

**ULI Academic Lunch | Abstract**  
March 20, 2019 | AG Real Estate offices



*Conclusions from the German private rented sector for a European rental market*

By *Michael Pflüger*, International Executive Manager at Atenor

Nearly 55% of German households living in rented dwellings - twice as many as in nearly every other European country. Why is this the case and could this help facing current problems in other European markets?



Image Source : Deloitte Property Index 2017

The Context of the European housing market currently faces the same problems. Housing shortages and worsening housing affordability are common issues, caused by a similar historic and geopolitical evolution. Based on different regional developments and federal policy, those problems occur to a different extend in each country. For instance, as former communist countries have a high home ownership rate but enormous problems with adequate housing quality of the building stock, countries with a larger rental market have problems with overburdening housing costs. It is evident, that some countries are doing better than others and that the rental market plays a major role.

To find out how the German private rented sector has evolved, a detailed analysis shows the direct influence of determinants on the causal development and strengthening of the German rental market. Historically important is without a doubt the housing crisis in the aftermath of the Second World War. As a result the German government promoted the quick construction of multi-tenant buildings. Main drivers for the enlarging rental sector are strong rent regulations for tenants and investment incentives for landlords at the same time. The correlation between the buying and the rental market is furthermore influenced by its actors itself. The free choice of households to be tenants is obviously leading to a stronger rental sector. This choice is essentially affected by their financial possibilities. Households' income and the share of transaction costs are therefore playing a major role. At least equally so is the nearly home-like security the German rental market is able to offer its tenants. A sufficient supply nevertheless is just as important. For landlords, a strong demand and adequate returns on their investments are essential. Rents and investment prices have to be balanced, if necessary by investment incentives provided by governments. The functioning of the rental sector is a complex, well-balanced structure of various elements like market regulation, investment incentives and cultural influences.

Having highlighted the specifics of the German private rented sector the purpose of a mature rental market becomes apparent. It is found out that a lot of its advantages match the problems that were identified for the European markets. A mature private rented sector can, for instance, provide the market stability, which a lot of countries are seeking since the financial crisis. Nevertheless not every advantage might remain one in the context of another country. Furthermore there are obvious disadvantages, like the poor wealth creation of tenants in the case of the German rental market as well.

A mature private rented sector might help solving current housing problems that occur in several EU countries. It could be considered to adapt measures, which already helped shaping the German rental market, to other European countries. To start this development, there are first and foremost two measures to be taken. On the one hand rent regulation has to be increased to secure tenancy and increase the demand for rented dwellings. On the other hand incentives for landlords have to be given simultaneously, to promote investments in the rental market and enlarge the supply and the quality of dwellings. Furthermore it is important to influence households' potential choices towards tenancy. Therefore financial possibilities have to be improved in regards to lowering transaction costs and making financing more accessible. As the rental market is a complex structure, it has to be well thought which determinants and measures should be put in place together and at what time.