



Growing alternative assets
Challenges and opportunities in social infrastructure

PFA Conference – 2019

6 May 2019



What is social infrastructure?

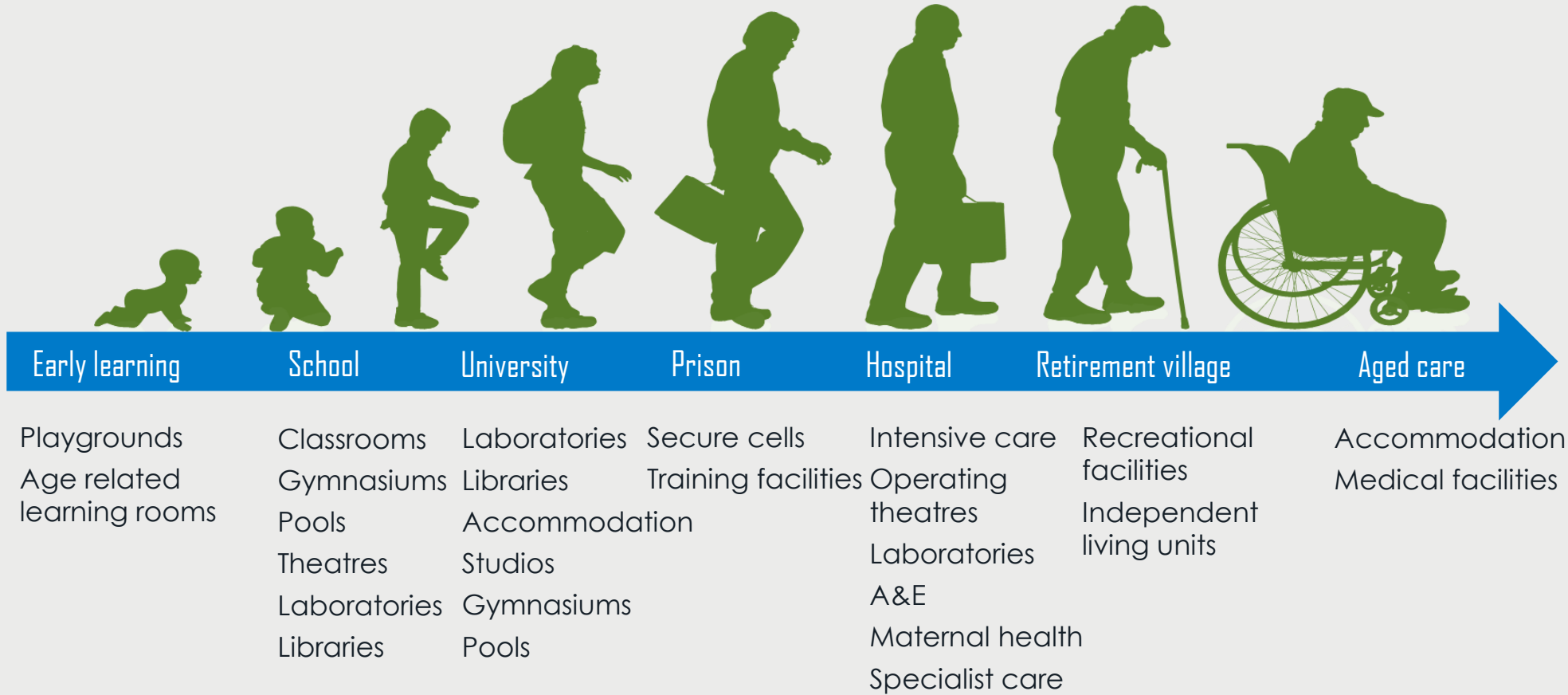
The bricks and mortar supporting a community

- Social infrastructure is the 'real property from which governments, not-for-profit organisations and corporations deliver essential services to the community'
- Education (early learning centres, schools, universities)
- Health (hospitals, medical centres, specialist disability services)
- Social accommodation (social housing, retirement villages)
- Community (court houses, fire stations)



Accommodation for community uses

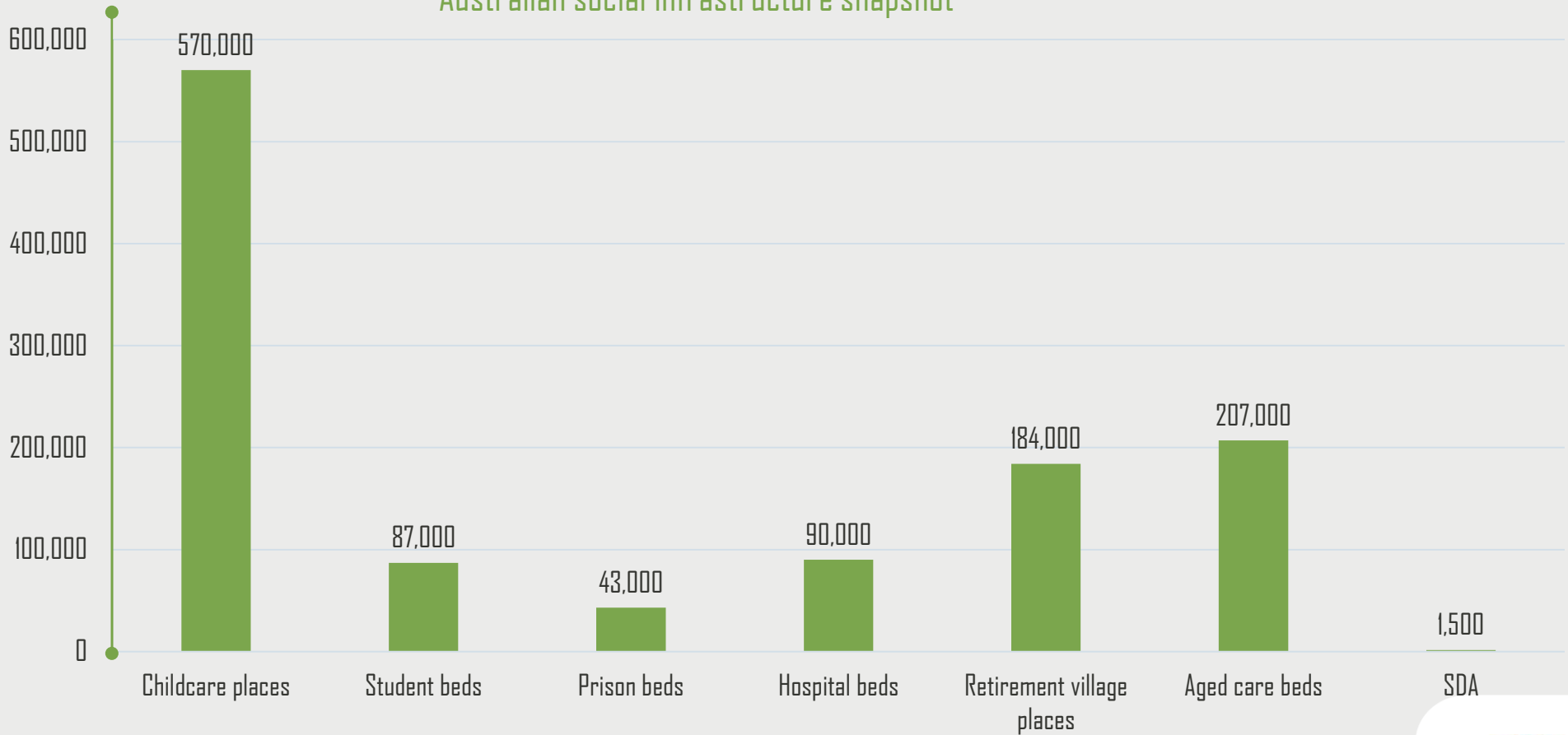
The 'social' aspect of social infrastructure is difficult to replicate



Social infrastructure sector

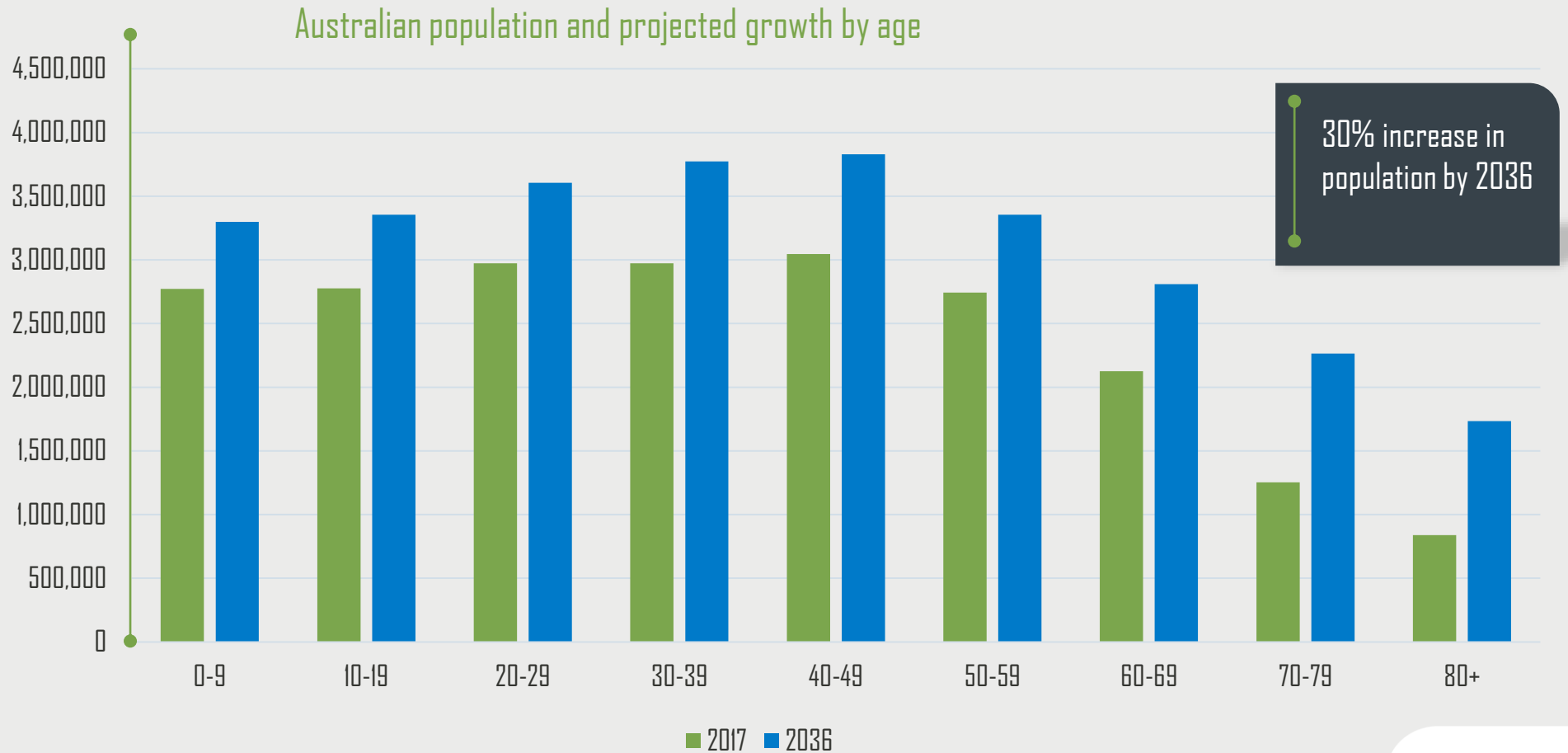
Significant scale and need for ongoing real estate capital

Australian social infrastructure snapshot



Where's our population heading?

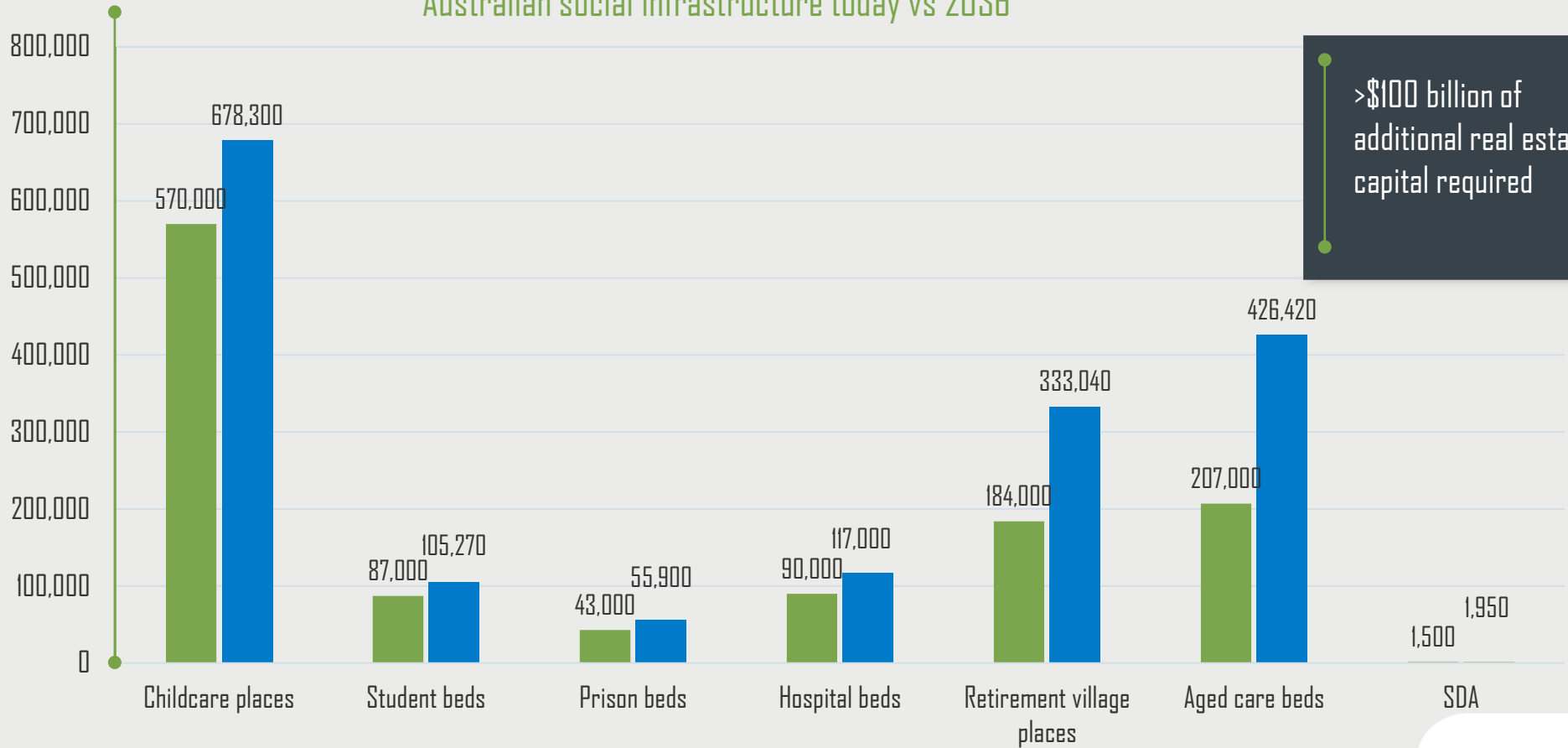
Australia's population is growing and ageing



Looking forward

Population growth will require a dramatic increase in capital investment

Australian social infrastructure today vs 2036



Community demand is increasing

Not only more people but also increased need per capita



More woman in work

60.5%

Workforce participation in 2018.

+39%

Growth in female employment participation rate between 1998 to 2018.



Tougher stance on crime

221

Prisoners per 100,000 population in 2017.

+32%

Growth 2001 to 2017.



More students

166,549

International students undertaking higher education in Australia in 2018.

+72%

Increase between 2008 to 2018.



More sick people

50%

Of Australians have at least one chronic disease in 2015.

+43%

Increase since 2008.



More people with dementia

354,000

Australians with dementia in 2016.

+15%

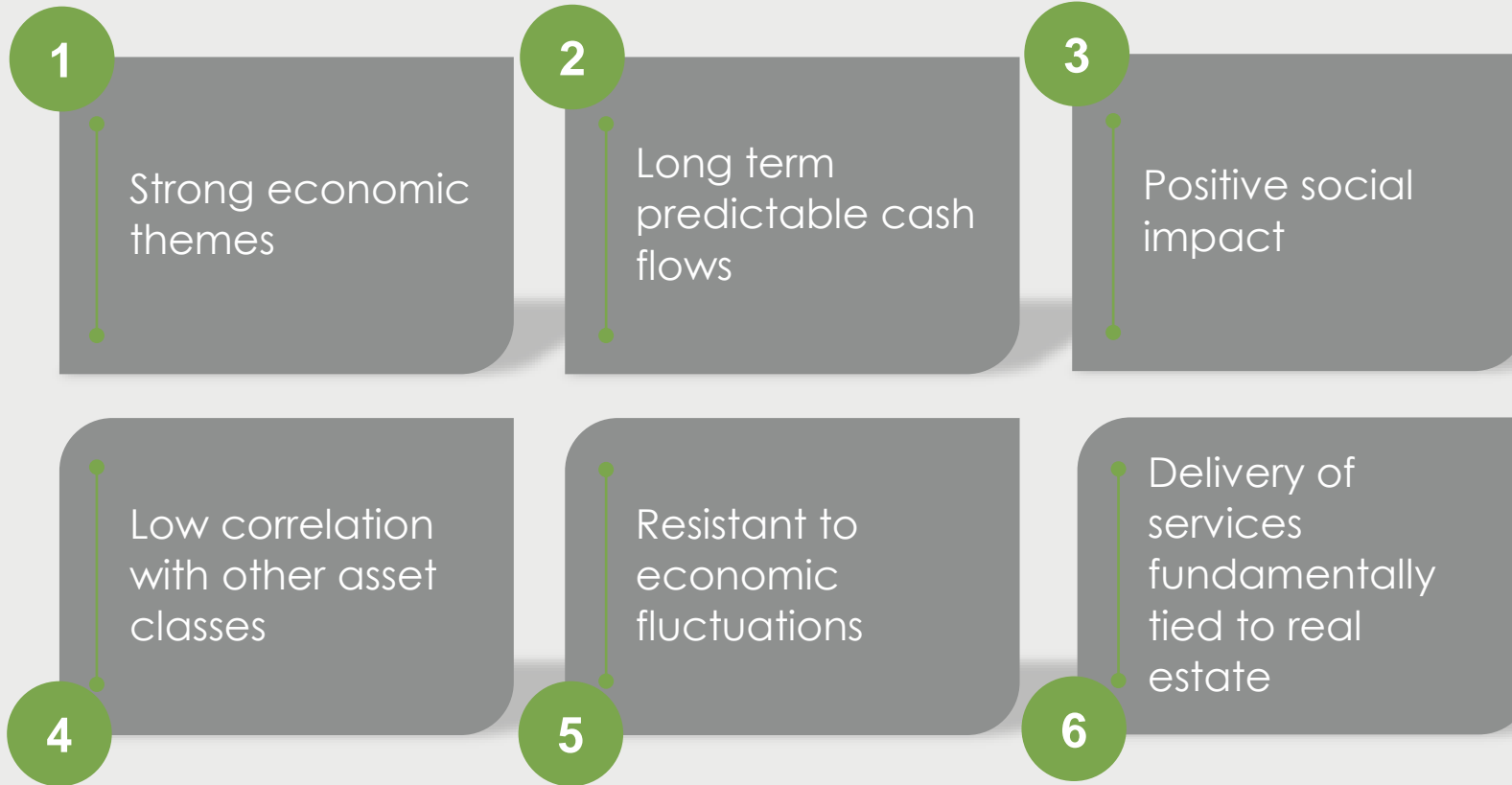
anticipated to increase by 2020.

Sources: Australian Bureau of Statistics.
Department of Education and Training.
Australian Institute of Health and Welfare.

Opportunities for the real estate market

Increased private market participation

Characteristics of social infrastructure investment appealing to private capital



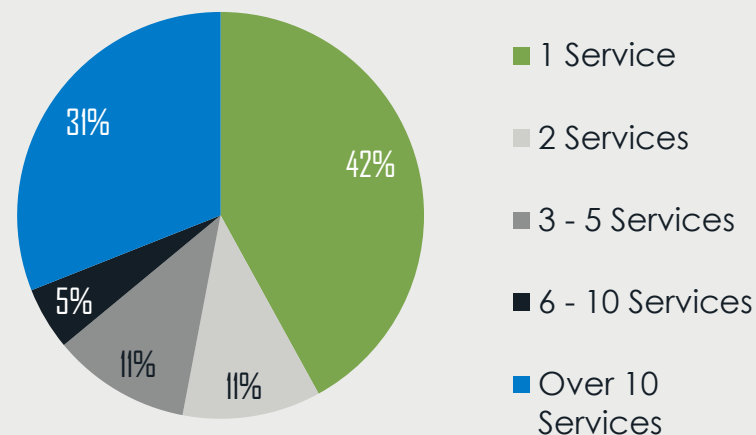
Australian early learning centre market

Real estate capital assisting business operations and the community

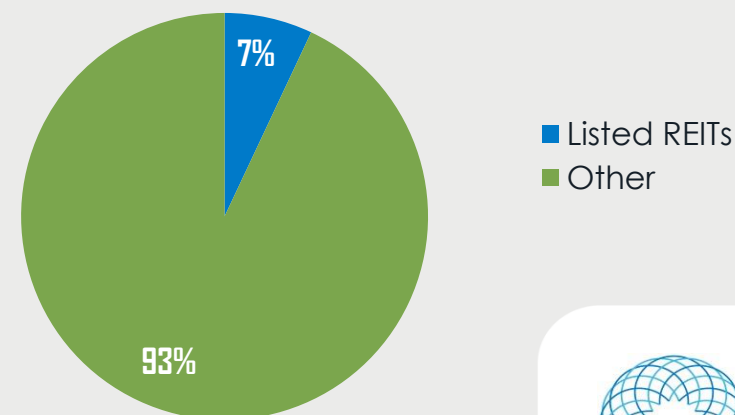


- 7,550 early learning centres at 31 December 2018
- Supply and demand imbalances across micro-markets – areas of undersupply and oversupply
- Historically a cottage industry – operator and landlord markets are highly fragmented
- Stock is evolving but pace is slow – average age of an ELC is estimated at 16 years+
- Strong government support to assist workforce participation

ELC operator ownership



ELC landlord ownership

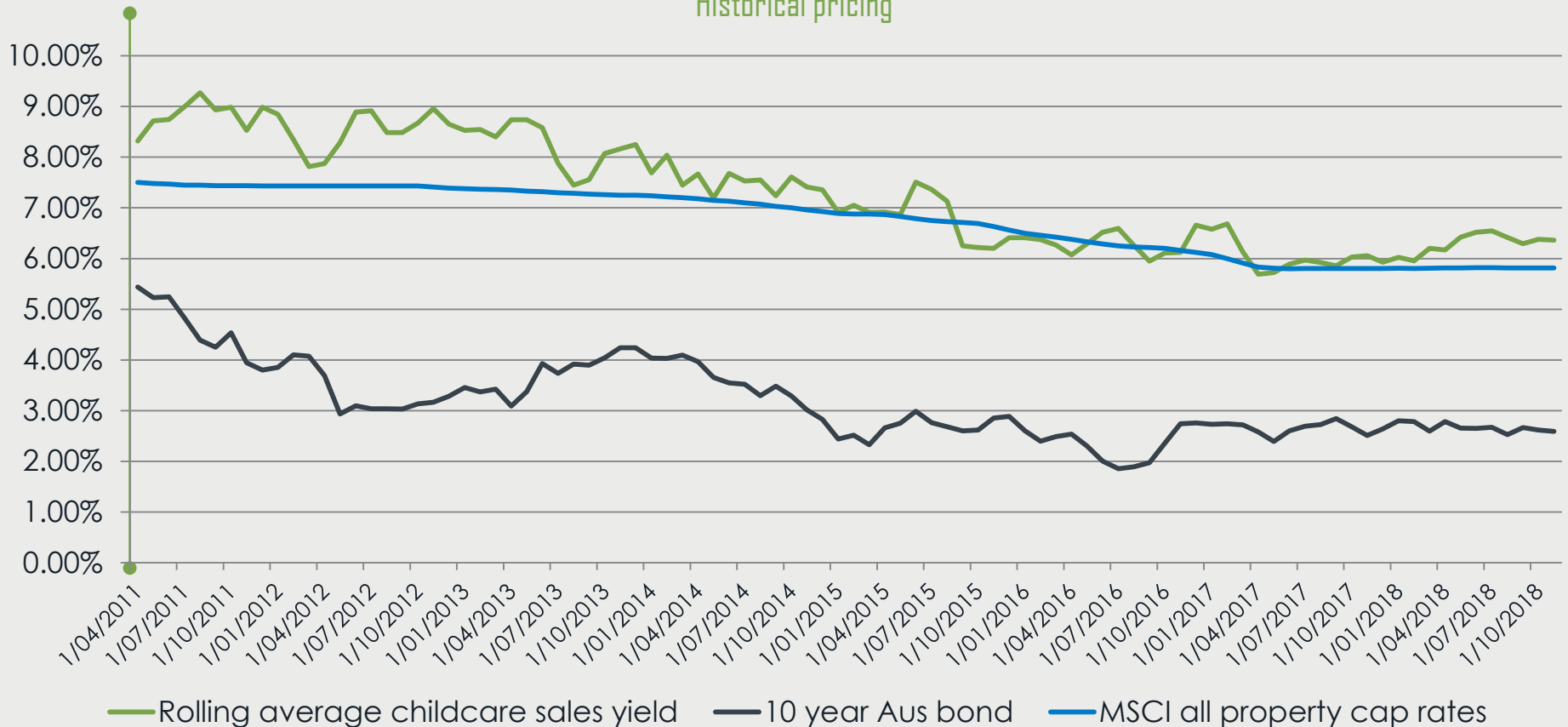


Real estate pricing environment

Average premium of 350bp to 10 year Australian Government Bonds



Historical pricing

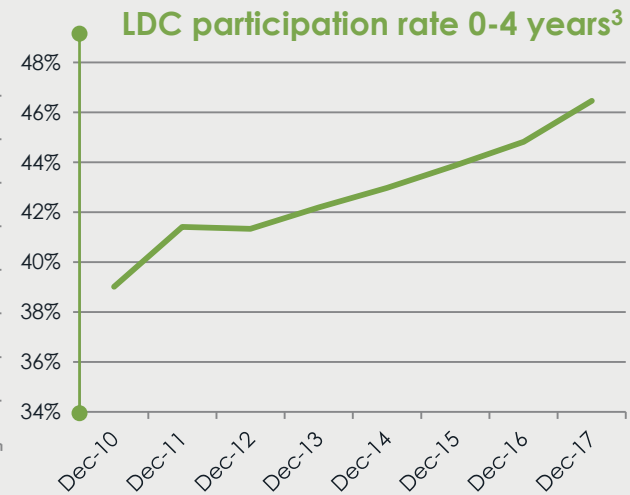
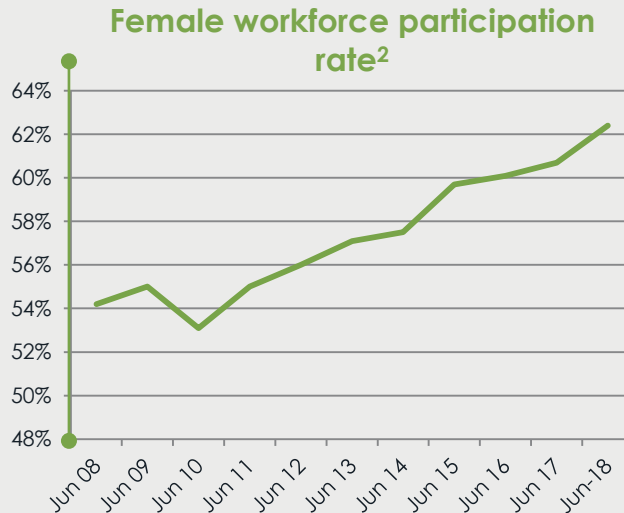
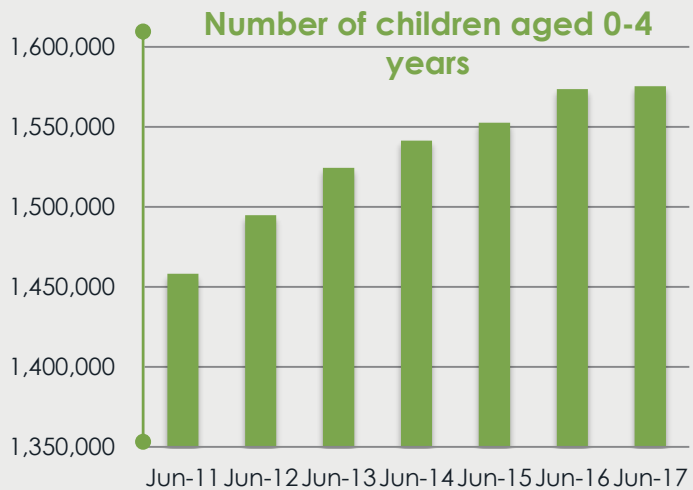


Operating conditions

Strong demand for early learning set to continue



- Increase in number of 0-4 year olds
- Female labour force participation rate increasing
- Early learning participation rate increasing
- Positive impact from introduction of new Child Care Subsidy



¹ Business Geographic, January 2019.

² Australian Bureau of Statistics Female Labour Force Participation Rate (females aged 20-74 with at least one dependant child of ELC age).

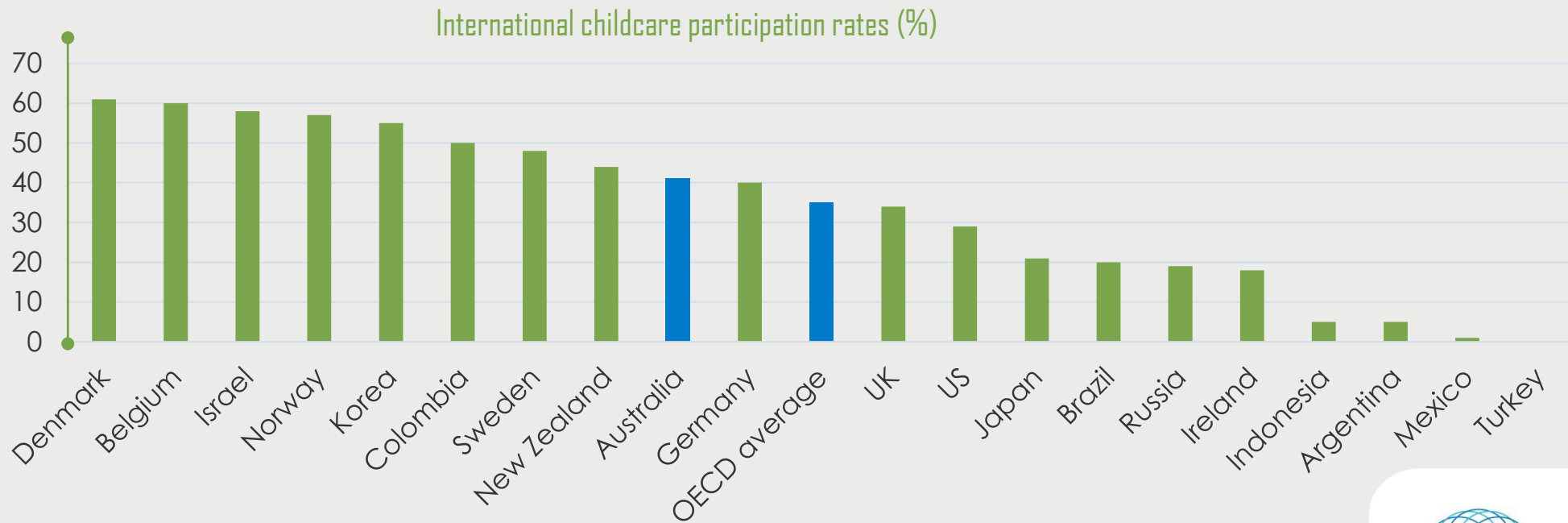
³ Australian Government 'Early Childhood and Child Care in Summary' Reports 2012-2018.

Opportunity still in early learning?



Real estate industry set to continue adding value to the childcare sector

- Increased recognition of long term benefits
- Need for innovation
- Older centres requiring upgrades
- Opportunity for integration into other community uses



The benefits

Positive outcomes for families, investors and the economy



Economic

- Higher cost of living pressure
- Productivity commission
- Higher qualified future labour force
- Tax receipts increase

Socialisation

- Positive learning outcomes
- Social inclusion and improved wellbeing
- Better integration into primary school
- Better long term learning outcomes

Investors

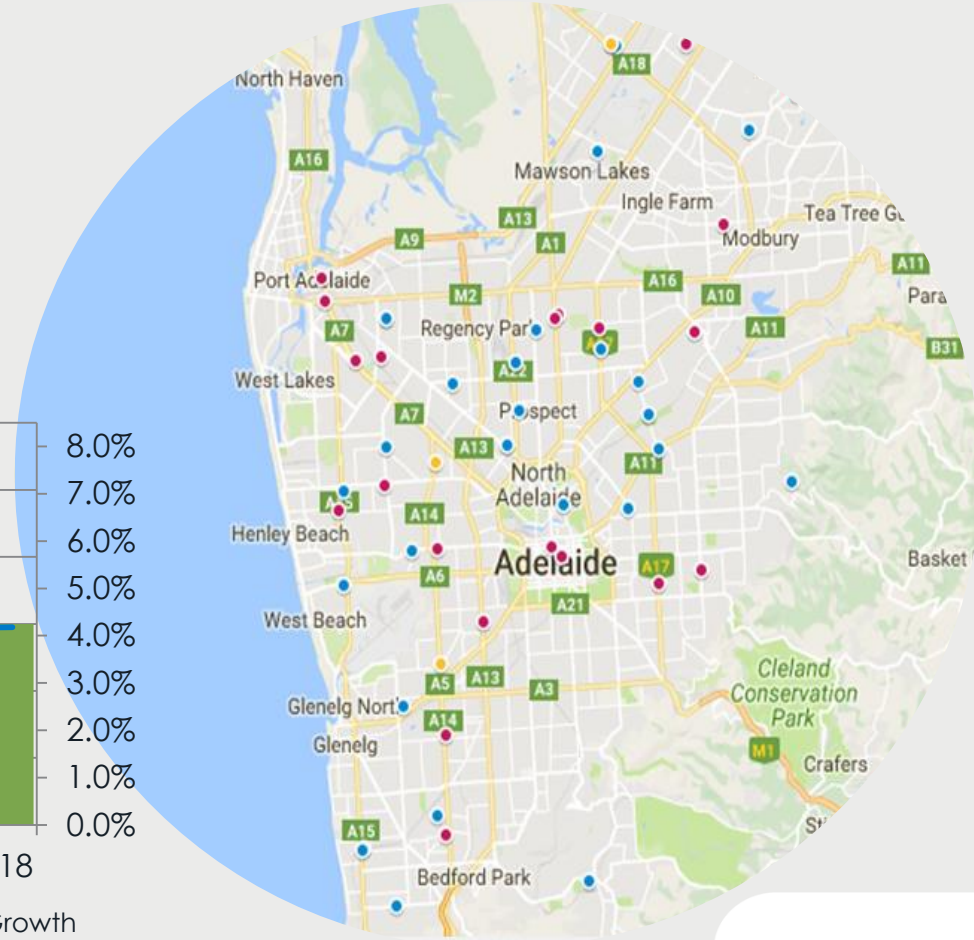
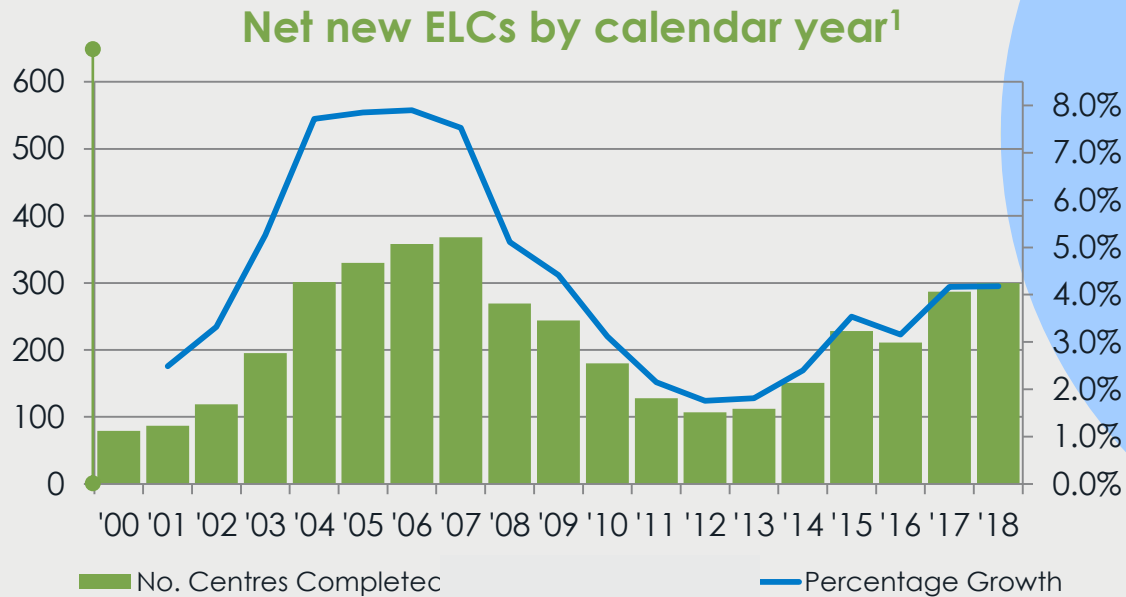
- Business operating margins improving ... but watch labour costs
- Long term predictable rental streams available to real estate investors
- Bi-partisan government support set to continue

What are the challenges and risks

No reward without risk



- Low barriers to entry
- Managing planning and reversionary risk
- Informed investment decision making
- Building scale is challenging



Conclusion

Investment opportunities in social infrastructure

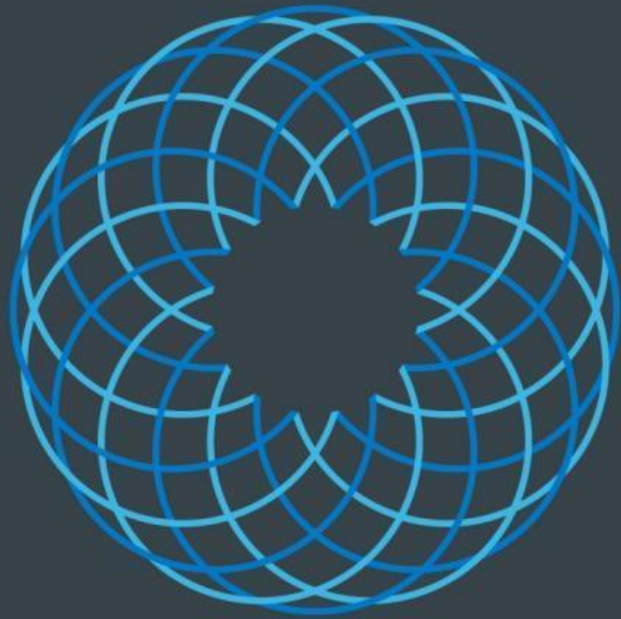
- Unprecedented demand for social infrastructure is being fuelled by:
 - Population changes
 - Changing community expectations and social norms
- The “social” aspect of social infrastructure is difficult to replicate
- Conservative estimate of new capital required over the next 20 years >\$100 billion
- There are risks – planning, potential negative reversionary outcomes, etc
- Government is not in a position to fund
- Strong opportunities for private market participation

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