Investor slams Coalition ‘ideology’ against build to rent

Michael Bleby Senior reporter, Australian Financial Review
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Greystar, the world’s biggest investor in build-to-rent, has fired a broadside at the federal government, accusing the Coalition of an ideological bias against the development of a commercial rental asset class and of “stonewalling” efforts to make the sector viable in Australia.

State governments, particularly Victoria, had done all the work to make BTR stack up financially, but the federal government still taxed it higher than sectors such as student accommodation because it did not want to do anything that would reduce home ownership, Greystar’s Australia managing director Chris Key said.

Chris Key says the higher MIT tax rate is a consequence of a mistaken belief that build-to-rent housing is a capital gain asset, rather than an income-generating one. *Dominic Lorrimer*

“In the main, it’s political ideology,” Mr Key told *The Australian Financial Review*.

“The Liberal Party’s fundamental tenet is home ownership. They don’t want to create a generation of renters.”

The criticisms by Mr Key, whose company earlier this year raised $1.3 billion to invest in the emerging sector, are the loudest to date of the 30 per cent withholding tax Prime Minister Scott Morrison imposed on investment in the sector in 2017 when he was Treasurer.

With housing affordability firmly back on the agenda as record-low interest rates drive prices ever higher, the comments may also make the issue again a battlefront in the next federal election between the government and opposition Labor Party – which at the last election said it would halve the tax rate to 15 per cent.

Mr Key said polling work his sector had done with lobby groups showed, however, that the emergence of a build-to-rent sector was not a “hot-button” issue that would cost the Coalition votes in a federal election.

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— Greystar’s Chris Key

“This is not a vote swinger,” he said. “It is not going to change whether they do or do not win the next election.”

Equal taxation of BTR housing and other commercial sectors such as student accommodation and hotel property was still needed to “unlock a lot more” investment in the emerging asset class, Mr Key said.

“All the heavy lifting on this housing solution has been done by the states and the feds have done absolutely nothing despite the fact that Michael Sukkar, in multiple lunches, round tables and discussions, said, as the housing minister, when the states do their share of the heavy lifting, then we will look at it again,” he said.

“They are just stonewalling the whole thing.”

Mr Sukkar said the federal government was not trying to hinder the growth of a BTR sector but would not change the taxation of it.

“The Morrison government is committed to encouraging institutional investment in affordable housing, while also ensuring that individual Australian investors are not disadvantaged compared to foreign investors,” he said.

“The government has already legislated concessional withholding tax arrangements for managed investment trusts [MITs] that partner with community housing providers to provide affordable rental housing.

“The Morrison government does not therefore have any intention to provide foreign investors with tax concessions not enjoyed by Australians, particularly with respect to the ownership of luxury dwellings.”

Mr Key said the higher MIT tax rate was also a consequence of a mistaken belief that build-to-rent housing was a capital gain asset, rather than an income-generating one.

That was not the understanding of investors in these assets around the world, he said.

“They put money into this asset class for the robustness and resilience of cash flow that comes out from it,” he said.

Something like the land tax concession allows Melbourne to sneak out a little bit ahead.

— Sentinel Corp president Michael Streicker

The Property Council of Australia declined to comment on Mr Key’s arguments, but said it was crucial to have a viable build-to-rent industry that could develop housing and boost the economy when traditional build-to-sell apartment construction was weak.

“It is important to have a level playing field and the Property Council has long argued that withholding tax arrangements for build-to-rent should be brought in line with those of other asset classes,” chief executive Ken Morrison said.

In the evolving BTR tax environment, Victoria – which faced brickbats from the sector in May for imposing higher land taxes and stamp duty – won praise for its announcement last week it would extend the 50 per cent land tax discount and full exemption from the Absentee Owner Surcharge for up to 30 years for buildings complete and operational by the end of 2031.

“Something like the land tax concession allows Melbourne to sneak out a little bit ahead on a relatively strong footing,” said Michael Streicker, the president of US-based Sentinel Corp, an investor with about $9 billion of its $11 billion invested in BTR.

”The state of Victoria has done, from our perspective, a very good job of encouraging overseas capital into the build-to-rent space. NSW has also done a good job, although part of the benefit to Victoria now is it’s a very clear-cut case of what qualifies and what doesn’t. The NSW concessions are still a little bit murkier.”

Mr Key agreed: “In very simple terms, advantage Victoria.”