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Investment Behaviour Towards Build-to-Rent in Australia

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Abstract: There is growing recognition that build-to-rent (BTR), a novel institutional asset class, could improve rental affordability and housing choice in Australia. Despite favourable market conditions and increasing demand, Australia's BTR sector remains underdeveloped compared to the US and UK. Although the asset class has attracted significant foreign institutional capital, there is little interest from domestic institutional funds. This contrasting investment behaviour between foreign and domestic funds has brought a new dimension to the debates on BTR in Australia. The study uses qualitative research design to examine institutional investor behaviour towards BTR in Australia. Interviews were conducted with experienced BTR investors across three countries—Australia, the US, and the UK—to understand the barriers and investment behaviour towards BTR. The study finds that the key barriers hindering BTR growth in Australia include unfavourable tax treatment, complex planning processes, and insufficient affordable housing incentives. Institutional investors' decisions are influenced by firm characteristics, operational capabilities, and risk attitudes. Due to risk considerations, Australian superfunds prefer stabilised assets over new developments. Also, sustainability and ESG factors are increasingly important considerations in BTR investment decisions. The research highlights the need for a supportive regulatory environment, efficient property management, and innovative financing solutions to boost BTR investments. To accelerate BTR growth in Australia, policymakers should address tax disparities, streamline planning processes, and enhance affordable housing incentives. Developing BTR-responsive financial instruments could reduce financing costs and attract more institutional capital to the sector.

Keywords: build-to-rent; institutional investor; decision-making; drivers; investor behaviour; Australia

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1. Introduction

"Build-to-rent housing (BTR) is large-scale, purpose-built rental housing held in single ownership and professionally managed. It can provide more rental housing choices in areas where people want to live" [1]. This model of long-term rental housing is well established in the United States of America (US) and maturing in the United Kingdom (UK), where institutional investors dominate the sector for its stable, long-term income potential and low vacancy rates [2]. BTR, although gaining substantial traction in Australia, has not responded to the housing shortfalls and affordability crisis. The residential asset class also promises an avenue to increase the supply of quality long-term rental properties [3]. Recent private equity real estate (PERE) sentiment surveys have shown that institutional investors have immense interest in the living sector. However, this has not translated

into substantial investment flows in the Australian BTR sector [4]. Australian domestic institutional investors have yet to allocate any significant capital to BTR.

Proponents of BTR assets have attributed the limited interest from domestic institutional investors to the low return on investment compared to other property asset classes and unfavourable tax regimes [5]. Rapid increases in construction costs and rising development finance expenses further limit the profitability of large-scale, high-density BTR apartment projects. Many planned projects have been deferred from moving to construction. The inconsistent application of policy, planning, and tax frameworks across Australian states and territories introduces significant risk and uncertainty for developers and investors [6,7]. Recent policy changes have sought to stimulate the BTR sector but have yet to produce tangible effects. The federal government has tabled a bill in Parliament to reduce the withholding tax for BTR developments executed through the managed investment trusts (MITs) and to increase the depreciation rate for BTR properties, subject to certain conditions [8]. Several states, including New South Wales, Victoria, and Queensland, have rolled out land tax discounts and other incentives for BTR developments [9].

These public policy interventions are arguably rationalist. The assumption is that investors seeking profits and investment diversification will increase their allocations to the asset class with the "right" mix of interventions. However, investment decisions are also swayed by behavioural biases, market sentiment, institutional inertia, herd behaviour, and risk aversion—which may or may not favour capital allocation [10]. Existing research has provided limited insights into these issues in the context of BTR investments.

Previous research has examined the impact of planning, regulatory, and fiscal levers on the financial feasibility of BTR projects in Australia [11]. The literature on BTR, within the broader housing financialisation literature, is still underdeveloped and is often approached from housing studies and urban geography perspectives [2,12–14]. Meanwhile, insights into institutional investors' attitudes and responses to this asset class are essential for effective policy response. Refs. [5,15] conclude that institutional investors' market entry and investment strategies in BTR depend on local market conditions. Research on institutional investment strategies across different contexts will provide learnings for other cities and effective policy responses. This study investigates institutional investors' behaviour (investment objectives, risk perceptions, and decision-making processes) regarding BTR investments. By doing so, this research seeks to provide insights into the factors influencing institutional investment in BTR and potential strategies to increase capital allocation to this emerging sector.

Australia's BTR market is peculiar for this study as it is valued at AUD 22.25 billion, about 0.2% of the total residential market value [16]. The common types of projects in the BTR market are premium developments, although they are increasingly seen as part of the solutions to Australia's housing crisis. While most developers focus on multifamily projects in prime locations, other types of BTR, such as single-family rentals, are expected to emerge as the market matures. As of October 2024, there were 23 operating BTR projects (8708 units)—more than 80% of which are funded by foreign capital, and another 20,261 of which were either under construction or planned [16]. Melbourne's market is the most active regarding completed stock and pipeline projects. In Sydney, land is less available in prime locations and extremely expensive. Some of the major developers/investors in the space are Mirvac, Gurner Group, Investa, Novus, Hesta, Aware Super, and Frasers. Several factors are contributing to the growth of the BTR sector in Australia are the following:

(1) Housing Affordability Crisis: Australia is grappling with an affordability crisis. Property prices have soared, and the demand for rental housing has outstripped supply, pushing rents higher and making it increasingly difficult for many people to find affordable housing. CoreLogic data shows that housing values increased by an av-

erage of 22.9% across Australia's capital cities in 2021, highlighting the severity of the affordability challenge. In Japan, where residential real estate investment trusts (REITs) constitute 18% of the total J-REIT market by capitalisation [17], high urbanisation and affordability pressures attracted institutional capital [18]. The resulting investments have shown strong risk-adjusted returns and portfolio diversification benefits [18]. Similarly, Australia's affordability gaps signal systemic inefficiencies, attracting institutional capital. Furthermore, the performance spillovers observed between direct housing markets and REITs in Australia suggest that institutional involvement can recalibrate housing dynamics, prompting policy reforms to mitigate market imbalances [19]. A JLL survey of global investors highlights multifamily housing as a top target sector because of rental unaffordability and growing demand. While institutional capital through REITs or BTR may not fully resolve affordability, it channels investment into underserved markets, fosters entrepreneurial opportunities, and could help stabilise rental ecosystems.

(2) Changing Demographics: More Australians are resorting to renting homes, with the share of private renting increasing to 26.2% in 2019–2020 from 19.9% in 1999–2000.

(3) Rental Market Tightness: The rental market in Australia is hugely tight across metropolitan areas, with vacancy rates below 1% in capital cities. This has led to strong rental growth, with two-bedroom apartment asking rents growing by 7–17% across major Australian capitals in 2022.

(4) Lack of New Supply: Despite the growth in rental market demand, the supply pipeline of new residential dwellings has not increased at the same rate. Based on current project timelines, the rental market will remain under-supplied until at least late 2025.

Despite the positive market outlook, foreign capital is dominant in funding BTR projects in the country, with domestic institutional investments largely reluctant. This situation presents an interesting contrast—foreign and local institutional investors are likely sensing the same market differently. States have introduced land tax concessions (50% concession on the taxable land value), though with different conditions to attract more investments [20]. In Queensland, 10% of dwellings in the BTR project must be affordable to benefit from the concession. New South Wales and Victoria have no equivalent requirements. In South Australia, there is an additional land tax relief for affordable BTR projects [20]. Notwithstanding, understanding the nuances in investor behaviour and decisions is crucial if policy is to effectively attract the needed capital to BTR. It remains unclear why some investors perceive the same market as a significant opportunity while others hesitate to commit. This unexplored question is the focus of our paper.

2. Theory and Conceptual Framework

A comprehensive conceptual framework is necessary to understand the factors influencing investment decisions and outcomes when studying institutional investments in BTR. Explaining investor behaviour towards BTR investments would represent a valuable contribution to the field. Such insights would help policymakers design effective policies to facilitate more investment in BTR and, more generally, the rental housing market.

The efficient market theory in finance assumes that investors are rational and consistently seek to maximise profits. In reality, and due to their cognitive or knowledge limitations, investors tend to deviate from pure rationality when they face uncertainty and risk [21]. Since the seminal work of Ref. [21], which introduced the concept of bounded rationality, an agent's irrationality and behavioural factors in decision-making have been examined in disciplines such as economics and operations management [22]. The basis for the framework that is used in this study is the literature on behavioural finance.

Ref. [23] conceptualised that human thinking involves both intuition and logic. Intuition is characterised as quick, associative, and emotional, while logic involves effort and rules and is slower. Ref. [22] argued that people rely on several heuristics when making judgements under uncertainty, which sometimes leads to severe and systematic errors in assessing the probability of events. The theory proposed by Ref. [24] explains the heterogeneity of behaviour among investors. This alternative explanation of observed behaviour in the financial market contravenes efficient market theory and as Ref. [25] argues, individuals often do not pursue fully rational outcomes. The deviation from rationality is not random; agents often behave similarly [25]. Ref. [26] argues that a country's culture affects the financial market through three channels: by influencing the values, its institutional practices, and resource allocation. However, financial markets, instruments, and investors interact and evolve dynamically [27].

Application of behavioural finance approaches can be seen in examining questions that relate to market anomalies [28], price volatility [29], overreaction and underreaction phenomena [30], the equity premium puzzle [31], the underperformance of mutual fund and pension fund managers relative to passive investment strategies [32], and the market reaction to non-information [33], among others. Ref. [34] highlights behavioural biases among individual fund managers and their influence on fund governance and organisational structure. Ref. [35] argues that a framework that captures how investors assess risk, their rules of thumb, and how they forecast expected scenarios would help understand mechanisms underlying market behaviour.

Ref. [36] posits that the normative model theory of finance, which assumes rationality among investors, is idealistic, and that real estate investment decision-making by companies contradicts this notion. Ref. [37] further attributes the inefficiency of real estate markets to human behaviour and biases. Ref. [38] found that real estate investors struggle to diversify specific risks in a property portfolio due to the lumpy nature of property investment, which limits the number of properties in a portfolio necessary for diversification. Ref. [39] identified human behavioural factors influencing real estate investment decisions but did not outline these factors. Ref. [40] points out that financial information used in investment decisions is often regarded as unbiased, neutral, and value-free, whereas, in reality, such information is prepared based on personal judgments. In the limited existing literature [39], applying the normative model, the following sequential stages in investment decisions within the context of REITs are identified:

(1) Envisioning: visions, style, goals, strategic plan, and objectives;
(2) Planning: property portfolio strategy, strategic asset allocation, tactical asset allocation, stock selection, and asset identification;
(3) Dealing: preliminary negotiation; preliminary analysis; structuring; advanced financial analysis; portfolio impact assessment;
(4) Executing: governance decision, transaction closure/documentation, due diligence/independent appraisal, settlement, and post-audit.

Ref. [41] argues that behavioural finance is capable of identifying patterns showing how players have deviated from what might be rational decision-making. Ref. [42] confirms the presence of behavioural heuristic biases in investor decision-making concerning REITs in Australia. These relate to anchoring, over-confidence, heuristic availability of information, and investor sentiment.

A conceptual framework is proposed, grounded in the literature discussed above, that facilitates the examination of institutional investors' behavioural biases in their decisions towards investment allocations. The framework is applied to the context of BTR asset investment in Australia and is presented in Figure 1.

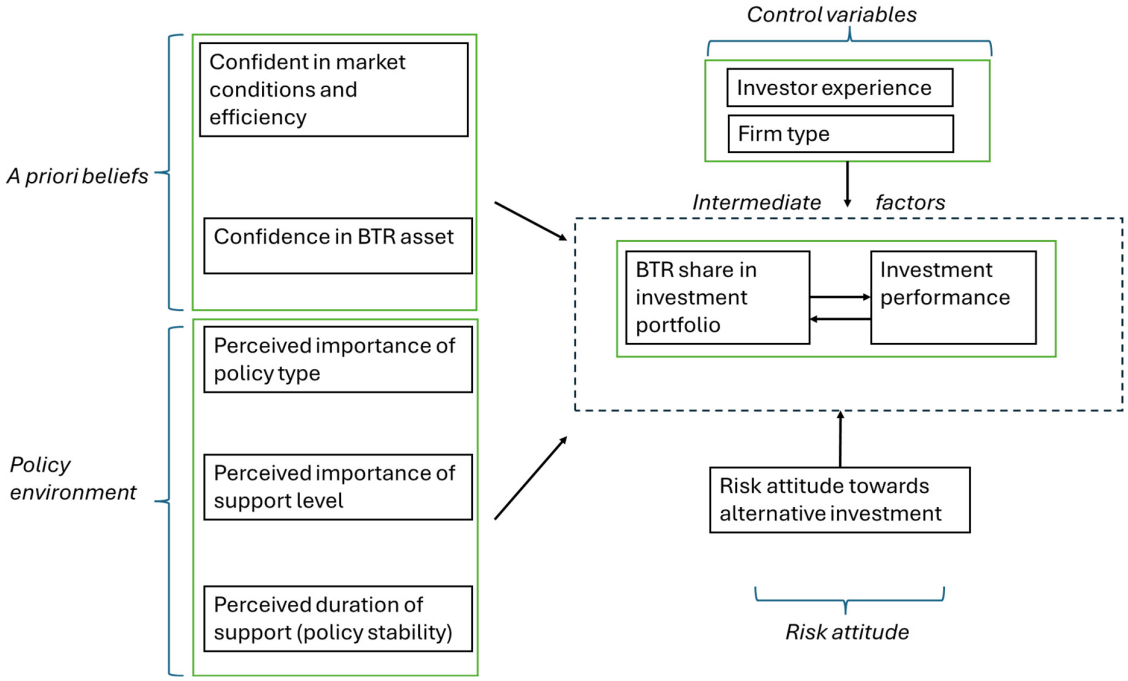

Figure 1. Conceptual framework; source: authors (2024).

The conceptual framework begins with four key enablers: a priori beliefs, policy environment, firm characteristics, and risk attitude. A priori beliefs encompass investors' initial perceptions about the market condition, market efficiency, and confidence in BTR assets and performance, including their potential social and environmental impacts. Market conditions include stages in the economic cycle, real estate market trends, and demographic shifts, which are critical in shaping investment opportunities and strategies. Policy environment broadens to include planning and tax policies, zoning regulations, building codes, and incentives to promote sustainable development.

Firm characteristics are control variables that include internal attributes such as the firm's size, type, and investment strategy, which dictate its capability to engage in and support BTR projects. Investor experience in investing in an asset class domestically and/or internationally helps navigate their approach to investment and due diligence.

Risk attitude reflects the investors' general tolerance for risk and their attitudes towards real estate investments, influenced by comparative assessments with other asset classes.

Intermediate factors such as investment strategy formulation, due diligence process, and asset allocation decisions bridge the initial enablers and control variables with actual investment actions. These factors detail how investment strategies are developed based on the initial enablers and control variables, how potential BTR projects are rigorously evaluated for risks and compliance, and how decisions are made to include BTR in the investment portfolio.

Further, the characteristics of the investment itself are considered, including the scale of investment, geographic diversification, and the types of properties involved, such as multifamily or single-family rental housing. Performance metrics such as rental yield, capital appreciation, total return, and risk-adjusted return are used to evaluate the success of the investments. A successful investment outcome, either realised or observed, would increase further allocations. The investment performance of BTR assets in the portfolio provides a feedback loop. The feedback loop in the framework is particularly vital, emphasising the iterative nature of investment decisions. This loop illustrates how

positive or negative portfolio returns influence future investment strategies, leading to continuous adaptation based on performance feedback.

External factors like macroeconomic conditions, technological advancements, and social trends are also integrated into the framework through a priori belief about the market to account for their impact on BTR investments. The availability and involvement of different stakeholders in the BTR sector—investors, property managers, tenants, and regulators—contribute to the confidence in this asset class. Risk attitude and management are integral components, encompassing diversification techniques, hedging strategies, and other risk mitigation tools like insurance that safeguard the investment portfolio. Experience investing in alternative assets provides investors with confidence in extending their exposure to BTR assets. Sustainability factors are also crucial, as is incorporating environmental, social, and governance (ESG) considerations such as energy efficiency, social impact, and governance practices to align with contemporary investment expectations of institutional investors.

3. Methodology

The research uses a qualitative research design to understand the behaviour of investors in navigating the BTR landscape. The research adopted a deductive qualitative analysis in line with Ref. [43]. The initial steps included developing the research question and selecting a theoretical underpinning. An initial review was conducted to identify the factors contributing to investments in BTR. This was followed by interviews to solicit insights from the experiences and challenges faced by institutional investors and BTR developers in Australia and globally. The highlights from the initial review informed the design of the primary data collection instrument, the specific areas to be covered, and the relevant questions. Given the complexity of investment decisions in BTR, semi-structured interviews were deemed the most appropriate data collection tool to provide consistency in questioning and the flexibility to explore nuanced insights. The semi-structured interview guide was reviewed by industry experts with extensive experience in BTR investment advisory. Their comments were used to revise the guide for collecting data from various stakeholders in the BTR space in Australia and overseas.

Given the specific focus of the study, only senior-level professionals with experience in property investments (including BTR) and BTR development were sampled as interviewees. Their direct involvement with BTR provides an opportunity to understand their responses to market conditions. For example, Ref. [44] found that under conditions of extreme uncertainty, business managers prioritise non-financial factors over financial performance analysis, such as net present value, in their investments. They were identified through a combination of internet searches and snowballing. Potential respondents were invited via email. We continued recruiting and interviewing participants until no new information emerged from the interviews, suggesting we had reached a saturation point. In total, 54 individuals were approached, of which 20 agreed to participate and completed the interviews. Our sample size exceeded the recommended 12 interviewees needed for qualitative studies [45]. Each interview lasted approximately 45 min to 1 h. All research activities were conducted under strict ethical standards, with protocols and materials approved by the University of Melbourne's Ethics Committee. We ensured that all participant information was kept confidential and handled in strict accordance with the university's data privacy guidelines.

The interviews were anonymised, transcribed, cleaned, and analysed in NVivo 15. We used thematic analytical techniques, which are most suitable for understanding the experiences and behaviours of actors [46], following the 6 steps outlined by Ref. [47]. In brief, it involved familiarising ourselves with the data, generating and refining codes,

searching for themes, reviewing them, defining and naming them, and writing the report. In generating these themes, we were guided by the conceptual framework discussed in Section 3 as a guiding structure. Specifically, the initial analysis was guided by our conceptual framework, which outlined the key constructs relevant to investment behaviour in the BTR context. These constructs include respondent beliefs about the asset and environmental characteristics (see Figure 1). These served as the starting point for coding and organising the data, providing a theoretical lens through which to interpret initial patterns. While applying the initial codes, the research team remained open to emergent themes and patterns that did not align neatly with the predefined framework. When new insights arose, they were recorded as emergent codes and continuously compared with the existing framework.

For example, ESG is often viewed from a tenant experience and financial returns perspective. However, we also observed that the same concept was pursued from a disaster risk minimisation perspective. Such new insights prompted the expansion of the codes. By so doing, our operationalisation of the conceptual framework was abductive. Finally, we triangulated the Australian findings with experiences from the US and UK. The purpose was to understand the levels and market conditions that enabled the multifamily asset class to develop in those markets, generating lessons for Australia. To further minimise the possibility of respondent reidentification, this report does not include any potentially identifiable information, such as names of projects and investment sizes. The draft report was shared with all respondents for feedback. The DQA approach adopted is presented in Table 1.

Table 1. Processes and outcomes of deductive qualitative analysis.

Component	Description	Outcome
Developing research question and selecting guiding theory	Researchers review relevant literature and select a theory to guide the research. Theories can be formal theories (e.g., Bronfenbrenner's bioecological theory) or informal theories (e.g., relevant constructs that have been examined previously in the literature).	Research question that clearly connects the theory with the phenomenon under investigation.
Operationalising theory	Researchers operationalise theory by either generating sensitising constructs and key concepts from the guiding theory, or by creating working hypotheses, which are active, provisional hypotheses that are revised throughout analysis.	Useable version of the guiding theory that includes descriptions of its relevant components and mechanisms, as well as statements of relationship between components of the theory.
Gathering purposive sample	Researchers gather a purposive sample that allows for thorough examination of the guiding theory.	Data that can be analysed using the guiding theory that include sufficient variation to test or refine the guiding theory.
Coding and analysing data	Researchers alternate between an initial deductive approach to coding and inductive coding, including negative case analysis, and code the data in multiple iterations. New, inductive themes are added, and sensitising constructs are refined.	Rich, nuanced understanding of the phenomenon under investigation. Compilation of four types of evidence: supporting, contradicting, refining, and expanding evidence.
Theorising	Researchers interpret supporting, contradicting, refining, and expanding evidence and propose confirmations, interconnections, and potential revisions of the guiding theory.	Refined theory that includes data-supported sensitising constructs and inductively derived themes, with sufficient explanation for any proposed changes to the guiding theory.

Fife and Gossner (2024) [43].

4. Findings

4.1. Respondents' Profiles and Exposure to BTR

We begin by describing the respondents' profiles and their exposure to BTR. The interviewees held senior positions, such as managing directors, directors, and general managers (Figure 1). About 20% directly managed funds or portfolios. The respondents included professionals from pension funds, global real estate service companies, investment consulting firms, and developers. Most respondents were male (85%). The rest were female. The female interviewees predominantly held senior roles as managing directors or senior

consultants. The range of professional experience ranged from 8 to 31 years, with an average of 19.6 years, highlighting the depth of knowledge in the property sector.

Given the mix of interviewees, not all companies directly invested in BTR projects. Some provided advisory services. There was an almost equal number of respondents across the groups of stakeholders covered by the study. Thirty-five per cent of the respondents worked in global real estate professional service, advisory, or consulting firms. They provided market-level BTR insights on the UK and Australian markets. All consultants had previously managed BTR projects in their respective jurisdictions (UK and Australia). Thirty per cent were developers who owned and managed property assets and had exposure to BTR. A distinct feature of these developers was that they co-invested in the assets. Except for one involved in different property assets (office, industrial, retail), all the others operate within the living sector. The final group (35%) of respondents were in superfunds/pension funds, trust, investing, and asset management. Almost half (43%) were based in the US. The distribution of respondents based on their role is presented in Figure 2.

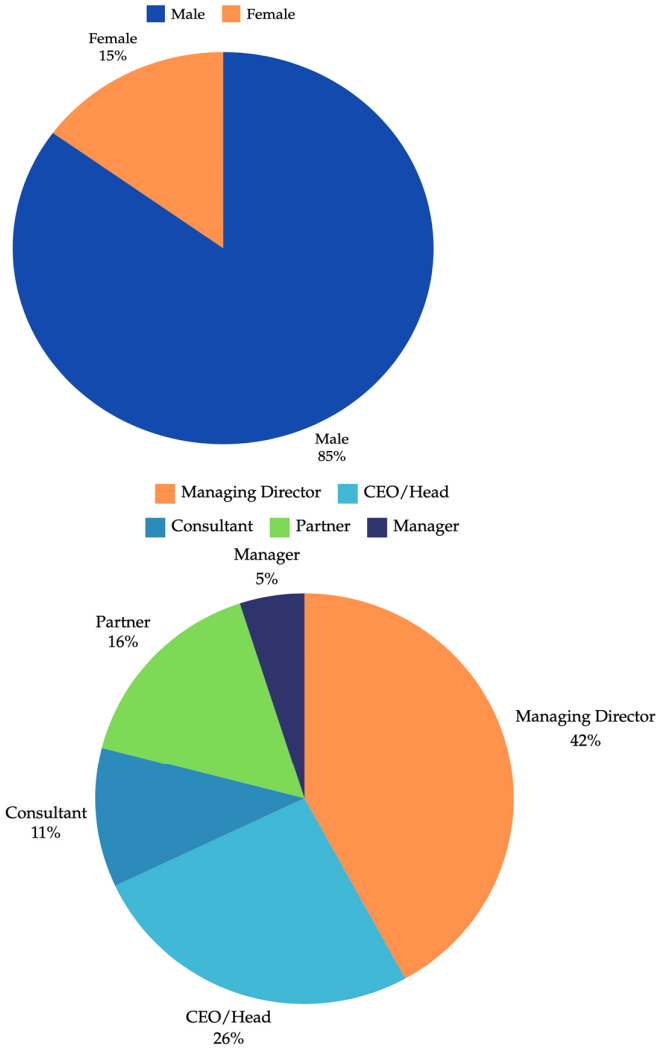

Figure 2. Distribution of respondents based on role.

The respondents were also beginning to make sizable commitments in Australia's nascent market. For instance, R1 reports that their firm has allocated significant capital across projects that are completed, under construction, or being planned in Sydney and Melbourne. This regional concentration reflects the strong rental demand in major metropolitan areas with prominent housing shortages. Similarly, R5 shares that their company has three

ongoing BTR projects in key areas in Sydney and Melbourne, aiming for 3000 units across the portfolio. Similarly, R6 manages 2200 apartments spread across five BTR assets in Sydney, Melbourne, and Brisbane. These investments by major players further support the notion that the sector is gaining traction and attracting significant capital.

R17 brings a wealth of experience from the US BTR market. They are now participating in Australia's HAFF funding program, which focuses on affordable housing, following a similar strategy in the US. Other institutional investors, particularly superfunds (though limited in number), collaborate with developers and community housing providers to create mixed-income BTR projects, highlighting a growing trend toward incorporating affordability into BTR developments.

These investments illustrate that most projects are in established urban centres like Sydney and Melbourne. However, investors are starting to explore opportunities in Brisbane and Perth, anticipating future demand in those markets. R1 anticipates that as the BTR asset portfolio grows, the scope will expand to include cities such as Canberra, Perth, and Adelaide, where rental markets are also increasingly constrained. This gradual expansion to other cities reflects the sector's growth trajectory and the increasing recognition of BTR's potential in different markets.

4.2. Enablers of BTR Investment

This section presents the analysis and findings of the enablers of BTR investments. These are organised based on the conceptual framework, beginning with a priori beliefs.

4.2.1. A Priori Beliefs About BTR in Australia

Institutional investors' initial beliefs about the BTR sector, espoused through their belief in market conditions, confidence in the performance of BTR assets, and their socioeconomic and environmental impacts, shape their investment strategies and views on the sector's future potential. These beliefs, gleaned from in-depth industry interviews and triangulated by current market analysis, offer insights into the factors influencing institutional investment in the Australian BTR landscape.

a. Market conditions and efficiency

Existing Customer Demand and Sector Growth Prospects: All interviewees believe that a robust and unmet demand for BTR exists in Australia, echoing trends observed in mature markets like the US. This view stems from a confluence of factors, including evolving demographics, shifting lifestyle preferences favouring renting over homeownership (a view articulated by R19), and rapid urbanisation. The chronic undersupply of housing, coupled with escalating property prices, further amplifies the appeal of BTR as a viable housing solution for a growing segment of the population. The ongoing undersupply of rental housing and high rental prices position BTR as an appealing solution for the rental market. R1 draws a parallel between the US and Australian markets, highlighting the potential for the Australian BTR sector to emulate the growth trajectory witnessed in the US.

A comparative analysis reveals that the BTR market in Australia, which currently accounts for 0.2% of the total rental housing market (as stated by R19), is significantly underdeveloped. By contrast, in the US, BTR represents 13% of the residential market, while in the UK, it comprises about 5% of the total rental sector [48].

R19 suggests that, with the right regulatory and economic conditions (see Section 4.2.2), the Australian BTR market could grow to represent at least 5% of the rental sector over the next few decades, potentially reaching a market size of AUD 500 billion. As rental demand rises, especially in cities like Sydney and Melbourne, institutional investors increasingly view BTR as a strategic asset class capable of providing income stability and portfolio diversification.

Furthermore, the anticipated growth of the BTR sector is intrinsically linked to the expectation of product diversification. While premium rental unit offerings dominate the current BTR projects in Australia, respondents recognise the need to cater to a broader spectrum of renters. R1 envisions BTR evolving to encompass diverse housing solutions, including co-living spaces, single-family rental housing, and later-living rental communities, thereby addressing the multifaceted housing needs of the Australian population.

However, market conditions differ across the country. Sydney and Melbourne are seen as the most prime and with available suitable developable sites. Cities like Brisbane, Perth, Canberra, and Adelaide are seen as expansion avenues as the market matures and demand in these areas grows. R1 notes that these areas are strategic choices due to their strong rental demand, which supports the feasibility of BTR projects. This means that we will likely see a "hub-and-spoke"-like spatial evolution of the BTR market in Australia. Indeed, differences in urban dynamics across cities also affect BTR market conditions, as noted by R2. For instance, Brisbane has seen minimal impact from work-from-home trends on the demand for inner-city residences, whereas Melbourne continues to grapple with these shifts. Such nuances underscore the importance of localised market understanding for strategic BTR investment and development. Careful consideration of factors such as employment opportunities, infrastructure development, and demographic trends is essential for identifying suitable locations and tailoring BTR offerings to specific market needs.

There are several market factors about which respondents demonstrated scepticism. One is the escalating costs driven by supply chain disruptions, labour shortages, and inflationary pressures. Rising construction costs pose a significant challenge for BTR developers, impacting project feasibility and potentially squeezing profit margins. R2, R3, and R5 acknowledge the impact of construction cost inflation on BTR project viability, highlighting the need for prudent cost management and innovative construction methods to mitigate the challenges. Between 2020 and 2024, housing construction prices increased by 40.8%, further emphasising the severity of this issue [49]. The second is the monetary policy regime, which has been less predictable since the COVID-19 pandemic. Respondents are divided regarding how the high interest rates would affect BTR investments. High interest rates in 2020 increased the cost of debt financing, impacting project feasibility and potentially dampening investor appetite. R2 notes that the cost of debt has risen to the "mid to high sixties" (mid to high range of 6%), making it challenging to achieve desired yields in BTR projects. However, this environment also creates opportunities for investors with access to cheaper capital or those seeking to acquire existing assets at potentially discounted valuations. R4 points out that rising interest rates have led to a reassessment of investment strategies and return expectations, prompting a more cautious approach from some investors.

Finally, the regulatory and policy environment surrounding BTR in Australia is complex and in flux. This situation has likely contributed to cautious exposure to BTR. "The investment climate is affected by regulatory challenges and a decrease in housing production, making investors cautious", says R19. While some states have introduced incentives like land tax concessions to promote BTR development, the lack of a consistent national framework and ongoing debates around issues like the GST and MIT tax rate create uncertainty for investors. R2, R5, and R10 emphasise the need for regulatory clarity and a supportive policy environment to unlock the full potential of the BTR sector and attract greater investment. The Property Council of Australia has advocated for policy reforms to address these challenges and create a level playing field for BTR consistent with other property asset classes [50].

The Australian respondents were concerned with the lack of established benchmarks and transactional data, which hinders accurate valuations and risk assessments. R14, R15, and R17 emphasise that the absence of a benchmark index constrains domestic institutional investment in BTR assets. They mention that the current index used for benchmarking does not include residential assets. The Australian Prudential Regulation Authority (APRA)'s prudential norms on investment by superannuation funds require benchmarking to indices such as the S&P/ASX 300 A-REIT Index for listed property and the MSCI/Mercer Australia Core Wholesale Monthly Property Fund Index—NAV-Weighted Post-Fee Total Return Index for unlisted property (which do not include residential). Thus, their reluctance can be justified by the absence of institutional residential assets in any Australian indices, because underperforming an index has negative consequences for superfunds. However, this position likely conceals superfunds' risk averseness. In the UK, investments in BTR preceded the index. Also, a few local superfunds already have exposure to BTR assets. R13 supports this position: "While this is a legitimate concern, a few superfunds have already made allocations to the BTR asset locally, suggesting a more intricate unparking on the issue. Compared to matured assets such as industrial, BTR requires extra work in the form of forward funding or forward committing to a project long before any rents can be generated. BTR is more complicated than other assets". The complexity could be the reason for shying away from BTR investment rather than the benchmarks. R19 reinforces this view further: "Foreign equity, which constitutes 80% of the BTR sector, is attracted to the Australian market due to rent growth driven by housing shortages, despite the absence of a benchmarking MSCI index".

b. Confidence in BTR assets

How confident were the respondents in the prospective performance of BTR assets? The general observation is in the nascent market stage, which requires investors to draw upon lessons learned from international markets, refine their offerings, and establish best practices. However, one overarching point was observed regarding confidence in BTR assets. 1. BTR is perceived as a stable and resilient investment, particularly appealing in an environment characterised by economic uncertainty and market volatility. R2 and R3 emphasise the stability of BTR cash flows, especially when compared to more cyclical asset classes like office and retail, with reduced capital expenditure requirements, minimal downtime, and fewer incentives. This stability, coupled with inflation-linked rental income, positions BTR as a defensive asset class capable of delivering consistent returns over extended periods. As such, BTR assets also offer diversification benefits for institutional investors. Incorporating BTR assets into their investment mix can reduce portfolio risk and volatility. R2 highlights the critical importance of geographic and sector diversification, and BTR's distinct characteristics make it a valuable addition to a well-balanced portfolio. The sector's resilience during economic downturns, as evidenced by stable occupancy rates during the COVID-19 pandemic, further reinforces its role in portfolio diversification. R7 echoes this sentiment, emphasising that BTR's steady cash flows make it an attractive option for diversification, particularly when compared to sectors like office and industrial, which are currently experiencing heightened volatility.

The respondents also anticipated sustained rental and capital growth in BTR assets driven by robust demand and constrained supply dynamics. R1 and R2 emphasise the potential for attractive returns, particularly over the long term. These financial prospects are paramount in attracting institutional capital as investors seek to achieve their target returns and outperform benchmark indices. The ability to adjust rents periodically in response to market conditions further enhances the potential for income growth and capital appreciation. R6 highlights the expectation of rental growth in BTR, fuelled by the persistent mismatch between supply and demand in the Australian housing market.

Despite the benefits of BTR, specific measures are required to attract and retain high-quality renters. Tenant experiences are crucial. It appears that renters in BTR may differ from traditional rentals in their psychographics—renters who prioritise convenience, are environmentally conscious, and are renting as a lifestyle choice. Thus, BTR housing in Australia typically prioritises high-quality amenities, services, and ESG, which also allows premium rent to be charged and lower vacancy rates to be attained. While R1, R4, and R12 support the necessity of attracting and retaining tenants, fostering a sense of belonging and loyalty, it is also likely that BTR is co-engineering these preferences due to its extensive marketing as "hotel-like". One could argue that confidence in the potential performance of BTR assets is lacking. If it were otherwise, both local and foreign capital would have been similarly active in the market. The lack of a mature BTR market and limited transactional evidence can create uncertainty for investors. R13 highlights the importance of a proven track record and established benchmarks in building investor confidence and attracting a wider range of capital sources. As the sector matures and more BTR assets are completed and stabilised, investor confidence and liquidity are expected to improve, further fuelling the sector's growth. Concerns regarding foreign investment dominance and potential capital flight have also been raised, prompting discussions about ensuring domestic ownership and control. R10, however, argues that these concerns are unwarranted, as BTR investments typically involve local management and a commitment to long-term asset ownership and operation. The successful operation of BTR assets necessitates specialised expertise and efficient management practices. R2 emphasises the importance of having the right people and systems to deliver high-quality tenant experiences and optimise operational costs. The use of technology is seen as a key enabler for achieving operational efficiencies and enhancing the overall investment proposition.

c. Socioeconomic Impact and Sustainability

We highlight observed tensions between financialising BTR and achieving the "public good". BTR is widely recognised as crucial to solving Australia's pervasive housing undersupply and unaffordability. However, the mechanism through which it contributes differs from public opinion. R3 underscores its potential to significantly increase the availability of rental housing, particularly in high-demand areas where affordability is a pressing concern. By increasing the availability of rental housing, BTR could help alleviate housing shortages and contribute to a more balanced and accessible housing market, moderating rents. This view sees the "filtering" of renters as the mechanism of contributing to affordability. Some current renters will move into BTR, easing the pressure on traditional rental options and, consequently, affordability. While this is true, it is also logical that the presence of premium BTR can uplift rents in the immediate neighbourhood. The other mechanism is through mixed developments, which require public policy support to be realised. Without such support, premium BTR housing aligns better with the financial models and investors' expected returns. Instead of support, local governments' mandates requiring a percentage of units designated as affordable can negatively impact project returns. This presents a challenge for investors seeking to balance social impact with the financial viability of their BTR projects. R7 echoes this sentiment, highlighting BTR's role in delivering much-needed housing and potentially preserving affordable housing options through mixed-income developments. In the medium to long term, R1 envisions BTR evolving into a more mid-market offering, addressing affordability concerns and ensuring that a diverse range of renters can benefit from this housing model. R15 already focuses on the affordable housing segment of BTR, aiming to provide housing solutions for essential workers and low-income earners. As the sector matures and scales, it is expected to cater to a broader range of income levels, contributing to improved housing affordability and greater inclusivity.

Governance, Transparency and ESG: There is a risk of greenwashing BTR projects, especially in making them accessible to the broader market, which requires strong governance and transparency. This is because of the challenge of simultaneously meeting investors and sustainability goals in the current market. As R1 points out, "They're kind of working against each other in a way" when meeting building code requirements and investor expectations for embodied carbon. Notwithstanding, R2 and R4 highlight the importance of incorporating sustainable design principles, energy efficiency measures, and community-focused initiatives in BTR developments. R6 highlights their commitment to carbon neutrality and removing fossil fuels from their BTR buildings. R1 also emphasises the importance of considering "embodied carbon" in construction materials, recognising the need to minimise the environmental footprint of BTR developments. This alignment with ESG objectives can attract a growing pool of investors prioritising sustainable and socially responsible investments.

Furthermore, sustainability initiatives can enhance the long-term value and appeal of BTR assets, leading to higher occupancy rates, longer tenancy durations, and improved rental growth potential. R9 notes that "we are creating a more liquid asset" by focusing on environmental sustainability and climate resilience, suggesting that sustainability factors can contribute to the marketability and attractiveness of BTR investments. The 2023 PwC Emerging Trends in Real Estate Asia Pacific report supports this view, highlighting that ESG factors increasingly influence investor decision-making and can lead to a "green premium" for sustainable assets [51].

4.2.2. Policy Environment

Three aspects of policy are essential for an institutional investor's decision to invest: policy type, the level of support contributing to return on investment, and policy stability. The policy environment for BTR in Australia has evolved in recent years, reflecting government efforts to encourage institutional investment in rental housing. However, challenges remain in harmonising incentives across different government levels and establishing a more predictable and stable policy environment for investors.

- Type of policy support at the federal and state levels

The BTR sector continues to advocate for tax reforms and regulatory support. Specifically, developers and investors are calling for more consistent tax treatments across state borders, enhanced planning incentives, and adjustments to GST policies. Introducing clear guidelines and streamlined processes would help reduce the risks associated with long-term investments in BTR and support the sector's growth in contributing to Australia's rental housing supply. R1 suggests that "a simplified approach to affordable housing would be a really big one", highlighting the need for a more streamlined and efficient regulatory framework.

At the federal level, the Australian government has introduced several initiatives to incentivise BTR projects. Notably, the government has tabled a bill in parliament that proposes a reduction in the MIT withholding tax rate from 30% to 15% for eligible BTR projects, aligning the tax treatment of BTR with other property sectors like office and retail. This measure is designed to enhance the attractiveness of BTR as an asset class for global institutional investors and increase the supply of long-term rental housing. Additionally, the government has proposed increasing the capital works deduction rate from 2.5% to 4% per annum for eligible BTR projects, further incentivising investment in the sector. Industry respondents equivocally emphasise the importance of these policy support levels for the financial viability of BTR projects.

State governments have also implemented a range of incentives, although the level of support varies across jurisdictions. For example, Victoria and New South Wales offer

land tax concessions, while Western Australia has introduced a new land tax relief program for eligible BTR projects. These concessions help lower the cost of development, making BTR projects more feasible. However, the eligibility requirements for these concessions often differ, with variations in the minimum number of dwellings or labour participation requirements (e.g., in New South Wales, where specific classes of workers must perform a portion of construction labour hours). R1 highlights the inconsistencies across different levels of government, stating, "Every council and state government and federal government has a different definition of affordable housing, a different cohort they are targeting, and a different method of how they want to apply it".

- Level of support and policy stability

Despite these efforts, specific barriers continue to hinder the widespread adoption of BTR in Australia. One key issue is the lack of uniformity in state tax policies, creating complexities for developers and investors across multiple jurisdictions. R13 points out that "most of the regions are unviable because of build costs", highlighting the impact of inconsistent policies on project feasibility. Moreover, the GST treatment of BTR properties remains a significant impediment. BTR projects are generally treated as input-taxed, meaning developers cannot claim input tax credits for GST paid on construction costs. This increases the overall development cost, reducing project feasibility. R10 echoes this concern, stating that "the biggest impediment is the federal taxes, whether that's MIT treatment or GST".

On the regulatory front, planning systems in Australia still pose challenges. While fast-tracking planning approvals and offering density bonuses for projects that include affordable housing have been introduced in some regions (e.g., New South Wales), the overall development process remains lengthy and uncertain. This has led some developers to express concerns about taking on planning risks, particularly in the face of high construction costs and land values. R2 points out that "even with a fast-track approval process in NSW, it still takes about two years to get a development application for a compliant 200-unit project".

The policy environment also intersects with broader housing affordability goals. Many BTR incentives include requirements for affordable housing components. For example, the federal tax concessions stipulate that at least 10% of dwellings in eligible projects must be offered as affordable housing. While this aligns with social policy objectives, it also impacts project economics, as R5 notes: "The financial impact of the requirements under the proposed legislation outweighs the benefit, so in reality will drive no outcomes. The focus must first be on balancing the policy settings in line with other asset classes, and then incentives for affordable housing must be in addition to that". Balancing investor returns with social objectives remains a delicate act for policymakers.

Looking ahead, industry stakeholders are calling for further reforms, particularly around planning processes and tax treatment, to unlock the sector's full potential. As R3 suggests, "Something needs to change for it to work because vendors have expectations on residential in Australia, which is a cultural problem that is so high that you cannot pay for it".

4.2.3. Risk Attitude

The risk attitude of firms investing in BTR projects in Australia is critical in shaping their investment strategies. The emerging nature of the BTR sector in Australia, coupled with macroeconomic challenges such as rising construction costs and interest rate volatility, means that firms must carefully balance potential returns against the risks inherent in such developments. Risk attitudes can vary widely depending on the investor's size, capital

base, investment mandate, and firm's experience, as well as the specific dynamics of the Australian real estate market.

- Willingness to Take Development Risk

One of the primary risks in BTR investments is the development phase, which includes land acquisition, planning, construction, and leasing. Firms differ in their appetite for this kind of risk. Some, like R2, express an apparent willingness to "take development risk, we will take leasing risk" because they anticipate high returns from being involved in the entire development cycle. This approach is more common among larger institutional investors or firms with substantial experience in real estate development, who have the financial resources to absorb potential setbacks and the expertise to navigate regulatory and market challenges.

R5 also highlights that development risk is manageable if there is confidence in the long-term demand for BTR assets. They note that larger firms with deep capital bases and international experience are more inclined to engage in these higher-risk projects because they are better equipped to handle the complexities associated with development. As R1 puts it, "You need the right level of government policy to support any investment", suggesting that a favourable policy environment can mitigate some development risks and encourage more significant investment.

- Aversion to Development Risk Among Smaller Investors

In contrast, many smaller firms and institutional investors exhibit a more cautious approach. R11 emphasises that "Australian superfunds tend not to like development risk", reflecting a preference for investing in stabilized, income-producing assets rather than engaging in new developments. This risk-averse stance is driven by the need to deliver consistent and predictable returns for their members, particularly in uncertain economic conditions. Smaller firms, with more limited capital resources, also tend to avoid taking on the entire development cycle, preferring to acquire completed BTR assets once they are operational and generating cash flow. R3 notes that "investors are being asked to take on very much development risk to build this stock because it does not exist anywhere else", highlighting the challenges faced by smaller players in the market.

Development risk discourages foreign and domestic institutional capital from investing in the Australian BTR market. R10 states that "domestic superfunds will start to invest if there is no development risk" and recommends that local developers devise innovative mechanisms to take away such risks—for example, buying the land and receiving development approval for BTR before offering this package to investors. This bridges the land acquisition and construction gap, offering very low development risk—for example, offering the approved land one month before construction.

- Risk Perception Due to Macroeconomic Uncertainty

The macroeconomic environment in Australia has introduced additional risks for BTR investments, particularly rising interest rates and inflationary pressures on construction costs. As R8 notes, "Investors are becoming more and more global", and they are benchmarking Australian BTR opportunities against more mature markets like the US, where yields may be more attractive. Firms must factor in construction cost inflation and interest rate increases, which can significantly impact the viability of BTR projects. For many firms, this has increased their risk perception and tempered their appetite for new developments, particularly as borrowing costs rise.

R3 also discusses how fluctuating interest rates have affected investment decision-making, stating that "the interest rate environment has forced us to reconsider certain projects due to tighter margins". For firms already involved in BTR, these changes necessitate a more conservative approach to financing and cost management. R17 echoes this

sentiment, stating that "in the current environment, it does not actually stack up anymore" for some projects due to the increased cost of debt.

- Market-Specific Risks

The Australian BTR market presents several unique risks that firms must navigate. These include planning and regulatory hurdles, particularly in cities like Sydney, where obtaining approvals for residential projects can be notoriously slow and challenging. R16 notes that planning regimes, particularly in Sydney, involve long planning processes that can extend project timelines and increase costs. The lack of standardised regulations and consistent definitions of affordable housing across different jurisdictions further adds to the complexity and uncertainty.

The nascent nature of the BTR market in Australia means that liquidity remains a concern for some investors. R10 remarks that "the liquidity of BTR assets is still being tested" in Australia, making it difficult for firms to predict exit strategies or anticipate the resale value of BTR developments. This contrasts with more established BTR markets, such as the US, where there is a larger pool of institutional buyers and more robust secondary markets for rental properties. The lack of a mature secondary market can impact investor confidence and limit the attractiveness of BTR as an asset class.

Investors perceive inherent risk in the current macroeconomic environment. The interviews highlighted the significant impact of rising interest rates on BTR investment decisions. Higher interest rates translate to increased borrowing costs, which can erode profit margins and affect the feasibility of new developments. R4 notes that hurdle rates have risen in response to rising interest rates, making it more challenging for BTR projects to meet the required return thresholds. This sentiment is echoed by R17, who states that "in the current environment, it does not stack up anymore" for some projects due to the increased cost of debt. The sensitivity of BTR investments to interest rate fluctuations underscores the importance of careful financial modelling and risk management in this sector.

Inflation presents a double-edged sword for BTR investors. On the one hand, rising construction costs can erode profit margins and increase development risks. On the other hand, inflation can also benefit BTR investors by increasing the value of their assets and rental income over time. R6 acknowledges the potential for rental growth in the BTR sector but also notes the need for caution in managing rental escalations to maintain affordability and social license to operate. The ability to pass on some of the inflationary pressures to tenants through rental increases can help protect investor returns. Still, it must be balanced against potential tenant backlash and regulatory constraints.

The cyclical nature of the property market, coupled with broader economic fluctuations, can create uncertainty and impact investor sentiment. During economic downturns, demand for rental housing may decline, affecting occupancy rates and rental income. Conversely, periods of economic growth can lead to increased demand and rental growth. R1 highlights the importance of considering macroeconomic factors in investment decisions, stating that "you are at the start of a new real estate cycle" and anticipating changes in interest rates and market conditions. The ability to navigate economic cycles and adapt investment strategies is crucial for long-term success in the BTR sector.

In response to these market risks, investors may adjust their BTR investment strategies. This could involve shifting their focus towards stabilised assets with predictable cash flows during periods of uncertainty or increasing their allocation to development projects when market conditions are favourable. R1 discusses the potential for shifting capital-raising strategies depending on market conditions, demonstrating the importance of adaptability in navigating the evolving BTR landscape. Investors may also explore innovative financing structures or partnerships to mitigate risks and enhance returns in a volatile market environment.

- Risk-Adjusted Return Expectations

Return expectations are closely tied to the level of risk that firms are willing to take on. As discussed by R2, some firms with higher risk appetites expect higher returns in exchange for the uncertainties involved in development and leasing. In such cases, firms target double-digit internal rates of return (IRRs) to justify the risks involved. For instance, R6 mentions targeting an IRR of 12–15% for the development phase of BTR projects.

The thematic analysis also highlights the complexity of investment strategies within the BTR sector. Although BTR is perceived as offering stable and secure cash flows, particularly in comparison to more volatile sectors like retail and office, investors have had to adjust their return expectations. Given the nascent stage of the market and the rising cost of construction and interest rates, investors are accepting lower hurdle rates for BTR projects compared to other real estate asset classes.

Investors are typically targeting yields on cost of around 5.5% to 6.5%, which is lower than what might be expected in more established asset classes like office, retail, and industrial real estate (which range between 7 and 9%). However, the stability of rental income and the potential for long-term growth are seen as factors compensating for the lower initial returns. In particular, the ability to adjust rents annually in response to inflation provides BTR with a built-in inflation hedge, making it an attractive asset for long-term institutional investors.

While the returns for BTR are more modest, as R19 explains, the sector's resilience and potential for steady rental income make it an appealing option for investors seeking long-term stability in an uncertain economic environment.

Australian superfunds have invested in BTR internationally but show a minimal appetite for investing in the asset class within Australia. There are many reasons for this reluctance, but a more resounding reason is the lack of a track record of BTR asset performance in Australia. Multifamily investments are more established in the US and Canada. These countries have a more excellent backbone of institutional capital, transactions, and government support, and a record spanning several decades. Historical performance data on risk and asset class return within an institutional portfolio are available. Few Australian superfunds want to lead in investing in BTR in Australia; the rest see it as a gamble. R17 notes that their firm is comfortable with lower returns in the US multifamily market due to the perceived lower risk and established track record of the BTR asset.

- ESG Considerations and Risk Management

Environmental, social, and governance (ESG) considerations are becoming increasingly important in shaping the risk attitudes of firms investing in BTR. R6 emphasises the role of ESG in managing long-term risks, particularly sustainability and energy efficiency. Firms prioritising ESG factors tend to adopt a more conservative approach to risk, ensuring that their developments meet high environmental standards and are socially responsible. This may involve additional upfront costs, but it also helps mitigate long-term risks related to regulatory compliance, tenant demand, and operational efficiency.

Firms with strong ESG commitments are also more likely to benefit from government incentives and funding opportunities, which can offset some of the risks associated with BTR developments. R1 highlights the importance of ESG in meeting investor and council requirements, focusing on electrification, energy efficiency, and reducing embodied carbon.

The evolving nature of the BTR market, coupled with ongoing policy discussions and the increasing importance of ESG considerations, suggests that risk attitudes in this sector will continue to evolve. As the market matures and more evidence of successful BTR projects emerges, investor confidence will likely grow, leading to a broader range of risk appetites and investment strategies. Understanding these diverse risk attitudes and

their underlying drivers is crucial for navigating the complexities of the Australian BTR landscape and fostering its continued growth and development.

Over a short period, returns and ESG scores are looked at simultaneously in investment decision-making. Sustainability vis-à-vis ESG has become an important metric. R4 explains the prevalence of ESG credentials in global investment markets in Europe, America, and Asia Pacific, stating further that the nitty gritty differs from fund to fund and based on the developments in the respective local markets. R5 notes that institutional investors do not treat ESG requirements for BTR differently from other property assets. However, closely related assets, like build-to-sell (BTS) housing, are not given the same level of attention. BTS investors are interested in getting the projects up at the cheapest cost and then selling them to individual investors/owners. BTR is compared to grade-A office properties, as they both offer a different level of quality and management.

ESG investment in BTR is exposited from three main standpoints. The first and most discussed justification is the need for high-quality rental dwellings. All respondents, R1–R20, state the need to increase high-quality rental housing. ESG investments are included in the conversations on quality. Within a typical property portfolio, BTR is favourably positioned to attain high ESG investment scores because it is primarily brand-new and often integrates these goals at the planning stage. This is apart from value-added BTR, which is a rare feature in the Australian market. Secondly, there are calls to translate sustainability goals into standards and ratings against which projects would be measured. R1 explains how the local government councils enforce specific standards. They expect property portfolios to include good heating and cooling, solar panels, and networks embedded with green-generated electricity. The third trend is the requirement of BTR investors to have ESG components as a measure of social responsibility and acceptability. Institutional investors are beginning to pay more attention to ESG investment scores than in previous years. R6, a BTR investor, offers similar thoughts as R4 and R5 on how critical ESG has become for investors, reinforcing that some of their investors have developed ESG policies that promote a carbon-neutral approach to development and a gradual transition to green active transport.

4.2.4. Control Variables—Firm Characteristics and Investor Experience

Firms investing in BTR projects in Australia possess several characteristics that define their approach to the sector. These characteristics significantly influence their investment strategies, risk management, and operational choices, thereby shaping the overall development of the BTR market. This section discusses the key attributes of firms involved in BTR, expanding on aspects such as size, capital base, organisational structure, international experience, and risk appetite.

- Size and Capital Base

The size and capital base of firms are critical in determining their capacity to engage in BTR investments. More prominent institutional investors, such as superannuation funds and global investment managers, typically have substantial financial resources, enabling them to pursue larger-scale BTR projects and absorb associated risks. R2 highlights their firm's size, mentioning, "Globally now I think (we have) around 120 billion under management, (and) locally in APAC (we have) around 3 billion". This vast capital base gives firms a competitive edge in the capital-intensive BTR sector.

R8 also notes that large funds with access to substantial capital are advantageous in BTR projects, as they can fund more extended development periods and absorb the higher costs of constructing rental assets. These large firms are generally more resilient to market fluctuations, allowing them to undertake projects with extended payback periods. As R17 says, "We are fortunate to have ongoing (contributing) member growth. So even if our

(percentage) allocations (to property asset classes) may move down, generally speaking, there are still opportunities to deploy".

In contrast, smaller firms often face capital constraints and may find it challenging to scale up or diversify within the BTR sector. While nimble, smaller developers must adopt innovative strategies or partnerships to enter the BTR market, R1, for example, focuses on "midscale built to rent" projects ranging from 150 to 300 units, recognising the financial constraints associated with larger developments.

- Investment Focus and Diversification

Firms in the BTR sector often vary in their investment mandates, influencing how they allocate capital across real estate asset classes. Some firms have a broad mandate to invest across various asset classes, while others may have a more specialised focus on specific sectors. The investment mandate can influence the firm's risk appetite, its return expectations, and the types of BTR projects it pursues. R8 notes that their investment fund, for instance, has historically focused on office, retail, and industrial investments, with limited exposure to BTR due to perceived challenges in achieving desired returns.

R3 elaborates on the importance of a diverse investment portfolio, noting that their firm balances exposure between BTR, commercial real estate, and logistics sectors. This diversification helps mitigate risk and ensures balanced returns, especially as BTR is still an emerging sector in Australia. R6 further emphasises this point, stating that their firm's strategy involves a "significant re-weight" towards the living sector, including BTR, to enhance portfolio resilience and capitalise on the sector's growth potential.

- Risk Appetite and Return Expectations

Risk appetite plays a crucial role in determining how firms approach BTR investments. Some institutional investors are more comfortable with development risk, seeking higher returns through the creation of new BTR assets. R2 discusses the firm's willingness to "take development risk, (and) we will take leasing risk", acknowledging that "these risks are balanced by a desire for defensive assets, (and) defensive structures".

In contrast, some firms are more risk-averse and prefer investing in stabilised assets. R6 prefers projects with lower development risk, emphasising that their firm focuses on assets demonstrating stable cash flows, such as existing rental properties. This is particularly important in the current market environment, where rising interest rates and construction costs have made new developments more uncertain. R17 also notes that "the challenge is just returns", highlighting the need for BTR projects to offer competitive risk-adjusted returns to attract investment.

Return expectations also vary, with some firms setting high thresholds for BTR investments. R11 highlights that Australian superfunds, in particular, tend to avoid development risks and instead focus on core, stabilised investments. This conservative approach is driven by the need to achieve predictable returns for their members. R2 also mentions that their firm has accepted lower hurdle rates for BTR than other sectors, recognising the potential for long-term growth and stability in the industry.

- Organisational Structure

Firms investing in BTR projects typically have specialised teams or subsidiaries to manage this asset class. The complexity of BTR developments, from acquisition and construction to leasing and management, requires a comprehensive and integrated approach. R1 describes their firm's structure as having an "acquisitions team, development team, a property management team that's doing leasing, maintenance, operating the actual assets and then a funds management team", emphasising the need for a holistic approach to BTR.

R7 provides similar insights, noting that their firm had to build up internal expertise across development and operations, especially as they expanded into BTR from other real

estate sectors. This structure ensures that firms can effectively manage the lifecycle of BTR projects, maintaining high levels of control over operational outcomes, which are crucial for long-term success. R6 further emphasises the importance of an integrated model, stating that their firm is a "completely integrated model" that provides a competitive advantage in accessing the BTR market.

- International Experience

International experience is a common trait among firms investing in the Australian BTR market. Many of these firms have gained valuable insights from more mature BTR markets, such as the UK, Canada, and the US, and are now applying this knowledge to the Australian context. R2 mentions that their firm has a large "pipeline in the UK" and has worked on projects in Canada, which has informed their strategies in Australia.

R13 also emphasises the importance of international benchmarks, particularly the US multifamily housing market, which serves as a model for what the BTR sector in Australia could eventually become. Firms with this international expertise are often better equipped to navigate the complexities of the nascent Australian BTR market and understand the long-term potential of the sector. As R3 notes, "A lot of the capital that's been raised has been for the premium product", reflecting the influence of international models on the Australian market.

- Operational Capabilities

Firms investing in BTR often possess significant operational capabilities, whether in-house or through partnerships. Managing rental properties efficiently is critical to the success of BTR projects, particularly as operational costs and tenant satisfaction directly impact returns. R1 highlights their firm's capability as a "build-to-rent developer, owner, and operator", demonstrating the importance of having integrated operations.

R10 echoes this sentiment, noting that firms with experience in property management and leasing have a significant advantage, as they can maintain occupancy levels and manage properties to ensure long-term profitability. R6 also emphasises the operational intensity of the BTR sector, stating that their firm had to make "a significant investment in the operating platform that performs all of the management services".

- Adaptability and Innovation

Given the challenges of entering the Australian BTR market, firms need to be adaptable and innovative. R1 discusses the plausibility of using modular construction to address rising construction costs and accelerate project timelines. Similarly, R12 mentions that their firm is exploring new financing structures and partnerships to manage the capital-intensive nature of BTR investments. Firms that innovate in construction, financing, and tenant services will likely succeed in this evolving market. R1 also highlights the importance of flexibility in amenity design to adapt to changing tenant needs and preferences.

The characteristics of firms involved in BTR investments in Australia are diverse, ranging from large institutional investors with a significant capital base to more specialised developers. The most successful firms often exhibit a combination of substantial financial resources, international experience, integrated operational capabilities, and an innovative approach to addressing market challenges. These characteristics shape their investment strategies, risk management practices, and ability to navigate the nascent and evolving Australian BTR sector.

5. Discussions

The BTR sector in Australia is at an intriguing juncture, underscored by the significant potential for growth, but currently playing a limited role in the rental housing market.

Investor actions and behaviour are crucial in how the asset class matures and realises the anticipated private and public policy objectives. The research draws on qualitative interviews with key stakeholders in the sector to understand investor behaviour relative to this nascent asset engulfed with several challenges. Our findings show that the current investment climate for BTR is characteristically uncertain. Notwithstanding, the market is dominated by more foreign capital than local players, suggesting that market conditions are perceived differently. As Ref. [52] notes, "If one is concerned with the effect of uncertainty on a firm's behaviour, one is concerned with 'subjective' uncertainty— with the state of mind of the entrepreneur—and with subjective estimates of the risk of disappointment". In other words, subjective perceptions of the environment are more important than objective characteristics if we want to influence firm behaviour. This study examined how this environment is perceived and influences investor behaviour.

In this section, we highlight three essential findings from the study in light of existing literature. The first is the contrast between decision-making based on logic and intuition. Our findings show that the respondents, whether overseas or Australian-based, are generally optimistic about BTR assets. The a priori belief is that the BTR sector could play a crucial role as a stabilising asset class for investment portfolios of institutional investors in Australia, like its role in the US. This sentiment is echoed through the frequent use of terms like "stability" and "resilience", positioning BTR as a potentially dependable real estate asset. The demand-side drivers of rental housing are overall viewed positively.

Despite the positive beliefs, the Australian respondents, especially superfunds, are reluctant to committing to the asset—although some have invested overseas. The tendency is to "wait and see" regarding more transactional evidence to support their intuition. This is arguably the "logic" aspect of decision-making that Ref. [24] emphasised. Overseas investors already have experienced the asset and formed their opinions based on their local evidence. The Australian market is expected to evolve like the UK and US markets. Albeit recognised in the finance literature as contributing to inefficient investment decisions by fund managers [10], we did not observe the use of pro-BTR heuristics by local players. Every investment decision went through a very elaborate analysis. However, it is reasonable that the local actors' concerns may be excuses to delay exposure to the asset for fear of plausible underperformance. As R13 points out, the absence of a benchmark is an excuse for not investing rather than a real challenge: "If the asset was proven, would the absence of the benchmark be a deterrent?". This finding suggests that players may be overly cautious when allocating to the sector.

The second is what constitutes a rational outcome. Neoclassical firm theory equates this to profit maximisation. From this perspective, investors should be seeking opportunities that maximise return. Our findings show that the operationalisation of that objective differs in the context of uncertainty. No action may be a rational choice. The probability of failure may outweigh the likelihood of success. Indeed, it can be argued that local investors, in the absence of robust transactional data, are loss averse. The consequences of any miscalculations could affect the fund's reputation and potentially result in the loss of contributors' confidence because of APRA regulations that could penalise consistent underperformance. In contrast, overseas capital is not limited by such rules. The limited traction among Australian funds may thus be argued to be loss aversion [7].

The third is that investor experience and firm characteristics could moderate the likelihood of exposure to BTR assets. Notably, overseas investors already have experienced BTR or multifamily housing. Even among Australian players, R1, for example, already had overseas experience before their interest in and allocations to BTR in Australia. What this suggests is that the same market conditions can be viewed differently by different actors. The interviews also revealed varying perspectives based on stakeholder roles—

while developers are optimistic about growth potential, investors remain cautious about the returns considering current conditions.

Finally, sustainability and ESG considerations have become significant themes within the BTR sector, reflecting the growing awareness among institutional investors of the importance of environmental and social governance. The research reaffirms that while there is a clear recognition of the value of ESG compliance, integrating these requirements into BTR development has been challenging due to the high upfront costs. However, there are also opportunities for BTR to contribute positively to urban regeneration and sustainable development, as evidenced by examples from the UK. The respondents emphasise the importance of embedding sustainability into the core design of BTR projects, from energy-efficient building materials to community-focused amenities, to ensure alignment with broader institutional mandates on ESG but also as a risk management strategy against potential early obsolescence. Unlike the ESG from a financial performance perspective, as is often reported in the literature [53,54], our study also shows its increasing integration from a disaster prevention perspective.

Policy Environment for the BTR Sector in Australia

This section outlines the policy implications of our findings. "Although growth has been slow, BTR in Australia has the potential to become a stable investment with risk-adjusted returns and could form a significant part of Australia's residential asset landscape, provided key issues like tax reform and investor education are tackled" (R19).

Using the conceptual framework as the basis and drawing on insights from the discussions above, lessons for a supportive policy environment for the BTR sector can be identified. Key elements of a supportive policy environment are presented below:

- Innovative Financing Models

One of the most pressing implications for the BTR sector is the need for innovative financing solutions that can reduce development costs and mitigate investor risks. The US model of government-backed long-term debt for multifamily housing could be adapted for the Australian market. Government-supported agencies like Fannie Mae and Freddie Mac have enabled access to fixed-rate, long-term debt in the US, which offers stability to investors. As R19 mentions, "The lack of long-term interest rate lock-in options, which are available in the US, makes BTR less appealing to investors in Australia". Adapting a model that could provide long-term fixed-rate debt in Australia could significantly reduce financing costs, provide long-term liquidity, and make BTR projects more viable.

Through the development of BTR-specific real estate investment trusts (REITs) or other equity investment vehicles, equity instruments could also attract a broader range of investors, including retail investors. These instruments would provide liquidity to the BTR sector, which is perceived as illiquid compared to more mature real estate asset classes. As seen in the US, the securitisation of rental income can be another way to attract capital by bundling rental income streams into tradable securities.

- Planning and Development Innovations

Australia's slow and often complex planning approval processes represent a significant barrier to scaling BTR developments. BTR-specific planning reforms, fast-track approval processes, and streamlined approvals can accelerate project timelines and reduce development-related risks. Moreover, providing zoning-density bonuses for BTR developments that include affordable housing or meet specific ESG standards could be an additional incentive. There is also potential for reducing construction costs and timelines using innovative methods such as modular and prefabricated construction. These techniques have been successfully applied in several markets to lower development costs

while maintaining quality. R1 agrees that such methods could help Australia address high construction costs and mitigate delays caused by labour shortages and supply chain issues.

- Tax and Regulatory Reforms

Policymakers need to address the regulatory and tax hurdles hindering BTR's growth. Aligning the GST and MIT rate for BTR with other real estate asset classes, such as industrial or office, would level the playing field and attract more institutional capital. Further, providing tax credits or exemptions for affordable housing units or ESG-compliant projects could incentivise more developers to enter the BTR market.

- Encourage Regional BTR Growth

Policymakers and investors should consider expanding BTR developments into secondary cities and regional areas, like the approach taken in the US, in regions outside of the major urban centres, such as Canberra, Adelaide, and regional Queensland. These areas could offer attractive growth opportunities due to lower land costs and increasing migration to lifestyle regions. Expanding BTR to these areas could alleviate housing pressure in Australia's largest cities and create a more balanced housing market.

6. Conclusions

This study aimed to understand the behaviour of institutional investors regarding BTR investments in Australia. It provides insights into the factors influencing institutional investment in BTR and potential strategies to enhance capital allocation to this emerging sector. To achieve this, interviews were conducted with various senior stakeholders involved in BTR assets in Australia, the US, and the UK. Our findings reveal nuances in how institutional investors, whether foreign or local, perceive and act in the market. Several pre-existing beliefs were identified and examined, reflecting how they influence investment behaviour concerning BTR assets in Australia. While acknowledging several market constraints, investors perceive these constraints differently. The comparative analysis between the Australian market and more mature markets yielded critical insights that can help shape the future of the BTR sector in Australia. In these more established markets, dedicated government support, a favourable regulatory environment, and access to long-term debt have enabled the BTR model to thrive. These structural components have facilitated the consistent expansion of BTR across different population segments, fostering market stability and investor confidence. We outline the policy implications of our findings, emphasising the necessity to facilitate the broad evolution of the asset to address wider rental markets and public objectives.

A key limitation of the study is the scarcity of high-level stakeholders due to the emerging nature of the asset class, which restricted the sample size. Consequently, we had to deliberately anonymise the responses further to minimise the risks of re-identification. The paper employed direct quotes sparingly compared to a typical qualitative study.

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Abbreviations

The following abbreviations are used in this manuscript:

APRA	Australian Prudential Regulation Authority
BTR	Build-to-rent
BTS	Build-to-sell
ESG	Environment, social and governance
IRR	Internal rate of return
HAFF	Housing Australia Future Fund
MIT	Managed investment trust
MSCI	Morgan Stanley Capital International
PERE	Private equity real estate
REIT	Real estate investment trust

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