ITEM	**[redacted] INVESTMENT BETA**
Prepared by:	[redacted]
Contributor:	[redacted]
Date:	***7 March 2019***

1. PURPOSE

To establish a preliminary view on the appropriate betas and the development risk penalty for [redacted] Both are considered by Portfolio Design as distinct strategies from NZSF's existing Real Estate Opportunities. [redacted]

Our thinking and views on the betas and the development risk of [redacted] have evolved from discussions between AA and the Direct team. Note these strategies are not defined Opportunities yet. The current deals are assessed opportunistically by Direct Investments.

2. RECOMMENDATION

[redacted]

Depending on the size and the volatility of the actual investment, its growth proxy would likely be similar to or slightly lower than its beta. [redacted]

3. BACKGROUND

[redacted]

[redacted]

We have discussed using Black-Scholes Option Pricing techniques to formally model the optionality of [redacted] This requires additional assumptions such as the number of years to exercise the option and the exercise price, which are highly uncertain. [redacted]

4. BETA AND DEVELOPMENT RISK

[redacted]

The 2015 paper 'Revisiting the Rural Hurdle' (#1558236) recommended [redacted] for pure farmland investments, which represent a sale-and-lease-back strategy with returns arising from land value appreciation, rent from the land and any return to development activities undertaken on the land.

The paper noted that [redacted]… it is thus important that the hurdle analysis clearly separate out these two components of the investment".

[redacted]

The farmland prices consist of multi-decade data and reflect the capital return only. Rental yield was considered stable and as such would have little impact on the estimated beta. While the three REITs include a rental component, they had less than two years' listed data available at the time of the 2015 analysis. This paper refreshes the REIT's beta with a five-year history. Appendix I has a description of the REITs.

[redacted]

The return on [redacted] is expected to be driven by capital appreciation and rental yield. There are no [redacted] activities planned at this stage. [redacted]

As a cross check, our analysis on NZ and Auckland residential land indicated [redacted] However, this analysis does not distinguish between the marginal and the average property. The price sensitivity of marginal (newly developed) property is going to be higher than it is for the entire property market.

[redacted]

We recommend that the risk here be dealt with entirely in the cash flows, i.e. estimating the cost and the probability of [redacted] and assigning a relevant value to each of the possible scenarios. [redacted]

[redacted]

[1] Our Real Estate Opportunities have an assumed average leverage (D/A) of [redacted]

[redacted]

[redacted]

Appendix 1 Listed Farmland REITs

Rural Funds Group

Rural Funds Group (ASX: RFF) is a real estate investment trust (REIT) which owns a diversified portfolio of Australian agricultural assets that are leased to experienced agricultural operators (tenants).

Revenues are derived from long-term lease rentals across five sectors; poultry infrastructure, tree nut orchards, vineyards, cotton and cattle assets.

Investors are expected to benefit from capital growth through appreciation in the value of RFF's assets, and a stable income stream derived from leasing those assets.

Gladstone Land Corp

Gladstone Land Corporation (NASDAQ: LAND) is a real estate investment trust that specializes in purchasing farms and farm-related properties and leasing them to farmers.

The Company leases its farms for farming various crops, including strawberries, lettuce, cabbage, radicchio, cantaloupes, watermelons, okra, peas, grape tomatoes, raspberries, and blueberries. Gladstone Land conducts business throughout the United States.

Farmland Partners

Farmland Partners Inc. is an internally managed, publicly traded (NYSE: FPI) real estate company that owns and seeks to acquire high-quality farmland throughout North America addressing the global demand for food, feed, fibre and fuel.

ITEM	**BEACHLANDS PROXY AND HURDLE**
Prepared by:	[redacted]
Date:	***5 February 2020***

1. THE INVESTMENT

Direct Investments is seeking to form a JV with Pipers Limited Partnership (Pipers)[1] to acquire 250ha of coastal land in Beachlands, East Auckland.

The total value of the land is [redacted], and the NZSF size is estimated to be [redacted] of the investment.

The land is currently zoned rural/country side living and is bordering the Rural Urban Boundary (RUB).[2]

The proposed land comprises two separate pieces:

- A piece of farmland currently owned by Pipers, [redacted] The area is circa 80ha. The land is unused, i.e. has no operating farm onsite.
- Formosa Golf Cub (170.5ha) that is adjacent to the farmland. Pipers has entered into a conditional sale and purchase agreement for the golf land, subject to DD and internal approvals, that expires at the end of February 2020.

[redacted]

2. PROXY

We recommend a proxy of [redacted] for Beachlands on an unlevered basis, [redacted]

[1] One of the partners at Pipers is Brett Russell, NZSF's partner in the hotels development [redacted]

[2] The RUB identifies land potentially suitable for urban development that is expected to occur over the next 30 years.

[redacted]

3. HURDLE

[redacted]

4. THE OPPORTUNITY

[redacted]

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Direct Investments: Real Estate Access Point Strategy

From: Direct Investments Team

For: Head of Direct, CIO

30th May 2019

1. Summary

What? An overview of the intended direction of our real estate access point strategy; the rationale, intended areas of focus, the key challenges/implications (internal and external), and the questions we need to answer internally to move forward.

Why? To understand if there are any red flags, or areas of potential concern, before we flesh out the full access point strategy.

2. Rationale for creating a Real Estate Access Point Strategy

A clear access point strategy will improve our ability to successfully invest directly in real estate opportunities in NZ by:

- Leveraging the experience we have gained over the last few years to be more strategic in our approach to accessing NZ real estate opportunities,
- Focusing our origination efforts in areas where our endowments offer us a competitive advantage, each with a clearly defined "how to access" action plan,
- [redacted]
- Aligning us with best-in-class peers and [redacted]
- Clearly defining our strategy and investment parameters, enabling us to be more nimble and more direct/open [redacted]
- [redacted]

3. Summary of [redacted] Areas of Focus

Proposed Areas of Focus Target areas where NZSF has a competitive advantage or unique ability to access	**NZSF Competitive Advantage** Endowment Alignment					**Access/Sourcing Strategy**	**Attributes**					
	Scale	Long-Term horizon	Known Liquidity	Relationships	Sov/local status		Expected Deal Flow	Min. Initial Deal Size	Timeframe (years)	Internal Resource	Impact on Portfolio	Scalability
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Key challenges and implications

[redacted]

- Reputational and political risks need to be carefully managed; these could be positive or negative.
- Real estate development projects potentially come with investable infrastructure financing opportunities and vice versa.

[redacted]

- Legislative constraints could restrict our ability [redacted]
  - Section 50 – leverage restriction [redacted]
  - Section 59 – need to partner as can only hold <50% of an operating company, and [redacted]
- Adequate resourcing and requisite skills/experience is a key consideration for implementing this strategy [redacted]

4. Alignment with potential direct Real Estate investments (seen over the last 18-24m)

Key:	Project has alignment with proposed Access Point Strategy
	DNI = Did Not Invest, P = Progressing, I = Invested

Opportunity	Status	Area of Focus	Issues or reasons for not progressing						
			Cheque Size	Pricing	Market Risk	Compet-ition	Process Issues	Partnership Issues	
[redacted]									
Hobsonville 1	I	4							Invested
[redacted]									
Russell Group	P								Progressing, came out of Hub investigation into Tourism, rather than RE strategy
[redacted]									

5. Indicative future state if we implement proposed Access Point Strategy

Proposed Areas of Focus /Strategies	Next 5 years		Fully invested state (10years+)	
		Indicative size: end of period		Indicative size: fully invested
[redacted]	[redacted]	[redacted] Enables	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]		[redacted]
[redacted]	[redacted]	[redacted] Enables		[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]		[redacted]		[redacted]

[redacted]

Appendix N - NZ View

- The New Zealand economy has bounced back sharper than expected. Housing is a key part, strongly supported by lower interest rates.
- Property market fundamentals remain mixed; interest rates continue to fall, but migration inflows (being a Tokyo big driver of demand) have slowed. Covid challenges remain with the economic impact of border restrictions yet to be felt.
- Non-bank lenders have the potential to grow market share: The market share of non-bank lenders has the potential to grow to 30% of the real estate lending market (JLL). As a result, the investable universe for non-bank lenders could increase to AUD 111 billion in Australia and NZD 16 billion in New Zealand. [redacted]
- Auckland industrial pricing is on a par with Australia - prime equivalent yield range for Sydney Outer Central West (4.50% to 5.00%), Melbourne West (4.50% to 5.00%) and Auckland (4.63% to 5.25%) all compressed through 2020 (Colliers).
- Residential surge in house prices due to record low interest rates, structural undersupply of houses and NZ Covid performance relative to other countries. [redacted]
- Commercial real estate increasingly two tiered in terms of prime v secondary; overall vacancy rates increasing in Auckland. Wellington to benefit from increased government spending.

Sector	Risk
[redacted]	
[redacted]	
[redacted]	
[redacted]	
[redacted]	
[redacted]	

Unfavourable Neutral Favourable

Residential: [redacted]
Office: Suburban locations and units have benefitted at expense of CBD. Rising demand for smaller floorplates. Larger tenants have been subletting more space due to homeworking impact. [redacted]
Retail: Underperforming in CBD due to homeworking. [redacted]
Industrial: Outperformer with low vacancy rates and strong investment demand. [redacted]
Hotel: Surprisingly strong supply pipeline still coming on market despite border restrictions and low international flight arrivals. [redacted]
Debt : Continuing high demand for residential loans but banks tightening underwriting and risk. [redacted]

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NZ Residential

Build to rent (BTR) – part of the solution for housing supply?

- BTR offers the ability for large-scale investment, both in terms of individual asset size and potential overall market size.
- Average sqm of new dwellings has fallen from 200 in early 2000s to 150 sqm in 2020. Apartments, townhouses and units share of new builds has risen from 20-30% to nearly 40% now (Housing Aoteoroa report 2020).
- Historic population growth of 90,000 per annum – around 30,000 is natural population growth with remainder migration.
- [redacted]
- [redacted]
- [redacted]
- The only real demand in the market at present is from owner occupiers, particularly downsizers, so developers are targeting this group with more boutique high quality apartment developments. [redacted]
- According to *The Renters Journey* by Dr Steven Curry (2019), many Australian renters are affected by: a lack of properties that suit their needs; a lack of supply responsiveness in the market; lack of transparent information and knowledge of consumer rights; power imbalance between landlords, agents, and tenants; and high moving costs. NZ also has the same factors.
- [redacted]
- In the early stages of the institutional purpose-built student accommodation market (particularly in Australia), early movers enjoyed yield premiums to core sectors. As portfolio scale was achieved and the next wave of capital liquidity entered the market, yield compression commenced and more recently converged with core sector yields.

BTR Yields Comparison (JLL figures)	US Multifamily	UK Build to Rent	Aus Build to Rent (forecast)	NZ Build to Rent (forecast)
Prime	3.5%	3.5%	[redacted]	[redacted]
Secondary	4.5%	4.3%	[redacted]	[redacted]

Source: JLL