

The effects of rent controls on supply and markets

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Introduction

Tenants living in private rented sector accommodation in certain parts of England have recently experienced large increases in rent levels, at least in respect to the rents charged on new tenancies. Average rents for new tenancies in London were 11.9% higher in September-December 2014 than they were in the same period in 2013, although the increase seen was only 1.5% on average across the UK outside London (Homelet, 2014). There is considerable regional variation both in the levels of rents and the rate of recent increases. Rising rents have increased the cost of Housing Benefit and have therefore become a matter of interest for those concerned about public expenditure (Bentley, 2015; Holmans, 2014¹). Welfare reforms have imposed limits on housing benefit payments, though it is uncertain whether these curtail rents, or simply prevent low income tenants from accessing rented housing. Projections of possible further substantial increases relative to wages have added urgency to the debate (Stephens, et al., 2014).

The issues of security of tenure has also risen up the political agenda (Shelter, 2012²) fuelled in part by the growing number of families living in private rented housing, seeking long term homes but subject to short term tenancies.

The merits of rent control have been subject to much debate in the literature, and recently in the press. As noted in Shelter's recent blog on the topic³, polling has shown that the public are broadly in support of the idea of rent controls, though there is concern that most people have a limited understanding of the different ways in which this might work or what the wider consequences might be. It is often argued that rent controls always result in misallocation of resources and poor outcomes (Alston, et al., 1992, Skak & Bloze, 2013). There are however arguments that the correct design of rent control might be effective in achieving the desired social goals (Kutty, 1996, Micheli & Schmidt, 2014). However, the recent nature of the debate in the UK means there are few if any studies of the likely effect of the kinds of rent controls being currently proposed by various third sector organisations and political parties. This research aims to fill that gap, at least in part.

Inevitably, the debate over rent controls as part of a regulatory regime overlaps with other issues regarding the regulation of the private rented sector, such as security of tenure and quality of accommodation. As far as possible, this research deals with both of these issues together.

Aim of the research

The research has sought to identify the possible impact of six different rent control scenarios, which are:

1. *A new default private rental contract of five years with initial rents set by the market and increases limited to the Consumer Price Index (CPI). Shelter's proposal for the Stable Rental Contract as included in A Better Deal has used as the model for this scenario*

¹ Housing need and effective demand in England: A look at "the big picture", CCHPR, 2014

² A better deal: Towards more stable private renting, Shelter, 2012

³ <http://blog.shelter.org.uk/2015/02/the-politics-of-rent-control>

2. *A new default indefinite private rental contract with initial rents set by the market and increases limited to CPI or wage growth (whichever is lower) within the tenancy. Civitas's proposal has been used as the model for this scenario*
3. *A temporary, three year freeze on all private rents (including between tenancies) except for new build properties*
4. *An indefinite cap on all private rents, set at current market rates and indexed to average earnings or the CPI*
5. *An indefinite cap on all private rents, set at two-thirds of current market rates and indexed to average earnings or the CPI*
6. *Limits on rent increases within a tenancy that would take them to above market levels coupled with automatic 29 month extensions to a six month probationary tenancy which could be ended by the landlord only if they needed to sell their property, live in it or if there had been a breach of tenancy.*

These can be grouped into those which set initial tenancy rents according to the market, but regulate increases within a tenancy (scenarios 1, 2 and 6); those which seek to hold rents at or close to their current level (scenarios 3 and 4), and one which proposes immediate reductions in rents from their current level (scenario 5).

The objectives of the research are to:

- Quantify the impact, in England, that each of the six rent control scenarios would have on:
 - Rents in different types of housing market
 - Level of house building activity, given other driving forces including both market forces and the impact of Government programmes to stimulate building for the Private Rented Sector (PRS)
 - Transfers of stock between private renting and owner occupation
- Analyse the impact the different rent control scenarios might have on tenants renting in the PRS, particularly:
 - Utilisation of the PRS housing stock, considering incentives for tenants to rent (rather than buy or remain within another household).
 - Change in incentives for landlords, including impacts on quality of PRS housing stock available, including any likely restrictions imposed by mortgage lenders on lending for different tenancy types
 - Any other changes to the market which would have an impact on tenants such as turnover rates or changes to the type or location of private rented stock that would be available
 - Any disproportionate impacts on any particular part of the PRS – such as the lower or higher end of the market, location or type of stock.

Methods

There were four stages to the methods employed undertake this study:

1. Stage 1 quantifies the impact of each of the six rent control scenarios rents paid by PRS tenants, and hence on aggregate rent levels charged across the sector
2. Stage 2 projects the likely impact on the size of the PRS under each of the potential changes to rent levels (the outputs from Stage 1)
3. Stage 3 explores the likely behavioural impact on tenants, landlords and mortgage lenders, with a focus both on rent levels and the proposed changes to security of tenure under each of the six scenarios
4. Stage 4 brings together all of the above findings in an overall analysis of the impact of the proposed rent control scenarios on the size of the PRS and levels of housebuilding.

Stage 1 and 2 draw on secondary data sources including projections of future rent increases, changes to CPI and wage inflation.

Stage 3 draws on:

1. An online survey of private landlords and letting agents exploring their views on tenure security, rent setting and increasing rents within a tenancy. Letting agents were also included in the survey as they can help to understand the motivations of many of the smaller landlords who do not manage their lettings themselves.

The survey was delivered to landlords via landlord associations, accreditation schemes and student landlord registers. Letting agents were accessed by compiling publicly available contact information from websites across different parts of England.

In total, 728 landlords and 97 letting agents responded in full to the survey. Because of the method of delivery, which relied on organisations voluntarily forwarding the email, it is not possible to calculate a response rate, because the overall size of the mailing list held by the organisations who forwarded the email is not known. The distribution of responses across England varied, although responses were obtained from all regions of the country, and in both urban and rural areas. Responses also came from landlords providing all types of property, including student housing, Houses in Multiple Occupation (HMOs) and large high value homes aimed at affluent tenants.

The survey asked about what tenants are looking for when they rent properties and how they are likely to react to longer term tenancies and/or lower rents. The survey text can be found in Annex 1.

2. Follow up phone calls with around 20 landlords and letting agents exploring some of the issues from the survey in more depth. Online survey respondents were invited to leave a phone number if they were willing to be interviewed. Interviewees were selected to cover a range of landlord views and market conditions including those who were favourable and unfavourable to longer tenancy lengths and those who found letting their properties easy and less easy. The questions asked can be found in Annex 2.
3. Consultation with mortgage lenders on their views on lending for buy to let mortgages if the basic tenure type in England were to be altered from a six month assured

tenancy to something that offered the tenant more security, and on their likely reaction to rent controls. Eight lenders on the Council of Mortgage Lenders' Buy to Let Panel were interviewed by phone. They included a mixture of established banks, building societies, specialist lenders and relatively new entrants⁴.

The questions asked can be found in Annex 3.

The fieldwork was undertaken in February and March 2015. To encourage open discussion participants throughout this research have not been named.

⁴ Lenders interviewed comprised: Lloyds Banking Group, Royal Bank of Scotland, Barclays, Yorkshire Building Society, Nationwide Building Society, Paragon, Aldermore and one other who asked not to be named.

Stage 1: Core quantification of different scenarios of rent controls

This first stage quantifies the potential impact of the different rent control scenarios on rent levels, assuming no change in behaviour by landlords, tenants or mortgage lenders.

This stage involves:

1. Establishing the extent to which rents would fall below current or (where applicable) future market levels under each of the six scenarios in different market conditions
2. Establishing the proportion of private renters who would benefit from the lower rents under each of the six rent control scenarios

We firstly, need to look at the likely future trends in market rents, CPI and wages in order to estimate the likely impact of the different rent control scenarios.

Table 1.1 (below) shows the factors that need to be included in the model to establish the extent to which rents would fall below current and future market rent levels, and the proportion of PRS tenants who would be affected by the reductions.

Table 1.1: Factors affecting the impact of each rent control scenario

Rent control scenario	Immediate reduction relative to current market rents	Reduction relative to future market rent levels	Proportion of tenants affected
1	0%	Projected CPI Projected increase in market rents	Length of tenure of PRS tenants
2	0%	Projected CPI Projected increase in market rents Projected increase in wage levels	Length of tenure of PRS tenants
3	0%	Projected increase in market rents	Proportion of PRS tenants renting newbuild homes
4	0%	Projected CPI Projected increase in market rents Projected increase in wage levels	n/a (100%)
5	33%	Projected CPI Projected increase in market rents Projected increase in wage levels	n/a (100%)
6	0%	n/a	Length of tenure of PRS tenants

The assumptions used in this stage are that:

1. All new tenancies granted from 2015 onwards are of the new tenancy type proposed

2. In the absence of rent controls, landlords increase rents during tenancies annually to keep them in line with market rents
3. If the maximum permitted level of a rent increase takes the rent higher than the market rent, the rent will only be increased to the market level.
4. There are no costs associated with rent controls passed on to either landlords or tenants.

Projecting CPI, Wage inflation and market rent inflation

Past trends

Table 1.2 (below) shows how market rents, CPI and average wages have increased over the past ten years:

Table 1.2: Market rents, CPI and Wage inflation over the last ten years

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Average 2006-
Market rent inflation (%)	North East		1.5	0.9	1.3	1.3	0.4	0.1	0.3	-0.1		0.7
	North West		1.0	0.6	1.2	1.0	0.1	0.4	0.8	0.5		0.7
	Yorkshire and Humber		1.6	1.0	1.4	1.4	0.5	0.4	0.7	0.7		1.0
	East Midlands		1.9	1.0	0.9	0.9	-0.6	-0.1	0.7	0.7		0.7
	West Midlands		1.7	0.9	1.2	1.3	-0.5	0.3	0.7	0.6		0.8
	East of England		2.2	1.4	1.6	1.3	-0.3	0.2	1.0	1.0		1.0
	London		0.8	0.7	2.5	1.5	-0.3	0.4	2.2	2.5		1.3
	South East		0.7	0.8	1.5	1.7	-0.5	0.4	1.5	1.3		0.9
	South West		1.8	1.3	1.7	1.6	-0.6	0.1	0.9	0.9		1.0
	England		1.2	0.9	1.7	1.5	-0.3	0.3	1.4	1.5		1.0
CPI (UK) (%)		2.1	2.3	2.3	3.6	2.2	3.3	4.5	2.8	2.6	1.5	3.0
Wage inflation (England) (%)		1.1	4.3	3.6	3.4	2.1	1.7	0.0	1.5	2.3	0.6	2.4

Sources: Rents: Valuation Office Agency published average rental price and IPHRP. 12-month growth December figures used, except for December 05 where January 06 used instead. Experimental Index of Private Housing Rental Prices - Index levels. January figures used for previous 12 months. CPI: ONS Wage inflation: Average weekly earnings from Annual Survey of Hours and Earnings via ONS

As can be seen private rents have actually risen below wages or CPI on average during the period 2006-2013.

This means that had the rent controls being explored here been in place over the last ten years, assuming no other behavioural impact or supply impact, scenarios 1-4 would, on average, have had very little impact on rents charged. It is possible that individual

neighbourhoods or specific properties would have had their rents held down as not all areas follow average trends in rents.

Future projections

Past trends do not necessarily predict the future. We have therefore considered the available evidence and drawn on existing projections to look at the most likely future scenario, as shown below:

Table 1.3: Projected market rents, CPI and wage inflation 2015-2025

		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Market rent inflation (%)	North East	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5
	North West	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.7	0.7	0.7
	Yorkshire and Humber	0.7	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.8
	East Midlands	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
	West Midlands	1.1	1.2	1.3	1.4	1.4	1.5	1.5	1.5	1.5	1.5	1.5
	East of England	2.1	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
	London	2.9	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8
	South East	2.3	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
	South West	1.6	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
CPI (UK) (%)		1.2	1.7	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Wage inflation (England) (%)		1.5	1.4	1.3	1.2	1.1	1.1	1.0	0.9	0.9	0.8	0.8

Source: For CPI (up to 2019); Office for Budget Responsibility, Economic and Fiscal Outlook December 2014. For 2020 and onwards employed the 2019 level. For Rent Inflation and Wage Inflation, CCHPR analyses.

Under these projections the rent control scenarios would all make some impact on rents in some regions, though not in all parts of the country.

The impact of the rent control scenarios on average English rents

The tables below show the likely impact on each of the six scenarios for an average rent of £176 a week⁵ drawing on the projections for CPI, wage and market rent inflation made above.

For comparative purposes, we first consider ‘scenario 0’ – no rent controls:

Table 1.4: Rent projections under scenario 0 – with no rent controls

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
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⁵ www.gov.uk/government/uploads/system/uploads/attachment_data/file/406547/2013-14_Section_1_Households_tables_and_figures_FINAL.xlsx

Market rents	£176	£180	£184	£187	£191	£195	£199	£203	£207	£211	£215
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Source: Own calculations

Scenario 1 limits rent increases within a tenancy to CPI, and imposes a default five year tenancy. The table below sets out the ways in which this would reduce rents, for renters who have been in their tenancies for different lengths of time.

Table 1.5: Rent projections under scenario 1

Years of tenancy	Year										
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
0	£176	£180	£184	£187	£191	£195	£199	£203	£207	£211	£215
1	£176	£178	£182	£186	£190	£193	£197	£201	£204	£208	£212
2	£176	£178	£181	£185	£188	£192	£195	£199	£202	£206	£210
3	£176	£178	£181	£183	£187	£190	£194	£197	£201	£204	£208
4	£176	£178	£181	£183	£185	£189	£193	£196	£199	£202	£206
5+ years	£176	£178	£181	£183	£185	£195	£191	£194	£198	£201	£204

Source: Own calculations

The cells shaded in pale blue in the table above (and all tables in this report) are those that will always, necessarily, be at market rents, regardless of what happens to CPI and market rents. Whether the others are at or below market rents depends on what happens to market rent increases and CPI.

Scenario 2 limits rent increases to the lowest of either the increase in average earnings, or CPI, whichever is the lowest in any given year. The table below sets out the ways in which this would reduce rents, for renters who have been in their tenancies for different lengths of time.

Table 1.6: Rent projections under scenario 2

Years of tenancy	Year										
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
0	£176	£180	£184	£187	£191	£195	£199	£203	£207	£211	£215
1	£176	£178	£182	£186	£190	£193	£197	£201	£204	£208	£212
2	£176	£178	£181	£185	£188	£192	£195	£199	£202	£206	£210
3	£176	£178	£181	£183	£187	£190	£194	£197	£201	£204	£208
4	£176	£178	£181	£183	£185	£189	£193	£196	£199	£202	£206
5	£176	£178	£181	£183	£185	£187	£191	£194	£198	£201	£204
6	£176	£178	£181	£183	£185	£187	£189	£193	£196	£199	£202
7	£176	£178	£181	£183	£185	£187	£189	£191	£195	£198	£201

8	£176	£178	£181	£183	£185	£187	£189	£191	£193	£197	£200
9	£176	£178	£181	£183	£185	£187	£189	£191	£193	£195	£198
10	£176	£178	£181	£183	£185	£187	£189	£191	£193	£195	£196

Source: Own calculations

Scenario 3 proposes a temporary three year freeze on all private rents, including between tenancies. It is assumed that after this period they return to market rents, and remain at market levels for the rest of the period. The length of tenancy does not affect tenancies issued under this scenario, but newbuild stock (and that which is being rented out for the first time) is not affected, and nor would be properties entering the PRS for the first time. The table below sets out the ways in which this would reduce rents for stock joining the sector at different points in time.

Table 1.7: Rent projections under scenario 3

Stock entered PRS	Year										
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
2015 or prior	£176	£176	£176	£187	£191	£195	£199	£203	£207	£211	£215
2016		£180	£180	£187	£191	£195	£199	£203	£207	£211	£215
2017			£184	£187	£191	£195	£199	£203	£207	£211	£215
2018				£187	£191	£195	£199	£203	£207	£211	£215

Source: Own calculations

Scenario 4 is similar to scenario 2 above in that it limits rent increases to the lowest of either the increase in average earnings, or CPI, whichever is the lowest in any given year. However scenario 4 affects all tenancies except for newbuild or stock entering the PRS for the first time.

The table below sets out the ways in which this would reduce rents for stock joining the sector at different points in time.

Table 1.8: Rent projections under scenario 4

Stock entered PRS	Year										
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
2015 or prior	£176	£178	£181	£183	£185	£187	£189	£191	£193	£195	£196
2016		£180	£182	£185	£187	£189	£191	£193	£195	£197	£198
2017			£184	£186	£188	£190	£193	£194	£196	£198	£200
2018				£187	£190	£192	£194	£196	£198	£199	£201
2019					£191	£193	£195	£197	£199	£201	£202
2020						£195	£197	£199	£201	£202	£204
2021							£199	£201	£202	£204	£206

2022								£203	£204	£206	£208
2023									£207	£208	£210
2024										£211	£212
2025											£215

Source: Own calculations

Scenario 5 is similar to scenario 4 in terms of operation but also proposes, much more radically, that rents are cut to two thirds of their current value immediately, and thereafter allowed to rise only in line with the lowest of either wage inflation or CPI. It is assumed that under this scenario, rents on properties entering the PRS would be independently assessed and pegged to the level of comparable properties already in the market.

The table below sets out the ways in which this would reduce rents, using the same projections as above.

Table 1.9: Rent projections under scenario 5

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Rent	£67	£68	£69	£71	£72	£74	£75	£77	£78	£80	£81

Source: Own calculations

As can be seen, the impact of this scenario is substantial right from the start.

Scenario 6 only stops rents rising to higher than market rents. In a properly functioning market rents cannot rise to higher than market levels (as by definition, they are at market levels if someone is willing to pay them). There is therefore no assumed impact on average rents under this scenario.

The impact on aggregate rent levels

In order to model the impact of rent controls on the sector we need to know not just the impact on affected rents, but the proportion of rents that will be affected. The proportion of renters affected under scenarios 1 and 2 depends upon lengths of tenancy, whilst for scenarios 3 and 4 – which are stock based – it depends on the proportion of stock that enters the PRS each year.

Using data from the English Housing Survey, the table below shows the proportion of PRS tenants in England who have been resident for different lengths of time, by region.

Table 1.10: Length of residency by private sector households – 2012/13

Length of residency	Total (EHS)	Proportion of all PRS tenants (EHS)	Estimated proportion by year of tenancy
0	1,022,602	36%	36%
1	655,028	23%	23%
2	369,745	13%	13%

3	372,584		7%
4			
5	287,201	13%	6%
6			
7			
8			
9			
10 or more	151,756	5%	5%

Source: English Housing Survey and own estimates

The proportion of the PRS stock that has entered the sector within the last year has two components:

Growth in the size of the PRS sector (annual net increase)	<i>plus</i>	Annual flow of properties between owner-occupation and private renting (churn between tenures)	<i>equals</i>	Number of properties which have entered the PRS in the last year
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Growth in the size of the sector comprises new construction and conversions of properties in other tenures to private renting, minus conversions of private rented properties to another tenure.

The table below shows the net increase in the size of the PRS over the last ten years:

Table 1.11: Number of dwellings in the PRS⁶

	Private rented dwellings	Net flow into PRS	Net flow into PRS as proportion of stock
2003	2,549	-	-
2004	2,578	29	1.1%
2005	2,720	142	5.2%
2006	2,987	267	8.9%
2007	3,182	195	6.1%
2008	3,443	261	7.6%
2009	3,705	262	7.1%
2010	3,912	207	5.3%
2011	4,105	193	4.7%
2012 ⁷	4,286	181	4.2%
Total		1,737	-

⁶ Data from prior to 2003 has not been used because in differences in the methodology introduced in 2003.

⁷ Provisional figure

Average		193	5.6%
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Source: DCLG live tables, own calculations

There is no recent data available for flows between owner-occupation and private renting. The English House Condition Survey used to collect this information but was discontinued in 2007. Data from the 1990s however indicates that around 60,000 dwellings per year moved between owner-occupation and private renting, and a similar number in the other direction (Ball, 2004). The size of the PRS was on average 2.0 million dwellings during this period, meaning that 3.0% of dwellings moved between tenures each year.

Adding these figures together gives an estimate of 8.6% of the private rented stock having entered the PRS during the last year (5.6% net increase, some of which is newbuild, and a further 3% 'churn' moving in each direction between owner-occupation and private renting).

Using these figures, we can now estimate the impact on aggregate rent levels for each region (Tables 1.12-1.16):

Table 1.12: Projected decrease in rental revenue (% reduction in total market rent paid): Scenario 1⁸

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
North East	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
North West	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Yorkshire and Humber	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
East Midlands	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.3	0.4	0.5
West Midlands	0.0	0.1	0.1	0.2	0.4	0.5	0.7	0.9	1.1	1.3	1.4
East of England	0.0	0.2	0.1	0.1	0.2	0.0	0.1	0.4	0.5	0.6	0.7
London	0.0	0.9	1.4	1.7	2.1	1.3	1.7	2.7	2.8	2.9	3.0
South East	0.0	0.3	0.3	0.3	0.5	0.2	0.4	0.8	0.9	1.0	1.1
South West	0.0	0.4	0.5	0.6	0.7	0.5	0.7	1.1	1.2	1.3	1.4
England	0.0	0.4	0.5	0.6	0.8	0.5	0.7	1.1	1.2	1.3	1.4

Table 1.13: Projected decrease in rental revenue (% reduction in total market rent paid): Scenario 2

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
North East	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
North West	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Yorkshire and Humber	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

⁸ The national projection is the weighted sum of the regional projections. The regional weights were estimated, based on the regional private rented market sizes (see Annex 4).

East Midlands	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.3	0.4	0.5
West Midlands	0.0	0.0	0.0	0.0	0.2	0.3	0.4	0.6	0.7	0.9	1.0
East of England	0.0	0.3	0.3	0.4	0.5	0.6	0.7	0.9	1.0	1.2	1.3
London	0.0	1.0	1.5	1.8	2.2	2.5	2.7	3.0	3.2	3.4	3.6
South East	0.0	0.4	0.5	0.7	0.8	1.0	1.2	1.3	1.5	1.6	1.8
South West	0.0	0.3	0.4	0.5	0.7	0.8	1.0	1.1	1.2	1.4	1.5
England	0.0	0.4	0.6	0.7	0.9	1.0	1.2	1.3	1.5	1.6	1.7

*Table 1.14: Projected decrease in rental revenue (% reduction in total market rent paid):
Scenario 3*

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
North East	0.0	0.6	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
North West	0.0	0.7	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Yorkshire and Humber	0.0	0.8	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
East Midlands	0.0	1.1	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
West Midlands	0.0	1.1	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
East of England	0.0	1.5	2.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
London	0.0	2.5	4.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
South East	0.0	1.7	3.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
South West	0.0	1.6	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
England	0.0	1.6	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

*Table 1.15: Projected decrease in rental revenue (% reduction in total market rent paid):
Scenario 4*

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
North East	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
North West	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Yorkshire and Humber	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
East Midlands	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.5	0.8	1.0
West Midlands	0.0	0.0	0.0	0.1	0.3	0.5	0.8	1.2	1.5	2.0	2.4
East of England	0.0	0.4	0.6	0.8	1.0	1.3	1.7	2.0	2.4	2.9	3.3
London	0.0	1.4	2.5	3.5	4.5	5.5	6.5	7.4	8.2	9.1	9.9
South East	0.0	0.6	0.9	1.3	1.7	2.2	2.6	3.1	3.6	4.2	4.7

South West	0.0	0.5	0.7	1.0	1.4	1.7	2.2	2.6	3.0	3.5	4.0
England	0.0	0.6	1.0	1.4	1.8	2.3	2.7	3.2	3.6	4.1	4.6

Table 1.16: Projected decrease in rental revenue (% reduction in total market rent paid): Scenario 5

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
North East	0.0	32.9	32.4	31.9	31.5	31.1	30.7	30.4	30.1	29.9	29.7
North West	0.0	33.1	32.6	32.3	32.0	31.7	31.5	31.3	31.2	31.1	31.0
Yorkshire and Humber	0.0	33.1	32.8	32.5	32.2	32.0	31.9	31.8	31.7	31.7	31.7
East Midlands	0.0	33.3	33.2	33.1	33.1	33.1	33.2	33.3	33.5	33.7	34.0
West Midlands	0.0	33.3	33.3	33.3	33.5	33.7	33.9	34.2	34.6	35.0	35.4
East of England	0.0	33.7	33.8	33.9	34.2	34.5	34.8	35.2	35.6	36.0	36.5
London	0.0	34.4	35.2	36.1	37.1	38.1	39.1	40.1	41.2	42.3	43.4
South East	0.0	33.8	34.0	34.4	34.8	35.2	35.7	36.2	36.7	37.3	38.0
South West	0.0	33.7	33.9	34.1	34.5	34.8	35.2	35.7	36.2	36.7	37.2
England	0.0	33.7	33.9	34.2	34.6	34.9	35.4	35.8	36.3	36.9	37.4

The summary table below shows, for comparison, the projected decrease in rental revenue for England for each of the six scenarios:

Table 1.17: Projected decrease in rental revenue in England (% reduction in total market rent paid): Scenarios 1- 5

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Scenario 1	0.0	0.4	0.5	0.6	0.8	0.5	0.7	1.1	1.2	1.3	1.4
Scenario 2	0.0	0.4	0.6	0.7	0.9	1.0	1.2	1.3	1.5	1.6	1.7
Scenario 3	0.0	1.6	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Scenario 4	0.0	0.6	1.0	1.4	1.8	2.3	2.7	3.2	3.6	4.1	4.6
Scenario 5	0.0	33.7	33.9	34.2	34.6	34.9	35.4	35.8	36.3	36.9	37.4
Scenario 6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

As can be seen, scenario 5 has a much more dramatic impact on rent levels throughout the ten year projection. Scenario 3 has the next biggest short term impact, whereas scenario 4 has the next biggest impact over a longer time span.

These projections are based on average rents, rather than individual level modelling. The actual impacts of rent controls would be more nuanced than this, and would of course vary depending on what actually happens to CPI, wage inflation and market rents.

Stage 2: Projecting the impact of rents on the size of the PRS

This section examines the impact of the projected decreases in rental revenue (from Stage 1) on the private rented sector's housing supply.

The hypothesis is that a reduction in projected rental revenue would reduce the size of the private rented sector, via an expected decrease in rental yield.

The assumptions used in this stage are that:

1. Aggregate reductions in rental income (relative to scenario 0) are at the levels calculated during Stage 1.
2. There is no behavioural response to rent control per se (as opposed to decreased income) by landlords, tenants or mortgage lenders.

The issue of behavioural response will be explored further in Stage 3, but for now landlords are assumed to react solely in response to any changes in projected rental income in order to get a sense of the scale of potential change proposed under each scenario.

This stage examines the impact of changes to rent levels on the size of the PRS – the analysis is macroeconomic (i.e., aggregated) level (not at an individual landlord level). It is assumed at this stage that private landlords would seek to reduce their involvement in the sector, when both (or one) of the following are expected to decrease:⁹

- rental income (at present values)
- capital gains from letting properties.

In order to model this impact, firstly the relationship between the size of the PRS and the sector's overall rental yield can be estimated using panel data analysis (a linear model) drawing on data from 2006 to 2011 and using each region as a separate case, thus N=54.

The analysis uses the following simple function:

$$\text{Net increase in the PRS} = f(\text{rental yield, other explanatory variables})$$

The explanatory variable of interest is **Rental Yield**, which is measured as a ratio of the private rental sector's annualised average rent to the average house price.

The other explanatory variables included in the model are **Capital Gain** from rented properties, **Financial Constraint** drawn from a mortgage interest rate, **Supply Constraint** drawn from the permanent dwelling completions by private enterprises and a constant term which varies between the regions. The regressions were carried out to produce the constant terms and coefficients of **Rental Yield**, **Financial Constraint**, and **Supply Constraint** for each for the nine regions. The coefficient of **Capital Gain** was assumed to be equal across all the regions. The descriptions and data sources of the variables are summarised in Table 2.1 (below). The datasets were collected annually each for the nine regions from 2006 to 2011¹⁰.

⁹ For example, Wood, A (2001) *Prompting the supply of low income rental housing*. Kim, Y (2008) *Rent-Price Ratios and the Earnings Yield on Housing*.

¹⁰ Except *Financial Constraint* - the mortgage interest rates at the national were applied equally for the nine regions. The multi-collinearity problems between the explanatory variables were observed in that

Table 2.1: Definitions of the data employed in the panel data analysis

Variable	Description	Source
PR stock net increase	annual change of private renting units (in natural log form)	DCLG
Rental yield	A ratio of the annualised average rent in PR sector to the average house price (%)	Shelter' analysis drawing on IPHRP Index; VOA the average private rents and ONS the simple average House price
Capital gain	Real house price index (2005=100) annual growth rate (%) ; the deflator is CPI (all items)	ONS
Financial constraint	75% LVT fixed mortgage interest rate (% p.a.)	Bank of England
Supply constraint	Private enterprise dwelling completions (in natural log form)	DCLG

The provisional examination revealed that of the five explanatory variables (including a constant term), **Rental Yield**, **Financial Constraint**, **Supply Constraint** and a constant term appeared to have a coefficient which varies across the regions with statistical significance, while the coefficients of the remaining variables did not significantly change regionally.

Therefore, the regression was carried out to produce the constant terms and coefficients of **Rental Yield**, **Financial Constraint**, and **Supply Constraint** each for the nine regions. The coefficient for **Capital Gain** was obtained similarly for each region. The results are presented in Table 2.2. For full detail, see Annex 4.

The test results showed that all the explanatory variables had a positive coefficient.¹¹

This means **Rental Yield** decrease, via a rental revenue reduction by the regulation, will reduce the private rented housing supply from the level to be achieved without the regulation.

Table 2.2 Relationship between private rented housing supply, Rental Yield and other explanatory variables

	Rental yield	Capital gain	Financial constraint	Supply constraint	Constant
North East	0.5768	0.0151	0.2997	-0.4831	9.8944
North West	2.4890	0.0151	0.7360	-3.0129	26.4557

the correlations between the variables were reasonably small. Strictly speaking, the endogeneity test with instrumental variables should be required and this could be carried out with further research employing more complex modelling.

¹¹ **Financial Constraint** also had a positive coefficient for some regions. This implies that the higher mortgage rates, the more private housing supply. In general, when the overall macroeconomic fundamentals are robust, interest rates are high. Thus, the mortgage interest rate in the regression could explain such robustness. This should be examined in further research.

Yorkshire and Humber	2.2598	0.0151	0.2566	-1.2660	12.5436
East Midlands	1.4732	0.0151	-0.0782	-0.4087	9.0860
West Midlands	1.8566	0.0151	0.5435	-1.2830	12.6613
East of England	1.2330	0.0151	-0.0050	-0.0029	6.0716
London	2.1609	0.0151	-0.1498	-1.2865	13.9826
South East	1.4503	0.0151	-0.3943	2.5317	-17.8710
South West	4.5710	0.0151	-0.0674	0.9390	-14.6729

Drawing on these relationships, the projected **Rental Yield** modelled in Stage 1 and the other variables' projections (see Annex 4), Tables 20-24 present the projected impacts of each of the rent control scenarios on the size of the PRS.

The output from this analysis produces a projected change to the growth of the PRS, relative to the growth that would otherwise be experienced under scenario 0 (no rent controls).

In order to estimate the impact this will have on the overall size of the PRS, growth of the PRS under scenario 0 (no rent controls) has been estimated as a simple projection based on growth (in absolute terms) during the period 2006-2011 (the last five years for which data are available), as shown in Table 2.3:

Table 2.3: Projected size of the PRS (thousands of dwellings) under scenario 0 (no rent controls)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Increase 2015-25
North East	200	211	222	233	244	255	266	277	288	299	310	55.0%
North West	577	612	647	682	717	752	787	822	857	892	927	60.7%
Yorkshire and Humber	479	506	533	560	587	614	641	668	695	722	749	56.4%
East Midlands	379	403	427	451	475	499	523	547	571	595	619	63.3%
West Midlands	399	424	449	474	499	524	549	574	599	624	649	62.6%
East of England	467	491	515	539	563	587	611	635	659	683	707	51.4%
London	983	1031	1079	1127	1175	1223	1271	1319	1367	1415	1463	48.8%
South East	707	737	767	797	827	857	887	917	947	977	1007	42.4%
South	448	462	476	490	504	518	532	546	560	574	588	31.3%

West												
England	4639	4877	5115	5353	5591	5829	6067	6305	6543	6781	7019	51.3%

Drawing on this projection, along with the projected change in growth of the sector under each scenario, we can model the impact on the size of the PRS of each rent control scenario, as shown in Tables 2.4-2.10.

Table 2.4: Scenario 1 projected percentage decrease in size of PRS as a proportion of its size under scenario 0 (no rent controls)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
North East	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
North West	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Yorkshire and Humber	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2
East Midlands	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.2
West Midlands	0.0	0.0	0.1	0.1	0.2	0.3	0.4	0.6	0.8	1.0	1.1
East of England	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.2	0.2
London	0.0	0.3	0.7	1.1	1.6	1.8	2.1	2.5	2.9	3.2	3.5
South East	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.3	0.4	0.5	0.6
South West	0.0	0.2	0.3	0.5	0.8	0.9	1.1	1.3	1.6	1.9	2.1
England	0.0	0.1	0.2	0.3	0.5	0.5	0.6	0.8	0.9	1.0	1.2

Table 2.5: Scenario 2 projected percentage decrease in size of PRS as a proportion of its size under scenario 0 (no rent controls)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
North East	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
North West	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Yorkshire and Humber	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
East Midlands	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.2
West Midlands	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.3	0.4	0.6	0.7
East of England	0.0	0.0	0.1	0.1	0.2	0.3	0.3	0.4	0.5	0.5	0.6
London	0.0	0.3	0.7	1.2	1.7	2.1	2.6	3.0	3.5	3.9	4.3
South East	0.0	0.1	0.1	0.2	0.3	0.4	0.6	0.7	0.8	0.9	1.1
South West	0.0	0.1	0.3	0.5	0.7	0.9	1.2	1.4	1.7	2.0	2.2
England	0.0	0.1	0.2	0.3	0.5	0.6	0.8	0.9	1.1	1.2	1.4

Table 2.6: Scenario 3 projected percentage decrease in size of PRS as a proportion of its size under scenario 0 (no rent controls)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
North East	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
North West	0.0	0.3	0.9	0.8	0.8	0.7	0.7	0.7	0.7	0.6	0.6
Yorkshire and Humber	0.0	0.3	0.8	0.8	0.7	0.7	0.7	0.7	0.6	0.6	0.6
East Midlands	0.0	0.3	0.8	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.5
West Midlands	0.0	0.4	1.0	0.9	0.9	0.9	0.8	0.8	0.7	0.7	0.7
East of England	0.0	0.2	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.4
London	0.0	0.8	1.9	1.9	1.8	1.7	1.7	1.6	1.5	1.5	1.4
South East	0.0	0.3	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.5
South West	0.0	0.6	1.6	1.5	1.5	1.4	1.4	1.4	1.3	1.3	1.3
England	0.0	0.4	1.1	1.0	1.0	0.9	0.9	0.9	0.8	0.8	0.8

Table 2.7: Scenario 4 projected percentage decrease in size of PRS as proportion of its size under scenario 0 (no rent controls)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
North East	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
North West	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Yorkshire and Humber	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
East Midlands	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.4
West Midlands	0.0	0.0	0.0	0.0	0.1	0.2	0.4	0.6	0.8	1.1	1.5
East of England	0.0	0.1	0.1	0.2	0.4	0.5	0.6	0.8	1.0	1.2	1.4
London	0.0	0.4	1.1	2.0	2.9	3.9	4.9	5.9	6.9	7.9	8.8
South East	0.0	0.1	0.2	0.4	0.6	0.9	1.1	1.4	1.7	2.0	2.4
South West	0.0	0.2	0.5	0.8	1.2	1.7	2.2	2.8	3.4	4.0	4.7
England	0.0	0.1	0.3	0.6	0.9	1.2	1.5	1.8	2.2	2.5	2.9

For scenario 5, lower and upper projections have been made based on differing possibilities for the extent of decline in the sector. The model used projected the change in new supply of housing to the PRS. The model, however, was unable to produce values of more than 100% decline in new supply (which would indicate a decline in the size of the sector in absolute terms) and the outputs are uncertain where decline in supply is close to 100 percent¹². Some

¹² This is because log values needed to be used in order to cope with data with high and fluctuating values.

values under Option 5 could not therefore be modelled (as shown with an exclamation mark in Annex 4, Table A4.13) Therefore a lower estimate has been made of zero growth/decline to the sector, and an upper estimate of decline at a rate of 5.5 percent per year, which is the fastest rate of decline in the sector seen in the last fifty years (during the 1970s) for these values.

Table 2.8: Scenario 5 upper projection: projected percentage decrease in size of PRS as a proportion of its size under scenario 0 (no rent controls)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
North East	0.0	2.4	4.5	6.4	7.9	9.3	10.4	11.4	12.3	13.1	13.7
North West	0.0	10.9	20.4	28.6	35.8	42.2	47.8	52.8	57.2	61.1	64.6
Yorkshire and Humber	0.0	10.5	19.8	27.8	34.9	41.2	46.8	51.7	56.2	60.1	63.7
East Midlands	0.0	11.1	20.7	29.1	36.4	42.8	44.2	45.5	46.6	47.6	48.6
West Midlands	0.0	11.1	20.6	29.0	36.2	42.6	48.2	53.2	57.6	61.6	65.1
East of England	0.0	3.3	6.1	8.7	11.0	13.1	14.9	16.6	18.1	19.5	20.7
London	0.0	9.9	18.6	26.4	33.3	39.4	44.9	49.8	54.3	58.2	61.8
South East	0.0	9.3	11.9	14.2	16.3	18.3	20.0	21.7	23.2	24.6	26.0
South West	0.0	8.4	16.0	22.8	29.1	34.8	40.0	44.8	49.1	53.1	56.7
England	0.0	9.1	16.2	22.5	28.1	33.0	37.1	40.8	44.1	47.0	49.7

Table 2.9: Scenario 5 lower projection: projected percentage decrease in size of PRS as a proportion of its size under scenario 0 (no rent controls)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
North East	0.0	2.4	4.5	6.4	7.9	9.3	10.4	11.4	12.3	13.1	13.7
North West	0.0	5.7	10.8	15.4	19.5	23.3	26.7	29.8	32.7	35.3	37.8
Yorkshire and Humber	0.0	5.3	10.1	14.5	18.4	22.0	25.3	28.3	31.1	33.7	36.1
East Midlands	0.0	6.0	11.2	16.0	20.2	24.0	26.4	28.4	30.3	32.0	33.5
West Midlands	0.0	5.9	11.1	15.8	20.0	23.9	27.3	30.5	33.4	36.1	38.5
East of England	0.0	3.3	6.1	8.7	11.0	13.1	14.9	16.6	18.1	19.5	20.7
London	0.0	4.7	8.9	12.8	16.3	19.6	22.7	25.5	28.1	30.5	32.8
South East	0.0	4.1	6.8	9.3	11.6	13.7	15.7	17.5	19.1	20.7	22.1
South West	0.0	3.0	5.9	8.6	11.1	13.5	15.8	18.0	20.0	22.0	23.8
England	0.0	4.6	8.6	12.2	15.5	18.6	21.3	23.7	26.0	28.1	30.0

Table 2.10: Scenario 6: projected percentage decrease in size of PRS as a proportion of its size under scenario 0 (no rent controls)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
North East	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
North West	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Yorkshire and Humber	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
East Midlands	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
West Midlands	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
East of England	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
London	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
South East	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
South West	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
England	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Scenarios 1 and 2 have a similar impact, both projected to reduce the size of the PRS by around one percent over the next ten years, relative to the growth that would otherwise be expected to occur. Scenario 3 has a more significant early impact but after that, assuming it is a one off rent freeze and not repeated during the ten year projection, the growth of the sector is projected to recover so the overall impact over ten years is smaller than under scenarios 1 and 2.

Scenario 4 has a more significant impact, reducing the size of the PRS by almost three percent by 2025. It should be noted that this is relative to overall growth of the sector of around 50 percent between 2015 and 2025 that is otherwise expected to occur. None of the scenarios 1-4 are projected to give a reduction in the size of the sector in absolute terms.

Scenario 5, however is projected to reduce the private rented housing supply most substantially, by between 30.0 and 49.7 percent relative to the size it is projected to have been without rent controls. The upper estimate here represents a decline in absolute terms in some regions.

Looking at the regional variations, London is projected to be affected most substantially by any of the scenarios except scenario 5. For example, in scenario 4, London is projected to experience a reduction in size of 8.8 percent (relative to the size the sector would otherwise have grown to, in the absence of rent controls).

The impacts in the North West and North East are projected to be negligible under scenarios 1-2. This is because market rents are not projected to rise significantly faster than wages or CPI in these regions.

Comparing the different scenarios

The table below summarises the projected impacts on the size and growth of the PRS under each of the six scenarios, again assuming that landlords behave.

Scenario	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total growth
0	4,639	4,877	5,115	5,353	5,591	5,829	6,067	6,305	6,543	6,781	7,019	51%
1	4,639	4,872	5,105	5,337	5,563	5,800	6,031	6,255	6,484	6,713	6,935	49%
2	4,639	4,872	5,105	5,337	5,563	5,794	6,018	6,248	6,471	6,700	6,921	49%
3	4,639	4,857	5,059	5,299	5,535	5,777	6,012	6,248	6,491	6,727	6,963	50%
4	4,639	4,872	5,100	5,321	5,541	5,759	5,976	6,192	6,399	6,611	6,815	47%
5u	4,639	4,433	4,286	4,149	4,020	3,905	3,816	3,733	3,658	3,594	3,531	-24%
5l	4,639	4,653	4,675	4,700	4,724	4,745	4,775	4,811	4,842	4,876	4,913	6%
6	4,639	4,877	5,115	5,353	5,591	5,829	6,067	6,305	6,543	6,781	7,019	51%

This analysis suggests that with the exception of scenario 5, the impact of all the scenarios is small, especially when set against the substantial growth of the PRS that is projected to occur in the absence of rent controls, and will largely still occur under scenarios 1-4 and 6.

As discussed above, these projections are based on the assumptions that:

1. All new tenancies granted from 2015 onwards are of the new tenancy type proposed
2. In the absence of rent controls, landlords increase rents during tenancies annually to keep them in line with market rents
3. If the maximum permitted level of a rent increase takes the rent higher than the market rent, the rent will only be increased to the market level.
4. There are no costs associated with rent controls passed on to either landlords or tenants.
5. There is no behavioural response to rent control per se (as opposed to decreased income) by landlords, tenants or mortgage lenders.

This last element will now be explored further based on a research with landlords, letting agents and mortgage lenders

Stage 3: Understanding behavioural changes

The previous stage assumed basic rational behaviour on the part of landlords – i.e. that they would seek to maximise their profits and reduce their involvement in the PRS if these became unacceptably low.

This element of the work however seeks to understand more deeply the likely reactions of tenants, landlords and mortgage lenders to the changes that would occur under each of the six scenarios.

The evidence from landlords revealed several key issues which affect how landlords are likely to respond to rent controls:

1. The majority of landlords believe that they set their rents initially slightly below what the market would bear. Most do not inflate rents annually. This means that there may be potential for some landlords to increase rents prior to the introduction of any rent controls, to set higher rents at the start of a tenancy, or to carry out more regular rent increases within a tenancy. It is thus plausible that legislation designed to limit rents could in fact lead to some landlords charging higher rents.
2. Many landlords say that they would respond to rent controls by raising rents to the maximum allowed.
3. Landlords are opposed to rent controls in principle, even in situations where they may not actually have much impact on rents achieved. This means that as well as the economically rational response of reducing involvement in the PRS if it were to lead to lower returns, there may also be an ‘anti-bureaucracy’ factor which may stimulate landlords to sell up, or deter new landlords from entering the sector regardless of any actual impact on rents.

The key findings from the survey and interviews are set out in the remainder of this chapter. The profile of landlords replying to the survey can be found in Annex 5.

Landlord responses to increasing tenancy length

Current practice

Most landlords offered tenancies for six or 12 months, or the academic year. There were key differences here between student and non-student landlords, as shown below:

Table 3.1: Types of tenancies currently offered

	Student Housing		Other landlords		Letting agents		All landlords and letting agents	
12 month assured shorthold	114	42%	123	24%	49	49%	286	33%
6 month assured shorthold	79	29%	360	71%	46	46%	485	55%
10-11 months (academic year)	65	24%	0	0%	3	3%	68	8%
Short term (less than 6 months)	3	1%	0	0%	0	0%	3	0%
12 months with six month break	3	1%	0	0%	0	0%	3	0%

clause								
2-4 years	1	0%	6	1%	1	1%	8	1%
Via a company or local authority	1	0%	4	1%	0	0%	5	1%
A mixture or other	3	1%	9	2%	2	2%	14	2%
Don't know / Not sure	0	0%	2	0%	0	0%	2	0%
Total	269	100%	504	100%	101	100%	874	100%

Source: Survey of private landlords and letting agents March 2015. Note that some landlords selected more than one main tenancy type.

As can be seen, six to 12 month assured shorthold tenancies are very much the norm at the moment with less than one percent of landlords currently offering longer tenancies.

Responses to increased tenancy lengths

The rent control scenarios 1, 2 and 6 all involve a longer default tenancy contract. This would be necessary under any tenancy-based rent control in order to prevent landlords evicting tenants whose rents have become sub-market.

Landlords had mixed views about increasing tenancy lengths. They were asked:

Suppose there was a new longer tenancy model available in England. The tenant could end it at any time by giving two months notice, but the landlord could only end it if there had been a breach of tenancy, or if they had exchanged contracts to sell the property? Would you be interested in offering this type of tenancy to new tenants?

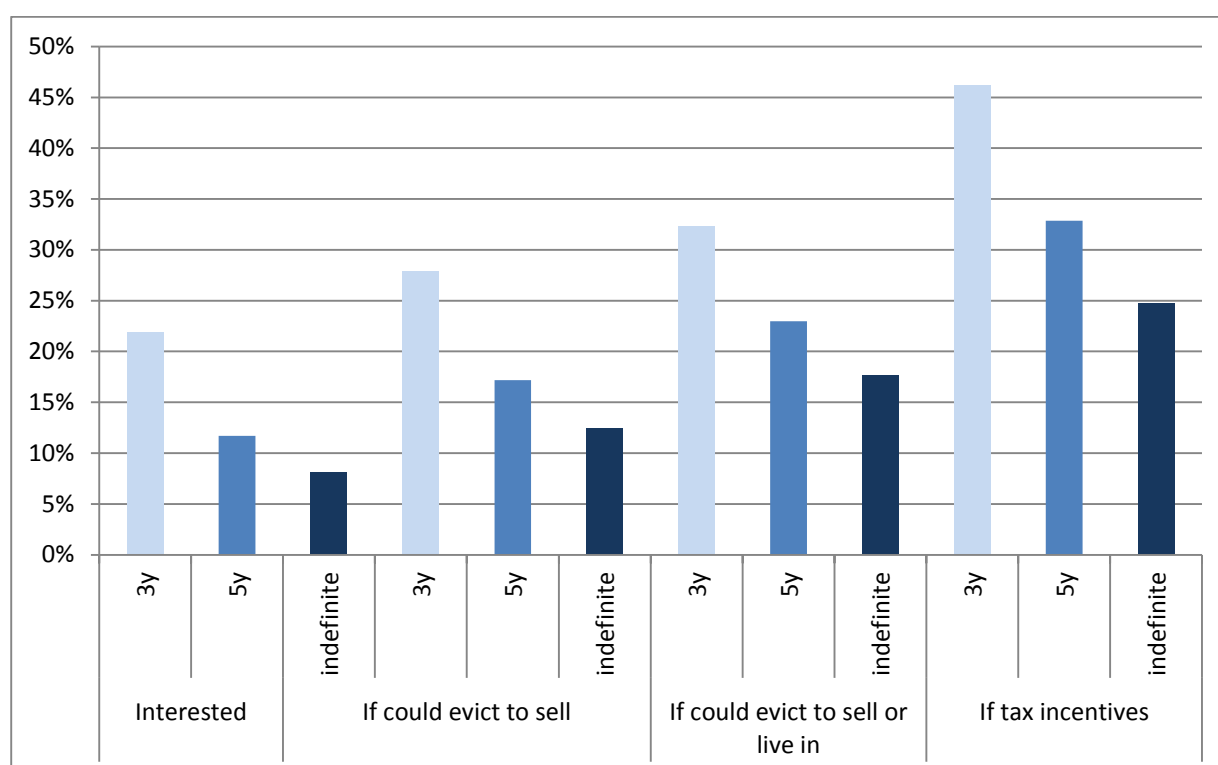
If you could end a tenancy when you put a property on the market (rather than waiting until exchange of contracts), how likely would you then be to offer them?

If there were safeguards in place so that you could end longer term tenancy if you wanted to live in the property (as well as to put it on the market), how likely would you then be to offer them?

If there were tax incentives to you to offer longer term tenancies, how likely would you then be to offer them?

The answers are shown below:

Figure 3.1: Landlord interest in longer tenancies



Source: Survey of private landlords March 2015

As can be seen, landlords found three year tenancies to be of most interest. Larger landlords were, on average, more positive about offering longer tenancies, with smaller landlords more likely to support longer tenancies only with the safeguards of being able to evict in order to sell and to live in the property themselves. Tax incentives were in principle attractive to small and large landlords alike.

There were no clear differences between the responses of landlords who described their properties as 'prestigious', 'mid-market' or 'budget' to this question. Student landlords, however, were particularly opposed to longer tenancies and generally considered them inappropriate for the student market:

In my experience of letting to over 600 students tenants anything other than a 12 month fixed tenancy period for students would be unworkable and impractical for both the landlord and student tenants.

We can only keep our houses up to standard by completely renovating them each summer when they are empty, to lose that opportunity would have a huge detrimental effect on our houses and I can foresee it costing a lot of money in repairs and legal fees!

Having indefinite tenancies with two month notice period would be very problematic [for student landlords]. I always know when to advertise and when the house will be empty for maintenance for one month each year. This fits well and is easy to manage. Indefinite tenancy would cause many problems which do not currently exist.

Landlords were also asked:

If the only tenancies you could use were indefinite, what effect do you think this would be likely to have on your lettings? You would continue to have the same rights to evict the tenants for a breach of tenancy or non-payment of rent, or if you were selling the property. The tenant could end the tenancy with two months notice at any time.

Their answers are shown below:

Table 3.2: Landlord responses to indefinite tenancies

Response	Number	Percent
No change	127	18%
It would change my choice of tenants, or how I chose them	168	24%
I would sell some of my properties	84	12%
I would sell all of my properties	176	25%
I would keep the property, but leave it empty	10	1%
Something else (please specify)	82	12%
Don't know / not sure	63	9%
Total	710	100%

Source: Survey of private landlords March 2015

There were no statistically significant differences between responses from different types of landlords (prestigious, mid-market or budget) to this question.

Landlords who replied “something else” raised a variety of concerns with longer term tenancies. Some felt that issuing notice at the end of a fixed term tenancy was a simple and non-confrontational way to remove a tenant who they were unhappy with, and felt that proving a breach of tenancy would be unreliable, slow or expensive as an alternative.

I have never had to serve notice on any tenants as all have been great. However I am not comfortable with having to prove breach of contract - any breach would have to be fairly substantial for possession proceedings to be successful. I would seriously consider leaving the market.

A few raised particular issues with bedsits or HMOs where they felt that being unable to evict a tenant except for a proven breach of tenancy could make it harder for the other tenants in the house if they had one tenant who was proving difficult to live with.

Others were uneasy about tying up their asset in this way:

I would feel very uneasy and unsettled and therefore I would want to sell my property. My life could change any time and I may need to move back into my flat or my elderly parents might want a ground floor flat and I would always want the opportunity to gain possession in a straight forward way. (i.e. two months notice) After being a tenant and landlord I've always found the current set up works well for both parties as it seems fair.

Those who indicated that it would change their choice of tenants were asked in what way it would alter. Their answers are shown below:

Table 3.3: Ways in which landlords would alter their choice of tenant for indefinite tenancies

Response	Number
Increased checks and references	70
Would not take those on housing benefit	25
Working tenants only	19
Guarantor required more often	14
Professionals only	14
Those who could pay a larger deposit only	12
Would not take students	9
Would only take those seeking short term housing	7
Would take older tenants only	6
Would only let to students	5
Would not take families	3
Would not take singles	2
Other	5

Source: Survey of private landlords, March 2015

It is clear that the most common way that landlords think they would respond to longer tenancy lengths is to take greater care over who they offer tenancies to in the first place. Some were explicit that they would be less inclined to house people who were deemed higher risk:

The big concern for me and I think for all Landlords is a bad tenant. At least with a fixed term tenancy I know I can get the property back without going to court. I suspect I would take even more care choosing a tenant and I suspect the 'riskier' candidates would be ignored by many except at a premium rent.

At the moment I like to offer a low rent to people on a low income and I manage the letting myself. A degree of mutual trust is involved and I feel that a shorter contract gives me a "let out" if things go wrong. I appreciate this gives tenants some insecurity but, up to now, tenants have been long term and things have worked well. I may feel the need to choose tenants more conservatively if it was harder to change things if things went badly.

I currently work with Housing Options to help people who would otherwise be unacceptable in the private housing sector as they would fail credit checks or not have sufficient funds. Having an initial 6 months agreement allows me some protection as I can easily end the tenancy using a Section 21 if necessary after only 6 months. A longer term agreement however would mean costly court proceedings to evict ... This means I would no longer be prepared to work with Housing Options or help more vulnerable people.

A few raised the issue of probationary tenancies – as are often used in the social housing sector, and indicated that they might be happier to offer longer term tenancies to tenants after an initial period of six months.

Others pointed out that they already had long term tenants who had stayed on periodic tenancies or consecutive fixed term tenancies, and therefore felt there was no need for a change in the tenancy model.

Landlord responses to rent controls

Current practice

Landlords were asked 'When you're advertising an empty property, how do you decide what rent to set?'. Their responses are shown below:

Table 3.4: Current rent setting practice for new tenants

Response	Number	Proportion
At the top of the market (as high as possible)	39	6%
Slightly below the top of the market (e.g. in order to get a tenant quickly)	293	45%
Significantly below the market	25	4%
In line with Local Housing Allowance (Housing Benefit levels) in my local area	58	9%
I leave this to the Letting Agent	79	12%
A mixture of the above	143	22%
Don't know	4	1%
Total	657	100%

Source: Survey of private landlords, March 2015

As might be expected, smaller landlords were more likely to say that they left the decision to their letting agent. Medium to large landlords (with more than 10 properties) were more likely to say that they set rents in line with Local Housing Allowances.

Those who said they set their rents significantly below the market were then asked why. Most indicated that this was a commercial decision in order to attract a good choice of tenant, with just a small number saying they did this because they felt it was wrong to charge higher rents.

Landlords were also asked about their current practice for increasing rents during a tenancy. They were first asked how often they checked the rents on their properties to compare them with the market:

Table 3.5: How often do you check rents on your properties compare with the market?

Response	Landlords		Letting agents	
	Number	Proportion	Number	Proportion
Regularly, at least every year	235	36%	55	57%
Regularly, but not every year	45	7%	6	6%
From time to time, but there's no schedule	153	23%	12	12%
Rarely	49	7%	2	2%
Never	7	1%	0	0%
Usually only when I am putting the property on the market for new tenants	130	20%	13	13%
I leave this to the Letting Agent	22	3%	-	-
Total	657	100%	97	100%

Source: Survey of private landlords and letting agents, March 2015

As can be seen, most landlords check their rents at least from time to time, though only one in five move the rent to market level when they have new tenants. Smaller landlords were less likely to check rents annually. Letting agents were somewhat more likely to check rents regularly with more than half checking annually.

Landlords and letting agents who did check their rents at least occasionally were then asked how often they increased their rents for existing tenants. The table below therefore shows this same information on a stock basis (so the landlords' responses have been multiplied by the size of their portfolio).

Table 3.6: How often do you increase rents for existing tenants?

Response	Landlords		Letting agents	
	Number of properties	Proportion of all properties	Number of properties	Proportion of all properties
Regularly, at least every year	894	4.9%	3,659	19.5%
Regularly, but not every year	1,910	10.4%	4,370	23.2%
From time to time, but there's no schedule	10,379	56.6%	5,768	30.7%
Rarely	2,270	12.4%	3,023	16.1%
Never	1,193	6.5%	161	0.9%
I leave this to the Letting Agent	45	0.2%	-	-
Don't know / Not sure	4	0.0%	0	0.0%
N/a – rents not checked during a tenancy	1,647	9.0%	1,829	9.7%
Total	18,524	100.0%	16,981	100%

Source: Survey of private landlords and letting agents, March 2015

As can be seen, only 4.9 percent of private rented dwellings owned by landlords answering this survey had their rent raised at least annually. Stock managed by letting agents was more likely to have regular increases, but most letting agents did not increase rents annually. Most properties had their rent raised less often or from time to time, though a total of 15.5% of the PRS covered by this survey was owned by landlords who never increased rents during a tenancy.

Landlords who did increase rents were also asked how much below market rent they would let a property slide before they increased the rent. Landlords owning 43.6 percent of the stock in the survey said they would always move rents up to the market no matter how small the difference, whilst 9.9 percent said they would do so for a five percent difference, 7.7 for a 10 percent difference, and 5.7 percent for a 15 percent difference. Letting agents gave similar answers.

Some landlords said their policy around raising the rents would depend on the tenant – they would be less inclined to raise rents if they wanted their tenant to stay or (less frequently) if they were aware the tenant would struggle to afford an increase.

Many landlords in the north of England emphasised that they had not put rents up in recent years because the price the market would bear had not risen. Those who were dependent on Local Housing Allowance said that this had, in effect, already limited their rent rises, and others in areas with depressed markets said that they had increased rents very little, if at all, over the last ten years as market rents had not risen in their area. This view is supported by the data in Table 1.2, showing that average rent increases in the North West, North East,

East Midlands and West Midlands have all been less than one percent per annum for the last ten years.

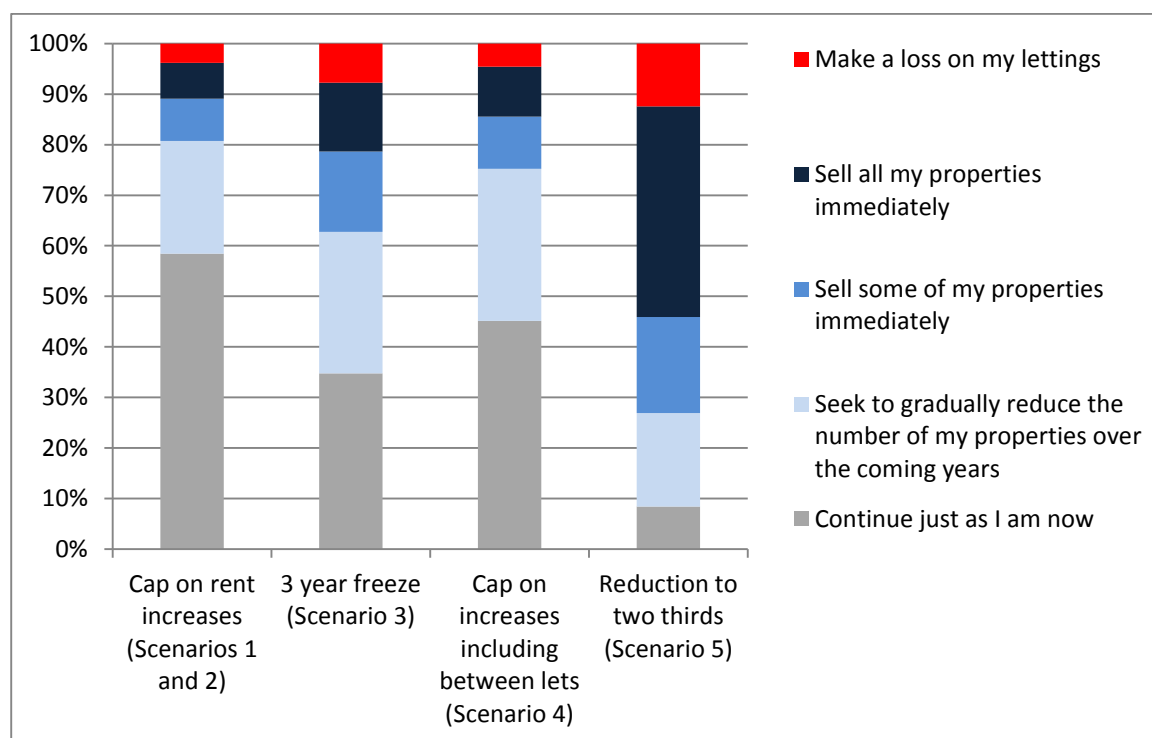
Response to rent control scenarios

Landlords were asked how they would respond to a range of possible rent control scenarios:

- *If the rents you could charge to existing tenants could only be increased in line with inflation each year (currently 0.3%)*
- *If the rents you could charge on all properties (including when letting to new tenants) could only be increased in line with inflation each year (currently 0.3%)*
- *If the rents you could charge on all properties (including when letting to new tenants) were frozen for three years*
- *If the rents you could charge on all properties (including when letting to new tenants) were forced to be reduced to two thirds of current levels, and thereafter could rise only in line with inflation*

Their responses are shown below¹³:

Figure 3.2: Response to rent control scenarios



Source: Survey of private landlords, March 2015

As can be seen, landlords are less concerned about caps to rent increases than they are about a rent freeze. They were most concerned about the prospect of a forced rent reduction, with 45 percent saying they would sell all their stock and exit the sector if this

¹³ The information given to landlords about the different rent control scenarios was simplified for the purposes of this question. Scenarios 1 and 2 have been combined because they differ mainly in length of tenancy (explored above) rather than their overall approach to rent control.

were to happen. Nevertheless, even the prospect of a rent freeze resulted in four in ten landlords saying they would look to reduce their involvement in the PRS often not immediately, but over the coming years. The majority of landlords however said that they would not alter their involvement in the sector in response to a cap on rent increases (Scenarios 1 and 2)

If landlords were to do as they say they would do in this survey, the sudden exodus from the market under scenario 5 would cause a substantial impact on the housing market more generally as a very large number of properties come onto the market simultaneously. This is likely to cause a housing market shock and possibly a significant fall in house prices at least until the market corrects itself. It is hard to quantify the extent of this as a fall in prices could trigger landlords to stop selling properties, or new buyers to enter the market. Alternatively, a housing market fall can perpetuate itself as first time buyers hold off buying or landlords try to sell quickly before prices fall further.

Whilst some of the tenants evicted when their landlords sell would be able to take advantage of this situation and buy a home, others (especially the poorest) would not be in a position to do this and would struggle to find another private let.

This landlords survey answers suggest that this effect could also be seen under scenarios one to four. Landlords would suffer no sudden loss of earnings under these scenarios, but their answers to the survey suggest that a significant minority would nevertheless look to sell at least some their properties immediately.

It was clear from the answers to the survey that the response to rent controls was not just related to a projected loss of income – indeed very few landlords thought they would make a loss under such the rent freeze or capped increases scenarios, and – as discussed above – most did not regularly increase their rents during a tenancy anyway. Instead, the reasons for wanting to reduce their activities in response to rent control appeared to be related more to the bureaucracy and principles involved:

We believe that all transactions in life should take place between a willing buyer and a willing seller without government intervention. In our case we let a property to a university and they sublet to their students. Sometimes the market does not fill the property and the rent goes down, sometimes it goes up.

How can you expect people to run their own business with outsiders telling them what they can charge for income when they don't know what the outgoings of the business are?... I am providing a service that the council are unable to do as they have no housing stock and no money to buy or build anything.

I could not trust any government not to keep reducing rent levels, if it come in at all for new tenancies, or ending tenancies was make harder.

It was clear that many landlords remembered the history of regulated rents in the past – and indeed some still managed such stock. They saw rent controls as regressive, and symptomatic of a political climate that was hostile to landlords' legitimate rights over their own properties:

Rent control would take landlords and their properties back to the early part of the last century. If the returns are regulated by government the amount for repairs and maintenance will disappear and we will return to the good old days of poorly maintained properties and Rackman landlords.

All attempts at controlling market pricing tend to backfire. The last time rent controls were in place a major problem was quality of rented housing stock plummeted as there was no income to invest and maintain.

The impact on quality of the PRS

Some landlords highlighted possible issues with maintenance of properties if rents were sub-market, and hence on the quality of the properties within the PRS, with many landlords highlighting problems they were aware of in other countries, in the past in the UK, or with remaining rent-controlled properties that they still owned:

Part of my portfolio consists of old Listed cottages owned by my family for over 200 years. Between 1915 and 1989 rents were subject to strict control and mostly set at levels which did not cover even minimal maintenance. It is only in the last couple of years that I have managed to catch up (with a couple of special case exceptions) so that my tenants live in reasonable comfort.

I grew up in a rent controlled house, so am one of the few people who have firsthand tenant experience. My parents rented a house from a landlord who owned 50 properties that his grandfather had built. The rents were so low that there was no money in the system to do essential repairs ... We did not have running hot water or bathroom until I was 14yrs old (1975) The roof leaked so badly a bedroom was unusable

I will not be able to maintain the properties adequately. It will reduce the quantity and quality of the rented property available on the market. It already has a long history of damage to the private rented sector.

There was some variation between landlords catering for different parts of the market here, with those providing 'prestigious' properties, and who described their properties as easy to let being more likely to raise the issue of landlords cutting back on maintenance in response to rent controls. This may be related the higher perceived losses from rent in these types of properties.

There were two identifiable reasons why landlords might spend less on maintenance as a result of rent controls. Firstly, if the rent controls reduced their rental income, they would have less money with which to maintain their properties. And secondly, they would have little financial incentive to do so if the rents chargeable were controlled by government rather than responsive to the condition of the property.

To help understand the possible impact of a reduction in rental income, landlords were asked how their rental income was spent during the last year:

Use of rental income	Average proportion of annual rental income spent ¹⁴
Letting agent fees or paying staff to manage the properties	6%

¹⁴ These do not sum to 100 percent because some landlords spent more than 100 percent of their rental income (for instance on a major refurbishment programme) and others spent much less, presumably offsetting previous expenditure, or investing the profits for future years. On average landlords expenditure and profits accounted for 89 percent of their rental income.

Mortgage payments, insurance and legal costs	34%
Emergency maintenance or essential repairs	10%
Planned maintenance, refurbishment or improvement	14%
Earnings for you or your company, before tax	25%

There were no statistically significant differences between landlords catering for different markets (prestigious, mid-market or budget) here. It should be noted, however, that there was substantial variation between individual landlords with the proportion of rental income spent on maintenance (both planned and emergency) varying from nothing to over 200 percent of rental income. Whilst 34 landlords (7 percent) had kept 70% or more of their rental income as profit, 342 (68 percent) had kept 30 percent or less, with 116 (23 percent) reporting that they had made no profit or earnings during the last 12 months.

This suggests that a minority of landlords would be able to absorb a substantial reduction in rental income without making cuts elsewhere. Landlords are unlikely to be able to reduce their expenditure on mortgages, insurance or legal costs, and only spend an average of six percent on staffing, so it is likely that reducing maintenance would be the most viable option.

Other issues raised

Landlords pointed out specific difficulties that would be encountered by student landlords who often offered rent inclusive of all bills – they felt such offers would be impractical if rents were capped (as fuel bills would not be) to the detriment of students who often appreciate the simplicity of such an arrangement. Others raised the issue of whether landlords would be permitted to improve a property between lets (under scenarios 3-5) and how they would be able to raise the rent if they did.

Some were concerned with the costs of administering such a scheme and others felt that they could probably find loopholes (such as introducing charges outside of 'rent') or thought that other landlords or tenants with protected rents would (sub)let illegally at market rates.

Many landlords also felt that rent controls were aiming to address what was essentially a London problem – and that there was no issue with rents being too high, or rising fast (or even rising at all) in their area.

Letting agents had similar views of the prospect of rent reduction, with almost all saying they would expect to see a dramatic reduction in the PRS as a result of such a substantial reduction in landlords' incomes.

When asked about the likely impact of a rent freeze, letting agents also thought this would cause a lot of landlords to try to leave the sector, or deter others from buying into it:

This could stop people buying buy to let investment properties

Landlords will sell in the face of rising costs of repairs, maintenance, insurance, safety testing and very possibly a rise in interest rates for their borrowing. It will not be an attractive market for new investment landlords to enter with controls and artificial restrictions.

Others however thought the impacts would be modest, given the low rates of rent increases they were seeing:

There would be nothing but a spike in rent before it came in and a spike at the end.

Rents rarely go up by more than inflation anyway

Lender responses to increased tenancy length

All the lenders interviewed were active in the buy to let market with it representing between around six percent and 100 percent (for a specialist lender) of their total lending. The number of landlords being lent to varied from under 10,000 to well in excess of 50,000 with lenders taking very different positions as to what type of landlords they sought to lend to. Some favoured 'professional' landlords who were clearly operating businesses whilst others focussed upon 'amateur' landlords, including meeting demand from new landlords who were pre-existing customers. Total lending to the sector ranged from £1bn to in excess of £10bn.

Lenders varied in the extent to which they identified categories of borrowers or tenant markets which they would not wish to support. Most would not lend on HMOs and some would not lend to landlords planning to house students or housing benefit claimants, though it was recognised that when the tenants or tenants' circumstances changed subsequent to the loan being made this was in practice difficult to police. One lender avoided lending to first time landlords but others had very few formal restrictions, relying on underwriting to pinpoint the most desirable borrowers. It was evident some lenders had highly developed criteria which allowed them to support specific markets such as company lets and properties let out on leases to local authorities and housing associations, where they reported that the terms of the lease gave the lender considerable protection.

Lenders were asked their views on lending for properties to be let out on fixed term tenancy contracts of up to a year, three years and five years. They were also asked what safeguards might be put in place to help ensure the lending market was comfortable with this lending on longer term tenancies.

It was evident that there was recognition of the wider pressures for longer term tenancies although it was their experience that there had been limited demands placed on them for longer tenancies to date. Most lenders worked on six month assured shorthold tenancies as being the product of choice for the market. However all were open to one year tenancies albeit in some cases this was by exception rather than policy. A subset of lenders were already willing to accept three year contracts and there was a growing acceptance amongst others that this might become more normal – partly because on average this was how long tenants stayed in a particular home. However though there was recognition of this shift, support for it was not universal. Some felt that if pushed a two year tenancy might be more acceptable.

Five year tenancies were in place in some cases via housing associations and local authority leasing arrangements with landlords but these were the exception rather than the rule. In general lenders felt that five year tenancies were a step too far. It was felt both landlords and tenants would need break clauses to allow them to adjust to changed circumstances. All lenders said that any longer term tenancy would require safeguards for both the landlord and the lender. If there were legally binding enshrined rights setting out appropriate situations

where a landlord or a lender could break the contract then lenders would be more comfortable with such changes. These would include guarantees that they would be able to access their security/take possession if there was an incidence of non-payment or other terms in the loan contract had been breached. Because it is harder to sell a property with a sitting tenant this would also mean there would need to be provision for the tenant to be evicted in such circumstances.

Lenders were also asked whether safeguards that allowed a landlord to evict a tenant if they wished to sell the property or live in it themselves would make a difference to their willingness to lend on longer tenancies. Lenders generally felt that landlords as investors needed to have the right to sell a property including enforcing an eviction and sale with vacant possession as this is generally more marketable. Mention was made of the safeguards inside the typical model lease and the need for a sensible balancing between landlord and tenant rights which meant that the level of risk for lenders was acceptable. They felt that the lender must have the power to appoint a receiver of rent - a specified individual/firm who in the event of default will collect the rent and maintain the property in advance of any enforced sale.

They were asked whether it would matter if any eviction could only take place on the exchange of contracts, rather than at the point of marketing a property for sale. There was some concern around outcomes which might generate bad publicity for lenders and some lenders felt that the proposal regarding eviction on exchange of contracts had some merit as it potentially delayed the process and helped the tenant and kept the rent coming in (as well as ensuring the sale was genuine). However this was far from being universally supported by lenders and others were aware that selling a property in such circumstances would require absolute legal certainty that the eviction would go ahead and it would mean a period of great uncertainty for the tenant as the exchange on contract date is often highly fluid.

Lenders did not have many other safeguards to suggest that would help them feel able to lend on longer tenancies, though did suggest improved mediation processes.

Lender responses to rent controls

The average loan to value across the sector for new lending was around 65% with an average mortgage advance of £160k.

Most lenders had set a maximum loan to value of 75 percent on new lending but two went higher to 80/85%. Maximum rental cover ratios (the ratio between the rent income and the mortgage payments due) were typically 125 percent of the payments due at a 5 percent interest rate. This interest rate is higher than the interest rate actually charged and is designed to 'stress test' the affordability of the loan, to mean that it could still be afforded even with a rise in interest rates. Lenders also took measures to reduce their risk by limiting the number of properties they would lend to in respect of a single landlord and/or a value limit for lending to any one landlord. Again there were complex variants around this with higher limits for professional landlords, limits on total loans held or the maximum number of properties in a transaction. All lenders were using local valuers and local research in order to assess a property's value and also the likely market rent that might be achieved. They did not normally rely on the landlord's expectation of the rent.

Importantly, none of the lenders tried to take a view of future rent rises when determining what they would lend. Partly this was because they wanted to ensure that the loans were stress tested and affordable in circumstances of higher interest rates than currently existed. It was also accepted it was very difficult to forecast rent increases at the level of individual transactions. Their approach to such uncertainty was to be cautious – to lend what was definitely affordable, rather than the maximum that might possibly be so.

Lenders were asked their views around the different rent control scenarios – including freezing rents (scenario 3), capping increases (scenarios 1, 2 and 4) or reducing rents (scenario 5).

The general reaction from lenders was unsurprisingly negative and especially in relation to rent freezes or reductions. Capping increases was seen as less intrusive and likely to have the least impact on lenders in that assuming the right rent assessment has been made at the outset and the loan structured on that basis the lender's increased exposure under this model might be limited. Lenders were, however, concerned that CPI and wage increases would not reflect likely costs to landlords of rising mortgage repayments which might be triggered when a fixed rate loan term expires. Most buy-to-let loans were on fixed rates which offered some initial protection when the borrower came to remortgage then the effects of higher interest rates would impact.

The stress tests lenders currently impose means there is a safety margin built in around all loans in terms of changes to interest rates or the borrower's circumstances. However any rent cap imposed would potentially limit a landlord's flexibility to raise rents in response to a change in interest rates or change in circumstances, and in turn expose the lender to greater risk of arrears and default. Lenders said that this would therefore be reflected in their willingness to lend to the sector and hence their lending criteria. The affordability assessments and ratios would become more conservative reflecting the increased risk. Lenders also suggested that if caps were imposed on rent increases, landlords would probably increase their initial rents to give themselves more headroom to cope with the cap.

Lenders were even more concerned about any freezing of rents and felt this would be likely to have an impact upon the demand from landlords to buy homes and borrow funds. A freeze applied to existing rents would be a matter of concern as it changes the terms under which the loan agreement has been set.

Limiting rents in any way will also have an impact on the value of portfolios and the stronger the control (i.e., not only on new lets but on all lets) the bigger the impact.

Reducing rents to two thirds (scenario 5) was clearly considered the most radical. It would significantly impact upon the value of portfolios and all the loan cover ratios triggering immediate technical loan defaults in the buy to let market. Even if individual landlords were able to cope with such changes it would trigger a major revaluation of the risks associated with lending to this market, rates would almost certainly rise and loan criteria would become severely more restrictive. The impacts would be felt across the private rental market and not just in the buy to let market which itself represents around a third of the total PRS.

With both the Bank of England and the Financial Conduct Authority keeping a close eye on this buy to let market in terms of its impact on house prices and activity it was felt that more radical changes in the terms of trade – as would happen under scenario 5 - would mean the regulatory authorities would take a far more conservative view of the market thus further limiting lender engagement in the sector. This would be compounded by the board of each

individual lender and not least through their credit risk function re-evaluating their exposure to the sector and almost certainly taking a radically more conservative approach to lending.

For scenarios 1-4, lenders even though lenders were not reliant on future rent increases to finance their loans, they were concerned that the asset on which their loan was secured could fall in value if rent controls were imposed. Any rent controls that affected the value of the property in its current state – which includes the impact of tenancy security of the current tenant – would affect the terms of the loan they had made and lead to a reconsideration of risk and lending criteria.

Stage 4: Overall analysis

Drawing on Stages 1-3 above, this section analyses the extent to which each scenario is likely to impact on changes in tenure of stock between private renting and owner-occupation and also the extent to which each is likely to result in changes to the overall level of house building in different market conditions.

The impact of rent control on housebuilding

It is known that eight percent of the private rent housing stock was built by the landlords currently owning it¹⁵. However, much of this may have been built some time ago, as only 18 percent of private rented housing was built within the last 23 years¹⁶. Recent research in London, however, suggests that 56 percent of new homes built in London in 2013 were sold to buy to let or built to let investors¹⁷ (many of whom were overseas investors, so would not be found in DCLG's private landlords' survey).

Assessing the extent to which the six rent control scenarios would impact on housebuilding is however, difficult to quantify. This is partly because any change in tenure from private rented to owner-occupation (or vice versa) of the existing stock would be usually accompanied by a comparable change in the tenure of occupants (unless the stock becomes vacant) – therefore counterbalancing a reduction in housing demand for one tenure with increased demand for another.

The extent to which housing demand impacts on supply is also questionable. Supply has failed to keep pace with demand for many years now, suggesting that there are other factors that affect supply (such as land supply, planning constraints, mortgage lending restrictions or limitations within the housebuilding industry) rather than a lack of willing buyers. It is therefore likely that the impact on new supply under scenarios 1-4 and 6 would be limited. However, further research focussing on housebuilders, and in particular the build-to-let market would be useful to establish whether there is any evidence that demand from landlords fuels supply of new housing which would not otherwise be built.

The impact of longer tenancies

Landlords had mixed views on longer tenancy lengths. They raised a variety of practical issues regarding how they would gain possession in order to sell, live in their property or if the tenancy was not working out (from their perspective). Safeguards to allow evictions for legitimate reasons, and reduced delays and costs associated with evicting tenants through the courts would help address some of these concerns.

Mortgage lenders were concerned that in order to lend on longer tenancies they would want assurances that they could evict a tenant in the event of them repossessing the dwelling from the landlord.

The option of signing up to fixed term tenancies for a period of 10-12 months is also very important for the student market, though ought to be possible within a longer tenancy model as long as it doesn't prevent a tenant from ending a tenancy sooner if they wish.

¹⁵ DCLG 2010 Private Landlords Survey

¹⁶ DCLG 2012-13 English Housing Survey

¹⁷ British Property Federation (2014) 'Who buys new homes in London and why?'

We now consider each of the six rent control scenarios separately:

Scenario 1

A new default private rental contract of five years with initial rents set by the market and increases limited to CPI.

Under this rent control scenario average rents were projected to fall by £3 to £11 by 2025 (1.4-5.1 percent), depending on the lengths of individual tenancies. The overall projected decrease in rental revenue within the sector was projected as 0.5 percent by 2020, rising to 1.4 percent by 2025. These reductions are small and the impact on the size of the sector is unsurprisingly minimal under this scenario.

The impact on quality as a result of landlords' incomes reducing would be expected to be very small under this scenario, though there may still be some impact on quality as a result of a reduced incentive to carry out maintenance within a tenancy in order to maximise the achievable rent. Landlords would be likely to carry out maintenance and improvements to a property as much as possible between lets under this scenario, in order to maximise the initial rent they can achieve. Stage 3 that examined the impact of landlord and lender behaviour to this rent control scenario suggested that the level of rent control imposed (capping increases to CPI) was not in itself likely to have much impact on landlords' expected incomes. Lenders did not base their lending on projected rent increases, and did not neither landlords nor lenders expected rents to increase within a tenancy by more than CPI. A five year rental contract does however pose difficulties for both landlords and lenders and it is clear that both would need safeguards in place in order to offer such tenancies. These would include the right to evict tenants if they needed to sell a property or live in it, or in a situation where a home was being reposessed by a lender. Without these safeguards landlord retreat from the PRS is likely to be larger than modelled. Despite relatively modest losses, there was also what can be termed an 'anti-bureaucratic' driver behind landlord motivations for investing in the PRS. Both letting agents and landlords thought it likely that many would seek to withdraw from the sector if they were no longer free to set rents at market levels, again suggesting that the reduction in the size of the PRS is likely to be higher than has been modelled.

The analysis of landlord rent setting behaviour suggests that rental reductions that tenants would enjoy under this scenario may not in fact be as high as the 1.4-5.1 percent modelled as landlords may respond by setting higher initial rents and/or increasing the rents more regularly within a tenancy, especially if they feared that by failing to do so they would lose the right to put the rent back up to market levels in the future.

The impact on overall housing supply of this scenario based could be minimal if landlords and lenders were given sufficient safeguards to enable them to feel comfortable offering five year tenancies. This is because the decrease in rental revenue is small and so the likely reduction in the size of the PRS is small too, and is likely to be partially counterbalanced by a growth in the scale of owner-occupation.

Scenario 2

A new default indefinite private rental contract with initial rents set by the market and increases limited to CPI or wage growth (whichever is lower) within the tenancy.

Under this rent control scenario average rents were projected to fall by £3 to £19 by 2025 (1.4-8.8 percent), depending on the lengths of individual tenancies. The overall projected decrease in rental revenue within the sector was projected as 1.0 percent by 2020, rising to 1.7 percent by 2025. These reductions are small and the impact on the size of the sector is unsurprisingly minimal under this scenario.

The impact on quality as a result of landlords' incomes reducing would be expected to be very small under this scenario, though there may still be some impact on quality as a result of a reduced incentive to carry out maintenance within a tenancy in order to maximise the achievable rent. Landlords would be likely to carry out maintenance and improvements to a property as much as possible between lets under this scenario, in order to maximise the initial rent they can achieve.

Stage 3 that examined the impact of landlord and lender behaviour to this rent control scenario suggested that, as with scenario 1, the level of rent control imposed (capping increases to CPI) was not in itself likely to have much impact on landlords' expected incomes.

An indefinite rental contract does however pose difficulties for both landlords and lenders and it is clear that both would need safeguards in place in order to offer such tenancies. These would include the right to evict tenants if they needed to sell a property or live in it, or in a situation where a home was being reposed by a lender.

As with scenario 1, the analysis of landlord rent setting behaviour suggests that rental reductions that tenants would enjoy under this scenario may not in fact be as high as the 1.4-8.8 percent modelled as landlords may respond by setting higher initial rents and/or increasing the rents more regularly within a tenancy, especially if they feared that by failing to do so they would lose the right to put the rent back up to market levels in the future.

The impact on overall housing supply of this scenario is likely to be minimal. This is because it is likely that the reduction in the size of the PRS is small in itself, and is likely to be counterbalanced by a comparable growth in the scale of owner-occupation.

Scenario 3

A temporary, three year freeze on all private rents (including between tenancies) except for new build properties

Under this rent control scenario average rents were projected to fall by up to £8 in just two years (4.4 percent). The overall projected decrease in rental revenue within the sector was projected as 3.0 percent by 2017.

These reductions are small and the impact on the size of the sector is unsurprisingly minimal under this scenario.

The impact on quality as a result of landlords' incomes reducing would be expected to be very small under this scenario, though there may still be some impact on maintenance

expenditure during the freeze as a result of a reduced incentive to spend in order to maximise the achievable rent.

Stage 3 that examined the impact of landlord and lender behaviour to this rent control scenario suggested that landlords were strongly averse to this kind of rent control and many may reconsider their future in the sector in response. Landlords appeared more likely to withdraw from the sector under this scenario than under scenarios 1 and 2, despite the lower longer term impact. Both letting agents and landlords thought it likely that many would seek to withdraw from the sector if they were no longer free to set rents at market levels.

As with scenarios 1 and 2, the analysis of landlord rent setting behaviour suggests that rental reductions that tenants would enjoy under this scenario may not in fact be as high as the 8 percent modelled as landlords may respond by setting higher initial rents. There may also be a rent 'spike' at the end of such a rent control in areas where demand has increased sharply during the three year rent freeze.

The impact on overall housing supply of this scenario is likely to be small, but may be more significant than under scenarios 1 and 2. This is because landlords indicate that they are more likely to respond to such a scenario by selling their property, despite the limited time period in which the rent freeze occurs.

Scenario 4

An indefinite cap on all private rents, set at current market rates and indexed to average earnings or the CPI, whichever the lower.

Under this rent control scenario average rents were projected to fall by £3 to £19 by 2025 (1.4-8.8 percent), depending on when stock entered the PRS. The overall projected decrease in rental revenue within the sector was projected as 2.3 percent by 2020, rising to 4.6 percent by 2025. These reductions are fairly small but significant enough to make some impact on the size of the sector under the modelling approach used here, reducing it by 2.3 percent by 2025.

The impact on quality as a result of landlords' incomes reducing would be expected to be very small under this scenario, though there may still be some impact on quality as a result of a reduced incentive to carry out maintenance, including between lets in order to maximise the achievable rent.

Stage 3 that examined the impact of landlord and lender behaviour to this rent control scenario suggested that landlords were strongly averse to this kind of rent control and many may reconsider their future in the sector in response. As with scenario 3, both letting agents and landlords thought it likely that many would seek to withdraw from the sector if they were no longer free to set rents at market levels, resulting both from projected losses and the aversion to rent controls per se (as well as in response to lower returns).

As with scenario 3, an indefinite rental contract does poses difficulties for both landlords and lenders and it is clear that both would need safeguards in place in order to offer such tenancies. These would include the right to evict tenants if they needed to sell a property or live in it, or in a situation where a home was being reposessed by a lender.

As with the other scenarios, the analysis of landlord rent setting behaviour suggests that rental reductions that tenants would enjoy under this scenario may not in fact be as high as

the 1.4-8.8 percent modelled as landlords may respond by setting higher initial rents or increasing rents more regularly within a tenancy.

The impact on overall housing supply of this scenario is likely to be small. This is because it is likely that the reduction in the size of the PRS is modest in itself, and is likely to be counterbalanced by a comparable growth in the scale of owner-occupation.

Scenario 5

An indefinite cap on all private rents, set at two-thirds of current market rates and indexed to average earnings or the CPI

This scenario is by far the most radical considered here. Under this rent control scenario average rents would fall instantly by £65 (33.3 percent) and by 2015 they would be £81 (37.4 percent) lower than market rents. As all rents would be affected by this scenario, it is assumed that new stock entering the sector would therefore be assessed and have its rent pegged against similar properties. The projected decrease in rental revenue within the sector is therefore in line with the reductions on individual properties and represents an initial 33.3 percent reduction rising to a 37.4 percent reduction by 2025.

The impact on quality as a result of landlords' incomes reducing would be expected to be substantial under this scenario, especially in lower priced areas where maintenance costs absorb a substantial proportion of the rental income. There would also be very little incentive for landlords to carry out more than the bare minimum of maintenance between lets as it would have no impact on the achievable rent.

The economic modelling employed here has suggested that such a rent control would have a significant impact on the size of the PRS, as the sector would cease growing at its current rate, and could even decline in absolute terms in some regions.

Stage 3 that examined the impact of landlord and lender behaviour in this rent control scenario suggested that landlords were strongly averse to this kind of rent control and were very likely to exit the sector in large numbers, resulting both from projected losses and the aversion to rent controls per se.

The impact on overall housing supply of this scenario is therefore likely to be significant, at least in the short term. This is because the sudden supply of housing entering the market in a short period of time under this scenario is likely to be sufficient to have knock on effects across the housing market, potentially triggering housing market falls. Lenders would lose confidence in lending to the buy to let sector and would be likely to cease all further lending and seek to recover the loans already made. Landlords in cheaper parts of the country would find that rents no longer covered maintenance, triggering further withdrawal from the sector. And although there may be some increased demand from tenants moving out of the social rented sector in favour of cheaper rents in the newly regulated PRS increased demand cannot (under any rent control scenario) increase rents so will have little impact on supply.

Scenario 6

Limits on rent increases within a tenancy that would take them to above market levels coupled with automatic 29 month extensions to a six month probationary

The simple modelling approach that has been carried out here is not able to model any impact on average rents under this scenario, because a rent that a tenant is willing to pay is, by definition, a market rent. It is possible that if “market rents” were assessed against some more imprecise measure of the market (such as average rents in the local area) then some rents may in fact be capped under this scenario.

The scenario does however propose longer tenancy lengths. A 29 month extension to an initial six month tenancy does pose some difficulties for landlords and lenders. However, it is clear that allowing a landlord to evict in order to sell or live in the home goes some way towards addressing these difficulties. In addition, lenders would be able to evict in the case of repossession of a home. The proposed six month probationary tenancy proposed would also go some way towards making such a proposition more acceptable to landlords. It would reduce the extent to which landlords become more selective about choosing tenants in response to the difficulty of eviction under any of these scenarios.

The impact on overall housing supply of this scenario is likely to be very minimal. This is because there is no discernible impact on the size of the PRS, and any reduction that there is (for instance due to landlords not wanting to offer longer tenancies), and is likely to be counterbalanced by a comparable growth in the scale of owner-occupation.

The impact on quality as a result of landlords’ incomes reducing would be expected to be very small under this scenario, though they may be less likely to carry out substantial maintenance or improvements to a property within a tenancy, as it would not allow them to increase the rents.

Conclusion

This short sharp research project gives an indication of what the impact of the six scenarios might be. The conclusions, however, are very tentative. The quantitative analysis employed here is a simple one, and is inevitably influenced by the assumptions used. Different assumptions would give different results.

The table below summarises the possible impacts on the *growth* of the PRS. Only under scenario 5 (upper projection) is the actual *size* of the sector projected to decline.

Table 4.1: Summary of projected impact on growth of the PRS under each scenario

Scenario	Source of evidence			
	Quantitative appraisal	Landlord survey	Lender survey	Overall conclusion
1. A new default private rental contract of 5 years with initial rents set by the market and increases limited to CPI.	Minimal reduction	Minimal reduction (with safeguards)	Minimal reduction (with safeguards)	Minimal reduction (with safeguards)
2. A new default indefinite private rental contract with initial rents set by the market and increases limited to CPI or wage growth (whichever is lower) within the tenancy	Minimal reduction	Minimal reduction (with safeguards)	Small reduction (with safeguards)	Minimal reduction (with safeguards)
3. A temporary, three year freeze on all private rents (including between tenancies) except for new build	Minimal reduction	Small reduction	Minimal reduction	Small reduction
4. An indefinite cap on all private rents, set at current market rates and indexed to average earnings or CPI	Small reduction	Small reduction	Minimal reduction	Small reduction
5. An indefinite cap on all private rents, set at two-thirds of current market rates and indexed to average earnings or CPI	Significant reduction	Very significant reduction	Very significant reduction	Very significant reduction
6. Limits on rent increases within a tenancy that would take them to above market levels coupled with automatic 29 month extensions to a six month probationary tenancy which could be ended by the landlord only if they needed to sell their property, live in it or for a breach of tenancy.	No measurable reduction	Minimal reduction (with safeguards)	Minimal reduction (with safeguards)	Minimal reduction (with safeguards)

Overall this analysis has suggested that scenarios 1-4 and 6 produce only small reductions in average rents, with an average fall in affected rents of between 0 and 9.1 percent. This leads to an aggregate loss of rental income to the sector of between 0 and 5.5 percent (as not all tenancies are affected at all times), though it is possible that on a localised level their impact may be more significant.

This is a relatively small loss of income and not, in itself likely to cause a substantial change to the size of the sector. The reduction in growth of the PRS projected is small, compared to

the 51 percent growth otherwise projected over the next ten years, with scenarios 1-4 and 6 projected to result in a growth of between 47 and 51 percent.

The impact modelled here is the impact on the size of the PRS. Small and gradual changes to the size of the PRS are unlikely to have a substantial impact on house prices, for the reasons discussed earlier. A sudden impact on the size of the PRS (such as under scenario 5), however, would be likely to impact across the housing market and could cause a sudden fall in house prices, with a resultant impact on new housing supply across all tenures.

The research with landlords and letting agents found that landlords were adverse to rent controls, not just because they could reduce their rental incomes, but also because they resented the intrusion into what they saw as a market based transaction. There therefore may be some additional impact of rent controls arising from landlords aversion to the bureaucracy involved, regardless of the actual reduction of rent that may arise. The research has given possible effects but by no means provide a conclusive answer to the size of the effects. The relationship between what people say they would do, and what they actually would do, given a specific situation, is inevitably uncertain. This is particularly so for a politicised issue such as rent controls where there are strong feelings involved. It was clear from the survey that many landlords were anxious about rent controls, and strongly opposed on ideological grounds. The survey was distributed via landlords' organisations, so those answering may not be typical of all landlords, and answering a survey on rent controls may have been particularly appealing to those opposed in principle. There is a clear gulf between the economically rational response to rent controls (as modelled in Stage 1) showing little immediate impact for scenarios 1-4, and the stated response of some landlords suggesting that many would nevertheless look to sell some or all of their stock immediately. It did not appear that landlords were overestimating the extent of their losses under these scenarios (indeed, many mentioned that they had not increased rents for some time). Rather they felt that a government-imposed system for determining the rent they could charge was a fundamentally different context to be operating in, and one they strongly opposed, regardless of actual changes to rents charged.

This creates a high degree of uncertainty over actual responses. Further research exploring the impact of similar moderate constraints on rent increases (such as under scenarios 1-4 or 6) when introduced in other countries would be useful here.

The research did offer some insight into some of the conditions that might be necessary to mitigate the impact of rent controls on the size of the PRS. These include allowing landlords to evict in order to sell a property or to live in it themselves (as specified in scenario 6). Lenders also emphasised the need to allow evictions in situations where a home was being repossessed from its landlord owner. To lend to the sector with confidence, lenders need to feel that the value of the homes in the PRS is effectively market value, not the lower price that might be obtained in a sale with a sitting tenant with a protected rent.

Landlords and lenders were not uniformly opposed to longer tenancy lengths. With the right safeguards in place, it would seem likely that longer tenancies could become more normal in the UK without causing any negative impacts on housing supply.

It is also important to note that this analysis has not looked at the practicalities of rent control, how it would be policed, funded or the detail of how it would operate. Much of the actual impact is likely to rest upon these details. Further research would clearly be needed to better understand the likely impact of any proposed form of rent control.

Nevertheless the analysis employed here does give some indication of the possible scale of impact of the six scenarios explored here, and how they differ one to another in their likely degree of impact.

Annex 1: Landlords' survey

Rent Regulation Survey 2015 carried out by Cambridge Centre for Housing and Planning Research, University of Cambridge Rent control is a policy which is being talked about increasingly in the media, and which has been endorsed by many charities and some political parties. We've been asked to find out if and how different types of rent control might work in practice, and how landlords, letting agents and tenants might react. We're aiming to gather opinions and information which will help us understand the likely impact of rent control. The survey is anonymous. Your answers be stored securely, used only for research purposes and would not be passed to any third party. Please note that the deadline for the research is 13th March 2015. Any questions or technical problems? If you have any questions about the research, which has been commissioned by Shelter, the homelessness charity, please contact [research's details]

Would you prefer to answer this survey as a landlord or a letting agent?

- ☐ Residential Landlord
- ☐ Residential Letting Agent or University managed lettings service
- ☐ I'm neither a landlord nor a letting agent, or only let out commercial property

Answer If 'Residential Landlord' Is Not Selected And 'Residential Letting Agent or University managed lettings service' Is Not Selected

Sorry, but our survey is only available for residential landlords or letting agents. Thank you for your interest in our research.

If Sorry, but our survey is on... Is Displayed, Then Skip To End of Survey

Questions for landlords

Which of these descriptions best describes your situation? (If both of these apply, please answer the question as a landlord)

- ☐ I rent out one or more properties as an individual private landlord
- ☐ I rent out a room or rooms within the same property I live in
- ☐ I work for a commercial landlord

In which of these areas of England do you let out residential properties?

- ☐ London
- ☐ South East or East of England
- ☐ South West
- ☐ East or West Midlands
- ☐ North East, North West, or Yorkshire and the Humber
- ☐ I don't let out residential properties in England

Answer If 'None of the above' Is Selected, skip to end

How many residential properties do you let out to tenants in England? (Please give an estimate if you do not know exactly)

Skip if work for commercial landlord

Which of the following best describes your current landlord activity?

- ☐ Being a landlord is my full-time and main job
- ☐ Being a landlord is a sideline to boost my current income
- ☐ Being a landlord is a sideline as a longer term investment choice
- ☐ Don't know / Not sure

Which of these descriptions would you say apply to the properties which you let out? You can choose more than one answer.

- ☐ Student Housing
- ☐ Specialist - e.g. retirees, holiday homes
- ☐ Prestigious - aimed at affluent households or individuals with above average incomes
- ☐ Mid-market - aimed at those on average incomes
- ☐ Budget - aimed at those on a tight budget
- ☐ Don't know / Not sure

Answer If 'I rent out a room or rooms within the same property' I live in Is Not Selected

Which of these types of property do you let out? You can choose more than one answer.

- ☐ Shared properties (HMOs) or bedsits
- ☐ Whole flats
- ☐ Whole houses
- ☐ Don't know / Not sure

Skip if work for a commercial landlord

Do you use the services of a letting agent?

- ☐ Yes, to find tenants and manage the properties
- ☐ Yes, but only to find tenants. I manage the tenancies myself.
- ☐ No
- ☐ A mixture - I use letting agents for some properties but not for others

Generally speaking, how easy do you usually find it to get tenants for your properties, when a vacancy arises?

- ☐ Very Difficult
- ☐ Quite Difficult
- ☐ Quite Easy
- ☐ Very Easy

- ☐ Don't know / Not sure

Skip if work for a commercial landlord

Which of these statements best describes how you first became a landlord?

- ☐ I inherited a property
- ☐ I bought a property for myself to live in, but then moved elsewhere and decided to let it out
- ☐ I bought a property for myself to live in, but then moved elsewhere was unable to sell the property, so decided to let it out
- ☐ I bought property as an investment (e.g. as a pension) using mainly savings or inheritance
- ☐ I decided to become a landlord and bought a property using mainly savings or inheritance
- ☐ I decided to become a landlord and bought a property using mainly a mortgage or other loans
- ☐ A different reason (please specify) _____
- ☐ Don't know / Not sure

What lengths of tenancy do you usually use on for new tenancies?

- ☐ 6 month assured shorthold
- ☐ 12 month assured shorthold
- ☐ Something else (please specify) _____
- ☐ Don't know / Not sure

Suppose there was a new longer tenancy model available in England. The tenant could end it at any time by giving two months notice, but the landlord could only end it if there had been a breach of tenancy, or if they had exchanged contracts to sell the property? Would you be interested in offering this type of tenancy to new tenants?

	Definitely	Probably	Probably not	Definitely not	I would leave this decision to my letting agent	Don't know
...for 3 year tenancies?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...for 5 year tenancies?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...for tenancies of indefinite length?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

If you could end a tenancy when you put a property on the market (rather than waiting until exchange of contracts), how likely would you then be to offer them....

	Definitely	Probably	Probably not	Definitely not	I would leave this decision to my letting agent	Don't know
...for 3 year tenancies?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...for 5 year tenancies?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...for tenancies of indefinite length?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

If there were safeguards in place so that you could end longer term tenancy if you wanted to live in the property (as well as to put it on the market), how likely would you then be to offer them...

	Definitely	Probably	Probably not	Definitely not	I would leave this decision to my letting agent	Don't know
...for 3 year tenancies?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...for 5 year tenancies?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...for tenancies of indefinite length?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

If there were tax incentives to you to offer longer term tenancies, how likely would you then be to offer them:

	Definitely	Probably	Probably not	Definitely not	I would leave this decision to my letting agent	Don't know
...for 3 year tenancies?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...for 5 year tenancies?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...for tenancies of indefinite length?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

If the only tenancies you could use were indefinite, what effect do you think this would be likely to have on your lettings? You would continue to have the same rights to evict the tenants for a breach of tenancy or non-payment of rent, or if you were selling the property. The tenant could end the tenancy with two months notice at any time.

- ☐ No change
- ☐ It would change my choice of tenants, or how I chose them
- ☐ I would sell some of my properties
- ☐ I would sell all of my properties
- ☐ I would keep the property, but leave it empty
- ☐ Something else (please specify) _____
- ☐ Don't know / not sure

Answer If 'It would change my choice of tenants' Is Selected

In what way would it change your choice of tenants?

When you're advertising an empty property, how do you decide what rent to set?

- ☐ At the top of the market (as high as possible)
- ☐ Slightly below the top of the market (e.g. in order to get a tenant quickly)
- ☐ Significantly below the market
- ☐ In line with Local Housing Allowance (Housing Benefit levels) in my local area
- ☐ I leave this to the Letting Agent
- ☐ A mixture of the above
- ☐ Don't know

Answer If 'Significantly below the market' Is Selected

Why do you choose to set your rents significantly below the market?

How often do you check rents on your properties compare with the market?

- ☐ Regularly, at least every year
- ☐ Regularly, but not every year
- ☐ From time to time, but there's no schedule
- ☐ Rarely
- ☐ Usually only when I am putting the property on the market for new tenants
- ☐ Never
- ☐ I leave this to the Letting Agent
- ☐ Don't know / Not sure

Generally speaking how often do you increase rents for existing tenants?

- ☐ Regularly, at least every year
- ☐ Regularly, but not every year
- ☐ From time to time, but there's no schedule
- ☐ Rarely
- ☐ Never
- ☐ I leave this to the Letting Agent
- ☐ Don't know / Not sure

Answer If 'Regularly, at least every year Is Selected' Or 'Regularly, but not every year' Is Selected Or ' From time to time, but there's no schedule' Is Selected Or ' Rarely' Is Selected

How much higher would the market value have to be, compared to the existing rent, before you increased it?

- ☐ I'd always move it to the market, no matter how small the difference
- ☐ 5% higher
- ☐ 10% higher
- ☐ 15% higher
- ☐ Other _____
- ☐ I leave this to the Letting Agent to decide
- ☐ Don't know

If the rents you could charge to existing tenants could only be increased in line with inflation each year (currently 0.3%), which of the following would you be most likely to do?

- ☐ Continue just as I am now
- ☐ Seek to gradually reduce the number of my properties over the coming years
- ☐ Sell some of my properties immediately
- ☐ Sell all my properties immediately
- ☐ Make a loss on my lettings

If the rents you could charge on all properties (including when letting to new tenants) could only be increased in line with inflation each year (currently 0.3%), which of the following would you be most likely to do?

- ☐ Continue just as I am now
- ☐ Gradually reduce the number of my properties over the coming years
- ☐ Sell some of my properties immediately
- ☐ Sell all my properties immediately
- ☐ Make a loss on my lettings

If the rents you could charge on all properties (including when letting to new tenants) were frozen for three years, which of the following would you be most likely to do?

- ☐ Continue just as I am now
- ☐ Gradually reduce the number of my properties over the coming years
- ☐ Sell some of my properties immediately
- ☐ Sell all my properties immediately
- ☐ Make a loss on my lettings

If the rents you could charge on all properties (including when letting to new tenants) were forced to be reduced to two thirds of current levels, and thereafter could rise only in line with inflation, which of the following would you be most likely to do?

- ☐ Continue just as I am now
- ☐ Gradually reduce the number of my properties over the coming years
- ☐ Sell some of my properties immediately
- ☐ Sell all my properties immediately
- ☐ Make a loss on my lettings

Finally, thinking about the total rental income you receive from your properties, over the last 12 months, roughly what percentage (before tax) would you say goes on the following? If you don't know or would prefer not to tell us, please leave the boxes below blank.

- ☐ _____ Letting agent fees or paying staff to manage the properties
- ☐ _____ Mortgage payments, insurance and legal costs
- ☐ _____ Emergency maintenance or essential repairs
- ☐ _____ Planned maintenance, refurbishment or improvement
- ☐ _____ Earnings for you or your company, before tax

In which of these areas of England do you let out residential properties?

- ☐ London
- ☐ South East or East of England
- ☐ South West
- ☐ East or West Midlands
- ☐ North East, North West, or Yorkshire and the Humber
- ☐ We don't let out residential properties in England

Questions for letting agents

Answer If In which of these areas of England do you let out residential properties? We don't let out residential properties in England Is Selected

Sorry, but our survey is only available for letting agents who let out residential properties in England. Thank you for your interest in our research.

If Sorry, but our survey is on... Is Displayed, Then Skip To End of Survey

How many residential properties do you manage in England? (Please give an estimate if you do not know exactly)

Which of these broad types of property would you say formed a major part of your lettings business? You can choose more than one answer.

- ☐ Student Housing
- ☐ Specialist - e.g. retirees, holiday homes
- ☐ Prestigious - aimed at affluent households or individuals with above average incomes
- ☐ Mid-market - aimed at those on average incomes
- ☐ Budget - aimed at those on a tight budget
- ☐ Don't know / Not sure

What length of tenancy is usually used for the properties you manage?

- ☐ 6 month assured shorthold
- ☐ 12 month assured shorthold
- ☐ Something else (please specify) _____
- ☐ Don't know / Not sure

How often do you check how the rents on properties you manage compare with the market, to check if you should increase them?

- ☐ Regularly, at least every year
- ☐ Regularly, but not every year
- ☐ From time to time, but there's no schedule
- ☐ Rarely
- ☐ Usually only when putting a property on the market for new tenants
- ☐ Never
- ☐ Don't know / Not sure

Generally speaking, how often do you increase rents for existing tenants, on properties you manage?

- ☐ Regularly, at least every year
- ☐ Regularly, but not every year
- ☐ From time to time, but there's no schedule
- ☐ Rarely
- ☐ Never
- ☐ Don't know / Not sure

Answer If ' Regularly, at least every year' Is Selected ' Regularly, but not every year' Is Selected Or ' From time to time, but there's no schedule' Is Selected 'Rarely' Is Selected

How much higher would the market value have to be, compared to the existing rent, before you suggested an increase?

- ☐ We'd always move it to the market, no matter how small the difference
- ☐ 5% higher
- ☐ 10% higher
- ☐ 15% higher
- ☐ Other _____
- ☐ Don't know

If the rents landlords could charge to existing tenants could only be increased in line with inflation each year (currently 0.3%), what do you think the impact would be on the market locally?

If rent increases remained restricted in line with inflation, even after a change of tenants, how would the impact be different to what you've just described, if at all?

If the rents landlords could charge on all properties (including when letting to new tenants) were frozen for three years, what do you think the impact would be on the market locally?

If the rents landlords could charge on all properties (including when letting to new tenants) were forced to be reduced to two thirds of current levels, and thereafter could rise only in line with inflation, how would the impact be different to what you've just described, if at all?

Have you got any other comments on the subject of rent control that you'd like us to take into account in our research?

To add to the information gathered from this survey, we will be carrying out a small number of anonymous in-depth interviews with landlords and letting agents to provide more detail regarding the likely effects of rent control on the market. These would take place by phone, at some point in the next few weeks. You would be contacted by Cambridge University exclusively in connection with this project, and your details would not be transferred to Shelter. Would you be interested in taking part?

- ☐ Yes
- ☐ No

Answer If 'Yes' Is Selected

Please enter your details below so that we can contact you to arrange an interview. Many thanks for agreeing to take part.

- ☐ Company Name (if relevant)
- ☐ Name
- ☐ Phone Number
- ☐ Email Address

On behalf of CCHPR and Shelter, many thanks for taking the time to fill in the survey. Your responses will be kept confidential and secure, and will only be used for the purposes of this research. If you have any questions or concerns about the survey, please do feel free to contact us: [email and phone]. We are always looking for more landlords and letting agents to complete this research. If you know of someone who might be interested and lets out residential properties in England, please do feel free to forward the survey email to them.

Annex 2: Questions for telephone interviews with landlords

Introduction

- Study to analyse the effect of possible rent controls on the private rented sector.
- Particularly seeking to find out more about how private landlords would react to any controls on rent increases.
- Commissioned by Shelter, who want to better understand the implications of different types of rent controls

Background

1. I can see from the survey that you have XX properties and these are mainly aimed at YY types of tenants – is that right?

Individual private landlords only:

2. Could you tell me why you decided to become a landlord?
 - Was it a planned move?
 - Was it about increasing your day-to-day income, or something longer term?

If as a planned investment

- Would you still have chosen to become a landlord if a different type of investment had offered a slightly better return?
3. When did you become a landlord?
 4. Were all/most of the properties you let purchased at that time?
 5. In the last two years, have you purchased any new properties?

If yes:

- Were any of these properties already in the private rented sector before you purchased them?
 - Were any of them new build?
6. Have you sold any properties within the last two years?
 - If yes, were they bought by another landlord? Or by owner-occupiers?

Tenancy Types

7. Are you satisfied with the types and lengths of tenancy that you've got available to you at the moment?
 - How long do your tenants actually stay in practice?
 - Do you think your tenants would want longer or shorter tenancies?
8. You said [see responses] about offering longer tenancies. What are the reasons behind that?

If negative:

- Could anything be done to address those concerns, other than shortening the tenancies?

If positive:

- What are the advantages to you of offering longer tenancies?
- Would indefinite tenancies be any different to three or five year tenancies, from your point of view?

Rent Setting and Increases

9. You said that you [see survey responses] increase your rents for existing tenants. Why do you take that approach?
 - Would that approach change if a rent control scheme limited the rent increase you could make in one year to inflation, even in years when you hadn't made an increase the previous year?
10. What effect do you think a cap on rent increases at inflation might have on your finances?
11. What would be the implications for you?
 - Would you continue to let property? Why/why not?
 - Would it affect your choice of tenant? In what ways?
 - Would it affect your decisions to buy more properties? Why/why not?
 - Would it affect the amount you could borrow against your properties? If yes, what impact would this have on your business?
12. How about if the cap on rent increases at inflation applied even to new tenancies?
13. Some more severe forms of rent control might involve a rent freeze, or an actual cut in rents. How about if rents were frozen for three years, without allowing for inflation?
 - What if they were cut to two thirds of their current levels?

If has multiple properties (see survey):

14. Are there any of your properties where rent control would be more or less significant?

Thank you for your help.

Annex 3: Questions for lenders

The Cambridge Centre for Housing and Planning Research is currently carrying out some research commissioned by Shelter exploring the possible consequences of rent controls and changes to tenancy security in the private rented sector in England. As part of this work we are talking to lenders in the buy-to-let market as we want to know how lenders might respond to any possible changes.

Current activities

1. Size of current lending to the sector (in England if possible, but if figures are UK based ask for a rough indication of % of activity in England):
 - a. Number of landlords your firm is currently lending to?
 - b. Total value of lending to BTL landlords?
 - c. Proportion of total lending by your firm that is to the BTL sector?
 - d. Any other useful statistics, e.g. average loan to value ratios, average mortgage per property?
2. Any focus on specific parts of the BTL market;
 - a. High/low end?
 - b. Regional focus?
 - c. Do you require landlords not to let to specified groups (students or people on benefits)?
3. When your firm lends to a BTL landlord what are the main terms your firm imposes on the loan;
 - a. Maximum LTV (purchase/remortgage)?
 - b. Rental cover ratio?
 - c. Maximum portfolio?
 - d. Current achievable rent, how is this established?
 - e. Projected increases in future rent? - how is this calculated?

Responses to possible rent controls

4. If a new government implemented measures that allowed landlords to charge what they like to new tenants but capped increases for the first few years **of a tenancy** to CPI or average wage increases would this affect your firm's involvement in the BTL sector?
6. What about if rents were (a) frozen for a period of, say, three years? Or (b) if the government forced all rents to be at **two thirds of current levels**, with future increases limited to CPI?

Responses to changes to security of tenure

7. Would your firm lend to landlords who wanted to offer fixed term contracts of:
 - a. 1 year
 - b. 3 years
 - c. 5 years
8. If there were safeguards that allowed a landlord to evict a tenant if they wished to sell the property, or live in it themselves, would this make a difference?
 - a. Why/why not?
 - b. If landlords were allowed to evict in order to sell, would waiting until exchange of contracts before they could evict be practical?
 - i. Why/why not?
 - ii. If not, what could work instead?
9. Are there any other safeguards that would help your firm feel able to lend on longer term tenancies?
10. Any other comments on the issue of rent controls or changes to tenancy lengths and security you would like to make?

Thank you for your help.

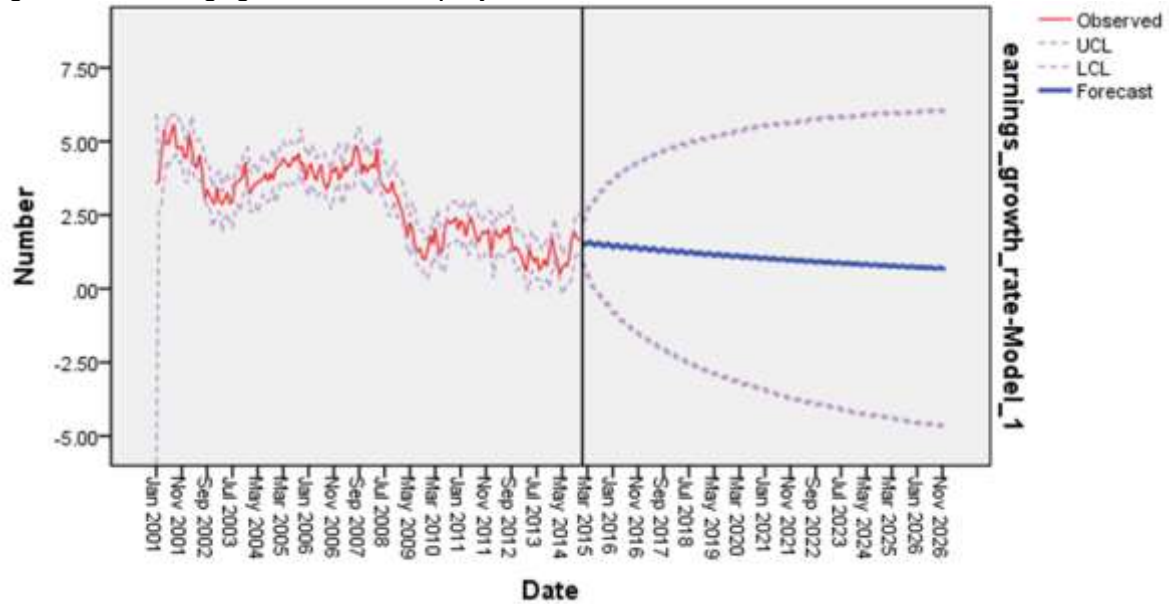
Annex 4: Supplementary statistics

Table A4.1 Estimated private renting sector's market size on the stock-multiplied-by- rent base (%)

NE	NW	YH	EM	WM	East	London	SE	SW	England (total)
3.0	9.5	7.2	5.1	7.6	11.7	26.9	19.1	9.9	100.0

Source: CCHPR's analysis based on DCLG Live Table 100 and VOA Market Rent Statistics.

Figure A4.1 Mortgage interest rate projections



Data source: Bank of England. 75% LVT fixed mortgage interest rate. Jan 2000 to Jan 2015.

Figure A4.2 Capital Gain (annual real house price index growth rate: %)

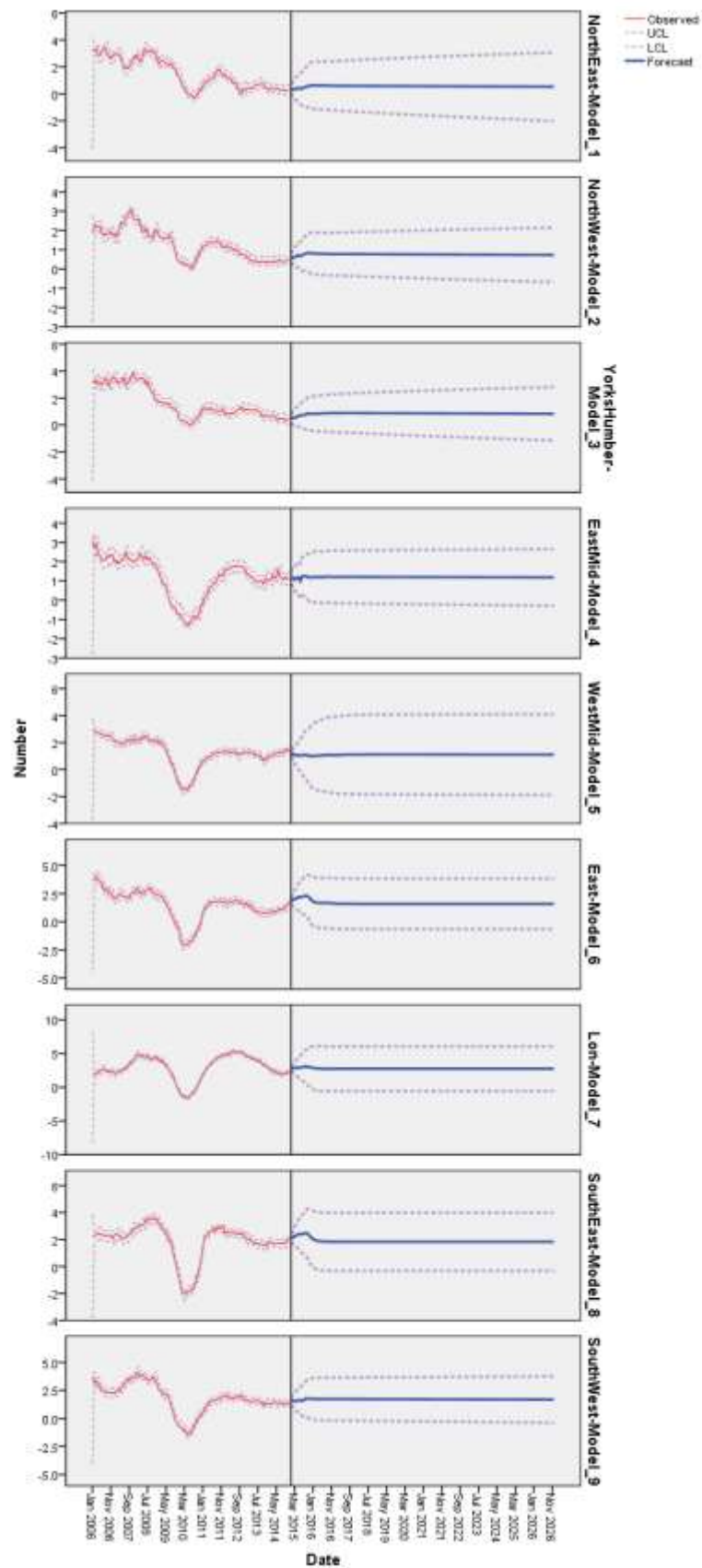


Table A4.2 Provisional regression result of the panel data analysis on Fixed Effects

Source	Numerator degree of freedom	Denominator degree of freedom	F-value*	Sig.
Rental yield	1	49	26.527	0.000
capital gain	1	49	3.951	0.052
financial constraint	1	49	26.395	0.000
supply constraint	1	49	0.463	0.499
constant by region	1	49	26.527	0.000

Note: Where Sig <0.05, the regional variations were significant, and where sig<0.5, the regional variations might be worthwhile examining the further regression. * F-value is a measurement unit to examine a variation between the observations.

Table A4.3 regression result of the panel data analysis

variable		coefficient t	std. error	variable		coefficient t	std. error
constant	NE	9.8944	5.7222	financial constraint	NE	0.2997	0.2491
	NW	26.4557	8.3096		NW	0.7360	0.4966
	YH	12.5436	6.4261		YH	0.2566	0.2669
	EM	9.0860	7.4472		EM	-0.0782	0.1816
	WM	12.6613	7.2861		W M	0.5435	0.2034
	E	6.0716	8.0689		E	-0.0050	0.1916
	L	13.9826	11.3953		L	-0.1498	0.1813
	SE	-17.8710	17.9096		SE	-0.3943	0.3490
	SW	-14.6729	9.4576		SW	-0.0674	0.1807
rental yield	NE	0.5768	1.8235	supply constraint	NE	-0.4831	0.6442
	NW	2.4890	2.2814		NW	-3.0129	1.5065
	YH	2.2598	1.7726		YH	-1.2660	0.9355
	EM	1.4732	1.5066		EM	-0.4087	0.6864
	WM	1.8566	1.8918		W M	-1.2830	0.6730
	E	1.2330	1.3189		E	-0.0029	0.8991
	L	2.1609	1.0608		L	-1.2865	1.5775
	SE	1.4503	1.4918		SE	2.5317	2.2671
	SW	4.5710	1.5402		SW	0.9390	0.9119
capital gain	all regions	0.0151	0.0135				

Note: Information criteria: -2 Restricted Log Likelihood (-13.193), AIC (-11.193) and BIC (-10.360).

Table A4.5 Projected Rent Yield (%) by region and rent regulation option

	Rent Yield	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
NE	Option 0	3.466	3.337	3.183	3.045	2.909	2.781	2.657	2.540	2.425	2.315	2.210
	Option 1	3.466	3.335	3.181	3.043	2.908	2.779	2.656	2.539	2.424	2.314	2.210
	Option 2	3.466	3.337	3.183	3.045	2.909	2.781	2.657	2.540	2.425	2.315	2.210
	Option 3	3.466	3.319	3.150	3.045	2.909	2.781	2.657	2.540	2.425	2.315	2.210
	Option 4	3.466	3.337	3.183	3.045	2.909	2.781	2.657	2.540	2.425	2.315	2.210
	Option 5	3.466	2.238	2.152	2.074	1.994	1.917	1.841	1.768	1.694	1.623	1.554

NW	Option 0	3.370	3.314	3.264	3.215	3.166	3.119	3.072	3.026	2.977	2.929	2.882
	Option 1	3.370	3.313	3.263	3.214	3.166	3.118	3.071	3.025	2.977	2.929	2.882
	Option 2	3.370	3.314	3.264	3.215	3.166	3.119	3.072	3.026	2.977	2.929	2.882
	Option 3	3.370	3.290	3.220	3.215	3.166	3.119	3.072	3.026	2.977	2.929	2.882
	Option 4	3.370	3.314	3.264	3.215	3.166	3.119	3.072	3.026	2.977	2.929	2.882
	Option 5	3.370	2.218	2.199	2.177	2.155	2.130	2.105	2.078	2.049	2.019	1.988
YH	Option 0	3.475	3.364	3.258	3.156	3.057	2.961	2.868	2.778	2.688	2.601	2.517
	Option 1	3.475	3.361	3.256	3.154	3.055	2.959	2.866	2.776	2.686	2.598	2.514
	Option 2	3.475	3.364	3.258	3.156	3.057	2.961	2.868	2.778	2.688	2.601	2.516
	Option 3	3.475	3.337	3.209	3.156	3.057	2.961	2.868	2.778	2.688	2.601	2.517
	Option 4	3.475	3.364	3.258	3.156	3.057	2.961	2.868	2.778	2.688	2.601	2.517
	Option 5	3.475	2.250	2.191	2.131	2.072	2.012	1.953	1.895	1.835	1.776	1.718
EM	Option 0	3.284	3.197	3.108	3.021	2.937	2.855	2.776	2.699	2.624	2.551	2.480
	Option 1	3.284	3.196	3.107	3.021	2.937	2.854	2.773	2.693	2.616	2.540	2.467
	Option 2	3.284	3.197	3.108	3.021	2.937	2.854	2.773	2.694	2.616	2.541	2.467
	Option 3	3.284	3.162	3.043	3.021	2.937	2.855	2.776	2.699	2.624	2.551	2.480
	Option 4	3.284	3.197	3.108	3.021	2.937	2.855	2.776	2.691	2.610	2.530	2.455
	Option 5	3.284	2.131	2.076	2.020	1.965	1.909	1.854	1.799	1.744	1.690	1.637
WM	Option 0	3.283	3.177	3.038	2.926	2.808	2.704	2.599	2.501	2.405	2.314	2.226
	Option 1	3.283	3.175	3.035	2.920	2.797	2.690	2.582	2.478	2.379	2.285	2.195
	Option 2	3.283	3.176	3.038	2.925	2.804	2.696	2.588	2.486	2.387	2.293	2.203
	Option 3	3.283	3.142	2.972	2.926	2.808	2.704	2.599	2.501	2.405	2.314	2.226
	Option 4	3.283	3.177	3.038	2.923	2.800	2.690	2.578	2.471	2.369	2.268	2.172
	Option 5	3.283	2.118	2.027	1.951	1.868	1.793	1.717	1.645	1.573	1.505	1.438
East	Option 0	2.805	2.649	2.541	2.437	2.338	2.243	2.151	2.064	1.979	1.899	1.821
	Option 1	2.805	2.645	2.538	2.435	2.334	2.243	2.149	2.056	1.970	1.888	1.809
	Option 2	2.805	2.640	2.533	2.428	2.327	2.229	2.135	2.045	1.959	1.877	1.798
	Option 3	2.805	2.608	2.469	2.437	2.338	2.243	2.151	2.064	1.979	1.899	1.821
	Option 4	2.805	2.638	2.525	2.418	2.314	2.213	2.115	2.022	1.932	1.844	1.761
	Option 5	2.805	1.757	1.683	1.610	1.539	1.470	1.403	1.338	1.275	1.214	1.156
Lon	Option 0	3.493	3.347	3.187	3.034	2.889	2.751	2.620	2.494	2.375	2.262	2.154
	Option 1	3.493	3.316	3.143	2.982	2.830	2.717	2.576	2.428	2.309	2.196	2.088
	Option 2	3.493	3.314	3.140	2.978	2.826	2.683	2.548	2.420	2.299	2.184	2.076
	Option 3	3.493	3.264	3.038	3.034	2.889	2.751	2.620	2.494	2.375	2.262	2.154
	Option 4	3.493	3.300	3.107	2.928	2.759	2.600	2.449	2.310	2.180	2.056	1.940
	Option 5	3.493	2.197	2.064	1.938	1.818	1.704	1.596	1.493	1.397	1.305	1.219
SE	Option 0	2.954	2.831	2.739	2.652	2.567	2.484	2.405	2.328	2.253	2.181	2.111
	Option 1	2.954	2.823	2.732	2.643	2.555	2.480	2.396	2.310	2.233	2.159	2.087
	Option 2	2.954	2.819	2.725	2.634	2.545	2.460	2.377	2.297	2.220	2.145	2.074
	Option 3	2.954	2.783	2.653	2.652	2.567	2.484	2.405	2.328	2.253	2.181	2.111
	Option 4	2.954	2.814	2.715	2.617	2.523	2.430	2.342	2.256	2.172	2.089	2.012
	Option 5	2.954	1.875	1.807	1.740	1.675	1.610	1.547	1.485	1.425	1.367	1.310
SW	Option 0	3.270	3.151	2.995	2.865	2.730	2.607	2.487	2.374	2.265	2.162	2.063
	Option 1	3.270	3.139	2.981	2.848	2.710	2.594	2.469	2.348	2.237	2.133	2.033
	Option 2	3.270	3.140	2.982	2.850	2.712	2.587	2.463	2.348	2.237	2.132	2.032
	Option 3	3.270	3.102	2.906	2.865	2.730	2.607	2.487	2.374	2.265	2.162	2.063
	Option 4	3.270	3.135	2.974	2.836	2.692	2.563	2.432	2.312	2.197	2.086	1.980
	Option 5	3.270	2.090	1.980	1.887	1.789	1.699	1.611	1.527	1.446	1.369	1.295

Note: For the measurement unit, see Table 2.1. Due to the projected increase in house prices for London in 2015, the capital's rent yield is projected to return to below 4%.

Table A4.6 Supply constraints by region through the projection period

NE	NW	YH	EM	WM	East	London	SE	SW
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Units ('000)	4	8	8	8	7	12	11	17	12
in natural log form	8.29	8.99	8.99	8.99	8.85	9.39	9.31	9.74	9.39

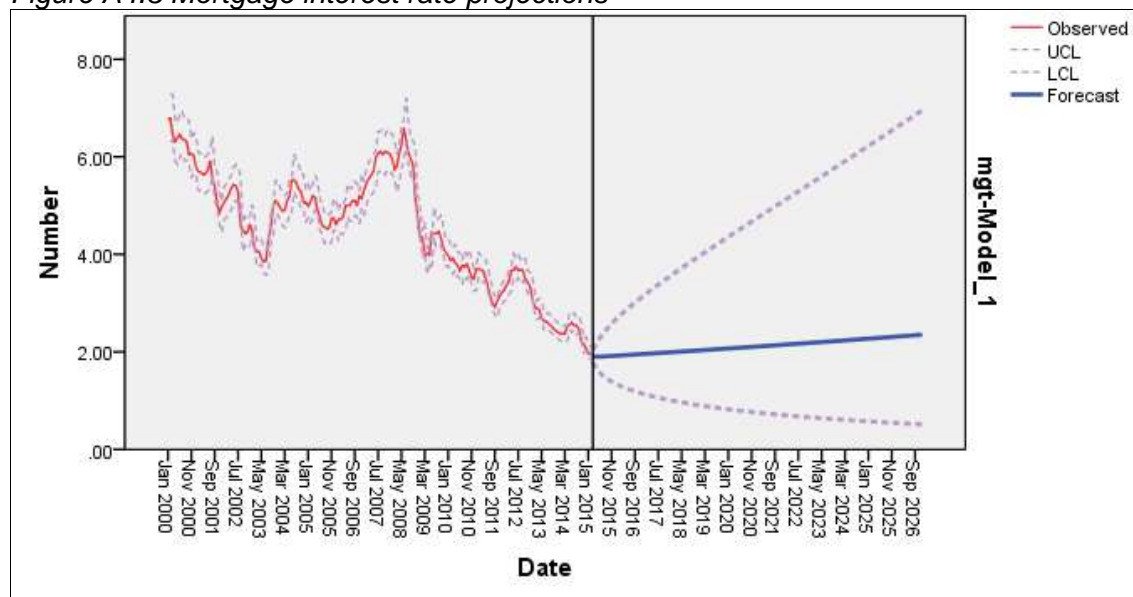
Note: Applied from DCLG Private enterprise dwelling completions in 2011.

Table A4.7 Mortgage interest rate projections

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Mortgage interest rate	1.91	1.95	1.98	2.02	2.06	2.10	2.14	2.18	2.22	2.26	2.30

Note: CCHPR analysis by autoregression. Stationary R^2 (0.118) and Liung-Box Q(18) (0.134).

Figure A4.3 Mortgage interest rate projections



Data source: Bank of England. 75% LVT fixed mortgage interest rate. Jan 2000 to Jan 2015.

Table A4.8 Capital gain (annual real house price index growth rate: %)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
NE	4.25	2.73	3.41	3.10	3.24	3.18	3.21	3.19	3.20	3.20	3.20
NW	4.17	0.78	0.34	0.34	0.34	0.34	0.34	0.34	0.34	0.34	0.34
YH	4.33	2.51	2.13	2.13	2.13	2.13	2.13	2.13	2.13	2.13	2.13
EM	5.72	2.24	2.06	2.06	2.06	2.06	2.06	2.06	2.06	2.06	2.06
WM	4.45	2.83	3.83	3.21	3.60	3.36	3.51	3.42	3.47	3.44	3.46
East	9.15	5.92	3.84	3.84	3.84	3.84	3.84	3.84	3.84	3.84	3.84
London	14.70	5.49	5.84	5.84	5.84	5.84	5.84	5.84	5.84	5.84	5.84
SE	9.17	4.57	3.14	3.11	3.11	3.11	3.11	3.11	3.11	3.11	3.11
SW	5.62	3.77	4.90	4.23	4.63	4.39	4.53	4.45	4.50	4.47	4.49

Note: CCHPR analysis by autoregression: Stationary R^2 (0.118) and Liung-Box Q(18) (0.134). Deflated by projected CPI (all items).

As before, the national projections are based on the sum of the regional projections, weighted by each region's private rented market size (see Annex 4).

Table A4.9 Projected decrease in PRS supply increase (% lower than under scenario 0): Scenario 1

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
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North East	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
North West	0.0	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Yorkshire & Humber	0.0	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.5	0.5	0.7
East Midlands	0.0	0.1	0.1	0.1	0.0	0.2	0.5	0.8	1.2	1.5	1.9
West Midlands	0.0	0.3	0.6	1.2	2.0	2.4	3.2	4.2	4.9	5.3	5.6
East of England	0.0	0.5	0.3	0.3	0.5	0.0	0.3	0.9	1.2	1.4	1.5
London	0.0	6.5	9.0	10.7	12.0	7.2	9.1	13.4	13.4	13.3	13.1
South East	0.0	1.1	1.1	1.3	1.7	0.6	1.3	2.6	2.9	3.2	3.4
South West	0.0	5.1	6.1	7.3	8.6	6.1	7.9	11.3	12.0	12.4	12.7
England	0.0	2.6	3.4	4.0	4.7	2.9	3.8	5.7	5.9	6.1	6.2

*Table A4.10: Projected decrease in PRS supply increase (% lower than under scenario 0):
Scenario 2*

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
North East	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
North West	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Yorkshire & Humber	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
East Midlands	0.0	0.0	0.0	0.0	0.0	0.1	0.4	0.7	1.1	1.5	1.8
West Midlands	0.0	0.0	0.0	0.2	0.8	1.5	2.1	2.7	3.3	3.7	4.2
East of England	0.0	1.0	1.0	1.1	1.4	1.7	1.9	2.2	2.5	2.7	2.9
London	0.0	6.9	9.6	11.4	12.8	13.7	14.4	14.9	15.2	15.4	15.4
South East	0.0	1.7	2.1	2.5	3.0	3.5	3.9	4.3	4.7	5.0	5.3
South West	0.0	4.7	5.5	6.6	7.9	9.1	10.3	11.3	12.1	12.8	13.4
England	0.0	2.8	3.6	4.4	5.0	5.6	6.1	6.5	6.8	7.1	7.2

*Table A4.11: Projected decrease in PRS supply increase (% lower than under scenario 0):
Scenario 3*

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
North East	0.0	1.1	1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
North West	0.0	5.7	10.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Yorkshire & Humber	0.0	5.8	10.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
East Midlands	0.0	5.0	9.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
West Midlands	0.0	6.2	11.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
East of England	0.0	4.8	8.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
London	0.0	16.4	27.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
South East	0.0	6.7	11.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
South West	0.0	20.1	33.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
England	0.0	9.9	17.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

*Table A4.12: Projected decrease in PRS supply increase (% lower than under scenario 0):
Scenario 4*

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
North East	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
North West	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Yorkshire &	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Humber											
East Midlands	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.2	1.9	3.0	3.6
West Midlands	0.0	0.0	0.0	0.5	1.6	2.5	3.8	5.4	6.5	8.2	9.4
East of England	0.0	1.3	1.9	2.4	2.8	3.5	4.4	5.0	5.7	6.6	7.1
London	0.0	9.6	15.8	20.5	24.5	27.9	30.8	32.9	34.4	35.9	36.9
South East	0.0	2.4	3.5	4.9	6.1	7.6	8.7	9.9	11.1	12.4	13.4
South West	0.0	6.9	9.1	12.3	16.0	18.3	22.1	24.6	26.7	29.2	31.4
England	0.0	3.9	6.0	8.0	9.8	11.4	12.9	14.2	15.3	16.5	17.3

*Table A4.13: Projected decrease in PRS supply increase (% lower than under scenario 0):
Scenario 5*

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
North East	0	47.0	44.8	42.9	41.0	39.2	37.5	35.9	34.4	32.9	31.5
North West	0	!	!	!	!	!	!	!	!	!	!
Yorkshire & Humber	0	!	!	!	!	!	!	!	!	!	!
East Midlands	0	!	!	!	!	!	74.3	73.4	72.6	71.8	71.1
West Midlands	0	!	!	!	!	!	!	!	!	!	!
East of England	0	66.7	65.3	63.9	62.7	61.4	60.3	59.1	58.0	57.0	56.0
London	0	!	!	!	!	!	!	!	!	!	!
South East	0	!	74.1	73.3	72.6	71.9	71.2	70.5	69.9	69.3	68.7
South West	0	!	!	!	!	!	!	!	!	!	!
England	0	!	!	!	!	!	!	!	!	!	!

Note: ! indicates extreme values and a possible net decrease.

As the model has a limited capacity to measure net decrease in the size of the sector, the relevant cells have an attention mark. Upper and lower values have then been used for projecting the upper and lower likely change in size of the sector under scenario 5, using zero and -5.5 as the likely lower and upper rates of change. -5.5 has been used as it is the fastest rate at which the sector has shrunk during the last 50 years.

Annex 5: The profile of landlords replying to the survey

A total of 727 private landlords and 97 letting agents replied to the online survey. The large majority rented out entire properties as individual private landlords (Table A5.1)

Response	Number	Percent
I rent out a room or rooms within the same property I live in	8	1.1
I rent out one or more properties as an individual private landlord	703	97.8
I work for a commercial landlord	8	1.1
Total	719	100.0

The nature of the distribution of the survey meant that the landlords were not evenly spread around England. The largest numbers were located in the South West (mostly in Bristol) and the north of England (Table A5.2).

Response	Number	Percent
London	115	15.8
South East or East of England	97	13.3
South West	345	47.5
East or West Midlands	39	5.4
North East, North West, or Yorkshire and the Humber	234	32.2
Total landlords	727	100.0

Note – landlords could select more than one answer

The landlords ranged in size with 15.8 percent having just one property, but 5.9 percent having over 50 properties (Table A5.3)

Response	Number	Percent
1	104	15.8
2-4	202	30.7
5-10	157	23.9
11-20	90	13.7
21-50	65	9.9
Over 50	39	5.9
Total	657	100.0

They were also a mixture of professional and amateur landlords (Table A5.4).

Response	Number	Percent
Being a landlord is a sideline as a longer term investment choice	286	39.9
Being a landlord is a sideline to boost my current income	168	23.4
Being a landlord is my full-time and main job	249	34.7
Don't know / Not sure	14	2.0
Total	727	100.0

Most landlords described their housing as mid-market, with just over a third saying that they provided 'budget' housing, aimed at those on a tight budget. Nearly a third of the landlords managed student housing (Table A5.5).

Response	Number	Percent
Student Housing	236	32.5
Specialist - e.g. retirees, holiday homes	19	2.6
Prestigious - aimed at affluent households or individuals with above average incomes	51	7.0
Mid-market - aimed at those on average incomes	451	62.0
Budget - aimed at those on a tight budget	286	39.3
Don't know / Not sure	10	1.4

Total	727	100.0
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The landlords managed a mixture of shared housing, whole flats and whole houses (Table A5.6)

Response	Number	Percent
Shared properties (HMOs) or bedsits	276	38.0
Whole flats	402	55.3
Whole houses	479	65.9
Don't know / Not sure	1	0.1
Total landlords	727	100.0

Around half the landlords used letting agents to manage the properties themselves, with similar numbers managing them themselves (Table A5.7).

	Number	Percent
Yes, to find tenants and manage the properties	105	14.6
Yes, but only to find tenants. I manage the tenancies myself.	178	24.8
No	306	42.6
A mixture - I use letting agents for some properties but not for others	129	18.0
Total	718	100.0

Most landlords said that it was very easy or quite easy to find tenants. Only one percent said that it was very difficult (Table A5.8).

Response	Number	Percent
Very Easy	240	33.1
Quite Easy	372	51.4
Don't know / Not sure	11	1.5
Quite Difficult	94	13.0
Very Difficult	7	1.0
Total	724	100.0

Landlords were asked how they first became a landlord. The most common route was by buying a property using a mortgage or other loans, however around one if five were what could be termed 'accidental landlords' who had inherited a property or were renting out somewhere that they used to live themselves, in some cases because they could not sell it (Table A5.9).

Response	Number	Percent
I inherited a property	37	5.1
I bought a property for myself to live in, but then moved elsewhere and decided to let it out	86	11.8
I bought a property for myself to live in, but then moved elsewhere was unable to sell the property, so decided to let it out	17	2.3
I bought property as an investment (e.g. as a pension) using mainly savings or inheritance	132	18.2
I decided to become a landlord and bought a property using mainly a mortgage or other loans	307	42.2
I decided to become a landlord and bought a property using mainly savings or inheritance	74	10.2
A different reason (please specify)	60	8.3
Don't know / Not sure	4	0.6
Total	445	100.0

Of those who gave a different reason, 13 had bought a property for a student child to live in and rent out rooms to friends, eight rented out rooms in their own home, four bought a property for a family member to live in, and four built the properties themselves.