Building the case for build-to-rent

July 28, 2020 -Build-to-rent rewards good design, can create jobs and elevate health and safety standards in a post-pandemic economy, says Stantec's principal John Lucchetti.

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BTR – also known as multi-family housing – is purpose-built residential accommodation that is held for long-term rental, rather than sold to strata purchasers. While new to Australia, the asset class is well-established in the United States, Europe and the United Kingdom.

According to CBRE's latest report, Build-to-rent development pipeline, more than 11,000 units in 30-plus developments are underway around Australia. An additional 10,000-plus units are in due diligence. Offshore institutional funding accounts for more than half the total pipeline.

Stantec has established a sizeable footprint in the BTR space and Lucchetti has observed a "big pivot" as entrants respond to several trends. Chief among these are a narrowing gap between residential and commercial yields, shortfalls in housing supply and demand from young, urban professionals who prioritise lifestyle and location over homeownership.

Importantly, BTR is focused on large institutional-grade product. The average project size is around 350 units, which means owners gain operational efficiencies through economies of scale.

“BTR rewards good design and engineering,” Lucchetti explains.

“Owners are incentivised to invest in building performance because they hold the asset over the long term. And because owners must compete for their clients every month they are focused on the whole experience.”

Mirvac was a first mover in the BTR asset class in Australia, following the launch of its $1 billion BTR ‘club’ in 2018. The developer recently completed its first project – the $200 million Indigo development at Sydney Olympic Park – and has three Melbourne projects underway.

Oxford Properties, the real estate investment arm of one of Canada’s largest pension funds, has lodged a development application for a 39-storey residential tower above Pitt Street Metro in Sydney.

Greystar, Qualitas and the Clean Energy Finance Corporation have also entered the market. Most recently, the Queensland Government announced a BTR pilot project as part of its COVID-19 stimulus package, with plans to supply more than 750 dwellings.

Stantec has delivered the first stage of Sentinel Real Estate Corporation’s Element 27 in Subiaco, which Lucchetti says is a “first of its kind” in Western Australia. Stantec is also working on Sentinel’s first Victorian development in West Melbourne.

Typical BTR amenities include features that attract tenants’ attention, like concierge and dry-cleaning services, parcel delivery and cool rooms. But less obvious offerings, like energy efficient design and fixtures that reduce utility bills, are also value-adds.

“We are pleased to be having enthusiastic conversations with our clients around energy efficiency, equipment lifecycle costs and building performance,” Lucchetti explains.

BTR is also upping the ante on automation and the Internet of Things. Lucchetti says smart home technology is a clear market differentiator.

“We are also seeing a much bigger drive towards data collection, because owners want to understand how their building is performing in comparison to a portfolio of global assets.”

And as COVID-19 reshapes the world, Lucchetti sees an opportunity for BTR operators to step in with touchless technologies and next-level cleaning regimes.

“Renting from a trusted operator that you know will take care of cleaning, health and safety is certainly an appealing prospect in a pandemic.”