

# New \$1 billion fund to boost build-to-rent sector

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Vellum Funds Management is partnering with Urban Property Group to launch a \$1 billion fund to develop build-to-rent properties, as momentum continues to grow in the fledgling sector.

The companies this week launched The Places Build to Rent Fund, inviting investors to participate in a \$132 million capital raising that has attracted \$66 million in pre-commitments.

Investors will be invited to participate in further stages of the fund over the next five years, with Vellum and UPG expecting it to grow to at least \$1 billion of capital under management in that time.

The fund will focus on development in Sydney and gives sophisticated and institutional investors the opportunity to participate in the build-to-rent sector.

Earlier this year, the NSW state government unveiled an incentive scheme for developers to create build-to-rent developments providing a 50 per cent discount on land tax for projects of more than 50 units.

Vellum managing director Binuo Erth said the fund's proof of concept was the Highland apartment building in Penrith, a purpose-built build-to-rent project completed by UPG in 2019.

Ms Erth said the fund would help to execute the company's long-term vision in the Sydney property market.

"The Places BTRF is about giving investors, including super funds, access to the rapidly growing build-to-rent market, while developing high-quality rental properties with affordable living spaces," Ms Erth said.

"Highland, our first completed purpose build-to-rent building is likely to serve as a model to the entire Australian build-to-rent sector in terms of community focused design and social responsibility."

UPG chief executive Patrick Elias said the company had backed the fund because it would encourage the growth of the build-to-rent sector in Australia.

“The NSW government should be applauded for putting in place policy mechanisms that support this kind of development.

“We are focused on high quality build-to-rent properties that deliver the flexible accommodation people increasingly desire.

“We are also committed to developing properties that provide affordable living or tailored solutions for people living with disability.”

The establishment of The Places Build to Rent Fund follows one of Australia’s biggest superannuation funds, First State Super, lobbying federal and state governments for further incentives to make build-to-rent schemes more viable in Australia.

While the build-to-rent sector was in its early stages in Australian property, considerable momentum is being provided by some of Australia’s biggest developers as well as some major international groups.

Late last month, First State Super chief investment officer Damian Graham said it was critical that governments worked closely with industry to boost the build-to-rent sector to address housing affordability issues.

“Build-to-rent is popular overseas in countries like the United States, but is still in its early stages in Australia,” Mr Graham said.

“As a major investor in affordable housing, First State Super wants to expand our investments in this sector and see the barriers removed to make way for the market to grow.

Growth in this sector is not as financially viable in Australia as it is internationally due to a number of challenges presented by the Australian financial system with its current tax laws.”

Mr Graham said changes that would make build-to-rent development easier in Australia would be land tax reductions as NSW has put in place, as well as additional concessions for density requirements under planning laws.

He said the relatively high cost of site acquisition was a major impost for build-to-rent developments in Australia.

“Now is the opportunity for governments, industry and investors to work together and respond to these challenging issues and allow for more investment opportunities of scale in affordable housing and build-to-rent developments,” Mr Graham said.

First State Super, which has more than \$125 billion of assets under management, has invested \$250 million in affordable housing initiatives in NSW and Victoria over the past 12 months.

Mr Graham said the company would unveil a suite of new projects over the coming months, increasing the fund’s investment to more than \$400 million.

“There is a real opportunity for investors like us to collaborate with the government to respond to the significant issue of housing affordability, to help support future housing needs across the country, provide a welcome boost to construction and to support jobs,” Mr Graham said.