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Rent Control in the Philippines: An Update

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Table of Contents

List of Tables

List of Figures

List of Acronyms

APIS	Annual Poverty Indicators Survey
ARMM	Autonomous Region in Muslim Mindanao
BP	Batas Pambansa
CALABARZON	Cavite, Laguna, Batangas, Rizal, and Quezon
CAR	Cordillera Administrative Region
FIES	Family Income and Expenditure Survey
HDMF	Housing Development and Mortgage Fund
HUDCC	Housing and Urban Development Coordinating Council
MIMAROPA	Mindoro, Marinduque, Romblon and Palawan
MRB	medium-rise building
NCR	National Capital Region
NHA	National Housing Authority
NSO	National Statistics Office
PD	Presidential Decree
RA	Republic Act
SOCCSKSARGEN	South Cotabato, Cotabato, Sultan Kudarat, Sarangani, and General Santos City
SQ.M.	square meter

Abstract

Rent control was introduced in the Philippines in 1971 in order to stabilize the prices of basic commodities during periods of calamities and macroeconomic instability. It has been adopted in succeeding years despite the country's exit from the highly inflationary environment. Rent control-related policies, however, have had adverse impacts on the rental market. Consequently, the Philippine government has made changes to the original rent control setup; there was a move from the first to the second generation rent control. This study specifically determines whether second generation rent control is indeed free of the adverse impacts of its predecessor. It uses the 2014 Annual Poverty Indicators Survey to have an estimation of the net benefit of tenants under rent control.

Keywords: second generation rent control, rental market

An Assessment of Housing Rent Control in the Philippines

I. Introduction

Rent control law has been existing in the Philippines for a long time. In the 1970s, there were efforts in the Philippines to stabilize the prices of basic commodities during periods of calamities and macroeconomic instability. One major output of these efforts is the introduction of rent control in 1971 through the implementation of Republic Act No. 6359 (RA 6359). Rent control has been adopted in succeeding years. More rent control-related policies have been created and their implementation has been extended despite the country's exit from the highly inflationary environment (see Annex 1). In an attempt to address the issue of the possible adverse impacts on rental investments, the Philippine government has made changes to the original rent control setup; there was a move from the first to the second generation rent control.

RA 6359, throughout a year, prohibited any increase in the monthly rent of lessees whose monthly payments do not exceed ₱300; for the following year, it limited the rent increases by not more than 10%. The lessors were not allowed to demand for a deposit on top of the two-month rent in advance. Violators were to be punished by imprisonment of at least three months but not more than years, and a fine of at least ₱1,000 but not more than ₱2,000. Presidential Decree No. 20 (PD 20), which was approved and implemented in 1972, amended RA No. 6359 and totally prohibited the increase of monthly rents for an indefinite period. Violators would already be imprisoned by at least one year to at most five years, and would have to pay a fine of not less than ₱5,000 but not more than ₱10,000.

Batas Pambasa Blg. 25 (BP 25), which was approved and implemented in 1979, allowed more exemptions to the rent control in the Philippines. The law was not applicable to new residential units during the effectivity. For a period of five years, it limited the increase of monthly rents not exceeding ₱300 as of the effectivity date, for any one-year period, by not more than 10% of the monthly rents existing at the time of the approval of the Act. An advance rent to cover the initial month's rent and a deposit could be demanded from the lessee, but each should not exceed that of a one-month rent. The minimum and maximum duration of imprisonment of violators went down to three months and two years, respectively. The minimum and maximum fine also went down to ₱1,000 to ₱2,000, respectively. Grounds for judicial ejectment have been laid out (e.g. cases wherein the lessees have arrears in rent payment amounting to three months' worth at any one time; the owner/lessor needs to repossess the property for his own use and for the use of any immediate member of his family as a residential unit; etc.).

Batas Pambansa Blg. 877 (BP 877), which was approved and implemented in 1985, allowed even more exemptions. From July 1, 1985 to December 31, 1987, residential units' monthly rents which did not exceed ₱480 were not to be increased by more than the following rates: (1) 10% from July 1, 1985 to December 31, 1985; (2) 20% from January 1, 1986 to December 31, 1986; and (3) 20% from January 1, 1987 to December 31, 1987. The increases were to be cumulative and compounded. New residential units which were constructed or offered for rent for the first time during the effectivity were exempted from the provisions. Lessors could demand a deposit but not an advance rent; the deposit should not be more than a one-month rent. There was no clause for imprisonment of violators; however, the range of fine to be paid was again increased to not less than ₱2,000 but not more than ₱5,000. Republic Act No. 6643 (RA 6643) extended the effectivity of BP 877 for two years until December 31, 1989. Rent could not be increased by more than 20% for the first year, as well as for the second year. Republic Act No. 6828 (RA 6828) also extended the effectivity of BP 877; this time, for three years until December 31, 1992. The monthly rents were not to be increased by more than the following rates: (1) 20% from January 1, 1990 to December 31, 1990; (2) 20% from January 1, 1991 to December 31, 1991; and (3) 20% from January 1, 1992 to December 31, 1992. The basis for the maximum increase for the three-year period was the actual monthly rent as of December 31, 1989. Another extension of BP 877 was made through Republic Act No. 7644 (RA 7644). The extension was for five years until December 31, 1997. The monthly rents could not be increased by more than the following rates: (1) 20% from January 1, 1993 to December 31, 1993; (2) 20% from January 1, 1994 to December 31, 1994; (3) 20% from January 1, 1995 to December 31, 1995; (4) 20% from January 1, 1996 to December 31, 1996; and (5) 20% from January 1, 1997 to December 31, 1997. The base amount for the maximum increase for the five-year period was the actual monthly rent as of December 31, 1992. The last extension of BP 877 was made through Republic Act No. 8437 (RA 8437). RA 8337 was implemented until December 31, 2001. The maximum monthly rents of all residential units were: (1) 15% from January 1, 1998 to December 31, 1998; (2) 15% from January 1, 1999 to December 31, 1999; (3) 15% from January 1, 2000 to December 31, 2000; and (4) 15% from January 1, 2001 to December 31, 2001. The basis for the maximum increase for the four-year period was the actual monthly rent as of December 31, 1997.

Republic Act No. 9161 (RA 9161), also known as the Rental Reform Act of 2002, was implemented from 2002 until 2004. The new law took into consideration the varying rent prices among areas; it differentiated the rent control ceiling for residential units in the National Capital Region (NCR) and other highly urbanized cities, and in all other areas. Monthly rent of all residential units in NCR and other highly urbanized cities not more than ₱7,500 and those of other areas not exceeding ₱4,000 should not be increased annually by the lessor, without prejudice to existing contracts, by more than 10%. Residential units under the Rent-to-Own-Scheme are exempted from this prohibition. For those who are covered, at most 1 month of advance rent and two months of deposit can be demanded by the lessor. Violators would be imprisoned for not less than one month and one day to not more than six months and/or would have a fine of not less than ₱5,000 nor more than ₱15,000.

Republic Act No. 9341 (RA 9341), also known as the Rent Control Act of 2005, was implemented until 2008 and covered all residential units in NCR and other highly urbanized cities, whose total monthly rents do not exceed ₱10,000 as of the effectivity of the Act, and those in all other areas whose total monthly rents do not exceed ₱5,000 as of the effectivity. Lessors could not demand more than one month of advance rent nor two months of deposit. Violators of the prohibitions of the

Act would be penalized similarly as in RA 9161. RA 9341 also introduced vacancy decontrol, *i.e.*, it allowed lessors to set up the initial rent for the next lessees of residential units that have become vacant. Rent of units being occupied by the same lessees, on the other hand, would not be increased by more than 10% annually.

Republic Act No. 9653 (RA 9653), also known as the Rent Control Act of 2009, was supposed to be implemented until 2013 but has been extended until the present. RA 9653 covered all residential units in NCR and other highly urbanized cities, whose total monthly rents range from ₱1 to ₱10,000 as of the effectivity date of the Act, and those in all other areas, whose total monthly rent ranges from ₱1 to ₱5,000 as of the effectivity date. The Act prohibited the increase of rent of any residential unit for one year. After that period, the rent of any residential unit could not be increased by more than 7% annually provided that the unit was occupied by the same lessee; meanwhile, the lessors could set an initial rent to new lessees. Lessors to students of boarding houses, dormitories, rooms, and bedspaces could not increase rent more than once a year. The lessor could not demand more than one month of advance rent nor more than two months of deposit. Violators of the Act would be penalized with a fine of not less than ₱25,000 nor more than ₱50,000 and/or imprisonment of at least one month and one day to at most six months. RA 9653 provided the Housing and Urban Development Coordinating Council (HUDCC) with *the authority to continue the regulation of the rental of certain residential units, to determine the period of regulation and its subsequent extensions if warranted, to determine the residential units covered and to adjust the allowable limit on rental increases per annum, taking into consideration, among others, National Statistics Office (NSO) census on rental units, prevailing rental rates, the monthly inflation rate on rentals of the immediately preceding year, and rental price index.* HUDCC did use the authority granted to them by the Act. HUDCC Resolution No. 2 (Series of 2013) extended the period of the rent control, at status quo rates, until 2015. In 2015, HUDCC Resolution No. 1 (Series of 2015) was issued to be implemented from 2016 to 2017. It covers all private residential units with monthly rents of ₱10,000. It uses the inflation rate for 2014 of 4.1% as basis for the adjustment. The Act further provides that the rent of residential units occupied by the same lessee shall be increased by not more than 4% annually for units paying monthly rents ranging from ₱1 to ₱3,999 per month, and 7% for those paying a monthly rent of ₱4,000 to ₱10,000. Vacancy decontrol and the exemption to lessors for students still apply.

Rent control in the Philippines has definitely evolved from the time of the implementation of RA 6359 to HUDCC Resolution No. 1 (Series of 2015). The rent ceiling for the controlled residential units has increased from ₱300 to ₱10,000 per month. Provisions on allowable rent increases have also changed. Less stringent policies were adopted. Among those policies are vacancy decontrol and the exemption granted to new rental units which were constructed or offered for rent for the first time.

The effectivity dates of Philippine rent control-related policies have been extended for many years despite little understanding of the continuing implementation. There is not much evidence on the benefits of these policies; this is partly due to the difficulty of documenting the enforcement and administration of the policies at the local level, the scarcity in detailed rental housing data needed to have a rigorous empirical analysis, and the lack of central administration at the national/local government level to monitor implementation.

This study aims to make use of the available data, as well as literature, on rent control in order to have an empirical evidence on the effects of the policies. Section II presents existing literature on rent control-related policies in other countries. Section III describes the methodology and approach of the study. Section IV presents the findings on whether rent control benefits the poor in Metro Manila. Finally, Section V wraps up and provides the recommendations of the authors.

II. Effects of Rent Control Programs

The literature reveals that there has been a major shift in rent control-related policies, *i.e.*, from first generation to second generation rent control programs. The first generation rent control programs were introduced in most major cities in Western Europe during World War I for the mitigation of the disruptive effects of the war and for the prevention of profiteering (Arnott, 1997). Under first generation rent control programs, the government freezes rent and provides allowance for sporadic increases in rent. Studies on the implementation, however, have revealed that the programs have negative consequences on the housing market. Regulating rent increases caused distortions in the housing market through a deterioration in the rental housing stock, reduction in the supply of affordable rental housing, increase of prices in the uncontrolled sector due to spillover effects, and regressive distribution of benefits whereby the gains from lower rents are captured mainly by the higher income families.[1] Arnott (1997) noted that 1973 marks the start of the era of second generation rent control programs. The second generation rent control programs, also referred to as moderate forms of rent control, were conceived to allow less stringent controls on the rental market and to address the distortions from first generation rent controls.

Since rent control programs in most countries, including in the Philippines, have already transitioned from the first to the second generation, the authors of this review have focused on empirical works that assess the impact of the latter. This review draws from literature surveys of Arnott (2003), Turner and Malpezzi (2003), and Jenkins (2009), which include theoretical and empirical works on the first and second generation rent control programs. Among the studies found in the literature surveys, empirical works that assess the effects of the second generation rent control programs were selected. Additionally, other empirical works were collected for this particular study. It must be noted that most of the empirical works that were found were based on the implementation of second generation rent control in North America, more specifically in the United States of America and in Canada.

The second generation rent control modifications include the following: (1) partial coverage, (2) cost pass through, and (3) vacancy decontrol. Partial coverage allows for the exemption of high-end rental units and/or new residential construction upon the effectivity of the law.[2] Under cost pass through, the price ceiling may be set high with the amount indexed to inflation and a reasonable profit margin, or landlords may be allowed to transfer the increases in tax payments, maintenance costs, etc. to the renters. Vacancy decontrol allows landlords to set new rental prices for new tenants or when sitting tenants vacate the unit.

[1] See Turner and Malpezzi (2003), Arnott (2003), and Jenkins (2009) for the survey of empirical works on the costs and benefits of first generation rent control.

[2] The rents of units under partial coverage, however, may eventually become controlled under a new rent control law.

Based on the literature, partial coverage, in which some rental units are exempted from rent control, is not free of the adverse effects of rent control policies. Partial coverage has been linked to a decline in the supply of units. Marks (1984) estimated the long-run supply effect of rent control in the City of Vancouver in 1980 to be around -27.26% to -0.13% given different levels of supply and demand elasticities.[3] Additionally, rent control increased prices in the uncontrolled rental market even under partial coverage.

Some studies that look into vacancy decontrol, where landlords may set new rental prices between tenancies, reveal that the policy also does not remove adverse effects. Some of the studies show that while it has little effect on the construction of new units for rent, it has resulted in a reduction on the number of rental units. For instance, Boston had weak evidence of the effects of rent control on the supply of units but had stronger evidence that the policy resulted in a shifting of units away from renting (Sims, 2007).[4] In a broader picture, empirical studies estimate the reduction in the number of rental units or shifts to other uses to be 1.5% to 7%. Some studies have also revealed that vacancy decontrol results in housing deterioration. In the long-run, landlords will just let their properties deteriorate in proportion to the size of the rent reduction (Rydell et al., 1981). Rydell et al. (1981) estimated that ending rent control in Los Angeles in May 1982 would result in an at most 0.8% deterioration of the housing stock, but extending it to 1990 would result in an at most 2.2% deterioration rate.[5] They also stated that when the law implemented at the time of their writing causes a 3.5% rent reduction and a 2.2% deterioration, it results in a 1.3% price reduction. Other studies have looked into the effect of vacancy decontrol on residential mobility. Under vacancy decontrol, the tenants tend to stay longer. Vacancy decontrol raises the cost of moving due to the search costs and the foregone present value of the future rent differential. In the 2006 study on the Massachusetts' rent control, Sims tagged this as inefficient as people who would otherwise leave choose to remain in a controlled unit to keep the advantage of an artificially low rent. He provided that decontrol is linked to a decrease in the renter stays of 1.84 years (Sims, 2006). The decline in residential mobility, meanwhile, increases the duration of commutes of the renters as seen in the reviewed studies. Krol and Svorny (2005) note that the economic costs of the longer commutes include explicit costs (e.g. on gasoline, and on automobile wear and tear); the opportunity cost of the time spent in commutes; negative externalities in the form of pollution and increased congestion; and deterioration of labor market matches with the failure of workers to move when they might otherwise benefit from transferring. Some studies also report the unintended consequences of vacancy decontrol on prices. Nagy (1997) noted that new renters in 1981 in New York City, which had a vacancy decontrol-recontrol provision, paid higher rent compared to those who stayed in comparable apartments in the uncontrolled sector. He stated that landlords offer higher rent than what would prevail in the uncontrolled sector, and the renter agrees to pay that price in exchange for reduced rent growth.

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[3] British Columbia had had partial coverage starting 1975.

[4] *Boston approved vacancy decontrol in 1974.

*Sims (2007) applied the DID method to test the efficiency cost of rent controls when the rent control law was lifted in 1998.

[5] The rent control law in Los Angeles at the time of writing of Rydell et al. (1981) set the annual rent increases for sitting tenants to at most 7% (those paying gas or electricity bills are allowed to raise the average limit to 7.6%), but it did not set a limit for increases on the rent of new tenants.

Compared to partial coverage and vacancy decontrol, cost pass through provisions in rent control have had no effect on tenancy duration and have increased the likelihood that lessors undertake house maintenance.

Overall, the studies reviewed on second generation rent control reveal that partial coverage and vacancy decontrol do not remove the adverse effects of rent control. True enough, there are cases in which the negative effects are lessened (e.g. shorter commute time/improved mobility, non-drastic reduction in housing supply, better maintenance, etc.), but the unintended consequences still remain. The rent control modification that appears to not worsen the unintended consequences is cost pass through that is tied to maintenance cost. The policy, however, requires the creation of an administrative body (e.g. Rental Board) to monitor the costs and revenues; it could lead to too much regulation, discouraging investments in affordable rental housing.

III. Methodology

The study makes use mainly of 2014 data of families in Metro Manila from the Family Income and Expenditure Survey (FIES) and the Annual Poverty Indicators Survey (APIS). The study focuses on only one region given the highly localized nature of housing markets. Among the regions in the Philippines, National Capital Region (NCR) was selected because it has a high proportion of renters.

First, the authors looked at the tenure status of families in Metro Manila. Comparing the number of families renting house/room including lot and those having other tenure status is essential in justifying the importance of looking at the rental housing sector in the region. Special attention was given to the tenure status of "rent house/room including lot" which represents the commonly understood definition of renters occupying dwelling units leased by the property owners.[6] The authors then classified the NCR renter families into two groups: the controlled and the uncontrolled. The controlled renter families are those whose monthly rents are at most ₱10,000, while uncontrolled renter families are those whose monthly rents are greater than ₱10,000.[7] The growth of the controlled and the uncontrolled renter families over time was extracted in order to determine the consistency of the distribution. Particularly for 2014, the profile of the families and the characteristics of their dwellings were looked into. The authors then made an estimation of the net benefit (subsidy) of controlled renter families by national per capita income decile group.

The benefits from rent control may be represented by the transfers from landlords to tenants. Under rent control, tenants are supposed to pay a lower rent compared with what they would have paid in the absence of the regulation. The benefit can be expressed as the difference between the market price of the controlled units (in the absence of rent control) and the actual rent paid by the family. In a scenario where the monthly rent for a controlled apartment is ₱800, and if this same unit would have been rented at ₱1,000 in the absence of rent control, then the monthly (implicit) transfer

[6] The tenure status excludes other forms of renter tenure such as rent free arrangements with or without consent.

[7] There may be families in the uncontrolled group of this study who are actually considered as controlled under the then effective law if their rental values used to be less than or equal to ₱10,000 and only went above the ceiling over time due to the allowed increases. The authors of this study, nevertheless, think that such inconsistencies are negligible given that most NCR renter families in 2014 have rental values less than or equal to ₱10,000.

from the landlord to the tenant is ₱200. This ₱200 may also be considered as the subsidy received by the tenant with the implementation of rent control.

$$\text{SUBSIDY (NET BENEFIT)} = \hat{\boldsymbol{R}}_c - \boldsymbol{R}_c, \qquad (1)$$

Where $\hat{\boldsymbol{R}}_c$ = estimated uncontrolled rent of the controlled unit

$\boldsymbol{R}_c$ = actual rent paid on the controlled unit (observed)

To estimate the uncontrolled rent of a controlled unit, a hedonic rent function is applied to the uncontrolled sector (*i.e.*, the rental units not covered by rent control). The hedonic equation is represented as a function of housing traits:

$$\boldsymbol{R}_{iu} = \mathbf{h}(\mathbb{Z}_{iu} \cdot \boldsymbol{\beta}_u) + \boldsymbol{e}_{iu} \qquad (2)$$

Where $\boldsymbol{R}_{iu}$ = actual rent paid on uncontrolled units

$\mathbf{h}(\mathbb{Z}_{iu} \cdot \boldsymbol{\beta}_u)$ = function of housing traits of uncontrolled units

$\mathbb{Z}_{iu}$ = housing traits in the uncontrolled sector

$\boldsymbol{\beta}_u$ = regression parameter vector

$\boldsymbol{e}_{iu}$ = error term

The uncontrolled rent of the controlled units is derived from a function of housing traits (Z_i) and estimated coefficient factor (B_u).

$$\boldsymbol{R}_{ic} = \mathbf{h}(\mathbb{Z}_{ic} \cdot \hat{\boldsymbol{\beta}}_u) + \boldsymbol{e}_{ic} \qquad (3)$$

Where $\boldsymbol{R}_{ic}$ = estimated uncontrolled rent of the controlled unit

$\mathbb{Z}_{ic}$ = housing traits of the controlled units

$\hat{\boldsymbol{\beta}}_u$ = estimated coefficient vector from (2)

The full benefit is realized if the renter of a controlled apartment can consume the same effective quantity of housing services had there been no rent control. If the effective quantity consumed under control, however, differs from that purchased in the uncontrolled sector, then the difference may overstate or understate the actual net benefit. It must be noted that there is some evidence that the quality of some types of controlled units is lower than that of similar uncontrolled units.

IV. Does Rent Control Benefit the Poor?: The Case of Metro Manila

The National Capital Region (NCR) is occupied by a large number of renters. Based on the 2014 Annual Poverty Indicators Survey (APIS), there were around 705,428 families renting in NCR in 2014.[8] The 705,428 families make up around 37% of the total renter families in the Philippines. This is actually the highest percentage share among all the other regions in that year (see Figure 1). CALABARZON comes in second at around 26%, while Central Luzon comes in third at around 9%.

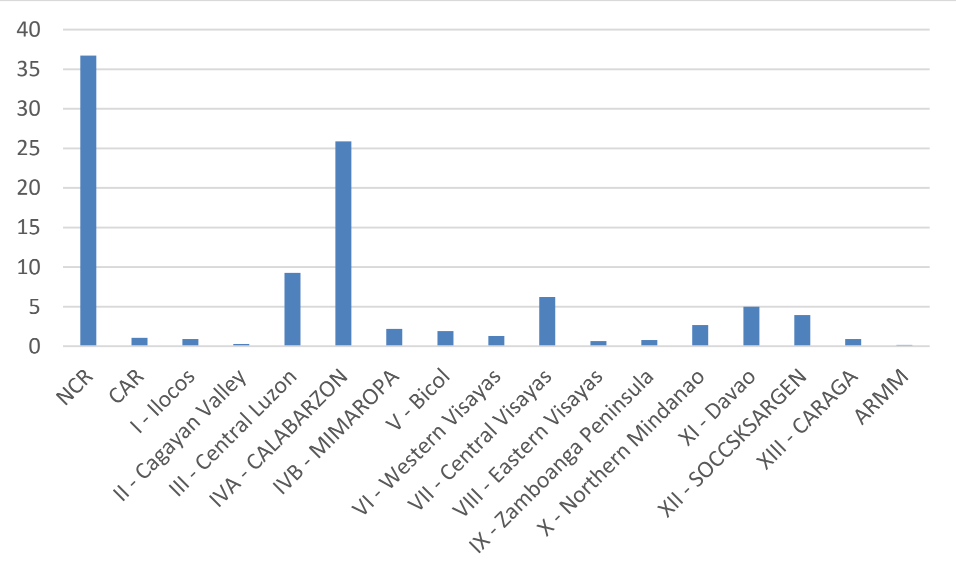

Figure 1. *Regional Distribution of Renters in the Philippines, 2014 (in percentage)*
Basic Data Source: Philippine Statistics Authority. 2014 Annual Poverty Indicators Survey.
Note. APIS 2014 used covers January to June 2014.

Looking at the various tenure status of housing units and lots occupied by families in Metro Manila in 2014 provides further reason to look into the rental market of the region. Figure 2 shows that families who rent a house/room including lot comprise around 23% of the total number of families in the NCR. Albeit majority of the total is the group of families who actually own a house and lot/ with owner-like possession of house and lot (around 44%), the percentage share of those renting a house/room including lot still requires attention being the second largest tenure group.[9]

The families renting a house and lot are classified into two groups: the controlled and the uncontrolled. The controlled group is comprised of families whose monthly rents are at most ₱10,000, while the uncontrolled group is made up of those whose monthly rents are greater than ₱10,000. The

[8] APIS was used since it provides much information about the dwelling characteristics of units occupied by the sample families.

[9] The tenure status of "rent house/room including lot" represents the commonly understood definition of renters occupying dwelling units leased by the property owners. The tenure status excludes other forms of renter tenure such as rent free arrangements with or without consent.

former is covered by rent control, while the latter is not. In 2014, around 98% of NCR renter families belong to the controlled group, while only around 2% belong to the uncontrolled group (see Table 1).

Comparing the 2014 data with that from some of the previous years shows that, generally, the controlled group is larger in size than its counterpart, and that there has been an increase in the percentage share of the controlled group and a decrease in that of the uncontrolled group (see Table 1). The growth in the controlled group, however, should not be misconstrued as a positive effect of rent control. It must be noted that rent ceiling can be raised whenever a new rent control regulation is legislated. Between 1985 and 2002, the rent ceiling was raised to ₱7,500, covering new units that were previously exempted from rent control. The ceiling was further raised to ₱10,000 in 2005 and in succeeding years. This implies that the growth in the number of rental units in the controlled sector is partly the effect of the expanded coverage. Furthermore, the current rent ceiling of ₱10,000 discourages renting and rental investments above ₱10,000 since housing units in Metro Manila can be owned for as low as ₱3,000 per month loan amortization. Over time, the affordable ownership housing market has become more competitive with the entry of several developers and the National Housing Authority (NHA), which continue to undertake production of socialized housing for families belonging up to the 5th income decile. As of 2015, NHA condominium units in Metro Manila were being sold at ₱550,000 with a monthly amortization of ₱3,700.[10] Private developers, on the other hand, can undertake production of affordable housing in Metro Manila at ₱1,200,000 to ₱1,500,000 per unit for a monthly amortization of ₱8,000 and ₱10,000, respectively. It is, therefore, commonly perceived that owning is better than renting.

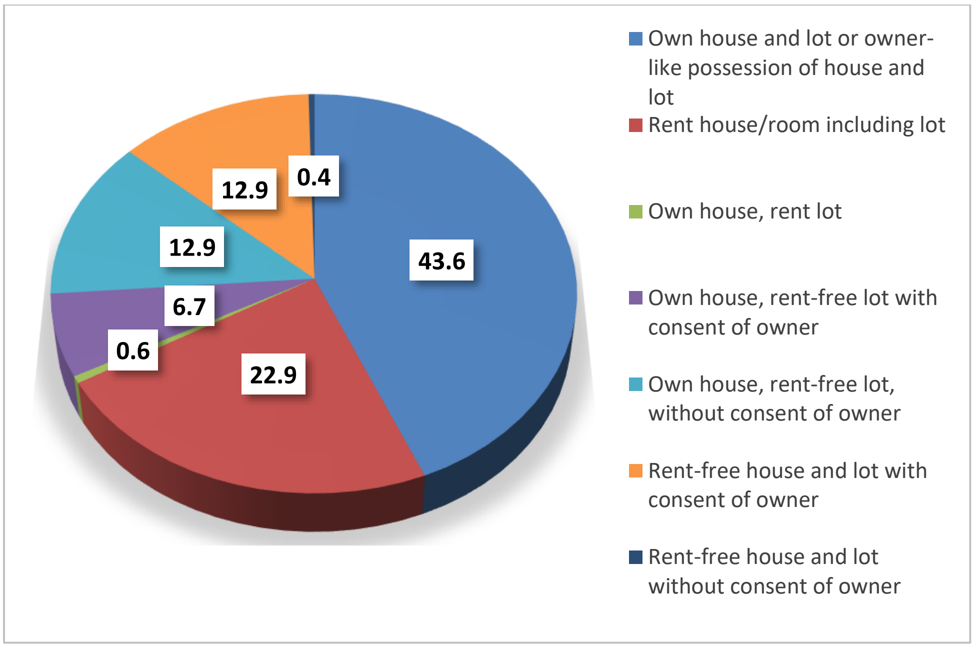

Figure 2. *Tenure Status of Housing Units and Lots Occupied by Families in NCR, 2014 (in percentage)*
Basic Data Source: Philippine Statistics Authority. 2014 Annual Poverty Indicators Survey.
Note. APIS 2014 used covers January to June 2014.

[10] Estimates based on a 6.5% interest rate for 25 years. Covers principal + interest

Table 1

Growth of Renter Families in the Controlled and Uncontrolled Sectors, NCR, Selected Years

Year	% Controlled to Total Renter Families	% Uncontrolled to Total Renter Families	% Total Renter Families to Total Families
1985	69%	31%	32%
1991	78%	22%	31%
1997	90%	10%	26%
2003	98%	2%	26%
2006	98%	2%	26%
2010	97%	3%	24%
2013	98%	2%	22%
2014	98%	2%	23%

Basic Data Source: Philippine Statistics Authority. Family Income and Expenditure Survey (1985, 1991, 1997, 2003, and 2006) and Annual Poverty Income Survey (2010, 2013, 2014).

A closer look at the 2014 APIS data on the NCR renter families would allow for an estimation of the actual net benefits of the controlled group from rent control. The profile of the families was first assessed by the authors (see Table 2). The families from the uncontrolled group have an average family size of three, a mean monthly income of ₱68,114, and a mean monthly rent of ₱14,518. On the other hand, the families, who belong to the controlled group, have an average family size of around four members. They pay a mean monthly rent of around ₱3,299 (around 40% of these families pay a monthly rent of ₱2,000 or less, around 32% pay greater than ₱2,000 to at most ₱4,000 monthly rent, and around 28% pay greater than ₱4,000 to at most ₱10,000 monthly rent). The families in the controlled group have a mean monthly income of ₱25,141. They are mostly non-poor families; only around 1.4% of them have been classified as poor. Many of the renter families have incomes that make them eligible to take housing loans from the Housing Development and Mortgage Fund (HDMF), microfinance institutions, and/or development banks; however, they still choose to rent. This phenomenon may be occurring because of preference for mobility of some families and the housing market not meeting their requirements.

Table 2

Profile of NCR Renter Families in the Controlled and Uncontrolled Sectors, 2014

Characteristics	Controlled			All Controlled	Uncontrolled
	x<=2,000	2000<x<=4000	4000<x<=10000		
% Distribution	40	32	28	100	100
Mean Monthly Rent	1,490	3,107	6,118	3,299	14,518
Mean Monthly Family Income	17,015	23,700	38,482	25,141	68,114
Mean Monthly Family Expenditure	15,662	22,748	38,917	24,414	45,853
% Rent to income	9	13	16	13	21
Marital Status					

% Single	9	14	17	13	17
% Married/Living Together	83	72	60	73	68
% Widowed	3	8	13	7	15
% Divorced/Separated	5	6	10	7	-
Family Size	4	4	4	4	3
Age of Head as of Last Birthday	38	42	46	41	53
Sex of Head					
% Male	81	72	55	71	68
% Female	19	28	45	29	32
Did work or had a job or business anytime from January 1 to June 30, 2014					
% Employed	95	80	76	85	100
% Unemployed	5	20	24	15	-

Basic Data Source: Philippine Statistics Authority. 2014 Annual Poverty Indicators Survey.

Note. APIS 2014 used covers January to June 2014

Some of the dwelling characteristics of the controlled rental units in the NCR are not good. Table 3 specifically shows that several controlled units rented at ₱2,000 or less per month were congested and lack in basic services. Around one-fourth of those renting families sourced their water from public tap or communal tap outside their dwelling units or from water peddlers. Shared toilet facilities were also common to these families; around 95,644 families had shared toilets. Most of those families renting at ₱2,000 or less per month also contended with a small space wherein one person occupied less than or equal to five square meters (sq.m.). Tenants may have been willing to live in such a crowded apartment because they could not find an affordable apartment that is properly sized. Table 3 also shows that families renting from greater than ₱2,000 to at most ₱4,000 per month have units with better toilet facilities and water source; however, some units still have bad facilities. Moreover, there is still congestion in many of these units as around 31% of them have a floor area of less than or equal to five sq.m. per person. Table 3 also shows that families renting above ₱4,000 to at most ₱10,000 per month have better facilities, but there are still some units with shared toilet facilities. Finally, comparing the rental units with that of the NHA profit-adjusted rents reveal that the dwelling units occupied by the renter families are overpriced.

Table 3

Dwelling Characteristics in NCR, 2014

Dwelling Characteristics	**Monthly Rent = x**							
	Controlled						**Uncontrolled (NHA 5-storey MRBs) a/**	
	x<=2000		**2000<x<=4000**		**4000<x<=10000**		**x=2,641 a/**	
<u>Main Source of Water Supply</u>	Number	%	Number	%	Number	%	Number	%
Community water system piped into:								
Dwelling	202,627	74%	203,800	91%	191,583	100%	600	100%
Yard/Plot/Public Tap	22,588	8%	12,212	5%	-	0%	-	0%
Point Source:								
Protected Well/Unprotected (Open Dug Well)/ Developed Spring/Undeveloped Spring/River/Stream/Pond/Lake/Dam/ Rainwater/Tanker Truck/Peddler/Neighbor	49,739	18%	7,270	3%	-	0%	-	0%
Total	274,954	100%	223,282	100%	191,583	100%	600	100%
<u>Kind of Toilet Facility Used</u>								
Flush Toilet								
Own Toilet	174,375	63%	199,609	89%	179,606	94%	600	100%
Shared Toilet	95,644	35%	23,673	11%	11,978	6%	-	0%
Pit Toilet/Latrine								
Closed Pit/Open Pit/Drop/Overhang/Pail System/ None (No Toilet/Field/Bush)	4,936	2%	-	0%	-	0%	-	0%
Total	274,954	100%	223,282	100%	191,583	100%	600	100%
<u>Type of Construction Materials of the Roof</u>								
Strong Materials (galzanized iron, aluminum, tile, concrete, brick, stone, etc.)/ Mixed but Predominantly Strong Materials	257,068	93%	223,282	100%	188,969	99%	600	100%
Light Materials (cogon, nipa, anahaw)/ Mixed but Predominantly Light Materials	17,886	7%	-	0%	2,614	1%	-	0%
Salvaged/Makeshift Materials/ Mixed but Predominantly Salvaged Materials	-	0%	-	0%	-	0%	-	0%
Total	274,954	100%	223,282	100%	191,583	100%	600	0%
<u>Presence of Electricity in the Building/House</u>								

With Electricity	272,364	99%	223,282	100%	191,583	100%	600	100%
Without Electricity	2,589	1%	-	0%	-	0%	-	0%
Total	274,954	100%	223,282	100%	191,583	100%	600	100%
-								
Housing Unit Floor Area Per Person = y (in sq.m.)								
y<=5	107,784	39%	69,580	31%	27,190	14%	600	0%
5<y<=11	96,718	35%	102,007	46%	66,782	35%	-	0%
y>11	70,452	26%	51,695	23%	97,611	51%	-	100%
Total	274,954	100%	223,282	100%	191,583	100%	600	100%
Average Floor Area Per Family (in sq.m.)	**29**		**29**		**51**		**24**	
Type of Building/House where the Family Resides								
Single House	145,343	53%	104,576	47%	103,720	54%	-	0%
Duplex/ Apartment/ Accessoria/ Condominium/ Townhouse	129,611	47%	118,706	53%	87,864	46%	600	100%
Commercial/Industrial/Agricultural Building/House	-	0%	-	0%	-	0%	-	0%
Total	274,954	100%	223,282	100%	191,583	100%	600	100%

Basic Data Source for the Controlled Sector: Philippine Statistics Authority. 2014 Annual Poverty Indicators Survey.
Notes. *APIS 2014 used covers January to June 2014; *dropped “not applicable” category under the variable for the “type of construction materials of the roof”, and “other housing unit” category under the variable for the “type of building/house where the family resides”
Basic Data Source for the Uncontrolled Sector: National Housing Authority Administrative Order (Series of 2014).
a/ NHA rental rates are based on cost recovery rates and include maintenance and administration cost for 5-storey MRBs in Metro Manila. Average rent for ten years is based on projected increase in rent and other costs and adjustment to include 50% mark-up.

The results show that there is little evidence of the transfers from landlords to tenants of controlled units under rent control in NCR in 2014. An estimate of the net benefits of families with monthly rents greater than ₱500 to less than or equal to ₱10,000 reveals that these benefits can even be negative (see Table 4).[11] Additionally, there is evidence that the effective quantity of housing services, specifically for the low-income groups, is substandard. Some families could have even had better housing services had they paid the same price in owner-occupied housing. Furthermore, the distribution of benefits, in cases when positive, is regressive. In other words, those who benefit most are the higher-income groups which have access to better housing. The low-income families, on the other hand, have to contend with substandard and expensive housing.

[11] *Families who “own house and lot or owner-like possession of house and lot” with monthly imputed rent of at most ₱30,000 were included to the uncontrolled group of families who “rent house/room including lot” in the regression in order to estimate the price attributed to specific housing features.
*Only net benefits of families with monthly rents greater than ₱500 to less than or equal to ₱10,000 were included are shown.

Table 4

Estimated Monthly Net Benefit (or Subsidy) by Decile Group in NCR, 2014

National Per Capita Income Groups	Range of Monthly Net Benefit	Average Monthly Net Benefit
1st to 3rd National Per Capita Income Deciles	-1,905.609 to 5,015.745	746.1798
4th to 6th National Per Capita Income Deciles	-3,552.192 to 6,652.84	1,847.723
7th to 10th National Per Capita Income Deciles	-3,534.451 to 26,044.05	1,742.873

Basic Data Source: Philippine Statistics Authority. 2014 Annual Poverty Indicators Survey.
Note. APIS 2014 used covers January to June 2014; *dropped "not applicable" category under the variable for the "type of construction materials of the roof", and "other housing unit" category under the variable for the "type of building/house where the family resides"
*Families who "own house and lot or owner-like possession of house and lot" with monthly imputed rent of at most ₱30,000 were included to the uncontrolled group of families who "rent house/room including lot" in the regression in order to estimate the price attributed to specific housing features.
*Column on National Per Capita Income Groups combines National Per Capita Income Deciles families generated from APIS 2014
*Net Benefit = Predicted Controlled Rent - Actual Controlled Rent
*Only net benefits of families with monthly rents greater than ₱500 to less than or equal to ₱10,000 are shown.

V. Conclusions and Recommendations

Less stringent rent control schemes do not remove the unintended consequences of rent control. The picture that emerges in the case of Metro Manila in 2014 is that the benefits of rent control are not captured by the poor and low income households. In some cases, the transfers could be negative; services are substandard, and tenants are paying more than what they would have paid for better housing facilities. Moreover, the policy bias toward homeownership, including maximum tolerance on informal settlements (e.g. Lina Law), has resulted in the development of rental markets in slums and/or poor neighborhoods in order to meet the increasing demand for affordable rental housing in the city. In the case of the landlords, albeit the Philippine government has relaxed the rent control law through vacancy decontrol and partial coverage, the law constrains the lessors' conversion of property. Uncertainty of the future regulatory environment on rent control (e.g. raising rent ceiling) will also lead to the postponement in rental investments.

The main issue here is the lack of affordable and decent rental housing in the market. Rent control law is apparently not the appropriate policy to address the problem of housing the poor and marginalized households, nor of encouraging investments in affordable rental housing. A better alternative could be the provision of rental assistance or housing allowance. Compared to rent control, rental assistance reduces the problem of affordability, providing marginalized households or those who need housing support most a choice to live in a better environment rather than be "locked in" poor neighborhoods. Rental assistance also promotes investments in rental housing and can discourage the development of the market in slums since the program can be confined to rental housing units in lands with formal and legal rights. The subsidy to a rental assistance program can be supported by improvements in the property tax base.

Adopting rental assistance would also mean a shift of government policy away from public provision of housing, which is costlier and less efficient than direct income transfers. It would also mean a review of the rationale for expanding financing support to informal settlements, which tend to encourage professional squatting. Public rental housing administered by local governments can also be considered as an alternative program but requiring LGUs to institutionalize the program by allocating funds for development and estate management needs to be further studied.

Rent control has also been enacted to address the issue of security of tenure. Security of tenure in rental housing, aside from affordability issue, is also an important societal objective. There are views that tenants have no recourse against eviction that may arise from the uncertainty of future rent prices and the lessors' possible conversion of property to other uses due to profitable opportunities available in the market. This argument is valid, but the unintended consequences of the rent control law could outweigh the possible improvement in security of tenure arising from stricter laws on conversions and rent increases. Moreover, security of tenure could be addressed through other ways (e.g. lease agreements) without creating distortions in the housing market.

Data availability has remained a major constraint in doing impact analysis on rent control and other housing policies in the country. Given the growing housing problem in the country, there is a need for government to address the data gaps and require a regular monitoring of housing information through a national housing and occupancy survey.

What can we expect when rent control is lifted?

First, the lifting of rent control will not lead to an exorbitant increase in rental prices. The fear of prices increasing if there is no rent control is unfounded. Families who rent in the controlled market are income constrained and are willing to spend only an average of 12% of monthly income to pay for rent (the proportion is lower for those in the lower income decile) (see Table 2). More than 70% of renting households, therefore, live in rental houses that are way below the rent control ceiling of P10,000. The supply of rental market targets specific clientele, increasing rents beyond what their target market can absorb, which puts their rental business out of the market. Moreover, in recent years, real estate developers have been very aggressive in the development of affordable condominiums for ownership, partnering with banks and with the Home Development and Mortgage Fund (HDMF) for low interest rates and low monthly amortizations. Some developers also offer rent-to-own schemes at rates close to the controlled market but of better housing quality.

Second, the lifting of rent control will eliminate the uncertainty caused by repeated extensions of the rent control law. Uncertainty discourages investment in the sector since rules are bound to change whenever the law is extended (see Annex 1). Despite the proliferation of condominiums in Metro Manila, there is a large segment of Metro Manila households that cannot afford to own houses suitable for the average family size of 4. (Note that small-spaced condominium units may be suitable for single households or a couple but not for the average-sized household. Amortization for bigger-sized units (about 40 sqm) would require a minimum family income of ₱70,000 per month. This means that the average to large-sized families with incomes below the 8th income decile are the potential market for low cost rental housing. Given limited rental units of such size, the likely effect is high rental prices; however, because the clientele are income constrained the supply gap is translated not through prices but through non-price mechanism such as poor quality rental housing; rental houses that lack basic services, shared toilets and kitchen, located in poor neighborhoods, etc. (see Table 3). This is also evidenced by the negative net benefits of rent control (see Table 4). The negative net benefits imply that the landlords, not tenants, receive the perceived income transfer from lower rents because units are overpriced. Lifting rent control and giving incentives to property owners will encourage more investments in affordable rental housing and increase competition in the market.

Third, the end of the rent control law is unlikely to lead to increased eviction. It is observed that most rental houses in Metro Manila that are covered by rent control are owned by small property owners (e.g. single homes, accessorias, townhouses in existing residential areas, etc.), and some are constructed within the family lot or extensions of owners' houses. Most property owners in the rental housing business are small scale and engage in the business to augment their income or to utilize idle land/property. These owners are unlikely to evict tenants on the basis of a potential conversion of the property for commercial use. Moreover, cases of eviction in rental homes are mostly due to nonpayment of rent rather than undue reasons. Nonpayment of rent is also the reason often cited by landlords for them to evict tenants.

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Annexes

Annex 1

Rent Control Laws in the Philippines

Rent Control Law	Key Provisions	Rent Ceiling (P/month)		Notes on Date of Coverage
		NCR and other HUCs	All other areas	
REPUBLIC ACT No. 6359 AN ACT TO REGULATE RENTALS FOR TWO YEARS, OF DWELLING UNITS OR OF LAND ON WHICH ANOTHER'S DWELLING IS LOCATED AND PENALIZING VIOLATIONS THEREOF, AND FOR OTHER PURPOSES	In the first year, there should be no increase in the monthly rental agreed upon. In the next year, rents cannot be increased by more than 10%.	300		Approved on June 14, 1971 Section 6... shall take effect upon its approval.
PRESIDENTIAL DECREE No. 20 AMENDING CERTAIN PROVISIONS OF REPUBLIC ACT NO. 6359, ENTITLED "AN ACT TO REGULATE RENTALS FOR THE YEARS OF DWELLING UNITS OR OF LAND ON WHICH ANOTHER'S DWELLING IS LOCATED AND PENALIZING VIOLATIONS THEREOF, AND FOR OTHER PURPOSES"	Freezing of rentals for the lower income group at their present levels	300 + rent units previously covered		Approved on October 12, 1972 Section 5... shall take effect immediately.

BATAS PAMBANSA BLG. 25 AN ACT REGULATING RENTALS OF DWELLING UNITS OR OF LAND ON WHICH ANOTHER'S DWELLING IS LOCATED AND FOR OTHER PURPOSES	Authority to increase rent by 10% yearly Exempt new residential units	300+ rent units previously covered	Approved on April 10, 1979 Section 11… shall take effect immediately upon its approval and shall remain in force for five (5) years thereafter.
BATAS PAMBANSA BLG. 877 AN ACT PROVIDING FOR THE STABILIZATION AND REGULATION OF RENTALS OF CERTAIN RESIDENTIAL UNITS FOR OTHER PURPOSES	Authority to increase rent by 10% on the first year and 20% in the 2nd and third year No decontrol Exempt new residential units	480	Approved on June 12, 1985 Section 11… shall take effect immediately upon its approval and shall remain in force up to December 31, 1987.
REPUBLIC ACT No. 6643 AN ACT EXTENDING THE EFFECTIVITY OF BATAS PAMBANSA BLG. 877, ENTITLED "AN ACT PROVIDING FOR THE STABILIZATION AND REGULATION OF RENTALS OF CERTAIN RESIDENTIAL UNITS AND FOR	Ist Extension of BP 877 Authority to increase rent by 20% Exempt new residential units	480 + rent units previously covered	Approved on December 28, 1987 Section 1. The effectivity of Batas Pambansa Blg. 877… is hereby extended for another two years for the period January 1, 1988 to December 31, 1989… Section 2… shall take effect on January 1, 1988, following its

OTHER PURPOSES," FOR ANOTHER TWO YEARS			publication in at least one newspaper of general circulation
REPUBLIC ACT No. 6828	2nd Extension of BP 877		Approved on December 30, 1989
AN ACT EXTENDING THE EFFECTIVITY OF BATAS PAMBANSA BLG. 877 ENTITLED "AN ACT PROVIDING FOR THE STABILIZATION AND REGULATION OF RENTALS OF CERTAIN RESIDENTIAL UNITS AND FOR OTHER PURPOSES" FOR ANOTHER THREE YEARS, AMENDING THEREBY SECTION ONE OF REPUBLIC ACT NUMBERED SIXTY-SIX HUNDRED AND FORTY –THREE	Authority to increase rent by 20% Exempt new residential units	480 + rent units previously covered	Section 1. The effectivity of Batas Pambansa Blg. 877… is hereby extended for three (3) years for the period January 1, 1990 to December 31, 1992… Section 2… shall take effect on January 1, 1990 following its publication in at least two (2) national newspapers of general circulation
REPUBLIC ACT No. 7644	3rd Extension of BP 877		Approved on December 28, 1992
AN ACT FURTHER EXTENDING THE RENT CONTROL PERIOD FOR CERTAIN RESIDENTIAL UNITS, AMENDING THEREBY BATAS PAMBANSA BLG. 877, ENTITLED "AN ACT PROVIDING FOR THE STABILIZAITON AND REGULATION OF RENTALS OF CERTAIN RESIDENTIAL UNITS AND FOR OTHER PURPOSES," AS AMENDED	Authority to increase rent by 20% Exempt new residential units	480 + rent units previously covered	Section 1. The effectivity of Batas Pambansa Blg. 877… is hereby extended for five (5) years from January 1, 1993 to December 31, 1997… Section 2… shall take effect on January 1, 1993 following its publication in at least two (2) newspapers of general circulation.

REPUBLIC ACT No. 8437 AN ACT FURTHER EXTENDING THE RENT CONTROL PERIOD FOR CERTAIN RESIDENTIAL UNITS AMENDING THEREBY BATAS PAMBANSA BLG. 877 ENTITLED: "AN ACT PROVIDING FOR THE STABILIZATION AND REGULATION OF RENTALS OF CERTAIN RESIDENTIAL UNITS, AND FOR OTHER PURPOSES, AS AMENDED"	4th Extension of BP 877 Authority to increase rent by 15% Exempt new residential units	480 + rent units previously covered		Approved on December 22, 1997 Section 1. Beginning January 1, 1998 and for a duration of four (4) years thereafter ending on December 31, 2001, monthly rentals of all residential units covered by Batas Pambansa Blg. 877, shall not be increased by the lessor by more than the rates herein provided for... Section 2… shall take effect on January 1, 1998, following its publication in at least two (2) newspapers of general circulation.
REPUBLIC ACT No. 9161 AN ACT ESTABILISHING REFORMS IN THE REGULATION OF RENTALS OF CERTAIN RESIDENTIAL UNITS, PROVIDING THE MECHANISMS THEREFOR AND FOR OTHER PURPOSES	Make available at affordable cost decent housing and basic services to underprivileged and homeless citizens in urban centers and resettlement areas Allowable rent increase of 10% yearly	7,500	4,000	Approved on December 22, 2001 Section 3. *Monthly Rental and Maximum Increase.* - Beginning 01 January 2002 and for a duration of three (3) years thereafter ending on 31 December 2004, the monthly rentals of all residential units in the National Capital Region and other highly urbanized cities not exceeding Seven thousand five hundred pesos (P7,500.00) and the monthly rentals of all residential units is all other areas not exceeding Four thousand pesos (P4,000.00) shall not be increased

				annually by the lessor, without prejudice to existing contracts, by more than ten (10%)
	Exempt new residential area			Section 17… shall take effect on 01 January 2002 following its publication in at least two (2) newspapers of general circulation.
REPUBLIC ACT No. 9341 AN ACT ESXTABILISHING REFORMS IN THE REGULATION OF RENT OF CERTAIN RESIDENTIAL UNITS, PROVIDING THE MECHANISMS THEREFOR AND FOR OTHER PURPOSES	Allowable rent increase of 10% yearly Vacancy decontrol; lessors can set initial rent upon vacancy Exempt new residential units	10,000	5,000	Approved on December 21, 2005 SEC. 17… shall take effect beginning fifteen (15) days after its complete publication in at least two (2) newspapers of general circulation until 31 December 2008.

REPUBLIC ACT No. 9653 AN ACT ESTABILISHING REFORMS IN THE REGULATION OF RENT OF CERTAIN RESIDENTIAL UNITS, PROVIDING THE MECHANISMS THEREFOR AND FOR OTHER PURPOSES	Allowable rent increase of 7% yearly Vacancy decontrol Exempt new residential units HUDCC granted the authority to continue the rental regulation after July 2013.	10,000	5,000	Approved on July 14, 2009 SEC. 4… *Limit on Increases in Rent.* - For a period of one (1) year from its effectivity, no increase shall be imposed upon the rent of any residential unit covered by this Act: *Provided,* That after such period until December 31, 2013, the rent of any residential unit covered by this Act shall not be increased by more than seven percent (7%) annually as long as the unit is occupied by the same lessee: *Provided, furhter,* That when the residential unit becomes vacant, the lessor may set the intial rent for the next lessee: *Provided, however,* That in the case of boarding houses, dormitories, rooms and bedspaces offered for rent to students, no increase in rental more than once per year shall be allowed. SEC. 19… shall take effect beginning fifteen (15) days after its complete publication in at least two (2) newspapers of general circulation.
HUDCC RESOLUTION NO. 2, Series of 2013 EXTENSIONS OF PERIOD OF REGULATION FOR THE RENT CONTROL ACT COVERAGE	Period of rent control (RA No. 9653) extended, at status quo rates	10,000	5,000	Approved on December 16, 2013 …the period of the rent control be extended, at status quo rates, until 31 December 2015.

HUDCC RESOLUTION NO. 1, Series of 2015 ADJUSTMENT OF COVERAGE AND RATES OF INCREASES OF THE RENT CONTROL ACT	Rent control (RA No. 9653) to continue using the inflation rate for 2014 of 4.1% as basis for adjustment Rent shall be increased by not more than 4% annually for those paying a monthly rent/ranging from 1.0 to Php3,999 per month; 7% for those paying a monthly rent of Php4,000 up to Php10,000 for as long as the unit is occupied by the same lessee Vacancy decontrol	10,000	Approved on June 8, 2015 a. After the expiration of RA No. 9653 or the Rent Control Act of 2009 on 31 December 2015, rent control shall continue for a period of two years or from 01 January 2016 to 31 December 2017 using the inflation rate for 2014 of 4.1% as basis for adjustment.

References: REPUBLIC ACT No. 6359, 6643, 6828, 7644, 8437, 9161, 9341, and 9653; PRESIDENTIAL DECREE No. 20; BATAS PAMBANSA BLG. 25 and 877; and HUDCC RESOLUTION No. 2 (Series of 2013) and No. 1 (Series of 2015)