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Melbourne Officially Build-to-Rent 'Epicentre'



Melbourne's build-to-rent pipeline is nearly double Sydney's and quadruple Brisbane's but there are fears a new state tax could derail the sector.

In Australia's build-to-rent "epicentre" there were more than 6000 apartments either under construction, approved or submitted for approval to councils, according to a report by Knight Frank Research.

The Daniel Grollo-backed Home Residential build-to-rent platform has submitted one of the most recent applications—for two towers with 676 apartments in the Docklands.

The number of apartments in Melbourne's pipeline is way ahead of Sydney's 3300 and Brisbane's 1600.

Last year 11.1 per cent of development sites in Melbourne were purchased for high-density, build-to-rent projects while in Sydney it was just 0.7 per cent.

Both of these build-to-rent markets were benefiting from a 50 per cent land tax discount, which was announced last year and expected to be in force until 2040.

As these projects are a long-term investment of more than 15 years, developers, including US real estate giant Greystar, want the 2040 deadline for the tax discount to be extended.

However, a new premium land transfer tax, to be levied on properties worth more than \$2 million to be introduced from July 1, is creating concern among developers and property industry lobby groups.

The windfall gains tax, which was also announced in the Victorian budget, has become another consideration for developers, adding a 50 per cent tax for rezoned land.

Knight Frank director of investment sales in Victoria James Thorpe said developers were currently deciding what to do with existing assets.

"Properties holding permits for higher density development are being considered for repositioning into the build-to-rent space," James said.

"Although Melbourne currently holds the highest number of build-to-rent schemes in the pipeline, recent tax announcements by the state government could derail the momentum for this emerging asset class."

Property Council of Australia Victoria executive director Danni Hunter said the taxes announced in the state budget would impact future developments.

“The increase in land tax will already negate a large portion of whatever that discount was going to, so be so it won’t be as significant,” Hunter said.

“We know there are a number of build-to-rent projects that are being currently contemplated for pause.

“Unless the land tax discounts wipe out the land tax hikes that the government has announced in this budget, the development of Victorian build-to-rent will be severely held back.”