Rent Regulation: Common Myths and Misunderstandings

Exploring the Private Rental Sector Across Eleven European Countries

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Contents

Notes on the English Translation

This report is a translation of the original Swedish version, published in January 2024 by the Swedish Union of Tenants. Naturally, the content reflects, to some extent, the nature of the political debate in Sweden. Discussions surrounding rent regulation are likely to differ across countries, with varying focal points and perspectives. Nevertheless, we hope the report remains engaging for readers in other countries. During the translation process, the author made some minor changes to the content, primarily to clarify and condense the material.

The report uses the term “rent regulation” to translate the Swedish “hyresreglering.” We prefer “rent regulation” over “rent control” because it encompasses a broader concept, including not just rent level controls but also other aspects like security of tenure. Additionally, “rent control” is often used to describe systems with strict price ceilings, whereas here, rent regulation is viewed as a spectrum that can include both hard caps and various softer legal frameworks for setting and adjusting rents.

Throughout the report, therefore, the term “rent control” is primarily used to reflect other contributions to the debate or to specifically indicate rent level controls, possibly as part of a broader rent regulation. However, the terms “rent regulation” and “rent control” can in many cases be understood synonymously, as the report focuses primarily on how rents are set and adjusted.

Introduction

In the field of housing policy, few topics stir as much controversy and emotion as rent regulation. While opinions differ, the debate is generally marked by a negative view of rent regulation and its effects on the housing market.

Opponents argue that rent regulation stifles the rental sector by making it unprofitable to own and manage rental properties. This is believed to result in reduced appetite for investment, leading to lower new construction rates and a smaller rental sector. Additionally, rent regulation is associated with problems such as poor residential mobility, large-scale conversions to owner-occupied housing, and inefficient utilization of living space. This negative perception of rent regulation has gained traction in the general debate, largely because discussions are dominated by classical economic perspectives, where opposition to almost any form of rent regulation is widespread.

This report aims to provide a broader perspective and highlight aspects that are often overlooked. We argue that rent regulations are frequently blamed for shortcomings that are in fact linked to otherwise imbalanced and often underfunded housing policy. Moreover, the debate suffers from significant conceptual confusion. Much of the criticism of regulation is rooted in the experiences of wartime emergency measures, even though the regulations we see in Europe today bear little resemblance to these older models. Various forms of regulation are frequently lumped together without considering the significant diversity that exists.

With a bird's-eye view, we aim to improve understanding of what rent regulation is and how it functions in different contexts today. A central thesis of the report is that it is rarely the extent of rent regulation alone that determines whether a housing market is perceived as functional or not. Instead, the report emphasizes the importance of focusing on the overall picture and how different parts of the housing policy system interact.

Purpose and Structure

To investigate the role of rent regulation in the housing market, the report is divided into two parts. First, in introduces the concept of rent regulation, discussing the meaning of the term, various definitions, and how regulations have evolved over time. This section also briefly summarizes the state of research.

Second, the report presents five common claims about the negative consequences of rent regulation, along with an analysis of how eleven European countries perform in these areas. The goal is to compare countries based on their respective degrees of rent regulation, thereby examining whether there are any apparent links between regulation and outcomes.

The five claims are:

Rent regulation leads to...

- ... insufficient economic profitability for landlords.
- ... a smaller private rental sector.
- ... lower housing construction rates.
- ... inefficient utilization of living space.
- ... reduced residential mobility.

The final section summarizes the results.

Countries examined in the report are:

- Sweden
- Denmark
- Finland
- Switzerland
- Austria
- Germany
- The Netherlands
- Spain
- Italy
- France
- United Kingdom/England

The selection of countries is primarily based on the availability of necessary statistics. The geographic scope also means there are significant similarities in economic and cultural factors, enabling more relevant comparisons between countries.

The data used comes primarily from national statistical agencies and international organizations, as well as financial analysis firm MSCI.

Understanding Rent Regulation

The precise meaning of the term “rent regulation” is a constant source of confusion and misunderstanding. Some insist on a narrow interpretation, arguing that the term should only be used to describe systems where rents are subject to strict nominal caps, e.g. price ceilings.[1] According to this perspective, rent regulation has been abolished in most countries.

A broader interpretation could instead include different kinds of legislation directly or indirectly shaping how housing rents are set or adjusted. According to this definition, regulatory systems may vary substantially but are united by the presence of a distinct set of rules governing rental housing contracts, as opposed to those for other goods and services (Lind et al., 2018, p. 427).

To facilitate a comparison of countries with significant variation in the design and scope of rent regulation, this report adopts the broader interpretation. However, there is no definitive right or wrong way to define rent regulation; it can be defined both narrowly and broadly depending on the purpose.

Why Does Rent Regulation Exist?

The primary aim of rent regulation is to place the tenant-landlord relationship within a balanced legal framework. The justification for political intervention is that this relationship is otherwise typically characterized by significant asymmetries, where one party (the landlord) has more power, information, and a better market position (Haffner et al., 2008, p. 219; Whitehead & Williams, 2018, p. 8). This imbalance, in turn, stems from a combination of factors that make the housing market distinct from most other markets.

First, housing belongs to a particular category of goods, as it is tied to a fundamental human need. Everyone needs shelter, and as a result, it is rarely possible to forgo housing consumption. This simple fact significantly weakens tenants’ bargaining power. Second, the housing market is dependent on the supply of suitable land, which is limited, fixed, and immovable. Constraints on available land contribute to sluggishness in the market, meaning that the supply of housing reacts only slowly to variations in demand. This hinders effective competition and gives the housing market certain monopolistic characteristics.

In areas or cities with housing shortages, this means tenants’ choices are often severely limited, undermining their bargaining position. In many places, the rental sector can therefore be described as a perpetual “seller’s market,” where tenants may have to accept housing that doesn’t meet their needs or fit their

[1] In English, this would in most cases be referred to as ‘rent control’ rather than ‘rent regulation’. See notes on translation.

budgets. If rental housing is to be on par with owner-occupied housing, tenants must also be guaranteed a certain degree of security and stability.

Against this backdrop, many countries have introduced rent regulations that extend beyond consumer protection and contract laws that apply in other areas.

What Goals Should Rent Regulation Achieve?

Rent regulations can have various objectives depending on the economic, social and political context. Generally, three main purposes can be identified:

Stability in Times of Crisis: During periods of acute housing shortages, regulation might be introduced to prevent social and economic disorder. Unscrupulous landlords exploiting a crisis to dramatically raise rents could have far-reaching consequences for both housing provision and social cohesion. In such cases, the aim of regulation is to prevent landlords from capitalizing on extraordinary shortages (Kopsch, 2019, p. 9). These kinds of regulation are typically strict but temporary and have mostly been used in times of war.

Predictability and Security: Under more normal conditions, regulation aims to provide predictability and security in the rental sector. Moving is associated with high economic and social costs, making homes highly valued by their current occupants. This creates a risk of price discrimination, where landlords may exploit tenants' attachment to their homes by demanding rents no one else would pay (Kopsch, 2019, p. 7). More generally, limiting the number of involuntary moves is often seen as politically desirable. Modern regulations frequently limit landlords' ability to raise rents during ongoing contracts to address these concerns.

Social Sustainability: Some regulations have broader and perhaps more ambitious social goals. For instance, regulations may be designed to counter segregation and gentrification by preventing less affluent groups from being displaced when areas become more desirable (Lind, 2001). Regulations can also have an underlying redistributive dimension, aiming to mitigate housing related consequences of societal inequalities.

What Forms Can Rent Regulation Assume?

To achieve desired outcomes, rent regulation usually integrates several elements. Whitehead et al. (2012, p. 12) suggest there are at least three key components to consider: a) how initial rents and rent adjustments are determined, b) the degree of tenure security, and c) the mechanisms through which regulations are enforced.

If a regulatory system lacks any of these components, loopholes might render overall rent regulation ineffective. For example, tenant protections are easily undermined if landlords can evict tenants simply by raising rents, just as rent level controls are pointless without tenure security. Moreover, regulations must be applied consistently. Otherwise, tenants may choose not to file complaints against their landlords due to financial constraints and/or fear of repercussions.

The core element of rent regulation, however, is the question of whether – and how – rent levels are subject to some form of (political) control. As we shall see, rent levels can be regulated in various ways. Perhaps the most well-known account of how rent level control has evolved over time identifies three distinct generations. Many Western countries have gradually transitioned from first-generation to either second- or third-generation systems.

- **First-generation:** nominal cap on rent levels, i.e., frozen rents
- **Second-generation:** control of rent increases, between and during contracts
- **Third-generation:** control of rent increases, only during contracts

First-generation rent control imposes a strict, nominal cap on rents, with little regard for the landlord's immediate interests or other market consequences. This type of regulation has primarily been used in times of crisis and has historically been paired with rationing and other forms of public intervention. This form of regulation aims to protect households from the consequences of a completely imbalanced housing market. Today, first-generation rent controls are very rare (Gibb et al., 2022, pp. 13–14; Whitehead et al., 2012, p. 13).

Second- and third-generation rent controls also aim to protect tenants, but in a way that takes underlying economic factors into account (Gibb et al., 2022, p. 14). Rather than imposing nominal caps or strict limits on rent levels, the focus is on establishing a reliable framework for rent adjustments. More specifically, this may include restrictions on how often, by how much, and on what grounds rent can be increased.

In second-generation systems, all contracts are covered, whereas third-generation regulation applies only to ongoing contracts. The key difference, therefore, is that third-generation rent control does not limit rent levels for new contracts, except in cases of clearly excessive or usurious rents. Today, most rent regulations in Europe can be classified as either second- or third-generation (Kettunen & Ruonavaara, 2021).

Since modern regulations differ from first-generation rent controls in several key aspects, it would make sense to evaluate them separately (Arnott, 1995, p. 102). Unlike first-generation rent controls, which should mainly be seen as temporary crisis measures, the purpose of modern regulations is to balance the interests of both tenants and landlords in a way that is sustainable in the long term. Unfortunately, in political debates, different kinds of rent regulation are often grouped together without sufficient clarification.

Tools for Rent Regulation

The regulatory systems in use today differ both in terms of what is controlled and how the control is implemented. As described above, some regulatory systems primarily control the landlord's ability to change the rent level during an ongoing contract, while others include restrictions on rent levels for new contracts as well.

In ongoing contracts, rent increases can be controlled through index linking, collective bargaining, or by setting upper limits on how much or how often rent can be raised. The initial rent, i.e., the rent at the start of new contracts, can be controlled through comparisons with similar properties in the same area, utility-based assessments, or by limiting how much higher the rent can be compared to what the previous tenant paid. Another way to indirectly control the rent level is to link the rent to the landlord's actual operating and maintenance costs, by setting a cap on the return to which the landlord is entitled. Additionally, there are examples where rent levels are based on direct political decisions, although this is now rare.

It is important to emphasize that in practice, different principles are usually combined, and therefore it is rarely possible to point to a country-specific model. For example, many countries differentiate between subsidized and privately financed properties, or between new construction and older housing stock. This means that different forms of rent regulation often exist side by side.

Perspectives on Rent Regulation

Perhaps most notably in economics, rent regulation has been the subject of extensive debate.[2] Overall, economists show considerable consensus on the issue. Overviews (Jenkins, 2009) and survey studies ("Rent Control," 2012) indicate that a large majority of research contributions and economists are critical of rent control. Opposition has even been compared to an oath of office for economists (Metcalf, 2018, p. 66).

Very briefly put, the conventional view argues that rent regulation disrupts the dynamics of supply and demand, leading to supply shortages as fewer landlords can or are willing to offer housing at the regulated rent level. Incentives for upgrades and renovations also weaken if the landlord is not adequately compensated for investments. Moreover, it is considered problematic that under rent control, the person willing to pay the most – the one who values the individual property the most – does not necessarily gain access to it. Such misallocation is assumed to lead to negative side effects, such as lower mobility, poor use of living space, and black-market practices.[3] Many of the arguments cited above have, at least in part, been underpinned by empirical studies (Jenkins, 2009; K. Kholodilin, 2022).

At the same time, there is also criticism of what is considered an overly simplified view of rent regulation and its side effects. It has been pointed out that the complexity and peculiarities of the housing market are often underestimated, which can lead to incorrect conclusions about the effects of regulation, or that important political and social dimensions are overlooked (Hubert, 2003; Olsen, 1988). Furthermore, it has been argued that the empirical evidence against regulation mainly applies to first-generation rent controls and not necessarily to more modern variants (Arnott, 1995). To some extent, it is reasonable to believe that

2 With primary focus on rent level control.

3 For overviews of rent regulation debates and the 'conventional view', see for example Arnott (1995), Gibb et.al (2022), Jenkins (2009), Kholodilin (2022) Marsh et.al, (2023), Turner & Malpezzi (2003), Whitehead & Williams (2018).

today's regulations have "inherited" negative judgments from earlier generations and are not always assessed on their own merits.

Furthermore, modern rent regulations are perhaps better understood as attempts to correct specific market failures (Whitehead & Scanlon, 2014, p. 10), rather than as comprehensive housing policy solutions. In tight housing markets, the power and information asymmetry between tenants and landlords can be substantial, while tenants' transaction costs are high and their freedom of choice severely limited. Given this, the introduction of regulation is often seen as a way to help level the playing field in imperfect markets.

In other words, a large body of research is highly skeptical of rent regulation, particularly rent level control, arguing that the disadvantages outweigh the benefits. At least within the field of economics, this is undoubtedly the dominant perspective. At the same time, others argue that the criticisms mainly apply to first-generation rent control and not necessarily to modern regulation, where the results are more mixed. Additionally, some view rent regulations as justified or even necessary, given the peculiarities of the housing market and the structural problems that tenants often face.

Views on rent regulation thus depend on the assumptions made about the nature of housing and rental markets (Marsh et al., 2022, p. 8), as well as the consideration given to factors beyond the regulation itself (Whitehead & Scanlon, 2014).

Starting Points of the Survey

The main contribution of this report is a survey of how the private rental sector functions in eleven European countries, against the background of varying degrees of rent regulation. The aim is to investigate whether there is, at an overarching level, any clear connection between the degree of rent regulation and the functioning of the housing market. Five specific aspects are examined:

- The economic return on rental housing
- The size of the private rental sector
- The rate of housing construction
- The utilization of living space
- Mobility in the housing market

Before this, an estimate of the countries' degree of rent regulation is presented, along with a brief discussion of important limitations.

Degree of Rent Regulation in Studied Countries

Categorizing regimes of rent regulation in different countries is not an entirely straightforward task, due to both the complexity of national systems as well as the fact that rent regulation – like other legislation – is updated periodically. In other words, each country has its own unique (and constantly changing) combination of regulatory elements. Nevertheless, attempts at such comparisons have been made, and Table 1 summarizes four recent categorizations. The results show that researchers come to slightly different conclusions depending on which factors are weighted most heavily. However, there is also significant overlap.

For example, it is relatively uncontroversial that Finland and England/UK stand out due to their clear liberal profile in rent regulation. All categorizations assess that these two countries have the lowest degree of regulation. Here, market rents are the norm, and rental agreements are largely subject to direct negotiations between landlord and tenant. In England, landlords can also terminate contracts with few restrictions, and short contract durations are common (Kopsch, 2019). According to the research cited in Table 1, Italy also has a low level of regulation, at least regarding control of rent levels.

The remaining countries are somewhat harder to distinguish from one another due to different systems for rent regulation existing side by side.

In Sweden, for example, there are both utility-value rents and presumption rents, as well as separate regulations for subletting. It is also common for (privately financed) new construction to be exempt from regulations that apply to other parts of the private stock, as is the case in Denmark. In Germany, generally, only rent increases are controlled. However, since 2015, the so-called "rent brake" has been applied in tight rental markets, meaning that initial rent levels are also subject to some control. In Austria, rent regulation is highly complex and difficult to overview, with different systems for different parts of the stock, depending on the year of construction.

Table 1: Degree of Rent Regulation, Various Estimates.

	Whitehead et al (2012)	Kettunen & Ruonavaara (2021)	REMAIN[4] RL / RMRI		Inchauste et al (2018)[5]
Sweden	Medium	Second generation	0,5	0,5	14
Denmark	Medium	Second generation	0,67	0,46	13
Finland	Low	Free market	0,17	0,21	4
Switzerland	Medium	Third generation	0,33	0,42	N/A
Austria	N/A	Second generation	0,17	0,46	12
Germany	Medium	Third generation	0,5	0,5	N/A
The Netherlands	Strong	Second generation	N/A	N/A	11
Spain	Medium	Third generation	0,33	0,67	7
Italy	N/A	Free market	0,17	0,58	6
France	Medium	Second generation	0,33	0,67	8
United Kingdom	Low*	Free market*	0,17	0,21	4

* England

Against the background of previous research, Finland and England/UK seem to have the lowest level of regulation, followed by Italy. The remaining countries are assessed as having some form of control over rent levels, albeit to varying degrees. Ranking them is difficult, but it seems reasonable to assume that the Netherlands, Sweden, and Denmark have the highest level of regulation, followed by France and the German-speaking countries.

Against this background, we propose a simplified categorization:

- **Low:** England/UK, Finland, Italy
- **Medium:** Germany, Austria, Switzerland, France, Spain
- **High:** Sweden, Denmark, Netherlands

At the same time, it is important to again underscore that the degree of regulation can vary significantly across different parts of the stock, even within the same country.

Limitations

This report should not be seen as a contribution to, or extension of, academic research. Measuring and estimating the consequences of specific rent regulations typically requires extensive research, well-defined research questions, and a

[4] Research project at the DIW Berlin and IRE|BS University of Regensburg. https://www.remain-data.org/ [Last retrieved on 2023-09-05]. Scale, 0 - 1. RL = index for rent level control, RMRI = broader rental market index that considers tenancy protection.

[5] Scale, 0 – 16.

strong focus on identifying and excluding confounding factors. This goes beyond the scope of the report.

Instead, what the report aims to provide is a descriptive survey of how different countries perform in various areas, against the background of their respective degree of rent regulation. The report thus focuses on the big picture. Also, the fact that five areas and eleven countries are examined, inevitably means that it is not possible to delve into every single detail.

At the same time, it is precisely at this overarching level that much of the political debate takes place. Objections to rent regulation are often presented as definitive, self-evident truths, without much nuance or empirical grounding. The purpose of the report is to investigate whether there is any basis for such categorical statements when broader housing policy context is considered.

Survey

#1 Landlord Profits

Property owners incur costs for both the operation and maintenance of their properties. In many cases, landlords also finance the construction or acquisition of new properties. To cover these costs, property owners depend on sufficient revenue in the form of rental payments. If rent levels are subject to some form of control, critics claim it becomes more difficult to cover costs and generate returns on invested capital. However, evaluating and comparing landlords' ability to achieve profitability presents several challenges.

First, there are many kinds of landlords, with completely different business models, time horizons, and expectations regarding financial returns. Furthermore, the capital-intensive business of owning and managing rental properties is intimately intertwined with developments in capital markets and changes in monetary policy. High debt levels and rapidly fluctuating market values mean that many factors, beyond just day-to-day operations, influence profitability.

In this survey, we limit ourselves mainly to two key metrics, which are both widely accepted and frequently used in real estate analyses:

- ***Direct return*** = *Operating net income as % of capital employed*
- ***Total return*** = *Operating net income + change in value as % of capital employed*

Additionally, a brief discussion on the relationship between different kinds of economic return is included. The survey is not an exhaustive analysis of how profitable or unprofitable it is to be a landlord. The aim, rather, is to explore whether differences in rent regulation seem to lead to any obvious differences in landlords' economic conditions.

Revenue, Surplus Rate, and Capital Value

A fundamental condition for profitability is a positive operating net income, meaning that rental income exceeds ongoing costs for operation and maintenance. The operating net income can then be related to total rental income, to determine the operating surplus rate. A property owner with large rental income and low operational costs will have a high operating surplus rate, and vice versa. Using data from MSCI, it is possible to calculate the operating surplus rate for six of the eleven countries studied in this report. In 2022, the average rate was 73%.[6][7] The differences between countries are small, except for Sweden, which stands out with a significantly lower operating surplus rate (56%).

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[6] Denmark, France, Germany, the Netherlands, Sweden and Switzerland.

[7] The data from MSCI includes long time series of performance metrics for the rental housing sectors in various countries. Common standards and methods make the data comparable across countries. However, there are limitations to consider: the number of analyzed companies differs significantly, and they do not necessarily represent a cross-section of all landlords in each country.

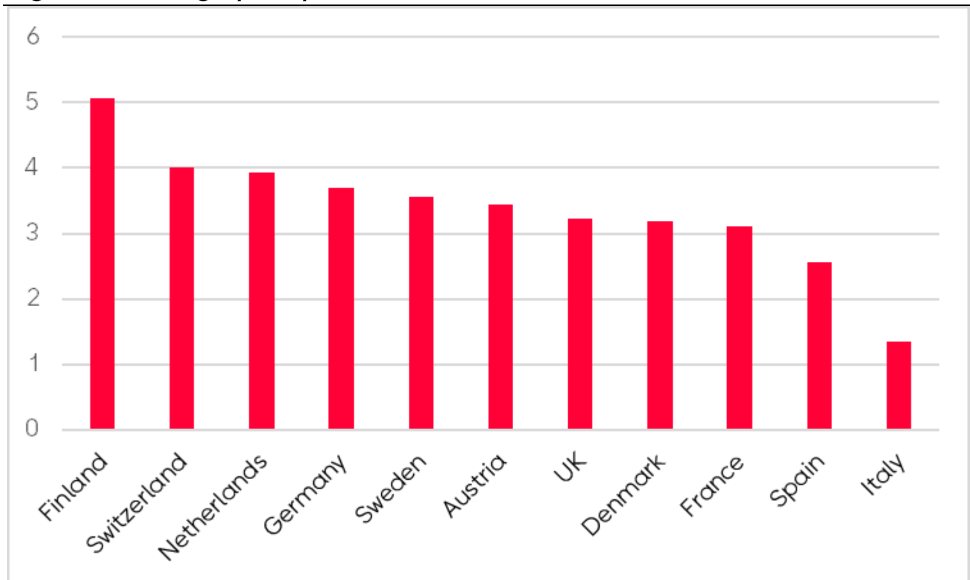
Operating net income (and surplus rate) is assumed to have a significant impact on property values. The more money a property can, and is expected to generate, the higher its market value will be—everything else being equal. According to MSCI data, the highest market values are found in Switzerland and France, with Sweden at opposite end of the list. The price per square meter in Sweden is approximately 40% lower than the average for the selected countries, which could reflect lower net operating income. The connection between earning capacity and asset prices is key to understanding dynamics of real estate markets.

Direct Return

The relationship between operating net income and capital employed, is called direct return.[8] This metric is often included in real estate analyses, as it can be used to value properties, or conversely, to establish necessary rent levels for a specific investment. Direct return is also an important indicator of risk. The higher the risk or uncertainty, the greater the returns demanded by investors.

Compared to other asset classes, real estate—especially residential property—is considered a stable and secure investment with the possibility of future capital appreciation. In other words, investors are usually willing to pay relatively high prices in relation to the income generated. This is reflected in comparatively low levels of direct return. Returns are generally lowest in central, highly sought-after areas, while they can be considerably higher in peripheral, or low-demand areas.

Figure 1: Average yearly direct return, 2000 – 2022.



Source: MSCI. Data for single years are missing for Switzerland, Austria, Spain and Italy

Figure 1 presents the average direct return during the period 2000-2022. The data confirms the image of residential properties as relatively low-yielding assets, with direct return ranging between 1.4% and 5.1%. The countries that stand out are Finland and Italy, which have the highest and lowest direct returns,

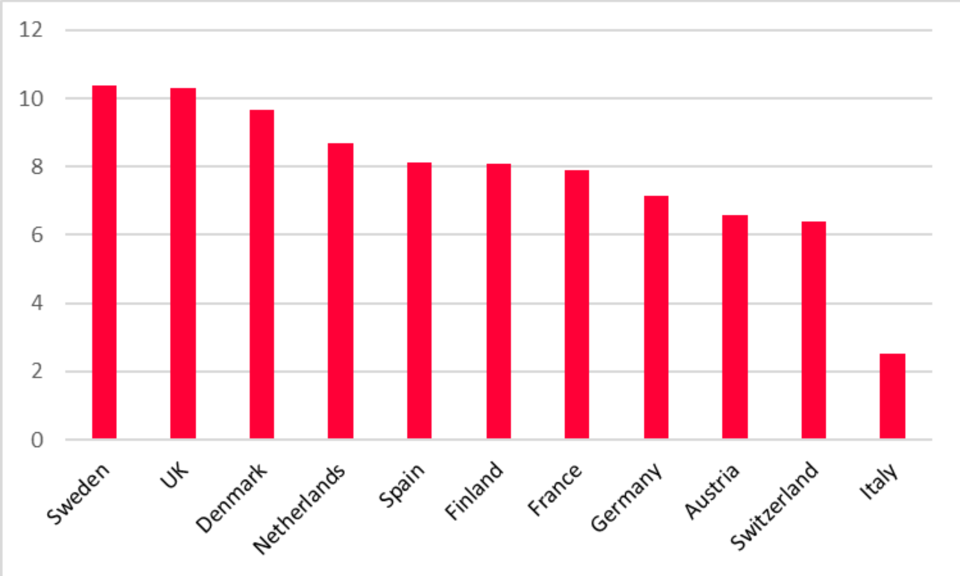
[8] Or “income return”

respectively. In other countries, levels of direct return are relatively similar, averaging between 2.6 and 4%.

Total return

Total return is a measure that combines direct return with value change. Normally, it is significantly higher than the direct return, but also fluctuates strongly. Figure 2 summarizes average total return for the countries' rental sectors during the period 2000 to 2022.

Figure 2: Average yearly total return 2000 – 2022.



Source: MSCI. Data for single years are missing for Switzerland, Austria, Spain and Italy

Over the last few decades, real estate, along with other financial and real assets, has experienced significant value increases in most countries. This trend is largely a consequence of expansive monetary policies and ongoing urbanization. As a result, many of the countries studied here have seen high levels of average total return in their respective private rental sectors.

Sweden and the United Kingdom have the highest average total returns, closely followed by Denmark and the Netherlands. Italy is the only outlier, exhibiting much lower levels of total return. However, the differences between countries are generally so small that no far-reaching conclusions can be drawn.

Summary

The data presented does not indicate a clear connection between the level of rent regulation and economic profitability in the rental sector. Looking at metrics such as direct or total return, it is difficult to find patterns that clearly correspond to differences in rent regulation. The outcome in two countries can be similar, despite entirely different regulatory systems, and vice versa. There are many reasons for this, but two explanations are often overlooked in the debate surrounding rent regulation.

First, modern regulations are not as strict as sometimes claimed. In Europe today, landlords almost always have the right to set rents that generate operating surpluses. In newly built properties, where (financial) costs are highest, restrictions on rent levels are either non-applicable or relatively lenient, precisely to avoid discouraging investment. In other words, today's rent regulations are designed to take landlords' economic conditions into account. The idea that rent regulation alone makes it financially unviable to be a landlord, is rarely accurate.

Second, the levels of return can be seen as the market's assessment of how the operating earning potential relates to other factors, such as risk. If there is a sufficient operating surplus, rent levels alone don't tell us much about profitability, as market values (i.e., the price paid to enter the market) reflect expected revenues. The higher the rents and the operating surplus, the higher the price of the asset (property), and ultimately, the cost of financing. This is the main reason why levels of return are similar in most countries, despite differences in regulatory context (and rent levels). Significant differences are not found at an aggregate level, but rather between different locations and property types within countries.

It should be noted, however, that the introduction or adjustment of rent regulation might negatively impact profitability for actors with unfavorable market timing. If the financing costs for a property are suddenly no longer matched by the property's operating income, the profitability decreases. On the other hand, these changes should, with some delay, translate into lower prices and a stabilization of returns.

It should be emphasized that the data presented here cannot provide a comprehensive description of profitability in the sector. Additionally, there are methodological challenges that make it difficult to draw far-reaching conclusions. However, the idea that (modern) rent regulation inherently leads to poor profitability for landlords is a simplification, contradicted by the strong interest from investors in rental properties also in regulated markets.

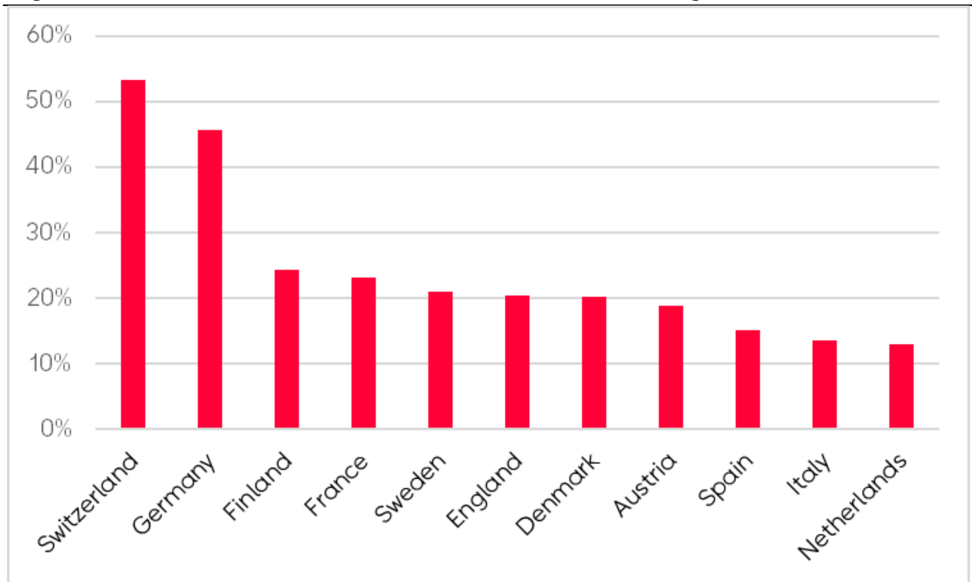
#2 Size of Private Rental Sector

It is commonly argued that rent regulation leads to a reduction in the supply of private rental housing. According to this view, regulation limits the ability to cover costs and achieve sufficient returns, thereby scaring off potential landlords and investors. Several empirical studies on the subject have indeed found a connection between regulation and a shrinking supply (Diamond et al., 2019; K. Kholodilin, 2022). At the same time, rent regulation is just one of many factors shaping the private rental sector. Some countries combine extensive regulation with a large private rental sector, while the opposite is true in others.

Size of the Private Rental Sector in the Studied Countries

Figure 3 summarizes the share of private rental in relation to the total housing stock.[9] In the Netherlands, Italy, and Spain, the private rental sector makes up around 15% of the stock, compared to 45% in Germany, and over 50% in Switzerland. Six of the countries fall within a narrow range of five percentage points (19 – 24%).

Figure 3: Private rental sector as share of the housing market (2023*).



Source: National statistical authorities, as well as own calculations. See appendix.
* = or latest available year.

From a broader perspective, no clear pattern supports the claim that stricter regulation leads to fewer private rental properties. Finland, England, and Italy are assessed as having the lowest level of regulation yet occupy completely different positions in this ranking. Sweden, with one of the higher levels of regulation, places in the upper half, while the Netherlands, also highly regulated, has the smallest private rental sector of all. Switzerland and Germany, with medium levels of regulation, have by far the largest private rental sectors.

[9] The private rental sector is defined as housing that: a) is not owned or directly subsidized by the public sector, and b) is managed on some kind of for-profit basis.

Trends Over Time and Current Developments

Since the financial crisis of 2008/2009, many European countries have seen a trend toward larger private rental sectors. Several societal changes likely contribute to this growth. For example, escalating property prices have excluded many households from homeownership (Hochstenbach & Aalbers, 2023; Kohl, 2018), thereby concentrating housing assets among more affluent groups in society. Simultaneously, international capital has sought secure returns from rental properties during a period of historically low interest rates.

Additionally, a rising number of students and strong urban migration may drive the expansion of rental sectors (Whitehead et al., 2016). In some countries, public or social housing has also been transferred to the private sector, often for ideological reasons. Thus, developments in the private rental market must be viewed within the context of broader housing market trends.

Summary

Overall, the level of rent regulation does not appear to be a decisive factor in the size of the private rental sector. Significant differences between countries, with no clear link to the extent of regulation, indicate that other factors also play a critical role in shaping the private rental market. For instance, Sweden's private rental sector is considerably larger than the Netherlands', even though both countries are seen as having a high degree of rent regulation. Similarly, among countries with low regulation levels, outcomes vary widely—Finland and England have relatively large sectors, while Italy's private rental market constitutes only a small portion of its overall housing market.

A 2012 study reached similar conclusions, finding that higher levels of rent regulation are not necessarily associated with smaller private rental sectors. Instead, the balance of various interests and broader market conditions seem to be more important (Whitehead et al., 2012). Kopsch's (2019, p. 37) reasoning about the non-linear effects of rent regulation on the size of private rental sectors supports this idea. Excessively strict regulation risks making the sector unattractive to landlords, while a lack of regulation may deter tenants. According to this hypothesis, countries with balanced rent regulation would likely have the largest private rental sectors—possibly explaining the size of rental markets in Switzerland and Germany.

#3 Housing Construction

Critics of rent regulation point out that it stifles housing construction. In line with discussions above, the claim is that limitations on rent levels and/or future rent increases make it difficult for investors to cover costs and generate a return on invested capital, thereby disincentivizing housing construction. However, in practice there are several difficulties in testing the validity of this claim.

In most cases, new construction is exempt from rent level controls, and regulation often coincides with other housing policy measures, aimed at increasing construction (K. A. Kholodilin & Kohl, 2023). Furthermore, it is in some cases difficult to determine what constitutes a (private) rental property, as the form of tenure is rarely registered in the construction statistics. Despite these difficulties, it is interesting to chart the construction rates in the different countries, not least since the claim appears frequently in debates about rent regulation.

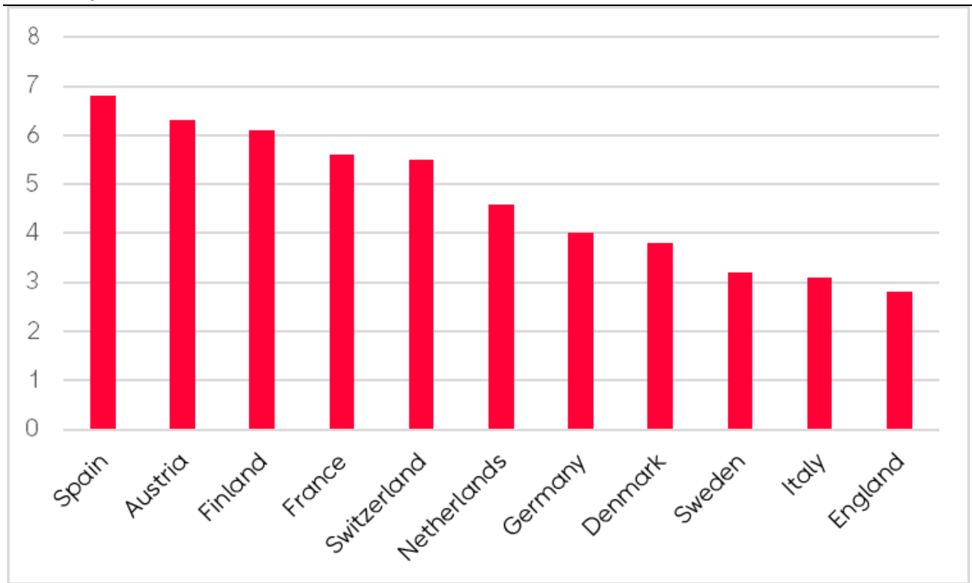
Construction Rates in the Studied Countries

The European Central Bank (ECB) publishes statistics on the number of completed housing units, allowing for direct comparisons between countries. A significant limitation that again must be emphasized is that it is not possible to break down the housing by tenure type. This means that it is often not possible to determine what proportion of new construction is rental housing.[10]

Figure 4 summarizes the average number of completed housing units per thousand inhabitants and annum, between 1991 and 2021.

[10] It is worth noting that the strict distinction between different forms of tenure is not always useful. In some countries, tenure status is not tied to the physical property itself but rather depends on how the property is used at different times.

Figure 4: Average number of completed housing units per thousand inhabitants per annum, 1991 to 2021.



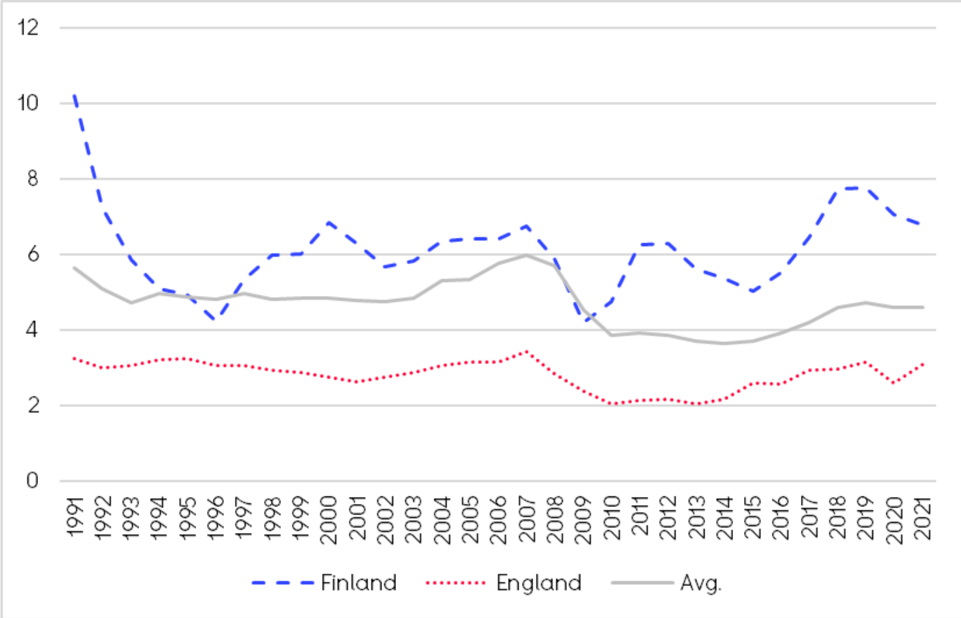
Source: ECB; Office for National Statistics; Bundesamt für Statistik, as well as own calculations.

Except for Spain, which is somewhat of a special case, Austria and Finland exhibit the highest construction rates.[11] Housing construction output in these countries also remain high and stable over time. Sweden, Italy, and England occupy the positions at the opposite end, with significantly lower levels of housing construction.

In these results, it is difficult to identify any clear correlation between the rate of new housing construction and the degree of regulation. Finland and England place on opposing ends, with Finland overperforming and England underperforming, despite sharing a liberal rent regulation. Other countries also perform in ways that do not seem to align with their respective levels of regulation.

[11] In the case of Spain, the overall result is explained by the real estate bubble that inflated in the years leading up to the financial crisis of 2008/9, when an enormous number of homes were built in a short period of time. Since then, new housing production has instead been among the lowest of countries studied here.

Figure 5: Number of completed housing units per thousand inhabitants per annum. England and Finland.



Source: ECB; Office for National Statistics, as well as own calculations.

Subsidies

The difficulty of building high-quality housing, that is simultaneously affordable enough to be demanded by broader groups, is a well-known dilemma. It is reasonable to assume that the rate of new construction, therefore, is also partially related to the existence (or non-existence) of public subsidy schemes. Most countries use some form of supply-side subsidy to produce housing at reasonable prices, and to maintain a more stable pace across economic cycles.

In Finland and Austria, the proportion of subsidized housing is often between 15 and 30 percent of total annual new construction, which corresponds to about 1.5 houses per 1,000 inhabitants. In England, the proportion of construction receiving some form of subsidy is also relatively large but should be seen in light of a lower overall production rate. Demand-side subsidies can also influence housing construction, at least marginally. Countries like the United Kingdom and Finland invest significant resources in housing benefits for households, while such support systems are considerably smaller in countries like Sweden or Austria (OECD, 2021b).

Summary

At first glance, a country's degree of rent regulation does not seem to have an obvious connection to the rate of new construction. However, this is for various reasons difficult to measure. In most countries, it is not possible to distinguish between owner-occupied and rental housing in construction statistics, making it difficult to draw far-reaching conclusions about the effects of rent regulation. Furthermore, most countries have special rules that allow for significantly higher rents in newly built housing.

In most cases, therefore, the impact of rent regulation on housing construction is overshadowed by a complex interplay of other factors. Demographics, household purchasing power, subsidies, planning system design, and housing policy orientation likely influence housing construction to a much greater degree. In other words, it is difficult to know how (modern) rent regulation impacts new construction in practice, but the effects are probably not as significant as sometimes claimed (K. Kholodilin, 2022; K. A. Kholodilin & Kohl, 2023).

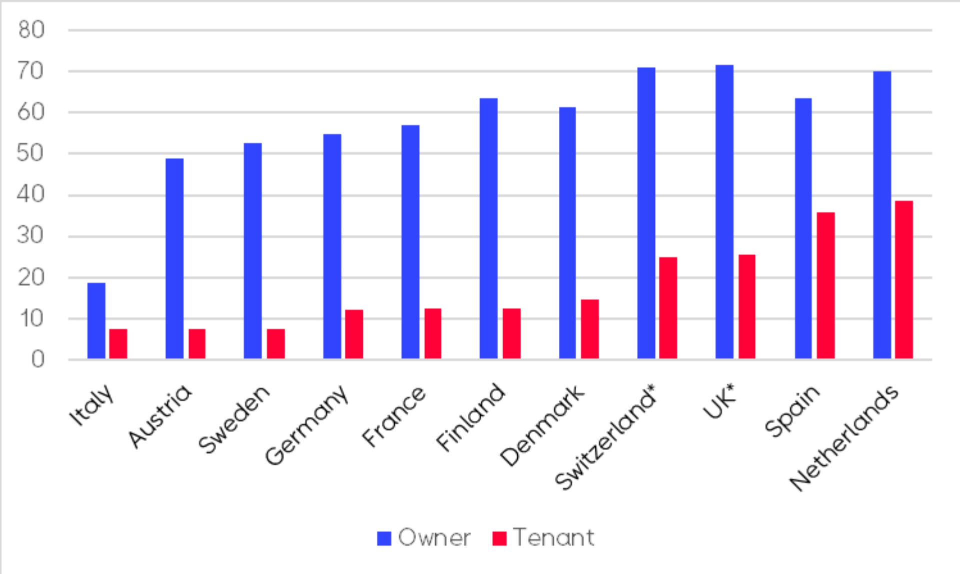
#4 Housing Consumption

Another criticism of rent regulation is that it leads to poor utilization of living space. Tenants who pay a sub-market rent are considered to have weak incentives to adjust their housing consumption to actual needs. In short, rent regulation is thought to encourage tenants to overconsume living space by living in a flat or house that is "too big" for the household, since such overconsumption is not fully reflected in the price paid. According to this view, poor utilization of living space should be a bigger problem in countries with a high degree of regulation than in countries with a low degree of regulation.

"Under-occupied" Housing in the Examined Countries

One measure that Eurostat uses to examine the utilization of living space is the proportion of households living in "under-occupied" dwellings. The data is collected through surveys and aims to capture the proportion of households that are considered to live in large homes, i.e., with (too) many rooms relative to the number of inhabitants.[12]

Figure 6: Share of population in "under-occupied" housing, by tenure type (2022).

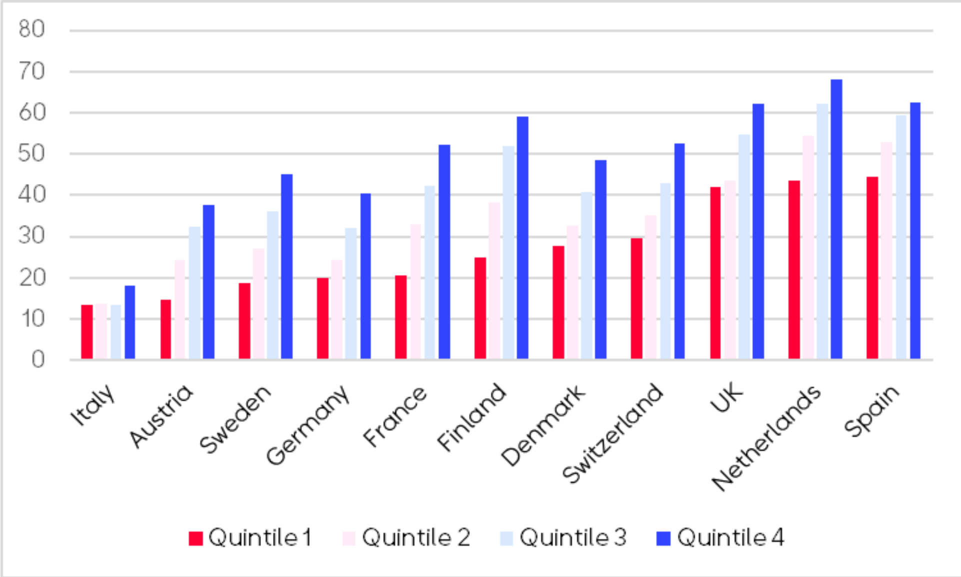


Source: Eurostat. * = 2018

In the Netherlands, nearly 40 percent of tenants live in under-occupied dwellings, compared to about 7 percent in Italy. The average for all countries is 18 percent. There doesn't seem to be any clear connection to the degree of rent regulation. For example, the United Kingdom has a relatively high share, while Sweden has very low share. Furthermore, there is a significant difference between rented and owner-occupied housing. The proportion of those consuming "too much" housing, is much smaller among tenants than homeowners.

[12] Eurostat definitions, see https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Under-occupied_dwelling

Figure 7: Share of population in "under-occupied" housing, by income distribution (2022).



Source: Eurostat. * = 2018

As Figure 7 shows, there appears to be a clear connection between income and the utilization of living space: the higher the income, the greater the likelihood that the household lives in a spacious home. This pattern is repeated across all countries, but with some differences within the sample. In some countries, the differences between low- and high-income households are quite small, while in others, they are very clear.

Summary

The idea that rent regulation leads to poor utilization of living space cannot explain the differences that exist between countries at an aggregate level. Variables that are likely of greater importance include household income levels and the distribution of housing types (e.g. share of houses vs. apartments in housing stock). These factors also interact to create the divide between owned and rented homes, where the statistics show that households in the former category generally live in larger homes.

Furthermore, the core of the statement that tenants in regulated apartments pay "too little" and thus consume "too much" can be challenged. Even in countries with relatively comprehensive regulation, ongoing costs for rented housing are often higher than for owned homes. This is especially true in cases where the home purchase was made some time ago, as both inflation and mortgage payments have likely made interest costs more manageable over time. In rented housing, costs tend to follow inflation, making the "discount" of living long-term in the home significantly smaller.

#5 Residential Mobility

Rent regulation is also commonly pointed out as an obstacle to residential mobility. According to this perspective, regulation leads to misallocation of housing, which in turn "locks in" certain tenants at the expense of other housing seekers. However, it is difficult to define what constitutes a "good" level of mobility. Low residential mobility can cause significant problems for labor markets if workers struggle to find housing in areas where jobs are available. On the other hand, excessively high mobility is also problematic, as it might indicate insecure housing conditions and difficulties in finding suitable housing (OECD, 2021a, p. 110).

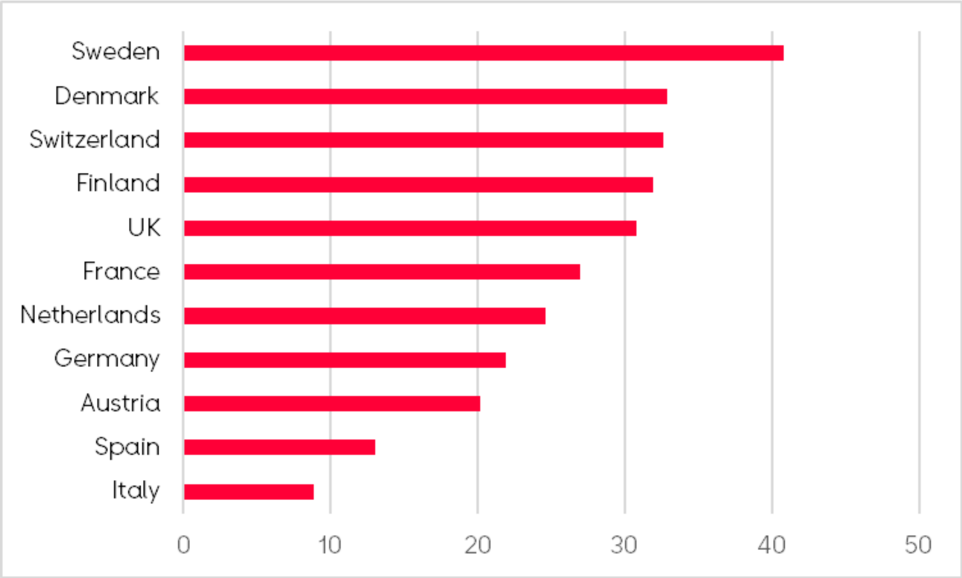
Furthermore, measuring mobility accurately is challenging. Two possible alternatives are the number of individual moves (individual mobility) and the number of properties and contracts that change hands (contract mobility). The measure used primarily depends on the availability data, but in either case, the number of undocumented moves is likely extensive (Bengtsson, 2022, pp. 6–7).

Residential Mobility in the Examined Countries

In international comparisons, it is almost always individual mobility that is measured, i.e., the general migration patterns of the population. International organizations such as the OECD and the World Bank have studied mobility in several reports over the past years (Caldera Sánchez & Andrews, 2011; Causa & Pichelmann, 2020; Inchauste et al., 2018; OECD, 2021a). The general view is that mobility in the housing market is affected by a range of factors.

For example, mobility is consistently higher in rented housing than in owned housing, just as it is higher among the young than among the elderly. Furthermore, high transaction costs, inefficient land policy, low new construction rates, as well as rent regulation appear to have a negative effect on mobility. A frequently cited data source in this context is Eurostat's survey from 2012, where respondents in all member states were asked if they had moved at any point in the last five years.

Figure 8: Share of population having moved to other dwelling within the last five-year period (2012).



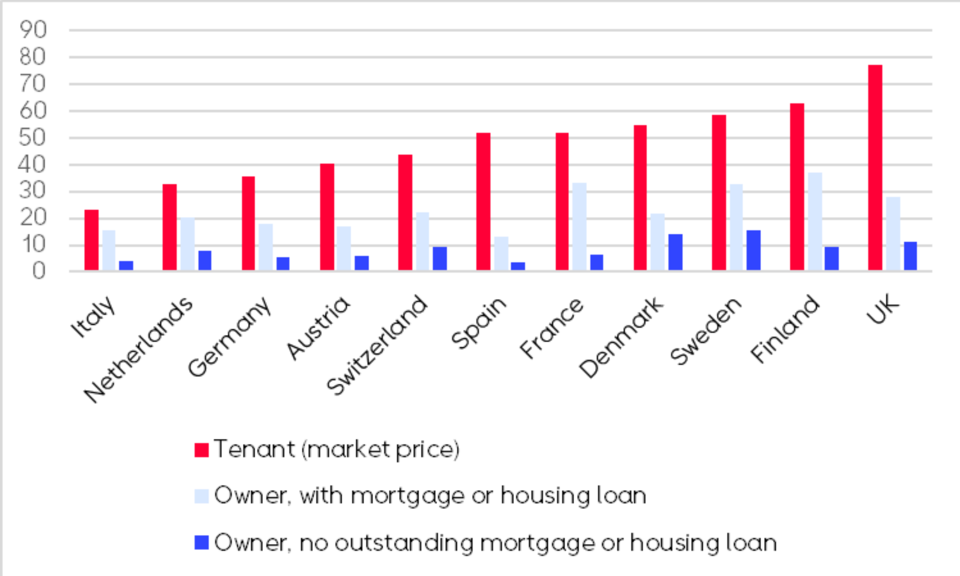
Source: Eurostat

According to this measure, residential mobility is highest in Sweden, followed by Denmark, Switzerland, and Finland. The differences between countries are significant, ranging from over 40 percent in Sweden, to less than 9 percent in Italy. Nordic mobility rates are considered high also in a global comparison (Causa & Pichelmann, 2020, p. 6).

Another factor with a seemingly clear impact on residential mobility is tenure status. Figure 9 shows residential mobility for tenants (market rent) and homeowners respectively.[13] Homeowners are placed in different categories, based on whether they have outstanding mortgages or not.

[13] The term "market price" should not be understood as absence of any rent regulation. Rather, the definition aims at distinguishing between social housing and regular rental markets, where there are varying degrees of rent regulation. For more information, see Eurostat methodological guidelines.

Figure 9: Share of population having moved to other dwelling within the last five-year period, by tenure type (2012).



Source: Eurostat

First, residential mobility is significantly higher among tenants than homeowners. The lowest residential mobility rates are found among households that own their home without any outstanding mortgages. Looking at rented housing only, UK and Finland rise to the top. This can be seen as an indication that a deregulated rental market leads to higher mobility. On the other hand, Sweden also shows high mobility in this category, as does Denmark.

Summary

Overall residential mobility is seemingly highest in Sweden, followed by Denmark, Switzerland, and Finland. While rent regulation is generally associated with lower mobility, both Sweden and Denmark exhibit high mobility levels, which is a rarely noted contradiction. Looking at the rental sector only, more deregulated markets like those in the UK and Finland seem to have the highest mobility, albeit followed closely by Sweden and Denmark.

At an aggregated level, it is difficult to see any direct link between residential mobility and the degree of rent regulation. Correlations between rent regulation and mobility have been observed in other reports, but the connection is likely not definitive. A high degree of rent regulation does not necessarily correlate with low mobility, or vice versa.

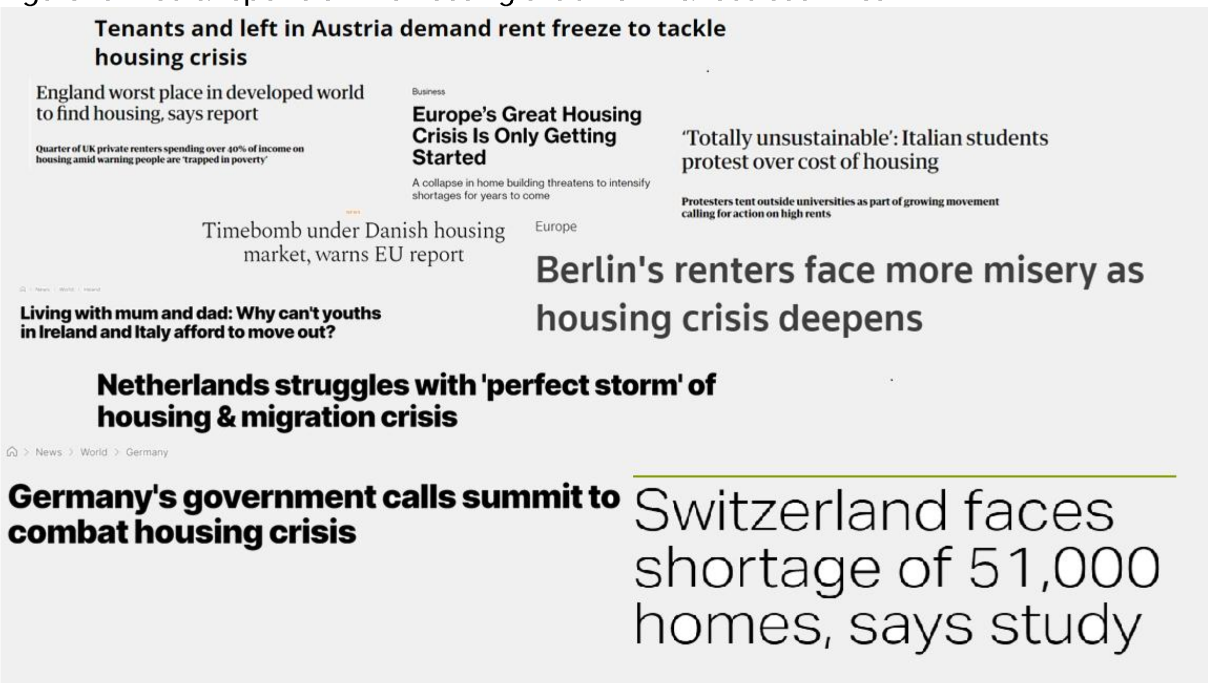
A plausible conclusion is that rent regulation is just one of many factors that influence residential mobility. Demographics, cultural norms, access to higher education, economic conditions, and the pace of housing production are all aspects that can be assumed to affect mobility. The combination of different factors can also explain why some countries – like Sweden – have high mobility despite high levels of rent regulation (Inchauste et al., 2018, p. 94).

Widespread Housing Dissatisfaction

So far, this report has provided a comparative analysis of eleven European countries, highlighting significant differences in terms of rent regulation and specific housing market outcomes. However, it should also be noted that, at present, most European housing markets have one thing in common: in areas of high demand, they generally function poorly and are perceived by residents as broken. A combination of globalization, urbanization, financial deregulation, and insufficient housing construction has led to overheated housing markets in most major cities worldwide. Increased competition for housing hits low-income households particularly hard, as the shortage primarily concerns affordable housing.

This trend is confirmed by survey data from the European Commission, showing that large majorities of respondents find it difficult to secure good housing at reasonable prices.[14] In the eleven capital cities, the average proportion is as high as 80 percent. The situation is perceived as most challenging in Stockholm (90 percent), closely followed by Paris (89 percent), Helsinki and Amsterdam (87 percent), and Copenhagen (86 percent). The lowest proportions are found in Vienna (76 percent), Rome (70 percent), and Madrid (42 percent) (European Commission, 2020).

Figure 10: Media reports on the housing crisis from various countries



In the rental sector, regulation neither creates nor resolves the underlying problem, but it can influence how the crisis manifests. Simply put, an imbalance between supply and demand typically leads to either rising rents or long waiting

[14] Respondents were asked to evaluate the statement, "It is easy to find good housing in my city." The response options were "strongly disagree," "somewhat disagree," "somewhat agree," or "strongly agree." The figures presented above represent the European Commission's aggregation of the first two response categories.

lists and other accessibility issues. Tight housing markets usually display a combination of both: rapidly increasing rental levels and intensified competition for affordable housing.

Frustration with the situation can lead to calls for either more or less regulation, depending on the starting point. In Sweden, for example, the collective bargaining system is by some seen as the obvious culprit, prompting recurring demands for its abolition. Conversely, in countries with more deregulated rental sectors, there are often campaigns advocating for stronger rent controls.

One of the most notable examples of this is Berlin. As a complement to the so-called rent brake (Mietpreisbremse) introduced in Germany in 2015, the Berlin House of Representatives decided five years later to implement a rent cap (Mietendeckel). This policy froze, or even lowered, rents in certain segments of the housing stock.[15] Similarly, in London, discussions about the introduction of some form of rent control have gained traction to curb an unaffordable increase in housing costs for many households, with Mayor Sadiq Khan as a notable proponent.

The findings presented in this report should therefore be viewed in the context of growing dissatisfaction with the housing market situation in most major cities, regardless of the degree of regulation. This is simply because households are adversely affected by the strained situation in any case, albeit in different ways and to varying degrees. The notion that deregulated markets, by themselves, would generate an adequate and sustainable supply of quality, affordable housing is unlikely.

[15] The law was later invalidated by the Federal Constitutional Court.

Summary

This report begins by posing the question: What is rent regulation, and why does it exist?

It argues that rent regulation should be seen as a political response to structural imbalances in the relationship between tenants and landlords, with the latter holding more power and a stronger market position. Despite this common foundation, different regulations serve different purposes. Some systems of rent regulation are introduced as emergency measures in times of crisis, while others aim to provide greater security and stability for both parties. These aspects determine the "generation" of a given type of regulation. Furthermore, the tools employed vary between countries, leading to a range of different approaches.

The report also delves into academic discussions surrounding rent regulation, highlighting areas of disagreement. The traditional economics perspective, which is highly skeptical of rent regulation, has dominated the debate for a long time. Proponents of this perspective argue that the disadvantages simply outweigh the advantages. Meanwhile, other researchers contend that the traditional economic perspective is too narrow, and that the results largely depend on assumptions made regarding the nature of housing markets.

The purpose of this report is not to evaluate or build upon the extensive body of existing research in detail. Instead, its primary contribution is a descriptive survey of how eleven European countries, with varying levels of regulation, perform across five areas where rent regulation is often considered problematic. The report seeks to illustrate how easy it is to overstate the effects of rent regulation on the overall functioning of housing markets.

The five claims examined in the report are,

rent regulation leads to:

- **… insufficient profitability for landlords:**
  The report shows some notable differences in direct and total returns across countries' rental housing sectors. These differences, however, should not primarily be interpreted as results of varying levels of rent regulation. Some countries with similar regulatory systems exhibit very different levels of return, and vice versa. Moreover, profitability is a complex concept, with levels of return ultimately determined by market assessments of a range of different factors. Rent regulation, at least in its modern form, plays a comparably minor role and the demand for housing assets is strong also on more regulated markets.

- **… a smaller private rental sector:**
  The report shows that the largest private rental sectors are found in Switzerland and Germany, both of which have a medium degree of regulation. In addition, there is a group of countries with roughly equally large sectors, despite entirely different regulatory systems. If rent regulation is not too extreme in either direction, other aspects—such as population preferences,

conditions for other types of housing, and overall housing policy—are likely more important determinants for the size of the private rental sector.

- **… lower rates of new construction:**
  Levels of housing construction vary greatly between countries. However, two factors complicate any evaluation against the background of rent regulation. First, there is no specific data on the number of rental properties, only on total new construction. Second, new housing is often subject to different, and usually much more lenient, regulations than existing stock. In any case, it seems reasonable to conclude that, in Europe today, the specific level of regulation does not determine whether new construction is high or low. At the same time, it is obvious that overly strict rent controls would have negative effects, which is why most countries have more flexible rules for new construction.

- **… less efficient use of living space:**
  The report maps the proportion of households that could be said to have excess space, i.e., more rooms than needed. The data indicates that the level of rent regulation is likely less significant than factors such as the structure of the housing stock or household income levels. The main distinction is not between deregulated and regulated rental sectors but between owner-occupied and rented housing. The proportion of households with high space standards is consistently higher for homeowners than tenants, likely due to an overrepresentation of high-income households among the former.

- **… lower mobility in the housing market:**
  The report presents statistics showing that the highest overall residential mobility is observed in Sweden, followed by Denmark and Switzerland. Within the private rental sector only, the highest mobility is in the United Kingdom and Finland. This is consistent with the claim that mobility is higher where regulation is lower. However, it is again difficult to draw definitive conclusions, as several countries with high levels of regulation also demonstrate high mobility.

In summary, the report illustrates the difficulty in identifying patterns based solely on the level of regulation – at least in the aggregate. This should not be interpreted as suggesting that rent regulation never has (negative) housing policy consequences. Rather, the conclusion is that the role of rent regulation within the context of broader housing policy is often overestimated. To some extent, this may stem from confusion about the different forms of rent regulation. The regulatory systems in place in Europe today constitute relatively minor interventions, compared to its "first-generation" ancestors. Their impact on the housing market is in many cases simply overshadowed by other factors.

Final Discussion and Reflections

The central message of this report is neither that rent regulation is insignificant, nor that there is no valid criticism against it. The report does not argue that additional regulation necessarily leads to better outcomes either. In fact, rent regulations can be associated with both dysfunctional and well-functioning housing markets. It is also worth noting that rent regulations are often implemented precisely in situations where the (unregulated) housing market fails to meet society's needs and expectations. Ultimately, the choice between more or less regulation is primarily a matter of perspective, as any change risks creating both winners and losers.

What the report wants to emphasize is that the specific extent of rent regulation rarely determines whether a housing market is perceived as well-functioning or not. If the regulation is not too extreme in either direction, the broader housing policy context appears to be of significantly greater importance.

Rent Regulation Comes in Different Shapes: The report highlights the great diversity hidden behind the concept of rent regulation. Regulations can have different purposes and goals, and there are also significant differences in the tools employed. What most modern regulations share, however, is an attempt to balance various interests to create a rental sector that is attractive for both tenants and landlords. Unfortunately, this diversity has not been reflected in the debate about rent regulation. Instead, stereotypical arguments are repeatedly presented without much consideration for the evolution of rent regulation over time. The political debate would benefit from more nuance.

Despite Criticism, Rent Regulation Is Here to Stay: Most Western European countries apply some form of rent regulation despite persistent criticism, particularly from economists. Several countries have even moved toward stricter regulations in recent years, driven by widespread dissatisfaction with dysfunctional housing markets. In other words, critics have not succeeded in convincing either policymakers or the public. To some extent, this is because tenants do not necessarily share economists' views on what constitutes a well-functioning rental sector (see below). Furthermore, rent regulation is politically attractive, due to its low immediate costs. While politically acceptable and socially sustainable solutions can certainly be found even with minimal regulation, achieving this requires significant housing policy efforts and interventions elsewhere.

Rent Regulation Shapes the Housing Market and Its Actors: One possible explanation for why the specific design and scope of rent regulation is rarely as decisive as sometimes claimed, lies in the ability of market actors to quickly adapt to the legislation. For example, in countries with a high degree of regulation, landlords tend to be larger and more professional, as seen in Sweden and Denmark. In more deregulated markets, smaller "Mom-and-Pop landlords" with one or a few properties, are more common.

No obvious distinction between "Good" and "Bad": Critics of rent regulation argue that deregulation would lead to improvements such as higher mobility rates, better utilization of the housing stock, and a more efficient allocation of housing. To some extent, this is the exact opposite of what many tenants seek from their housing. Where economists see mobility, tenants see insecurity. Where economists see better utilization of the housing stock, tenants see overcrowding. Where economists see efficient pricing, tenants see burdensome housing costs. Such conflicts of interest and perspective are not unique to the housing market but may explain some of the political deadlocks. A prerequisite for successful housing policy is to take these conflicts of interest seriously.

The debate surrounding rent regulation is far from over. On the contrary, as challenges in the housing market grow larger, the issue will once again climb the political agenda. Hopefully, this report has contributed valuable insights for future discussions.

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