



The rent regulation riddle

The jury is still out on the overall effect of residential rent controls on development, investment and, ultimately, tenant affordability

by Chris Anderson

In the global landscape of residential real estate, one puzzle looms large: rent regulations.

Nations grapple with the delicate balance between tenant protection and investor incentives, with none seemingly finding a solution to appease both sides. Rent control laws protect tenants against sudden price spikes, but critics caution against this, highlighting stifled investment as a result of lower returns, and diminished housing quality, with landlords less inclined to maintain their properties.

The picture is mixed, depending on where you look, and it is in Europe where the most variety can be found, as Fabian John, COO of ZBI Group, which is active across Europe, observes. “In Germany, the Mietpreisbremse [rent freeze] regulates the permissible rent level and is applicable throughout the country,” he says. “In Austria, rent caps began recently, limiting increases in privately financed and public housing to a maximum of 5 percent each year, even if the inflation rate exceeds this.”

Rent in the Netherlands is regulated for some apartments. As John explains, there is a maximum permissible rent calculated on the basis of the Woningwaarderingstelsel (WWS)

points system (which takes into account factors such as amenities and location), and the government setting the annual maximum percentage rate for the others.

In Spain and Portugal, increases are capped at 2 percent annually, in Scotland at 3 percent, France at 3.5 percent, and Denmark at 4 percent, says John. In Switzerland, the increase is limited to 40 percent of inflation, and in Sweden the tenants’ association negotiates the annual rent increase.

Danny van Boxmeer, senior asset manager at Catella Investment Managers Benelux, has seen some European countries, such as the Netherlands, extend protection for renters beyond a mere cap. “Specific rules also apply to regulated and liberalised rental agreements,” he says. “These relate to, among other things, the establishment of rents, indexation, and general agreements on the tenant and landlord relationship.”

Also working at Catella, senior asset manager Nick Ceusters is focused on Belgium. “As far as residential rents are concerned, there are some minor differences for each of the three regions, Flanders, Wallonia and Brussels, such as the indexation rules, among others, with



Sentinel Real Estate launched The Briscoe by Kinleaf in West Melbourne, Australia, in February 2024. The 172-home development offers premium and sustainable one-, two- and three-bedroom apartments for rent across its seven floors. Australian states and territories only lightly regulate rents.

contracts liberalised in principle, meaning no minimum or maximum rent, and parties are free to negotiate the price at which the property is let,” he explains.

In the United Kingdom, city mayors advocate for rent freezes amid escalating housing costs, reigniting debate on the efficacy of

controls, but on the other side of the world, in Australia, regulations seem lighter. “Rent regulation policies are very limited in Australia,” says Adam Hirst, co-founder and CEO at Novus. “In 2023, it was considered by the Victorian State Government, but it was concluded that enacting these policies would have the opposite impact of improving affordability, as it would drive a reduction in supply.”

Sean Burton, CEO of Cityview, shares the view from America. “In the United States, rent regulations differ significantly on the state and local level,” he says. “A major challenge for developers is the uncertainty arising. Even when laws are enacted, which aim to balance tenant protections with incentives for developers to expand housing, they are quickly challenged, and this continuous uncertainty undermines the stability required.”

Hirst saw the effect that even the mere idea of rent regulations had in Australia. “As soon as rental regulations were discussed as a potential policy response to outsized rental growth in Victoria, investment stopped almost immediately,” he says.



In 2023, Tredway acquired 630 affordable apartments for lower income earners and seniors across North Carolina. The 12-property portfolio is home to nearly 1,800 residents and is Tredway's first acquisition in the state. North Carolina does not have rent control laws, and state law prohibits local governments from establishing rent control laws.

Affecting investment

While the actual rent regulations in place in countries around the world may differ, what can be agreed on is the negative impact they potentially have for investors. Van Boxmeer has seen big changes in the Netherlands.

“Traditionally, this was a country characterised by its stable investment climate, making it attractive to foreign investors,” he says. At present, however, Catella is seeing investors shift to other markets. Rent regulations are a definite factor in this move, says van Boxmeer, although, it should be noted there are other drivers at play. These include elevated interest rates, a 10.4 percent transfer tax, and high construction prices, which have led to a decline in new-build production. As a result, the volume of transactions in Dutch rental housing portfolios fell drastically in 2023.

Christian Reißing, CDO of ZBI Group, has made similar conclusions when observing market fluctuations in Germany. “We see some municipal cooperation models in the context of housing developments, which have an inhibiting effect on investment,” he says. “Particularly as a result of the granular structure of the assumption of public law obligations in connection with funding programmes that are not always adequate for the market.”

Sentiment does not take long to change either, due to the generally negative view that many developers have on rent caps.

Paul Jackson, managing partner at Accord Group, has seen similar results. “After the emergency rent cap was introduced in Scotland in September 2022, I’m aware of only one new residential investment scheme being



Henley secured approval for a 276-apartment scheme and new last-mile logistics wharf on the River Thames in London in early 2024. Alongside an operational wharf, the site will be transformed into a cluster of six- to 17-storey residential buildings with 276 apartments. London is one of Europe's capitals that does not have rent caps, although a debate continues on the matter.

started,” he says. “For a market that’s in a severe housing crisis, any decline in investment is troubling, but as a general rule we see many investors continuing to favour markets that operate without controls.”

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Sascha Hertach, a member of the management board of Arbireo Capital, says that reduced rental cashflows can have other effects beyond stalling new pipelines. “Incentives to invest in improving existing stock decrease,” he says. “There are several major residential markets now where buying assets is not an attractive business case.”

The twin effect of a lack of new construction and refurbishment was profound enough in Berlin — as critics of rent controls predicted it would be — for several parties to threaten or take legal action in order to restore the status quo.

“The rent cap here led to significant declines in investment activity and transaction volumes, but fortunately was repealed by the Federal Court of Justice after just over a year in 2021,” says John. “It’s understandable that politicians are intervening to safeguard citizens’

Rent control

Rent control benefits:

- Rent control enables people on lower incomes to access affordable accommodation
- Rent control prevents profiteering landlords from exploiting their tenants
- Rent control in some forms can provide low-risk, predictable income streams
- Rent control reduces tenant turnover

Unintended consequences of rent control:

- Rent control can reduce rental housing supply and exclude more people in need of a home from the sector
- Rent control can favour tenants on higher incomes with stable employment at the expense of those on lower incomes and families
- Reduced incentives for property maintenance can reduce the quality of the rented housing stock
- Rent control can create a significant “shadow” rental market
- Rent control can lead to reduced labour mobility

Source: *The Impact of Rent Control on the Private Rented Sector*, British Property Federation, 2023

basic right to housing, but the correct form of regulatory intervention is needed.”

Emile Poort, country head of Patrizia NL, believes investor sentiment is being dampened due to complications arising from regulation. “It’s a complex interplay, involving many players,” he says. “In the Netherlands, finding the right balance between stimulating and regulating the market is crucial in order to address

the housing shortage, but navigating the regulatory landscape requires careful consideration and adaptation to guarantee viability.”

Cityview’s Burton has seen developers deterred by evolving rent regulations, coupled with lengthy approval processes and new tax regulations in the United States. “The balance is something numerous markets are struggling with,” he says. “Los Angeles currently builds only 0.6 percent of its housing stock annually, well under the recommended 3 percent to maintain housing equilibrium, and still many developers are hesitant to undertake projects.”

All of this makes Ken Lombard, president and CEO of BRIDGE Housing Corp, a leading affordable housing developer in the United States, question whether rent control is even needed, as it is not always proven to be achieving what it is designed to do. “Without income guidelines, there is no guarantee that rent control benefits the low- or moderate-income households who have the greatest need for affordable housing,” he says.

Seeking success

With rent regulations, whether rumoured or concrete, affecting regions all over the globe, where should investors be looking for the best returns?

Reißing suggests the countries that offer developers and investors an incentive should be targeted. “Subsidies for both new and existing buildings represent an important contribution to a balanced development and financing strategy, and we’re now monitoring 135 subsidy programmes in Germany that support energy efficiency and social rental housing,” he says. “Significantly lower construction costs in the Netherlands and Austria also make those markets favourable.”

Accord’s Jackson is looking beyond rent regulations. “These controls operate differently in each market, so the impact on investor appeal will vary,” he says. “However, regardless of regulation, we see the most favoured markets as the ones with strong fundamentals, such as good economic and population growth, and a lack of housing product, which can drive supply-and-demand imbalances favorable to investment.” As a consequence, his efforts in Europe are currently focused on markets with no rent controls. Nevertheless, Accord can point to “some great examples” of successful investments in US markets with significant rent regulation, says Jackson, proving that powerful demographic movements and supply-and-demand dynamics have the ability to negate rent control’s negative impact.

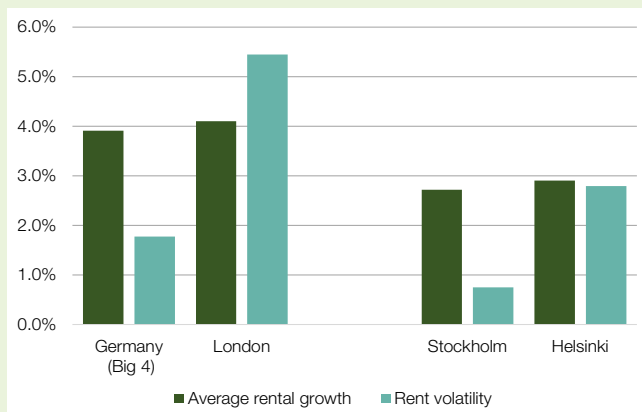
Managing performance over time

Rent regulation over the long term does not mean giving up performance, it simply means managing it better over time, according to CBRE Investment Management.

In a report on the residential build-to-rent sector, the manager compares rental performance of different European markets to make its point. Cumulative rent growth since 2015 in the United Kingdom and the “Big 4” markets in Germany has been 45 percent and 43 percent, respectively. This is despite Germany having rents linked to a specific Mietspiegel (rent) index for each city and UK landlords being free to negotiate rents up in heated markets.

“This pattern is replicated elsewhere in Europe. Finland’s liberalised rental market delivered periods of high single-digit growth but also distressed years at zero or negative growth,” say the report. “In neighbouring Sweden by comparison, rents are heavily regulated by a national index, but typically outperform inflation and have never turned negative. The result is that over the last two decades, these two markets achieved almost equivalent growth in rents.”

Rental growth vs. volatility



Sources: Newsec Q2 2023, PMA October 2023, CBRE Investment Management

Lessons from history

In Japan, residential rent caps were abolished in 1986, following 40 years of restrictions on how much landlords could charge tenants.

One of the reasons for rolling back the regulation was that urban redevelopment was being held up as landlords were either hesitant, or unable, to finance repair work, in many cases as they were collecting low levels of rent.

The country was also no longer facing a housing shortage when the Act was struck off the legislative book.

In more recent times, the United States has shied away from introducing widespread rent controls, due to concerns that they disincentivise developers from building new stock.

In a LaSalle Investment Management report from May 2023, the manager says an ordinance in St. Paul, Minnesota, in 2021, that limited rental increases to 3 percent across all buildings — for renewals and new leases alike — saw developers halt construction projects in the city, with residential permits falling by 30 percent. Less



than a year later, the St. Paul city council revised the ordinance to more closely resemble the legislation in California and Oregon. California's law caps annual rent increases at the lower of CPI plus 5 percent or 10 percent, while Oregon allows for 7 percent, plus the rate of inflation.

Success in the United States despite regulation is a story echoed by Burton. “We’ve been successful in heavily regulated areas [such as] Los Angeles and the Bay Area, and in nonregulated regions [such as] Texas and Arizona, and those in between, such as Colorado and the Pacific Northwest,” he says. “Discerning investors can find strong opportunities in each of these environments as long as there is certainty over rent regulations and no danger of frequent changes.”

Ongoing issues

While rent regulations may mean less new housing acquired and developed by investors in the short and medium term, there are other impacts on housing stock itself that may prove an issue later on. Van Boxmeer has noticed these changes in the Netherlands.

“The result is that smaller homes are being developed,” he says. “And we know that more rules around sustainability are set to come in, pushing up development costs. That said, sustainability measures will also be among the factors pushing up the scores in the WWS points system, potentially justifying a rental jump.”

Patrizia NL's Poort is concerned that investor sentiment could be impacted to a greater extent over the long term. “It's going to take some time

“Regardless of regulation, we see the most favoured markets as the ones with strong fundamentals, such as good economic and population growth, and a lack of housing product”

for investments to make sense again,” he says. “There’s tough competition from bonds offering 6 percent returns, compared to the 5 percent net cash return in the less liquid real estate industry. Navigating it all feels like being squeezed from both sides, affecting investor incentives. Nevertheless, we’re still convinced of the Dutch residential market due to the continuous housing shortage.”

Perhaps collaboration, with all parties coming together, creating an open dialogue between renters, developers, investors, and governments is the way forward, suggests John.

“Regular exchanges with politicians and regional players on problems and challenges are needed to synchronise interests through transparency,” he says.

“Recognition is needed that the challenges posed by the housing shortage prevailing in some markets can only be tackled together.” ❖

Chris Anderson is a UK-based journalist.
