Establishing build-to-rent in Australia is a chicken-and-egg game

The UK's largest build-to-rent project in Wembley Park. **Supplied**

by **Su-Lin Tan**

Establishing the build-to-rent sector in Australia is a chicken-and-egg game between private developers, investors and government, a panel of experts at the Affordable Housing Conference in Sydney say.

Large institutional investors, like Australian superannuation funds, won't invest in the sector until it is fully established, while developers won't start the first project until investors agree to fund them and governments offer incentives, such as tax concessions to make projects viable.

These super funds are instead investing in the US or the UK where the sector has scale.

Yet experts say it only takes one large project to kick off the sector – which refers to institutional landlords offering long-term rental homes – in Australia, helped with a simple "statement of support" from governments to lure investors back.

Build-to-rent projects, such as Mill Creek Residential, US, could be coming to Australia. **Supplied**

"If you look at the US, the cash flows that come of the asset class are so secure that it's actually trading at a lower return. You need the [initial] yield to get it going, but over time, the cash flows speak for itself," Mirvac Capital Allocation general manager Adam Hirst said.

"We have been talking to capital ... and [the consensus is] there is a lot of discussions from government working groups, but no clear hard statement that this is something they want."

Despite slowly falling house prices, home ownership remains out of reach for many in Sydney and Melbourne, highlighting the need for better rental stock to plug the gap. With build-to-rent, institutional owners can offer well-maintained homes for a longer term taking out the difficulty of dealing with mum-and-dad investors.

In the UK, where the sector also struggled to take off in 2013, it was the government that took the lead by offering support through bridged finance to developers.

"What did the government need to do to get it going? Not that much," City Futures Research Centre University of NSW's Professor Hal Pawson said.

"The take-off in 2012-2014, was encouraged by statements from government ... and in the shape of a debt guarantee fund. And that is not something that cost much at all, maybe nothing at all."

But the UK, too, struggled initially. Before the sector took off in 2013, UK group Places for People's Build-to-Rent Fund director Alex Notay recalled investors refusing to make first move.

"I had a 2012 conversation with GE Real Estate, which had $40 billion to deploy but they said there was nothing for them to buy," she said.

"The fact that we are creating an entirely new asset class is a big deal but it is coming...it is not a silver bullet solution and I think you can see the same thing in Australia."

Places for People is looking to expand to Australia and potentially raise funds for the sector down the track. In the UK, Ms Notay is currently looking to raise £550 million for six to eight schemes in London.

Groups like financier-turned-developer Investec are planning to work with Places for People and are continuing to find other ways into build-to-rent and affordable housing through developing government land and projects. They are eyeing three more projects in Queensland and Victoria.
For developers, taxes remain the hardest component in the viability of build-to-rent schemes. High land tax for example, obliterates yields, Mr Hirst says.

While the federal government has shown its reluctance to support build-to-rent, state governments like NSW are looking at supporting the sector but there has been no update on the progress of its working group, run by Property NSW.