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Building to rent is now an asset class

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The build-to-rent property sector is establishing a foothold in Australia – and it just might change the way that people view renting.

BTR developments are designed for renting on a long-term basis, dealing with one owner. In the US, where the sector is much more established than anywhere else, the buildings are typically owned by institutional investors, but the owner could be the developer.

Either way, the format provides tenants with an experience similar to home ownership. As longer-term leases are struck, the security of tenure can help the occupants to live in more desirable areas, and to develop much stronger community ties, and, in effect, give them an experience very similar to owning a home.

Renting is becoming a popular option and builders as well as investors are keen to cash in on the trend. **Sam Mooy**

In fact, in the US, the sector is known as “multifamily” – and institutions are major investors in the sector, looking for income and diversification. According to global real estate investment management firm Nuveen, the US multifamily sector is a very resilient asset class: for the past 40 years, the average annual income return from it was 6.8 per cent, and even through the global financial crisis, the average income return was 5.5 per cent.

The sector also benefits its tenant customers, and with housing affordability, bigger and denser cities, growing population and a looming undersupply of apartment stock all becoming prominent issues for Australia, BTR developments are kicking off as part of the response.

The country's first true BTR project opened earlier this year on the Gold Coast, when UBS Asset Management, Australian builder Grocon and global real estate giant JLL converted 1251 apartments in the former Gold Coast Commonwealth Games athletes village into a $550 million village of rental units, known as Smith Collective.

The Element 27 building in the Perth suburb of Subiaco, developed by US BTR heavyweight Sentinel Real Estate, opened in October. ASX-listed real estate firm Mirvac will complete its first purpose-built effort within the Pavilions project at the Sydney Olympic Park next year, and recently bought a completed 490-unit BTR project opposite Queen Victoria Market in the Melbourne CBD. Melbourne-based developer Salta Properties is planning a BTR apartment block in Melbourne's Docklands, while US BTR giant Greystar has joined forces with local partner Macquarie Capital to plan Australian projects.

Ken Morrison, chief executive of the Property Council of Australia (PCA), sees BTR as a positive development. "Australia has had the 'build-to-sell' model for many decades, and our policy settings are based on that, but with more people renting, our cities getting bigger, and people wanting more choice in their housing options, it's clear that there's a demand for this type of product. Now we have to make sure that the policy frameworks are there so that we get the supply to match that demand."

Ken Morrison, chief executive, Property Council of Australia. **Dominic Lorrimer**

Morrison says land tax, withholding tax rates for foreign institutional investors and the GST treatment of build-to-rent are all potential pitfalls that must be worked through, as are planning frameworks and design guidelines, which have been set up around build-to-sell housing.

“There are quite a few discussions that the industry and governments need to have about a truly level playing field for BTR,” he says.

The arrival of build-to-rent coincides with increased focus on “affordable” housing – particularly in the context of a city’s “key workers”, a category that includes vital but relatively low-paid occupations such as police, nurses, firefighters and teachers – and on “social” housing, catering to low-income and disadvantaged people. In the UK, where the BTR sector is growing apace, the government has tried to incentivise BTR developers to include these housing categories in their projects.

“If there is planning gain on a development, the local planning authority can put certain restrictions on the development, saying a certain portion of it can be only used for social and affordable,” says Michael Carr, head of social housing finance, Europe & North America, at National Australia Bank. “There will be a reasonably complicated negotiation, which will involve a number of drivers, but the objective from the planning authority is to get as much social/affordable into that development as they can.”

Whether it is possible to combine social and affordable housing with “true premium BTR” is untested in the Australian market, says Bill Halmarick, head of real estate, corporate & institutional banking, at National Australia Bank. “The interesting point here is that the BTR model is built around a premium rent being paid, because you’re providing all sorts of shared amenities – it could be a pool, a fitness centre, a concierge, a cinema, a bar, a rooftop garden. That model assumes that you’re going to be able to charge premium rent, which is diametrically opposed to the concept of social and affordable housing.

“The private developers that are setting up BTR assets at the moment, I don’t believe they’re really looking to incorporate social and/or affordable housing into those developments, if they’re not required to. The flipside is that governments are coming at it from a different angle – they are saying, ‘We can offer you a site and you can do 70 per cent BTR, but you will have to include 20 per cent affordable and 10 per cent social in that project’. But it’s fair to say that whether you can actually blend social and affordable in with BTR is unclear,” Halmarick says.

Morrison believes that the property industry in Australia is “up for these conversations”, particularly around affordable housing. “If the right incentive is on the table – say, here’s a planning incentive, you get an extra floor if you put a proportion of these dwellings as affordable, or ‘here’s a tax incentive to provide some of these dwellings as affordable', the private sector is absolutely up for that conversation, and up to putting that affordable product into these projects. That is a great way for governments to facilitate a new supply of affordable housing into communities without them actually paying for it.”

The lessons learnt from the UK and elsewhere, however, is that any combination should be "tenure-blind", he says. "You don't have one door marked as 'affordable' and one door marked as being 'at-market-rent' – it is indistinguishable," he says.