

The role of policy in influencing differences between countries in the size of the private rented housing sector

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26/2/14















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Introduction

- Comparative studies of rented housing
- What is private rented housing?
- How much of it is there?
- Why is there more in some countries than others?
- Does policy explain international differences in the proportion of private rented housing?

International studies of Private Rented Housing

- CCHPR (2012) *The Private Rented Sector in the New Century: A Comparative Approach*
- Haffner, MEA, Hoekstra, JSCM, Oxley, MJ & Heijden, HMH van der (2009). *Bridging the gap between social and market rented housing in six European countries?* Amsterdam: IOS Press.
- Oxley, MJ, Lishman, R, Brown, T, Haffner, MEA & Hoekstra, JSCM (2010). *Promoting investment in private rented housing supply. International policy comparisons.* London: Department for Communities and Local Government.

Report for the Department of Communities and Local Government

Promoting Investment in Private Rented Housing Supply: International Policy Comparisons (November 2010)



See:

<https://www.gov.uk/government/publications/promoting-investment-in-private-rented-housing-international-policy-comparisons>

Project Objectives

- Investigate range of policy frameworks in high income countries to promote investment in private rented housing supply
- Overview of existing policy frameworks
- Detailed comparative analysis
- Analysis of policies to promote investment
- Relevant findings for investors in England

Methodology & Country Selection

1. High income countries: statistical overview: 27 countries
2. 12 countries: policy frameworks
3. Identification of 4 countries
4. Detailed reports: USA, Australia, France, Germany & England
5. Comparative analysis – factors influencing size of PRS
6. Data – international and country specific
7. Literature in a variety of languages
8. Country experts

What counts as private rented housing?

Categories	Ownership	Allocation
1	Private ownership by individuals and companies.	By market forces. Market rents.
2	Private ownership by individuals and companies.	Not by market forces. Linked to employment or family relationships.
3	Private ownership by individuals and companies.	Not by market forces. Social allocation criteria linked to receipt of a tax concession or soft loan. Rents limited. Incomes of occupants limited. Concessions, rent limitations and allocation conditions often time limited.
4	Non-profit organisations and public bodies.	By market forces. Market rents.

PRS % of stock: main & other countries

Australia 2006	21.0
Belgium (Flanders) 2005	18.4
Canada 2001	28.4
England 2007	13.0
France 2006	20.0
Germany 2006	48.0
Ireland 2006	11.4
Netherlands 2006	11.0
New Zealand 2006	21.8
Spain 2008	12.0
Sweden 2005	21.0
Switzerland 2000	57.0
USA 2004	32.0

Tenure as % of stock: main countries

	Private rented	Social rented	Owner occupied	Other
Germany 2006	48	11	40	1
France 2006	20	18	58	4
USA 2004	32	1	67	
England 2007	13	17	70	
England 2012	17.8	17.3	64.5	

Market Rents?

USA	Mainly market rents. Some element of control on increases for some properties in some states. Restrictions on rent levels and increases for tax subsidised properties.
Australia	Mainly market rents. Some element of control over rent increases – to keep them in line with market levels and to prevent increase in early months of contract.
France	Rents for new contracts set freely. Limits on increases related to inflation. Rent limits for subsidised properties.
Germany	Rents for new contracts set freely. Limits on increases for sitting tenants – linked to market conditions.
England	Mainly market rents.

Security of Tenure

USA	Limited security of tenure which depends on the contract. Typically six months or one year but can be less or more.
Australia	Limited security of tenure which depends on the contract. Typically six months or one year but can be less or more.
France	Strong security of tenure. Standard contract is 3 years (individual landlords) or 6 years (other landlords). Termination of contract only in limited circumstances.
Germany	Strong security of tenure. Length of tenancy in principle indefinite. Notice periods of 3 to 9 months depending on how long the tenancy has run for. Termination of contract only in limited circumstances e.g. rent arrears, landlord needs dwelling for own family). Sale of dwelling does not break the lease.
England	Limited security of tenure which depends on the contract. Typically no more than six months. In many cases 2 months.

Individual Investors

% of PRS stock

- USA 66%
- Australia 60%
- France 96%
- Germany 62%
- England 88%

Company & Institutional Investors: Attraction to PRS

USA	Acceptable rate of return compared with other investments. Low capital costs. Favourable taxation environment. Attractive to institutional capital. Large-scale portfolios are possible. Significant investment through REITS.
Australia	Low level of attraction.
France	Low level of attraction.
Germany	Stable income returns, attractive financing options and large portfolios of dwellings.
England	Low level of attraction: but is this changing?

Company & Institutional Investors: Put Off PRS

USA	Regulatory controls especially land use controls and rent restrictions in some locations. Some periods of tight availability of finance.
Australia	Low rate of return. High management costs, small unit size of investment opportunities. High risks. Lack of robust market information. Potential negative public image effects of evictions.
France	Low yields and letting regulations.
Germany	High vacancy rates – especially in the east of Germany.
England	Low yields and scale of investment opportunities.

Taxation of Individual Investors

	Cost deductions against rental income	Depreciation allowance	Losses allowable against other income	CGT system discourages short term holding of the investment
USA	YES	YES	YES	YES
Australia	YES	YES	YES	YES
France	YES	YES	YES	YES
Germany	YES	YES	YES	YES
England	YES	NO	NO	NO

Support through soft loans

USA	State tax exempt bond financing in limited circumstances. Tax credits apply also to the financed dwellings. Rent and allocation restrictions apply.
Australia	No specific schemes.
France	Significant soft loans for individual and institutional landlords. Rent and allocation restrictions apply. In some cases additional tax advantages apply to the financed dwellings.
Germany	No specific schemes.
England	No specific scheme.

Examples: private social supply incentives

USA	Low Income Housing Tax Credits support some privately owned housing with rent restrictions and income related allocation conditions.
Australia	New National Rental Affordability scheme gives tax credits for building of privately owned housing (and housing owned by non-profit organisations) with rent restrictions and income-related allocation conditions. As yet on a small scale to private investors.
France	Tax incentives (principally generous depreciation allowances) and soft loans for some privately owned housing with rent restrictions and income-related allocation conditions.
Germany	Until 2005 generous depreciation allowances for privately owned housing with rent restrictions and income-related allocation conditions.

Why large PRS in USA?

- Very small publicly rented sector
- Strong demand including from low income groups
- Housing investment is a profitable activity supported by a mainly free market and a benign tax regime
- Attractive to individual, company and institutional investors because of reasonable rates of return, taxation advantages and the diverse nature (smaller complexes as well as large apartment blocks) of the stock

Why large PRS in Australia?

- Very small publicly rented sector
- Strong demand from a range of income groups
- Significant tax advantages for small scale investors
- Acceptable rates of return and long term capital growth prospects

Why large PRS in France?

- Strong demand at all levels of income
- Attractive to individual investors because of acceptable returns, boosted by taxation advantages
- Significant tax incentives and soft loans – some aimed at the intermediate market

Why large PRS in Germany?

- Very small publicly rented sector
- Strong demand at all levels of income
- Attractive tenure for households because of good quality dwellings and strong security of tenure
- Home ownership has been relatively expensive
- Attractive as an investment since the 1950s because of generous tax advantages, principally depreciation allowances that have helped provide an acceptable rate of return from net income

Key Differences: England vs countries with large PRS [1]

- In the large PRS countries:
 - the sector has been large for several decades
 - measures to support the sector have been in place for decades
- Broader demand base in other countries
- In England, individual investors
 - cannot benefit from depreciation allowances as they can elsewhere
 - cannot transfer current rental income losses to other income for tax purposes as they can elsewhere

Key Differences: England vs countries with large PRS [2]

- High reliance on capital growth rather than a significant return from income
- CGT does not encourage long term holdings
- The physical structure and location of the rental stock is not attractive to institutional investors
- Institutional investors perceive that they are not able to obtain a reasonable risk-adjusted rate of return
- No significant programmes, comparable to those in other countries, to encourage the private sector to invest in and manage affordable housing

How to increase the PRS as % stock

1. Determine the role for the sector. Is there to be a larger 'modern PRS' offering high quality accommodation on a flexible basis or is the sector to have another role?
2. Promote a policy environment that establishes a positive image for the private rented sector as tenure to meet important needs not catered for by other tenures.
3. Increase the taxation advantages for individual investors.
4. Increase the rate of return for institutional investors through improved taxation advantages.
5. Provide soft loans for investment.
6. Promote a favourable regulatory environment – for landlords and tenants.
7. Provide conditional taxation and subsidy support for affordable rental housing from private landlords possibly using a model similar to LIHTC in the USA.
8. Consider encouraging housing associations to supply more market rent properties.

BUT: consider crowding out issues re stock

How to increase volume of building for PR

1. Apply a combination of the measures identified above to increase the proportion of the housing stock that is privately rented.
2. Make the taxation advantages especially favourable for investment in newly constructed buildings – e.g. more generous depreciation allowances.
3. Provide conditional taxation and subsidy support for affordable rental house building by private developers; the housing to be managed by private sector landlords or by housing associations.
4. Consider allowing large housing associations to become REITS.

BUT: consider crowding out issues re house building

Property Rights: tenants

- Property rights matter
- Relative property rights matter a lot
- Relative rents and costs
- Relative security of tenure
- Relative quality

Motivation: investors

- Rates of return?
- Capital growth?
- Risks?
- Information?
- Opportunities?

Methodological point: reject Universalism and Particularism

- Haffner, MEA, Hoekstra, JSCM, Oxley, MJ & Heijden, HMMH van der (2010). Universalistic, particularistic and middle way approaches to comparing the private rental sector.
International Journal of Housing Policy, 10(4), 357-377

Does policy matter?

- Yes: But:
- Policy over time
- Policy and property rights
- Policy and purpose of tenure
- Policy and investment incentives
- Policy and definition of tenure
- Policy and what the data says
- Limitations of comparisons