Build-to-rent pipeline gushing Melbourne

Nick Lenaghan Property editor, Australian Financial Review
Oct 26, 2021 – 5.06pm

Melbourne has so far claimed the lion's share of build-to-rent apartments, in existing supply and the coming pipeline, as developers swoop on the wider array of opportunities in the Victorian capital to build larger projects, backed by institutional investors.

Tallied by JLL researchers, the number of BTR units at an advanced stage in the Melbourne pipeline has increased by almost 70 per cent over the past 12 months from 4700 units spread across 14 projects to almost 8000 over 21 projects. The analysis is based on institutional-grade projects, which are purpose-built and comprise at least 200 units.

The country's largest BTR project yet is Greystar's $500 million development in South Yarra, which will have 625 apartments.

In Sydney, there are closer to 2000 apartments in total, both in supply and the pipeline, across seven projects. The Gold Coast and Brisbane have substantial amounts – more than 1200 and 1300 respectively – while Perth has almost 440 units in two projects, according to JLL.

The heavy weighting of the sector to Melbourne is the result of simple real estate economics. The southern capital has a higher number of larger, scalable, permit-approved sites available, especially in the inner-city areas, while there is comparatively less competition for them from other sectors than in Sydney, according to David Hill, JLL's director of alternative investments for Australia.

“So there are far fewer opportunities [in Sydney] and then more competition when they do come to market,” he told *The Australian Financial Review*.

While the sector is well-established in the US and UK, it is still emerging in Australia, with big players such as ASX-listed Mirvac, Macquarie, Aware Super Greystar, Sentinel and Canada’s Oxford Properties, partnered by local platform Investa, among the early movers.

Internal rates of return can hit 10 per cent, while yields are in the 4 per cent to 4.25 per cent range for Sydney projects and a little softer in Melbourne.

Precincts with their own characteristics

Mr Hill expects BTR projects will decentralise as the sector evolves, with more rental developments clustered around transport nodes. In Melbourne, examples of that trend can already be seen, with Macquarie swooping on a BTR site in Kensington and Oxford Properties securing on a Footscray site.

The sheer number of projects under way or on the drawing board in Melbourne will foster the creation of different BTR precincts, each with its own characteristics, according to Louise Burke, JLL’s research associate for alternatives investments.

The most active area incorporates the CBD and inner portions of Docklands and Southbank, with seven advanced projects, comprising 2700 units, including those with plans approved, submitted or already under construction.

The next most active precinct is in the inner north-west precinct, which extends to Footscray and Brunswick, where six advanced projects are in the pipeline. The Yarra precinct, including East Melbourne, Richmond and a portion of South Yarra, has five advanced projects in the pipeline.

“The emergence of identifiable precincts will enable operators to create complementary yet differentiated product across their Melbourne portfolios,” she said.

“Many entrants to the Melbourne build-to-rent market have acquired sites in various precincts and are planning slight tweaks to the type of amenity and mix of unit types offered at each development.

“This will allow future Melbourne build-to-rent customers to move around their preferred operator’s portfolio as their living preferences and needs change.”