

Rent caps bring world of difference across major cities

Angela Jameson, Foreign Correspondent, writes from London

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How did Monica afford such a cool Manhattan apartment in the hit comedy series *Friends*? The chances are that while Monica, a chef, was (illegally) sub-letting her grandmother's apartment, it was also subject to rent controls.

Rent controls are one economic instrument that divides opinion the world over. Some think of them as an unnecessary state intervention – practically Communist – while many argue that they are the only way to control rents so that the world's most successful cities can be homes to a genuine mix of people, rather than simply the rich elite.

Having receded in use, except in a small number of countries, rent controls are back on the agenda again, as governments around the world try to put the brakes on booming rents.

At the beginning of June, Berlin, where 47 per cent of residents rent, became the first city in Germany to introduce a cap on what landlords can charge new tenants. Landlords are now barred from raising rents by more than 10 per cent above the local average. Such controls were already in place for existing tenants but now apply to all new contracts. For young Berliners caught up in a rapidly gentrifying city, the move has been welcomed. Reiner Wild, the managing director of the Berlin Tenants' Association, says the move will stop Berlin becoming like London or Paris, where low-income people are forced to live further and further out from the centre of the city.

Rent rules in New York – the ones that made Monica’s flat affordable – have just been extended by New York State’s government for another four years, despite some fears that the regulations would be lifted.

“You have certain voices saying rent regulations should just go away. That is not going to happen any time soon,” says the New York governor Andrew Cuomo.

About one million apartments in New York City are covered by the rules, and the New York City rent guidelines board has just voted to freeze rents for those signing renewals or one-year leases, for a year.

Rents have risen while incomes have remained largely stagnant in New York City. Between 2005 and 2013, median rent rose 11.8 per cent, while median household income rose 2.3 per cent, according to the Furman Center.

In San Francisco, also, there are rent controls on most buildings built before 1979, while newer buildings, condos and single-family homes are not covered. Annual rent increases can only occur on the anniversary of a lease being signed and are linked to inflation. Recent increases have been between 0.1 per cent and 1.9 per cent.

In France, the Socialist government of François Hollande is introducing a new era of rent control next year. They will be imposed on about 28 towns and cities including Paris, Lille, Marseille, Aix en Provence, Saint-Nazaire, Menton, Montpellier, Fréjus and Bayonne.

The new rules allow local area authorities to set average rent limits and if a landlord tries to increase rent by 20 to 25 per cent above average limits, then the prefecture will demand a reduction.

One estimate suggests that a quarter of Parisian rents could fall following the changes.

The proposals have been made during a period when Paris’ and France’s rental markets have been settling down. Paris rents have been flat since May 2012 – in some wealthier areas such as Saint-Germain-des-Prés, they have actually gone down slightly, leaving the average city rent at €30.97 per square metre (Dh126.31) – compared with €9 per square metre in Berlin.

London: After a prolonged period of stagnation, rents in London are also climbing again and, increasingly, Londoners have been arguing that their city should also be subject to rent controls. An online petition now has more than 60,000 signatories.

But Boris Johnson, London’s mayor, is firmly against such a move. This year, when the Labour Party said it would impose rent controls in its election manifesto, Mr Johnson said the policy would worsen London’s housing crisis, by leading to higher rents, fewer homes, and general dilapidation. “Like so much of [the then Labour Party leader] Miliband’s agenda, it means going back to the Seventies,” Mr Johnson said.

Labour’s proposal was actually not as blunt an instrument as a rent cap but it was still rejected, along with the party’s other policies, by a majority of the voters at the general election in May. There seems to be little possibility of the United Kingdom returning to rent controls, even as many more people are now forced into the private rented sector by the soaring cost of houses.

The UK first introduced rent controls in 1915 as an emergency measure to deal with housing shortages caused by the absence of a building workforce due to the First World War. However, they were **abandoned finally in the 1970s because** of falling numbers of available places to rent, dilapidated housing stock and unscrupulous landlords.

Shelter, a UK housing charity, also argues against rent controls. It says the side effects of rent caps, where overall maximum rent levels are set and rental increases to those in contract are limited, can have undesirable side effects such as landlords discriminating on a tenant’s characteristics rather than price, landlords maintaining their margins by neglecting repairs, subdividing apartments to squeeze more people in and finally buy-to-let landlords (with mortgages) being forced out of the market entirely if the capped rent does not pay their borrowings.

The total value of houses in the private rented sector in Britain has risen 11 per cent in the past year to £991 billion, according to the mortgage lender Kent Reliance, and it is climbing. Prime London rents now exceed £100 a day, according to the property investment firm London Central Portfolio (LCP). Across prime central London, LCP says rents have edged up 4.2 per cent over the past year to £602 a week.

Incoming foreign workers, many who work in the City, and increasingly affluent overseas students, are chasing the best-located properties in the prime areas of Knightsbridge, Kensington and Notting Hill.

If tenants like the idea of rent controls, economists rarely do.

“In the 20th century, rent controls in Britain were associated with a collapse in the rental market from 90 per cent of overall properties to just 10 per cent,” says Ryan Bourne, the head of public policy at the Institute of Economic Affairs. “Introducing rent caps would mean fewer people who want to rent would be able to.”

Meanwhile, in Asia, the source of much wealth now flooding into London property markets, there is also concern about rising rents, largely due to property shortages.

Even in the ferociously free-market territories of Hong Kong and Singapore there has been talk that rent controls could be useful because of a housing shortage exacerbated by limited land availability.

“Right now, what we have is an oligopolistic structure, with a small group of players in this market, which makes it prone to price rigging,” says Irvin Seah, the vice president for economic and currency research at DBS Bank, referring to the Singapore property market.

“It is not so much about bringing prices down, but about ensuring that we have a lever on certain scarce resources [such as land].”

China, Japan, Malaysia and Singapore have all lifted rent controls since the early 2000s.

Singapore’s rent controls were repealed in 2001, while Hong Kong’s were lifted in 1998, in the wake of the Asian financial crisis.

Rents in Singapore have recently been falling, according to the property consultancy CBRE, which said in May that it expected rents to decline by 5 to 7 per cent this year, as the supply of new apartments increases.

As rents fall, the clamour for rent caps is likely to ease.

However, with the world’s most competitive and successful cities all facing the same problems regarding housing supply, the idea of controlling these markets with some sort of lever – whether it is planning rules, or rent rules – will never entirely disappear.

business@thenational.ae