

Promoting Investment in Private Rented Housing Supply: International Policy Comparisons

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1. Introduction

- 1.1 This country review gives a brief overview of the policies towards the (investment in the) private rental sector in the Germany. The text is based on Haffner *et al* (2009). Sources which are not referred to in the book are mainly listed in the reference list.
- 1.2 As Belgium consists of three administrative regions that are responsible for housing policy and housing research (except for the Census), this report focuses on Flanders, the region where almost 60 per cent of the population lives. Regional housing policy does not include rent regulation and taxation. These are the policy areas that remained the responsibility of national government.

2. Data and information

- 2.1 Belgium is one of the many countries in Western Europe that started out with a large private rental sector after World War II (about 60 per cent). Contrary to the Netherlands and England, the sector however has not become quite as small, but remained at about 20 to 25 per cent of households in 2001, depending on the source (O'Sullivan & De Decker, 2007; Vanneste *et al*, 2007). In Flanders private renting accounted for 20 per cent of households in 2001. This was the lowest share of the three administrative regions (22 per cent in the Walloon region and 47 per cent in Brussels). In 2005 the Flemish sector had shrunk to a little more than 17 per cent of households (Table 1).
- 2.2 Small private person landlords dominate the private renting. On average, a private person landlord lets 2.2 dwellings, while 60 per cent owns no more than one dwelling for renting. Most private person landlords (more than 70 per cent) manage their dwellings themselves (Table 1). The remainder make use of one of two types of agents or intermediary organisations. First there are commercial real estate agents; and second there are special social intermediaries (Social Rental Agencies) which aim to rent private rental dwellings to vulnerable tenants. Private landlords will do this because of cost savings which delivers 'social' rents.
- 2.3 There is no tradition of institutional private renting (Juntto & Winters, 2010) and there is little private letting from companies; about five per cent of rental stock or one per cent of stock in 2005. Two larger, professional firms called Home Invest (since 1999) and Aedifica (since 2006) are active. They both are quoted on the stock market (Euronext Brussels). They are called residential real estate BEVAKs (Beleggingsvennootschap in Vast Kapitaal), which can be translated as 'housing property firms'.
- 2.4 A third Flemish housing property firm quoted on the stock market is called N.V. Serviceflats Invest. As the name indicates, it only invests in so-called

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service flats for the elderly. Elderly households invest in the firm. In return they are entitled to live in a flat. The Flemish government provides subsidies for the construction of this type of housing, which seems to have similarities with the German rental cooperatives.

- 2.5 No statistics have been found on the contribution of private renting to new construction. Juntto and Winters (2010) however state that dwellings often are inherited by private person landlords, but that deliberate investment by private persons cannot be ruled out. As the share of new construction of apartments was about 50 per cent per year in this century, and the share of apartments in the private rental sector is 55 per cent (verses 20 per cent in the stock), one may expect that some building in the private rental sector is taking place. Property firms do very little, although there is a small amount, of new construction through public-private partnerships. This is mainly low-rent (or social) housing (Vandenbroucke *et al*, 2007). Juntto and Winters (2010) however state that investment in the private renting has become regarded as not very profitable. For example, apparently landlords cannot recover renovation costs by rent increases and these costs are not tax deductible. Landlords claim that they plan to sell, but that the global financial crisis has induced them to wait.

Table 1: Occupiers according to tenure, percentages, Flanders, 1981, 1991, 2001 and 2005

Type of occupier	1981 Census	1991 Census	2001 Social and Economic Survey	2005 Flemish Housing Survey
<i>Owner-occupiers</i>	65.0	68.8	72.6	74.4
<i>Tenants</i>	32.6	29.5	25.0	23.8
Market tenants			19.7	18.4
Renting from private person landlords			16.9	17.4
Renting from company landlords			2.8	1.0
Social tenants			5.3	4.5
Tenants in rental dwelling in ownership of public organisations*				0.9
<i>Renting rent free and other</i>	1.8	1.6	2.4	1.5

Source: Haffner *et al* (2009).

*) This includes households that rent from municipal welfare organisations (OCMWs) and local authorities.

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3. Rent regulation and tenant security

Rent regulation

- 3.1 Belgian rent regulation differs for new and existing contracts. For new contracts, there is no rent regulation, only in specific cases. Rents for existing contracts (sitting tenants) are regulated with the health index (a measure of inflation for a package of goods without cigarettes and alcohol). This concerns annual rent changes.

Security of tenure

- 3.2 The rent law distinguishes four different types of rental agreements with limited duration: a life-long agreement, a nine-year agreement, a long-term agreement (of over nine years) and a short-term agreement (of three years or shorter). The standard rental agreement has a duration of nine years. The nine-year period is automatically applicable for oral agreements, written agreements with no contract length or written agreements with a contract period of between three and nine years. Even though rental agreements with a duration of nine years are regarded as the standard form of contract, they are not the most significant form. They accounted for 45 per cent in all contracts registered for 2007, whereas short-term contracts of three years or shorter accounted for a 52 per cent share.
- 3.3 Neither landlord nor tenant can terminate a short-term contract unless the contract explicitly provides for this. A short-term contract can only be extended once. This must be done in writing and the same terms (same rent, etc) must be maintained. Unless the rental agreement is terminated at the end, it will automatically become a nine-year rental agreement.
- 3.4 To terminate a nine-year contract, there are rules (Juntto & Winters, 2010). If the tenant hands in a notice in the first three years, the landlord can ask for compensation (one to three months of rent). A landlord needs to apply a notice period of half a year, and can only terminate the contract in the case of own usage of the dwelling or renovation of the dwelling. Otherwise the landlord has to pay a fee.
- 3.5 The registration of new rental agreements with the government has been incentivised since 2007. Where the rental agreement is not registered, the tenant can opt to leave the dwelling without notice and without reimbursement to the landlord.

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4. Subsidies and tax incentives for private rental landlords

Taxation

- 4.1 There seems to be little subsidisation via the tax system, as private landlords pay a higher rate of VAT, corporation tax and immovable property tax than social landlords. Private person landlords pay more taxes and have fewer personal income tax deductions in comparison to owner-occupiers. As with owner-occupiers, a private persons' actual rent income is not taxed, but the imputed rent income is taxed. It is 40 per cent higher than for owner-occupiers. The amount of imputed rent plus 40 per cent does not usually coincide with the actual rent income after the deduction of costs.
- 4.2 The position is different for firms. Their actual rent income is always taxed, while actual costs are deductible. The two housing property firms that are quoted on the stock market (see above) have a special tax facility on profit paid out as dividends in that they are exempt from local movable property withholding tax. However, the firm has to pay local immovable property withholding tax on the profit before paying out dividends. In order to achieve this status, a housing property firm needs to diversify and guarantee a certain risk spread limiting new construction.

Subsidies for renovation and improvement of housing quality

- 4.3 Since 2000 VAT is set lower – 6 per cent instead of 21 per cent – for the renovation of dwellings that are five years or older. Other criteria are relevant as well. This is also applicable for landlords and tenants when carrying out maintenance.
- 4.4 Furthermore, there are some premiums for energy savings which are available for homeowners as well (Juntto & Winters, 2010).
- 4.5 Last but not least, there is the possibility to make use of renovation subsidies, in the special case where the private landlord lets his dwelling(s) to a Social Rental Agency (thus as social rental dwelling, see above) for at least nine years. There is an income limit for this.

5. Ways for improving the quality of the housing stock

Enforcement of standard quality of dwellings

- 5.1 The Belgian rent law states that a landlord needs to ensure that at the moment a rental agreement is entered into, the residential property must conform to basic requirements of safety, health and habitability. The law allows for a rental agreement 'with renovation': a contract which includes

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certain stipulations about renovation to be carried out during the contract period.

- 5.2 Two methods have been established to further regulate the quality of dwellings. Since 1998, dwellings suspected of being below an acceptable level of quality have been subject to an administrative procedure. Inspectors of the Flemish region will carry out a technical check to establish whether a dwelling is fit or unfit for habitation. The mayor of the local authority concerned will, after a hearing, then declare a dwelling fit or unfit for habitation.
- 5.3 The second way to protect housing quality is through criminal prosecution. This more heavy-handed procedure was introduced in 2001 after it was established that the administrative procedure had not eliminated all malpractices. The Flemish Housing Inspection will monitor offences against the basic standards set for safety health and living quality. When offences are detected, criminal prosecution will follow.
- 5.4 Some changes which came into law in 2007 aimed to make both procedures more effective. For the administrative procedure, a quick repair claim was introduced, as well as the possibility for local authorities to claim the costs of moving the tenant to a dwelling which is of sufficient quality. The process of criminal prosecution can lead to penalties of up to €25,000 and a prison sentence of up to three years can be applied in severe cases.

Housing allowance for movement to a good-quality dwelling

- 5.5 An indirect way to improve the quality of rental dwellings is via a special rent allowance for tenants (since 1991). This is paid when they move from a bad quality dwelling to a private rental dwelling of acceptable quality. It can also be paid when a disabled person moves from a dwelling deemed unsuitable to one that is suitable. This subsidy is generally available for a maximum of nine years.

6. Key factors influencing investment in the private rental sector

- 6.1 If the assumption is that the still growing 'home owning' Flemish society will not be able to grow much more having reached a homeownership rate of almost 75 per cent in 2005, and that investments in the social rental sector (five per cent of stock) are not intended to be raised much, there will always be a role for private renting in the Flemish society.
- 6.2 On the other hand private renting is said to become more and more housing for the poor (Juntto & Winters, 2010), as homeownership may not be affordable to all. Social housing is not catering for those on the lowest incomes. The small social sector is open to households with higher than the

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lowest incomes. This is because of the system of rent setting based on household incomes and the need for social landlords to demonstrate financial sustainability. Households with a lower income may thus not have much choice on the Flemish housing market.

- 6.3 It remains to be seen to which side the coin will fall; especially if there does not seem to be any special incentives for investing in the private renting and quality enforcement seems to be strict and not always allowing for profitable investments.

7. Reasons for selecting or not selecting Flanders in the next stage of the research

7.1 Reasons for selecting Flanders:

- The Flemish private rental sector is of medium size.
- The private rental sector does not seem to be a transitional sector as in England. The less liberal institutional context for rent regulation and tenant security may help here.
- There are a couple of property firms whose ways of operating could be studied.
- The quality improvement enforcement instruments seem to be well set up.

7.2 Reasons for not selecting Flanders:

- There seem to be no incentives for investment in private renting.
- Returns on investment seem to be insufficient, as the private rental sector share has been declining. It may decline further as dwellings are expected to be sold and new investments seem to be low.
- The sector benefits from the fact that the social rental sector is so small that there is no choice for those that cannot, or will not, become homeowners other than to move into private renting.

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