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Report

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A LIFESTYLE CHOICE FOR FAMILIES? PRIVATE RENTING IN LONDON, NEW YORK, BERLIN AND THE RANDSTAD.

A research project by Kath Scanlon, Melissa Fernandez and Christine Whitehead, London School of Economics and Political Science from Get Living London.

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ABOUT THIS REPORT.

Get Living London, the residential owner and rental management company, commissioned the London School of Economics to investigate whether middle-income families renting in London are less satisfied with private renting than in other cities and if so, why. Using research into historic and policy factors combined with first-hand interviews with 17 families living in private rented accommodation across London, New York, Berlin, Amsterdam, Rotterdam and Delft, London School of Economics sought to provide comparisons across international markets. The research team was led by LSE London, Research Fellow, Kathleen Scanlon.

This report has been written and published as a thought leadership piece highlighting issues, interconnections and trends in a key part of the UK's property market. It is targeted at investors, policy makers, industry specialists and a general readership in order to promote debate and understanding. It is not intended for use directly in either market forecasting or for investment decision purposes, where specialist advice should be sought.

FOREWORD.



The motivations, needs and levels of satisfaction of families that rent homes is a widely debated topic. We often hear anecdotal discussion of a 'culture' of home ownership in the UK that contrasts with differing approaches abroad. Get Living London is committed to delivering a new way of renting to the capital and is especially interested to know how the views of families who rent change according to the cities they live in. Put simply we wanted to know, "Are middle-income families in other cities more satisfied with private renting than in London, and if so why?"

We have commissioned the London School of Economics to investigate this question and it has researched the family private rental market in London, New York, Berlin and what are known as the Randstad cities in the Netherlands, including Amsterdam, Rotterdam and Delft. Its findings show some interesting historic and policy factors that affect satisfaction. In addition, it has been able, through first hand evidence, to understand families' qualitative experience of living in private rented homes.

Of particular interest to Get Living London has been the strong evidence that security of tenure and the benefits of a strong social network, as part of a neighbourhood, are critical determinants to rental satisfaction. These are core elements of the Get Living London offer to its private rented residents at East Village and some of a number of ways that it is bringing a better way of renting to Londoners.

In previous reports, as part of our thought leadership series, we have identified the huge opportunity for large-scale institutional investment in the private rental sector and looked at the demand-side element of this opportunity. With this report, we are now investigating how we can learn from overseas experience to create the finest private rented experience for London's family renters.

I hope that you enjoy this latest addition to our thought leadership series that reinforces our commitment to providing insights into the private rented sector in London and the UK.



Derek Gorman.
Chief Executive, Get Living London.

EXECUTIVE SUMMARY.

This report compares the experience of private renting for middle-income families in London, Berlin, New York and the Randstad cities of the Netherlands to try to identify what makes them happy to rent.

London's private rental sector (PRS) has nearly doubled in size over the last 30 years, in contrast to experience in other major European cities. The sector now houses not only 'traditional' PRS tenants (the young, mobile, and low-income) but increasingly accommodates middle-income households and families. However, most such households are there by necessity rather than by choice. There is a widespread perception that middle-income families are happy to rent for the long term in some other cities, but not in London. Our research showed that if the conditions were right this could change.

Two of the four cities described in this report have strong cultures of family renting (Berlin and New York); in the other two the tenure is much less attractive to families (London and the Randstad). The reasons for this lie partly in the legal and regulatory frameworks around private renting. In Germany in particular, private tenants enjoy a security of tenure that offers many of the benefits of owner-occupation, and 90% of Berlin households rent. But this is not the whole story; the Netherlands also offers strong tenure security but has few family private renters.

To understand the drivers behind the decision to rent, and what families liked and disliked about the tenure, we reviewed the structural factors influencing the PRS in the four cities and interviewed 17 middle-income family tenants. Their voices speak to us through the pages of this report. The decision to rent was often an economic one, as tenants could not afford to buy in the neighbourhood where they wanted to live. They also said that they preferred the certainty of knowing that they could stay in their home for a long period; something which especially worried tenants in New York and London, whose landlords could evict them at relatively short notice. Some, particularly those renting from private individual landlords, said poor maintenance was an issue.

What did the tenants like about renting? Most of the interviewees were generally satisfied with their accommodation and their landlords, and several hoped or planned to stay long term. They were enthusiastic about their neighbourhoods, mentioning access to transport and shops, the journey to work, good schools, parks and green space. They valued local social networks,

especially if they had small children, and ethnic and cultural mix. They also liked their flats, mentioning space, light and, in tall buildings, the availability of a lift. Several appreciated the historic character of their buildings. They agreed about the advantages of renting: it was flexible and allowed tenants to move at short notice, tenants weren't responsible for maintenance and repairs, it was a way to get to know an area before buying and, in some places, outgoings were predictable. But even in Berlin, the city where renting is most entrenched, interviewees also pointed to the attractions of ownership, including financial returns and the freedom to make alterations.

These tenants lived, for the most part, in pleasant and desirable areas. As households with decent incomes they could afford to be selective about location. As parents of (mostly) young families, they prioritised good schools and other facilities for children; parks and green space; and a lively retail and cultural environment, the things that make urban living attractive. They also valued social networks, particularly those centred on children. All this presents a challenge to those who would attract family tenants to new rental quarters, as many of these features take months if not years to develop fully, during which time families may simply choose to live elsewhere.

Get Living London's proposition at East Village is demonstrating what the future for private rented homes in London will look like. It offers tenants much of what residents say they want: attractive, family-friendly homes; responsive and high-quality maintenance; and the certainty that they can stay for several years if they choose to, as well as the flexibility to serve notice and move on if they require. Many landlords operating in the English system, especially private individuals, could not (or would not) unilaterally introduce such innovations, so Get Living London is an important pioneer.

1. INTRODUCTION.

Get Living London and Triathlon Homes own the apartments of the former London 2012 Olympic Village in Stratford, East London.

Get Living London rents its 1,439 homes at East Village and is attracting families by offering three year tenancies and a wonderful neighbourhood. This model, a large, rental-only development targeted at middle-income households, has not been seen in London for many decades[1]. The time seems ripe, as the profile of renting in London, in terms of both supply and demand, has changed markedly in recent years.

The UK's private rented sector (PRS) has grown strongly since the mid-1990s. This growth was stimulated by a relaxation of regulation on the sector (in particular the abolition of rent control in 1988) and the introduction of buy-to-let mortgages. It also reflects the increasing difficulty first-time buyers have in accessing owner-occupation, despite house-price falls in the wake of the global financial crisis. In London in particular the proportion of middle-income family renters has grown strongly over the last decade, as the traditional housing-career progression from renting to home ownership on birth of the first child, or when that child enters formal schooling, has become more difficult (Alakeson 2011). The Randstad cities of the Netherlands provide an example of a different pattern; the proportion of private renting is low and continues to fall, and both social renting and owner-occupation are seen as preferable tenures for middle-income families. British commentators often contrast the London experience with that in cities where, they say, private renting is the norm, even for relatively affluent households who could afford to buy. Berlin and New York are often cited as examples of this.

[1] The most obvious comparator is probably Dolphin Square in Pimlico, built in the 1930s, which has 1,250 rental flats in 13 buildings.

“BRITISH COMMENTATORS OFTEN CONTRAST THE LONDON EXPERIENCE WITH THAT IN CITIES WHERE, THEY SAY, PRIVATE RENTING IS THE NORM, EVEN FOR RELATIVELY AFFLUENT HOUSEHOLDS WHO COULD AFFORD TO BUY.”

2. RESEARCH QUESTIONS AND METHODOLOGY.

RESEARCH QUESTIONS.

Previous research has suggested that in places with strong tenure security, more families live in the PRS (Whitehead et al 2012) and that the cost of owner-occupation (in particular the entry cost) has delayed the move from renting to home ownership for families in many developed countries. One hypothesis is that in places where security of tenure is high, households with a choice of tenure options (in particular middle-income families) will make a positive choice to live in rented accommodation. The research question is, 'Are middle-income families in other cities more satisfied with private renting than in London, and if so why?'

We are examining the question from two perspectives: first, we wanted to understand the historic and policy factors that account for the current characteristics of the PRS, and second we want to examine families' qualitative experience of living in the sector.

METHODOLOGY.

To answer our research question we combined a quantitative analysis of data from the English Housing Survey and 2011 census with a select group of qualitative semi-structured interviews of middle-income family private renters in four urban areas. This mixed-method approach (Creswell 2003) provides a more comprehensive and in-depth understanding of the qualities and experiences of the PRS in each city by linking numbers and figures related to the sector to the preferences and behaviour of individuals, from their own perspectives.

Local researchers carried out a total of 17 in-depth interviews of family private renters in London, New York, Berlin and the Randstad cities of the Netherlands (including Delft, Rotterdam and Amsterdam). The cities chosen represent a range of attitudes to private renting for families. In London and the Randstad cities, private renting is generally seen as an inferior tenure for established family households. In both London and the Netherlands the main alternative is owner-occupation. In the Netherlands social rented housing is also generally seen as desirable, as social rented homes provided by well-resourced housing associations provide good-quality, relatively inexpensive accommodation. In New York and Berlin, on the other hand, it is more common for middle-income families to rent, either by choice or because they cannot afford the alternative.

The selection criteria for interviewees were that they should be middle income, with a child or children and live in the PRS. The income criterion was not strictly defined, but we were looking for households with incomes at or above the median for their household type and city. The interviewees were chosen using a snowballing technique, with researchers approaching members of their own social and professional networks who appeared to fit the criteria. The subjects therefore reflect to some extent the characteristics of the researchers themselves: many were academics and/or involved in housing or urban policy. Ours does not purport to be a representative sample, but rather a set of case studies that shed a nuanced light onto the interests and motivations of tenants and the complex dynamics of individual decision-making in each country's PRS.

“THE RESEARCH QUESTION IS, ‘ARE MIDDLE-INCOME FAMILIES IN OTHER CITIES MORE SATISFIED WITH PRIVATE RENTING THAN IN LONDON, AND IF SO WHY?’”

3. CURRENT POSITION OF PRIVATE RENTING AND POLICY IN FOUR CITIES.

This section sets out the current position of the private rental sector in each of our case-study cities, and describes government policy towards the sector. Our discussion focuses on national and /or local policy frameworks around security of tenure and rent control, as these are both important factors influencing tenure choice, and may go some way to explaining variations between cities.

Table 1 provides summary statistics about the private rented sector in each of the four cities, and shows clearly that there are enormous differences between them. In Berlin about 90% of dwellings are rented privately, whereas in the Randstad cities of the Netherlands the figure is less than 10%. Interestingly, the difference in this case is not an artefact of tenure security, as in both Berlin and the Randstad cities leases are indefinite.

New York and London lie between these two extremes, with 56% and 27% respectively of dwellings in private rental; in neither of these cities do tenants have the automatic right to renew their leases.

It is difficult to provide comparable data on PRS rents in the case-study cities, as the statistics are collected on a different basis in each. Table 1 sets out the information we do have.

TABLE 1. *Summary of private renting statistics in four cities (latest figures).*

	LONDON	BERLIN	NEW YORK	RANDSTAD CITIES
% of dwellings in PRS	27	90	56	8
Standard lease length	6 to 12 months	Indefinite	Negotiable on non-rent- stabilised units	Indefinite
Automatic right to renew lease?	No	Not applicable as leases indefinite	No	Not applicable as leases indefinite
Typical monthly rent for family-sized flat	Median £1,500 for 3 bedrooms/ £2,250 for 4 beds	Euros 519-771 (£433-£644) per month for new lease on 90m^2 flat	For all rented dwellings regardless of size: median $1,550 [£950] (entire city) $2,625 [£1,605] (Manhattan)	Average Euros 615 (£511) in Rotterdam to Euros 937 (£778) in Utrecht for 75m^2 flat

Sources: New York rents: Furman Center 2011; Berlin rents: LSE London calculations based on Berliner Mietspiegeltabelle 2013; Netherlands rents: LSE London calculations based on data from 'Direct Wonen'. Other data: see country sections below.

[2] For a 'good' quality private rented flat in Berlin with a floor area of 90m^2 (968 ft^2, or about average for a three-bedroom flat), the maximum allowable rent for a new lease ranges from €5.77 to €8.57/m^2, depending on the age and location of the dwelling.

Figures for London and New York reflect actual rents. The figures for London are for three and four bedroom rentals, while the somewhat lower rents given for New York are for *all* rented dwellings (most of which are smaller units). Rents for Berlin[2] are based on maximum allowable rents for new leases, which are close to market rents. These are well below the rent levels seen in New York and London, as the supply of housing in Berlin is so ample.

The following sections provide background information about the private rented sectors of each city.

LONDON.

After a century-long period of decline, the proportion of private rented dwellings began to grow in the 1990s and has more than doubled since 1991 (Table 2) to 27%. Growth was particularly strong in the last 10 years (Figure 1). There has been a concomitant decline in the proportions of households buying with a mortgage and living in social housing (Figure 2). The PRS has grown across the UK, but the largest increases have been in cities, particularly London.

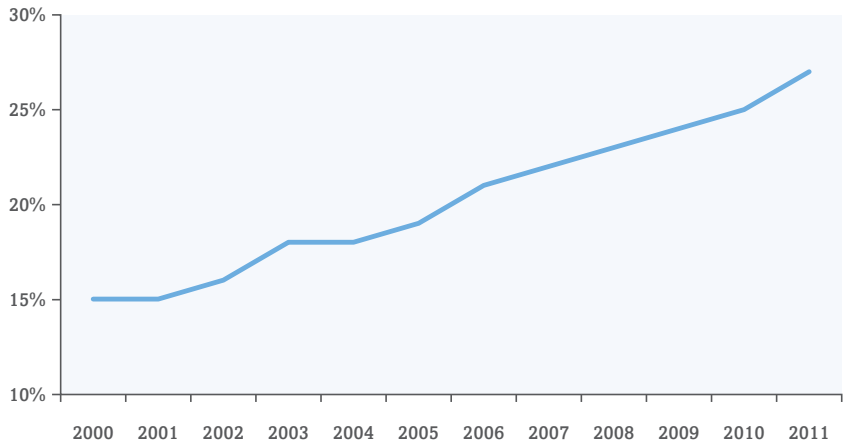
This pattern, of growth in the PRS and decline in mortgaged owner-occupation and social renting, is expected to continue over the next ten years.

TABLE 2. *Tenure trends in London (dwellings – 000s and %).*

	1991	2001	2011
Private rented sector	369	475	880
	13%	15%	27%
Owner-occupation	1,691	1,814	1,656
	58%	59%	50%
Housing associations	148	271	365
	5%	9%	11%
Local authorities	703	530	418
	24%	17%	13%
Total	2,912	3,090 (+6%)	3,318 (+7%)
	100%	100%	100%

Source: DCLG Live Table 109.

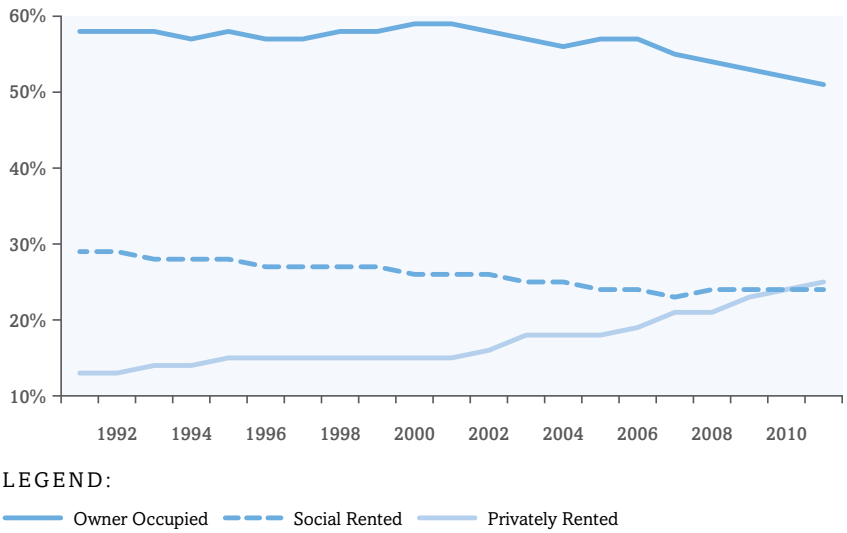
FIGURE 1. *PRS as a share of London dwellings 2000-2011.*



Source: DCLG Live Table 109.

3. CURRENT POSITION OF PRIVATE RENTING AND POLICY IN FOUR CITIES. *cont...*

FIGURE 2. *Housing tenure of dwellings, London, 1991-2011.*



Source: DCLG Live Table 109.

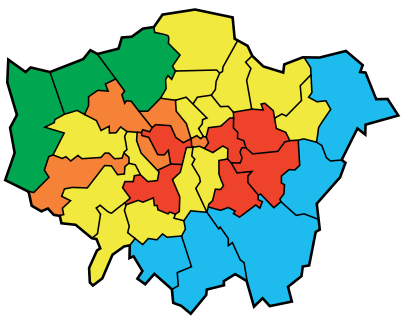
Spatial distribution of London private renting.
Households renting privately are not evenly distributed across the capital. Figure 3 shows households by tenure in London boroughs. Across London, more than 25% of households rent privately, but four boroughs, Westminster, Newham, Tower Hamlets and Wandsworth, have very high levels of private renting, with over 35% of households living in the tenure. Another five, Brent, Camden, Hounslow, City of London and Kensington & Chelsea, have about 30% of households in private rental. At the other end of the scale, five boroughs have fewer than 20% of households in the tenure, with Havering the lowest at 11%.

London rents.
Table 3 (page 14) shows the most recent figures for London rents by borough, for 'family' type accommodation (three and four or more bedrooms). It is not possible to isolate from this dataset those units that actually are rented by families, but analysis done by Cambridge Centre for Housing and Planning Research (CCHPR) for this report shows that of private renters of dwellings with three bedrooms or more in London, 34% are families, 26% are singles or couples, and 40% are sharers.

For each dwelling size the table gives median and upper-quartile rents (the most expensive 25%). The median rent across London for a 3-bedroom home is £1,500 per month, and £2,250 for a dwelling with four or more bedrooms. But there is enormous variation across London, which mirrors the pattern of house prices. Inner London rents are generally more than rents in outer London. As seen in Table 3, rents for similarly sized units can vary by a factor of six depending on location.

London landlords.
There is no accurate and detailed source of data about landlords in London. The most recent survey of English landlords was carried out in 2010 by DCLG: We would expect that the profile of London landlords is broadly similar, although larger investors are probably overrepresented in the capital. According to this survey some 89% of all landlords are private individuals; they own 77% of dwellings. The great majority (78%) own just one dwelling, and 92% consider themselves

FIGURE 3. *Percentage of households in private rental in London boroughs, 2012.*



LEGEND:

RED: over 35% of households rent privately
ORANGE: circa 30%
YELLOW: 24-28%
GREEN: 22-23%
BLUE: under 20%

Source: Housing tenure of households by borough, Greater London Authority.

'part-time' in the job. Most have no experience in the building or property industries, and most have been involved in the sector for a relatively short time (under ten years).

Individual landlords often contract out maintenance and repair responsibilities to letting agents. However rather than being seen positively by residents, property management carried out through letting agents is often seen as putting 'middle men' between the resident and the owner; poor service standards by some in the PRS taint the entire sector. A campaign to require licensing of letting and management agents has gathered force in the last six months, with various politicians lending their support.

Household composition of renters.
Table 4 is drawn from the 2011 census (data for London) and the English Housing Survey (data for all of England). It gives the demographic characteristics of privately renting households in London and, where these are unavailable for London only, for England.

It shows that just over a quarter of households renting in London are single people, the great majority of whom are under 65. About a fifth of London tenant households are families with children, while a similar proportion are adult sharers. Looking at the picture across England, about 60% of renting households are led by someone aged between 25 and 44. Small households are much more numerous in private renting than large ones; fewer than 20% of private tenant households have four or more members. Length of stay tends to be short: 71% of private tenants have lived in their dwelling for three years or less.

Current position of private renting and policy in four cities continues overleaf...

TABLE 3. *Monthly private rents for 3- and 4-bedroom dwellings, by London borough (highest-lowest in each area by median rent for 3 bedroom).*

	3 BEDROOMS		4 BEDROOMS	
	Median	Upper Quartile	Median	Upper Quartile
LONDON	1,500	2,058	2,250	3,033
INNER LONDON	1,993	2,600	2,600	3,467
Kensington and Chelsea	4,236	5,568	7,356	9,750
Westminster	3,337	4,333	6,500	9,858
Camden	2,492	3,142	3,033	4,117
Hammersmith and Fulham	2,275	2,708	3,445	4,767
Islington	2,058	2,340	2,600	2,925
Hackney	1,950	2,167	2,383	2,730
Wandsworth	1,950	2,383	2,899	3,573
Tower Hamlets	1,850	2,200	2,383	2,600
Lambeth	1,777	2,080	2,492	2,947
Southwark	1,650	1,950	2,167	2,578
Haringey	1,647	1,950	2,243	2,860
Lewisham	1,300	1,450	1,800	2,200
Newham	1,300	1,450	1,600	1,902
City of London	–	–	–	–
OUTER LONDON	1,300	1,500	1,850	2,578
Richmond upon Thames	1,830	2,500	3,000	4,000
Barnet	1,600	1,905	2,600	3,250
Brent	1,547	1,950	2,167	2,600
Merton	1,500	1,800	2,102	3,003
Ealing	1,450	1,750	2,069	2,500
Kingston upon Thames	1,450	1,600	1,850	2,340
Harrow	1,350	1,450	1,750	2,002
Enfield	1,300	1,450	1,699	2,000
Hounslow	1,300	1,400	1,800	2,817
Sutton	1,300	1,400	1,750	2,048
Waltham Forest	1,300	1,350	1,533	1,706
Greenwich	1,250	1,500	1,625	2,600
Redbridge	1,250	1,347	1,550	1,825
Hillingdon	1,200	1,299	1,600	1,900
Croydon	1,118	1,250	1,600	2,000
Bromley	1,100	1,347	1,775	2,300
Barking and Dagenham	1,050	1,150	1,350	1,500
Bexley	1,050	1,150	1,400	1,500
Havering	1,000	1,100	1,473	1,650

Source: Valuation Office Agency private rental market statistics February 2013.

TABLE 4. *Household composition in the private rented sector in London (2011) and England (2011/12).*

TOTAL NUMBER OF TENANT HOUSEHOLDS (LONDON) 861,865 = 26% OF ALL LONDON HOUSEHOLDS		
		% of PRS tenant households
LONDON	ONE-PERSON HOUSEHOLDS	
	Aged 65 and over	3
	Aged 65 and under	25
	ONE-FAMILY ONLY HOUSEHOLDS	
	All aged 65 and over	1
	Married or same-sex civil partnership couple without children	7
	Married or same-sex civil partnership couple with dependent children	12
	Married or same-sex civil partnership couple with children (all non-dependent)	1
	Cohabiting couple without children	10
	Cohabiting couple with dependent children	3
	Cohabiting couple with children (all non-dependent)	Less than 1
	Lone parent with all non-dependent children	9
	Lone parent with dependent children	2
	OTHER HOUSEHOLDS	
	With dependent children	5
	All full-time students	3
	All aged 65 and over	Less than 1
	Other (including adult sharers)	20
ENGLAND	AGE OF HEAD OF HOUSEHOLD	
	16 to 24	15
	25 to 34	35
	35 to 44	22
	45 to 54	14
	55 to 64	7
	65 to 74	4
	75 and over	4
	NUMBER OF PERSONS IN THE HOUSEHOLD	
	one	26
	two	36
	three	19
	four	11
	five	5
	six or more	2
	LENGTH OF RESIDENCE IN DWELLING	
	less than 1 year	32
	1 year, under 3 years	35
	3 years, under 5 years	14
	5 years, under 10 years	10
	10 years, under 20 years	5
	20 years or more	4
	EMPLOYMENT STATUS	
	Full-time work	59
	Part-time work	10
	Retired	8
	Unemployed	7
	Full-time education	6
	Other	10

Source: for London data: GLA Census Information Scheme 'Trends in Housing Tenure' Table 2. England data: English Housing Survey.

3. CURRENT POSITION OF PRIVATE RENTING AND POLICY IN FOUR CITIES. *cont...*

BERLIN.

Germany: Proportion of households renting.

The private rented sector continues to provide housing for broad sections of the German population. Younger households are more likely to rent than own property, and the propensity to live in owner-occupied property increases with age. Rental properties are, on average, smaller than owner-occupied homes, but there are no significant differences between social and market-rented sectors. Single-family homes are more likely to be owner-occupied than rented. The rented stock is generally in good condition.

German discussions of housing tenure are often limited to the distinction between owning and renting (rather than owning, social renting and private renting as in the UK), because German social housing is mostly provided by private landlords in receipt of subsidy[3] and can be difficult to distinguish in the statistics from private rented housing (see Droste & Knorr-Siedow 2007). Renting rates in Germany are high compared to other countries, and since the 1990s have decreased only slowly from 61% in 1991 to 56.8% in 2008 (Westerheide 2011: 49). There is wide variation across the country, since reunification the proportion of rental housing in Berlin has risen to about 90%, while the rate in North Rhine-Westphalia and Rheinland-Pfalz was about 44% in 2002 [Statistisches Bundesamt, 2007a] (Haffner et al 144).

In general the high renting rates can be attributed to the following factors:

- relatively high prices for owner-occupied homes,
- low renting price because of ample supply,
- a lack of incentives for landlords to sell,
- low loan-to-value ratios in the German mortgage market,
- the high proportion of multi-family buildings in the dwelling stock,
- historic federal policy that discouraged subsidies for owner-occupied dwellings (now rescinded), and
- strong tenure security and good quality in the rented sector (Haffner et al :155-56).

In the last decade, the proportion of older households renting has fallen, while the rate has increased among younger ones. This is due partially to the 'Living Apart Together' phenomenon, where young professionals in relationships retain separate rented apartments in major office centres like Berlin, Munich and Stuttgart and commute weekly via high-speed trains to stay with each other over weekends in the more desirable of the two cities (ibid).

Ownership of the rental stock.

In 2006, almost half of Germany's housing stock, defined as unsubsidised dwellings belonged to the private rented sector (Kemp & Kofner 2010 in Whitehead et al 2012: 140). Commercial landlords own approximately a quarter of the overall housing stock (Haffner et al. 2009, Kemp & Kofner 2010), while individual landlords owned more than half of the overall German rented stock (both subsidised and unsubsidised). Approximately three-quarters of these are so-called amateur landlords who own up to 15 properties; among these pensioners are strongly represented

[3] Historically in Germany private firms have received subsidies to develop new social housing or rehabilitate existing housing. In exchange for grants or tax relief, landlords must operate the housing as 'social' (enforce income limits, rent ceilings, etc.) for a specified period. The public sector meets the gap between actual rent received and a cost rent. The length of the lock-in period depends on the programme and amount of subsidy, and is now generally 12-20 years. At the end of this period landlords are free to rent or sell the dwellings at market prices (Droste & Knorr-Siedow 2007).

(BMVBS Survey, cited in Kemp & Kofner 2010). The most common reasons given by individual landlords for investing in residential letting are pension provision, security of investment and capital accumulation (Kemp & Kofner 2010).

Nearly half of German rented stock owned by individual landlords was inherited or received as a gift, and only just over a quarter is financed by a loan. The most common incentive for individual landlords to invest in residential letting is pension provision. Pensioners own approximately 40% of the rented housing stock owned by individual landlords (BMVBS Survey, cited in Kemp & Koffner 2010). Some 41% of individual landlords make a profit from their investment. A similar proportion breaks even, and only 9% report making a loss (ibid).

The vast majority of individual landlords manage their properties themselves. About a third of dwellings owned by individuals are in one or two-family houses, which are either rented as a whole or the owner lives in one part and lets the other part to a tenant. For tax or personal reasons many German homes were designed to include a lodger or granny flat (ibid).

Current rent regulation (rent setting and rent control).

While rents vary across Germany they are generally lower than in the UK, and regulation of rent increases also keeps them low in relation to home ownership costs. Rents for new contracts are set freely and are based on market rents, but they cannot exceed the so-called 'local reference rent' (for dwellings of similar type, size, equipment, state and location) by more than 20% (Kemp & Kofner 2010). The coalition government of Angela Merkel has, however, pledged to introduce regulations that would limit this to 10%, and allow states to regulate rents in areas with housing shortages. Landlords can increase the rent once a year if the rent is below the local reference one, but rents for existing leases cannot be raised by more than 20% in a three-year period. If the landlord improves the building or carries out energy-efficiency improvements, the rent can be increased by 11% of the modernisation costs per year (Whitehead et al 2012).

Regulation of rent increases and high security of tenure means that tenants in high-demand areas who have occupied the same property for a long time can pay rents significantly below market rates. This makes renting a cost-efficient and attractive option, even though the low house-price-to-rent ratio means that households who did want to buy could do so easily.

Rents for flats in Berlin, Hamburg, Munich and Frankfurt have increased markedly in the last few years and are forecast to continue to rise, although house prices in such cities are rising even faster. As Berlin's very high vacancy rates have fallen, rents have risen steadily, especially in the 'trendier' areas of the city (see Cottrell 2011). From 2009 to 2011, rents went up by 7.9% from €4.83 to €5.21/m^2 (Von Ulrich 2011).

Leases and tenure security.

In Germany, security of tenure is very high and turnover rates are low. There are two types of lease: the more common one is of unlimited duration (*unbefristeter Mietvertrag*); there is also a limited lease (*befristeter Mietvertrag*, also called *Zeitmietvertrag*). With the landlord's agreement a tenant can transfer their lease to another tenant household. If the property is sold, the tenant has the right of first refusal as purchaser, and the lease terms are binding on the new owner.

3. CURRENT POSITION OF PRIVATE RENTING AND POLICY IN FOUR CITIES. *cont...*

Tenancies are generally indefinite, though a legislative ruling in 2001 gave landlords more control over lease terms. Notice periods are long; at least three months and up to nine for landlords, though tenants may leave with three months' notice. Landlords cannot terminate contracts or evict tenants except for 'reasonable' cause (for example, persistent tenant disturbance, major renovations, three months' unpaid rent, intention to house a family member or an economically necessary sale of the building). The eviction process takes on average, from the first arrears, about 15.5 months (Artz & Jacoby 2011).

Taxation of landlords and fiscal treatment of owner-occupation vs PRS.
Germany's comparatively low housing-market volatility, together with fiscal benefits available to landlords, means that investing in residential property is fairly low risk, at least in growth regions. In areas where demand for housing is high, the likelihood of making a loss from investment in residential lettings is low in spite of the high security of tenure (Whitehead et al 2010). Landlords receive some generous tax advantages. Different rules apply to institutional landlords, non-profit housing companies and individual landlords, but in general landlords pay income tax on rental income, which is offset by tax concessions on capital gains and depreciation.

Individual landlords are exempt from capital-gains tax after a ten-year holding period. Corporate landlords must pay tax on the capital gain when selling a rented property, but income tax is not payable after the ten-year holding period and most housing cooperatives are exempt from corporation tax. Any losses incurred from renting can be set against income from other sources (Whitehead et al 2010).

In terms of tenant households, fiscal policies do not particularly favour homeowners so renters are not foregoing generous tax benefits as they would be in the USA, for example.

Perceptions.
Germans, including the middle-class, middle-income, tend to see renting as a safe and reliable form of tenure. Renting *'is not seen as an inferior housing option but as a fully accepted alternative to owner occupation. This is particularly the case in cities where the majority of private households live long periods of their life or even their whole lives in a rented apartment or house'* (Westerheide 2011). Regulation is seen to benefit tenants without penalising landlords and reducing investment in the sector. Many small private landlords see themselves as long-term investors, intending to use the income from their asset to supplement their pensions. They are more interested in secure rental streams and minimising voids than in potential capital gains, so the regulatory framework is in line with their interests as well as those of tenants.

Home ownership has lost attractiveness for several reasons: until recently house prices were in decline[4]; ownership is taxed as an item of consumption; and there is a widespread attitude that buying a house is something a household does once in a lifetime. Getting on the property ladder is not a cultural 'must'. But although the graph of German house prices has notably lacked the kind of cyclical swings observed in most western economies, after a long period of stability they have recently begun to rise, as have rents on new leases.

[4] This is mainly a result of making more land available for housing development – more than twice as much as in the UK, pro rata (Lawrenson 2012). The German planning system is more responsive to changes in demand for housing, and local authorities are generally more pro-development.

NEW YORK CITY.

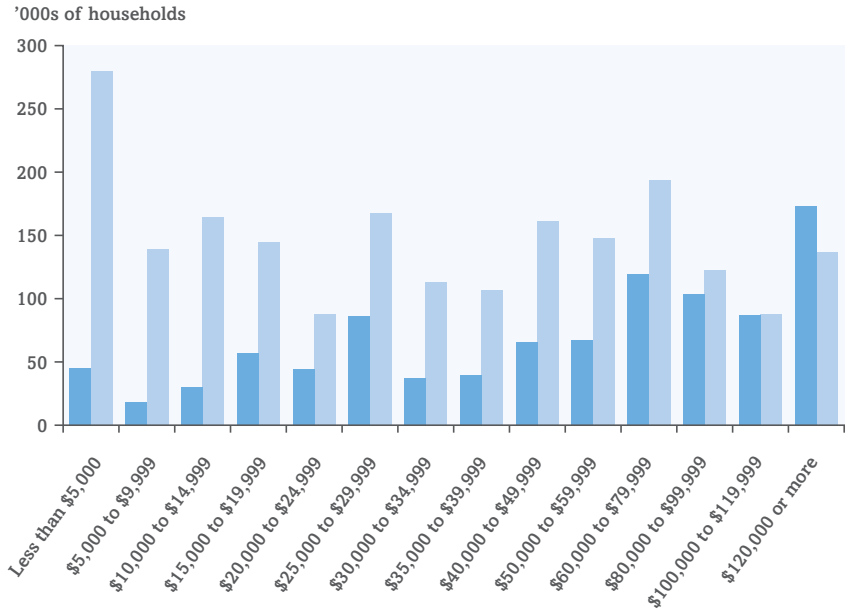
USA: National framework.

In the USA, housing policy is not centralised. There are some federal programs to provide housing for low-income households, and the federal income tax system is highly favourable to owner-occupation: couples can deduct mortgage-interest payments on up to $1m of debt from taxable income at their marginal tax rate. Nevertheless, states and municipalities are also important housing-policy actors. *'(The) legal framework varies significantly by state and by locality. For example… most US markets have no controls on rents or the duration of tenure, but significant exceptions such as New York, Washington DC and Los Angeles differ not only from most of the country in the existence of controls, but also from each other in the design and enforcement mechanisms for their rent regulations'* (Malpezzi 2011). New York City, which for reasons of geography and economic development has historically been a city with high housing costs, has a particularly active housing policy.

Renting vs owning in New York.

Some 56% of dwellings in the five boroughs of New York City are rented privately, about twice the proportion in London. In Manhattan the proportion is higher, probably about 66% (LSE calculations based on Lee 2012).

FIGURE 4. *Incomes of households in owner-occupied and rented housing, New York City, 2009.*



Source: American Housing Survey 2009, New York City metropolitan area statistics.

These figures are very high in the US context, where overall about one-third of households rent and where *'much of the intra-metropolitan variation in homeownership rates can be explained by relative prices of renting and owning; and… these relative prices, in turn, are driven largely by local supply conditions (natural and regulatory constraint)'* (Malpezzi 2011). If true, this suggests that the predominance of renters in New York City is due more to the city's high house prices than to any difference in tenure preference from households elsewhere in the country.

Figure 4 shows the income distributions of households in owner-occupied and rented housing in New York City in 2009. The distribution of tenants by income is fairly even if we ignore those households with almost no income (many of these presumably live in public housing, but the data do not allow us to isolate this group). Apart from the extremely low-income, the biggest single group of tenants has household incomes of between $60,000 and $79,999 (approximately £40,000 to £53,000). Renters outnumber owner-occupiers except in the very highest income category (households with incomes of $120,000/£80,000 or more).

3. CURRENT POSITION OF PRIVATE RENTING AND POLICY IN FOUR CITIES. *cont...*

Landlords and composition of rented stock.

In New York, as in London, most private rented sector landlords are individuals. Malpezzi estimates that, in the USA as a whole, 54% of private rented units are owned by individuals, 24% by partnerships, 13% by corporations (including REITs), 5% by co-operatives and non-profit organisations and 4% by other types of owner. However there is an important difference in that private landlords, even individuals, normally own entire rental buildings, rather than individual apartments. Most of the buildings consist of only one or two units, but 69% of all rented apartments in New York City are in properties (buildings or complexes) with five or more rental apartments, and more than one-third are in properties with more than 50 apartments (Furman Center 2013).

Generally in the USA dwellings can move from owner-occupation to private renting, and back again, as in the UK. New York State however has placed restrictions on so-called condo and co-op conversions, that is, breaking up the ownership of rented multi-unit buildings to allow the units to be sold to owner-occupiers (condominiums) or turning buildings into owner-occupied cooperatives. Particularly strict provisions apply in New York City (Office of the Attorney General 2008).

Rents and rent control.

In New York City two systems of rent regulation operate; these are known as 'rent control' and 'rent stabilisation'. These are actually provisions of New York state law, but are applied only in New York City and a few surrounding suburban counties; these are among the few areas in the USA where rents are controlled. Rent control applies to pre-1971 tenancies in pre-1947 buildings with 6 or more units, and now affects only about 2% of New York City's 2.2m rental apartments; the number is falling as tenants move out or die. The rent stabilisation regime affects many more apartments; some 45% of New York rentals. It applies to post-1971 tenancies in buildings built between 1947 and 1973, and those units that have exited from rent control. None of the tenants interviewed for this report lives in a rent-controlled or rent-stabilised apartment.

Leases.

Tenants in so-called 'unregulated' rented apartments have little tenure security. The landlord can evict the tenant at the end of the lease term; there is no automatic right of renewal and there is no limit on rent increases (Schneiderman undated). Tenants without leases who pay rent monthly are called 'month-to-month' tenants. In New York City, 30 days' notice is required to terminate such a tenancy; the landlord is not required to give a reason.

Tenants of rent-stabilised apartments have the right to either a one or two year lease when they move in, and they have the right to renew their leases, so they are signing what is in effect a lifetime lease. For rent-stabilised tenants there are rules on permissible rent increases. Evictions are permitted only in certain defined circumstances, such as if the tenant is not using the unit as a primary residence.

Tenants in buildings with four or more apartments have the right to sublet with the landlord's consent, which must not be withheld on 'unreasonable' grounds. Tenants may not sublet for more than two years in any four-year period, and must demonstrate that they intend to return to using the property as a primary residence.

RANDSTAD (NETHERLANDS).

The private rented sector in the Netherlands houses about 8% of households, down from 17% in 1980 (Whitehead et al 2012). The Dutch rented sector as a whole is highly regulated, and the same regulations apply to social and private rented dwellings. Leases are indefinite, and rents for all but the most expensive dwellings are controlled. Each dwelling is graded, with points given for size and quality, and the number of points corresponds to a maximum permitted rent. Rent increases are determined annually by Parliament. Rents for dwellings at the top end of the market (currently those that rent for over about €680 per month) are unregulated; about 30% of private rented dwellings fell into this category as of 2009.

Owner-occupation is highly tax favoured in the Netherlands (as in the USA), and social rented housing also provides a good alternative for middle-income families as the sector is very large (about a third of the housing stock) and generally of good quality. Those family households that can afford to pay rents in the decontrolled range could also afford to buy a home and normally do. Dutch mortgage lenders even now routinely grant loans for more than 100% of the value of the house (Scanlon & Elsinga 2013), so the down-payment constraint that affects London families is not a factor.

Of the four case-study areas, the Randstad has the highest proportion of institutional funding in the private rented sector. This is partly due to a tax regime that differentiates between small individual investors and company investors. Some of these institutions are Dutch social landlords; these large, financially powerful organisations are active in both the private and social rented sectors.

"THE DUTCH RENTED SECTOR AS A WHOLE IS HIGHLY REGULATED, AND THE SAME REGULATIONS APPLY TO SOCIAL AND PRIVATE RENTED DWELLINGS."

4. ATTITUDES TO PRIVATE RENTING.

This section reports on our findings from a series of interviews of middle-income tenants in the four case-study cities. The interviews concentrated on the households' reasons for renting; what they liked about their dwelling and their neighbourhood; what they disliked; and whether they felt it was better to own a home or to rent.

Most of the households interviewed consisted of adult couples (although some were singles), and all had children, who ranged in age from infants to teenagers. The team also interviewed lettings agents specialising in the private rental market and managers of rented buildings. Table 5 provides a summary of household and dwelling characteristics for the tenant interviews. It is clear that except in Berlin, interviewees generally had very young children, below school age. Of course this is not a statistically representative sample, but in all the interview locations researchers did try to identify renting families with older children and found, sometimes to their surprise, that families they had assumed to be renters were in fact homeowners.

Tenure security and landlords' plans.

One of the most important distinctions between the legal framework in London and New York (on the one hand) and Berlin and the Netherlands on the other, is that in the former there is little security of tenure (at least in the non-rent-controlled or -stabilised stock), that is, tenants can be asked to leave on short notice at any time. In the continental cities leases are generally indefinite, so families can be confident that they can remain in their home as long as it suits them. This is particularly important in the case of planning for children's education.

The interviews confirmed that this is an important issue for tenants. Tenants who would prefer to stay long-term in their flats in New York or London must try to second-guess the landlord, especially if the lease has moved to a month-to-month basis. Will the landlord raise the rent? Will the landlord ask them to leave? This uncertainty led tenants to adopt a passive position in their relationship to landlords, often accepting less than desirable management in (tacit) exchange for stability of rent. While signed contracts guaranteed partial security for a limited amount of time, this silent acceptance placed the ultimate long-term power in the hands of landlords. Even in Berlin, where tenancies are in principle very secure, there are ways for landlords to remove tenants (although the process takes much longer). In all cities the interview subjects speculated about what their landlords' long-term plans for the property might be. In Berlin and the Netherlands this was not a matter of great concern, as most tenants were confident they could stay no matter what the landlord did (although even in Berlin some tenants said they feared the landlord might try to turn the flat into an owner-occupied unit). London and New York tenants were much more worried.

The initials at the end of each quote are keyed to the list of interviewees in Table 5.
L = London; B = Berlin;
NYC = New York; R = Randstad.

[Have month-to-month arrangement with landlord.] 'We went our first 5¼ years without a rent increase which is part of the reason we didn't ask for a new lease, because I always thought if we ask for a new lease he will increase our rent... Our basic philosophy (in dealing with the landlord) is to hope he forgets that we live there and fifteen years later he remembers he still has those tenants.' ***NYC2***

The interviewee said they didn't have to pay a deposit but had been on rolling 6-month contracts. This had made things insecure, and they got nervous before every renewal, fearing the rent would be raised, although in the three years they have lived there it never has been. They are not against long-term renting in principle they would be very happy to stay where they are if they had secure tenancies (of, say at least 5 years)... If they could stay there with a long lease that ensured no rent rises (or very small ones) or if they could buy, they would certainly stay. ***L3***

'We signed a year-long lease when we got there, then it expired and went month-to-month, again because I think our landlord is not very engaged. Then out of the blue he said "We've got to renew the lease," so he raised the rent by $100 and renewed the lease... My fantasy is to buy the place from the landlord and have it be ours forever, but I don't think he's going to sell it.' ***NYC4***

The nature of the landlord.
The tenants we interviewed lived in properties owned by a range of landlords, from private individuals who had inherited a single property to large companies. Interestingly, although Germany is characterised as a country where individual landlords predominate (Kemp & Kofner 2010), only one of the five interviewees rented from a private person, while three lived in flats owned by foreign investment firms. One had been purchased by a company representing Middle Eastern and Asian investors and thoroughly renovated; one was owned by a Spanish investor that owns a number of buildings in Berlin; and one by a Norwegian investor. This reflects the remarkable changes in the German property market since unification. However the strong security of tenure means tenants remain largely unaffected:

'In the old days the tenants changed, today the landlords change.' ***B3***

The interviews suggested that tenants were more interested in the quality of service from the landlord and in stability than in the nature of the landlord per se. Whether the landlord was a private individual or a company was not generally important to prospective tenants, according to estate agents we interviewed, and the tenants themselves agreed.

'In my experience it usually doesn't matter much (if the landlord is a big company or not). For the most part, people don't have an opinion one way or the other when they're looking for a place... when somebody calls me for an apartment they've seen that they would like to look at, they usually don't bring that up as an issue.' ***NYC6 (agent)***

Quality of maintenance and management.
Many tenants had more dealings with management companies than with the landlords themselves, in fact, a couple of our interviewees weren't entirely certain who their landlord was.

The interviewee doesn't know who the landlord is (or whether it's a company or individual) but thinks it has always been the same one, and that they may be foreign owners. ***L1***

On the whole these middle-income tenants seemed reasonably satisfied with maintenance and management, but several reported with some resentment that they ended up doing most maintenance themselves,

TABLE 5. *Summary of tenant interviews.*

	Neighbourhood	Household composition	Type of dwelling and building	Monthly rent
BERLIN				
B1	Knobelsdorffstrasse, Klausenerplatz	Couple and two girls, aged 14 and 18	3½ rooms (76m^2) in 5-storey purpose-built block of flats built in 1904	€430 without utilities; €638 with utilities
B2	Soldiner Strasse, Mitte	Woman and her 7-year-old son (shared custody)	62m^2 flat in five-storey block with inner courtyard	€480 without utilities; €600 with utilities
B3	Kleiststrasse, Tempelhof-Schoneberg	Couple with boy 10 and girl 8	176m^2 flat in late-19th century 5-floor block of flats	€800; with heat €1,350
B4	Binzstrasse, Pankow	Couple with boys, aged 12 and 14	77m^2 flat in 1924 4-storey block 11 flats; no lift	€500 without utilities; €700 with
B5	Victoriastadt, Lichtenberg	Couple with boy 5 and girl 8	100m^2 4-room flat on 2nd floor of late 19th-century 5-storey block	€620 without utilities; €800 with
NEW YORK CITY				
NYC1	Park Slope, Brooklyn	Couple with baby twins	2-bedroom flat (900ft^2) in 4-storey purpose built block of flats	$2,700, inc. heat and water
NYC2	Carroll Gardens, Brooklyn	Couple with 5-month-old baby	2-storey six-room apartment in historic brownstone	$2,700 inc. water but not heating
NYC3	Bay Ridge, Brooklyn	Couple with two children at home, aged 24 and 17	3-bedroom apartment in 4-storey purpose-built block with 52 units	$1,325 inc. heat
NYC4	Sunnyside, Queens	Couple with son, aged 2	2-bedroom flat (900ft^2) in 1930s two-family semi	$2,000
NYC5	Sunnyside, Queens	Couple with son, aged 4	2-bedroom flat in 1930s two-family row house	$2,000, inc. heat and water
RANDSTAD, THE NETHERLANDS				
R1	Waalwijk	One adult with two children, aged 6 and 3 (shared custody)	2-bed flat with garden in extension of 1930s former hotel	€625 + €100 maintenance
R2	Kralingen, Rotterdam	Couple and two children, aged 5 and 2	100m^2 apartment with garden in 1950s complex with six units/ building	€850 inc. maintenance but no utilities
R3	Van Embdenstraat, Delft	Couple and one child, aged 1	100m^2 2-bedroom flat with balcony in 10-storey block	€980 rent and €67 maintenance
R4	Oosterparkbuurt, Amsterdam	115m^2 two-bed flat in purpose-built block from 1915 with 8 flats	115m^2 2-bed flat in purpose-built block from 1915 with 8 flats	€1,200 inc. maintenance
LONDON				
L1	N7 (Holloway)	Couple with children, aged 3 and 3 months	2-bed flat on 4th floor of modern purpose-built block, with lift	£1,364 + water
L2	North London	Couple with daughter 15 months	2-bed conversion in Victorian terrace house; approx. 800-900ft^2	£1,275 not inc. utilities or council tax
L3	Finsbury Park, North London	Couple and 2-year-old; expecting another baby	2-bed flat on 3rd floor of large Georgian house	£1,200 not inc. utilities or council tax

Source: Interviews.

Monthly household income	Monthly rent as % of income	Length of stay to date	Landlord type
Net €3,500	12% (ex. utilities) 18 % (inc. utilities)	15 years	Foreign investor
€2,000	24% (ex. utilities) 30% (inc. utilities)	6 months	Institution backed by foreign investors
Varies between €2,000 and €6,000 as self employed	13-40% (ex. utilities) 22-67 (inc. utilities)	1 adult 29 years; hope to stay at least 5 more	Foreign investment fund
€3,500	14% (ex. utilities) 20% (inc. utilities)	12 years	Private individual
€3,000	21% (ex. utilities) 27% (inc. utilities)	5 years	Housing company owned by municipality
$10,833	25%	6 months – lease will require them to move in 18 months	Private individual
$9,333	29%	Almost 6 years and want to stay	Private individual
$9,333	14%	19 years in this building and 17 in this flat	Tenant unsure; thinks it's a company
$9,333	21%	3 years	Private individual
$22,833	9%	5 years	Private individual
€2,750	26%	1 year	Private individual
€4,170	20%	18 months	Housing association
n/a		3½ years; leaving in October as have purchased house	Housing association
€5,500	22%	3 years	Housing association
Approx. £3,000	45%	3 years; plan to move in a year	Tenant unsure; deals only with management company
Approx. £7,000	18%	1 year; leaving in two months as have bought a house	Private individual
Approx. £5,800	21%	3 years; hope to purchase soon	Two private individuals

4. ATTITUDES TO PRIVATE RENTING. *cont...*

or that it simply didn't get done at all. Although tenants didn't focus much on who the landlord was when looking for a property, those who rented from private individuals more often mentioned problems with the services provided by their landlords.

'Part of the deal (with) him just being a guy with one place to rent is that he doesn't do much in terms of upkeep so we have to do the upkeep ourselves. So I have a love-hate relationship with it... I hate that I have to replace the bathroom tiles myself when they fall out. ...There's (maintenance problems) that don't get dealt with. For example there's a big crack in our kitchen window which is more than I can deal with. ...Once every six months I say, "There's still that big crack in our kitchen window", and he goes, "Oh yeah." So that's the level of maintenance that we have.' ***NYC2***

'I suppose there's a culture of (the landlord) just doing the bare minimum, and that's just not good enough.' The interviewee pointed to the broken Yale lock on the communal front door, saying it had been that way for some time. 'See, that's what I mean. This just isn't a priority for the landlord!' ***L2***

'(The management company) do their job well. If repairs are needed, we just report the damage, and then after a while and probably a few phone calls everything is fixed.' ***B1***

In the Netherlands, there is a general impression that institutional investors are good with maintenance and repairs, while small landlords are not so good and housing associations (which operate in both the private and social rented markets) are in the middle. In Germany, where tenants seemed to be particularly conscious of energy expenditure, several mentioned that their landlords had taken action to improve the energy efficiency of their buildings.

Cost.

Table 5 gave an indication of rent levels and rent-to-income ratios for the tenants interviewed. These should be regarded as indicative only, since some of the interviewees preferred not to share exact income figures with us (although all were happy to say how much they paid for rent and utilities). Also the figures are not necessarily strictly comparable across countries, or even within the same country, as some rents include utility payments and others do not. Interestingly, in Germany rents are by law quoted in two ways: 'cold' rents, which exclude utility payments, and 'warm' rents, which include heating.

Subject to these caveats, it is still clear that most of the tenants we interviewed were paying well below 30% of their gross income in rent (a standard measure of affordability); one New York City renter paid only 9%. The highest proportion was paid by a German couple with irregular freelance income; in months when they earned relatively little, they paid two-thirds of their salary in rent. In New York, the rent-to-income ratios may result in part from income requirements imposed by landlords or their management companies:

'(When renting to a new tenant) I screen for income when they move into the building. I look at a 28% ratio, no more than 28% for rent.' ***NYC9 (building manager)***

Many of the interviewees remarked that renting was cheaper than owning in their neighbourhood. Several said that although they would like to buy, they couldn't afford to do so in the local area, and in particular that they could not afford the down payment. In New York, tenants were aware that they were foregoing generous tax breaks because they were not owner-occupiers.

'Where flats are sold in this neighbourhood, we probably couldn't afford them.' ***B4***

'...for owning especially these days, you need a lot of cash to put a down payment on a place and most people, myself included, don't have that kind of money so it's not even really an option.' ***NYC5***

'... even though prices are pretty good right now and mortgages are low, it's a question of maybe not having a down payment. Because everything requires a down payment and the down payment is typically 20%… without that substantial amount of money you can't buy.'
NYC8 (agent)

Location.

Our interviewees were enthusiastic when talking about their neighbourhoods, with a few exceptions, they loved living where they did and had made a positive choice to do so. The neighbourhood characteristics that they valued were surprisingly similar, and were in general those things that hedonic price models have identified as important factors in determining rents or house prices: access to transport and shops, an easy journey to work, access to good schools, parks and green space. In Berlin and the Netherlands this green space often included the courtyards of large blocks of flats, which was seen as a safe place for children to play; this building type is less common in some other cities.

'The good public transport system makes the city centre and a lot of other places easily accessible... (the neighbourhood) could be a bit cleaner, but you have everything around here, which is really important... The streets are green with trees and there are some parks around. Across the street, where during the 1970s they demolished some buildings, there are very nice courtyards where I like to go and where it is nice for my son to play and cycle safely.' ***B2***

'We definitely moved near the school that we chose for our children. Also the area was more family-friendly than the previous... The apartment was near schools, near parks, and near the subway and had a lot of conveniences so that's why we chose it.' ***NYC3***

'All the facilities are here, my daughters can go to their field hockey club and ballet lessons. There are also better schools than elsewhere in town... In this neighbourhood there is also quite a bit of play space for kids [consisting of long stretches of apartments with green areas in between].' ***R2***

Interviewees spoke eloquently about the importance of local social networks. In some cases the tenants had played a part in creating these, but more often they slotted into existing networks (particularly of mothers with young children). Several of the Berlin and New York City interviewees said that they particularly liked the ethnic and cultural mix of their cities. They were perceptive about the changing nature of their neighbourhoods; some of the changes were seen as positive and some were not.

'I was really pining for Stroud Green when we left. Having a baby makes you look at the local environment differently, there was a children's centre and a parents' group (in Stroud Green), I'd lived there for ten years but I'd never met anybody, and then I did. We had to start again when we moved here. Then when I'd finally built up a network here my maternity leave ended, and we're moving again.' ***L2***

'We just spent the morning walking around with a friend who also has a 6-month old and we ran into a bunch of people and talked to them along the way, so we just know a bunch of people who live in the neighbourhood... (When we move we'll look for somewhere) that's not an entirely monochromatic or mono-ethnic neighbourhood, that's somewhere diverse.' ***NYC1***

'(The neighbours) are all families with very young children like us. This little apartment complex was renovated relatively recently, so they all moved in at the same time after the renovation and had their first child here.' ***R4***

While the interviewees were fairly similar in what they did like, individual neighbourhoods differed in what they *didn't* offer:

'there is a feeling that you're not safe and the effects of the increasing drug-related prostitution scene (homo and hetero), violence and crime, make this neighbourhood less than homely.' ***B3***

4. ATTITUDES TO PRIVATE RENTING. *cont...*

'... I hate that there's no green space, and the retail is really underwhelming. Then the subway is great but there is no elevator and it's 60 steps to the top so getting the stroller up and down (is hard)...' **NYC4**

'The negative is that this complex (a recent development) isn't really part of a neighbourhood. It stands alone. You look at the University buildings and some other building on the other side (of the highway). But (our stay) is temporary so we do not really care about this...' [There is some concern among residents about persistent voids in the complex, which may lead the landlords to rent to students.] 'The real estate agents constantly say, "No no no, we do not rent out to students in this complex!" but in fact they seem to.' **R3**

The dwelling.

Although the building stocks in the four cities vary enormously, tenants valued similar features in their flats no matter where they lived: space, light and, in tall buildings, the availability of a lift. Several said they liked the historic character of their building. German and Dutch renters singled out energy-saving and environmental features, while these were less often mentioned by Anglo-Saxon tenants.

'Especially when the children were smaller, the lift was a great advantage. Generally, we feel that the Berlin-type old buildings [theirs was built in 1904] are totally super.' **B1**

'This is not my dream flat. However I could easily live... here for several years. There's lots of light, it's a good standard, and it seems to be an environmentally very sound environment with wooden floors and window frames...' **B2**

'It has a washer and a dryer and is on the first (ground) floor of a walk-up building. That was extremely important because having twins it would (otherwise) be very difficult leaving the apartment by ourselves.' **NYC1**

Some tenants mentioned features of their flats that only became problematic after they had children, in particular the stairs.

'Before, we were in a third-floor walk-up which would be fine if you have children that can walk, but when you have to carry two children up and down it becomes difficult and potentially dangerous.' **NYC1**

[Their previous rented apartment had very high steep stairs, and the eldest daughter fell and broke her arm.] 'We really had to move to a more child-friendly place.' **R2**

Other problems included poor layout and design and the use of family-unfriendly materials.

The flat's design has a weird curve that made placing furniture tricky. The balcony was badly designed and since the slabs didn't fit into the curved shape, the architects had filled in the gaps with little decorative rocks. The only time she ever used the balcony was when the first baby was little, but the baby started picking up the rocks and throwing them off the balcony so she had to put a playpen out there and get in it with her. **L1**

'...we do think the owner did a bit of a sloppy job on the layout during the renovation. There is a large living room and two bedrooms with an enormous bathroom. It is as big as a sports-club shower room! I think they didn't give it enough thought and did not hire an architect. A bit more thought about the design would have been good.' **R4**

Renting versus owning.

Most of our interviewees were generally satisfied with their accommodation and their landlords, and several hoped or planned to stay long term. They agreed about the advantages of renting: it was flexible and allowed tenants to move at short notice, tenants weren't responsible for maintenance and repairs, it was a way to get to know an area before buying and, in some places, outgoings were predictable. But even in Berlin, the city where renting is most entrenched, interviewees also pointed to the attractions of ownership. These included potential financial returns and the freedom to make

alterations. Many interviewees associated renting with living in a flat, while ownership meant a house, so having a garden and not worrying about the children's noise bothering the neighbours were seen to be benefits of ownership. Aside from financial barriers, some interviewees identified emotional and time costs associated with buying which they were not prepared to pay.

'House purchase is so ingrained in our national identities. My background and the way I was brought up, you feel like you should do it and if not you were failing in some way... Buying a house is a rite of passage, part of growing up. Renting feels like a temporary thing, something you do when you're young... I suppose (one of the benefits of renting is that) you don't have the responsibility of repairs and when things go wrong... [thinks] I'm really struggling to find any positives because I so desperately don't want to rent anymore!' ***L2***

'In principle, we are very satisfied with being renters. We see no reason for change... Whether you have children or not doesn't really play a role [in the decision to rent rather than buy], as there is no real difference in the security of the tenure. In one case, you're paying to the landlord, in the other for about 20 years to the bank. This might only be different if you inherited a large sum from the sale of your parents' house. As we don't have to expect anything like that, this reason to buy doesn't exist. But current [economic] circumstances and a gradually changing culture mean more and more people of our social group have started to buy. If we were to buy this flat now, this would only be an attempt to secure for ourselves what we already have as a rented flat.' ***B1***

'I like the fact (as a renter) that if anything ever went wrong and we couldn't afford the rent anymore we could just leave. Just say sorry we have to move out and be out. Whereas if you own a place and you run into hard times you have your mortgage and have to find someone to buy it and you might be taking a loss on it. So there is something that seems in some ways safer to me about renting ...(but on the other hand) it feels silly that month after month of my entire adult life I've just been putting money out and never will have anything to show for it in return.' ***NYC2***

One disadvantage of renting was that it was hard to put your own stamp on a place.

'Sometimes I have a feeling of stagnation, because I can't change things here... my girlfriend, for example, decided to have very beautiful plaster and red walls. Here, if we moved out this would have to be reinstated and thus the investment isn't worth it...' ***B4***

Pets.

Only one of our interviewees mentioned having pets explicitly, saying she enjoyed taking her dog for walks along the shore in Brooklyn. In Germany 'bigger' pets (that is, cats, dogs and exotic animals) are dealt with in the lease, but since March 2013 landlords are not allowed to impose a blanket ban on pets unless they can prove that this would harm other residents in the building. For one London tenant pets weren't an issue:

'(Pets are) not allowed as far as I know but to be honest we're not too concerned. A baby is enough to look after without a dog or cat!' ***L3***

5. ANALYSIS AND CONCLUSIONS.

The discussion of the policy frameworks together with the qualitative material from the case studies reveal the complex nature of housing systems, and of private renting in particular. They also demonstrate that the observed differences in family private renting in four major western cities are underpinned by important differences in the economic incentives to both landlords and tenants, and are not just the result of differences in culture. Of course, the policy differences may themselves reflect varying cultural attitudes, and it is hard to say which is chicken and which is egg. But clearly these cities' rental systems, considered in the round, differ in several important ways.

If a high proportion of families rent privately, this means both that potential tenant households must be willing to rent and that landlords must be willing to supply housing to such households. To take the latter point first: the principal economic driver behind a willingness to act as a private landlord is that the activity must produce a competitive rate of return. Rates of return are influenced by rent levels, tax treatment (of both income and capital gains) and transactions costs as well as the direct costs of provision. The requirement for competitive returns means that they must be assessed in comparison with rates of return on other assets or businesses. The time period over which the return is expected, and the type of return, both matter: a landlord who purchases a property with the intention of selling it quickly and making a capital gain (to caricature a small English landlord) will behave very differently from one who carefully selects and nurtures good tenants to ensure a stable long-term rental income stream (to caricature a German one). Their weighting of the different components of rate of return differs, and their estimates of the risks (often linked to policy) also differ.

The drivers for family tenants are different: they seek pleasant homes in accessible, child-friendly neighbourhoods; they want the choice of a long-term home at a reasonable (and predictable) price. From the evidence of our interviews the Germans, with very strong tenure security, seemed most content to rent long-term, although even some of the long-term Berlin tenants said they feared tenant security might be weakened in the future and were considering buying. Tenants in other cities accepted that they had no alternative but to rent, but were not necessarily doing so by choice. This did not reflect shortcomings in their accommodation, many were very happy where they lived and indeed, said they would like to remain permanently if they could, but rather was because they did not know how long they would be able to stay.

These tenants lived, for the most part, in pleasant and desirable neighbourhoods. As households with decent incomes they could afford to be selective about location. As parents of (mostly) young families, they prioritised good schools and other facilities for children; parks and green space; and a lively retail and cultural environment, the things that make urban living attractive. They also valued social networks, particularly those centred on children. All this presents a challenge to those who would attract family tenants to new rental quarters, as many of these features take months if not years to develop fully, during which time families may simply choose to live elsewhere.

Even though the emphasis is on the living experience, underlying their decisions are issues around the relative cost of living in different tenures; their expectations of capital gains or losses; and the ease by which they can change these decisions. These may not be at

the forefront of their minds once a decision is made, until circumstances change, but the evidence is that on average people do live in the tenure which best reflects their financial opportunities and constraints.

Because the drivers for tenants and landlords appear very different, the policies or systemic features that are attractive to landlords might be unwelcome to tenants, and vice versa. Our interviews suggest that many family households value security more than freedom, particularly when their children are of school age. Such households are thus more content to rent if tenure security is high. Even so tenants have shown themselves unprepared to pay the price that landlord might wish to charge for security in their rents in other environments, notably with respect to secure tenancies in London. Equally, for landlords, increased security of tenure can reduce the liquidity of their assets and, if in combination with rent control, suppress their returns. This can be a reason for disinvestment from the sector, as indeed happened in the UK from the 1950s to the 1990s.

But to look in isolation at a single policy is misleading, the operation of policies depends on the entire system in which it is embedded. To take again the example of tenure security: the Netherlands has strong tenure security as compared to the UK, yet the percentage of Dutch households in the PRS is low and continues to fall, while in the UK it is rising. To make sense of this one must understand something about owner-occupation and social rental in the Netherlands, in particular generous Dutch mortgage lending practices and the deductibility of mortgage interest. And this is just part of it; there are other factors at work as well, notably the availability of social housing. The point is that the system as a whole determines the behaviour of landlords and tenants alike, and that this system depends not just on government policy but also on the actions of private parties.

We cannot assume that a single change of policy, for example introducing longer leases as the Greater London Assembly has advocated (London Assembly 2013), would necessarily change behaviour in the PRS in the

"FROM THE EVIDENCE OF OUR INTERVIEWS THE GERMANS, WITH VERY STRONG TENURE SECURITY, SEEMED MOST CONTENT TO RENT LONG-TERM."

5. ANALYSIS AND CONCLUSIONS. *cont...*

desired direction, or even change it at all. But equally the experience of the last 15 years has shown that this market can change, and change fast. The increase in private renting came about not just as a result of government policy through the 1988 Housing Act, but also because of the commercial Buy-to-Let initiative in the late 1990s, which had the welcome but unexpected long-term effect of greatly increasing the number of small PRS landlords and changing the image and reality (e.g. in terms of the types of dwelling available) of the sector.

Similarly, Get Living London's proposition at East Village could potentially be the herald of a bigger, private-sector-led change in the PRS in London. It offers tenants much of what residents say they want: attractive, family-friendly homes with the certainty that they can stay for several years if they choose to, as well as the flexibility to serve notice and move on if they require.

This approach is at the cost to the landlord of sacrificing some flexibility; in particular, being constrained from realising capital gains on the properties were it to want to break up ownership and sell units individually. However institutional investors are likely to be investing with long term intentions and any exit strategy would more likely involve the sale of their portfolio to another investor. In this case there would be value in having a proven income stream.

Many landlords operating in the English system, especially private individuals, could not (or would not) unilaterally introduce the innovations that Get Living London has brought. As such, it is an important pioneer. Its offer includes leases with no landlord break, doing lettings and management directly rather through an agent, and not charging fees to tenants. If enough others follow the company's lead, and tenants are found who value the customer-centric proposition and security of tenure offered, it may influence general perceptions of the sector, especially in London, and eventually the whole system. There are cultural norms at work, but culture is shaped by outside factors and when those factors change, cultures can change too.

“THERE ARE CULTURAL NORMS AT WORK, BUT CULTURE IS SHAPED BY OUTSIDE FACTORS AND WHEN THOSE FACTORS CHANGE, CULTURES CAN CHANGE TOO.”

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ABOUT GET LIVING LONDON.

Get Living London is a residential owner and rental management company that is creating London's newest neighbourhood at East Village, the first legacy neighbourhood from the 2012 London Olympic and Paralympic Games.

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This report was researched and written by London School of Economics, the leading social science institution in the world. The project was undertaken by Kathleen Scanlon, Professor Christine Whitehead and Dr Melissa Fernández Arrigoitia who have widespread experience across housing policy and research into the private rented sector in the UK and internationally. They focus particularly on urban and housing issues, including housing finance and social housing provision, affordable housing trends in London and land use planning.

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