

Mr Steve Dimopoulos MP, Parliamentary Secretary to Treasurer Pallas
Mr Josh Bull MP, Parliamentary Secretary to Minister Wynne
Parliament House
EAST MELBOURNE VIC 3002

Dear Messrs Dimopoulos and Bull

Submission to the Victorian Government's Build to Rent (BTR) Working Group

Thank you for the opportunity for Committee for Melbourne (the Committee) to participate in, and present to, the third session of the Victorian Government's Build to Rent (BTR) Working Group to consider the draft report to the Treasurer and Planning Minister on BTR policy for Victoria.

The Committee finds itself in broad agreement with the issues which were raised at the meeting in terms of the top "must haves" to make BTR part of a solution for dealing with Melbourne and Victoria's housing needs, and as an asset class which will attract the institutional investment required for success. The role of government at State and Federal level is key to making it a success.

The Committee launched the BTR discussion with our members in March last year, with a presentation by Dr David Rees, Regional Director, Research Strategy, Asia Pacific at JLL, hosted by Charter Keck Cramer. The Committee has also been looking at BTR within the broader context of its work under its Melbourne 4.0 strategy which was launched in September 2016 to help prepare Greater Melbourne for the accelerating speed of innovation and disruption that has catapulted us to the early stages of the 'Fourth Industrial Revolution'.

Our 4.0 project makes it clear that if we keep progressing with 'business as usual', the future of our City may not be all that bright. The Committee identified nine Strategic Needs that we must address if we are serious about underpinning a liveable and flourishing Melbourne in the future.

One of the Strategic Needs identified was 'Housing Mix', and specifically what sort of housing mix Melbourne requires to deal with our rapidly growing population, greater urban densification and growing costs of living.

The Committee set up a Housing Mix Taskforce, which I chair, with the participation of industry leaders from the Committee's cross sectorial membership from various industries, including finance, infrastructure, housing associations, developers, legal, academia and consulting firms.

The Taskforce is aware that a great deal of work is being done on all questions related to housing mix. Accordingly, it decided to focus on one key area only, the lack of supply of affordable housing as a separate class to social housing. The Taskforce is in the process of developing a series of recommendations for industry and government to contribute to resolving the housing challenges faced in Greater Melbourne, which include some with respect to BTR.

We have defined affordable housing as a specific type of accommodation that certain people in the community, who may not have access to high wages or wage growth, rely upon. For example, teachers,

emergency and public services workers (often referred to as key workers) may be unable to live near their place of work, if the housing is too expensive in those areas. This can have a detrimental impact on those worker's lives (through impacts such as long commutes and less time spent with family). In addition, it can have a negative impact on the new economy: high costs of living can negatively impact a city's creativity and innovative capacity, because this can make self-employment and entrepreneurship more difficult.

The Committee is aware that there is no one 'silver bullet' solution to delivering the volume of below market value housing required to meet demand in Greater Melbourne into the future and that the solution will require a range of levers to be applied.

The Task Force is working on a series of key recommendations and opportunities of what levers could be applied by which stakeholders to tackle the affordable housing challenge.

These include:

- Tax structures
- Financing
- Planning (including affordable housing planning permit condition requirements and housing mix)
- Build-to-Rent
- Private rental sector (PRS)
- Unlocking excess/underutilised government land
- Transport

The Committee is very supportive of BTR as an asset class and how it may shape Melbourne. In particular, as a part of the work that the Taskforce has been doing recently, it has considered BTR in the context of how it could contribute to more affordable housing.

As we know, BTR as an asset class will not necessarily translate to more affordable housing as it depends on a range of factors including the nature of the product, the commerce of each project and ultimately the rents to be paid.

Government intervention will be required to ensure that a portion of some BTR projects is actually affordable, using measures such as targeted tax concessions, planning instruments/concessions etc as further outlined below.

The Committee's overall assessment of BTR is at **Attachment A**.

The Committee's Housing Mix Taskforce is looking to recommend the following levers for making BTR a success:

- State levers could include a reduction in land tax to match that of other commercial investments, relaxation of building regulations and fast-tracking planning applications and design bonuses such as increased density and height.
- At a federal level, levers include GST and MIT changes to fall in line with other commercial investments and access to concessional funding where affordable key worker housing is included in a project.

- A percentage to be determined, say 5%, of all the dwellings in a BTR project should be made available to key workers at below market rent, subject to the overall economics of the project (assessed on an individual basis). The State Government would need to provide a framework for the selection of residents along with the on-going management. In addition, the on-going use of each dwelling would need to be secured through a planning instrument or some other mechanism for the purposes of affordable/key worker housing.

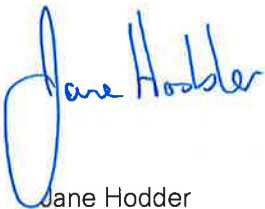
There is a first mover opportunity for Melbourne and Victoria to lead the way in Australia on this matter.

We therefore look forward to seeing the final version of the report and would like to take this opportunity to offer to host a meeting of our broadly-based, 140 strong and cross-sectoral membership to socialise the report once it has been completed.

As a trusted apolitical membership-based organisation, Committee for Melbourne can do so via a closed, Chatham House Forum or an open forum, depending on the government's preference.

We look forward to keeping in touch on this key initiative for Melbourne, Victoria and Australia's future sustainable housing mix. Please contact me or Committee for Melbourne Director of Policy, Leanne Edwards, at ledwards@melbourne.org.au or +61 412 280 203, should you require further information.

Yours sincerely



Jane Hodder
Chair, Housing Mix Task Force

Cc Mr Hugh Macintosh | Senior Analyst
Service Delivery and Reform Group | Economic Division
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ATTACHMENT A

General

BTR is not a solution to affordable housing without intervention from government. Margins are so low that mandating affordable housing without government intervention could cause this important asset class to fail before it starts.

Benefits of BTR

- There is excess demand for affordable housing compared to supply at present.
- Improved housing options by increasing supply of stable rental accommodation.
- Opportunity for longer leases and security of tenure which facilitate connection to community and other social benefits.
- Better quality construction and design of rental housing given the developer, or an investor, usually retains the property.
- Better service generally given by institutional landlords who understand how to manage properties and have the resources to better look after tenants.
- BTR is not affected by whims of the market like build to sell and therefore can deliver housing quicker and at scale.
- BTR by its very nature must deliver housing at scale therefore may add to overall stock.

Barriers to BTR in Australia

- Availability of suitable residential sites. Traditionally, residential assets are held in private ownership so few opportunities for institutional investors to purchase sites and deliver BTR at scale.
- Current federal and state tax legislation does not support the delivery of BTR assets.
- Land tax, GST and other indirect costs associated with operational phases can diminish the economic return of BTR projects.
- The treatment of stamp duty on BTR assets is not favourable in Victoria.
- There may be disincentives for institutional investors due to the taxation regime, like stamp duty costs. For example, off-the-plan stamp duty concessions were removed for investors, potentially disincentivising institutional investment, for example in development of new apartments.
- Overseas Managed Investment Trusts (MIT) tax treatment is a barrier to overseas investors entering the BTR market in Australia. It is considered that these investors will be a driver particularly given familiarity to the asset in other jurisdictions.
- Lack of institutional investors. With current risk and low IRR there is no appetite for institutional investors such as super funds to be involved in projects, particularly with no current Australian examples.
- Current IRR of BTR about 3 – 5 percent. This may not make it necessarily an attractive asset class when build-to-sell is normally in double digits.

BTR and affordable housing

- BTR in Australia currently must be a premium product to get the necessary returns and should not be seen as a pathway to solve affordable and social housing shortage in a purely market based environment.
- If BTR were used in a purely market environment (i.e. without allowances / subsidies), affordable housing would most likely adversely impact this important segment's growth.
- Although scale may reduce the cost of BTR, it will not be a solution to affordable housing without government intervention.
- Government intervention could take the form of concessions, such as tax concession, planning concessions etc if affordable housing is delivered (section 173 would most likely be required).
- Affordable housing should be considered a form of social and economic infrastructure, in the same way hospitals and other public institutions are which would be appealing to government.
- The Bond aggregator, which could give cheaper access to capital, may also be important in BTR to be used for affordable housing, and some parts of affordable housing could be refinanced in this way.
- Government land, BTR and affordable housing:
 - According to Land Use Victoria, 40% of Victoria's land is government-owned (albeit 68% national parks) however they are still the largest landowner.
 - Land ownership by the Government is fragmented, owned by many different departments and agencies which generally try to dispose of land for highest value.
 - If affordable housing's 'public value' was clearer to measure, excess or unused government land could be disposed by government departments to be used for BTR projects which incorporated affordable (as well as social housing) through peppercorn rents. The Government agency would retain the land and its future value but offer long term leases (say 30 years +) which would dramatically reduce the costs, thus barriers, to BTR, which cost savings could be channelled into affordable (and social) housing.