LOCAL:

25 July 2024

Senate Standing Committees on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

By email: **economics.sen@aph.gov.au**

Local Submission - Treasury Laws Amendment (Responsible Buy Now Pay Later and Other Measures) Bill 2024 and Capital Works (Build to Rent Misuse Tax) Bill 2024 ("Draft BtR Bills")

Local welcomes the opportunity to provide this submission to the Draft BtR Bills.

About Local

Local is a Melbourne based build to rent ("**BtR**") housing platform established in 2021. The platform creates and manages apartment buildings for renters. Local's Co-CEOs have been involved in the Australian BtR sector since 2014 and have participated in the origination and development of 3,700 rental dwellings.

Local believes in strengthening communities by using homes to deliver positive change.

To this end, upon its establishment in 2021, Local committed to incorporate within its projects at least 10% of housing to create positive social impact. Local works with registered housing providers across three groups to supply homes to people who need them; women over 55 who are at risk of homelessness, key workers who are vital to our communities, and people in need of specialist disability accommodation.

Local has a pipeline over 1,300 apartments in Melbourne, across sites in Kensington, South Melbourne and Box Hill, which will incorporate over 130 dwellings to be allocated to social, affordable and specialist disability accommodation.

Overwhelming need for change in the income tax treatment of BtR investments

Australia is presently facing a substantial shortfall in housing supply with significant adverse flow on effects for renters and the community.

The emerging BtR sector has the capacity to play a key role in delivering much needed housing, particularly amid the ongoing challenges being faced by the build to sell market.

That said, investment in BtR housing to date has been limited. Importantly, an overwhelming majority of offshore institutional investors we have engaged over the past three years have cited the higher tax rate applicable to Australian BtR housing compared to other property assets as a barrier to investment.

In particular, the MIT withholding tax rate for office, retail, industrial and student accommodation is 15% compared to 30% which applies to BtR investments.

Potential offshore investors whose capital could be part of the solution for Australia's rental housing crisis are waiting for a more competitive tax position before moving their capital allocation from other property assets to Australian BtR housing.

The Draft BTR Bills

Australia needs more international investment in housing. To this end, we welcome the proposed changes to the tax treatment of foreign institutional investment in Australian BtR Housing.

However, we have concerns that the Draft BtR Bills will not be effective in harnessing foreign investment to stimulate significant new housing supply, and importantly, the creation of additional affordable rental accommodation.

Consequently, Local supports the submission of the Property Council of Australia ("**PCA**") (copy attached) on the Draft BtR Bills. The PCA's submission highlights the key points requiring rectification and importantly, proposes a framework that will unlock capacity for Australian businesses such as Local to partner with offshore investors to deliver much needed long-term market and affordable rental housing.

***

We would like to thank you for your time and consideration of Local's views in relation to this important sector. If we can be of any further assistance, please do not hesitate to contact us on [redacted] or [redacted].

Yours sincerely,

[redacted]

[redacted]

Dan McLennan
Co-CEO, Local

Matt Berg
Co-CEO, Local

Attachment – PCA Submission

PROPERTY COUNCIL of Australia

Property Council of Australia ABN 13 00847 4422
A Level 7, 50 Carrington Street, Sydney NSW 2000
T +61 2 9033 1900
E info@propertycouncil.com.au
W propertycouncil.com.au
Property Council of Australia

24 July 2024

Senator Jess Walsh
Chair, Senate Economics Legislation Committee
Parliament House Canberra ACT 2600

By email: economics.sen@aph.gov.au

Dear Chair,

Senate Inquiry: *Treasury Laws Amendment (Build to Rent) Bill 2024* and the *Capital Works (Build to Rent Misuse Tax) Bill 2024*

Thank you for the opportunity to make this submission to the Senate Economics Legislation Committee about the *Treasury Laws Amendment (Build to Rent) Bill 2024 and the Capital Works (Build to Rent Misuse Tax) Bill 2024* (together, **Bills**).

The Property Council of Australia is the leading advocate for Australia's largest industry: property generates 13% of Australia's GDP; employs 1.4 million Australians; and pays $72 billion in tax. Members are the leading and largest organisations that invest in, design, build and manage places that matter to Australians across all types of buildings and all capital and regional cities.

In particular, our membership represents the largest global investors in build-to-rent (BTR) housing and the leading owners, operators, and investors in Australia's own nascent BTR sector.

For the past decade, the Property Council has advocated for an Australian investment regime that attracts institutions to BTR housing by ensuring investment parity with other property asset classes.

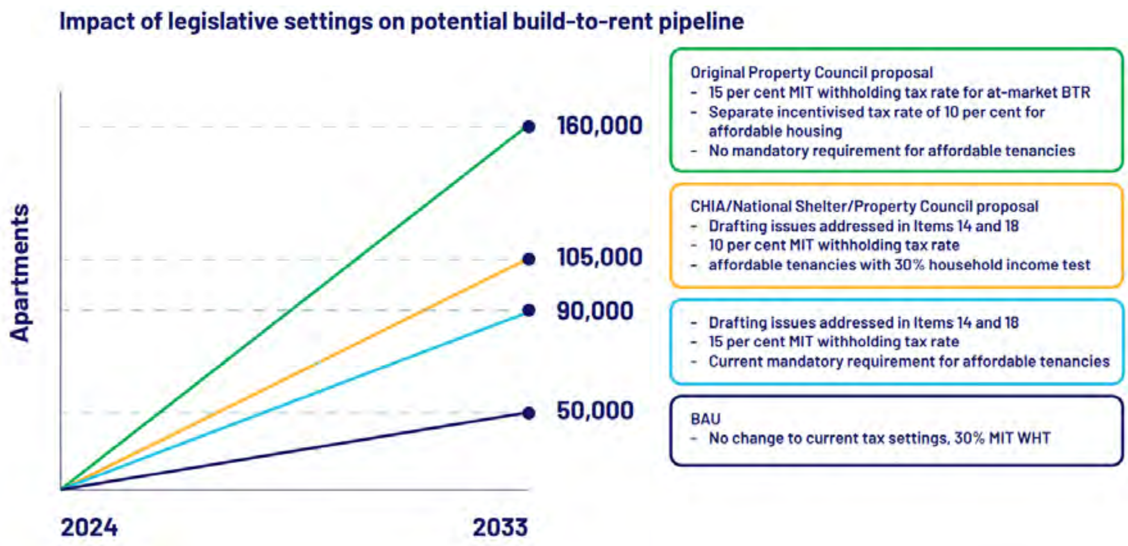


Figure 1: Impact of current drafting issues on the potential BTR pipeline in Australia, based on EY analysis.

In that time we have consistently championed the benefits of tax settings that create a level playing field, in line with other building types, and those substantial benefits have been independently and publicly modelled.

As of this year, our national housing target will be missed by 297,000 homes according to the National Housing Supply and Affordability Council.[1]

In their current state, the Bills will undermine the government's stated intention of encouraging desperately needed rental housing.

Correcting these Bills could partly bridge the shortfall predicted against the government's welcome 1.2 million homes by 2029 target.

The anticipation of the Australian government's public ambition to add to BTR housing supply, following US, Canadian and UK governments, has been the sole reason for tens of billions of dollars investment to date.

Uncertainty caused by the 11-month BTR consultation delay after the May 2023 Budget announcement and material issues introduced in the exposure draft have already eroded investment.

Capital flows into the sector have effectively stalled. We are repelling a patient pool of institutional capital. Thousands of new rental homes that should be under construction are not.

Those who operate the few existing Australian BTR projects are fielding calls from investors about the prospect of taking their investments elsewhere, which would remove thousands of homes from the rental market pipeline.

EY modelling shows that the best opportunity to maximise supply of BTR housing while retaining mandatory affordable housing requirements is to implement changes proposed by CHIA, National Shelter and the Property Council.

This includes lowering the managed investment trust (MIT) withholding tax rate to 10 per cent, making a proportion of the 10 per cent affordable tenancies available to low-income households and ensuring affordable tenancies are managed in partnership with registered not-for-profit community housing organisations.

These settings could result in the delivery of 105,000 rental homes.

Not making these changes will render the government's BTR approach an embarrassing policy misfire.

In similar countries, BTR tax settings offer a level or pro-housing operating environment. This provides strong signals to institutional capital that it can expect the consistent, fair treatment necessary to make long-term investments for their shareholders, many of which are pension funds.

Immediate action is needed to correct the negative perception investors hold about the viability of Australia as a destination for long term investment in BTR housing.

Further, Australian super funds have made it clear that they cannot scale investment in Australian BTR projects until the sector becomes a more mature, well-capitalised asset class.

[1] National Housing Supply and Affordability Council, State of the Housing System 2024, May 2024 https://nhsac.gov.au/reports-and-submissions/state-housing-system-2024

This occurs against the glaring backdrop of low Australian housing starts. At the same time as new housing supply is desperately needed, it has never been more difficult to get projects out of the ground.

The latest figures from the Australian Bureau of Statistics released in July 2024 showed approvals for apartments in May 2024 are down almost 32% per cent from the same time 12 months ago.[2]

Most urgent areas of concern

As the most experienced owners, operators, and investors of BTR housing in Australia and overseas, our members and their investors urge immediate improvements to the Bills. The most pressing issues are:

1. **Remove the restriction on availability of the concessional MIT withholding tax rate**: In relation to a MIT that receives a distribution from another trust that owns the BTR asset, the concessional rate is only available in limited circumstances and will severely restrict the number of entities who can access the concessional rate. This will adversely impact most if not all existing BTR funds (who operate with head trust/sub trust structures). The provisions in Item 14 of the Bill must be removed.

2. **Reduce the MIT withholding tax rate to 10 per cent and revise affordable housing requirements to maximise supply and deliver 105,000 rental homes:**
    - Revise the definition of affordable tenancies to ensure that these are available to moderate income earners with at least 20% of the affordable tenancies available to low-income earners where income eligibility limits are specified such that rents are up to 74.9% of market value or no more than 30% of household income, whichever is the lower.
    - Revise the managed investment trust (MIT) withholding tax rate concession to 10 per cent and ensure a level playing field for domestic superfunds.
    - Require the affordable tenancies to be managed in partnership with registered, not-for-profit community housing organisations (CHOs).
    - Immediately unlock over 1,200 affordable tenancies by extending the 10% MIT withholding tax rate to existing BTR projects that meet the other eligibility criteria.
    - No use of 'no cause' evictions.
    - Supporting long-term security of tenure by offering five-year lease terms.

3. **Immediately unlock over 1,200 affordable tenancies by extending the concessional MIT withholding tax rate to BTR projects that were operating or in development prior to the 2023 Budget announcement.** At a time of severe rental crisis, the National Rental Affordability Scheme (NRAS) is coming to an end and up to 6,750 properties will cease to be affordable under the scheme in the period of April – December 2024.[3] There is therefore a strong imperative to unlock affordable rental housing as soon as possible. Extending the concessional MIT withholding tax rate to BTR projects that were operating or in development prior to the 2023 Budget announcement could unlock over 1,200 affordable tenancies. We strongly urge the removal of subitem (1) from Item 25 in

---

[2] Australian Bureau of Statistics, Building Approvals, Australia, 3 July 2024 https://www.abs.gov.au/statistics/industry/building-and-construction/building-approvals-australia/latest-release

[3] Department of Social Services, National Rental Affordability Scheme Quarterly Performance Report, March 2024 https://www.dss.gov.au/sites/default/files/documents/05_2024/march-2024-nras-quarterly-performance-report_1.pdf

the Bill to ensure eligibility is not contingent on the project commencement date, but instead confined to other eligibility requirements detailed in the legislation.

4. **Ensure comparable treatment of rental income and capital gains for BTR developments with other asset classes** by amending Item 18 subitem (5)(a) to remove limitations on the income on which the concessional MIT withholding tax rate can be obtained.

5. **Replace the Misuse Tax with an annual compliance declaration on provision of affordable tenancies** submitted by registered, not-for-profit community housing organisations (CHOs) who would manage tenant selection and compliance with the BTR owner.

Since the draft legislation was released by the Government, the Property Council and our members have engaged with the Treasury, ATO and Government to try and make these Bills work.

We will assist wherever possible to improve the housing investment framework this legislation could unlock.

The Property Council seeks the opportunity to meet with the Committee and discuss our submission in more detail.

Please contact Frankie Muskovic, National Policy Director on [redacted] or [redacted] to arrange a meeting.

Kind regards,

[redacted]

Mike Zorbas
Chief Executive
Property Council of Australia

Build to Rent in Australia – a new form of housing

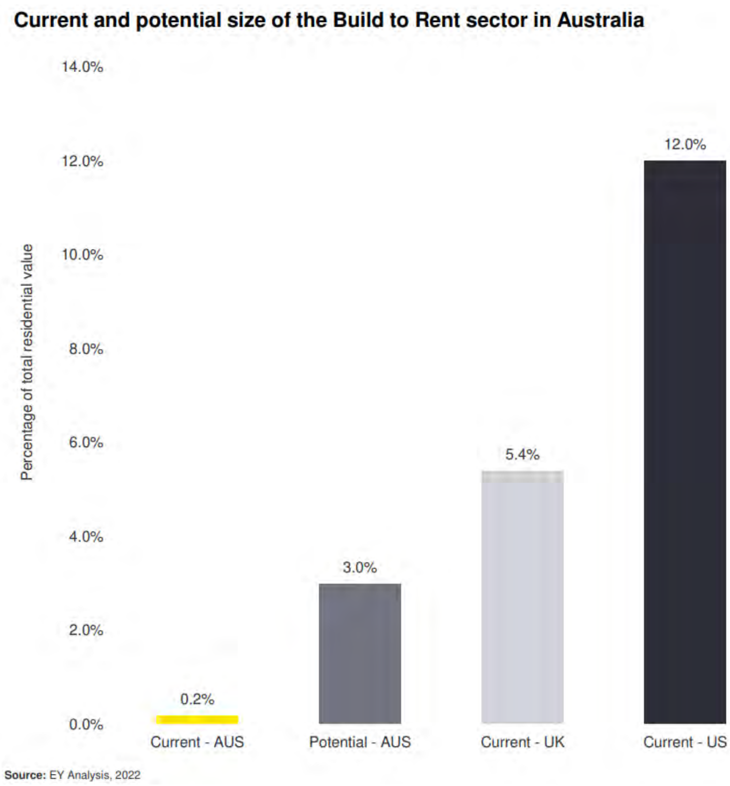
Build to rent (BTR) is purpose built and designed long-term residential rental accommodation which is predominantly owned, managed and operated by an institutional investor for a long-term investment period.

For customers, the benefits of BTR housing include:

- **security of tenure** through long-term occupancy and in many cases no bond payments
- **flexibility** to own pets, customise apartments (i.e. paint walls, change floor coverings) and scale up or down within the one building as life circumstances change
- **provision of tenancy management services** including repairs and maintenance from on-site staff
- **shared facilities and programs** to foster a strong community within the building, and
- **well located**, within close proximity to employment nodes and walking distance to public transport.

For investors, particularly overseas and domestic pension funds, BTR offers the possibility of stable, long-term returns that are modest and predictable. BTR does not rely on pre-sales, so also provides the opportunity for supply of housing that is counter-cyclical and can be delivered more quickly than traditional build to sell housing.

BTR has the potential to increase housing supply at scale, at a time when there is an acute shortage of new rental housing. The BTR sector in Australia has the potential to grow significantly. Currently, it makes up just ~0.2% of the value of the total Australian residential sector.



In comparison, the BTR sector comprises of 5.4% of the total value of the residential sector in the UK and 12% in the US.

If the share of BTR in the Australian market were to increase in the longer-term to ~3% of the total value (which is below the UK and US), this could equate to a potential BTR sector worth ~$290 billion or the equivalent of ~350,000 apartments.[4]

Figure 2: Current and potential size of the BTR sector in Australia compared to other markets.

[4] EY for the Property Council, A new form of housing supply for Australia: Build-to-rent housing, April 2023 https://www.propertycouncil.com.au/submissions/a-new-form-of-housing-supply-for-australia-build-to-rent-housing

The impact of the Bills on project feasibility

Commissioned by the Property Council, EY revisited its previous analysis of the impact of different policy settings on the potential pipeline of BTR projects in Australia (see Appendix B). EY's analysis shows the impacts of the Bills on BTR project feasibility.

EY's previous analyses[5] showed that providing a 15 per cent MIT withholding tax rate to Australian BTR projects, without mandatory affordable housing requirements, could deliver an additional 150,000 new rental homes across the next 10 years. EY also showed that lowering the MIT withholding tax rate to 10 per cent for BTR with affordable housing could accelerate the delivery of an additional 10,000 affordable homes over 10 years. These two measures combined could have resulted in an additional 160,000 rental homes.

EY's updated analysis below shows the impact of the current Bills, assuming drafting and technical issues are addressed (Scenario 3) and an additional Scenario 4 to maximise the success of the supply of BTR housing with mandatory affordable housing requirements.

The scenarios modelled are:

- ***Scenario 1*** – The base case (status quo) with the existing 30 per cent MIT withholding tax
- ***Scenario 2*** – The Bills, without mandatory affordable housing requirements (the Property Council's longstanding ask of government)
- ***Scenario 3*** – The current Bills (15 per cent MIT withholding tax rate on capital gains and rental income, combined with a 10 per cent affordable housing requirement at a 25 per cent discount), assumes drafting issues (key issues 1-6 of this submission) are fixed.
- ***Scenario 4*** – The Bills amended per joint CHIA, National Shelter and Property Council proposal. This includes 10 per cent MIT withholding tax, 10 per cent affordable housing requirement at 25% discount or no more than 30% household income, whichever is lower. 20 per cent of the affordable tenancies are allocated to low-income earners.

Table 1: EY analysis that shows the impact of the draft Bills to the feasibility of a hypothetical BTR project.

Output	Scenario 1 (Existing Policy) Base Case MIT WHT 30/30 No Affordable	Scenario 2 MIT WHT 15/15 No Affordable	Scenario 3 MIT WHT 15/15 10% Affordable	Scenario 4 MIT WHT 10/10 10% Affordable (With Household Income Test)
Current Market Value Comparison	$282,600,000	$282,600,000	$272,500,000	$270,300,000
Year 1 EBITDA (Pre-Tax)	$10,950,000	$10,950,000	$10,575,000	$10,475,000
Unlevered Pre-Tax Project IRR	7.64%	7.64%	7.20%	7.10%
Unlevered Post-Tax Project IRR	5.82%	6.78%	6.39%	6.57%
Levered Post-Tax Project IRR	*7.15%*	*8.19%*	*7.60%*	*7.73%*
Bps Change (From Scenario 1)	-	*+104 Bps*	*+45 Bps*	*+58 Bps*

Affordable Housing Modelling Assumptions:

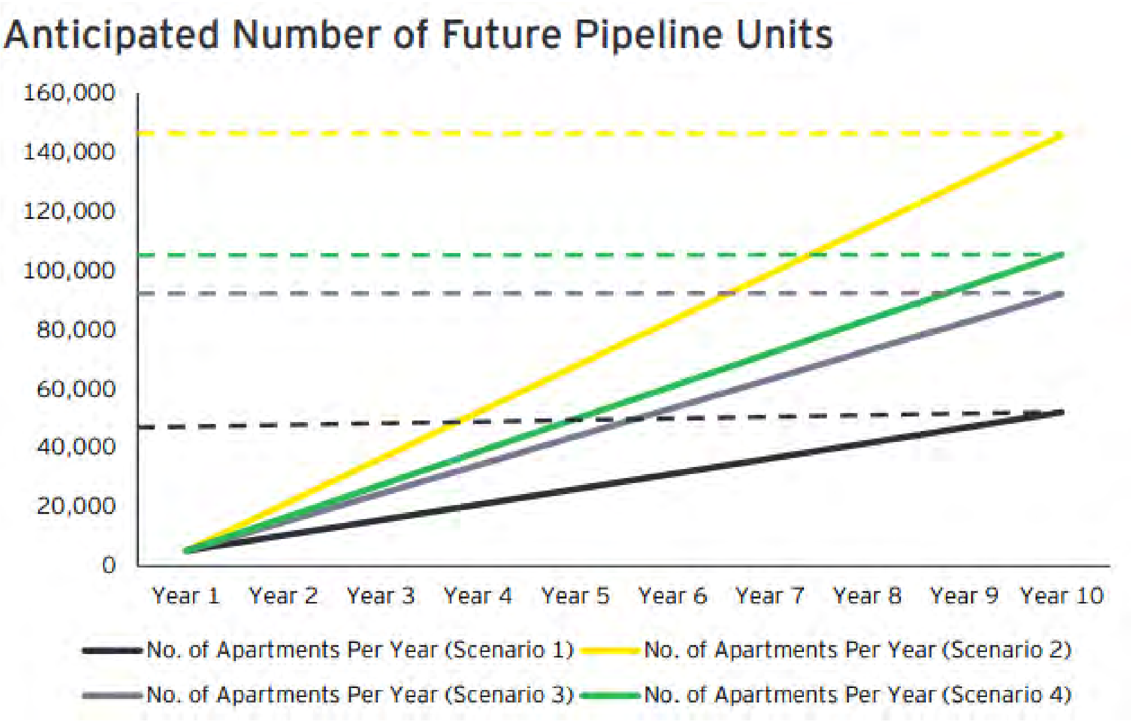
- *The income test of 30% of income only applies to Scenario 4.*
- *Market Rent is based on rents in the Subject Property only. As BtR projects have more amenity, and more people working on site, rents tend to be higher than the general market, as BtR is a different product to Build to Sell ("BtS").*
- *Rental growth rates are based on market growth rates and not linked to the Housing component of the CPI.*
- *Compliance costs and additional property management costs at $1,500 plus GST per annum per unit.*

Source: EY Assessment, 2024

[5] EY for the Property Council, A new form of housing supply for Australia: Build-to-rent housing, April 2023 https://www.propertycouncil.com.au/submissions/a-new-form-of-housing-supply-for-australia-build-to-rent-housing and EY for the Property Council, Build to Rent Housing Advice: Affordable Housing Modelling Assessment, September 2023 https://www.propertycouncil.com.au/submissions/build-to-rent-housing-advice-affordable-housing-modelling-assessment

<u>The modelling shows that Scenario 4 presents the best opportunity to maximise supply of BTR housing while retaining mandatory affordable housing requirements. The settings advocated by CHIA, National Shelter and the Property Council could result in 105,000 rental homes.</u>

<u>The modelling also shows that extending Scenario 4 to existing assets would have a minimal cost to government, reducing tax revenue by only 8.6% over 10 years, costing $9.3 million (or $930,000 each year).</u>



Scenario 2 ~150,000 Units, 8.20% IRR

A reduction in the Managed Investment Trust Withholding Rate (MIT WHT) rate to both 15% on both rental income and capital gains, with no provision of mandatory affordable housing, as well as a 4.0% depreciation allowance. This scenario is reflective of the maximum potential for the Australian BtR sector.

Scenario 4 ~105,000 Units, 7.75% IRR

A reduction in the MIT WHT rate to 10% on both rental income and capital gains, with a 10% provision of affordable housing, at a mixed 25% discounted market rent, or no more than 30% household income, with 20% of affordable tenancies allocated to low-income earners, as well as a 4.0% depreciation allowance.

Scenario 3 ~90,000 Units, 7.60% IRR

A reduction in the MIT WHT rate to 15% on both rental income and capital gains, with a 10% provision of affordable housing at a 25% discounted market rent, as well as a 4.0% depreciation allowance ***(assuming draft issues are fixed)***[1].

Scenario 1 ~50,000 Units, 7.15% IRR

The base case reflecting the previous policy of 30% MIT WHT and no provision of affordable housing, with a 2.5% depreciation allowance.

Figure 3: EY analysis showing projected pipeline of different modelled scenarios.

Key issues

1. Remove the carve-out from the concessional MIT withholding tax rate for interposed entities set out in Item 14.

In relation to a MIT that receives a distribution from another trust that owns the BTR asset, the concessional rate is only available in extremely limited circumstances and will preclude all existing BTR funds, who operate using head trust/sub trust structures, from accessing the measure.

<u>Unamended, this issue alone will ensure the legislation is completely ineffective. It will preclude all existing BTR platforms from accessing the measure and will be unworkable for new BTR funds.</u>

Referring to Item 14 in the Bill, the provision applies where a MIT that has foreign investors (Head MIT) has an indirect interest in a BTR property through one or more entities (Interposed Entities). Basically, the distribution that the Head MIT makes to non-residents that is attributable to rent or a capital gain from that indirect BTR property interest will not be eligible for the concessional MIT withholding tax rate if any of the Interposed Entities are:

- a withholding MIT (broadly, a MIT that has two or more unitholders – i.e. it is not a wholly owned sub trust of the Head MIT)
- an entity that is <u>not</u> a trust, or
- another trust unless the trustee of that trust is the same as the trustee of the Head MIT– this cannot be satisfied for wholly owned sub trusts that are owned directly by the Head MIT (rather than indirectly via a chain of wholly owned sub trusts) as the trustee must be different to the Head MIT trustee to avoid a trust merger (a trust merger basically means that the sub trust is ignored so that you really only have one trust).

Every existing BTR platform in Australia would be precluded from qualifying for the concessional MIT withholding tax rate according to the provisions in Item 14.

Item 14 was inserted into the Bill after public consultation without any opportunity for stakeholders to review or provide feedback. We have engaged further with Treasury following the Bill's introduction to Parliament and understand the intent of introducing Item 14 was to allow for easier administration of the misuse tax. We have noted however, the serious issue this creates in practically preventing BTR funds from operating with sub trusts. Treasury have verbally acknowledged this issue and did undertake to look at a fix that would allow for sub trusts.

Our strong view is that the added complexity that has been introduced with Item 14 simply isn't needed.

Recommendation 1: Delete Item 14 from the Bill to ensure Australian BTR funds can access the 15% MIT withholding tax rate.

2. Reduce the MIT withholding tax rate to 10 per cent and revise affordable housing requirements to maximise supply and deliver 105,000 rental homes

The Property Council strongly supports the provision of affordable housing as part of BTR projects when delivered in a commercially viable way.

The requirement in the Bill to provide 10 per cent of dwellings as affordable tenancies within at-market BTR projects must be balanced with tax settings that will still promote and not deter investment. The current Bills do not do this.

The Property Council has previously advocated the best way to ensure that both affordable and at-market rental housing can be delivered is to lower the existing 15 per cent concessional tax rate for affordable housing to 10 per cent and remove the mandate for 10 per cent affordable tenancies within at-market projects. According to EY, this could have resulted in 160,000 homes (being 150,000 at-market rental homes and an additional 10,000 affordable BTR apartments).

We desperately need more rental homes in Australia, both affordable and at-market.

It is possible to retain the requirement for 10 per cent affordable tenancies and still deliver on ambitious and necessary housing targets, but the cost and complexity the requirement introduces must be balanced with tax settings that will encourage the growth of the sector.

The Property Council has worked with the Community Housing Industry Association (CHIA) and National Shelter to support the right tax settings to encourage the growth of BTR housing, and to better target requirements for 10% affordable housing within existing and new BTR projects to ensure those who need it most are able to benefit.

CHIA, National Shelter and the Property Council call for a series of amendments outlined below. See our joint submission also provided at Appendix A.

Clarity on relationship to existing state and territory requirements

Affordable and social housing contributions are also already dealt with at the state and local government level. Notwithstanding the above, **clarification is needed that the requirement for 10 per cent of dwellings to be offered as affordable tenancies is not additive to the requirements of state, territory or local governments to access state-based concessions:** although Treasury have advised the Property Council verbally that the requirement to provide 10 per cent of dwellings as affordable does not impose a requirement for additional dwellings over and above the requirements to access state, territory or local government based incentives, this is not explicit enough in the Bills or explanatory material.

If the requirement to deliver affordable housing is maintained a mechanism is required to ensure that state or local governments do not ‘double dip’ on affordable housing via contributions or frustrate the provision of affordable housing with additional and differing eligibility requirements. If not explicitly rectified, this will become a major issue for investors and asset owners.

Recommendation 2: Provide the right tax settings to encourage the growth of BTR housing, and better target requirements for 10% affordable housing within existing and new BTR projects to ensure those who need it most can benefit:

- **Revise the definition of affordable tenancies to:**
  - ensure that these are available to moderate income earners with at least 20% of the affordable tenancies available to low-income earners.
  - income eligibility limits are specified such that rents are up to 74.9% of market value or no more than 30% of household income, whichever is the lower.
  - maintain security of tenure for tenants that move from low-income to moderate income by providing supportive transition arrangements for residents that no longer meet income eligibility criteria.
  - make it clear that renters of affordable tenancies do not incur additional service charges for amenities such as gyms or swimming pools.
- **Revise the managed investment trust (MIT) withholding tax rate concession to 10 per cent and ensure a level playing field for domestic superfunds.** This is a necessary adjustment to provide for affordable tenancies targeted towards low and moderate income households. We support the same tax settings for international and domestic investors. Both groups have publicly stated the need for one and other in a functioning deep market.
- **Require the affordable tenancies to be managed in partnership with registered, not-for-profit community housing organisations (CHOs).** This includes CHOs determining eligibility of prospective tenants and conducting compliance checks for reporting purposes but doesn't include management of the physical building or leases.
- **Immediately unlock over <u>1,200</u> affordable tenancies by extending the 10% MIT withholding tax rate to existing BTR projects that meet the other eligibility criteria.** With the National Rental Affordability Scheme (NRAS) coming to an end, up to 6,750 properties will cease to be affordable under the scheme in the period of April – December 2024.[1] There is therefore a strong imperative to unlock affordable rental housing as soon as possible. Extending the concession to BTR projects that were existing or under development at the time of the 2023 Budget announcement could unlock over 1,200 affordable tenancies during a severe rental crisis.
- **No use of 'no cause' evictions.** A requirement for accessing the concessions is that BTR operators commit to not using 'no grounds' clauses to gain possession.
- **Supporting long-term security of tenure by offering five-year lease terms.** Increase the current requirement to offer three-year leases and offer longer lease terms to improve security of tenure.

Recommendation 3: In the Explanatory Memorandum, insert an explicit statement that the eligibility requirement to provide 10 per cent of dwellings as affordable tenancies does not impose a requirement for additional dwellings over and above the requirements to access state, territory or local government-based incentives.

3. Include assets that were operating or in some stage of construction at the time of the 2023 Budget announcement.

To access the measures outlines in the Bills, the development's construction must have commenced after 7:30PM, by legal time in the Australian Capital Territory, on 9 May 2023.

The Bill refers to "*capital works begun on or after 9 May 2023*" with the definition of capital works defined in the Income Tax Assessment Act 1997 as, "*Capital works are taken to begin when the first step in the construction phase starts. For example, the pouring of foundations or sinking of pilings for a building.*" Further, the Explanatory Memorandum includes an explanation of the Government's rationale for not extending the measure to pre-existing assets.

As it stands, 12,420 rental apartments will effectively become stranded assets. They will be at a value disadvantage to later projects, as well as subject to a higher rate of MIT withholding tax compared to new BTR assets. A perverse and inequitable outcome.

Further, it will wrongly penalise early investors in Australia's BTR sector and repel a deep pool of patient institutional capital away from Australian housing to other housing markets where settings are inductive, such the US, Canada and the UK.

At the time of the 2023 Budget announcement, there were twelve existing BTR projects and 22 in some stage of construction (see Table 2). Failing to extend application of the concessional MIT withholding tax rate to assets that were operating or under construction risks stranding these assets and removing rental stock from the market due to their competitive disadvantage with newer BTR assets.

These early projects have pioneered the early development of BTR in Australia and provide a vital foundation of skills and experience that will enable the accelerated growth we would expect to see with a level playing field in terms of tax treatment.

Including existing projects could also Immediately unlock over 1,200 affordable tenancies provided existing BTR projects meet the other eligibility criteria. With the National Rental Affordability Scheme (NRAS) coming to an end, up to 6,750 properties will cease to be affordable under the scheme in the period of April – December 2024.[6] There is therefore a strong imperative to unlock more affordable rental housing as soon as possible. Extending the concession to BTR projects that were existing or under development at the time of the 2023 Budget announcement could unlock over 1,200 affordable tenancies during a severe rental crisis.

The Property Council strongly urges the removal of subitem (1) from Item 25 in the Bill to ensure eligibility is not contingent on the project commencement date, but instead confined to other eligibility requirements detailed in the legislation.

Recommendation 4: Extend the 10 per cent MIT withholding tax rate to BTR projects that were operating or in development prior to the 2023 Budget announcement by removing subitem (1) from Item 25 in the Bill to ensure eligibility is not contingent on the project commencement date, but instead confined to other eligibility requirements.

[6] Department of Social Services, National Rental Affordability Scheme Quarterly Performance Report, March 2024 https://www.dss.gov.au/sites/default/files/documents/05_2024/march-2024-nras-quarterly-performance-report_1.pdf

Table 2: EY analysis of BTR pipeline in Australia with foreign investment, June 2024.

State	Platform Name	Project Name	Suburb	No of Apts	Estimated Project Value	Expected Construction Start Date	Expected Occupancy Start Date	Status
QLD	Arklife	Arklife Robertson Lane	Fortitude Valley	89	$73,000,000	Jun-19	Oct-21	Operating
VIC	Home	Home Southbank	Southbank	403	$310,000,000	Jan-20	May-22	Operating
VIC	Home	Home Richmond	Richmond	368	$270,000,000	May-20	Jul-22	Operating
VIC	LIV | Mirvac	LIV Munro	Melbourne	490	$294,000,000	Oct-20	Nov-22	Operating
NSW	LIV | Mirvac	LIV Indigo	Sydney Olympic Park	315	$225,000,000	Dec-17	Dec-20	Operating
VIC	Blackstone	Realm Caulfield	Caulfield	450	$315,000,000	Dec-19	Nov-22	Operating
QLD	Blackstone	Realm Kangaroo Point	Kangaroo Point	200	$125,000,000	May-18	Jul-21	Operating
QLD	UBS	Smith Collective	Southport	1251	$475,000,000	Sep-15	Jul-17	Operating
WA	Sentinel	Element 27 Bld 1	Subiaco	93	$50,000,000	Dec-17	Jul-19	Operating
WA	Sentinel	Element 27 Bld 2	Subiaco	80	$48,000,000	Jan-20	May-22	Operating
VIC	LOCAL	Local: South Melbourne	South Melbourne	421	$357,850,000	Mar-23	Mar-25	Planned
NSW	Novus	Novus on Harris	Parramatta	205	$180,000,000	Jul-24	Dec-26	Planned
NSW	Investa	3 McNab Av	Footscray	702	$450,000,000	Apr-23	Dec-26	Planning
VIC	Investa	132 Kavanagh St	Southbank	434	$330,000,000	May-23	Dec-25	Planning
VIC	LOCAL	Local: Kensington	Kensington	478	$382,400,000	Dec-22	Aug-24	Under Construction
QLD	Arklife	Arklife Cordelia	South Brisbane	265	$330,000,000	Jun-21	Sep-24	Under Construction
VIC	Tetris	Racecourse Rd	Flemington	666	$300,000,000	Jun-22	Jun-25	Under construction
VIC	Tetris	New Street	Brighton	243	$150,000,000	Sep-22	May-24	Under construction
VIC	Tetris	Bangs Street	Prahran	251	$140,000,000	Sep-22	Sep-24	Under construction
VIC	Novus	Novus on Sturt	Southbank	172	$140,000,000	Mar-23	Jun-25	Under construction
VIC	Home	Home Docklands	Docklands	675	$590,000,000	Nov-21	Sep-24	Under Construction
NSW	Home	Home Parramatta	Paramatta	430	$420,000,000	May-21	Mar-25	Under Construction
VIC	Investa	Pitt St	Sydney	234	$300,000,000	Jun-22	Sep-24	Under Construction
VIC	LIV | Mirvac	LIV Aston	Melbourne	470	$305,500,000	Jan-22	Aug-24	Under construction
VIC	LIV | Mirvac	LIV Albert Fields	Brunswick	500	$275,000,000	Mar-23	Dec-25	Under Construction
QLD	LIV | Mirvac	LIV Anura	Newstead	396	$237,600,000	Aug-21	Dec-24	Under construction
VIC	Greystar	35 Claremont St	South Yarra	304	$243,200,000	Dec-22	Dec-25	Under Construction
VIC	Greystar	14 Yarra St	South Yarra	382	$229,200,000	Dec-22	Dec-25	Under Construction
VIC	Greystar	85 Gladston St	South Melbourne	700	$450,000,000	Dec-22	Mar-25	Under construction
QLD	Frasers	Brunswick & Co	Fortitude Valley	323	$240,000,000	Jan-21	Dec-25	Under Construction
VIC	Sentinel	The Briscoe	West Melbourne	172	$120,400,000	Oct-22	Jan-24	Operating
VIC	GQ BTR	1 Wellington Street	St Kilda	258	$193,500,000	Mar-22	Sep-24	Under Construction
				12,420	$8,549,650,000			

4. Treatment of Rental Income and Capital Gains

The legislation has been amended so that the concessional MIT withholding tax rate applies to both rental income and capital gains. This is a significant improvement and responds to feedback made by the Property Council in our submission to Treasury. However, the way this has been provided for in the Bill is not sufficient as outlined below.

The Impact Analysis in the Explanatory Memorandum accompanying the Bills describes the recommended policy option as "reduce the MIT withholding tax rate in line with other comparable asset classes". Further it states the policy option:

> *"reduces the withholding tax rate for BTR assets in line with other commercial real estate asset classes (such as offices, shopping centre and hotels). Consistent with above asset classes, the reduced withholding tax rate will apply to both rent income and capital gains that are attributable to BTR developments.*
>
> *This option will establish in federal legislation a common understanding of the BTR asset class that would receive comparable tax treatment".*

The proposed Bills do not result in comparable treatment in respect of the withholding tax rate as the policy intention states.

Limiting the income on which the concessional MIT withholding tax rate can be obtained to only rental income under lease is not appropriate due to the following:

- the MIT withholding tax rate for other asset classes applies to the "fund payment" and is not subject to further exclusions based on the type of income which comprises the fund payment.
- to access the concessional MIT withholding tax rate under the proposed section 12-450(5), the entity must be a "managed investment trust". This requires, amongst other things, that the trust cannot carry on a "trading business" or control or otherwise be able to control another person which carries on a trading business. This already places limitations on the types of income in accordance with a rental purpose test which currently exists in the legislation and applies to all MITs. In particular, in accordance with the provisions and terms as defined under Division 6C of Part III of the ITAA 1936:
  - a MIT can only conduct "eligible investment business".
  - eligible investment business includes "investing in land for the purpose, or primarily the purpose of, deriving rent".
  - these requirements are common to all entities to qualify as a MIT.
- as set out in the proposed 12-450(5), the concessional MIT withholding tax rate can only apply where the "active build to rent development" requirements are satisfied, which is an eligibility concept introduced by the Bills. This eligibility concept contains numerous requirements that act as a gateway to determine which BTR assets can access the concessional MIT withholding tax rate.

Recommendation 5: Ensure comparable treatment of rental income and capital gains for BTR developments with other asset classes by amending Item 18 subitem (5)(a) as follows:

(a) the amount is, or is referable to~~, a payment of rental~~ income from ~~under a lease of~~ the dwelling;

5. Provide for tenants in common ownership

The requirement for a 15-year holding period by a single entity seems to preclude tenants in common. This type of ownership is not in conflict with the policy intent and must be provided for.

Ownership by tenants in common is important when different types of investors partner with each other – for example, a private developer (who might operate with higher debt) partnering with a pension fund with lower debt. Tenants in common ownership allows for different levels of debt and permits each party to deal with their interests more seamlessly.

Property Council would prefer to see provisions which allow for a unified ownership structure, as is the case in NSW and VIC and aligns with the intent of the current requirement in the Explanatory Memorandum (para 1.62) that "the owner has control over the BTR development and is responsible for maintaining its eligibility for the MIT withholding tax concession and the accelerated capital works deduction".

One suggestion would be to amend the wording of the relevant clause (s43-153(1)(c)) to explicitly align with NSW and VIC or suggest the wording "*all of the dwellings and *common areas for the dwellings are owned by a single entity*" be amended to allow or include ***indirect*** ownership by a single entity. This would be consistent with the approach of NSW and VIC state governments, their relevant guidance on this is here:

- NSW Treasurers Guidelines: Treasurer's Guidelines for the Reduction in Land Value for Certain Build-to-rent Properties, for Land Tax Purposes.pdf (nsw.gov.au) See Part 2, paragraph 3 which contemplates a unified ownership structure, which can include a group of entities holding joint ownership (without being a de-facto subdivision or divided ownership) – this effectively deals with the relevant concern.
- NSW Revenue Ruling G014: Build to rent | Revenue NSW see paragraphs 10-12. This sets out a prohibition on subdivision for 15 years to remain within a unified ownership structure.
- Victoria SRO guidance: Land tax discount for build-to-rent developments | State Revenue Office (sro.vic.gov.au) See under heading "What does unified ownership structure mean?"

Recommendation 6: Amend Item 9, section 43-153 subitem (1)(c) as follows:

(c) all of the dwellings and *common areas for the dwellings are owned directly or indirectly by a single entity; and

Otherwise, this clause should be amended to align with NSW and VIC guidance referenced above to provide for a unified ownership structure.

6. Replace the Misuse Tax with an annual compliance declaration on affordable tenancies

Property Council agrees with the need for integrity to defend against misuse of the concessional MIT withholding tax rate where the BTR development ceases to be an active BTR development during the relevant compliance period.

We understand some of the rationale for introduction of a misuse tax was to provide a strong deterrent to owners not to break up the units within a building for sale. On this point, we believe this has fundamentally misunderstood the BTR sector.

We strongly believe the requirements for MITs that the property be held primarily for the purpose for deriving rent is sufficient protection, as it is for all other real estate asset classes. That is, **if the building owner were to strata the units within a building and sell them, such that it did not meet this primary purpose of investing in land for deriving rent requirement, they would become a trading trust and be subject to Division 6C of the Income Tax Assessment Act 1936 and would immediately cease to be eligible to claim the concession**. While we believe there is little to no risk of this scenario ever actually playing out, this is a strong deterrent and is already provided for in the current MIT regime.

The second reason we understand the misuse tax was deemed necessary is to ensure compliance with the ongoing requirements for affordable tenancies.

The Property Council is advocating in partnership with CHIA and National Shelter that affordable tenancies should be managed in partnership with registered, not-for-profit community housing organisations (CHOs). We suggest a more straightforward solution is to leverage the compliance reporting from CHOs to the ATO as a form of annual compliance declaration with the affordable housing requirements.

Recommendation 7: Remove the Misuse Tax and replace it with an annual compliance declaration on provision of affordable tenancies submitted by registered, not-for-profit community housing organisations (CHOs) who would manage tenant selection and compliance with the BTR owner.

Appendix A

Build to Rent housing can help alleviate the housing crisis and deliver 105,000 homes

The Community Housing Industry Association (CHIA), National Shelter and the Property Council of Australia welcome the opportunity to make this short joint response to the Senate Economics Legislation Committee inquiry on the Treasury Laws Amendment (Build to Rent) Bill 2024.

All sides of politics agree Australia is in a housing crisis.

It's time to act like it, and support solutions that will help.

Build to Rent (BTR) housing is a new form of housing in Australia, although it represents a significant component of housing in other countries like the UK, Canada and the US. With long-term institutional owners, BTR provides secure tenure for renters in good quality accommodation that is comfortable, energy efficient and includes shared facilities and community programs.

BTR also provides an avenue to increase the supply of desperately needed affordable rental accommodation.

The legislation needs to be improved: to provide the right tax settings to encourage the growth of BTR housing, and to better target requirements for 10% affordable housing within existing and new BTR projects to ensure those who need it most can benefit. EY analysis shows **these changes could result in <u>105,000 rental homes</u> and a minimal cost to Government over a 10-year period of $9.3m[1]**.

CHIA, National Shelter and the Property Council of Australia call for the following amendments:

1. **Revise the definition of affordable tenancies to:**
   - ensure that these are available to moderate income earners with at least 20% of the affordable tenancies available to low-income earners.
   - income eligibility limits are specified such that rents are up to 74.9% of market value or no more than 30% of household income, whichever is the lower.
   - maintain security of tenure for tenants that move from low-income to moderate income by providing supportive transition arrangements for residents that no longer meet income eligibility criteria.
   - make it clear that renters of affordable tenancies do not incur additional service charges for amenities such as gyms or swimming pools.
2. **Revise the managed investment trust (MIT) withholding tax rate concession to 10 per cent and ensure a level playing field for domestic superfunds.** This is a necessary adjustment to provide for affordable tenancies targeted towards low and moderate income households. We support the same tax settings for international and domestic investors. Both groups have publicly stated the need for one and other in a functioning deep market.
3. **Require the affordable tenancies to be managed in partnership with registered, not-for-profit community housing organisations (CHOs).** This includes CHOs determining eligibility of prospective tenants and conducting compliance checks for reporting purposes but doesn't include management of the physical building or leases.
4. **Immediately unlock over <u>1,200</u> affordable tenancies by extending the 10% MIT withholding tax rate to existing BTR projects that meet the other eligibility criteria.** With the National Rental Affordability Scheme (NRAS) coming to an end, up to 6,750 properties will cease to be affordable under the scheme in the period of April – December 2024.[2] There is therefore a strong imperative to unlock affordable rental housing as soon as possible. Extending the concession to BTR projects that were existing or

---

[1] EY analysis for the Property Council, July 2024 (see overleaf) shows a 8.6% loss in tax revenue over 10 years compared to BAU.
[2] Department of Social Services, National Rental Affordability Scheme Quarterly Performance Report, March 2024
https://www.dss.gov.au/sites/default/files/documents/05_2024/march-2024-nras-quarterly-performance-report_1.pdf

under development at the time of the 2023 Budget announcement could unlock over 1,200 affordable tenancies during a severe rental crisis.

5. **No use of 'no cause' evictions.** A requirement for accessing the concessions is that BTR operators commit to not using 'no grounds' clauses to gain possession.
6. **Supporting long-term security of tenure by offering five-year lease terms.** Increase the current requirement to offer three-year leases and offer longer lease terms to improve security of tenure.

EY Modelling Results

Table 1: Scenario Outputs

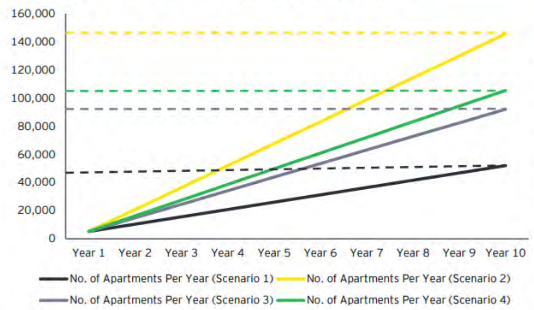
Output	Scenario 1 *(Existing Policy) Base Case MIT WHT 30/30 No Affordable*	Scenario 2 *MIT WHT 15/15 No Affordable*	Scenario 3 *MIT WHT 15/15 10% Affordable*	Scenario 4 *MIT WHT 10/10 10% Affordable (With Household Income Test)*
Current Market Value Comparison	$282,600,000	$282,600,000	$272,500,000	$270,300,000
Year 1 EBITDA (Pre-Tax)	$10,950,000	$10,950,000	$10,575,000	$10,475,000
Unlevered Pre-Tax Project IRR	7.64%	7.64%	7.20%	7.10%
Unlevered Post-Tax Project IRR	5.82%	6.78%	6.39%	6.57%
Levered Post-Tax Project IRR	*7.15%*	*8.19%*	*7.60%*	*7.73%*
Bps Change (From Scenario 1)	-	*+104 Bps*	*+45 Bps*	*+58 Bps*

Affordable Housing Modelling Assumptions:

- *The income test of 30% of income only applies to Scenario 4*
- *Market Rent is based on rents in the Subject Property only. As BtR projects have more amenity, and more people working on site, rents tend to be higher than the general market, as BtR is a different product to Build to Sell ("BtS").*
- *Rental growth rates are based on market growth rates and not linked to the Housing component of the CPI.*
- *Compliance costs and additional property management costs at $1,500 plus GST per annum per unit.*

Source: EY Assessment, 2024

Anticipated Number of Future Pipeline Units



Scenario 2 — ~150,000 Units, 8.20% IRR

A reduction in the Managed Investment Trust Withholding Rate (MIT WHT) rate to both 15% on both rental income and capital gains, with no provision of mandatory affordable housing, as well as a 4.0% depreciation allowance. This scenario is reflective of the maximum potential for the Australian BtR sector.

Scenario 4 — ~105,000 Units, 7.75% IRR

A reduction in the MIT WHT rate to 10% on both rental income and capital gains, with a 10% provision of affordable housing, at a mixed 25% discounted market rent, or no more than 30% household income, with 20% of affordable tenancies allocated to low-income earners, as well as a 4.0% depreciation allowance.

Scenario 3 — ~90,000 Units, 7.60% IRR

A reduction in the MIT WHT rate to 15% on both rental income and capital gains, with a 10% provision of affordable housing at a 25% discounted market rent, as well as a 4.0% depreciation allowance ***(assuming draft issues are fixed)***[1].

Scenario 1 — ~50,000 Units, 7.15% IRR

The base case reflecting the previous policy of 30% MIT WHT and no provision of affordable housing, with a 2.5% depreciation allowance.

Anticipated Cost to Extend Scenario 4 to Existing Assets

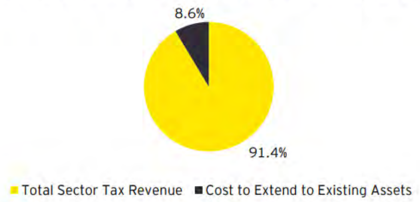
Under the proposed policy, the existing 12 Build to Rent assets will not be eligible for any discounted MIT WHT rate.

Utilising a high-level approach, based on our prediction of the total national BtR pipeline in our previous work for the Property Council of Australia (dated 21 February 2023) and our understanding of the existing 12 operation BtR projects, we consider that extending Scenario 4 to the operating assets (4,339 Units) may reduce total BtR MIT tax revenues by circa ***8.6% over the next 10 years, reflective of $9,300,000***. This is based on the total tax revenue we anticipate to be collected by the overall pipeline of c.105,000 units.

The extension of the discount would signal strong support to the pioneering institutional capital which has already committed to developing the Australian BtR sector, whilst inaction may create "stranded assets" which will be inferior against newer eligible developments, and resultingly make them harder to trade.

- *Note: In our original report dated February 2023, there was 12 operational assets, however since than there has been 6 additional assets completed, taking the total count to 18. For the purposes of this report, we have continued to calculate the cost to extend on the original 12 to ensure a like-for-like comparison.*

Percentage Cost of Total Sector Tax Revenue (10Y)



About our organisations

CHIA is the peak body representing not-for-profit community housing organisations (CHOs) across Australia. Not-for-profit CHOs are regulated organisations that develop and manage rental homes for the long-term, primarily to assist low-income households disadvantaged in securing suitable homes in the private market. They invest financial surpluses in building homes, enhancing landlord services, and implementing property improvements instead of shareholder profits. Our 160+ members collectively manage more than 130,000 homes, valued at over $40 billion for the benefit of our residents and their communities.

National Shelter is a non-government peak organisation that aims to improve housing access, affordability, appropriateness, safety, and security for people on low incomes. National Shelter is supported by the work of State Shelters and members in all jurisdictions, as well as national member organisations, associate members, and sponsors.

Property Council of Australia is the leading advocate for Australia's largest industry: 13% of Australia's GDP; employs 1.4 million Australians; and pays $72 billion in tax. Members are the leading and largest organisations that invest in, design, build and manage places that matter to Australians across all types of buildings and all capital and regional cities.

Appendix B

Build to Rent and the Australian Housing Sector

Analysis of the Proposed Managed Investment Trust Policy Related to Build to Rent Assets

Reliance Restricted

19 July 2024

Written by

Luke Mackintosh
Partner | Strategy and Transactions

Building a better working world

Release Notice

The results of Ernst & Young's work, including the assumptions and qualifications made in preparing our work, are set out in Ernst & Young's report dated 19 July 2024 ("Report", "White Paper"). A reference to the Report includes any part of the Report. No further work has been undertaken by Ernst & Young since the date of the Report to update it.

Ernst & Young has prepared the Report independently of any party, apart from Ernst & Young. Ernst & Young has not been engaged to act, and has not acted, as advisor to any party. Accordingly, Ernst & Young makes no representations as to the appropriateness, accuracy or completeness of the Report for any other Parties purposes.

No reliance may be placed upon the Report or any of its contents by any Party. All Parties receiving a copy of the Report must make and rely on their own enquiries in relation to the issues to which the Report relates, the contents of the Report and all matters arising from or relating to or in any way connected with the Report or its contents.

Ernst & Young disclaims all responsibility to any Party for any loss or liability that the Parties may suffer or incur arising from or relating to or in any way connected with the contents of the Report, the provision of the Report to the Parties or the reliance upon the Report by the Parties.

No claim or demand or any actions or proceedings may be brought against Ernst & Young arising from or connected with the contents of the Report or the provision of the Report to the any Parties. Ernst & Young will be released and forever discharged from any such claims, demands, actions or proceedings.

In preparing this Report Ernst & Young has considered and relied upon information from a range of sources believed to be reliable and accurate. We have not been informed that any information supplied to it, or obtained from public sources, was false or that any material information has been withheld from it. Neither Ernst & Young nor any member or employee thereof undertakes responsibility in any way whatsoever to any person in respect of errors in this Report arising from incorrect information provided to EY.

Ernst & Young does not imply and it should not be construed that it has verified any of the information provided to it, or that its enquiries could have identified any matter that a more extensive examination might disclose.

The analysis and Report do not constitute a recommendation on a future course of action.

Ernst & Young have consented to the Report being published electronically on the Property Council of Australia's website for informational purposes only. Ernst & Young have not consented to distribution or disclosure beyond this. The material contained in the Report, including the Ernst & Young logo, is copyright. The copyright in the material contained in the Report itself, excluding Ernst & Young logo, vests in the Client. The Report, including the Ernst & Young logo, cannot be altered without prior written permission from Ernst & Young.

Ernst & Young's liability is limited by a scheme approved under Professional Standards Legislation.

Results

Table 1: Scenario Outputs

Output	Scenario 1 *(Existing Policy) Base Case MIT WHT 30/30 No Affordable*	Scenario 2 *MIT WHT 15/15 No Affordable*	Scenario 3 *MIT WHT 15/15 10% Affordable*	Scenario 4 *MIT WHT 10/10 10% Affordable (With Household Income Test)*
Current Market Value Comparison	$282,600,000	$282,600,000	$272,500,000	$270,300,000
Year 1 EBITDA (Pre-Tax)	$10,950,000	$10,950,000	$10,575,000	$10,475,000
Unlevered Pre-Tax Project IRR	7.64%	7.64%	7.20%	7.10%
Unlevered Post-Tax Project IRR	5.82%	6.78%	6.39%	6.57%
Levered Post-Tax Project IRR	*7.15%*	*8.19%*	*7.60%*	*7.73%*
Bps Change (From Scenario 1)	-	*+104 Bps*	*+45 Bps*	*+58 Bps*

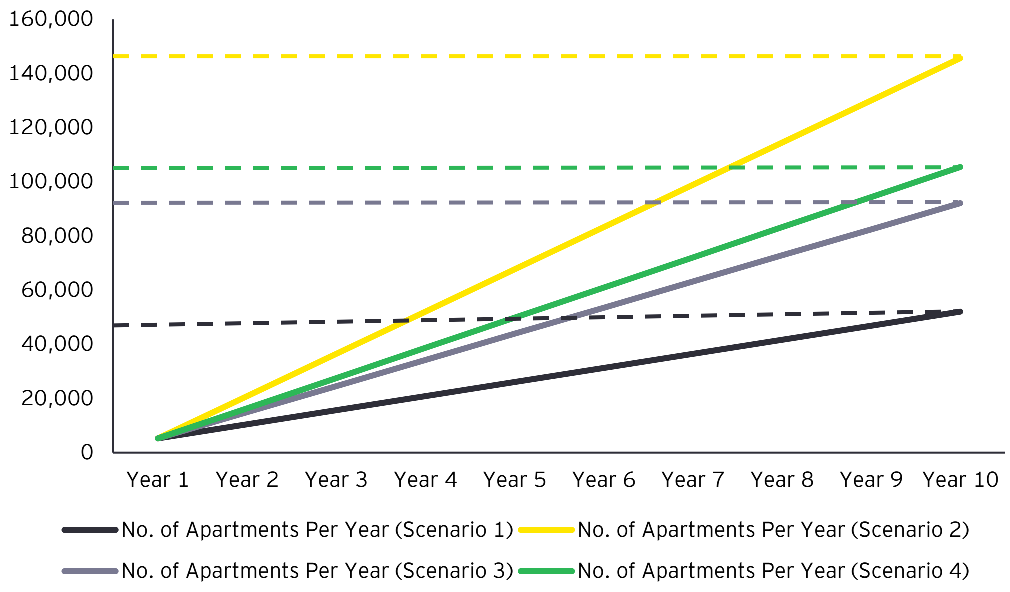
Affordable Housing Modelling Assumptions:

- *The income test of 30% of income only applies to Scenario 4.*
- *Market Rent is based on rents in the Subject Property only. As BtR projects have more amenity, and more people working on site, rents tend to be higher than the general market, as BtR is a different product to Build to Sell ("BtS").*
- *Rental growth rates are based on market growth rates and not linked to the Housing component of the CPI.*
- *Compliance costs and additional property management costs at $1,500 plus GST per annum per unit.*

Source: EY Assessment, 2024

Results

Anticipated Number of Future Pipeline Units



Scenario 2 — **~150,000 Units, 8.20% IRR**

A reduction in the Managed Investment Trust Withholding Rate (MIT WHT) rate to both 15% on both rental income and capital gains, with no provision of mandatory affordable housing, as well as a 4.0% depreciation allowance. This scenario is reflective of the maximum potential for the Australian BtR sector.

Scenario 4 — **~105,000 Units, 7.75% IRR**

A reduction in the MIT WHT rate to 10% on both rental income and capital gains, with a 10% provision of affordable housing, at a mixed 25% discounted market rent, or no more than 30% household income, with 20% of affordable tenancies allocated to low-income earners, as well as a 4.0% depreciation allowance.

Scenario 3 — **~90,000 Units, 7.60% IRR**

A reduction in the MIT WHT rate to 15% on both rental income and capital gains, with a 10% provision of affordable housing at a 25% discounted market rent, as well as a 4.0% depreciation allowance ***(assuming draft issues are fixed)***[1].

Scenario 1 — **~50,000 Units, 7.15% IRR**

The base case reflecting the previous policy of 30% MIT WHT and no provision of affordable housing, with a 2.5% depreciation allowance.

Anticipated Cost to Extend Scenario 4 to Existing Assets

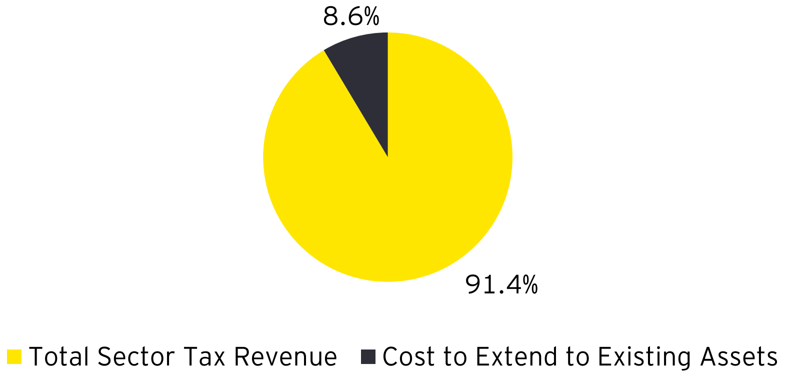
Under the proposed policy, the existing 12 Build to Rent assets will not be eligible for any discounted MIT WHT rate.

Utilising a high-level approach, based on our prediction of the total national BtR pipeline in our previous work for the Property Council of Australia (dated 21 February 2023) and our understanding of the existing 12 operation BtR projects, we consider that extending Scenario 4 to the operating assets (4,339 Units) may reduce total BtR MIT tax revenues by circa ***8.6% over the next 10 years, reflective of $9,300,000***. This is based on the total tax revenue we anticipate to be collected by the overall pipeline of c.105,000 units.

The extension of the discount would signal strong support to the pioneering institutional capital which has already committed to developing the Australian BtR sector, whilst inaction may create "stranded assets" which will be inferior against newer eligible developments, and resultingly make them harder to trade.

- *Note: In our original report dated February 2023, there was 12 operational assets, however since than there has been 6 additional assets completed, taking the total count to 18. For the purposes of this report, we have continued to calculate the cost to extend on the original 12 to ensure a like-for-like comparison.*

Percentage Cost of Total Sector Tax Revenue (10Y)



EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

ey.com