

Build to Rent (BtR) - 'Gross to Net' (G2N)* / Net Operating Income (NOI) Definitions & Scenarios

***Gross to Net** - a widely used financial measure to understand the net operating income of an asset, calculated by deducting operating costs from gross revenue

Revenue performance is highly influenced by local market supply and demand, quality of the asset, quality of the management company, the leasing journey and the on-site team.

Operating costs are influenced by the numbers of units in a property. But the % of those costs vs. revenue will be highly influenced by on-site staff count, management fees and cost efficiencies that come with scale (or not).

Given the above statements, the below calculations are purely illustrative and do not represent an actual property. They seek to provide a high level reference to calculate the 'Gross to Net' (G2N) or Net Operating Income (NOI) for Build to Rent (BtR) Assets.

Gross to Net Calculation - Actual vs Basic example

| Actual | | Basic | |
|--|------------|-------|------------|
| ERV | £1,000,000 | ERV | £1,000,000 |
| Vacancy & Bad Debt | (2.5%) | G2N | 25.0% |
| Net Revenue | £975,000 | NOI | £750,000 |
| Property Management Fees % | (5.0%) | | |
| Operating Expenses % | (17.5%) | | |
| Total Operating Expenses Incl. PM Fees | (£219,375) | | |
| G2N | (25.0%) | | |
| NOI | £755,625 | | |
| Additional Income | £0 | | |
| Total NOI | £755,625 | | |

NOI Sensitivity Analysis - Better Rents vs Lower Opex - Impact on Value

| | | Scenario 1 | Scenario 2 | Scenario 3 |
|------------------------------------|-------------|---------------|-------------------|-------------------------------------|
| | Base Case | Rent up by 1% | 1% saving on Opex | Rent up by 1% + 1% increase in Opex |
| Units | 100 | 100 | 100 | 100 |
| ERV | £1,000,000 | £1,010,000 | £1,000,000 | £1,010,000 |
| ERV Variance to Base Case | n/a | 1.0% | n/a | 1.0% |
| Vacancy & Bad Debt | (2.5%) | (2.5%) | (2.5%) | (2.5%) |
| Net Revenue | £975,000 | £984,750 | £975,000 | £984,750 |
| Property Management Fees % | (5.0%) | (5.0%) | (5.0%) | (5.0%) |
| Operating Expenses % | (17.5%) | (17.3%) | (17.3%) | (17.5%) |
| Property Management Fees | (£48,750) | (£49,238) | (£48,750) | (£49,238) |
| Total Operating Expenses # | (£170,625) | (£170,625) | (£168,919) | (£172,331) |
| Opex Variance to Base Case | n/a | n/a | 1.0% | 1.0% |
| Cost Per Unit Per Year | (£2,194) | (£2,199) | (£2,177) | (£2,216) |
| NOI | £755,625 | £764,888 | £757,331 | £763,181 |
| Additional Income | £0 | £0 | £0 | £0 |
| Total NOI | £755,625 | £764,888 | £757,331 | £763,181 |
| NOI Improvement to Base Case | n/a | £9,263 | £1,706 | £7,556 |
| Variance to Base Case % | n/a | 1.2% | 0.2% | 1.0% |
| Valuation (assume 4.50% Cap Rate) | £16,791,667 | £16,997,500 | £16,829,583 | £16,959,583 |
| Valuation Improvement to Base Case | n/a | £205,833 | £37,917 | £167,917 |

- NOI % doesn't stay fixed at '25%', just because rent went up by 1%

- Operating costs nominal to stay constant

Key Takeaways

Under this scenario, a **1% increase in revenue creates >5x more value** than a 1% opex savings

Increasing costs in line with revenues still accretive to returns vs. the base case. "Spend money to make money"