RESEARCH & CONSULTANCY

ASSESSMENT OF SCOTLAND'S RENT FREEZE AND IMPACTS

BRITISH PROPERTY FEDERATION

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EXECUTIVE SUMMARY

The British Property Federation (BPF) commissioned Rettie & Co to undertake research work on the Scottish Government's 'Rent Freeze' and its impacts, particularly on the Build-to-Rent (BtR) sector.

The study involves a series of linked research methods including an evidence review, a literature review and primary research with institutional investors.

RATIONALE FOR POLICY AND SECTOR RESPONSE

The emergency legislation was introduced by the Scottish Government in September 2022 as a cost-of-living measure. It was initially applied as a rent freeze to the social and private rented sectors, although, from 1 April 2023, it will be lifted for the social sector and the private sector will have a 3% cap.

It has been widely criticised by both the social and private sectors for likely negative impacts on availability and supply as well as on affordability over the longer term. The criticism particularly focuses on the detrimental impact on new housing investment, at a time when this is clearly needed, as well as on other core Scottish Government objectives around net zero and energy efficiency.

LITERATURE REVIEW

There has been rapid growth in the PRS over the last 25 years, but the most recent data shows that this has now levelled off and is likely to be declining. Availability of properties to rent has clearly and markedly reduced across Scotland over the last 18 months.

BtR provides professionally managed accommodation with a range of amenities. It is generally affordable compared to the wider PRS and caters for a range of income groups and employees. It also has high levels of satisfaction among those living in BtR homes.

BtR is seen as part of the solution to housing shortages in the PRS and more generally. However, Scotland is underperforming in BtR provision. Rettie & Co estimates that the BtR sector in Scotland is worth around £4.5 billion but less than £1 billion is operational.

National and international research is clear that strict rent control measures, such as the ones recently introduced in Scotland, can halt or lower rises in rent levels but can also have significant negative effects on new supply and investment in existing properties.

PRIMARY RESEARCH WITH INVESTORS

Residential is now a popular investment asset class in the UK. It provides new homes while giving investors such as pension funds a steady and stable return.

Scotland, especially Edinburgh and Glasgow, meet all or most of the requirements that BtR investors have when they consider locations for BtR. Operating schemes in Scotland are performing well. These schemes have been able to adapt to previous Scottish PRS legislation without significant issues.

Political risk is the main factor limiting Scotland's provision of BtR and this risk has been amplified by the emergency legislation measures, particularly the rent freeze/cap due to the uncertainty that it creates for investors. Investors are looking for a stable political environment, a positive attitude in planning and engagement with government to foster confidence and trust.

Some investors who have successfully invested in Scotland have abandoned schemes or put them on hold due to the heightened risk and impacts on scheme viability caused by the emergency legislation.

There is still investor interest in Scotland, but this has diminished since the emergency legislation was introduced.

CONCLUSIONS

The emergency legislation is intended as a short-term measure to help to solve an immediate cost-of-living crisis but, by acting against new supply, risks worsening affordability and availability problems in the PRS over the longer term, as well as negatively impacting on other Scottish Government objectives around net zero and energy efficiency. Although difficult to measure precisely, there are clear opportunity costs to a rent freeze/cap policy.

BtR is part of the solution to the housing availability crisis, as recognised by the Scottish Government itself. It delivers quality, well-managed rental homes that can support the aspirations of towns and cities to grow economically through attracting talent, leading to higher wages and productivity growth. However, BtR is underperforming in Scotland. Political risk is the main factor behind Scotland's relatively low delivery of BtR and such risk has been heightened by the emergency legislation.

There remains investor interest in Scotland but it has been diminished since the emergency legislation was introduced.

Further legislation on the rented sector is planned, which adds to the uncertainty. If the Scottish Government is serious about BtR being part of the solution to the housing crisis, it needs to engage with the industry and work with it to overcome some of the hurdles to investment. At the moment, from the viewpoint of the industry, it seems to be adding more hurdles.

1 INTRODUCTION

The British Property Federation (BPF) commissioned Rettie & Co to undertake research work on the Scottish Government's 'Rent Freeze' and its impacts, particularly on the Build to Rent (BtR) sector.

The remit for the work to be undertaken by Rettie & Co is set out below.

- Provide a short explanation of the Rent Freeze in Scotland.
- Provide an explanation of the differences between BtR and Buy to Let (BTL) landlords.
- Provide a critique of the Scottish Government's policy and of the evidence basis behind it.
- Consider the impact on tenants of the legislation.
- Consider the impact on investment of the legislation.
- Consider other possible impacts of the legislation.
- Consider lessons for future rent freezes and controls in Scotland.

This work is expected to be based largely on secondary research alongside a survey of BtR investors.

1.1 METHOD

The study involves a series of linked research elements.

An **evidence review** of the origins and intentions of the Rent Freeze based on Scottish Government analysis and assertions. The Scottish Government's rationale for its intervention will be critiqued based on an assessment of this evidence and the sources used to justify the policy as well as other sources of evidence that Rettie & Co has access to.

A **literature review** to examine the growth of the PRS sector in the UK and internationally and the extent to which it differs from the Buy to Let (BTL) sector. This review will also examine the impacts of other rent freezes or strict caps, e.g. on the affordable housing sector in England & Wales from 2015.

Secondary data and the literature will be used to examine the impacts on tenants and investment from theoretical as well as actual perspectives.

Primary research involving interviews with institutional investors with and without interests in Scotland. Issues to be addressed will include how capital is allocated by these investors; the attractiveness of Scotland as a place to invest; the impacts of uncertainties and risks on decision-making; the risks and uncertainties caused by the Rent Freeze and other aspects of Scottish Government legislation; and the mobility of capital and alternative investment propositions. Comparisons can also be made with investment decision-making, risks and sentiment in the wider UK.

2 RATIONALE FOR SCOTTISH GOVERNMENT POLICY

Concerns about the levels of rental growth, which is partly contributing to a cost-of-living crisis, moved the Scottish Government to freeze rents in existing tenancies and ban evictions for a period of around six months from 6th September 2022 until the end of March 2023.

2.1 INITIAL EMERGENCY LEGISLATION

The Cost of Living (Tenant Protection) Act came into effect on 28th October 2022 and could be extended by a year from its current end of March date. It sets a temporary power to cap rents within tenancies. The initial cap is set at 0%, hence the term 'rent freeze'.

The rent freeze and evictions ban applies to all private sector and social sector residential rents, including those in Purpose Built Student Accommodation (PBSA). However, PBSA provisions are slightly different in that the cap only applies from when the legislation came into force and only impacts on aspects of the charges applied.

The Act only applies to increases in rent within tenancies. It does not affect rents at the start of tenancies or rent increase notices if they were served before 6th September 2022.

The Scottish Government was already committed to introducing a national system of rent controls by 2025 and has been consulting widely on this, with the aim of achieving a broad political consensus through the Cross Party Group on Housing at Holyrood (which has representation from the industry as well as tenant groups).

Proposals to introduce a two-year rent freeze were previously advocated by the Scottish Labour Party but voted down by the SNP-led Government and its Green MSP partners.

2.2 JANUARY 2023 ANNOUNCEMENT

The Government must review the provisions to assess whether they remain necessary and proportionate, having regard to the cost-of-living, and report to Parliament every three months on that review. Ministers also have the ability to end the rent freeze/cap earlier.

It was announced by Patrick Harvie (the Scottish Government Minister for Zero Carbon Buildings, Active Travel and Tenants' Rights) on 12th January 2023 that the rent freeze/cap would not apply to social landlords from 1 April 2023, but some form of cap would continue to be set for the private rented sector (PRS) going forward.

On 19th January, it was announced that the Scottish Government intended to cap rent rises within private sector tenancies at 3% from 1 April 2023. Landlords can apply for increases of up to 6% to help to cover costs in certain defined and limited circumstances. The rent cap for student accommodation was suspended given its limited impact on annual rents set at the start of the academic year.

The evictions ban, except in limited circumstances, is also to continue across all sectors.

These temporary measures are to be extended to 30 September 2023, although Ministers do have the power to end these earlier. There is an option to extend for a further six months if required.

The Scottish Federation of Housing Associations (SFHA) had put forward a strong case that rent controls of this sort would impact on their ability to deliver affordable homes and Net Zero commitments, especially given rises in construction costs. They also highlighted that over half of social tenants have their rents covered by welfare benefits, therefore the rent freeze does not impact on the incomes of these tenants but does mean that housing associations in Scotland have to cut-back on service provision. This seems to have been accepted by the Government. There is to be a set of agreements from social landlords to limit rent increases for 2023/24 to well below inflation.

The Scottish Government said that it would, *"continue to carefully monitor the impacts of the legislation, working with tenants and landlords to protect them from this costs crisis."*

2.3 SCOTTISH GOVERNMENT JUSTIFICATION

The Scottish Government largely justifies this intervention as a measure to protect tenants from the cost-of-living crisis.

However, the introduction of rent controls has been a long-standing aim of the Scottish Green Party and has cross-party support in the Scottish Parliament (apart from the Conservatives).

The end of the freeze from end of March this year does, however, show that the Government has listened to housing providers in both the social and private sectors. The Minister stated that he recognised the increasing costs for landlords when replacing the 0% cap with a 3% cap from the end of March 2023 (with the ability of landlords to apply for up to 6%).

2.4 CRITIQUE

There have been a series of arguments made against the Scottish Government's emergency legislation, particularly around its possible negative impacts and unintended consequences. These are summarised below, with links to further reading to provide a greater exposition of these arguments.

2.4.1 Lack of Data

The implementation of sweeping changes in the PRS, in particular, is bedevilled by a lack of data on the sector to baseline existing performance let alone assess the impact of change. This includes on actual rents paid within tenancies and the supply of rental properties. There often seems to be confusion in using rents quoted on new lets as definitive data on general rental market inflation.

Although the Scottish Government has undertaken a business and regulatory impact assessment of the emergency legislation, there is a lack of adequate baseline data in this assessment and assessing the impacts of change against objectives will therefore be almost impossible to achieve.

2.4.2 Impacts on Supply

Although the freeze/cap in rents may help tenants in managing their income and costs in the short-term, it will likely place pressure on landlords, who are not immune to the cost-of-living crisis. There are some provisions in the legislation that allow landlords to apply to a rent officer for a rent increase to cover up to half of the increase in prescribed property costs, including mortgage interest; insurance premiums (other than general building and contents insurance); and a service charge paid for by the landlord and for which the tenant is liable in terms of the lease. The maximum increase that can be claimed is up to 50%, capped at 3% of the passing rent, which will increase to 6% from 1 April 2023. However, it is likely that a strong case would have to be made for such a provision.

Recent evidence from a study for the Nationwide Foundation, led by Indigo House, highlighted that there has been a likely erosion of PRS supply in Scotland in recent years and issues with availability of rental property, especially in Scotland's main cities. Due to the lack of ability to raise revenues in a world of increasing costs, there is a clear risk that more BTL landlords will choose to leave the sector as a result while BtR investors will have difficulties in being able to maintain yields. This will hinder current and future PRS supply.

There has also been evidence from other sources of acute PRS pressures for groups such as students in the main cities at the start of term due to a lack of supply.

Any extension of the rent freeze/cap would obviously capture more properties and may particularly affect landlords who are highly leveraged (and facing rising mortgage costs).

Other recent tax changes in Scotland, such as increasing the Additional Dwelling Supplement (ADS) on second home purchases to 6% will likely hinder landlords' ability to purchase new properties for the PRS, including properties that come on to the market from landlords exiting the sector.

The emergency legislation would probably have limited impact if the rent freeze/cap lasted just 6-12 months. In the case of BtR, there are only around 1,800 or so operational units in Scotland that would be captured by it and BtR tenancies tend to last beyond 6-12 months in any case.

A strong case has been made by the social and private sectors about the impacts of such freezes/caps on new housing development. For the social housing sector, it has been argued that, before the freeze/cap was lifted for the social sector, a rent freeze from this April could take out around £660 million from the social housing sector's investment in new housing and improvements to existing housing, including Net Zero commitment, over an 30-year business plan period.

SPF have made similar arguments in the BtR sector, with an estimated £700 million of BtR schemes put on hold or pulled after the Scottish Government's initial announcement in September 2022.

In February 2022, and well before the emergency legislation, the Scottish Association of Landlords (SAL) conducted a survey of its members to enquire about the size of their rental property portfolios and how this has changed or will change over time, along with the reasons for their investment decisions. 635 landlords responded to the survey with a collective PRS portfolio of 4,214 properties. Over one-third reported that they have expanded the size of their portfolio in the past ten years, with 28% reducing their portfolio size and 36% said that they have not changed the number of PRS properties they own. Over the next ten years, 34% of respondents said that they planned to reduce the size of their portfolio and 19% planned to increase their portfolios. The remainder were either unsure about their plans or intend to keep their portfolio at the same size. Of those planning to reduce their portfolios size, around two-thirds said that increasing regulation in the sector was a factor behind their decision. 60% said that perceived hostility towards landlords from government/politicians was as factor.

This contraction in the supply and availability of BTL properties is evident across the UK, where rent pressures are also being experienced due to rising demand. In their recent detailed review, Hometrack conclude, *"Tax changes, growing regulation and higher borrowing costs are leading many private landlords to review their portfolios and the pros and cons of investing in housing."*

This shrinking of the small landlord PRS will further increase pressures, including affordability, on the sector. With investment from other sources like institutional investors being held back for similar reasons as Buy to Let (BTL) landlords withdrawing, these pressures do not look like being eased anytime soon.

Scottish Government Ministers have raised the possibility of the public sector buying up distressed private landlord properties and operating them as social/affordable homes. There are initiatives by the likes of the City of Edinburgh Council to do this, but the numbers involved will likely be small due to available resources and confined to low demand private housing areas. Outside these areas, landlords have a range of options, including selling or considering alternative provision, e.g. use as a short-term let or second home.

2.4.3 Impacts on Rents and Affordability

In the wider PRS, a high proportion of tenancies do not tend to have within tenancy rental increases anyway. A recent study for the Nationwide Foundation found that 59% of tenants did not have a within tenancy rent increase. The latest data from the Office for National Statistics (ONS) in its Index for Private Housing Rental Prices (IPHRP) across the UK highlighted that rents in Scotland rose by 4.9% in the year to February 2023 and has been below inflation for most of the past ten years. While this Index uses data drawn from the Rent Service Scotland (RSS) data collection, which is largely based on advertised rents, it attempts to make an allowance for rents paid by existing tenants by assuming that a rent record remains unchanged for a period of 14 months. The pace of rental growth in Scotland is higher than it is in England (4.5%) and Wales (4.2%); after running behind rental growth south of the border for a number of years, rental growth in Scotland has been running ahead of England and Wales since the start of 2021. This has continued during the rent freeze period.

Rents within existing tenancies seem to have been largely stable prior to the rent freeze. By contrast, new tenancies (which are not subject to a rent freeze) are experiencing above average rent increases in major cities. In Q4 2022, Citylets reported a 12% annual rise in advertised rents across Scotland, including 14% in Glasgow and 15% in Edinburgh. Rents in the likes of Edinburgh and Glasgow have been rising for some time, but this is well beyond the 10-year compound annual growth rate (CAGR) for these cities, at around 5-6%, and shows that the pace of growth of advertised rents has been increasing since the emergency legislation was introduced, probably in part due to a response by landlords. However, these sources consider advertised rents and such rents make-up a small proportion of the total stock in any given year (we estimate to be around 10-15% on the individual main portals).

In their recent report, based on Zoopla data, Hometrack highlight that achieved rents are rising 12-13% annually in both Edinburgh and Glasgow, higher than any other UK city apart form Manchester.

Tenants can challenge what are deemed to be unfair rent increases. This can be done by referring a landlord's notice of a rent increase to RSS, a Scottish Government body. Recent statistics published by RSS show that if an increase is deemed to be unfair, the system has limited the increase or denied it altogether.

Scottish Government survey evidence suggests rents are generally affordable in private and social rented sectors, although a significant proportion of households are struggling financially. The most recent results from the Scottish Household Survey (SHS, 2019) shows that PRS households tend to manage slightly less well financially compared with households generally, with 45% stating that they are managing well compared with 56% of all households, although there has been an improvement among private renters managing well financially compared to a decade ago (37% in 2009-2010). Only 14% of PRS tenants said that they are not managing well financially, which is slightly higher than the total population of households (9%). These results are a few years old, however, and do not account for impacts such as the pandemic or the cost-of-living crisis.

The Scottish Government consultation paper on the New Deal for Tenants suggested that, nationally over the period 2017-20, PRS households in the lowest income quintile were paying an average of almost half of their household income on housing costs, with the equivalent figure for social rented households in the lowest income quintile at 38%. It does appear that people on lower incomes are more likely to be paying a higher proportion of their income on rent and having financial difficulties as a result. Freezes in Local Housing Allowance (LHA) by the UK Government in recent years, reducing housing benefits, will likely have contributed to this hardship. This was supported by the Nationwide Foundation study (Wave 2, which focused on low income tenants), where it was found that most tenants were paying a third to a half of their income on rent. This report concluded that tackling affordability problems is beyond the confines of policies for the PRS, but also involves tackling wider problems of poverty, including the challenges of precarious low paid work; the barriers of the benefit system; and wider cost-of-living issues.

2.4.4 Impacts on Investment

Private landlords typically invest in housing for an income. The rental yield measures the return on investment from the rental income of a property and is calculated as a percentage relative to the property's value. The average gross rental yield across the UK is under 4%. This represents a modest but usually steady return. Institutional investors are also typically buying in Scotland, with a yield expectation of around 4%. This is lower than expected returns in commercial property investment, which are normally around 5-6%.

Landlords can also benefit from increasing capital values. As data from the long running Nationwide house price series shows, house prices do tend to rise in real terms over time and landlords who bought at the end of the 1990s certainly have made a significant return. However, landlords who bought at the market peak in 2007 will still, on average, be down today in real terms on capital values. Buying property as an investment is a risk and values may go up as well as down. What investors need to be focused on is ensuring that they are generating a reasonable positive net yield.

2.4.5 Impacts on Net Zero and Energy Efficiency

It is likely that the policy will also affect the industry's Net Zero commitments and energy efficiency drive across all rental sectors given the costs of these measures and an effective cap on raising revenues to respond to these costs. This was also highlighted by the social sector in Scotland (see above).

3 LITERATURE REVIEW

The literature review considers the growth of the PRS and BtR in recent years and the role both play in providing housing as well as differences within the market.

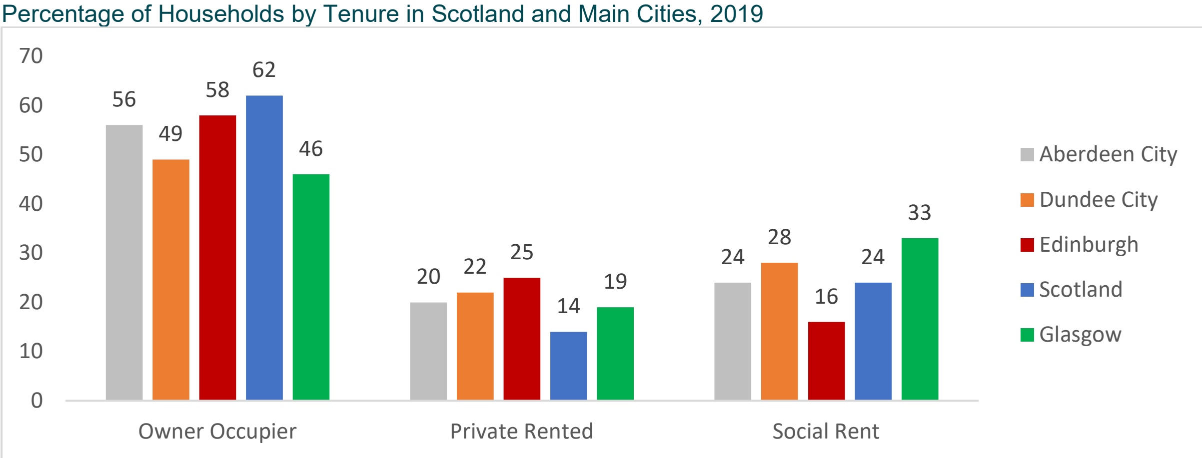
The review further explores similar initiatives that have occurred elsewhere and the impacts that these have had.

3.1 GROWTH OF THE PRIVATE RENTED SECTOR (PRS)

The PRS tenure in Scotland has risen strongly in the past 20-30 years, moving out from a relatively core City Centre market, especially in the main cities. In Edinburgh, it has risen from 10% of households in 1999 to 25% in 2019. In Glasgow, the equivalent figures are 7% and 19%. A key component of this increase has been the rise of younger households in the PRS tenure. For example, in Edinburgh in 1999, around 31% of households between 16 and 34 years-old were in the PRS and this rose to 59% by 2016, the latest available figure.

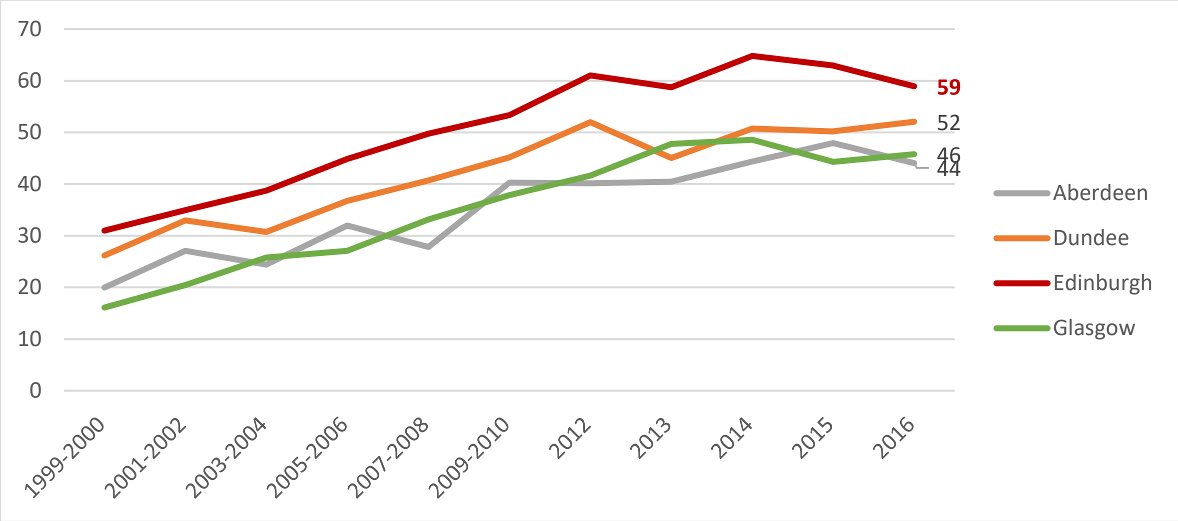
However, this growth now appears to have levelled off in the most recent figures from the SHS in 2019. More recent statistics on availability of listed properties show a pronounced decline in recent years.

Figure 3.1 Edinburgh has the highest proportion of PRS households of the main Scottish cities
Percentage of Households by Tenure in Scotland and Main Cities, 2019



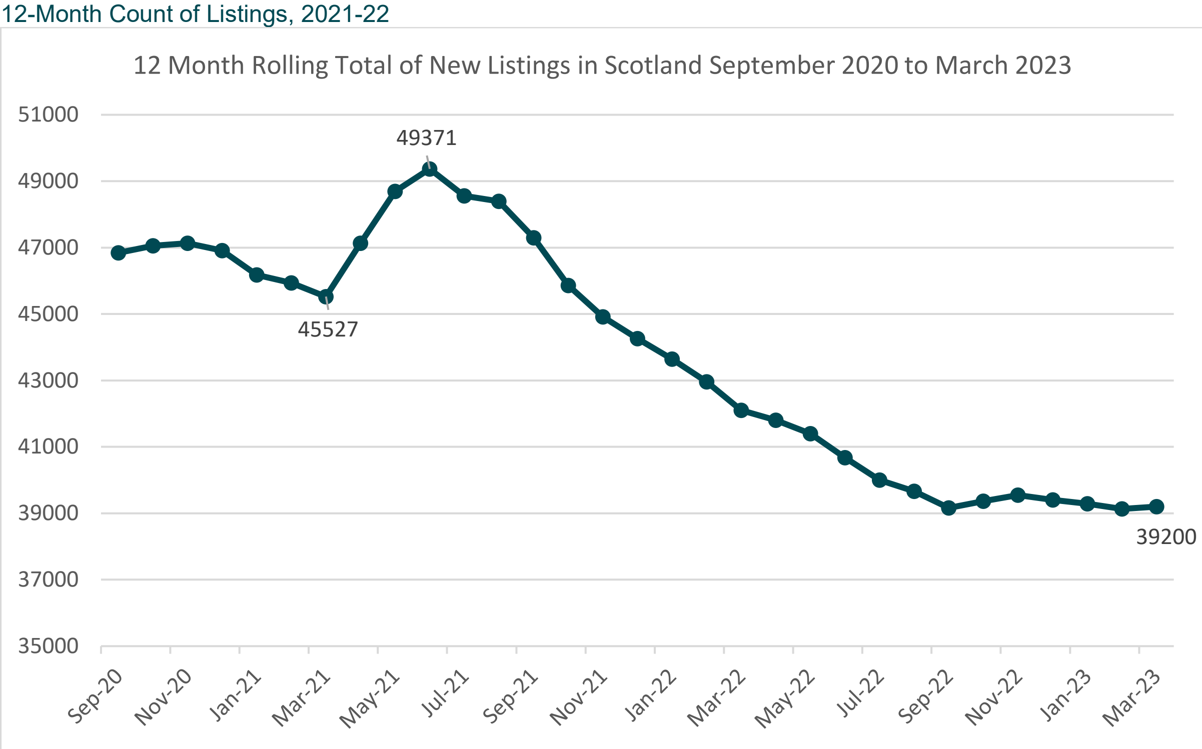
Source: Scottish Household Survey

Figure 3.2 The proportion of younger households in the PRS has risen sharply over the past 20 years
Percentage of Households Aged 16-34 Years-Old in the PRS by City, 199/2000-2016



Source: Scottish Household Survey
* The 16-34 age bracket series at city level was discontinued in 2016

Figure 3.3 The availability of rental stock has declined markedly since mid-2021
12-Month Count of Listings, 2021-22



Source: Rightmove

3.2 GROWTH OF BTR

The BtR sector in Scotland is still very nascent with only a small number of BtR schemes operating in the country, although there is a significant pipeline of supply currently in planning or under construction. Figure 3.4, below, emphasises the gulf between operational BtR and pipeline BtR in Scotland.

BtR in Scotland has only really emerged as a sector over the past six to seven years, with operational schemes at volume currently concentrated in Aberdeen and, more recently, in Edinburgh. In Edinburgh and Glasgow, there is a strong pipeline of stock in planning or under construction, but, to date, only a limited number of units have been made available to the market and are occupied.

There are now nearly 17,000 BtR units somewhere in the pipeline, with an additional c.3,200 discounted rental BtR units (Mid Market Rent or Intermediate rent that is funded by institutions), the majority of which are in Edinburgh. Of the c.17,000 BtR units, fewer than 2,000 are completed and operating.

The schemes that are operating are doing so successfully, with good levels of demand and the schemes letting up very well. L&G's Solasta Riverside scheme in Glasgow is reported to be its fastest letting BtR scheme anywhere in the UK.

The slow realisation of the BtR pipeline in Scotland means that, relative to its population, the supply of operating units remains low. Based on delivery of its pipeline of units, Glasgow would have 28 BtR units per 1,000 households and Edinburgh would have c.30 BtR units. While this is well behind the 68.4 BtR units per 1,000 households seen Manchester, it is reasonable in a UK context.

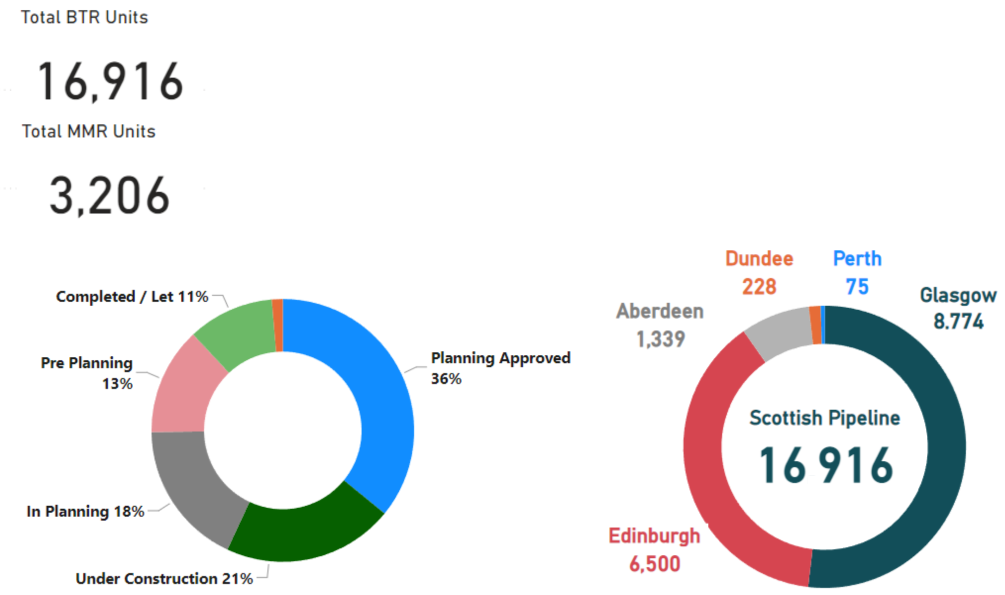
However, in terms of actual completions and operating units, Edinburgh has 2.2 units per 1,000 households, which would rank it 72nd in the UK, and Glasgow is even lower at 1.9. This rate is dwarfed by many other UK cities including Manchester, Bristol, Newcastle and Birmingham. Aberdeen (5.8) fares better on this measure due to having two sizeable schemes operational in a relatively small city.

Evidence from the recent Colliers Top UK Residential Investment Cities H2 2022 report highlights that Scotland is significantly underperforming in BtR provision. Based on a number of metrics including economic and population growth; access to education and leisure facilities; university rankings; new business creation; house price growth; rent yields; EPC ratings and Co2 emissions, it placed Edinburgh and Glasgow in the top 3 UK cities, only behind Cambridge.

The difficulties of converting pipeline BtR into operational BtR is explored in Section 4. There are a number of barriers to doing so, funding being the most important.

Even if all of this pipeline was delivered, BtR would remain a relatively small part of the PRS in Scotland, accounting for around 5% of total supply, although it does have the potential to grow more rapidly if the political and economic conditions support this.

Figure 3.4 The Scottish BtR pipeline now totals nearly 17k units but only 11% of these have been delivered
Scottish BtR Pipeline by City and Status



Source: Rettie & Co

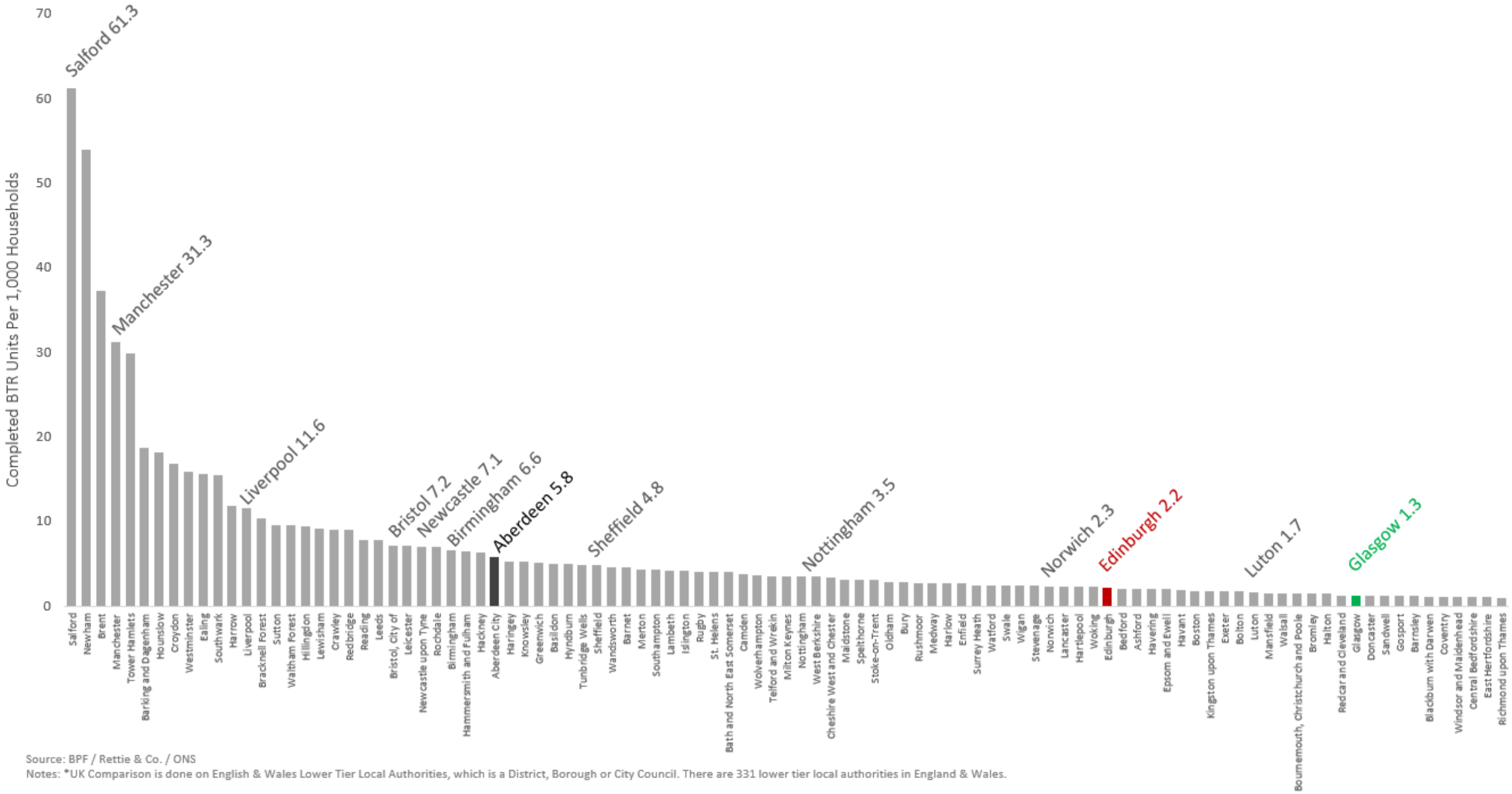
Figure 3.5 Edinburgh and Glasgow are in the top 20 UK locations for BtR pipeline
BtR Units per 1,000 Households – UK Top 20

LA / Council	Count	Total BTR Units	Households (2020/21)	BTR Units Per 1,000 Households	Rank
Newham	55	12,103	115,507	104.8	1
Salford	35	9,838	115,116	85.5	2
Brent	40	9,116	118,612	76.9	3
Manchester	56	14,679	214,732	68.4	4
Tower Hamlets	38	7,878	120,539	65.4	5
Barking and Dagenham	21	3,746	73,902	50.7	6
Birmingham	49	20,445	423,456	48.3	7
Southwark	24	5,578	130,818	42.6	8
Ealing	34	5,385	133,659	40.3	9
Leeds	34	12,646	341,466	37.0	10
Barnet	20	5,117	148,917	34.4	11
Woking	4	1,383	41,437	33.4	12
Cambridge	6	1,618	52,472	30.8	13
Edinburgh	25	7,139	239,364	29.8	14
Hammersmith and Fulham	8	2,326	81,244	28.6	15
Basildon	5	2,140	76,362	28.0	16
Glasgow	25	8,159	295,761	27.6	17
Hounslow	23	2,808	102,961	27.3	18
Liverpool	23	5,542	207,491	26.7	19
Redbridge	18	2,684	103,713	25.9	20

Source: BPF / ONS
Note: Sources for the data are different from Figure 3.4 and therefore there are some differences

The value of this Scottish pipeline is estimated by Rettie & Co to be around £4.5 billion based on pipeline size, average rents and approximate cap rate. Less than £1 billion of this is currently operational. Around £2.5 billion is now estimated to be at risk of not being delivered.

Figure 3.6 BtR completion rate is low in Scotland
BtR Rate of Completions Across UK Cities



Source: BPF / Rettie & Co. / ONS
Notes: *UK Comparison is done on English & Wales Lower Tier Local Authorities, which is a District, Borough or City Council. There are 331 lower tier local authorities in England & Wales.

3.3 THE BTR OFFERING

THE BtR offering is different from that of the traditional BTL part of the PRS. This is summarised in the table below.

A core part of the BtR offering is the additional amenities and services, often included in the base rent. This often includes all or part of the following.

- Options available for no deposits
- Longer-term, secure tenancies and predictable rents
- High energy efficiency and EPC ratings - cheaper bills
- High quality finishes and appliances
- Resident lounges and dining areas
- Gyms and/or fitness studios
- Shared gardens and/or roof terraces
- Event and co-working spaces
- Rapid repairs and maintenance
- Parcel acceptance and storage, resident apps
- 24/7 security
- Concierge/on-site staff
- Superfast broadband
- Social calendars and resident events
- Bike sheds
- Access to good public transport links
- Allowing pets.

Allowing pets, often not possible in the traditional PRS, is seen as a particularly popular part of the BtR offer. BtR schemes also offer additional services that attracts add-on fees to base rent, e.g. parking and cleaning.

Figure 3.7 BtR and BTL have different offers
Summary of BtR and BTL Offerings to Tenants

	Build to Rent	Buy to Let / PRS
Professionally Managed	Yes	Some Factoring / Landlord Management
Professionally Maintained	Yes	Some Factoring / Landlord Management
Internet Included	Yes in 69% of accommodation	Will be part of utilities bills
Energy Efficient Build	Yes	Not usually
Zero Deposit	Common	Not usually
Gym Onsite	Yes in 58% of accommodation	No
Co-Working Space	Yes in 73% of accommodation	No
Bike Storage	Common	Not usually
Concierge / Staff On-Site	Yes in 85% of accommodation	No
Pet Friendly	Common	Varies
Social Events	Yes in 88% of accommodation	Usually if tenants organise
Sense of Place	Yes	Varies
On-site Food / Beverage	Yes in 30% of accommodation	No
Residents Lounge	Yes in 78% of accommodation	Sometimes as part of general living space
Shared Garden / Roof Terrace	Yes in 81% of accommodation	Available in certain properties
Parcel Acceptance / Storage	Yes in 79% of accommodation	No

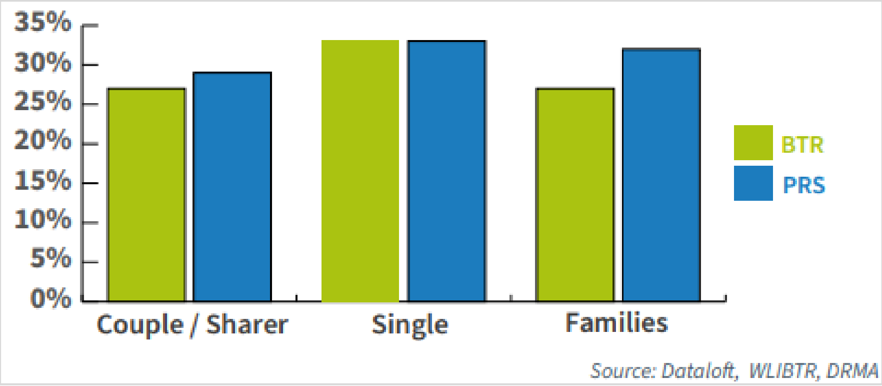
Source: Rettie & Co, UKAA

The BPF, Dataloft, London First and the UK Apartment Association (UKAA) have produced regular studies profiling BtR product and residents across English schemes. The latest of these is from November 2022. This survey encompassed 122 BtR schemes covering over 40,000 residents and benchmarked the results against the wider PRS.

This study of the more mature English BtR marketplace is a useful reference for the emerging Scottish BtR sector.

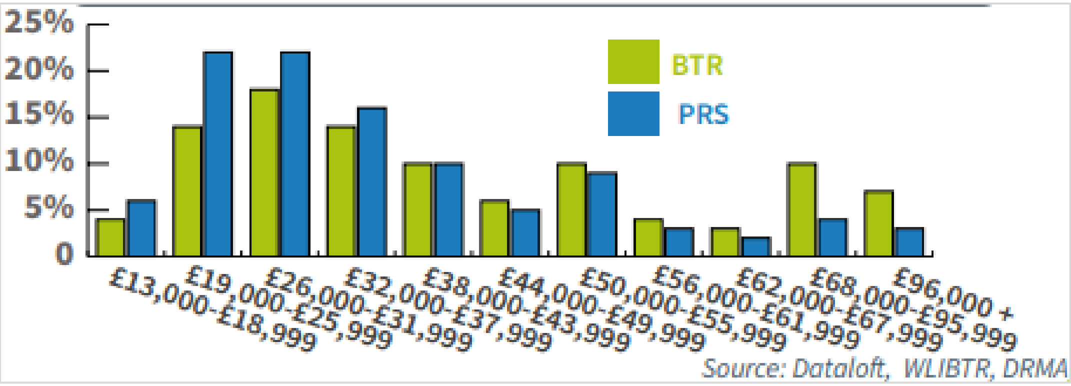
The report highlights the general affordability of BtR compared to the wider PRS.

Figure 3.8 BtR is generally as affordable as the wider PRS
Renters' Affordability BtR vs PRS Average % of Gross Household Income Spent on Rent



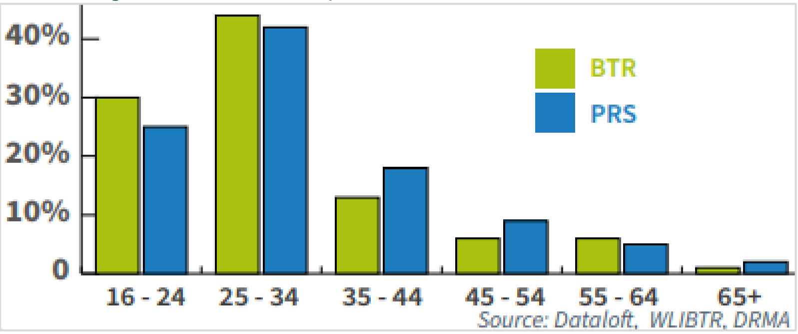
BtR is not just for those on higher incomes, as is sometimes assumed, although it does house people on higher incomes. Over one-third of those in BtR have income under £32,000 per annum and another c.30% are between £32,000-£50,000.

Figure 3.9 BtR houses a range of income levels
Renters' Income Band- BtR vs PRS - Proportion of Renters



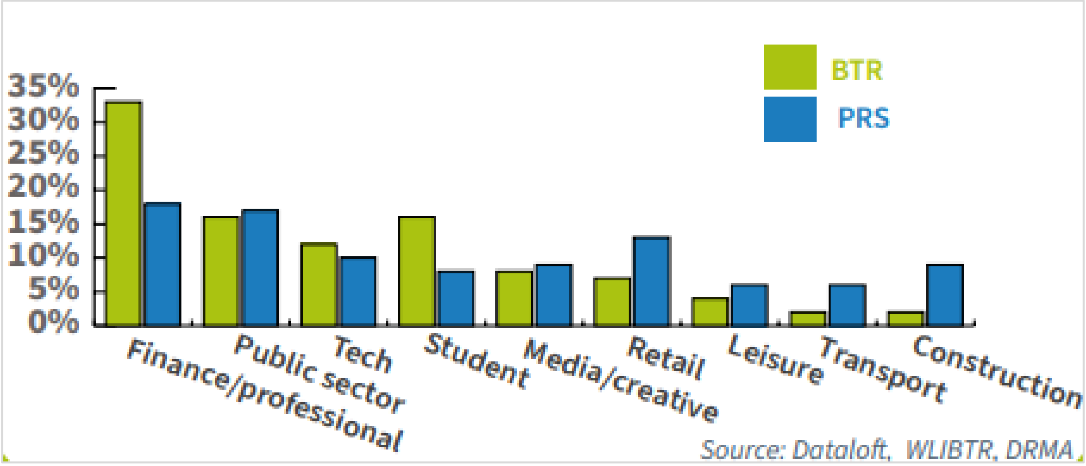
Evidence from this survey also highlights that BtR caters for a range of the population. As expected, and common with the wider PRS, younger people (under 34 years-old) are more prevalent, but there are also significant proportions of people in their late 30s, 40s and 50s being housed in BtR.

Figure 3.10 BtR houses a range of age groups but predominantly those under 34
Renters' Age - BtR vs PRS Proportion of Renters



The BtR sector also houses a range of workers, with finance/professional workers being the dominant group, but also generous proportions from the public sector, the tech sector and students.

Figure 3.11 BtR houses a range of employees
Renters' Employment Sector - BtR vs PRS Proportion of Renters



Evidence from HomeViews (2022 National Build to Rent Report) highlights the generally high levels of satisfaction that BtR tenants have with their homes. In their survey of BtR tenants, 85% rated their facilities as a 4 or a 5 out of 5.

3.4 EVIDENCE FROM OTHER RENT FREEZE INITIATIVES

A Rent Freeze (or similar) approach has been tried in other countries recently and there are some lessons that can be learned from these. Few countries have implemented a rent control as extreme as a complete freeze, but a number of introduced other strict measures and tight rent caps. A rent freeze of sorts was also introduced for the social housing sector in 2015 in England and this is also instructive on the impacts of such approaches.

As always with international comparisons, there needs to be acknowledgement of the different legislative approaches, cultures and attitudes to housing in qualifying the analysis.

Short summaries of these examples are provided in the Appendix. Broadly, a number of themes emerge from this analysis.

- A rent freeze or a strict cap can be an effective short-term measure to control and reduce rents but can have significant negative externalities, particularly in limiting availability and new housing supply.

- Other negative externalities include landlords being incentivised to maintain empty properties, particularly in market downturns, due to the longer term rent income implications of rebasing rents at lower levels, as well as cutting back on maintenance and investment in properties.

- The rent reductions reported are often modest, sometimes only in the low single digits on an annual basis.

- Such measures need enforcement or non-compliance may be high. This has costs.

4 PRIMARY RESEARCH WITH INVESTORS

The main primary research aspect of the project was a number of interviews with institutional investors with an interest in Scotland and a similar number as a comparator sample who do not currently have an interest in Scotland.

Around 20 investors were contacted to participate in the research. Interviews were secured with 14 of these, 9 with an interest in Scotland and 5 without.

The interviews were undertaken via a semi-structured questionnaire and conducted over Teams in February 2023. The questionnaire was agreed with the BPF in advance of the interviews and was constructed to acquire data on issues such as:

- how investors allocate capital;
- the attractiveness of Scotland as a place to invest;
- the risks and uncertainties caused by the Rent Freeze and other aspects of Scottish Government legislation;
- the impacts of uncertainties and risks on decision-making; and
- the mobility of capital and alternative investment propositions.

All data collected is anonymised in reporting and the intention is to provide a summary of aggregated responses to individual questions, although the use of selective quotes does provide some flavour to the responses.

4.1 APPROACH TO RESIDENTIAL INVESTMENT

The 14 investors interviewed were all heavily involved in BtR in a UK context, with around £15 billion of assets, of which just over £1 billion were in Scotland.

Investors generally see residential investment as attractive due to its ability to produce steady and stable returns. This is particularly the case among pension funds, which made up the majority of respondents, who hold property for income in order to pay pension liabilities. On large investor said:

> *I want a boring, stable and consistent asset to pay our pension liabilities.*

The investors also managed funds on behalf of insurance companies and local authorities that were involved in financing BtR as well as other residential assets such as Senior Living and Purpose Built Student Accommodation.

Diversification into residential assets is believed to be something that should have probably happened a number of years ago, but the market is now catching up. Pressures in the retail and commercial property sectors have increased the appetite for residential assets.

The investors are drawn to scale. A minimum of 200 homes is a normal requirement, with some investors looking at 400 plus minimum and preferably 700-800 plus.

Financial models are largely forward funded with third party developers, with management of the stock usually undertaken by the investor or developer asset management arms or by third party specialists. Funders also frequently operate on a joint venture basis, with a number of funders acting together to finance specific schemes, or on a real estate investment trust (REIT) basis, with several parties investing in a trust fund to purchase or develop BtR housing.

Among the sample, there is a leaning towards major cities with strong economic and demographic fundamentals, i.e. cities with growing economies and populations, particularly places with growing populations of younger people and where there is a clear demand/supply imbalance in the residential market, especially the rental market. London is seen as the main market in the UK for BtR given its population and acute housing market pressures, especially for younger workers. However, there is a desire to have significant parts of portfolios outside London to diversify and reduce risk.

A number of these investors are now active in or looking at second tier and regional UK locations with similar fundamentals.

There is also diversification into suburban BtR (sometimes called ‘single family’), usually situated on the edge of cities or in hinterland areas. This product is more targeted at groups such as families and downsizers as opposed to the younger age profile of urban BtR (also called ‘multi-family’). Whereas urban BtR favours locations with strong employment and transport links, near Higher Education Institutions and with a range of amenity, suburban BtR also favours areas with strong employment and transport links but, in addition, favours proximity to schools and green space. Suburban BtR to date is very limited in Scotland, with much of the focus on urban BtR in the main cities.

There is a diversity of BtR product. There is product with a high level of amenity in city centre locations that target the top 10-20% of renters in an area and rents are therefore high. However, the bulk of product is pitched at those in around the 40^{th} to 75^{th} percentile of earners. To maintain let-up and occupancy, especially on large schemes, the rents need to be relatively affordable and target the mass market. This is also a risk reduction strategy should the market experience a downturn and tenants need to reduce their rental costs, which can leave schemes targeting above the 80^{th} percentile of earners more vulnerable.

4.2 ATTRACTIVENESS OF SCOTLAND

Edinburgh and Glasgow were seen as the main locations in Scotland for residential investment opportunities. Edinburgh tended to be preferred due to stronger market fundamentals, including higher rents and earnings and a larger percentage of households in the PRS, but it was recognised that Edinburgh had limited development opportunities (land).

Glasgow was seen as having more development opportunities, but with less strong fundamentals. Both Edinburgh and Glasgow were believed to have obvious demand/supply housing imbalances, especially for quality rented product, that investors generally believed BtR was a partial solution for.

Other parts of Scotland were generally not ‘on the radar’, although a small number of the funds had interests in other Scottish areas including Aberdeen, Perth, Falkirk and Stirling. However, the investors thought that this may change as BtR is established in the main two cities, as has been the experience in England and other European locations.

The investors were asked to assess the attractiveness of Scotland as a location for residential investment given the current legislative and market environments. This was on a scale of 1-5, with 1 being ‘Unattractive’ and 5 ‘Very Attractive’.

Figure 4.1 Investor sentiment towards investing in Scotland was generally low
Attractiveness of Scotland as a Location for BtR Investment (scale of 1-5)

Source: Rettie & Co Research

4 of the investors judged Scotland to be a 1, which means un-investable under current conditions. This includes 3 investors with current BtR assets in Scotland. One of these said:

> *We are not planning on doing anything more really. It is really frustrating as our UK model should work well in many parts of Scotland.*

They put this down to the rent freeze legislation, which forced them to pull from a number of sites they were looking to purchase in Scotland.

Another investor with no interests in Scotland was adamant that the logic of that position had only strengthened with the emergency legislation.

> *We have no commitments to Scotland and the rent freeze only confirms that was the right thing to do. We can deploy capital and get the returns we need in other markets without these sorts of constraints.*

5 of the investors assessed Scotland to be a 2, 3 of which have current assets in Scotland. The remaining 5 investors judged Scotland to be a 3, including 2 investors without assets in Scotland, showing that the country is still viewed reasonably positively, including by investors who have not yet entered the market here. However, none of the investors judged Scotland to be a 4 or 5.

The main concerns around Scotland focused on political risk, particularly around the rent freeze/cap and the uncertainty this created as well as what was seen as the rather extreme and arbitrary nature of the intervention. Concerns about this and other ongoing interventions in the market over time were at the forefront of investor worries. As one investor said.

> *We are looking at a minimum of 7-10 year holds and need a good estimate of costs and cashflow over this time. With some (as yet unknown) form of rent control in 2025, Scotland cannot be a 'buy'.*

Scotland has had a risk premium for some time due to the potential for independence. The uncertainty this gave investors in terms of possible significant future taxation and legislative changes as well as currency risk had to be reflected in viability assessment on Scottish schemes. A number of funds are only mandated to operate in the UK, therefore, in the advent if independence, would either have to change their mandates or sell their assets.

The rent freeze/cap has increased the level of risk premium required and has a pronounced impact on cashflow, making it harder for Scottish schemes to clear the viability hurdle. The arbitrary nature of the intervention also had an affect on the ability to underwrite schemes. The lack of engagement with the sector prior to the emergency legislation being introduced was also a concern, affecting the sector's trust in government to support it.

One investor said:

It is acceptable for government to regulate for higher standards of provision and service, but it should not suffocate the capital that will deliver the supply by interfering with the revenue line.

The evictions ban was another concern, although was seen as a much lower level of problem. Although the investors said that issues with their tenants was relatively rare, there were instances of people ‘playing the system’ and racking up rent arrears or causing a nuisance within their blocks. It was now more difficult to evict such people.

The performance of the operational Scottish schemes was viewed positively by those investors involved. Demand and occupancy levels were said to be strong and this demonstrated the strength of the Scottish market for BtR product. However, even some of these investors pulled out of other schemes in Scotland when the rent freeze was announced.

4.3 MANAGING RISKS

The political risk was, by some measure, seen as the most significant risk of doing business in Scotland.

Rent control per se was not seen as a reason not to invest if it was part of a stable policy environment and can be priced by investors, particularly if it is indexed and stable and can protect the inflation linked income streams that is the main reason for many funds investing in BtR. However, too much uncertainty caused by politics cannot be priced. One investor said:

There is general uncertainty around further legislative change that cannot currently be accounted for. This is made worse by the lack of transparency and engagement from Government.

Some investors had UK and international mandates and the UK mandates can operate on other parts of the UK without rent controls, therefore it is not as simple as saying that such investors can operate in international markets with rent controls and should be able to in Scotland. The pool of capital investing in Europe is different from the pool of capital investing in the UK. The European markets are also liquid and assets can be easily traded, which is not the case in Scotland.

Another investor highlighted that yields are modest in BtR and it can take a number of years for schemes to be cash positive – it was very much seen as a ‘long-term’ game and this did not sit well with short-term policy changes. This investor also stated that the lack of other investors in the market meant there was limited options for exit, which further increased the risk profile.

Beyond the political, there were also risks expressed, particularly by those not present in Scotland, of the need for knowledge around differences with the UK in terms of operations, tax and legal requirements.

Planning was also raised as an issue by a number of those who have assets in Scotland. The planning process was seen by these respondents as too slow and cumbersome, acting as a drag on cash and viability, and it was noted that many politicians and officials in local government still seemed to view BtR with suspicion or indifference. One investor said:

There are no champions of BtR in the public sector in Scotland.

Construction cost inflation was another highlighted risk. If these costs continue to rise and revenues could not rise to meet them, this was another factor hindering viability.

4.4 IMPACTS OF LEGISLATIVE CHANGES ON INVESTMENT DECISION-MAKING

The previous legislative reform in Scotland under the Private Housing (Tenancies) (Scotland) Act (2016) was seen as broadly acceptable. Most of the investors operate in a range of different legislative environments, so there was little issue Scotland being somewhat different from the rest of the UK and Scotland's different legal and operating environment was not seen as an exclusionary.

Not being able to use a long-term lease structure in Scotland through indefinite tenancies and tenants being able to leave with one month of notice was initially seen as a potential hindrance to operations and viability, but generally something that has not impacted on occupancy or returns.

However, there were a minority of investors who believed that the 2016 legislation did impact on their ability to plan and gave them less control of their asset. Although they supported the tenancy protection measures in the Act, they highlighted the difficulties in underwriting expiry and rental growth in Scotland.

The emergency legislation introduced in 2022 had a clear and immediate effect on attitudes to Scotland. The international nature of many investors meant that Scotland now compares less favourably to other more stable locations and investors and investment committees look negatively at the downside risk posed by the instability of the political environment.

Some of the unintended consequences of the legislation were also highlighted, e.g. rents going up more quickly between tenancies to compensate for current or future government intervention; and investors/operators being incentivised to have greater levels of turnover of tenancies to ensure this (whereas the normal business model is to have tenants stay as long as possible to avoid void, let-up and refurbishing costs).

4.5 INCENTIVISING INVESTMENT

The investors believed that they were part of the answer to housing supply shortages in Scotland and the wider UK. They emphasised that they can build many units quickly and provide a range of housing options, including affordable housing in areas that have such contributions. They also saw this type of housing as contributing to energy efficiency targets with purpose-built homes designed to reduce energy bills.

The overwhelming majority of responses to the question on what the Scottish Government could do to incentivise investment in the BtR sector highlighted:

1. The need for a stable policy environment.
2. The need for a positive planning attitude, including supporting density for BtR and dealing with planning applications quickly.
3. The need for engagement with the industry to foster confidence and trust.

One investor said:

> *To invest in Scotland again, we need to believe that the Scottish Government has changed direction.*

Another said:

> *The Scottish Government needs to turn down the anti-landlord rhetoric. It needs to show that investment is welcome and not shunned.*

5 CONCLUSIONS

The emergency legislation is intended as a short-term measure to help to solve an immediate cost-of living crisis, but it risks creating a larger availability crisis in Scottish housing.

By acting against new supply, the legislation risks worsening affordability and availability problems in the PRS over the longer term, as well as negatively impacting on other Scottish Government objectives around net zero and energy efficiency.

Although there has been rapid growth in the PRS over the last 25 years, there are clear signs that this is levelling off and the availability of PRS properties has declined over the last 18 months. Demand/supply market imbalances have been leading to rising advertised rents and falling time to let and shortages for groups such as students at the start of term time in the major cities.

BtR is part of the solution to this availability crisis but it is underperforming in Scotland. BtR in other parts of the UK is targeted at a range of income groups and employment groups and is generally affordable compared to the wider PRS while offering professional management and a wide range of amenity. Scotland, especially Edinburgh and Glasgow, fulfils many of the key socioeconomic criteria for investing in BtR and operating schemes in Scotland are performing well.

BtR, and professionally managed housing in cities, can also facilitate talent attraction, business investment and productivity improvements that will help to drive up wages and productivity.

Political risk is the main factor behind Scotland’s relative low delivery of BtR and such risk has been heightened by the emergency legislation by making scheme viability more difficult. A number of investors, which have successfully invested in BtR in Scotland, have put further schemes on hold or abandoned them altogether - around £2.5 billion of investment is now viewed as at risk. National and international research also highlights the negative impacts on supply of strict rent restrictions.

There remains investor interest in Scotland but it has clearly diminished since the emergency legislation was introduced.

5.1 POSSIBLE NEW LEGISLATION

Due to the SNP and Scottish Green Party Agreement for Government, which has been recommitted to by the new First Minister Humza Yousaf, the PRS in Scotland looks likely to be set for another raft of legislation despite significant reform having taken place a few years ago. The two parties have formalised some high-level policy commitments, summarised in the box below.

Much of this will be about trying to reform the weaker end of the traditional PRS and tackling rogue landlords. For the BtR sector, there is probably not a lot to be concerned with, with the exception of a commitment on introduction of rent controls. There is no implementation due until 2025, presumably so that this issue can be looked at very closely over the next few years.

Figure 5.1 Details of the SNP-Greens policy commitments in the PRSA

We therefore agree, as part of the Rented Sector Strategy to be published by the end of 2021, to deliver **a new deal for tenants**. This new deal will be developed in consultation, and will:

- create **a new housing regulator** for the private rented sector to improve standards and enforce tenants' rights.
- enhance tenants' rights, including through **greater restrictions on evictions over winter,** providing additional security for tenants.
- introduce **new rights for tenants,** for example giving tenants greater flexibility to decorate their home and to keep pets.
- put in place **additional penalties and compensation** for illegal evictions.

Following the conclusion of the Rented Sector Strategy consultation we will publish a final Rented Sector Strategy and introduce a **Housing Bill in the second year of this parliamentary session**, to deliver a number of the legislative changes required to implement the Strategy.

We will also implement **an effective national system of rent controls**, with an appropriate mechanism to allow local authorities to introduce local measures. We will consult on the options, deliver legislation and implement rent controls by the end of 2025.

5.2 FORMAL RENT CONTROLS

The Scottish Government is committed in this agreement to a formal system of national rent controls, with previous legislation based on an RPZ approach similar to Ireland. As the above statement shows, this was set for 2025 and towards the end of this parliamentary session. However, the Minister, in his January announcement ending the rent freeze, stated that he was looking to introduce long-term rent control measures, *"as soon as possible after the 2023 summer recess."*

There is an extensive history of rent control in the UK as well as other parts of the world. A recent paper by the UK Collaborative Centre for Housing Evidence (CaCHE), in which Rettie & Co. was a participant, highlights the nuances and impacts of rent control regimes across the world. As the research makes clear, it is dangerous to select systems, or parts of systems, that seem favourable from your own perspective, implement in Scotland and assume they will work the same as they do elsewhere. Every country has its own legislative, cultural and institutional approach to housing that means what happens in one country will not necessarily happen in another. A number of countries with rent control regimes have also experienced some significant issues, particularly around availability.

This further legislation adds to the uncertainty. If the Scottish Government is serious about BtR being part of the solution to the housing crisis, it needs to engage with the industry and work with it to overcome some of the hurdles to investment. At the moment, from the viewpoint of the investors, it seems to be adding more hurdles.

6 APPENDIX – SUMMARIES OF OTHER RENT FREEZE INITIATIVES

BERLIN **GERMANY**

POLICY

Rent control is well established and Berlin is currently in the third generation of rent control. In 2013, additional rent controls were introduced in tight housing markets cities (now over 300 cities/municipalities), which limits initial rents to 10% above the local comparator. At the same time, the allowable rent increase in existing tenancies was reduced from 20% to 15%. Stronger controls proposed in Berlin were ruled out by central government .

However, Berlin introduced further controls in January 2020, just before the Covid outbreak. The Mietendeckel set rent limits in each area and stopped all rent increases for five years, with fines for landlords who flouted the limits. This was repealed in April 2021 after a German court ruled it was unconstitutional. That meant landlords were able to demand back-payments from tenants where rents had previously been frozen, leaving some renters in arrears.

IMPACT

A study entitled, *The supply side effect of the Berlin Rent Freeze* by Pekka Sagner and Michael Voitglander, found that there were declines in supply as a result of the intervention.

A study by the ZIA found average rental prices reduced by 5.7% in the first half of 2020, but availability fell by about 50%, as property owners withheld empty flats from the market.

For new flats built after 2014 – which are exempt from the Mietendeckel – prices are up 7.5% and availability has increased by 18%, according to real estate portal ImmobilienScout24.

-50%

decrease in rental supply within Berlin in H1 2020

-5.7%

downward pressure on average rents in Berlin post the rent freeze

+7.5%

Average rents for new build increased in Berlin in H1 2020 (exempt from rent freeze)

CATALONIA **SPAIN**

–12%

decrease in rental supply within Barcelona from Sept 2021 to Feb 2022

-4.8%

downward pressure on average rents within Barcelona post intervention

POLICY

In September 2020, the Generalitat (regional government of Catalonia) introduced rent controls in all Catalan municipalities declared to have 'tense' housing markets. It was applied to 61 municipalities in the region, including Barcelona. Rent control was applied to prices for properties of 150m2 or less and limited within 10% to 20% of a Referenced Index drawn up by Catalan Government. If the previous contract set a higher rent than the Reference Index, the new contract had to reduce the rent to match that value. There were exceptions, e.g. allowing the owner to increase the rent above the Index if work has been carried out in the last year to improve the habitability, safety, comfort and energy efficiency of the property, although only in a limited fashion.

The regulations also allowed for rents not to be frozen for landlords with an income equal to or less than 2.5 times the Index (about 2.000 euros per month, depending on the population) or if the tenant's family income was 3.5 times the indicator (about 3.000 euros per month). The law also stipulates penalties of 3,000 to 90,000 euros in the event of non-compliance.

The rent control clauses of the Catalan law were struck down by the Spanish Constitutional Court in March 2022, since when landlords have been free to charge market rates for new contracts. The Spanish Government has announced that it will continue limiting the amount landlords can increase the rent of their tenants by a maximum of 2% throughout 2023

IMPACT

According to the Generalitat, 160,000 rental contracts were signed under the terms of the new law. Groups lobbying for rent controls like the Sindicat de Llogaters (Union of Tenants) said that this helped reduce rental prices in the period by 1.4% in Catalonia and 4.8% in Barcelona. However, others pointed out that rental prices fell generally in the pandemic, with Madrid, not operating any rent control policies, dropping 3%[1].

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[1] https://www.spanishpropertyinsight.com/2022/03/16/barcelona-catalonia-rent-controls-struck-down-by-constitutional-

A 2022 study into the impact on the Catalan market found that, "*the introduction of rent control led to a reduction in rents in both controlled and uncontrolled Catalan municipalities, while quantities virtually did not react to it. The selling prices of dwellings remained unchanged, whereas their supply increased substantially. The revocation of rent control caused a strong increase in the rental and selling prices in all municipalities, no increase in the supply, with the exception of the supply of regulated dwellings for sale. In addition, using the macrodata on housing construction, we find that, during the rent control period, the average number of monthly dwelling starts in Catalonia declined by 6% compared to January 2019–September 2020, while nationwide it increased by almost 12%. Thus, the effects are broadly consistent with the predictions of the economic literature on rent controls*".

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court/#:~:text=According%20to%20the%20Generalitat%2C%20160%2C000,Llogaters%20(Union%20of%20Tenants).

LILLE **FRANCE**

43%

of rental listings breached regulation in the year after rent control was introduced

POLICY

Rent controls were first introduced in Lille in 2014 as part of the Alur Law, which was a national law aimed at increasing access to affordable housing and reforming the urban planning system in France. Under the Alur Law, local authorities in France were given the power to implement rent control measures in areas where housing was particularly expensive or in short supply. Lille was one of the cities that chose to implement rent controls under this law, along with several other major cities in France such as Paris, Grenoble and, Lille's neighboring city, Roubaix.

-1.6%

downward pressure on average rents in the first year of the intervention

The rent control measures in Lille were later modified in 2017 under a new national law, the Elan Law, which gave local authorities more flexibility in setting the maximum rent levels and simplified the procedures for landlords to contest maximum rent levels.

The measures in Lille set a maximum rent that landlords can charge for their properties, based on the size, location and quality of the property. The maximum rent is determined by a committee that includes representatives from tenants, landlords and local government. Landlords are required to register their properties with the local government and provide details on the rent they are charging.

IMPACT

According to analysis by foundation Abbé Pierre in October, 43% of rental listings in Lille in the year up to August 2022 were above the allowed amount, by €190 on average – the lowest level of compliance anywhere in France. For smaller properties and lets to students and people on low incomes, the rate of non-compliance was more than than half. There were no inspections carried out on listings by private landlords, only by letting companies, meaning tenants are left with the responsibility of reporting landlords.

Some studies suggest that rent controls have led to a reduction in average rents in Lille, particularly in the early years after they were introduced. For example, a study by the French National Institute for Statistics and Economic Studies (INSEE) found that the rent control measures had led to a 1.6% reduction in average rents for properties subject to the controls in the first year after their introduction. Another study by the French government's Housing Observatory found that average rents for properties subject to rent controls in Lille had decreased by 2.5% between 2014 and 2017.

DUBLIN **IRELAND**

2%

Limit on rent rises in Irish RPZs

POLICY

In Ireland, rent controls were introduced in late 2016 as part of the Residential Tenancies (Amendment) Act 2015. Under the rent control measures, landlords were only allowed to increase rents by a maximum of 4% per year in designated Rent Pressure Zones (RPZs). RPZs are areas where rents have been increasing rapidly and where there is a shortage of rental properties available. From late 2021, annual rent rises in RPZs are capped in line with inflation or 2% per annum, whichever is lower.

To be designated as an RPZ, an area must meet certain criteria, such as having an average rent that is above the national average and having a vacancy rate of less than 5%. Currently, there are more than 20 RPZs in Ireland, including in major cities such as Dublin, Cork and Galway. The rent control measures apply to all tenancies in RPZs, including both new and existing tenancies.

2.5%

upward pressure on average rents within Dublin in 2020, which was lower than 6.3% in 2019

IMPACT

A report by economist Jim Power in May 2022 for the Institute of Professional Auctioneers and Valuers and the Irish Property Owners Association provided the following findings. *“Rents have continued to increase strongly at a national level since RPZs were introduced. This is suggestive of the fact that RPZs are seeking to tackle the symptoms of the rental crisis rather than the cause. RPZs have not succeeded in preventing rents from rising strongly, but they have also resulted in downward rigidity in rents. [When Covid-19 hit] landlords were justifiably reluctant to cut rents as this would have negative rental income implications in the longer-term in an RPZ. In effect, there has been a downward nominal rigidity in rents. RPZs provide an incentive for landlords to maintain empty rental properties rather than cut rents.”*

SOCIAL HOUSING RENT FEEZE **UK**

–1%

Rent freeze per annum over 4 years.

-7.3%

Expenditure on major repairs. Planned maintain also dropped by 1.3%

POLICY

The provisions in the Welfare Reform & Work Act 2016 required social landlords to reduce their rents by 1% every year for four years (the 'social rent reduction'). These were discussed during the tenth sitting of the Public Bill Committee on 15 October 2015.

Following intensive lobbying by providers of supported housing, which tend to operate on lower profit margins and have higher rents, the then Minister, Lord Freud, announced a year-long exception for all supported housing from the 1% rent reduction in the social rented sector on 27 January 2016.

He also confirmed that the one year exception would extend to housing cooperatives, almshouses and Community Land Trusts. He said these providers would be able to raise rents for 2016/17 by CPI+1% in line with the rent standard.

IMPACT

On 26 February 2016, Inside Housing reported on an analysis of 40 councils' Housing Revenue Account business plans and concluded that the 1% rent reduction was resulting in, *"heavy cuts to capital investment including housebuilding."* Councils, such as South Cambridgeshire, Dover, Cambridge and Reading, were reported to have cut, axed or put on hold their housebuilding plans, while Bolsover, Bournemouth and Southampton had reduced their capacity. In comparison, Southwark and Sheffield had reportedly protected their housebuilding plans.

A survey carried out by Inside Housing (reported in January 2017) showed that associations reduced expenditure on major repairs by 7.3% to £386 million in 2015/16 following the Government's announcement on rent reductions. The survey found that associations' planned maintenance expenditure also dropped by 1.6% to £630 million.