

Rent Control and Tenure Duration in Ethiopia: Reflections on the New Residential Housing Rent Control and Administration Law

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Abstract

This article examines rent control and tenure duration in Ethiopia, focusing on the Residential Housing Rent Control and Administration Proclamation No. 1320/2024 through a review of laws and the literature. The different regimes in Ethiopia have been regulating residential housing rent and tenure. Proclamation No. 1320/2024, enacted in April 2024, extends previous legal practices in Addis Ababa and other major cities. The law has implications for modernizing the housing rent system and improving tax collection. However, the law adversely affects the property rights of house owners and the principle of freedom of contract. It may encourage informal rental agreements and unofficial payments and may contribute to a shortage in residential rental housing. The article argues for a reduced government role in regulating the residential housing sector and underscores the importance of respecting contractual freedom. It calls for improved land delivery for housing, the adoption of a standardized, expert-driven valuation system, and further digitization of the sector.

Keywords:

Housing rent, rent control, rent administration, freedom of contract, property rights

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1. Introduction

The demand for housing has been increasing globally, and Ethiopia is no exception. The country is facing significant challenges in its housing sector¹ and rapid urbanization driven by economic opportunities has further increased the demand for housing in urban centers.² To address housing needs, the government has implemented various strategies including allocating land to self-help cooperatives, constructing houses, selling homes at relatively fair prices, and providing land to real estate investors at low lease prices.

Despite these measures, the supply of affordable housing has not kept pace with the rising demand, leading to a largely expanding rental market.³ The rental housing sector is crucial in accommodating the urban population, many of whom are unable to purchase or construct homes due to high property prices and limited access to mortgage financing.⁴ It offers flexibility for

¹ H Arjjumend & M Seid (2018). ‘Challenges of access to land for urban housing in Sub-Saharan Africa’, *Journal of Global Resources*, 4, 1–11.

² A Tesfaye *et al* (2019). ‘Social impacts of rapid urbanization on communities in Addis Ababa: A case study of forced evictions and displacement’, *Urban Development Research Review*, 8(1), 23-35.

³ El-hadj M Bah, I Faye & ZF Geh (2018). *Housing market dynamics in Africa*. Springer Nature.

⁴ CG Moon & JG Stotsky (1993). ‘The Effect of Rent Control on Housing Quality in Seoul’, *Journal of Urban Economics*, 34(2), 195-206.

individuals and families who may need to move for employment opportunities or other reasons. Moreover, rental housing can be a more accessible option for lower-income households and young people who are not yet financially capable of purchasing property.⁵ In effect, the availability and affordability of rental housing are essential for promoting social stability and economic mobility within urban areas.⁶

Rent control is not new to Ethiopia. Historically, the country has implemented various rent regulation measures, especially during economic and political upheaval periods. For instance, following the overthrow of the imperial regime, the Derg government declared state ownership of rural and urban lands. Extensive rent control policies were enforced during this period as part of broader socialist reforms. These policies aimed to stabilize rents and protect tenants.⁷

The Derg government enacted two separate proclamations (Proclamation No. 31/1975 and Proclamation No. 47/1975) relating to rural and urban land respectively. Proclamation No. 47/1975 nationalized all urban land and extra-urban houses (i.e. houses other than the house that the owner resides in), thereby making the government the sole landowner and rent collector.⁸ This resulted in a housing shortage in major cities.⁹ The nationalization efforts were continued by transferring urban and rural land and extra rentable houses to government ownership. There was also reduction of the rent for houses by 15 to 50 percent, depending on the value of the properties.¹⁰ Thus, the regulation of rent and the residential housing sector during the Derg regime, in general, created housing shortages in major urban areas. A few measures to allow some reform since the late 1980s until 1990 were very slow and limited.

Regulation of the housing rent system continued under the post-1991 administration. The transition to a market-oriented economy in the 1990s relaxed previous rent controls, but housing affordability issues reignited the

⁵ RJ Struyk & RE Daniell (1983). 'Rental Housing: Is There a Role for Government Assistance?' *Journal of Policy Analysis and Management*, 2(4), 611-622.

⁶ Ibid.

⁷ Daniel Woldegebriel (2013). *Land rights and expropriation in Ethiopia* (PhD Dissertation), Royal Institute of Technology (KTH), Stockholm, Sweden, p. 69.

⁸ Proclamation No. 47/1975, the Government Ownership of Urban Lands and Extra Houses Proclamation, *Negarit Gazette* July 26, 1975, Articles 11 & 13.

⁹ Daniel Woldegebriel, *supra* note 7, p. 69.

¹⁰ Id., p. 68.

debate on rent regulation.¹¹ The enactment and operation of urban lease laws aimed at enhancing the government's role as the main provider of land for housing. In response to the challenges faced by the rental housing market, the government has (in 2024) enacted the Residential Housing Rent Control and Administration Proclamation No. 1320/2024.

This new law builds upon previous legal frameworks in Addis Ababa and other regional cities. It has significant implications for residential rent administration and control, landholders' property rights, housing rights protection, modernization of the housing rent system, and aims at the development of a healthy market in the sector. While the policy objectives behind this proclamation are commendable, it also presents challenges. It restricts freedom of contract and undermines urban landholders' property rights. In the long run, it could hinder the growth of the real estate sector and worsen the housing shortage.

The supply of land and housing often fails to keep pace with community demand, largely due to municipalities' inadequate land allocation because land supply is inelastic. Moreover, the residential housing rent sector is further complicating tenants' housing rights, leading to premature contract termination, frequent rent increases, and restrictive actions by landlord.¹²

This article examines rent control and tenure duration by analyzing Ethiopia's new Residential Housing Rent Control and Administration Law through a review of laws and relevant literature. It specifically explores the implications of the Proclamation on property rights, freedom of contract, modernizing the housing rent system, effective revenue collection, and addressing overall housing demand. Since the law only took full effect in April 2024, a systematic study of its societal impact is not yet possible. Therefore, this article focuses on the law's potential implications for the effective regulation and administration of residential house rent.

The second section discusses the housing rent regulation based on governing laws while the third section highlights the theories and country experiences in rent control and administration. Sections 4 to 7 deal with the implications of the rent control and administration law in modernizing, fairness and equity of the housing rent system (Section 4), property rights and

¹¹ Awel Abu (2018). 'The Right to Adequate Housing in Ethiopia: The Need to Regulate Private Rental Housing Sector', *The International Journal of Business & Management*, 6(10).

¹² Regulation No. 139/2022, A Regulation to Provide for the Amendment for the Suspension of Residential Housing Rental Increment for 90 days, *Addis Negari Gazeta*.

freedom of contract (Section 5), the housing sector in general (Section 6) and potential propensities for informal rental agreements (Section 7).

2. Regulating House Rent in Ethiopia

2.1 General overview

Different legal regimes in Ethiopia regulate housing rent. The Civil Code¹³ is a fundamental law in this regard. The federal government has recently adopted Rent Control and Administration Proclamation No. 1320/2024, aiming at controlling and administering residential housing rent. Moreover, the Addis Ababa City Administration enacted a series of regulations to suspend residential housing rental increments. The regulations were operational for 90 days each.¹⁴ Regional governments have adopted similar regulations applicable in their respective urban settings.

Rent is one aspect of a contract recognized under the Civil Code. A contract of letting or hiring is “a contract whereby one party, the lessor, undertakes to transfer to the other party, the lessee, the possession of an object for a fixed term in return for a consideration called the rent or hire”.¹⁵ Here, the parties in the rent contract are the lessor and lessee. The lessor is responsible for transferring the possession of the object to the lessee; the latter, in turn, shall pay either in kind or in cash for that service. Article 2947 of the Civil Code states duties of the lessor and lessee. The relevance of the provisions of the Civil Code in governing the rent of residential houses is indicated under Proclamation No. 1320/2024, as it explicitly refers the Code to apply in matters not covered by the Proclamation.¹⁶

According to the preamble of Regulation No. 139/2022 of the City Government of Addis Ababa, landlords have been unreasonably and unfairly increasing the housing rental price against tenants. It further states that the request for unfair rental prices, the inappropriate eviction of tenants in the interest of the landlord, and conflict between tenants and landlords are challenges of rent administration in the City. The preamble states that these

¹³ Civil Code of Ethiopia, Proclamation No.165/1960, Articles 2727 *ff.*

¹⁴ Regulation No. 139/2022, *supra* note 12; Regulation No. 121/2022, A Regulation to Provide for the Amendment for the Suspension of Residential Housing Rental Increment for 90 days, *Addis Negari Gazeta*; Regulation No. 123/2022, A Regulation to Provide for the Amendment for the Suspension of Residential Housing Rental Increment for 90 days, *Addis Negari Gazeta*.

¹⁵ Civil Code, *supra* note 13, Article 2727.

¹⁶ Proclamation No. 1320/2024, Residential Housing Rent Control and Administration Proclamation, *Federal Negarit Gazette*, Article 30.

problems have created suffering and intense dissatisfaction in the community. The mechanism designed by the city administration was to “temporarily suspend the residential housing rental increment until addressing the problem,”¹⁷ and “... a rental increment on residential houses from August 25th 2022 to February 24th 2023” was prohibited.¹⁸

Despite the prohibition of rent increment and eviction of the tenant by the landlords, the Regulation allowed a possibility of doing so, albeit in exceptional cases. It provided that, “a request for eviction and rental increment due to compelling and various situations may be approved upon the submittal thereof, in writing with substantial evidence, to the Mayor.”¹⁹ Recently, the Addis Ababa City Administration enacted Directive No. 7/2024, based on Proclamation No. 1320/2024, and it contains model residential house rent agreement as its annex.

2.2 Rent Control and Administration Proclamation No. 1320/2024

2.2.1 Aim and scope of the Proclamation

The Proclamation sets forth the framework for regulating rental agreements and rent increases, protecting tenant rights, ensuring fair practices within the rental market, and providing procedures for grievance hearings. It contains 32 provisions and is divided into five parts in addition to the preamble. According to the preamble, the Proclamation aims to serve the following purposes:

“... rising rent increases have been -causing financial burdens and hardships, affecting the lives and livelihoods of citizens;”

“... in addition to the Government's efforts in providing housing and regulating urban residential rent, ensuring affordability and fairness has become imperative;”

“it is necessary to establish a transparent and accountable rent control and administration law that strikes a balance between the interests and fundamental rights of homeowners and tenants.”

The scope of the Proclamation applies to the rent of dwelling houses in all urban centers accountable to the regions, Addis Ababa, and Dire Dawa City Administrations.²⁰ However, each regional state can determine whether to

¹⁷ Regulation No. 139/2022, *supra* note 12, Preamble.

¹⁸ *Id.*, Article 4.

¹⁹ Regulation No. 123/2022, *supra* note 14, Article 5.

²⁰ Proclamation No. 1320/2024, *supra* note, 16, Article 3(1).

apply the Proclamation in other urban centers within their administrative jurisdiction.²¹ Commercial houses are out of the ambit of the Proclamation.²²

2.2.2 Standards and duration of the rental agreement

According to the Proclamation, every contract for housing rent shall be made in writing and authenticated by a relevant authority, followed by registration of the contract within a relevant authority. The written form, authentication, and registration shall also apply when the contracting parties agree to renew the rent contract. The registration and authentication period shall be within 30 days of the contract's formation. The failure to registration and authentication renders the contract *void ab initio*. Moreover, failure to register and authenticate is followed by a sanction in the form of a fine, which shall not, in any case, exceed a three-month rent price agreed in the rent contract.²³

The duration of the rent agreement is determined under the sub-provisions of Article 6 of the Proclamation. In principle, the duration of rent shall be at least two years, although it may be terminated before the agreed period lapses upon the fulfillment of the conditions under Articles 15 and 16. Besides, under Article 6(2), the duration of the rent agreed in writing before the enactment of the Proclamation shall remain valid until it expires.

If the ownership of the house is transferred to a third party through sale, inheritance, to effect debt, and any other legal ground, a six-month notice period should be given to terminate the rent contract (Article 6(3)). Yet, if the ownership of the house is transferred through donation, the rent contract can only be terminated when the agreed period lapses. The donee shall overtake the rights and duties of the donor in respect to the tenant (Article 6(3)).

As stated above, the termination of the contract will be automatic following the lapse of the agreed-upon period or the applicable 6 month notice period. Under Article 6(5), the new homeowner may permit the lessee to continue living there. Under Article 6(6), it is prohibited to oust the tenant from the house before the time of contract lapses and to increase the rent price except the conditions indicated in the Proclamation. Rent agreements made in writing before the enactment of the Proclamation shall be registered and authenticated within 30 days from the date the controlling authority is established unless the contract is terminated upon agreement of the parties. The controlling body can extend the registration and authentication period up to the maximum period of extension stated under Article 7(2).

²¹ Id., Article 3(2).

²² Id., Article 3(3).

²³ Id., Article 4.

2.2.3 Grievance and grievance hearing procedures

According to Article 21 of the Proclamation, any disagreement between the parties shall be presented to the controlling body by either party in written form. The application shall be supported by (a) a registered and authenticated contract of rent, (b) a bank slip or any other electronic document showing payment of rent, and (c) any other document as required by the controlling authority. The application shall be submitted within 30 days starting from the date where the cause for the disagreement occurred.

The controlling authority shall decide on the matter within 30 days of receiving the application (Article 22). Appeal to a grievance hearing committee, which will be established within 15 days of receiving the controlling authority's decision, is possible (Article 23). If a party is dissatisfied with the committee's decision, it can appeal to regular courts having jurisdiction, and its decision is final (Article 26).

2.2.4 Payment modalities of rent

According to Articles 12 and 13 of the Proclamation, the down payment shall not exceed a two month rent price agreed between the parties in the rent contract. Payment shall be done through banks or other recognized electronic methods. Both parties shall be obligated to keep documents relating to the payment.

2.2.5. Differences from previous legislation

The Proclamation marks a significant departure from previous rental legislation in Ethiopia. Earlier laws were less stringent in regulating rent increases and did not provide robust protections for tenants. The Civil Code allows more flexibility in rent price increases. The new law, in turn, introduces stronger safeguards against evictions and clearer definitions of landlord responsibilities.

While earlier laws lacked effective mechanisms for resolving disputes, the new law provides structured processes and responsible bodies to handle conflicts. The justification that is forwarded for the shift towards stricter regulation of rent increases includes stronger tenant protections, and structured grievance procedures which mark a significant move towards a more regulated rental market, reflecting a blend of social welfare and modern moderate rent control theories. Yet, such strict control will also pose difficulties.

3. Overview of Rent Control Theories and Country Experiences

3.1 Rent control theories

Rent control aims at regulating rental housing prices to protect tenants from excessive rent increases and ensure affordability.²⁴ It encompasses various theories addressing the regulation of residential housing rents, the promotion of affordability, and the management of landlord-tenant relationships. This section examines different theories on rent control so that they can give insights to the premises and challenges in the Ethiopian approach.

Classical economic theory

Classical economic theory critiques rent control as a price ceiling that disrupts the natural dynamics of the housing market.²⁵ By capping rental prices below their equilibrium levels, rent control policies distort the signals that typically guide supply and demand.²⁶ Landlords, faced with restricted income potential, often reduce investment in maintaining or upgrading their rental properties.²⁷ Furthermore, artificially low rents discourage the construction of new housing units, resulting in a persistent undersupply. Over time, these market distortions create chronic housing shortages, leaving many without access to adequate housing.

Another significant concern raised by classical economic theory is the misallocation of housing resources. Rent control policies may incentivize tenants to remain in rent-controlled units even when their financial circumstances improve or their housing needs change.²⁸ This limits the availability of affordable housing for those with greater need, as units are not redistributed efficiently. Furthermore, landlords facing reduced profitability may opt to convert rental properties into other forms of real estate, further

²⁴ M Haffner, M Elsinga & J Hoekstra (2012). 'Access and affordability: Rent regulation', *International Encyclopedia of Housing and Home*, (40-45).

²⁵ D Marks (1984). 'The Effect of Rent Control on the Price of Rental Housing: An Hedonic Approach', *Land Economics*, 60(1), 81-94; see also B. Jenkins (2009), 'Rent control: Do economists agree?' *Econ journal watch*, 6(1), 73.

²⁶ B Turner & S Malpezzi (2003). 'A review of empirical evidence on the costs and benefits of rent control', *Swedish Economic Policy Review*, (10).

²⁷ JA Miron (1992). 'The Economics of Rent Control', *Journal of Economic Perspectives*, 6(4), 143-156.

²⁸ KA Kholodilin (2024). 'Rent control effects through the lens of empirical research: An almost complete review of the literature', *Journal of Housing Economics*, (10).

exacerbating the housing supply shortage.²⁹ The combined effect is a market where affordability for new tenants becomes increasingly unattainable.

While rent control is intended to promote affordability and protect tenants from excessive rent hikes, it risks undermining these goals by reducing overall housing quality.³⁰ With limited financial returns, landlords often neglect property maintenance, and this results in the deterioration of the existing housing stock. For tenants, this leads to substandard living conditions, thereby eroding the intended benefits of rent control. Ultimately, classical economic theory argues that the unintended consequences of rent control –such as reduced housing supply, resource misallocation, and declining quality– could hinder efforts to implement effective and sustainable rent control measures.³¹

Social welfare economics

Social welfare economics advocates for rent control as a tool to promote social equity and protect vulnerable groups within the housing market.³² This perspective emphasizes the role of rent control in preventing the displacement of low-income tenants, who might otherwise be priced out of their homes due to rising rents. The policy aims to enhance housing stability by stabilizing rents, ensuring that families and individuals can remain in their homes without the fear of sudden, unaffordable increases.³³ Additionally, rent control addresses broader social inequalities by providing low-income households with access to secure and affordable housing in markets often dominated by wealthier individuals.³⁴ This focus on fairness positions rent control as a vital policy for reducing housing disparities and protecting marginalized communities.

However, social welfare economics suggests that rent control should be integrated into broader housing policies to maximize its effectiveness.³⁵ While rent stabilization provides immediate relief, it does not address underlying

²⁹ PA Kemp (2015). 'Private Renting After the Global Financial Crisis', *Housing Studies*, 30(4), 601-620.

³⁰ L Sturtevant (2018). 'The impacts of rent control: A research review and synthesis', Washington, DC: National Multifamily Housing Council, 1-20.

³¹ Kholodilin, *supra* note, 28.

³² S Malpezzi (1998). 'Welfare Analysis of Rent Control with Side Payments: A Natural Experiment in Cairo', *Regional Science and Urban Economics*, 28(6), 773-795.

³³ T Carter & C Polevychok (2004). 'Housing is good social policy' Canadian Policy Research Networks Incorporated.

³⁴ S Maass (2012). 'Rent control: A comparative analysis', *Potchefstroom Electronic Law Journal*, 15(4), 40-100.

³⁵ J Waldfogel (1994). 'The Welfare Effects of Rent Control', *Journal of Public Economics*, 48(3), 275-298.

issues such as housing shortages or the development of affordable housing. Complementary measures, including inclusionary zoning, subsidies, and investments in public housing, are essential for adopting a holistic approach to housing challenges.³⁶ By combining tenant protections with strategies to increase housing supply and improve affordability, policymakers can create a more equitable and sustainable housing market.³⁷

Institutional theory

Institutional theory highlights that the success of rent control policies depends on the strength and efficiency of the institutions responsible for their implementation.³⁸ Effective rent control requires well-designed legal frameworks that clearly define the rights and responsibilities of landlords and tenants. Robust administrative systems are essential to ensure compliance with these regulations, resolve tenant and landlord disputes, and prevent violations such as illegal evictions or unreported rent increases.³⁹ Moreover, institutions must oversee critical processes, including property registration, regular inspections, and monitoring rent control limits, to promote transparency and fairness in the housing market.⁴⁰ Without these mechanisms, rent control policies are at risk of being undermined by poor implementation and a lack of accountability.

This perspective implies that institutional capacity is as important as the design of the rent control policy itself. Inadequate institutional frameworks create enforcement bottlenecks, where disputes remain unresolved, or violations go unpunished, eroding public trust in the system. Policymakers are advised to invest in building the institutional infrastructure needed to support rent control, including trained personnel, streamlined processes, and technological tools for efficient monitoring. By ensuring that institutions can manage the complexities of rent control, governments can maximize the policy's effectiveness in balancing affordability with housing supply and market stability.⁴¹

³⁶ T Slater (2020). 'Rent control and housing justice', *Finisterra*, 55(114), 59-76

³⁷ R Molloy (2020). 'The Effect of Housing Supply Regulation on Housing Affordability: A Review', *Regional Science and Urban Economics*, 80(C), 1-5.

³⁸ J Pinto (2017). 'A Multifocal Framework for Developing Intentionally Sustainable Organizations', *Current Opinion in Environmental Sustainability*, (28), 17-23=

³⁹ A Marsh, K Gibb & AM Soaita (2023). 'Rent Regulation: Unpacking the Debates'. *International Journal of Housing Policy*, 23(4), 734-757.

⁴⁰ G Peppercorn & C Taffin (2013). 'Rental Housing: Lessons from International Experience and Policies for Emerging Markets', World Bank Publications.

⁴¹ Marsh *et al supra* note 39.

Modern theory

The modern theory of rent control encompasses a variety of approaches that aim to balance the need for affordable housing to maintain a functioning and sustainable rental market. It advocates for a balanced approach that combines moderate rent control measures with broader housing policies.⁴² The key argument behind the modern theory is that while rent control can provide important protections for tenants, overly strict regulations can lead to negative market consequences, such as reduced housing supply and poor maintenance of rental properties.⁴³ One of the central components of modern theory is the implementation of caps on annual rent increases.⁴⁴ It protects tenants from sudden price surges while ensuring that landlords can still earn a reasonable return on their investments through limited rent hikes to a certain percentage annually, often tied to inflation or cost of living adjustments. This flexibility helps to maintain a balance between affordability for tenants and incentives for landlords to continue providing housing.

Vacancy decontrol, which allows rents to reset to market levels when a tenant vacates a unit, is a key aspect of modern theory.⁴⁵ This policy addresses the long-term distortions that can arise from rent control, such as the stagnation of rents and the underinvestment in housing. By allowing the market to adjust when a unit becomes available, vacancy decontrol encourages investment in new housing and helps ensure that rental prices reflect current supply and demand conditions.⁴⁶ In addition to rent control measures, modern theory incorporates complementary housing policies such as inclusionary zoning. It further requires developers to include affordable housing units in new developments, ensuring that the expansion of the housing supply also benefits low-income populations. Subsidies and incentives for landlords further support these goals by encouraging them to maintain affordable rents without the need for strict controls, offering financial relief in exchange for keeping units below market rates.⁴⁷

⁴² C Stacy *et al* (2024). ‘Rent Control and the Supply of Affordable Housing’, *SSRN* 4904928.

⁴³ B Moon (2024). ‘Protection or Provocation? The Effect of Tenant Protection Regulation’, *Cities*, 151, 105104.

⁴⁴ M Pastor, V Carter & M Abood (2018). ‘Rent Matters: What are the Impacts of Rent Stabilization Measures?’ *Los Angeles: USC Dornsife Program for Environmental and Regional Equity*.

⁴⁵ J Whitlow (2023). ‘Toward Housing Justice: Law, Tenant Power, and the Decommodification of Urban Property’, *U. Pa. JL & Soc. Change*, 27, 175.

⁴⁶ *Ibid.*

⁴⁷ *Ibid.*

Modern theory is important in addressing supply-side concerns while ensuring tenant security and housing affordability. By combining moderate rent control with policies that promote new construction and investment, modern theory aims to prevent the housing market from becoming stagnant or distorted.⁴⁸ It also provides more sustainable and equitable solutions to housing challenges by recognizing the complexity of housing markets and advocating for policies that work together to support both tenants and landlords.⁴⁹ Modern theory thus seeks to foster a more dynamic and affordable housing market that can meet the needs of diverse populations while encouraging long-term growth and stability.

The discussion above on the various theories shows that residential rent control and administration theories are diverse and multifaceted, encompassing economic, social, institutional, and moderate perspectives. Effective rent control requires understanding of these theories to balance affordability, housing supply, and quality and to design policies that address both tenant needs and landlord concerns.

Proclamation No. 1320/2024 reflects principles that are promoted in social welfare economics theory. As indicated in Section 2.2.1, the aim and scope provisions highlight a social welfare approach, focusing on affordability and protecting urban dwellers from the financial burden of high rent. By capping minimum contract duration and prohibition of rental increase during this period, the law aims to protect tenants from sudden and excessive rent hikes, preventing the displacement of low-income households. Moreover, setting a minimum rental period and specific conditions for termination incorporates elements of social welfare economics by providing housing stability and security for tenants.

The institutional theory is evident in the structured framework and administrative mechanisms desired in the Proclamation. The law mandates written contracts, registration, and authentication by relevant authorities to ensure that the rental agreements are formalized and monitored. By outlining grievance and hearing procedures, the Proclamation creates a systematic process for addressing disputes which is essential for effective regulation and enforcement. Moreover, limiting down payments and requiring payment through formal channels align with social welfare economics.

The Proclamation also reflects aspects of modern theory. Measures such as rent caps and grievance procedures balance tenant protection with landlord

⁴⁸ A Saiz (2023). 'The Global Housing Affordability Crisis: Policy Options and Strategies', *MIT Center for Real Estate Research Paper*, (23/01).

⁴⁹ *Ibid.*

incentives, ensuring that rent increases are controlled but not completely stifled. The detailed rules regarding contract and conditions for termination or transfer reflect a balanced approach to rent control, allowing some flexibility while maintaining tenant protections.

3.2 Country experiences in rent control

An overview of experiences with rent control, focusing on Hong Kong, Sweden, and Germany reveals that such measures do not always achieve their intended goals and can lead to unintended consequences. Hong Kong serves as a notable example of tenancy control, which has both benefits and drawbacks. On one hand, it has facilitated the provision of affordable rental housing and ensured that sitting tenants have the right to remain in their rented properties after their tenancy agreements expire. To enhance tenure security, the system restricts landlords from evicting tenants except under specific conditions, such as non-payment of rent or the landlord reclaiming the property for personal use.⁵⁰ Tenancy control in Hong Kong also requires landlords to provide justifiable reasons before terminating a lease agreement.⁵¹

Rent control in Hong Kong aims to cap rent at a ‘reasonable level’ and protect tenants from excessive rental increases, particularly in times of housing shortages.⁵² The policy is justified by three main considerations. First, it helps to address the inherent imbalance of bargaining power between landlords and tenants. Second, aims at reducing evictions, and supports the preservation of social ties. Third, it contributes to stabilizing the property market and mitigating inflationary pressures.⁵³ This being acceptable in principle, the tenancy control brought concerns, too. Among others, it has reduced supply of rented accommodation, generated inadvertent spillover effect on the uncontrolled sector, made landlords more selective about tenants, and discouraged adequate maintenance of rented accommodation.⁵⁴

The experience of Sweden reveals that tenancies are flexible and initial rents at the beginning of a tenancy are set by “a Rent and Tenancy Tribunal” taking into account the ‘utility value’ of the property. The rent will be considered reasonable when seen in comparison to similar properties of the

⁵⁰ Angela Choi (2017). ‘Tenancy Control in Selected Places’, *Legislative Paper Information Note IN16/16-17*, p. 4.

⁵¹ *Ibid.*

⁵² *Ibid.*

⁵³ *Id.*, p. 5.

⁵⁴ *Id.*, pp. 5 -6

same utility value.⁵⁵ Utility value of a property is determined based on flat size, construction, how modern the property is relative to the average, quality of soundproofing, and its state of repair.⁵⁶ In addition to the collective bargaining of the tenant union, each individual tenant will still have the right to test in court whether any subsequently proposed rent increases are justified.⁵⁷ It has been clear from Sweden's case that "rent increases are the purview of the legally-constituted collective bargaining process".⁵⁸

Government's politically motivated attempts to rent setting and control have been proved defective. Such attempts have been instrumental to the collapse of the national government in 2021, as the national government had designed rent control liberalization.⁵⁹ Moreover, rent control in Sweden is being criticized for its unintended consequences as it resulted in long queues for people seeking to access housing. The issue even attracted political parties as one of the debating issues in their efforts to secure vote from the people.⁶⁰

As of 2021, Germany has the highest number of private sector tenants within the European Union. There is a practice of updating rent of existing leases and the average rental price will be published. The rent at the beginning of a lease cannot exceed the local comparative rent by more than 10%. Tenants can challenge the rent if the lessor does not provide the necessary information.⁶¹ With the view to promote investment in the housing sector, newly built and modernized properties have been excluded from the rent control regulation. In addition, the control on rent does not apply if the rent has already been 10 per cent above the local comparative rent.⁶² The rent control regulation failed to serve the intended purpose. For instance, it has been observed in many urban settings of Germany that "the housing markets

⁵⁵ Ken Gibb & Alex Marsh (2022). 'Rent Control: Principles, Practicalities and International Experience' Briefing Paper, UK Collaborative Center for Housing Evidence, p. 4.

⁵⁶ Jones Day White Paper (2020). Mapping Out Rent Controls Across Europe.

⁵⁷ D Dorling (2017), 'Lessons from more Equitable European Countries: Rent Regulation', *Public Sector Focus*, March/April, <https://flickread.com/edition/html/58fe0f0c3d27c#57>

⁵⁸ Gibb, *supra* note 55, p. 4.

⁵⁹ *Ibid.*

⁶⁰ *Ibid.*

⁶¹ Maria J Aldanas (2021). 'Legal Approach to Rent Regulations in the EU', *Housing Rights Watch*.

⁶² Christine Whitehead & Peter Williams (2018). 'Assessing the Evidence on Rent Control from an International Perspective', *Residential Landlords Association*, p. 23.

have not shown any noticeable signs of easing, causing many to doubt the instrument's effectiveness".⁶³

4. Implications of the Proclamation in Ensuring Modernization, Fairness and Equity

4.1 Modernization and economic implications

The Rent Control and Administration Proclamation can be seen in relation to modernizing the housing rent system. Article 19(5) of the Proclamation demands the establishment of modern housing rent system supported by information technology. Knowledge about the national-level rental housing status and identifying where and how to intervene is important. A clear inventory of the number and type of housing helps to appreciate the existing accessible houses, the demand side, and the paucity in the process. It requires the transition of rent payment modality from the traditional patterns of payment to electronic rental payment transfers for better tracking. The law is also important in decision-making at various levels. When disputes occur between the parties, the registered and authenticated contract will be taken as *prima facie* evidence to resolve the disputes.⁶⁴

The implementation of rent control measures aims to stabilize the rental market by limiting rent increases, providing tenants with greater cost predictability. However, these measures may also diminish incentives for landlords to invest in or properly maintain rental properties, potentially reducing the overall housing supply. With lower potential returns, the Proclamation's rent caps could discourage investment in rental properties thereby leading to a decline in housing stock quality as landlords cut maintenance and improvement efforts to control costs.

Moreover, prospective investors might redirect their capital to other sectors that have higher returns, further reducing the availability of rental housing. Rent controls may create an imbalance between housing supply and demand. This reduced incentive could lead to a housing shortage, resulting in long waiting lists for rental units and potentially driving more individuals into the informal housing sector.

It also has implicit implications for effective tax collection in the sector provided that adequate information is secured as required by the Proclamation. To that end, both landlords and tenants must retain documents relating to rent payments, and rental contracts should be registered and

⁶³ Ibid.

⁶⁴ See Article 2005 of the Civil Code, *supra* note 13.

authenticated by the relevant authority. Since rent payments must be made through banks or other electronic methods, the government can accurately assess the income of these citizens and levy appropriate taxes on the sector. This revenue collection benefits both the government and landlords, who would be taxed in proportion to their income.⁶⁵

Electronics payment methods and the requirement for registration and authentication play pivotal roles in enabling the government to effectively collect revenue from residential housing rentals, thereby ensuring fair taxation in accordance with the law. For instance, the assessment in Addis Ababa indicates that in the fiscal year 2013/14, tax revenue from residential housing rentals was minimal, accounting for only about one percent of the total tax collected from various sources.⁶⁶ This suggests that the government still faces challenges in effectively taxing residential housing. One contributing factor to this low tax revenue is the inadequate registration of the rental housing sector.⁶⁷

Thus, the system must be updated with the latest technologies to facilitate payment.⁶⁸ The registration and authentication of rental contracts, along with the implementation of electronic rent payment mechanisms, could enable both the government and rental property owners to accurately assess and anticipate the tax obligations based on their annual and monthly incomes.

4.2 Fairness and equity served

Rent control and administration could promote greater equity and social inclusion by ensuring that lower-income households have access to affordable housing,⁶⁹ thereby reducing socioeconomic disparities and integrating diverse populations within urban areas.⁷⁰ However, it is important to ensure that rent controls do not inadvertently create barriers for new residents seeking rental housing. The law incorporates fairness and equity, benefiting new renters. It offers specific protections for new dwelling house owners compared to those

⁶⁵ JM Poterba (1992). 'Taxation and Housing Markets: Preliminary Evidence on the Effects of Recent Tax Reforms', *National Tax Journal*, 45(1), 59-84.

⁶⁶ Tom Goodfellow (2015). 'Taxing the Urban Boom: Property Taxation and Land Leasing in Kigali and Addis Ababa', ICTD Working Paper 38, p. 23.

⁶⁷ Fufa Adugna (2020). 'Rental Income Tax Practice and Its Contribution to Revenues of City Administration in the Case of Jimma Town', (Unpublished Msc Thesis).

⁶⁸ Ibid.

⁶⁹ National Low Income Housing Coalition. (2022). "The Gap: A Shortage of Affordable Homes", Retrieved from NLIHC

⁷⁰ R Diamond, T McQuade & F Qian (2019). 'The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco', *American Economic Review*, 109(9), 3365-3394.

renting their houses before the enactment of the Proclamation. For new houses that have never been rented, the rent ceiling determined by the Proclamation will not apply for the first four years from the date the initial rental contract is registered and authenticated by the relevant authority. Similarly, for older houses that have never been rented, the rent ceiling will not apply for the first two years beginning from the registration of the initial rental contract.⁷¹

This approach encourages property development and investment by offering a grace period during which new property owners can set rents without immediate regulatory constraints.⁷² It is designed to incentivize the addition of new rental units to the market, thereby increasing overall housing availability and affordability.⁷³ Thus, the law seeks to balance the interests of various stakeholders in the housing market. The Proclamation encourages the construction and availability of new rental units by providing protections for new dwelling rental house owners. At the same time, by implementing rent ceilings, the law aims to protect tenants from unreasonable rent hikes, promoting long-term affordability and stability in the rental market.

5. Implications to Property Rights and Freedom of Contract

Proclamation No. 1320/2024 imposes restrictions on the property rights and contractual freedom of rental house owners. According to Schlager and Ostrom, property rights –particularly in relation to land– encompass access, withdrawal, management, exclusion and alienation.⁷⁴ Property rights include different rights, each having different breadth, including the right to possess, manage, security against expropriation, use, benefit from income, capital value of the object, transmissibility or transfer through sale, gift, bequest, absence of term.⁷⁵

⁷¹ Proclamation No. 1320/2024, *supra* note 16, Article 10.

⁷² J Gyourko & R Molloy (2015). ‘Regulation and Housing Supply’, *Handbook of Regional and Urban Economics*, 5, 1289-1337.

⁷³ Y Wang & A Murie (2000). ‘Social and Spatial Implications of Housing Reform in China’, *International Journal of Urban and Regional Research*, 24(2), 397-417.

⁷⁴ Thomas Sikor, Jun He & Guillaume Lestrelin (2017). ‘Property-Rights Regimes and Natural Resources: A Conceptual Analysis Revisited’, *World Development*, (93), 338-340.

⁷⁵ AM Honore (1961). *Ownership, Making Law Bind: Essays Legal and Philosophical*, cited in Muireann Q. (2007). ‘Property and the Body: Applying Honore’, *Journal of Medical Ethics*, 33 (11) 631-634.

The FDRE Constitution provides various legal protections for property rights.⁷⁶ It states that “unless prescribed otherwise by law on account of public interest, this right shall include the right to acquire, to use, and in a manner compatible with the rights of other citizens, to dispose of such property by sale or bequest or to transfer it otherwise.”⁷⁷ Although the right of ownership over rural and urban lands belongs to “the State and Nations, Nationalities and Peoples of Ethiopia”,⁷⁸ both rural and urban residents have land rights lesser than ownership. Particularly, peasants, pastoralists and semi pastoralists have the right to access rural land for free for an indefinite period of time.⁷⁹

Urban dwellers are expected to access land on payment modality.⁸⁰ Landholders have full constitutional right over improvements made to the land and the immovable properties built on it. The right to improvements and developments on the land “includes the right to alienate, to bequeath, and, when the right of use expires, to remove the property, transfer title, or claim compensation for it whenever it is interfered with”.⁸¹ However, upon the expiration of the right of use, the right holder is required to remove the property. This clearly shows that landholders’ rights can be restricted when the duration of the land use right expires. For instance, urban dwellers’ rights to lease landholding are time-bound, meaning that when the lease period for a specific use expires, the right to use the land also ends.⁸²

Article 6 of Proclamation No. 1320/2024 establishes a minimum contract period of two years for residential rental agreements. The contract could be terminated before this period expires if one or more of the conditions stated under Articles 15 and 16 of the Proclamation are met. According to these provisions, a rental contract can be terminated either by agreement between the parties or through notice of the house lord. Pursuant to Article 15, the contract can be terminated before the rental period ends if both parties agree or if the tenant chooses to terminate it by providing a two-month notice period. Additionally, Article 6 specifies the following conditions under which the landlord may terminate the contract without prior notice:

⁷⁶ Constitution of the Federal Democratic Republic of Ethiopia, Proclamation No.1/1995, *Federal Negarit Gazette*, Article 40.

⁷⁷ *Id.*, Article 40(2).

⁷⁸ *Id.*, Article 40(3).

⁷⁹ *Id.*, Articles 40(4) & 40(5).

⁸⁰ *Id.*, Article 40(6).

⁸¹ *Id.*, Article 40(7).

⁸² Proclamation No. 721/2011, A Proclamation to Provide for Lease Holding Urban Lands, *Federal Negarit Gazette*, Article 19.

- a) If the tenant extends the payment date for 15 days for the first time;
- b) If the tenant extends the payment date for seven days provided it is for the second time;
- c) If the tenant is using the house for purposes other than residence, or he/she uses the house for commercial purpose without the consent of the owner;
- d) If it is threatening the peace and security of the community;
- e) If criminal activities are being undertaken in the house;
- f) Intentional or negligent damage to the house; or
- g) Any other similar reason.

Accordingly, rental contracts cannot be terminated for reasons other than the grounds stated above. However, one may question whether additional grounds should justify the contract's possible termination. For instance, if owner of the house wishes to improve the standard of the house, s/he cannot do so until the contract period expires. Similarly, if a landlord intends to move into the house after providing adequate notice, they are unable to do so before the contract ends. This restriction clearly violates the constitutional right to use one's property. Likewise, the two-month notice period to be given by the tenant if s/he wants to terminate the contract can be problematic. In practice, this provision means that if a tenant is unable to remain in the house for two months after submitting the notice, they must still pay rent for that period in advance.

It we allow the tenant to terminate the contract by providing a two-month notice, why is the landlord not granted the same right? For instance, if the house lord relocates residence for reasons such as education, family matters, or employment and later returns to live in their house, they must wait until the rental period expires. This will affect the property rights of the house lord. Considering these and related compelling reasons that necessitate the termination of a rent contract, the house lord should also be permitted to terminate the agreement under similar conditions.

Another shortcoming of the Proclamation is its violation of the well-established principle of freedom of contract, which is fundamental to contractual relations.⁸³ The valid formation of a certain contract requires four key elements under Ethiopia's Civil Code. First, the contracting parties must have the legal capacity to enter into juridical acts. Second, both parties must give their mutual consent to the contract. Third, the contract's object must

⁸³ Adam Smith (1776). *An Inquiry into the Nature and Causes of the Wealth of Nations*, London; W. Strahan and T. Cadell Publisher.

PS Atiyah (1979), *The Rise and Fall of Freedom of Contract*, Oxford: Clarendon Press.

comply with the laws and be practically possible. Fourth, the contract must adhere to any required form; if the law mandates written form or the parties have agreed to a written contract, this requirement must be strictly followed for the validity of the contract.⁸⁴

Where these elements are met in a contract, the parties are free to determine its terms, including the nature of the rights and duties of the parties in the contract, the duration of the contract, the amount and modality of payment, and other relevant matters. However, legal provisions take precedence when contractual terms violate mandatory legal requirements or when the parties fail to address certain issues in the contract. Furthermore, a contract between parties is considered legally binding and holds the force of law.⁸⁵

Contractual relationship usually depends on the will of the parties. It is on the basis that a contract is “the result of a real agreement between two or more parties and that such a union of wills was inherently worthy of respect, for it extended the reach of an individual’s personality and thereby tended to increase his freedom and worth in the community”.⁸⁶ In freedom of contract, one's ability to determine the terms of the agreement is central to increasing the party's freedom and recognition within the community.⁸⁷

In a free society, private actors own and control property in accordance with their interests, and demand and supply freely set prices in markets in a way that can serve the best interests of the society. In free market structures, the motive is making profit from the business one is running. This is in line with what Adam Smith underlined: “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest.”⁸⁸

The terms of a contract should be based on the free agreement of the parties, ensuring that each party secures its interests by addressing the needs of the other. Freedom of contract relies on competition, allowing parties to choose their transaction partners. The government’s role in business transactions should be limited. It should rather focus on protecting the rights

⁸⁴ Civil Code, *supra* note 13, Articles 1678 *ff.*

⁸⁵ *Id.*, Article 1731.

⁸⁶ Sir David Hughes Parry (1959). *The Sanctity of Contracts in English Law*, The Hamlyn Lectures, *Tenth Series*.

⁸⁷ *Ibid.*

⁸⁸ Sarwat Jahan & Ahmed Saber Mahmud (2015). ‘What Is Capitalism?’ *Journal of Finance and Development*, p. 44.

of private citizens and maintaining an orderly environment that facilitates the proper functioning of the market.⁸⁹

Two important considerations in freedom of contract require attention: freedom to choose contracting partners and the freedom to determine terms of contract.⁹⁰ Regarding the freedom to choose contracting parties, individuals are free to choose with whom to contract. However, welfare legislation and the presence of monopolies in certain sectors may limit this freedom.⁹¹ Parties are also free to determine the terms of the contract. Although the freedom to decide the terms of the contract has been the subject of overriding public interest and public policy,⁹² the larger part of contracts are governed by the free will of the parties.⁹³

The principle of freedom of contract should be respected, particularly in setting rental prices and determining contract terms.⁹⁴ If the government imposes price controls on business transactions, this significantly restricts the parties' contractual freedom. However, this article does not advocate for complete deregulation of the residential housing sector. The government has a regulatory role in the sector, as it is the primary entity responsible for land delivery and the main regulator of the housing sector through legislation and institutions.⁹⁵ Nevertheless, this role of the government should not be overstretched to the extent of determining every contract detail such as setting rent price limits.

As indicated above, Proclamation No. 1320/2024 states that the price ceiling of rent, which house lords are not allowed to trespass, will be determined by subsequent laws. Even though this is beneficial to the tenant, this approach of the law may affect the general housing sector. Here, it appears sound to raise the experience of India in determining the landholding ceiling in urban centers, which could have close implications for the intended residential housing price ceiling in Ethiopia. Since there had been a serious concentration of landholdings in urban areas within few private hands, the Indian national government enacted an Urban Land Ceiling and Regulation

⁸⁹ Ibid.

⁹⁰ Sankalp Jain (2020). *Freedom of Contract: Concept, Postulates and Restrictions*. DOI: 10.2139/ssrn.3896185

⁹¹ Ibid.

⁹² J Beatson (2009). *Anson's Law of Contract*, Oxford University Press, 28th Ed, London.

⁹³ Ibid.

⁹⁴ FA Hayek, (1944). *The Road to Serfdom*, London: Routledge Press.

⁹⁵ Proclamation No. 721/2011, *supra* note 82.

Act in 1976.⁹⁶ The primary aim of the Act was to prevent the concentration of landholdings in urban areas in a few private hands and make urban land available to middle and low-income groups.⁹⁷ In the short run, the ceiling control enabled appropriate distribution and uniform development in all urban settings.⁹⁸

The Act introduced rules on limitations with regard to the payment of an amount for the acquisition of excess land.⁹⁹ Large cities were the targets of the Act as land and house shortage were critical due to incessant population influx.¹⁰⁰ However, the government failed to meet the Act's main objectives. Land that was easily available earlier became scarce since it completely went out of circulation, and the buying process came to 'a dead end', creating a shortage of housing supply.¹⁰¹

The Act further distorted land markets, exacerbated the growth of slums and limited the growth of private enterprises due to an artificial shortage of land. This led to land rates rising beyond their actual value.¹⁰² These problems completely defeated the objectives of the Act as the land was further out from the reach of marginalized sections of the society.¹⁰³ The Act further worsened the housing shortage, mainly for the marginalized section of society. It distorted land markets in urban areas and exacerbated the artificial shortage of land, which led to the growth of slums.¹⁰⁴

Even though India's regulatory intervention relates to urban land ceilings (which varies from the Ethiopian system of regulating residential housing rent price ceilings), both interventions could face challenges that are nearly similar. For instance, the private sector may be discouraged from constructing residential houses for rent if it cannot determine the rent price.¹⁰⁵ Historical

⁹⁶ Ministry of Housing and Urban Affairs, Government of India (1976). Urban Land (Ceiling and Regulation) Act.

⁹⁷ Makarand Bakore (2007). 'Urban Land Ceiling Act: Appeal to Repeal', Center for Civil Society, p.1.

⁹⁸ Nipun Vaid (2006). Urban Land Ceiling Act, 1976 A Critical Analysis of impact on Housing (CCS Working Paper No. 170), p. 8.

⁹⁹ Ibid.

¹⁰⁰ Ibid.

¹⁰¹ Ibid.

¹⁰² Id., p. 9.

¹⁰³ Ibid.

¹⁰⁴ D Mahadevia (2003). 'Urban Land Ceiling in India: Regulating the Market for Urban Land', *International Journal of Urban and Regional Research*, 27(3), 615-631.

¹⁰⁵ RM Buckley & J Kalarickal (2005). 'Housing Policy in Developing Countries: Conjectures and Refutations', *The World Bank Research Observer*, 20(2), 233-257.

accounts show that during the Derg regime, the government nationalized rural and urban lands, including extra houses. This policy induced urban dwellers not to build more houses for rent.¹⁰⁶ Excessive regulation of the housing rental rates thus affects freedom of contract and may harm the housing sector by making land lords reluctant to build dwelling houses for the purpose of rent.

Moreover, the effort to control rent contradicts the current government's economic reform measures, which were prompted by its agreement with the World Bank and the IMF. In July 2024, the government secured billions of dollars from the World Bank and the IMF to "support home-grown reforms aimed at transitioning the country to a more inclusive economy where the private sector plays a stronger role in driving growth."¹⁰⁷ The agreement also emphasized the importance of protecting poor and vulnerable households during periods of economic transition. Notably, the government's reform measures are expected to prioritize further liberalization of the economy by increasing private sector participation. This approach is critical in addressing the root causes of macroeconomic imbalances and expanding trade opportunities.¹⁰⁸

One of the key objectives of the economic reform program is to "sustain macroeconomic and structural reforms aimed at reducing the state's dominance in the economy and expanding opportunities for private sector growth".¹⁰⁹ Accordingly, the government's role in the economy should be minimized to effectively implement these reforms. However, in the context of the rent control and administration law, the government's approach involves direct intervention by determining the specifics of rent control and administration. The law sets a minimum period for rental agreements and includes provisions to establish maximum rent ceilings for various types of residential properties. This shows how the rent control and administration law could undermine Ethiopia's broader economic reform goals.

¹⁰⁶ Daniel Woldegebriel, *supra* note 7.

¹⁰⁷ <https://www.worldbank.org/en/news/press-release/2024/07/30/world-bank-backs-ethiopia-s-reforms-to-promote-sustainable-and-inclusive-afe-growth>, accessed on 08/01/2025

¹⁰⁸ *Ibid.*

¹⁰⁹ <https://www.worldbank.org/en/country/ethiopia/overview>, accessed on 08/01/2025

6. Implications to the Housing Sector

According to Professor Hans Lind, rent regulation in the housing sector could “lead to lower production of rental apartments”.¹¹⁰ This may happen in at least three ways: reducing the rent that it is possible to charge, increasing the risk because the regulation might be changed, and increasing the risk because there might be rent-regulated apartments with lower rents. Then vacancies will be concentrated in new construction when demand falls.¹¹¹ For instance, the presence of rent regulation in Sweden led to more volatile housing production than in other European countries, as the rent regulation in Sweden increased the risk of new production.¹¹²

In relation to excessive regulation of the housing sector and its implication for the shortage of residential housing, we shall learn from what happened as a result of the Derg’s nationalization of all extra houses into government ownership. The Derg enacted Proclamation No. 47/1975 to nationalize urban land and extra houses. The preamble of Proclamation No. 47/1975 provides three justifications: (a) to abolish the shortage of land and the soaring of prices caused by the concentration of land in the hands of a few feudal lords, aristocrats, high government officials and capitalists; (b) to abolish the exploitation of the many by the few (through uncontrolled rent); and (c) to abolish tax evasion.¹¹³

All extra houses other than one residential house and another business house were nationalized.¹¹⁴ Houses owned by minors were immediately nationalized if their parents own residential houses.¹¹⁵ The Proclamation prohibited people from renting out their houses and receiving any rent accruing therefrom.¹¹⁶ The state was the only organ that was allowed to let properties and receive rent. As indicated in the Introduction of this article, the amount of rent was reduced, ranging from 15 to 50 percent, depending on the value of the properties.¹¹⁷

However, the low rental charges left little room for investment in the Kebele houses, resulting in physical and structural deterioration due to the

¹¹⁰ Lind Hans (2001). ‘Rent Regulation: A Conceptual and Comparative Analysis’, *International Journal of Housing Policy*, 1(1), 41-57.

¹¹¹ Ibid.

¹¹² Ibid.

¹¹³ Proclamation No. 47/1975, *supra* note 8, preamble.

¹¹⁴ Id., Article 13.

¹¹⁵ Id., Article 15.

¹¹⁶ Id., Article 20(1).

¹¹⁷ Daniel Woldegebriel, *supra* note 7.

need for more appropriate management and maintenance.¹¹⁸ Besides, as the regulatory framework for construction was highly restricted, squatter settlements and illegal land transactions flourished.¹¹⁹ Landholders were discouraged from building more houses for rent purposes.¹²⁰

This, in the opinion of the current authors, is the result of erroneous policy and excessive government regulation on the housing sector. The government's regulatory role in determining the maximum ceiling of rent for each type of residential house violates freedom of contract and in the long-term discourages landlords from building rentable residential houses. Although the government could design strategies to improve the construction of dwelling houses, excessive regulation to determine the maximum ceiling of rent for different housing types and the tenure duration can discourage existing house lords from building more rental houses.

While providing the equilibrium for demand and supply of land for housing purposes is a complex endeavor, efforts should always be in place to supply land for the increasing demand in urban centers due to “sustained rapid economic growth registered across sectors and regions”.¹²¹ Such development requires a viable and continuous supply of land, which shall be aided by “prudent and responsive land resources management”.¹²² There needs to be a better match between housing supply and housing needs by the alarmingly growing population, 5.5% per annum in Addis Ababa, for instance.¹²³ When land is allocated for housing, it is several kilometers away from the nearest service, making access to basic infrastructure difficult. This context is among the factors that push people to informal settlements where access to basic services and infrastructure can easily be secured.¹²⁴

This argument is supported by the 2020 report of the Ministry of Urban Development and Construction, which shows that the formal land supply is

¹¹⁸ Ibid.

¹¹⁹ Feyera Abdissa & Terefe Degefa (2011), “Urbanization and Changing Livelihoods: The Case of Farmers’ Displacement in the Expansion of Addis Ababa”, in: Teller, C. & Hailemariam, A. (eds.) *The Demographic Transition and Development in Africa: The Unique Case of Ethiopia*, London: Springer. p. 217.

¹²⁰ Daniel Woldegebriel, *supra* note 7.

¹²¹ M De Wit & J Van Dijk (2003). ‘The Performance of Urban Land Lease Holding Systems in the Developing World’, *Urban Studies*, 40(4), 779-798.

¹²² Asfaw Takele (2018). ‘Ethiopian Urban Land Lease Policy Analysis Implementation: Case Study on A.A. City Administration’, *International Journal of Social Sciences Perspectives*, 2(2), p. 98.

¹²³ Ibid.

¹²⁴ Ibid.

often inadequate to meet the demand.¹²⁵ This has resulted in the proliferation of informal development in and around cities. Apart from regulating the residential housing sector, the government should undertake ground works to provide land for urban dwellers for housing. If the government only focuses on regulating the price of rent and the contract duration, the housing problem in most urban settings cannot be solved. The risk is that the relevant government offices may use the Proclamation and related laws as a shield to conceal the government's prime responsibility in adequate supply of land and housing.

The ceiling price of rent is expected to be determined through adequate valuation of properties based on future laws. Effective valuation is crucial as it will ensure accurate estimates of market prices or the worth of property investments. This valuation process will introduce variation in rent amounts across different types of dwelling houses constructed for rental purposes. By providing precise market assessments, effective valuation aims to reflect the true value of properties, thereby ensuring fairness in rent pricing.¹²⁶ This approach will help to standardize rental rates and contribute to a healthier rental market by aligning rental price with the actual value of the property. Furthermore, it will support transparency and consistency in the housing sector, thereby fostering trust among landlords, tenants, and regulatory bodies.

It is to be noted that the lack of standardized valuation at the national level and the limited number of professionals in the field could create problems in standardizing/leveling the houses. Currently, the standardization process would demand a high level of expertise and a valuation system if the target is to benefit both house lords and tenants. In effect, there is the need to design a viable valuation standard to rank the houses which requires detailed legal framework, adequate and diverse professionals, and effective leadership, among others. Failure to do so could create public dissatisfaction and mistrust.

7. Potential Propensities to Informal Rental Agreements

As discussed above, increased regulation of rent price could result in reduced motivation and incentive on the side of the house lords to maintain and improve their properties in the long run. This can lead to deterioration in housing quality over time, negatively affecting tenants' living conditions. Strict rent control can sometimes lead to informal rental agreements where

¹²⁵ FDRE Ministry of Urban Development and Construction (2020), *Annual Report on Urban Land and Housing Development*.

¹²⁶ J Yates, (1996). 'Towards a Reassessment of the Private Rental Market', *Housing Studies*, 11(1), 35-50.

landlords and tenants agree on unofficial payments above the legal rent cap. This creates an unregulated market segment that can undermine the law's objectives in creating genuine residential house rent system that protects the interests of the house lord and the tenants.

Unless the law devices strategies, the land lord and the tenant may opt to agree rent price above what is actually disclosed to the controlling authority. As stated in the Proclamation, the rent price that is disclosed in the contract shall be considered legal and binding.¹²⁷ Accordingly, the registered and authenticated contract will be the basis of tax assessment. As payment shall be made through electronics modalities,¹²⁸ the tenants are expected to pay through the banks and the house lords shall keep the receipts and shall produce them upon the demand of the controlling authority.¹²⁹ This is a mechanism to control unofficial payments, safeguard the tenant from unreasonable increments and assess rental income tax.

Despite this, unofficial payments could happen. For instance, the house lord and the tenant may agree to effect payment in cash for the amount beyond the figure disclosed to the controlling authority. This may pave the room for informal money transfers between the parties, and the amount transferred may not be subjected to tax valuation and determination. A similar issue is happening in relation to sale of houses in the urban settings. To intentionally avoid government revenue from the transfer of the house, the seller and the buyer usually disclose to the authorities a price, which is extremely below the actual amount they have agreed upon for the sale of the house. Such concealed agreements disproportionately benefit the parties while affecting the interest of the government and the public in tax revenue.

In his seminal book, "The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else", Hernando de Soto argued that an important reason why property system in the West works like a network is that all the property records, including titles, deeds, securities, and contracts representing the assets, are suitably protected and can be well tracked by its owners and authorities.¹³⁰ Effective tracking of the dealings between house lords and the tenants thus necessitates realistic contexts and efforts beyond the

¹²⁷ Proclamation No. 1320/2024, *supra* note 16, Articles 4 and 8.

¹²⁸ *Id.*, Article 12(2).

¹²⁹ *Id.*, Art. 12(3).

¹³⁰ Hernando de Soto (2000). *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*, New York: Basic Books and London: Bantam Press/Random House, 2000.

requirement of authentication and registration of contracts between the house lord and the tenant.

8. Concluding Remarks

Regulating the market is a key aspect of responsible and effective governance. Market regulation is essential, as failing to implement it could compromise the majority's interests, particularly concerning monopolies. Globally, it is common practice for governments to intervene selectively to safeguard the general public and the environment from irrational and irresponsible service and product providers. However, excessive regulation may hinder market growth, and it can also adversely affect development, freedom of contract and property rights.

In April 2024, the Residential Housing Rent Control and Administration Law has been enacted in Ethiopia. The brief discussion in this article shows that the Proclamation has diverse implications that require attention. The government's approach extends to regulating the specifics of rent control and administration, including setting a minimum lease period for agreements of the parties. In addition, there is a clear desire on the side of the government to establish maximum rent ceiling for different types of residential houses.

Moreover, the law embodies several restrictive provisions on house lords and infringes on freedom of contract. Grading houses presents challenges due to the lack of standardized valuation practice. Thus, the law may, in the long run lead to shortage of housing as landholders could be discouraged to build residential rental houses. The law has significant implications for residential housing rent administration and control, including safeguarding citizens' housing rights, modernizing the housing rent system through contract registration, authentication and electronic rent payments, fostering a healthy rental market, and enabling the government to efficiently levy and collect tax from the sector.

Yet, the discussion in this article shows the need for reduced government role in regulating the residential housing sector by allowing the market to function while upholding freedom of contract. Due attention should also be given to improve land allocation for housing, establish standardized valuation practices with adequately trained valuation professionals, and further digitize the sector.

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