

The role of rent control in **Barcelona's** housing policy

**Rethinking Rent
Control in Spain**
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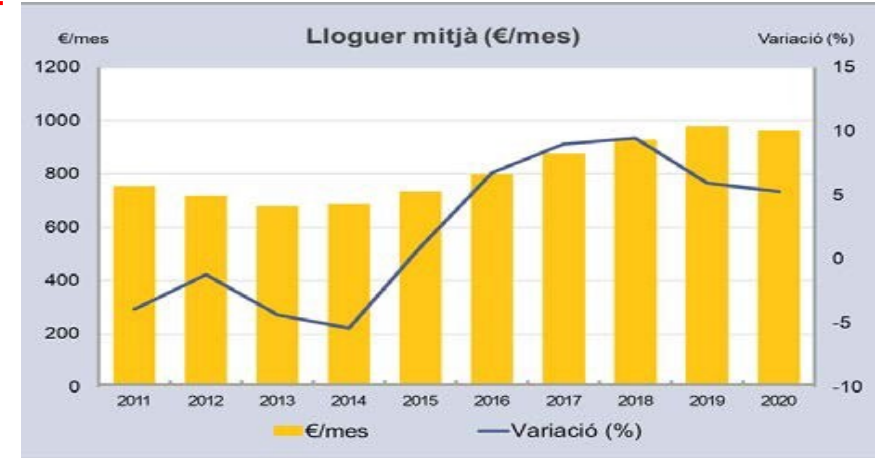
Barcelona Context



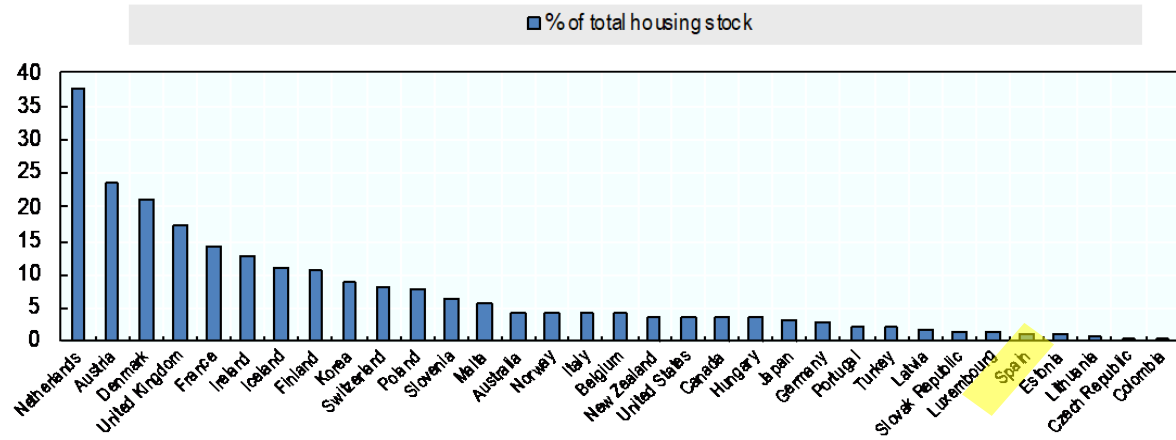
Barcelona context

- Small social housing stock (<2%)
- Small Private Rental Sector (14% Spain / 38% BCN)
- Little public investment in housing at state and regional level (<0.5% GDP)
- Increase in rental housing prices (before COVID)
- Soft regulations in the PRS (until rent control)

Average rent in Barcelona (€/month)

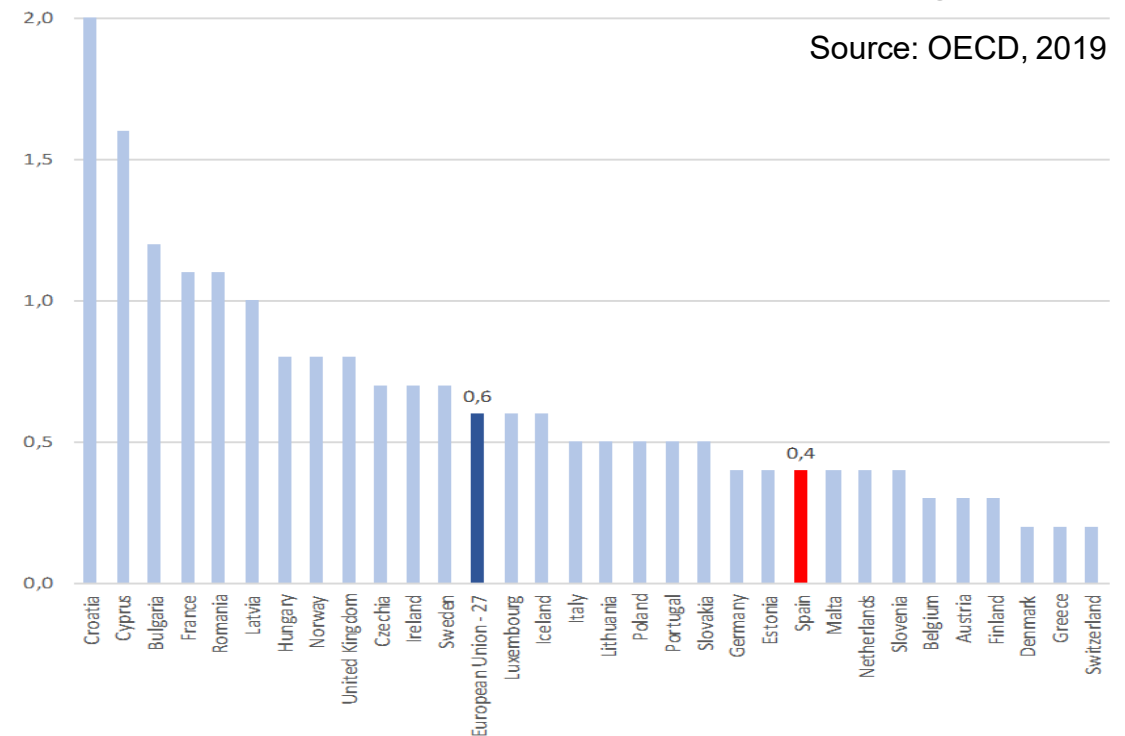


Relative size of the social rental housing stock



Source: OECD, 2019

Public expenditure in housing (% GDP)



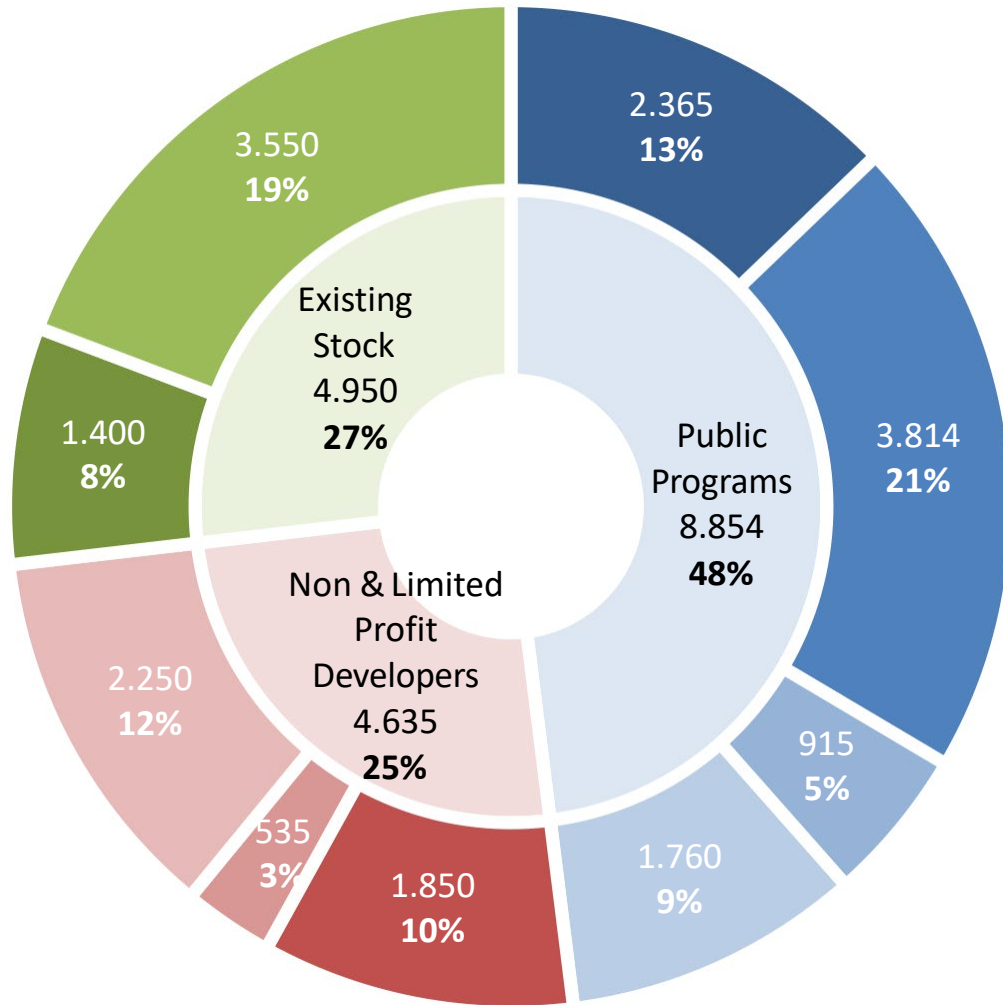
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2016-2025 Right to Housing Plan



Social & affordable housing goals

Barcelona Right to Housing Plan 2016-2025



Goal: 18.439 new Social & Affordable Housing units

- Social Rental
- Affordable Rental
- Relocations (leasehold and rental)
- Leaseholds
- Private housing developers (leasehold and rental)
- Cooperatives (Cohousing)
- Housing Associations
- Affordable rental units acquired in the market
- Affordable rental units mobilized from vacant private stock

Policy solutions

- Increase of the rental public housing stock
- Industrialized construction
- Housing acquisition in the private market
- Temporary use for affordable housing (Borsa, Hàbitat 3)
- Public-private partnerships (Habitatge Metròpolis Barcelona)
- Public-Community partnerships (Cohousing & CLT)
- Inclusionary Zoning (40 % / 30%)
- Regulation on touristic apartments (PEUAT)
- **Rent regulation (at the regional – Catalan level)**

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Rent Control



Rent Control – Barcelona’s approach

WHAT is Old and Modern Rent Control?

Whitehead and Williams (2018) identify three types of rent controls:

- First Generation: consist on imposing a below-market rate maximum on the rent
- Second Generation: control of rent levels between tenancies.
- Third Generation: control of rent increases within tenancies.

-> The old, rigid and without exceptions 1° Generation rent control post I-II WW, does not work as academia has proven.

-> 3° Generation is too light to produce real effects on out of control rental markets.

-> New and modern (with exceptions) 2° Generation rent control is being applied and its limited evaluation does not allow yet for conclusive results as pointed out the Bank of Spain (2020).

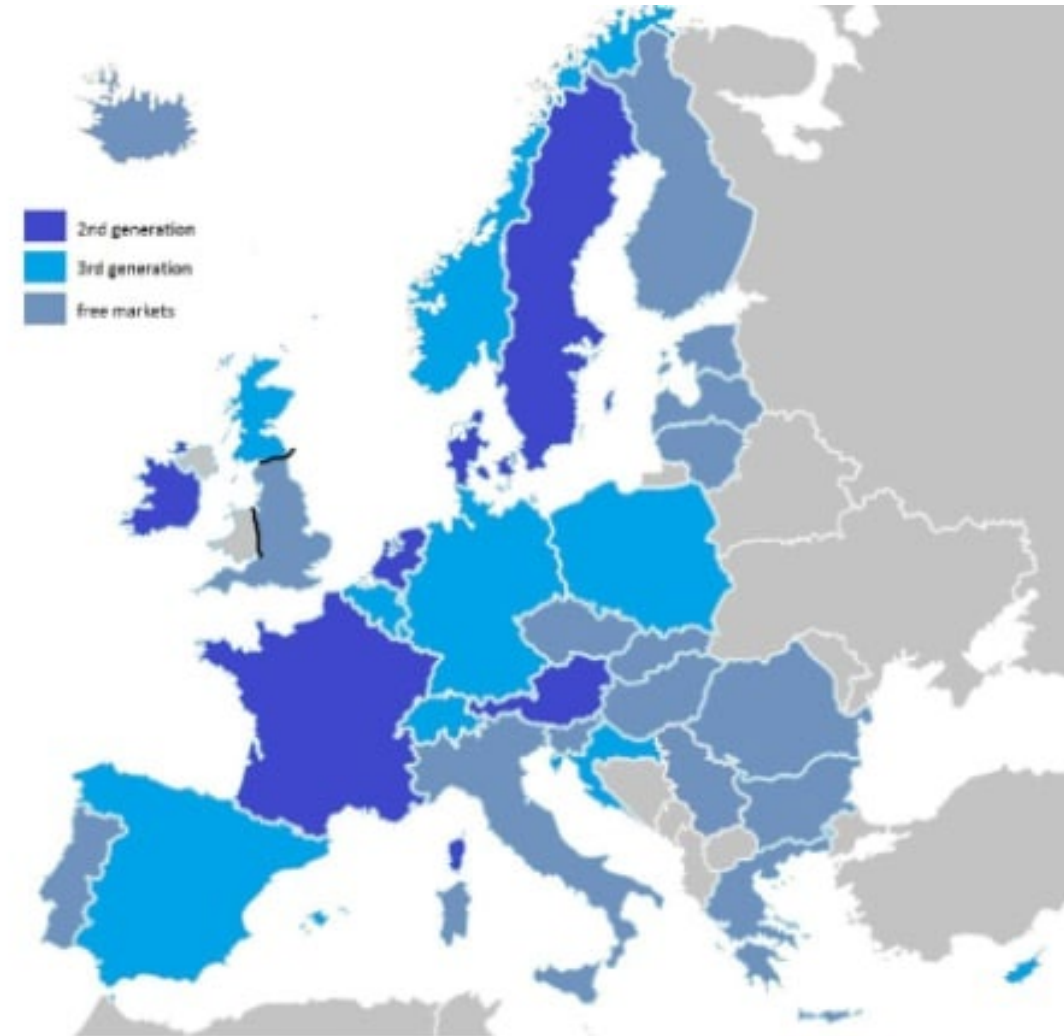


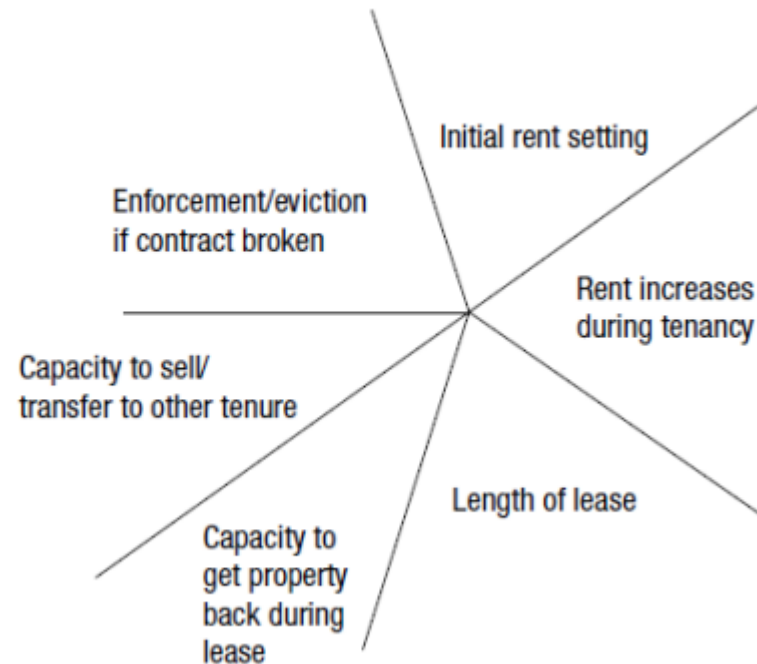
Figure 1. Rent regulation in 33 European countries.

Spain. From Third Generation Rent Control to Second Generation Rent Control?

Spain has a third generation rent regulation

- *Lease Act in Spain (1994)*
- *Royal Decree with Lease Act Amendments (2019)*

Figure 2. The Elements of Regulation



Source: Whitehead and Williams, 2018

Initial Rent setting

- Market-rate Price

Rent increases during tenancy

- Annual rent increases cannot exceed the annual increase of inflation

Length of lease

- The minimum mandatory lease term applicable to rental housing is:
 - Five years if the landlord is an individual
 - Seven years if the landlord is a legal entity

Capacity to get property back during lease

- if the landlord is an individual, that person must expressly state in the lease agreement if he or she foresees needing the house as his or her other main residence (or as the main residence of any first-degree relative or spouse) before the minimum mandatory five-year term

Capacity to sell/transfer to other tenure

- If the landlord sells or transfer the property, the lease has to be respected until the end of the 5 years.
- If the landlord sells the property, the tenants has the right of first refusal

Enforcement/eviction if contract broken

- If the contract is broken by the tenant, the landlord has the right to evict
- However, there are some exemptions (Covid-19 regulation or family with children).

Rent Control – Barcelona’s approach

WHY Rent Control?

“Rent control doesn't fix the housing supply crisis. It gives us a tool to help at-risk, low-income tenants stay in their communities as we take on the project of building millions of new homes”

Demas, 2021

1. **Housing stability for existing tenants**
 - i. **Avoiding** the uncertainty caused by **uncontrolled price rises**
 - ii. **Avoiding** the huge human costs of forced **displacement**.

2. **Preservation of economic diversity**
 - I. **Keeping** the **diversity** and social mix of neighbourhoods.
 - II. Mechanism to **stop gentrification**.

3. **A cost-effective and short-term policy**
 - I. While building new homes (which are, by definition, slow, costly, controversial and complicated), regulation is the **only measure effective in the short term**.
 - II. **Quickly** implementable and at **low cost**.
 - III. **Temporary and targeted** measure, only applicable at times when the market is stressed.

4. **Balancing the market power between landlords and tenants**
 - I. It combines **reasonable profits with stable prices**.
 - II. **Reconciling both interests** is the keystone of any regulation.

Rent Control – Barcelona's approach

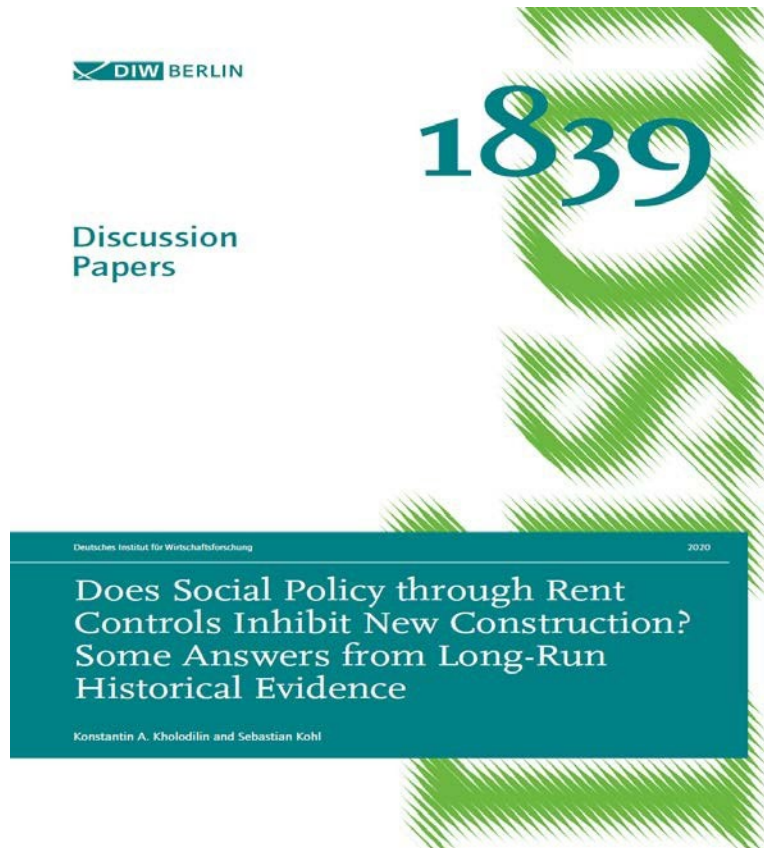
HOW do we design rent control without undermine new housing construction?

The devil is in the details with rent control

Modern rent control

1. Exempt future construction from rent control
2. Allow landlords to increase rents annually by a moderate sum tied to inflation.
3. Incentives to keep existing rental stock well-maintained

Rent Control – Barcelona’s approach



**Empirical analysis covering
16 developed countries between 1910-2017
and 44 developing countries between 1980-2017**

“The negative effect of regulation can be offset by exemptions for new construction and by compensating government construction” K. Kholodin (2020)

The combination of price regulation with exceptions for new construction and a massive public and public-private program of housing construction is a formula for success.

Catalan rent regulation model

- Law 11/2020 (regional in scope)
- Applicable in 60 municipalities identified as **"tense markets"**
- Limit to the increase in rent **between contracts** (current contracts are 5 or 7 years long). Increases during the contract cannot exceed the consumers price index IPC)
- An **official rental index** has been set based on real life transactions (based on the housing deposits official registrar)
- New contracts **cannot exceed nor the index neither the previous price** + competitiveness assurance index
- **Exceptions** apply for new construction BTR, housing with outstanding features or if recently renovated.

One month ago, The Spanish Constitutional Court has declared this law unconstitutional for invading Central State Competencies.



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LEY CATALANA DE ALOQUILER >

El Tribunal Constitucional anula parte de la ley de vivienda catalana que limita los alquileres

Los magistrados estiman por unanimidad el recurso del PP por considerar que la norma invade competencias estatales

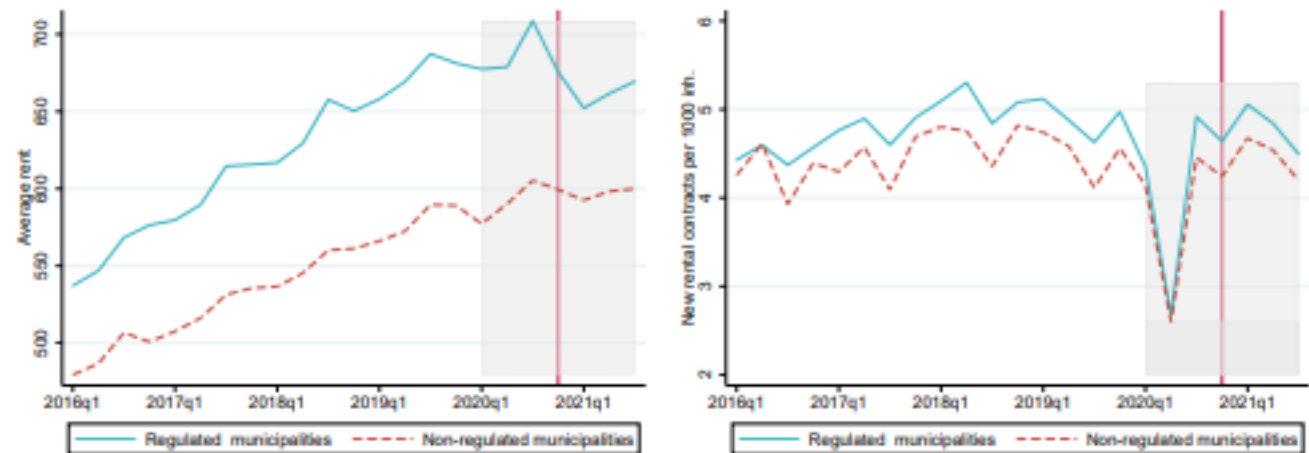
Rent Control in Catalonia = Results

- Reduction in rental **prices** and increase in the number of **contracts** signed.
- 2 parallel phenomena as a consequence of the COVID-19 pandemic:
 - Halt in the sector during lockdown.
 - Reduction in the demand for touristic apartments.

“Our results indicate that the [Catalan rent] regulation reduced average rents paid by about 6%. However, this price drop did not lead to a reduction in the supply of housing units in the rental market.”

[In conclusion, the data] suggest that rent control policies can be effective in reducing rental prices and do not necessarily shrink the rental market.”

Figure 2: Evolution of rental markets in regulated and non-regulated municipalities.



(a) Average rent

(b) Contracts per 1000 inhabitants

Spanish rent regulation model

- **First Housing Law** in Spain (at national level)
- **Draft Bill** led by the Government. Still need to be passed out by the Parliament.
- Applicable only in "**stressed markets**" where rent has risen significantly above inflation.
- Rent-freeze **within and between** contracts for three more years (5/7 + 3).
- Landlords **can increase the rent up to 10%** between contracts **in case** (among others) they **renovate** the flat.
- **Tax incentives** for smaller owners to reduce rents
- **Rent-cap for big landlords** (10 or more properties) reducing the rent to meet the **official rental index**.
- **Exceptions** apply for new construction.

It's likely this draft law will be amended by the parliament.

However, **it has clear limitations so far**

- **Regional government can avoid the implementation of rent control at will**, despite having "stressed markets".
- **Right-wing regional governments** (50% of Spain) **have declared** that, no matter what, **they will not implement this policy**.
- Rent-caps would not come into force for **18 months** after passing the law, allowing the market to hike-up rents.

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Conclusions

- If the public and private sector build more homes at scale, **it will take decades to rebalance supply and demand**
- So what is to be done for **existing rent-burdened tenants** before we can reach housing affordability?
- Beyond rent control, **Are there any alternative measures that will have an effect in the short term?**

Thank you

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