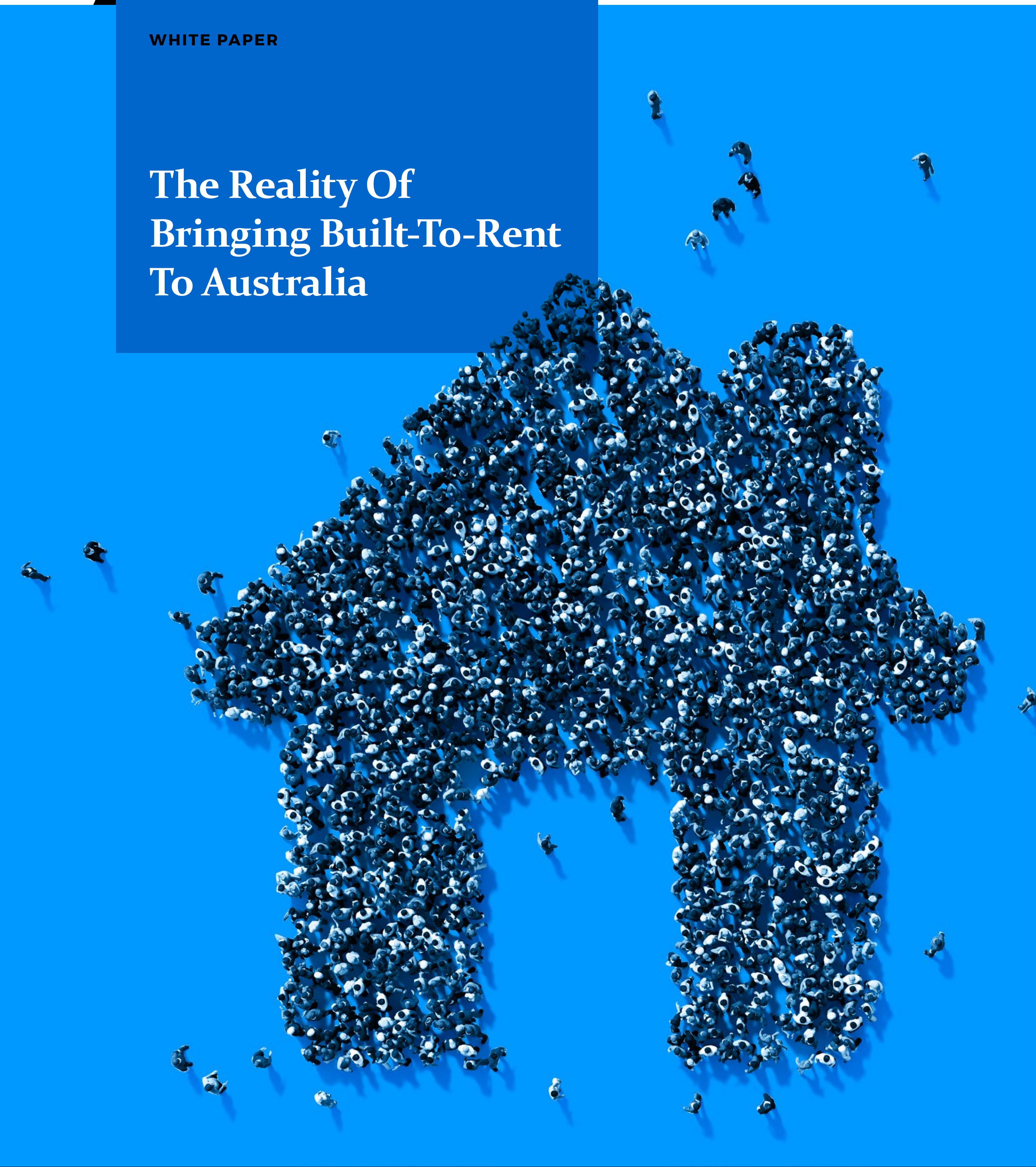
WHITE PAPER

The Reality Of Bringing Built-To-Rent To Australia



Development Finance Partners

ABSTRACT

As the development industry buzzes with the possibility of successfully bringing build-to-rent projects to Australia, the reality of introducing this asset class to the country remains murky.

With difficult to navigate financial systems, and taxation structures that deter institutional investors from supporting the market, it will be a long and difficult road before the asset class establishes the same success in Australia as it has overseas.

Just as 'WeWork' changed the landscape of office assets, will BTR change the landscape for residential housing in Australia?

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INTRODUCTION

As the build-to-rent (BTR) sector continues to garner interest from developers across the country, the immature market is beginning to present some unique hurdles for developers from a financial perspective, despite the sector's success in international markets.

Build-to-rent (BTR) – commonly known as 'multifamily' in the US – is an alternative development model where a developer holds stock in their project specifically for long-term rentals. This approach has been markedly successful in both the US and the UK with the sector providing 265,000 new units in the US in 2017 alone, and offering developers a way to diversify their profits.

Developers such as Grocon, LendLease and Mirvac are all looking at implementing the BTR model in Australia – with Grocon even purchasing a development-ready site for $35 million to house a build-to-rent project. But, despite this, the sector may not be as financially viable in Australia as it is internationally due to the significant differences and challenges presented by the Australian financial system.

As we're seeing the 'Australian Dream' of home ownership become increasingly difficult, new residential models such as BTR are becoming a popular alternative. Especially as younger couples and families begin to prefer looking for long-term rental housing over purchasing their own homes.

In order to be successful, BTR projects rely heavily on patient, low cost capital – primarily from institutional investors – however the Australian financial landscape proves to be difficult from this perspective and may be holding this emerging sector back.

However, it has been hugely successful in international markets, and this is what drives hopes for a similar success domestically.

DIFFERENCES BETWEEN INTERNATIONAL MARKETS & AUSTRALIA

When market analysts and developers mention the build-to-rent market in Australia, it normally comes with an explanation and justification of how the market has exploded internationally – specifically in the US and the UK.

In the US, BTR (or 'multifamily) is one of the most well-established residential assets available to institutional investors. Over the past 10 years its popularity has soared and the low-risk, stable returns offered by BTR are known for garnering the interest of investors from across the globe.

Similarly, in the UK the sector has begun to flourish – even though it is still a relatively immature asset class.

The US

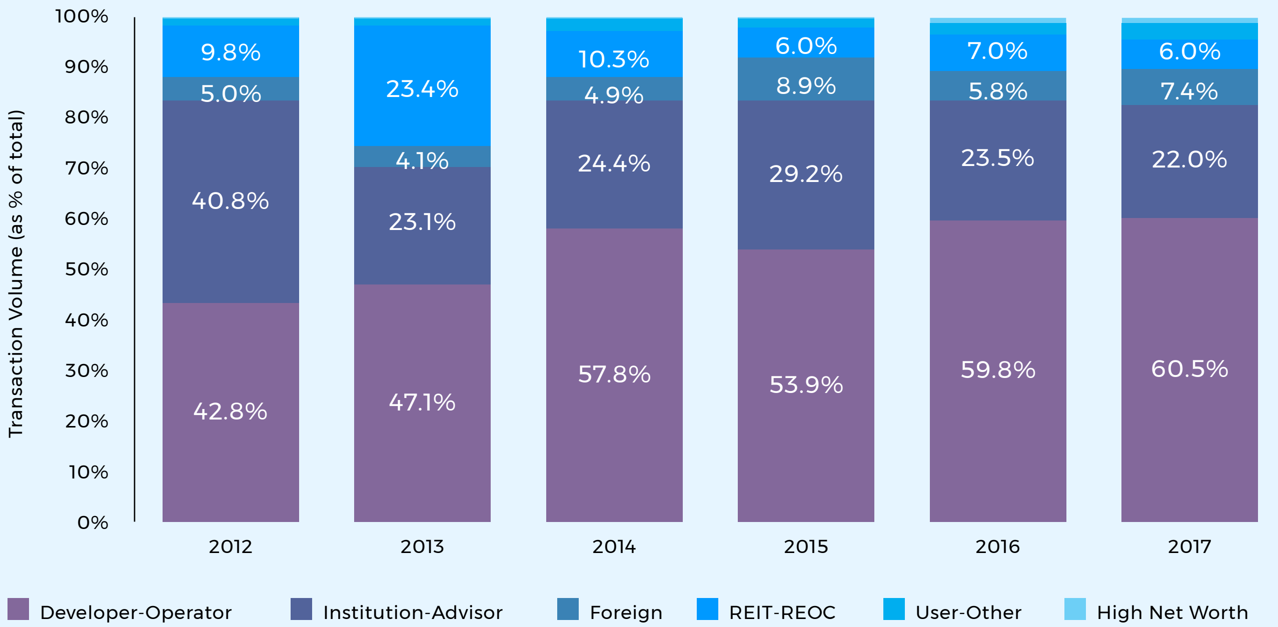
The build-to-rent sector in the US is booming – with the sector comprising of 14.5 million units across the 62 largest metro markets in the US. This has resulted in the sector demonstrating an acquisitions volume of $150 billion in 2017 (according to CBRE research) – with demand being at its highest since 2010.

This overall success is largely made possible by the financial system in the US – particularly their banking and debt systems. The competitive nature of the US financial system allows banks to carve out their own niches and focus on one primary area – with financial institutions like Freddie Mac having a dedicated 'multifamily' arm that financed a record-setting $73.2 billion in loan purchase and guarantee volume in 2017 alone.

The BTR market in the US is also primarily driven by private capital, as it has been for a number of years previously. Private capital comprised almost two-thirds (60.5%) of purchase volume in 2017 according to JLL research.

In the US market, BTR projects are aimed at capturing tenants across all income levels – meaning that all people can access housing of their choice. This has been instrumentally meaningful in terms of affordable housing and providing accommodation for key workers within key CBD locations.

US MULTIFAMILY SOURCES OF CAPITAL



Source: JLL Research, Real Capital Analytics (Transactions larger than $5.0 million, includes entry-level transactions)

The UK

Similar to the US, the UK BTR sector is beginning to thrive, having bounced off the downturn during the most recent economic cycle post-GFC – with the Private Rented Sector in the UK currently valued at over £1 trillion according to Barclays research.

Interestingly, the UK shifted their tax laws and legislation, which resulted in the asset class beginning to thrive, despite corporation tax (currently at 19%) reducing returns for non-resident investors.

Currently taxation legislation is beginning to rebase land values (according to Atlas Residential – one of the UK's BTR operators), which will further shape the market and prepare BTR for further growth and maturity as an asset class throughout 2018.

Across the UK, the BTR sector now boasts over 117,000 homes complete, under construction and in planning, with the British Property Federation (BFP) releasing quarterly reports and interactive maps to track each project and its progress.

According to Savills research, the BTR development pipeline is growing strongly across the UK and the number of homes completed and under construction has risen 46% in the past 12 months. If this rate of growth continues, the UK's BTR pipeline could be as large as 200,000 within the next two years.

Currently, the largest BTR project in the UK is the 7,600-unit development, Wembley Park – worth over £3 billion, and expected to house 15,000 residents when it is completed in 2025-26. This project alone demonstrates how vital the BTR sector is in the UK for providing affordable housing and housing for key workers across the necessary locations.

OVERVIEW OF AUSTRALIAN MARKET

Despite the popularity and success of build-to-rent internationally, the differences in the Australian market present a unique set of hurdles that are keeping institutional investors away from the local market.

With current market conditions in Australia, the only way that a true scalable BTR business model will work in Australia is if it caters primarily to high-level rentals – effectively ignoring any benefits BTR can have on key worker accommodation and housing affordability. This is markedly different to BTR internationally, where the model successfully caters to all income levels.

From a rigid four-pillar banking sector, to our stringent tax laws, there are a number of issues that becoming glaringly obvious to investors looking at entering the Australian BTR market. We have a markedly different financial system that is simply not flexible or innovative enough to allow this brand new sector to thrive, unless significant changes are made.

In Australia, there is currently no existing build-to-rent market. This means that there is no comparison sales or market analysis – making it impossible for financial institutions to determine the potential value of BTR assets. With no evidence to support the value of the asset, it is extremely difficult to create a new value-based market, which brings the reality of the market into question in Australia.

This will begin to shift as developers begin to branch out into the market – as Grocon, Mirvac and Fortis are doing – however, most developers do not seem interested in being the first ones to test the asset in the Australian market.

There are also vast differences between the Australian and US rental markets. In Australia, 31% of households rent (equating to over 7.4 million households), whereas in the US this figure jumps to 37% (where the total US population sits at over 325 million).

Another significant issue to note is the fact that BTR assets are successful in areas with low rental supply within major metropolitan centres – for example, in the US over half of the completed 'multifamily' units in 2017 were in just 10 metro areas, with New York and Dallas being the two most popular locations.

However, areas with these characteristics are virtually impossible to find in Australia, with our major metropolitan centres seeing their apartment supply peaking throughout 2017.

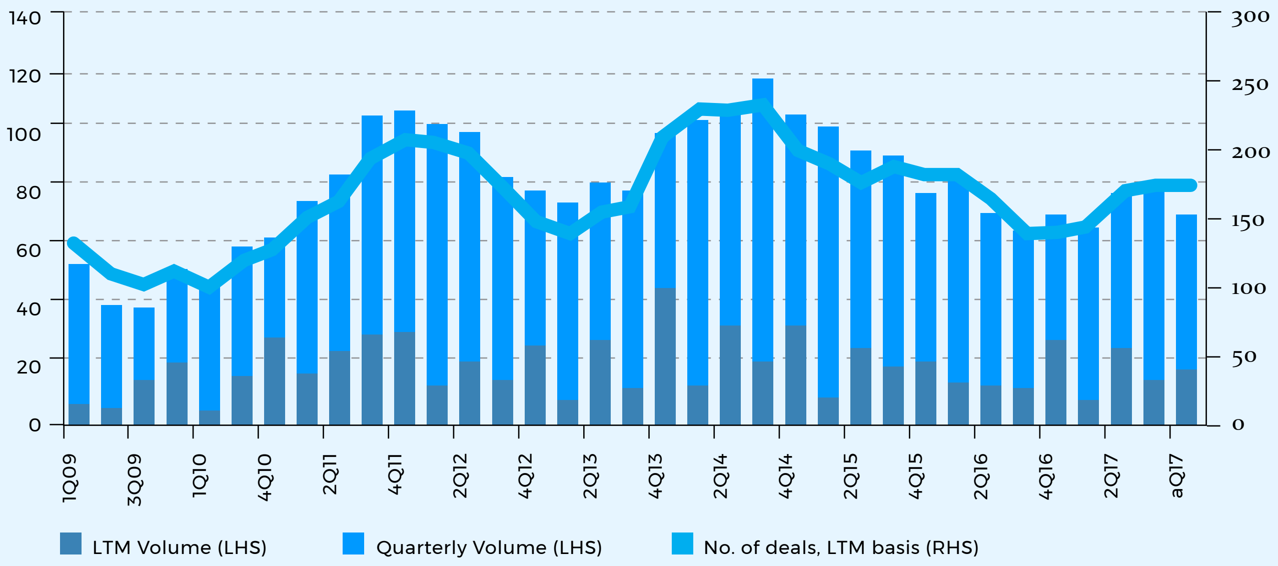
Banking Sector & Loan Regulations

To put this comparison in perspective, Australia doesn't even have a ANZSIC lending code for the build-to-rent sector – so when the banks are trying to report their loan book to APRA there is no place for them to list their BTR assets. This means that BTR is an unidentified security in the eyes of the Australian financial system, with no current debt market to sustain it.

The asset currently has an extremely low return profile, and there is no way for financial institutions to gear responsible levels of debt – meaning Australian banks are unlikely to innovate and adapt to meet the needs of this emerging asset class.

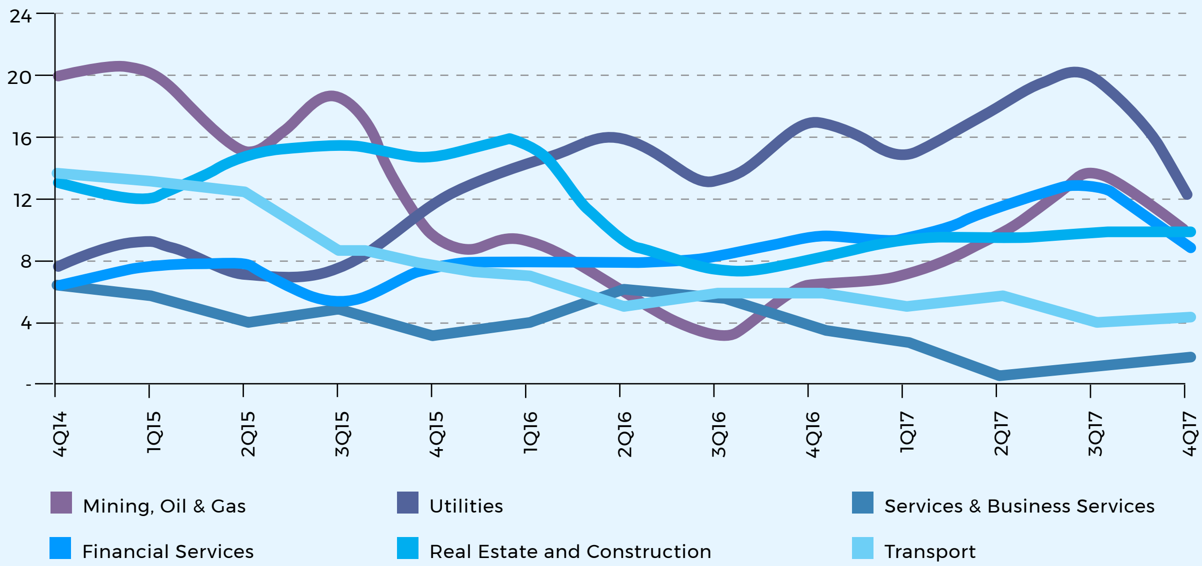
Australia is also in a unique position with our debt market, with lending over Q4 2017 decreasing by 32.5% (according to KPMG data). This comes off the back of Australian banks facing intense competition from offshore banks, and becoming more selective with their sector selection and credit decision making.

AUSTRALIAN SYNDICATED LOAN VOLUME (US$BILLION)



Source: Loan Connector (data extracted February 2018) and KPMG Analysis

AUSTRALIAN SYNDICATED LOAN VOLUME, LTM BY SECTOR (US$BILLION)



Source: Loan Connector (data extracted February 2018) and KPMG Analysis

This presents issues for developers, since profits won't be seen until two to three years after completion – meaning there is no way to recycle equity and scale a BTR portfolio effectively in these current market conditions.

This means that equity for BTR projects will need to be reliant on patient, low-cost institutional capital – most likely from offshore investors – in order to de-risk the project. However, this creates different problems from a taxation and profit-margin perspective.

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Australian Taxation Hurdles

With the Australian banking conditions as they are currently, build-to-rent projects will have to access a capital stack that is formed through equity rather than debt in order to come to fruition.

This in itself presents hurdles, since the Australian taxation landscape for BTR assets is currently unfavourable to institutional investors that are looking at investing in this asset class – creating a lack of patient, low cost capital for developers.

Due in part to the Manged Investment Trust ruling at the end of 2017, GST requirements and Land Tax, the tax requirements for a BTR asset are complex and play a large role in discouraging overseas institutional capital from entering the Australian market.

Managed Investment Trust

Prior to 2017, BTR assets could be accessed through a Managed Investment Trust (MIT), where institutional investors would be taxed at 15% of profits – allowing institutional capital to compete on a local level. However, the Australian Taxation Office has recently suggested that BTR assets (and residential property in general) are no longer allowable within a MIT structure.

According to JLL research, this decision was based off the fact that a BTR investment is not primarily for the income generated, but instead it is reliant on capital growth. The only exception to this ruling is affordable housing, which is still allowable within a MIT structure.

Effectively, what this means is that institutional investors are now required to pay double the amount of tax (getting taxed at the company rate of 30%), which will play a large part in diminishing the investors that are willing to enter the Australian market in the short term.

GST

If you're developing a project in Australia, there is an additional 10% GST on all costs – however, traditional residential developers who are offering build-to-sell projects can currently recover these costs upon sale, while recovering this cost in build-to-rent projects is much more complicated.

GST for BTR projects must be paid upfront, and it can be difficult to recover these costs through rent, especially in highly competitive rental markets. Since these costs are so difficult to recover, investors are taking another 10% hit on their profit margin – further demotivating international investors from entering the Australian BTR market.

Land Tax

Unlike build-to-sell developers, build-to-rent projects retain ownership of the property – and the land it is built on. This creates another taxation issue for developers since they will be required to pay annual land tax bills based on the value of the land they own. Generally, land tax is still applicable even if the land is earning an income – as it would with BTR projects.

Land tax is applicable everywhere in Australian except the Northern Territory, with all land tax requirements being overseen by the various state governments. This further complicates the issue, since developers and investors will have to have navigate the various taxation policies on a state-by-state basis.

Positives of the Australian Market

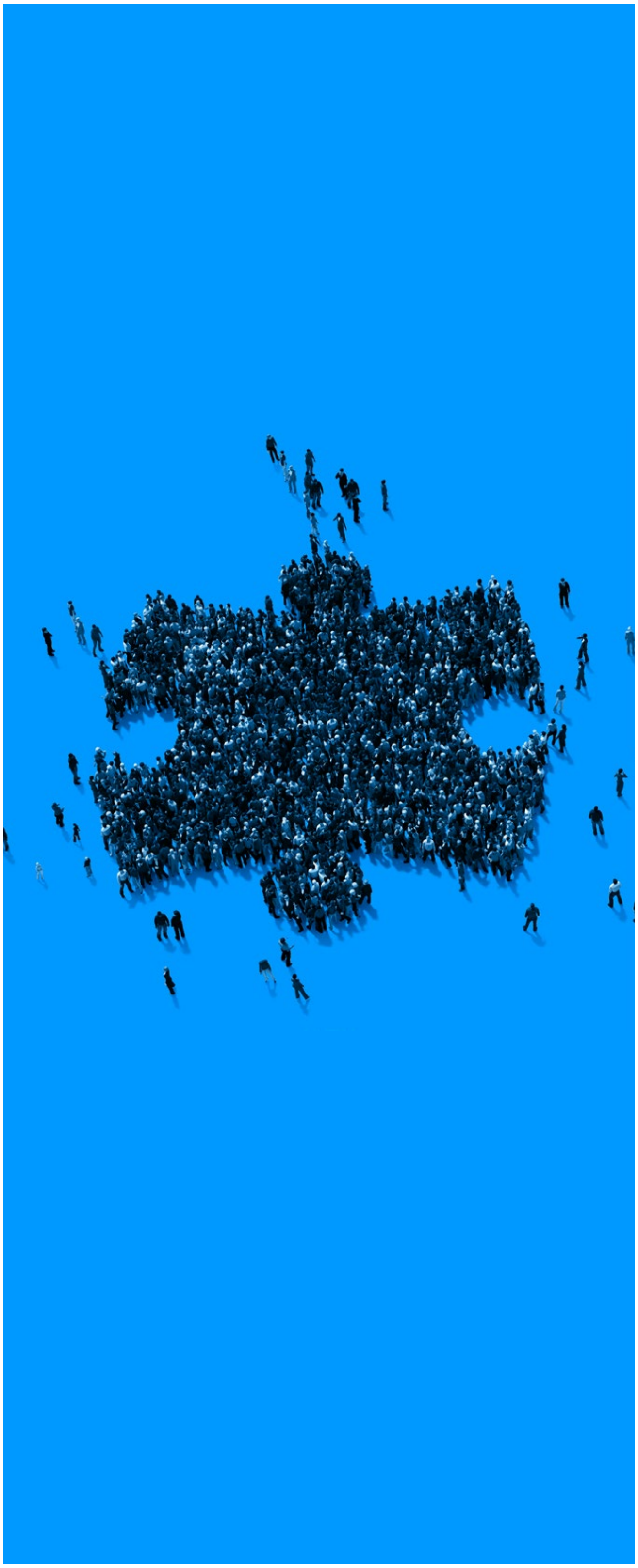
Once these issues are tackled at a Federal and State government level, there are many positives that the build-to-rent asset class presents to investors and developers – mainly the asset's ability to generate stable, long-term returns while providing rental housing to meet the growing demand.

With Australia's current position with housing affordability and rental demand, BTR assets – once they make it to market – will be highly sought after by the public. Especially if the asset is geared toward all income levels and successfully targets key workers (i.e. teachers, nurses and emergency services personnel).

Since we are entering a time where banks are reducing lending, developers could access the capital from well-established wealthy private Australian families or even tap into the $1 trillion superannuation investor market – showing that there are options available for developers that are willing to take it on.

For a true BTR project that has been specifically developed for the one purpose with a deliberately scalable business model, developers are looking at requiring a minimum capital investment of $50-60 million – and although capital might have begun to dry up, population growth is continuing and the need for housing aimed at all income levels remains strong.

The similarities between the UK market and the Australian market demonstrate that with the correct tax reforms and encouragement from a government level to institutional investors, the conditions in Australia are ripe for the BTR market to flourish. However, the likelihood of these changes occurring within the Australian market is uncertain.



BUILD-TO-RENT & STUDENT ACCOMMODATION: A COMPARISON

Since Build-to-Rent is in its embryonic stage in Australia, it seems logical to compare it to purpose-built student accommodation (PBSA) projects, which only began to thrive 5-10 years ago and have since blossomed into an industry of its own right across the country.

According to research by Savills, there are currently over 71,000 PBSA beds across all capital cities in Australia. This number is predicted to grow over the coming years, with Sydney being the most attractive Australian market for PBSA investors (with the development pipeline increasing from 3,665 beds in 2016 to 5,435 in 2017).

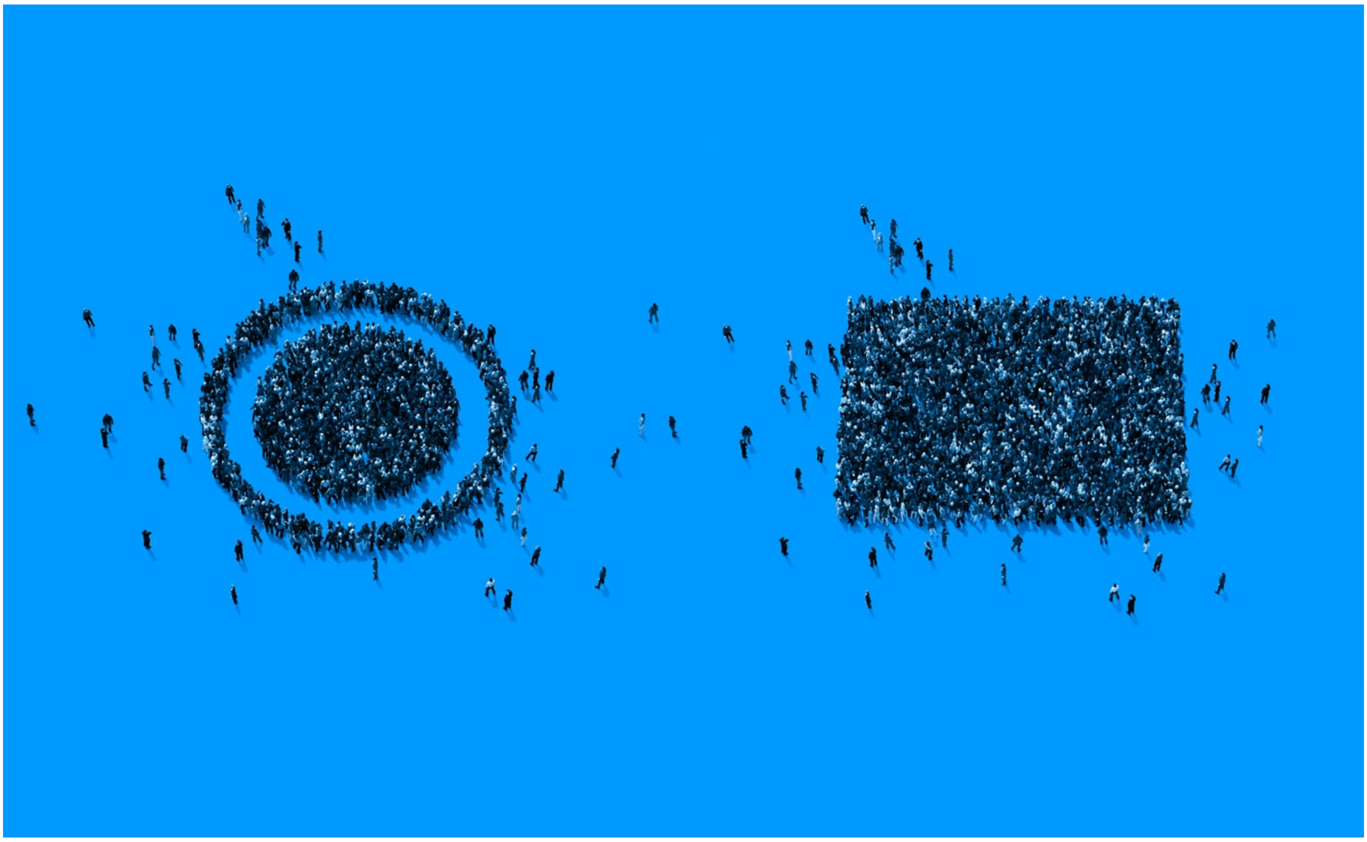
PBSA projects operate by a developer completing a PBSA development – with the support of investors – and then handing that project over to a management company who specialises in the day-to-day running of the project, from marketing the project to new students to maintenance of the property.

The growth of PBSA in Australia is led by two major factors: the increase in global mobility of university students, and the growth of institutional investors looking to diversify their portfolios outside of the US and the UK.

This operational model is strikingly similar to the build-to-rent model (with similar growth factors in an increase in households who are renting, and growth in investor appetite), which has led to the obvious comparison between the two asset classes.

Industry analysts are likening the current status of BTR to where PBSA was 10 years ago – indicating that if PBSA was able to mature in the Australian market it should be possible for BTR assets to follow the same path.

However, this comparison isn't as straightforward as it may seem. There are fundamental similarities and differences between the two asset classes that both investors and developers need to understand.



Similarities

Both BTR and PBSA projects operate under the principal of a renting out an entire development to a specific group of people and employing the use of a property manager to oversee the day-to-day management of the development.

The similarities of the asset classes have led to similar investors becoming interested in the assets: large, institutional financiers that provide steady capital into a growing sector.

Both asset types are recognised worldwide and have large markets internationally that carry relatively low risk. However, due to the infancy of both PBSA and BTR in Australia, there is no formal asset classification system for either asset locally – making investment margins difficult to predict and slowing the potential growth of the market.

Another similarity between the two assets is the fact that accessing debt capital for new projects in either market is predicted to remain challenging for the foreseeable future (according to research by Savills in 2017) – however, the strong student market in Australia and the proven projects already completed in the local market give more strength to PBSA as an asset.

> “Ultimately... the fundamental differences between the two asset classes make it difficult to use student accommodation of a marker of what the where BTR is headed in Australia.

Differences

Unlike build-to-rent, PBSA has already demonstrated its stability as an asset class throughout various economic cycles, and with PBSA projects currently existing on the market, they have successfully verified their ability to provide reliable and stable income for investors.

While the student accommodation market may still be relatively immature in Australia (compared to other asset classes), it is still markedly ahead of where BTR is as an asset class – and the end product is fundamentally different and serves a different market entirely.

High-quality education has also quickly become one of Australia’s biggest international industries, which has led to government and large tertiary institutions supporting the movement for more PBSA developments across the country – comparatively, BTR does not have this same level of support from either level, further hindering its growth and progress in a domestic market.

Ultimately, PBSA and student accommodation in general may be the closest comparison to BTR in Australia, but the fundamental differences between the two asset classes make it difficult to use student accommodation of a marker of what the where BTR is headed in Australia.

Investors can’t overlook the obvious differences between providing accommodation for students and creating long-term rentals for the Australian population in general – since both are reliant on different market factors including population growth, rental demand and investment yields.

These differences mean that while it can be beneficial to look on PBSA as a sign of what’s possible for BTR, it shouldn’t be the only marker. Looking at the whole picture, BTR still has a long way to go before the market reaches the maturity of the PBSA market.

CASE STUDY: COMMONWEALTH GAMES VILLAGE

Parklands image:
parklandsproject.com.au/gallery

Despite the difficulties in bringing a build-to-rent project to fruition in the Australian market, there are some outlying developers that are willing to take on the challenge. One of the largest and most notable projects is Grocon's Parklands project.

During the 2018 Commonwealth Games on the Gold Coast, the Parklands project was leased to the Commonwealth Games Corporation (GOLDOC), where it was used as the Commonwealth Games Village. After the Commonwealth Games completed, Grocon quickly began preparing to transform the project into a mixed-use residential community that will be solely build-to-rent.

With over 1,252 dwellings, retail precinct and extensive green areas, the Parklands project is located in a key part of the Gold Coast Health and Knowledge Precinct – a $5 billion development across 200 hectares – where it is well placed to become a new hub for key workers, students and families from across the Gold Coast.

The $500 million project's investment manager is UBS Asset Management, who is overseeing the development and managing the project on behalf of investors as the project transitions from Commonwealth Games Village to one of Australia's first operational BTR projects.

In December 2013, UBS-AM and Grocon announced a joint venture to become one of Australia's largest privately owned construction and development companies – effectively creating an Australian full-service real estate investment and asset management platform. This paved the way for the development of the Parklands project, and gave Grocon the ability to become one of the pioneers of BTR in Australia.

The partnership between UBS-AM and Grocon allowed them to create an unlisted $500 million fund to back the project and bring it to the market. This fund gave them access to crucial institutional capital and gave investors the opportunity to support the project.

Parklands is set to become one of Australia's first large-scale BTR projects, and Grocon believes that their decision to focus on BTR shows their confidence in the Queensland real estate market.

With Parklands due for release in 2019, it is not the only BTR project that is scheduled to come to the Australian market over the next 12-18 months with developers like Mirvac looking at implementing the model. The market is also gaining interest from smaller developers with Fortis releasing boutique, high-end BTR projects across the eastern suburbs of Sydney.

THE FUTURE OF THE SECTOR (FEASIBILITY)

Since the build-to-rent market is extremely immature in Australia, it can be worthwhile to look to the future to see if the asset class will become viable in 5-10 years.

However, with the Australian financial system, it's looking unlikely that this asset class will become as financially successful in Australia as it is overseas – unless the Federal and State governments offer legislative and taxation incentives for institutional investors to enter the market.

Currently, BTR assets act as a way for developers to overcome the fundamental issues that we're seeing in this residential property market: specific areas of oversupply and difficult pre-sales. But, once the market returns to more favourable conditions, it is likely that developers will return to the traditional build-to-sell (BTS) model.

Once the market recovers, and moves out of this current phase, there will be no incentives for developers to bring their BTR projects to market. The negatives and major hurdles associated with BTR assets (like increased settlement risk and limited access to equity) will outweigh the positives once the market moderates.

The future of the BTR asset class also relies on competition in the debt market – and in Australia, there is simply not enough competition in the debt space to facilitate the growth of this unidentified security.

That's not to say that the asset class won't grow organically over the next 5-10 years. Since developers are now using BTR as a means to bring their projects online in current market conditions (and as a way to hold onto stock as pre-sales become increasingly difficult), we could see this create the flow-on effect of a slow and organic growth phase. However, it is it unlikely it will ever reach the heights it has in international markets until better market conditions happen in Australia.

If the debt market stabilises and the major banks begin to familiarise themselves with the BTR market, we could see a fundamental shift toward more BTR projects entering the market as the appetite for relatively safe, steady and long-term returns eases any funding issues. As competition in the financial sector increases (with the introduction of more non-bank lenders) we could also see the major banks fast-track their understanding of this new asset.

The Property Council of Australia and other various development industry bodies are also actively lobbying the government in order to see BTR assets prioritised from a taxation and legislative point of view. If this has an impact, and the government does indeed support the shift toward BTR, there could be a marked increase in the number of long-term investors that become interested in the Australian market.

AN ALTERNATIVE TO BUILD-TO-RENT

Despite the financial hurdles developers need to overcome to embrace the build-to-rent asset class, there is one strategy that developers can employ to make the most out of current market conditions while still ensuring they're able to scale and build their portfolios.

As an alternative, developers should be looking at how to combine traditional build-to-sell developments while retaining some stock within the project specifically for a build-to-rent purpose. This gives developers a way to sell down debt with pre-sales while holding their profit in a balance of stock.

The residual stock (approximately 20-30%) of a project can be used as BTR, which creates a way for developers to build their rental pool and progressively increase their portfolio. By holding as much BTR stock for as long as possible (combined with traditional pre-sales) developers are in a much more sustainable financial position and will be able to scale their operation in all market conditions.

Although this may not be a true BTR business model, in current market conditions and until support from the government occurs, a combination of both BTR and BTS is the only way to get the project to stack financially.

BTS Project Feasibility

To assess economic viability and incentives of BTS vs BTR please see Tables 1.1 and 1.2 below.

From this, we can see Australian property developers have had difficulty in getting projects to stack up using a stand-alone BTR model when considering every key measure being profitability, capital requirements and return on equity.

TABLE 1.1 – SIDE BY SIDE FEASIBILITY BTR VS BTS

REVENUE	NO. UNITS	BTR	BTS	VARIANCE$
Residential	70	28,237,935	55,750,000	27,512,065
GROSS REALISATION		**28,237,935**	**55,750,000**	**27,512,065**
GST		-	5,017,500	(5,017,500)
Sales Commissions Payable At Settlement		282,379	1,672,500	1,390,121
NET REALISATION		**27,955,555**	**49,060,000**	**21,104,445**
				-
DEVELOPMENT COSTS				-
Land Cost		10,000,000	10,000,000	-
Land Transaction Costs		400,000	400,000	-
Construction Costs (exc. GST)		19,600,000	19,600,000	-
Project Contingency		784,000	784,000	-
Professional Fees (exc. GST)		1,600,000	1,600,000	-
Statutory Fees & Contributions		2,000,000	2,000,000	-
Land Holding Costs		200,000	200,000	-
Advertising & Marketing		141,190	141,190	-
Pre-sale Commissions (exc. GST)		-	1,115,000	(1,115,000)
Other Costs		500,000	500,000	-
Total Incentives		-	-	-
TOTAL DEVELOPMENT COSTS		**32,225,190**	**36,340,190**	**(1,115,000)**
Finance Charges		435,000	468,000	(33,000)
Interest		1,351,436	2,136,010	(784,574)
FINANCE AND INTEREST - SENIOR DEBT		**1,786,436**	**2,604,010**	**(817,574)**
TOTAL COSTS		**37,011,626**	**38,944,200**	**(1,932,574)**
PROJECT PROFIT		**(9,056,071)**	**10,115,800**	**19,171,871**
Development Margin (%)		(24.87%)	20%	
Geared IRR on Deployed Capital		-37%	54%	
Capital Requirement		**20,000,000**	**8,500,000**	**11,500,000**

Assumptions: Cap rate against EDBITA – 6%
Senior Debt LVR – BTR On Comp ICR 1.0X
BTR On Comp LVR 60%
BTS 80% TDC

TABLE 1.2 – 3 YR TRADING UP OF NET OPERATING INCOME

	YR 1	$	YR2	$	%	YR 3 STABILISED
GROSS RENT		$2,606,313		$2,759,625	%	$3,066,250
LOSSES TO VACANCY	15%	$459,938	10.00%	$306,625	5.5%	$168,644
COLLECTION LOSSES	0%	$10,425	0.40%	$12,265	0.4%	$12,265
RENTAL INCENTIVES	8%	$200,486	3.85%	$106,139	1.5%	$45.994
OTHER REVENUE	4%	$91,221	5.00%	$137,981	7.5%	$229.969
NET PASSING INCOME		**$1,844,243**		**$2,196,614**		**$2,609,379**
OPERATING EXPENSES	$ OF GROSS PASSING RENT		% OF GROSS PASSING RENT		% OF GROSS PASSING RENT	
SALARIES	8.1%	$211,111	8.1%	$223,530	8.1%	$248,366
INSURANCE	1.6%	$41,701	1.6%	$44,154	1.6%	$49,060
RATES	1.1%	$35,000	1.1%	$35,000	1.1%	$35,000
NON RECOVERABLE UTILISES	2.6%	$67,764	2.6%	$71,750	2.6%	$79,723
MANAGEMENT FEES	2.5%	$65,158	2.5%	$68,991	2.5%	$76,656
ADMINISTRATION	1.9%	$49,520	1.9%	$52,433	1.9%	$58,259
MARKETING	1.4%	$36,488	1.4%	$38,635	1.4%	$42,928
CONTRACT SERVICES	2.8%	$72,977	2.8%	$77,270	2.8%	$85,855
REPAIR AND MAINTENANCE	2.9%	$75,583	2.9%	$80,029	2.9%	$88,921
TOTAL OPERATING EXPENSES	37.2%	$655,302		$691,791		$764,768
CAPITAL EX	3.0%	$78,189		$82,789		$91,918
NOI/EBITDA	**60%**	**$1,110,751**	**65%**	**$1,422,035**	**67.17%**	**$1,752,624**

Assumptions: Gross Potential Rent based upon a gross yield of 6% pa
Bench march for operating expenses derived from Table 1.3 below

TABLE 1.3 2016 NAA SURVEY OF OPERATING INCOME & EXPENSES IN RENTAL APARTMENT COMMUNITIES

ALL MARKET-RENT PROPERTIES: OPERATING INCOME & EXPENSE DATA (PART 1)
INDIVIDUAL METERED AND RECOVERY SYSTEM PROPERTIES*

	TOTAL			GARDEN			MID- & HIGH-RISE		
Number of Properties	2.970			2,575			395		
Number of Units	819,100			699,488			119,612		
Avg. No. of Units/Property	276			272			303		
Avg. No. of Square Feet/Unit	934			938			910		
Turnover Rate in %	52%			53%			52%		
	$ Per Unit	**$ Per Sq. Ft.**	**% of GPR**	**$ Per Unit**	**$ Per Sq. Ft.**	**% of GPR**	**$ Per Unit**	**$ Per Sq. Ft.**	**% of GPR**
REVENUES									
Gross Potential Rent	13,517	14.47	100.0%	12,561	13.39	100.00%	19,113	21.00	100.0%
Rent Revenue Collected	12,566	13,45	93.0%	11,690	12.46	93.1%	17,688	19.43	92.5%
Losses to Vacancy	726	0.78	5.4%	669	0.71	5.3%	1,058	1.16	5.5%
Collection Losses	82	0.09	0.6%	82	0.09	0.7%	81	0.09	0.4%
Losses to Concessions	143	0.15	1.1%	118	0.13	0.9%	286	0.31	1.5%
Other Revenue	787	0.84	5.8%	714	0.76	5.7%	1,211	1.33	6.3%
Total Revenue	**13,353**	**14.30**	**98.8%**	**12,405**	**13.22**	**98.8%**	**18,899**	**20.76**	**98.9%**
OPERATING EXPENSES									
Salaries and Personnel	1,284	1.37	9.5%	1,240	1.32	9.9%	1,540	1.69	8.1%
Insurance	259	0.28	1.9%	251	0.27	2.0%	302	0.33	1.6%
Taxes	1,575	1.69	11.6%	1,408	1.50	11.2%	2,550	2.80	13.3%
Utilities	330	0.35	2.4%	301	0.32	2.4%	502	0.55	2.6%
Management Fees	364	0.39	2.7%	344	0.37	2.7%	483	0.53	2.5%
Administrative	265	0.28	2.0%	248	0.26	2.0%	369	0.41	1.9%
Marketing	174	0.19	1.3%	157	0.17	1.2%	277	0.30	1.4%
Contract Services	355	0.38	2.6%	324	0.34	2.6%	541	0.59	2.8%
Repair and Maintenance	487	0.52	3.6%	476	0.51	3.8%	548	0.60	2.9%
Total Operating Expenses	**5,094**	**5.45**	**37.7%**	**4,748**	**5.06**	**37.8%**	**7,112**	**7.81**	**37.2%**
Net Operating Income	**8,259**	**8.84**	**61.1%**	**7,656**	**8.16**	**61.0%**	**11,787**	**12.95**	**61.7%**
Capital Expenditures	**1,181**	**1.26**	**8.7%**	**1,127**	**1.20**	**9.0%**	**1,490**	**1.64**	**7.8%**

* Individual Meter and Recovery System (submeter, RUBS, flat fee) for primary utility.

Source: National Apartment Association 2016 Survey of Operating Income & Expenses in Rental Apartment Communities © 2016 by National Apartment Association.

Source: https://www.naahq.org/news-publications/units/august-2016/article/2016-naa-survey-operating-income-expenses-rental

CONCLUSION

Although Australia's market conditions seem to be shifting toward embracing a model like BTR, until there are significant changes from a governmental and financial level it is likely that the institutional investors that are needed to make the sector thrive won't enter the market in the short-term.

While the potentially counter-cyclical nature of a BTR asset acts as a way for investors to diversify their portfolios, the taxation hurdles combined with the current financial systems in Australia are likely to outweigh any benefits BTR presents, at this stage.

If these hurdles are overcome and BTR does take off in Australia, JLL research estimates that if BTR makes up only 10% of all institutional investment in real estate, it would equate to an approximate $40 billion market value – demonstrating the existing market potential.

Looking toward the UK – where BTR is still relatively immature as an asset class – it can be seen that they managed to overcome some of the same problems faced by the Australian market. However, the UK government and financial operators were willing to work with the asset and make the required legislative changes that were needed to make BTR thrive, and this is yet to be seen with the Australian government.

While the potential for a successful BTR market is definitely apparent in Australia, it's a question now of whether there are any developers that are willing to take the risk of introducing this new model to Australian shores. While there are a handful of developers making their moves into the asset class, it still remains to be seen whether or not the asset class will be able to become 'mainstream' without work being done to entice both domestic and international long-term institutional investors to the market.

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