The role of rent control in Barcelona's housing policy

Rethinking Rent Control in Europe
December 7th, 2021

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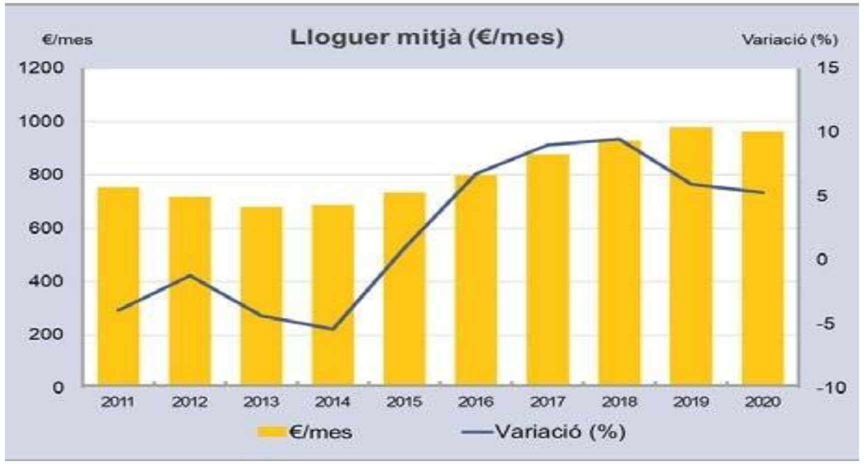
Barcelona Context

1. Barcelona context

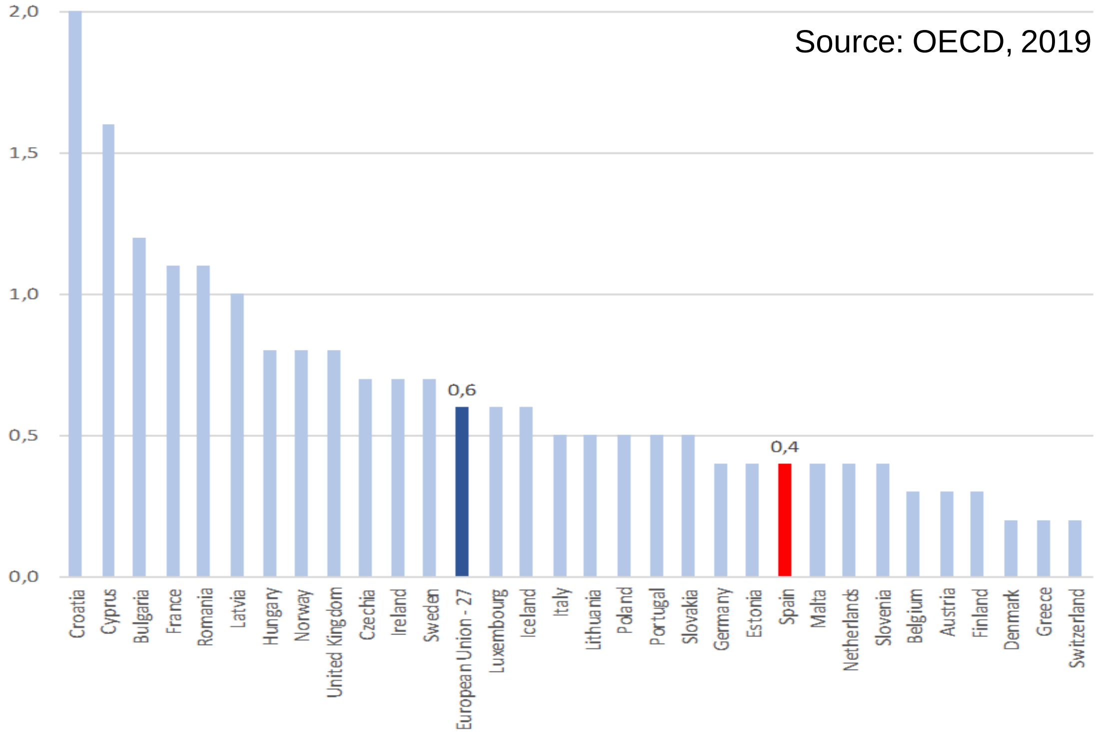
- **Small social housing stock (<2%)**
- **Small Private Rental Sector (14% Spain / 38% BCN)**
- **Little public investment in housing** at state and regional level **(<0.5% GDP)**
- **Increase in rental housing prices (before COVID)**
- **Soft regulations in the PRS (until rent control)**

Average rent in Barcelona (€/month)

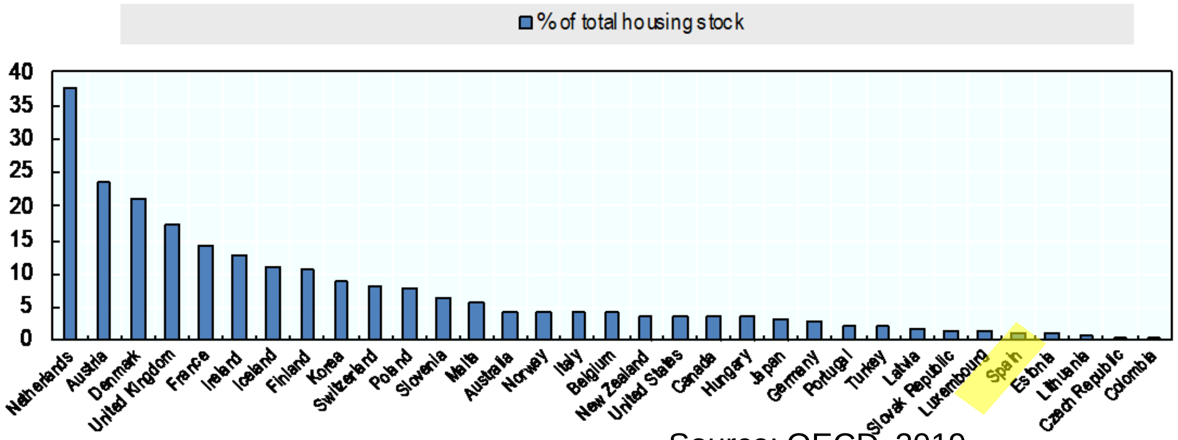


Public expenditure in housing (% GDP)

Source: OECD, 2019



Relative size of the social rental housing stock



Source: OECD, 2019

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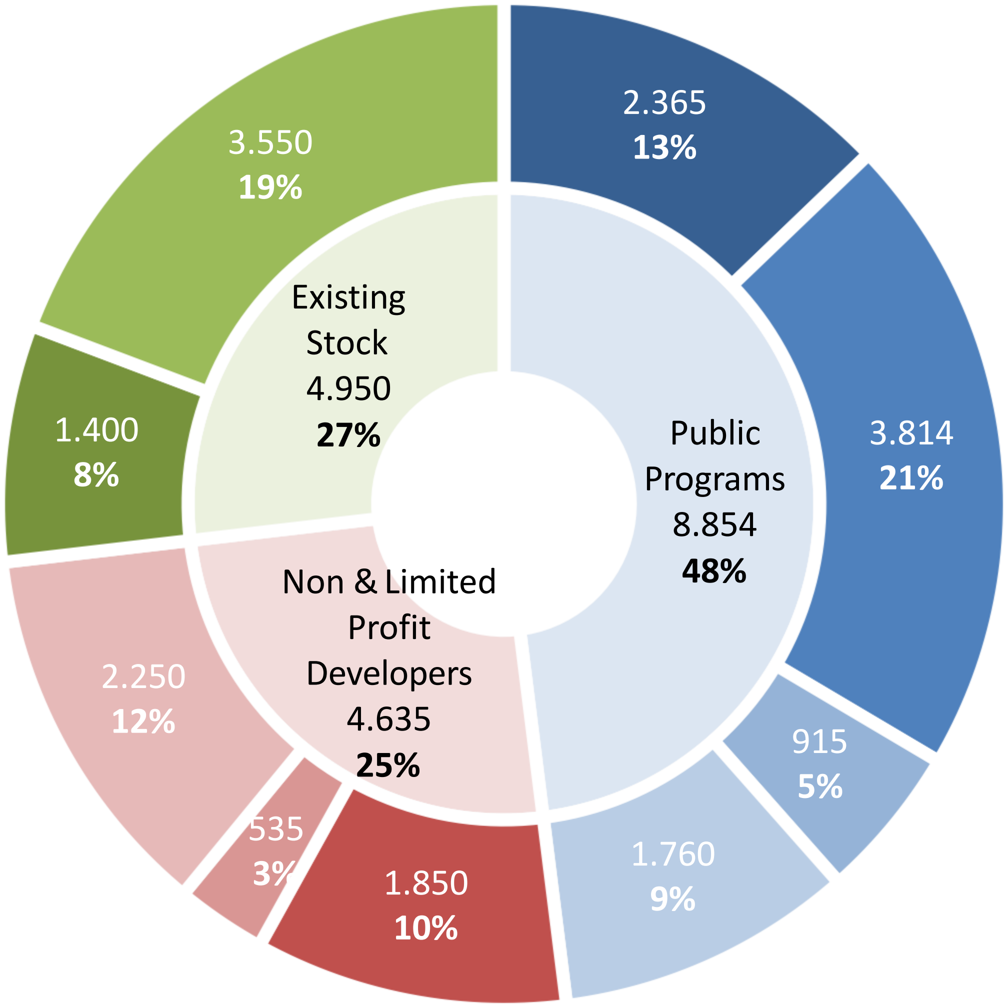
2016-2025 Right to Housing Plan

2.1 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

2.1 Promoting Council Housing

Affordable and social housing

Middle- and low-income households

Supportive housing for the elderly

Youth housing

Supportive housing for the homeless and extremely low-income

Single-purpose projects

Housing with services for the elderly

Youth housing

The Public Housing company (IMHAB) has built over 4.000 council housing (2015-2021) and currently manages 11.200 units

Mixed projects

Low-income housing and homeless accommodations

Single units within private buildings

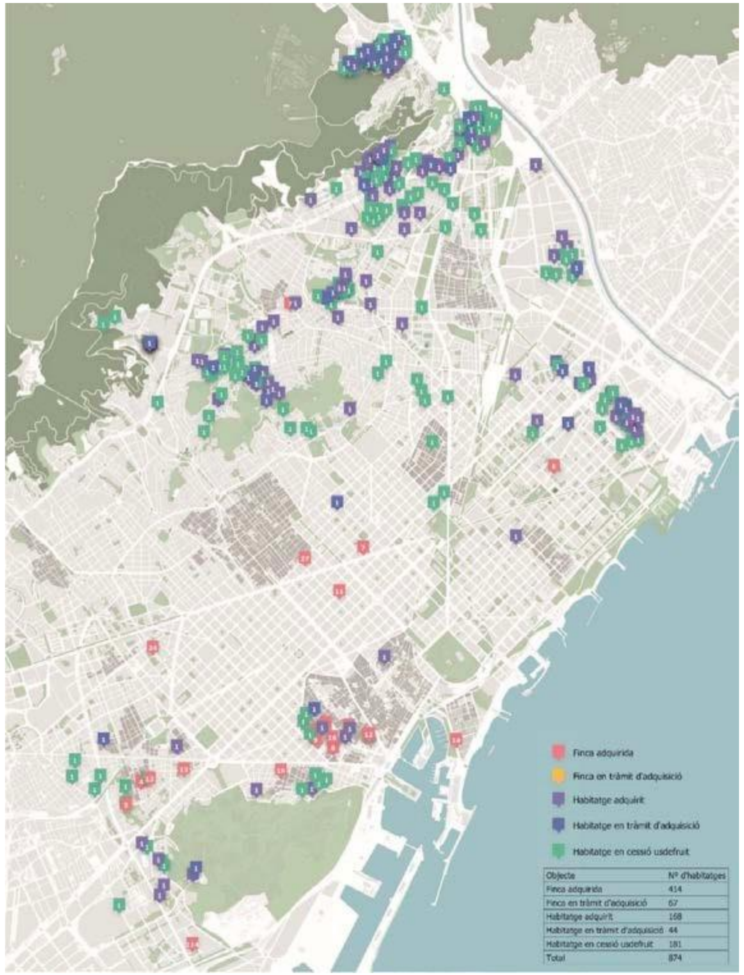
2.2 Purchasing

Goal: Increase the public housing stock in a distributed manner across the City.

Legal instruments:

- Pre-emption right and right of first refusal (DL 1/2015)
- Affordable housing pre-emption right and right of first refusal
- Inclusionary zoning pre-emption right and right of first refusal
- City-wide pre-emption right and right of first refusal (MPGM)
- Private deals (mainly to prevent evictions and displacement of vulnerable households)

	Units within a single building		Individual units in separate buildings		Total	
	Number	*Cost*	*Number*	*Cost*	*Number* total habitatges	*Cost* cost
2016	88	7.240.702,93 €	56	2.747.995,95 €	123	9.988.698,88 €
2017	167	24813017,12 €	24	1.071.377,48 €	185	24.914.363,97 €
2018	36	6.230.468,25 €	4	291.360,00 €	42	6.521.828,25 €
2019	127	8.018.676,89 €	71	4.465.281,24 €	198	12.483.958,13 €
2020	40	7.086.500,00 €	39	2.790.307,96 €	79	9.876.807,96 €
total	**458**	**55.449.866,13 €**	**194**	**11.366.322,63 €**	**652**	**66.816.188,76 €**

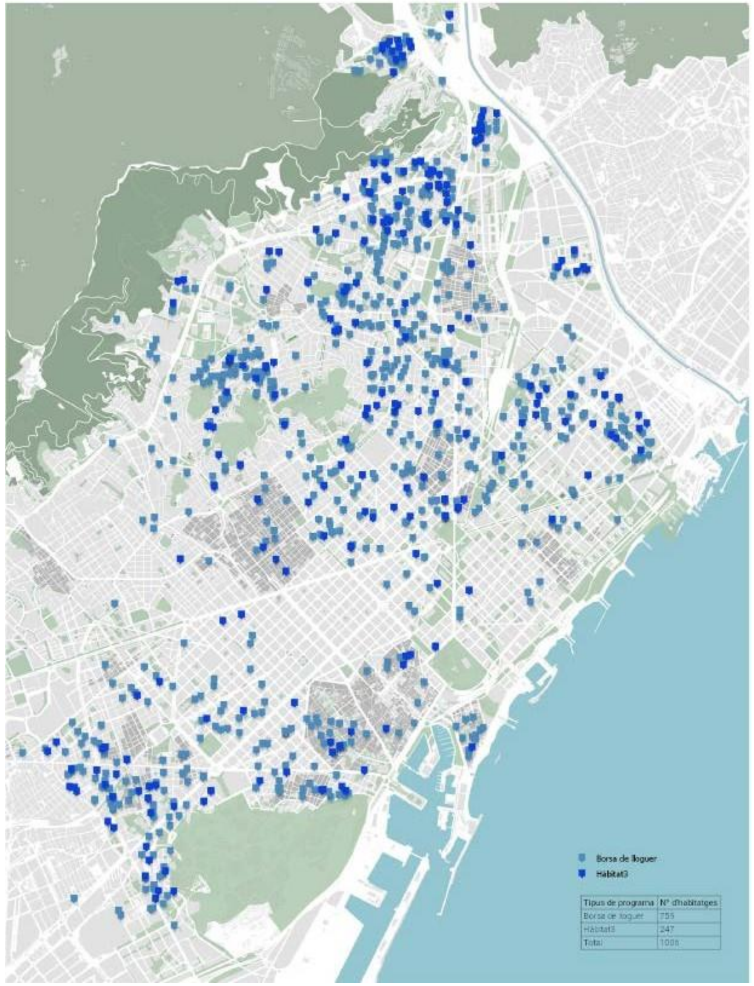


2.3 Temporary mobilization of private housing

Vacant housing census: Based on water consumption data, the City's residents register and field work, **1.22%** of the city dwellings were deemed vacant (10,052 units out of 825,677).

Cession programme

- Programme managed by Hàbitat 3 foundation in partnership with Barcelona City Council.
- Renovation subsidies as main incentive. Tenants pay an amount according to their income and the municipality subsidises the rest.



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Public-private partnership

3.1 Cooperatives & Foundations (cohousing & social rent)

3 phases

1) Direct **bilateral agreements** to launch 2 pilot projects – 33 units (2014-2015).
2) 2 **competitive public land tenders** (2016 and 2019) totalling 7 projects – 200 units.
3) **MoU** to develop 1,000 units (2021).

Model

75 or 99-year **public land leasehold**.

Cession-of-use or **zero-equity cooperative model**:

- Joint ownership of the building
- Individual right of use over the housing units
- Allocation criteria = affordable housing rules + cooperative membership

3.2 Habitatge Metròpolis Barcelona

PPP between the City (25%) the Metropolitan Authority (AMB, 25%) and private developers (50%) selected through a public procurement process.

- **58M€ by the City+AMB (mostly in land) + 58M€ private investment.**
- Private developer (NEINOR-CEVASA) selected in 2021.
- **Goal**: **4,500 affordable housing rental units** in 8 years.


Empresas / Finanzas 11

Sociedad en Barcelona

Neinor y Cevasa ganan el primer gran concurso de vivienda pública para alquiler

Se asociarán al 50% con Habitatge Metròpolis Barcelona para construir 4.500 casas hasta 2027

La inversión alcanzará entre 650 y 700 millones de euros

A un precio de 8,95 euros por metro cuadrado como máximo

Los socios tendrán ocho consejeros y nombrarán un independiente de consenso


Neinor y Cevasa ganan el concurso para promover 4.500 VPO en Barcelona

G. Trindade / D. Casals.

Fuentes del mercado estiman que el proyecto supondrá una inversión de hasta 700 millones

El consejero delegado de Neinor, Borja García-Egotxeaga.

El primer ejecutivo de Cevasa, Donato Muñoz.

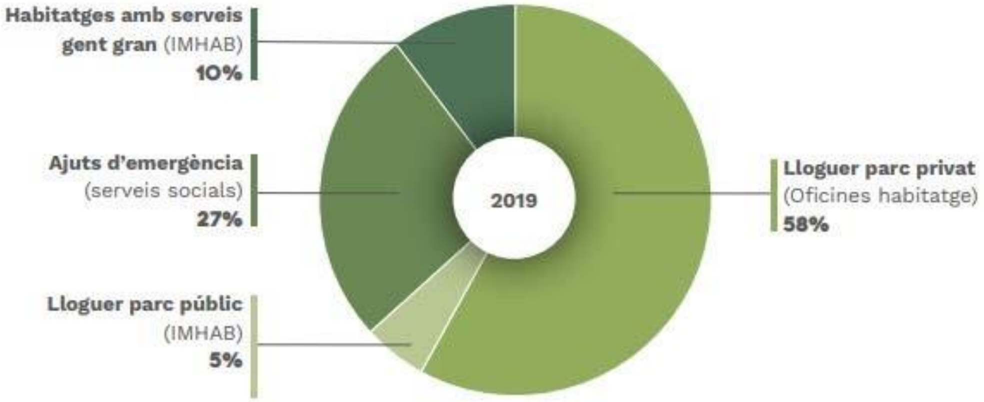
4

Subsidies & Grants

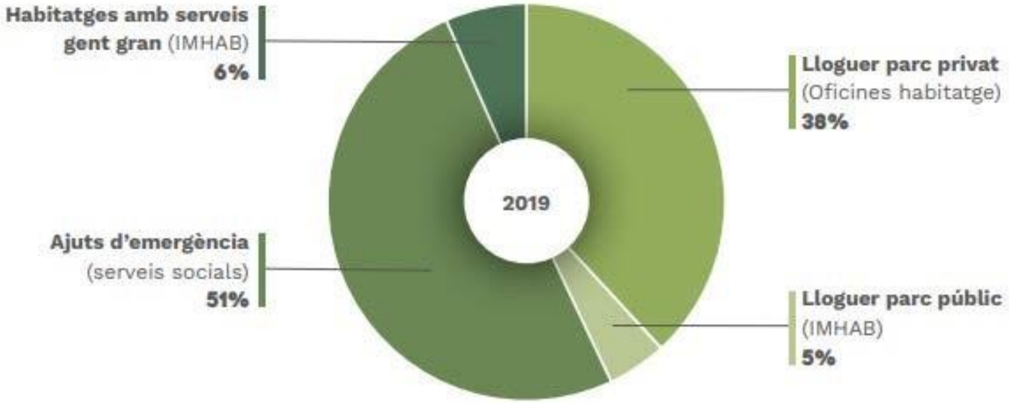
4.1 Rental Subsidies

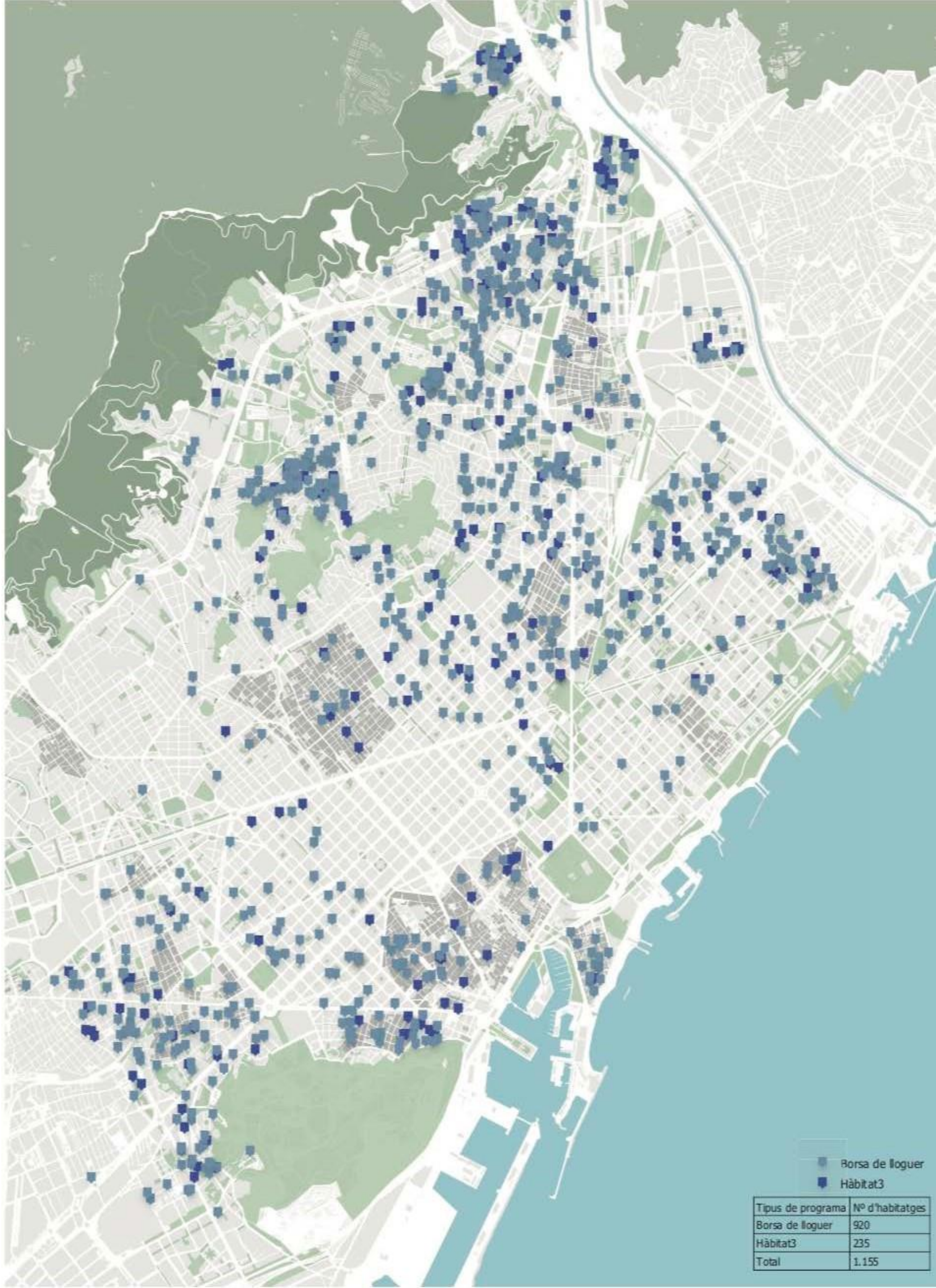
- From 16M€ in 2016 to a **36M€ in 2020**.
- **120 M€ in the period 2016-2020.**

Import ajuts al pagament habitatge, 2019



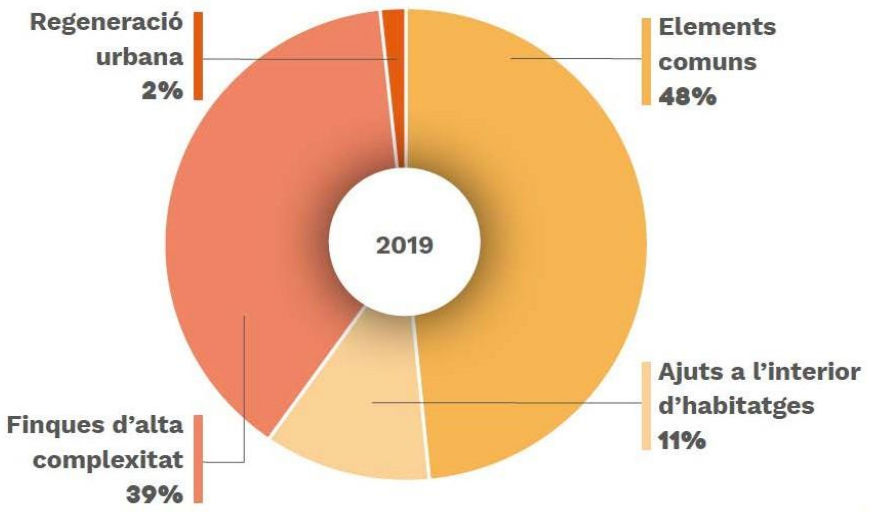
Nombre ajuts al pagament habitatge, 2019

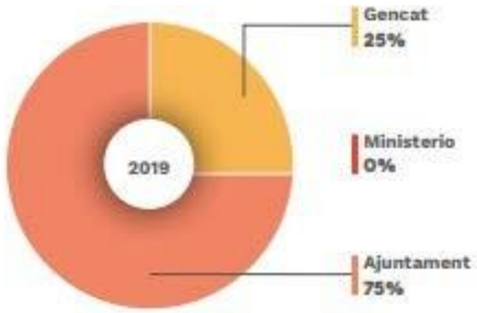




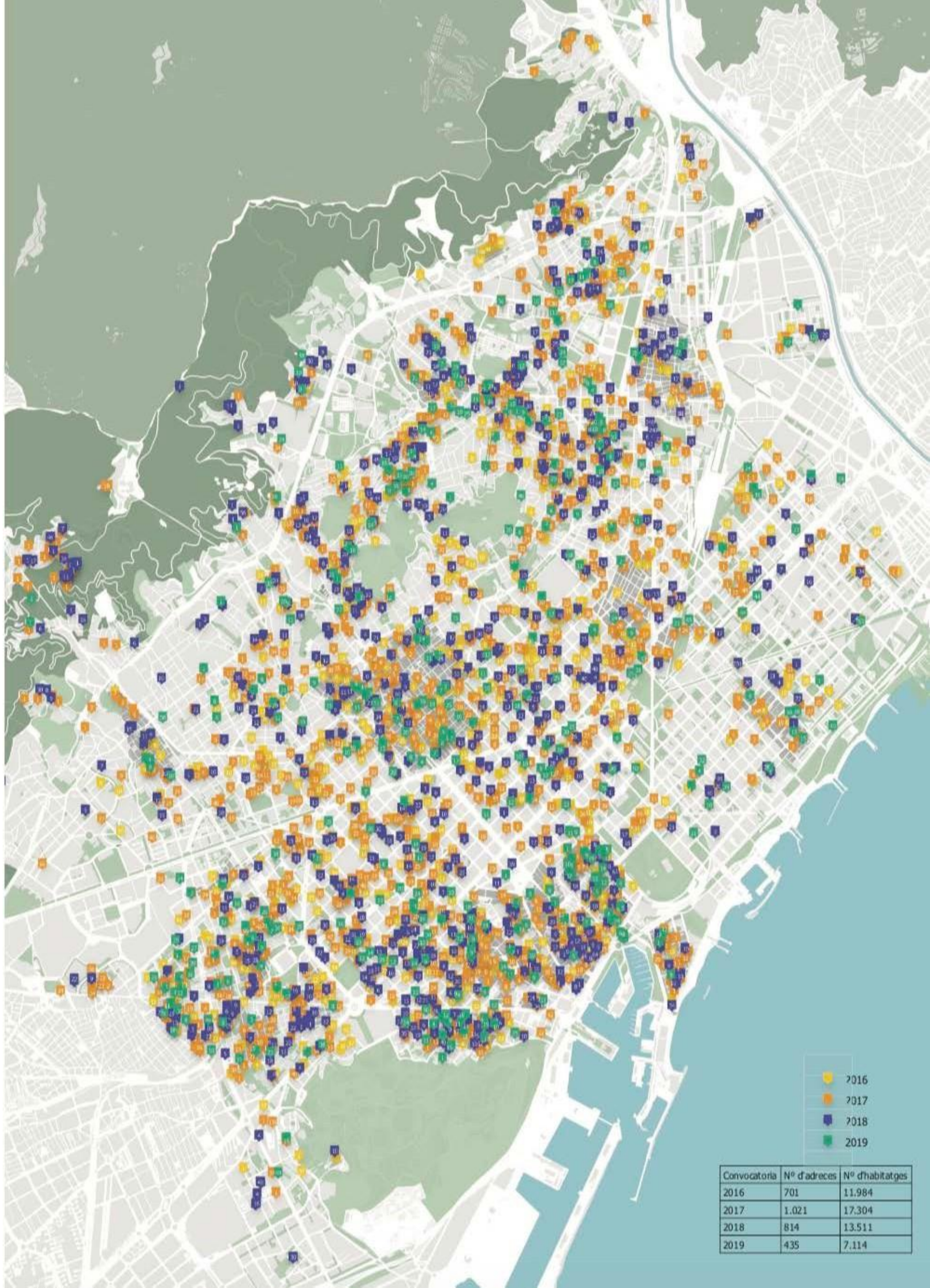
4.2 Renovation grants

Distribució del pressupost per tipus d'ajuts a la rehabilitació concedits, any 2019





- **127 M€ in the period 2016-2020.**
- More than 500 M€ impact on Barcelona's GDP.
- Around 13.000 thousand jobs created.



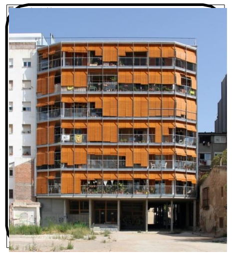
Convocatoria	Nº d'adreces	Nº d'habitatges
2016	701	11.984
2017	1.021	17.304
2018	814	13.511
2019	435	7.114

Summary

3 major strategies for growing the public housing stock:

Development

- 8,000 units
- 80% affordable and social rentals – 20% long-term leases
- 67% direct action IMHAB – 37% PPPs
- 1,2 billion €
- 19,000 residents
- 13,000 jobs



Purchasing

- 1,000 units
- 100% affordable and social rentals
- 125M€
- 7,000 jobs

Mobilization

- 1,500 units
- 100% affordable and social rentals
- 25M€
- 6,000 jobs

The **public housing stock** will grown from 7,500 units in 2015 to **17,500 units in 2025.**

There are additionally **20,000 households receiving rental subsidies in the private rental market.**

17,500 + 20,000 = **23% of the rental stock being driven by public housing programs in 2025.**

Institut Municipal de l'Habitatge i Rehabilitació

IMHAB is Barcelona's public housing company, managing the City's 11,200+ public housing units, rental vouchers, and renovation subsidies.

The company was created in 1927 and consolidated with other agencies in 2018.

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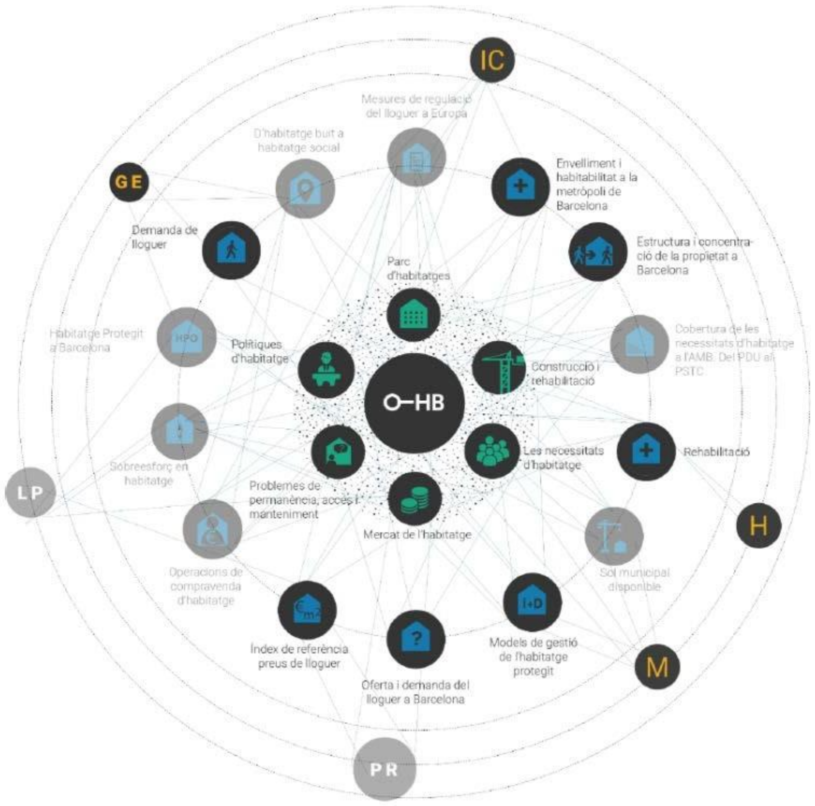
Market regulation

5.1 Observatori Metropolità de l'Habitatge de Barcelona – HOUSING OBSERVATORY

O–HB Observatori Metropolità de l'Habitatge de Barcelona



EVIDENCE BASED HOUSING POLICIES

DATA MASTERING = MARKET SHAPING

5.2 Càtedra d’Habitatge de Barcelona – HOUSING CHAIR

RESEARCH

Applied interdisciplinary research

EDUCATION

Master and postgraduate degrees

ADVICE

Applied knowledge

Institutional consultancy

DISSEMINATION

Networking

Media communication

Conferences

MODEL

- **4-year partnership**, renewable for 4 additional years.
- **Collegial management** between the four co-directors.
- **Annual budget transfer** of 150,000€, 25% by each university.
- **10% equal overhead** by the universities.

5.3 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 **1º Generation rent control** post I-II WW, **does not work** as academia proved.
-> **3º Generation is too light** to produce real effects on out of control rental markets.
-> New and modern and with exceptions 2º 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).

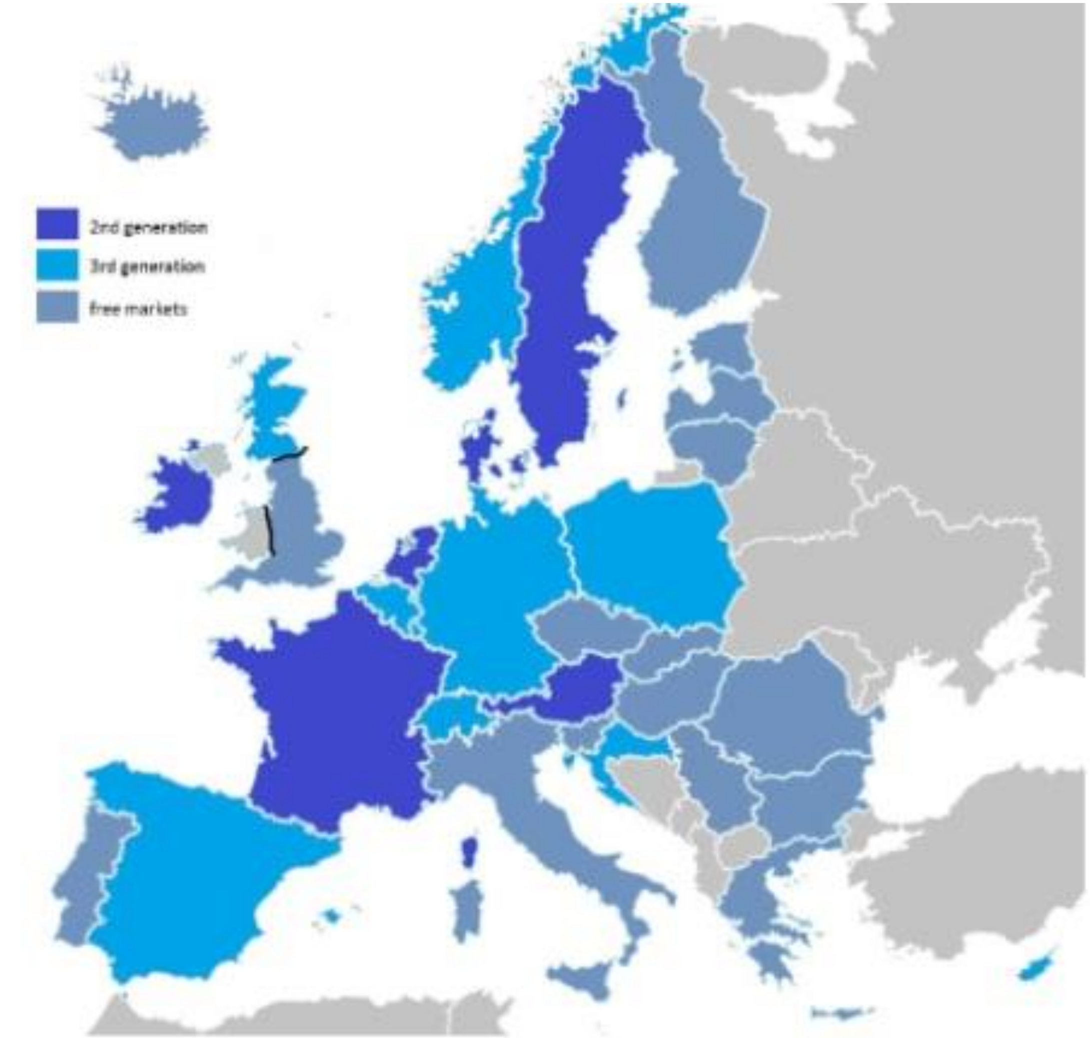


Figure 1. Rent regulation in 33 European countries.

5.3 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"
Demsas, 2021

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

2. **Preservation of economic diversity**
   I. **Keep** 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. **Quick**ly implementable and at **low cost**.
   III. **Temporary and targeted** measure, only applicable at times when the market is stressed.

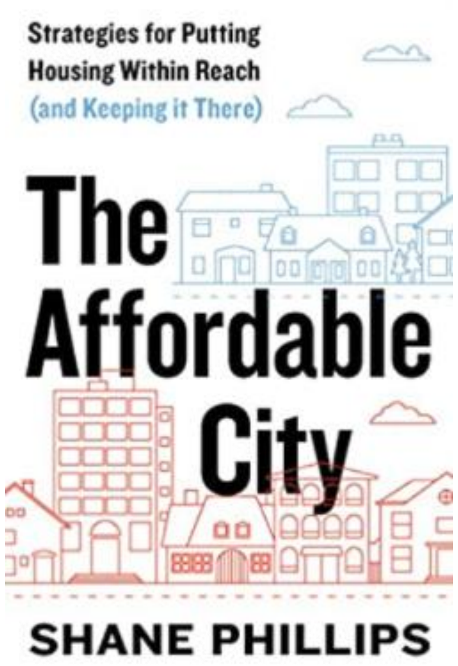
4. **Balancing the market power between landlords and tenants**
   I. It combines **reasonable profits with stable prices**.
   II. **Reconciling both interests** is the keystone of any regulation.

5.3 Rent Control – Barcelona's approach

"Rent-caps (…) do not violate the guarantee of private property, freedom of contract and the general guarantee of the right to equality (…) the interference with property rights is proportionate. It is in the public interest to prevent the displacement of economically weaker sections of the population from areas where demand for residential accommodation is high. Therefore, rent-caps are necessary; there are no other means that would, with certainty, be equally effective in the short-term. (…) The guarantee of private property does not protect expectations of the highest possible rental income"

Federal Constitutional Court's Order of 18 July 2019 on Berlin Rent Brake.

5.3 Rent Control – Barcelona's approach



The housing policy debate can be understood based on two opposites poles: **pro-housing supply vs pro-tenant protection**.

- This is a **false choice** -> "*More homes and stronger tenants protections are both indispensable*" Phillips (2020)

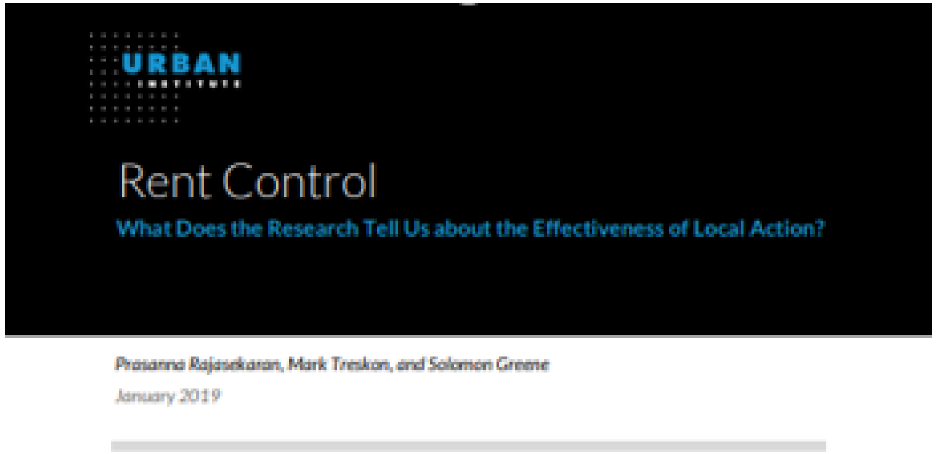
Trade-offs ->

- Stability vs affordability
- Short-term vs long-term
- Existing vs future residents

Rent control help existing residents stay in their homes, but they do little to accomodate future growth.

Is rent control successful for promoting stability?

According to the Urban Institute, "*If rent control is judged on its ability to promote stability for people in rent-controlled units, evidence has generally found it to be successful.*" (2019)



Rent Control – Barcelona’s approach

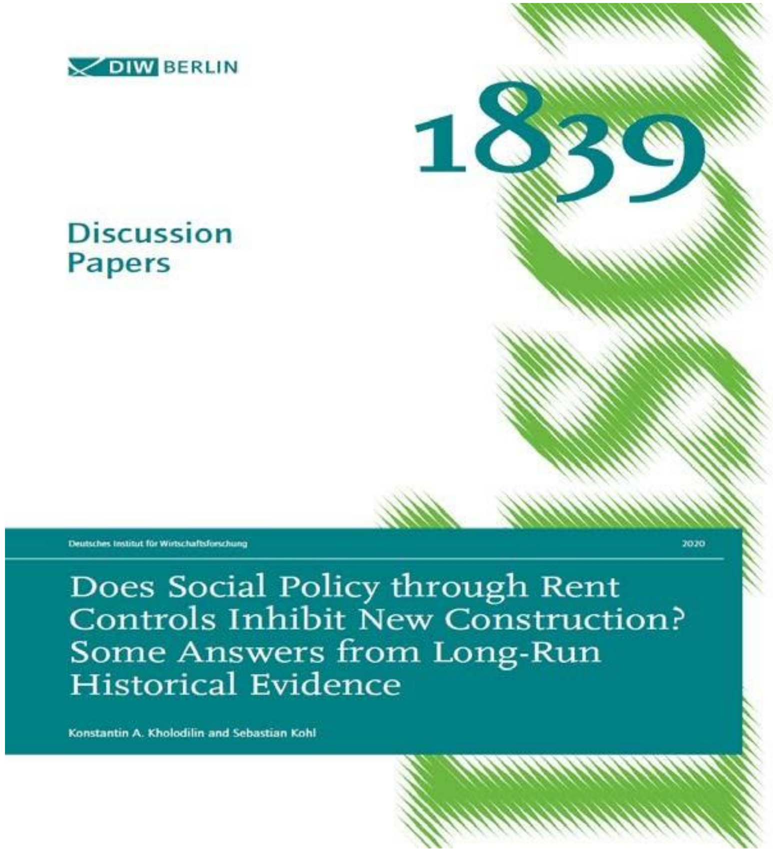
HOW do we design rent control without undermine new housing construction?

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

5.3 Rent Control – Barcelona's approach



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

"Rent controls help sitting tenants in the short-run but contribute to future housing shortages for new tenants in the longer-run. This long-run result can partially be offset by additional state policies stimulating housing construction. The negative effect of regulation can be offset by exemptions for new construction and by compensating government construction"

The combination of price regulation with exceptions for new construction and a massive public program of subsidized 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**”

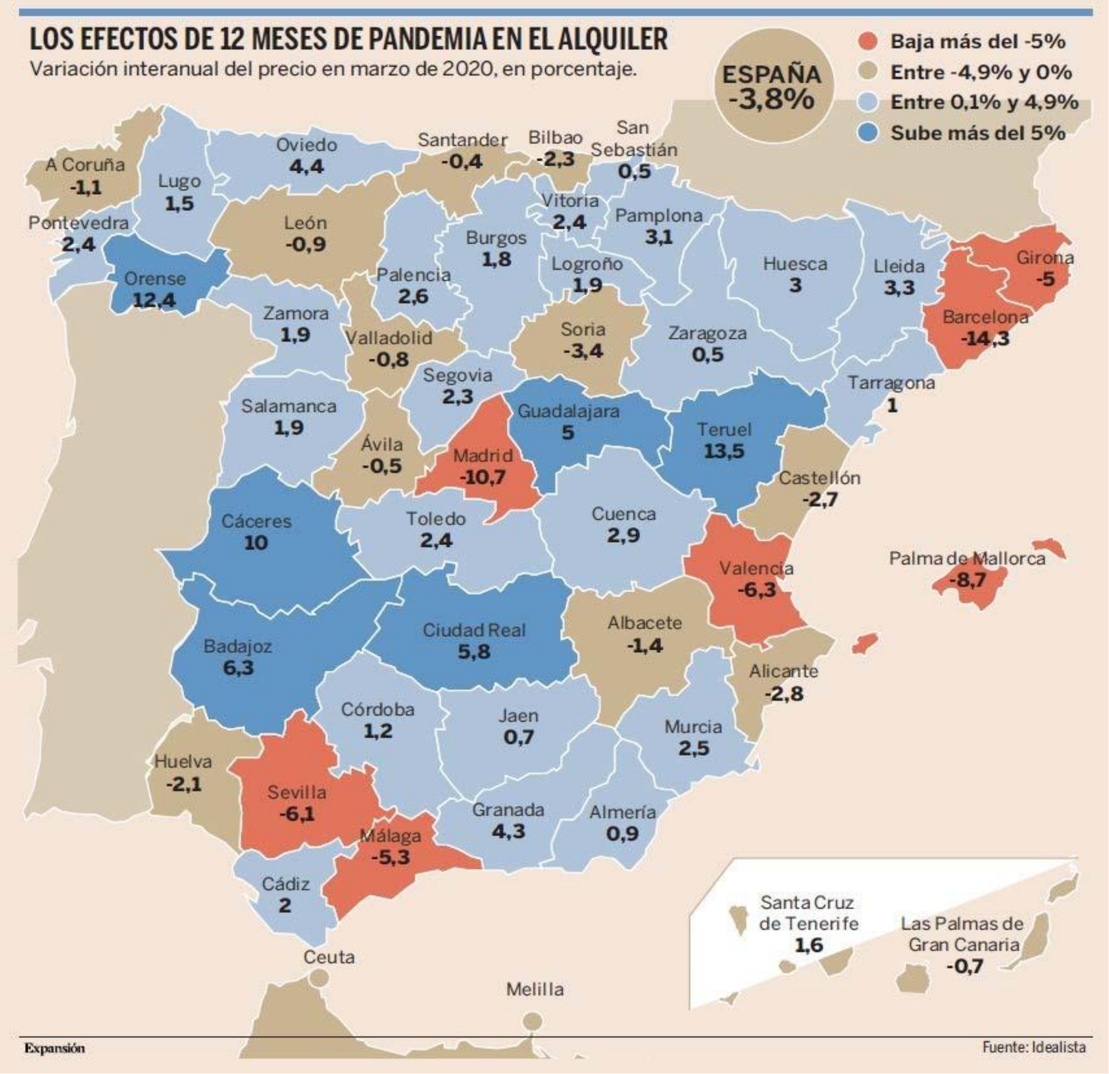
- Limit to the increase in rent **between contracts** (current contracts are 5 or 7 years long). Increases during the contract cannot exceed the consumers price index IPC)

- An **official rental index** has been set based on real life transactions (based on the housing deposits official registrar)

- New contracts c**annot exceed nor the index neither the previous price** + competitiveness assurance index

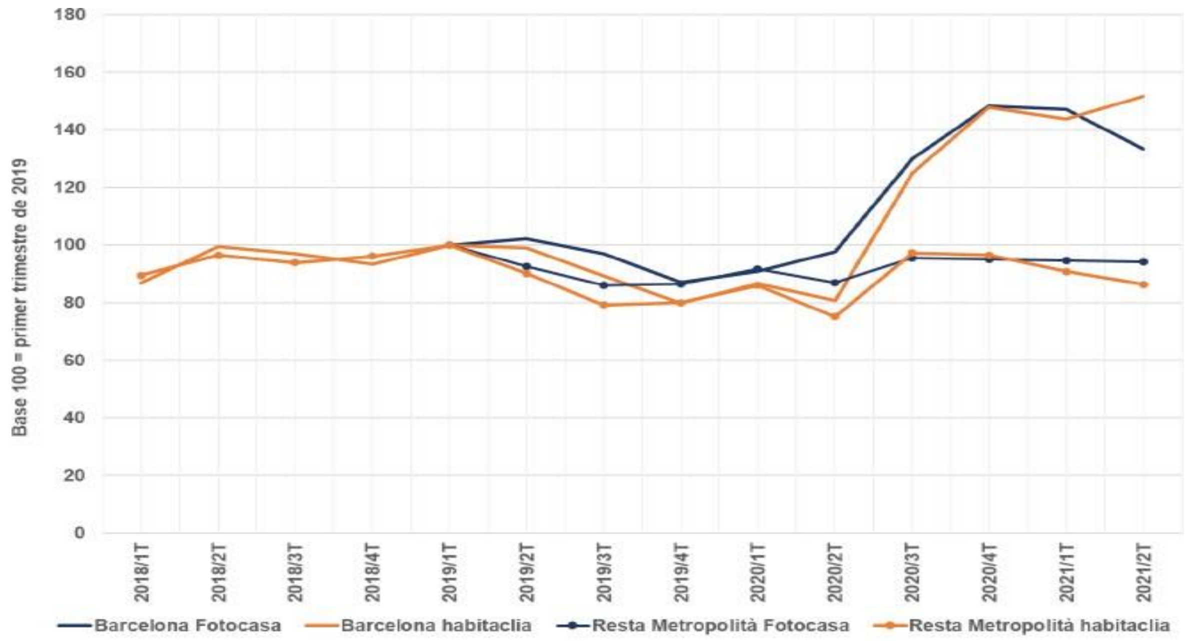
- **Exceptions** apply for new construction BTR, housing with outstanding features or if recently renovated.

It’s to early to know. But, **has it been effective?**



5.3 Rent Control – Barcelona's approach

Rental housing supply 2018-2021, Barcelona and its Metropolitan Area
Base 100 = 1st trimester 2019



* L'àmbit Metropolità actualment comprèn tots els municipis de les comarques del Baix Llobregat, el Barcelonès, el Maresme, el Vallès Occidental i el Vallès Oriental, i quatre municipis més del Moianès.
Font: O-HB, a partir de les dades facilitades pel grup Adevinta.

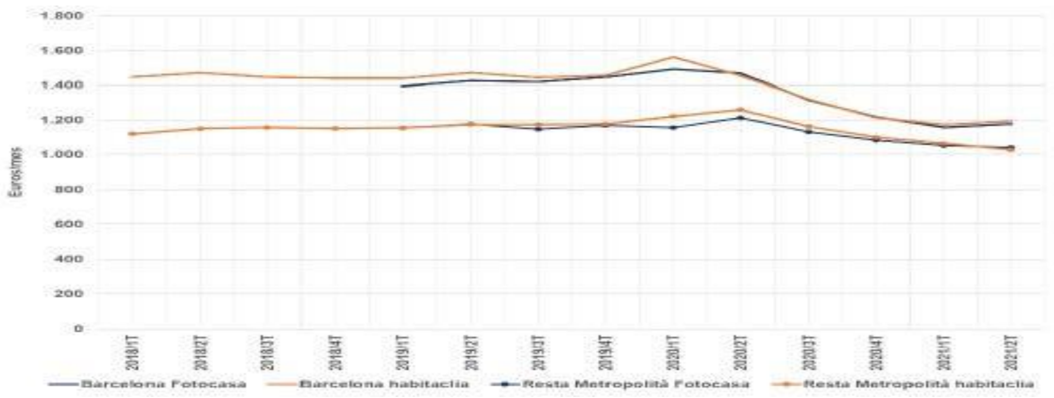
Rental housing supply increase

2 main drivers:

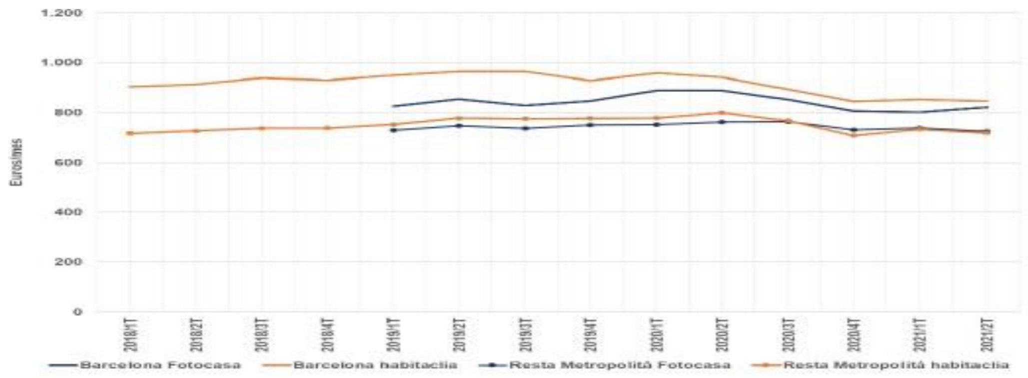
- Reduction during lockdown due to halt in activity and rental contract extensions.
- Decrease in the supply of touristic accommodation.

5.3 Rent Control – Barcelona's approach

Average asking rental price 2018-2021, Barcelona and its Metropolitan Area



Average demanded rental price 2018-2021, Barcelona and its Metropolitan Area



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Contention in rental prices due to:

- Increase in supply.
- Longer offering period.
- Rent Regulation Law 11/2020 .

5.3 Rent Control – Barcelona's approach

ABC ABC

Las ciudades donde se limitaron los alquileres sufrieron caídas de la oferta

Pueden puntualmente producirse reducciones de los precios, pero lo que se da siempre es una limitación de la oferta», apunta Raya.

2 weeks ago

"After only two quarters, and taking into account the COVID effect which makes it more difficult to clearly identify the impact of the price control, it is early to see any effect.

If instead of doing the analysis on prices it is done on the number of contracts, again it is also difficult to observe any impact."

Spanish rent regulation model

- **First Housing Law** in Spain (at national level)
- **Draft Bill** led by the Goverment. 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.

6

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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