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Rental housing market segmentation in Germany according to ownership

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Abstract

We analyze landlord market heterogeneity in the German rental housing market. Using data from the German Social-Economic Panel survey for the years 2000–2005, we firstly identify significant differences in implicit prices for housing attributes between private, public, and association landlords in a cross-section analysis through comprehensive segmentation testing. Based on that, we secondly present a balanced panel analysis for the entire period to investigate market price heterogeneity over time. In general, we detect the length of residence and the building size as the most important determinants for landlord segmentation. Most notably, differences between private and non-private landlords are identified.

Keywords:

residential rental market | landlords | market segmentation | Germany

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Notes

1. For sale prices, besides these market attributes, the length of time on the market of housing objects for sale can become important for creating a homogenous market environment (Pryce & Gibb, 2006).

2. For market segmentation concerning one office rental market, see Dunse and Jones (2002).

3. For implications on real estate prices, see Dust and Maennig (2008).

4. While Dascher (2005) casts doubt on the subsidised demolition policy and advocates a rent reduction by half, Maennig (2006) emphasises the necessity for creating reinvestment incentives for owners.

5. For general information about GSOEP see Frick, Jenkins, Lillard, Lipps andWooden (2007).

6. We assume a dualist rental market (Kemeny, Kersloot, & Thalmann, 2005).

7. For 2000 and 2001, rents in Deutschmark are converted into euros.

8. Table 1 presents unbalanced data.

9. The theoretical perspective of the effects of long-standing tenants and the rent level is taken from Hubert (1995). For concerning a comparison between short-term and long-term discounts see Barker (2003).

10. Our panel is very short, contains mainly time-invariant and binary variables, so that the correlation between these factors and the fixed effects is expected to be very high. The essential impact of those attributes we are interested in will be therefore already

captured in the incidental parameters in most parts very likely. The consequences are highly collinear relationships among the exogenous variables that yield insignificant or spurious results. That is why we conduct pooling regressions. We did not include additional waves due to the household selection criteria of avoiding missing values.

11. That implies, we exclude the necessity of sit discounts given only in the first year, because based on stylised facts described in Section 2, landlords may prefer and reward long-term tenants. IV- egressions, where lagged duration is used as an instrument for duration, lead to similar parameter results.

12. Although there exists a dummy variable called «Central Business District» describing the housing environment of residential buildings, the applicable number contained here in the sample is marginally small and hence cannot be used.

13. Herewith, we also address the problem of heteroskedasticity, which, as Stevenson (2004) points out, can appear due to varying property ages.

14. The literature does not mention any limit value. While Schnare and Struyk (1976) interpret a reduction by 10% as an indication of market segmentation, Dale-Johnson (1982) deem 5% as sufficient for this purpose. The tests performed are described in the Appendix.

15. The correct interpretation of the estimated coefficients γ_j in semi-logarithmic models is derived from $\exp^{(\gamma_j \Delta t)}$ with Δt representing the change over time (Halvorsen & Palmquist, 1980). For the purposes of our paper, we have interpreted only the coefficients that have been computed precisely.

16. Maurer, Pitzer and Sebastian (2004) find for the Paris housing market a u-shaped impact for construction age. Apartments constructed before 1850 and after 1947 demonstrate a positive impact on property prices, contrary to dwellings built between those years.

17. Specific architectural styles eventually preferred by owner classes affect construction costs. In our case, these different styles are partly captured by the age of buildings and the housing environment.

18. The calculation is based on the following: $\exp(-0.3117+0.1252)-1$.

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