

We should encourage long-term institutional investors and well-established landlords into the private rented sector

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*In 1989, the private renting sector began its 25 year boom. Now owner occupation is a falling share of the total. Social housing – both councils' and housing associations' – has shrunk, and private renting has rapidly gained so now the two forms of renting are level-pegging, and private renting is gaining ground. The private rented sector plays an increasingly vital housing role and looks set to stay. However, rapidly rising rents and poor conditions lead to intensifying discussion of how it may be regulated. **Anne Power** writes that necessary financial and regulatory incentives, the drivers of Germany's success, will need to avoid any hint of rent controls. Market-linked "benchmark" rents will hopefully make the private rented sector more attractive to long-term institutional investors and well-established landlords.*



When Margaret Thatcher came to power in 1979 the private rental sector had shrunk from nine out of 10 homes before the First World War to way below one in 10. One third of all households were council tenants. Owner occupation was the dominant and favoured ownership pattern; she knew this and the public backed her. However, under her steorage, tight rent controls which had been in place since 1915 were finally removed and the private rental sector began its 25 year boom. Now owner occupation is a falling share of the total. Social housing – both councils' and housing associations' – has shrunk, and private renting has rapidly gained, so now the two forms of renting are level-pegging and private renting is gaining ground.

This has happened for good reasons. Young people, people facing sudden change, people who relocate, change jobs, people who can't sell their houses, people facing financial difficulties or family crises very often need private renting for the following reasons: 1) quick and easy entry; 2) quick and easy exit; 3) relative to the high upfront costs of buying a house it is relatively cheap to access in spite of high rents, fees and deposits that are much talked about. It also incredibly useful for students – a large and growing population – for lone parents (often in precarious financial positions and unable to access social housing), and for those classed as homeless that the local authority can no longer house. Therefore the private rented sector plays an increasingly vital housing role and looks set to stay. However, rapidly rising rents and poor conditions lead to intensifying discussion of how it may be regulated.

Labour's proposals

Labour recently announced plans which are very close to the successful German model of private renting. In Labour's model, tenants will no longer be summarily evicted in order to increase the rent. Tenants will be offered a longer tenancy as long as they prove over a probationary period that they can pay the rent and abide by the rules and rent increases will be linked to local average rents or to some other market-related benchmark rather than purely speculative increases. Letting agents will also no longer be able to charge tenants fees over and above deposits. This would make renting a more stable option for the growing numbers of families reliant on this tenure. With clearer rules, local councils will find it easier to enforce basic conditions, as Newham Council is already attempting to do. It gives the government a lever, as with other tenures, to require basic standards to be adhered to, given the favourable tax treatment.

Pluses and minuses of private renting

So are there any drawbacks in private renting? There are many reasons why people still prefer owner occupation as the long term option. It can give them an asset, a stake and a degree of financial stability that is very difficult to replicate in renting. It allows them a level of control over their own conditions, spending and style that is almost unique to owner occupation. It also helps people help their children since they can borrow against the asset of the

home. In addition, the government has favoured owner occupation for so long that it has acquired many built-in financial and status advantages which are hard to match in other tenures.

In spite of this there are large sections of the community who cannot buy, in addition to soaring house prices. Young people settle down into stable careers much later, and are much more mobile in the job market. Young people also partner and have children up to 10 years later on average, which has a big effect on when households are ready to buy. An increasingly ageing population brings greater disability, fragility, vulnerability, isolation and less ability to cope with the burdens of repair, gardening and difficulty reaching local services. As the population dispersed out of urban centres, generating low density single family owner-occupied homes in the suburbs, household size shrunk.

Smaller, more numerous households mean less attraction to 3 bedroom suburban semis, lower capacity to pay for them and lower density of population to support local services. Many suburbs are becoming less attractive and poorer as a result.

The move back to smaller, more central homes

These changes argue for smaller homes at higher density, closer to transport hubs and city services which would make it easier for young people, young adult households and older people to live viable, independent and affordable lives, delaying the point when young adults become owner occupiers, and questioning whether it is better when older people become more dependent on support services and care to remain in single, owner-occupied houses.

What if limited regulation, like Germany's, slows even further the rate of building, the shortages? Building homes the way we built in the past, at relative low densities with high and growing levels of under occupation, will not solve the housing problem. Growing under-occupation in existing homes, as the population ages, argues for the subdivision of property, which can help the younger generation. Often this would mean subdividing to create rental units within already occupied homes. This is beginning to happen but financial and regulatory incentives, the drivers of Germany's success, will need to avoid any hint of rent controls. Rent controls per se wherever they have been tried (historically in the UK and currently in the US, Italy and Spain) have limited the investment, cut the supply and reduced the standard of repair, eventually becoming a self-defeating tool. Therefore, Labour's new proposals for rent reform, while raising fears of creeping rent controls, suggest instead market-linked "benchmark" rents, hopefully making the private rented sector more attractive to long-term institutional investors and well-established landlords.

Are low-profit private landlords possible?

Housing associations now rent more homes than councils. Many larger housing associations are interested in private renting. De facto, housing associations are private landlord bodies operating on a non-profit basis and regulated by the government, particularly through rent levels and who they house. Their origins are in philanthropic, low-profit, low-return investors/bankers, like George Peabody or successful industrialists like Guinness. This model allows for a modest return on modest homes for rent to modest households. We need many rented homes like this; and the government could back this model, as the German government did in the late 1980s.

The 19th century model of long-term, slow, patient investment could be attractive to pension funds and other long-term investors in a period of great financial turbulence and instability. For certain this form of renting would be attractive to large swathes of the population forced into unsatisfactory, high cost, insecure, and often overcrowded private renting.

Note: This article gives the views of the author, and not the position of the British Politics and Policy blog, nor of the London School of Economics. Please read our [comments policy](#) before posting.

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