

A new form of housing supply for Australia: Build to Rent housing

Prepared for Property Council of Australia Pty Ltd

Reliance Restricted
4 April 2023

Written by



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Building a better
working world

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4 April 2023

Property Council of Australia Pty Ltd
Level 1, 11 Barrack Street
Sydney NSW 2000

A new form of housing supply for Australia: Build to Rent housing

Dear Francesca,

In accordance with our Engagement Agreement dated 18 November 2022 (“Agreement”), Ernst & Young (“we” or “EY”) has been engaged by the Property Council of Australia Pty Ltd (“you”, “PCA” or the “Client”) to provide general real estate and tax advisory services (the “Services”) in relation to the Build to Rent sector in Australia (the “Project”).

The enclosed report (the “Report”) sets out the outcomes of our work. You should read the Report in its entirety. A reference to the report includes any part of the Report.

Purpose of our Report and restrictions on its use

Please refer to a copy of the Agreement for the restrictions relating to the use of our Report. We understand that the deliverable by EY will be used for the purpose of providing information on the Build to Rent sector in Australia and will be used for advocacy purposes (the “Purpose”).

This Report was prepared on the specific instructions of the PCA solely for the Purpose and should not be used or relied upon for any other purpose.

This Report and its contents may not be quoted, referred to or shown to any other parties except as provided in the Agreement. We accept no responsibility or liability to any person other than to the PCA or to such party to whom we have agreed in writing to accept a duty of care in respect of this Report, and accordingly if such other persons choose to rely upon any of the contents of this Report they do so at their own risk.

Nature and scope of our work

The scope of our work, including the basis and limitations, are detailed in our Agreement and in this Report.

Our work commenced on 18 November 2022 and was completed on 4 April 2023. Therefore, our Report does not take account of events or circumstances arising after 4 April 2023 and we have no responsibility to update the Report for such events or circumstances.

In preparing this Report we have considered and relied upon information from a range of sources believed to be reliable and accurate. We have not been informed that any information supplied to us, or obtained from public sources, was false or that any material information has been withheld from us.

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Nature and scope of our work (cont.)

The work performed as part of our scope considers information provided to us and only a combination of input assumptions relating to future conditions, which may not necessarily represent actual or most likely future conditions. Additionally, modelling work performed as part of our scope inherently requires assumptions about future behaviours and market interactions, which may result in forecasts that deviate from future conditions. There will usually be differences between estimated and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We take no responsibility that the projected outcomes will be achieved, if any.

We highlight that our analysis and Report do not constitute investment advice or a recommendation to you on a future course of action. We provide no assurance that the scenarios we have modelled will be accepted by any relevant authority or third party.

Our conclusions are based, in part, on the assumptions stated and on information provided by the PCA and other information sources used during the course of the engagement. The modelled outcomes are contingent on the collection of assumptions as agreed with the PCA and no consideration of other market events, announcements or other changing circumstances are reflected in this Report. Neither Ernst & Young nor any member or employee thereof undertakes responsibility in any way whatsoever to any person in respect of errors in this Report arising from incorrect information provided by the PCA or other information sources used.

This letter should be read in conjunction with our Report, which is attached.

Thank you for the opportunity to work on this project for you. Should you wish to discuss any aspect of this Report, please do not hesitate to contact Luke Mackintosh on +61 438 719 944.

Yours sincerely



Luke Mackintosh
Partner, Real Estate Advisory Project Management

Contents

Executive summary

- 1 What is Build to Rent housing?
- 2 Build to Rent sector in Australia and overseas
- 3 Inclusion of Affordable Housing
- 4 Policy considerations
- 5 Federal tax regimes

Executive summary

Housing affordability crisis

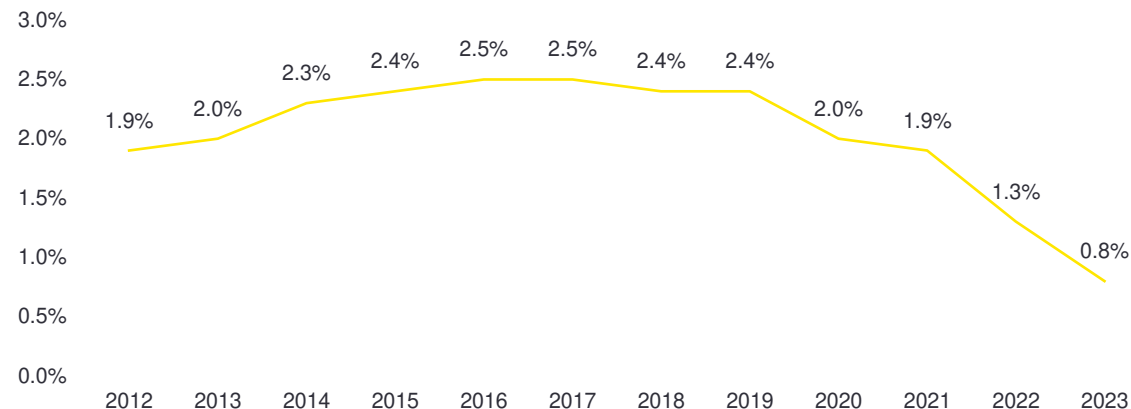
- ▶ The research shows that **Australia is experiencing a severe housing affordability crisis**, with supply of housing coming to a standstill.
- ▶ Supply has been inadequate in meeting housing demand, fuelled by population growth, underpinned by net overseas migration (particularly post Covid-19) and the significant fall in the production of investment properties.
 - ▶ Increased interest rates, construction costs (further constraining supply), and the return in overseas students/skilled migrants (elevating demand) is likely to worsen the issue.
- ▶ **National vacancy rates are now the lowest on record** and likely to continue to fall.
- ▶ These factors **place significant pressure on the housing market** including vacancy rates tightening, rents increasing, supply falling, limited demand from investors, no FIRB buyers.

The emergence of Build to Rent housing

- ▶ Australia's **demographics and needs are changing** and therefore planning and delivering a **diversity of housing options** to suit individual circumstances is critical to success.
- ▶ EY considers that the emerging **Build to Rent sector is a component of the solution** in offering a diversity of housing at scale and at velocity, to alleviate Australia's housing crisis. Key benefits include:
 - ▶ **Sustainable long-term delivery model:** Not a short-term cyclical response and provides improvements to the management and quality of rental stock;
 - ▶ **Increasing housing supply in desirable inner-middle ring locations:** Leveraging off private and public infrastructure including amenity and public transport;
 - ▶ **Accelerated supply due to removal of pre-sale requirement:** Providing supply into the market more rapidly
 - ▶ **Customer experience:** Longer-term security of tenure, superior building amenity and tenancy management services promoting a greater sense of well-being.

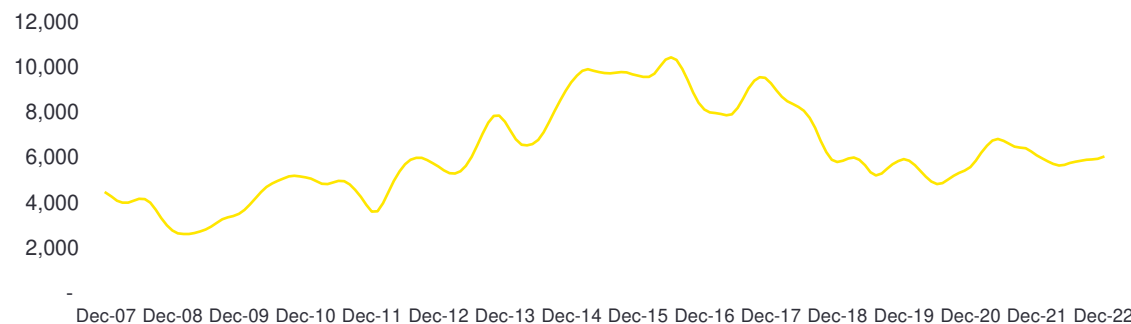
A functional housing market where a diversity of housing supply is delivered consistency across the housing continuum is needed.
Build to Rent housing is potentially a logical part of the solution; with the right incentives Build to Rent may help to deliver the 1 million homes target.

National vacancy rate as at January



Source: SQM Research / Domain, 2023

Private sector dwelling approvals – excluding houses (December)



Source: ABS Data, 2023

Benefits to Government include longer-term budgetary savings, tangible reductions in homelessness and the opportunity to provide economic impacts in the community (social, physical and mental).

Executive summary

The Government is to be commended for taking an interest in the Build to Rent sector, through the National Housing Accord and beyond. However, despite the numerous pilot projects, a viable market that is liquid enough to meet demand is still not realistic in Australia. In order to create a viable market, capital investment is required which is likely originated from overseas foreign investors in the short to medium-term. As such, Australia needs to remove barriers to entry to allow the flow of foreign capital and the creation of a liquid and viable investment proposition.

EY is a leading advisor in the Build to Rent sector and based on our experience, the below illustrates some of the key challenges and barriers that the industry is currently facing.

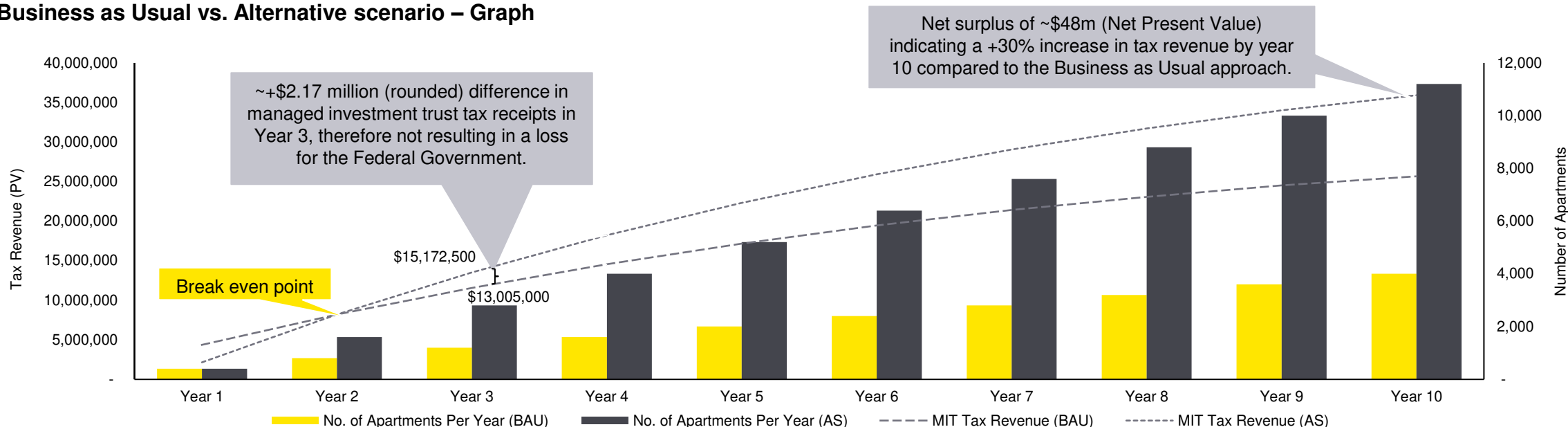
Current managed investment trust tax settings discriminate against investment in Build to Rent	Challenges in delivering affordable (key worker) housing	Additional costs for GST	Limited support in promoting the Build to Rent sector	Australian Superfunds face barriers to investment
<ul style="list-style-type: none"> ▶ Foreign investment in Build to Rent currently attracts a 30% managed investment trust withholding tax rate. ▶ Currently, the majority of the capital invested in the Build to Rent sector comes from offshore. <ul style="list-style-type: none"> ▶ These foreign institutional investors are experienced and have a strong understanding of the asset class and are seeking to support 'first mover' projects. ▶ Given the tax impediments, Build to Rent is less attractive in comparison to other asset classes (on an after-tax basis) which attract a 15% withholding tax rate. ▶ Managed investment trust tax concessions has the power to 'supercharge' foreign investment into Build to Rent by threefold, enabling houses to be delivered faster. 	<ul style="list-style-type: none"> ▶ Affordable Housing components of Build to Rent projects are currently being taxed at the same rate as other more established asset classes which provide stable and reliable returns for institutional investors. ▶ Additionally, there is a duplication in services such as property/facility management due to the requirements for Affordable Housing dwellings to be managed by a Community Housing Provider. ▶ Key Worker Housing can be managed by Build to Rent operators and does not require oversight from Community Housing Providers which can add an additional layer of cost and complexity. 	<ul style="list-style-type: none"> ▶ Build to Rent developers are unable to claim the GST input tax credits for land, construction, consultant costs and operations. <ul style="list-style-type: none"> ▶ This effectively makes Build to Rent projects 10% more expensive to construct and operate than Build to Sell projects (in which input tax credits can be claimed). ▶ Furthermore, the extra cost can result in a competitive disadvantage against Build to Sell developers when bidding for development sites. ▶ This cost burden is not seen in any other country with an active Build to Rent market. 	<ul style="list-style-type: none"> ▶ Currently there is a limited presence of Build to Rent housing in Australia in comparison to North America, Europe, the UK and Japan. ▶ This is largely due to the limited public support and Government messaging. ▶ Build to Rent does not fit neatly into the existing set of definitions and regulatory settings for housing, including tax, planning and other regulatory frameworks. ▶ Additionally, income returns from residential property in Australia have been traditionally low until recent years, therefore not attracting interest from institutional investors. 	<ul style="list-style-type: none"> ▶ Superfunds are required to make investments that are in the best interests of their members. This makes it difficult to invest in residential housing at scale due to the marginal nature of returns, particularly for affordable rental product which is by definition below-market rents. ▶ Introduction of the 'Your Future Your Super' performance benchmark test creates an additional hurdle that must be accepted or overcome. ▶ Investments in property trigger stamp duty which is required to be disclosed under ASIC's Regulatory Guide 97, unlike other types of taxes. This can deter funds from investing directly into property.

Executive summary

Accelerating the Build to Rent sector

Amending the managed investment trust tax regime to be on a 'level playing field' with other institutional asset classes could be a powerful lever to utilise in providing housing supply efficiently and at scale. EY has undertaken high-level analysis, based on the current Business as Usual approach and an Alternative Scenario, in which the managed investment trust tax was halved to 15% in line with domestic Superannuation funds and comparable to rates charges in the US and UK on their Real Estate Investment Trust regimes. Our analysis highlights that under an Alternative Scenario, an acceleration of projects in the industry could occur by threefold, with Government potentially earning a +30% increase in tax receipts over a 10-year period.

Business as Usual vs. Alternative scenario – Graph



Source: EY Analysis, 2022

Note: All figures expressed in the above graph is reflected in Present Value. Additionally, EY notes that generally a project can take between 4-5 years from the acquisition of the site through to completion and operation of the asset. This can be dependent on location.

The Alternative Scenario above assumes one hypothetical developer delivering three projects per year, and a total of ~11,000 apartments over a 10-year period. In reality, based on our research, we believe there could be up to ~150,000 apartments delivered over a 10-year period based on our knowledge of the active platforms in the sector, together with the potential for investment from new market entrants.

By supporting the sector now, this may assist in alleviating the current supply pressures and affordability constraints and will provide a greater opportunity to diversify into different parts of the market once scale is reached.

Executive summary

Key recommendations

In order to increase the supply of housing in an already undersupplied rental market, and to aid in the establishment of a new institutional asset class in Australia, EY believe the following five key points should be considered by Government. These considerations are targeted to assist the rental crisis and relieve current rental pressures experienced in the market.

EY believe both Federal, State and Territory Governments can take the lead on these points, which will send a clear message of support to the sector and will encourage investment from both domestic and institutional investors.

1

Allow a 15% managed investment trust withholding tax rate for foreign investors

- ▶ **Allow** managed investment trust distributions that are attributable to investments in Build to Rent housing to be eligible for the 15% withholding tax rate.
- ▶ Allow for greater investment into effectively a new housing asset class creating more employment and providing more housing.

2

Improve incentives for Affordable Housing and reform the role of the Community Housing Provider

- ▶ **Provide** an incentivised tax rate of 10% for investors, domestic and international, that choose to incorporate the supply of Affordable Housing dwellings within their Build to Rent projects.
- ▶ Remove the requirement of Affordable Housing dwellings to be managed by a Community Housing Provider as part of a Build to Rent development.

3

Allow developers to claim GST

- ▶ **Remove** the irrecoverable GST expense on land and development costs.
- ▶ This will be consistent with other commercial assets and create a 'level playing field' within the sector.
- ▶ This change, combined with MIT, may allow for greater investment into housing in Australia creating more employment and deliver more housing.

4

Promote the sector

- ▶ **Signal** the Governments strong support for the sector through public messaging to further boost domestic and foreign investor participation.
- ▶ This includes through the National Housing and Homelessness Agreement and Strategy.
- ▶ Collaborate with the Build to Rent industry, State and Territorial Governments and regulatory bodies to resolve definitional and technical challenges arising from the nascency within the sector.

5

Address the regulatory barriers for domestic Superfund investors

- ▶ **Remove** stamp duty from the ASIC Regulatory Guide 97 Fees and Cost Disclosure requirements.
- ▶ **Work** with the superannuation industry to improve the operation of the Superfund Performance Benchmark Test.

Note: EY notes that the consideration of a concession for managed investment trust tax is in line with shadow treasurer Chris Bowen's recommendation in 2019 as part of the Labor Government's election proposal. Additionally, EY also recommends considering exploring options to partner with Superfunds, industry, business and non-Government organisations.



What is Build to Rent housing?

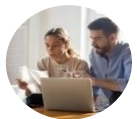
What is Build to Rent?

Build to Rent housing

Definition

'Purpose built and designed long-term residential rental accommodation which is predominantly owned, managed and operated by an institutional investor for a long-term investment period. Revenue is generated through the rental of the dwellings as the primary source of income, with additional income generated from opt-in and ancillary services.'

Consumer proposition



Ability to customise apartment (i.e. paint walls, change floor coverings). Ability to scale up or down within the one complex as life circumstances change.



Provision of tenancy management services including repairs and maintenance requests managed by on-site staff.



In many cases, no bond payments and tenure security through the form of long-term occupancy.



Superior building amenity to foster a strong community within the building. This includes the use of event areas, co-working and co-living spaces and a pet friendly environment.

Characteristics of Build to Rent

01

Targeted towards the Millennial & Generation Z cohort. This includes predominantly young single and couple households

02

Investors are typically patient capital including pension funds, sovereign funds and insurance companies

03

Developments typically comprise between 300 – 400 apartments per project, however there is a place for smaller, well located projects

04

Professionally managed properties, with on-site management and operating teams

Source: EY, 2022

What is Build to Rent?

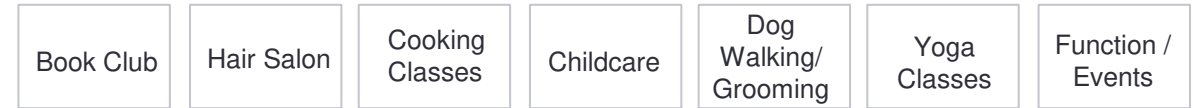
Build to Rent housing (cont.)

Key attributes

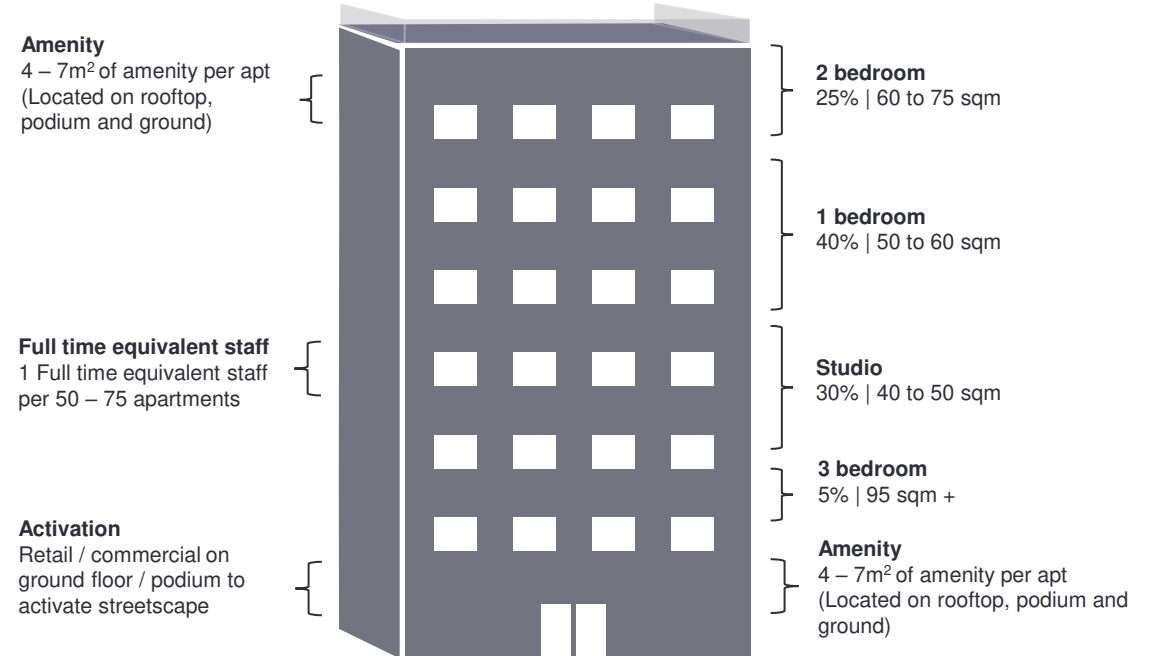
Based on EY industry knowledge and experience, in order to have a successful and profitable Build to Rent project, the key attributes outlined below and at right should be considered.

- ▶ **Location:**
 - ▶ Generally within close proximity to employment nodes and within walking distance to public transport including light and heavy rail. Areas that are 'gentrifying' are in high demand for the Build to Rent sector.
- ▶ **Project size:**
 - ▶ Minimum size - ~200 apartments;
 - ▶ Typical size - ~350 – 450 apartments;
 - ▶ Average size - ~320 apartments across the 72 recognised Build to Rent projects.
- ▶ **Product mix (dependent on demographic/target cohort):**
 - ▶ Generally, 70% studio and one bedroom product, 25% two bedroom product, 5% three bedroom product (see example at right).
 - ▶ Build to Rent encompasses a diverse range of rental options, ranging from below-market and at-market product, through to premium accommodation offerings.
- ▶ **Full time equivalent staff:**
 - ▶ ~1 full time equivalent staff member per 50 - 75 apartments.
- ▶ **Amenity:**
 - ▶ Superior amenity provision including co-working space, gym, pool, rooftop terrace, pet friendly facilities, BBQ area, etc.;
 - ▶ Amenity benchmark generally 4-7 sqm per apartment (in comparison to 1 sqm per apartment in Build to Sell developments).
- ▶ **Ancillary income / opt-in services:**
 - ▶ Additional services as outlined at right (non-exhaustive list):

Ancillary income / opt-in service offering



Build to Rent – Example of mid-high rise development



'Supplying the right product, in the right place, at the right price'

What is the Build to Rent investor proposition?

Residential housing is a necessity and provides shelter and security to individuals

Investing in Build to Rent assets is likely to provide investors with a secure income stream, as the assets are professionally managed and tenants commit to residential lease agreements with limited vacancy periods. This is in contrast to other residential asset classes which are generally not professionally managed and maintained to the same standard and do not provide the opportunity for ancillary services. Additionally, asset classes such as office or retail are utilised for a different purpose and have different characteristics including less secure tenure and cash flows (as seen during the Covid-19 pandemic). The below commentary highlights the investor proposition for investing in Build to Rent assets.

Stable Returns	Build to Rent assets have maintained lower yields in comparison to other asset classes (particularly in transactions observed overseas). This is largely due to being perceived as lower risk given the consistent and resilient returns, stability of cashflow, minimal downtime and incentive allowances, consistent rental growth (generally in line with CPI) and the provision of opt-in services. Capitalisation rates in Australia range from 3.75% - 4.50% depending on the capital city, location and quality of product offering.
Stability	Build to Rent assets typically exhibit low income volatility . This provides investors with an attractive proposition in comparison to other asset classes. EY have observed Build to Rent platforms experiencing strong lease take-up with stabilised assets achieving occupancy rates of between 95% - 98% and minimal allowances for bad debts. In many cases the operators are not requiring a rental bond to be paid by the tenant.
Diversification of income	Investors can obtain a diversified income stream , as portfolios typically consist of multiple developments spread geographically. This can reduce risk and potentially create synergies between projects. Additionally, Build to Rent developments generally incorporate additional opt-in/ancillary services and retail / commercial opportunities. This provides additional sources of revenue and creates placemaking opportunities in and around the site.
Greater customer experience	Tenants feel at 'home' in these developments, as they are offered long-term occupancy arrangements (in many cases with no bond payments), apartment customisation options, superior amenity and a strong customer experience through a professionally managed on-site team. As such, tenants are generally more satisfied, with the typical retention length ranging between 3-4 years. This ensures consistency in cashflow during the operation period, together with economic and social benefits.
Prime locations	Build to Rent developments are generally located in highly desirable and sought after locations, in close proximity to public transport, employment nodes and education / employment opportunities . Generally these locations include a high proportion of young professions (i.e. singles or couples with / without children) who have strong disposable incomes and can afford to pay the rent and additional opt-in services if required. These locations experience a high demand for rental housing with low vacancy rates and limited supply within the foreseeable pipeline, hence putting upwards pressure on rents and subsequent values.

Resilience of Build to Rent in economic downturns

Strength in the Build to Rent asset class

Based on our experience, the current housing supply in Australia is dire and has limited prospects of returning to the high supply era of 2011 – 2016.

With increased interest rates, construction costs and subsequent building timelines, momentum has slowed significantly – These headwinds are likely to be present for the foreseeable future.

Counter-cyclical supply

Build to Rent provides a consistent supply of housing in comparison to traditional Build to Sell product, particularly when the Build to Sell market is challenged and supply becomes constrained.

- ▶ **During these times, Build to Rent appears to have a greater prominence** – This is important in the current Australian context with strong population growth and flow-through pressures on house prices and rents.
- ▶ **Build to Rent can deliver through cycles, with the overall supply of housing becoming less volatile** – As Build to Rent is not reliant on the pre-sale market, this allows supply to come to market quicker, leading to greater outcomes by reducing the volatility in the rental market and ensuring a stable supply is available to meet tenant needs.

A well-functioning market should be able to swiftly respond to swings in demand and, over the long-run, provide a steady annual supply.

Build to Rent during the Global Financial Crisis and Covid-19

Based on our knowledge, Build to Rent has remained resilient through economic downturns including the Global Financial Crisis and Covid-19 pandemic. Our analysis highlighted that:

- ▶ There was a shift to more affordable units and 'stop-gap' housing, given income and employment was uncertain;
- ▶ Once the economic downturn ended, rents quickly recovered and re-bounded back to pre-downturn levels at a faster pace than other asset classes (i.e. commercial, hotel, retail);

Build to Rent during the Global Financial Crisis and Covid-19 (cont.)

- ▶ International experience in the UK and US highlighted that rent collection remained strong during economic uncertainty, with rent collection remaining at high levels and asset values bouncing back to previous peaks at a faster rate than other institutional assets.

Yields

Build to Rent yields have also remained resilient during economic downturns. This is underpinned by the understanding that this asset class has a lower risk profile, despite being a nascent sector compared to the other commercial asset classes. Other asset classes demonstrated:

- ▶ Susceptibility to higher vacancy periods;
- ▶ Greater down-time and incentive allowances to obtain new tenants;
- ▶ More susceptibility to external macro-market factors.

In an inflationary environment, yields in Australia are likely to be shielded based on UK's precedence of stabilised Build to Rent transactions over the medium to long-term.

During periods of low housing activity, development of Build to Rent could more rapidly bring forward investment activity in the delivery of much needed housing.

This increases the confidence of Built to Rent as a product and stimulates construction activity and jobs.

Benefits of Build to Rent

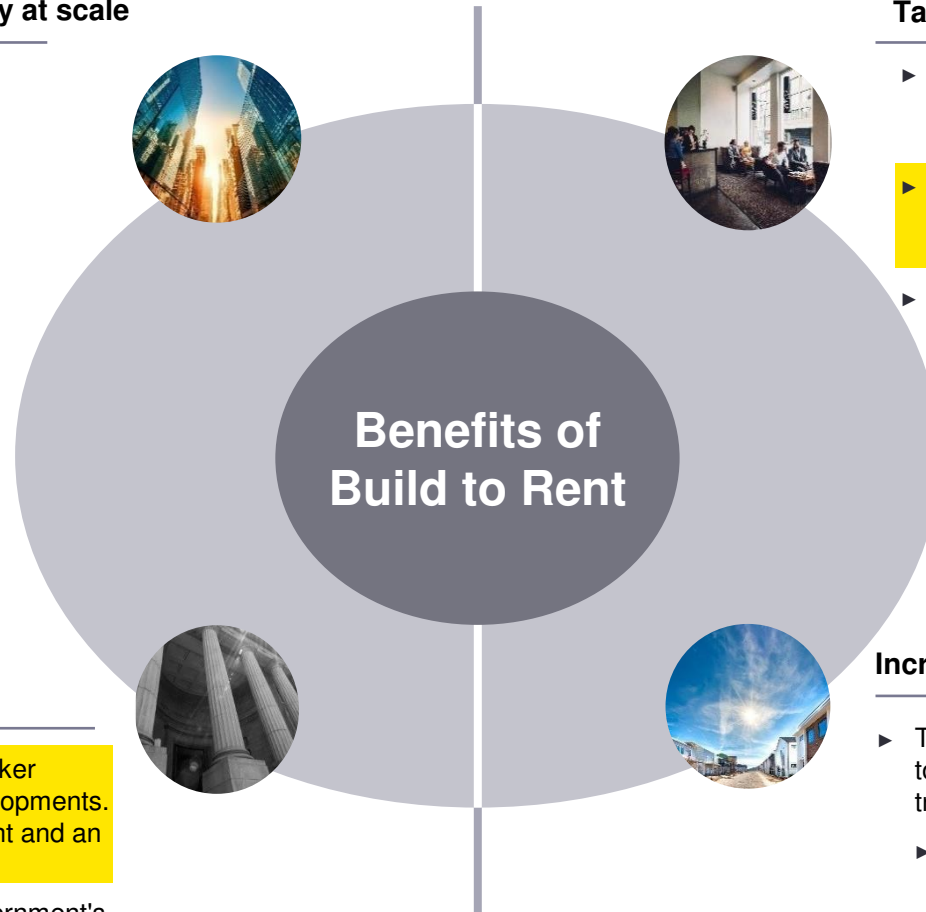
Accelerate delivery of additional housing supply at scale

- ▶ The rental sector is currently under severe strain with supply levels -34% below long-term averages, historically low rental vacancy rates nationally and rents increasing by over +20% across all cities over the past year¹;
- ▶ Build to Rent projects could contribute towards alleviating some of this stress through the delivery of additional housing at speed and scale;
 - ▶ This is due to not requiring pre-sales to obtain construction financing (in comparison to Build to Sell product) and projects generally being between 300 – 400 apartments;
 - ▶ This counter-cyclical supply provides employment, without competing with labour and supplies in the Build to Sell sector.

Supply affordable / key worker rental housing

- ▶ With the right incentives, new affordable and key worker housing may be incorporated into Build to Rent developments. This can be supported through institutional investment and an on-site professional team;
 - ▶ An example of this includes the Queensland Government's Build to Rent Pilot Project. This project aims to partner with the private sector to provide rental subsidies for long-term rental accommodation for key workers.

¹Source: CoreLogic, 2022



Tap into new money such as institutional capital

- ▶ The US, UK, Japan, Canada, and other countries have used institutional capital to improve the housing supply dynamic and rental experience for tenants;
- ▶ Build to Rent may also tap into this capital to invest in the Australian residential sector at scale. This is currently predominantly being sourced offshore;
- ▶ Currently ~67% of equity in the current Australian Build to Rent sector originates from overseas, with 9 out of 11 operating platforms coming from foreign capital based on EY's research of publically available data.

Increase the diversity of rental stock

- ▶ Typically located in gentrifying areas, within close proximity to employment nodes and within walking distance to public transport including light and heavy rail;
 - ▶ These areas offer strong employment/education opportunities and amenities that contribute to the renter experience;
- ▶ The diversity of product in Build to Rent projects provides longer-term solutions for tenants as they transition through life and improves their lifestyle and way of living.

Why is Build to Rent important in Australia?

The Build to Rent asset class is important as it has the potential to increase housing supply at scale, at a time when there is an acute shortage of new rental stock. Incentivising the sector is likely to result in the delivery of tens of thousands of new homes across Australia, creating an institutional asset class and employing hundreds of thousands of jobs in both the delivery and operations phase, whilst at the same time attractive billions in new investment.

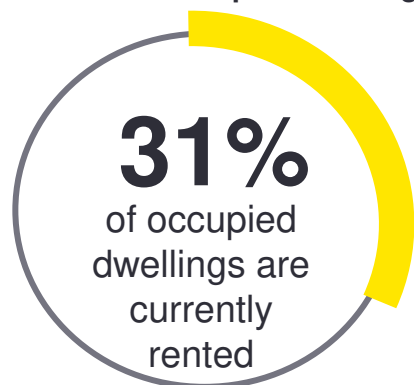
Key statistics

As evidenced below and at right, the constraints to home ownership is becoming more challenging. Our analysis of the latest available ABS data illustrates:

- ▶ An **increasing trend of individuals renting** (29% in 2011 to 31% in 2021).
- ▶ A **decline in dwellings owned outright** (35% in 2011 to 31% in 2021).
- ▶ A decrease in median house/unit values across most capital cities from January 2022 to October 2022, with a subsequent **increase in monthly mortgage repayments** due to the increasing cash rate.

As such, there is becoming a greater shift in priorities when it comes to household tenure, with the Millennial generation actively choosing a rental lifestyle due to the flexibility it offers as well as the existing affordability constraints.

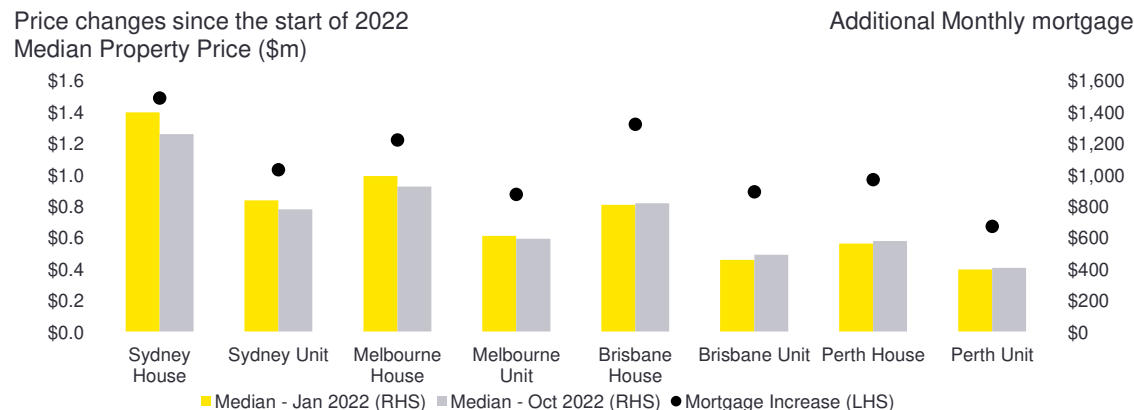
Australian occupied dwelling pool



2,842,378
of 9,275,217 occupied dwellings are rented...

Source: ABS Census (2021)

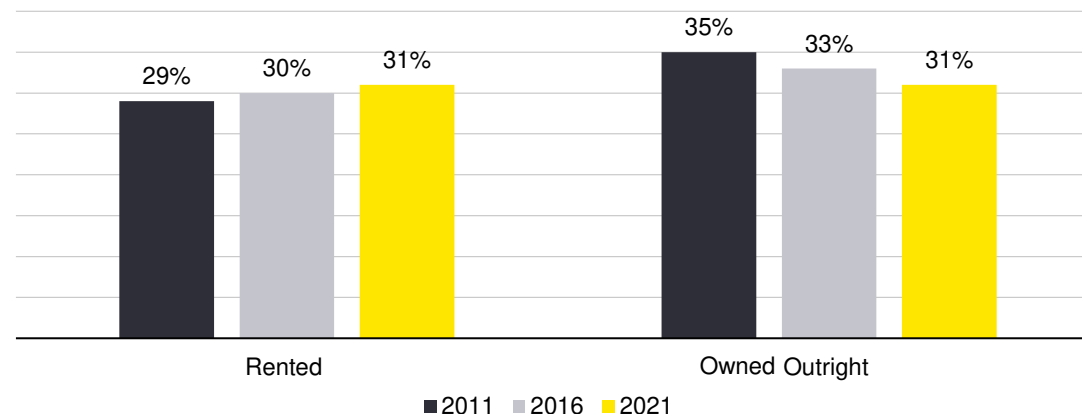
Housing Affordability and Monthly Mortgage Repayments



Source: CoreLogic, RBA EY : 3 Year fixed new mortgage January 22 rate 2.42%; October 2022 rate 5.46% (adjusted based on RBA data)

Note: The median house price in Sydney has fallen by ~\$140,000 from January 2022 to October 2022, however mortgage repayments have risen by \$1,500 to nearly \$6,500 per month in the respective period. Home ownership is becoming increasingly out of reach for many Australians.

Dwelling ownership – 2011 to 2021



Source: ABS Census (2021) (2016) (2011) (excludes 'Not Stated' and 'Not Applicable' households).



Build to Rent sector in Australia and overseas

Current size of the Build to Rent Sector in Australia

Sector Overview

- ▶ As outlined on page 22, EY estimates that the current size of the Build to Rent sector in Australia is \$16.87 billion (this equates to ~0.2% of the total value of the residential housing sector),¹ with the expectation that this value will continue to grow in the coming years.
- ▶ As at February 2023, there are 11 operating Build to Rent projects, 9 of which are funded from foreign capital. This illustrates the traction for Build to Rent in the rental market;
- ▶ The majority of the 72 projects within the pipeline are located in Melbourne, followed by NSW, QLD, and lastly WA, with an average of 320 apartments per project;

There is now proof of concept in many states of Australia and at a range of scale and service offering. EY notes many groups are expressing interest in entering the sector, now that operating assets have been able to demonstrate operational capacity.

Estimate value of Build to Rent Sector

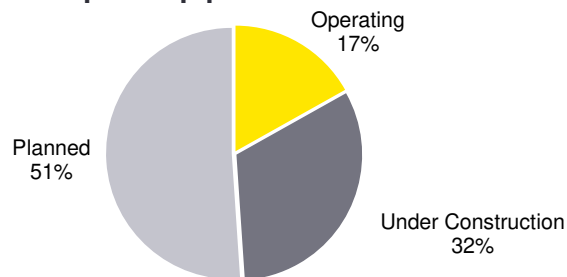
\$16.87b² **\$11.61b²** **23,175³**

Sector Value

Foreign Investment

Apartments

Status of Build to Rent development pipeline



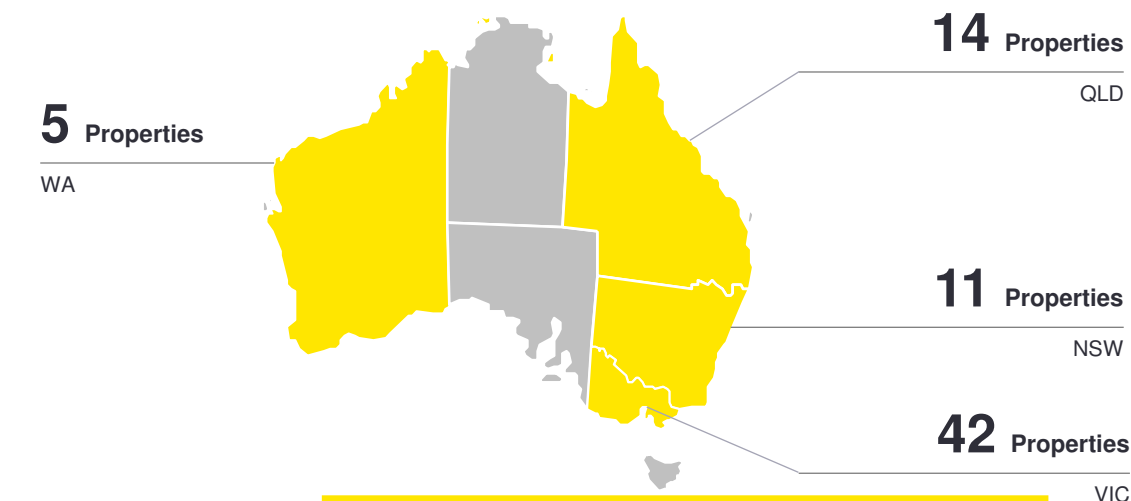
Source: EY, 2022

¹ ABS Data as at September 2022 notes the Australian residential sector to be valued at ~\$9.67 trillion

² As at February 2023, EY Analysis.

³ Total for all apartments known in the development pipeline.

Build to Rent assets distribution – Map



Source: EY, 2022

Largest proportion of Build to Rent projects predominantly due to lower land value rates (compared to NSW) and accessibility to 'shovel ready' sites, together with strong population growth, flexible planning policies and a high proportion of renters.

Build to Rent assets distribution

Proportion of Build to Rent apartments by State and Status						
	Operating	Under Construction	In Planning	Total	Value (\$b)	% Value
New South Wales	315	430	2,826	3,571	\$3.37	20.0%
Queensland	1,710	1,797	771	4,278	\$2.99	17.7%
Victoria	1,711	4,938	8,143	14,792	\$10.16	60.2%
Western Australia	173	266	95	534	\$0.35	2.1%
Grand Total	3,909	7,431	11,835	23,175	\$16.87	100%

Source: EY, 2022

Current size of the Build to Rent Sector in Australia

Current operating platforms, capital source and project pipeline

Based on our research, EY has identified 21 operating platforms in various stages which align with the definition of Build to Rent.

Major investors and platforms

#	Developer	Investor / Capital	Foreign / Local Capital	Operating ²	Under Construction ²	In Planning ²	Total No. of Apartments
1	Home	GIC	Foreign	2	2	3	2,816
2	Super Housing Partnerships	HESTA	Local	-	-	6	2,310
3	Liv Mirvac	Mirvac / TBC	Foreign	2	3	-	2,170
4	Greystar	APG, Ivanhoe Cambridge, Ilmarinen	Foreign	-	3	2	1,971
5	Investa	Oxford	Foreign	-	1	2	1,370
6	UBS	ADIC	Foreign	1	-	-	1,251
7	Altis	Aware Super	Local	-	-	5	1,195
8	Tetris Consortium	Community Housing	Local	-	-	3	1,160
9	Samma Group	TBC ¹	TBC ¹	-	-	3	1,135
10	Gurner – GQ Tower	GIC	Foreign	-	1	2	1,037
11	Local	Macquarie	Foreign	-	1	2	899
12	Pellicano Group	N/A	Local	1	5	2	885
13	Hines	Cadillac Fairview	Foreign	-	-	3	870
14	Sentinel	Hermes / BTPS	Foreign	2	3	1	706
15	Arklife	Adco	Local	1	1	1	681
16	Blackstone	Blackstone	Foreign	2	-	-	650
17	Alt Living	TBC ¹	TBC ¹	-	-	2	523
18	Morgan Stanley	HomeCorp / MSREI G9	Foreign	-	1	-	446
19	Novus	M&G Real Estate	Foreign	-	1	1	382
20	Canvas	BentallGreenOak, Partners Group	Foreign	-	-	1	364
21	Frasers Property Australia	Frasers	Foreign	-	1	-	354
Total				11	23	39	23,175

Source: EY Research, 2022

¹TBC - Currently going through capital raise

²Based on No. of Projects

Australian Build to Rent – Case study (LIV Munro)

Property Description

LIV Munro is located adjacent to the Queen Victoria Market in the north of Melbourne's Central Business District. The development includes a 41 level building characterised by lower podium and upper tower construction. The podium serves as a hotel, with the tower component of the building from levels 5 to 39 providing Build to Rent accommodation.

LIV Munro includes 490 apartments with a varying mix of studio, 1 bedroom, 2 bedroom and 3 bedroom product accompanied by an array of residential amenity which include (but not limited to) a swimming pool, spa, co-working spaces, sky gardens, gyms, and lounge areas. In addition the property includes 136 residential car spaces, 257 bike spaces (excl. visitor) and 247 storage cages.

Project Overview					
Property Address	101 Therry Street, Melbourne				
Total Dwellings	490				
Apartment Typologies	Studio, 1, 2 and 3 Bedroom product				
Total Gross Floor Area	87,363 sqm				
Total Residential Net Lettable Area	31,997 sqm				
Amenity	2,167 sqm				
Land Area	457 sqm				
Car Parking	134 car spaces				
Apartment Overview	Studio	1 Bed	2 Bed 1 Bath	2 Bed 2 Bath	3 Bed 2 Bath
Number of Apartments	95	140	12	217	26
Average Internal Area	38 sqm	51 sqm	67 sqm	80 sqm	111 sqm
Asking Rent by Typology (p.w.)	\$550	\$600	\$780	\$840	\$1,390
Asking Rent \$/sqm/p.w.	\$14.47	\$11.76	\$11.64	\$10.50	\$12.52

Source: EY Analysis, 2022

Note: Project is only recently completed, as such EY have adopted asking rents as at December, 2022.

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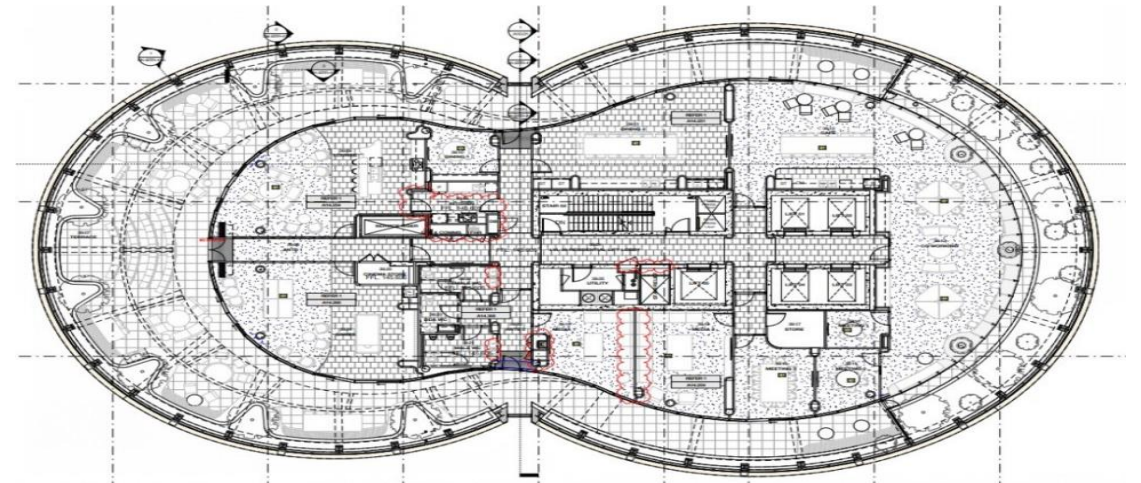
Liability limited by a scheme approved under Professional Standards Legislation

LIV Munro – Render



Source: Mirvac, 2022

Amenity floorplate – Level 39



Source: BatesSmart, 2021

Australian Build to Rent – Case study (LIV Munro)

Project Amenity

- ▶ Residential Lobby & Reception
- ▶ Swimming Pool
- ▶ Steam & Sauna Room
- ▶ Change Rooms
- ▶ Indoor & Outdoor Gyms
- ▶ Multipurpose Rooms
- ▶ Media Rooms / podcast studio
- ▶ Sky Gardens
- ▶ Landscaped Gardens
- ▶ Dog Park
- ▶ Outdoor Deck
- ▶ Private Dining Rooms
- ▶ Lounge Area
- ▶ Games Room
- ▶ Café
- ▶ Co-working Space
- ▶ Meeting Rooms
- ▶ Communal BBQ Areas

Residential Amenity Types

- ▶ The total amenity of the proposed development amounts to 2,167 sqm (internal 1,299 sqm and external 868 sqm);

ESG Commitments

Ratings

- ▶ Green Star (5 Stars);
- ▶ NatHERS (minimum 7.4 stars, average 8.1 stars);

Resources

- ▶ Purchase carbon offsets for scope 1 gas emissions;
- ▶ Solar panels;
- ▶ Induction cooktops.

Construction

- ▶ Pod bathroom design;
- ▶ Recycled construction materials via rating tools.

Community

- ▶ Tenant engagement strategy;
- ▶ Stakeholder engagement strategy.

Social Inclusion

- ▶ Review of partnership with social enterprise.

LIV Munro, Melbourne CBD



Source: EY Inspection, 2022

Potential size of the Build to Rent sector in Australia

Potential size of the Build to Rent sector

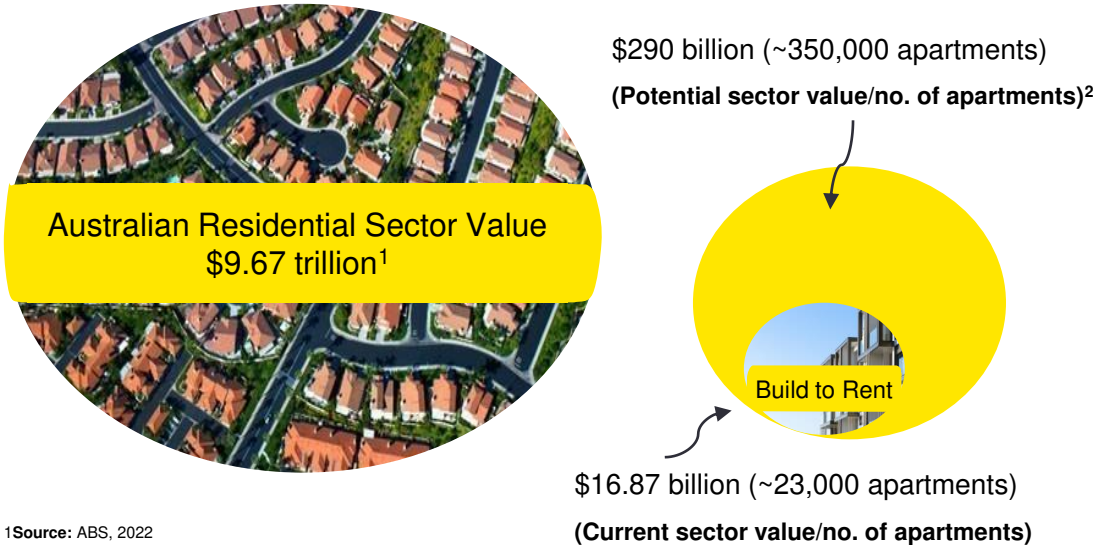
Australia

- ▶ The Build to Rent sector in Australia has the potential to grow significantly. Currently, it makes up just ~0.2% of the value of the total Australian residential sector;¹
 - ▶ If this were to increase in the longer-term to ~3% of the total value (which is below the UK and US), this could equate to a **potential Build to Rent sector worth ~\$290 billion or the equivalent of ~350,000 apartments.**

Overseas

- ▶ In comparison, the Build to Rent sector comprises of 5.4% of the total value of the residential sector in the UK and 12% in the US.

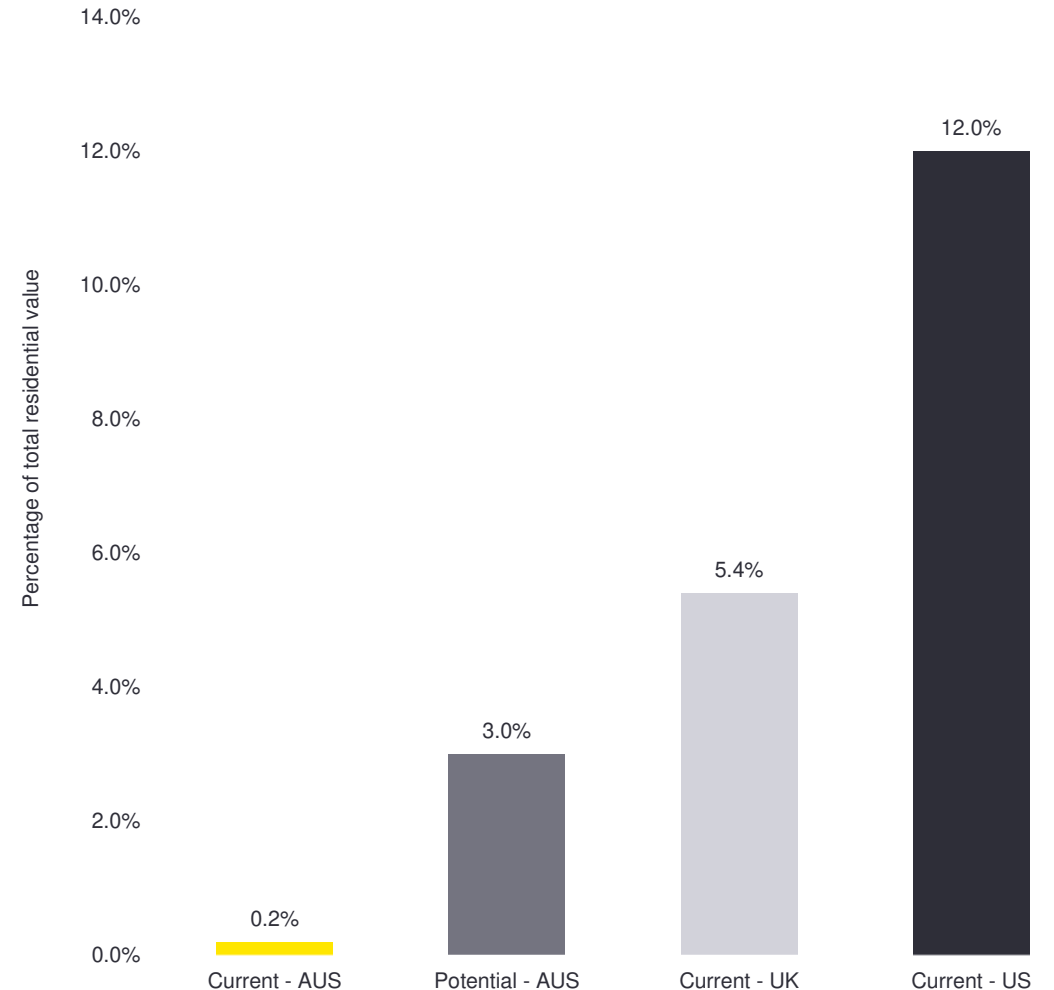
Potential size of Australian Build to Rent market relative to residential sector



¹Source: ABS, 2022

²Source: EY Estimate, 2023

Current and potential size of the Build to Rent sector in Australia



Source: EY Analysis, 2022

Potential size of the Build to Rent sector in Australia

Operating Build to Rent assets

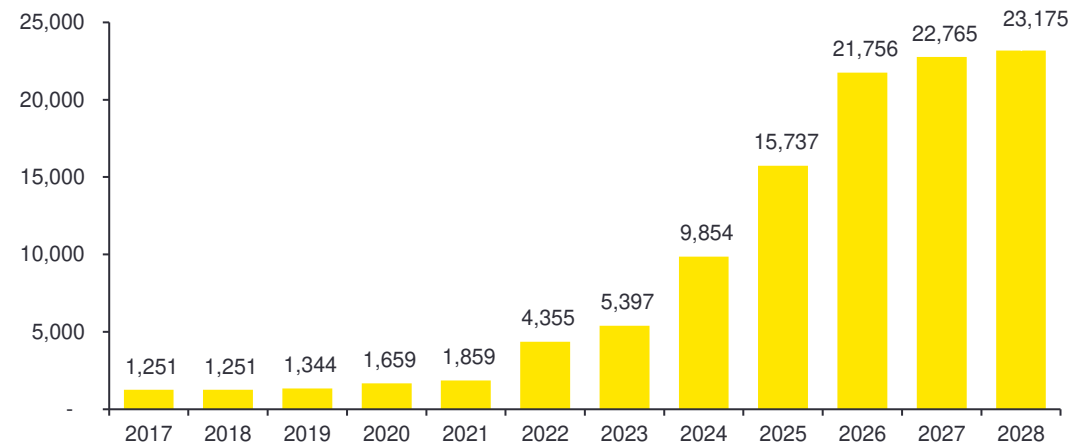
Pipeline

- ▶ Based on our research of publically available data, EY have currently identified circa 23,175 apartments either completed, under construction or in planning within 72 projects across the 21 operating platforms in Australia;
- ▶ By the end of 2023, we expect the number of operating apartments to grow to a total of 5,397 apartments across the market, with continued growth expected.
- ▶ Additionally, based on our research, EY expect 2026 to be a peak year for the sector with 6,019 operating apartments to be added across the country;
- ▶ EY notes that if a 'level playing field' was created, this is likely to increase the number of operating assets that would enter the market and assist in easing the rental crisis.

End of 2023	2028
5,397	23,175
No. of Apartments	No. of Apartments

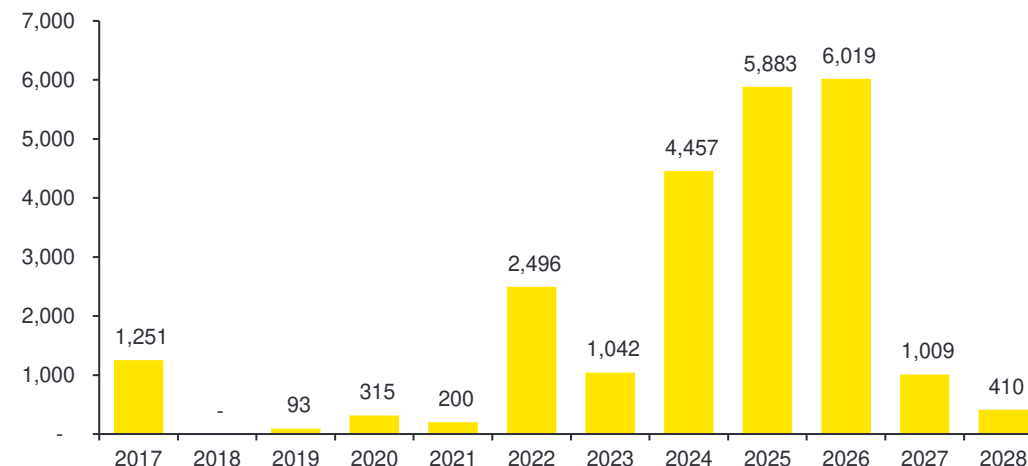
The sector is expected to see the operating pipeline increase over fourfold by 2028.

No. of Apartments Operating - Cumulative



Source: EY, 2022

No. of Apartments Operating by Start date



Source: EY, 2022

Potential size of the Build to Rent sector in Australia

Construction outlook of Build to Rent apartments in Australia

Short-term

- ▶ EY estimates that in 2023, a cumulative total of over 1,488 Build to Rent apartments are under construction across Australia;
 - ▶ As the sector begins to mature in Australia, EY expect planning approvals of Build to Rent assets to be more widely accepted and the majority of the pipeline of assets to begin construction in the coming years.

Medium-term

- ▶ Given the time and work involved prior to construction commencement (i.e. due diligence, planning approval, contractor selection, etc), EY expect 2026 to be the year in which the majority of Build to Rent projects will commence construction.

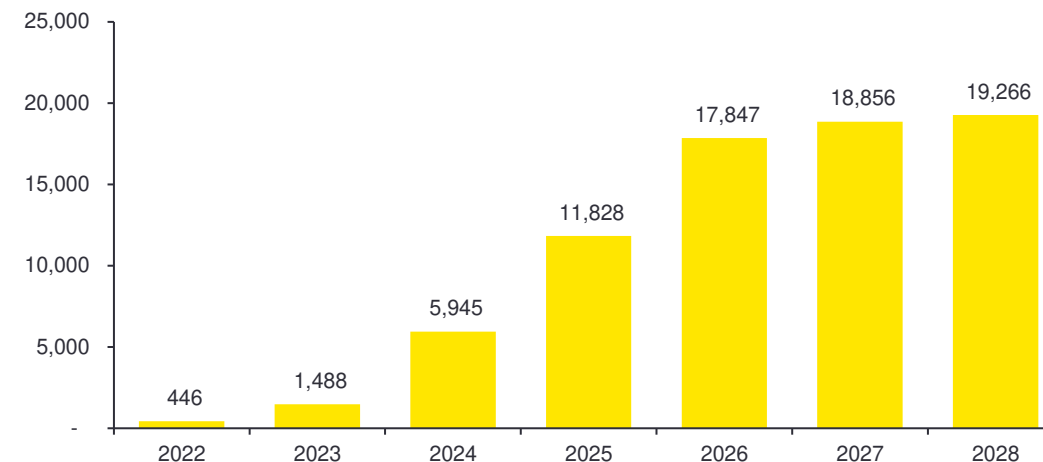
Construction outlook

- ▶ Based on EY's knowledge and experience, the upcoming pipeline of Build to Rent apartments can play a role in delivering housing supply at scale and providing dwellings for young professionals, students and skilled migrants.

However, there is still a significant shortfall of rental housing in Australia as evidenced by the rental vacancy rates, and EY believe Build to Rent housing can assist in helping bridge the gap and easing the impending rental crisis.

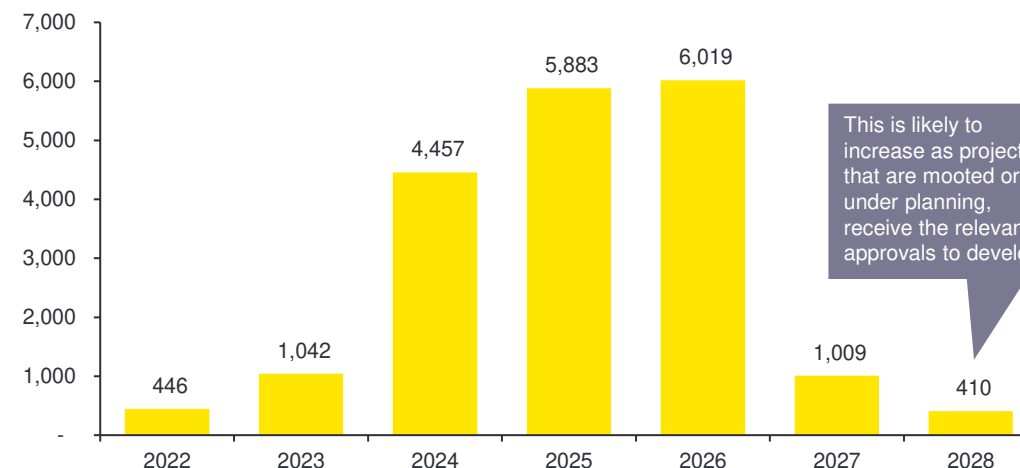
- ▶ The Build to Rent asset class will not replace 'mum and dad' investors, however due to its scale overseas and potential size in Australia, **this nascent asset class is one that has not been fully explored by overseas and domestic institutional capital.**

No. of Build to Rent Apartments under construction – Cumulative



Source: EY, 2022

No. of Build to Rent Apartments under construction – Per Year



Source: EY, 2022

Status of Australian investors in the sector

Build to Rent in Australia is a nascent and emerging asset class compared to the US and UK. However, Australia is illustrating similar demographic trends and affordability constraints observed overseas. By creating a 'level playing field', this is likely to assist in accelerating the supply of Build to Rent housing in Australia. Below outlines a number of factors as to why there is a lack of Australian investors in the sector.

Build to Rent is growing predominantly from foreign investors working with local developers

- ▶ Currently, the majority of investment is sourced from offshore capital. These groups have a strong knowledge and understanding of the asset class;
- ▶ Foreign capital is 'teaming up' with local developers who have on the ground experience and access to shovel ready development sites;
 - ▶ Examples include platforms such as Novus, Home, Alt Living, and Liv Mirvac.

Domestic superannuation funds are hesitant to investment in the sector

- ▶ Domestic investors prefer to see a proof of commercial model in Australia, more scale opportunities for investment, a depth of market in investible product and a deep pool of other investors prior to investing in the sector;
- ▶ Given the nascent sector, the majority of investment is likely to continue to come from offshore capital until the Australian superannuation funds feel comfortable pursuing investment opportunities.
- ▶ Regulatory barriers including investing in the best interest of their members, performance benchmark tests and cost disclosure requirements.

Marco-economic environment including inflationary pressures

- ▶ Rising interest rates and construction costs associated with labour/material prices are making Build to Rent projects less feasible;
- ▶ This is putting a 'pause' or slow-down on future acquisitions in the short-term as groups reassess their strategy and hurdle requirements;
- ▶ **Tax reform, including managed investment trust concessions, is one consideration that is likely to accelerate projects and bring forward much needed housing supply.**

Financing Build to Rent projects

- ▶ Local financiers appear to have appetite to explore financing within the sector, however their capacity and willingness to lend is limited due to a limited track record of operating assets in Australia.
- ▶ Build to Rent projects often require significant upfront capital for land acquisition, design, and construction, which can be a barrier for potential investors.
- ▶ Build to Rent projects often involve multiple stakeholders, such as developers, contractors, and property managers, which can make financing arrangements more complex.

Overseas financing arrangements

- ▶ In the UK, the majority of Build to Rent funding relies on non-bank lenders and fund-through models;
- ▶ This is slowly becoming more common in Australia as seen by:
 - ▶ **Liv Munro** – Fund-through agreement between Mirvac and PDG;
 - ▶ **Caulfield Village** – Fund-through agreement between Blackstone and Beck;
 - ▶ **Local, South Melbourne** – Fund-through agreement between Local and Blue Earth Group.

¹SQM Research, 2022

Overview of the UK Build to Rent sector

Summary

Genesis of Build to Rent in the UK

Based on our research, the Build to Rent sector in the UK emerged post-GFC in which there was substantial growth in house prices and rising mortgage costs, leading to an increase in the percentage of the UK population seeking to rent. As such, a number of key events occurred including:

- ▶ **Montague Review (2012):** This review identified that institutional investment into the private rental sector was a way in which construction activity could be increased and housing stock could be provided to make up the shortage in housing supply;
- ▶ **Build to Rent Fund (2012/13):** The Housing and Communities Agencies commissioned a £200 million Build to Rent fund as part of a recommendation from the Montague Review;
 - ▶ The fund was to provide equity finance to support the Build to Rent market and increase investor confidence.
- ▶ Additionally incentives were also provided including policy changes (where developers did not need to pay key infrastructure contributions) and tax breaks such as lowering the tax rate on Build to Rent investments and discouraging private investment in dwellings through penalties on vacant properties.

Growth in the sector

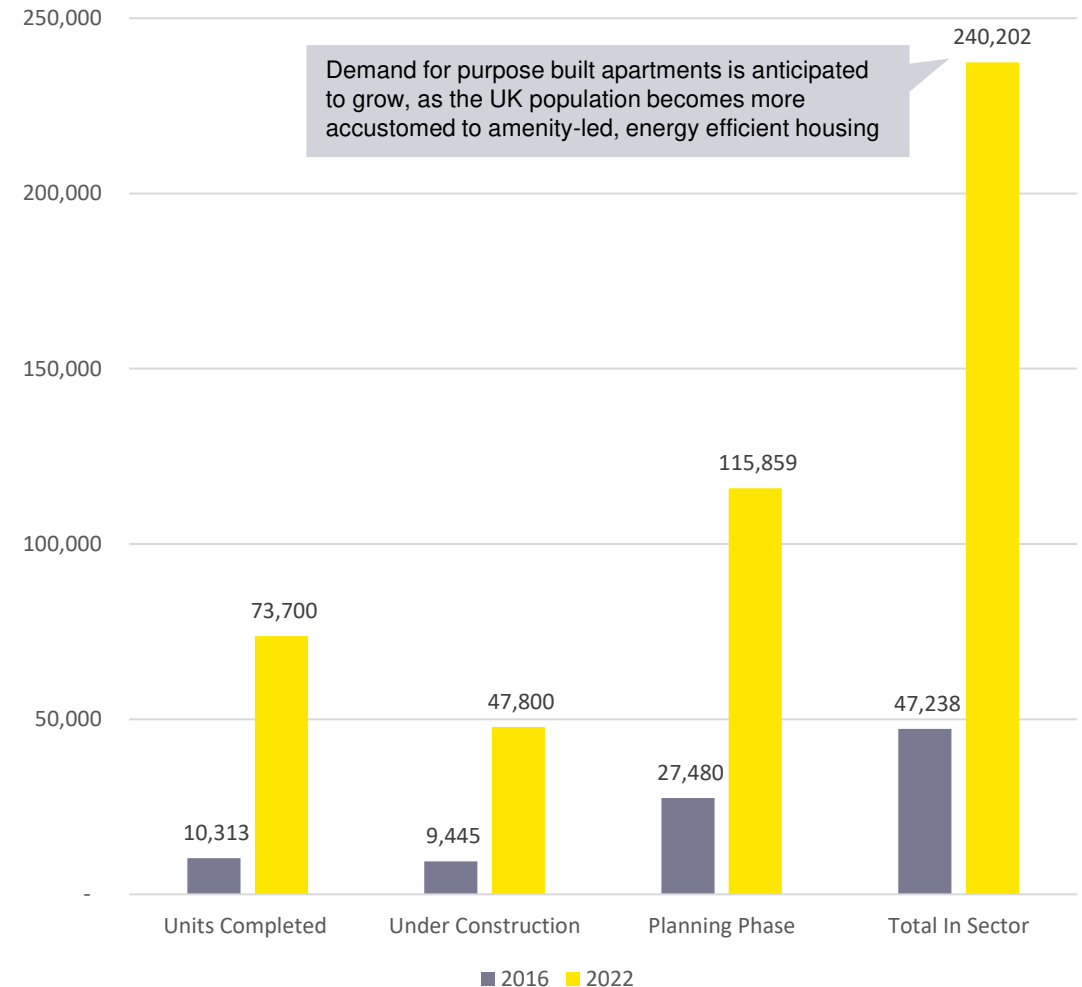
Based on the key events above, momentum has built within the sector.

- ▶ As seen in the graph at right, **the UK Build to Rent sector has grown exponentially over the last 6 years** from 47,238 units in total in 2016, to 240,202 units in 2022 (+508% growth). This takes into consideration the combined pipeline of completed units and those in the construction and planning phase;
 - ▶ This is primarily due to the strong interest from investors and institutional capital, with proof of the commercial model, strong yields experienced in the market and declining

Key takeaways for Australia

- ▶ For Australia to grow the Build to Rent sector, institutional investment is critical to prove the commercial model and create a liquid and viable investment proposition.

UK Build to Rent 2016 – Q3 2022 – Pipeline



Source: British Property Federation, 2022

Overview of the US Build to Rent sector

Summary

Genesis of Build to Rent in the US

Build to Rent or Multi-family housing in the US is an entrenched system which dates back to the inception in the mid-1800s and has evolved over time to what it is today. Much of the product is legacy stock and not comparable to Australia or the UK.

Growth of Build to Rent Housing in US

- ▶ Multifamily housing is a significant and growing part of the overall housing market. In 2019, there were over **20 million Build to Rent** housing units in the US, representing around **17% of the country's total housing stock**¹.
- ▶ Growth has been spurred by several factors, including the increasing number of young adults who are **choosing to rent** rather than own their own homes, as well as the growing preference for urban living among many Americans;
- ▶ This has led to the development of new apartment buildings / Build to Rent housing in **cities and urban areas**, with the trend expected to continue in the coming years, as the demand for rental housing remains strong and the urbanisation of the US continues.

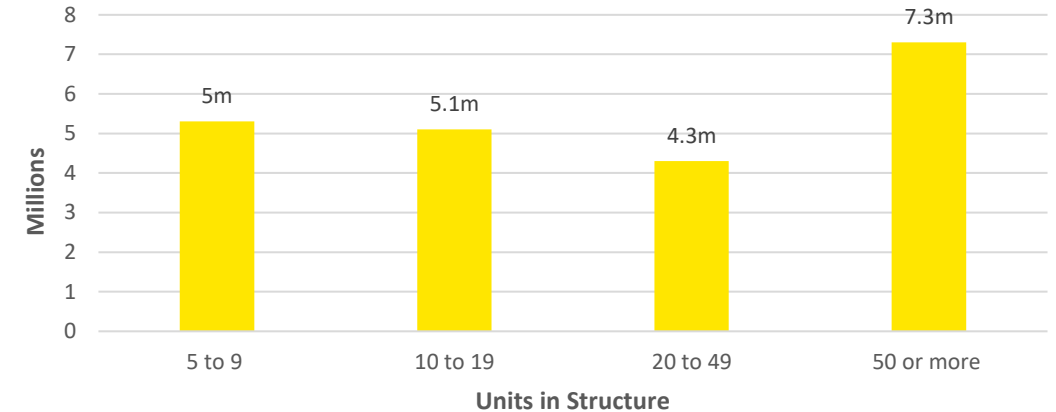
The shift towards larger Build to Rent buildings

- ▶ The shift in the US rental stock away from **smaller properties** primarily reflects the robust new construction of **larger buildings**. According to the residential construction data, Build to Rent units accounted for about **89%** of all completions intended for the rental market between 2014 and 2019².
- ▶ The nation's rental stock continues to shift toward larger Build to Rent buildings. The recent spate of **conversions of single-family rentals to owner occupancy** has also helped to **fuel** this trend. At the same time, longstanding restrictions on Multifamily construction in communities across the country have left renters with **few housing options** in many neighbourhoods. Despite the rapid pace of new construction, the rental stock is **aging** and in **need of investment** to ensure it is **structurally sound**, accessible to the **growing number of older adults**, and **fortified against climate-related risks**.

¹Source: America's Rental Housing, 2022

²Source: US Census Bureau, 2022

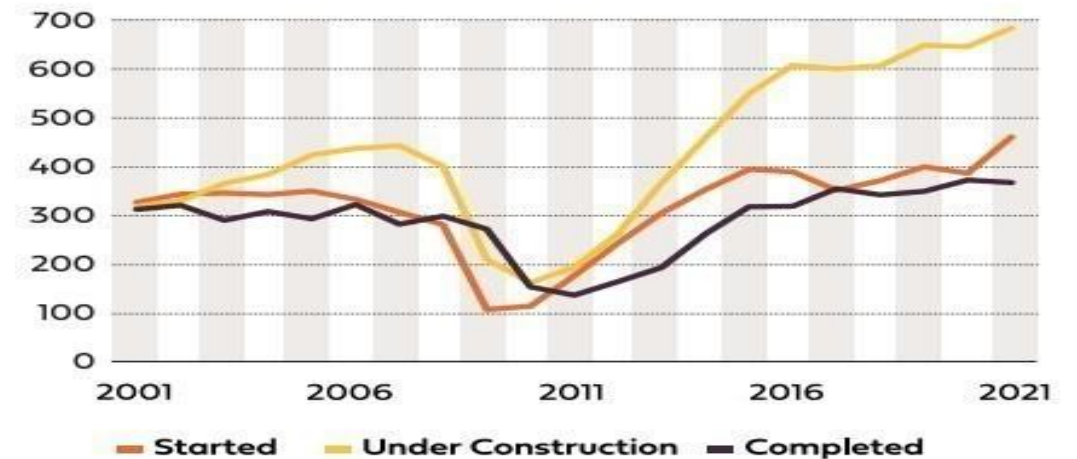
Size of the US Build to Rent Housing sector



Source: US Census Bureau, 2022

US Build to Rent Housing Pipeline

Multifamily Units (Thousands)



Source: America's Rental Housing, 2022

A city skyline at dusk, featuring a prominent bridge in the foreground and a church spire on the left. The sky is a mix of blue and orange, suggesting sunset or sunrise. The bridge has a decorative railing and is supported by stone pillars. A small boat is visible on the water below the bridge. The city buildings are illuminated, and the overall scene is a mix of modern and historical architecture.

Inclusion of Affordable Housing

What is Affordable Housing?

Defining Affordable Housing

Affordable Housing is generally a private rental property that is priced so that households with very low to moderate income are able to meet other basic living costs such as food, clothing, transport, medical care and education.

Historically, this has been managed by a Community Housing Provider, however; Affordable Housing has now become its own housing sub-sector and is managed by both Community Housing Providers and the private sector, with the difference including access to Federal Government support for registered providers.

Inconsistency in the definition

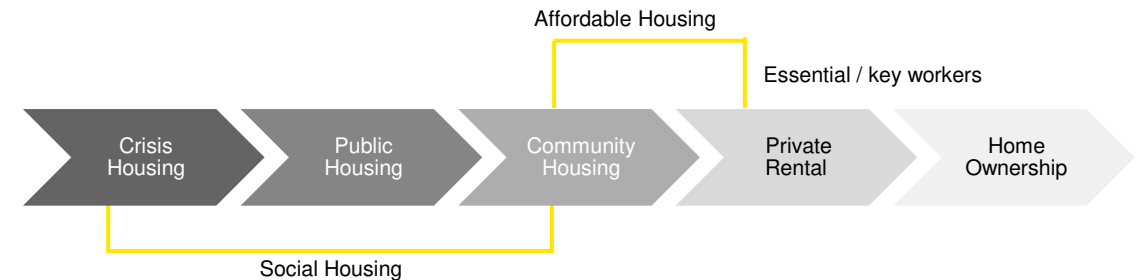
The definition of Affordable Housing in Australia is inconsistent and varies due to the different definitions from Government, not-for-profit organisations, private developers and state policy. The definition also changes over time due to increases in the cost of living. Examples of this include:

- ▶ *Planning context* – In 2018, the Victorian Government amended the *Planning and Environment Act 1987* to incorporate a new objective and definition of Affordable Housing, which requires developers to contribute to Affordable Housing through an Affordable Housing Agreement.
- ▶ *Managed Investment Trust context* – The definition refers to State and Territory legislation with no consistent definition at the Federal level.

The Housing Continuum and application to Affordable Housing

- ▶ In Australia, the Housing Continuum is a framework used to describe the range of housing options available to individuals and families.
 - ▶ The Housing Continuum includes categories of housing from 'Crisis Housing' such as emergency and temporary accommodation for individuals and families who are experiencing homelessness, through to 'Private Rental / Home Ownership' housing which is typically housing rented or purchased at market rates.

Housing Continuum diagram



Source: EY Analysis, 2022

Essential / key worker housing

- ▶ At the upper end of the Affordable Housing spectrum includes 'Essential / key worker' housing. This sub-set is targeted towards employees who provide a vital service, especially in the essential services, health or education sectors. Examples include healthcare workers, teachers, first responders, and other public servants (i.e. police officers).
 - ▶ These individuals are generally on moderate incomes, however may not be able to afford market-rate housing in areas in proximity to employment.
 - ▶ Various rental relief measures may be applicable to these individuals including the payment of ~70-80% of market rent, with the Government paying the difference.
 - ▶ Eligibility requirements may include providing proof of income / employment, assets, expenses, and other relevant information.
- ▶ As such, key worker housing can be integrated into Build to Rent developments given the similar needs of the tenants.
- ▶ As seen on the following page, various Build to Rent groups are targeting the essential / key worker housing cohort as part of their strategy and investment mandate, and are subsequently allocating a proportion of their product mix to cater for this cohort.

Examples of Build to Rent projects that include Affordable Housing

Social infrastructure is an important consideration for investors and can be defined as *‘physical assets that underlie the social services needed to create strong communities, and includes real estate’*¹. Given the strong population growth and stalled Government expenditure, this has led the private sector to enter into this space. Below are three platforms identified which are contributing to social infrastructure.

Super Housing Partnerships

2,310
Affordable
Housing
apartments²

Overview

- ▶ Specialist Affordable Housing fund manager Super Housing Partnerships is supported by founding investment partner HESTA to commit \$240 million to seed its first fund initially focused on developing a pipeline of Build to Rent apartment projects in Victoria.
- ▶ Super Housing Partnerships will provide institutional investors with access to equity investment in new Build to Rent housing projects, with a focus on Social and Affordable Housing.
- ▶ The aim is to generate stable, long-term returns for members, whilst helping catalyse an emerging investment sector.
- ▶ Super Housing Partnerships first fund will partner with Assemble, a leading Affordable and sustainable housing developer and Housing Choices Australia, one of the largest nationally accredited Community Housing Providers.

Source: Super Housing Partnerships, 2022

Mirvac

99
Affordable
Housing
apartments²

Overview

- ▶ Mirvac have created a platform called Liv, in which they currently have five assets (two of which are operating).
- ▶ Liv Anura, located in Newstead (currently under construction), has allocated 25% of their product mix to Affordable Housing dwellings.
 - ▶ This totals 99 Affordable (key worker) housing dwellings as part of the project which will be leased at a discount to market rent.
 - ▶ State Government will provide a rental subsidy as a ‘top up’ for the discounted rental offering.

Source: Mirvac, 2022

Aware Super

470
Affordable
Housing
apartments²

Overview

- ▶ Aware Super is one of Australia's largest superannuation funds with a mandate of 100% Affordable / key worker housing.
- ▶ In 2021, Aware Super partnered with Altis Property Partners in a \$300 million joint-venture to construct a 34 storey Affordable Housing tower in western Sydney's Liverpool. Construction for the project is expected to commence in 2022 and once complete will comprise 300 Affordable Housing apartments.
- ▶ Aware Super has committed more than \$800 million nationally in developing Key Worker Affordable Housing assets. This portfolio comprises of ~eight assets across NSW, VIC, WA and ACT.

Source: Aware Super, 2022

Not all Build to Rent capital intends to invest in Affordable Housing product, as the capital is often originated from various sources with particular investment mandates. It is noted that Affordable Housing can and does work in Build to Rent developments, however for this to be deployed at scale, **there needs to be additional incentives / subsidies (with supporting regulatory policies)** for developers to be attracted to the product. It is important that Community Housing Providers assist and are consulted throughout this process, however they should not manage / own the end product as this creates a duplication of services (i.e. facility management) and additional costs/complexities.

¹ Source: Charter Hall Social Infrastructure, 2022

² Note: These apartments are proposed and are not currently operating

Barriers to the inclusion Affordable Housing

The long-term commitment of incorporating Affordable Housing product in Build to Rent developments can be a complex and challenging process. However, with careful planning, strong partnerships and industry expertise and a commitment to meeting the needs of the target cohort, it can be achieved. Outlined below include a number of these barriers:

Funding

The scale of investment required is capital intensive and requires a significant level of debt and equity which have different risk profiles, return hurdles and other requirements (such as timing). Additionally, investment capital generally has a specific mandate and seek to maximise returns. Given Affordable Housing is typically rented at below-market rent, subsidies, grants and tax incentives are usually required to subsidise the cost of delivering and operating the product, which may not be readily available or sufficient to meet investor hurdle requirements.

Zoning and land use regulations

In some instances, local Council guidelines including the zoning and associated land use regulations/planning controls make it difficult to develop mixed-use / Affordable Housing product at scale. The characteristics of Build to Rent and Build to Sell product differ vastly, together with height limits which make it difficult to construct the requisite number of apartments to allow the project to be financially feasible.

Limited incentives to promote Affordable Housing

Managed Investment Trusts and domestic Superfunds have a legal duty to maximise returns for their members. Given there is limited incentives within the industry, this makes it difficult to invest in residential housing at scale due to the marginal returns, particularly for Affordable Housing product which contributes to lower than market rent within typical Build to Rent developments. Incentives in successful projects include rental top-ups, providing access to Government land or inclusionary planning mechanisms to assist in achieving the required rates of return .

Duplication of service provision

There is a duplication in services such as property/facility management due to the requirements for Affordable Housing dwellings should it have to be managed by an external Community Housing Provider. This only creates additional costs in an already low-margin asset class and therefore it should be left for a singular Build to Rent operator to manage, with input from the Community Housing Provider in a consultation capacity.

Uncertain policy settings, regulation and tax

Changes in Government, changed and discontinued policies/programs and a lack of continuity across political and bureaucratic leadership make it difficult to expand the Affordable Housing sector. In addition, Affordable Housing is currently being taxed at the same rate as other more established asset classes which provide stable and reliable returns for institutional investors. Having certainty across all regulatory and program settings and incentivising investors through tax change will provide investors with confidence, in turn investing further into the sector.

Incentives for the inclusion of Affordable Housing in Australia

Build to Rent projects in Australia can incorporate Affordable Housing in their developments via a number of avenues, including voluntarily, through industry partnerships or via regulatory requirements. It can be delivered at scale and much more efficiently than any of the current frameworks.

These efforts can assist in providing housing for low-moderate income households at scale and assist in alleviating the housing affordability crisis. Outlined below is a summary of approaches that are currently being implemented within the sector.

Industry partnerships

Build to Rent developers can enter into partnerships with Government, Superannuation funds and Community Housing Providers to support the development of Affordable dwellings.

This may include the provision of concessional finance through the National Housing Finance and Investment Corporation (“NHFIC”) or a state body such as the Victorian Treasury Corporation, or innovative models such as ground lease projects and taxation/finance structures which may allow for risk adjusted returns to be in line with Build to Rent projects.

Voluntary agreements

Build to Rent developers may choose to enter into voluntary agreements with local Councils in order to provide Affordable Housing. This may be part of a proposal to rezone land or as part of a planning permit application.

These agreements may include financial incentives or other forms of support to encourage development (i.e. providing access to Government owned land for free or at a significant discount).

Inclusionary zoning

Local Government utilises inclusionary planning mechanisms which requires developers to set aside a proportion of their development for Affordable Housing units (i.e. 10% of all dwellings).

This can be done through a variety of mechanisms such as fee waivers, density bonuses, a reduction in car parking requirements, a requirement to provide public infrastructure or other incentives that translate to monetary value to the developer. These incentives can make proposed developments more favourable from a feasibility perspective and can assist in offsetting / subsidising the cost of delivering the product.

Gap subsidies

‘Gap’ subsidies can be provided from Government/private philanthropy to cover the short-fall between the Affordable Housing rent and market rent.

The subsidy can range in size depending on the target cohort and their capacity to pay and could be in the form of a capital grant, tax concession or recurrent subsidy.



Queensland Pilot Project (Key Worker Housing) - Case study

Queensland – Build to Rent Pilot Project – Case Study	
Description	<ul style="list-style-type: none"> ▶ EY have provided a high level analysis of the Queensland Build to Rent Pilot Project, based on publically available information. As part of this project the Government selected two Build to Rent projects in inner city Brisbane. This included: <ol style="list-style-type: none"> 1. A 25 level building including ~354 apartments located at 210 Brunswick Street, Fortitude Valley to be developed by Frasers Property (currently under construction). 2. A two tower development comprising ~390 apartments located at 60 Skyring Terrace, Newstead to be developed by Mirvac (currently under construction). ▶ These projects will comprise ~750 apartments in total, with ~32% of dwellings to be provided at a discount of 25% below market rent. ▶ State Government will provide a rental subsidy as a 'top up' for the discounted rental offering.
Management	<ul style="list-style-type: none"> ▶ Frasers and Mirvac to own and operate their respective developments with the Queensland State Government subsidising the apartments offered at discounted market rent. ▶ The remaining apartments will be rented at market rents and will operate as a typical Build to Rent platform with an experienced operating team including on-site staff / concierge. ▶ The eligibility for this program is income tested based on income thresholds and is currently highly confidential.

Key Outcomes / opportunities

- ▶ Opportunity for Government to partner with the private sector to deliver Affordable Housing dwellings to market for key workers.
- ▶ Established a multi-staged Expression of Interest and Request for Proposal process for State-owned and privately owned sites.
- ▶ Established targeted subsidy for Affordable / Key Worker rental housing.
- ▶ Following the selection of proponents for the Pilot Projects, Queensland Treasury have added an additional two tender processes comprising a privately-owned site and a State-owned site.
- ▶ Overall, the projects are expected to provide residents with a high amenity rental experience and service delivery. It will introduce a new type of institutional residential grade asset providing a better long-term rental environment for future tenants.
- ▶ Whole of life asset risk managed by owner and developer.

Mirvac – LIV Anura, Newstead



Source: Mirvac, 2022

UK Case study - Inclusion of Discount Market Rent in Build to Rent projects

Blackhorse Mills project

Description

Blackhorse Mills was acquired in 2017 and is the flagship development for Legal & General. The development comprises 479 apartments in total (incl. 104 Affordable Housing units) and is considered market leading in terms of amenity offering and product quality within the UK market. This Affordable Housing component includes the provision of:

- ▶ **Discounted Market Rent Units** – This offers local residents the ability to rent within Build to Rent developments at a 80% discount to market rent and was in partnership with the local Council as part of the planning permit process. Eligibility is primarily aimed at those who live or work in the area and those who have an fall within the annual income threshold.
- ▶ **London Living Rent Units** – Aimed at assisting middle-income households who rent and want to build up savings to buy a home. The level of rent paid varies in different neighbourhoods, but is based on a third of average local household incomes, and adjusted for the number of bedrooms in each home (in this case 50-60% of market rent). To be eligible, you must be renting in London, have a maximum household income of £60,000 per annum and be unable to currently buy a home (incl. shared ownership) in your local area.

These apartments are targeted at key workers including those that work within emergency services, local Council, prison and education.

Project Overview	
Property Address	Wickford Way, E17 6HG
Total Apartments	479
Apartment Typologies	Studio, 1, 2 and 3 Bedroom product
Construction Start	Q3 2017
Construction Completion	Q3 2019 – Q3 2020
Developer / Operator	Legal & General
Borough	London Borough of Walthamstow

Source: EY Research, 2023

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Product mix and rents			
Unit Type	Average Rent (p.w.)	% premium to private rental stock	% premium to local Build to Rent product
Studio	£222	30% - 40%	-
1 Bedroom	£281	31% - 44%	3% - 8%
2 Bedroom	£327	51% - 59%	17% - 22%
3 Bedroom	£404	49% - 54%	3% - 16%

Affordable Housing provision

No. of Affordable Housing apartments	104	
Breakdown of Affordable Housing	No of Units	Percentage
Discounted Market Rent	85	82%
London Living Rent	19	18%
Unit Mix	Discounted Market Rent	London Rent
One Bed	15	12
Two Bed	35	4
Three Bed	35	3

- Comments:**
- ▶ The scheme is tenure blind with Affordable units scattered throughout the private element whilst sharing the amenity

Affordable Housing – Key takeaways

- ▶ The provision of Affordable Housing units allowed the developer to fulfil their obligation of providing Affordable Housing without having to build a separate building and hand it over to a housing association. This assisted in the feasibility / viability of the project.
- ▶ All affordable units are tenure blind both internally and externally, meaning all are provided to the same quality and specification as private units within the development. Units are scattered throughout the development and share the same amenity provision.

Incentives in the US for the inclusion of Affordable Housing

Low Income Housing Tax Credits

- ▶ This program is a Federal program that **promotes the development** of Affordable Housing by subsidising the acquisition, construction and rehabilitation for **low-income households**.
- ▶ Incentives such as annual taxation credits are provided which can be claimed over a 10-year period. They are generally sold to investors to raise capital for the projects, thereby reducing the amount of funds needed to borrow and enabling the developer to offer lower, more affordable rents.
- ▶ The developer can agree to rent a **certain percentage** of their units to households with incomes at or below certain levels, **typically 60% of the area median income**.

Section 8 Vouchers

- ▶ Section 8 is a program that provides **rental assistance** to low-income households, the elderly and the disabled to afford decent, safe and sanitary housing.
- ▶ Vouchers are provided to rent units in the private market or in Build to Rent projects, in which the voucher **covers a portion** of the household's rent. The household is subsequently responsible for paying the difference between the **voucher amount** and the full rent amount.
- ▶ Landlords participating in the program must agree to **rent their units to voucher holders** and meet certain requirements set by the **local public housing agency**.
- ▶ The voucher program entitles the choice of housing to the individual / household and encourages them to secure the best housing for the family needs.

State and Local Incentives

- ▶ **Tax abatements:** Some states and localities offer tax abatements or exemptions to developers of Build to Rent projects. These incentives may reduce the overall cost of the development and make it more **financially feasible**.
- ▶ Other incentives can be offered to developers who agree to Build to Rent projects in specific areas, such as areas in need of **revitalisation or where Affordable Housing is in high demand**. These incentives may include **relaxed zoning regulations** or **fast-tracked planning permit processes**.
- ▶ **Land acquisition assistance:** Some states and localities may offer assistance to developers seeking to acquire land for Build to Rent projects, including with **site selection, financing**, and other aspects of the land acquisition process.

Grants and Loans

- ▶ **Grants or low-interest** loans to developers of Build to Rent projects are provided to **assist financially and encourage development**.
- ▶ These grants / loans may be targeted towards specific types of projects, such as those **servicing low-income households** or located in **certain areas**.

Incentives in the UK for the inclusion of Affordable Housing

Affordable Housing Guarantees

- ▶ The 'Affordable Housing Guarantee Scheme 2020' is a £3 billion scheme to support the delivery of 17,000 critical homes for lower income families over a three year period.
- ▶ The scheme is managed by ARA Venn (a subsidiary of ARA Asset Management) and provides long-term cost effective loans (of up to 30 years) to registered providers developing Affordable Housing product.
- ▶ This allows developers to finance projects at a lower fixed cost and subsequently support the delivery of affordable rental product.

Section 106 Agreements

- ▶ A significant proportion of Affordable Housing provision is delivered through the land use planning system using *Section 106 of the Town and Country Planning Act 1990*. These are legal agreements between developers and local planning authorities that outline the **terms and conditions for a development**.
- ▶ These agreements allow local Governments to negotiate with private developers more flexibly outside of regular planning mechanisms and can include requirements such as the requirement to provide **Affordable Housing, transport and other local infrastructure, amenities, and financial contributions**.
- ▶ Section 106 agreements help local authorities **manage and mitigate** the impacts of new developments and ensure the needs of the local community are taken into account.

Social rent

- ▶ Social rent incentives are financial incentives provided to developers of Build to Rent projects to **encourage the development** of properties for **social rent**.
- ▶ These incentives may be provided by the Government or local authorities and may take the form of **grants, loans, tax breaks**, or other forms of **financial assistance**.
- ▶ Social rent incentives are intended to help developers **offset the costs** of developing properties for social rent and increase the **availability** of housing in a given area.

Rent to Buy

- ▶ Rent to buy / shared ownership is a housing arrangement in which a household rents a property from a landlord and has the **option to purchase the property** at a later date.
- ▶ This option may be available for certain units within a Build to Rent project and can involve the household **paying a lower rent than market** in exchange for the **option to purchase** the property.
- ▶ This is attractive for households who want to eventually become homeowners but may **not have the upfront funds** to purchase a property outright. It also assists the landlord in **increasing occupancy rates** and providing a **long-term revenue stream**.

4 Policy considerations

Federal taxation policy

Status of the Build to Rent investor landscape

- ▶ **Majority of Build to Rent investment capital is foreign** – Based on EY's analysis and research of publically available data, 80% of the investment in the Australian Build to Rent market has comprised foreign capital funded by institutional investors (e.g. sovereign wealth funds and pension funds). This is due to Build to Rent being a globally recognised real estate asset class with a strong investment track record in other jurisdictions (e.g. in the US, where it is known as Multi-Family Housing).
- ▶ **Domestic institutional investment in Build to Rent is lacking** – In contrast to foreign investors, domestic institutional investors remain hesitant to deploy their capital into a sector that is domestically in its infancy, lacks depth and has limited perceived liquidity options despite a compelling investment thesis with respects to Australia's stable housing market.
- ▶ **Foreign capital is needed to underpin the growth of Build to Rent in Australia** – Until Australian institutional investors observe operational capability in this new asset class, foreign institutional capital will be fundamental in supporting 'first mover' projects in developing Build to Rent into a new asset class with a proven investment track record in Australia.

Managed investment trust eligibility

- ▶ Managed investment trusts exist as a form of collective investment vehicle for the pooling of capital from both 'mum and dad' investors and institutional investors to invest in passive income assets such as real estate that is held for the long term to derive rent.
- ▶ The regime was introduced in 2008 in recognition by the Government that Australia needed to be competitive in the global market for passive investment capital. As a result, they benefit from a concessional withholding tax rate of 15% which is the same as the tax rate paid by domestic Superannuation funds and is comparable to the rates charged in the US and UK on their Real Estate Investment Trust ("REIT") regimes.

- ▶ Foreign institutional investors consider Build to Rent as a core investment (i.e. long-term passive investment to derive a stable rental yield), similar to investments in commercial, retail and logistics assets. Accordingly, their expectation is that **Build to Rent should be taxed as a core asset** at the 15% concessional managed investment trust withholding tax rate.
 - ▶ At present, managed investment trust investments in Build to Rent are subject to the 30% non-concessional withholding tax rate. This means a higher tax cost to those investors and thus lower after-tax returns that do not support investors' investment return hurdles.
- ▶ Overseas performance of Build to Rent assets (particularly in the US, UK and now Japan), has brought **increased interest in this asset class** from foreign institutional investors. However, the high tax rate (versus an investment in the same asset class outside Australia) is an impediment to growth in this sector.
- ▶ **Affordable / key worker housing** elements of Build to Rent projects can qualify for the concessional 15% rate. However, due to the discounted rent, the **commercial returns generally fall short of the internal investment return hurdles** required by institutional investors. As such, without extra incentive, foreign investors choose investment in the established, stable, income-producing asset classes, rather than in affordable / key worker housing.

Goods and Services Tax recoverability

- ▶ Under the existing **Goods and Services Tax rules**, there is a distinction between "new residential premises", "residential premises", "commercial residential premises" and other kinds of commercial property that significantly **disadvantages Build to Rent projects**.
- ▶ **Build to Rent projects are input-taxed** due to not being "commercial residential premises" and prior to any future sale of the entire building, would involve 5 or more years of continuous leasing. This means the Goods and Services Tax incurred on costs relating to the acquisition, construction and lease of Build to Rent is not recoverable, effectively **increasing capital and operating costs by up to 10%**. This leaves Build to Rent developments at a significant disadvantage from a feasibility perspective compared to most other real estate sector asset classes.

Source: EY, 2022

Federal Government – National Housing Accord, 2022

National Housing Accord

Policy overview¹

- ▶ The Albanese Government has recently announced the National Housing Accord to address the supply and affordability of housing in Australia. The policy aims to align all levels of Government, institutional investors and the construction sector to help tackle the nation's housing problem. The shared ambition is to:

“Build one million new well-located homes over five years from 2024”

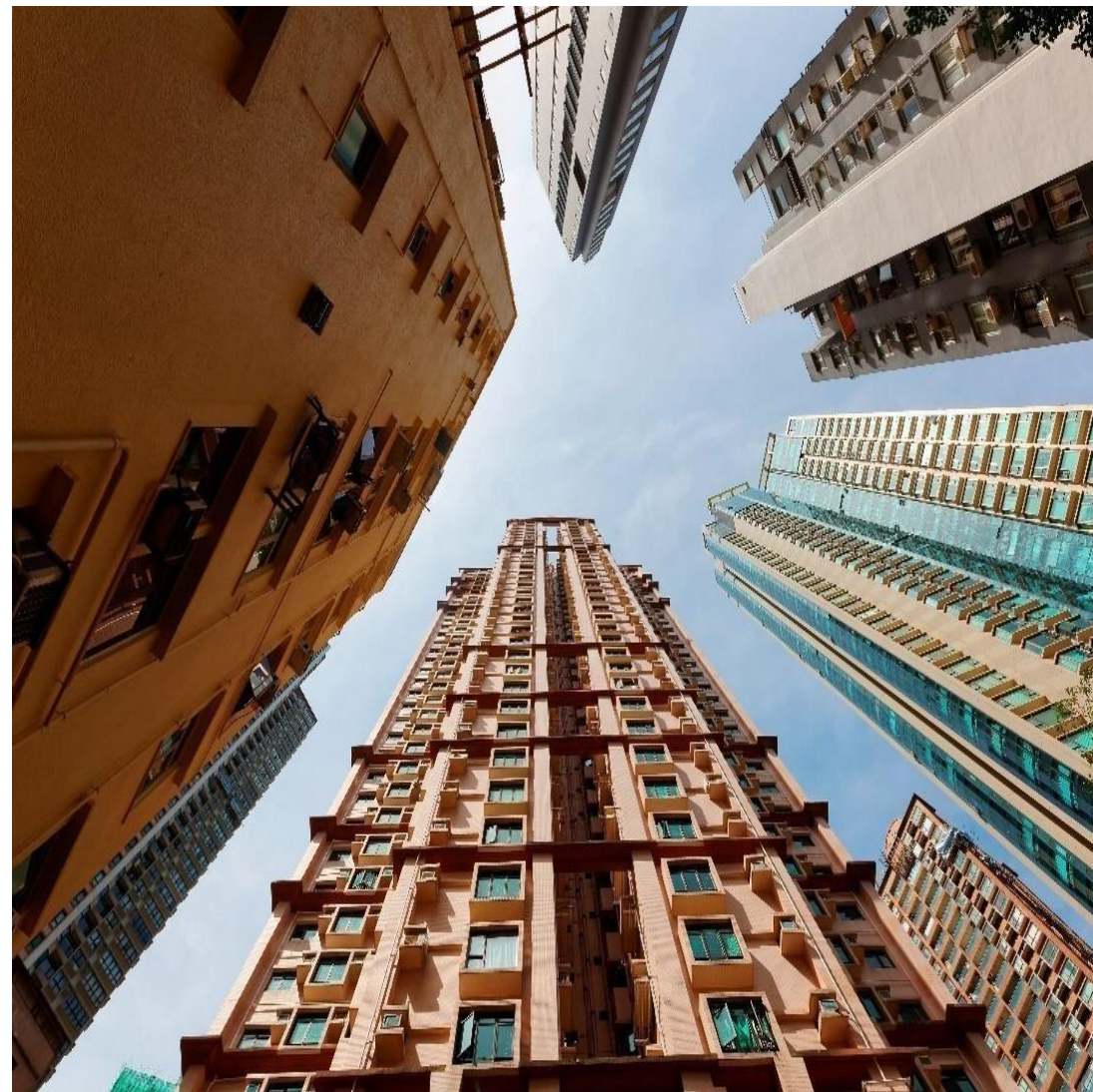
- ▶ As part of the Accord, the Government will establish a National Housing Supply and Affordability Council to review barriers to institutional investment, finance and innovation in housing (i.e. Build to Rent housing).¹

Housing supply

- ▶ It is recognised that the majority of the new housing supply will come from the private market, with the Government playing a key role in enabling and kick-starting investment;
 - ▶ This assistance will incentivise institutional investors to include affordable / key worker housing as part of their developments (i.e. by covering the gap between market rent and subsidised rent);

¹ National Housing Accord (Ministers treasury), 2022

We believe that the Build to Rent sector can significantly contribute to the shared goal of the National Housing Accord, due to the accelerated delivery of construction given the absence of pre-sale requirements

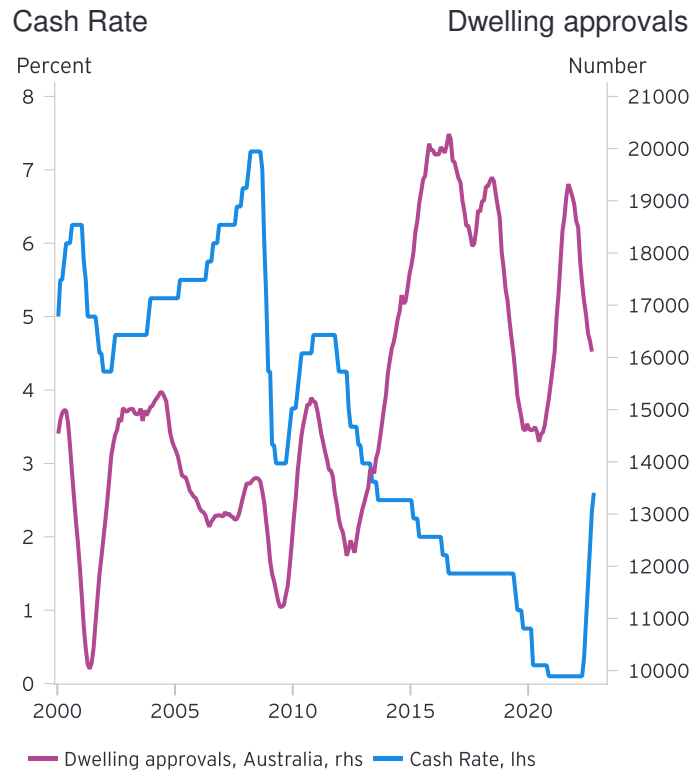


Macro-economic environment

Challenging times ahead

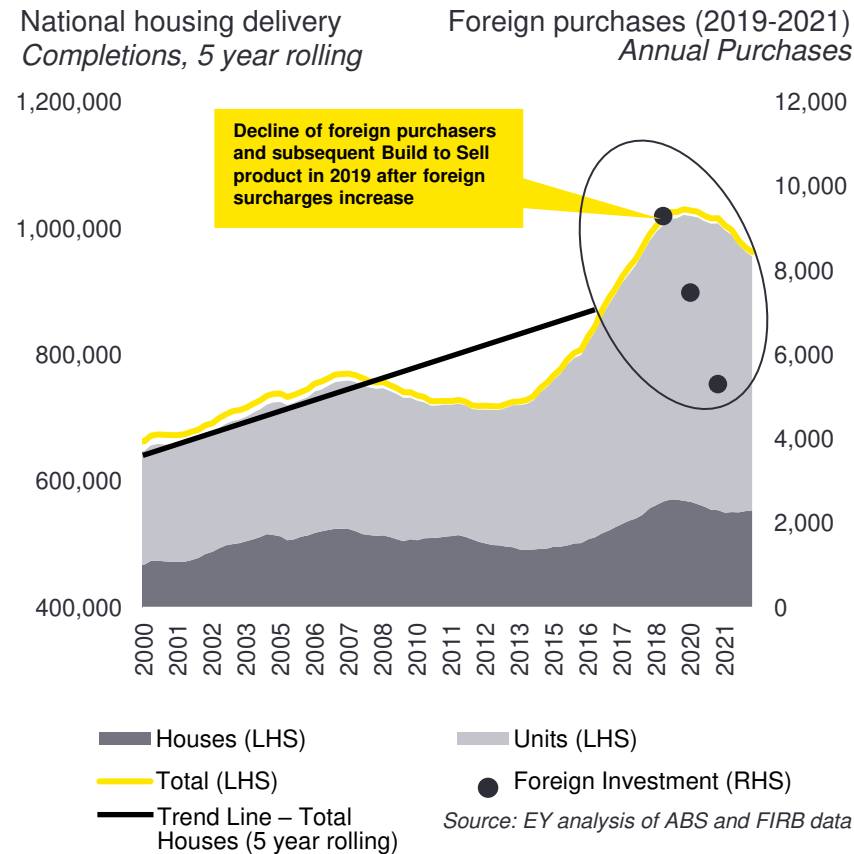
The macro-economic environment and policy framework has a significant impact on housing supply and affordability in Australia. As evidenced in the graphs below, as the cash rate has increased, dwelling approvals have subsequently reduced dramatically. This puts further strain on the rental market as seen by vacancy rates continuing to decline and asking rents increasing to all time highs. Further, with the additional surcharges imposed on foreign purchasers, annual purchases are decreasing, making it even more challenging for Build to Sell developers to obtain pre-sale requirements in order to commence construction and bring forward additional built-form product.

Dwelling approvals fall as cash rates rise

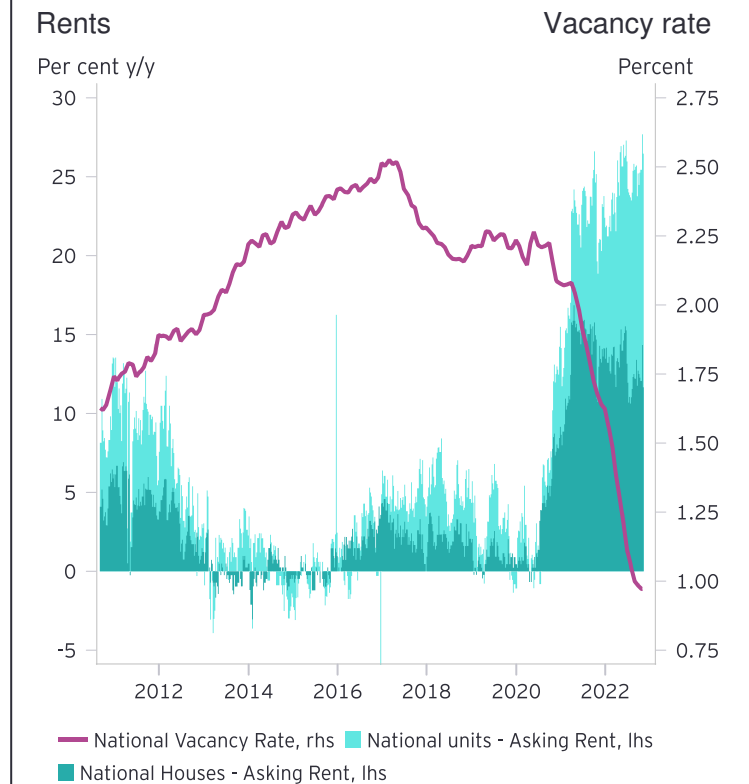


EY analysis of ABS and RBA data, Macrobond

Foreign purchases and housing completions decline



Vacancy rates fall while asking rents increase



EY analysis of SQM data, Macrobond

Technical inconsistencies in legislation regarding planning / design

Overview of the planning / design process

The existing planning process in Australia is managed by local Governments/Councils and can act as a barrier to growth due to the **complex and time-consuming process**. Developers must satisfy a range of requirements and obtain approval from multiple stakeholders, which can **delay projects** and **increase costs**. The lack of **consistent guidelines** can also create challenges and uncertainty for developers. **Streamlining and simplifying the planning approval process** can help to reduce these barriers and support the growth of the Build to Rent sector. Examples include:

Raise local Council's awareness on Build to Rent

- ▶ E.g. Does Build to Rent product need to be compliant with Better Apartment Design Standards (particularly studios)?;
- ▶ Is Co-Living product viewed as 'commercial residential', therefore having differing planning and building requirements.

Provision of a streamlined planning approval process

- ▶ This will serve as a lever to increase the speed of housing delivery to market and will reduce the impact of development costs that are affected by certainty of approvals, design standards and density provisions. Currently this has resulted in delays and dissuaded developers and investors to participate.

Fast track Build to Rent projects

- ▶ In Victoria, the Build to Rent committee has suggested that the Minister act as the Responsible Authority for permit approvals. However, justification for intervention is currently limited because Build to Rent projects are not considered to be of "State Significance".

Amenity considerations within developments

- ▶ Consideration of the amenity differences in Build to Rent and Build to Sell buildings is critical, given the long-term nature and varying target cohort. Raising awareness between developers, town planners and architects/building designers is important to ensure the design responds to the purpose of the asset.





Federal tax regimes

Managed Investment Trust – Tax considerations

Current setting

- ▶ While Build to Rent assets can be held in a managed investment trust-compliant Australian trust structure, any income derived from the asset will be non-concessional income and be **subject to 30% withholding tax** rather than the concessional 15% rate. This **creates a barrier to investment from foreign institutional investors** as they will effectively be:
 - ▶ Comparing Build to Rent investment proposals against those comparable real estate asset classes that are subject to managed investment trust withholding tax at 15%;
 - ▶ Subject to double the rate of tax compared to their domestic equivalents (i.e. Australian superannuation funds which are subject to 15% tax); and
 - ▶ Potentially subject to higher tax rates compared to Build to Rent investments in other jurisdictions.

‘Levelling the playing field’

In order to create a ‘level playing field’, the below items could be considered:

- ▶ **Foreign investors could be given access to the withholding tax rate of 15% for any income derived from Build to Rent assets.** Such an outcome would align the direct tax outcomes with those of commercial residential premises, core office, retail, industrial investments and would be the same rate payable by domestic Superfund investors.
- ▶ This proposal would mirror the Build to Rent tax models from the US and the UK, which are, respectively, mature and emerging Build to Rent markets. In those markets, foreign investors are broadly not fiscally disadvantaged by choosing to invest in Build to Rent over alternative ‘core’ real estate assets.
- ▶ Overall, a change to 15% withholding tax could deliver immediate net economic benefits, resulting in additional Government revenue in the short-term and long-term as investment in new Build to Rent assets may result in:
 - ▶ Income to the Australian developers and construction companies as assets are being built.
 - ▶ Income to indirect service providers (e.g. architects, structural engineers, quantity surveyors etc.).

- ▶ Post-completion of the Build to Rent asset, income generated by Build to Rent operators, investment managers, property managers, cleaners etc.
- ▶ Indirectly, income to the employees / contractors involved in both the pre and post-completion activities set out above.

All the above activities could result in assessable income subject to corporate tax of 30% or personal tax of up to 47% in Australia.

- ▶ The Australian Government could benefit from those tax revenues from Build to Rent activities between 18-24 months before the foreign institutional investors receive, and are taxed on, the rental income from the completed buildings.

Affordable / key worker housing

- ▶ Build to Rent can have a role in providing affordable / key worker housing. However, at present, there is no tangible or workable incentive to support foreign institutional investment in below-market-rent housing, to increase their ability to incorporate more affordable / key worker housing whilst meeting required rates of return. It has to compete for investment against more established asset classes that are also in the **15% concessional rate sphere**, but which provide more stable, reliable returns.
- ▶ In order to attract foreign investment into this sector, one consideration may be that **returns on investments in affordable / key worker housing that is Build to Rent could be subject to the same 10% concessional rate** that is applied to investments in clean buildings (buildings that are built to a certain Green Star or NABERS ratings).
- ▶ Furthermore, consideration in the **removal of the eligibility of the Community Housing Provider requirement could remove red tape in terms of incorporating affordable / key worker housing elements into Build to Rent projects.** Removal could allow Build to Rent managers to adopt a holistic, ‘whole development’, property management approach, delivering an enhanced customer experience to affordable / key worker housing tenants. Community Housing Providers would still, however, play an collaborative role in setting the tenant eligibility criteria.
- ▶ These tax and regulatory changes could enable the private sector to provide affordable/ key worker rental housing to supplement the Australian housing market and the Government’s commitment to provide 10,000 affordable / key worker dwellings over the next five years.

Recovery of Goods and Services Tax

Current setting

- ▶ Input GST is likely to be incurred at all stages of a Build to Rent development, namely on:
 - ▶ the acquisition of the land (unless there is an existing residential premises on the land or the seller is not registered or required to be registered for GST);
 - ▶ the costs incurred on construction and development; and
 - ▶ the costs incurred in respect of the ongoing letting out of the premises.
- ▶ Where a property meets the definition of *commercial residential premises* – which includes hotels, motels, inns, hostels, boarding houses, caravan parks, camping grounds or similar premises – full input tax credits can be claimed on input GST. This is because the supply of *commercial residential premises* is taxable, not input taxed.
 - ▶ However, where the supply of *commercial residential premises* is predominantly for long-term accommodation (i.e. for a continuous period of 28 days or more), output GST payable by the supplier of the premises is applicable on only 50% of the GST-inclusive price of the accommodation, which equates to roughly half the amount of GST ordinarily payable. This means that full input tax credits are available for input GST and the output GST is greatly reduced. A common example of this is the supply of student accommodation
- ▶ **Typical Build to Rent assets do not fall within the definition of *commercial residential premises*** and, because the period prior to any future sale of the entire building would involve five or more years of continuous leasing to various tenants for multiple one to two year terms, the letting and sale of Build to Rent assets would be an input-taxed supply. **This means that while GST is not payable on the rent received from a tenant, the GST (10%) incurred on costs relating to the acquisition, construction and leasing of the Build to Rent asset would not be recoverable.**
- ▶ Therefore, for the purposes of modelling investments in Build to Rent assets, irrecoverable 'input GST' has to be modelled in as a project cost, which impacts Build to Rent's competitiveness as against other 'core' real estate investment opportunities, as explained opposite.

'Levelling the playing field'

- ▶ The GST setting for Build to Rent of non-commercial residential premises is to be contrasted with the GST models for Build to Sell residential properties, Build to Rent "commercial residential premises" and Build to Rent commercial office and industrial properties. These arrangements are all taxable.
 - ▶ This means that any GST incurred on costs relating to the construction, sale or lease is recoverable in full. It also means that GST is payable on the purchase price received for the sale, or on the rent received for the lease.
- ▶ To achieve closer parity with those other investment classes and student accommodation, **one possible solution could be to amend the GST legislation to include Build to Rent in the definition of *commercial residential premises***. This would:
 - ▶ allow Build to Rent developments to claim in full input tax credits associated with acquisition, construction and leasing costs;
 - ▶ allow the leasing of the Build to Rent apartment to be subject to an effective 5% concessional rate of GST on rent; and
 - ▶ make the property taxable on any ultimate sale of the asset.
- ▶ A corollary effect of such a change could be to move Build to Rent income from being treated as non-concessional managed investment trust income to being treated as concessional managed investment trust income, and therefore being subject to the 15% managed investment trust withholding tax rate.
- ▶ Another possible solution could be to provide full input tax credits upfront, with a staged repayment over a period of time or triggered at the point of sale.
- ▶ It is however acknowledged that any GST solution would require the agreement of all States and Territories, and thus would require the Government to lead that discussion to settle on a workable and accepted solution.

Business as Usual approach – Tax treatment

Overview of approach and assumptions

EY has undertaken high-level analysis to calculate the managed investment trust withholding tax receipts Government could earn under a Business as Usual approach. This approach assumes a foreign investor is investing in a hypothetical platform that delivers one typical project of 400 apartments per year (end value of \$340m per project) for 10 years. This is the current approach of 'early movers' in the industry including Mirvac, Greystar and Home.

Based on our industry expertise, a net rental yield of 4.25% has been applied when calculating the Earnings Before Interest, Tax, Depreciation and Amortisation, with a 30% tax rate applicable based on the current legislation. The table below outlines the calculation and the associated results.

Business As Usual approach – Calculation

Year		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
No. of Projects Per Year (cumulative)		1	2	3	4	5	6	7	8	9	10
No. of Operating Apartments (cumulative)		400	800	1,200	1,600	2,000	2,400	2,800	3,200	3,600	4,000
Typical Project Value (cumulative) <i>(4.25% - Capitalisation rate)</i>		\$340,000,000	\$680,000,000	\$1,020,000,000	\$1,360,000,000	\$1,700,000,000	\$2,040,000,000	\$2,380,000,000	\$2,720,000,000	\$3,060,000,000	\$3,400,000,000
EBITDA ¹ (cumulative)		\$14,450,000	\$28,900,000	\$43,350,000	\$57,800,000	\$72,250,000	\$86,700,000	\$101,150,000	\$115,600,000	\$130,050,000	\$144,500,000
Managed investment trust withholding tax (cumulative)	30%	\$4,335,000	\$8,670,000	\$13,005,000	\$17,340,000	\$21,675,000	\$26,010,000	\$30,345,000	\$34,680,000	\$39,015,000	\$43,350,000
Net Present Value of cumulative managed investment trust withholding tax²		\$160,232,041									

Source: EY Analysis, 2022

Note: The analysis only considers the ongoing rental income stream and does not consider any tax implications (i.e. capital gains tax) relating to the sale of the asset as part of an exit.

¹ EBITDA - This is reflective of the Earnings before Interest, Tax, Depreciation and Amortisation of the operating asset.

² Net Present Value calculation includes a 6% discount rate based on EY knowledge and experience in the sector.

Business As Usual approach – Results

Based on the analysis and the adopted assumptions as described above, the Net Present Value of the cumulative managed investment trust withholding tax over the 10 year horizon equates to **~\$160 million**. This assumes a 30% tax rate in line with current legislation.

Alternative scenario approach – Tax treatment

Overview of approach and assumptions

Under the Alternative scenario, EY have assumed that the managed investment trust withholding tax rate has been reduced to 15% in line with other commercial asset classes and our key considerations.

Based on EY research and industry sector knowledge, this change is likely to increase the delivery of projects threefold, with a hypothetical developer potentially delivering three projects per year (instead of the one project currently being delivered)¹. All other assumptions regarding capitalisation rate and discount rate have remained constant. The table below outlines the calculation and the associated results.

Alternative scenario approach – Calculation

Year		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
No. of Projects Per Year (cumulative)		1	4	7	10	13	16	19	22	25	28
No. of Operating Apartments (cumulative)		400	1,600	2,800	4,000	5,200	6,400	7,600	8,800	10,000	11,200
Typical Project Value (cumulative) <i>(4.25% - Capitalisation rate)</i>		\$340,000,000	\$1,360,000,000	\$2,380,000,000	\$3,400,000,000	\$4,420,000,000	\$5,440,000,000	\$6,460,000,000	\$7,480,000,000	\$8,500,000,000	\$9,520,000,000
EBITDA ² (cumulative)		\$14,450,000	\$57,800,000	\$101,150,000	\$144,500,000	\$187,850,000	\$231,200,000	\$274,550,000	\$317,900,000	\$361,250,000	\$404,600,000
Managed investment trust withholding tax (cumulative)	15%	\$2,167,500	\$8,670,000	\$15,172,500	\$21,675,000	\$28,177,500	\$34,680,000	\$41,182,500	\$47,685,000	\$54,187,500	\$60,690,000
Net Present Value of cumulative managed investment trust withholding tax³		\$208,442,083									

Source: EY Analysis, 2022

Note: The analysis only considers the ongoing rental income stream and does not consider any tax implications (i.e. capital gains tax) relating to the sale of the asset as part of an exit.

¹ Based on our industry expertise, EY have assumed that multiple parties will commence construction on their 'shovel ready' sites, with the added potential of developers purchasing/re-purposing existing sites and buildings for a Build to Rent use. This is further warranted given vacancy rates are at historic lows, implying underlying demand together with the amount of capital seeking to be deployed in the sector based on our research.

² EBITDA - This is reflective of the Earnings before Interest, Tax, Depreciation and Amortisation of the operating asset.

³ Net Present Value calculation includes a 6% discount rate based on EY knowledge and experience in the sector.

Alternative scenario approach – Results

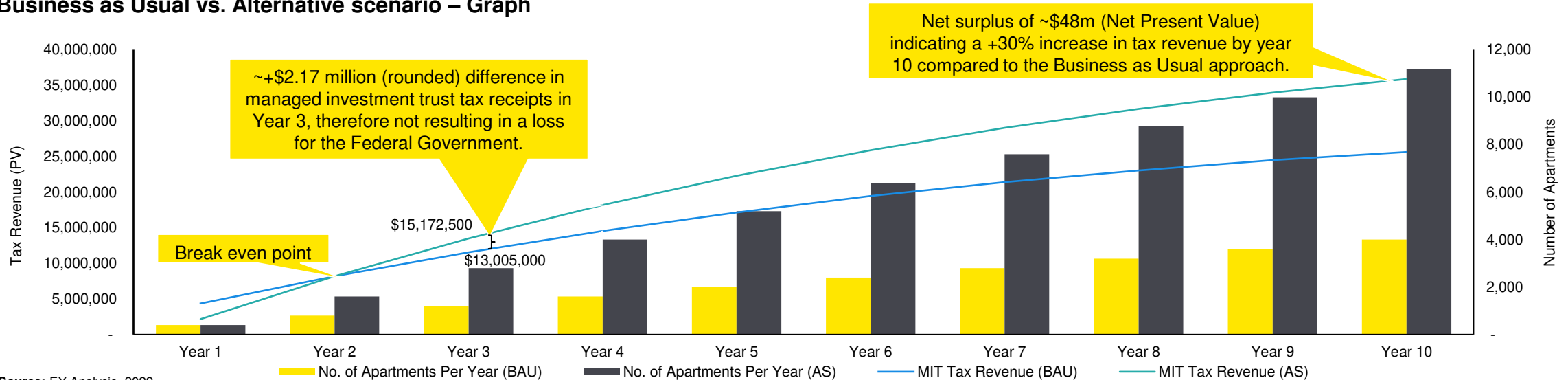
Based on the analysis and the adopted assumptions as described above, the Net Present Value of the cumulative managed investment trust withholding tax over the 10 year horizon equates to ~\$208 million. This assumes a change in the tax rate to 15% in line with our key considerations.

Business as Usual vs. Alternative scenario – Results

Results of analysis

As evidenced on the previous slides, under the Business as Usual approach Government is likely to earn ~\$160 million (Net Present Value) of tax revenue based on a hypothetical platform delivering one typical project per year. This revenue is likely to increase to ~\$208 million (Net Present Value) under the Alternative scenario in which managed investment trust withholding tax is halved and a hypothetical developer accelerates their project delivery to three projects per year. This results in an additional net surplus of ~\$48 million (Net Present Value) (+30% increase) in tax receipts for the Government over a 10-year period. Below outlines the results of the two approaches.

Business as Usual vs. Alternative scenario – Graph



Source: EY Analysis, 2022

Note: All figures expressed in the above graph is reflected in Present Value.

Conclusion

The above graph highlights that there appears to be **no loss of revenue for Federal Government** over a 10-year period under the Alternative scenario. EY estimate that it will take approximately two years to break-even based on the proposed tax changes with the third year achieving a net surplus for the Federal Government.

The Alternative scenario assumes one hypothetical developer delivering three projects per year, and a total of ~11,000 apartments over a 10-year period. **In reality, based on our research, we believe there could be up to ~150,000 apartments delivered over a 10-year period based on our knowledge of the active platforms in the sector.**

As illustrated, proceeding with the consideration of halving the tax is critical to accelerating and establishing the Build to Rent sector in Australia.

Note: Generally a project can take between 4-5 years from the acquisition of the site through to completion and operation of the asset. This can be dependent on location.

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