

Structure, Funding and Regulation of the Rental Market in Germany



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Stylized Facts about the German Housing Market (I)

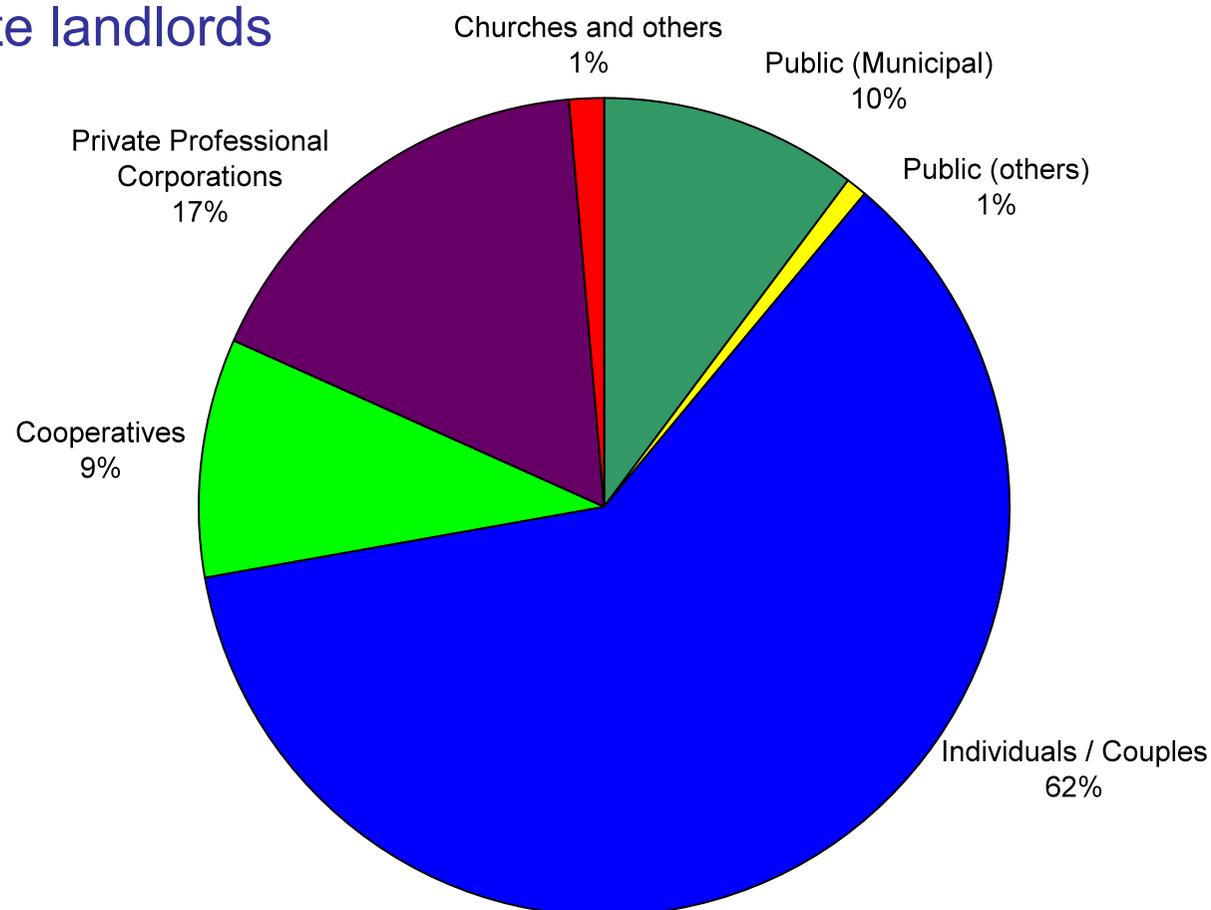
- House prices have not been increasing over the last 15 years in nominal terms and even decreasing in real values.
- House price volatility is very low compared to other OECD countries.
- Homeownership rate is low and stable: around 40 % – 43 % – lowest rate in Europe beside Switzerland. Thus, the rental sector has a market share of 60 %.
- Size of the German housing market:
 - Total housing stock: 39,617,000 units
 - rental sector: 23,724,000 units
 - owner-occupied: 15,893,000 units

Stylized Facts about the German Housing Market (II)

- Low loan-to-value ratios and typically long-term loans (10y) with fixed interest rates and at least 1 % - 2 % amortisation.
- Mortgage covered bonds (German Pfandbrief) are a popular and stable refinancing product – (residential) mortgage backed securities are negligible.
- Even if the population is shrinking in Germany, there is still an increasing number of households.
- The German housing market during the financial crisis:
 - Stable housing market and housing finance system (German banks suffer from their investments in the US housing market)
 - Increasing demand for residential real estate as an investment among institutional investors and individuals in 2010 and 2011

Structure of the Rental Sector (I)

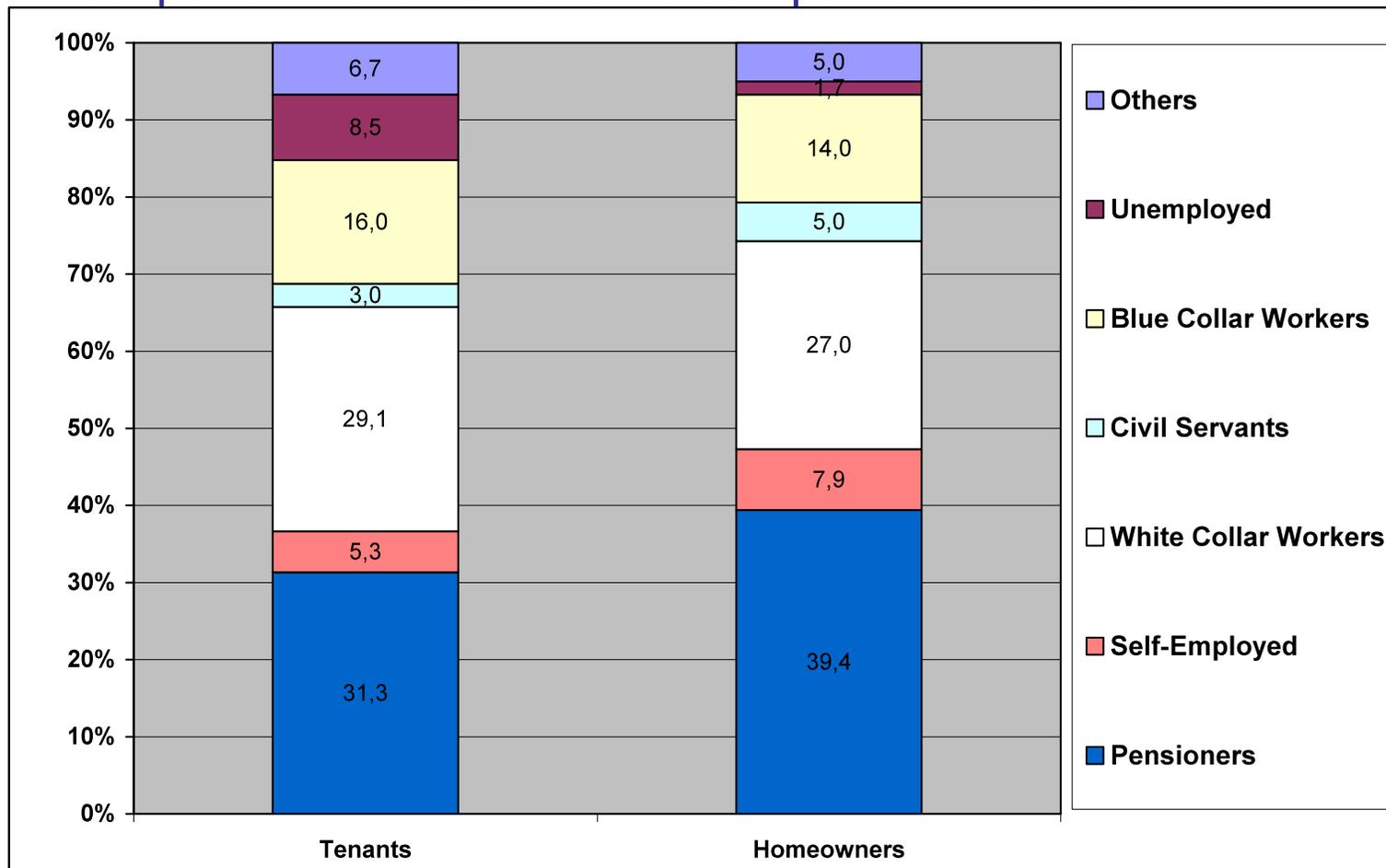
- 62 per cent of the total rental sector (no. of flats) are owned by small private landlords



Source: GdW 2011, Data refer to 2006

Structure of the Rental Sector (II)

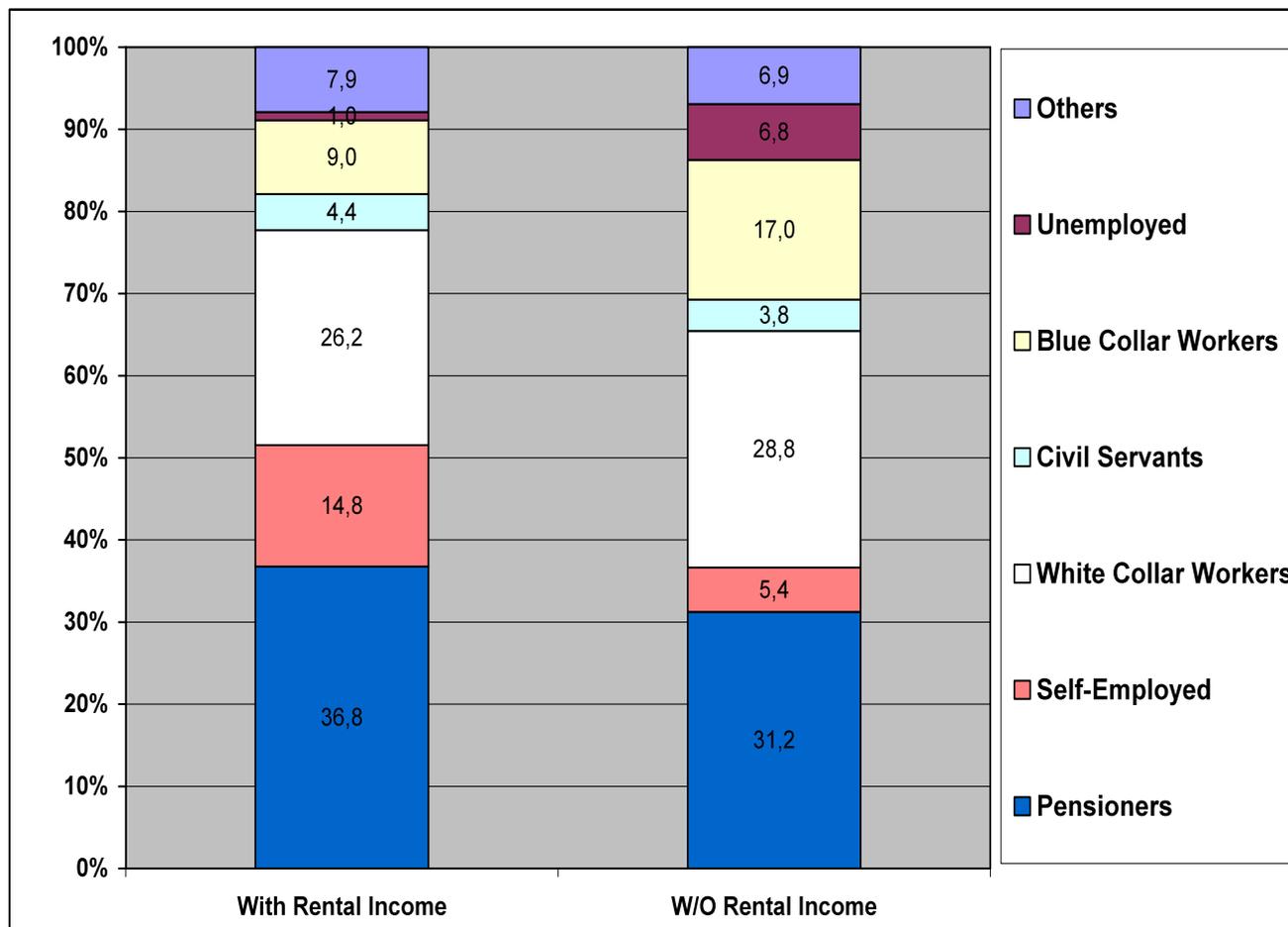
- Occupation status of tenants compared to homeowners



Source: GSOEP, Wave 2009, own calculations

Structure of the Rental Sector (III)

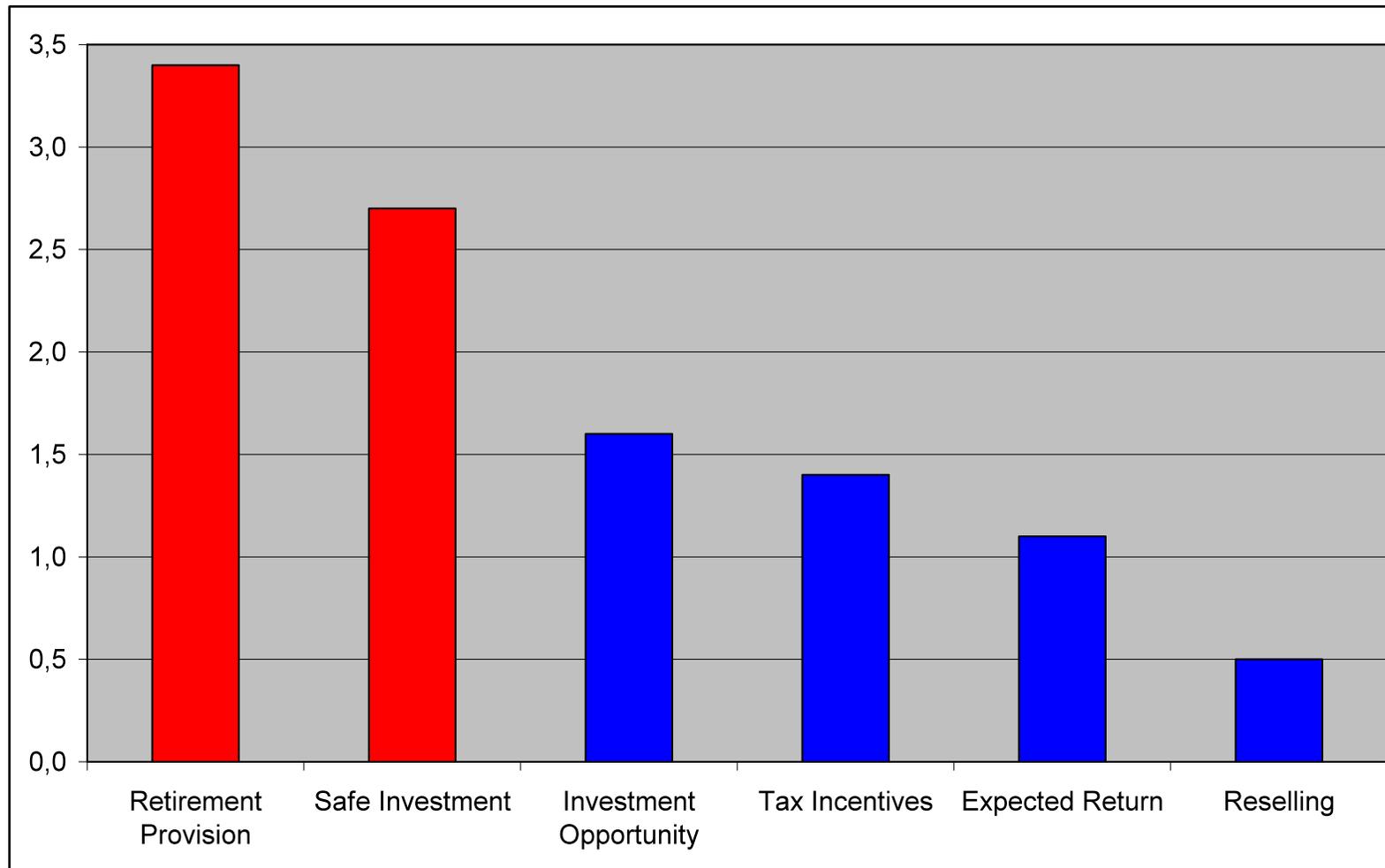
- Social structure of landlords differs strongly from average



	With rental income	w./o. rental income
Disposable Income (Mean, Euro)	55,158	27,775
Age (Head of Household, Years)	59.1	53.8

Source: GSOEP, Wave 2009, own calculations

Investment Motives of Private Landlords



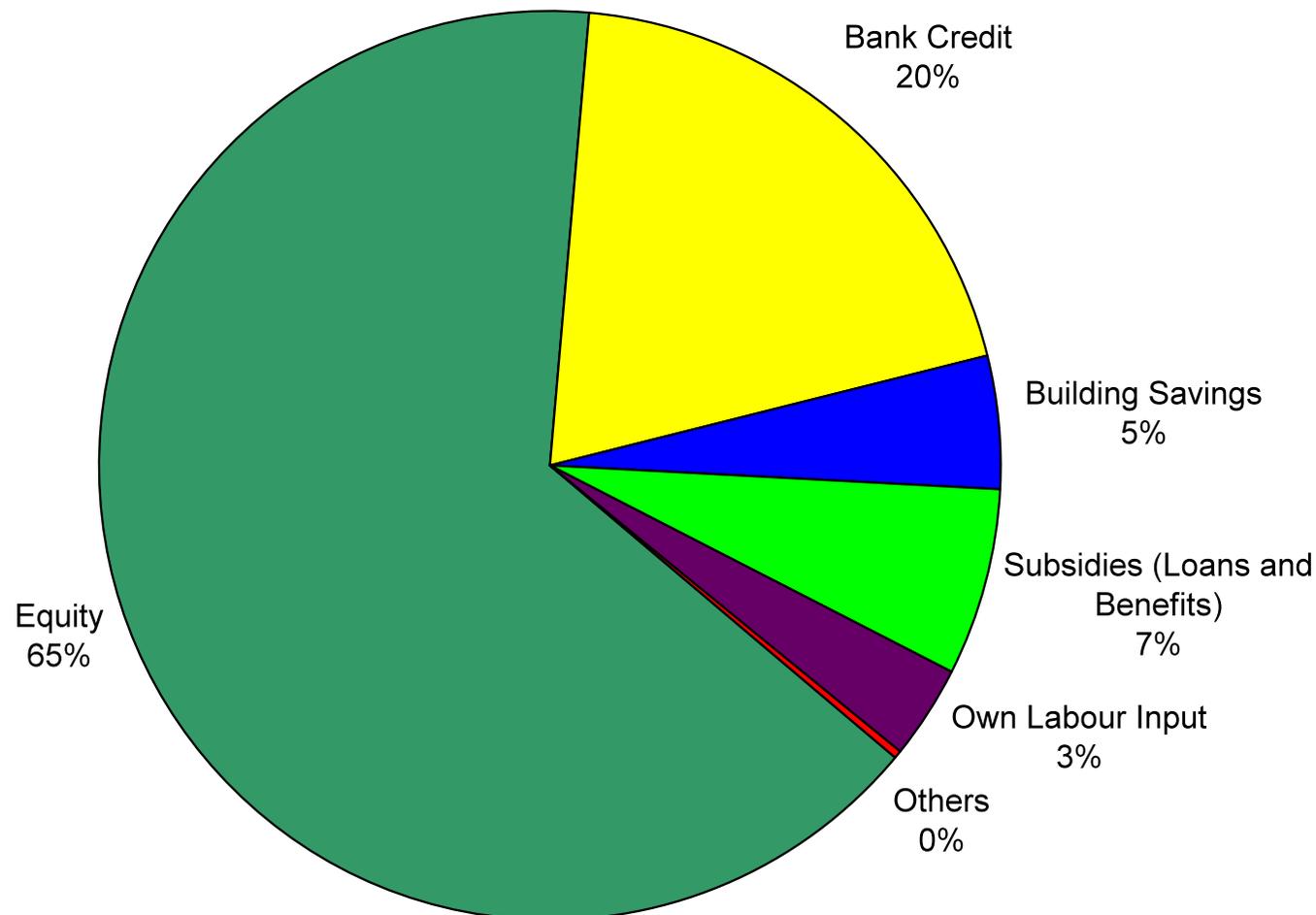
Source: BBR 2007, p. 124, Data refer to West Germany, Scale from 5 (very important) to 0 (totally unimportant); Tax incentives have been a main investment motive in East Germany in the 1990ies.

Funding of Residential Real Estate (I)

- No detailed figures on funding of purchases / construction
- Stylized facts:
 - High equity ratios
 - Inclusion of debt predominantly because interest is tax deductible against other sources of income (not deductible but also no tax on imputed rent if house / apartment is owner occupied)
 - Common product for individuals: long-term mortgage contract (typically 10 years) with fixed interest rates and 2 % amortisation
 - Use of subsidies for energy saving measures and other subsidised investment purposes

Funding of Residential Real Estate (II)

- Financing structure for investments in the building stock



Source: BBR 2007, p. 88, Data refer to West Germany (Caution: small sample!)

Regulation of the Rental Sector (I)

- Strong regulation towards high security of tenure
- Contracts are usually unlimited (period of notice for tenant: 3 months)
- Landlord must prove legitimate interest to evict tenant
 - breach of contractual obligations
 - delay of payment
 - own use by landlord (particularly hard to prove if landlord is owner occupier)

Regulation of the Rental Sector (II)

- Strong regulation against prohibitive rent increases and rent levels
 - increase to a level not higher than average level (of rents in new contracts from the last 4 years)
 - increase by not more than 20 percent in 3 years
 - not more than 11 percent of costs for energy saving measures may be passed to tenants per year
 - usury laws: rent (even for new contracts) may not exceed local level by more than 50 percent.

Why does it work here and not there?

- Mentality of tenants
 - Culture of renting instead / as an alternative of owning: Hard to understand how this developed, but renting is not stigmatised.
 - Legacy of subsidised (social) housing after World War II: parents / grandparents living in rented flats is considered as normal
 - Germany is not monocentric but has at least 5 big business centres (Berlin, Frankfurt, Munich, Duesseldorf, Hamburg) and a lot of smaller ones: Young professionals with partners tend to commute weekly from their workplace to their partners' home ("remote distance partnerships"): supported by excellent infrastructure (in international comparison)

Why does it work here and not there?

- Mentality of landlords
 - Long-term investment motives dominate
 - Residential investment as inflation hedge (current discussion of Euro area and turmoil at financial markets)
 - Retirement provision
 - Security of tenure matches long-term investment motives of landlord: Keep a good tenant as long as you can!

Probably a relict of good old
„social market economy“ ...



Thank you very much!

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