Cautious optimism on new plans for build-to-rent

Susan Lloyd-Hurwitz, CEO Mirvac. Picture: Hollie Adams

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- BEN WILMOT

Commercial Property Reporter
Sydney

ELIZABETH REDMAN

Property Reporter
Melbourne
@elizabethredman

Property industry heavyweights have welcomed proposed federal government rules for the nascent "build-to-rent" asset class that clear the regulatory path for what could be a $300 billion sector.

But the industry has also warned that a planned heavy tax impost should be eased to avoid stalling development of new residential projects.

Build-to-rent, or multifamily, is well established in the US. It involves institutions owning large blocks of apartments and renting them out, in contrast to the fragmented private ownership of Australia's residential rental accommodation.

A softening in planned rules last week would allow residential assets to be held in managed investment trusts. But investors would still be forced to pay a tax rate of 30 per cent, instead of the 15 per cent rate for other real estate investments.

Listed developer Mirvac, which has been seeking out investors for build-to-rent projects, welcomed the new plan.

“We enthusiastically welcome this development from the federal government which will recognise build-to-rent as an institutional asset class in Australia,” chief executive Susan Lloyd-Hurwitz said.

“This alongside the recent NSW government’s Build To Rent Communities Plus announcement, as well as the numerous government working groups going on throughout Australia, demonstrates strong momentum for the sector.”

US multifamily specialist Greystar, which is working in partnership with investment bank Macquarie to set up a local presence, was more cautious.

“Recognising that institutional investment in the residential sector can be undertaken with a primary focus on income and allowing its inclusion in an MIT (managed investment trust) is a positive first step from the Treasurer,” Greystar Asia-Pacific and Australia managing director Chris Key said.

“However, it does not achieve the vital step of equalising the tax treatment available to institutional investors that invest via MITs in other real estate asset classes, many of which exhibit the same characteristics as build-to-rent properties.

“Unfortunately, this inequality at double the tax rate available for other sectors acts as a material barrier to offshore capital looking to invest in the Australian residential sector.”

Australia’s largest residential developer Stockland said the measures would provide clarity and were a first step in enabling multifamily product.

“We strongly support the focus on incentivising the provision of more affordable housing stock,” Stockland chief executive Mark Steinert said.

“This is critical in terms of the potential benefits to key workers and ensuring the continued inclusivity and liveability of our cities and towns.”

Property Council of Australia chief executive Ken Morrison said there was now certainty that build-to-rent schemes could be held under a managed investment trust structure.

“Now it can grow at volume,” he said, noting this could open the way for global and local capital to get into the sector.