Monday, 22 April 2024

Director
Corporate Tax Policy Unit
Treasury
by email to **btr@treasury.gov.au**

Dear Director

Build to rent tax concessions exposure draft

We are writing to you today regarding your draft legislation to stimulate the growing build-to-rent sector.

As Australia's largest grassroots urbanism network, the Abundant Housing Network Australia is invested in the success of the Albanese Labor Government's ambitions to deliver more housing supply in desirable, high amenity areas.

Facilitating more build-to-rent is a key way for us to deliver more housing supply in a sustainable way — but it presents some unique challenges to our housing, planning and finance regulatory frameworks, some of which we'd like to address here.

As many of our members are renters, our feedback is primarily about the experience of renting and making sure these concessions appropriately recognise the needs and ambitions of its future residents — not just institutional owners.

Extending minimum lease terms

The proposed build-to-rent tax concessions, coupled with the commitment to affordable housing, mark significant strides towards fostering inclusive communities and addressing housing affordability and supply challenges.

However, to further fortify the stability and security of tenants, it is imperative to extend the minimum lease term from three years to five years. This adjustment will better insulate residents from market fluctuations, providing them with a sense of security and enabling them to establish roots in their communities while encouraging tenants from a diversity of different life stages.

We identify four key reasons for extending lease terms: greater stability of tenure, facilitating community cohesion, improving financial security, and encouraging longer term investments.

Lengthening the lease term to five years offers tenants greater stability and peace of mind. In an environment where housing insecurity looms large, this change will provide residents with a longer-term housing solution, reducing the uncertainty associated with frequent moves and lease renewals.

Longer lease terms promote stronger community ties as residents have more time to establish relationships with neighbours, engage in local activities, and contribute positively to the social fabric of their neighbourhoods. By fostering a sense of belonging, extended leases can enhance community cohesion and promote overall well-being.

For tenants, a longer lease term means predictable housing costs over an extended period, enabling better financial planning and stability. It reduces the risk of sudden rent hikes or evictions, allowing households to allocate resources more efficiently and invest in their future.

Extending lease terms can also incentivise developers to prioritise quality and sustainability in build-to-rent developments. With the assurance of longer-term tenancies, developers may be more inclined to invest in amenities, maintenance, and community infrastructure, ultimately enhancing the livability of these developments..

We recommend that the bill be amended—for example, at section 43-152(3)(a)—to specify a minimum lease term of five years for build-to-rent developments to qualify for tax concessions.

We further recommend transitional arrangements be put in place for existing build-to-rent developments to comply with the extended lease term requirement, ensuring minimal disruption to ongoing operations.

This program should also include in its evaluation an assessment on the impact of the extended lease term on housing stability, community cohesion, and investment in build-to-rent developments through regular reviews and feedback mechanisms.

Extending the minimum lease term from three years to five years in build-to-rent legislation represents a proactive step towards promoting housing stability, community well-being, and sustainable development. By prioritising the long-term interests of tenants and fostering inclusive, vibrant neighbourhoods, we can create a more equitable and resilient housing system for all Australians.

This change is essential, not only to provide tenants with security and stability, but also to unlock the potential for increased investment in build-to-rent developments, addressing the pressing need for more housing supply across Australia.

GST credits

In build-to-sell developments, developers can claim back the goods and services tax on their construction costs and purchases upon sale.

In build-to-rent, this is not possible because the building is not being sold within the required five year timeframe to claim the rebate. This makes build-to-rent more 10% expensive to produce than build-to-sell.

A potential pathway to put build-to-rent on equal footing with the rest of the sector is allowing a GST credit claim for the cost of construction of the development—but making it contingent on the development providing 25% of the building as affordable tenancy.

Transferring from single entity ownership to body corporate

After fifteen years of single entity ownership, if the development gets subdivided, the developer must disclose the accurate portion of body corporate fees that will need to be paid by the individual purchasers upfront.

Many existing build-to-rent developments have very high operating costs due to high levels of amenity necessary to compete with a largely luxury portion of the private rental market. These expenses can effectively be managed by a single entity.

If the building gets subdivided, a body corporate composed of individual lot owners would be settled with unmanageably high fees. To ensure future purchasers of subdivided former build-to-rent buildings are properly informed of the risk and expense of their purchase, honest and accurate assessments of operating expenses and expected maintenance over a longer term must be disclosed upfront.

Yours sincerely

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