

"Build to Rent" (BtR) Management First, then Innovation, Flexible Design, Placemaking and Increased Capacity

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to finalise research with Griffith University funded by National
Affordable Housing Consortium (NAHC)
January 2021

"Build to Rent" (BtR) as a new asset class within the Australian housing market was confirmed at the February 2020 *3rd Driving Growth & Investment in Build to Rent* Conference. At earlier iterations of this conference all industry players and government were not sure BtR would ever have the investment backing or policy support to emerge. By early 2020, large international investors including investment behemoth Blackrock were actively pursuing opportunities. Local developers such as Meriton were nurturing BtR schemes as an opportunity for innovation in design and as a counter cyclical investment option. The first large purpose built schemes such as "The Smith Collective" at Southport were bedding down. Subsequently, state governments including NSW and Victoria have made significant policy and funding commitments, including a NSW 50% land tax discount for new BtR developments. In relation to affordable BtR and the Community Housing sector the establishment of NHFIC in June 2019 was a significant reform, because of the concessional loans available and also unlinking community-housing sector's dependence on state governments.

This establishes preconditions for growing of the emerging affordable BtR sector in Australia. However important questions about the nature of this sector remain unanswered or misunderstood. What should be the nature of affordable BtR in Australia? Where are the best opportunities for affordable BtR to emerge? What should be the connection between affordable and commercial or private BtR? How relevant is delivery and management of existing community housing models to emerging affordable BtR models? How do we reconcile the market rent and social rent definitions of affordability within BtR? Are there appropriate capability, expertise and access to finance within the community-housing sector? If not how does the sector expand? Should BtR aim at an optimum minimum size, particularly given the differences between city, outer urban, regional and remote markets?

To date we have drawn much of our inspiration from emerging UK housing policy, development models and their emerging BtR sector of the past ten years. As discussed later this may be a "red herring" because of the significant differences between the UK and Australia and because of changes happening in this moment in time. The writer of this paper was asked to develop a design guide for affordable BtR. The initial purpose proved difficult without an established consensus on key questions.

International Context

The backdrop to the emergence of a BtR housing market in Australia is quite unlike any of the markets where 'build to rent' or multifamily housing have a large presence. Within continental Europe, BtR emerged in post war reconstruction as a mainstay of the welfare state. It is institutional, either government owned or subsidised, and is increasingly diverse having allowed great innovation in technology, delivery and management. However differences of geography, history, institutions, culture and long established policy make it difficult to draw useful conclusions for an emerging Australian sector. Housing policy in Australia has drawn significantly from the UK in the past 20 years, our Community Housing Sector has been significantly shaped by a migration of

expertise from the UK public and NFF housing sectors. This has continued with the beginning of BtR in Australia where UK speakers are dominant at local BtR conferences. While useful in many ways, particularly design of certain sectors such as infill apartment blocks, we are in danger of overplaying this influence in developing a local affordable BtR sector. Our history and settlement patterns are profoundly different. This is highlighted by the sudden changes that occurred this year due to Covid. Suddenly two settlement patterns, one of urban consolidation and the other of the separation of work and home have reversed direction.

Design of urban infill apartments which was the focus of the **ULI UK Residential Council: BUILD TO RENT: A BEST PRACTICE GUIDE Edition 2 | March 2016** may not have the same role post Covid as it had pre Covid within the Australian market. The importance of this guide in an Australian context may be more related to the actual process of its creation rather than its specific content. Key industry stakeholders were brought together to create consensus around key directions of BtR, including a definition. This was last point was reinforced in closing remarks at the *Driving Growth & Investment in Build to Rent* Conference. This consensus makes lobbying for good public policy easier. The diversity and maturity of North American multi family housing is a more useful housing market to look at in relation to Australia. The American system has great similarity in relation to its settlement models, as well as a similar balance of private, government and NGO's in its housing system. The primary differences are of scale, maturity and policy, particularly the Non-Competitive (4%) Housing Tax Credit system, which is a guaranteed structural subsidy. This system has produced wonderful reference resources, particularly case studies (<https://casestudies.uli.org/>) that document a diverse range of development and **The Multifamily Housing Development Handbook (ULI 2000) - Adrienne Schmitz et** produced by the ULI (Urban Land institute).

The Australia Housing Market

What is obvious in looking at other markets is how different the Australian market is, particularly the almost complete absence of institutionally owned and managed rental housing, except in small niches. Australian housing is largely a non-institutional "Darwinian" market. Most housing is either owner occupied or investment properties owned and managed by "mum or dad" investors or by real estate agents. Land and housing development is usually separated, and almost entirely private sector, although local government did have a significant role in land development that has waned since the 1970's. Institutions do play a significant role in banking and planning where highly conservative approaches stifle innovation. There is a relatively small public housing sector that is less than 5% overall, and is housing of last resort with large waiting lists, and therefore is not a genuine alternative to mainstream housing. The community housing sector makes up less than 1% of managed housing, although growing rapidly, and has until recently been shackled to state governments and the psychology of state government waiting lists. Except for this small social housing sector, Australia has never viewed housing as a service. It is largely a speculative product with little incentive to build quality or sustainability. Renters are rarely managed as customers. The relationship between tenant and landlord is generally oppositional, based on short

leases, lack of security and an imbalance in power. Real innovation in housing design and delivery such as by Melbourne business Nightingale Housing is marginal and finds it difficult to get institutional support. Housing cooperatives, rural land sharing communities, community land trusts and co-housing where housing is more service than product, are so marginal that they are viewed as the province of "mad hippies". Government housing policy and funding, supports the status quo. The effect of all this has been to stifle a long view on housing or housing innovation. Emerging as a new sector BtR poses both risks and opportunities. It must successfully tap into large institutional funds such as superannuation while navigating around the conservative institutional structures.

Five ideas relating to affording Build to Rent were explored and require further concerted research and collaboration. They are:

1. Management Comes First - Starting at the end.
2. Innovation Framework
3. Increase Sector Capacity
4. Place Making and Community Development
5. Flexible Design

Management Comes First - Starting at the End

Effective management of tenant customers and properties is the key to the financial and social sustainability of BtR. Housing within this model is a service not a product, this is an alien concept in the Australian housing market and its many implications need to be understood. Drivers of all aspects of the vision and value proposition of a development need to imagine the happy tenant customer in their BtR community, with all the environmental, cultural and technological change that may have occurred ten, twenty or fifty years from now and then think backward.

At the heart of BtR there are a number of assumptions, none of which are immutable. International experience suggests management should be customer facing. Good service makes long-term stable customers. BtR schemes work best as communities, where the quality of community, including meaningful social interaction with neighbours and a sense of being part of something larger than oneself can build cohesion in BtR. Again international experience suggests this sense of community, however it is defined, is of significant long-term value in retaining tenants and facilitating increases in rents. Our assumption is that subsidised housing for low and moderate income earners will be integrated and be tenure blind. What will be the minimum percentage? In the UK it is 20%, and what are the management considerations?

Management needs to suit scale, market, context and special requirements. For example a prestige BtR product will require onsite concierge and rapid response maintenance service, while in other contexts, often smaller independent communities, a level of self management will be better. Within a tenure blind setup where there are people with complex support needs, including drug and alcohol issues, physical

disabilities or mental health issues, how are these needs managed with privacy and integrity and what are the design implications?

Housing service like other business increasingly requires good ongoing data collection, analysis and evaluation of tenants and properties, resulting in feedback that leads to improvements in management, maintenance, governance, design and redesign.

Increasingly this is augmented by sophisticated computer software management systems. Web intranet and App interactive communication and management systems are now standard practice in most overseas BtR schemes and their design is increasingly integrated with the physical design of a development.

Management will increase in complexity as housing services become more integrated with other types of service, working at or near home, transport, health, education, all of which came into the home in ways unimaginable just a year ago. Build to rent housing, as a model, should be able to manage this integration far better than traditional forms of housing. The design of BtR housing therefore needs to start with an understanding of how it is managed and governed.

Innovation Framework

BtR is a radical change in the Australian housing industry. Innovation and experimentation needs to be embraced in all parts of the development cycle including: identification of sites and development opportunities, land banking, new ways of structuring finance and ownership: place making; identification of end users; community development; design and construction methodologies of both hardware and software; and management of tenant/customer and properties. Innovation rarely emerges from large institutions; even an organisation the size of NAHC may no longer be a natural innovator in many areas. The following are ideas for an innovation framework:

- The most useful new ideas are likely to emerge from the small nimble players, assuming those small players have a sufficient understanding of housing/planning system they are trying to work with or subvert. Alternatives to traditional academic research such as business incubator processes may be a better model. Where good new models emerge they need to be supported even if they have a high chance of failure.
- Cost and access to land and inflexible planning controls are a major constraint to innovation. Possibilities need to be explored to make easier planning pathways for affordable BtR. Unusual propositions on cheap land should be supported with special pathways, for example: redevelopment of brownfield or contaminated sites; houses that float on flood plains; brand new greenfield communities on old railway lines; reuse of suddenly redundant inner city office buildings; or temporary, up 50 year lease, "tiny house" villages on unused crown land.
- New financial frameworks that access mainstream subsidies in clever ways, in particular rent assistance, first home grants and negative gearing. These are likely to remain mainstream government policies, how can they affectively be socialised. For example maybe there is way a first homeowners grant can create a form of equity in housing for a classic social renter.

- Housing systems that are data driven, but where there is privacy and data integrity. Emerging blockchain technologies are pointing the way.
- Ways to encompass whole of life housing careers particularly the expensive and often traumatic transitions in later life.
- Modular housing construction;
- Housing systems that extend to making other aspects of life affordable such communication, transport and access to home based supports etc.; and
- Whole of life place making.

Place Making and Community Development

Making communities thrive and places where people want to live, is at the heart of "build to rent". Therefore community development and place making expertise is essential for the financial and social viability of a "build to rent" scheme.

Place is fixed spatially but not in time. Places change. Place making is a conscious design process of either developing existing points of interest over time, such as we see in the layers of texture, story, art, sound and smells that we admire in the heart of medieval towns or in the heart of a botanical garden, or it is the creation of a new point of interest, such as building the Opera house on Bennelong Point. The key is congruence with the viewer, resident and broader community. Places fit together with people. Places fit into larger places and larger communities. People, their stories, their contributions are a large part of creating new congruent points of interest.

"Smith Collective is not just a bunch of apartments in the Southport rentals market, it's a ground-breaking new renters community designed for living, not just 'staying'."

In comparison typical "Build to sell" development has no social or financial incentive to care about a place or a community beyond the moment real estate is sold or when award winning architectural photos are taken. Place making and community development happen over time, however there is no simple best place making or community development methodology for BtR, at least not yet. Good architects intuitively understand place making and good social workers intuitively understand community development. Local government development controls when written well are place making handbooks. Social, environmental and economic impact assessment; provide excellent tools for assessing points of interest as does good market research. Commercial developers entering this space will probably initially be fixated with place making as a set of amenities, both on site exclusive use and accessible commercial facilities like shops and cafes. These are important but a place making and community development frame of reference, would seek to involve key stakeholders in decision making and to ask what might be useful facilities in 10, 20 or 50 years time. In which case flexibility and adaption become very important. Place making captures design as a long-term continuous process including the engagement with stakeholders, the embodiment of the design in physical, virtual and economic form, and the long-term management and governance implications and all critical.

Flexible Design

International experience shows that the best BtR schemes are those that can easily adapt to changes in social and technological patterns. Within the American market there are many multifamily housing projects built in the 1980's that are now in their third iteration of major renovation. Even schemes built within the last five years have needed to adapt to new technologies such as food deliveries by drone. The change of working patterns away from CBDs within the past twelve months across much of the world is another example where adaption of schemes including comfortable work environments at or near home will be needed. BtR has a strong emphasis on durability and environmental sustainability in design, because of long term cost and project marketability. Flexible design and planning strategies that allow low cost adaption will be particularly important in the early stage of BtR in Australia. The financial viability of a new housing product will be in question for a number of years. The design flexibility that allows BtR schemes to be partially or wholly converted for sale will be important, while also allowing for adaption due to new technology and changes in society.

Increase Sector Capacity

Taking a lead from **The Multifamily Housing Development Handbook (ULI 2000) - Adrienne Schmitz et al** a similar but simplified handbook would be most useful as a design guide and as an educational tool to build new capability. This became the focus of deliberations around the design guide, because apart from a small number of larger of CHP's there is little capacity within the not for profit sector or local government to develop and negotiate the complex processes of housing development, particularly at scale and for something new and different like BtR.

The proposed guide, should be predicated on the need to create new and more sophisticated development players in the not for profit affordable rental housing sector in Australia, so as to facilitate the rapid expansion of professionally managed social and affordable rental housing at scale, as a new housing sector and investment class. It's target audience should be existing community housing providers, interested local government and new emerging not for profit players, particularly those interested to innovative new housing models.

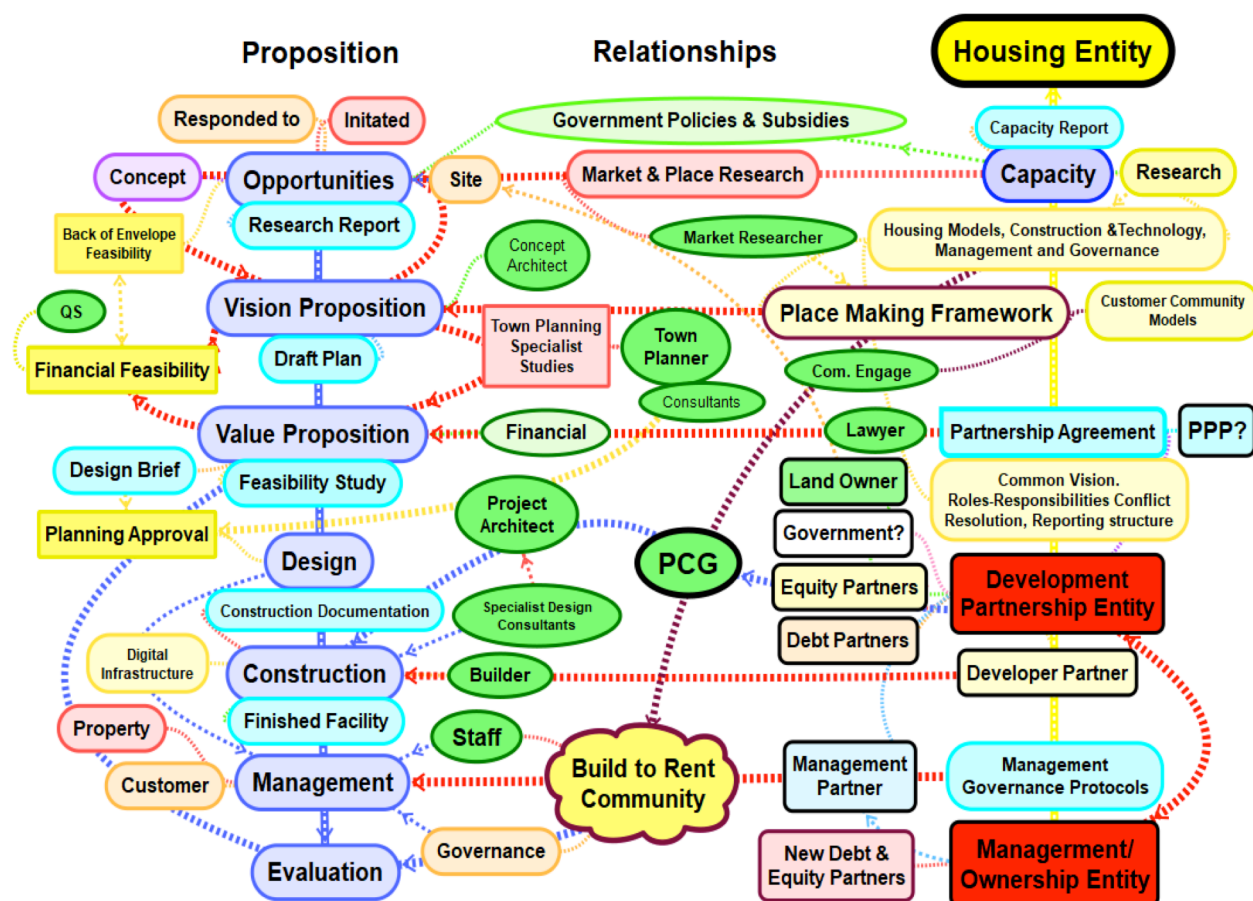
The guide would have three intertwined objectives:

1. **The Proposition** - Providing a step by step process of how to develop a feasible/bankable affordable BtR scheme focused on creating vision and value propositions;
2. **Organisational Capacity** – Develop capacity of affordable BtR developers, owners and managers; and
3. **Relationships** - Understanding the necessary process of collaboration, use of expertise and partnership in this process.

The form of guide should be dynamic, but still have at its core a simple written document with simple visual information, a sort of "dummies guide". Ultimately a usable App, with a wide variety of linked tools and deeper information structured to

reflect the complexity and iterative nature of development would be useful. For example links to useful BtR and multifamily housing case studies.

The guide would be structured in eight sections as outlined in the attached figure. Its focus is showing what is to create a marketable vision and value proposition.



Conclusions

Australia's crisis of housing affordability, particularly rental stress continues to rise. International investment and new support from government indicates a new BtR sector should be a viable investment class, even with our current adverse tax policies. The biggest drag on creating an affordable BtR housing is the relative lack of capability to develop and manage this new housing sector. There are a small number of dynamic new community housing players, of which NAHC has been one who do have capability, but there needs to be a rapid expansion. The role of the existing big CHP's will be important to lobby for policy change, to support innovative grass roots housing ideas, to broker deals between profit and non-profit affordable housing sectors and to develop sophisticated customer facing management systems. The BtR model we are adopting from the UK of a tenure blind mix of market and subsidised rental housing has barely begun in Australia. It has the beginnings of an urban infill apartment model, although

Covid is potentially a big disruptor of this settlement model. Meanwhile there has been a sudden migration from the cities to the regions, with rental vacancy rates dropping close to zero. The long-term process of leaving the outer suburbs of the urban fringe to big tract housing developers, and of a lack of nuance and understanding of regional and remote communities and markets by urban planning experts needs to change. BtR presents an opportunity to development better more integrated and less resource intense community models in these areas. Looking to more progressive models used in the North America is a good place to start. Finally, there is limited capability within the community-housing sector and not for profit sector as developers, this needs to change led by an education and innovation process. But first we need a useful consensus of what affordable build to rent should be, with at least a twenty-year horizon.