

The Private Rented Sector as part of the Global Housing system in a COVID19 world

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General Trends

- Private renting has been growing across many countries – partly because of declines in social housing provision but more because it has become more difficult to enter owner-occupation – and because rental housing has become a more popular investment.
- In England the private rented sector has more than doubled since the turn of the century and the rate of change has been similar in Wales and Scotland.
- In Ireland the rate of change has been greater – in 2018 the sector was three times its size in 2000 and is now accommodating almost 1 in 5 households.
- But growth across much of Europe: eg Spain, France, Denmark, Sweden; and in Australia, New Zealand, Canada and the USA.

Three big international topics

- Increasing regulation –including stronger rent controls and/or greater security of tenure:
eg: Ireland; Scotland; Germany; France; Spain; Norway; New Zealand
- Financialisation: increasing involvement of institutional investors often from overseas – looking for long term stable returns but also for significant short term gains:
eg: Germany; Denmark; Sweden; Ireland
- Short term letting: AirBnB style lettings particularly in tourist towns:
eg: Portugal: Lisbon; Spain: Barcelona; Scotland: Edinburgh

Increasing Rent Regulation

- Rents and their worsening relationship to local incomes is becoming a major issue across many countries. As a result, an increasing number of countries and cities have introduced more regulation or are looking to do so. The most notable is Germany, and particularly Berlin but countries that have already legislated include Ireland, Scotland, France, Spain, Norway and New Zealand.
- Changes are mooted in many other countries eg in parts of the USA, Canada, Australia and England.
- In all cases reasons for the political interest lie in worsening housing shortages particularly in major cities, concerns about affordability, insecurity of tenure, ownership and housing quality - and more fundamentally increasing inequalities of income and job insecurity.

Germany and Berlin

- Germany – 3rd generation rent control for decades – ie initially market rents but indefinite tenancies and indexed rent rises within the tenancy.
- However since 2013 additional rent controls introduced in tight housing markets cities (now over 300 cities/municipalities) by which initial rents are limited to 10% above the local comparator. At the same time the allowable rent increase in existing tenancies was reduced from 20% to 15%.
- In Berlin, concerns that urban renewal programme had led to large rent rises and insecurity - and the introduction of rent controls in 2020 (including rent reductions if rents above cap or 2019 levels). These have now been ruled out by the Federal Constitutional Court.

Ireland

- Was one of the most highly deregulated systems in Europe.
- Moved to a system by which rents should be in line with local market rents for similar properties.
- In 2016 Rent Pressure Zones (“RPZ”) were introduced, where rent increases may only rise by a maximum of 4% annually. Proportion of tenancies in RPZs has risen significantly and now includes many areas which are not obviously pressured (see Germany).
- They are due to be replaced in January 2021.
- Under Covid restrictions, rents were frozen, notice periods suspended and evictions banned until mid April 2021.

Closest Example: Scotland

- Indefinite tenancies;
- Market rents on first letting;
- Within tenancies some limited constraints on rent increases;
- Rent increases appealable to a rent officer who must set a market rent;
- Rent pressure zones may be requested by local authorities – none yet in place?
- So in principle a rent stabilisation approach combined with security of tenure;
- However 18 exceptions.

Norway; New Zealand; England

- Examples of countries that were unregulated include Norway, New Zealand and England.
- In Norway rents must be comparable to other local lets and either side may ask for indexation.
- In New Zealand there were short tenancies, no fault eviction and market rents. In 2021 fixed term tenancies all become periodic tenancies; landlords cannot end a tenancy without reason; and rents may rise only once a year.
- In England still ASTs of 6 months/one year, no fault eviction and market rents but Government has promised to change – but when?

Impact of Increasing Rent Controls

- So far little evidence that the changes have impacted on investors' preparedness to invest;
- This may be in part because more extreme suggestions (such as the return to 1st generation rent control in Berlin) have not been implemented;
- But it is also because rents appear not to have been significantly controlled – as tenants have not generally appealed their rents;
- But evidence of increasing administrative costs and concerns around data quality (and implicitly avoidance and evasion of controls).

Financialisation – good or bad?

- Good: improves management and adds to the stock: growing interest among institutional investors in investing in purpose built private rented accommodation – the UK is a lead country in Europe and there are consistent discussion of ‘sheds of money.
- Institutional landlords state they are happy with longer term security and within-tenancy indexation – as long as there is proper enforcement of rules – and accepted exceptions to indefinite security.
- Bad: separates house prices and rents from local incomes. Experience of Germany in particular but also more widely across the world institutional landlords have gentrified by increasing standards and increasing rents excluding traditional tenants. Campaign to expropriate property of one large landlord in Berlin.
- More generally argument is between housing as an asset (with relatively high and stable returns in low interest rate world) and housing as a human right.

Short term lettings

- Concerns particularly in major tourist cities ;
- Competition between ‘traditional’ private tenants and those looking for short term accommodation;
- Problems of regulation - difficult to implement and to ensure tax revenues collected;
- Adverse effects on local community;
- Higher rents in the private rented sector;
- Negative impact on the local economy.
- Impact of covid.

Impact of Covid

- Many countries introduced suspensions of both notice periods and evictions;
- Exceptions for ASB , domestic abuse etc
- Some countries have helped tenants to pay their rent with low interest loans; others have left it to landlords to cope.
- In the main people have paid their rent in part because of furlough arrangements;
- Also there have been increases in income related support.
- But there is the potential for a long period of uncertainty as covid specific arrangements wind down.