Build to Rent housing can help alleviate the housing crisis and deliver 105,000 homes

The Community Housing Industry Association (CHIA), National Shelter and the Property Council of Australia welcome the opportunity to make this short joint response to the Senate Economics Legislation Committee inquiry on the Treasury Laws Amendment (Build to Rent) Bill 2024.

All sides of politics agree Australia is in a housing crisis.

It's time to act like it, and support solutions that will help.

Build to Rent (BTR) housing is a new form of housing in Australia, although it represents a significant component of housing in other countries like the UK, Canada and the US. With long-term institutional owners, BTR provides secure tenure for renters in good quality accommodation that is comfortable, energy efficient and includes shared facilities and community programs.

BTR also provides an avenue to increase the supply of desperately needed affordable rental accommodation.

The legislation needs to be improved: to provide the right tax settings to encourage the growth of BTR housing, and to better target requirements for 10% affordable housing within existing and new BTR projects to ensure those who need it most can benefit. EY analysis shows **these changes could result in 105,000 rental homes and a minimal cost to Government over a 10-year period of $9.3m**[1].

CHIA, National Shelter and the Property Council of Australia call for the following amendments:

1. **Revise the definition of affordable tenancies to:**
   - ensure that these are available to moderate income earners with at least 20% of the affordable tenancies available to low-income earners.
   - income eligibility limits are specified such that rents are up to 74.9% of market value or no more than 30% of household income, whichever is the lower.
   - maintain security of tenure for tenants that move from low-income to moderate income by providing supportive transition arrangements for residents that no longer meet income eligibility criteria.
   - make it clear that renters of affordable tenancies do not incur additional service charges for amenities such as gyms or swimming pools.
2. **Revise the managed investment trust (MIT) withholding tax rate concession to 10 per cent and ensure a level playing field for domestic superfunds.** This is a necessary adjustment to provide for affordable tenancies targeted towards low and moderate income households. We support the same tax settings for international and domestic investors. Both groups have publicly stated the need for one and other in a functioning deep market.
3. **Require the affordable tenancies to be managed in partnership with registered, not-for-profit community housing organisations (CHOs).** This includes CHOs determining eligibility of prospective tenants and conducting compliance checks for reporting purposes but doesn't include management of the physical building or leases.
4. **Immediately unlock over 1,200 affordable tenancies by extending the 10% MIT withholding tax rate to existing BTR projects that meet the other eligibility criteria.** With the National Rental Affordability Scheme (NRAS) coming to an end, up to 6,750 properties will cease to be affordable under the scheme in the period of April – December 2024.[2] There is therefore a strong imperative to unlock affordable rental housing as soon as possible. Extending the concession to BTR projects that were existing or

[1] EY analysis for the Property Council, July 2024 (see overleaf) shows a 8.6% loss in tax revenue over 10 years compared to BAU.
[2] Department of Social Services, National Rental Affordability Scheme Quarterly Performance Report, March 2024 https://www.dss.gov.au/sites/default/files/documents/05_2024/march-2024-nras-quarterly-performance-report_1.pdf

under development at the time of the 2023 Budget announcement could unlock over 1,200 affordable tenancies during a severe rental crisis.

5. **No use of 'no cause' evictions.** A requirement for accessing the concessions is that BTR operators commit to not using 'no grounds' clauses to gain possession.
6. **Supporting long-term security of tenure by offering five-year lease terms.** Increase the current requirement to offer three-year leases and offer longer lease terms to improve security of tenure.

EY Modelling Results

Table 1: Scenario Outputs

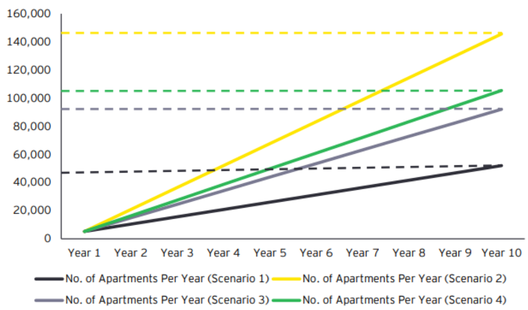
Output	Scenario 1 *(Existing Policy) Base Case MIT WHT 30/30 No Affordable*	Scenario 2 *MIT WHT 15/15 No Affordable*	Scenario 3 *MIT WHT 15/15 10% Affordable*	Scenario 4 *MIT WHT 10/10 10% Affordable (With Household Income Test)*
Current Market Value Comparison	$282,600,000	$282,600,000	$272,500,000	$270,300,000
Year 1 EBITDA (Pre-Tax)	$10,950,000	$10,950,000	$10,575,000	$10,475,000
Unlevered Pre-Tax Project IRR	7.64%	7.64%	7.20%	7.10%
Unlevered Post-Tax Project IRR	5.82%	6.78%	6.39%	6.57%
Levered Post-Tax Project IRR	*7.15%*	*8.19%*	*7.60%*	*7.73%*
Bps Change (From Scenario 1)	-	*+104 Bps*	*+45 Bps*	*+58 Bps*

Affordable Housing Modelling Assumptions:

- *The income test of 30% of income only applies to Scenario 4.*
- *Market Rent is based on rents in the Subject Property only. As BtR projects have more amenity, and more people working on site, rents tend to be higher than the general market, as BtR is a different product to Build to Sell ("BtS").*
- *Rental growth rates are based on market growth rates and not linked to the Housing component of the CPI.*
- *Compliance costs and additional property management costs at $1,500 plus GST per annum per unit.*

Source: EY Assessment, 2024

Anticipated Number of Future Pipeline Units



Scenario 2 — **~150,000 Units, 8.20% IRR**

A reduction in the Managed Investment Trust Withholding Rate (MIT WHT) rate to both 15% on both rental income and capital gains, with no provision of mandatory affordable housing, as well as a 4.0% depreciation allowance. This scenario is reflective of the maximum potential for the Australian BtR sector.

Scenario 4 — **~105,000 Units, 7.75% IRR**

A reduction in the MIT WHT rate to 10% on both rental income and capital gains, with a 10% provision of affordable housing, at a mixed 25% discounted market rent, or no more than 30% household income, with 20% of affordable tenancies allocated to low-income earners, as well as a 4.0% depreciation allowance.

Scenario 3 — **~90,000 Units, 7.60% IRR**

A reduction in the MIT WHT rate to 15% on both rental income and capital gains, with a 10% provision of affordable housing at a 25% discounted market rent, as well as a 4.0% depreciation allowance ***(assuming draft issues are fixed)***[1].

Scenario 1 — **~50,000 Units, 7.15% IRR**

The base case reflecting the previous policy of 30% MIT WHT and no provision of affordable housing, with a 2.5% depreciation allowance.

Anticipated Cost to Extend Scenario 4 to Existing Assets

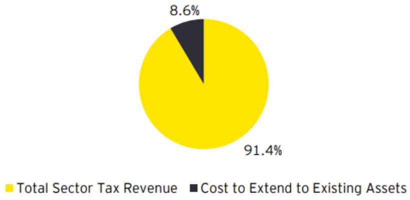
Under the proposed policy, the existing 12 Build to Rent assets will not be eligible for any discounted MIT WHT rate.

Utilising a high-level approach, based on our prediction of the total national BtR pipeline in our previous work for the Property Council of Australia (dated 21 February 2023) and our understanding of the existing 12 operation BtR projects, we consider that extending Scenario 4 to the operating assets (4,339 Units) may reduce total BtR MIT tax revenues by circa ***8.6% over the next 10 years, reflective of $9,300,000***. This is based on the total tax revenue we anticipate to be collected by the overall pipeline of c.105,000 units.

The extension of the discount would signal strong support to the pioneering institutional capital which has already committed to developing the Australian BtR sector, whilst inaction may create "stranded assets" which will be inferior against newer eligible developments, and resultingly make them harder to trade.

- *Note: In our original report dated February 2023, there was 12 operational assets, however since than there has been 6 additional assets completed, taking the total count to 18. For the purposes of this report, we have continued to calculate the cost to extend on the original 12 to ensure a like-for-like comparison.*

Percentage Cost of Total Sector Tax Revenue (10Y)



About our organisations

CHIA is the peak body representing not-for-profit community housing organisations (CHOs) across Australia. Not-for-profit CHOs are regulated organisations that develop and manage rental homes for the long-term, primarily to assist low-income households disadvantaged in securing suitable homes in the private market. They invest financial surpluses in building homes, enhancing landlord services, and implementing property improvements instead of shareholder profits. Our 160+ members collectively manage more than 130,000 homes, valued at over $40 billion for the benefit of our residents and their communities.

National Shelter is a non-government peak organisation that aims to improve housing access, affordability, appropriateness, safety, and security for people on low incomes. National Shelter is supported by the work of State Shelters and members in all jurisdictions, as well as national member organisations, associate members, and sponsors.

Property Council of Australia is the leading advocate for Australia's largest industry: 13% of Australia's GDP; employs 1.4 million Australians; and pays $72 billion in tax. Members are the leading and largest organisations that invest in, design, build and manage places that matter to Australians across all types of buildings and all capital and regional cities.