Case Study: *Frozen Rents, Hot Debate – Berlin's Mietendeckel and the Economics of Rent Control*

Case Narrative (Student Version)

Berlin, Winter 2021.
The capital was in turmoil. Over the last decade, rents had more than doubled in many central neighborhoods, pricing out students, artists, and working-class families. With protest slogans like *"Housing for people, not for profit,"* activists pressured lawmakers to take bold action.

In response, Berlin's state government passed the *Mietendeckel* — a rent freeze that applied retroactively to all units built before 2014. Overnight, landlords were prohibited from increasing rents and, in some cases, forced to lower them. The policy promised stability for tenants but provoked outcry from property owners and developers.

In the months that followed, the effects began to surface:

- The number of rental listings on Berlin's largest platform (*Immobilienscout24*) dropped by more than **50%** in the regulated segment.
- Some landlords **withdrew units from the rental market**, converting them into owner-occupied or short-term holiday rentals.
- Investors began shifting capital to **unregulated housing markets** in nearby cities like Leipzig and Dresden.
- Rent levels **fell** in capped units, but **rose** in newly built or exempted properties.

Then came the shock: in April 2021, the German Constitutional Court struck down the law. Tenants were required to repay some of the "excess" rent they had saved under the cap. The political debate intensified.

Task 1: Quantitative Economic Analysis

As economic advisors, you are asked to evaluate whether another city (e.g., Barcelona, Dublin, or Vienna) should adopt a similar rent control policy.

Use the following stylized model of the rental housing market to guide your analysis:

Market Structure

Let:

- **Demand function**:
$$Q_d = 100 - 2 \cdot P$$

- **Supply function**:
$$Q_s = 2 \cdot P - 20$$

Where: -
$$Q_d, Q_s$$
: Quantity of housing units demanded and supplied (in thousands) -

$$P$$

: Monthly rent in hundreds of euros (e.g.,

$$P = 25$$

= 2,500€)

Questions

1. **Equilibrium Analysis**
   - Find the equilibrium price and quantity by solving

$$Q_d = Q_s$$

   .

2. **Surplus or Shortage**
   - At
$$P = 25$$
   and
$$P = 35$$
   , calculate
$$Q_d$$
   and
$$Q_s$$
   .

- Determine whether there is a **shortage** or **surplus**, and compute the size.

3. **Impact of Price Ceiling**

    - Suppose the government imposes a rent cap at

    $$P = 20$$

    .

    - Determine the quantity demanded and supplied.
    - Use a supply-demand diagram to illustrate the **shortage**.
    - (Optional) Calculate the **deadweight loss**.

4. **Elasticity Implications**

    - How would the results change in the **long run** if supply becomes more elastic?
    - What are the consequences for housing availability and quality?

Task 2: Political Economy and Normative Discussion

Despite efficiency losses, rent controls remain popular in many cities.

Discuss:

1. Why do voters support rent control even when economists predict negative consequences?
2. How do **distributional effects**, **media narratives**, and **interest group politics** shape this debate?
3. Can you propose alternative policies that might better balance **affordability**, **access**, and **efficiency**?

Deliverable

Prepare a short **memo** or **presentation** that includes:

- A clear graphical and analytical evaluation of the rent control policy.
- A critical assessment of Berlin's case.
- A recommendation to a city considering rent regulation.
- A reflection on the **gap between economic models and real-world policy preferences**.

Teaching Objectives

By the end of this case, students should be able to:

- Apply microeconomic models of supply, demand, and price ceilings to real-world policies.
- Calculate and interpret market outcomes using algebraic and graphical tools.
- Assess unintended consequences and long-run effects of rent control.
- Understand why inefficient policies may persist due to political and social considerations.
- Develop policy alternatives and argue from both a technical and normative perspective.