

Regulation of Rental Increases – An Instrument for Stimulating Affordable Housing?

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SUMMARY

In Germany, the social structure has changed dramatically in recent decades and the housing market did as well. The development is, however, not spatially homogeneous. Particularly large cities report rising population numbers in contrast to many rural areas. Housing, particularly affordable rental housing and small flats, are a scarce resource in some German cities – and the rents rising rapidly. Therefore, the introduction of a so-called “Mietpreisbremse” is currently being discussed, which is intended to reduce the rental price jumps in cities with pressure on housing markets. This “Mietpreisbremse” shall come into force in the course of 2015. Idea is, among others, to cap the rent increase to 10% in cases of tenant change. While this instrument has a lot of advantage, criticism arises on investment barrier, because of reduced yields and reduced incentives for new construction. Regulating rental prices have the advantage, that they can be introduced quickly and without major costs for public budgets. They also demonstrate the ability to act with respect to major groups of voters who fear a "rental price spiral". However, the private construction can be shifted into condominiums in consequence. Examples show (e.g. England, France) that the trend is accompanied by a decline in quality of living in rented housing to the property. Costs for renovation and modernization cannot be allocated and possibility cannot quickly and completely be refinanced on rents. Owners may invest less accordingly. Socially disadvantaged are particularly affected. In addition, the rental price regulation prevents the consideration of risks within the rent. An owner is clearly careful to make the choice of his tenants under these conditions; persons with poor social prestige, this will have significant market access problems. Thus, the instrument of the rent regulation must be used with caution. More important is an increased market transparency associated with an offer extension. Although the offer-oriented housing policy also attracts considerable financial burdens derive (through tax breaks and subsidies), but leads effectively to the desired destination.