

## **The Private Rental Sector in Western Europe: Developments since the Second World War and Prospects for the Future**

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**ABSTRACT** *In the period after the Second World War, the dominant position of the private rental sector in the housing market in many West European countries came to an end. Economic developments and government policy both contributed to the greatly deteriorating competitive position of the private rental sector in many countries. Although there have been comparable developments in many countries that have led to a decrease in the share of private rented dwellings, there are also considerable differences between them regarding the size and function of the private rental sector in the housing system. There are also differences in the use of policy instruments and the volume of new construction of private rented dwellings. As a result of recent developments in housing policy in many West European countries the competitive position of the private rental sector has started to improve. Moreover, in a number of countries (regional) housing shortages are again occurring. For the private rental sector this perhaps means new opportunities.*

### **Introduction**

For a long time the private rental sector was dominant in the housing market in Western Europe. After the Second World War the proportion of private rented dwellings in the housing stock of West European countries varied from just over 40 per cent (West Germany) to nearly 60 per cent (the Netherlands). In the post-war period great shifts have occurred in the proportion of the various tenure categories. The owner occupied sector has grown strongly in many countries and has taken over the lead from the private rental sector. Within the rental sector the share of social housing has greatly increased, and in various countries of Western Europe the social rental sector is at present larger than the private rental sector. Not only has the proportion of private rented dwellings in the housing stock declined, but the absolute number of private rented dwellings has also decreased in many countries. On the basis of this general sketch it appears that the private rental sector has developed in a more or less comparable way in Western Europe. However, a more exact analysis soon shows that this general picture conceals great differences in the development of the size, the nature and function of the various tenure sectors in the different countries.

Precisely on account of this great diversity this paper focuses on the development, the position and the prospects of the private rental sector in seven West

European countries: Belgium, (the former) West Germany, Denmark, England, France, the Netherlands and Sweden.

In an international comparison of one or more housing sectors problems occur in practice regarding the demarcation of the various sectors. This applies in particular to the distinction between private and social rented dwellings. In the second section we therefore examine the characterisation of the private rental sector. The third section considers corresponding developments of the various housing systems after the Second World War and the consequences of these for the private rental sector. Then in the fourth section we consider the specific characteristics of the private rental sector in the various countries and examine the principal differences between the countries regarding the position and the intended function of the private rental sector. We conclude with a cautious look at the prospects for the private rental sector across Europe. We do so against the background of the growing emphasis placed by the governments of the various countries on the free operation of supply and demand on the housing market and the accompanying desire to inject new life into the private rental sector in a number of countries.

#### **Characterisation of the Private Rental Sector**

In housing research three tenure categories are generally distinguished: the owner occupied sector, the private rental sector and the social rental sector. In addition, in a number of countries (including Sweden and Denmark) a fourth tenure category is distinguished, co-operative home ownership, although notably in Sweden this sector has shown more and more similarities to the owner occupied sector (Lundqvist, 1988, p. 41). However, for international comparative housing research this breakdown is often insufficient because "the same tenures in formal terms will in fact vary in content in different countries" (Ruonavaara, 1993, p. 3). Moreover, in many countries there are various sub-sectors within one tenure category. It is, therefore, not possible to define the private rental sector (or one of the other tenure categories) unequivocally, more so because there is a constant development of the various (sub)sectors (Ball, 1988, p. 30). In this paper we shall therefore maintain a broad definition of the private rental sector, whereby the demarcation in respect of the social rental sector is notably of importance.

The principal difference between the private and the social rental sectors is the objective for which dwellings are let. Connected with this there is also in many cases a distinction possible by type of owner. In general, it is true to say that the private rental sector consists of dwellings owned by private persons or institutions (businesses and institutional investors), that are let for the purpose of making a profit. The social rental sector is, in most countries, in the possession of local authorities or non-profit organisations. An exception to this is Germany, where private landlords may operate social dwellings on the same terms as non-profit landlords. When the subsidy period has elapsed, these dwellings fall under the rent regime of the private rental sector. The primary objective in the social rental sector is not to make profit but to create accommodation, often for specific target groups and at a rental below the cost price. The difference between the cost price and the rental is subsidised by the government. A consequence of this is that in the social rental sector access criteria are often applied. Exceptions to this are Sweden and Denmark, where access to the social

rental sector is not confined to specific target groups. In these countries reference is made to a general rental sector.

The private rental sector is sometimes regarded as a sector where dwellings are distributed through the market. Access is allocated by ability to pay and the rent level is determined by supply and demand (Ruonavaara, 1993, p. 15). However, in many countries rent-setting, and above all rent adjustment, in the private rental sector are regulated by the government (see Table 3). Against this, the private rental sector in many countries is financially supported in some way by the government (see Table 2). Various instruments are used for this, such as indirect support in the form of tax facilities or supply side subsidies in the form of interest subsidy or an operating contribution. The subsidy can relate to the construction of new dwellings or the improvement of existing ones. Finally, in most countries tenants of private rented dwellings also qualify for a form of individual subsidy.

Incidentally, the term 'private rental sector' is in itself confusing. After all, in many countries social rented dwellings are managed by private (non-profit) organisations. Because of the government subsidies they receive and the public service that these organisations perform, they are strongly guided in their activities by government directives, and are thus described as intermediate organisations located between the commercially operating private landlords and the housing companies run by municipalities. In terms of our definitions, the private rental sector is restricted to the element of private renting which is let commercially.

### **Developments of Housing Systems after the Second World War and Consequences for the Private Rental Sector**

Since the Second World War the housing stock in the various West European countries has grown rapidly, in the first instance as a result of making up housing shortages that developed during the war. Through the post-war baby boom and the later thinning out of families the need to expand the housing stock continued to be important for a long time.

With the growth of the housing stock the share of the private rental sector, in many cases the dominant tenure category around 1950, decreased sharply in most West European countries (see Table 1). Particularly in England and the Netherlands the fall in the share of private rented dwellings was very great. But, with the exception of West Germany, there was also a considerable drop in the other countries. It is worth noting that against the decrease in the average share of private rented dwellings in the seven West European countries from 51 per cent around 1950 to 22 per cent around 1990, there was an increase in the differences between the various countries (the standard deviation rises from 6.5 to 11.8).

In looking further into the general trends in the development of the private rental sector in the seven countries, we need first to describe corresponding developments in the various housing systems and the consequences for the various tenure categories because of their importance in then determining these developments in more detail.

**Table 1.** Proportion<sup>1</sup> of private rented dwellings in seven West European countries, 1950–1990

	Around 1950	Around 1960	Around 1970	Around 1980	Around 1985	Around 1990	% change 1950–90
Belgium	58 <sup>2</sup>	47 <sup>3</sup>	42	33 <sup>4</sup>	31 <sup>5</sup>	29 <sup>6</sup>	– 50
Denmark	41	-	30	24	22	18	– 56
England	53	32	20	12	9	8 <sup>13</sup>	– 85
France	44 <sup>10</sup>	33 <sup>3</sup>	29	26 <sup>8</sup>	22 <sup>11</sup>	20 <sup>12</sup>	– 55
W. Germany	48	-	46 <sup>7</sup>	46 <sup>8</sup>	47 <sup>9</sup>	-	– 2
Netherlands	60 <sup>2</sup>	57 <sup>14</sup>	28 <sup>15</sup>	17 <sup>4</sup>	14	13 <sup>13</sup>	– 78
Sweden	52	38	30	20	20	20	– 62

Notes: <sup>1</sup>Rounded off to whole percentages.

<sup>2</sup>1947, <sup>3</sup>1961, <sup>4</sup>1981, <sup>5</sup>1986, <sup>6</sup>1991, <sup>7</sup>1972, <sup>8</sup>1978, <sup>9</sup>1987, <sup>10</sup>1955, <sup>11</sup>1984, <sup>12</sup>1988, <sup>13</sup>1989, <sup>14</sup>1956, <sup>15</sup>1971.

<sup>16</sup>For Germany the proportion of rented dwellings in the possession of private persons and commercial institutions is shown. It relates to both social and private rented dwellings. The proportion of unsubsidised rented dwellings, owned by both commercial and non-profit landlords, was 44.5 per cent in 1978 and 45.4 per cent in 1987 (Hills *et al.*, 1990).

Sources: Pfeiffer & Dübel, 1994; Rietman, 1993.

Denmark: Pfeiffer & Dübel, 1994; Haffner, 1994.

W. Germany: Bundesministerium für Raumordnung, Bauwesen und Städtebau, 1993.

France: Ghekiere, 1991.

Sweden: Lundqvist, 1992; Elander, 1994.

England: Lundqvist, 1992; van de Ven, 1995.

Netherlands: Van der Schaar, 1979; WBO 1981, 1985/86, 1989/90, processed by OTB.

### Similarities in Developments

In the post-war period a number of comparable developments can be found in Western Europe regarding the development of government policy and tenure. These developments did not occur in all countries to the same degree and at the same time. Depending on government priorities, the policy instruments applied and developments in the housing market, the variations occur from country to country.

After the Second World War we see strong government intervention in many countries, with policy directed towards the (re)structuring of the economy and, as regards housing, making up quantitative arrears in dwellings. In many cases a stringent rent policy was followed and large-scale housebuilding programmes were implemented. In general, a major role supported by extensive subsidies, was assigned to the public or semi-public social rental sector. Exceptions to this were West Germany and Belgium. In West Germany the private rental sector was called upon for the construction of social rented dwellings via tax facilities and subsidies. In Belgium particularly strong emphasis was placed on the owner occupied sector in making up the post-war housing shortage, even where the housing of lower-income groups was concerned.

In most countries new construction in the private rental sector was relatively limited, despite the fact that in addition to West Germany, in countries like Sweden, Denmark, France and the Netherlands subsidies were also made available for this sector. Compared with the subsidy for other tenure categories, however, the financial support for the private rental sector became steadily less

generous (Harloe, 1985, p. 299) or was entirely absent, as in Belgium and England.

Once the major part of housing shortages had been eliminated and vigorous economic development was underway, more attention was devoted to housing quality. Besides new construction, government policy was directed, to an increasing extent, towards improvement of the quality of the existing housing stock (Boelhouwer & van der Heijden, 1992). A major part of the old, poor-quality dwellings at which the policy was directed were in the private rental sector. At first policies concentrated on demolition and rebuilding but later shifted to rehabilitation (Harloe, 1985, p. 299). Where private rented dwellings were concerned, this was often accompanied by a change in tenure, and resulted in a decrease in the size of the private rental sector. Many landlords could not afford or manage the process of rehabilitation and many tenants could not afford the increased rents that usually resulted (Harloe, 1985, p. 300).

The income growth among large sections of the population that accompanied economic development led to an increase in home ownership. Moreover, the owner occupied sector in various countries was (and is) encouraged via direct and indirect subsidies in the form of tax facilities. Of very great importance to the growth of home ownership (and to the increase in the indirect subsidisation of this sector) were the financing facilities for private persons in the form of mortgages, which became more readily available in the post-war period (Martens, 1988). The growth of home ownership came about gradually in many countries with the conversion of private rented dwellings into owner occupied ones. In general, these were older dwellings in the possession of small private landlords. These landlords were unwilling or unable to make the required investments, partly in view of the rent regime, to raise their dwellings to a qualitatively acceptable level. Moreover, the growth of inflation sharply raised costs at a time when an increasing proportion of those housed by the sector had severely limited ability to pay higher rents (Harloe, 1985, p. 289). For those who could afford it, buying became more attractive than renting. The increasing demand for owner occupied dwellings and the resulting price increases in the owner occupied market contributed to the conversion of private rented dwellings into owner occupied ones.

During the 1970s, partly as a result of a stagnation in economic development, a trend began in housing policy in the various countries, characterised by a drop in public investments and a shift from government regulation to control allocation through market mechanism. Decreasing financial support shifted from generic to specific subsidies aimed at the socio-economically weakest groups.

The pattern of transition in housing policy from a housing market strongly regulated by the government to more market orientation has proceeded in the various countries in different ways. In general, government support in the form of indirect support, remains considerable. Since in all countries the proportion of owner occupied dwellings in the housing stock is increasing, the importance of these fiscal concessions becomes ever greater. Exceptions are Denmark, Sweden and (to a lesser extent) England, where the fiscal concessions to owner occupiers have been cut back.

The principal changes in government policy relate to the treatment of the social rental sector. Financial support to this sector has decreased, and is increasingly directed towards the lower-income groups. In a number of countries efforts have been made for varying lengths of time to privatise parts of the

social rental sector. In other countries the regime within which the social rental sector has to operate is increasingly coming to resemble that of the private rental sector (Boelhouwer & van der Heijden, 1994, p. 331). One result is that the share of the social rental sector is stagnating or declining. In Belgium and England there is even an absolute decrease in the number of social rented dwellings. Moreover, in several countries the function of the social rental sector in the housing market is changing. To an increasing extent a concentration of socio-economically vulnerable groups is occurring. At the same time housing shortages are re-emerging in a number of countries. In relation to both, there is a certain absolute shortage and a shortage of dwellings that are affordable and accessible to lower-income groups (Boelhouwer & van der Heijden, 1992). For the private rental sector this change in policy may perhaps mean new opportunities. This will be examined further in the fifth section.

### **The Decline of the Private Rental Sector**

As stated above, the decline in private renting that occurred in almost all countries (with the exception of West Germany) has been the result of:

- demolition of existing, poor-quality private rented dwellings;
- conversion of private rented dwellings into owner occupied ones;
- relatively little new construction of private rented dwellings.

The consequence of the limited new construction of private rented dwellings since the Second World War is that 40–60 per cent of the present private rental sector dates from before 1950. In England 56 per cent of the private rented dwellings were built before 1919 (van de Ven, 1995).

As an explanation for the decline in the share of private rented dwellings and the limited new construction of dwellings in this sector, rent protection and rent control are often mentioned. However, in practice this is only one of the factors affecting the development of the supply and demand for private rented dwellings. Via a liberalisation of the rents and the reduction of security of tenure the possibilities of achieving a sufficient return may increase, but this does not necessarily mean there is a sufficient effective demand for the dwellings. This is partly dependent on the sector's competitive position with regard to other housing sectors in the housing market. The government can exert a major influence on this by granting tax facilities and providing financing and operating subsidies to the suppliers of dwellings and individual subsidies to those demanding dwellings.

As stated above, the political and financial support in most countries in the post-war period has principally been aimed at the social rental sector and at the owner occupied sector. In addition, the social rental sector in a number of countries (Sweden, Denmark, the Netherlands and, for some time, England) is intended to accommodate broad sections of the population. These developments have resulted in a decline in the competitive position of the private rental sector. For large sections of the population the social rental sector and the owner occupied sector are attractive alternatives to the private rental sector. This has led to a situation where in most countries there is a split in the private rental sector. In addition to a sub-sector of pre-war private rented dwellings, often in the possession of individuals and small companies, there is a segment post-war dwellings, where institutional investors play an important role as owners.

After 1945 the role of individuals as investors came to an end in most countries. In many cases private individuals are not able to raise the financial resources that are involved in the construction of new dwellings for rent. Moreover, pension provision has been taken over by large institutional investors, so that the motive for investing in housebuilding has disappeared for them. Despite the fact that the decline of the private rental sector in many West European countries is principally caused by a decrease in the number of dwellings owned by private individuals, this section of the market still forms a major part of the whole sector (van de Ven, 1995). In most countries the dwellings that are let by private landlords are of poor quality, have relatively low rents and an unfavourable price-quality ratio. They are often occupied by households with a poor position in the housing market. For these households the social rental sector is in many cases unattainable. The continuing decline of these older private rented dwellings, combined with the decreasing government aid to the social rental sector in many countries, may thus lead to housing problems for the weakest groups in the housing market.

After the Second World War, institutional investors became active in the housing market in various countries. For institutional investors and also insurance companies, investment in housing affords protection against inflationary developments. The need to spread risks makes it attractive for them to invest a limited part of their capital in housing. The existence of operating subsidies and tax relief has contributed to the attractive nature of investments in housing in various countries in the past. The dwellings owned by the larger institutions that came into being after the Second World War are of good quality and are occupied by higher-income groups, often with specific housing demands.

### **Country-Specific Developments**

Behind the similarities in the development of housing policy and the private rental sector lie great differences between the various countries. In this section the specific characteristics of the private rental sector in each of the seven countries are discussed. The emphasis lies on the present position of the sector within the various housing systems. In addition to the size of the sector (see Table 1), the target groups served, its specific housing characteristics, its share in the production of new housing and government policy with regard to the sector are of importance in this framework. A survey of the present policy instruments for supporting the private rental sector and for regulation and protection is given in Tables 2 and 3. This section concludes with a brief description of the major differences in the position of the private rental sector within the various housing systems.

#### *Belgium*

In Belgium, traditionally support is granted for owner occupied housing. In contrast to the social rental sector (7 per cent), the private rental sector, with 29 per cent of the housing stock, occupies a prominent position in the housing system.

The private rental sector is very one-sided in its composition. The most vulnerable groups in the housing market have to fall back on the private rental

**Table 2.** Current instruments for supporting the private rental sector in seven West European countries

	Subsidy for new construction	Subsidy for dwelling improvement	Special tax facilities	Individual rent subsidy
Belgium (Flanders)	No	Confined to: - private rented dwellings let as social rented dwellings - tenants of private rented dwellings	No	Confined to specific target groups like the elderly, invalids and homeless and occupants of socially let private rented dwellings
Denmark	No	No	No	Yes, separate systems for pensioners and non-pensioners
England	No	Yes, various schemes	No	Yes
France	Reduced state loan (rent and income of tenant bound to maximum)	Yes, for improvement of older private rented dwellings	Exemption from property tax (limited period)	Yes, various schemes for different categories of dwellings and tenants
Germany	No (freifinanzierte Wohnungen) yes, provided that the dwellings are let under the social regime during the subsidy period	Yes, loans with low interest and operating subsidies	Favourable depreciation allowances, especially for newly constructed rented housing	Yes
Sweden	Interest subsidy, is being run down	Interest subsidy, is being run down	No	Yes, separate system for pensioners and non-pensioners

*Sources:* Boelhouwer & van der Heijden, 1992; van de Ven, 1995; Wiktorin, 1993; Papa, 1992; Pfeiffer & Dibel, 1994.



Table 3. Current regulation of rent-setting, rent adjustment and rent protection in the private rental sector of seven West European countries

	Regulation of rent-setting	Regulation of rent adjustment	Rent protection
Belgium Flanders	No	Rent increase maximised by change in the retail price index	Tenancy agreements for given period (usually 9 years). After 3 or 6 years agreement may be cancelled by the landlord. Compensation has then to be paid
Denmark	Starting point is cost-related rent (regulated municipalities) or neighbourhood standard rent system (unregulated municipalities). For dwellings built after 1992; no regulation of rent-setting	Rent increases have to be justified by higher expenses (regulated municipalities) or by an increase in the value of the dwelling (unregulated municipalities)	Indefinite-term tenancy agreements. In specific cases, temporary tenancy agreements are possible. The agreement can be freely cancelled (one year's notice) in the case of two-family houses, provided the owner occupies the other dwelling
England	No	No, with the exception of agreements concluded before 1989 (fair rents)	Duration of the agreement for a certain period (short-hold assured tenancy) or indefinite period (assured tenancy). Security of tenure applies only for the duration of the tenancy agreement
France	- Dwellings not rented before and renovated dwellings: not regulated - new tenants: reference rent is maximum - extension of tenancy agreement: development of construction cost index is maximum No (maximum 50 per cent above level of 'Vergleichungsmiete')	- Increase in construction Cost Index is upper limit - if rents are undervalued, increases may be announced in accordance with local neighbourhood rents Maximum rent increase confined to: - level of Vergleichungsmiete (rents of comparable dwellings in the same area) - 30 per cent within three years	Duration of the agreement is 3 years minimum. Security of tenure applies only for the duration of the tenancy agreement
Germany			The duration of a residential lease is infinite. Rent protection restricted in the case of two-family houses, provided the owner occupies the other dwelling
Netherlands	Rent-setting of all new dwellings and existing dwellings with a rent above a given level is not regulated. For existing dwellings with a rent below that level the maximum reasonable rent according to the dwelling assessment system applies	For existing tenancy agreements a maximum rent increase percentage applies (1995: 6 per cent). For tenancy agreements concluded since 1994 a maximum rent increase percentage applies for rents below a certain level Above this level rent increase is not regulated	Indefinite-term tenancy agreements
Sweden	Rent-setting is in principle free. If the parties disagree upon the rent the regional rent tribunal sets the rent on the basis of the rent of comparable non-profit dwellings in the area (utility value)	Rent adjustment takes place on the basis of collective or individual bargaining. Maximum rent increase depends on the rent development in the non-profit sector (utility-value system)	Indefinite-term tenancy agreements

Sources: Boelhouwer & Van der Heijden, 1992; Van de Ven, 1995; Wiktorin, 1993; Papa, 1992; Pfeiffer & Dübel, 1994.

sector. They cannot afford a home of their own and the small social rental sector is often unattainable. The consequence is that the low-income groups compete with one another to obtain a private dwelling for rent (de Decker, 1990). This results in the private landlord occupying a very strong position with respect to the (potential) tenant. As a result, the landlords are not encouraged to maintain or improve the dwellings. The general quality of the private rental sector is thus relatively low (de Batselier, 1994; de Decker, 1990; Goossens, 1982), although this does not apply to the fairly limited section of the market with expensive, good-quality apartments for rent, which is concentrated in Brussels.

The greatest part of the private rental sector in Belgium is owned by individuals and small companies. Institutional investors own 21 per cent of the private rented dwellings (van de Ven, 1995). No data are available on the volume of new construction of private dwellings for rent in Belgium, since no differentiation between private rental and total private housing is made (Pfeiffer & Dübel, 1994).

From an international point of view, it is remarkable that the private rental sector is the responsibility of the (national) Minister of Justice; the government regards private letting as a matter of a contract between landlord and tenant. As a result, this sector falls largely outside the reach of housing policy.

Recently the facilities for obtaining rent subsidies for certain groups of tenants of private rented dwellings in Flanders have been widened. Moreover, there are plans for introducing minimum qualitative standards for the private rental sector (de Batselier, 1994, p. 170). In 1991 a new national Rent Act was introduced in Belgium with the aim of increasing the legal protection of tenants by extending the fixed length of the tenancy agreement to nine years (see Table 3). The rent level is freely agreed. Rent increases are based on an index that is dependent on the development of the cost of living.

Housing policy in Belgium is, for the time being, directed in the first instance towards promoting home ownership. In addition, increasing the size of the social rental sector is being pursued. Recently steps have been taken to use vacant poor-quality private rented dwellings (after improvement by social landlords) for social housing. The private owner receives a guaranteed yield from rent, and the dwellings are let by a social landlord. The rent that the occupant pays depends on household income. The difference between the guaranteed rent and the rent paid by the occupant is subsidised. The duration of the tenancy agreement with the private owner is a minimum of 15 years. Goossens (1988) suggests that the result of this system may be that making a sufficient return on invested capital will come to play an increasingly important role, and the accountability of these dwellings for the lower-income groups may decrease in the long run. Moreover the overall policy has not proved successful so far, chiefly as a result of extensive and lengthy administrative procedures (de Batselier, 1994, p. 102).

#### *Denmark*

As indicated in Table 1, the private rental sector in Denmark in 1990 formed about 18 per cent of the total housing stock. The greater part of the private rented dwellings were built before 1960. The construction of private dwellings for rent fell sharply in the 1960s. Increases in land prices and building costs and the absence of direct government subsidies (which were given for building social

housing for rent) were the main causes of this (Haywood, 1984, p. 207). The non-subsidisation of the private rental sector is very much a policy of the political ideology of the dominant Social Democratic Party in Denmark. This party has repeatedly argued that it is immoral to own the dwelling of another person (Christiansen, 1990, p. 20).

In the 1970s and 1980s the share of private rented dwellings fell further as a result of urban renewal activities (demolition of old private rented dwellings), as well as conversions of private rental housing into co-operative housing and condominiums (Boligministeriet, 1994).

The present legislation concerning rent control dates from 1975. Local authorities with a population exceeding 20 000 are obliged to regulate rents. In small local authorities the municipal council may decide on this. The consequence of these arrangements was that in 1991 some 90 per cent of the rents were regulated. The point of departure for rent regulation is a "rent determined by expenses" (Skifter Andersen, 1992, p. 41). Even in the unregulated local authorities the setting and adjustment of rents is subject to rules. The starting point is then the value of the dwelling, i.e. the rent that is normal for dwellings that are comparable to the rented dwelling (Boligministeriet, 1994, p. 12).

On average the quality of the private rented dwellings is lower than that of the other tenure categories. It has been estimated that 60 per cent of all substandard dwellings in need of modernisation or restoration are located in the private rental sector (Boligministeriet, 1994). However, there is a considerable spread. In contrast to the good quality, new, private rented dwellings there are the poor quality dwellings that are concentrated in the older parts of the stock. Skifter Andersen (1992, p. 43) argues that the main problems of maintenance go back to the period before 1976, when there was no obligation to transfer a fraction of the rent to a maintenance account, and landlords had to pay for maintenance out of their general rental incomes. As a result, at the start of the new period of rent control, there was a big backlog of maintenance. The new rules had the effect that more money was channelled into maintenance but the transfers laid down by legislation were too small, especially in the oldest and worst parts of the stock. These older, private rented dwellings are often occupied by vulnerable groups in the housing market (Skifter Andersen, 1992, p. 42). The average rent in the private rental sector is lower than in the social rental sector. This is caused chiefly by the low rent of the older, poor quality rented dwellings. For houses built after 1970, private rented dwelling rents are higher than those of social rented dwellings (Boligministeriet, 1994, p. 15). The system of individual rent subsidy is also applicable to the private rental sector.

Recently some initiatives have been taken to encourage investment in private rental housing. In 1992 rent-setting regulation for new, private rented dwellings was abandoned. However, since the Danish housing market is approaching the point of saturation, major increases in the construction of private rental housing are not expected. In 1993 the share of the private rental sector in total house-building construction (10 000 dwellings) was nearly 20 per cent. Most of these dwellings were built by pension funds and insurance companies and generally they are in the more expensive market segment (Boligministeriet, 1994).

### *England*

The share of the private rental sector in the English housing stock fell rapidly

after the Second World War to only 8 per cent in 1989. Since then, partly through incentives taken by the government (see below), the share of the private sector has again risen to about 10 per cent in 1993 (van de Ven, 1995).

After the Second World War many private rented dwellings were demolished or sold to owner occupiers. Until 1989 new private dwellings for rent were barely added to the stock. According to Forrest & Murie (1984) the decrease in the investment in private rented dwellings was caused by a low return on invested capital compared with alternative investment possibilities. In addition rent control, which was in force for a long time after the Second World War, and the government requirements concerning the quality of dwellings likewise played a role. In addition, after the largest post-war housing shortages had been eliminated, partly by large-scale production of social rented dwellings, English housing policy has been very strongly aimed at promoting home ownership. Partly due to the direct and indirect aid to the social rental sector and the owner occupied sector, the private rental sector occupies a poor competitive position.

The private rental sector consists, to a relatively large extent, of flats in blocks and furnished apartments. The sector is relatively old (56 per cent of the dwellings were built before 1919) and, compared with the other tenure sectors, has a low level of amenities. Young people and (to a smaller extent) the elderly are over-represented in the private rental sector. According to Harloe (1990) these two age categories in general occupy a different type of dwelling. The young people often live in small furnished apartments with shared amenities. Conversely, the elderly occupy old single-family houses that are larger, but generally have few amenities.

The greater part of the private rental sector is owned by individual landlords. Property companies do not play a major role as providers of private rented housing, and institutional investors do not generally invest directly in residential property (Mew, 1994, p. 78).

In England there are no property subsidies for the construction of new private dwellings for rent. However, use can be made of improvement grants. Tenants of private rented dwellings qualify for housing allowances.

Despite the rapid decrease in the sector, the British government regards the private rental sector, together with the housing associations, as an alternative to the owner occupied sector for households that are unable or unwilling to buy a home of their own. The government therefore tried various ways in the 1980s to increase the share of the private rental sector in the English housing stock. In 1988 some important changes were introduced under the Housing Act. In particular, all new tenancy agreements in the private rental sector are deregulated (see Table 3).

Housing associations currently provide most additional social housing, but they have to operate increasingly in conformity with free-market principles, with less subsidy and more financing on the capital market, which results in higher rents (see Pryke & Whitehead, 1994). At the same time there is a shift going on in part of the social rental sector to a regime increasingly resembling that of the private rental sector.

In 1988, to encourage investment in the private rental sector, an existing Business Expansion Scheme (BES) was extended to investments in private dwellings for rent for five years. Investors in such BES enterprises qualified for fiscal advantages (see Oxley & Smith, 1993; Papa, 1992). This scheme ended in

1993. Between 1988 and 1993, 40 000 private dwellings for rent were added to the stock via the BES (Coopers & Lybrand, 1993). Most investments were made in the attractive suburbs and in the cities. Two- and three-room dwellings dominated. The target group, therefore, consisted principally of small households with high mobility and earned income (Crook *et al.*, 1990). The recent increase in the private rental sector can also be ascribed to the recession in the English owner occupier market. Temporary letting forms an alternative for owners who cannot sell their dwelling without considerable loss of capital (Whitehead & Kleinman, 1994, p. 2). It is, therefore, still a question of whether the upturn in the English private rental sector is of a structural nature.

### *France*

In France the private rental sector was fairly stable in terms of absolute numbers of dwellings until the 1980s. However, as a result of demolitions, office conversion or conversion into the owner occupied sector, the number of private rented dwellings fell quickly thereafter (Oxley & Smith, 1993, p. 3; Wiktorin, 1993, p. 40). The share of the private rental sector declined in the period 1978–88 from 26 per cent to 20 per cent.

The quality of private rented dwellings is on average worse than in the social rental sector. Generally, the dwellings are also older too; 56 per cent of the private rented dwellings were built before 1948. The old, cheap dwellings of low quality, often owned by private persons, are occupied predominantly by households on low incomes. It is above all these old, private rented dwellings that disappear from the private rental sector because of demolition and conversion (van de Ven, 1995; Wiktorin, 1993).

For the construction of new buildings and the purchase of existing dwellings, private landlords can make use of various forms of subsidised loans. However, conditions are laid down regarding the income of the tenants, the period for which the dwellings are let and the level of rent. In addition, there are property tax exemptions for new housing. These tax exemptions hold good for a given period: two years for unsubsidised dwellings and 10–15 years for dwellings financed by subsidised loans (Ghekiere, 1991). Private rented dwellings which are older than 15 years qualify for a subsidy for dwelling improvement. In that case two conditions are laid down, (a) with regard to the period for which the dwellings are let after improvement and (b) the level of rent (van de Ven, 1995).

Tenants of private rented dwellings in France may lay claim to various individual subsidy schemes. Some of these subsidies are paid from employees' contributions or from social security contributions.

In the private rental sector a distinction can be made between rented dwellings regulated by the Rent Act of 1948 and that of 1989. Of the total number of private rented dwellings, some 12 per cent still came under the 1948 Rent Act in 1988, but this share is rapidly shrinking. When the Act was adopted, the restrictions (security of tenure and strict rent control) were introduced only for the existing dwellings. After 1948 new construction had to operate more in accordance with the market mechanism. However, various governments have applied rent freezes during the past decades. To give the private rental sector an incentive, the Méhaignerie Law was adopted in 1986. This law freed up the rents of new and vacated units, and allowed rents to be revised annually in line with the construction cost index. In 1989 this liberalisation was again partly

nullified through the Mermaz-Malandain Law which offered the possibility of freezing the rents for one year in the case of an "abnormal situation on the rented dwelling market". For the Paris Region such a decree was adopted in August 1989, and extended in the following years.

There are increasing efforts by the government to try to boost investment in the private rental sector (Oxley & Smith, 1993). Private rental housing is considered important for new households in transition to owner occupied or social housing (Pfeiffer & Dübel, 1994, p. 12). Notably, lower-income groups have to rely on the older, private rented dwellings. For the middle-income groups the government is trying to promote an 'intermediate class' of private rented dwellings, meant for households that have too high an income for the social rental sector, but have difficulty finding accommodation in the unsubsidised sector in the cities where the housing market is tight. In addition to the liberalisation of rent and the availability of subsidised rental loans, the fiscal measures introduced to encourage private investments in 1985 are being expanded (Santel, 1991, p. 28).

Recent reports (Louvot, 1992) suggest that these measures have had some positive effect on new construction levels. While 5000 dwellings were built in the private rental sector in 1985 (1.7 per cent of total housing production), by 1990 an estimated 20 000 new houses (6.5 per cent of total housing production) were destined for the sector (Oxley & Smith, 1993). However, this new construction is not enough to compensate for the decrease in the number of old, private rented dwellings, so that on balance the sector is becoming smaller. This has particular consequences for the housing possibilities of weaker groups in the housing market, who are not always accepted in the social rental sector.

#### *(Former) West Germany*

Characteristic of the organisation of housing accommodation in West Germany since the Second World War is the absence of a clear separation between private persons who let on a profit basis and non-profit institutions that let social rented dwellings. Both categories of landlords can let both subsidised and unsubsidised dwellings. Subsidised dwellings fall (during the subsidy period) under the regime of the social rental sector. Social housing is converted into private housing after low-interest public loans have been repaid.

Depending on the definition chosen, in 1987 the size of the private rental sector in West Germany was 47 per cent (all rented dwellings in the possession of private persons) or 45.4 per cent (all unsubsidised rented dwellings). The share of the private rental sector in the overall housing stock has remained reasonably high and stable in past decades. Three reasons may be given for the relatively large share of private rented dwellings in West Germany:

- (1) The price of owner occupied dwellings is high and the financing structure requires the contribution of a significant proportion of own funds. Before the switch is made to the owner occupied sector, a considerable amount of money is saved over a long period. The subsidisation method is geared to this. It favours households with children and encourages saving. Depreciation allowances can be obtained only once in a lifetime and discourage trading-up (Papa, 1992).
- (2) Unlike other West European countries, in Germany new dwellings are being

built for the private renting sector. Foremost, individuals and small companies act as investors in housebuilding. Their interest is directed in the first place towards profiting from the fiscal advantages. Via a number of tax deductions the government succeeds in keeping this interest alive. Some 65 per cent of the private rental sector is in the hands of private persons.

- (3) Through the unique (temporary) subsidy system in the social rental sector the number of private rented dwellings is still rising (in absolute terms) annually. In the 1990s many subsidy periods come to an end, mostly because since 1981 the possibilities of accelerated repayments on subsidised loans have been extended. Thus at national level, of the 4 million social rented dwellings in 1987, only 1 million will remain as social housing in the year 2000 (Fuhrich, 1987, p. 99).

In the private rental sector market rents apply, but rent increases are regulated (see Table 3). Security of tenure is also strong in West Germany.

About 40 per cent of private rented dwellings were built before the Second World War. As a result of (subsidised) renovation and dwelling improvement the quality of the older, private rented dwellings has improved considerably, mostly in the last 15 years.

Partly because of the size of the sector, the subsidy methods and the availability of housing allowances, the private rental sector provides accommodation for broad sections of the population. Rents in the private rental sector are generally higher than those for social rental dwellings. In recent years there has been a growing concentration of the lowest-income groups in social rented dwellings, notably those owned by municipal housing companies (van de Ven, 1995).

Since 1990, as a result of the greatly increased housing shortage arising from limited or low building production in the 1980s and immigration from former East Germany and other East European countries, housebuilding production in Germany has increased considerably. The strong growth in the demand for housing has led to a rise in the rents for new dwellings and for renewed tenancy agreements. Together with an increase in 1989 in the depreciation allowances for new investment in rented housing, this has contributed to favourable circumstances for investment in the private rental sector. In 1992 the share of the private rental sector in total housebuilding production (384 600 dwellings) therefore was over 46 per cent compared to 16 per cent social rented dwellings and 35 per cent owner occupied dwellings (van de Ven, 1995).

### *The Netherlands*

The share of the private rental sector in the Dutch housing stock fell from 60 per cent in 1947 to 13 per cent in 1989. This decrease was chiefly caused by a rapid decline in the number of dwellings in the possession of private individuals (Adriaansens & Priemus, 1986). In 1990 about 7 per cent of the housing stock (54 per cent of privately rented dwellings) was still let by individuals and small companies.

In much of the private rental sector there is a relation between housing and pension provision. Regarding the pre-war stock, in many cases private individuals let a number of dwellings having acquired their properties with a view to their old age. In the post-war stock, the link between housing and provision for

old age is made by financial institutions such as pension funds and life insurance companies.

The pre-war private rental sector consists predominantly of relatively poor, small, cheap dwellings, often in the form of medium rise purpose-built flats, located in the central city districts. The occupants are either young or very old. Mobility is high. Many dwellings are sold to owner occupiers or to local authorities or housing associations.

The post-war private rental sector, chiefly the property of institutional investors, forms a market segment completely different from the pre-war private rental sector. The investment sector consists on average of good, large and expensive rented dwellings, concentrated in areas of the Netherlands where there is a strong demand for housing. The occupants have relatively high incomes and are mobile.

The production of new dwellings in the private rental sector since the Second World War arises chiefly through institutional investors. The greater part of these dwellings have been subsidised. Until the end of the 1980s the subsidy regulations for private and social rented dwellings were comparable. Since then the subsidies for new, private rented dwellings have been sharply reduced. In the period 1988–93 the share of the private rental sector in new construction declined from about 10 per cent to 7 per cent. This was accompanied by a considerable increase in the share of owner occupied dwellings in new construction production.

Security of tenure is strong in the Netherlands. The legal position of tenants is the same in the social and private rental sectors. The rent regime was amended in 1994. For all new dwellings and expensive existing dwellings rent-setting has been liberalised. For tenancy agreements concluded since 1994, rent adjustment is also no longer regulated from a given rent level (see Table 3).

In recent housing policy encouragement of home ownership has been prominent. Regarding the rental sector, the government aims to attain a social rental sector which can be to a large degree financially independent, with the housing allowance as the principal subsidy instrument. Tenants of both social and private rented dwellings qualify for this allowance. With effect from 1995, no further general subsidies are to be given for the construction of either new social and private rented dwellings. However, larger local authorities and joint ventures of smaller local authorities have at their disposal decentralised subsidy budgets that can be used to promote housebuilding production and large-scale dwelling improvement of pre-war private rented dwellings. The use of these financial resources by the budget-holders will depend on the local situation in the housing market.

### *Sweden*

The share of the private rental sector in the Swedish housing stock is at present about 20 per cent. Until 1945 the majority of apartment houses in Sweden were built in the private rental sector. This changed when, after 1945, government policy was directed towards building social dwellings for rent. In the 1960s and 1970s some 20 per cent of the expansion of the housing stock still occurred in the private rental sector, whereas by 1980 this percentage had fallen to about 10 per cent. The various tenure sectors in Sweden differ strongly as regards dwelling type. Rented dwellings and co-operatives are for the greater part blocks of flats,



whereas the owner occupied sector consists exclusively of single-family dwellings. Foremost in the 1980s was the frequent conversion of private rented dwellings into co-operative residential property. Private co-operatives of former tenants were being set up to buy up the dwellings from the landlord (Lundqvist, 1988, p. 104).

The ownership structure within the private rental sector is heterogeneous. Some 75 per cent of the private landlords own 26 per cent of the total number of private rented dwellings. On the other hand, 1 per cent of the largest landlords own one-third of this total.

Private rented dwellings are in general older, are located on small estates and are smaller than dwellings in the social rental sector (60 per cent of the dwellings in the private rental sector consist of two- and three-room dwellings). Regarding the tenants, the elderly and higher-income groups are somewhat over-represented in the private rental sector. The quality of both the private and the social rented dwellings is generally good. This is due in part to a large-scale (subsidised) dwelling improvement programme in the 1980s, during the course of which many outmoded dwellings were modernised (van de Ven, 1995).

Since 1978, the development of rents in the private sector has been directly linked to rent development in the social sector. The latter is determined via bargaining between tenants and landlords. The result of the bargaining determines rent development in the private rental sector (see Table 3). The price-leadership role of the social sector is at present under discussion in Sweden. Moreover, in the annual negotiations the rent increase is no longer fixed for the whole municipal housing company, but per estate. This more market-oriented approach makes it possible to differentiate rent adjustments, depending on local variations in standards, location, environmental quality and public and commercial services (Elander, 1994, p. 101).

The central point of departure for the subsidisation of housing in Sweden is the equality of treatment between tenure. As in the social rental sector, private landlords also qualify for interest subsidies in the financing of new construction, although the conditions are less favourable. The system of individual subsidies in Sweden applies to all housing sectors.

Recently, the extent of direct and indirect subsidy in all housing sectors has been cut back. As a result, housing costs for all categories have risen sharply. New construction in Sweden has fallen sharply in all sectors in recent years. Nor is it expected that the level of production will rise before the year 2000.

The present system of interest subsidies, which came into effect in 1993 and applies to new construction and dwelling improvement, is also already being run down. The changes in the tax and subsidy system are less unfavourable to the private rental sector than to the other tenure categories, so that differences in treatment are becoming smaller (Hendershott *et al.*, 1993, p. 112). According to Elander (1994, p. 101), the two kinds of rented housing are "converging in the framework of a more market-oriented policy strategy".

#### *Differences in the Position of the Private Rental Sector in the Various Housing Systems*

As emerges from Tables 2 and 3, there are considerable differences between the various countries in the use of policies for supporting the private rental sector and regulating rents as well as the degree of rent protection. Assessing the effect of the current policy instruments on the proportion of private rented dwellings

in the housing stock and on the volume of new construction of private rented dwellings is, of course, not possible on the basis of these Tables. The development of policy instruments has not been directly taken into account. Moreover, the volume of the investment in the private rental sector is partly determined by the financial support given by the government to other housing sectors and the 'competition' of alternative investment possibilities. A direct relationship between the size of the private rental sector and the degree of financial support of the sector by the government therefore does not always prove to exist. For instance, the size of the private rental sector in Belgium, despite the absence of property subsidies, special tax facilities and a general system of housing allowances is nevertheless relatively large, whereas the private rental sector in the Netherlands is relatively small, despite the fact that property subsidies were available for a long time. The difference in competitive position of the private rental sector between the two countries is much more important.

In England, Denmark and Belgium financial aid to the private rental sector in the form of direct subsidies or tax facilities is practically non-existent. In Sweden and the Netherlands subsidisation of the sector has been, or is being, run down. Only in Germany and France are subsidies given to private investors, whereby landlords are bound for a certain period to rules taking account of rent levels and the income of the tenants. In addition, these countries have special tax facilities to encourage new construction of (unsubsidised) private rented dwellings.

England is the only country where both rent-setting and rent adjustment are not regulated by the government (any longer). In the other six countries various instruments still are used to regulate rents. In general, however, there is increasing deregulation of the rents in the private rental sector. The exception to this is Belgium. Rent protection is strongest in countries where, in principle, tenancy agreements are concluded for an indefinite period (the Netherlands, Denmark, Sweden and Germany).

The proportion of private rented dwellings in the possession of institutional investors is highest in the Netherlands and Sweden, with 46 per cent and 40 per cent respectively. Conversely, this category of owners plays a very limited role in Germany and England.

In the recent housing policies in all these countries a different role has been given to the private rental sector. In Germany and Belgium private investors are encouraged by subsidies and tax measures to meet the need for (cheap) rented dwellings. In Belgium, increasing the size of the social rental sector is the main priority, whereas in Germany they are dealing with quantitative housing shortages. In France and England there is an attempt to strengthen the position of the private rental sector, which has to function as a 'regulator' between the dominant market segments. In France subsidies and tax advantages are made available for this, whereas in England a tax relief scheme which started in 1988 was terminated in 1993.

In a number of countries the competitive position of the private rental sector is being indirectly improved. Thus, notably in Sweden, the Netherlands and England the system of supply subsidies is being run down, and as a result differences between the social rental sector and the private rental sector are shrinking.

The volume of new construction in the private rental sector also differs. In Germany the sector is responsible for nearly half of new construction, whereas

in France and the Netherlands it accounts for only 6–7 per cent of the total of new construction production. In these countries the volume of new production in the private rental sector is too small to be able to counter the continuing decline in this sector. The same applies to Denmark, where 18 per cent of the (limited) new construction production consists of private dwellings for rent. Through demolition and the conversion of existing private rented dwellings, the share of the sector in the housing stock will fall further. Besides Germany, England is the only country where the share of the private rental sector has grown in recent years. This growth is in part the result of a temporary tax measure and depression in the market for owner occupied dwellings.

### **The Future of the Private Rental Sector**

In general, governments in many West European countries are withdrawing from the housing market in favour of the free functioning of supply and demand. This often leads to a decrease in aid to the social rental sector and greatly limits the function of this sector to lower-income groups. Although the decrease in government aid is clearly less than in the social rental sector, for the owner occupied sector government assistance is also on the wane. For instance, in a number of countries (Sweden, Denmark and England) there has been a decrease in (fiscal) aids to owner occupation. In Sweden there is a housing policy of equal treatment of all forms of tenure. In other countries too voices are being raised, with increasing frequency, in favour of reducing aid to the owner occupied sector in the long term. If this trend continues and governments actually proceed to reduce the aid to the owner occupied sector, this will lead to a better competitive position for the private rental sector.

Recently there have again been regional housing shortages in a number of countries (France, England, Germany, the Netherlands), especially in urban regions with strong economic growth. In these regions, in particular, possibilities may arise for the private rental sector. To a limited extent this relates to expensive dwellings for high-income groups and the growing group of elderly people with particular housing demands. However, for a large percentage of the households with relatively high incomes the owner occupied sector will remain the most obvious choice. In addition, it is not inconceivable that the private rental sector can fulfil a greater function for some lower- and medium-income groups. If the social rental sector is closed off to these groups and the owner occupied sector remains financially unattainable and involves too many risks, a vacuum will be formed on the housing market.

Whether this vacuum will be filled by the production of new dwellings or the better use of the existing stock in the private rental sector depends, among other things, on the possibilities of making a sufficient return. An increased return can be attained by a sharp rise in the rent level (in a number of countries this is already happening in areas with a housing shortage) or a (further) fall in the quality of the new production. It is also possible to grant (more) financial aid to private landlords in the form of tax facilities or operating subsidies to improve the competitive position of the sector in the housing market. Such a situation exists in Germany. In countries such as France, Belgium and England a development of this kind is not inconceivable, given recent government policy.

For the weakest groups in the housing market, however, this will not be a solution, for they remain dependent on the existing stock of cheap

dwelling. If no dwellings become available for them within the stock (via movement up the housing ladder), this will probably lead to postponement of living independently (living with others) or the search for housing substitutes. In this context, we query the desirability of increasing the financial contributions to the private rental sector in respect of an (independent) non-profit rental sector for the housing of low-income groups. In the first case large sums can be lost to housing via speculation and profits, in particular in an overstrained market. Short-term success then yields great drawbacks in the medium term, and is one of the objections that Goossens has raised in the use of private rented dwellings for social housing in Belgium (see the fourth section).

Finally, it should be mentioned that the prospects briefly referred to in this section for the private rental sector are of a very general nature, and in part pass over the great differences noted earlier in this paper between countries regarding the function of the sector within the housing system. The potential for allowing specific housing sectors to play a part in the solution of housing problems will, therefore, have to be considered within the context of the unique housing system and the measures to be employed by each country.

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