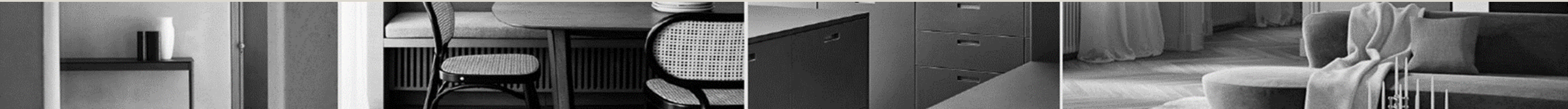
A2X

London's Residential Market in Context

January 2023



SUMMARY & BACKGROUND

- A2X is a real estate investment and development manager looking to capitalize on the rapidly shifting landscape of London's residential market.
- Our value-driven investment approach seeks to leverage our commercial real estate investment and development expertise, acquire and process small-to-medium sites (incl. existing buildings for refurb) and build a portfolio of well-located, well-designed, and professionally managed rental apartments in London.
- With a potential for 10x growth from 40,000 to 400,000 units over the coming years, purpose-built units for rent (Build-to-Rent, BTR, or Multifamily) is the fastest growing real estate sector in the city.
- Over the next two-three years we plan to acquire, develop and manage a branded "boutique" residential rental portfolio.
- We aim to deliver on the highest ESG standards by creating energy efficient (better insulated) homes, prioritising the well-being of tenants whilst ensuring fair, efficient and transparent management.
- In the current market many sites and blocks of units are selling at steep discounts to previous years, which presents opportunities for deep value investments as well as downside protection.
- Investors can expect to benefit from value-add/development upside and inflation protection from rental growth. Furthermore, with increasing institutional demand for residential rental property, a larger portfolio is likely to see additional capital upside through yield compression.
- Over the next two years we aim to deploy capital into medium sized residential development and/or refurbishment projects in London, completing works with conservative use of development finance; release and/or recycle a portion of the invested equity at completion of each project; and aggregate stabilised assets into a branded portfolio.
- We expect this strategy to deliver outsized investment returns when combined into a portfolio.

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LONDON'S RESIDENTIAL MARKET IN CONTEXT

1 A GROWING HOUSING SHORTAGE

New housing supply is not meeting demand from London's growing population. Shortage is especially severe with rental units.

2 A DECADE OF SUBDUED PRICE GROWTH

Property prices have been weighed down by years of political uncertainty starting with Brexit, followed by the pandemic and most recently by inflation and higher borrowing costs.

3 A NEW GENERATION OF RENTERS

Higher interest rates, higher cost of living and the end of the 'help-to-buy' scheme has made it harder than ever for first-time buyers, many of whom will have no choice but to rent.

4 RENTS LIKELY TO GROW WITH INFLATION

Residential rents adjust more frequently than commercial leases and younger people experience more frequent salary increases - supporting rent growth in line with inflation.

5 GROWING INSTITUTIONAL DEMAND FOR BTR

BTR (or Multifamily) still a nascent investment product in the UK. But institutional demand is growing, and housing tenure in London is likely to follow the trend of other major cities (e.g. NYC).

6 LESS DOWNSIDE RISK COMPARED GLOBALLY

London has not seen the same level of price growth as other major cities. Combined with a weaker currency, property prices in the city has become competitive on a global scale.

7 PRIVATE INDIVIDUAL LANDLORDS EXITING

The majority of London's individual buy-to-let landlords are over 55 and have held units as pensions. New energy efficiency demands and higher mortgage costs pushing many to sell.

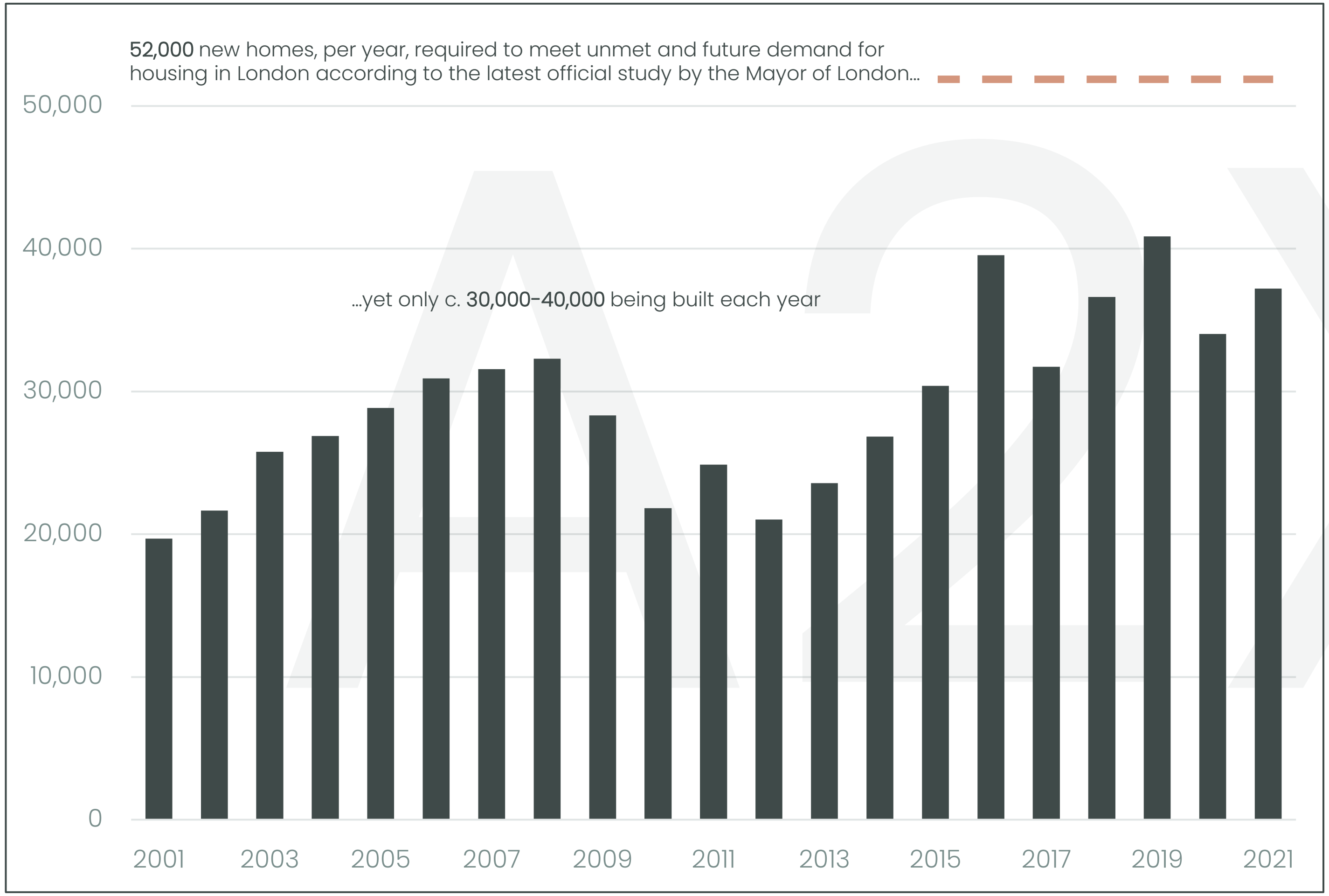
8 GAP IN MARKET FOR MEDIUM SIZE BTR

More central, vibrant and established locations available to smaller 'boutique' schemes (10-50 units) where amenities are provided organically from nearby high-streets.

9 DISCOUNTED DEVELOPMENT SITES

Build cost inflation and rate rises are causing significant repricing of sites. Many speculative investors, lacking capital or expertise to complete projects, bought sites to flip during zero-rate era.

1 A GROWING HOUSING SHORTAGE



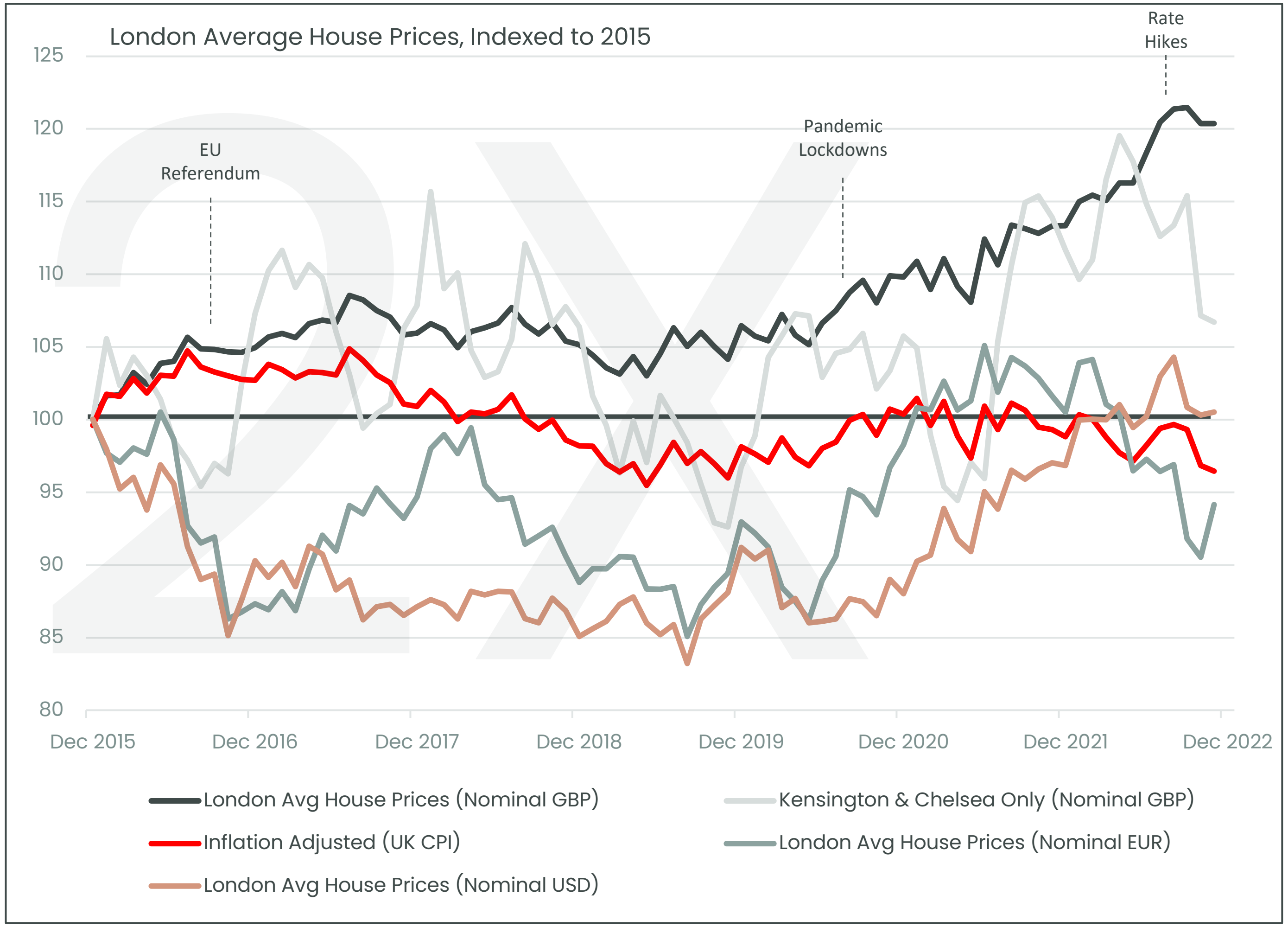
- London's population is growing, by c. 1% or up to 100,000 per year.
- This is faster than houses are being built, with over 10,000 too few new homes per year, creating a growing shortfall with city dwellers having to live in increasingly dense households.
- This shortage is likely to continue to grow, since even if the new housing target were to be met in a particular year, the undersupply and unmet demand has accumulated over many years.
- The Mayor of London has set a target of 52,000 new homes per year over the next decade, with a focus on lower- to mid-range housing. Since 2015 an average of c. 35,000 has been delivered each year.
- The number of new homes delivered is likely to fall over the coming years, with higher financing and build costs forcing some developers to retreat.

Link to Sources

2 A DECADE OF SUBDUED PRICE GROWTH

- Political uncertainty, beginning with the EU referendum in 2016, has weighed on price growth for almost a decade.
- While there was a brief increase in buyer activity as the covid lockdowns eased, this was shortly followed by inflation and rate hikes - which will weigh on price growth and could even cause a decline in nominal prices.
- **If prices do decline over the next year, this would lead to the longest period with cumulative zero price growth in recent history, surpassing the early 1990s slump.**
- It's also worth noting, when adjusted for inflation, London prices have already fallen (in real terms) over the past seven years. The same is true for buyers using other currencies.

	December 2015	December 2022
UK CPI	100	125
Average London House Price in GBP	£ 450,053 (Index = 100)	£ 541,720 (Index = 120)
USD / GBP	1.50	1.22
Average London House Price in USD	$ 675,166 (Index = 100)	$ 659,314 (Index = 98)
EUR / GBP	1.38	1.15
Average London House Price in EUR	€ 619,752 (Index = 100)	€ 622,900 (Index = 101)



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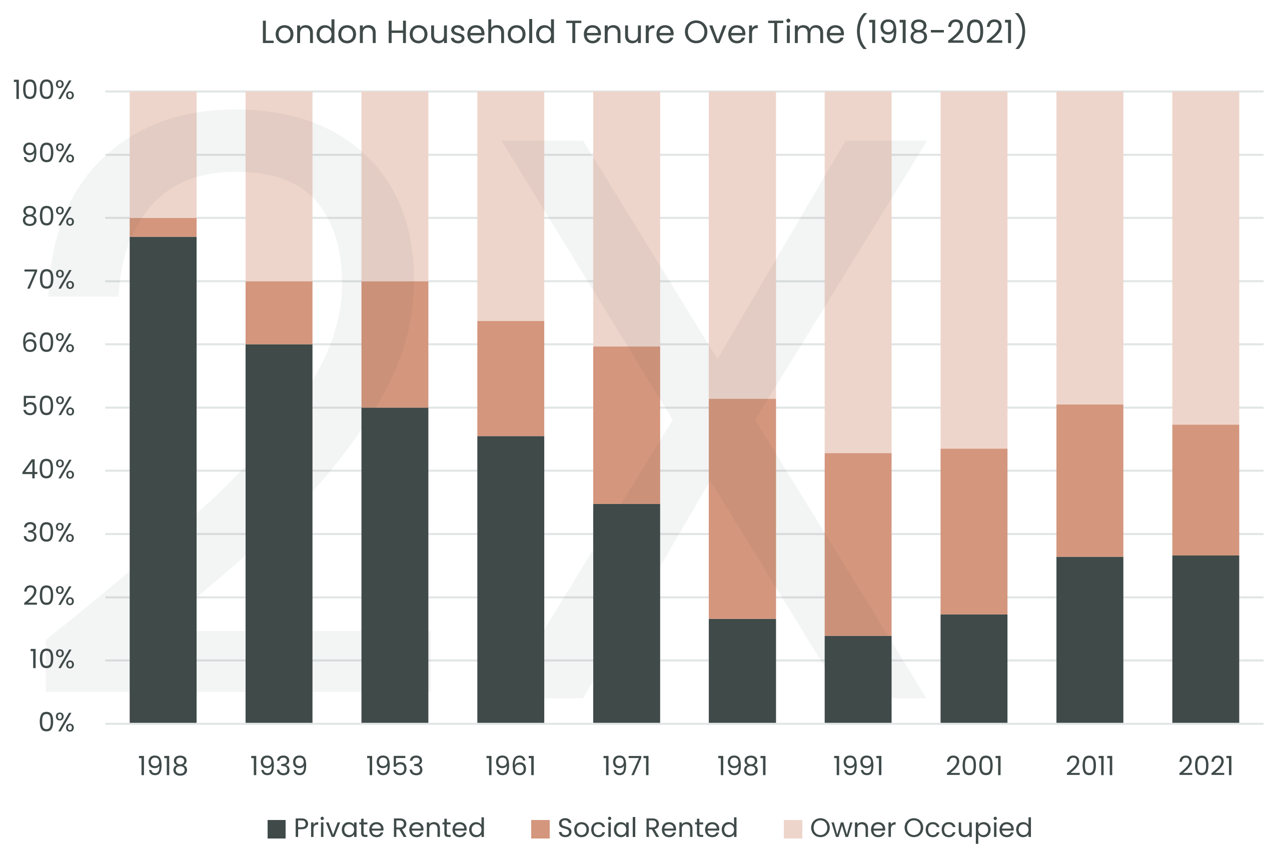
3 A NEW GENERATION OF RENTERS

- Currently 30% of London's 3.6 million households, or c. 1 million households (c. 2.5 million people) are renting their homes.
- This has not always been the case. A century ago, the vast majority (c. 80%) of all households were renting.
- However, the current combination of high housing costs, tight credit conditions, limited supply of housing, and increased demand for more flexible living means it is likely a much higher proportion of households will be renting in the future.
- Furthermore, for many years the sales market has been supported by the governments 'help-to-buy' scheme, which enabled first-time-buyers to buy with a 5% deposit (using an equity loan from the government worth up to 40% of the price). This has just now come to an end (March 2023) leaving the majority of these would be buyers with no option but to rent.
- Between 2019 and 2021 c. 20,000 new London units were sold to first-time-buyers using the help-to-buy scheme.
- Even if the shift towards renting is relatively small – **an increase of only 10% - similar to the shift between 2001 and 2011 - would result in new demand for an additional 100,000 new rental flats,** and this not taking into account population growth.
- There are many global cities in which renting is the norm. In New York for example the household tenure is 70% renters versus 30% owner occupiers.

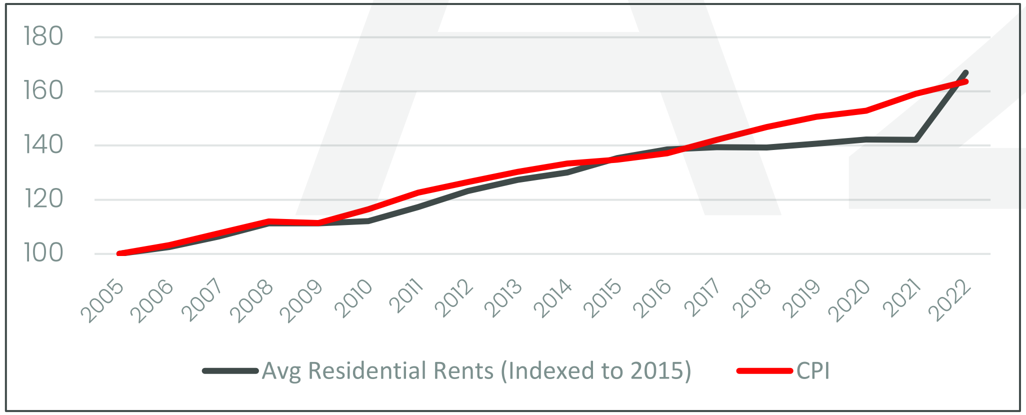


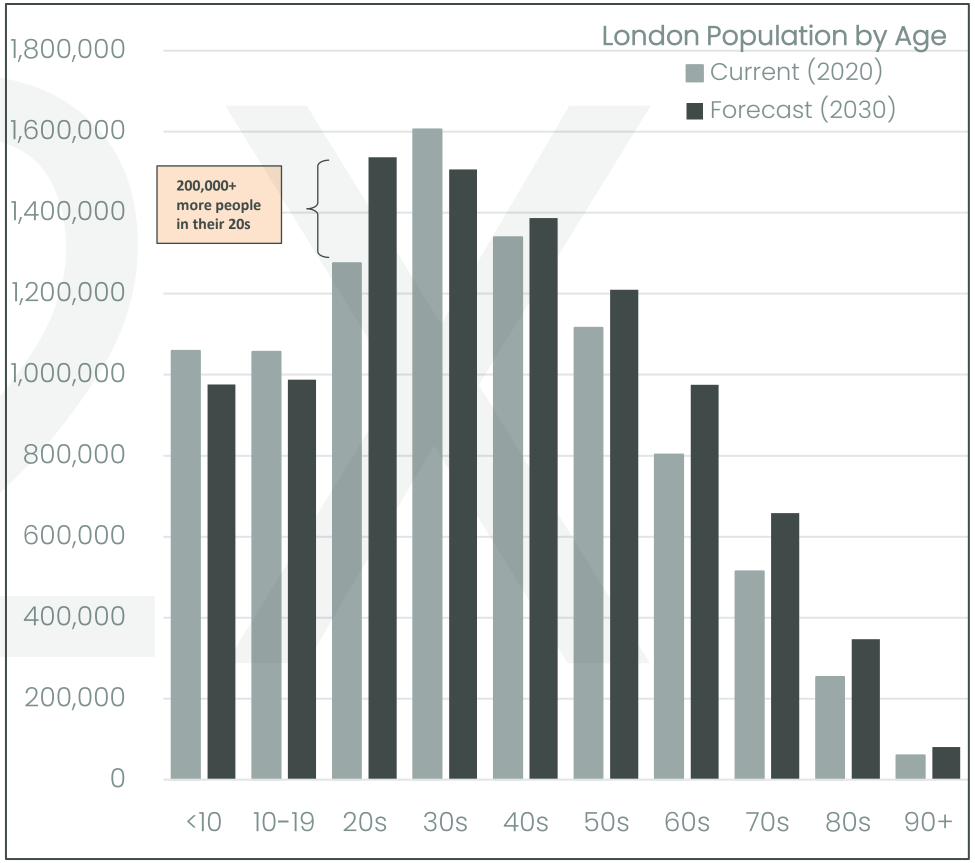
In 1918 the majority of households in London were renting their homes. This was due to a combination of cultural and societal factors, e.g. people moving more frequently due to work or other circumstances, and renting offered more flexibility.

Link to Sources

4 RENTS LIKELY TO GROW WITH INFLATION

- London's population is growing and the average age of residents is becoming younger.
- According to official forecasts[1], in ten years' time there will be 200,000 more people in their 20s than today.
- People in their 20s and 30s are more likely to be renting. This age group is also more likely to see their salaries increase with inflation - starting from a lower base, with more frequent promotions and job hopping.
- The lack of supply and increasing number of renters vs buyers, together with a young population that is growing, are some of the factors underpinning forecast for continued strong residential rental growth in line or above inflation.





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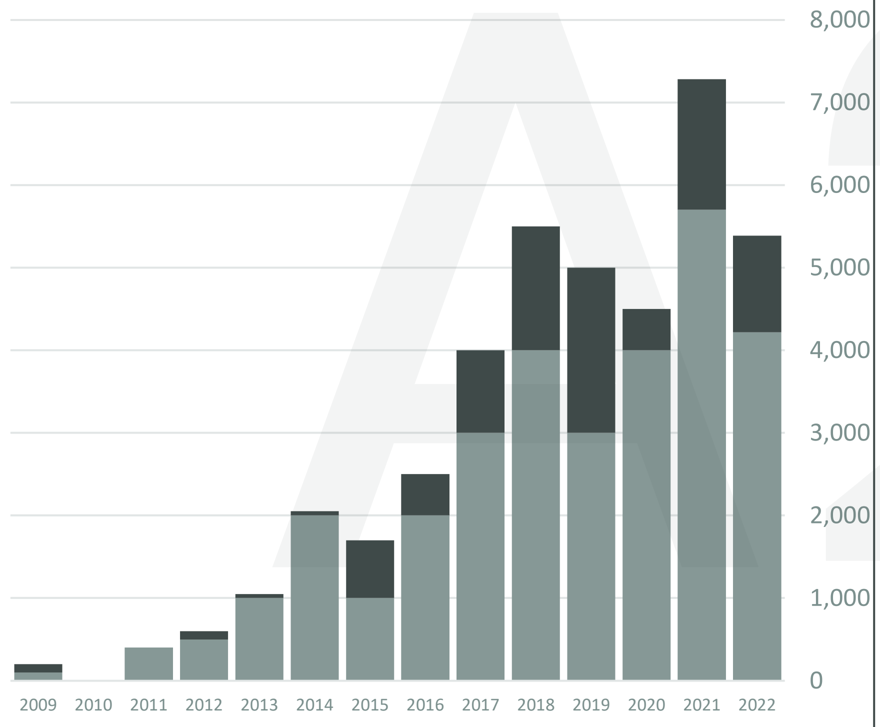
5 GROWING INSTITUTIONAL DEMAND FOR BTR

There are currently c. 40,000 operational BTR units in London, equivalent to 4% of all households which are renting. **Should the sector reach the scale of the US market it would grow to ten times its current size – to c. 400,000 units.**



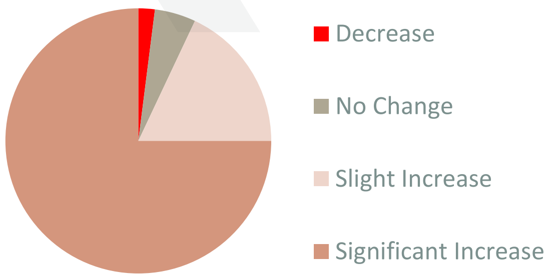
Number of Completed Build to Rent Homes in London by Area

Outer London Inner London

- BTR is a relatively new product in the UK, with investment volumes significantly lagging behind other big cities in Europe and the US.
- Only 4% of London's 1 million renting households live in purpose-built rental homes – which have only really been available for about 10 years.
- However, the sector is in the early stages of a rapid growth phase – investors, private developers, local authorities and housing associations are only just now entering the market, and most developments are in outskirts, with limited local amenities.
- For institutions the inherent characteristics of BTR is attractive for a number of reasons, including:
  - the positive rental outlook (and the potential to hedge against inflation);
  - the security of income and low volatility; and
  - the growing tenant demand and shortage of supply

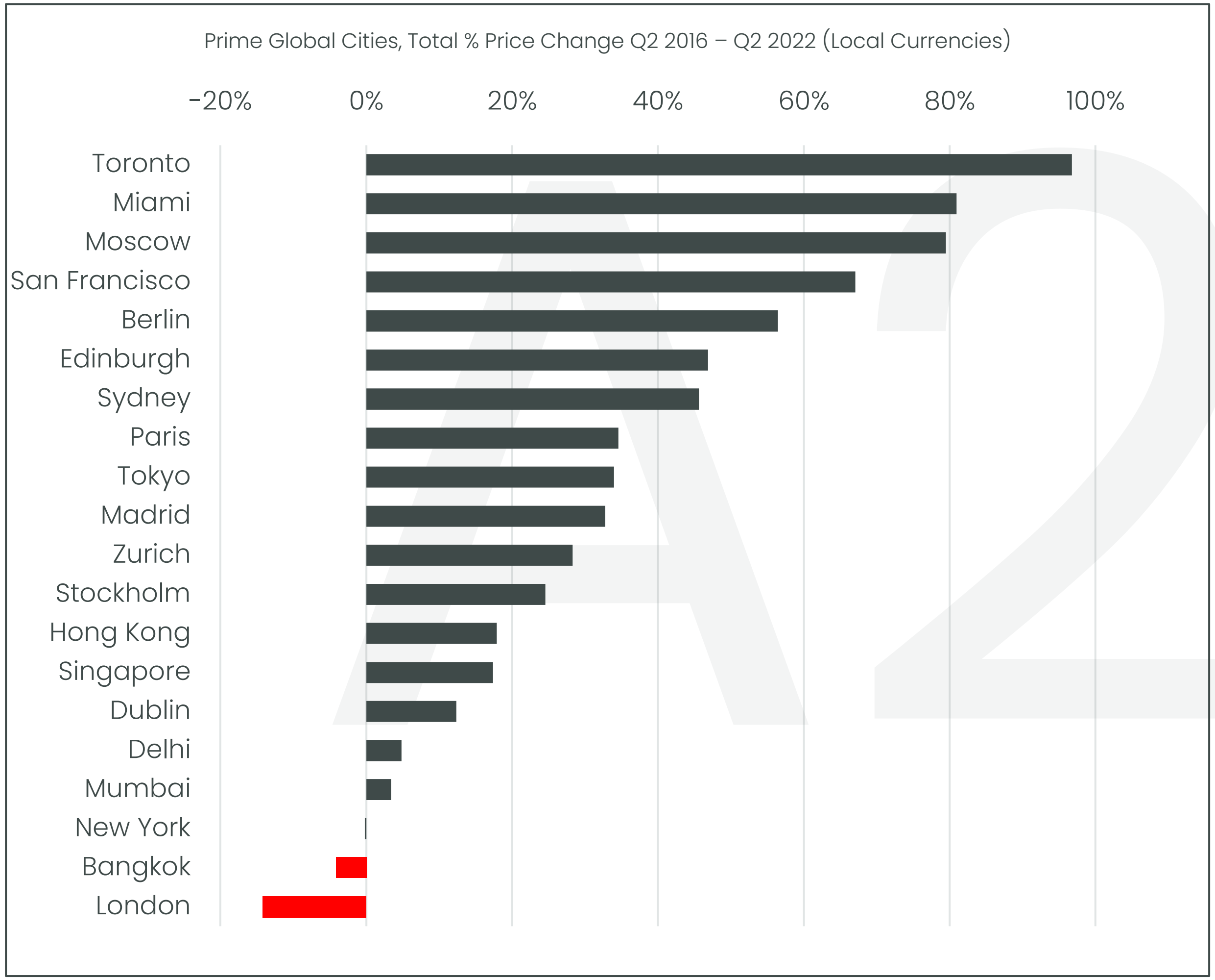
JLL Institutional Investor Survey:

Taking a five year view how do you expect your total investment into the living sector to change by 2027?



Link to Sources

6 LESS DOWNSIDE RISK COMPARED GLOBALLY



- London has not seen the same level of rapid price growth as other major cities which, in some cases, saw annual back-to-back double-digit percentage price growth over the past decade.
- In comparison, prices in the UK capital have been weighed down by the exit from the EU and the subsequent years of political uncertainty, as well as, most recently, by a cost of living crisis and rapid rate rises.
- Taking currency fluctuations into account, London property prices have fallen quite significantly since the EU referendum in 2016. The prime end of the market has been particularly hard hit.
- Knight Frank's Prime Global Cities Index[1] tracks the performance of the top 5% of the housing market in each city, and London is one of the worst performers, in terms of price growth in recent years.
- London residential property pricing has therefore become much more competitive than before, compared to other major cities.

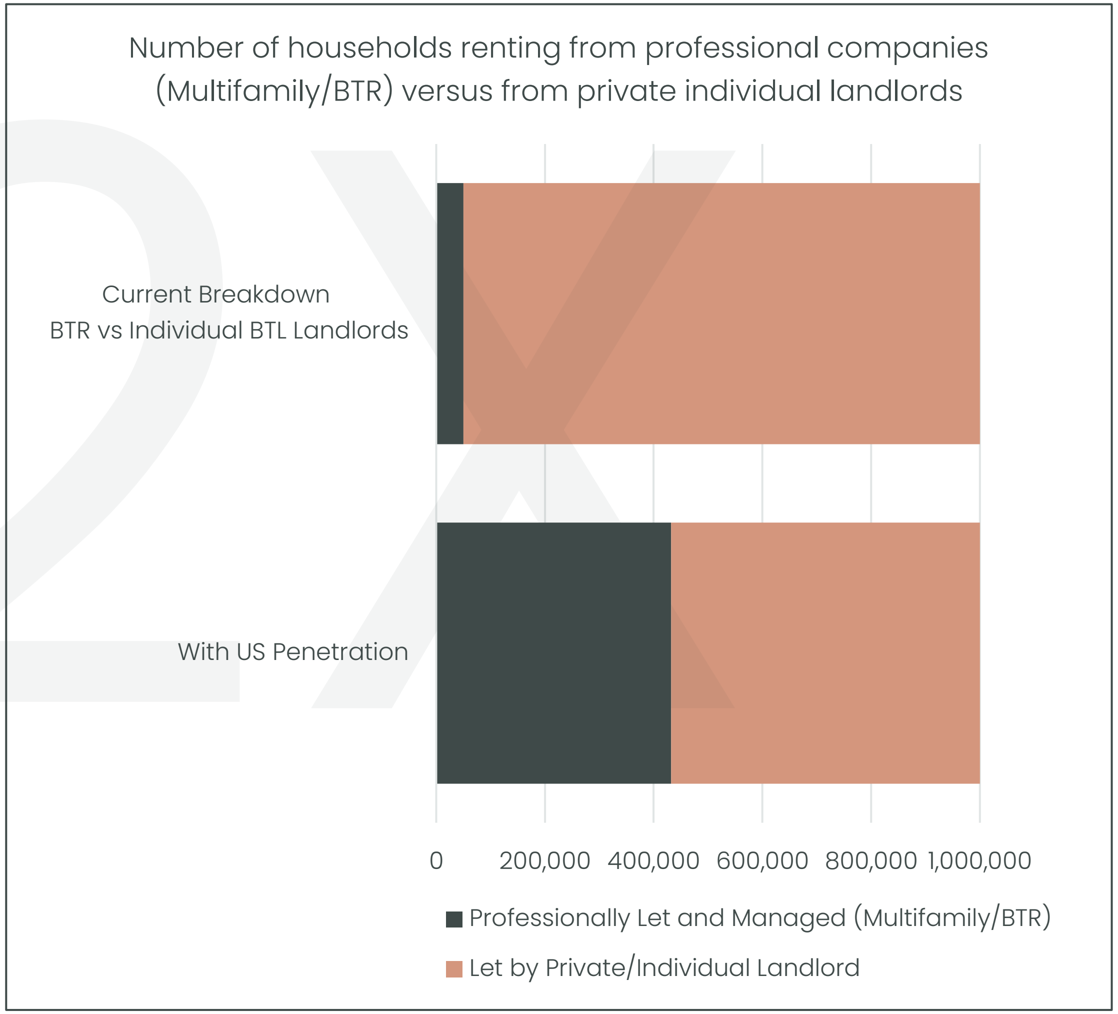
Prime (top 5%) Pricing – Competitive on a World Stage

US$ per sqft	Q2 2016	US$ per sqft	Q2 2022
London	$ 4,083	Hong Kong	$ 4,362
Hong Kong	$ 3,740	London	$ 3,036
New York	$ 2,796	New York	$ 2,790
Singapore	$ 2,285	Singapore	$ 2,624
Paris	$ 1,735	Paris	$ 2,196

Link to Sources

7 PRIVATE INDIVIDUAL LANDLORDS EXITING

- London's private rented sector is still dominated by private individual buy-to-let (BTL) landlords, who make up the vast majority of the supply.
- Most of these landlords (85%) own between one and four properties, with just under half (45%) owning only one rental property.
- The most common reason for being a landlord was for pension purposes - six in 10 landlords are 55 or older, a third are retired.
- Buying a BTL flat was an attractive alternative investment 10 years ago. But new energy efficiency requirements, less favourable tax treatments (for individual landlords) combined with higher mortgage costs, have made it less so.
- A combination of these factors, together with a lower expectation for capital appreciation, has led to many landlords exiting the market, selling to individual owner occupiers – reducing rental supply and putting further upward pressure on rents.
- However, there is value in scale. With a bigger rental portfolio investors benefit from:
  - reduced concentration risk of income (not having all eggs in one basket);
  - smoother cash flow;
  - better financing terms (with cross collateralization);
  - potentially better terms on services and utilities;
  - lower management and maintenance costs (per unit).
- The potential market, in London, is for more than 400,000+ new professionally managed rental units over the next decade. Currently only c. 5-10,000 units are being built per year.
- In the future, individual BTL investors seeking exposure to London's residential market should be able to achieve this through a wider array of publicly traded vehicles.



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8 GAP IN MARKET FOR MEDIUM SIZE BTR



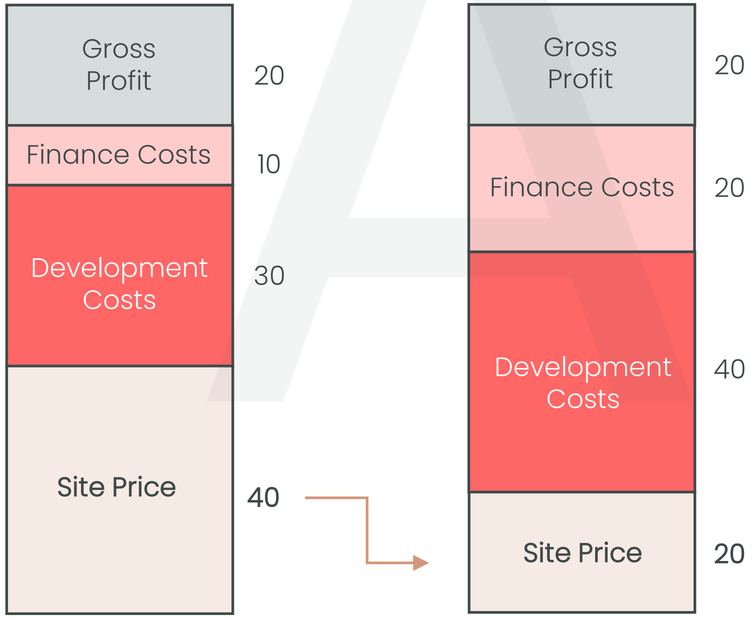



	BTR (Multifamily)	Boutique BTR	Buy-to-Let (BTL)
Developers:	Grainger, Greystar, Get Living, Moda Living, Quintain	[A2X]	N/A [Private Individuals]
Investors:	Pension Funds and SWFs (e.g. Grainger, L&G, Invesco, Greystar, M&G, Apache, Qatar Diar)	TBC (Family Offices / BTR Developers / PE)	Individuals (Mostly Pensioners)
Locations:	**Mostly out of town**, where towers can be built. Long commuter distances	**Central, more vibrant and already established locations** available to smaller multifamily schemes	Any location
Scheme Sizes:	**50-100+ units** per block	**10-50 units**. Ownership of entire freehold blocks (in separate SPVs) as opposed to BTL type ownership of single units within blocks	**1-2 units** per investor, often leaseholds within a freehold building with mixed ownership
Amenities:	**Extensive inhouse amenities required** as these developments are often out-of-town, away from local high-streets. Amenities can include concierge, gym, coworking space, cinema room etc	**Not required**. Amenities available organically from being located better and more central, with nearby high street businesses (e.g. gyms, coffee shops, cinemas etc)	**Not required**. Amenities available organically from being located better and more central, with nearby high street businesses (e.g. gyms, coffee shops, cinemas etc)
Management:	**Professional,** immediate maintenance response etc	**Professional**. As opposed to smaller BTL - ability to absorb maintenance costs with bigger pool of tenants. Upkeep better with more long-term professional outlook	**Poor,** ad-hoc, short-term. BTL landlords often not able to absorb higher management costs and maintenance shocks
Design:	**Functional (but impersonal) interior design.** Focus on energy efficiency, sustainability and wellbeing of residents.	**Thoughtful and personal interiors**. Focus on energy efficiency, sustainability and wellbeing of residents.	**Often impersonal and unmodernised.** Often subpar energy ratings, limited focus on sustainability and wellbeing

Link to Sources

9 DISCOUNTED DEVELOPMENT SITES

BUILD COST INFLATION
+
HIGHER INTEREST RATES
=
LOWER SITE PRICES



Lower Site Prices

Site valuations can be determined with a 'residual value' formula:

End Value (GDV)
- less profit margin
- less financing costs
- less capex (incl design fees and ancillary costs)
= Site Value

If end values (GDVs) remain unchanged, but financing and construction costs increase, site values must come down for any developer to take on the project.

Distressed Development Sites (Incl Freehold Blocks in Need of Refurb)

We are likely to see distressed and/or receivership sales from:

- Bigger developers with large portfolios: Unfinished sites, which have limited current income, offers the lowest point of friction in restructuring portfolios for real estate companies needing to deleverage.
- 'Non-developers': During the many years of zero interest rates many speculative investors purchased sites and smaller residential blocks with debt. Without access to additional equity capital and/or the required development and finance expertise, some of these investors will now be forced sellers.

Link to Sources

STRATEGY

SUMMARY & PROPOSED STRATEGY

- The proposal is to create a new value-driven investment vehicle to invest in the residential property market in London, with a focus on purpose-built residential rental units.
- Institutional investment in this sector is expected to grow, with less competition for small and medium sized sites.
- The strategy is to acquire and process well-located sites, including existing residential freehold blocks for refurb and permitted sites selling at discounts, and build a boutique portfolio of well-located, well-designed and professionally managed apartments in London.

Phase	1	2	3
Process:	• Acquire Sites (Blocks of Freeholds, for Refurb, and/or Permitted Sites in Distress) • Complete Developments • Lease Up / Stabilise • [redacted]	• Hold & Aggregate Stabilised Assets • Refinance [60-65%] LTV • Manage Properties & Service Tenants • Develop Brand	• Exit via Public Offering or **Institutional Sale**
Target Returns:	**[2x] Project Level Equity Multiples** 25-30% Levered IRRs / Avg. 2-3 Years	**[6-10%] Cash on Cash**	Further Upside from Portfolio Value **Additional [0.50%-0.75%] Yield Contraction**
Combined Returns:	→ Site 1 → Site 2 → Site 3 → Site … → Site 10		**[3-4]x Combined Equity Multiple** from combination of: • Development / Value-Add & Recycled Equity; • Operating Income / Cash-on-Cash; and • Portfolio Upside / Yield Compression
Programme / Targets:	• **3 Years of Acquisitions/Developments:** Equity Invested: **20**[redacted] • Total Equity c. £[50m] over first 2-3 years / 10 Sites • Avg. 15-20 Units per Site - Tot. 150-250 units combined • Total Cost c. £150m [c. 50%] Debt Funded • Total Combined Annual Rent (Year 5) **c. £**[redacted]**m** incl commercial		• **Year 5**: Completion of <u>**First Stabilised Portfolio**</u> • Total Rent **c. £**[redacted]**m]** • Portfolio Value **c. £[**[redacted] • Of which Equity/NAV **c. £[**[redacted]

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