

# The Private Sector in the Rental Housing Market

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**Abstract.** Numerous types of literature contend that housing plays a role in both the low-income population's need for public assistance and the comparatively affluent families' need for mortgage financing. Due to the failure of vacant homes, which ultimately resulted in wasted resources since medium-low income groups have curtailed purchasing power, the rental housing market is progressively where social progress is consolidated. Based on the role of rental housing, this paper goes into considerable detail about the private sector in this market. In tandem with the findings of previous studies, the research indicates that private power enhances social development in terms of active trading, achieving wealth, and alleviating the government's financial burden. However, the research discovers that some issues exist widely behind this aspect of the rental market, which not only causes significant life costs for some youngsters but also that the efficiency is constrained by governmental policies, as evidenced by data from some selected economies. Thus, the analysis is followed by some recommendations derived from the paper to use some financial investments such as leveraging and the REITs tool, as well as perspectives on adjusting governmental policies as strategies to strengthen the private rental market.

**Keywords:** Rental housing market; private sector; government policies; financial investment tools.

## 1. Introduction

In the traditional sense, the real estate market describes social advancement and contributes to overall economic expansion. The relationship between the unemployment rate and the number of occupied dwellings is discussed in the paper of Oswald, which emphasizes that some areas with fewer vacant homes make it difficult for young people to find employment in the area, thus increasing the unemployment rate [1]. Some investors try to make some decisions and investments in buying rental housing instead of direct sales by taking advantage of the income inequality in the developing market. In 2015, Hulse et al. published a paper in which they demonstrated more than half of the population is in an unfavorable situation in which they cannot afford to buy a house [2]. Similarly, Yuan et al. highlighted that the government should invest more capital in public rental housing rather than housing for purchase in China's current and developing markets [3]. This article uses Shanghai, one of China's largest financial cities, to explain that it is better for the middle-low income group to rent instead of just buying houses. This suggestion is endorsed by Yates, who worked extensively in the United States and Australia, and highlights the role of the private sector in curbing the wasted stock of social housing as a result of some low-income people not being able to purchase their residences, granting them more alternatives for renting [4].

## 2. Literature Review

Regardless of whether an economy is developed or developing, policies have recently focused more on private housing rental services globally. In recent decades, the private sector's contribution of providing social hire accommodation has continuously grown throughout all economies. In the same vein, the substantial private sector involvement in the rental property market, activating economic trading to emphasize that rental housing can be regarded as a financial tool to increase its financial value in addition to being used to focus on providing housing services for the poor who cannot be able to purchase a home [3]. Due to the challenges the government faces in managing its finances and capital distribution, private investments in societal infrastructure are encouraged. Several reviews

have confirmed these suggestions for private rental housing. Traditionally, it has been mentioned the UK government prefers to shift housing rental from the public to the private sector. Over the last two decades, the United States has also been committed to achieving a mix of financial rental housing. In addition, when the Italian government implements the social mix policy, which states that the housing service is separated into different regions, rather than just the central provision, investors in Italy are motivated to sell their homes [5]. A broader perspective has been adopted that developing nations have also seen rental housing as endangering one of their key financial revenue balances. With a close connection to the political definition of liberalism, which entails freedom for private investment and an increase in economic value, the housing sector serves as the driving force for urban economies in developing nations. Adegun and Taiwo trace the housing history of Nigeria, and notice that the housing services provided by the public sector to the underprivileged or economically ineligible population put more financial strain on the government in Nigeria. The Nigerian government also believes the public housing system offers only limited benefits [6]. Private Indian developers engaged in a variety of housing-related activities, such as building on vacant land, acquiring raw materials, and offering apartments for sale. Private projects using some of the most cutting-edge financial investment models, including REITs, will operate and occupy all available housing in the Chinese housing market [7]. It is evident from the aforementioned literature that most nations recognize the significance of the private sector's donation to the housing service.

### **3. Problems Have to be Addressed when Putting a Weight on the Privative Rental Housing**

Conversely, the challenging areas in the field of private rental housing are considered thoroughly. For starters, private developers are not given serious management and regulation under public governance; the nature of the private sector differs from that of the public sector, which is more likely to make higher profits and returns during the investment process. This housing system, in distinctive, results in high living costs and undermines the population's living experience. Secondly, a lack of funds for individual capital in housing projects is a financial impediment to the formation of more efficient private investment. Thirdly, when comparing two developing economies, Nigeria and Malaysia, the effectiveness and power of the private sector in housing service are affected by the disparity in the economies and policy frameworks, as well as various institutional frameworks of the government in monitoring the process [3].

#### **3.1 Problem 1: Misaligned Targets between the Private Sector and the Private Equity Fund**

The primary objective of a private equity fund is to profitability while forgoing management and neglecting upkeep. The financial situation is established when the private equity fund cannot be sustained without public scrutiny [8]. Donovan, for example, argues that there is a relatively higher rate of credit risk in loans for independent small private investors than in public organizations, explaining for this assertion [7]. Due to the way private equity firms are motivated to invest in rental housing and the way they speculatively access the market, there is a credit risk involved. Private renting is regarded as a speculative activity, so more effort should be made to improve regulation. They use relatively smaller capital and investment equity to make higher return profits using their credit level, which is funded by some banks, but the return is heavily influenced by unexpected and fluctuating market factors such as the exchange rate and interest rate. Furthermore, private equity funds seek higher profits rather than better services, not focusing on the foregoing physical infrastructure maintenance or after-purchase service. The private group employs an investment strategy with the primary goal of maximizing returns by purchasing low-value assets in low-income areas, and this action always increases the foreclosure rate, resulting in a nationwide financial crisis [4]. This is convinced by the explanations of Ruonavaara, which show that public housing stocks are limited and stressful, with some high costs as the government transfers some low-income categories to the private sector. These invariably result in a problem in which the expanding scale of private

rental housing is incompatible with market demands, resulting in dwelling prices having an inverse relationship with population affordability. These private actions arising their profits as the ultimate goal, pressing the relative housing burden on the poor and increasing market inequality. A potential financial performance risk for the private sector because their data source is unclear and inaccessible in the US market [9].

### **3.2 Problem 2: The Efficiency of the Private Rental Sector is Determined by Various Structural Economies**

The numerous economic types represent various economic structures, economic development, political systems, and typically the housing welfare system, which includes the rent, range of dwelling options, and the extent of the economy's support on the private rental housing market. Yuan et al. investigates the diverse housing ownership rates that exist in different economies. In an investigation into the development of the PRH market in an international insight selected from 10 economies, the private sector participation in the housing market has recently become widespread throughout the world. In 2014, these selected countries placed a greater emphasis on the private sector weights than in 2006. The protection for the capital of tenants differed throughout all various regulatory systems, which reinforced whether having the law defined the interest of tenants, or rather by the contract [3]. Generally speaking, democratic economies prefer to have a socially diverse housing stock rather than a preference for public regulation, and these nations also typically have better private-sector regulation systems. According to the analysis of the relationship between rent and the economic systems, the methods of rent allocation are based on the kinds of economic political policies, which come from various markets. For instance, Sweden holds that rather than being based on any contracts or legal frameworks, rents should be determined by the self-value of homes and market communication [10]. Norway, on the other hand, holds that the public sector should not provide housing subsidies in the future because the Norway culture regards everyone should own their assets rather than rely on others. Instead, rents should be restricted from continuously rising during a specific period under private power. Furthermore, various national economic development situations influence demand-supply, as emphasized in the article by Cassells et al., which warns Australia that its housing supply will not meet overall demand, and the UK government also encourages the development of the private sector dedicating to the social housing market to expand its overall housing supply, whereas, in China, the popularity of private rental housing is not widely held in people's minds, resulting in a housing shortage [11].

## **4. Strategies are Supposed to Solve the Problems**

### **4.1 Strategy 1: The Public Role can Create a More Stable Investment Condition**

Along with the role of the public sector, the government can implement more targeted incentive initiatives that drive down the taxation-to-revenue ratio on investment returns, strengthening the appeal of investing in rental housing. The study by Diamantis, which claims that there is a strong negative correlation between tax incentives and investors' efforts to build dwellings, illustrates the field of the taxation discounted strategy. Besides this, the government may also provide financial assistance to some private landlords in an attempt to lessen rents, which would elevate the provision of affordable rental residences. Some relatively small individual investors can use the leverage strategy to obtain equity for dwellings with a smaller initial investment [12]. For example, public housing institutions, such as HUD (housing and urban development) in the United States, set a stable rate range on pension funds to ensure that investors' capital is not rerouted to other investments. This is of interest to both parties, as individual investors leverage their little capital to achieve more stable returns. However, the contract will experience default risk from these participants if the privates face danger in exchange [2].

#### 4.2 Strategy 2: The Private Financial Investment to Boost a Wealth-creative Rental Housing Market

Instead of investing in tangible assets, investors prefer to use financial instruments in the rental housing market. Berry encourage trading in the housing market, including selling and buying using financial tools. He examines how REITs contribute to the creation of significant and reliable financial sources for the entire society, including private investors, individual renters, and the government. This instrument improves the trading flexibility of an asset such as real estate to be invested in and financed. The effectiveness of the REITs depends on where the money for them comes from in the current, broadening rental housing market. According to Berry's article's findings, a substantial number of small individual investors are drawn to this instrument more than compared to larger-scale financial organizations. Large free-spaced stock challenges should raise some red flags [13]. Achievable REITs that can adapt to the comparative investment instrument market should also be thoroughly investigated by government involvement, as government funding should be used in conjunction with the launch of this instrument. The line separating private equity funds from REITs is nebulous since some private sectors can acquire their ultimate higher profits by prospering from accommodation funding from the government [14].

### 5. Conclusion

In conclusion, this paper delved deeply into the private role in the rental housing market. The majority of the existing literature reviews assert that private rental housing is generally replacing public housing and is acceptable across the world. As a consequence of the private role, the housing market seems to be more active and widely traded, as houses can be utilized as a financial tool traded in the financial market. Furthermore, people, regardless of where they come from, have more liquidity, therefore they are not under more pressure from rising property prices. However, because the private sector's main objective is to maximize profits, this action could result in a lower housing service experience for the population, along with additional costs for them. Besides this, an ideal and stable operating rental market is reliant on a variety of structural policies, as separate government attitudes on this can lead to various degrees of encouragement for the construction of private housing. This paper outlines two strategies for optimizing the effectiveness of the private rental market. On the macro-level, the government can create a motivating environment by providing subsidies, lessening taxation, and instituting a funding range to stabilize the returns for investors; on the micro-level, financial choices regarding investment instruments, such as REITs, provided to individuals can improve their wealth and inspire them to take an active role in the housing market. However, the level of an investor's credit and the stability of their financial instrument funding determine how effective these strategies will be. As a result, this paper recommends that further studies that investigate the private rental housing market, even those that use financial derivatives or are subject to government supervision, take into account a rigorous monitoring system and sustainable financing sources.

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