Does the Rental Brake Also Brake Housing Construction?

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DASH International Conference

TIGHTENING OF RENT CONTROL

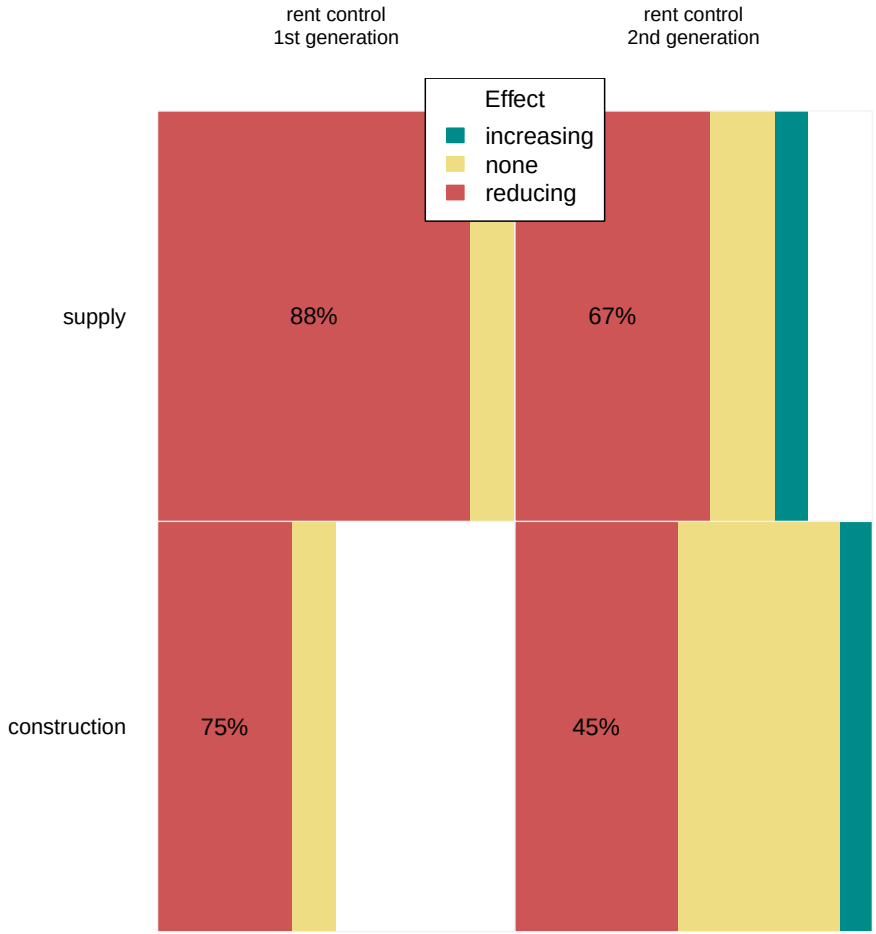
The imminent tightening of rent control in Germany



Source: Mietrechtexpertenkommission

- Federal coalition agreed to reform rent control
- Justice Minister Stefanie Hubig convened expert commission on rental law
- It includes representatives of tenants, employees, landlords, homeowners, builders, researchers, and judges
- Positions remain divided, but ministry insists on tightening rent control

Effects vary depending on the strictness of the controls

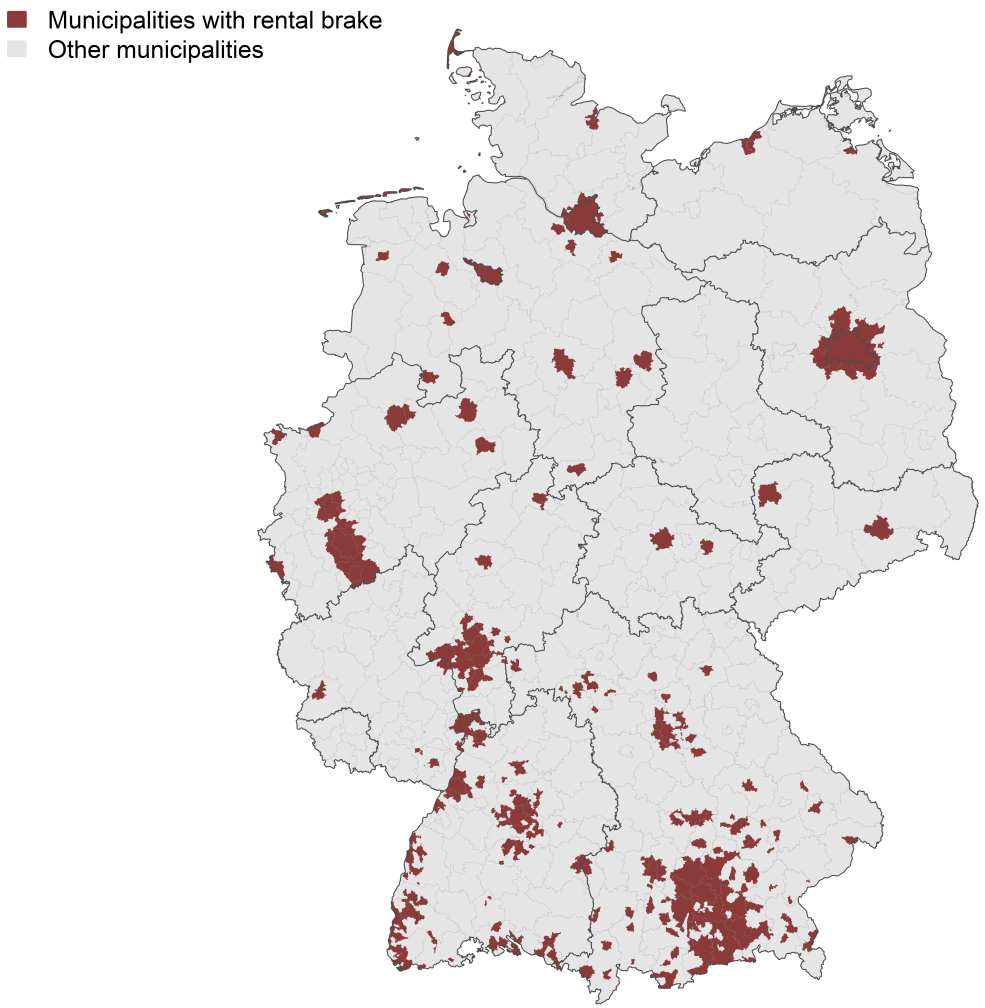


- The empirical studies mostly agree that rent control reduces supply and construction
- The effects of rent control on housing construction depend on how strict it is
- First-generation rent control clearly has a negative impact on construction and supply
- Second-generation rent control is less harmful

Source: Kholodilin (2026)

WHAT DOES GERMAN EVIDENCE REVEAL?

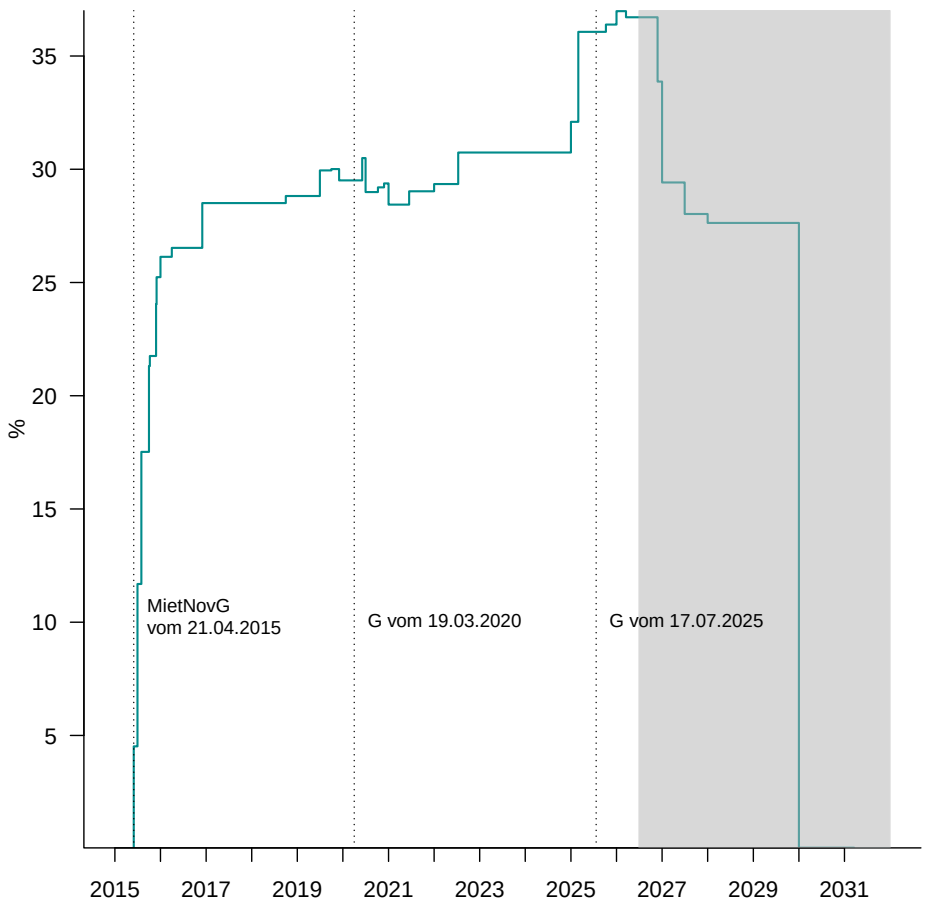
What is rental brake?



- Rental brake (Mietpreisbremse) restricts newly negotiated rent prices:
  - allowed rent $\leq$ typical local rent $+10\%$
- Rent pressure zones:
  - municipalities or their parts chosen by Länder
  - 4 criteria: rising rents, high rental burden, low construction, low vacancies
- Exemptions:
  - dwellings completed or substantially renovated starting from October 2014

Source: own construction (all rental brake areas)

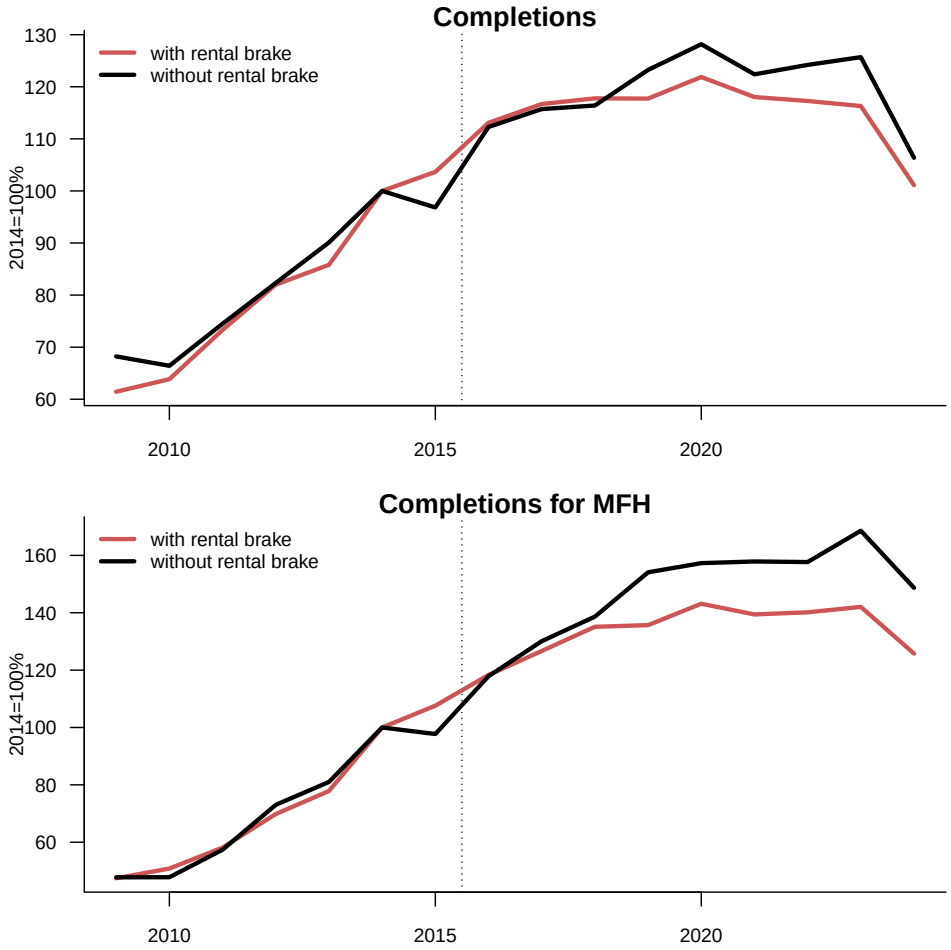
One in three people lives in an MPB municipality



- The policy originally scheduled to last 5 years was extended twice
- By October 2026, the number of rental brake municipalities had risen to 753 of $\approx$ 11,000
- Over 35% of Germany's population lives there

Source: own construction (percentage of the population, 2015–2031)

Rental brake appears to have slowed down construction



- Before the introduction of the rental brake, housing construction grew at roughly the same rate on average across all counties
- After the rental brake was introduced, the pace slowed
- Housing construction has stagnated noticeably since 2018, particularly in municipalities with the rental brake

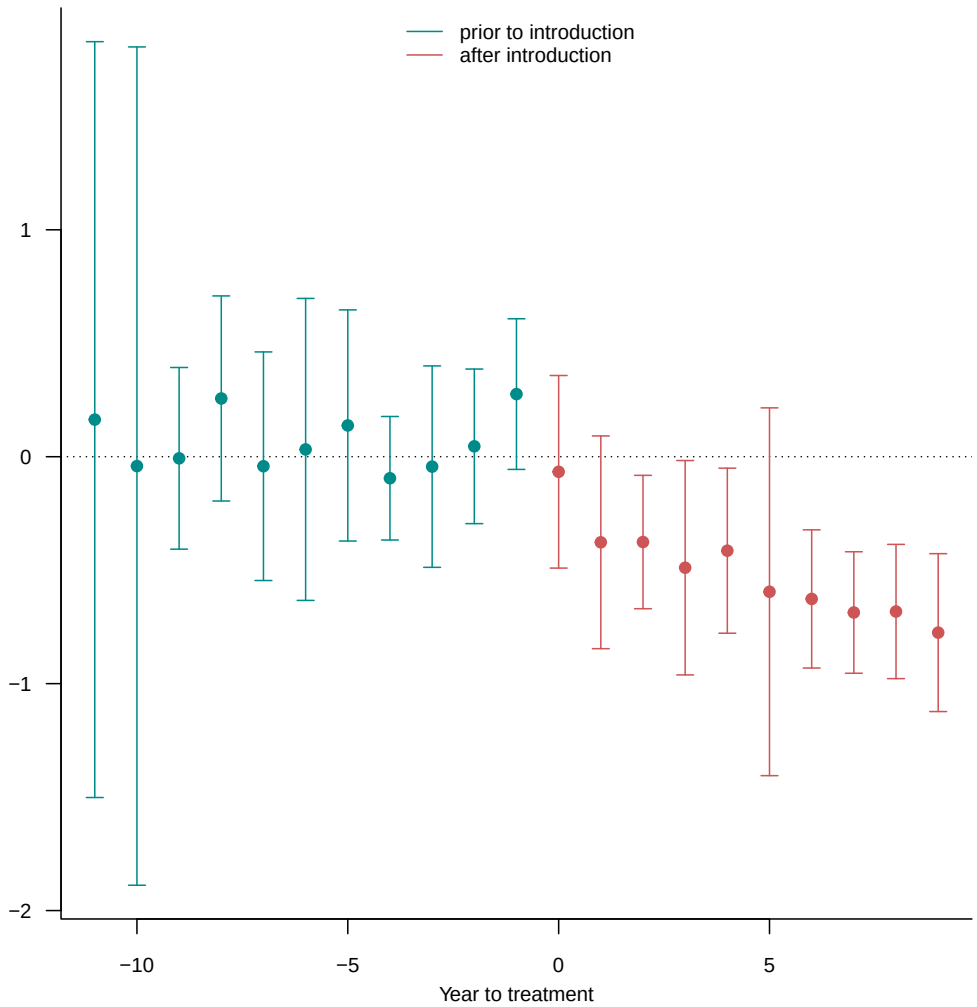
Source: Destatis and own representation

(2009–2024)

Empirical approach

- Method:
  - staggered difference-in-differences
  - accounts for introduction of rental brake in different regions at different dates
  - estimators: Callaway and Sant'Anna (2021); Sun and Abraham (2021); Gardner (2022)
- Data:
  - dwelling completions, y_{it}
  - log-plus-one transformation: $\log\left(y_{it}+1\right)$
  - ≈11,000 municipalities
  - 2010–2024

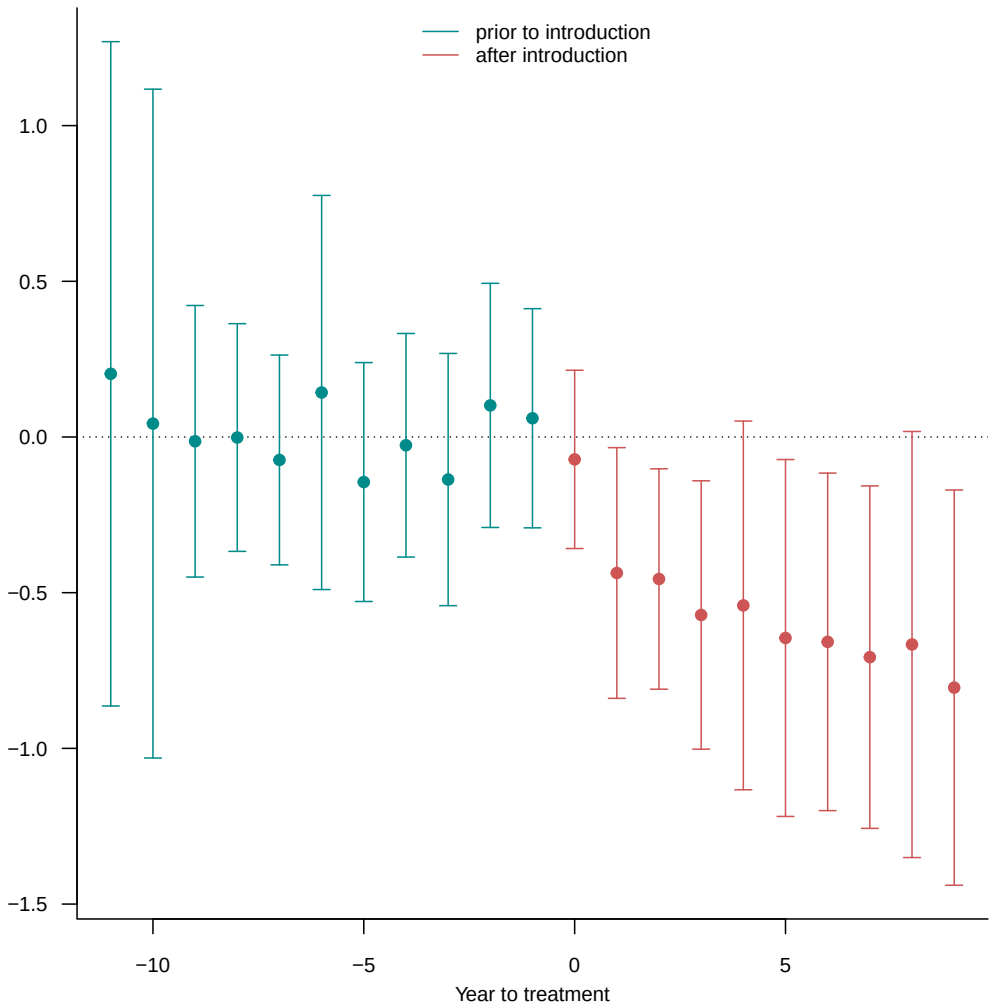
Event study shows that rental brake reduces construction



- Event-study results based on Callaway and Sant'Anna (2021)
  - vertical axis: estimated average treatment effect for each event time
  - horizontal axis: event time $e = t - g$, where g is the treatment adoption period of a given cohort and t is calender year
- After introduction of rental brake, total dwelling completions declined

Source: own estimation results

Rental brake diminishes production of apartments



- In Germany, most apartments are rental dwellings
- They play a key role in providing tenants with living space
- The rental brake reduces apartment construction
- This is ironic, as rent control is meant to protect tenants

Source: own estimation results

Robustness checks

- Four variables:
  - total completions
  - completions of dwellings in multi-family houses
  - completions per inhabitant
  - completions minus demolitions per housing stock
- Four different subsamples:
  - only regions with population less than 500,000
  - only municipalities with population above 50,000
  - regions with homeownership rate below 60%
  - municipalities with rental brake and their neighbors:
    - k nearest neighbors
    - neighbors sharing common border

POLITICAL UNCERTAINTY KILLS CONSTRUCTION?

Even flexible rent control can reduce construction

- Rental brake exempts new construction, but negatively affects it
- Increased regulatory uncertainty:
  - extensions of rental brake
  - Berlin's Mietendeckel 2020–2021
  - referendum on nationalization in Berlin in 2021
  - proposed shift of the exemption cutoff year from 2014 to 2019
- Investors demand higher risk premia
- Reduced rental revenues limit financing of new projects
- As a result new construction decreases

THANK YOU!



https://www.youtube.com/@pierrelesarbre7620/videos

Disclaimer



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