Policy: briefing

Generation Rent: learning from different rental markets

International policy solutions for striking the balance between landlord and tenant interests

Introduction

In the last decade, the private rented sector in England has grown by almost 1.5 million households, at a time when home ownership and social housing have been in steady decline.[1]

Many people think of private tenants as young professionals or students. Yet, of the 3.4 million households now renting privately, more than one million are families with children,[2] many with no other option but to be private tenants for the foreseeable future. Recent policy changes, combined with a lack of new affordable homes and high house prices, mean that the sector is likely to continue to grow, particularly among low-middle income families and vulnerable groups.

'Generation Rent' is here to stay and it is right that we consider options to make sure that the place they live is their home. The purpose of this briefing is to understand how other countries' private rented sectors work and to identify opportunities to learn from others' experience to inform a discussion on how private renting delivers quality, stable homes for all households that live in it, particularly families.

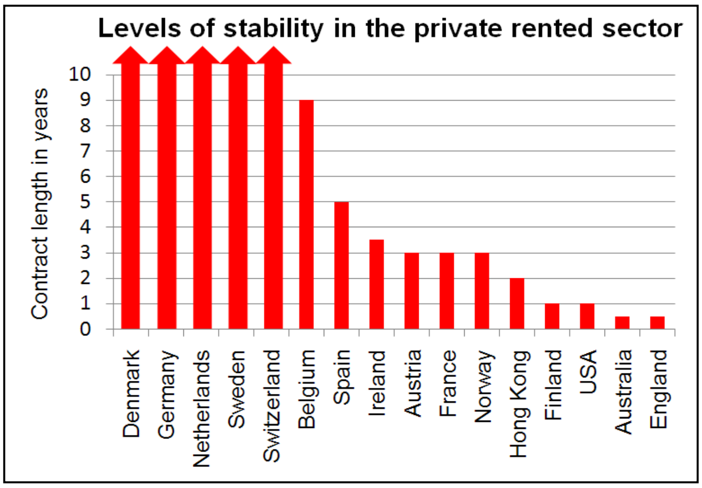
The recent growth of private renting in England is commonly attributed to changes in the sector under the Housing Act 1988, when a strictly controlled, long-term tenancy regime was replaced with short-term tenancies. This briefing will highlight that this is a false assumption.

The language of 'regulation' and 'de-regulation' suggests that there is a simple black and white divide between the two; that a country's private rented sector is either one or the other. The implied contrast is between 'red tape' and 'bureaucracy' in the past, versus freedom and flexibility under the current system. By looking at the different systems for governing private renting around the world, we see different systems can be better understood as a broad spectrum of options. The various models share many similar attributes and exemptions, and all seek to balance the interests of tenants and landlords.

How do private rented sectors compare?

Private rented sectors in developed countries have in common that private landlords, predominantly individuals and couples, provide housing to a diverse range of households.

Considering a broad sample of OECD countries, tenants have a legal minimum length of time within which their landlord cannot evict them without grounds, and most have some restrictions on the frequency and/or the extent that landlords can increase rents. Generally landlords access some kind of tax-based subsidy on their rental income, although this varies between countries. The following figures illustrate how different private rented sectors in OECD countries operate.



Source: LSE London, 2011. Towards a sustainable private rented sector: The lessons from other countries.

[1] Department for Transport, Local Government and the Regions, 2001. Survey of English Housing 1999/0.
Department of Communities and Local Government, 2011. English Housing Survey 2009/10 .
[2] Ibid.

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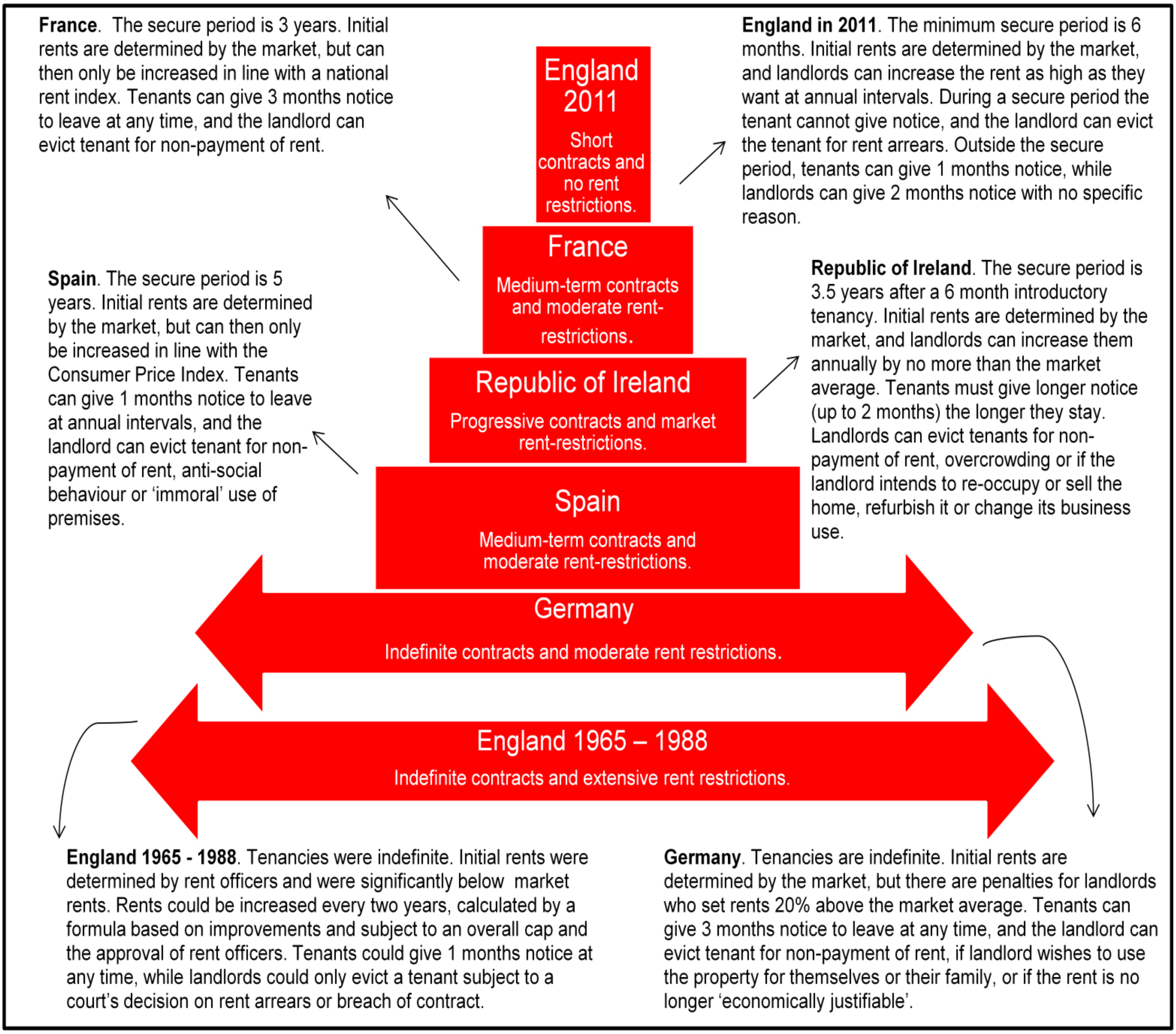


Stability for tenants

Different countries give tenants widely differing minimum tenancy lengths - from 3 years in France to indefinite tenancies in Germany. The English private rented sector is exceptional in offering tenants very short periods of security, often only six months. Landlords can also raise the rent as high as they want at annual intervals or the renewal of the tenancy agreement. This can undermine the stability and affordability of tenants' homes, even if they pay their rent on time and comply fully with their tenancy agreement.

Flexibility for tenants

Most countries' private renting systems give tenants the opportunity to end the agreement at a time that suits them, as long as they give prescribed notice. In France, Germany and Ireland, tenants can give notice at any point, while in Spain and England this is typically restricted to the lead up to the end of an annual interval or fixed period. Longer tenancies are often coupled with a requirement to give longer notice to leave, but this is rarely unreasonable. This can help landlords to reduce losses caused by void periods.

Security for landlords

All private rented systems give landlords the power to evict tenants who do not pay their rent or who breach the terms of their contract. This allows landlords to protect themselves against the risk of default on their mortgage or losses as a result of damage. The real difference is in landlords' confidence in the court process and the associated costs of evicting non-paying tenants. Slow and/or complex court processes can undermine landlords' financial security.

Flexibility for landlords

Many of the systems that offer tenants greater medium and long-term stability come with a 'get out clause' in that landlords can break the contract if they want to re-use the accommodation for personal or family use or to sell it. This is the case in Germany, Ireland and Spain. Even in Germany, which offers the strongest protection for tenants, it is possible for a landlord to end the contract to take up occupation of the home themselves.

Country	Length of tenancy/ rent restrictions	Favourable tax treatment	Size of PRS	Proportion of small landlords[3]
England in 2010.	Low	Mortgage interest deductible.	16%	89%
Ireland	Medium	Mortgage interest deductible. Depreciation allowance.	10%	Vast majority
France/ Spain	Medium	Mortgage interest deductible. Depreciation allowance. Rental losses offset against other income. No capital gains tax after 15 years in France.	22% in France 7% in Spain	95% in France 86% in Spain
Germany	High	Mortgage interest deductible. Depreciation allowance. Rental losses offset against other income. No capital gains tax after 10 years.	60%	61%
England in 1988.	Very high	Some tax breaks through initiatives, e.g. Business Expansion Scheme.	9%	Approx 75%

Sources: LSE London, 2011. Towards a sustainable private rented sector: The lessons from other countries.
Kathleen Scanlon and Christine M. E. Whitehead, 2006. The economic rationality of landlords.

What's the deal for landlords?

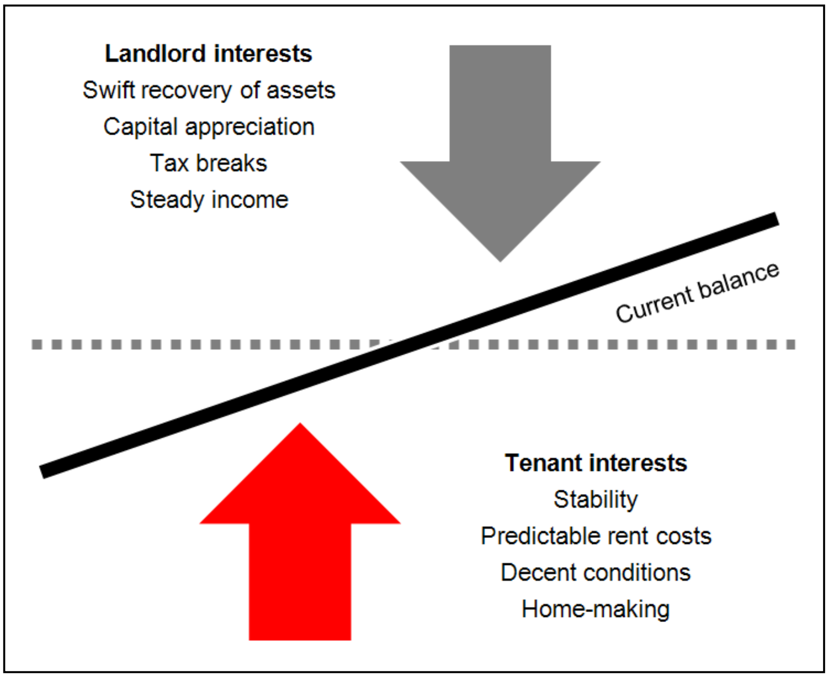
Being a private landlord is often attractive to individuals and couples as it can provide regular additional income and significant capital assets for later life. In striking the balance between landlord and tenant interests, different countries offer a range of incentives to landlords to ensure their investment remains viable.

In general, countries which offer tenants longer stability in their rented accommodation typically offer landlords more beneficial tax treatment, particularly in terms of making costs tax deductible. Capital Gains Tax reductions are offered in several countries where a property has been held for a specified length of time, thereby rewarding landlords who make a longer-term commitment to private renting and discouraging short-term speculation on house prices. It is notable that the particularly 'hard' rent restrictions and indefinite tenancies in England pre-1988 was not matched by long-term tax incentives available in other systems that offer tenants a similar degree of stability.

Crucially, private renting systems which offer tenants greater stability are still able to attract a large number of individuals and couples to be private landlords. Even Germany's comparatively low 60 per cent individuals and couples is still a significant number considering the size of the sector in Germany, and the popular conception that the German private rented sector is dominated by large institutional landlords.

[3] 'Small landlords' refers to landlords who are individuals and couples.

International learning: towards a more balanced private renting system



All private rented sectors have similar structures and attributes – the difference is that they strike different balances between the interests of landlords and tenants. In most systems there is a *quid pro quo* – where landlords offer longer stability for tenants, there are often sensible exemptions, such as landlords being able to regain possession of the home if they intend to use it for themselves or sell it.

Similarly, where in-tenancy rents cannot be raised above a certain index, such as base rates, there are typically other financial incentives for landlords that help them make reasonable profit.

Meanwhile, all private rented sectors continue to offer flexibility for tenants who want it with tenants able to give reasonable notice to end the tenancy, showing that it is possible to create tenancy regimes that offer both stability and flexibility.

The key question facing the English private rented sector is whether the existing balance is appropriate for the current and future demographics of the sector. While contracts exclusively offering tenants short-term stability may have been appropriate for a sector dominated by young professionals, mobile workers and students; with more than one million families with children renting privately, the need for greater stability in the English private rented sector is arguably growing. Longer tenancies combined with reasonable notice periods for tenants can allow the sector to work both for mobile workers and households seeking greater stability.

Many other countries have healthy private rented sectors which offer tenants greater stability and predictability. Even where tenants have stronger legal protection, the vast majority of landlords are individuals and couples with small portfolios, just as in England. A quick look at other countries shows that there are workable alternatives. The challenge for policy-makers is, therefore, in achieving the right balance.