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## TENLAW: Tenancy Law and Housing Policy in Multi-level Europe

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# Tenure Preference in National Housing Policy, Subsidization and Taxation across Europe

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## Introduction

Nothing is more important to a household than a home. The home plays a uniquely central role for a household: providing shelter, fostering the unity of the family, and serving as the canvas for many of life's most cherished memories. Should not a rented home serve these functions as well as a home owned by its occupants? Parity of livability between owner occupied tenure and rental tenure could possibly depend on whether housing policies and programmes prefer one tenure type over the other. This part of the final report for the project Tenancy Law and Housing Policy in Multi-level Europe (Tenlaw), investigates whether European states express in their housing policy and programmes of subsidization and taxation of housing a preference for one type of housing tenure. The thirty one countries studied in the project have been categorized according to the overall orientation of their subsidization of housing and the tax treatment of the different housing tenures.

The process of determining the orientation of housing tenure preference began from the vantage point of a country's express statements of housing policy—where such policy statements were reported. However, political statements are of little impact unless they find manifestation in the programmatic instruments of subsidization and taxation. Because of this, the orientation of a country's systems of subsidization and taxation of housing tenures was of crucial importance for determining whether a country's housing system prefers a particular housing tenure. In almost all of the countries studied, both owner occupation and rental tenure are promoted by varying forms of direct subsidization. Likewise, taxation systems often charge particular tax liabilities to either or both tenure types and sometimes offer corresponding tax benefits. Based on the results of the Tenlaw project, express statements of housing policy preference were considered together with preferences observed in the subsidization and taxation systems of each country. The resulting typology characterizes the overall level of tenure preference expressed by each country classified as a low, medium, or high level of preference for owner occupation tenure.

Taking history as the point of departure, the historical development of housing policy has contributed to the development of a general preference in favour of owner occupation tenure that is ubiquitous throughout Europe. Explicit and implicit promotion of

owner occupation as a superior—or at least preferable—tenure type has contributed to owner occupancy rates of over fifty percent in nearly all European countries, even exceeding ninety percent in several countries.<sup>1</sup> The following section delves into the historical development of the housing situation in Europe in more detail. The next section then analyses the housing policies and instruments of the countries studied and classifies each country according to its preference for owner occupation tenure. The final section of this part of the project report considers the development of future research based on other interesting Tenlaw project results.

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<sup>1</sup> See Appendix, Table 1.

## 1. Historical development of housing policy in Europe

### 1.1. Origins of modern housing policy

Modern housing policy in Europe was borne in the furnaces of the industrial revolution and rose again from the ashes of the Second World War. This vivid symbolism captures the two monumental shaping processes common to the historical development of housing tenures in most European countries. First, industrialization has been identified as the origin of modern housing policy.<sup>2</sup> Industrialisation—occurring at different times in various countries—resulted in new labour market paradigms, with consequent internal migrations of populations from stagnant rural regions to expanding urban industrial centres. These suddenly mobile workforces typically precipitated shifts in demand, and consequently supply, across different types of housing tenure. Second, the World War II resulted in shortages of supply during the war due to both the destruction of dwellings as well as decreased or ceased construction. The metaphor of rising from ashes reflects also the post-war social and political developments, notably confronting a dire housing situation in many countries and the rise and fall of state socialism in central and eastern European countries

### 1.2. Industrialization

Industrialization, which drove dramatic population movements, provided the first impetus for the development of a modern housing policy in most European countries. This industrialization fuelled unprecedented population growth in some countries,<sup>3</sup> and these populations migrated internally within national borders from declining rural areas to economically booming urban centres. Industrialization and the consequent changes it brought unfolded at different times in different countries, beginning the earliest in Britain in the eighteenth and nineteenth centuries but occurring later elsewhere,<sup>4</sup> such as in the Nordic countries in the mid to late nineteenth century<sup>5</sup> and in Italy in the early twentieth century.<sup>6</sup> Typically, periods of mass industrialization led to the desire to improve the appalling standards of housing experienced by the working

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2 Southampton 1.1.1., 2.

3 Southampton 1.1.1., 2.

4 *Ibid.*

5 Lund 1.1.1., 2.

6 Pisa 1.1.1., 2.

classes in the major industrial centres and to solve the chronic overcrowding problem exacerbated by the exodus from the stagnation of the agricultural areas to the increasing employment opportunities in the vital industrialized cities. These objectives led to the development of comprehensive public housing powers for local government authorities. Industrial production to supply the instruments of war for the World Wars of the early to mid-twentieth led to a wave of industrialization in some countries, for example again in the United Kingdom which experienced severe housing shortages as a result.<sup>7</sup> Finally, forced industrialization in the 1950s and 1960s under by the communist governments in central and eastern European countries reinforced the mass migration out of rural areas into the urban centres.<sup>8</sup>

### 1.3. Effects of the World Wars on the housing situation

Despite these early origins during the era of industrialization, in most respects, modern housing law in most European countries can be said to have fully emerged first after World War II, although the origin of modern housing policy in the United Kingdom is seen as arising already during World War I.<sup>9</sup> At that time, a large majority of the population lived in rented housing, and in response to severe housing shortages in parts of the United Kingdom, the government introduced rent regulation, capping rents at below market prices and established strong security of tenure for tenants.<sup>10</sup> However, the development of modern housing policy began in many countries in the years immediately following World War II.<sup>11</sup> Some countries were faced with the challenge of remedying housing shortages caused by decreased or ceased construction of residential dwellings during the wars,<sup>12</sup> partly the result of rising prices, shortages of building materials and additional building restrictions.<sup>13</sup> Other countries, in addition to decreased or ceased construction, were confronted with significantly demolished urban housing stock destroyed during the war.<sup>14</sup> Even prior to the outbreak of World War II, the housing stock in Spain was significantly devastated during the Spanish

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7 Southampton 1.1.1., 2.

8 MRI, 3.

9 Southampton 1.1.1., 2.

10 *Ibid.*

11 See e.g. Katowice 1.1.1., 2.

12 See e.g. Katowice 1.1.1., 2 and Lund 1.1.1., 3.

13 Lund, 3.

14 See Bremen, 1.1.1., 2; Pisa, 1.1.1., 2, Tarragona, 1.1., 2.

Civil War.<sup>15</sup> After hostilities ceased in Europe in 1945, the dramatic housing shortage took on a new dimension in some countries, as large numbers of refugees migrated to their homelands as borders were redrawn from territories gained and lost.<sup>16</sup> This post-war situation led to regulated rents<sup>17</sup> and to the planned administration of dwellings by public authorities.<sup>18</sup>

#### 1.4. Economic boom and housing in Western Europe

The economic boom that erupted in Western Europe in the 1950s and 1960s led in some cases to the construction of an unprecedented number of dwellings.<sup>19</sup> Post-war measures were largely abandoned, and rents were liberalized for private landlords.<sup>20</sup> As the supply of dwellings reached sufficient levels in many national housing markets, the priority of housing policy shifted to improving the quality of the housing stock, for example focusing on eliminating slums of poor quality housing and rebuilding dwellings of better quality.<sup>21</sup>

During this time of prosperity, a fundamental reorientation of housing began toward promoting owner occupation tenure as the preferred tenure type. How a country reorients from a society comprising a majority of renters to a society comprising a majority of owner-occupiers in a span of roughly fifty years is clearly demonstrated by the example of the development of housing policy in the United Kingdom from the time during World War I to the 1970s.<sup>22</sup> As mentioned above, the World War I era is characterized as the origin of modern housing policy in the United Kingdom, at which time the vast majority of the population lived in rented dwellings. Industrialization related to the production of the instruments of war caused severe housing shortages, which in turn led to civil unrest.<sup>23</sup> In response, the government introduced strong security of tenure for tenants as well as rent regulation, capping rents at below market prices.<sup>24</sup> These regulations in the rented sector limited the rent a landlord could charge and

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15 Tarragona, 1.1., 2.

16 E.g. Austria, Germany. Bremen 1.1.1., 2.

17 E.g. Switzerland. Bremen 1.1.1., 2.

18 E.g. Austria, Germany. Bremen 1.1.1., 2.

19 Bremen 1.1.1., 2.

20 *Ibid.*

21 E.g. Belgium. Delft 1.1.1, 3.

22 Southampton 1.1., 2.

23 *Ibid.*

24 *Ibid.*

decreased the value of properties encumbered by residential tenancies.<sup>25</sup> These regulations led to the decline of the quality of the rented housing stock into a slum condition, as landlords were increasingly unable to earn enough profit to reinvest in repair of their rental properties.<sup>26</sup> This situation further contributed to the growth of the owner-occupied sector, to the extent that by the 1970s the owner-occupied sector was larger than the rented sector—more people owned their homes than rented a home.<sup>27</sup> Another instructive illustration of the development toward a significantly owner-occupation oriented society can be found in Southern Europe. Despite some particularities, the experience of the countries of Malta, Portugal, and Spain can be generally summarized together for the present purpose. In the three countries, home ownership has been promoted through heavy and sustained subsidization, and “accessible” credit terms have enabled households to pursue the “natural aspiration” of purchasing a home.<sup>28</sup> However, the strengthening of the owner-occupation sector was accompanied by the increasing unattractiveness of the rented sector. Potential rental tenants were attracted to home ownership by the generous mortgage lending terms that brought mortgage payments down to the level of rent payments, and property owners were discouraged from offering their dwellings on the rental market because strict control mechanisms limited their ability to realize a significant profit.<sup>29</sup> This long-term promotion of owner occupation ultimately resulted in the characterization of rental tenure as an inferior and secondary option.<sup>30</sup>

### 1.5. Housing policy in the socialist states in Central and Eastern Europe

Another major strain of the evolution of housing policy in Europe—yielding some of the most emphatic super-ownership societies in Europe<sup>31</sup>—is the legacy of the socialist states of Central and Eastern Europe. The countries studied under the Tenlaw project that belong to this group are Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Serbia, Slovenia, and Slovakia. The geographic expanse represented here is vast, stretching from the Baltic Sea in the north, to the Adriatic Sea in the south and to the Black Sea in the east. It is admittedly

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<sup>25</sup> *Ibid.*

<sup>26</sup> *Ibid.*

<sup>27</sup> *Ibid.*

<sup>28</sup> Tarragona 1.1.1., 4.

<sup>29</sup> *Ibid.*

<sup>30</sup> *Ibid.*

<sup>31</sup> See Appendix, Table 1.

an over-simplification to group these otherwise diverse societies into one single category, but their common history of state socialism makes the historical evolution as well as the current state of housing systems in the states of Central and Eastern Europe relatively similar when compared to other European countries.

The development of the housing systems and policies in Central and Eastern European countries has been labelled the East European Housing Model (EEHM)<sup>32</sup>. The hallmarks of the EEHM are single-party political control over housing policy, subordination of the role of market mechanisms, replacement of market competition with bureaucratic coordination through housing agencies, and control by the state of housing services. Through the 1950s and 1960s, the socialist party channelled all available financial resources and the workforce into forced industrialization, and thus reinforced mass migration from the rural areas to the newly industrialized urban centres. In suburban and rural areas, houses were built and occupied in an informal sector of owned dwellings, while sub-tenancies operated in parallel with the official states controlled rental sector.<sup>33</sup>

There were of course particularities in housing policy among the countries in Central and Eastern Europe due to national social and economic divergences. For example, private ownership was more widespread in Bulgaria than in neighbouring countries already throughout the socialist period, and the share of state-owned dwellings there was relatively small.<sup>34</sup> Nonetheless, the overall similarity among the development of housing policy in the Central and Eastern European countries is remarkable when considering the significant diversity among the countries. This can be illustrated by noting that, despite social and political effects of being republics in the Union of Soviet Socialist Republics<sup>35</sup>, Estonia, Latvia and Lithuania experienced developments in housing generally similar to other former socialist states that were not a part of the USSR.

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32 This general description of the development of housing policy in Central and Eastern European states draws heavily from the TENLAW Intra-Team Comparative Report for Bulgaria, Hungary, and Romania. MRI 1.1.1., 3-5.

33 MRI 1.1.1., 8.

34 MRI 1.1.1., 6.

35 See Tartu 1.1.1., 4-5.

## 1.6. Liberalization of housing markets in Western Europe

The desperate state of the post-war housing situation required governments to focus on reconstructing and supplying dwellings, which in Western European countries was pursued primarily through object-related subsidies.<sup>36</sup> The dominant use of object-related subsidies waned in the 1980s when housing policy in many Western European countries changed fundamentally to a more market-oriented approach. Forms of state support shifted away from object-related subsidies to subject-related subsidies and other direct or indirect promotion of owner occupied dwellings, and an overall reduction of state funds directed towards housing occurred. This liberalization comprised also privatization of state or publicly owned dwellings, deregulation of rent controls, and decentralization of housing policy to regional or municipal authorities.<sup>37</sup>

Examples of these developments are widespread. In Italy changes began in the 1980s, when government investments in housing were reduced.<sup>38</sup> Although owner occupation continued to be subsidized, the rental market started to be liberalized from the beginning of the 1990s.<sup>39</sup> Regarding the privatization of dwellings with a public task, the United Kingdom and Ireland introduced tenant purchase schemes (Ireland in 1966 and UK in late 1980s) giving tenants in “local authority” housing the option to purchase the dwellings they occupied at below market prices.<sup>40</sup> In the Netherlands, in the 1990s the government cut financial ties with landlords, making the social rental sector financially independent.<sup>41</sup> From then on, social landlords (housing associations) were expected to operate as social entrepreneurs, using social capital to provide housing with a public task while taking on the financial risk themselves.<sup>42</sup> In Belgium and France, responsibilities for implementing housing policy were transferred to local authorities—and in the Netherlands to housing associations.<sup>43</sup> Also, in the 1990s Sweden abolished special economic regulations for the public housing sector, shifting the focus of Swedish housing policy to availability, energy efficiency and ecology.<sup>44</sup>

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36 Austria 1.2., 9.

37 Austria 1.2., 9.

38 Pisa 1.1.1., 2.

39 *Ibid.*

40 Southampton 1.1., 3.

41 Delft 1.1.1., 3.

42 *Ibid.*

43 Delft 1.1.1., 5.

44 Lund 1.1.1., 5.

Particularly worth mentioning here is the development of the assured shorthold in the United Kingdom. In the 1980s market reforms in the private rental sector led to the introduction in 1989 of the assured tenancy, under which the landlord could charge market rents. The resulting default form of tenure is the assured shorthold, under which the tenant has a short, contractually-fixed term of at least six months—but no long-term security of tenure.<sup>45</sup> Although not technically a deregulation of rent-increase limits, low security of tenure can have the practical effect of subjecting a tenant to having to choose between accepting increases in rent after short periods of tenancy or having to bear the transactions costs and inconvenience of moving to a new dwelling.<sup>46</sup>

In contrast to the above mentioned trends, Austrian housing policy has been and continues to be dominated by the aim to provide adequate living space to low-income and medium-income households through housing policy focused on object-related subsidies and on close cooperation between the state and limited-profit housing associations.<sup>47</sup> Also, neither significant privatization of public-owned dwellings to for-profit investors nor deregulation of rent limits has occurred so far.<sup>48</sup> In correlation with these observations, the reporter for Austria also noted that the Austrian system of housing has provided relatively stable and affordable housing conditions and has not experienced a major boom or [even a] significant rise in home ownership.<sup>49</sup>

Another noteworthy trend in housing policy is the increasing attention paid to the quality of the housing stock. German housing policy in the 1990s exhibited an increased concern for the quality of housing, especially in response to the housing stock of partly inferior quality inherited after reunification with regions formerly comprising East Germany.<sup>50</sup> Also, since the 1990s, French housing policy has had a strong focus on urban renewal and restructuring.<sup>51</sup> Social landlords have become increasingly active in the urban renewal process, and one of the explicit aims of French housing policy is to improve housing quality.<sup>52</sup>

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45 Southampton 1.1., 3.

46 For further elaboration on the assured shorthold tenancy, see England & Wales 4.2., 92.

47 Austria 1.2., 9-10.

48 *Ibid.*

49 Austria 1.2., 10.

50 Bremen 1.1.1., 2.

51 Delft 1.1.1., 4.

52 *Ibid.*

## 1.7. Transition from socialism to free markets in Central and Eastern Europe

Turning again to the Central and Eastern European countries, the post-1990 development of housing tenures in the former socialist countries was conceptually similar in many aspects to the liberalization that had occurred in western European countries in the 1980s. The transition to market economy led to the deletion of socialist controls and consequently to significant liberalization, such as decentralization of housing policy and regulation, privatization of the state-owned housing stock, significant defunding of state-sponsored housing support, and deregulation of housing markets.<sup>53</sup>

Divergences are also visible among the housing policies of post-transition countries in Central and Eastern Europe. An illustration of this can be observed by comparing generally the transition to a market economy in Bulgaria, Hungary and Romania. In Bulgaria, the transition to a market economy was slower and more difficult than in other transition countries.<sup>54</sup> In contrast, Hungary's economic development into the 2000s was considered exemplary among transition countries. Divergence is also apparent when comparing Croatia, Serbia and Slovenia—three countries that were united as part of the country of Yugoslavia until 1990. The Yugoslav Wars caused a number of housing problems in Croatia and Serbia (e.g. demolition of housing units), exacerbated by the mass influx of refugees and internally displaced persons to both countries.<sup>55</sup> Slovenia, in contrast to the other two countries, did not experience a comparably massive influx of people from the other republics of former Yugoslavia,<sup>56</sup> and therefore did not have to cope with the consequent housing problems.

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53 MRI 1.1.1., 4-5.

54 MRI 1.1.1., 6.

55 Celje 1.1.1., 4-5.

56 Celje 1.1.1., 5.

## 2. Tenure preference in housing policy, subsidization and taxation

When considering orientation of housing policy and instruments toward housing tenures, three main aspects were examined: the country's explicit policy position regarding housing tenures, the orientation of its housing subsidization programmes and the effects of its taxation system on the various housing tenures. These areas were synthesized to determine whether a housing tenure preference exists in each country studied and, if so, the strength of that preference.

### 2.1. Tenure preference in expressly stated housing policy

The evaluation of whether a housing tenure preference can be observed will begin here from a somewhat dubious vantage point, that of housing policy statements. This perspective is dubious partly because policy statements are political statements of intent and, therefore, aspirational in nature. But policy statements are also a dubious starting point – particularly in the context of this investigation—because, out of 31 national reports generated during this research, less than half reported an explicit statement either way on the question of which if any housing tenure was officially promoted. More precisely, a housing tenure preference was not reported for eighteen of the thirty-one countries in the study.<sup>57</sup> This omission could indicate a genuine absence of an official position as to promoting one type of housing tenure over another. For example, the main objective of housing policy in Austria is to provide affordable, high quality housing to all of its citizens,<sup>58</sup> and a preference for either rental or owner occupancy types of tenures is not expressly stated in Austrian housing policy. In contrast, the absence of an express statement of tenure preference in housing policy for several of the countries studied can be attributed to the complete absence of a concerted housing policy in the country in general. For example, to the extent that neither Croatia nor Serbia has a comprehensive national housing strategy, those governments do not state a policy preference for any tenure type.<sup>59</sup>

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<sup>57</sup> No express statement of tenure preference in housing policy was reported in the Tenlaw national reports for Austria, Bulgaria, Croatia, Cyprus, Denmark, England & Wales, France, Germany, Greece, Hungary, Italy, Latvia, Poland, Romania, Serbia, Slovakia, Slovenia and Sweden.

<sup>58</sup> Bremen 2.2.2., 18.

<sup>59</sup> Celje 2.1., 19.

A further interesting particularity is found in the housing policy of France. No expressly stated tenure preference was reported, which may be associated with the use of housing policy mechanisms in France in a more extensive way to stimulate the general economy.<sup>60</sup> Whatever the reason for the lack of an express policy statement regarding a preference for housing tenure, the absence thereof renders this aspect a non-factor for those countries in the context of the present analysis of an overall tenure bias in the housing system.

However, this factor is particularly important when examining those countries for which an explicitly stated housing tenure preference is reported, because determining the goals and purposes driving the subsidization programmes and taxation systems in those countries might prove to be less ambiguous and would hopefully require less speculation to interpret. Here, housing policy statements range from expressing a preference for owner occupation to expressing a preference for renting or expressly preferring neither form, thereby endorsing the principle of tenure neutrality.

The term “tenure neutrality” is not used to describe the results of this classification. The various definitions of tenure neutrality offered in the housing research literature reveal that the concept requires application of data and analysis that exceed the scope of the author’s discipline.<sup>61</sup> The general concept is that tenure neutrality regards the free choice of consumers.<sup>62</sup> *Kemeny* states, “housing policy should be ‘tenure neutral’: that is, the role of governments in housing should be to maximize effective consumer choice by encouraging the development of a wide range of tenures of comparable cost.”<sup>63</sup> In this sense, tenure neutrality means that consumers of housing are neutral towards the different tenures, in most part because certain characteristics of the tenures are made equally attractive to them through policy measures and regulation mechanisms, so that the consumers’ choice of tenure is based on characteristics that are inherent to the particular types of tenure.<sup>64</sup> Ultimately, the housing policy and programme preferences determined herein may be considered together with other factors when evaluating a housing system for tenure neutrality.

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60 Delft 2.1., 19.

61 See *Haffner, Marietta E.A.*, Tenure Neutrality, A Financial-Economic Interpretation, *Housing, Theory and Society* 2003; 20: 72-85, 72-74.

62 *Haffner* 2003, 72.

63 *Kemeny, Jim* (1982) *The myth of home ownership. Private versus public choices in housing tenure.* London: Routledge & Kegan Paul Ltd., cited in *Haffner* 2003, 72.

64 *Haffner* 2003, 72.

## 2.2. Tenure preference in subsidization & taxation systems

In this section, the thirty one countries studied are classified according to the overall orientation of their subsidization instruments and tax treatment applicable to housing tenures. The wide variety of possible subsidization mechanisms is represented well by the variety of ways in which subsidies can be classified.<sup>65</sup> Classification of subsidies can be made according to tenure type' as well as according to point in time of application of the subsidy. It can also be based on which level of government provides, allocates and manages a subsidy. Yet another perspective is whether a subsidy is allocated toward persons, in which case it can be referred to as a subject-related subsidy or personal subsidy, or allocated toward a particular dwelling or building, for which the terms object-based subsidy and brick-and-mortar subsidy are used.<sup>66</sup> In the present study, the allocation of subsidies according to tenure type focused on the two dominating tenure types of owner occupancy and rental tenure.

## 2.3. Countries manifesting a low level of preference for owner occupation tenure

A low level of preference for owner occupation tenure was determined for Austria, Germany and Switzerland. Of these three countries, an explicitly stated tenure preference was reported only for Switzerland. The official orientation of Swiss housing policy is expressed in Article 108 of the Swiss Federal Constitution, which provides that the Swiss Confederation shall "encourage the acquisition of the ownership of apartments and houses for the personal [residential] use of private individuals."<sup>67</sup> In contrast, an explicit statement of tenure preference was not reported for Austria or Germany.

Subsidies in Austria are equally applicable to both owner-occupied and rented dwellings.<sup>68</sup> The most prevalent programmes are object-related subsidies for the construction and modernization of dwellings, but subject-based housing subsidies are also available.<sup>69</sup> There appears to be no perceivable tenure preference in the Austrian constellation of subsidies, since the programmes are generally not tenure dependent.

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65 See generally Netherlands, 3.6., 42.

66 Netherlands 3.6., 42.

67 Switzerland 3.3.; Bremen 2.2.2., 19.

68 See Austria 3.6., 52-53.

69 *Ibid.*

Similarly, taxation of dwellings in Austria does not appear to favour any tenure. In comparison to other European States, Austria offers relatively little tax advantage for owner occupation.<sup>70</sup> Furthermore, supply on the rental market is promoted through corporate income tax exemptions available to limited-profit housing associations.<sup>71</sup> There may be a very slight preference for owner occupancy expressed in the value added tax charged on tenants' rent payments.<sup>72</sup>

However, Austria's overall systems of subsidization and taxation of housing represent only a low level of preference for owner occupancy tenure type. Notably, the Austrian national reporter also comments that a preference for a particular tenure type is not perceivable,<sup>73</sup> an assessment supported by the fact that the structure of the housing stock has been stable since 1981.<sup>74</sup> Therefore, the classification of Austria as a country with a low level of preference for owner occupancy is clear.

In Germany, subject-related subsidies are available for both owner occupiers and rental tenants.<sup>75</sup> An array of subsidies is aimed at owner occupiers, although the favourable financing programme for renovation measures is accessible for landlords as well as owner occupiers.<sup>76</sup> There are also object-based subsidies available for any type of landlord. Every landlord is entitled to apply for social housing subsidies (object-related funding for construction of rental dwellings), and in return for the support, the landlord must observe certain limitations, such as rent ceilings and occupancy control agreements.<sup>77</sup>

Regarding taxation, the benefit of occupying an owned dwelling is not considered taxable income in Germany.<sup>78</sup> However, landlords' income from letting a dwelling is subject to income tax (or corporate income tax), offset by a broad range of deductions for property owners in general and exceptions for cooperatives.<sup>79</sup>

Given the balance of measures available in the aggregate for the two tenure types, promotion of housing in Germany can be classified as having a low level of preference for owner occupation tenure.

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70 Austria 3.1., 31.

71 Austria 3.7., 58.

72 Austria 3.7., 56.

73 Austria 3.3., 46; Bremen 2.2.2., 19.

74 Austria 3.3., 46.

75 Germany 3.6., 56.

76 Germany 3.6., 57.

77 Germany 3.6., 55.

78 Bremen 2.6., 25.

79 *Ibid.*

In Switzerland subsidization of the construction of new dwellings was previously available equally for owner occupation and rental tenures. However, direct subsidization of owner occupancy tenure was eliminated 2007.<sup>80</sup> Thus, central housing subsidies are currently directed only at construction and renovation of non-profit housing.<sup>81</sup> At the cantonal level, housing is subsidized through municipally owned dwellings rented to households in need.<sup>82</sup>

Tax treatment of the two tenure types is relatively balanced. Income tax liability extends to the imputed rental value of occupying an owned home, however at a rate below the market rent value.<sup>83</sup> Owner occupiers may also deduct mortgage interest payments.<sup>84</sup> Similarly, landlords are subject to income tax liability for rental income, offset by tax deductions that are available to property owners in general—landlords and owners occupiers alike.<sup>85</sup>

Since currently no direct subsidization is allocated to support owner occupancy and the tax system is relatively balanced in its treatment of owner occupiers and landlords, the Swiss systems of subsidization and tax measures appear exceptionally to exhibit no significant preference for owner occupancy tenure over rental tenure. This correlates with the exceptional position of Switzerland as the only country in the study where less than half of the population owns its dwelling.<sup>86</sup>

#### 2.4. Countries manifesting a medium level of preference for owner occupation tenure

A medium level of preference for owner occupation tenure was determined for Croatia, Czech Republic, Denmark, England & Wales, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Slovenia, and Sweden.

The subsidization of housing in Croatia might suggest a low level of tenure preference, as both owner occupancy and rental tenure benefit from subsidization.<sup>87</sup> However, the main housing subsidization programme in Croatia primarily promotes the

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80 Switzerland 3.6., 44.

81 Switzerland 3.6., 44.

82 Switzerland 3.6., 48.

83 Switzerland 3.6., 47

84 Bremen 2.6., 25.

85 *Ibid.*

86 In 2011, 25% of dwellings in Switzerland were owner occupied compared to 60% of dwelling that were occupied under rental tenure. Switzerland 1.4., 8; see also Appendix, Table 1.

87 Celje 2.5, 22.

first purchase of a dwelling and can be used to support the purchase or construction of dwellings for the provision of social or public housing, but not for private market rentals.<sup>88</sup> Furthermore, tenants' access to subject-related subsidies is difficult in practice; the ubiquity of black market, unwritten tenancy contracts creates problems for renters to prove their status as tenants, which is required to receive the subject-related housing benefits.<sup>89</sup> Thus, the resulting system of subsidization seems to clearly favour owner occupancy over rental tenure.

In contrast, it is less clear whether taxation in Croatia reveals a tenure preference. Owner occupiers are responsible primarily for real estate transfer tax when purchasing a dwelling, which is subject to several exemptions including the purchase of a first home and the purchase of land to construct a home for owner occupancy.<sup>90</sup> However, in some cases where an exemption from the real estate transfer tax is granted, the purchaser of a newly constructed dwelling is charged value added tax at the considerable rate of 25%.<sup>91</sup> In comparison, private landlords can reduce the amount of taxable amount of rent income by 30% to cover expenses related to the rental dwelling.<sup>92</sup> However, this tax benefit has not proven to be an effective incentive to induce investment in the construction of private rental housing.<sup>93</sup> Finally, tenants are unable to deduct rent payments from taxable income, a tax advantage to rental tenure that was eliminated in 2010.<sup>94</sup> In sum, this constellation of taxation does not appear to strongly favour either owner occupancy or rental tenure.

When weighed together, the preference for owner occupancy expressed in subsidization instruments and the relative balance in the tax system can be characterized as an overall medium level of preference for owner occupancy in Croatia.

One of the stated aims of state housing policy in the Czech Republic is to ensure a sufficient supply of affordable rental housing for households with low to average incomes.<sup>95</sup> However, owner occupation is the favoured tenure type in the Czech Republic, whereas the government has generally not intervened in the private rental

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88 Croatia 3.3., 75.

89 Croatia 3.6., 82.

90 Croatia 3.7., 85.

91 Croatia 3.7., 86.

92 Croatia 3.7., 86.

93 Croatia 3.7., 87.

94 Croatia 3.7., 87.

95 Czech Republic 3.3., 34.

sector.<sup>96</sup> Most Czech subsidization of housing is aimed at promoting home ownership,<sup>97</sup> and significant attention has generally been paid to assistance for the partial repayment of mortgage loans.<sup>98</sup> However, some subsidization is also available for the construction of rental housing.<sup>99</sup> Further housing benefits are available in the Czech Republic for low income households regardless of the tenure type. Thus, both owner occupants and rental tenants qualify for such benefits, provided the household income is below the threshold provided in the relevant legislation.<sup>100</sup> Yet, the most significant subsidization instrument is the building savings scheme to promote construction intended for owner occupation,<sup>101</sup> and, in sum, the largest proportion of subsidies is intended for owner-occupied dwellings.<sup>102</sup>

In comparison to subsidization measures, the impact of the Czech tax system on housing tenures is not significant. Deductions from income tax liability are available for eligible costs related to investing in dwellings to be let, and interest paid on loans for purchase or construction of housing—both mortgages and building savings schemes—can be deducted from income tax liability, as well.<sup>103</sup> However, taxation in the Czech Republic is characterized as not particularly burdensome, and that as a result, the tax system does not present a significant obstacle to the development of either owner occupancy or rental tenure markets.<sup>104</sup>

Nevertheless, despite the little impact of taxation on housing tenures in the Czech Republic, the extent to which housing subsidies favour owner occupation translates into an overall medium level of preference for owner occupation.

Programmes in Denmark for subsidization of dwellings promote both owner occupancy and rental tenure in many different ways and consequently, do not indicate a preference for one tenure type over the other.<sup>105</sup> Subsidization to support urban renewal and development is available for qualifying property owners, regardless of whether they are landlords or owner occupiers.<sup>106</sup> Several of the subject-related housing benefits are also available based on need but are independent of tenure sta-

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96 Katowice 2.2.2., 14.

97 Katowice 2.2.2., 14; Katowice 2.5., 16.

98 Katowice 2.5., 16.

99 Czech Republic 3.6., 41.

100 Katowice 2.5., 17.

101 Czech Republic 3.6., 42.

102 Czech Republic 3.6., 39.

103 Czech Republic 3.6., 42.

104 Katowice 2.6., 20.

105 Denmark 3.6., 41.

106 Denmark 3.6., 41.

tus,<sup>107</sup> and both landlords and tenants in private rental housing can receive direct subsidization aimed at improving the condition of dwellings, ensuring access to reasonably priced dwellings for low-income households, and promoting economic activity.<sup>108</sup> These subsidization programmes do not seem to prefer owner occupancy, but rather, they could possibly be interpreted as manifesting a slight preference toward rental tenure. In any case, it is difficult to see a preference for owner occupation tenure present in the Danish housing subsidization system, a conclusion corroborated by the statement of the reporter for Denmark that “[i]t is not possible to determine whether national policy favours renting or owner occupation, because both rented housing and home ownership are subsidized in many different ways.”<sup>109</sup>

In contrast, taxation related to housing in Denmark favours owner occupiers. The value of occupying a dwelling is not considered taxable income,<sup>110</sup> and interest on a mortgage for financing an owner occupied dwelling can reduce the property owner’s taxable income by up to 33% annually.<sup>111</sup> In contrast, the letting of property is considered an activity of self-employment, and landlords consequently owe personal or corporate income tax on the proceeds of rental properties, regardless of the number of properties that the landlord rents.<sup>112</sup> These factors suggest a preference in for owner occupation expressed in the Danish tax system.

Overall, the absence of tenure preference in Danish housing subsidies seems to mitigate the fact that owner occupancy is favoured under Danish taxation. Thus, the overall assessment leads to a conclusion that housing policy programmes in Denmark have a medium level of preference for owner occupation.

In England & Wales, housing subsidization has focused historically on extending owner occupation through various right to buy schemes in public and social housing.<sup>113</sup> Also, government guaranteed mortgages are available for purchase of owner occupied dwellings.<sup>114</sup> However, “Build to Let” schemes provided direct subsidy for the new construction intended for market rentals.<sup>115</sup> Thus, while the focus of housing subsidization in England & Wales historically has been to expand owner occupancy,

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107 Denmark 3.6., 40-1.

108 Denmark 3.6., 41.

109 Denmark 3.6., 41.

110 Lund 2.6., 42.

111 Denmark 3.7., 45.

112 Denmark 3.7., 44; Lund 2.2.2., 42.

113 See England & Wales sec. 3.1.

114 England & Wales 3.6., 80.

115 England & Wales 3.1., 55.

the support provided to the private rental sector seems to mitigate slightly the traditional preference for owner occupancy.

Moreover, the tax system in England & Wales currently does not directly subsidize any particular tenure, although it does contribute to market distortions.<sup>116</sup> Traditionally, home ownership was encouraged by providing income tax deductions for mortgage payments, but this was eliminated in the 1980s.<sup>117</sup> Thereby, the tax system applicable to housing does not appear to strongly favour owner occupation. In sum, the orientation of housing promotion in England & Wales can be characterized as expressing a medium level of preference for owner occupancy.

The subsidization of housing in Latvia appears to favour owner occupancy, although several of the subsidies apply to both owner occupancy and rental tenure. For instance, a one-time allowance for vacating a dwelling and a one-time allowance for renovation of a dwelling can be allocated regardless of tenure status.<sup>118</sup> However, certain subsidies are allocated only to households occupying denationalized or restituted dwellings, such as the allowance to cover payment for residential tenancy and payment for utilities.<sup>119</sup> Significantly, the subsidies that are perhaps the most substantial—assistance in the purchase or construction of a dwelling and assistance in the renovation and restoration of residential housing—are available only to owner occupiers,<sup>120</sup> although a specific subsidy for renovation of a dwelling is also available for low-income households in a rented dwelling.<sup>121</sup> Thus, the housing subsidization system in Latvia tends to reserve the most significant supports for owner occupancy. In contrast, there are almost no tax benefits in Latvia for particular housing tenures.<sup>122</sup> Property tax on immovable property is charged to property owners, regardless of the tenure status of the occupiers of the dwelling.<sup>123</sup> An exemption is granted to low-income households, again not based on tenure but rather irrespective of tenure.<sup>124</sup> Exceptionally, a tax benefit is available to landlords in the form of an optional reduced income tax rate of 10% on rental income instead of the standard 24% income tax

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116 England & Wales 3.7., 88.

117 Southampton 2.6., 30.

118 Tartu 2.5., 31-32.

119 Tartu 2.5., 32.

120 *Ibid.*

121 *Ibid.*

122 Latvia, 42.

123 Latvia, 40.

124 Latvia, 40.

rate.<sup>125</sup> In this regard, the tax system in Latvia appears not to prefer owner occupancy and perhaps even slightly favours rental tenure, at least from the perspective of landlords.

Considering that the subsidization system seems to favour owner occupation but the tax system is generally indifferent to tenure type, the treatment of housing tenures in Latvia appears to have a medium level of preference for owner occupancy.

Lithuanian housing policy does not explicitly favour any form of tenure.<sup>126</sup> The expressly stated goal of housing policy is to develop different types of tenure in order to ensure the interest of all social groups, which includes enlarging the rental sector.<sup>127</sup> One specifically expressed goal of housing policy in Lithuania is to increase the share of rental housing to 18% of the total housing stock by 2020.<sup>128</sup> Nevertheless, subsidization of housing in Lithuania provides support intended primarily for owner occupation tenure.<sup>129</sup> State-guaranteed loans are the main subsidies provided for owner occupiers,<sup>130</sup> while subsidization in the rental sector is provided only in the form of municipal social rented housing.<sup>131</sup> There are no specific subsidies for landlords,<sup>132</sup> and no subsidies were reported for households renting in the private rental sector. Thus, the system of subsidization in Lithuania clearly reveals a preference for owner occupancy.

In contrast, non-professional landlords enjoy the most favourable treatment from the Lithuanian tax system. “Passive housing rent” by a non-professional landlord is not the object of personal income tax at all, whereas rental income from “active housing rent” by a professional natural person is taxable as income only at a rate of 15%.<sup>133</sup> Otherwise, no significant subsidization of housing tenures is provided through the tax system.

The strong subsidies allocated to owner occupancy and the tax treatment of housing tenures equates to a medium level of preference for owner occupancy in the subsidization and taxation of housing in Lithuania.

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125 Tartu 2.6., 33.

126 Tartu 2.2.2., 28.

127 *Ibid.*

128 *Ibid.*

129 Lithuania 3.6., 48; Tartu 2.5, 31.

130 *Ibid.*

131 *Ibid.*

132 Tartu 2.5., 31.

133 Tartu 2.6., 33.

In Luxembourg, the main subsidies available are directed at encouraging the construction of owner occupied dwellings. The construction grant subsidy requires that the subsidized dwelling be owner occupied for at least the first ten years after its construction,<sup>134</sup> and the interest subsidy requires that the mortgagee inhabit the subsidized dwelling,<sup>135</sup> presumably for the duration of the mortgage. Considering that these instruments prohibit the letting of the subsidized buildings for a significant period of time, they can be only viewed as preferring owner occupancy.

The tax system in Luxembourg appears to treat owner occupation and rental tenure equally with little or no preference for either type. Both tenure types are subject to the same tax measures, such as property value tax, acquisition tax, and value added tax, as well as comparable deduction and reimbursement opportunities.<sup>136</sup> Also, both owner occupiers and landlords are liable for income tax in connection with their property, and both can deduct mortgage interest when calculating income tax liability, albeit at different amounts.<sup>137</sup> Owner occupiers are charged for the value of occupying their home as imputed rent, but they may also deduct certain expenses including mortgage interest payments.<sup>138</sup> In comparison, landlords are charged personal or corporate income tax on rent received, for which there are also deductions for property owners in general and exceptions for cooperatives.<sup>139</sup>

In total, the tax system is generally balanced between the tenures, and therefore, to the extent that subsidization measures exhibit a clear preference for owner occupation, the mechanisms of housing support in Luxembourg exhibit overall a medium level of preference for owner occupancy.

Among the stated aims of housing policy in Malta, the main goal is to promote owner occupation tenure.<sup>140</sup> This can be observed in the focus of Maltese housing subsidies,<sup>141</sup> which encourage owner occupation primarily through partial subsidization of mortgage interest for first time home buyers and grants to assist in the construction of a first home.<sup>142</sup> In the rental sector, subsidies for tenants range from support for pay-

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134 Luxembourg 3.6., 100.

135 Luxembourg 3.6., 101.

136 Luxembourg 3.7.; 105-107.

137 Luxembourg 3.7., 108.

138 Bremen 2.6., 25.

139 Bremen 2.6., 25.

140 Malta 3.3., 47.

141 Malta 3.6., 56.

142 Malta 3.6., 59-60.

ment of rent to grants for maintenance, but these measures are only allocated based on income level of the household.<sup>143</sup>

Taxation of owner occupation tenure in Malta is rather limited. There is no property tax, and owner occupiers do not pay income tax on imputed rent.<sup>144</sup> Tax liability for owner occupiers arises only when transferring a dwelling.<sup>145</sup> In contrast, landlords are charged income tax on rent payments, but they are allowed certain deductions for mortgage interest and maintenance costs.<sup>146</sup> Rental tenants are not taxed in connection with their dwelling,<sup>147</sup> but they do not receive an income tax deduction for rents paid.<sup>148</sup> Recently introduced tax measures aim to promote the supply in the private rental market, although supply is not currently a problem in Malta.<sup>149</sup> These measures take the form of reduced tax rates for landlords who put vacant dwellings on the rental market, thereby activating them and increasing available stock for prospective tenants.<sup>150</sup> Further subsidization of the rental sector takes the form of a reduced income tax rate (5% instead of the standard 35%) for landlords who accept tenants who themselves receive a subject-related subsidy from the housing authority.<sup>151</sup>

Although preferential tax treatment is used to stimulate supply in the private rental sector, subsidization in Malta generally favours owner occupiers, which is also consistent with Malta's expressly stated support of owner occupation. Overall, Malta can be characterized as exhibiting a medium level of preference for owner occupancy.

Current housing policy in the Netherlands focuses on the rental sector, providing affordable dwellings through privatized housing associations, and protecting tenants by putting them in a strong position relative to landlords.<sup>152</sup> However, Dutch housing policy has had the gradual effect of marginalizing by income of the rental sector.<sup>153</sup> Housing allowances have favoured owner occupation tenure through the past several decades.<sup>154</sup> In recent years, a goal of creating balance in the rental market has been

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143 Malta 3.6., 56.

144 Malta 3.7., 64.

145 Malta 3.7., 64.

146 Malta 3.7., 65.

147 Malta 3.7., 64.

148 Malta 3.7., 65.

149 Tarragona 1.1.2., 7.

150 Malta 3.7., 66.

151 Malta 3.6., 61.

152 Delft 2.2.2., 21.

153 Delft 1.2.2., 11.

154 Delft 1.2.2., 11.

explicitly stated as part of Dutch housing policy.<sup>155</sup> However, subsidization and taxation measures appear inconsistent with these explicitly stated policy goals. Housing subsidies in the Netherlands continue to primarily promote owner occupation and social rental tenures.<sup>156</sup> Furthermore, private landlords do not receive any type of subsidization.<sup>157</sup>

Taxation is relatively balanced between the two tenure types. Although owner occupiers enjoy a deduction from income tax liability for mortgage interest, the imputed rent value of occupying their home is subject to taxation for as long as they avail themselves of the deduction.<sup>158</sup> Tenants pay no taxes in connection to the rental agreement.<sup>159</sup> However, rental income received by professional landlords is taxed under corporate income tax, and private landlords are taxed as professional entrepreneurs<sup>160</sup>. A clear preference for either tenure type is difficult to infer from this set of tax measures.

The overall picture of subsidies and taxation in the Netherlands suggests a medium level of preference for owner occupation.

It appears that most subsidies in Poland generally target owner occupation tenure. The preference in Polish housing policy for owner occupation tenure is evidenced by the significant attention that generally has been paid to partial repayment of mortgage loans,<sup>161</sup> and subsidies to young families for the purchase of their first home have been successfully provided under various successive programmes for the past decade.<sup>162</sup> Poland has also made a housing benefit available to low income households regardless of the tenure type.<sup>163</sup> In response to the effects of the global financial crisis, the government has attempted to stimulate the tenancy market,<sup>164</sup> but these attempts have failed due to the absence of secondary legislation necessary for implementation.<sup>165</sup>

Taxation in Poland appears to be distributed between both owner occupation and rental tenures, as tax liability attaches to transfers of ownership as well as to rental

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155 Delft 2.2.2., 21.

156 Delft 2.5., 26.

157 *Ibid*

158 Delft 2.6., 31.

159 Delft 2.6., 30.

160 *Ibid*.

161 Poland 3.3., 42; Katowice 2.5., 16.

162 Katowice 2.5., 17.

163 Katowice 2.5., 18.

164 Poland 3.3., 42.

165 Katowice 2.5., 18.

incomes.<sup>166</sup> Overall, taxation of housing in Poland is reported as not being “particularly burdensome”, and consequently does not pose a “significant obstacle to development” of housing markets.<sup>167</sup>

Considering the subsidization of owner occupation and the failure to subsidize rental tenure, as well as the relative balance of the tax burden for each tenure type, Poland exhibits a medium level of preference for owner occupation tenure.

Housing policy in Slovenia has been criticized as favouring owner occupation tenure while neglecting the rental sector.<sup>168</sup> However, the largest part of subsidies in Slovenia is intended for the rental sector, while some subsidies provided in Slovenia target home ownership.<sup>169</sup> The main support provided for rental tenure is in the form of a subject related subsidy of the rent payment, while object related subsidization for energy efficient renovation of dwellings is available to promote both owner occupation and rental tenure.<sup>170</sup> Furthermore, the benefit of entering into a subsidized savings contract for first time home acquisition is no longer available.<sup>171</sup>

Regarding the Slovenian tax system, tax subsidies have a negative effect on rental markets. Since relief from property tax liability is available for owner occupiers, many landlords do not register the rental contract, but instead register themselves as having residence at the address of the dwelling, and landlords who do register their rental contracts typically pass the expense of the additional tax liability along to the tenant in the form of a higher rent amount.<sup>172</sup>

Weighing the negative effect of taxation on rental tenures against the apparently pro-rental orientation of subsidies, promotion of housing tenures in Slovenia can be characterized in the aggregate as manifesting a medium level of preference for owner occupation tenure.

Rental tenure is strongly promoted in Sweden through rent setting according to the utility value principle<sup>173</sup>. In contrast, Swedish taxation of housing favours owner occupiers, who are entitled to tax deductions or rebates for home loan interest and for ex-

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166 Katowice 2.6., 19.

167 Katowice 2.6., 20.

168 Slovenia 3.3., 60.

169 Celje 2.5., 22; Slovenia 3.6., 67.

170 Slovenia 3.6., 68-69.

171 Slovenia 3.6., 68.

172 Celje 2.6., 24.

173 Lund 2.2.2., 33

penses from repair, renovation and expansion, and capital gains taxes can be deferred when another dwelling is bought for at least the same amount of money.<sup>174</sup> However, the recently increased flat-rate deduction for subletting a dwelling aims to stimulate the private rental market.<sup>175</sup> Nonetheless, the Swedish tax system has been characterized as “unjust” and favouring owner occupation over renting.<sup>176</sup> In the case of Sweden, the orientation of housing policy and instruments is difficult to characterize,<sup>177</sup> but a medium level of preference for owner occupation tenure was determined.

## 2.5. Countries manifesting a high level of preference for owner occupation tenure

A high level of preference for owner occupation tenure was determined for Belgium, Bulgaria, Cyprus, Estonia, France, Greece, Hungary, Romania, Serbia and Slovakia.

The aim of housing policy in Belgium is stated to be the promotion of ownership of dwellings for low-income households, with the provision of social rental housing as a secondary aim.<sup>178</sup> The three administrative regions of Flanders, Wallonia, and Brussels are responsible for the provision of housing subsidies, resulting in a complex system of many subsidies with varying aims,<sup>179</sup> although housing policy differs only slightly among the three regions.<sup>180</sup> Generally, object-related subsidization is available to both owner occupiers and landlords, in the form of grants and loans for construction and renovation.<sup>181</sup> Subject-related subsidization of tenants is available mainly to low-income households.<sup>182</sup>

Taxation of housing in Belgium exhibits a strong preference for owner occupiers over private landlords. Private landlords pay a higher rate of property tax and are allowed fewer personal income tax deductions compared to owner occupiers.<sup>183</sup> However, social landlords are charged value added tax for construction at a lower rate than other actors, property tax at a lower rate than for private landlords, and corporate in-

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174 Lund 1.2.2, 19.

175 Sweden 3.7., 44.

176 Lund 1.2.2., 19, footnote 65.

177 Lund 2.2.2., 33.

178 Belgium 3.3., 34.

179 Delft 2.5., 24.

180 Belgium 3.3., 34.

181 See Delft 2.5., 25, tables 1 & 3

182 See Delft 2.5., 25, table 2.

183 Belgium 3.7., 52.

come tax at a significantly lower rate (5%) than the standard rate for other corporate landlords (34%).<sup>184</sup>

Considering the stated policy aim of promoting ownership, housing subsidy and tax measures in Belgium were interpreted to express a high level of preference for owner occupation tenure.

In Bulgaria, housing subsidies are very limited in scope and do not directly impact the rental market. The most generous housing subsidies target home owners, and there are essentially no state subsidies for private renters.<sup>185</sup> While there are various forms of support for social tenants, these are granted based on their social status and not on their tenure status. Furthermore, acting as a private landlord is considered a commercial enterprise, and therefore no support is provided for private landlords and any support for private rental is virtually non-existent.<sup>186</sup>

Taxation of housing in Bulgaria appears to have a limited impact on the sale and rental markets.<sup>187</sup> Tax rates on rental incomes are considered low,<sup>188</sup> which should in theory act as an incentive – or at least not act as a disincentive – to the supply of privately rented dwellings. And although several tax relief programmes are available for the purchase of a home with a mortgage – especially for young families – the opportunities for tax deductions for mortgage have very limited practical relevance, representing for example only 0.02% of the total mortgages in Bulgaria as of December 2009.<sup>189</sup>

Despite the rather benign tax system related to housing, the overall housing policy mechanisms can be characterised by a high level of preference for owner occupancy due to the generous subsidies for owner occupation and the lack of subsidies to the private rental sector.

Housing policy in Cyprus has historically favoured owner occupancy, and the current programmes continue that tradition.<sup>190</sup> Nearly all housing subsidy programmes in the country promote owner occupation, providing various forms of assistance to pur-

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184 Belgium 3.7., 52.

185 MRI 2.5., 31.

186 *Ibid.*

187 Bulgaria 3.7., 69.

188 MRI 2.6., 32.

189 Bulgaria 3.7., 69.

190 See Pisa 2.1., 16-17.

chase, build or repair a dwelling.<sup>191</sup> This heavy support of home ownership is also consciously undertaken in order to compensate for the lack of public and social housing in the country,<sup>192</sup> although subsidies also exist to support rental contracts.<sup>193</sup> Overall, the housing subsidy programmes in Cyprus indicate a clear preference for owner occupancy.<sup>194</sup>

In contrast, any tenure preference in the taxation of housing in Cyprus is less emphatic.<sup>195</sup> A range of taxes is charged to property owners, whether owner occupiers or landlords. Advantages to owner occupiers include exemption from value added tax on new dwellings when constructed for owner occupation<sup>196</sup> and special grants that are available to promote the first purchase of a dwelling.<sup>197</sup> In support of landlords, 20% of rental income is exempt from income tax liability,<sup>198</sup> and there is no taxation of tenants related to their rental contracts.<sup>199</sup>

However, although the tax system seems to lack a strong tenure preference, subsidization of housing in Cyprus significantly favours owner occupiers to the extent that the overall housing policy is correctly characterized as having a high level of preference for owner occupancy tenure.<sup>200</sup>

Current housing policy in Estonia aims at promoting owner occupancy and limits action in the rental market to promoting social housing for low-income households.<sup>201</sup> A state-supported rental sector has lately become an important topic of discussion,<sup>202</sup> but owner occupation remains the dominant focus of housing subsidization programmes implemented in Estonia.<sup>203</sup> The most significant subsidies currently available are state guarantees for housing loans for owner occupiers.<sup>204</sup> There are no special subsidies for tenants, except for local subsidies provided to tenants living in restituted houses.

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191 Pisa 2.5., 23.

192 Pisa 2.5., 24.

193 See Cyprus 3.6., 28.

194 Cyprus 3.6., 32.

195 Cyprus 3.7., 36; Pisa 2.6., 25.

196 Cyprus 3.7., 35.

197 Cyprus 3.7., 36.

198 Cyprus 3.7., 36.

199 Cyprus 3.7., 35.

200 Cyprus 3.3., 22.

201 Estonia 3.1., 50.

202 Tartu 2.2.2., 27.

203 Estonia 3.3., 52.

204 Tartu 2.5., 30-31.

Tax incentives are provided almost exclusively to owner occupiers, comprising deduction of mortgage interest from taxable income and exemption from land tax.<sup>205</sup> Furthermore, the value of occupying a house is not considered taxable income.<sup>206</sup> However, a greater effect of the tax system on the private rental market is attributed to the lack of tax incentives for private landlords.<sup>207</sup> In particular, landlords seldom declare rental incomes.<sup>208</sup> Suggestions to implement exemptions or reductions of tax liability for rental incomes have been part of the political discussion, but these suggestions have been rejected by the Estonian Ministry of Finance.<sup>209</sup> Although in its current state, subsidization and taxation of housing in Estonia represent a high level of preference for owner occupancy, first steps were taken in Estonia in 2014 toward facilitating a state-supported private rental sector.<sup>210</sup> Nevertheless, the Estonian systems of subsidization and taxation of housing continues to express a high level of preference for owner occupancy.

The system of housing subsidies in France promotes mainly owner occupiers, but also rental tenants with lower incomes.<sup>211</sup> Support of home ownership is manifested in various forms of financial support for “starters on the home ownership market” and a relatively advantageous fiscal regime for homeowners.<sup>212</sup> Yet in the wider view, the orientation of housing subsidization and taxation in France could perhaps be characterized as transcending any preference between housing tenure type based on the use of housing promotion more broadly to directly influence the general economy.<sup>213</sup> This particularity of the French system extends primarily to the use of taxes as an incentive or disincentive to stimulate the construction sector, to influence the market or to avoid vacancies.<sup>214</sup> An example of where these incentives favour rental tenure is a yearly deduction of a percentage of the rental income.<sup>215</sup> Regarding tax incentives for owner occupiers, while they do have to pay the local property tax,<sup>216</sup> the main tax benefit exists in the fact that imputed rent of owner occupiers is not taxed in

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205 Tartu 2.6., 33-34 & fn 175.

206 Tartu 2.6., 32.

207 Estonia 3.7., 65.

208 Tartu 2.6., 34-35.

209 Estonia 3.7., 65.

210 Tartu 2.2.2., 27, fn 140.

211 Delft 2.5., 27.

212 France 3.3., 28.

213 France 3.1., 26.

214 Delft 2.6., 32.

215 France 3.7.; Delft 2.6.

216 France 3.3., 28-29.

France.<sup>217</sup> On balance, the tax system in France appears to favour owner occupation over rental tenure.<sup>218</sup>

Despite this nuanced approach of using housing promotion instruments to manage the general economy,<sup>219</sup> the subsidization and taxation of housing maintains a high level of preference for owner occupation.

There are currently no subsidies in Greece to promote either owner occupation or rental tenure.<sup>220</sup> Subsidization of mortgage interest rates had been effectively used to promote owner occupation tenure<sup>221</sup>. However, Greece eliminated all housing subsidies in 2012, and therefore neither owner occupation nor rental tenure is explicitly promoted by housing policy or subsidization.<sup>222</sup>

However, taxation in Greece still generally favours owner occupancy,<sup>223</sup> mainly in the form of tax benefits for first time home buyers.<sup>224</sup> Tax benefits for rental tenure are limited in Greece. Tenants can deduct rent payments from the amount of tax owed, but amount of the reduction of tax liability is limited to up to 1,000 EUR annually.<sup>225</sup>

While there is currently a complete absence of housing subsidies for either owner occupancy or rental tenure, the favourable tax treatment for first time home buyers is essentially the only significant form of housing subsidization in Greece today.

Considering the comparatively minimal tax benefit for tenants and lack of support for landlords, the orientation of Greek taxation (and non-subsidization) is high level of preference for owner occupancy tenure.

In Hungary, subsidization has historically promoted owner occupation much more generously than rental tenure. Loan and mortgage interest rate subsidies account for two thirds of all housing related support, and contract savings schemes for another 16%,<sup>226</sup> for which the holder of the savings account receives a state-funded interest subsidy of 30%.<sup>227</sup> Thus, it is apparent that the most generous housing related subsidies target home owners, and there are virtually no central subsidies for private

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217 France 3.3. 28-29; Delft 2.2.2., 22.

218 *Ibid.*

219 France 3.1., 26.

220 Pisa 2.2.2., 20.

221 Greece 3.6., 29-30.

222 Pisa 2.2.2., 20.

223 Pisa 2.6., 25.

224 Greece 3.7., 36.

225 Pisa 2.6., 25.

226 Hungary 3.6., 54.

227 Hungary 3.6., 56.

renters. While there are various forms of support for social tenants, these are granted based on their social status and not on their tenure status. There are no subsidies provided for private landlords, and support for private rental tenures is rare.<sup>228</sup>

Furthermore, the tax system in Hungary strongly favours owner occupation tenure.<sup>229</sup> Property tax typically does not apply to residential buildings,<sup>230</sup> and there is no imputed rent on real property.<sup>231</sup> In contrast, the rental sector has several disadvantages in the tax system. Rent revenue is taxed as part of landlord's income, and rent is paid from tenant's taxed income.<sup>232</sup>

Considering that nearly every element of housing support is directed at owner occupancy, the orientation of subsidization and taxation in Hungary is clearly a high level of preference for owner occupancy.

While housing subsidies in Romania most generously target owner occupation, there are virtually no subsidies at the national level for private renters. Private rental tenure, which is considered a commercial activity, is provided almost no support.<sup>233</sup> Support for social tenants is allocated based on their social status and not on their tenure status. As of 2007, social rental tenants can purchase their apartment after one year of occupancy.<sup>234</sup> Owner occupation tenure also receives favourable tax treatment compared to rental tenure. There is no income tax liability for occupying a dwelling in the form of imputed rent,<sup>235</sup> while in contrast, rents received are taxable income for calculation of landlords' income tax liability.<sup>236</sup> The only tax benefit for private renting is an exemption from value added tax compared to general business transactions.<sup>237</sup> Therefore, subsidies and tax measures in Romania represent a clear high level of preference for owner occupancy.

Housing policy in Serbia generally prefers and promotes owner occupation tenure to a large extent.<sup>238</sup> The only type of housing subsidy available in Serbia is approval of

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228 MRI 2.5., 31.

229 Hungary 3.3., 44.

230 Hungary 3.7., 58.

231 MRI 2.6., 32.

232 *Ibid.*

233 MRI 2.5., 31.

234 Romania 3.6., 94-95.

235 MRI 2.6., 32.

236 *Ibid.*

237 MRI 2.2.2., 32.

238 Serbia 3.3., 50.

housing loans from commercial banks to citizens.<sup>239</sup> The scope of these housing loans has been to support only owner occupation, as the letting of the dwelling is not permitted until the loan is fully repaid.<sup>240</sup> Currently, no other housing subsidies are available in Serbia,<sup>241</sup> and historically very few programmes and strategies have been oriented towards obtaining dwellings for the rental sector.<sup>242</sup>

Furthermore, taxation of housing tenures negatively influences rental markets. Due to tax relief available for owner occupiers, many landlords do not register rental contracts, but rather register themselves as residing at the address of the dwelling. With such action, they obtain 50% relief from property tax liability.<sup>243</sup> In general, tax evasion is a major problem in Serbia, and the rental tenancy regulation is affected in the sense that renters and landlords are without protection in the case of a problem.<sup>244</sup> Landlords who do register the rental contracts typically pass the expense of the income tax to the tenant in the sense that the rent is higher to compensate for the value of the tax, for example with an increase in rent of 20% than if the rental contract was not registered.<sup>245</sup>

Subsidization and taxation in Serbia clearly reveal a high level of preference for owner occupation.

Housing subsidies in Slovakia are more favourable to owner occupation tenure, despite recent discussion that suggests that the state is aiming to stimulate the private rental sector for the sake of smoother labour mobility within the country.<sup>246</sup> However, subsidization of housing has focused on the partial repayment of mortgage loans for owner occupiers,<sup>247</sup> while other housing benefits in Slovakia are paid to low income households regardless of the tenure actually held in the dwelling.<sup>248</sup> Numerous other programmes also continue to favour owner occupation tenure.<sup>249</sup>

Indeed, the tax system in Slovakia also appears to contradict any new pro-rental policy, considering that the tax burden on landlords' rental income has increased. The income tax exemption previously available for landlords of 40% of their rental income

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239 Serbia 3.6., 56.

240 *Ibid.*

241 Celje 2.5., 22.

242 See Serbia ss. 3.1, 3.3.

243 Serbia 3.7., 59, 60-61

244 Celje 2.6., 24.

245 Serbia 3.7., 60-61.

246 Katowice 2.2.2., 14; Slovakia 3.1., 49.

247 Katowice 2.5., 16.

248 Katowice 2.5., 18.

249 Katowice 2.2.2., 14.

for calculation of income tax liability<sup>250</sup> has recently been replaced with a flat deduction of 500 EUR per year, with all rental income in excess of that amount being subject to income tax liability.<sup>251</sup> The original purpose of this exemption was to compel landlords to legalize rental contracts and report their rental income, but this change will presumably lead to an increase in tax liability for most landlords and will thus likely be less effective in decreasing the number of unreported tenancies.<sup>252</sup>

These factors lead to the determination that, despite discussion on stimulating rental tenure, Slovakian housing subsidization and taxation instruments maintain a high level of preference for owner occupancy.

## 2.6. Countries shifting away from preference for owner occupation tenure

The phenomenon of shifting preference was determined for the final group of countries composed of Finland, Ireland, Italy, Portugal, Scotland and Spain. The housing policies and programmes of these countries had previously exhibited a high level of preference for owner occupation tenure,<sup>253</sup> but recent developments in stated housing policy, subsidization and/or taxation indicate a shift in orientation away from a preference for owner occupation tenure.

Housing policy in Finland traditionally has encouraged owner occupation, but its express aim is now to promote tenure neutrality.<sup>254</sup> In Finland, subject-related subsidies are not dependent on tenure, but most recipients occupy a rented dwelling.<sup>255</sup> In contrast, the Finnish tax system promotes owner occupation tenure to the extent that owner occupiers are favoured over landlords.

In addition, owner occupiers enjoy significant tax benefits, comprising the exemption of tax liability for capital gains and imputed rental value, as well as the deduction of mortgage interest.<sup>256</sup> However, consistent with the recently adopted position of pro-

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250 Slovakia 3.7., 77.

251 Slovakia 3.7., 77.

252 Slovakia 3.7., 78.

253 Finland is an exception, as it exhibited previously a medium level of preference for owner occupation tenure but now indicates a shifting orientation away from owner occupation tenure.

254 Lund 2.2.2., 33.

255 The relative share of monetary expenditure of the subsidies directed toward each tenure type supports this statement: 58% of subsidies were provided to rental tenure compared to 42% of subsidies provided to owner occupation. Finland 3.6., 66-67.

256 Finland 3.7., 69-70.

moting tenure neutrality, the government is phasing down the deductibility of mortgage interest.<sup>257</sup>

Upon weighing this significantly favourable tax treatment of owner occupiers against a subsidization system that slightly prefers rental tenure, Finland can be characterized as expressing a medium level of preference for owner occupation. However, the newly stated policy aim of tenure neutrality combined with the phasing down of tax deductions for mortgage interest justify a re-characterization of Finnish housing policy orientation as shifting toward low level of preference or no preference for owner occupation tenure.

The government of Ireland has recently stated that promoting tenure neutrality is an aim of Irish housing policy.<sup>258</sup> This has manifested in the introduction of various policies regarding taxation and subsidization regulatory change. As part of the major policy changes, the country's affordable housing schemes have been stopped, while tenant purchase has been restrained. Historically, subsidization of housing was heavily oriented toward promoting owner occupation tenure.<sup>259</sup> In contrast, housing policy has largely neglected private rental tenure, but the government has provided significant support to private landlords through a "Build to Rent" programme.<sup>260</sup>

Concerning taxation related to housing in Ireland, owner occupation was previously encouraged by providing income tax relief on mortgage payments, but this was eliminated in Ireland in 2012.<sup>261</sup> Additionally and to the disadvantage of owner occupancy tenure, local property tax was reintroduced in 2012 after a 35 year absence of such a "tenure specific" tax, which "will have profound implications for the tenure balance in Ireland."<sup>262</sup> However, rental tenure is still disadvantaged generally under the Irish tax system, as rents received are taxable income to be reported by landlords, while in contrast there is no income tax charge on the imputed rent value for owner occupiers' primary or secondary dwellings.<sup>263</sup>

Following a history of promotion of owner occupancy as the preferred housing tenure, the orientation of housing subsidization and taxation of housing in Ireland is clearly

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257 Finland 3.7., 68.

258 Ireland 3.3.. 64.

259 See the Tenlaw National Report for Ireland for the list of extensive subsidization measures available for owner occupiers vs. the two subsidization measures listed as available for the private rental sector. Ireland 3.6., 74-75.

260 Southampton 2.6., 31.

261 Southampton 2.6., 30.

262 Ireland 3.7., 78.

263 See Ireland 3.7., 78.

shifting away from owner occupancy toward a more neutral orientation. Therefore, although Ireland is correctly characterized here as having a high level of preference for owner occupancy, it is clearly in transition,<sup>264</sup> shifting away from a preference for owner occupation.

Housing policy in Italy has historically favoured owner occupation, with the most important subsidization instrument being assistance for households to purchase a dwelling.<sup>265</sup> Subsidies for owner occupation had consisted mainly of funds to enable citizens to take out bank loans and of sales of public buildings to the occupants below market value.<sup>266</sup> However, the sale of public dwellings is now less common than it had been in past decades, and subsidies directed toward the rental sector have become more developed.<sup>267</sup> Thus, since the late 1990s Italian housing policy has evolved to focus on subsidizing rent payments.<sup>268</sup> This more recent approach to subsidization has been criticized as mainly benefiting landlords by preventing the lowering of rent amounts.<sup>269</sup> On its face, however, the historical preference for owner occupancy is giving way, as Italy has recently reduced its policies in favour of owner occupancy and at the same time is introducing subsidies and other forms of incentives in favour of rental tenure.<sup>270</sup>

The tax system in Italy has also experienced development reflecting “a tendential neutrality towards the different forms of tenure.”<sup>271</sup> The main tax benefits for tenants are a deduction of a fixed amount from their taxable income if their total income is under a certain level,<sup>272</sup> and labour mobility is promoted through an income tax deduction for workers and students who change their residence due to employment or education.<sup>273</sup> Tax benefits for landlords regard a reduced tax rate on income from rents.<sup>274</sup> Yet, rental income of landlords is still included as taxable income, whereas tax liability for imputed rent value of an owner occupied dwelling was abolished for primary dwellings in 2001 and for all other non-rented homes in 2012.<sup>275</sup>

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264 Ireland 3.3., 64.

265 Italy 3.1., 41.

266 Italy 3.6., 61.

267 Pisa 2.2.2., 20.

268 Italy 3.1., 42.

269 Pisa 2.5., 24.

270 See Pisa 2.1., 16.

271 Pisa 2.6., 26.

272 Italy 3.7., 67.

273 *Ibid.*

274 *Ibid.*

275 Italy 3.7., 66.

The picture that emerges of the tenure orientation of subsidization and taxation in Italy is less than clear. Subsidization appears to be clearly shifting away from a previously strong preference for owner occupancy. However, after the expansion of benefits for rental tenants, the abolition of imputed rent taxation for owner occupiers represents continued support for owner occupation. Nevertheless, the general momentum of housing policy in Italy seems to be in the direction of shifting away from a preference of owner occupancy. Therefore, despite its historical orientation of high level of preference for owner occupancy, Italian housing policy and instruments can be characterized as displaying an orientation shifting away from preference for owner occupation tenure.

Until recently, subsidies in Portugal have favoured owner occupation, as the primary support has been to assist households in buying a home through low-interest loans.<sup>276</sup> However, the global financial crisis has had a big impact on Portuguese housing policy, redirecting housing subsidies toward stimulation of rental markets rather than ownership.<sup>277</sup> Thus, although Portugal has historically promoted owner occupancy through heavily sustained subsidization,<sup>278</sup> Portugal has stopped subsidizing home ownership entirely.<sup>279</sup> Now, promotion of rental tenure is mainly pursued through subsidization of rents payments, but this support is available only to young, low-income households.<sup>280</sup>

The current system of taxing housing tenures in Portugal appears to be relatively balanced. Property tax applies to all dwellings irrespective of whether owner occupied or rented.<sup>281</sup> For rented properties, landlords are then allowed to deduct the amount of property tax paid from their income tax liability,<sup>282</sup> while the most significant tax benefit for owner occupiers is the deduction from income tax liability of 30% of mortgage interest.<sup>283</sup> Some tax benefits intended to encourage owners to rent their properties instead of selling them have recently decreased due to the budget deficit.<sup>284</sup> Finally, tenants may deduct paid rent amounts from taxable income.<sup>285</sup>

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276 Tarragona 2.1., 20.

277 Tarragona 2.2.2., 24.

278 Tarragona 1.1.1., 4.

279 Tarragona 2.5., 29.

280 Tarragona 2.5., 29-30.

281 Portugal 3.7., 71.

282 Portugal 3.7., 72.

283 Portugal 3.7., 71.

284 Portugal 3.7., 72.

285 *Ibid.*

Portugal has long had a high level of preference for owner occupation tenure, but because its housing policy and subsidies have abandoned the previous orientation, Portugal now exhibits an emphatic shift away from a high level of preference for owner occupation.

In Scotland, the government has expressly adopted tenure neutrality as an aim of housing policy, the key policy goal being to increase the supply of dwellings across all tenures.<sup>286</sup> Over the last hundred years, the dominant tenure in Scotland evolved from private rented to local authority rented and again to owner occupied, and throughout this evolution there has been widespread subsidization of the various tenure forms.<sup>287</sup> The greatest focus has been on extending owner occupation through the various low cost home ownership schemes,<sup>288</sup> although Scotland has been “less generous” than England & Wales in promoting owner occupation.<sup>289</sup> Similar to the situation in other countries of the United Kingdom, housing policy has generally ignored private rental supply, but the Scottish government has developed particular measures to promote access to the rental market, including the Grant for Mid-market rents and the Rural Empty Properties Grant.<sup>290</sup> The resulting constellation of housing subsidies currently available in Scotland appears to confirm the government’s stated goal of promoting the availability of dwellings in both owner occupation tenure and rental tenure.

Regarding taxation, home ownership was traditionally encouraged under the British tax system by providing income tax relief on mortgage payments, but this was eliminated in the 1980s.<sup>291</sup> However, income tax does still slightly favour owner occupation, as there is no taxation of imputed rental value for owner occupiers, while landlords’ profit from rental income is subject to income tax liability.<sup>292</sup> In contrast, the tax on capital gains and property-based Council Tax do not seem to favour one tenure over the other.<sup>293</sup> Overall, the tax system appears to slightly favour owner occupation. However, in light of the recent changes in housing policy and subsidization measures, Scotland now shows signs of significantly shifting away from preference

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286 Southampton 2.2.2., 22.

287 See Scotland s. 3.6.

288 Southampton 2.1., 21.

289 Southampton 2.2.2., 22.

290 Southampton 2.5., 29.

291 Southampton 2.6., 30.

292 Scotland 3.7., 87.

293 *Ibid.*

for owner occupation tenure despite its historically high level of preference for owner occupation.

Housing policy in Spain historically favoured owner occupancy, as home ownership had been previously promoted through heavily sustained subsidization.<sup>294</sup> However, the financial crisis has caused a major reorientation of Spanish housing policy, redirecting it toward stimulating rental markets rather than home ownership.<sup>295</sup> Due to the current economic context, Spain has ceased subsidization of owner occupation tenure,<sup>296</sup> and housing policy objectives are directed at fulfilling two main functions: the promotion of tenancy housing tenure and the promotion of rehabilitation, regeneration and urban renewal.<sup>297</sup> Subsidization is offered in support of rents and is not limited to low-income tenants.<sup>298</sup>

The tax system in Spain appears to be somewhat balanced in its treatment of housing tenures. Imputed rent value is not include as income for tax calculation,<sup>299</sup> and owner occupiers and tenants enjoy comparable deductions from their annual income tax liability.<sup>300</sup> Furthermore, transfer tax liability extends to all transferees, including both purchasers of property as well as renters when taking possession of a rented dwelling.<sup>301</sup> Spain has recently aimed to stimulate supply in the private rental market by providing tax incentives for property owners to let their vacant dwellings.<sup>302</sup> However, tax evasion due to undeclared rental tenancies continues to be a problem in Spain, with an estimated 50% of tenancies not being declared in 2008.<sup>303</sup>

Despite Spain having a historically high level of preference for owner occupancy, the recent elimination of subsidies for owner occupation tenure and the recent attempts to stimulate and legalize private rental tenancies are clear indications of a shift away from a high level of preference for owner occupation tenure.

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294 Tarragona 1.1.1., 4.

295 Spain 3.3., 49.; Tarragona 2.5., 29.

296 Tarragona 2.5., 29.

297 Tarragona 2.2.2., 24.

298 Tarragona 2.5., 29-30.

299 Tarragona 2.6., 31.

300 Tarragona 2.6., 32.

301 Tarragona 2.6., 31.

302 Tarragona 2.6., 31.

303 Tarragona 2.6., 32.

### 3. Future research

The housing policy and programme preferences outlined above could be combined with additional data to evaluate a housing system for tenure neutrality. Even more directly, other results of the Tenlaw project suggest the development of important future research. Such subsequent work could further investigate the occurrence of particular problems in housing, as indicated in several national reports. For one, the informal market of rental tenancies—conceptualized as a black market in rental contracts—is so ubiquitous in some housing systems that accurate statistics are difficult to attain regarding the relative proportions of owner occupation tenure and rental tenure within the total housing system. The negative effects of a black market in rental contracts comprise principally the proliferation of tax avoidance—which often acts in a symbiotic relationship with the black market, with tax mechanisms that burden rental tenures incentivizing the non-formalizing and non-reporting of rental contracts when otherwise legally required—as well as the abrogation of tenants’ rights, as tenants are often left without access to the judicial system when they are unable to prove the existence of a tenancy contract.

Additionally, market problems appear to plague many of the housing markets studied. While in some countries the supply of some or all types of housing tenures suffers from an overall shortage, other housing markets suffer more precisely from regional distortions. Thus, while markets in urban areas with vital employment opportunities present problems of inadequate supply, higher vacancy rates and stagnant markets are reported in relatively unprosperous rural areas. These supply problems are exacerbated in some countries by a significantly reported occurrence of deficiencies in the physical quality of housing, in some cases across all tenure types and in other cases concentrated in rental tenures. A final housing problem which is frequently reported in the countries studied is a type of ghettoization in the form of socio-economic seclusion in housing. This phenomenon is closely tied to the problem of market imbalance, as the overcrowded—and correspondingly higher-priced—housing markets in the urban centers make access to those vital employment hubs difficult for less-skilled, lower earning households who must settle for the lower-priced and lower quality dwellings located at the urban margins and in rural areas. This paradigm impedes

lower income households trying to accede to employment markets and further secludes them from meaningful participation in society.

Additionally, future research into the occurrence of particular housing problems could be combined with the results contained in this report about housing tenure preference. Preliminary observations have suggested that a correlation might be observable between a high-level preference for owner occupation tenure and the occurrence of housing problems. Such a correlation might possibly be tested by classifying the reported occurrence of each housing problem according to the reporting countries' tenure preference type. The characterization of some housing systems as shifting away from owner occupation may be useful in supporting the strength of any observed correlations: By tracking changes in the reported occurrence of housing problems over time in countries with a shifting preference compared to countries maintaining a high level of preference for owner occupation tenure, the hypothesized correlation between high-level preference and the occurrence of housing problems could possibly be shown with more reliability.

## Appendix

Table 1. Distribution of population by tenure status in 2013 – owner occupation & rental tenure types

<i>Country</i>	<i>Tenure type</i>	
	Owner occu- pation	Rental
Romania	<b>95.6</b>	<b>4.4</b>
Lithuania	<b>92.2</b>	<b>7.8</b>
Slovakia	<b>90.5</b>	<b>9.5</b>
Hungary	<b>89.6</b>	<b>10.4</b>
Croatia	<b>88.5</b>	<b>11.5</b>
Bulgaria	<b>85.7</b>	<b>14.3</b>
Poland	<b>83.8</b>	<b>16.2</b>
Latvia	<b>81.2</b>	<b>18.8</b>
Estonia	<b>81.1</b>	<b>18.9</b>
Serbia	<b>81.1</b>	<b>18.9</b>
Malta	<b>80.3</b>	<b>19.7</b>
Czech Republic	<b>80.1</b>	<b>19.9</b>
Spain	<b>77.7</b>	<b>22.3</b>
Slovenia	<b>76.6</b>	<b>23.4</b>
Greece	<b>75.8</b>	<b>24.2</b>
Portugal	<b>74.2</b>	<b>25.8</b>
Cyprus	<b>74.0</b>	<b>26.0</b>
Finland	<b>73.6</b>	<b>26.4</b>
Italy	<b>73.0</b>	<b>27.0</b>
Luxembourg	<b>73.0</b>	<b>27.0</b>
Belgium	<b>72.3</b>	<b>27.7</b>
Ireland	<b>69.9</b>	<b>30.1</b>
Sweden	<b>69.6</b>	<b>30.4</b>
Netherlands	<b>67.1</b>	<b>32.9</b>
United Kingdom	<b>64.6</b>	<b>35.4</b>
France	<b>64.3</b>	<b>35.7</b>
Denmark	<b>63.0</b>	<b>37.0</b>
Austria	<b>57.3</b>	<b>42.7</b>
Germany	<b>52.6</b>	<b>47.4</b>
Switzerland	<b>44.0</b>	<b>56.0</b>
European Union (28 countries)	<b>70.0</b>	<b>30.0</b>

Source: European Commission Statistics eurostat, Distribution of population by tenure status, type of household and income group, Last update: 07.07.2015, online at <http://ec.europa.eu/eurostat/web/income-and-living-conditions/data/database>, last viewed 10.08.2015.

Table 2. Level of preference for owner occupation manifested in subsidization and taxation of housing tenures

Low level of preference for owner occupation tenure	Medium level of preference for owner occupation tenure	High level of preference for owner occupation tenure	Shifting away from high level of preference for owner occupation tenure
<p><b>Austria</b></p> <p><b>Germany</b></p> <p><b>Switzerland (very low)</b></p>	<p><b>Croatia</b></p> <p><b>Czech Republic</b></p> <p><b>Denmark</b></p> <p><b>England &amp; Wales</b></p> <p><b>Latvia</b></p> <p><b>Lithuania</b></p> <p><b>Luxembourg</b></p> <p><b>Malta</b></p> <p><b>Netherlands</b></p> <p><b>Poland</b></p> <p><b>Slovenia</b></p> <p><b>Sweden</b></p>	<p><b>Belgium</b></p> <p><b>Bulgaria</b></p> <p><b>Cyprus</b></p> <p><b>Estonia</b></p> <p><b>France</b></p> <p><b>Greece</b></p> <p><b>Hungary</b></p> <p><b>Romania</b></p> <p><b>Serbia</b></p> <p><b>Slovakia</b></p>	<p><b>Finland (medium level)</b></p> <p><b>Ireland</b></p> <p><b>Italy</b></p> <p><b>Portugal</b></p> <p><b>Scotland</b></p> <p><b>Spain</b></p>

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