

The negative impact of Danish rent control regulation on the growth and development of Danish society

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This paper is the joint analysis of the European Historic Houses Association, the European Landowners' Organization, the European Property Federation, The European Group of Valuers Associations and the Union Internationale de la Propriété Immobilière (description of each on last page). The regulation of the Danish housing rental market was compared against the rules in countries which do not have housing market imbalances causing knock-on negative impacts on the rest of the economy.

1. Introduction

The European Commission's Economic Governance analysis has correctly identified malfunctioning housing rental markets as important contributors to macroeconomic imbalances in seven member states. In some countries, an important aspect of this is rent control, especially when it concerns not only regulation of increases in rent for sitting tenants, but also the setting of the initial rent between a landlord and a new tenant.

Portugal is a hybrid case because the problem was open-ended leases with rent levels frozen over decades that could even be passed on to relatives. The Memorandum of Understanding on Specific Economic Policy Conditionality of 17 May 2011 specifically required a phasing out of such rent control as part of a comprehensive reform of the housing rental market and a five-year phase-out is indeed part of the comprehensive reform of November 2012 (European Semester 2013 Assessment of National Reform Programme, p.13).

The Swedish case involves inter alia straightforward initial-rent control and the Commission has stated:

"Although the Swedish housing market has been stable in the recent past, it remains a potential source of instability. On the supply side, the Swedish housing market is characterised by some inefficiencies, which may contribute to drive house prices upwards and create undesirable lock-in effects. (...) Further reforms to the rent-setting system are needed to allow market forces to establish an optimal supply of rental housing at an adequate price. Addressing the inefficiencies of the housing market is likely to also help reduce household debt levels, as these issues are interlinked."

European Semester 2013 Council Recommendation to Sweden, Recital 11

It is therefore surprising that the Commission has so far overlooked the Danish private housing rental market, which has for both initial rents and for subsequent increases one of the most far-reaching rent control systems with extremely negative multiplier fiscal, economic and social impacts. The Commission's Economic Governance analysis concerning macroeconomic imbalances in the Danish economy has been limited to subjects such as housing bubbles, mortgage debt, obstacles to employment for the disabled and

the low-skilled, and insufficient competition in the construction sector but has failed to recognise the impact that a private housing market rendered economically and socially inefficient by rent control has on each of the above-mentioned problems and on the country's competitiveness and social cohesion generally.

This paper explains this phenomenon and argues that the abolishment or phasing out of rent control concerning the private rental market should be included in the Commission's 2014 Country-specific Recommendations for Denmark.

It will be shown that experts and economic advisors to the Danish governments for more than three decades have recognised the problem of rent control and the need for reforms. However, these recommendations have never been carried out since any political initiative on the matter has been met with strong resistance from entrenched and powerful privileged interests. The consideration of this question in the context of EU Economic Governance is the only way to promote a dispassionate and objective national review.

Providing decent housing for all society is a political imperative in all the European countries. Completely free markets have often historically not been up to the task, and the two common corrective tools have been social housing and rent control. Both tools are in use in Denmark, but the particular problem of Denmark is that rent control was introduced 74 years ago in the expectation of the Second World War and a future, war-related housing shortage. Post-war, the housing shortage disappeared and the private rent control system developed into a sinecure of privilege for a small group of tenants with to a large extent no social needs occupying exclusive and cheap apartments in some of the most prime locations in Denmark. This has a negative impact on the overall housing market causing, paradoxically, the tenant queues it was theoretically conceived to resolve.

In societal terms, it is counterproductive to maintain regulations on the private rental market that are primarily to the benefit of groups with no social needs and which at the same time create a serious imbalance in the housing sector with unfortunate downstream consequences for all other parts of the sector. Studies show that the top 5 percent of most valuable private rentals receive financial benefits corresponding to 21 percent of the total benefits, which in turn corresponds to a total annual personal financial gain to the tenants in question of DKK 1.8 billion (240 m €).

If social unfairness was the only consequence, it might be deemed by some to be unsuited to merit the scrutiny of EU Economic Governance. However, the situation also poses an impediment to the private rental sector being able to function as a natural and persistent engine for economic growth, job creation and modernisation of dwellings to the benefit of their occupants, with significant negative impact on the Danish economy. Specifically, it affects inter alia two core Economic Governance concerns: public finances and labour supply.

2. Impact of rent control on public finances

It is important to grasp the knock-on effect of rent control on Danish public finances:

- ↓ Complex and multi-level rent regulation of housing built before 1992 negatively affects the interest of investors in investing in residential properties;

- ↓ causing an increasing drain on the exchequer because lack of financing for private investors causes a maintenance and modernisation backlog in the rent controlled sector giving rise to a growing need for public subsidies for urban renewal, energy-related improvements and district-related facelifts;
- ↓ while resulting in higher rents for the uncontrolled sector,
- ↓ which creates a self-reinforcing effect by which the controls and regulation increase the need for further government intervention and support.

Complex and multi-level rent regulation of housing built before 1992 negatively affects the interest of investors in investing in residential properties ...

The primary elements of the rent control system have been unchanged since 1939, although in the 74 years since then the legislation has been amended a number of times such that the possibilities of setting rents for private residential dwellings pursuant to normal market-related principles have been successively limited. In addition, a rental act, that also restricts the rent, operates in parallel with the law concerning temporary rent controls from 1939, causing a landlord to have to take both of these laws into account.

To provide a review here of all the elements in the legislation's principles for establishing the rent for a private dwelling would be too extensive, but to illustrate the complexity of the legislation the following short overall description will be given of the specific principles that apply in establishing the rent for a private residential property:

For residential tenancies, there are at least seven different fundamental manners of setting the initial rent, depending upon the property and the individual flat.

If for example the number of residential flats being rented out in the property were six or less before 1 January 1995, then one set of rules applies regardless of whether the number of flats has increased later on. If on 1 January 1980 more than 80 percent of the property's area was used for purposes other than residential dwellings, then another set of rules applies, regardless of the property's situation today. If a residential flat has been comprehensively modernised for more than DKK 2,167 (290 €) per m² or DKK 247,824 (33,211€) in total (2014 prices), then a third rule applies. If the property was placed into service in 1963 or earlier, then a fourth rule applies. If the property was placed into service after 1963 or after 1991, then a fifth and sixth rule apply. A seventh rule involves setting rents in residential flats that have previously been used for commercial purposes, residential flats in previously unutilised attic areas or where residential flats has been constructed on or adjacent to an existing building.

As a bonus, there are a number of variants of the seven fundamental principles that make the picture still more unclear. A number of the rules above may be in use in the same property, such that the rent for the individual flats must be set in accordance with differing principles. For example, there is a property in central Copenhagen with 11 tenancies for which its rents are set and adjusted in accordance with 5 different principles (*please see Annex I*). This applies to several thousand other properties in Denmark.

Once the proper method for setting and adjusting the rent has been determined, one must be aware that there is no clearly defined overview of what the rent can be or what may or may not be included in

calculating the rent. It varies from municipality to municipality. It is the municipal rent control board that initially determines and the courts that ultimately decide whether a rent is appropriate or not. Both the practice within the municipal rent control boards and between the municipal rent control boards and the courts differ greatly. This is for example the case with something as simple as washing the stairs, which in the perception of the municipal rent control boards does not cost the same in all municipalities.

Rent caps take no account of borrowing costs

The payments of interest and principal on any possible loan that the owners of the property may include when calculating the rent for their payment bear no relation to the actual borrowings against the property. Properties built before 1965 are for example subject to the rules of cost-based rents, where landlords may include their costs in the rent, but however not their costs for payments of loans taken out on the property. The landlords may instead only include a fixed, maximum payment of 7 percent of the assessed property value at which the property was appraised in the 15th general assessment as of 1 April 1973. Thus, the actual acquisition price, borrowings, and value of the properties have no bearing on the owner's possibilities for determining the rent in a number of properties.

The Danish government's own independent economic advisors, The Economic Council, described the phenomena in 2000 in an article entitled "Who benefits from rent control?" as follows:

"The Danish rental market is characterised by significant public influences on housing costs. Rents for the majority of the private housing rentals are at present regulated either by 'the value of the tenancy' or by cost-based rent. Cost-based rent determines a rent ceiling based upon the costs of on-going operation and maintenance as well as the rate of return. While the costs for operation and maintenance may follow the trend in consumer prices, the rate of return for properties erected before 1964 is fixed at 7 percent of the property's value in 1973, and properties placed into service during the period 1964-91 may have a rate of return of up to 14 percent of their acquisition sum. This means that especially in older properties, only limited increases in rents are permitted."

Source: http://www.dors.dk/graphics/Synkron-Library/Publikationer/Artikler_og_kronikker/02-01-04sj.pdf

Increased borrowings for investments in modernisation of the property would hence not affect the amount that a landlord may add to the rent for the payment of the interest and principal on any possible loans, unless the landlord is able to document that the modernisation has meant an increase in the use-related value of the property. Thus if a landlord invests in new windows, only 1/3 or in some cases 2/3 of the investment can be covered by an increase in the rent. This is especially challenging if you wish to replace a well-functioning building element with a newer one that increases tenant safety or ensures better energy efficiency.

... causing an increasing drain on the public exchequer because lack of financing for private investors causes a modernisation backlog giving rise to a growing need for public subsidies for urban renewal, energy-related improvements and district-related facelifts...

Economists and the independent economic advisors to the Danish government agree that the rent control legislation has a negative effect on the incentives for property owners to invest in their existing properties, as well as leading to an indirect reduction in new construction and rigidification of the quality in the sector for older housing, thus creating a modernising-related backlog. This gives rise at the same time to the need

for public subsidies to investors in urban renewal projects, investment pools for energy improvements and public pools for district facelifts to be increased.

The result over time has been that significant governmental resources have been injected into properties subject to rent controls, where the landlord is unable due to the rent control legislation to make the natural qualitative maintenance and modernisation of these dwellings profitable. So the tenants in such dwellings with rent controls not only receive disproportionately inexpensive rent financed by the landlords, but also benefit simultaneously from their dwellings being renovated and improved with payments from state and municipal funds, which are procured via collecting taxes from those citizens who have to cover their housing needs under normal market-related terms and conditions.

... while resulting in higher rents for the uncontrolled sector

With rents established at less than their equilibrium levels because of rent control, the quantity demanded will necessarily exceed the amount supplied leading to a shortage of residential dwellings in the rent-controlled sector. With shortages in the rent-controlled sector, this excess demand spills over onto the uncontrolled smaller sector, which typically consists of new upper-bracket residential dwellings. The high demand in the uncontrolled sector along with the small quantity supplied results in the prices being boosted in that sector. In effect, even though rents may be lower in the controlled sector, they rise in the uncontrolled sector, leading to higher rents for private rental housing as a whole.

... which creates a self-reinforcing effect by which the controls and regulation increase the need for further government intervention and support

In 2006, the Danish Ministry of Finance released a report for the Welfare Commission entitled "Future Welfare - Our Choice (Analysis Report)". It states that flats that have been kept artificially low in price due to rent controls give rise to a need for more flats, but without the possibility for meeting this need. Among other things, it states:

"The controls on and subsidies for the housing sector have the paradoxical effect that in and of themselves they actually increase the need for further governmental intervention. For example, the rent control legislation means that rents for regulated dwellings are lower than the rent a private landlord would accept for it to be profitable to build new dwellings. The demand for inexpensive regulated dwellings thus is higher than the offerings of such. This leads to demands for further public subsidies for the housing sector.

This self-reinforcing effect is the reason why it is difficult to abolish the controls and subsidies for the housing sector. Rent control legislation was introduced at the end of the 1930s as a temporary measure. During the extensive compromise in the middle of the 1960s, an attempt was made to abolish the controls. Many of the subsequent policy measures have had the character of stopgap solutions that do not address the actual problem. The Commission's fundamental perception is that it is necessary to view the housing sector as a whole, including the balance between the forms of housing, in order to approach a long-term goal involving a free and deregulated housing market."

Source: http://www.fm.dk/db/filarkiv/18649/Kapitel_12.pdf

Impact of rent regulation on private and state administrative costs

On top of the cost of rent regulation in terms of market failure and state subsidy to correct the market failure, come the high administrative costs of the system for private landlords and the state.

The costs can be calculated to be around DKK 1.1 billion (151 m €) annually. The calculations include solely the additional costs that the private landlords pay to comply with the complicated rent control legislation. When these costs are deducted, what then remain are the costs that are related to the normal administration of a corresponding number of tenancies. The total costs also include the expenses of the state and municipalities for resolving the many disputes between tenants and landlords that arise from the complicated rules. *Please see Annex II.*

3. Impact of rent control on labour mobility and supply

Rent control has a massive impact on labour mobility and supply and is particularly detrimental to the long-term unemployed. Furthermore, by removing the need for public subsidy of maintenance and modernisation of the older building stock, the government could use the money saved to lower taxation on labour and correspondingly increase labour incentives.

Rent control has a massive impact on labour mobility and supply ...

- Rent control counteracts the natural mobility of the population, causing it to no longer be the real need for housing that determines where and how one lives, but rather creating instead an incentive for existing tenants with rent control to not vacate their tenancies even if their needs or financial situations have changed, because a more suitable dwelling would have a higher price.
- Mobility is impeded because tenants in the private rental dwellings do not desire to move, creating a significant impediment to attracting qualified employees to different parts of the country.

For example, consider the case of a two-parent, four-child family that has occupied a ten-room private rental dwelling. Over time, the children move out and perhaps the husband or wife dies, leaving the remaining single older occupant with a gigantic apartment. Under normal circumstances, the occupant would move to a smaller dwelling, and a new family would get the opportunity to move into the dwelling. However, rent control prevents this from happening, because the current occupant would have to pay a higher rent for a smaller dwelling with its rent established under market conditions or pursuant to the rules in the public, subsidised housing sector.

The Knowledge Centre for Housing Economics has calculated that a tenant in a private rental subject to rent controls on average receives an equivalent to an annual subsidy of DKK 20,000 (2.700 €), and in 2010, tenants altogether had total gains of DKK 8.6 billion (1,15 billion €) due to rent control legislation.¹ This means that new tenants do not move in, and that the tenancies are not being modernised. The rules hence constitute a barrier to a mobile and flexible workforce and therefore to growth.

¹ Source: http://www.bvc.dk/SiteCollectionDocuments/Analyser/DREAM_rapport_2012_Huslejeregulering.pdf

One of the most pronounced effects of the rent control legislation is that two residential markets are created. One residential market for people who are so lucky as to 'win' one of the 400,000 flats in the private housing sector subject to rent controls. And a separate market for those who must pay for their housing under normal market conditions. When 15 percent of all private residential dwellings are removed from normal circulation in this manner with the consequential lock-in effects, rent controls become a barrier to mobility and a well-functioning labour market.

... and is particularly detrimental to the long-term unemployed ...

The Danish Economic Council in 2000 in an article titled "Who benefits from rent controls?" among other things states:

"The present article has statistically documented that the rent control legislation is more to the benefit of high-income persons than low-income persons. This is done by calculating how much a household saves per year due to the rent controls and then by regressing the savings in the household's socioeconomic characteristics. The results for private rental housing, housing cooperatives and public housing are the higher the income and the longer the education one has, the greater the benefits one obtains from the regulation. **Conversely, long-term unemployed individuals and those with disability pensions do not in general gain any benefits from the rent control legislation.** The gains from the regulation are in other words not targeted towards those tenants who are the least well-to-do, and the results thus do not support maintaining the rent control legislation on this basis."

Source: http://www.dors.dk/graphics/Synkron-Library/Publikationer/Artikler_og_kronikker/02-01-04sj.pdf

... By removing the need for public subsidy of maintenance and modernisation of the older building stock, the government could use the money saved to lower taxation on labour and correspondingly increase labour incentives.

The Welfare Commission based upon their analysis, arrived at the following conclusion in their report:

"It is the Commission's perception that the gradual abolishment of subsidies to the housing sector in combination with the funds being so freed up being used for lower taxation of earned income, would bring about a number of positive effects. Lower taxes will increase the incentive to offer labour, which is important in a situation where the demographic trend is draining the labour force. Neutrality in the taxation of housing and the return on other capital will mean that a smaller portion of the national assets will be tied up in housing instead of other capital that provides a higher return."

Source: http://www.fm.dk/db/filarkiv/18649/Kapitel_12.pdf

4. The only possible justification for private rent control is to provide housing for the underprivileged and support for young people. However in reality, private rent control benefits the privileged.

One of the justifications for keeping the private rent control legislation for private housing is presumed to be that it means that people with low income will thus have the opportunity to rent a flat to be able to cover their housing needs. However, the distribution of the benefits of rent control legislation does not actually follow this presumption.

In the previously discussed report by the Knowledge Centre for Housing Economics of September 2012, it is concluded that:

“A very large portion of the total redistribution accrues to relatively few dwellings, which are characterised by having very high market values. Rent control legislation thus means that the most valuable rental dwellings are being rented out for very low rents. This can be seen by approx. 21 % of the total redistribution being estimated to accrue to the housing with the top 5 % of market values. For comparison, that half of the housing that possesses the lowest market values only amounts to just 17 %.”

Source:

http://www.bvc.dk/SiteCollectionDocuments/Analyser/DREAM_rapport_2012_Huslejeregulering.pdf

A variation on this presumed justification for rent control is that it creates pockets of low rent apartments in expensive cities reducing segregation based on income and other attributes. As shown by Professor Edward L. Glaeser of Harvard University in his 2002 report entitled “Does rent control reduce segregation?”, rent control does not create socially integrated cities. There is no reason to believe that the rent controlled apartments will be given to the people who need them the most. The benefits from rent control are instead concentrated among long-term, older tenants, rather than on parents with young children who are likely to gain most from integration.

Source: <http://www.regeringen.se/content/1/c6/09/52/70/b786e287.pdf>

The Danish Ministry of Finance assessed in connection with the Welfare Commission's report from 2006 that it is especially the well-to-do tenants who benefit from the private rent control legislation:

“In addition, occupants of older rental housing are favoured via the rent control legislation. The rent control legislation gives rise to untaxed housing benefits corresponding to the difference between the market rent and the actual rent. The rent payment benefits accrue far from solely to those to who are the least well-off. Quite well to do groups also share in this privilege. At the same time, the rules lead to distortions in the scope of maintenance and improvements. Finally, the regulation has inappropriate effects on the flexibility of the labour market and involves poor utilisation of the housing stock in that many tenants persist in over consuming housing due to the artificially low rents.”

Source: http://www.fm.dk/db/filarkiv/18649/Kapitel_12.pdf

Looking at social housing – which over time has received public subsidies of DKK 170 billion (22,6 billion €) for the purpose of providing housing for people with limited resources – **it is worth noting that the regulation of this sector is far less restrictive than for private rental housing**. Thus, the social housing associations can determine the rent at any time in order to enable them to use their revenue to defray their expenses connected to maintenance including obligatory contributions and allocations according to the regulations in the Law of Social Housing. Unlike for private rental housing, the rental level in social housing cannot be disputed by a municipal complaints body.

In practice, this means that it is approx. DKK 500 per square meter cheaper to live in private rental housing where the rent is regulated by cost-based rent compared to living in social housing in Copenhagen. For the rest of the country, the difference is approx. DKK 270. This is because the regulations for cost-based rent are so thoroughly regulated that the rent is maintained at an artificially low level. Common to dwellings

regulated by cost-based rent and to social housing is that none are rented at market rent and therefore the demand for these dwellings has no influence on price formation.

The measures that must be taken to ensure that low-income groups also have their housing needs accommodated must in part fall to the public housing sector and in part be met by offering low-income groups access to supplemental social services in the form of housing benefits. Redistribution would be performed better and in a more efficient and targeted manner if the subsidy were to be attached to the persons and not the bricks.

5. Conclusion and recommendations

The Economic Council summarises the consequences quite precisely in its article titled “Who benefits from rent controls?”:

“The results of several decades of rent control legislation are a Danish rental housing market that functions inefficiently and where most of the present tenants have acquired rights that they are reluctant to part with. These rights provide in consequence access to benefits from the regulation that are inappropriately targeted.”

Source: http://www.dors.dk/graphics/Synkron-Library/Publikationer/Artikler_og_kronikker/02-01-04sj.pdf

Private rent control legislation leads to an inefficient housing market, where significant resources are used to maintain a system that is primarily to the benefit of those groups in the population who have high incomes and where there is no need for public subsidies. This means that the tenants on the regulated private housing market remain in their housing because they do not have a reasonable incentive to move, even if their needs for housing have changed over time and their housing thus no longer suits their needs.

Because the owners of the residential properties in part must use significant resources to administer their properties and in part are unable to ensure appropriate returns on their investments, the possibilities for developing the properties have been reduced and in certain instances completely eliminated. The properties are only maintained to the extent that the reduced rent allows and no renovation is taking place to ensure that the properties meet modern standards for their interiors, technical facilities, safety, comfort and energy efficiency.

By keeping in place pre-war regulation removing the possibility for property owners to develop their properties, opportunities to create growth and jobs under normal market conditions are being lost. This is particularly a problem in the present economic situation, where activity in the construction sector is at its lowest level in 20 years.

When older rental housing properties are sold due to rent control legislation at prices below their market and replacement costs, it is an expression of the fact that these are not profitable enough for their technical and comfort-related development to occur under normal terms and conditions. Hence, the state and municipalities have over time been forced to set aside significant sums in their respective budgets to compensate for private rental housing not being able to be developed under normal market conditions because the price setting is not occurring under normal market-related terms and conditions.

Innumerable initiatives have been started over the years in the form of subsidy arrangements, experimental projects and development pools, which were supposed to compensate for the lack of

development opportunities for private rental housing. The results have however been discouraging and the opportunities to transfer the experiences from these projects and pools to other properties have been modest in that it has not been possible to ensure the profitability of normal renovations when there is no accompanying subsidy.

It is thus recommended that the Danish state make a decision to – possibly gradually – abolish the present rent control legislation. Instead, an emphasis should be placed on ensuring that the establishment of rents for all private rental housing takes place under normal market conditions, where supply and demand govern price formation and there is freedom of contract between individual tenants and landlords. In the same manner that prices are established in other sectors of the housing market.

There is no foundation to support that there are significant positive effects in bypassing market forces for such a significant part of the housing sector. In contrast, there is solid experience in many member states showing that a market-regulated private housing market coupled with social housing is a prerequisite for healthy, cost-effective and sustainable growth and employment in all parts of society.

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Annex I

The Complexity of Danish Rent Regulation – a Practical Example

The real-example property in question has eleven leases, of which eight are residential. While there is only one way to calculate the rent in the commercial leases, i.e. market-rent, there are four other different ways to calculate the specific rent for the eight residential leases. The rent in four of the residential leases is set according to the *value of the premises*, because the leases have been comprehensively modernised. Three residential leases have *cost-related rent*, even though two of them have business-licenses. One residential lease has cost-related rent with an additional charge for *improvements*. In addition, some of the residential leases pay for *maintenance in the lease* while others do not. The annual rental level covering the residential flats in the property is between DKK 360 (€ 48) per m² and DKK1.227 (€ 164) per m².

In this property, calculation of cost-related rent is more complicated than in the one explained in the fact box below. Following the regulation for cost-related rent, the residential leases pay a percentage of the actual operating costs of the property. The so-called housing percentage is as a general rule determined from the size of the residential leases in relation to the property's total size. However, this particular property is encompassed by a specific rule concerning escalation of the percentage. This means that the percentage is kept at an artificially low level and only increases gradually until it is level with the percentage according to the general rule. Hence, the rent will only reflect the property's actual operating costs after 14 years.

Please see Fact Box and annotated photograph on following pages

Fact box – Residential leases

Value of the premises

The value of the premises for a lease is found by comparing the rent, which is usually valid in the neighbourhood for similar leases regarding location, size, quality, etc.

Cost related rent

The rent is based on the actual operating costs of the property. The expenses, which can be included in the rent, are taxes, fees, maintenance, cleaning, and insurance. All operating costs must be reasonable and necessary.

If the property includes commercial leases, this entails a significant complication of the determination of the rent. The reason for this is that the operating costs must be divided between the commercial leases through a so-called housing percentage.

In addition to the operating costs a capital return is included in the cost related rent. The capital return is calculated as seven percent of the 15th general assessment of property as of 1st April 1973.

Cost related rent – properties occupied after 1963

In properties occupied after 1963 there are certain rules for calculation of the capital return. In these properties, the capital return can be calculated on the basis of the actual expenses for the building of the property at the time it was built. The return is calculated from various percentages according to the year when the property was put into use.

Comprehensively modernised leases

If the owner has made a comprehensive modernisation of a lease – there is a specific arrangement. If the lease has been improved for more than DKK 2,167 (290 €) per m² or DKK 247,824 (33,211€) in total (2014 prices), and these improvements have given a significant increase in use value, the rent by re-rental can be settled according to the value of the premises instead of cost related rent.

Small properties as per 1st January 1995

For small properties – properties, with six or fewer housing rentals as per 1st January 1995 – the so called small estate rules apply. Rental determination and regulation are regulated by these rules on the basis of the value of the premises; however, the rent cannot significantly exceed the rent in comparable leases, which have cost related rent.

80/20-properties as per 1st January 1980

Properties, where more than 80 percent of the property area, as per 1st January 1980, has been used for other than housing, are called 80/20-properties. For housing in these properties the rules of value of the premises apply.

Market rent

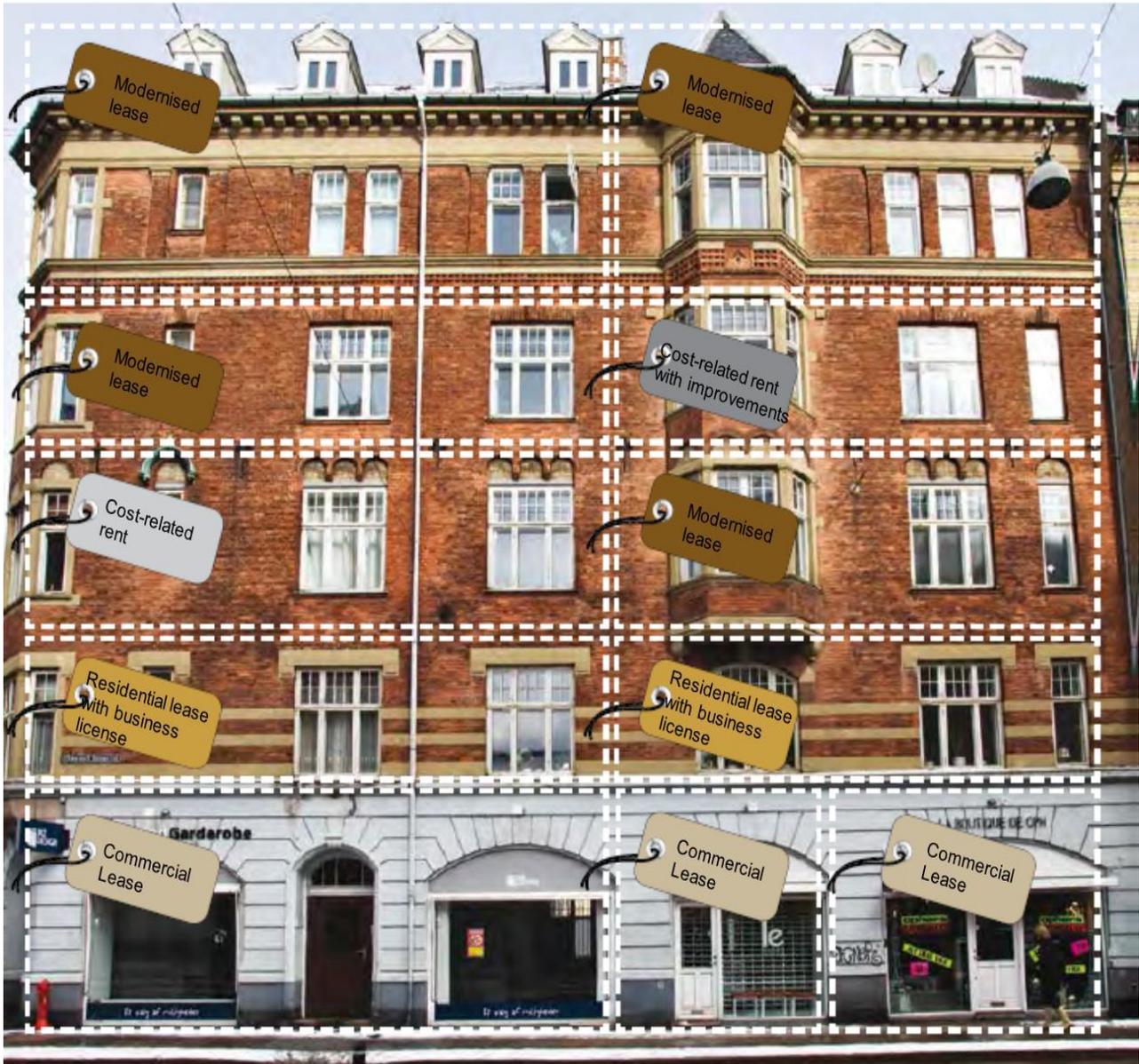
The landlord and the tenant can freely agree on the level of the rent in: private residential leases in properties which first went into use after 1991, private residential leases in apartments which were only used for commercial purposes on 31st December 1991, private residential leases in attics which were not used or registered for residential purposes on 1st September 2002, private residential leases on new floors, when the building permits have been given after 1st July 2004. When entering the leasing agreement, it is however necessary to agree that the specific rules for market rent will be used.

Improvement charge

If the lease has been improved by the landlord then an improvement charge can be added to the rent.

Maintenance of the lease

The landlord and the tenant can freely agree on who is responsible and has to pay for the maintenance of the lease.



Annex II

Administrative Costs Caused by Rent Regulation

For landlords, the comprehensive body of regulations means that they need to invest significant time and resources in administrating their properties. Minor mistakes in the administration may have large financial consequences. For tenants, the rules are supposed to furnish assurances of proper terms and conditions for a tenancy, however such is not achieved because the rules are also unmanageable for them.

In addition, there is a very large number of disputes concerning the setting of the controlled rents caused the state and municipalities to spend significant resources on finding solutions to these conflicts.

The total annual costs of maintaining rent controls are shown in table 1 below.

Table 1: Administrative costs saved by simplifying the Landlord and Tenant Act in million DKK:			
	Current expense	Potential savings (factor)	Savings in DKK
Saved administrative costs	925,5	1.00	925,5 m (123,4 m €)
Resources of rent control boards	107,2	0.66	70,8 m (9,4 m €)
Legal fees	180,8	0.75	135,6 m (18,1 m €)
Total savings per year			1,131,9 m (150,9 m €)

Calculations by the Danish Property Federation. Assumptions for the calculations on next page.

The calculation shows that complicated regulation drains significant financial resources from the real estate sector and the Danish state, and the effects of this regulation are dubious and to a significant extent also harmful to the Danish market for residential dwellings.

Calculations for administrative cost-savings assumptions

Background calculations:				
Legal fees	Number of cases	Hourly rate	Number of hours (estimated)	Savings in DKK
Number of Rent Tribunal cases * case costs	1,975.00	2,750.00	30	162,937,500.00
Salaries for judges (DKK 720,000 per year * 8.5 man-years)				6,120,000.00
Number of cases that proceed past the Rent Tribunal *case costs	125.00	2,750.00	30	10,312,500.00
Salaries for judges (DKK 720,000 per year * 2 man-years)				1,440,000.00
Total legal fees				180,810,000.00
Administrative costs	Tenancies	Price per tenancy		
Administrative costs per regulated tenancy	370,188.00	5,000.00		1,850,940,000.00
- Administrative costs for non-regulated tenancies	370,188.00	2,500.00		925,470,000.00
Savings in administrative costs				925,470,000.00
Resources of rent control boards	Board members	Remuneration		
Board members * wages	588	8,000.00		4,704,000.00
Central office costs (annual salary 298,000 + 100 % of operating expenses)	79	596,000.00		47,084,000.00
Case preparation for the parties (4,620 cases *10 hours * DKK 1,200)				55,440,000.00
Expenses for the rent control board				107,228,000.00



Note: The calculation of savings on administrative costs by simplifying the Consolidation Act on Rent includes administrative expenses and spent resources of the rent control boards and the cost of trials in the District court and the High Court. Lawyer costs are calculated based on the number of housing lawsuits per year reported by the Danish Court Administration, estimated costs for both parties, the cost of holding trials in District and High court (judges' wages and the estimated time per case converted to FTE), the number of District court judgments appealed to the High court on the basis of court decisions in 2013 and costs for both parties. The Danish Property Federation estimates a savings potential of 75 percent of the total cost of legal fees. Administrative expenses are calculated based on an estimated annual fee respectively regulated and non -regulated tenancies. The Danish Property Federation estimates a savings potential of 100 percent of the difference between the two fees. The resources of the rent control boards are calculated based on the number of board members, the estimated annual fee per member, the number of rent control secretariats, estimated salary and operating costs for secretariats, the estimated number of cases treated in the boards and the cost of the parties' case preparation (time for both parties' case preparation and an estimated hourly rate for the parties). Currently the rent control boards process approx. 7,000 cases. The Danish Property Federation estimates that there will be a potential saving of 2/3 of these. The Danish Property Federation estimates a savings potential of 66 percent of the resources for the rent control boards by simplifying the Consolidation Act on Rent.



About the Parties to the Submission

Name followed by Commission Register of Interest Representatives identification number

European Historic Houses Association (EHHA) 594015610806-90

An umbrella organisation for national historic houses associations, promoting the interests of Europe's privately-owned historic houses, parks and gardens and their contents. The organisation promotes European cooperation in the conservation of historic houses which are most of the time SME's. The Association brings together 18 national members and represents more than 50,000 historic houses in Europe and supports actively its members' interests on several European issues such as culture and education, VAT, energy and environment, tourism, and security.

www.europeanhistorichouses.eu

European Landowners' Organization (ELO) 36063991244-88

Created in 1972, ELO promotes a prosperous and attractive European Countryside. ELO is a unique federation of national associations from the EU27 and beyond which represents the interests of landowners, land managers, rural entrepreneurs and family businesses. It targets its actions on land use and housing, via seven major areas of European importance: environment, renewable energy, agriculture and rural development, status of private property and companies, forest, enlargement and trade.

www.elo.org

European Property Federation (EPF) 36120303854-92

EPF represents all aspects of property ownership and investment: residential landlords, housing companies, commercial property investment and development companies, shopping centres and the property interests of the institutional investors (banks, insurance companies, pension funds). Its members own property assets valued at € 1.5 trillion, providing and managing buildings for the residential or service and industry tenants that occupy them. www.epf-fepi.com

The European Group of Valuers' Associations (TEGoVA)

TEGoVA is the European organisation of national valuers' associations, covering 57 professional bodies from 31 countries comprising specialist consultancies, major private sector companies and government departments both local and national. Its main objectives are the creation and spreading of harmonised standards for valuation practice, for education and qualification as well as for corporate governance and for ethics for valuers. It speaks with a common voice on valuation to European legislators and policy makers.

www.tegova.org

International Union of Property Owners (UIPI) 57946843667-42

UIPI is a pan-European not-for-profit association comprising 30 organisations from 28 countries. Jointly, they represent more than 5 million private property owners and some 20 to 25 million dwellings. Founded in 1923, the UIPI aims at protecting and promoting the interests, needs and concerns of private landlords and owner-occupiers at national, European and international levels. The UIPI is involved in many issues, including general housing; taxation and inheritance concerns; technical matters and new regulations such as energy saving in buildings; the private rented agenda; as well as universal consumer rights and social responsibilities. www.uipi.eu