Renters need capital too

The government has not pushed hard enough on an appropriate regulatory structure to encourage built-to-rent apartments. James Alcock

by The AFR View

Amid the national angst over the cost of housing, Australia stands out for our lack of institutional investment in rental property. Institutional funds ought to be naturally attracted to the utility-style returns from building residential property specifically designed for long-term renters in our expensive cities. Companies such as Lendlease, and super funds such as REST, are already involved in the sector in the US, and the investment class is common in Europe. The property industry expected the federal government to look at extending the discount on capital gains now available to mum and dad residential investors to the institutional suppliers of rental accommodation. The industry also hoped for a GST break: because no GST is paid on build-to-rent apartments, GST tax credits on land and development costs can’t be claimed. That gives build-to-sell developers a 10 per cent advantage.

In September last year, however, Treasurer Scott Morrison ruled out such tax changes along with explicitly barring managed investment trusts from investing in residential housing, except in the bureaucratically defined "affordable housing". The nascent build-to-rent industry ground to halt. No doubt there are reasonable "tax integrity" issues to resolve. But shadow treasurer Chris Bowen is right to push the government to try harder to do so.