

THE BROOKINGS INSTITUTION

WEBINAR

POLICIES TO SUPPORT STABLE, AFFORDABLE RENTAL HOUSING:
LESSONS FROM AROUND THE WORLD

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P R O C E E D I N G S

MS. SCHUETZ: Hello. Good morning, good afternoon, and good evening, to all of you who are joining us from your various time zones around the world. Thank you for coming to today's event.

My name is Jenny Schuetz. I'm a senior fellow at Brookings Metropolitan Policy Program at the Future of the Middle Class Initiative. I'll be moderating today's event on rental housing around the world. Those of you who follow U.S. housing markets are certainly aware that housing affordability has become an increasingly pressing problem, particularly for lower- and middle-income households.

The cost of housing is also becoming an increasingly salient political issue. If you have been paying attention to the many plans coming out of the Biden administration, you'll notice that there is a housing component both to the COVID relief package and to the infrastructure package.

So, housing affordability is not just a problem in the United States though. Around the world, we have been seeing housing costs rising faster than income in many countries and this puts a great deal of financial stress on low, moderate, and middle-income households.

So to get some ideas about how other countries are dealing with this, Brookings Institution has partnered with a number of real estate scholars who study other countries. We wanted to get some insights into what was driving affordability issues and how other countries are dealing with it, including different ways that subsidies can be structured, tax policy can be used, and providing protections for renters.

So we have brought together a terrific group of scholars. Many of you who have tried to do comparative research on housing markets across countries know that this is a really difficult thing to do. Housing markets are very much grounded in larger institutional and historical context; things like the rule of law, and the financial system, and legal system effect housing markets. So, in order to understand how policies work, we really need to bring that institutional context to bear on the research.

In order to get a sense of what's going on currently with housing affordability and some of the policy responses to the pandemic, we have reached out to a number of really excellent scholars in their own field. So I'd like to go ahead and ask them to turn on their cameras and join us. And I will introduce each of them before we get into our conversation. Thank you.

So I'd like to introduce each of the scholars, who wrote a case study that forms the basis for today's webinar. Arthur Acolin is an assistant professor of real estate at the University of Washington, and he was the author of the case study on France. We also have, then, Christian Hilber, who is a professor of economic geography at the London School of Economics, and he co-authored the case study on the U.K., along with his author, Olivier Schoeni.

Carolyn Schmidt is a senior teaching associate in real estate finance and economics, and a land society fellow at Cambridge University, and she authored the case study on Germany. Elisabet Viladecans Marsal is a professor at the University of Barcelona and a researcher at the Barcelona Institute of Economics. Elisabet, along with her co-authors, Ghizlen Ouasbaa, wrote the case study on Spain.

And, finally, we have Jiro Yoshido, who is an associate professor of business at Penn State University, and a guest associate professor at the University of Tokyo, and he authored the case study on Japan.

Thanks to all of you for being here today, and for your outstanding work on the case studies. Excellent. So for the audience members we're going to have a moderated Q&A amongst the panel for about 40 minutes and so we have questions prepared for that; then we'll transition to having a Q&A based on some of the questions that you all have submitted. And I believe you got a chance to submit questions in advance when you registered for this.

You can also put additional comments and questions into the Q&A function at the bottom of your Zoom screen. And, please, join in the conversation on Twitter using #RentalHousing. You can flag questions that will get funneled back to us during the Q&A session.

So I want to start off by just setting the stage with a pretty broad question for all of the panelists. One of the really fundamental differences that we learned from reading these case studies is that just that the ecosystem of rental housing looks very different in different countries.

So even something as fundamental as, who are the providers of rental housing? Who owns this? Who are the landlords, you know, influences, and the kinds of rental housing, and also those kinds of policies that countries can adopt?

So, for instance, in the United States, the vast majority of rental housing is owned by

private for-profit entities. And that's split both between large companies, entities like real estate investment trusts and asset managers, but also quite a large number of units are owned by individuals or families, or what we refer to in the U.S. as mom and pop landlords.

Subsidized housing in the U.S. is a very small share of overall rental stock. It makes up less than 10% of rental homes. And subsidized housing is helped both by public entities, local housing authorities, but also by non-profit and for-profit landlords as well. So this is sort of the landscape in the U.S.

But I'd like to start with each of you just in turn telling us a little bit about who are the major providers of rental housing, you know, who are the owners of rental housing in each of the countries?

And I'll start to my left in the Zoom box with Arthur and then go to Elisabet after that.

MR. ACOLIN: Thank you, Jenny. Thank you for having me. I just wanted to acknowledge that I am speaking from the campus of the University of Washington in Seattle, and so I acknowledge I am occupying the line of the case studies (phonetic) people including our (inaudible) that have been in the region from these record times.

Affordability is a big issue here, but in France it's a very flat (phonetic) landscape. About 40% of households are renters, and among them almost half are renting social housing that is owned either by public authorities or municipal, or public housing authorities, or housing association that they are public/private partnership with an important role for employers in financing and managing some of those housing stock.

Among the 57% of the rental stock that is owned by private landlords and rented without social housing restriction about 94% of that stock is owned by small scale individual or family that are owning less than five units, and is also area owned even for apartment building condos or an apartment building will not have a single owners in most cases, but be subdivided between individual owners which create this really decentralized diffused ownership structure that is very different from the cooperative ownership structure that might be familiar to U.S. audiences.

MS. SCHUETZ: Great, thanks. Elisabet, would you like to go next?

MS. VILADECANS-MARSAL: Thank you very much, Jenny, for having me here today.

Let me start saying one important thing for the audience that Spain is a country with one of the lowest rentership rates along the European countries.

Today less than one in four households are renting their home, so we are talking about small numbers here in Spain. From these small numbers of people renting housing, a very small part is social housing.

This was not the case in the past. I mean if you look back 50, 60 years ago, the rental market was about half and half compared to the homeowner market. So Spain has been facing a very big change in terms of the amount of people renting or owning their home.

So this small market I researched, the small rental market is basically composed by non-professional landlords. So, basically, rental housing is owned by individuals. This is changing a bit lately because a few big international companies are entering into the market to develop and manage the rental market in Spain for two reasons.

Basically, recently the rental business is more profitable than before; and second the public sector introduced some fiscal incentives to attract these companies to do business in Spain.

But even with these companies running part of the market, they represent just 10% of the rental market concentrated in the biggest cities and also related to these short-term rental housing markets. So today still most of the control of the market in rental housing is in the hands of these non-professional landlords.

MS. SCHUETZ: Great, thank you. Jiro?

MR. YOSHIDO: Hi, thank you for having me. For Japan, about 60% of housing stock is owned, owner occupied, so home ownership rate is 60%, and home ownership is supported by public low-interest, long-term mortgage program; the remaining 40% is rental housing.

And what's unique about Japan's rental housing stock is that they are really small. The average size of rental units are only 50 square meters on average, and the most prevalent type if studio apartment with less than 30 square meters.

Actually, I'm using a picture of a very typical studio apartment in Tokyo in the background. It is called one room mansion in Japan. It's kind of oxymoron. But, anyway, the reason is obviously due to title and supply, but also it is an economic consequence of strong tenant prediction

which I can talk about later.

Then among rental housing, public and quasi-public rental units account for 14%; then those public units are very popular and almost fully occupied, so there is a rationing for those public units in Japan; then the remaining private rental units, they are mostly owned by individuals.

Eighty% of private rental units are owned by individual owners, and they are mainly motivated by tax advantage. In particular, individuals can get huge inheritance tax advantage or reduction by owning rental properties instead of financial assets, so that creates incentive to own rental property, especially a smaller one, as I will talk later. So this is kind of overview of Japanese market.

MS. SCHUETZ: Great, thank you. Christian?

MR. HILBER: First, thank you for having me. So let me start by saying that the maturity of people in the U.K. own their property, actually, very similar to the U.S. In fact, the home ownership rate is very similar to U.S. at 64%. The remaining housing stock is roughly equally divided between social rental housing and private rental housing, and the landlords of the social housing stock are either as so-called local authorities, or counsels, or housing associations, and housing associations are private, non-profit organizations that receive public funding.

And on the private rental side, the landlords are typically individuals, roughly half of these individuals purchase these properties via buy-to-let mortgages, and institutional investors are in the U.K. still very rare.

However, recently there has been a slight increase with so-called build-to-lets initiatives, so where institutional investors get more active in the private transfer market.

MS. SCHUETZ: Excellent, thanks. Carolin, finish us off.

MS. SCHMIDT: Thanks, Jenny, for inviting me as well. I think it's pretty great, this comparison overview of all of the rental markets.

So I think Germany is probably another extreme case because our home ownership rate is so low. So only around 45% of households own their home, and 55% are renters, and this has been like that for quite a while.

So after a lot of the housing stock was destroyed in World War II, there were many homeless people, many displaced people and refugees as well, and this has created a strong new

construction of rental housing. And so from within the rental housing sector, roughly 60% of the units are owned by private landlords and that can be individuals or communities of heirs. And that's typically families who own a home together that they have inherited and administered together, but also homeowners associations.

And this is typically the case in high-rise building where everyone owns just one unit, but they own the building together and have to operate it together. And, well, so this is 60% of the units and around 20% is owned by cooperatives; roughly 15% only by real estate firms and that can be building societies or asset managers, developers, or firms that own employee housing, for example; and then the remaining 5% is owned by the public sector.

And I have to mentioned this is all self-reported data by renters. The last time that this was collected officially was in the census and that was 10 years ago. So the real numbers may slightly differ, but I think on average it's still correct.

MS. SCHUETZ: We could have an entire seminar talking about how hard it is to get good data on the rental housing market. I think it's probably safe to say that rental housing is under-studied and under-documented in a lot of the official sources which makes this research that much more complicated.

Excellent. So I think that probably gives our audience a sense of some of the things that are driving differences. So we already see kind of historical trends and things that have shaped the market over time, that there have been some changes.

The role of the public sector in directly owning and providing social housing is quite different, which we'll get into shortly. Some differences in things, like, mortgage finance, and in tax policy.

So, Carolin, I wanted to start with you. Germany, obviously, stands out as having the highest rentership rate. It's the only majority renter country of the six that we studied. And in your case study you talk a little bit about some of the tax policies that may contribute to that.

So can you give us a little bit of an overview of what the tax benefits are for renters, or tax benefits for owning rental housing that might incentivize people to rent out properties?

MS. SCHMIDT: Yep. So, unlike in other countries, we don't have this tax incentive for owner occupation. So, if you own and occupy your own home you cannot deduct mortgage payments

from your taxable income, instead you can deduct it from your income if you rent the unit out to someone else.

So, well, this is the first thing I think where just the strongest incentive for landlords to purchase a rental unit and to rent it out. But they can also pass on, for example, land value tax to the renters or certain repair and maintenance costs such as cleaning services and janitors, and also depreciation of the building and other utilities, like, water supply, for example.

So all of this doesn't really -- yeah, all of this is really incentives for rental housing. And, well, this is probably also the reason why many landlords rent out units in their own buildings because then it's easier to monitor their investment and share the costs of the entire home.

And then there is also kind of a specialty appreciation which is more a temporary measure. So for a newly created living space there is a special depreciation where you can have higher deductions for a certain time, but also this is bound to certain requirements. So you have to rent out this unit again for at least 10 years.

MS. SCHUETZ: Great. The U.S. has had conversations and changes over time in our federal tax treatment of rental housing. So it's good to notice that it really matters, right, tax policy has some big implications for this?

I want to turn now to Christian and Arthur together. So both of you talked a fair amount in your case studies about the role of social housing, social rental housing, but France and the U.K. are going in very different directions, right.

So, in the U.K., social housing has decreased in the share of overall the housing market, and France is continuing to invest in social housing, and in some ways, trying to sort of fix things that haven't worked as well in the past.

So I'd love to hear from both of you. And maybe, Arthur, you want to go first. Tell us a little bit about the role of social housing in the rental market and kind of significant changes in the past few years.

MR. ACOLIN: Yeah. And so, France had had a mixed history with social housing and that's probably an understatement. Some I'm sure probably have seen some that we mentioned, are familiar with the housing estates that were built from the outskirts of large French cities in the post-World

War II era, and some became really ghetto in term of having really concentration of poverty, huge social issues and that history is still present. A lot of those housing estates are still there and there have been a lot of effort put into developing them.

But one of the big thing I want to emphasize with regard to France is that right now we have about 4.5 million units of social housing, which is almost exactly the same number of housing units found in the U.S., when you combine public housing and LIHTC program, so about 4.5 million as well, except that France is only one-fifth of the size of the U.S.

So we have a really large social housing start, and almost 1.8 million of those 4.5 million units were built within the last 20 years. So, yes, we still have that history of what was built in the 50 and 60's, but we have also much more recent stock. And that stock, to a large extent, has tried to be a lot more integrated to the rent fabric, a lot more mixed income.

There is a recent paper in (inaudible) touching on that if I was interested where really France has, since 2000, a law that was passed that requires every municipality above a certain size to provide at least 20% of their stock as social housing, now 25%.

That has really tried to make it more disbursed across the territory and have more of a balance of where social housing is located. There are still a lot of issues with regard to municipalities not complying with that mandate and choosing to pay a fine rather than performing particularly, as you can imagine, with a municipality that really don't want low-income housing within their jurisdiction, or a very small quantity of it.

But, overall, there is still really this commitment to public housing and to having it available in areas of opportunities in higher job growth areas. So social housing is not a residential sector in France.

And one of the examples for that, if you look at the income distribution among renters who are in the three million household design, so only between around median income, almost half of them are in social housing. So if you are a renter and in median income household, there is a pretty good chance that you will be in social housing.

So it's a very different view of social housing than in the U.S., and I don't have time to get into that. But the other really component is that we also have universal rental assistance.

So we don't really have social housing, place-based policy, but we also have universal rental assistance on the private rental side which also allows to have affordable housing being spread across neighborhood and across municipalities, but we can come back to that in the Q&A session.

MS. SCHUETZ: Yeah, absolutely, great. Christian?

MR. HILBER: Yeah. So the story for the U.K. is different, as you already mentioned. So, in the U.K., social housing actually increased in importance until 1980, and in 1980 roughly one-third of the entire housing stock was social housing.

But then Margaret Thatcher implemented the so-called "Right to Buy" policy, which gave the owners of social rental units the right to purchase their units at a heavily discounted price. And, you know, everybody who can afford to buy those social rental units, of course, took advantage of this.

So, as a consequence of this, the share of the rental stock decreased quite significantly from around a third to around 18% today. And, correspondingly, the share of owner occupied housing had increased at least until 2003.

So, one consequence of this decline in the social rental stock is that the waiting list to qualify for this social housing has become even longer. And despite criteria that, in principle, give preference for the most vulnerable in our society, in practice sadly it is often those most vulnerable that end up on the street and become homeless.

MS. SCHUETZ: Great. I have to say, as a loyal watcher of "The Crown," I am now very disappointed that they didn't have a special episode talking about right to buy. I feel like that would have been a really great conversation for the private audience to talk about the future of social housing. We'll suggest that for another episode.

So I want to turn now to Jiro, Elisabet, and ask you to pull out a little bit from your case study. You both talked about the role of the national government in regulating leases and some ways that either currently or in the past, Spain and Japan have made it hard for landlords to end a lease, even when this lease sort of seems to come to an end, and so the difficulty of kind of completing a relationship and turning stock over.

And so I wonder if you could talk a little bit about how that happened, and then maybe explain some of the incentives that that creates for landlords?

MS. VILADECANS-MARSAL: I can start if you want, Jenny. Okay. So, as I told you, in Spain the rental market is kind of small, but it was not the case in the past. But the role of the public sector has been basically regulating the market, not investing dollar on building new housing for public renting. Okay?

So the regulations were, like, in my opinion, it was -- we have seen a collection of failures, laws trying to organize the market and not being successful. For example, I can go back to 60's where the, as I told you before, the rental market was not that small as it is today and there was a law that was protecting the tenants, like, forever.

So the law requires the landlord to extend the lease until the tenant dies or if he wants. And after the tenant death, the spouse or the children can assume the lease. So, in the end, this was a disaster because this decrease a lot of profitability of the landlords so the supply of new rental units was basically decreasing a lot.

Thirty-five years later, so during 25, we got this fantastic law that protecting, like, in my opinion, too much the tenants so supply of rental housing going down, so they changed the law. They removed these mandatory extension and they started kind of a crazy collection of laws saying then the lease would be an agreement between two parts, and now the lease has to be three years and not five years.

So, in the end, the years were passing by, the amount of renters were going down, and we arrived until the year 2019, where they decided again to make it difficult, not to get the tenant out, because now the lease are controlled so they have a duration, but they started with the other side of the story introducing rent control.

So we started with the lease control and we finished the story of Spain with the rent control that if we have time later on, I can tell you about how it's working in Spain, this new invention on how to, not spending a dollar on the rental Market, but trying to regulate it like crazy with not a successful story, I would say.

MR. SCHUETZ: Great, thanks. Jiro?

MR. YOSHIDO: Yes. Like in Spain, Japanese legal system also provides strong tenant protection. In particular, there are two types of these contracts: ordinary leases and fixed-term leases.

And the very common, most common ones are ordinary leases and they provide strong tenant protection.

For example, even though there is a contract term, tenant can renew a lease indefinitely and/or tenant can terminate a lease in the middle of a lease contract. In contrast, a landlord cannot easily terminate the lease in the middle, or even refuse renewal. Because they know that for the landlord to refuse the renewal they have to file a lawsuit and establish just cause at the court. That's really, really, difficult.

And, furthermore, renewal rents for sitting tenants are typically very low, much, much lower than the market trend, so that creates a very similar situation as in rent control in the U.S. and other countries.

So there are several important consequences out of that tenant protection. First, a property owner is really cautious and concerned about the sitting tenant problem in renting a property to someone else, right.

So when a tax-motivated individual starts to build rental properties, they try to select a particular kind of tenants who are not likely to renew leases, meaning that those tenants are college students, those tenants can be young professionals.

So in order to attract those short tenure tenants they build studio housing. So the supply of studio housing, less than 30 square meters, is huge in Japan, in order to avoid sitting problem. That creates a weird supply demand mismatch problem in Japan. So that's our tenant protection situation in Japan.

MS. SCHUETZ: That's fascinating how the regulation leases. And I hadn't thought about it until your case study that long-term leases, you know, and sometimes is functioned like rent control, right.

If you can't increase the rent that much with a sitting tenant, you have to wait for it to turn over. But if the lease can be extended indefinitely then you never actually get a chance to raise the rent. So that's sort of backing into it.

Excellent. So I want to ask one more question of all of the panelists. And this is, you get to put on your imaginary hat, so we're going to pretend that each one of us gets to be the housing czar, in charge of housing policy for your country. And you're given a magic wand that you can just waive and

change any of the policies that you think are most essential that would make the rental market work better.

So, one of two things that would make a real difference to the market and we get to pretend that we don't have to worry about political concerns, and we don't have to worry about money. We just get to change policies the way we, as economists, think they should work.

So I'll give an example for the U.S. There are two things that I think are most important to make U.S. rental markets work better both for tenants and for landlords. The first is to loosen the zoning regulations, the local government laws which currently make it very hard to build multi-family buildings that provide a lot of the rental housing.

So we need to make it easier, and faster, and cheaper to build apartments, particularly in the places where there is very high demand and people want to live there and there just isn't enough supply and that should be paired with something that Arthur mentioned earlier that's common in France, which is providing rental housing to all low-income households as a matter of right.

So, currently, Congress has an annual appropriation decides how much money to spend on household based rental vouchers. And most people who qualify don't get a rental voucher because they run out of money.

So if we allow more supply and give money to low-income households that would substantially alleviate a lot of the housing affordability problems in the U.S. So we'll go in reverse order on this one. We'll start with Carolin, and then Christian.

MS. SCHMIDT: Okay. So I think I agree with you that building or construction should be made -- or should be raised more quickly. I think in Germany the total number of dwellings is sufficient, the problem is just that they're in the wrong place.

So the literal translation of real estate in Germany is really immobile. And if I could use my magic wand, I would probably just take the homes that are in the wrong place and just put them where they're needed, even though I don't think this is what you actually meant.

So I would probably also say that new construction has to happen more quickly so that the building code in Germany is far too complex. It's much too strict. I think there are other countries that make that much better, for example, The Netherlands and also land is too expensive.

So if we could build more housing more quickly this would help a lot, especially in the urban centers where most people are really moving at the moment. And my other wish would be to have better data on -- not only on the rental market, but also on the owner occupied market.

Because this I think we have even less data for homeowners than we have for rental markets, and it would help tremendously to make policy recommendations if we just had more information about who lives where and what kinds of investors are active in the different markets.

MS. SCHUETZ: Christian, do you want to go next?

MR. HILBER: So let me, first, give 30 seconds background of the institution setting in Britain before I answer the question. So the main problem in Britain is lack of house building which has led -- lack of house building, particularly in the most desirable parts of the country, the Greater London Authority in the Southeast. And this has led to skyrocketing house prices and rents, especially in these desirable areas.

So housing has, especially owner occupied housing, but also private rental housing has increasingly become unaffordable for young people, lower incomes, but increasingly also middle incomes. And the underlying cause of this is arguably a dysfunctional planning system and a tax system that gives virtually no incentives to local authorities to permit residential development in the first place, then to get a risk nimbyism this just leads to very little new construction.

So, as a consequence, now answering your question, what I would do as a housing czar is I would reform the planning and the tax system to make it easier to build, thereby reducing the costs of housing and improve affordability for everybody. But, in particular, for, you know, young people, lower incomes, and middle incomes struggle the most.

And if I may add, on the rental side, I would actually slightly improve the protection of private renters without actually introducing any kind of strict rent controls. So I think that's -- and I would want go nearly as far as Spain or Japan, but there is somewhere in optimum and in England, one issue in the U.K., and one issue is there is virtually no protection of rent, there is nothing.

There is somewhere in optimum and the U.K. is to the left of it, and we should move a little bit more towards protecting renters. The idea is to make the long-term rental option a better alternative and at the same time not to disincentivize landlords to provide private rental housing in the first

place. And just to be clear on this, I will maintain, I would love to maintain social housing and-or social benefits for the most vulnerable of our society.

MS. SCHUETZ: Yeah. No, it's a great point that there is essentially this balancing act between providing enough protection for renters, particularly the most vulnerable renters without making rental housing financially unattractive to landlords, right, so there is definitely a spectrum there. We get the sense that every country is trying to find its space.

I may come back with a follow-up question on property taxes because that's actually -- it's not something that we talked about in the case studies, but I want to do a quick survey later. But why don't we go to Jiro next?

MR. YOSHIDO: Okay. Yes, for Japan, I would definitely change the balance of tenant protection. As Christian emphasized, probably the idea or optimum point is in the middle of no protection to heavy protection. And so, on the one hand, tenant protection provides stability and security to renters and it's good. It's the intention of the legal system.

But, on the other hand, in equilibrium strong protection results in undersupply of rental units, especially for families, right. So, in Japan, a family doesn't have many choices other than borrowing money and owning a house because there aren't many rental housing provided for families, right; then borrowing is not necessarily a happy solution to those households because mortgages are a recourse in Japan and that's a really heavy burden to those households.

And also, there are so many vacant units wasted or unused because they are concerned about sitting tenant problem. So there is a waste of resource and mismatch of stock, supply and demand for housing.

So instead of imposing universal tenant protection, it will be much better to have the transparent pricing of many of contracts, like, with better protection of tenants or a longer lease term, or renewal rights, with our without renewal rights in some; then if we have different pricing for those then that would create a much, much better, or more complete market for rental housing. That would be my recommendation.

MS. SCHUETZ: Elisabet?

MS. VILADECANS-MARSAL: Okay. So thinking about Spain, if I see what's going on, I

mean, after 2015, we have seen an increase, an important increase on the rent. Because, I mean, it was more difficult to get the mortgage to pay a new house and also young people have less stability in the rental market.

So more people wanted to rent, more demand, and the supply was not growing at the same path. So the point is not we need to increase supply as much as possible in the rental market. So, and because we need to increase supply, I would say that the public sector is the one that is in charge to providing now, forever social public housing because we don't have it. I told you that it was less than 10%.

You told us there is not a money constraint in this policy you are now creating. I would say produce the old social housing in Spain because it's what we need. Because the people that was more affected by this increasing the prices was, of course, young and low-income people, so they need social housing.

If we don't have this big amount of money to build housing, we can be creative and invent some fiscal incentives for the new tenants to provide new units and to arrange not so high price for a long-term lease. We can be creative with this. This would be my thing, increase supply, basically, from public money and create new buildings.

And, second, going back to Jenny's point about zoning, about land use policies, in Spain we also have some problems here, As all of us, we have the land use policies in terms of the tiny municipalities. We have more than 8,000 municipalities. Each one does what they want and we need coordination.

So another thing that I could do, if I was able, or try to motivate coordination, or make it compulsory. Because you cannot imagine how difficult it is for these tiny units to decide which piece of land will develop, which other lease will develop, and in the end it's not an efficient market of providing the land that is needed for this new housing to be built.

MS. SCHUETZ: Great, Arthur?

MR. ACOLIN: Yes. So, France, and one other thing is already spending a lot of money on rental housing which is really a big difference from the U.S. And so we don't probably want to increase how much is spent on big housing.

We are currently spending about 1.5% of GDP on rental housing, both public and social housing and rental assistance. That's about six times as much as what the U.S. is allocating to all rental housing programs as a share of GDP, and so there is a lot of money spent on it.

And there are some results that I think are pretty good, like, if you look, for example, at one building for the lowest income coincide, about 20% of private sector renters are cost building in France, it's more than 50% in the U.S. at the same income level. So there are some outcome I think that are pretty good from that spending

We also have pretty stable renters. On average, the median length of residence is six years in France, so it's about three times as longer in the U.S. So the outcomes I think for renters are pretty good. But there are still also a lot of things that are not working on the regulation side, and so enforcing the (inaudible) that requires to have at least 20% or 25% of public housing, particularly in tight labor market, tight rental market, I think is really important so that you have affordable housing in areas of opportunities; so that would be one.

And then the second one, France still pretends to be a race-blind country and do then recognize discrimination based on origin, and so taking more steps to making sure that both private and public landlords don't discriminate based on origin would be another step that I think is really important, another thing we really discussed in some of those case studies, but is really important.

And then, the third one, we only have is to remove some of the step that have been taken towards rent control. Rent control has been kind of that element of the public debate that hasn't gone really far yet, but a number of cities have started implementing it.

Germany is often cited as one of those example of what to do, in that regard, and so Carolin can comment on that. But I really think the pricing note and the renting note are really important to bring in landlords, to bring in development, and going down through the role that the rent control would have to matching long-term consequences on just that creativity in the rental market right now.

MS. SCHUETZ: And I'll go ahead and plug. Arthur has a paper that's been put out that tests for discrimination I the French rental market based really on the name of the renter who is renting it. So with the equivalent of Craigslist, they submitted some applications and there is a substantial amount of discrimination based on the perceived country of origin. So you should read that.

Carolyn, actually, I'm going to throw that over to you, since Arthur brought up rent control, and Berlin's rent control program has been making news in the last weeks. Do you want to give us a quick recap of what the setup was and what's recently happened I believe from the court cases?

MS. SCHMIDT: So I think it was at the beginning of last year when Berlin introduced a rent break. So it wasn't able to raise rents at all, and this has been ruled unconstitutional last week. And the reason for this was that there is already rent control in German, and so there cannot be additional rent control on top of this.

And while the policies that we have in place already that's also kind of a rent cap and it implies that you cannot raise the rent of your lease by more than 10% on top of the local average rent index, let's say.

And, well, it has been ruled unconstitutional and there has also been research on this rent break said that while people tended to move out of Berlin into other large cities, like, Potsdam, which is, like, satellite city, and also the number of listings for rental units has decreased a lot because who would want to move out of a unit when there is already a rent control?

So people didn't want to move anymore and that significantly decreased labor mobility as well. Labor mobility is a really important topic in Germany because this is basically what decides or what determines rentership in Germany.

MS. SCHUETZ: I want to go back to a topic that Christian had brought up. He raised the issue of taxes and incentives from local governments. In most countries local governments have at least some authority over allowing properties to be built or not built, you know, in the U.S. this raises some real issues, too.

New housing is perceived as a fiscal burden on local governments because local governments are responsible for paying for services. In particular, schools are mostly funded by local governments here. And so the perception is if you build a bunch of apartments that bring in families with school age kids that has to generate enough in locally collected property taxes to pay for the cost of services, right.

So there is a real tension, particularly about providing family housing for lower income families and that creates at least some of the pushback, and we can distinguish a little bit between

nimbyism not wanting low-income neighbors versus a local government worried about the fiscal consequences.

So I'd be curious to hear each of you talk about, you know, is housing considered a fiscal burden on local governments, or do you fund public services differently, and does that somehow alleviate the pressure?

And, Christian, I'll throw it to you first, since you raised this.

MR. HILBER: Yes, I think this is a really important point. Because if you look at the U.K. the problem, or one of the key problems is that local authorities they have all of the costs of providing infrastructure and local public services.

If you allow bigger housing project in your local area that makes the school catchment area smaller. It leads to more congestion in the road; it leads to more pollution. Nimby residents don't like it, and then on top of that local authorities have all of the cost of this developments, they have to provide the infrastructure and the public services, but there are very few benefits. There is a council tax, but it's a very small tax.

So, essentially, local authorities have disincentives to permit developments. And that's one of the issues because they have the power to permit development. And, as a consequence, you see very little permission to build residential housing.

And if I may throw in a seventh country, if you compare this to Switzerland which has very strong taxation power at the local levels, in Switzerland you have local income taxes and everybody tries to attract Roger Federer to move to their, you know, local municipality.

So local authorities they zone land at the outskirts of their municipalities, large parts, so as to attract good taxpayers, and so this is really important. In Switzerland this has led to a perceived sprawl problem and policy is trying to tackle the sprawl problem; whereas, in the U.K., where you have these disincentives to permit development it leads to a massive affordability problem especially in desirable areas like London.

MS. SCHUETZ: Do any of the rest of you want to talk about sort of the local tax issue or local services? Is that an issue for you as well?

MS. VILADECANS-MARSAL: If I can add something? Okay. In Spain, the local city

councils are kind of small in terms of the amount of money they manage. For example, they don't run education. But the peculiarity here is that around 20% of the budget is related to the housing activity.

So, in some cases, there is the temptation of the local politician to allow more building, more development to get the tax related to these new buildings of this new construction. And did a paper some years ago trying to understand the housing booms en masse at the local level.

And it's clear to see how some local authorities took the wrong decision increasing the amount of development they allowed to peak the (inaudible) to construction, then they hire more people, and when the crisis came they were in trouble. Some of them went bankrupt because they were not able to keep the city council because they grew too much.

So, in Spain, we have this and we are talking not about weak amount of money. But the proportion of the budget is pay related to this type of activity, so this is kind of a problem sometimes in Spain too.

MR. YOSHIDO: I would add a perspective from Japan. Japan is a fast aging country, and the concern by local governments are not really burdened by, you know, school system, and so on, but a shrinking population in regional area.

In Japan still population are migrating into Tokyo meaning that other regions have a severe shrinking population, so they like to increase; they like to have housing; they like to have, you know, population; and then local governments, yes, the tax revenue is coming from property tax for local governments.

But, in Japan, tax rates and tax assessments are governed by the national government, so each jurisdiction doesn't have any discretion on that part. So that's not really the issue. So, you know, they don't have any choices and they just wanted to have more population.

MS. SCHUETZ: It's really fascinating to hear that there are countries where property taxes are set at the national level and that there are places where the national government pays for schools. That's proof that, you know, baked into the U.S. housing system it and creates a lot of these distortions.

So we had a question from one of the audience members asking about sort of the distinction between kind of small individual landlords and the larger corporate landlords in countries

where both of these exists. How different are these sectors, right?

And so in the U.S., a lot of it comes down to the size of the property. The really big multifamily buildings tend to be owned by large corporate owners, RIFs, or asset managers. And, you know, smaller individual mom and pop landlords tend to own small buildings, single family, you know, two to four family, primarily.

And so then that sort of takes you down the road of the buildings are different, you know, the amenities they offer are different. But I'm curious, in other countries, you know, how different are these sectors? Is the individual landlords and the corporate landlords, do they really have different products?

MR. YOSHIDO: Let me start. In Japan, what's interesting is that individual property owners are motivated by tax incentives, so their pricing is very different from professional investors pricing. So individual owners are willing to pay high price, that creates a really low investment yield for properties.

So, recently, RIFs are trying to increase their portfolio in apartments and residential properties. But those professional investors cannot really compete with individual owners in terms of pricing because individual pricing is very different from investment purpose pricing.

MR. ACOLIN: And in France, so what is interesting with some of those with your landlord is that they are actually programs that they are really targeting them because of the fiscal incentive as well, and so you have entire building that are built with that particular program, and this program change with almost every government, so the developers really adapt to it.

And so that's good use for renting but sold as individual units. And so, you can see kind of that type (inaudible) of housing. What institution tended to really be focused on some of the core market in the large cities, like, Paris. So they really don't have a lot of institution that has smaller building in that core market.

The last thing was some of the cooperative that they are subjected to different regulations, so they have to have six-year lease to have three-years leases (inaudible). So there are some differences for the tenants that trickle down for the landlord. But, overall, they are not operating in the same market or the same building as well.

MR. SCHUETZ: Carolin, go ahead.

MS. SCHMIDT: Yep. So, in Germany, we, like, private individuals really have different products than professional landlords. I would say that, well, for private landlords -- so individuals, for example, they tend to own buildings with more rooms, so probably single family homes which they just rent out.

This could be an inherited home, but they may not want to sell it and just live elsewhere, probably in a rental home. And, well, so that the dwellings or the buildings where these -- where private individuals own rental homes tend to be -- that the buildings tend to be smaller, so typically the real estate firms own units in high rises.

For example, in Frankfurt all of the new construction in the city center has high rises and these are all constructed by professional landlords. Of course, these tend to be also much smaller than single family homes which are primarily rented out by mom and pop landlords.

But, yeah, I mean I think professional landlords in the cities can make quite good money of these smaller units as well by just renting out the top level units at a higher, much higher rent than the lower ones at lower rents.

NS. VILADECANS-MARSAL: For Spain, as I told you before, these professional landlords are a very small part of the market, just around 10%. But in big cities like Barcelona maybe could be 20%.

And, usually, the way it works that these international companies, they buy the whole building. They renew the building and they open these new flats, fancy flats for the new tenants in the city.

And, as I told before, sometimes this relates to the short-term rentals. So it's a different type of -- the tenant is not the same as the one that is usually renting from an individual owner.

MS. SCHUETZ: So here is a couple of the countries have different also lease structures, right. So in the U.S. the standard is a one-year lease and then you renew for another year. You know, Jiro, you had talked about there are two different kinds of leases in Japan, both sort of a more open-ended and a fixed term.

In your countries, if there is a multiyear lease, how does that typically work with rents, or

is there a rent increase that's built in?

So sort of like, you know, corporate leases in the U.S., like a retailer office, you would have, you know, a stepped up increase that's agreed on, or linked to an index, but for multiyear leases how does the rent work?

MR. ACOLIN: In the French area, both sides renew it, so every three years that's when you have an index you can use for by increasing your rent at renewal. And in some cases, it's also index doing the lengths of the lease as well with a step.

So a Q&A question I wanted to address as well with regard to rent moratorium in the context of COVID. In France, at baseline you can't evict anybody for almost any reason between from the beginning of the winter until the end of the winter and with COVID they have extended it until the end of June, last year, and this year again.

So we have very strong protection against eviction during the winter. And even outside of the winter, it's still pretty difficult to evict now. And so that's with regard to COVID that has really shared that dynamic relative to the U.S.

MR. HILBER: Just following up on that. So in the U.K., actually, one-year leases are extreme, they are the typical form and I think longer term leases are extremely uncommon.

And I mean that's why I emphasized rent protection a little because that has caused a lot of problem, in particular, because most of the rent private trend units are owned by landlords who own only one single unit and they often not very well-trained and don't know the laws very well.

And so, you know, you see it sometimes that landlords increase the rent massively from one-year to another due to personal circumstances, and things like that. And so, but just following up, like, when COVID hits the country and the government also introduced protection of eviction so that is (inaudible).

MS. VILADECANS-MARSAL: So, in Spain, when you have these leases that have a length that some multiyear, you apply every year the increase of the national inflation rate. It's a lot of debate. Because you can imagine prices are not growing the same in all of the geography, but the rate is the same for all of the leases. That's one thing. And this has been a lot with debate, you cannot increase the same in Barcelona as in the smallest town in the middle (inaudible), for example.

And the second thing is that COVID again also is like France or U.K. and the protection is total. I mean you cannot evict anyone because they are not paying because of COVID. Another thing that is happening now in Barcelona is that during this five-year contract, for example, the increase every year is kind of very small because this rate is very small. But when the contract finishes, as Christian was saying, then the jump is like crazy and this person is basically invited to leave the flat because someone else is coming to pay twice the rate that he or she used to pay.

MS. SCHMIDT: Yeah, in Germany, we also have these open-ended contracts and rate rents can increase, for example, with the CPI, or there have been major renovations and even under rent control rents could increase by a certain fraction.

It's relative to I think 15% over three years. So if you do not have this additional rent cap that some very tight markets have. But, yeah, you can still increase the rent a little bit.

MS. SCHUETZ: Well, we are coming up to the end of our hour. And I want to thank all of you for doing really wonderful work with these case studies, you know, our hope was that this is going to be a good resource for people who are teaching, who are doing research in the area for policymakers.

But we felt very strongly that having some comparative information that kind of lays out the structure would be really useful to a lot of readers. Thank you guys for taking time out of your various mornings, evenings, all over the place to come and join us. I want to encourage the audience to read the full case studies. These are very detailed. There is a lot of really rich information that we didn't get a chance to go into, so please do go read those on brookings.edu. Thanks to the audience for your lively and energetic questions. Hopefully, we can continue the conversation. And thanks, everybody, have a wonderful day.

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