Build-to-rent to solve housing affordability

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Build-to-rent developments could help solve the country's housing affordability crisis and boost the economy during the pandemic, but the federal and state governments must come to the party with broader tax concessions and lower land costs, industry advocates say.

First State Super chief investment officer Damian Graham said at the Committee for Economic Development of Australia (CEDA) event that a much larger build-to-rent (BTR) sector would have a positive impact on housing affordability, but growth in the sector was not as viable in Australia due to tax and planning settings.

Mirvac's first build-to-rent property at Indigo Pavilions, Sydney Olympic Park.

"In order for BTR projects to be successful, there needs to be a reduction in land tax and more release of state and federal land available for development," Mr Graham said.

"The Australian landscape has proven to be difficult with a higher cost of land holding it back, compared to some overseas markets.

"As a major investor in affordable housing, First State Super wants to expand our investments in this sector and see the barriers removed to make way for the market to grow."

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Mr Graham said First State Super had invested around $250 million in the past 12 months and was looking to lift that investment to $400 million or more this year.

"We're setting ourselves what we think is a little bit of an aspirational target to double that again to $800 million in the near term," he said.

Despite the ambitious goal, Mr Graham said it was still small compared to the demand for affordable housing in the country.

"I think the challenging situation for us as investors is we know that it's just a drop in the ocean, in terms of the size of challenge with regards to social housing, so we'd like to see lots of institutional investors growing and building the sector."

Mr Graham said the NSW government’s decision to cut land tax for the next 20 years for new BTR projects was welcome, but more would be needed.

"The governments, industry and investors need to work together and respond to these challenging issues and allow for more investment opportunities of scale in affordable housing and build-to-rent developments," he said.

Brisbane Housing Company chief executive Rebecca Oelkers said 400,000 affordable housing were needed, and unlocking institutional investment in social and affordable housing at scale was a critical part of the solution.

"It's sad to see so many Australian investment funds putting their capital into infrastructure projects, including affordable housing, overseas," Ms Oelker said.

"We need to get the settings right to capture that investment here for the benefit of our low-income Australians."

National strategy

To address this, a cohesive national housing strategy for institutional investment in social and affordable housing was needed to create a steady and predictable pipeline of projects, she said.

"The policy settings that detract from social and affordable housing as an appealing investment prospect, things like taxation implications and risk allocations and the like, need to be addressed," Ms Oelker said.

"Lastly, really permanently solve the yield gap that affordable and social housing by their very nature will achieve, in comparison to some other investments that funds could make.

"And this yield gap could be closed through a number of different mechanisms including quite a shallow state or federal government financial or land contribution."