



ABSTRACT

This article outlines the merits of establishing a thorough rental database to accurately monitor rent affordability in the Klang Valley. Such a database is relevant given that the proportion of renter households in KL and Selangor has increased since 2019, and may continue to do so.

While official statistics indicate that rents in both states are highly affordable, the discrepancy between administrative and market data raises curiosity on the true situation of renting in the Klang Valley.

An extensive rental database allows for accurate and timely monitoring of rental rates, which then enable policymakers to identify and protect cost-burdened renters from financial distress. This matter becomes urgent with the projected rise in rental remand and the upcoming fuel subsidy rationalisation.

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YES, PROPERTY OWNERSHIP IS UNAFFORDABLE. BUT WHAT ABOUT RENTING?

by **Fikri Faisal**

Unaffordable residential property prices have made homeownership a costly option for many Malaysians. As of 2022, median house prices were 4.3 times higher than the median annual household income, far exceeding the 3.0 “affordable” threshold. The laggard growth of income further exacerbates the affordability. Between 2012 and 2022, house prices grew more than two times faster than household income (Khazanah Research Institute, 2024).

On the contrary, there has been relatively little discussion on rent affordability. The government has rolled out various incentives to spur property sales, such as stamp duty exemptions, downpayment waivers and loan guarantees. The latest Budget 2025 even introduced income tax exemptions for first-time house buyers.

Meanwhile, there has not been much concerted effort to strengthen the rental market – be it by strengthening the rights of tenants, furnishing more rental data or strengthening rental institutions. For example, the Residential Tenancy Act has not yet been tabled despite plans to do so since 2019.

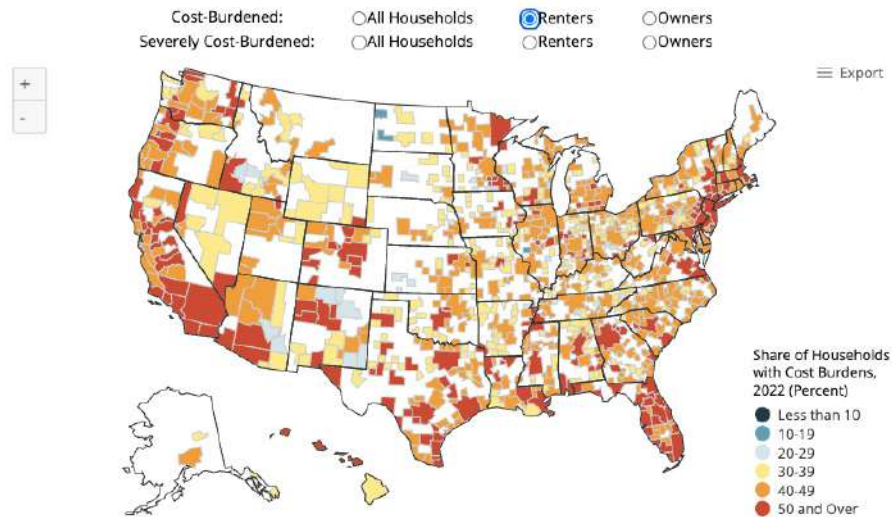
The issue of rent unaffordability has emerged as an urgent concern in some countries including the United States.

The Biden administration had proposed withdrawing tax credits for landlords who increase rent by more than 5% yearly (The White House, 2024). Presidential candidate Kamala Harris’ campaign had also proposed to [expand](#) tax incentives to reduce housing costs for renters and homebuyers (Reuters, 2024).

The widely accepted [method](#) to measure rent affordability is through the cost-burden approach (Airgood-Obrycki et al., 2021). A renter household is considered “cost-burdened” if they **spend more than 30% of their monthly income on rent and utilities**, or “severely cost-burdened” if they spend more than half of their monthly income.

The richness of rental market data in the US allows for a granular assessment of [rent affordability](#) levels there. For example, the number of cost-burdened renters in the US grew to a record high 22.4 million in 2022 from 20.4 million in 2019 (Joint Center for Housing Studies of Harvard University, 2024). The share of cost burden among low-income renter households rose 1.5 percentage points to 83%, while that of middle-income renters jumped 5.4 percentage points to 41%.

Picture 1: A map of cost-burdened renter households in the US



Source: Joint Center for Housing Studies of Harvard University

To date, there is yet a similar analysis of cost-burdened renter households in Malaysia. However, two recent negative developments hint at worsening rent affordability. First is the consistent growth in house prices nationwide since 2010, which in some conditions may serve as a leading [indicator](#) of rent inflation (Gallin, 2004; Zhou & Dolmas, 2021). Second is the higher-than-expected rental growth reported recently in Kuala Lumpur and Selangor (The Edge, 2024).

Thus, this article urges the government to take a closer look at rent affordability. Doing so may encourage policymakers to begin quantifying and closely tracking the number of cost-burdened renters while protecting them from financial distress amid the already elevated cost of living environment.

Is Rent Affordable in the Klang Valley?

The Klang Valley has a relatively higher renter population than the rest of the country. In 2022, 34.3% (2019: 34.1%) and 30.7% (2019: 29.2%) of households are renting in Kuala Lumpur and Selangor respectively. These figures are higher than the national rate of 20.3% (2019: 19.8%) national rate (Department of Statistics Malaysia, 2023a). Within Selangor, the Petaling and Gombak districts have a relatively high rentership rate of 36.4% and 34.3% respectively in the same year, compared to the rest of the state. This is expected as both districts are located very close to the KL city centre and have higher costs of living relative to the other, less urban districts.

Based on official statistics, rent appears very affordable in Kuala Lumpur and Selangor. According to the Household Expenditure Survey (HES) 2022, a household in Kuala Lumpur and Selangor pays, on average, RM647 and RM350 in actual monthly rent, which is higher than the national average of RM201 (Department of Statistics Malaysia, 2023b). Based on the reported median household income of RM10,234 and RM9,983 for KL and Selangor, respectively, the ratio of monthly-household-income-to-rent are 16 times and 29 times respectively in both states. If utilities and related housing costs are included, the ratio drops to 10 times and 15 times

respectively -- still considered to be within the affordable range.

However, market indices reveal a very different story. Based on approximately 70,000 transactions since 2018, the IQI Malaysia Home Rental Index [calculates](#) that Kuala Lumpur's average rent in 2Q2024 is RM2,863, which is 44% higher than Malaysia's average of RM1,995 (The Edge, 2024). Meanwhile, the average rent in Selangor is RM1,899. These translate to about 28% and 19% of household income, respectively.

The growth in rental prices between official and market datasets also varies significantly. The Consumer Price Index (CPI) calculates the y-o-y growth in actual rents paid by households to be 2.5% in Kuala Lumpur, 1.6% in Selangor and 1.9% nationally as of 2023 (Department of Statistics Malaysia, 2024). On the other hand, [Juwai](#) IQI's Malaysia Home Rental Index [grew](#) 3.9% in 2Q2024, surpassing the projected moderate growth rates of between 0% and 3% (The Edge, 2024). The platform forecasts that the index will grow 5.5% annually by the first quarter of 2025. Rent in Kuala Lumpur saw the highest growth in 2Q2024, increasing 5.0% q-o-q and 5.7% y-o-y.

Meanwhile, rent in Selangor grew 6.2% compared to one year earlier at an average of RM1,899.

Several reasons may explain the disparity between both data sources.

First, the actual rent measured by the HES is possibly skewed by tenants living in low-cost housing, most notably of which is the Projek Perumahan Rakyat (PPR). Eligible low-income households pay only RM124 per month to stay in a PPR unit. As of 2016, there are 72,479 rental PPR units nationwide of which about half are in Kuala Lumpur (Ministry of Housing and Local Government, 2016). Selangor made up only 7% of rental PPR units throughout the country. In contrast, market indices do not include low-cost housing rent and monitor only the private rental market. The large gap between the two datasets deserves a greater scrutiny to portray a truer picture of rental rates in the Klang Valley.

Second, the CPI tends to lag market indices in measuring rental prices (Conner et al., 2024). Market indices by property marketplaces such as Juwai IQI and Property Guru measure current rental listings and actual rental rates transacted. Therefore, market indices are

able to track uptrends or downtrends in asking rent and transacted rent almost contemporaneously.

The CPI, on the other hand, measures actual rent paid by existing tenants at a fixed frequency – [quarterly](#) (Department of Statistics Malaysia, 2024). Rents typically stay the same for at least one or two years, or unless there is a change in the terms of the tenancy. In the event of a rent increment, the CPI will only belatedly capture it during the next measurement interval.

Furthermore, the change will also be [smoothened](#) out over multiple months and quarters (Conner et al., 2024) in the CPI calculation. For example, if a rent rises 10% after staying unchanged for 1 year, the CPI will report the change as rising gradually by one-fourth of 10% per quarter. This reduces the volatility of the CPI despite a sudden spike in rent.

Third, there are non-commercial and behavioral factors that may encourage landlords to maintain rents for existing tenants, such as to avoid the hassle of searching for a new tenant or factors like social affinity. This scenario will keep the actual rents sticky on the downside, despite a significant increase in asking rental rates in the market.

Is Cost Burden an Issue?

Even if market rental rates are used instead of the CPI, renting households in KL and Selangor are still not considered as “cost-burdened”, given the median rent-to-income ratio in each state is still below the 30% threshold. However, three important points should be highlighted before it can be concluded that cost burden is not an issue in KL and Selangor.

First, renter households tend to comprise those with relatively lower wealth or income (Joint Center for Housing Studies of Harvard University, 2024). This makes sense: if you can’t afford to buy a house, renting becomes your only option. This is the case, at least, in the US. Table 1 provides an example of the difference in median income between renter and homeowner households in the US.

Table 1: Median income of renter and homeowner households in selected US metros

Metro Name	Median Household Income (\$)	Renter Median Household Income (\$)	Owner Median Household Income (\$)
San Jose-Sunnyvale-Santa Clara, CA	142,000	103,000	186,000
San Francisco-Oakland-Berkeley, CA	122,500	84,600	161,000
Washington-Arlington-Alexandria, DC-VA-MD-WV	112,000	74,300	144,280
California-Lexington Park, MD	111,000	68,000	132,400
Seattle-Tacoma-Bellevue, WA	102,000	68,800	130,000
Bridgeport-Stamford-Norwalk, CT	101,000	56,000	135,000
Boston-Cambridge-Newton, MA-NH	100,000	60,000	132,000
Santa Cruz-Watsonville, CA	100,000	64,000	121,000
Oxnard-Thousand Oaks-Ventura, CA	98,260	68,800	120,000

Source: Joint Centre for Housing Studies of Harvard University

In Malaysia, the Department of Statistics of Malaysia's (DOSM) data supports this hypothesis. The number of B40 households who rent in KL and Selangor in 2022 are 60% and 43% respectively (Department of Statistics Malaysia, 2023a). In fact, this number has increased in KL compared to 50% in 2019. In comparison, only 4% and 14% of T20 households in KL and Selangor rent in 2022.

Given the relatively higher prevalence of renting at the lower end of the income scale, the consideration of a household's cost burden should be approached across the entire income distribution rather than just the middle of the distribution. This is currently not possible in Malaysia because authorities only track the cost burden of the median household, while granular data at lower end of the distribution is not publicly available.

Second, as Malaysia is a car-centric society, it is prudent to include transportation when considering a household's cost burden. This approach is highly relevant in Malaysia, where 90% of Malaysian households own cars – more specifically 97% of households in KL and 96% of households in Selangor. This high level of car ownership is also observed among the B40 in Kuala Lumpur and Selangor, both at 92% (Department of Statistics Malaysia, 2023a).

The urban sprawl in the Klang Valley understandably necessitates most Malaysians' ownership of private cars. This is further contributed by the spatial distribution of affordable housing in satellite towns surrounding Kuala

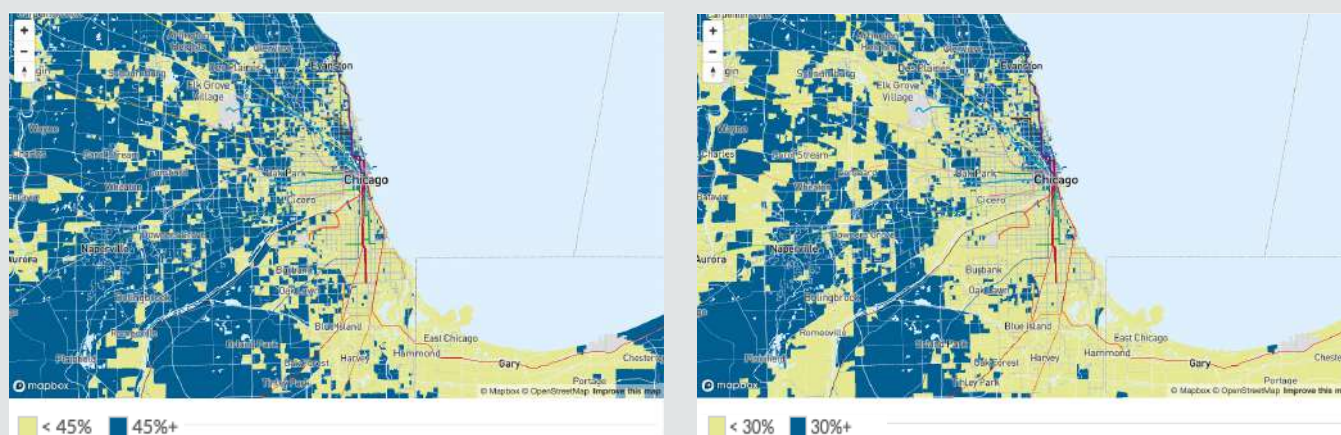
Lumpur, such as Nilai, Sepang, Rawang, and Sungai Buloh. Most affordable housing in these areas has limited access and inefficient public transportation networks.

According to the HES 2022, a household in KL spends RM814 monthly on transportation costs (Department of Statistics Malaysia, 2023c). This comprises about 10% of a household's monthly expenditure. A B40 household in KL spends RM467 per month on average on transportation costs. An M40 household spends RM748 per month while a T20 household spends RM1,434 per month.

US-based organisation Center for Housing Technology, for example, has developed an alternative cost-burden formula which comprises housing and transportation costs (Center for Neighborhood Technology, n.d.). This index sets the cost-burden [threshold](#) at 45% of monthly household income. Using the traditional 30% cost-burden threshold, it found that 55% of neighbourhoods in the US are considered “affordable” for the average household according to the 2022 American Community Survey. However, this percentage drops to 26% once transportation costs were factored in.

Similarly, decision makers in Malaysia should well consider these other significant “burdens” apart from rental rates. With the MADANI government committed to rationalising fuel subsidy, transportation costs can be expected to increase for all car-owning renter households. This raises the importance of factoring in transportation costs as a cost-burden formula in Malaysia.

Picture 2: Map of affordable neighbourhoods with transportation costs (left) vs without transportation costs (right) in Chicago, based on 2022 data



Note: The yellow-coloured areas indicate “affordable” neighbourhoods using the cost-burden method.

Source: : Center for Housing Technology

Third, rental rates are likely to continue to experience robust growth rates in the near future, due to strong demand, as indicated by market indices. As mentioned earlier, rent in Malaysia is projected to grow 5.5% y-o-y in 1Q2025 (The Edge, 2024). Kuala Lumpur and Selangor rental prices have already registered annual growth rates

of 5.5% and 6.2% y-o-y, in 1Q2024. If rental supply does not catch up, rental rates are likely to maintain their upward momentum. With Malaysian wages suffering from long-term sluggish growth, particularly among the lower income bracket (KRI, 2024), it is highly likely that rent affordability will worsen to alarming levels.

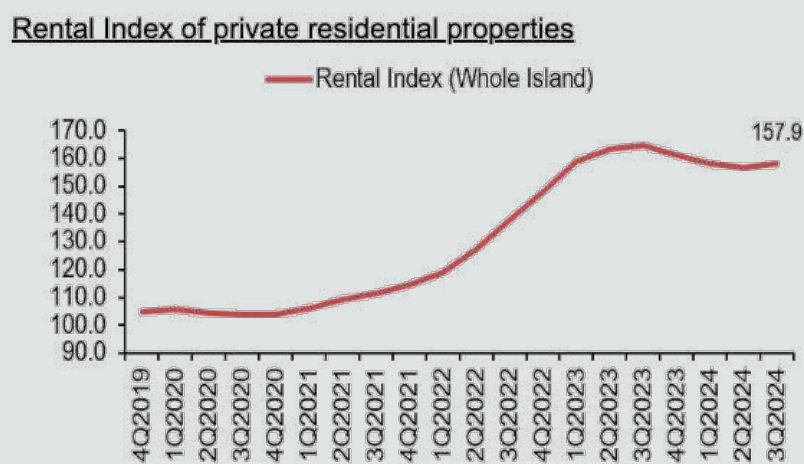
Benefits of a Government Rental Database

The government and policy makers may consider establishing an extensive database on private rental prices as well as renter households.

Firstly , such a database enables timely policy support if rents increase drastically. Due to the CPI's time lag in measuring rent movements, the government may be slow to prescribe interventions if rents rise to alarming levels.

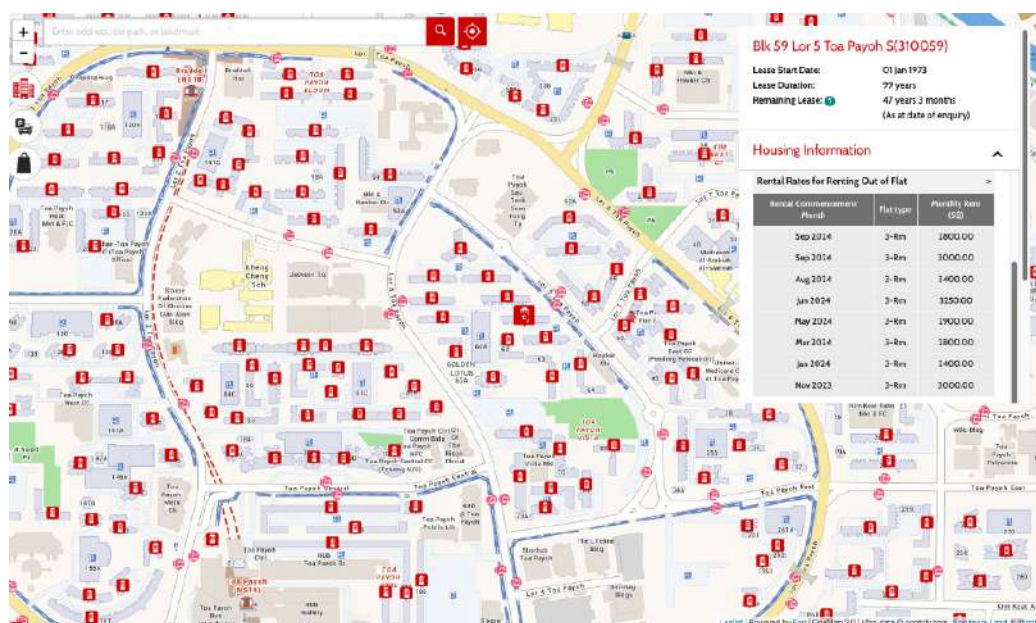
[Singapore](#), for example, has established a reliable rental price index (Singapore Urban Redevelopment Authority, n.d.), allowing them to accurately and timely monitor rent growth and intervene with policy measures as needed. In Malaysia, only private initiatives, such as Juwai IQI and Property Guru, have published rental indices. Efforts should begin to develop a similar index from rental transactions, leveraging existing infrastructure such as NAPIC, which already captures buy-and-sell transactions, and stamping data from the Inland Revenue Board.

Picture 3: Rental index of private residential properties in Singapore



Source: Singapore Urban Redevelopment Authority

Picture 4: Map showing rental rates of individual HDB apartments in Singapore

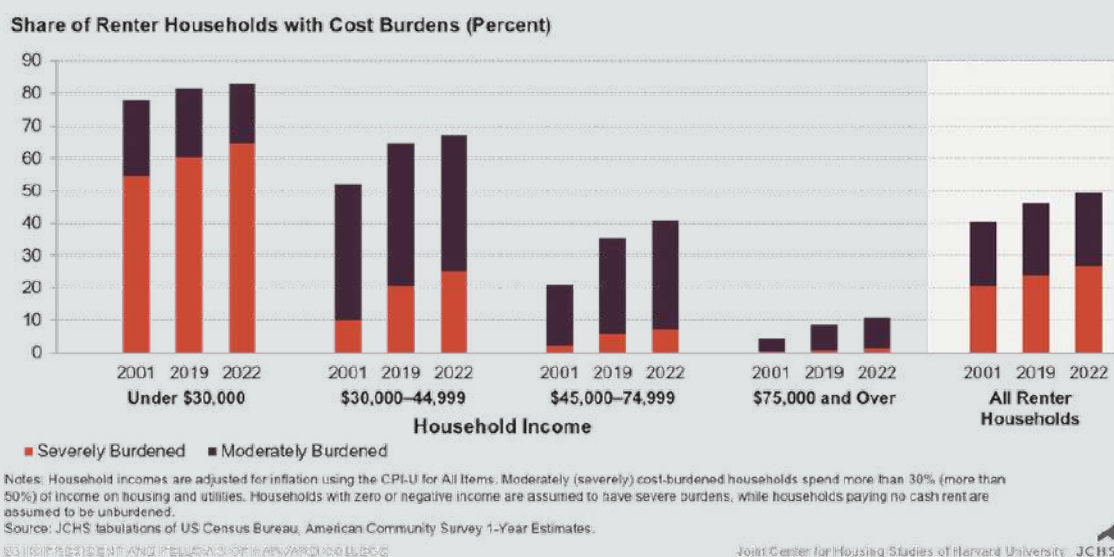


Source: Singapore Housing Development Board

The US Bureau of Labour Statistics and the Federal Reserve Bank of Cleveland have developed an experimental quarterly index of new tenant rent to address the CPI's shortcoming. The [New Tenant Rent Index](#) utilises data from market indices and the CPI – accounting for changes in rent and utilities – following every rental transaction (US Bureau of Labor Statistics, n.d.). This new index is designed to be a leading indicator for the rent component in its CPI.

Second, the collection and publication of highly granular data on renter households allows for more detailed analyses of renter households based on income, age group, employment status, and other key socioeconomic variables. Chart 1 below, for example, details the different degrees of cost burden faced by different income groups of renter households.

Figure 1: Share of renter households, based on level of cost burden in the US, 2001, 2019, 2022



Source: Joint Center for Housing Studies of Harvard University

Thirdly, granular data also helps the government identify and assist cost-burdened renters. By calculating [Area Median Income](#) (AMI), they can target eligible households – adjusted for household size – for rent subsidies or assistance (US Department of Housing and Urban Development, n.d.). Methods include capping rents to a percentage of the AMI, providing subsidies to those earning below a certain AMI percentage, and limiting affordable housing eligibility based on a certain percentage of AMI. For example, under the US HUD Section 8 programme, eligibility for affordable housing is calculated at 80% (low income), 50% (very low income) and 30% (extremely low income) of the AMI (Hamann, n.d.).

This is highly replicable in Malaysia, as DOSM already collects household income data at the district level, which is equivalent to the AMI. As a result, the government can tailor rental assistance programmes differently for each district or state. For example, rather than a single nationwide household income threshold, the government can use specific AMI thresholds to determine eligibility for rental public housing. A PPR in Kampung Abdullah Hukum, for example, will have a higher income cap than one outside the Klang Valley.

Finally, publishing a nationwide rental index may act as a strong policy signal towards encouraging renting as a viable alternative to purchasing property. Over the past decade or so, the government has introduced numerous incentives to facilitate homeownership amid rising property prices and low purchasing power. As recent as last October, the government is considering a long-term mortgage strategy to improve home “affordability” (Malay Mail, 2024). If wage growth stays sluggish, however, such “innovative” financing only risks pulling more households into financial fragility. Between 2002 and 2022, household debt climbed from 67.2% to 81.2% of GDP. Housing credit rose from 36% of household loans to 59.7% from 1997 to 2022 (Malay Mail, 2024).

Renting, in contrast, is a less risky option for lower income households. The numbers already show that Malaysians are becoming more open to renting as an alternative housing option, particularly in the Klang Valley (Department of Statistics Malaysia, 2023a). The emergence of fresh rental concepts such as “co-living” and “build-to-rent” signals that private businesses are aware of this trend and have begun to fill the market gap (Fisal, 2024).

In addition to the rental database, the government can help improve the rental market through effective legislation. For decades, the local rental legal and institutional framework has received little attention due to the strong cultural and societal preference for homeownership. Despite repeated calls, the Residential Tenancy Act has yet to be tabled, which would clearly and

transparently define the rights of tenants and landlords. Effective legislation will reduce the risks and uncertainties faced by both parties to a tenancy agreement, increasing the appeal of renting. It would also address observed problems with tenancies, such as ethnic discrimination and security deposit disputes.

Closing Thoughts

The government implemented interventions to facilitate homeownership after recognising that many Malaysians lack the financial means to own a property, which is made possible by effective house prices monitoring. The same cannot be said for the rental market, which currently lacks an official residential rental index. Current administrative data, specifically the CPI and the HES indicate that rent affordability is not concerning.

This article, however, calls for a more accurate and timely mechanism for tracking residential rents. Only by doing so will the government be able to accurately identify any cost-burdened renters in desperate need of policy intervention. This is especially important given the expected increase in rental demand in the near future amid rising house prices, slow wage growth, and upcoming fuel subsidy rationalisation.

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