T R A N S C R I P T

LEGISLATIVE COUNCIL LEGAL AND SOCIAL ISSUES COMMITTEE

Inquiry into the Rental and Housing Affordability Crisis in Victoria

Melbourne – Tuesday 19 September 2023

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Ryan Batchelor – Deputy Chair

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David Ettershank

Renee Heath

Wendy Lovell

Sarah Mansfield

WITNESSES

Sean Ryan, Senior Director, Development, Greystar Australia; and

Michael King, Transactions Manager, Novus.

The CHAIR: Welcome back to the fifth session of today's hearing. Joining us for this fifth session are Mr Sean Ryan, Senior Director of Development, and Mr Michael King, Transactions Manager.

Before we continue, I will introduce my committee to the new panellists: my Deputy Chair, Mr Ryan Batchelor; Mr Aiv Puglielli; Dr Renee Heath; Dr Sarah Mansfield; Dr Matthew Bach, to my left; Mr Joe McCracken; and Mr Michael Galea.

Thank you for joining us. I will quickly read this to you before we continue. All evidence taken is protected by parliamentary privilege as provided by the *Constitution Act 1975* and further subject to the provisions of the Legislative Council standing orders. Therefore the information you provide during the hearing is protected by law. You are protected against any action for what you say during this hearing, but if you go elsewhere and repeat the same thing, those comments may not be protected by this privilege. Any deliberately false evidence or misleading of the committee may be considered a contempt of Parliament.

All evidence is being recorded. You will be provided with a proof version of the transcript following the hearing. Transcripts will ultimately be made public and posted on the committee website.

For the Hansard record I will ask you, before we proceed, to state your full name and the organisation you are appearing on behalf of. Due to time constraints I ask that committee members be restricted again to 4 minutes. Mr Ryan and Mr King, please state your full name and the organisations you are representing. Thank you.

Sean RYAN: Sean Anthony Ryan, appearing on behalf of Greystar.

Michael KING: Michael King, appearing on behalf of Novus.

The CHAIR: Thank you. We will go straight into committee questions. Mr Batchelor, would you like to proceed, please.

Ryan BATCHELOR: Thanks, Chair. Thank you both for coming. Both the state government and the federal government have recently made changes to tax arrangements to better support the build-to-rent sector. I would be interested in your evidence as to what impact those changes have made so far. Is there anything further you think that governments at either a state or federal level could do to support the build-to-rent sector?

Sean RYAN: I will jump in. Firstly, we do acknowledge the great initiative that has happened in Victoria with the land tax concessions for BTR projects. We have seen firsthand the positive impact of that in terms of stimulating further investment in the state for build-to-rent projects. I think in terms of what further work could be done both from a state and a federal perspective, the MIT changes that have been announced at a federal level – albeit there is not much detail around that, the idea of it is great. Taking a step back, the reason why it is a benefit for BTR and particularly for investors and developers like Greystar is we get our funding from, at the moment, largely offshore pension funds and sovereign wealth funds, mainly because they have experience investing in BTR in offshore markets, so they have experience in it, they understand it and they are comfortable investing in it. They are captured basically at a higher tax rate. If we had local investors, it would be okay, but because at the moment we have got foreign investors in our platforms we hit a higher tax rate. The MIT changes would basically halve our tax rate at the divestment end, so that is a really welcome change. Obviously the detail – we are waiting for it to come through, and we cannot factor that into any of our underwriting at the moment. Once that is resolved, that will be a great step forward. Probably the other tax inequality when you compare build to rent to build to sell is GST. That is obviously a federal tax. The imbalance at the moment is as BTR developers we have to pay the GST, and we cannot get reimbursed for that, whereas if you are doing build-to-sell you can get reimbursed for that. That effectively adds 10 per cent to our cost base.

Ryan BATCHELOR: And would that flow through to rents as a consequence?

Sean RYAN: We have to factor that in as a cost, so that impacts how we set the rents and the returns. Yes, ultimately it does flow through. I think the message that we have had the whole time we have been engaging in discussion around tax has been: 'We don't want free kicks; we just want a level playing field with build to sell.'

Ryan BATCHELOR: One of the critiques, I suppose, of the early build-to-rent projects is that they were skewed to the higher end of the market, probably because there is more certainty, more experience. How do you think that government can help get the market to broaden access to build-to-rent products, for want of a better term, to the more affordable end of that rental market?

Michael KING: I think I would start by saying that the build-to-rent projects thus far skewing towards the higher end of the market is not necessarily by choice; it is by circumstance. It is that they are the ones that make the most financial sense, to stack up. If we get things like the MIT flowing through, things like GST, things like foreign purchaser duty on acquiring operating assets through, all of these things, all of these mechanisms allow both developers and investors to go to the middle or lower end of the market in terms of affordability. From the investor's standpoint, it is actually what they want. Investors typically would want something that has got a long-term stable cash flow. We are talking about investors that currently own office buildings, shopping centres, industrial warehouses – those types of things. Long-term stable cash flow is what they want. The residential market in Australia, long-term stable cash flows – the upper end of the market is not as deep. If we could go to the middle range of the market or lower end of the market, that depth of pool of renters is a lot larger. They would absolutely go there. It is just about making the financial returns work.

Ryan BATCHELOR: Sorry, just quickly, do you think a bit of maturity in the market will help get there, or do you think you would need the tax changes that go with it?

Michael KING: It is a bit of everything. It is tax changes – the Queensland government have a subsidy that they are running at the moment, the Housing Investment Fund, to support a percentage of apartments being provided as affordable in private developers' projects. There are a whole host of things that you could do. I do not think tax is the silver bullet. I think it is a combination of a number of things, but certainly the demand is there for both investors and developers to do more.

Sean RYAN: It is something we are actively investigating, and I agree part of it is about the market maturing. Across our global operations we deliver a whole range of different accommodation types that sit at different pricepoints. Ultimately, it comes down to finding land at the right price and being able to build cheaper than you can in a city high-rise, because the rents are going to be lower, and right now we have not quite found that –

Ryan BATCHELOR: Sweet spot?

Sean RYAN: magic sweet spot where it all kind of makes sense.

Ryan BATCHELOR: Thanks, Chair.

The CHAIR: Thank you. Aiv.

Aiv PUGLIELLI: Thank you. Hi. Aiv, here. Thank you both for coming in today. In public commentary we hear the word affordable get thrown around quite a lot, and it appears at times there is a bit of conjecture between what might appear in, say, legislation and the public's idea of affordable. To each of you, being representatives of different organisations: what would you define as an affordable home?

Sean RYAN: Before I answer that, I think it is quite interesting how you have asked the question, because I think it summarises maybe part of the issue. There is not a clear or consistent definition of what affordable housing is across municipalities, across states. So I think, firstly, having agreement across the board as to what it actually is –

Aiv PUGLIELLI: You would like to see that?

Sean RYAN: would be a great outcome because then I think it gives everyone a very clear view on what it is and it is a level playing field. You know, Greystar's view on it is affordable units rented below typically what the market rent would be. We have got affordable units in our Kensington project, and the mix of apartments is generally representative of the total mix of the building. There are no different specifications, there is no separate door. It is basically just one of the new apartments. At a point in time it might be at the top level with the best views, it might be at a lower level, and so on a yearly basis you just have that percentage.

Aiv PUGLIELLI: Just to clarify, how much below market rate for the definition of affordable?

Sean RYAN: We work to the moderate income bands, so we basically do not want to exceed the 30 per cent of that median income in a moderate income band.

Aiv PUGLIELLI: So not 30 per cent above median income is affordable?

Sean RYAN: Yes.

Aiv PUGLIELLI: Okay. Perfect. Thank you for clarifying. And now for Novus.

Michael KING: We do not have a singular view because it does vary across the area where you are trying to provide the housing. Simplistically, within our own internal conversations we often think about it in the sense of: can a fireman, nurse, policeman, teacher afford it based on 30 to 35 per cent of their income going to rent? Typically, you hear the 30 per cent mark thrown around a lot. We think that there is possibly the ability to go slightly above that, given the fact that we do not have bonds, we have got gyms, we have got additional working spaces and we have got pet safe. You have security of tenure – those types of things. You may be able to creep above those. When you look at a lot of the other global cities like London and New York, they are above that 30 per cent threshold.

Aiv PUGLIELLI: Just to clarify, 30 per cent above your income?

Michael KING: It is a teacher, a nurse, a fireman or a policeman's income – so we look at a whole range of those, and we take 30 to 35 per cent of their income –

Aiv PUGLIELLI: Of that income, okay.

Michael KING: going towards rent.

Aiv PUGLIELLI: So within your developments would you say that you offer that type of stock?

Michael KING: At the moment we do not have a specific affordable housing requirement within any of our projects within Victoria. We have got two projects. They were old permits that did not have affordable housing requirements. We are actively looking at new projects which absolutely would have affordable housing requirements. We would comply with the legislation that applies to those. Within our projects, though, we do look at the percentage of our units, where again those same professionals would be able to afford them. And for a single person or a couple, you are looking at kind of 50 per cent of those apartments being affordable for those professionals.

Aiv PUGLIELLI: Okay. And if such a scheme were imposed wherein it were mandated that there would be a proportion at that price range offered, would you say you would welcome that sort of a scheme?

Michael KING: In the instance that there are additional requirements over and above what we already understand for each specific process, you would have to usually have some sort of support for that. So we can look at a project now with a statutory requirement, whether it be 6 per cent, 4 per cent, 8 per cent or 10 per cent, and the land purchase price we would pay would make the feasibility stack up, factoring that in. In the instance that there was an overarching requirement to go over and above that, something would have to move to compensate.

Aiv PUGLIELLI: Thank you. That is my time.

The CHAIR: Thank you. Mr McCracken, if you would like to continue, please.

Joe McCRACKEN: Thank you. I was expecting to go later, but that is fine. This is to both of you. I noticed in both your submissions that you are not in favour of rent caps or rent controls and those sorts of things. Why?

Michael KING: Sure. I am more than happy to start. I think I would just take it back to our previous point. At the moment there is a housing supply crisis. If you look at the figures for the average age of a home owner, in 2000 it was 24; it is now 34. So you have got people that are renting for 10 years longer than they were just 20 years ago. There is a housing supply shortage. The investors that are willing to provide housing supply in pretty significant numbers, like Greystar and us, are working with investors that are investing in office buildings, shopping centres and industrial warehouses – all of those sectors – and they are investing in houses in other geographies around the world.

Joe McCRACKEN: Why not Victoria?

Michael KING: They are investing in Victoria. They have been. Victoria has been an amazing place to invest for build-to-rent housing. We absolutely want to thank the Victorian government for what they have been doing to date – absolutely.

Joe McCRACKEN: There you go, Michael. I got one for you.

Michael KING: Absolutely, totally. Victoria was progressive, saw the challenge coming early and acted on it. There is still a crisis. The crisis would be significantly worse had the Victorian government not acted as early as it did. We firmly, firmly, firmly believe that. If we did impose rent caps, we just think the investors that have already invested here and are willing to invest here –

Joe McCRACKEN: They would run for the hills.

Michael KING: would go elsewhere. They would go elsewhere. It is purely just the availability of choice. They want long-term stable cashflows with liquidity – the ability to sell assets. But with rent caps, if they are not imposed in other markets or they can get the same returns without the same level of restrictions, they just will choose somewhere else.

Joe McCRACKEN: It takes supply out of the market, basically.

Michael KING: It takes the funding out of the marketplace.

Sean RYAN: Which then ultimately exacerbates the affordability issue. With less supply there is more pressure on rents.

Joe McCRACKEN: Because advocates for that say, 'Short term is great because you limit the impost on renters, but long term –'

Sean RYAN: Yes. I mean, it is not like you can just turn the tap on and within 12 months deliver a whole bunch of housing. What you find happens in markets where they have introduced rent caps and freezes is that it does in the short term obviously put a ceiling on rents, but then it discourages investment, which then two, three or four years later has not caught up, and so you end up being much further behind than you would have been if you had just actually stimulated supply and got more supply into the market.

I think it is interesting in Australia that we have already got ultra-low vacancy rates – historic lows. There is very little supply coming through. BTR is delivering some, but it can only do so much. And migration is forecast to hit historic highs as well, which is going to place more pressure on the existing level of housing supply.

Joe McCRACKEN: One of the other challenges to do with supply is obviously planning. It can take quite a while to get something approved, and time is money. Can you talk to me about your experiences getting things approved, working with planning authorities, even non-planning issues such as getting water connected and those sorts of things? Talk us through some of those challenges.

Sean RYAN: Sure. We have had two permits issued in Melbourne. So we have got five projects in various stages of development and construction – two in construction. We have had two permits approved. We are waiting on another one, which will hopefully come through shortly. What we have found is that it is getting longer to go through that journey, and there are hold-ups the whole way along the process. It is better probably when we sort of engage with the department of planning. They tend to sort of have a bigger picture view on things rather than councils. But having said that, we had a good experience with Stonnington council. I think what can unlock it is probably just making sure that the authorities understand the impetus to provide supply and to be more proactive with responding and working out problems through the planning process. For us, as you said, certainty is really important. Our investors have a limited investment time frame, so they have got a certain amount of capital they want to deploy within a limited time frame. If they have got certainty and shorter time frames, then we can actually deploy that money and get more houses built in quicker period of time.

Michael KING: Both of the projects that we have in Melbourne had existing dormant build-to-sell permits. We actively sought out those because it was a faster planning process with more certainty. We kind of knew the building envelope that we were working with. That is not to say that we would not go and pursue a new permit, but we found that working within an existing envelope helps us expedite the planning process with more certainty. That being said, there are still no guarantees. My colleague is in a council meeting at the moment trying to get pre-app feedback on the modification that we are pursuing at the moment. That is a permit that was issued seven years ago that has not been activated at all. We are drastically improving it in terms of sustainability, apartment design, amenity provisions for residents and those types of things, but again, it could be something that gets held up, even though we think that we are doing a pretty good job, because it may not tick a certain box within that council's kind of approval framework. We literally think it is probably just aligning supply targets. If they are considering a planning modification or planning permit application versus housing targets, that might help kind of move things forward, but at the moment we are seeing a lot of the objections are just objections because they do not want any development, let alone specifically relating to what is being proposed in the design.

Joe McCRACKEN: I am out of time, but thank you both.

The CHAIR: Dr Mansfield.

Sarah MANSFIELD: Thank you. Just to go back to some earlier questions around affordability, you mentioned that the Australian market or the Victorian market in particular is not very mature yet, and that perhaps with maturity we will see those prices go down. But a lot of overseas markets are, I guess, at greater maturity. We are still seeing, on average, generally higher rents in a lot of those build-to-rent developments. How do you respond to that? If that seems to be a consistent feature of build to rent, is that going to be the answer to the housing affordability issues that we are currently experiencing?

Sean RYAN: I suppose there is undersupply across the whole spectrum of housing, and build-to-rent targets are part of that spectrum. I think as the market matures more what we will see is the spectrum that is being targeted start to widen. The types of projects that have been or are in the process of being developed in Melbourne are typically inner-city high-rise buildings. What we have see through our expertise in the US, which is a much more mature market from a rental housing perspective, is that there are a lot more projects in the middle-ring suburbs – lower rise, three-level, walk-up apartments built from timber framing, so it is cheaper to build. That also has less amenity spaces. What that means is you can deliver those units more cost effectively, so the rents are actually lower. I think the answer is actually: as the market matures, there becomes more variety and more diverse offerings of types of products rather than being just focused on the more inner-city high-rises, which are obviously more expensive to build.

Sarah MANSFIELD: I guess we have heard consistently through this forum, even from property managers and rental providers, that there are lot of people who cannot afford market rates for rent now, and even some of the income earners that you have talked about and referenced are struggling. They are paying more than 30 per cent of their income on rent at the moment. The real missing piece of the housing puzzle is that lower end of housing in terms of price – so public housing, social housing and genuinely affordable housing that people can generally spend less than 30 per cent of their income on. Do you think things like inclusionary zoning should apply to build to rent to try and address that issue?

Michael KING: First of all, we firmly agree with you. We think that there is not a sufficient supply of that level of housing Australia-wide. Do we think inclusionary zoning – for example, should a percentage of the floor plate or a percentage of the apartments be provided as affordable? Totally, yes. Absolutely. I think the more that you can incentivise developers to include it – or build to rent, speaking specifically for us – the more that you will get. If the baseline is 5 per cent affordable housing in a specific council, saying 'We'll give you 30 per cent more floor space and, of that 30 per cent, 50 per cent or 15 per cent should be for affordable housing' would certainly work. GST credits work. Stamp duty, land tax concessions – any number of these things will help supply. We do not think that build to rent is the solution for all of Victoria's housing issues, but it can help. It can certainly help. We hope that we can deliver as much or more affordable housing than anyone else in the state in time, working with state government to try and solve that, certainly.

Sean RYAN: But I think the key is that the inclusionary planning does not just apply to BTR. It applies to any development within that area, because the onus should not be just on build to rent to be delivering the affordable housing. There are obviously benefits in us doing that, because we can help manage it as well. There are efficiencies there in terms of taking some of the load off the CHPs as well, and that makes it more efficient across the board.

Michael KING: That is the one thing that I think is the challenge at the moment. In instances where we have to hand back certain apartments to a third party that manages it, you get a bit of overlap in terms of responsibilities. We think simplifying the whole process so that anyone can really deliver affordable housing and standardised sets for what that income testing or rental needs to be for those residents can certainly help deliver more.

Sarah MANSFIELD: Thanks.

The CHAIR: Thank you. Dr Bach.

Matthew BACH: Thanks, gentlemen. In your submissions you both spoke about increasing construction costs. This was in the context of what you have discussed and what we have heard discussed throughout the course of the day – in fact throughout the course of our hearings – that being a rental crisis and a broader housing crisis in particular driven by a lack of supply. Would you mind perhaps both just quickly speaking to us about what you see as the drivers of those increasing construction costs?

Sean RYAN: I think we have experienced it across the board on all our projects. COVID has been probably a driver for a spike. Historically construction costs have escalated at a pretty reasonable rate as far back as records track, and there have been spikes on the way, but COVID coming in really impacted supply chains. A lot of materials come from China or offshore, so the costs of shipping quadrupled or went up by five times. Everything comes in containers, so that immediately put the cost up.

I think also as a result of COVID there were labour supply issues that were created – actually just being able to get people onsite to do the work. And obviously other materials went up – steel, concrete. Government infrastructure – stimulus into infrastructure projects from government unfortunately probably places more pressure on building trades as well and pricing, and so that kind of artificially starts to prop up the market a little bit there as well. Whilst it should be starting to mediate now – and all the feedback we are getting is that it has slowed down – it is still escalating, and I think there is probably an element of price gouging still going on in parts of the market as well. The feedback we are getting from both builders that we have got on our projects is that they are definitely seeing a slowdown, but it is still increasing. It is pretty hard to underwrite that level of escalation. We are talking 20 or 30 per cent on big projects – $200 million to $250 million projects. That is a lot of money to try and value manage and pull back, and ultimately the investors bear the burden of increased equity investment to make these projects continue to stack up and move forward.

Matthew BACH: All right. Mr King, I might ask you – just following on from some of your earlier comments in response to one of Mr McCracken's questions – about seeking to do better when it comes to planning processes. I found myself nodding along when you were talking before about seeking to get some greater density, albeit appropriately managed, in middle suburbs where there is infrastructure already and more people to live. What are some things we could seek to do with local government? I have heard housing targets floated; they were mentioned. Are there other things that we could look at? Because I am mindful that at the moment it seems like what often happens as a result of poor regulations, normally at a local government level but potentially at a state government level too, is that we are pushing so many people further and further and further out. When you look at other cities around the world, many of them are able to manage much greater density than we are able to manage, but because of nimbyism and other factors we just cannot seem to do it. What do you think we could do better there?

Michael KING: It is a very good question. It is a very broad question, so I will try and answer it simply. I think the first thing is, in the instance where you are not causing vastly inferior outcomes for the neighbourhood, you could just simply increase density, whether that is tied to having a percentage of affordable housing within that component – that is an idea. There is a site that we are looking at at the moment where we cannot see a reason why the density should not be more on that specific site. You could have specific budgets for housing being delivered within a specific council in a specific time frame, so you are tying in obviously requirements for housing to be of a certain standard but also making sure that there is accountability for getting permits approved. Probably managing objections I would think similarly – in a way, if the objection is genuinely in support of the development, it should be considered. If an objection for a development is purely just opposing the development for objection's sake, that should be probably measured or discounted to a degree. I am trying to think of what else.

Matthew BACH: That is all right. Those are lots of good ideas. Thank you.

Michael KING: You would probably have more.

Matthew BACH: Would you have anything further to add, Mr Ryan?

Sean RYAN: I agree with what Michael said. I think it is great we have got the system where developers cannot just go and run roughshod over an area and the community has a say, but also there can be quite big implications from the delays to housing supply and costs being pushed up because of the delays and being held up by an objection that is not really, in the whole scheme of things, important when you consider the housing crisis we have got. I think giving councils and governments a little bit more authority to actually make judgements and calls to approve things would definitely help.

Michael KING: The only other thing I would add actually is in the instance that there is either funding in place or something there that can substantiate that once this approval gets through construction will commence. Having the ability for groups like us who are actively looking to develop – we are not looking to get a permit and sell or get a permit and land bank or anything like that – to incentivise or allow a pathway for fully funded projects to have expedited approval processes I think would also be helpful.

Sean RYAN: It is a good point. I saw Nick Reece had a quote yesterday or last night I read where there are a whole bunch of permitted sites in the City of Melbourne that have not been acted on. I think what is important with build to rent is that our business model operates quickly deploying capital and then getting projects built and operating, so if there is a way of being able to prioritise our projects because they can be acted on and we have got capital sitting there ready to deploy – there are no pre-sale requirements – we can actually accelerate the housing supply.

Matthew BACH: That is great. Thank you. I agree: he says a lot of sensible things, Mr Reece.

The CHAIR: Thank you. Michael.

Michael GALEA: Thank you, Chair. It is probably the perfect segue to what I was going to ask you about, which is permit banking. I think it was in your submission, Mr Ryan, that you said a feature of your business model is that you are incentivised not to do that and not to hold on to all these permits for years and years. Could you elaborate on why that is such a feature and how that sets you apart from build to sell?

Sean RYAN: There are two aspects to it. One is the investment side of things. The way that we typically deliver projects is for a fund, so that is a series of investors who pool their money into an investment fund. That has a set period of time that it needs to deploy the money, so that dictates basically how quickly we need to secure sites, get planning, get into the ground and building them. Obviously the faster we can do that, the better the outcome. There is more certainty. If we can demonstrate greater certainty in terms of the planning process, then it makes it more attractive to get more investment into the state as well. Not only does it help us deploy the money we have got but it also will help us attract further investment into Victoria to then obviously increase the supply.

Michael KING: A lot of the investors are the same thing: they are core investors. Core investors want income. That is what they want, and the speed at which you can provide that income, being the residential rent – the faster you can get it, the better. They are not in a position, and I do not even think they would have the mandate, to go out and acquire land and sit on it. That would not pass the investment mandate requirements for a lot of the investors that similar businesses to ours have.

Michael GALEA: Loosely to that point as well, we have obviously heard a lot today from so-called mum-and-dad investors. To what degree would the business model for businesses such as yours be better than that model, if any? What benefits would you have as an institutionalised business?

Michael KING: We are not trying to necessarily be better. That is probably not what we are thinking about. We are trying to just be different. We think that, given the amount of housing pressure, you need both. You need mum-and-dad investors. You do not want to discourage them or encourage them to sell their properties. You want them to ensure that their properties are available to the market and obviously have good conditions for renters.

We just provide something different, and that difference is onsite staffing, facilities management and a larger proportion of amenities. That is pretty much it. Security of tenure – we are not having our kids move into our rental property in two years time. They are institutionally owned for long terms. They are not necessarily going to be strata subdividing. The amenity thing I think gets a lot of talk – the indoor gym, the co-working space or things like that – but that is not necessarily different to what a build-to-sell project may have. There might be a larger percentage of it for an overall development, but we are probably more just different to the mum-and-dad investors I think, rather than better.

Sean RYAN: Our whole business model is customer focused, so it is about delivering an exceptional level of service. Whilst the actual built form could be quite similar to a build-to-sell development, we have got staff in the building. A typical building might have 10 to 15 Greystar employees, and their job is to actually make sure that our residents are happy. They help to facilitate community, so that kind of responds to the loneliness crisis that is out there. We make sure that people get out of their apartments and they use the amenity spaces. We run events and we build that sense of community so people feel like they are actually living in a home.

Michael GALEA: Thank you. I believe before you said, Mr Ryan, that the majority of your Australian and Victorian developments are in inner cities – inner-city Melbourne in the case of Victoria. Would that be the case for you as well, Mr King?

Michael KING: That is the case, yes.

Michael GALEA: Obviously as you have already talked about with the densification in appropriate places, and I am just thinking about where you would like to expand to, if I can ask – and you mentioned that one of your colleagues was meeting with councils today – without asking you to name particular councils, do you find much variance between the productivity of the relationship –

Matthew BACH: Name them.

Michael GALEA: Name them if you want to, by all means.

Michael KING: Perfect, love to – no.

Michael GALEA: Do you find much difference between the councils that you deal with in their supportiveness or otherwise of your applications?

Michael KING: I am probably not in a position to answer that question with as much detail as you would want, and I will not go into much more detail than that.

Michael GALEA: Sure.

Michael KING: It is more that we have not got it. We have worked under different company names in different councils, but under the Novus banner everything that we are doing is isolated within a single council at the moment, and they have been great to work with.

Michael GALEA: Great. Mr Ryan, would you have any opinion?

Sean RYAN: We have dealt with three different councils. What we have done as a strategy has been devoting time up-front to actually sitting down and trying to educate the councils about what build to rent is – the benefits of it.

Joe McCRACKEN: It is a challenge, isn't it?

Sean RYAN: It is a challenge, but we think that it actually does help. The feedback we got from our South Yarra project when we got that approved, heard back through our planner, was the fact that we have actually got runs on the board overseas with delivering and operating these assets gave us credibility that actually assisted with the approval process. I would not say that we have had good or bad councils; I think they have been pretty consistent. They have been definitely open to hearing about what BTR is. It is a very diplomatic answer, isn't it?

Michael GALEA: We appreciate diplomacy. Thank you, both.

The CHAIR: Thank you. I know one council that would love to have you on board. I think Brimbank would love you to direct some wee business out that way – just a plug. Dr Heath.

Renee HEATH: Thank you. Thank you so much for your presentation and for coming and allowing yourselves to be interrogated. In your opinion, are rental caps going to ease the crisis or are they going to drive the rental crisis?

Michael KING: If rental caps were imposed, it would exacerbate the rental crisis.

Sean RYAN: Yes, I agree. You can summarise it quite succinctly. I think it will disincentivise new supply, which will exacerbate the affordability issue. It will lead to a deterioration in the quality of the existing stock because landlords, whether institutional or private, rely on increased revenue to be able to invest back in and maintain buildings. You can see case studies overseas where rental caps have resulted in deterioration of the quality of the housing stock. I think as a totality it will make things worse. We think that the real solution is actually about stimulating more supply.

Renee HEATH: That is fantastic. What do you think the best way to unlock supply is?

Michael KING: Do you want me to go on this? I think it is everything and anything that can be done. I do not think it is specific to build to rent. I think it is every type of housing. I think it is student accommodation, it is build to rent, it is being able to build duplexes – anything that can be done. I think tax incentives obviously help.

A member: Granny flats.

Michael KING: Granny flats – granny flats are strictly off the table.

A member: Heard you!

Michael KING: I think density bonuses can help. I think allowing a runway for groups with capital that can activate projects quickly with supply should be encouraged. But yes, everything and anything that could be done I think should be supported or at least considered.

Sean RYAN: Yes, I agree, and I second everything that Michael said. I think in general incentivising usually results in a better outcome, so density bonuses, that sort of thing, can deliver more affordable housing and that sort of thing as well. I think it is about across the board little things that continue to do it. I think it is also having a proactive attitude and making sure that government are communicating that out, because it shows a level of confidence, so when we are out there trying to pitch for more capital and those investors are looking back at what the government are saying about housing policy and what they are doing –

Michael KING: Reading the news.

Sean RYAN: They read the news, and they are always asking us questions about it. If they can see that the government are on board and they are supporting it, then they will support investment and they will bring more money into the country and the state.

Renee HEATH: Thank you. My last question is: what regulations should we change and what reforms should we consider? It is a bit of a wish list.

Michael KING: That is a broad one. I am not too sure about the answer to that would be the answer.

Renee HEATH: You can take it on notice, if you like.

Sean RYAN: Yes, it is quite a broad question. I am happy to take it on notice and provide some thoughts afterwards.

Renee HEATH: Thank you. Thanks, Chair.

The CHAIR: Thank you. Thank you very much for your submissions. I went through both of your submissions, and your written submissions I think clearly state that you are not for the rent control. I think you outlined how it is a disincentive and will relate to poor management and will burden the government eventually. In your submission you included some case studies over in Europe and the US in which that did not work out. I know Dr Heath mentioned changes in legislation. That is broad, but from a planning perspective, planning regulations – which is more, effectively, local government or state planning permits – what current planning legislation at the moment is actually assisting or an incentive for you to continue, and how do we change it if it is not? What changes to the planning control or the planning permit will assist BTR to continue to invest in Victoria?

Sean RYAN: I think it all comes down to certainty and clear policy. I think having a centralised planning body has been something that has been talked about, and I think it could be a good outcome, provided that it is resourced appropriately. A challenge can be – and this is probably in the current department of planning model – where they refer projects out to the City of Melbourne. The department of planning rely on council for feedback on technical things like sustainability and traffic, which means that whilst the department of planning can be quite streamlined and they can push the progress along quite quickly, they are still beholden to council to respond to referral comments. I think if there is going to be a central body to really fast-track these approvals, they need to have the expertise to basically assess the whole application and not enable council to hold the process up.

The CHAIR: And Michael?

Michael KING: I would absolutely agree with that. I think it is more just putting things into perspective – that we are in the short term between 30 and 50 per cent off the annual supply of apartments that we would need just to sustain the population growth, and longer term we are about 70 per cent off the annual supply of housing to meet the long-term population goals of the state. Almost anything that can be done to support that would be beneficial. And it is not about a short-term fix – it is about a long-term sustainable change that can ensure the long-term delivery of housing within the state. Yes, streamlining processes but also, in the instance that you have a high-level planning authority opining on approvals, ensuring that they have the technical capabilities within that authority to make those approvals.

The CHAIR: Also during your submission just now you mentioned a lot about overseas investors. In Parliament we have a lot of connections or negotiations or meetings with overseas parliaments as well from different countries. Your investors from overseas, where are they coming from – Asia, Europe, South America, America? Whereabouts mainly are your investors from overseas?

Michael KING: It is pretty diverse.

The CHAIR: Diverse?

Michael KING: It is very diverse: Asia, Europe and North America probably. Not South America as such yet, but Asia, Europe and North America.

The CHAIR: The same with you?

Sean RYAN: Yes, we are the same. Interestingly, we have got a lot of local investors who invest with Greystar but overseas, so they invest in our European platforms and our US platforms.

Michael KING: It is quite common.

Sean RYAN: We speak to them quite frequently about Australia, but they are probably just not quite at that level where they are comfortable to invest back into Australia for whatever strategy reasons or risk allocation perspectives. But yes, historically our investors are spread through Europe, Asia and North America.

Michael KING: We do see that hopefully in time becoming a large pool of investment capital will be the existing Australian superannuation funds. They are investing in this product all over the world, but not here – or very few are here, I should say. There is nothing wrong with them. It is just that their mandates require them to look for specific returns or ensure that they manage their employees' pensions in the right manner to maximise their returns, and Australia just is not that place at the moment.

The CHAIR: Okay. Thank you. Just one more question. I noticed in your submission, Michael, that the land tax deduction for the BTR you put down as 50 per cent. I was wondering how you got that number, or was it a random estimate?

Michael KING: The land tax exemption?

The CHAIR: Yes.

Michael KING: For build to rent it is 50 per cent in Victoria.

Ryan BATCHELOR: State government policy now is that?

Michael KING: Yes. State government policy now is that.

The CHAIR: Thank you.

Michael KING: A great policy. And then there are some foreign purchaser surcharges which are also exempt, and then we are trying to work on one of those applying in a broader context.

The CHAIR: Thank you. Time has caught up again with us. This brings the panel session to a close. I again thank you both very much for coming in today and giving us your time. You will receive a copy of the transcript to review in about a week's time before it is published on the website.

Witnesses withdrew.