Chapter Seven

Private Renting

by Kenneth Gibb, Hal Pawson and David Hulchanski

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Shaping Futures **Changing the Housing Story** Final report

Duncan Maclennan, Hal Pawson, Kenneth Gibb, Sharon Chisholm and David Hulchanski

Salta Developments, Richmond, Melbourne – build to rent project design

UNSW SYDNEY | University of Glasgow | Policy Scotland | UNIVERSITY OF TORONTO

Published by Policy Scotland,
University of Glasgow, March 2019
ISBN 978-1-5272-3901-2

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▲ Grocon – Parklands, Gold Coast, Queensland. Australia's first 'mainstream market' build to rent project (re-purposed from its initial use as Commonwealth Games).

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About this report

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Australian partners were Housing Choices Australia, Community Housing Ltd, Brisbane Housing Company and Bridge Housing. Britain's partners were Places for People, Sanctuary, Aldwych, Northern Ireland Housing Executive, Shelter, Scottish Futures Trust and Broadland Housing. The partners in Canada were the Maytree Foundation and the City of Vancouver.


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Chapter Seven

Private Renting

Kenneth Gibb, Hal Pawson and David Hulchanski

Commercial market renting, the private rented sector (PRS), has returned to the centre of international housing policy debates after a long period of relative neglect and – at least in the UK – decades of absolute decline. The PRS, in contrast to the various forms of social housing, is generally defined as "rented housing that is not allocated according to socially determined need" (Haffner, *et al.*, 2010:370). In liberal-market developed countries such as the Australia, Canada, and UK, the sector is the site of many perceived housing system problems including insecurity, poor conditions, unaffordability, and owner/tenant power imbalances, often leading to difficult relations and poor residential outcomes (McKee and Soaita, 2018).

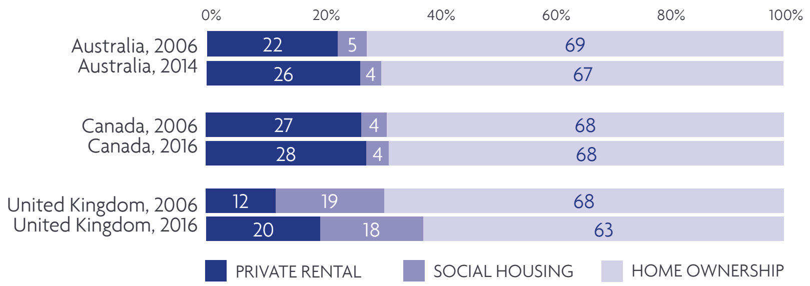
The sector's resurgence in the UK and Australia, alongside a modest decline in Canada, in size relative to the ownership sector (see Figure 1), has helped reignite long-standing debates about the proper place and scale of the PRS, and the depth, extent and efficacy of rent and non-price regulations and subsidies. In short, as a key part of the housing system, the PRS is often poorly understood and more complex than generally acknowledged. This fact is both a constraint on and a possible facilitator of housing policy reforms that could result in a more efficient, just, and sustainable housing system.

In the UK and Australia there are shared concerns about the relatively uncontrolled and/or unmanaged form of ongoing PRS growth. While UK home ownership has stalled over the last 15 years and social renting continues its long-term decline, the PRS has bucked its long-term trend and shown remarkable growth, from 12% of the housing stock, to 20% (2006 to 2016). This has, come about not as the result of conscious policymaking but by market responses to an evident gap and the presence of willing investors seeking better returns in an historically hostile market for personal savings. The sector, however, remains varied in quality and practice and the lived experience of renting is highly contingent on many factors outside of individual control. In this context, it is not surprising that there has been widespread concern in the UK about this uncontrolled growth not balanced by better planning and regulation of quality and conditions but also about the unanticipated consequences of such growth.

In Australia, where the PRS expanded from 22% to 26% of the nation's housing stock (2006 to 2014), growth has continued to be driven exclusively by small-scale investor property acquisitions. Indeed, the post-GFC housing market boom most pronounced in Sydney and Melbourne was widely attributed to surging 'landlord investor' demand. While the possible emergence of a new build-to-rent industry has begun to be widely debated since 2017, the feasibility of establishing an institutionally-backed 'mainstream market' rental sector in Australia remains to be demonstrated. As in Canada, private rental oversight is a state/territory responsibility and although the general approach continues to favour light regulation in terms of rents and security, there has been an increasingly active debate on possible enhancement of tenants' rights. In 2018 the State of Victoria enacted a modest reform package that may prove to be a spur to action in other jurisdictions.

In contrast, Canada's PRS has a long history of regulations by provincial and territorial governments (PRS regulation is not a federal government responsibility). As a proportion of the nation's housing stock the PRS decreased from a peak of 40% in the early 1970s to 28% in 2016. Even after the Global Financial Crisis (GFC) the rate of homeownership continued to increase slightly. Canadian real estate sales and values experienced increases after the GFC rather than declines. As Walks (2014:256) explains, this is because Canada's banks needed and received substantial bailouts combined with a massive growth of federal government mortgage securitization and record household indebtedness, combined with record low mortgage interest rates. Highrise condominiums accounted for much of the growth in ownership in Canada's major metropolitan areas, where most of the rental housing is located. In the City of Toronto,

Figure 1: Rental Housing and Home ownership Rates
Australia, Canada, United Kingdom,2006 & 2014/2016



Source for Australia, U.K: Martin *et al.* 2018 *The changing institutions of private rental housing: an international review,* Melbourne: Australia Housing and Urban Research Institute. Source for Canada: Statistics Canada, Census 2006 and 2016 Profile Series. Social housing (2016) in Canada refers to whether a renter household lives in a dwelling that is subsidized. Subsidized housing includes rent geared to income, social housing, public housing, government-assisted housing, rent supplements and housing allowances. Canada Census 2006 does not identify subsidized rental therefore the private rental/social housing mix of rental housing for 2006 is based on Martin (2018) figurers.

for example, 80,000 condominium units were built between 2014 and 2018. Condominium construction, though intended for the ownership market, have a significant share of non-resident investor owned units (i.e., units for rent). One-third of condominium units in Canada are renter occupied, which in turn means that 14% of all PRS units in Canada are in condominium buildings (2016 Census). These investor-owned condominium units are responsible for most of the growth in new supply of apartments in the PRS.

The PRS, though representing a smaller share of the Canada's housing stock, grew in absolute terms by 13%, from 3,880,000 occupied dwellings in 2006 to 4,480,000 in 2016. High annual rates of immigration are responsible for Canada's population growth of 11%, from 31.6 million in 2006 to 35.2 million in 2016 (Canadian Census, 2016). The growth rate of renter households is faster than the population growth rate due to aging and other factors that are creating many one and two-person households, which tend to be renters rather than owners.

In this chapter, we seek to do the following four things. First, to set the discussion within a framework that aids our subsequent analysis, we briefly lay out how the PRS plays multiple roles in the wider housing system. This tendency leaves market renting particularly exposed to changes in both the drivers of system change and, indirectly via changes in other parts of the highly interconnected housing system. The implication is that the PRS is actually multiple segmented markets across which a wide range of 'shocks' have differential and complex effects on market rented outcomes (Gibb, *et al.*, forthcoming).

Second, we use this framework to help us understand and explain growth, change and development in the rental markets of the three countries studied, in turn informed by wider comparative analysis of rental markets (Arundel and Doling, 2017; Maclennan, *et al.*, 2016; Martin, et al,. 2018; Rugg and Rhodes, 2018). Third, we explore the contemporary policy suite being initiated, contemplated and tested in the different countries in terms of supply innovation, price and non-price regulation. Fourth, and with particular concern for low-to-moderate income households of different ages, and cognisant of the policy context for market renting, we ask: how would standard policy and regulatory settings be re-configured to achieve efficient, just and sustainable PRS outcomes that meet our wider *Shaping Futures* goals, for each of the three countries in our focus but also more generally.

Conceptualising the Sector

The conventional starting point for characterising the rental market is via the supply and demand scissors of the self-equilibrating competitive market model (neo-classical economics). The model draws on the atomistic nature of market supply and the equivalent lack of market power on the demand side. This simple framework characterises the market as price competitive and then applies the model to assess government interventions, such as rent regulations (as in Economics 101), concluding that, in the case of rent controls, it is the classic example of the welfare losses associated with regulated rents set below the market clearing rent. The starting assumption in this conventional analysis is, therefore, that any problems of the rental sector are simply a temporary aberration in the performance of the market mechanism. The problems of the rental sector, it is assumed, represent not a failure of the market mechanism as such, but rather a failure of government policy to allow that mechanism to function. If government policy created the right conditions, the private market could solve the problems of the rental sector (i.e., reach equilibrium; achieve efficiency and equity).

Housing economics has, of course, evolved from the original 'housing services' flow model of the housing market (Arcelus & Meltzer, 1973) to, for instance, a stock-adjustment model that combines new flows with the existing housing stock (Robinson, 1981; Hanushek and Quigley, 1979). There are long standing concerns about the validity and evidence surrounding key model assumptions both about how competitive specific rental markets are in practice as well as their legal or social context.

The conventional microeconomic analysis has subsequently broadened to focus on the commodity complexity of housing across several dimensions. Housing is a durable good (physical depreciation and maintenance matter). It is fundamentally heterogenous (all properties have a degree of uniqueness, differentiating demand and complicating the notion of a common price of housing). Third, rental markets are spatially-influenced (location accessibility and neighbourhood attributes are important determinants of value and spatial externalities are the norm) and, fourth, extensive state intervention in housing, including the rental market, is the norm. Each of these features is a departure from the standard competitive model and make the analysis of rent regulation more realistic but much less straightforward than in introductory economics.

The second important strand in conceptualising the sector is to recognise the inherent structuration or segmentation of contemporary private renting found across national housing systems. Going back to Peter Kemp's work on the UK rental market in the 1980s it has been repeatedly recognised that the rental market plays a series of distinct roles catering for different demand groups including:

- Those needing easy access and/or short-term housing – e.g. students, young mobile working adults, people subject to relationship breakdown
- People with longer-term housing needs – including middle- or higher-income households saving for home ownership, as well as low income earners permanently excluded from home ownership but with insufficient priority to access social rental

Landlord typologies often differentiate between purposive and accidental proprietors (volunteers versus conscripts, in Kemp's evocative terms) or between purposive investors who are 'amateur' versus 'professional'. A related distinction contrasts small-scale individual players with institutional or company landlords. Gibb, *et al.*, forthcoming, bring this type of segmentation up to date by mapping it against the contemporary range of demand and product groups in the UK rental market. Not everyone agrees with this approach to structuring the sector – Rugg and Rhodes (2018) prefer a framework which is based on housing career stages.

Third, and returning to a theme running throughout *Shaping Futures*, we should locate the rental market within a wider conceptualisation of housing as a system (see the modern institutions and governance chapter, for instance). System approaches to housing (reviewed in Gibb, 2018) recognise the underlying complexity of the flows and interrelationships between different parts of the market which are shocked by external drivers, where impacts on one sector, e.g., owner-occupation, impact on private rental demand and vice versa. Likewise, such interconnectedness creates emergent properties (the system as a whole may be more coherent than its components), positive and negative feedback loops, as well as uncertainty dynamics.

This brief reflection on how we might conceptualise or understand the rental market helps prepare the way for how we might explain recent patterns of growth and change in the PRS found in Australia, Canada and the UK.

Growth and Change

Overarching trends

What are the key lessons from broad trends internationally in the size and composition of private renting? Maclennan, *et al.* (2016) identify a number of demand-side drivers of global growth in private renting in richer economies. In part, these drivers reflect constraints that make achieving home ownership more difficult. These include:

- less access to growing deposits required by lenders and mortgage regulation,
- lower productivity growth reducing disposable income,
- a widening income distribution increasing the numbers of especially younger households left behind,
- higher housing costs in the face of tighter metropolitan housing systems where new jobs are increasingly sought,
- complementary demographic and compositional increases in households who might demand market renting (e.g. student numbers and international job-induced migration).

Arundel and Doling (2017) argue that key PRS growth dynamics – in particular, the growth of insecure or precarious working – were operating before the GFC. They were, however, compounded from 2008 by the GFC-induced credit squeeze. This halted and reversed the previous trend of accommodating less and less sustainable home ownership access through mortgage debt expansion.

At the same time, on the supply side, housing wealth seeking out economic returns has shifted or expanded into residential investment landlordism, thereby – through a kind of feedback loop – helping to boost rental demand by pushing up house prices beyond the reach of many aspirational first-home buyers. As argued by Ronald, *et al.* (2015), the 'emergence of a younger 'generation rent'… excluded from owner-occupied housing' is coming about 'in part as a result of the rise of an older 'generation landlord'' (p53)

Martin, *et al.* (2018) review 10 countries' rental market systems, including the three Shaping Futures nations. Recent trends had seen rental markets larger and growing in most countries studied, often associated with increased leverage and financialisation of housing on the supply-side. The sector profile in most places tends towards apartments, lower incomes, and smaller households. Interestingly, however, the Martin, *et al.* systems analysis found several contrasting policy and fiscal settings associated with rental market growth (see also Whitehead and Williams, 2018).

Developments in Shaping Futures countries

In contrast to Canada, long term renting has been on the rise in Australia and the UK as a proportion of all households. Australia and the UK fit the global norm in terms of post-millennial PRS supply growth being largely associated with small-scale investor property acquisition (Lewis, 2016). At least in Australia and the UK 'investment property' ownership has become increasingly ubiquitous among moderate to high income individuals making provision for retirement through amateur landlordism. Some 2.1 million Australians (16% of all taxpayers) are now rental property owners (Pawson, *et al.* 2019), whereas UK private landlords now number some 2.3 million (Rugg and Rhodes 2018). In both countries, however, around 70% of landlords own a single rental property only. In Canada small investors own about half of the private rental stock with medium and large investors owning the other half. There is rapid growth in corporate ownership: public real estate companies, real estate investment trusts (REITs), and pension funds (CMHC, 2001). About half of the PRS housing in Canada is in purpose-built rental stock, with apartment buildings accounting for almost all such units (96% in 2015), with row (terrace) housing making up the rest (CMHC, 2016, 8-9).

Alongside the surge in private rental property acquisitions by 'mum and dad investors' (as they are known in Australia) all three countries have latterly witnessed a strong influx of investment in purpose-built rental blocks in the form of student housing. 'The development of the [purpose-built student accommodation – PBSA] sector has gone hand in hand with the globalisation of higher education' Savills (2017 p3). This refers, especially, to the rising worldwide numbers of overseas students within growing overall student populations seen over the past 20 years. Equally important in recent PBSA expansion, however, has been the demand from global investment companies for residential property as an income-generating asset, as returns from other investment classes have continued to decline (Pawson et al 2019). The Canadian Pension Plan Investment Board is one of the world's largest players in this market but insurance companies such as the UK-based L&G are also important.

Beyond the 'niche market' of student housing, recent UK experience suggests there is some prospect of a wider engagement with PRS investment by the global finance industry in high income countries where this has been previously insignificant. Ultimately, this might bring the Shaping Futures countries more into line with the USA where the 'multi-family housing' industry is long-established as a large-scale provider and developer of purpose-built rental housing. Over six million apartments in such buildings have been constructed since 1992 (National Multifamily Housing Council website).

Advocates of multi-family housing (or Build to Rent – BtR – as it is termed in the UK and Australia) plausibly contend that this residential form has the potential to deliver on a number of important public policy goals. These include widened housing diversity, higher construction and management standards and a more secure form of private rental housing. The diversification of residential construction industries away from the overwhelming dominance of a 'build to sell' product could also beneficially introduce a stabilising counter-cyclical economic component within this otherwise volatile sector.

In the UK, as recently reported by the British Property Federation, some 68,000 'build to rent' (BtR) units had been completed since 2012 or were under construction by Q4 2018. As well as large for-profit developers, proponents also include a small number of major not-for-profit housing associations and – latterly – local councils (in some cases via arms-length local housing companies) (Scanlon, *et al.*, 2018). However, while the UK's BtR sector has recently exhibited a strong growth trajectory, it is expected that 'by the 2030s it may – at best – come to comprise around 10% of the [private rental] market, or a maximum of 500,000 homes' (Ibid).

In Australia, the prospect of a 'mainstream market' BtR industry has recently excited extensive industry debate and policymaker attention, with a small number of specific projects being publicly announced during 2017 and 2018 (Pawson, *et al.*, 2019). However, it appears that there would need to be significant market and/or policy shifts (including with respect to property taxation settings) before a viable BtR industry emerges (ibid). However, even in that event, only if supported by substantial government assistance will such an industry have the capacity to contribute directly to 'affordable housing' (in the sense of housing within the reach of low-income earners).

In Canada, as the number of renter households continues to grow, almost all new rental housing in recent decades is being supplied by the secondary rental market (e.g. rented condominiums, apartments in houses). In the City of Toronto, for example, most of the approximately 48,000 additional rental households (2011 to 2016) were accommodated by additional supply in the secondary market. Purpose built rental apartments have accounted for very few (6%) of the additional rental units (City of Toronto, 2019:2).

Looking at the three Shaping Futures examples, what other specific points can be made about recent rental sector growth and change?

In Scotland, Livingston, *et al.* (2018) – to paraphrase – point to:

- Growth in the private renting from 5% of all households to 15% between 1999 and 2016. Again, there are wide variations across Scotland – from more than a quarter in Edinburgh to less than 10% in many other council areas.
- Private renting is now the most common tenure for younger households. However, there has been a significant growth in families with children in the PRS.
- More than 30% of households with children living in poverty are now in the PRS and PRS growth also appears to be associated with a suburbanisation of poverty.

For reasons discussed in the previous section, the sector is complex and not well suited to traditional forecasting or simulation modelling. Nonetheless, LSE London have undertaken interesting work on the future of private renting in London. Udagawa, *et al.* (2018) simulates different future growth/decline scenarios for the sector and its component parts for London and England. The LSE London team develop a regression model under different economic, housing and affordability scenarios and find that future PRS growth will be most pronounced where future economic growth and (owner-occupied) housing performance is weakest. If the economy grows more strongly, (post-Brexit) migration is curbed and if housing supply growth achieves government targets in a context where affordability outcomes are more favourable, then PRS shares fall back. This is a reminder of the dynamic and unpredictable complex futures of the PRS.

Turning to Canada, Martin, *et al.* (2018) note that:

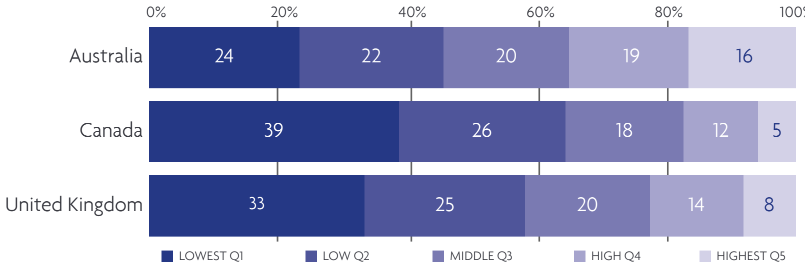
- Canada has a distinctive apartment-led urban rental market property profile, stemming in part from large-scale purpose-built building of rental housing from the 1960s to the 1980s (but retreating thereafter). This continues to account for more than half of the rental stock in Canadian cities (Lewis, 2016) and is a more established and mature build-to-rent sector than in the UK. Half of these multi-unit properties are owned by individuals.
- Alongside the historic purpose-built PRS portfolio there is a growing 'secondary rental market' (as termed by CMHC) that encompasses a diverse mix of other rental housing including rented condominiums and individually-owned tenant-occupied dwellings scattered throughout the housing stock
- Canada's rental market is composed of relatively high proportions of single people and households without children (compared to other countries studied and its own owner-occupied sector). Canada also has relatively few higher income households renting privately. Purpose built dwellings tend to be one or two bed apartments and hence house smaller households than in the 'secondary rental housing market'.
- Despite being generally older, the purpose-built units appear to be generally viewed to be in better condition across a range of metrics than the secondary rental market (Lewis, 2016).

Australian rental markets have their own specific trajectory and distinguishing characteristics. Martin, *et al.* (2018) point to the following important elements:

- Sector growth has seen an increase from 18% to 25% of the overall housing market since the mid-1990s. While slightly less rapid than in the UK this has occurred in a national context where there was no housing market downturn in this period.
- Reflecting the country's wider housing market, Australia's PRS is has been largely composed of detached houses, setting it apart from the wider domination of apartments found elsewhere.
- Compared with other countries, the demographic profile of Australia's PRS was less differentiated compared to that of the housing system more broadly. For instance, the income profile of private tenant households is similar to that for the entire population.

In summary, while there are important similarities in the nature and role of the PRS in the housing system of each of the three countries, the evolution of land, planning, tax, subsidy, and other housing related policies and practices mean the sector houses a slightly different mix of households by income, household type, and by type of structures (built form).

Figure 2: Rental Households by Income Quintile
Australia, Canada, United Kingdom, 2016



Each income quintile represents 20% of total household (owned and rented) ranked by income. Data refer to percentage of rental households situated within each income quintile. Source for Australia and U.K.: Martin el al. 2018 *The changing institutions of private rental housing: on an international review*, Melbourne: Australian Housing and Urban Research Institute. Source for Canada: Statistics Canada, Canadian Income Survey 2015 mircodata.

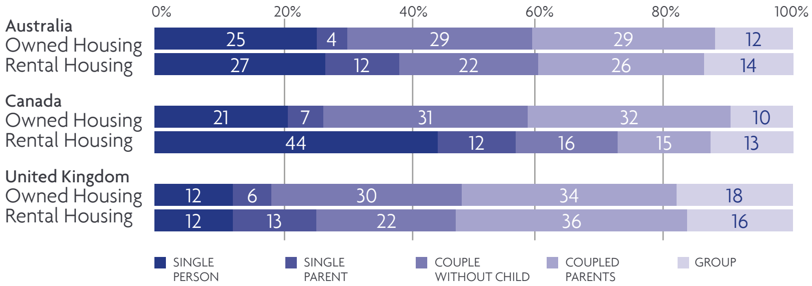
As Figure 1 above documents, the PRS in Australia houses 26%, in Canada 28%, and UK 20% of the nation's households. In Figure 2 we see that 65% Canada's renters are low income (drawn from the first two income quintiles), with a similar high percentage of renters who are low-income in the UK (58%). Very few high income (top 20%) of households are renters (i.e., they are homeowners). This presents a structure problem for good quality unsubsidized new private sector rental supply. New rental housing units are always more expensive than existing older units; yet a high percentage of the need is indeed "social need", not effective market demand. Australia's renter households, in contrast, are drawn almost equally from all income groups. There is only a 4% larger share in the lowest income quintile (24% rather than 20%), and a 4% smaller share in the highest income quintile (16% instead of 20%). It should be noted that Canada's distribution of renter households by income quintile in the 1960s was similar to Australia's in 2016 but changed dramatically starting in the 1970s (Hulchanski, 1988:158, Table 4). The PRS in these two countries subsequently followed different pathways.

As we see in Figure 3 the household composition (single person, singles/couples with/without children, etc.) of renters and owners are similar in Australia and the UK but not Canada. In Canada, 56% of renter households are either single person or single parent households in contrast to owners (28%). This in part accounts for the lower income profile of Canada's renters (i.e., couples can be and increasingly are both employed).

When we next examine details about the type of housing structure (Figure 4) we see that the distribution of the type of housing structure occupied by homeowners in Australia and Canada is very similar, yet the rental stock distribution is very different. About two-thirds of Canada's renters live in apartment buildings, compared to one-third of Australia's renter households. The distribution of the UK's housing stock for both owners and renters is very different from that of Australia and Canada.

To understand these basic similarities and differences we need to understand the national, and in some cases regional, policy contexts in which rental markets operate in each of the Shaping Futures countries. As Martin, *et al.* (2018:1) note, "the fact that Australia's PRS stands out for being less differentiated from the wider housing system in terms of its built form, household types and incomes...suggests a high degree of integration between the Australian PRS and owner-occupier sectors, which is significant for policy-making." The policy context is discussed in the next section. Note the importance of spatial multi-level governance (the role of national, state, provincial or devolved governments as well as municipal levels), how credit or housing finance operates in national rental markets, the importance of tax policy, subsidy (landlord and tenant) and, of course, regulation (price and non-price).

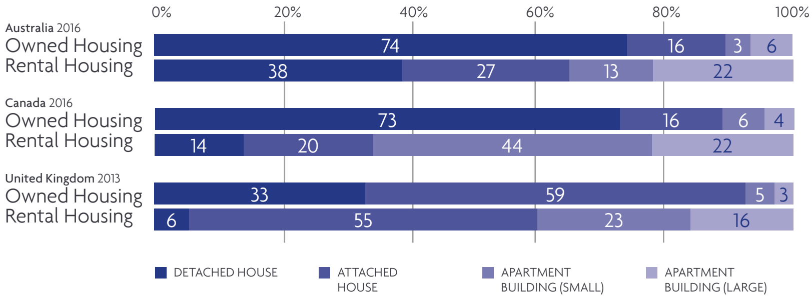
Figure 3: Housing Tenure by Household Composition
Australia, Canada, United Kingdom, 2015/2016



Housing Tenure. For Australia and U.K, owned housing includes both owner-occupied housing and social housing. For Canada, rental housing includes both private rental and social housing. **Group Household Type** includes multiple families in the same household and two-or-more non-family persons living together.

Source for Australia and U.K: Martin *et al.* 2018 *The changing institutions of private rental housing an international review*, Melbourne: Australia Housing and Urban Research Institute. Source for Canada: Statistics Canada, Census 2016 Data Table 98-400-X2016226.

Figure 4: Housing Tenure by Type of Structure
Australia, Canada, United Kingdom, 2013/2016



Housing Tenure. For Australia, owned housing includes both owner-occupied housing and social housing. For Canada and U.K, rental housing includes both private rental and social housing. **Type of Structure**. For Australia "Apartment building - small" refers to buildings of 1 to 3 storeys and "Apartment building - large" have 4 or more storeys. For Canada, "Attached house" combines semi-detached (double house), row house, apartment in duplex and other single - attached house dwelling types. "Apartment building - small" have fewer than five storeys and "Apartment building - large" have five or more storeys. For U.K, :Apartment building - small" have 2 to 9 units and "Apartment building - large" have 10 or more units.

Source for Australia and U.K: Martin *et al.* 2018 *The changing institutions of private rental housing: an international review*, Melbourne: Australian Housing and Urban Research Institute. Source for Canada: Statistics Canada, Census 2016 Data Table 98-400-X2016221.

The Rental Market Policy Landscape

In the following overview of the contemporary policy landscape for market renting in the Shaping Futures countries we discuss, in turn, four aspects:

- National governance structures
- Finance and taxation settings
- Government subsidy or other support
- Rental and non-price regulation

Firstly, when it comes to the different governance structures that condition the policy settings that are possible, it is useful to distinguish between national policy, intermediate geographies (state, province or devolved governments in Australia, Canada and the UK, respectively) and municipal government. Canada and Australia are federal systems, whereas the UK has delegated most though not all housing-relevant policies to the devolved nations, below which local government plays some role in the provision or regulation of rental housing. Private renting matters therefore sit across all three levels of governance in each country.

Thus, despite the fact that one is a federation and the other is not, there are some similarities between the UK and Australia in this respect. Most tax issues apply at the national level in all three countries since they concern the tax treatment of income which is largely the preserve of central government. Rules around tax allowances that affect the economics of landlordism therefore tend to be the preserve of national treasuries. Similarly, in both countries national level policy levers are crucially important in the realm of social security (Local Housing Allowance in the UK, Commonwealth Rental Assistance in Australia).

The regulation of tenure security, rental contracts and dispute resolution, however, is in all three countries the responsibility of the second tier of government – state/province/territory administrations in Australia and Canada and the devolved ministries in the UK. Local government in Australia, Canada, and the UK plays a key role in policing, administering and enforcing planning laws as well as operating local planning systems. Importantly, in this context, it is municipal government (local councils) that are responsible for the direct oversight (and enforcement of regulations) of the most high-risk component of the private rental market, namely multi-occupied buildings, known as houses in multiple occupation in the UK and boarding, or rooming houses in Australia and Canada (for Canada, see Campsie 2018).

A second key aspect of the policy landscape concerns finance and taxation. How are PRS investments funded in each of the three Shaping Futures countries, and how does that impact on the sector? How does housing taxation advantage or disadvantage the respective rental markets in each country? Martin, *et al.*, (2018), indicate that bank credit has been the main source of funds for recent PRS investment in all three countries. Smaller roles are played by REITs, private equity and non-bank lenders. Bank lending criteria, especially since 2007-08, has been more closely aligned to regulatory controls operating at the national level though this has been less material in its impact than would be the case for lending for home ownership. To the extent that build-to-rent is becoming established as a component of new supply (in the UK, at least), international capital is coming to play a significant role.

Tax policies importantly impinge on the rental market in each country. Key features of tax frameworks in Shaping Futures countries are as follows:

- For UK landlords, interest payment deductibility applies, although this has recently been reduced. Capital Gains Tax (CGT) applies (and disadvantages buy to let providers who also pay punitive rates of stamp duty land tax on transactions.
- For Canada, interest rate deductibility applies and can be applied to other sources of income. CGT applies with a 50% discount.
- For Australia, interest payment deductibility applies (including negative gearing on other sources of income). CGT applies with a 50% discount

All three countries have variations of property tax/land value tax, although they vary at state/province/devolved nation level. Canada and Australia have state/province varying rates of transfer tax that apply to property including residential investments. In Australia the structure of land taxes as applicable to private landlords has been a subject of recent contestation because of the way that standard state/territory models effectively privilege small-scale investors as opposed to corporate providers of build-to-rent blocks (Pawson et al 2019). The UK has a council tax on property with a national set of tax rates based around a reference tax multiple set locally – there are also differences across devolved countries within the UK). Canada and Australia have tax depreciation systems whereas the UK has a more limited capacity for landlords to claim back tax on works they have carried out. All three countries have legislation permitting residential Real Estate Investment Trusts (REITs), that is 'tax transparent' structures which enable residential property investors to avoid 'double taxation' (first, as company income; second, as individual-investor income) (Jones, 2007).

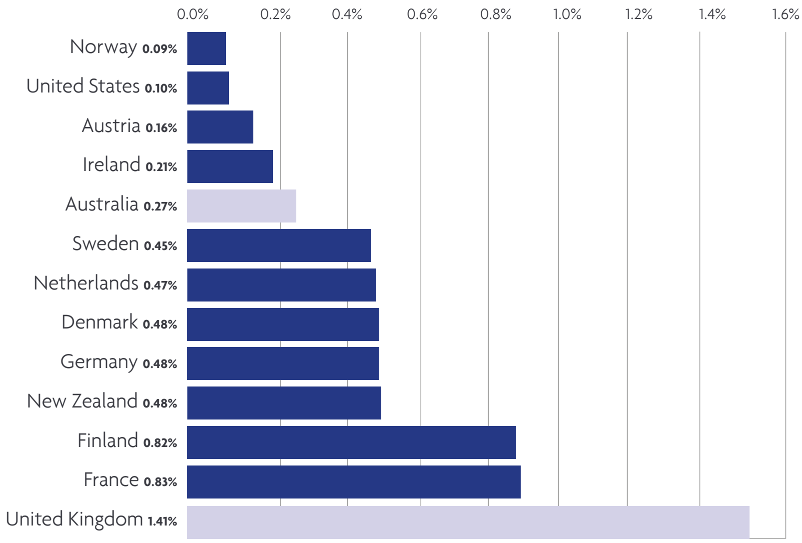
In Australia, residential REITs sit within the broader family of Managed Investment Trusts. MITs have been commonly used to facilitate purpose-built student housing development and are considered by the finance sector as a suitable vehicle for broader BtR investment.

However, this has recently proven controversial, especially in terms of the specific rules applicable to overseas investors for whom residential rental income via MIT is taxed at a higher rate than revenue from other forms of investment (CBRE 2018; Pawson, *et al.*, 2019).

A third important aspect of the policy landscape for private rental housing concerns government subsidy or other support on supply or demand-sides of the rental market. What forms of such assistance (broadly defined – including guarantees, interest subsidy and tax breaks) do we see in play for landlords and investors; as well as personal subsidies on the demand-side?

On the supply-side, Australia's National Rental Affordability Scheme – NRAS (2009-2014) took the form of an annual tax break or subsidy payment made available to investors for a ten-year period, conditional on renting out newly-built dwellings at rates discounted to the market, with tenants selected according to administratively-defined criteria (Rowley, *et al.*, 2016). UK governments have recently sought to support the establishment of a Build to Rent sector through revolving funds and debt guarantees as well as – in Scotland – guaranteeing rental income for approved BtR projects (Scanlon, *et al.*, 2019; Scottish Government n.d.). In Canada, the National Housing Strategy has introduced support for the PRS via loans and some modest subsidies to help lower initial rent levels.

Figure 5: Housing Allowance as a Share of GDP Thirteen OECD Countries 2015 or latest year



Total government spreading as a percent of Gross Domestic Product (GDP). There is some spending on rent supplements in Canada (no national housing allowance program) but data are not available. Source: OECD Affordable Housing Database, PH 3.1.1.

On the demand-side, subsidy is dominated by personal subsidy to lower income households based on means-tested arrangements. National programmes include Australia's long-established Commonwealth Rental Assistance (CRA) and the UK's Local Housing Allowance (formerly Housing Benefit) (see Figure 5). In Canada, where province-varying rent assistance has been historically available, a new national Canada housing allowance has been proposed by the federal government with federal/provincial discussion of joint funding of the option proposed for 2020. (Government of Canada 2017). In summary, demand-side assistance plays a modest role in Australia, a minor role at present in Canada, but a much larger role in the UK.

Fourth, let us consider the important issue of rental and non-price regulation of rental markets. Here we focus on rent controls in their various forms, geographic coverage and impacts. Rent regulation is nicely summarised by Martin, *et al.* (2017). None of the three countries regulates new tenancy rents (i.e. setting the rent at initiation of a contract between landlord and tenant). Rent increases within contract can be regulated either by enforcing limits to excessive rent increases through quasi-judicial means or, in Scotland under the 2016 Act, by giving councils the right to establish rent pressure zones locally and making a case that there is robust evidence that rent increases are excessive and can thereafter be curbed for a period of time (though the cap would still allow real terms rent increases).

Recent international evidence on rent controls (Whitehead and Williams, 2018; Wilson, 2017) suggests evidence of a wider European retreat from more liberal approaches to the rental market (even if the Shaping Futures nations – including Scotland – all remain wedded to initial free market rents), greater reliance on rent increase limitations and a recognition that rent control cannot be viewed in isolation from length of tenancy and tenancy security questions.

Country	Rent increases	New tenancy rent
Australia	Varies by state; mostly provision for disputing 'excessive to market' increases	No regulation
Canada	Varies by province; most restrict increases to annual 'guideline' rate	No regulation
UK	Provision for disputing excessive rent increases	No regulation
Scotland	Local rent pressure zones can be applied on evidence supplied by council to Scottish Government (2016 Act)	No regulation (2016 Act)

Source: Martin, *et al.* (2018) Table 8.

Turning to non-price regulation, key issues turn on the extent and objectives of landlord and letting agent registration, regulation of quality and conditions, policing of dispute resolution and other features of landlord-tenancy relations and dispute resolution, planning policies and consumer protection. Key to all of these dimensions is effective enforcement which in the UK's case, is often patchy, resources are not ring-fenced and the activities are not always treated as statutory.

Reform in Scotland

The UK private rented sector is undergoing a multiple set of natural experiments as Scottish policy diverges from the rest of the UK. The centrepiece is law enacted in 2016 that changes the basic private rental tenancy by restricting the legitimate grounds under which a landlord may end a tenancy (referenced colloquially as 'outlawing no-cause eviction'). Other than where the tenant has breached the terms of their tenancy (e.g. through rent arrears), a landlord will be able to recover possession of their property only where they wish to use it for an authorised purpose other than rental housing – e.g. selling it, renovating it or living in it themselves. Potentially the most significant effect of this change is that it may enable tenants to more freely request necessary repairs without the threat of a retaliatory eviction.

The new framework also introduces potential local rent limitations (rent pressure zones), at the same time, the judicial first tier tribunal dispute resolution mechanism has been strengthened and widened in order to support the sector, including the new reforms.

The reforms raise three wider questions or issues. First, does PRS policy lead (i.e. anticipate) or follow (and seeks to moderate) market developments? The unexpected growth in buy-to-let (BTL) holdings and the incremental use of re-regulation suggests following rather than leading the market. Secondly, the combination of largely devolved but partly reserved-to-Westminster policies impact on the rental market in Scotland in an often complex way. This was recently apparent in the context of tax changes that increased the tax burden on buy-to-let (BTL) landlords. Third, recognising the importance of housing systems analysis, taking into account the submarkets and complexity of the sector, how do we prioritise data and evidence with which to monitor the market and evaluate policies?

Source: Gibb, et al, forthcoming

By comparison with some other northern European countries (e.g. Germany and Switzerland), the three Shaping Futures countries are all subject to fairly light regulation when it comes to landlords' ability to recover possession of rental properties (Scotland excepting). Once an initial tenancy term (usually 6-12 months) has expired, a landlord wishing to sell or move into the dwelling is usually free to do so, subject to only a limited notice period. Beyond this, however, there is a division between those jurisdictions of Australia, Canada and the UK where this ability is subject to some constraints and those where it is not.

As shown in the box, recent tenancy law reform in Scotland has outlawed 'no cause eviction' which remains legal elsewhere in the UK as well as in most Australian states and territories, but not in Canada. Australian exceptions include not only Tasmania, but also the populous state of Victoria where recent amendments to the Residential Tenancies Act 1997 have introduced a requirement that landlords may end tenancies only on specified grounds (Landy 2018).

In all three countries there is an official adherence to an ethic of 'risk-based regulation' in the sense that multi-occupied properties at the bottom of the rental market are subject to greater oversight. Such establishments are of particular concern for several reasons. First, they accommodate many vulnerable individuals, often on a legally insecure or 'non-tenured' basis. Second, occupancy conditions can heighten safety risks hazards especially regarding fire. And third, they are often high turnover establishments, sometimes a source of local disturbance and resulting neighbour complaints. In the UK and, to some extent, in Australia, the past 10-20 years has seen multi-occupied buildings subject to increasing levels of supervision – usually involving local authorities in the exercise of their environmental health (or 'public health') responsibilities (Dalton, *et al.*, 2015).

Beyond this, all three countries have seen recent experiments on property/landlord registration. Evidence from Scotland (where mandatory landlord registration was introduced in 2004, amended 2011) suggests that the potential for the use of this data to help monitor policy and practice is circumscribed by privacy issues concerning the data (Livingston, *et al.*, 2018). Across the different spheres of non-price regulation, however, the effective enforcement of standards and rules is the key challenge.

Towards Better Policies for Market Renting

How can the PRS better complement other components of metropolitan and national housing systems? It should be clear that, with typically growing representation, together with its natural tendency to be the focal point of housing market change, the PRS needs to be much more central to housing policy and strategy, period.

Private renting plays a critical pressure valve role for both the other two major tenure groupings – shocks to home ownership (e.g. through lending practice changes) or social housing rule changes will have rapidly-transmitted knock-on consequences for the PRS. The more flexible, responsible and accessible quality rental market housing is at a range of price points and size/type/location configurations, the more effectively rental markets can support and lubricate the operation of the wider metropolitan housing system. Achieving these outcomes, however, calls for an active co-ordinating and strategic function for different tiers of government. That is challenging in all countries examined, not least because of normative disputes about the appropriate roles and funding for the sector, but also because of mixed attitudes to data, evidence and understanding of what is going across the different parts of the market.

As we indicated in the introduction, the current context in the Shaping Futures countries is one in which there are concerns about the relatively uncontrolled and/or unmanaged form of ongoing PRS growth. What, in these circumstances, might be done that makes sense systemically, in terms of economic and social justice goals and which might be more sustainable? Recognising the pivotal role the PRS plays in the housing system is essential and governments should develop an enabling framework that works with the grain of the market (and changing labour market and mortgage markets, and the emerging competition with social renting). In the context of arguments that landlord tax concessions should be calibrated to support legitimate public policy objectives, major questions are raised by provisions such as Australia's 'negative gearing' and capital gains tax discount which deprive are effectively major subsidies of an entirely untargeted kind (Blunden 2016). The opposition Labour Party's 2016 proposal to restrict such largesse to newly built rental dwellings only (while grandfathering all existing landlords) seems like a smart, if narrow, proposition.

A more effective regulatory framework/stance has to strike a balance. It should promote high standards, good practice, information, and an efficient national deposits scheme. At the same time, it should promote and support well-functioning markets by providing security, confidence and trust on the one hand, but the regulatory system must also adequately resourced and enforced across all parts of the nation. Some parts of the regulatory landscape can be self-financed from fees and charges on the system but at some level this needs to be a core statutory function with ring-fenced budgets.

There are a range of economic questions that start with a proper appreciation of the economic contribution of a well-functioning rental market to local and national economies. This is research work that needs to be added to the evidence base. Economic interventions – tax, finance and subsidy design – need to be carefully assessed in their national context. Key dimensions include proper comparisons against counterfactual benchmarks (e.g. of tax or tenure neutrality), the resulting incentives that influence landlord behaviour and composition (between small scale and corporate or build to rent investors), the acceptability of subsidy in all its forms to landlords (e.g. negative gearing) against the need for a level playing field for businesses given their social responsibilities to their tenants).

And then there is the eternal debate about rent controls, the different nuances and contexts associated with different generations of rent regulation. Perhaps, we are now in a more settled place where all three countries appear to have accepted the notion of market-based rents for initial contracted rents but with different degrees of modest real term restrictions over local/regional rent increases and quasi-judicial ability to appeal excessive rent increases? However, we still need robust contemporary and situationally-relevant evidence about the impacts of these forms of intervention.

From the social justice perspective, the growing momentum in favour of reforms to outlaw 'no cause evictions' would seem a positive development. As argued by its proponents, this reform 'would make all tenants feel more secure, without unduly restricting landlords in reasonable uses of their properties' (Martin 2018). Implicit here is that, provided the 'specified grounds' on which it remains acceptable to end a tenancy include property sale (as in recent legislative reform instances in Scotland and Victoria, for example), the additional security enjoyed by a tenant is limited. In its advocacy for 'an end to no cause evictions' the UK lobby group Generation Rent argues that property sale should be excluded from the acceptable reasons for ending a tenancy. This implies that a landlord's rights in this eventuality would be limited by the need to sell – with sitting tenant in situ – to another landlord. Many such sales may already occur.

Finally, policy does need to take a longer systemic view. Imagine that there is a consensus about the trajectory of rental market policy and it turns out to be relatively sound economically and in terms of landlord-tenant relations, etc. It has a found a way to tolerably balance the interests of different parts of the market. In a wider housing system context what are the implications for lower income households – does this widen choice for them and does it impact on the not-for-profit housing offer? Can we attribute economic competitiveness impacts independently to better functioning rental markets (what data, evidence and theories would we need to assemble)? What would be the impacts on savings, wealth transfer, and intergenerational equity if we move more permanently to significant cohorts of never-owners? Finally, among these longer-term strategic questions, how might policymakers assess how to make the sector more resilient to external shocks given its inherent greater vulnerability as the most responsive part of the system, as previously noted?

Conclusions

What is next for the PRS in terms of market demand, social need, supply, location, quality, choice, distribution, discrimination, affordability, investors, owners, management, regulations, and its institutional role within our housing systems and social system in general? The PRS is a sector that urgently needs to be better understood with continuing investment in its monitoring and regulation, not just to do the day job of improving standards and confidence in the sector, but to provide the source for evidence and data, including administrative datasets and big data from the private sector (e.g. letting agents).

Of the many different parts of urban systems, there are material gains to be made from a more coherent smart city joined-up approach to collecting research-usable data that can transform our understanding of the segments and their interaction with the wider housing system. Nowhere else in housing is our evidence base so anecdotal, patchy and partial. And this is precisely where we need a transformative change to how we collect the data to construct the indicators to inform policy and planning.

There is also considerable danger in continuing to treat the PRS as a low priority part of the housing system. The unexpected and uncontrolled growth of buy-to-let should be a lesson. So, equally, should top-down tax changes predicated on unevidenced assumptions about behavioural responses by landlords (i.e. that properties would leave the sector and filter back into first-time buyer markets). It is just as likely that, subject to market conditions, buy-to-let landlords might diversify instead to unregulated short term letting – which is hardly the desired strategic outcome.

A further long-term issue remains: how and to what extent do we sustainably promote corporate Build to Rent landlords? In the UK, the sector is emerging as a significant urban investor in London and Manchester and is emerging in Edinburgh and Glasgow but it remains tiny in comparison to the established atomistic buy-to-let sector. In the short term, considering the public policy case for encouraging this largely new form of provision, governments would be justified in equalising tax settings that – as currently in Australia – disadvantage BtR developers vis a vis individual 'landlord investors' and also build to sell developers. Beyond, this, we are looking here at what must be a long game but one that needs, as so often in housing policy terms, to be managed consistently over successive parliaments and governments. Although it is not the most obvious example, the private rented sector investment context needs to be agreed across political parties on a long-term basis. There is probably much that can be learned from Canada's corporate experience in this respect.

What about the shape of the PRS in the medium and long-term future? As we note here, politicians, policy makers, civil society actors, real estate investors, engaged citizens, need to better understand: (1) how their rental markets work; (2) the motivations of its players; (3) the way the different segments operate; and (4) how it fits into the wider housing system. In short, what should the overall policy objectives for the PRS be? Major policy questions that need explicit broad-based deliberation include:

- How do we rethink the nature and role of the PRS within our national housing system? What needs to change?
- Should we make our housing systems more neutral in terms of policies benefitting homeownership versus private renting?
- Can 'dual rental systems' in countries like Australia, Canada, and the UK become a 'unified rental system'? Is this desirable and worth attempting?
- To address homelessness and meet serious housing needs, should we rely on, and provide subsidies to, a sector that does not allocate according to socially determined need?

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