

RESTATE THE CASE

Rent controls

Why is this important?

Average monthly private rents in London increased by 32 per cent between 2012 and 2019¹ Sadiq Khan, the mayor of London, has called for more powers to cap rents in the capital.² This view was adopted by the Labour party who pledged to cap rent rises for private tenants during the 2019 general election.³ Recent polling shows the popularity of controls: 68 per cent of Londoners are in support,⁴ and only 4.4 per cent of those aged 18-35 opposed rent controls.⁵

What are they?

Rent controls limit the amount a landlord can lease their property for or charge to renew a lease. While the implementation of rent controls varies, they share the intended purpose to keep living costs affordable for low-income residents by preventing landlords from overinflating rents. Authorities implement these controls by capping rent, increases to rent, or temporarily freezing it. Within these categories, policies still vary, with capping rent potentially involving rents set at the current market rate or set at a lower level.

Why is the private rented sector good?

Allowing landlords to set their own rents provides an incentive for them to maintain and improve their property. This is because they have the option of passing the cost of these upgrades to the tenant, by increasing their rent.⁶ However, it is not the landlord's gain at the tenant's expense, as the tenant is able to enjoy the benefits from the improvements made to the property. Repairs to the property are the responsibility of the landlord, leaving limited additional costs on top of the rent.

Yet, if the tenant does not want to pay the increased rent they have the ability and incentive under the private renting system to move to another property. This is because of the flexibility the private renting market has, which allows tenants to choose different standard levels and size of property to best fit their personal and financial situation. This is not available in other tenure models.

Proponents of rent controls often argue that the demand for private rented accommodation far exceeds the supply, leading to consistent rent hikes. What these rent controllers fail to recognise though is that it is the UK government's house-building policy to increase owner-occupation and provide a greater quantity of affordable housing which has led to a lack of supply in the rental market. Rather than the model of private renting being the reason for the lack of supply, it has been this overregulation on housebuilding which has led to price rises in the private rented sector.⁷

¹ Valuation Office Agency, *Average Private Rents, Borough*, <https://data.london.gov.uk/dataset/average-private-rents-borough>, (accessed 30 October 2019).

² Agbonlahor, W, *Rent Control: London Mayor Sadiq Khan calls for more powers*, 19 July 2019, www.bbc.co.uk/news/uk-england-london-49020361, (accessed 30 October 2019).

³ BBC, *General election 2019: Labour vows to cap rent rises for private tenants*, 25 November 2019, www.bbc.co.uk/news/election-2019-50540436, (accessed 25 November 2019).

⁴ Greater London Authority, *Mayor to develop 'rent control' proposals*, 23 January 2019, www.london.gov.uk/press-releases/mayoral/to-tackle-affordability-crisis, (accessed 8 November 2019).

⁵ Niemietz, K., *Rent controls: popular but wrong*, IEA, 5 January 2017, <https://iea.org.uk/rent-controls-popular-but-wrong/>, (accessed 2 December 2019).

⁶ Rajasekaran, P et al, *Rent Control*, Urban Institute, January 2019, p.5.

⁷ The Smith Institute, *The future of the private rented sector*, 2008, p.10.

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What's wrong with rent controls?

The argument against rent controls is not ideological: the case for caps has been theoretically and empirically disproved with 93 per cent of economists from across the political spectrum denouncing rent controls.⁸ The purpose of rent controls is to minimise rent for low income households in particular. Yet, they fail to achieve this and often do not benefit poorer families. This was seen when a rent control mechanism was introduced in Germany. Central Berlin rents rose by almost 10 per cent between 2015 and 2017, an expensive experiment and significantly worse than the 1-2 per cent rises each year before their introduction.⁹

Rather than blaming profit-driven landlords, it must be recognised that the UK is bad at building sufficient housing. Hence, renting is more expensive in the UK than other countries because it has the smallest housing stock in Western Europe.¹⁰ Rent controls also increase demand, as the reduced rents encourage potential tenants to enter the rental market due to the lower rents. This has been seen in Stockholm with at least 500,000 people waiting in the rent control queue.¹¹ At the same time such controls would entice landlords to leave the market as it is more profitable for them to sell their property.¹² The overall effect is an increased number of people wanting to rent a smaller number flats.

This reduction in supply has serious consequences. Rent controls in New York city are a prime example, where property can be rented for \$500 a month.¹³ However, families are allowed to pass the homes they rent to another person, whilst also maintaining the low rent, essentially making rent controlled housing an inheritable item and exacerbating waiting lists. A 2017 estimate shows that it would take 50 years for those on the current waiting list in Stockholm to earn a standard long-term contract.¹⁴ Not only is such a system inefficient but it has severe consequences on social mobility.

However, even after the long wait for a rent controlled property, the quality of the accommodation could be sub-standard. This view is expressed by landlords, who say that there would be little financial incentive for them to invest in their properties if the government controlled the rents they could charge.¹⁵ Not only is the quantity of housing reduced under rent controls, but the quality of it is as well.

What should be done?

To increase the supply of housing, significant changes need to be made. This includes allowing homes to be built on the green belt around major cities such as London, Cambridge and Bath. More building means rents will fall as the housing stock rises; the solution to dealing with the social and economic problems of extortionate rents is not to implement rent controls.

⁸ Block, W., *Rent Control*, The Library of Economics and Liberty, <https://www.econlib.org/library/Enc/RentControl.html>, (accessed 31 October 2019).

⁹ The Economist, *Why Germany's rent brake has failed*, 15 June 2018, www.economist.com/the-economist-explains/2018/06/15/why-germanys-rent-brake-has-failed, (accessed 15 November 2019).

¹⁰ Niemietz, K, *The Key to Affordable Housing*, September 2016, <https://iea.org.uk/wp-content/uploads/2016/09/The-key-to-affordable-housing-PDF.pdf>, (accessed 1 November 2019).

¹¹ Crouch, D., *Pitfalls of rent restraints: why Stockholm's model has failed many*, 19 August 2015, <https://www.theguardian.com/world/2015/aug/19/why-stockholm-housing-rules-rent-control-flat>, (accessed 15 November 2019).

¹² Niemietz, K., *Rent controls: popular but wrong*, IEA, 5 January 2017, <https://iea.org.uk/rent-controls-popular-but-wrong/>, (accessed 6 November 2019).

¹³ Gyourko, J., & Linneman, P., *Rent controls and rental housing quality: A note on the effects of New York City's old controls*, University of Pennsylvania, 1988, p.402.

¹⁴ The Local, *Over half a million now waiting for apartments in Stockholm*, 17 January 2017, www.thelocal.se/20170112/over-half-a-million-now-waiting-for-apartments-in-stockholm, (accessed 1 November 2019).

¹⁵ Clarke, A, et al, *Research on the effect of rent stabilization measures in London*, Cambridge Centre for Housing and Planning Research, 13 October 2015, p.24.