Changing Patterns of Rent Control in Europe

Plenary 3: Putting rent under control: models, evidence and control

ENHR Annual Conference

The fight for the right to housing. The pressures of globalisation and affordability in today's cities

Barcelona. 1 September 2022

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Rent Control: A Long History

- Rent controls were introduced across Europe around 1915/1916 – because supply was stagnant or declining and demand was varying with the changing concentration of jobs during World War 1. A political necessity after some unrest.
- The type of rent control introduced was what is currently called 1st generation – i.e., rents were fixed at their current (or 1914) levels and there was no right to increase these rents. Controls were usually nationwide.
- Rent control was generally intended to be temporary – but controls were usually extended as shortages after the war worsened. There was some modifications made in the 1930s but then controls were extended/re-introduced in 1939. In the UK some elements remained in place until 1989.
- The results are well documented – deteriorating standards, underoccupancy, transfers out of the sector, new build concentrated in other sectors.

Decontrol in the later part of the 20th century

- There was a considerable movement towards greater decontrol as the post 1945 quantitative shortages in housing were overcome from the early 1970s.
- Some countries moved from strong controls to almost no controls - including England, Finland and Norway.
- Others, notably the Netherlands, Germany and Sweden, have retained fundamentally the same system for forty years.
- Over the last decade however there has been a growing interest , particularly at the city level, in re-introducing stronger rent controls in the face of rising rents and worsening affordability.

Extent of regulation

- The majority of Western European systems have unlimited security of tenure and versions of third (sometimes second) generation rent control;
- England stands out as having both no direct rent controls and particularly short-term tenancies. Scotland however has introduced unlimited security of tenure, although with a large number of exceptions - and are looking to control rent increases in some areas.
- Countries with relatively stable regulatory systems tend to have larger private rented sectors. These countries also often have stronger constraints on entry into other tenures.
- A number have two level systems – e.g., Denmark (new properties since 1991 are not controlled); the Netherlands (market rents above a threshold around 750 euros per month – although this has now been raised).

Growth in the Private Rented Sector

- Over the last decade – and in some countries since before the turn of the century, the privately rented sector has been growing, often significantly, in the majority of European countries.
- This reflects both increasing difficulty in entering owner-occupation and in some countries a reduction in social rented housing.
- But private sector rents have also been rising and there is increasing concern about affordability.
- There have also been new large scale participants in the market - notably institutional investors initially mainly local, looking for a secure return.
- Some of these investors have looked to increase new housing supply through an expansion in the Build to Rent market mainly aimed at middle income households.
- Most of these institutional landlords state they are happy with a regulatory arrangement which provides longer term security and within-tenancy indexation (as long as there is proper enforcement of contracts – and accepted exceptions).
- But some, notably international private equity investors, are looking as much or more for short term capital gains.

Growing Importance of the Private Rented Sector

Tenure by households and dwellings: selected countries

	2010	2019	
Country	**PRS %**	**PRS %**	**Change**
Germany	52.7	47.3	-10%
Austria	29.4	34.7	18%
Denmark[1]	13.9	19.4	6%
Norway	15.1	23.7	57%
Belgium	23.6	23.4	-1%
Finland[1]	15.8	22.4	42%
France	17.7	20.8	18%
England	15.6	19.3	24%
Czech Republic	5.4	17.9	231%
Iceland*	13.7	16.7	22%
Spain	11.4	15.5	36%
Netherlands[1]**	11.4.	12.7	11%
Ireland*	11.4	10.9	-4%
Slovenia	5.3	6.0	13%
Poland	2.9	5.4	86%
Hungary	2.7	4.4	63%

[1] Shows number of dwellings
* 2018 latest data available
** Renting in the Netherlands distinguishes between those who live in accommodation with controlled rents (rents under around 750 euros in 2020) whoever the owner is, and those whose rents are market determined whoever the owner is.

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Particular Pressures

- The growth in institutional investors has raised widespread concerns about what is perceived to be a major shift towards regarding housing as a tradeable asset rather than as a home and especially the consequences of this for lower income households.
- Financialisation – as it is often termed – is seen as a major reason for rising rents and gentrification in many European cities (often identified as the Blackstone problem).
- A particularly important issue - especially in Germany and Sweden - is that of ‘renovictions’ where the regulatory framework allows rents to rise in response to renovations and energy efficiency investment to the point where the existing tenants find the new rents (even though regulated) are unaffordable.
- The issue has become highly political in a number of European countries and is a significant factor in the growing pressure to introduce new forms of rent control.

General Issues

- One reason why rent controls are on the agenda is that they are generally popular with voters (e.g., 65% plus Londoners approve – even though the Mayor has no powers) – so it is increasingly a political issue.
- Most of the regulatory initiatives concentrate on limiting rents in stress areas - although there is a tendency for the system to be extended to areas with lower demand (e.g., Germany; Ireland);
- Many have been initiated at regional or city level. Even so, it is national governments that generally set the rules;
- Often the supply of tenancies is declining for other reasons – notably the growth of short-term lettings especially in tourist areas;
- Welfare systems are becoming less generous in many countries – impacting on the capacity to pay increased rents;
- At the same time income distribution is becoming more unequal – increasing the numbers finding it difficult to pay the rent.

Examples of Rent Control Initiatives

- Germany –3rd generation rent control for decades. However since 2013 additional rent controls introduced in tight housing markets cities (now over 300 cities/municipalities) by which initial rents are limited to 10% above the local comparator. At the same time the allowable rent increase in existing tenancies was reduced from 20% to 15%. Stronger controls in Berlin were ruled out by central government.
- France –28 agglomerations with tight housing markets were allowed to apply to pilot varying rent control measures for five years. Paris was the first jurisdiction to implement controls in 2019 based on reference rents followed by three further cities in 2019 and others planning to do so.
- Ireland – Was highly deregulated - then moved to a system where rents should be in line with local market rents for similar properties. In 2016 Rent Pressure Zones ("RPZ") were introduced (currently in 21 local electoral areas) initially for a three year period during which rents can only rise according to a prescribed formula by a maximum of 4% annually. That system has remained in place.
- Spain – Catalonia introduced a rent control law in 2020 but this was struck down by the Constitutional Court. National government has now introduced a Right to Housing law which enables regional governments to set rent caps apartments owned by larger landlords in stress areas, together with some incentive for small landlords to reduce rents.
- The Netherlands - has expanded the regulated housing sector as well as limited increases in the free market sector.

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Impact of Increasing Rent Controls

- So far there is little evidence that the changes have impacted on investors' preparedness to invest;
- This may be in part because more extreme constraints (such as the attempt to return to 1st generation rent control in Berlin and additional controls in Paris) have not been implemented;
- But it is also because rents appear not to have been fully constrained to the stabilised amounts – partly because tenants have not generally appealed the rents;
- There are also concerns about data quality, notably with respect to comparators and about the avoidance and evasion of controls;
- But most negative impacts – on supply and housing quality are longer term and would not be expected to show up quickly.

Conclusions

- Many Western European countries are used to rent stabilisation policies which have been in place for many years (generally involving free market rents between tenancies and index linked rent increases within tenancies).
- But the economic environment important for acceptance – e.g., Germany low inflation/falling house prices for many years made rent stabilisation easy.
- Also there have been many exceptions – e.g., energy efficiency; improvement etc which enable rents to rise – plus in some contexts initial market-based rents can sometimes be significantly above comparator rents.
- Over the last few years, the environment has changed and issues around housing affordability and the relative power of investors and landlords have become increasingly much more politically sensitive. The post-covid environment currently looks even more problematic. The result is increasing pressure to introduce stronger rent control policies.
- These policies are generally more sophisticated and potentially adjustable than in earlier decades but will still impact on the incentive to supply privately rented housing.
- So, there is continuing concern about uncertainty and unforeseen/unintended consequences.