An international comparison of private rental sectors

Summary of AHURI Final Report No. 292:
The changing institutions of private rental housing: an international review

What this research is about

This research investigated the private rental sector (PRS) policy settings and institutions relevant to Australia in 10 countries in Australasia, Europe and North America, with a detailed review of the sectors in Germany, Ireland, the United Kingdom and United States.

The context of this research

The Australian PRS is growing, both in absolute terms and relative to the owner-occupied and social housing sectors, and changing in terms of the types of households, the types of dwellings and the ownership of those dwellings.

By studying international experiences of PRS change, policymakers may gain alternative perspectives on Australia’s PRS institutions and insights into the opportunities and challenges that change presents.

The research investigated the international experience of PRS housing through:

- 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

The key findings

Housing systems in surveyed countries

Population growth, economic growth, house prices and household debt levels vary across the countries surveyed. A common misperception in Australia is that ‘everyone in Europe rents’; this is not the case. In fact 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: 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.

In fact most of the European countries surveyed have higher rates of home ownership than Australia.

Germany has experienced an extended period of stable house prices; however, 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 has the highest level of household debt of the 10 countries.

In most countries, the PRS tends towards apartments, small households and lower incomes than for the general housing system. In this, Australia stands out for having a PRS that is closer to the wider Australian housing system in terms of building types, household form and household incomes.

Financial settings

Across the 10 countries, housing investment is mostly financed by credit, typically provided by banks. Over the past two decades, housing credit expanded with the development of new funding sources. Following the Global Financial Crisis (GFC), nine of the countries surveyed have implemented housing-specific macroprudential tools that diminish risk to the total financial system.

The GFC severely affected the financial system of many countries (with
Australia being an exception); some banks and financial institutions collapsed, while others were nationalised or placed under state administration. In order to avoid ‘fire sales’ (and the collapse in value of other previously unaffected assets), countries established management companies to hold the impaired assets of nationalised or administered financial institutions. These assets included loans with residential properties pledged as security and foreclosed properties. These assets were subsequently sold to large corporations significantly increasing 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. These responses have enabled some existing owner-occupiers and large financial institutions to increase their position in the housing market.

**Tax settings**

Both Australia and Germany 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. The lack of speculative potential in Germany is due to a large PRS, low population growth, conservative lending by 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. This includes the introduction of greater regulation of rents for tenancies in designated zones and the Rebuilding Ireland—Action Plan for Housing and...
Homelessness, published in June 2016, which sets the objective of a $5.5 billion investment in social housing and housing infrastructure, and aims to deliver 47,000 units of social housing to 2021.

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 significant vehicles for PRS investment funding.

**Direct subsidy**

The major form of direct subsidy in the PRS is rent assistance payments. These were made in all 10 countries to tenants. 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 included loan and income guarantees.

**Landlords**

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

The LCLs are not building much rental housing. Rather, they mostly acquire existing properties and actively manage their portfolios through renovations, modifications and sales. The LCLs have been active in mergers and, especially in the United States, in devising new financial instruments.

LCLs are often controversial and there is evidence of conflict with tenants. In Germany tenants report LCLs mischaracterising repairs and maintenance as property improvements so as to justify rent increases, while in the United States LCLs are more likely than other landlords to issue termination notices, and housing advocacy organisations are concerned they are more inclined than individual landlords to increase rents, deny access to vulnerable or higher-risk persons and fail to do repairs.

**Regulation**

Deregulation hasn’t prompted any recent growth in the PRS in the countries surveyed. 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 notable approach to assuring tenants’ security is to allow landlords to terminate on prescribed grounds only. Only Australia, New Zealand, the United Kingdom (other than Scotland) and some US jurisdictions allow termination without grounds.

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’.

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*Source: ABS (2017a); CMHC (2014); Eurostat (2017); Kofner and Kemp (2014); Kirchner (2007); Statistics New Zealand (2014); Suttor (2016); US Census Bureau (2015).*
**What this research means for policymakers**

**Housing systems**
Dedicated housing ministries that address policy across the housing system are a better way for governments to conduct housing policy. The review suggests that Australia needs this integrated approach to housing policy governance even more than most countries.

As the PRS and wider housing system in Australia often share the same types of buildings (i.e. houses and units whereas in other countries rental is generally apartments), the prices paid by rental housing investors directly affects prices and accessibility of properties for owner-occupiers. Hence, the policy settings and market conditions which apply to one may be transmitted readily to the other.

**Financial settings**
Macroeconomic policy might best look further than financial system stability or house prices to consider the effects on housing system institutions and housing policy objectives. This includes understanding the specific effects of housing-related macroprudential tools on the investment strategies and borrowing practices of PRS landlords.

Finance, taxation, supply and demand-side subsidies and regulation should have the objective of making PRS housing outcomes competitive with other sectors.

**Landlords**
Specifying what sorts of LCLs are really wanted and how desired housing outcomes will be delivered are important considerations for PRS policymakers and stakeholders. 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 don’t lead to for-profit LCLs at the expense of affordable housing providers and outcomes.

**Regulation**
Smallholding individual landlords and LCLs operate without undue difficulty in more strongly regulated PRSs than Australia’s. The use of prescribed grounds for termination could be adopted here; similarly, market-related rent regulations could operate in combination with conventional Australian tax settings. The registration of mainstream PRS landlords could address some problems posed by smallholding landlords and LCLs.

**Methodology**
This research reviewed national and international literature, incorporated a 10 country survey involving experts in each reference country and follow-up research; and provided detailed reports by experts of four countries—Germany, Ireland, the United Kingdom and United States—as case studies of PRS institutional change identified in the literature review and survey.

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