Huge investments at risk as Treasurer slams door on build-to-rent

Private companies getting into build-to-rent.

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Australia’s nascent build-to-rent sector has been thrown into turmoil by new federal government rules that cut off the main avenue for global players to invest in the area, with warnings that the failure of the sector could worsen the affordability crisis.

The future of the build-to-rent sector — which has been pitched as potential $300 billion saviour to drive investment into Australia's housing supply — was hanging in the balance after Treasurer Scott Morrison shut the door to foreign institutions receiving favourable tax treatment.

The model of building apartments to rent has already been embraced by top companies, including Lendlease, Mirvac and shopping centre giant Westfield. Private groups like Grocon and Salta have also flagged their ambitions.

But the Treasurer has unveiled a new regime that would mean Managed Investment Trusts — the main conduit for international groups investing into local real estate — would no longer be able to invest in residential property schemes unless it was low-cost community housing.

Most private companies getting into the area are hoping to tip more lucrative mid-range apartments into build to rent schemes and keep control of them.

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But to qualify for favourable tax treatment the homes must also be run by community housing providers and held by investors for a decade.

Attracting offshore capital into local build to rent schemes is viewed as critical to their success and major international pension funds could shun Australia schemes if returns are too low.

The surprise move could put at risk the estimated $300bn in investment that real estate agency CBRE has forecast the build-to-rent sector could expand to in coming decades.

Major players including Mirvac and Lendlease declined to comment yesterday but top executives were seeking meetings with the federal government as they deal with the proposed rule changes.

Senior property sources said the government would deal with industry concerns in future rulings but Property Council of Australia chief executive Ken Morrison said that the legislation released yesterday risked stalling the build to rent housing sector before it started.

He noted the government’s desire to ensure capital gains tax concessions announced in the May budget were targeted towards affordable housing.

But he warned the unintended consequence of the plan would be to “completely close down” the capacity of Managed Investment Trusts to invest in most schemes.

“This risks stalling build to rent before it starts,” the Property Council’s Mr Morrison said. He claimed that the funds — where developers and pension groups own apartments and rent them out to individuals — could deliver tens of thousands of new homes at all levels.

“In the US, UK, Canada and elsewhere, a scaled-up pipeline of at-market rental can help pull forward more investment in affordable rental housing,” he said.

Industry experts also see the rules as a threat to the industry.

Managed Investment Trusts are the main conduit for international groups investing into local real estate. Photo Adam Armstrong

EY real estate leader, Selina Short, said the move would “significantly hamper” the area.

“A healthy build to rent sector will play a vital role in releasing the pressure being felt in our housing market and ensure our key hubs can accommodate the people we need to grow the economy,” Ms Short said.

She warned the changes could also hit the ability of Managed Investment Trusts to diversify to invest in similar assets in the US and Britain, where superannuation funds including REST, have been active.

Shadow Treasurer Chris Bowen accused the government of making “counter-productive” policy, saying the move had “completely blindsided” the housing sector.

Mr Bowen claimed the shift “ambushed” property and construction companies. “This shock move could kill the fast emerging build-to-rent movement that has already taken off in the US and more recently in the United Kingdom,” he said.

“This move has the potential to cruel new supply funded by institutional investors,” Mr Bowen said. “This bizarre banning of MIT purchases of residential property will directly hit housing supply.”

CBRE head of research for Australia, Stephen McNabb, was sanguine about the potential impact. He said the tax system, by itself, was not “make or break” for investment into the area, particularly for the middle to high quality segment that most institutions will chase.

The new products could meet a wider range of investment objectives. “Tax policy is a secondary consideration to these factors,” Mr McNabb said.

“The future of the asset class is not contingent upon government policy designed to directly influence affordable housing.”

He added that the government needed to tread a “complex pathway” to ensure its policy was aligned with preferred delivery models for residential accommodation, including the supply of key worker housing.

Developer lobby group the Urban Taskforce said the draft legislation was a positive move and praised moves that would allow investors to obtain a 60 per cent capital gains discount for investment in affordable rental housing.

Urban Taskforce chief executive Chris Johnson said restricting Managed Investment Trusts to only acquiring affordable housing, and eliminating investment in general residential property, was “good policy” to encourage more funds into the affordable sector.