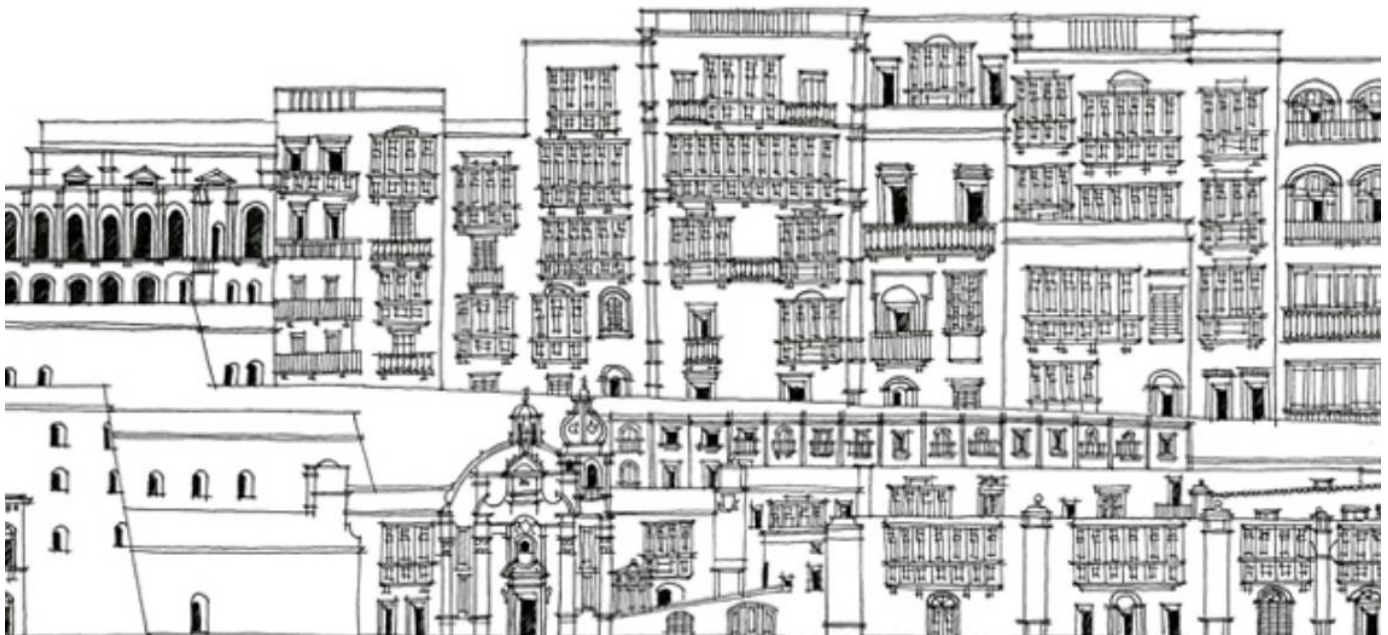


The New Rent Regulations - What Were The Impacts?

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Most economists agree that some regulation is a good thing – be it to reign in excessive market power, be it to address inequalities, to provide merit goods or reduce social costs. But economists are also very cautious about the design of intervention and the prospect that any intervention tends to create unintended and harmful consequences beyond the intended ones.



Artwork: By Inka (https://www.instagram.com/inka.workshop/?hl=en&fbclid=IwAR3x3dYX_L8qI0pj4_8JdcEXH_jr6o088xBAXMEqhXGKMfjxLrWg0Amb2fE)



There was a general consensus prior to 2020 that leaving the rental market as unregulated as it was, would create difficulties in reaching the goals of economic stability, efficiency, social justice and wellbeing. Rents were shooting up and issues of affordability, security and quality standards were all being flagged as concerns.

The new Private Residential Leases Act of 2020 therefore introduced controls on various aspects of the lease including basic regulation (e.g. the lease had to be made in writing and duly registered), fines for non-compliance (on the lessor) and an Adjudicating Panel (for damages up to €5,000). It went further than this and forbade certain clauses which previously restricted tenants' rights within the rented property and regulated the eviction process.

More controversially, it introduced a ceiling on the rates of increase of the rents for long let contracts that last over the minimum duration of a year and it stipulated the exact duration and criteria for short leases and the minimum duration of long leases. Among other changes to free market operation, the law also stipulated that fixed term leases would automatically renew unless landlords notified otherwise through registered letters.

What were the impacts?

Firstly, mandatory registration of contracts (and penalties) created an incentive to register the lease and to abide by the conditions in the regulations. This was, after all, the intended consequence of the regulation. Although one in five of the registered contracts were those pertaining to foreign tenants (with the law arguably finding less traction among Maltese parties), the Act can certainly be said to have been successful by this account.

The Act moved the market – indeed over 30,000 contracts in the first year alone - out of the wilderness. In the process, the data collected will allow policy makers, researchers market players to understand the market better.

Secondly, early empirical insights from administrative data from Malta, evidence from several other rental markets and insights from economic theory jointly suggest that the introduction of the regulation created upward pressures on rents - even though these were eventually off-set by the downward pressures created by Covid-19 effects.

As a direct effect various conditions imposed, lessors are faced with higher net costs including (for some) the obvious obligation to declare (15%) income if they previously did not. The cap on the rate of increase of rents would also have induced landlords to establish a high initial rent as a baseline. Pressures for rent to increase arise from the uncertainty about the duration of the let itself and hence the period over which to amortise agency fees and overheads.



Similarly upward pressures on rents were felt with the exclusion of clauses which previously give comfort to the investor. Administrative burdens including the registration and inventorising processes also translate into time and money. This said, the subsequent events that occurred with the onset of Covid-19 in March 2020, meant that landlords now faced a double challenge: higher costs and lower demand.

Thirdly, with a year of experience in the bag, it became clear that certain clauses may have created some unnecessary rigidities. There presents potential to address any regulatory overstep to maximise the net benefits to property owners, tenants and society, and in the process, increase the incentive to register.

One such rigidity is the mandated 5 per cent cap on the rate of increase which may be suppressing longer term contracts (landlords preferring to have the flexibility to terminate the contract rather than be bound by a cap). Another is the administrative auto-renewal of fixed contracts.

An automated reminder of the date of termination of the contract could reach similar aims without the burden of thousands of registered letters. The mandatory inventory process can also be eased or explained better to focus on objects of material value.

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There is ample evidence of negative consequences of such regulation in Malta's rental market itself. The pre-1995 rental regimes resulted in loss of rights among property owners and a consequent contraction of the rental market. Reversing the impact of these laws will cost taxpayers millions of euro – as government attempts to juggle tenant security and property owners' rights.

The Housing Authority, to date responsive to research, has proven itself to be keen to base policy on evidence. As more data emerges, it will be possible to conduct deeper impact assessments of the regulation on rental activity and prices, on equity, poverty relief and social cohesion, as well as on GDP and wellbeing more broadly. This, in turn, will make it possible to continue to update the law and to design ancillary interventions to reach desired goals.