Build-to-rent on the cusp of exponential growth

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The build-to-rent sector is on the cusp of exponential growth after the development pipeline crossed a threshold of 11,000 units, with investors favouring assets delivering reliable income streams amid the coronavirus pandemic, a CBRE report says.

Over the past 12 months, more than 30 major build-to-rent (BTR) projects with an average size of 365 apartments totalling 11,667, were confirmed.

Mirvac's first build-to-rent property, the Pavilions by Mirvac was recently completed.

An additional pipeline estimated at more than 10,000 units were currently in due diligence with further announcements expected later in the year and beyond.

Offshore institutional funding accounts for over 50 per cent of the total pipeline, signalling the global attraction of the stable cash flow from BTR in a low-yield environment, CBRE's associate director of structured transactions and advisory Puian Mollaian said.

"The sector is bound to experience some significant growth in the coming years, although we're starting from a very low base," Mr Mollaian said.
"Over the last 12 to 24 months, the narrative about BTR has changed, and people are a lot more interested in hearing about it.

"But it's a matter of getting those initial wave of projects out of the ground, to create the momentum so everybody in the market can see, feel and touch the product.

"Those initial project completions will be a watermark moment for the market to validate BTR thesis."

Mr Mollaian says the BTR sector has the potential to grow rapidly within the next 5 years but the government and the banks needed to come on board.

"We expect the momentum to be maintained with more projects announced as developers work through a pipeline of several thousand units currently under due diligence," he said.

"If the UK, which is about five to ten years ahead of Australia in terms of BTR development is anything to go by, then we may be on the cusp of seeing some exponential growth in the sector.

"But the government needs to be more supportive by creating a level playing field and not penalising the sector with taxes and the banks need to be a bit more embracing."

Melbourne leads the way

So far, Melbourne has captured the lion share of the pipeline, accounting for more than 50 per cent of the national market, in part due to the wider availability of suitable development sites at more affordable prices compared to Sydney, said Mr Mollaian.

A total of 16 projects have been announced, including three Mirvac developments at 395 Albert St, Brunswick, 91-111 Therry Street and 7-23 Spencer Street in Melbourne's CBD.

Grocon has three developments located at 685 LaTrobe St, Docklands, 255-266 City Street, Southbank and 261-271 Bridge Street, Richmond.

US BTR giant Greystar has also announced a Melbourne BTR development at 35 Claremont Street, South Yarra.

In Sydney, eight projects have been announced so far, including the recently completed Pavilions by Mirvac at Sydney Olympic Park.

"Demand for sites in Sydney is also strong however, BTR opportunities have been more challenging to secure due to site availability and return constraints," Mr Mollaian said.