

# Rental Housing

Comments by W. Jan Brzeski

# Tenure and the Economy

- Homeowners - less mobile contribute to community stability, social attitudes, savings etc. - really? How abt Germany?
- Renters - more mobile contribute to efficient labor market adjustments (USA 2/3 movers first rent)
- Economies with small rental sectors tend to face higher migration costs and labor rigidity - impact on unemployment
- Transition process requires high initial adaptive labor mobility => temporarily larger (outsized) rental sector
- Housing micro-privatizations have compromised this transition requirement by decimating social rental...
- ...and failing to foster viable private rental sector

Private rental housing was the workhorse of the housing sector during the Industrial Revolution, which facilitated massive urbanization waves (Budapest had 90% rental).

These cities were built by private land and building developers, financed by private banks and owned and managed by private professional landlords. It promoted a successful combination of high project density and scale fit to host migrants into the industrial urban economy.

Overcrowding and rent shocks after WWI led to rent controls, which discouraged rental investments and was replaced with policies of cooperative, employer and public housing after WWII.

Few governments have taken rental housing seriously over the past 30 years ... and recognition of the important role played by the rental sector still constitutes perhaps the greatest hole in most national housing policies, but ...

*UN Habitat (2003)  
Global Rental Housing Report*

Increasing recognition that sustainable homeownership for all is neither financially / fiscally possible, nor desirable for all household categories and life-cycle stages, ...

and that sovereign housing choice by consumers should include not only type, standard, location but also **tenure**.

Asset management focus - rental tenure is the easiest form of owning and managing MF building assets (one asset, one owner, one decision maker).

Micro-privatizations broadly failed to produce real homeowners willing/able to maintain and repair common property in MF buildings that dominate ECA urban areas.

*World Bank (2006)  
Rental Choice and Housing Policy Realignment in Transition*

Europe and Central Asia Region (ECA)

The World Bank



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# Rental Choice and Housing Policy Realignment in Transition

*Post-privatization Challenges in the Europe and Central Asia Region*



Hans-Joachim Dübel

W. Jan Brzeski

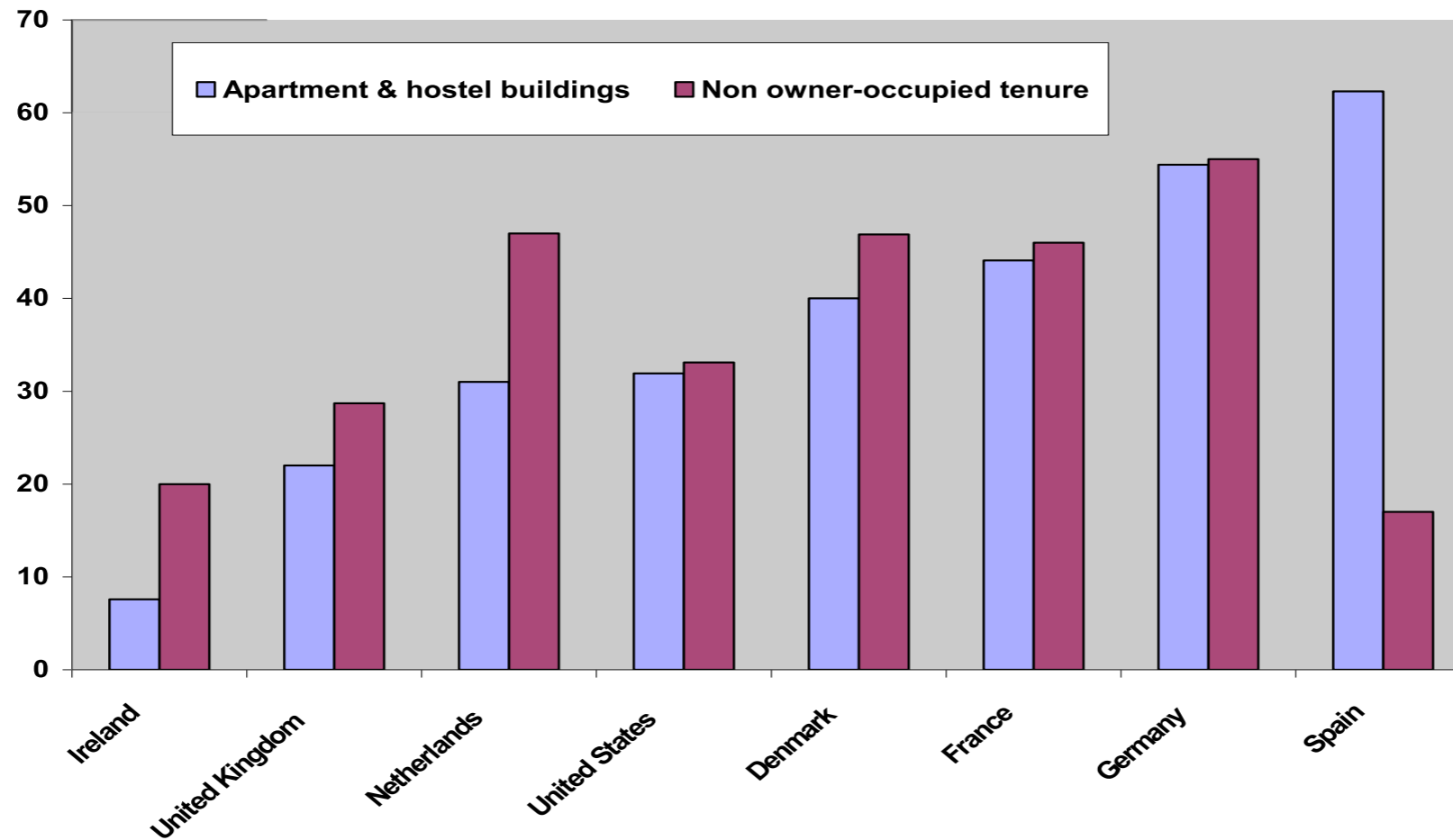
Ellen Hamilton

# Broad Tenure-Stock Correlations

- Tenure-stock correlation driven by market choice
  - *MF buildings correlate with rental (common property)*
  - *SF buildings correlate with ownership (single asset)*
- Tenure-age correlation driven by market choice
  - *younger correlate with rental (more variable)*
  - *older correlate with ownership (less variable)*



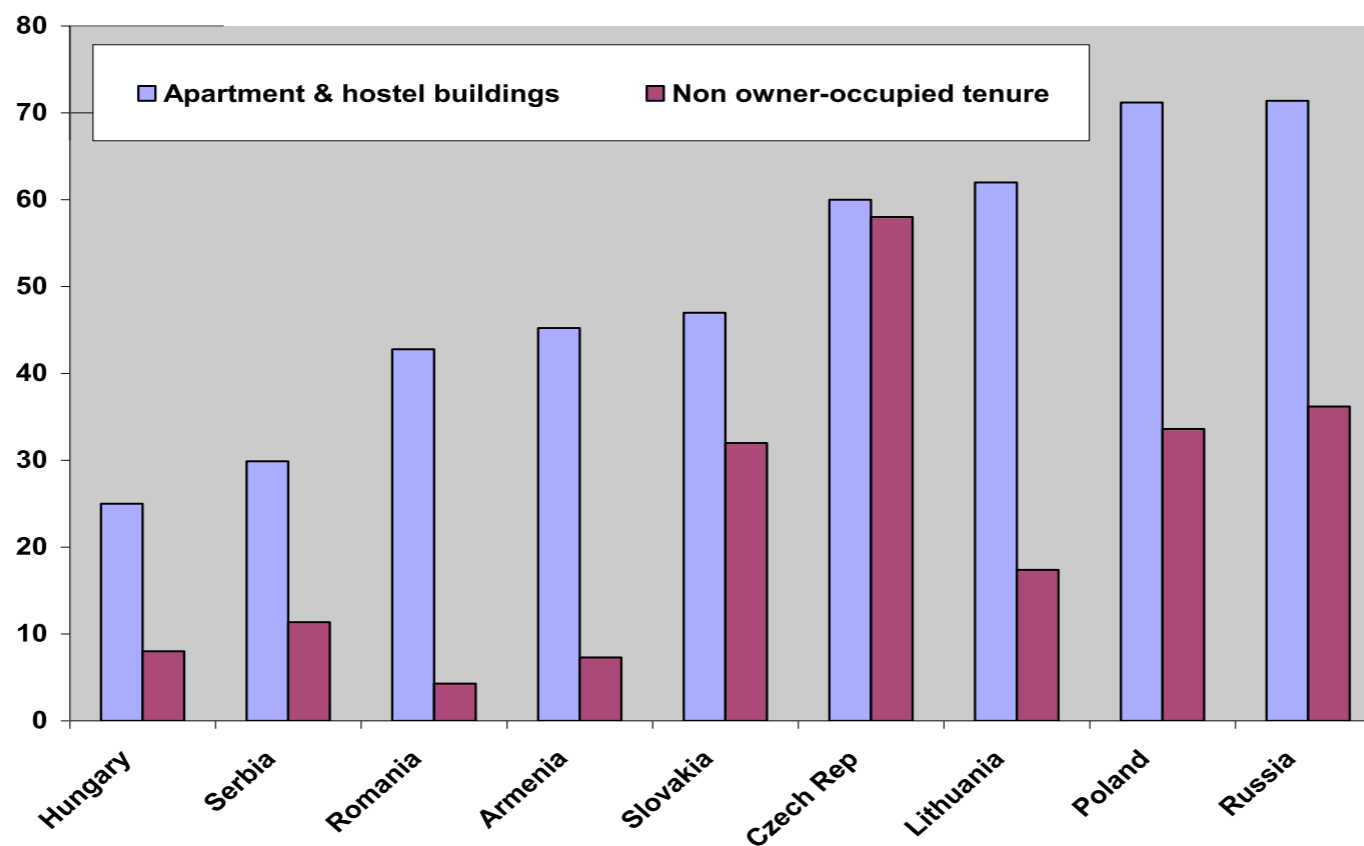
**Figure 2**  
**Building Structure and Rental Tenure in Some Market Economies**



*Source:* Authors' calculations using National Agency for Enterprise and Housing (Denmark): Housing Statistics in the European Union (2003), UN-ECE (2004a), Joint Centre of Housing Studies (2004).

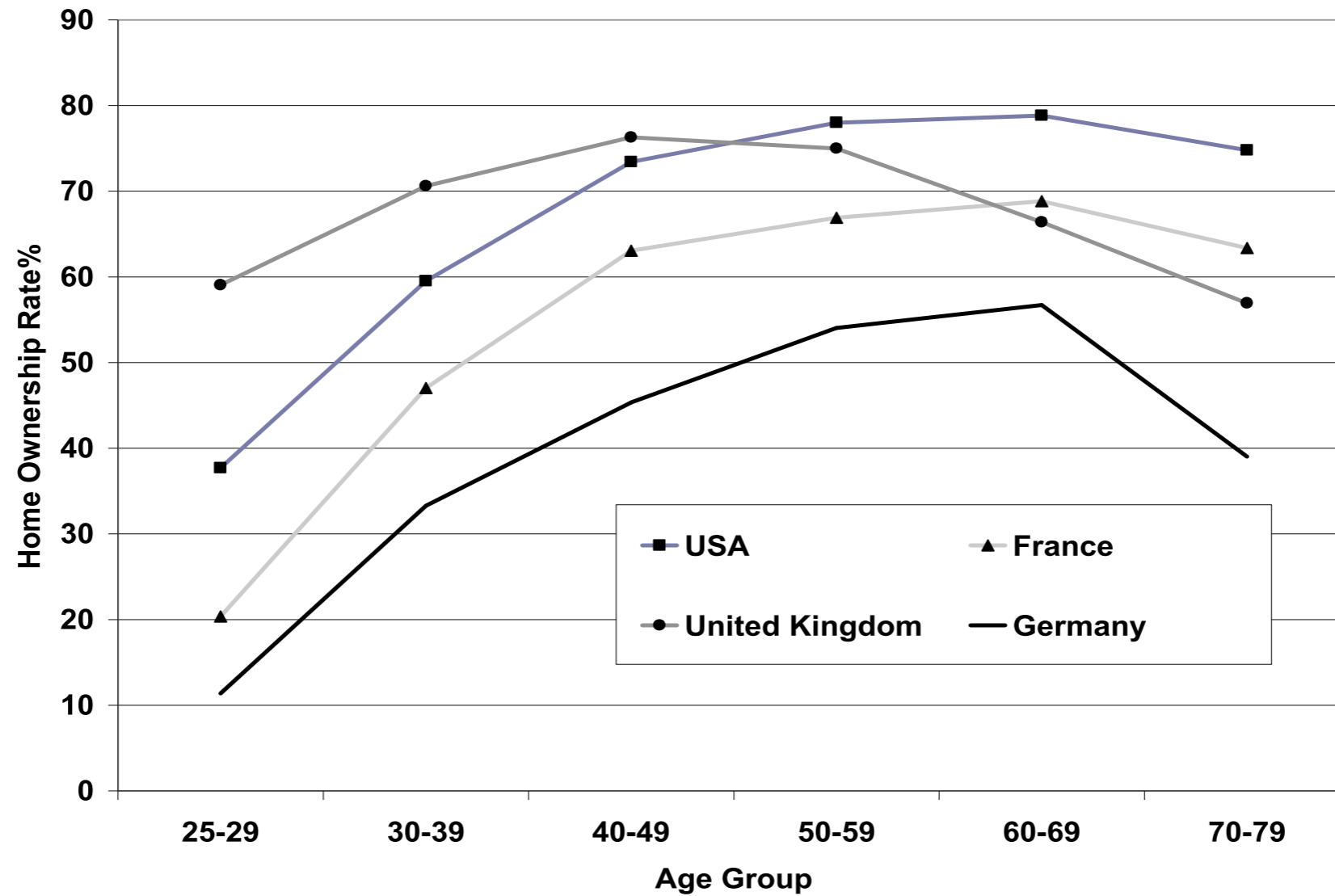
*Figure 1*

## Building Structure and Rental Tenure in Some Transition Economies



*Source:* World Bank LSMS study, Lithuanian Household Survey, national statistical offices. *Note:* For the Czech Republic and Slovakia all units in housing cooperatives were counted as non-owner-occupied because of the lack of detailed data on renting

*Figure 3*  
**Home-ownership by Age in Some Market Countries**



*Source:* Chiuri and Jappelli (2000).

Rental landlords (public, private, coop) of MF buildings more capable of mobilizing resources for capital repairs and upgrading than numerous members of HOAs

Without **functioning rental sector** there will be no successful completion of housing policy addressing mobility, life-cycle and affordability challenges.

Without real **rent reforms** there will be no successful completion of rental sector reforms based on recognition of cost recovery.

Without formal recognition of **landlord's economic right** to reasonable “dividend” profit there will be no successful development of private rental sector.

And nothing will succeed unless sufficient policy debate and reform supported by serious research is undertaken.

# Key relationship

Household size => dwelling size => building type (MF) =>  
urban location => tenure form

Household size changes cyclically and structurally

# Key Role of Rental Sector

Rental sector is pivotal for **life-cycle (mobility)** and **poverty-focused (affordability)** complement to ownership policies ...

...so role of rental sector is not residual but **complementary!**

**Social rental** - poor and vulnerable, **non-profit** - starters, retired, middle-income, **market** - life-style choice

# Broad issues in ECA transition countries

Most countries have viewed rental housing as **residual to micro-privatization** (to sitting tenants)

**Few** countries (eg. Czech, Poland) viewed rental housing as **complement**, but failed to foster it - just reconstitute prewar landlords

Excessive, albeit soft, **rent controls** and prohibitive **eviction** regulations have undercut rental mkt growth (excessive mkt risk)

Many **migrants and starters** need rental, but few supply it - overpriced illegal / informal renting w/o tenure security



# Private Rental Investors in ECA

- Small amateur landlords - mostly informal:
  - *subsistence landlords renting/subletting to survive*
  - *restitution beneficiaries of whole rental buildings*
  - *buyers of dispersed privatized dwellings*
  - *yet missing - small “passive” investors using tax breaks*
- Private professional landlords - formalized
  - *private mid-size portfolios registered under business laws*
  - *employer-landlords offering rental/hostel accommodation*
  - *construction/management companies as property holding*
  - *yet missing - financial institutions (insurance, pension)*

# Non-Private Rental Investors

- **Municipal - below-market, loss-making, dilapidating:**
  - *adjustment through quality (decapitalization) rather than rents (fixed)*
- **Cooperative - cost-coverage principle:**
  - *invite prospective renters to participate in financing new construction*
  - *members may rent their units formally (and pay PIT)*
- **Charities, churches, foundations - often tax free**
- **Non-profit investors build-manage new rentals:**
  - *favorable land and/or program financing subject to rent caps (non-profit)*
- **PPP schemes for new municipal rentals:**
  - *long-term rental contract given to developer, who uses it to secure interim (construction) and permanent (mortgage) financing*

# Funding Rental Investments

- Amateur landlords - cash, restitution, privatization
- Professional landlords:
  - *employer-landlords use budgetary and own funds*
  - *others use own funds and (sometimes) project financing*
- Non-Private Rental Investors:
  - *municipalities use budgetary resources -> little investment*
  - *coops use member inputs and program financing*
  - *charities, churches, foundations use own funds*
  - *non-profits use tenant inputs and program financing*
  - *PPP schemes use project financing subject to public input*
  - *military institutions use budgetary and own funds*

# Importance of Tax Incentives

- Make income and property taxation **tenure neutral**
- Provide **incentives** to invest and modernize
- Rental investments often have initial cash losses - allow deduction of costs from rental revenues
- Allow accelerated depreciation (capital cost allowance)
- Allow to carry losses forward over some years
- Allow netting against losses from other income
- Reduce mortgage cost deductibility for owners - level playing field

# Obstacles to Rent Reforms

- **Populist** rejection of cost-coverage rent principle
- Hard **rent controls** - equal to maintenance fees
- Lack of recognition of legitimate **landlord dividend**
- **Pro-tenant regulations** of rental contracts
- Failure of court to rule on **evictions** “onto street”
- **Constitutional confusion** over obligatory HOAs
- **Populistic parliaments** obstruct government work

# Upwardly mobile starters

