

# THE COST OF RENTING

AN ANALYSIS OF THE IMPACT OF  
THE PRIVATE RENTED SECTOR ON  
CHILD POVERTY

POLICY PAPER #2



PROGRESSIVE  
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# SUMMARY

The cost of private renting is a key driver of child poverty.

We estimate that around 30,000 children in Scotland are in poverty as a direct result of the cost of privately rented housing.

For the Scottish Government to meet its ambitious child poverty targets, action should be taken to reduce the cost of renting.

The Irish experience of “Rent Pricing Zones” suggests even a light-touch, localised system of rent controls could have a positive impact on poverty levels.

The basis of such a scheme is already in place in Scotland. Rent Pressure Zones were legislated for

but no local authority, despite political will, has been able to implement a scheme under the current design. We will shortly publish proposals to fix this.

The **Progressive Policy Research Group** considers how public policy can create a fairer Scotland. All PPRG members are members of the Scottish National Party. Views expressed are those of the named authors.

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# BACKGROUND

In 2017 the Scottish Government introduced legal targets to reduce child poverty by 2030.

The Child Poverty Act requires the Scottish Government to reduce child poverty across a range of targets by the end of the decade, with interim targets at 2023.

Child poverty is a preventable tragedy; it limits life opportunity and, across a range of educational, health and economic outcomes, often lasts well past childhood. The determination to change this is a laudable and vital expression of the Scottish Government's commitment to building a fairer society.

A range of actions are being taken to lower poverty levels, including the ambitious Scottish Child Payment - a £10 weekly payment for low income families per eligible child.

However, the scale of the challenge should not be underestimated. Across all targets, most recently available poverty levels stand at more than double the 2030 targets. Absolute child poverty stands at 20% (2018-19), four times as high as the 5% 2030 target.(1)

These figures will almost certainly worsen as the economic impact of Covid-19 shapes the 2020s. This increased challenge must be met not by resigning ourselves to failure but

with renewed ambition.

The poverty targets will not be met through the limited redistributive powers of devolved welfare alone. We must also look at the structural reasons for poverty, of which housing is central.

## THE IMPACT OF HOUSING

The cost of housing has a significant impact on poverty levels.

The Joseph Rowntree Foundation found that the lower levels of relative child poverty in Scotland compared to the rests of the UK was attributed to the lower cost of social renting and a smaller private rented sector.(2)

The implication of this observation is that the cost of renting privately is itself a driver of poverty.

Between 2016/17 and 2018/19, a staggering 41% of children living in privately rented accommodation were in After Housing Cost poverty, compared to 24% across all housing tenures.

Despite accounting for only 15% of all households, a quarter of all children living in poverty in Scotland live in the private rented sector.(3)

# 60,000

children live in After Housing Cost poverty  
in the private rented sector

# 15%

of private renters were on average pushed  
into poverty as a result of housing costs  
from 2006-16

# 30,000

children are pushed into poverty by the  
cost of renting



# CURRENT POLICY

The Scottish Government has taken a number of welcome steps to regulate the Private Rented Sector, including regulating letting agents, abolishing administration fees and introducing a new private residential tenancy which significantly increases the rights of renters.

However, actions to tackle the *cost* of renting have been limited. The new tenancy provides protections against “excessive” rent rises as well as providing local authorities the power to introduce stricter Rent Pressure Zones (RPZs) in defined circumstances. Four years on from this legislation, and despite interest being expressed by both Glasgow and Edinburgh City Councils in implementing RPZs, no local authority has been able to introduce an RPZ due to the current requirements.

The Scottish Government’s primary focus in housing policy has been on increasing supply, with a particular focus on the supply of ‘affordable housing’ (social housing, mid-market rented homes and low cost home ownership properties). Increasing housing supply is important. It does not, however, have a neatly defined relationship with housing cost, which is impacted by a variety of factors, including mortgage availability, interest rates, land values and the use of existing properties for alternative use, such as Airbnbs.

Indeed, if the *supply* of housing were the most important factor, we would be justified in asking why the problem exists at all. The number of dwellings in Scotland is at a record high, at over 2.6 million, amounting to 1 house for every 2.07 Scots - also a record, even while Scotland’s population grows. While this can partly be attributed to the trend towards smaller households, the ratio of dwellings to households in 2019 was 1.064, indicating healthy levels of supply. Between 2010 and 2019, the ratio of dwellings to households has remained steady, climbing slightly from 1.0581 to 1.0644.<sup>(4)</sup> Yet over that time rents across Scotland have outstripped inflation, and in the highly urbanised Lothian and Greater Glasgow regions, increases have run at double the rate of inflation.<sup>(5)</sup>

Notwithstanding local issues, at a Scotland-wide level it is simply not the case that there is a shortage of housing. Rather, the problem is one of distribution, of affordability and of inequality. Due to the concentration of child poverty in the PRS, for the Scottish Government to make meaningful progress towards its child poverty targets it must tackle the cost of renting. There are a number of ways to achieve this, and some campaigners have argued for a strict national system of rent controls based on international models. An alternative would be to strengthen the system of RPZs to allow local government to tackle areas of particular concern. We will shortly publish a policy paper outlining some potential reforms for RPZs.

# CASE STUDY: IRELAND

Rent Pressure Zones with an annual cap of 4% p.a. were implemented in Ireland in late 2016, first in Dublin and Cork City but more widely since 2019.

## **65% of Ireland's population now lives in an RPZ.(6)**

Inflation, measured by CPI, in Ireland has been between 0 and 1% from 2016-19, meaning that the real-terms rise in rent rises allowed have been significantly greater than the 'maximum' Scottish RPZ cap of CPI+1%, but are more expansive in that they apply to new as well as existing tenancies.

**Evidence suggests that Irish RPZs have had a moderating impact on rent rises**, with average rises in RPZs around 2.5-3% since legislation was implemented in December 2016, while rents outwith RPZs do not appear to have increased as a consequence.(7)

While it is difficult to disentangle the impact of individual policies, it is worth noting that **the proportion of children living below the national poverty line fell from 19.1% in 2016 to 15.9% in 2018, with greater than national average (1.7%) reductions in the overall poverty rate in both Dublin (by 1.8%) and the South West (by 4.8%), the two areas where RPZs were in operation.**(8)

Ireland's system, which allows greater rent rises than is legislated for in Scotland, arguably doesn't go far enough - a point accepted even by the Irish Government.(9)

However, it does demonstrate that such an approach can reduce rents in areas of pressure and is positively associated with reductions in poverty. This is further evidence that even a relatively soft-touch system of rent controls could make a significant positive impact on child poverty in Scotland.(9)

# PUBLIC FINANCES

The UK Private Rented Sector is heavily subsidised by Housing Benefit and its successor Universal Credit.

While social security spending has been slashed in real terms over the last decade by the UK Government, the government is still spending significant sums underwriting the income of landlords through the welfare system.

Rent controls would therefore bring savings to both individual renters and to the public purse. Although this would not directly benefit the Scottish Government as long as most welfare remains reserved, it suggests a fiscal boost for an independent Scotland if we are willing to tackle high rents.

A 2013 DWP estimate showed that 33% of the UK's Housing Benefit expenditure in 2010/11 was due to real terms growth in private rents over the previous ten years.

However, as Local Housing Allowance rates have been frozen at 2015/16 levels for the previous four years tenants entitled to Housing Benefit have borne the brunt of rent increases since then.

While the lowest quartile of private rents for families have risen by over 50% from 2010/11 to 2017/18, the average housing benefit claim for families rose by a mere 2%.

This suggests that, had Rent Pricing Zones been in operation over the last decade but with the same UK welfare policies, the vast majority of the savings would've been made by tenants rather than the UK Government.(10)

However, with the UK government relaxing the freeze on LHA this year, it may be the case that a substantial proportion of the savings from RPZs could now be made by the state, as would've been the case in the 2000s.

In that case this would represent a further increase in the benefit of controlling rents for an independent Scottish Government.

In the shorter term such changes would be reflected by GERS, showing an improved relative fiscal position within the union.

# IMPACT ON POVERTY LEVELS

For the purpose of measuring potential impact over time of stricter controls on rents, we will estimate the effect that enforced Rent Pressure Zones could have had on Lothians and Greater Glasgow over the five year period from 2014 and 2019. This is purely illustrative as RPZs were not in legislation over this entire time period, and we do not predict the levels of rent rises over coming years.

Over the five year period to 2019, RPZs in operation would have reduced the median rent for a 3 bedroom house in Greater Glasgow by around £160-£170 per month from £950 in 2019 and for the Lothians by around £300 per month from £1350.(11)

With over 3,000 children in rent induced poverty in the Lothians and 10,000 in Greater Glasgow, implementing RPZs would have the potential to lift up to 13,000 children out of poverty, which would equate to a drop of 1% in the national child poverty rate.(12)

To illustrate the effectiveness of this, it would be reasonable over time to expect an effective system of RPZs to lift more children out of poverty in Scotland than lifting the benefit cap, and could be implemented without requiring any significant cost to the taxpayer.(13)

This analysis is subject to numerous caveats and more robust economic modelling should be undertaken by the Scottish Government to understand the relationship between renting and child poverty.

We do not take into account the impact of the Scottish Child Payment, which will lift some renters out of poverty; neither are we able to predict the impact of the pandemic-driven recession on household incomes or housing costs.

But with renters making up a disproportionately large proportion of children in poverty, it is clear we need a tailored and specific approach to cutting housing costs in this sector.

Given the lack of borrowing powers and the urgent need to act, it is imperative that the Scottish Government looks at bold, progressive solutions if Scotland is to meet the challenge of massively reducing child poverty by 2030.



# NOTES AND SOURCES

(1) Tackling child poverty: second year progress report (2019-2020)

<https://www.gov.scot/publications/tackling-child-poverty-delivery-plan-second-year-progress-report-2019-20/pages/4/>

(2) Poverty in Scotland 2019 <https://www.jrf.org.uk/report/poverty-scotland-2019#:~:text=Poverty%20in%20Scotland%20is%20rising,one%20in%20four%20in%20poverty>

(3) Poverty and Income Inequality in Scotland: 2015/16,

<https://www.gov.scot/collections/poverty-and-income-inequality-statistics/>

Comparisons between 'Before Housing Costs' and 'After Housing Costs' poverty levels are included. We assume the gap between BHC and AHC poverty is the same for children as overall, implying around 30,000 children in poverty after the cost of housing but not before - in other words, pushed over the poverty line by the cost of rent.

(4) Estimates on Households and Dwellings in Scotland 2019

<https://www.nrscotland.gov.uk/files//statistics/household-estimates/2019/house-est-19-publication.pdf>

Population Estimates Time Series Data

<https://www.nrscotland.gov.uk/statistics-and-data/statistics/statistics-by-theme/population/population-estimates/mid-year-population-estimates/population-estimates-time-series-data>, both National Records of Scotland.

(5) Private Sector Rent Statistics 2010-19 Scotland:

<https://www.gov.scot/publications/private-sector-rent-statistics-2010-2019/>

(6) Minister Murphy announces the designation of 19 new Rent Pressure Zones(RPZs)

<https://rebuildingireland.ie/news/minister-murphy-announces-the-designation-of-19-new-rent-pressure-zonesrpzs/>

(7) Research indicates RPZs are having a moderating effect on rent inflation

<https://www.rtb.ie/news/research-indicates-rpzs-are-having-a-moderating-effect-on-rent-inflation>

# NOTES AND SOURCES

(8) Ireland's UN SDGs 2019 - Report on Indicators for Goal 1 No Poverty  
<https://www.cso.ie/en/releasesandpublications/ep/p-sdg1/irelandsunsdgs2019-reportonindicatorsforgoal1nopoverity/poverty/#d.en.214738>

(9) Figures suggest two-in-five renters in 'pressure zones' still being hit with rent increases above 4%  
<https://www.thejournal.ie/rent-pressure-zones-caps-4720005-Jul2019/>

(10) An analysis of <https://stat-xplore.dwp.gov.uk/> Universal Credits and Housing Benefit Statistics and <https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/l55o/mm23> CPI data

(11) Data from Private Sector rent statistics 2010:2019, Scottish Government (2019 was used to give the annual percentage rent increase for the median 3 bedroom rent in the Lothian and Greater Glasgow Broad Market Rent Areas. The annual rent increase for RPZs was then estimated. Where annual rent rises exceed CPI+1% (CPI Data, ONS, 2020), the most rents could be capped under the current RPZ legislation, two estimates were given - one whereby the median rent rise was capped to exactly CPI+1%, and one whereby it was capped by either one third, 2.5% (the amount rent increases dropped by in Irish RPZs in the two years after they were implemented there) or to CPI+1%, whichever was smaller. Where rent rises were below CPI+1%, even modestly, the actual change in rent increases was estimated as being exactly the same as in reality. This led to estimated monthly rent savings of £167.43 or £171 in Greater Glasgow and savings of £297 or £308 in Lothian, respectively, compared to the actual rent increases from 2010-19.

(12) End Child Poverty Analysis by Local Authority (2019)  
<http://www.endchildpoverty.org.uk/wp-content/uploads/2019/05/Regional-Estimates-LAD-Scotland-with-summary.xlsx>

(13) Child Poverty in Scotland  
<https://www.ippr.org/research/publications/child-poverty-in-scotland>