GETTING RENTS UNDER CONTROL

HOW TO MAKE LONDON RENTS AFFORDABLE
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More and more Londoners are living in the private rented sector (PRS), which has seen huge growth in recent decades. The UK’s second largest tenure after home ownership since 2011/12, by 2025 the Mayor of London’s office forecasts that private renting in the capital will be as prevalent as owner occupation. The sector, which is home to increasing numbers of families and older people, has also seen rents increase rapidly. Since 2010, average private rents in London have risen more than three times as fast as average earnings, and in 2015/16 around a quarter of privately renting households in the capital spent over half of their income on rent. Affordability is far worse in London than the rest of the country, with the average private rent for a one-bedroom home in the capital now more than the average for a three-bedroom home in every other English region.

A growing number of voices are calling for rent controls as part of the solution to London’s housing affordability crisis. 68% of Londoners are in favour, including the Mayor of London Sadiq Khan, who has publicly announced his intention to campaign for rent controls alongside his broader plans to design a better system for private renters. And a growing private renters’ movement, with the London Renters Union at its forefront, is demanding a fairer, more affordable PRS in London. This report outlines the building blocks for the powers and policies which would be needed to introduce a rent control for London.

While in many major cities in Europe and North America, from Berlin to New York, rent controls are the norm, the introduction of rent controls is often highly controversial, and the debate is polarised. This report analyses the benefits and risks of different types of rent controls, looking at specific examples of existing models from elsewhere, and drawing out lessons for London.

We critically assess different types of rent control policies against the following five principles: affordability, security of tenure, feasibility, risk and equity. We make the case for an approach that puts economic and social justice at the heart of rent reform, while taking seriously the inherent risks in imposing rent controls. Based on our analysis of models of rent control, this report sets out the following six building blocks that must form the basis of any rent control policy for London:

1. **A landlord and rents database** should be established that is an open-access record of all landlords, their properties, and associated rents;

2. **A property-linked rent control** should be created, which controls rents between and within tenancies;

3. **A Desired Rent Level** should be set, to which individual privately rented properties will have their rents reduced over specified time period;

4. **A Private Rent Index** should be introduced, which governs annual rent changes on privately rented properties, once the Desired Rent Level has been reached;

5. **An independent administrative PRS body** should be established, which would design the rent control system, and subsequently administer the system, collect and hold the data required, and set the Desired Rent Level and the Private Rent Index; and

6. **A system of enforcement mechanisms** should be introduced that puts the onus on landlords and the state, rather than tenants.

The scale of the housing affordability crisis in London means that, despite the risks, carefully designed rent controls are becoming increasingly necessary to create a capital with a fairer, more affordable PRS. NEF is keen to work with the Mayor of London and other stakeholders to take this work forward.
After many decades of decline, the capital’s PRS has grown rapidly since the end of the 1980s, with increasing numbers of Londoners spending more of their lives as private tenants. In 1990 just 11% of households rented privately, but by 2017 this figure had grown to 27%. There are now more households renting privately than from social landlords, and by 2025 the Mayor of London’s office forecasts that private renting will catch up with owner occupation. As the size of the PRS grows, the need to make sure that it is a tenure which works for London and for Londoners becomes more and more pressing.

Unaffordability is a major issue for London’s 2.4 million private renters. London has the highest rent to income ratio of any region, and the highest proportion of households spending over a third of their income on rent. In London, the median rent for a two bedroom flat is 50% of the median income, significantly above the widely used yardstick of affordability of around a third of net household income. In some places tenants are spending significantly more – for example, a two-bed property in Tower Hamlets costs on average 76% of the average monthly income of the bottom 25% earners.

High rents are both causing and exacerbating poverty in the capital. In the three years leading up to 2015/16, 960,000 private renters were living in poverty, and 43% of the Londoners in in-work poverty were private renters. Poverty in the PRS particularly affects families, with 55% of children growing up in private rented housing living in poverty, and with the high housing costs in the PRS increasingly coming to define life chances. High rents are also preventing tenants from saving for a deposit to buy a home, with around a third of millennials expected to rent privately for their entire lives. Rent controls therefore have the potential to reduce poverty, and to enable or speed up the route into owner occupation for many Londoners.

High rents in London have significant costs to the public purse. Around 230,000 private tenants in London, 46% of them working, receive housing benefit, and – due to high rents – they receive much higher levels of support per household in London than elsewhere. London private renters in receipt of housing benefit are awarded an average of £201 a week, compared to £119.63 for England overall. Furthermore, the rising share of renters coupled with an ageing population means that without intervention the housing benefit bill is likely to rise. As such, rent controls also present an opportunity to reduce the financial burden of high private rents on public spending.

More widely, the lack of affordable housing in London is negatively impacting on the labour market. Two-thirds of employers in London are struggling to recruit entry-level staff because of the shortage of affordable homes, with almost a third reporting losing staff because of their inability to afford to live locally. Nearly half of teachers in London are leaving the profession within five years of qualifying, with the cost of renting identified as a key reason; and 40% of nurses in London plan to leave the capital within five years because of the cost of housing. Improving affordability levels in the PRS is therefore also an opportunity to improve recruitment and retention for the capital’s public and private employers.

We need a range of solutions to London’s housing crisis. The need for large-scale social housebuilding is increasingly recognised by policy bodies across the political spectrum, but the availability of land, local government capacity and development lag mean that the huge benefits of this intervention will not be felt immediately. Welfare reform is also urgently needed to ensure that everyone can afford a home, but if prices rise, or the number of people living in the PRS continues to grow, and housing is increasingly financialised, the housing benefit bill will continue to grow despite welfare reform. Given this, the PRS must form part of our housing system for some time to come, and so we must consider rent control measures not just in today’s context but in the context of the next decade or longer.

While there is an overwhelming case for rent controls in the capital, we are also clear that there
are risks that need to be carefully considered and mitigated. Decreases in rent, and therefore landlord profits, could encourage current landlords to exit the sector and discourage new ones, including those in the build-to-rent industry, from entering it. A sharp reduction in the supply of privately rented homes would severely reduce housing options for Londoners, whilst reducing incentives for landlords to maintain and improve their properties. Sudden landlord flight could also lead to a sharp and rapid dampening of house prices, which could drive people into negative equity. Although most homeowners in London do not have large mortgage debt, it is likely to be the lowest income homeowners who would suffer most in this scenario.

1.1 ABOUT THIS REPORT

The aim of this report is to inform work to develop a model of rent control for the capital. It sets out the findings from an analysis of different approaches, looking at specific examples of existing and proposed models from across the world and drawing lessons for London. These approaches have been assessed in relation to the following five principles: affordability; security of tenure; feasibility; risk of negative effects to the wider economy and housing market; and equity.

No model of rent control from another city or country can simply be transplanted wholesale into London’s unique context. Rather, there are elements of the systems used elsewhere that could be applied to the capital. Based on our assessment and analysis, we outline a set of building blocks which could form the foundation of a rent control system for London:

1. The establishment of an open-access database of landlords, their properties, and associated rents;

2. A property-linked rent control, which controls rents between and within tenancies;

3. The setting of a Desired Rent Level, to which individual privately rented properties will have their rents reduced to over specified time period;

4. The introduction of a Private Rent Index which governs annual rent changes on privately rented properties, once the Desired Rent Level has been reached;

5. The establishment of a new PRS body, which would design the rent control system, and subsequently administer the system, collect and hold the data required, and set the Desired Rent Level and the Private Rent Index; and

6. A system of enforcement mechanisms that puts the onus on landlords and the state, rather than tenants.
This section describes findings from an analysis of different rent control models currently in place, or proposed, around the world. Many governments have taken steps to regulate rental prices. The UK put in place measures to limit rental prices in response to housing shortages during and after both the first and second world wars. In England, rent control which kept rents below market levels ended for most new lettings on 15 January 1989. It continues in different forms in Scotland and Ireland, across Europe, and in a number of cities in the United States. Some tenancies in England are in fact still regulated, provided the tenant has not moved since 1989.

There are numerous models of rent control and a vast literature on their theory and practice. Given their complexity, it is helpful to distinguish between three different essential elements of rent control policy:

- How initial rents (between tenancies) and rent changes within a tenancy are determined;
- Security of tenure and landlords’ property rights (including how easily tenants can extend their tenure and how easily landlords can gain vacant position); and
- Enforcement mechanisms.

We focus particularly on the first element in this report, as one of the key characteristics of more recent models of rent control is whether rents are regulated only within a tenancy, or both within a tenancy and between tenancies. Britain’s post second world war rent control limited both the initial rent that landlords could charge, as well as any subsequent increases. Today, many European rent controls have evolved over time and now seek to limit rent increases within a tenancy, but continue to allow the market to set rent levels between tenancies. For example, within-tenancy rent controls might limit annual rent increases to a certain percentage. However, when a tenancy ends, a landlord could reset the rent at a level of their choosing (called ‘initial rent’).

The control of rent rises within tenancies and the control of initial rents work in different ways. Table 1 below outlines some models used to set initial rents in models across Europe.

<table>
<thead>
<tr>
<th>Initial rent-setting model</th>
<th>Description</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent market based</td>
<td>Initial rents are linked to the rental market</td>
<td>In France, rents are capped at no more than 20% of average rent for similar dwellings. In Berlin, initial rents are currently capped at 10% above local averages, although campaigners have recently won a five-year freeze on current market-level rents: a rental lid.²⁹</td>
</tr>
<tr>
<td>Points system</td>
<td>Model attempts to capture value without using market prices as a starting point, using a measure of ‘utility’</td>
<td>In Sweden and the Netherlands, initial rents are set according to a ‘utility’ formula based on different factors including things like quality, size and local amenities.</td>
</tr>
<tr>
<td>Landlord cost-based</td>
<td>Model sets rents based on landlords’ running costs</td>
<td>In Denmark, one of the ways initial rents are set is based on landlords’ running costs, plus a fixed owner’s yield and fixed amount for exterior maintenance.</td>
</tr>
<tr>
<td>Property value</td>
<td>Model uses a proportion of property value to determine maximum rent</td>
<td>In Malta, rents are capped at 2% of the market value of a property.³⁰ Generation Rent’s proposal of capping rents at 50% a month of the annual council tax band for the home is linked to a historic property value, and usefully uses a metric that is already calculated for every home.³¹</td>
</tr>
</tbody>
</table>
The table above outlines approaches to setting initial rents in a tenancy. Once those rents are set, approaches to setting within-tenancy rent increases include the following:

**Fixed percentage:** in Ireland rents can be raised by 4% a year; and

**Inflation:** in Spain annual increases within a tenancy cannot exceed the Consumer Price Index (CPI) for the first five years, and in Scottish Rent Pressure Zones, annual increases would be limited to CPI + 1%.

As demonstrated above, there are numerous ways to determine initial rents and subsequent increases in a model of rent control. The key parameters for setting rents are: i) whether rents are controlled between and/or within tenancies; and ii) what mechanism is used to set rents either between and/or within tenancies. Figure 1, overleaf, summarises the different measures used to set both between- and within-tenancy rent controls. It sorts measures used in cities similar to London, and potential variants not yet tried (such as limiting within-tenancy increases by wage growth, or using council tax to calculate rents between tenancies) into generic typologies.

### 2.1 THE BENEFITS AND RISKS OF DIFFERENT TYPES OF RENT CONTROLS

Given the wide variety of potential rent control models, how do we identify what form of rent control would work best for London? Increasing affordability, the objective of a rent control for London, may involve tradeoffs with other factors. We determined that the following factors should be considered when assessing rent control policies:

1. **Affordability**: the main purpose of introducing rent control is to make rents more affordable for those living in the PRS;

2. **Security of tenure**: even when there is strong security of tenure, some systems can provide incentives for landlords to evict tenants as a way of circumventing rent controls;

3. **Feasibility**: implementing any new system of rent control is likely to require an administrative infrastructure to establish the rent control, and to monitor and enforce it;

4. **Risk of negative effects to the wider economy and housing market**: the introduction of any rent control system comes with the risk of wider impacts, particularly to housing supply; and

5. **Equity**: the current pattern of market rents reflect the bargaining power of landlords and tenants, meaning some tenants may be paying higher rents for poorer quality homes.

Every real-world rent control model discussed so far has its own housing market context within which it operates. In order to assess the merits and limitations of different models, we have used Figure 1 to develop generic typologies of rent control models. Figure 2 analyses the benefits and risks of some of the different types of rent controls set out in Figure 1, primarily against factors 1-4 above.
FIGURE 1 TYPES OF RENT CONTROLS

- **Between tenancy**
  - Market linked
    - Proportional to the rental market
  - Non-market
    - Utility / Formula
    - Income
    - Property value
    - Council Tax

- **Within tenancy**
  - Fixed %
  - Inflation
  - Wage growth
  - As between tenancy

- **Property value**
  - Current property value
  - Council Tax
FIGURE 2 | TABLE OF EXAMPLES, ASSESSED AGAINST FOUR PRINCIPLES

<table>
<thead>
<tr>
<th>(A) Rent market based: Index linked within tenancy, no between-tenancy control</th>
<th>Ontario (until 2018), San Francisco</th>
<th>Weak. The market still inflates rental prices.</th>
<th>Weak. Landlords incentivised to evict tenants to reset rent.</th>
<th>Strong. No data required. The most light touch option and therefore more favourable with landlords. Minimal bureaucracy.</th>
<th>Weak. Landlords are free to decontrol properties and set rents as desired between tenancies, therefore there is minimal risk to investment in the private rented sector compared to other rent regulation.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(B) Rent market based: Market linked between tenancies, and index linked within</td>
<td>France, Julia Salazar for New York (proposed)</td>
<td>Weak/medium. Will stop rises beyond the market between tenancies, but will not interfere with general market rises. Depending on index (e.g., affordability, or CPI) may have a deflationary effect within tenancy.</td>
<td>Weak. Landlords incentivised to evict tenants to reset rent.</td>
<td>Strong. Some data available, and capturing further data required relatively straightforward.</td>
<td>Weak/medium. More disincentive to invest than (A) due to less control over rents and profits and depending on index, may have a deflationary effect within tenancy.</td>
</tr>
<tr>
<td>(C) Rent market based: Market linked between tenancies, and fixed percentage within</td>
<td>Germany (Rent Pressure Zones), Ireland (Rent Pressure Zones)</td>
<td>Weak. May stop price rises beyond the market between tenancies, but won’t interfere with general market rises. Depending on fixed percentage set, may have deflationary effect within tenancy, but only stronger than (B) if fixed percentage is lower than CPI. Fixed percentage may even increase rents as landlords may treat this as a target.</td>
<td>Weak. Landlords incentivised to evict tenants to reset rent.</td>
<td>Strong. Some data available, and capturing further data required relatively straightforward.</td>
<td>Weak. More disincentivised to invest than (A) due to less control over rents and profits. Depending on level of fixed percentage, may have stronger or weaker effects on investment than (B).</td>
</tr>
<tr>
<td>Example Type</td>
<td>Examples</td>
<td>Affordability</td>
<td>Security of tenure</td>
<td>Feasibility</td>
<td>Risk of negative impacts to wider economy</td>
</tr>
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</tr>
<tr>
<td>(D) Points based</td>
<td>Sweden</td>
<td>Potential to be <strong>strong</strong> between and within tenancies depending on level set by utility. A further benefit is that as well as bringing prices down, this option standardises rents for similar properties.</td>
<td><strong>Medium</strong> Landlords may be incentivised to evict tenants in order to renovate and get a higher utility rating.</td>
<td><strong>Weak</strong> Largyscale data requirements to assess utility, including potentially labour intensive assessments. Value ascribed to utility would be a top-down value judgement, or require additional level of organisation for collective bargaining, as in Sweden.</td>
<td>Potential to be <strong>strong</strong> between and within tenancies depending on level set by utility. If rent control keeps rents significantly below market, may lead to reduced supply of new homes and reduction in the size of the PRS.</td>
</tr>
<tr>
<td>(E) Points based</td>
<td>Netherlands</td>
<td>Potential to be <strong>strong</strong> between tenancies depending on level set by utility, and then potential to be strengthened or weakened depending on index, eg an index including a measure of wage growth would make rents more affordable than inflation.</td>
<td><strong>Medium</strong> Landlords may be incentivised to evict tenants in order to renovate and get a higher utility rating.</td>
<td><strong>Weak</strong> Largyscale data requirements to assess utility, including potentially labour intensive assessments. Value ascribed to utility would be a top-down value judgement, or require additional level of organisation for collective bargaining.</td>
<td>Potential to be <strong>strong</strong> between and within tenancies depending on level set by utility. If rent control keeps rents significantly below market, may lead to reduced supply of new homes and reduction in the size of the PRS. Depending on level of index, may be weaker than (D).</td>
</tr>
<tr>
<td>(G) Landlord cost based</td>
<td>Denmark</td>
<td>Potential to be <strong>medium</strong>, rents would be tied to mortgage interest rates so would be as affordable/stable as interest rates. Although perhaps potential for restructuring mortgages to keep rents high.</td>
<td><strong>Strong</strong> Less incentive to evict if costs are met.</td>
<td><strong>Medium</strong> Minimal data availability; existence of many landlords without mortgages; and possibility of restructuring mortgages to keep rents high.</td>
<td><strong>Weak</strong> Landlords are guaranteed a particular profit margin as rents are fixed to their costs.</td>
</tr>
</tbody>
</table>
2.2 KEY ISSUES FOR CONSIDERATION

On the basis of lessons learnt from international examples, it is clear that any model of rent control for the London context must consider the following:

Rent controls should be based on robust and accessible data of individual property rents: Data availability is a key weakness in other countries’ rent control policies. The Private Housing (Tenancies) (Scotland) Act 2016 granted the Scottish Government the power to introduce localised rent controls or rent pressure zones (RPZs) if local authorities could convince them that rents were too high in specific areas. However, as Living Rent, Shelter Scotland, Edinburgh City Council and the Highland Council have noted, because there is currently no comprehensive survey of rent level data available in Scotland, it is currently impossible for local authorities to provide the evidence they are being asked for. The result is that despite the new legislation, rent controls are yet to be implemented anywhere in Scotland. Germany has also faced this problem, where landlords are not obliged to disclose their previous rents despite the rent control being linked to this number. In Ireland on the other hand, the compulsory landlord registration system collects data relating to the size and type of property, its location and the rent being charged, as well as tenant details. This system is credited with boosting public understanding of issues and trends within the PRS, as well as aiding policy understanding and management of the sector.

Rent controls should be linked to the property, rather than the tenancy: Systems which control rents only within tenancies tend to be weak on improving affordability because the market continues to inflate rents between tenancies. For example, most contracts in Belgium are three year contracts, after which landlords can regain possession and freely negotiate rents. Consequently, they are considered close to free market conditions. As shown in Figure 3 below, tenancy-linked rent controls, sometimes referred to as rent stabilisation measures, bring a degree of predictability for both the tenant and the landlord over the short-term but do not necessarily curtail rent increases more broadly.

In the UK, recent research from the Ministry of Housing, Communities and Local Government (MHCLG) found that landlords and agents were more likely to increase the rent for a new tenant compared to an existing tenant. They found that 70% of landlords kept the rent the same for their exiting tenant while 42% increased the rent for a new tenant in their property. For this reason, controls both within and between tenancies would be desirable in London. In addition, models that limit rent increases only within tenancies create an incentive for landlords to evict tenants.

![Figure 3: The Growth of Rents Under Tenancy-Linked Rent Controls](image-url)
in order to raise rent levels. While it is assumed that any system of rent control in London would be introduced alongside the improvements in security of tenure outlined in the Greater London Authority’s London Model, evidence from other countries suggests that even with strong security of tenure, landlords may find ways to evict tenants as a way of circumventing rent controls.

Rents controls should make rents more affordable as well as limiting runaway growth: Cities with comparably high rent to London, such as Berlin, have implemented rent stabilisation models within tenancies that limit growth but do not tackle existing high rent levels. In 2015, Berlin implemented a ‘rent control’ to slow down increases, by capping the price of a new lease at 10% above local averages. Despite this, rents grew by almost 10% in the first two years following the rent brake.58 The housing movement has since successfully campaigned for a stronger five year rent-freeze, which will bring rents down in relative terms.59 Not only is the introduction of rent control an opportunity to tackle underlying high rents, but it is also not clear that simply limiting runaway growth will have a lasting impact on rents. Due to the incongruity between income and rental growth and given that London’s rental market is the most expensive in Europe,60 a rent control policy for London must bring rents down, as well as curbing future increases.

Rent controls should be implemented gradually over time: Existing examples of rent controls across the world have generally evolved and developed over decades, and the sudden imposition of significant rent controls may lead to negative market effects. Rent controls should be introduced in a stepped manner, to gradually transition the PRS to the new rent levels.

The opportunity to introduce rent controls may be limited if the system requires extensive infrastructure: Rent controls that use current rental market levels or an existing metric (eg property values) to set baseline rents may be less labour intensive (and therefore cheaper) to generate and implement than those based on utility or landlord costs. In addition, systems which require extensive new infrastructure and action for implementation and enforcement may be more costly.

Rent controls should involve the bare minimum exemptions to the policy: The more exemptions a rent control policy has, the narrower the impact of the policy will be, and the easier the system may be to avoid. In Dublin, where rent increases are limited to 4% a year, the impacts on affordability have been limited due to landlords using exemptions to the policy to raise rents. One exemption in Dublin is for major renovations, but it has been argued that landlords use this loophole to remove tenants and raise rents while carrying out minor or unnecessary refurbishments.61 Dublin rents jumped 7% in the first quarter of 2018 alone.62 Similarly, where there are exemptions for new builds or high-value properties, this can lead to a two-tier system with low rents for controlled properties and very high rents for other properties. As such, if there are to be exemptions to the policy, this must be well justified.

Risks to housing supply would need to be mitigated: Any decrease in rent, and therefore landlord profits, such as that imposed by rent control, could decrease the attractiveness of the sector as an investment. Current landlords exiting the sector could have negative effects for current tenants, decrease the supply of homes currently in the PRS, and disincentivise the building of new homes. Further work would need to be undertaken to understand these risks, and it is essential that appropriate mitigations would be developed to support the gradual introduction of rent controls. In addition, rent controls should be introduced alongside a suite of policies to address the housing crisis, including a large increase in social housebuilding, which may help to mitigate against these risks.
This section sets out six key building blocks for establishing a system of rent control in London. These have drawn on lessons from elsewhere, but have been designed to meet the context of London’s rental market.

### 3.1 A LANDLORD AND RENTS DATABASE

We know that rents are, in aggregate, overinflated in London, but there is no database on rent levels for individual properties. Information about current rents at the level of individual homes is crucial to design, implement, and enforce an effective system of rent control.

A prerequisite for introducing rent control in London is therefore to establish data on current rental prices. We propose the creation of an open-access online database of registered landlords and rents. Landlords would be required to register their properties on an online system. The database would then collect information from landlords on rent at appropriate points, such as an annual declaration or when new tenancies are signed. All tenancies could, if feasible, be held on the new database, thereby making the collection of data an automatic part of the letting process. Other information gathered could include the size, type and location of property.

### 3.2 PROPERTY-LINKED RENT CONTROL

The evidence shows that within-tenancy rent controls do not generally make rents affordable in the long run, as rents are increased to market levels with every new tenancy. In addition, even with the additional security of tenure which would be implemented through the London Model, the ability to increase rents between tenancies can create incentives for landlords to find loopholes in the rent control system which would enable them to evict tenants in order to be able to increase rents.

Rent control in London should therefore be linked to a property, not to a tenancy. This would remove incentives to evict tenants, and enable rent control policies which could significantly increase the overall affordability of rent in the long term.

### 3.3 A DESIRED RENT LEVEL

The Private Rent Index, set out in section 3.4 below, would limit rent increases on an ongoing basis. However, in London a system of rent control should also allow policymakers to begin by reducing rents in real terms, given the existing gulf between rents and incomes and the need for greater affordability in the short and medium term.

To achieve this, we propose that London’s rent control system should allow a Desired Rent Level (DRL) for each home to be set. The move to such a rent level would be implemented over a period of years, as opposed to overnight.

There are various ways that the Desired Rent Level could be determined. These include:

- Limiting rent increases to a given amount below wage growth for a defined number of years. For example, rents rises could be limited to 2% below median average wage growth for five years, to enable wage growth to catch up with rental growth.

- Reducing rents by a fixed percentage below the current market level. For example, reducing rents by 1% a year for four years could potentially cut rents by 20% in real terms for renters relative to where rents would otherwise be if the market was left unregulated.

- Setting rents based on a formula that reflects average incomes. For example, through a stepped annual decrease, bringing rents down to a third of median local incomes over time.

Mechanisms for determining the Desired Rent Level that are based on market rents at the start of the process can perpetuate the current situation whereby properties with very similar characteristics can have very different rents. This could be
addressed through an additional property-related mechanism, to reflect the size, location, upkeep, and other characteristics of each home in the level of rent. This would give points and a corresponding monetary value to each of these features, which would inform a property’s DRL. Using utility or points to set rents is an approach taken in Sweden and the Netherlands. However, this would require extensive additional data gathering and enforcement.

A Desired Rent Level would also need a mechanism for determining the rents of new builds and new entrants to the PRS. Some options for setting rents on new private rented homes include:

- ‘Rent mirroring’, using information about similar homes from the online database. ‘Rent mirroring’ is a feature of both the German and Danish systems.65

- Exemptions from rent control for new build properties for a defined period of time, which could also help to incentivise the delivery of new homes. For example, new builds are exempt from Swedish rent controls for 15 years,66 and new builds since 2014 are exempt from Berlin’s ‘rent brake’.67

- New build premiums, which could also be part of a points system.

3.4 A PRIVATE RENT INDEX

Once the Desired Rent Level is reached for a home, ongoing caps on annual rent increases would be determined by a Private Rent Index. This index might take into consideration local wage growth, house price indexes, wider consumer inflation, borrowing costs, and other relevant variables to determine an affordable percentage rise or fall for tenants and landlords.

We believe the most important factor in the index should be tenants’ ability to pay, ie, it should be weighted significantly by local wage growth. Once the Desired Rent Level levels have been reached, the Private Rent Index would prevent runaway rents inflating at a much faster rate than wage growth, as has happened in London in the recent past.

3.5 AN INDEPENDENT ADMINISTRATIVE BODY

We recommend the establishment of an independent administrative body. This body would, in its first incarnation, be tasked with developing the detail of how a rent control system in London would work. This would include developing proposals for the infrastructure required to operate the chosen rent control system, and therefore how the administrative body itself would need to be reformed to enable it to implement the rent control system on an ongoing basis.

The administrative body could be tasked with:

- Creating and maintaining the London-wide open-access online database of registered landlords and rental prices;

- Developing options for approaches to set Desired Rent Levels and the Private Rent Index, including:
  - Gathering evidence and undertaking research, including on landlord profit margins and yields across a representative sample of London landlords, properties and business models;
  - Fully considering risks and mitigations, including how a gradual introduction of rent controls over time could minimise any negative impacts, while still achieving improvements in affordability, as well as the incentives needed to ensure that current landlords remain in the sector and new entrants join it; and

- Acting as the body to enforce the rent control system, including by accepting appeals from tenants and landlords in the instance of disagreements over rent levels.

This should be an independent body, overseen at arms’ length by the Mayor, like the Low Pay Commission. We propose that it would involve, as a formal part of its governance structure, an advisory board of housing and poverty experts, including a meaningful proportion of PRS tenants. It would be important that, through its decisions, this body offered as much certainty as possible for landlords and tenants.
3.6 ENFORCEMENT

Systems of rent control need effective enforcement, and two key aspects of doing so in the system we propose for London are set out below.

3.6.1 Rental declaration

Most existing models of rent control place the burden of proof on tenants, who have to report divergences between what they are being charged and what the rent should be. This could lead to some landlords avoiding the rent control, if tenants do not or cannot report potential violations. A system of enforcement which does not burden tenants with identifying infringements is therefore preferable.

We propose landlords should be required to report rents at appropriate points, such as an annual declaration or when new tenancies are signed, which can then be verified by tenants. Landlords reporting rents above their allowed levels will be readily identified within the database and so can be challenged using the enforcement function of the new PRS body.

The declaration itself will not completely remove false reporting from the system, as the tenant validation may be open to abuse, especially for more vulnerable tenant groups. A system would need to ensure it was accessible by different user groups, including by offering translations and offline options. Although the declaration process would need to be accompanied by close monitoring and separate enforcement action, this new system will reduce the administrative burden of enforcement compared to many other systems of rent control.

3.6.2 Dispute resolution

It is likely that any system of rent control would lead to disputes regarding issues such as rent levels being charged, or what an individual home was awarded if the chosen approach involved a points system. An effective dispute resolution mechanism would therefore be needed that would include a tribunal system (for issues where landlord and tenant disagree) and a court system (for cases in which the law had been broken). It could also include a role for the PRS body – for instance, it may be appropriate for tenants to contact this body in the first instance if they feel a landlord has declared an incorrect rent, or if they wished to dispute the points value awarded to their property.
4. NEXT STEPS

The scale of the housing affordability crisis in London means that, despite the risks, carefully designed rent controls are becoming increasingly necessary to create a capital with a fairer, more affordable PRS. With a majority of Londoners now in favour of rent control, a growing private renters’ movement, and a Mayor who supports its introduction, the impetus for the introduction of rent control is increasingly gaining momentum. This report provides the first step in designing a rent control model which works for London. Refining and implementing the recommendations should be an urgent priority.

There are four key steps that should be taken as a matter of priority:

1. The devolution of rent policy from national to regional government to respond to specific challenges in London: As many of the cases discussed in this paper show, from Germany to Scotland, rent pressures are often highly localised, devolved mayors must have the powers needed to respond to the pressures faced in their cities.

2. Sectoral engagement: The preferred option for rent control and details of its design should be established through extensive engagement with a wide cross section of renters’ groups, tenants (particularly the most vulnerable), and landlords.

3. Additional data collection on rents and landlords’ costs: A key challenge in designing the detail of the approach to rent control, and in particular in determining how far and how fast the market can bear rent reductions, is a lack of data and evidence. It is important to obtain specific data on landlord profit margins and yields across a representative sample of London landlords, properties and business models.

4. Mitigation measures or exemptions: It is important to establish what might be needed and feasible to accompany different potential approaches to rent control. Robust mitigation measures need to be designed to ensure the rent control improves affordability without introducing unacceptable risks to housing supply.

NEF is keen to work with the Mayor of London and other stakeholders to take this work forward.
ENDNOTES

2 Ibid.
8 Ibid.
9 Ibid.
19 Ibid.


