



ABSTRACT

This article explores the viability of build-to-rent (BTR) housing scheme as an alternative mode of housing for Malaysians amid high property prices and sluggish wage growth.

Through BTR housing, even households who could not afford to own a property can obtain shelter security without forking out a costly mortgage. Furthermore, the rise of new generational values and employment landscape may also shift housing aspiration away from homeownership.

This article argues that the introduction of BTR housing may potentially both improve shelter security for Malaysians and address the current imbalance in the local residential property market.

Please cite the work as follow: **Fikri Faisal. Build-to-Rent: A Possible Alternative to Home Ownership in Malaysia. 2024. PNB Research Institute Sdn Bhd.**

BUILD-TO-RENT: A POSSIBLE ALTERNATIVE TO HOME OWNERSHIP IN MALAYSIA

by **Fikri Faisal**

What is BTR?

The build-to-rent (BTR) housing industry has grown rapidly in several countries, such as the United States and the United Kingdom over the past decade (Nethercote, 2019). In contrast to the more common build-to-sell (BTS) housing, in which houses are constructed to be purchased, BTR housing is developed specifically to be rented out long-term for profit.

The BTR industry emerged after the 2008 global financial crisis as a stopgap solution to address the housing supply and demand gap (Goodman & Zinn, 2023). While the industry remains small, it has grown rapidly in the US and the UK, and has made inroads into Australia and New Zealand, all of which have a more established rent culture and legal environment.

The concept is still largely unfamiliar in Malaysia and Southeast Asia, where a culture of homeownership largely prevails. Malaysia's homeownership rate is 76.5% as of 2022, which is typical of the region (Department of Statistics Malaysia, 2023). Singapore stands out with an 89.7% homeownership rate in 2023, owing largely to the state's virtual monopoly of land banks and extensive public housing programme.

In contrast, the culture of homeownership is less prevalent in industrialised countries. The US, for example, has a homeownership rate of 65.5% (2021), followed by the UK (65.2%, 2018), Japan (61.2%, 2018), and Germany (50.4%, 2020). Berlin, Germany's capital, is often noted for its strong and popular rent culture – about 85% of the population are renters (Hall, 2021).

However, the popularity of BTR is not limited to countries with a strong rent culture. Even in Singapore, which has an almost universal homeownership rate, some policymakers have suggested that BTR projects be introduced as part of the Housing & Development Board (HDB) programme amidst rising house prices, shifting housing aspirations, and employment patterns among its population (Lin, 2021).

It remains to be seen whether the growth of the BTR market can be sustained in the long term. Some analysts predict that a normalisation of housing supply and mortgage rates will dampen future demand for BTR.

On the other hand, if property prices remain out of reach for most people, BTR may become an alternative mode of shelter for some population groups, such as young adults and newlywed couples who lack the financial resources to make hefty downpayments on home purchases, or the elderly who wish to liquidate their home equity. Furthermore, the rise of flexible work arrangements and new generational values may shift housing aspiration away from homeownership.

This article presents five (5) key arguments for why BTR has the potential to serve as an alternative mode of housing in Malaysia. They are: unaffordability, housing oversupply in several parts of Malaysia, the fact that renting is already more common than we realise, wage stagnation, and shifting demographic aspirations.

What is BTR Housing?

BTR housing are residential projects developed specifically for long-term rental by households of various sizes and income groups. This distinguishes BTR from serviced or co-living apartments, which are designed for short-term stays and cater to singles or small-sized households.

Figure 1: Single-family BTR housing



Source: Image credit: Resibuilt

In Malaysia, the private housing market is dominated by BTS housing, which is designed for individual buyers. Even state-subsidised social housing programmes such as PR1MA and Residensi Wilayah encourage low and middle-income households to become homeowners rather than renters.

The federal government and respective state governments construct public housing to improve access to shelter for low-income households, such as the Projek Perumahan Rakyat (PPR). However, even these houses are not exclusively developed for rent; eligible buyers can also purchase the units.

Thus, the private rental market in Malaysia is largely supplied by individual landlords who own or mortgage at least one property, also known as “buy-to-let” housing. In other words, Malaysian tenants typically rent from individual landlords.

Figure 2: Single-family detached BTR housing



Source: Image credit: Trickum Hill, Haven Realty Capital

In contrast, BTR housing is typically managed by a single institutional landlord, such as a private equity firm or real estate investment trust (Goodman & Zinn, 2023). This was the case when the BTR industry first began in the US and the UK. Spotting the strong potential demand for renting following the global financial crisis, capital-rich corporations saw the opportunity to buy cheap houses to subsequently be rented out.

Because institutional landlords have better access to large sums of capital, BTR housing is outfitted with professional handymen, housekeeping, and related services. They are also expected to be of high-quality build, with low density and convenient access to public amenities and transportation.

Figure 3: Horizontal multifamily BTR



Source: Image credit: NexMetro

BTR housing in practice typically offers a broader range of housing options, including family, duplexes, townhomes, and multi-family houses. In some cases, BTR projects may involve the entire community, whereby a cluster of single-family homes is developed in a large area or “township”. These variations make BTR more suitable for multi-generational and long-term living than serviced or co-living apartments.

Thus, the emergence of BTR housing reshapes society’s perception on renting: it is not mainly to provide shelter for low-income households that cannot afford homeownership. BTR housing promotes the idea of renting as a viable long-term lifestyle among even middle- and high-income households who prefer not to own a home for various reasons.

Table 1: Common features of BTR hous-

Features	Remarks
Design	Purpose-built rental communities with a mix of single-family and multi-family homes
Amenities	High-quality community amenities
Management	Institutional property management
Location	Predominantly transit-oriented locations in the city centre or suburbs

Source: PNBRI

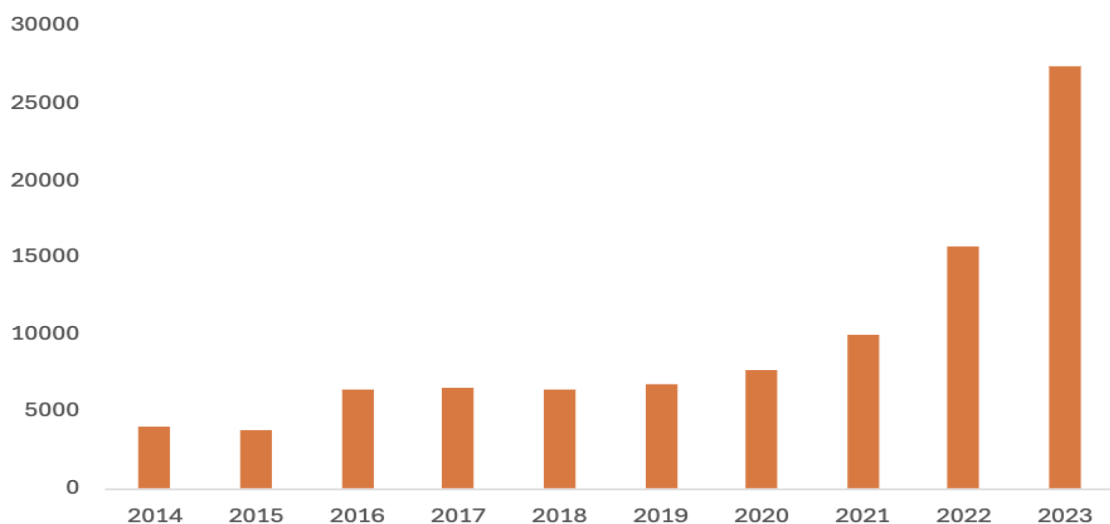
Market Overview

1) The market for BTR housing has grown rapidly, especially in the US

During the global financial crisis in the late 2000s, BTR projects offer a safer business model during periods of economic volatility when prospective buyers' homeownership plans were delayed or shelved. For households, BTR is attractive as it allows them to obtain shelter without the financial burden of putting a downpayment, servicing mortgages, and other costs associated with homeownership.

Last year, the world's largest economy saw a record-breaking 27,495 BTR homes built, up more than 300% from 2019 (Both, 2024). In the fourth quarter of 2022 (Q4 2022), around 95% of single-family home rentals were occupied (Clardie, 2023). There are an estimated 45,400 BTR homes in the pipeline focusing on markets in Sun Belt states like Phoenix, Dallas, and Austin.

Figure 4: Number of BTR houses built in the US, 2014-2023



Source: Lambert, 2024

Analysts expect the US BTR growth to continue as mortgage rates stay elevated. The average 30-year fixed rate has ranged at around 7% this year, rising rapidly from an all-time low of 2.65% in January 2021 (Giovanetti, 2024). The BTR market growth is expected to moderate once mortgage rates normalise.

2) The BTR market in the UK has expanded rapidly

According to Savills UK, the country's BTR stock stands at over 115,000 units as of Q2 2024. This represents a significant 24% increase year-on-year (Savills Research, 2024a). Another 45,400 BTR homes are currently under construction, with an additional 100,700 planned.

Overall, the number of built and planned BTR homes totalled 261,870 units, representing a 4% increase over Q2 2023. The rapid growth of the UK's BTR industry is also reflected in terms of investment activity. The second quarter of 2024 saw nearly £1.2 billion in investment, the highest recorded in any Q2 to date. This investment will help complete approximately 4,500 BTR homes.

Perhaps the most telling indicator of the growing popularity of BTR housing in the UK is the drop in length of time to rent a BTR house. The median length of time to rent a BTR home in London and the Core Cities has dropped to 24 days, a 25% decrease from the 2018-2019 average of 32 days (Savills Research, 2024a).

3) The BTR industry is still in its infancy in Australia and New Zealand

As of January 2024, Australia has completed 5,398 BTR units, 11,582 under construction, and 21,627 in the planning pipeline (Dentons, 2024). In New Zealand, there were 1,307 completed units, 850 under construction, and 3,395 in the pipeline as of December 2023.

It is worth noting that two Malaysian developers, UEM Sunrise Bhd and Eco World International Bhd, have entered the BTR market abroad. Last year, UEM Sunrise collaborated with Greystar Real Estate Partners to develop an AUD277 million BTR project in Melbourne (UEM Sunrise, 2023). Meanwhile, Eco World International's subsidiary in London signed a landmark £400 million deal with Invesco Real Estate to develop two BTR projects at Kew Bridge and Barking Wharf, respectively. It successfully delivered both projects in 2022 (Eco World Singapore, 2022).

Figure 5: UEM Sunrise's BTR project in Collingwood, Melbourne



Source: Image credit: UEM Sunrise

Figure 6: Eco World International's BTR housing at Kew Bridge, Brentford



Source: Image credit: Eco World International

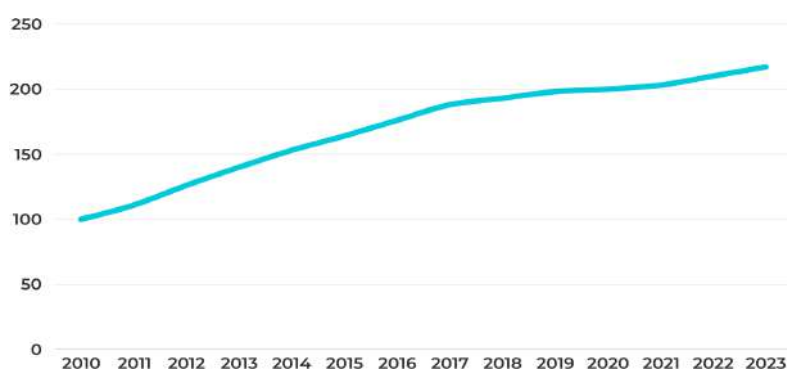
Why consider BTR in Malaysia?

1) Low Property Affordability

Unaffordable property prices have made homeownership a distant reality for many Malaysians. In 2021, Bank Negara Malaysia (BNM) reported that houses in all states, except Melaka, are severely, seriously, or moderately unaffordable (Bank Negara Malaysia, 2021). The central bank attributes the problem to the market's failure to supply adequate affordable housing, coupled with insufficient income and high indebtedness among consumers.

Currently, there is little evidence that house prices will be trending down. According to the National Property Information Centre (NAPIC), the house price index has risen steadily since 2010, registering a CAGR growth of 6.2% (National Property Information Centre, 2024b) (Figure 4). It is astounding that the index still maintained an upward momentum throughout the COVID-19 pandemic.

Figure 7: Malaysia House Price Index, 2010 - 2023



Source: National Property Information Centre

If property prices do not come down substantially, demand for property sales is likely to remain weak. PropertyGuru's [survey](#) in the second half of 2023 found that consumers are primarily concerned with high property prices (87%), followed by interest rates (66%).

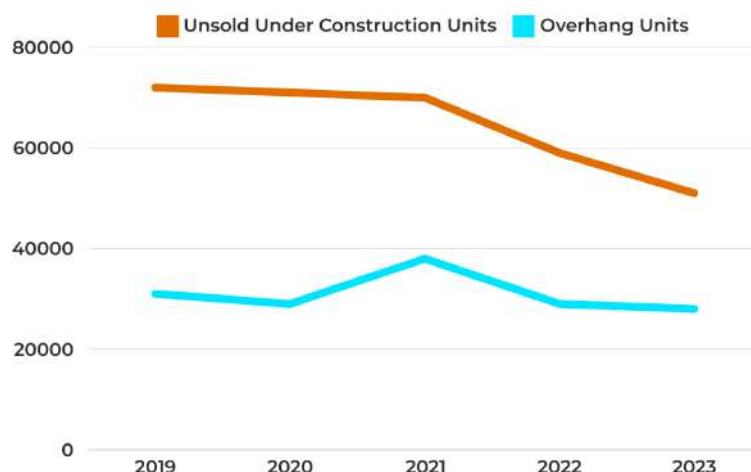
2) Sluggish Property Demand

The slump in property demand, in turn, provides an opportunity for the BTR market as consumers delay homeownership plans in favour of renting. This was already observed in the PropertyGuru survey – 65% of respondents are opting to rent due to a lack of savings for a property purchase. Its rental demand index for Q1 2024 has also increased significantly, nearly tripling since data collection began in Q1 2018. The rental supply index has also increased, albeit at a slower rate than demand (1.65x growth over the same period), indicating a current shortage in the supply of rental houses. This presents a potential market opportunity for Malaysian property developers looking to offer BTR housing.

Despite years of homeownership assistance programmes by the government, residential property overhang remains substantial. Despite a 16% decrease since 2019, the number remains high at 25,816 units. Furthermore, 48.5% of the overhang units were launched 6 to 10 years ago. In addition, unsold under construction units currently amounts to 51,132 (Figure 8).

It should be noted that NAPIC's residential overhang figure does not include serviced apartments operated by hoteliers. Last year, 20,825 serviced apartment overhang was recorded, with 23,795 units unsold. Notably, units launched between six and ten years ago account for approximately 76.6% of the overhang.

Figure 8: Malaysia's Residential Property Overhang & Unsold Under Constructions Units, 2019 - 2023



Source: National Property Information Centre

In other words, there are still a large number of unsold residential units and serviced apartments on the market. Unless property affordability improves significantly, introducing more BTS houses into the market could potentially increase the overhang stock. It may be more prudent for developers to consider providing BTR housing as an alternative that does not exacerbate the overhang situation.

3) Sizeable Renter Population

In fact, there is already a sizable population of potential renters in the Klang Valley. According to the 2022 Basic Amenities Survey Report, 20.3% of Malaysian households currently renting, up 0.5 percentage points from 19.8% in 2019. Kuala Lumpur has a higher proportion of renter households than the national average (34.2%), as does Selangor (30.7%).

It is worth noting that nearly half of the B40 group is already a renter household. Among the B40, 60% and 42.9% of households are renting in Kuala Lumpur and Selangor, respectively. Meanwhile, the proportion of renter M40 households is smaller yet significant. 23.6% and 26.9% of M40 households are renting in each state, respectively. Thus, the presence of sizeable renter households in the Klang Valley indicates strong potential demand for BTR housing in the urban region.

4) Wage Stagnation

The structural issue of wage stagnation for the bottom half of the population exacerbates the problem of housing affordability (Khazanah Research Institute, 2024). According to the KRI research, the real monthly wage for workers in the bottom 50% of the wage distribution grew only approximately RM500 between 2010 and 2019.

Middle-income earners did not fare much better, with real monthly wages for the fifth to eighth deciles increasing by only RM508 to RM887 over the same period. With such sluggish wage growth among low- and middle-income households, it is difficult to imagine their property affordability improving meaningfully anytime soon.

5) Shift in Housing Aspirations

Another reason to consider BTR housing in Malaysia is the changing values of the younger generation, who appear to increasingly value flexibility in lifestyle, employment, and financial freedom. The emergence of gig work and declining long-term job security, for instance, have reduced the appeal and viability of long-term mortgages among young people.

Due to these factors, the idea of owning a home may no longer be as popular or as feasible as it used to be among the younger generation. This is reflected in the US and UK BTR markets, where younger households account for the majority of BTR tenants. In the UK, [nearly](#) 90% of single-family rental homes are occupied by people under the age of 45. Thus, this article contends that BTR may present a better housing alternative for them until the gap between property prices and wages is significantly reduced.

Challenges to Consider

While it is still premature to say whether the BTR model can be sustained in the long run, market failure to ensure adequate supply of affordable housing is expected to continue, fuelling demand for renting. This article argues that the time has come for property developers to consider exploring the BTR model as a win-win option for selling their products while also meeting the needs of many more Malaysians who require access to high-quality shelters.

1) Capital Intensive & Longer ROI

BTR projects are typically capital-intensive and require large amounts of investment. The commonly offered for-sale housing allows developers to make quick investment returns, sometimes even before construction begins, thanks to Malaysian regulations that allow sell-than-build projects. BTR projects, on the other hand, offer a different return profile, which includes a longer time to become profitable investments. Here, the financial intermediary market would do well by innovating financial products that would allow developers to continue selling completed homes to long-term investors, who in turn would actually prefer the rental yield profile that BTR portfolios can offer.

2) Uncertain Demand for BTR

The projected growth in the BTR market is based on the assumption that property prices and wage levels will not change dramatically anytime soon. If the affordability gap is significantly reduced, the appeal for rental homes will likely fade as consumers return to fulfilling their homeownership goals.

3) Unclear Renting Framework

Malaysia still lacks a solid legal framework for renting. Despite repeated calls for a Residential Tenancy Act since 2018 to provide adequate protection and rights for both tenants and landlords, no parliamentary bills have been introduced. Without such a law, some consumers may feel anxious about their tenancy security and rights when considering long-term rentals. It is arguable that the lack of a solid legal framework may actually be an effect of Malaysia's weak rental market rather than the cause of it. A stronger rental market may be the necessary push for much-needed reforms in the form of the Residential Tenancy Act.

4) Strong Homeownership Culture

The homeownership culture has so far been quite rooted among Malaysians as well as Southeast Asians. It will be interesting to see how this culture holds up if home affordability remains low for an extended period of time. Perhaps the new generation, which is already burdened with stagnant wages and other uncertainties, will become more flexible in their housing aspirations and needs.

Closing Thoughts

Malaysia's housing policy interventions have long favoured homeownership, a focus that is understandable given the social and economic benefits. This policy, however, may be less ideal today as home prices continue to rise and wages remain stagnant.

Despite multiple forms of intervention, including discounts, subsidies, stamp duty exemptions, developer interest-bearing schemes, and publicly funded affordable housing, homeownership remains a distant dream for many households. It is time to reassess our strategy and seriously consider realigning our focus away from only homeownership and towards rental options as a viable pathway to decent shelter. After all, renters are Malaysian citizens, and they deserve equal policy attention.

Bibliography

1. Bank Negara Malaysia. (2021). *Financial Stability Review - Second Half 2021*. https://www.bnm.gov.my/documents/20124/6459002/fsr21h2_en_book.pdf
2. Biring, N. (2022, August 3). *EcoWorld London delivers latest BTR in landmark deal*. BTR News. <https://btrnews.co.uk/ecoworld-london-delivers-latest-btr-in-landmark-deal/>
3. Both, A. (2024, April 18). *New Build-to-Rent Houses Reach All-Time High*. RentCafe. <https://www.rentcafe.com/blog/rental-market/market-snapshots/build-to-rent-single-family-homes-construction-2024/>
4. CBRE (2023, June 12) *Build-to-Rent (BTR) Overview*. <https://www.cbre.com/insights/reports/build-to-rent-overview>
5. Clardie, M. (2023, April 13). *What is Build-to-Rent? | An introductory guide*. Gatsby Investment. <https://www.gatsbyinvestment.com/education-center/what-is-build-to-rent>
6. Department of Statistics Malaysia. (2023). *Basic Amenities Survey Report 2022*.
7. Dentons (2024, May 16). *A global view of Build to Rent (BtR) – comparing Australia, New Zealand and the UK*. <https://www.dentons.com/en/insights/articles/2024/may/16/a-global-view-of-build-to-rent-comparing-australia-new-zealand-and-the-uk>
8. EcoWorld Singapore. (2022). <https://ecoworld.my/ecoworldsg/news/ecoworld-london-delivers-first-btr-scheme-as-part-of-record-invesco-real-estate-deal/>
9. Fisal, F., Razak, Z. & Omar, N. (2022, March 15). *Room for Rent, Part 1*. The Centre. <https://www.centre.my/post/room-for-rent-part-1>
10. Giovanetti, E. (2024, June 26). *Historical mortgage Rates: See averages and trends by decade*. US News & World Report. <https://money.usnews.com/loans/mortgages/articles/historical-mortgage-rates>
11. Goodman, L., & Zinn, A. (2023). *What Is the Build-to-Rent Sector, and Who Does It Serve?* Urban Institute
12. Hall, Z. D. (2021, October 22). *In Berlin 85% of people rent their homes — and prices are spiralling*. Financial Times. <https://www.ft.com/content/4f02ecb1-31cf-4125-b482-478b031d2e8d>
13. Joint Center for Housing Studies of Harvard University. (2022). *America's Rental Housing 2022*. <https://napic2.jpgh.gov.my/>
14. Khazanah Research Institute. (2024). *The Financialization of Our Lives: Values and Trade-offs*.
15. Lambert, L. (2024, April 27). *The build-to-rent housing market has grown more than 300% since 2019*. Fast Company. <https://www.fastcompany.com/91111771/housing-market-build-to-rent-grown-more-than-300-percent-report>
16. Lin, C. (2021, December 8). *An alternative to the norm: What if some housing developments were only built for renting?* CNA. <https://www.channelnewsasia.com/singapore/build-rent-hdb-flats-housing-model-2363826>
17. National Property Information Centre. (2024a). *Property Market Q1 2024 Snapshots*.
18. National Property Information Centre. (2024b). *Property Market Report 2023*.

19. Nethercote, M. (2019). *Build-to-Rent and the financialization of rental housing: future research directions*. *Housing Studies*, 35(5), 839–874. <https://doi.org/10.1080/02673037.2019.1636938> PropertyGuru. (n.d.). *Malaysia Property*
20. *Market Outlook 2024. Malaysia Property Market Outlook 2024* (propertyguru.com.my)
21. PropertyGuru. (n.d.). *PropertyGuru Malaysia Property Market Report Q1 2024*. PropertyGuru Malaysia. *PropertyGuru Malaysia Property Market Report Q1 2024*
22. PropertyGuru. (n.d.). *Malaysia Consumer Sentiment Study H1 2024*. PropertyGuru Malaysia. <https://www.propertyguru.com.my/property-guides/malaysia-consumer-sentiment-study-h1-2024-72535>
23. Savills Research. (2024a, July 23). *UK Build to Rent Market Update – Q2 2024*. https://www.savills.com.my/research_articles/166898/364472-1
24. Savills Research. (2024b, January 15). *The Future of Build to Rent Houses – Summary Report*. https://www.savills.com.my/research_articles/166898/355540-1
25. Savills Research. (2024c, January 15). *Build to rent houses: Investment*. https://www.savills.co.uk/research_articles/229130/355913-0
26. Savills Research (2022, September 19). *Australia Build to Rent Market Update Q3 2022*. Savills Australia. https://www.savills.com.au/research_articles/167771/208331-0
27. Savills Research. (2021, September 14). *Spotlight: Suburban Build to Rent – September 2021*. https://www.savills.com.my/research_articles/166898/318451-1
28. Sebri, K. H. (2023). *Property Overhang: NAPIC's View*.
29. UEM Sunrise (2023, June 21). *UEM Sunrise Partners with Greystar for a BTR Project*. <https://www.uemsunrise.com/corporate/media-centre/uem-sunrise-partners-with-greystar-for-a-btr-project-strengthens-presence-in-melbourne>
30. Ziady, H. (2021, August 2). *Wall Street is buying up family homes. The rent checks are too juicy to ignore*. CNN. <https://edition.cnn.com/2021/08/02/business/family-homes-wall-street/index>.