

## The Private Rental Sector in Western Europe

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# Chapter 1 – THE PRIVATE RENTAL SECTOR IN WESTERN EUROPE

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Marietta Haffner, József Hegedüs and Thomas Knorr-Siedow

## **Introduction**

Across Western Europe, private renting is viewed from very different perspectives. In some countries, especially the UK and Southern Europe, the reputation of this sector of the housing market has often been linked to insecure housing of questionable quality for the less privileged. By contrast, in Germany, Austria and Switzerland, private rental housing has become a widely accepted and secure form of tenure for a wide variety of people; it is a solid part of housing policy and is often considered a cornerstone of market stability during economic crises.

The Private Rental Sector (PRS) currently plays a relatively limited but stable role in European housing markets, as in many countries its decline in market share has stabilised (Peppercorn and Taffin, 2013; Ball, 2010; Gilbert, 2003; Scanlon and Whitehead, 2011). According to Eurostat data, 19% of the housing stock in the 28 countries of the European Union (EU) was rented at a market price in 2014. Homeownership is the dominant tenure form in European countries, except in Germany and Switzerland, where private rentals have been supported by the housing system since the early 20th century. As the share of the PRS is relatively high in both of these countries and renters' rights are secure, many mainstream households see the sector as a competitive part of the general housing market. Private rental housing plays different roles on housing markets when it provides housing solutions for low-income and marginalised households, as well as for higher income groups, as is the case in the

Netherlands (Haffner et al., 2009). The PRS has also increasingly become attractive to affluent groups in a number of countries. On the demand side, upmarket private rentals fit the dynamic lifestyle of the new creative class, as well as the mobile workforce. On the supply side, the upper-middle class may see a benefit from a financial investment in the PRS as a way of supplementing their retirement income.

The potential role of the PRS in offering alternative housing options may be important in Central and Eastern European countries, where homeownership has become predominant as a result of the post-transition privatisation wave. Furthermore, the expansion of affordable housing options could include private renting options based on (temporary) state support. Therefore, the PRS may play a key role in the future of post-socialist countries' housing regimes (Hegedüs et al., 2014). The aim of this chapter, therefore, is to provide a historical overview of the development of the PRS in Western European countries and offer insight into key factors that may influence its development in transition countries.

To provide a context for the analysis of the PRS in the post-socialist countries, the chapter clarifies the term 'private rental' in Section 1 and explains its different meanings. This section presents an overview of the various forms of private rental tenure. It draws attention to the legal-economic relationship of the actors in the PRS and the sociological/legal meaning of the PRS in the context of national housing regimes. In Section 2, we describe the four dominant housing policy approaches of the last century that have impacted the changing position of the PRS, but not necessarily in the same way. Section 3 focuses on key areas of housing policy intervention in the PRS that could help to explain the development of the sector. Section 4 summarises the development of the PRS in the countries, especially in those where either a large PRS has been preserved into this century or where its market share has significantly increased in this century. The final section sets out the authors' insights regarding various aspects of the sector's future development.

## 1. Tenure types and landlord types

Tenure structure is a key and dynamic characteristic of European housing systems. It reflects the social, cultural, economic, and legal use of housing as a consumer good as well as an asset. It defines the opportunities for the types of landlord that operate in a country.

### Tenure types

Tenure structure reflects a wide variety of property rights, ranging from full legal and actual ownership (as in owner-occupancy) to partial rights (as in cooperative-owned housing or shared ownership) and various grades of distinction between ownership and use (as in leases and rentals). However, the *meanings* of the various forms of rental tenure in general and of private rental housing in particular have evolved over time and across countries and are thus embedded in a sociological, economic and cultural context (Kemp, 2010; Mandic and Clapham, 1996; Hegedüs and Teller, 2007). This is why defining the PRS is not straightforward (Crook and Kemp, 2014a, p. 5).

A two-step approach is taken to defining tenure here. First, the owner and the tenant are different roles; that is, the housing is not owner-occupied, but could be cooperatively owned. Second, private rentals are distinguished from social rentals according to the way in which the dwellings are allocated. 'Social' housing is allocated to households administratively on the basis of a level of need defined by society (Haffner et al., 2010). 'Private' rental represent an agreement between resident and landlord, which is typically based on market, or more precisely a regulated, market relation, the though agreement could be based on principles like family relations or employee-employer. The definition and the typology based on the type of allocation of the dwelling and type of the institution and the subsidy involved in the transaction. (Subsidy could be continues rent allowance or capital grant, but , as in tze case of the renmtal cooperatives or municipal housing, accumulated capital grant, which makes

possible (and according come countries regulation force) to set rent under market price.

Ownership of the dwelling implies that the terms ‘social’ or ‘private’ are used according to the fact of whether an allocation system with subsidy is implemented as a distinctive criterion on the basis of which rental tenure can be compared across countries.as a (Hantrais, 2009).

Rental housing owned by private actors can play a social role as well,.

*Table 1. A basis of typology of th rental sector: Landlord, allocation and subsidies*

Public Rental		Private Rental		Criteria
Rental cooperative, NGO (Church, etc.)	State. municipal, or municipal company	Institutional	Private person, accidental or non-institutional professional	Landlord type
Rules set by the institution consistence with the law or housing policy	Based on government defined rules with reference social need	Market based	Typically market based, but other principles influences the agreement, no specific rule	Allocation is controlled by
Accumulated (mortgage free) capital, and/or different subsidy scheme. Though the condition are in the process of change		Typically not subsidized, but there specific program may be involved, both on the supply side and the demand side		Subsidy

*Source: Authors.*

Moreover, if we look at specific behavioural and cultural factors, we find that tenure forms have different social connotations depending on the socio-economic context. The most widespread tenure forms – private or market or commercial rentals, public or social or non-profit rentals, and owner-occupation, which are often considered the three ‘basic’ tenure forms – have very different meanings in different historical and national contexts. Tenure forms ‘are not fixed or immutable sets of social relations around the ownership, occupation and pricing of the accommodation. [...] As the wider economy and society change, so too do the social relations embodied in housing tenures’ (Kemp, 2010, p. 122). This is demonstrated in the next chapter of this volume, which deals with tenure forms in the private rental sector in

the socialist housing systems. While in Western Europe the vast majority of rental contracts are formally concluded in writing, in some post-socialist countries as much as 10 to 20% of the urban and rural housing stock may be comprised of informal forms of tenure.

Furthermore, tenure forms in European countries, are often barely compatible with their Third World ‘counterparts’ in spite of some similarity, because of their different social, economic and historic environment. (Hoffman, Haupt and Struyk, 1991; Mandic and Clapham, 1996), making cross-country and cross-continental comparison problematic.

### **Landlord types**

Three landlord types of the PRS seems to be important to differentiate. .

The *first type* consists of small-scale landlords, the majority of whom are individuals who are often more interested in building up wealth and securing a safe medium-term return on investment than they are in maximising profit. These individuals may also be professional, non-institutional landlords. The individual letting of inherited flats is increasingly occurring as the demographic structure and mobility patterns are changing, and the next generations choose not to live in the inherited property (O’Dwyer, 1999).

In countries with a more significant PRS, the diverse composition of small landlords may be reflected in the renters’ profiles. In Germany, for example, owners and renters are often from similar social strata, whether in the better off or the less privileged segments. In the case of small leaseholds, landlord-tenant relations are often not only structured by rent laws, but also by personal proximity – with all the associated advantages and disadvantages of this. The introduction of management companies can be considered relatively recent development, which could be important factor in the post socialist countries. do is bundle up small properties for professional private asset management, improving profitability on the one hand, but depersonalising relations and thus changing the sector on the other.

The *second major landlord type*, which generally (still) forms a small share of the market, consists of market-oriented institutional investors. They are playing an increasingly important role in large, new, or refurbished developments in attractive locations. The PRS has proved to be an attractive market segment since the Global Financial Crisis (GFC), as the appeal of traditional forms of relatively safe financial investment in life insurance or public bonds has decreased owing to the risks and/or persistently low interest rates that have accompanied those investments for more than a decade (Oxley et al., 2015). The demand for rental accommodation in the PRS is also on the rise as a growing share of the population has become ineligible for mortgage finance, in part because incomes have gone down and become insecure, and in part because of demographic changes, emerging new lifestyles, and higher mobility due to job flexibility.

There is a wide variety of institutional landlords, from wealth and asset management companies focusing on long-term goals to private enterprises that engage in short-term profiteering – for example, from former public social housing that has been privatised; this is especially the case in Germany and Austria (Elsinga et al., 2014). Some of this housing was in the past well managed by municipal owners and is still subject to some rent control and access regulations, while other housing was turned into highly speculative investment. In some parts of Germany, mostly those regions in economic decline, the privatisation of public housing has resulted in the growing neglect of the maintenance of the privatised housing stock (‘scrap properties’), which may undermine social cohesion (Enquetekommission NRW, 2013).

The *third major type of landlord* is represented by the various versions of non-profit housing enterprises that exist and that may have enjoyed state subsidies for a (limited) period in the past. In Berlin, for instance, more than 10% of the housing stock can be classified as a rental cooperative (Böttcher, 2013). Non-profit organisations, such as cooperatives and public-private partnerships, operate in France, Germany, the Netherlands, and the UK. In the

Netherlands and the UK, such non-profit social organisations (housing associations) have the capacity and are allowed to offer some housing at market rents (Haffner, 2013; Haffner et al., 2014; Oxley et al., 2010), occasionally through a subsidiary that has been specially created for this purpose.

The PRS may form an integral part of the system that through an allocation system provides dwellings to households targeted by policy. This means that all types of landlords can be incentivised to offer ‘social’ rentals, while those landlords that typically do provide ‘social’ housing (like public or non-profit landlords) can also offer ‘non-social’ rental housing (market or private rental housing). In Germany municipal housing companies are considered private organisations, even though the shares in these companies are owned by municipalities and they (like housing cooperatives) provide de jure and de facto social housing (also through an allocation system, see above) as well as private/market rental dwellings (Droste and Knorr-Siedow, 2014).

In sum, private landlords can provide both private rental housing and social (subsidised) housing (see Table 1), where private renting is integrated in the affordable housing provision, which is specifically the case in Germany, Switzerland and France (Haffner et al., 2008; Hoekstra et al., 2012; Oxley et al., 2010; Scanlon and Kochan, 2011; Hegedüs et al., 2014). Social landlords can also provide private rental housing. However, both types of hybridisation of landlords have been affected by the EU's state aid regulations that aim to create a level playing field on the rental market (Elsinga and Lind, 2013).

There are, therefore, significant differences to be identified between the interests and behaviours of various landlord types, where the long-term goal of asset preservation is more typical of small- to medium-hold lessors and housing associations and cooperatives, while a more directly profit-oriented approach is more characteristic of professional institutional



landlords. There are too a number of actors that represent a mixed model, either between private and social renting, or between renting and partial ownership (like German housing cooperatives).

Regardless of the nuances of landlord type, at present most private rental housing in Europe is provided by ‘private person’ landlords (Crook and Kemp, 2014a; Haffner et al., 2008; Scanlon and Kochan, 2011; Whitehead et al., 2012). Now that the actors are introduced the history of the PRS in Western Europe follows in the next section.

## **2. The historical development of the private rental sector in Western Europe<sup>1</sup>**

A variety of pathways for private rental markets have developed across Europe that reflect specific national and regional traditions, laws, housing policies, and practices. Whether countries tend to lean towards a free-market orientation in their private rental housing or opt for a more or less regulated private market depends on a wide variety of housing customs and cultures and on legal traditions and power relations between housing providers and renters as customers. This complex amalgam of housing and regulatory traditions, cultures, and the economy of the sector also affects the user of private rental housing. The question of what social, economic, and political factors determined the development of national housing systems (in Western Europe) is examined on two levels.

First, housing systems change in interaction with general economic and social processes and these are increasingly connected to global economic changes. Thus, the first level of analysis involves a short description of the development of the political and economic systems in Europe and how they may have impacted housing policy. The aim is to provide an overview of policy changes in Europe in relation to the housing system in line with “system embedded

research” (Stephens, 2011), taking into account policy transfers in the global economy and the role of international organisations. These approaches can be interpreted as the main underlying policy principles that have become integrated into national housing systems in very different ways depending on national factors. Therefore, this is a comparative analysis across Western Europe that, , focus on the broad contextual changes and their turning points and look for the ways in which national states try to react to them (Boelhouwer and Heijden, 1992, ), covering the history of the past century and a half.

Second, housing policy cannot be explained solely on the basis of the general global (capitalist) trends, as the effects of national political forces and demographic and economic factors are embedded in the development of the housing systems. Owing to the effects of globalisation, national factors have lost some of their importance, but they are nevertheless the main factors that translate into policies and any analysis must take them into consideration. This overview starts out with the ‘tenure-focused’ approach of mainstream housing sociology and then applies the ‘structure of housing provision’ approach of Harloe and Martens (1987) and Ball and Harloe (1992) combined with the institutional approach of Lundquist (1990).<sup>2</sup>

Based on these theoretical approaches, four time periods in the development of housing systems and policies are identified according to the mainstream paradigms that define them. Even though the four paradigms are tied to different periods in the development of capitalist societies, there will not necessarily be a direct correspondence between the paradigms and periods, as in some countries certain elements of housing policy emerged earlier than in other countries.

The following main periods are distinguished: before WWI; from WWI to the 1970s (which includes a transitional period between WWI and WWII); from 1970 to 2008; and from 2008

onwards. This periodisation is similar to the period pattern used, for example, by Malpass (2014), Power (1993), and Harloe (1995). Also referred to will be Boelhouwer and Van der Heijden (1992), who distinguish four periods in housing policy after WWII up to the 1990s.

Mainstream paradigms represent the dominant way of managing and interpreting the role of housing in different stages of the development of capitalism. The first paradigm is the liberal approach to the housing market, the second the emergence of the welfare state, the third is the World Bank's proposed enabling approach, and the fourth is the regulated market approach. While many countries have faced similar challenges, they have responded differently to them.

### **Industrialisation, urbanisation and liberal capitalism**

Private rental contracts were probably the earliest form of agreement regarding the temporary use of dwellings. During the 19<sup>th</sup> century, the expansion of private renting became the counterpart to massive privately financed urbanisation and urban housing construction across Europe triggered by industrialisation. The working classes lived in so called tenement barracks in notoriously poor socio-economic conditions and were dependent on investors such as builders and on the 'rentiers' who made a living and profit from the letting of dwellings. These very precarious private-renting relations were a regular source of social and political conflict, as evidenced by the many rent-riots that used to break out in European cities (Gauldie, 1974; Geist and Kürvers, 1980; Zimmerman, 2011). It was only towards the end of the 19<sup>th</sup> century that some legal and quality standards were established, with the cooperative movement and small-scale philanthropic initiatives setting examples for more sustainable arrangements. However, before the turn of the 20<sup>th</sup> century, private renting was also partly taken up by members of the upper classes. Engineers, officers, and civil servants and their families, who often needed to move for employment reasons, began the practice of renting luxury flats from private landlords in bourgeois neighbourhoods in multi-storey "rent-palaces" which meant larger, good quality tenement houses located in bourgeois neighbourhoods]. But

lease conditions remained generally short term, and annual or even half yearly rent rises made privately rented dwellings an unpredictable affair.

Privately rented housing became the dominant tenure form in the European cities of the 19<sup>th</sup> century, as the housing needs generated by massive industrialisation and urbanisation were met with large-scale development of private rental accommodations. Although exact data on what share of urban housing was made up of private rentals are rare, it was often around 90% in London, Paris, Berlin, Budapest, and Vienna (Gyáni, 1992; Power, 1993; Zimmermann, 2011; Wolman, 1985 and Thompson, 1990 quoted in Power, 1993; Munjee, 2003).

The basic approach to housing policy (in Western Europe) can be described as a *liberal capitalist approach*, which determined policy interventions until the end of World War I. Housing was basically a marketable good, where demand was triggered by industrialisation (the influx of the rural population into urban areas), and supply was provided by entrepreneurs, partly through bank financing and equity. The role of the state was limited to the regulation of building standards and enforcing minimal public health requirements (Kemp, 1984; Burns et al., 1977; Zimmerman, 2011). The private capital flowing into residential construction was insufficient to satisfy the level of demand, so private and state-owned enterprises also had to invest in residential real estate, especially in areas where the necessary infrastructure did not exist (mining communities, railroad company housing). The state also embarked on new residential construction even before WWI, albeit sporadically, in order to alleviate extreme housing deprivation rather than to provide a systematic solution. The rental contract was strictly considered a private agreement in which the state played little regulatory role; the details of the document were left entirely to the contracting parties, and any regulation of its content was generally considered an intrusive disruption of the free market. Rent levels, which typically amounted to 20 or 25% of tenants' incomes, were considered high; rent hikes were frequent. Tenants crammed into overcrowded apartments to offset high

rents. The risk defaulting on rent was also high, which led to acute conflicts. Settling landlord-tenant disputes was a central political issue, and there were many attempts to arrive at general ways of resolving such disputes (e.g. rent strikes, conciliation and mediation committees). State intervention during WWI marked the end of the liberal-capitalist approach to housing/housing policy.

### **Expansion of the welfare state**

As private renting represented the only form of housing for all non-owners, increased attention to the lack of affordable rents for ‘the war heroes’ during and after WWI led to enhanced rent security, and rent controls were established across the countries that had been at war, culminating in many countries in rent freezes that were to last well into the 1920s and in some cases far beyond that (Donner, 2000). Rent controls/regulations in the UK, according to Munjee (2003, p. 17) ‘made [an] impact as far away as India’. WWI thus marked the start of a shift as stricter regulation improved renters’ rights, rent controls and, usually, freezes were brought in, and rent clearing courts were introduced/established (see first point in Section 3). Private renting nevertheless remained the standard form of tenure until public and cooperative building programmes gradually took off in the interwar period to offset public unrest, and then more intensively after WWII in response to the post-war economic upswing. However, for decades to come, private residential renting remained a sphere of constant political conflict, which from the late 19<sup>th</sup> century to the 1980s occasionally led to rent strikes (Weitz, 2007).

The first fundamental turn in the status of private renting occurred during the 1920s following the introduction of public housing programmes and the emergence of a social rental sector. Special taxes were often imposed upon private landlords to co-fund public rental projects, as was the case in Germany and Austria (Hauszinssteuer), reducing the profitability of private rental housing and thus investors’ interest (Geist and Kürvers 1980; Schmid and

Bodelschwingh, 2016). Private renting came under even more pressure when, after WWII, Keynesian public building programmes and the states' co-financing of non-profit social housing resulted in a real choice for a growing group of tenants. As investment in private renting was comparatively discouraged, the quality of older private rental dwellings was often lower than that of social housing, and in turn it became more difficult to find tenants – partly leading to a downward spiral (for instance, in France, Denmark, or Italy). Where most social housing was public housing, policy-makers ceased to pay attention to the private rental sector, even though in some countries (like in Germany) private landlords were continuously integrated into social housing programmes from the early post-war years onwards.

While during the 1960s the proportion of private rented dwellings in the housing stock of some Western European countries had reached 40 (the Netherlands) to 60% – or even more (West Germany) – and a general shift occurred in the proportion of tenure categories over the following decades. In the following decades, the PRS declined sharply in the Netherlands, Spain, and the UK, was halved in France, and decreased to less than half in Sweden. The reasons were manifold. Private rental housing was bought up by public builders from the mid-1970s to the late 1980s in the course of massive urban renewal. This aimed at replacing old and often run-down privately owned tenements with new public social housing blocks (for instance, in Germany, France, the UK and the Netherlands; Hoekstra et. al., 2012). As many countries strongly encouraged owner-occupation (UK, Italy, Spain, Ireland, Belgium, and to a lesser degree France), many privately rented dwellings were also sold to their tenants after government policies (like the right to buy in Ireland and England) were introduced (Haffner et al., 2009). This often coincided with a weakening of the financial motivations of owners-landlords to invest in rental housing, as new forms of investment seemed more profitable and easier to manage (e.g. Denmark; Juul-Sandberg, 2015). Household wealth increased during the 1960s and 1970s in all industrialised western countries. At the same time, as the virtues of

private home-ownership and the single-family house were extolled and the undeniable drawbacks of social housing – especially in the large estates of the 1950s to 1980s – were highlighted, there was a downturn in the status of rental housing in general and of private renting in particular.

In many countries, the housing policies of this period can be characterised as a reaction to the housing shortage caused by the two great wars and the subsequent economic crises (Boelhouwer and Van der Heijden, 1992), and resulted in the emergence of *welfare capitalism*. State intervention turned permanent the various temporary forms of rent control that were put in place after World War I. Private investment in rental housing dried up in many Western European countries. Not only did landlord-investors withdraw from the market and decreased in numbers, but financing institutions also changed their strategy, as rental market interventions also often led to construction loan defaults. The drop in housing construction compelled states to boost construction for owner-occupation, which required, among other things, the condominium to be codified as a legal form of housing/tenure and the creation of various tax incentives. In many countries, state intervention was indispensable in the post-war housing shortage, and the further development of the interwar period's organisational and financing designs led to residential construction booms all over Europe. National construction setups differed, as did the scale of investment, but construction booms were the result. (Donnison and Ungerson, 1982)

In summary, an unprecedented housing construction boom played out in the more developed countries of Europe until the late 1970s, following just three or four main models (municipal housing in Britain, different cooperative models in Sweden and Germany, the non-profit sector in the Netherlands and Sweden and the French private-public housing companies). In Southern European countries state initiative remained mostly moderate; the role of state-led investment in public housing programmes was modest compared to the importance of

traditional building and housing forms. Private rental housing took on a secondary role, although its precise development was defined by separate national factors (Padovani, 1984; Lewis and Williams, 1984; Wyn, 1984).

Throughout the 20<sup>th</sup> century, the significance of the private rental tenure decreased to a share of 50-20% of the housing stock in European countries. However, there are two types of outlier, as Table 1 shows: one type is Germany and Switzerland, where the significance of the PRS has overall not changed much, and the other type is England, where the share of the PRS increased substantially in recent decades as a result of the introduction of ‘buy-to-let’ mortgages.

*Table 2. Private rental sector development in some selected European countries (%)*

Share (%) of private rental housing	1950	1980	1990	2000	Latest year for which national data are available
Germany	65**	61	60	60	60
Switzerland	n.a.	59	59	56	56
Sweden	52	22	22	24	24
Greece	33	n.a.	21	20	20
France	44*	26	22	22	22
England	53	11	9	10	17
Italy	49	35	25	n.a.	14
Netherlands	60***	24	17	12	11
Spain	55	19	15	11	7

*Sources for 1950: Haffner et al. (2008) and Haffner (2010) based on: Elsinga et al. (2007) for Spain; Lawrence (1996) for Switzerland; Van der Heijden and Boelhouwer (1996) for other countries. Sources for 1980 and later: Dol and Haffner (2010); Scanlon and Kochan (2011); Germany (1965, 1980): Jaedicke and Wollman, 1990. Italy, 1980, Tosi, 1990, Italy 1990: Eurostat-SILC [ilc\_lvho02]. \* 1955; \*\* 1965; \*\*\* 1947; Greece: [http://www.tenlaw.uni-bremen.de/reports/GreeceReport\\_09052014.pdf](http://www.tenlaw.uni-bremen.de/reports/GreeceReport_09052014.pdf)*

## **Market-enabling policies: privatisation and deregulation**

In the decades after the 1980s, another turn became apparent. The decline of the private rental sector slowed, stopped, or even reversed into moderate growth, as Table 1 shows. In many



Western European countries, most prominently in the UK, new policy initiatives in the late 1980s promoting private rentals appeared, encouraging private investment in rental properties, largely as a consequence of states turning away from centrally funded and organised new public housing construction during the last decades of the 20<sup>th</sup> century. The most influential policy was housing privatisation, initiated by the Thatcher administration (Crook and Kemp, 2014b), which resulted in a transfer of a significant share of social rental dwellings into private ownership, and bank deregulation, which resulted, among other things, in the restructuring of the Building Societies in the UK.

However, not all European countries followed this trend. France preserved its aim of tenure neutrality (Hoekstra and Cornette, 2014). In parallel, it continued the privatisation of public rental housing and the bulk privatisation of social housing companies, which also contributed to the growth of the private rental sector (Elsinga et al., 2014). Tax incentives were brought in to support the provision of rental dwellings to young, newly-formed households, the elderly, and the dynamic younger middle classes, thus stimulating the expansion of the private rental stock. These trends have intensified since the Global Financial Crisis in 2007, as return on investment in the PRS has generally become more competitive across the continent than many other financial investments.

The re-emergence of the PRS on the housing policy agenda has also coincided with a fundamental change in the sector's structure. Although the vast majority of private landlords are still small-hold 'accidental' or individual landlords, a growing share of the sector is being held and managed by large-scale institutional investors. There are no comparable data to support this trend, but Germany offers an illustration. Over two-thirds of post-2000 private rentals were built by private institutional investors in cities and agglomerations like Berlin, Hamburg, Frankfurt, Dusseldorf, and Munich, mostly in up-market rather than affordable rental housing. In 2015, 260,000 new dwellings were built, of which 120,000 were rentals. Of

these rental dwellings approximately 60% were built by private institutional investors, while 40% were built by individual private investors.<sup>3</sup> While small landlords are still predominant in Germany, as in most countries, they are shrinking in number, relatively and absolutely, in part under the scrutiny of complex housing and environmental regulation. Large private companies are gaining increasing influence as landlords on the market, even though the heat of international investment funds seems to have cooled down with the experience that annual margins of over 25% per year are not feasible under policy conditions and renter protection. For the tenants the consequences are manifold and partly contradictory. The private rental sector has become professionalised, and the quality of private housing services has often increased, partly due to stricter state regulation. But large, cherry-picking investors have split up the parts of the private rental market into high-yield and unaffordable on the one hand, and neglected stock that defies any claim to quality housing on the other (Droste and Knorr-Siedow, 2014).

Housing policy in this period typically adopted a 'market-enabling approach', a term coined in a World Bank study (Mayo and Angel, 1993, Angel, 2000). It was a reaction to the earlier market and policy failures and conflicts caused by state intervention, and it paved the way for deregulation and privatisation. The beginning of this period coincides with the deceleration of industrialisation and urbanisation in most developed countries, the alleviation of demographic pressure in Western countries, and the empowerment of the middle class. The Thatcher era of privatisation and the corresponding World Bank doctrine of the market-enabling approach in housing policy prompted a significant cut to direct state intervention in housing. This approach reflected a belief in the superior efficiency of market allocation, which was to give consumers what they wanted and would be able to afford, while public service providers were considered bureaucratic, inefficient, and paternalistic. This doctrine was put into practice through the privatisation of state-owned housing, the deregulation of housing finance

institutions, the transformation of tax and subsidy systems, and so on. This was underpinned by a financially stronger middle class on the one hand and by growing fiscal pressure on state budgets on the other.

Based on histories of housing policy objectives in eight West- and North-European countries, Boelhouwer and Van der Heijden (1992) describe that governments moved from the fight against housing shortages through to the phase where an emphasis began to be placed on housing quality and to the phase where housing policy began devoting more attention to distributional issues from the 1980s on. This included the move from universalistic or general to targeted subsidy, while at the same time as a result leaving private renting with more room to develop.

### **Revisited market control: towards smart regulation**

The Global Financial Crisis (GFC) fundamentally changed the attitude of policy makers towards the secondary mortgage market, which used to be considered the greatest financial innovation of the 1990s. In the process of managing the crisis in order to keep the bank systems afloat governments made very dramatic interventions in the housing market (bailouts, quantitative easing, and so forth). Eventually, the secondary mortgage market proved to be one of the causes of the global crisis.

Housing research advises policy makers to implement new forms of regulation in order to decrease the probability of market failures caused by information asymmetry, politically biased tenure policy, and the lack of the right incentives (Maclennan and Sullivan, 2011). In general, the GFC has changed the research- and evidence-based perspective on renting and particularly on private rentals: A stable private rental sector with balanced landlord-tenant relations and a predictable rent structure implies for the market-enabling approach, which saw market liberalisation as a cure for state and regulatory inefficiencies, being replaced by a

smart regulation approach. This approach proactively strives to create the economic and political conditions of an efficient market system (Hegedüs et al., 2016).

In some countries policy makers are in the process of (re)discovering the potential of the private rental sector. The sector is regarded as an alternative to other tenures as social renting becomes more limited in terms of both size and financial sustainability. Homeownership rates also seem to be stabilising and/or decreasing in many countries. This trend, however, cannot be ascribed solely to the impact of the GFC. In some countries, young people's access to homeownership has worsened because the increase in house prices has exceeded the increase in salaries ('generation rent'). Changes such as structurally more flexible labour markets (Doling and Ruonavaara, 1996) and stricter underwriting procedures may also result in barriers to entry (Crook and Kemp, 2014a). In some jurisdictions (France, the Netherlands, Spain and the UK) politicians have increasingly been supportive of the private rental sector as a solution to housing accessibility barriers (Crook and Kemp, 2014b; Haffner, 2014; Oxley et al., 2010).

### **3. Rent regulation and the subsidisation of private renting**

Discussions of the broad trends of government intervention in capitalist societies, as described in the previous section, delivered a number of government policy measures specifically designed for intervening in the PRS. This section looks at the development of the PRS in different countries from the perspective of three such policies (Hoekstra et al., 2012; Whitehead et al., 2012):

- Rent regulation
- Regulating the condition of tenancy and landlord-tenant relations
- Subsidy/tax regimes

## **Rent control**

Rent control, which we also call rent regulation, is one of the most important factors influencing the development of the private rental market, as Section 2 indicates. It aims to protect the tenant from ‘unreasonable’ rents and rent increases. What is defined as ‘unreasonable’ has changed over time and varies across countries.

Under the World War I, a strict rent regulation was introduced, typically a full rent and loan repayment freeze known as ‘first-generation’ rent regulation. (Arnott, 1995, 2003). In the aftermath of the war, the drawbacks of regulation became clear to decision makers (see above) and European countries introduced different versions of gradual deregulation in the 1920s. Generally, these attempts were short-lived; and many of the original deregulation plans were never actually implemented (Fitzsimons, 2014, p. 64).

Against the background of post-WWII housing shortages, rent regulation again was considered necessary to reduce households' housing costs, and also to help stimulate the countries' competitiveness by curbing wage and price inflation. In many countries with hard rent controls (France, the Netherlands, Spain, Sweden and the UK), the PRS lost ground, while homeownership and social renting won ground. Investment in new private rental dwellings dried up, and many landlords sold their property as soon as they had the opportunity (see above).

In the post-World War II expansion of the welfare state, governments did not consider rent deregulation a priority, especially as the introduction of rent allowance systems from the 1970s onwards prepared the ground for the more flexible ‘second-generation’ rent control (Turner and Elsinga, 2005; Haffner et al., 2012 based on Arnott, 1995, 2003; Whitehead et al., 2012). This was typically more sophisticated than first-generation rent regulations, allowing gradual contractual rent raises within a tenancy and the resetting of rent levels between

tenancies (Haffner et al., 2008; Hoekstra et al., 2012; Whitehead et al., 2012). Some form of rent regulation is still in place in the economically most developed European countries (the UK being the biggest exception) and is generally intended to protect tenants from unreasonable and unmanageably volatile rent levels (see Table 2). Sweden and the Netherlands apply the strictest rent regulations, according to a study by the OECD (Andrews et al., 2011); whereas other Northern and Western European countries typically differentiate between rent setting for new contracts and rent adjustment for ongoing contracts (see Table 2).

The application of a 'fair rent' type of regulation can lead not only to deferred consequences, as the British example shows, but also to unexpected and therefore unintended consequences. Moving from strict rent control to 'fair rents' suggests the idea of implementing a somewhat competitive rent or a kind of equilibrium rent. However, when implemented fair rents were always a kind of 'administrative' rent with the aim of stimulating that investment in private renting would become more attractive than under strict rent regulation. However, the introduction of the Fair Rent Act of 1978 in Italy led to the rapid decline of the PRS, during which the sector shrank from 6.7 million dwellings in 1971 to only 5 million in 1991 (or from 44.2 to a 25.2% of the housing stock) (Tosi, 1990; Padovani, 1996, p. 192-3). Landlords no longer expected a long-term, predictable stream of income from their property after the introduction of fair rents.

Sweden has a law which stipulates that landlords and tenants must follow guidelines on rent negotiations to set the rent for new contracts. In the Netherlands, about 85% of the private rental stock is subject to rent regulation that is based on a normative system of quality points that indicate what rent level can be set at the start of a lease. In countries, such as France, Germany, Spain, and Switzerland, rents for new contracts can be set freely. However, in Germany several cities with a strong demand for rental housing recently introduced a rent cap,

as the maximum to an annual rent increase. In cities where local authorities (300 major towns and cities) declare a housing shortage, rents of new rent contracts may only exceed the ‘reference rent level’ in the city by a maximum of 10%. Rent can only be set freely for apartments in new buildings or apartments that have been completely renovated.

Next to rent setting at the start of a lease, rent levels may regularly be adjusted during the lease term. Such a rent increase is based either on some kind of index, as is the case in France, The Netherlands and Spain, or on market conditions for comparable housing, like in Germany. In the Netherlands the permitted maximum annual rent increase, usually linked to the consumer price index plus a variable element, is determined by the national government. In Switzerland rent increases are based on a number of factors: the rent of comparable dwellings, higher costs, inflation compensation, or a special payment plan (Whitehead et al., 2012).

*Table 3. Rent regulation in seven European countries around 2012*

New contract	
Free rent setting	England, France, Germany**, Netherlands (deregulated stock*), Spain, Switzerland
Regulated rent setting	Netherlands (regulated stock), Sweden
Annual rent increase	
Free rent setting	England (deregulated stock*)
Based on market developments (with caps)	Germany
Regulated by an index	France, Netherlands (regulated stock*), Spain, Sweden, Switzerland (various factors)

*Sources: Haffner et al., 2008; Hoekstra et al., 2012; Whitehead et al., 2012*

*\* Whether or not the rent of a dwelling is regulated does not depend on the type of ownership of the building, but on the rent level of the dwelling (Haffner, 2014). In 2009, 92% of the total rental housing stock was regulated.*

*\*\* Several German cities introduced a rent cap in 2016.*

Moving from first- to second-generation rent control did not automatically lead to the expansion of the PRS. Taking the UK as an example, when rents were decontrolled through the ‘fair rent’ regulation in 1988, there was no immediate surge in rental housing investment.

The desired effect was only produced in England by a combination of factors inspired by the introduction of the buy-to-let mortgage scheme and the new Housing Act's assured shorthold tenancy regulation. For banks, rent deregulation implied that the dwelling would be available free of the tenant if it needed to be sold due to mortgage arrears.

The British and Italian examples show that the effect of rent regulation cannot be interpreted without simultaneously considering other regulatory factors (which are discussed in the next section). Together with rent regulation, these other factors influence the balance between the position of tenants and landlords. While rent control will smooth out the impact of market volatility for the tenant, Hegedüs and Horváth (2015) conclude that some reasonable connection between the regulation of rents and long-term market effects (that is, rent stabilisation) must be maintained in order to allow the sector to be economically viable.

### **Regulating the conditions of tenancy and landlord-tenant relations**

Rent regulation usually is not just about regulating rent levels (either initial or during the contract) or incorporating cost increases into the rent, as Andrews et al. (2011) propose but is embedded in an additional set of regulations regarding tenant security. In their eleven-country analysis, Whitehead et al. (2012) include the following aspects of tenant security in addition to initial rent-setting, rent increases, and the length of a lease: the capacity of the landlord to get the property back (from a tenant) during the lease; the capacity of the landlord to sell the property during the lease; and the enforcement of eviction if the tenant breaks the contract. As Section 3 describes, a balance between the rights and duties of landlords and tenants is necessary if the sector is to function well.



In short, the relationship between tenant and landlord is crucial and its effects on the market will depend on the legal detail<sup>1</sup>. The housing quality standards involved can also have an effect on the relationship. Consequently, even though private renting is often considered to be dominated by market forces, governments interventions impact a variety of legal matters that may be more far-reaching than rent control alone. One of the indicators of a stable PRS is the average length of tenancies, a matter that is particularly relevant in the case of post-socialist countries, where the question is, will the sector cater for mobile households or for those searching for stable housing forms?

Nasarre Aznar (2014) developed a framework of ‘drivers’ (i.e. facilitating factors) for landlords and tenants in terms of the content of a lease contract. In this framework, affordability (rent control and a tenant-friendly cost system), stability (for instance, long leases, and pre-emption rights), and flexibility (such as early termination of the lease and easy subletting) are regarded as crucial in the eyes of tenants. Landlords value profitability, but also long-term sustainability, which provides financial incentives for renovations. They are also interested in a guarantee that they will receive payment of rent (via a deposit) and that efficient eviction processes are in place in order to level the playing field between the contractual parties. Regulating the terms of the contract may therefore have an important effect on the behaviour of landlords and tenants, as it influences the predictability of tenure on both sides; the enforceability of contracts is also important.

The example of Vienna illustrates how the impact of regulation goes beyond rent control. As Förster (1996) points out, despite controversy, elements of the 1917 Tenancy Act in Vienna/Austria are still in force today, and they provide an outstanding level of tenure security, where rental titles may even be inherited by a tenant’s children if they grew up in the

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<sup>1</sup> See TENLAW – Tenancy Law and Housing Policy in Multi-level Europe’, European Union’s FP7 project

dwelling. In recent years some fixed-term rental contracts have been allowed, especially in the up-market segment of the PRS, but the vast majority of tenancy contracts are still concluded for an indefinite term. Furthermore, tenants in both social and privately rented housing actively participate in the daily management, maintenance, and improvement of the dwelling, and landlord-tenant conflicts are resolved by city-run arbitration courts. Almost 80% of Vienna's population live in rented apartments, as the well-balanced system of rights, duties, rent levels, and subsidies not only provides extensive tenure security, but also ensures predictability and reasonable profitability for investors in the long run. This case therefore delivers proof of the fact that even though rent regulation undoubtedly distorts the behaviour of market actors (Arnott, 1995, 2003), such distortion may be offset by greater predictability and reduced opportunity costs due to conflicts. Whitehead et al. (2012) and Haffner et al. (2008) list a number of effects that could make rent control and security of tenure desirable for landlords (and not only for tenants). Rent regulation does not just limit the return on investment, as it also leads to transparency and a stable rate of return, if cost increases are taken into consideration. There can also be an indirect positive effect for landlords, as regulation contributes to the positive image of – and higher demand for – private renting. Hulse et al. (2011) also developed a framework for a comprehensive analysis of secure occupancy, which includes many aspects of renting, classed as the legal, market, social policy, and ontological 'lenses'. The legal lens uses the language of legal rights and responsibilities, like whether and how a contract can be terminated by tenant or landlord. The other lenses go beyond the tenant-landlord relation. The socio-cultural lens highlights concepts such as the norms that surround private renting in a society in relation to ontological security and the meaning of a home. This study therefore shows that secure occupancy is a complex matter involving the interests of tenants and landlords, as well as the government, as the next section discusses.

## **Tax and subsidy regimes**

Choice of housing – whether to buy, rent, enter a cooperative, and in which sub-market – is one of the most important financial decisions a household makes. The income situation of a household, as well as the local and national housing-related subsidy and tax system play an important role in tenure choice. The same also holds true for the supply side: from a financial point of view, potential landlords compare their investment opportunities, and will choose housing as an investment if it is competitive in comparison with their other options.

Subsidies for private landlords – what are known as ‘supply-side subsidies’ – are often available via the income tax system (Hoekstra et al., 2012). In Germany, a time-limited depreciation deduction is available for any rental property. It is often regarded as compensating for the rent control system in the country (Oxley et al., 2010).

In France there are several tax concessions for individual households that invest in the construction or refurbishment of private rental dwellings. In this case, as in the case of the German investor subsidies, special contract relations between the state and private landlords incentivise the construction and private letting of housing at below market rents, for which allocation rules exist. The difference between the market and the social rent is paid for by the subsidy, which is typically paid to the landlord/owner over a period up to 20 years. When the period ends, the dwelling is no longer subsidised and again becomes part of market rental housing.

Subsidies and benefits designed to help tenants find affordable accommodation within the PRS – and hence utilise the private sector in social or affordable housing provision – are referred to as ‘demand-side subsidies’ (Hoekstra et al., 2012). In many countries, housing allowances are available for households in the private rental sector, as well as in the social rental sector and sometimes in the owner-occupied sector (Haffner et al. 2009).

The availability of housing allowances in other tenures as well as supply-side subsidies supports the argument that the impact of subsidy and tax regimes on the behaviour of actual and potential tenants and landlords should not only be interpreted in the context of the tenure in question, but also in the context of the financial position or attractiveness of other tenure forms. The fact that social renting has increased in many Northwestern European countries, while private renting decreased, can be attributed to a bias in subsidising. Furthermore, tenure neutrality has often not been the point of departure: owner-occupiers generally benefit(ed) from the subsidies, whereby higher-income groups reap more benefit than both lower-income homeowners and tenants (Follain et al., 1993; Bourassa and Grigsby, 2000; Hendershott and White, 2000; Ter Rele and Van Steen, 2003; Australian Institute of Health and Welfare, 2004; Lux et al., 2009). The general trend in house price increases from the mid-1990s until the house price bubble burst and the GFC began in 2007 can be considered a major turning point in this sense. It became more widely evident that the ‘artificial’ expansion of mortgage debt resulting from the subsidisation of homeownership may no longer be a sustainable policy. However, the question remains if many countries, except France, will (re)turn to a tenure-neutral policy. In the past, also Sweden implemented tenure-neutral policies, while the foundation of Germany’s policy was also tenure neutral (Lundqvist, 1987; Boelhouwer and Van der Heijden, 1992; Haffner, 2014; Schaefer, 2015).

#### **4. The state of private renting in Europe**

Private rental housing today is unevenly distributed across the countries of Western Europe, as one can observe in Table 1. We have seen that, in a longer historical perspective, the PRS in Europe was replaced by the owner-occupied and social/non-profit sector, with two important exceptions: Germany and Switzerland. In most Western European countries, except England, a slight increase in renting occurred more recently, partly because of budgetary cuts

to social housing and to ownership support (Dinse and Schmid, 2015). However, the private rental sector has still been decreasing, or stagnating at best, even in the countries with the widest rental sectors, including Germany (Cornelius and Rzeznik, 2014, p. 5), Belgium (Haffner and Bounjouh, 2014, p. 6), France (Hoekstra and Cornette, 2014, p. 8), and Sweden (Bååth, 2014, p. 9-10).

The PRS shrank much more quickly in Southern Europe than in other parts of Europe. Southern European countries such as Italy and Spain have a relatively small PRS. This usually coincides with a marginal overall rental sector, with the exception of the recent high-quality and high-priced private rental developments in major cities.

The outliers represent a challenge: why has private renting survived against all odds in Germany and Switzerland; why has it doubled in size in England? This section speculates about explanations.

Germany stands out because of its large private rental sector, which has remained relatively stable over more than half a century (Haffner et al., 2008; Haffner 2011; Kemp and Kofner, 2010; Oxley et al., 2010; Whitehead et al., 2012). Germany has traditionally had a large private rental market and by now has a relatively small social housing sector, one reason being its temporary supply-side system for social rental housing (see Section 3.3) (Haffner et al., 2009; Haffner 2011; Kemp and Kofner, 2010; Oxley et al., 2010; Whitehead et al., 2012). The re-unification of former West with former East Germany also contributed to the large PRS. The rental sector in the former East Germany, which made up 74% of the housing sector, was labelled private rental housing after reunification. The private rental sector also increased, especially in the East, because nationalised property was restituted to the original private owners and because of tax schemes that were made available for new construction and renovation of private rental dwellings (Oxley et al., 2010).

The relatively large Swiss PRS can be explained partly by the country's traditional tax system, which has discouraged owner-occupation, and partly by the late introduction of condominium ownership in 1965 (Haffner, 2010). Bourassa et al. (2006) argue that homeownership could only be achieved at relatively high property acquisition costs in relation to income (in the 1990s) and that a high proportion of non-Swiss residents does not favour a large owner-occupied sector (FOH, 2006). Another factor is that the Swiss government's attitude to homeownership is ambivalent. While in Germany a relatively large proportion of – legally private – rental housing is in municipal ownership and is earmarked for letting at rent levels below the market rate, in Switzerland private rentals are usually in the hands of various types of market actors. Housing policy debates incorporate both the public and the private rental sector and the political representation of the actors is strong.

Besides Germany and Switzerland, England seems to be the single major exception for a large increase in private renting. The introduction of the buy-to-let scheme in combination with the assured shorthold tenancy, and auxiliary incentives have resulted in the near doubling of the PRS in recent decades. The private rental sector has been re-entering the political and economic agenda. As public budgets have grown tight, supporting and regulating private investment in the PRS is seen as a way to meet the demand for housing. Instead of the expected investments by institutional investors, buy-to-let mortgage holders, i.e. private persons, stepped in (Crook and Kemp, 2014b). This development was aided by demand-side factors (new demand from smaller, more flexible households), while supply-side factors (low alternative returns) and government regulations (a mortgage interest deduction available for landlords) caused rent deregulation to turn out favourable for the buy-to-let mortgages.

These examples show that today private renting is playing different roles when it provides housing solutions for low-income and marginalised households and when it provides a source of housing for higher-income groups. The PRS has increasingly begun to appeal to affluent

groups in a number of countries, especially in urban settings. Upmarket private rentals fit the dynamic lifestyle of the new creative class and mobile workforce, and the sector has flexible, shorter-term housing to offer. In a number of countries, the sector is also providing a longer-term secure housing option for wider income segments of the population. Often, regulation protects sitting tenants for a certain period.

Especially where the PRS is integrated into welfare and public housing policies, access and restricting rent regimes are usually geared in favour of lower-income groups. In these cases, the landlords' willingness to accept below market rents may be compensated by various subsidies. 'Supply-side' subsidies come in the form of building subsidies, tax benefits, and the provision of land at below market price, and often a combination of these subsidies, designed to encourage landlords to buy, build, and lease a proportion of dwellings at below market rents (for instance, in England, and Switzerland). In the Austrian and German examples, these dwellings are considered social rentals until the subsidy scheme ends. 'Demand-side' housing allowances, on the other hand, may allow renters to pay market rents to private landlords. Both forms of intervention steer affordable housing provision through the private rental market and, if smartly-regulated, stimulate private investment, while alleviating demand for social or non-profit housing.

## **5. A future for private renting**

This chapter aimed to provide a historical overview of the development of private renting in Western European countries and offer insights in key factors that may influence its development in transition countries. Rent control, tenant protection, the subsidisation of other tenures, including non-neutral policy interventions stimulating the rise of social renting and homeownership, are attributed to contribute to the decline in the PRS in many countries.

Private renting only continued to form a large share of the sector (more than 55%) in

Germany and Switzerland. However, except for the fact that private renting seems mainly to be a business for ‘private person landlords’ in most European countries, no clear tendency is visible regarding the position and future development of private renting. Changing lifestyles, household structures, and socio-economic conditions are producing contradictory developments to which policy makers respond in a variety of ways.

However, unlike in the past, a number of countries’ policy makers are or have been rediscovering the PRS, especially because of the difficulty younger cohorts are having in accessing homeownership and because social renting is increasingly being reserved for the needy. In some of these countries, the PRS has increased its market share (most notably in England) or its share has stabilised (France, Sweden).

In countries where access to social rental housing (post-GFC) has become difficult due to shrinking stock, long waiting lists, and bureaucratic uncertainties, the PRS has seen increasing demand from very diverse groups. Young workers, migrants, and marginalised groups often see private renting as one of their few options. These groups are often in a weak market position and have to be satisfied with lower quality housing, especially where tenants’ rights are not universal. But with changing job markets and rising regional mobility across Europe and within the countries, the PRS has also become a market for affluent younger and more mobile higher-income groups in the cities across Western Europe.

These developments are broken down in this chapter into four periods, each of which is characterised by similar housing policies in a number of countries: industrialisation, welfare state development, market enabling, and the re-emergence of regulation in the aftermath of the Global Financial Crisis. These four periods are characterised by different socio-political developments, but housing policies often evolved in similar ways.



However, the PRS has played different roles and catered to different social groups in different countries. It is therefore hard to discern a linear path of development; each period reacted to the challenges of the previous one within the context of each country, and the different contexts do not necessarily lead to the same outcomes.

However, when considering the case of social housing, there may be consensus in that the rise of the welfare state can be regarded as more of a historical episode, as Harloe (1995) has argued. In the field of housing policy history, Malpass (2005) made a similar claim with respect to post-war state interventions. In his view, public housing was more a temporary reaction of the state to the huge housing shortage than it was a lasting trend. If this is indeed the case, social renting may be increasingly replaced by private renting for those who cannot access homeownership.

Countries like Germany and Switzerland have a long-standing history of (in Germany tenure-neutral) support for private renting, and France joined this group in the 1980s (Haffner et al., 2009; Schaefer, 2015). The UK also took measures relatively early to stimulate institutional investment in private renting by reinforcing investor trust and providing subsidies (Crook and Kemp, 2014b). Even though the strategies for strengthening the trust of institutional investors did not bring the expected investments, or did so only temporarily, the buy-to-let mortgages for private person investors were successful. These examples show that the long-term trend of a declining PRS in many countries may not be inevitable. The buy-to-let mortgages can be considered a market initiative, not a government one (Whitehead et al., 2012), while in Belgium Social Rental Agencies were an innovative approach that today the government subsidises (see Chapter 14 in this book).

So what exactly are the ingredients of a successful and accessible private rental sector? What are the most crucial conclusions Central and Eastern European policy makers could draw from Northern and Western European examples?

First of all, a housing market that offers mostly (tax-stimulated) homeownership may be an incomplete and inflexible supply of housing. It is important to underscore the role of the PRS in catering for households in a transitory position or on flexible labour markets – such as the young, the mobile,. As well as the more flexible model of the PRS that functions in the UK, Germany and Switzerland offer examples of how the PRS can be a source of stable housing for a large segment of the population which cannot or can no longer access social renting or homeownership.

Second, government needs to be sensitive to the needs of the sector for it to develop resiliently. If it is the investor that needs to provide the funds – policy makers in many countries are studying options to attract institutional investors to the market – investors need to be able to earn profits that are acceptable given certain risks that require a certain return compared to other investments. Landlord-investors will be discouraged by changes that are unpredictable and possibly ‘too’ tenant-friendly. On the other hand, tenants may not consider private renting a full-fledged alternative if tenant security is considered ‘insufficient’. As the long-term declining trend in private renting in many countries shows, a sensitive balance has to be reached between the interests of landlords and tenants, will the PRS be resilient.

Third, in the countries where private renting has continued to make up a large share of the housing sector, policy explanations can be found for this fact – for example, when private rental housing has been subsidised temporarily to serve as housing for policy-targeted groups in need. An explicit implementation of a tenure-neutral system may also help to maintain a

stable PRS. Such policies offer the possibility to remove some of the burden on social housing.

Furthermore, housing policies should not be viewed as separate from other policy areas and market contexts. Consideration should be given, for example, to the relationship between a flexible rental market and capital or labour mobility. A move towards a stable role of private renting on the housing will need patience and fine-tuning: a new balance will often require decades to establish itself.

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## 1. Notes

<sup>1</sup> The focus is on common trends in a number of countries rather than all countries; and more so on Western European countries than other geographic regions.

<sup>2</sup> On this approach to housing regimes, see Hegedüs, 2017 (forthcoming). The main element of this approach is that the tenure structure and its social context are considered products of different macro-sociological/institutional forces.

<sup>3</sup> Die Zeit Online (15. 09. 2015) <http://www.zeit.de/wirtschaft/2015-09/deutschland-wohnungsmarkt-pestel-institut-studie>.