

Investment Incentives of Rent Controls & Gentrification: Evidence from German Micro Data

STUDY
#19

Source: Baye, Vera, & Valeriya Dinger (2021) NBP Working Paper No. 342

LINK TO STUDY

Study Overview

In their 2021 working paper, Vera Baye and Valeriya Dinger analyze the effects of Germany's 2015 rent control policy on housing investment returns and gentrification. The study utilizes micro-level data to assess how the regulation influences rental yields and the allocation of housing investments.

Key Findings

1. Limited Impact on Housing Affordability:

- The rent control policy did not achieve its primary goal of enhancing housing affordability. Instead, the proportion of household income spent on rent increased in regulated areas post-implementation.

2. Altered Investment Yields:

- For regulated properties, rental yields decreased by approximately 6.5 percentage points, driven by sale prices rising faster than rental prices.
- In contrast, unregulated properties in regulated areas saw an increase in yields by about 14.7 percentage points, primarily due to significant rent hikes while sale prices remained stable.

3. Shift Toward High-End Developments:

- The policy inadvertently incentivized investments in new constructions and extensive renovations, which are exempt from rent control. This shift led to an increased supply of high-priced housing units, contributing to gentrification and reducing the availability of moderately priced living spaces.

Policy Implications

Unintended Consequences:

- The rent control measure may have exacerbated housing affordability issues by encouraging a market shift toward up-scale housing developments, thereby diminishing the stock of affordable units.

Need for Comprehensive Strategies:

- Policymakers should consider the broader market dynamics and potential spillover effects when designing rent control regulations. Complementary measures, such as promoting the construction of affordable housing and providing targeted subsidies, may be necessary to achieve desired affordability outcomes.

Relevance to Legislators

This study provides empirical evidence that rent control policies can have counterproductive effects, including reduced affordability and increased gentrification. Legislators should carefully evaluate these potential outcomes and consider integrated policy approaches to effectively address housing affordability challenges.



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