

22 April 2024

Director
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By email: btr@treasury.gov.au

To the Director of the Corporate Tax Policy Unit,
Corporate and International Tax Division at
the Australian Government Treasury,

Sentinel Fund Manager Australia Pty Ltd (“Sentinel Australia”) welcomes the opportunity to make a submission to the Treasury’s Consultation into the *Treasury Laws Amendment Bill 2024: Build to Rent Developments* and the *Capital Works (Build to Rent Misuse Tax) Bill 2024* (together, “Bills”) and thanks Treasury for its engagement.

Sentinel Australia and Treasury are very much aligned in the goal of creating high-quality rental housing for all Australians and our shared belief that appropriate fiscal incentives can support the creation of new rental housing. As a pioneer in the Build to Rent (“BTR”) space in Australia, Sentinel Australia has been actively developing and managing BTR properties since 2012 and delivered Australia’s first institutional BTR community in 2019 which was later certified as the first carbon neutral apartment building in Australia. Across the globe, Sentinel Real Estate and its affiliates (“Sentinel”) own and manage over A\$11.2 billion of BTR communities representing over 29,000 apartment units. Commitments to our Australian BTR platform from European capital partners already represent a pipeline of nearly \$2 billion of developable communities across Australia.

Sentinel Australia believes that if done correctly, the tax policy around BTR has the ability to positively impact the lives of hundreds of thousands, if not millions, of Australians through the creation of tens of thousands of quality, sustainable apartments. Unfortunately, the proposed Bills fail to incentivise institutional investors to add to the supply of quality rental communities in any manner. In fact, as it is currently drafted, the proposed legislation would leave international capital worse off compared to the current tax environment and is thereby wholly unsuitable for encouraging global capital to the sector. In passing this legislation as drafted, Treasury will likely repel the very capital sources it seeks to attract, as global capital will turn to other markets with more favourable residential investment conditions.

Even operating under the assumption that the 15% concessionary rate was intended to apply to **both income and capital gains**, (as modeled below) the legislation still fails to incentivise international investors to create new housing relative to the current tax environment given the high cost of creating affordable housing.

| BTR Development Returns | | |
|-------------------------|------------------------------------|--|
| | 30% Withholding 10-Year IRR (1) | 15% Withholding; 10% Affordable 10-Year IRR (1) |
| Levered Before Tax | 11.43% | 9.45% |
| Levered After Tax | 8.94% | 8.41% |

(1) Further details of financial modeling can be provided upon request

It is important to note also, that the modeling above is consistent with the development considerations required to not only operate (as presented and noted in EY’s analysis for the Property Council of Australia appended hereto), but to actually create these housing assets which are so desperately needed in the coming years.

The passage of concessionary tax rates to support the BTR sector represents one of the last opportunities this Federal Government has to incentivise the wholesale creation of rental housing at scale in Australia. It would be Sentinel's recommendation, based on over 55 years of experience investing into the global rental housing market, that the Bills address four items simply and efficiently:

- 1. Create a permanent concession of 15% applied to ordinary income and capital gains for BTR communities that is consistent with the concessions given to other commercial real estate sectors.** The concession should be tied to the ownership of the property in a MIT holding structure, and so long as the property is operated as a 100% rental community during the ownership period, the seller should receive the tax concession on its rental income and upon the capital gains upon exit, regardless of how the next owner operates the property.
- 2. Establish an additional incentive to create affordable housing through a supplemental concession.** The cost of providing affordable housing is high and should be supported through an additional federal tax concession. Trying to consider it as part of the 15% concessionary rate will eliminate any value of the reduced tax rate while also introducing greater complexity and risk for investors, leading to limited new rental housing which will, in turn, further drive up the cost of all rental housing.
- 3. Remove any starting date from which any concessionary rates apply.** BTR properties in qualifying Managed Investment Trusts, regardless of when they commenced operations, should be able to benefit from the same concessionary rate.
- 4. Expand the Clean Building MIT WHT concession to include BTR projects.** Like other asset classes held in single ownership and backed largely by institutional capital, BTR is uniquely placed to lead in the delivery of sustainable housing. This initiative would not only encourage the creation of new rental housing but would also incentivise the development of the sustainable outcomes which are imperative towards achieving the goals of the Paris Accord.

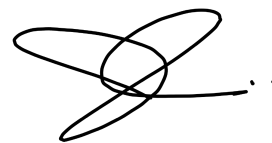
We appreciate the desire to craft nuanced policy that perfectly fits to a situation. However, in this instance, particularly at this time in the development of the sector, the policy change to attract investment into this property sector will only be effective if it is easy for the industry to understand and actionable immediately upon legislative passage. Further, the risks in this policy choice are asymmetrical. If Treasury does too little, it faces the prospect of creating limited, if any, new rental housing thereby exacerbating an already critical shortfall in supply. Conversely, if Treasury acts simply and assertively to truly incentivise institutional scale investment, Australians will benefit from an abundance of newly constructed rental units throughout Australia. In this outcome, Treasury will have also meaningfully increased construction jobs, tax bases, community engagement, and sustainable housing, all of which will be financed by major global institutions.

Sentinel Australia would appreciate the opportunity to meet with you and discuss the feedback contained in our submission in more detail as well as offer a perspective informed by our half century of operations in the global BTR sector. Please contact Mr. Keith Lucas, Managing Director on +61 3 9088 0060 or lucas@sentinelcorp.com to arrange a meeting.

Yours sincerely,



Michael F. Streicker
President



Keith M. Lucas
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