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Director
Corporate Tax Policy Unit
Corporate and International Tax Division
Treasury
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Via email: btr@treasury.gov.au

REIA Submission: Build-to-rent tax concessions

The Real Estate Institute of Australia (REIA) is the national body and voice for the real estate profession in Australia. REIA's primary function since 1924 has been advocacy for policies that support a successful real estate industry. We are committed to working with the Australian Government to advance Australia's prosperity.

REIA's members are the State and Territory Real Estate Institutes (REIs) through which around 85% of Australian real estate agencies are collectively represented across 46,793 businesses.

We are submitting this response on behalf of our network to the Treasury in response to the request for submissions on the Build-to-rent tax concessions.

REIA notes the exposure draft legislation for the BTR Provisions and Misuse Tax Imposition Bill. We have also elected to respond to the views sought on affordable tenancies and single ownership retention.

Overview

Rental Supply

There are currently just under 3,800 BTR units completed in Sydney, Melbourne, and Brisbane. Melbourne holds the largest amount of existing stock, accounting for almost 70% of all completed units.

Over the past decade, the number of rented dwellings has surged significantly in these cities outpacing the growth rate of owner-occupied housing. Melbourne witnessed a remarkable 38 per cent increase, followed by Sydney at 37 per cent and Brisbane at 33 per cent.

Development Pipeline

There are 44,139 units at various stages of development, with 29% of these under construction, 24% have planning approval, and 42% are in the process of seeking planning approval.

Build to Rent: A supplement to the rental market

The Australian rental market is in one of the tightest periods of supply we have ever experienced. Whilst the budget 2023/2024 optimistically states that 150,000 rental homes will be unlocked by the BTR sector with changes to taxation treatment, our market analysis shows very clearly that the current pipeline will not touch the sides of this ambitious supply statement, which is more than 10% of the 1.2 million homes target.

The latest census data from 2021 reveals that the combined localities of Sydney, Melbourne and Brisbane are home to just over 1.5 million rented dwellings.

The current BTR pipeline represents just 3% of the existing rental stock. This presents a significant opportunity for property developers to invest in BTR projects and cater to the rising demand for well-located, affordable homes.

Affordable Tenancies

With the National Housing Accord's target starting on 1st July 2024, the national rental vacancy rate sits at 1.5%, half of the healthy industry benchmark of 3%. At present, renters are setting aside 23.9% of their total income for rental payments. Only with a dramatic increase in rental supply will we see changes to this outlook.

REIA supports the inclusion of a minimum proportion of dwellings to be offered as affordable tenancies to be imbedded within the draft legislation. The impacts of inclusion of the requirement would be as follows:

Role of the private investor in provision of affordable housing

Over the past 40 years, public ownership of new dwelling stock has decreased significantly, shifting the burden of constructing housing units to the private rental market. For example in the September 1984 quarter, 11.6 per cent of new dwelling stock completed in NSW was owned by public entities., dropping to just 1.2 per cent by September 2023.

While the pipeline is expected to get larger over the next few years, this further highlights the significance of private investors in addressing the housing needs of both owner-occupiers and renters.

By including the requirement for affordable tenancies, this ensures that private sector housing is accessible to individuals or families who are struggling financially. This requirement also benefits the developer by increasing the number of potential tenants, which can help ensure a stable occupancy rate which increases the overall value of the development over time.

With the rise of international migration post-2022 and an increasing number of people choosing to rent instead of buying homes, there is a pressing need for more rental properties in urban areas, where housing affordability is a challenge for many.

Single Ownership Retention

REIA supports the inclusion of a minimum period of 15 years during which dwellings must be retained under a single ownership.

For investors:

One of the key factors in determining the viability of BTR investments in the long term is understanding what rental growth might look like going forward.

According to our BTR report, the best proxy data for BTR units is the 2 bedroom unit rental time series, which the REIA has been collecting data on since 1988. Vacancy rates have consistently been relatively low, especially compared to other commercial property asset classes, and it is anticipated that there will be a strong demand for rental properties in the near future given Australia's continuing international migration program.

BTR properties can offer stable and predictable returns for investors.

For renters:

With net overseas migration contributing to the surge in population growth and historically low vacancy rates across major cities, the demand for rental properties is poised to remain robust for the foreseeable future.

The proposal to introduce a minimum number of affordable tenancies for a fixed period of 15 years would be a significant step towards improving the stability of renters in the housing market. This initiative would provide much-needed relief to struggling renters, who are currently facing the uncertainty of rising rents and seeking longer-term security of tenancy.

CONCLUSION

REIA notes that the BTR market in Australia is very much in its infancy; and it is only with private sector and household level investment that the 1.2 million homes target be achieved and the impact of rents on cost of living and the CPI be alleviated for Australians.

REIA supports in principle all the draft legislation suggested, with the addition of BTR as a supplement to the rental market.

A copy of REIA's Build to Rent report can be accessed [here](#).

Should you require further information, I can be contacted on 0448 692 245 or anna.neelagama@reia.com.au.

Yours sincerely,

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Chief Executive Officer

The Real Estate Institute of Australia