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Local Government, Housing and Planning Committee
The Scottish Parliament
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3 February 2025

Dear Convenor,

<u>Housing (Scotland) Bill – Ensuring Workable, Sustainable Legislation</u>

We would like to start by thanking you for the opportunity to speak at the Local Government, Housing and Planning Committee on Tuesday 28th January, and especially acknowledge your fair and balanced approach in chairing the discussion.

The signatories to this letter provided evidence to your Committee and we write collectively to provide a unified perspective on the Housing (Scotland) Bill. With further endorsement from the Scottish Property Federation and the Association for Rental Living, who were not in attendance on Tuesday, we offer constructive recommendations that ensure the legislation is practical, fair, and sustainable.

Our organisations represent the full spectrum of Scotland's private rented sector, including small-scale landlords, institutional investors, rural and urban housing providers, and letting agencies.

We support the Scottish Government's ambition to provide stable, affordable, and high-quality rental housing, and we recognise that a balanced and predictable approach to rent regulation is crucial to achieving this.

This letter outlines two key areas of concern:

1. **Index-linked rent controls (CPI +1%)**
2. **Proposed rent controls between tenancies**

While we support the principle of index-linked rent adjustments, we have significant concerns about the proposed restrictions on rent setting between tenancies, which could have unintended consequences for investment, housing quality, and rental market stability.

The implications of these aspects of the proposals are central to the intent of the legislation and consequently central to the success or otherwise of the legislation. It is imperative that they are dealt with on the face of the bill and not subordinated to secondary legislation.

1. <u>Index-Linked Rent Controls (CPI +1%) – A Fair & Transparent Framework</u>

We support inflation-linked rent adjustments as a workable and transparent means of providing certainty for tenants and landlords. The proposal to limit rent increases to CPI +1%, capped at 6%, strikes an appropriate balance between preventing excessive rent rises and ensuring landlords can maintain their properties and invest in new housing supply. However, any form of rent control will penalise more severly those housing providers who chose to charge lower rents to benefit their tenants.

1.1 Key Benefits of CPI +1% Rent Controls

- <u>Predictability for tenants</u> – Ensures rents track general inflation and remain manageable.
- <u>Certainty for investors</u> – A transparent, inflation-linked mechanism gives confidence to landlords and developers, ensuring continued investment in the sector.
- <u>Ease of implementation</u> – CPI is published monthly, allowing for straightforward application without requiring independent verification or adjudication.
- <u>Market stability</u> – Allows for rent adjustments that reflect periods of below-inflation rent increases and permitting increases slightly above CPI.

1.2 Reflecting the Fluctuating Nature of Rents

- While long-term rent trends typically follow inflation, there are instances where rents remain static or decline.
- In Aberdeen, for example, rental values fell between 2015 and 2021, despite CPI inflation remaining positive.
- The additional 1% adjustment allows rents to stabilise over time, ensuring that properties remain financially viable for landlords while maintaining affordability for tenants.

1.3 Covering Rising Landlord Costs to Maintain Standards

- Maintenance and operating costs for landlords often account for 20%–40% of rental income. Where rents are lower – typically outwith the main cities and in rural locations – the fixed costs mean that this can be an even higher percentage.
- CPI alone does not always reflect the full extent of cost increases, particularly in insurance premiums, energy efficiency improvements, and regulatory compliance.
- The additional 1% ensures landlords can continue delivering essential services, maintaining high standards while keeping rental housing financially sustainable.
- Rents are often inclusive of additional costs which are borne by landlords. In BTR this can include wifi, staffed public recreation spaces, and private car parks. In rural locations it can be private water and electricity supplies and private access roads. These costs are not controlled and can rise significantly ahead of the CPI figure.
- Without a workable rent framework, investment in the private rented sector could decline, exacerbating Scotland's housing shortage.

1.4 Inflation-Linked Uplifts is an Established Approach:

- The Private Housing (Tenancies) (Scotland) Act 2016, adopted CPI + 1% under the Rent Pressure Zone mechanism.
- The 2024 UK social housing settlement adopted CPI +1% for rent adjustments.
- Inflation-linked models have been widely applied in controlled European rental markets.

2. Proposed Rent Controls Between Tenancies – A Risk to Housing Investment

While we support index-linked controls within tenancies, we urge the committee to reconsider the proposal to restrict rent adjustments between tenancies. This measure risks creating a two-tier rental market, discouraging investment in property improvements, and reducing overall housing supply.

There are a number of risks associated with restricting rent adjustments between tenancies:

2.1. Below-Market Rents Will Distort the Market

- Many landlords do not raise rents annually, valuing long-term tenants over higher rents. Should the rent cap be applied between tenancies, a consequence would be that landlords have less flexibility in considering affordability concerns during existing tenancies when balanced in the context of long-term performance.
- Scottish Association of Landlords research shows that prior to 2022, only 8% of landlords raised rents annually. This increased to 61% in 2024 due to Scottish Government interventions on rent control.
- The same research shows that 60% of tenancies are currently let below market value.
- If new rents must remain tied to historically low levels, the system will create major disparities between near-identical properties, leading to a two-tier system and unfairness for both landlords and tenants.
- If rents cannot revert to market levels in between tenancies, the true market will become vague. This makes valuation difficult (and therefore discourage institutional investors) and it removes one of the key indicators that helps to match supply with demand. Lettings become reliant on the rental database, increasing bureaucracy and the risk for costly disputes.

Solution: Allow a rent reset to market level in instances where a property was previously rented at least 10% below market rent.

2.2. Investment in Property Standards Will Decline

- Landlords typically upgrade properties between tenancies, carrying out refurbishments that improve housing quality.
- If new rental agreements must remain tied to the previous rent, there is no financial incentive for landlords to invest in improvements.
- This could lead to a gradual decline in housing standards, directly impacting tenants.

Solution: Exempt properties undergoing upgrades and improvements from rent caps upon re-letting.

2.3. Scotland's Net-Zero Housing Goals Could Be Undermined

- The Scottish Government's energy efficiency targets require landlords to transition away from fossil fuel heating.
- These upgrades require significant investment, but if landlords cannot recover costs through rent, many improvements will not be made.

Solution: Allow rent adjustments where landlords invest in energy efficiency upgrades, aligning the policy with Scotland's climate objectives.

2.4. Rural Housing Shortages Will Be Exacerbated

- A healthy private rented sector is essential for a thriving rural economy and to reverse the tide of rural depopulation.
- Housing sold out of the rural private rented sector is not as easily replenished as it is in urban locations as there are no institutional investors and viability is challenging for small-scale development.

Solution: Rural impact assessment and recognition of the special circumstances of rural homes to take proper account of regional differences.

2.5. Inhibiting Investment in New Rental Homes

- Rent caps lower investor confidence and inhibit the ability to deliver customer, community and investor value. Institutional investors in Build to Rent (BTR) invest for the long term meaning they are equally committed to creating sustained community value. Rent caps harm long term investment in both.
- Investment into new build Build to Rent apartments and family homes has been put on hold or abandoned with around £2.5 billion of investment at risk. National and international research also highlights the negative impacts on supply due to strict rent restrictions.

Solution: Permitting rent adjustments between tenancies as outlined will partly mitigate the impact of rent controls on investor confidence.

3. Conclusion – A Balanced Approach to Rent Controls

Scotland's private rented sector plays a crucial role in providing affordable, high-quality housing.

The CPI +1% rent control proposal is a reasonable and effective framework, but restricting rent adjustments between tenancies could have unintended negative consequences, discouraging investment and leading to declining housing standards.

To ensure a fair, predictable, and sustainable rental market, we recommend:

1. **Retaining CPI +1% as a transparent, workable model, ensuring stability for tenants and landlords.**
2. **Revising between-tenancy controls to prevent below-market distortions and incentivise investment in housing quality and energy efficiency.**

By adopting these pragmatic amendments, the legislation can achieve its core goal—delivering secure, stable, and affordable tenancies while maintaining high standards and encouraging much-needed investment in Scotland's housing sector.

We appreciate your consideration and remain committed to working collaboratively to develop a sustainable rental market that benefits tenants, landlords, and Scotland's wider housing sector.

Yours sincerely

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cc. Paul McLennan MSP, Minister for Housing