



Housing Policy Interventions

JAIME LUQUE

DIRECTOR, ESCP INSTITUTE OF REAL ESTATE FINANCE
AND MANAGEMENT

ESCP BUSINESS SCHOOL

✗ Rent Control

Berlin, Paris, NY, Los Angeles, London, Barcelona, etc.

Olsen (1986): wealth distribution limited and 52% of efficiency loss

Mapezzi: evidence of black market in El Cairo.

Mense et al. (2017): rent increases sharply in the free market sector

Diamond et al. (2019): in the short-term rent control policies prevent renters from getting displaced, whilst in the long run the market rents are driven up. Housing supply decreases by 15%.

Zoning

- ✓ Building and land use regulations & lengthy process
Lin et al (2017): house prices decrease by 38% in LA when land use regulation is set to the minimum standards in the region
- ✗ Exclusionary zoning: minimum lot size
 - Inclusionary zoning & NIMBY problem
- ✓ Public-sector funding of infrastructure to bring sites forward: Housing Infrastructure Fund (HiF) in the UK
- ✓ Using public land for housing
Rosenthal (2017): new construction filters 2% of the existing housing stock into the rental market, in turn decreasing rents

Housing demand subsidies

Housing vouchers

- ✗ Rental housing
- ✗ Mortgage: e.g., Help-To-Buy (UK)

Carozzi, Hilber and Yu (2019): HTB substantially increased house prices and had no discernible effect on the construction volume

Housing supply subsidies

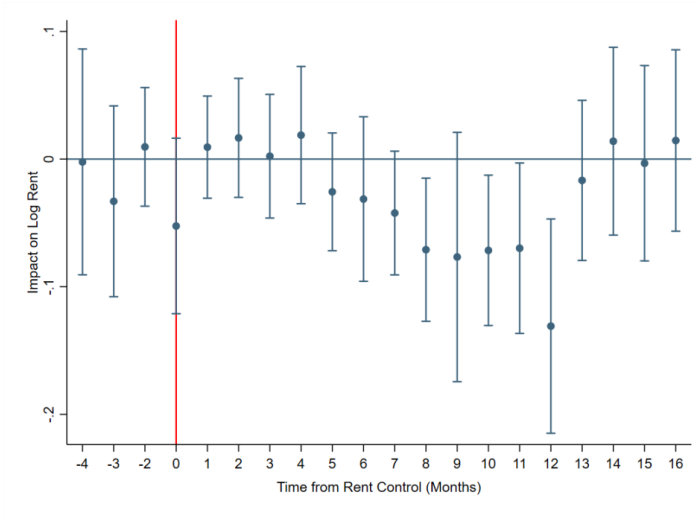
- ✗ Public Housing
- ✓ Public-Private Partnerships:
 - Low Income Housing Tax Credits (LIHTC), USA
 - Tax Increment Financing (TIF), USA

The Catalan rent control law

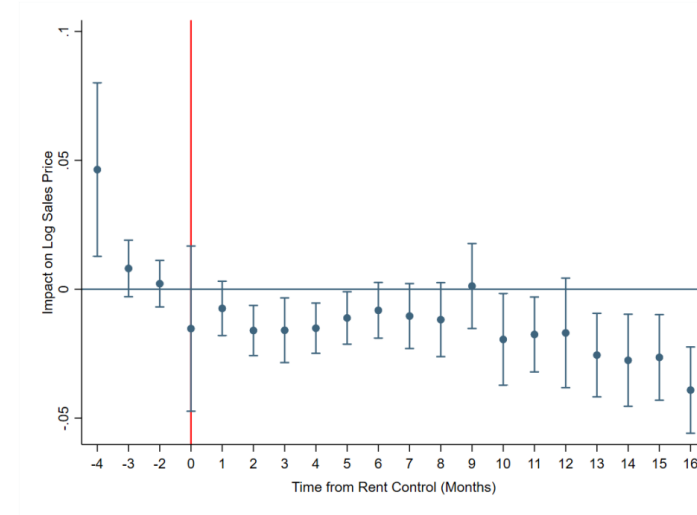
- On 18 September 2020, the Catalan Parliament passed a Law on Urgent Measures for Rent Control (Law 11/2020)
- Regulates contractual rent increments of *residential* rental properties located in areas declared as “tense housing markets”
- Rents cannot exceed:
 - The reference rent of a similar property in the same urban area
 - The rent stated in the last rental contract, if lease signed between Sep 2015 and Sep 2020
- Rent control policy applies to tense areas, i.e. areas where:
 - Average rent burden exceeds 30%, or
 - Average rental price grows faster than average rent in Catalonia, or
 - In last five years, average rental price has grown more than 3p.p. above annual growth rate of the Catalan CPI

Figure 6: Dynamic effects of the rent control law

Rents & Prices



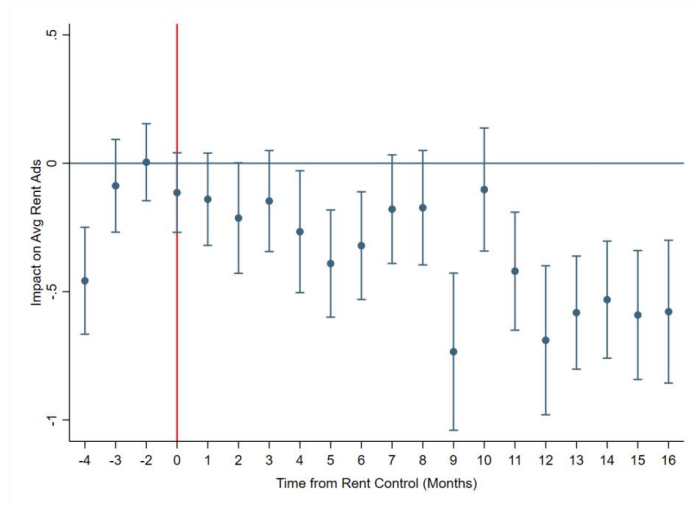
(a) Rent



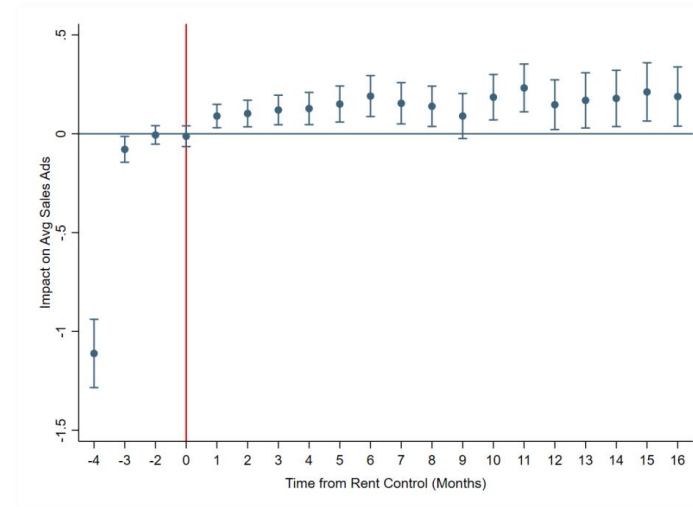
(b) Sales price

Figure 7: Dynamic effects of the rent control law on volumes

Volumes



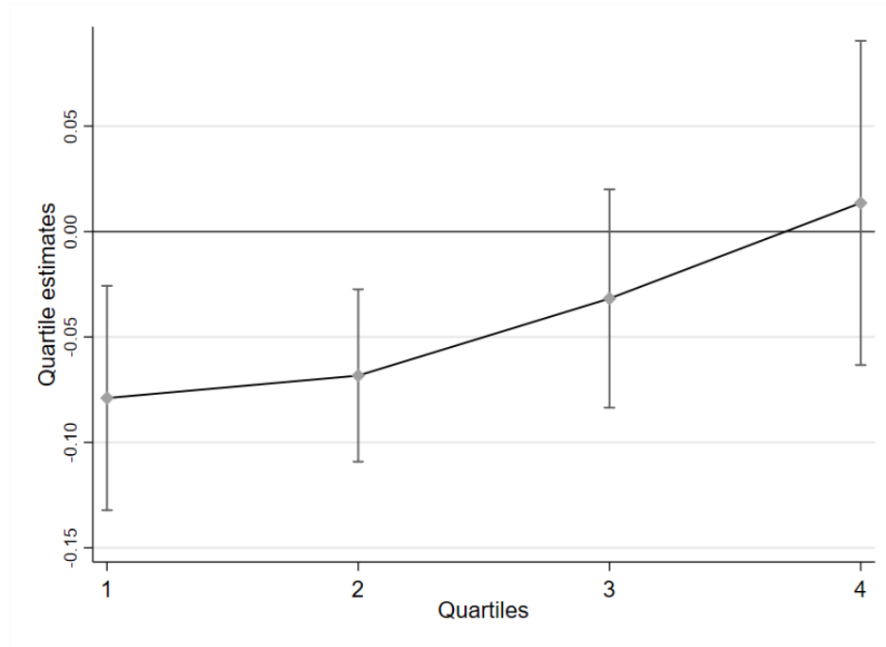
(a) Rent volumes



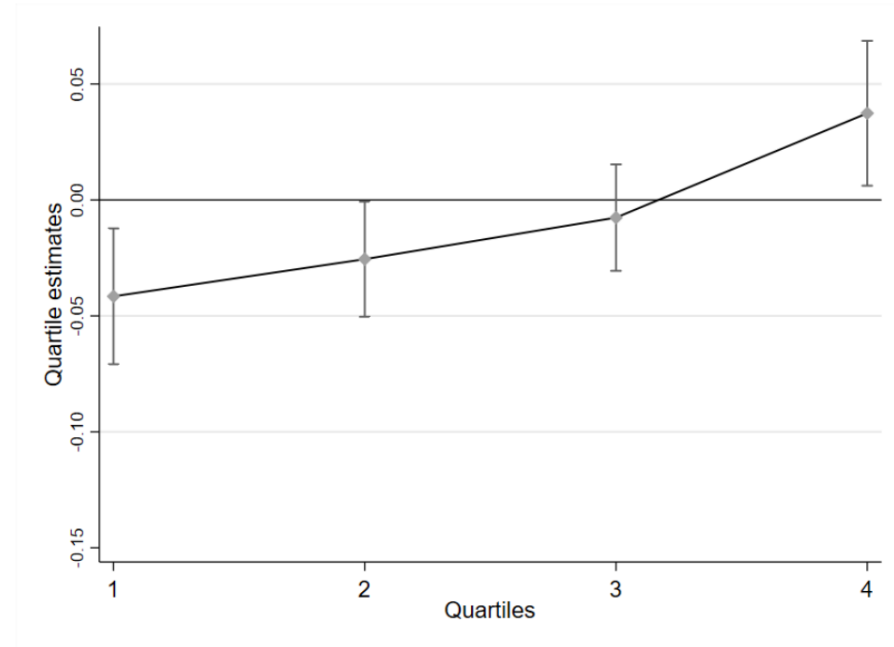
(b) Sales volumes

Distributional effects

Figure 8: The impact of rent control on average rental and sales prices by quartile



(a) Rental prices



(b) Sales prices

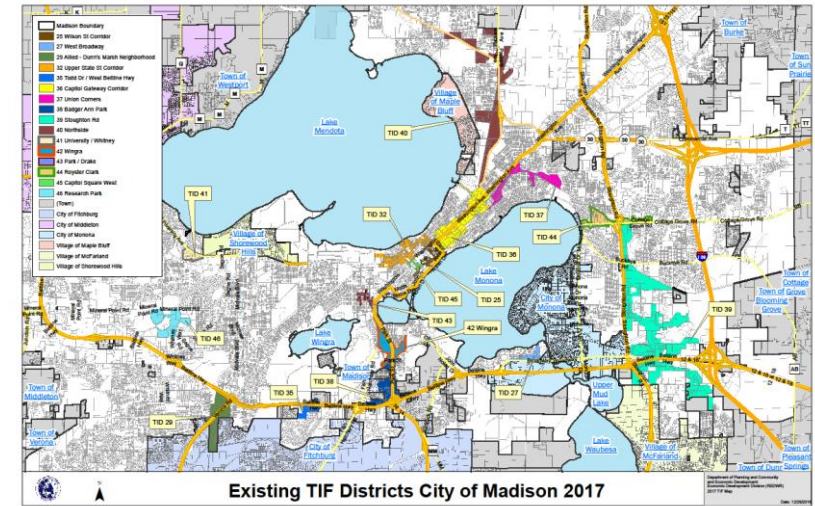
Table 9: Aggregate gains and losses in rents and sales prices

Quartile	Total value (€)	Estimated change (p.p.)	Estimated value change (€)		
			6-month window	1-year projection	10-year projection
	(1)	(2)	(3)	(4)	(5)
Panel A: Rents					
First	25,499,581	-0.079***	-2,014,467	-4,028,934	-35,364,814
Second	20,444,808	-0.068***	-1,390,247	-2,780,494	-23,725,494
Third	20,407,945	-0.032	-653,054	-1,306,108	-9,583,984
Fourth	27,426,056	0.014	383,965	767,930	5,620,779
Panel B: Sales Prices					
First	10,956,995,647	-0.042***	-460,193,817	—	—
Second	14,809,885,706	-0.026**	-385,057,028	—	—
Third	18,445,744,059	-0.008	-147,565,952	—	—
Fourth	29,425,325,113	0.037**	1,088,737,029	—	—

TIF example

Current property taxes are: \$47,000
 Increased total taxes are: \$270,000
 The tax increment is: \$223,000

Using (N) = 23; (I) = 5.20% and (PMT) = \$223,000,
 then TIF is (PV) \$ 2.96 million



EQUITY

Gross Cash Equity Required	\$ 2,633,861
Tax Incremental Financing	
Net Cash Equity Required	\$ 2,633,861
Required Cash on Cash Return	8%
Cash Throw Off Required for Equity	\$ 210,709

Enter amount of TIF you need - using cells P 59 / P60 as a guide

Back of the envelope TIF analysis

Net Operating Income		\$ 914,585
Capitalization Build Up		
City of Madison Mill Rate	2.30%	
Market Capitalization Rate	5.00%	
Total	7.30%	
Estimated Property Value		\$12,528,560
Estimated Property Tax		
Current Taxes	\$ 45,000	
Proposed Taxes	288,157	
Increment	\$ 243,156,88	
Estimated TIF		
Borrowing Rate	3.50%	
Loan Term	10	
Total Potential TIF (at 100% of Increment)		\$ 2,022,240
Total Potential TIF (at 50% of Increment)		\$ 1,011,120

DEBT

Loan to Cost Ratio	80%
Mortgage Loan	\$ 10,033,755
Loan Fee	1.25%
Loan Rate	5%
Loan Term	25 years
Debt Service	\$ 703,876 /year

Net Operating Income

100%

\$ 914,585

Affordable Housing Development: Financial Feasibility, Tax Increment Financing and Tax Credits

