

# LESSONS FROM GERMANY

Tenant power in the rental market

Bill Davies, Charlotte Snelling, Ed Turner and Susanne Marquardt | January 2017

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The private rented sector (PRS) in England is growing rapidly, in part in response to the increasing unaffordability of home ownership and the declining supply of social housing. There is mounting concern that across a range of indicators it is a poor substitute for both of these main alternatives. Tenants enjoy limited rights, their tenancies are short, and rents – while in the short-term more affordable than buying – are rising faster than incomes, preventing tenants from saving for mortgage deposits or even meeting the everyday costs of living.

The PRS does not need to be a poor relation to home ownership or social renting, however, and we can turn our attention to other countries in which the challenges presented by the PRS are managed with more success. This paper, the second of our series comparing the English and German housing markets, explores the lessons policymakers can learn from Germany – a country in which renting is the dominant tenure and which appears able to offer both stability and security to its 40-million-plus tenants.

England can learn from Germany in areas of tenancy security, controls on cost, and tenant representation. We recommend greater balance between the rights of a tenant and the rights of a landlord in England through longer tenancies, help with the costs associated with renting (such as deposits and letting fees), and stronger, more formalised representation.

## KEY FINDINGS

This paper finds a number of similarities between the German and English rental markets, including the processes for finding a property to rent, checks on tenants' finances, and expensive deposits. There are also similar ownership patterns – in both countries most landlords own only one or a few properties. There are, however, many areas of divergence in which the German PRS appears more generous and secure, making it a more attractive offer to prospective tenants.

- German tenants enjoy strong security of tenure. Most tenancies are indefinite and only in very limited circumstances can landlords evict tenants. In England, the assured shorthold tenancy is 6–12 months as standard, and landlords can evict tenants at the end of the initial contract period without justification. Tenants in Germany therefore enjoy more stability and assurance in their living arrangements, and tend to move house less than their English counterparts. German tenancies last, on average, 11 years compared to only 2.5 years in England. However, for all these advantages, longer-term tenancies in Germany can make it difficult to access new rental properties.
- In Germany the proportion of tenants overburdened by their housing costs – paying over 40 per cent of their income towards housing – is much lower than in the UK: 23 per cent of renting households compared to 33 per cent in the UK. The more plentiful supply of rental properties in Germany and the longer tenancies (which slow the process of rent increases) are not the only reasons for this difference. Germany's rent controls place strong restrictions on in-tenancy rent increases, and the new 'rent brake' will make it more difficult for landlords to charge higher rents when re-letting a property. England's rent control system has, in contrast, all but disappeared.
- Tenants in the German PRS comprise a significant political powerbase. Forty per cent of households live in the PRS, compared to just 19 per cent of English households. Of these German tenants, three-quarters are thought to be active voters, versus only half of English tenants. Influential tenant bodies further underpin this political influence: three million German tenants belong to local tenant organisations that can lobby in addition to providing legal cover, advice and arbitration for disputes between tenants and landlords.

## KEY RECOMMENDATIONS

Systems of tenure are deeply embedded but, on balance, the greater security of tenure that German tenants enjoy in comparison to their English neighbours brings with it many more benefits than problems. In the long term, England should therefore learn from the German example and move towards a system of longer-term rental contracts and more protection for tenants.

Wholesale legislative change on tenure security is unlikely to be forthcoming in the next parliament, so there are a series of steps which can be implemented to gradually increase the length of current tenancies, with the public sector leading by example.

- Government should let local authorities, through the planning process, require new build-to-rent schemes offer tenancies of a minimum of two years, with an appropriate break clause for tenants. Local authorities could achieve this through section 106 agreements if appropriate policy support were included in the National Planning Policy Framework.
- Any private rented scheme supported by public money or land should require a proportion of homes to offer tenancies of a minimum of two years.
- Not-for-profit builders should lead by example. With housing associations and local authorities moving into direct development of market-rent housing, they should offer households a range of longer-term tenancy options in their purpose built PRS schemes. It would be helpful to amend schedule one of the Housing Act 1988 to allow local authorities to offer assured shorthold tenancies (which they are currently barred from doing), as part of new-build schemes, but with longer tenancies and appropriate break clauses. Across each of these, tenancy agreements should fix any future rent rises upfront, in writing.

However, new homes are only a small part of the rented sector, and there is more than can be done to incentivise private landlords to increase the security of tenure.

- Not-for-profit lettings agencies and public online lettings services (such as RentSquare) should provide incentives and services discounts to private landlords offering longer-term rental contracts.

Longer-term tenancies act as a natural brake on rising housing costs by giving landlords and letting agents fewer opportunities to increase tenant rents. However, additional measures could support tenants in contesting their rents (formally and informally), and mitigate the high cost of deposits.

- The Valuation Office Agency should publish more granular detail on the local cost of renting, so that tenants know whether they are paying a reasonable local rate. This should include the full range of property types (detached, semi, room, maisonette) and property sizes alongside the average prices at the ward level. As well as allowing tenants to informally challenge their rent with their landlord, it would also support tenants to contest unreasonable rents through the tribunal process.

The government's proposed ban of letting agent fees on tenants is a welcome and creditable move that follows previous German (and Scottish) legal changes. However, deposit costs are still a significant burden on tenants, and there is more that could be done to improve access to the rental market. For instance:

- local government should work with the insurance industry to establish an insurance product to replace the tenancy deposit.

Finally, greater protections for tenants will only come with greater political activism and collective voice. To build on the current capacity of organisations like Shelter and Generation Rent, mass membership organisations could support renters in building a stronger tenant lobby. To that end:

- trade unions should work together with housing charities and TMOs in taking a more active role in supporting private tenants, helping them with legal advice, helping to dispute excessive rents, and supporting them in challenging landlords on property conditions and management issues.
- a longer-term goal should be to start a tenants' association nationally, with local branches, to mirror the German model
- alternatively, tenants' insurance offers could be extended to cover legal fees which would provide similar opportunities for supporting tenants to challenge landlords.

For the full report, including all references, data sources and notes on methodology, see: [www.ippr.org/publications/lessons-from-germany-tenant-power-in-the-rental-market](http://www.ippr.org/publications/lessons-from-germany-tenant-power-in-the-rental-market)

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