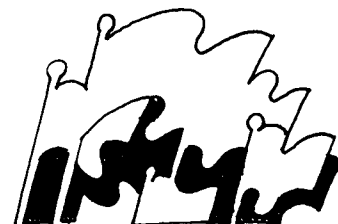


# Foreign Labor Developments



## Private rental housing abroad: dwindling supply stirs concern

E. JAY HOWENSTINE

There is a lively debate as to whether the United States is facing a crisis in the private rental housing market. The General Accounting Office says yes.<sup>1</sup> The "Pollyana Institute" says no.<sup>2</sup> And among the participants in the Conference, "Rental Housing Crisis: Implications for Policy and Research," convened by the Department of Housing and Urban Development on November 14, 1980, a wide range of views was expressed.<sup>3</sup> In this setting, a review of the experience of other industrialized countries with private rental housing can be instructive.

Up until World War I, in most industrialized countries, the bulk of the housing stock was private rental housing.<sup>4</sup> For example, roughly 90 percent of the housing supply of the United Kingdom was privately rented in 1914 (and this was probably roughly representative of most industrialized countries at the time). This position, however, was about to change radically. The 1920's ushered in an epoch of steady decline in the relative importance of private rental housing in most countries.

Many forces were at work. Imbued with a strong social consciousness of housing needs of the working masses, most European governments embarked on social housing programs to replace slums, particularly after World War II. The rationale was simple. Because the mass of workers could not afford to buy or rent decent housing, the only recourse was for governments to build rental housing at rents that workers could afford to pay.

Second, workers increasingly banded together and through their own resources—often supplemented by assistance from trade unions and governments—built low-cost cooperative housing. After World War II, this movement became the nucleus for large-scale programs

in many countries promoting nonprofit housing organizations.

Third, individual homeownership became an increasingly attractive alternative for workers earning higher income. Particularly after World War II, the age of affluence associated with high economic growth rates (often supported by government financial incentives such as liberal tax subsidies and more recently by the prospect of big capital gains) made it possible and profitable for more and more of the growing middle class to own their own homes.

Finally, the adoption of rent controls, first during World War I and again during World War II, created an institutional framework that increasingly tended to undermine the profitability of rental housing as a private investment.<sup>5</sup>

### Data not easily available

Unfortunately, most national censuses have not collected data on the private and public components of the rental housing stock. Certain fragmentary data are available, however, on the private rental housing sector as a percentage of the national housing stock in a dozen industrialized countries.

Except for Canada (where the supply increased from 33 percent in 1961 to 34 percent in 1976<sup>6</sup>) and Japan (where it rose from 19 percent in 1958 to 26 percent in 1979<sup>7</sup>), all of the countries have experienced a long-term shrinkage in the size of the private rental housing sector. The most dramatic fall was registered in the United Kingdom—from 90 percent in 1914 to 15 percent in 1976.<sup>8</sup> For other selected industrialized countries, the private rental housing sector in the United States was 53 percent of the national housing stock in 1900, down to 31 percent in 1978<sup>9</sup>; New Zealand recorded 47 percent in 1916, down to 17 percent in 1971<sup>10</sup>; Australia had 45 percent in 1947, down to 22 percent in 1971.<sup>11</sup>

Of the selected European countries, the private rental sector in Denmark was 35 percent of the national housing stock in 1955, down to 24 percent in 1979;<sup>12</sup> West Germany, 68 percent in 1948, down to 34 percent in 1972 (another author recorded 50 percent in 1972);<sup>13</sup> and in Ireland it was 17 percent in 1961, down to 12 percent in 1979.<sup>14</sup> The Netherlands had 46 percent in 1956, down to 23 percent in 1975.<sup>15</sup> Finland's average recent annual rate of decline is 10,000 units—1.8 percent of

E. Jay Howenstine is international research coordinator, Office of Policy Development and Research, U.S. Department of Housing and Urban Development. The views expressed are those of the author and do not necessarily reflect those of the Department of Housing and Urban Development.

the total rental stock.<sup>16</sup> France had 41 percent in 1968, the only data recorded for this country.<sup>17</sup>

The conclusion emerges clearly: in most industrialized countries, the private rental housing sector is considerably smaller today than it was in 1945 and substantially smaller than in the early 1900's. What has been the response of governments to this decline?

### **The reassessment of private rental housing**

By the last half of the 1970's, the position of the private rental housing sector had deteriorated so badly that governments were moved to reassess its role for a number of reasons. First, there appears to have been a new appreciation of the fact that this sector performs a number of functions which the other sectors do not discharge effectively or cannot perform at all.<sup>18</sup> It provides an essential interim arrangement for young persons who cannot yet afford, but want to buy their own homes, or people who can afford but who do not want the responsibilities of homeownership. It meets the needs of special groups, such as single people, students, divorced and separated couples, refugees and unmarried professionals, particularly in the inner city.<sup>19</sup> By contrast, public housing was believed to be better designed to meet more traditional general housing needs, such as those of large families, low-income families, and the homeless.

Moreover, private rental housing contributes an important degree of flexibility to the housing market. A dynamic economy requires, among other things, the type of housing that provides easy and immediate access for members of the labor force who are attracted to growth centers or growth industries, or who are upwardly mobile in their occupations. There is a need, too, for transitional accommodation for those who may not be eligible for public housing, or if eligible, for whom there may not be a public housing vacancy.<sup>20</sup>

Second, experience demonstrated that large-scale slum clearance and urban redevelopment often impaired, and in cases, even destroyed the social fabric of vibrant communities.<sup>21</sup> Government increasingly recognized that respect for people demanded a more sensitive and flexible policy in preserving the social structure while rehabilitating the physical environment—a realization that redounded considerably to the benefit of the private rental housing sector.<sup>22</sup>

A third factor has been the new patterns of household formation at both ends of the age scale. Young people are forming independent households earlier in their life cycle than formerly. There has also been a significant increase in single person households, particularly of women. At the same time, rising income levels have enabled many retirees to set up their own households. These circumstances are attributable to more generous social security programs and to increased savings resulting from economic affluence.

Fourth, the rapid rise in costs of new construction placed greater fiscal burdens on governments struggling to curb public expenditures in their attacks on inflation.<sup>23</sup> The revival of new private rental housing makes it possible for governments to disengage from some of their heavy financial management responsibilities for public rental housing, and to direct more attention to rehabilitating existing housing stock—much of which is private rental housing, and much less expensive than new construction.<sup>24</sup> Fifth, the sharp rise in housing costs also increasingly put homeownership beyond the reach of large numbers of potential owners.

Sixth, by the middle of the 1970's, most countries had succeeded in eliminating the quantitative backlog of housing needs inherited from the past. This fact contributed to major national policy shifts in the late 1970's toward qualitative improvements in housing services, the rehabilitation of the existing housing stock, and the reduction of excessive shelter-to-income ratios of low income households<sup>25</sup> (shifts which also tended to elevate the importance of the existing private rental housing sector). Finally, the historical preservation movement played a minor, though strategically important, role in enhancing the value of the private rental housing stock.

Thus, within recent years, there has been a noticeable reawakening to the gravity of the problem, despite a minority view in some countries that presses for municipalization of land and housing as a social service. A fairly general awareness seems to have developed that private rental housing is an essential component in a well-balanced national housing policy. And although there is no chance that it will be restored to the prominence it had before World War II, a wide spectrum of legislation has been dedicated to the preservation, revival and promotion of private rental housing.

### **Preserving the private rental housing stock**

There is among industrialized nations a wide area of agreement that one of the first priorities is to ensure that the private investor receives a "fair return on capital". To many this means dismantlement of rent controls. But at this juncture, this is an almost politically impossible course of action. Despite many bold and imaginative attempts to decontrol, all governments are still caught up with some form of rent regulation, control of rental tenure, or both.

The second best solution, then, is to incorporate some concept of "fair" or "reasonable" rate of return on capital into the rent regulation system. In some of its applications, the "fair rent" concept seems to offer a practical way for achieving a genuine reconciliation of the tenant's need for protection against excessive rents which exploit a scarcity situation and the landlord's need for a fair return on capital. Other applications

seem to fall short of this realization.

Meanwhile, governments have adopted a wide variety of measures to rehabilitate the private rental housing stock. Early in the post-World War II period, grants were widely used to partially cover the costs of specific structural improvements, such as a bath, inside flush toilet and kitchen sink with hot and cold water, but under rent controls the landlord's response was often lethargic. Later in the 1970's, governments adopted more comprehensive rehabilitation programs, providing grants covering 20 to 50 percent of the cost of a wide range of improvements in existing housing, including thermal and sound insulation; heating and cooking facilities; and general modernization.

Most success appears to have been achieved through the area approach. This method concentrated efforts in areas of high stress; supplemented housing renovation with improvements in the local environment; sometimes introduced elements of compulsion although the reaction to this was clearly mixed; and generally aimed to create a visible, organized momentum in an upward direction.

The area concept has not been free of criticism, however. It discriminated against needy households outside the selected areas. This concept overlooked the fact that certain types of substandard areas perform an important social function for certain kinds of people, for example, youth, recent movers, and refugees of various sorts. Furthermore, the area concept substantially increased management costs, and has contributed to "gentrification"—the displacement of older, poorer residents by new, more affluent, generally younger households.

One of the most effective devices for increasing private landlords' income and thereby promoting a high level of maintenance and repair work has been the housing allowance. Upward adjustment of rent ceilings is politically more palatable and socially more equitable if consumer subsidies can alleviate the high rent to persons living on fixed incomes, for example, the elderly. The Federal Republic of Germany was the first country to link consumer housing subsidies with relaxation of rent controls as a major instrument of national policy in 1955. Since then, many European governments have adopted a similar approach.

### **Stimulating new private rental housing**

The stance of governments generally has been that active support is necessary if the private rental sector is to be revived and play a vital role in the national housing market.<sup>26</sup> An obvious priority was the exemption of new private unaided rental housing from rent controls. This seems to have been uniformly practiced in most countries. Considering rapidly rising building costs and the high rents that had to be charged, most of such

construction was destined for high- and middle-income households. This part of the housing market was of minor concern to governments and, on the whole, may not have been too adversely affected during the postwar period.

On the other hand, shelter for the mass of workers was of fundamental concern to governments; hence the promotion of private rental housing for them was treated differently. Governments have extended various kinds of direct and indirect financial assistance to private landlords on two conditions: construction must not exceed certain space and structural standards; and letting must be within certain income limits on tenants and within specified rent ceilings. Two other factors have provided additional incentives for private landlords: liberation from rent ceilings after a given period of time (for example, in the Federal Republic of Germany 10 years after direct subsidies cease); and the prospect of long-term capital gains.

The basic problem has been that rents of new housing built at high cost levels have been far out of line with rents of equivalent accommodation in the existing housing stock. Governments have tried to bridge this gap and to bring rents of new housing within the reach of workers by rescheduling mortgage payments to take account of rising housing costs and rising incomes. The principle has been that, as incomes rise over the long term as a consequence of technological improvements and economic growth, households are able to pay higher rents with no extra burden. If rents and mortgage payments are kept initially low when workers' financial capacities are limited, but are progressively increased as incomes rise (from improved productivity and perhaps continued inflation) the costs of new private rental housing may be (more) fully met in the long term.

Governments have applied this principle in three ways: by rescheduling rates of amortization of capital different from the traditional flat rate system; by rescheduling rates of interest different from the conventional fixed rate system; and by introducing flexible interest subsidy systems to facilitate the rescheduling of mortgage payments of principal and interest. Norway was the first country to revise its housing finance policy in 1966. For the first 5 years, no payment of principal on the State Housing Bank mortgage was required; thereafter, the rate of amortization was progressively increased at 5-year intervals. To take still more account of the limited financial capacities of young married couples, this system was further liberalized in 1973 by rescheduling interest rates to start at 4 percent and gradually increase with the passage of years.

Sweden followed the same general principle with its "parity loan" program in 1968, the Netherlands adopted a sophisticated "dynamic cost-price" rental

system in 1975, and other countries including Finland, France, the Federal Republic of Germany and Switzerland implemented much the same general objectives.

More conventional subsidy systems were also applied to private rental housing. Below-market interest rates were extended in Belgium, Canada, Japan, the Netherlands and Switzerland. For example, the Belgian National Housing Society extended 66-year loans at 1.5 percent interest. Outright capital subsidies have been offered by at least two countries, Canada and France. Operating subsidies for limited periods have been made available in the Federal Republic of Germany (5 years) and Switzerland (up to 25 years). Canada and Switzerland have also guaranteed mortgages with a view to lowering the interest rate which the borrower has to pay.

Tax concessions have been another tool to stimulate private rental housing. At least two countries—the Federal Republic of Germany and Japan—have established accelerated depreciation allowances as an incentive for investment in rental housing. Canada has adopted a tax shelter system for rental housing, while the Federal Republic of Germany has exempted rental housing from certain land taxes.

As in the case of existing housing, the housing allowance has proved to be an effective tool for helping to bridge the gap between high rents of new construction and tenants' ability to pay.

The fact that governments have supported private rental housing in a variety of ways is testimony to the importance which they attach to the perpetuation and revival of this sector.

### Nonprofit housing organizations

Rental housing provided by nonprofit housing organizations (a rental tenure falling midway between public housing, on the one hand, and private rental housing, on the other) has played a major role in national housing policy in many countries.

As might be expected, governments have extended

more generous assistance to nonprofit housing associations than to private rental housing. They have been solicitous of capital needs, through loan guarantees, direct loans and capital grants. They have also (through the provision of interest subsidies, operating subsidies and tax concessions) been cognizant of the need to keep operating costs low so as to keep rents low.

### Conclusions

In most of the highly industrialized world, the private rental housing market has been in critical condition for a long time. Within the last five years, housing issues have become so sufficiently urgent that at least six countries have appointed national commissions to examine the problem.

Quantitatively, most countries have experienced a substantial decline in the percentage of private rental housing not only in the national housing stock but also in annual production. It is doubtful that the supply is sufficient to meet the demand or the need for this type of housing.

Qualitatively, a large part of the existing private rental housing stock is substandard and in urgent need of modernization. Financially, large numbers of low-income households are bearing excessive housing costs, in spite of housing allowance plans that have been widely adopted to ease financial hardship.

Notwithstanding a greater awareness of the essential role which private rental housing has to play in the national housing market and an array of policies to promote this sector, its future is clouded in most industrialized countries.<sup>27</sup> Preferential treatment for owner-occupancy and for public and nonprofit housing, on the one hand, and the deterrents of rent regulation, on the other, place the private rental housing sector at a relative disadvantage.

In a majority of cases, a realignment of policies will be necessary if full vigor is to be restored to private rental housing. □

### FOOTNOTES

<sup>1</sup> General Accounting Office, *Rental Housing: A National Problem That Needs Immediate Attention* (Washington, D.C., 1979), p. 1.

<sup>2</sup> Ira S. Lowry, "Rental Housing in the 1970s: Searching for the Crisis", paper presented to the HUD Conference on "The Rental Housing Crisis: Implications for Policy and Research", pp. 3–5.

<sup>3</sup> See the Proceedings of the Conference convened by the Department of Housing and Urban Development on November 14, 1980, on "The Rental Housing Crisis: Implications for Policy and Research" published by the Urban Institute.

<sup>4</sup> The main sources for this study have been national monographs on housing finance prepared for the Seminar on the Financing of Housing convened by the Committee on Housing, Building and Planning of the United Nations Economic Commission for Europe in August 1973, and national monographs on current trends in housing, building and planning prepared biennially for the same committee.

This is an abridged version of a larger study in process of publication.

<sup>5</sup> E. Jay Howenstine, "European experience with rent controls", *Monthly Labor Review*, June 1977, pp. 21–28.

<sup>6</sup> Statistics Canada, *Census of Canada* and Canada Mortgage and Housing Corporation, *Canadian Housing Statistics*, various years.

<sup>7</sup> Ministry of Construction, Japan, *Housing in Japan* (Tokyo, 1980), p. 10.

<sup>8</sup> Department of Environment, United Kingdom, *Housing Policy: Technical Volume* (London, HMSO, 1977), Part III, p. 62—for 1914; *Housing Policy: A Consultative Document* (London, HMSO, 1977), p. 14—for years 1951, 1971 and 1976.

<sup>9</sup> Bureau of Census, *Historical Statistics of the United States: Colonial Times to 1957* (Washington, D.C., Department of Commerce, 1960), Table Series N-139-149—for 1900 and 1940; data for 1950, 1960, 1970 and 1978 derived by subtracting total public housing stock re-

ceiving Federal subsidy (Department of Housing and Urban Development, *Justification for 1981 Estimates*, 1980, p. D-26) from total rental housing stock and Bureau of Census, *Annual Housing Survey: 1978*, (Washington, D.C., Department of Commerce, 1980, p. 1).

<sup>10</sup> Simon Whiteley, *Private Rented Housing in New Zealand* (Wellington, National Housing Commission, 1979), p. 12.

<sup>11</sup> Department of National Development, Australia, *The Housing Situation* (Canberra, 1956), p. 17 and Simon Whiteley, *Private Rented Housing in Australia* (London, Department of the Environment, 1979), p. 10.

<sup>12</sup> Lars Ostergaard, *The Privately Rented Sector in Denmark* (Copenhagen, Ministry of Housing, 1978), pp. 8-9 and, Ministry of Housing, Denmark, *Current Trends and Policies in the Field of Housing, Building and Planning* (Copenhagen, 1979), p. 4.

<sup>13</sup> Michael Harloe, "Decline and Fall of Private Renting", *Centre for Environmental Studies Review*, May 1980, p. 31. Harloe adopts a more narrow definition than Hallett, in Graham Hallett, *Housing and Land Policies in West Germany and Britain* (London, MacMillan Press, 1977), p. 18.

<sup>14</sup> 1961 figure—J. McKeon and R. Jennings, *Public Subventions to Housing in Ireland* (Dublin, National Institute for Physical Planning and Construction Research, 1978), p. 46; 1971 figure—Department of Environment, *Current Trends and Policies in the Field of Housing, Building and Planning* (Dublin, 1979), p. 3; 1979 figure—*Ibid.*, (Dublin, 1980), p. 3.

<sup>15</sup> M. Harloe, *op. cit.*, p. 31. Derived from Harloe's estimate of ratios within rental sector.

<sup>16</sup> Supplied by Martti Lujanen, Ministry of Interior, Finland, November 6, 1980.

<sup>17</sup> J. Robert Dumouchel, *European Housing Rehabilitation Experience: A Summary and Analysis* (Washington, D.C., National Association of Housing and Redevelopment Officials, 1978), p. 39.

<sup>18</sup> J. B. Cullingworth, *Essays on Housing Policy: the British Scene*

(London, George Allen and Unwin, 1979), pp. 37-38; Harold L. Wolman, *Housing and Housing Policy in the U.S. and the U.K.* (Lexington, Mass, Heath, 1975), Chap. IV.

<sup>19</sup> David C. Thorns, *Rental Housing—Choices and Constraints* (Wellington, New Zealand, National Housing Commission, 1979), Research Paper 80/3, p. 54.

<sup>20</sup> Simon Whiteley, *Private Rented Housing in New Zealand* (Wellington, National Housing Commission, 1979), p. 16; Simon Whiteley, *Private Rented Housing in Australia* (London, Department of Environment, 1979) p. 21.

<sup>21</sup> United Nations Economic Commission for Europe, *Seminar on Citizen Participation in the Planning, Implementation and Management of Human Settlements* (Geneva, 1980), HBP/SEM.26/1.

<sup>22</sup> United Nations Economic Commission for Europe, *Symposium on Urban Renewal and the Quality of Life* (Geneva, 1978), HBP/SEM.19/R.1.

<sup>23</sup> E. Jay Howenstine, *Housing Costs in the United States and Other Industrialized Countries, 1970-1977* (Washington, D.C., Department of Housing and Urban Development, 1979).

<sup>24</sup> United Nations Economic Commission for Europe, *The Improvement of Housing and Its Immediate Surroundings* (Geneva, 1977), ECE/HBP/21.

<sup>25</sup> United Nations Economic Commission for Europe, *Seminar on Housing Policy* (Geneva, 1977), ECE/SEM 15.

<sup>26</sup> A. Andrzejewski and M. Lujanen, *Major Trends in Housing Policy in ECE Countries* (Geneva, United Nations Economic Commission for Europe, 1980), Chap. IV; Graham Hallett, *Housing and Land Policies in West Germany & Britain* (London, MacMillan Press, 1977), Part I.

<sup>27</sup> For a more gloomy forecast of the future of private rental housing, see Lars Ostergaard, *The Privately Rented Sector in Denmark* (Copenhagen, Ministry of Housing, 1978), p. 86; Michael Harloe, "Decline and Fall of Private Renting", *Centre for Environmental Studies Review*, May 1980, pp. 33-34.

### A note on communications

The *Monthly Labor Review* welcomes communications that supplement, challenge, or expand on research published in its pages. To be considered for publication, communications should be factual and analytical, not polemical in tone. Communications should be addressed to the Editor-in-Chief, *Monthly Labor Review*, Bureau of Labor Statistics, U.S. Department of Labor, Washington, D.C. 20212.