

**Multifamily Rental Housing in the United States:  
Can We Take Lessons from Germany?**

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## Abstract

Homeownership is the American dream; an expectation consistently reaffirmed by housing research. Americans believe homeowners make better citizens (Krueckeberg, 1999). Government policies, such as tax deductions, promote homeownership. Despite a falling economy and well publicized mortgage crisis, approximately 68% of Americans are homeowners (Harvard, 2008). Rental housing, especially multifamily, is perceived as alternative housing for those who cannot afford ownership (Harvard, Krueckeberg). Although affordability is the reason many rent, lifestyle is the determining factor for others who choose multifamily rental housing (Beamish, Goss, & Emmel, 2001; Goodman, 1999).

Virginia Tech offers a unique university degree program in residential property management, and graduates develop professional careers in the multifamily rental housing industry. Recently, students and faculty participated in a study tour to Germany, emphasizing planning, design, and marketing of housing, focusing on multifamily housing communities and their management.

Only 43% of Germans are homeowners (Voigtländer, 2009), and many are long-term residents of multifamily rental housing. Observations of German multifamily rental housing by tour participants noted differences in *housing characteristics*, such as provision of interior finish materials and fixtures; *management*, such as maintenance responsibilities; and *marketing*, such as community amenities. Using the Theory of Housing Adjustment (Morris & Winter, 1975), frequently applied to housing behavior from a sociological perspective (Steggell, et. al, 2003), normative housing in the United States and Germany can be compared for acceptance of multifamily rental housing. Thus, German rental housing appears to offer features that make homeownership desirable in the United States, such as control and responsibility for the home space (Lloyd, 2008).

This paper will explore what Virginia Tech students and faculty learned about German multifamily rental housing, offering the opportunity to raise questions about diversifying American housing policy and challenging multifamily industry management policies to create benefits for a stable rental population that will support lifestyle needs.

## Multifamily Rental Housing in the United States: Can We Take Lessons from Germany?

The American desire for homeownership – the “American Dream” – is a long-standing cultural goal held by a majority of citizens (Beamish, Goss, & Emmel, 2001; Dillman, Tremblay, & Dillman, 1979; Lloyd, 2008; Morris & Winter, 1978; Shay, 2006). A preference for homeownership cuts across most groups within American society (Lodl & Combs, 1998; Tremblay & Dillman, 1983). The power of the norm for homeownership is continually reaffirmed in housing research (Gyourko & Linneman, 1993). In fact, Cullen (2003) suggests that the American dream for homeownership is an internationally known phenomenon.

Embedded in the American cultural dream of homeownership is the belief that homeowners make better citizens (DiPasquale & Glaeser, 1999; Hubbard & Davis, 2002; Krueckeberg, 1999). To that end, a goal of government housing policy has been to encourage home ownership (Meeks, 2001). Implementation of this policy goal has taken many forms, including direct and indirect subsidies, but perhaps the best known are the mortgage interest and property tax deductions. Policies promoting homeownership have sought to improve the quality of the owned housing stock and to make ownership more affordable (Meeks).

There is a considerable body of research suggesting that homeownership is beneficial to both the owners and to American society. Among the many benefits attributed to homeownership are high social status in American society (Hubbard & Davis, 2002), an increase in self-esteem (Rohe & Stegman, 1994), life satisfaction (Rohe & Stegman; Saunders, 1990) and a sense of control and security (Dupuis & Thorns, 2002; Saunders). However, Kemeny (1981) stated that public policies favoring homeownership are “dependent on sustaining myths concerning the superiority of homeownership over other forms of tenure” (p.11). Rohe and Stegman, claimed that government assisted homeownership falsely perpetuated the idea that homeownership is superior to renting. Finally, Bucchianeri (2009), in a study of well-being and housing, could not find that homeowners were happier, healthier, or even better citizens, when compared to renters in their communities.

Despite the entrenched belief in homeownership, the United States is not a nation exclusively of homeowners. Approximately 67% of Americans are homeowners, down slightly from a peak of about 69% in 2004 (Harvard, 2009), and fewer than in many European countries (Voigtländer, 2009). Almost one-third of Americans do not own their homes. Non-owners typically include young person households starting out, low and limited income households, and elderly households. In other words, the perception is that households rent because they are working and aspiring to achieve homeownership, have been unable to accomplish ownership because they cannot afford it, or they have arrived at a stage in life where they have moved past the responsibilities of homeownership. However, some non-owners rent their homes as a lifestyle choice (Beamish et al., 2001; Goodman, 1999; NMHC/NAA Joint Legislative Program, n.d.). Homeownership rates vary widely by age and household type. For example, only 41% of those 35 and younger owned their home in 2008 in contrast to 80% of those 65 and older. The rate of homeownership is high among married couple households (83%), while only 55.7% of male households with no wife present and 49.5% of female households with no husband present owned their own homes (U.S. Bureau of the Census, 2009).

### *Economic Recovery and Homeownership*

In the current economic environment, the American dream of homeownership is clearly threatened. Headlines about foreclosures, home price devaluations, and collapsing mortgage credit markets have been matched with reports of job losses. Americans fear that they may lose their home or that they may never have a chance to own a home.

As the federal government has moved forward on economic recovery, it has taken “extraordinary steps to stabilize the housing market” (Harvard, 2009, p.3). In keeping with the trend of American housing policy, the emphasis has been, and continues to be, on homeownership. For example, the Neighborhood Stabilization Program was established for the purpose of stabilizing communities that have suffered from foreclosures and abandonment, through the purchase and redevelopment of foreclosed and abandoned homes, thus increasing and securing access to homeownership for many households (U. S. Department of Housing and Urban Development [USDHUD], 2009a). Tax credits are available for first-time homebuyers to stimulate the market and the government is involved in buyouts of mortgage-backed securities (Harvard). The Making Home Affordable program makes it possible for households to refinance mortgages that are “under water,” meaning the value of the home in the current market is below the balance on the mortgage (Making Home Affordable, 2009).

The economic recovery effort for housing has not ignored rental housing. The Tax Credit Assistance Program is an example of an effort to provide capital investment in the previously successful Low-income Housing Tax Credit program (USDHUD, 2009b). The ultimate goal of both of these programs is to provide affordable rental housing to low-income families.

The conclusion could be drawn that, even in a time of economic crisis, American housing policy still persists in focusing on homeownership as the preferred model. Rental housing is seen as a limited alternative for targeted groups, such as low-income households

### *Purpose of Paper*

The purpose of this paper is to raise questions about the housing policy focus in the United States, and to suggest that a greater emphasis is needed on multifamily rental housing. Borrowing from a joint policy statement of the National Multi-Housing Council and the National Apartment Association, “America needs a more balanced housing policy” (NMHC/NAA Joint Legislative Program, n.d.), we hope to encourage examination of multifamily rental housing as a viable lifestyle choice alternative to homeownership. At the same time, changes in government housing policy need to go hand-in-hand with changes in the multifamily housing industry.

The basis for the recommendations in this paper is a comparative analysis of multifamily housing in the United States and Germany. This analysis is the result of a study tour to Germany by faculty and students of the Residential Property Management program at Virginia Tech, who have expertise in the multifamily rental housing industry in the United States. Germany was chosen for the comparative analysis because it is a country with a high rental housing rate (Voigtländer, 2009), and contrasting practices in its multifamily housing industry.

## Theory of Housing Adjustment

The theory of housing adjustment, developed by Morris and Winter (1975, 1978), has been extensively used to examine housing behavior from a sociological perspective (Steggell et al., 2003). Morris and Winter (1978) describe the theory as useful in the study of the “ways in which the structure of American society determines how families are housed, the consequences for families, and the decisions families make” (p.3). Steggell et al. found that this theory was the most frequently used theory in their analysis of housing theories, and was used in both American and international research.

Briefly stated, the theory of housing adjustment indicates that if a household perceives that its housing does not meet societal *norms*, the household will be *dissatisfied*. Dissatisfaction can lead to the recognition of a *housing deficit*. A housing deficit motivates a change: (a) a *housing adjustment*, such as moving to another home or altering the present dwelling; or (b) an *adaptation* of the household, such as reallocating resources or making changes within the household. Through adjustment or adaptation, the household seeks to become satisfied with their housing and to achieve social housing norms.

In our analysis of both American and German multifamily rental housing, we look at the societal norms for housing. Understanding these norms is important to evaluating choices that households will make and accept with respect to their housing.

## Study of Housing at Virginia Tech

For decades, Virginia Tech has had a reputation for educating many leading professionals in the housing field. The Housing Program is premised on the ideal that a home has important personal and economic value to the people who live there. It is a basic human need. To shelter our society, all types of residential spaces must be designed, built, selected, acquired, and managed. That process requires many professionals knowledgeable about people and the housing industry.

The Housing Program offers an undergraduate option in Residential Property Management (RPM). The RPM Option gives students the opportunity to learn about the management and operation of multifamily housing and prepares them for a variety of positions in the field. Graduates find themselves employed in various aspects of the industry including management, operations, marketing, human resources, development, and acquisitions. Each year, only a few students in the world graduate with degrees that prepare them specifically for these positions. Students in the RPM option are exposed to all aspects of the property management field through a curriculum that includes specific property management courses as well as general business, housing, and real estate courses. Graduates enter the profession with a broad understanding of the issues and challenges faced by the multifamily housing industry, including extensive first-hand experience gained through required internships offered by companies throughout the United States.

## *Study Tour to Germany*

In the summer of 2008, students and faculty of the Housing Program at Virginia Tech participated in a study tour to Germany, *The Globalization of Housing and Property Management*. Specific emphases were on the comparative study and analysis of multifamily housing, kitchen and bath design products and trends, energy and environmental concerns, and historic design. Site visits, manufacturing tours, museums and historic sites, and lectures were included. Students were responsible for pre-trip preparation activities; written, visual, and oral assignments; and a final post-trip project. Extensive tours of residential properties in Frankfurt, Dresden, and Berlin as well as lectures by, and interviews with, multifamily housing industry professionals were highlights of the tour.

Following the study tour, the faculty leaders of the tour assembled three sources of information on the multifamily housing industry in Germany:

- Faculty observations during the study tour;
- Information from interviews and expert lectures during the study tour; and
- Student's daily journal observations.

These sources of information were integrated for the analysis presented in this paper.

#### German Multifamily Housing: An American Perspective

Based on our observational analysis of German multifamily rental housing, we have identified some key differences between German and U.S. housing. We have chosen to focus on those differences that are of most relevance to our concerns about U.S. housing policy.

##### *Observation 1:*

- Germany has a higher percentage of renters, especially in some urban areas such as Berlin, as compared to the United States. In total, only 43% of Germans are homeowners, according to Voigtländer (2009).

##### *Observation 2:*

- There is a lack of amenities (pool, clubhouse, valet services, etc.) in German multifamily rental housing as compared to American rental housing.
- Amenities that do exist in German housing seem to be more related to modernization (new heating systems, balconies, etc.) or mandated energy improvements.
- Amenities are generally not used in German rental housing to attract residents or for cosmetic improvements, whereas this is commonplace in the United States.

##### *Observation 3:*

- Fewer interior finish materials, fixtures, or design details are provided in German rental units, while U.S. multifamily rental housing would typically come with all interior finish materials. In German multifamily rental housing:
  - Kitchen fittings, including cabinetry and appliances, are typically not provided.
  - Closets or closet hardware are typically not provided.
  - Light fixtures are typically not provided.

- Other finish materials, such as flooring, is often selected or provided by the resident.

*Observation 4:*

- Minor, routine, and basic maintenance is the responsibility of the resident in German rental housing, while American multifamily renters expect management to provide all maintenance.

*Observation 5:*

- Long tenure in rental housing is common in Germany, while this is not common in American multifamily housing.
- German residents may view themselves as stable in their rental home.
- There can be formal or informal passing of rental units within families in Germany.

*Observation 6:*

- There is a lack of marketing of rental housing in Germany, which appears to be related to historic availability of housing, rent control, and lack of turnover in rental units.
- Resources not spent on marketing could be/are used to improve the property or to keep management costs in line in Germany. In the United States, marketing is a significant part of the multifamily rental management company's budget.

*Conclusions*

Multifamily rental housing is a normative model of tenure and housing choice for many Germans. Renting is clearly more accepted as a positive and permanent housing tenure choice. As a result, the rental market in Germany appears to be less competitive, less service oriented, and less likely to view residents as customers or consumers, when compared to the American rental market.

A closer investigation of renting in Germany shows a different kind of experience than renting in the United States. A stable, long-term living experience in a community environment with other long-term residents appears to be common. In addition, the renter has both considerably more control over, and responsibility for, the physical space of the rented home in Germany than the typical U.S. resident – such as in selecting finish materials, fixtures, and making repairs. Thus, in Germany the lines of difference between being a homeowner and a renter, compared to the U.S. model, are blurred.

### Discussion and Recommendations

Residents of rental housing in Germany appear to have greater physical control and responsibility for their home space compared to the typical American renter, particularly the resident of a multifamily community. Control and/or responsibility for one's living space can lead to a greater sense of attachment to the home (Despres, 1991). This ability to control the living space is one of the primary emotional reasons that people desire to become homeowners (Cooper-Marcus, 1995; Dupuis & Thorns, 2002; Lloyd, 2008; Saunders, 1990).

For Americans, the normative experience of renting is to have little control and responsibility over their physical space. They must be responsive to a list of rules dictated by the management. Leases continue to get more restrictive in the litigious U.S. society as management companies try to protect their investments. While residents may have a variety of amenities in their home space, they are likely to have limited choice and independence. As suggested by the theory of housing adjustment, this can lead to dissatisfaction with their housing and a desire to want to make a change: own a home where they can have more choice and control. If their American rental housing was to give them the opportunity to personalize their space or to make some choices about the space – such as is available in German rental housing -- the American residents might feel differently. For example, American property management companies could consider more opportunities to let residents choose interior finish materials or fixtures. They might feel more in control, more responsible, and be more satisfied with their housing.

If American residents of multifamily rental housing were more satisfied with their rental housing, they might feel more attached to their homes and more vested in where they live. This could lead to longer tenure in the same location. Less turnover in residents leads to more stable communities. In addition, this is cost saving for the property management company, which provides them with the opportunity to provide additional options and amenities to the residents.

### *Tax Policies*

The tax benefits of home ownership and the perceived investment benefits of homeownership for Americans is an important cultural concept. However, in today's economy, many are questioning the across the board benefit of homeownership. Some are even suggesting that homeownership is a more expensive option for housing (NMHC/NAA Joint Legislative Program, n.d.). A key factor in the real and perceived financial benefits of homeownership is that tax benefits accrue to the *residents* of owner-occupied housing but to the *owner* of rental housing.

### Summary

The myth of homeownership in the United States as a good investment and renting as “throwing money away” continues. However, research shows that Americans strive to achieve homeownership for many complex reasons beyond financial investment, and often it is issues such as stability, control, and lifestyle choice (Beamish et al., 2001; Lloyd, 2008). However, the experience of rental housing in Germany suggests that, with different opportunities for housing choice available, more Americans might be satisfied to achieve their housing goals with multifamily rental housing.

The American policy focus on homeownership may be short sighted. By continuing to assume that Americans want to – and should – own homes, alternative tenure options are not being considered and valued. Rental housing, especially multifamily, continues to be seen as a limited-income solution for housing and not a lifestyle choice for all income levels. The U.S. government needs to broaden its policy goals and programs to target a wider variety of population groups for whom renting is a desirable or practical choice.

Travel is expansive and educational. For the Residential Property Management students from Virginia Tech, learning about German housing, and trying to understand both how and why it is different than American housing was a valuable and enriching experience. Hopefully, these students will integrate the new perspectives gained from learning about the German housing industry with their understanding of American housing. Thus the ideas from the comparisons and analyses presented in this paper will continue to influence these future professionals as they prepare to take a leadership role in the multifamily rental housing field.

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