

In this report, I hope to examine how rental regulations in Ireland, introduced in January 2017, will affect the rental and housing market.

I will also look at how rent regulations have affected other cities and countries in the past, including Britain, Paris (France) and Massachusetts (USA), and hope to draw a conclusion from their experiences as to how our rent regulations will affect us in the long run.

The Theory of the Effects of Price Controls

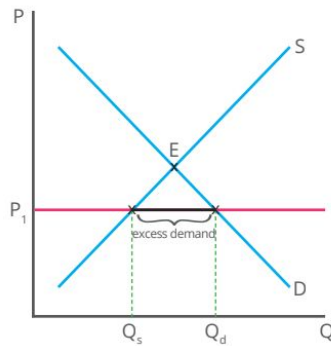


Figure 1. Supply and Demand Curve

With a price ceiling at price P_1 , for example rent controls (where prices cannot increase past a certain price), prices are likely lower than they would be in a free market. They are usually put in place by an external body in an attempt to stop rising prices.

As shown in the diagram, demand will exceed supply as price cannot rise to the equilibrium point, point E (as it would in a free market), and there is a shortage of the good (excess demand).

There is little incentive for a supplier to supply a good when they cannot sell their good for a higher price, causing a fall in supply. Likewise, demand increases as prices are artificially lower. Excess demand exists between points Q_s and Q_d .

Rent Regulations - So what happens theoretically?

[A short explanation is presented as to the theoretical effects of rent stabilisation on the housing market].

Let's look at an example...

Figure 2 represents a typical property put on the Irish rental market on 30th July 2017 via DAFT.ie will be used as an example ¹.

Property A

- Salthill, Galway City
- Rent - €1800 per Month
- 3 Bedroom House
- 10 minutes from City Centre

Figure 2. Property Advertisement

Figure 3 shows how the rent would naturally grow outside of rent regulations in a free market (average rent increases in Galway since 2015 would have been 10.1% annually ²), and also how it would not continue to increase under rent stabilisations of 4%. As you can see, by 2027, the rent would be significantly higher without rent regulations rather than with rent regulations. While the figures are not perfect, as it is likely that rent would not continue to increase at ten percent annually for 10 years, it can give an indicator as to the rents this family would be paying in a free market. The couple would be paying €24,052 more for deregulated rent than regulated rent. Let's say that by 2027 the couple's children will have left home and there are two vacant bedrooms in the house. Under normal circumstances, tenants would leave this property to find a smaller unit elsewhere.



Year	At an increase of 4% annually	At an increase of 10% annually
	€	€
2017	21600	21600
2018	22464	23760
2019	23363	26136
2020	24297	28750
2021	25269	31625
2022	26280	34787
2023	27331	38266
2024	28424	42092
2025	29561	46302
2026	30744	50932
2027	31973	56025

**Figures are adapted from a submission of student work. Teacher discretion should be exercised if using this data as a classroom resource.

Figure 3. Table of Annual Rent Increase

The couple also wouldn't need a unit so close to the inner city than previously required when having children that attended the nearby school. The couple could move to a location outside the city, where rent would be cheaper in a free market. However, since the rent stabilisation only applies to locations within Galway City, units outside the RPZ could have similar or higher rents to those within the RPZ. If this was the case, there would be little reason for the couple to move further out from the city, where amenities are better.

Without the 4% cap on annual rent increase, it would make more sense for the couple to move out as they can save money on rent and increase their real income. Rooms may then lie unused in the RPZ while supply diminishes as tenant turnover decreases. First-time tenants may have to look for locations further and further out of the city, and for higher prices outside of the RPZs, decreasing standards of living.

I believe that it is clear from this report that rent regulations will not solve the problem of the rental crisis in Ireland. These regulations will only serve to dampen supply in the rental market, arising from a disincentive to supply, which is the stem of the problem. The placement of regulations in the rental market will also exacerbate housing prices - as supply falls for rental accommodation, demand can only increase in the ownership market.

Why are rents soaring at an unprecedented rate in Ireland in the first place? Is it greedy landlords teaming together to take their tenants' incomes, or is it an economic problem of supply and demand?

[The author poses the question as to why housing stock has not increased in line with population growth in Ireland and uses the following graph to support the conclusion that if housing stock does not increase quickly, the shortage of supply in the market will continue to worsen and more pressure will fall on state resources to find temporary housing for a growing population³. The author draws a number of other conclusions in relation to the impact of interventions by the government, central bank requirements, and the availability of finance to developers in the construction industry and goes on to make several recommendations. These include:

- *Training opportunities within construction to combat future skills shortages*
- *Increasing the ratio of public housing stock to private housing stock*
- *Avoiding rent regulations to incentivise the private rental sector*
- *A change to height restrictions in the planning laws and*
- *Improvements to public transport infrastructure for those forced to commute to protect living standards and economic growth.]*

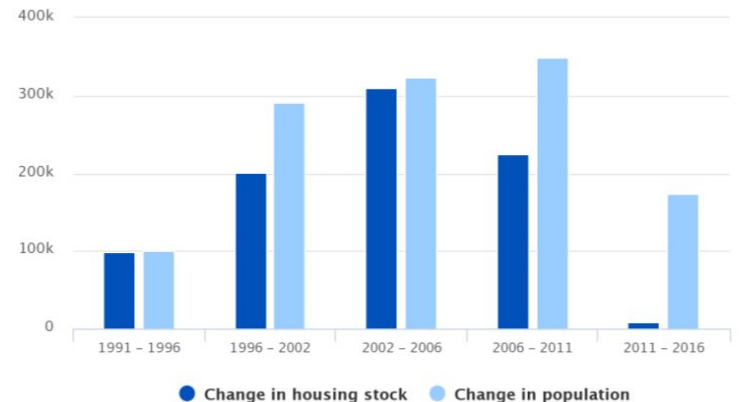


Figure 4. Change in population and housing stock, 1991 - 2016⁴