

ISSUE BRIEF

Issues 2020: Rent Control Does Not Make Housing More Affordable

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Urban Policy: Housing

The Narrative

"Landlords cannot be allowed to raise rents to whatever they want, whenever they want. We need national rent control." [1]

— **Bernie Sanders**

"Rent control is one of many tools that local jurisdictions can use to promote access to affordable housing." [2]

— **Pete Buttigieg**

"It's time that we stop commodifying the housing market because it is not a speculative investment, it is a basic right for all Americans." [3]

— **Alexandria Ocasio-Cortez**

Reality

Rent control is not the way to increase the amount of affordable housing, nor is it a solution to poverty, inequality, or segregation. Instead, it acts to restrict the supply of housing, transferring wealth to current tenants at the expense of future and market-rate tenants. Insiders—those living in rent-protected units—generally win at the expense of outsiders. In an effort to resist gentrification, rent control leads to the decay of the buildings, as owners have less revenue to spend on maintenance and improvements.

Regulating rents, in short, does more harm than good overall.

Key Findings

Rent Control Makes It Harder to Find an Apartment

- Cities that implement rent control see substantial declines in the availability of rental housing.
- Locking people in to existing rental units leaves many renters in apartments much larger or much smaller than they would prefer.
- In some cities, waitlists for rent-controlled housing are decades-long.

Rent Control Does Not Increase Diversity

- Rent control benefits incumbent tenants at the expense of migrants hoping to relocate to a city. In New York City, white tenants have disproportionately benefited relative to black or Hispanic tenants, and landlords give preference to older and childless households.
- Many of rent control's benefits typically flow to higher-income households even as rent control drives up rents for everyone else.

Rent Control Degrades the Quality of Its Beneficiaries' Housing

- Rent control reduces investment in a property's quality and causes a city's housing stock to decay.
- By suppressing property values, rent control also reduces tax revenue to municipalities, hindering their ability to provide essential services.

On the Record

"Rent control is best understood as an attempt at providing a welfare program for lower-income residents who might otherwise be unable to afford their housing. But it is one of the worst welfare benefits ever conceived, sending most of its benefits to the wrong people, actively harming others who are equally in need, all while reducing access to rental housing citywide."

—**Michael Hendrix**, *Director, State and Local Policy, Manhattan Institute*

"Next to bombing, rent control seems in many cases to be the most efficient technique so far known for destroying cities."^[4] So noted the socialist economist Assar Lindbeck in 1977. In a 2012 survey of leading economists, a mere 2% thought that price controls on rent improved the availability and quality of affordable housing.^[5] Then why hasn't rent control destroyed the cities where it has been implemented? Because of the easing of these price controls since their adoption in the mid-20th century.^[6] That is, until now.

New York State recently strengthened and extended its rent regulations indefinitely.^[7] California lawmakers limited annual rent increases statewide to 5% plus inflation.^[8] And Oregon has approved an "anti-rent-gouging" law that limits annual rent increases to 7% plus inflation.^[9] Now Senator Bernie Sanders (I., Vt.), along with Representative Alexandria Ocasio-Cortez (D., N.Y.), is calling for a nationwide, universal 3% cap on rents.^[10]

There's a simple reason that rent control is in vogue: America's housing market is increasingly unaffordable. Since 1970, real housing prices have doubled in New York City and Los Angeles and tripled in San Francisco.^[11] About 25% of renters

nationwide spend over half their income on housing, and their ranks are growing. [12]

The reason for skyrocketing prices is straightforward: demand is outstripping supply by 370,000 housing units a year nationwide because of rising regulatory costs, such as from local zoning limits on lot size or building height, and labor shortages reaching postrecession highs.[13] Housing supply restrictions are keeping people from moving to more desirable cities.[14]

Rent control is meant to create or preserve housing units with below-market rents without direct government subsidies to tenants. It is presented as a solution to greedy landlords taking advantage of pinched renters in static housing markets. Its proponents argue for lowering a landlord's profits by limiting rents in order to ration a constrained housing supply. The problem with rent control is that it addresses a problem rooted in regulations with more regulations. Housing cannot become more affordable without becoming more available.

Rent regulations “solve” America's affordability crisis for a few people, for a short time, at great cost to everyone else. Tenants in controlled units do often see lower rents.[15] But those who are not in controlled units experience higher costs as the available housing supply shrinks. The result is a tale of two cities, divided between the rent-controlled and the non-rent-controlled—the housing winners and the housing losers. Ultimately, rent control's restrictions on housing harm low-income, minority, and immigrant Americans most of all.

Rent Control Makes It Harder to Find an Apartment

After San Francisco's 1994 rent-control initiative, controlled buildings experienced a 15% decline in tenants and a 25% decline in those living in controlled units. Property owners were converting rental apartments into condominiums and replacing structures with new buildings, resulting in a decline in housing supply and making rent increases likelier over the long run. True to form, rental housing

overall shrank by 6%, resulting in a 5.1% increase in rents across San Francisco. [16] A study of New York City's 1968 rental market found that rents in noncontrolled units were 22%–25% higher than they would have been without the presence of price controls.[17] Meanwhile, two years after the adoption of rent control in Los Angeles, noncontrolled rents were rising at three times the rate of controlled units—because of limits in housing supply and rent control's basic market distortions.[18] Even for rent-controlled units, landlords could set initial rents for vacant apartments higher than market rates to compensate for lower future earnings, meaning that these units could become pricey.[19]

Rent control tends to discourage the construction of new rental housing. Even if price controls do not apply to new developments, property investors may fear future policy changes that would diminish their financial incentive to build.[20] Edward Glaeser, a senior fellow at the Manhattan Institute, noticed this effect in 2002 when comparing non-rent-controlled Chicago with New York City: “Chicago's lakefront is dotted with apartment buildings built after World War II for rental purposes. New York's Upper East Side is filled with one-time rental buildings that were gradually turned into cooperatives and lacks new rental buildings despite the fact that technically these buildings would be free from rent control.”[21] Following the removal of rent control in Cambridge, Massachusetts, in 1995, building permits rose by 20%, and construction spending doubled.[22] Moreover, the motivation to demolish buildings—legally or illegally—grows over time as a means to decontrol units.[23] And if property owners find it difficult to build, rehab, upgrade, or demolish their units, there's always abandonment.[24]

Rent control discourages new units from being brought to the market; it also encourages owners of rent-controlled housing to convert their units to for-sale condominiums, which are not subject to price controls and thus have greater profit potential. These condo conversions further contract the housing supply and put upward pressure on noncontrolled rents, all while pushing out renters in favor of homeowners (usually with higher incomes). When rent control was expanded in Cambridge, Massachusetts, in 1970, some 10% of the city's rent-controlled units were converted to condominiums,[25] leading to an overall shrinkage in the

available housing stock across the Boston area.[26] In San Francisco, controlled units were 8% more likely to become condos than noncontrolled units.[27]

Renters who snag available controlled units often end up in the “wrong” ones.[28] Since price no longer sorts scarce housing stock based on varying household composition or earnings, empty-nesters whose children have moved have a strong incentive to remain in unnecessarily large apartments—the rents are too good to give up. Others in smaller units may end up overcrowded as children are born or relatives move in.[29] Simultaneously, wealthier, long-term tenants may pay below-market rents for spacious units while lower-income families find them unavailable. One study found that 21% of all New York City renters in 1990 were living in far larger or far smaller apartments than they otherwise would in similar non-rent-controlled cities.[30] Inefficient allocation, according to another study, “may cost consumers all the surplus gains they receive from a lower price and more.”[31]

At the end of the day, if there are not enough apartments, many people will be left out in the cold. Rent control doesn’t meet their needs; it merely rations access through waitlists rather than prices. Rent control may restrict rents on some units, as compared with market-rate units, but this comparison fails to account for the costs of waitlists, high search costs, and even bribes. For example, the average wait time for a rent-controlled apartment in Stockholm is nine years. The wait runs north of 30 years for the most in-demand neighborhoods.[32] When a single apartment opens in the city, thousands compete for the privilege to live there.[33] The result is a thriving black market: bribes run about \$10,000 for a single room. [34] Obtaining a full contract on an apartment may cost, by one estimate, some 20% of the unit’s total market value.[35]

Rent Control Harms Disadvantaged Groups

San Franciscans in rent-controlled apartments saved \$2.9 billion from 1995 to 2012; meanwhile, current residents and future renters paid \$2.9 billion more for

housing because of higher rents in noncontrolled units, offsetting those savings. [36] In Cambridge, Massachusetts, rent control depressed property values citywide; once the controls were lifted in 1994, property values increased by \$2 billion over the next decade, and “more than half of the capitalized cost of rent control was borne by owners of never-controlled properties.”[37] While rent control ostensibly acts as a transfer from landlord to renter, even that process is markedly inefficient: the costs to landlords exceed the benefits to renters by roughly 75%.[38]

Whatever benefits do exist from rent control are poorly targeted, often missing people in need.[39] In New York City, the wealth transfer from rent-controlled landlords to tenants was disproportionately claimed by white,[40] economically advantaged renters.[41] White renters in 2017 claimed a 36% discount on market-rate rents in New York City because of rent control, compared with 17% for Hispanic renters and 16% for black renters; affluent renters received a 39% discount.[42] The city’s rent-control and rent-stabilization laws have apparently induced landlords to favor older tenants and smaller households (primarily those without children), and rent control’s benefits are similarly biased against young people and larger families.[43]

Does rent control preserve, or increase, a city’s socioeconomic diversity? Not according to the evidence.[44] While it existed, rent control in Cambridge modestly increased the share of minority residents in the city—but economic segregation rose as the share of very low-income residents fell.[45] Poor residents can benefit from rent control, but so can higher-income households, especially in the absence of income targeting—as is the case in New York City, where a renter’s offspring can inherit a rent-controlled apartment regardless of income.[46] Nearly a third of rent-controlled units in metro Boston were found to be occupied by tenants in the top half of earners.[47] Further, navigating lengthy waiting lists and murky black markets requires long wait times and personal connections. That means that newcomers and recent immigrants are often shut out of more affordable housing options—increasing economic, social, and racial segregation. [48]

Rent Control Degrades the Quality of Tenant Housing

Rent control leaves owners with a limited ability to recoup operational costs and investments through rents or an appreciation of their building's value. As a result, the quality of rent-controlled housing generally decays through a lack of investment in maintenance and improvements until it reaches a level supported by the below-market rents.[49] Rent-controlled buildings in Cambridge, Massachusetts, were found to be “older, in worse condition, and more in need of very essential repairs.”[50] Controlled properties were shown to lower the amenity value and desirability of their surrounding neighborhoods.[51] But the overall value of Cambridge's housing stock increased dramatically in the decade after rent control was abolished in 2004.[52] Property investments—dollars that flowed through neighborhoods both wealthy and modest—rose 20% over what would have been the case under rent control and led to major improvements in housing quality.[53]

Rent control also reduces a city's tax revenue. Because price controls limit investment return and building quality, the assessed value of rent-controlled properties tends to decline and lower property-tax revenue.[54] And since these effects also lower the market value on non-rent-controlled properties, the local property-tax impact is magnified even more—costing up to 20% of the annual property-tax revenue in 1980s Cambridge[55] and in New York City more than double its spending on parks and recreation during the same era.[56] Income-tax revenue may also decline as landlords receive less rental income, offset only by fewer expenses because of a lack of property investment in a less valuable real-estate market.[57] As rent control suppresses housing construction and maintenance, its effects ripple outward to suppress economic activity and job creation from the construction and rehabilitation trades.

Endnotes

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