# Alternative Real Estate Industry Overview

**The industrial segment of where Synergy focused on.**

solution Synergy

# Alternative Real Estate Assets Overview

# What is Alternative Real Estate Asset Classes?

- Traditionally, most institutional investors focus on traditional real estate categories (office, retail, industrial or multi-family);
- Traditional commercial real estate generate income mainly from rental income relying on main factors such property quality and location;
- Recently, huge demand for core real estate assets has resulted in yield compression in many areas of the market, investors look for a higher yield;
    - Higher returns offered and greater expertise requirements make alternatives real estate become widely accepted by institutional investors;
- Alternative real estate generate cash flows mainly leveraging on commercial operation of such properties:
    - Student housing/Adult dorm/ Co-living space/Hotel
    - Service offices /co-working facility/flexible office
    - Self-Storage/REIT/Data Centre
    - Healthcare/Retirement Living
    - Medical Office Buildings/Niche Hospitality and Childcare
- The key function:
    - stable income streams and higher returns;
    - income may even be underwritten by local authorities on some projects.

# Alternative Real Estate Investment inflow is growing

- According to PwC, a strong alternatives real estate sector is emerging:
- 44% of investors are considering investing in alternative sectors in 2017, 16% higher than in 2015;
- Student accommodation and retirement property were most active in 2016.
- Great Expansion Report by JLL
- 90% of investors plan to increase exposure to alternative real estate assets in the next one to five years;
- their allocation to alternatives increase 9% annually in the next 1- 5 years.
- Institutional participation in alternatives stood at 41% of the total alternative market in 2016, nearly double the 2014 level .
- 70% increase in investment of student housing;
- 69% increase in hotels and hospitality investment
- 66% increase in healthcare investment
- Private real estate funds is one of the highest returns of any private capital asset class with an annualized 14.9% return in the 3 years to June 2016 (Preqin Investor Outlook)
- Driving factors:
- the rising middle class with high propensity to consume;
- aging population;
- cross-border internationalization of capital flows;
- Changes in social patterns.

# CAP RATES

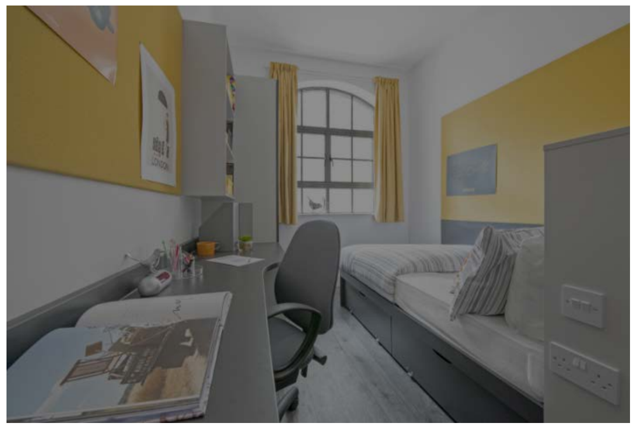
- The most basic and important equations to consider in real estate is the following:

**Gross Asset Value (GAV) = Net Operating Income (NOI) / Cap Rate**

- A rate of return on a real estate investment property based on the expected income that the property will generate.
- Often categorized into nominal and economic cap rates - nominal cap rates do not subtract capital reserves from NOI while economic cap rates do.
- Nominal cap rates are the more commonly used cap rates across most real estate sectors.
- The same principle of using any of the two variables in this equation can be used to find an implied cap rate or NOI.
- A lower cap rate implies a higher valuation while a higher cap rate implies a lower valuation.

# Student Housing

- US$ 16 billion global investment into student housing in 2016, and continues to gain momentum while investors keen to gain exposure and scale sector.
- Over the last decade, the top student housing markets in the US have attracted nearly 25% of total sector investment.
- Offshore participation in the US market reached 21% in 2016, its highest level ever after averaging around 7% over the last 10 years.
- The Millennial generations expects the very best, with privately-run student housing offering such amenities as resort-style pools, volleyball and basketball courts, 24-hour workout rooms and state-of-the-art washers and dryers that send message alerts once the laundry load is complete.
- Australian focused – due to undersupply and buoyant education industry.
- Global trends and local student data support thesis.
- Vertical integration problem: limited universe of operators detached from capital.



# Alternative Real Estate Investment inflow is growing

- Co-working operators help make it easier for companies to have a physical office location by enabling sharing of workspace. One such vendor, looking to go public, is New York-based WeWork**.**
- Inspired by 20 billion USD valuations achieved by WeWork, a startup trying to bring the hotel model to apartments and office markets simultaneously through its WeLive and WeWork business lines.


- WeWork signs simple leases for many of its locations, but it has recently shifted to more hotels like management agreements that give it a share of profits in some locations. Its plans to build a global brand of standardized office and apartment buildings that sells its services directly to consumers certainly seems to follow the Starwood and Marriott model.

# Student Housing (Australia)

- In Asia-Pacific, Australia's popularity as an English language based university education destination has helped attract greater number of international students, who now account for more than a quarter of all higher education enrollments.

- Positive enrollment growth since 2008, from both domestic and international students, averaging 4.5% and 3.0% respectively, has pushed total enrollment number to their highest level ever, reaching over 1.4 million in 2015.

- With more international students than Britain, education has now become Australia's second largest export industry. Melbourne, Sydney, Brisbane Canberra, Adelaide, and Perth are the largest markets for student housing.

- Much of the recent growth in supply has come from private operators who account for the majority of total stock.

- Sydney and Melbourne account for 58% of total stock but markets such as Brisbane have been rapidly developing, with 10,000 beds under construction Brisbane has the largest development pipeline in the country.

- Sydney has not seen a similar increase due to competition for development sites and a preference from developers for other asset classes.

- Across market, high occupancy levels and phased delivery of pipeline product are expected to maintain absorption and keep rents at strong levels.

# Adult Dorm/Co-living

- Residential real estate is one of the last industries where you have a lot of consumer spending but no consolidation or brand awareness, but a small but well-funded group of startups is arguing that there's a better way.
- Firms are trying to bring the branded hotel flag concept to the office and apartment markets, they believe they may transform the real estate industry and what it means to be a landlord and alternative real estate investment.
- Co-living operator make takeover the property building under a management agreement. In exchange for a share of revenues and profits, and to run the rental property as a co-living space under its own brand. Co-living operate as a sort-of Marriott for apartments, a recognizable brand that offers consumers a unified experience throughout different locations.
- Growth Drivers:
    - Given land scarcity in major cities, we are witnessing shrinking apartment sizes.
    - Household sizes are shrinking (e.g. people having kids later, single unit households on the rise);
    - The rising house prices in major metropolitan cities may lead to micro units becoming an inevitable solution;
    - Increasing number of companies is catering to space-efficient solutions, e.g. Spaceman in Singapore; like WeWork, Knotel, Common and Founder House.

# Retirement Living

- Investment volume into seniors housing reached a peak in 2014 and despite the decline in recent years, volumes remain above their long-run average.
- US and UK are still the preferred destinations, with Australia continues to be the most active market in Asia-Pacific, China and Japan present new opportunities given their aging populations.
- Scalability of business –owing to strong demand drivers, multiple existing operators, government initiatives (e.g. in Queensland).
- Independent Living: Designed for seniors who require little or no assistance. These properties often cater to residents who are 55+ with a variety of on-site amenities and social programming for active seniors;
- Assisted Living: These licensed facilities combine housing with a variety of personal support services, such as transportation, meals, laundry and health-care assistance.
- Nursing Homes: Properties are generally licensed and provide 24-hour skilled care for chronic and short-term conditions that require medical and nursing care.

- Memory care: The long-term care facilities are designed for people with a level of impairment, such as dementia, that makes it unsafe for them to continue to stay at home, but who do not require intensive care of skilled nursing facility.

# Alternative Real Estate Investment inflow is growing


- Another asset class set to explode in United States and Australia over the next few years.
- Health care systems throughout the country are looking to provide more localized, lower cost services outside the hospital setting, and many will be looking to utilize smaller, outpatient facilities.
- The aging baby boomer population is attracting more investment capital into this sector in terms of acquisitions, development and property renovations.
- The National Investment Center for the Seniors Housing & Care Industry (NIC) is an industry association that offers a variety of research and resources for investors, owners and operators.

# Data Centre

- As technology seems to improve at lightning speed, more and more of our data is kept in “the cloud” which requires millions of square feet of data storage space, with millions more slated for construction in the coming years.
- According to a forecast by networking firm Cisco, global “cloud” traffic will quadruple between 2013 and 2017, to 5.3 zeta bytes.
- Revenues and occupancy levels for such facilities are currently growing by double-digits, now may be a good time to invest in the sector.

# Self Storage/Childcare

- Opportunity to repurpose lower rental industrial units and/or vacant office space into high rental self-storage units.
- Consolidation opportunities as potential exit: no dominant operator across Asia Pacific;
- Key driving force: smaller home sizes increased affluence of middle class.
- Childcare sector in Australia expanding –rate of child care use has expanded 77% since 1996.
- Demand driven by higher workforce participation and generous government subsidies (e.g. Child Care Relief and Child Care Benefit) have kept child care affordable.
- A fragmented market place with different forms of childcare models.
- Small ticket sizes on individual asset basis sets asset class tailored for platform-style investments.
- AMP.Natsem Income and Wealth Report “Childcare affordability in Australia”, June 2014.

# Hotels

- Perhaps the most conventional 'alternative' real estate asset class.
  - Still a long-time favorite among Asian investors;
  - A sector driven by the purchasing power of the middle class;
  - Various sub-verticals including mid-tier hotel platforms, hostels, select-service brands catering to millennial etc.
- Full-Service:
  - loaded with guest services and amenities, such as on-site restaurants, banquet and meeting rooms, concierge service, spas and retail shops.
  - The overall success of the hotel is highly sensitive to the quality of its onsite amenities, particularly the food and beverage services.
- Limited-Service:
  - a step down in terms of service and amenities, often including meeting rooms, a fitness center and a swimming pool.
  - As a result, the operations of this class of hotel are more predictable in comparison to full-service hotels. Examples: Fairfield Inn, Hampton Inn and Holiday Inn Express.
- Budget:
  - may offer one or two guest services or amenities, but they tend to focus on providing the basic necessities for a very low rate.
  - Examples: Econo Lodge, Super 8 and Starwood's aloft.

# Some risk factors

- Student and seniors housing stand to benefit from the global demand for education and demographic shifts in many populous countries.
- Dramatic political shifts in the US and UK threaten to make them less welcoming to international student, which may negatively impact the student housing market.
- Downturn in student loan issuance stands to negatively affect enrollment and will surely spill over into the student housing sector.
- Recent construction boom in seniors housing has caused deliveries to outpace absorption in the US, oversupply in certain markets remains a major concern as a majority of the “baby boomer” generation has still not reached the age to require seniors housing services.
- Continued flattening of yields in key markets (Hong Kong, Singapore, Sydney, Tokyo) across Asia Pacific.
- More investments targeted at prevailing economic conditions.

# Thank You