Economic Foundation of Housing Policy Beyond Rent Control

Prof. Dr. Ramón Sotelo
1. Fatal mistakes within housing policy

2. Capital sins within housing policy

3. Targets of housing policy

4. The economics of housing stock market and the market for new dwellings

5. Economic instruments for the housing market

6. Conclusion
1. Fatal mistakes within housing policy
1.1 Demographics do not matter!

On the discussion of refugees
1. Fatal mistakes within housing policy

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1. Fatal mistakes within housing policy
1.2 The underestimation of income growth
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At a growth rate of 2% p.a. demand growth until 2050 230%. 10-20% less population is peanuts compared!

Quelle: eigene Berechnungen
1. Fatal mistakes within housing policy
1.2 The underestimation of income growth

Relationship between income per capita and the size of households.


Quelle: Sotelo, 2001
1. Fatal mistakes within housing policy
1.3 High proportion of rented flat is a proxy and a result of wealth.

Quelle: Eurostat Census Hub, Dwellings on Type of ownership, 2011, zitiert nach GdW.
2. Capital sins within housing policy

2.1 The role of rents for allocation

S... supply
D... demand

shortage of housing
2. Capital sins within housing policy

2.2 Effects of rent control
2. Capital sins within housing policy

2.3 politics is para-economics
2. Capital sins within housing policy

Conclusion:

- The is no market failure in the housing market.

- Because of different forms of rent regulations, consumers absorb more space than with market prices with the result of a felt shortage of supply.

- Any rent control can only work, if the quantity of rented space is also regulated.

- Any action that leads to an artificial absorption of space has to be eliminated.

- Even if this is not in the interest of individual tenants, it is in the interest of the tenants as a collective group.
3. Targets of housing policy

1. The „appropriate“ provision of housing for households with low income.

2. The „appropriate“ provision of housing for households with negative features beyond low income.

3. The promotion for new dwellings.
4. The economics of housing stock market and the market for new dwellings

Why do developers build flats?
The real option approach
4. The economics of housing stock market and the market for new dwellings

A plot of land has to be understood as a real option.

Options have a premium, which is destroyed when executed.

The issue of building on a plot of land is economically the question of dealing with a real option.

Prices of options are very volatile.
4. The economics of housing stock market and the market for new dwellings

Premium of options during time.

Quelle: Sotelo, 2001
4. The economics of housing stock market and the market for new dwellings
5. Economic instruments for the housing market
5.1 Subsidies for the demand side

Form of subsidies for the demand side in Germany:

• Wohngeld
• Kosten der Unterkunft
5. Economic instruments for the housing market
5.2 rights of assignment

The design of the rights of assignment:

• Cities should buy with regional differentiation rights of assignment from the private sector.

• The rights of assignment are to be bought through a bidding process.

• Landlords obtain beyond the market price for their dwellings pro rata temporis the price for the pure rights of assignment.

• This payment for the pure rights of assignment are withdrawn, once the household exceeds a certain income.
Design of the subsidies for the supply side:

- Subsidies for new dwellings are given independent from subsidies of the demand side and of the purchase of rights of assignment.
- The only rule: The supply which receives subsidies has to be rented.
- Subsidies are given through a bidding process.
- The call for bids are a compromise between the specific requirements and the potential number of owners of plots of land.
6. Conclusion

The design of housing policy based on economic analysis:

• Implementation of market rents for the housing stock.

• Abstinence of any action that leads to a higher absorption of dwellings because of prices below the market price.

• Separation of all form of subsidies: the subsidy of the demand side, the subsidy to purchase of rights of assignment and subsidy for the promotion of new dwellings.

• Use a bidding process for purchasing rights of assignment.

• Use a bidding process for a political defined new offer of dwelling concerning regional aspects and the forms of dwellings.

• Incentive cities to create legally more plots of land for housing.
Thank you very much for your attention.

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