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Rent regulation in the private rented sector in Northern Ireland

Research report findings

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What I'm going to cover



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- Context – Private Tenancies Act (Northern Ireland) 2022
- Rent regulation – the existing evidence
- Rent and affordability in Northern Ireland
- Tenant and landlord engagement – key findings
- Potential impact of rent freeze/cut.



- **Private Tenancies Act (Northern Ireland) 2022** – notice to quit periods, safety standards, tenancy information provided to tenants
- **Consideration stage 23 February** – bill amended to provide for rent cuts of 10 per cent for tenancies in place for more than six months
- **Further consideration stage 7 March** – further amendment instead giving department power to freeze/cut rents by up to ten per cent for a period of up to four years, power ceases 28 October 2023
- Requirement to prepare and publish report / lay it before Assembly.

Approaches to rent regulation



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- **First generation measures** – imposes overall control on existing rent levels
- **Second generation measures** – governs rent increases within and between tenancies
- **Third generation measures** – restricts rent increases within the tenancy.

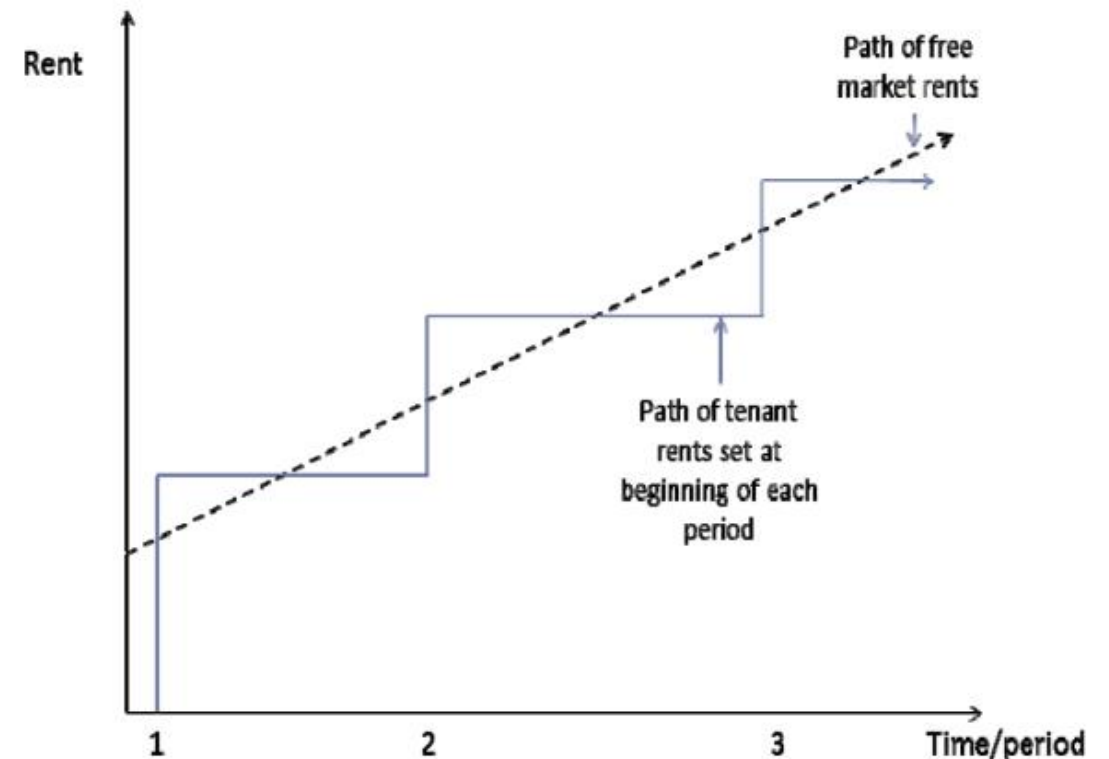





Figure 1. The growth of rents under third generation rent regulation measures.

(Source: Whitehead and Williams, 2018, p11)

Rent regulation case studies






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Country	Summary
	<ul style="list-style-type: none">• Move from low to medium level of rent regulation• Evidence of falling increases in 2nd generation rent pressure zones (RPZs)• Concerns around impact of expanding RPZs on supply/investment
	<ul style="list-style-type: none">• Move from low to medium level of rent regulation• Impact of 2nd generation system is complicated, doubts about its effectiveness• Short-lived 1st generation system in Berlin reduced rents and supply
	<ul style="list-style-type: none">• Move from low to medium level rent regulation• Impact of new 2nd generation system remains to be evaluated• Issues persist around enforcement of the rules.

Rent regulation case studies



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Country	Summary
	<ul style="list-style-type: none">• Long-term high level rent regulation, with deregulation of high rent properties• High regulation partly credited with the decrease in private renting from 17% to 8%• Fiscal context is more beneficial for home ownership and social housing
	<ul style="list-style-type: none">• Move from medium to low level of rent regulation• Questionable benefits of old 2nd generation system• No strong desire for higher levels of regulation, housing need considered strategically
	<ul style="list-style-type: none">• Some cities have long-standing rent control e.g. New York, San Francisco• NYC recently restricted rents for re-lets to that of the previous tenant• Rent control has been shown to reduce both rents and supply.

Tabular summary - rent regulation in select European, North American and Oceanian countries

Country	Initial rent regulation	Regulation of rent increases	Comments	Generation of rent control	Size of the PRS (%)
United Kingdom	No	Varies by country; limited to once a year in Wales and Northern Ireland (both pending) as well as Scotland; ability to limit increases to CPI + 1% in Scottish rent pressure zones (RPZs)	No designated RPZs in Scotland yet	3rd (Wales, Scotland, Northern Ireland)	20
Ireland	Rents for re-lets limited in RPZs; outside RPZs rents must not exceed market	In RPZs - the lower of general inflation or 2% each year; outside RPZs - rent reviews restricted to once every two years	Narrow exemptions to RPZ rules for initial rents e.g. properties with no tenancy in previous two years or substantially changed properties	2nd	19
Belgium	No	Yes		3rd	23
France	Re-lets limited to indexed rent of previous tenant; rents restricted to 20% of reference rent in pressured areas	Annual rises limited to rent reference index		2nd	23
Netherlands	Determined by points index	Yes, varies by tenant income	High rent properties excluded	1st	8
Switzerland	No	Yes		3rd	52
Germany	Restricted to 10% of local index in pressured areas	Max 20% increase, 15% in pressured areas	Exclusions include significantly modernised and newly built properties	2nd	48

Country	Initial rent regulation	Regulation of rent increases	Comments	Generation of rent control	Size of the PRS (%)
Denmark	Yes	Yes		2nd	24
Norway	Rents must not be 'unreasonable' relative to market rent	Once a year limited to CPI		3rd	22
Spain	No	Rent increases for first 3-5 years		3rd	10
Sweden	Yes, based on collectively bargained utility value	Yes, collective bargaining		2nd	41
Finland	No	No		N/A	16
Canada	No	Varies by province; increases mostly restricted to annual guideline rate		3rd	24
United States	Mostly no; New York City (NYC) re-lets have rent restricted to that of previous tenant	A small number of cities control rent increases; NYC Rent Guidelines Board determines maximum increase; San Francisco (SF) Rent Board sets maximum around 60% of local CPI	2% rent increase allowed for capital improvements (NYC); increases allowed to cover costs or capital investment (SF)	2nd (NYC); 3rd (SF)	N/A
Australia	No	Varies by state; mostly frequency of increases is restricted, ability to dispute increases excessive to market rent		3rd	27
New Zealand	No	Limited to once a year		3rd	27

Source: summary of case studies; Martin et al (2018, p.50); Gibb and Marsh (2022, p.12)

Rent control – key points



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- Moving higher up the generations of rent control creates systems with negligible impact, complicated/unclear outcomes, undesired effects
- First-generation controls (e.g. rent freezes/cuts) cause a drop in supply as well as a rent reduction, amongst other effects.

Rents and affordability



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Table 2.2.4 Rental affordability by LGD

Council	First quartile rent (weekly) (£)				Threshold rent to income ratio				Affordability gap (%)			
	H1 2018	H1 2019	H1 2020	H1 2021	2018	2019	2020	2021	2018	2019	2020	2021
Antrim & Newtownabbey	109.62	109.62	109.62	118.15	19.98%	20.43%	20.52%	20.11%	-5.02%	-4.57%	-4.48%	-4.89%
Ards & North Down	109.85	114.23	115.38	121.15	21.04%	21.81%	22.06%	20.98%	-3.96%	-3.19%	-2.94%	-4.02%
Armagh Banbridge & Craigavon	114.23	104.77	108.92	115.38	22.05%	19.35%	20.72%	20.07%	-2.95%	-5.65%	-4.28%	-4.93%
Belfast	120.23	124.62	126.92	137.31	23.86%	23.62%	24.09%	23.40%	-1.14%	-1.38%	-0.91%	-1.60%
Causeway Coast & Glens	107.31	106.62	105.23	113.31	22.85%	22.07%	22.78%	22.91%	-2.15%	-2.93%	-2.22%	-2.09%
Derry & Strabane	102.92	101.08	104.77	109.62	23.11%	20.68%	20.25%	21.74%	-1.89%	-4.32%	-4.75%	-3.26%
Fermanagh & Omagh	92.31	98.31	96.69	99.92	17.85%	18.08%	17.98%	17.46%	-7.15%	-6.92%	-7.02%	-7.54%
Lisburn & Castlereagh	121.15	126.92	126.92	132.69	20.70%	21.48%	21.37%	20.92%	-4.30%	-3.52%	-3.63%	-4.08%
Mid & East Antrim	103.85	103.85	105.23	109.62	20.46%	20.42%	21.71%	19.99%	-4.54%	-4.58%	-3.29%	-5.01%
Mid-Ulster	114.00	106.38	105.46	120.46	23.39%	22.03%	21.41%	22.58%	-1.61%	-2.97%	-3.59%	-2.42%
Newry Mourne & Down	107.31	109.62	114.46	119.77	21.89%	20.86%	22.92%	21.12%	-3.11%	-4.14%	-2.08%	-3.88%

Measures of affordability



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- **Rent to income ratio** – percentage of household income spent on rent, 25-35% normally deemed as unaffordable threshold
- **Residual income** – gross earnings needed for acceptable living standard after rent e.g. Joseph Rowntree Foundation minimum income standard; Social Metrics Commission poverty standard
- **Poverty trap** – gross earnings needed to no longer claim Universal Credit.

Calculation of income



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- Residual income and rent to income ratio measures – income is net earnings plus any UC & child benefit
- Poverty trap measure calculated as gross earnings
- Fixed points along the earnings scale used for each household type:
 - Nil earnings / maximum UC
 - Full-time work (35 hours) at national minimum wage (age 23)
 - Lower quartile full-time earnings for Northern Ireland
 - Median quartile full-time earnings for Northern Ireland
 - Gross earnings needed to meet the minimum income standard (taking into account any UC & child benefit).

Household types tested



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- Single people aged under 35 (and under 25) in shared accommodation, and single people aged 35 or over in self-contained accommodation
- Couple in one-bedroom self-contained accommodation
- Lone parent with one child (two-bedroom accommodation)
- Lone parent with two children (two-bedroom and three-bedroom accommodation)
- Couple with one child (two-bedroom accommodation)
- Couple with two children (two-bedroom and three-bedroom accommodation).

Basis for rents



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- Rents based on NIHE data used to calculate LHA rates for property sizes corresponding to the household size (i.e. rent data that would have been used to calculate 2022 LHA had it been updated)
- Data used to calculate the lower quartile rent and median rent for Belfast broad rental market area (and to estimate the number of properties currently available at the frozen LHA rate)
- Belfast used because of good availability of rental data, and it is useful for testing resilience as the least affordable area.

Summary of affordability tests



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- **single people and childless couples on UC** have the highest gross rent to income ratios and lowest residual incomes but can achieve the minimum income standard at relatively low levels of earnings
- **single earner households with children** find it very difficult to escape the poverty trap
- **households with three or more children** have the worst residual incomes with very high negative values.

Tenant YouGov poll – key findings



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- **Median household income: £41,309.**
- **Average household rent: £523.** Reflects sitting tenants paying below-market rents (64 per cent have not had a rent increase in their current home).
- **Average rent to pre-tax income ratio of 15%.** Rises to 21% if average market rent (£716) is used.
- Welfare recipients under-represented in the YouGov poll
- Tenants find it **‘neither easy nor difficult’ to afford the rent**, but would find it **easier to afford** if it were frozen or cut.

Tenant YouGov poll – key findings



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Table 2.4.12 **Ease or difficulty of affording rent currently and if it were frozen or cut for a period of up to four years**

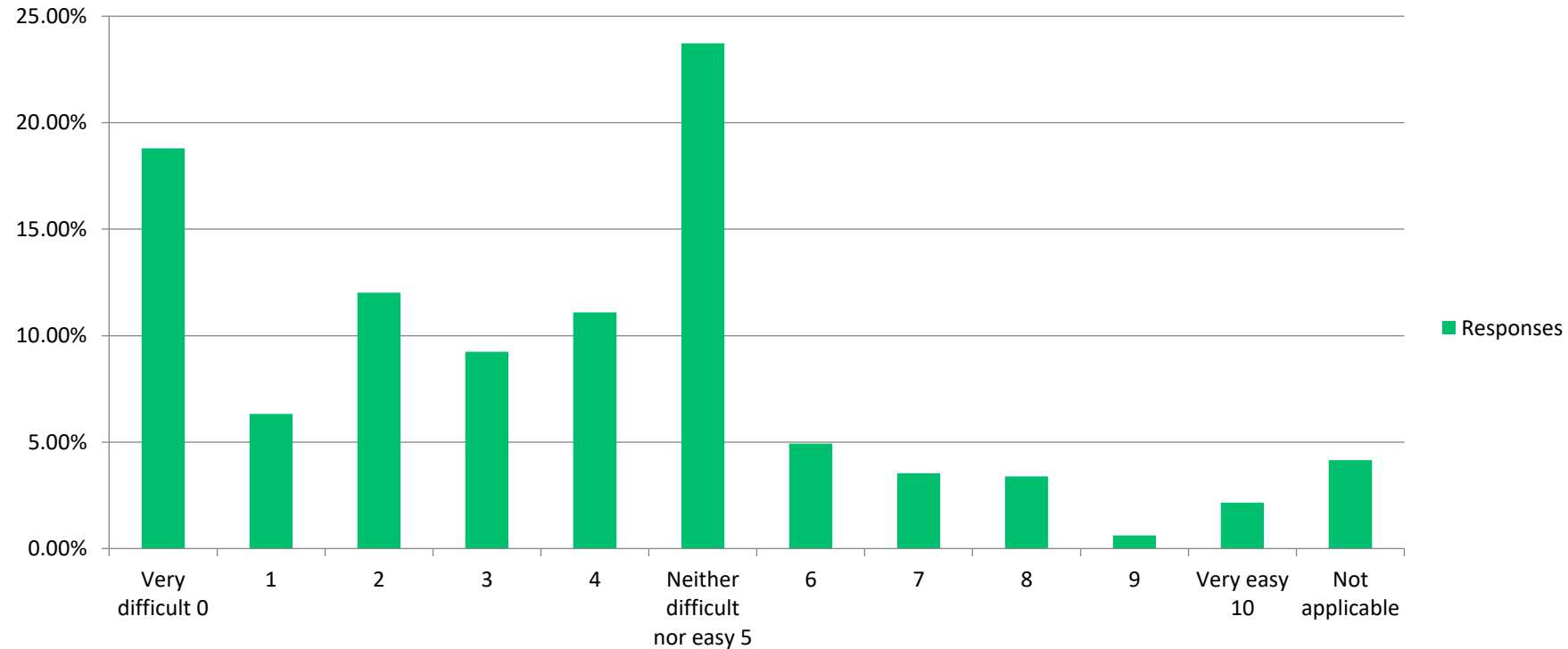
	Net: Easy (%)	Net: Difficult (%)	Mean score
Current rent	34	42	5.18
Rent freeze	48	17	3.45
2% cut	41	33	4.22
5% cut	46	20	3.39
10% cut	61	7	2.80

Tenant online survey – key findings



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On a scale of 0 to 10, where 0 is 'very difficult' and 10 is 'very easy', how difficult or easy is it to afford the rent that your household pays?



CIH online surveys



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- Two online surveys published, one targeted at landlords and one at tenants; 15 tenants and 15 landlords participated in interviews; meeting with councils
- Surveys promoted by CIH and by stakeholders – 651 tenants and 493 landlords for total 1,144 respondents
- Tenant survey themes: experience and cost of living in the PRS; affordability; how rental costs are met
- Landlord survey themes: motivation and costs of being a landlord; future intentions; foreseen actions in the scenario of rent freeze/cut.

Landlord online survey – key findings



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Table 2.6.1. Summary of landlord responses to proposed regulatory measures
(Source: CIH landlord consultation survey)

Landlord Response	Proposed Regulatory Measure			
	Rent Freeze	Rent Reduction of 2%	Rent Reduction of 5%	Rent Reduction of 10%
I will continue operating as I do now for the foreseeable future	22%	17%	12%	9%
I will continue operating as I do now for the foreseeable future, but I may disinvest in maintenance, repair, or refurbishment	17%	20%	16%	11%
I will gradually decrease the number of my properties for let in the coming years	23%	22%	17%	12%
I will decrease the number of my properties for let very soon	28%	31%	46%	58%
Net loss	51%	53%	63%	70%
I will gradually increase the number of my properties for let in the coming years	1%	0.8%	0.4%	0.2%
I will increase the number of my properties for let very soon	0.4%	0.4%	0.4%	0.8%
Net addition	2%	1%	1%	1%
Don't know	8%	9%	8%	8%

Note: Figures are rounded to the nearest whole number, unless figure is below 0.8%, where decimalisation is provided for clarity.

Assessment of rent freeze/cut impact



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- Rent freeze/cut would improve affordability for some renters, impact felt across groups differently
- Uneven impact on availability of properties within current LHA rates – inefficient policy tool to help people on lowest incomes
- 41 to 60 per cent of landlords would seek to exit the market – 57,000 to 83,000 households affected
- Impact felt across landlord groups differently (outright owners vs. full repayment mortgages); some properties may be sold to other landlords, others repurposed e.g. Airbnb.

Alternative approaches to improve affordability



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- Top up LHA claimants with a shortfall to real 30th percentile rents e.g. DHPs, extension of welfare supplementary payments; top up shared accommodation rate to one-bedroom rate
- Enhance existing rent control e.g. allow renters to challenge unfair increases as in England and Scotland, limit increases within a tenancy to CPI or similar indexing measure
- More supply – build more social housing, improve fiscal framework for private rented sector.