



Rent control and the Private Rented Sector: An Analysis

Nick Clay and Dr David Smith, October 2019



PRIVATE RENTING, EVIDENCE, ANALYSIS & RESEARCH LAB

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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.

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EXECUTIVE SUMMARY

Rent controls have been proved to be unsuccessful across Europe and America - yet continue to be lauded as the panacea for all tenants' ills.

This is despite evidence from across the two continents showing rent controls not only have a profoundly negative impact on the housing market, but also on local economies and communities.

In several European cities there is now a black market for housing contracts, such has been the impact of rent controls on supply. In other cities, controls have simply been ineffective, with rent rises still outstripping wages.

More and more households are looking to the private rented sector for a home, including increasing numbers of families - and they are staying for longer. Therefore now, more than ever housing policy needs to be focused on encouraging the supply of private homes to rent.

In this report RLA PEARL examines the impact of rent controls, by pulling together research from respected Non-Governmental Organisations (NGOs), academics, universities and think tanks.

The US experience

Rent controls exist in many major US cities, where a shortage of homes to let has driven up rents irrespective of whether rent controls are in operation or not. From looking at the body of research we can see:

- Rent controls covering part of a city's private rented housing stock push up rents in the other neighbourhoods
- Although tenants may pay less for their rent-controlled home, their landlord also provides less support and investment
- Landlords affected by rent control often leave the sector, either selling their property or converting it so it falls outside the remit of the controls - hitting supply and further exacerbating housing shortages
- Rent controls do not necessarily equal affordability. In San Francisco for example, rent-controlled units are becoming less and less affordable
- People tend to remain in rent-controlled accommodation, even if their circumstances improve or it no longer meets their needs. As a result, labour becomes less flexible, affecting the wider economy.

The European experience

In 2018 around 20% of UK households lived in privately rented accommodation, a figure set to rise to a quarter in the next two years. UK rent controls were phased out in the late 1980s, yet campaigners want them revived to address the country's lack of affordable housing.

This is despite the fact evidence shows rent controls in other European cities have had little impact on affordability. For example:

- In Berlin a price brake introduced in 2015 failed to slow down rental growth
- In Italy controlled rents have increased at a faster rate than income levels
- In Sweden long standing rent controls have reduced the supply of housing to the point where there is now a black market for housing contracts.

There is also evidence that in those countries that have rent controls, rent levels away from the major towns and cities are above market levels. This makes it more difficult to address skills and labour shortages in these areas.

Research from across Europe and America also highlights issues with high administration costs, extensive red tape, the over-involvement of politicians and complex sets rules and exemptions for landlords to navigate, offsetting many of the anticipated benefits.

Frustration

Tenants in cities across the Europe and America are frustrated.

Increased investment in public sector housing is much needed and yet is absent when new developments are being planned. The result is housing becoming increasingly less affordable as average wages remain stagnant.

Rent controls are often seen as an easy way to solve broader economic problems and inequalities, both of which require greater attention and policy focus.

However, evidence shows frustration with housing costs remain, whether controls are introduced or not.

The positives

While overwhelming evidence points to the fact the rent controls do not work, it is possible that rents could stabilise organically. Evidence from RLA surveys shows us a positive relationship between landlords and tenant often acts as de facto rent control.

More than 60% of RLA landlords said they will be keeping rent levels static for the next twelve months in one of our recent surveys, with over 70% of this number saying keeping their existing tenant in situ was a ‘motivating reason’ for doing so.

This shows that policy should be geared towards finding mechanisms which maintain the confidence of both landlords and tenants. If this can be achieved, the private rented sector can thrive as a crucial part of the housing mix, without the need for damaging rent controls.

Chapter 1

Introduction

1. Introduction

1.1 Rent control: The debate

Across Western Europe and North America there is continued interest in applying rent controls¹ in the Private Rented Sector (PRS). The policy is seen as a response to growing housing affordability challenges. A common feature of western economies has been the acceleration of house prices - and rental prices - in major conurbations. At the same time wages have not kept pace with this price growth.

Rent control is being advocated by pressure groups and politicians as a mechanism to help mitigate this affordability challenge. Rent control is viewed as a way to make it easier for lower-income individuals and families to find housing they can afford in high-cost locations.

However, this document is a summary of research, produced by reputable NGOs, academics, academic institutions and think tanks which underlines the fallacy of rent control as an effective mechanism to address housing shortages. This view has been reached not by a neo-liberal cabal but is in fact a consensus which includes notable Keynesians as well as free market economists.

This introduction sets out the key issues framing the debate:

1.2 Rent controls – outlining the debate

Empirical studies looking at the impact of rent controls draw on a range of data sets, including building and property surveys, local economic data sets and survey research, to consider the impact of rent controls on one or more of the following policy objectives:

Table 1: Key policy objectives & impacts of rent controls

Policy objective of rent control	Key impact(s) and/or intended benefits
Addressing the need for affordable housing	Do rent control policies assist the individuals and families most in need of affordable housing?
Better allocation of existing housing units	Do rent control policies lengthen tenancy duration?

¹ This also includes rent-stabilisation - rent control often refers to laws that set some form of cap on rents, while rent-stabilisation generally refers to policies that regulate how often and how fast rent levels can increase. Except where specified, the phrase “rent control(s)” here is shorthand for policies which include rent-stabilisation. Controls is used as a plural to reflect the various forms rent control takes in different locations.

Policy objective of rent control	Key impact(s) and/or intended benefits
Maintenance and building quality	Do rent controls lead to a decline in building maintenance?
Housing availability	Do rent controls impact on the overall supply of rental housing?
Rent levels	Do rent controls distort market rents?
Fiscal impacts	Do rent control policies lead to lower levels of property tax revenue?
Homelessness	Can rent controls be a lever through which homelessness can be addressed?

The quantitative models which investigate these hypotheses are complex: other market variables such as rigidity in labour and capital markets, infrastructure flaws, and the availability of suitable property, as well as broader micro-economic industrial change add to the complexity of any studies.

For example, the rent control regime in England & Wales ran alongside a substantial reduction in the private rented sector in the period from 1919 to 1991. Its subsequent removal by the Housing Act 1988 is also often seen as the reason for a resurgence in the sector from the mid-1990s onwards.

However, a study undertaken for the RLA points out dates do not align with the changing direction of the trend in the size of the PRS². The complex relationships between the factors determining housing supply, housing demand and price means that the imposition of rent controls is another complexity - and is not a solution to unravelling complexity. It is the unintended consequences of rent controls and their negative impacts which has led to the consensus on rent controls as a mechanism not to create communities in cities - but one to destroy them.

1.2.1 The consensus on rent controls

Blair Jenkins, in an extensive review of literature by US academics³, found that “economic research quite consistently and predominantly frowns on rent control.”

² White, C., & Williams, P. (2018). *Assessing the evidence on Rent Control from an International Perspective*. Manchester: RLA PEARL.

³ Jenkins, B. (2009). Rent Control: Do Economists Agree? *Econ Journal Watch*, 6(1), 73-112.

She quotes one US economist⁴ in saying “*economists have been notoriously thorough in convincing themselves of the destructive effects of rent control and notoriously inept at convincing anyone else.*”

She concludes in her study, “*Better understanding of the issue might help correct the error, prevent other governments from falling into it, and promote an understanding among more than just economists.*”

The OECD has published numerous studies on housing policy⁵ in the wake of the Global Financial Crisis. Several of these have looked at the impact of rent controls on the housing market. The OECD have used these studies to provide evidence to back up their concerns about the impact of rent controls. These concerns focus on:

- The correlation between rent controls and housing supply.
- The wider impact of rent controls on labour mobility and labour supply shortages.
- What OECD research describes as “a significant and strong correlation between the intensity of rent controls and measures of poor quality [housing].”⁶

1.2.2 The problem of rent control as a panacea

Since the late 1990’s a growing number of households in the UK have taken occupancy in the Private Rented Sector (PRS)⁷. In addition, as the 21st century continues, more households are in the PRS for longer⁸.

One consequence of this trend has been the emergence of tenant lobby groups. These groups have led the call for the introduction/re-introduction of rent controls as part of a suite of policies to resolve rising housing costs.

There are two points to make:

Firstly, it is quite correct to call for a suite of policies to address housing issues in the UK. But, as subsequent sections of this report show, rent controls are typically ‘single club’ solutions. In many of the locations where they are applied, housing policy is not supported

⁴ Hazlett, Thomas. 1982. Rent Controls and the Housing Crisis. Cited in Johnson, M. B. (1982). *Resolving the Housing Crisis*. San Francisco: Pacific Institute for Policy Studies.

⁵ Andrews, D., Sanchez, A. C., & Johansson, A. (2011). *Housing and the Economy: Policies for Renovation*. Paris: OECD.

⁶ Johansson, A. (2011). *Housing Policies in OECD and Candidate for Accession Countries: Survey-Based Data and Implications*. OECD Economics Department Working Papers. Paris: OECD.

⁷ In 1999 the proportion of households in the PRS stood at 9.9%, in 2017/18 the figure was 19% (Family Resources Survey).

⁸ In 2010/11 18% of households had been in the PRS longer than 5 years. In 2016/17 that proportion was 25%.

by an appropriate policy and institutional framework. Thus, the evidence suggests rent controls exacerbate, not address, the housing problems they were brought into solve.

Secondly, the slower pace of housing change means compared to other markets, it can take a long time for policy impact to take effect. Put simply, houses take time to build and moving is difficult, so people will not rush to make changes. Housing *policy change* is very different from housing *stock and tenure change*. The impact of the former on the latter - as the UK knows only too well⁹ - can lead to unanticipated consequences over time.

This paper highlights the uncertainties of rent control - the mixed impact and limited benefits from an academic perspective, and the practical costs and disbenefits of implementation from a policy perspective.

1.3 About this paper

This paper looks at these issues in more detail, drawing on international experience and HM Treasury's own policy evaluation framework. The remainder of this paper is set out as follows:

Section 2 sets out the evolution of the vocabulary and taxonomy within which rent controls are viewed.

Section 3 looks at the experience of rent controls in the United States whilst Section 4 looks at the European experience. In both cases, evidence is provided by individual academic studies and wider meta-analysis of evidence.

The evidence in Sections 3 & 4 is largely academic in nature. Section 5 places this research in a policy and evaluation perspective and highlights the policy failings of rent controls through a logic model perspective.

Finally, Section 6 reflects on the findings of the research and draws some conclusions about the likely effectiveness of rent controls in a UK context. It briefly considers an alternative prism through which a different perspective on current housing issues can be seen.

Please note that the Appendix to the report has more detail and insight on the rent control regime adopted by a selection of individual countries/states/cities.

⁹ For example, the impact of the sale of council housing in the 1980s and 1990s.

Chapter 2

The development of rent control policies

2. The development of rent control policies

2.1 Introduction

This section of the report introduces rent control models and their evolution. This section also briefly comments on other forms of nonprice-based intervention in the PRS.

2.2 Rent control policies

2.2.1 An introduction to rent control policies

Rent control policies vary but are typically based on one or more of the following:

- Regulation of rent level or the rates of rent increase and how these levels or rates are set.
- Types of residential buildings or units subject to rent control, based on the age or size of the building, and, consequently, what share of the locality's rental stock is subject to rent control.
- Specific areas or zones within a city which, it felt, has been subject to rapid rent increases impacting on the residential mix of a locality.
- Rules on rent changes upon one tenant vacating a rent-controlled unit (i.e. vacancy allowances/vacancy decontrol policies) and another moving in.

In addition, eviction rules that outline the circumstances under which landlords of rent-controlled buildings can turn out a tenant, can also be built into rent control systems.

2.2.2 Types of rent control

Rent control as a policy instrument has morphed over time and in different locations in an attempt to suit local circumstances. The conventional linear time-based perspective on rent controls identifies the evolution of policy as follows¹⁰:

First generation rent controls

Rents are fixed and remained unchanged for properties over long periods of time.

Typically, this was done by restricting rent to a level based on a specified date.

In England & Wales the clearest example is given by the Increase of Rent and Mortgage Interest (War Restrictions) Act 1915 which restricted rents to their level as at August 1914

¹⁰ White, C., & Williams, P. (2018). *Assessing the evidence on Rent Control from an International Perspective*. Manchester: RLA PEARL.

in order to prevent war profiteering. This approach to rent control has largely disappeared but can occasionally be found in some jurisdictions¹¹.

Second generation rent controls

These are essentially some form of ‘inflation plus’¹² method of controlling rental price increases. Some level of rent increase is permitted - usually to provide encouragement to improve property - but they seek to control rents tightly both between and during tenancies. This may be either by reference to an external marker or by allowing recovery of improvement costs.

In the UK, second generation rent controls were typified by the mechanism which existed under the Rent Act 1977.

However, they can still be found in relatively modern legislation. For example, Part IV of the Private Tenancies (Northern Ireland) Order 2006¹³ imposes second generation rent control on older properties that have not been modernised to a required standard.

However, these provisions have yet to be brought fully into force.

Third generation rent controls

These are not dissimilar to those found in second generation controls but tend to operate as a more liberal regime.

These allow initial rents (i.e. new tenancies) to be set freely by landlords or with a very light restriction but limit rent increases within tenancies. It is usual to find in-tenancy increases are generally set at a level which is higher than those found under second generation controls¹⁴.

Countries that have retained rent control in some form tend towards third generation systems. These systems have more recently been put forward as a mechanism to deal with rents that are perceived as rapidly rising in a specific area. These are often seen as attempts at ‘rent-stabilisation’ rather than rent control.

¹¹ S Monk, S., Tang, C., Whitehead, C., & Markkanen, S. (2012). *The private rented sector in the new century - a comparative approach*. Cambridge: Cambridge Centre for Housing & Planning Research. See the Delhi Rent Control Act 1958.

¹² Economists will recognise the “RPI+X” approach is aligned to the “RPI-X” formula for price capping regulation the UK government trumpeted during the 1980s and 1990s in their privatisation drive.

¹³ Northern Ireland Orders in Council. (2006). *The Private Tenancies (Northern Ireland) Order*. Retrieved from http://www.legislation.gov.uk/nisi/2006/1459/pdfs/uksi_20061459_en.pdf

¹⁴ These are often called ‘tenancy rent controls’ - Arnott, R. (2003). Tenancy Rent Control. *Swedish Economic Policy Review*, 10, 89-121.

For example, Part 4, Chapter 3 of the Private Housing (Tenancies) (Scotland) Act 2016¹⁵ allows the Scottish Government to designate an area as a Rent Pressure Zone (RPZ) and limit in-tenancy rent increases in that area. However, at the time of writing, the power has yet to be used.

2.2.3 Other methods of rental market intervention

There are also measures which are less about rent control and which operate as anti-avoidance measures. These seek to restrict those artificial rent rises intended solely to drive tenants out of properties.

These include, in England and Wales, the provisions in Sections 13 and 22, Housing Act 1988¹⁶ which stop rents being set at above-market levels. There are also common law restrictions on contractual rent increases which aim to increase rent to impossible levels with the sole aim of procuring the eviction of a tenant by the back door. The courts have held that clauses of this nature are shams and are unenforceable¹⁷.

Finally, there are a range of other factors which limit rent:

1. It has been suggested that the caps in housing benefit payments (in its various guises) in England operate as a mechanism of “de facto” rent control. Indeed, while these caps primarily impact on tenants they act to limit the capacity of parts of the market to pay higher rents.
2. RLA evidence shows that landlords respond to having ‘good tenants’ - reliable rent payers who maintain the property in good order - by keeping rent levels constant, effectively providing an inducement to stay in-situ. For example, the RLA’s Quarter 4 report *State of the Private Rented Sector*¹⁸ found that over 60% of landlords planned to keep rent levels the same for the duration of 2019. Over 70% of these landlords stated that keeping the existing tenant was one of the motivating reasons for doing so.

¹⁵ Scottish Parliament. (2016). *Private Housing (Tenancies) (Scotland) Act 2016*. Acts of the Scottish Parliament. Retrieved from http://www.legislation.gov.uk/asp/2016/19/pdfs/asp_20160019_en.pdf.

¹⁶ UK Parliament. (1988). *Housing Act*. UK Public General Acts. Retrieved from http://www.legislation.gov.uk/ukpga/1988/50/pdfs/ukpga_19880050_en.pdf

¹⁷ *Bankway Properties Ltd v Pensfold-Dunsford* [2001] EWCA Civ 528.

¹⁸ Clay, N. (2019). *State of the Private Rented Sector: Finance and Investment*. Manchester: RLA.

Chapter 3

Empirical evidence: the US experience

3.Empirical evidence: the US experience

3.1 Introduction

One useful aspect of the US experience is what it tells us about more localised rent control mechanisms. The Appendix provides a short history of rent controls in the USA.

There have been several cities in the US that have implemented rent control. In many cases, these locations enjoy good communication links with a surrounding area which does not have the same level of control, or where there are no controls at all.

In addition, there are several examples of US cities which have had substantial numbers of properties subject to strong rent regulation sitting alongside a further collection of properties which have not been regulated.

Finally, and most usefully from a research point of view, areas have changed from having rent regulation to repealing legislation. Conversely, others have gone from having no regulation to imposing it.

This allows for genuine longitudinal studies comparing market situation under rent control to the market situation without.

3.1.1 Current US rent controls

The Washington DC-based National Multifamily Housing Council¹⁹ sets out some data on the rented sector and rent controls in the USA²⁰.

- Nearly one-third of Americans rent their housing, and almost 15 percent live in an apartment (buildings with five or more units).
- Four states (California, New York, New Jersey, and Maryland) and the District of Columbia have localities in which some form of residential rent control is in effect.
 - A fifth - Oregon, has recently become the first state to pass state-wide rent control policy which includes a limit on annual rent increases to inflation plus 7 percent²¹.
- Thirty-six states either prohibit or pre-empt rent control²².

¹⁹ Sturtevant, D. L. (2018). *The Impacts of Rent Control: A Research Review and Synthesis*. Washington: National Multifamily Housing Council.

²⁰ Note that rent control is a highly politicised topic in the USA and the parameters of regulation are constantly changing.

²¹ New builds are exempt for the first 15 years after construction.

²² Oregon's state-wide law prohibits additional local controls.

- Nine states allow their cities to enact rent control but have no cities in their boundary that have implemented such controls.

Furthermore, evidence from other sources where some form of rent control is in place indicate:

- In New York City, around 45% of all occupied and vacant rental units are either ‘rent stabilised’ or ‘rent controlled’ in the private sector (2017)²³.
- In the District of Columbia, 63% of the District’s 141,000 rental units were subject to rent control (2014)²⁴.
- In San Francisco, about 60% of all rental units are rent controlled (2018)²⁵.
- Los Angeles has approximately 1.4m housing units - of which 880,581 are classed as ‘multi-family’²⁶. Eighty per cent of these multi-family units are covered by rent control²⁷.

The following sections lays out evidence on rent controls from both the West and East Coasts of the USA.

3.2 Rent controls: California

California’s renters are substantially more likely to struggle with housing affordability than are homeowners in California: more than half of households in the rented sector paid over 30% of income toward housing in 2017. By comparison, among homeowners with mortgages, only around a third of households were said to be similarly cost-burdened.

In addition to the above, more than a quarter of households in the rented sector were said to be *severely* cost-burdened: this is a group who pays more than half of household income toward housing costs.

²³ Figure taken from Housing Supply Report, 2019 New York City Rent Guidelines Board. Their analysis is based on Housing and Vacancy Survey, 2017.

²⁴ DC Office of Tax and Revenue as reported in *How can the rent be so high in DC when almost two-thirds of all rental units in the District are subject to rent control?* March 2016, District of Columbia’s Office of Revenue Analysis - districtmeasured.com.

²⁵ San Francisco Housing Needs and Trends Report”, San Francisco Planning Dept, 2018

²⁶ Note that of this 880,581 only 8% (69,000) units are considered “affordable” - see Chavez, E., (2015) *It Definitely Feels as if It’s Happening to You: A Case Study of the Personal Effects of Gentrification in Highland Park*, Occidental College, Los Angeles.

²⁷ Figure attributed to Los Angeles Housing and Community Investment Department. See *West Hollywood: The Unique Sub-Market of L.A*, July 2018 (<https://bit.ly/2mSUzia>) and Chavez, E. (2015) Op Cit.

This ‘perfect storm’ of affordable housing shortfalls, rising rents and declining incomes has fuelled the debate on rent control legislation. Whether rent controls are sufficiently extensive enough - or, instead, whether rent controls accentuate the failings of housing policy. See the Appendix for more on California’s rent control systems.

3.2.1 Studies of California’s rent control systems

This section looks at the evidence collected in two of California’s largest cities:

Los Angeles

Studies examining rent controls in Los Angeles found²⁸:

1. Rent controls applied to part of the city’s private rented housing stock simply accelerated rent growth in another:
 - o One study found that after a two-year period, while controlled rents in the city had risen an average of 13.7 percent, uncontrolled rents had risen an average of 46.2 percent.
2. A Rand study of rent controls undertaken in the early 1980s suggested that rent reductions under rent control are in fact small.
 - o Trying to increase the impact of rent controls will simply further reduce the supply of affordable housing in the rental market.
3. In addition, although tenants may pay less for their rent-controlled apartment - over time, the regulated landlord also provides less as measured by service support and investment.
 - o For example, in the same analysis of Los Angeles, the Rand researchers found that 3.5 percent rent reduction from controls was partially offset by a 2.2 percent deterioration in investment, for a net rent benefit of only 1.3 percent to tenants.
4. There is plenty of evidence that the response of Los Angeles landlords to long term rent controls has been to convert apartments into condominiums²⁹ or to demolish apartments and construct new condos which could then be sold.
 - o Whilst this has been of benefit to households seeking a low-cost entry into local property ownership, it has done nothing for those who were seeking affordable rents.

²⁸ See Jenkins, B (2009) Op Cit for references to these research results - we have not cited studies individually for reasons of conciseness.

²⁹ The main difference between a condo and an apartment is ownership. Condos are usually managed by a Homeowners’ Association (HOA), but each individual unit has a separate owner. You have the option to purchase a condo, as you would a house. Individual apartment units cannot be purchased. Instead, apartments typically have one owner, most likely a corporation, and are leased to individual tenants.

San Francisco

Research centred around San Francisco indicates:

1. San Francisco renters stay in their units longer now than they did in 1990.
 - o Whereas one-third of renters had been in their units for less than 2 years in 1990, only one-quarter were by 2015.
 - o Similarly, 20% of renters lived in their units for 11 or more years in 1990, while by 2015, 29% had a tenure of 10 or more years.
2. Rent-controlled homes are less and less affordable:
 - o In 1990, more than 140,000 of the rent-controlled units out of San Francisco's estimated 160,000 rent-controlled units were rented at rates that would be affordable to households earning less than 80 percent of the Bay Area's median income.
 - o By 2015, only 100,000 units were affordable to those households³⁰.

In what is seen as a seminal analysis of rent controls in San Francisco³¹, researchers found:

1. Rent control increased renters' probabilities of staying at their addresses by nearly 20%.
2. Landlords affected by rent control reduced rental housing supply by 15%.
3. Rent control offered large benefits to tenants protected by the measure but this was counterbalanced by the loss of supply of rental housing and resultant rise in market rents as supply contracts.
4. The net result of rent control was a welfare transfer to those residents in rent control accommodation. This transfer was borne by several groups, not only landlords and non-rent-controlled tenants, but also future residents of the city.

³⁰ San Francisco Planning Department. (2018). *San Francisco Housing Needs and Trends Report*. San Francisco.

³¹ Diamond, R., McQuade, T. & Qian, F. (2018) "The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco". Cambridge: National Bureau of Economic Research.

3.3 Rent controls - New York City & State

In June 2019 New York state approved a package of rent laws essentially guaranteeing rent controls within the City whilst giving the potential to extend rent controls³² across the state.

This legislation has proved to be the latest chapter in the ongoing debate about the impact of rent controls in New York City. In 2017 988,192 apartments in New York City were subject to rent regulation, including 966,441 rent-stabilized units and 21,751 rent-controlled units³³. Together, rent-stabilized and rent-controlled units make up 45 percent of the city's rental housing stock.

See the Appendix for more information on the emergence of rent controls in New York.

3.3.1 Rent controls - the evidence

There is a volume of academic evidence which underlines the negative effects of rent control policies in New York City (studies often also incorporate neighbouring New Jersey)³⁴. Example findings of these studies include:

- The benefit associated with occupying a rent-controlled unit is large, with a mean annual subsidy (a saving for those fortunate enough to occupy a rent-controlled unit) calculated at approximately 27.2% of annual income.
 - Mitigating this subsidy through rent-stabilisation rather than rent control still represents a sub-optimal allocation of resources. Often only the timing of payment changes. Renters will pay the same in the long as under rent control run but simply pay a higher rent sooner and lower rent later³⁵.
- Evidence suggests rent controls increase rents in the uncontrolled sector:
 - Were rent controls to be removed, the estimate of the resulting reduction in rents in properties not covered by rent controls have calculated to be as high as 25%.
- Studies into the distribution of the benefits of rent controls across socio-economic status, race or gender provide, at best, mixed results:

³² Rent controls here is a short hand to also include rent-stabilisation.

³³ These are largely rented to “low-income seniors who have lived in their apartments since 1971” - research, cited in: Mironova, O. (2019). *A Guide to Rent Regulation in New York City: How it works, what went wrong, and how to fix it*. New York: Community Service Society.

³⁴ The studies are not cited individually for reasons of conciseness but are again drawn from an extensive literature review in Jenkins, B. (2009) Op cit.

³⁵ Research quoted later in this paper underlines that this “up front weighting” of payment further distorts the market, crowding out groups unable to make such an initial commitment.

- Note that in the survey of studies considered here, many find, at best, only very limited benefits of rent controls on disadvantaged groups.
- Up to 21 percent of New York apartment renters live in apartments with either more or fewer rooms than they would if they were living in a “free market” city.
 - Tenants may be willing to live in a crowded apartment because they cannot find an apartment that is properly sized.
 - Tenants in rent-controlled apartments also appear to sacrifice shorter commutes for lower rents.
- The expectation of subsidized rents induces non-optimal homeownership patterns - consumers with large expected rent control benefits have lower demands for homeownership.
- In addition, the ‘average’ rent control tenant would choose to remain in his or her residence about 18 years longer than an otherwise identical tenant in an identical residence which was not rent controlled. This is due solely to these differing marginal effects.
- The inefficiency costs of rent control regulations may themselves be substantial, as they involve administrative costs on top of the misallocation of resources.

3.4 Summary of US experience

As the above case studies show, rent controls have been a source of public debate in the USA since their introduction in the 1920s.

From a political dimension it is notable that rent controls were introduced to address short term economic and political crises - once during the Second World War and then, for a second time, during the 1970s. They have however remained a feature of housing policy in many key states and/or cities in the USA.

The below summary looks at the key housing issues rent controls are supposed to address. The summary tables of US research highlight the failings of rent controls. In the US context, rent controls have been an inefficient mechanism to address both economic and social policy aims:

3.4.1 Rent controls in the USA: objectives vs evidence

(Following Table 1 in the introduction)

Affordable housing

Policy aims	Evidence	Research summary
Enable lower-income individuals and families (esp. in public sector) to gain access to housing they can afford in high-cost housing markets.	Rent control creates a limited pool of below-market units - the law creates a system where landlords are incentivised to exercise greater control over tenant selection	Rent control and rent-stabilisation policies do a poor job at targeting benefits: those most in need of housing assistance are not the beneficiaries of rent control. There are more effective ways to provide assistance to lower-income individuals and families who have trouble finding housing e.g. tax credits, vouchers, raising housing stock quality at all levels.

Better allocation of existing housing units

Policy aims	Evidence	Research summary
A rent control strategy can create and preserve mixed income neighbourhoods and can help promote racial and economic integration.	Renters who gain access to rent-controlled apartments stay in those units longer than they would in a market-rate unit, even if the unit is no longer appropriate for their household. Some low-income families do benefit from rent control, but those most in need of housing assistance are not the primary beneficiaries of rent control.	As above, rent control/rent-stabilisation is not an efficient mechanism for helping lower income households access affordable housing. Overcrowding, reduced labour mobility and most notably, reduction in turnover of tenants, all have negative, unintended impacts on the wider economy. Tenants stay in rent-controlled accommodation, even when family income rises.

Maintenance and Building Quality

Policy aims	Evidence	Research summary
Rental subsidy (rent control) could encourage tenants to contribute to maintenance and upkeep, counteracting any possible deferred maintenance on the part of the landlord.	No <i>clear</i> association documented in the empirical research between rent control and building quality - <i>it is difficult to isolate rent control as a factor.</i>	Evidence suggests <i>without appropriate incentives or legislation</i> , landlords of rent-controlled buildings will be unlikely to make improvements to buildings. Rent control in buildings of low quality clearly does not lead to improvements or investment to raise standard.

Housing availability

Policy aims	Evidence	Research summary
Rent controls ensured a supply of housing to service a wider range of demand	Rent control laws generally led to a reduction in the available supply of rental housing. Landlords were induced to convert or invest in properties which avoided rent controls - this can lead to overall rent rises in a city. The impact of rent control on new construction is less clear cut in the empirical research (in the US, new build housing benefits from rent control 'holidays').	Rent control and rent-stabilisation laws generally lead to a reduction in the available supply of rental housing. Evidence suggests that rent control impacts housing availability differently in different markets.

Rent levels

Policy aims	Evidence	Research summary
Rent control will keep rents of units in controlled buildings lower than market rents	Units subject to rent control usually have rents that are lower than market rents - this has the impact of lowering the turnover of units (see above).	Rent control policies generally lead to higher rents in the uncontrolled market, with rents up to 10-25% higher than would be expected without rent control. Landlords of rent-controlled buildings often set initial rents higher than market rents to compensate for lower future rents.

Fiscal impacts

Policy implication ³⁶	Evidence	Research summary
Rent control limits investment return, and [potentially] building quality. It can also reduce the value of the property, reducing property taxes.	Very little empirical research on the topic. Previous research highlights mixed impact of rent controls on property standards.	No positive benefit to local exchequers of rent controls. Rent controls can lead to lower tax returns from smaller landlords (national level). Rent control schemes are costly to set up, administer, police & monitor and evaluate.

Homelessness

Policy aims/implication	Evidence	Research summary
A supply of low-cost housing can address issues of homelessness. Rent control reduces the availability of housing and, therefore, can increase homelessness in a community.	No consistent relationship observed between rent control and the prevalence of homelessness. Note that homelessness is a growing feature in major conurbations. This is irrespective of whether or not that conurbation is subject to a rent control regime.	Homelessness is complex & rent control policy has an unknown effect on a community's homeless population. Evidence suggests rent controls reduces the availability of affordable housing in that community. Evidence also suggests rent controls increases the screening of tenants by landlords. Both suggest addressing homelessness requires levers other than rent control.

3.4.2 Final comments on the US experience

Other surveys of US empirical research³⁷ confirm the above analysis: Rent control and rent-stabilisation policies are poor mechanisms in addressing the need for affordable housing:

1. Some low-income families do benefit from rent control. But so too do higher-income households. Rent controls are a crude instrument to support low-income families.

³⁶ Not even the strongest advocate of rent control can conjure a fiscal-based policy reason to support rent controls - unless reducing tax intake is viewed as a specific objective.

³⁷ E.g. see Sturtevant, L (2018) Op Cit.

2. Residents of rent-controlled units move less often than residents of uncontrolled housing units - this increases property and labour market friction.
3. Although evidence on the correlation between stock conditions and rent controls is mixed, there has become a requirement for rent control to be accompanied by increasing volumes of legislation and enforcement to ensure property is at least maintained to the standard pre-rent control.
4. Rent control and rent-stabilisation laws lead to a reduction in the available supply of rental housing. Evidence shows landlords are more likely to convert rent controlled houses into apartments for sale.
5. Rent control policies generally lead to higher rents in the uncontrolled market.
6. There are significant fiscal costs associated with implementing a rent control programme. Though reductions in property tax revenue may not be as applicable in the UK, there are costs borne by tax payers, in setting up, administering and policing such a programme.

Chapter 4

The European experience

4. The European experience

4.1 Introduction

In the RLA report *Assessing the evidence on Rent Control from an International Perspective*³⁸, the report's authors are careful to point out that European experience of rent controls differ greatly. Historical context and evolution of the private rented sector in the UK is not directly comparable to that in other European cities. This is because:

1. In Europe, a much greater proportion of the population sees private renting as the 'normal' choice of tenure,
2. The nature of the housing product and alternatives to the private rented market may differ considerably.

The authors of the above RLA report note the following:

- Across Europe the general trend over the last thirty years has been towards *deregulation*, particularly with respect to initial rent determination.
 - While examples of control of between-tenancy rent increases do exist, in most countries it is often only within-tenancy rent increases that are regulated.

Research published by the European Commission in 2014³⁹ reviewed the evidence on the impact of rental regulation across Europe.

Though the study was much wider than rent controls alone, the report summarised the research on rent controls as follows:

- Rent controls appear to have a significant *destabilizing* impact on the housing market.
 - Evidence suggest rent controls increase the volatility of house prices when any factor from population, real income, real investment or real interest rates change.
- Not only do rent controls have drawbacks in terms of generating unintended consequences for housing market stability - they also have negative effects on labour mobility (for the same reasons as in the US).

³⁸ Whitehead.C. and Williams.P. (2018) Op cit.

³⁹ Cuerpo, C., Kalantaryan, S., & Pontuch, P. (2014). *Rental Market Regulation in the European Union*. Brussels: Economic and Financial Affairs.

The report makes two conclusions:

- Firstly, striking the right balance between tenant and landlord incentives can mitigate rental market inefficiencies more effectively than rent controls.
 - There are other mechanisms which can correct market failure without contributing to the housing market imbalances⁴⁰ associated with rent control regimes.
- Secondly, the impact of rent controls on supply means “social concerns such as the provision of affordable housing opportunities for young and low-income households and the prevention of homelessness situations require more targeted [welfare enhancing] policies”.
 - This conclusion reflects on the link between rent control, welfare loss, and other failings/unintended consequences of rent control.

4.2 Key themes from the European experience

The Appendix looks at rent controls and their impact across several European nations.

From this survey, several issues and themes emerge:

4.2.1 Issues of moral hazard

Information asymmetries between tenant and landlord effectively give rise to moral hazard⁴¹ - landlords can offer tenants property at ‘overpriced’ rents behind the shield of complexity.

Weaknesses in the systems of rent control accentuates what economists call the moral hazard dilemma in favour of landlords, and lead to a bad deal for consumers (tenants).

⁴⁰ Enhanced court systems, a better functioning housing market - especially where there are tenants in situ, as well as fiscal incentives - are all examples.

⁴¹ Moral hazard is a situation in which one party to an agreement fails to act in good faith because it knows the other party bears the consequences of that behaviour. It arises when both parties have incomplete information about each other.

Moral Hazard

Tenants have no instrument to force the landlord to adjust his/her offer before signing the contract. The nature of rent control policy means tenants would have to sue the landlord *after* signing a tenancy agreement - the tenant having to alert the regulator about a breach of rent control.

Landlords can claim good faith and free negotiation in court, reducing the probability of the tenant making a claim. Equally, the tenant will not wish to aggravate the landlord upon signing a contract for the property they want. Landlords are taking advantage of moral hazard.

Thus, the moral hazard issues introduced by rent controls effectively renders the policy useless.

Emergence of a tangled pricing web

The real-world complexities of rent control mean that what starts out as a simple price ceiling, ends up becoming a spider's web of additional tariffs, exceptions and exemptions.

The administration of the scheme is also a highly complex and costly mechanism. It will rely on data provided by the supply side - the side which will incur the greatest welfare losses by the introduction of rent controls. There are obvious incentives to take advantage of information asymmetries.

In Paris for example, additional tariffs for views of the Eiffel Tower, or River Seine, along with disputes such as what constitutes a balcony versus a terrace has removed the effectiveness of a rent control scheme⁴².

Thus, the conditions for complexity are created: the potential tenant has no idea whether the rent is "fair" based on the rent control laws⁴³. Only after the tenant has signed will that tenant learn about the true controlled rent. Rather than regulatory enforcement, the process then relies on court action to resolve disputes. This would be unlikely to occur in

⁴² These features have a premium in the real estate market. Not being able to reflect this in rental pricing effectively means a landlord accepting lower yields for these properties.

⁴³ Complex pricing schedules are used extensively in markets - utility companies, rail companies, airlines are all examples of companies where complex pricing is deployed. In many of these markets complex pricing is part of a strategy to maximise returns in either regulated markets, or markets with a limited number of suppliers.

every case - the tenant feels he or she has made an agreement based on the price quoted. Tenants will therefore be reluctant to pursue any action.

The result is landlords are encouraged to attempt to charge rents over and above the price ceiling level: The legal framework emboldens rather than discourages such behaviour.

Take-it-or-leave-it: a new [non] price culture

Secondly, when price is no longer being used as a clearing mechanism, it is often claimed landlords' investment in their rented properties is reduced as returns on that investment fall.

In fact, evidence on this is mixed. After all, maintaining capital values provides landlords at least some incentive to invest in property. In Germany, their rental culture means that tenants take on more responsibility for property maintenance⁴⁴.

Evidence seems to say investment is limited by market niche - for example poor-quality housing stays poor quality. But here again, there is no clear evidence that price control regimes lead to an overall increase in the stock of poor-quality homes⁴⁵.

However, under price control regimes, neither party have incentives to provide - nor acquire - *information* about property or investment in it.

Such information is incorporated into price under normal conditions. But, under rent control, a 'take it or leave it culture' develops, with tenants being less interested in attaining value for money as they are paying a sub-optimal price anyway.

In those rent regimes based on control applying only to rent increases, landlords can charge an initial rent over and above the market level. It is much harder for tenants to calculate the market price. Tenants in the same neighbourhood will pay different rents depending on how long they have been in situ. This also raises the search ('shoe leather') costs for the prospective tenant⁴⁶.

Again, this incentivises landlords to charge at (or even above) rent control prices irrespective of housing quality: they can rely on (i) information asymmetry giving rise to moral hazard, and (ii) the contraction of supply in rental stock to secure tenants.

⁴⁴ Davies, B., Snelling, C., Turner, E., & Marquardt, S. (2017). *Lessons from Germany: Tenant Power in the Rental Market*. London: Institute for Public Policy Research.

⁴⁵ Of course, *nowhere* is it claimed investment would increase in a rent-controlled area!

⁴⁶ Oust, A. (2017). The removal of rent control and its impact on search and mismatching costs: evidence from Oslo. *International Journal of Housing Policy*, 433-453.

Increased screening

As in other markets in which information asymmetries exist, rent control systems will lead to landlords screening tenants in order to overcome the problem of adverse selection.

This is a perfectly rational response: as returns on property diminish, landlords act to ensure the probability of the anticipated (diminished) income stream is as high as possible - tenant disputes and rent arrears will more quickly lower net returns.

The result will be either continued or heightened, property shortages within individual market niches.

Moral hazard and the courts - a flawed mechanism

Finally, the enforcement of rent controls relies ultimately on a court process. The national case studies had a key commonality: In none of the examples presented⁴⁷ were court systems robust enough to deal with disputes on rent controls efficiently and in a timely manner.

There is no reason to suggest England would be any different. The court system therefore can be said to exacerbate the moral hazard problem.

4.2.2 Labour market impacts

In addition to moral hazard, European studies also highlight the wider impacts on labour markets rent controls engender. Labour market failure leads to skill shortages, disincentives to work, regional imbalances and unemployment.

In Scandinavia rent controls have led to significant labour and property market distortions which could not have been anticipated when such controls were introduced.

One of the major impacts of rent controls in the larger Swedish cities for example, has been to attract large numbers of young, single person households from other areas of the country.

In Sweden academic research⁴⁸ has found residents of other areas are drawn to cities such as Stockholm and Malmo irrespective of skills and labour demand. This accentuates

⁴⁷ The Appendix includes international studies from the OECD, as well as several academic research studies, which have an even wider scope than Northern or Western Europe.

⁴⁸ Wilhelmsson, M., Andersson, R., & Klingborg, K. (2011). Rent control and vacancies in Sweden. *International Journal of Housing Markets and Analysis*, 4(2), 105-129.

housing shortages, even leading to the emergence of a ‘black market’ for housing contracts⁴⁹.

In addition, the study quoted on the previous page found housing markets outside the major Swedish cities are also being distorted by the application of rent controls. Rents away from the country’s major cities can often be *above market rates* as a result of such rent controls.

This has meant that rent controls have both (i) exacerbated housing shortages and (ii) led to labour being distributed sub-optimally. Thus, a loop of housing shortage; rent control extension; attraction of sub-optimal households/labour; housing shortage has been established.

As the IMF⁵⁰ recognise, labour market distortions and frictions are restricting the growth potential of the nation’s economy. Such a loop does nothing for either the local (city) economy nor those economies geographically distant who are finding it difficult to attract labour. There are clear implications here for the UK economy.

4.2.3 Rent controls in Europe: objectives vs evidence

(Following Table 1 in the introduction)

The following set of tables present a brief summary of the European-focused research outlined in the Appendix. As with the US experience, the summary tables highlight the ineffectiveness of rent control as a policy instrument:

⁴⁹ Crouch, D. (2015, August 19). *Pitfalls of rent restraints: why Stockholm's model has failed many*. Retrieved from The Guardian: <https://www.theguardian.com/world/2015/aug/19/why-stockholm-housing-rules-rent-control-flat>.

⁵⁰ See recommendations: Executive Board of the International Monetary Fund. (2019). *2019 Article IV Consultation*. Washington D.C.: International Monetary Fund.

Affordable housing

Policy aims	Evidence	Research summary
Enable lower-income individuals and families (esp. in public sector) to gain access to housing they can afford in high-cost housing markets.	<p>Major cities across Europe are grappling with the impact of rising rents, whether or not rent controls are in place.</p> <p>In Berlin rent controls preceded dramatic increases in rents.</p> <p>Pan-European studies published by the European Commission suggest affordable housing for key groups is reduced under rent control regimes.</p>	Complex enforcement systems give rise to moral hazard and, as a result opportunistic behaviour on the part of landlords.

Better allocation of existing housing units

Policy aims	Evidence	Research summary
A rent control strategy can create and preserve mixed income neighbourhoods and can help promote racial and economic integration.	<p>Rent controls have attracted young single person households into cities. This leads to pressure on housing stock.</p> <p>Rent controls in Sweden has meant rents outside of the major cities are now above market levels - leading to increased vacancy rates.</p> <p>Up-front costs in rent-stabilisation regimes works against the creation of mixed communities.</p>	<p>Evidence in Europe, as in the USA indicates, tenants stay in rent-controlled accommodation, even when family income rises.</p> <p>The overall result is a distorted housing market.</p>

Maintenance and Building Quality

Policy aims	Evidence	Research summary
Rental subsidy (rent control) could encourage tenants to contribute to maintenance and upkeep, counteracting any possible deferred maintenance on the part of the landlord.	<p>In Germany there is more emphasis on tenant-led maintenance. Note the tenant-landlord contract is backed by tax incentives.</p>	<p>(i) Moral hazard & (ii) increased search costs under rent control may reduce incentives for landlord to invest in their property.</p> <p>PRS-contracts require backing through tax policy - encouraging investment.</p>

Housing availability

Policy aims	Evidence	Research summary
Rent controls ensured a supply of housing to service a wider range of demand.	<p>Rent control laws have generally led to a reduction in the available supply of rental housing.</p> <p>In Italy, the fall in supply of homes in the PRS led to reform of rent controls.</p> <p>The impact of rent control on new construction is less clear cut in the empirical research (in the US, new build housing benefits from rent control ‘holidays’).</p>	<p>As with the US, rent control laws lead to a reduction in the available supply of rental housing.</p> <p>Scandinavia (Sweden) is a clear example of where, even with time-limited rent control exemptions on new build, rent controls have limited incentives to build housing property.</p>

Rent levels

Policy aims	Evidence	Research summary
Rent control will keep rents of units in controlled buildings lower than market rents.	<p>In Paris, rent control exemptions and allowances (e.g. for views and amenities) means that many apartments exceed rent control rates.</p> <p>In Norway abolition of rent controls did not lead to an increase in private rents indicating rents were at market levels anyway.</p> <p>In Sweden, rent levels outside of the major conurbations are now ABOVE market rents as a result of rent controls.</p>	<p>Moral hazard, coupled with political lobbying have meant that rent levels across European major cities.</p> <p>The failure of rent controls to control rent has led to abandonment of the policy in some European countries but further tightening in others.</p>

Fiscal impacts

Policy implication	Evidence	Research summary
Rent control limits investment return, and [potentially] building quality. It can also reduce the value of the property, reducing property taxes.	No clear evidence on changes to exchequer of rent control. Note rent control regimes are costly to set up and run - local intelligence is significant. Administration is costly. Rent control bodies may try and extend influence. Abolition and dismantling of rent controls can also be costly.	No positive benefit to local exchequers of rent controls.

Homelessness

Policy aims/implication	Evidence	Research summary
A supply of low-cost housing can address issues of homelessness. Rent control reduces the availability of housing and, therefore, can increase homelessness in a community.	Rent controls reduces the supply of housing, placing additional pressures on housing stock. PLUS Lower turnover of property covered by rent control and the increased potential to increase screening of tenants as income streams fall. Homelessness is rising across Europe irrespective of the presence of rent control regimes. Implication is that homelessness is not being addressed by rent controls.	The reasons for homelessness are complex. Addressing homelessness cannot be achieved through rent control alone.

4.2.4 Final comments on the European experience

As a summary:

1. A common feature of rent controls across Europe has been an inability to both retain regulatory flexibility AND achieve the stated objectives of rent control - the key objective being to keep prices down. Rather than pleasing all stakeholders, the effect of rent controls has been to satisfy none:

- In cities such as Berlin and Paris, the attempt to calculate some form of ‘fair rent’ has resulted in rent controls becoming an administrative tangle⁵¹.
 - In Berlin, attempted price brakes have had little impact on rent price growth (see Appendix for more detail).
2. The failings of rent control regimes places landlords in a more powerful market position: not only will the supply of housing - and choice (competition) - be diminished, but remaining landlords can also take advantage of the system to circumvent the objectives of the rent regime.
 3. Note that court-based oversight and enforcement, even where there is a regulatory authority responsible for rent control governance, is typically not strong enough to address these issues.
 4. As in the USA, rent controls have significant impacts on labour mobility. The nature of the impact can change from country to country but, are uniformly negative.
 5. Typically, the impacts across Europe are not dissimilar to that of the US. Those living in rent-controlled areas opt to remain there, creating rigidities and distortions in the labour market.
 - In Scandinavia, rent control has impacted upon major conurbations as well as regions in which rent controls should have no impact at all.
 6. Finally, at some point in the future, the termination of rent controls will need to be considered. Removing rent controls brings with it a restructuring of the housing market⁵². Experience in Europe indicates cessation of rent controls cannot be thought of as simply turning off a tap.

⁵¹ In Paris, the implementation of the policy has been subject to lengthy, and costly, court and legislative delays.

⁵² Of course, there will also be job losses and associated costs of dissolving the rent control administration.

Chapter 5

The economics of rent control

5.The economics of rent control

5.1 Introduction

This section seeks to place the above discussion in an economic context. There are two approaches to doing so. Firstly, the impact of the policy from a welfare perspective - this has been the cornerstone of empirical (academic) research, attracting academic attention and debate.

Of relevance to policy makers is how the results of the econometric analysis translate into public policy. This will enable a robust judgment (evaluation) of whether rent controls will translate into good value for money for a city's and nation's residents. This will be considered in the second part of this section.

5.2 Rent controls & welfare economics

Welfare economics - essentially assessing the actual operation of a specific market against a perfectly competitive market benchmark, has long been used to examine rent control and highlight the reasons for resulting misallocation of resources⁵³.

Key to understanding the failure of rent controls are (i) the concept of moral hazard and (ii) an understanding of the wider impacts rent controls have on the labour market.

This is the conventional, academic approach to evaluating rent controls. This paper has discussed research findings made in this context in previous sections - as well as in the Appendix.

5.3 Rent controls and public policy

More practically, the impact of rent control can be seen from a public policy perspective.

Policy impact is concerned with the outcomes and changes brought about by policy intervention. This approach highlights the substantial limitations inherent in a rent control policy.

It is not the purpose here to go into detail about the type of evaluation tools which would be used to estimate policy impact. However, evaluation-based analysis shows why one can reasonably expect impact-based evaluation would highlight the failings of rent controls.

⁵³ Misallocated resources are called deadweight - and an excellent on-line (You Tube) primer in the context of rent controls can be found here: <https://bit.ly/2YDZg6i>.

5.3.1 Evaluation of public policy & intervention

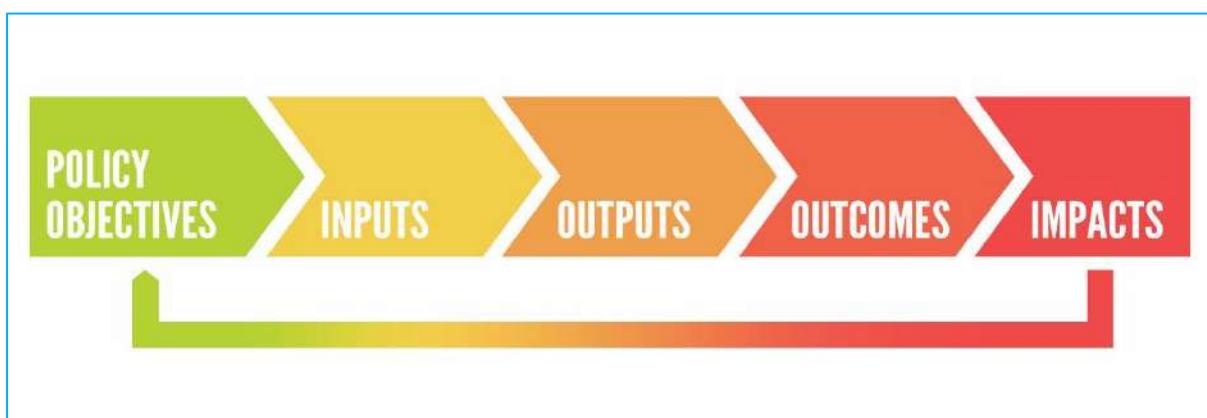
Government guidance on evaluation is set out in the so-called Magenta Book⁵⁴. The Magenta Book sets out detailed guidelines on how policies and projects should be assessed and reviewed⁵⁵ under a ‘Theory of Change’ approach.

In fact, the Magenta Book (and Green Book) emphasise the need to integrate impact-based evaluation into policy design. At UK Government level, difficulties in defining clear policy evaluation has led to numerous proposed interventions falling by the wayside. Rent control will inevitably face this difficulty.

5.3.2 The logic model - anticipated and unanticipated impacts

Core to the Theory of Change approach is the logic model. The logic model (or logic chain as it is also commonly called) sets out the underlying theory which links policy objectives to the intended impacts.

Figure 1: A generic logic model



The logic chain sets out the real-world path of how policy is implemented, and its effects measured: however not all policy effects are intended. Unintended effects could be either harmful or beneficial. Unintended effects might be generated amongst those directly targeted by an intervention, or for others indirectly affected by the intervention.

Unanticipated effects either strengthen, or where they are negative, weaken the chain linking the above elements in the logic model. Either way, they generate uncertainty and a lack of clarity about what the policy benefits are.

⁵⁴ HM Treasury. (2011). *The Magenta Book: Guidance for Evaluation*. London: HM Treasury.

⁵⁵ Confusingly, evaluations which follow the processes set out in the Magenta Book are often referred to as ‘Green Book evaluations’, as the Green Book contextualises evaluation in the broader policy cycle. See: HM Treasury. (2018). *The Green Book: Central Government Guidance on Appraisal and Evaluation*. London: HM Treasury.

There are four main types of unanticipated effects in the Theory of Change model and these are summarised below in the context of rent control policies. It draws on the evidence presented above.

It is the view of the authors and RLA that the unintended policy impacts of rent control are overwhelmingly negative. The reasons for drawing this conclusion are also set out below.

5.3.3 Displacement

Policy displacement is where the positive outcomes promoted by policy are offset by a negative outcome of the same policy elsewhere. The example given in the Magenta Book is the displacement of crime from one area, where a crime reduction policy is being implemented, to a neighbouring area where there is no similar initiative.

Effects on rents

In the context of the discussion here, the US experience indicates that rent control policies generally lead to higher rents in the uncontrolled market, with rents 10-25% higher than would be expected without rent control. This is classic displacement: a policy reducing the well-being of residents of uncontrolled units, who have to pay higher rents than they would under a market-based rent regime.

Occupants of rent controlled units

Secondly, experience in Europe and the USA suggests the take up of housing units by single person households, incentivised because of rent controls, displace the intended beneficiaries of rent control policies. Continued crowding out of housing, sustains rather than addresses housing shortages. Rent controls do nothing to promote mixed, diverse communities - if anything evidence suggests the reverse is true.

Displacement from alternative models

In addition, evidence presented in both the USA and Europe suggests attempts to moderate a rent control policy by allowing the market to decide initial rents and then controlling the rate of increase also leads to displacement.

Initial rent for these rent stabilised units often exceeds market rents, reducing affordability for target groups. Whilst the tenant may pay no more in the long run, the front-loaded nature of the payment structure effectively displaces certain groups from rent controlled areas.

This observation - which empirical studies have often picked up on (see tables above) - renders rent-stabilisation controls as effectively useless from the perspective of recent or frequent movers (which vulnerable groups are more likely to be).

5.3.4 Substitution

Whereby the effects of an intervention on an individual, group or area are only realised at the expense of other individuals, groups or areas. Examples of substitution would include an employer appointing a jobless person through a government scheme, rather than a regular worker to take advantage of a job subsidy.

Substitution reduces the effectiveness of rent controls in the following ways:

Labour market rigidities

The concept of substitution explains the decision of labour to stay in rent-controlled accommodation when, either because of job, labour suitability or family circumstances, that labour would be better moving to a different location.

In this case labour substitutes an optimum outcome in exchange for cheaper housing. Labour market rigidities are thus introduced to the economy. Their occupation of scarce housing units also prevents labour moving *into* a rent-controlled area, exacerbating labour shortages and placing pressure on travel infrastructure.

Effects on wages

Secondly, there is uncertainty on how rent controls impact on wages. In larger cities wages and non-pecuniary benefits often reflect the higher housing costs of living in these cities.

The presence of rent controls may be used as a weapon against labour in wage negotiations. This is to the detriment of those in similar jobs but not living in rent-controlled areas - adding to welfare losses.

Distortions in property markets

In the US especially, there is much evidence that landlords respond to rent controls by substituting future rental streams for capital gain through property sales. Alternatively, landlords can opt to convert property such that it falls outside of rent control regulation.

Offering property on short term lets (via Airbnb for example) is another form of substitution. Though a different strategic action, it has the same effect - reducing the supply of housing and exacerbating, rather than solving, housing shortages.

Policy substitution

Finally, and quite possibly - from both the evidence and from a policy perspective - most significantly: rent control as a policy runs the risk of substituting for social housing and well-planned urban areas as the key policy instrument to relieve housing shortages.

No matter how complex a rent control scheme becomes, it remains a quick, cheap, attractive option compared to meaningful investment in social housing, especially at the start-up phase before the scheme's complexities begin to be realised.

5.3.5 Leakage (& policy creep)

These are defined as the policy benefits which accrue to those who are outside the target area or group - for example jobs created within the boundary of a regeneration scheme being taken by those who live outside those boundaries.

Housing unlike labour, is fixed - and so one might expect there to be limited leakage effects. However, 'Policy Creep' very much falls into the leakage category - the extension of policy beyond the boundaries of that initially expected. In Germany for example rent controls now apply in over 300 locations⁵⁶.

As rent control policy extends into territories where the benefit will be increasingly marginal, so benefits decrease and disbenefits increase.

In the long term, planning expertise is replaced by administrators and arbitrators, and the perverse impacts of rent control policy increase. This is seen for example in Sweden where analysis suggests rent controls means rents in some locations are not below but above market levels.

5.3.6 Deadweight (and the counterfactual)

In welfare economics, deadweight is the welfare loss from sub-optimal resource allocation. In the Theory of Change model, deadweight is calculated with respect to the "do nothing" base case.

To calculate the net impact of a policy, additionality over and above a baseline has to be calculated.

This is done in reference to the so-called counterfactual. Evaluators will often attempt to develop a counterfactual case through comparison with a control area/sample which has not been targeted with a specific policy.

In terms of a policy such as rent control, this is, in practical terms, very difficult to do. After all, which area of the UK has a property market similar to that of London?

⁵⁶ See Appendix for further details

Use of the type of complex modelling which has been used in many of the academic studies quoted above also has limitations - it often relies on panel data accumulated over many years⁵⁷, and can often produce policy recommendations which have limited meaning at a local level.

It is therefore a complex task for a reasonable, time-based assessment of policy impact to take place. This makes it difficult to be able to justify on-going public outlay to fund such schemes.

This is not just a technical point - devising, implementing and policing rent controls requires significant public investment. It is necessary for such investment to demonstrate value for money and a positive net benefit through a robust evaluation process. It can easily be argued that the absence of such critical analysis has led to some of the failures of rent control identified in this paper.

It may also explain why the policy response to the failure of rent controls has been simply to 'double down' and introduce increasingly extreme forms of the policy.

The absence of a proper evaluation may also account for sustaining rent controls beyond (in the US, often many years beyond) its actual usefulness: policy is more suspect to regulatory capture without proper, evidence-based oversight.

⁵⁷ For example data used in: Diamond, R., McQuade , T., & Qian, F. (2018). *The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco*. National Bureau of Economic Research.

Chapter 6

Summary

6. Summary

This paper has looked at the experience of rent controls in Europe and the USA. It has presented the impact of such policies and practical reasons why rent control has proved to be of limited value in addressing housing shortages in key locations.

Micro-business concerns

From the landlords' perspective as a small business owner, the biggest concerns about regulation⁵⁸ have been 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:
 - There has been growing pressure to tighten rent controls in several countries/regions/cities where there has been strong housing market pressure.

Unanticipated impacts

It has been pointed out that the unanticipated effects of introducing such policies - always without an adequate court system to resolve disputes - outweigh the benefits.

These unanticipated impacts stem from:

- The contractual, based on the unfair advantages landlords will gain as result of moral hazard.
- The institutional, as administration and regulation of schemes expand and become more marginal, before buckling under their own weight.
- The wider economic impacts of resulting labour market rigidities.
- Changing behaviour on both the demand and supply side of the PRS market in response to policy.

⁵⁸ As identified by Whitehead & Williams (2018) op cit.

- The inability of cities to properly address the real causes of housing shortages: rent control is incorrectly seen as a panacea at a time when it is becoming increasingly commonplace for public authorities to find it difficult to plan, and execute, successful urban communities.
 - The harder task of developing a suitable planning framework and housing mix in which the public as well as the private sector plays a part should be the focus of policy.
- Once introduced, there is an inability to properly evaluate and assess the rent control policy. This leaves the door ajar for lobby groups to have undue influence on policy - and leaves rent controls open to regulatory capture.

Labour will remain in rent-controlled areas

There is a body of research which highlights some of the drawbacks of rent controls on the smooth functioning of the labour market. Sustained rent control periods mean that those most in need of housing assistance to overcome labour market barriers are not necessarily the beneficiaries of rent control.

Renters who gain access to rent-controlled apartments stay in those units longer than they would in a market-rate unit, even if that unit is no longer appropriate for themselves or their household.

Evidence presented in this paper suggests the desire to remain in a rent-controlled housing unit can impact upon job and career decisions, commuting and travel patterns and income streams. These all have negative effects on a functioning labour market

Rent controls mean families do not have suitable accommodation

For those living in a rent-controlled housing unit, evidence indicates that the desire to stay has implication for the family unit.

As families grow, they are more likely to stay in a rent-controlled housing unit, even though that unit may become less suitable.

Even if family incomes rise, the opportunity-cost of moving home out of a rent-controlled unit, is too high. The decision they take represents a market distortion rather than rational decision making. Their decision has implications for the groups rent controls are supposed to target and support.

The removal of rent controls

At some point rent controls will face dismantling be that for economic, legal or political reasons.

The Scandinavian experience shows that deregulation of a regulated PRS can lead to further costs⁵⁹, these include the redeployment or redundancy of administrators as the apparatus of regulation is dismantled.

This simply exacerbates the policy and welfare costs incurred while rent controls are in operation. Once the abolition of rent controls raises demand to build housing, the construction sector may need to turn to migrant labour to meet labour shortages. This itself may also have profound implications for the economy.

It is noteworthy that where rent controls have been removed, public policy is driven by recognition of the need to provide a range of locally-beneficial incentives - Norway and Italy (at least where there has been deregulation of rent controls) have been good cases in point. The debate does not shift back to re-introducing the blunt instrument of rent control.

The politics of rent controls

Rent control is a highly politicised policy. Lobby groups are strong and reaching consensus is difficult. Information on which to take decisions can be costly to collect. The commissioning of independent research is also expensive and may require long time frames. Independent research is also open to challenge.

Attempts to satisfy all stakeholders can lead to an administrative muddle in which landlords can take advantage of moral hazard and push the envelope of regulation. Court reform is beyond the scope of local rent control regimes. But without such reform, incentives to bend rent controls exist.

Evaluation needs to be robust, and given the complexities outlined in this paper, is itself a highly complex task.

A final observation: Are “High Rents” to blame for distortions in the PRS?

As a final point: the RLA as part of its research function collects data on economic growth, price change and wages change, as well as public sector house-building⁶⁰. The evidence collected indicates that:

⁵⁹ For example, the redeployment or redundancy of administrators as the apparatus of regulation is dismantled.

⁶⁰ See <https://research.rla.org.uk/pearl-observatory/> for further research posts and data.

1. In the UK, as elsewhere, public sector housing has not kept pace with demand.
2. Price change in the Private Rented Sector has for the last few years, lagged other inflation indices. This suggests the real cost of rented property is presently falling. This itself means the need for rent controls at present is not as strong as, say, in 2015⁶¹.
3. Any gap between housing costs and affordability in the Private Rented Sector seems to stem from a low (even stagnant) growth in real wages.

This evidence seems to suggest that for workers objecting to housing availability and affordability, the target of their anger should not be landlords. Instead current levels of housing costs are a product of planning authorities and employers. These two groups have, respectively, restricted housing supply and kept wages below the level necessary to keep pace with living costs.

These factors have become a common feature of western democracies, whether rent controls are in place or not.

⁶¹ Clay, N. (2019, September 19). *PRS Recovery: Still Sustained... Still Weak*. Retrieved from RLA PEARL: <https://research.rla.org.uk/research-blog/prs-recovery-still-sustained-still-weak/>.

Chapter 7

Policy recommendations

7. Policy recommendations

The above analysis highlights the weakness of rent controls as a method of raising levels of affordability. Across Western Europe and the US rent controls have not had the positive effect claimed for them. There is no major city in Western Europe or the USA where it can be demonstrated rent controls have been a consistent factor in making housing more affordable. At the time of writing, the Mayor of London is campaigning to be given the powers necessary to introduce some form of rent control.

The Mayor's blueprint report⁶² - though it also contains some ideas to be welcomed⁶³ - has an approach to rent controls which:

1. Risks reducing the supply of available homes, further inflating prices;
2. Reduces incentives for landlords to invest in their properties;
3. Creates a system of oversight which will be expensive to run; subject to sectional interests and open to abuse.

The presence of localised rent controls in London is also likely, a to have a negative impact on the UK's regional economies. The effect of rent control will be to increase the quantity of labour drawn to London at the expense of the regions. For a city in which the supply of available homes to rent would be falling as a result of rent controls, the impact on housing costs would be significant.

This paper has presented evidence from across Europe and the USA underlining all the above points.

In our view the Mayor should be challenging Whitehall to support a vision for the capital in which:

- Social housing and creating well-planned communities return to the forefront of policy.
- Incentives are created for both landlord and tenant to develop stronger relationships of trust and respect and so, voluntarily, slow down the growth in rents.

⁶² GLA (2019). Reforming Private Renting: The Mayor of London's Blueprint. London: Greater London Authority.

⁶³ For example, the ideas around an employer-led scheme for interest-free tenancy deposit loans to renters are worth further consideration.

Appendix & Bibliography

8.Appendix

Rent controls - USA

In the United States, rent protections started during the First World War with ‘Fair Rent’ committees in 82 cities across the country. These committees comprised landlords, tenants, unions and the general public. Whilst committees lacked legal power to impose restrictions, they were able to arbitrate tenant-landlord conflicts and threaten landlords with a range of sanctions.

Between the wars, rent controls in New York City and Washington DC were strengthened in response to a perceived housing crisis and the threat of civil unrest.

The economic impact of war, followed by the Great Depression, and then the outbreak of the Second World War meant that rent controls - which had been anticipated as a short-term policy fix - were sustained in these two cities.

In addition, the Second World War saw the most widespread imposition of rent control in the history of the United States. Roughly 80 percent of the 1940 rental housing stock lay in areas that the federal government put under rent control between 1941 and 1946.

The mechanism which facilitated the spread of rent controls was the Emergency Price Control Act of 1942, establishing the Office of Price Administration (OPA) whose geographic remit spread rapidly across the United States.

Price control legislation came to an end in the late 1940s. In a few states, rather than dismantle rent controls, the policy was continued for a further decade.

In the 1970s however, rent control ordinances were passed in Boston, Washington, D.C., Los Angeles, and San Francisco, as well as in a host of towns in California, Connecticut, Massachusetts, New Jersey, and New York state as inflation rose, and a new wave of tenant militancy swept the country.

Second generation rent controls introduced at this time differed from the war-time rent freezes or rent control, allowing for capped rent increases - and this system remains at the core of many rent control regimes in the USA.

Rent controls – California

In the 1940s, hundreds of thousands of workers moved to Los Angeles to fill positions in the new wartime economy, overrunning the available housing inventory.

In the late 1970s, owing to a combination of high inflation and an interlocking rise in home values, property taxes and rental rates, Los Angeles experienced tenant protests and the introduction of rent-stabilisation policies, initially for just one year, starting in May 1979⁶⁴.

In San Francisco, rent control operates for all renters who reside in buildings constructed before June 1979. This means rent can only increase by a governmentally mandated percentage each year⁶⁵.

As a significant majority of San Francisco's households (65%) rent their place of residence, and more than 60 percent of renters live in housing that is subject to the City's rent control ordinance, more than 39 percent of the entire SF population lives in rent-controlled housing⁶⁶.

Rent controls – New York City

The City has been the focus of both political debate and academic research in respect to rent controls for a number of reasons: the continued presence of rent controls since the 1920s; the transition from the emphasis on rent-control to rent-stabilisation; the role of housing policy in a dynamic, open, changing economy and finally, the iconic status of the City itself.

Rent control in New York City emerged from the 'Fair Rent' committees set up post-World War I. The modern era of rent regulation in New York State began during the Second World War when the federal government introduced nationwide price controls. Even though federal price controls were largely gone by the 1950s, firstly New York State, and then in 1962 New York City carried on with a system of rent controls.

From the 1970s, housing policy and rent controls lurched and became increasingly politicised. A Rent Guidelines Board now sets yearly increases in rents. Studies on rent control and rent-stabilisation in New York City consistently demonstrate that the New York approach to rent-stabilisation policies have been associated with reduced residential

⁶⁴ The Rent Stabilization Ordinance (RSO) has been in existence ever since - and has been amended over 60 times between its inception in 1979 and December 2017.

⁶⁵ There are exemptions, for example where there has been investment in a property, but these are capped and carefully monitored.

⁶⁶ San Francisco Planning Department. (2018). *San Francisco Housing Needs and Trends Report*. San Francisco.

mobility and a significant “mismatch” between tenants’ housing needs and the characteristics of the units.

Rent Controls in Britain – A historical perspective

Shelter (2018)⁶⁷ states “*all* (our emphasis) European jurisdictions have, at one time or another, intervened to control the rents charged by private landlords via a range of different rent regulation policies.”

The same report states that rent freezes, or rent capping became standard practice “right across Europe”, arising out of public expenditure constraints imposed by the First World War.

In Britain’s case, rent restrictions were introduced in 1915 as a war time measure⁶⁸, to help control wages and thus the cost of munitions manufacture.

Rent freezes in Britain persisted throughout the inter-war period because of several factors. These included continued public expenditure constraints, which were the result of the vast public debt incurred during the war and the major economic depression of the 1930s.

This hard form of first-generation rent control persisted and lingered long after the conclusion of the Second World War.

The application of rent controls coincided with a decline in the private rented sector. The sector had made up nine-tenths of the housing stock in 1915 but had reduced to one-tenth by 1991⁶⁹. The private rented sector began to grow again towards the end of the 20th Century.

By 2018 somewhere between 19% and 20% of UK households lived in privately rented accommodation. The PRS is presently the second largest tenure in the UK after owner-occupation.

⁶⁷ Robertson, D., & Young, G. (2018). *An Evaluation of Rent Regulation Measures within Scotland's Private Rented Sector*. Edinburgh: Shelter Scotland.

⁶⁸ The Increase of Rent and Mortgage Interest (War Restrictions) Act 1915 introduced rent control whereby rents were restricted to their August 1914 level. Note that in the US World War I rent controls were a product of local Fair Rent committees. National legislation in the US came with the Emergency Price Control Act of 1942.

⁶⁹ Wilson, W. (2017). *A short history of rent control*. London: House of Commons Library.

Rent controls - Germany

The historical level of private renting in Germany is difficult to establish due to reunification and the close relationship between social and private renting⁷⁰. But, in summary:

- In 2015, a new rent regime known as the *Mietpreisbremse* (“rental price brake”) came into effect.
- The policy applies in certain German property hotspots - referred to as ‘tight housing markets’.
- The policy limits rents on new lease agreements for previously let properties.
- Rents on new leases “must not exceed the local comparative rent by more than 10 per cent at the start of the lease agreement.”
- Rents could be increased in these hot-spots during a tenancy – but only within a maximum of 15% across a three-year period.
- The hotspots were initially the cities of Berlin, Munich and Düsseldorf, but the brake now applies in more than 300 cities and municipalities, in which around 25% of the German population reside.⁷¹

Between 2015 and 2017, rents in central Berlin shot up by almost 10%. Before the introduction of the rent brake they had been rising by just 1-2% each year⁷².

However, in Berlin, the response has been not to revert back to the pre-*Mietpreisbremse* market era. Instead the city’s government announced (June 2019) they were to impose a five-year price freeze. This freeze has been a political response to rising tenant disquiet over rent levels they see as “soaring”⁷³.

Just to emphasise - these rent increases which has triggered this doubling down of policy have been experienced under a rent-control regime!

⁷⁰ Kholodilin, K. A., Mense, A., & Michelsen, C. (2016). *Market Break or Simple Fake? Empirics on the Causal Effects of Rent Controls in Germany*. Berlin: German Institute for Economic Research.

⁷¹ This ‘policy creep’ has implications for the UK - it would be easy to see any London-focused scheme drawing political support in other cities.

⁷² The Economist Explains. (2018, June 15th). *Why Germany’s rent brake has failed*. Retrieved from The Economist: <https://www.economist.com/the-economist-explains/2018/06/15/why-germanys-rent-brake-has-failed>.

⁷³ See for example The Independent (2019, June 18). *Berlin approves five-year rent freeze to combat rising housing costs*. Retrieved from <https://www.independent.co.uk/news/world/europe/berlin-rent-freeze-cap-five-year-housing-gentrification-germany-a8964436.html>.

A detailed review of the rent regime⁷⁴ in 2016 found that, because of the complex system which has emerged on calculating ‘fair rents’, the policy has become unenforceable without further legislation to support tenant rights.

The study authors concluded:

“Contrary to the expectations of the policy makers, the rental brake has, at best, no impact in the short run. At worst, it even accelerates rent increases both in municipalities subject to the rental brake and in neighbouring areas.”

A more recent study, undertaken by the same research institute⁷⁵ found the following:

- The increase in rents since the introduction of the rental price brake in June 2015 has not slowed down appreciably overall.
- The rent brake can have an effect but only if a region has experienced sustained high levels of rental increases:
 - The authors indicate contract rents in a region have to rise on average by at least 3.9 per cent per annum in each of the previous four years for the price brake to have any noticeable impact.

The authors conclude:

- The policy is effective in benefitting only small parts of the population.
- Rents for newly built apartments that do not fall under the rental price brake rise much faster than they used to.
- The evidence highlights that the rental price brake as the sole solution to the housing market problem is somewhat of a fallacy⁷⁶.

The response of the city authorities has been to introduce more legislation and rent control in response to the failure of legislation and rent control. Layering and entangling policy initiatives is neither a strategy nor a solution to any public policy issue.

Finally, a report published by the IPPR⁷⁷ points out that whilst the German system does give strong tenancy rights it also gives tenants additional responsibilities for property maintenance and investment.

⁷⁴ Kholodilin, K. A., Mense, A., & Michelsen, C. (2016). *Market Break or Simple Fake? Empirics on the Causal Effects of Rent Controls in Germany*. Berlin: German Institute for Economic Research.

⁷⁵ See <https://bit.ly/2HjUWTX> for more information on the above report.

⁷⁶ Note that this study focused on demand and price elasticities - did not set out to consider the other effects of price-based regulation on, for example, beneficiaries, impact on social and labour mobility, property investment.

⁷⁷Davies, B., Snelling, C., Turner, E., & Marquardt, S. (2017). *Lessons from Germany: Tenant Power in the Rental Market*. London: Institute for Public Policy Research.

Whilst landlords' own investment is tax deductible, tenants are expected to return the property as they found it - a newly decorated flat for example will have to be redecorated by tenants prior to vacating the property.

Rent controls – France (Paris)

Paris first imposed limits on how much landlords could charge tenants for rent in 2015. This was in an effort to tackle the rapidly rising cost of housing.

In 2017, a judge overturned the initiative on the grounds such a policy could not be applied in Paris alone, but should be applied throughout the wider region.

It was necessary for the state to pass new legislation in April 2019 to make city rent control possible. This new legislation (known as the Elan law), grants cities the right to impose rent control.

The new rent control regulations in Paris⁷⁸ are set to operate largely as before:

- Limits will only apply to new leases (first-time rentals or new tenants).
- The price of rent will be calculated in euros per square metre, based on a property's location⁷⁹.
- Though, at the time of drafting this report, details of the new legislation had yet to be announced, the previous law was based on variance from a 'reference rent'⁸⁰.
- Landlords will likely be, as under the previous law, able to charge more than the mandated amount for special amenities, such as an elevator or views of the Eiffel Tower.

The initial scheme was complex to implement and understand. In order to set reference rental amounts, the city of Paris was divided into 80 districts. Additional reference categories included property size and date of construction of the building.

Within months of the initial 2015 scheme, the new legislation met with an appeal filed by property owners - which led to the 2017 ruling.

⁷⁸ The policy was also applied in Lille.

⁷⁹ A studio in the affluent 6th arrondissement (district), for example, will cost more per square metre than an apartment of the same size in the 20th arrondissement, which is largely working class.

⁸⁰ Rentals for new leases or rent renewals could not exceed a determined reference rent level particular to that property type and location by 20% nor be inferior to it by more than 30%.

There were also reported failings in applying the law, which highlighted exceptions and discrepancies during the scheme's short lifespan:

- Annual upgrading of the reference rents was costly, disputable and political⁸¹.
 - A sample of 28,000 property ads indicated as many as 46% exceeded maximum rents.
 - There are clear anomalies in pricing at artificial boundaries e.g. price differences either side of the same road.
- In Paris many apartments faced dispute over which were two-bedroom and which were three-bedroom.
- Minimum as well as maximum rent capping risked clogging dispute courts.
- Information asymmetries/moral hazard again impeded the working of the system - there was an absence of clear, agreed, tariffs on so-called 'special amenities'.
- This was coupled to the city's arbitration mechanisms which were cumbersome and placed the onus on tenants to raise disputes.
 - It was noted that most excessive rents applied to studios and one-bedroom apartments, often rented by students or young people with neither the means nor sufficient knowledge to take matters to court.

Rent controls - Italy

Italy reflects the traditional features of Southern European housing systems, it has a high rate of home ownership and low level of rents. Italy is said to have some of the most comprehensive PRS legislation in Western Europe⁸².

As in the UK, homes are still the favourite form of investment in Italy, and represent the main asset handed down to heirs by Italian families. Home ownership has been significantly increased by the continuous sale of public dwellings at favourable prices, not unlike Right-to-Buy in the UK. Then, from end of the 1990s the increase in levels of homeownership has been due to the success of housing loans and financial deregulation.

⁸¹ In Lille landlords and estate agents collectively refused to provide the regulatory body the data required to support regulation. This again shows how information asymmetries can distort the successful implementation of rent control regulation.

⁸² Bianchi, R. (2017). *Italian residential tenancies: history and perspectives*. Revista Electrónica de Direito., 3(4), 1-31.

The rented sector now accounts for about 20% of the housing stock occupied as a main residence. Social housing has a marginal role, comprising about one fifth of rented dwellings.

The long-standing nature of the comprehensive regulation Italy has had makes it difficult to gauge policy impact⁸³. However, the following points can be made⁸⁴ which undermine the case for an Italian-style regulatory system - which evolved from a desire to provide stability:

- During the years from 1998 to 2008, market rents increased by 57% compared to a growth in household income of 31%.
- In 2014 about 34% of tenant households spent more than 30% of their income on rent, a sharp increase compared to 16% in the 1990s.
- There was a marked increase (+62%) in eviction measures undertaken between 2006 and 2014.

One study of Italy's Private Rented Sector⁸⁵ notes that the private supply of rental homes fell dramatically after a law regulating rent levels was introduced in 1978. The rent control regime, largely ineffective in both protecting tenants and in allowing reasonable returns to landlords, was progressively dismantled during the 1990s, when the rental market had already collapsed.

In response to a changing environment in the PRS post-financial crash, alternative policies have prioritised measures to support the provision of low-rent housing. As such, housing in Italy is increasingly regulated *not* by rent controls and tenancy restrictions, but by agreements and regulation determined at the local level: examples of such measures include tax relief and guarantees to those private landlords who apply low or intermediate rents.

⁸³ The net benefits of which are often undertaken on a binary “before-and-after” or “inside-vs-outside [rent control area]” basis.

⁸⁴ Pittini, A., Koessl, G., Dijol, J., Lakatos, E., & Ghekiere, L. (2017). *The State of Housing in the EU*. Brussels: Housing Europe.

⁸⁵ Baldini, M., & Poggio, T. (2012). *Housing Policy Towards the Rental Sector in Italy: A Distributive Assessment*. Housing Studies, 563-581.

Rent controls – Sweden

The Swedish experience of rent controls and PRS regulation has attracted much academic, as well as media and political attention⁸⁶.

Swedish rent control was introduced in 1942 as an ‘emergency’ and was supposed to be temporary regulation. It has proved extensive, persistent - it once covered all residential rental apartments for example - and has had high levels of political support. As recently as 2012 there were no political parties in the Swedish Parliament willing to include reform in their manifestos.

Since then a housing shortage has gripped the country. Due to recessions, Sweden now has a population highly skewed to urban areas - most notably Stockholm and Malmö.

Furthermore, the building of houses and flats in urban areas have failed to keep up with the pace of population growth. Of the country’s 290 municipalities, 240 say there is a lack of housing (May 2019)⁸⁷. Long queues for rental apartments in expanding areas have also developed under the Swedish rent control regime⁸⁸.

Research⁸⁹ indicates that Sweden’s long-standing rent controls:

- **Have drawn a huge number of single people** – who would be more inclined to live with their families were rents allowed to rise – into the housing market.
- **Have limited companies’ incentives to build new apartments** in the big cities, particularly since the subsidies for construction were gradually abandoned starting in 1991⁹⁰. The queues have become even longer as populations increase over time through in-migration.
- **Have been a policy which has had a perverse effect on areas with lower demand for housing.** In Sweden, municipalities (local authorities) own a large share of rental apartments. In areas with out-migration, municipalities are not permitted to go into bankruptcy. The consequence is that public sector rents do not reduce to the levels of a market facing decreased demand caused by out-

⁸⁶ Lindeck, A. (1997). The Swedish Experiment. *Journal of Economic Literature*, 35(3), 1273-1319.

⁸⁷ Figures quoted from the country’s National Board of Housing, Building and Planning, see <https://bit.ly/2k20Xfm> for an example.

⁸⁸ It is not unusual to wait ten years or longer (often a lot longer - <https://bit.ly/2YEkt07>) for a rent control apartment.

⁸⁹ Andersson, R., & Söderberg, B. (2012). Elimination of Rent Control in the Swedish Rental Housing Market: Why and How? *Journal of Housing Research*, 21(2), 159-181.

⁹⁰ New projects can negotiate higher rents with tenant’s organizations for the first 10 years of operations, though long-term profitability is still curtailed.

migration. Thus, these areas have controlled rents which have become *higher* than market rents!

Though not necessarily a formal component of rent controls, restrictions on ‘buy-to-let’ through legislation and the tax regime have also restricted the volume of properties available in the Private Rented Sector.

The IMF reported in March this year⁹¹ that house prices in Sweden have tripled in real terms since the mid-1990s, lifting the price-to-income (PTI) ratio to almost 30 percent above its 20-year average.

Swedish rent controls were cited by the IMF as, at the very least, one key factor explaining the rigidities in local economic markets and difficulties in addressing the housing crisis.

Deregulation and market reforms now mean this environment is changing through enabling the market to play a stronger role. However, concerns exist as to the economic impact of deregulation. This is based on:

1. The impact of the withdrawal of rent controls on existing tenants.
2. The overall change in how property is used - and concerns over the impact of a rapidly expanding buy-to-let sector.
3. Concerns around the wider economic impacts of deregulation in an economy which features several urban areas facing the dual problem of (i) rising house prices and (ii) a construction sector and labour market ill-equipped to deal with any upsurge in property demand.
4. The presence of restrictive planning laws which exacerbate the above problems.

Rent control – Norway

Rent controls were imposed in Norway during the First World War as part of an extensive price capping exercise. After the Second World War, Norway introduced a more flexible, ‘second-generation’ system of rent control with Rent Committees of local housing boards determining levels of annual rent increases.

In 1982 Norway began a process of deregulation with an increased emphasis, as in the UK, of promoting home ownership. Rent control was removed for new rental contracts but

⁹¹ Executive Board of the International Monetary Fund. (2019). *Article IV Consultation*. Washington D.C.: International Monetary Fund.

maintained for old contracts on pre-World War II brick buildings, that is until 2010 when further deregulation was injected into the system.

Nevertheless, rental housing still provides for a large proportion of the Norwegian population, providing a home to almost one in six Norwegians. Oslo, of course, is the city in which housing shortage issues are most acute.

Deregulation and the dismantling of rent controls has allowed a series of academic studies to view regulation of the PRS from the other end of the microscope.

One such extensive econometric study⁹², based on rental data in Oslo from the days of regulation (1970) to post-deregulation (2011), found the following:

- The removal of the rent control did not lead to an increase in private rents;
- Landlords' asking rent was in line with the market clearing rent in both the period with rent control (1970-1981) and the period without it (1982-2011);
- Thus, the author concludes, "Norwegian rent control did not have the desired welfare distribution effects⁹³."

The author quotes a series of similar studies⁹⁴ which have found rents under rent control regimes are in fact no different (i.e. represent the market rent) from when rent controls are ended. The cost of the rent control regime by far outweighed the benefits (which were in welfare terms, zero given there was no deviation from market rents).

As an economy and as a labour market, Norway has many similarities to the UK - including similarities in the demand for housing: a dominant capital city, attracting young people who use the private rented sector to meet their living needs. This, again like the UK experience, is at a time when home ownership is increasingly seen as being out-of-reach.

Like the UK, rents are deregulated, tenancies are short and there are problems with the speed of contract enforcement and resolution via the courts.

The striking thing for the UK to note is that in Norway, there is no particularly strong desire to return to the rent control regime of pre-deregulation - nor even to formulate a new model of rent control.

⁹² Oust, A. (2018). The end of Oslo's rent control: Impact on rent level. *Economics Bulletin*, 38(1), 443-458.

⁹³ To do so, tenants would benefit (in the form of lower, sub-market, rents) at the expense of landlords

⁹⁴ That is, using similar regression-based techniques

Instead measures such as planning deregulation, recognition of the evolving mix of housing tenures necessary in key locations, tax and subsidy systems and more imaginative use of public housing are all seen as part of a strategic response to housing needs.

Having ‘done’ rent control and looking at the experience and impact of such a regime where rent control persists, there is no appetite in Norway to re-embrace this approach.

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