



Why **RENT** **CONTROLS** WON'T WORK

There are loud and frequent calls for the government to introduce rent controls.

But **KRISTIAN NIEMIETZ** contends that this isn't the answer to Britain's housing crisis.

In fact, he argues, they'll only make matters worse...

Most readers of this column either already know this from first-hand experience, or they soon will: renting a flat is outrageously expensive in the UK.

UK rents are the highest in Europe, both in absolute terms and relative to income levels.¹ On average, British tenants pay 40-50 per cent more than their counterparts in France, Germany, Belgium and the Netherlands.

It is only if you count Monaco as a country that the UK gets pushed into second place, and even then, a number of Inner London

boroughs have actually overtaken some Monaco boroughs (Pastor Real Estate, 2014).

So it is not surprising that rent controls are back on the political agenda. The re-introduction of rent controls is now official Labour Party and Green Party policy, and presumably, other parties will follow in due course.

It is easy to see why: rent controls are extremely popular with the general public, and especially with younger voters. Among those aged 18 to 35, only 4.4 per cent oppose rent controls (based on Hilton 2016).

The case for rent controls

¹ 'Revealed: The most expensive rents in Europe', *Daily Telegraph*, 24 June 2015. Available at <http://www.telegraph.co.uk/finance/property/11694273/Revealed-Themost-expensive-rents-in-Europe.html>

'UK tenants pay more rent than any country in Europe', *The Guardian*, 24 June 2015, available at <http://www.theguardian.com/money/2015/jun/24/uk-tenants-pay-more-rent-than-europe>

is intuitively clear. Rents are too high, so the state should cap them – problem solved. Plenty of organisations have long been banging the drum for rent controls, and the latest organisation to jump on this crowded bandwagon is the Communication Workers Union (CWU), with a paper written by Alex Hilton (2016).

In describing the problem, this paper is spot on. Britain's exorbitant rents are a huge social and economic problem. They undermine the living standards of renters, and at the lower end of the income distribution, they have become the main cause of poverty and hardship.

They cost taxpayers billions, because they make millions

Like most prices, rents are really messengers of scarcity.

A high price is a messenger who tells consumers: "There is very little of this good, and lots of people want it, so use it as sparingly as you possibly can". This messenger also tells (current and potential) suppliers: "There is very little of this good, and lots of people want it, so if you can possibly spare some of it, do it."

A price control, then, is a form of shooting the messenger – except, it is worse than that. It means forcing the messenger to tell a lie.

A controlled price is a messenger who, at gunpoint, is made to tell consumers:

here than in places that have more of it.

Rent controls could not change that underlying reality. They would not add a single flat to the country's housing stock. On the contrary: they would entice the 'marginal landlord' – the person for whom the decision to be a landlord is a borderline decision – to leave the market.

Think of somebody who partitions off a part of their property, and converts it into a self-contained flat, but who would actually quite like to use that living space for themselves and/or their family – that person would no longer have the same incentives to do so.

On the demand side, rent controls would also entice the 'marginal tenant' to either enter the market if they are not already participating, or to demand more of the product than they currently do. To cut a long

story short, with rent controls, more people would chase fewer flats.

This is exactly what has happened wherever rent controls have been tried. One of the most consistent findings in economic research is that rent controls cause more problems than they solve.

It is a similarly consistent finding that housing supply is mainly driven by the severity of land use restrictions. The UK has been building fewer new homes than other countries for decades, because the UK imposes exceptionally severe restrictions on housebuilding.

BRITAIN'S EXORBITANT RENTS ARE A HUGE SOCIAL AND ECONOMIC PROBLEM...AT THE LOWER END OF THE INCOME DISTRIBUTION, THEY HAVE BECOME THE MAIN CAUSE OF POVERTY AND HARDSHIP



of people dependent on Housing Benefit. They undermine labour mobility, because the problem is most pronounced in those parts of the country which have the best jobs and earnings prospects, thus locking people out of these areas.

They inflate consumer prices across the board, because the same factors which raise private rents also raise commercial rents in sectors like retail, and this then gets passed on to consumers. The list goes on.

So yes, the problems identified by the CWU are very real indeed. But rent controls are not the solution.

"Everything is fine! This good is available in great abundance. So don't hold back, don't be shy, please help yourself to some more."

His message to (current and potential) suppliers is: "This good is available in great abundance, so even if you can spare some of it, don't bother too much."

Rents are not an exception. The reason why rents, or rather, housing in general, is extremely expensive in the UK is simply that there is not enough of it. Relative to population size, the UK has the smallest housing stock in Western Europe. So of course housing is more expensive

- UK rents are the highest in Europe both in absolute terms and relative to income
- British tenants pay 40-50 per cent more than their counterparts in France, Germany, Belgium and the Netherlands
- Rent controls do not solve the problem of high rents, which is created by land-use planning controls restricting the supply of property
- Indeed, rent controls exacerbate the problem by encouraging more demand and reducing supply, thus worsening the accommodation shortage
- A recent Communication Workers Union paper provided an excellent description of the problems in the UK market for rented housing, but solutions which, if implemented, would be a disaster

For example, it is virtually impossible to build anything near London, Oxford, Cambridge, Bristol or Bath, because these cities are surrounded by greenbelts, where development is only permitted in exceptional circumstances (though it should be noted that 'greenbelt' is a misnomer because a lot of greenbelt land is not remotely green).

Add to that height restrictions and obstacles to

densifying urban areas, and it is no wonder that levels of housebuilding are so low in the UK.

This is the reason why the UK has such high housing costs, and easing those restrictions is the only way the problem can be solved. Silencing the messenger, or rather, forcing them to say that the problem does not exist, is not a solution.

The CWU paper is a missed opportunity. As far as the

description of the problem is concerned, this paper is entirely correct, timely and relevant.

The problem with the paper is that it plays to the gallery of trendy anti-capitalism. The author does not deny that there is a supply side problem, and he does not defend the British planning system.

But he does not take this part of his argument any further, because he is too eager to signal his anti-market credentials. He wants to portray the problems in the UK rental markets as problems of 'neo-liberal' free market economics, yet if he went further in acknowledging the effect of planning constraints, he would not be able to sustain that favoured narrative.

Government intervention has caused Britain's housing shortage in the first place, yet Hilton wants to make a case for yet more government intervention.

This leads him to disregard solutions that would work, and that have demonstrably worked in other places, in order to advocate a non-solution that is destined to fail, and that has demonstrably failed elsewhere•

Kristian Niemietz

Head of Health and Welfare

IEA

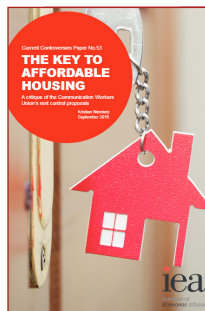
knienietz@iea.org.uk

References

Hilton, A. (2016) 'How to repair the housing market quickly – A crisis response'. London: Communication Workers Union.

Pastor Real Estate (2014): *London vs Monaco: A tale of two cities*. London: Pastor Real Estate.

Available at: www.pastor-realestate.com/wpcontent/uploads/2014/09/Monaco-v-London.pdf



FOR MORE...

For a more detailed response to the Communication Workers Union's proposals and further references, see Niemietz, K (2016), *The Key to Affordable Housing. A critique of the Communication Workers Union's rent control proposals*. Current Controversies Paper No.53, London: Institute of Economic Affairs.