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Build To Rent Or To Sell - That Is The Question!

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Executive Summary

The recent forward purchase[1] by Irish Life Investment Managers (ILIM) of 262 apartments from Park Developments in Fernbank, Churchtown has highlighted both the attractiveness of the Private Rental Sector (PRS) as an investment class and the profitability of this transaction for Park Developments. With ongoing commentary on the viability of the construction of affordable homes and the publication of a number of reports by the Department of Housing, Planning and Local Government and others regarding the cost associated with apartment and housing development – the continued difficulties around the viability of residential development for individual sale is clear. Given that average residential rents countrywide are at an all-time high of €1,261 per month[2] – the combination of high rent levels achievable and the viability issues around building homes to sell are driving build to rent as an attractive development option either for forward sale or operation by Developers.

This study looks at current affordability levels and calculates what value of loan a typical FTB can obtain and how much they can possibly save to accumulate a deposit. Given these estimates an affordability level for each household income level is calculated based on the household income distribution published by Ireland's CSO – i.e. the price target that must be met by a housebuilder to enable a purchaser with a given income level buy a home.

The study then looks at the current makeup of the components of sales price of houses and apartments in Q2 2018 and discusses the feasibility of constructing homes for this market given the estimated affordability limits. Finally, an analysis of Build To Rent as an alternative development option is presented. The findings are summarised as follows:

- A price target of between €207,000 and €350,000 must be achieved to allow households earning between the 60th and the 80th percentile of the national household income distribution purchase a 2-bed 75 sq m apartment.
- Built to rent may be an attractive development option when demand for rental accommodation is high and the level of disposable income can support high average rent levels c. €2,000 per unit. The return is particularly sensitive to land costs – thus not all sites may be suitable for this end use. The lack of VAT recoverability on development/purchase of new units impacts on return for operating companies. There are some option for forward selling of complete blocks once cost certainty is achieved in the construction phase.
- Analysis of current PRS market transactions indicate a purchase price of c. €550 - €600 p.s.f. This is to be compared with a price of c. €350 - €450 p.s.f. for individual sale of comparable units.
- It is critical that developers understand income levels in their target catchment area to ensure sufficient demand exists for their developments at a given price point whether selling or renting.
- A mid-range 2-bed 75 sq m apartment is estimated to cost €383,000 to deliver. To achieve this price apartment site cost must not exceed €50,000 per unit.
- Calculations indicate that at household income levels below €65,000 it may take over 8 years to save to purchase a mid-range 2 bed 75 sq m apartment costing €383,000.
- At the bottom of the household income distribution curve the Loan to Income (LTI) multiplier effectively sets the upper limit of what a household can afford given the low savings rates possible at this income levels – it is still difficult to deliver homes for the segment of the market given the cost structure of housing delivery.
- At this price level (€383K) the financial viability of apartment development is marginal and there is significant risk in starting projects for a developer – cost control is key in constructing for this segment of the housing market.
- The financing of apartment developments is complicated as the full building must be completed prior to receipt of the full sales proceeds (unlike houses where phasing is possible).
- The public sector take from apartment development is estimated to be 25% - 30% of the price - a reduction in this charge, with a linked maximum sales price cap, could improve the affordability of this type of house for lower income segments.
- With the 30K-50K new households that are estimated[3] to be formed each year adding to the existing deficit in housing supply there exists a market failure to deliver for lower income segments. Alternative solutions must be considered including construction by the State of social & affordable housing.

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[1] Source: Irish Time 10/5/2018
[2] Source: www.Daft.ie 4/5/2018
[3] Source: ESRI

Introduction

The recent forward purchase by Irish Life Investment Managers (ILIM) of 262 apartments from Park Developments in Fernbank, Churchtown has highlighted both the attractiveness of the Private Rental Sector (PRS) as an investment class and the profitability of this transaction for Park Developments or indeed any Developer.

Housing affordability is driven by how much a household can save and how much a household can borrow to purchase a home. How much a household can borrow is set by the Central Bank (CB). For some time now the CB have chosen to restrict lending by LTV (Loan to Value) and LTI (Loan to Income) with a First-Time Buyer (FTB) allowed to borrow 90% of the value of a house and up to 3.5x their gross income. FTB households must save to accumulate a deposit which is linked to their disposable income and funds left after all expenses including rent have been paid.

The existing Help to Buy Scheme (HTB) makes a tax rebate available equal to 5% of the value of a new home up to a maximum amount of €20,000 – looking to stimulate demand – this is paid directly to a registered contractor.

Thus, in determining the demand for housing targeting the FTB or PRS market, a housing supplier must consider how much a household can afford given the factors noted above which determine how much funding a household has available to purchase or rent a home.

Determining the affordability level

The following discusses the link between gross income, disposable income and savings rate and their impact on overall affordability.

<u>How Much Gross Income Do Households Have?</u>

Based on Department of Finance data the distribution of <u>individual</u> income in Ireland is as follows:

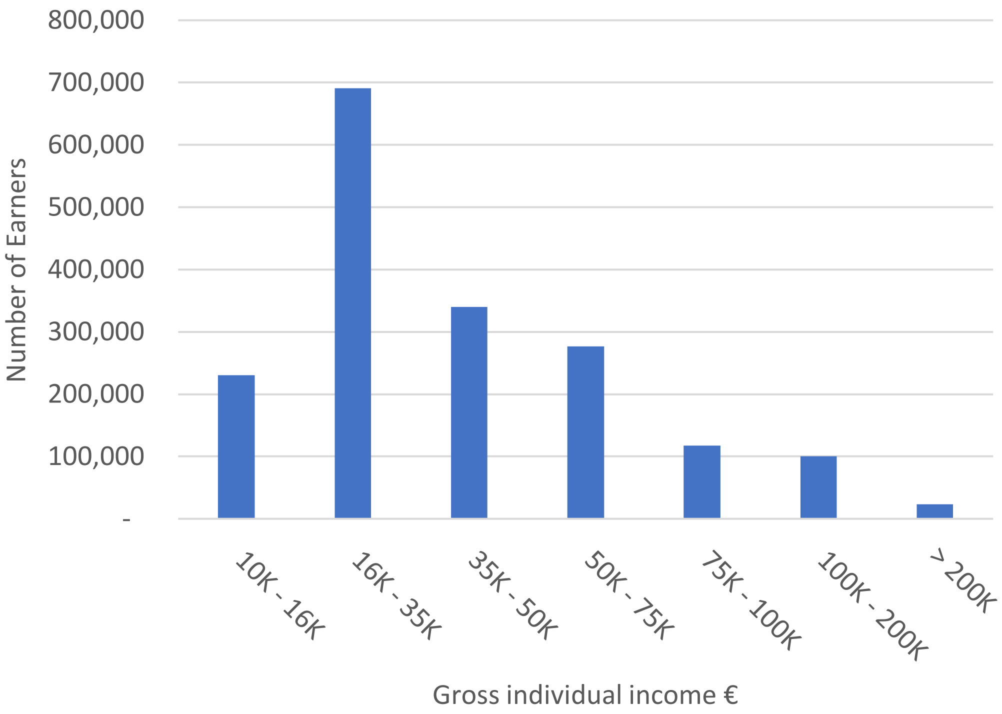

Figure 1 - Income Distribution in Ireland[4]

<u>Household Disposable Income Levels</u>

The Central Bank[5] had also modelled the rental market, savings and the accumulation of mortgage deposits in addition to NERI work on disposable income[6] and note the following:

- 50% of households have a disposable income of less than €35,000 per annum

[4] Source: Income Tax & USC. Tax Strategy Group Paper 14/07. 16/09/2014
[5] Central Bank. Rental markets, savings and the accumulation of mortgage deposits. C Kelly. F McCann. October 2016
[6] Gross Income minus income taxes and levies and minus social insurance (PRSI) contributions. i.e. what is in a households pocket to spend.

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- The top 10% of households have a disposable income above €77,000 per annum

The CSO have also produced figures[7] detailing the Republic of Ireland's <u>household</u> income distribution looking at disposable income. From this data Keogh Consulting have estimated that:

- 50% of households have a gross income of less than €42,171
- 70% of households have a gross income of less than €64,342
- Only the top 30% of households have a gross income of more than €80,000 per annum

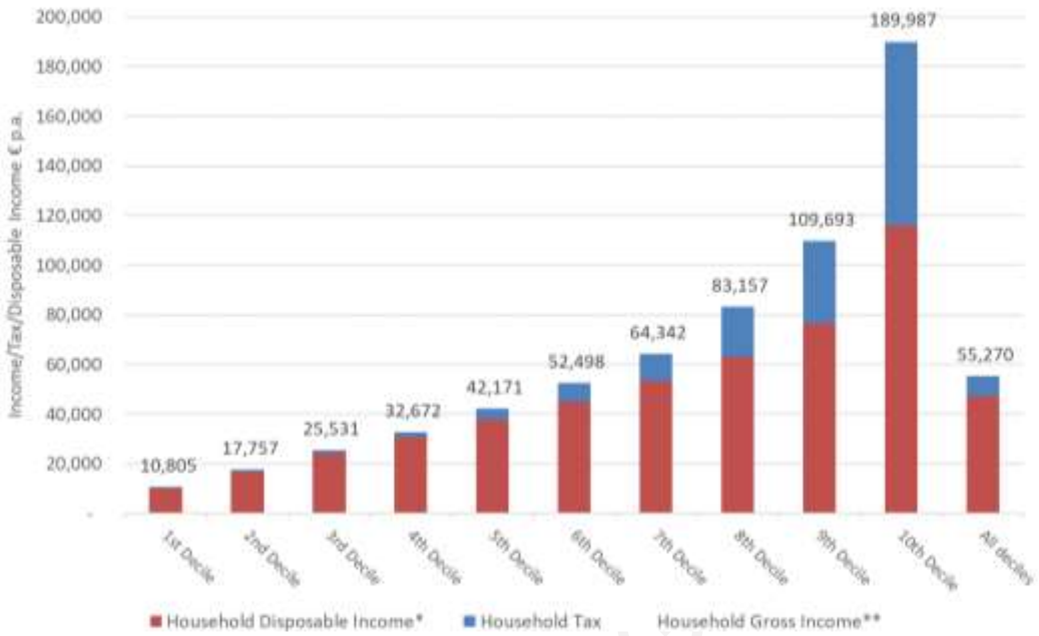

Figure 2 - Estimated Household Income Distribution[8]

<u>Based on this level of income how much can a household save? – Savings Rate</u>

First time buyer (FTB) Households will save from disposable income to accumulate a deposit. For the period 1999 – 2017 the average savings rate for all households in Ireland was 7.83% of disposable personal income with this being estimated at 8.1% in Q4 2017[9].

The calculations presented here assume that a FTB household will save at an accelerated rate to put aside a deposit. In order to get to an estimate of possible savings capacity the maximum savings rate has been estimated (based on the methodology indicated in a recent Central Bank Publication[10]) for a range of gross household income levels assuming rental of a 2-bed apartment by a household with no children while saving.

FTB Household Income	Estimate of Household Tax Paid	Estimate of Disposable Income	Assumed Non-rent spend[11]	Assumed Annual Rent Payments[12]	Estimated Annual Saving	
42,170	4,098	38,072	21,407	15,576	1,089	50th percentile
47,334	5,582	41,751	21,407	15,576	4,768	Mean
52,498	7,067	45,431	21,407	15,576	8,447	
58,420	8,769	49,650	21,407	15,576	12,667	
64,342	10,472	53,869	21,407	15,576	16,886	
73,750	14,107	59,642	21,407	15,576	22,659	
83,157	18,693	64,464	21,407	15,576	27,481	80th percentile
109,693	31,629	78,063	21,407	15,576	41,080	
149,840	51,518	98,322	21,407	15,576	61,339	

[7] Source: CSO 2016. "CSO survey Earnings and labour costs survey" 29/6/2017
[8] Source: 2016 CSO Earning & Labour Costs Survey 29/6/2017. Keogh Consulting Calculations.
[9] Source: http://www.tradingeconomics.com/ireland/personal-savings
[10] Central Bank. Rental markets, savings and the accumulation of mortgage deposits. C Kelly. F McCann. October 2016
[11] Kelly & McCann refer to work carried out by the Insolvency Service of Ireland in arriving at a figure of €1,783.94 for monthly household expenditure
[12] Source: Daft.ie

Table 1 - Estimated Household Savings Rate For Differing Income Levels

Using this estimate of savings rate the expected Time to Save (TTS) over a range of gross household income levels (*Figure 3 – Annual Household Income Estimated v Time To Save For a Basic 2 Bed*) has been calculated. These calculations are based on funding available under current Central Bank rules, and the Government 'Help To Buy' scheme and the estimated price of a basic 2-bed apartment - €383,000.

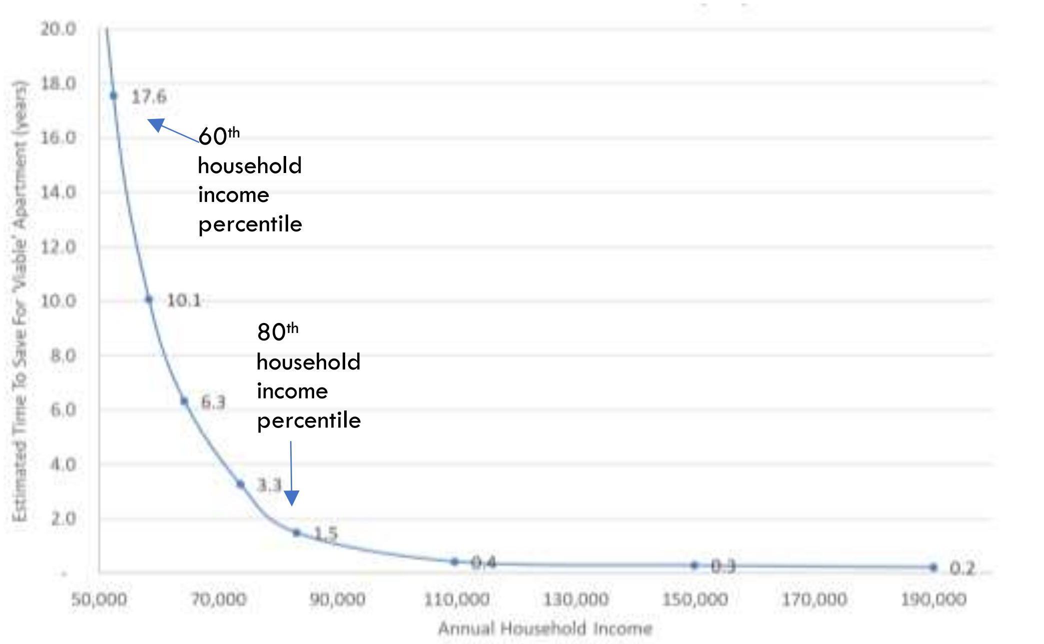

Figure 3 – Annual Household Income Estimated v Time To Save For a Basic 2 Bed Apartment Unit

From this analysis, at household income levels below €75,000 the estimated TTS is above 3 years – this is a long time to save for a home and it could be argued that this duration makes it difficult for prospective buyers at this income level to do so.

What is the estimated affordability (<u>not</u> viability) limit given these income levels?

A housebuilder needs to build homes that are affordable for purchasers so that a FTB household can buy the home through obtaining a loan that does not exceed the limits imposed by the Central Bank lending rules and does not take too long to save to accumulate a deposit (assumed at 2 years).

Based on CSO data and these calculations (*Table 2 – Estimated Home Affordability Limits Based on Central Bank Lending* Rules) a FTB household in 50th percentile of the household income distribution has earnings of €42.2K and an affordability limit of €158K, with a FTB household in 80th percentile having earnings of €83.2K and an affordability limit of €362K.

Gross Household Income[13]	Adjusted Affordability Limit[14]	Maximum Loan as per CB rules	Required Deposit	Own Funds – 2 years savings	Help to Buy
42,170	157,972	147,595	16,399	1,549	7,850
47,334	184,409	165,669	18,408	4,938	8,979
52,498	210,846	183,743	20,416	8,327	10,109
58,420	241,163	204,470	22,719	12,213	11,404
64,342	271,480	225,197	25,022	16,099	12,700
73,750	317,782	258,123	28,680	22,273	14,758
83,157	362,180	291,050	32,339	28,447	16,816
109,693	486,086	383,926	42,658	48,481	20,000
149,840	667,117	524,440	58,271	83,610	20,000
189,987	846,173	664,955	73,884	118,739	20,000

[13] Based on a household with 2 incomes
[14] Based on a 2-income household saving for 2 years to purchase a 2-bed property while renting a 2-bed property

Table 2 – Estimated Home Affordability Limits Based on Central Bank Lending Rules

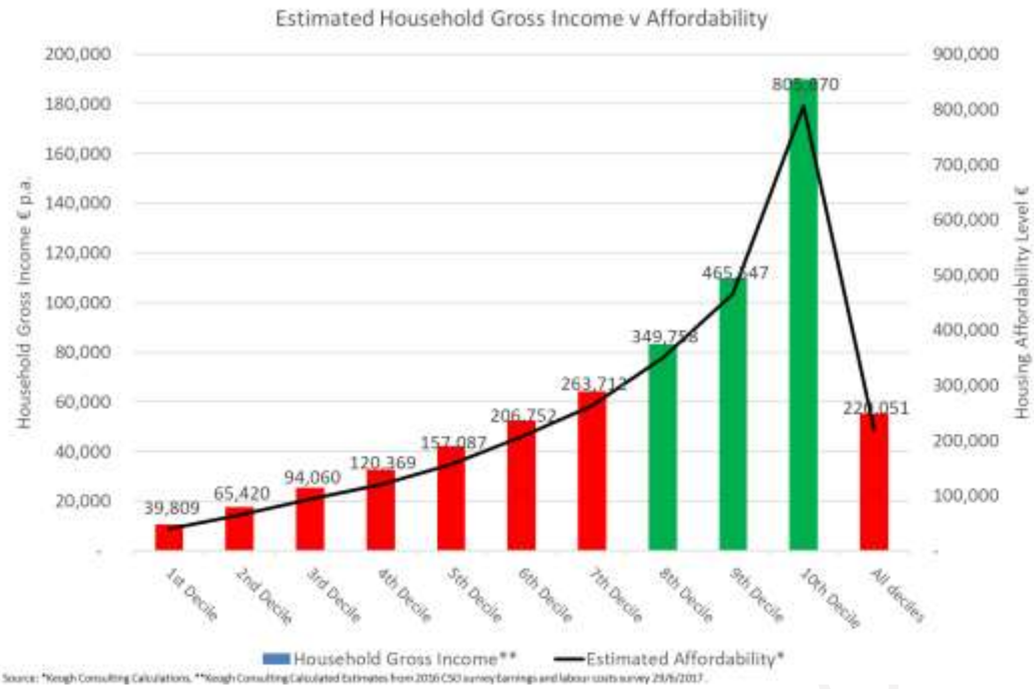

Figure 4 - Estimated Household Gross Income v Affordability

Thus, it can be seen that for the majority of households a viable housing unit is not within their affordability level with a household having to be above the 80th percentile to purchase a viable unit.

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Viability? Can a home be built to meet this price target? What reductions might be possible?

Research from a range of recent publications (including SCSI[15], DOELG[16]), market commentary and experience of residential new build projects in the Greater Dublin area indicates that the average construction cost[17] (incl. builders profit excl. VAT) for mid-range medium rise[18] urban apartment developments is around €2,100 per sq. m. (excluding basement & site development).

For a semi-detached house the average construction cost (incl. builders profit excl. VAT) is around €1,440 per sq. m. This estimate (excluding site development costs) has been verified by detailed cost planning for a mid-range specification 3 bed semi-detached houses (1,100 sq. ft.).

All in Development Cost

Construction cost is of course one element of the overall price of delivery – to this base cost must be added site purchase, allowances for Part V costs, planning contributions, bank finance, design and VAT where applicable.

	A	B	C
	3 bed semi detached. 1,100 sq ft 50# development	Apartment average size 75 sq m in 50# development	75 sq m unit in Build to Rent – includes FF&E[19]
Construction Cost	€135,700	€156,700	€171,700
Development Contribution	€13,800	€11,400	€11,400
Part V Cost (est.)	€5,000	€5,000	€5,000
Design	€6,000	€12,500	€13,700
Site Development Works	€17,400	€7,900	€7,900
Site Purchase (incl Stamp)	€50,000	€50,000	€50,000
Development Finance	€19,600	€24,700	€30,200[20]
Marketing, Legal etc.	€12,300	€13,500	€7,700
Construction Contingency	€6,800	€11,900	€13,000
	€266,600	€293,600	€310,600
Risk, Profit, Overhead	€40,000	€44,100	€55,100
Sale Price (ex VAT)	€306,600	€337,700	€365,700
VAT	€41,400	€45,600	€49,400
Breakeven Sales Price (incl VAT)	€348,000	€383,300	€415,100[21]
Estimated approx. site (HA)	0.7	0.13	0.13

Table 3 – Price Build-up – 3 Bed Semidetached House 1,100 sq ft or 75 sq m apartment. Q1 2018

Based on this house sales price, a household income above c. €85.0k will be required to purchase a 3-bed house at this price level with a household income of c. €90.6k required to purchase a 2-bed apartment at this price level. This high household income requirement creates demand risk for a developer which impacts on the overall viability of a scheme and a decision to start.

It is to be noted that a housing development will require a considerably larger site than an apartment development.

The analysis following (Table 4 - Sensitivity Analysis - Apartment Sales Price & Construction Rate v Pre-Tax Profit per Unit) illustrates that it is difficult for a developer to make a return that covers the risk inherent in a construction and development project at this sales price level given the sensitivity of overall development viability to construction cost.

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15 SCSI. The Real Costs of new Apartment Delivery. October 2017.
16 www.housing.gov.ie April 2018
17 Q2 2018 including parking excluding siteworks
18 Not greater than 6 floors
19 An allowance of €10K is made for furnishing each unit.
20 Higher financing costs on account of no deposits being received during construction
21 The exit value/price of the build to rent option is based on average rent of €2,000 p.c.m. at exit yield of 6% gross net of VAT assumed sold as new residential block. It is assumed that a Part V payment will be required.

		Construction Costs (€ per sq m)					
		-10%	-5%	2,100	+5%	+10%	+15%
Sale Price € incl VAT 1100 sq ft house	345,057	32.0	21.7	11.4	1.1	(9.2)	(19.5)
	364,227	48.3	38.0	27.7	17.4	7.1	(3.2)
	383,396	64.7	54.4	44.1	33.8	23.5	13.2
	402,566	81.0	70.7	60.4	50.1	39.8	29.5
	421,736	97.4	87.1	76.8	66.5	56.2	45.9
		Profit/(Loss) Before Tax (€,000) per unit					
		at site price € 50K per site					

Table 4 - Sensitivity Analysis - Apartment Sales Price & Construction Rate v Pre-Tax Profit per Unit[22]

Additionally, given annual construction cost inflation is running at 5%+ it is clear that input prices are increasing in the market and they are likely to increase further when demand for the trades involved in home building increases assuming a projected increase in activity in the sector. Thus, the construction cost savings that would facilitate a price reduction are probably going to be difficult to achieve in addition to the basic specification of the homes leaving little to eliminate.

		Construction Costs (€ per sq m)					
		-10%	-5%	€ 2,100	+5%	+10%	+15%
Sale Price € incl VAT 805 sq ft unit	345,057	11.7%	7.7%	3.9%	0.3%	-3.0%	-6.0%
	364,227	17.7%	13.4%	9.5%	5.7%	2.3%	-1.0%
	383,396	23.7%	19.2%	15.0%	11.1%	7.5%	4.1%
	402,566	29.6%	24.9%	20.5%	16.5%	12.6%	9.1%
	421,736	35.5%	30.6%	26.0%	21.8%	17.8%	14.1%
		Yield on Development Cost					

Table 5 - "Affordable" Apartment Price[23] & Actual Construction Cost v DevCo Yield on development cost

The model assumes that 30% equity is required – at equity levels above this the overall IRR will fall.

		Construction Costs (€ per sq m)					
		-10%	-5%	€ 2,100	+5%	+10%	+15%
Revenue (% of Viable Price)[24]	345,057	26.6%	18.1%	9.5%	0.9%	-7.9%	-16.8%
	364,227	38.3%	30.2%	22.1%	13.9%	5.7%	-2.6%
	383,396	49.1%	41.3%	33.5%	25.7%	17.9%	10.1%
	402,566	59.2%	51.6%	44.1%	36.6%	29.1%	21.6%
	421,736	68.6%	61.2%	53.9%	46.6%	39.4%	32.2%
		Before Tax IRR on Equity					

Table 6 - "Affordable" Apartment Price[25] & Actual Construction Cost v DevCo Pre Tax IRR on Equity

From Figure 5 - Breakeven Analysis for Development it can be seen that the breakeven point on the model development is on the sale of the 30th unit. A 10% increase in construction costs will push breakeven out to the 36th unit.

[22] Based on a 6 storey 50-unit development of apartments on a 0.2HA site in the Greater Dublin region. There are higher risks in smaller scale developments given the ratio of fixed to variable costs in residential developments..
[23] The "Affordable" Home Price is assumed to be the price that a household with 2 salaries at the average salary level can pay based on the central bank mortgage lending rules.
[24] Assumes 15% markup on total development costs to cover risk, profit & overheads
[25] A per 23

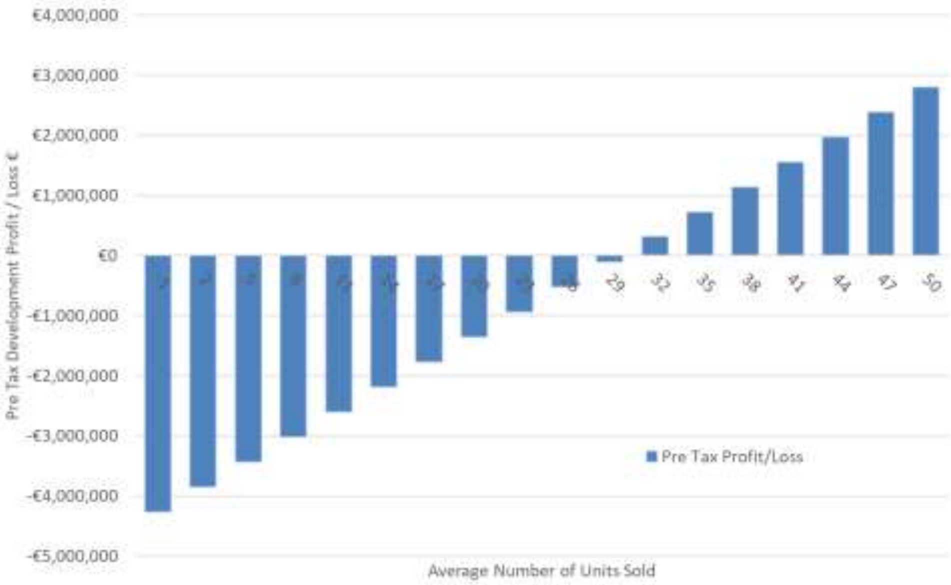

Figure 5 - Breakeven Analysis for Development

Thus, commercial viability for apartment development is marginal or absent is considerable financial risk in developing residential housing of this type at this price level given the riskiness of the returns involved, current levels of construction tender inflation and the number of potential purchaser to pay the viable price.

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Is Build To Rent Development a Better Option?

The current attractiveness of a Build to Rent Model[26] over Build to Sell is highlighted in the following analysis which indicates a potential yield on costs (including land cost) of 17.7%[27] with an average monthly rental of €2,000 for a 2-bed unit. This is compared to a yield on costs of c. 3.9% - 9.5% on an affordable Build to Sell scheme.

		Construction Costs incl FF&E (€ per sq m GIFA)					
		-10%	-5%	2,301	+5%	+10%	+15%
Average Monthly Rent	1,800	14.5%	10.2%	6.2%	2.5%	-1.0%	-4.2%
	1,900	20.7%	16.2%	12.0%	8.0%	4.4%	1.0%
	2,000	26.9%	22.1%	17.7%	13.6%	9.7%	6.2%
	2,100	33.0%	28.0%	23.4%	19.1%	15.1%	11.3%
	2,200	39.1%	33.9%	29.1%	24.6%	20.4%	16.5%
		Yield on Development Costs					

Table 7 – Yield on Development Costs v Average Monthly Rent v Construction Cost – Build To Rent

Assuming that the development is 70% debt funded (land and development) at a blended interest rate of 10% an attractive before tax IRR of 35.5% may potentially be achieved should the development proceed as intended. The return and yield is an improvement over the sale option (range 9.5% - 22.1%)

		Construction Costs incl FF&E (€ per sq m GIFA)					
		-10%	-5%	2,301	+5%	+10%	+15%
Average Monthly Rent	1,800	28.7%	19.9%	11.1%	2.2%	-6.8%	-16.0%
	1,900	40.5%	32.1%	23.7%	15.3%	6.9%	-1.7%
	2,000	51.4%	43.3%	35.3%	27.2%	19.2%	11.1%
	2,100	61.6%	53.7%	45.9%	38.2%	30.4%	22.7%
	2,200	71.1%	63.5%	55.9%	48.4%	40.9%	33.4%
		Before Tax IRR on Equity					

Table 8 – Before Tax Equity IRR v Average Monthly Rent v Construction Cost – Build To Rent

From Table 9 – Yield on Development Costs v Average Monthly Rent v Land Cost – Build To Rent it can be seen that these returns are highly dependent on the land costs and average rent achieved – it is likely that a location that achieves a high rent level will also be more expensive.

		Land Cost Per Unit ('000)					
		37.50	50.00	62.50	75.00	87.50	100.00
Average Monthly Rent	1,800	11.4%	5.7%	0.5%	-4.3%	-8.5%	-12.5%
	1,900	17.6%	11.5%	6.0%	1.1%	-3.5%	-7.6%
	2,000	23.8%	17.4%	11.6%	6.4%	1.6%	-2.7%
	2,100	30.0%	23.3%	17.2%	11.7%	6.7%	2.1%
	2,200	36.2%	29.1%	22.8%	17.0%	11.8%	7.0%
		Yield on Development Costs					

Table 9 – Yield on Development Costs v Average Monthly Rent v Land Cost – Build To Rent

Analysis of market transactions indicates that a significant volume of currently available buy to rent units have been procured/developed at a cost below the actual cost of delivery – in many cases as part of a distressed loan sales process. The supply of low cost sites and buildings has now significantly diminished, and returns are now highly dependent on optimal site selection, strict management of cost of delivery and operating efficiency once built and rented.

Build To Rent may be an attractive investment option for housing provision when demand for rental accommodation is high and the level of disposable income can support high rent levels c.€2,000 per unit. Given 'steady' long term cash flows it is becoming an attractive investment class for the institutional investor. The return is particularly sensitive to land costs – thus not all sites may be suitable for this end use. Care must be taken when considering this option as with increased rental accommodation availability (on account of more product being brought to market) it is possible that average rents may fall from the current high levels in the future.

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[26] The attractiveness is illustrated by the forward purchase by Irish Life Investment Managers (ILIM) of 262 apartments from Park Developments in Fernbank, Churchtown (source Irish Times, 11/5/2018) which ILIM plans to rent to tenant on completion of the development. The indicated purchase price >€100 million equates to an apartment sale price of €550 – €600 per sq ft. With our estimate of expected gross income of c. €6.2M this equates to a gross yield between 5.5% - 6.0%. Our estimates indicate that this return is in excess of that which would have been achieved by individual sale of the units.

[27] This of course assumes a willing purchaser of the full development on or prior to completion.

What is the development value chain? How could the sales price be reduced?

From our calculations the residential development value chain has been broken down as follows:

Value Chain	Per Unit	%
Land	€49,000	13.9%
Stamp Duty on Land	€1,000	0.3%
Dev Levy & Part V	€16,400	6.0%
Design	€13,800	3.9%
Finance	€26,400	4.1%
Project Management	€9,100	1.2%
Builder nett turnover	€184,500	48.6%
Builder after tax margin	€8,500	2.2%
Corp tax paid by builder	€1,200	0.3%
VAT	€45,600	11.8%
Income & CG Tax	€11,200	2.4%
Shareholder Profit	€13,800	3.7%
DevCo Corporation Tax	€2,900	0.8%
Purchaser House Stamp Duty	€3,400	0.9%
Total	**€386,800**	**100.0%**

Table 10 - Development Value Chain[28]

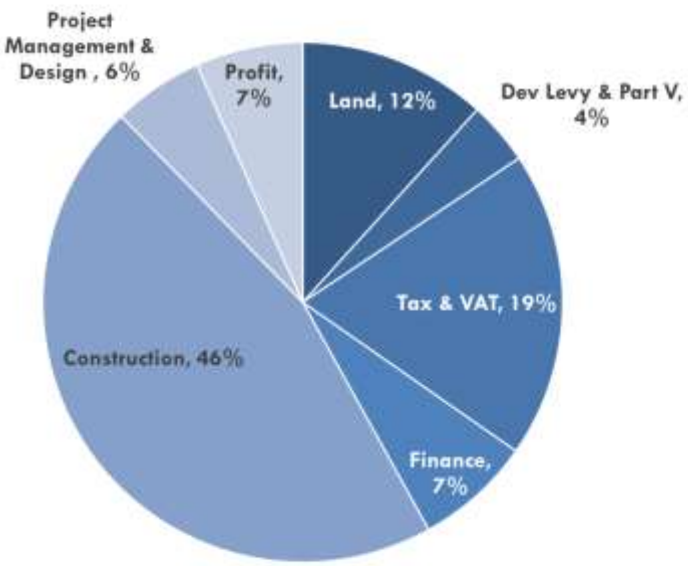

Figure 6 - Development Value Chain Summary

With it being estimated that the government captures (*Table 11 - Estimate of Government Tax Take on Construction of 2 Bed*) up to 30% of the cost of this type of house – as such they are a key stakeholder in the process and a major cost centre.

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[28] Based on 50 No 3 bed semi-detached houses

Estimated Government Receipts		
Builders Corporation Tax	€1,200	
Stamp Duty on Site	€1,000	
Stamp Duty on House	€3,400	
DevCo Corporation Tax	€2,900	
Builders Income Tax	€27,700	
Other Income Tax	€4,500	
Investor CGT on Completion	€6,800	
Development Levy & Part V	€16,400	
VAT	€45,600	
	€109,500	
Help to rent cost	-€16,200	- Tax rebate
Estimated Net Government Receipts	€93,300	

Table 11 - Estimate of Government Tax Take on Construction of 2 Bed 75 sq m apartment

A reduction in these charges would improve the affordability of this type of apartment with the major scope being in a reduction in VAT or Development Levies (Part V has recently been halved). This will equate to €4.66M for the full 50-unit development. However, developers must be incentivised to pass on the cost saving to the purchaser – for example through a levy or VAT refund being contingent on a sales price below a guaranteed level.

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Conclusion

In summary the analysis draws the following conclusions.

- A price target of between €207,000 and €350,000 must be achieved to allow households earning between the 60th and the 80th percentile of the national household income distribution purchase a 2-bed 75 sq m apartment.
- Built to rent may be an attractive development option when demand for rental accommodation is high and the level of disposable income can support high average rent levels c. €2,000 per unit. The return is particularly sensitive to land costs – thus not all sites may be suitable for this end use. The lack of VAT recoverability on development/purchase of new units impacts on return for operating companies. There are some option for forward selling of complete blocks once cost certainty is achieved in the construction phase.
- Analysis of current PRS market transactions indicate a purchase price of c. €550 - €600 p.s.f. This is to be compared with a price of c. €350 - €450 p.s.f. for individual sale of comparable units.
- It is critical that developers understand income levels in their target catchment area to ensure sufficient demand exists for their developments at a given price point whether selling or renting.
- A mid-range 2-bed 75 sq m apartment is estimated to cost €383,000 to deliver. To achieve this price apartment site cost must not exceed €50,000 per unit.
- Calculations indicate that at household income levels below €65,000 it may take over 8 years to save to purchase a mid-range 2 bed 75 sq m apartment costing €383,000.
- At the bottom of the household income distribution curve the Loan to Income (LTI) multiplier effectively sets the upper limit of what a household can afford given the low savings rates possible at this income levels – it is still difficult to deliver homes for the segment of the market given the cost structure of housing delivery.
- At this price level (€383K) the financial viability of apartment development is marginal and there is significant risk in starting projects for a developer – cost control is key in constructing for this segment of the housing market.
- The financing of apartment developments is complicated as the full building must be completed prior to receipt of the full sales proceeds (unlike houses where phasing is possible).
- The public sector take from apartment development is estimated to be 25% - 30% of the price - a reduction in this charge, with a linked maximum sales price cap, could improve the affordability of this type of house for lower income segments.
- With the 30K-50K new households that are estimated to be formed each year adding to the existing deficit in housing supply there exists a market failure to deliver for lower income segments. Alternative solutions must be considered including construction by the State of social & affordable housing.

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Appendix – Indicative Build To Rent Development Details

Development Areas (GIFA sq m)			**Source of Funds ('000)**		**Application of Funds ('000)**	
Residential Area	3,730.0	50 #	Permanent Loan	6,548.3	Total Construction Cost	9,658.7
Other Area	0		Equity	9,204.7	Land Purchase Cost	2,500.0
Total Area	3,730.0		Total Funding	15,753.0	Design & PM	772.7
					Contributions etc	1,947.1
Construction Rate	240	per sq ft	Perm Loan term	10 years	Construction Stage Finance	874.6
Site Purchase Date	01-05-18		Perm. loan rate	3.0%	Total Development Cost	15,753.0
Construction Start	01-11-18		Principal repayment -	Annuity		
Construction End	30-04-20		Y1 DSCR	1.10 x	Y1 LTV	32%

Operating Period Cash Flow						
Residential rent	2,000	p.c.m. ex VAT	Rent increase p.a.	4.0%	Annual op costs increase	1.5%
Non-residential rent p.a.	0	p.s.m. ex VAT	Sales increase p.a.	3.0%	Average residential sale price	453,591

y/s	30-04-19	30-04-20	30-04-21	30-04-22	30-04-23
EGI	0.0	1,185.6	1,233.0	1,282.3	0.0
Total Operating Costs	0.0	(213.2)	(216.3)	(109.8)	0.0
NOI	0.0	972.5	1,016.7	1,172.5	0.0
Less Debt Service	0.0	(767.7)	(767.7)	(767.7)	0.0
BTCF	0.0	204.8	249.0	404.9	0.0
Tax @ 25 %	0.0	(127.7)	(143.1)	(186.5)	0.0
Change in working capital	0.0	0.0	0.0	0.0	0.0
After-tax cash flow from operations	0.0	77.0	105.9	218.4	0.0

After tax sales proceeds ('000)			
Assumed sale price/valuation	19,982.0	Assumed Exit date	30-04-22
Cap. gain tax @ 33 %	(1,395.5)	Holding period	3 years
Repay outstanding loan	(4,782.8)		
After-tax cashflow on sale	13,803.7		

Investment appraisal ('000)				
Equity investment	9,204.7	Y0	ATIRR	15.66%
After tax cashflow from ops	401.4	Y1 - Y3 years	Yield on investment	1.54 x
After tax cashflow on sale	13,803.7	Y3 years	NPV @ 15 %	158.6
Net return to equity	5,000.4			

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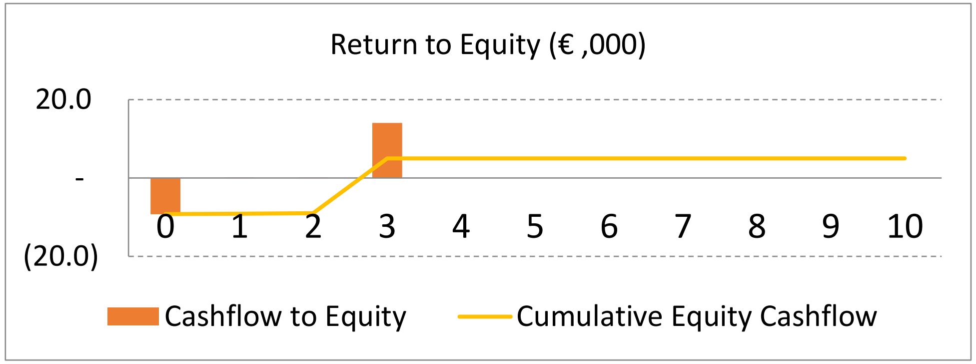
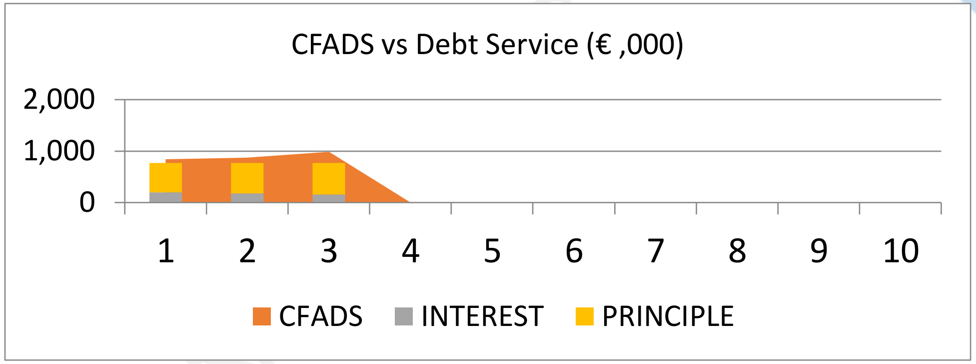
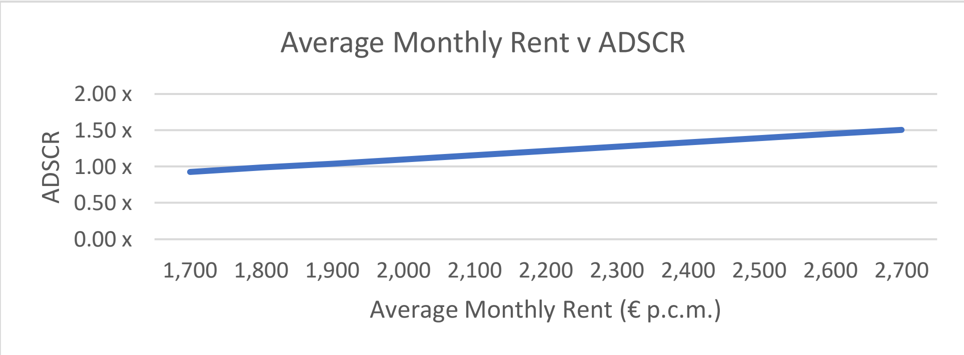
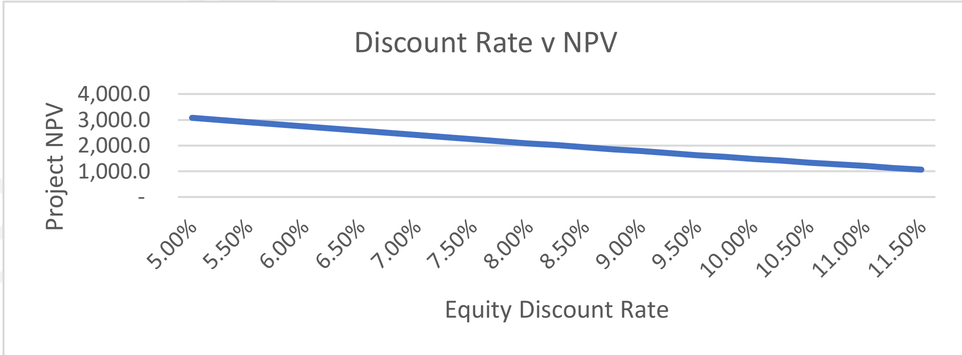
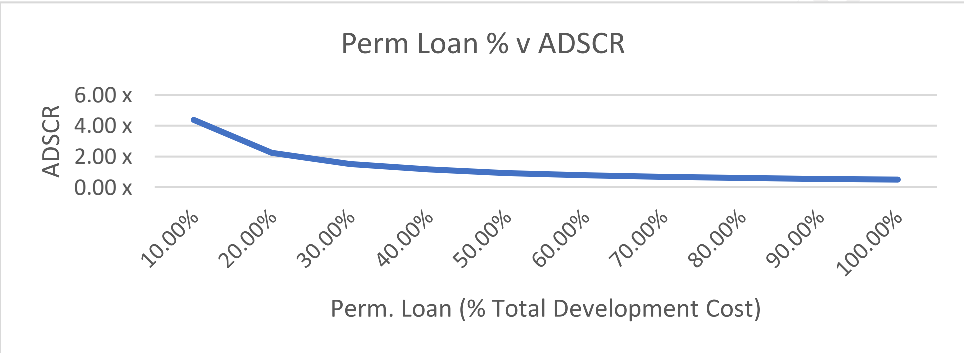
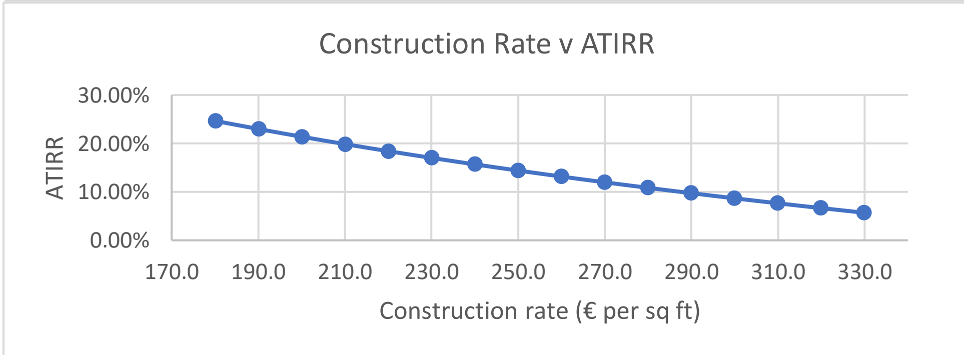

Return to Equity (€ ,000)
20.0
-
(20.0)
0 1 2 3 4 5 6 7 8 9 10
Cashflow to Equity
Cumulative Equity Cashflow


CFADS vs Debt Service (€ ,000)
2,000
1,000
0
1 2 3 4 5 6 7 8 9 10
CFADS
INTEREST
PRINCIPLE


Average Monthly Rent v ADSCR
ADSCR
2.00 x
1.50 x
1.00 x
0.50 x
0.00 x
1,700 1,800 1,900 2,000 2,100 2,200 2,300 2,400 2,500 2,600 2,700
Average Monthly Rent (€ p.c.m.)


Discount Rate v NPV
Project NPV
4,000.0
3,000.0
2,000.0
1,000.0
-
5.00% 5.50% 6.00% 6.50% 7.00% 7.50% 8.00% 8.50% 9.00% 9.50% 10.00% 10.50% 11.00% 11.50%
Equity Discount Rate


Perm Loan % v ADSCR
ADSCR
6.00 x
4.00 x
2.00 x
0.00 x
10.00% 20.00% 30.00% 40.00% 50.00% 60.00% 70.00% 80.00% 90.00% 100.00%
Perm. Loan (% Total Development Cost)


Construction Rate v ATIRR
ATIRR
30.00%
20.00%
10.00%
0.00%
170.0 190.0 210.0 230.0 250.0 270.0 290.0 310.0 330.0
Construction rate (€ per sq ft)

Appendix – Build to Rent Business Model

Key Partners

3rd Party Consultants – Architects; Engineers; Quantity Surveyors; Certifiers; Planners
Legal
Auditors & Financial
Agents
Valuers
Main Contractors & Sub Contractors
Material Suppliers
Land Owners
Utility Companies
Shareholders
Institutions
Banks
Housing Associations
Estate Management Companies
Local authorities
Public & Private Landowners

Key Activities

Site Identification, Appraisal, Investing & Financing Management.
Development - Site purchase; Design; Planning; Procurement; Construction; Project management; PR & Marketing; Admin; ***FM & Estate Management***

Key Resources

Physical – Office; Land (FPP, SDZ, Zoned, STZ)
Human – Chair, Directors, CEO; CFO; COO; Sales Director; Constn. Director/s; Procurement Dir.; Other.
Financial – Site Funding; Construction Funding; Working Capital

Value Proposition

Renters – Location and monthly cost ok; Allows me to save a little (lower than mortgage would be); All amenities in 1 place
BTR Sector – we fix the total cost of the development for you
Sustainable - Energy efficient homes with high energy rating. Right home, right location, right price point.
Location – well located with excellent public transport and infrastructure links
Investors – One stop development shop

Relationships

Reliable & Trusted
Quality construction
Good design
Sustainable
Low cost of occupation

Channels

Agents
Direct face to face
Advertising
Websites

Customer Segments

Build to rent companies
Renters (Direct)
Investors
Housing Associations

Cost Structure

Development Costs – Land; soft development; hard development;
Staff Costs & Company overhead;
Project overhead
Sales & marketing
Tax – VAT, stamp duty; corporation & CGT

Revenue Streams

Sale of Blocks (pre completion & post completion)
Rental income – residential & commercial
Management fees