Management Rights Assets Listings Analysis Q4 ‘22

www.pimgrp.com

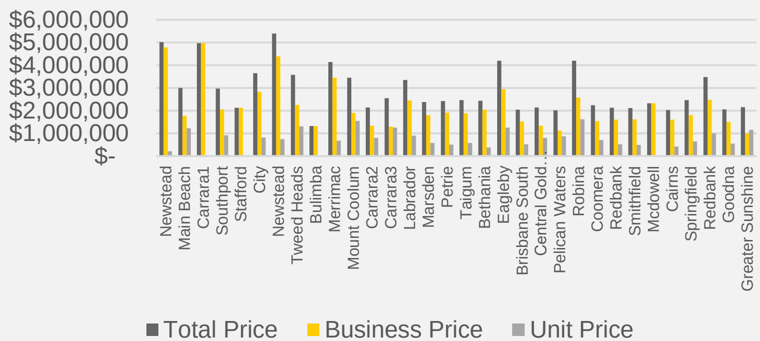
Property Infrastructure Management Group 2023

OCTOBER LISTINGS COMPREHENSIVE ANALYSIS: RATIO COMPARISONS

Ratio Comparisons	Min	Max	Mean
ROI	10.93%	35.15%	19.98%
Valuation Multiple (Property + Business)	5.10	10.75	7.87
Valuation Multiple (Business Only)	4.13	8.42	5.70
Cap Rate (Property + Business)	9.30%	19.61%	12.71%
Cap Rate (Business Only)	11.88%	24.22%	17.53%
Wages / Net Income	17.53%	76.54%	45.25%
Management Fee / Net Income	34.93%	99.79%	60.22%
Leasing Coms and Others / Net Income	0.21%	65.07%	39.78%
Wage Efficiency (Total Wage / Total No. Units)	$333.33	$1,020.41	$675.73
Property Price / Total Purchase Price	0.00%	53.49%	25.76%
Business Price / Total Purchase Price	46.51%	100.00%	74.24%

OCTOBER LISTINGS COMPREHENSIVE ANALYSIS: PRICE 1

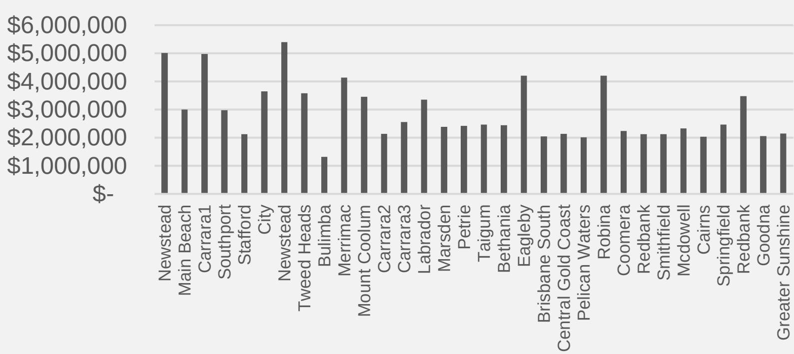
Total Price, Business Price, Unit Price Comparisons



For Research and Analysis, we have Analysed all 32 Projects Currently in the Market as of Oct '22, Between AUD 2m – 5m. (with 1 exception).
Source: https://www.theonsitemanager.com.au/
Project in Bulimba is Business Only, no Unit attached to Business.

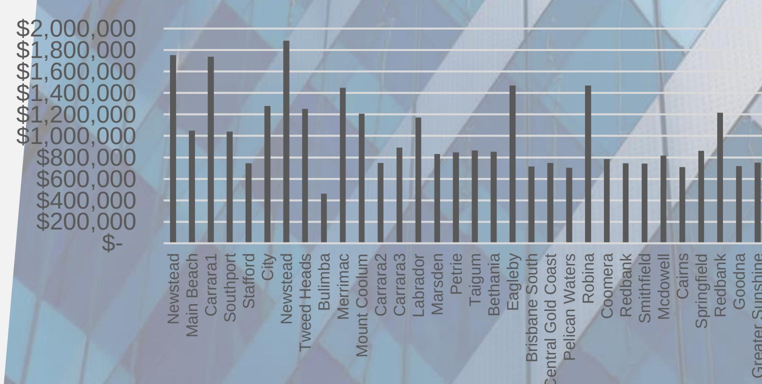
PIMG would Target to Source Projects before they are Listed in the Market.
Management Rights Projects usually are purchased:
Total Price = Business Price + Unit Price
Most Projects have a Manager's Unit Requirement as part of the Investment.

Total Price Comparison



Down Payment Inc Txn Costs

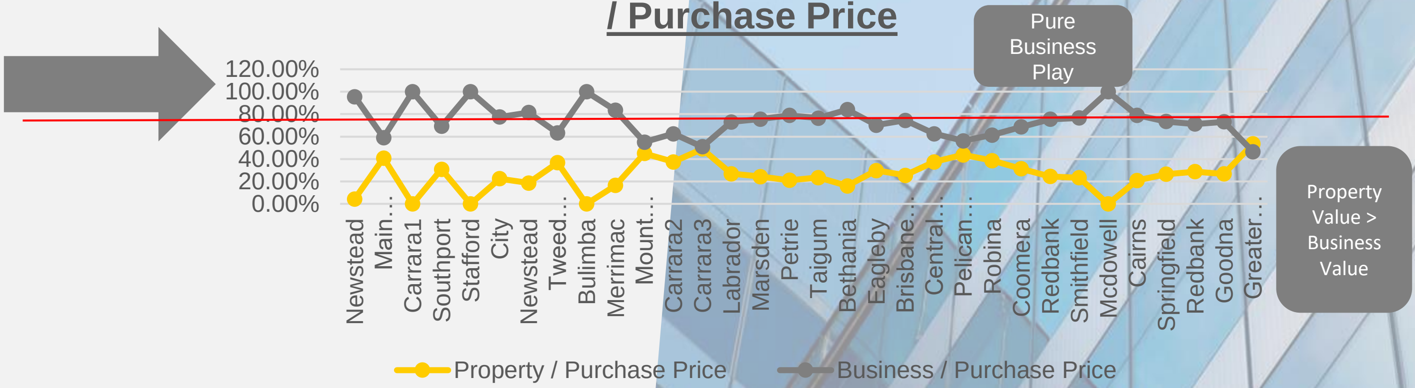
(Assuming 70% LVR, 5% Txn Costs)



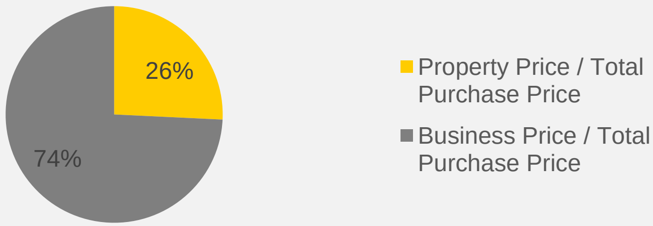
OCTOBER LISTINGS COMPREHENSIVE ANALYSIS: PRICE 2

Possible Acquisition Targets

Property Price / Purchase Price, Business Price / Purchase Price



Mean Average Proportion of Business Price to Total Purchase Price



- From purely annual yield perspective, higher business price/purchase price% usually yields higher ROI.
- However, property in areas primed for growth has significant advantage on exit for capital gains.
- PIMG would target the high Business/Purchase% Projects in high growth area. Target is to capture high yielding businesses plus a further higher premium through valuation multiple on exit because of location.
- As a brief example, projects above the red line (>75%) above would be prospects for further due diligence as acquisition targets.

OCTOBER LISTINGS COMPREHENSIVE ANALYSIS: VALUATION 1: Valuation Multiple in Management Rights

- A management rights business stable cash flows makes valuation simple. It is valued in the industry using the previous year's actual NOI multiplied by a valuation multiple.

- Valuation multiples in the industry usually is between 4-7(there are outliers below 4 and above 7). i.e. Direct cap rates are between 14%-25%.

- However, in the majority of cases, investing in a management rights there is an additional mandatory purchase of the non income producing real estate component (the managers unit). We consider it non incoming producing for ease of interpretation, as usually, the premise is allotted as the residence of the on-site manager.

- (Side note: the listed NOI in the management rights industry usually does not include labor costs, it assumes the investor is the actual operator, and thus removes manager's wages from the NOI calculation. That's just a peculiar assumption in the industry). However when we calculate overall ROIC we include cost assumptions such as caretaker and property managers' wages etc for calculations as well as interest expense, tax expense.

- Currently with high inflation, it is quite common for seller to project the management fee of the following year using current YoY CPI, since that is a very accurate assumption of the increase in management fee that the new investor is most probably guaranteed to inherit.

OCTOBER LISTINGS COMPREHENSIVE ANALYSIS: VALUATION 2: Factors Influencing Valuation Multiple

- Valuation Multiple is a confluence of factors namely: 1.) Terms remaining in agreement. 2.) Geographic location 3.) Proportion of secure income (management fee) as opposed to variable (lease income) 4.) Size of Net income. 5.) Size of management fee income. Similar to a commercial asset, macroeconomic factors, such as interest rates, will affect multiples. That is a factor of discussion for later.

- Terms remaining in agreement: this variable has a large influence on the multiple. A big premium is paid for projects with the max term (25 years). Often it is very profitable for experienced investors to purchase projects with less than a 20 year term, and top up to 25 years after a year of operations.

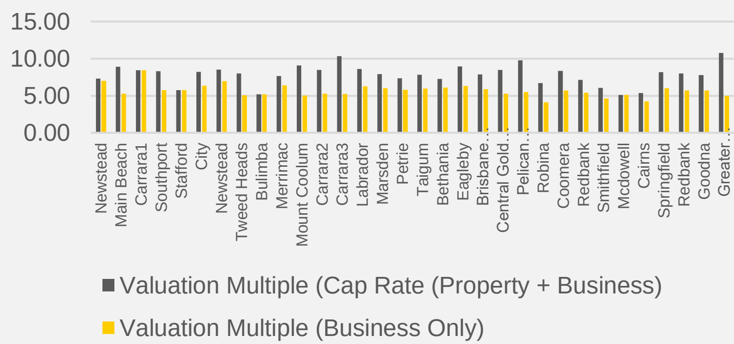
- Geographic Location: Areas far north of Queensland such as Cairns will have much lower multiples 4-5 as opposed to projects centered around Brisbane CBD and surrounding areas plus Gold Coast. Factors such as lifestyle, convenience will affect multiples.

- Management fee income size / Net Income size: the larger the income equates to better efficiency. Larger projects optimize the use of manpower, usually equating into higher ROI.

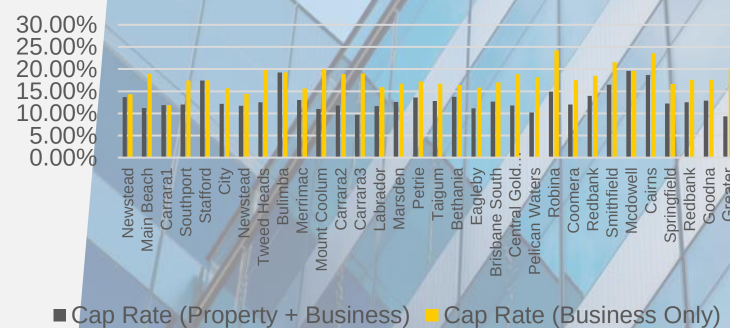
- Management fee proportion of total income: there also maybe a premium to the multiple with regards to projects having a larger proportion of income derived from the stable/guaranteed component. I.e a project with 100% of its income derived from the management fee is basically guaranteed such cash flows for X terms. Comparing that to a project with 10% from management fee and 90% from leasing, in this project the investor is exposed to more risks with regards to occupancy rates, drop of letting etc.

OCTOBER LISTINGS COMPREHENSIVE ANALYSIS: VALUATION 3: Multiples Analysis of Current October Listings

Valuation Multiples



Cap Rates



	Min	Max	Mean
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Valuation Multiple (Business Only)	4.13	8.42	5.70
Cap Rate (Property + Business)	9.30%	19.61%	12.71%
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Here we run analysis on the 32 listings on onsitemanager.com.au of all currently listed projects in the market within 2m-5m range.

The average business multiple is 5.7, cap rate 17.53%.

Including the manager’s unit, average multiple is 7.87, cap rate 12.71%.

OCTOBER LISTINGS COMPREHENSIVE ANALYSIS: VALUATION 4: Regression Analysis

Multiple regression smoothed for location (Greater Brisbane Only)

Regression Statistics	
Multiple R	0.94
R Square	0.89
Adjusted R Square	0.85
Standard Error	0.21
Observations	17

ANOVA

	df	*SS*	*MS*	*F*
Regression	4.00000	4.17686	1.04421	23.21258
Residual	12.00000	0.53982	0.04498	
Total	16.00000	4.71668		

	Coefficients	*Standard Error*	*t Stat*	*P-value*
Intercept	3.441408	0.847629	4.060040	0.001582
Listed Net Income - Gross	0.000002	0.000002	0.863314	0.404890
Management Fee	0.000001	0.000003	0.354250	0.729298
Management Fee / Net Income	-0.083933	1.014201	-0.082758	0.935408
Contract Tenure	0.078201	0.033602	2.327258	0.038260

Multiple regression all Location

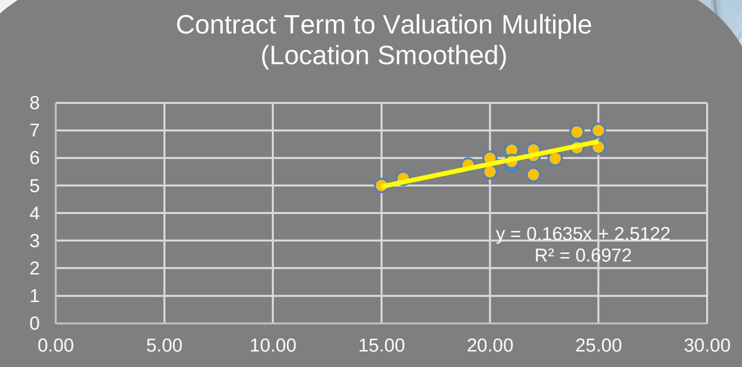
REGRESSION OUTPUT

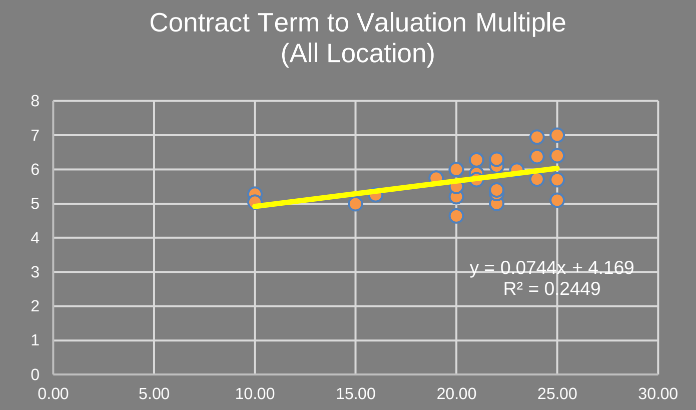
Multiple R	0.706395482
R Square	0.498994576
Adjusted R Square	0.415493673
Standard Error	0.440649655
Observations	29

ANOVA

	df	**SS**	**MS**	**F**
Regression	4	4.64	1.16	5.98
Residual	24	4.66	0.19	
Total	28	9.30		

	Coefficients	**Standard Error**	**t Stat**	**P-value**
Intercept	3.94241	1.20101	3.28259	0.00314
Listed Net Income - Gross	0.00000	0.00000	0.36678	0.71700
Management Fee	0.00000	0.00001	0.40461	0.68934
Management Fee / Net Income	-0.52811	1.85629	-0.28450	0.77847
Contract Tenure	0.05516	0.02406	2.29285	0.03092





OCTOBER LISTINGS COMPREHENSIVE ANALYSIS: VALUATION 5: Findings on Regression Model

- We'd like to start with the conclusion that using a multiple regression model, contract term seems the most significant variable in determine valuation multiple.

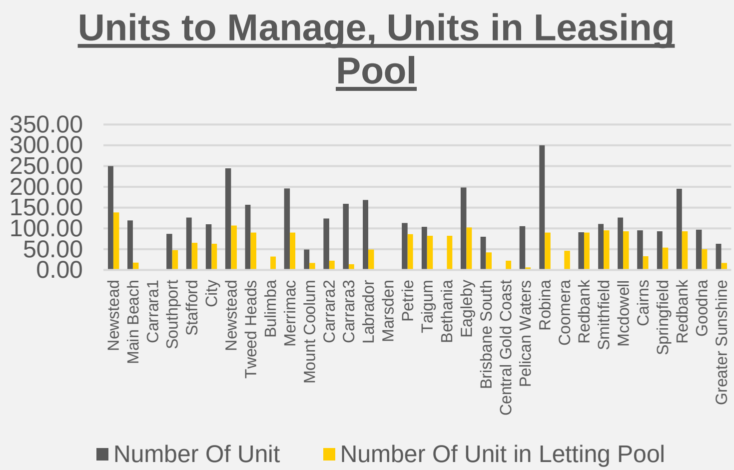
- Running a multiple regression done on the five factors that influences the valuation multiple less geographic location. Smoothing the data by removing 3 outlier sites (graphic 3 and 4), we have a regression with R-squared of 0.5, p-value of contract terms at 0.02406. That's with 29 data points. The problem here is that this data doesn't account for geographic location which (from pure observation) we see that there is disparity with multiples for sites close to inner Brisbane and Gold Coast regions versus North Queensland and border regions.

- Now, to improve upon this model, we removed the sites that were in areas of Northern Queensland and near the border of Qld and NSW (such as Tweed Heads). So holding geographic location as constant as possible, we derive to a multiple regression at R-square 0.89 and p-value of contract term at 0.03820 (graphic 4).

- Holding geography constant, we can draw from this small study that probably contract terms is the most significant variable. Through R-square we can see that The multiple regression model at least explains 89% (graphic 2) of the variability in the target model as compared to the single factor regression at 69.7% (graphic 1).

- Given the small sample size, this analysis if just to be used as a very rough estimate, not scientific.

OCTOBER LISTINGS COMPREHENSIVE ANALYSIS: Efficiency Analysis 1 (Wages, Units to Manage, Units in Leasing Pool)



Data Set for the number of units to manage and units in leasing pool.

For full set of data including wage calculations and estimations please contact us.

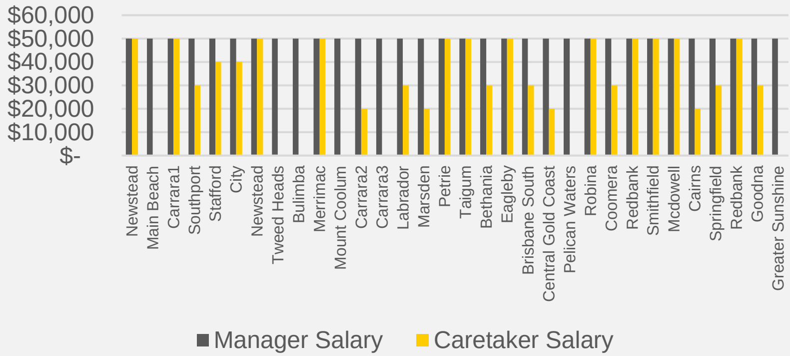
Carrara1, Bulimba, Marsden, Bethania, Central Gold Coast, Coomera
Insufficient data

Summary Table Statistic Units to Manage:

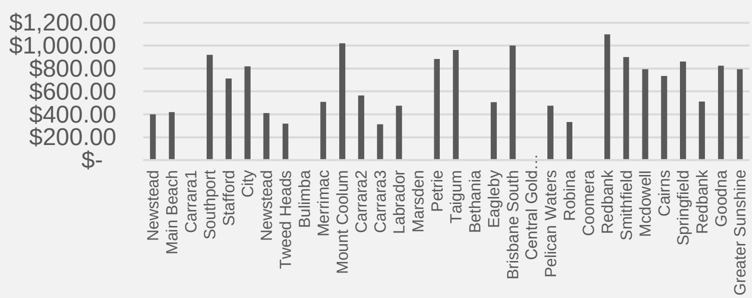
	Min	Max	Mean
Units to Manage	49.00	300.00	137
Units in Leasing Pool	6.00	138.00	61

OCTOBER LISTINGS COMPREHENSIVE ANALYSIS: Efficiency Analysis 2 (Wages, Units to Manage, Units in Leasing Pool)

Wages



Wage Efficiency (Total Wage / Total Units)



*Wage Efficiency measures the labour cost per annum per unit.

Assumptions:

1.) At minimum a full time manager is hired.

2.) the maximum number of leases a property manager can handle is 400

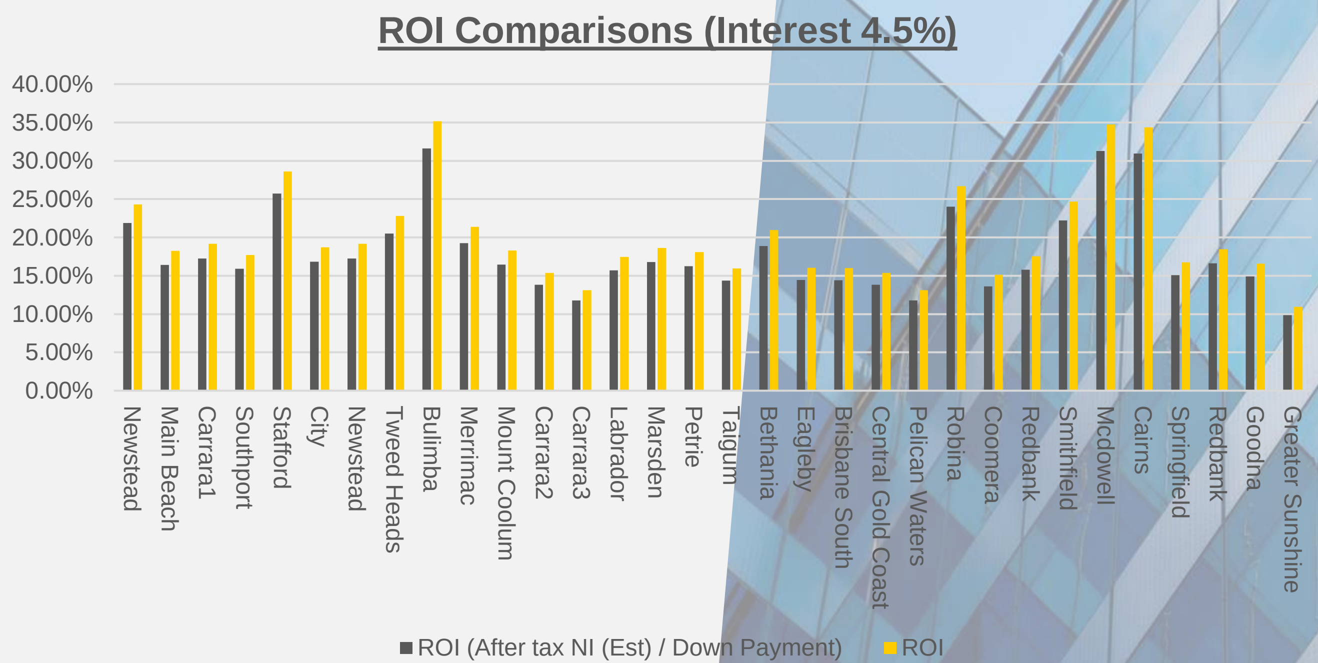
3.) the maximum number of units that a caretaker can manage is 300.

4.) Manager with significantly less than 400 leases (e.g. 40) has redundancy to handle caretaking.

Interpretation:

A value of $400 means the investor is paying the manager $400 per annum for each unit managed. Usually, the larger the project, the more wage optimization. We also assume that the manager's unit will be provided free of charge for the managers to reside.

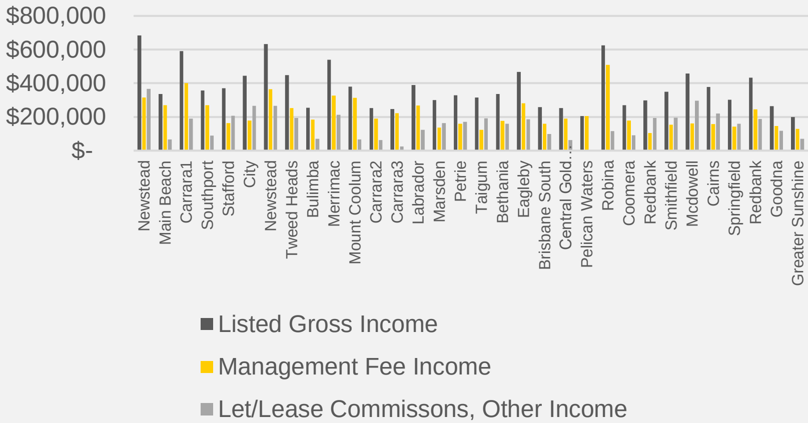
OCTOBER LISTINGS COMPREHENSIVE ANALYSIS:
Return on Investment 1: Overview



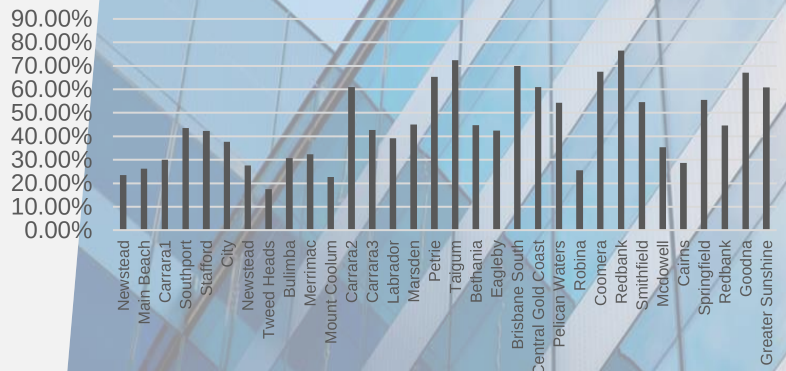
	Min	Max	Mean
ROI (After tax NI (Est) / Down Payment)	9.84%	31.64%	17.99%
ROI (NI / Down Payment)	10.93%	35.15%	19.98%

OCTOBER LISTINGS COMPREHENSIVE ANALYSIS: Return on Investment 2: Income and Wages

Income Comparison



Wages / Net Income



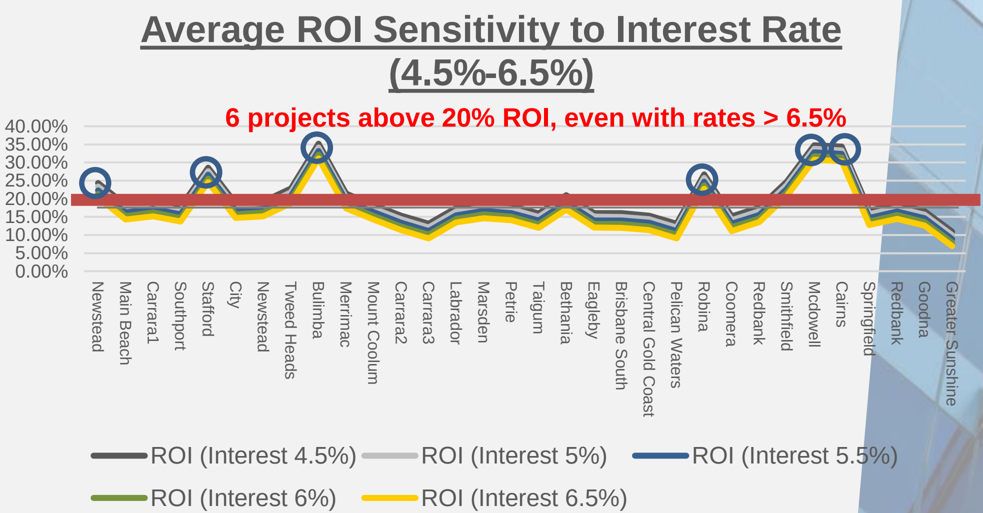
We recommend targeting the projects with:

1.) Larger net income for efficiency

2.) Higher % of income derived from management fee for stability

3.) Lower [Wages / Net Income] (which is usually a result of Point 1 above)

OCTOBER LISTINGS COMPREHENSIVE ANALYSIS:
Return on Investment 3: ROI Sensitivity to Interest Rate Fluctuations



	Min	Max	Mean
Average ROI (Interest 4.5%)	10.93%	35.15%	19.98%
Average ROI (Interest 5%)	9.93%	34.15%	18.98%
Average ROI (Interest 5.5%)	8.93%	33.15%	17.98%
Average ROI (Interest 6%)	7.93%	32.15%	16.98%
Average ROI (Interest 6.5%)	6.93%	31.15%	15.98%

Currently, as of October 2022, borrowing rates for projects average 4.5%.

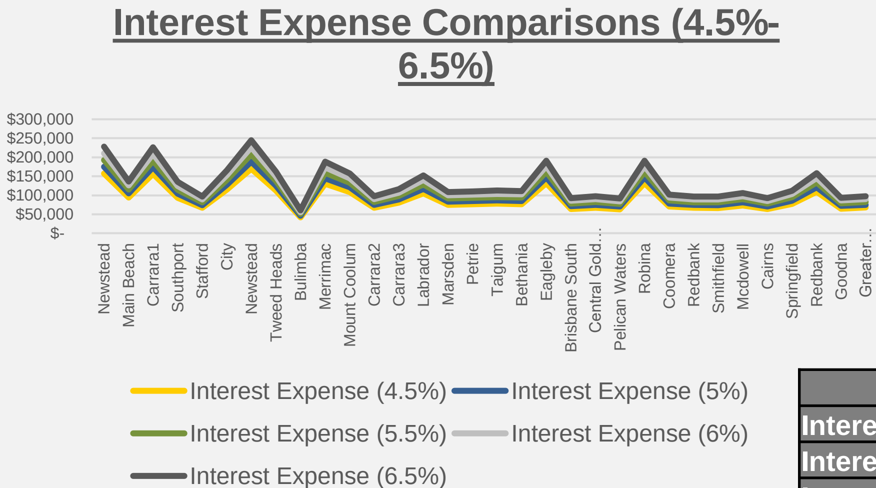
Assuming several more rate hikes, from 4.5% -> 6.5%, that is an increase of 44% in interest rates.

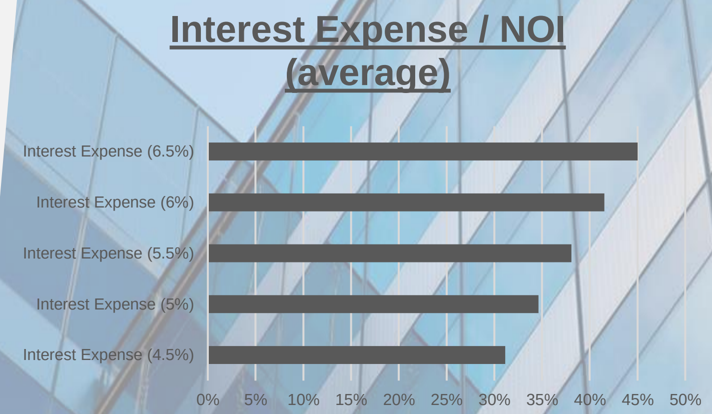
This will lead to an average return of 19.98% to 15.98%, or a 21% decrease in ROI.

Thus we roughly conclude that the sensitivity of ROI to interest rates increase is roughly x -0.455. (44% interest rate increase resulting in a 20% decrease in ROI).*

*merely from October listing as data set

OCTOBER LISTINGS COMPREHENSIVE ANALYSIS:
Return on Investment 4: Interest Expense



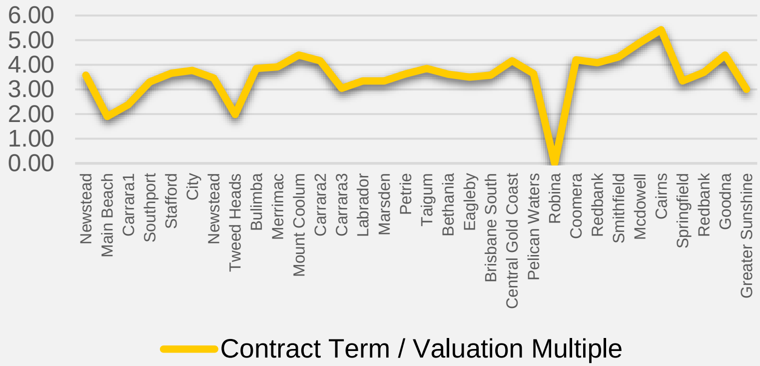


	Min	Max	Mean
Interest Expense (4.5%)	$41,675	$169,794	$91,449
Interest Expense (5%)	$46,305	$188,660	$101,611
Interest Expense (5.5%)	$50,936	$207,526	$111,772
Interest Expense (6%)	$55,566	$226,392	$121,933
Interest Expense (6.5%)	$60,197	$245,258	$132,094

Interest rate increase from 4.5% to 6.5% approximately translates to:
Interest expense / noi from 31% to 45%, whereby NOI is net operating income.

OCTOBER LISTINGS COMPREHENSIVE ANALYSIS:
Sample of Proprietary Ratio Analysis

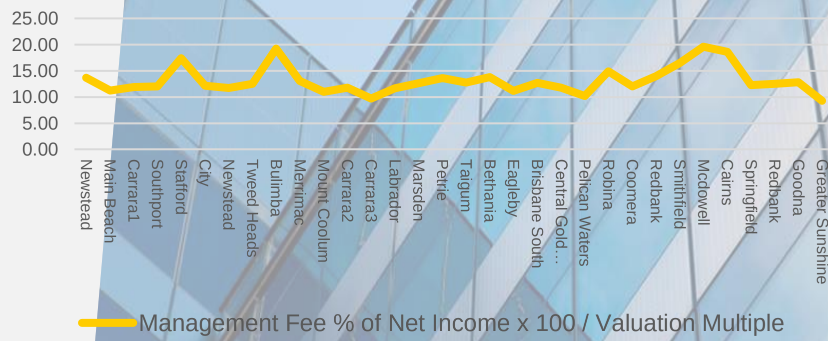
Contract Term / Valuation Multiple



This is a metric that we use to compare the pricing for the contract tenure. For example, a project with 5 would theoretically be more attractive as an investment than 4, all other factors being held equal. A higher metric implies 1.) the contract tenure is long (with max being 25) 2.) the value that the seller assigns to the relative length of contract is relatively low (cheaper).

Let’s assume two project are in the same vicinity of the Brisbane CBD region, and they both have similar net incomes, management fees etc. To further evaluate “value,” the project with a higher contract term / valuation rating would thus derive more value for the investor than that with the lower rating.

Management Fee Weighting / Valuation Multiple



This metric is used to compare the price we assign to the value of the stability of the cash flows, i.e. the management fees (body corporate levies) proportion of the business. A project with the higher metric implies that 1.) % of income derived from management fee should be relatively high. 2.) the seller assigns a smaller valuation multiple to those cash flows even though they are the most secured.

In a manner similarly to the example on the left, Let’s assume two project are in the same vicinity of the Brisbane CBD region, and they both have similar net incomes, management fees, contract terms etc. To further evaluate “value,” the project with a mgt fee / valuation multiple would thus derive more value for the investor than that with the lower rating.

Thank You

Phone/WhatsApp

+852 6486 3964

+852 6391 8051

Email

charles.man@pimgrp.com

ian.cross@pimgrp.com

Web / Info: www.pimgrp.com