

# Structure, Funding and Regulation of the Rental Market in Germany



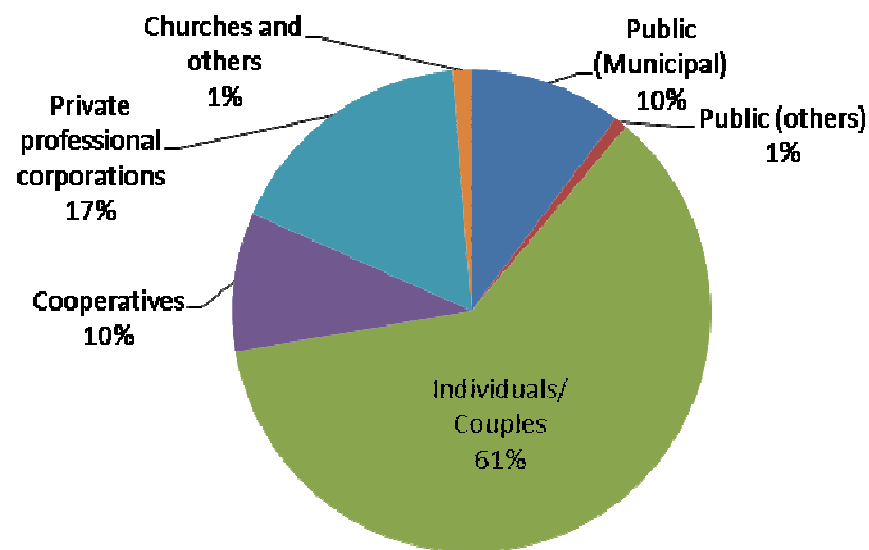
Peter Westerheide  
June 2, 2011  
London School of Economics

# Contents

- Structure of the Rental Sector
- Funding
- Regulation
- Why does work there and not here?

# Structure of the Rental Sector

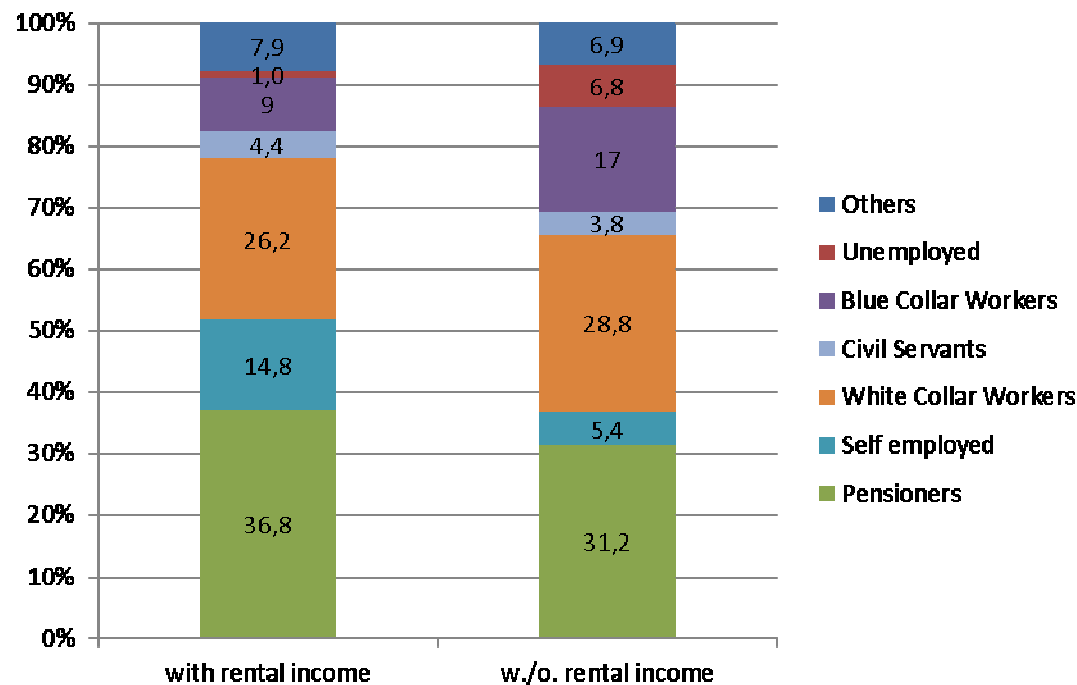
- 61 per cent of the total rental sector (no. of flats) are owned by small private landlords



Source: GdW 2008, University of Mannheim, Data refer to 2006

# Structure of the Rental Sector

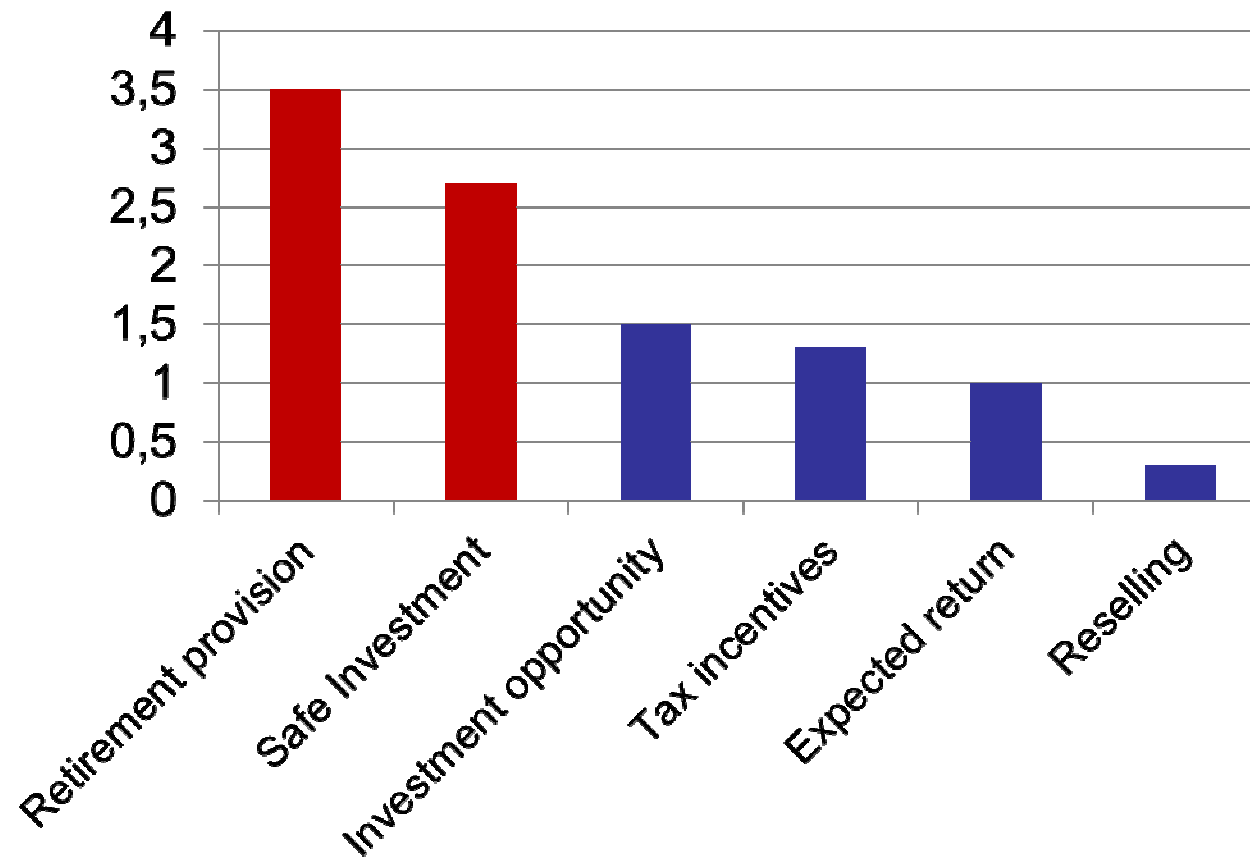
- Social Structure of Landlords Differs Strongly from Average



	With rental income	w./o. rental income
Pre-government income HH (Mean, Euro)	56k	28k
Post-government income HH (Median, Euro)	48k	24k
Age (Median, Years)	59	51

Source: GSOEP, Wave 2009, own calculations

# Investment Motives of Private Landlords



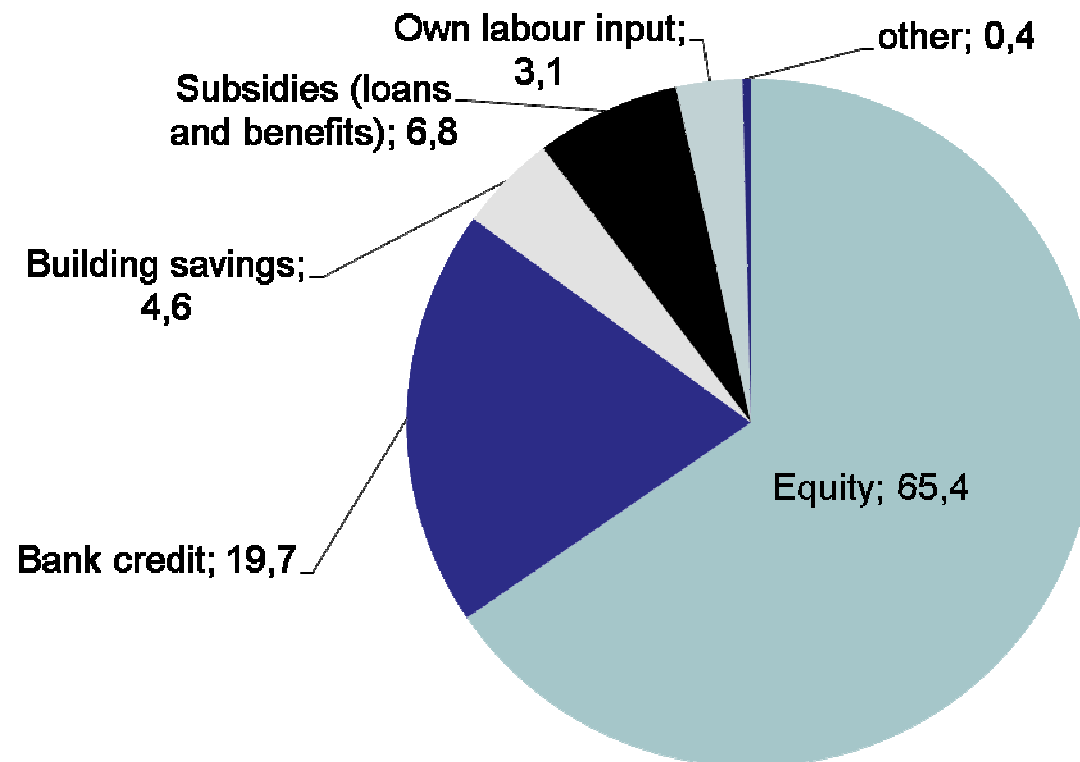
Source: BBR 2007, Data refer to West Germany  
Scale from 5 (very important) to 0 (totally unimportant)

# 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



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“...

