

# International comparisons can provide useful pointers towards a sustainable private rented sector in England

*The proportion of English homes rented privately has nearly doubled in the last 20 years, while the home ownership rate has fallen. Even so, it's far more common for middle-income families to live in rented housing in many European countries. What accounts for the difference? Is it just cultural? [Kath Scanlon](#) discusses some of the lessons that can be drawn from making international comparisons in how to make private renting work better here in England.*



100 years ago the overwhelming majority of English households – even wealthy ones – rented their homes. I recently researched the history of a very grand 17<sup>th</sup> century house on Blackheath; the current owner handed me a file full of creased documents, which turned out to be the leases on which the house was let (for 7 years at a time) in the late 19<sup>th</sup> century. But over the course of the 20<sup>th</sup> century private renting was displaced by home ownership as the ‘normal’ tenure for middle-income families.

Since the millennium, and especially since the onset of the financial crisis, the situation has changed. It has become harder for first-time buyers to purchase because mortgage lenders require much larger down payments and have tightened other loan conditions, so households that would in previous decades have bought a house are now still renting. On the supply side, there are many buy-to-let landlords who have decided to be in the market, but there are also plenty of ‘accidental’ landlords who rent out dwellings that they haven’t been able to sell. A large proportion of both landlords and tenants aren’t there by choice.

Culture *does* matter, of course. In Germany for example there’s little concept of ‘the housing ladder’. Households make a one-time decision to build or buy a family house and plan to remain in it. But cultural differences are only a part of it. How does private renting work elsewhere? Here are three key areas where practice in Europe or the USA differs from England – and one where it doesn’t differ as much as you might expect:



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## Tenure security

Private renting might appeal more – especially to families – if they could plan on a long-term stay. In England the default form of lease, and the most widely used, is the assured shorthold tenancy. This initially runs for 6 to 12 months, after which the landlord may evict the tenant with two months’ notice without giving a reason. In many European countries by contrast the normal lease is indefinite, and landlords can only evict for a few reasons. These longer lease terms are usually accompanied by some form of rent regulation.

But to adopt such rules in the UK would mean returning to more or less the system that obtained before 1988 – and the abolition of these rules helps account for the growth in the number of private landlords and private rented dwellings since then.

## Blocks or estates in single ownership

Because apartments are individually owned in England, landlords must assemble property portfolios unit by unit, and it is hard to achieve economies of scale. The USA presents a striking contrast in terms of the physical form of rental housing. Most new rented housing is built specifically for rental, and the entire building or complex is owned by a single landlord. In 2001 over 26% of rental dwellings belonged to properties containing 50 or more units. These properties might consist of single high-rise blocks or, more commonly, low-rise ‘garden apartment’ complexes with several buildings.

Some developers here are now showing interest in the idea of building blocks of flats to keep and operate as landlords – a concept dubbed ‘build to let’.

## **Tax treatment**

Landlords' income is given more generous tax treatment in many other countries. In the UK, income from private rented properties is taxed at the landlord's marginal tax rate. Rental losses can be set against other rental income, but not against the landlord's income from other sources. There is no depreciation allowance for residential property.

Both depreciation and the setting of rental losses against other income (often called 'negative gearing') are allowable in Germany, France, the USA and Australia, albeit subject to some limits. A change in this direction would make rental investments more attractive, particularly for large investors.

## **Landlord type**

For years – decades even – various governments have been trying to encourage corporations and institutions to invest in the private rented sector in the hope that they would bring professional financial and management practices and displace 'amateur' individual landlords. However individual landlords are the norm in most other countries as well. Even in the USA, large private rental complexes are often owned by individuals. In Switzerland (where over half of households rent privately), institutions are required by law to invest in real estate, and residential properties form an important part of their holdings. Even so, most Swiss rental dwellings are owned by individual landlords. Clearly a predominance of institutional investors is *not* a prerequisite for a large private rented sector.

*If you'd like to know more about how private renting differs in other countries, and what we can learn from them, you can request a copy of LSE London's recent book **Towards a sustainable private rented sector** from [lse.london@lse.ac.uk](mailto:lse.london@lse.ac.uk).*