

26 June 2024

Senate Standing Committees on Economics  
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Dear Secretary,

### Introduction

SCAQ is the peak association supporting Queensland's strata sector, with more than 1,300 individual and corporate members who help oversee, advise and manage assets worth some \$280 billion on behalf of homeowners and investor owners. As the peak body for the strata industry, SCAQ is in the unique position to understand the sector from all angles.

SCAQ is in an enviable position to understand the sector from a broad array of viewpoints owing to its diverse membership. SCAQ represents strata managers and service providers, meaning we can advocate from a "whole of industry" perspective.

There are over 53,000 community titles schemes and over 540,000 individual lots in Queensland. Lot owners are part of the body corporate, and a committee is responsible for the day-to-day management of the scheme, such as maintaining common property. Under body corporate legislation, a tenant is known as an 'occupier' and occupiers have significant rights and responsibilities in relation to the body corporate.

### Policy Submission

#### ***Submission to the Inquiry into Treasury Laws Amendment (Responsible Buy Now Pay Later and Other Measures) Bill 2024 and Capital Works (Build to Rent Misuse Tax) Bill 2024***

We are pleased to submit our views on the Treasury Laws Amendment (Responsible Buy Now Pay Later and Other Measures) Bill 2024 and the Capital Works (Build to Rent Misuse Tax) Bill 2024 (collectively referred to as the "Bill"). Our submission primarily focuses on build-to-rent developments. While the Bill's tax changes are intended to promote build-to-rent development, it is crucial to consider the long-term consequences of such developments on the Australian property market.

### Concerns with Build-to-Rent Developments

There is a favourable environment towards testing build-to-rent as part of the housing supply mix to see if it makes a substantive difference. SCAQ is of the view that the potential problems with this

style of development need to be openly and frankly considered prior to a large-scale injection of these sorts of developments in the Australian property market.

SCAQ has two principal concerns with regards to the Bill, one is the concerns about building quality and maintenance and secondly, home ownership, both of which SCAQ has been active in promoting widely across a variety of platforms.

In summary, SCAQ is deeply concerned about the potential for significant maintenance backlogs or failings, as well as the social impact of prioritising and emphasising rental stock as a method of occupation, rather than encouraging as many Australians as possible to own their own home.

### **Build to Rent**

Build to rent is an established practice across the world, including countries with similar legal, regulatory and cultural environments to Australia like the United States, Canada and the United Kingdom. In Australia, there is minimal traditional investment by large single entities into rental housing stock, and small “mum and dad” investors who often own only a single investment property make up the overwhelming bulk of the private rental stock. State Governments and Community Housing Organisations play a small role in the housing market.

At the outset, SCAQ wishes to express a degree of skepticism as to the efficacy of build-to-rent in relieving the long-term pressures on the Australian housing market. Whilst it is true that any injection of otherwise unbuilt supply is likely to have some positive effect, institutional investors have obligations as companies to maximise returns to shareholders, and this provides a significant incentive to maximise net return through charging rent’s which are the market rate. Whilst theoretically build-to-rent should increase supply, the same sorts of developments could easily be sold to investor owners or owner-occupiers- both of which could reduce pressure on the rental market.

Whilst we do acknowledge the Bill imposes a requirement for a portion (at least 10%) of “affordable” dwellings, we do not believe this will have a significant impact overall on the underlying incentives and pressures placed on companies.

### **Legacy Effects**

SCAQ acknowledges a large part of the intent of the Bill is to ensure that there are favourable tax settings to ensure appropriate maintenance of the proposed lots, which are expected to be complexes of 50 or more dwellings. High density buildings are littered with defective construction as a rule, and this is an important consideration. Whilst retention of the asset may theoretically encourage a proprietor to build to a higher standard, it is likely that after 15 years, when incentives to retain the property are ended, these properties will be sold off in freehold, often with significant maintenance issues which may only be “patched over” given the incentives placed upon these proprietors are to maximise yield.

The depth of the problem of building defects is enormous. The most comprehensive study done into the topic of building defects in Australia in multi-owned (strata or body corporate) was undertaken by Griffith and Deakin Universities. Titled “An examination of building defects in residential multi-

owned properties<sup>1</sup>” (the Report or Deakin Defects Report) and authored by academics Dr. Nicole Johnston and Assoc Prof. Sacha Reid, the Deakin Defects Report outlines the serious problems facing building standards in this section of the built environment. SCAQ would also encourage the Government to make direct contact with the authors of this report and ask that they provide their primary data as another source of information on this matter. Fundamentally, to suggest there is a paucity of evidence on this topic is false.

Whilst there is no uniform definition of a defect in academia or industry, recent works have tended to reference the following definition published by David Watt:

*“a failing or shortcoming in the function, performance, statutory or user requirements of a building, and might manifest itself within the structure, fabric, services or other facilities of the affected building<sup>2</sup>.”*

It is important to understand the magnitude of this problem that is building defects in strata properties. The Deakin Defects Report examined 212 building audit reports from New South Wales, Victoria and Queensland and found over 3000-line-item defects<sup>3</sup>.

85% of buildings analysed had at least one defect and the average number of line-item defects was 14. The Deakin Defects Report<sup>4</sup> defined the following core “construction systems” in a high-rise building to inform their analysis also:

- Building Fabric and Cladding
- Electrical, Lighting and Data
- Fire Protection
- Hydraulics
- In Motion Equipment
- Mechanical and Ventilation
- Roof and Rainwater Disposal
- Safety
- Structural
- Utility Supply
- Waterproofing
- Non-essential Services
- Access and Egress

The Deakin Defects Report also found that on average, almost six “construction systems” were affected by defects in each building.

There is no reason to think this new asset class will be able to avoid these problems. More concerningly, when these buildings are ultimately and inevitably sold off, they are likely to begin

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<sup>1</sup> Johnston, Nicole and Reid, Sacha 2019, An examination of building defects in residential multi-owned properties, Deakin University, [Melbourne, Vic.].

<sup>2</sup> David Watt, Building pathology: principles and practice (Blackwell Publishing, 2nd ed, 2007) 96

<sup>3</sup> Johnston, Nicole and Reid, Sacha 2019, An examination of building defects in residential multi-owned properties, Deakin University, [Melbourne, Vic.].

<sup>4</sup> Australian Building Management Accreditation (ABMA), ABMA Building Management Code (2018) Queensland Edition.

their lives as strata titled properties with no sinking fund. The problems which inevitably affect all high-density buildings will be unplanned for, and likely become a significant problem in the longer term. There needs to be appropriate consideration of how to manage this inevitable transition, so unsuspecting owners are not left with a significant and costly maintenance backlog.

### **Home Ownership**

In the last quarter, the disparity between the price of detached houses in Brisbane and units was approximately \$300,000<sup>5</sup>. This means, by default, that unit properties help allow a broader demographic of Queenslanders to own their own home. Home ownership is demonstrated by research to have meaningful positive effects on feelings of inclusion and community<sup>6</sup>. Homeowners have stronger social networks, are more likely to see friends and relatives and are more likely to be active members of clubs and associations<sup>7</sup>. All these activities help ameliorate loneliness, build social connection and cohesion and ensure that people have positive human interactions. These benefits are believed to come through feelings of greater stability and security which is associated with home ownership.

Emphasising rental stock over stock for sale may have a social impact which undermines social and economic stability for a host of Australians. We would urge the Government to consider prioritising housing investment into stock which can be owned by Australians rather than allowing large corporate landlords to have a greater role in the housing mix of the country.

### **Conclusion**

SCAQ acknowledges Governments at all levels have a strong desire to ameliorate immediate and significant pressures in the housing market. This is a noble goal and one SCAQ strongly supports. However, SCAQ believes appropriate future proofing of the urban environment, to ensure that there is appropriate planning for the full life cycle of building environment if this new asset class is to come into being. We would also like to place on the record the social and economic important of home ownership and encourage the Government not to give up on this important dream for many Australians.

Kind regards



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<sup>5</sup> <https://streamlineproperty.com.au/brisbane-property-market-update-march-2024/>

<sup>6</sup> Stillman, S. and Liang, Y., 2010. Does Homeownership Improve Personal Wellbeing?.

<sup>7</sup> Dockery, A. and Bawa, S., 2019. Why Do Home-Owners do Better?. State of Australian Cities Conference and PhD Symposium.