Structure, Funding and Regulation of the Rental Market in Germany

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Structure of the Rental Sector

- 61 per cent of the total rental sector (no. of flats) are owned by small private landlords

Source: GdW 2008, University of Mannheim, Data refer to 2006
Structure of the Rental Sector

• Social Structure of Landlords Differs Strongly from Average

![Bar chart showing the distribution of landlords by occupation with and without rental income, with percentages and frequencies presented.]

<table>
<thead>
<tr>
<th>Occupation</th>
<th>With rental income</th>
<th>w./o. rental income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Others</td>
<td>7.5</td>
<td>6.9</td>
</tr>
<tr>
<td>Unemployed</td>
<td>1.0</td>
<td>6.8</td>
</tr>
<tr>
<td>Blue Collar Workers</td>
<td>0.9</td>
<td>1.7</td>
</tr>
<tr>
<td>Civil Servants</td>
<td>0.9</td>
<td>3.8</td>
</tr>
<tr>
<td>White Collar Workers</td>
<td>0.4</td>
<td>7.0</td>
</tr>
<tr>
<td>Self-employed</td>
<td>0.7</td>
<td>5.4</td>
</tr>
<tr>
<td>Pensioners</td>
<td>0.3</td>
<td>0.2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Source</th>
<th>Pre-government income HH (Mean, Euro)</th>
<th>Post-government income HH (Median, Euro)</th>
<th>Age (Median, Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>With rental income</td>
<td>56k</td>
<td>48k</td>
<td>59</td>
</tr>
<tr>
<td>w./o. rental income</td>
<td>28k</td>
<td>24k</td>
<td>51</td>
</tr>
</tbody>
</table>

Source: GSOEP, Wave 2009, own calculations
Investment Motives of Private Landlords

Source: BBR 2007, Data refer to West Germany
Scale from 5 (very important) to 0 (totally unimportant)
Funding (I)

- No detailed figures on funding of purchases/construction
- Stylized facts:
  - High equity ratios
  - Inclusion of debt predominantly because interest is tax deductible against other sources of income
  - Use of subsidies for energy saving measures and other subsidized investment purposes
Funding (II)

- Financing Structure for Investments in the Building Stock

- Equity: 65.4%
- Bank credit: 19.7%
- Building savings: 4.6%
- Subsidies (loans and benefits): 6.8%
- Own labour input: 3.1%
- Other: 0.4%

Source: BBR 2007, Data refer to West Germany (Caution: small sample!)
Regulation (I)

- Strong regulation towards high security of tenure
- Contracts are usually unlimited
- Landlord must prove legitimate interest to evict tenant
  - breach of contractual obligations
  - delay of payment
  - own use by landlord (particularly hard to prove if landlord is owner occupier)
Regulation (II)

- Strong regulation against prohibitive rent increases and rent levels
  - increase to a level not higher than average level (of rents in new contracts from the last 4 years)
  - increase by not more than 20 percent in 3 years
  - not more than 11 percent of costs for energy saving measures may be passed to tenants per year
  - usury laws: rent (even for new contracts) may not exceed local level by more than 50 percent.
Regulation: Why does it work there and not here?

- Mentality of tenants
  - Culture of renting instead/as an alternative of owning: Hard to understand how this developed, but renting is not stigmatised.
  - Legacy of subsidised (social) housing after WW2: parents/grandparents living in rented flats is considered as normal
  - Germany is not monocentric but has at least 5 big business centres (Berlin, Frankfurt, Munich, Duesseldorf, Hamburg) and a lot of smaller ones: Young professionals with partners tend to commute weekly from their workplace to their partners’ home (“remote distance partnerships”): supported by excellent infrastructure (in international comparison)
Regulation: Why does it work here and not there?

- Mentality of landlords
  - Long term investment motives dominate
  - Residential investment as inflation hedge
  - Retirement provision
  - Security of tenure matches long term investment motives of landlord: Keep a good tenant as long as you can!
Probably a relict of good old „social market economy“...