



GENERATION RENT
The national voice of private renters

THE RENT'S TOO HIGH:

21st century rent control



Foreword

**Diane Abbott, MP for Hackney
North & Stoke Newington**

London is experiencing its own, very particular cost of living crisis, and the biggest component is housing costs. Rents in the capital are the highest in the country but because of London's inflated house prices young people and families are find themselves trapped in the rental sector. For Londoners on an average wage, owning your own home inside the M25 is becoming the impossible dream.

Some argue that the answer to high housing costs in London is simply increasing supply. This might work if the capital's housing market functioned normally. But London's housing market is broken. One distorting factor is the existence of an almost endless supply of the world's super wealthy, buying up London property as a financial safe haven and sending ripples of housing cost inflation across the capital.

It will take special measures to stabilise housing costs in London. One of those measures is rent control. It is no coincidence that New York, Paris and Berlin all have some version of rent control.

A major international city, without measures to stabilise rent, runs the risk of rents spiralling out of the ordinary person's reach. Housing is too important to the population's health and wellbeing to be left to market forces alone.

For too long politicians and commentators have been dogmatic in their rejection of any form of rent controls. But it is time to look at the issue again. There is more than one method of implementing rent controls. This pamphlet begins the debate.

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Introduction

We know the housing crisis in London is acute. It has been for years and is only getting worse. Recent reports suggest that by 2020, the average first-time buyer in the capital will need a deposit of around £100,000 if house prices continue to rise at current rates.¹

For private renters though, the situation may be even worse. At least if you have managed to secure a mortgage, you are gaining part of an asset with every mortgage payment as well as benefiting from the capital gain.

For a London renter on the other hand, you are seeing increasing amounts of your wages taken up by rent, with nothing to show for it in the long-run. And make no mistake, the rent is too high – a typical privately rented home in London now pays on average £188 more than those with a mortgage each month.²

This affordability disaster is hitting some of the poorest people in society. As one of the major labour markets in the UK, London continues to attract thousands of young people, recent graduates and migrants.

Indeed, the population of London is projected to increase to over 10 million people within the next 15 years.³ Yet it is precisely this demographic who are least able to afford the high rents and who are most likely to be scraping by in overcrowded, unsuitable accommodation.

This rental catastrophe is negatively impacting the London economy too. Average and lower-income tenants have very little disposable income to use in other parts of the economy – and to spend on their own quality of life, after the huge outgoing to their landlord.

All other parts of the economy suffer when there is such a concentrated movement of wages into the hands of a small number of landlords.



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At the same time, high rents are a business cost that make London uncompetitive as a global city.

If businesses of all kinds have to pay higher wages so their employees can afford to live in the capital, it means that other places may become attractive to large businesses. Competitor cities - whether that is Paris, New York, or Singapore – have lower business costs because of rent controls in these cities or subsidies in public housing.

The affordability crisis harms London across the board. Businesses move out, the service and leisure economies suffer; whilst we also hit the poorest hardest, undermining the diversity of the capital and exploiting the most vulnerable. Rents have to be affordable – and controlling them should be a major political priority of the next London Mayor.

- 1 <http://www.standard.co.uk/news/uk/mortgage-deposit-for-firsttime-buyers-will-hit-100000-by-2020-says-study-8465149.html>
- 2 <http://www.dailymail.co.uk/news/article-2581446/Rent-costs-124-month-mortgage-Rock-bottom-rates-mean-cost-paying-mortgage-never-lower.html>
- 3 <http://www.standard.co.uk/news/london/london-population-to-top-10-million-within-the-next-15-years-9451892.html>

Rent Controls

A proposal for rent controls in London needs to address three issues: at what level to set the maximum rent, how it would function in practice and what effect it would have on the wider housing market.

Defining an affordability measure can be built on the good work of the Living Wage Foundation which has already calculated the living wage for London at £9.15 per hour.⁴

If we take the average working week of 35 hours, this amounts to a 140-hour working month and gross wage of £1,281. After income tax and National Insurance the net wage would be £1,117, meaning that a living rent pegged at 35% (the widely accepted figure of affordability by ratio of rent to wages) would be £391 per month for a single person – i.e. a one-bedroom flat. This could be scaled up for each additional bedroom.

This would provide a ceiling of affordability that is not present within other current proposals for rent controls.

Proposals for caps on rent rises are beneficial to tenants in terms of security as large rent rises are common and can mean a household having to move out. However, they are not a mechanism for addressing affordability as landlords remain free to set the rents where they like between tenancies. And in London and many other parts of the UK there is an affordability crisis when it comes to rents.



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Implementation

An important factor to consider when implementing a rent control is the recognition that there are different sorts of homes of differing values that a variety of people might want to live in.

London would be more competitive if housing costs were lower; but would become less competitive if this were because there were no homes available that were attractive to people on middle or higher incomes. London needs to attract a diverse range of people for its continued success and for none of those people to be paying more in housing costs than is reasonable – wherever they are on the income scale.

Therefore you need a dynamic rent control that allows for different levels of housing cost without incentivising the building exclusively of luxury apartments or making the lowest cost housing the only viable form of investment.

Our proposal is a dynamic rent control based on a well understood property index, together with an option for landlords to charge more, but with a financial penalty for doing so.

- 1 Base the rent control on Council Tax bands. Cap rents at 50% per month of the annual council tax band for the home. Croydon for example has a band A (pretty much a bedsit) band of £780. The rent cap would therefore be £390 per month.
- 2 Charging more rent. Landlords should be free to charge more rent but this should be subject to a 50% surcharge. This surcharge should be paid to the GLA into a ring-fenced housing fund that is invested in social house building and potentially used to provide temporary respite to owner occupiers experiencing negative equity, a fund to soften the blow of the inevitable bursting of the housing bubble.



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Landlords would be free to lobby government for more Council Tax bands or to lobby councils for higher Council Tax rates and it would be up to politicians to decide these things and to be accountable publicly and electorally for those decisions.

- 3** Taking an example of a luxury apartment in Chelsea, the very top end of the rental market, a 4-bed penthouse might be rented for £32,000 per month, but the band H council tax is £1,536. This would place the rent at £31,232 above the rent cap, therefore attracting a surcharge payable to the GLA of £15,616 per month.

While this is about the largest such surcharge that could exist, there is a balance where the landlord can set the rent wherever they like but if they breach the cap, they start to fund the building of affordable homes. The more they breach at the luxury end, the more they are funding affordable homes at the lowest end.
- 4** The rent cap becomes accountable. Landlords would be free to lobby government for more Council Tax bands or to lobby councils for higher Council Tax rates and it would be up to politicians to decide these things and to be accountable publicly and electorally for those decisions.
- 5** There should be punitive financial and criminal sanctions on landlords who seek to circumvent these rent controls.

Conclusion

For property professionals who have only known unregulated rents since the 1980s and the buy-to-let boom since the late 1990s, these proposals may seem extreme and hard for the market to swallow.

However, the market is too hot and land prices are too high. Current political proposals fail to address the affordability problem for tenants over the coming decade or more, while in-tenancy caps on rent rises do not reduce rent levels or the price of land.

By the next census in 2021, there will be 49 parliamentary seats in London that are renter majority (in terms of both social and private tenants).⁵ Renter households will outnumber homeowners by 500,000 homes. Politicians can no longer provide housing solutions that only benefit homeowners; if they do, they will become increasingly irrelevant to their electorates - in London in

particular - and condemn millions of people to ongoing exploitation.

The potential consequences of a failure to act have already been outlined above – the collapse of the London economy, and its decline as a global economic centre.

Limiting rents already has widespread support amongst the general London population and has been shown to be compatible with a lively, thriving rented sector in cities like New York, Frankfurt, Berlin and Paris. The scale of the London housing crisis now requires bold and radical action, and rent controls are an unavoidable part of that.



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Afterword

**Alexander Hilton,
Director of Generation Rent**

Rent Control is one of those strange policies that's popular with the public but beyond the pale for much of the political establishment. This is because it devalues the price of land, and wealthy people have a lot of money tied up in land at the moment.

The fact is that there are many alternatives to rent controls that would help reduce the overbearing cost to renters. Government could create a housebuilding boom, it could invest massively in social housing or it could create a secondary housing market similar to those that exist in Singapore or Guernsey. But it has done none of these things and time is running out for renters.

The cost of land has a crushing effect on the economy. In London in particular it is driving wage pressures for employers to the point where the metropolis could cease to be competitive with other great cities in the world. But it also drives up the cost of enjoying your life, with large, visible impacts on beer, cinema tickets and other goods and services.

London is becoming a dystopian cliché, with a minority of landowners in control of a majority of people ground into an existence of rent slavery, with a huge proportion of their wages gone before they ever see it.

Rent control is a means government can offer to bring respite to people, or indeed

landlords could just choose to charge less rent – and that occasionally happens. But tenants also have a means to devalue land wholesale.

Tenants can organise a rent strike. And when you work hard and every year see you're getting less and less for doing so, there comes a time when a rent strike doesn't sound so crazy.

The tenants of the New Era estate in Hackney have seen first-hand what happens when the price of land goes up. Their once-ethical landlords couldn't avoid the prospect of selling up the estate and taking a huge profit on the land price. And now 93 households will see themselves evicted, economically cleansed from the city in which they have lived and worked for decades.

And this is my prediction. There will be rent strikes. Because you can only push people so far, and when the only place you can afford to live is a place without jobs, that's when people have to consider alternative options. This happened in Glasgow in 1915 and within a month Rent Control had been passed into law.

The Government and the opposition need to decide whether they will preside over the solving of the housing crisis or whether they will leave renters with no choice but to take action themselves.

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If you agree that it's time for rent controls
you can help make it happen. Go to
www.generationrent.org/rentcontrol

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