

# The operation of the PRS: International lessons

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# Size of PRS

<i>Country</i>	<i>%</i>
Germany	59
USA	32
Australia	25
France	22
Belgium	18.5
Norway	17
Sweden	17
Scotland	15
Netherlands	10
Spain	7

# Change since early 80s

<i>Country</i>	<i>%</i>
Australia	Growing
Scotland	Growing
Germany	About the same
USA	About the same
Belgium	Shrinking
Finland	Shrinking
France	Shrinking*
Netherlands	Shrinking
Norway	Shrinking
Spain	Shrinking
Switzerland	Shrinking

\* but growing since 2000

# Landlords

(for-profit and non-profit, including pension funds)

<i>Country</i>	<i>Individuals/couples (professionals or sideline)</i>	<i>Institutions</i>	<i>Other</i>
Australia	Almost all		
France	95.1	3.3	1.6
Ireland	90		
Belgium	86	14	
Spain	86	6.7	7.2
Norway	78	22	
USA	78	13	9
UK	75	25	
Finland	60	37	3
Germany	61	17	22
Netherlands	44	37	19
Sweden	Few	Most	
Austria	Few	Most	

\*

# Who lives in the PRS?

- In most countries they are
  - Young or old
  - Low-income
  - Singles or single parents

(Main exception: Switzerland)
- The mobile
  - Young professionals
  - Students
  - High-income corporate transfers
- Those who can't afford owner-occupation
  - Housing benefit recipients
  - Migrants
  - Those who can't afford mortgage deposits

# Who doesn't live in the PRS?

- Middle- and upper-income families almost always own their homes
- Very few of the elderly rent privately in the UK (not the case in some other countries)

# Tax treatment

<i>Country</i>	<i>Lower tax on rental income</i>	<i>Mortgage interest deductible</i>	<i>Costs deductible</i>	<i>Depreciation allowance</i>	<i>Rental losses offset against other types of income</i>
Australia	N	Y	Y	Y	Y
Belgium	Y	Y	Y	Y	
Finland	Y	N	Y	Y	Y
France	N	Y	Y	N	Y
Germany	N	Y	Y	Y	Y
Netherlands					
business	N	Y	Y	Y	Y
Not business	N	N	N	N	N
Norway	N	Y	Y	N	Y
Spain	Y	Y	Y	N	Y
Sweden	N	Y		Y	N
Switzerland	N	Y	Y	Y	Y
USA	N	Y	Y	Y	Y
UK	N*	Y	Y	N	N

\*except for Rent a Room allowance

# Financing for landlords

## UK

- 15% of outstanding UK mortgages by value in 1Q15 were buy-to let (and 17% of new mortgages)
- No current gov't programmes to encourage investment.

## Elsewhere

- Special mortgages for residential landlords not common.
- Many countries offer grants or tax incentives, almost always linked to affordable rents or energy saving.



# Physical/legal form of rented stock

## Scotland

Landlords own individual units which are not tenure-specific

## Elsewhere

*Denmark:* Landlords own entire blocks which can only be sold as a whole to co-operatives

*USA:* Restrictions on change of tenure ('condo conversions') in some urban markets

# Rent regulation

<i>Country</i>	<i>Rent regulation</i>		
	<i>on first renting</i>	<i>on new tenant</i>	<i>of rent rises on existing leases</i>
Switzerland	Y	Y	Y
Germany	Sometimes	Sometimes	Y
Netherlands	Most	Most	Y
Spain	N	Y	Y
Belgium	N	N	Y
Finland	N	N	Y
France	N	N	Y
Norway	N	N	Y
Sweden	Rents based on rents for similar units owned by MHCs		
Australia	N	N	N
USA*	N	N	N
Scotland	N	N	N

# Leases

<i>Country</i>	<i>Typical lease period</i>	<i>Security beyond lease period</i>
Germany	Indefinite	High
Sweden	Indefinite	High
Switzerland	Indefinite	High
Netherlands	Indefinite	High
Spain	5 years	Low
Norway	3 years or indefinite	Low
France	3 years	Medium
Belgium	1–3 years	Low
Finland	One year	Medium
USA	1 year	Low
Australia	6 months	Low
Scotland	6 months / 1 year	Low

# Subsidies

Country	Soft loans	Refurbishment subsidies	Housing allowance for low-income tenants
France	Y*	Y	Y
Germany	Y	Y*	Y
Finland	Y	N	Y
Spain	N	Y	Y
Netherlands	N	Some local	Y
Belgium	N	N	Y
Norway	N	N	Y
Sweden	N	N	N
Switzerland	N	N	N
USA	N	N	Some
Scotland	N	Some local	Y

\*for energy saving improvements only

# The German example

## Terms and conditions of renting

- Tenants get indefinite leases
- Landlords can evict only for reasons set out in the law; notice period 3 – 9 months depending on how long tenancy has lasted
- If the landlord sells, the lease binds the new owner
- Initial rent can be freely set, but not more than 20-50% above average rents in the local area
- Rent can go up every 15 months by average in the area

# The German example

## The rental offer

- Most PRS units are in rental-only blocks in single ownership
- Tenants stay for long time (average 11 years)
- Landlords invest with long time horizon
- Landlords provide minimal facilities beyond the dwelling itself: usually no furniture or kitchens

# The German example

## Economic environment

- Over last 30 years real house prices fell in most areas
- General inflation also very low so costs predictable—though standards have risen e.g. re energy efficiency
- In some cities (Berlin, Hamburg, Munich) rents are rising rapidly and market very tight  
→ new controls on initial rents
- Owner-occupation and house prices in these areas also now increasing

# Other international experience

**France** Rent increases within lease period controlled; standard lease 1 to 3 years. 2012: rent increases limited in 38 high-demand areas. 2013: ALUR law if implemented will lead to tougher restrictions, especially in Paris.

**Ireland** Rents largely decontrolled in 1982; can be changed only once/year, and cannot exceed market. Tenancies last 4 years. Rents rising; pressure to introduce German style controls.

**Denmark** Most PRS rents controlled under one of two systems—exception is new-build. Indefinite tenure. Rents below notional market levels; excess demand.



# Other international experience

**Netherlands** Rents for most of the PRS set under 'points' system; sector shrinking.

**NYC** Rent stabilisation applies to about 50% of PRS. City Hall sets allowable % rent increases, mandatory lease renewals. Stabilised rents well below market in Manhattan; differences smaller in other boroughs. Higher-rent units can be brought out of regulation under 'luxury decontrol'. Tenants stay longer but are mainly middle income.

**SFO** Initial rents freely set; rent increases on apartments (but not houses) set by rent board—generally less than 2% p.a. Landlords selling to developers.

# What about Scotland?

## Findings from our research

- Some landlords with longer time horizons value income certainty – and not just institutions and housing associations.
- Some tenants want longer tenancies and transparent rent rises; more would clearly benefit if these were more readily available.
- **However** there are many landlords and tenants who are not interested, and
- Landlords want stability – and may worry that increased regulation will be the first step to stronger controls.

## (2)

- Deregulation was not generally followed by increase in supply— UK the exception
- Many factors affect the role and scale of private renting in any country, including
  - Built form
  - Availability of finance for landlords and developers
  - Returns on alternative investments
  - Treatment of other housing tenures
  - Culture

# Learning from abroad:

## Correcting some assumptions

1. Institutional investment does **not** dominate private rented sectors in other countries.
2. Regulation is **not** inherently associated with smaller poorly operating private rented sectors.
3. Private renting is **not** just for the young and mobile but can be a tenure of choice for older, better off, more stable households. Long-term secure leases can help.

# Learning from abroad:

## Positive lessons

1. Funding: private renting needs a range of investors.
2. Regulation: well defined frameworks are not incompatible with large, stable sectors.
3. Private renting can suit families and older households, not just the young/mobile. Long-term secure leases may help.

## (2)

- Regulation not necessarily good for tenants/bad for landlords:
  - Can address market failures for both tenants and landlords, while reducing risks for both
  - Or can restrict returns to landlords and result in lower levels of supply and access to rental housing for tenants
- Stability more important than degree of regulation
- *Context is important*--beware of policy 'transplants'!