



Australasia | December 2020

Research

# Build to Rent four values **Same but different**

Investment review and outlook





*“This paper examines the **elements of value** and the role they will play **in the Build to Rent sector.**”*

**Paul Winstanley**

Head of Build to Rent Australia  
and New Zealand



# Welcome

## **Big steps forward for investment in Build to Rent (BTR)**

Momentum is certainly building for Build to Rent in Australia and New Zealand.

The challenges of 2020 have, if anything, fuelled international appetite for the sector across Australasia, largely driven by the resilience of the sector in the more mature global markets and the investment performance of operational assets.

All the signs indicate an exciting future for this emerging asset class in Australia and New Zealand that could be key to helping solve the housing crisis and provide investors with predictable long-term returns in the process.

Government support to help kickstart the sector is essential and the signs are looking more positive.

Ministers in both Australia and New Zealand are increasingly prepared to consider what this emerging asset class could offer.





*“The challenges of 2020 have, if anything, fuelled international appetite for the sector across Australasia, largely driven by the resilience of the sector in the more mature global markets and the investment performance of operational assets.”*

BTR is a positive move away from rental supply being driven by Mum and Dad individual investors - which creates a lottery of good and bad landlords and housing - towards a more professional, consistent and high-quality offer that can also provide greater security of tenure.

The development of BTR is not always straightforward.

They are particularly interested in its potential role in being a major contributor to the economic recovery following the COVID-19 global pandemic.

At a time when global investors are increasing their weighting and exposure to alternative asset classes, Living Sector investments are continuing to form a significant component of their strategy.

This is owed to their diversified income profile, counter-cyclical nature of returns and most importantly, providing a needs-based residential offering on flexible contract terms.

With the COVID-19 crisis impacting the returns of many businesses and commercial real estate returns, residential products remain relevant by providing people with a place to live.

People **always** need somewhere to live.





*“The current rental market isn’t a great experience in either country with the quality bar set so much lower than it should be.”*

Achieving viability even just on paper can present a challenge and requires a sound understanding of the drivers, the product and the service offering.

However, with expert advice, a multi-disciplinary team and a clear vision, there are significant opportunities to profit from.

There are a number of considerations that add complexity that other large-scale property developments don’t necessarily need to contend with.

These include current planning frameworks, residential use classification and rules, comparably high construction costs, GST treatment ambiguity, foreign investor surcharges, Land Tax considerations and current MIT tax treatment in Australia.

However, post-COVID there is likely to be an even greater decline in build to sell apartment construction levels and Governments are suddenly much more willing to consider incentivising BTR to sustain construction activity.

Recent measures announced by both NSW and VIC State Governments will provide measures to encourage both domestic and offshore investment in the sector, and other state governments are expected to follow suit in the near future.

Based on our increasing inquiry from major global investors, developers and operators, there is undoubtedly an unequivocal appetite for investment in BTR across both Australia and New Zealand





*“Governments are suddenly much more willing to consider incentivising BTR to sustain construction activity.”*

The current rental market isn't a great experience in either country with the quality bar set so much lower than it should be.

The opportunity to establish significant platforms of a meaningful scale, providing a high quality, well-designed and purpose-built product with a professional service offering is now presenting for investors seeking growth and expansion into the next logical geographical segment of the global commercial residential market.

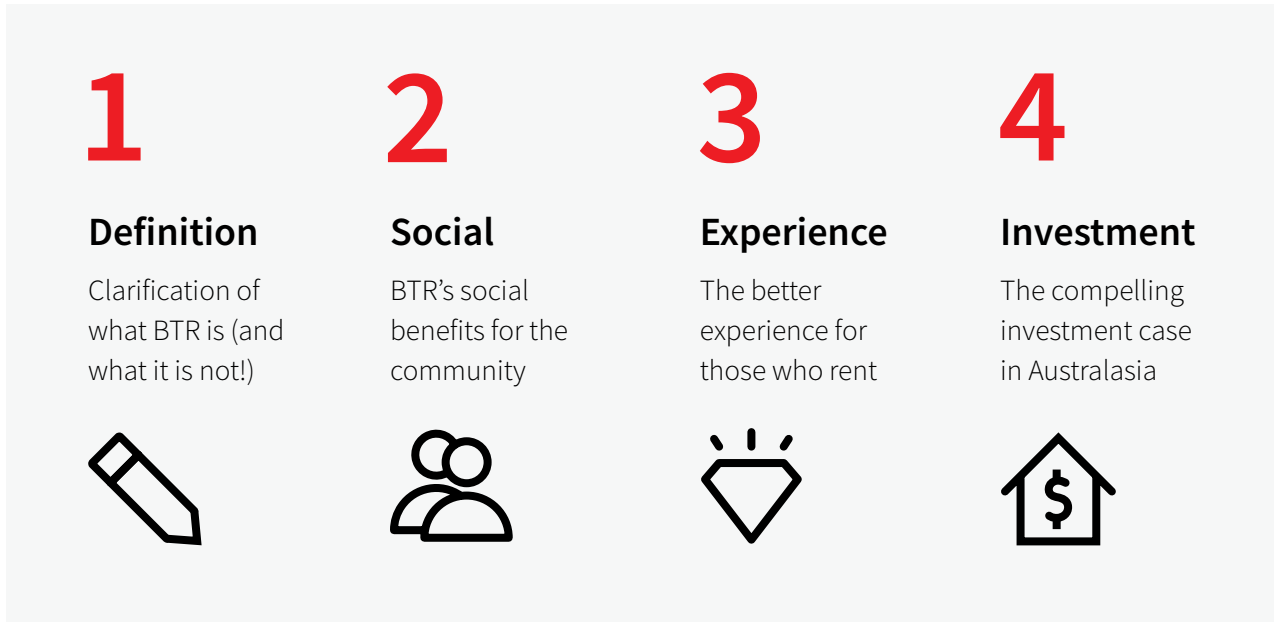
**~24%**

The increase in the number of rented households from 2008-2018 in Australia.





**Figure 1** What industry leaders should be promoting



Education though must surely be the buzzword for BTR over the next 12 to 18 months.

Investors and renters alike need to appreciate and understand what BTR could offer to the market to help transform housing.

We in the industry need to keep promoting four key features of BTR (Figure 1).

Those focused primarily on investment return often overlook its facets of value that are not purely financial.

BTR is valuable because it is practical and predictable, experiential, and societally desirable as well as financially beneficial and resilient in challenging times.

**~34%**

The expected population growth for Australia and New Zealand by 2045.



Each of these elements of ‘value’ are important.

This paper specifically examines these elements of ‘value’ and the role they will intrinsically play in this emerging sector.

We look forward to continuing the discussion as to how BTR can fulfil its huge potential across Australia and New Zealand as a value-rich investment opportunity that is an intelligent choice for both the investor and the rental consumer.

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# Defining Build to Rent (BTR)

## JLL Australia and New Zealand definition

*Purpose-built larger scale residential assets owned by a single entity, professionally managed, focused on quality, durability and a highly satisfactory rental experience.*



BTR sits within the growing suite of institutional investment opportunities in the Living Sector (Figure 2), providing housing solutions for those who rent at all ages.

Globally, the terms BTR and Multifamily housing are often interchangeable.

However, at a local level, using the correct term for the relevant national market is critical.

For example, USA and Japan use the term Multifamily housing or Multi-housing.

But in Australia and New Zealand, the adopted term is BTR.

Industry experience in the UK and Australia ultimately supports using the term 'BTR' rather than 'Multifamily housing' simply because the name is more self-explanatory.

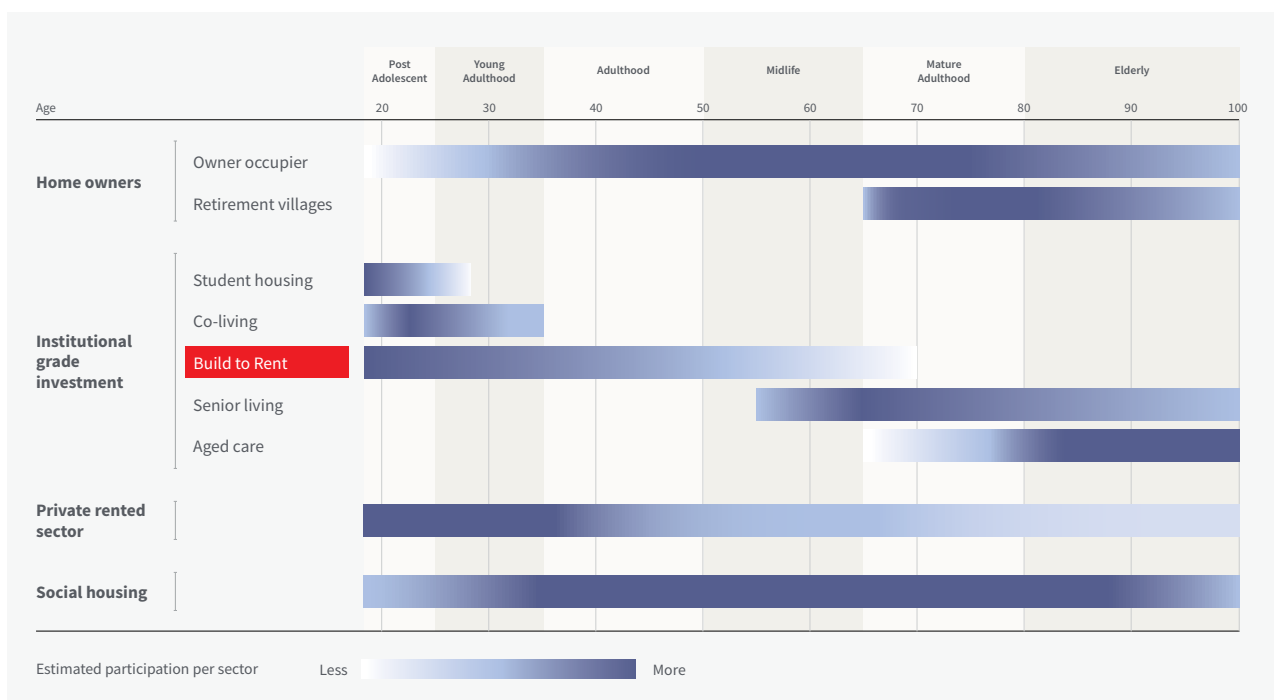
Also, we consider 'Multifamily housing' to be a more mature residential asset class of considerable scale rather than an emerging sector that is likely to be labelled 'BTR'.

Based on international comparisons, the UK's BTR market (although more advanced) is considered most similar to the sector emerging in Australia and New Zealand.

Therefore, in terms of more clearly defining what comprises a BTR product, the Royal Institution of Chartered Surveyors' (RICS) definition of BTR in the UK is a useful benchmark.



**Figure 2** Living sector stages of life



Source: JLL



**Figure 3** The RICS' five likely characteristics of BTR



Source: RICS

Given products are developed, invested, and managed differently to other residential stock, BTR necessitates its own bespoke valuation methodology to reflect the aims, objectives and investment strategies of active investors.

This methodology reflects a clear link between the rental offer (and pricing) and the delivery of a customer experience.

As a result, an active asset and property management structure as well as an overall vision of what the landlord is seeking to offer are the first, rather than the last, considerations.



## JLL's vision for Institutional Grade BTR in Australia and New Zealand

Although there is certainly a need in both Australia and New Zealand for an improved standard of rental product and resident experience, JLL believes that discussions surrounding BTR need to focus on the institutional sector in order to achieve scale.

Our 'vision' for the initial phase of Institutional grade BTR in Australia and New Zealand would typically be at a scale of 150 to 450 units (depending on location and typologies of apartments or houses).

Schemes are expected to have onsite management, substantial commitment to customer service and the inclusion of proportional amenities for residents.

Larger schemes may work if they can be strategically delivered in phases; likewise, smaller schemes in high-value locations are also a possibility.

We see schemes adopting BTR principles that are less than 100 units as a step in the right direction societally.

However they are unlikely to attract substantial large-scale institutional interest in the next few years.

There will of course be exceptions.

However, we feel a clear vision of what larger scale investors are looking for is crucial to ensure the BTR sector fulfills its potential.

# 150-450

The number of units expected for the initial phase of Institutional grade BTR in Australia and New Zealand

# What does a mature market look like?



## BTR on a global scale

Although as an emerging sector BTR has not fulfilled its potential so far on the global stage, there are a growing number of maturing markets that are useful to observe to as an indication of what is possible for Australia and New Zealand.

The most obvious markets to consider are the USA (being a very mature market) and the UK (having been a strong growth market over the last decade).

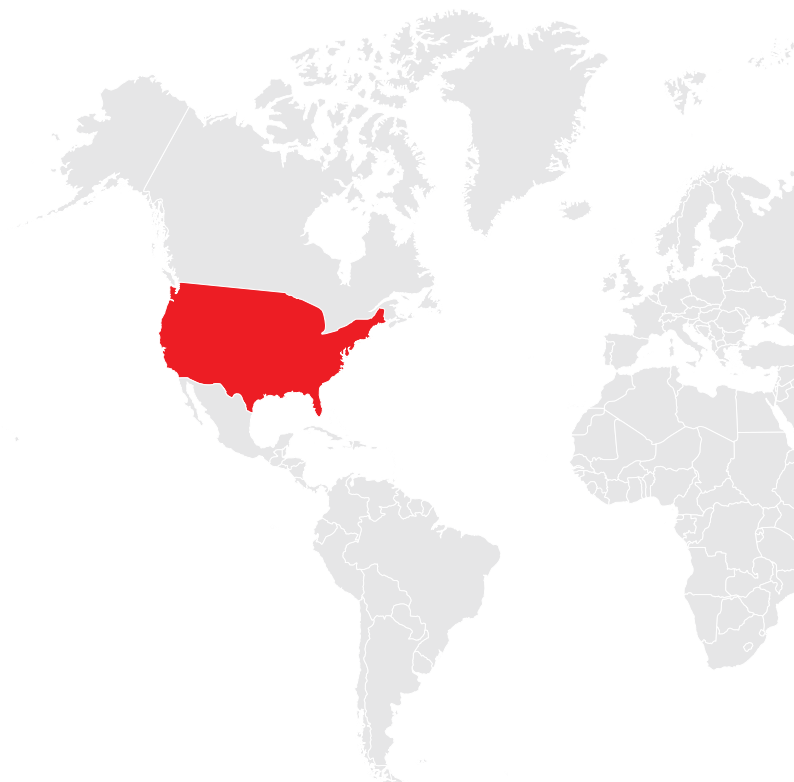
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## USA

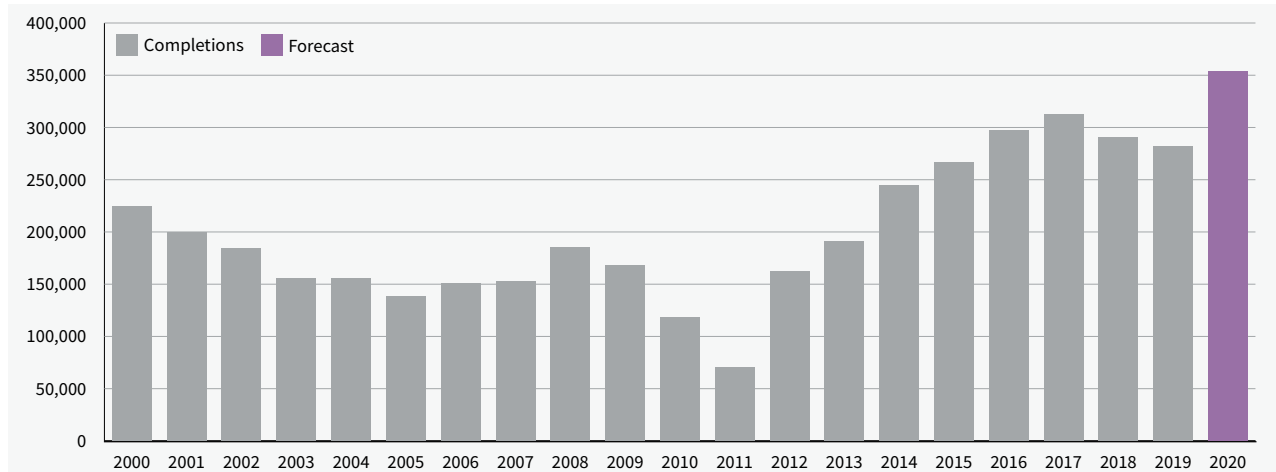
Over the last 30 years the US Multifamily Housing asset class has undoubtedly established itself as a key investment sector for many high-profile institutional investors.

Alongside more traditional commercial property assets in the office, retail and industrial sectors, US Multifamily housing has become a key staple for many financial institutions' real estate holdings.

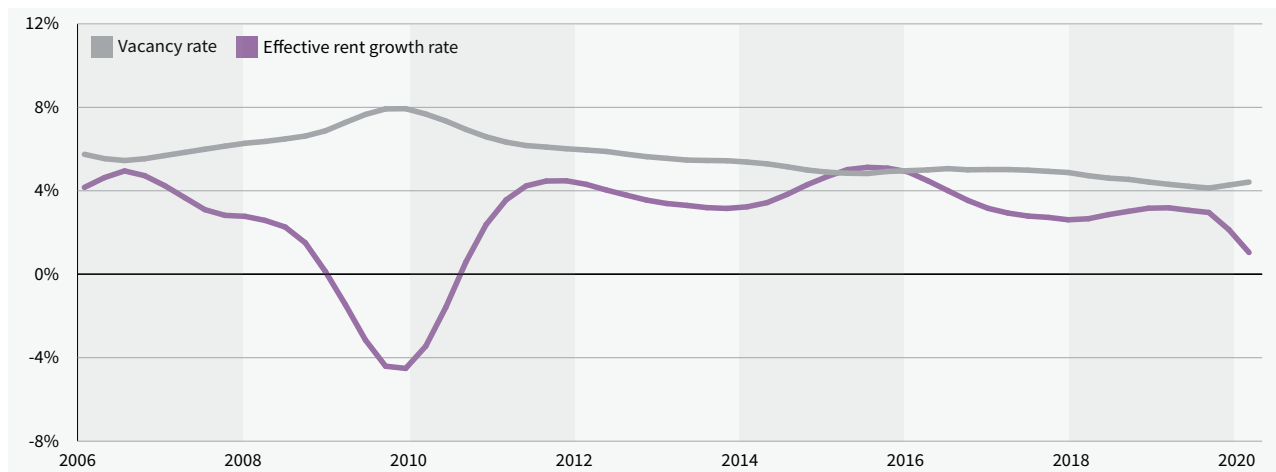
Multifamily housing has driven construction of hundreds of thousands of new homes in the last 20 years (Figure 4), shown consistently low vacancy rates and wage-growth linked incomes (Figure 5) and investment value growth through reducing capitalisation rates over time and growing investment volumes (Figure 6).



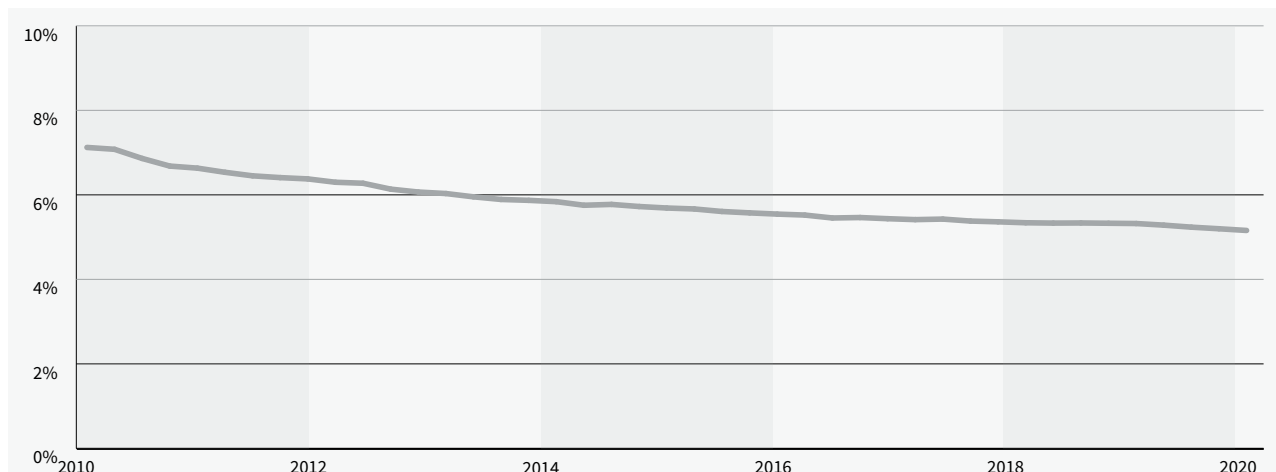


**Figure 4** US multi-housing unit completions

Source: JLL Research, Axiometrics

**Figure 5** Annualised US multi-housing vacancy and effective rent growth rates

Source: JLL Research, Axiometrics

**Figure 6** Annualised US multi-housing cap rates, single asset

Source: JLL Research, Real Capital Analytics (transactions US\$5.0+ Million)

## UK

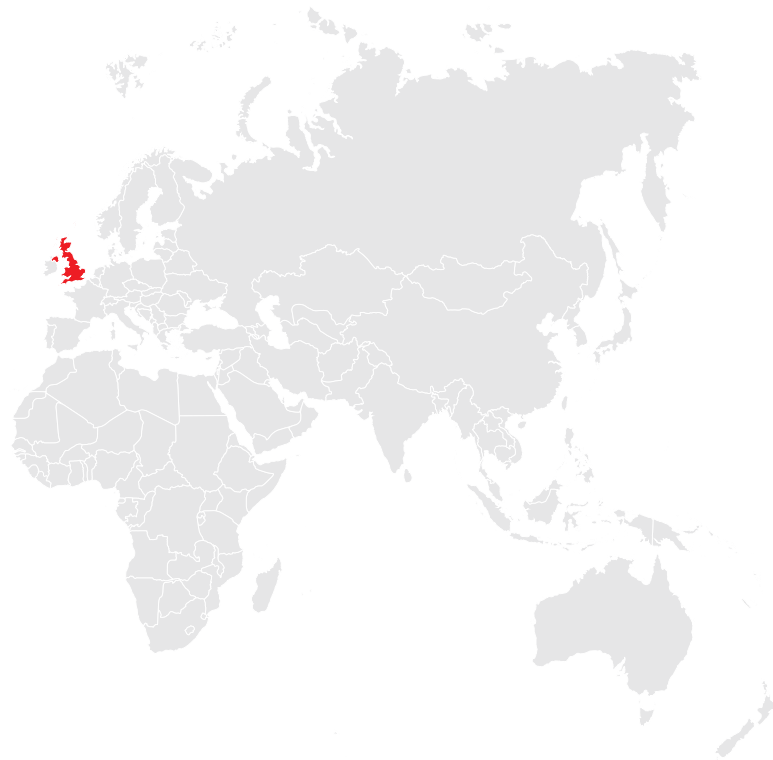
After a slow start, over the last decade BTR has firmly established itself in the UK as a sought-after investment sector for large-scale and institutional investors.

Supported through government policy in the early 2010s, the sector now provides high-quality rental accommodation for tens of thousands of customers across the UK.

Although London was the initial focus, BTR has increasingly become a nationwide asset class with completions and starts at scale in both the regions and in Greater London.

The growth of BTR in the UK is best illustrated through information from the British Property Federation on completions, dwellings under construction, and developments in the various stages of the planning process (Figure 7).

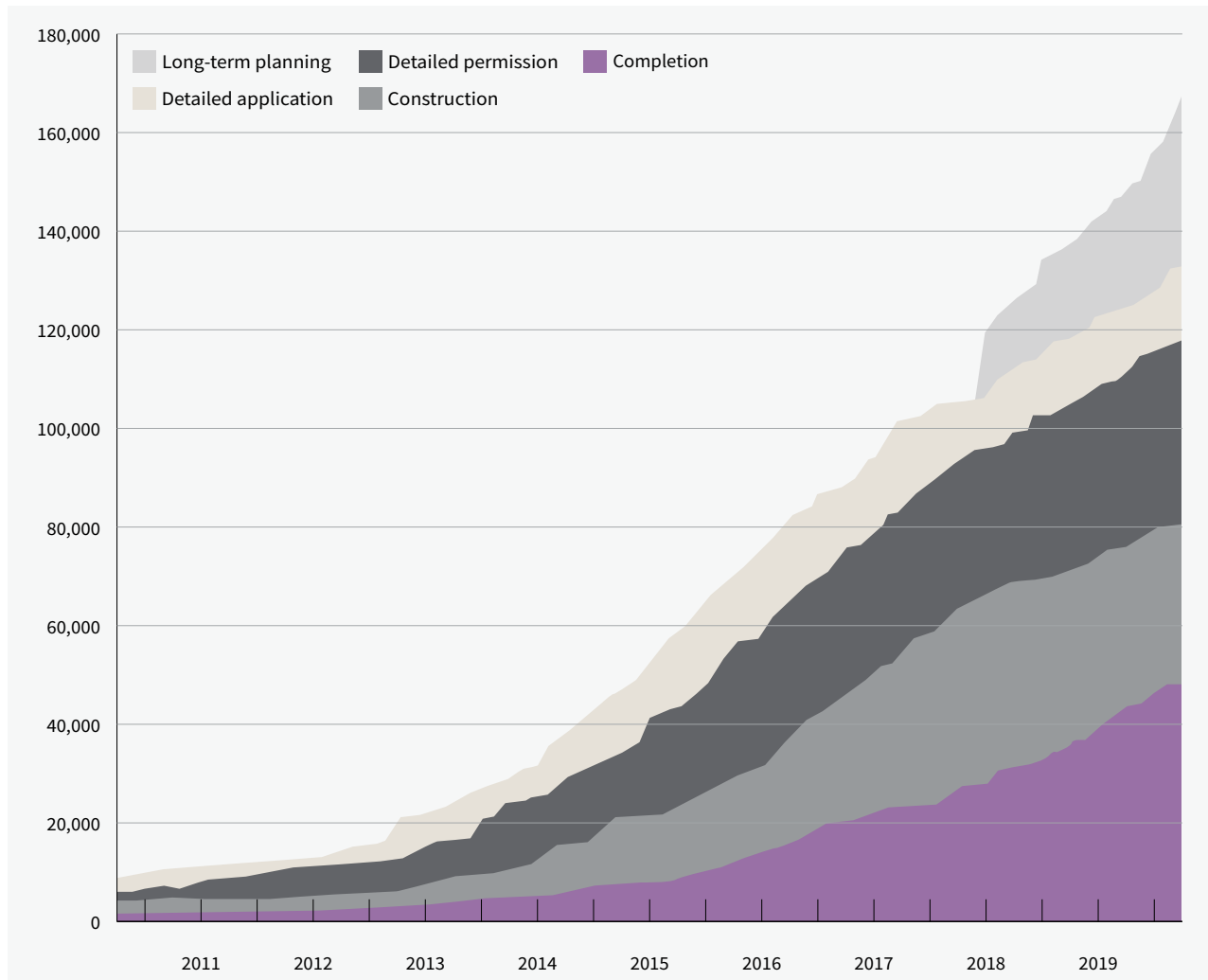
For more locational analysis, the BPF has also provided a summary of quarterly starts and completions in London and the regions over the last four years (Figure 8).



# 2012

A key year for BTR in the UK due to the Montague independent review of the private rented housing sector.



**Figure 7** BTR UK pipeline over time

Source: British Property Federation

**Figure 8** BTR quarterly starts and completions

	2017			2018				2019				2020	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<b>London</b>													
Starts	2,277	2,764	1,556	2,101	1,327	885	1,000	912	418	1,881	524	2,026	805
Completions	926	515	502	470	629	1,492	2,137	251	675	1,066	1,220	1,182	1,207
<b>Regions</b>													
Starts	1,059	1,496	2,904	3,856	2,018	1,706	2,332	1,184	306	1,516	1,157	2,271	1,022
Completions	1,131	2,257	918	358	806	1,204	1,111	1,212	1,773	3,175	2,378	2,235	433
<b>Total</b>													
Starts	3,336	4,260	4,460	5,957	3,345	2,591	3,332	2,096	724	3,397	1,681	4,297	1,827
Completions	2,057	2,772	1,420	828	1,435	2,696	3,248	1,463	2,448	4,241	3,598	3,417	1,640

Source: British Property Federation



## Current state of play; Australia and New Zealand

Closer to home, BTR has undoubtedly been making headway as an asset class in Australia and New Zealand.

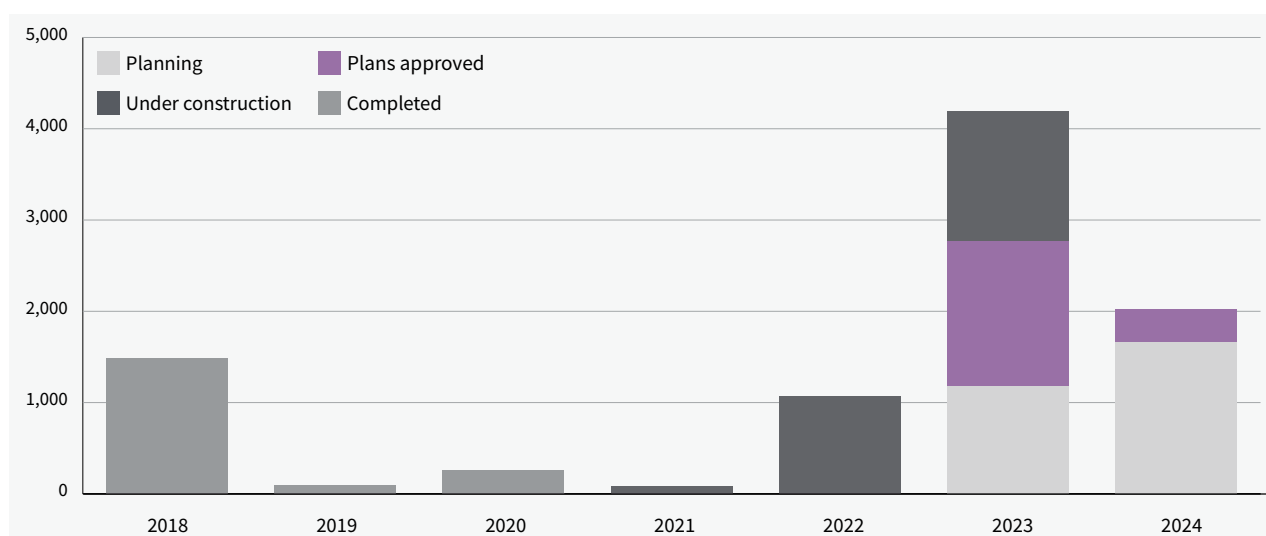
Developers and investors are becoming increasingly interested in providing schemes to the market; especially so in light of lessons learnt during the global pandemic of 2020 regarding the comparative resilience of the residential asset class to economic shocks.

We estimate there are 1,840 units currently in operation and 7,360 in the pipeline across a variety of BTR projects of varying scales and level of service and amenity.

We are focusing on the institutional product, which is purpose-built and designed to deliver a satisfactory service level commensurate with the more mature global market.

We consider that in Australia, this will generally include well-designed assets of 150+ apartments.

**Figure 9** Australian institutional BTR pipeline

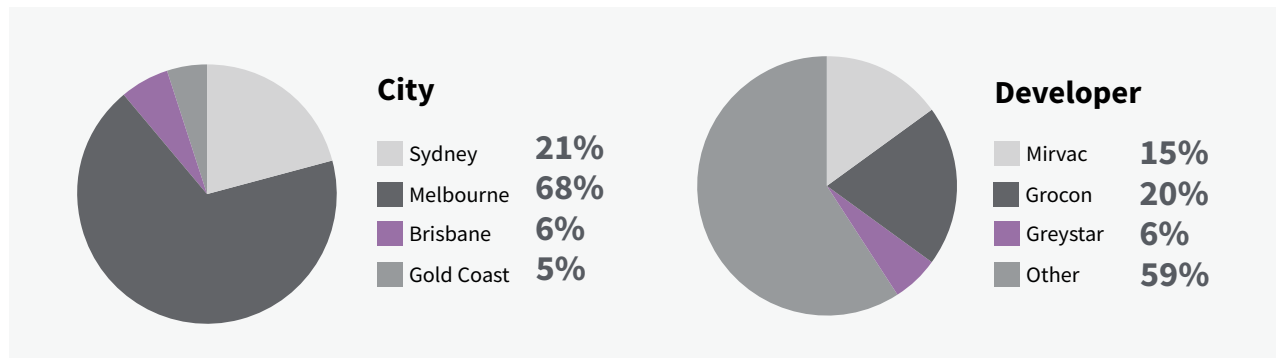


Source: JLL



Figure 11 shows the growing level of commitment to the BTR market across Australia. Additional schemes are expected to be announced regularly in the coming months.

**Figure 10** Australian institutional BTR pipeline breakdown



Source: JLL

**Figure 11** Major Australian BTR projects announced in 2020

Announced	Developer	Project	Address	State	Operator	Apartments	Status
4Q20	Frasers	Fortitude Valley <sup>1</sup>	210 Brunswick Street Fortitude Valley	QLD	Frasers	354	Planning
4Q20	Mirvac	Liv Newstead <sup>2</sup>	60 Skyring Terrace Newstead	QLD	Liv by Mirvac	390	Planning
3Q20	Suleman Group	Union Quarter <sup>3</sup>	31-69 McLister Street Spotswood	VIC	-	300	Construction
3Q20	Mirvac & Milieu	Albert Fields	395-403 Albert Street Brunswick	VIC	Liv by Mirvac	527	Planning
3Q20	Homecorp	Capital Court <sup>4</sup>	2-6 Capital Court Varsity Lakes	QLD	-	443	Planning
2Q20	Grocon / Home	Docklands	685 La Trobe Street Docklands	VIC	Home / Grocon	600+	Planning
1Q20	Mirvac	Flinders West	7-23 Spencer Street Melbourne	VIC	Liv by Mirvac	430	Design

Source: JLL

<sup>1</sup> 40% affordable housing offered at 25% discount to market

<sup>2</sup> 25% affordable housing offered at 25% discount to market

<sup>3</sup> Private family investment.

<sup>4</sup> Permit approved for 386 apartments, BTR plans submitted to add additional 57

In New Zealand, the size of the BTR industry is much harder to quantify publicly.

We are aware of a growing number of larger scale schemes with a combined unit count in excess of 1,750 apartments in Auckland alone.

These potential developments are at various stages of design working towards entering the planning process in the next few months.

There are a quantum of smaller scale schemes that, although not meeting the RICS definition of BTR, are to provide purpose-built rental accommodation that New Zealand will benefit from.

# Amenity and design

The design of BTR is critical in creating product differentiation in the market and providing the customer with an experience superior to that which is currently offered in the private rental market.

It is important to understand that BTR design must aspire to be best in class from the perspective of its target segment as, unlike build to sell apartments, the goal is to attract customers and retain high levels of occupancy over the long term.

It is difficult to hide from design flaws or sub-standard product and investment performance will be inevitably negatively impacted.

Properties that fail to provide desirable living spaces or the promised experience through effective management at the targeted price point will struggle to attract and retain customers and will underperform in what will become a mature and competitive market.

A common goal is achieved in the creation of new real estate: purpose-designed facilities that are built to stand the test of time and continue to be perceived as desirable places to live well into the future.

The early leaders in the Australian sector have set a high bar in terms of design.

Many of these projects include expansive common area amenity such as rooftop terraces, gyms, resident lounges, common dining areas and working spaces.

These common areas add value to the customer experience and separate the new wave of build to rent from much of the existing rental product previously available in the market.

Some of the leading projects in Australia are shown below, demonstrating best in class design and the sophistication of the sector.

## Grocon

**Home Parramatta** Sydney



**Home Southbank** Melbourne



Source: Courtesy of the developer

## Greystar

### Claremont Tower, South Yarra Melbourne



Source: Courtesy of the developer

## Blackstone

### Caulfield Village Melbourne



Source: Courtesy of the owner



## Mirvac

**LIV Indigo** Sydney



**LIV Munro** Melbourne



**LIV Aston** Melbourne



## Sentinel

### Element 27 Subiaco WA



### Roden Street West Melbourne



Source: Element 27 (Dion Robeson courtesy of Sentinel) and Roden Street (Rothelowman courtesy of Sentinel)

## Frasers Property

### Fortitude Valley Brisbane



Source: Courtesy of the developer









Value 1

# Practical

BTR has practical value for a wide range of stakeholders.

If it is done efficiently, effectively and viably for the longer-term, professionally managed housing provides one feasible answer to help ensure people are housed in quality and long-lasting accommodation.

Housing is a fundamental need for each and every member of the population.

It is well publicised in both Australia and New Zealand that there is a long-term and arguably chronic shortage of housing, particularly so in an age of comparatively rapid urbanisation and population expansion.



# Demographic analysis



## We need more housing

In global terms, Australia and New Zealand have experienced elevated levels of population growth in recent years – Australia over the last 15 years and New Zealand in the last six years in particular (Figure 12).

At a city level, Brisbane and Perth have grown at the fastest rates over the last 20 years followed by Melbourne and Auckland (Figure 13).

Significant growth has been seen in Sydney and Adelaide but at a slower pace due to local economic and practical constraints.

Key factors creating population growth include a higher number of births than deaths, a policy of positive skills-based immigration, and the increasing attractiveness of Australia and New Zealand as places to live and work (Figure 14).

Such an elevated net migration naturally puts pressure on the rental market over the housing market, particularly in areas where economic prospects for new residents are greatest.

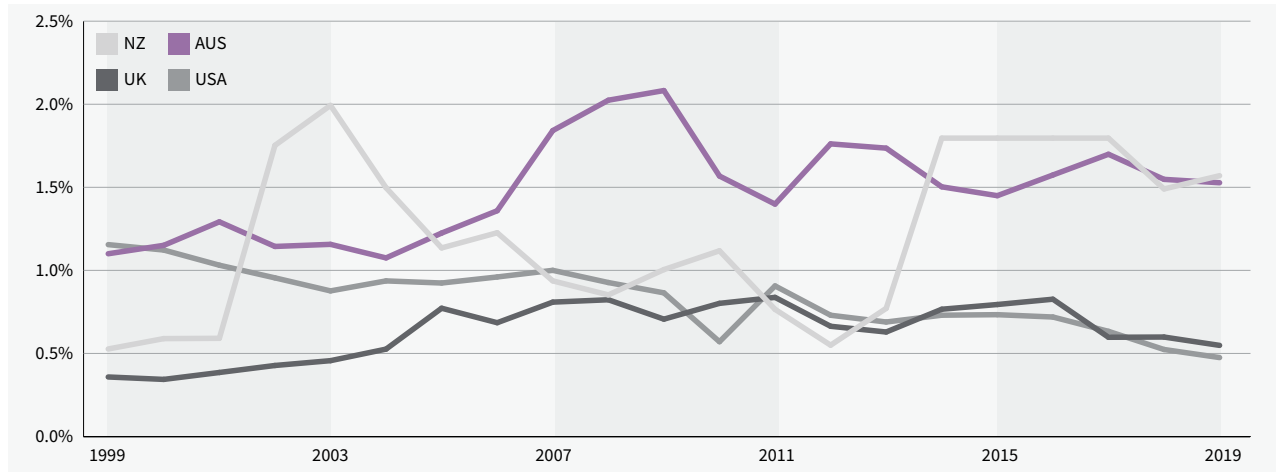
In the short term there will be a significant impact on population growth as a result of international borders being closed and immigration being slowed for the immediate future.

However, it is quite likely that the strong handling of the health crisis and a low density, quality lifestyle will make Australian and New Zealand even more attractive locations for migration.

As such, elevated unemployment may initially somewhat temper the recovery, but it is feasible both countries could eventually revert to and even higher level of migration than pre-crisis.

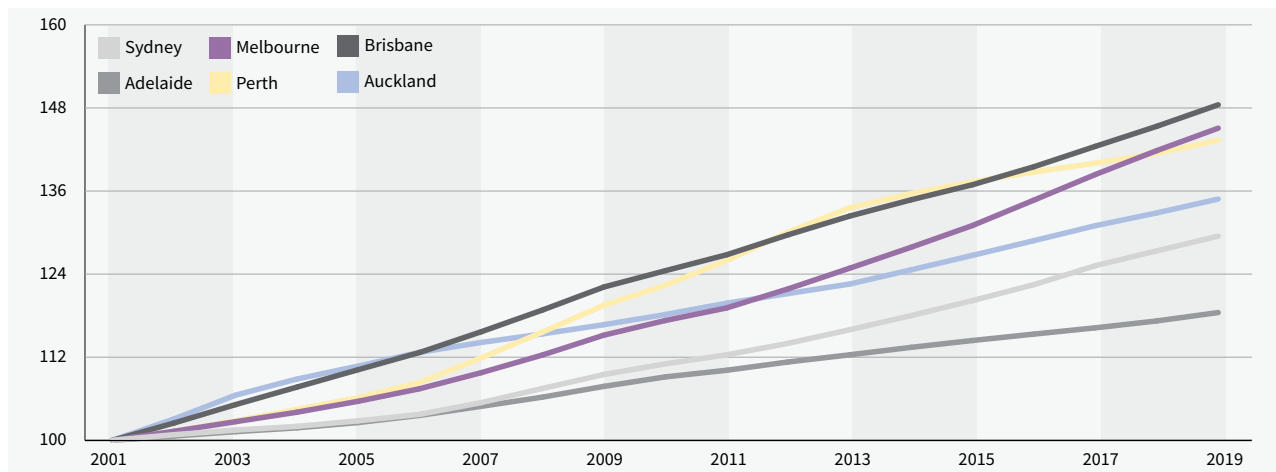


**Figure 12** Population growth per annum



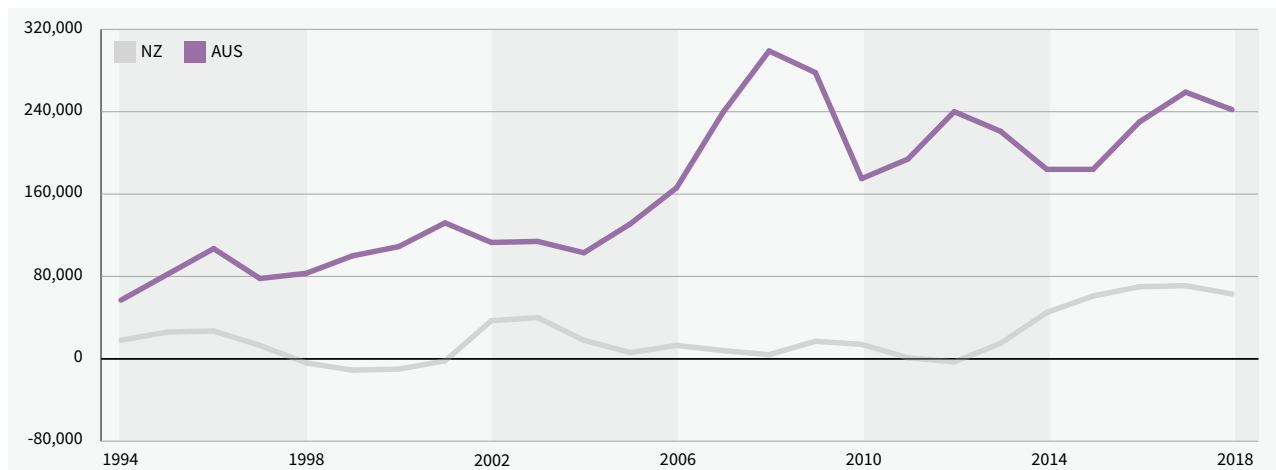
Source: ABS, Stats NZ, Office for national statistics, U.S. census bureau

**Figure 13** Population growth in greater capital cities



Source: ABS and Stats NZ

**Figure 14** Net overseas migration



Source: ABS and Stats NZ





## The rental sector is growing

Although the proportion of renters may fall a little post-COVID because of unprecedented low mortgage rates and government incentives to first homebuyers in Australia, over the medium-term a growing proportion of renters is likely to be re-established as incentives disappear.



# 40%

The approx percentage of households in the Auckland region who rented in 2018.

Within this context, there is substantial political rhetoric about why home ownership levels are dropping over the longer term.

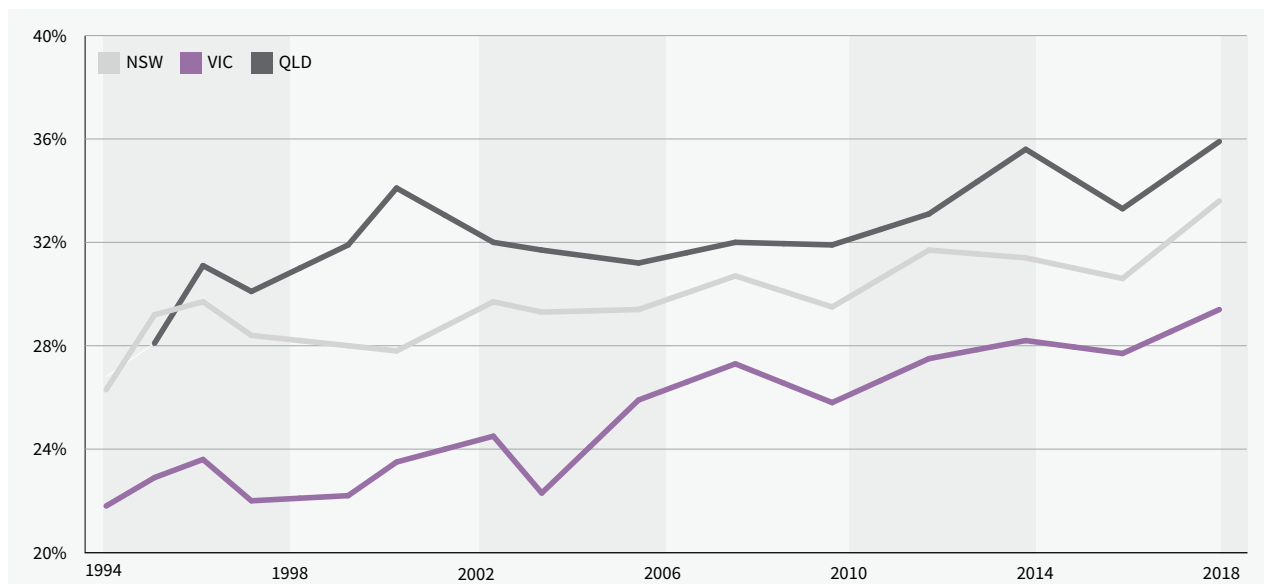
Whether this is due to affordability constraints, changing generational expectations, a need for flexibility, people starting families later in life, or a combination of factors, housing tenure statistics clearly demonstrate that the rental population is growing; and significantly. Servicing this growth is important.

An increase in single person households is also adding to rental demand and this group generally require smaller dwellings than couples or families.

This is especially true for those who become single later in life as they often don't wish to share a property with others.

This growing market is not typically catered for by traditional Australian and New Zealand housing because family houses and larger apartments don't suit them.

**Figure 15** Percentage of renters in key Australian areas



Source: ABS



## Not enough resources are going into higher density housing

A very practical way of overcoming the housing shortage is to focus on high-density housing because more homes can be built quickly on smaller areas of land.

In Australia, high-density apartment blocks have fueled much of the new residential supply in recent years across all of its major cities with a similar growth in apartment numbers seen in Auckland's CBD over the last 20 years.

Much of this high-density housing has been driven by developers constructing schemes funded through off-the-plan sales.

However, with increasing restrictions on overseas buyers and tighter credit constraints on domestic investors in recent years in both Australia and New Zealand, demand for off-the-plan purchases has dropped.

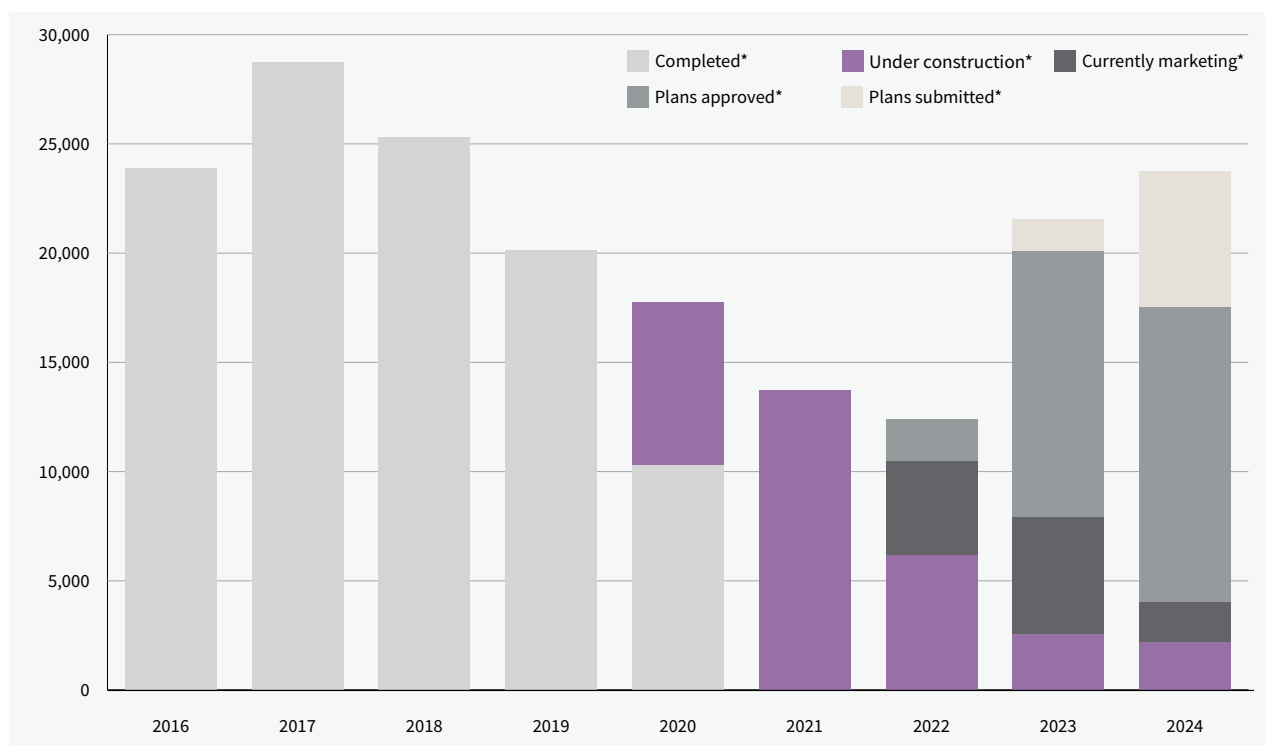
COVID-19 has only added to the risk aversion of lenders and the economic and price uncertainty it has created has made it difficult for investors to commit to dwellings that may be two or three years from completion.

As such, the apartment pipelines in both countries are now under even greater pressure and likely to remain so for at least several years.

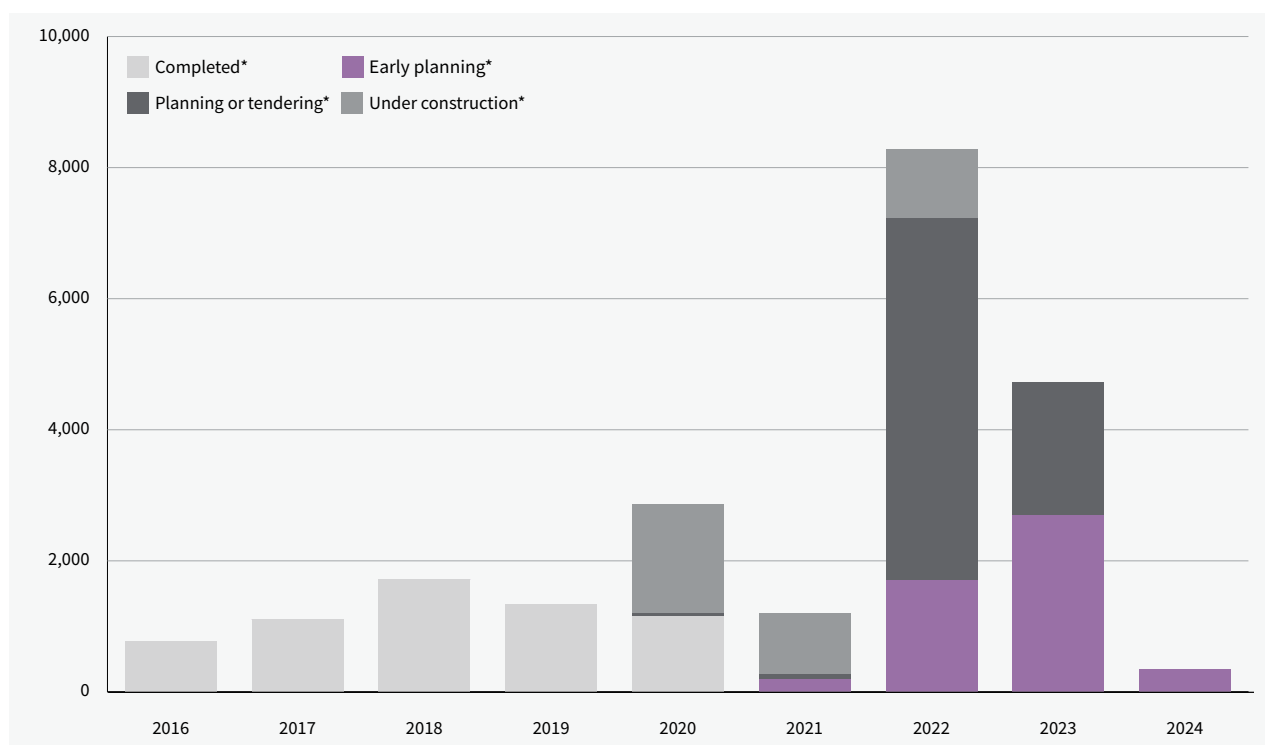
# 58%

The percentage of consents in Auckland approved for multi-unit developments in 2020 (through to 3Q20).



**Figure 16** Australia apartment pipeline

Source: JLL \*Based on projects over 50 units and the Inner City Apartment Supply for Major Capital Cities

**Figure 17** Auckland apartment pipeline

Source: JLL, Paficon \*Based on projects over 50 units and the Inner City Apartment Supply for Major Capital Cities



# 65%

The percentage of pipeline developments not under construction in Australia and Auckland combined.



In addition to the quantum of new apartments falling, there has also been an important shift in the composition of apartments in the pipeline.

The only real demand in the market at present is from owner occupiers, particularly downsizers, so developers are targeting this group with more boutique high quality apartment developments.

This will mean, there will be particularly little new rental stock that enters the market beyond 2020 and some projects from the last construction cycle still finishing off.

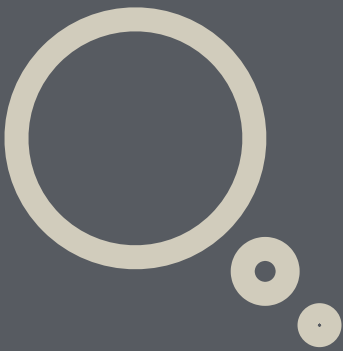
As such, filling this 'supply gap' and the provision of additional new housing appropriate for renters is arguably the most important value that BTR offers to society.

Australia and New Zealand would benefit from this additional source of housing supply in the next few years; especially important as we enter a crucial period of economic recovery.

Although this might not be as important to investors as financial return, investors can take solace in the fact that their financial investment is creating needed 'social capital' and meeting a basic human need at a time of global instability and confusion.







Value 2

# Experiential

If done well, BTR has the potential to provide renters with a level of happiness and contentment that is elusive for many in the current private rented sector.

How people feel about the property they live in is important to renters but is all too often overlooked by landlords.

As a purpose-built rental option, BTR investors focus more on renter needs and wants than those providing housing for rent as a cottage industry investment.

This means BTR can provide renters:

1. Better value for money experience
2. Greater security in the longer term
3. A feeling closer to home ownership





# The current renter experience

According to *The Renters Journey* by Dr Steven Curry (2019), many Australian renters are affected by:

- A lack of properties that suit their needs
- A lack of supply responsiveness in the market
- A lack of transparent information and knowledge of consumer rights
- Power imbalance between landlords, agents, and tenants
- High moving costs

These and other factors such as a lack of consistency between landlords, no universal standards, 'no cause' evictions of tenants when an owner chooses to sell a property or move in their discretion and poor maintenance and repair regimes all add to the underlying belief that renting is inferior to home ownership.

In New Zealand, the same issues are at play with research from Stats NZ showing that only a third of renters consider their house to be very suitable compared to half of homeowners.

Those in the rental sector also report poorer quality homes in terms of damp, mould, and worse heating provision than in owned residential properties (Figure 18).

## 33%

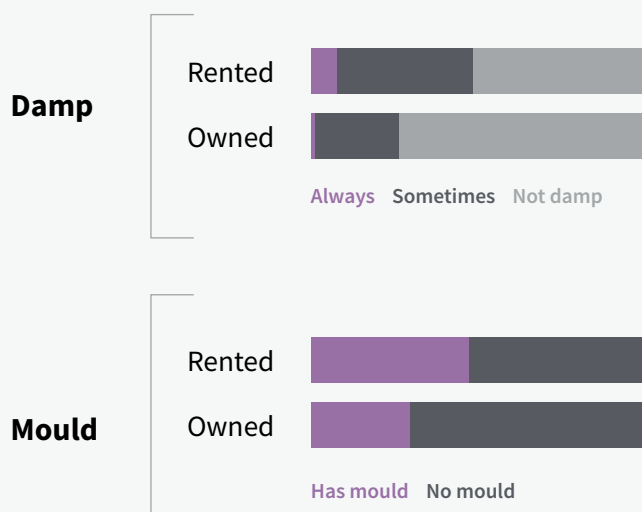
The percentage of renters who consider their house to be very suitable compared to half of homeowners, according to Stats NZ.



**Figure 18** The New Zealand rental experience

## Feeling the chill

Households in rented accommodation are more likely to live with damp, cold and mould than those living in their own home.

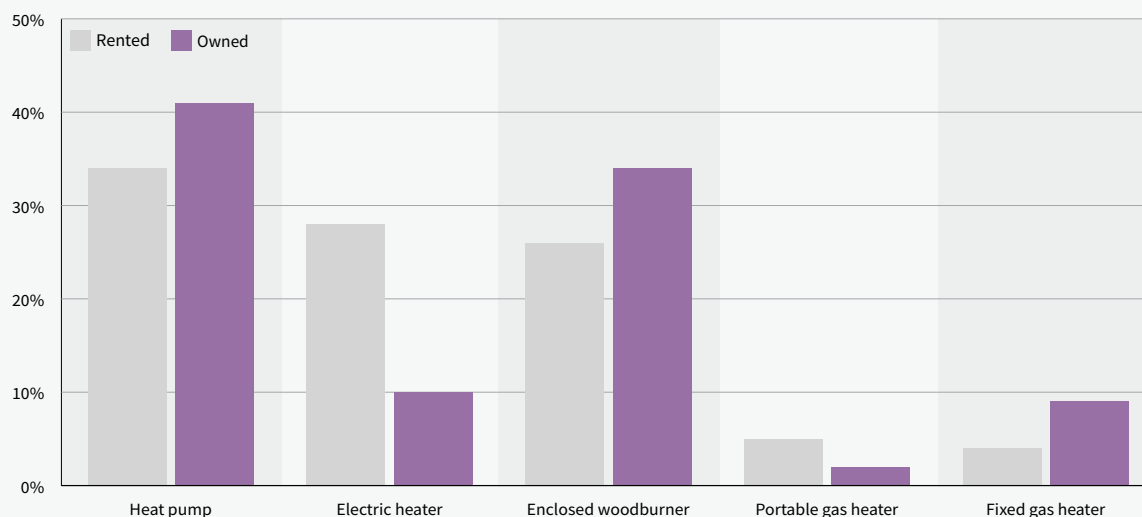


# 32%

The percentage of renters who can see their breath inside their home during winter.

## Heating our homes

Electric heaters and portable gas heaters are more common for renters while woodburners are more common for owners.







# BTR - a better way?



BTR investors and operators are purposefully setting out to tackle these integral problems of poor value for money, a lack of tenure certainty, and overall dissatisfaction with their rental experience in Australia and New Zealand based on precedent from experiences overseas.

The BTR: ULI Best Practice Guide in 2016, put together by a wide collection of the UK's key property industry multi-disciplinary stakeholders to promote BTR identified current rental customers' key priorities (Figure 19).

This is a great starting point and benchmarking tool for Australia and New Zealand to consider what the resident experience should be for those who live in rental accommodation.

The overall philosophy when considering occupiers for BTR products is to rebrand 'tenants' to 'customers' or 'residents'.

This simple non-adversarial and more positive concept immediately rebalances the mindset of the relationship.

The operator or investor wants to provide their rental product for as long as possible and the occupier wants a nice place to live with the knowledge they can stay for as long as they wish.

Overall, housing is an emotive issue but BTR has the ability to provide the renter with a much more positive and predictable experience which should equate to more success in the marketplace.

Experiential value should eventually equate to financial return.

Happy and content residents are better customers for their rental product and better retention clearly has a monetary value for investors.

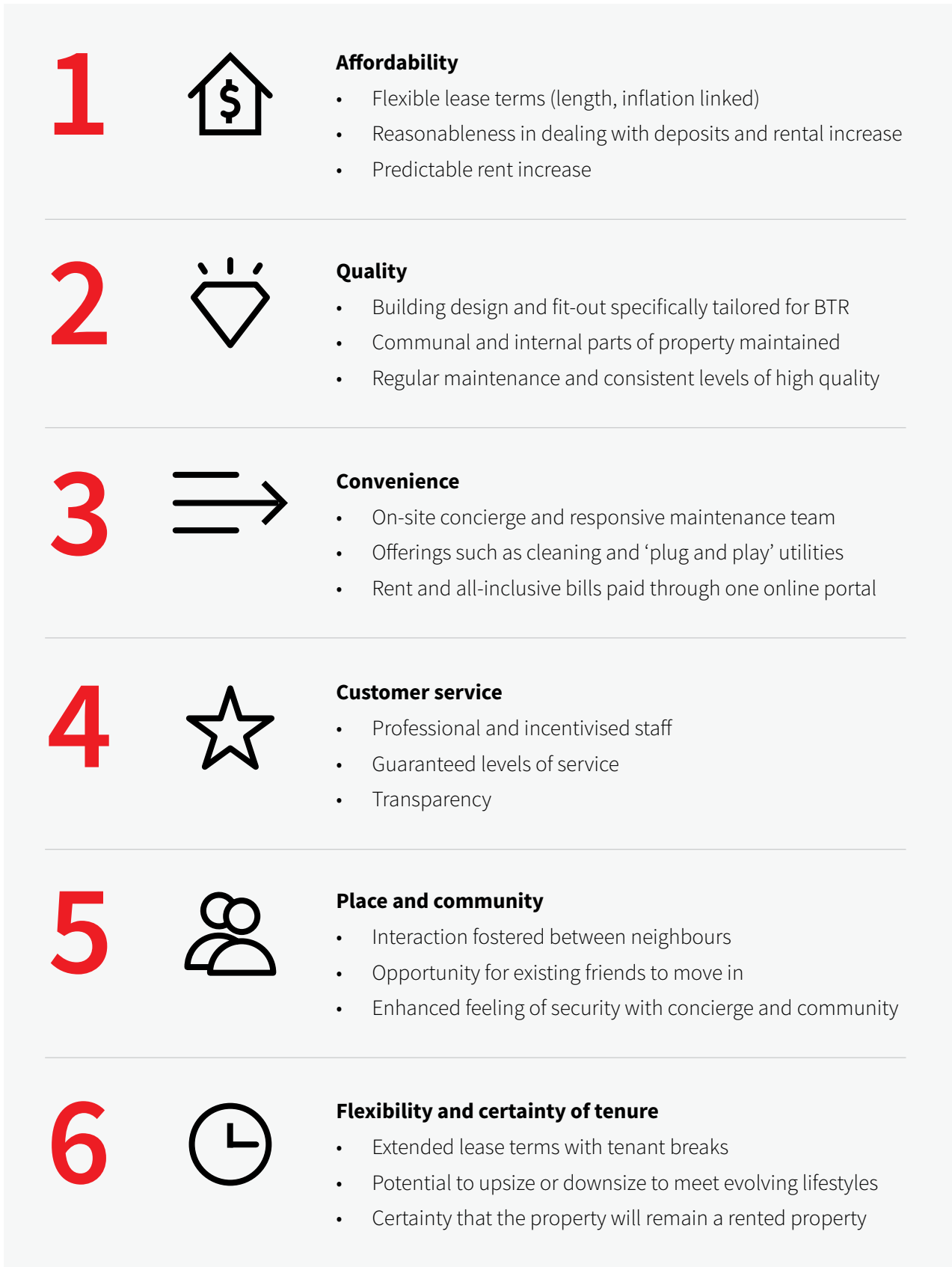
*"Emotion drives so much in residential property, how we feel about our home is as important as how much we pay for it."*

**The ULI BTR Guide**

If BTR schemes can provide nice and well managed environments that are superior in experience to other rental options, they will be able to secure long term and sustainable rental income streams that provide predictable returns to investors even through challenging economic periods.



**Figure 19** Customer priorities









Value 3

# Financial

Financial value and comparison with the potential risk adjusted returns of other investment opportunities, or 'opportunity costs', is a key component of any property opportunity.

BTR is no different.

Without a compelling and viable financial model, property developments do not get built regardless of the quality of the location.

And for start-up sectors in Australia and New Zealand such as institutional grade large-scale residential assets, the benchmark expectations are even higher than traditional commercial property.





# Key investment drivers

There are eight key investment drivers from a purely financial perspective that are attracting institutional investment and interest in BTR in both Australia and New Zealand. Each of these are equally important to the overall investment case.



## 1

### **Continued appetite for real estate**

Globally, real estate remains a popular investment class from individual investors up to large-scale institutions.

It is perceived as a safe bet (with a residual value many paper assets don't have) and essential for a diversified portfolio.

And as investment funds continue to grow, real estate allocations are increasing too aggregate terms.

But the proportion going into real estate globally is also growing, with extremely low (and even negative) bond yields pushing more investment 'up the risk curve' to higher yielding assets.



## 2

### **Growth in alternative property investments**

With more exposure to real estate, and substantial un-deployed capital, investors are seeking complimentary real estate assets to traditional opportunities of scale office, industrial or retail investment.

This trend is being accentuated at present by structural trends currently making retail property challenging (traditionally a large stable part of major investors' portfolios), and by cyclical pressures post-COVID in office markets.

The Living Sector more broadly, and BTR specifically, has become an obvious avenue of interest.



***“In-depth knowledge and understanding of the underlying demographics and target customer base at a micro market level are fundamental to the success of any BTR scheme.”***

**Krista Hibert**  
Alternative Investments



# 3

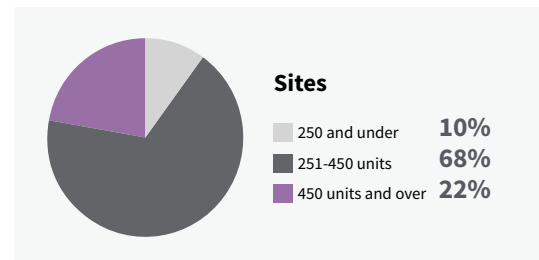
## Portfolio diversification

Core real estate sectors tend to be highly cyclical, with returns that are highly correlated.

However, BTR provides an opportunity for investors to benefit from lower cyclical, or even a slight counter-cyclical nature.

For large investors, this can potentially reduce overall portfolio volatility and enhancing risk-adjusted returns.

**Figure 20** Distribution of institutional BTR scheme sizes



Source: JLL



# 4

## An opportunity for scale

A challenge for institutional investors is finding scale-able opportunities due to their requirements to deploy significant capital through investments.

BTR offers the ability for large-scale investment, both in terms of individual asset size and potential overall market size.

In addition, BTR offers the opportunity to maximise operational efficiencies due to building scale.

In Australia, 90% of the institutional-grade BTR developments planned comprise over 250 units (Figure 20).



# 5

## An income hedged against inflation

BTR can offer steady and predictable cashflows over the medium to long-term.

Given that rental income profiles tend to be closely correlated with the higher of wage growth or inflation, income returns are less cyclical than commercial real estate where performance is more linked to wider economy performance.

With residential, there is also less risk to factor into incentive level risks, vacancy (given a wide potential occupier pool and granular asset reducing concentration risk), and obsolescence.

Residential rents in Australia and New Zealand have exceeded inflation over the long-term, which cannot be said of commercial rents after accounting for incentives.

***“BTR assets offer a markedly more defensive risk and return profile to traditional core property investment sectors.***

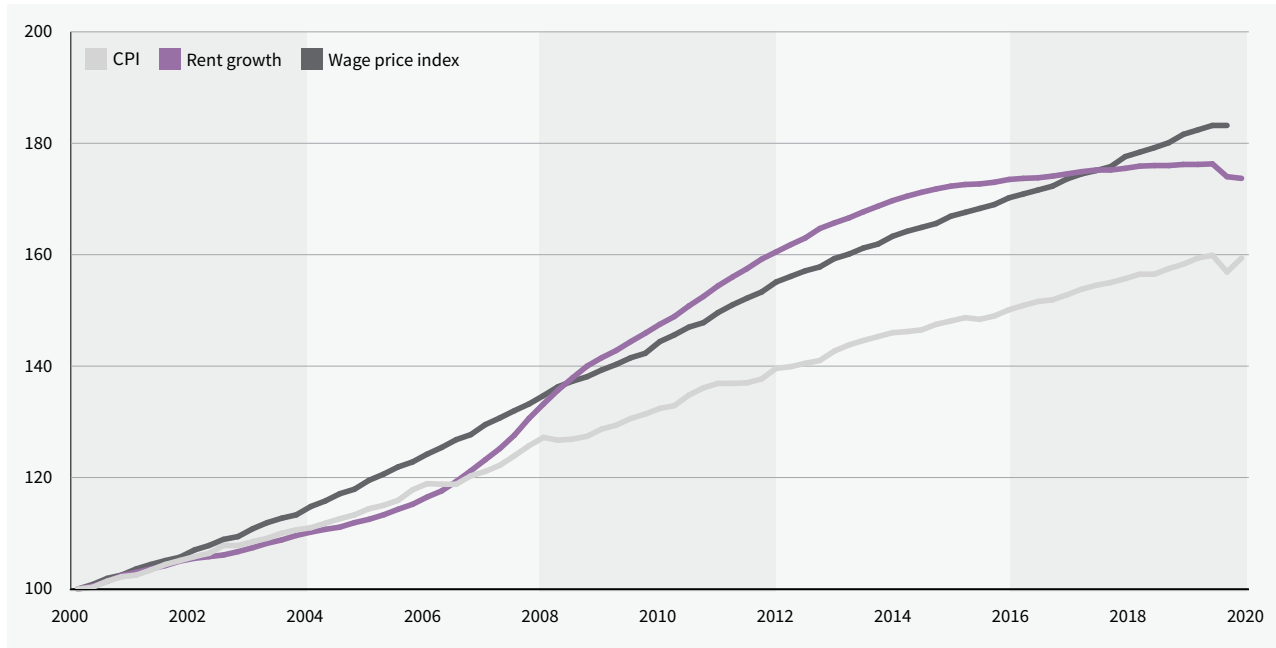
*As a needs based investment opportunity, BTR’s key characteristics of **sustainable incomes and lower obsolescence** are a natural fit for **long term fund investors.**”*

**Holly Rees**  
Alternative Investments



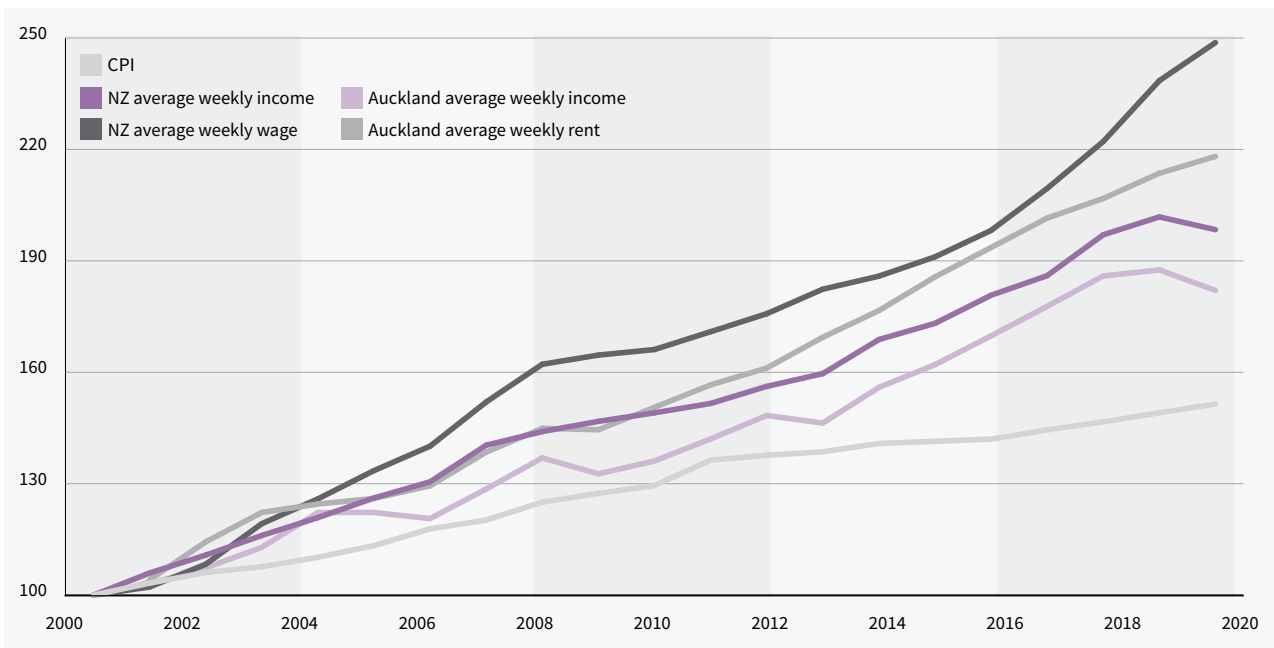


**Figure 21** Australia rent vs. wage analysis

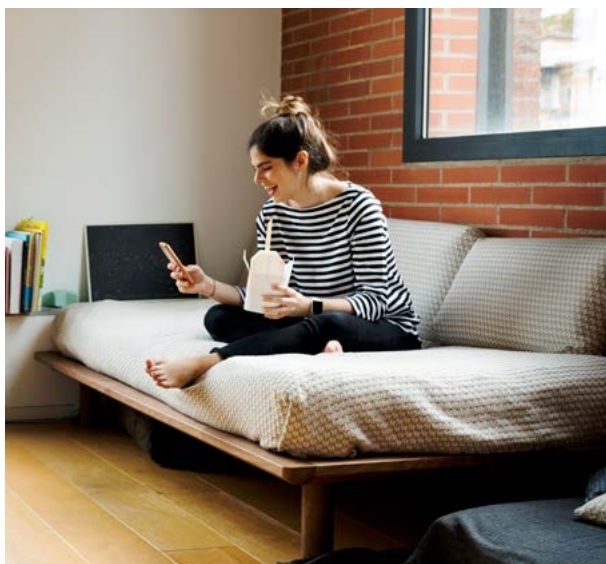


Source: ABS, JLL Research

**Figure 22** New Zealand rent vs. wage analysis



Source: RBNZ, Stats NZ, MBIE



# 6

## Needs-based investment opportunity

Residential is a needs-based asset class and with housing shortages, the fundamentals underpinning an investment case for BTR are strong.

Recent trends show that residential consistently outperforms commercial from both a rental and long-term price growth perspective which is attributable to a combination of restricted supply and strong demand fundamentals.



# 7

## Rental growth prospects

A combination of population growth and housing affordability putting increasing pressure on housing prices suggests a healthy outlook for the rental market in the medium term.

This is despite short term fluctuation as a result of COVID-19 and its associated economic impacts. Steady rental growth, and the potential ability for rents to exceed inflation, is a key attraction for BTR investors.

There is also potential for BTR to drive long-term rental growth through offering a superior product to that available in much of the private rented sector.



# 8

## A defensive asset class opportunity

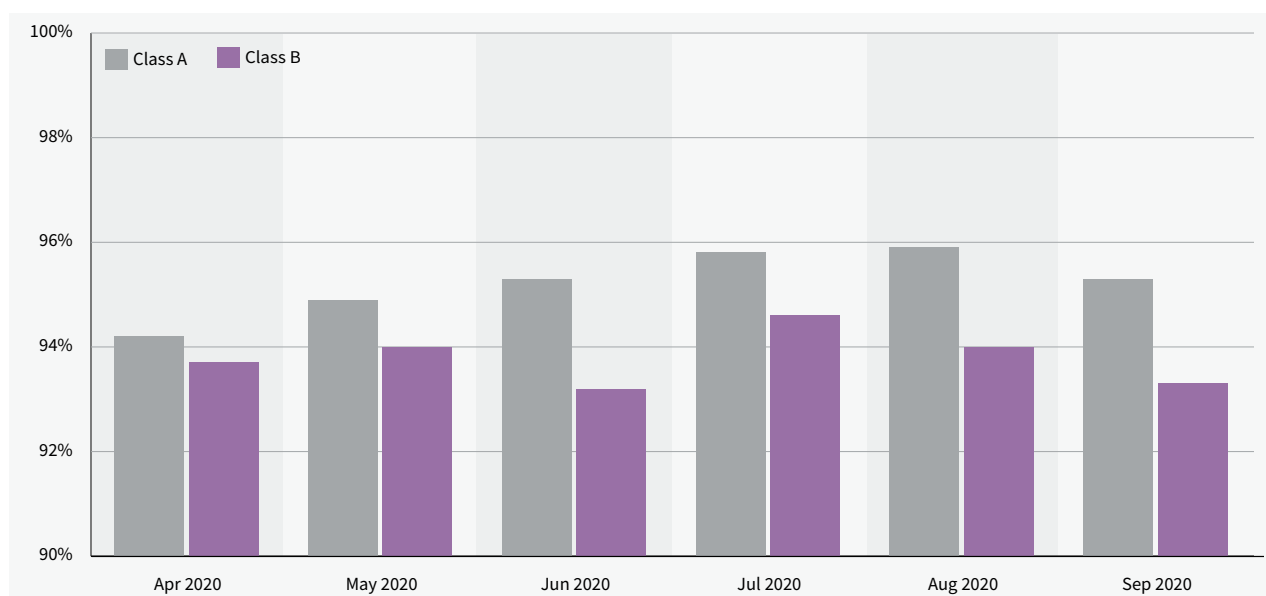
Whilst offshore investment appetite is somewhat cyclical, an underlying demand for relative stable risk adjusted returns is a recurring theme.

BTR is sought after as its income and inherent low risk profile appeals to long-term institutional capital relative to its core sector counterparts.

Recent US research also demonstrates the resilience of rental income streams of US Multifamily housing compared to other asset classes despite COVID-19 during 2020.

This is an increasingly important consideration for income prioritising institutions.

**Figure 23** US rent collection rates



Source: JLL





# A view on investment yields

The Australian and New Zealand BTR markets are largely untested in terms of capitalisation rates however we can look to the more mature global markets together with local core sector yields to determine a relative context.

The UK, Europe and US offered key insights into the behaviour and trends of valuation metrics as markets progressed through early-stage development cycles into operational and stabilised phases. This provides context of returns through cycles and trends as the market evolves. This is demonstrated by the more mature Multifamily market of the US together with the evolving UK BTR market (Figure 24).

It is this global context together with a local comparison to core sector yields that creates the yield story. In the local context of Australia and New Zealand, the core real estate investment markets of office, retail and industrial, together with consideration (in Australia) for the active hotel investment and PBSA (Purpose Built Student

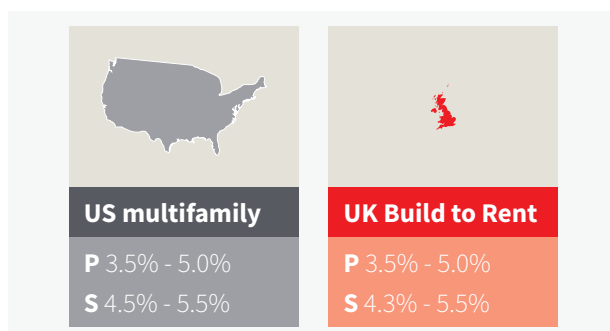
Accommodation) markets provide the relativity when assessing opportunities at a regional level.

As we experienced in the early stages of the institutional purpose-built student accommodation market (particularly in Australia), early movers enjoyed yield premiums to core sectors to reward their investors for the risks associated with entering an emerging and relatively untested market. As portfolio scale was achieved and the next wave of capital liquidity entered the market, we saw yield compression commence and more recently converge with core sector yields.

We believe that a similar approach to that taken for initial PBSA assets will be adopted by early movers into the Australasian BTR sector.

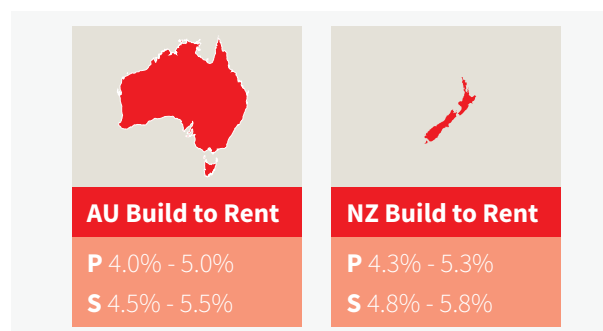
However, it must be noted that given the residential-aligned product design (when compared to the specialised nature of PBSA design) together with the broader potential customer base, we anticipate firmer yields from the

**Figure 24** International experience of US and UK prime and secondary yields



Source: JLL

**Figure 25** Expected outcome of AU and NZ prime and secondary yields



Source: JLL



outset and less of a compression story than was experienced in the PBSA sector.

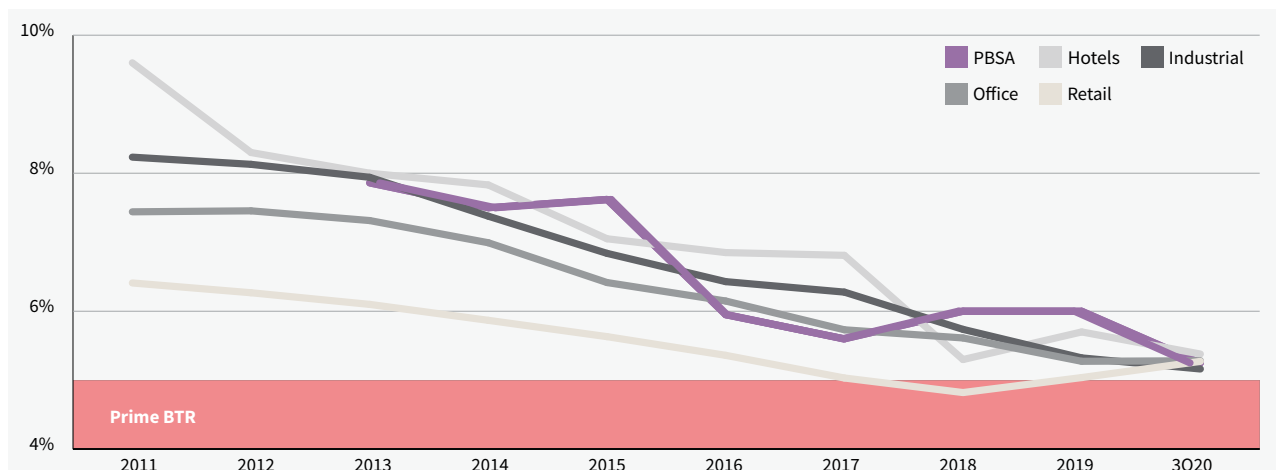
With these aspects considered, our view of where we anticipate Australia and New Zealand BTR yields will sit as the sector gains traction entering the development cycle is shown in Figure 25.

Overall, the investment drivers of BTR are compelling and reflective of current requirements for needs-based and defensive opportunities.

Our continued discussions with global investors demonstrate the appetite for expansion into the Australasian markets which will ultimately drive a similar story as the sector progresses through the early-stage development cycle into the operational cycle.

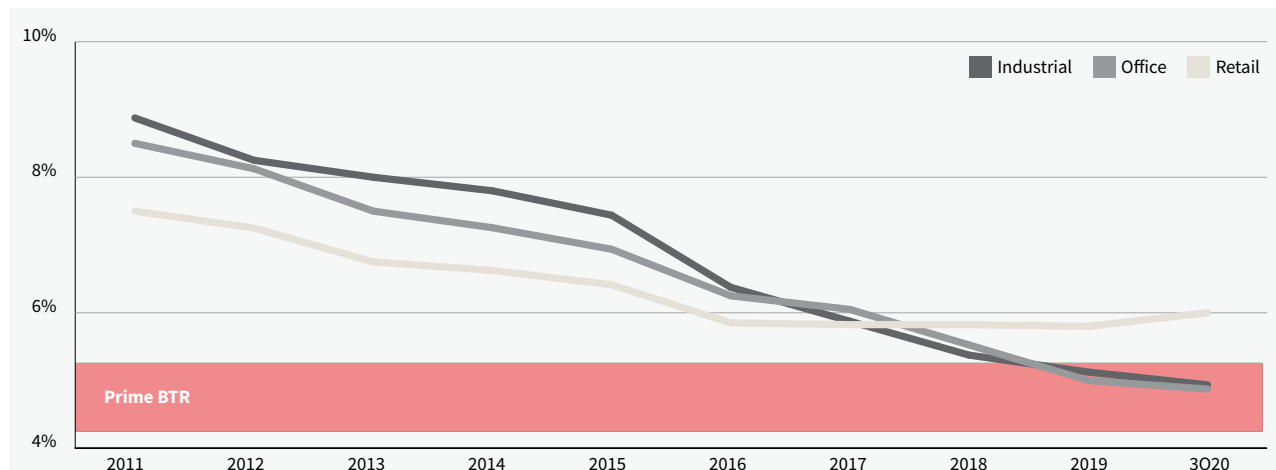
Underpinned by shortages of housing in key cities, the financial case for BTR has arguably never been stronger in Australia and New Zealand.

**Figure 26** Australia commercial real estate yield



Source: JLL

**Figure 27** Auckland commercial real estate yield



Source: JLL







Value 4

# Societal

The final element of value to consider is an amalgamation of all the other three types of value discussed, creating a product with overall societal value for a wide range of stakeholders.

There is a growing case from both a demand and supply perspective that BTR is a natural opportunity for a wide variety of stakeholders to seize the benefits that a professionally managed sector has to offer.

Whether for practical and/or social value, and for governments, investors, or individuals, there is clear merit and longevity in a quality-driven BTR sector in Australia and New Zealand.

The key next steps to take advantage of the societal value of the asset class and maximise the wider benefits to the housing market and rental population will require contribution from a wide range of non-direct stakeholders.



# Next steps

## Government support

Housing policy remains a key priority at state and federal level in Australia and at national and regional level in New Zealand.

There remains an ongoing focus on affordable housing (which is certainly crucial), but also increasing recognition of the importance of wider housing solutions needed to bridge the gap between social housing and owner occupation.

The learnings from political support in the UK are helpful as a case study of what Government endorsement of BTR as a sector can achieve.

After initially commissioning the Montague Review in 2012, the UK Government's subsequent adoption of the Review's numerous recommendations provided the market with the key impetus and catalyst it needed to become established.

What public government support did in the UK was to inspire confidence at a large-scale and institutional investor level that the sector had the potential to succeed in practice. And succeed it has.

As at June 2020, there were 167,853 BTR units in the UK, 47,753 of which are completed, 34,132 under construction, and 80,730 in planning.

This represents phenomenal growth in a short time period.

If we can replicate the same pace of growth in Australia and New Zealand, we will see tens of thousands of new purpose-built dwellings available for rent across both countries by 2030.

It is very encouraging to see both the New South Wales and Victorian State Governments already supporting the BTR sector.



The NSW government announced in July 2020 that it will introduce a land tax discount of at least 50% until 2040 on new BTR projects of at least 50 units that commenced construction on or after 1 July 2020.

An exemption from foreign investor surcharges will also be provided under the new measures for qualifying schemes.

Interest has already increased considerably for NSW investment and development following these announcements.

The VIC Government announced in November 2020 that it will also offer a 50 per cent land tax discount from 2022 for eligible BTR projects together with a full exemption from the Absentee Owner Surcharge up until 1 January 2040.

Other states are also likely to follow in making similar concessions.

This initiative is also a promising backdrop to ongoing federal discussions and a renewed focus on housing policy in now post-general election New Zealand.



## Environmental benefits

Although a complex subject, the role of sustainability that BTR could play in future housing supply should not be underestimated.

UK experience has shown that BTR investors are more and more concerned with the environmental footprint of their assets (including ensuring a user pays philosophy for utilities) and the positive impacts that can bring.



*“We believe BTR will **deliver more environmentally and socially sustainable housing**, including homes that are **healthier and energy efficient** (with features such as double-glazing, solar power, better ventilation, more effective heating and cooling).”*

*As a result, BTR has the potential to **promote the wellness** of residents and support the curation of **strong and resilient local communities**.”*

**Michael Holloway**  
GM Property Investment  
Kiwi Property Group

# 35%

The percentage of BTR pipeline that is currently under construction.



## A clear industry definition

Agreeing what is and what isn't BTR is crucial – and the end goal of attracting institutional investors will benefit greatly from uniformity across the industry.

It is vital that we all speak the same language.

## Education

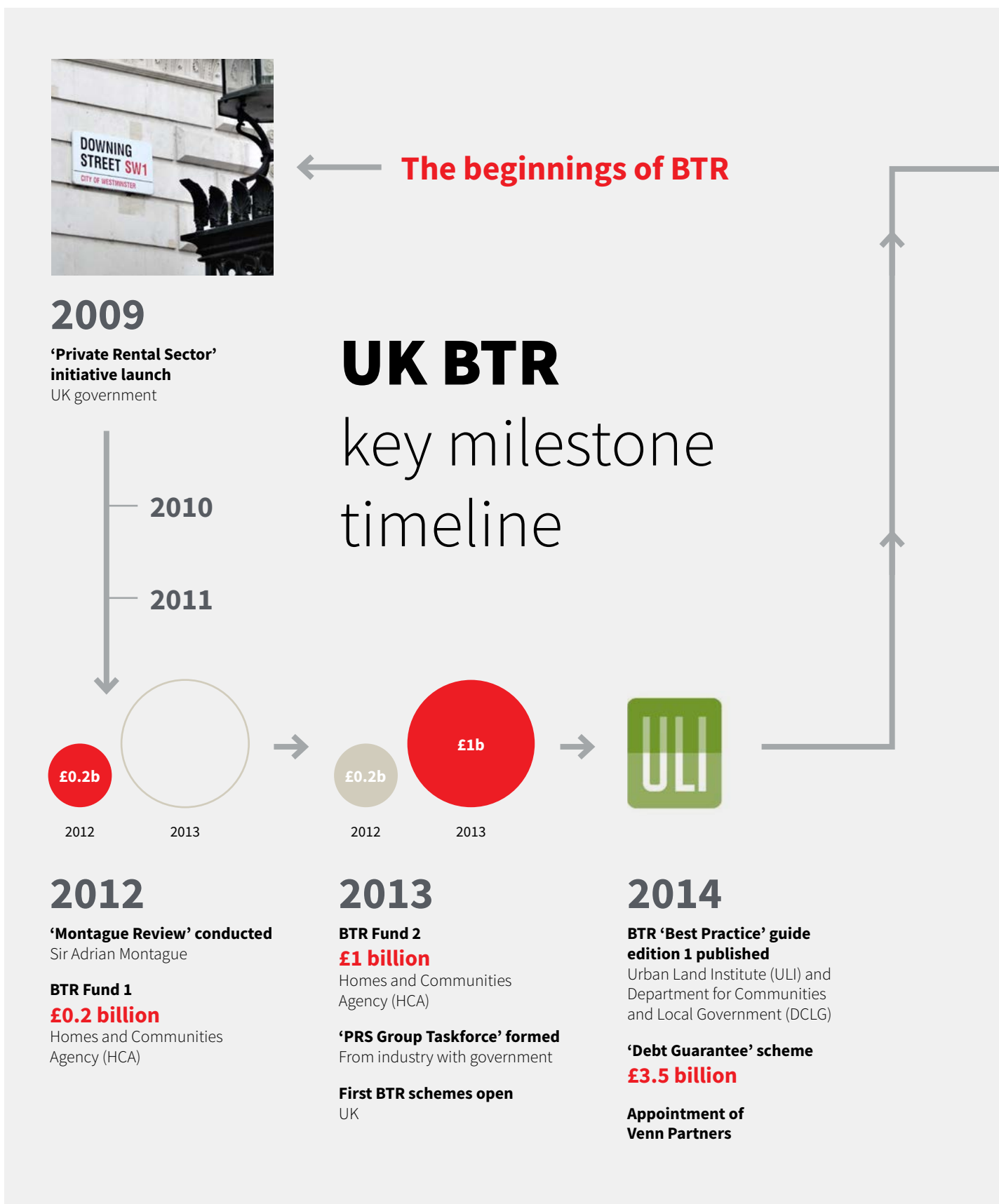
Those who rent need to be positively informed that there is an option for an improved standard of living and treatment as a customer, not tenant.

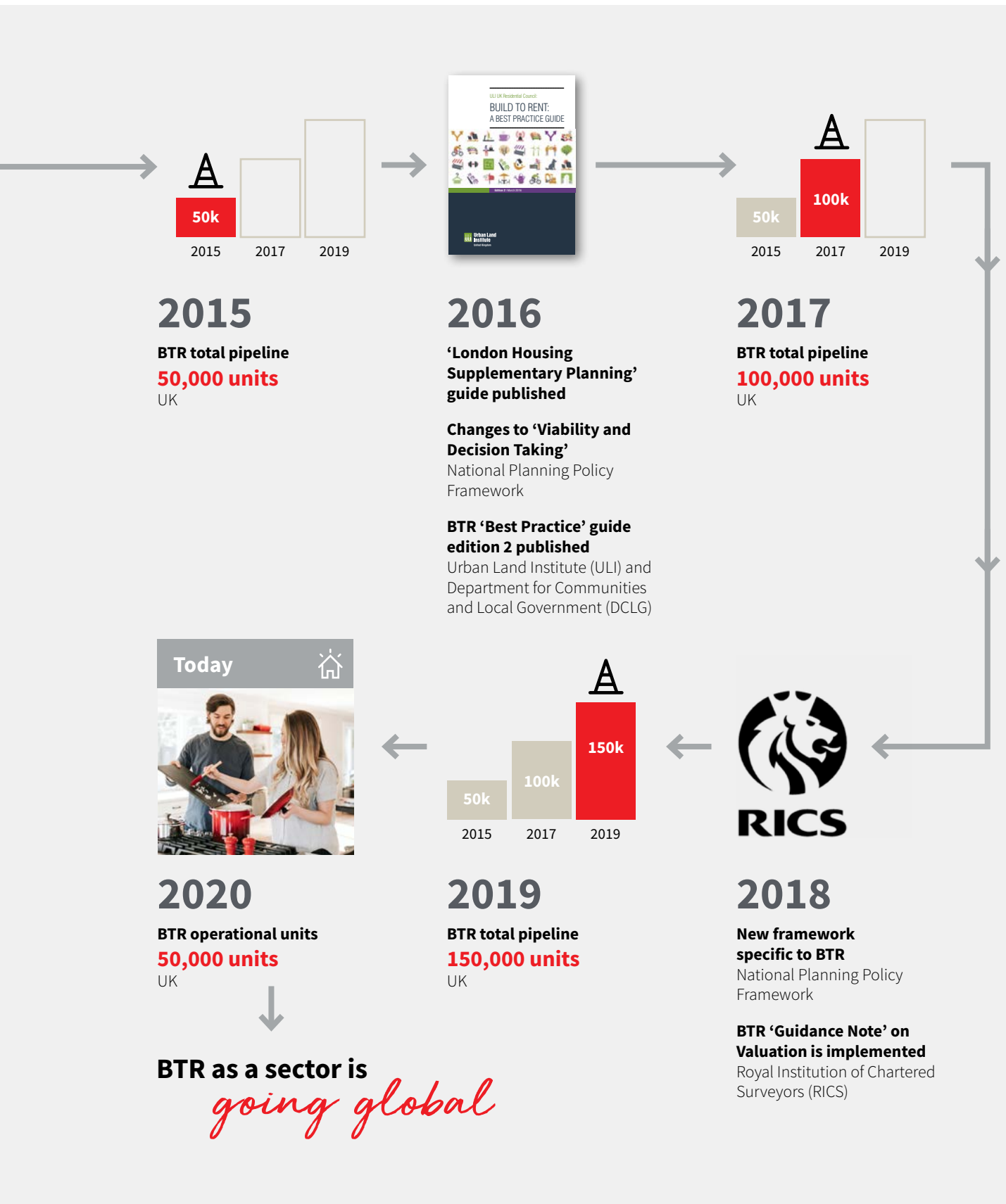
This will take time and will speed up as the industry matures, but it should be a priority for BTR investors and policymakers alike.





Figure 28 UK BTR key milestone timeline









# Conclusions



The increase in appetite for BTR investment in Australia and New Zealand has been substantial and sustained in recent months; particularly so against the economic shadow of the global pandemic and the level of uncertainty it has brought to property development in the short-to-medium term.

This is a positive sign for this fledgling sector's accelerated emergence.

Although the legislative and tax situation underpinning the sector's potential is presently not optimal and will need changes to maximise the opportunity, goodwill to look holistically at what the sector could provide feels like it is gaining momentum politically.

This sector needs to represent a win-win for all stakeholders and it certainly has the potential to deliver.

There is a lot of value to be gained from BTR. This paper has explored practical, experiential, financial and societal value and concludes that all forms of value add to the overall offer.

We expect continued interest in the sector from global and domestic investors alike, as BTR forms an integral part of diversified real estate investment portfolios.

As a closing thought, it is crucial that we continue to work together as an industry to clearly define the product we are talking about and deliver considered schemes to ensure the clear potential of the sector is realised.

While we do have the UK and US to look to for inspiration and learnings (which is a clear advantage), the optimal solution will undoubtedly be a home grown Australian and New Zealand product reflecting the key requirements and customer expectations in both countries.

**Global investor appetite** for the Living Sectors **has continued to increase** in Australia and New Zealand in recent years, largely **lead by the evolution of the institutional PBSA sector.**

**The BTR sector offers a highly scalable extension** to the Living Sectors spectrum with arguably an even **greater appeal to investors** given the wider and deeper potential rental customer pool.

**David Hill**

Alternative Investments







*JLL's Alternative Investments team are the leading Living Sectors experts in the Australasian market covering transactions, advisory and valuations across PBSA, Co-Living, Build to Rent and Seniors Living.*

*We have advised on over \$6 billion of Living Sectors transactions covering the largest deals in the market.*

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