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Key questions about build to rent in Australia

Just how big can the build to rent property market become in Australia? This sector, also known as multi-family housing, is currently a 'missing link' in Australian property but is at risk of being left behind despite its potential to provide a new asset class in property and introduce more affordable housing to our nation's expensive capital cities.

Build to rent property has become a significant part of the housing fabric in overseas markets – it's the largest property investment sector overall in the USA, attracting big investment from many sources from private investors to institutional. The concept adds significantly to available housing options and is a widely accepted rental model. Build to rent was initially introduced in the USA post World War II to provide housing options for returned veterans.

The UK's build to rent sector may prove most apt for Australia, because it is relatively young and was first introduced to combat housing affordability challenges. Since being introduced in 2010, the UK build to rent sector is in the process of adding up to 100,000 dwellings.

While there is little build to rent property in Australia, some of our best known organisations are currently active in build to rent overseas: The REST Superannuation Fund reportedly has 3,000 build-to-rent apartments in the USA, operated by Greystar; and Lendlease is reported to be constructing hundreds of build to rent apartments in both London and the USA.

There is great untapped potential for Australia to develop a strong build to rent sector, but we will need to take a long view given major headwinds including tax structures which are not favourable. If given the right conditions to thrive, build to rent could become a major property asset class in property, similar to the way we consider retail and office property now.

Let's consider some key questions around build to rent property in Australia:

What is the potential for build to rent property in Australia?

Australia faces pressures on rental accommodation with millennials (people aged 16-35) and Generation Z (16 and under) together comprising approximately 48% of the population. Ernst and Young says millennials are currently the largest proportion of our population, and 66% of them do not believe they will ever own a home.

EY goes on to say Australia will experience a shortage of residential accommodation as more millennials enter the rental market.

Build to rent can play a major role in satisfying this demand for affordable rental accommodation by providing more sophisticated solutions to long-term rental housing, particularly in our major centres.

For investors, build to rent provides potential for establishing long-term, defensive income streams. It would add another layer of diversification to the property sector by introducing another asset class to the sector, and provide good income producing diversification for both property funds and property investors.

Build to rent would also give institutional investors opportunities for more exposure to Australia's residential property market: local institutional investors including superannuation funds have long expressed desire to invest in Australian residential property but it has proved elusive in a market dominated by 'build to sell'.

Why isn't build to rent bigger in Australia?

Local tax structures are arguably the biggest impediment on build to rent housing in Australia. Local taxes including stamp duty, GST, and land tax add greatly to the costs involved, and the sector will likely remain hindered without some changes to the Managed Investment Trust (MIT) tax structure.

Current MIT rules discourage overseas institutional investment in local build to rent housing. Yet build to rent will remain a fringe property sector without large scale institutional investment, and be a wasted opportunity given the acute housing demands which are growing in our major centres.

Much recent build to rent discussion has centred around Federal Treasurer Scott Morrison's decision to rule out changing the Managed Investment Trust (MIT) rules last year. As the housing affordability issue continues to rise and political pressures build, it is hoped that the current structures may be reviewed to introduce something more similar to what we have seen in the UK, where a political decision to use build to rent for addressing accommodation shortages has seen strong growth in the sector since 2010.

Does build to rent property exist in Australia?

There is little evidence build to rent property will take off in Australia anytime soon, but there are a couple of projects in the pipeline.

- UBS-Grocon is behind the Parklands Project, a $550 million master-planned development which was used as the 2018 Commonwealth Games village on the Gold Coast and will now be used as build to rent accommodation.
- Salta Properties recently announced an intention to deliver a mixed-use high-rise tower in Docklands, Melbourne in 2020, featuring 260 apartments and a 170-room hotel.

Both of these can be considered "one-off" projects, and not indicative of a wider movement.

What needs to happen for build to rent to gain momentum in Australia?

Build to rent projects generally take three to four years to complete and the sector is barely getting going in Australia, which demands we take a long view on this sector. But without reform to accommodate the sector via more favourable tax structures it's difficult to see momentum growing.

A change in the tax treatment of MITs could see more institutional investment in the build to rent sector. It's anticipated much of this investment would come from overseas institutional investors, but as the sector establishes itself as a viable and successful asset class – as it has done in property markets overseas – it is likely we would gradually see more investment from local institutions including the superannuation funds.