

Rental Housing in Europe and USA

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**AFRICAN RENTAL HOUSING
CONFERENCE**

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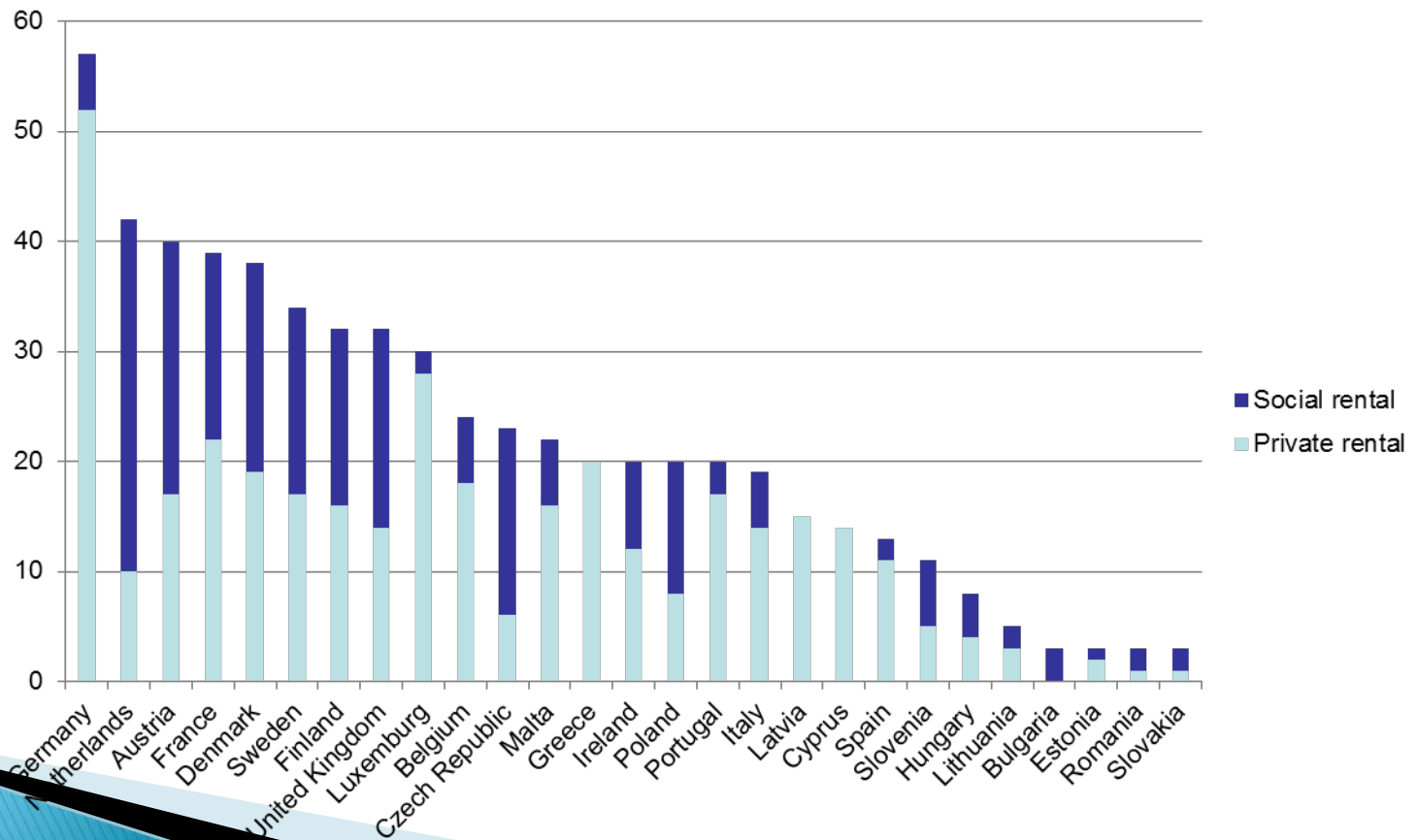
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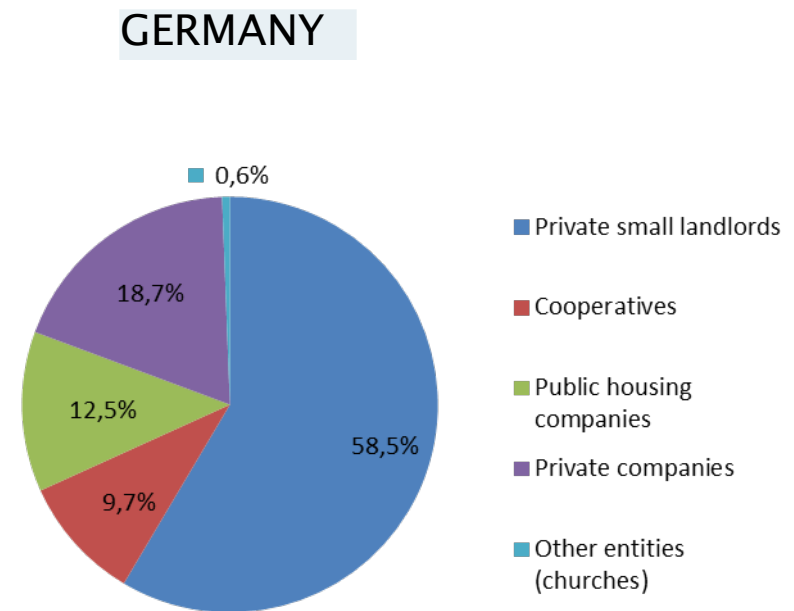
The Share of Rental Housing

- Is linked to culture, history (industrialization, urbanization), availability of long-term credit and other housing policy issues (rent controls, taxation, etc.)
- Have no link with the wealth of the country (negative correlation)



Private Rental: Who are the Landlords?

- Most often a majority of individuals
 - France (95%), United Kingdom (75%), Germany (60%),
 - Exceptions: Austria, Denmark, Sweden;
- Institutional landlords (insurance companies, pension funds, REITs...) in diverse proportions:
 - Finland and Netherlands (37%), United Kingdom (25%), Germany (17%), France (3%).



Private Rental: Security of Tenure

Security	Country	Typical lease term	Reasons for eviction
HIGH	Belgium	9 years	"Exceptional circumstances"
	Germany	Unlimited	Unpaid rent, misbehavior, personal use
	Netherlands	Unlimited	Unpaid rent, misbehavior, personal use
MEDIUM	Finland	1 year, then month-to-month	Unpaid rent, misbehavior
	France	3 yrs (individual), 6 yrs (company)	Before expiry: Unpaid rent, misbehavior Upon expiry: Personal use, sale of unit
LOW	Ireland	6 month, then 3 1/2 years	First 6 month: Any reason After 6 month: Personal use, sale of unit, refurbishment
	Spain	5 years	Unpaid rent, misbehavior
	UK	6 month, then m-t-m or week-to-week	Before expiry: Unpaid rent, misbehavior

Rent Control and Consequences

- “In many cases rent control appears to be the most efficient technique presently known to destroy a city—except for bombing”

Assar Lindbeck (1972): “The Political Economy of the New Left”, New York, Harper and Row.

- **Hard** rent control:
 - Freeze (with intermittent upward adjustment);
 - Introduced in Western Europe during World War I, in the USA during World War II;
 - The private rented sector almost disappeared in the United Kingdom and suffered from lack of maintenance and underinvestment in France.
- **Soft** rent control is now often used and distinction made between:
 - New dwelling (newly built or newly rented) = usually free rent;
 - New tenancy (change of tenant) = free, linked to « references » or « reasonable rent »;
 - Renewed lease (same tenant) = same or indexation;
 - During the lease: indexation or no increase.

Rent setting: Examples

France

- First tenant: Free;
- New tenant (since 2012):
 - Limited to the rise in the “reference rent index” (average of the last twelve consumer price indexes) in 28 high pressure areas;
 - Possible higher increase only if rent is far below market level (half of the gap) or in case of improvement works;
 - Free elsewhere;
- Renewed rent:
 - Pegged to the benchmark;
 - Possible higher increase: same as above in HPA, full gap elsewhere;
- During the lease (3 or 6 yrs): Rent pegged to the “reference rent index”.
- New law in 2014: see Germany.

Germany

- First contract:
 - Rent set based on the local reference rent (Average for similar units, limited to rents agreed upon or raised in the last four years. Rent tables available in the bigger cities);
 - Maximum rent 20% above the reference rate if housing shortage, 50% above in other cases.
- Ongoing contract (unlimited):
 - No increase allowed as long as the rent is higher than the reference;
 - No increase by more than 20% in three years.
- Extra rules apply after modernization, in part. energy conservation works.

France (1)

- Private landlords are mostly individuals (more than 95%); 70% own only one unit (average=2); Often inherited.
- Low return and high management costs (compared to non-residential) caused disinvestment among institutional investors (1970s).
- Unbalanced tenant-landlord relationship (eviction, enforcement), rent controls and heavier taxes also incited private landlords to sell their properties.
- As a consequence, the private rented stock was losing 1% each year in the 70s and early 1980s.
- Tax incentives (from 1984), with two different goals:
 - increase total production of new housing, to support building activity,
 - increase supply of private rental housing (e.g., to facilitate mobility).
- Disinvestment went on in existing stock, but overall stability and renewal of the rental stock.

France (2)

Taxation of Private Rental (Individuals)

➤ *Rental income taxation*

1 / Income tax (marginal tax rate, up to 45%):

- Main expenses deductible, but depreciation is not
- Losses may be used to offset taxes on other income (up to 10,700 € / 13,500 US\$)
- Additional deficit carried forward ten years
- If rental income less than 15,000 € / 19,000 US\$), possible option for a flat 30% deduction,

2 / Social taxes: 15.5% of net taxable income (flat rate)

➤ *Capital gain taxation*

- Income tax plus social tax apply (total up to 60,5%);
- Tax base = nominal capital gain, decreasing over time: zero after 22/30 years.

➤ *Wealth tax*

- - *Marginal rate up to 1,5% : total tax on rental income close to 100%.*

France (3): Tax Incentives for Investors in Newly-Built Rental Housing

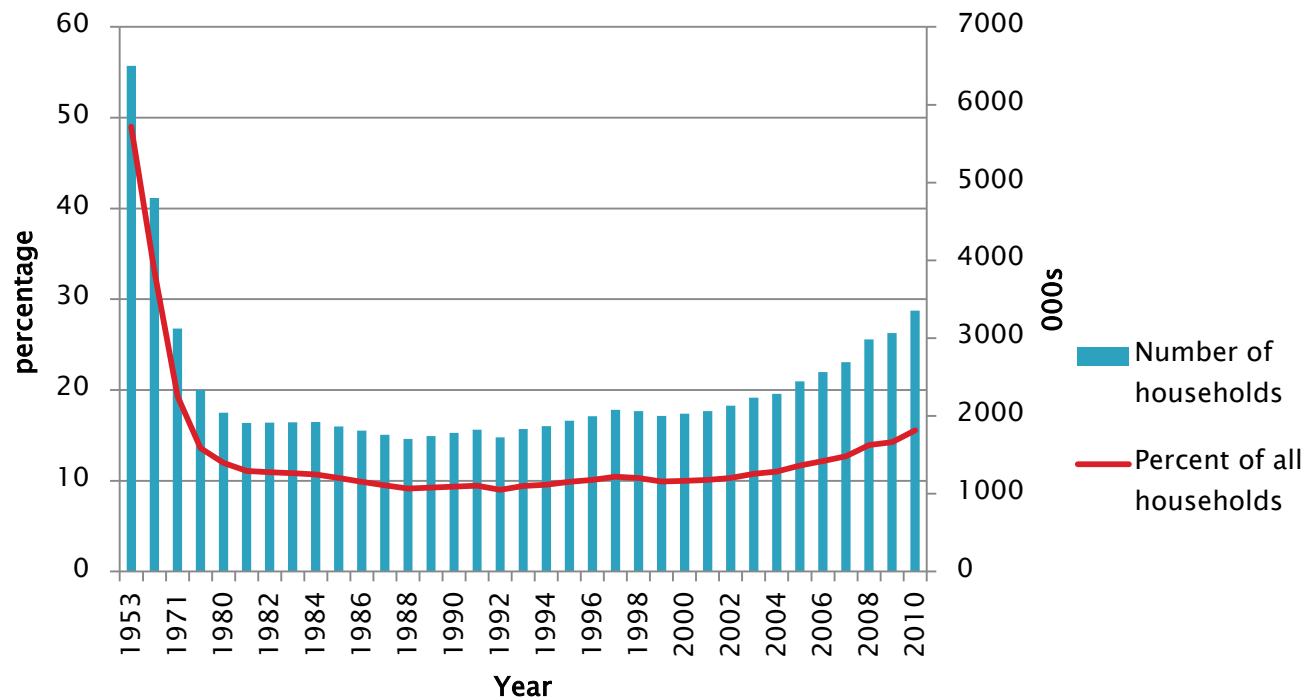
- Schemes launched in 1984 with two different goals:
 - increasing total production of new housing, to support building activity,
 - increasing the supply of private rental housing.
- Two types of tax incentives:
 - A proportion of the investment deductible from income tax over 6 to 12 years or proportion of investment deductible from rental income (“Accelerated depreciation”);
 - Unit must be rented during a minimum period; Rent ceiling (80% market price); no income ceiling;
 - Maximum purchase price limit;
 - Parameters often change.
- Efficient to increase developers’ production, but many investors resell after required rental period and perverse effect from price ceiling.

England (1)

- Private rented housing currently accounts for some 17% of the housing stock, down from over 50% immediately after WW2, but up from 9% at its minimum in the late 1980s.
- Rent control introduced in 1915, abolished in 1988 for all new leases and “short hold tenancy” introduced: landlord has the right of possession at the end of the lease term. In 1997 “short hold tenancy” became the default form of tenancy.
- English system is now almost completely deregulated: the standard lease is a six month or one-year contract after which the landlord can reclaim the property with two months’ notice, and rent levels and rent increases are freely set.
- Most landlords prefer to keep good tenants as long as possible but this made private rental more attractive as collateral for mortgage loans since lenders were almost certain to be able to sell an untenanted property in case of repossession.
- “Buy-to-Let” mortgages (mid-1990s): less expensive than previously used commercial loans, now close to mortgages for owner-occupiers.
- Private renting still seen as inferior to owner-occupation by the vast majority of households but increasingly important in housing not just for the young and mobile but also for families,

England (2): The Impact of Rent Control on Private Rental

(Source: Peter Kemp - 2008, updated)



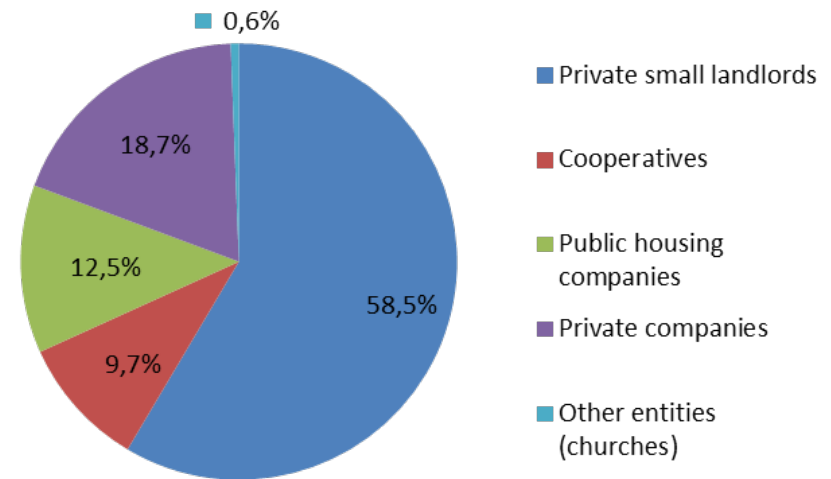
Germany (1)

- German PRS serves a broad range of market segments in terms of quality and size.
- Many Germans deliberately choose to be tenants for their whole life although they could afford a home of their own.
- Not a “residual sector”, but a cornerstone of housing provision for all parts of the population.
- Large rental stock due to past subsidies:
 - The First Housing Law (1950) made available direct subsidies, loan guarantees and accelerated depreciation to all investors (administrative tenant allocation and maximum rent for a limited period);
 - Linear depreciation (2%=50 years, 2,5%=40 years for older buildings, reset when sold).
- Rent regulation stable since 1971.

Germany (2)

Reminder

- *First contract:*
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United States (1)

- 39 million renter households in the U.S. (38% of occupied main residences)
- Subsidized units: 1% public housing, 1,5% LIHTC, 1,9% vouchers/certificates, 1,8% other subsidized.
- Who owns U.S. rental housing? 54% Individual, 24% Partnerships, 13% Corporations (including REITs), 5% Cooperatives & non-profit organizations, 4% Other.

Legal and Regulatory Framework

- Regulated mainly by state and local governments, enforcement mainly by state and local courts.
- Legal framework defined partly by statutory law, mainly by common law as interpreted by courts.
- Varies significantly by state and by locality: most U.S. markets have no rent controls, but significant exceptions such as New York, Washington D.C. and Los Angeles.
- Most common lease duration is one year, sometimes month to month, or two or three years.
- Common deposit: a month's rent in advance.

United States (2)

Taxes and Subsidies

- Rental income taxed as ordinary income (marginal rate). Mortgage interest deductible as most operating costs, including property taxes. Plus depreciation allowance: linear deduction on 27.5 years.
- Losses on rental property may be used to offset taxes on other types of income (with restrictions).
- Capital gains are taxed at preferential rates, currently 15% (can be avoided by selling one property and buying another within a specified time frame).

The Low Income Housing Tax Credit (LIHTC)

- Provides incentives for private sector production of low income housing (1986 Tax Reform Act).
- Provides a "present value" tax credit of 70% of the cost of new construction (9% annually over a 10-year period) or 30% of the cost of acquisition of existing low income housing (4% annually).
- Two options for developers:
 - Either 20% of units rented to households with income less than 50% of the county median income,
 - Or 40% of the units rented to households with income less than 60% of the county median income.
 - Maximum gross rent, including utilities, not to exceed 30% of maximum qualifying income.
 - Unit to be maintained as low income for a 15 year period (or tax credits recaptured).

3 / Defining Social Rented Housing

- Different definitions in different E.U. regulations:
 - Any housing supplied as part of a social policy (6th directive on VAT in 1977),
 - Units for disadvantaged citizens or members of vulnerable groups unable to find housing under market conditions (Decision on State aids – 2005).
- Example of national definition (France):
“Housing for persons with income below a given ceiling”.
- Statistics are often based on the nature of the landlord:
 - More convenient,
 - Social housing providers are most often public or non-profit,
 - But social housing is opening to private investors (under control) or
PPPs (Public-Private Partnership).

Social Rental Housing in EU: A great variety

➤ Definition:

« a kind of shortcut for different types of housing provision which responds to administrative procedures as opposed to market mechanisms » (Cecodhas)

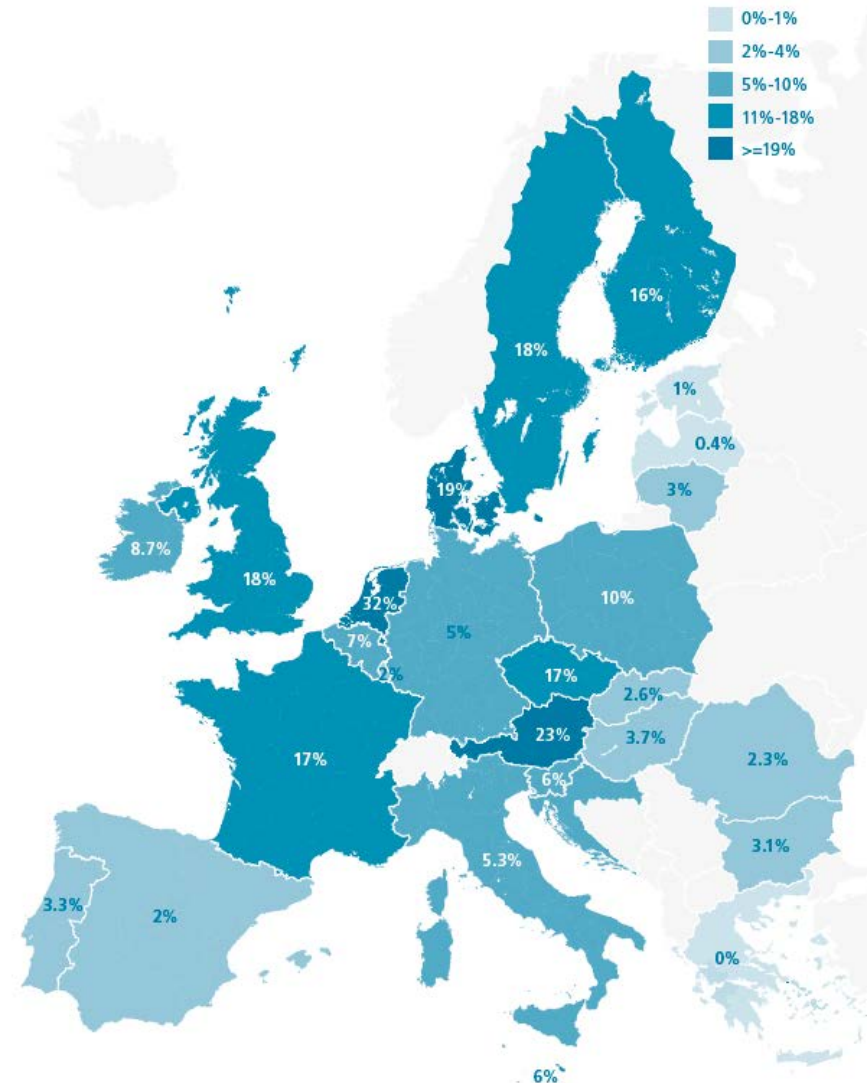
➤ Size (map)

➤ Beneficiaries

➤ Providers

➤ Funding arrangements

MAP: SOCIAL RENTAL HOUSING AS PERCENTAGE OF TOTAL HOUSING STOCK



The Role of Social Housing

Based on two main criteria: the demand addressed and the impact on the private market.

Role	Key features	Countries
WIDE	Large housing stock under public control	Denmark
	Universalistic concept of social housing	Netherlands
	Linked to housing allowances for the most vulnerable	Sweden
	Market-regulating function	
MEDIUM	Moderate % of social housing	
	Support to the most vulnerable and some middle-income groups	France, Germany
	Linked to housing allowances	Finland, Poland
NARROW	Small social housing stock (or none)	Greece, Italy, Portugal
	Focus on the most vulnerable	Spain, United Kingdom
	Housing policy focus on home-ownership policies	Hungary, Slovakia

The Providers

- Can be specific (public entities, non-profit bodies) or not (institutional investors or individuals).
- Trends towards non specific actors (including commercial developers and private landlords) and end of public corporations.
- Germany: end of specific status (tax privileges) for Social Housing providers; any landlord gets public support (tax privileges) in exchange for the use of a unit for social purposes on a temporary basis.
- A the opposite French HLM status only ends when the building is demolished or sold to tenants.

TYPES OF SOCIAL HOUSING PROVIDERS IN THE EU						
COUNTRY	TYPE OF PROVIDER(S)					
	CENTRAL GOVERNMENT	LOCAL AUTHORITY	INDEPENDENT PUBLIC BODY/ PUBLICLY OWNED COMPANY	CO-OPERATIVE	OTHER PRIVATE NON-PROFIT	PRIVATE FOR-PROFIT
Austria		X	X	X	X	X
Belgium		X	X		X	
Bulgaria		X				
Cyprus	X					
Czech Republic		X		X*	X*	X*
Denmark		X		X	X	
Estonia		X				
Finland			X		X	
France			X	X	X	
Germany						X**
Greece			X			
Hungary		X				
Ireland		X		X	X	
Italy		X	X	X	X	X
Malta	X				X	
Lithuania		X				
Latvia		X				
Luxemburg		X	X			
Netherlands					X	
Poland		X		X***	X	
Portugal		X	X	X	X	
Romania		X				
Slovenia		X			X	
Slovakia		X				
Spain		X	X	X		X
Sweden****						
United Kingdom		X	X	X	X	X*

* - can apply for funding to provide social housing within certain funding schemes
 ** - they also include municipal companies, which are considered as part of the private sector
 *** - depending on the definition used
 **** - there is officially no 'social housing' in Sweden, despite the existence of a municipal publicly owned sector, cooperative housing in the form of tenant ownership, and a system of negotiated rent setting for the whole rental sector

Examples of Funding Arrangements

AUSTRIA	DENMARK	FRANCE
50–70%: Commercial loan (1)	91%: Mortgage loan	76%: CDC loan (2)
20–60%: Subsidized loan and grants	7%: Interest free loan from municipality	1%: State subsidy
5–15%: Landlord's equity	2%: Tenant's deposit	1%: Employers' fund subsidy
0–5%: Tenant's equity		7%: Local authorities' subsidies
		15%: Landlord's equity

(1) From commercial or housing banks; refinanced by housing construction convertible bonds.

(2) State subsidiary multifunctional financial institution. Loan funded by tax-free short-term deposits on "A" booklets.

Thank you for your attention!

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