

PGIM Real Estate UK Affordable Housing

EMEA Investor Forum

12th November 2020

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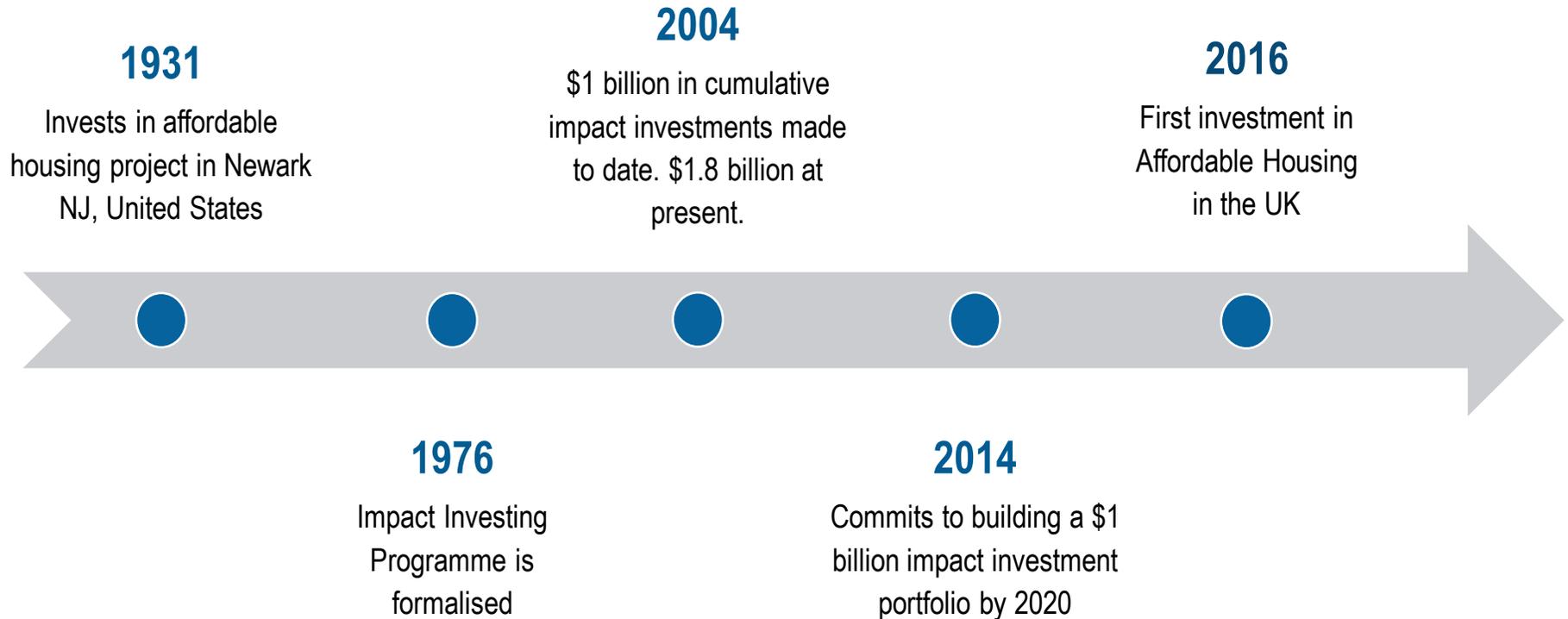
Affordable Private Housing: Investment Case

- **Sustainable Income focused returns**
 - 4% Net Income
 - Total Return 6-9%
- **No planning restrictions**
 - No Government control on rents
- **Strong ESG credentials:**
 - Enhanced energy efficiency
 - Create an improved social environment

¹ Different terminology is used across England, Scotland and Wales, but the classification is broadly similar.

² In the context of this proposed fund, we have included Private Rented Sector ('PRS') within the potential investment criteria as the strategy will enable the acquisition of PRS assets in the UK, likely to be in non premium locations (i.e. likely but not guaranteed to be outside big cities). Actual allocation to respective components is not guaranteed and will vary over time and as developments mature.

Parent and Manager have an Established Track Record in the Sector¹



Data as of Q3 2019.

¹ Parent refers to Prudential Financial, Inc of the United States ('PFI') which is not affiliated in any manner with prudential plc, incorporated in the United Kingdom or with Prudential Assurance Company, a subsidiary of M&G plc, incorporated in the United Kingdom. Manager refers to PGIM Real Estate. ² Refers to impact investments across asset classes, not just Affordable Housing. ³ There is no guarantee that the proposed fund will be launched.

What is affordable housing?

Building Better, Building Beautiful Commission Report, January 2020 – Definition of Affordable Housing

*‘Affordable housing includes social rented, **affordable rented** and intermediate housing, provided to **households whose needs are not met by the market**. Affordability is calculated by dividing house prices by **annual earnings**.’*

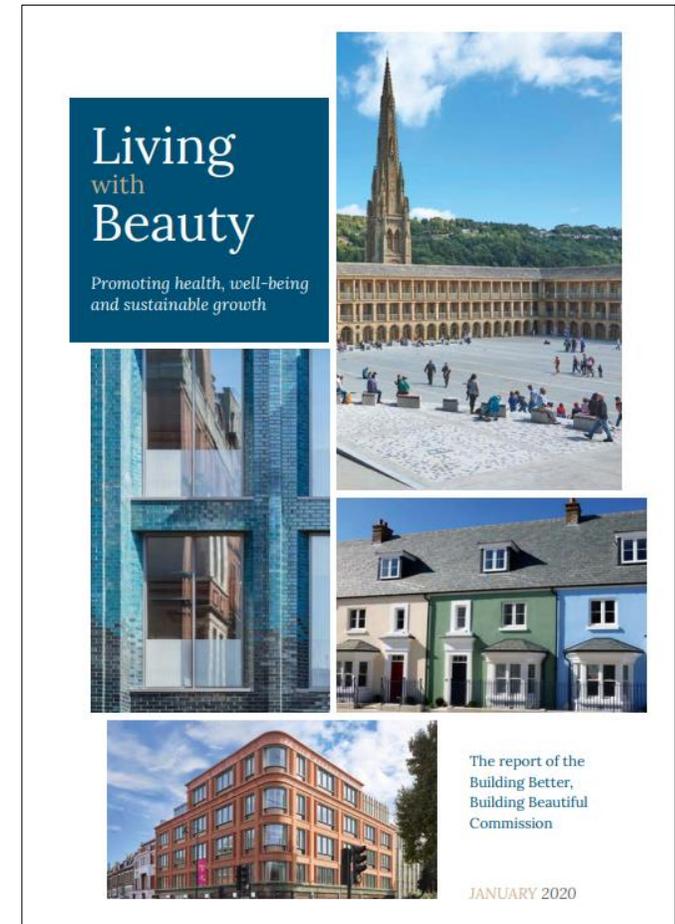
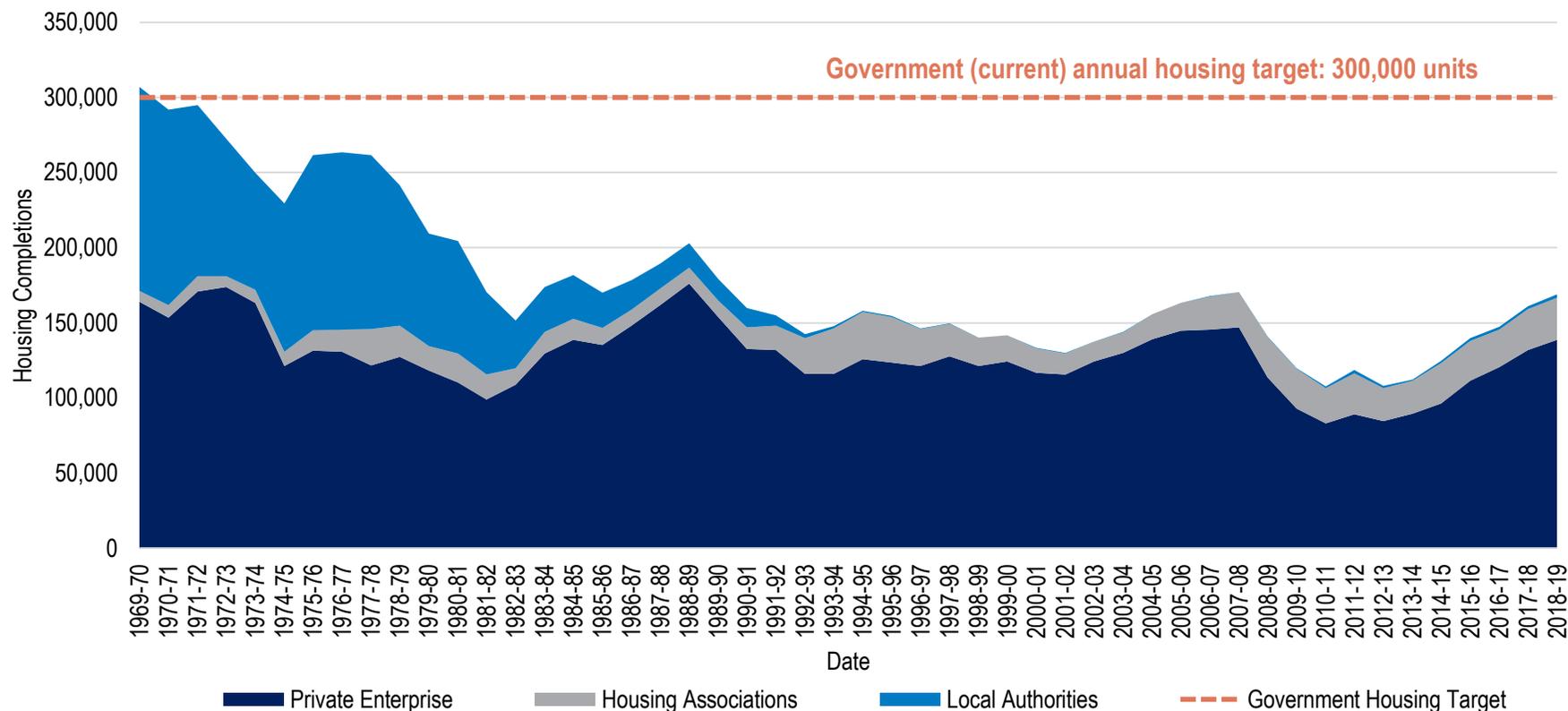


Image shows cover page of report of the Building Better, Building Beautiful Commission published 30th January 2020, by the Ministry of Housing Communities and Local Government (MHCLG).

Long Term Shortage of Affordable Homes



Source for main graph: Ministry of Housing, Communities & Local Government (“MHCLG”), Live Table 213: permanent dwellings started and completed, by tenure, England (quarterly). Conversions not included, but these have at most added c.50,000 units per year in recent times. Current target shown, has varied over the period shown in the graph.

¹ MHCLG, Affordable Housing Supply Statistics (November 2019), Table 1000.

² Crisis & National Housing Federation, Housing Supply Requirements Across Great Britain (Professor Glen Bramley, Heriot-Watt University; November 2018), Table 1.2.

Affordable Housing - Variety of Types and Descriptions

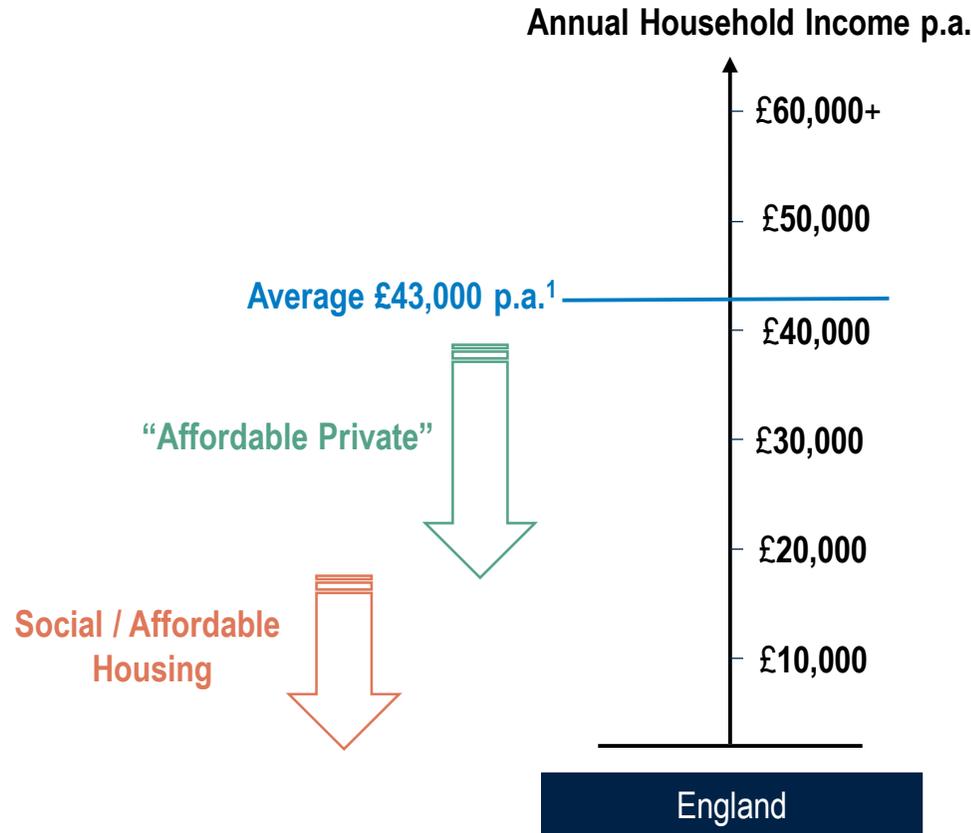
Rental Home Types¹

	Type	Planning Restriction?	Typical Household Type	Typical Rent (vs. Market)	
1.	Social	Y	Benefits / Unemployed	c.60%	
2.	"S. 106"²	Y	Low-income / Key worker	c.80%	
3.	Shared Ownership	Y	Young first-time buyers	N/A	
4.	"affordable private"	N	Working families (rent < 33% of household income)	80 - 100%	
5.	PRS / BTR³	N	Affluent young urban professionals	100%	

¹ Different terminology is used across England, Scotland and Wales, but the classification is broadly similar. ² S.106 refers to a clause within the Town and Country Planning Act 1990 which provides that developers make a contribution to local infrastructure as a condition of a planning consent. In more recent times, S.106 has become associated with the provision of social / affordable housing as part of a broader planning consent.

³ In the context of the proposed PUKAHF, we have included Private Rented Sector ('PRS') within the potential investment criteria as the strategy will enable the acquisition of PRS assets in the UK, likely to be in non premium locations (i.e. likely but not guaranteed to be outside big cities). N.B. Row shaded green is the principal sector being targeted by the proposed PUKAHF.

Affordable Private to Increase Supply for Lower Income Groups



¹ONS, “The Effects of Taxes and Benefits on Household Income, 2016-17”, Table 20 (“Average incomes, taxes and benefits by Country and Region of all households in average 2016-17 prices”), 20 June 2018.

²Ministry of Housing, Communities & Local Government: “Social Housing Lettings: April 2017 to March 2018, England”, 28 November 2018. Average rents for new social housing lettings (p24) grossed up by 34%, being the average proportion of income households spend on rent (p1), but not guaranteed to be outside big cities). Social – average £13,000 p.a.

Example Transaction: 152 Residential Units, Liverpool

- **c.30%** of household income
- **Target lower working income groups:**
 - **Liverpool** pipeline scheme
 - **£24,000 to £30,000 p.a. household income**
 - Target rents **£600 - £750pcm.**



¹ONS, 2019.

Rental Affordability: Local Market Demand

Can our target occupier afford to rent?

Rental Affordability among PRS Households in Liverpool by MOSIAC Type

MOSAIC Type	Name	2 Bed House		3 Bed House	
		# HHs able to afford	Share of HHs able to afford	# HHs able to afford	Share of HHs able to afford
J42	Midlife Stopgap	1,645	52%	1,009	32%
O61	Career Builders	2,308	93%	2,068	83%
H34	New Foundations	1,074	57%	957	51%
	All households	26,890	40%	18,842	28%
	Top 3 Target MOSAIC Types	5,027	67%	4,034	53%

Note: Affordability is calculated assuming that a household would spend up to 30% of their income on rent. Source: Knight Frank Research, Experian.

Affordable Housing – Sales Affordability

Financial barriers in place for target occupier to buy

PRS households in Wider Liverpool Area - sales affordability

MOSAIC Type	Name	2 Bed House			
		# HHs able to afford	Share of HHs able to afford	# years to save (6.8%)	# years to save (15%)
J42	Midlife Stopgap	2,416	77%	15.7	7.1
O61	Career Builders	2,448	98%	10.5	4.8
H34	New Foundations	1,376	73%	13.0	5.9
	All households	41407	62%	17.7	8.0

Note: The number of years to save for the deposit calculation is based on the median income for each MOSAIC Type. Source: Knight Frank Research, Experian, UK Finance, Bank of England, Land Registry.

Demand / Supply Imbalance: Case Study

Dunbar, Scotland- completed development for an existing mandate

300 eligible applicants

50 homes



Photograph shows actual development; please note that as a mixed tenure scheme, clients ownership of individual homes is spread over the whole estate

Affordable Housing – Unlocking Potential

'Manox', Miles Platting, Manchester

Former Dye Works



Derelict Site



390 Family Homes

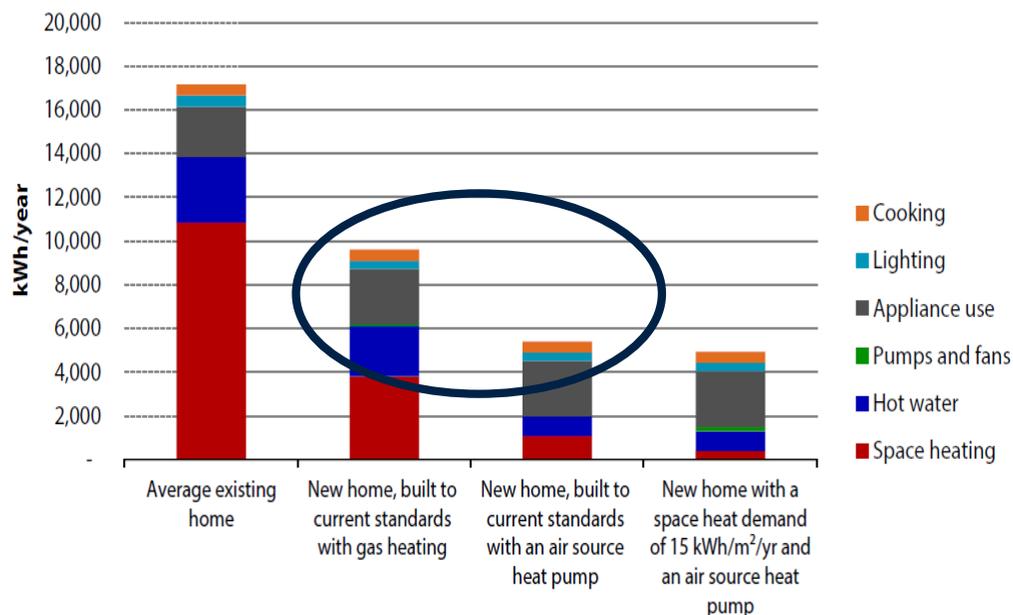


'Past' photograph courtesy of Engie, 'Present' and 'Future', PGIM Real Estate. The site is one that is being considered as a potential acquisition for the proposed PUKAHF. Neither the launch of the Fund nor the suitability or deliverability of the proposed development are guaranteed. 'Future Homes Standard' relates to building regulation proposals issued by MHCLG published in October 2019.

Going Beyond Current Building Regulations

ESG – Environmental Sustainability – Our Approach

- Energy costs represent a **larger proportion of income** for lower income households
- Extra build costs – **above current building regs** – can reduce energy consumption- **but impacts returns-** balance to be made
- Our research shows **solar panels** currently the most cost effective solution¹ for tenant and investor
- However technology and economics **evolving rapidly**¹ cost vs return dynamics will change over time



¹ The cost effectiveness and therefore level of measures beyond the requirement of relevant building regulations is expected to evolve rapidly. Whilst the inclusion of PV solar panels (depending on latitude of development) is currently assessed as the most viable in seeking to balance 'impact' and investment returns, the typical specification is expected to vary by location and date of development. ² Actual figures may vary and are not guaranteed. Source of graph: Committee on Climate Change, "UK Housing: Fit for the Future?", 21 February 2019.

Making a Difference

ESG – Social Sustainability

Delivering the five principles of the ‘New Deal for Social Housing’ set out in the UK Government’s Q3 2018 Green Paper¹

- Supply **safe and decent** homes
- Treating **occupiers as customers**
- Adopting **institutional management standards** to deliver high levels of service
- Create **thriving communities** by ensuring affordable homes are part of a **mixed tenure** development
- **Delivering** additional affordable homes.....**not just buying** what others produce

Executive summary

This Green Paper, ‘A new deal for social housing’, proposes a rebalancing of the relationship between residents and landlords. We will ensure our social homes are safe and decent, that issues are resolved and residents’ voices are heard. We will begin to tackle the stigma which for too long has been associated with social housing. And we will ensure we build the good quality social homes that we need.

This Green Paper sets out a new vision for social housing. A vision which values and respects the voices of residents, with landlords treating them with decency and respect, backed up by clear consequences when they do not. A vision centred on how social housing can support people to get on in life, making it more likely, not less, they will go on to buy their own home, as well as providing an essential, good quality and well run safety net for those who need it most.

The tragedy at Grenfell Tower on 14 June 2017 brought the significance of social housing to the attention of the nation. It should never have happened and must mark a turning point in how the country thinks and talks about social housing.

Successive governments, of all political colours, have failed to consider sufficiently the role social housing plays in a modern mixed tenure housing market. We are determined to renew our commitment to social housing and this Green Paper will kick-start a national conversation about its future.

To shape this Green Paper, Ministers from the Ministry of Housing, Communities and Local Government met and talked with almost 1,000 residents of social housing at events across England. Over 7,000 people also contributed their views online, sharing their thoughts and ideas about social housing. These views and suggestions have informed and shaped this Green Paper from the beginning.

We heard from people about the stigma they experienced as social housing residents, they want more accountability from their landlords, and want to see government tackle the sense of ‘institutional indifference’ which they experienced all too often.

This Green Paper represents a fundamental shift in the state’s approach to social housing and the people who call it home.

Residents spoke of the need for important changes in how social housing is run, managed and viewed in this country. They wanted a renewed pride in social housing and quite simply to be treated with respect. Whether you rent or own your home, the housing market should offer you dignity and security.

A new deal for social housing

Five principles will underpin a new, fairer deal for social housing residents:

- a safe and decent home which is fundamental to a sense of security and our ability to get on in life;
- improving and speeding up how complaints are resolved;
- empowering residents and ensuring their voices are heard so that landlords are held to account;
- tackling stigma and celebrating thriving communities, challenging the stereotypes that exist about residents and their communities; and,
- building the social homes that we need and ensuring that those homes can act as a springboard to home ownership.

Delivering good quality and safe social homes with the right services from landlords relies on a robust regulatory framework. It is nearly eight years since the last review of social housing regulation,¹ and the proposals in this Green Paper present the opportunity to look afresh at the regulatory framework.

¹ <https://www.gov.uk/government/publications/review-of-social-housing-regulation-2>

¹Source – UK Ministry of Housing Communities and Local Government - ‘A New Deal for Social Housing’ – Green Paper, August 2018. Image shows summary page from Green Paper.

Impact Criteria, Measurement and Reporting

ESG - Governance

- Important to identify key ESG criteria, measure them and provide regular reports
-however, very much in its infancy
- Proposed standard is a selection of GIIN's IRIS Affordable Housing Strategies
- Measurement metrics
 - EPC Ratings
 - GRESB
- Consideration being given to added value of employing a specialist consultant.
- Keen to engage with investors to get their views



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Coronavirus

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