

## **Berlin Imposes Rent Caps - as World's Most Desirable Cities Become 'Gated Communities'**

By John Dyer , June 4, 2015

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Berlin instituted rent controls this month that are designed to protect long-term residents who can't pay the same housing costs as the hipsters sipping beers in the Tiergarten and playing guitar along the canals of Kreuzberg.

While the controls might help a few folks in the German capital, experts say they won't make a dent in the worldwide trend of skyrocketing rents pricing out ordinary folks in the world's coolest cities.

"This has been happening in these cities for decades. But we've seen something of an acceleration in the last decade or so," said Ingrid Gould Ellen, faculty director at the Furman Center for Real Estate and Urban Policy at New York University. "While housing prices are rising and rents are rising, wages are stagnating."

Berlin is limiting rent increases to 10 percent of average rents in neighborhoods suffering housing shortages. Landlords often jack up rents by as much as 40 percent to take advantage of well-heeled newcomers who are flocking to the city from the around the world, said Reiner Wild, managing director of the Berlin Tenants Association.

"The rent ceiling is very important for Berlin because the difference between the rent paid in existing contracts and new contracts is so high," Wild told The Guardian

Median rents increased 9 percent between 2013 and last year in the German capital, to around €9 per square meter today, or about \$1 per square foot, according to realty company Jones Lang LaSalle.

For Americans, that's not so expensive. But rent is relative. Statistics show that the rising cost of housing in cool cities in the United States threatens to put them out of the reach of everyone but the rich.

The median rent in San Francisco is now \$4,225 a month, according to real estate database company Zillow. That's a 16 percent increase from last year. At that rate, renters are shelling out \$50,700 annually to put a roof over their heads in the City By the Bay, or a few thousand bucks less the median household income for American families.

San Francisco isn't exceptional, according to "Renting in America's Largest Cities," a **recent report** by NYU's Furman Center for Real Estate and Urban Policy. The report contains dismal news for wide-eyed dreamers seeking to realize their urban dreams.

In Los Angeles, rent increased by 11 percent while income fell by 4 percent, the report found. In New York, rents went up 12 percent while income was stagnant. In Philadelphia — increasingly viewed as a gritty, cheap alternative to the Big Apple — the population of renters grew by 28 while the number of rental units increased by 15 percent.

The laws of supply and demand are driving the shift — more people are competing for apartments while developers are putting up too few new apartment buildings, said Rolf Pendall, director of the Metropolitan Housing and Communities Policy Center at the Urban Institute.

The developers aren't necessarily at fault. It's hard to make money building rental properties without government subsidies, said Pendall, whereas building and selling luxury condos in city centers and single-family homes in the suburbs is a surefire way to earn profits.

"It's hard and difficult to finance and build new multi-family housing," he said. "In cities like New York, San Francisco and Washington, it's hard and expensive to get land and it's hard to get permission to build on that land."

Pendall pointed to the backlash against so-called "pop ups" — or adding a few extra floors for apartments on top of preexisting row houses — in Washington, DC, to show how its hard to expand housing in desirable cities. Originally viewed as a way to add units to a tight housing market, people are complaining that pop-ups look bad and add unwanted congestion to their neighborhoods.

The pop-up example shows how the wage gap between the rich and poor is only part of the puzzle that's making cities like Berlin, San Francisco and elsewhere more expensive for ordinary folks, Pendall argued. Even if rent control protects low-income Berliners, city officials will need to add more apartments if they want to solve their housing problems, he said.

"The stagnation for the middle and declining income for the people at the low end of the scale is a big part of the affordability problem in the US. We need a robust recovery that raises wages," he said. "But even if wages were going up, we'd have less units than the renters want to live in."