## Contents

Executive Summary .................................................................................................................. 4
Introduction ............................................................................................................................... 6
Background ................................................................................................................................. 7
Principles of rent regulation ....................................................................................................... 8
Approaches to rent regulation ................................................................................................... 9
The impact of rent controls on landlords and tenants - evidence from the literature .......... 12
UK experience and evidence ...................................................................................................... 13
International experience .......................................................................................................... 15
Country updates ......................................................................................................................... 20
The Expert Roundtable ............................................................................................................. 26
Conclusions and recommendations ........................................................................................... 28
References ................................................................................................................................. 30
About the Authors

Christine Whitehead

Christine Whitehead is Emeritus Professor in Housing Economics at the London School of Economics. She is an internationally respected applied economist concentrating mainly in the fields of housing economics, finance and policy. She works with a wide range of international agencies as well as regularly for the UK government and Parliament.

Major research themes have included analysis of regulation and rented housing, the role of private renting in the UK and Europe and European models of housing finance. Her latest publication on private renting The Future Size and Composition of the Private Rented Sector (with Kath Scanlon and Chihiro Udegawa) was published in June 2018.

Peter Williams

Peter is a researcher and Departmental Fellow, Department of Land Economy, University of Cambridge and recently collaborated in a review of the Help to Buy scheme and of the London Build to rent market. He contributes to a monthly house price review for Acadata, is Chair of First Affordable, a ‘for profit’ housing association and a NED of Vida Home Loans, a challenger mortgage lender. He is a contributor to the annual UK Housing Review and is treasurer of the Housing Studies Charitable Trust.

He was previously Executive Director of the Intermediary Mortgage Lenders Association, Director of the Cambridge Centre for Housing and Planning Research, Deputy Director General of the Council of Mortgage Lenders and Professor of Housing at the University of Wales, Cardiff. He has held numerous board appointments in the public and private sectors including the Housing Corporation, Tai Cymru, the National Housing and Planning Advice Unit and Kent Reliance Building Society.

The views expressed in this report are those of the authors and do not necessarily reflect those of the Residential Landlords Association.
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Disclaimer

This research report has been written to inform and stimulate policy debate. While effort has been made to ensure that the data and other information are accurate, some errors may remain. The purpose of the report is to provide information, analysis and background regarding the issues affecting landlords and the private rented sector. It is neither intended for use in advertising and promotions nor for market forecasting, and no liability is accepted in either regard.

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Executive Summary

- This short independent review was undertaken by the authors at the request of the Residential Landlords Association (RLA).
- The context of this report is the more than doubling of the size of the private rented sector since the turn of the century, the increasing tensions around worsening affordability and concerns about poor quality and limited security of tenure as well as evidence of similar stresses in other countries.
- The study was focussed on a review of the different approaches to rent control; an assessment of the current body of academic and other relevant literature; and a comparison of international examples of rent controls with the aim of making policy recommendations to the RLA.
- In undertaking the research we began with a typology of rent controls and related regulatory requirements; we then undertook a focussed literature review covering academic and policy debates in the UK and abroad covering rent control and wider regulation of the private rented sector as well as evidence of changes over time; we consulted with experts from a number of countries with widely different experience of rent control; and we hosted a roundtable for invited experts, practitioners and policy makers with specialist knowledge of the private rented sector (PRS).
- Our primary aim throughout has been to de-mystify the issues around rent controls and associated regulation and to set out with some clarity what the options are along with an evidence-based assessment of the trade-offs involved. We have aimed to highlight the policy tensions that flow from these options and how all of this must be viewed within the overall context of housing supply and demand. As will be evident from this short report, the international evidence highlights the wide spectrum of approaches to the PRS and the different contexts in which it operates. Within this continuum the UK probably sits at one extreme.
- The literature on rent controls is extensive and it highlights the complexity of regulatory systems – reflecting history, wider fiscal and policy arrangements, differing market contexts and timings.
- An accepted typology is one of three generations or types of rent control - rent freezes; control of rent increases between tenancies and control of rent increases within tenancies - often called rent stabilisation.
- Our review of international experience highlights that the UK is at one end of the international spectrum of regulation. Rent stabilisation based on market rents at the beginning of the tenancy, indefinite tenancies and rent indexation within a tenancy have been core elements in the movement towards sustainable private rental sectors particularly in Europe.
- Our country updates highlight the fact that regulation of the PRS is a live issue in many countries. This is mainly a result of rapidly growing private rented sectors in pressured housing markets.
In some countries, notably Germany, France and Ireland, policies have been introduced to tighten the regulatory and rent determination regimes. An important element has been the identification of pressure zones where rent controls have been tightened considerably.

In Germany and Ireland, the numbers of identified pressure zones appear to have extended into less pressured areas. In France this tighter regulation has been limited to Paris and Lille. In Scotland where legislation similar to Ireland has been introduced no zones have yet been identified.

In other countries with less regulatory environments, such as New Zealand, there have been moves to provide longer tenancies while in Canada new build and improved properties are now included within the regulatory system.

Overall therefore what had been a fairly clear trajectory towards liberalisation appears to have been reversed to limit rent increases as a result of political pressures in the face of market pressures.

The discussion at the expert roundtable gave a clear sense that a broad consensus existed around a number of key elements in the debate. These included:

- First, rogue/criminal landlords give mainstream landlords a bad name. There should therefore be stronger enforcement by local authorities.
- Second, many landlords would be happy to offer longer term security, as long as enforcement procedures are working properly.
- Third landlords remain concerned about indefinite security especially if clear-cut exemptions are not in place. They see the way forward more about enabling a range of tenancy models which landlords can choose to provide.
- Fourth, there are other pressures building up including short term lettings; the lack of housing for poorer households; cutbacks in housing benefit and changes in the welfare system more generally; and increases in property taxation which impact on a sustainable PRS.
- Fifth, more evidence both on what is wanted and what has been the impact of regulatory changes is needed.
- Finally, the sector needed to be responsive to the changing political mood with the objective of developing a modern private rented sector which meets the diversity of demand by a wider range of provision.

We conclude that the PRS is a key part of the solution to UK housing problems and this requires a more positive stance towards the sector. The focus for reform should be on putting in place a system which allows indefinite tenancies, and which imposes a degree of rent stabilisation alongside a much better enforcement system which tackles both poor landlords and tenants.
Introduction

The issue of rent control is both controversial and highly topical in the UK. Equally it is much misunderstood. With growing tensions around the rise of “Generation Rent” and restricted access to home ownership, the politics of housing have now intensified. All major political parties are sensitive to the cost and terms of renting in the private sector - as an alternative to home ownership and as a precursor to joining that tenure as well as an alternative to social housing. In Scotland and some European countries as well as in North America new regulations are already being put in place to strengthen controls. On the other hand there are new types of landlord looking for different regulatory frameworks which might stabilise rent increases and reduce turnover.

The RLA highlighted these developing debates and commissioned this report to help support its own independent contribution as a leading landlord organisation. After setting out some principles behind rent regulation this short study was focussed on the following;

1. A review of the different approaches of rent controls,
2. An assessment of the current body of academic and other relevant literature,
3. A comparison of international examples of rent controls using secondary data (highlighting Ireland, USA and Canada),
4. On the basis of this evidence to offer up policy suggestions for the private rented sector in England and Wales to make renting better for all.

In terms of method we set out a typology of rent controls and related regulatory requirements; we undertook a focussed literature review covering academic and policy debates in the UK and abroad on rent control and wider regulation of the private rented sector as well as evidence of changes over time; we examined secondary material on experience in a range of countries; we consulted with experts from a number of countries with widely different experience of rent control; and we hosted a roundtable for invited experts, practitioners and policy makers with specialist knowledge of the private rented sector (PRS).

Our primary aim throughout has been to de-mystify the issues and to set out with some clarity what the options are along with an evidence based assessment of the trade-offs involved. We have aimed to highlight the policy tensions that flow from these options and how all of this must be viewed within the overall context of housing supply and demand. A core element in the project was to use international comparisons as a basis for drawing up a set of policy suggestions for the PRS in England and Wales. As will be evident from this short report, the international evidence highlights the wide spectrum of approaches to the PRS and the different contexts in which it operates. Within this continuum the UK probably sits at one extreme.

The PRS has suffered from ad hoc policy making forged on the basis of partial and limited evidence. Now that the sector is so much larger and more mainstream a much more coherent approach is required from government at both central and local levels. Our objective here is to make a
contribution to the increasingly focused debate on how a modern private rented sector could more effectively provide for the diversity of demands that has come with its growth. The report aims to take a step towards influencing the creation of a coherent and comprehensive approach to policy in this area.

Background

Why has this issue again come to the fore? Not just because rents have been rising rapidly - but because private renting has once again become a much more mainstream sector in the UK with 1 in 5 of all households living in private renting and well over 1 million landlords. The terms and conditions under which it operates therefore need re-analysis to clarify whether they continue to make sense in this very different environment.

The main changes that have taken place can be summarised as follows:

- A more than doubling of the size of private rented sector (PRS) across England and Wales since 2000; it now includes much larger numbers of family households and many more better off tenants. However, it is also still playing a major role in providing for both more mobile and lower income households, some of whom are dependent on housing benefit;

- A far wider range of landlords – the sector remains dominated by an increasing number of small landlords but there is growing interest by institutional investors; these bigger corporate landlords have very different objectives and interests;

- A tiny minority of rogue/criminal landlords;

- Government looking to put in place a more coherent regulatory framework;

- Average housing standards in the PRS have increased but remain lower than in other tenures.

Another important factor is that there are many misconceptions about the types of regulation which could be applied. In some cases, these might turn out to offer win-win outcomes rather than simply benefit one group at the expense of another or indeed as has happened in the twentieth century made conditions worse for almost everyone involved. We also note that there are:

- strongly held but highly polarised views about the nature and effects of rent control. These are rarely strongly evidence based;

- in reality the impact of rent control depends on its form and economic context (notably inflation and the costs of delivery) plus crucially the nature of the welfare system in place;

- the current welfare system in the UK effectively acts to impose indirect rent controls

In combination these factors have led to an intensifying politics around the PRS in the UK. Moreover, we can see echoes of UK tensions in other countries, even in countries where private renting has been far more the norm.
Principles of rent regulation

The main economic reason for introducing regulation is that the market in question is operating poorly – i.e., there is market failure, notably arising from imbalances in market power and information, difficulties in securing adequate investment over the market cycle; and issues around defining and enforcing standards for both the asset itself and the associated services. The housing market is susceptible to many of these problems, particularly because of the weak contractual relationship between landlord and tenant and because it is difficult to adjust supply rapidly in the face of changing demand.

While rent control is the most obvious form of regulation and the one where much of the political debate is concentrated, it is only one element in the regulatory spectrum which also includes security of tenure, minimum standards for the dwelling, limits on the capacity to sell property during and at end of tenancy, as well as enforcement procedures.

In some circumstances, e.g. if information to both landlord and tenant is improved, contracts are made more transparent and easier to enforce, then risks may be reduced for both parties and/or constraints on investment may be overcome. It is possible that both landlords and tenants may gain from the intervention. In such cases supply will increase and rents may be lower (or there may be additional demand for the better product). However, in other circumstances, the effect of regulation is to control rents below market levels and/or to provide greater security of tenure or other benefits to tenants which reduce returns or increase risks to landlords. In this case the result will be a reduction in supply; there will be pressure to avoid or evade the regulation; immobility and under-occupation of poor-quality, ill-maintained properties; and higher rents and worse housing for those excluded from the market.

Clearly, good regulation should benefit both landlords and tenants, providing a more secure investment for landlords and investors and offering greater security and better-quality housing to tenants. This is the ideal. Bad regulation, on the other hand – even if it is imposed with good intentions and may provide short-term benefits – results in disincentives to supply rented accommodation, potential tenants being excluded from the sector, and ultimately worse conditions for everyone.

The main rationale for regulating rents, tenure security, quality and evictions in the private rented sector has been the failure of housing supply to adjust as rapidly as demand. When for one reason or another demand increases, rents rise often well above the longer-term costs of provision. In these circumstances, landlords make excess profits and there is political pressure to even the playing field so that tenants are not being so heavily disadvantaged.

The literature is full of very strongly held opinions about how and why private renting works or does not work in different housing markets – and especially about the extent to which this is consequence of regulation in general and rent control in particular. Many commentators, especially market-oriented economists, citing evidence of post-war decline in private renting and of poor conditions in what remains, argue that regulation has been almost wholly bad, not only for landlords but also for
tenants. Navarro (1985) for instance notes, “the economics profession has reached a rare consensus: Rent control creates many more problems than it solves”. A much later and more comprehensive review of the economic evidence on the subject can be found in Jenkins’ (2009) paper ‘Rent control: Do economists agree?’, which discusses over sixty different studies on various forms of rent control. Jenkins concluded: “[E]conomic research quite consistently and predominantly frowns on rent control. My findings cover both theoretical and empirical research on many dimensions of the issue, including housing availability, maintenance and housing quality, rental rates, political and administrative costs, and redistribution”. The vast majority of the studies reviewed were North American. However it is worth noting that Alex Hilton of Generation Rent noted in 2016 “Over the past couple of years I have spent time with several LSE economists who are studying the housing market and the PRS [private rental sector] in particular, and despite the plentiful availability of evidence, even they are ideologically incapable of diverging from an instinctive neoliberal stance on Rent Control” (Niemietz, 2016).

While market economists are mainly in agreement, other commentators, usually more governance-oriented, point to countries where large, well operating private rented sectors provide for the full range of housing requirements - and suggest that they work better as a result of strong and stable regulation (Whitehead et al, 2012 and 2015).

Approaches to rent regulation

Rent regulations are specific rules governing the rent that a landlord may charge when letting residential property. There are two main forms which may be used together or separately. The first is to control rent levels across the board – for both new and existing tenancies - by imposing a legal maximum (rent ceiling) on the rent in a particular housing market, which is below the market’s equilibrium rent. The second is the control of rent increases both within a tenancy and between tenancies.

In this context Arnott (1995, 2003) offers up a typology which identifies ‘three generations of rent control’. The first generation is the control of rent levels; the second controls rents after initial lettings and the third controls rent increases within each letting.

- ‘First generation’ rent control – control of rent levels

Arnott’s ‘first-generation’ or ‘hard’ rent control restricts the level of rents across either the whole of the private rented sector, or a separable and defined element of it. Such controls or ‘rent freezes’ can lead to a significant fall in real rents if rents cannot be adjusted upward to offset inflation and increasing housing costs (Arnott, 1995, 2003). They also generate incentives for landlords to leave the sector, especially if there are related but uncontrolled sectors such as owner-occupation on the one hand and lodgings on the other to which the properties can be transferred. Further they reduce the incentive to invest in repair and improvement. On the other hand, they give tenants an incentive to
stay even when their housing needs change and give both landlords and potential tenants an incentive to avoid and evade the law.

Whenever rent control is discussed much of the debate assumes that a rent freeze would be the type of control introduced even though there have been very few instances of this model since the 1960s.

- **‘Second generation’ rent control – control of rent increases within and between tenancies**

The objective of second-generation rent control is to allow some mitigation of cost increases for landlords and thus reduce the incentives for them to under-maintain their properties, while retaining some limits on the size of rent increases in order to help tenants in markets typically characterised by shortage. Some countries allowed landlords to cover some or all increases in costs, which might include taxes, environmental requirements, operating expenses and financing charges. Others indexed rents more or less to inflation. Even in the most restrictive systems, landlords were usually allowed to amortise the costs of substantial improvements to the dwelling (Turner and Malpezzi, 2003).

- **‘Third generation’ rent control – control of rent increases within tenancies**

Under third-generation rent control, rent increases are regulated within an individual tenancy but are either unregulated between tenancies or regulated under a more generous regime. In its pure form, third-generation rent control implies setting a market rent on the creation of a new tenancy which takes account of the potential impact of in-tenancy controls but limits increases during the tenancy. Arnott (2003) calls this ‘tenancy rent control’. In principle this allows periodic adjustment to market returns while protecting the tenant from unexpectedly large increases and giving the landlord some security that cost increases are offset over the medium to long term. It can be seen as a way of smoothing rent changes while maintaining a long-term rate of return which is competitive with other investments.
Figure 1 describes one form of third-generation rent control which is consistent with full adjustment of supply to underlying market conditions. Here the path of market rents reflects long-run costs of provision. Because rents within the tenancy are determined administratively, initial rents may be set above long-run market levels and fall in real terms over the tenancy as a consequence of administrative determination. If predictions are correct about underlying market pressures and the administrative rules are transparent, this form of regulation can ensure the long-run equilibrium level of supply and the required rate of return over time – even for open-ended tenancies. In practice however, it may cause problems for those with small portfolios if their tenants remain ‘too long’. It also does not address divergent motives for investment and returns on capital which take direct account of realised capital gains.

The impact of higher initial rents varies according to how long a tenant actually remains in a tenancy. Tenants who stay longer than the average will end up paying ‘too little’ in rent and those who stay for a shorter period than average will pay ‘too much’. A benefit for landlords is that controlled rents and rent increases tend to reduce turnover. Their transaction costs are thus lowered because of a reduced maintenance requirement and fewer vacancies. This ‘turnover minimising’ can bring not only consistent returns to landlords (Turner and Malpezzi, 2003) but also greater rent stability to tenants.
The impact of rent controls on landlords and tenants - evidence from the literature

Our limited but focussed literature review covers both academic and policy debates in the UK and abroad. While our emphasis is on England we have looked closely at what is happening in the devolved administrations, notably Scotland, and the politics surrounding reform in the PRS.

Historically there is a vast literature on rent regulation in theory and practice. Our first research report for Realdania (Whitehead et al, 2012) reviewed much of that literature on regulation and its impact on landlords and tenants. It also compared eleven European countries with respect to the forms of regulation in place and their apparent impact on the scale of private rental provision.

One of the most important findings from the research was that the complexity of regulatory systems makes it inappropriate simply to look at the nature of controls over rents. Figure 2 clarifies the most important elements which interact with one another to help determine outcomes. These can be summarised as follows:

i. how initial rents and rent changes during the tenancy are determined (which is the core element addressed in the literature on regulatory constraint);

ii. the extent of security of tenure available to tenants and the impact this has on landlords’ property rights. Security relates not just to length of lease, but also encompasses how easily tenants can extend their tenure, how easily landlords can gain vacant possession, and the right of the landlord to sell the property, whether tenanted or vacant; and

iii. the mechanisms by which these regulations are enforced and their effectiveness.

Figure 2. The Elements of Regulation
The second report published in 2016 updated some of the literature in the context of a four country (Denmark, England, Germany and the Netherlands) comparison of how the private rented sectors had developed in different regulatory, taxation and subsidy environments. Three of the most important findings from the four country analysis were: history matters - how controls evolve and their impact on both landlords and tenants is path dependent; sudden large changes in policy such as that which occurred in the UK in 1988 take a long time to take full effect; and fiscal and policy arrangements not just across the housing market but also more generally with respect to asset and finance markets impact on private renting as much as direct intervention in the sector.

**UK experience and evidence**

A recent House of Commons Briefing paper (Wilson, 2017) gives a useful history of the PRS as a background to a second paper (Wilson, 2017a) on the current rent control debate. The Increase of Rent and Mortgage Interest (War Restrictions) Act 1915 introduced rent control whereby rents were restricted to their August 1914 level - a response which was replicated across Europe. It was designed to prevent landlords from profiteering during the war years when demand for housing exceeded supply. Though originally intended as temporary, rent controls continued to apply to certain dwellings until January 1989 and in a different form known as fair rents still apply to a small number of long lasting tenancies. Attempts to deregulate the sector and stimulate supply were introduced in the Rent Act 1957, which enabled market rents on new lettings, furnished and higher valued properties. the Rent Act 1965 reintroduced controls on a wider range of lettings and it was not until and, the Housing Act 1988 that rents on new private sector lettings were deregulated from January 1989.

The application of rent controls coincided with a decline in the private rented sector from 90% of the total housing stock in 1915 to under 10% by 1991. It was blamed for this contraction with critics drawing a direct correlation between reduced rental returns and reduced investment in the sector. However, it is evident that other major factors such as the opening up of alternative forms of investment, the improved access to home ownership consequent upon rising real terms incomes and increased availability of mortgages contributed greatly to that decline. Importantly after decontrol it was not until the mid-1990s that there was significant evidence of revival.

Since the mid-1990s there has been an unpredicted and rapid growth in the private rented sector which is now the second largest tenure in the UK after owner-occupation. The growth of the private rented sector has prompted an increased focus on regulatory controls, in part because of rising rent levels and increasing welfare costs but also because of concerns about lack of security and the continued use of Section 21 no fault evictions. Wilson, (2017a) sets out the main elements in the debate and argues that in practice the focus has been more on predictable rent increases and longer contracts than on formal systems of rent control.
In this context, a model tenancy agreement was published by the government in 2014 \(^1\) which landlords can use to offer longer tenancies with more predictable rent increases. Shelter (de Santos, 2012) amongst others (e.g. London Assembly, 2016) has argued for a “stable rental contract” to offer tenants predictable rent increases.

In 2015 two reports by Clarke and colleagues (Clarke et al, 2015a & 2015b) explored six different scenarios of rent stabilisation and controls in some detail. These included;

1. A default private rental contract of five years with initial rents set by the market and increases limited to CPI - Shelter’s 2012 proposal.
2. A default indefinite private rental contract with initial rents set by the market and increases limited to CPI or wage growth (whichever is lower) within the tenancy – a proposal put forward by Civitas (Bentley, 2015).
3. A temporary, three-year freeze on all private rents (including between tenancies) except for new build properties or those rented out for the first time.
4. An indefinite cap on all private rents, set at current market rates and indexed to average earnings or the CPI, whichever is the lower, with similar exemptions.
5. An indefinite cap on all private rents, set at two-thirds of current market rates and indexed to average earnings or the CPI, whichever is the lower – with rents for first time or new build properties determined by those for comparable existing rental properties.
6. Restrictions on rent increases within a tenancy that would take the rent above market levels coupled with indefinite tenancies unless there was a breach of contract or the landlord needed to sell or live there.

The analysis suggested that the impact of the six scenarios would be more significant in London than in other regions and might have no direct effect in areas where rental growth is very low. – The modelling included a policy-off version where the PRS increased by nearly 50% over the next ten years. Only under scenario 5 did the actual size of the sector decline over the ten-year period. The projected reduction in the growth of the PRS under the other versions was relatively small down to around 40% over the ten-year period in scenarios 1 - 4.

Even so, both individual and institutional landlords thought that scenarios 1 – 4 were government-imposed systems which fundamentally changed the environment in ways that they strongly opposed, regardless of actual changes to rents charged and the impacts this generated. Institutional landlords were supportive of the concept of longer term tenancies by mutual consent, but only if the contract bound the tenant as well as the landlord.

Overall, the survey suggested that, while the least worst was rent increases in line with CPI within 3 – 5-year tenancies, even that was undesirable unless voluntary. More generally, rent stabilisation and

\(^1\) https://www.gov.uk/government/publications/model-agreement-for-a-shorthold-assured-tenancy
controls risked distorting rental markets and deterring investment, particularly if rents were to become seriously decoupled from the market.

Policy in Scotland has already adjusted to some of these concerns by introducing an indefinite tenancy (although with some 18 exceptions). It has also enabled local authorities to request the introduction of rent caps in high pressure areas (Wilson, 2017a).

The Housing, Communities and Local Government Select Committee published their latest report on the Private Rented Sector in April this year (House of Commons, 2018). While concentrating more on standards and enforcement than rent determination it raised issues around retaliatory eviction and rent increases and pointed to the need for a simplified regulatory structure which addressed the needs both of more vulnerable households and longer-term tenants.

A report by the Resolution Foundation (Judge and Tomlinson, 2018) reinforces the message that, as the private rented sector has become a mainstream tenure, there is a need for a more enabling regulatory structure with rent stabilisation and the potential for longer term and perhaps indefinite tenancies at its core. They argue that such an approach should not be of concern to the vast majority of landlords particularly because fewer than 10% of tenancies are ended at the landlord’s behest and 60% of these are for reasons which would be allowed under any likely form of regulation.

Thus, while there is continuing concern that the balance between demand and supply could be worsened by increased regulation, the literature relating to the UK also points to a changing dialogue around both the objectives of rent stabilisation (rather than traditional rent control) and the acceptability of a more positive approach to security that is potentially acceptable to both good landlords and good tenants.

In summary the current debate starts from the fact that the sector now accommodates one in five of all households in England and includes large numbers who would traditionally have been in owner-occupation or in the social rented sector where they would have had greater certainty with respect to both housing costs and security of tenure. The existing regulatory framework does not address this increasingly important mainstream role. Second, most landlords are not looking to evict tenants unless there are contractual difficulties and indeed landlords typically benefit from longer term tenancies. Third, there is some sympathy towards the use of an index to determine in-tenancy rent increases, and the Scottish example is not yet proven but points to one way forward which can be operationalised within the UK legal context.

International experience

When seeking to learn lessons from other regimes it is important to bear in mind that the private rented sector in the UK is not directly comparable to that in, for example, France, Germany and Switzerland, where a much greater proportion of the population sees private renting as the ‘normal’ choice of tenure, but equally where the nature of the product and alternatives may differ very considerably. Wilson’s review, which covers a range of comparative studies (Wilson, 2017a), shows
that the details of rent regulation differ greatly between different European countries – and that the impact of these regulations varies depending on circumstances in other tenures.

**Table 1: Overview of current regulatory regimes in eleven European countries, 2012**

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>INITIAL RENT</th>
<th>RENT INCREASES</th>
<th>LENGTH OF LEASE</th>
<th>TERMINATION OF LEASE</th>
<th>SELLING PROPERTY</th>
<th>ENFORCEMENT PROBLEMS</th>
<th>GENERAL PERCEPTION OF REGULATORY FRAMEWORK</th>
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<tbody>
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Looking at the position in 2012 Whitehead et al showed that in three countries – England, Finland and Norway – the perception was of low levels of regulation, while seven were seen to have medium regulation and only one, the Netherlands (where private and social rented tenancies are subject to the same regime), strong controls (Table 1). However, looking at the different elements of regulation there were clearly very different mixes. Importantly the majority had relatively limited intervention with respect to initial rents, although it was much more usual to regulate in-tenancy rent increases.
### Figure 3. How Regulation has changed between 1980 and 2010

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<th>Degree of regulation in early 1980</th>
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Figure 3 shows how regulation has changed since 1980 when strong or medium regulation was the norm. In most cases regulation has been reduced. However, in three countries (Germany, Sweden and Switzerland) the regulatory regimes have remained relatively stable over the thirty-year period 1980-2010. France and the Republic of Ireland have seen some increases in regulation, Only the Netherlands still had a strong regulatory regime, and even there, rents on more expensive properties have been deregulated. Traditional rent control – nominal caps on rent levels – was hardly found. Those countries that combine rent regulation with sizeable private rented sectors usually had (and have) systems that permit rents to adjust to near-market levels even though they are formally ‘controlled.’

Scanlon and Kochan (2011) looked more broadly at the lessons we could learn from abroad, including the USA as well as Europe. They demonstrated that there is a wide range of approaches to regulation of the private rented sector; that regulation can be associated with well operating private rental markets (although there are also plenty of examples of bad regulation); that the majority of investors in all countries are individuals – some of whom invest for generations; and that the size of the sector depends fundamentally on other opportunities for both investors and households as much as conditions in the sector.

Scanlon and Whitehead (2014) carried forward this approach looking at countries across the spectrum of regulation, including Denmark, Germany, France, Ireland, the Netherlands and New York and San Francisco in the USA. One important question was whether properties can be readily transferred between tenures. Where this is not the case many of the negative impacts of rents held below market can be observed; while where it is relatively easy the size of the sector declines. Equally long-term security of tenure with below market rents tends to support better off households rather than those who might benefit more - notably new entrants. Where rents on new lettings can be adjusted in response to market pressures such impacts are much less likely to be observed. However, there was evidence in at least three countries – Germany, France and Ireland – there had even in 2014 been moves towards tighter rent controls especially in tight city markets. Finally, the authors stressed that outcomes are as much about what is happening in other tenures.

The objective of an international review by Clarke and Oxley (2017) was to identify incentive-based policy interventions that have been used elsewhere in the world to improve affordability, housing quality, security of tenure and access to housing for households in poverty that might be transferable to England. In the main the examples - from Ireland, Australia and Belgium - were mainly around two objectives: using private renting as ‘social housing’ with local authority help; and incentivising certain household and dwelling attributes through fiscal advantages. Across the countries reviewed there were examples of exemptions and reliefs for certain types of (mainly) property taxes that are linked to rent, allocation and quality conditions. There were also examples of capital gains taxation reductions for long term holding of properties, with the objective of promoting longer term tenancies.

Finally, a recently published report from the Australian Housing and Urban Research Institute (Martin et al, 2018) looked closely the relevant institutions in Germany, Ireland, the UK, Australia and the USA along with lighter coverage re Belgium, Canada, Spain, Sweden and New Zealand. The report notes that private rental housing is the second largest tenure after owner occupation in all but one of the countries reviewed (in Germany it is the largest). In 7 of the 10 countries, the PRS share is growing,
mostly at the expense of owner occupation, and nowhere is it significantly contracting. Their findings are generally not specific to rent controls. However, they argue that the growth has not been directly related to deregulation. However, the extent of regulation observed was relatively limited, often to eviction only on prescribed terms and in-tenancy indexation of rent increases.

In summary the comparative literature suggests that:

(i) across Europe the general trend over the last thirty years has been towards deregulation, particularly with respect to initial rent determination. While there are examples of control of rent increases when tenants change, in the majority of countries it is only within-tenancy rent increases that are regulated;

(ii) rent determination is only part of any regulatory regime. In particular in countries with any type of rent control or stabilisation there are also long or indefinite leases or mandatory lease renewal, regulations to limit evictions to circumstances where the tenant has broken the agreement, and often restrictions on the ways in which landlords can dispose of their property;

(iii) in most countries security of tenure is indefinite;

(iv) countries with large private rented sectors tend to have had quite stable regulatory regimes - but they also have constraints on access to other tenures;

(v) the size of the PRS is growing not just in England but in many countries notably outside Europe as entry into owner-occupation has become more problematic – e.g. the USA; Australia and New Zealand but also in Europe in Spain and Ireland;

(vi) the vast majority of landlords in all countries are individuals rather than institutional investors who are the ones more likely to value predictable rental income streams;

(vii) the biggest concerns about regulation are that

- controls over rents at the start of a lease may not allow landlords to make a business return;
- rigid rent-adjustment systems may not accommodate unexpected changes in the value of the rental stream or in costs (e.g. because of inflation or energy efficiency requirements)
- tenure security and enforcement procedures sometimes makes it difficult and costly for landlords to obtain vacant possession when the tenant does not keep to the contract;
- governments themselves build in uncertainties by continuing to make changes to their regulatory regime - with implications for both risk and returns; and
• there has been growing pressure to tighten rent controls in a number of countries/regions where there is strong housing market pressure – notably Canada, France, Germany and Ireland.

Country updates

The literature on international experience of private renting has grown rapidly over the last few years, in part because of the growth of the sector in many countries. The majority of that literature however does not concentrate significantly on rent controls as most systems are either rent stabilised or market based. However, this is changing - with growing political pressure in some countries to move away from these systems of rent regulation which do more to ensure reasonable certainty than to control rents below market levels. We therefore sent a short survey to a number of country experts to clarify how these pressures were, if at all, being addressed. In this context we were able to draw upon up to date advice from expert commentators particularly in Canada, France, Germany, the Netherlands and the USA.

Canada: rent stabilisation with exemptions but some examples of increasing control
(information supplied by Steve Pomeroy - see also his commentary in Hulse et al, 2011)

Canada has quite a large private rented sector (31% of all housing) made up of two main elements: around half are in so called “purpose built structures of 3+ units - with most larger properties owned by corporate and institutional investors who themselves are a powerful lobby; the rest are owned by, more internationally typical, small landlords owning 1 or 2 units as rentals.

Rent regulation is provincial jurisdiction so there are 13 variants in place. There is a very limited, and now dated literature on the current context of rent regulation and how this varies across provinces. Quebec is probably at one end of the spectrum with a well-established rent control regime that is fully capitalized into market long with strong tenant protection and tenant rights; while Alberta is at the other extreme with protection from eviction, landlord obligations etc. but no control on annual rent increases.

Most provinces have a system of "vacancy decontrol". Existing tenants are protected and rent increases are limited to a prescribed inflation index (with some “above guideline increases”) Rents can however move to market when a unit is vacated. The rent regulations have usually exempted units built after a certain date, so as not to restrict new construction (which has been very low for “purpose built rental”).

Ontario has probably faced both the highest rent increases and the most pressure to introduce tougher rent controls. In 2017 the provincial government responded by removing the clause by which units built after 1991 were exempt from rent controls. As a result, all rent increases within a tenancy are limited to a guideline increase (although there are exceptions). The inclusion of new and improved units in the guideline system was controversial and a landlord lobby report suggested it would stall
new purpose-built development - so far there is little evidence of a negative effect - indeed rental starts continued at a high level.

France: rent stabilisation with some increases in controls and some attempt to distinguish constraints between high pressured and other areas (information supplied by Bernard Vorms)

Prior to 2012 landlords had to offer 3-year leases which were renewable by mutual consent. Landlords could insist on possession if the home was for their personal use or to be sold. During the lease period with the same tenant the rent could only be increased according to a national index measure - with exemptions for homes undergoing significant renovation or where the rent had been very low. For new leases the rent could be set at the landlord’s choice and of course this impacted upon the national index of average rents.

In 2014 new regulations were put in place. A Rent Observatory which provides the evidence for determining allowed rent increases. The main regulation requires that re-let rents cannot rise above the indexed rent of the previous tenant. Only first lettings are therefore market determined. In addition, in Paris and other pressured cities it was possible to limit rents on new leases to no more than 20% above the median rent for the same type of property in the same type of area. The expert view was that these two measures taken together effectively freezes rents and rents would be disconnected from rates of return. This second rule was only been adopted by Paris and Lille.

In October 2017 the second of these rules was annulled from December 2017 after the courts ruled against it in both cities. The first rule is still in force and acts particularly to limit rent increases on larger units which have lower turn-over rates. So far there is little evidence of impact. However, the government intends to review the position in 2018.

Netherlands: rent regulation determined annually by government for all rental property below a certain rent level with market rents above that level (information supplied by Marietta Haffner).

There has been a move away from the rent freeze and subsidy structures that existed in the 1960s but rent control remains in place in the Netherlands. Most homes are rented unfurnished and most PRS is in the older housing stock. The Netherlands has a strict rent regulation system covering both social and private renting and is not related to ownership of the dwelling. Below a certain rent threshold rent regulations apply. Regardless of who owns the dwelling, a rent up to or equivalent to the ‘liberalization’ rent level is regulated, and the rent above that level is considered a deregulated or ‘liberalized’ rent.

In the private rented sector, 72% of dwellings have a regulated rent based on ‘quality points’. Dwellings with a regulated rent are subject to a dwelling valuation system; dwellings are given points on the basis of their quality and access to local amenities (access to trains, shops, etc.). It is generally accepted that local amenities are undervalued in this scoring system. Based on the number of points,
a maximum rent is determined. Rents in the private rented sector are on average 84% of the maximum rent.

In 2016 temporary 2-year rent contracts were put in place and rent controls for the PRS are now less onerous than those in the social housing sector. The government website says “Tenancy agreements in the more expensive private housing sector have been liberalised; the tenant and the landlord have more freedom to agree the rent and services provided. The rental value of the property is not based on a points system and there is no maximum rent. Only self-contained housing can be rented under such an agreement. Housing that is not self-contained (such as a room in a house) cannot.”

This new law became effective as of 1st July 2016. The tenant and landlord have the opportunity to conclude a temporary contract - but only once. A temporary lease may last up to two years for houses that are not shared and up to five years for shared residences. The second contract is legally a permanent contract.

Thus, the position in the Netherlands is currently one of continuing decontrol of higher valued properties from a position of strong rent regulation. The size of the sector has declined consistently for years and until recently has been made up mainly of older units owned by small companies that have been in the business for decades. However, with market rents enabled for properties with rents above around 720 euros there has been evidence of growth in the sector especially in pressured areas, notably Amsterdam.

**Germany: rent stabilisation but introduction of stronger controls especially in designated pressured housing markets** (information supplied by Michael Voigtlander)

Germany was one of the first countries in Europe to decontrol rents after the Second World War. From the late 1950s rents were enabled to rise each year to the point that in 1968 rent controls only applied in Berlin, Munich and Hamburg. In 1972 traditional rent control was formally repealed to be replaced by a system of comparator rents. From that time on Germany therefore had a system of 3rd generation rent control with indefinite tenure.

However, in the run-up to the 2013 German parliamentary elections rents and the possibility of re-introducing rent controls became a major political issue because of increasing pressure on rents and access to housing in major cities notably Berlin and Munich. The issue was addressed in all main parties’ election campaigns and there were street protests.

The grand coalition that followed that election agreed on the need for additional regulation in some areas. In 2015, the government introduced a new rent regime (“Mietpreisbremse”) that limiting the rents in new lease agreements for previously let properties. At the same time the allowable rent increase in existing tenancies was reduced from 20% to 15% in these areas. The fundamental regulations of the rent control are anchored in the German Civil Code (Section 556d f) and are based on the legal stipulation that rents in tight housing markets “must not exceed the local comparative rent by more than 10 per cent at the start of the lease agreement”. So as not to prevent housing
development and investment in modernisation, new lease agreements in new builds or extensively modernised properties form an exception and are excluded from the rent control (Section 556d f). Newly built and comprehensively modernised properties are excluded from this regulation. The rent control also does not apply if the rent has already been 10 per cent above the local comparative rent. These rules pertain in what are known as “tight housing markets”. However, this regulation now applies in more than 300 cities and municipalities.

Despite the introduction of rent control, the housing markets in major cities have not shown any noticeable signs of easing, causing many to doubt the instrument’s effectiveness. Issues relate to the definition of tight housing markets; to what is really a comparator rent; and to whether the controls are being followed and enforced. These are very similar issues to those raised in the French context.

Ireland: from a position of liberalised rent to the introduction of constraints especially in designated pressured areas (information supplied by Bob Jordan)

Historically the private rented sector in Ireland has been one of the most lightly regulated. However, since the financial crisis rents have become more of a political issue especially in high demand areas. The government responded to these pressures in the Planning and Development (Housing) and Residential Tenancies Act 2016 by introducing Rent Predictability Measures. These are intended to moderate the rise in rents in the parts of the country where rents are highest and rising and where households have greatest difficulties in finding accommodation they can afford.

In these areas, called Rent Pressure Zones (“RPZ”), rents can only rise according to a prescribed formula by a maximum of 4% annually. The pre-existing requirement still applies that the rent set for a property must be in line with local market rents for similar properties and three examples of rents for comparable properties must be presented to demonstrate this. Currently 21 local electoral areas are designated as RPZs.

The prior rent control rules also apply outside the RPZs. The landlord cannot charge more than ‘market rent’ when seeking a rent review and it must be at least 24 months from the date of the last review.

The rationale for this approach was set out by Minister Coveney at the launch of the government’s strategy saying, “Our rental sector is not delivering for tenants, landlords or the country. We need a strong and viable rental sector as a long-term tenure of choice for families and as a secure investment environment for landlords. Dramatic rental inflation puts families under pressure, damages our national competitiveness and stability in the investment environment. We need to tackle the consequences and alleviate short term pressures and we need to address the long term causes by delivering increased supply.”

Where there is compliance, the RPZs are said to be dampening inflation. An exception around renovations has been used by landlords to circumvent legislation and set higher rents but this is being closed off by Government. Landlord organisations e.g. the Irish Property Owners Association say there
is disinvestment, but landlord numbers have actually grown after a fall off during economic downturn. Enforcement of current measures is seen as the main challenge.

**United States: market rents except in a small number of cities but some pressure to increase controls mainly in these areas** (information supplied by Alex Schwartz -see also his commentary in Martin et al, 2018)

Most states explicitly prohibit cities from instituting rent regulations. At present, rent regulation remains in effect only in New York City and some other cities in New York State, in New Jersey, Washington, DC, and in a few communities in California, notably San Francisco. However, with rents rising and affordability concerns become more prevalent, attitudes toward rent control are becoming more positive at least in some areas. In California for instance there is pressure to repeal legislation brought in the 1995 to enable more cities in California to moderate rent increases.

New York City has had rent regulation in place since World War 2, and it is authorised by state law to continue as long as the city’s rental vacancy rate remains under 5 per cent. As of 2014, more than one million rental units were rent-regulated, constituting 49 per cent of the city’s rental housing stock, and 56 per cent of all unsubsidised housing (US Census Bureau 2017b). Under the city’s principal rent regulation program, the Rent Guidelines Board (consisting of nine members appointed by the Mayor) determines the maximum allowable rent increase (in percentage terms) for a one or two-year lease. It also sets the maximum increase landlords can charge when there is a change in occupancy. The system also allows landlords to increase rents to cover certain capital improvements.

In 1993 state legislature amended the rent stabilisation program to allow for ‘luxury decontrol’. When vacant regulated rents reach a designated threshold (currently $2,700 per month), the unit is no longer subject to rent stabilisation and the owner is free to charge whatever rent the market will bear. The state also permits units to be deregulated when landlords can show that a tenant’s income surpasses a minimum threshold (currently $200,000) in two consecutive years and the rent also exceeds a minimum amount (currently $2,700 per month). As a result of these and other forms of deregulation, the number of rent-stabilised housing units has fallen by more than 151,000 units from 1994 to 2015 (New York City Rent Guidelines Board 2016). Evidence from San Francisco also suggests very considerable reductions in supply over the longer term.

Overall, policy still points to a low regulation environment, but as in the other countries discussed here there is growing political concern in some high-pressure areas.

**New Zealand: market rents but pressure to improve security and other conditions**

(Information supplied by Patricia Austin)

Finally, we note the current position in New Zealand a country which has traditionally had very limited controls. Indeed, the current position is that rents in the private sector can be raised every six months, and landlords can end most tenancies with 90 days’ notice (this drops to 42 days when the home has been sold or is required by the landlord for their own family).
However, this position is now changing rapidly. The Housing and Urban Development Minister Phil Twyford has now confirmed that he wants to introduce legislation to reform the Residential Tenancies Act by the end of 2018.

He stated that New Zealand tenants have fewer rights than any in the Western world and he wants to modernise the law to improve their lot and to encourage longer, more settled tenancies. The reforms are likely to include restricting rent increases to once a year, banning letting fees and abolishing no-cause terminations. This approach is very much in line with early versions of the Scottish approach although ultimately that has involved indefinite tenancies. Importantly rent controls as such will not be part of the reform package but longer tenancies will inherently involve some element of in-tenancy indexation/stabilisation.
The Expert Roundtable

A final element in our project was an expert roundtable to discuss our initial analysis and findings prior to completing our conclusions and recommendations. Attendees included RLA representatives, other interest groups, housing professionals, consultants, local policy makers, academics and a Shelter presentation about the Scottish reforms.

A number of clear themes emerged:

The current position of private renting as a mainstream sector second only to owner-occupation implies a very different role into the future. In particular there is a continuing need for new supply to meet growing demands; many more people will stay in the sector for longer and may be looking for different terms and conditions; equally the sector has a role, with the help of housing benefit, in meeting the needs of poorer households who are no longer accommodated in the social sector. It is already highly diversified in terms of demands. However, it is currently rather homogeneous with respect to tenancy terms and conditions - with minimum 6 months tenancies, market rents and no right to remain.

Traditional forms of rent control, where rents have been set in money terms for long periods, is no longer part of the discourse. However, rent stabilisation where rents within tenancies and sometimes between tenancies are index linked, is becoming more prevalent and is the most usual approach to rent setting in much of Europe.

Control over rents and their adjustment is often not the core issue. Other aspects of regulation are just as or even more important. In particular security of tenure is becoming increasingly important not just because more family households are private tenants but also because other types of household want greater clarity about the future. Longer term security is being provided either in the form of longer leases or as is the case in many European countries and now Scotland indefinite leases. Such an approach is very much part of the debate in the UK, notably in the context of institutional landlords and more generally because of the costs of turnover to any type of landlord. However, there was considerable doubt among landlord representatives as to whether tenants actually want that option.

Were extended security to be introduced there would have to be clearly stated exceptions (in the Scottish case eighteen such exceptions to the indefinite tenancy) as well as a more effective enforcement mechanism for evicting tenants in breach of contract.

Another theme related to the quality of the housing provided and landlords’ responsiveness to tenants’ requests and complaints. It was agreed that the proportion of rogue /criminal landlords was very small and that they harmed to sector as a whole. There was considerable concern about the lack of effective enforcement measures by local authorities - but agreement that the government’s approach was moving in the right direction.

Specifically, in the context of international comparisons, a number of related trends were noted, including that:
the sector had started to grow again in many countries after long periods of decline or stagnation;
rents have often rising at unprecedented rates in particularly pressured housing markets;
this has led to increasing political pressure not just to improve the regulatory framework but particularly to introduce stronger rent controls;
What was seen as more surprising was the consistency across a number of countries in how governments were responding by tightening rent stabilisation measures, especially in pressured markets. This trend could be seen not just in countries such as Germany and France but also nearer home in Ireland and Scotland - in all of which the idea of rent pressure zones has been implemented.
As yet, although there is some evidence of somewhat lower rents in Paris, more generally there is little that controls are significantly affecting the market. This is partly because governments have not always followed through on stronger measures but also because tenants appear not to be making formal complaints.

The discussion clarified a number of important areas of agreement around the way forward:

First, rogue/criminal landlords give mainstream landlords a bad name. There should therefore be stronger enforcement by local authorities. The government is moving in the right direction but could do more with respect to the simplification and transparency of regulatory requirements.

Second, landlords generally want good tenants to stay as long as possible. However there has to be appropriate protection for landlords as well as tenants and there is a lack of confidence about how effective the courts are in addressing rent arrears, damage and ASB. Many landlords would be happy to offer longer term security, as long as enforcement procedures are working properly.

Third landlords are concerned about indefinite security especially if clear-cut exemptions are not in place. They see the way forward more about enabling a range of tenancy models which landlords can choose to provide. However, there was also considerable uncertainty expressed about the strength of demand for longer term tenancies.

Fourth, there are other pressures building up especially in pressured areas, notably the AirBnB model but also more general concerns around the lack of housing for poorer households, cutbacks in housing benefit and changes in the welfare system more generally and increases in taxation and their implications for returns.

Fifth, more evidence - on what is wanted and particularly what has been the impact of regulatory changes- was required.

Finally, there was agreement that the political environment was changing, and the sector needed to be responsive to that changing mood with the objective of developing a modern private rented sector which meets the diversity of demand by a wider range of provision.
Conclusions and recommendations

The challenge to those attempting to make private renting both a better investment and a better place to live is as much about creating and setting the right agenda as it is about the detail of any policy change. As we have stressed throughout the report, debates about the private rented sector are typically deeply polarised and this has been reflected in policy with different administrations tightening or loosening regulatory controls. However as private renting has grown in size and the composition of both tenants and landlords has changed there is increasing recognition that government cannot stand back from the PRS but needs to engage to ensure that it does operate as effectively to deliver good homes and services to the fifth of the population who rent privately.

It is also the case that all parties now recognise that with a seemingly intractable housing supply problem government needs to harness the potential of the PRS—seeing it as part of the solution rather than holding on to long held beliefs that it was part of the problem that had to be solved. The current government has adopted a somewhat inconsistent approach to private renting since 2010. On the one hand it has been promoting this sector as a flexible and quality response to housing shortages but on the other hand and often coming from non-housing departments - it has acted quite aggressively towards landlords including imposing the negative tax changes discussed, new standards and duties such as smoke alarms, and evidencing the rights of migrants to be in the UK and the provision of energy performance certificates. Most recently we have had the Tenants Fees Bill now completing its journey through Parliament and the exploration around lenders giving greater credit score recognition to an applicant’s records of rent payment.

The RLA has an opportunity to help government build on its more positive stance to private renting, ideally working to secure cross-party agreement on the case for a modern private rented sector which offers a plentiful supply of good quality homes backed by sensible tenancy and enforcement regulations. Not only would this offer wins for both landlords and tenants but also for government as it could help to bring in new supply at a low cost to the Exchequer and provide a basis for a more rounded stance on the PRS rather than the current focus on institutional investment.

As already noted it was encouraging in the roundtable to see more agreement on what could be done than might have been expected suggesting that there is potentially wide support for a positive vision for the PRS. The RLA has already set forward a number of proposals for change in the PRS. This includes both specific proposals, e.g., the creation of housing courts and wider views on the process, e.g., the need for coherent bottom up reform. Since government seems to have struggled to take a coherent and comprehensive view of the PRS and its legislative requirements and arrangements then the opportunity exists for the RLA to take a leading role in both setting out and carrying this agenda forward.

Logically this agenda to develop a modern PRS should start with the areas where the consensus is strongest. Reflecting both international evidence and the discussion at the roundtable, this does seem to be in the context of increasing security of tenure. In this context, RLA research has shown that 63% of landlords would grant a tenancy of 12 months or longer at the request of a tenant, although 71% of landlords were unlikely to offer a tenancy of over 3 years (Simcock, 2017). Lenders are relaxed about
longer term tenancies (RLA research shows 77% of landlords with mortgages had no stipulations re
the maximum length of tenancy, Simcock, 2016); some tenants actively want them and others might
find it valuable once they are clear about the terms of the offer. Since the Roundtable was held the
government has issued a consultation paper putting forward the possibility of a three-year tenancy as
the basic contract. The details are currently out for consultation, and many of the points raised in the
roundtable are clearly relevant (MHCLG, 2018).

While government appears still to be unwilling to require indefinite tenancies, not least for fear of
driving landlords who dislike the idea out of the sector, a more positive approach might still be to
create the potential for indefinite tenancies that can be adopted on a voluntary basis. Any changes
must clarify exceptions and how they would be enforced as is the case for tenants and landlords as in
other countries.

Rent controls are clearly much more contentious. In practice many landlords do not attempt to
maximise their rents, preferring to keep tenants longer term if opportunities allow (and this in turn
may mean that the yield is just as high given lower turnover costs and certainty greater). This suggests
that many would positively benefit from rent stabilisation (third generation rent controls) with a
transparent indexation system.

A quid pro quo for accepting such changes would have to be stronger enforcement - something that
the RLA often stresses. Both bad tenants and bad landlords must understand there is an active and
effective enforcement regime which encourages everyone to meet their obligations and making the
whole system work better.

Moving forward towards a more modern private rented sector requires a cross party consensus so
that any agreement is for the long term. Obtaining such agreement is all about timing – the right
context, the right people and the right political mood. The conditions are right for stakeholders both
to build a vision of the sector and the partnerships which can support positive change. This then can
be carried to the political parties perhaps with a view to legislation early in the next parliament?
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The home for research

+44 (0)161 495 9317
research@rla.org.uk
@RLA_PEARL
research.rla.org.uk