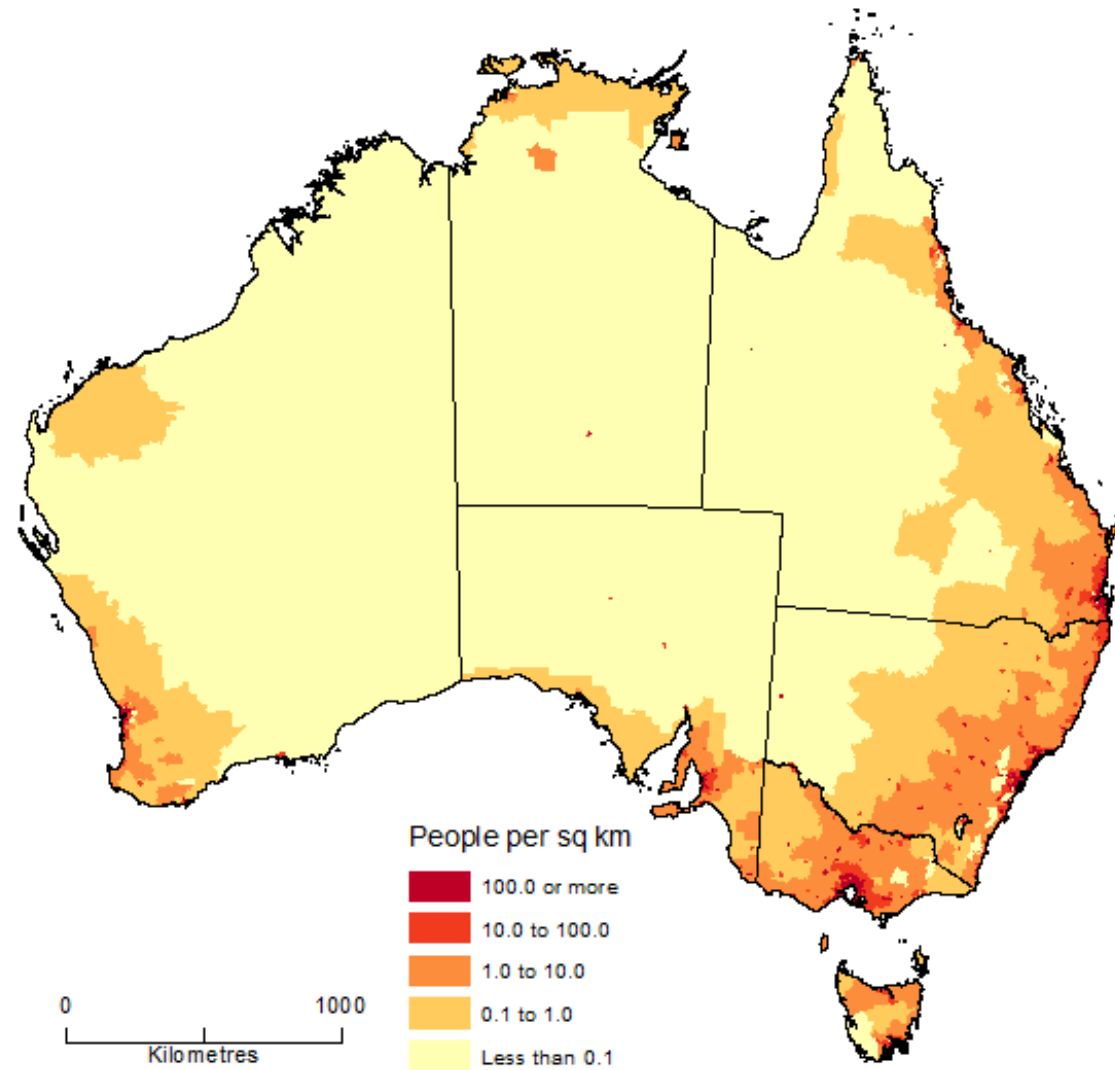


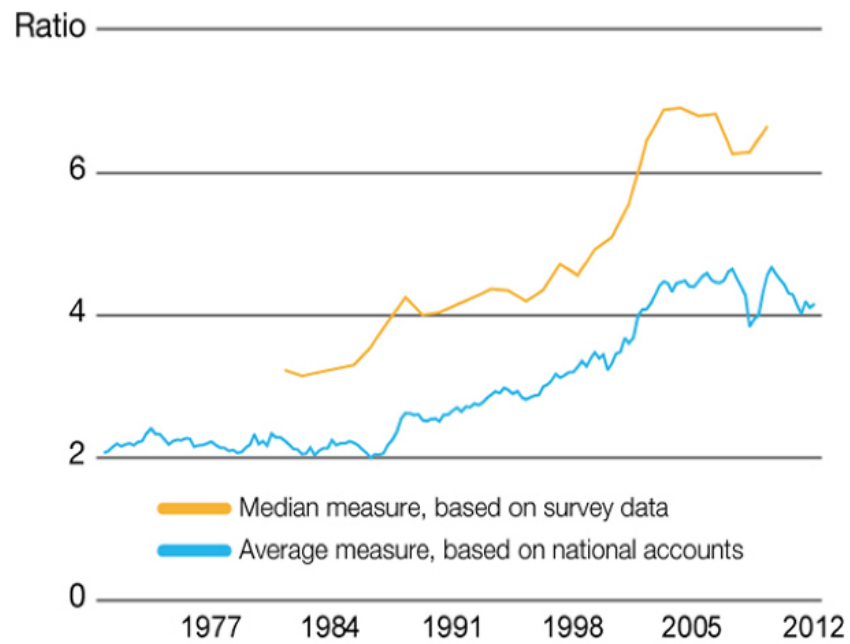
Build to Rent (BTR) & Affordable Rental

- What are the housing issues?
- Why Rental?
- ACT Context
- What is BTR?
- Why BTR?
- Other BTR
- How to get affordable BTR off the ground?



- Two thirds of Australia's population are in capital cities (ABS, 2017)
- 66% of households own home with/without mortgage (ABS, 2017-18)
- 32% of households rent home (ABS, 2017-18)

source: ABS, 3218.0 - Regional Population Growth, Australia, 2017-18

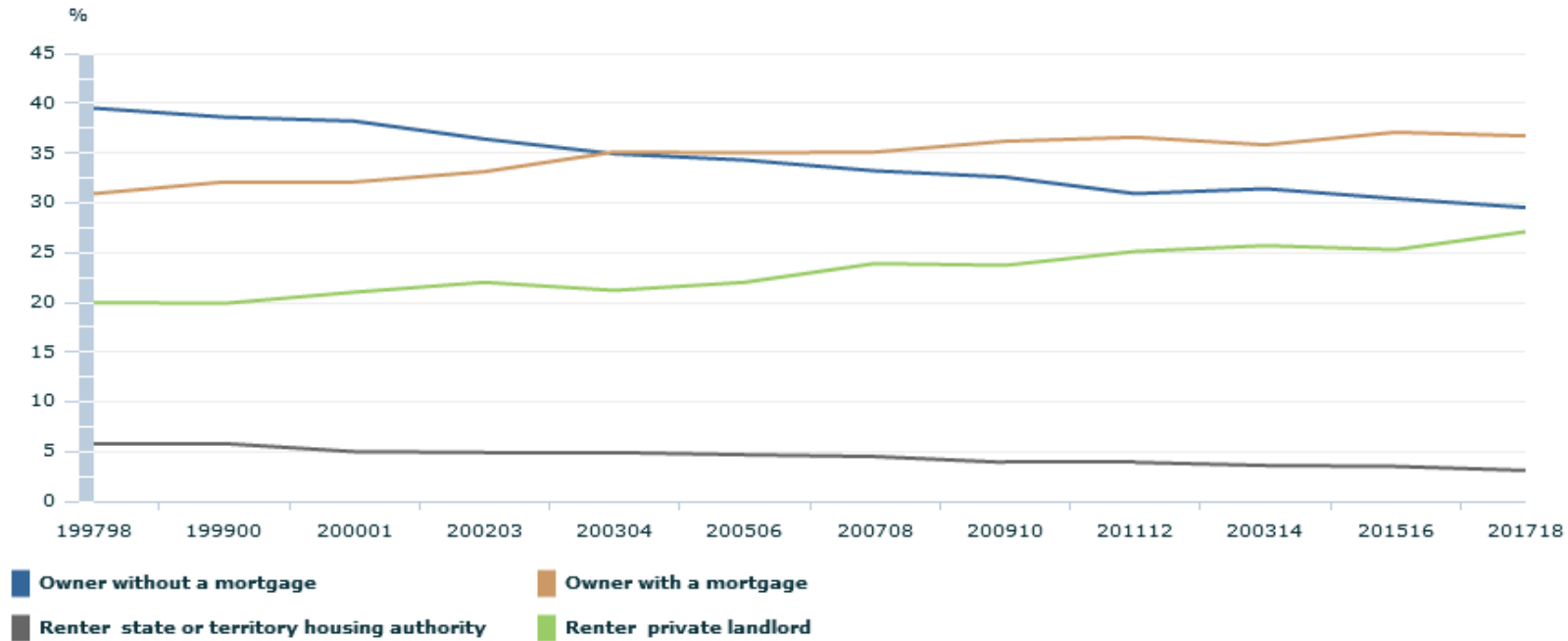


- Median house price to median income 3 times (1983)
- Median house price to median income 6.5 times (2010)

- Housing stress:
 - Bottom 40% of income; and
 - Housing costs > 30% of gross income

source: RBA, 2012, "Dwelling price to income ratio"

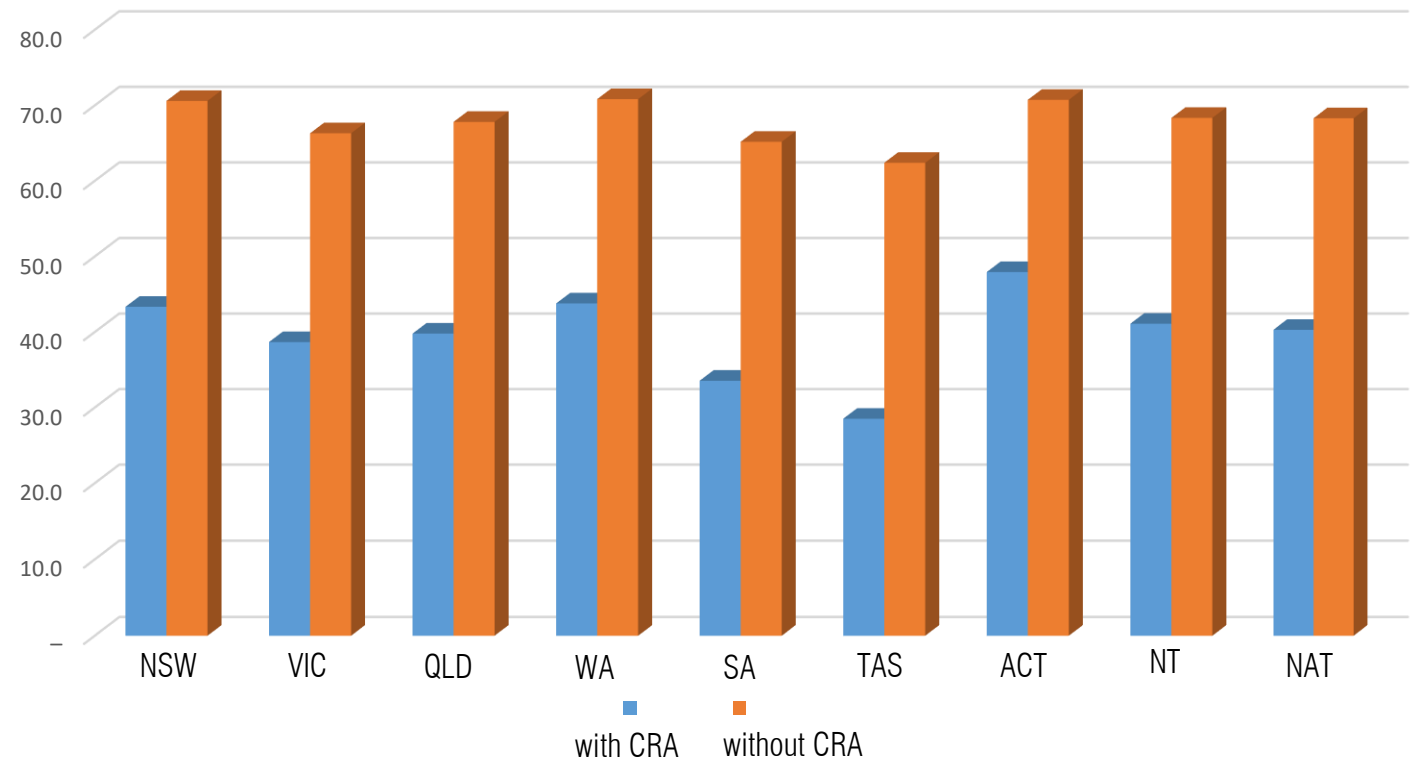
Housing Tenure, 1997-98 to 2017-18



source: ABS, 4130.0, 2019

- Home ownership decreased from 71% (1997-98) to 66% (2017-18)
- Renting increased from 27% (1997-98) to 32% (2017-18)

2018	PROPORTION OF CRA RECIPIENTS IN HOUSING STRESS WITH CRA (%)	PROPORTION OF CRA RECIPIENTS IN HOUSING STRESS IF WITHOUT CRA (%)
NSW	43.3	70.6
VIC	38.7	66.3
QLD	39.8	67.8
WA	43.8	70.8
SA	33.6	65.2
TAS	28.5	62.4
ACT	47.9	70.7
NT	41.1	68.3
NATIONAL	40.3	68.3



source: Productivity Commission, extract of Table GA.13, “Proportion of income units receiving CRA, paying more than 30 per cent of income on rent, with and without CRA, 2018”

- Households renting in private sector:
 - 25.3% of households (PC, 2015-16)
 - 42.5% of renters in low income group (ABS, 2015-16)
- Households receiving Commonwealth Rent Assistance:
 - 52.9% in housing stress (PC, 2015-16)
 - 40.3% in housing stress (PC, 2018)

ACT Rental:

- 33.8% of CRA recipients in housing stress (PC, 2015-16)
- 47.9% of CRA recipients in housing stress (PC, 2017-18)
- Median house rental \$550/week (Domain, Sept. 2019)
- Median unit rental \$470/week (Domain, Sept. 2019)
- Vacancy rate 1.1% (Domain, Sept. 2019)
- Public housing:
 - 61% increase in applications over preceding 12 months (CT, Oct. 2019)
 - 30% increase in wait list over preceding 18 months (CT, Oct. 2019)
 - Placement waiting time is over 3 years (CT, Oct. 2019)

ACT Housing Strategy:

- Published in October 2018
- Focused on first two income quintile up to \$100k
- Goal 1 – 15% Indicative Land Release Program
- Goal 4 – affordable rental
- Goal 5 – affordable housing ownership

What is Build to Rent?

Build to Rent (BTR) Advantage & Disadvantages

FOR	AGAINST
Institutional ownership <ul style="list-style-type: none"> ○ More responsive to repair + maintenance calls 	<ul style="list-style-type: none"> ○ May be process-driven
<ul style="list-style-type: none"> ○ Long-term lease arrangement is more conducive to placemaking 	<ul style="list-style-type: none"> ○ Consistent long-term housing cost may diminish financial capacity in other areas such as health for ageing tenants ○ May not be an option to buy
Developer has long-term commitment to property as long-term revenue source <ul style="list-style-type: none"> ○ Additional amenities ○ Lower operational outcomes ○ Higher quality fittings and fixtures 	Developer / Investor may: <ul style="list-style-type: none"> ○ Seek to recover costs of higher quality outcomes with higher rent ○ Opt for a shorter-term economic outcome eg. sell the development if housing demand cycle shifts away from rentals ○ Lower operational costs may drive lower quality outcomes
<ul style="list-style-type: none"> ○ Developers can provide BTR facility in inner city locations or adjacent to transport corridor 	<ul style="list-style-type: none"> ○ This is a discretionary decision on the part of the Developer subject to availability of capital including land, and return from investment ie. if Build to Sell returns a higher yield for a particular site
<ul style="list-style-type: none"> ○ Provides new investment opportunity 	<ul style="list-style-type: none"> ○ Federal-level taxation does not offer comparable incentives for investors in residential real estate eg. BTR as other institutional real estate investments. ○ Some developers claim that profit from Build to Rent is not enough to entice them eg. Caydon (Joe Russo, AFR, Sept. 2017)
<ul style="list-style-type: none"> ○ For-Profit BTR will increase housing supply and diversity 	<ul style="list-style-type: none"> ○ Provision of affordable housing through for-profit BTR development is limited without Government leadership at various levels

UK Build to Rent

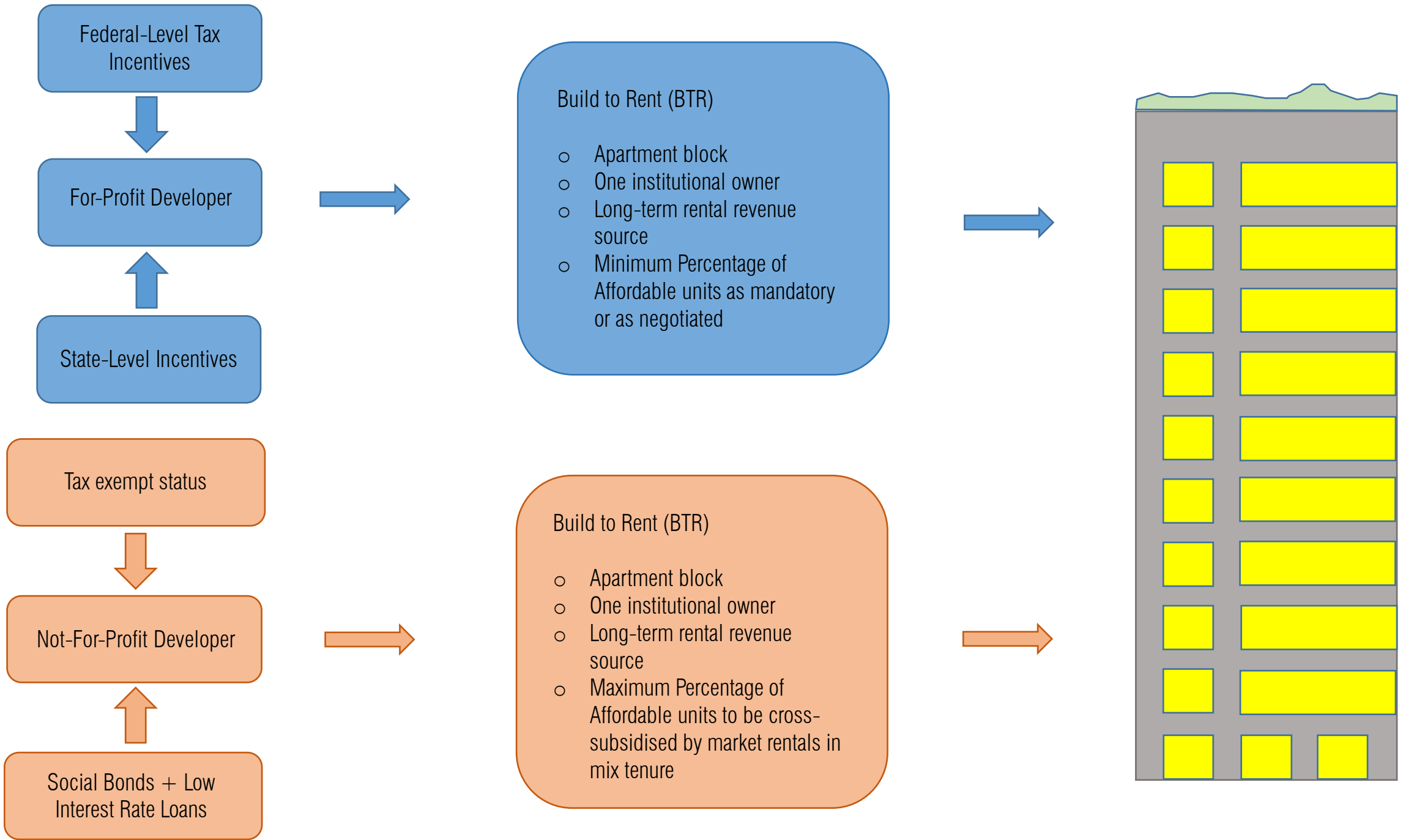
- £1bn Build to Rent Fund (2014-2016)
- £3.5b Private Rented Sector Housing Guarantee Scheme
- Section 106 Agreement
 - Planning obligation placed on developers and passed to new owner for provision of affordable housing – applies in perpetuity
 - Local Government sets local affordable targets eg. London 35% affordable housing target
 - 60% of affordable housing for social and affordable rental
 - Affordable rent at maximum 80% market rent
 - Trade off lesser number of units with larger rent discount



source: Matthew Palm (University of Melbourne), "Build to rent could be the missing piece in the affordable housing puzzle," *ABC News*, 29 August 2017

US Build to Rent = Multi-Family

- Low Income Housing Tax Credits, US program since 1986
 - Attracted \$100bn private investments
 - Developed 3m affordable rentals
 - Developers claim tax credits over 10 years
 - Affordable rentals must be provided for
 - Initial compliance period of 15 years; and
 - Extended use period of 15 years (variable)
 - Heavily regulated affordable rent: 30% of income ceiling within bracket
 - Area Median gross Income (AMI) based on sized of household, published by US federal government



Discussion:

- How long will a BTR development be managed as rental housing?
- Will a BTR development have dedicated affordable stock?
- What is affordable rental?
- Would a BTR development meet a different set of building design requirements?
- What are some state-level incentives and planning levers to facilitate a BTR Development?
- What is an MIT and who does withholding tax apply to?

Federal-Level Incentives (as advocated by Property Council):

- Achieve parity with-holding tax rate of 15% for residential as for other real estate investments
- MIT with holding tax rate of 10% for affordable rentals as a trade off for lower returns
- 10% capital gains tax discount for affordable housing components of BTR in conjunction with above tax incentives

State-Level Incentives and Levers:

- Inclusionary Zoning to extend to affordable rentals and (possibly) to apply in perpetuity
- Land tax concessions or exemption
- Discounted Land Value
- Stamp duty concessions or exemption
- Lease Variation Charge concessions or exemption to encourage acceptable level of density