Hurdles aplenty for build-to-rent sector

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Australia's emerging build-to-rent sector is up to 20 years behind that of the US and Britain, and looks set to be shackled by proposed federal taxes and a raft of state legislation.

A report by EY finds a combination of state and federal government policy, and tightening lending to local and foreign investors, will eventually lead to less rental stock.

“Some analysts predict rental vacancy rates will tighten to around 1 per cent in some cities, placing upward pressure on rents,” the report says.

EY’s partner for real estate advisory services, Luke Mackintosh, said the lack of government reform was compounding the affordability crisis.

“The policy inertia contributes to the boom-bust model whereby downturns later manifest as housing shortages,” he said. “With the exception of Sydney, we are looking at tightening supply of rental accommodation in major markets. This could stimulate house price growth where shortages are most acute.”

Developers in Australia need to reduce their margins to participate in the build-to-rent sector but this would give them annuity income, he said, noting that this had been the trend in Britain.

“Historically, Australia has fostered the build-to-sell model, which allows developers to make quick profits. This encourages a boom-bust cycle, whereas the build-to-rent sector is about building long-term quality housing for people,” he said.

Offshore institutions are expected to fund the early multi-family housing projects in Australia, given their investments in the sector overseas.

Legislation before federal parliament would see the managed investment trust withholding tax on rental income and capital gains from multi-family housing assets rise from 15 per cent to 30 per cent.

EY managing partner for real estate and construction, Selina Short, said institutions were interested in the build-to-rent model in Australia.

“But without taxation reform that treats multi-family housing assets like other core assets, global capital may look elsewhere,” Ms Short said. “It really comes down to Australia’s international competitiveness.”

EY found net yields for the multi-family sector — which includes social, affordable and student housing along with co-living and retirement villages — were low at 4-4.5 per cent, accentuating the tax issues.

The report notes that multi-family housing would not replace the build-to-sell product or be a single solution for social and affordable housing shortfalls.

However, it may alleviate problems, with large-scale housing able to be delivered in a relatively short period.

Most state governments have affordable housing programs, with NSW and Queensland announcing pilot models last year.

Major developers with projects under way include Mirvac at Sydney’s Olympic Park, Salta Properties with two projects in Melbourne and Sentinel’s 360-unit development in Perth.