

Affordable Rental Housing Produced by Private Rental Landlords

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Introduction

This contribution aims to provide information on approaches that have been used in different countries to boost affordable private rental housing supply and on the success of these measures in terms of providing supply that otherwise would not have been realised.

The approach relies heavily on secondary published material including academic sources. The starting point was the study for the Department for Communities and Local Government entitled *Promoting investment in private rental housing supply: International policy comparisons* (Oxley *et al*, 2010). For this study twelve countries were selected for investigation: Switzerland (57%), Germany (48%, excluding public providers), United States (32%), Canada (28%), New Zealand (22%), Australia (21%), Sweden (21%), France (20%), Belgium (Flanders) (18%), England (13%), Spain (12%), Ireland (11%) and the Netherlands (11%). The figures in brackets show the varying approximate sizes of the private rental sector (PRS) as a proportion of the housing stock based on the latest available data at the time of the study.

England, France and the USA will be excluded from the present study as they will be covered in other contributions in this ESRC Knowledge Exchange project entitled *Boosting the supply of affordable rented housing in the UK: learning from other countries*. From the other countries that were included in the study by Oxley *et al* (2010, p39), the authors name Australia, Belgium, Germany, Ireland, Spain and Switzerland as countries having measures that promoted private sector affordable provision. From a scan of these countries, it can be concluded that these countries have such measures in place (p39), while there is a large spread in PRS size to be observed and also different developments in the size of the rental sector, as Table 1 shows. Germany and Switzerland have a large PRS with little (dramatic) changes. Data for Australia suggest that the PRS market share is increasing slowly, while it is decreasing for Belgium – Flanders, Spain and to a lesser extent Ireland.

Table 1: Development of private rental sector as % of housing stock since 1980

	Early 1980s	Early 1990s	Early 2000	Latest
Australia	21	22	23	25
Belgium – Flanders	27	24	20	18
Germany*	About 60%	About 60%	About 60%	About 60%
Ireland	13	10	7	10
Spain**	19	15	11	7
Switzerland	59	59	56	About 56%

*) Including public providers

**) % of occupied principal dwellings, including holiday and vacant dwellings

Source: Scanlon and Kochan (2011)

The present study summarises the information mainly from Oxley *et al* (2010, 2011) and Haffner *et al* (2009) on the relevant measures and, within the scope of this project newer material is sought, also on the effectiveness of these schemes in terms of numbers of

supply. The updated material is mostly from formal internet sources. The description is ordered country wise.

The comparison among the countries cannot be regarded as a complete comparison of all types of subsidies that may stimulate the volume of private rental supply. Subsidies that may be available for different types of tenures that may improve, for example, housing quality, energy quality or urban quality, are excluded. Emphasis will be on the following instruments in the six countries:

- **Australia:** the National Rental Affordability Scheme (NRAS) with the aim to supply new affordable rental housing.
- **Belgium:**
 - intermediation between social tenants and private landlords via Social Rental Agencies; and
 - planning obligation to realise social and affordable rental housing.
- **Germany:**
 - general tax subsidies for investors in rental housing (depreciation deduction as most important); and
 - bricks-and-mortar subsidies with strings attached for investors in subsidised (affordable) housing.
- **Ireland:** intermediation schemes between social tenants (in receipt of welfare payments) and private landlords via local government.
- **Spain:** initiatives to stimulate private renting.
- **Switzerland:** in principle, bricks-and-mortar subsidies with strings attached.

The contribution ends with a section containing a short summary with a table that presents the typology of approaches that are possible to stimulate affordable rental housing supply via private landlords or investors.

Australia

Australia mainly employs three types of measures that have the ability to stimulate the supply of affordable rental housing. The first type involves the initiative to supply existing rental housing at a state level where **governments have leased from private owners** to increase the supply of 'social housing' (Oxley *et al*, 2010). These dwellings are then managed by not-for-profit housing associations and tenants get a state rental subsidy.

Next to the intermediating activities of states, there are also general measures in the **tax system** that may help to stimulate the supply of affordable rental housing (Oxley *et al*, 2010). Several aspects of the Australian taxation system have important influences on the profitability of private renting for individuals and these impact on the level of investment in the sector. The generous cost deductions against rental income and the possibility of benefiting from negative gearing and thus a reduction of tax due on non-property income has positive effects. More generally the tax advantages of investing in rented housing are likely to support the purchase of new dwellings for renting as well as acquisitions from the existing stock. However, the land taxation and stamp duty arrangements effectively incorporate disincentives against individual landlords owning more than one or two properties. Capital gains tax additionally reduces the overall return.

National Rental Affordability Scheme (NRAS)

The third type of measure that may stimulate investment in the PRS is the National Rental Affordability Scheme (NRAS) that is considered a significant long-term initiative that aims to:

- increase the supply of new affordable rental housing;
- reduce rental costs for low and moderate income households, and
- encourage large-scale investment and innovative delivery of affordable housing.

The NRAS was introduced in 2008, providing incentives for 50,000 newly-constructed private rental dwellings between July 2008 and June 2012 (Ong and Wood, 2009). The Australian Government has made a ten year commitment to NRAS which is managed and regulated under the legislative framework provided through the National Rental Affordability Scheme Act 2008¹. In the establishment phase of the scheme in the first two years, 11,000 allocations were planned; while a further 39,000 allocations would have to take place in the second two years (Ong and Wood, 2009). Depending on market demand, a further 50,000 allocations were planned to be made from 2012 onwards.

The speed of allocations, however, turned out to be slower than planned. By 31 April 2013 13,602 incentives were allocated; in other words of the more than 50,000 dwellings intended, a little more than one fifth of dwellings were tenanted or available for rent (Australian Government, 2013). And 25,166 incentives were reserved (dwellings not yet

¹ <http://www.fahcsia.gov.au/our-responsibilities/housing-support/programs-services/national-rental-affordability-scheme/national-rental-affordability-scheme-information-for-investors#key>, accessed 29 July 2013

delivered). In total the number of incentives amount to a little under 39,000 by 31 April 2013.

The dwellings are owned by the bodies financing their development, for example, privately-owned property developers, financial institutions, or non-profit housing/welfare organisations. The property and tenancy management of the new dwellings is to be undertaken by, among others, private businesses (for example, real estate agents) (Oxley *et al*, 2010, based on Lawson, Gilmour and Milligan, 2010, and Johnston, 2009). In the beginning NRAS did not appeal to institutional investors (Oxley *et al*, 2010). In the first two rounds, only housing associations and other non-profit community organisations took up the subsidies. The take-up picture changed in rounds 3 and 4. By 31 April 2013 the number of approved participants was 134 (Australian Government, 2013). Almost 43% of those were profit participants. Of those with a non-profit status, most (74 out of 77) were endorsed charities. Those (private) investors participating in the scheme must be convinced of its pros. These are described on a website as: positive cash flow or at least high returns, high rental demand, solid long term tenancies and excellent tax position for ten years². Similar points are made in the web article entitled *Investors should consider buying NRAS properties* published in November 2011 by Michael Matusik.

The scheme provides a subsidy on the condition that the dwellings are rented for at least ten years at a rent that is no more than 80% of the local median market rent (Australian Government, 2011). Dwellings may, however, be sold within the ten year subsidy period as long as the new owner undertakes to comply with NRAS regulations or the seller provides an alternative³. Dwellings may be part of project that is not subsidised by NRAS.

The subsidy is called National Rental Incentive and is available annually to approved participants for up to ten years for each approved rental dwelling which complies with the requirements of the scheme. The incentive embodies (Australian Government, 2011)⁴:

- an Australian Government contribution in the form of a refundable tax offset or payment (indexed annually: \$7,763.00 in 2013/2014⁵); and
- a State/Territory contribution or more in the form of direct financial support of a specified value (indexed annually: \$2,587.00 in 2013/2014⁶) or some other support of equivalent value. In-kind contributions are likely to vary depending on the individual

² <http://www.realestate-investment-australia.com/nras-pros-and-cons.html>, accessed 29 July 2013. See also: <http://www.aust-immig-book.com.au/business/property-NRAS-Approved-Property>, accessed 29 July 2013

³ <http://www.fahcsia.gov.au/our-responsibilities/housing-support/programs-services/national-rental-affordability-scheme/national-rental-affordability-scheme-information-for-investors#key>, accessed 29 July 2013

⁴ For private investors, the NRAS initially provided a \$6,000 tax credit per new dwelling constructed, each year, for ten years, from the Australian government, plus \$2,000 cash or in-kind contribution from the state or territory government (Ong and Wood, 2009). The state subsidy was given in the form of a grant if a non-income tax paying organisation was concerned.

⁵ <http://www.fahcsia.gov.au/our-responsibilities/housing-support/programs-services/national-rental-affordability-scheme/national-rental-affordability-scheme-nras-incentive-indexation>, accessed 26 July 2013

⁶ See previous footnote.

circumstances of the proposal. They can be in the form of stamp duty or land tax concessions (Oxley *et al*, 2010).

Only endorsed charities have the option to elect to receive the incentive as a cash payment or tax offset certificate (NRAS Regulation 28A)⁷. New is that for round 5 of competitive tendering, approved participants that are endorsed charities have until 30 September 2013 (inclusive of that date) to change their election for all future NRAS incentives payments to receive the incentive as a tax offset certificate, instead of a cash payment.

NRAS requires the dwellings (apartment, house, studio, subsidiary dwelling, townhouse according to statistics) to be rented to households whose income falls within given limits (Ong and Wood, 2009). These income thresholds are modelled on eligibility criteria for Commonwealth Rent Assistance. Based on the National Rental Affordability Scheme Tenant Demographic Report for 2011-2012 NRAS year which is based on information gathered up to 30 April 2012, the Australian Government (nd) reports that the median gross annual income of NRAS households was a little over \$31,000; more than 4,000 households reported a tenant in receipt of CRA; and more than one in three tenants received income from wages. The median NRAS weekly savings is reported at \$87 per week implying a 25% reduction in comparison to NRAS weekly market rent. This average differs between \$241 for a subsidiary dwelling (26% reduction) to \$74 for a townhouse (23% reduction).

Effectiveness of NRAS for new construction

Very little new housing is built exclusively for the private rental sector but official data does not allow one to identify the eventual tenure of newly built housing (from Oxley *et al*, 2010, based on Seelig, 2001). It thus is not possible to suggest what contribution private renting makes to housing production. However, there is anecdotal evidence that new rental build is increasing over the last decade, driven by: booming overseas student numbers (studio and one-bed flats built near universities); retired singles and couples looking for lifestyle advantages of a central city location (Oxley *et al*, 2010, based on personal communication with Mike Berry, 18 June 2010). One other reason can be found in young higher income professionals wanting to live near the centre of town (encouraged by state and local government planning strategies to increase densities). Large land tracts in the inner cities of Melbourne and Sydney are being redeveloped for new residential use on converted light industrial and warehousing land (Docklands type development) and on old high rise public housing estates in Sydney and Melbourne. Due to cost and location factors, the new stock is at the high rental end of the market and much of the stock is pre-sold to investors.

After a slow start (rounds 1 and 2), NRAS appears to have been successful in attracting market interest in investment in affordable rental housing in rounds 3 and 4 with approximately 43% of NRAS participants being from the private sector (Australian Government, 2013). However, the question “to what extent the scheme has met its stated objectives” is now a research question open to answer (Australian Housing and Urban Research Institute, 2013, p4).

⁷ <http://www.fahcsia.gov.au/our-responsibilities/housing-support/programs-services/national-rental-affordability-scheme/opportunity-for-endorsed-charities-to-elect-to-receive-nras-incentives-as-tax-offset-certificates-instead-of-cash>, accessed 26 July 2013

Belgium – Flanders

The supply of affordable rental housing via the PRS has been supported with two types of initiatives in Flanders: via Social Rental Agencies which will allocate private rental dwellings to vulnerable households and via the Decree on Land and Building Policy (*Decreet Gronden- en Pandenbeleid*) that inter alia puts a binding development requirement on projects.

Social Rental Agencies: allocation of private rented dwellings with a social purpose

In Belgium, in the three administrative regions of Brussels, of the Walloon Provinces and of Flanders so-called Social Rental Agencies are active to offer private rental houses or apartments on behalf of their private (usually person) owner-landlords as social rented dwellings to vulnerable households who cannot access a social rental dwelling (De Decker, 2002; De Decker, Vlerick and Le Roy, 2009; Haffner *et al*, 2009; Haffner, 2010a; Haffner and Oxley, 2010). This section focuses on the Flemish design of this instrument.

Social Rental Agencies (*Sociale Verhuurkantoren*; SVK) started as grass-roots organisations in the mid-1980s, originating chiefly from welfare work institutions which were seeking to 'socialise' the market rented sector (De Decker, Vlerick and Le Roy, 2009). The limited institutional response to the economic crisis of the 1980s was the reason for their emergence. Since the 1990s they were slowly institutionalised, first in an experimental setting; later via the 1997 Flemish Housing Code, the law that underpinned Flemish housing policy. The rules for accreditation were also included in the law. Since the 2007 version of the Flemish Housing Code, the definition of social landlord was broadened, to include the dwellings that were let by Social Rental Agencies. By 2008 the Flemish government had accredited 49 Social Rental Agencies. Thirty-seven of those received subsidies from local and/or provincial governments. Subsidies would be for different items; for example. costs of start-up, staff expenses and/or dwelling renovation. Since 2009 there are also subsidies available for these agencies for energy-friendly investments. Notwithstanding the institutionalisation of the Social Rental Agencies, in 2007 it is still a small scale activity. Less than one percent of private rental dwellings in Flanders (almost 4,000 in 2007) were allocated via the Social Rental Agencies.

Social Rental Agencies aim to create an alternative in market rent for vulnerable tenants who are unable to find a social rental dwelling. A contract between the Social Rental Agency and the private landlord about the units, the rent and the management will be made up (Haffner and Oxley, 2010; Haffner *et al*, 2009). The landlord who lets via a Social Rental Agency is able to make use of different advantages (De Decker, Vlerick and Le Roy, 2009; Vandenbroucke *et al*, 2007). First the landlord is not required to carry out the duties performed by the Social Rental Agency, and he also receives a guaranteed rent. If the net income of the landlord does not exceed a certain limit, and the landlord lets the dwelling to a Social Rental Agency for at least nine years, the landlord may also apply for a renovation subsidy that is normally only available to owner-occupiers. Last, but not least, there is the freeze of taxable imputed rent for nine years. And if the landlord renovates a dwelling that is let to an agency there are tax deductions available.

Next to these financial advantages there could be more advantages: 1) guaranteed and timely payment of rent, even when the dwelling is vacant; 2) the management of housing quality; 3) the improvement of the dwelling; and 4) the monitoring of the tenant. Some of these are provided in the form of unpaid work; others as direct benefits to the landlord or the dwelling. In both cases the direct costs for the landlords are reduced in comparison to the situation without letting to Social Rental Agencies. A survey by De Decker, Vlerick and Le Roy, (2009) among those landlords, who had been letting dwellings to Social Rental Agencies in the end of 2007, showed that these landlords very much appreciated the punctual payment of the rent. On the second and third advantages, a few landlords stated that they would not renew the contract in the future because of the quality requirements, but most seemed to be happy with the fact that the Social Rental Agencies plan and organise the renovations. On the aspect of the monitoring of the tenant, however, there were about 15% of landlords who thought that this should be improved, although they themselves also were not undertaking this activity. Generally, the landlords are happy with the increased security aspects: security in rent income, less work and fewer worries, less responsibility in the case of maintenance, security because of continuity in the renting out of the dwelling. In total, more than two-thirds of landlords think that the advantages of renting out via Social Rental Agencies outweigh the disadvantages and only three percent come to the opposite conclusion, while more than one-third of landlords see a balance between advantages and disadvantages.

Effectiveness of Social Rental Agencies

Social Rental Agencies lower the management costs of landlords by doing unpaid work for them, so that lower-than-market (social) rents can be set. In exchange for a low rent, the Social Rental Agencies do not charge commission, are responsible for the administration and minor renovation work. One survey among landlords renting out to Social Rental Agencies shows that these advantages were mostly appreciated (end of 2007; De Decker, Vlerick and Le Roy, 2009). It is also evident that a number of tenants are helped. The Flemish government is confident that this is a useful instrument, as in its coalition agreement for the period 2009-2014, the Flemish government identified as one of its objects in the 2009 Decree on Land and Building (*Decreet Grond- en Pandenbeleid*) to extend the supply of dwellings via Social Rental Agencies, next to the extension of the system of housing allowances and the use of tax and financial stimuli in exchange for fair rent levels (Winters *et al*, 2012). No information has been found during the course of this brief study that any of these instruments have been introduced or extended as of yet, except for the option of extra supply to Social Rental Agencies via the 2009 Decree on Land and Building that is described next.

The 2009 Decree on Land and Building (*Decreet Grond- en Pandenbeleid*)

The 2009 Decree on Land and Building (*Decreet Grond- en Pandenbeleid*) is considered the starting point for achieving the production of affordable housing in Flanders (Winters *et al*, 2012). It came into force on 1 September 2009 and is focused on an effective use of space and thus countering scarcity of dwellings. It directly relates to the Flemish housing code in article 2.1.3 (2°) where it states that a sufficient supply of qualitative good land, buildings and infrastructure is needed to realise the economic, social and cultural rights, as stated in

article 23 of the Belgian Constitution and the right to housing, as stated in article 3 of the Flemish Housing Code.

In the Flemish coalition agreement 2009-2014 affordable and qualitative-good housing are at the centre of attention (Winters *et al*, 2012). The aim is to increase housing supply by 2023 with more than 43,000 social rental dwellings, more than 21,000 social owner-occupied dwellings and 1,000 social plots of land. The Decree delivers different instruments to realise these goals.

One of the instruments that can be used to boost supply of social or affordable housing is the so-called 'social burden' or 'affordable housing supply' (*sociale last of bescheiden woningaanbod*) that is being put as an obligation to local authorities subject to their present supply of social or affordable dwellings (rental as well as owner-occupied). The lower their present share of social or affordable dwellings, the higher the obligation will be. The instrument makes it obligatory that municipalities and private investors provide social or affordable housing. For the first time in Flemish history, a certain obligatory share of dwellings in a private project (consisting of at least ten dwellings or plots of land, at least 50 apartments or at least 0.5 hectare) must be designated as social (*sociaal*) or affordable (*bescheiden*) dwelling⁸. The share will inter alia depend on the size of the project, the ownership of the land, and the type of developer (Stad Gent, 2011). In the case of a social burden shares range between ten and 40%, while the affordable housing shares range between zero and 40% minus the share of social burden in the city of Gent.

Private investors have three ways to choose from to fulfil the requirement when rental dwellings are concerned: 1) self-building and selling to a social landlord; 2) sale of land; and 3) renting to a Social Rental Agency (see section above). In none of those pathways a subsidy seems to be available directly for the private investor. An infrastructure subsidy may be available in the case of the delivery of owner-occupied dwellings or land. Sales prices and rents are prescribed.

The Court of Justice of the European Union has been asked to ascertain the legitimacy of the Decree in three ways. The court ruled on 8 May 2013 (Court of Justice of the European Union, 2013). First it declared: "The condition that there exists a 'sufficient connection' between the prospective buyer [or prospective tenant] of immovable property and the target commune constitutes an unjustified restriction on fundamental freedoms." It does explain that the connection (either by having lived there for at least six years or working there or by having some other important connection) with the target municipality can only be applied if it is based on the housing needs of a municipality and those households most in need. Second, the fact that investors cannot freely use the land that was acquired, may be considered a restriction on the free movement of capital. It is for the Belgian court to assess whether such an obligation satisfies the principle of proportionality (is it necessary and appropriate to attain the objective pursued?). Third, it is also for the Belgian court to assess whether the tax and other subsidies provided would be considered state aid.

8

https://www.wonenvlaanderen.be/ondersteuning_voor_professionelen/regelgeving_wonen/grond_en_pandebeleid/normen_en_lasten_sociaal_woonaanbod/veelgestelde_vragen_over_de_berekening_van_het_te_realiseren_sociaal_woonaanbod, accessed 29 July 2013

Presumably, the subsidies referred to here will be those that are used to acquire or rent the properties built by the investor, as it appeared above that there may not be any direct subsidies available to the investor.

Effectiveness of development requirement for new construction for private investors

No statistics have been found on the contribution of private renting to new construction. Juntto and Winters (2010; in Haffner, 2010a), however, state that dwellings often are inherited by private person landlords, but that deliberate investment by private persons cannot be ruled out. As the share of new construction of apartments was about 50% per year in this century, and the share of apartments in the private rental sector was 55% (verses 20% in the stock), one may expect that some building in the private rental sector is taking place. The few property firms that exist do very little, although there is a small amount, of new construction through public-private partnerships. This is mainly low-rent (or social) housing (Vandenbroucke *et al*, 2007). Juntto and Winters (2010) conclude that investment in the private renting has become regarded as not very profitable.

The question for the future will be whether the combination of an obligatory share of social or affordable housing in combined projects with private housing will deliver new supply of social/affordable rental housing via private investors⁹. One of the questions may be whether private investors are expected to cross-subsidise the housing that will be offered to social tenants. This will lead to increasing prices¹⁰. *Steunpunt Wonen* announces on its website that it is in the process of evaluating the experiences with the instrument of the social burden¹¹. The questions relate to the pathways of realising social or affordable housing and the bottlenecks that are being experienced.

⁹ http://steunpuntwonen.be/onderzoek/copy_of_Ad-hoc-opdracht-9-Evaluatie-vd-borging-vh-sociaal-woonaanbod, accessed 29 July 2013

¹⁰ http://advocatenbureau-gevaco.be/juridische-info/p/nieuwsbrief_38_het_vlaams_grond-en_pandenbeleid_tegen_de_grond/, accessed 30 July 2013

¹¹ http://steunpuntwonen.be/onderzoek/copy_of_Ad-hoc-opdracht-9-Evaluatie-vd-borging-vh-sociaal-woonaanbod, accessed 29 July 2013

Germany

The supply of affordable rental housing via the rental sector has been supported with two types of initiatives in Germany: via tax measures and via temporary bricks-and-mortar subsidies for subsidised rental housing. In the former case, especially the depreciation deduction, there are no strings attached when rents or allocation of dwellings are concerned, while in the latter case there will be rent restrictions and income-related allocation conditions applicable. Any investor is eligible for these subsidies; therefore a social rental sector officially does not exist in Germany, only a temporarily subsidised rental sector invested in by private investors.

Advantages in income and corporate tax

An important tax instrument that is considered to have been crucial in maintaining the attractiveness of investment in new rental dwellings was the degressive depreciation deduction in income and corporate tax which used to be available for investors in all tenures (from Haffner *et al*, 2009, and Oxley *et al*, 2010, 2011). Since 1950 the degressive depreciation deduction in income and corporate tax has been ascribed a large part of making the new private rental dwelling an investment option with a satisfactory return. This instrument allowed for larger shares of fiscal depreciation in the beginning of the ownership period of a rental dwelling than at the end over a period of 50 or 40 years. At the end of 2005, the degressive depreciation deduction was abolished in favour of a linear one which had been available for the acquisition of an existing rental dwelling (Bundesministerium der Finanzen, 2009; BMVBS/BBR, 2007). There were both fiscal and policy reasons. Policy wise, a general degressive depreciation allowance is thought to no longer fulfil a role in a country that is confronted simultaneously with growing and shrinking regions (Kemp and Kofner 2010; Kofner, 2010).

HM Treasury (2010) reports that the provision of private rental housing with degressive tax facilities have recently been challenged as incompatible with EU law (European Court of Justice, Case C-244/09, OJ C233/4, 26 September 2009). According to experts the ruling of the European Court of Justice did not declare the instrument as such as incompatible with EU law, but restricted it so that it was only available for property located in Germany. According to [Steuernetz.de](http://www.steuernetz.de), the depreciation deduction was also available in the European Union and the European Economic Area¹².

Fiscal depreciation has been regarded a powerful subsidy tool, as each buyer-landlord of the property can take advantage of the deduction on the basis of the historical purchase price. House price inflation alone gave landlords a strong incentive to sell off in order to build new properties. Braun and Pfeiffer (2004) calculated that landlords could have reduced rents substantially, by 20% of the market rent, if they were to pass on the tax benefits to their tenants in full (instead of regarding them as additional profit). This would have made renting more attractive than buying for housing consumers. The subsidy could thus be

¹² http://www.steuernetz.de/aav_steuernetz/lexikon/K-12472.shtml?currentModule=home, accessed 5 August 2013

regarded as compensation to landlords for their social conscience in not striving for maximum returns.

With the abolition of the degressive depreciation deduction, the 'normal' treatment that applies to any investor – inter alia a normal depreciation deduction – remains (Oxley *et al*, 2010, 2011). The exception to the normal treatment is the capital gains tax exemption when the property is owned for more than ten years (which also is available to owner-occupiers). Before the end of the period, it is applied at the marginal rate of income. This is to prevent speculation. A second remaining advantage is the deduction of the costs of investment in the existing stock in the year of investment (renovation, modernisation). Finally, the fact that negative income from housing investment (depreciation and debt interest) could be deducted from other income was also perceived as attractive. This so-called negative gearing is especially attractive to private person landlords as this is a facility that since recently is no longer available for income from stock and savings accounts.

Bricks-and-mortar subsidies with strings attached

The only general subsidy (if different energy saving, quality improvement and urban renewal instruments are excluded) that allows affordable rental housing to be offered is the bricks-and-mortar subsidies (from Haffner *et al*, 2009, and Oxley *et al*, 2010, 2011). They are available either as low-cost loans or as interest subsidies and helped investors realise their desired returns. These time-limited subsidies (which could be available for a period of 30 years or more) are available for any investor who is willing to apply the applicable rent limits and allocation rules as agreed with the subsidy giver (the municipality). The use of temporary bricks-and-mortar subsidies – first available for new construction only, later for existing dwellings as well – results in the addition of these subsidised dwellings to the unsubsidised rental sector after the subsidy period ends.

Since 2006, as Germany has been facing a shrinking population in many regions, it has changed the focus of its housing policy away from general subsidisation to more targeted and regionally-diversified subsidisation (Bundesregierung, 2009). Since the shift in housing bricks-and-mortar subsidisation federal states are able to design their own housing investment policies. The shift in responsibility was accompanied by a financial compensation paid for annually by the federal government until 2013.

Effectiveness of subsidisation

The exact contribution of private providers of rental housing cannot be determined. But policy must have played an important role in maintaining a healthy rental sector by way of regulation and subsidisation of rental housing (from Haffner *et al*, 2009, and Oxley *et al*, 2010, 2011). Kemp and Kofner (2010) argue that relatively strong tenant protection allowed for relatively stable returns on housing investment in the long-run. These stable, but relatively lower returns have been compensated by some subsidisation, although this is less nowadays than in the past. The combination of restrictions and subsidies has created a competitive tenure (almost the largest in Europe, see Table 1) that caters for broad layers of the population in the long-term. Landlords in such circumstances apparently value the long

term secure income that goes with long term tenancies keeping down voids and management costs (BMVBS/BBR, 2007).

A recent study by *Institut der deutschen Wirtschaft Köln* (Brügelmann, Clamor and Voigtländer, 2013), however, concludes that the present depreciation rates that the tax system allows for are clearly below the economic depreciation rates. It is estimated based on ageing and technical depreciation of the stock and inflation that dwellings depreciate in 25 years on average with four percent per year. Depreciation rate in income and corporate tax is two percent per year amounting to an expected lifespan of the dwelling of 50 years. The authors warn that new construction of dwellings and investment in existing dwellings (renovations and acquisitions) would thus be disadvantaged in comparison to alternative investments. Building activity will therefore decrease and rent levels will increase is their conclusion.

Ireland

In Ireland the schemes of intermediation have been applied since 2005, when the Rental Accommodation Scheme (RAS) was introduced. Another intermediation scheme, more long-term, was introduced in 2008. In both cases dwellings owned by private property owners are let out with a social rental role.

Under the Rental Accommodation Scheme (RAS)¹³ local authorities set up contracts with private landlords and landlords in the so-called voluntary sector¹⁴ who agree to provide newly-built or existing accommodation that meets minimum standards. The RAS was introduced at the end of 2005 and is gradually being used to move long term welfare recipients into private housing with a social rent, and being designated as social housing then. The accommodation is available exclusively to persons in long-term housing need who have previously been in receipt of Social Welfare Allowance (SWA) rent supplement. The RAS is expected to expand the number of private accommodation available on a long-term basis to low-income tenants who are unable to access local authority (social) housing. RAS represents an important element of the government's housing policy and one that it is according to the government, along with the new long term leasing initiative (see below), set to assume an increasingly prominent role in meeting housing needs in combination with welfare aims in the future¹⁵:

One of the main benefits of RAS is the elimination of poverty traps – as it helps to provide the necessary springboard to accessing employment, training or education opportunities which may lead to broader accommodation options in the future. Tenants can stay in the scheme upon taking up full time employment unlike rent supplementation.

The scheme is also expected to improve the quality of the accommodation provided. Given that local authorities inspect accommodation before agreeing contracts under the Rental Accommodation Scheme, it is argued that it will help to ensure that a significant number of vulnerable households will eventually have dwellings that at least meet the minimum statutory standards.

Over time, local authorities are expected to build up a stock of market rented accommodation to which they will nominate tenants. Under the RAS, local authorities set up contracts with private landlords who agree to provide accommodation that meets minimum standards. The local authority makes direct payments to the provider and the tenant makes a contribution to the costs by a payment to the local authority. The level of

¹³ Information is from Haffner *et al* (2009), Haffner and Oxley (2010), Oxley (2010), Oxley *et al* (2010); completed with information from the official website of the Department responsible for the scheme: <http://www.environ.ie/en/DevelopmentHousing/Housing/SocialHousingSupport/RentalAccommodationScheme/>, accessed 31 July 2013

¹⁴ Voluntary housing associations have been formed, mostly by existing care associations, to meet local housing needs. Together with the housing associations they are the providers of social rental housing.

¹⁵ <http://www.environ.ie/en/DevelopmentHousing/Housing/SocialHousingSupport/RentalAccommodationScheme/>, accessed 31 July 2013

contribution for the tenant is linked to the income related rents (Differential Rents) scheme for local authority housing for households in similar circumstances. RAS therefore allows for income-related rents similar to those paid by local authority tenants. This implies that as the tenant's income increases, a higher contribution towards the rent will have to be paid. Dwellings that are being used for the RAS are therefore considered social rental dwellings (as can also be derived from the website).

The advantages for the landlord can differ, but include a negotiated rent which may not exceed the Social Welfare Allocation rent supplement level which is applicable (Department of the Environment, Heritage and Local Government, nd). However, rents can be negotiated on a level lower than a 'normal' level, because the landlord does not have to collect rents, but the local authority does; the landlord does not have to fill vacancies, but the local authority does; the average yield normally would include vacancies; the landlord has the advantage of a guaranteed and prompt payment of rent. The local authority will act as agent on behalf of the tenant, leaving the landlord in charge of other landlord responsibilities (such as insurances and routine maintenance and repair).

If the intermediary scheme in the traditional Rental Accommodation Scheme is about getting existing private rental dwellings available for tenants which should be housed in the social sector, but live in the private rental sector receiving a rental supplement; the 'new' long-term lease scheme¹⁶ that has been in existence since October 2008 is about a more large-scale approach for property owners with at least five properties. It is long-term in the sense that lease agreements will be for a period of between ten and twenty years. On other aspects of delivery the schemes seem to be very much alike. The lower-than-market rents are negotiated between the intermediary and the private landlord based on the fact that the intermediary at least does some tasks – management and administration (including tenanting) – for the landlords. In the case of the new lease scheme, these tasks would also include taking care of maintenance. These tasks will reduce the landlords' costs allowing them to lower rents in comparison to market rents, while not accepting lower returns.

Effectiveness of intermediation

It is not possible to estimate reliably the contribution of private renting to new production (from Oxley, 2010). New house building figures distinguish private sector from public sector production but do not distinguish between private output intended for home ownership and private renting.

For the RAS, no statistics have been found either about whether RAS is used for newly-built private rental dwellings. However, one must expect that most dwellings will be existing ones. Moreover, while it is not possible to conclude whether RAS stimulated extra new supply of social rental housing, it is possible to conclude that the RAS provides a bridge between the social and private rental sectors and effectively means that the private rented sector is being used for a social purpose and is directly contributing to meeting the needs of households who cannot afford market rents. The cumulative number of cases transferred

¹⁶ <http://www.environ.ie/en/DevelopmentHousing/Housing/SocialHousingSupport/LeasingArrangements/>, accessed 31 July 2013

from Social Welfare Allocation to RAS increased from more than 5,000 at the end of 2006 to more than 43,000 at the end of 2012¹⁷. These numbers would imply that the private rental stock of 27,000 dwellings in 2003 has been allocated twice and that the original aim of benefitting 33,000 households by the end of 2008 (Department of Social and Family Affairs, 2006, National Report for Ireland on Strategies for Social Protection and Social Cohesion 2006-8, www.welfare.ie) has been surpassed. If the 2006 numbers were still correct this growth also implies that of the 60% of the 60,000 rent supplement recipients who have been estimated to be eligible for the RAS, most would have been transferred to the RAS.

¹⁷ No data have been found for the 'new' leasing scheme.

Spain

As in Belgium, before the Global Financial Crisis hit Spain, stimulating the private rental supply by public intermediation in the allocation of existing – but vacant – dwellings was government policy (Hoekstra, 2010; Hoekstra and Vakili-Zad, 2010; Buron, 2013). The intermediation initiative emerged in order to deal with the problem of the many vacant dwellings in Spain. In 2005 a so-called Public Rent Fund Company (*Sociedad publica de alquiler*) was established. This fund acted as an intermediary institution between owners of vacant dwellings on the one hand, and house seekers on the other hand. The Spanish central government took the initiative for this fund, and defined the general framework within which it operates. However, the local authorities (bigger municipalities, autonomous regions) had the freedom to organise the activities of the fund in the way that best suited them. It provided similar facilities as the Flemish Social Rental Agencies or the Irish intermediaries to the landlords; for example, taking care of the administrative obligations concerning the letting of a dwelling and the maintenance and providing a guaranteed, though limited, rent. There were some requirements for tenants as well. At the end of 2009, about 12,000 rental dwellings were let through the public rent fund. However, according to Buron (2013, p5)¹⁸ the national company “failed harshly”, while some local initiatives provided “good local practices”, with a marginal effect though, probably because of the small quantity of dwelling rented out (compared to 128,000 social units, to 2.3 million rental units and to 25.3 million dwellings; no year given).

This instrument is one that Buron (2013) classifies as widely used or planned to be used by public authorities. But it is one of many of a variety of instruments on all levels of government. Thus Buron (2013) proposes that there are too many instruments that are too small-scale to be effective. He lists some marginally-used instruments, such as the instrument of public intermediation in the case of private rental contracts which would be hardly applied, while in the case of over mortgaged families it would be used regularly. Another example is the intention of providing the same public support for the construction of private rental dwellings as in the case of the social rental dwellings when the right of use is the same. Furthermore, Buron (2013) presents a list of instruments that have been proposed, but have not been used at all; such as better tenant protection or a favourable tax treatment of tenants. Furthermore, the reduction of the public deficit for a country that has put about 49% of annual GDP into the financial system, maybe an underlying aim, even though it will not be the public aim, Buron (2013) argues. He considers the sale of public rental stock to private funds and corporations that are to uphold the ‘social’ task as an example.

Effectiveness of policy instruments

Not only are there a variety of instruments, Buron (2013, p8) states: “it also almost impossible to make a precise judgement on the effectiveness and efficiency of public spending, given the disseminated, fragmentary and unsystematic information.” Buron (2013) therefore calls for a coordinated approach to social, public and affordable rental housing. He, in fact, follows Pareja-Eastaway and Sánchez-Martínez (2010, p152) who also

¹⁸ The text warns: The information in this document reflects the author’s view.

put forward a call to produce a stable framework for the development of the private rental market:

The revitalization of the rental sector is urgently needed owing to the unsolved problem of housing access for certain social groups: measures, aimed at enlarging the sector beyond mere short-run measures, involve, among others, the creation of a stable legal framework in order to facilitate its development.

In a country so strongly affected by the Global Financial Crisis, it remains to be seen whether any structural stimulus for the supply of private rental (affordable) housing can be created.

Switzerland

As in Germany, in Switzerland housing provision has generally been a task of the private sector (from Haffner, 2010b). A system of temporary and repayable subsidies stimulated the construction of rental dwellings with a lower than market rent between 1975 and 2001. Based on the information found, the 2003 replacement law has apparently not yet allocated any subsidies yet to the private landlords (only the non-profit ones).

The 1974 federal law for construction and facilitation of homeownership (*Wohnbau- und Eigentumsförderungsgesetz, WEG*) paved the way for the support of housing production of rental flats with below-market rents, and the encouragement of homeownership (Bourassa, Hoesli and Scognamiglio, 2009). It also made it possible for any landlord and any tenant to receive a subsidy in exchange for complying to certain rules (rent regulation, minimum quality, limit to production costs; Kemeny, Kersloot and Thalmann, 2005). The aim of introducing broad subsidisation was to prevent ghettos from arising. The 1974 law also provided for the option of extra non-refundable subsidies for even lower rents for units occupied by households with a very low income or with special needs.

These rental schemes run temporarily up to thirty years (Hauri, Steiner and Vinzens, 2006). This means that temporary assistance is given, which in the end delivers a dwelling for the private profit rental sector after the subsidy period ends, and the subsidy had been given to a profit investor. In this sense, the Swiss system was comparable to the German bricks-and-mortar scheme. The big difference is that the Swiss WEG-subsidies mostly had to be repaid.

As production crashed in the crisis at the end of the nineties, the subsidisation model was deemed inappropriate and it was discontinued and replaced in 2003 with the new federal housing promotion act (*Wohnraumförderungsgesetz, WFG*). In principle the two laws (1974 and 2003) had the same purposes: to stimulate affordable rental housing for low income groups and to facilitate access to owner-occupation. The third and added purpose of the 2003 law is to stimulate alternative and innovative types of housing (which usually does not happen in a tight housing market). The difference between both laws is the type of instrument. Interest-free or low-interest loans are the instruments to be used as of 2003 instead of government guarantees in combination with non-refundable and refundable subsidies.

Because of the crisis on the housing market, however, parliament has blocked the funds for implementation of the 2003 law (Bourassa, Hoesli and Scognamiglio, 2009; Hauri, Steiner and Vinzens, 2006, p59). Federal housing subsidies are thus almost not available, only those for non-profit housing providers. The law was in first instance suspended until the end of 2008 owing to market conditions (less demand) and the lack of financial resources (Hauri, Steiner and Vinzens, 2006, p35). At the time of writing, it seems that the situation has not changed since 2008¹⁹.

¹⁹ <http://www.bwo.admin.ch/themen/wohnraumfoerderung/00150/index.html?lang=de>, accessed 30 July 2013

Effectiveness of subsidisation

In the period 1975 to 2001 about 100,000 rental flats were supported with WEG-subsidies and it was considered successful (Hauri, Steiner and Vinzens, 2006, p58),

For a long time, evaluations of this scheme showed good result because it reached the target group of financially weaker households. However, when real-estate prices fell and rents and salaries stagnated during the real-estate crisis of the 1990s, the WEG became problematic.

Thus it turned out not to stimulate supply in a situation of economic crisis. In the best year (1993), more than 12,000 flats (of which almost 9,000 were rental flats) were constructed based on the WEG subsidies, while a total production of 35,000 dwellings was achieved. In the following four years production increased, while WEG-production declined until 250 units in the year 2000 and almost 1,000 units in the year 2001, the last year of its existence.

Summary

This contribution provided a comparison among six countries about instruments with which the (extra) supply of social or affordable rental housing in principle can be stimulated. The following instruments were described:

- **Australia:** the National Rental Affordability Scheme (NRAS) with the aim to supply new affordable rental housing.
- **Belgium:**
 - intermediation between social tenants and private landlords via Social Rental Agencies; and
 - planning obligation to realise social and affordable rental housing.
- **Germany:**
 - general tax subsidies for investors in rental housing (depreciation deduction as most important); and
 - bricks-and-mortar subsidies with strings attached for investors in subsidized (affordable) housing.
- **Ireland:** intermediation schemes between social tenants (in receipt of welfare payments) and private landlords via local government.
- **Spain:** initiatives to stimulate private renting.
- **Switzerland:** in principle, bricks-and-mortar subsidies with strings attached.

The different types of measures can be classified according to four types of instruments (see also Haffner and Oxley, 2010), as Table 2 also shows:

- State agent model
- Private model with public subsidy plus strings attached
- Private actor cross-subsidisation (with possible a subsidy by the buyer or manager of the dwellings)
- General measures

Table 2: Types of measures that stimulate affordable rental sector supply via private landlords and that have been discussed to some extent in this contribution

	Lease from private sector = state agent model		Specific subsidy = private model with public subsidy plus strings attached		Planning obligation = private actor cross- subsidisation	General measure
	Via government	Via intermediary	Once only	Periodic		
Australia				+		
Belgium – Flanders		+ combined with tax incentives			+	
Germany				+		+
Ireland	+					
Spain	+		+?*	+?*		
Switzerland				+ also refundable**		

*) Insufficient information to make classification

**) At the time of writing, only for non-profit housing providers

The **intermediation schemes** provide practical examples of what MacLennan and More (1997) term a ‘state agent’ model of social housing provision (from Haffner *et al*, 2009). They suggest that within such a model the production and pricing of homes would be left to market producers and the ‘state agent’ would be responsible for securing market vacancies of an acceptable standard. The state agent would be a third party who could be government or private party which secures vacancies of an acceptable quality and makes them available to applicants on the waiting list for the social rental sector.

This description fits the intention of these schemes in Belgium, Ireland and Spain. MacLennan and More (1997) saw potential benefits in such a system with it generating market incentives and providing for the efficient targeting of subsidies. One potential problem acknowledged was that market owners may extract scarcity rents. But, it was suggested, the bargaining power of the ‘state agent’ might ameliorate this, as seems to be the case by the trade-off between services and advantages offered by the intermediary to the landlord.

In the **private model with public subsidy and strings** attached a government subsidy will be necessary (combined with private finance) for it to be an involvement model (from Haffner and Oxley, 2010). The strings attached to the government subsidy will be laid down in the contract. This is the case in Germany where the contract parties are local government and the private landlord, while the contract also covers an agreement on rent setting and future rent adjustments. In Australia the subsidy scheme is run by the national government. In both countries it concerns temporary schemes where the dwellings in the long-run will become private rental dwellings without strings attached.

The rationale behind the **private actor cross-subsidisation model** to private involvement in the provision of social or affordable housing will be that the costs of this housing provision are essentially met from the increase in land values that occurs when planning permission is given (from Haffner and Oxley, 2010). The requirement to provide a cross subsidy can lead residential developers to offer less for the land and thus there is an argument that the subsidy can come in whole or part from the land owner. From a public policy perspective there will be two driving forces: the desire to reduce public expenditure (and replace this by private spending) and the desire to have so-called mixed communities. A variation of this model is applied in Flanders. However, it seems that social actors that will buy or rent out the dwellings will be subsidised when ‘taking over’ the dwellings that the private investor offers. The question remains whether those subsidies will remove the obligation for the private investor to cross-subsidise. Based on the information that has been found, this seems to be unlikely.

Last, but not least, there could be **general measures** applicable to stimulate supply in affordable private rental housing. Tax measures could either be specific for housing investment or any investment. An example of the former will be negative gearing for rental housing investment in Germany and Australia (both not in Table 2), and the maintenance subsidy for rental housing (not in Table 2) in combination with the intermediation scheme in Flanders; an example of the latter will be the German depreciation deduction.

Each of the measures will come with their own advantages and disadvantages.

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