

RENT CONTROL – WHAT ARE THE RISKS?

The Mayor of London, Sadiq Khan, has recently announced plans to make rent controls on private rented residential properties in London a key part of his 2020 re-election manifesto. But what would be the impact of such a policy on the residential investment market including the nascent build-to-rent sector?

What are Rent Controls?

Rent controls are legal measures empowering authorities to set rent levels or limit the level of increase. The three main measures are capping rent, capping increases to rent or temporarily freezing rent.

Background to the Mayor's announcement

According to a 2018 Knight Frank report, London has the highest average monthly rents in Europe. Tenants in London are reported to have spent 41.1% per cent of their average annual salaries on private rents in 2017, according to analysis by Hometrack of data from the Office for National Statistics.

The Mayor's proposals to 'stabilise or control' private rents are not new. Rent control in the UK was first prompted by housing shortages during WWI. Though originally intended as a temporary measure, rent controls continued to apply to certain dwellings up until January 1989.

After 15 January 1989, the Housing Act 1988 deregulated rents on new private sector lettings. Housing policy is now a devolved matter and policy approaches in the devolved administrations are currently showing some significant divergencies.

In Scotland, for example, following the introduction of the Private Housing (Tenancies) (Scotland) Act 2016, Councils have the power to apply to the Scottish Ministers for consent to designate areas, where rents are considered to be rising too quickly, as 'Rent Pressure Zones' with further rises capped at the consumer price index ('CPI') plus 1%, and the cap lasting for up to 5 years. In practice, however, no 'Rent Pressure Zones' have been implemented yet which may, in part, be due to difficulties with gathering the necessary evidence for an application to be made.

The idea of rent controls has also been floated repeatedly by the Labour Party in recent years. Jeremy Corbyn pledged, at the Labour Party conference in September 2017, that a Labour government would seek to reform the housing market and introduce rent controls.

It should be noted that the Mayor does not currently have the power to introduce rent controls himself, although he plans to ask the Government to make legislative changes to allow him to do so once his blueprint for reform has been developed. The Conservative Party is, however, opposed to any form of rent control and consequently it seems unlikely that rent control legislation would come into force under a Conservative Government.

Key issues

- The Mayor of London has announced plans to develop a blueprint for rent stabilisation and control laws for private residential properties in London
- New legislation would be required to implement rent controls
- Rent controls in England's private sector applied up until January 1989 when rents were deregulated for new private sector lettings
- Housing policy is a devolved matter. Scotland has legislation in place to restrict rent increases in certain circumstances although the measures have not yet been implemented
- Various forms of rent control apply in Ireland and continental Europe
- Opinion is divided on the likely impact of rent controls and whether such a policy would discourage institutional investment

International Comparisons

Some commentators argue that the UK could solve its current housing crisis by embracing a European-style rental model which vary, but typically include greater protections for tenants, caps on rent rises and longer tenancies.

In Paris, rent controls introduced in 2015 (under the Alur law of 2014) that allowed tenants to contest any rents that were more than 20 per cent above indexed rates, were annulled in November 2017 by the administrative court on the grounds that they were not applied to the entire Paris region. Then in December 2018, the Mayor of Paris, Anne Hidalgo, announced that she intends to reintroduce a rent control mechanism, under the new Elan law, which provides for the possibility of a rent control experiment for 5 years.

In German cities like Berlin and Munich there are caps on how high rents can be. Berlin is facing huge demand following an increase in net annual migration. The *Mietpreisbremse* or 'rental brake', introduced in 2015, limits rents for existing rental homes (new lettings are exempt) to levels set in the Berliner Mietspiegel index. If rents exceed the index by more than 10 per cent, tenants can take their landlords to court.

When seeking to learn lessons from alternative models, however, it is important to bear in mind that the private rented sector in the UK is still not directly comparable to that in, for example, France, Germany and Switzerland, where a much greater proportion of the population views private renting as the 'normal' choice of tenure.

Impact of Rent Control on Investment

The British Property Federation, as well as many landlords and investors, are opposed to rent control. They argue that the rent controls introduced in the 1960s and 1970s were primarily responsible for the reduction of institutional investment in UK private rented accommodation. They maintain that rent controls would damage investment into new housing at a time when institutions are just starting to invest again and that it would take us further away from resolving the underlying issue of a lack of supply. They also argue that discouraging institutional investment would lead to poorer conditions in rental properties and that the market needs to be left to regulate itself.

Others point to the example of Germany, where rent controls appear not to have impeded a large institutional private rented sector, and even New York, where a form of rent control also exists. Savills have commented, in a research note, that build-to-rent investors are likely to be comfortable with inflationary caps on rent increases within tenancies as they provide greater certainty of income while reducing perceived risk.

Last year the Cambridge University Centre for Housing and Planning Research produced a study on how London might be affected by rent controls and stabilisation methods. The study found that only rent control which reduced rental levels by a third immediately to bring them in line with wage levels (followed by rises in line with the lower of either wage inflation or CPI) would be likely to cause the size of the sector to substantially decline. Rent control based around limiting rent increases within tenancies may only have a minimal impact, it found.

Certainly housing now sits near the top of the political agenda, raising the risk that Government could introduce new regulations to the private rental market. If Sadiq Khan is re-elected as the Mayor of London - and Labour were to win power at the next general election - then the sector might just put a new rent control policy to the test.

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CONTACTS

Angela Shepherd
Senior Associate

T +44 207 006 4213
E angela.shepherd@cliffordchance.com

Alis Pay
Partner

T +44 207 006 4247
E alisavou.pay@cliffordchance.com

Catherine Cook
Partner and Head of
Housing

T +44 207 006 4367
E catherine.cook@cliffordchance.com

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www.cliffordchance.com

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London, E14 5JJ

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