Precisely Property Podcast Show Notes

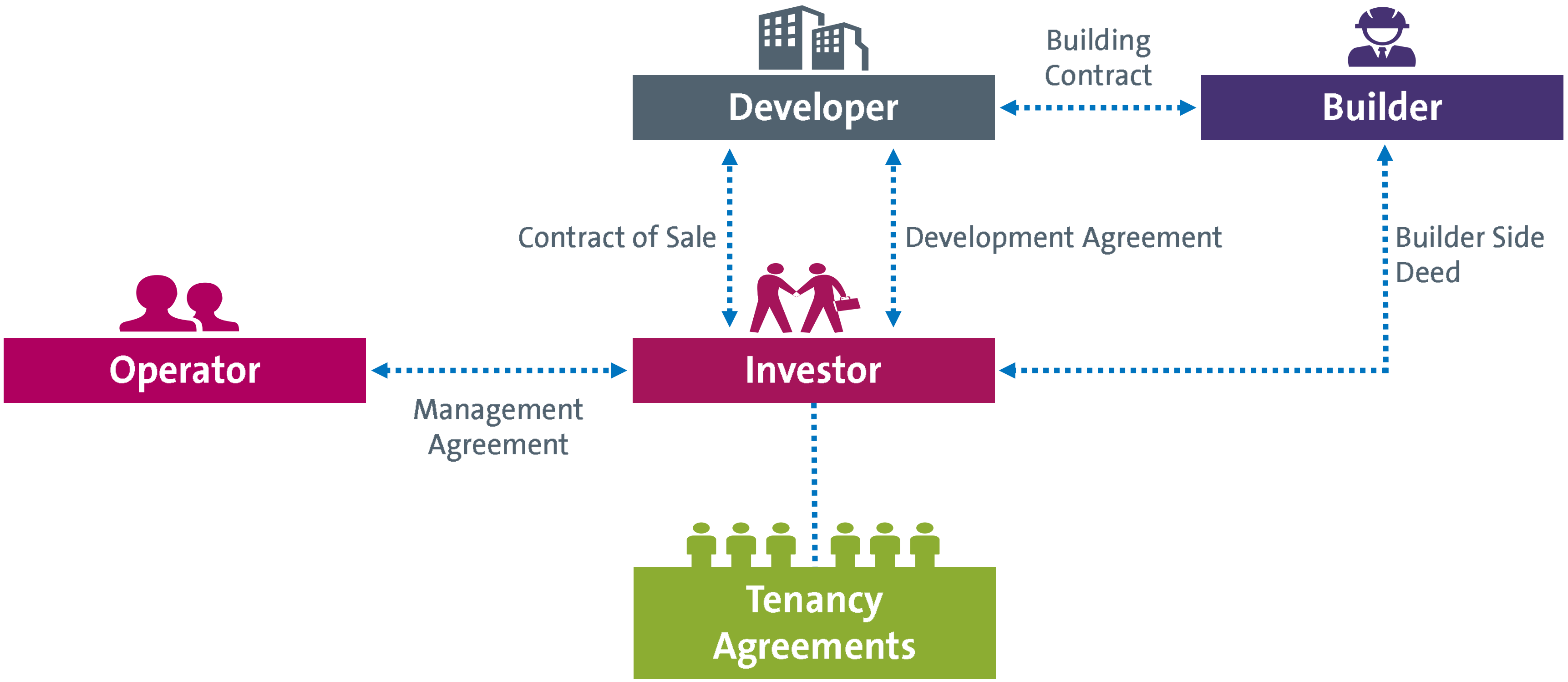
Tim Chislett

27 May 2024

BTR tax settings

	Where have we come from?	Where are we now?
Land tax	Previously, there was an unequal playing field where state revenue offices could collect little or no land tax from build-to-sell (***BTS***) projects, since the individual apartments owned by individual landlords may fall below the land tax threshold. By contrast, BTR towers, with a single landlord, are well above the land tax threshold (and likely to be at the highest rate, particularly if foreign owner surcharges apply).	NSW, Victoria and Qld have all legislated for a 50% land tax discount for eligible BTR assets.
MIT withholding tax rate	Returns were taxed at 30%, instead of the concessional rate of 15% for returns from commercial, retail and industrial real estate.	Concessional rate of 15% has been granted for returns for eligible BTR assets.
GST	GST embedded in acquisition and development costs is not creditable for BTR but is creditable for BTS.	No change, and likely to remain this way for the foreseeable future.
Depreciation	Rate for capital works tax deduction was 2.5%.	Rate for capital works tax deduction is now 4%.

Fund Through Model for BTR Projects



Key Benefits

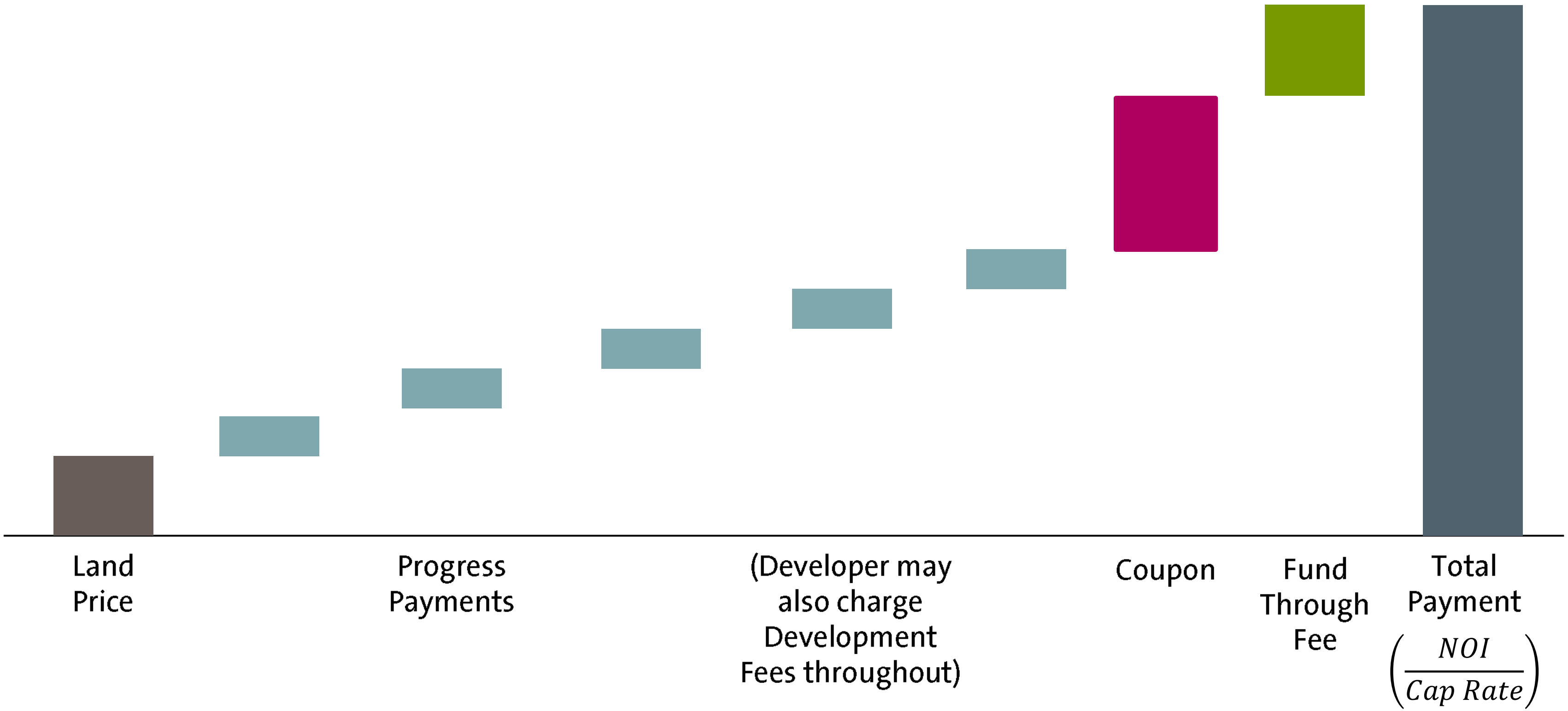
DEVELOPER

- Certainty regarding end price and exit strategy
- Alternative to bank finance
- No need for Developer to provide security over the Land

INVESTOR

- Stamp duty savings
- Certainty of development cost
- Exposure to a development asset, without exposure to development risk
- Ability to be involved in development decisions

Payments Example



Typical Allocation of Risk

ISSUE	PRICING / COST OVERRUN	TIMING DELAYS	DEVELOPER INSOLVENCY/ SECURITY	INVESTOR INSOLVENCY/ SECURITY	INVESTOR'S LEVEL OF CONTROL	RELEASE
RISK ALLOCATION	Investor pays price based on the capitalisation of the passing Net Operating Income (Total Payment). Risk of any cost over run sits with the Developer.	Investor receives coupon until completion and rent commencement . Investor usually has termination right at a sunset date.	Investor will usually seek parent company guarantee or other form of security. Ultimately, the Investor's protection will be to obtain step-in rights to cure defaults and complete the development.	Developer will usually seek a parent company guarantee or other form of security. Developer should also seek a right to buy back the property.	As the Developer is taking development risk, the usual starting position is that the Investor has limited ability to request variations to the design.	Developer assigns the building contract at PC and is released.

Allens