

Keys to Build-to-Rent Success

How Good Design and Quality Products Can Support the
Business Model

INTRODUCTION

Australia's housing market has long struggled with underlying problems driving unaffordability and limited supply. Over the past ten years, home ownership has decreased by five percentage points while housing prices have skyrocketed in relation to income.¹ Two-thirds of prospective homebuyers find home ownership to be beyond their current means.²

These factors are the main reasons why the Build-to-Rent (BTR) property sector is growing in Australia. This new category of housing is geared toward offering high-quality rental stock that has been specifically designed and constructed for that purpose, giving Australian renters another housing option with better security and services.

BTR developments are typically long-term investments owned by institutional investors, who may also be the developer or ongoing building manager. The format gives renters the flexibility of renting with the security of home ownership.

As it gains popularity, this new housing model presents significant opportunities for architects, designers and builders. Design plays an integral role in elevating the living experience, optimising space utilisation, and providing long-term value. To differentiate their offerings, developers are looking for creative, high-quality design solutions that will attract and retain tenants.

This whitepaper explains the fundamentals of the BTR sector and the role of architects, designers and specifiers in ensuring the success of this new business model.







WHAT IS BUILD TO RENT?

Typically, BTR apartment complexes are built by a developer who then keeps ownership of the finished product. After that, the developer, who also oversees and maintains the complex, rents the apartments to tenants usually on long-term lease agreements. Rents may be set at market rates or at a reasonable discount from market rates for affordable and social housing.

Contrast this with Build-to-Own developments. In such developments, a real estate developer might construct an apartment building and then sell the apartments to buyers, who can then decide whether to occupy them themselves or rent them out as investment properties.

The Australian Housing and Urban Research Institute notes that a key factor in the BTR model is that property managers are offering long-term rental services to customers rather than seeing themselves as property 'owners'.³ With the long lease terms provided by BTR

properties, tenants can enjoy the benefits of living in a neighbourhood long term, including seeing their children go to local schools, keeping domestic animals as pets, and building meaningful connections to the community.

Additionally, as building owners are aware that they will be accountable for their properties for very long periods of time, there is greater motivation to create BTR properties to an elevated standard, with high-quality fitouts, amenities and conveniences.

Another advantage of BTR developments is that they can be used to provide affordable housing. Certain BTR projects must include affordable housing for those who might not otherwise be able to afford it. For instance, two projects under the Queensland Government's Build-to-Rent Pilot Project will include 240 apartments at 'discounted rent'.

A GROWING TREND LOCALLY AND ABROAD

Perennial issues with limited housing stock and rising prices internationally have contributed to BTR gaining traction in other countries. In the United Kingdom, for example, over 149,000 BTR units were completed or under development in 2020.⁴ In the United States, 2022 saw the construction of more than 14,500 new BTR homes across the country, a 10-year high.⁵

The Australian government is promoting investment in BTR particularly by lowering the withholding tax penalties for foreign investors who use managed investment trusts for their BTR investments.⁶ As a result, BTR investments

are taxed at the same rate as other types of real estate investments, including retail, hotels, and office buildings.⁷

The BTR industry in Australia is valued at \$16.87 billion, according to a 2022 report from consulting firm EY, but its value is anticipated to increase rapidly.⁸ According to reports, around 5,900 BTR units have broken ground in 2023, with a further 15,000 geared to commence across 2024 and 2025.⁹ BTR is expected to continue on its strong growth trajectory, with 100,000 active units in stock by the end of 2030.¹⁰

SUPPORTING SUSTAINABLE LIVING

Beyond satisfying the growing housing demand, BTR developments could advance sustainable design throughout the entire apartment market. BTR owners are motivated to construct high-quality buildings because they will be accountable for the structure for a very long time. They therefore have a stake in keeping the building's lifetime operational and maintenance costs to a minimum. At the same time, with consumers becoming more environmentally conscious, a sustainable, energy-efficient building will be more attractive to high-quality tenants.

By utilising cutting-edge approaches, such as smart building technologies, renewable energy sources, sustainable building materials, passive design and other energy-efficient solutions, it is possible to lower energy use and carbon emissions while improving the comfort and wellbeing of

tenants. It is these same measures that can help BTR properties achieve sustainable building certification under internationally recognised schemes, such as Green Star, LEED and the WELL Building Standard.

The Property Council of Australia shares a similar sentiment that BTR, due to the stronger financial imperatives, presents opportunities to embed sustainability across the entire design and construction process to ensure operational efficiencies and end-user experiences.¹¹ Contrast this with Build-to-Own developments, which are often built to a 'minimum standard' with many new apartments reporting a range of defective waterproofing, inappropriate materials and defective building services.



DESIGNING DESIRABLE BUILT-TO-RENT PROPERTIES

As more properties are built and the competition for tenants increases, quality design will be a critical differentiator that will help developers achieve top rents for upscale BTR residential developments.

Commentators have noted that designing with high amenity in mind is one way to create an appealing BTR value proposition. Concierge, furniture packs, social clubs, game rooms, grocery deliveries, and more are examples of potential amenities and services.

However, BTR is not just about amenities, but rather creating a positive, long-term residential experience. This requires a holistic approach that encompasses good management, services and design excellence. Apartment designs and layouts must also be adaptable, in line with tenants' expectations for flexibility suited to their evolving lifestyle needs and desires.

The BTR model's viability depends on having low operating costs, high-quality design features, and durable materials, all of which combine to create an attractive market offering. The specification of high-quality building products in new BTR builds is a necessity. Over the long-

term, poor-quality products can negate the positives of BTR living arrangements, creating a nuisance for tenants and reducing their enjoyment of the property.

It is also crucial not to overlook the importance of quality design as it relates to brand identity and reputation as competition intensifies. Offering top-notch fitouts and adaptable, individual living spaces all help to build a strong, attractive brand. Cheaper building products may save costs in the initial stage of the project, but it will undoubtedly impact perceptions of the property and reduce potential rental rates.

The Property Council of Australia shares a similar sentiment that BTR, due to the stronger financial imperatives, presents opportunities to embed sustainability across the entire design and construction process to ensure operational efficiencies and end-user experiences. Contrast this with Build-to-Own developments, which are often built to a 'minimum standard' with many new apartments reporting a range of defective waterproofing, inappropriate materials and defective building services.



“With the long lease terms provided by BTR properties, tenants can enjoy the benefits of living in a neighbourhood long term, including seeing their children go to local schools, keeping domestic animals as pets, and building meaningful connections to the community.”

DESIGN AS THE DIFFERENTIATOR

Partnering with Hettich

Developers and investors should consider investing in reputable and dependable cabinetry hardware solutions from reputable companies like Hettich in order to ensure the success and sustainability of BTR projects. While the upfront cost may be higher, the long-term benefits in terms of tenant satisfaction, reduced maintenance expenses, and enhanced property value are likely to outweigh the initial investment.

For over a century, Hettich has been producing high-quality cabinet hardware that can be found in all areas of the home in over 100 countries. The Hettich range enhances commercial and residential spaces through a comprehensive range of hardware including drawer systems with soft close options, hinges with integrated dampening, sliding and folding doors, lighting, handles, framing systems, pull out pantries, corner units, recycling waste disposal systems and more.

Specifying high-quality cabinetry hardware helps create a positive rental experience, which can encourage tenant loyalty and improve the reputation of the rental property in the market.

Benefits

- **Functionality.** From handleless furniture fronts with silent opening and closing functions to folding and sliding door systems to invisibly integrated silent hinge systems, Hettich products make furniture move and fundamental functions possible.
- **Durability.** The most exacting demands apply to the quality of Hettich products: product surfaces and components are hard wearing and durable—for many years of reliable use.
- **Quality.** Hettich hardware has been manufactured in Germany, designed and stringently tested to offer years of reliable service.
- **Sustainability.** Hettich has committed to key sustainability targets including avoiding CO2 emissions, continuously reducing remaining emissions, conserving resources, improving energy efficiency, optimising the recyclability of their products, and promoting biodiversity at their operating bases.
- **Warranty and support.** Hettich offers a limited lifetime warranty applies to all its hinges, runners, slides, metal drawer systems and sliding and folding hardware. The company also provides an extensive after sales service that puts customer satisfaction at the forefront of all that they do.

“Design plays an integral role in elevating the living experience, optimising space utilisation, and providing long-term value.”

REFERENCES

- ¹ Australian Bureau of Statistics. “Housing Occupancy and Costs.” ABS.
<https://www.abs.gov.au/statistics/people/housing/housing-occupancy-and-costs/latest-release> (accessed 4 October 2023)
- ² Per Capita. “The Australian Housing Monitor: Housing affordability experiences, attitudes and appetite for change.” Per Capita.
https://percapita.org.au/our_work/the-australian-housing-monitor-housing-affordability-experiences-attitudes-and-appetite-for-change (accessed 4 October 2023).
- ³ Australian Housing and Urban Research Institute. “What is ‘Build to rent’?” AHURI.
<https://www.ahuri.edu.au/analysis/brief/what-build-rent> (accessed 4 October 2023).
- ⁴ Ibid.
- ⁵ Sell, George. “US BTR delivery hits 10-year high.” Urban Living News.
<https://urbanliving.news/build-to-rent/us-btr-delivery-hits-10-year-high> (accessed 4 October 2023).
- ⁶ Above n 3.
- ⁷ Ibid.
- ⁸ Property Council of Australia. “A new form of housing supply for Australia: build-to-rent housing.” PCA.
<https://www.propertycouncil.com.au/submissions/a-new-form-of-housing-supply-for-australia-build-to-rent-housing> (accessed 4 October 2023).
- ⁹ Oxford Economics. “Australia: Roadblocks cleared for Build-to-rent in Australia.” OE.
<https://www.oxfordeconomics.com/resource/roadblocks-cleared-for-build-to-rent-in-australia> (accessed 4 October 2023).
- ¹⁰ Ibid.
- ¹¹ Property Council of Australia. “Build-to-rent could become major driver for sustainability.” PCA.
<https://www.propertycouncil.com.au/national/build-to-rent-could-become-major-driver-for-sustainability> (accessed 4 October 2023).

All information provided correct as of November 2023