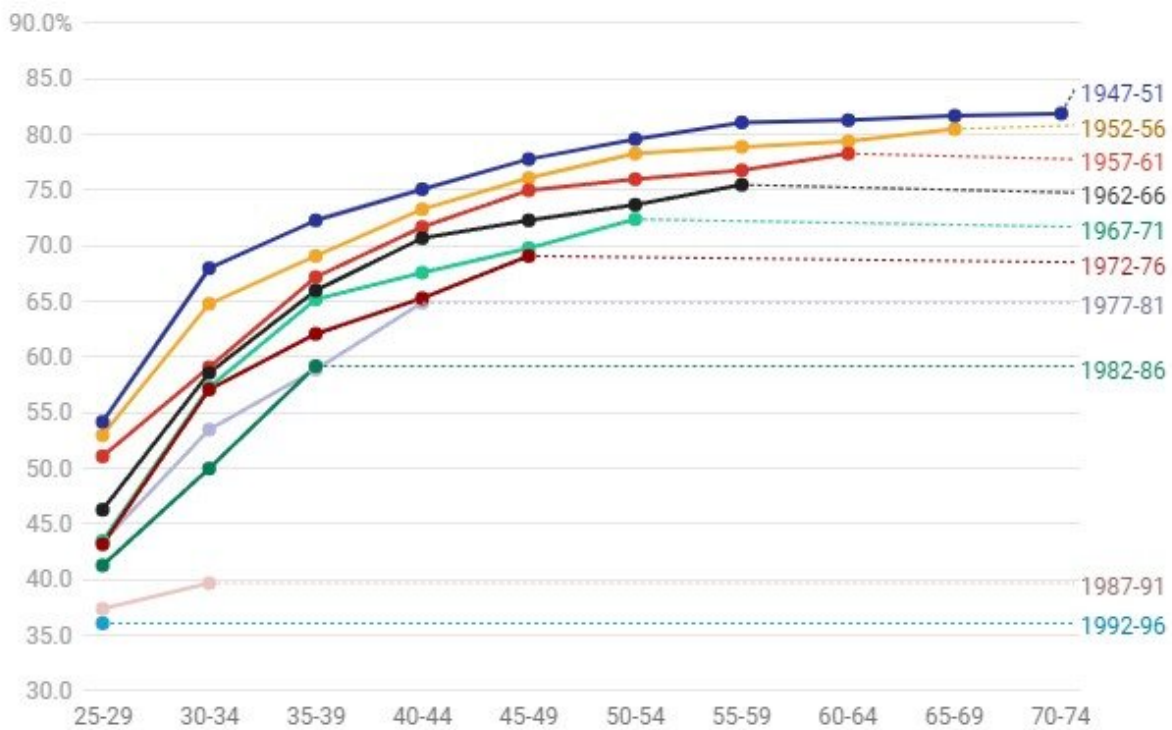


Build-to-rent is seen as affordable, but it's unlikely to help those most in need

December 8 2022, by Johari Amar and Lynne Armitage

Home ownership rates by birth cohort and age group

Percentage of home owners for birth cohorts according to age at time of census from 1976 to 2021



Home ownership rates reflect the year the household reference person was born.
 Credit: Chart: The Conversation Source: AIHW analysis of census data

Australians desperately need more affordable homes, [particularly homes for rent](#). The prospect of home ownership is [rapidly receding](#) for many people, especially younger generations (as the chart below shows). More people than ever are being forced into a [tight rental market](#).

Making things worse, many traditional providers of residential rentals, the "mum and dad" investors, are [selling their investments to take the capital gains](#).

Adding to the demand for housing, [households are getting smaller](#). The [estimated shortfall](#) of homes needed to house new households will be nearly 165,000 by 2032. An extra 20,000 dwellings a year need to be built to avoid that housing deficit.

So what can be done to provide more housing that households can afford? One emerging idea is build-to-rent developments.

Build-to-rent generally involves developing residential accommodation with a view to it being a long-term investment offering long-term homes for renters rather than home buyers. These developments are usually units and townhouses, owned by an institutional investor.

[Our research project](#) is investigating the opportunities to improve [housing affordability](#) in Australia. We have found broad agreement among leading players in the build-to-rent sector that these developments are affordable when the rent generated is right for both the households and developers. But there's a catch: our interviewees considered the rents affordable only because they are set at a reasonable cost for their target group, middle-to-upper-income households.

So this "reasonable cost" is a market perspective. And most current build-to-rent developments are a premium product in city-center locations. As one person in state government explained:

"It's a market process and they do their due diligence and they work out that there's sufficient people who can pay what they need to pay and people who are perhaps willing to pay a premium for a better product and some greater security of tenure, because they know that it's going to be continued to be offered as a rental. The landlord's not going to go, 'I want to move in', or sell it."

So where does this leave low-income renters?

Build-to-rent is well established overseas but relatively new to Australia. Unsurprisingly, there is still no single definition of exactly what it means, especially as an affordable housing option.

For example, a [recent study](#) analyzing 685 media articles and housing industry reports suggested build-to-rent may not be what it seems. It might be just another way for investors to make financial gains while masquerading as a solution to the critical shortage of affordable and [social housing](#) (available at below-market rents).

It's not yet clear whether built-to-rent will be an effective solution for people who most need affordable housing. They include low-income and vulnerable households, and those with special needs.

With this in mind, we interviewed 26 leading practitioners (CEOs, chairs of boards, national directors and state government departmental directors) across the field of affordable housing and build-to-rent in Australia to collect their views on what it is.

We found the market perspective is at odds with the needs of lower-income households. It's quite different to the welfare approach to housing, which focuses on the needs of those with lower incomes. Many households in the bottom 40% of incomes are suffering [housing stress](#) as a result of spending more than 30% of their income on housing (known

as the [30:40 affordability indicator](#)).

To make inroads into the housing affordability crisis, built-to-rent developments will need to provide homes to all, including those falling under the 30:40 indicator, not only to the relatively wealthy.

Can build-to-rent help solve the affordable housing crisis?

Participants agreed build-to-rent developments can ease the affordability crisis. To support lower-income households, however, they said incentives, via [tax concessions](#) and [inclusionary zoning](#), will be needed.

Tax concessions provide incentives to develop affordable housing by, for example, offering land tax credits. Inclusionary zoning either mandates or creates incentives so a set proportion of a [development](#) is affordable housing. The incentives typically include changes to development controls and planning standards and processes to reduce costs and obstacles to build-to-rent developments.

How, then, can we ensure built-to-rent delivers housing that's affordable for all households? Our analysis points towards two main conclusions.

First, a legal or statutory definition of "affordability" in relation to build-to-rent should be established. This will allow better framing of the sector's role in a national housing strategy. As a CEO with 40 years of experience in policy development and the provision of social and affordable housing told us:

"[Build-to-rent] settings are acutely hampered by the fact that we don't have a national housing strategy, therefore, nobody's really bothered to resolve the difficult issues about the definition [...] that will put housing

costs basis into a frame that says, is it reasonable, is it suitable, is it affordable and, once you paid for it, can you afford a reasonably decent standard of living?"

A national housing strategy should allow development of tiers of build-to-rent housing. Each tier would match the level of risk and return within a given section of the [spectrum of housing types and tenures](#). So, these tiers represent both levels of rent and a range of housing types—high-rise, low-rise, townhouses etc.

The aim is to deliver diverse housing options with a focus on affordability and [universal housing](#) (designed to meet residents' changing needs over their lifetime).

A senior economist overseeing nation-wide research into [housing](#) and mixed-use development said:

"So we could potentially look at a grade A BtR [build-to-rent], grade B, grade C BtR asset classes and in different locations. We need to be working more towards different kinds of BtR asset classes, like they have in the U.S., UK and Canada."

This approach will help make build-to-rent developments more predictable, replicable and scalable to match varying levels of affordability. And that will help create the confidence and enthusiasm the sector needs to produce better [affordable housing](#) outcomes.

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