



**EXECUTIVE SUMMARY**

# The changing institutions of private rental housing: an international review

Inquiry into the future of the private rental sector

FOR THE

**Australian Housing  
and Urban Research Institute**

PUBLICATION DATE

January 2018

DOI

10.18408/ahuri-7112201

AUTHORED BY

**Chris Martin**

*The University of New South Wales*

**Kath Hulse**

*Swinburne University of Technology*

**Hal Pawson**

*The University of New South Wales*

<b>Title</b>	The changing institutions of private rental housing: an international review— Executive Summary				
<b>Authors</b>	Chris Martin	The University of New South Wales			
	Kath Hulse	Swinburne University of Technology			
	Hal Pawson	The University of New South Wales			
<b>ISBN</b>	978-1-925334-57-9				
<b>Key words</b>	Housing tenure, industry, institutional, investment, practice, private rental, rent, structural drivers, tenancy, technology				
<b>Series</b>	AHURI Final Report	<b>Number</b>	292	<b>ISSN</b>	1834-7223
<b>Publisher</b>	Australian Housing and Urban Research Institute Limited Melbourne, Australia				
<b>DOI</b>	10.18408/ahuri-7112201				
<b>Format</b>	PDF, online only				
<b>URL</b>	<a href="http://www.ahuri.edu.au/research/final-reports/292">http://www.ahuri.edu.au/research/final-reports/292</a> (full report)				

### Recommended citation

Martin, C., Hulse, K. and Pawson, H. with Hayden, A., Kofner, S., Schwartz, A. and Stephens, M. (2017) *The changing institutions of private rental housing: an international review*, AHURI Final Report No. 292, Australian Housing and Urban Research Institute Limited, Melbourne, <http://www.ahuri.edu.au/research/final-reports/292>, doi: 10.18408/ahuri-7112201.

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The Inquiry Panel are to provide guidance on ways to maximize the policy relevance of the research and draw together the research findings to address the key policy implications of the research. Panel members for this Inquiry:

Simon Cohen	Department of Justice and Regulation, Victorian Government
Hanna Ebeling	Social Enterprise Finance Australia Ltd
Nick Foa	Department of Health and Human Services, Victorian Government
Louise Gilding	Community Services Directorate, ACT Government
Heather Holst	Launch Housing
Jill Mills	Department of Social Services, Australian Government
Jacqueline Phillips	Australian Council of Social Service
Lydia Ross	Department of Social Services, Australian Government
Erin Turner	CHOICE

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## Executive summary

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- The growth of private rental housing in Australia is important across a range of policy areas, from the administration of housing assistance, to consumer protection, to macroeconomic policy.
  - This report provides a resource for considering policy settings and institutions relevant to the Australian private rental sector (PRS) by drawing on the international experience of 10 countries in Australasia, Europe and North America.
  - The report takes a ‘system-embedded’ approach to comparative housing analysis through interrogating the international experience of housing and impact of broader economic systems, financial settings, landlord and tenancy structures and regulation in the reference countries.
  - It is not the case that ‘everyone in Europe rents’. Most of the European countries surveyed have higher rates of home ownership than Australia. In 9 of the 10 countries including Australia, the PRS is the second largest tenure after owner occupation. In seven countries, the PRS is growing.
  - Australia’s PRS stands out in international comparisons for being less differentiated from the wider housing system in terms of its built form, household types and incomes. This suggests a high degree of integration between the Australian PRS and owner-occupier sectors, which is significant for policy-making.
  - Finance policy and market settings have undergone remarkable change before and after the global financial crisis (GFC). Particularly in countries that experienced a housing crash, finance settings have driven rapid change in PRS institutions, often without guidance from conventional housing policy objectives.
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## The report

This is a report of international comparative research into the institutions of private rental housing and how they are changing. The research was conducted as part of AHURI’s Inquiry into *The future of the Private Rental Sector* (AHURI Inquiry 51120).

We take a ‘system-embedded’ approach to international comparative analysis which considers the particular PRS policy settings and institutions of the reference countries in the context of their housing and wider socio-economic systems.

For our international review we looked at the 10 countries (Figure 1), with a detailed review of four (Germany, Ireland, the United Kingdom and United States).

Figure 1: International comparison



Source: Authors.

We took a broad view of 'institutions', to include:

- **housing and socio-economic system factors**, such as housing form, housing markets, household form and economic performance
- **financial settings**, such as housing credit, taxation and subsidies
- **landlords and managers**, both individual persons and large corporations
- **regulation**, with a focus on laws regarding security of tenure and rents.

## Key findings and policy implications

The international comparative literature shows that private rental housing, once regarded as a sector in terminal decline, is now mostly growing and diversifying, changing in some cases rapidly. Conventional typologies put forward in housing research are being overtaken by changes in the PRS and wider housing systems. A rising theme in the literature is the 'financialisation of housing', which refers to the increasing importance of housing in financial markets and the increasing participation of households in finance, particularly through leveraging property ownership for consumption or investment. Studies of PRS regulation indicate a diversity of approaches to questions of rent regulation and security of tenure.

From our 10-country survey, and from closer examination of changes in Germany, Ireland, the United Kingdom (UK) and the United States (US), our key findings and their implications for PRS policy development are summarised below.

### Housing system contexts

Private rental housing is the second largest tenure after owner occupation in all but one of the countries we reviewed (only in Germany is the PRS larger). In 7 of the 10 countries, the PRS share is growing, mostly at the expense of owner occupation, and nowhere is it significantly contracting. Wider system contexts—such as population growth, economic growth, house prices

and household debt levels—vary across the countries. Germany is exceptional for its extended period of stable house prices; other countries have had booms and some have had booms and busts. In all countries house prices are rising again. Australia is unusual for having had a long escalation in house prices and no recession—and now the highest level of household debt of the 10 countries.

In most countries, the profile of the PRS mostly tends towards apartments, small households and lower incomes. In this regard Australia stands out for having a PRS that is less differentiated from the wider Australian housing system than that in most other countries, in terms of building types, household form and household incomes.

### ***Policy implications***

The relatively high degree of resemblance between the profiles of the PRS and wider housing system in Australia implies a high degree of integration, particularly between private rental and owner-occupier markets. Hence, the policy settings and market conditions which apply to one may be transmitted readily to the other.

Australian housing policy discussions are usually directed to improving affordability; it would be wise to think also about how to conduct equitable housing policy in a post-crash market. The integration between the Australian PRS and owner-occupied sectors heightens the prospect of investment in both sectors collapsing with little established institutional capacity for counter-cyclical investment that makes necessary additions to supply. The question of managing and relieving housing-related debt involves doing justice not only between creditors and debtors, but between debtor and non-debtor households.

### **Financial settings**

Across the 10 countries, housing investment is mostly financed by credit, which is mostly provided by banks. Over the past two decades, housing credit has expanded—albeit punctuated by the GFC—with the development of new funding sources. Following the GFC, nine of the countries surveyed have implemented housing-specific macroprudential tools as a financial stability measure.

In those countries most affected by the GFC, government programs for the disposal of impaired property-related assets have significantly increased the position of large corporations in the PRS, both directly as landlords (as in the United States) and indirectly as owners of loans with PRS properties pledged. The responses of Ireland, the United Kingdom and the United States to their financial and housing crises have enabled some existing owner-occupiers and large financial institutions to increase their position in the housing market, though with some curbs around riskier bank lending. This may be no more sustainable or equitable than the pre-GFC housing credit expansion.

Looking at the range of tax settings applicable to housing and the PRS, we find some surprising results. Australia and Germany share several settings: both countries exempt owner-occupied housing from capital gains and both provide for negative gearing on similar terms. Yet Australia's and Germany's treatment of negative gearing and capital gains tax underlie quite different housing market outcomes: speculative inflation in Australia; relatively steady housing prices in Germany. In some respects, Australia has stronger settings against speculation: for example, land value tax. Significantly, we identified that eight of the 10 countries have recently introduced or reformed their tax regimes to provide for real estate investment trusts (REITs), which are emerging as a significant vehicle for PRS investment funding.

The major form of direct subsidy in the PRS is rent assistance payments. These were made in all 10 countries to tenants—and hence indirectly to their landlords. Some countries also provide specific-purpose subsidies to PRS landlords: Germany provides low-interest loans for energy efficiency modifications and Ireland pays landlords for low-income housing through its Rental

Accommodation Scheme (RAS). The United Kingdom's 'Build to Rent' incentives, which include loan and income guarantees, may be outweighed by its austerity-driven reduction in demand-subsidies paid to low-income tenants, which has significantly reduced the rental revenue base represented by that cohort in recent years.

Germany avoided the combined financial and housing crises experienced elsewhere because of a range of institutional factors, including its conservative home lending sector and the withdrawal of some housing subsidies. It may be that some features, such as negative gearing and capital gains tax exemptions, have a speculative potential which is active in other contexts, but not in the specific German context of an historically enduring large PRS, low population growth, conservative public financial institutions and rent regulation. In trying to shape the housing outcomes of a growing PRS, Ireland has taken a strategic approach that joins subsidies and regulation.

### ***Policy implications***

Particularly in countries that experienced a housing crash, finance settings have driven rapid change in PRS institutions, often without guidance from conventional housing policy objectives. Macroeconomic policy should look further than its effects on financial system stability or housing market levels to keep in view its effects on housing system institutions and housing policy objectives. This applies not just in responding to crises: for example, the specific effects of housing-related macroprudential tools on the investment strategies and borrowing practices of PRS landlords is worthy of investigation.

Of all the policy settings considered in this review, tax settings show best the necessity of considering policy settings in interaction with each other and in wider systemic contexts. It is the interactions which explain how similar tax settings can operate and shape housing outcomes differently: for example, negative gearing facilitating housing speculation in Australia and housing affordability in Germany. Strategy for the PRS should join consideration of finance, taxation, supply and demand-side subsidies and regulation with the objective of making PRS housing outcomes competitive with other sectors.

### **Landlords**

Smallholding private individuals are the predominant type of landlord in nine countries: only in Sweden are housing companies more common. Most countries, however, also have some large corporate landlords (LCLs), and a few have recently seen rapid growth in very large new LCLs. The origins of LCLs are diverse, but their recent activity has been facilitated by government activities: in Germany, municipal housing privatisation; in the United States and Ireland, post-GFC programs for the disposal of impaired assets.

The rising LCLs are not building much rental housing. Rather, they are mostly acquiring existing properties and actively manage their portfolios through renovations, modifications and sales. The LCLs have been active also in mergers and, especially in the United States, in devising new financial instruments. LCLs are often controversial and there is evidence of conflictual relations with tenants, particularly in Germany and the United States.

### ***Policy implications***

'Institutional landlords'—the LCLs—are now a standing item on the Australian housing policy agenda. Policy makers and stakeholders in the PRS should start specifying what sorts of LCLs are really wanted, and how desired housing outcomes will be delivered. Recent affordable housing policy initiatives have sought to develop community housing providers into a sector of large-scale, mission-oriented landlords. Care should be taken to ensure that these initiatives are not colonised by for-profit LCLs at the expense of affordable housing providers and outcomes.

## Regulation

The view of tenancy regulation as 'red tape' is out of step with the recent experience of most countries in this study. None of the recent growth in the PRS in the countries surveyed has been prompted or unleashed by deregulation (though arguably the United Kingdom's reforms of the late 1980s had such an effect). On the contrary, Ireland and Scotland are examples of successively stronger regulation being implemented as the PRS has grown. Only Spain has recently liberalised its tenancy laws.

The foremost approach to assuring tenants' security is to allow landlords to terminate on prescribed grounds only. This is the situation currently in Germany, Sweden, Scotland, most of the Canadian provinces and some major US cities. Only Belgium and Spain rely on long fixed terms and Ireland has a unique regime of cyclical restrictions on termination by landlords. Only Australia, New Zealand, the United Kingdom (other than Scotland) and some US jurisdictions allow termination without grounds. Notably, the State of Victoria in Australia is legislating to remove the provision for termination for no specified reason end the end of the first fixed term of an agreement.

Rent increases are regulated in four countries—Belgium, Germany, Spain and Sweden—most of the Canadian provinces and some major US cities by limiting them to a stated guideline or reference rent. Ireland and Scotland do so in designated 'rent pressure zones'.

Registers are an old regulatory technology which have been given a new lease of life in several countries with public registers of private landlords, in particular, providing a mechanism for monitoring and lifting standards of conduct.

### *Policy implications*

The view of tenancy regulation as 'red tape' is out of step with the recent experience of most countries in this study. Smallholding individual landlords and LCLs operate without undue difficulty in more strongly regulated PRSs than Australia's. The use of prescribed grounds for termination is consistent with Australian PRS institutional structures and could be adopted here; similarly, market-related rent regulations (e.g. limitation to guidelines or indices) could operate in combination with conventional Australian tax settings. The extension of registration requirements to mainstream PRS landlords could address some problems posed by smallholding landlords and LCLs, respectively.

## The study

We reviewed international changes in the institutions of private rental housing through three phases of research:

- a review of the international comparative literature
- a 10-country survey, involving experts in each reference country and follow-up research
- analysis of detailed country reports by experts in four countries commissioned for this research.

The first phase of our study was a review of the comparative literature and national studies of PRSs around the world. Our review of the literature was ongoing throughout the project with the second and third phases of the study directing our attention to further national-level sources.

The second phase was a survey of PRS institutions and change in the 10 countries, including Australia. A questionnaire about PRS institutions and change was devised and sent to experts in the nine international reference countries. Survey responses for Australia were provided as a guide to response formats. The international responses provided a rich source of data and

additional resources which we interrogated to identify themes in institutional change for closer examination in the third phase of our research.

The third phase comprised closer examination of four countries—Germany, Ireland, the United Kingdom and the United States—as case studies of the themes in PRS institutional change identified in the literature review and survey. We commissioned four experts—Stefan Kofner (Germany), Aideen Hayden (Ireland), Mark Stephens (UK) and Alex Schwartz (US)—to each write a report on their respective country according to these themes of change, which the research team then used to produce a synthesis analysis of institutional change. The four country reports are appended to this report.

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AHURI undertakes evidence-based policy development on a range of priority policy topics that are of interest to our audience groups, including housing and labour markets, urban growth and renewal, planning and infrastructure development, housing supply and affordability, homelessness, economic productivity, and social cohesion and wellbeing.

## **Acknowledgements**

This material was produced with funding from the Australian Government and state and territory governments. AHURI Limited gratefully acknowledges the financial and other support it has received from these governments, without which this work would not have been possible.

AHURI Limited also gratefully acknowledges the contributions, both financial and in-kind, of its university research partners who have helped make the completion of this material possible.

The authors gratefully acknowledge Pascal De Decker (Belgium), Dale McClanaghan, Cameron Gray and Lorraine Copas (Canada), Bev James and Kay Saville-Smith (New Zealand), Sergio Nasarre Aznar and Elga Molina Roig (Spain) and Sten-Åke Stenberg and Anna Kahlmeter (Sweden) for their generous participation in the 10-country survey.

The authors also gratefully acknowledge Caitlin Buckle for her assistance in preparing the charts.

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### **Australian Housing and Urban Research Institute**

Level 1

114 Flinders Street

Melbourne Victoria 3000

**T** +61 3 9660 2300

**E** [information@ahuri.edu.au](mailto:information@ahuri.edu.au)

**[ahuri.edu.au](http://ahuri.edu.au)**

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