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Abstract

In order to respond to their electorate's demands for affordable housing, many politicians turn to rent control. In this “impact paper”, we argue that in reality undesirable effects take precedence and other avenues must therefore be considered to respond to the housing crisis.

Keywords: Rent control, Housing affordability

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The dates of both the Paris and London 2020 mayoral elections have changed due to the unprecedented global outbreak of Covid-19, however, the one consistency is the polemical issue that is the housing crisis. Among others, rent price control is one of the fundamental topics of contention running at the heart of candidates' mayoral campaigns in both capital cities.

According to the Valuation Office Agency, London has experienced a 35% increase in the average monthly rent prices between 2011 and 2018. The city's monthly 2019 average is more than double that of the rest of the country and according to the latest English Housing Survey, the proportion of household income spent on rent was considerably higher for private renters in London (42%) than for the rest of England (30%). As a result, Sadiq Khan, the current Mayor of London, has urged the government to provide him with extra power to install rent caps to combat this worrying inflation. Khan wants to implement a rent control system in order to provide tenants with more affordable housing and to encourage investment in new and existing rental housing.

Nevertheless, Jonathan Cribb, the senior research economist at the Institute for Fiscal Studies, has argued that despite providing short-term benefits for tenants, the overall quality of accommodation shall suffer in the long run as landlords will neglect maintenance in order to reduce costs in response to their lowered rental income, thus negatively impacting London's living conditions. Landlords' investment returns shall be reduced and as a result many will abandon income-property investment, leading to a reduction in private rental accommodation on offer, an increase in competition and, as a result, a surge in rental prices: the complete opposite of the desired effect.

However, the government has announced plans to eradicate 'no-fault' evictions, to ban unjust rental fees and to cap tenancy deposits, saving London's tenants £240m a year; a step in the right direction to ameliorate the local housing market.

The Conservative mayoral candidate for the London mayoral election, Shaun Bailey, has similarly criticised Khan's manifesto and claimed that construction of more homes is the only answer to the housing crisis.

Paris does not paint such a dissimilar picture. Ever since Anne Hidalgo was elected Mayor of Paris in 2014, she has been battling to contain the surge of Parisian real estate prices and rents which is pushing families out of the capital and has resulted in a decrease in the population. In August 2015, she and her team introduced rental price caps in Paris to solve this housing crisis. Having been removed in November 2017 and then reinstated in July 2019, rent control remains central to Anne Hidalgo's 2020 campaign. By contrast, Rachida Dati, her main competitor, promises to put a stop to the current rent caps if she is to be elected.

Since their instauration in 2019, these obligatory rental price controls are formalised each year, and Paris is divided into 14 geographical sectors, each with their own average reference price for each category of residential property. Owners are provided with a maximum (20% above the average reference price) and a minimum (30% below the average reference price) reference rent price - any failure to abide to these regulations results in a

monetary sanction. Their purpose? To limit the increase in rental prices, to reduce those already too high and to ultimately halt the depopulation of the French capital.

On the adverse effects of rent control

During a time of political movements and campaigns, it's important to look back on the depoliticised research on rent control undertaken in San Francisco and Germany.

San Francisco itself was first subjected to rent control in 1994 and the effects in the short term were by and large positive: the majority of the tenants from the groups studied remained in the city and they were 10-20% more likely to remain in their current housing situation. However, in the long run, homeowners naturally attempted to remove their properties from the constraints of the rent price caps, leading to a 15% reduction in accommodation on offer, a general increase in the rent prices, and the gentrification of the affected areas.

The reason for the increase in rent prices was two-fold. First of all, there was an increase in the competition for the diminishing number of accommodation exempt from the rent control. Second, renovation works undertaken by owners in order to circumnavigate the rent control in turn improved the quality and therefore augmented the price of housing on offer. All in all, the city-wide negative consequences of the rent control greatly exceeded its benefits for the tenants.

Germany more recently implemented rent controls in 2015, and itself experienced short-term problems, in particular regarding the prices of non-capped accommodation. The artificial increase of the competition for housing subject to rent control encouraged high-income households to turn to housing outside this cap, therefore also inflating their rent prices.

Conclusions and policy recommendations

As both case studies indicate, Parisian and London voters should be aware that in the short-term rent control may be favourable for tenants but in the long-term it will increase rent prices and decrease the availability of accommodation, proving costly for future generations. Solution? Luque et al. 2019 and Luque 2020 argue in favour of tax credit for developers to encourage their investments in income-property and to prevent a reduction in the availability of affordable accommodation in the housing market, thus insuring the tenants against surges in rental prices through the housing supply channel.

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