

Rent control: is history repeating itself?

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At the turn of the century, over 90% of all the housing in Britain was rented by private landlords; the figure is now under 10%. The government hopes to change all that. According to the White Paper on housing policy, they "will put new life into the independent rented sector. The letting of private property will again become an economic proposition."¹ They are going to do this by removing most of the controls on new lettings.

It's been tried before. In 1957, the Conservative government decided to remove the controls from rents, in the belief that this would revitalise the sagging private sector. Rent controls were removed from dwellings with rateable values over £30, which covered about 12% of all private rented housing², and from all new lettings. They believed that this would enable landlords to put up the rents, which would bring new properties into the market. The effect was quite different. Rents increased marginally, but nothing like the government expected, and landlords left the market in droves.

Basically, the government had the market wrong. Although rent control had existed since 1915, it played little part in the decline of the private rented sector. The most important factor was the growth of owner-occupation. By the 1920s, the building societies offered stable, secure finance at low cost. The richest part of the market for rented housing disappeared. The growth of council housing also took out many people who would otherwise have occupied private rented accommodation. As a result, the demand for private rented housing fell throughout the inter-war period. From the landlords' point of view, there were other, more attractive investments elsewhere. This meant that, in comparison to other types of building, relatively few houses were built for rent.

By the 1950s, the private rented sector was already set to collapse. Most private rented accommodation had been built before 1914, and it was getting old. The effect of clearance policies was devastating. Disrepair, increasing costs and falling demand made renting less and less profitable. Landlords who remained in the market were able to make money by overcrowding tenants into unfit property. The period is remembered by the name of 'Rachmanism'. But most landlords could get a higher rate of return by selling up, and using the capital elsewhere. They had one major problem. A house sold with vacant possession had its value set by the price an owner-occupier would pay. A house with a sitting tenant had its value set mainly by the value of the rental income, and it was worth far less. So the landlords had to get the tenants out. Decontrol itself probably had less effect in this than the open abuse of tenants' rights.

When the Labour Government came to power in 1964, one of its first measures was a temporary Protection from Eviction Act, to try and hold the situation until they could provide proper protection. The Rent Act 1965 restored both security and rent control. The basic principle behind the 1965 Act, and subsequent Rent Acts, was that a rented property is the

tenant's home. A landlord has the right to evict if the tenant in some way breaches conditions of tenancy. But what landlords could not do was to evict because they wanted to sell the house. And that, of course, was precisely why landlords did want to evict tenants, and why they want to evict tenants now. The Rent Acts may not have been terribly successful, but in so far as they have worked their effect has largely been to slow down the decline of the private sector by stopping landlords from throwing their tenants out.

The landlords' position

For most landlords, the rate of return on capital is poor, not only because rental income is low, but also because the capital value of housing is high. Landlords largely judge their rate of return from renting against the property's current market value³. They want to get at least as much as they can get anywhere else - 8% or 9% after tax and costs; but there are risks involved in letting, and so they want more. A reasonable rate of return on capital would be at least 15% of the capital value. Suppose a landlord owns a house worth £30,000. 15% would be about £4500 per year, or £86.50 per week. But the same house could be bought much more cheaply, for about £60 per week - a situation which reflects government subsidies to owner-occupiers. This means there isn't much demand for long-term rented housing at higher cost. What demand there is comes from houses in multiple occupation; the landlord could get £86.50 by letting out four rooms each at £21.65 per week. There are many single people ready to pay this, largely because it is so difficult as the law stands to buy a part share in a house, but the conditions only apply to a limited part of the market.

Although landlords can't for the most part get an adequate rate of return from renting, they can do so from the increase in value of the property. Because this has become much more important than the rental income, landlords have no interest in providing long term tenancies. And this is why they have been consistently opposed to the principle of the Rent Acts. They complain that they can't get tenants out. It is not true, and it has never been, that a landlord couldn't take effective action against a tenant who failed to pay rent, or who was in some breach of the tenancy conditions. But this is not actually what landlords are worried about. The main reason why they want to evict tenants now is to be able to realise their capital gains.

The government's policy

The government now plans to leave existing tenants with protection, but to remove most controls from new lettings. This proposal looks, on the face of the matter, very similar to what was done in 1957. It seems they are making the same mistakes again.

The policy may be similar, but the conditions in which it is being applied are not. The politicians who passed the 1957 Act believed it would help to restore the sector. The government now sees little hope of reviving the private sector for long term tenancies, which is why existing tenants are going to be left alone. However, they believe it may be possible to encourage landlords to let for the short term. All new lettings will be either shorthold or assured tenancies, both of which offer limited security. This is, in important respects, a very different policy from the Rent Act 1957. The role of private renting is going to be quite different from what it once was.

But will it work? There are reasons to doubt it. Existing tenants may well be put in jeopardy. Evasion and abuse of the Rent Acts are already rife. Landlords are being offered the

opportunity to charge higher rents to tenants with less security of tenure. If they want to continue as landlords, they have a clear incentive to evict existing tenants or to try to transfer them to the new arrangements. If they do not want to continue as landlords, they will try to get their tenants out anyway. And as tenants move out, for whatever reason, the traditional private sector will continue to decline.

As for short-term lettings, if landlords could have been tempted onto the market by the offer of high rents and tenancies with limited security, they should have been by now. Half of the new tenancies in London are not protected by the Rent Acts, and "avoidance and evasion of the Rent Act is already so prevalent in London that anyone who wishes to let under market conditions can do so".⁴ In most places, they haven't chosen to pursue this option, because there isn't enough demand to give them an adequate rate of return. The rents have been low, not because of legal restrictions, but because tenants cannot pay the landlords as much as they want. Under the new rules, there will still be no demand - unless the government creates one.

This is the crux of the matter. The government can alter the balance. They could, in theory, do it by reducing the subsidy to owner-occupation, but that is not very likely. Alternatively, they could decide, directly or indirectly, to subsidise the private rented sector. Many tenants are on benefit, and the government can pay higher rents for them. That - despite their protestations to the contrary - seems to be what they plan to do.

The White Paper is designed to speed up a process which has been happening for a long time; the slow death of the traditional landlord, and the creation of a new, marginal sector offering expensive, short-term accommodation. This will undermine the position of many existing tenants, and it will do little or nothing to help people who need housing most. The Campaign for Bedsit Rights has called the proposals "a charter for Rachmanism", which is precisely right. The private sector gives rotten value. The housing is amongst the worst in Britain. There is a clear economic incentive to overcrowd tenants, to exploit, to keep people in awful conditions, and to throw them out when it's convenient. There are surely better ways to spend public money.

References

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4. C. Whitehead and M. Kleinman, "Private renting in London: is it so different?", Journal of Social Policy, 1987, 16 (3) p.345.