UK COLLABORATIVE CENTRE FOR HOUSING EVIDENCE

Rent control: A review of the evidence base

Executive summary

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Executive Summary

Rent controls have a long history in the UK and continue to generate impassioned debate about their efficacy. Problems associated with rental unaffordability have encouraged renewed interest in rent regulation and there are policy design developments regarding rent control actively underway in Scotland.

This evidence review looked at academic and grey literature from the period 2000 to 2020. It is an attempt to understand the continuing academic interest in rent regulation and to distinguish the range of views about its impacts. The review incorporates a range of both economics analysis and wider social science evidence. This is a systematic evidence review of the literature and as such generates important findings that we believe add value in ways that other forms of analysis cannot. The international dimension is essential because there is no contemporary UK evidence on the impacts of rent control. Yet the literature demonstrates that we need to be cautious regarding the appropriateness of international comparisons (even within welfare regime clusters) and the relevance of contemporary evidence for the UK.

Key takeaways

The importance of recognizing different models and generations of rent control practice when appraising the evidence. This also includes acknowledging the interconnectedness of rent regulation with the wide range of actual and possible forms of non-price regulation.

The need for assumptions that are more strongly empirically grounded as the foundation for economic models.

Recognition of the importance of both local politics and ideological trends (and that these are not immutable).

The relative stalling or lack of recent theoretical development in the relevant economics literature.

There is a gap between practical evidence, data and monitoring of local housing markets and policy advice regarding the design and implementation of rent control (Wheatley, et al, 2019, is an honourable exception).

Specifically, this translates into the absence of grounded understanding of landlord supply structure, how segments of rental markets function and operate with different degrees of interdependence, and the extent to which local markets are volatile and subject to external shocks.

The report begins by examining recent **grey literature**. We draw the following points from this part of the review:

- While by no means exhaustive, our review demonstrates the range of perspectives that have currency. The contributions to the grey literature adopt different starting positions and articulate opposing perspectives, including a variable level of interest in international experience.
- Authors adopt different stances on the virtues of rent control, running from explicit rejection to cautious advocacy of appropriately designed and implemented interventions.
- It is not possible, however, to separate rent regulation from other components of the private rented sector regulatory architecture e.g. tenancy length and security. Enforcement shapes the impact of regulatory intervention but the need for, and challenges regarding, effective enforcement in the private rented sector is not always given prominence.

- A key feature of the debate is the weight given to context, history and institutions and the way in which they interact with any given mechanism for rent regulation. This can play out in different ways:
    - Where these variables are not seen as crucial, general conclusions about the impacts of rent control can be read off from theory and experience elsewhere and directly applied locally, typically in service of an argument against intervention.
    - Alternatively, these contextual variables can be seen as important and a reason for treating the apparent successes of rent control elsewhere as not indicative of likely success if applied locally.
    - It is possible to recognize contextual differences but argue, explicitly or implicitly, that they should not prevent policies that are effective in their 'origin' context from being successfully transferred and adapted for a 'recipient' context.

The report lays out, in chapter 3, the main **methodological considerations** of the evidence review. The main points are that:

- Informed by recognised country typologies, we decided to scope this review to selected countries belonging to three recognised welfare regimes, referred to as *liberal* (AUS, CAN, GBR, USA), *Nordic* (DNK, NDL, NOR, SWE) and *continental* (AUT, CHE, FRA, DEU).
- We retrieved 402 unique records by searching in two large databases (SCOPUS and Web of Science) for 'rent control', 'rent stabili(z)ation' and 'rent regulation' for literature published since 1990. After checking for country, methodological and thematic fit, we decided to further scope the review to research published since 2000. After including some additional studies, 82 publications were included for review.
- Among the 82 studies, we note a high dominance of quantitative analyses (68%) and an over-representation of the Liberal regime (n=67) versus the Nordic and the continental ones (41 and 33, respectively). Within each regime, their recognised 'prototype' is also over-represented (i.e. USA, SWE, DEU).

Chapter 4 is a review on the literature concerned with the **economic theory of rent control**. We draw the following points from our review of this theoretical literature:

- There is a rich theoretical literature on rent control stretching back fifty years. It continued to develop into our review period but, arguably, lost momentum after the mid-2000s.
- The literature offers a variety of models exploring the impacts of rent controls of different designs on a range of variables (e.g. property quality, new supply, prices in related markets) in housing markets with different assumed characteristics.
- The majority of models start from the assumption that housing markets can be characterised as perfectly competitive, while some rest on the assumption that landlords face imperfect or monopolistic competition or possess monopoly power.
- Once these assumptions about market structure are coupled with a specification for the rent regulation instrument, conclusions are derived. Substantially different conclusions can follow from different sets of assumptions.
- The literature demonstrates that rent control can have a negative, positive or neutral effect on one or more aspect of housing and related markets, depending on your modelling assumptions.

Chapter 5 reviews the international econometric evidence on rent control. A number of recurring or common themes can be extracted from the reviewed studies. We draw out the following observations on the basis of our review:

- North American econometric studies predominate, particularly for the areas of New York City, New Jersey, Massachusetts and Northern California. We also report on studies in Europe. Generally, the American studies come to different conclusions than those from Europe (though this is, at a more detailed level, a more nuanced and complex story). This serves to reinforce the importance of considering local markets trajectories, institutions and regulatory detail when we consider the effects of specific rent control measures.

- Attempting to build robust indices of rent regulation (perhaps also taking account of non-price regulation) is an interesting idea to debate and develop.

- There is tension between increasingly sophisticated econometric modelling that seeks to overcome the limitations of data, bias and testing of interventions, on the one hand, and the continued use of quite strong modelling assumptions (e.g. imputed rather than market rents; specific behavioural responses such as landlord substantive rationality; or indeed assumptions about the competitiveness of the market), on the other. Attempts to make these assumptions explicit and empirically grounded remain potentially valuable for developing future work.

- Econometric tests have been applied to an increasingly wide range of questions relevant to rent control in the last 20 years: there is now more focus on welfare effects, resource misallocation, impacts on decontrolled (or never controlled) adjacent markets and tenures, mobility and labour market effects and neighbourhood impacts such as segregation. These are important developments that need to be considered carefully in a second-best world analytically and in terms of the use of similar assumptions, contexts and institutions and their effects in more standard rent control models.

- A feature of the work in the last 20 years has been much closer concern with second-generation rent controls and rent stabilisation alongside changes in tenancy conditions. This has led econometric models to be more nuanced and context-specific and it has also made the case for future work to take more account of the non-price regulations that interact with price controls.

The empirical study of rent control in the UK is now extremely dated (it is a literature that largely tailed off in the 1980s) and the institutional structures of the UK housing market have subsequently changed substantially. The recent evidence base therefore inevitably comprises studies from cities in other countries. Furthermore, housing systems are becoming more diverse within the UK. These characteristics make the discussion of rent control particularly susceptible to analytical over-reach: there is a risk that results generated in quite different contexts are incautiously or uncritically applied to the UK.

Chapter six reviews the **wider social sciences** literature on rent control from three broad perspectives: welfare regime theory and international studies; the underlying importance of housing politics; and the contested nature of housing as home or commodity/asset:

- Regime theory - the idea that countries' housing and/or welfare institutional arrangements and distributional outcomes can be clustered in 'regimes', each containing similar enough countries that are also dissimilar enough from all other countries and regimes - is useful to understand the importance of the broader institutional context for the private rental sector in relation to the role and nature of a housing system. Regime theory has inspired a range of useful cross-country analyses focusing on the private rental system, including rent regulation.

- However, institutional arrangements, including those related to rent regulation, are neither deterministic nor unchangeable. The reviewed literature shows that some countries with lightly regulated private renting markets have recently moved towards more regulated regimes, which permit rent stabilisation (e.g. Ireland and Scotland) while other countries with already strongly regulated private rental systems have strengthen their provisions even further (e.g. Germany). Recent change in the other direction has also occurred,

particularly in the US when the move to deregulation seems to be the dominant trend. But, historically, all our sampled countries moved from first- to second-generation rent control or full deregulation.

- Finely-grained analyses coming from legal studies and human geography have clearly evidenced that changes towards (de)regulation have always been political. They explicitly, but sometimes implicitly, show that the political battle is fought at different levels (e.g. legislatures, political parties, vested interest groups, citizenry, culture) and through very different means (e.g. election campaigns, media, public consultations, governmental coalitions, public opinions). These studies argue that the issue of rent control should not be cast primarily as a matter of expert knowledge but as one of direct and reflective democracy.

- Finally, the reviewed literature demonstrates directly and sometimes indirectly that it is ideology - understood broadly as dominant beliefs endorsed by political parties, policymakers, economists or society - that casts a private tenancy as home (for a tenant) or asset (for a for-profit landlord). Some countries, particularly those in the Nordic countries and continental Europe (but also beyond our sample countries, e.g. Turkey) have balanced the terms of this apparent ideological tension. Their regulatory regimes go, however, beyond the issue of rent control, and its immediate corollary of tenure security and limited grounds for eviction. Clearly, the studies reviewed here invite broader reflection on what type of housing system is valued by a society.

The **final chapter** of the report summarises the main narrative running through chapters 1 to 6 before considering the analogy of recent evolution within the economics of the minimum wage and whether there would be similar mileage in revising the assumptions made about rental markets in similar fashion. This then leads to a set of policy conclusions that seek to generate practical lessons for Governments like the one in Scotland currently investigating new rent contol measures. These are lessons that can be derived from this evidence review and should feature in policy development thinking. The conclusions identify 10 measures but these can be reduced to four compound points:

- A **vision** of where policymakers wish to take the private rented sector based on an appreciation of how it works now, its multiple internal functions, and its important interactions with the wider housing system;

- Based on this vision, a **clear sense of the nature and design of rent regulation** proposed; how and in what circumstances it is triggered; and how it is later wound down (the sunset clause); as well as how it would complement existing and proposed non-price regulation;

- In order to achieve this clarity over policy objectives, design and operation, a **strong commitment to a comprehensive, operational data strategy** is required that will enable policymakers to undertake ongoing monitoring of the PRS within a clear market analysis strategy operating at the agreed market area level.

- Throughout these three stages there should be a **commitment to drawing on the evidence base** where it provides direction and also, where there is no conclusive evidence, a suitable degree of caution and reference to the data and evidence generated locally. At the same time, policy development and monitoring should be grounded throughout in deliberative and consultation mechanisms that give effective voice to tenants, as well as other stakeholders.