Tenancy Law – A Pan-European Survey
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Simple Theory of Rent Control

Objective: Keep rental dwellings affordable.

Possible consequences:
- Decreasing supply of rental units
- Increase of demand.
- Deterioration of housing quality.

Source: Frankeena (1975), Mankiw (2012)
Assar Lindbeck:

„next to bombing, rent control seems […] to be the most efficient technique […] for destroying cities.“
Paul Krugman:

“The analysis of rent control is among the best-understood issues in all of economics, and – among economists, anyway – one of the least controversial.”
Alan Blinder’s
'Murphy's Law of economic policy‘

“Economists have the least influence on policy where they know the most and are most agreed [...]"
Christoph U. Schmid (2009); “Report on European Tenancy Law”
European University Institute (EUI Tenancy Law Project)

- Survey of national tenancy laws in Europe with a focus on housing (or private) tenancy.

Konstantin A. Kholodilin (2015); “Fifty Shades of State: Quantifying housing market regulations in Germany”, DIW Berlin Discussion Papers 1530

- Constructed an index to measure the degree of the state intervention in the German rental housing market.


- Constructed indices (66 countries; 18 countries + 47 years) to measure tenancy law in a cross-country setting and analyzed the effects of regulation on housing prices.
History

Trends in European housing policy (over the past century):

- Regulations for minimum standards of housing.
- Private sector rent control.
- More appropriation of social rented housing.
- Emphasis towards housing quality and individual subsidies.

But: Great diversity between the member states of the EU.

Policy tools: tenant protection, rationing of housing, rent controls, provision of social housing
Regional Differences

Scandinavia, UK and the Netherlands

- significant state intervention
- largest social rented sectors

Rest of Western Europe

- large private rented sectors
- limited government expenditure on housing

Southern Europe (similar for CEE)

- large owner occupied sectors
- minimal social rented sectors (until recently)
- low quality private rented sectors
Trends in Regulation since 1980

Rental Market Regulation for different country regions
A higher value illustrates a higher degree of regulation.

How to measure tenancy law:

- Rent regulation index
- Tenure security index

Datasets:

- Time invariant country panel (N=66, T=1, 2010)
- Time variant country panel (N=18, T=42, 1973-2014)
- Countries: Austria, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Spain, Sweden, Switzerland, UK (England & Wales); proxies for Australia, Canada and USA
Rent Regulation Laws:

- Real rent freeze (D1)
- Nominal rent freeze (D2)
- Rent level control (D3)
- Intertenancy decontrol (D4)
- Other specific decontrol systems (D5)
- Other specific recontrol systems (D6)

Tenure Security Laws:

- Eviction protection during term or period (D7)
- Eviction protection at the end of term or period (D8)
- Compulsory minimum duration (D9)
- The treatment of short term tenancies (D10)
Rental Market Regulation Index since 1980

Rental Market Regulation
A higher value illustrates a higher degree of regulation.

Influences on Regulation


2. Political power only matters for economically advanced countries.

3. Level of tenure security significantly correlates with regulation in other domains (like labor market regulations).

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*** = significant at 1% level, ** = significant at 5% level, * = significant at 10% level

Rent Growth Rate vs. Regulation in Germany

Higher tenure security leads to lower rent dynamics.

Higher rent control provokes higher rent dynamics.

Source: Kholodilin (2015)
Effects on Rents

- Tenure security has a considerable impact on rents.
- Stricter rent control → lower real rent dynamics
- Soft rent control + minimum level of tenure security → higher real rent dynamics

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House Price Development

House Price Developments in different rental market regimes
mean group growth rates in %

Policy Implications

- A sufficient degree of tenure security is necessary.
- Both, strict and soft rent control regimes may cause distorted rents. → Burdens for the whole housing market.
- Free rent regimes show stable real rents.

→ Nominal rent freeze regimes and soft rent control regimes should be avoided.
Thank you for your attention.

Thanks to (Dr.) Jan Philipp Weber!

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