

# Build to rent a key for Australian housing affordability



Australia is still in the dark when it comes to the build-to-rent model. **Dominic Lorrimer**



by [Matthew Cranston](#)

For a pretty boring sounding phrase the "build-to-rent" model for housing is getting huge attention across Australia's property investment community.

Super funds are talking about it, the big developers – Lendlease, Mirvac, Grocon, Stockland – are all talking about it publicly and spending money working it out. Lawyers are positioning themselves, the NSW Treasurer Dominic Perrottet just established a [working group to assess the viability](#) of it and even the media is starting on it.

It is an easy enough concept to understand. Build-to-rent is the opposite to build-to-sell. A developer like Mirvac builds apartments to sell them, not to hold them back and rent them out.

However, if you get a developer who gets backing from an institution such as a superannuation fund then you can build on a big scale with a long-term view. And that means you can rent the properties out at a more affordable rate and not only help solve the so-called affordability crisis in Australia but also provide a long-term income stream to thousands of people who have superannuation.



It could take about 10 years for the build-to-rent sector to be properly established in Australia. **Dominic Lorrimer**

It is happening all around the world – except in little old Australia.

In London and the United States Lendlease is charging into the build-to-rent sector constructing hundreds of apartments. Australia's REST Superannuation already dived into the US and now has 3000 build-to-rent apartments from Boston to Austin, operated by Greystar. The growth in the US build-to-rent sector (known there as Multi-Family) is frightening. If you go to the National Multifamily Housing Council you will be astonished at the [ownership and growth numbers](#) – a million have been completed in the last three years.

## Strata titles

REST director for property investments Neil Matthews says it will probably take about 10 years for the build-to-rent sector to be properly established in Australia.

Paul Healy – chief executive of Property Funds Association and former managing director of BlackRock in Australia – remembers when US investors came here watching all the apartments going up: "They were aghast that all the towers being built were all strata and that there wasn't one single owner [of the whole tower]."

There is a big opportunity in Australia.

If you took the percentage of institutional investment in residential property globally and applied that to Australia you would have a potential \$7 billion to be invested.

MSCI's Bryan Reid says that if the build-to-rent model was able to attract such a level of institutional capital it would equate to about 30,000 new apartments being built to rent in Australia – something that would go a long way to solving the affordability problem.

So why is it not working in Australia?

Mirvac general manager for capital allocation Adam Hirst has been spending time trying to make build-to-rent projects stack up. He says "We are very hopeful" but that there is one key barrier: Tax.

## Thorns in the side

GST and tax on residential property income are the two thorns in the side of the build-to-rent sector. While there are credits and exemptions for those developers who build social housing (where welfare payments are used to pay the rent) or affordable housing (which is defined as providing accommodation for essential workers) the private build-to-rent sector is still whacked with a big tax bill.

The US and the UK do not place these two constraints on developers of build-to-rent properties and also have local planning schemes that help the build-to-rent sector.

K&L Gates partner Matthew Cridland has explained in depth in *The Australian Financial Review* [how the taxes work and how they should be tweaked](#) to incentivise development and save governments a huge housing bill in the long run. If the federal and state governments are genuinely concerned about affordability then they need to focus on tax. GST credits back to developers of build-to-rent apartments are currently not given. That needs to change. But changes to GST legislation require all states and territories to agree and co-operate.

Can you imagine this sort of leadership from Anastacia Palaszczuk, Daniel Andrews and Gladys Berejikian – those with the most at stake when it comes to housing?

REST super's Neil Matthews says there is always the market.

"The market will find solutions but I am not sure how deep they will be here."

Read more: <http://www.afr.com/real-estate/build-to-rent-a-key-for-australian-housing-affordability-20170830-gy6y2x#ixzz4rNg4UVAv>

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