

Observations on rent control in the private rental sector in Europe

Marietta Haffner
Delft University of Technology

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Topics

1. Private renting
2. Rent control / regulation - history
3. Typology of rent control
4. Rent regulation and impact
 - Theory
 - Empirics
5. Costs and benefits
6. Lessons
7. Conclusion

1. Private renting - definition

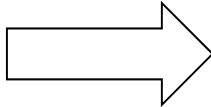
- Private persons
 - Amateurs
 - Professionals
- Organisations – institutional
 - Commercial
 - Employers
 - ‘Social’
- No allocation rules determined by government

Private renting - new chances?

- Homeownership no longer 'automatically' increasing
- 'Less' access to social renting
- More flexible labor markets
- Further urbanization
(young, families, elderly)

2. Rent control – historic trends

- **First-generation** rent control
 - Rent freeze of nominal rents
- **Second-generation** rent regulation
 - Automatic rent increase percentage based on inflation
- **Third-generation** or tenancy rent control
 - Rent increases are controlled within a tenancy, but are not controlled between tenancies

 **Less regulation,**
but not necessarily no regulation or even
full-fledged third generation regulation

Source: Arnott (1995, 2003)

3. Rent control typology - examples

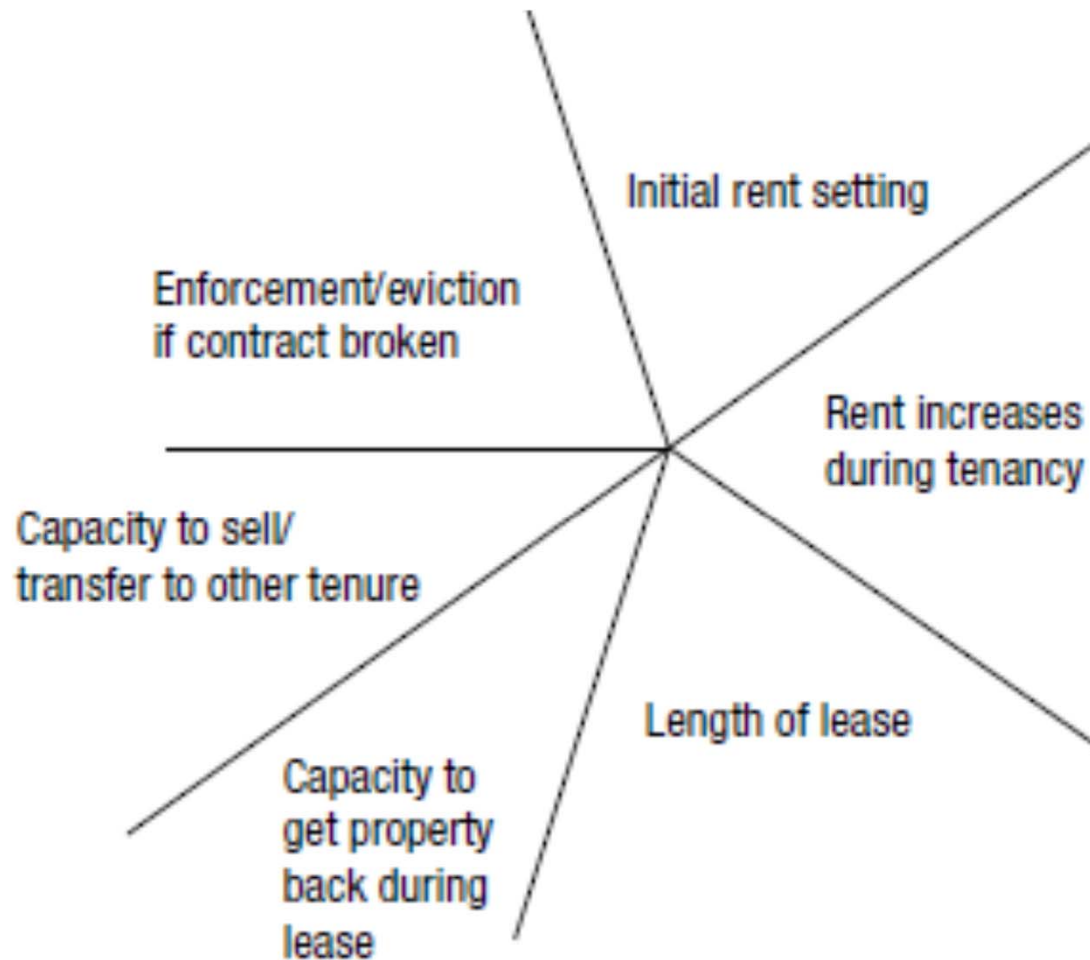
New contract	Around 2010
Free rent setting	England, France, Germany, Netherlands (deregulated stock), Spain, Switzerland
Regulated rent setting by quality	Netherlands (regulated stock), Sweden
Annual rent increase	
Free rent setting	England (deregulated stock)
Regulated by / based on market developments	Germany
Regulated by an index	France, Netherlands (regulated stock), Spain, Sweden, Switzerland

4. Impact of rent control - theory

- Classical economic reasoning
 - Source of inefficiency
 - Cost for landlords and society
 - Disincentive to invest

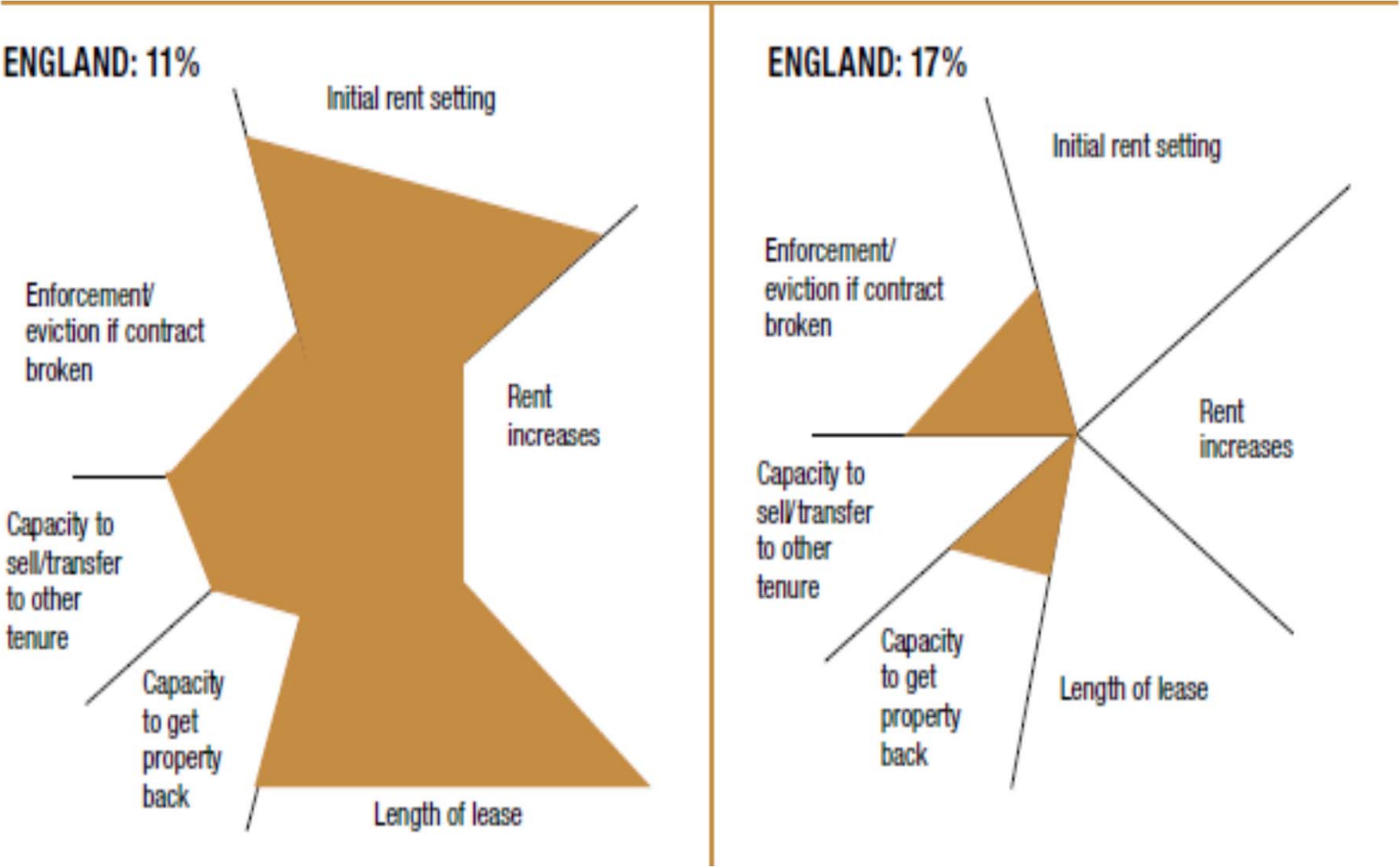
- Welfare economics rationale
 - Government intervention
 - Countering market imperfections
 - Improve market efficiency

Empirics: rent regulation includes:



Source:
Whitehead et al.
(2012: 55)

Example: England, 1980s – 2000s



Source: Whitehead et al. (2012: 60)

Changes in regulation and size

CHANGE IN REGULATION (early 1980s – late 2000s)		CHANGE IN THE SIZE OF THE PRS (early 1980s – late 2000s)	
Decreasing regulation		Increasing size	
	Finland		England (11 to 17%)
	England		
	Denmark		
	Spain		
	Norway		
No radical change		Medium	
	Netherlands		Sweden (21 to 23%)
	Germany		Germany (45 to 45/49%)
	Sweden		France (23 to 21%)
	Switzerland		
Increasing regulation		Decreasing size	
	France		Switzerland (63 to 58%)
	Ireland		Ireland (13 to 9%)
			Norway (27 to 19%)
			Denmark (22 to 14%)
			Spain (21 to 13%)
			Netherlands (19 to 10%)
			Finland (33 to 16%)

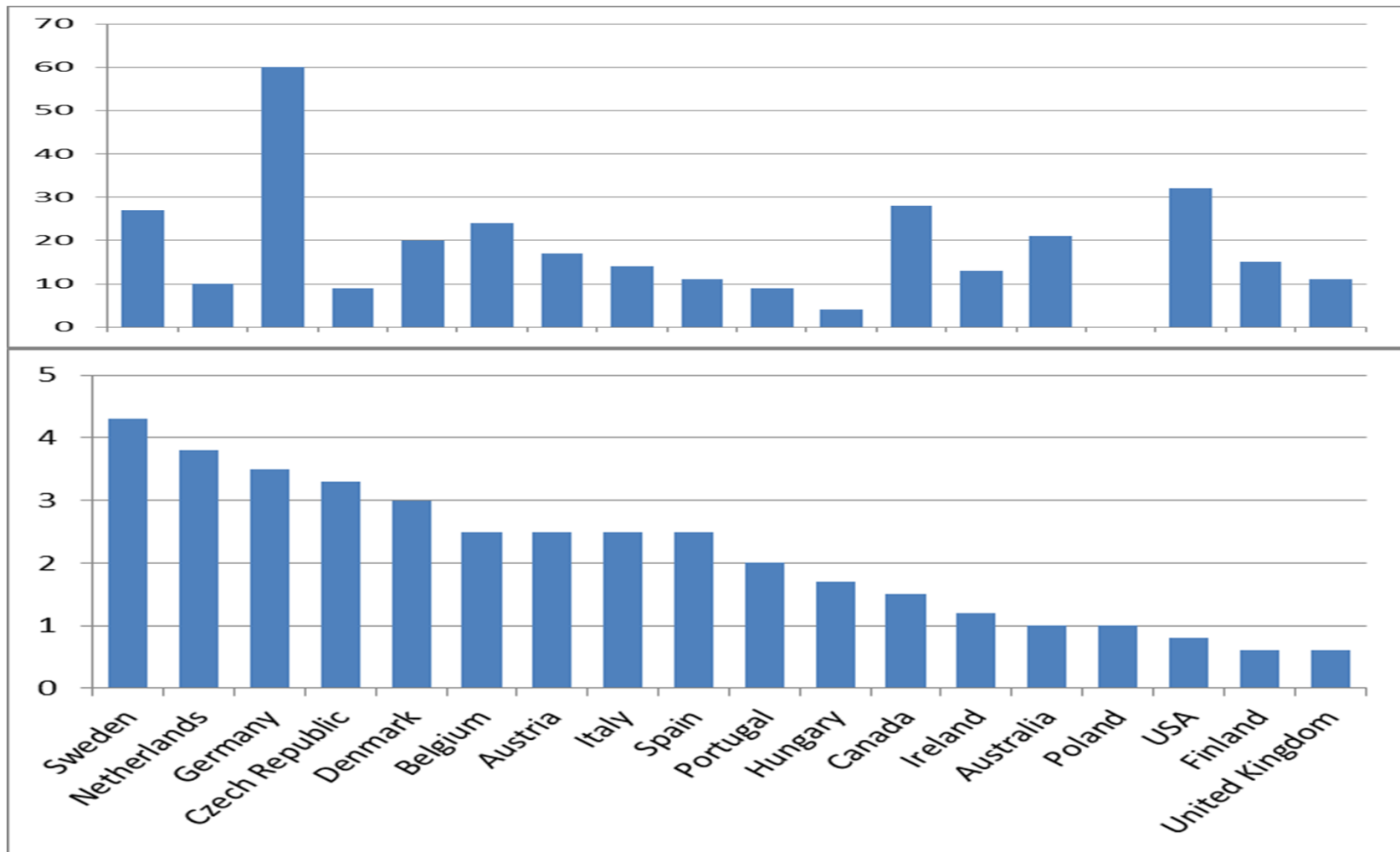
Source: Whitehead et al. (2012: 65)

Other example: rent control defined

1. Control of rent levels
2. Control of rent increases
3. Pass-through of costs

Andrews et al. (2011) / OECD

Private renting: size, rent control, 2009



Source: Haffner et al. (2012; based on Andrews et al., 2011)

However, results statistical analysis

“Stricter rent controls and tenant-landlord regulations significantly reduce residential mobility by discouraging the supply of rental housing and by locking-in tenants.”

Andrews et al. (2011: 9)

“rent controls make housing markets more volatile in response to different shocks ...

In contrast, regulation of tenancy contract negotiation does not have a direct effect”

Cuerpo et al. (2014: Summary)

Rent control empirics - summarized

Not simple and complete:

- Rent control is captured by different definitions
- Not one trend of deregulation
- Relationship with size of sector not clear

⇒ Check out landlord/investor and tenant **(dis)advantages**

5. Advantages tenant

Interest in comprehensive definition of security
OR lenses; contextualize legal side:

- Legal - traditional tenant security items
- Market - access and on-going affordability
- Cultural - able to feel at home
- Public policies affecting these

Benefits landlords

Transparency may

- Have positive effect on image and popularity
- Minimize turnover (reduce transaction costs)

Return

- Clear
- Consistent

6. Lessons

Different theoretical argumentations

- Traditional vs. more recent argumentation
- Disincentive to invest versus countering market imperfections

Empirics does not seem to solve controversy

- Different definitions /approaches
- No automatism of more regulation chasing away investors
- ‘Softer’ effects of rent regulation excluded

7. Conclusion

Private renting has the future?

- Context
- Balance of interests landlords and tenants
- Can a win-win situation be created?



Thank you

References

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