BUILD TO RENT

STIMULATING RECOVERY, ENSURING RESILIENCE

Build-to-Rent (***BTR***) helps drive economic productivity, and with the right government intervention, could not only play a key role in Australia's economic recovery from COVID-19, but also ensure the future liveability and resilience of our cities.

Government stimulus is key and can unlock substantial private sector investment in housing construction. This report outlines the simple steps that will both accelerate the BTR sector and help safeguard a sizeable portion of the 750,000 jobs that rely on housing construction in Australia.

While the BTR sector has gained some traction, more can be done to overcome significant barriers to its viability in the Australian market. NSW has taken the lead in supporting the emergence of the sector in response to COVID-19 and the resulting recession conditions.

While these actions are positive, without fast and smart support from all levels of government across all jurisdictions – the broader economic opportunity of the BTR sector could be lost.

WHY THE BTR OPPORTUNITY IS VITAL RIGHT NOW

1. **More construction jobs, faster:** construction will play a crucial role in driving Australia's recovery from the COVID-19 recession. BTR allows construction to commence much more quickly than other sectors, driving job growth and enabling a faster bounce-back for the industry.
2. **Housing demand remains a critical issue:** even in this economic downturn, there is still a considerable demand and supply gap for more diverse housing options in Australia.
3. **Future-proofing Australia to thrive going forward:** COVID-19 has been an unprecedented event on a global scale. Australia has led both the health and economic recovery so far and has an opportunity to leverage this in encouraging international talent and investment to Australia. BTR can help facilitate and capitalise on this opportunity in the short, medium and longer term.

URBIS

Allens › ‹ Linklaters

BTR IS A LEVER FOR ECONOMIC STIMULUS

The Australian Government has already indicated that the property and construction industry has a significant role to play in the economic recovery from COVID-19. To fully leverage this opportunity and encourage even greater job creation, the Government must recognise which sectors of the industry can provide investment and jobs at scale.

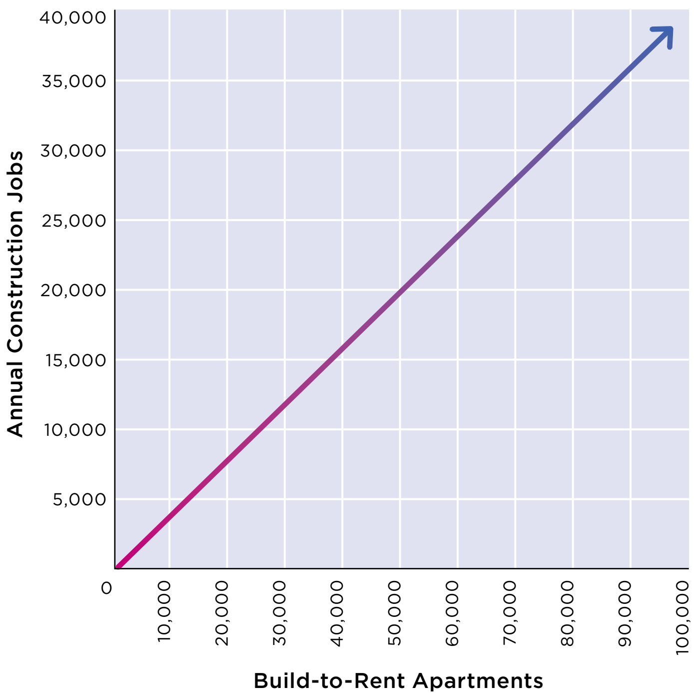
In a stable development market, residential construction typically accounts for around 750,000 direct and indirect jobs, and 7.5% of total growth in the economy[1]. With evidence of a slowing pipeline of housing construction, Australia needs to rapidly find alternative sources of employment to safeguard these jobs and preserve their positive impact in the wider economy.

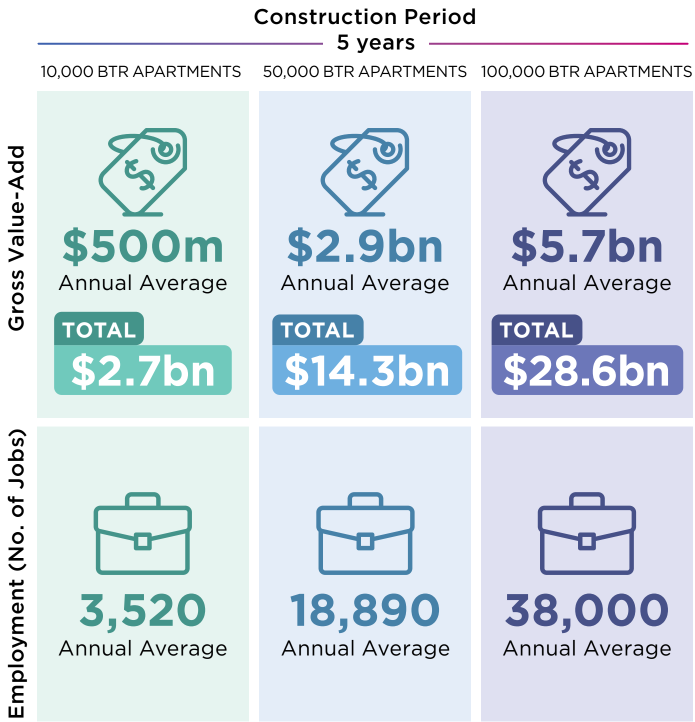
BTR presents a solution. With conservative estimates indicating that stimulating BTR delivery even to an initial scale of 10,000 apartments ($2.7bn in construction investment, not including any amenity additions such as gyms that are commonplace in BTR developments) could support an average of 3,500 jobs per year linked to the construction phase alone. Growing that to 50,000 apartments (roughly 1/3 of the inner-city apartment pipeline on the eastern seaboard) could support approximately 19,000 jobs per year in the construction phase, as well as an average of $2.9bn in Gross Value Added (Urbis). This does not include the permanent ongoing employment that would be created by the professional management or even future construction related maintenance over the life cycle of assets, which is estimated to be in the region of 15 employees per 500 apartments[2].

NSW FRAMEWORK SUPPORTS BTR DELIVERY

The changes taken by the NSW Government propose:

- BTR assets will be given a 50% discount on land tax;
- foreign investor surcharges will not apply to BTR assets; and
- a separate definition for BTR residential accommodation will be created, with tailored design principles and development standards; mandating BTR housing as a permissible use in certain zones, with scope for local councils to make BTR housing permissible in other areas.



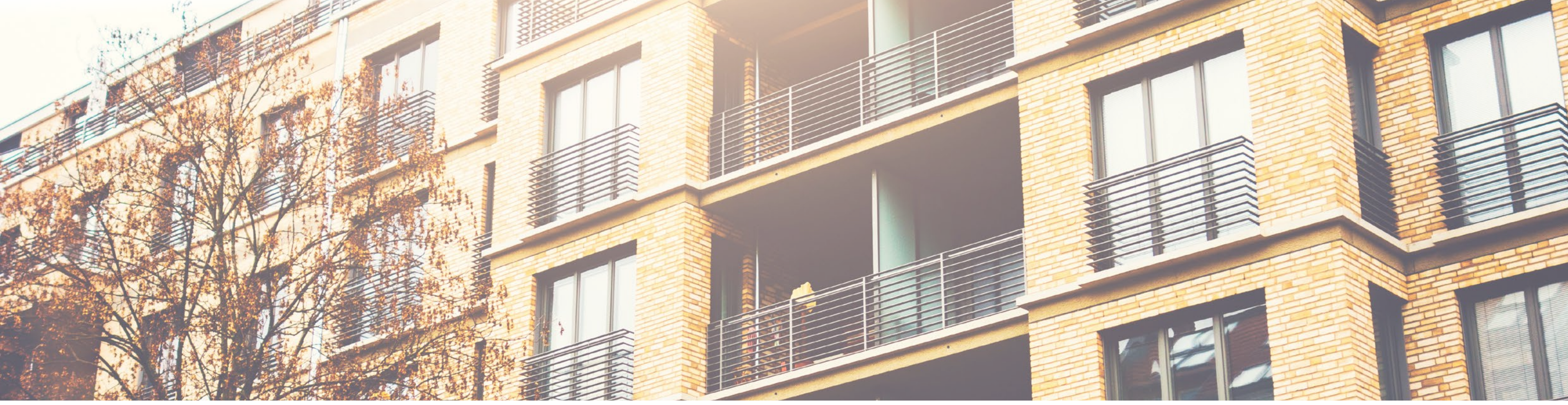


The value of construction investment is based on Rawlinson's benchmarks for high rise apartment and serviced apartment construction to allow for variation in the sector. These numbers are for illustrative purposes only and we would recommend engaging a cost consultant for more detailed project analysis. Compared to the reported value of emerging BTR projects, the above numbers appear conservative.

Source: REMPLAN State Level Impacts, Rawlinsons 2019

> If incentives could then further shorten the timeframe of delivery or amplify the volume of apartments, the economic benefits would increase. There is urgency to this stimulus requirement since dwelling starts are forecast by the Housing Institute of Australia to decline by around 20% next financial year as household savings continue to decrease and impact consumption of Buy-to-Sell (***BTS***) products, a burden that could be lifted by the more liquid offering of BTR development.

1 EY;UDIA, 2020 https://udia.com.au/media-release/media-release-residential-construction-can-help-the-economy-survive-and-bounce-back/
2 *Unlocking the Benefits and Potential of Build to Rent* - BPF, Savills & LSE



ENSURING FUTURE LIVEABILITY AND LONG-TERM RESILIENCE

BTR is backed more by demographic trends than relying purely on economic cycles. This provides an incentive to unlock BTR to service the growing domestic rental market, while also being ready for a future influx once borders are reopened.

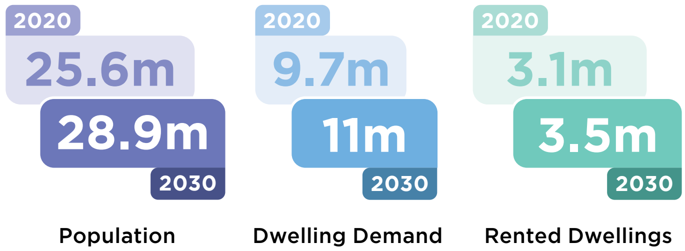
COVID-19 has laid bare the inadequacies of many governments the world over. By contrast, as a country leading the health and economic response to the pandemic, we can expect both migrants and foreign capital investors to look to Australia as a safe haven in the future.

To take advantage of the migration opportunity while still supporting the accommodation needs of the current population, we must prepare by increasing housing supply and options that ensure our liveability and resilience to future market shocks. Projected population growth over the next 10 years indicates that Australia needs to increase rental dwellings by 413,940 apartments. While this demand is mostly concentrated on the east coast, all jurisdictions will need to add to current supply, ensuring diverse and affordable housing options for all aspects of the housing spectrum.

BTR is the quickest solution to increase choice and capacity at scale. Not only does BTR provide a diverse rental option for different segments of the population, it will also assist in freeing up capacity across other parts of the housing spectrum as population demographics change.

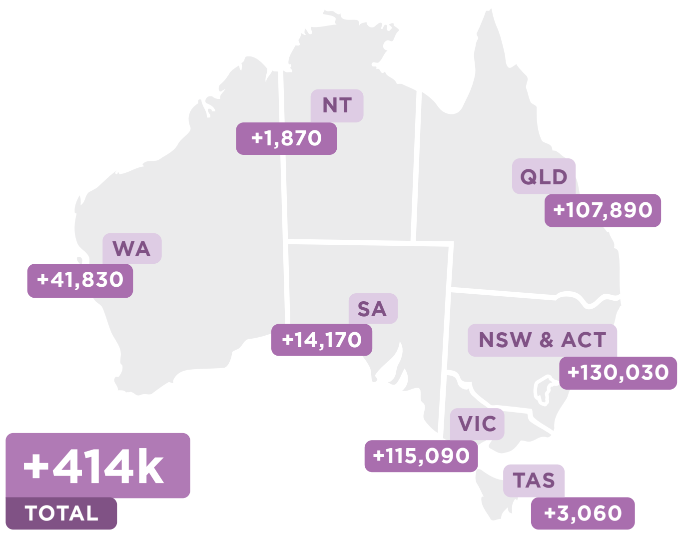
BTR will not spell the end for mum and dad investors wanting to invest in residential real estate. BTR supplements and improves housing options available, but will not be the dominant market in Australia. It doesn't remove the great Australian dream of home ownership, but will improve the journey towards it.

2030 Dwelling Demand



SOURCE: ABS; Urbis

Rental Dwellings Needed by 2030[3]



SOURCE: ABS, Victoria in Future 2019, NSW Department of Transport, WA Tomorrow, QGSO Population Projections, PlanSA, DT Tas.; Urbis

> BTR is a relatively safe asset class when structured correctly, making it an attractive solution for foreign capital. Currently, income from residential real estate housing is denied the concessional 15% rate applicable to income from most other real estate asset classes for eligible foreign investors in Managed Investment Trusts (***MITs***). If given a level playing field through tax concessions, BTR has greater potential to attract overseas money into the Australian economy, aiding pandemic recovery and creating resilience in the residential development market.

3 Official Population Forecasts Against ABS Census Average Household Size, Multiplied by Proportion of Households Renting According to the 2017-18 ABS Household Occupancy & Costs, Noting That This Proportion Will Likely Inflate into the Future Given Recent Trends.

WHAT NEEDS TO CHANGE?

Comparisons can be drawn between Australia's current economic climate to that of the United Kingdom following the 2008 global financial crisis, at which time the UK Government recognised the economic potential of BTR and sought to remove constraints inhibiting its growth. The resulting policy changes prompted large-scale investment in BTR developments and kickstarted the growth of the now mature sector.

Now more than ever, change is needed. Starting with a strong commitment from all levels of government to reduce barriers to BTR viability. As Allens and Urbis have previously reported on and advocated for in our *Unlocking the Future Liveability of Australian Cities* publication, accompanying policy changes will be required to accelerate investment in the area, including:

MITs – BTR assets should be accepted as having the same character as 'commercial residential' (by the ATO or by legislative clarification) so that eligible foreign investors' returns are taxed at a concessional rate of 15%

Land Tax – State governments should follow New South Wales' lead (see page 2) by providing land tax concessions for BTR projects, if only to help level the playing field with similar BTS assets

Planning – the treatment of BTR in state planning policies must be overhauled by including specific guidelines for BTR assets (ie specific definitions for BTR assets, tailored design principles and development standards).

While the changes proposed in NSW are welcome and a much needed first step, we caution against policies that mandate affordable and social housing within BTR products. As previously reported by Allens and Urbis, a component of affordable housing should not be an automatic assumption by planning authorities, as there are indirect affordability benefits which flow from encouraging BTR. We also caution against requiring BTR landlords to offer minimum lease terms. It is clear that while tenants want to have security of tenure (which BTR naturally provides), they also want flexibility (which minimum lease terms will not provide).

The time to act on enabling the BTR sector in Australia is now. The steps taken by NSW are encouraging and we support all levels of government coming together to unlock the opportunities BTR presents to both the Australian economy and our future cities.

THE UK'S BTR FIX

Following the GFC, the United Kingdom not only had a weak economy, but also a housing affordability crisis leading towards a demographic shift away from home ownership to renting, with not enough supply to cope with the new market pressure.

In response, recognising the potential economic benefits of the BTR product, the UK Government made a number of key policy changes to incentivise investment in BTR and remove constraints inhibiting its growth. This included lowering tax rates paid on BTR investments; amending the planning framework to provide formal recognition to BTR as an asset class; relaxing affordable housing requirements for BTR developers and introducing financing schemes to facilitate access to short-and-long-term finance for early entrants into the BTR market.

Seven years later, the UK's BTR pipeline is significant. In 2020 a total of 47,754 BTR apartments were completed by Q2, representing an associated investment value of £15 billion and roughly 1% of the private rental market. With a further 150,000+ apartments in the supply pipeline, this takes the potential total investment value to an estimated £62 billion for an asset class of 197,774 apartments.

WANT TO KNOW MORE?

We'd love to talk to you about the role for Build-to-Rent in unlocking the future liveability of Australia's cities. To speak to one of our team, please contact:

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