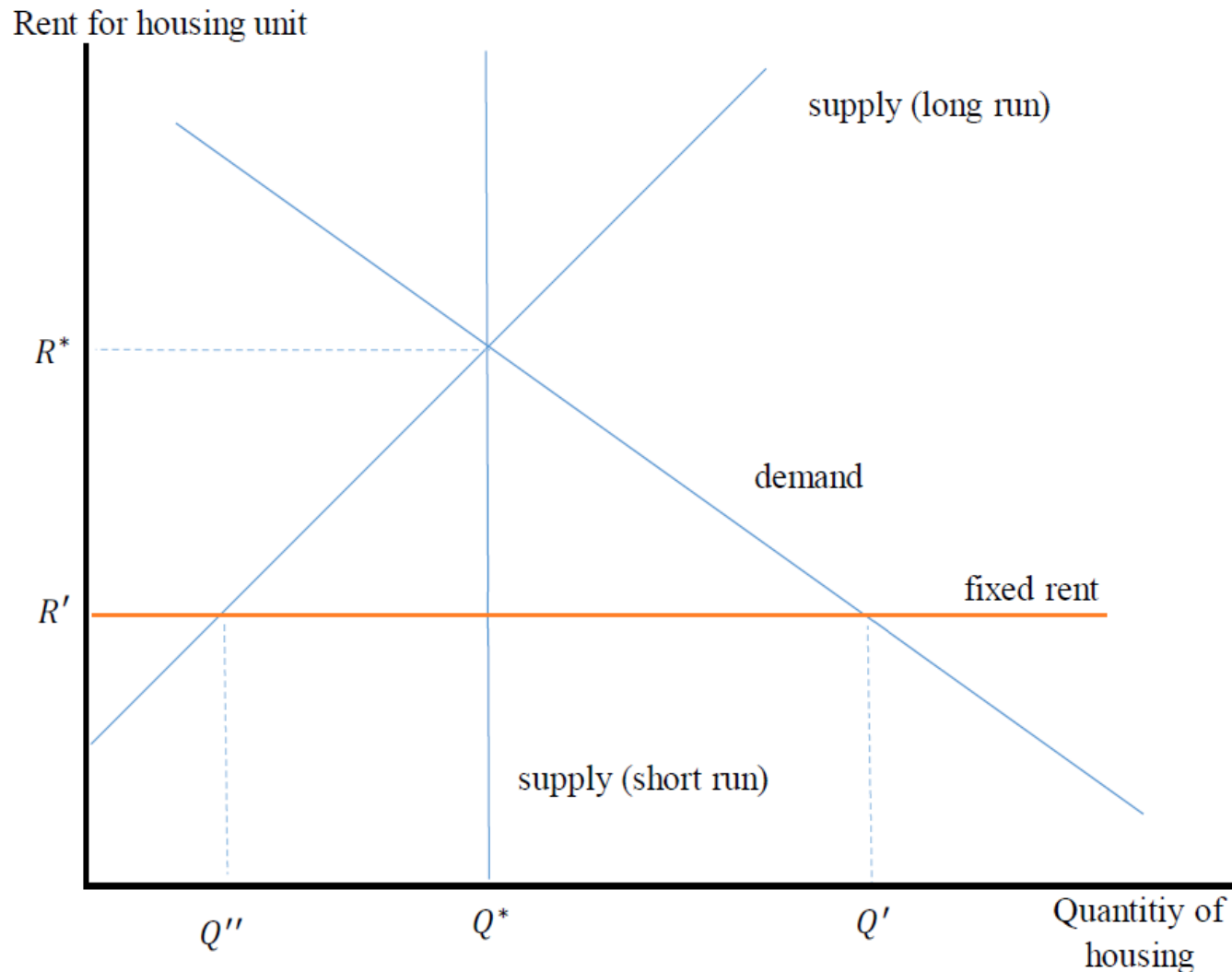




Tenancy Law – A Pan-European Survey

Konstantin Kholodilin, Christoph Schmid, Steffen Sebastian

Simple Theory of Rent Control



Source: Frankeena (1975), Mankiw (2012)

Objective: Keep rental dwellings affordable.

possible consequences:

- decreasing supply of rental units
- Increase of demand.
- deterioration of housing quality.

Assar Lindbeck:

„next to bombing, rent control seems [...] to be the most efficient technique [...] for detroying cites.“

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.

Jan Philip Weber (2017); “The Regulation of Private Tenancies – A Multi-Country Analysis”, Ph.D. thesis, Univ. Regensburg

- 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.

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

Scandinavia, UK and the Netherlands

- significant state intervention
- largest social rented sectors

Rest of Western Europe

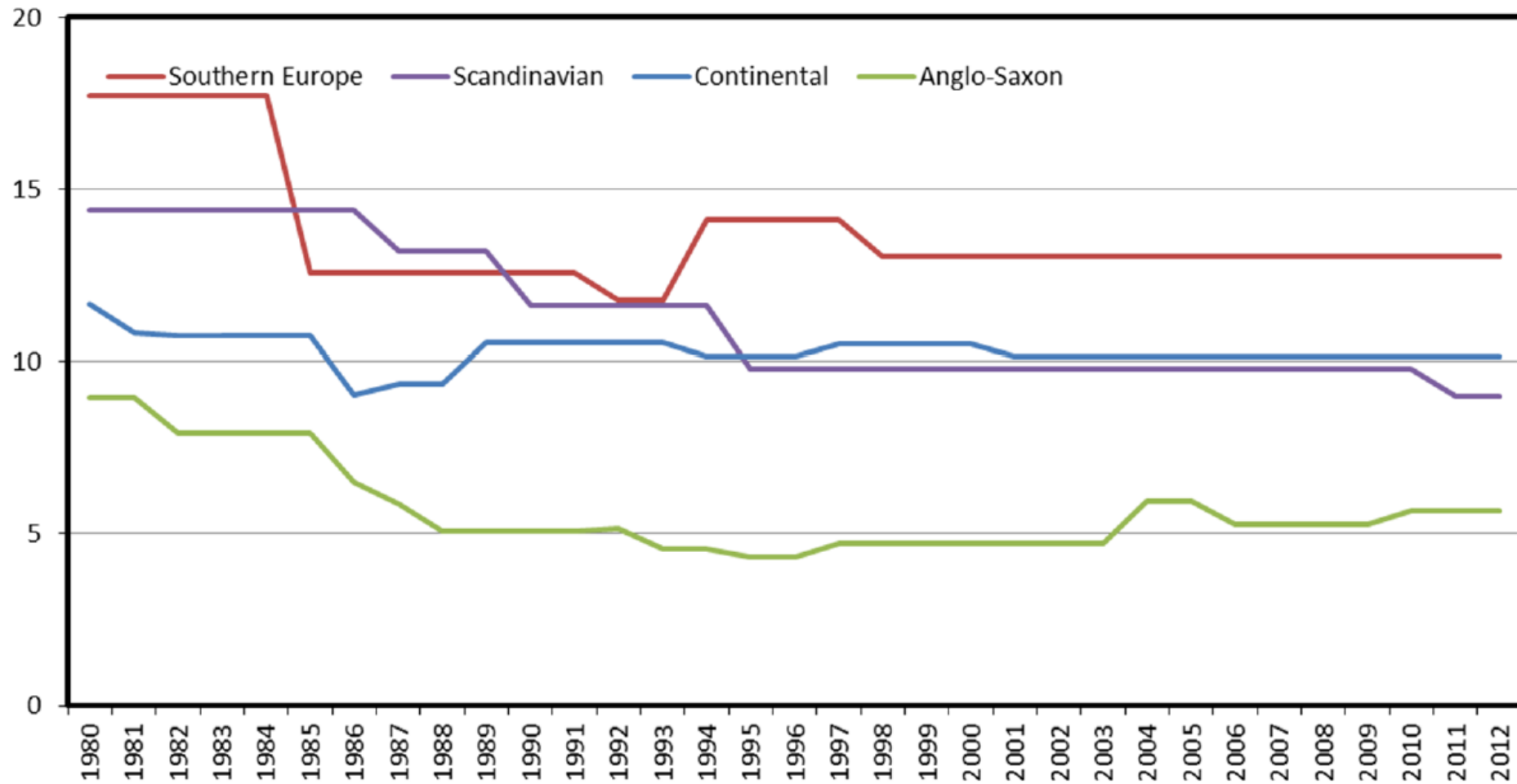
- large private rented sectors
- limited government expenditure on housing

Southern Europe (similar for CEE)

- large owner occupied sectors
- minimal social rented sectors (until recently)
- low quality private rented sectors

Rental Market Regulation for different country regions

A higher value illustrates a higher degree of regulation.



Source: Weber (2017)

How to measure tenancy law:

- Rent regulation index
 - Tenure security index
- ← Rental market regulation 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:

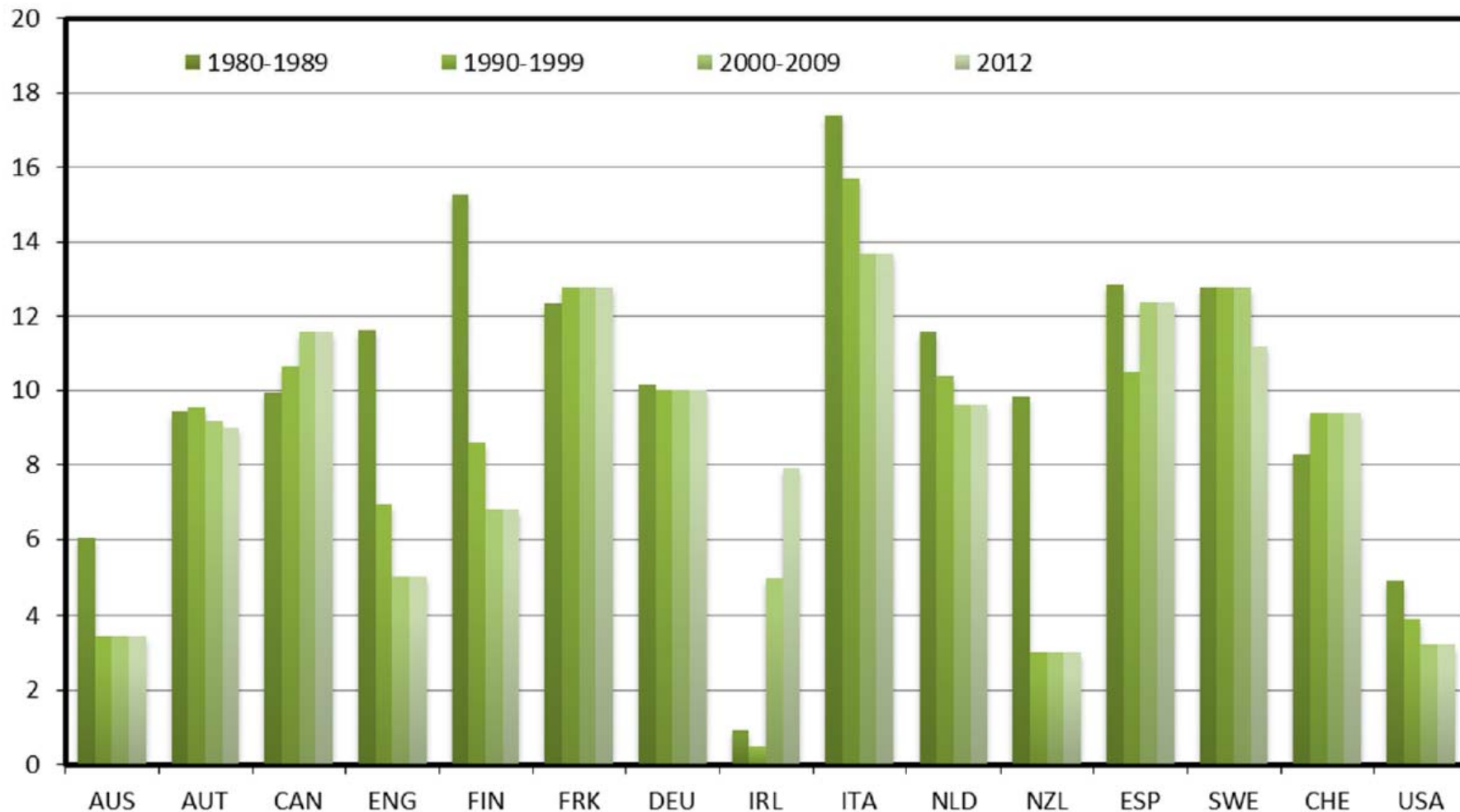
- Real rent freeze (D1)
- Nominal rent freeze (D2)
- Rent level control (D3)
- Intertenant decontrol (D4)
- Other specific decontrol systems (D5)
- Other specific recontrol systems (D6)

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

A higher value illustrates a higher degree of regulation.



Source: Weber (2017)

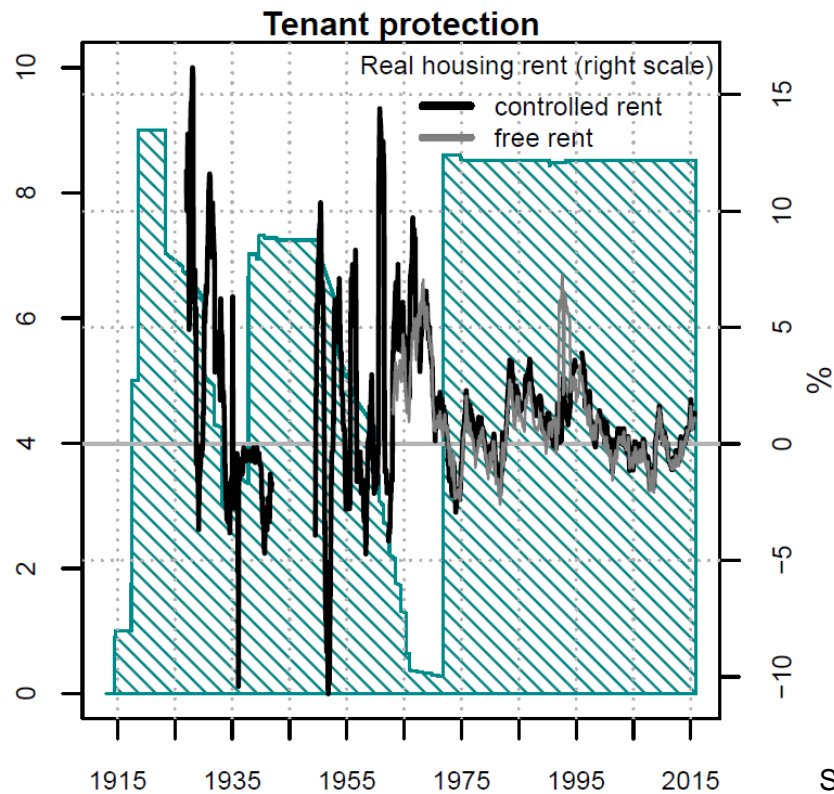
1. Countries with French legal origin: More tenure security.
2. Political power only matters for economically advanced countries.
3. Level of tenure security significantly correlates with regulation in other domains (like labor market regulations).

	Rich countries											
	GDP / Cap.	French	German	Scand.	Socialist	Protestant	Leftist Gov.	Pop. Density	Urban	Const.	Obs.	R ²
Rent Laws Index	0.311*	0.196	0.0812	0.163	0.534	-0.102	0.0151	-0.0206	0.00845	-3.624	33	0.24
	(0.157)	(0.211)	(0.175)	(0.235)	(0.412)	(0.102)	(0.224)	(0.0321)	(0.00810)	(2.143)		
Tenure Security Laws Index	0.360**	0.356**	0.0000116	-0.146	0.273	-0.0933	0.455**	0.0110	-0.00215	-3.446*	33	0.53
	(0.139)	(0.151)	(0.121)	(0.179)	(0.258)	(0.0889)	(0.190)	(0.0211)	(0.00541)	(1.694)		
	Poor Countries											
Rent Laws Index	0.0295	0.202	no obs.	no obs.	-0.0876	0.278	0.259	-0.0381	0.00219	-0.188	33	0.32
	(0.0800)	(0.147)			(0.106)	(0.206)	(0.169)	(0.0633)	(0.00392)	(0.750)		
Tenure Security Laws Index	-0.0641	0.0491	no obs.	no obs.	-0.0979	-0.0791	0.136	0.0298	0.00999***	0.0960	33	0.51
	(0.0449)	(0.0966)			(0.0737)	(0.0542)	(0.0957)	(0.0301)	(0.00272)	(0.296)		

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

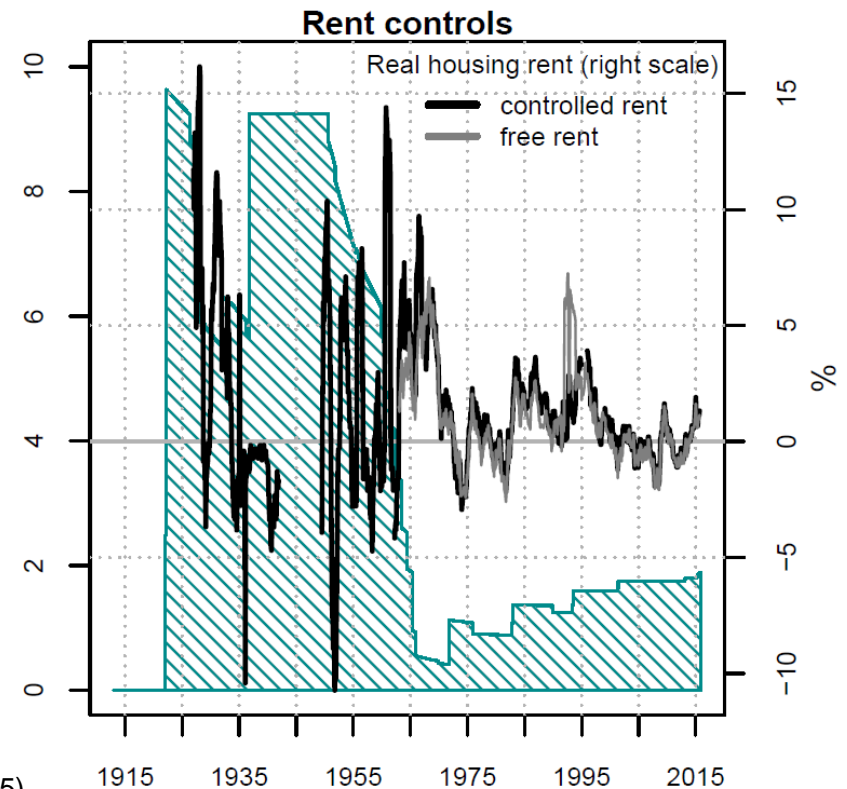
Source: Weber (2017)

Rent Growth Rate vs. Regulation in Germany



Source: Kholodilin (2015)

Higher tenure security leads to lower rent dynamics.



Higher rent control provokes higher rent dynamics.

- 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

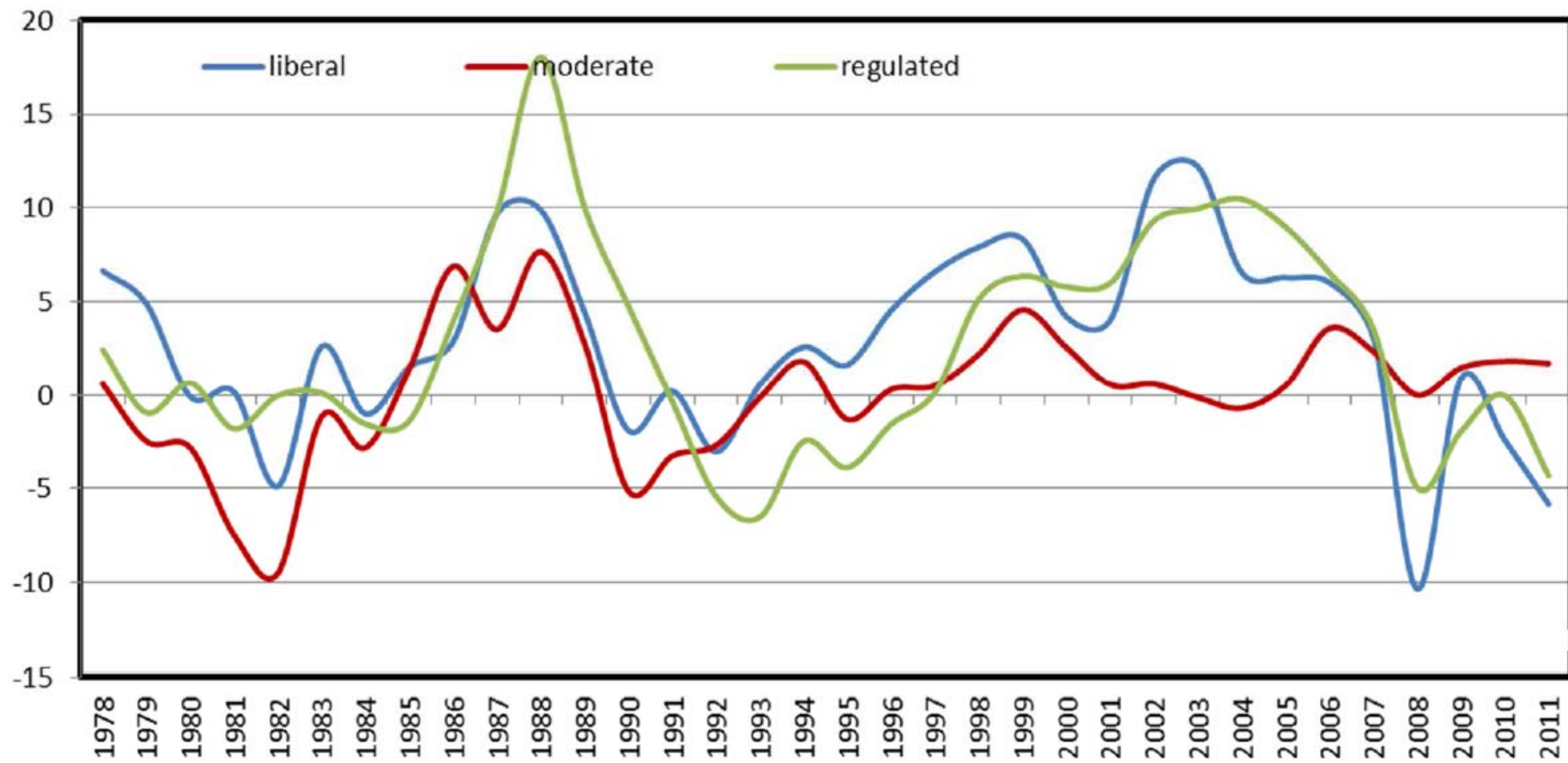
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
	Robust SE	Clustered SE	Clustered SE	Robust SE	Clustered SE	Clustered SE
1st rent control regime	-0.027*** (0.007)	-0.027*** (0.006)	-0.031** (0.011)	-0.027*** (0.007)	-0.027*** (0.006)	-0.030** (0.011)
2nd rent control regimes						
Type-A	-0.004 (0.007)	-0.004 (0.008)	-0.007 (0.009)			
Type-B	0.026* (0.013)	0.026** (0.010)	0.027** (0.009)	0.026* (0.013)	0.026** (0.010)	0.027*** (0.009)
Type-C	0.004 (0.009)	0.004 (0.007)	0.007 (0.009)			
Type-D	-0.003 (0.008)	-0.003 (0.007)	-0.001 (0.008)			
Type-ACD				-0.001 (0.006)	-0.001 (0.006)	-0.002 (0.007)
GDP per capita	0.163 (0.141)	0.163 (0.131)	0.176 (0.144)	0.165 (0.140)	0.165 (0.129)	0.181 (0.143)
Constant	-0.050*** (0.011)	-0.050*** (0.010)	0.005 (0.006)	-0.051*** (0.011)	-0.051*** (0.011)	0.006 (0.005)
Year Effects	YES	YES	NO	YES	YES	NO
Country Effects	YES	YES	YES	YES	YES	YES
Observations	712	712	712	712	712	712
Adjusted R ²	0.13	0.13	0.08	0.13	0.13	0.08

***= significant at the 1% level; **=significant at the 5% level; *=significant at the 10% level.

Source: Weber (2017)

House Price Developments in different rental market regimes

mean group growth rates in %



Source: Weber (2017)

- 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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