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How Argentina's 'chainsaw man' Javier Milei slashed rents by 20pc

Fran Ivens

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Rents in Argentina have fallen 20pc since President Javier Milei scrapped a “destructive” cap for landlords in December.

Under four-year rent controls, landlords fled the market in their thousands and rents increased 286pc, fuelling an even deeper housing crisis.

Since the legislation was scrapped, rents have fallen and the number of properties that are available for rent has increased significantly, according to industry body the Argentine Real Estate Chamber.

The drastic change in outlook for the country's rental market adds further weight to arguments that even with the aim of reducing the burden on renters, rent caps often have the opposite effect.

The rules, introduced in 2020 by then-president Alberto Fernández, included a mandatory lease term of three years and a limit on rent to an average growth rate of the consumer price index and the wage index. This cap was set by the central bank.

Even before the new legislation came into force, the effect was significant. Unsure of how much and when they would be able to increase rents, landlords hiked their pieces to try and avoid being caught out.

Worsening the situation, 45pc of landlords decided to sell their properties in the wake of the announcement significantly reducing the amount of accommodation on offer and further pushing up prices.

In the 12 months to February 2024, rents increased 286.7pc in Buenos Aires, according to rental platform Zonaprop. There was also a currency aggravation. While many use dollars in Argentina as a hedge against the peso that has been losing value, the law mandated that rental payment must be in the local currency.

Over the past five years, the Argentinian peso's value against the dollar has decreased by around 95pc.

Argentina's weak currency to be further devalued

Many landlords turned their properties into short-term lets that were excluded from the rules, offering them on platforms such as Airbnb rather than to local tenants. The number of properties available on Airbnb in the capital rose from 10,000 in 2019 to 29,500 on 1 February this year.

The impact of these measures created an even deeper housing crisis as inflation rose from 50pc in 2020 to the current rate of over 250pc.

However, since the policies were reversed, the housing market has seen some shoots of hope. Rental prices only increased 2.9pc in February, according to Zonaprop. The lowest monthly figure since October 2021.

In mid-January, just weeks after the repeal, the number of homes available had rebounded.

“Until about 20 days ago there was zero supply, we did not reach 50, 60 homes; and as of January 2024, there were more than 7,000 on offer,” said the president of the Chamber of Property Owners of the Argentine Republic, Enrique Abatti.

For many economists, the market resurgence has demonstrated the inefficacy of rental caps, even though Argentina’s precarious economy places it at greater risk of fallout than others.

Javier Milei inherits an economy gripped by inflation

However, we have seen the same impacts of similar market interventions elsewhere, albeit to a lesser degree.

Ryan Bourne, R Evan Scharf Chair for the public understanding of economics at think tank the Cato Institute said: “By shifting more financial risks and hassle onto landlords, tenancy rent controls encourage property owners to get out of the rental market.

“Argentina’s high inflation exacerbated these risks, meaning they were particularly destructive. But the same underlying economics applies everywhere.”

Scotland has had rental controls in place since 2022, introduced by then-first minister Nicola Sturgeon. A 3pc rent cap was placed on existing tenancies leading landlords to sharply increase rents in between tenancies.

As a result, rents for new lets in Scotland rose by 12.7pc in the year to July 2023, compared with the UK average of 10.5pc, according to property website Zoopla.

In response at the end of last year, the Scottish government quietly announced plans to close the loophole in the hope of reducing the rate of rent increases.

“Caps help those who are already in legal accommodation – ie the cap is enforced. If costs rise rapidly landlords will try to find alternative ways to cover these costs – so avoidance/evasion/lower investment may cause greater problems,” says Professor Christine Whitehead, emeritus professor of housing economics at the London School of Economics.

“As the UK’s economic situation is far less volatile than that of Argentina, would a cap work more effectively here? Better but not well unless it is accompanied with more positive policies.”

