

# Is regulation the reason why private renting is more common in some countries than others?

**Sanna Markkanen, Sarah Monk & Christine Whitehead**  
Cambridge Centre for Housing and Planning Research

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# Introduction

- Introduction of research design and case study countries
- Rent regulation
  - Forms of regulation
  - Degrees of regulation
    - High (Pro-tenant)
    - Low (Pro-landlord)
    - Medium (Neutral)
- Correlation between regulation and size of the PRS
- Policies and practices that may reduce the effects of regulation
  - Supply-side
    - subsidies
    - fiscal incentives to landlords
    - other contextual factors (legislation, housing market volatility etc.)
  - Demand
    - relative attractiveness of private renting
    - accessibility of other tenures
- Different roles of the private rented sector (PRS)

# Research design

- Focus on regulation
- 10 Case-study countries
  - England
  - Finland
  - France
  - Germany
  - Ireland
  - Netherlands
  - Norway
  - Spain
  - Sweden
  - Switzerland
- Variation in terms of
  - housing markets
  - regulation
  - tax systems
  - housing policies
  - relative and absolute size of the PRS

# Regulation – types of regulation

Different types of regulation. Focus on

- Regulation of rents
- Regulation of security of tenure

## Regulation of rents

- Initial rents
- Rent increase

## Regulation of security of tenure

- Standard (minimum) duration of a contract
  - 6 months assured shorthold (England)
  - 3 years minimum (France)
  - 5 years minimum or renewable for 5 years (Spain)
  - Indefinite (Switzerland)
  - Indefinite (Germany, Sweden)
- Premature discontinuation of a contract
- Landlord's right to regain control of the property during the contract period
- Landlord's right to regain control of the property at the end of contract period

# Regulation in case study countries (2011)

Regulation	Rent		Security of tenure		
	Initial rent regulated	Rent increase regulated	Standard contract duration of over a year /obligatory renewal	Indefinite contracts as standard	Indefinite rental contract not affected by sale
Finland		YES*			
France		YES	YES		
England					
Germany		YES	YES	YES	YES
Ireland		YES	YES		
Netherlands	YES	YES	YES	YES	YES
Norway		YES	YES		
Spain		YES	YES		
Sweden	YES	YES	YES	YES	YES
Switzerland		YES	YES	YES	

\* Rent increase allowed once a year for indefinite contracts and at the time of renewal of contract for other contracts, but the extent of increase not limited (for e.g. by linking it to an index).

# Regulation – degrees of regulation

1. Strong level of regulation (pro-tenant)
  - first or second generation rent control (Arnott, 1995)
  - landlord's rights to reclaim control over their property limited during tenancy
  - Landlord's rights to reclaim control over property at the end of tenancy restricted
2. Medium level of regulation
  - Rent increase subject to control
  - Rent for new contracts of previously let properties may subject to some regulation
  - Contracts signed for several years, or renewable at tenant's request
  - Different regulatory regimes may in place simultaneously
3. Low level of regulation (pro-landlord)
  - Some regulation over rent increase during tenancy may still be in place
  - Shot tenancies (under a year) allowed
  - Landlord needs no reason to terminate contract at the end of contract period

# Regulation and relative size of PRS

Regulatory framework*		Size of the sector	
Low		Large	
	England		Germany (40%)
	Finland		Switzerland (36%)
			France (21%)
Medium		Medium	
	Norway		Norway (17%)
	France		Sweden (17%)
	Spain		Finland (16%)
	Ireland		England (13%)
Strong		Small	
	Netherlands		Netherlands (10%)
	Germany		Ireland (9%)
	Switzerland		Spain (8%)
	Sweden		

The diagram illustrates the relationship between regulatory framework strength and sector size for various countries. Red arrows indicate a positive correlation (strong regulation, small sector), while blue arrows indicate a negative correlation (low regulation, large sector).

Red arrows (Positive correlation):

- Germany (40%) to Low/Large
- Switzerland (36%) to Low/Large
- France (21%) to Low/Large
- Norway (17%) to Medium/Large
- Sweden (17%) to Medium/Large
- Finland (16%) to Medium/Large
- England (13%) to Medium/Large
- Netherlands (10%) to Strong/Small
- Ireland (9%) to Strong/Small
- Spain (8%) to Strong/Small

Blue arrows (Negative correlation):

- England (13%) to Low/Large
- Finland (16%) to Low/Large
- Norway (17%) to Medium/Large
- Sweden (17%) to Medium/Large
- Finland (16%) to Medium/Large
- England (13%) to Medium/Large
- Netherlands (10%) to Strong/Small
- Ireland (9%) to Strong/Small
- Spain (8%) to Strong/Small

# Supply side mitigating factors (1) – subsidies

Investment influenced by

- perceived level of risk
- perceived ability to make profit
- protection against losses

Two key ways in which investment can be incentivised

- subsidies
- fiscal incentives

Subsidies available to landlords in case-study countries

	Ger	Swz	Neth	Swe	Fra	Sp	Ire	Nor	Fin	Eng
PRS landlords eligible for supply side subsidies (such as soft loans)	Yes	No	No	No	Yes	No	No	No	Yes	Yes*
PRS landlords entitled to refurbishment subsidies	Yes	No	No*	No	Yes	Yes*	No	No	No	Yes*

\* Exemptions apply



# Supply side mitigating factors (2) – fiscal incentives to landlords

## Availability of fiscal benefits

- Increases ability to make a profit
- Reduces likelihood of making a loss

**BUT demand must be high to make letting profitable**

## Fiscal benefits available to landlords in case-study countries

	Ger	Swz	Neth	Swe	Fra	Sp	Ire	Nor	Fin	Eng
Tax payable on rental income	Yes	Yes	No Yes	Yes	Yes	Yes*	Yes	Yes*	Yes	Yes
Mortgage interest deductible from rental income	Yes	Yes	Yes No	Yes	Yes	Yes	Yes ( 75%)	Yes	Yes	Yes
Cost deductions against rental income allowed	Yes	Yes	Yes No	Yes	Yes	Yes, since 1998	Yes	Yes	Yes	Yes
Depreciation allowance	Yes	Yes	Yes No	Yes	Not since 2008	Yes, since 2008	Yes	No		No
Losses allowable against other income	Yes	Yes	Yes	Yes	Yes	Yes*	No	Yes	Yes	No*
Capital gains tax payable	Yes*	Yes	Yes*	Yes*	Yes*	Yes*	Yes*	Yes	Yes	Yes

\* Exemptions apply

# Demand (1) – attractiveness of other tenures

- Demand for private rented housing linked to its relative attractiveness

## Tax treatment of owner-occupiers

	<b>Germany</b>	<b>Switzerland</b>	<b>Netherlands</b>	<b>Sweden</b>	<b>France</b>
Imputed rent taxable	Not since 1986	Yes, but the rate slightly below market rent	Yes, until mortgage is repaid.	Not since 2007	Yes
Mortgage interest deductible from taxable income	Not since 2005, until then benefits available once in a lifetime for each household.	Yes	Yes	Yes, since the 1950s in some form.	Not since 2010.
Capital gains tax payable	Yes, but exempt after 10 years	Yes, but exemptions apply	No	Yes, but can be postponed if a new home is bought.	Yes, but exempt after 5 years
	<b>Spain</b>	<b>Ireland</b>	<b>Norway</b>	<b>Finland</b>	<b>England</b>
Imputed rent taxable	No	No	No	No	No
Mortgage interest deductible from taxable income	Yes, but only for low-income households since 2011.	Yes	Yes	Yes	No
Capital gains tax payable	Yes, but exemptions apply	No, except building society loans (80%)	No	Yes, but exempt after 2 years	No

## Demand (2) – access to other tenures

- Demand for private rented housing linked to access to other options

### Mortgage regulation in case-study countries

	<b>Germany</b>	<b>Switzerland</b>	<b>Netherlands</b>	<b>Sweden</b>	<b>France</b>
Regulation of mortgage finance	High	Conservative	Relaxed	Relaxed	High
Limitations on mortgage loan-to-value ratio	Yes, 60% to be eligible for mortgage-backed securities.	Yes, usually 80%, even lower for interest only mortgages	No regulatory limits	No regulatory limits before 2010. Now the banks are recommended not to loan more than 85%.	Yes, 60% to be eligible for mortgage-backed securities.
	<b>Spain</b>	<b>Ireland</b>	<b>Norway</b>	<b>Finland</b>	<b>England</b>
Regulation of mortgage finance	High.	Relaxed	High	Relaxed	Relaxed, but possibly increasing
Limitations on mortgage loan-to-value ratio	Yes, 80%.	Yes, 80% for building society mortgages	Yes, approximately 60%	No regulatory limits	No regulatory limits

# Conclusions (1)

## 1) Size, scope and position of the PRS context-dependent and path dependent

- Availability of other housing options
  - Social rented (e.g. Netherlands)
  - Subsidised or low-cost home-ownership (e.g. Spain)
  - Co-operatives (e.g. Sweden)
- Additional contextual factors
  - Legal (e.g. Switzerland)
  - Historical (e.g. Germany)

**Where other options plentiful, attractive (more cost-efficient) and easily accessible demand for private renting lower**

**In countries with largest PRS (Germany and Switzerland) the structure of the housing market encourages both supply and demand**

# Conclusions (2)

## 2) The effects of regulation and changes in regulation cannot be isolated

- The size, scope and role of the PRS is influenced by a variety of factors, including
  - Regulation
  - Housing policies
  - Housing markets
  - Financial markets
- Interaction effects (example: effects of deregulation)
  - England: effects of deregulation enhanced by (more or less) simultaneous changes in
    - 1988 Housing Act deregulating the PRS
    - Access to social rented housing declined as the sale of social rented housing encouraged by conservative housing policies (1979-1997)
    - Improved access to mortgage finance for PRS landlords (buy-to-let mortgages) from 1996 on
    - Worsened affordability since early 2000s
  - demand for private renting increasing, sector growing, the role of the PRS changing
  - Finland: potential effects of deregulation in 1995 offset by the liberalisation in financial markets in 1995
    - size of sector decreasing slightly