Stockland warns of low returns in build-to-rent schemes

Stockland CEO Mark Steinert. Picture: Renee Nowytarger

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The nation's largest residential property developer, Stockland, says housing affordability is being tackled by new federal government programs, but has warned about the low returns on offer for institutional investors in build-to-rent schemes.

Stockland chief executive Mark Steinert, speaking yesterday at the Citi Investment Conference in Sydney, expressed caution about the low returns and said the government's immediate focus was on housing key workers rather than the new sector.

He emphasised the potential impact of the federal government's new bond aggregator that was unveiled in the federal budget. It is slated to lend $1 billion and has been billed as a major step in unlocking affordable homes.

“I think there is a real sense of urgency and most groups are saying the right things,” Mr Steinert said, praising the launch of the National Housing Finance and Investment Corporation, which is being set up an as aggregator to raise money at lower rates from the wholesale market for not-for-profit community housing providers.

This would provide funding for affordable housing at effectively the cost of federal government debt, which could be issued at less than 3 per cent.

“The discounted rental yield will be around that type of level — that gives the community housing providers a funding source they haven’t had before,” he said.

“You’ve got a very effective financing mechanism — what you then need is the land,” he said, noting this was mainly controlled by state governments and required zoning to make the plan work.

“Until either the state or federal government contributes some land to build those properties on it, it won’t deliver a lot of supply,” he said.

The private build-to-rent sector was last month thrown into turmoil by draft federal government rules that cut off the main avenue for global players to invest in the area, prompting warnings the failure of the sector could worsen the affordability crisis.

The area has been pitched as potential $300bn saviour to drive investment in housing and Mirvac is now marketing a fund that would eventually hold $1bn worth of build-to-rent apartments.

However, Stockland is unlikely to develop build-to-rent properties on its own massive land holdings unlike rivals including Mirvac and the private Grocon which have flagged interest.

Mr Steinert played down this prospect saying that yields would be sub-4 per cent. “Given that yield we think institutional capital is not going to allocate at sub 4,” he said. He instead pointed to the redevelopment of the Ivanhoe Estate in Sydney’s Macquarie Park that will be the country’s largest social and affordable housing project as a way forward.