

# The Effects of Rent Control: Evidence from the Rent Act of 2011 of New York City

## Literature Review

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My proposed study aims at investigating the impact of changes in the rent control policies of New York City in 2011. Compared with prior versions of rent control policy, the Rent Act of 2011 includes some amendments that further protect tenants against rent increases. In particular, the frequency of vacancy increases as landlords cannot increase the rent upon vacancy more than once in any calendar year, and there would be less rent increase if apartment improvements were made. The landlord can permanently increase the legal regulated rent by  $\frac{1}{60}$  of the cost of the improvements if the building has more than 35 apartments. This rate used to be  $\frac{1}{40}$  under the prior Rent Law (Rent Act of 2011). Thus, I would like to investigate how these specific measures influenced the rent in New York City and other effects that may fall outside the intention of the policy. After reviewing relevant literature, I identify the major contributions that my proposed work shall seek to make.

My study aims at explaining how several rent control measures influence the tenants and landlords in New York City, and the effect of rent changes on the life of tenants and landlords is the foundation of my study. The study of the rent changes is not new in many ways. In particular, the private rental market has been a focus of study for decades. As dwellings for rent are also a kind consumer good, the price of such good influences both the demand side and the supply side. On the demand side, rent and its fluctuations are in no doubt a key factor in household decision making. In studying the housing careers of households, Kendig points out that renters are more likely to be pushed into the market by changes in their own life and changes in the market than owners, resulting in more residential mobility. Moreover, the level of such mobility varies across different groups of renters by their age, income, and family structure (Kendig, 1984). On the supply side, it is straightforward that landlords maximize their profits when setting and changing

the rent. Efforts have been made in explaining how landlords set the rent for their dwellings. For a rational landlord with a vacant dwelling, the probability of finding a tenant decreases as the rent increases. In the meantime, the probability of finding a tenant increases as the number of potential renters increases (Stull, 1978).

For the purpose of variable selection and model design, my study requires understanding what factors determine and change rent. What determines the rent is a mechanism where many variables contribute to the process, including variables that naturally influence the rent as a part of the market features and measures that are imposed on the market to regulate and adjust the rent. The natural influencing factors, such as each of spatial factors (Dubin & Sung, 1987), vacancy rates in the local market (Igarashi, 1991), and quality of the dwellings have a certain level of impact on rent. In studying these factors, many studies have focused on the hedonic analysis of rent (Büchel & Hoesli, 1995; Hoesli et al., 1997). For example, Larsen and Sommervoll show that rent is also influenced by the characteristics of landlords and tenants and the interactions between them -- small-scale landlords may be more willing to reduce rent for tenants with good credibility than large-scale landlords (Larsen & Sommervoll, 2009).

Besides these natural influencing factors that are crucial to the determination and changes of rent, another significant instrument influencing rent changes is the policies designed to control and adjust the rental market. More specifically, rent control policies have been implemented in various social settings with the general goal of suppressing rent increases. However, there have been heated debates about the nature and effect of rent control policies among policymakers and scholars (Epstein, 1988). From an economic perspective, studies have shown that rent control may have some negative impact on the local housing market, such as misallocations (Glaeser & Luttmer, 2003), reduction in rental supply (Diamond et al., 2019), housing gentrification ("Reassessing Rent Control", 1988; Diamond et al., 2019; Asquith, 2019), and unsound housing quality (Moon & Stotsky, 1993). It is interesting to see two recent studies on this topic of Diamond et al. and Asquith come to similar conclusions about the San Francisco rental market using different data and models. Diamond et al. conduct a quasi-experiment where the treatment group consists of renters with rent control and the control group consists of renters without rent control. Combining data from multiple sources, including address history, property records, and

parcel data, Diamond et al. find that landlords in San Francisco respond to the imposition of rent control by converting the properties or redeveloping the building to be exempt from rent control (Diamond et al., 2019). Asquith, on the other hand, uses data from different government agencies to test if landlords tend to evict the tenants under rent control. He finds no evidence of landlords evicting their tenants when facing rent control, but there is evidence that landlords tend to redevelop their properties for rent control exemptions (Asquith, 2019).

Although it is exciting to see such consistency in the findings of recent work, questions remain unsolved regarding the impact of rent control. In particular, scholars have made efforts to understand whether or how rent control policies influence the level of housing maintenance, yet the results are mixed. Some studies show that landlords tend to ease the burden of rent control by lowering the level of maintenance of their dwellings (Moorhouse, 1972; Albon & Stafford, 1990; Gyourko & Linneman, 1990), while others question such results and argue that rent control has limited impact on the level of housing maintenance (Olsen, 1988; Rydell et al., 1981).

Thus, the first contribution that my proposed research shall contribute is to provide empirical analysis to further explain how rent control affects housing maintenance as there has been no clear answer to this question. In particular, Kutty shows that if the rent control policy allows housing maintenance to be evaluated at its market price, then landlords under rent control are expected to provide the same level of housing maintenance as when there was no rent control (Kutty, 1996). But the assumption made here seldomly holds. In reality, one of the many forms of rent control is to limit the increase in rent caused by housing maintenance. In fact, one of the major changes in the Rent Act of 2011 of New York City compared with prior policies is that there should be less rent increase if the landlords had made apartment improvements (Rent Act of 2011). Therefore, my proposed study aims at explaining how rent and landlords/tenants react to rent control if housing maintenance would not be evaluated at its market price. Thus, my study shall contribute to the unsettled discussion of the effects of rent control on housing maintenance with empirical analysis.

Another contribution that I would like to make is to further study the case of New York City with recent data and computational methods. In the past, many scholars have focused their attention on New York City and use the data of New York City to study the effect of rent control,

where the private housing rental market is an important part of life and also a significant part of policymaking ( Desalvo, 1971; Olsen, 1972; Early, 2000; Glaeser & Luttmer, 2003). For example, Gyourko and Linneman find that buildings in New York City under rent control are more likely to be in defective conditions than those uncontrolled (Gyourko & Linneman, 1990). Most of these studies use data from the New York City Housing and Vacancy Survey conducted by the New York City Department of Housing Preservation and Development for decades (Desalvo, 1971; Olsen, 1972; Gyourko & Linneman, 1990; Early, 2000). But since many of these studies were published some time ago, they used relatively old data without the help of current computational methods. Now the New York City Housing and Vacancy Survey is not the only source of available data -- data compiled research institutions such as NYU Furman Center and data from real estate agencies may also be incorporated into the research. Thus, my proposed work shall contribute to the study of the housing market in New York City by using more recent data to capture the current market characteristics and proper computational methods to achieve better accuracy and efficiency.

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