



W12 – Housing Market Dynamics

Economic strategies for private landlords

**Who is investing in private renting and why and how are they doing it?
Experience from Denmark**

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Who is investing in private renting and why and how are they doing it? Experience from Denmark

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Abstract

The private rented sector varies much in size and character between European countries. Several studies from different countries have shown that investors in the sector are a very inhomogeneous group with many different motives for buying and letting out residential property. This has much importance for the efficiency of the sector. This paper reports the result of a Danish study on private landlords: their background and financial situation, their motives for buying and selling property and their business strategies.

Introduction

In most countries in Europe and North America owner-occupation has been the dominant tenure in the housing market and sometimes rental housing has only been a marginal part of the market. In some countries social subsidised housing has made up the largest part of rental housing, while private rental housing, produced on market conditions, has been a small part of the housing stock. Rental housing in many ways differ from owner-occupied housing concerning type of building, size and quality.

Owner-occupation has been the preferred tenure among most households in western countries. The main reason for this has often been very favourable economic returns from investments in homeownership compared to investments in other assets, but it has also been because of better security of tenure in owner-occupation, more power to change and improve dwellings and greater freedom of choice.

For different reasons there has also been a demand for rented housing. An important motive for preference for rented housing often mentioned in the literature (e.g. Dieleman et. Al. 1988, Norvik 2000) is lower transaction costs and efforts, which is important for mobile households. It is a fact that the mobility among renters is much higher than among homeowners and that the rate of turnover is much higher in rented dwellings.

The demand for rented dwellings, however, to a great extent comes from households that actually prefer homeownership, but who cannot get access to this sector for financial reasons. Because of capital market imperfections homeownership tends to be more difficult to achieve for households with lower incomes and also more expensive (Arnott 1987, Clark and Dieleman 1996). Therefore, some households have to rent even if it is against their tenure preferences.

Housing services from the two kinds of tenures are produced by different systems of supply. A reason for the preferences for owner-occupation could be that this sector is more economic efficient in producing housing services. To what extent produce the private rented sector housing services at lower or higher prices than is obtained in owner occupied housing? Is the private rented sector more or less efficient compared to the owner occupied sector?

It is the assumption of this paper that this to a great extent depends on what kinds of landlords are operating in the sector and what kind of economic strategies they pursue. In this paper will be discussed the significance of results of a survey among Danish private landlords where their motives for buying and selling their properties and their strategies for running their estates have been examined. These results must be interpreted in the Danish context, which is very much determined by a strict rent control of most private renting.

Is the provision of rental housing economic efficient?

In the literature different arguments have been put forward for that the private rented sector is more or less economic efficient than the owner-occupied sector.

Some of the arguments put forward for higher efficiency in the rented sector are that landlords could be more efficient in carrying through maintenance and improvement by greater professionalism and economics of scale (Whitehead 1996, Linneman 1985). It could also be expected that landlords often have a superior credit rating compared to most individual homeowners, which could result in smaller capital costs.

The extent to which these advantages for private renting are present depends, however, on what kinds of landlords are active in the sector. Studies in many countries (Crook and Kemp 1996, Yates 1996, Lundström and Gustafsson 1985, Allen and McDowell, 1989, Skifter Andersen 1998) have shown that the majority of private landlords most often are individuals, many with a single property. In a study of the private rented sector in Britain Crook and Kemp (2002) thus concluded that:

“Although the sector has grown significantly in the last decade, it is still a ‘cottage industry’ owned and managed by small scale individual landlords, few of whom have any qualifications in property, let alone in the letting business. Very few can either achieve economics of scale in managing their holdings or manage market risk through a geographically and otherwise diversified portfolio”

Crook and Kemp (2002) explains the lack of interest from institutional investors in Britain by the structure of the housing stock with many small lot sizes and properties, but also by that investors regards investments in residential property comparatively more risky. One of the causes mentioned for this is lack of market information about the sector and on rents and returns in particular (Yates and Wood 1996). The size and quality of housing varies considerably and prices differ between localities, which makes it difficult to compare rents and decide what rent could be obtained for a particular dwelling.

A classic argument for less efficiency is what Henderson and Ioannides (1983) called the ‘fundamental rental externality’, which arises from the separation of ownership and the use of the dwelling. A consequence of this externality is that tenants have an incentive to ‘over utilize’ their housing in the believe that the landlords cannot collect ex post for the full damage the tenants cause because it is either not readily observable or not provable in court. Another problem could be tenants that cease to pay the rent before time. The result is that landlords, to cover their opportunity costs, have to charge higher rents ex ante to account for this excessive utilization. Another way to put this is to say that renters tend to take less care of their dwellings, which tends to increase costs of housing provision in the rented sector. This was also shown in a study by Galster (1983), who tested the effect of tenure on maintenance, using a sample of 559 houses in Wooster, Ohio. He found that owners were between 58 and 132 percent more likely to perform maintenance and 84 to 92 percent less likely to have structural problems.

Landlords in principle could try to preclude this problem with ‘expensive’ renters by trying to avoid renters who are inclined to wear out their dwellings. But in practice it could often be difficult to foresee what renters will take good care of their dwelling and those who will not (Green 2001). The

landlords who have the best strategy for selecting renters could, however, have the best possibilities for providing cheaper housing services or gain higher profits.

Moreover, rental property is often occupied by several (different) households who perhaps have significant difference in tastes. So the property has to be dealt with flexibility by the landlord with alert attention to changing market opportunities (Rothenburg et. al.1991). It can be more costly to differentiate the housing services from dwellings in the same building than to treat all dwellings alike, but sometimes it could be necessary to adjust the supply from the same estate to different kinds of demands. Housing tastes are rather individualistic. Therefore, the kind of investment a particular occupant favours most often differs from what would maximize the market value of the premise (Hubert ?). A risk for the landlord, if he does not have a varied and flexible supply of dwellings, is that some of his flats for shorter or longer periods could be vacant. The risk for vacant dwellings could lead to that the landlord have to collect higher rents to cover possible losses as a result of missing rents.

Also higher rates of turnover in rented housing can imply higher costs; at least costs for administration, but sometimes also higher maintenance costs, if the landlords have to have the dwellings done up every time they get a new renter. This could imply a maintenance sequence that is not economically optimal.

Moreover, the rental market is very fluctuating. It can be asserted that demand for rented housing – and especially private renting – to some extent is a residual of the demand for owner-occupied housing (Di Pasquale and Wheaton 1992). This means that the demand for rented housing decreases in periods when demand for homeownership is increasing because homeownership is inexpensive or because investments in homeownership are getting more advantageous. It is thus an experience from United States that rents have stagnated and vacancies increased in periods with high economic growth and increased housing demand (Di Pasquale and Wheaton 1990, Skifter Andersen 1993). Finally, changes in housing policy often suddenly have changed the economic conditions for private renting in ways that were not very easy to foresee. Therefore, investments in residential rental property could be quite risky. These risks imply that landlords have to take relatively higher rents.

Literature on types of private landlords and their motives for investing in private renting

Some of the more detailed studies of private landlords show that private landlords differ very much in their motives for investing in private renting and in their characteristics as economic agents.

In their study Allen and McDowell (1989) identified six different kinds of landlords in England. They paid attention to the differences between these groups concerning type and size of the landlords' capital, their sources of finance, their investment practices and their relationships with the tenants and their property. Different kinds of economic and other motives for investing in private renting were identified. Besides economic return on operating the properties were identified motives as avoiding cash flow problems, speculation in capital gains, provision of cheap housing for special groups or employees and personal attachment to one or more properties. They paid attention to the type and size of the landlords' capital, their sources of finance, their investments practices and their kind of relationship to the tenants and to their property. Based on case studies, Allen and McDowell analysed these six types of landlords and showed pronounced differences in their motives and behaviour.

In their book (Allen and McDowell 1989) they - based on earlier studies - conclude that the development of the private rented sector in Britain after the War has been characterised by what is called 'Informalism'. By this they mean an expansion of that section of landlords who trade as individuals, either living as a resident landlord or deriving all or a major part of their income from the rental receipts from a small number of tenancies. At the same time as large-scale investor landlords have left the sector, there has since World War II been a relative increase in the importance of small-scale or resident landlordism. Moreover, they conclude that most of the large-scale investors who have continued to invest or entered the British market tend to be more interested in the appreciating capital values of residential property rather than long-term rental income.

In other British literature a main division of private landlords is to distinguish between *sideline investors*, who do not let property as a full time job or as their core business but as a sideline interest, *business landlords*, who let property as their main business, and *institutional landlords*, such as the church, charities and government departments, who are non-profit organisations with the task to provide good and cheap housing for certain groups. Only 15 per cent of private landlords in Britain are business landlords (Kemp 2002). 22 per cent are Institutions and 63 per cent are sideline investors, of which 18 per cent is characterized as 'non-investors', who do not view their purchase of the property as an investment, but have other reasons. Sideline investors hold 74 per cent of the dwellings, business landlords 17 per cent (of which 11 per cent are property companies) and institutions 10 per cent (Crook and Kemp 2006 (OPDM)).

Financial institutions seldom invest in residential property in Britain and landlords who are individuals with small-scale portfolios dominate the private rented sector. Most private individual landlords (Kemp, 2004) are middle aged or elderly (57 pct. of all). An increasing share of landlords is an individual, and only 15 per cent of these are full time employed with this business. But 51 pct. use more than 30 hours per week. For the most part, private landlordism is a part-time activity or sideline (Thomas and Snape, 1995). As with private individuals, letting residential property is also not the core business of most corporate landlords. 30 per cent of lettings are owned by landlords with just one letting. Some of these were homeowners, who had to leave the house and who could not sell it – called property slump landlords. 53 per cent of the lettings were owned by landlords with less than 5 (Kemp, 2004). The median size of ownership is only seven lettings (Crook and Kemp, 2006 (OPDM)).

In Kemp (2004) also is referred a study of landlords' motives for investment in private renting.

<u>Motives for investments</u>	<u>Per cent of landlords</u>
investment for capital growth	4
- for rental income	14
- for both	39
To live in	2
To help someone out	5
Unwilling/unable to sell former home	6
To house employees	9
Incidental to other activity	3
<u>Other/don't know</u>	<u>18</u>
All	100

It can be seen that 57 per cent had invested for economic reasons, while 43 per cent had other reasons.

An earlier Danish study

A study on private landlords in Denmark and their motives for investments in maintenance and improvement was carried out in the beginning of the 1990ties (Skifter Andersen 1998). The study only concerned properties with three or more dwellings in the housing stock built before 1950.

Based on qualitative studies and inspired by the work of Allen and McDowel (1989) the Danish studies show a picture of landlordism, which in many ways is similar to the one, described by Allen and McDowel. Six types of motives were identified that guide the way landlords run their properties:

1. **Long-term economic motives:** This is the kind of motives that is expected from investors in rental housing in economic theory. The greatest importance is attached to the long-term profitability, and the administration of the property and the money invested in maintenance and improvements are guided by this motive. It does not matter if there is a budget deficit for some years if the perspective for future gains is good.
2. **Short-term economic motives:** For some landlords it is important that there be an economic surplus from the property every year. This could be because they cannot raise money to finance a temporary deficit or because they are dependent on an income from the property to live on. This motive guides their investment and expenditure on the property. In an economy with inflation short-term economic motives tend to diminish investments.
3. **Speculative economic motives:** Rental housing is seen as just one of a number of possibilities for speculative investments. Expectations of short-time changes in real estate prices are the basis for such speculation while long-term profitability of the estate has little importance, except for its consequences for real estate values.
4. **Income from doing building work:** For building firms or landlords, who are connected with building firms or who are tradesman, there is a strong incentive to buy and rehabilitate properties with the purpose of obtaining work. For small-scale landlords and tradesmen there is the possibility of escaping taxation of this income by do-it-yourself work.
5. **Property as a personal possession:** For some landlords their property is not just an investment object but also a kind of personal belonging. They attach a separate importance to the appearance and quality of the house and dwellings, and it is important for them to be able to control it. The property is a kind of a personal project where other circumstances than the strictly economic reasons have a considerable importance.
6. **Service or social motives:** For different reasons it is important for some landlords that the housing services provided for their tenants are of a good quality or as cheap as possible. These motives result in housing that is cheaper or better than would be economically optimal if profitability were the only motive. The reasons could be that the landlord has a kind of non-profit status or is an organisation that completely or partly has an objective to provide housing for certain groups. This also includes companies who want to provide accommodation for their employees.

The study (Skifter Andersen 1998) concluded that the motive normally ascribed to private landlords in economic theory - long-term considerations of incomes and capital gains on the property - are only important to some types of landlords. For other landlords the short-term economy and speculative possibilities plays a dominant role. Also non-economic motives as property relations and service provision are important to many landlords. Below we will try to show the extent of these motives among Danish landlords using new data from a survey among Danish landlords.

The private rented sector in Denmark

Private renting in Denmark makes up 450.000 dwellings, which are 18 per cent of all housing in the country.

Table 1 Private rented dwellings in Denmark 1.1.2004.

	Number of dwellings	Per cent
Without kitchen	25.225	6
Rented, but with status as owner-occupied	145.345	32
Other properties with one dwelling	5.615	1
Properties with 2 dwellings	29.850	7
Properties with 3-5 dwellings	47.270	11
Properties with 6-10 dwellings	55.015	12
Properties with 11-20 dwellings	42.650	9
Properties with >20 dwellings	99.695	22
Unknown	1.350	0,3
Total	452.015	100

Six percent of the dwellings are without kitchen, some of which are in student hostels etc. One third is homes or flats that could be sold as owner-occupied housing, but for different reasons are let out. Only 245.000 dwellings are located in properties with three or more dwellings, corresponding to 54 per cent of private renting and about ten per cent of the total stock. Two out of three are constructed before 1940 and 13 per cent lack some kind of facilities like bathroom or modern heating. Private renting in Denmark contains some of the smallest dwellings in the country with the lowest quality.

Like most other countries in Europe the Danish private rented sector has been in decline for many years. Before the Second World War it was the dominant sector but after the war social housing began to take over new rental house building. The real blow to private rented housing came in the last part of the 1960s when increased inflation and favourable tax deductions made owner-occupied housing much more attractive at the same time as interest rates were raised substantially. New, private rented housing did not received direct production subsidies as social housing, which made it difficult to build housing at affordable rents.

Moreover, the older stock decreased by about one third from the middle of the 1960s to the end of the 1980s. Besides demolition of old and neglected buildings, the main reason was a conversion of dwellings to owner-occupied flats, which were made possible from 1966. This transformation of tenure was, however, partly stopped in the 1970s and totally prohibited after 1980. Instead, were in the following years a great number of private lettings transformed into cooperatives after an Act was passed in parliament. This Act ordered landlords, who intended to sell their property, first to give an offer to sitting tenants who wished to form a cooperative.

Danish regulation of private renting

Danish tenants have a high degree of security and it is difficult for landlords to give tenants notice to quit in housing with status as rented. Only in dwellings with status as owner-occupied (detached houses and owner-occupied flats) it is possible to make short time contracts.

Denmark still has a strict rent control in up to 200.000 lettings in private properties. It is used in properties with more than 5 dwellings built before 1991 in municipalities where the local authorities have decided to impose rent control.

Since 1976 rents in Danish private rented housing have been regulated according to a principle called "rent determined by expenditures". Certain rules are laid down by legislation as how to calculate the rent in every estate. The rent is determined by adding up the budgeted running costs such as cleaning, taxes, insurances etc. plus a certain amount per dwelling for administration. Further fixed transferences for maintenance are included, and there is a fixed so-called capital yield to the landlord, which has been the same amount since 1976.

Rents can be raised at any time, but the landlord has to inform the tenants in advance and to provide them with written proof that the new rent is justified by higher expenses.

Furthermore, it is possible to raise the rent in connection with improvements. The allowed increase is, in principle, within certain limits, calculated on the basis of the repayments and interests on the loans necessary to finance the improvement and on the interests on capital contributed by the landlord himself. In case of disagreement over the budget and rent increase the tenants can complain to a board of appeal, called the rent tribunal, which can settle the dispute.

In accordance with Danish housing legislation the landlord is obliged to carry out the necessary maintenance on his estate and he can be ordered by the rent tribunal to repair building defects if the tenants complain about them. If the landlord does not follow such orders he can be deprived of his right to administer his property.

Because of rent control rents in private renting in Denmark are seldom in accordance with market rents. In average rents per square meter sum up to 820 DKK per square meter (gross) per year in 2005, corresponding to about 120 Euro per net square meter. In Greater Copenhagen the rents are only 12 per cent higher than the average for the country. It is thus mostly in the capital that rents are far below market levels.

Despite rent control, prices on private rented property have increased by more than 200 per cent since 1995. There are different reasons for this development. In the last ten years there has been a possibility for private landlords to avoid rent control if they invest a certain amount of money per square meter in their dwellings. But it is only possible to do this in vacant lettings. This has especially in Copenhagen had an effect on rents. Another reason for increasing prices is that property and land prices in general have increased. But perhaps most important is the possibility to transfer private rented properties to cooperatives. It is not possible to transfer to owner-occupied flats, but there has for many years been an obligation for landlords to offer the property to the tenants as a cooperative if they intend to sell it. Prices on cooperative flats have increased very much in recent years in line with the general increase in property prices. This has increased the interest of tenants in buying their flat and increased the price that a landlord can get from the tenants if he wants to sell. This means that the development of capital values in the private rented sector is not as much a result of increasing economic yields from running the properties, as of increasing prices on cooperatives and real estate property in general.

In 2007 there are signs that property prices are declining and some places falling. This has resulted in an increased interest among landlords to sell their properties to realize their capital gains. Some of the big pension funds have already done so.

The present study of the private rented sector in Denmark

A new study of the private rented sector in Denmark has been conducted in 2007. It is based on data from a survey among 385 private landlords with properties containing three or more dwellings and on data from public registers on all private landlords and properties with private renting. In the survey landlords were asked about motives for buying and selling property and factors that influence such decisions, strategies for letting and running properties, and data about rents and expenses and economic returns.

The population of landlords in the survey were drawn from a database on all landlords in Denmark and their properties. To achieve a sufficient amount of responds from the relatively few landlords with many properties and dwellings the population was composed so that there was a higher representation of landlords with many dwellings. Weighing the data in the final analysis rectified this.

Private landlords in Denmark

The respondents in the survey were asked to characterize themselves as landlords by choosing among the following possibilities:

1. Private individuals with landlordism as main business
2. Private individuals with landlordism as sideline business
3. Property companies with landlordism as main business
4. Property companies with mainly commercial lettings
5. Companies with other business as main occupation
6. Independent institutions
7. Pensions funds, banks or insurance companies
8. Building companies
9. Other

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Table 2 all landlords in the weighted population is distributed on kinds of landlords. Moreover is shown the share of properties and dwellings owned by the different kinds of landlords, the average number of dwellings owned by each and the average year when they bought their first property.

Professional landlords – either individuals or property companies – own more than 40 per cent of dwellings. Moreover financial institutions (pension funds, banks or insurance companies) are calculated to have about 20 per cent, but the figures are not quite reliable because of the small number of respondents. It is typical for professional landlords that every landlord has many properties and dwellings and that the properties owned are relatively large. This is especially common among the – few – financial institutions.

Table 2 Different kinds of landlords having at least one property with three or more dwellings distributed on their share of landlords of properties and dwellings.

	Share of all landlords %	Share of properties	Share of dwellings	Properties per landlord	Dwellings per landlord	Dwellings per property	Year first property was bought	Number of respondents
Private individuals landlordism as main business	7	16	12	8,5	59	7	1986	45
Private individuals landlordism sideline business	56	32	14	2,3	9	4	1991	149
Property companies landlordism main business	13	24	29	7,5	77	10	1992	93
Property companies mainly commercial lettings	3,2	1,4	1,2	1,7	14	8	1990	10
Companies other business as main occupation	8,8	7,9	4,0	3,5	16	5	1995	29
Independent institutions	4,1	4,4	6,5	4,2	56	13	1948	29
Pensions funds, banks or insurance companies	0,3	5	20	63,7	2342	37	1974	9
Building companies	0,9	0,2	0,1	0,8	6	7	2001	2
Other	6,8	7,2	4,9	4,2	26	6	1976	19
All landlords	7	16	12	4,0	35	9	1988	385

The independent institutions own about seven per cent of dwellings. Their properties are larger than average and they have been in the business for many years. In average their first property was bought in 1948, which means that many of them has a history back to the 1920's.

Sideline investors can be both individuals and companies either with other business or with commercial properties as main business. Private individuals with private renting as a sideline business constitute more than half of the owners, but only posses 14 per cent of dwellings. Companies own about 5 per cent of the dwellings. It is typical for all sideline investors that they only have a few and smaller properties.

Motives for buying properties

The landlords were asked about their original motives for buying their properties. They could choose between the following answers:

1. Wanted to live in the property
2. Obtain housing available for children or family
3. Obtain housing available for employees
4. Make housing available for specific groups (elderly, members of pension funds or trade unions etc.)
5. Use (mixed) property for own commercial activities
6. Obtain building work by doing renovation
7. Inherited the property or got it by accident
8. Wanted to obtain a source of income by letting out
9. Wanted to make a good investment

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Table 3 is shown the distribution of the answers on the most important motive and the three most important motives for all respondents. Moreover is shown the most important motives for selected groups of landlords.

Table 3 Motives for the acquisition of properties. Most important motive and three most important motives.

Most important Motive for all landlord motives	Most important motive						
	Three most important motives *)	Private individuals with landlordism as main business	Private individuals with landlordism as sideline business	Property companies with landlordism as main business	Independent institutions	Pensions funds, banks or insurance companies	
Wanted to live in the property	8	13	2	15	1		
Housing for children or family	3	9		7	1		
Housing for employee	1	3				11	
Housing for specific groups	7	10		2	2	61	
Use property for own commercial activities	1	1			1		
Business with building activities	5	10	10	3	7	4	
Inherited the property or got it by accident	8	9	5	12	3	7	
Letting out as a source of income	31	47	61	23	52	4	
Investment	32	60	17	37	32		
Other	1	3					
No answer	3	13	5	1	1	14	
All	100	165	100	100	100	100	

*) Percentages do not add to 100 as multiple responses were possible

Economic motives are clearly the most common for buying rental properties. To obtain business and running income by letting out is the most important motive for one third of the landlords. Moreover, acquisition of rental properties as an investment is the most important motive for another one third. These motives were also one of the three most important motives for respectively 47 and 60 per cent of all landlords.

It can however also be seen that motives connected to how the properties are used are also important. In total 20 per cent of landlords had as their main motive for buying properties to live or have business premises in the property or use the dwellings for family, employees or special groups. On third of all landlords had this as one of the three most important motives and it concerned more than half of all lettings.

Eight percent became landlords by accident because they inherited a property or acquired it for other reasons and for 22 per cent this was one of the three most important reasons. Moreover, five per cent bought properties to obtain business with building activities and this was one of the three most important motives for ten per cent.

There are, however, marked differences between different kinds of landlords. It is, as could be expected, especially sideline investors and independent institutions that have bought their properties because they wanted to use it for different purposes or because they got it by accident. Also some of the pension funds have a motive to get accommodation for members. For the professional landlords – especially individuals – the main motive is to obtain a source of income. It is mostly professional companies that see their properties as investments but also a relative high share (37 per cent) of the individual sideline investors consider their properties as an investment. This is, however, most common among the institutional investors.

Based on the information on different kinds of landlords and their motives for having rental properties a new classification of landlords has been worked out. The following types of landlords were defined:

1. *Professional investors*: Landlords (individuals or companies) letting out as their main business with investment as their main motive, plus financial investors.
2. *Professional letters*: Landlords who have income from letting out as a main motive and who get their main income from this business
3. *Small investors*: Landlords who bought their properties for investment purposes, but do not have it as their main business
4. *Small letters*: Landlords who have the income from letting out as a main motive but do not get their main income from this business
5. *Builder investors*: Landlords who wanted to get employment with building works or who are building firms
6. *Independent institutions*
7. *Property users*: Landlords who acquired their properties because they wanted to use them by themselves (one of the three most important motives) or make them available for family or employees (not Independent institutions)
8. *Landlords by accident*: Landlords who inherited or in similar ways got the property

In Table 4 is shown how landlords, properties and dwellings in the study are distributed on the defined types of landlords. Moreover is shown the average number of properties and dwellings per landlord and the average size of the properties.

Table 4 Types of landlords and there share of properties and dwellings plus number of dwellings per landlord and the average size of their properties.

	Landlords %	Properties %	Dwellings %	Properties /landlord	Dwellings /landlord	Dwellings /property	Number of respondents
Professional investors	12	23	39	22	582	26	49
Professional letters	19	30	20	18	181	10	75
Small investors	16	7	3	5	33	7	60
Small letters	9	5	3	6	57	10	34
Builder investors	6	4	2	8	60	7	22
Independent institutions	7	5	6	8	130	17	29
Property users	22	15	19	8	150	20	83
Landlords by accident	6	2	2	4	49	12	22
Missing data	3	9	6	33	331	10	11
Total	100	100	100	11	172	15	385

In accordance with the chosen definitions 12 per cent of the landlords are professional investors and 16 per cent small investors. But the professional investors possess nearby 40 per cent of all dwellings, while the small investors only possess 3 per cent.

The group of professional letters, who is concerned with the running business of the properties, make up 19 per cent of landlords and the same share of dwellings. The small letters only constitute 9 per cent and have a small part of the dwellings. It looks like that only a few people buy and run residential properties as a sideline business with the only purpose of making an income from this. The majority of sideline investors in one of another way are property users, who make up 22 per cent of landlords and 19 per cent of dwellings. Some are also classified as landlords by accident,

who are six per cent of all landlords but only have a small part of the dwellings. Finally builder investors make up 6 per cent but with few dwellings.

Strategies for running residential property

In a section above were referred to earlier studies on the kinds of motives and strategies that guide different kinds of landlords in the operation of their rental properties. It has been shown in these studies that landlords are guided by many other motives than should be expected from the theoretical economic literature on housing investments and that some non-economic motives have a considerable importance for some landlords (Skifter Andersen 1998, Allen and McDowell 1989).

In the survey nine different strategies were presented for respondents and they were asked to prioritise their importance for them. They were:

1. Economic surplus every year in every property
2. Yearly surplus for the properties as a whole
3. The long term economic return
4. Short time capital gains
5. Increase of property values by renovation
6. Increase of rental incomes by renovation
7. To keep the property clean and tidy
8. To satisfy tenants
9. To avoid conflicts with tenants

The two first strategies are connected to landlords for whom short time economic motives and the properties as a source of running income are important – most for the first strategy. The third strategy is typical for investors with long-term economic motives. The fourth and fifth strategy are expected to belong to investors with speculative economic motives. The seventh strategy could be followed by landlords with, what we earlier called ‘property motives’, where the property is seen as a personal possession, but could also be seen in connection with the two last strategies: to satisfy or avoid conflicts with tenants. These strategies are expected to be connected to ‘service motives’.

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Table 5 is shown the most important strategy chosen by the different types of landlords and also what strategies were among the three most important.

Table 5 Strategies for running residential properties among different types of landlords in Denmark

	Professional investors	Professional letters	Small investors	Small letters	Builder investors	Independent institutions	Property users	Landlords by accident	Total
Most important strategy									
Economic surplus every year in every property	28	38	23	37	25	14	24	25	27
Yearly surplus for the properties as a whole	21	16	20	26	15	11	11	13	16
The long term economic return	19	12	22	17	5	4	15	25	15
Short time capital gains	2	1	10	3	0	0	4	0	3
Increase property values by renovation	9	7	2	3	25	4	1	8	6
Increase rental incomes by renovation	9	7	2	3	0	4	2	4	4
Keep the property clean and tidy	5	14	10	6	10	32	18	4	12
To satisfy tenants	5	4	10	6	15	21	19	21	12
To avoid conflicts with tenants	2	0	0	0	0	0	2	0	1
Other	0	0	0	0	5	7	4	0	2
Missing data	0	0	2	0	0	4	0	0	2
All	100	100	100	100	100	100	100	100	100
Three most important strategies									
Economic surplus every year in every property	35	42	31	43	24	23	35	28	35
Yearly surplus for the properties as a whole	30	36	33	41	23	17	28	23	30
The long term economic return	38	32	39	44	40	5	32	38	33
Short time capital gains	28	14	31	20	15	3	16	16	18
Increase of property values by renovation	47	32	35	30	36	17	19	13	28
Increase of rental incomes by renovation	31	30	17	18	38	17	14	17	21
Keep the property clean and tidy	33	33	32	30	38	60	48	50	39
To satisfy tenants	27	38	35	34	39	61	54	54	42
To avoid conflicts with tenants	10	11	7	13	17	11	21	28	14
Other	0	0	0	0	3	6	4	0	1
All	279	269	259	273	271	221	271	267	261

*) Percentages do not add to 100, as multiple responses were possible

The results as a whole support the expectations formulated above but also show that landlords have a complex set of strategies and that they are not easy to place in a clear classification.

The most frequently mentioned strategy is to have an economic surplus every year from each or from all properties. This is the most important strategy for more than forty per cent of the landlords and 65 per cent has this as one of the three most important strategies. As expected it is most important for small letters (63 per cent) and professional letters (54 per cent), but it also is important for investor landlords. It is of least importance as the most important strategy for independent institutions, property users and landlords by accident, but is often among the three most important strategies for property users and landlords by accident.

The long-term economic return is the first strategy for only 15 per cent and one out of the three most important strategies for only one third of the landlords. It is most commonly found among the small investors and the landlords by accident. Surprisingly, only 19 per cent of the professional

investors have chosen this strategy as their first priority, but 38 per cent has it as one of the first three. Long-term return has also importance for a considerable share of the small letters and also for professional letters. It has, as expected, very little importance for independent institutions and is for builders only a second or third prioritised strategy. For this – small – group increase of property values by renovation of the properties is the most important strategy.

To gain an increased economic return by renovating the property is the most important strategy for 9 per cent of the landlords – either as an increase in property values or as increased rental incomes. It was, however, one of the three most important strategies for 23 per cent. This can to some extent be explained by the Danish rent control system, where it is possible to get rid of the ceiling on rents by investing a certain amount of money per square meter. This is only the first strategy among a smaller share of other landlords than builders – mostly among professional landlords and landlords by accident, but it is one of the three most important strategies for a majority of the professional and the small investors, not quite so common among professional and small letters.

For independent institutions it is often the most important strategy to keep the property clean and tidy. This is also the case for twelve per cent of all landlords and for about forty per cent it is one of the three most important strategies. Especially property users are – as could be expected – very concerned with this issue. Also 14 per cent of the professional investors have this as their first priority. It is especially the financial institutions that attach importance to this strategy, because they often have tenants who are members of the pension funds.

Social motives must be the background for strategies that have the purpose of satisfying tenants needs. This is the most important strategy for 12 per cent of landlords – especially for independent institutions, property users and landlords by accidents. It is much more commonly mentioned as one of the three most important strategies (42 per cent) among all types of landlords, but least common among professional investors. A similar strategy is to avoid conflicts with tenants, which is very rare as the most important strategy. It is, however, one of the three most important for 14 per cent of landlords – most often among property users and landlords by accident.

As shown earlier there are, however, large differences between landlords considering the number of properties and dwellings they let out. The analysis above therefore does not give the right impression of how common the different strategies are used in the private rented sector in Denmark. To achieve this the answers from landlords are in Table 6 weighed by the number of dwellings they own.

Table 6 Strategies for running residential properties – distribution on tenancies

	Professional investors	Professional letters	Small investors	Small letters	Builder investors	Independent institutions	Property users	Landlords by accident	Total
Most important strategy									
Economic surplus every year in every property	12	44	14	28	20	5	1	15	20
Yearly surplus for the properties as a whole	2	19	6	50	25	10	6	8	9
The long term economic return	83	11	63	8	1	14	87	16	55
Short time capital gains	1	1	3	3			0		1
Increase of property values by renovation	1	5	1	0	32	2	0	12	2
Increase of rental incomes by renovation	1	7	2	1		7	0	39	3
Keep the property clean and tidy	1	13	5	6	14	51	3	1	7
To satisfy tenants	0	1	4	5	8	8	2	8	2
To avoid conflicts with tenants	0						1		0
Other					0	3	0		0
Missing data						0			2
All	100	100	100	100	100	100	100	100	100

It is shown in the table that more than half of all dwellings are owned by landlords who's primary strategy it is to achieve a good long term economic return, and it is clearly more common among professional investors and small investors, but also among property users. For 29 per cent of dwellings economic surplus every year is the most important strategy and clearly most common for small letters and also professional letters. Investing in renovation is more important in dwellings owned by builders and by landlords by accident, property considerations in properties owned by independent institutions.

Factors that influence investment behaviour

In the paper by Scanlon and Whitehead (2006) is discussed what kinds of factors influence the investment behaviour of private landlords as it appears in buying and selling property. They point to the fact that there are considerable transactions costs that tend to limit the extent to which private landlords will react to changes in the economic return by buying or selling rental property. Moreover, it is often difficult to compare the returns from property and other investments. They identify the most important factors that could influence expected returns and investment behaviour as: development in house prices, rental demand, changes in taxes and changes in interest rates. A survey among a sample of landlords showed that the most important reasons for increasing the portfolio of properties were 'Stable/low interest rates' and 'Steady/rising house prices', while worsening alternative investments formulated as 'Poor stock market performance' only motivated 21 per cent to increase their portfolio. The most important reasons for decreasing the portfolio were measured as 'Rising interest rates' and worsening personal financial situation. Falling house prices and improving stock market were only of a minor importance (15 and 4 per cent).

In this survey landlords were asked if they were prepared to buy more properties and if changing conditions could motivate them to do this. The possible changes were: Increased local demand for rental housing, expectations of increasing property prices in coming years, decreasing interest rates, decreasing return on alternative investments and abolishment of rent control.

Their answers is shown in Table 7 .

Table 7 Share of landlords (per cent) who want to buy more rental properties, and under what conditions

	Professional investors	Professional letters	Small investors	Small letters	Builder investors	Independent institutions	Property users	Landlords by accident	Total
Will not buy under any circumstances	21	23	48	40	35	64	60	42	41
Will buy under all circumstances	33	33	10	11	10	4	10	0	16
Will buy if conditions improve	37	37	40	31	50	18	27	42	34
No answer	12	8	2	14	5	14	2	13	9
All	102	101	100	97	100	100	99	96	99
Conditions that should improve									
Local demand for rental housing increases	5	5	12	14	10	4	5	4	7
Property prices is expected to increase in coming years	2	7	13	6	5	4	8	4	7
Interests is expected to decrease	2	5	8	3	15	0	7	0	5
Return on alternative investments is expected to decrease	19	8	10	9	5	4	7	4	8
Rent control is going to be abolished	16	27	15	9	40	11	10	33	17

Note: More than one answer is permitted

About 40 per cent of the respondents do under no circumstances want to invest in more rental properties. Other 16 per cent has decided to do it in any case. Independent institutions and property users are the most reluctant to invest followed by small investors and letters. The professional landlords most often intend to buy more properties.

For about one third of all landlords their decision to invest depends on a change in different conditions. Some of these possible changes are mentioned in the bottom of the table. An increase in the local demand for rental housing will only have an influence on seven per cent of the landlord – mostly on small letters and investors. This small effect can be explained by the effects of rent control, which results in that there is only a lack of demand in few places in Denmark.

Expectations of increasing property prices have the same effect and most often on the small investors. Surprisingly the professional investors do not seem to be influenced by this. It could be because they have more long-term considerations.

Decreasing interest rate also – unexpectedly - has a small effect on professional investors. This mostly influences builders and small investors, but at a low level. More important for professional investors is if returns on alternative investments is expected to go down.

The change, however, that could have the greatest influence on investments is abolishment of rent control. This could motivate 17 per cent of the landlords to invest more. It is of most importance to professional letters (27 per cent) and builders (40), but of less importance to professional investors. This could be explained by that professional investors to a great extent has succeeded in avoiding rent control, either because they have bought properties outside the control or because they have invested in renovation that have resulted in higher rents.

In a similar way have been examined under what conditions landlords want to sell their properties (Table 8). The possible changes that could spur landlords to sell is: decreased local demand for rental housing, expectations of decreasing property prices in coming years, increasing interest rates and increasing return on alternative investments.

Table 8 Share of landlords (per cent) who want to sell some of their properties, and under what conditions

	Profession al investors	Profession al letters investors	Small investor s	Small letters investor s	Builder investor s	Independe nt y users s institutions	Propert y users by accident	Landlords by accident	Tota l
Will not sell under any circumstances	44	41	45	46	45	64	60	42	48
Will sell under all circumstances	5	5	7	6	15	4	11	4	7
Will sell under changed conditions	51	53	48	49	40	32	30	54	45
Changed conditions									
Local demand is decreasing	9	7	7	14	10	4	2	4	7
Interest rates are increasing	2	1	2	3	0	0	1	0	1
Property prices will stagnate in coming years	7	3	3	3	5	0	0	0	2
Property prices will fall in coming years	7	8	5	3	0	0	1	8	4
Return on alternative investments is expected to increase	37	37	22	14	20	11	24	21	25

Note: More than one answer is permitted

There is also a considerable inertia in private landlords willingness to sell their properties. Near half of all will under no circumstances sell their properties. 7 percent have decided to sell. 45 per cent can be influenced to sell. The most important factor is if other investments will be more profitable in the future. This could motivate 25 per cent to sell. Among the professional landlords 37 per cent will think about to sell for this reason. Expectations about decreasing demand, increasing interests or falling property prices only have a limited influence on landlords propensity to wind up their property investments. Small letters are, however, somewhat sensitive to falling local demand.

Conclusions

This paper reports some of the results of a study of what kinds of landlords are operating in the Danish private rented sector and what kind of economic strategies they pursue. In this paper were illuminated their motives for buying and selling their properties and their strategies for running their estates have been examined.

The purpose of the study was to contribute to a discussion of to what extent the private rented sector produce housing services at lower or higher prices than is obtained in owner occupied housing. Is the private rented sector more or less efficient compared to the owner occupied sector? It is the assumption of the paper that this to a great extent depends on what kinds of landlords are operating in the sector and what kind of economic strategies they pursue.

The results of the study must, however, be interpreted in the Danish context. The sector in Denmark makes up about 18 per cent of the housing stock of which about half is subjugated to rent control. In general investors in private renting has a difficult job because it is difficult to compare returns in this sector with other investments and because the market can make drastic and sometimes

unexpected changes over time. Therefore it is an experience from many countries – especially Britain - that professional investors often tend to avoid this sector. It could be expected that the strict Danish rent control to a greater extent would deter professional investors to enter the sector, but this does not seem to be the case. The composition of landlords in Denmark does not deviate markedly from landlords in many other countries and compared to Britain, where there is no rent control, there is a greater share of private rented dwellings owned by professional landlords (business landlords) in Denmark. It has not been the subject of this article to identify the reasons for this contradiction, but there could be two explanations. The first is, that returns on Danish properties in the private rented sector have not been so bad – partly because of increases in property values and possibilities to avoid the regulation by investing in renovation of dwellings -; the second that rent control has resulted in a very stable surplus demand for private renting in most of the country, which has diminished economic risks.

As has been shown in studies from other countries many landlords in Denmark are so-called sideline investors, who do not let out residential property as their core business. Professional landlords and investors make up only 20 per cent of the landlords, but possess more than half of all lettings in properties with three or more dwellings. Individuals, companies with other business as core business or non-profit independent institutions, own the rest of the properties.

Moreover, many landlords originally have acquired their properties for many other reasons than to make an optimal investment. For about 30 per cent the main purpose for buying properties had been to make a good investment. For other 30 per cent it had been to make occupation and obtain a source of income. However, 60 percent had the investment motive as one of the three most important motives and nearly half had the earning motive. But for 20 per cent of landlords it was most important to get control of the use of the property – either because they wanted to live there, have business premises or make housing available for family or for other specific groups. One third of all landlords had this as one of the three most important motives and it concerned more than half of all lettings. Other landlords had bought because they wanted occupation with building activities or make a return by investing in this. Ten per cent had this as one out of the three most important motives. Moreover, eight percent had inherited the property or got it by accident in other ways.

The fact that many landlords did not acquire their properties with the primary purpose to invest their money, but for other reasons, is mirrored in that nearly half of all Danish private landlords under no circumstances intend to sell their properties. Changes in local demand, interest rates, property prices and returns on alternative investments do not have any influence on their intentions to keep or sell their properties. At the same time nearly half of landlords do under no circumstances want to buy more properties. More than 25 per cent of landlords possessing 12 per cent of lettings will under no circumstances neither buy nor sell. Only eight per cent of landlords will buy more properties, as a reaction on decreasing returns on alternative investments and four per cent will sell if these returns increase. Of greatest importance for intentions of buying or selling properties is the development in local demand (seven per cent).

Landlords' strategies for running their estates are closely connected to their motives for acquiring them. For 40 per cent of landlords possessing 27 per cent of lettings short time economic considerations are the most important goal for their operation in the way that every single property or all properties as a whole should achieve an economic surplus every year. Other nine per cent look for short time increases in property values – some of them by investing in renovation. Considering that properties are long-term investments, which sometimes demands large expenses for

maintenance and improvement resulting in negative short-time returns, this focus on the short-time economy could lead to a less than optimal economic operation of properties.

Moreover, 25 per cent of landlords has as their most important goal to either keep their properties clean and tidy (12 per cent) or to make tenants satisfied (12 per cent) or to avoid conflicts with tenants. These landlords only possess ten per cent of all lettings, but these objectives are one of the three most important goals for 60 per cent of landlords owning 76 per cent of all lettings. It could be expected that some of these landlords to obtain these goals will use more money on their properties than is economically optimal.

Obtaining a good long-term economic return is only the most important goal for 15 per cent of landlords, but these landlords own more than half of all lettings. Moreover, long-term economic return is one of the three most important goals for one third of all landlords.

It can be concluded from this Danish study that a large share of private landlords in Denmark – like in many other countries – are motivated by many other motives for buying and operating rental properties than the most rational economic objectives and that it can be expected that the many small landlords and sideline investors will not be able to achieve the higher efficiency in management that could be an advantage for private renting compared to other sectors on the housing market. There are, however, two possible consequences of this. One is that housing services from the sector tend to be more expensive or of a lower quality. In the rent-controlled sector in Denmark it is most likely that it tends to have a lower quality. But another possible outcome is that the high focus on satisfying tenants could lead to higher quality of housing services than is economic optimal. In this case the consequence is a reduced economic return to landlords.

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