What the U.S. can learn from rental housing markets across the globe

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What the U.S. can learn from rental housing markets across the globe

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The COVID-19 pandemic's enormous economic shock has stressed U.S. housing markets—particularly for the nation's 44 million renter households, many of whom face escalating costs and deteriorating financial stability. Other countries around the world, too, face these challenges, but do so with sometimes vastly different legal systems, financial instruments, and policy frameworks underpinning their real estate markets.

With that in mind, we believe that this is a good moment to ask what lessons the U.S. can learn from other countries about helping people pay their rent. How are rental housing markets structured in other countries? What kinds of financial subsidies and legal protections do other countries' renters have? Do other countries have similar challenges with housing supply?

To answer these questions, we asked researchers who study France, Germany, Japan, Spain, the United Kingdom, and the United States to summarize key features of rental housing markets in those countries. We chose these countries because they have broadly similar household income levels (a key determinant of housing demand) and comparable financial systems (access to capital is crucial for housing development). However, their other economic, legal, and policy elements that influence housing markets are quite different—producing key variations in rental markets.

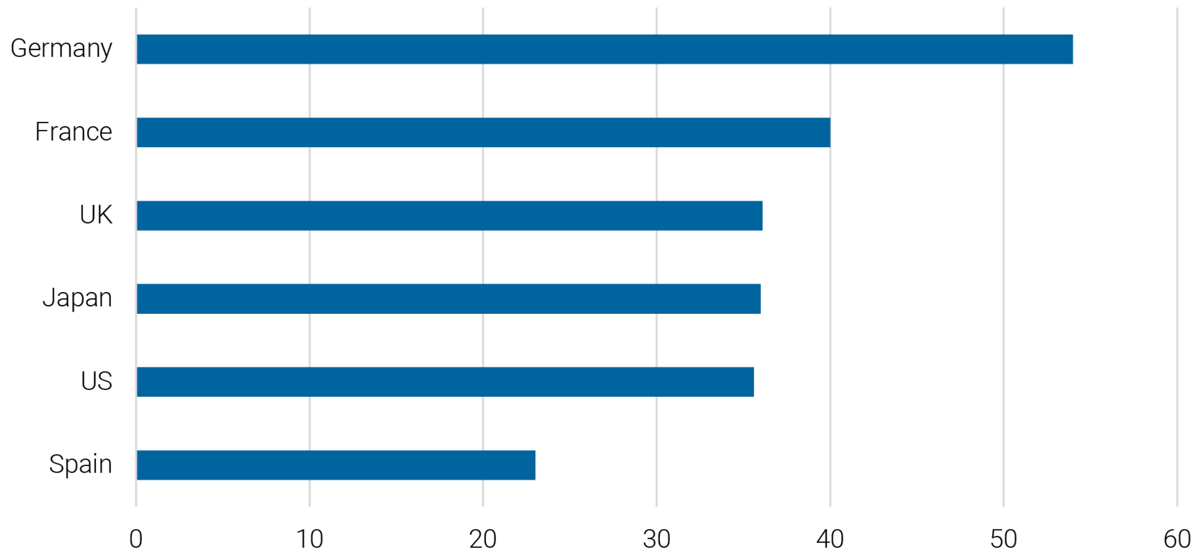
In this piece, we highlight a few of the important lessons drawn from comparing the six countries. Readers can also explore a wealth of specific details in each of the countries' respective case studies.

Rentership rates are correlated with income–and policy choices

In each of the six countries studied, renter households have lower incomes and wealth than homeowners. This relationship makes economic sense: Purchasing a home is a long-term financial commitment, and high-earning households can more easily save for a down payment. At the national level, homeownership increased in most countries during the post-World War II decades as the national economies strengthened.

But public policy—especially tax policy—also plays a big role in the relative size of rental and owner-occupied markets. Across the six countries, rentership rates vary from 23% (in Spain) to 54% (Germany). Notably, Germany offers the least generous tax benefits to homeowners; all of the other countries have explicit goals of encouraging people to own. Germany's tax policy is the inverse of the U.S. mortgage interest deduction: Property owners can deduct the interest paid on a mortgage from income taxes only if the owners do not occupy the property.

Figure 1. Rentership rates reflect federal tax incentives for homeownership



Sources: Acolin 2021; Crump and Schuetz 2021; Hilber and Schoni 2021; Ouasbaa and Viladecans-Marsal 2021; Schmidt 2021; Yoshida 2021.

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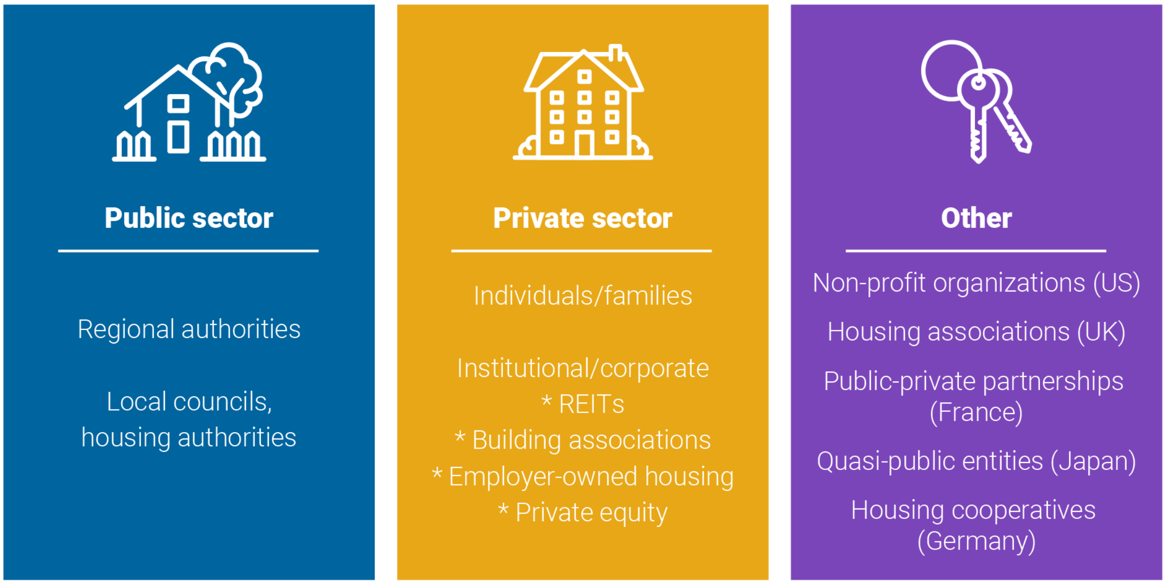
The many different types of 'landlord'

One of the most striking differences across countries is who owns rental properties. Broadly speaking, landlords can be classified as public entities, private (for-profit) firms, or other organizations (Figure 2). The share of rental homes in each of these three sectors varies widely, as do the types of entities within each.

Every country has some publicly owned rental housing (referred to as "public" or "social" housing), owned either by local or regional authorities. Social housing (owned by local councils or housing associations) makes up around 17% of the U.K.'s housing market, down from 30% in 1980. In France, public housing constitutes about 17% of the housing market and 43% of the rental market, and serves middle- as well as low-income households. By contrast, less than 5% of rental housing in the U.S. belongs to local public authorities, and all subsidized housing is less than 10% of the rental market.

Figure 2. Rental housing is owned by public, private, and nonprofit organizations



Source: Authors.

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Private sector landlords fall into two categories: individual and institutional owners. Individual owners make up about half of Germany's rental market, a majority in Spain and Japan, and over 90% of the unsubsidized rental market in France. Institutional ownership is most common in the U.S., including large asset management firms, real estate investment trusts (REITs), and private equity firms. The small role of corporate owners in most countries may reflect higher risks and lower returns from those countries' strong tenant protections (discussed below), as well as differences in corporate tax policy.

Entities that fall outside the traditional public-private categories own some portion of every country's rental housing. Japan has national and regional quasi-public entities that provide middle-income rental housing. U.K. housing associations provide more than half of social housing there. Germany's housing cooperatives helped address the shortage of moderately priced rental housing after WWII and still constitute about 25% of the rental stock. In the U.S., nonprofit organizations own a substantial share of subsidized housing developed under the Low-Income Housing Tax Credit program.

In addition to social housing, every country provides some form of household-based rental subsidy. The share of renters who receive assistance and the total budget for these programs vary widely. France spends about $15.5 billion on tenant-based rental assistance. For a population five times the size of France, the U.S. spends only about $24 billion on vouchers. Rental assistance in Germany is guaranteed for all qualifying households, while in the U.S., most low-income households receive no assistance.

Balancing tenant protections with financial incentives to landlords can be tricky

Even before the COVID-19 pandemic worsened housing insecurity for low-income renters, tenant advocates and some U.S. elected officials were calling for stronger legal protections for tenants. Other countries' approaches to regulating leases and landlord-tenant relationships offer some useful lessons—both in their successes and failures.

In all of the studied countries except the U.S., national laws regulate key provisions of landlord-tenant relationships, including the process for terminating or renewing leases and eviction proceedings. (The U.S. delegates landlord-tenant law to state governments.) Although the exact form of regulation differs, other countries' national tenant protection laws make it more difficult for landlords to terminate leases, in the interest of providing renters with more stability. Multiyear or open-ended leases (no preset end date) are common in France, Germany, Japan, and Spain, while the U.S. and U.K. predominantly issue one-year leases.

Case studies of three countries—Japan, Spain, and the U.K.—highlight how strong tenant protections have periodically contributed to inadequate rental supply. Overly strict limits on landlords' ability to terminate a lease or evict tenants—even for not complying with lease terms—increases the risks associated with investing in rental properties. Long-term leases may also restrict the ability to raise rents, further reducing the incentive to potential landlords. All three of these countries have subsequently attempted to relax national laws that were seen as inhibiting private rental markets.

Germany and France also have strong national tenant protections, but these do not appear to be as much of a deterrent to private landlords, at least when balanced with tax incentives that make owning rental housing an attractive investment for individuals.

More knowledge-sharing across countries could lead to better policies

The COVID-19 crisis has forced policymakers around the world to quickly take action in protecting the public's health and mitigating economic damages. In the face of such enormous challenges, many brains working together are more likely to come up with workable solutions. Yet too often, policymakers across countries—and even at the local or regional level within the same country—work in isolation rather than learn from their neighbors.

Cross-country research on housing markets is not easy—it requires understanding the particular legal and financial institutions that support real estate markets and how they have evolved from each country's unique history. Simply copying and pasting policies from one country to another isn't feasible. But there are clearly useful lessons in how each country has tried to address long-standing housing problems, including how to provide decent-quality rental housing that is affordable to low-, moderate-, and middle-income households. We hope that international conversations among scholars and researchers—as displayed in these case studies—can help.

France Case Study: The public sector plays an important role in supporting French renters

Arthur Acolin

Both national and local governments play important roles in France's rental housing market. More than 40% of French renter households live in the public rental sector. The overall size of the French rental sector has been stable over the last two decades, and the sector provides stable and affordable housing options to a diverse range of households in terms of socioeconomic status. As in the U.S. and other countries, concerns around affordability and public preferences for homeownership have put pressure on the French rental sector. Rental policy is characterized by extensive intervention by the national government with high public housing goals for local governments, universal rental assistance, and fiscal incentives and regulation of the private rental sector.

Overview of renter households and rental housing

France experienced a dramatic decrease in rentership in the second half of the 20th century. Homeownership increased from 35% in 1954 to 45% in 1973, and reached 56% in 2001, mostly through a decrease in the private rental sector. The decline in private rentership and increase in homeownership in the post-World War II era took place in the context of population growth and urbanization that accompanied rapid economic growth ("les trentes glorieuses"). Homeownership continues to have a high level of popular support as the preferred form of tenure, and extensive policies aim to increase access to homeownership. To a large extent, this trend mirrors what happened in the U.S. and a number of European countries.

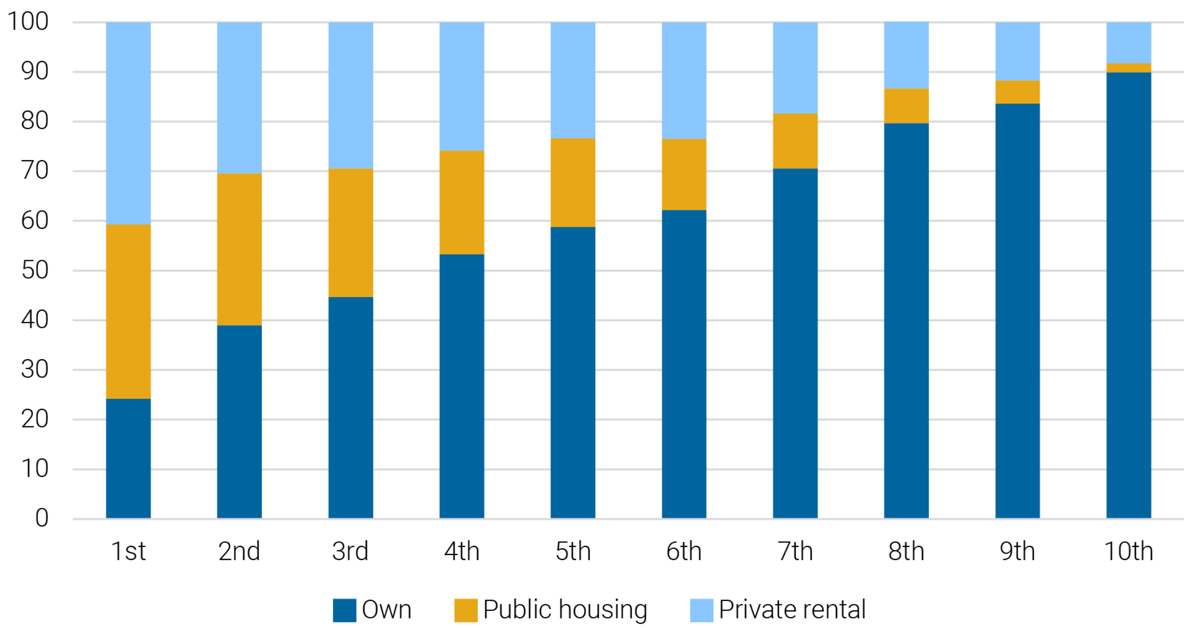
Both the public and private sectors provide rental options to French households. As of 2018, 40% of households rent and 58% own (the remaining 2% are mostly housed for free, generally by their employers or family members). The rentership rate has remained steady from 2001 to 2018. Extensive public support to the rental sector maintains affordability even for lower-income households. The OECD estimated in 2019 that in France, 19% of private sector renters in the bottom income quintile spend more than 40% of their income on rent, compared to 48% of those renters in the U.S.

As in the U.S., the French rental sector disproportionally serves younger, lower-income households. As such, it represents an initial rung on the housing ladder for younger households with more mobility and evolving household structure (forming partnerships, having children) or an option for households who are not able to access homeownership. A notable difference is the role of the public housing rental sector, which houses a substantial proportion of older lower-income households (particularly family households) and provides some affordable and stable options. Another difference is that renters in France are able to experience residential stability in both the public and private rental sectors, with a median length of residence of six years, compared to two in the U.S.

Figure 1 shows that as of 2013, renting was most prevalent among lower-income households, but remained relatively common among middle-income households. Three-quarters of households in the lowest income quartile rented, with about 35% renting public housing units. Among middle-income households, 39% rented, with about one out of six households living in public housing. By comparison, in the U.S., less than 1% of the overall population lives in public housing. Even in New York City, which has the largest amount of public housing in the country, less than 5% of the population lives in public housing.

Figure 1. Rentership rates in public and private housing decline with income

Housing tenure by income decile (year)



Source: Insee, Enquête Logement en 2013, https://www.insee.fr/fr/metadonnees/source/operation/s1251/presentation.

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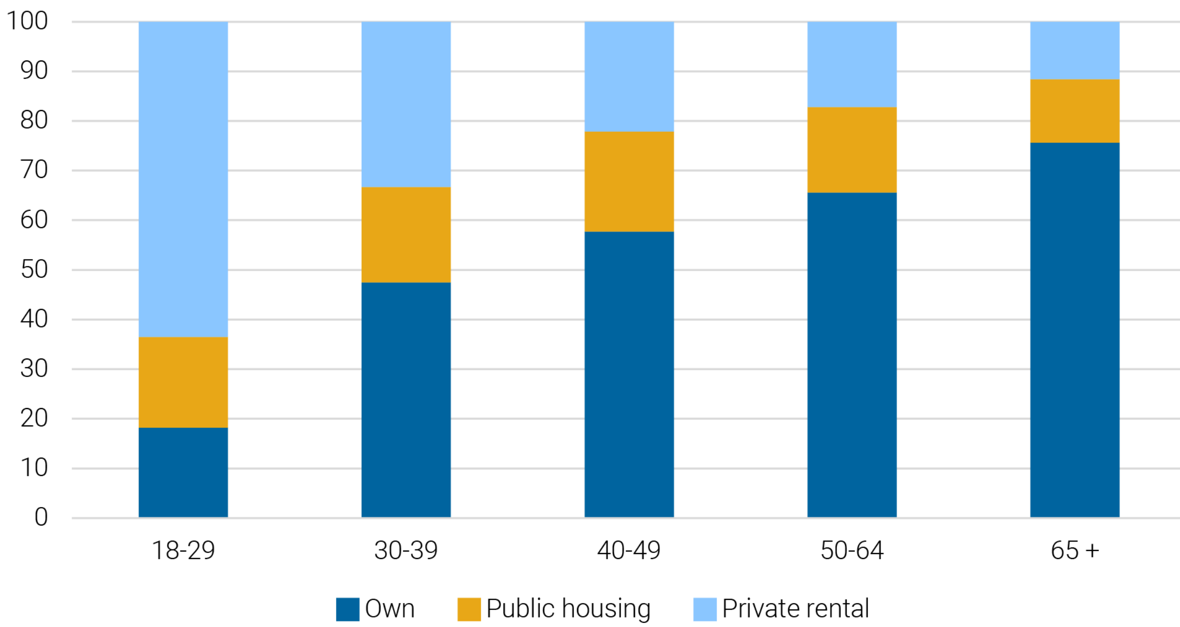
Figure 2 shows that younger households are substantially more likely to rent: 82% of those under 30 rent, compared to 24% of those 65 and older. For younger households, most renting takes place in the private sector, while the public and private sector each houses about half of renters older than 40.

Figure 3 shows that single-person households are more likely to rent in the private sector or rent furnished units, while among larger households (five persons or more) the public housing sector plays a larger role.

Figure 2. Younger households are most likely to rent

Housing tenure by age (year)



Source: Insee, Enquête Logement en 2013, https://www.insee.fr/fr/metadonnees/source/operation/s1251/presentation.

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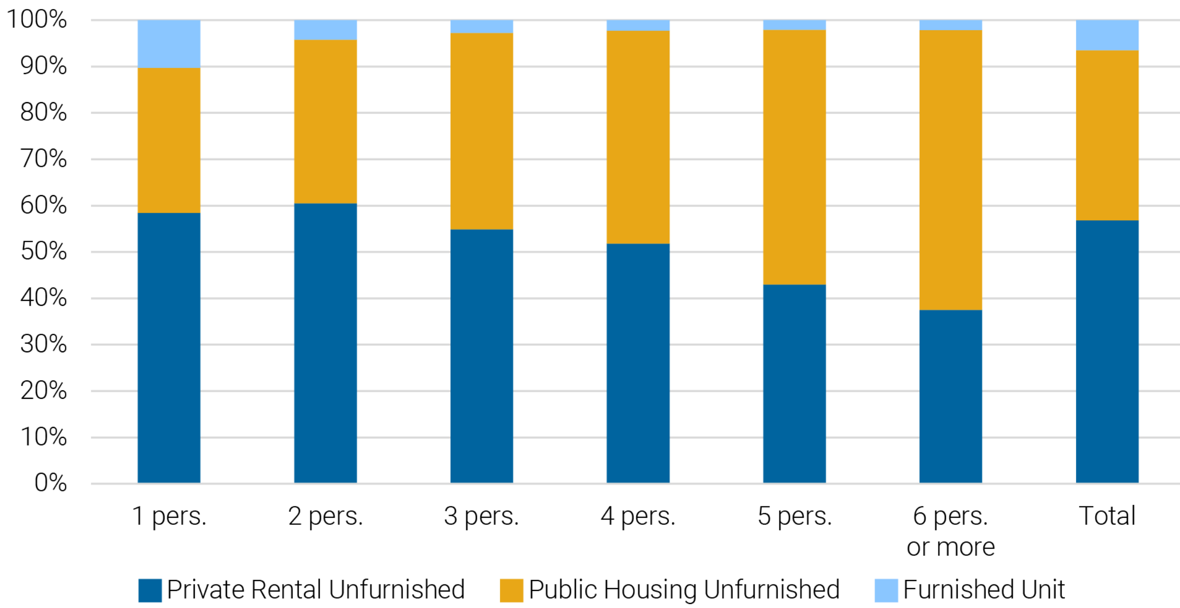
Figure 3. Large households are most likely to rent in public housing

Rental type by household size



Source: Insee, RP2014 exploitation principale, https://www.insee.fr/fr/statistiques/2867642?sommaire=2867813.

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France does not compile racial and ethnic statistics to track a potential racial homeownership gap. However, evidence shows that immigrants and their children are substantially more likely to be renters, even after controlling for sociodemographic characteristics. And substantial issues of discrimination exist in the private rental market as well as in the allocation of public housing.

Institutional and policy environment of rental housing

French rental markets have three distinct features that make rental housing stable and affordable for households of varying ages, incomes, and family structures. First, the rental sector is about equally divided between public housing providers and individual landlords, with a limited institutional unsubsidized sector. Second, universal rental assistance is available for low- and moderate-income households, and there are tax advantages to invest in unsubsidized rental housing. Third, extensive regulations ensure stable leases.

A dual public and private rental sector

Seventeen percent of all renters live in public housing (HLM or Habitation a Loyer Modere), representing 43% of all renter households. Public housing in France is not restricted to low-income households with limited alternatives—it also serves a substantial number of middle-income households. More than three in four households are eligible for some form of public housing as of 2013, in stark contrast to the U.K. and the U.S.

Management of France's 4.5 million public housing units is split between local government entities, similar to public housing authorities in the U.S. and public-private partnerships. The public housing stock grew rapidly following World War II, and is concentrated in mid-rise and high-rise buildings on the outskirts of growing metropolitan regions. Despite initiatives to maintain and redevelop these aging housing estates, many of them remain troubled, with residents expressing limited levels of satisfaction. They also contribute to sustained economic and ethnic segregation.

The image of large-scale public housing estates on the urban periphery captures an important component of the public housing sector in France. More recently, some public housing has been produced as single-family homes and in the center of cities, in efforts to deconcentrate. Since 2000, a law (Loi Solidarite et Renouvellement Urbain or SRU) requires certain municipalities to provide at least 20% or 25% of all public housing, based on housing needs at metropolitan level. While not all municipalities have complied, 1.8 million units of public housing have been built between 2001 and 2019. Most are infill developments in desirable locations that prioritize high-quality design and are developed through an inclusive process (Figure 4).

Figure 4. Example of recent public housing, infill development in Paris

France also has a robust private rental sector. Among renters of unsubsidized units, 93.5% lived in units owned by individual investors as of 2013 and 3% lived in units owned by institutional investors. The remaining 3.5% lived in units owned by national or local governments, special purpose public companies, and private-public partnerships. This deconcentrated private rental market does not provide the kind of professionally managed rental buildings that exist in the U.S., but ensures a mix of rental units and landlords that has been resilient to economic cycles.

Supporting the rental sector: Employer contribution, universal rental assistance, and tax advantages for individual landlords

Funding for public housing largely comes from a diversity of sources that determine the rent level for the units. A public investment bank (Caisse des Depots et Consignations) provides low-cost loans with interest rates set by the government (Livret A). In addition to funds from national and local governments, employers are required to contribute 0.45% of their payroll—a policy dating back to 1943. This mechanism has delivered a stable and reliable source of funding for developing and managing public housing. In exchange, employers have been associated with the commissions used to allocate public housing and their employees can have priority under certain circumstances.

Since 1948, substantial public resources have been allocated to support the private rental sector in the form of universal rental assistance. The amount of rental assistance varies based on income, household size, and the location of the unit. Some forms of rental assistance depend on whether the landlord received tax advantages in exchange for agreeing to rent at below-market rates (APL or Aide Personnalisee au Logement). As of 2020, the budget for the APL was $15.5 billion. By comparison, the budget in the U.S. for tenant-based rental assistance was $23.9 billion, with a population that is five times larger than France. About half of renter households received rental assistance in 2018, with benefits covering between one-third and one-half of their rent.

Private landlords can receive tax incentives through capital gain exemptions and tax deductions in exchange for a commitment to accept lower rents for some time period. The specific policies have changed over time, but have supported rental properties as an attractive investment over the past three decades.

Extensive rental regulations

The French government regulates the rental application process, lease terms, and eviction procedures.

National law regulates which documents landlords may request from prospective tenants, the use of guarantors or rental insurance, and the lease structure. Laws also restrict the fees that can be charged to tenants to obtain a unit, how rent can be paid, and restrictions on who will live in the unit. Landlords must disclose information on the unit quality, including energy efficiency, lead exposure, and electrical and gas installation inspection records. The minimum lease length is three years for leases by individual owners and six years for leases by institutional owners. Owners are able to break the lease after one year for a few reasons. Longer-term leases, combined with annual rent increases tied to a national rental index, provide substantial stability for private sector renters. Tenants who are delinquent on their rent can be served with a notice to pay within two months. If they do not pay within that time, they can be evicted. However, a seasonal moratorium means that no eviction can take place between November 1 and March 31 (trêve hivernale).

Between 2010 and 2020, 28 metropolitan regions adopted rent control (encadrement des loyers). In these markets, landlords in the private rental sector are subject to restrictions on how much they can increase the rent when renewing leases or changing tenants. In addition, in Paris and Lille, maximum rents are defined based on the unit size and characteristics. Rent regulations have not been consistently enforced, with 40% of listings above the regulated rent ceilings in a recent study.

Conclusion

In France, rental policy and housing policy more broadly are incorporated into the broader social safety net and receive substantial dedicated public funds. Publicly owned housing forms a large share of rental housing, while private rental markets are strictly regulated by the national government. These policies are effective in making housing relatively affordable, particularly to lower-income households.

Despite government efforts to distribute public housing across municipalities, lower-income municipalities continue to have high concentrations while many higher-income municipalities make little progress toward meeting their assigned targets.

The French government's economic response to COVID-19 was largely managed through automatic stabilizers, such as the rental assistance programs and, more broadly, extensive partial employment benefits that have limited the impact of the crisis. Specific additional support for renters has been limited. In 2020, France extended the seasonal eviction moratorium to July 31, and plans to extend it to June 30 in 2021. In addition, a limited exceptional rental assistance supplement was introduced to support renters affected by loss of income. However, overall, there have been limited reports of increased rent arrears and landlords faced with rent shortfalls.

Germany Case Study: Strong tenant protections and subsidies support Germany's majority-renter housing market

Carolin Schmidt

Germany is one of the few developed nations with high rentership rates: More than half of all households rent their home. The German government has chosen to focus subsidies on renters rather than owner-occupiers. While renter households are typically younger and less affluent than homeowners, rentership is still widespread even among higher-income and higher-wealth groups. Strong renter protection is a key element of federal legislation and is playing an important role during the COVID-19 pandemic.

Overview of rental housing and renter households

Germany: A Nation of Renters

After about 20% of Germany's housing stock was destroyed in World War II, 12 million people were made homeless or displaced. The huge housing shortage had to be combated quickly and at low cost, leading to the birth of subsidized housing in the postwar period. Builders, such as not-for-profit and private housing companies, received federal subsidies to erect new housing and, in turn, had to rent out their units to low-income households at user cost. The effects of post-WWII housing policies are still felt today: Around 54% of Germany's households rent their homes.

Rentership levels vary across the 16 federal states, but more households rent in the east (66%) than in the west (53%) of Germany. Renting is also much more common in the city-states of Berlin (83%) and Hamburg (76%) than in the states of Rhineland-Palatinate (42%) or Saarland (36%), largely reflecting regional rental price differences.

Almost 90% of rental units are in multifamily buildings, and they are mostly row houses; detached single-family homes are the minority. At the urban fringes in eastern Germany, *Plattenbau*—apartment blocks that often house a few dozen families—are still a common sight.

Renters are younger and more mobile in the labor market

Because renting is the predominant housing model in Germany, renter households are very diverse. Still, renting is more common for households with heads of foreign nationality (76%) than for those with a German passport (53%). Not surprising in light of its history, Germany does not collect information on residents' race. Single-person households and single-parent households are most likely to live in rental accommodations, while couples with and without children mostly own their homes.

Renters are more often in younger and older age groups. Of those aged 25 to 34, 85% rent their homes (for ages 35 to 44, 71% rent), and of those age 75 and older, slightly more than half are renters. Homeownership rates peak in the remaining age groups. Because the high transaction costs associated with buying homes are a burden, especially for younger people (who also more often face labor mobility requirements), young households tend to remain renters for longer.

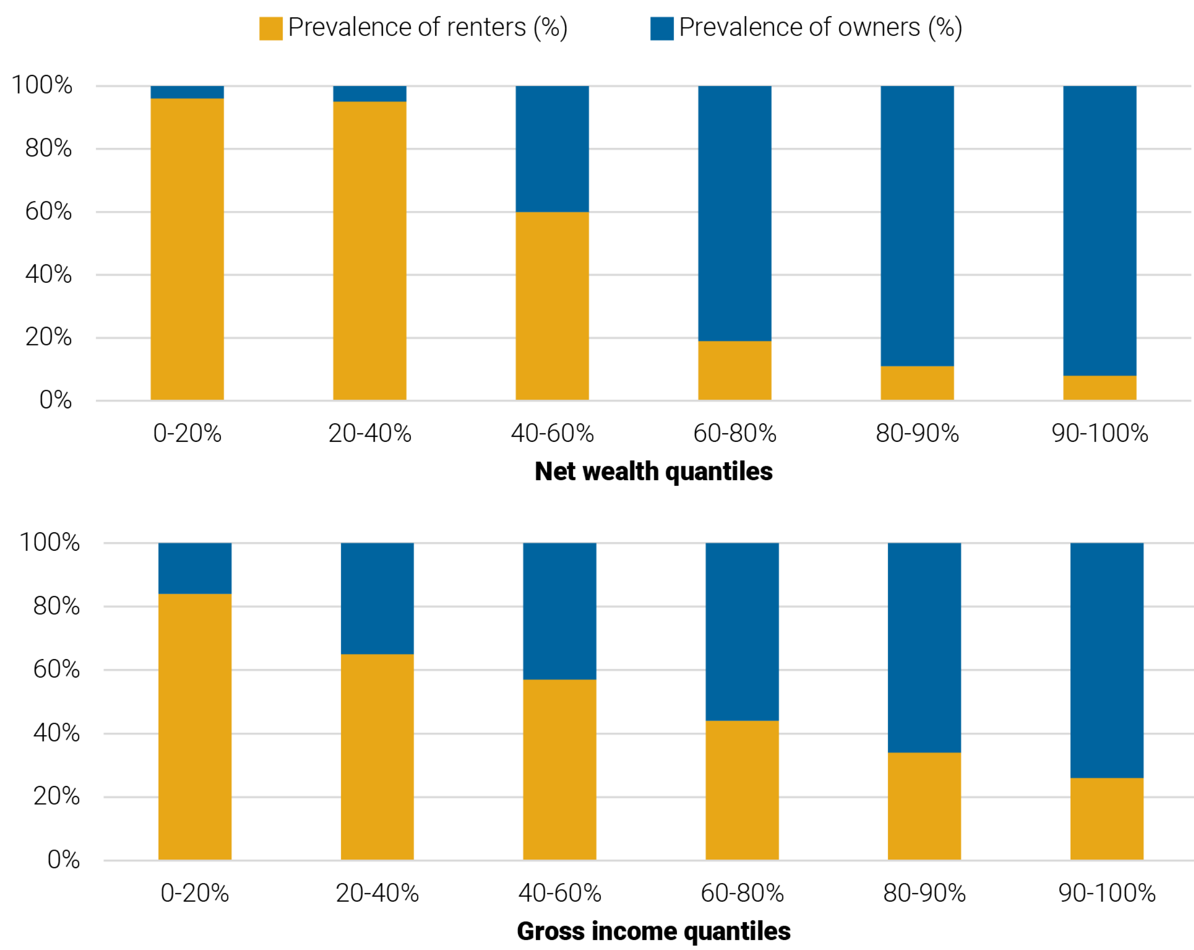
In terms of labor market status, there are more renters among white-collar private sector employees (55%) and blue-collar workers (60%) than among the self-employed (46%) and civil servants (44%). Unemployed residents are mostly renters (91%). Half of pensioners live in rental housing. Civil servants, by contrast, are employed by the government and benefit from better mortgage conditions due to their exceptional job safety. This could explain why only one-quarter of retired civil servants rent their homes.

Rentership is also strongly associated with having no school completion or vocational qualification. As soon as the household has obtained some qualification, homeownership rates increase sharply to levels above 50%. Those with a technical college degree are least likely to be renters (37%). This is in stark contrast to those with higher vocational training (over 50%), but is likely explained by the former's earlier attainment of job security.

Renters are less affluent than owners

Homeownership is strongly correlated with net wealth and income (Figure 1). The median renter household has less net wealth (€10,400) than the typical owner household (€277,000), even if one adjusts owners' household wealth for the value of the home. Homeowners' housing wealth has increased strongly due to a recent housing boom.

Figure 1. Homeownership is indicative of high wealth and income



Source: Deutsche Bundesbank Monthly Report April 2019.

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Institutional and policy environment of rental housing

Homeownership is not heavily subsidized

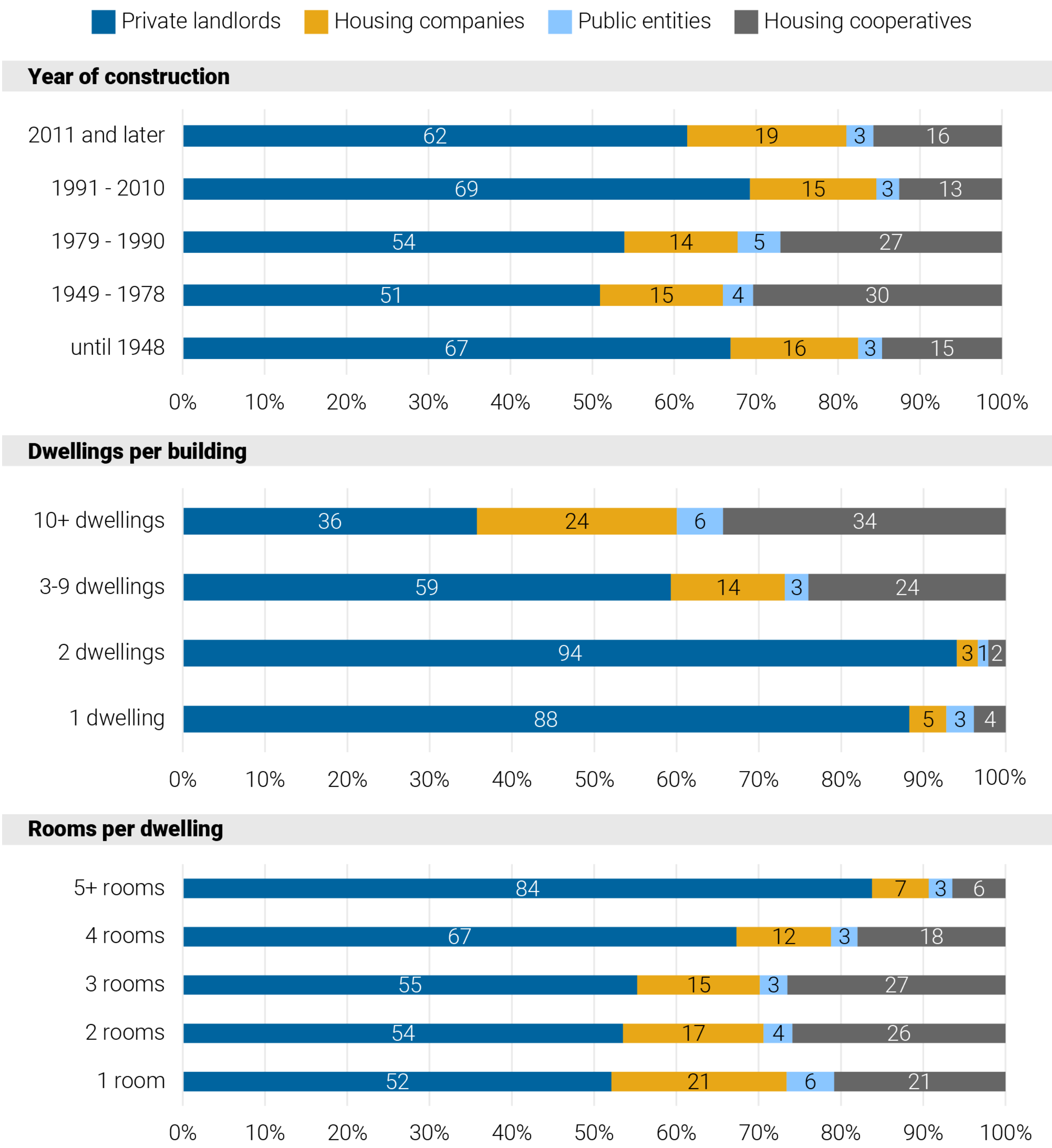
Unlike most other developed countries, households that own homes are incentivized to rent out rather than occupy their homes for two reasons. First, mortgage interest is only deductible from one's income taxes when the home is rented out. Second, as mentioned earlier, transaction costs for home purchases are high by international standards, making homebuying, let alone frequent moves, very costly. Research suggests that, if implemented, certain tax-related policy interventions aimed at raising the homeownership rate would primarily hurt those that remain renters.

Private landlords own the vast majority of rental housing

Private landlords are an important pillar in the German rental housing market. More than half of landlords are non-professional owners—i.e., individuals, trusts, or homeowners' associations (Figure 2). Public entities or privately-owned housing companies own less than one-quarter of rental dwellings. Housing cooperatives own about one-quarter of the rental housing stock, mostly built between 1949 and 1990.

Private landlords predominantly own homes in buildings with fewer units but more rooms, such as single- and two-family homes or apartments in low-rise buildings. Many individuals rent out smaller apartments in their own home, similar to accessory dwelling units (ADUs) in the U.S.

Figure 2. Building characteristics of rental housing vary by landlord type



Note: Landlord classifications are self-reported by tenants. Private landlords can be individuals, communities of heirs, or homeowners' associations. Housing companies comprise real estate firms, building societies or other companies (e.g. those owning employee housing) while public entities entail churches, municipalities and institutions of the states or the federal government.
Source: Federal Statistical Office of Germany (2019).

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Since the rental market is dominated by private landlords, housing finance is usually acquired through mortgages, typically with an amortization period of up to 30 years, interest rates fixed for five years or longer, and loan-to-value ratios of 82%.

New construction cannot keep up with increasing housing demand, especially in cities

In Germany, municipalities are responsible for earmarking land for construction and issuing building permits. New construction plummeted around 2008 to 2009. The gap between the number of building permits and completions has widened ever since, partly because of a shortage of skilled labor, the complexity of the building code, and high land prices—leading to a severe housing shortage, particularly in urban centers.

Developers can apply for subsidies such as grants or interest-free loans to construct social housing. Social housing developers have to rent their dwellings at below-market rates for a commitment period of typically 15 to 25 years, after which the units can be rented at market rate. However, fewer and fewer units are part of social housing, putting further pressure on low-income households. To counteract this trend, the federal government has earmarked a yearly sum of €1 billion for 2020 to 2024 to support the construction of social housing—30% less than in previous years.

There are a number of housing benefits available for households in need

To live in a social housing dwelling, households must apply for a certificate of eligibility. The criteria vary across federal states, but generally depend on household income. This certificate entitles them to apply for a social housing unit, but there are waitlists.

Households receiving certain social benefits and those with special needs can apply for housing assistance. Renter households that do not already receive any other transfers that include housing assistance can apply for housing benefit *(Wohngeld)*, which covers part of the rent. The exact amount depends on the household size, total income, and the housing cost. *Wohngeld* legislation has been in place since 1965 in the former West German states and since 1991 in the former GDR, and continues to support about 550,000 households across the country, with the share of households being about 50% higher in East than in West Germany.

German rental markets are characterized by their renter-friendliness

Rental contracts are governed by the German Civil Code, and renter protection is a priority. Since the key elements of German rental housing are stability and security, leases are typically open-ended rather than on a yearly basis. Landlords have to ensure that the unit remains in good condition; the renter has to notify the landlord of any deficiencies not commensurate with reasonable wear and tear, and the landlord has to remedy these deficiencies quickly. Otherwise, the renter can achieve rent reduction or, in severe cases, termination without notice. The landlord, in turn, can pass certain costs and property taxes on to the renter but cannot raise the rent arbitrarily. In very tight markets, new rents for some homes cannot exceed the local average rent by more than 10% or are even capped temporarily.

Both parties have a notice period of three months; however, it is much harder for the landlord to terminate a lease than for the renter. For instance, termination is possible when the property is required for the landlord's own use but not if the home is sold. Evictions can be enforced when the renter has been in arrears for at least two months, if they neglect, or if they sublet the dwelling without prior agreement. Evictions require the landlord to have issued a warning and terminated the lease first. If the renter does not vacate the home, the landlord can then ask for eviction at court.

Key challenges facing rental housing markets

Rising prices make housing less and less affordable in cities and exurbs

Rents for new leases have soared, with rents in major cities being affected the most. Rent-to-income ratios now average 27%—only slightly below what is deemed "affordable." Moreover, rents per square meter gross of utility bills and rent-to-income ratios increase with municipality size. Therefore, measures such as rent control in some cities or a rent freeze in Berlin have been introduced. Both have had unintended consequences: Research on rent control and the rent freeze suggests adverse effects on the number of listed homes and household mobility. So far, not even the COVID-19 pandemic has severely affected the upward trend in housing prices, but this may change soon.

Renter households are more likely to be burdened and live in deprived conditions

While the cost of housing is increasing for both tenure types, renters report having higher housing cost burdens than owners: 16.5% of renters consider the financial burden heavy (compared to 10.5% of owners). In terms of the frequency of rent arrears and the share of households in need of housing assistance, there is still an East-West divide. This is mainly due to lower incomes and employment in the East even decades after the Reunification.

Even though housing quality is comparable among owner and renter households, renter households are more likely to be subject to housing deprivation. Also, overcrowding is more severe for renters than owners, and more so for those renting at reduced rent than for those renting at market price.

Germany's aging population has special housing needs

Another challenge is the adaptation of the housing stock to accommodate the needs of an ever-aging population. Since older households tend to rent their homes, a sufficient number of rental units has to be accessible for those with mobility impairments. Statistics show that there is room for improvement.

Germany's generous welfare system protected many households during the pandemic

People that lose their jobs and are unable to make ends meet are eligible for some type of housing assistance in Germany at any point in time. On top of this, at the beginning of the COVID-19 pandemic, the government enacted an eviction ban: Any rent arrears between April and June 2020 due to COVID-19-related job loss can be deferred until June 2022. Only if arrears have not been settled by then can the landlord take legal action.

Lastly, irrespective of the pandemic, renters' right to physical integrity takes priority before landlords' interests. This implies that renters whose contract is coming to an end cannot be forced to vacate the home if they are currently sick, even if this means that they will have to stay in the dwelling until after the end of their tenancy.

Conclusion

Renters in Germany are as diverse as owners, even though there are gaps in terms of nationality, wealth, income, age, and household size, to name a few. One of the most pressing problems of the past decade has been the soaring cost of housing (especially in urban centers), coupled with a high cost burden for lower-income households. And in the decades to come, another challenge will be to provide adequate housing for older households.

Japan Case Study: Land scarcity, high construction volume, and distinctive leases characterize Japan's rental housing markets

Jiro Yoshida

The Japanese housing market is characterized by a large construction volume, rapid technological progress, fast depreciation of housing value, a thin secondary market, and low maintenance of existing properties. Legal and tax systems unintentionally encourage wealthy individuals to invest in studio apartments to rent out to young people living in urban areas. Thus, family housing is mainly available through ownership. The public sector played an important role in addressing housing shortages after World War II due to massive migration to large metropolitan areas. The public housing finance program encouraged homeownership, while public and quasi-public rental units provided shelter to low- and middle-income households. Roughly 36% of Japanese households rent their homes today. The biggest challenge is a mismatch between housing stock and demographics in a rapidly aging and shrinking society, exemplified by vacant housing units.

Overview of rental housing and renter households

Several distinctive factors related to Japan's physical geography and recent history provide important context to understand the country's housing market: scarce land, the prevalence of earthquakes, and economic trends following WWII.

Scarce land is the most fundamental factor defining the Japanese housing market. Habitable area—excluding inland water, forest, and woodland—accounts for only 29% of the country's land area. With a population of 128 million, per capita habitable area is only 800 square meters, compared with 19,300 square meters for the U.S. Urban area is further limited by land use regulations.

Another factor is frequent and significant earthquakes. Between 2000 and 2009, 212 earthquakes of magnitude 6.0 or greater occurred around Japan—accounting for 20% of high-magnitude earthquakes around the world.[1] Thus, Japan has developed technology to make structures resilient to earthquakes. The national building code has been revised after every major earthquake. Rapid technological changes make old structures obsolete and their value depreciate fast. The 1981 revision is particularly significant, creating a qualitative difference in property value between buildings built before and after 1981.

[1] Cabinet Office, 2012 White Paper on Disaster Management, Figure 1-1-1.

The third defining factor is a rapid change in housing stock, demographics, and lifestyle after WWII. After millions of houses were burnt down during the war, there was a housing shortage of around 4.2 million units in 1945. The first baby boom between 1947 and 1949 exacerbated the housing shortage. Postwar housing construction consistently increased with rapid economic growth, with 76.7 million units built between 1948 and 2020 for 54 million households. The economic and industrial system evolved to constantly supply the large construction volume that was frequently replacing older buildings. Based on the 2018 Housing and Land Survey (HLS), 76% of the housing stock is compliant with the 1981 building code (i.e., 37 years old or newer).

During the postwar economic growth period, a large portion of the population migrated from rural areas to urban areas, especially to the Tokyo metropolitan area.[2] Between 1954 and 2019, cumulative migration into three of Japan's major metropolitan areas was 12 million—of which, 10 million moved to the Tokyo metropolitan area. This massive inter-region migration created a significant housing shortage in urban areas, especially during the 1950s and 1960s, alleviated in part by active public sector investments.

Physical characteristics of rental stock

In 2020, approximately 60% of Japan's newly constructed units were owner-occupied houses and condominiums, and the remaining 40% were rental units. Among the newly constructed units, 78% of ownership units are detached houses, most of which have wooden structures. Newly constructed rental units are primarily multifamily properties that have non-wooden structures such as steel-reinforced concrete.

Figure 1 depicts the occupied housing stock in Japan based on the 2018 HLS. The horizontal axis represents the number of units, and the vertical axis represents the average unit size in square meters. Thus, the area of a rectangle represents the total floor area for each housing type. The total number of occupied housing units is 53.6 million, and the average unit size for all housing types is 93 square meters.

The homeownership rate is 61.2% for all housing types. This rate has been stable at around 60% for the past half-century, but significantly varies by the age of the household head. The rate is consistently around 80% for household heads 60 years or older, and decreases for heads ages 30 to 39 (39%) and 30 or younger (15%).

Rental units—including public rental, quasi-public rental,[3] and corporate housing—account for 35.6% of the total number of occupied housing units. Among rental units, private rental housing accounts for approximately 80% of both floor area and the number of units. The share of private rental housing has steadily increased from 24.1% in 1963 to 28.5% in 2018. However, rental units are significantly smaller than owned houses; thus, rental units account for only 19% of the total floor area. Public, quasi-public, and corporate rental housing have decreased their significance over time and account for only 7.1% of housing units.

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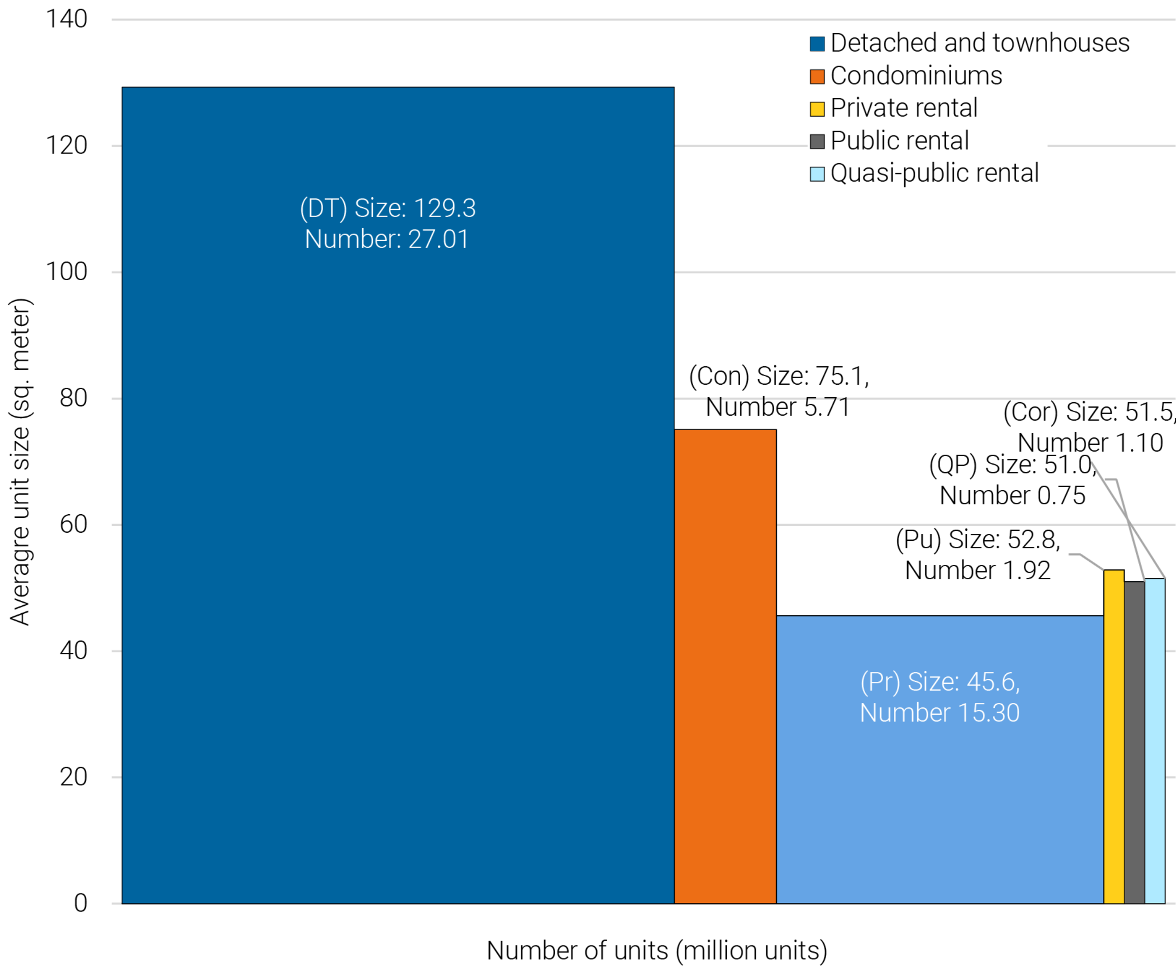
[2] Report on Internal Migration in Japan based on Resident Registration System. Table 5, Number of Net Migration by Sex for Japan, Prefectures and Major Cities: since 1954. Tokyo Area is composed of Tokyo, Kanagawa, Chiba, and Saitama; Osaka Area is composed of Osaka, Kyoto, Hyogo, and Nara; and Nagoya Area is composed of Aichi, Gifu, and Mie.

[3] Rental units provided by the Urban Renaissance Agency and Public Housing Supply Corporations. These corporations are explained in the institutional section.

Figure 2 depicts a skewed floor size distribution for private rental housing, in which the average unit size is 45.6 square meters. Non-wooden apartments are the most prevalent housing type (72% of all private rental housing). However, units smaller than 30 square meters account for 26% of the total. It is more difficult to find a detached house or a townhouse of a decent size for rent.

Rental housing type is also correlated with location. Thus, there is significant variation in rental housing size by location. Tokyo's rental housing is primarily small apartments in non-wooden buildings, whereas local cities have more detached rental housing and larger units.

Figure 1. Housing stock in Japan, 2018



Source: 2018 Housing and Land Survey of Japan.

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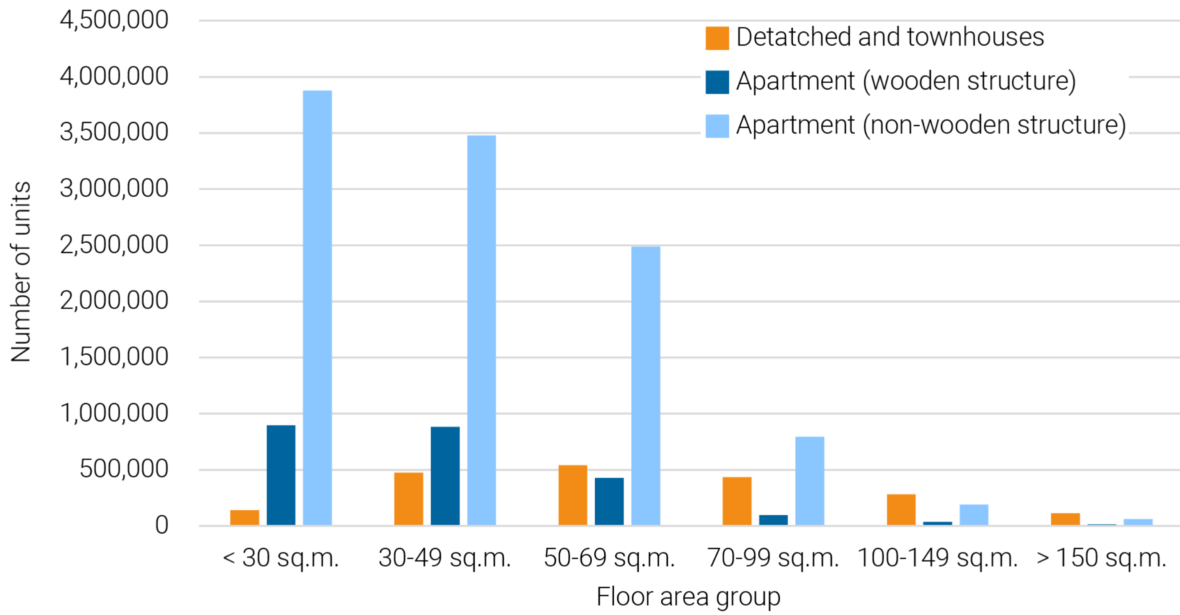
Figure 2. Floor area distribution of private rental housing, 2018



Source: 2018 Housing and Land Survey of Japan.

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According to the 2003 HLS, individuals own 85% of Japan's private rental units. Residential investments by corporations (including REITs) are still minor, despite rapid growth in recent years. Individual ownership was accelerated during the property market boom in the 1980s, because banks promoted the redevelopment of houses into medium-rise rental properties to create lending opportunities. The 2015 inheritance tax change accelerated individual ownerships.

Individual owners disproportionately provide so-called "one-room mansions"—rental studio apartments typically 30 square meters or smaller located in medium- to high-rise multifamily properties with non-wooden structures. Renting studios is popular among individual property owners because a single household living in a studio tends to have a quick turnover.

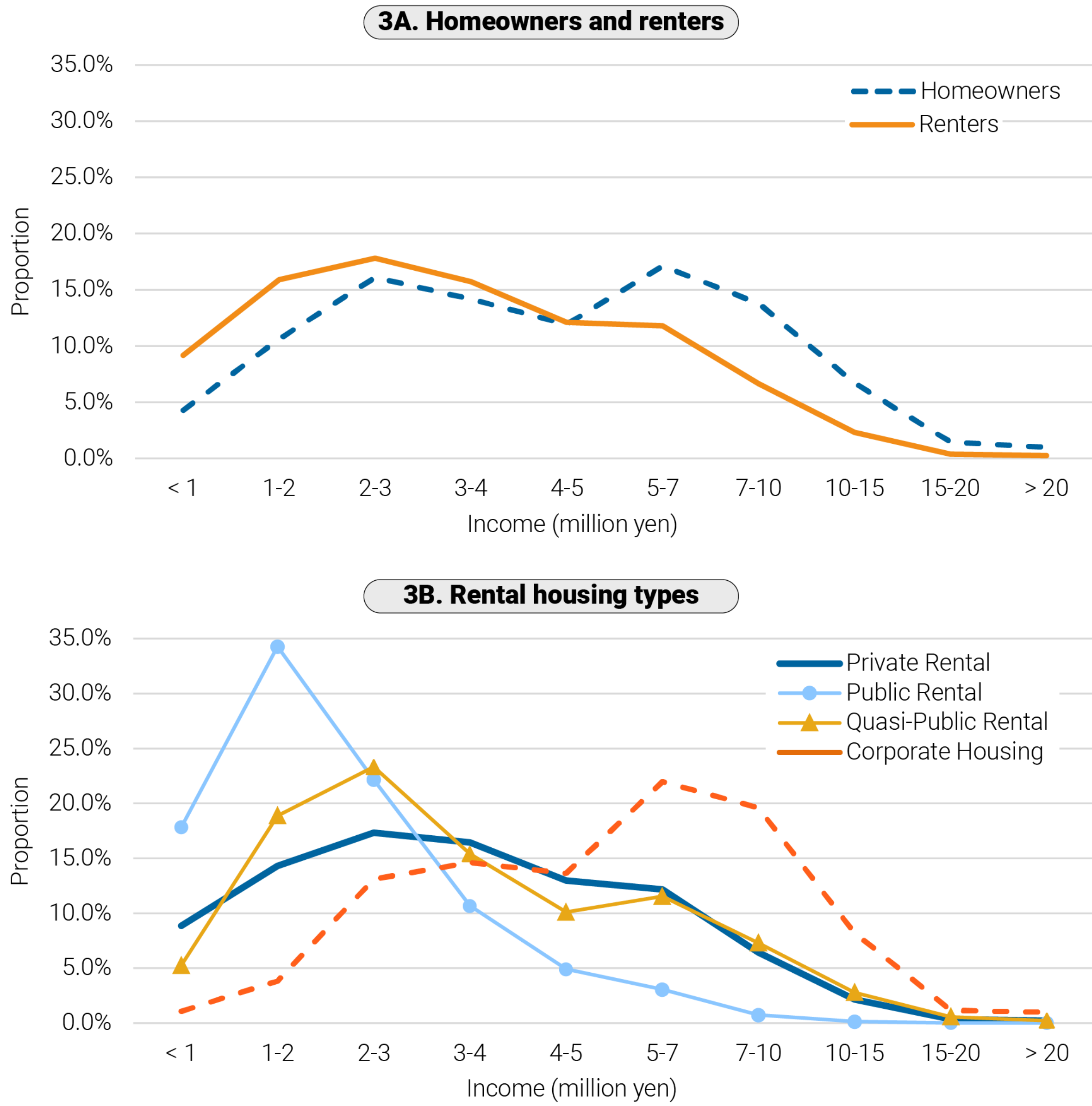
Renter households

Renter households have lower incomes than homeowners on average (Figure 3, Panel A). The estimated mean income is 5.15 million yen for homeowners and 3.51 million yen for renters. Renter household income varies by housing type (Panel B). Households living in public rental housing have the lowest income, with a mode of 1 to 2 million yen (approximately $9,000 to $18,000). Income distributions for private rental housing and quasi-public housing are comparable. The distribution for corporate housing exhibits higher income than homeowners. This is because large companies typically provide corporate housing as a fringe benefit to retain workers. The estimated mean income is 5.97 million yen for corporate housing, 3.51 million yen for private rental housing, 3.70 million yen for quasi-public rental housing, and 2.02 million yen for public rental housing.

Young households tend to live in private rental housing. Among heads of households younger than 30 years old, 82% live in private rental housing, and only 9% own houses. For households between 40 and 49 years old, the private rental share decreases to 44%, and the ownership rate increases to 49%.

According to the Family Income and Expenditure Survey (FIES), the ratio of housing expenditures to annual income was 7.6% in 1985, and gradually increased to 10.6% in 2001. The average ratio is about 16% for homeowners, 13% for renters, 10% for public housing renters, and 4% for subsidized corporate housing renters.

Figure 3. Income distribution in Japan, 2018



Source: 2018 Housing and Land Survey of Japan.

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Institutional and policy environment of rental housing

Legal environment

Real estate leases are governed by the Act on Land and Building Leases (ALBL), enacted in 1991, as well as the Civil Code. The ALBL and case law provide strong tenant protections by making it extremely difficult for landlords to terminate leases or refuse lease renewal. A landlord needs to file a lawsuit and successfully establish just cause to refuse renewal after lease expiration or to terminate a lease even upon a tenant's breach. By contrast, tenants can renew leases indefinitely or terminate leases on one month's notice without just cause. These provisions expose landlords to a high degree of risk, making the housing rental business less attractive.

The ALBL was amended in 1999 to create an option to alleviate these strong tenant protections by introducing a new lease contract type called a fixed-term lease. As the name suggests, a fixed-term lease lasts for a period of time agreed upon by the landlord and the tenant, and does not automatically renew after the term expires. Fixed-term leases were expected to resolve the rental housing supply problem, but this lease type is not commonly used for residential leases even 20 years after its launch because of ambiguities and complexities in contracting.

The economic consequences of the ALBL's strong tenant protections have been extensively discussed (e.g., Seko 2014; Kanemoto, 2016). The limited rent adjustment at lease renewal can be considered a form of rent control, which has been shown to discourage the supply of rental housing. The ALBL can also result in longer vacant periods between leases. Professional and corporate investors have shied away from entering the rental market because of the risks involved. However, individuals motivated by tax advantages are willing to invest in "one-room mansions" rentals in large cities and select tenants who are less likely to stay for many years, such as college students and single young adults. As a result, high-quality rental apartments for families are scarce.

The public sector's role in developing, financing, and owning rental housing

To address the housing shortage after WWII, the government carried out a series of Five-Year Housing Construction Plans (1966 to 2005) with three major programs. First, the government established the Government Housing Loan Corporation (GHLC) to encourage housing construction and homeownership through long-term, low-interest, pre-payable fixed-rate mortgages. These generous mortgage terms were made possible by annual government subsidies and low-cost financing from postal savings and insurance and public pensions (Fiscal Investment and Loan Program [FILP]). Low- to middle-income borrowers benefited significantly from a 5.5% rate cap during the high-interest rate environment until the 1970s, and free prepayments during the low-rate environment in the 1990s. Between 1950 and 2007, the GHLC financed 19.4 million housing units.

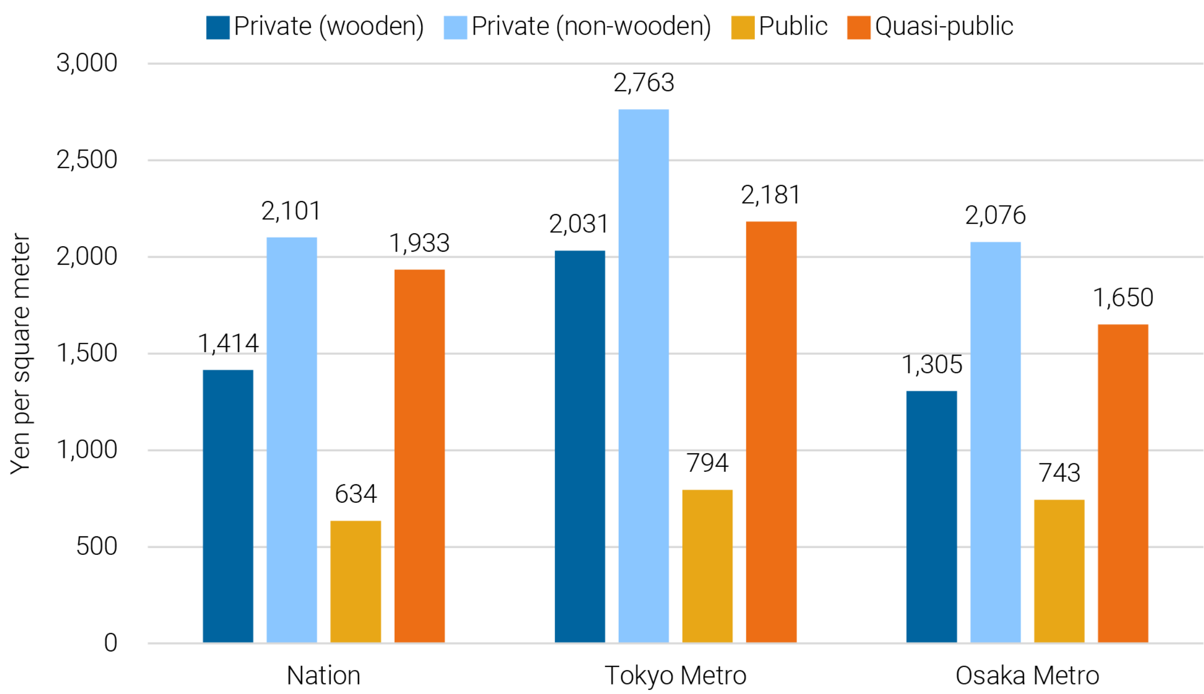
Second, local governments constructed and operated public rental housing for low-income renters. The average rent for public rental housing is significantly lower than for other rental housing, particularly in major metropolitan areas (Figure 4). Because public houses are almost fully occupied (99.2%), there is significant rationing; in 2014, the admission rate was 6.5% for the Tokyo metropolitan area and 17.2% nationally. One issue is that sitting tenants tend to not leave public housing even after they become ineligible.

Third, the government established the Japan Housing Corporation (JHC) to address the acute housing shortage in urban areas.[4] Many prefectures also founded public housing corporations.

[4] The JHC merged with the Land Development Corporation and the Regional Development Corporation to become the Urban Renaissance Agency (UR).

The JHC and public housing corporations provided quasi-public rental housing through large-scale development in urban areas using the FILP financing. This program is unique because it supplies housing for middle-income households without many rent discounts.

Figure 4. Average rent in Japan, 2018



Source: 2018 Housing and Land Survey of Japan.

After the housing shortage was resolved, the government enacted the Basic Act for Housing in 2006 by focusing on housing quality issues such as elderly persons' housing, low carbon emissions, and condominium management. The GHLC also stopped originating mortgages in 2007 and was reorganized as the Japan Housing Finance Agency (JHF) to securitize private mortgages in the form of covered bonds. The JHF assumes the credit risk of mortgage-backed securities but passes prepayment risks to investors, as in the U.S.

Tax incentives and subsidies

Japan's nationally uniform property tax rate is 1.4%, with an additional city planning tax rate of 0.3% in urbanized areas. The tax system treats residential properties preferentially relative to commercial properties and financial assets. First, real estate tax assessment is reduced, especially for rental properties—whether it be residential or commercial. For owner-occupied properties, tax assessments are typically 70% of land value and 60% of structure value. For rental properties, the assessment is further reduced by the deduction of the leasehold right (70% of the land value) and the tenant right (30% of the structure value). Thus, the assessed real estate value can be less than half of the market value.

Second, residential properties (both owner-occupied and rented) have additional tax advantages. The assessed value for residential land is reduced by two-thirds for property taxes and one-third for city planning taxes. Furthermore, the assessment reduction is enhanced for small residential land up to 200 square meters (by five-sixths for property taxes and two-thirds for city planning taxes). Moreover, for multifamily rental properties, the assessment reduction for small residential land applies to each apartment.

Third, the inheritance tax system also favors residential properties in a similar manner through a low tax assessment, the leasehold-right deduction, the tenant-right deduction, and the small residential land treatment. The inheritance tax advantage has driven rental apartment investment because the marginal inheritance tax rate reaches 55% for the highest tax bracket.

Lastly, a mortgage borrower has an income tax credit based on loan amount, not income deduction for interest payments. Overall, the tax system significantly favors residential properties.

Key challenges facing the rental housing market

The biggest challenge is managing the housing stock in an aging and shrinking society. Japan saw its population peak in 2008 and is aging quickly. The old-age dependency ratio[5] was 47 in 2019, compared with 25 for the U.S.

As aggregate housing supply exceeds housing demand, the national vacancy rate reached 13.6% for all housing types and 18.5% for rental housing in 2018. This high vacancy rate for rental housing is caused partly by tax distortions and heavy tenant protections. Wealthy individuals motivated by tax advantages supply small apartment units, but do not lower rents to fill vacant units because low-rent tenants will sit in the apartment for an extended period. At the same time, owners try to avoid renting to families because of low turnover. Thus, the tax-induced supply of rental housing does not meet the demand for affordable family housing.

Furthermore, among owner-occupied housing, there is underutilized housing stock in the form of unused rooms, especially for elderly households (Seko et al., 2021). Moreover, a significant fraction of old housing stock does not meet the current housing standards. Demolishing or redeveloping some of the old properties will be inevitable, but utilizing the old stock is challenging due to the difficulty in collective decisionmaking for condominiums.

[5] The old-age dependency ratio is the ratio of the number of elderly people aged 65 and over to the number of people of working-age people between 15 and 64 years old.

Spain Case Study: Spain’s once-substantial rental market is now one of the smallest in Europe

Ghizlen Ouasbaa and Elisabet Viladecans Marsal

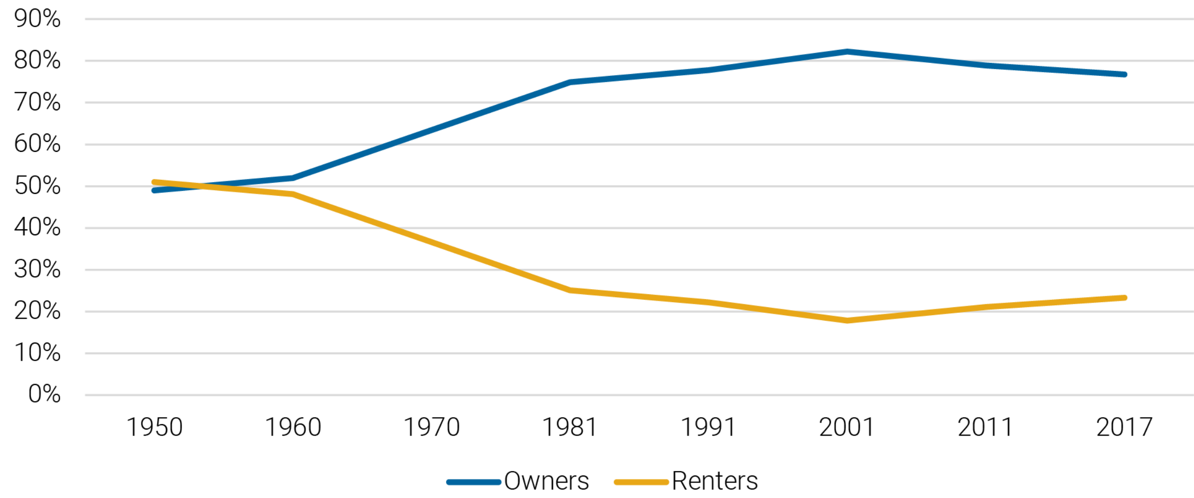
Fewer than one in four of Spain’s 18.6 million households rents their home, reflecting strong policy bias toward homeownership. Renters are young, have lower incomes, and are more likely to be immigrants. The rental market is composed mostly of nonprofessional landlords, although recently, international companies have started to develop and manage rental housing. Public policies have been traditionally designed to promote homeownership and have failed to provide enough rental housing, especially public rental housing.

Overview of rental households and rental housing

Spain has one of the lowest rentership rates among European countries, with just 23% of households renting their homes. As Figure 1 illustrates, this was not always the case. In 1950, the percentage of owners and renters was equal. But starting in the 1960s, rising incomes and homeownership subsidies led to higher homeownership rates, reaching a peak in 2001 at 82%. During the last 20 years, the rental market has been gradually growing due to two reasons: 1) job insecurity and low salaries pushed housing prices out of reach for younger people, and 2) banks are much more cautious about granting mortgages than in previous years.

Figure 1. Rental housing represents a small share of the total housing market

Historic tenure trends in Spain



Source: National Statistics Institute's Population and Housing Censuses.

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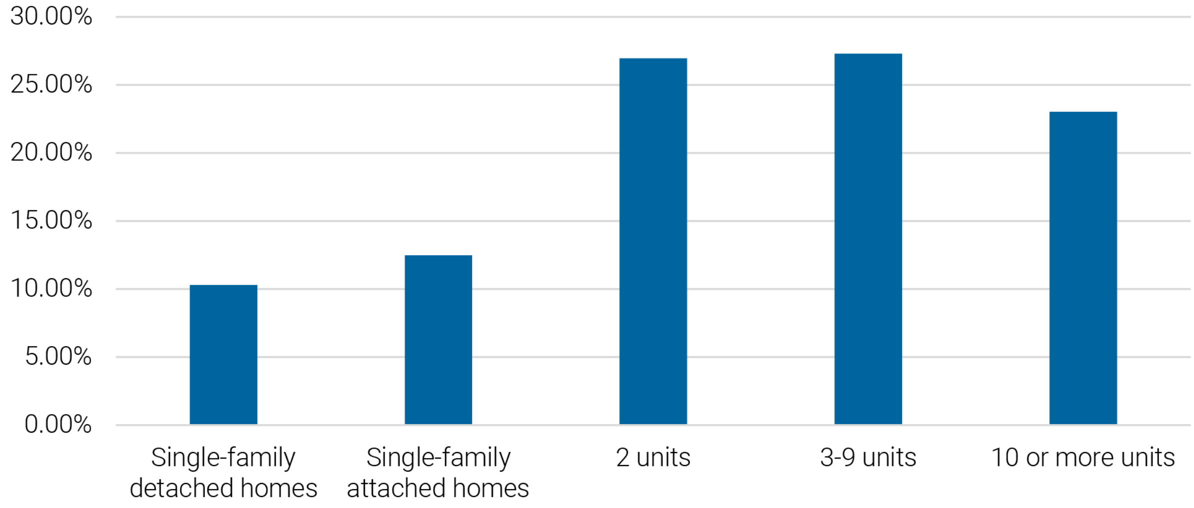
Rentership rates are higher in larger provinces (a geographical unit similar to metro areas in the U.S.). In the two largest urban areas, Barcelona and Madrid, the percentage of renters is 26% and 24%, respectively. In smaller urban areas, this percentage is less than 15%.

There is also a lot of geographical variation in rents per square meter. In 2018, the average monthly rent was 675€ per month (8.1€ per square meter) for an average size unit of about 96 square meters (1,033 square feet). Barcelona and Madrid have higher rental prices and smaller dwellings. In Barcelona, the monthly rent for an average rental unit of 90 square meters (969 square feet) is 930€ (12.5€ per square meter). The problem of housing affordability is more intense in those cities, even though wages and incomes are higher.

Most rental homes are in multifamily buildings (Figure 2). The percentage of housing for rent exceeds 25% in buildings with two or more dwellings, while 88% of single-family structures are owner-occupied**.** Around half of renter homes were built before 1980, similar to the age of the homeowner-occupied stock.

Figure 2. Less than one quarter of rental households are in single-family homes

Percent of rental units by structure type



Source: National Statistics Institute's Population and Housing Censuses.

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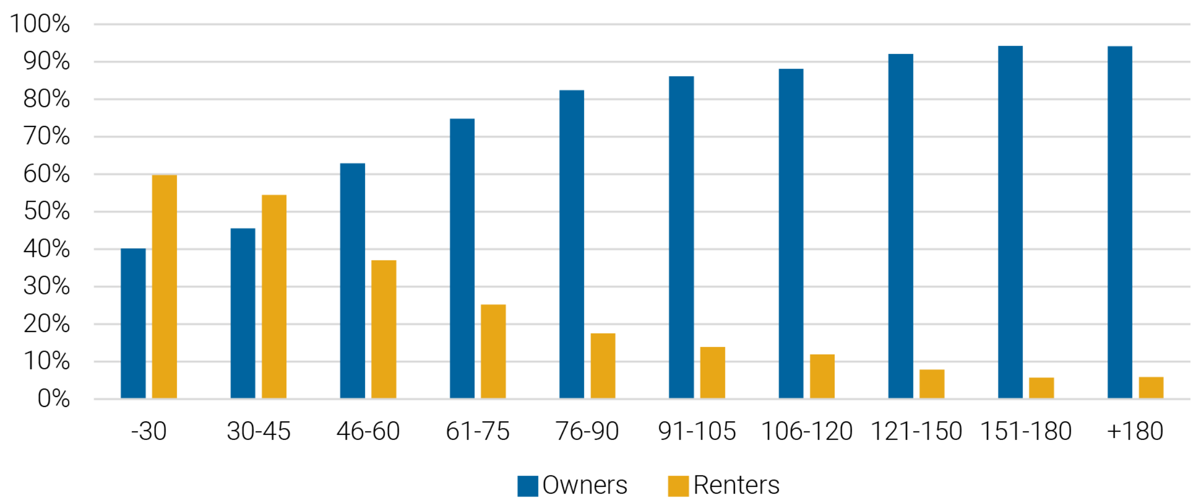
Rental homes tend to be much smaller than owner-occupied homes (Figure 3), with most rental units having a surface area of less than 45 square meters. About 85% of owner-occupied homes have more than 105 square meters.

Figure 3. Rental housing units are much smaller than owner-occupied homes

Units sizes by housing tenure (in m2)



Source: National Statistics Institute's Life Conditions Survey, 2017.

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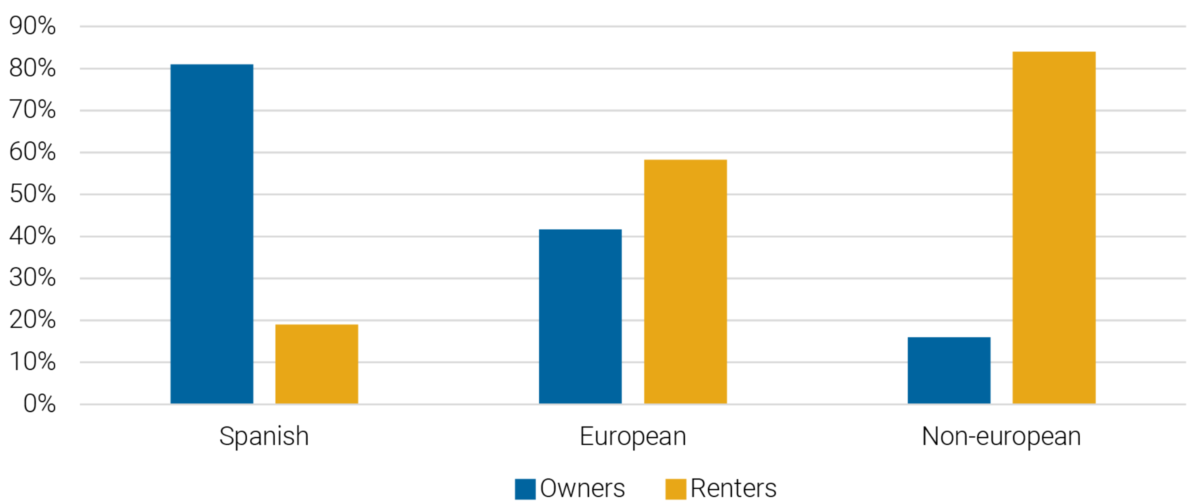
Although the majority of all household types own their homes, renting is relatively more common among single-person households and single-parent households. Younger people are also more likely to rent, with nearly 70% of people ages 16 to 29 renting their homes.

Figure 4 illustrates the tenure system based on the nationality of the household head. Renting has increased among Spanish-headed households, rising from 16% in 2007 to 20% in 2018. For households led by citizens of other European Union countries, the percentage of renters has also increased, although somewhat more moderately—from 54% to nearly 60%. Rentership is highest for households headed by non-EU citizens.

Figure 4. Most of the immigrant population are renters

Percent of renters by nationality



Source: National Statistics Institute's Life Conditions Survey, 2017.

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Private sector firms play a small role in developing and managing rental housing

Rental housing has traditionally been owned by individuals; only recently have more professional landlords entered the market, including foreign capital firms similar to real estate investment trusts (REITs). The increased profitability of the rental sector and recent fiscal incentives (such as a high tax credit on corporate and transaction taxes) coincided with the entry of new international operators. Private firms devoted to the rental housing business represented around 10% of the national rental market in 2018. These firms have a larger presence in big cities, making up 25% of rental housing in Barcelona. Some of these new rental units have been added to the short-term rental market (e.g., Airbnb rentals), so they have not increased the amount of long-term rental housing.

Institutional and policy environment of rental housing

Three levels of government are responsible for housing policies, with land use regulation primarily done at the local level

In Spain, housing policies are designed and implemented by three levels of government: the central government, the regional governments (17 Autonomous Communities), and local governments (more than 8,000 municipalities, although most are quite small). However, the private sector plays a key role in land ownership, urban development activity, and residential development.

The design of land use policies illustrates this relationship. Although an individual might own the land, the government is empowered to control and implement all processes of urban development. Landowners are not permitted to develop their land without the prior agreement of the local administration. It is not simply that they need a building license (which is granted automatically in most cases). Before reaching this step, the government must declare the land "developable" and define precisely the conditions for such development. The main tool that the government uses to do this is its Urban Plan. Urban planning in Spain is essentially a local responsibility, but as there are more than 8,000 municipalities nationwide, the system is highly fragmented.

Housing policies have disproportionally promoted homeownership

Article 47 of the Spanish Constitution acknowledges the right of all citizens to have decent and adequate housing. It also establishes that the government must ensure that this right is made effective for all the people. However, there was no institutional framework (such as public housing) that provided high-quality affordable housing to all citizens. Rather, most citizens relied on the private market to provide owner-occupied homes.

But as shown in Figure 1, 70 years ago, rental housing made up half of the market. The high economic growth of the 1960s—together with the perception that homeownership was a better investment than renting—can partially explain this change. But this structural change also reflects many years of public policies designed to promote homeownership and limited efforts to promote private and public rental housing.

Housing subsidies in Spain can be divided into two groups. First, the so-called "stone subsidies" are intended to increase the availability of affordable housing for rent and for sale. Second, the government provides direct financial subsidies to people to help them pay rent or purchase a house. Since the mid-20th century, housing policy has been based on protecting for-sale housing by subsidizing construction and purchases through tax relief or mortgage interest rates.

Recent policies have shifted to promoting rental housing

Interestingly, the last central government House Plan (2018 to 2021) removed the subsidies to promote homeownership and direct household subsidies. Instead, it established new subsidies to assist people under age 35 either rent or purchase a home in smaller municipalities (fewer than 5,000 residents). It also created subsidies for low-income older adults, both for rent and to pay maintenance costs. It is still too soon to evaluate the impact of these new policies.

Past regulations have failed to increase the supply of rental housing

In the 1960s, the central government adopted strict rent regulation and strong tenant protections. The law required landlords to extend the lease for the entire life of the tenant, and upon the tenant's death, the surviving spouse and children could assume the lease. In addition, the landlord could only terminate the contract for causes strictly established in the law and could only raise rent according to the national rate of inflation. While these strong tenant protections were attractive to renters, they reduced the profitability for landlords to invest in rental housing. Because landlords had to compensate tenants if they wanted to terminate the lease, they often increased the initial rent levels for new leases.

The 1985 Boyer Law removed the mandatory lease extension in an attempt to increase rental housing supply and reduce rents. From then on, lease contracts would last for the duration agreed upon by the tenant and landlord. This legal reform did not produce the expected effects, and the supply of rentals hardly increased. Some years later, two new reforms (in 1994 and 2013) removed the mandatory extension and set the minimum duration of leases to three years (extendable for one more). But the results remain the same. The most recent reform, adopted in 2019 during tight rental supply and high rents, was designed to reinstate stronger tenant protections. One of the most controversial aspects that was left out (but is still on the government agenda) was rent control.

One aspect that the successive new regulations have tried to solve is the legal uncertainty over the eviction process. Although the eviction process has always existed, since 2018, the procedures have been streamlined. The current regulation allows the delinquent renter to be evicted in less than six months, depending on the particular circumstances of each case. Other measures were introduced to protect tenants (and, in some cases, squatters) from abusive evictions. The law also allows regional governments to create a tax on vacant homes. For the moment, only the region of Catalonia has approved this tax.

In 2020, Catalonia became the first region in Spain to establish a rent control program, which applies to large municipalities that are defined as having "tight housing market" conditions. In January 2021, the Constitutional Court proposed to declare rent control unconstitutional.

Tenants' unions are a recent phenomenon in Spain. Currently, the largest unions are in Barcelona, and legislation does not allow collective bargaining of contracts. However, there have been some cases of collective agreements between tenants and large landlords.

The public rental market has not met the demand for social housing

Since the 2009 economic crisis, the number of households in Spain in need of housing subsidies has grown exponentially. It is impossible to know the exact volume of this demand, since the available statistical information is limited. However, based on existing data, estimations indicate that at least 1.5 million affordable rental homes are needed for low-income households.

Publicly owned rental housing is a much smaller share of Spain's housing market than other European countries. Spain currently has around 290,000 public rental homes that house just 1.6% of households—substantially lower than the EU average of 9.3%. Regional governments own 62% of public rental housing while local governments own the remainder.

Support for social housing has been limited over the last four decades. Since the mid-1980s, the social housing stock has decreased, and today is at historic lows. The regions of Madrid and Barcelona have been increasing investment in social housing, but the available stock is small compared with the need for affordable housing. The central government has recently launched the "20,000 Plan" to build 20,000 social housing rentals during two terms of office. Meanwhile, the government of the region of Madrid adopted the "Plan Vive" that will build 25,000 new units to alleviate the severe shortage of public rental housing.

Regarding the housing subsidies for renters, there are programs in all regions for people with very low incomes (8,000€ per year), who can receive a subsidy of up to 50% of the maximum monthly housing rent. These subsidies are designed for people in critical financial situations and are supposed to be available to all eligible households. But only 2.5 out of every 1,000 people receive this subsidy. More recently, as rents have risen, regions have designed some additional rental subsidies for people under age 35 or over age 65.

Challenges facing rental housing markets

Housing affordability and the lack of rental housing are two of the most serious problems that the housing market in Spain is facing. Construction and mortgage levels did not recover even as the market started to recover after the financial crisis. The number of new houses constructed dropped from 850,000 in 2006 to 100,000 in 2018, and the number of new mortgages originated fell from 1.9 million to 482,000 in the same period. This gap has triggered a shift toward the rental market, but with limited supply, rents have increased. This problem is even more intense in urban areas, where rents are at all-time highs. Approximately four out of 10 Spaniards allocate more than 40% of their salary to pay the rent, in contrast to 25% of Europeans.

The young population is the most affected demographic group. Their job insecurity and low wages have resulted in a big drop in home purchases. Before the crisis, almost 60% of young people between 16 and 29 years old who had formed a household lived in an owner-occupied flat. Without the option to buy a house, this group's pressure on the rental housing market has not stopped growing. As a consequence, more young people are staying longer in their parents' home.

There are clear impacts of the COVID-19 pandemic on the rental housing market

The COVID-19 pandemic is also disproportionately affecting younger people and immigrants—two groups who mostly rent. Millennials and Gen Z households have seen their incomes drop by 45%, leaving them unable to save, buy homes, or establish independent households. Immigrant households are also more affected by income losses in the pandemic.

As a result of the crisis, the supply of rental homes in Spain increased 52% between September 2019 and September 2020. One factor is the transfer of tourist and short-term rental properties to the long-term rental market, as well as the change from sale to rent for owners who cannot reach their price expectations. Despite the increase in available rental homes, rent levels for the average apartment rose by almost 2% by the end of 2020.

As in other countries, in addition to the direct government assistance to households, other COVID-19 policies have been designed specifically for housing: mortgage payment moratoriums, rental assistance, and the suspension of evictions for vulnerable families. Another important decision was the automatic extension of rental contracts to avoid any abusive increase in prices during the crisis.

United Kingdom Case Study: In the United Kingdom, homeownership has fallen while renting is on the rise

Christian Hilber and Olivier Schöni

Homeownership has been in decline in the United Kingdom, falling from an all-time high of 70.9% in 2003 to 63.9% in 2018. This decline has coincided with a revival of the private rental market. Due to a lack of moderately priced owner-occupied housing, privately owned and social rental housing is particularly common among young and lower-income households, and in urban areas.

The country's main political concern is the lack of low- and moderately priced housing (usually referred to as "affordable" housing), which has prompted a flurry of housing policies aimed at improving affordability. However, since the 1980s, the political focus has shifted from providing social rental housing to policies aimed at facilitating access to homeownership. While most of the British government's policies in response to the COVID-19 pandemic focused on homeownership, some also aimed to protect renters.

Overview of renter households and rental housing

A century ago, the U.K. was by and large a country of renters. From the beginning of the 20th century up to the 1960s, rental housing accounted for the largest share of the housing market (Figure 1). Households in the private rental market declined until the mid-1990s, while the share of social rental housing rose until 1980. Rising incomes and increased availability of building society mortgages (similar to credit unions in the U.S.) contributed to rising homeownership rates, as well as a variety of policies intended to increase homeownership, especially the Right to Buy program since 1980.

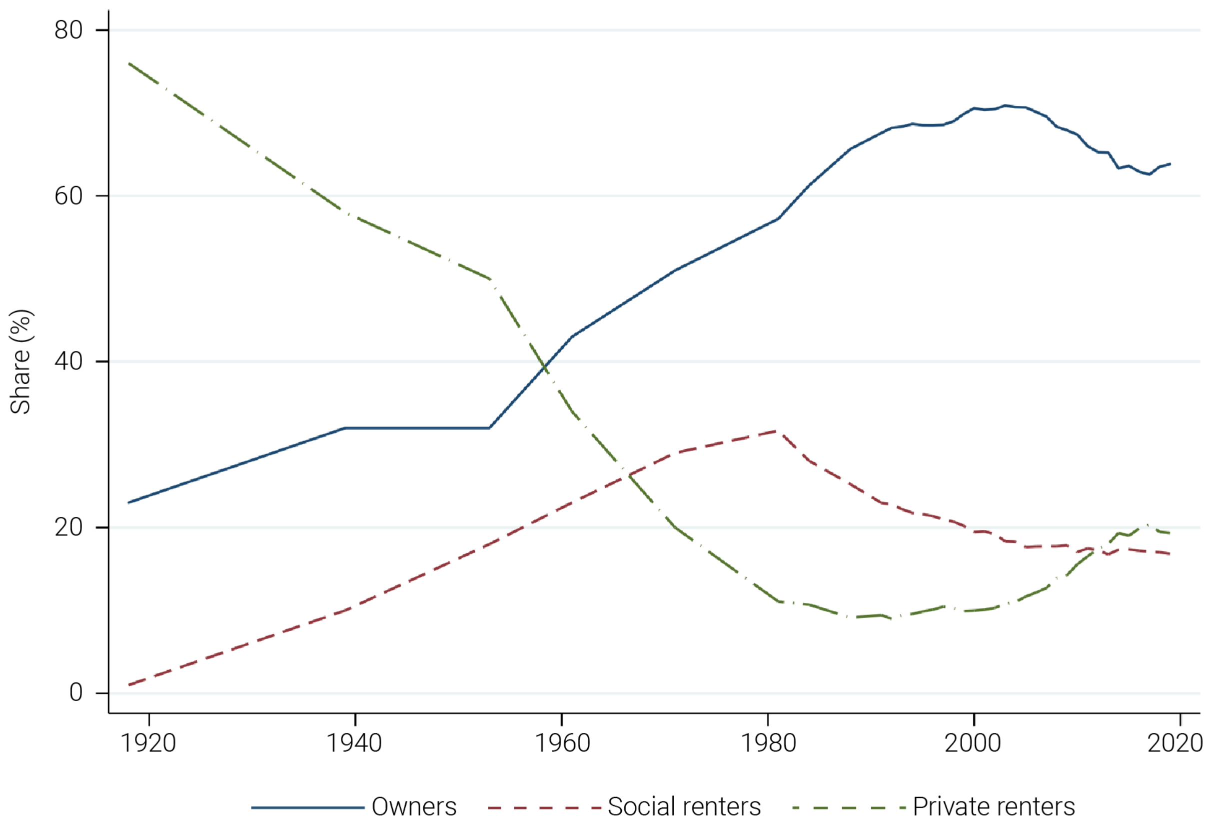
Homeownership in the U.K. peaked around 2003. The decline in homeownership coincided with a revival of the private rental market, with the latter roughly doubling its share from below 10% in the mid-1990s to nearly 20% in 2018.

One important feature of Britain's contemporaneous private rental market is the absence of any form of rent control. Since the Housing Act of 1980, rents are generally set by landlords. In 2019, the government announced that it will put an end to "no fault" evictions, providing tenants with more stability and protection from frequent moves at short notice.

Renting is widespread among younger households; only about 41% of household heads aged 25 to 34 own their homes. Renting is also the most common tenure (at 59.2%) among those with the lowest incomes (households earning less than 300 GBP/week). Indeed, income strongly varies by housing tenure. Owner-occupiers earn, on average, the highest weekly wages (878 GBP), followed by households in private rental housing (641 GBP) and those in social rental housing (369 GBP). More than half of renters live in “terraced” (attached) single-family houses. Roughly one-third live in “flats” (apartments), with the rest living in detached houses. Rental properties have, on average, fewer rooms and higher overcrowding rates.

Figure 1. Private rental housing lost market share during the 20th century

Tenure trends in England, 1920-2020



Sources: 1918: Estimates by Alan Holmans of Cambridge University Department of Land Economy; 1939 to 1971: "Housing Policy in Britain", Alan Holmans, Table V1; 1981 to 1991: DOE Labour Force Survey Housing Trailer; 1992 to 2008: ONS Labour Force Survey. From 2009 onward we attribute each year to the 2-year English Housing Survey data (full household sample), which includes a 1-year lag moving window: 2008-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, 2016-17, 2017-18, 2018-19.

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These aggregate statistics hide some important heterogeneity across local areas. Rental housing accounts for a sizable share of the market in major urban areas (such as London, Birmingham, and Manchester) whereas owner-occupation is the most widespread tenure mode in suburban areas and the countryside (Figure 2).

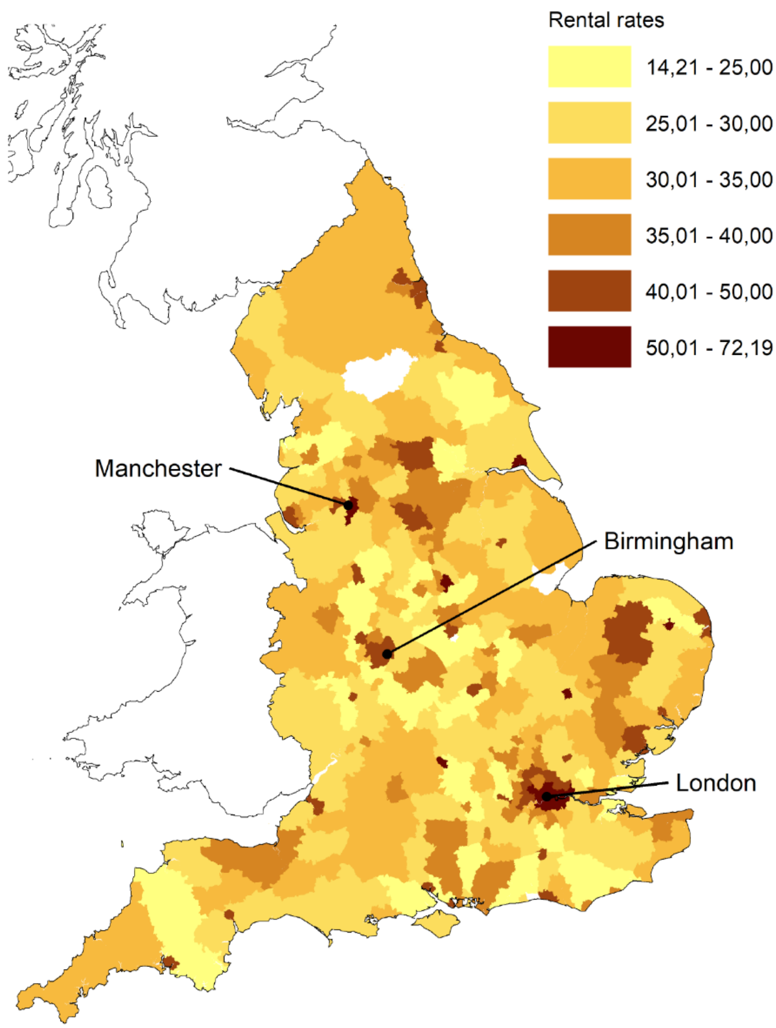
Institutional and policy environment of rental housing

System of land use planning and fiscal centralization

The institutional setting in the U.K. is characterized by two key features, which affect both the owner-occupied and rental markets. First, in contrast to continental European countries, which implemented rule-based planning systems, the U.K. regulates its land use via a rigid "development control" system. In this system, each change of use for any land parcel triggers a public consultation process and must be approved on a case-by-case basis by a local planning authority. The system's main aim is to limit the spread of urban development into undeveloped "greenfield" areas.

Figure 2. Rentership rates are higher in large cities

England's geographic distribution of renter-occupiers in 2018



Source: Research outputs: Subnational dwelling stock by tenure estimates, England, 2018. Office for National Statistics. Notes: Renter-occupiers include private and social tenants.

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Second, the U.K. has a high degree of fiscal centralization—giving very little weight to local taxes—with the consequence that local authorities have virtually no positive fiscal incentives to permit new residential development. In conjunction with the idiosyncratic development control system that assigns strong political power to local "not-in-my-backyard" residents, the ultimate outcome is that housing supply is extremely unresponsive to rising prices, particularly in major urban agglomerations such as London. In these areas, positive demand shocks have the main effect of increasing land and house prices, leading to a severe housing affordability crisis in large parts of the country, and arguably in part explaining the fall in homeownership attainment since the early 2000s.

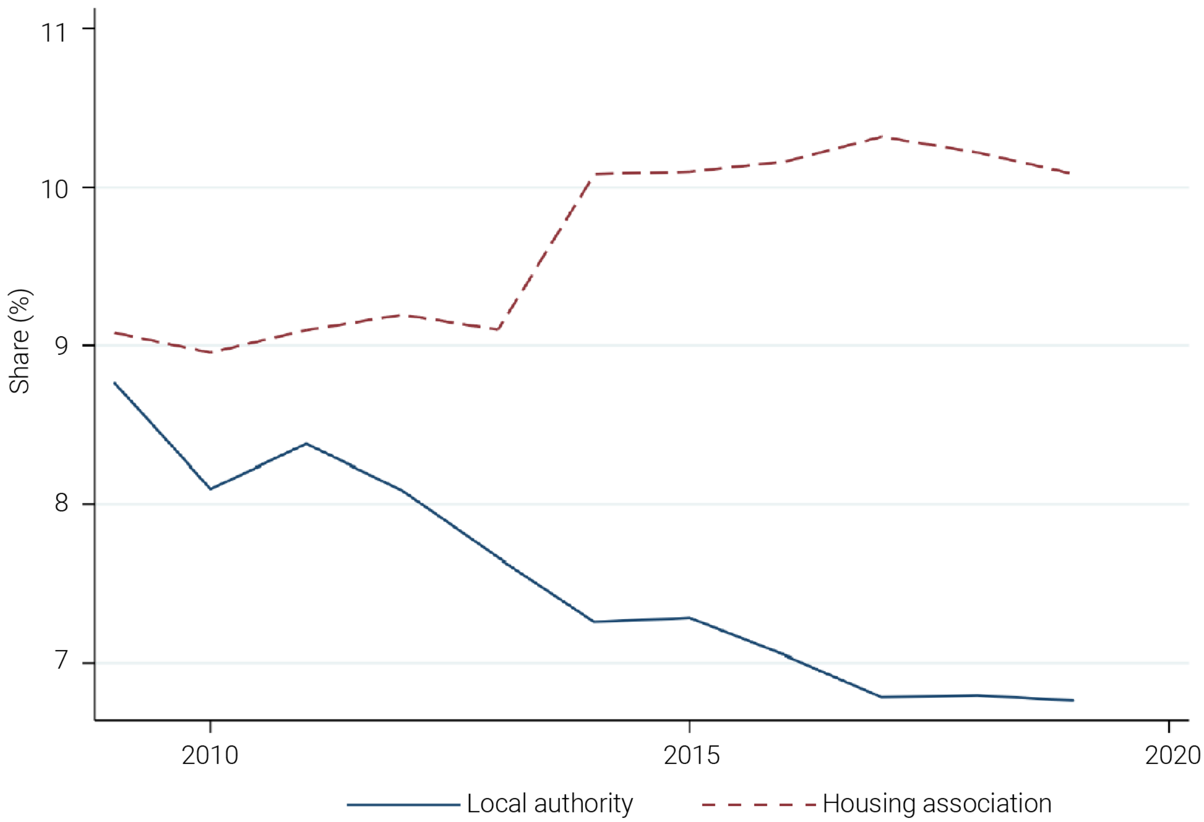
Housing in the U.K.—particularly in London and Southeast England—is some of the most expensive and cramped in the world. When considering the buying price per square meter of a "comparable apartment" in a prime central location of a country's main city, London ranks second, topped only by Hong Kong. U.K. rents are also extraordinarily high. The same comparable apartment in London is also the second-most expensive to rent, again topped only by Hong Kong.

The historic decline of the social rental market

The birth year of social housing in the U.K. goes back to 1919—the year when local authorities (councils) were required by law to provide council housing. The original aim of council housing was to provide decent housing for army recruits; however, the age of social housing only truly arrived after World War II, when the Labour government built more than 1 million homes—80% of which were council homes—largely to replace those destroyed during the war. The house-building boom continued through the 1950s, but, near the end of that decade, the emphasis shifted toward slum clearance. By the early 1970s, the downsides of social housing (lack of investment and maintenance, negative peer effects) became more visible.

In 2008, housing associations outstripped local councils for the first time in providing the majority of social homes in the U.K. Housing associations are private, nonprofit organizations that provide low-cost housing for households in need of a home. They have been operating an increasing share of social housing properties in the U.K. since the 1970s. Although formally independent of the government, housing associations are regulated by the state and receive public funding. The share of rentals that housing associations provide has remained relatively stable at around 10% over the last decade, whereas the share of council houses has decreased over the same period from nearly 9% to under 7% (Figure 3).

Figure 3. Local council housing provides a smaller share of rentals than previously
England's trends in social renting, 2010-2020



Sources: We attribute each year to the 2-year English Housing Survey data (full household sample), which includes a 1-year lag moving window: 2008-09, 2009-10, 2010-11,2011-12, 2012-13, 2013-14, 2014-15, 2015-16, 2016-17, 2017-18, 2018-19.

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Nowadays, local authorities and housing associations rely on a point (or band) system based on housing needs to allocate social rental properties to households, with each council having its own specific set of rules. Households in critical need of housing—such as the homeless, households living in overcrowded conditions, or those with medical conditions aggravated by their current property—are, in theory at least, more likely to gain access.

One concern with social housing is that because its price is kept significantly below the market price and tenancies are more secure, more households demand social housing than there is supply—leading to significant shortages, long waiting lists, and a corresponding "deadweight loss." Waiting lists also tend to favor the "clever" and "persistent" among those eligible rather than those most vulnerable, such as those with mental illnesses.

The decline of social housing began in 1980, when Prime Minister Margaret Thatcher introduced the "Right to Buy" policy. In brief, the policy allowed social tenants to purchase their homes at a significantly subsidized price, with the effect that some of the best social housing stock moved from socially rented to privately owned. Right to Buy is a crucial factor in explaining the significant rise in homeownership from 1980 until 2002.

The resurgence of the private rental market

The private rental market has persistently increased its share of the housing stock since the 1990s, displaying a clear upward trend up to around 2017, when it appears to have stabilized (see Figure 1).

The revival of the private rental market has arguably been driven primarily by market forces and innovation. First, the price-to-rent ratio roughly doubled between 1997 and 2018, making owner-occupied housing less and less affordable. Second, the 1996 introduction of "Buy to Let" mortgages—which offer loan terms similar to traditional residential mortgage loans— in conjunction with rising inequality, made it easier for higher-income earners to invest in rental properties.

Policies may also have contributed to the revival and subsequent stabilization of the private rental market. In particular, the persistent decline of the private rental market may have been curbed by the adoption of the 1988 Housing Act, which introduced the Assured Shorthold Tenancy as the default legal residential tenancy in England and Wales. This type of tenancy empowered landlords, making it easier to evict undesirable tenants, thereby reducing the risk of investing and supplying rental units. While the 1988 Housing Act likely had the effect of stimulating the supply of private rental housing, recent policies introduced in 2015 (an additional 3% stamp duty on purchases of Buy to Let properties and the removal of a 10% Wear and Tear Allowance for furnished properties) and 2017 (a reform of how mortgage costs are treated in the income tax system) arguably had the opposite effect. Finally, the stabilization may also have been a consequence of the "Help to Buy" policy, introduced in 2013. The main Help to Buy scheme—Equity Loans—has led to an increase in newly built owner-occupied homes in areas with less binding housing supply constraints. This likely helped counter the persistent increase of the private rental market share at least in those areas.

Key challenges facing rental housing markets

Construction drought

Despite rising real incomes, significant population growth driven by net immigration (at least until the Brexit vote), and strongly growing nominal and real house prices, construction of new permanent dwellings has been decreasing dramatically since the late 1960s, leading to a substantial housing shortfall. According to the Ministry of Housing, Communities and Local Government, the U.K. built nearly 380,000 new homes in 1969, when statistics began. Housing construction subsequently declined to fewer than 200,000 homes from 1990 onward. Residential construction reached a record low in 2012, when fewer than 136,000 new homes were constructed. From 2013, figures started to grow again, partly as a consequence of the economy recovery, reaching about 190,000 new homes in 2017. Housing associations and local authorities built 17% and 1.8% of these new properties, respectively. The continued decline in the importance of council housing is largely due to a lack of adequate public funding.

The COVID-19 pandemic and homelessness

The COVID-19 pandemic has had a dramatic adverse impact on the U.K.'s economy and health system, triggering a flurry of policy interventions that directly targeted or indirectly affected the owner-occupied and renter-occupied housing markets.

The most prominent of these measures has been the introduction of a furlough scheme with the aim to minimize mass layoffs (or worse, corporate insolvencies) and ultimately support the livelihoods of employees and the self-employed. The main effect of this policy on both the owner-occupied and renter-occupied housing markets has been to keep up housing demand; it enabled owners and renters, especially those in vulnerable sectors, to continue paying their mortgages and rents. Perhaps as a consequence of the comparably generous furlough scheme (employees received 80% of their usual income, up to a monthly maximum of 2,500 GBP), the adverse effects of the pandemic on house prices and rents have been largely muted in the short term. The only dramatic short-term effects were on housing transactions, which fell by about 55% from March 2020 until August 2020, and the country's debt burden.

Most COVID-19-related policy interventions focus on homeowners, in the form of transfer tax and mortgage payment holidays. On the rental side—in addition to the furlough scheme, which may predominately benefit private and social renters, as they tend to be more likely to work in hard-hit sectors such as hospitality, retail, or entertainment—the government implemented a halt on the enforcement of evictions of renters in England until at least the end of May 2021. This is in addition to the government extending the period of notice that a landlord must give to the tenant.

Even before the pandemic hit, the U.K. was facing a significant homelessness problem. To get the homeless into safe shelters and protect them from COVID-19, the British government worked in collaboration with local authorities and charities to devise a plan that involved securing temporary accommodation, and included 6 million GBP of emergency funding by the government to provide relief for frontline homelessness charitable organizations.

Conclusion

The importance of private and social rental housing in Britain has changed dramatically over the last 100 years. Social rental housing has been in decline since 1980, largely as a consequence of the Right to Buy policy and a lack of public funding. While social rental housing has provided affordable and secure housing for those lucky enough to gain access, it has been in chronic undersupply. Moreover, since the mid-1990s, housing has become increasingly unaffordable for the middle classes (which do not qualify for social housing) and the young. As the price of owner-occupied housing has risen even more dramatically than private rents, especially in London and the Southeast of the country, this has led to a recent revival of the private rental market, which is largely unregulated and offers little tenancy security.

Successfully tackling the housing affordability crisis in Britain would require efficiently and effectively helping those most in need (e.g., via housing vouchers or social housing), a reform of the planning and tax system to spur housing construction (which ultimately should lead to lower prices and rents), as well as improving the tenancy security of private renters.

Methodology note: The statistics mentioned in this piece are based on the 2018-19 English Housing Survey (EHS) and on the European Community Household Panel (1994-2001). Unless otherwise noted, the statistics are for England and Wales, as the EHS does not contain information on Scotland and Northern Ireland.

Parts of this article are taken or adapted from previously published reports.

United States Case Study: US rental housing markets are diverse, decentralized, and financially stressed

Sarah Crump and Jenny Schuetz

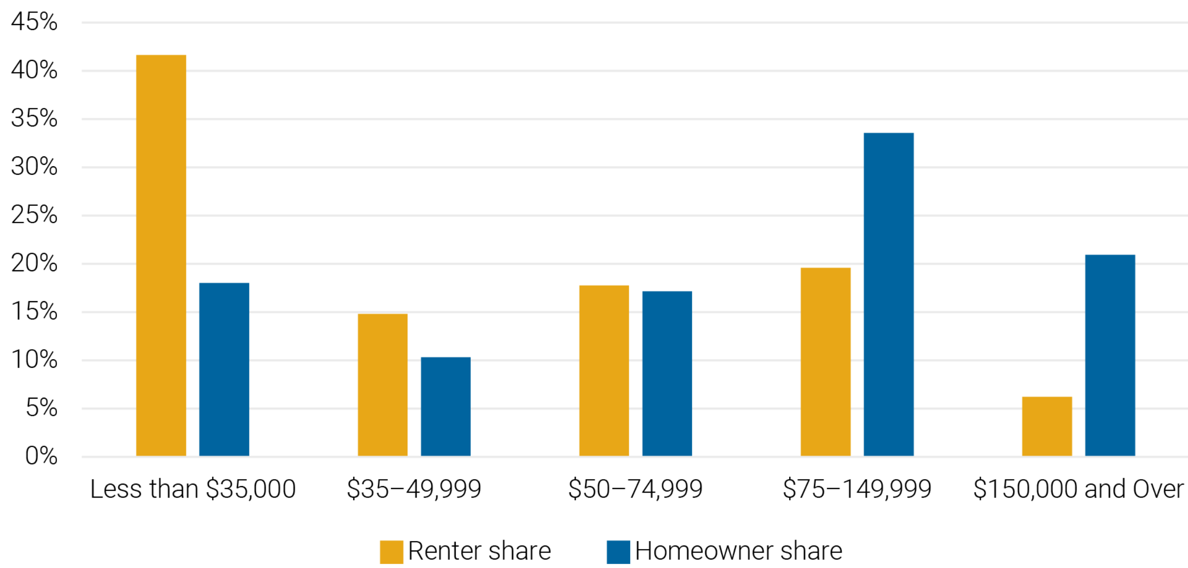
The U.S. rental housing market is large and diverse, serving 44 million households in all parts of the country. Renter households are younger, less affluent, and more racially diverse than homeowner households. Historically, U.S. housing policies have substantially favored homeowners over renters, both through federal tax policies and local land use regulations. The COVID-19 pandemic and economic crisis have exposed the limited policy protections for renters—notably, the lack of financial support for low-income households and a patchwork of state and local legal protections.

Overview of renter households and rental housing

Renter households are younger, less affluent, and more racially diverse than homeowners. For most of the past 50 years, roughly one-third of U.S. households have rented their homes. Rentership rates rose during the Great Recession, and today remain relatively high, at 35.6%. Rentership rates have increased among some groups that have traditionally been more likely to own, including higher-income households and middle-aged adults. Homeowners are more affluent than renters: The median income of renters was $42,479 in 2019, which is roughly half that of homeowners. Over 40% of renter households earn less than $35,000 per year; this group faces the greatest difficulty in affording market-rate housing.

Figure 1. Most renter households have lower incomes than homeowners

Income by housing tenure



Source: American Community Survey 2019 1-Year Estimates.

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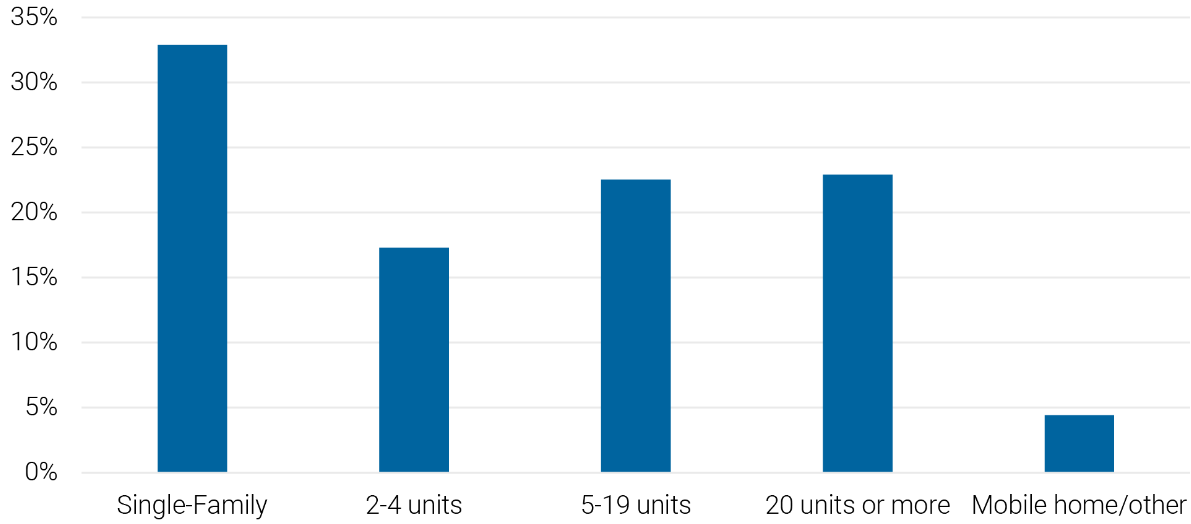
Renters are also more racially diverse and younger than homeowners. Black, Latino or Hispanic, and Asian American households are disproportionately likely to rent their homes. In 2018, 48% of renters were nonwhite, compared to 27% of homeowners. The median renter was 15 years younger than the median homeowner in 2018. Renter households are also smaller on average than owner households: About 37% of renter households are single-person households, compared to 28% of homeowner households. The number of renter households with children has increased in recent years.

The rental housing stock is similarly diverse, with substantial variation in structure type, building size, quality, and rent level across regions of the country. Rental properties range from single-family detached homes to large, multifamily buildings (Figure 2). Nearly half of rental homes are in small buildings (one to four units), while 23% of rental units are in buildings with 20 or more units. Rental housing is a larger share of the housing stock in urban areas.

Figure 2. Rental homes range from single-family detached structures to large, multifamily buildings

Percent of rental units by structure type



Source: American Community Survey 2019 1-Year Estimates.

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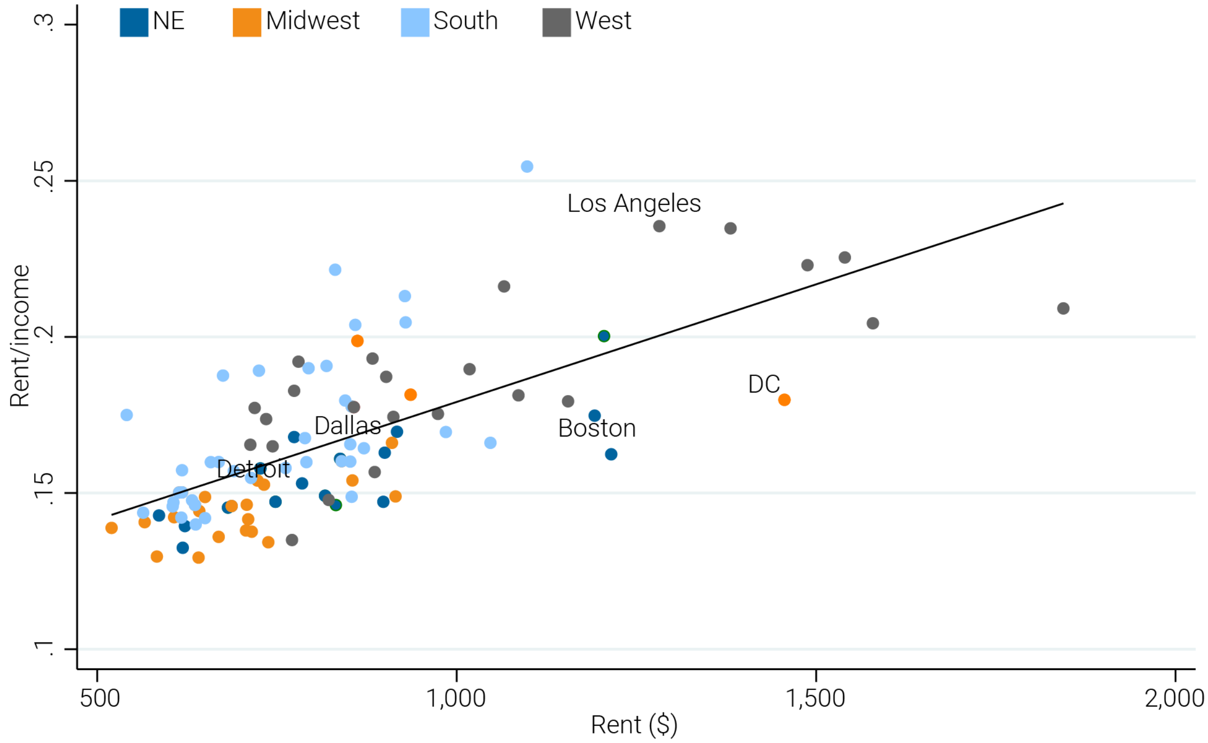
The Northeast and Midwest regions have a somewhat older housing stock (which typically has more maintenance problems) than the South and West. Manufactured housing—homes that are constructed in a factory then placed on a steel chassis—form a larger share of rental housing in rural areas, especially in the South. These homes are an important source of lower-cost, unsubsidized housing.

Nationally, only a small fraction of rental homes have severe housing inadequacies, such as problems related to heating, plumbing, and electrical systems. In recent years, tight restrictions on new construction have encouraged investors to renovate and upgrade older apartment buildings, especially in desirable locations. This process prevents these apartments “filtering” down and becoming affordable to lower-income households, exacerbating affordability problems.

The affordability of rental housing, both in rent levels and relative to household income, varies widely across geographic areas. Median monthly rents are highest in large metro areas on the West Coast, and generally lower in the Midwest and South (Figure 3). Incomes tend to be higher in expensive regions, but do not completely compensate for higher rent levels.

Figure 3. Rent takes more out of monthly paychecks in high-cost metros
Median rent/median income, 100 largest U.S. metropolitan areas



Source: 2013-2017 American Community Survey data.

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Institutional and policy environment of rental housing

Private sector firms play the largest role in developing and managing rental housing

Most rental housing in the U.S. is developed, financed, and owned by a diverse group of private, for-profit companies. Government entities such as local public housing authorities own a relatively small share of rental housing. Even in the below-market rental sector that serves low-income renters, most properties are developed and owned either by not-for-profit organizations or private, for-profit landlords.

Private landlords run the gamut from individual investors (one person or family) to large institutional investors, such as insurance companies, real estate investment trusts (REITs), private equity firms, and other corporate entities. Individual investors own a majority of small rental properties (one- to four-unit buildings), while institutional investors own most large (50-plus units) rental properties. Since the Great Recession, institutional investors have acquired an increasing share of the single-family rental market. Ownership of rental housing is not highly concentrated nationally, but exhibits some concentration within local geographic areas. The real estate industry has consolidated somewhat since the Great Recession, with a few large firms making up a larger share of both development and property ownership.

Financing to develop and acquire rental housing is available from a range of sources—primarily commercial banks, insurance companies, and specialized financial service companies. In general, large properties and those developed or owned by institutional investors tend to have more complex financing arrangements. Over the past several years, nonbank financial institutions have grown their market share of commercial real estate lending. The U.S. has an active market in commercial mortgage-backed securities (CMBS), in which loans backed by apartment buildings are bundled and traded as financial instruments.

The U.S. provides more generous housing subsidies to homeowners than to renters

Historically, the U.S. has devoted more resources to subsidizing homeowners than renters, despite the fact that renter households are on average less affluent. Federal tax policy includes several subsidies for homeowners—notably the mortgage interest deduction (MID), which allows homeowners to deduct the value of interest paid on their mortgage from their income subject to federal taxes. Most of the benefits from the MID accrue to high-income households, especially after changes made in the 2017 Tax Cuts and Jobs Act.

Rental subsidies in the U.S. are targeted at low-income households. Unlike benefits administered through the tax code, the amount of rental subsidies depends on annual appropriations from Congress. Only one in four eligible low-income renter households receives any federal rental assistance.

Three programs make up the bulk of federal rental assistance: household-based vouchers, public housing, and the Low-Income Housing Tax Credit (LIHTC) program. Nearly 2.3 million low-income families receive vouchers, which they can use to rent homes owned and operated by private landlords. Voucher holders pay 30% of their monthly income toward housing costs, with the Department of Housing and Urban Development (HUD) covering the remainder. The U.S. has approximately 1.2 million public housing units owned and operated by local public housing authorities, which receive operating subsidies from HUD. The U.S. largely stopped building public housing by 1990, and has since demolished or redeveloped more than 300,000 units.

The primary source of funds for new construction of below-market rental housing is the LIHTC program, which allocates federal income tax credits to private and nonprofit developers. These credits are sold to private investors, raising equity for income-restricted rental housing. Over 2 million apartments have been constructed or preserved through LIHTC.

Some state and local governments also fund their own rental subsidies, but the amount of funding through these programs is much smaller than federal subsidies.

Developing new rental housing faces legal and political barriers

Over the past 40 years, the legal and political environments have become increasingly hostile to developing new rental housing. Land use planning and development permitting are primarily the responsibility of local governments. States exercise some authority over land use regulation, while the federal government has quite limited powers. Local governments use a wide range of tools to regulate new housing development, particularly zoning laws that specify where structures of different types and sizes may be built. Zoning generally sets rules by structure type (multifamily versus single-family) rather than housing tenure (rental versus owner-occupied). Nearly all local governments have zoning laws that are more favorable to single-family homes than apartments and other high-density structures. Many affluent communities ban development of multifamily buildings on the majority of land. Where permitted, apartments are often constrained by strict size rules such as maximum building height or caps on the number of homes per acre of land. Since the 1970s, procedural barriers to apartments have become widespread, such as requiring extensive community reviews and discretionary approvals.

The legal environment around rental housing varies widely across the U.S.

State governments establish the legal framework around rental housing, leading to wide variation across states in renter protections. The landlord-tenant relationship is generally based in property law, with both parties being assigned rights and responsibilities set out in a lease. One-year leases are standard across most of the U.S. Landlords may evict a tenant from their property for violating the terms of the lease agreement; the most common cause of evictions is failure to pay rent. The eviction process varies widely across states and cities. Key provisions include the length of time between an initial filing and completed eviction, and whether tenants have the right to legal counsel. Most evictions take place in civil court.

Federal law provides few explicit renter protections. The Fair Housing Act prohibits discrimination in all housing-related transactions on the basis of race, gender, family status, religion, ethnicity, national origin, or disability. The U.S. does not have a national "right to housing," meaning there is no affirmative obligation for the public sector to provide housing to everyone.

Rent regulation of privately owned rental properties (e.g., caps on annual increases on rent) is relatively scarce, although it has drawn increasing attention in recent years. Some large cities—notably New York City, San Francisco, and Washington, D.C.—have local rent control programs. But more than half of U.S. states have laws that preempt local governments from adopting rent control. Tenants' unions exist in some states and localities, allowing groups of tenants to engage in collective bargaining with landlords and state and local governments.

Key challenges facing rental housing markets include affordability and limits on development

The most important challenges facing U.S. rental housing markets over the past decade are affordability for low-income households, restrictions on new development, and—in some parts of the country—poor-quality housing and overcrowding.

Low-income renters everywhere in the U.S. face high housing cost burdens. HUD defines nearly 20.8 million Americans as "cost-burdened," meaning that they spend more than 30% of their income on housing and utilities. Some 25% of renters are severely cost-burdened, spending more than 50% of income on housing.

Excessively strict land use regulations are limiting the supply of rental housing and increasing rents, particularly in large metropolitan areas along the West Coast and the Northeast Corridor. Local zoning makes it illegal to build multifamily buildings (either owner- or renter-occupied) on most land in urban areas. The development process has become increasingly long, complex, and risky, which also adds to the cost of finished housing.

Poor-quality housing is a concern in some parts of the U.S., particularly in older industrial cities in the Northeast and Midwest, as well as rural areas with declining populations. Largely this is due to old housing stock with deferred maintenance problems.

The COVID-19 pandemic has drawn renewed attention to overcrowded housing. Although crowding is not a widespread problem among U.S. renters, families with children living in high-cost metro areas are most at risk. Immigrant communities tend to have higher rates of crowded housing.

The COVID-19 pandemic has hit renter households especially hard

The COVID-19 pandemic has inflicted the greatest health and economic damage on low-wage workers, including Black and Latino or Hispanic households. Thirty-nine percent of people who were working in February 2020 and had a household income below $40,000 reported a job loss in March 2020. Renters have consistently reported higher levels of housing insecurity than homeowner households. Nine million adult renters were behind on rent in November 2020. Renters of color were more likely to report housing insecurity, with 31% of Black renters experiencing hardship. Some large, expensive metro areas have seen declining rent levels, while smaller, more affordable cities have seen continued rent growth. Missed rent payments create greater financial stresses on small, nonprofessional landlords who own older, lower-rent properties.

Federal, state, and local policy interventions have provided temporary financial relief to renters through several channels. The federal CARES Act, passed in March 2020, expanded the amount of weekly unemployment insurance, including to workers normally excluded from these programs. Under the same legislation, the federal government distributed one-time stimulus checks of up to $1,200 to millions of Americans based on income and household size. Congress passed additional relief measures in December 2020 and March 2021, extending cash payments to households and assistance to state and local governments.

The pandemic has generated unprecedented federal attempts to regulate evictions. In September 2020, the Centers for Disease Control and Prevention (CDC) issued a temporary nationwide eviction moratorium through the end of December, based on the public health risks of displacing families. The CDC moratorium supplemented a patchwork of temporary state and local moratoriums adopted over the spring and summer.

State and local governments across the U.S. have also implemented rent relief programs, dispersing funding to support struggling renters. These programs, often funded by the federal CARES Act, vary widely in design. Most programs only had funds to serve a small fraction of eligible renters.

Conclusion

U.S. housing policies heavily favor homeowners over renters, from local restrictions on multifamily construction to federal tax policies. Low-income renters faced high housing cost burdens and housing instability even before the COVID-19 pandemic. The current economic crisis has disproportionately impacted low-wage, Black, and Latino or Hispanic renters, while public policy interventions exposed the lack of a permanent social safety net.