

Rent, killed

If you can't find a place to rent, blame the government

Foolish crusades against landlords have made housing shortages worse



Illustration: Rob en Robin

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OVER THE past decade governments have meddled endlessly with rental markets in an attempt to improve life for tenants. It has not worked. Even as overall inflation has fallen, rents have continued to rise stubbornly, and at last count were up by about 5% in a year on average across the rich world. In part, this reflects the delayed impact of inflation, because long-term leases can mean rents take a while to catch up with other prices. But it also shows that many policies aimed at easing pressure in rental markets have been treating the symptoms of the problem rather than the cause. They have thereby ended up making things worse for the people they were meant to help.

Interventions have been widespread. Since 2015 Germany's "rent brake" has forced new landlords to consult a government index to determine what they can charge. Britain has hit landlords with additional taxes. In 2016 Ireland capped annual rent increases in "rent pressure zones", meaning anywhere suffering a shortage; since 2021, the cap has been set at inflation or 2%, whichever is lower. Spain limited rent increases in 2023, with particularly strict rules for large landlords. Australia has tried to curb bank lending to property investors. And several American states, including California, New York and Oregon, have tightened the regulation of rents and tenancies.

These policies are typically implemented in the belief that landlords' greed is to blame for renters' hardship. Bashing landlords is certainly popular. But the real cause of high rents and landlord power is the underlying shortages in many housing markets, caused by limits on construction. In too many places it has been impossible for the supply of homes to keep pace with demand, especially as immigration has surged.

The impact of governments' interventions has been to make the shortages of rental properties worse, by encouraging landlords to leave the market. According to idealista, a Spanish property portal, 75% fewer permanent rental properties were listed for rent in Barcelona in 2024 than in 2019, with 63 families competing for each listing. In 2022 the number of tenancies registered in Ireland was 23% lower than it had been in 2016, even though Ireland's population was 9% larger.

In theory landlords selling up should increase the supply of homes for sale, reducing prices and encouraging people to switch from renting to buying. Rachel Reeves, Britain's chancellor, claimed in October that raising a tax on the purchase of second homes, which includes many transactions by landlords, would make life easier for aspiring homeowners. In reality, though, buying property is bumpy and inconvenient compared with the flexibility of renting, because of legal processes, property taxes and long transaction chains. The result is that house prices take longer to adjust than rents.

In fact, markets for owner-occupied housing have seized up in recent years, as higher interest rates have encouraged owners with fixed-rate mortgages to stay put. The number of existing American homes sold in 2024 was 19% lower than in 2022. It has therefore been a bad time to disrupt the rental market. Higher rates immediately made mortgages more expensive, with the result that swapping renting for buying has become harder. At the same time, high inflation has meant that rent controls set in cash terms have pinched even more tightly.

As a result, the policies' pernicious effects have been all the greater. Although controls can keep rents down for a while, shortages create pressure which eventually tells, as today's ongoing rent inflation shows. Even if rent rises can be contained by fiat, landlords obtain more power in other ways—why spend on maintaining a property, for example, if there is a long queue to replace your tenants? And renters are not the only people to suffer. A well-oiled rental market helps economic growth by offering flexible tenancies so that people—and especially young workers—can move easily to new jobs. Clogging it up hurts economic growth.

Build back better

Fortunately, some governments are realising that they have erred. Ireland is reconsidering its rent controls, for example. There are also ways to reduce landlords' profits that do not interfere with housing supply, such as taxing the value of land regardless of how it is used. But the only way to end foolish regulation is to build enough homes that nobody sees it as necessary. In Texas building rules are loose and housing is mostly abundant; landlords face few constraints and few call for them. Liberal construction policies beget liberal rental markets, to everyone's benefit. ■