

# Development Spotlight on Build-to-Rent and Co-Living



## A generation defining pandemic changing living, development and investment habits?

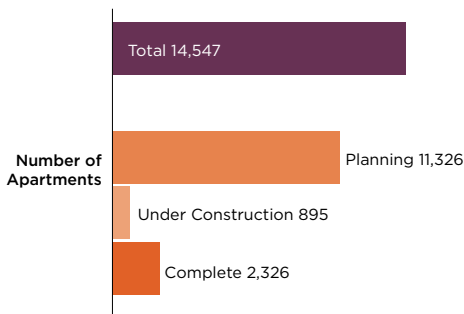
Accelerated by the emergence of COVID-19 in Australia, new ways of living and working are emerging and growing in popularity, at a time when people are increasingly becoming isolated and craving connection. As such, Build-to-Rent (BTR) and Co-living, nascent operational residential real estate sectors, are gaining traction across the development and investment community, with the Australian pipeline rapidly growing. A Build-to-Rent or Co-living asset has the potential to deliver that sense of belonging and connection through shared amenity space and resident community engagement.

### Development Pipeline Accelerates

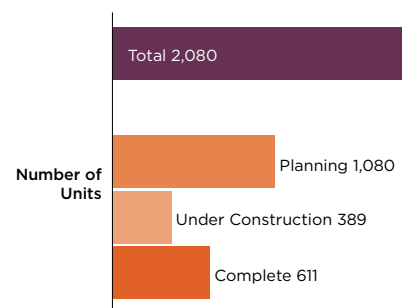
Savills analysis of the development pipeline, at the end of H1 2020, indicates that 2,326 Build-to-Rent units are now complete, and a further 611 units are operating as Co-living. An additional 895 and 389 Build-to-Rent and Co-living units respectively, are under construction.

As a consequence of the underlying viability fundamentals geographical differences are present; 59% of all BTR units, either complete, under construction or planned are in Melbourne. Whereas, 81% of all Co-living units either complete, under construction or planned are in Sydney.

### Australian BTR Pipeline



### Australian Co-Living Pipeline



Source: Savills

### Recession To Change Behaviours

Despite the clear economic impact of the pandemic, the long-term fundamentals of renting a residential home remain. Throughout the majority of global cities the Global Financial Crisis (GFC) was a turning point. Australia, was sheltered from that recession, but we suspect the COVID-19 recession, the first in 29 years, will be the trigger which will influence demand and investment trends.

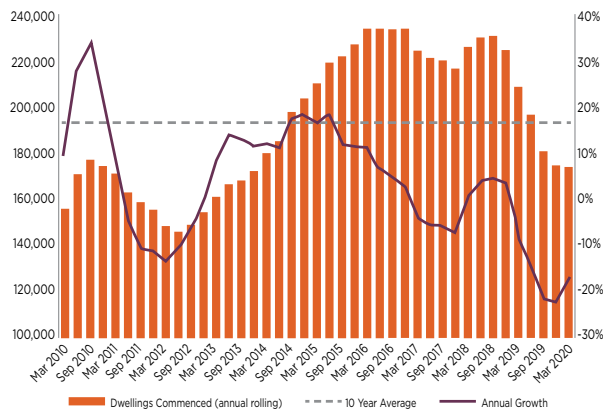
The GFC recession changed the idea of homeownership from a symbol of stability and security to one of financial risk. The aspiration for home ownership hasn't necessarily gone away, but the better quality purpose built rental product now coming to market is making renting a desirable and tangible option.

Existing affordability issues, stricter lending criteria and a rise in unemployment, as the Federal Government JobKeeper scheme eases, will likely see first-time buyers delay the long-term commitment of home ownership until the wider economy recovers, irrespective if financial stimulus to encourage them to do so.

Residential 'mum and dad' investors will likely have been negatively impacted by COVID-19, be it heightened vacancy, reduced capital value or a decline in rent, paving the way for institutional, long term investment into residential rental accommodation.

In the short to medium term, an offset in lower net-migration will support a lower residential development pipeline. The residential construction sector began to slow in 2017/18. We anticipate the remainder of 2020, continuing into 2021, will follow in the same manner, as large 'for sale' schemes fail to achieve development or market traction and lending to residential developers grinds to a halt.

### Contraction of Residential Construction



Source: Savills



**COMPLETED BTR UNITS UP 38% ON 2019 AND OPERATIONAL CO-LIVING UNITS INCREASED BY 46% IN THE PAST YEAR.**

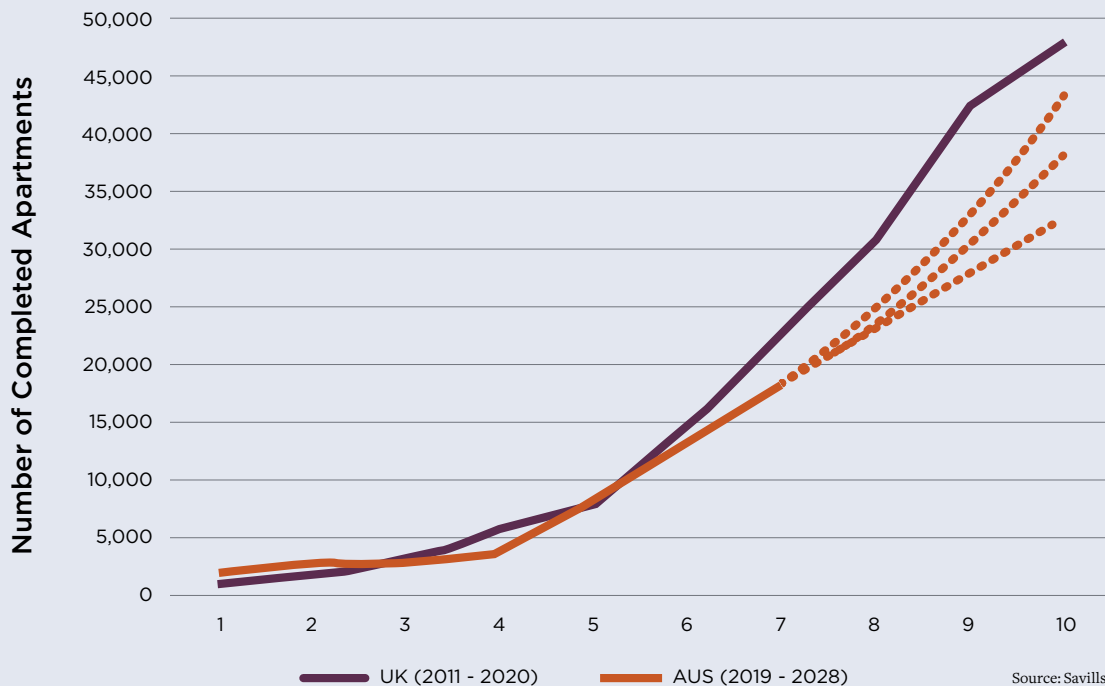


**AVERAGE SIZE OF A BTR SCHEME 342, AVERAGE SIZE OF A CO-LIVING SCHEME 46.**



**THE PROPOSED NSW PLANNING CHANGES ARE DESIGNED TO SIMPLIFY PLANNING CONTROLS TO SUPPORT INVESTMENT IN DIVERSE AND AFFORDABLE HOUSING TYPES INCLUDING BUILD-TO-RENT, CO-LIVING, SOCIAL AND STUDENT HOUSING.**

Decade of Build-to-Rent Growth: Australia vs The UK



### Governments Support Building

The NSW Government has been quick to acknowledge the need to boost the housing construction industry since the onset of the downturn. The State Government announced a 50% land tax discount on new (post July 1 construction) purpose built rental units, to be managed under a unified single ownership and over a threshold of 50 units. An exemption from foreign investor surcharges will also be provided until 2040 for Build-to-Rent developers.

The new proposals will ultimately create more options for investors and builders of developments and decisively more housing options. The NSW Government is also exhibiting a new planning policy that includes proposed development standards for Build-to-Rent projects across the state. It will include design guidance on context and character, sustainability and amenity.

Real estate investment and development business strategies will be tweaked over the coming months and investors should take encouragement from knowing that the multifamily sector (or BTR) across the US was one of the fastest real estate sectors to recover following the GFC, a decade prior to the onset of the current pandemic.

Mentioned previously the shot in the arm for the Build-to-Rent sector, as an institutionalised asset class of scale in markets such as the UK, was the GFC. Residential construction declined and policy makers supported the emergence of an operational residential sector, as investors looked to more defensive, less cyclical asset classes. In the first five years, from the emergence of the first Build-to-Rent scheme in London 8,000 units were completed.

### Australia Growth Mirrors the UK

The similarities between the emergence of the sector in the UK and Australia are well documented. The pathway to a functioning Build-to-Rent sector on scale in Australia has emerged in the same way. The contraction of the residential construction 'for sale' sector and the gravitation of experienced overseas Build-to-Rent and Co-living operators and investors from markets such as North America have provided the initial push.

Albeit without the full support of Federal and State government's that the UK market was fortunate to enjoy, Savills analysis of the Australian Build-to-Rent pipeline highlights that the emergence of the sector will occur at the same speed as the UK equivalent, with 8,000 units completed over the same five year milestone.

Dependent on the success and support of the Build-to-Rent sector the first decade of growth could look extremely similar to the UK. This is a market which is now worth an estimated \$18 billion and rising to a potential maturity of over \$990 billion, providing homes for more than 1.7 million households.

Structural changes in demand, together with new purpose-built supply coming to market, have opened the operational residential sector to more investors than ever before. Residential developers are also more likely to be open to opportunities for bulk purchase deals with investors and operators in order to make up for lost owner-occupier sales. As management platforms develop, investor comfort with operational real estate has increased.

So far the Australian Build-to-Rent and Co-living market is small scale and fragmented, but development and consolidation is expected in the future, as has happened in the student accommodation market, which is now led by a small number of groups, often operating internationally and backed by global capital.

Investors remain confident on the long term core investment themes of Australian residential rental accommodation. A significant weight of capital is currently looking to enter the Australian Build-to-Rent and Co-living accommodation sector, but there are limited opportunities to access the market, the significant development pipeline, changing living trends, and materialising government support may open up greater opportunities.

Ten years ago, BTR and Co-living were niche topics at real estate investment conferences and in boardrooms; now it is one of UK real estate's most exciting asset classes. We expect Australia to follow suit.

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