordable component of the development is broken down as follows:

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%

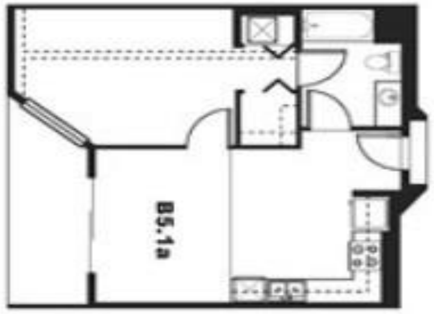
Appendix D: US Case Studies

Typical Floor Plan

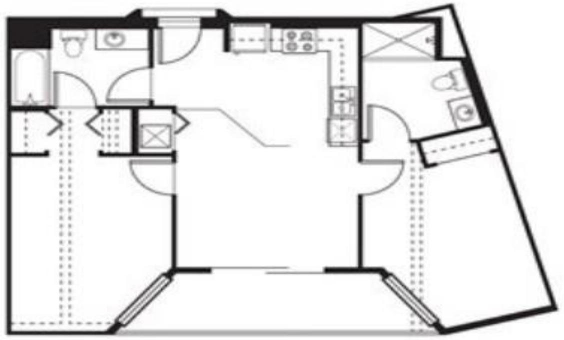
Studio (Market) - 32.0 – 62.0 sqm
Studio (Affordable) - 32.0 – 62.0 sqm



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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