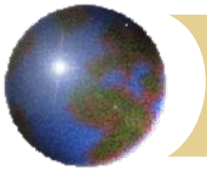


# *The market share of the Private rental sector: determinants and criteria*



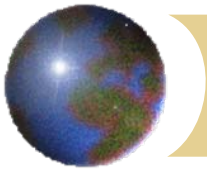
Presentation for the  
Private Rented Sector Workshop  
in St Marienthal, 6.-8. February 2010  
Presenter: Prof. Stefan Kofner, MCIH



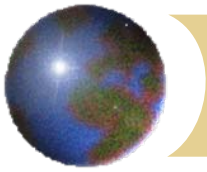
# *Contents*



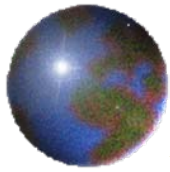
- Sector dimensions
- Determinants of sector size
- Optimal mix of tenures
- The Political economy of tenure choice



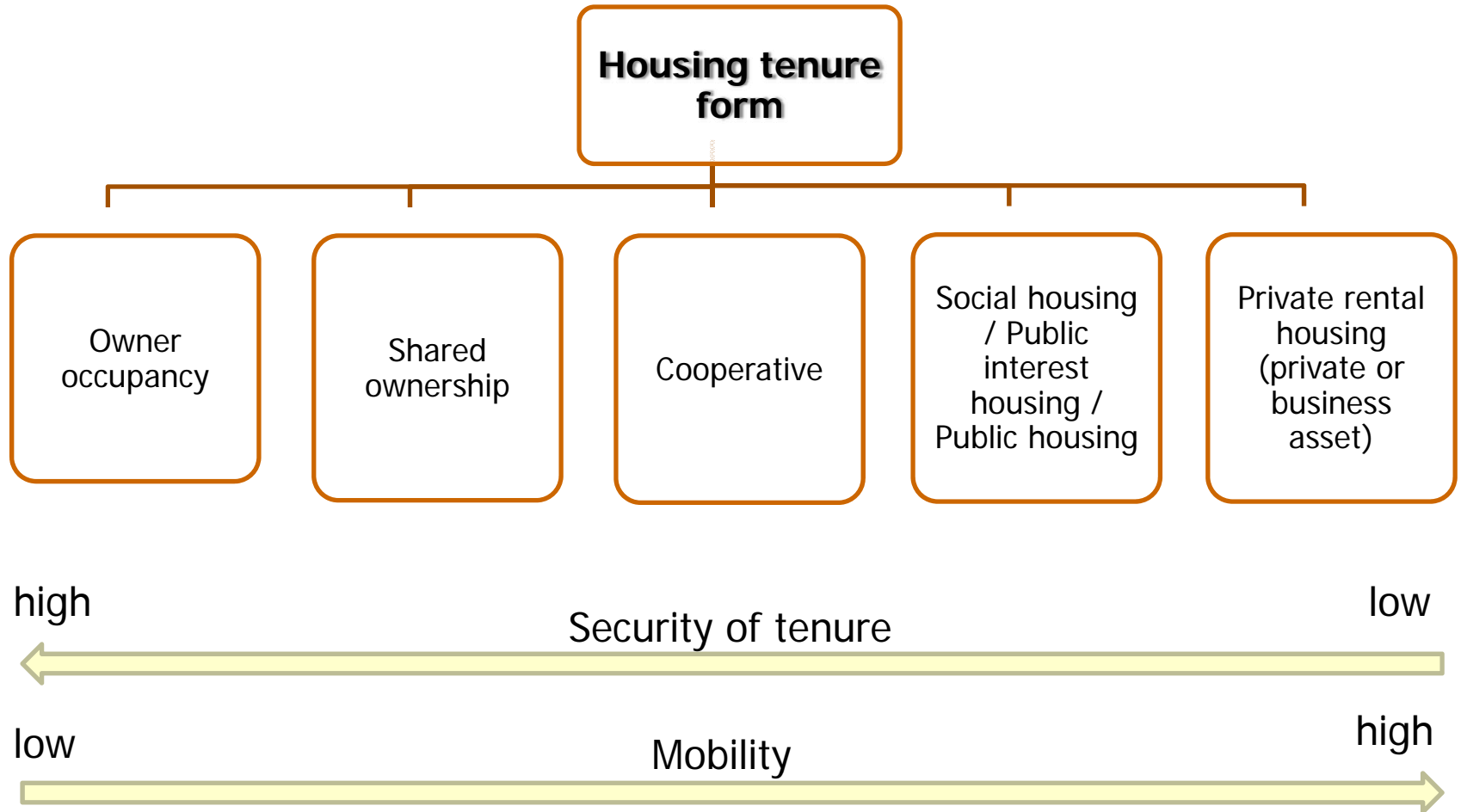
Country	owner-occupied	private rental	private company	Public / social	cooperatives	other
Switzerland	31	63		6		
Germany 2005	39	36	7	8	6	4
New Zealand 2006	67	27		6		
U.S. 2007	68	26		6		
Australia		23				
France 2006	57	21	1	19		2
Italy 2004	73	19	1	7		
Austria	60	18		22		
Romania	81	17		2		
Czech Republic	50	16		34		
England	68	14		18		
Sweden	42	13		45		
Netherlands	54	10		36		
Poland	75	2		23		
China 2004	93					
Canada 2001	66					

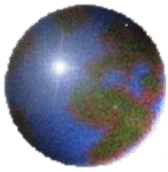


- ❁ Why is the private rental housing sector highly developed in some countries and a quantité négligiable in others?
  - ❁ Important policy question if a country wants to enlarge the PRS in an efficient manner.
  - ❁ Determinants of the sector's share in the housing market:
    - ▣ Demand side factors
    - ▣ Supply side factors
- } Investment calculus

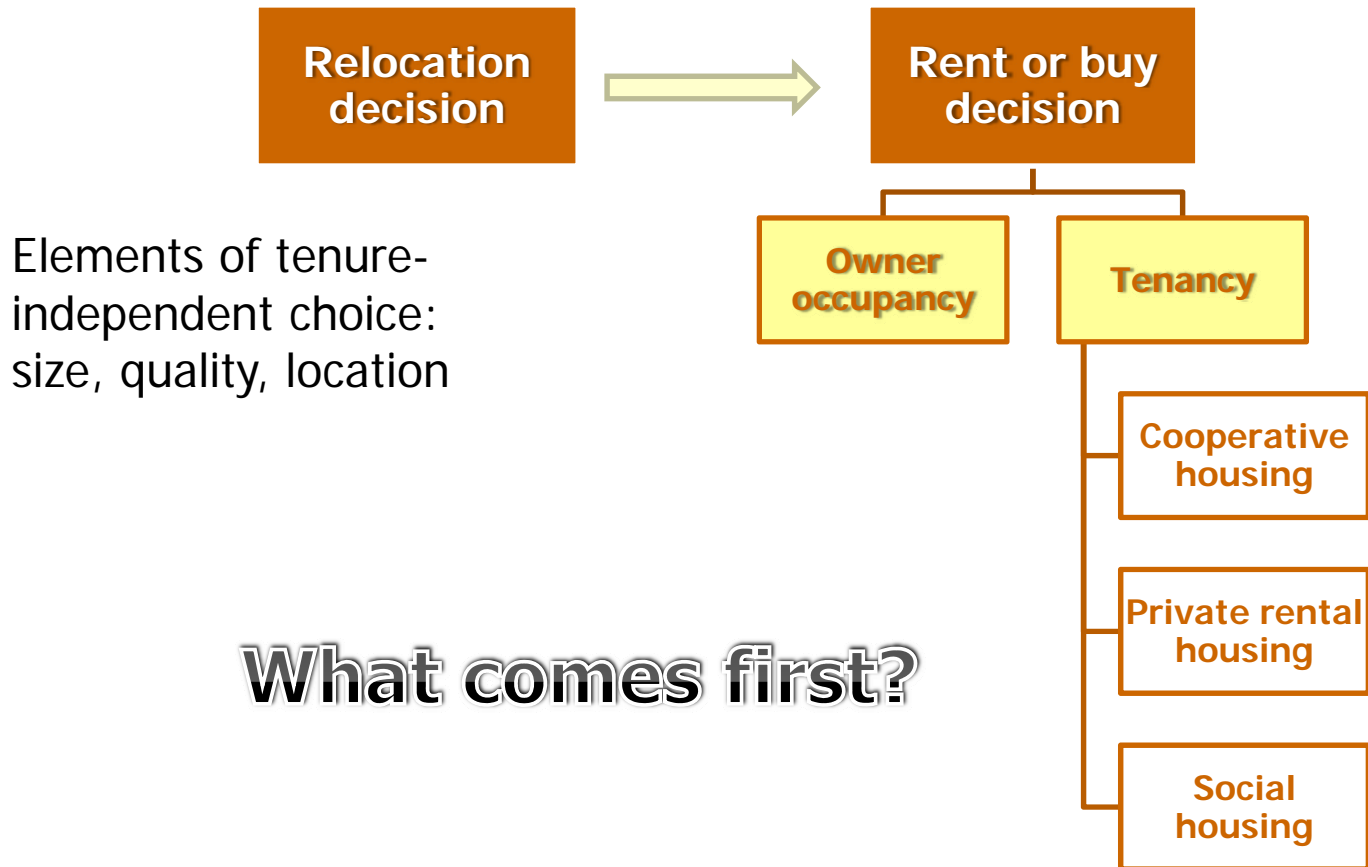


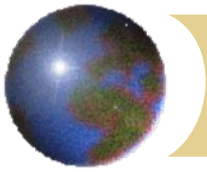
# *The tenure choice menu of households*





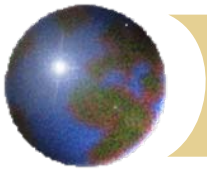
# *What determines the choice between tenures?*





# *Tenure choice: demand side*

- ✚ Rent or buy-decision usually distorted by public subsidies (e.g. interest deductibility)  
→ usually in favour of homeownership.
- ✚ Tenure choice for tenants is distorted by regulation, subsidies and direct public ownership usually at the expense of private renting.
- ✚ And on top of that access restrictions (e.g. income) and rationing limit freedom of choice.



# *Determinants of the Rent or buy-decision*

## Mr. Spock's investment calculus

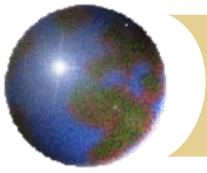
- (Current) relative prices (rents vs. house prices):  
$$\frac{\text{Saved rent payments} + \text{Maintenance costs}}{\text{house price}} \times 100 = \text{Homeownership cap rate (static model)}$$
- Relative transaction costs (moving in / moving out)
- Public subsidies (Buying vs. renting)
- Financial conditions (interest, avail. of credit, LTV credit terms → dynamic) → affordability
- Expectations about future prices (rent development, capital gains, interest rates) → Cash flow modelling
- Individual risk exposure: labour market position, interest rate, divorce, ... portfolio mix → individual discount rate

- Security of tenure (!)
- Product differentiation and availability in the two sectors (size, quality, neighbourhood, central / decentral location, school districts)

- Income, equity capital (→ past savings): relative to house prices → affordability

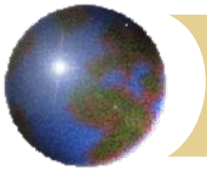
- Tastes and preferences (e.g. property ladder, once in a lifetime) → path-dependent?
- Household composition and socio-economic characteristics
- Stage in the family life course (marriage, divorce, separation, aging, health issues)





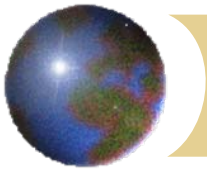
# *Determinants of the choice of tenure in the rental sector*

- Tastes and preferences (including prejudice against groups of landlords or tenants)
- Income (possibly decisive for access) and if applicable fulfillment of further need criteria
- Relative prices (rents at different sub-markets)
- Expectations about future prices (rent development on different sub-markets)
- Possibly housing allowances (if they distort)
- Possibly rationing
- Security of tenure (e.g. cooperative housing)



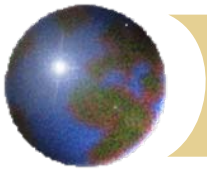
## *Supply side*

- Incentives for private investors to engage in the rental sector (new development or investment in existing stock)
- Investment calculus: profitability of housing investment as compared with alternative investments



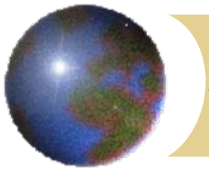
# *Determinants of the investment decision*

- Future actual rent revenues (location, demand and rent regulation)
- Future tax payments
- RRR:
  - Return from alternative investments (e.g. government bonds)
  - Risk assessment (absolute and in comparison with alternative investments)
  - inflation experience
- Restrictions on disposal (tenancy laws)



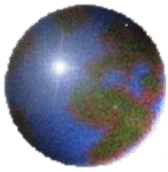
# *Most important factors for PRS size?*

- Subsidies for homeownership
- Determinants of the rent or buy-decision including cultural factors and credit availability
- Brick and mortar subsidies for social housing
- Age composition of population
- Tax treatment of homeownership and private rental property
- Trade-off between security of tenure / disposal restrictions
- ... matter of empirical investigation



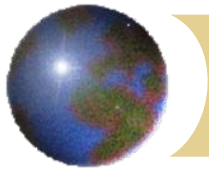
# *Normative question: Is there an optimal mix of tenures?*

- ⚙ Market failure?
- ⚙ Merit good characteristics?
- ⚙ In search of arguments for subsidizing homeownership and social housing



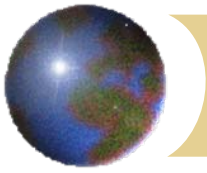
# *Why should we subsidize homeownership?*

- Home ownership promotion as a contribution to family support
  - External economies of children for society
  - Relief of social insurance (Mehrgenerationenhaus)
- Home ownership promotion as a contribution to social integration: incorporation thesis
- Stabilization of neighbourhoods
- Ownership society (George Bush jr.)
- Capital formation policy
  - Growth policy
  - Merit good justification
  - Inflation hedge
  - Distribution policy



# *Merits of a substantial PRS*

- ⊕ Mobility → allocation of labour force  
→ economic growth
- ⊕ Stability of the financial sector → macro-economic stability
- ⊕ Lower volatility of house prices
- ⊕ Competition between tenures: choice, innovation small → “gap” is better
- ⊕ Efficiency of subsidization
- ⊕ Efficiency of investment / management (?)
- ⊕ Less urban sprawl
- ⊕ Other question: Which structure is preferable



# *Research and policy agenda*

- Understand the factors contributing to the enlargement of the PRS
- Design an efficient policy based on equality of tenures
- Reshape the role of private renting where necessary (residual and temporary sector)
- But: What works in one country may not work in another.