

Written Evidence to the Local Government, Housing and Planning Committee of the Scottish Parliament,

This draft: May 29 2024

Rent Control, Research Evidence and the Housing Bill

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Introduction

We are grateful to have the opportunity to add this supplementary written evidence in advance of our appearance at the committee on June 11, 2024. The UK Collaborative Centre for Housing Evidence (CaCHE) has since the beginning of 2021 undertaken several pieces of research regarding evidence on rent controls. This work continues. Here we cover the following three issues:

- Provide a brief synopsis of the first four pieces of work published in 2022 and 2023 (originally summarised in a submission to the Welsh Government);
- Summarise the argument of a relevant fifth paper by Marsh and Gibb, presented at a conference in Toronto in the summer of 2023; along with reference to a selection of additional relevant studies of rent control that have become available since we published our evidence review;
- Reflect on the rent control provisions in the new Housing Bill and on recent evidence associated with the 2022 rent freeze and subsequent rent cap.

Synopsis of Earlier CaCHE Rent Control Evidence

1. [Rent control: a review of the evidence base](#) was published in February 2022. This systematic evidence review looked at academic and grey literature from the period 2000 to 2020 (82 publications were reviewed). The review incorporates a range of both economics analysis and wider social science evidence. The international dimension is essential because there is no contemporary UK evidence on the impacts of rent control. The literature demonstrates that we need to be cautious regarding the appropriateness of international comparisons and the relevance of contemporary evidence for the UK.

The report included examination of recent *grey literature* on rent regulation. These contributions adopt different starting positions and divergent 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. They draw on the same evidence base, but with differing emphasis, to buttress their case.

Interpreting the evidence on rent control can be challenging. It is difficult to separate rent regulation and its effects from other components of the private rented sector regulatory architecture e.g., tenancy length and security. In addition, 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. Also, a key feature of the debate is the weight given to context, history and institutions and how they interact with any given mechanism for rent regulation. The more importance placed upon these contextual factors and design details the less the findings from empirical studies can be generalised.

Many peer-reviewed academic papers were concerned with the *economic theory* of rent control. The following two key points emerged from this theoretical literature. First, there is a rich theoretical literature on rent control stretching back to the 1960s. It continued to develop into our review period but, arguably, lost momentum after the mid-2000s. There are 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.

Second, most 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. Substantially different conclusions about the effects and desirability of rent control can follow from which of these assumptions you start from. Indeed, 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.

The review also analysed the international *econometric evidence* on rent control. The empirical study of rent control in the UK is now extremely dated (it 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. These characteristics make the discussion of rent control particularly susceptible to analytical over-reach: the risk that results generated in quite different contexts are incautiously or uncritically applied to the UK.

Three recurring or common themes within the econometric papers were found:

- North American econometric studies predominate. Generally, the American studies come to different – and, typically, more negative - conclusions about the impact of rent control 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.

- There is contrast 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.
- 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. A feature of the work has been much closer concern with so-called second- or third-generation rent controls and rent stabilisation alongside changes in tenancy conditions.¹ This has led econometric models to be more nuanced and context specific.

The review also considered the *wider social sciences* literature on rent control:

- It 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. However, institutional arrangements, including those related to rent regulation, are neither deterministic nor unchangeable.
- Moves towards (de)regulation have always been political. These studies argue that the issue of rent control should not be cast primarily as a matter of expert knowledge but rather as one of direct and reflective democracy.
- 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 either as, first and foremost, a home (for a tenant) *or* an asset (for a for-profit landlord). Views on the desirability or otherwise of rent control frequently flow from that underlying difference in perspective over which stakeholder's interests take precedence.

The review's concluding discussion included a set of four compound policy conclusions that seek to generate practical lessons for Governments currently investigating new rent control measures.

¹ First generation rent controls typically take the form of a nominal rent freeze. Second generation rent controls allow for rent uprating in line with a formula, often linked to growth in a measure of inflation (general, house price, or wage) and apply both within and between tenancies. Third generation rent controls only apply within a tenancy and rents can be reset at market levels at the start of each new tenancy.

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 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, 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.

2. [Rent control: principles, practicalities and international experience](#) was published in May 2022. This briefing paper seeks to complement the earlier evidence review. It provides examples of the range of contemporary international rent control or rent regulation practice as operated in the private rented sector (PRS), highlighting a small number of European examples in a little more detail (Sweden, Netherlands, France, Germany, and Ireland). It then goes on to consider and reflect on the evaluative criteria used to assess and appraise these policies and reflect on what this means for the Scottish debate on an effective national rent control policy.

What does the paper conclude? First, national housing policy context and history matter. Sweden's unitary housing system is longstanding. A Scottish aspiration to move to something similar (reducing housing's role as a site for holding wealth, de-commodifying housing and focusing on housing as shelter and not an asset, equal rights across tenure, de-speculating the housing market, etc.) is recognisable in the *Housing to 2040* long term vision and principles. This is a highly ambitious aspiration and there is a significant job to do to build in Scotland the institutions and infrastructure equivalent to those that make up the Swedish system, not least the collective bargaining system. That is not to say that contexts do not change, or paths evolve – but it is no small feat to drive that process consciously. The importance of context also should not be taken to imply that there are no international lessons to build on and carefully customise for domestic consumption.

Second, The Fair Deal for Tenants consultation makes it clear that the Scottish Government seeks to work from a positive vision for the private rented sector and that there is an evident long-term commitment to ramping up the Government's approach to PRS data and evidence. The international evidence suggests both issues are important for credibility, durability and operational policy development.

Third, there is no way of avoiding the need for investment in the infrastructure and support required to implement and enforce the system. There will need to be a serious effort to cost the running of this system, as well as understand its market and distributional outcomes. And there need to be robust and appropriately resourced operations put in place. In this regard there may be lessons on regular monitoring to learn from the system operating in Ireland.

3. The academic paper for the *International Journal of Housing Policy*: '[Rent regulation: unpacking the debates](#)', was published in August 2022.

To paraphrase the paper's abstract: the paper covers three questions related to rent regulation and the role of evidence: what are the drivers of policy change regarding rent regulation and what role does evidence play in shaping policy change? What is the nature of the rent regulation evidence? How is this evidence base transmitted into policy debate? The paper also discusses policy development in Scotland to reflect upon policy drivers and the role of evidence. The paper combines insights from our evidence review and a decade-long policy ethnography.

As to the paper's conclusions, research on the dynamics of policy change indicates that in practice evidence rarely plays a significant role in policy decisions; other factors have weighed more heavily. The social sciences literature is clear that rent regulation policy, and policy change, are better understood as a product of the institutional complex of different housing regimes and of political contestation.

The discussion around rent policy in contemporary Scotland argues that the policy agenda is being strongly influenced by questions of political economy and political negotiation. Yet, the policy process in Scotland has been both cognitively open to evidence and has actively sought to engage with it. The evidence base has been interrogated for the assistance it can give in effective policy design. In this respect, the process displays characteristics of Cairney's (2019): *policy-based evidence*: decisionmakers value evidence, but the policy process faces imperatives to act that mean the purity of "evidence-based policy" cannot be realised.

The paper concludes that: '*the evidence base may not have played a substantial role in deciding the broad direction – the 'what' - of policy, but once that is determined the 'how' can be highly sensitive to lessons from the evidence, including the wisdom of proceeding with caution*'.

4. The Scottish Parliament Cross Party Group on Housing's [rent control report](#) was published on November 1, 2022. The Cross-Party Group decided to spend time looking at the question of rent controls and to draw on the wide and varying views represented by its membership. Discussion was advanced by recognising that rent control is coming and that the debate should be about good policy design, minimising unwanted outcomes, and thinking hard about the rental market's place in the wider housing system. What were the main takeaways?
- a) There will be trade-offs when choosing how one might limit rent increases, how any proposed exemptions might work and be defined.
 - b) There are system consequences with all proposals. It was argued that dealing with wider problems e.g., resourcing enforcement and compliance, greater supply of additional affordable and social housing, investment in repair and improvement policy for the private sector – all could take pressure off the rental market and, in time, reduce the need for rent control.
 - c) The capacity to enforce compliance is likely to be critical to policy effectiveness. Considerable degrees of non-compliance were identified in Ireland, Germany and France. Non-compliance must be explicitly addressed.
 - d) Rent control is not public policy on the cheap. It needs to be monitored and enforced, and the infrastructure for that implementation role must be in place. Evidence suggests it has costs (as well as benefits) to stakeholders and other parties in wider society.
 - e) There was more support for softer 3rd generation controls, but there are questions regarding annual rent increases (should they be mandatory as a way of limiting more occasional larger rent increases that seek to catch up?).
 - f) The group recognised the critical importance of good data and local market analysis. They also recognised the importance of a clear steer about where the government wants to see private renting in the medium to long term.
 - g) Controls could be used alongside area enforcement powers to tackle the worst concentrations of bad practice and failing markets.
 - h) There was also broad support, albeit with dissent, for limiting the rent control in terms of exempting the upper end of the market and also treating students differently. The student housing problem is compounded by the different rights they have if they are in the PRS or in purpose-built student accommodation.
 - i) Information could be more publicly available to help market functioning. Gibb and Marsh (2022) note the use in Germany of legislation that requires landlords to advertise properties with both the proposed rent offer and the relevant rent control ceiling.
 - j) More research is needed on tenant, landlord and investor behaviour in response to different forms of rent control.

More Recent Research

We now briefly note a small number of recent research papers on rent control that post-date the above publications.

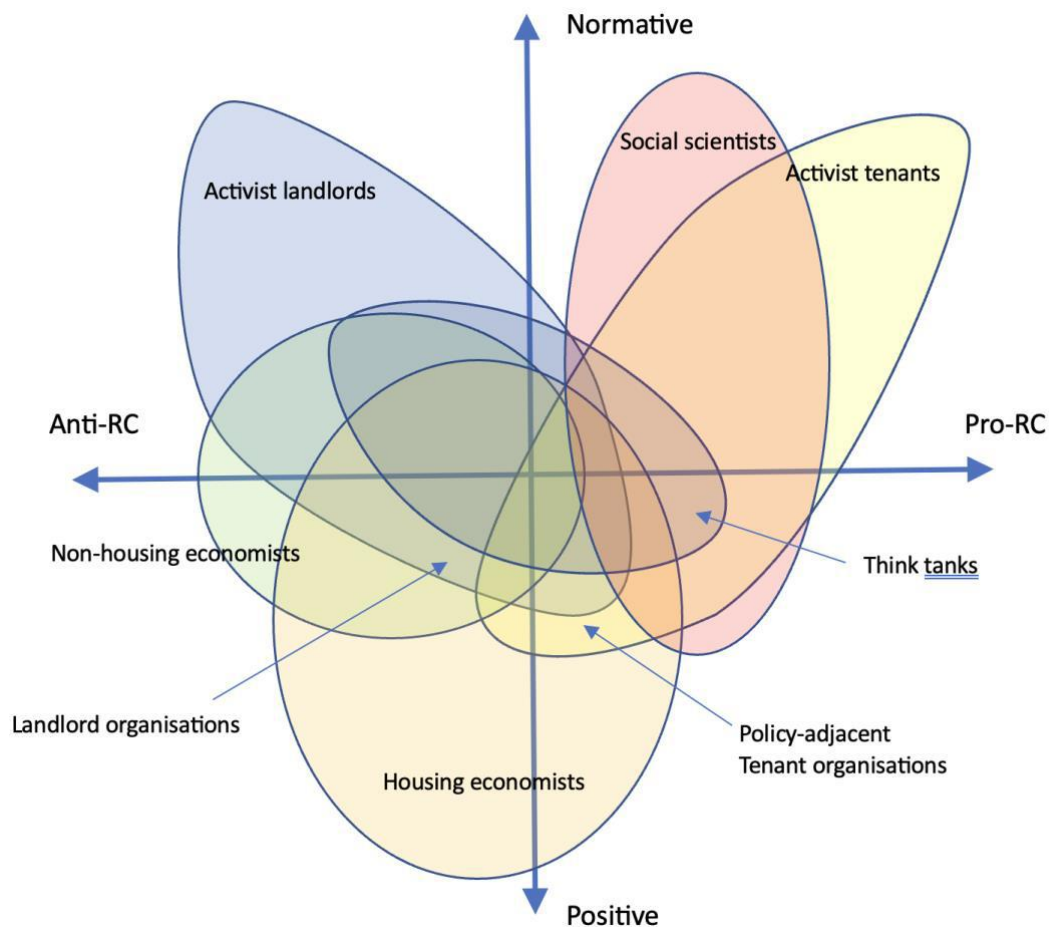
Marsh and Gibb (2023) identify a tension between the democratic clamour for action on affordability via rent regulation, and the expert perspective on rent control, even if the literature is more nuanced and subtle than standard summaries of “economists’ views” would have you believe. This tension is a vivid case study of the tensions between expertise and evidence, on the one hand, and the other drivers of the policy process, on the other. The paper draws on evidence and experience from the authors both in Scotland and (Marsh) as co-chair of the Bristol Living Rent City Commission (BLRC, 2023).

We propose an intuitive or heuristic mapping of key stakeholders involved in the PRS regarding pro-anti rent control stances and whether their views are rooted in positive or normative concerns.² Some stakeholders have overlapping areas with others and hence there may be space for dialogue and progress; other do not. The authors conclude that it should not be surprising that the ‘history of rent control over the long terms is one where an absence of a sustainable coalition of support led to substantial policy volatility’.

Vidal et al (2024) offer a critical analysis of the arguments deployed by landlord and related interests against the tenant position seeking rent control and regulation to protect them from unaffordable rent increases in Catalonia and Spain after the 2008 financial crisis. They conclude that the key arguments against rent control, such as its inevitable negative effect upon the supply of rental housing or the inviolable rights of property owners, rest on less solid foundations that they are often considered to have. This paper also therefore offers examples of the non-intersecting perspectives adopted by key stakeholders on the map below.

² The ‘positive’ versus ‘normative’ distinction is used in economics to distinguish between analysis/conclusions focusing on evidence and that which is more concerned with values (it is a version of the distinction between what ‘is’ and what ‘ought’ to be the case).

Figure 1: Map representing views across the rent control debate



Kholodilin (2024) provides a new wide-ranging international econometric evidence review from 1967 to 2023, which is worth reading in its own terms. He concludes (p.1) that ‘rent controls appear to be quite effective in terms of slowing the growth of rents paid for dwellings subject to control. However, this policy also leads to a wide range of adverse effects affecting the whole society’. He summarises this as (p.6) *‘In particular, although rent control appears to be very effective in achieving lower rents for families in controlled units, its primary goal, it also results in a number of undesired effects, including, among others, higher rents for uncontrolled units, lower mobility and reduced residential construction. These unintended effects counteract the desired effect, thus, diminishing the net benefit of rent control. Therefore, the overall impact of rent control policy on the welfare of society is not clear’*. Moreover, he notes that these policies do not exist in a vacuum so their effects must be disentangled from those of other policies that directly and indirectly impede on rental markets.

Evidence on the experience with rent pressure zones in Ireland has been examined by O’Toole (2023). He concludes that rent pressure zones have had the effect of suppressing rent increases within the designated areas. However, the data indicates that while average rates of rental increase were reduced they still ran ahead of the maximum prescribed by the

formula regulating rents. This suggests that compliance is an issue and that implementation could be strengthened.

Both Catalonia and Berlin have recently implemented stronger rent regulations which turned out to be short-lived. There is a growing literature seeking to interpret the effects of these policies. However, identifying their impacts encounters the range of issues noted above, with different studies arriving at different conclusions as a result of different theoretical assumptions or empirical methods (the debate over the Catalanian experience is briefly reviewed by Vidal et al, 2024). Evaluating policy effects here was made more challenging because there was uncertainty over the legality, and therefore longevity, of the policy. The implication was that some of the potential effects were muted while stakeholders waited for the legal questions to be clarified.

Finally, we note three recent papers on the rent freeze in Berlin (Molder, 2023; Sagner and Voigtländer, 2023; Hahn, et al, 2024). Molder (2023) argues that the interventions after 2020 distorted and disturbed market processes adding to the costs of the policy, while Sagner and Voigtländer (2023) “find rent decreases accompanied by decreases in supply five times as large”. Hahn et al (2024) also conclude that the negative impacts on tenants outweighed the benefits. Landlords were able to hedge against the risk that the first generation rent control would not be found unconstitutional at the higher federal level (it was). For these economists, the consequences of rent control as described were, on balance, negative in part because of the conventional and anticipated negative effects of the hard control, but also because of the uncertainty and behavioural responses that flowed from it.

Finally, to return to the point we started with, the Berlin policy experiment was with the implementation of a rent brake followed by a rent freeze – close to a first generation intervention – and we need to reflect on how that experience travels to our context and informs proposals for regulatory interventions of different design.

Reflections on the Housing Bill and ‘Evidence’ on the Rent Freeze & Cap

The approach taken in the Bill is essentially a reframing and deepening of Rent Pressure Zones, extended, where feasible, to new tenancies. It develops new duties for councils to acquire rental information from all private landlords with which to assess whether there is a case for a rent cap (at an as yet undetermined rate) to be applied to their rent control area. Councils are expected, with a fair wind, to be delivering these reports to Government by towards the end of 2026 – quite a long way yet, but at the same time not long to set up the market analysis required. Councils will need to, consistently across Scotland, determine market areas and sub markets, understand how market drivers shape rents, and develop a sense of landlord behaviour in response to market dynamics and interventions. Councils will therefore need to develop analytical capacity and the research resources required to undertake this new function properly – because it is critical to the success of the policy.

The 2022 rent freeze and subsequent cap on private rents has produced some evidence regarding impacts. Of course, the freeze was welcomed by tenants in existing tenancies but it did lead to significant rent increases for new tenancies to which the cap did not apply. This has had severe repercussions, with Scottish cities' new private rents outstripping rents elsewhere in the UK and widening unaffordability for those needing to move or change tenancies. This has also led to reduced tenancy turnover: tenants staying on in tenancies that maybe were not optimal in terms of accommodation or location but were a better financial trade-off compared to moving to a new tenancy.

Perhaps the most commented on aspects of the freeze and cap has been the notion that this intervention had stalled investment and may have been associated with landlord exits. Earlier research reported by Rettie and Co indicated that institutional investors (the BTR sector) were withdrawing new investment from Scotland until the political risk and uncertainty abated). At the same time there has been considerable scrutiny of landlord de-registration data which seems to suggest that there are now fewer landlords operating in parts of Scotland. This may mean fewer units or it may mean consolidation into larger landlord portfolios - most likely both things are happening. Rettie and Co have also suggested that national survey data and evidence from the large agent platform suggests that supply is in decline but this is not necessarily simply due to rent regulation. As Kholodilin argued in his evidence review, there are other things going on too: the impact of adverse tax changes, higher regulatory barriers such as retrofitting, as well as demography. Many landlords who entered the market during the BTL boom years may simply be reaching the retirement stage in their life and wish to liquidate their assets to finance later life consumption or other costs. Again, disentangling the effects of complex concurrent social and policy changes is a significant challenge.

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