

The impacts on rent control on maintenance: historical analysis in Lyon

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Plan of the presentation

● Introduction

- Motivation and objectives
- Negative side effects of rent control in the literature
- Historical context

● Method

- Data source
- Treatments

● Results

- **Evolution of rents over the different rent control periods**
- **Evolution of maintenance expenditures and landlords revenues**
 - Over time
 - As functions of rents
 - As functions of the level of rent control at the building level

Motivations and objectives

- Rent control in place under different forms during the **20th century in France (1914 - 1968)**
- Ongoing **debate about the impact of rent control policies** on different outcomes on the housing market
- Micro-level data give an opportunity to evaluate the impact of these rent controls on landlords behavior: **maintenance expenditures** and **landlords' revenues**

Negative side effects in the literature

- **Lower investment** in the housing sector
 - Construction
 - Maintenance
- **Decrease in the share of rental housing** (landlords would sell and invest in a different sector)
- **Lower renters' residential mobility**
 - Misallocation of housing units to households \Rightarrow social cost
 - Outsiders / insiders
 - Impact of low mobility on the labor market

Historical context: rent control in France since WW1

Four periods since World War 1

- **1890-1913**: no control
- **1914-1931**: *moratoire* during WW1 followed by the first rent control measures
- **1932-1947**: second set of rent control measures and WW2 *moratoire*
- **1948-1968**: 1948 law, that instaured a system aimed at increasing progressively rents and ending rent control; with a renter's mobility, flats stopped being controlled

Data source

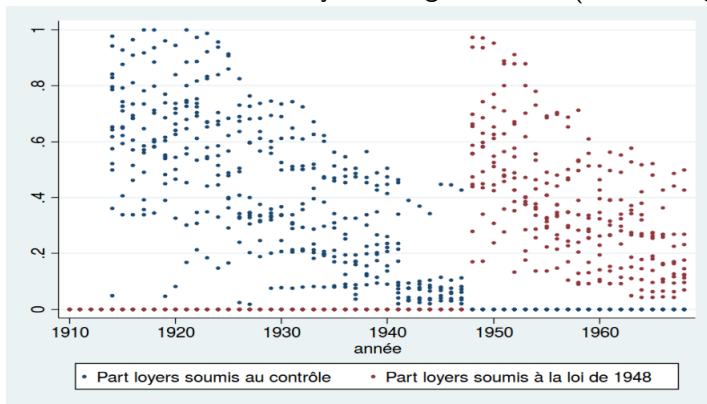
- A **real estate agency register**
 - Detailed receipts and expenditures for each building on a yearly basis
 - Receipts at the flat level allow to follow rents' evolution over time
 - Knowledge of each expenditure recipient allows to classify these expenditures into categories
- 32 buildings observed between **1890 and 1968**
- Among which **14 buildings** for which **detailed expenditures** have been collected

Available information

- **Building characteristics:** location, number of flats, number of storeys, building period
- **Receipts: Annual rents** at flat level
Renters' mobility based on renter's name changes
- **Expenditures:** all amounts paid by the rental manager at building level
- Classified into **4 categories**
 - Fixed (insurance, doorkeeper wages, gaz subscription)
 - Fixed and proportional to collected rents (taxes and rental management)
 - Contractors: mason, carpenter, painter, ...
 - Landlord revenues
- All monetary amounts in **constant Francs**

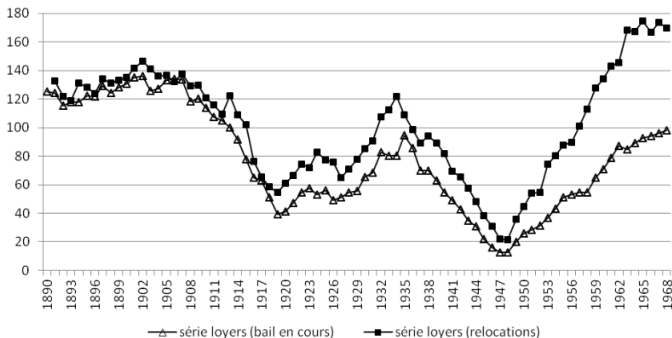
Intensity of rent control over the observation period

- Status of an apartment with respect to control based on renter's mobility
- Share of controlled flats by building over time (14 buildings / year)



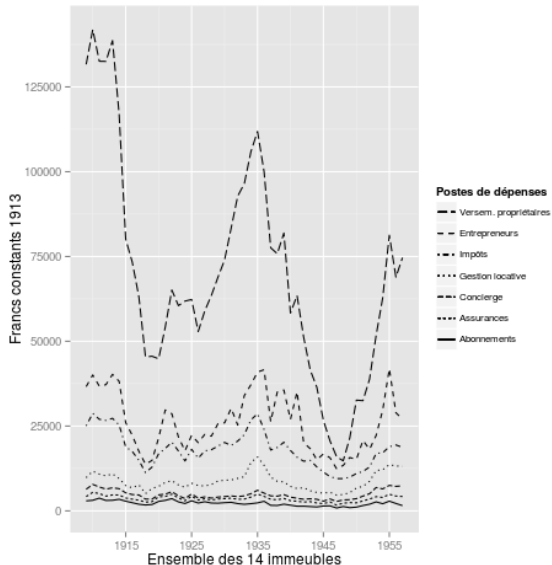
Impact of rent control on rents

- **Divergence of rents in controlled / uncontrolled apartments**



- In periods with the strongest rent control, heterogeneity of rents was reduced; **high rents decreased more than low rents**

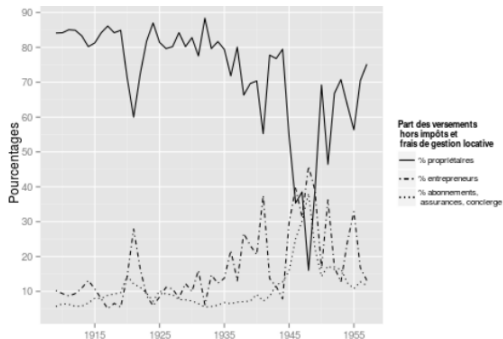
Expenditures by category over the 14 buildings



Cumulative sum
of expenditures
= total rents

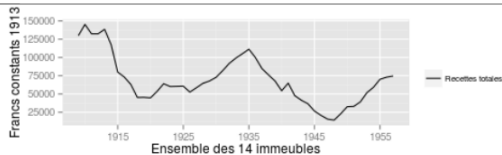
Large variations in main-
tenance expenditures and
landlords revenues

Expenditure shares in broad categories and rents over time



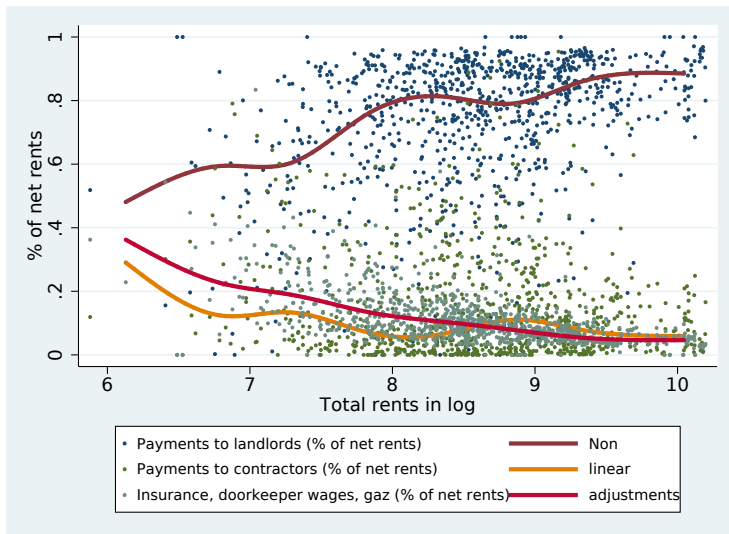
Shares of

- landlords' revenues
- payments to contractors
- regular expenditures



Evolution of total rents

Landlords revenues as adjustment variable



Types of expenditures as functions of total rents

- We regress the shares of
 - regular expenditures
 - payments to contractors
 - payments to landlords

on total building's rent, allowing the relationship to differ depending on each of the 4 periods (analogy with a household's expenditures shares as function of income, Engel curves).

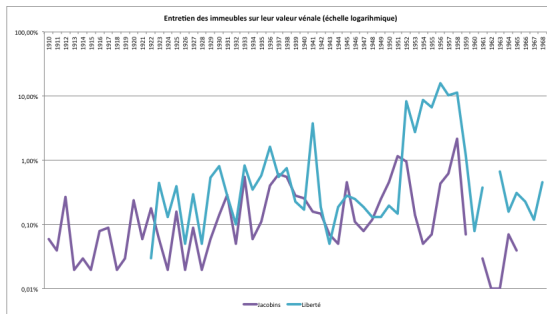
- We observe:
 - The relationship between regular and contractor expenditures and total receipts does not vary much across the periods
 - **Landlords' revenue react particularly strongly to changes in rents** in the last period, which witnessed strong increases in rents due to the 1948's law.

Types of expenditures depending on the strength of rent control

- **Rents of commercial premises** are only slightly controlled; they **increase the share of landlords' revenues** in all the periods
- The stronger the decrease of rents due to control,
 - the higher the share of everyday expenditures and maintenance
 - and the lower the share of landlords' revenues.
- **1914-1931: no significant effect of control** on the shares of maintenance expenditures and landlords revenues
- **1932-1947:** in this period with strong rent decreases, the share of receipts given to landlords decreases and the **share of maintenance expenditures is protected** (but what about expenditures in levels?)
- **1948-1968 :** rents from flats not controlled anymore have a negative impact on landlords revenues, and slightly increase maintenance expenditures, as by a **correcting effect**

Expenditures on maintenance with respect to flat value

- For two buildings, selling prices at two points in time allow, by linear interpolation, to evaluate the market value each year.
- Ratio of payments to contractors on the building's value



- The two curves do not show any specific decrease of "maintenance rate" in the period with the strongest rent control

Conclusion, limits and further work

- Results
 - Our results seem to suggest that rent control between WW1 and 1948 in France did not impact much landlords' maintenance expenditures
 - Rather, they seem to have adjusted their revenues
 - Impact on returns, hence change in asset management?
- Limits of this study
 - No control for flat quality: potential endogeneity of control status
 - There is some sample attrition: could it be that buildings with the lowest rentability were sold?
- Further work required to control for these potential biases