Society of Actuaries in Ireland

What role can institutional capital play in addressing the Irish residential property shortfall?

7th March 2017

Disclaimer

The views expressed in this presentation are those of the presenter and not necessarily of the Society of Actuaries in Ireland

AVESTUS CAPITAL PARTNERS

IRELAND PRS

Presentation to Society of Actuaries in Ireland

Avestus

Economic back drop

Demographic drivers

PRS trends

PRS Investment Case

Harty's Quay

AVESTUS

Research & opportunity driven investment management company

Dublin Based, Principals have on average **19** years of experience

Dedicated sectoral specialists

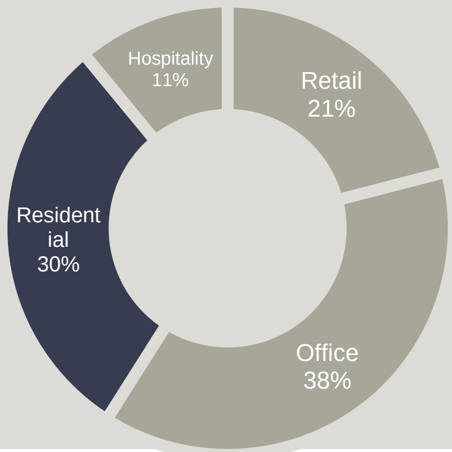
c.€1.1bn AUM

c.€500m Invested in Ireland

c.900 units successfully invested in Irish PRS

Indicative AUM by Property Type[1]

1. Gross AUM as of 1/1/2017



2010 — AVESTUS CAPITAL PARTNERS
- 7 Principals
- Established the Business

2011 — NORTHWOOD INVESTORS, MOUNT KELLETT, Goldman Sachs
- Distressed Loan Portfolios
- Hospitality Recapitalisation
- Debt Portfolio Purchase

2013

2014 — Centerbridge
- Irish Residential Build to Sell Development

2014 — MARATHON ASSET MANAGEMENT
- Irish Private Rented Sector

2015 — TRISTAN CAPITAL PARTNERS
- Polish Office Development

2015 — ARES
- Irish Commercial Real Estate

2016 — MAGNETAR CAPITAL
- Irish Residential Build to Sell Development in Dublin

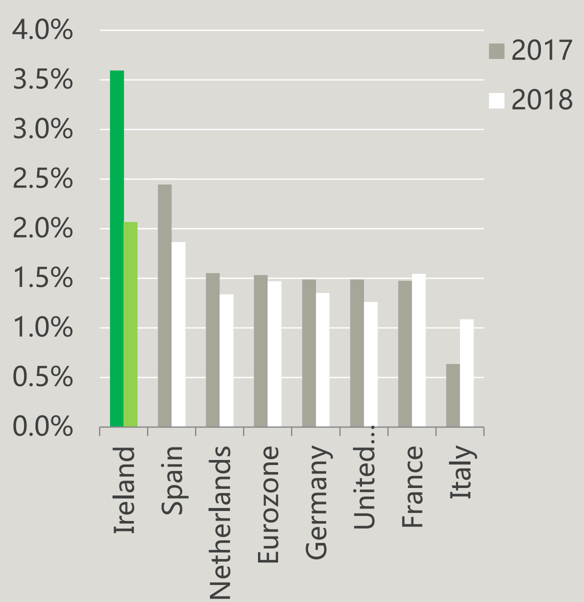
THE IRISH ECONOMY

Upward economic momentum as confidence continues to grow

Strong economic growth forecast

- GDP growth is one of the strongest in Europe[1]

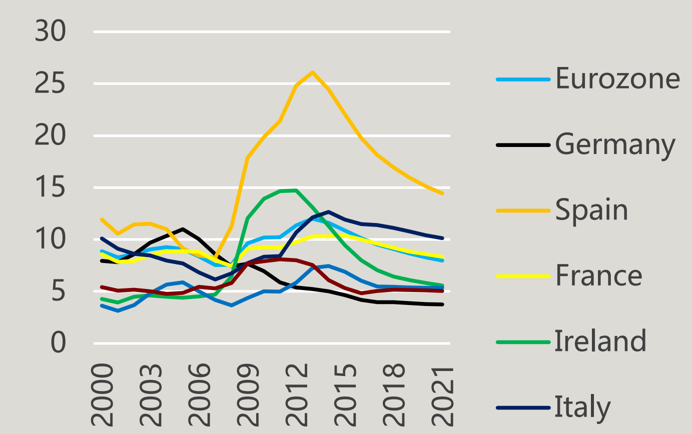
GDP Forecast for 2017 & 2018



Unemployment rates are dramatically improving

- 6.6%[1] unemployment rate at February 2017 with strong employment growth across all industry sectors
- Retail sales recovered to pre-crisis levels in mid-2016

Unemployment rates (% of working population)[1]

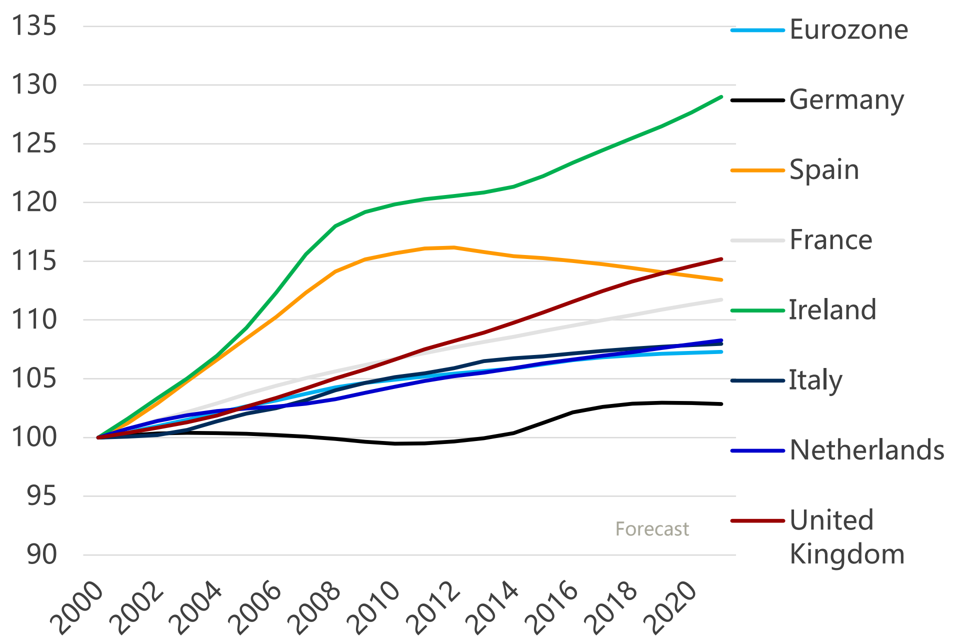


1. Oxford Economics
2. Central Statistics Office
3. KBC Bank Ireland/ESRI Consumer Sentiment Index

IRISH POPULATION GROWTH

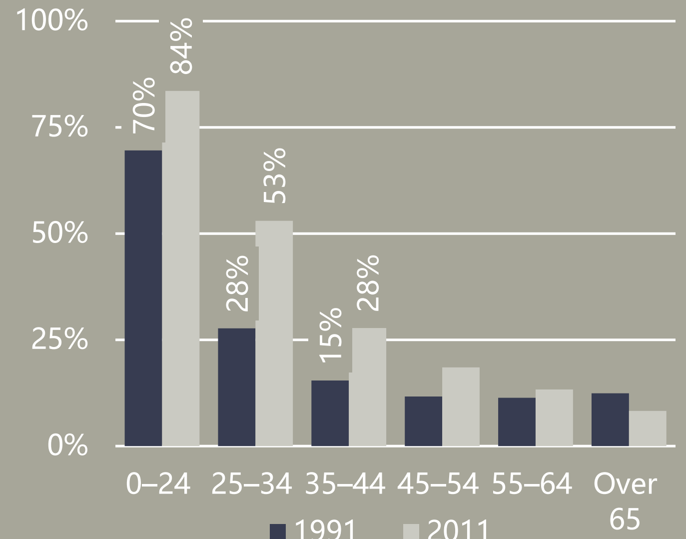
Young and increasing population is driving housing demand

Population Growth Projection Indexed to 2000
(Q1 2000 = 100)



The 20-39 age group has experienced substantial growth

Proportion of Renters by Age Group
(1991-2011)



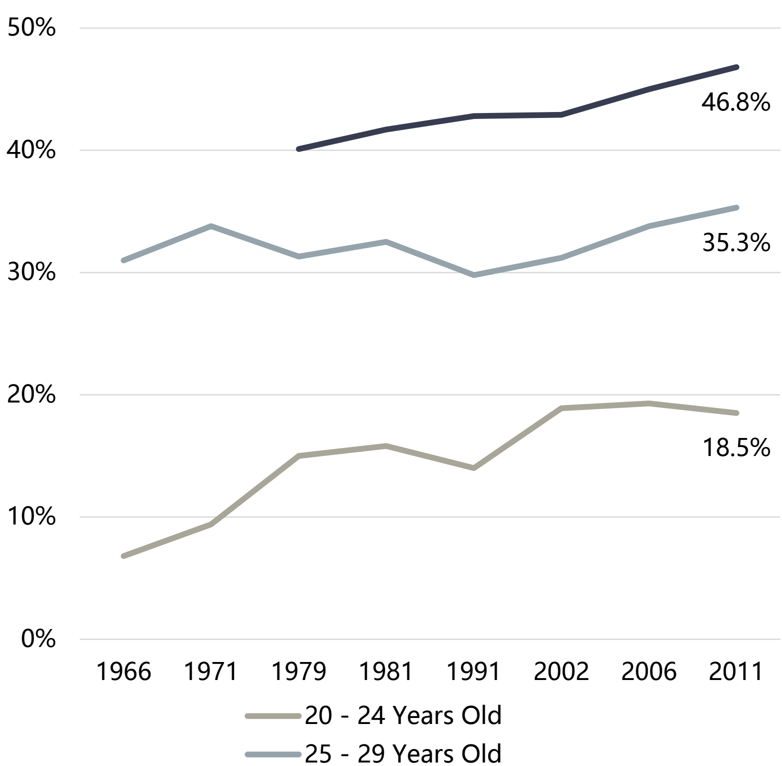
Source: Oxford Economics
1: CSO – Census 2011 (latest available)

Source: CSO – Census 2011 (latest available)

HOUSEHOLD FORMATION

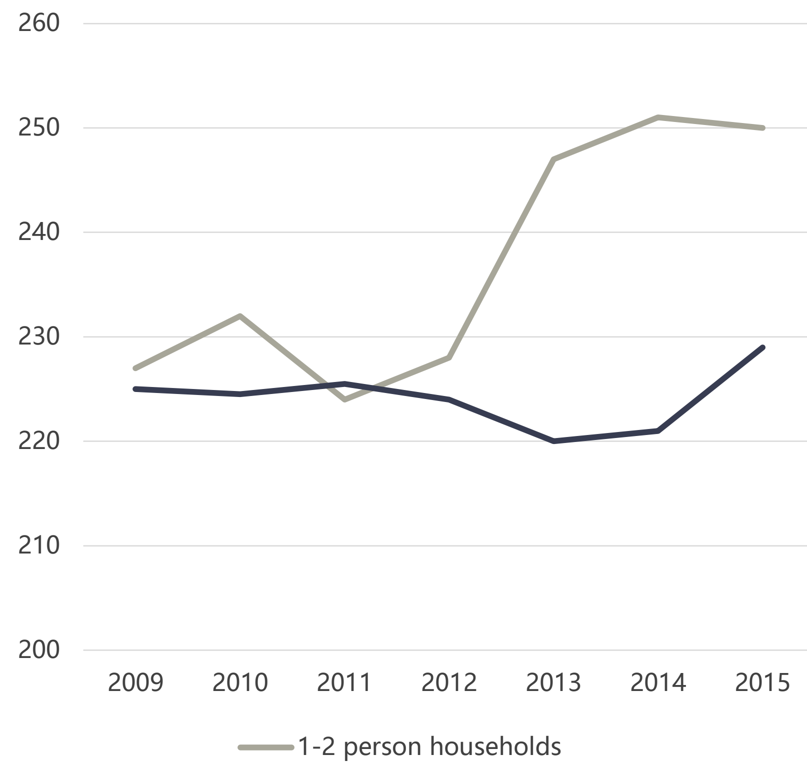
Increasing household formation from younger age groups

Household Formation Rates by Age Group (1966-2011)



Source: CSO – Census 2011 (latest available)

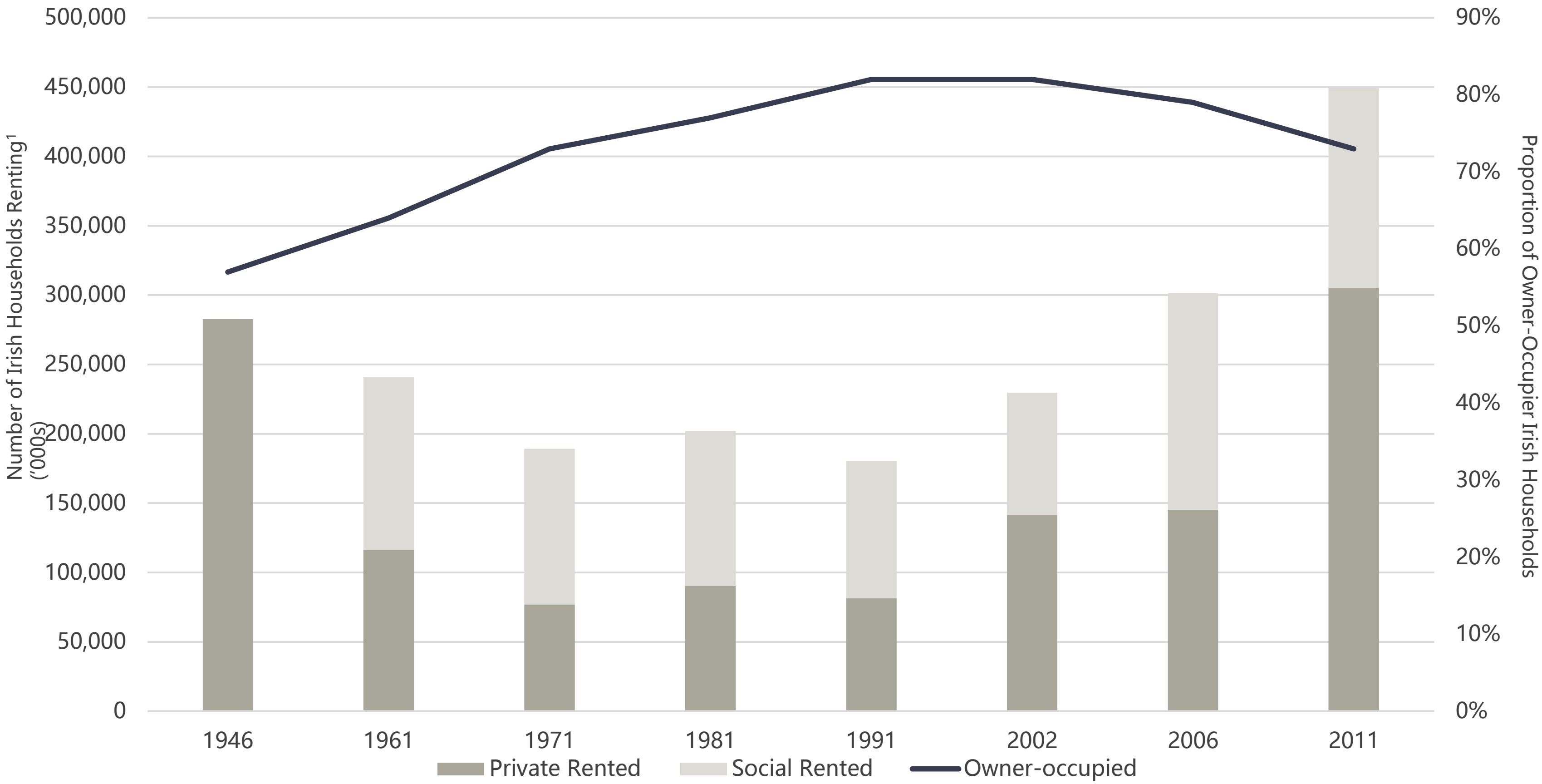
Number of Households Classified by Average Household Size, 2009-2015 (000's)



Source: CSO – Census 2011 (latest available

OWNER OCCUPATION DECLINES

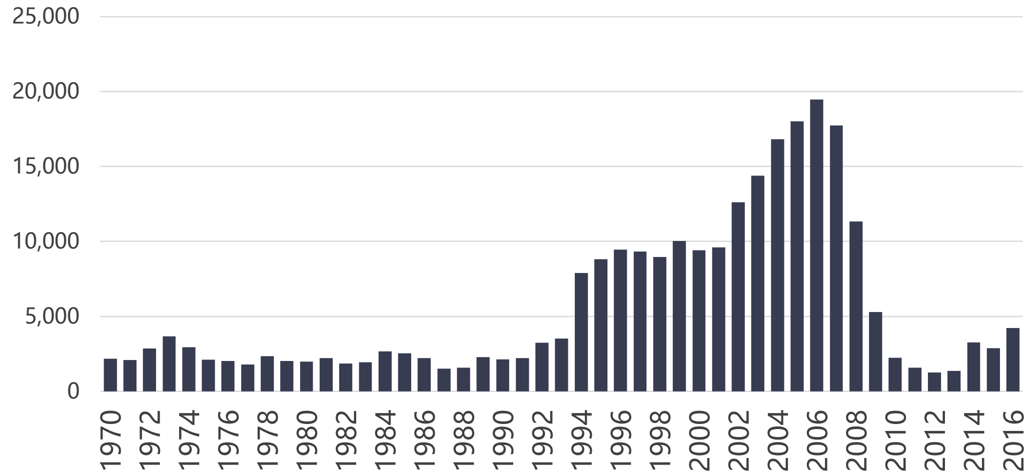
Demand for PRS continues to grow



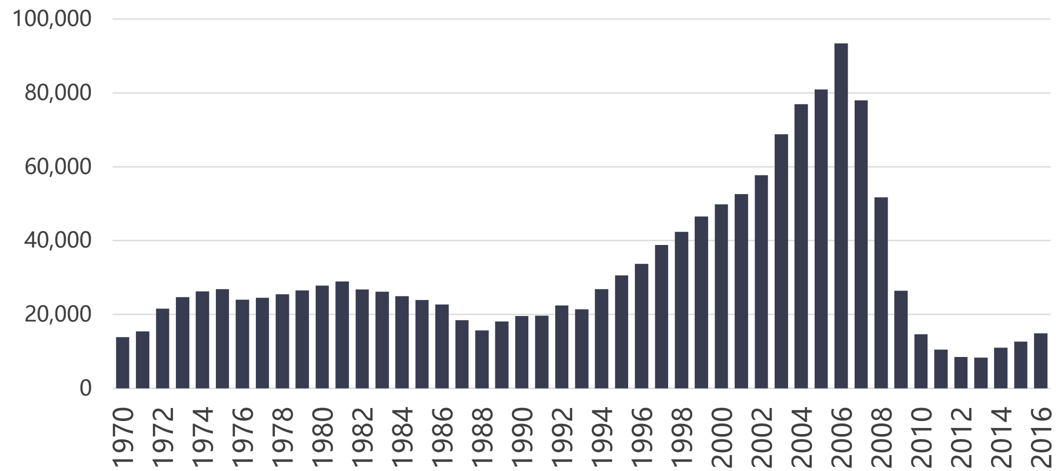
THE IRISH HOUSING MARKET

Low levels of supply: for every ten new families formed, just two new dwellings were built[1]

Dublin: Annual Housing Completions[2]



Ireland: Annual Housing Completions[1]



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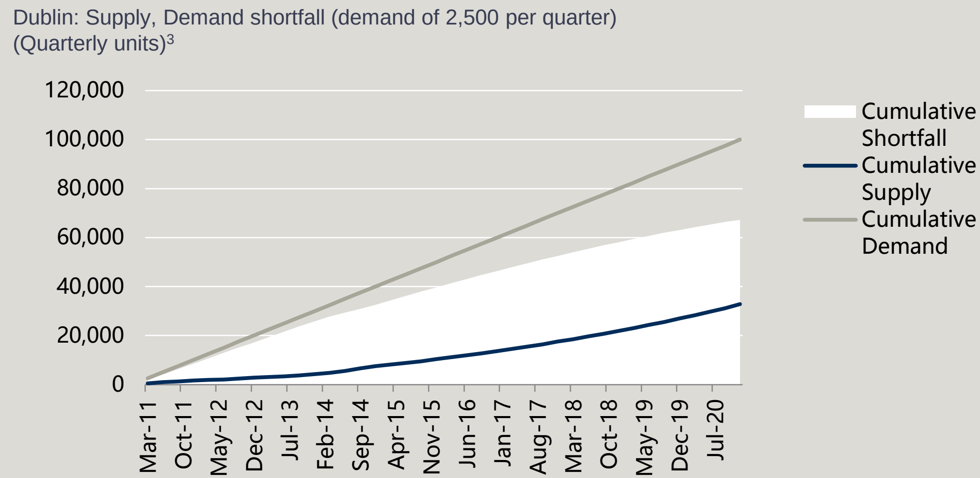
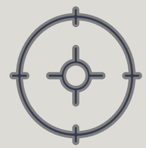


Intensifying housing demand and supply imbalance generated by growing population and ongoing undersupply in housing stock



Annual housing completions in Dublin fall severely short of the estimated target. Cumulative shortfall of 41,000 to 2106[1]

The Dublin area is expected to face the strongest housing demand in coming years[1]

Average demand of 2,500 units /quarter to 2020[2]

Shortfall of almost 1,700 units / quarter[1]

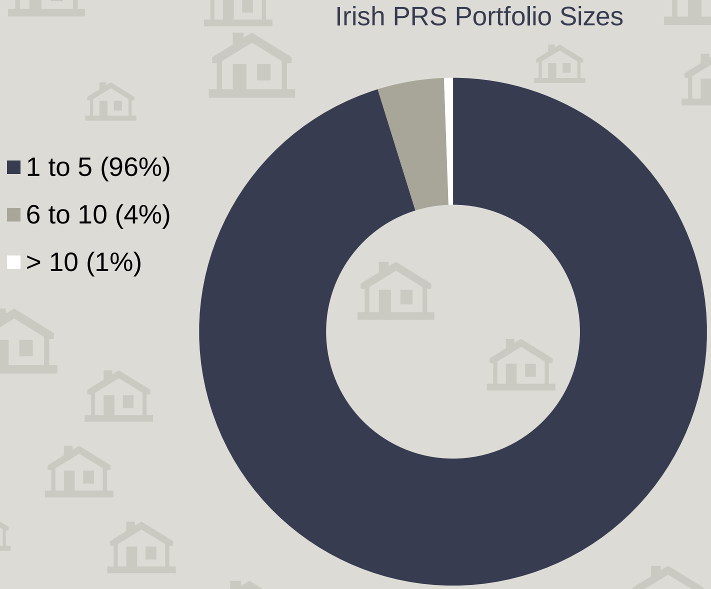
Increasing propensity to rent driven by demographics and cultural shift

[1]: Identify Consulting; [2]Department of Environment, Community, and Local Government Housing (Nov 2016) – ("Dublin" area includes Dublin, South Dublin, Fingal and D/Laoghaire-Rathdown) ;[3]Forecasts provided by Identify Consulting, Feb 2016

CURRENT PRS MARKET IS FRAGMENTED

PRS market is fragmented but drawing attraction from institutions

PRS in Ireland is currently fragmented



% growing institutionalisation

€ Limited PRS development

?! Limited players in the large-scale professional PRS industry in Ireland, with only one long-term institutional landlord managing more than 2,000 units[2]

Largest PRS Operators in Ireland2

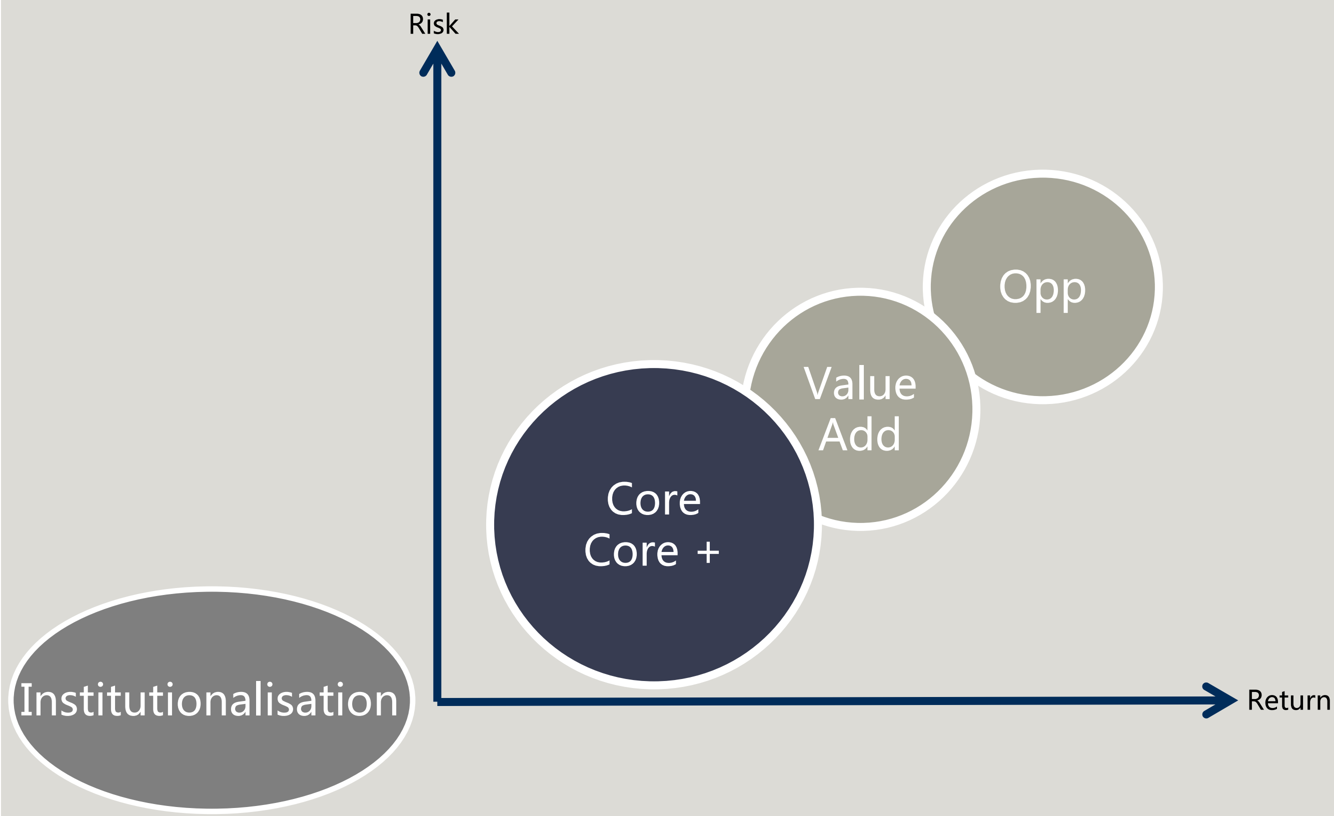
Company	Properties	No. of Units	Occupancy (Sept 16/Dec 16)
I-RES	19	2,377	98.3%[c]
Kennedy Wilson	6	1,134	96.9%
Avestus / Marathon	20	815	99.0%
Total Top 4	**57**	**5,396**	

a. b. Estimate based on past data and review of portfolio
b. As at Jun 2016 - latest available

1. Source: Local Government Management Agency
2. Source: Avestus Capital Partners research

IRISH PRS MARKET

Evolution of the PRS Sector



THE INVESTMENT CASE

Invest in the Irish Private Rented Sector

Strong Economics & Demographics

- Robust socio-economic fundamentals
- Urbanisation towards Dublin
- Supply / demand imbalance
- Increasing demand for PRS
- Government support for sector professionalization

Increasing Professionalisation of Sector

- Specialist Platforms
- Balanced Regulation
- Established Structures
- Scalable opportunity

Stable income returns

- Majority of the projected return delivered by income
- Granular, diversified income leading to low concentration risk
- High occupancy rates
- Inflation hedging characteristics

NTM Capital LLP

What role can institutional capital play in addressing the Irish residential property shortfall?

Focus on purpose-built student accommodation (PBSA)

Important information

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Fund summary

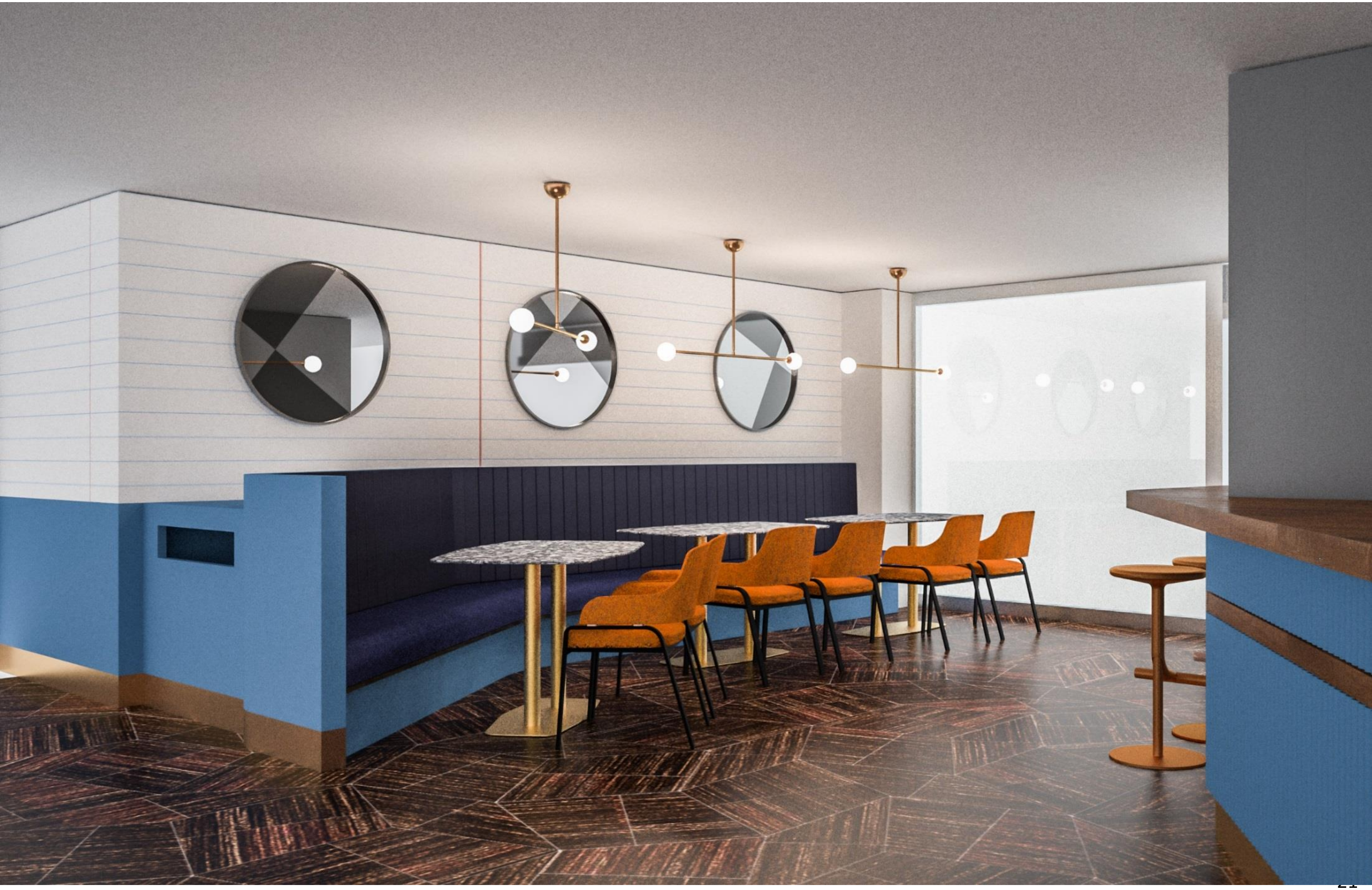
- Investing solely in Dublin, Cork and Galway, which all have a shortage of PBSA and growing student populations
- Aiming to construct 10-15 assets each with 100-500 beds for 3,000-4,000 total beds
- Two funds under management
  - Seed Fund provides capital to option or acquire sites, design and seek planning permission
    - €24M raised to date with further commitments for €8M received towards €35-40M target
    - Targeting 3x money over 5 years
  - Development Fund invests in build-ready sites, alongside bank debt
    - currently raising, with IC-approved €43M commitment from first cornerstone investor
    - Targeting 14-16% net IRR
- Intention is to give investors the choice of whether to convert to an open-ended structure in ~2022, with a liquidity event for those who wish to exit, or sell sites as a portfolio to a third party
- Experienced team, particularly CIO Matthew McAdden with track record in PBSA sector, and Tom Anderson with top tier strategy consulting, investment banking and fund management experience
- Buildings will be managed on a day to day basis by our Operating Partner, Atelier Property Group, who have extensive experience in the UK and Ireland

24-32 Western Road, Cork

24-32 Western Road, Cork

Reception area

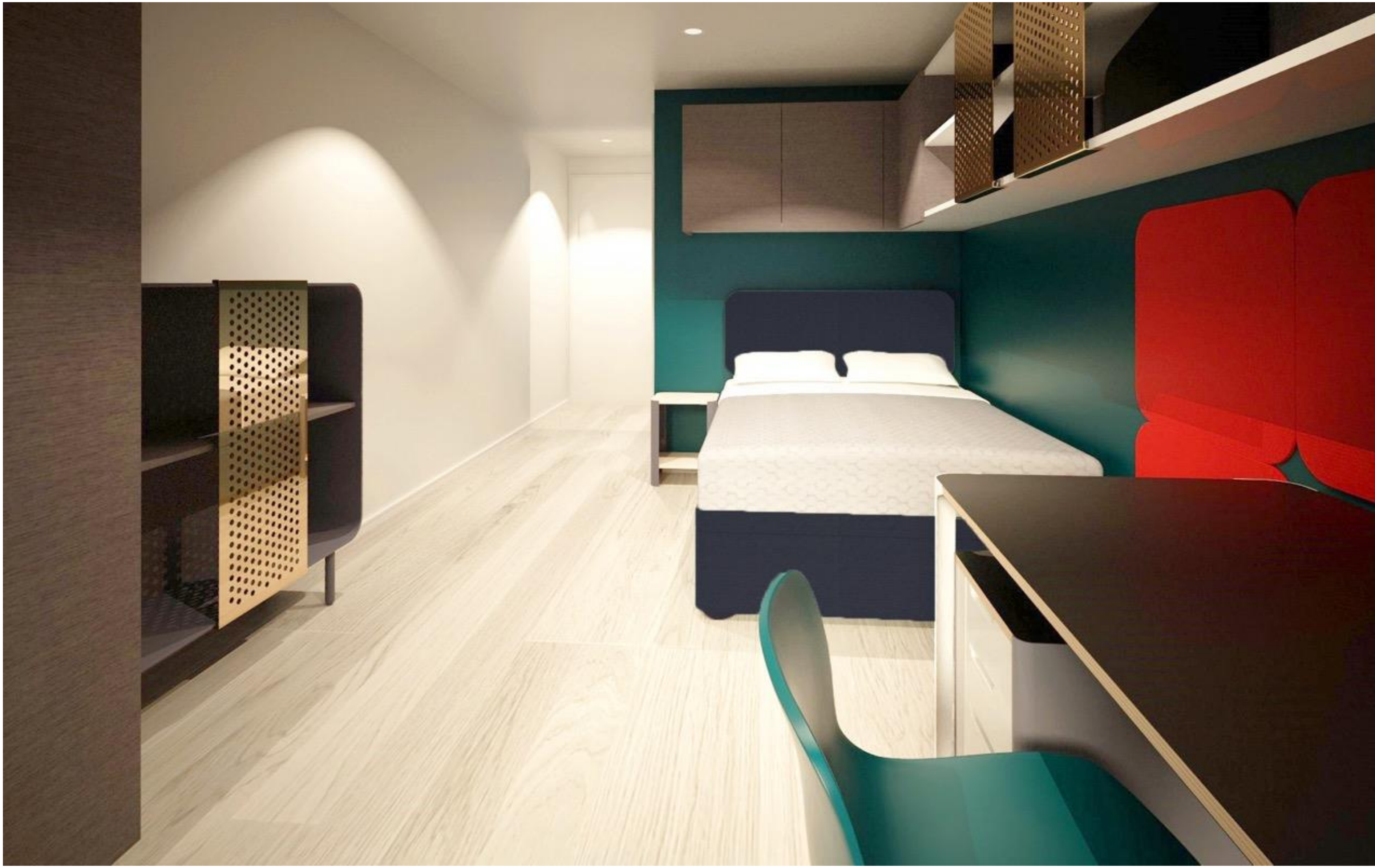
Reception area



Reception area

Reception area

Bedroom



Bedroom

274 North Circular Road, Dublin

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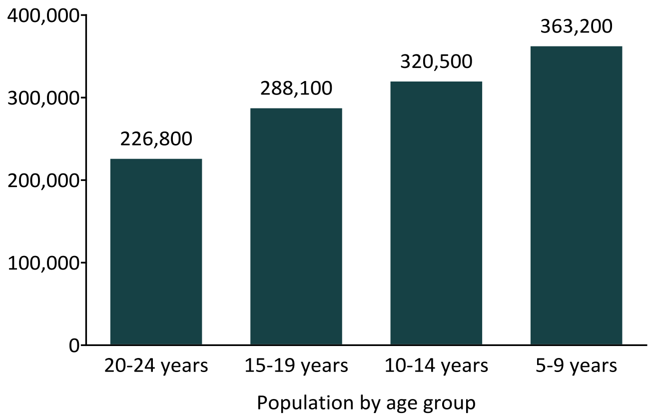
View from south-east of main building (56-64 Dominick Street Upper)

View from north-east of main building (56-64 Dominick Street Upper)

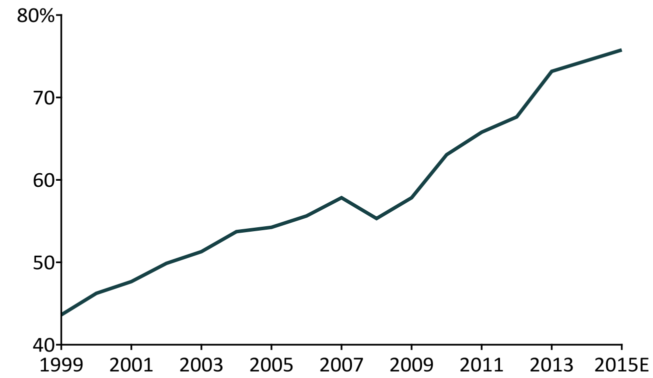
View from west of smaller building (25-29 Dominick Street Upper)

Irish market has attractive dynamics due to demand growth

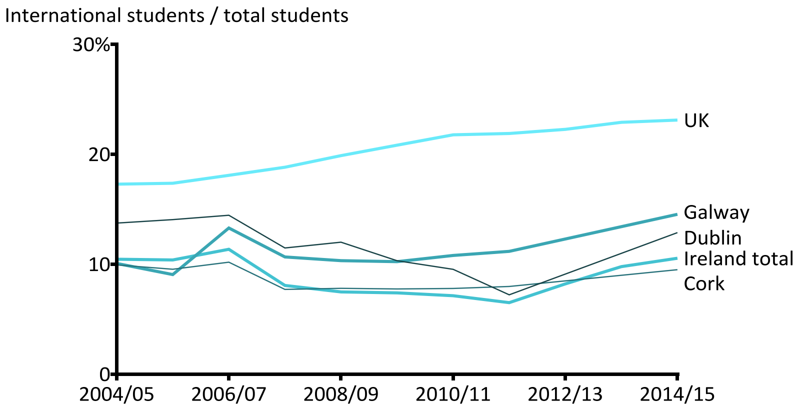
Demographics



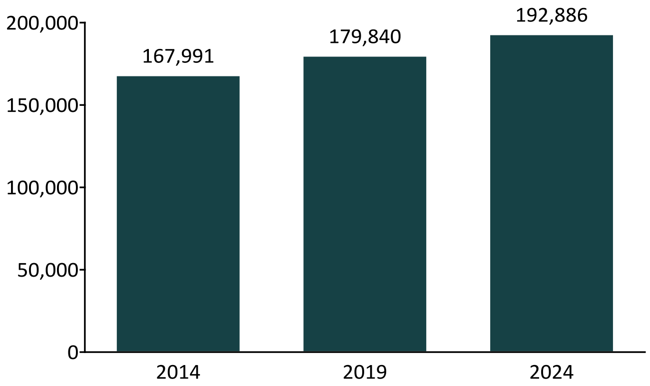
Increasing penetration of higher education



Potential to increase international students[1]



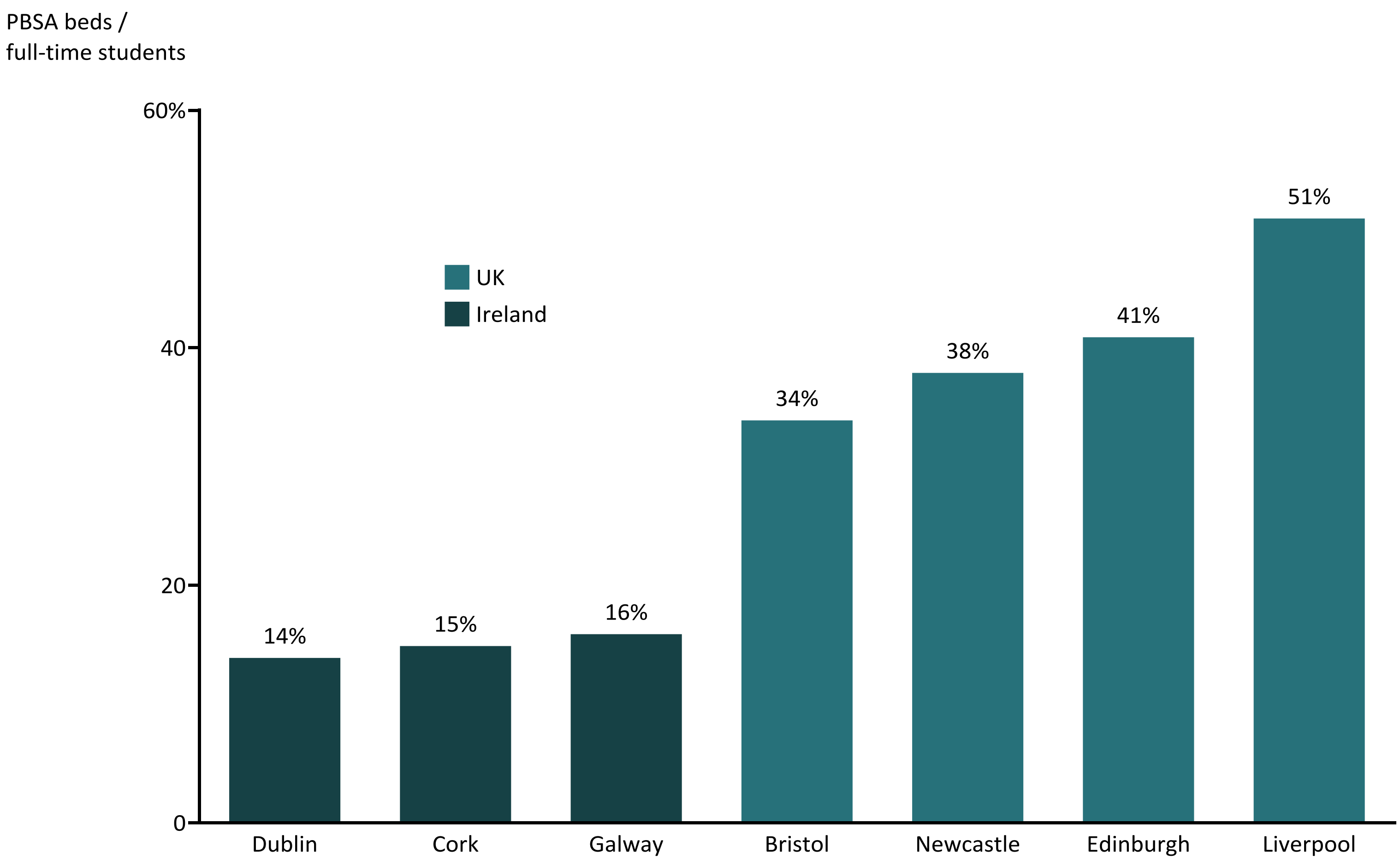
Driving increase in higher education students[2]



Note: [1]full-time students only, Irish data 2006/07 and older excludes Institutes of Technology; **[2]HEA forecast which is significantly lower than our bottom-up forecast**

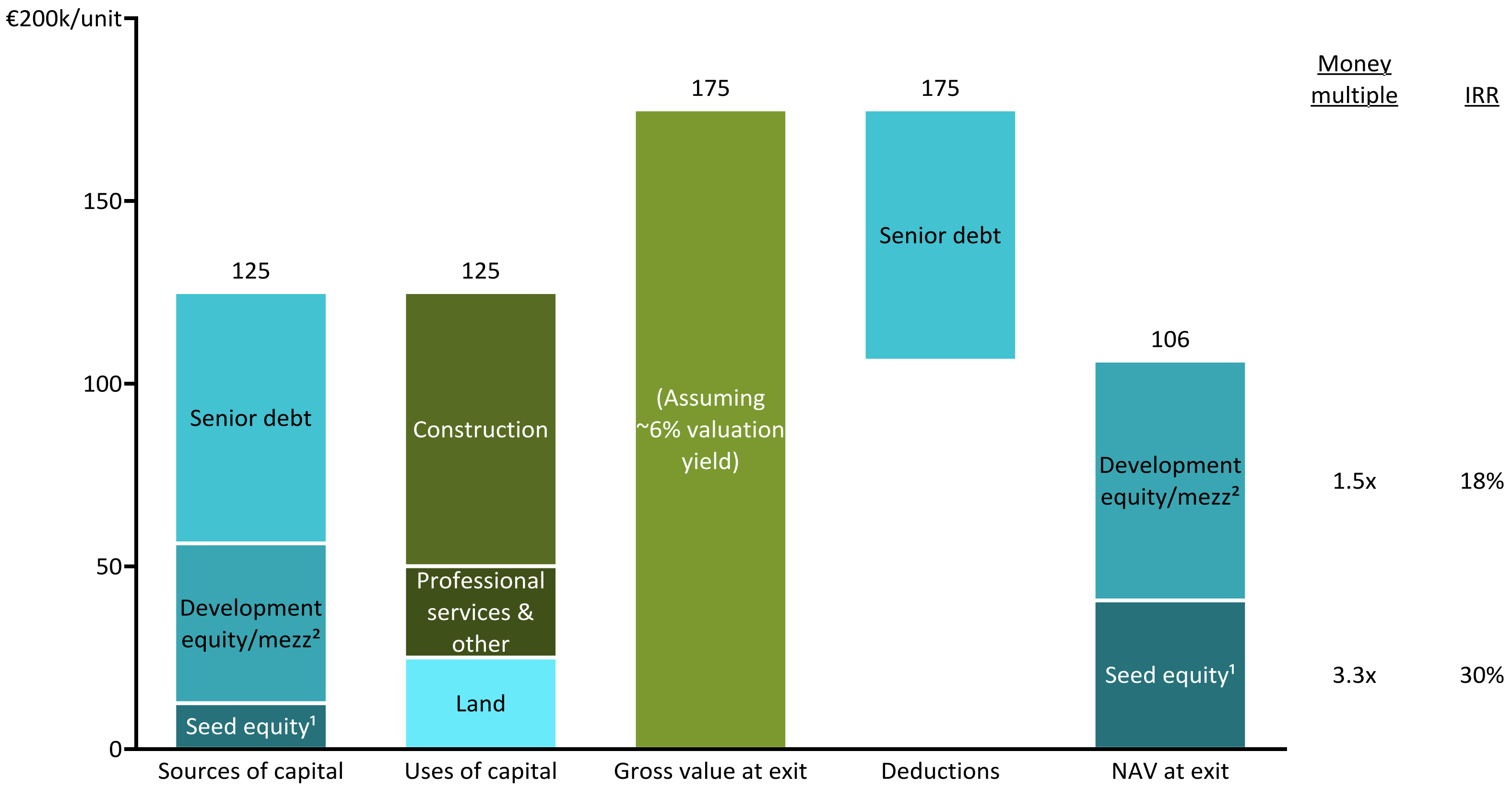
Source: Irish Central Statistics Office April 2016 estimates based on 2011 census and net migration, UNESCO Institute for Statistics, Higher Education Authority of Ireland, UK Higher Education Statistics Agency

Irish market is undersupplied with PBSA compared to UK cities



Source: Irish HEA, independent report on PBSA supply, Knight Frank UK Student Market Review 2016

Typical per bed economics



Notes: [1]currently open for investment; [2]fund currently being marketed
Source: Site appraisal models

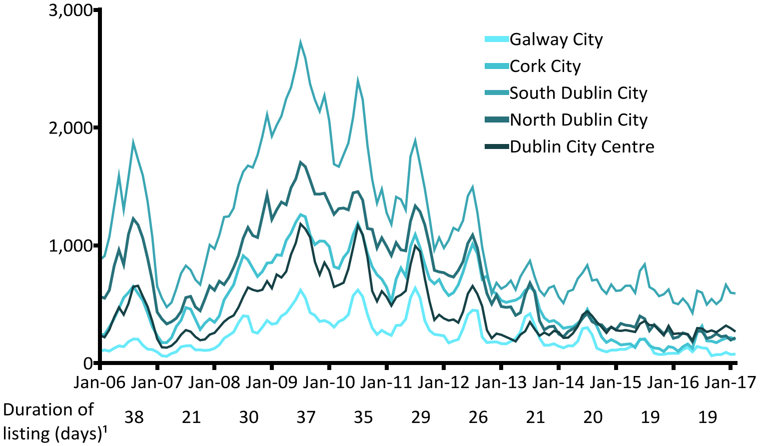
Team track record

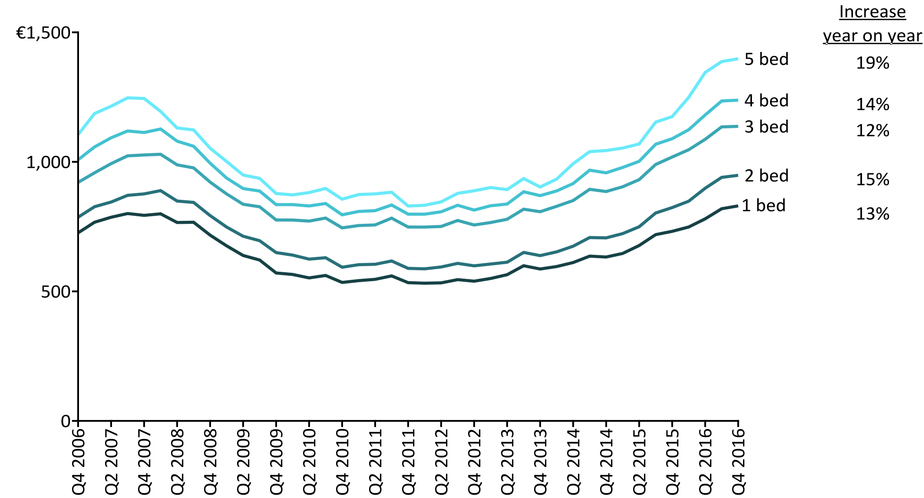
Investment type	Site	City	Beds	Seed capital investment		Development capital investment			Sale date	Seed equity money multiple	Dev. equity money multiple
				Date	Amount	Date	Total equity[1]	Senior debt			
Single asset UK LP	Wellgate House	Edinburgh	64	May-10	£218,500	Oct-10	£1,681,500	£2,862,000	Aug-13	2.9	1.5
Single asset UK LP	Kings Road	Reading	76	n/a	n/a	Jul-10	£1,200,000	£3,000,000	Oct-14	n/a	1.5
Single asset UK LP	Loddon House	Reading	101	Jan-11	£50,000	Mar-12	£2,500,000	£3,000,000	Oct-14	4.4	1.5
UK LP owning 2 sub-LPs	Shrubhill & Murano	Edinburgh	532	Nov-13	£450,000	May-14	£16,500,000	£23,300,000	Aug-16	4.4	2.0
Irish QIAIF	Montrose	Dublin	205	Jul-12	€650,000	Dec-13	€12,500,000	€15,600,000	Mar-17	5.1	1.5
Total or weighted average			**978**		**€1,488,360**		**€36,631,594**	**€49,626,814**		**4.4**	**1.8**

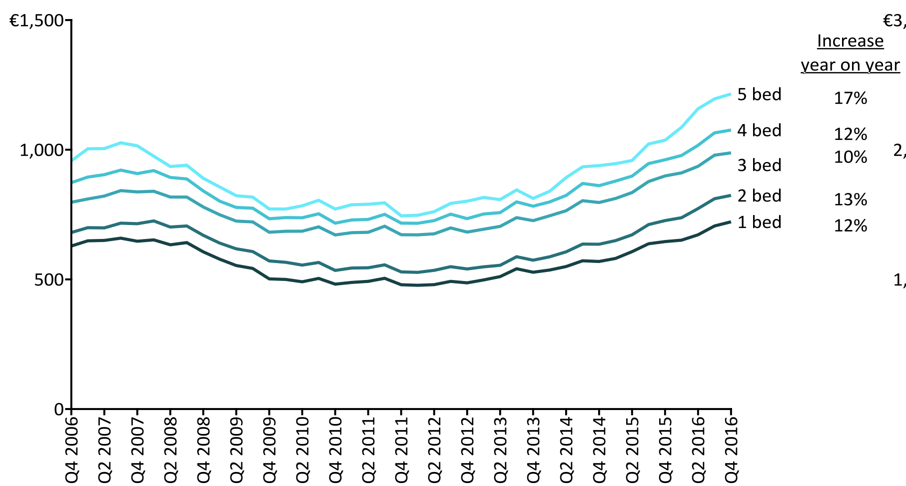
Notes: [1]includes mezzanine bought by equity investors
Source: partnership accounts; Davy (for Montrose)

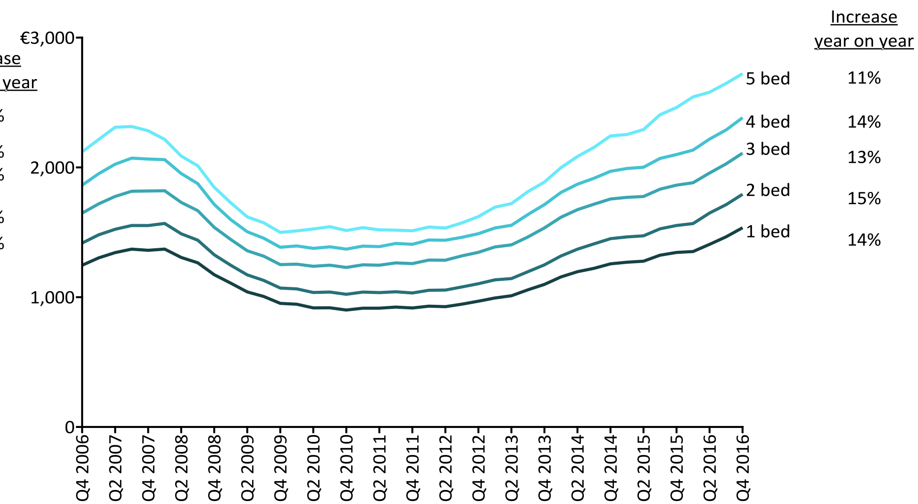
Severe shortage of rented residential accommodation is driving increases in rents and lack of availability

Stock of properties available to rent



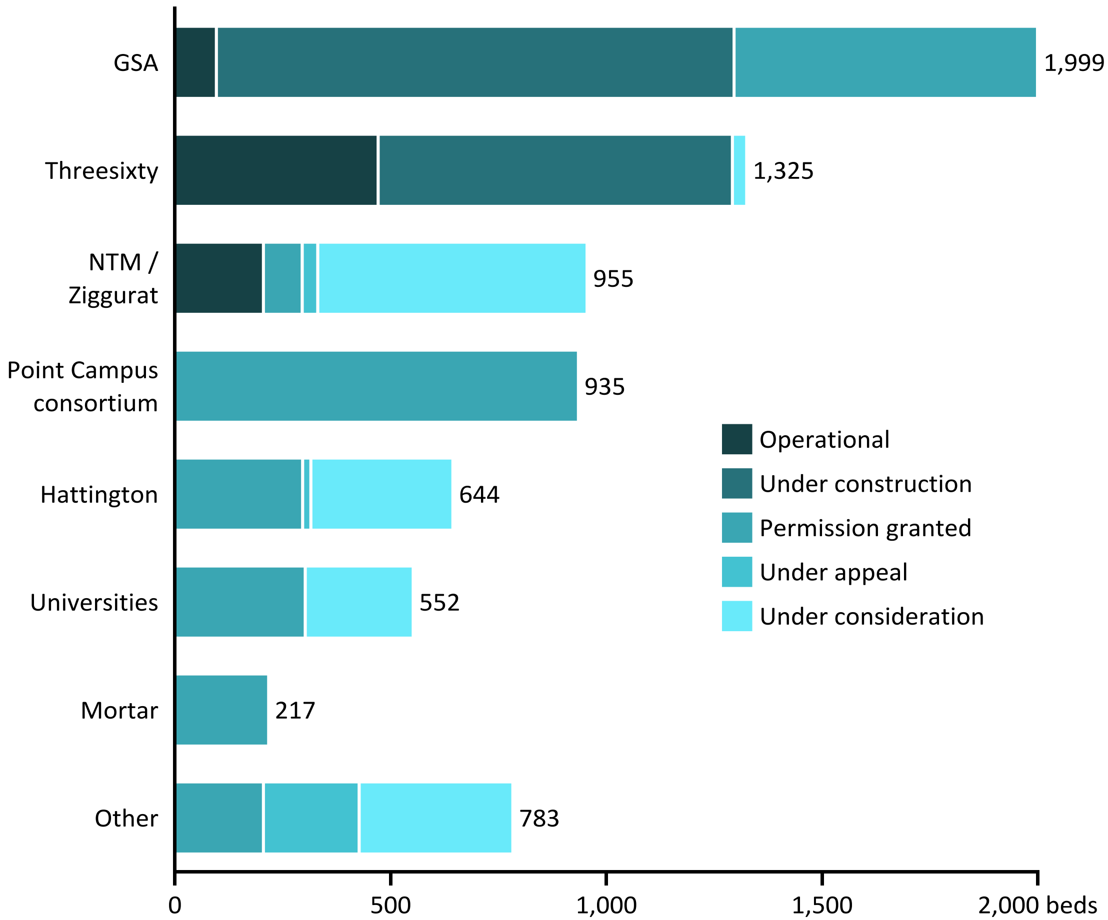






Note: [1]average for the year of stock / flow, where stock is number of properties available at the start of each month and flow is number of properties listed during the month; [2]average of Dublin 2, 4 and 7 Dublin postcodes
Source: daft.ie, NTM analysis

The PBSA sector is part of the solution
Dublin PBSA planning applications by owner since 2014

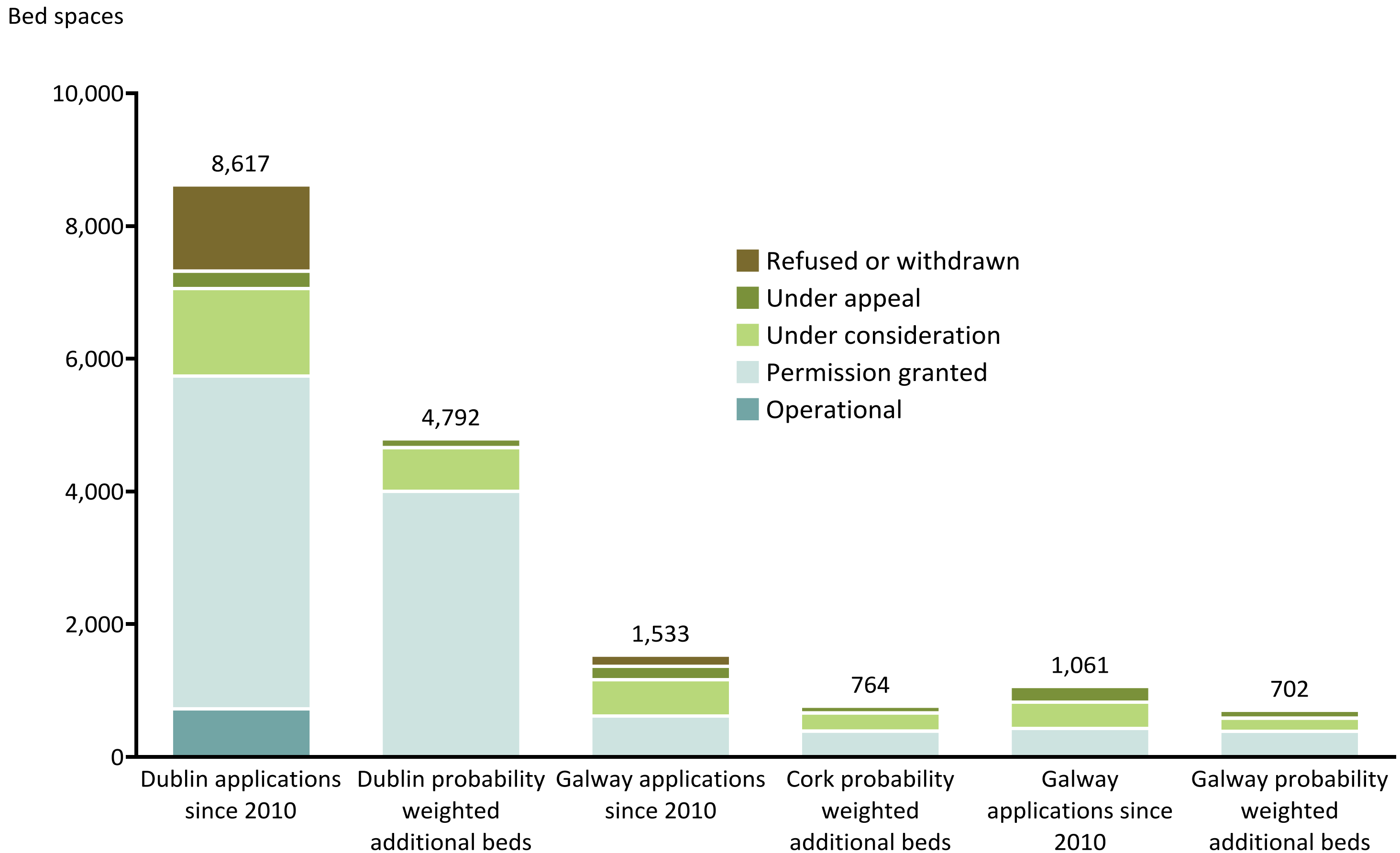


Notes

- Likely to all be built as backed by Chicago-based Harrison Street who have allocated €250M to be invested in Dublin over 5 years (rumoured to now all be committed)
- Selling to Hines
- Currently raising development equity
- Likely to have financing in place
- Unclear whether development equity has been secured
- Financed from own resources
- Do not seem to be financed
- Majority are speculative and unfinanced

Note: Ziggurat additional applications not yet submitted but will be during Q4; Montrose beds included on chart to enable comparison of total size although planning permission was received prior to 2014
Source: NTM database from planning websites

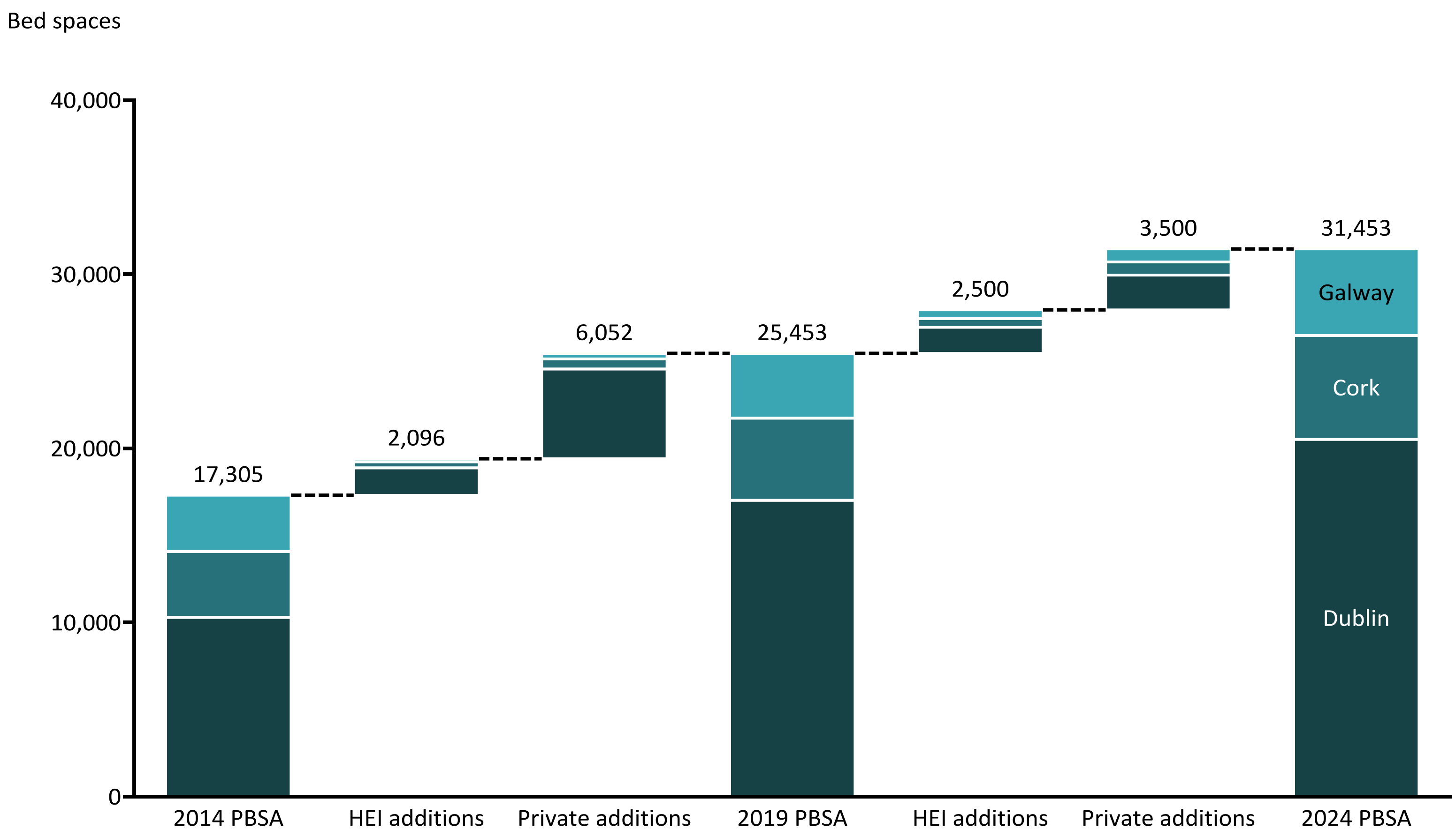
Not all planning applications will result in additional beds; e.g. we estimate ~4,800 beds in Dublin by 2020



Note probability weightings used: 0% refused/withdrawn or already operational; 50% (under consideration/appeal and stale permissions); 75% (permission granted, unfinanced owner); 90% (permission granted, financed owner); 100% (on-campus, or off-campus under construction)

Source: NTM database from planning websites

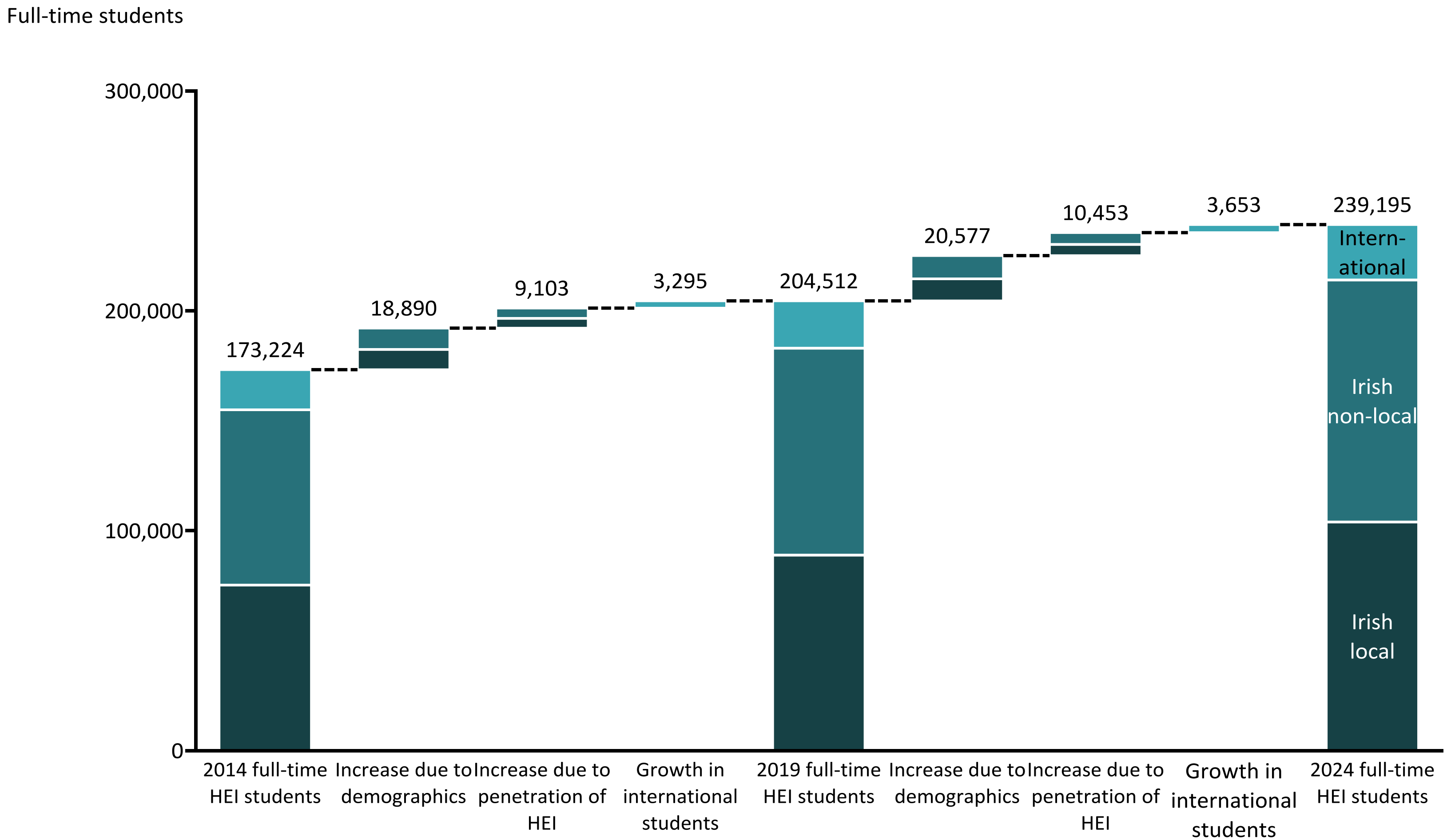
Forecast for total supply of PBSA in NTM target cities



Proportion of full-time students with access to PBSA	15%	20%	22%

Source: NTM analysis

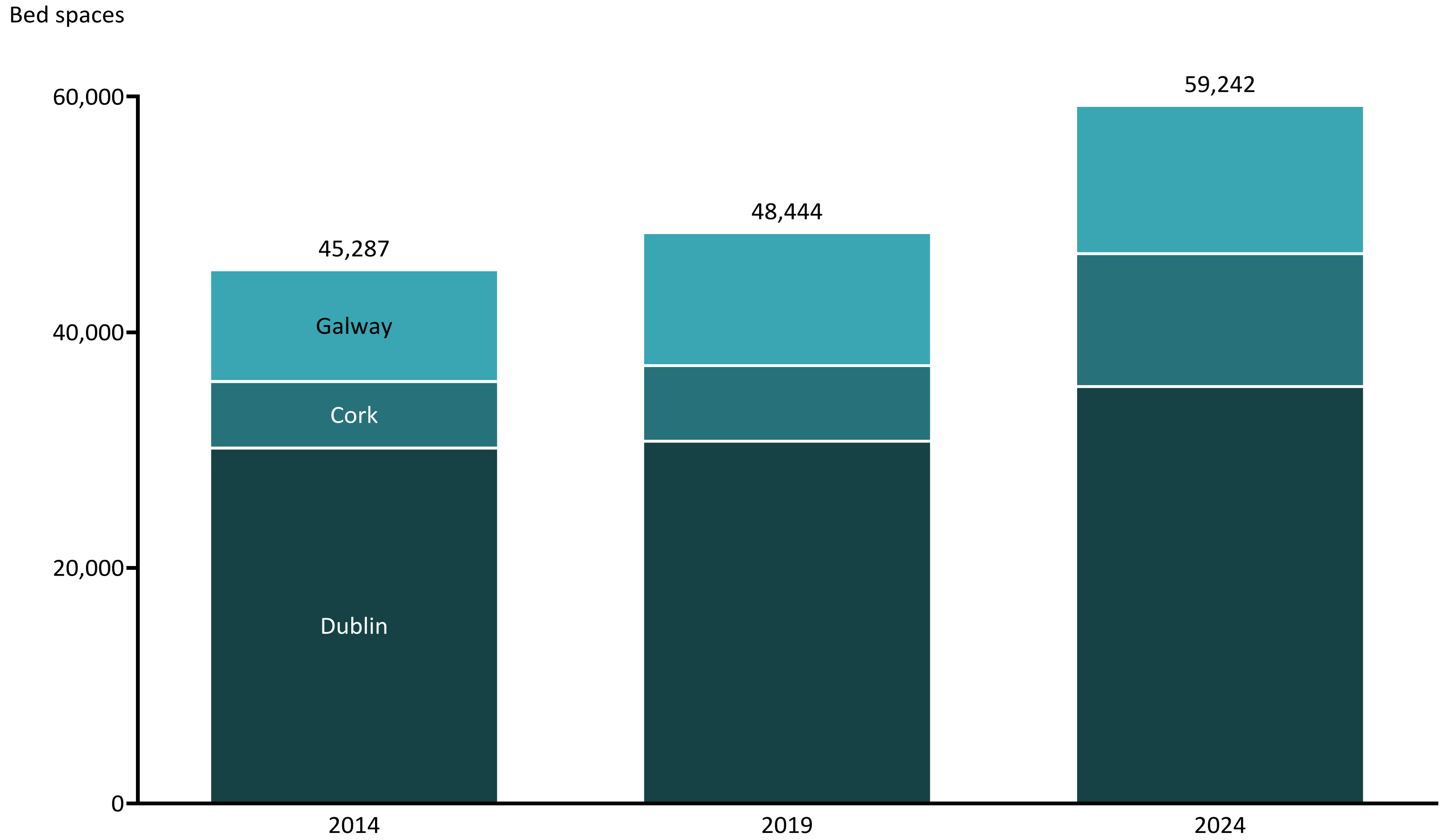
Forecast for total demand for places in Irish HEIs



HEA report estimates	167,991	179,840	192,886

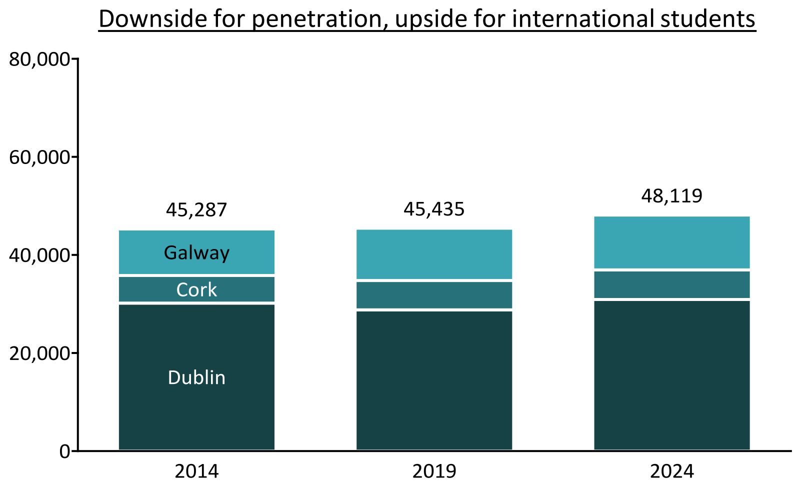
Key assumptions: higher education population directly proportionate to size of relevant age cohort; zero net migration of persons aged 0-18; rate of increase in penetration of tertiary education continues at one third of historic trend; international students grow at same rate as Irish
Source: NTM analysis

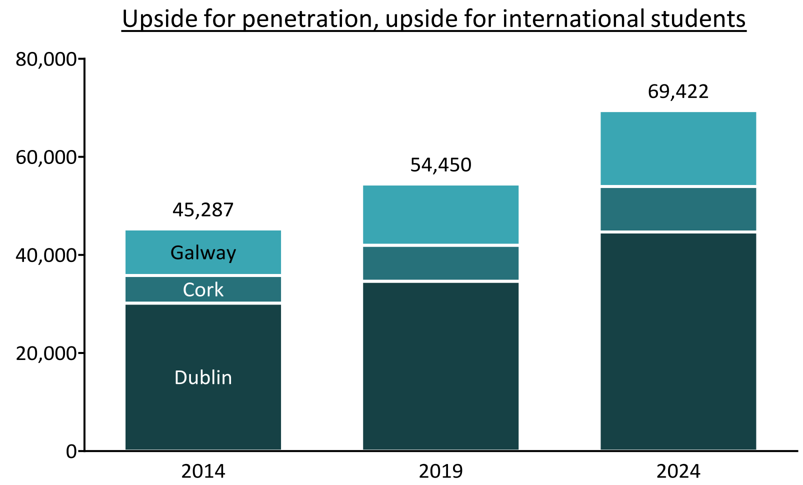
Estimate of unmet demand for PBSA in target markets (base case)

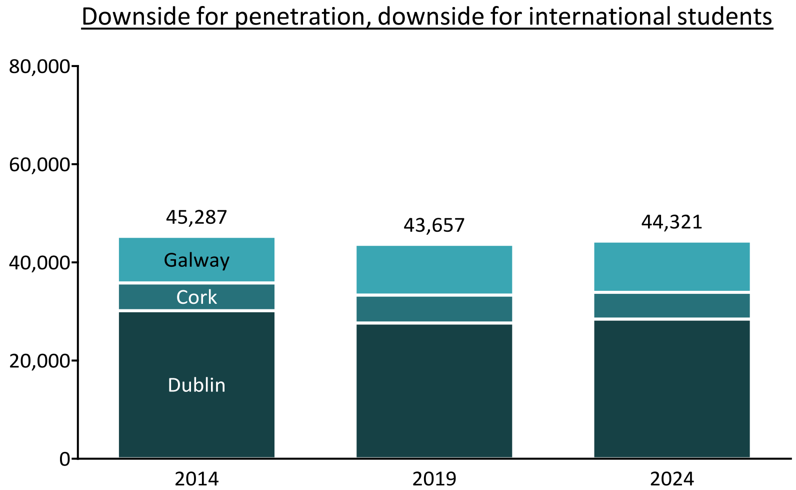


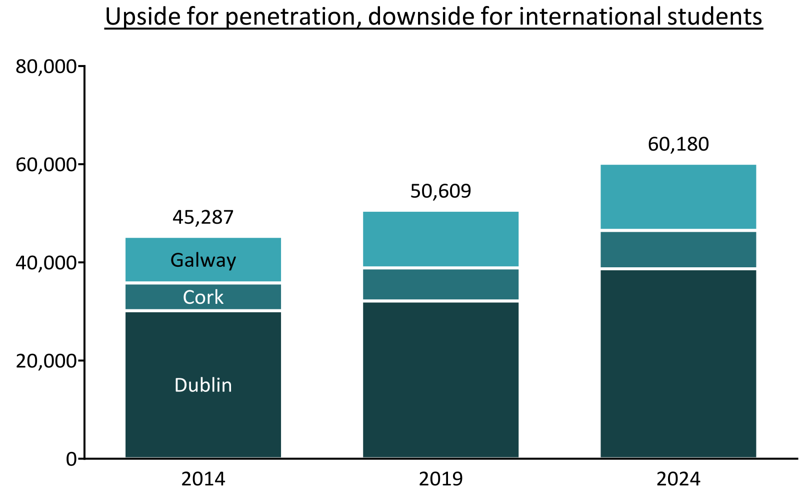
Note: demand defined as number of non-local full time students
Source: NTM analysis

Estimate of unmet demand for PBSA in target markets (penetration and international student growth sensitivities)



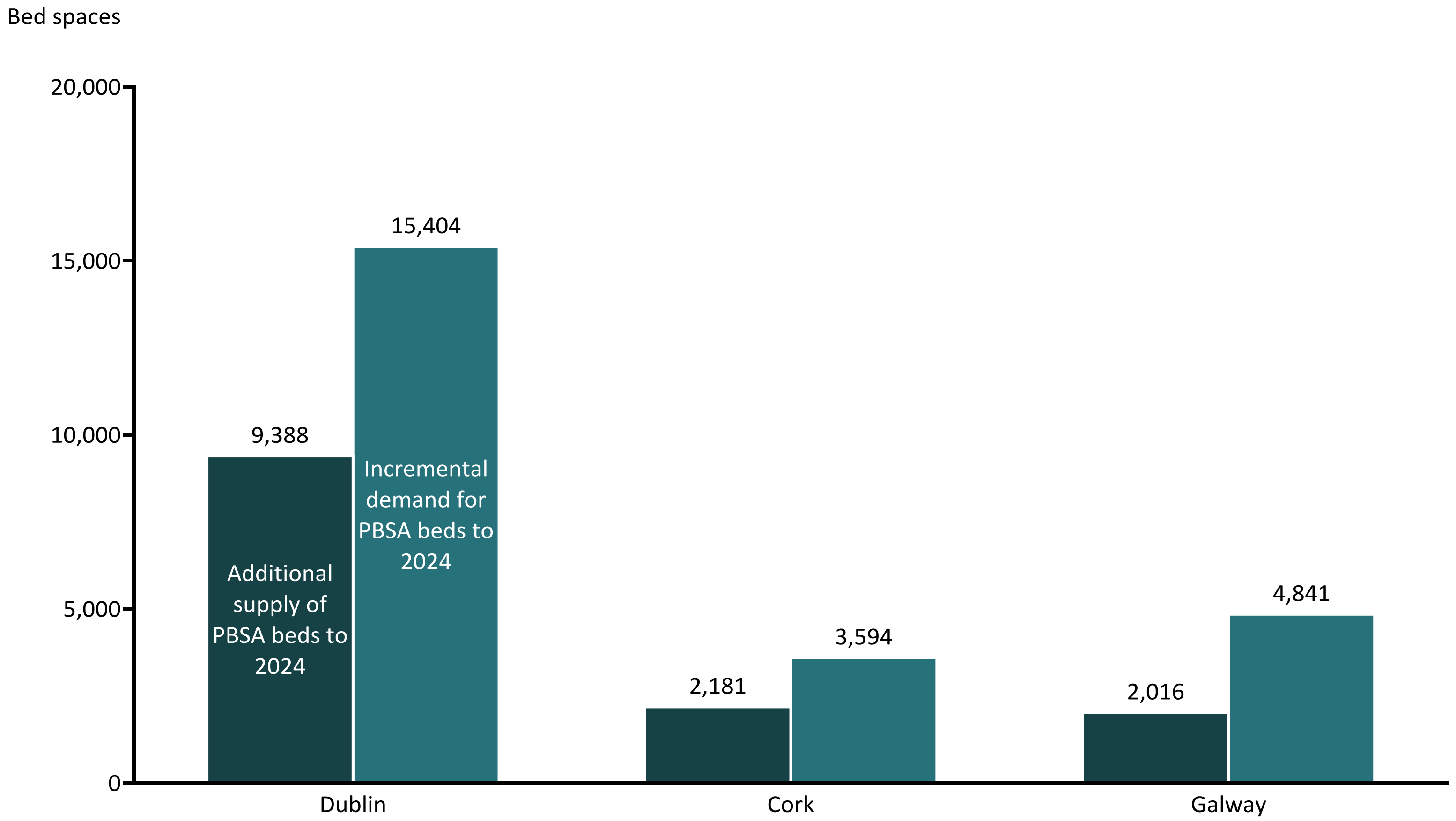






Assumptions: penetration upside has rate of increase at 2/3 of historic trend, downside has zero penetration increase; international student upside has growth at 150% of Irish student growth, downside has growth at 50% of Irish student growth
Source: NTM analysis

Summary of base case estimates: Additional supply compared to additional demand



Note: demand defined as number of non-local full time students
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