



28 September 2017

Manager
Financial Services Taxation Unit
Corporate and International Tax Division
The Treasury
Langton Crescent
PARKES ACT 2600

cc: The Treasurer, The Minister for Revenue

By email: affordablehousingtax@treasury.gov.au

Dear Sir / Madam

Submission - Treasury Laws Amendment (Reducing Pressure on Housing Affordability Measures No. 2) Bill 2017 (exposure draft legislation)

Lendlease appreciates the opportunity to make a Submission in response to the exposure draft legislation.

Lendlease has been involved in preparing the comprehensive submission made by the Property Council of Australia (PCA), and supports that submission.

Australia's leading global property and infrastructure group

Lendlease is Australia's leading international property and infrastructure group with operations in Australia, Asia, Europe and the Americas.

Committed to creating and delivering innovative and sustainable property and infrastructure solutions for future generations, our core capabilities are reflected in our operating segments of Development, Construction and Investments.

Combining these capabilities across the property and infrastructure value chain has allowed Lendlease to lead the sector and offer innovative integrated solutions for our clients and valuable insights and solutions to Governments.

Unintended consequences – on increased housing supply and affordable housing

Lendlease supports the Government's initiatives to increase housing supply and encourage investment in affordable housing, however, Lendlease is concerned that the measures as outlined in the exposure draft legislation have adverse and unintended consequences.



- *Institutional Investment* – the attractiveness of institutional investment to Australia to establish a Build to Rent housing sector at scale will be negatively impacted by these measures. This puts Australia out of step with other like jurisdictions eg US, UK and Canada.
- *Offshore Investments in Residential* – the exposure draft legislation if enacted in its current form, will prevent Australian based managed investment trusts (MITs) from investing in offshore Multi-Family or Build to Rent funds, adversely impacting the global competitiveness of Australian companies. We understand this is an unintended consequence which will be corrected.
- *Future Development Opportunities* – ancillary residential property ownership, where small amounts of residential property is owned to enable future expansion plans for commercial or retail property, or as part of a future development site will no longer be possible.
- *Retirement Living* – the retirement living sector will be unnecessarily restricted in terms of holding structures, hampering growth in the sector.

Foreign institutional capital essential to establish a viable Build to Rent sector

To date, market conditions have not supported a Build to Rent sector in Australia, however with the tightening of capitalisation rates on commercial real estate, there is a growing interest from institutional capital for investment in this sector.

For institutional capital, investment in Build to Rent is akin to investing in commercial or retail and the investment vehicle is expected to be aligned ie investment via a MIT. Australia's MIT regime has the ability to attract the required capital to establish a Build to Rent sector in Australia.

Given the infancy of the sector in Australia, it will be necessary to harness foreign institutional capital as they have experience investing in this asset class overseas as compared to domestic super funds.

It is unlikely therefore that the Build to Rent sector will achieve the scale required to become a viable sector.

Benefits of Build to Rent

Full consideration needs to be given to the substantial benefits that a Build to Rent sector would bring to the Australian market, including:

- The addition of much needed housing stock.
- A healthy and growing Build to Rent sector provides the best platform for government to deliver affordable rental housing as a Build to Rent sector of scale can deliver both market based and affordable rental housing (with the appropriate incentives) to attract MIT investors as occurs in the US and UK markets.
- Counter-cyclical investment in the residential sector as Build to Rent is not linked to property cycles which benefits the broader economy.
- A better quality experience for people who rent, including the security of a longer tenure if desired, given the ownership structure.
- Establishment of a new asset class - offering a new investment product.



Offshore investment by Australian companies – urgent resolution required

The application of the exposure draft legislation to existing and proposed investments by MITs in residential asset investments offshore is, we understand, unintended. This should be clarified as soon as possible to allow business to continue to pursue proposed investments offshore and we stress the uncertainty around this point creates a significant commercial impediment to converting these investment activities offshore, including settling terms with third party capital providers.

Review required of Division 6C

We note that in our submission on Stapled Structures dated 20 April 2017 we proposed “A well targeted holistic review of stapled structures should address housing affordability (for example through Build to Rent products) and facilitate opportunities for domestic trusts to invest in today’s markets both domestically and offshore. This could be achieved through the modernisation of Division 6C.”

The issues which have arisen from the exposure draft legislation galvanise our view that a thorough review and modernisation of Division 6C is required as a matter of urgency.

Consider international experience and learnings before rushing in

Lendlease believes that to achieve the Government’s objectives, consideration needs to be given to the contribution a Build to Rent sector will make to housing affordability and housing supply in the Australian market.

Lendlease is in a unique position to work in partnership with Government, given its exposure to markets offshore such as the US and UK where Lendlease participates in the Build to Rent sector and where affordable housing measures have been in existence for some time. These established and successful sectors have been supported by Governments and industry to ensure their growth and feasibility.

Build to Rent inquiry and further review necessary

Given the potential benefits of the Build to Rent sector, and the real possibility of it being hampered before it can become established in Australia, Lendlease would strongly encourage further review of the international experience, and a more detailed analysis of the adverse and unintended consequences of this current exposure draft legislation.

Please do not hesitate to contact me should you require any further assistance and we would of course be happy to participate in any further consultation.

Yours faithfully

Steve McCann
Chief Executive Officer and Managing Director
Lendlease