

**MAKING RENTING FIT FOR
FAMILIES:** the impact of different
forms of rent regulation

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MAKING ENGLAND'S PRIVATE RENTED SECTOR FIT FOR FAMILIES

A quarter of families now bring up their children in the private rented sector (PRS). But the sector is not fit for families. A crowded market and our renting laws make it fundamentally unstable, while high rents make it unaffordable.

Some types of household find it difficult to access a rented home at all as a result of discrimination. And conditions in the PRS are the worst of any type of housing, with almost a third of all private rented homes failing to meet the government's decent homes standard.¹

Shelter research shows that families do not bring up children in the PRS by choice, but because they can't afford to buy or can't access a social rented home. Over the long-term we must build the homes we need to make home ownership more affordable and provide much needed genuinely affordable social rented homes. But urgent action is also needed to make the PRS more fit for families today.

Reforms to rent regulation have been proposed as a means of both improving stability in renting by making rents more predictable, and improving affordability by bringing rents down. But the problems in the PRS are interconnected in complex ways and we need to make sure that any effort to improve one aspect of it will not have adverse unintended side effects on others. To date, there has been very little good quality research on what the effect of different rent regimes might be, specific to the English context. We therefore commissioned the Centre for Housing and Planning Research at the University of Cambridge to investigate the consequences of different regulatory regimes for rents. This research is the first of its kind specific to the English rental market and the best evidence available today for those considering how rent regulation should change.

Their findings show that longer term tenancies with predictable rents could be introduced with little risk of any unintended consequences. However, they also indicate that attempting to significantly cut rents over a short period through regulation would be very risky and could lead to increased evictions and other adverse effects for the people least able to bear them.

Background – the private rented sector today

Stability

England's private renting laws were made for a different time. In 1988, when the current law was written, only 1.7 million households were private renters and their number had been in decline for decades. Private renters tended to be younger and more mobile and used private renting as a stop-gap.²

Since then, the number of private renting households has grown by over 2.5 million and the number of families living in the private rented sector has ballooned. In only ten years, the number of families with dependent children living in the private rented sector increased by a million. In 2003/04 less than one in ten (9%) families with dependent children lived in the PRS. By 2013/14 that had increased to almost one in four (24%).³

While England's renting laws may have been suited to the younger renters of the late eighties and nineties, they are not suited to bringing up a child in the PRS today. One year contracts are the industry

1. English Housing Survey 2013/14, Headline Report, DCLG

2. English Housing Survey 2013/14, Headline Report, DCLG

3. English Housing Survey 2013/14, Headline Report, DCLG

Figure 1: The number and proportion of families with children that live in the PRS

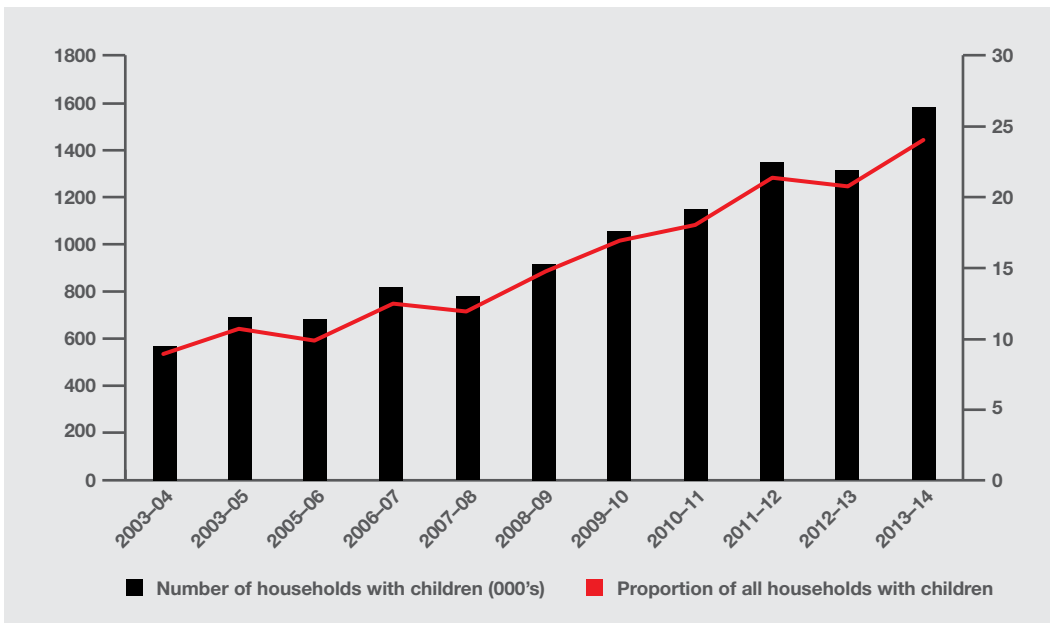
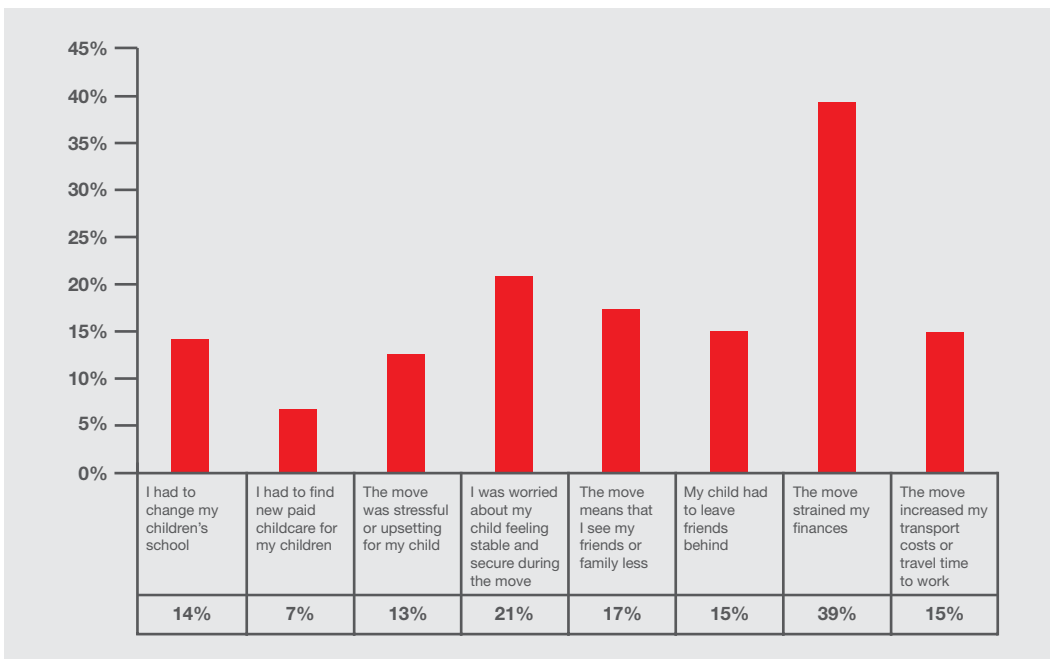


Figure 2: The negative consequences of moving home for families in the PRS⁹



norm and renters only have a minimum of six months' legal protection from a 'no-fault' eviction.⁴ There is no practical limit⁵ on the amount that landlords can put up rents within a tenancy between contracts meaning that families in the PRS have no certainty about their future housing costs.

Limited security and predictability make the PRS unstable with families forced to move frequently. The median renting household has spent under two years in their current rented home, and more than a third (35%) of renting households have lived in their current home for less than a year. Only a fifth (20%) of renters have lived in their current homes for five years or more, compared to only a fifth of owner occupiers who *haven't* lived in their home for five years or more.⁶ This is not by choice: 82% of renters say that, when they choose a home, the consideration of whether they will be able to stay there for five years is either very or fairly important in their choice.⁷

The impact of instability can be profound. Research for Shelter found that it puts significant pressure on family budgets and means that many parents are forced to move their child's school. Shelter's long-term study of private renters, *Sustain*, highlighted the toll that this instability and stress can take, particularly for renting parents.⁸

Worryingly, the loss of an assured shorthold private tenancy is now the leading cause of homelessness and the number of households who become

homeless as a result of losing their privately rented home is growing.¹⁰ For all these reasons, Shelter believes improving stability and security for renters is vital.

Affordability

The high cost of rents, particularly in some parts of the country, presents huge challenges to millions of middle and low income households – and puts a strain on the housing benefit system, which increasingly has to make up the shortfall between low wages and rising private rents.

Shelter hears from renters every day with unaffordable rents who are finding it difficult to keep their home. In England at the moment the average renter pays out 40% of their income in rent,¹¹ and many are paying far more than this, when 35% is the upper limit of what is typically considered affordable.

Conditions

Despite the fact that private renters pay more than people in any other tenure,¹² conditions in the PRS are also the worst of any tenure. Almost a third of all private rented homes do not meet the government's decent homes criteria and 16.5% contain hazards that make them dangerous homes to live in. Even where private rented homes are not dangerous, a significant proportion remains difficult to heat or are plagued by damp.¹³ A full account of the problems with conditions that renters faced can be found in Shelter's recent report *Safe and Decent Homes*.

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4. A 'no-fault' eviction is one for which the landlord does not require grounds, such as rent arrears or anti-social behaviour
 5. Some ineffectual legal restrictions exist, such as the first-tier tribunal, which can legally consider excessive rents in assured shorthold tenancies. However, these mechanisms are almost completely ineffective
 6. English Housing Survey 2013/14, Headline Report, DCLG
 7. All figures from YouGov for Shelter. Total sample size was 4,544 adults. Fieldwork was undertaken between 11th December 2013 - 16th January 2014. The survey was carried out online. The figures have been weighted to representative of all private renters in England (aged 18+).
 8. A Roof Over My Head: Final Report of the Sustain Project, Shelter and Crisis, 2014
 9. All figures from YouGov for Shelter. Fieldwork was undertaken between 11th December 2013 - 16th January 2014. The survey was carried out online. The figures have been weighted to representative of all private renters in England (aged 18+). The original question was "And thinking about all these moves you have made whilst continuously living in privately rented accommodation, which, if any, of the following statements apply to you? (Please tick all that apply). Base: 976 with children in households who have moved in last five years, selected results shown
 10. Live Table 773, DCLG
 11. English Housing Survey, Household Report 2012/13, DCLG
 12. As a proportion of their income, English Housing Survey, Household Report 2012/13, DCLG
 13. All figures from English Housing Survey 2013/14, Headline Report, DCLG

The research

In the context of an overheated and largely unregulated market, whose basic rules were set in another era, it is not surprising that demands for reform are growing louder. Some have called for a return to hard rent controls, while others have claimed that *any* attempt to increase rent regulation will have disastrous consequences. A lot of this debate has been poorly informed and based on hearsay or abstract theory rather than evidence, of which little has been available.

Shelter has commissioned this independent research to try to remedy the lack of good evidence and to help inform the debate on how we should regulate tenancies. The housing market

is a complex system, and it will never be possible to predict exactly what could happen in the future. However, this research combines quantitative economic analysis and qualitative research based on survey data and interviews with landlords, letting agents and lenders. This provides the clearest picture to date of what the consequences of the different options would be.

How was the research conducted?

The research looked at what the potential impact would be of Shelter's proposal for five year tenancies – with rent increases within tenancies limited to inflation rates – alongside five other possible rent regulatory regimes.

The six rent regulatory regimes examined

1. A new default private rental contract of five years with initial rents set by the market and increases limited to CPI.¹⁴
2. A new default indefinite private rental contract with initial rents set by the market and increases limited to CPI or wage growth (whichever is lower) within the tenancy.¹⁵
3. A temporary, three year freeze on all private rents (including between tenancies) except for new build properties
4. An indefinite cap on all private rents, set at current market rates and indexed to average earnings or the CPI¹⁶
5. An indefinite cap on all private rents, set at two-thirds of current market rates and indexed to average earnings or the CPI¹⁷
6. Limits on rent increases within a tenancy that would take them to above market levels coupled with automatic 29 month extensions to a six month probationary tenancy.¹⁸

14. Based on the work in A Better Deal, Shelter, 2012. This is five year minimum tenancy. The tenant with appropriate notice could leave earlier

15. This was based on the work by Civitas, The Future of Private Renting, 2014

16. This would imply a real terms freeze in all rents

17. This would imply a real terms cut of a third in all rents

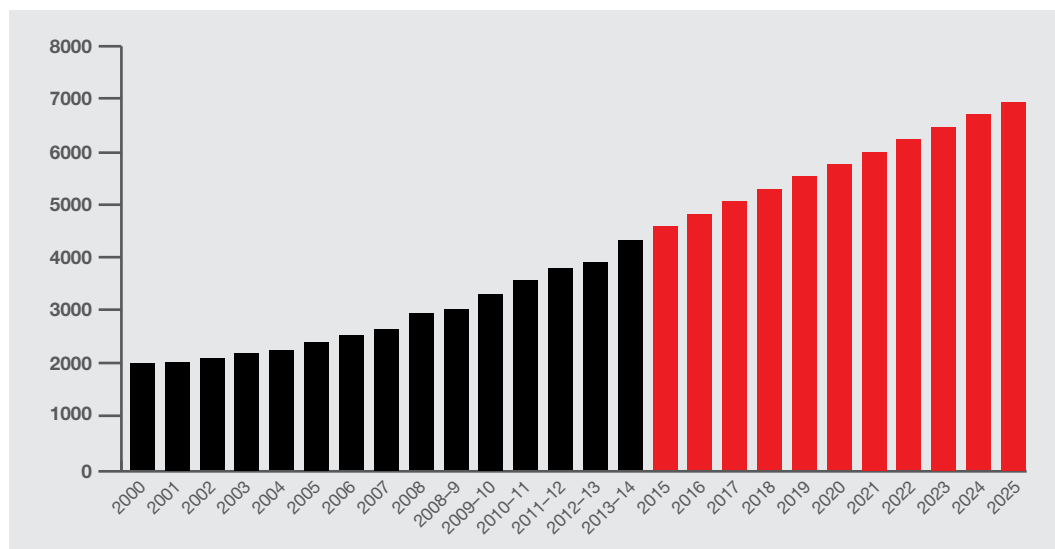
18. This option is likely to provide only limited increased security

The first part of the research is a quantitative analysis of financial incentives for landlords to vary their investment in the sector under the different scenarios. This involved projecting rent levels under the different types of regulation, and estimating the impact that this has on the total size of the PRS.

The impact on the size of the PRS arising from any regulation of the sector is important to understand, as it reflects the changes in demand from investors, which in turn underpins the supply and quality of properties that are available for private renters to live in.

In order to make this assessment the researchers first looked at what would happen if there was no change to rent regulation. They projected under this scenario that average rents would increase by 22% over the next decade, from £176 per week to £215 per week. This increase in rents would be matched by a substantial increase in the size of the PRS, due to increasing numbers of people and families unable to buy a home or access social rented housing. The research projects that by 2025, more than 7 million households will be privately renting, up from under 4.5 million last year.¹⁹

Figure 3: The actual and projected number of households living in the private rented sector²⁰



The second part of the research was a qualitative study based on surveying landlords, letting agents and mortgage lenders to understand how they would respond to different forms of regulation, and what they thought the impacts would be.

What does the research show?

The research shows that **the introduction of stable tenancies**

and predictable rents is unlikely to result in any negative consequences. Harder forms of rent control, such as a cut to two thirds of current rents or a three year rent freeze, would pose a far greater risk. The overall findings of the research are summarised in table 1.

19. English Housing Survey 2013/14, Headline Report, DCLG

20. English Housing Survey 2013/14, Headline Report, DCLG and CCHPR findings

Scenario	Source of evidence				Total growth by 2025
	Quantitative	Landlord survey	Lender survey	Overall conclusion	
0.					51%
1. A new default private rental contract of 5 years with initial rents set by the market and increases limited to CPI.	Minimal reduction	Minimal reduction (with safeguards)	Minimal reduction (with safeguards)	Minimal reduction (with safeguards)	49%
2. A new default indefinite private rental contract with initial rents set by the market and increases limited to CPI or wage growth (whichever is lower) within the tenancy	Minimal reduction	Minimal reduction (with safeguards)	Small reduction (with safeguards)	Minimal reduction (with safeguards)	49%
3. A temporary, three year freeze on all private rents (including between tenancies) except for new build	Minimal reduction	Small reduction	Minimal reduction	Small reduction	50%
4. An indefinite cap on all private rents, set at current market rates and indexed to average earnings or CPI	Small reduction	Small reduction	Minimal reduction	Small reduction	47%
5. An indefinite cap on all private rents, set at two-thirds of current market rates and indexed to average earnings or CPI	Significant reduction	Very significant reduction	Very significant reduction	Very significant reduction	-24%-6%
6. Limits on rent increases within a tenancy that would take them to above market levels coupled with automatic 29 month extensions to a six month probationary tenancy.	No measurable reduction	Minimal reduction (with safeguards)	Minimal reduction (with safeguards)	Minimal reduction (with safeguards)	51%

The other main findings of the research were that:

- Among all scenarios other than number 5 there was only a small variation in the impact on rent levels, according to the quantitative modelling. The PRS would continue to grow in size under all of these options but scenario 5, but to a (very slightly) smaller extent.
- Scenario 5 was the only option under which rents would be immediately cut. The impact on the market of this was the greatest by a large margin. This was the only scenario under the quantitative modelling projected could lead to an absolute decline in the size

of the PRS. Because the impact was so big under this scenario, precise projections were harder to make, so a range was given. At the top end of this range, it projected that cutting market rents by a third would shrink the PRS by 24% on current levels (see table 2).

- The qualitative research found that scenario 3, a temporary rent freeze, may have a bigger impact on the market than the quantitative research suggested. This was because landlords reacted more strongly to the prospect of not being able to increase rents at all over a short period than they did to having looser longer term limits on rent increases.

Why does the effect on the market matter?

Shelter is not interested in protecting landlord profitability or the size of the private rented sector as an end in itself. We believe that everyone deserves a decent, secure home that they can afford – whether they rent or own it. We are tenure neutral – we simply focus on ensuring that the tenures people can reasonably access are fit for purpose. The effect of any regulatory change on the market becomes a concern for Shelter if it may mean that fewer people are able to access a safe, secure and affordable home. The findings of this research suggest that this is likely to be the case under a system of hard rent control that aims to significantly cut rents (such as scenario 5).

The consensus of economists based on previous systems of hard rent controls, which are sometimes called first generation rent controls,²¹ is that they tended to ‘discourage new construction, cause abandonment, retard maintenance, reduce mobility, generate mismatch between housing units and tenants, exacerbate discrimination in rental housing [and] create black markets’²² These effects could have harmful consequences for many renters, including a serious impact upon those in the most vulnerable circumstances.

Security and stability

The greatest risk presented by hard rent control over the short term is that it would destabilise renting, because landlords would leave the market and evict their tenants in order to sell their properties.²³ Two thirds (66%) of landlords who took part in the research said that they would seek to sell all or some of their properties in the event of an enforced cut in private

rents to two thirds of their current level. Almost a third (31%) said that they would seek to sell all or some immediately in the event of a temporary rent freeze. While the researchers noted that some responses to their survey appeared ideological and that landlords are unlikely to do in practice exactly what they say in a survey, sales on anything like this sort of scale would be seriously destabilising for tens of thousands of renters.

It is impossible to accurately predict which renting groups would be hardest hit by these sales, but it is likely to be the tenants of landlords who are operating at the smallest rental yields. This applies to renters at every level of the market, but is geographically particularly focussed on London.²⁴

England’s historical experience of hard rent regulation gives an indication of what happens in practice when landlords try to sell up in large numbers.²⁵ For example, following the implementation of a hard rent freeze in England in 1915 the practice of evicting to sell or purchasing and then evicting was common.²⁶

Access

Hard rent control may make it harder for some people to find a private rented home and might shut some people out of private renting entirely.

Some of England’s renting households already find it more difficult to access a private rented home. Discrimination against people who receive Local Housing Allowance (‘No DSS’) is widespread and there are increasing concerns that the new duty on landlords to carry out immigration status checks will lead to further discrimination. Hard rent control may make this worse.

21. See Scanlon and Whitehead, *Rent Stabilisation: Principles and international experience*, 2014 for a good summary of the generations of rent control

22. Arnott, *Time for Revisionism on Rent Control?* *Journal of Economic Perspectives*, 1995

23. This is because tenanted properties have a lower valuation in England, which is in itself a hangover of the rent freezes following 1915. See Peter Kemp, *Private Renting in Transition*, 2004

24. *The Telegraph*, *The towns that offer the best buy to let returns*, 29 May 2014

25. Arnott 1995 points out that due to the eras in which they were introduced (namely wartime) there was limited capacity or interest in conducting such studies

26. Peter Kemp, *Private Renting in Transition*, 2004

Without the opportunity to discriminate on price, landlords may discriminate on other grounds, potentially at the expense of particular renting groups like families or younger people, who can be seen as less desirable tenants. The research showed that in the event of extending security of tenure to indefinite tenancies, almost a quarter of landlords (24%) would change their choice of tenants or how they choose them in the event of the introduction of indefinite tenancies.²⁷

Some households with no other option but to privately rent may be locked out of renting altogether, which could lead to an increase in homelessness among people with nowhere else to go. Other associated risks of hard rent control include increasing rates of displacement as renters are forced to find accommodation in other rental markets outside their home neighbourhoods or towns. There is a serious risk that it would encourage the growth of a black market not subject to rent regulation. In practice, hard rent controls tend to create a two tier system in which some homes are subject to rent caps, while a formal or informal unregulated sector emerges that houses those in most need, who do not benefit from the caps.

If these effects were to occur, the people who benefited from low rents would not necessarily be those who find it difficult to pay their rent at the moment. The people who would be shut out of rental markets and required to move out of their area would also not necessarily be those who were most able to do so (such as young and mobile people). This is because hard rent controls are very untargeted. In practice, they benefit those who already have a rented tenancy at the expense of people who do not. New York City provides a good example of this. In New York, some renters with relatively high incomes live with cheap rents in the very centre of town, while others on lower incomes live with higher rents outside the centre.²⁸

Conditions

Conditions in the PRS are already the worst of any housing tenure. Hard rent controls could remove landlords' financial incentive to invest in their properties, which could make them worse over time.

The implications of the research

This research shows that stability in the PRS can be improved with a minimal risk of negative side effects. However, it also suggests that using rent regulation to try to dramatically cut rents could negatively affect renters, particularly people in vulnerable positions. This does not mean that affordability and other problems that renters confront don't need to be solved, but rather that no single policy will make everything better and a range of interventions are needed.

Dealing with other problems in the PRS

Improving stability for renters is an important goal in its own right, but on its own cannot be expected to solve all of the problems faced by renters: other reforms are needed to tackle these problems.

Making renting more affordable

More predictable rents, enabled through the Stable Rental Contract, will help households to plan their family budgets. For households who receive Local Housing Allowance, which increases by inflation by default, it will mean that their rent will not increase more than their housing benefit for the duration of the tenancy. It will significantly cut down on moving costs, which are currently a major strain on family finances (see figure 2). It will protect renters from big jumps in rent within tenancies when there is a significant spike in demand for rental accommodation in a local area.²⁹ Finally, there is evidence that suggests that in a market with Stable

27. CCHPR for Shelter, The effects of rent controls on supply and markets, 2015

28. The median income of renters living in controlled homes in 'core' Manhattan are higher than in "all but eight neighbourhoods outside of the core of Manhattan". Furman Center 2011, quoted in Scanlon and Whitehead, Rent Stabilisation: Principles and international experience, 2014

29. Private rents in Salford, for example, have moved up significantly beyond the national or regional averages following the opening of Media City

Rental Contracts as the norm rents will be calmer generally.³⁰

This will not be enough, however, to improve the long term affordability crisis in private renting or to alleviate its impact in the interim. In order to tackle the cost of housing over the long term, we need to get to grips with the underlying problem which is England's shortage of homes. In the interim, the government must ensure that there is a sufficient housing safety net there for people who need it – and particularly Local Housing Allowance. In the context of a worsening affordability crisis, further action to undermine the financial support for renters will increase homelessness and poverty. It is also likely to strengthen calls for politicians to take direct action on rents through enacting harder rent controls.

Unfortunately, when it comes to affordability there are no shortcuts – we must build many more affordable homes.

Tackling poor conditions

Improving stability is likely to have a positive effect on conditions by increasing the bargaining power of renters. Renters will be better able to enforce their rights if they have longer protection from being evicted for no reason. However, this alone will not make every private rented home safe and decent. Previous work by Shelter has set out a comprehensive set of recommendations for how to improve conditions in private renting, which include:

- introducing mandatory training of private landlords and a robust national register, which all private landlords and lettings agencies would be required to join
- amending the Landlord and Tenant Act (1985) to require all landlords to ensure that the homes they let are fit for human habitation
- reinstating legal aid for disrepair cases
- making it easier for local authorities to introduce selective licensing schemes³¹

Making it easier to find a home

This research shows that making tenancies more stable will not seriously damage people's chances of finding a rented home – but nor will it solve the existing problems of access in the sector. To improve access, we need to tackle discrimination against particular households, including against recipients of housing benefit. Similarly, the government's plans to require landlords to check the immigration status of their tenants may create new barriers to access, and action must be taken to ensure it doesn't lead to discrimination on grounds of ethnicity.

Conclusion

England's PRS is in need of major reform. At the moment, renters get a raw deal with insecure, expensive and poor quality housing. But in implementing reform we must make sure that things aren't made inadvertently worse for those renters who are least able to bear the risk.

This research is the best available evidence of the likely impact of different changes to tenancy regulations. The results suggest that there are considerable risks associated with using rent regulation to directly make renting more affordable. Some renters would benefit from lower rents, but others would be significant losers, and the benefit would not be targeted at those who need it most. Shelter's experience as a provider of housing advice is that it is typically those who are most vulnerable and least in a position to respond to change that end up losing out most during major upheaval. There is no shortcut to making housing more affordable for the long-term. In order to do it, we have to build many more affordable homes.

But the research also shows that giving renters the greater security of five year stable tenancies is a low risk option that would improve renting overnight for the growing number of families who live in the PRS.

30. The English Housing Survey shows that rents are highest for those who have moved into their home in recent years and that rents have not risen as quickly for those who have been in their home for longer

31. The full list of recommendations can be found in *Safe and Decent Homes: Solutions for a better private rented sector*, Shelter, 2014

Longer tenancies with regulated rent increases would provide renting families with the security and stability they need. They would mean that families would be put under less financial pressure from the cost of moving and that their

children would have a greater chance of a stable education. Not only would this form of tenancy transform the experience of renting for many families, this new research has also comprehensively proved that it is an eminently achievable option.

Shelter helps millions of people every year
struggling with bad housing or homelessness –
and we campaign to prevent it in the first place.

We're here so no one has to fight bad housing
or homelessness on their own.

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