



**Written views for the London Assembly Housing Committee investigation
into the impact that rent stabilisation measures would have on London's
housing market from the Association of Residential Letting Agents (ARLA)
September 2015**

Background

1. The Association of Residential Lettings Agents (ARLA) was formed in 1981 as the professional and regulatory body for letting agents in the UK. Today ARLA is recognised by government, local authorities, consumer interest groups and the media as the leading professional body in the private rented sector.
2. In May 2009 ARLA became the first body in the letting and property management industry to introduce a licensing scheme for all members to promote the highest standards of practice in this important and growing sector of the property market.
3. ARLA members are governed by a Code of Practice providing a framework of ethical and professional standards, at a level far higher than the law demands. The Association has its own complaints and disciplinary procedures so that any dispute is dealt with efficiently and fairly. Members are also required to have Client Money Protection and belong to an independent redress scheme which can award financial redress for consumers where a member has failed to provide a service to the level required.

Questions

Who is not well catered for currently in London's PRS and why?

4. ARLA believes that the challenge in London remains to find new, imaginative and additional ways of delivering good homes in safe and friendly neighbourhoods for prices people can afford.
5. The growth of the PRS in London and across the UK has been driven by a number of political and regulatory changes. These include the 1988 Housing Act, which abolished rent controls and created short-hold tenancies, the introduction of buy to let mortgages in 1996 and the effect of the 'right to buy' policy on releasing council housing stock into the private market.
6. Already 30% of London's households now live in rented houses with the average cost of housing for under 35 households 76% higher in London compared to the rest of England and Wales. Furthermore, this number will rise as London's population expected to grow by about a million between 2011 and 2021, reaching 10 million in 2031.



7. In addition, private rent still makes up 40% of costs for 35-49 year old householders in London. Coupled with the gap between house prices and income, many low income earners are unable to afford large upfront deposits and fees associated with moving into a private rented property or renewing a tenancy agreement. On top of this some landlords will not rent to people receiving some types of state benefits, which further restricts access to the PRS.
8. For those wanting to buy and move out of the PRS, the typical first time buyer in London is now borrowing nearly four times their income and has to put down a deposit of 25%.
9. Further, demand is shifting away from central London to outer zones as buyers seek affordability. Research from Savills show that as London's centres of employment become more dispersed from the West End and the City, the emergence of new hubs for retail and office development will also boost housing. Some of the areas identified include Tottenham, Euston, Clapham Junction, Old Oak Common, Ilford and Harrow.
10. As well as affordability we think this is also largely because London's population has grown by 14% since 2002 and the number of jobs in London by 15%, but housing stock has only grown by 9%. In 2013, Savills identified a need for an additional 50,000 new homes a year in London to meet growing demand, but according to the Department for Communities and Local Government no more than 20,000 houses have been completed in London per year since 2010.

Which rent stabilisation measures (for example controlling prices and increasing tenancy length) do you think operate effectively in other countries?

11. ARLA does not think that any rent stabilisation measures are operating successfully in other countries.
12. Germany has a large rental sector and is often viewed as the best example of rent stabilisation. However, in Germany where 50% of households and almost 90% in Berlin rent privately most people have to make a large investment in the property through fitting bathroom and kitchen furniture. This is because properties are rented bare and in many cases it is also possible that the responsibility for painting the flat can be passed to the tenant. As a result many people in Germany consider their rented property to be their permanent home, they stay in it for longer, but their costs are increased when they move out.
13. Rents in Germany can be initially freely negotiated and agreed between the tenant and landlord, but landlords can face criminal charges for demanding a rent in excess of 20% above the rent charged for comparable property.

14. Furthermore, all tenancy contracts in Germany contain either a 'graduated rent increase' or an 'indexation' clause. If the contract contains an 'indexation' clause, a landlord benefits from annual rent increases but cannot raise the rent within the initial 12 months of a tenancy and must comply with other obligations. As a result, such clauses are not commonly used. Whereas, 'graduated rent increase' clauses allow landlords to require tenants to accept rent increases to a level comparable with other properties in the area; provided that an increase in rent has not taken place in the last 12 months and that it has not increased by more than 20% in the last three years (in April 2013 the law was changed to permit cities to implement a local cap of 15% over three years). However, the amount by which a landlord could increase the rent would be limited if rents fall across a large percentage of the country. Consequently, negotiation on the rent at the beginning of a contract is immensely important.
15. In Germany leases are indefinite with fixed term contracts only allowed in certain circumstances. Generally the tenant can remain in the property all of their life. However, if the tenant dies the contract passes to the new tenant and the landlord is permitted to give notice and cancel the lease if the new tenant did not already live in the property. Furthermore, on sale of properties the lease also binds the new landlord.
16. Under the German rules the eviction process means that there are very few specific reasons for when the landlord is permitted to evict a tenant. These include if the tenant has rent arrears of three months or more, if they are causing a nuisance, or if the landlord wants to use the property for themselves or a relative to live in. The landlord's notice period in this situation depends on the duration of the tenancy, and is up to nine months. The tenant on the other hand can leave with three months' notice. Tenancies can however be transferred to another tenant with the landlord's permission.
17. Another country example is the existence of one of the most stringent requirements on tenancies in Belgium where they have four kinds of tenancy agreements; short-term (three years or less); nine years (including fixed term agreements between three and nine years); long-term (more than nine years); Lifelong.
18. Where landlords choose to create a short-term contract they cannot be terminated by either party. This can be extended or renewed on the same terms and by the agreement of both the tenant and landlord in writing. However, the total length of the tenancy (combining the initial term and any renewals) cannot exceed 3 years. If a tenant remains in a rented property on a short-term contract for longer than 3 years, the contract will automatically become a 9 year tenancy (that will be deemed to have begun at the start of the initial short-term contract).



Could these work in London? What other measures might we need to adopt to make these measures work here?

19. ARLA believes that any proposals to introduce rent stabilisation measures in London would cripple the capital's housing market. Flexible tenancies and rent prices driven by market forces have led to the success of the private rented sector in London and across the UK.

20. In London where the fluidity of people coming and going for short periods is a common occurrence, longer minimum tenancies (like those in Belgium) lasting between three to five years would cause real problems. Under these types of tenancies there would be fewer tenants moving onto the housing ladder, meaning less property is available to rent. Additionally, when ARLA surveyed members on the issue of longer tenancies in March through our monthly Private Rented Sector Report, almost three quarters of them said that it would result in landlords exiting the market.

21. We also know from our members that landlords appreciate good tenants and would avoid raising rents in order to retain them. In addition, if, for example, rent controls were introduced to rise only with inflation, instead of tenants getting a potential reduction they may be more vulnerable to automatic increases.

22. In order to bring down the cost of renting in London more houses need to be built. The Greater London Authority as well as Transport for London and the National Health Service should release land for residential development and ensure that development works alongside local need.

23. It is also imperative that new developments coincide with infrastructure improvements. The opening of new train and tube lines to new parts of the city will not only increase the supply of housing but provide centres of employment for people to work and build communities. We know from Savills that over the past five years Hackney, Islington and Camden have been some of the hottest housing markets with the number of business units rising by 6,100, which compares to 8,640 across the whole of the North West of England.

What are their advantages and disadvantages?

24. If rent stabilisation measures were introduced we think that landlords would sell their property, diminishing the private rented sector and leaving the market open to foreign investors only.

25. Furthermore, it's likely that landlords would start new tenancies with higher rents to make up for the amount they wouldn't be able to charge during the rest of the tenancy. This



would not be done as a profit making exercise but to ensure that the landlord can pay the mortgage. This would also ensure that landlords could invest in improving their existing property, have capital to invest in new property and help grow the PRS.

26. When we surveyed our members in March through ARLA's monthly Private Rented Sector Report, 74% of them said that rent controls, longer tenancies and less freedom to evict tenants will not benefit tenants in reality.

What effects might these measures have on London's PRS, in terms of:

27. The number of private landlords, the supply of new housing and the quality of housing would all decrease if rent stabilisation measures were introduced into London's PRS. Rent levels would also increase.

What effects might these measures have on the wider London housing market (for example, the impact they might have on the cost and stock of other tenures of housing in London)?

28. Institutional investors who are crucial for building new homes in London could be discouraged to get involved in the PRS and for instance slow the construction of new apartment blocks.
29. In addition, if being a landlord becomes or is perceived to become an unattractive proposition fewer people will be tempted to go into the sector. As a consequence property may switch towards other uses such as offices. Additionally, new developments such as Get Living London have sprung up letting homes direct to residents.
30. It is estimated that there are around 100,000 remaining tenancies in the UK, including in London still under rent control that applied to landlords before the introduction of the Housing Act 1988. Whilst the gap between the rent charges on these properties compared with similar unregulated property near to them underlines just how much private rents have overtaken prices and earnings since the 1980s, the fact that many of these properties are in very poor condition, as it is not in either the landlords or the tenants interest to maintain them, clearly highlights the problems with rent control.

If stabilisation measures were applied in London but not elsewhere, what impact might these have on the London market?

31. One of the main impacts on the London market if stabilisation measures were applied in London but not elsewhere would be the creation of more empty property. Foreign investors would continue to put their money into developments but they may not go to great lengths to rent them out.



Are there any other ways of making better use of our existing PRS stock?

32. It's essential that Housing Enforcement teams are properly resourced to remove rogue landlords and agents from the sector. According to London Property Licensing from 2011 to 2014 there were only 580 housing prosecutions across all London Boroughs. Figures from Shelter show that only 428 landlords from across all of England were prosecuted last year for housing offences. Therefore, it is essential that prosecuting bodies are given the powers to become revenue generators for local authorities rather than revenue drains. The fines collected should be ring-fenced with the money going towards further enforcement.
33. We must sell the benefits of being a better landlord and encourage consumers to use trained and qualified landlords and agents. ARLA has long campaigned for more appropriate regulation of the letting industry. To improve the sector and provide a better service to both landlords and tenants, we believe that all letting agents should be professionally qualified and required to undertake regular Continued Professional Development (CPD). Schemes such as the London Rental Standard (LRS), should be placed on the statute books and made mandatory for every agency. Such regulation will ensure fairness, a level playing field and, we believe, the removal of those agents who bring the industry into disrepute.
34. It's also important that existing landlords who want to expand their property portfolios have new investment channels to tap into and there is a more flexible tax regime putting private landlords on a level playing field with the social rented sector and owner-occupiers.

What more can the Mayor do to support the development of build-to-let and commercial landlords?

35. ARLA believes in maintaining the highest professional standards in the sector and therefore fully supports the aims of the LRS. We have long campaigned for regulation of the private rented sector, and it is crucial we eliminate the small minority of unscrupulous landlords and agents who neglect their responsibilities and bring our industry into disrepute. We would like to see the London Rental Standard become mandatory across the PRS.
36. We also think that the stamp duty raised from London property sales should be kept in London to invest in more housing. This would provide London with a stable funding stream which will support and accelerate the delivering of infrastructure as well as housing.