Jersey Policy Forum

JPF E-Petition Briefing Pack

Rental price caps law to limit rental prices to reasonable rents (5,298 signatures)

In-Committee Debate - States Assembly

Scheduled for March 12, 2019

Distributed by e-mail to States Members on March 9, 2019

About the Authors

This JPF E-Petition Briefing Pack was prepared by Gailina Liew JPF Executive Director and JPF Associates Jeremy Swetenham and Natasha Matiscsak.

Acknowledgments

We wish to thank Richard and Alice Nunn for hosting the roundtable discussion at The Salvation Army Community Hall in St. Helier, Jersey, on March 7, 2019.

We also thank our volunteers, collaborating partners and supporters who provide time, energy, expertise, services, premises and financial resources to support the Jersey Policy Forum and the work that we do.

How to Use the JPF E-Petition Briefing Pack

Read the **Executive Summary** on Page 5 to see the e-petition statement, key points from our independent review of the evidence and a summary of stakeholder perspectives from our consultation with the Petitioner and with other stakeholders at the JPF E-Petition Roundtable held on March 7, 2019.

The **Diagrams** on Pages 9-12 were created as a result of our independent review of the subject matter of the e-petition and show how different issues and policy areas are related to each other. The numbers within Diagram 2 (Page 10) correlate to the paragraph numbering in Section 2 (beginning at Page 15) and allow you to more easily explore specific issues and the supporting facts. All of the information and data presented in Sections 1, 2 and 3 of this briefing pack has been gathered from public sources and is referenced in Section 6.

The **Expert's** biography is at Page 38 and her Presentation content can be found at Pages 39 to 44 (Slides) and Pages 45 to 50 (Transcript).

See the **Table of Contents** on Page 4 to locate further information you may wish to explore.

Jersey Policy Forum

About the Jersey Policy Forum (JPF)

The Jersey Policy Forum is an independent think tank and is working to create a knowledge partnership for Jersey's future. It does not engage in advocacy and is politically neutral.

The Jersey Policy Forum's purpose is to encourage and promote civic engagement to realise Jersey's potential as an advanced small island state. JPF brings relevant evidence and people from diverse backgrounds and experiences together to connect with each other, engage in discussion, and share ideas on public policy, to stimulate better informed and more collaborative action.

About the JPF E-Petition Briefing Pack

The Jersey Policy Forum was invited by the States Greffe to provide independent support on a pilot basis for the e-petition framework that was recently launched by the States of Jersey.

This JPF E-Petition Briefing Pack has been created to provide an independent summary of evidence and stakeholder perspectives to inform States Members and the public about the subject of the first e-petition to be scheduled for debate in the States Assembly. This work was done by JPF at no cost to the States of Jersey.

We hope that this type of work will help to encourage broader civic engagement, inform and stimulate debate that will encourage collaboration and sharing of information and perspectives amongst government, business and civil society to co-create appropriate solutions to address societal challenges.

Comments on the utility and content of this briefing pack are welcome by email to contact@jerseypolicyforum.org.

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Table of Contents

Executive Summary

In-Committee Debate Topic – First E-Petition to be debated in States Assembly

> ***Rental price caps law to limit rental prices to reasonable rents***
> *A law to limit rental prices is required in Jersey in my opinion.*
> *Rents are far too high. Rents should be around 30% of people's salaries.*
> *The present rents are causing rent distress in individuals and businesses to close.*

Key Evidence

- 73% of households in private qualified rental accommodation and 53% of households in non-qualified rented housing are under rental stress (from 2015)
- Since 2009/10, mean and median household incomes have increased by less than inflation (as measured by the Retail Price Index)
- Median equivalised household income after housing costs decreased (in nominal terms) for those living in non-qualified and social rental accommodation since 2009/10
- The average household income (after housing costs) of those in the lowest quintile decreased by a sixth (17%) in nominal terms over the last five years
- The benefits and tax system improve income inequality; housing costs almost completely offset this improvement
- Income inequality has increased since 2009/10, particularly after housing costs are included
- After housing costs, households comprising one-parent with dependent child(ren) had the lowest equivalised median income, followed by working-age adults living alone and pensioner households
- Over the next three years, the total potential shortfall of over 1,500 dwelling units is predicted with a potential surplus of larger homes (more than 2-bedrooms) as the population ages
- The Objectively Assessed Housing Need for Jersey over the Island Plan period 2021-2030 is at least 7,010 dwellings plus around 520 bed-spaces in nursing/residential care accommodation and identified supported housing need

Summary of Output from Expert and Stakeholder Consultation

- This e-petition is bringing a serious issue to light that affects the majority of low income households and is also increasingly affecting higher income households living in all categories of rental accommodation on Jersey
- There is a critical problem with affordable housing supply on Jersey and this needs to be addressed urgently for both current and predicted shortfalls as Jersey’s population continues to grow and change in make-up

- The supply and demand dynamics for different categories (non-qualified, social and qualified private) of housing are different and proposed solutions need to appreciate and accommodate these differences

- Increasing availability of social housing to broader population has worked well for other jurisdictions and may be worthwhile to explore for Jersey

- Commitment of land, conversion of vacant buildings and planning permission for higher density housing are urgently needed

- Rent stabilisation (not rental caps in isolation) and a range of other regulatory and policy levers should be considered to address housing affordability in the short to medium-term

- A strong political statement of sustained commitment to provide decent housing for everyone on Jersey within their means is critical as guiding principle for further policy development

- Ongoing engagement with all stakeholders to understand specific concerns and co-create appropriate solutions is also critical to guide effective policy development

Introduction and Timeline

The following e-petition was lodged on August 13, 2018 and received 5,298 signatures of support over the six month period that it was live:

> ***Rental price caps law to limit rental prices to reasonable rents***
> *A law to limit rental prices is required in Jersey in my opinion.*
> *Rents are far too high. Rents should be around 30% of people's salaries.*
> *The present rents are causing rent distress in individuals and businesses to close.*

On September 19, 2018, the following ministerial response was issued after the e-petition had gathered 1,000 signatures of support:

> *The Minister for Housing recognises that the cost of housing is a challenge for many households in Jersey. 73% of lower-income household living in qualified private rented accommodation could be considered in 'rental stress', with some families paying over half of their income in housing costs.*
>
> *The Income Distribution Survey 2014/15 showed that the cost of housing was the single biggest contributory factor for relative low income.*
>
> *The Minister is determined that this government must pursue policies that will improve the standard of living for islanders, including making housing more affordable across all sectors – owner-occupied, social rented and private rented housing.*
>
> *Legislating to cap rents at a particular level is just one option, however it has shown limited success when it has been used previously in Jersey and in other jurisdictions. There are many other options to improve the affordability and quality of housing that must be considered too.*
>
> *The Chief Minister intends to establish a Policy Development Board to look at the affordability of housing. The Minister for Housing intends to work with this board to explore in detail the options for improving housing affordability, including the formula for calculating rents in the social housing sector.*
>
> *Ongoing work to improve housing affordability will include:*
>
> *- The introduction of the Public Health and Safety (Rented Dwellings) Law 2018, which will provide a mechanism to ensure that properties in the rental market meet minimum standards, so that no tenant is having to pay rent to live in a substandard property.*
>
> *- Measures to improve transparency in relation to the fees and charges tenants are required to pay when letting a property. The Tenant Fees Bill in the UK will, if adopted, prevent landlords and letting agents from requiring tenants to pay certain charges. The Minister is actively considering the introduction of similar measures here.*
>
> *- Expanding the Discrimination (Jersey) Law 2013 to protect against discrimination in the rented sector for tenants with children.*
>
> *- Consideration of 'rent stabilisation' measures that require landlords to provide longer leases with no above-inflation rent increases permitted.*

- Improving the supply of housing, with more than 1,000 affordable homes being built between now and 2020.

- Examining ways to bring long-term vacant properties back into use as homes and measures to tackle under-occupation.

- Exploring additional schemes to support assisted home ownership.

- Exploring the introduction of a moratorium on buy-to-let properties by unqualified persons on new developments.

In relation to commercial rents, the Minister for Economic Development, Tourism, Sport and Culture, while recognising the challenges faced by many businesses in Jersey, believes that rents are a function of the market and is not minded to introduce rent controls that might negatively impact on the supply and quality of commercial premises.

On February 13, 2019, States Members decided that an in-committee debate on this e-petition would be held in the States Assembly on March 12, 2019.

On February 13, 2019, the States Greffe invited the Jersey Policy Forum to prepare a briefing pack for States Members that would include an independent summary of evidence related to the e-petition and a summary of the output gathered from a JPF-facilitated roundtable discussion with interested stakeholders.

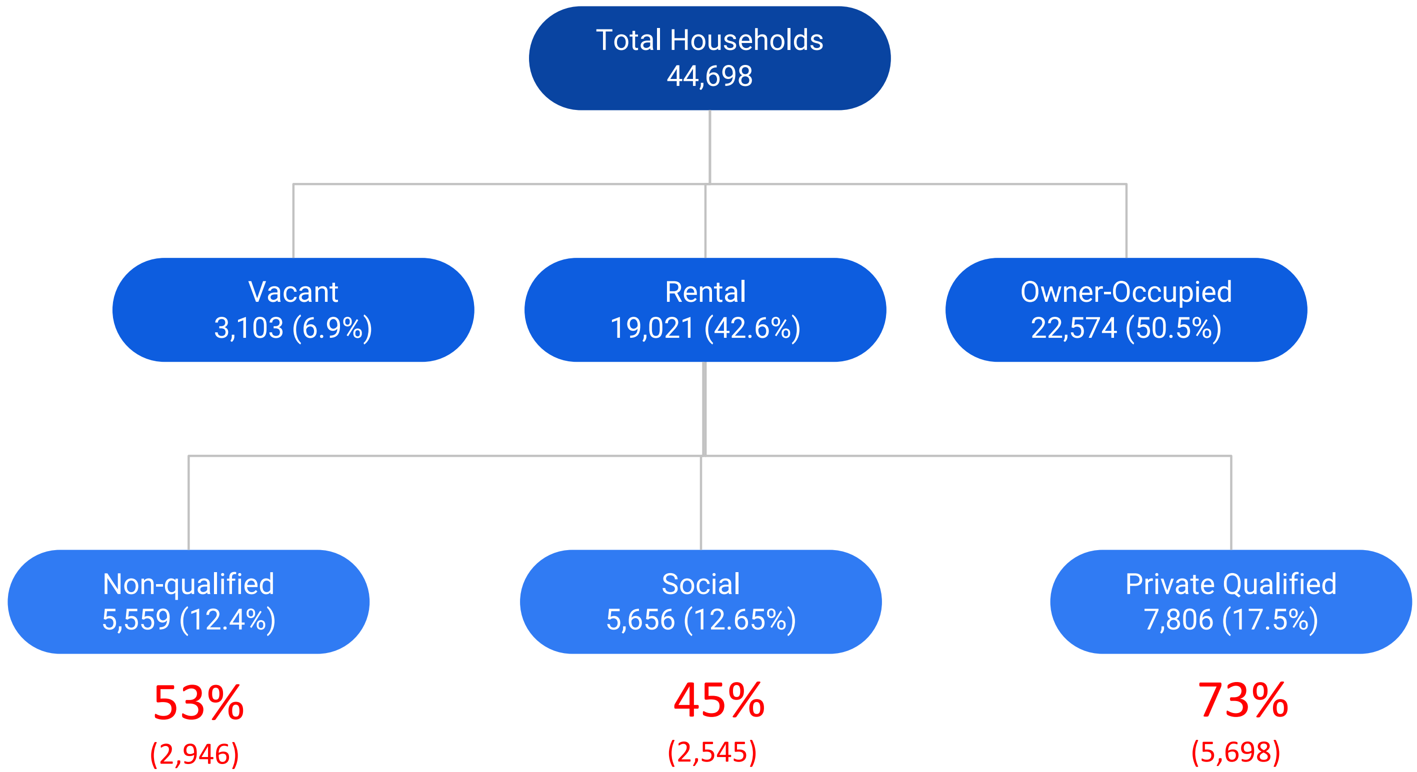
On March 7, 2019, JPF Executive Director facilitated a roundtable discussion to gather stakeholder perspectives on the e-petition subject matter in St. Helier, Jersey, from 12 noon to 2 pm. A leading expert, Christine Whitehead OBE, LSE Professor Emeritus in Housing Economics, was invited to present an international review of evidence on the use of rent control. The roundtable discussion was held under the Chatham House Rule and the 25 participants included policy officers, landlords, agencies working with vulnerable people, social housing and temporary shelter providers, developers, undergraduate students, business people and interested individuals.

Consultation with the Petitioner was conducted over the period March 3 to 8, 2019, by telephone, text and email. The Petitioner was invited but did not attend the JPF Roundtable on March 7, 2019.

On March 9, 2019, this JPF E-Petition Briefing Pack was circulated to States Members by email.

Diagram 1

Jersey Households and Rental Stress (30/40 Method)



Percentage of households under rental stress in each rental housing category

Diagram 2

Affordability of Rental Housing
and Dynamics of Supply and Demand

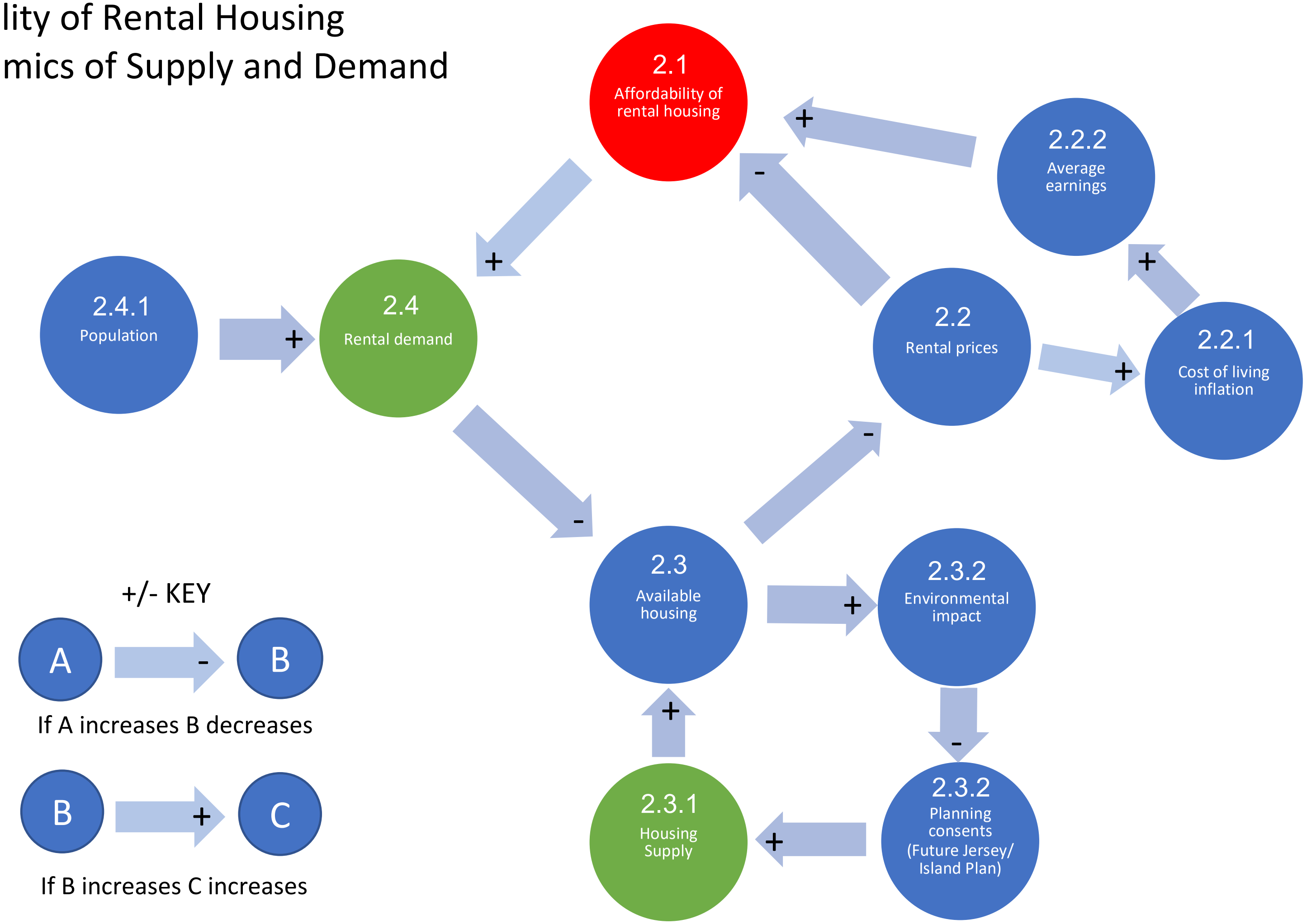


Diagram 3

Potential Impacts of Rent Control Approaches

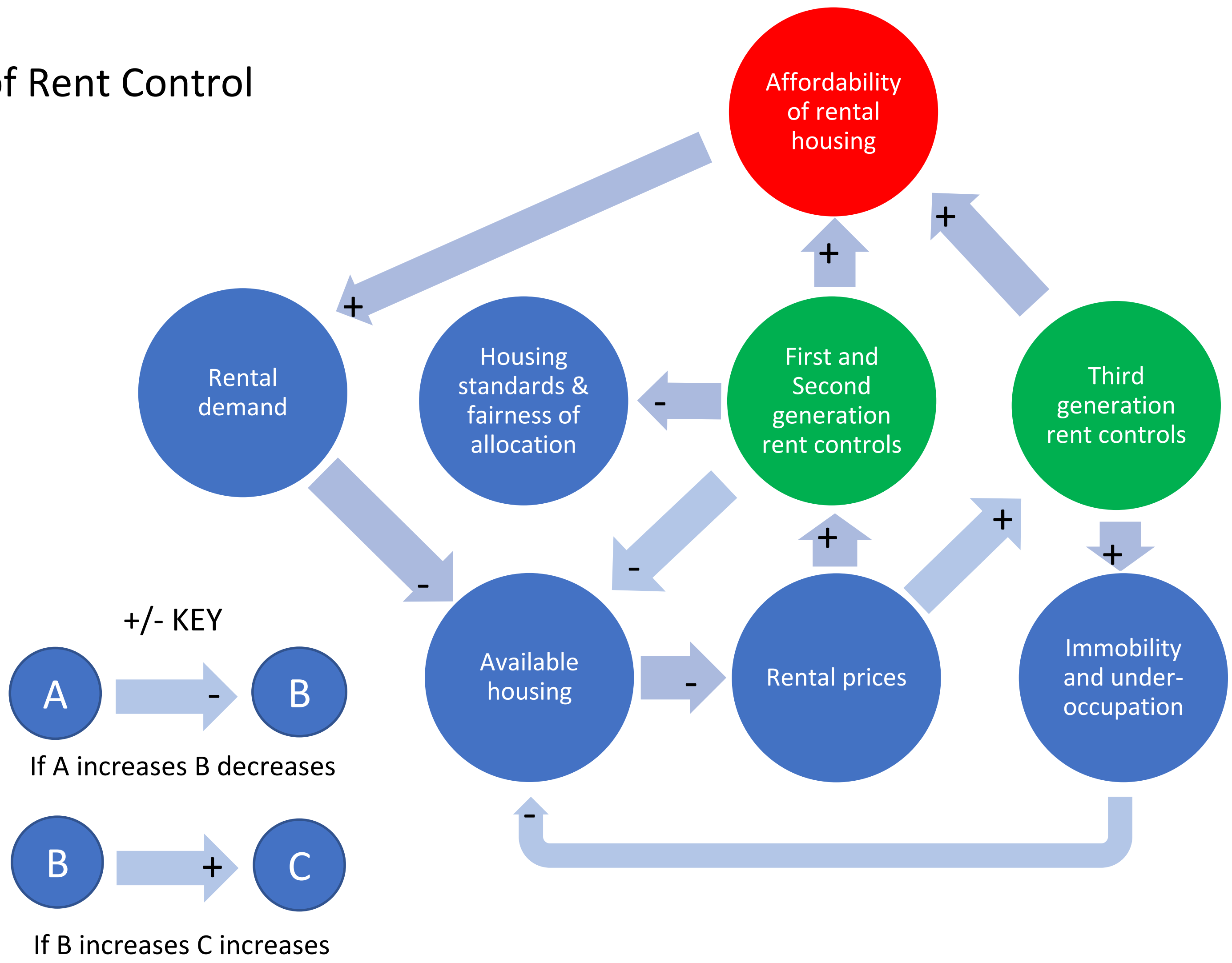
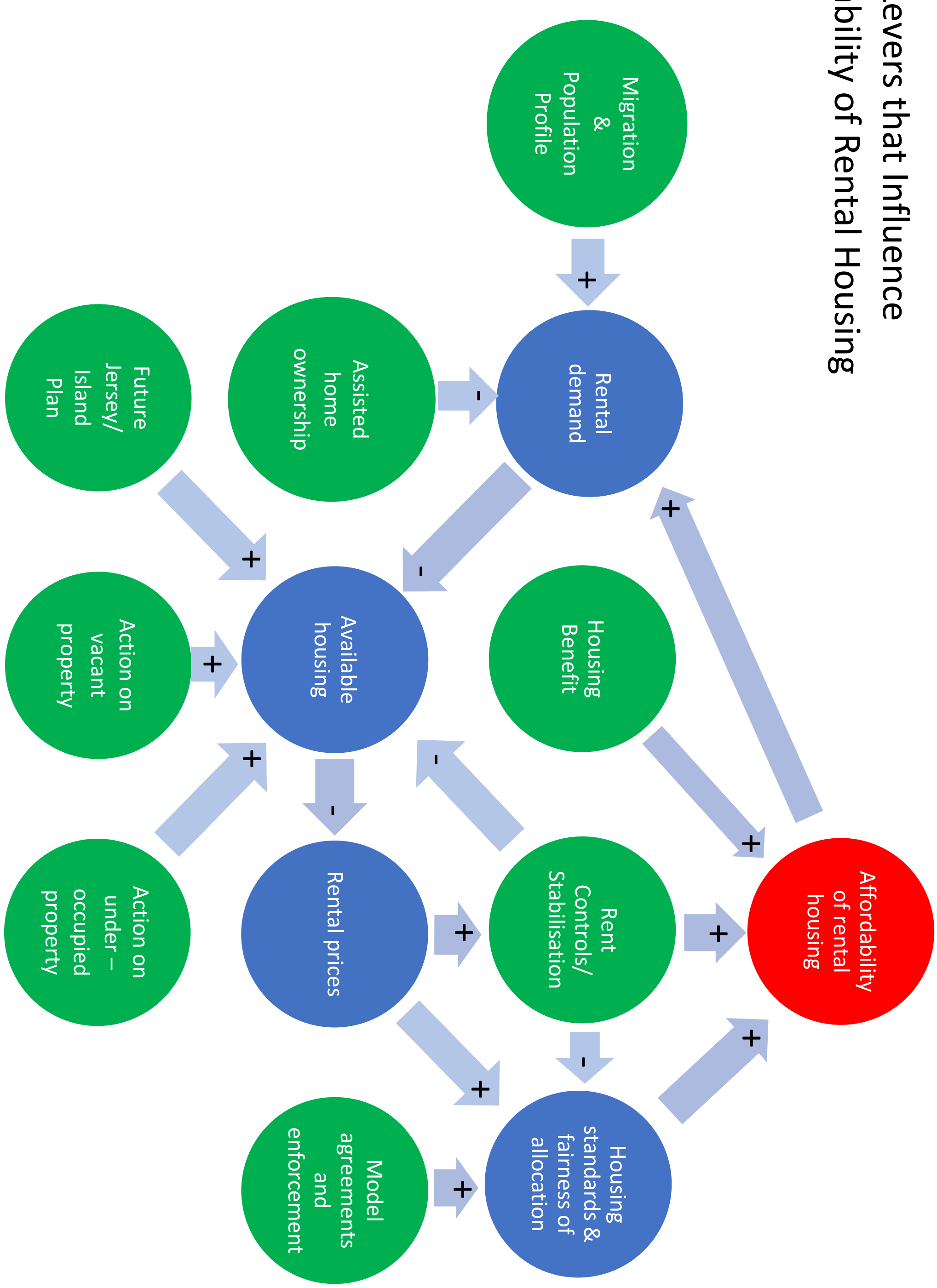


Diagram 4

Policy Levers that Influence
Affordability of Rental Housing



Section 1 – Rental Stress and Jersey Households

1.1 Definition of Rental Stress

Jersey has adopted the 30/40 method as an indicator of rental stress. It looks at the household income distribution for a jurisdiction and focuses on households in the lowest 40% of the distribution curve and measures what proportion of these households spend more than 30% of household income on housing costs.

This methodology was introduced in the early 1990s by the Australian federal government to recognize that households in the upper part of the income distribution curve (above 40%) may choose to spend more than 30% of household income on housing costs and still have sufficient funds for other expenses such as food, healthcare, education and savings.

1.2 Jersey Households and Rental Stress

In 2015, there were 44,698 households in Jersey. Of those, 3,103 (6.9%) were vacant, 22,574 (50.5%) were owner-occupied and the remaining 19,021 (42.6%) were rental accommodation. Using the 30/40 method, 11,189 (58.8%) of households in rental accommodation were under rental stress.

See Diagram 1 – Jersey Households and Rental Stress - for a more detailed breakdown by category of housing and the proportion under rental stress according to the 30/40 method.

1.3 Key Jersey Data

The Jersey Income Distribution Report for 2014/2015 shows:

Table 1.3: Mean household income, before and after housing costs, by tenure

	BHC £ per week	AHC £ per week	% of BHC income spent on housing
Owner occupied, with mortgage	1,270	1,130	*12*
Owner occupied, without mortgage	870	860	*1*
Qualified rental	750	500	*32*
Social rental	510	330	*36*
Non-qualified accommodation	660	460	*30*
All households	***860***	***720***	***16***

- Around a third of household income was spent on housing costs by households living in the different categories of rented accommodation (including rental properties in the qualified, social housing and non-qualified sectors).

In 2018, the Jersey earnings and income statistics data indicates that the bottom 40% of households were earning £30,900 (annual net equivalised income before housing costs (BHC), £23,900 annual net equivalised income after housing costs (AHC)) or less. (Equivalised income is individual household income adjusted for the number and age of people within a household.)

In 2018, the Jersey House Price Index reported that:

- rental prices in Jersey increased by 4% during the year ending Q4 2018 compared with the year ending Q3 2018;
- rental prices were 2% higher than in the previous quarter (Q3 2018); and
- rental prices were 18% higher than in corresponding quarter of 2017 (Q4 2017).

As of December 2018, the Retail Price Index was 3.9% in Jersey. In comparison, according to OECD (2017), the United Kingdom's inflation is sitting at 2.6%, whilst the European Union is at 1.7%.

As of April 2019, the minimum wage in Jersey will rise from £7.50 to £7.88 (Employment Forum, 2018). This will continue to rise, and in October 2019, the minimum wage will be £8.02.

In January 2019, arc4 published their report on Jersey's Objectively Assessed Housing Need (OAHN). The OAHN for Jersey over the Island Plan period 2021-2030 is at least 7,010 dwellings plus around 520 bed-spaces in nursing/residential care accommodation and identified supported housing need.

The main factor affecting household projections in Jersey is not just net migration, but also an ageing population, which means that the average size of households is falling (headship rates). The outcome is that even with a nil-net migration scenario, the demand for homes will continue to rise as the average household size continues to fall.

Section 2 – Affordability of Rental Housing and Dynamics of Supply and Demand

Diagram 2 numbering correlates to the following paragraph numbers

2.1 Affordability and Rental Stress

In 2015, almost three-quarters (73%) of lower-income households (bottom 40%) living in qualified private rental accommodation were considered to be in ‘rental stress’, the highest proportion of all rental tenure categories in 2015. Over half (53%) of lower-income households living in non-qualified rental accommodation were also considered to be in ‘rental stress’.

See Diagram 1 for a more detailed breakdown by household type.

2.2 Rental Prices

(2002 = 100, non-seasonally adjusted)

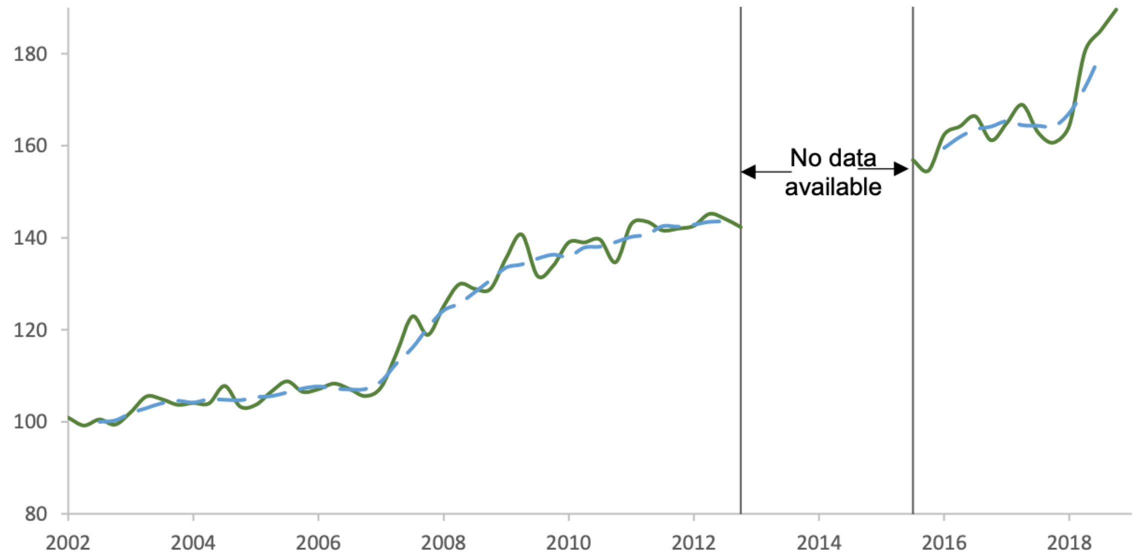


Table above: Jersey Private Sector Rental Index, Q1 2002 to Q4 2018
(Jersey Statistics, Jersey House Price Index (Fourth Quarter), 2018)

Key Statistics:

The 2018 Jersey House Price Index reports:

- rental prices in Jersey increased by 4% during the year ending Q4 2018 compared with the year ending Q3 2018
- rental prices were 2% higher than in the previous quarter (Q3 2018)
- rental prices in Q4 2018 were 18% higher than in corresponding quarter of 2017 (Q4 2017)
- the Jersey House Price Index was 7% higher than in 2017
- the latest annual increase of the Jersey House Price Index was the highest for 10 years

2.2.1 Cost of Living (Inflation)

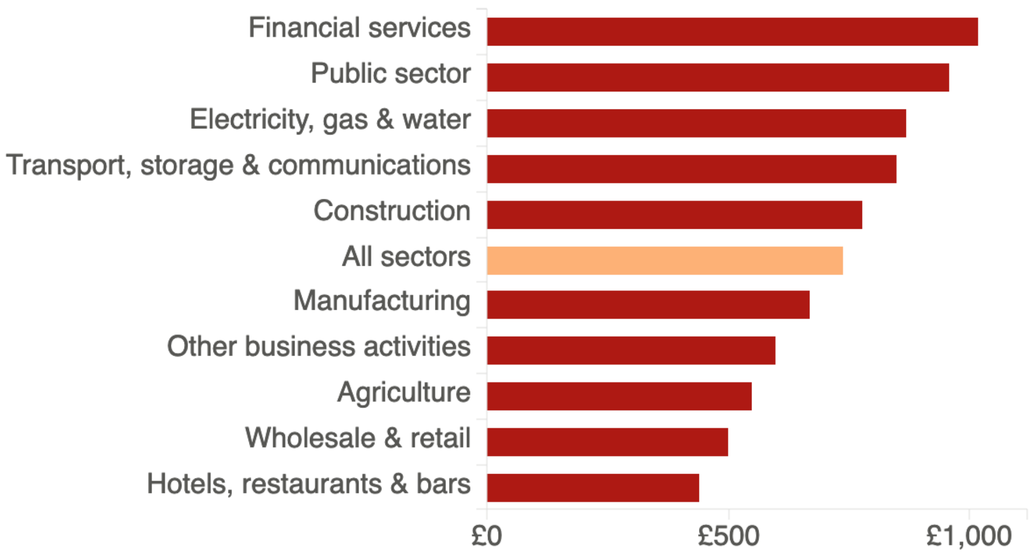
Retail Price Index (RPI) (2018) is the main measure of inflation in Jersey. It measures the average change in prices of goods and services purchased by households and is sometimes referred to as the 'cost of living'. As of December 2018, the RPI was 3.9% in Jersey. In comparison, according to OECD (2017), the United Kingdom's inflation is sitting at 2.6%, whilst the European Union is at 1.7%. Essentially, the rate of inflation in Jersey over the twelve months to December 2018 was almost double that of the comparable measure for the UK, and almost 250% of the European Union.

Housing costs overall (rental and purchase) rose by 5.6%, on average, over the year to December 2018, contributing +1.1% to the annual change of the RPI (Statistics Unit, 2018). The key drivers were rents in the private sector and the increased cost of house purchase, the latter due to higher mortgage interest payments following the increase in the Bank of England base rate in August 2018 and residual effects of the rate rise in November 2017.

2.2.2 Average Earnings

According to the States of Jersey, the median average weekly earnings for full time employees in Jersey was £590 per week (States of Jersey, 2018).

Average weekly earnings per full time equivalent worker by sector in June 2018:



Summary of Household Income Distribution (2014/15) in Jersey:

Key Statistics:

- Households living in rental accommodation (including the qualified, social and non-qualified sectors) spent, on average, around a third of their income on housing costs
- Since 2009/10, mean and median household incomes have increased by less than inflation (as measured by the Retail Prices Index)
- Median equivalised household income after housing costs decreased (in nominal terms) for those living in non-qualified and social rental accommodation since 2009/10. The decrease in household incomes for certain groups was driven by:

- o a reduction in employment income, particularly for those aged under 40 years and those in non-qualified accommodation, and
- o an increase in housing costs for those in rental accommodation (particularly qualified and social renters)

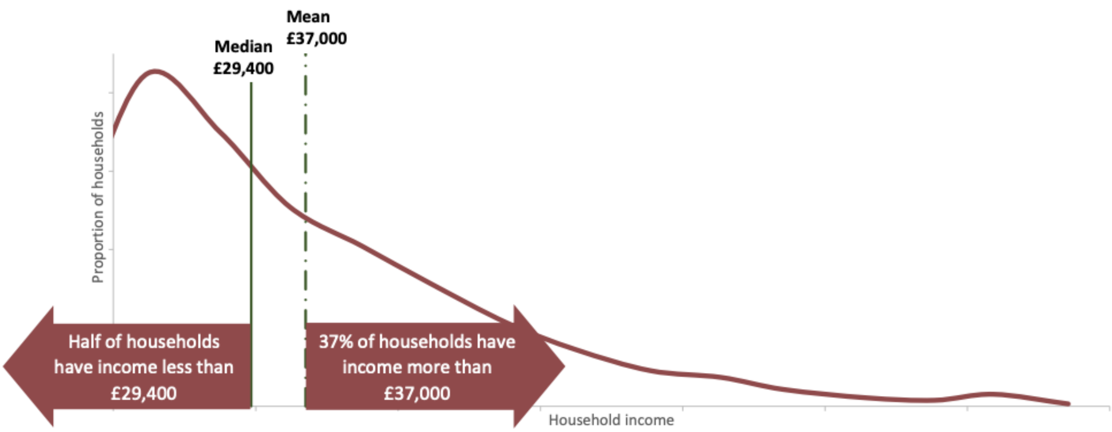
- The average household income (after housing costs) of those in the lowest quintile decreased by a sixth (17%) in nominal terms over the last five years
- The benefits and tax system improve income inequality; housing costs almost completely offset this improvement
- Income inequality has increased since 2009/10, that is the distribution of household income has become more unequal, particularly after housing costs are included
- Income inequality was worse in Jersey in 2014/15 than in the UK

Minimum wage:

As of April 2019, the minimum wage in Jersey will rise from £7.50 to £7.88 (Employment Forum, 2018). This will continue to rise, and in October 2019, the minimum wage will be £8.02. According to the Trust of London (2018), as of April 2018 the 'national living wage' (also known as the National Minimum Wage) is £7.83 for the United Kingdom. Whereas in London, the London Living Wage is £10.55.

Mean Household Income:

To illustrate the skewness of the income data, nearly two-thirds (63%) of households had an income, after housing costs, below the mean average, whilst just over one-third (37%) had an income above the mean.



Mean household income, before and after housing costs, by tenure

	BHC £ per week	AHC £ per week	% of BHC income spent on housing
Owner occupied, with mortgage	1,270	1,130	*12*
Owner occupied, without mortgage	870	860	*1*
Qualified rental	750	500	*32*
Social rental	510	330	*36*
Non-qualified accommodation	660	460	*30*
All households	***860***	***720***	**16**

- Around a third of household income was spent on housing costs by households living in the different categories of rented accommodation (including rental properties in the qualified, social housing and non-qualified sectors)

Median Equivalised Household Income by Household Type:

	BHC £ per week	AHC £ per week
Pensioner households	540	490
One-parent with dependent child(ren)	530	310
Couple with dependent child(ren)	720	600
Couple – no children	850	710
Working-age adults living alone	640	450
Other	800	750
All households	***680***	***560***

After housing costs, households comprising one-parent with dependent child(ren) had the lowest equivalised median income, followed by working-age adults living alone and pensioner households. Couples with no children had the highest equivalised median household income.

Median Equivalised Household Income by Tenure:

Households living in social rented accommodation had the lowest median equivalised income before and after housing costs, at £470 and £280 per week, respectively. Once housing costs were taken into account, the median equivalised income of non-qualified and qualified rental households were similar, at just over £400 per week. Owner occupied households with a mortgage had the highest median equivalised income both before and after housing costs (£1,010 and £890, respectively).

	BHC £ per week	AHC £ per week
Owner occupied, with mortgage	1,010	890
Owner occupied, without mortgage	680	670
Qualified rental	650	440
Social rental	470	280
Non-qualified accommodation	560	420
All households	***680***	***560***

2.3 Available Housing

Jersey's high rental prices are primarily driven by the "free" market effects of demand chasing inadequate supply. Demand and supply also differ between the two different markets for those registered/entitled for work and those licenced/entitled.

The Future Jersey long-term vision for Jersey states:

Affordable, quality housing is a key part of Jersey's physical, economic, and social fabric. High demand for, and insufficient supply of, housing can result in a range of negative consequences, including:

- *a lack of housing choice*
- *poor-quality, unhealthy and overcrowded housing*
- *declining affordability and home ownership*

These factors have a proven knock-on effect on many aspects of people's quality of life, including physical and mental wellbeing, financial security, work/life balance, educational achievement and life satisfaction (States of Jersey, 2019).

2.3.1 Housing Supply

According to the Housing Strategy (2016), the Minister for Housing wants "Jersey to be an inclusive place to live with suitable, high quality housing available to all residents. It should support a thriving economy by offering security, promoting health and wellbeing and reduce its impact on the environment. We need to tackle housing inequality by promoting access to quality housing which will in turn help bring about a society that values everyone." The Housing Strategy also states that they are "investigating ways to make more vacant properties available to the market". As of 2011, 7% of all private dwellings were vacant (3,103 dwellings) (States of Jersey, 2018).

The States of Jersey Statistics Unit (2016) have developed a population model which can generate estimates for the size of the resident population up to 2065, and household projections for each year up to 2035. These are based on changes in household structure that were seen between the 2001 and 2011 censuses, such as an increasing proportion of adults living in single person households. Using this model, and based upon the current planning assumption for net annual migration of 325 people, which equates to an additional 150 households per year, it is estimated that an additional 8,000 households will be formed by 2035. Since 2002, more than 6,500 homes that have been built, of which 63% have been classed as open market and 37% as affordable housing (Housing Completions by Type 2002-14). Over this period the annual average building rate has been over 450 per year.

However, Future Jersey (2019) reports that:

"the supply of housing to meet the demand has been inconsistent. The revised Island Plan made provision for 3,630 new homes between 2013 and 2020 – by the end of 2017, 1,488 of these homes had been completed. Projected supply between 2018 and 2020 includes 950 Category A homes and 941 Category B homes, which would address the current shortfall. Market conditions are a key factor in determining whether private developers choose to seek, or act upon, planning permissions.

In addition, if Jersey is to raise living standards in the future through higher economic and productivity growth, this might increase demand for housing and add to pressure on prices for any given level of supply.

Although the latest figures showed a slight downturn in numbers, from 328 new homes in 2016, to 301 in 2017, this included a temporary net loss of affordable homes - due to the redevelopment of Andium sites - and a net increase of 400 open market homes.

The mismatch of supply and demand is aggravated by inefficient use of existing housing stock, with many properties being under-occupied or remaining vacant in the long-term."

2.3.2 Planning Consents and Environmental Impacts

According to the Housing Strategy (2016), Jersey needs to improve housing standards and the communities and environment where people live. Factors to consider include good design, modern space standards and better energy efficiency to ensure that housing is resilient to future climate change. Investing in the renewal of the ageing social housing estates, delivering new and proportionate regulation to help the social housing sector grow and flourish while promoting best practice in the private sector might be considered as well.

Jersey's land area of 46mi² requires careful planning and management to accommodate a growing population. Environmental and planning policies should also be joined up in the consideration of housing affordability and the housing debate.

The population density on Jersey is 2,121.2/sq mi (United Nations, 2017). By comparison, the population density of the United Kingdom is 701.1/sq mi (2017).

As of 2014 there were 121,551 registered vehicles on the island (States of Jersey, 2015), a figure that exceeds the number of people living on Jersey.

2.4 Rental Demand

Social and Private Housing:

According to the 2011 Census, of the 41,595 households in Jersey; 22,574 (54%) were owner occupied; 5,656 (14%) were States, housing trust or parish rent; and 7,806 (19%) were qualified private rent. The other 5,559 households were mixed types of accommodation.

Breakdown of Household Type by Tenure

Household type	Owner occupied	States, housing trust, parish rental	Qualified rental	Staff or service accom.	Registered lodging house	Private lodging	Other non-qualified accom.	All
Single adult	2,540	950	2,270	440	270	400	750	**7,600**
Couple (adult)	3,420	240	1,550	280	190	260	720	**6,660**
Single parent (with dependent children)	500	780	340	20	10	40	80	**1,770**
Single parent (all children 16 years or above)	760	490	200	10	10	10	20	**1,500**
Couple with dependent children	4,610	780	1,340	210	100	160	570	**7,770**
Couple with children (all children 16 years or above)	2,250	390	300	70	10	10	40	**3,070**
Couple (one pensioner)	1,000	120	160	20	~	10	20	**1,320**
Single pensioner	2,770	1,380	600	30	10	30	40	**4,860**
Two or more pensioners	3,200	370	270	20	~	10	40	**3,910**
Two or more unrelated persons	380	20	350	80	30	70	130	**1,070**
Other	1,150	140	430	100	20	80	150	**2,070**
All	**22,570**	**5,660**	**7,810**	**1,270**	**650**	**1,070**	**2,560**	**41,600**

5% more of the population resides in qualified private rental when compared to social rental housing overall (States, housing trust or parish rental). More single pensioners (1,380) are in social rental than any other group. Whereas, single adult (2,270) makes up the majority of qualified private rental, followed by couples with no children (1,550) and couple with dependent children (1,340).

Supply and Demand of Private and Social Housing:

According to the Jersey's Future Housing Needs – update (2016 – 2018) and the Social Housing in Jersey: Introduction of a Regulatory Framework (2017):

- Approximately 5,800 households in Jersey are currently living in social housing, which equates to 14% of the Island's total housing stock. This figure is expected to increase to more than 6,800 by 2020 as new social housing is built in the years ahead
- there is a potential shortfall of almost 1,500 units in the owner-occupier sector and in particular there is a large potential shortfall of 2-bedroom properties in this sector
- the overall supply of social housing is essentially the same as the potential demand
- the overall supply of private rental properties is essentially the same as the potential demand however there is a potential shortfall of over 300 2-bedroom units
- under the revised level of net migration, overall supply of registered accommodation is essentially the same as the potential demand, however there is a potential shortfall of over 200 registered 1-bedroom units
- when practical affordability criteria are applied, the potential shortfall of owner-occupier properties is substantially reduced; there remains a potential shortfall of over 700 properties in the qualified sectors, largely as a result of increased shortfalls in the private rental sector

In respect of net migration:

- the potential surpluses and shortfalls in the qualified tenures of accommodation (available to those with entitled and licensed residential qualifications) are only lightly impacted by the level of net inward migration during the next three years
- in order to avoid an overall net shortfall of registered accommodation, net inward migration would need to be at or below 1,000 per annum over the next three year period
- in order to avoid a shortfall of 1-bedroom registered accommodation, net inward migration would need to be at or below 700 per annum over the next three year period
- if the level of net migration continued at the +1,500 rate experienced in the most recent year, there would be a net shortfall of almost 500 units of registered accommodation

Potential Surpluses and Shortfalls within each Category of Dwelling:

The overall net shortfall of 1,400 dwelling units comprises a small surplus in 2- bedroom flats together with larger houses and shortfalls in smaller houses and 1- and 3 or more bedroom flats.

Type / size		**Total supply**	**Total demand**	**Surplus**	**Shortfall**
Flat	1 bed	3,610	3,740	..	(130)
	2 bed	2,230	2,160	80	..
	3 bed or more	190	450	..	(260)
House	1 bed	230	310	..	(80)
	2 bed	970	2,150	..	(1,180)
	3 bed	2,320	2,300	30	..
	4 bed or more	1,310	1,160	150	..
	Total	**10,860**	**12,260**	**260**	**(1,660)**

Over the next three years:

- the sum of all potential shortfalls is over 1,500 dwelling units
- there is a large potential shortfall of 2-bedroom houses
- potential surpluses appear for larger sized houses

Under current migration trends, during the next three-year period (2016-2018):

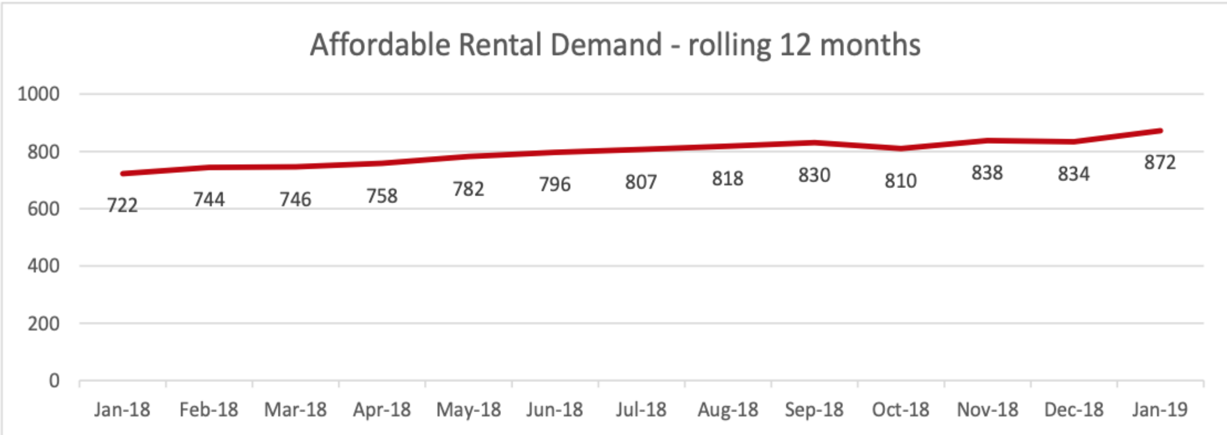
- almost a third (33%) of the total demand for housing will be from in-migrant households who arrive in the Island in these three years
- over two-thirds (69%) of the demand from such newly arriving in-migrant households will be focussed in the registered sector, corresponding to about 2,860 units
- almost three-fifths (58%) of newly arriving in-migrant households will live in 1-bedroom accommodation, predominantly in the registered sector

Although there is also demand from in-migrant households for accommodation in the qualified tenures (primarily from licensed households), the potential shortfalls and surpluses in the owner-occupier, social housing and entitled/licensed private rental categories are relatively insensitive to the level of net migration in the short-term.

Affordable Housing Gateway:

The States of Jersey manage a waiting list for everyone who is registered for social housing in Jersey. They then share this list with social housing providers:

- Andium Homes
- Jersey Homes Trust
- Les Vaux Housing Trust
- Clos du Paradis Housing Trust
- FB Cottages Housing Trust
- Christians Together in Jersey Housing Trust



2.4.1 Population

Key statistics:

Population: estimated to be 105,500 as of 2017 (States of Jersey, 2017)

The latest reports from 2017 show that:

- During the past 10 years, the resident population has increased by 11,500 people
- Net migration has accounted for around three-quarters of the population growth over the past 10 years
- In 2017 alone, the population increased by 1,300 (migration accounting for 1,200 of those)
- The number of people over 65 will nearly double by 2035
- The number of people over 85 will nearly triple by 2035

According to the Housing Strategy (2016), understanding future housing needs is fundamentally derived from estimating and modelling the future size and make up of the population, together with household size, income levels and other variable factors – such as length of time living in Jersey.

The main factor affecting household projections in Jersey is not just net migration, but also an ageing population, which means that the average size of households is falling (headship rates). The outcome is that even with a nil-net migration scenario, the demand for homes will continue to rise as the average household size continues to fall.

Recent population figures show that the total annual rate of growth is around 900 people per year and net immigration levels are around 600 per year. This is higher than the current planning assumption adopted by States Departments when planning services of net migration of 325 people per year. As to other areas of housing, they are relatively insensitive to the level of net migration in the short-term and medium term because of the system of housing qualifications operated by the Island.

Section 3 – Rent Control

3.1 Key Terms

Rent Control – a broad term that refers to the use of laws and regulation to limit rental prices in a free market. Different levels of intervention have been used:

> **First Generation:** often referred to as ‘hard’ rent control or a “cap”. As noted by Christine Whitehead (2018), “it restricts the level of rents across either the whole of the private rented sector, or a separable and defined element of it, which can lead to a significant fall in real rents if rents cannot be adjusted upward to offset inflation and increasing housing costs. They also generate incentives for landlords to leave the sector, especially if there are related but uncontrolled sectors such as owner-occupation on the one hand and lodgings on the other to which the properties can be transferred. Further they reduce the incentive to invest in repair and improvement. On the other hand, they give tenants an incentive to stay even when their housing needs change and give both landlords and potential tenants an incentive to avoid and evade the law.” First generation rent controls were imposed in New York City and across much of Europe after World War II but is hardly found anywhere now.
>
> **Second Generation:** limits price increases within and between tenancies, (new tenants pay market rate rent, but increases are limited as long as they remain). Second-generation rent controls commonly permit automatic percentage rent increases related to the rate of inflation. They also often contain provisions for other rent increases: cost pass-through provisions which permit landlords to apply for rent increases above the automatic rent increase, if justified by cost increases; hardship provisions, which allow discretionary increases to assure that landlords do not have cash-flow problems; and rate-of-return provisions, which permit discretionary rent increases to ensure landlords a "fair" or "reasonable" rate of return. The objective of second-generation rent control is to allow some mitigation of cost increases for landlords and thus reduce the incentives for them to under-maintain their properties, while retaining some limits on the size of rent increases in order to help tenants in markets typically characterised by shortage.
>
> **Third Generation:** According to Whitehead (2018), “under third-generation rent control, rent increases are regulated within an individual tenancy but are either unregulated between tenancies or regulated under a more generous regime. In its pure form, third-generation rent control implies setting a market rent on the creation of a new tenancy which takes account of the potential impact of in-tenancy controls but limits increases during the tenancy. Arnott (2003) calls this ‘tenancy rent control’. In principle this allows periodic adjustment to market returns while protecting the tenant from unexpectedly large increases and giving the landlord some security that cost increases are offset over the medium to long term. It can be seen as a way of smoothing rent changes while maintaining a long-term rate of return which is competitive with other investments.” Essentially, third generation tries to draw a balance between (a) A free market operating where supply is restricted and so making housing unaffordable for many, and (b) Over-regulation that would impact supply.

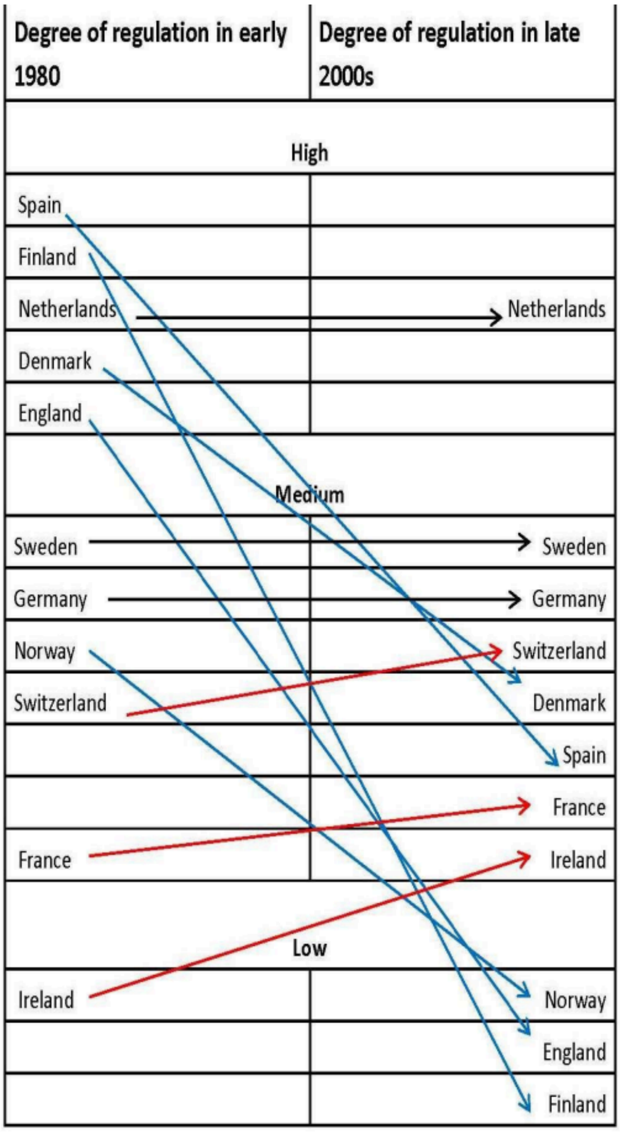
Rent Stabilisation – generally refers to second and third generation rent control approaches.

3.2 Use of Rent Control in the UK and Elsewhere

There is a significant amount of literature in the area of rent control and impacts on housing affordability. Four reports together provide a comprehensive summary of the use of rent controls in the United Kingdom and a number of other jurisdictions:

- The UK House of Commons Library published Briefing Paper #6760 (*Private rented housing: the rent control debate*) in February 2019 to provide an overview of the debate on this issue in the UK with comparisons to selected international jurisdictions. This report extensively referenced the work done by:
- Christine Whitehead and Peter Williams in *Assessing the evidence on Rent Control from an International Perspective*, commissioned by the Residential Landlords Association and published in October 2018.
- In the same month, with funding from the California Community Foundation, Manuel Pastor, Vanessa Carter and Maya Abood published their report entitled *Rent Matters: What are the Impacts of Rent Stabilization Measures?* to review the experience in California.
- OECD Affordable Housing Database, Social Policy Division, PH6.1 Rental Regulation, last updated December 21, 2016

Whitehead shows in the following figure how regulation has changed between 1980 and 2010 when strong or medium regulation was the norm.



"In most cases regulation has been reduced. However, in three countries (Germany, Sweden and Switzerland) the regulatory regimes have remained relatively stable over the thirty-year period 1980-2010. France and the Republic of Ireland have seen some increases in regulation, Only the Netherlands still had a strong regulatory regime, and even there, rents on more expensive properties have been deregulated. Traditional rent control – nominal caps on rent levels – was hardly found. Those countries that combine rent regulation with sizeable private rented sectors usually had (and have) systems that permit rents to adjust to near-market levels even though they are formally 'controlled.'"

Whitehead also summarizes the comparative literature as follows:

(i) Across Europe the general trend over the last thirty years has been towards deregulation, particularly with respect to initial rent determination. While there are examples of control of rent increases when tenants change, in the majority of countries it is only within tenancy rent increases that are regulated;

(ii) Rent determination is only part of any regulatory regime. In particular in countries with any type of rent control or stabilisation there are also long or indefinite leases or mandatory lease renewal, regulations to limit evictions to circumstances where the tenant has broken the agreement, and often restrictions on the ways in which landlords can dispose of their property;

(iii) In most countries security of tenure is indefinite;

(iv) Countries with large private rented sectors tend to have had quite stable regulatory regimes - but they also have constraints on access to other tenures;

(v) The size of the PRS (private rental sector) is growing not just in England but in many countries notably outside Europe as entry into owner-occupation has become more problematic – e.g. the USA; Australia and New Zealand but also in Europe in Spain and Ireland;

(vi) The vast majority of landlords in all countries are individuals rather than institutional investors who are the ones more likely to value predictable rental income streams;

(vii) The biggest concerns about regulation are that:

- controls over rents at the start of a lease may not allow landlords to make a business return;
- rigid rent-adjustment systems may not accommodate unexpected changes in the value of the rental stream or in costs (e.g. because of inflation or energy efficiency requirements)
- tenure security and enforcement procedures sometimes makes it difficult and costly for landlords to obtain vacant possession when the tenant does not keep to the contract;
- governments themselves build in uncertainties by continuing to make changes to their regulatory regime - with implications for both risk and returns; and
- there has been growing pressure to tighten rent controls in a number of countries/regions where there is strong housing market pressure – notably Canada, France, Germany and Ireland.

As of 2016, at least 14 out of 36 OECD countries have some form of rent control in place.

Table PH6.1.1: Rent control in the private rental sector[1]

	Control of initial rent levels			
	Free	Regulated	Both free and regulated	Control of rent increases
Austria (2)			x	x
Chile	x			
Czech Republic	x			x
Denmark (3)			x	x
Estonia	x			
Finland	x			x
France (4)			x	x
Germany (5)			x	x
Hungary	x			
Ireland	x			x
Japan	x			
Korea	x			x
Latvia	x			
Lithuania	x			
Luxemburg	x			x
Mexico (6)			x	Not available
Netherlands (7)			x	x
New Zealand	x			x
Poland	x			Not available
Portugal	x			x
Slovak Republic	x			
Spain	x			
Sweden		x		x
Switzerland	x			Not available
United Kingdom (England)	x			
United States (8)			x	x

1. Information is missing on Australia, Belgium, Bulgaria, Canada, Croatia, Cyprus, Greece, Iceland, Israel, Italy, Malta, Romania, Slovenia, and Turkey.

2. Austria: rent is regulated in the old housing stock (about half of the private rental market). Rent increase after renovation in the case of existing leases is only possible with consensus from tenants or following a judicial decision.

3. Denmark: there are different types of rent regulation, covering a very large share of rental dwellings (about 88% of the total). Only in new dwellings the rent is unregulated since 1991.

4. France: since 2015 France has been introducing rent control in areas where demand exceeds supply. Regulation implies that in case of a new lease, if the landlord did not make any improvements in the dwelling, the last rent paid by the previous tenant can only be increased based on a fixed rate benchmark index for rent.

5. Germany: since June 2016 regulation applies to new rental contracts whereby rents may not exceed 10% of the reference rent customary in the local area. Rent control applies to all dwellings except newly constructed or "extensively modernized" dwellings.

6. Mexico: control on both the initial rent level as well as subsequent rent increases vary across states.

7. Netherlands: maximum rent based on the dwelling's quality applies to all rents below 710 euros per month. Currently rent regulation covers over 90% of the rental sector (social housing sector and small private sector).

8. United States: Rent control applies to buildings built before Feb 1947, and to units occupied by a tenant who has lived in the unit continuously since before July 1, 1971 (about 2% of all rental housing). Rent stabilization consists of a cap on rent increases and it applies to all buildings with 6 units or more between 1947and 1973, and to those units that have exited from the rent-control program.

Sources: OECD Questionnaire on Social and Affordable Housing (2016, 2014); Schmid, C. U. and Dinse J. R. (2014).

3.3 Potential Impacts of Rent Control Approaches

From Whitehead:

Rent control is a system put into effect by laws, administered by a court or a public authority, which aim to ensure affordability of housing and tenancies on the rental market for dwellings (Branco, 2011). The objective is to limit the price that would result from the free market.

The main economic reason for introducing regulation is that the market in question is operating poorly – i.e., there is market failure, notably arising from imbalances in market power and information, difficulties in securing adequate investment over the market cycle; and issues around defining and enforcing standards for both the asset itself and the associated services (Whitehead and Williams, 2018). But, the main rationale for regulating rents, tenure security, quality and evictions in the private rented sector has been the failure of housing supply to adjust as rapidly as demand. When for one reason or another demand increases, rents rise often well above the longer-term costs of provision. In these circumstances, landlords make excess profits and there is political pressure to even the playing field so that tenants are not being so heavily disadvantaged.

While rent control is the most obvious form of regulation and the one where much of the political debate is concentrated, it is only one element in the regulatory spectrum which also includes security of tenure, minimum standards for the dwelling, limits on the capacity to sell property during and at end of tenancy, as well as enforcement procedures.

In some circumstances, e.g. if information to both landlord and tenant is improved, contracts are made more transparent and easier to enforce, then risks may be reduced for both parties and/or constraints on investment may be overcome. It is possible that both landlords and tenants may gain from the intervention. In such cases supply will increase and rents may be lower (or there may be additional demand for the better product). However, in other circumstances, the effect of regulation is to control rents below market levels and/or to provide greater security of tenure or other benefits to tenants which reduce returns or increase risks to landlords. In this case the result will be a reduction in supply; there will be pressure to avoid or evade the regulation; immobility and under-occupation of poor quality, ill-maintained properties; and higher rents and worse housing for those excluded from the market.

Clearly, good regulation should benefit both landlords and tenants, providing a more secure investment for landlords and investors and offering greater security and better-quality housing to tenants. This is the ideal. Bad regulation, on the other hand – even if it is imposed with good intentions and may provide short-term benefits – results in disincentives to supply rented accommodation, potential tenants being excluded from the sector, and ultimately worse conditions for everyone.

3.4 Summary

The evidence is generally consistent and there is broad agreement across the literature that rent controls alone will not provide a solution for housing affordability as there are many factors at play. The impacts from the use of different rent control approaches also vary significantly depending on jurisdiction-specific characteristics and the balance between economic efficiencies and social equity.

Arnott, an American economist at Boston College and for the NBER (National Bureau of Economic Research) concludes his 1995 article by noting that “the theoretical analysis of [modern] rent controls should take into account that the housing market is imperfectly competitive. When this is done, whether such controls are harmful or helpful depends on the particular package of regulations adopted, which is the outcome of a political process”.

Section 4 – Stakeholder Consultation: Petitioner and JPF Roundtable

4.1 Questions Considered

The Petitioner and JPF Roundtable participants were asked to consider the following three questions:

1. Is rent control an effective way to improve housing affordability?

2. What other policy levers should or could be considered to improve housing affordability on Jersey?

3. What additional evidence or information would be useful to understand to support an informed debate about housing affordability on Jersey?

4.2 Petitioner

Consultation with the Petitioner was conducted over the period March 3 to 8, 2019, by telephone and through email. The Petitioner was invited did not attend the JPF Roundtable on March 7, 2019.

Question 1 - Is rent control an effective way to improve housing affordability?

Rental stress information is from 2015. Levels will have risen much higher as salaries are not keeping pace with the sharp increase in rents.

People at all salary levels should be able to get a decent standard affordable home without being cost burdened.

Rent caps need to be set (temporarily or permanently) for one bed two beds etc. in consideration of the 30% rent stress bracket.

Comparing net salary after rent between the UK and Jersey, gross salary would need to be £30k higher in Jersey than the UK to afford a similar home.

Working class people should not be forced to pay 50% to 100% of their pay for rent. It puts people in a position from which they will likely never escape.

A decent non-qualified family home (2 or 3 bed) tends to be £2,500. At 30% of salary they would need to earn £8,333 a month or £100,000 net a year. It would seem that unless you earn over £100,000 a year you need to be in social housing.

Question 2 - What other policy levers should or could be considered to improve housing affordability on Jersey?

Andium being external from Government ensures that there is no social housing. The effect of linking social rents to 90% of the market and then paying £10m in housing benefit (likely to be £20m in 2018) has caused a spiralling upwards in private rents. 'The people making this *decision in my opinion would have been landlords or homeowners or close family friends. The government have allowed landlords to hold everyone to ransom."*

Both "no children" rules and a two-tier housing system is discriminatory. Children need space, overcrowding is rife and those not cost burdened must be squeezing into totally unsuitable properties.

Many will be forced to stay in violent relationships. The constant threat of homelessness, poor standards and crazy prices must have an effect on people's mental health.

A professional person coming to work in Jersey should be able to have a stable affordable home with a similar standard of living as the rest of the British Isles. Due the state of the housing market and government decisions it is not possible to put down roots, save for a deposit and buy a home.

UK based Jersey landlords have much more reasonable rents compared with Jersey landlords. However, buy-to-let pushes house prices up. Currently 2 or 3 bed family homes are upwards of £500,000 and impossible for most to buy. So, all buy-to-lets should be stopped.

Empty houses should be penalised and "lock up and leave" stopped.

Build actual social housing, for example by buying up hotels that a forced to close.

Stop building monopolies and focus on building for people who live and work in Jersey rather than high end flats.

Provide schemes to help people buy. What can the banks do or be forced to do? The house price correction needs to be managed by government rather than left to overheat and then crash.

Question 3 - What additional evidence or information would be useful to understand to support an informed debate about housing affordability in Jersey.

What action other governments have taken to ensure affordability for local (all qualified and non-qualified) residents who live and work in Jersey. Did they work? If not, why not.

Positive off island examples of controlling property prices where they are at ridiculous price levels.

Offshore examples of making property affordable and helping all not just young (you as a government have prevented all ages from being able to own) to own.

On island research, empty properties, off island investors, number of buy to let's owned by each person.

Ways to educate people who are in business but don't know how to run a business (no kids rules both estate agent and landlords).

Ways to remove people from property ownership in circumstances where they don't abide by no discrimination rules and also when they hold too many buy to let's preventing normal people owning.

It would help to know of the percent who are not cost burdened in diagram 1 "non-qualified" 47% social 55% private qualified 27%. How many /what percent of the not cost burdened percent are not cost burdened because they are living in an over occupied property i.e. a property too small for their family's needs as this is likely what many do squeeze into a too small property for their family's needs.

Listed for each year, the names of the 30 largest beneficiaries of government paying working peoples rent who could not afford it. So, to whom (person or company name) and how much tax payer's money they got each year. (This information should be made public and used to immediately cut their rents).

Directors of Andium salaries, loans and distributions for each year that the rent policy was introduced that caused the rents to spiral upwards I think it was 2011 or 2013 but I'm not sure which. (This information should be made public).

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4.3 JPF Roundtable

On March 7, 2019, JPF Executive Director facilitated a roundtable discussion to gather stakeholder perspectives on the e-petition subject matter in St. Helier, Jersey, from 12 noon to 2 pm. A leading expert, Christine Whitehead OBE, LSE Professor Emeritus in Housing Economics, was invited to present an international review of evidence on the use of rent control. The roundtable discussion was held under the Chatham House Rule and the 25 participants included policy officers, landlords, agencies working with vulnerable people, social housing and temporary shelter providers, developers, undergraduate students, business people and interested individuals.

For the notes below:

- "CW" refers to responses from invited expert, Christine Whitehead OBE
- "Q" refers to a question posed by a roundtable participant

Question 1 - Is rent control an effective way to improve housing affordability?

"I am not convinced that a rent cap would serve the ends hoped for by the signatories without multiple unintended consequences."

CW – There is agreement that rent control won't work in the long term (see other levers in 2 below) but there is also agreement that rent stabilisation coupled with a range of other measures can work in the short term.

Average earnings have been dropping in real terms

Lower income groups may not be able to afford child care

The line between the cost of living and income is very tight and cause for stress

Insecure accommodation, at high rates, for long periods of time (rental stress and mental stress)

Financially impossible to move out of homelessness

What can someone who is homeless afford? £140 social security for a bedsit

Q: What impact on rent control does income support have?

CW: Having housing benefit but limiting maximum level acts as a form of rent control. However £26 billion is spent on rent related income benefits in the UK

Q: We can't control interest rates in Jersey. Reduction of non-qualified sector has put stress on qualified sector (reduction of 20-10 years residency requirement). Rents in non-qualified have not increased as much as qualified. Could control of regulations act as a form of rent control?

CW: I'm amazed by your two tier housing system in Jersey. Underlying objective - if you have accepted people into the Island they should be able to live in a reasonable standard of accommodation. It requires a strategy.

'It is our aspiration that all residents of Jersey live in secure, decent and affordable housing so that everyone, and in particular children, can flourish without anxiety or poverty'.

Question 2 - What other policy levers should or could be considered to improve housing affordability on Jersey?

Q: How much of this is due to market failure?

CW: It's consequence of housing shortages where there is work.

Participants at the roundtable all agreed that housing supply was the main key issue to resolve. Beyond that, achieving short term affordability in Jersey is complex and multiple policy levers need to be used.

Jersey needs to address the wider picture (CW: increase supply for demand) whilst taking into account more immediate policy levers. "It needs an overall strategy – not one issue can be dealt with in isolation"

"Increasing supply is a good thing"

"Dublin encouraging private sector to invest in providing rental accommodation"

Increase minimum wage. But will this create cyclical inflation?

Landlord shouldn't take all the risk. But there's no risk if rent is paid by social security.

"I am convinced that one way of unlocking the resources of some of the 3,103 vacant properties to is to establish a trusting relationship between a provider such as Andium to offer professional make over services to the private sector. I know of properties that are tied up by elderly long standing Jersey residents who don't have the skill base or energy to oversee complex projects. The properties sit there waiting for a better day."

<u>Roundtable Online Poll Results</u>

Roundtable participants were invited to respond to an anonymous online poll on Question 2. A total of 17 out of 25 responses were received:

Increase supply of new homes - 82%

Provide social housing - 71%

Provide assisted home ownership - 59%

Protect against discrimination in relation to families and children - 47%

Enforce minimum rental standards - 47%

Act on vacant property - 47%

Act on under-occupied properties - 41%

Enforce model contracts - 41%

Remove the "non-qualified" restriction from the rental market - 29%

Act on non-resident buy-to-let - 29%

A limit on rent increases within and between tenancies - 24%

Restrict population growth - 24%

Review the 90% market "social rent" model for housing trusts - 24%

Increase housing benefit - 18%

Regulated rents within a tenancy but unregulated rents between tenancies - 18%

A limit or "cap" on all rents - 6%

Remove the "non-qualified" restriction from the home-owner market - 6%

Question 3 - What additional evidence or information would be useful to understand to support an informed debate about housing affordability on Jersey?

Diagram 1 - Rental Stress

Jersey's rental stress data is from 2015. The rental price index has increased significantly since then. A method of capturing more up-to-date data if required in order to track the issue. Also how does Jersey compare to other countries that may not use the 30/40 method?

Rental Price Index

Calculated from estate agents' advertised rates. Increases of in-tenancy rents not included. Advertised rents are negotiable but this is likely to balance out across indexed years.

Vacant Homes

The detail of vacant homes needs to be properly understood. 7% seems high, 4% would be normal. From 2011 census: 25% of all vacant homes are second/holiday homes.

Section 5 – Expert Presentation at Roundtable

5.1 About the Expert Speaker

Professor Christine Whitehead is Emeritus Professor in Housing Economics at the London School of Economics.

Christine is an internationally respected applied economist concentrating mainly in the fields of housing economics, finance and policy. She has worked with a wide range of international agencies as well as regularly for the UK government and Parliament. She was Director of the Cambridge Centre for Housing and Planning Research from 1990 to 2010 as well as Professor at LSE.

Major themes in her recent research have included analysis of the relationship between planning and housing; regulation and rented housing; the role of private renting in European housing systems; financing social housing in the UK and Europe; and more broadly the application of economic concepts and evaluation techniques to questions of public resource allocation. Latterly a particular issue has been around accelerating housing development in London.

She was joint editor with Kathleen Scanlon and Melissa Fernandez of Social Housing in Europe, published by Wiley Blackwell in 2015. Her latest books, Milestones in European Housing Finance jointly edited with Jens Lunde and Planning Gain: Providing Infrastructure and Affordable Housing, jointly edited with Tony Crook and John Hennebury were published in 2016.

She is special advisor to the Housing, Communities and Local Government Select Committee including, in this session, inquiries into Land Value Capture; leasehold; town centres and modern methods of construction. She was a member of the Letwin Panel on build out rates. She was awarded the OBE for services to housing in 1991.

5.2 Presentation - Slides from Professor Whitehead's presentation:

Slide 1

Rental price caps law to limit rental prices to reasonable rents?
International Experience

Christine Whitehead
LSE

Jersey Policy Forum
7th March, 2018

Slide 2

Why Current Pressure for Rent Regulation?

- Increases in market rents out of line with income growth – often in response to sudden increases in population;
- Occurring in many countries, mainly in major cities; - especially university towns;
- Reversing a long term trend towards deregulation in almost all European countries as well as North America;
- Also associated with a growth in the importance of private renting in many countries;
- Rent control or rent stabilisation?

LSE London

Slide 3

Types of Rent Control

- 1st generation – the imposition of a legal rent ceiling below the market rent – usually in the form of a rent freeze. Incentive to avoid/evade/leave the sector.
- 2nd generation – allowing adjustment for changes in costs; retaining incentives to maintain the properties.
- 3rd generation –allowing adjustment to market rent between tenancies and so reducing the incentive for landlords to leave the sector. Known as rent stabilisation.
- Importantly rent control is only part of the regulatory picture – cannot work on its own.

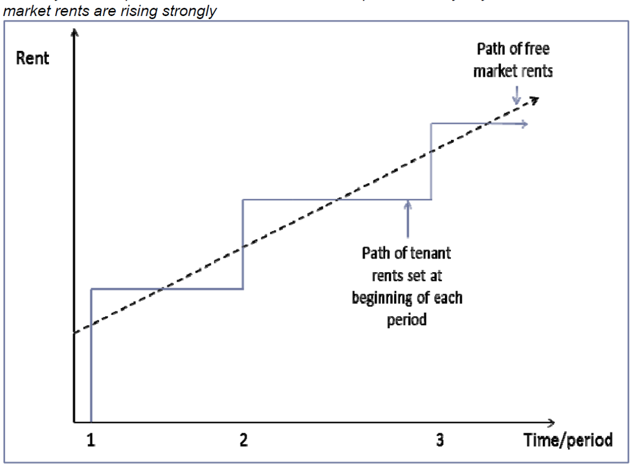
LSE London

Slide 4

An example of 3rd Generation rent control; as in Germany

Source: Ball (2010) Fig. 4.

Tenancy starts in period 1 and rents are reset each 'period' of, say, 3 years duration, at a time when market rents are rising strongly



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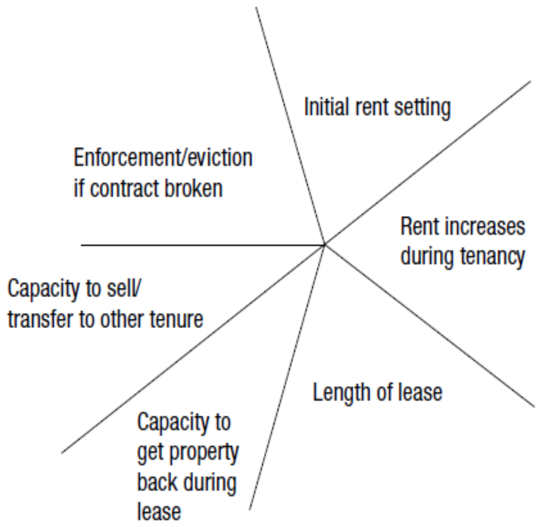
Slide 5

Elements of Regulation



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Slide 6

International Comparisons

- Studies of European systems show that every country has its own set of rules which give different mixes of rights and constraints;
- England stands out as having both no direct rent controls and short term tenancies;
- The majority of Western European countries have indefinite security of tenure;
- Most have a form of rent stabilisation – with in-tenancy rises based on some form of index;
- A number have two level systems – eg Denmark (new properties since 1991 excluded); the Netherlands (market rents above a threshold around 700 euros per month).

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Slide 7

Current Trends

- The size of the PRS is growing in a number of countries – eg the USA; Australia and New Zealand and in European cities in Netherlands, Scandinavia, Spain and Ireland;
- There is growing interest among institutional investors in investing in purpose built private rented accommodation – the UK is a lead country in Europe and consistent discussion of 'sheds of money'. However, small landlords continue to dominate;
- Institutional landlords state they are happy with longer term security and within-tenancy indexation – as long as there is proper enforcement of rules – and clearcut exceptions to indefinite security;
- Some countries among those with limited security are moving more towards greater security of tenure – even England (and especially the GLA);
- There has been pressure to introduce tighter rent controls in a number of countries/regions where there is already rent stabilisation but increasing housing market pressure – notably in Canada; France; Germany; Ireland.

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Slide 8

Examples of Increasing Pressure for Rent Control

- Canada - varies across provinces but mainly 3rd generation rent control – ie rent stabilisation and indexation). Ontario has removed the exemption for PRS units purpose built since 1991 – so far no negative impact;

- France – prior to 2014, 3rd generation rent control with 3 year leases; now rents on new tenancies can only increase at the indexed rate. (In Paris and Lille the initial rent was controlled to be no more than 20% above the median – but this has been annulled);

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Slide 9

Examples of Increasing Pressure for Rent Control

- Germany –3rd generation rent control for decades. However since 2013 additional rent controls introduced in tight housing markets cities (now extended to over 300 cities/municipalities) by which initial rents are limited to 10% **above** local comparator. At the same time the allowable rent increase in existing tenancies was reduced from 20% to 15%.
  - Major problems have been around rents data; beginning to have some traction.
- Ireland –General approach after 2004 that rents should be in line with local market rents for similar properties. In 2016 Rent Pressure Zones ("RPZ") were introduced (currently in 21 local electoral areas) for a three year period during which rents can only rise according to a prescribed formula by a maximum of 4% annually.
  - Evidence is that it has slowed rent increases but nowhere near down to 4% as yet
- Spain – coalition where partners have been asking for rent stabilisation and now for traditional rent controls in pressured areas.

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Slide 10

Scotland: Reforms introduced in 2018

- Biggest change: Indefinite tenancies;
- Market rents on first letting;
- Within tenancies some limited constraints;
- In pressured areas in-tenancy rent increases to be indexed;
- So in principle a rent stabilisation approach combined with security of tenure;
- Detail mainly limits effects of change – eg 18 exceptions to indefinite security.
- England looking at 3 year tenancies; GLA at indefinite tenancies.

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Slide 11

Impact of Increasing Rent Controls

- So far little evidence that the changes have impacted on investors' preparedness to invest;
- This may be in part because more extreme constraints (such as the return to 1st generation rent control in Berlin and controls on increases especially in Paris) have not been implemented;
- But it is also because rents appear not to have been fully constrained to the stabilised amounts – partly because tenants have not generally appealed the rents;
- And evidence of high implementation costs and concerns around data quality (and implicitly avoidance and evasion of controls).

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Slide 12

Conclusions

- Honest answer on international comparisons is that in-tenancy stabilisation has often worked but relatively few examples of stronger controls.
- Emphasis on providing 'certainty' and a win-win regulation to give a secure environment to good landlords and tenants.
- Other objective is not to cut off the supply of good tenancies (insider/outsider issue).
- But the economic environment important – eg Germany low inflation/falling house prices for many years - made rent stabilisation easy.
- Also many exceptions – eg energy efficiency; improvements etc which enable rents to rise – plus in some contexts initial rents can be significantly above comparator rents.
- Many landlords happy with long term tenure security and index linked rises within tenancy – with willing tenants and good enforcement.
- But continuing concern about uncertainty and unforeseen /unintended consequences.

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5.3 Professor Whitehead's Presentation Remarks – transcribed from voice recording

Thank you very much indeed.

This is a little daunting in a sense being the first petition in this context and clearly while I have worked with Jersey in a number of different contexts, this is a new one for me and I don't know that much about the private rental sector other than what I learnt when we were looking at social rental housing etc. What was I asked to do was to say what is going elsewhere in this context and in particularly in the context of rent caps or controls on rent in the private rented sector.

There is an enormous amount of pressure around the world at the moment to change regulations in the private rental sector and to constrain rental increases, not usually rental levels, but rental increases. Why? Because all sorts of things are wrong with macro economies and inequality of income etc. and it's generating the situation where in many parts of the world, rents are rising faster than incomes and therefore those people further down the system are finding that they're spending a higher proportion of their income on rents and that is causing major affordability problems.

Rent control itself deals with the rent side rather than the affordability story. This occurring mainly in major cities, capital cities in particular, but also consistently in university towns as they become the areas of growth for all sorts of different things. Now this is reversing a very long-term trend since the second world war of rent deregulation.

In many European countries and also in America, rent controls were introduced in 1916 usually, with the assumption that they would be there for the crisis and then disappear sometime in the 1920's. Most of those rent controls stayed in place for forty years and by the end of forty years, you could see the impact of very long-term rent controls without changing those rents. For instance, the road nearby me in London where rent control was very rife in Georgian houses. They were falling down. There was a lady living on her own in them and they were in poor condition and they were going to be cleared. They are now worth something in the order of £2-5million each.

So, what happens if you go on for a very long time without adjustment, is one version of rent control. And many people see that as what rent control is; that it's terrible for the systems. But, shorter term and with adjustment there are mechanisms for making rent controls have a much more positive roll. And one of the reasons why we're getting a lot more discussion is *because private renting is growing in many countries as people find more harder and harder to get owner occupation.*

So, in London now where heading to a situation where conceivably in 10 years time 40 per cent of Londoners will be renting. It is a big change, and it is why GLA (Greater London Authority) is very, very interested in rent stabilisation, rent controls etc. What we're mainly finding though, and this is what we come back to, what people are talking about is not rent control in the sense of take the rents as they are now and stop them – which is what happened in 1916. But more rent stabilisation, where we've got a very clear-cut understanding of what rent will be at the beginning of a tenancy and then an index by which rents go up during the tenancy. In that context, and you've used it in your diagrams, so I do need to mention it.

There are three generations of rent control that people talk about. One is the rent freeze (which is the 1916 story), and if that doesn't adjust then costs go up and people get out of the market and they put the housing into lodging or ways to getting around the system etc. People get excluded from adequate accommodation. Second generation enabled rent to be adjusted if costs changed. So, for instance, in Germany rent can be increased by up to 12 per cent if what you've done is improved energy efficiency and environmental standards. Third generation (which you find in many countries in Europe) where you go into the property at the market rent but within that tenancy, so if you stay five years you get an increase in your related to an index (to RPI, to CPI or to some other possibly market based index).

But importantly, rent control as such is not enough you can not just control rents. If you control rents, but you don't give people security of tenure, then obviously rents in the market go up, I've got a tenant who's paying half that amount, so out the tenant goes. So, security of tenure is a very significant part of any rent regulation system. Just putting on rent cap isn't going to be the answer even if you think that general process is.

(CW is pointing at Slide 4) This is the rent stabilisation model where if you say rents are rising very rapidly (straight line), then the rent stabilisation you get in Germany is that you have a market rent determined which is not the rent of the next door neighbour, it is the rent assume that you are going to be in there for some time. That rent will be above the rent from the next-door neighbour and it stays still for three years and then there's an increase. Rent stabilisation gives people certainty, it doesn't necessarily keep people in low rent. It is that which you see in most parts of the European system.

(CW is now pointing at Slide 5) The elements: initial rent setting – are we going to be involved with that or not? Is it the market? Or is it going to be some kind of other mechanism? Rent increases: which is the rent stabilisation story are lengths of lease because if you haven't got a lease you're going to get kicked out. Then from an analyst point of view the capacity to get the property back. If you've got reasons for doing so, capacity to sell the property. You sell it with tenants, without tenants, however dealt with. Of course, for both sides, is the absolute need for a basis for regulation and enforcement. Are both sides of the contract actually behaving? It is not just rent control whatever. And that doesn't get you anywhere starting on affordability, it's just control mechanisms.

We did a study on 11 countries about 40 years ago and in all of those countries we found rules were slightly different but there were some fairly fundamental agreements among people. England stood out as having no direct rent controls, but we have indirect ones because our welfare system constrains how much people can pay and we have 6 to 12 month tenancies as well (although it is possible to have longer ones). We were very much at one end of the regulation scale while Germany has always seemed as being at the other end but is in fact a system of rent stabilisation with higher rents than the market to begin with and then stabilisation thereafter.

Majority of Western Europe has indefinite tenancies, most that don't have indefinite tenancies have five-year tenancies rather than one year or six months. Most have some form of rent stabilisation within that tenancy. Rents can go up and they can only go up to defined index both sides know about. Some countries have two level systems, or conceivable three level systems. Denmark for instance excludes from any rent controls on any new properties since 1991 on the grounds that they want to get new properties into the system and therefore it will be at the higher end of the market and they are market determined.

While the Netherlands has for the most coherent system by which social and private rents are set in the same way – the only country I know where that is the case and where they are set by the national government in terms of rental increases a year up to €700 a month, they are within that system, above €700 a month they are free on the grounds that's giving people well above minimum and the freedom to choose if they want it.

The private rental sector is not just only going up in Europe, but also Australia, New Zealand and in much of America. There's importance in how politicians and public servants are conceiving rent stabilisation if not rent control is institutional landlords or institutional *investors are getting interested in providing purpose built private rented accommodation. While most countries, including Germany, are basically amateur landlords.*

Institutional investors basically want income that they know they're going to get into the future so that they can pay their pensions. They are happy with a system which says there is a stable rent increase with is defined in relationship with an index. They are perfectly happy to have a tenant stay as long as they like because turning over tenants is an expensive process. England is leading Europe in the amount of this, but it is still relatively small (15,000 to 100,000 units).

In countries that have had limited security, like Britain, we are moving towards a move secure system like New Zealand. We are moving very slowly, but it is there. The Greater London Authority (GLA) has no power over rent control, however, they have generated the London Model of Security of Tenure, which they wish to sell to the Central Government which will give them indefinite tenancies, which will give index rises in between tenancies.

There have been though, this is for many people around the room, what is being talked about in terms of rent stabilisation is not going to address the particular issue, which is that people are paying too much of their income, it is going to stabilise the market and provide a much better environment for people to work in. In some countries there has been a move towards a more controlled environment than that.

Canada has been put it in because Ontario has removed the exemption for new properties, that means that they will be covered by any rent control that's put into place. France has been through a very French exercise, which they put in place a system about three years ago by which not just within tenancy but at the beginning of the tenancy you could not put up a rent compared to the last tenant. And then in addition to that, Paris and Lille tried to control increase which would only be allowed to 20 per cent. That has now been removed because the law is the proper thing to do, but it'll probably come back. There is a movement towards here towards tightening the relationship between tenancies and within tenancies.

Germany was the first country to deregulate, where it had 15 years of deregulation between the 1940's and 50's. Then they reintroduced a system of third generation being rent stabilisation, applied through increases related to indexes. About four years ago people went to the streets of Berlin and they took to the streets in one or two other cities and in those areas, they were calling for rent controls to limit the rent and limit the levels that can come into it. What they've actually put into place is a system of pressured areas which was *expected to be maybe 5 cities, it's now in 300 different cities because rent control is very, very popular concept. Your rents when you start can only be a maximum of 10 per cent above the general market, instead of being 25 per cent before, and rent increases have been significantly restricted.*

The big problem with this is data. Both Germany and France are going through similar problems with poor data collection. There are signs of some tractions and there's signs of the economy going down a bit, so you can't be sure what is the cause of that. Ireland has gone quite a long way with their pressure zones, the whole of Dublin is in a red pressure zone. Put in for three years, this system of constraining rent increases to 4 per cent per annum. The evidence is not technically out yet, but I don't think it technically matters – is that they are, shall we say, coming down a bit but they're nowhere near 4 per cent in terms of increases, it was 8/9/10 per cent, it is 6/7/8 per cent.
Spain is fun, because when we looked at it the coalition was with the left wing who wanted rent controls along with absolutely flat rents and now we've got the coalition which is right wing as well as left wing, but they just don't know what they're doing. But, they're doing something.

Scotland, which is the only one to have done something within the British environment, last year a form of rent regulation but the most thing is not on the rent side but it's on the indefinite tenancies side. Instead of having short term tenancies, they now have indefinite tenancies with exceptions. They still have market rent at the beginning, and within the tenancy the constraints are really quite limiting. Unless you're in a rent pressure zone, where they would have indexed linked, so it would be very dramatic. In order to make this work, they have 18 exceptions on the indefinite security. So, if you want to sell the property you can get the tenant out, etc. In England, we are looking at three-year tenancies and the GLA is looking at indefinite tenancies.

I think the answer to how much effect have we got so far in this increasing wishful controlling the system is not a great deal has actually happened but there is growing evidence that countries want to make changes to at least provide a much better environment for people to operate in and to give people much more certainty about what is going to happen to their homes, even if it's not limiting. There is also evidence that implementation costs and courts etc. are very difficult.

The honest answer is that the international comparisons on the private sector say in tenancy stabilisations where it works, outside that we still don't have many examples of strong rent *controls. The emphasis is on certainty on getting better contractual arrangement, making it a better environment. The other point is we don't want to cut off the supply of tenancies because otherwise people who might just be coming into the system are going to be badly treated as compared to the people within the system. The economic environment has been important in terms of where and when it has worked, generally it is always going to be the exempt, but it is an exemplative period when house prices were on average falling and population was falling. It is a little more difficult to work out exactly what is happening. It is true that many landlords, not just institutional landlords, are happy with longer term tenancies but there is this continuing concern about uncertainty.*

I know in Jersey there is a real interest in how it does not say private rents in the petition, it says rents. It includes within it the social sector as well as the private sector. Only in the Netherlands do we have a system which it is the same between private and social. What we do have though in the social sector in Britain and many other places is rents being set in relationship to historic costs. That's gone out mostly. But, rents in relationship to the market rent at the limit in Britain, affordable rents are a maximum of 80 per cent of market rent. In London the average is about 40 per cent of market rent. A big, big difference. So other countries have tried to do it as a proportion of income. The biggest problem for social landlords, if you do it as a proportion of income, is how do you borrow the money because you'll only have security about what entry stream is going to look like. That is probably where I should stop, and I've probably gone way over time!

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