

Let the landlords let

by John Blundell

In recent decades small landlords have had the worst press that any group of entrepreneurs could wish for. Indeed their image has sunk to such a low level that a new word has entered common usage to depict the "bad" landlord. "Rachmanism", after the late Peter Rachman, means "a bullying attitude towards tenants, possibly involving the use of Alsatian dogs".¹

How justified this description is of Rachman's methods is now open to serious doubt.² Were the dogs to frighten tenants or to protect the rent collectors from the abuses of the tenants?

Nor is their bad press limited to the UK. In his remarkable book "Defending the Undefendable"³ Walter Block summarises the popular view of the small landlord in the U.S. thus:

To many people the slumlord - alias ghetto landlord and rent gouger - is proof that man can, while still alive, attain a satanic image. Recipient of vile curses, pincushion for needle bearing tenants with a penchant for voodoo, exploiter of the down-trodden, the slumlord is surely one of the most hated figures of the day. The indictment is manifold: he charges unconscionably high rents; he allows his building to fall into disrepair, his apartments are painted with cheap lead paint which poisons babies, and he allows junkies, rapists and drunks to harass the tenants. The falling plaster, the overflowing garbage, the omnipresent roaches, the leaky plumbing, the roof cave-ins and the fires are all integral parts of the slumlords' domain. And the only creatures who thrive on his premises are the rats.

However the landlord is not without his defenders and in recent years a number of organisations and individuals have begun to fight back, blaming legislation (*vide infra*)

and not the landlord for the current unhappy state of affairs.

Control

Legislative moves against landlords have been two-pronged: on the one hand, the rents tenants pay have been severely controlled whilst on the other hand, the rights of landlords to evict have been all but eroded away.

The first move came in 1915 with the *Increase of Rent and Mortgage Interest (Restrictions) Act*. Parliament feared that war time conditions might tempt landlords into profiteering and hence this Act froze rents at their 1914 level, and gave security of tenure to the tenant who kept up to date with his rent. Only one exception was allowed: if the landlord could show that in all reasonableness he needed the property concerned in order to house himself then he had precedence over the tenant. As Hayek points out, measures to restrict rents are always "a device to meet a passing emergency and never defended as a permanent arrangement"; however they have "regularly become a lasting feature in much of Western Europe" and they have "done more to restrict freedom and prosperity than any other measure, excepting only, inflation."⁴

In the twenties and thirties Acts of Parliament were passed to allow rents to be increased from their frozen 1914 level, but not by a sufficient amount to catch up with the general rise in the price level. The 1920 Act, for example, allowed a 40% increase compared to an 80% price rise between 1914 and 1920. Houses which became vacant were decontrolled up to 1933 and new houses built post 1919 were also not subject to control. But in 1939 all rents were again frozen, some at the 1914 level plus others at the decontrolled level. The Conservative Rent Act of 1957 decontrolled the top 10% of the market and also allowed new rents to be set when sitting tenants left. It also increased rents by about 70%, the first major increase since 1939, and again an increase which bore no relation to prices (up 150%) or incomes (up 250%).

A variety of Acts in the 60s and 70s have led to the current situation: local authorities can compel landlords to carry out repairs; there is extensive security of tenure which can be passed on at the death of the tenant to a "statutory successor" for two generations; Rent Officers and Rent Assessment Committees calculate and enforce "fair" rents which give a negative return, and tenants can report their landlords to such people, despite what they might have said or agreed to when they originally rented the property.

Added to all this there is also legislation concerning fire and safety provisions, not to mention planning procedures should you be so foolish as to want to enter this market.

Consequences

The effects of this legislation have been many and varied. Needless to say, the number of rented units on the market has fallen drastically from an estimated 7.1 million in 1914 to 6.6 million in 1938 to 4.6 in 1960 and 2.9 in 1975⁵

In January 1979 G.F. Cutting⁶ estimated that the number of dwellings in the private rented sector had fallen to 1.85 million. In 1918 the private rented sector accounted for 90% of housing, in 1979 that figure had collapsed to a mere 9%, most of it being held by small landlords with 1-3 properties each. Referring to Hayek again: "Originally introduced to prevent rents from rising during the First World War, it was retained in many countries for more than forty years through major inflations, with the result that rents were reduced to a fraction of what they would be in a free market"⁷. The problem with rent control, as with much legislation, was that once introduced it was very difficult to remove. Although meant to be a short term measure, it immediately led to a decrease in supply whilst doing nothing about demand, which of course rose higher and higher as the level of rents fell in real terms. The wider the gap between the controlled level and the market level the more difficult it became for politicians to remove the controls.

The 1957 Act represented a 'gradual' approach to removing controls and a possible

return to the market. However since it merely decontrolled the top 10% of the market and premises that were vacated, it gave landlords an enormous incentive to switch from providing cheap to expensive accommodation and to use any possible means to evict sitting tenants. Low income families suffered as new units were built purely for the top 10% and existing units were converted into 'luxury' units. As Dr. Stuart Butler states:

*The response to the effects of the 1957 Act were predictable. If decontrol had led to such terrible things, it was argued, then surely more controls were necessary - not fewer. And if tenants were being hounded out of their homes, then they must have stronger security of tenure.*⁸

Thus over a period in excess of 60 years now, the presence of effective rent controls has quartered the supply of rented accommodation. In other words it has not only perpetuated but also worsened the 'evil' it was meant to cure.

A second effect has been to freeze whole sections of the population in areas where they would not now be living had rent and security controls never appeared. Owners of tenancy rights have such a good deal, at the expense of the landlord, that quite naturally they will not move in response to other forces.

This has had many repercussions, particularly on the labour market. The employed sitting tenant will not seek promotion unless he can obtain a very large increase in net income since it will need such an increase to make up the difference in his housing costs. Similarly the unemployed sitting tenant will often only consider jobs within easy access of his protected tenancy.

Under Use

A further effect is that much property is under used. The normal pattern of occupation is that a single person or a retired couple will occupy less square footage than say a married man with a family who is at the height of his earning capacity. However the young single person or a retired couple

can often be found occupying a large four bedroomed house at a low controlled rent. Furthermore, many rooms in owner occupied homes are not rented out because of the fears of the would-be landlord. If they are rented then it will be exclusively to the transitory person whom the landlord is sure will move on e.g. the holiday maker. A further example of under usage occurs when a landlord has a house split into two or more flats, all occupied by sitting tenants. As these tenants move or die he leaves their flats vacant, not daring to relet them, until the whole house is empty. Thus large houses can be left almost completely empty for years as the landlord waits for the last tenant to die or vacate and potential purchasers of such properties will always ask after the age and health of sitting tenants. Needless to say this "monstrous" situation has led to calls for legislation to force landlords to let their empty property.

Fourthly, the landlord has lost all interest in investing in and maintaining his property "beyond what the law allows him to recover from tenants for that specific purpose". Thus there are now whole areas of our Inner cities where after a few minutes practice one can invariably determine whether a house is owner occupied (well maintained) rented (falling down) or council owned (boarded up). Now that local authorities have a statutory duty to house the homeless person a new phenomenon has emerged in the housing market. A landlord with a four bedroomed semi detached house is receiving say £3 per week rent. He cannot afford to keep it in good condition. The tenant is willing to vacate but only to better accommodation at a comparable rent i.e. a good Council flat. Thus the landlord and tenant conspire deliberately to run the property down; the tenant notifies the Council that there is a health risk and a closure order is put on the property. The Council rehous the tenant; the landlord improves the property and sells it to owner occupiers.

As with many legislative acts it is the poor who suffer disproportionately. The rich tenant can afford expensive accommodation which is not controlled or can find a loophole to exploit; the poor tenant cannot. The rich landlord can find ways round the legislation which can both allow him to

charge a good rent (probably above the level that a free market would set for his property in that supply is so stagnant and demand so high) and allow him to get rid of difficult tenants; the poor landlord cannot. Indeed as Butler⁹ points out, the proportion of tenants renting from the small landlord is growing not because there are new entrants to the market but because the small landlord is stuck in the market whilst companies, organisations and employers can find a way out. These injustices are further compounded where the tenant can enlist the support of free legal services via either Legal Aid, a local law centre or Community Advice Centre, whereas the landlord might well not qualify for Legal Aid and would be given short shrift by the law centres and community advice centres.

Capitalism

Rent and tenure controls have probably damaged both small capitalists and the image of capitalism more than any other single measure and are consequently a major sacred cow of the socialists. The majority of landlords are individuals and their business, either part time or full time, is providing units of accommodation for those who do not want to buy, for those who cannot afford to buy and for those who are not in either tied or public housing. The part-time landlord will often be a person who many years earlier decided to invest for his retirement in a house which would be rented out to provide a small income. Faced now with ludicrously low rents he is almost certainly paying out more, if only in rates, than he receives in income.

He has two alternatives: either he sells his property now for a few thousand or he waits for the tenant to die, hoping there will be no statutory successor, when he can sell up for five or ten times the amount since the property will have vacant possession.

The full time landlord is trying to make his current living from his business and faces the same scenario although on a larger scale. The reason why the image of capitalism has suffered is that normal market relationships have been turned on their heads by the controls. The landlord provides a service and in a free market his best interests would be

served by fulfilling the needs of his tenants to the greatest possible extent. If he failed to do so, his business and hence income would suffer, and if he ignored these signals he would in the long run go out of business. Rent and tenure controls turn this system around. Now the landlord goes to bed praying that his tenants will go away so that he can either sell up or move his renting activities to a decontrolled part of the market. There is no longer a voluntary exchange of services for money; the landlord is forced to subsidise the tenant (regardless of respective income levels) and the tenant is living in a home which is falling down and from which he cannot afford to move. Tensions rise and the socialist claims that the landlord's Alsatian is undernourished in order to frighten the tenant, whilst the capitalist claims it is there to protect the landlord and undernourished because rents are so low the landlord cannot afford to feed it.

Secondly, tenants groups and associations have been given considerable attention and support by the media, local authorities and the Labour Party. Such groups are often given large amounts of public money to pursue their grievances and, should a tenant have a hard luck story, it will immediately be taken up by the media and a Labour MP. On the opposite side small landlords are not at all well organised in their own defence, by comparison with their tenants. They are invariably cast as the villains of the piece and the Conservative Party will not commit itself to any radical reform whilst appreciable numbers of voters enjoy such high security and such low rents.

Are small landlords to blame for the harassment of tenants that some claim has occurred? No. It is the politicians who are to blame for ignoring market forces and turning incentives around 180 degrees.

A "good" landlord can no longer survive and any estate agent in an urban area can now offer properties for "Investment" which landlords cannot keep on. The investor makes his profit the moment the property becomes vacant: in other words the sooner it becomes vacant the faster he gets his money back and his profit. Consequently the sort of person attracted to the job of landlord has

changed since the job now entails highly unpleasant aspects which most people shun. As Block states:

*in many cases the reputation of the slum-lord as cunning, avaricious etc. might well be deserved, but it is the rent control program in the first place which encourages people of this type to become landlords."*¹⁰

When one can buy large houses in Inner cities with a sitting tenant for less than £10,000 and when the death or departure of that tenant can put the price up to £20,000 or even £35,000 if a few thousand pounds are spent on renovations, repairs and modernisation, is it any wonder that "strong arm tactics" are occasionally rumoured as being used?

Decontrol

How can the system be turned back to a situation where everybodys interests are best served by amicable, voluntary agreements, the landlord (under the constraint of competition) making a reasonable income and the tenant (protected by the knowledge he could move elsewhere) living in reasonable accommodation for which he paid a reasonable rent?

There have been two major examples of decontrol in the West since the end of World War Two¹¹. In 1949 the U.S. Department of Labour studied rents before and after decontrol in a number of cities.

Rents had been controlled for 8 years and whilst prices rose 32.4% during 1946-49 rents had risen only 14.5%. When decontrolled in late 1949 rents rose only 3.5% and did not catch up with prices for five years. There was no huge explosion in rents, and the reason was quite obvious. Now that the arrangements were back on a voluntary basis 'For Rent' columns suddenly reappeared in the newspapers as those who had previously not been prepared to rent now entered the market. Thus existing landlords could not suddenly increase their charges since their tenants could easily move out.

The second example concerns Sweden where rent control was introduced as an emergency

measure in 1942. The number of dwellings removed from the housing stock rose quickly, especially after the end of the war when, despite the ending of emergency conditions, rent control remained. In 1958 decontrol began and it finally got into 'full swing' in the mid-sixties. From 1942 to the mid-sixties queues for housing had lengthened and vacancies fell to zero. From the mid-sixties onwards the queues rapidly shortened and vacancies began to appear once more. Indeed the surplus became so large so quickly that the government stepped in to rescue various organisations which, against a background of decades of shortage, had, it turned out, built too many units.

Decontrol can either be gradual or sudden. A gradualist approach in 1957 caused two distinct classes of rented accommodation: the controlled and the decontrolled, to emerge, and quite naturally led to a scramble on the part of landlords from the former to the latter. Such repercussions would be inherent in any gradual move and would probably have more 'bad' side effects than a sudden approach. The overnight abolition of rent control would rejuvenate the market considerably and, literally overnight, units to let would reappear on the market, to such an extent that rents would not rocket. But what of security of tenure and existing sitting tenants?

To encourage units back on to the market security of tenure would have to be abolished for new lets, at the same time as rent control. If this were not the case new landlords would still be discouraged by the possibility of not being able to get rid of bad tenants. But with existing protected tenants a real problem would arise with, for example, retired people on a low fixed income paying only a few pounds per week. There are protected tenants who have lived for 40, 50 or even 60 years in the same property and whose finances throughout their working lives, including savings and provision for retirement, have been geared to paying a low rent. The first task in such cases should be to abolish statutory succession so that the tenancy in such a case cannot pass on to other members of the family. One way of doing this would be as Hayek suggests:

"to detach tenancy protection from *property* and attach it to *persons*." ¹²

This would also have the further advantage of stopping a single tenant from holding up the redevelopment of a large block. The single tenant would have to accept a reasonable offer of reaccommodation and even small landlords with only a few properties would then be able to concentrate all their protected tenants in say two properties leaving the others free to be modernised and relet at an economic level. Other measures could also be introduced to decrease the number of protected tenants and, as long as no new such tenancies were allowed, one would rapidly reach a situation of only having a small rump of ageing protected tenants whose numbers fell each year.

Some individual tenants would be hurt, but the abolition of rent control and security of tenure except for a very small number during a transitional period would immediately change the housing situation.

Current and new landlords would have the incentive to look after their property; tenant-landlord relations would improve quickly as both became satisfied by their respective deals; large numbers of units of accommodation would come on to the market; labour would become more mobile; property would be fully utilised; large parts of inner cities would change for the good; the poor tenant would get a better deal and the rich tenant would no longer have to go for expensive accommodation; landlords would not have to look for loop-holes and harassment would no longer be profitable. For the first time in most peoples lives there would almost certainly be a surplus of units available for rent - and the Alsatian dogs would no longer be underfed. Would this not be unfair to the tenant?

Could the landlord throw him out at the drop of a hat? In a free market for rented accommodation various forms of contract would emerge. Thus the tenant wanting some protection e.g. 6 months notice to quit, would all other things being equal, have to pay a premium of say £1 per week more as compared with the tenant prepared to accept 1 months notice. Also, as long as the tenant was fulfilling his side of the contract, the landlord would have no incentive to throw him out.

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The landlord would then have the trouble and expense of reletting and in a buyers market he might well lose several weeks rent. Assar Lindbeck, a Professor of Economics at Stockholm and a socialist, once said:

In many cases rent control appears to be the most effective technique presently known to destroy a city - except for bombing.

It was this quote that led Dr Butler to entitle a pamphlet "More Effective than Bombing"¹³ since "while bombing is just as good at ruining the supply of housing as rent control or any government intervention, it has the effect of greatly reducing demand at the same time. Intervention, if anything, must be adjudged more effective than bombing in destroying the housing market." In plain words: bombing reduces supply and demand simultaneously whereas rent control reduces supply and increases demand; hence rent control is "more effective than bombing" in destroying cities.

Free Life

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