



# A new path to home ownership for Australia's 'forever renters': how NSW could lead the way

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## Acknowledgment of Country

The Australian Public Policy Institute acknowledges the Gadigal people of the Eora Nation and the Ngunnawal people upon whose ancestral lands our Institute stands.

We pay respect to Elders both past and present, acknowledging them as the traditional custodians of knowledge for these lands. We celebrate the diversity of Aboriginal peoples and their ongoing cultures and connections to the lands and waters of NSW.



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## Executive summary

Housing affordability in NSW is at its worst level on record. Over recent decades, the increase in housing prices has far outstripped wage growth, widening economic and intergenerational inequality. Home ownership is declining, particularly among younger people and lower-income households. The result is a fast-growing population of 'forever renters', many struggling in a private rental market that is one of the least secure in the world.

Build-to-rent housing, built for long-term rental rather than sale, is seen as one way to address the housing shortfall in Australia, and both the Australian and NSW Governments have introduced legislation to incentivise it. Build-to-rent housing is in its infancy in Australia, but will ultimately become part of the housing landscape. At this early stage, there is an opportunity to influence the ownership models for build-to-rent developments.

The unique build-to-rent-to-own model proposed in this paper would allow residents to acquire an ownership stake in their development without needing a deposit or bank loan, for as little as \$10 per week. It differs to existing 'rent-to-buy' models that give renters the option to buy their unit at a predetermined price at the end of the lease, through a conventional mortgage. This model has been developed in consultation with community and cooperative housing providers, superannuation funds, banking, property and housing experts, private and state-owned build-to-rent developers, councils and policymakers.

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**Australia's housing system is driving inequality. A new model is needed to give people who would otherwise be locked out of the housing market access to the benefits of home ownership.**

This model would give a growing number of Australians – who would otherwise be locked out of the housing market – the opportunity to access the benefits of home ownership from the first day of living in a build-to-rent development. For institutional investors, securing long-term tenants reduces the costs of resident turnover and increases long-term risk-adjusted returns.

Unlocking build-to-rent-to-own offers NSW a significant opportunity. The NSW Government can support its development by convening a multistakeholder working group to provide the governance foundations for the development of this model for NSW, establishing common guidelines to ensure consistent application, while supporting regional and metropolitan pilots to refine it in different locations across NSW.



## Policy opportunities – at a glance

The NSW Government can lead the way by supporting the innovative build-to-rent-to-own model outlined in this report, specifically by:

**1**

### **Developing common guidelines for a build-to-rent-to-own scheme**

The NSW Government could develop clear rules and guidelines to support consistent application of the scheme. NSW could lead with state guidelines that would form the basis for subsequent national guidelines, supporting both investor and resident confidence in the model.

**2**

### **Supporting build-to-rent-to-own pilots in cities and regions**

The NSW Government could support pilots of build-to-rent-to-own in existing regional and metropolitan build-to-rent projects, to test and refine the model in practice. These pilots could align with the development of the common rules and guidelines, so each process can inform the other.

**3**

### **Establishing a build-to-rent-to-own working group for NSW**

The NSW Government could convene a build-to-rent-to-own working group with representation from key stakeholders, including investors, developers and affordable housing providers, to oversee these recommendations. This group would provide the governance foundations to support the development of the new model for NSW and Australia.

By adopting these policy opportunities, the NSW Government can make home ownership more accessible for the growing number of 'forever renters' in NSW.



# The growth of 'forever renters'

NSW has the least affordable housing of any Australian state, with housing affordability at its worst level on record.<sup>1</sup> Growth in housing prices has far outstripped wage growth, fuelled by decades of policies that have treated housing as a means of wealth creation.<sup>2</sup> This has markedly widened economic and intergenerational inequality.<sup>3</sup>

There is a chronic undersupply of social and affordable housing in NSW, and long waitlists. This has become a major priority for both the NSW Government and Commonwealth Government through the creation of both the Housing Australia Future Fund (2023) and Homes NSW (2024).

Over a third of Australians rent in an increasingly competitive private rental market that is one of the least secure in the world.<sup>4</sup> For renters, being forced to move out of their community can be costly, affect employment prospects, and sever community ties. Renters also face structural financial inequities, missing out on the tax incentives associated with home ownership.

Breaking into home ownership has never been more difficult. It is taking households longer to save for a deposit, and loan repayments are harder to afford. It takes a median-income household more than 11 years to save for a deposit on a median-priced home in NSW, or 12.6 years in Sydney.<sup>5</sup> This household will then need to pay more than half of its income towards servicing the loan (55.4 per cent in NSW, 59.9 per cent in Sydney).<sup>6</sup> The impact of the Australian Government's Home Guarantee Scheme, which enables a home buyer to borrow 95 or 98 per cent of the value of a property, is uncertain.

Unsurprisingly, home ownership is declining, particularly for younger people and households on lower incomes, and NSW is witnessing a fast-growing cohort of 'forever renters'.<sup>7</sup> Many younger people, facing rising student loan debt and less stable employment prospects, are giving up on ever owning a home.<sup>8</sup> More older Australians are retiring in debt, and of these, three-quarters owe more on their home loan than they have in superannuation.<sup>9</sup> Many will use their superannuation to pay their loan and rely on the age pension, while others will be forced to sell and rent.

Of Australian renters aged 70 and over, almost three-quarters once owned a home and dropped out of the housing market.<sup>10</sup> According to a 2025 report by the Grattan Institute, two-thirds of Australian retirees renting in the private market live in poverty, including more than three in four single women who live alone.<sup>11</sup>

In response to the growth of 'forever renters', the Australian Government has passed legislation to incentivise investment in build-to-rent housing. The intention is to increase the supply of rental housing and to provide greater security for renters.



# The opportunity of build-to-rent housing

Build-to-rent housing developments are built for long-term rental, not sale. Dwellings are rented on long-term leases, with the development owned and operated by institutional landlords such as superannuation and pension funds as a rent-generating asset.

Build-to-rent housing is seen as one way to reduce the shortfall of housing in Australia, with estimates that it could deliver 150,000 new homes over 10 years.<sup>12</sup> While the investment growth trajectory in Australian build-to-rent is uncertain, it will ultimately become part of the housing landscape.

Build-to-rent housing is well established in the US and the UK, but nascent in Australia. It has been mostly associated with the premium end of the market in Australia to date, but can also be a mid-market and affordable housing model. In fact, the community housing industry is viewed as Australia's 'original' build-to-rent sector, and NSW state-owned developer Landcom is leading such projects for essential workers in Sydney and renters in regional NSW.

In 2023, build-to-rent developments made up around 0.2 per cent of the value of the total Australian residential sector. In comparison, build-to-rent accounts for around 5.4 per cent of the total value of the residential sector in the UK and 12 per cent in the US.<sup>13</sup>

Incentives have recently been introduced to support the creation of build-to-rent as a new investment asset class and make Australian build-to-rent housing more attractive to investors.

**The NSW Government** provides a 50 per cent land tax discount to NSW developers who invest in eligible build-to-rent schemes, as well as exemptions from foreign investor surcharges on stamp duty and land tax when such land is held and developed by an Australian corporation.<sup>14</sup>

**The Australian Government** has reduced the managed investment trust withholding tax rate from 30 to 15 per cent and provides accelerated tax deductions for construction costs, increasing the capital works deduction rate from 2.5 to 4 per cent per year.<sup>15</sup>

Build-to-rent has the potential to provide much-needed affordable rental housing and to lay the foundations for an innovative build-to-rent-to-own model. Despite the opportunities, there is uncertainty about how build-to-rent will grow in Australia and the extent of its impact on housing affordability. The key opportunities and challenges are summarised below.



### Build-to-rent opportunities

**Accelerating housing supply:** Potential to increase rental housing in areas close to jobs and services, bring investment forward in periods of low economic activity, and boost construction activity and jobs.

**Enabling affordable housing:** Community housing providers are a pathway for the growth of build-to-rent and can bring private investors into affordable development.

**Greater rental stability:** Build-to-rent provides residents with secure long-term leases and reduces the likelihood of forced moves, which can be costly and affect productivity, employment prospects, financial stability, schooling and community ties.

**Building community:** Rental stability allows people to stay in their community. The diversity of unit types within many build-to-rent developments gives tenants the opportunity to transition through different life stages within the same development.

**Improved sustainability:** It is in investors' interests to ensure operating costs remain low and that tenants want to stay, thereby incentivising sustainability and construction quality. The shared facilities typical of build-to-rent enable smaller apartments and resource efficiency.

### Build-to-rent challenges

**Uncertainty about how it will scale:** Build-to-rent is relatively new to the Australian market and lacks the investment track record that is key to large-scale investment by Australian superannuation funds. As it matures, increased investment is expected.

**Barriers to regional development:** Capital flows to development in major capital cities due to perceptions of risk, rental demand and yield. Lack of sufficient supply chains and evidence of successful projects in the regions can be a barrier to regional investment.

**Concerns about impact on revenue:** The scaling of build-to-rent could potentially impact on government revenues (e.g. stamp duty, land tax, council rates). State and local governments may therefore be disincentivised to support its scaling.

**Uncertainty about its impact on housing affordability:** Because investment capital generally has a mandate to maximise returns, without targeted intervention Australian build-to-rent could gravitate towards the premium end of the market in major cities, which would be a lost opportunity for housing affordability.



## Investor perspectives on Australian build-to-rent

There is some debate about whether build-to-rent can increase housing supply to the point that it will improve rental affordability.<sup>16</sup> Such housing can be scaled if there is enough capital, but it is unclear how attractive the model is to investors when deployed in Australia.<sup>17</sup> Build-to-rent projects are capital-intensive and require significant levels of debt and equity. Australia has relatively low rental yields as our property market is driven by high capital growth. To scale, build-to-rent needs to provide equivalent or better risk-adjusted return compared to alternative opportunities.

There are different perspectives on the attractiveness of build-to-rent by institutional investors. Some Australian funds that invest in such projects in the US do not think the Australian market has the necessary depth or track record yet, while others are investing.

Stakeholders for this project noted that international investors only want exposure to big markets in Australia, as opposed to the US where investors are targeting mid-tier cities. It is not yet clear how the Australian Government's recent legislation is incentivising investment in Australian build-to-rent.

## The build-to-rent experience in Australia so far

In Australia, a small but growing commercial build-to-rent sector targets young urban professionals in major cities, while community housing providers remain active in affordable build-to-rent. In NSW, state-owned developer Landcom is building a portfolio of build-to-rent developments for regional households and for essential workers in metropolitan areas.

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**A build-to-rent-to-own scheme could incentivise long leases, the 'holy grail' for build-to-rent developers.**

We heard from stakeholders that tenants in commercial inner-city build-to-rent developments are staying an average of 21 months. Most opt for 12-month leases, despite the availability of 5-year leases, due to the long-term institutional ownership. They know the development 'won't be sold from underneath them' and they can renew the lease. Most tenants are between 20 to 40 years old, earning at least \$100,000 a year, and many are in transitional life stages, for example, new migrants or recently divorced.

Long leases are the 'holy grail', improving the business proposition for build-to-rent developments. A build-to-rent-to-own scheme could potentially incentivise longer stays and broaden the tenant demographic towards people who want to make the development a longer-term home.



## The build-to-rent-to-own model

Investment in long-term, affordable build-to-rent housing is a positive for NSW. Even better is to overlay a build-to-rent-to-own model that enables residents to become owners over time.

Since the Superannuation Guarantee Act in 1992, Australians have come to accept the right of all workers to accumulate assets for a secure retirement. Yet we have created an inequitable system where many Australians are denied the security afforded by home ownership. This inequity is widely acknowledged, creating fertile ground for a new concept of home ownership grounded in values of equity, custodianship and community benefit.

In seeking to address these challenges, we engaged with stakeholders to develop a new housing ownership model and explore how NSW might lead the way. We consulted with community and cooperative housing providers, superannuation funds, banking experts, private and state-owned build-to-rent developers, property experts, housing experts, regional local councils and policymakers.

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**This new build-to-rent-to-own model enables renters to become owners without a deposit or bank loan.**

The concept of this model is simple. People renting in build-to-rent developments owned by institutional investors should be given the opportunity to acquire an ownership interest in the corporate entity that owns the development.

**Figure 1 | Residents in a build-to-rent development could build an ownership stake over time**





### Principles of a build-to-rent-to-own model

**Inclusivity:** All residents, including those in affordable dwellings, can participate, with a contribution of as little as \$10 per week. The aim is to lower the barriers to entry for those who would otherwise be locked out of housing ownership.

**Community first:** Residents' needs come first. This approach will deliver long-term risk-adjusted financial returns, as residents are motivated to stay and there is less turnover. Emphasis shifts towards a more collective, community-based concept of ownership.

**Permanent affordability:** Shares in the build-to-rent development are not traded on the open market, with shareholders required to be residents of the development. This discourages speculation and helps keep housing affordable for future generations.

**Efficiency:** Rules are designed to operate effectively and efficiently in the interests of both residents and investors, within existing legislation and ASIC regulations, and consistently applied on a state and, ideally, national basis.

The build-to-rent-to-own model enables a renter to acquire an ownership stake in their build-to-rent development with a contribution of as little as \$10 a week. This model differs from 'conventional' home ownership: residents would not own a property title but, rather, shares in the build-to-rent corporate entity. In this regard, the model aligns with international examples of cooperative housing. The build-to-rent-to-own model is also different from 'rent-to-buy', a pathway to conventional home ownership that gives renters the option to buy their unit at a predetermined price at the end of their lease.

Build-to-rent-to-own offers an alternative to the ubiquitous 'build-to-sell' model that has inflated housing costs. It challenges the status quo where only those with the capacity to own a home or secure finance can access the benefits of home ownership. It also gives the growing number of Australians who might otherwise be locked out of the housing market the opportunity to access the benefits that home ownership provides – greater agency, stability, financial security, and the ability to live in the same community over generations if they wish, without being forced to move. These are the foundations of wellbeing and productivity.

For residents of a build-to-rent development, the model should operate in a way that provides certainty and security, allowing residents to build long-term connections with their community and enabling intergenerational living.

For institutional investors such as superannuation and pension funds that may own a build-to-rent development, offering a build-to-rent-to-own scheme should enable investments that deliver risk-adjusted financial returns. The benefit for superannuation funds is that offering a build-to-rent-to-own scheme can also support a super fund's members to build financial security in a way that is entirely consistent with best interest fiduciary duties.



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Many Australian super funds represent essential workers struggling to afford housing, providing an opportunity to align financial returns with support for members.

### *Where would build-to-rent-to-own have the most impact?*

Some 'sweet spots' where the build-to-rent-to-own model might be particularly effective are:

- **Moderate-income households**, who may not have access to affordable housing, are struggling with housing costs and giving up on home ownership. These households earn 80–120 per cent of the median income, which was \$92,856 in 2024 (\$80,262 after tax).<sup>18</sup>
- **Essential workers**, typically working in areas like healthcare, teaching, hospitality, retail and emergency services, though the definition varies with location. They fall mostly in the low (50–80 per cent of median) to moderate (80–120 per cent of median) income range.
- **Younger people**, millennials and those born after, who have missed out on the housing boom by virtue of their age. Without the 'bank of mum and dad' or an early inheritance, even those on higher incomes will struggle to buy a home. Early adopters of the sharing economy, younger generations may be more open to shared ownership.
- **Retirees**, people 55+ planning for retirement who either do not own a home or have mortgage debt that outweighs their superannuation.
- **Regional towns**, as a catalyst for regional economic development and to help address challenges associated with bank lending in the regions.
- **Commercial to residential conversions** in cities. Remote working is increasing vacancies in commercial buildings, particularly B-grade buildings in secondary business districts and inner-city suburbs. A proportion of these may be suitable for conversion to build-to-rent-to-own projects.<sup>19</sup>

# Blueprint for build-to-rent-to-own in NSW

To ensure consistency across different projects, there is a need for a common set of rules for acquiring, selling and valuing shares in a build-to-rent corporate entity. These proposed rules, informed by stakeholder input, can serve as a basis for further development of rules and guidelines to support the consistent application of this model.

## Proposed build-to-rent-to-own model rules

<b>Who can participate?</b>	All build-to-rent residents in participating developments, including those in affordable dwellings, would have the option annually to elect to participate in a build-to-rent-to-own scheme offered by the corporate entity that owns the development. Only residents in the development are eligible to participate. If a resident terminates their lease, their membership of the build-to-rent-to-own scheme is terminated and shares paid out.
<b>How are shares bought or sold?</b>	A resident of a build-to-rent development could elect to acquire or sell shares annually. Shares are directly bought from and sold back to the build-to-rent entity, not on an open market, to reduce speculative activity. The sale of shares would potentially be subject to capital gains tax.
<b>When can shares be bought and sold?</b>	Residents could elect to acquire or sell shares once a year within a designated period. This is efficient to administer and aligns with legislative requirements for a build-to-rent entity to report to the Commissioner of Taxation on an annual basis. Build-to-rent-to-own scheme rules could define how residents in financial hardship could apply to sell shares outside this period if needed.
<b>How many shares can be purchased?</b>	Residents could acquire a variable amount of shares to suit their financial circumstances. They could make small regular payments over a long period, or a lump sum, for example if they are the beneficiary of an estate. There would be a defined minimum and maximum amount of shares. The minimum could be around \$500 a year, representing a payment of \$10 per week. The maximum could be based on the notional value of their individual dwelling.
<b>How are shares valued?</b>	Shares would be valued quarterly, to align with the Australian Prudential Regulation Authority (APRA)'s guidelines and the valuation governance process of the build-to-rent entity. The price at which shares are bought and sold would factor in the annual valuation of the total build-to-rent entity and the number of shares held in the entity. The valuation approach would be defined in the build-to-rent-to-own scheme rules.
<b>How does participation influence rent or lease terms?</b>	Participation in a build-to-rent-to-own scheme would not affect rental arrangements. Build-to-rent-to-own scheme participants would be entitled to a dividend based on the profits of the corporate entity and the number of shares they own. While there is potential for participants to offset rent or increase their shareholding, scheme rules need to be designed in a way that does not impact the ability of institutional investors to generate financial returns based on their own ownership interest.



<b>Can shares be passed on as inheritance?</b>	Shares could be passed on to family members or other beneficiaries of a will. The shares could either be retained by beneficiaries who wish to reside in the build-to-rent development or sold back to the corporate entity. This enables and supports multigenerational communities, providing broader social and wellbeing benefits.
<b>What protections do scheme participants have?</b>	Scheme participants would have both residency rights as tenants and ownership rights as shareholders. They would be minority owners of the entity, protected by Australian corporate law. Scheme rules should provide clarity on the rights of build-to-rent resident shareholders, for instance outlining rights if an institutional investor elects to sell their own shares to another investor.
<b>How are disputes managed?</b>	Scheme rules would outline mechanisms for grievance resolution. Mechanisms including Community Advisory Boards may provide an efficient mechanism to resolve disputes.
<b>Are home improvements valued?</b>	Scheme rules would outline processes to incentivise build-to-rent scheme participants to make their own home improvements, as is common in parts of Europe. This would require establishing a set of guidelines to recognise what improvements would be eligible, and what financial criteria would be used to recognise the financial value of improvements.
<b>Could the development be sold in future?</b>	To take advantage of the incentives in the build-to-rent legislation, a build-to-rent development must remain as build-to-rent for at least 15 consecutive years, and many are held for longer. Scheme rules would align rights of shareholders after a 15-year period.

## Acquisition and sale of shares

One objective of avoiding an open market for build-to-rent entity shares is to reduce speculative activity. Another is to incentivise families to stay in the same community over generations, so the acquisition and sale of shares is an important consideration.

The rationale of an annual selection of shared is that it aligns with the build-to-rent legislation and is also efficient for a build-to-rent owner to administer. The rationale for a minimum offer is to allow renters with minimal financial assets to participate. Residents could acquire full ownership with a single lump sum payment (for example, if they are the beneficiary of an estate) or incrementally over a lifetime. Acquiring 2 per cent of the notional value of a dwelling per year would achieve full equivalent ownership over 50 years.

A build-to-rent corporate entity would operate as a business, earning income from renters and paying costs including maintenance. Depending on its profitability, an annual dividend could then be distributed. A shareholder would be entitled to a dividend payment, dependent on the number of shares they hold. Build-to-rent-to-own schemes would define how a resident could reinvest dividend payments to increase their shareholding.



Ownership of shares in a build-to-rent entity aligns with residency. A build-to-rent resident who terminates their lease agreement in the development would automatically terminate membership of the build-to-rent-to-own scheme, at which point the entity would buy back and pay out the shares. Outside of the potential to sell shares to family members residing in the same dwelling, it is proposed that shares could only be sold back to the build-to-rent entity's majority owner.

An issue identified in our stakeholder consultation is uncertainty on what may happen after the 15-year minimum hold period (stipulated in the current build-to-rent legislation) expires, including that a build-to-rent institutional investor may wish to break up the corporate entity and sell individual dwellings in the open market. Scheme rules would need to define how build-to-rent residents' rights would be managed in these circumstances.

A further question identified is whether an institutional investor would have the capital available to buy back shares of a build-to-rent-to-own scheme member if they elect to either leave, or no longer wish to be a shareholder. An opportunity is for large institutional investors such as industry superannuation funds to be owners of the build-to-rent corporate entity. These are likely to be perpetual organisations that will potentially exist for hundreds of years, serving members from the point of entry into the workplace to, ultimately, their death. It is expected that these superannuation funds will have the liquidity to meet requests to repurchase shares.

## Valuation of shares

The financial value of shares in a build-to-rent entity is likely to vary according to market conditions. There needs to be a clear, consistent valuation approach in the build-to-rent-to-own scheme rules. Build-to-rent developments are valued differently to residential properties. Rental income and operating expenses, with vacancy factored in, are capitalised as discounted future cash flows.

Build-to-rent corporate entity owners are likely to value investments on a quarterly basis. For Australian institutional investors, the Australian Prudential Regulation Authority (APRA) requires regulated entities to have an adequate valuation governance framework.<sup>20</sup> APRA expects regulated entities to undertake valuations at least quarterly.<sup>21</sup>

The valuation governance processes of a build-to-rent entity's owners would serve as the basis for establishing the value of the entity's shares. To ensure build-to-rent residents are fully informed of changes in their ownership, they would need to receive a regular statement, like a superannuation statement, that outlines the value of their build-to-rent shares.

### Example

A build-to-rent entity has issued 1,000,000 shares.

The total value of the build-to-rent established through the owner's valuation governance framework at 30/06/2025 is \$30M.

The valuation of an individual share in the development is \$30.

Rosy is a resident of the development and has acquired 1,000 shares over a period of 10 years. The value of Rosy's shares in the development is \$30,000.

In December 2025, the owner revalues the entity based on its valuation governance framework. The valuation of shares in the entity increases to \$32 per share as at 31/12/2025.

Rosy's 10,000 shares in the development now have a value of \$32,000.



## Scheme governance

Ownership of shares in a build-to-rent-to-own scheme would not influence the rent paid by the resident. Any dividends received could then be used to offset their rent.

The buying and selling of shares by individual build-to-rent residents could potentially trigger a requirement for a build-to-rent entity to hold a financial services licence. Under the Corporations (Low Volume Financial Markets) Instrument 2016/888, certain low-volume financial markets are exempt from Part 7.2 of the Corporations Act 2001 (Corporations Act) and therefore do not need to hold an Australian market licence. ASIC defines a low-volume financial market as one in which, in a 12-month period, there are no more than 100 completed transactions and the value of the transactions entered into does not exceed \$1.5 million.<sup>22</sup> Organisations that have successfully obtained exemption from ASIC to conduct a low-volume share market include community branches of Bendigo Banks, nut and bean growers, renewable energy developers and community golf clubs.<sup>23</sup>

It is proposed that a build-to-rent-to-own scheme would seek exemption from Part 7.2 of the Corporations Act 2001 by registering as a low-volume financial market. As part of developing governance arrangements for registration as a low-volume financial market, a build-to-rent-to-own scheme would need to consider the eligibility to acquire shares in a build-to-rent development. One option is for a build-to-rent entity owner to have the capacity to buy back shares. The price of share acquisition would be determined by the quarterly valuation of the build-to-rent entity.

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**The proposed build-to-rent-to-own model is designed to work within existing build-to-rent legislation and ASIC rules.**

A key objective of a build-to-rent-to-own scheme is to facilitate long-term residency in a community. One of the issues identified is that speculative activity in the housing sector acts as an impediment to home ownership. Shares in such a scheme could be acquired by family members of a build-to-rent resident. An example would be a build-to-rent resident who passes away with family members living in the build-to-rent development. The shares owned by a deceased resident could be transferred to beneficiaries that would include the spouse and children who are residents of the development.

Australian corporate law protects minority investors. Build-to-rent residents participating in a build-to-rent-to-own scheme would be minority owners of a build-to-rent entity. Build-to-rent scheme rules would provide guidance on the governance rights of participants, including voting at annual general meetings. Scheme participants will have both residency rights as tenants and ownership rights as shareholders. Not all build-to-rent residents will elect to be build-to-rent-to-own scheme participants, and this does not impact their rights as a renter.



The establishment of Community Advisory Boards may provide an efficient mechanism to resolve disputes. Governance structures of cooperative housing schemes could be used as a model, and there are strong similarities with the limited equity cooperative model in which every resident member has equal rights, not related to ownership share. This provides a mechanism for providing equality in governance within the scheme whilst accommodating different levels of share ownership. Cooperatives also typically have a process for selling shares if a resident leaves the cooperative, which is similar to the intended build-to-rent-to-own approach.

## **Taxation**

There is a structural inequity in Australia's taxation system between renters and homeowners. As it stands, build-to-rent residents who own shares in a build-to-rent corporate entity would not receive the same taxation benefits as individuals who own their own home through property title. For example, the sale of build-to-rent-to-own shares would potentially be subject to capital gains tax. Equitable taxation treatment of build-to-rent-to-own relative to conventional home ownership was outside the scope of this research, but it is an opportunity worth exploring in the future.

## **Community benefits**

Employers in regional centres could use build-to-rent-to-own to incentivise workers to stay in the community. One large regional council noted that businesses are purchasing housing to secure a workforce. The council is in a Renewable Energy Zone (REZ) and hopes to incentivise some workers to stay once construction of the REZ is complete. During stakeholder interviews, it was also relayed that regulatory loopholes in caravan parks are putting pressure on regional local councils. Communities are being established, with Councils unable to levy adequate rates to service them.

There are challenges with bank lending in small regional towns, as regulatory oversight of liquidity effectively incentivises lending in the major cities. Build-to-rent-to-own may provide an alternative to traditional bank lending and therefore support the rejuvenation of regions. This project identified that building and construction supply chains are not as deep in many regional communities. Build-to-rent in regions may therefore be built in a different way, for instance, incrementally building dwellings or smaller low-rise developments or partnerships with prefabricated building manufacturers.

While the build-to-rent-to-own model is not proposed for people on the lowest incomes, such as social housing residents, community housing providers (CHPs) noted that they could see its potential for affordable housing. CHPs said they have seen a rise in affordable housing residents struggling with the cost of living, so build-to-rent-to-own scheme rules would need to define processes for build-to-rent scheme participants to cash out shares when needed.

Clear information and consumer protections are universally important, but especially for affordable housing residents. Build-to-rent developers see it as being less risky investment than build-to-sell, with less volatile returns. A question to resolve is what happens if a resident no longer qualifies for affordable rental because their income grows. Ideally, they could stay, but this has implications for the number of affordable units in the development. Whilst shareholding of a build-to-rent development is separate from rental, there would be a need for build-to-rent-to-own scheme rules to define the implications of a change of affordable income status.



Community housing stakeholders spoke of the importance of 'breaking', not reinforcing, the current system that uses housing to amass wealth, emphasising 'security' over wealth.

One CHP interviewed saw significant potential in a model that allows residents to acquire an ownership stake. This could free up capital to reinvest in future projects and help grow the stock of affordable and middle-income housing in NSW. The community housing landscape is changing, with many CHPs scaling up, diversifying and embracing more commercial activities, including mixed tenure developments, to achieve their social purpose.<sup>24</sup> CHPs are a natural gateway to the growth of the build-to-rent sector and can help bring private investors into the sector, thanks to their unique access to tax and concession programs that lower the cost of delivering housing. Many CHPs also have charitable status.<sup>25</sup>

Build-to-rent aligns more closely with positive community and sustainability outcomes than 'build-to-sell'. Community development approaches, life-cycle costing approaches to energy-efficient design and build quality, and ways to incentivise long stays are key to creating long-term value in a development. Shared services and diverse unit types help to build a community and reduce the environmental footprint. Over the course of this project, examples were shared of build-to-rent residents who chose a 1-bed over a 2-bed unit because they could access a co-working space, chose the carshare service over owning a car, or upsized or downsized within the development as their life circumstances changed.

Build-to-rent-to-own also aligns naturally with community-led housing models, including cooperative housing, that feature shared ownership, active resident participation, and detachment from market speculation.

Affordable rental cooperative housing has thrived in Australia but still makes up less than 0.1 per cent of the housing stock, compared to some European countries where it is mainstream.<sup>26</sup> To date, Australia does not have limited equity cooperatives, permanently affordable housing cooperatives in which residents can purchase shares. Proponents of cooperative housing see build-to-rent-to-own as potentially paving the way for limited equity cooperatives in Australia, by normalising shared ownership. Potentially, build-to-rent-to-own developments with a high proportion of resident ownership could choose to eventually transition to a cooperative structure.

The research identified potential alignment with First Nations concepts of custodianship and community. To explore this, further research led by First Nations researchers would be required.

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**The current housing crisis is undermining social cohesion and economic prosperity. Build-to-rent-to-own housing could be a gamechanger for NSW.**



# A policy agenda for NSW

Build-to-rent is in its infancy in Australia. Over the coming decade, with supporting financial incentives and a financial track record, it can be expected that institutional investors – including Australian superannuation funds – will allocate capital to new projects. Ultimately, build-to-rent will become part of the housing landscape.

This presents a timely opportunity to introduce an innovative housing model: build-to-rent-to-own. The proposed model works to align institutional investors and communities in a common interest. For institutional investors, the benefit of build-to-rent-to-own is to secure long-term tenants that want to permanently reside in a development. This reduces the financial costs of resident turnover and increases long-term risk-adjusted returns. For residents, the ability to own a share in the corporate entity that owns their housing development offers a way of building an ownership stake in their home without a bank mortgage.

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**Unlocking build-to-rent-to-own will not happen by itself. There is an opportunity for NSW to lead the way.**

In interviews conducted for this project, several stakeholders spoke of the need for a step change away from 'business as usual' to address inequalities in home ownership. The NSW Government has an opportunity to lead by supporting this unique model, specifically:

## 1 Developing common guidelines for a build-to-rent-to-own scheme

Clear common rules and guidelines are required to support consistent application of build-to-rent-to-own.

If this model were to be implemented with build-to-rent developers creating their own sets of rules, this would lead to confusion and a lack of confidence for both institutional investors and build-to-rent residents. The development of build-to-rent-to-own guidelines by the NSW Government would serve as soft regulation, giving institutional investors confidence to adopt build-to-rent-to-own as a foundation for their future build-to-rent investments. NSW could lead by developing state guidelines, which could also form the basis for subsequent national guidelines.

## 2 Supporting build-to-rent-to-own pilots in cities and regions

Pilots of build-to-rent-to-own in regional and metropolitan build-to-rent projects would be invaluable to refine and test the model in practice.

As it currently stands, build-to-rent will develop in the major cities of Sydney, Melbourne and Brisbane as these are the cities that institutional investors currently see as investable. In this scenario, the Australian Government's tax incentives for institutional investors investing in build-to-rent projects will only support housing supply in major cities.



To open the opportunity for build-to-rent in the regions, there is a need for pilot projects that demonstrate that build-to-rent projects in the regions are investable. The NSW Government is already seeking to develop a replicable build-to-rent model for the regions, with pilot projects by Landcom in the South Coast and Northern Rivers.

There is an opportunity for the NSW Government to pilot build-to-rent projects, including in the regions and including partnerships with CHPs, with build-to-rent-to-own as a core offering for residents.

### **3 Establishing a build-to-rent-to-own working group for NSW**

The establishment of a working group would provide the governance foundations to support the development of a new build-to-rent-to-own model for NSW and Australia.

The development of scheme guidelines and pilots (policy opportunities 1 and 2 above) requires a consultative approach with a diverse range of stakeholders, including all levels of government, community housing providers, government-owned and private build-to-rent developers, superannuation funds and community groups.

The NSW Government's role could be to convene the working group, define the terms of reference and establish backbone support for the functioning of the group.



## Endnotes

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