

GREYSTAR™

Inquiry into the Rental and Housing Affordability Crisis in Victoria

Greystar Submission
July 2023

PARLIAMENTARY INQUIRY TERMS OF REFERENCE

The Terms of Reference have outlined that:

The Committee will investigate the challenges facing Victorian renters and factors causing the rental and housing affordability crisis in Victoria including low availability and high costs of rental properties, insecurity, availability and affordability issues facing Victorian renters, the adequacy of regulation with regards to standards and conditions of rental housing, the adequacy of the rental system and its enforcement, the impact of short stay accommodation, barriers to first home ownership and the impact this has on rental stock and the experience and impacts all of this has on renters and property owners.

Greystar Submission

The current rental crisis is primarily fuelled by a lack of housing supply across all typologies. The lack of supply is driven by a range of factors including inefficiencies in the planning system that hinder the ability to bring housing projects to market as quickly as possible and shortages of construction materials and labour that are driving cost escalation. Increasing supply is a first order priority to address the affordability of housing stock for Victorians.

Rent control such as rent capping or a rent freeze is not the solution to rental affordability and risks worsening the housing crisis as investors leave the Victorian market to prioritise interstate or international investment opportunities and the quality of rental housing stock deteriorates.

The following pages contain supplementary information to be read in conjunction with the above statement.

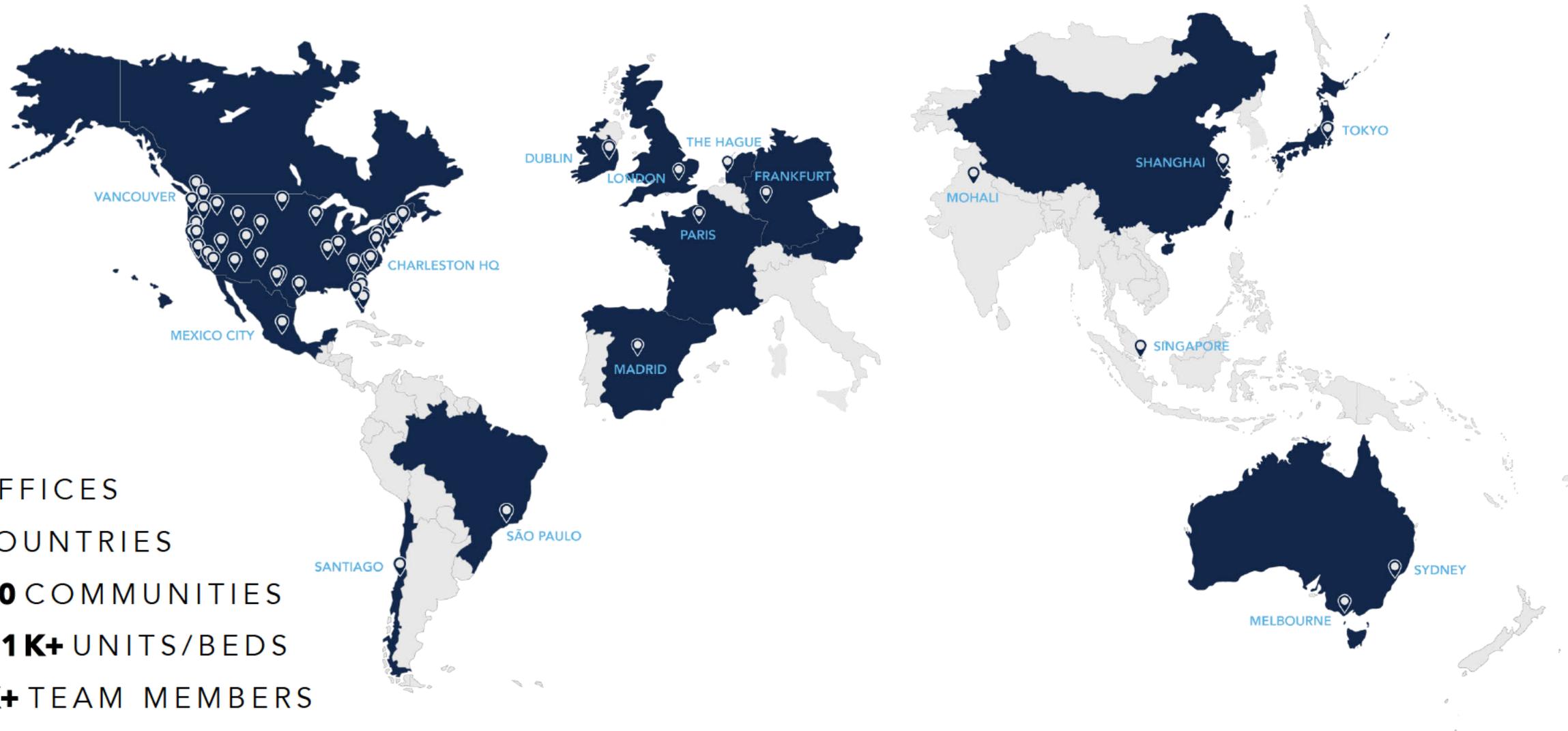
Signed:

Senior Director, Development

07/07/2023

About Greystar

GREYSTAR: THE GLOBAL LEADER IN RENTAL HOUSING



65 OFFICES

17 COUNTRIES

~2,900 COMMUNITIES

803.1K+ UNITS/BEDS

22.2K+ TEAM MEMBERS

All company figures as of March 31, 2023.



Gladstone Street
South Melbourne, VIC

GLOBAL

\$74bn+

IN ASSETS UNDER
MANAGEMENT

803,100+

RENTAL UNITS & STUDENT
BEDS MANAGED

\$12.5bn+

DEVELOPMENT
PURSUIT

22,200+

TEAM
MEMBERS

VICTORIA

5

SECURED
PROJECTS

~\$0.5bn

CONSTRUCTION
COSTS IN DELIVERY

~2,300

RENTAL UNITS
IN PIPELINE

~1,900

FTE CONSTRUCTION
JOBS CREATED

A RANGE OF PRODUCT TYPES

Multifamily

Student Housing

55+

Build-to-Rent

Impact Housing

Life Sciences

Logistics

MULTIFAMILY



LIV'N 833, Shanghai, PRC

MULTIFAMILY



Plaza Providencia, Providencia, CL

STUDENT



OurDomain Amsterdam South East, Amsterdam, NL

55+



Overture Daniel Island, Charleston, SC

MULTIFAMILY & HOTEL



Illume + AC Marriott, Washington, DC

LOGISTICS



Miami Midway, Miami, FL

LIFE SCIENCES



74M, Somerville, MA

MULTIFAMILY & OFFICE



Symphony Square, Austin, TX

Submission

EXECUTIVE SUMMARY

THE ROLE OF BUILD-TO-RENT

- For residents, Build-to-Rent aims to provide people who need or choose to rent with a greater choice of high-quality accommodation that reflects the way people want to live now. For the Government and community, Build-to-Rent offers a **viable solution** to poor quality rental stock, an insecure rental market and unaffordable home ownership options.
- Without the need to achieve pre-sale targets before construction can commence, the Build-to-Rent model **accelerates the delivery of housing supply** to the community.
- With a long-term interest and a mission to deliver and maintain high standards in design, delivery and customer service, Greystar's Build-to-Rent product will lead innovation in the housing industry to create places that **improve community living standards**.
- Attracting investment into the APAC region needs certainty and hates uncertainty, so policy and regulation needs to be **clear and consistent** to encourage this.

STATE OF THE MARKET

- The current market is already facing an overwhelming **undersupply** of residential properties. There has been a considerable **decline in housing supply** since the peak supply years between 2016 and 2019, particularly in Melbourne, where approx. 20,000 units were delivered annually. The supply pipeline is projected to decline sharply to just 800 units by 2025.
- **Increased overseas migration** in Australia is contributing to increased demand for housing, as evidenced by the record low vacancy rates across the country. Historical net overseas migration averaged 200,000 arrivals per year, however the country is currently experiencing its largest two-year population surge in history, with an additional 715,000 migrants forecast by mid 2024.
- Favourable economic conditions, including low unemployment rates and rising household income, continue to drive increased household formation, the **demand for housing is expected to rise even further**.
- Given the combination of these factors, it is crucial to address the need to **increase housing supply** to mitigate the housing shortages and affordability challenges faced by many across the country.

IMPACTS OF RENT CONTROL

- Rent caps, also known as rent control or rent stabilisation, are policies that limit the amount landlords can charge for rent on residential properties.
- While proponents argue that rent caps help protect tenants from excessive rent increases and provide affordable housing options, there is significant evidence to suggest that rent caps have negative impacts on housing markets and can be detrimental in the long run.
 - **Reduced Housing Supply:**
 - **Disincentive for new construction.** Uncertainty over regulation and reduced returns due to rent controls deter investment in new construction projects. Consequently, there is a reduced supply of new rental units, intensifying housing shortages in high-demand areas
 - **Private for-sale landlords selling rental stock.** Reduced attractiveness of holding rental properties means landlords will sell, thereby reducing available rental supply

Sources:
Charter Keck Cramer H2 2022 Melbourne Report, 2022
Jones Day: Mapping Out Rent Controls Across Europe, 2020
CBRE 'Rent Controls: Solution or Setback?' 2023

EXECUTIVE SUMMARY (CONT.)

IMPACTS OF RENT CONTROL (CONT.)

- **Exacerbate housing affordability issues over the long term.** Limited supply of housing options and further imbalance of demand and supply is likely to lead to increased competition for limited rental housing, driving up prices in unregulated sectors and further disadvantaging low-income individuals
 - **Deteriorating Quality of Rental Housing Stock:**
 - **Poor maintenance.** Landlords may be disincentivised from making necessary repairs and improvements to rental properties. Since they are unable to raise rents to cover their costs, landlords may defer maintenance or neglect renovations, leading to a deteriorating quality of housing
 - **Lack of investment and upgrades of existing rental units.** Tenants may have limited access to updated amenities and energy-efficient features, negatively impacting their overall living conditions
 - **Black Market and Informal Rental Sector:** Landlords may resort to undesired practices such as charging additional fees or demanding cash payments outside the official rental agreement, evading rent control regulations. This can undermine the goals of rent caps and create an unfair and unregulated rental market
 - **Significant burden to government .** Rent control may impact governments in the form of reduced tax revenue, coupled with increases in both bureaucratic costs and resources required to implement the proposed policies
- These negative impacts are likely to result in a decline in housing supply, a decline in housing quality, fewer rental options, longer waiting lists for affordable housing and disadvantage low-income individuals which these regulations were intended to benefit
 - Evidence from different locations, such as San Francisco, New York City, and Ireland, where rent control policies have been implemented, suggests that these negative impacts are prevalent. Economists and experts generally agree that rent caps can have unintended consequences that negatively affect housing markets, reducing housing quality, limiting supply, and impeding affordability in the long run

CONCLUSION

- **Supply is the solution** – the proposed government policies do not address the severe undersupply of housing and only act as a barrier for investment in supply solutions such as Build-to-Rent. In order to meet increasing demand, all stakeholders should aim to work collaboratively to reduce barriers that are currently impeding the supply of housing in Australia, and more specifically Victoria.

Sources:
Jones Day: Mapping Out Rent Controls Across Europe, 2020
CBRE 'Rent Controls: Solution or Setback?' 2023

BUILD-TO-RENT HAS AN IMPORTANT ROLE TO PLAY

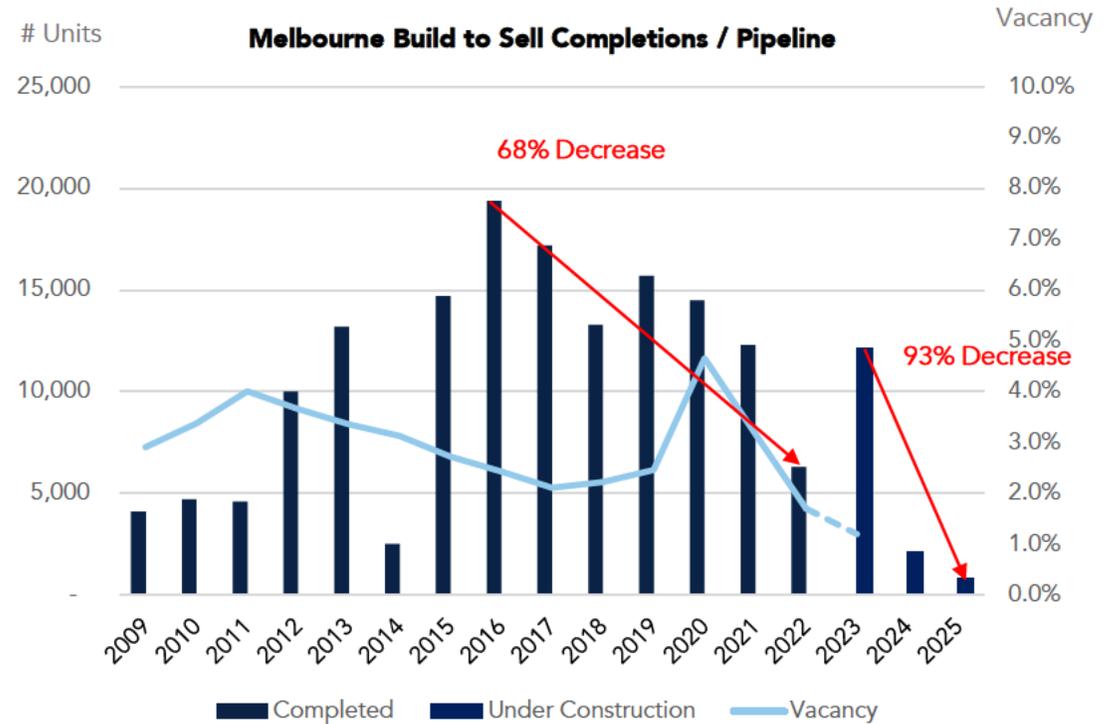
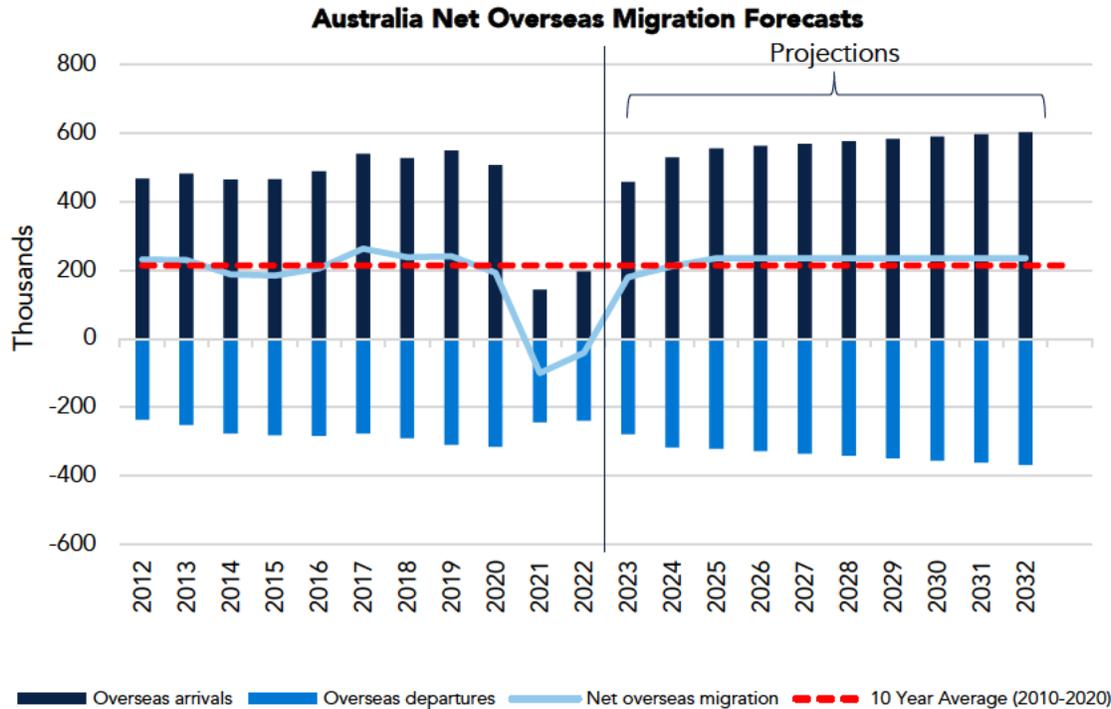
Aligned to long-term community needs, Build-to-Rent provides high quality sustainable housing that delivers wider social and economic benefits

<p>The Build-to-Rent industry has an important role to play in addressing the housing crisis</p>	<ul style="list-style-type: none">• Build-to-Rent aims to provide people who need or choose to rent with a greater choice of high-quality accommodation that reflects the way people want to live now• Rental housing is a “third limb” to housing supply alongside Build-to-Sell and affordable, which provides additionality• Our purpose-designed and purpose-built buildings house a range of amenities and are managed by our dedicated onsite teams, who provide an exceptional customer experience – our rents do not compare to the private rented sector• As long-term owners and operators, we have a vested interest in creating a thriving community that integrates and contributes to its surrounding neighborhood• Land banking does not suit the business model, so sites with planning approval are more likely to get built out quickly
<p>Matching people’s needs and aspirations</p>	<ul style="list-style-type: none">• The rental market is changing. We know our customers well because we see them every day at our buildings and survey them regularly – above all they are looking for flexibility• Demand is being driven by smaller, often single person, urban households with most of the household formation accruing to rental given the barriers to entry for homeownership we see in our major cities• Housing has a key role to play by providing high quality housing in places where people need and want to live• Too often the focus on the Build-To-Sell market and increasing rates of home ownership means that insufficient political attention is paid to the needs and desires of renters in cities (and to the quality of rental accommodation)• We are committed to improving standards and increasing security and stability for residents – this includes pioneering new housing solutions for underserved groups such as young professionals and students
<p>We attract global investment to APAC</p>	<ul style="list-style-type: none">• Greystar set out 30 years ago to make housing into an institutional grade investment product• Attracting investment into the APAC region needs certainty and hates uncertainty, so policy and regulation needs to be clear and consistent to encourage this• In 2021, we announced the A\$1.3b final close of Greystar’s flagship Australian investment vehicle, Greystar Australia Multifamily Venture I (GAMV I). In the final close, Ivanhoe Cambridge and a major European institutional investor joined founding investor APG Asset Management to establish Australia’s largest Build-to-Rent venture to-date. The partnership will work together to deliver a new generation of high quality, purpose built rental housing with best-in-class services and amenities to meet the rapidly evolving needs of the large rental cohort in Australia.

STATE OF THE MARKET IN MELBOURNE

Significantly constrained housing supply pipeline to contribute to further housing undersupply off the back of increased overseas migration

- Historical net overseas migration has averaged 200,000 arrivals per year. Australia is set to experience its biggest two-year population surge in its history, with an extra 715,000 migrants forecast by the end of the next financial year
- Melbourne is forecast to see a significantly constrained supply pipeline that has already experienced a 68% decrease from 2016 to 2022
 - Further forecast decline in units under construction, declining to just 800 units by 2025
- Melbourne vacancy has fallen to 1.2% as at May-2023 as a result of higher migration numbers and limited/constrained rental supply



Sources:
Charter Keck Cramer H2 2022 Melbourne Report
SQM Research

IMPACTS OF RENT CONTROL

IMPACT ON THE BUILD-TO-RENT ('BTR') SECTOR

- Build-to-Rent continues to be one of the most in-demand real estate sectors within Australia and abroad with a large number of investors looking to deploy capital within Australia.
- Australia's institutional BTR stock now stands at 5,475 completed apartments, with 8,400 apartments under construction. The future pipeline currently stands at 26,350 apartments, including those in the pre-application stage, bringing the total size of the sector to 40,100 apartments completed or in the potential pipeline. As of Q1 2023, Melbourne accounted for 53% of all BTR apartment projects either operationally or in planning¹.
- Regulation plays a major role in the allocation of funds and resources. Changing government policy and uncertainty around regulation is a threat to the sector and will lead to investors diverting capital away to other markets.
- Results from a 2019 US survey² found that 34% of BTR market participants in cities and states with rent control (or considering rent control) had already cut back on investment or development, and a further 49% were considering doing so. The maturity of the US BTR market suggests a similar, if not bigger impact on Australian BTR investor sentiment just as the sector starts to gain some momentum

	Shortage of rental accommodation	Poor quality of rental housing	Reduced institutional investment	Security of Tenure
Impact of rent control	<ul style="list-style-type: none"> • Limited construction of new rental housing projects. Many projects will no longer be viable given capped rental growth and/or rents. <ul style="list-style-type: none"> ➢ Increased competition for limited rental stock ➢ Limited choice of housing ➢ Limited mobility potentially limiting employment opportunities 	<ul style="list-style-type: none"> • Landlords are disincentivised to invest and maintain good quality rental housing <ul style="list-style-type: none"> ➢ Large pool of prospective tenants competing for limited rental housing stock will be forced to accept poorer standard of accommodation 	<ul style="list-style-type: none"> • Uncertainty and change in government policy will deter investment into the sector • Rigid rent regulation does not adapt or align to unexpected economic changes <ul style="list-style-type: none"> ➢ Project feasibilities will no longer be viable, significantly impacting delivery of quality assets ➢ Negative flow-on effects impacting multiple industries including property, construction and hospitality ➢ Reduced supply of new housing 	<ul style="list-style-type: none"> • Landlords may seek to replace tenants at the earliest opportunity, allowing rents to be calibrated in line with regulation <ul style="list-style-type: none"> ➢ Lack of security of tenure ➢ Major disruption and stress ➢ Landlords may operate in informal or black market rental sectors, charging additional fees and undermining regulations
How can Build-to-Rent assist?	<ul style="list-style-type: none"> • Build-to-Rent can deliver quality rental housing to the market, at scale, and in a relatively short timeframe • Well-located rental apartments which can cater to diverse and changing housing needs • Allows for mobility to meet the needs of the population 	<ul style="list-style-type: none"> • Build-to-Rent delivers high-quality, purpose-built buildings for rent • Buildings have high quality fixtures and fittings to ensure the assets withstand the test of time • Dedicated management and maintenance teams who can execute repairs and maintenance in a timely manner • Enhanced leasing experience • Long term investment into the sector incentivises good management, maintenance and customer-focused service 	<ul style="list-style-type: none"> • Investment in Build-to-Rent provides long term, stable cash flow investments attractive to institutional investors • Built-to-Rent sector is more immune to property market cycles, enabling developments to proceed • Economic benefits to the wider community provides jobs in the construction sector as well as building management and services 	<ul style="list-style-type: none"> • Build-to-Rent offers security of tenure as well as flexibility in lease term helping to build stability and greater sense of well being • Build-to-Rent often provides resident amenities such as gyms, co-working spaces and resident lounges. Amenities play a key role in fostering new communities. • With long term ownership and operation there is strong focus on creating communities and managing successful rental communities into the future

Sources:

1. Savills Australia 'Q1 2023 Australian Multifamily Report', 2023
2. CBRE 'Rent Controls: Solution or Setback?' 2023

Appendix

CASE STUDIES - EUROPE

Since 2022, several European markets have introduced new rental regulations with the impact of these decisions having a negative effect on the housing market



Country	Germany	Ireland	Scotland
Regulation	<ul style="list-style-type: none"> Initial rent level is set by local reference table that is updated every two years For stock built before Oct-14 rent is capped by a threshold that restricts rent increases for existing tenants. 	<ul style="list-style-type: none"> 'Rent Pressure Zones' cover Dublin and all cities in Ireland: <ul style="list-style-type: none"> Initial rent set at open market (based on 3 comparable properties) Increases capped at CPI or 2% p.a. 	<ul style="list-style-type: none"> Rental uplift on lease renewals capped at 0% on all leases until April 2023 3% rental cap increase thereafter
Impact	<ul style="list-style-type: none"> Previously Berlin attempted to implement 'Mietendeckel' which paused rent increases for 5 years and prescribed max rent per sqm Following the announcement of the cap in 2020, there was a 35% drop in rental supply within a year, as landlords left the market³ This law was unpopular and was declared unconstitutional in Apr-21 Low housing stock has persisted with supply unable to meet demand 	<ul style="list-style-type: none"> Ireland still manages to attract a healthy volume of multifamily investment due to new rental properties being excluded from the controls Average Dublin rents on new tenancies have increased 14% over 2022, despite the 2% cap³ Private landlords are exiting the market which reduces supply thereby impacting low income tenants the most 	<ul style="list-style-type: none"> Developers and investors indicated that construction of new rental supply was not viable in such an environment Negatively impacted investor sentiment, evidenced by the number of investment and funding deals being paused or stopped, exacerbating the housing shortages which necessitated the rent controls in the first place The Scottish government overturned the rental freeze in April 2023, replacing it with a 3% cap³

Sources:
3. CBRE 'Rent Controls: Solution or Setback?' 2023

CASE STUDIES – EUROPE (CONT.)

European countries enacted restrictive rental legislation in an attempt to ‘protect’ the housing market, instead resulting in reduced supply and investment



Country	France	Spain	Netherlands
Regulation	<ul style="list-style-type: none"> Rent regulations are based on the Rent Reference Index limiting the annual increase to a max cap of 3.5% for one year Rents on renewal cannot exceed the previous rent except with variation to the index Rents frozen on properties with poor energy efficiency ratings. 	<ul style="list-style-type: none"> 2% p.a. cap on rent increases at renewal until 2023 3% p.a. cap on rent increases from 2024 as part of a new national housing law If the landlord is a company, minimum lease term of 7 years. Once lapsed with no termination notice the lease will automatically extend to 1 year up to max 3 years 	<ul style="list-style-type: none"> Expansion of the regulated sector to include a greater number of leases Previously unregulated market now subject to cap of CPI + 1% until end of 2024 Low-mid market rents based on a housing valuation points system where landlords are fined if they charge more rent than the home is worth
Impact	<ul style="list-style-type: none"> France has previously experienced the impact of rental controls which lead to a huge shortage of rental housing and poor quality of housing stock Low levels of profitability resulted in institutional investors exiting the property rental sector and governments introducing tax incentives to prevent the collapse of the private rental sector 	<ul style="list-style-type: none"> Spain has an undersupply of public housing, 3% of total housing vs EU average of 9%⁴ These laws will further impact supply by lowering both quantity and quality thereby leading to higher rental price levels Discouraging investment will only further exacerbate the low housing supply where the number of new homes built fell 89% from 850,000 in 2006 to 100,000 in 2018⁵. 	<ul style="list-style-type: none"> Investor appetite for mid-rent complexes have dropped significantly with private investors considering selling their rental properties as rent control and heavier rental income taxation has dampened their profits Combined with rising construction and financing costs future housing supply is limited.

Sources:
 4. ABC News, Spain government to make 50,000 foreclosed homes available for rent amid housing crisis, 2023
 5. Brookings, Spain's once substantial rental market is now one of the smallest in Europe, 2021

CASE STUDIES - USA

There are a number of localities across the United States that have some form of rent control in effect



City/State	New York	California	Oregon
Regulation	<ul style="list-style-type: none"> Under the Housing Stability and Tenant Protection Act of 2019, rent increase for tenants in rent controlled apartments will be the lesser of 7.5% p.a. or averaging the last five years increases for rent stabilised renewal leases, set by the Rent Guidelines Board 	<ul style="list-style-type: none"> Limits mark to market rents to when tenant vacates Rental cap of the lower of 5% + CPI or 10% over a 12 month period Imposes 'Just Cause' eviction (prescriptive rules on eviction e.g. habitual non-payment of rent, illegal use of unit etc.) 	<ul style="list-style-type: none"> First state to implement state-wide rental control which includes: <ul style="list-style-type: none"> Capped rental increase of 7% over CPI One mark-up per year Landlords are prohibited from terminating periodic tenancy without cause after 12 months of occupancy New assets are exempt for 15 years after construction
Impact	<ul style="list-style-type: none"> New York regulated stock has a significantly higher number of maintenance issues than unregulated stock as rent control discourages maintenance and capital improvements Further tenants are motivated to stay in their regulated apartment leading to a misallocation of housing 	<ul style="list-style-type: none"> A 2019 study found that rent controls in San Francisco reduced supply by 15% as rental stock were converted to owner-occupied or redeveloped to be exempted from rent control⁶ These laws favoured the construction of high-end units that cater to wealthier individuals thereby reducing the supply for the low income market. 	<ul style="list-style-type: none"> Legislation unfairly impacts private landlords and encourages redevelopment and/or development catered towards wealthier tenants Negatively impacts housing supply particularly in the low-mid housing markets.

Sources:
6. CBRE 'Rent Controls: Solution or Setback?' 2023