

Experts predict a build-to-rent revolution coming to Australia



The number of homes built explicitly to rent out is set to take off in Australia over the next five years, housing industry experts have predicted.

They'll be nothing like we've seen before, either, with building managers looking after apartments, staff to look after leases and run "community" events, and onsite cafes, shops and work spaces. There will also be long-term rolling leases with the potential for tenants to transfer to other allied blocks in different areas if their jobs or circumstances change.

"But this is not the end of home ownership or mum and dad investors," Adam Hirst, general manager capital allocation at developers Mirvac, told a Sydney housing conference. "This isn't in conflict with the great Australian dream.

“It’s a lifestyle choice of millennials, young families and downsizers, and the choice of a growing number of people. There are currently 2.5 million rental homes in Australia and we see that growing in the next few years with purpose-built apartment buildings for the rental market. It’s well-established overseas but, in Australia, it’s a new form of housing and there’s a lot of excitement around it.”

Such homes will also create a new asset class, often for large institutional investors like super funds, as well as for overseas capital, with some degree of government involvement and support paving the way forward.

As the rate of capital growth slows from softening property prices, those rental yields will become more and more important, the Australian Housing and Urban Research Institute conference heard.

Currently 31 per cent of households in Australia rent, of whom nearly 30 per cent are millennials, aged between 16 and 35, 24 per cent are Baby Boomers, 21 per cent are Generation X (aged 35 to 51) and 20 per cent Generation Z – the under 16s. Of those Millennials, Ernst & Young Australia research has found that 66 per cent believe they will never own their own home.

“The real driver for build to rent is those millennials,” said Richard Brice, director of real estate advisory services at Ernst & Young. *“They are very different in their wants and needs.*

“They want to be near services and jobs and entertainment facilities, and they are looking for on-site flexibility and having places to work within their buildings.”

With sharply increasing demand for good quality rental accommodation with more security of tenure, the only real hurdle is the cost for developers to build such homes, believes JLL regional director, institutional and middle markets Tyrone Hodge. They need to receive incentives to forego the quick and easy profits of build-to-sell

apartments in favour of the longer-term rewards of build-to-rent with quality long leases and low vacancy rates.

“The key is we’ve got to make the costs go down,” Mr Tyrone said. “You can’t do anything about construction costs, but you can do something about getting the land price, or taxes, down.

JLL's Tyrone Hodge says as demand for rental increases, work is needed to bring down the cost to developers.

Red tape could also be cut, the planning process speeded up, minimum apartment sizes negotiated, tax credits given, lower rates of land tax set, and extra density allowed in return for build to rent projects are some of the other inducements being discussed.

The time has never been riper for an expansion of build to rent with unaffordable house prices, people staying in education longer, a more mobile labour market and the Millennial embrace of the sharing economy, says Mr Hirst. As a result, build-to-rent homes can increasingly be seen as a tradeable asset like building a hotel or retirement village, with a rent roll attached.

Economist Princess Ventura, director of Urbis, says all factors are now aligning. “*Rental yields should increase going forward and we aren’t likely to see the crazy capital growth we’ve seen earlier in the residential sector,*” she says.

Scott Langford, of St George Community Housing, says the nation is seeing a '*structural shift in the Australian market to allow more people to rent*'.

“*The rate of increase of rents over the past 10 years has been a lot higher than other asset classes like retail, industrial and office. And in a low interest rate environment, we’re seeing real structural change ... Home ownership isn’t likely to be the norm in the future.*”

The original build-to-rent sector in Australia was the affordable housing sector for essential workers with homes at subsidised rents to allow them to live in areas closer to where they work, says Scott Langford, group CEO of St George Community Housing. *“But now we’re talking more broadly about a structural shift in the Australian market to allow more people to rent.”*

The new class of tenants attracted to build-to-rent housing will be happy to hear it’s likely to be of a similar standard to build-to-sell, as the finishes and fittings will have to survive various moves, and the white goods installed will need to be more durable and long-lasting, says Mr Hirst.

Richard Brice, of Ernst & Young, believes Millennials are the real drivers behind the surge in the build-to-rent market.

Managers, from either the developer or institutional investors, will also facilitate community events to help the atmosphere of buildings. *“And with more security of tenure, they will no longer live with the constant anxiety of a landlord wanting them to move on,”* he says. *“It will be a major change.”*

Source: Domain