

Rent Control Does Not Work – Vote NO

1.29.2023

I am both educated & experienced:

Education includes: MBA, Keller Graduate School of Management; BS Management, Park University; AAS Accounting, Portland Community College

Experience includes: Bookkeeper, KJP Sales, Inc., Midland, MI; Soldier/Power Generation Equipment Repair Technician, US Army; Accounting Specialist, Property Manager, Vice President, Carla Properties, Ltd.

I have taken 5 Economics classes during my graduate & undergraduate journey. Each of the Economics classes discuss how the economy is often self-correcting, and requires very little interference from the local, state and federal governments.

I am writing to say, Rent Control does not work, do not implement it or the economy will experience an even greater reduction in supply, and higher rates. I urge you as law makers to do what is in the best interest of the people that you represent, Oregonians. You should listen to the advice you are receiving.

My sources include:

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<https://www.forbes.com/sites/timworstall/2015/09/10/proof-that->

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4. Michael Hendrix, director of state and local policy at the Manhattan Institute, from the Manhattan Institute; January 8, 2020; <https://www.manhattan-institute.org/issues-2020-rent-control-does-not-make-housing-more-affordable>
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10. Noah Smith, assistant Professor of Finance at Stony Brook University, from Bloomberg; 1.18.2018 at 2:00am;
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11. Rebecca Diamon, Associate Professor of Economics, Stanford Graduate School of Business; October 18, 2018; Brookings.edu; <https://www.brookings.edu/research/what-does-economic-evidence-tell-us-about-the-effects-of-rent-control/>
12. Rebecca Diamond, Associate Professor of Economics at Stanford Graduate School of Business; David Eisenbach, history lecturer at Columbia University; Vicki Been, former commissioner of the New York City Department of Housing Preservation and Development and law professor at the New York University School of Law; Ed Glaeser, Fred and Eleanor Glimp Professor of Economics at Harvard University; Tommy Andersson, economics professor at Lund University.; April 3, 2019; podcast on Freakonomics.com; <https://freakonomics.com/podcast/why-rent-control-doesnt-work/>
13. Rental Housing Journal, Editors; March 31, 2022;
<https://rentalhousingjournal.com/14-reasons-rent-control-hurts-housing-respected-economist-says/#:~:text=Rent%20control%20is%20rare%20because,rent%20control%2C%20so%20it's%20OK!>

Sincerely,

Jessie Dhillon
Portland, Oregon

Experts say rent control doesn't help cities

Originally published August 21, 2015 at 12:11 am | Updated August 21, 2015 at 12:13 am

More than 60 percent of economists and housing experts surveyed by Zillow said rent-control ordinances don't help cities, but the company's chief economist says they may warrant a look in a crisis like Seattle's.



By [Daniel Beekman](#)
Seattle Times staff reporter

Sixty-three percent of real-estate experts surveyed by Zillow said rent-control ordinances create more problems than they solve and an additional 33 percent said such ordinances may be effective in a crisis but should be a last resort.

The Seattle-based online real-estate company said it asked 107 economists and housing-industry professionals from across the country about rent control as part of its quarterly home-price expectations survey, conducted between July 27 and Aug. 7.

[The respondents](#) were mostly economists at real-estate companies and financial firms. There were also a number of university professors who teach finance and economics.

Zillow's chief economist, Svenja Gudell, was one of the experts who said rent-control ordinances may be effective but should be used only in a crisis.

Gudell wasn't surprised that a majority of the respondents objected to rent control, she said. That's long been the dominant view among economists, and Gudell said she mostly shares it.

"I agree that rent control isn't a good long-term fix," she said. "But I can also see that in an absolute emergency where you have to do something in the short-term, rent control can provide affordable housing to a subset of people for a period of time."

Washington law prohibits cities from enacting rent regulations, but the Seattle City Council is now weighing a resolution asking the state Legislature to lift that ban.

Councilmembers Kshama Sawant and Nick Licata, who introduced the resolution earlier this year, say the city should be allowed to consider adopting some form of rent regulation as part of a broader effort to make housing in Seattle more affordable.

Councilmember John Okamoto, who will take up the resolution in his housing committee next month, has argued officials shouldn't be spending energy advocating for a tool that may not work and for permission that the Legislature is unlikely to grant.

Seattle rents were up 12 percent in June compared with last year, an increase that put Seattle in 10th place nationally when it comes to how fast its rents are rising, according to recent Zillow research.

Earlier this month, the company's researchers reported that an average Seattle-area tenant can expect to spend about 32 percent of his or her monthly income on rent.

Zillow asked the experts to chose among four views. While 63 percent agreed rent-control ordinances are always ill-advised and 33 percent said they should be used as a last resort, only 2 percent said they are usually effective and should be permanent.

Another 2 percent of the respondents said rent-control ordinances should be enacted immediately in emergency situations, but only on a temporary basis.

Gudell, the Zillow economist, said she objects to rent regulations in the long-term because they can discourage property owners from building new housing and cause landlords to skimp on maintenance and repairs. Seattle needs more housing, she said.

But she said the city "is probably close to, if not already in, a crisis situation," with low-income tenants having an extremely tough time.

"Rents have been shooting up like crazy in Seattle and incomes aren't keeping up, so in that sense we're in a dire situation that warrants looking at rent control," she said.

There are various ways to regulate rents, some potentially more effective than others, she said.

Dean Baker, co-director of the Center for Economic and Policy Research in Washington, D.C., was among very few respondents who said rent-control ordinances usually work. Baker said such ordinances can help maintain integrated neighborhoods.

"You can create more housing, but there will always be a limit," he said. "People in Seattle won't want to see high rises everywhere. You're only going to allow so much

housing to be built, so allowing rent regulation of some sort isn't obviously stupid."

But Gudell warned against Seattle enacting a rent-control ordinance and then keeping it on the books. She said tenants should press officials for long-term solutions.

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Proof That Rent Control Doesn't Work Used To Prove That Rent Control Does Work

Tim Worstall Former Contributor 

Sep 10, 2015, 12:58pm EDT

 This article is more than 7 years old.

It's a standard point among economists, that rent control doesn't work. In the sense that if you have rent control then you'll end up with less affordable housing than if you didn't have rent control: and, since rent control's very idea is to create more affordable housing that's a pretty good definition of "does not work" right there. What really happens when there is rent control is that we replace rationing by price with rationing by queuing. Rather like what's happening in Venezuela with food for example, or what happened in the Soviet states with the same comestible commodities. As the man said, socialism is when you wait for bread and capitalism is when the bread waits for you. Further, dependent upon the time you've got to spend queuing for whatever it is, and the value you place upon that time, it's not obvious at all that it's a net increase in human utility. And as someone who has queued in Soviet times to buy that daily bread it would be very difficult indeed for someone to convince me that it was an increase in human utility.

Greg Mankiw loves to quote rent control as one of the areas where economists really are united in thinking it's **a bad idea**:

In chapter two of the book, I include a table of propositions to which most economists subscribe, based on various polls of the profession. Here is the list, together with the percentage of economists who agree:

A ceiling on rents reduces the quantity and quality of housing available. (93%)

In a field as contentious as economics 93% agreement is about as far as you're going to get. It's equivalent to asking 1 st graders whether kittens are cute, that sort of level of agreement. And there is a delightful quote on the subject **as well**:

The agreement cuts across the usual political spectrum, ranging all the way from Nobel Prize winners Milton Friedman and Friedrich Hayek on the “right” to their fellow Nobel laureate Gunnar Myrdal, an important architect of the Swedish Labor Party’s welfare state, on the “left.” Myrdal stated, “Rent control has in certain Western countries constituted, maybe, the worst example of poor planning by governments lacking courage and vision.” His fellow Swedish economist (and socialist) Assar Lindbeck asserted, “In many cases rent control appears to be the most efficient technique presently known to destroy a city—except for bombing.”

Which brings us to the people in Berkeley who seem not to be quite up to speed with **all of this**:

Our work on residential displacement in the Bay Area as part of the Urban

Displacement Project found that many of the neighborhoods that experienced less displacement than we would have expected had rent control policies in place. Furthermore, a number of academic studies have shown that rent control enhances housing stability for low income and less educated households.

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Rather a desperate casting around for some reason why rent control should be implemented I feel. But what's lovely is this part:

But is rent control the solution? Some say we need more subsidized housing, others say we need more market rate housing, and still others say we need to increase wages so people can afford rising rental prices. There's no question that economists still hate price regulations in general and rent control in particular for interfering with the efficiency of the housing market. But is the economists' feared effects of rent control on stalling housing production true in the land of Costa Hawkins , which prohibits buildings constructed after 1995 to be regulated under rent control? Our data indicates it's not: When we looked at housing production numbers from 2007 to

2013, the six cities that had rent control in the Bay Area actually produced more housing units per capita than cities without rent control.

So, rent control cannot be imposed on buildings erected after 1995, and places with rent control had more post 1995 buildings than places without it. That's taken as showing that rent control is a good thing, because in places with rent control there's more building.

It is, of course, proof of the opposite contention. That post 1995 no rent control rule means that people, post 1995, are willing to build housing where people wish to live. Thus, obviously, demonstrating that rent control prevents people from building housing where people wish to live.

This isn't proof that rent control works, it's proof of the original and agreed upon contention that rent control does not work.

Check out my [website](#).



Tim Worstall

I'm a Fellow at the Adam Smith Institute in London, a writer here and there on this and that and strangely, one of the global experts on the metal scandium, one of the rare... [Read More](#)

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The High Cost of Rent Control

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Rent Control

That rent control is an ineffective and often counterproductive housing policy is no longer open to serious question. The profound economic and social consequences of government intervention in the nation's housing markets have been documented in study after study, over the past twenty-five years. In response to this hard-earned experience, states and local jurisdictions from Massachusetts to California have banned or greatly constrained rent control. Nevertheless, a number of communities around the country continue to impose rent controls, usually with the stated goal of preserving affordable housing for low- and middle-income families. Rent control does not advance this important goal. To the contrary, in many communities rent control has actually reduced both the quality and quantity of available housing.

Role of Rents in a Market Economy

Too often, those who advocate rent regulation have ignored the basic laws of economics that govern the housing markets -- treating privately-owned, operated and developed rental housing as if it was a "public utility." In so doing, they harm not only housing providers, but also, in the long-run, the consumers they intend to serve.

Rents serve two functions essential to the efficient operation of housing markets:

- they compensate providers of existing housing units and developers of new units for the cost of providing shelter to consumers; and
- they provide the economic incentives needed to attract new investment in rental housing, as well as to maintain existing housing stock. In this respect, housing is no different from other commodities, such as food and clothing -- the amount producers supply is directly related to the prevailing market price.

This second function is particularly important in evaluating the economic implications of rent control. In an unregulated market, a housing shortage -- the reason usually cited for imposing rent control -- will be addressed in a two-step process. In the short-term, rents on the margin will rise as consumers compete for available units. Over time, these higher rents will encourage new investment in rental housing -- through new construction, rehabilitation, and conversion of buildings from nonresidential to residential use -- until the shortage of housing has been eliminated. *Without the increased rents required to attract new investment, new housing construction would be sharply limited and there would be no long-term solution to the housing shortage.* Conversely, a fall in rents sends the message to the market that there is no room for new investments.

When a community artificially restrains rents by adopting rent control, it sends the market what may be a false message. It tells builders not to make new investments and it tells current providers to reduce their investments in existing housing. Under such circumstances, *rent control has the perverse consequence of reducing, rather than expanding, the supply of housing in time of shortage.*

Three additional factors must be considered in the economic implications of rent control. First, the longer rent control remains in place, the more substantial the gap between controlled rents and true market rents is likely to be. Second, the costs of rent controls are not confined to the political boundaries of those communities that adopt them, but often impose significant costs throughout regional housing markets. Third, while the distortions induced by rent control depend on their stringency, any application of rent control leads to inequities and inefficiencies in the housing market.

Harm Caused by Rent Control

Economists are virtually unanimous in their condemnation of rent control. In a survey of economists of the American Economic Association, fully 93 percent agreed that "a ceiling on rents reduces the quality and quantity of housing available."⁽¹⁾ Economists generally point to six principal objections to rent control:

- 1. Inhibition of New Construction** By forcing rents below the market price, rent control reduces the profitability of rental housing, directing investment capital out of the rental market and into other more profitable markets. Construction declines and existing rental housing is converted to other uses.

Studies have shown, for example, that the total number of rental units in Cambridge and Brookline, Massachusetts, fell by 8 percent and 12 percent respectively in the 1980s, following imposition of stringent rent controls. Rental inventories in most nearby communities rose during that period.⁽²⁾ Similarly, in California the total supply of rental units dropped 14 percent in Berkeley and 8 percent in Santa Monica between 1978 and 1990, even though the rental supply rose in most nearby cities.⁽³⁾ And in the United Kingdom, which has imposed rent control since the Second World War, the share of all housing provided through privately owned rental units dropped from 53 percent in 1950 to less than 8 percent in 1986, reflecting the flight of investment from the regulated market.⁽⁴⁾

2. Deterioration of Existing Housing

By reducing the return on investments in rental housing, rent control also can lead to a drop in the quality and quantity of existing rental stock. This may take the form of condominium and cooperative conversions or, in some cases, abandonment of unprofitable property. It can also lead to a deterioration of the quality of housing stock as providers faced with declining revenues may be forced to substantially reduce maintenance and repair of existing housing.

A study by the Rand Corporation of Los Angeles' rent control law found that 63 percent of the benefit to consumers of lowered rents was offset by a loss in available housing due to deterioration and other forms of disinvestment.⁽⁵⁾ Studies of rent control in New York and Boston similarly found marked differences between rent-controlled and other units in housing quality and the level of expenditures on maintenance and repair.⁽⁶⁾

3. Reduced Property Tax Revenues

Rent control also reduces the market value of controlled rental property, both in absolute terms and relative to the increase in property values in unregulated markets. The tax implications of this reduction can be significant, as taxable assessed rental property values decline relative to unregulated property. A study of rent control in New York City calculated the loss in taxable assessed property values attributable to rent control at approximately \$4 billion in the late 1980s.⁽⁷⁾ These distorted assessments cost the city an estimated \$370 million annually in property tax revenues. The city of Berkeley, California, also estimates a significant loss in its tax revenue because of rent control.⁽⁸⁾

4. Substantial Administrative Costs

The administrative costs of rent control can be substantial, often outweighing any short-term benefits of rent regulation. Rent controls require the creation of elaborate bureaucratic systems. Rental property must be registered; detailed information on the rental property must be collected; and elaborate systems for determining rents and hearing complaints and appeals must be established. The associated costs in dollars and time fall not only on providers, but also on consumers and municipal authorities. For example, in Santa Monica, the Rent Control Board in 1996 had a budget of more than \$4 million a year to control rents on only 28,000 apartments.⁽⁹⁾

5. Reduced Consumer Mobility

The primary beneficiaries of rent control are those consumers lucky enough to find themselves in a rent-controlled unit. But even these consumers pay a price. Consumer "mobility" is substantially reduced by the reluctance of many consumers to part with the rent control subsidy. A recent study in New York City found that rent control tripled the expected duration of residence.⁽¹⁰⁾ Consumers who would otherwise move to smaller or larger homes or closer to their jobs do not do so because they do not want to lose the subsidy. This loss of mobility can be particularly costly to families whose job opportunities are geographically or otherwise limited and who may have to travel long distances to

reach those jobs available to them. And for the community at large -- including nearby communities that have not themselves imposed rent control -- reduced consumer mobility can mean increased traffic congestion and demand for city services, among other costs. Because of these spillover effects, rent control is an issue for state and regional policy as well as for local governance.

6. Consumer Entry Costs

The short-term benefits of rent control also are limited by often significant entry costs that must be paid by those in search of rental housing. In many rent-controlled communities, prospective consumers must pay substantial finder's fees to obtain a rental unit, due to the scarcity of available housing. And in some communities, a "gray-market" in rental housing has developed in which units are passed among friends or family members, or new consumers may be required to pay "key money" or to make other payments to current consumers or providers to obtain housing. Poor families, single consumers, and young people entering the market are especially hard-hit by these costs.

Social Implications of Rent Control

In addition to the substantial economic costs associated with rent control, the decision whether to regulate rents raises difficult questions of social policy:

1. The Substantial Costs of Rent Control Fall Most Heavily on the Poor

The costs of rent control fall disproportionately on the poor. As described earlier, these costs include (a) an often substantial drop in the quality of existing rental housing, and (b) substantially reduced access to new housing.

Poor families suffer a marked decline in existing housing as the quality of existing housing falls in response to reduced maintenance expenditures. The middle class can move out; for many reasons, poorer families lack this option.

Poor families also are at substantial disadvantages when it comes to finding new housing. In a tight market, there may be more people looking for housing than available rental units, thereby giving housing providers substantial discretion in choosing among competing potential consumers. In an unregulated market, this consumer selection process will be governed by the level of rents. However, by restricting rent levels rent control causes housing providers to turn to other factors, such as income and credit history, to choose among competing consumers. These factors tend to bias the selection process against low income families, particularly female-headed, single-parent households.

2. Higher Income Households Benefit Most from Rent Controls

Rent control is most often justified as an anti-poverty strategy. Yet, there is strong evidence that higher income households -- not the poor -- are the principal beneficiaries of most rent control laws. For example, a study of rent control in New York City found that rent-controlled households with incomes greater than \$75,000 received nearly twice the average subsidy of rent-controlled households with incomes below \$10,000.⁽¹¹⁾ Another study concluded that rent control had the greatest effect on rents in Manhattan, the borough with the highest average income.⁽¹²⁾ Similarly, a study of rent control in Berkeley and Santa Monica found that the beneficiaries of controls in those communities are "predominately white, well-educated, young professionally employed and affluent," and that rent control had substantially increased the disposable income of these tenants while "exacerbating" the problems of low-income families.⁽¹³⁾ And in Cambridge, Massachusetts, residents of rent-controlled housing had higher incomes and higher status occupations on average than other residents of the city, including homeowners.⁽¹⁴⁾

3. Rent Control Promotes Housing Discrimination

By eliminating rents as the basis of choosing among a pool of potential consumers, rent control opens the door to discrimination based on other factors. As noted earlier, rent control forces housing providers to look to income and credit history in choosing among competing consumers, factors which sharply bias the selection process against poor and young consumers. In some cases, consumer selection decisions also may be based on a potential consumer's race, sex, family size or other improper or unlawful factors. This may occur notwithstanding the rigorous enforcement of Fair Housing laws.

The reduction in housing caused by rent control also can slow the process of racial and economic

integration of many communities, by limiting the opportunities of certain classes of consumers to reside in rent-controlled communities. In fact, in many middle-class communities rent control has raised a relatively impenetrable barrier to economic and racial integration.

4. Rent Controls Unfairly Tax Rental Housing Providers and Other Real Estate Providers

Rent controls are designed to supplement consumer income at the expense of rental property providers -- by holding below market levels the permissible rate of return on rental property investment. There is substantial evidence that such transfers are highly inefficient. For example, one study concluded that housing consumers gained in benefits only 52 percent of what housing providers lost.⁽¹⁵⁾ This is due, in part, to the tendency of consumers in rent-controlled units to "hoard" housing and to be over-housed, a tendency that further exacerbates the underlying housing shortage.

But more importantly, such income transfers pose fundamental questions of fairness. Why should the uniquely public burden of providing subsidized housing to the poor and middle class be borne solely by providers of rental housing? Given both the inefficiency and unfairness of the rent control "tax," we should rely on broader, more equitable means of subsidizing poor families.

The fairness issue, as well as many of the other arguments against rent control, apply to commercial real estate as well. Controls on rents of retail, office, or industrial space deter construction, diminish the quality of existing structures, and unfairly transfer income from the property owner to the business occupying the rental space.

5. Effective Alternatives to Rent Control Exist

The answer to the problem of scarce housing and rising rents is increased housing supply -- not rent control-induced disinvestment. One way of stimulating the supply of affordable housing is through direct financial assistance to needy renters, whose increased purchasing power will lead to expansion of the quantity and quality of housing in the local market. This "demand-side" strategy is already in place through proven Federal and state programs. In addition, targeted programs to subsidize the construction or rehabilitation of affordable housing can be an effective complement to direct renter assistance. More generally, removal of inappropriate regulatory barriers to housing construction promotes housing affordability for both renters and home owners.

Conclusion

Economists have long considered rent control a failed housing policy. As Dr. Anthony Downs, a leading economist and nationally-recognized expert on housing policy, concluded in a recent report on rent controls, other than during wartime, the economic and social costs of rent control "almost always outweigh any perceived short-term benefits they provide."⁽¹⁶⁾ He also found that rent controls are both "unfair to owners of rental units and damaging to some of the very low income renters they are supposed to protect." Given this fact, reliance on rent control as a solution to the problem of housing affordability cannot be justified.

Signatories

American Seniors Housing Association
California Apartment Association
California Housing Council
Community Housing Improvement Program
Institute of Real Estate Management
Manufactured Housing Institute
National Apartment Association
National Association of Home Builders
National Association of Realtors
National Multi Housing Council
Real Estate Board of New York
Rent Stabilization Association of New York City
Rental Housing Association, Greater Boston Real Estate Board

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**ISSUE BRIEF**

Issues 2020: Rent Control Does Not Make Housing More Affordable

Michael Hendrix

January 8, 2020

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

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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.

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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

SHARES

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

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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

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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

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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]

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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.

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How Rent Controls Hurt the Poor

Saturday, March 1, 1975



Allan Brownfield

Mr. Brownfeld of Alexandria, Virginia , is a free-lance author, editor and lecturer especially interested in political science.

It is an unfortunate fact of life that government involvement in the economy is always initiated in "the public interest," and always ends up helping not the "public," but some smaller private concern.

Through the Civil Aeronautics Board, government was going to regulate the airlines in behalf of the American people. The result has been "regulation" against the public interest. Not one new airline has been permitted by the government to engage in interstate commerce since the CAB was created. Air fares in interstate commerce —controlled by the CAB — are far higher than air fares within a given state, not controlled by the CAB. It is clear that the regulators regulate not in behalf of the public but in behalf of the airlines.

A similar story is now unfolding with regard to government imposed rent controls in a variety of cities and states. The stated reason for the imposition of rent controls is to protect the poor from exorbitant rent increases by allegedly "greedy" landlords. The result —unexpected by those who have initiated such programs but viewed as almost inevitable by those who understand the dangers of government attempts at economic manipulation — is that the poor are finding it difficult to locate a place to live. The rental market is shrinking dramatically, and men and women are being forced out of the homes in which they have lived for many years.

A recent front page article in *The New York Times* (September 28, 1974) discussed the case of Kathleen M. Jackson, a retired college professor who had lived in a quiet old building on Connecticut Avenue in Washington, D.C. for 14 years. Suddenly she was given the option of buying her apartment or moving out. Her new landlords, citing a backbreaking interest rate, an expensive renovation program, and a belief that residential properties are no longer attractive investments, had announced plans to convert their units into condominiums.

Miss Jackson never seriously considered buying her apartment. The price would have been \$40,000 which involved a \$2,000 down payment and, if she could get a loan, mortgage payments, taxes, and operating expenses of \$422.50 a month. The rent had previously been \$155. Where she will live in the future is not yet clear. That her situation is becoming commonplace in our large cities is much clearer.

By last June 30, according to estimates of the Metropolitan Washington Council of Governments, 20,618 apartments in the area had been converted from rental to condominium units. There were 572 conversions in 1971, 3,563 in 1972, 8,439 in 1973, and 4,923 in the first half of 1974. New construction, meanwhile, has produced more than 24,000 additional units.

In 1970, 87 per cent of the area's new multifamily housing was rental and 12 per cent was condominium; this year the figures are reversed: 86 per cent is condominium and 13 per cent is rental.

Restricting the Supply

The Wall Street Journal of October 4, 1974 declared that, "In many areas, the conversion of existing apartments to condominiums has . . . constricted the supply of units available for rental." In its Fall, 1974 survey of 20 major markets, Advance Mortgage Corporation, a large mortgage banking concern and subsidiary of Citicorp, found that the apartment vacancies in the majority of these areas were continuing to vanish. The Houston market, for example, was one of the softest in the nation in 1973 with about 17 per cent of its units vacant. By late in 1974 the vacancy rate was 9 per cent and falling "at a rate of one per cent a month," according to Philip L. Hendershot, a vice president of Advance Mortgage.

The effect of this state of affairs may be more serious than many imagine at this time. "People will have to be doubling up, living more with relatives," says Robert Sheehan, director of economics for the National Association of Home Builders. The fastest formation of households will be by people in the 30-44 year old age group, reflecting the "baby boom" after World War II. Mr. Sheehan predicts that this group will increase its rate of forming households to about 650,000 annually by 1980 from approximately 225,000 a year at present.

Less Rental Housing

Predictions have it that within 20 years half of the nation's population will live in condominiums — a prediction which implies a shift in housing patterns so vast as to require wholesale conversions throughout the country. David Clurman, an Assistant Attorney General in New York and a leading condominium authority, states that, "I think the time will come when most of the soundly built, well-situated buildings in the United States will be converted." (*New York Times*, September 28, 1974.)

The reason for the destruction of the rental housing market — a market of importance to the nation's poorer families — is clearly government economic intervention. *U.S. News and World Report* declared in its June 24, 1974 issue that condominiums were replacing rental housing because "Landlords fed up with tenant complaints and with rent control or the threat of control often find conversion ... an attractive way out."

Today, more and more, investors regard the risks of rental property as no longer acceptable. Taxes, utility bills and labor costs are soaring, they complain, while rent controls either hold down income or threaten to do so.

In New York City, which has long had rent controls, the plight of the poor in seeking housing is probably the worst in the nation. The rental vacancy rate is below 1 per cent and private building is at a near paralysis. Richard Stone, writing in *The Wall Street Journal* in 1971, notes that, "Increasing numbers of landlords simply give up, abandoning buildings they can neither afford to maintain nor sell at any price. Tenants, left with no heat, water or electricity, vacate such buildings in a matter of days. When that happens, blight swallows up whole neighborhoods, almost overnight. Every day there are fewer housing units available in New York City than the day before. New York's archaic rent-control law keeps the marginally poor whose fortune is improving from moving out of slum neighborhoods."

Economically Irrational

In his important book, *A Humane Economy*, Wilhelm Röpke points to rent control as an example of an "economic policy" which tends to be "irrational, that is, determined by what is 'politically feasible' rather than by what is economically rational and just."

He calls rent controls "irrational, ill-considered and at the same time unsocial and inequitable." Röpke notes that, "Rent control is really nothing but the protection of one privileged special kind of tenants, those with old leases, at the expense of the landlords and later tenants alike. Yet it persists, and the explanation is no doubt that, on the one hand, it does need a little reflection and intelligence to see its full implications and that, on the other hand, politicians are afraid to denounce this object of cheap demagogic."

The entire philosophy of coercive government controls on rent may satisfy the statist predilections of some politicians and economists, but surely adds to the burden of the poor — those they were meant to help.

"Rent ceilings," declares economist Milton Friedman, "cause haphazard and arbitrary allocation of space, inefficient use of space, retardation of new construction. The legal ceilings on rents are the reason there are so few places for rent. Because of the excess of demand over supply, rental property



FEE Stories



How We Know California's New Rent Control Law Will Make Its Housing Shortage Worse

Rent controls propose using government regulation to solve the symptom—high prices—of a problem—a shortage of housing—which government regulation created in the first place.

Monday, September 16, 2019



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[John Phelan](#)

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When you see a headline that begins with “Florida man...,” you know it’s more likely to be about some guy trying to take down a tornado with his Colt Python than it is that a resident of the Sunshine State has cracked cold fusion. In public policy circles, the words “California policymakers...” appearing in a headline are attaining a similar status.

The latest ill-conceived policy from California is a statewide rent cap. As the [New York Times](#) reported this week:

The bill limits annual rent increases to 5 percent after inflation and offers new barriers to eviction, providing a bit of housing security in a state with the nation's highest housing prices and a swelling homeless population.

The Consensus Is Overwhelmingly against Rent Controls

Economists are a famously fractious bunch. Fiscal policy or monetary policy? Stimulus or austerity? Such debates play out among the profession with a level of bitterness that amazes the layman.

So it is always worth paying attention when you get something like consensus. But that is pretty much what we have on the issue of rent control. In 2012, economists were polled with the following question:

Local ordinances that limit rent increases for some rental housing units, such as in [New York](#) and [San Francisco](#), have had a positive impact over the past three decades on the amount and quality of broadly affordable rental housing in cities that have used them.

[Eighty-one percent](#) of them disagreed. In 2000, [Paul Krugman](#) wrote:

The analysis of rent control is among the best-understood issues in all of economics, and — among economists, anyway — one of the least controversial. In 1992 a poll of the American Economic Association found 93 percent of its members agreeing that "a ceiling on rents reduces the quality and quantity of housing."

If consensus is how you do your science, rent control is a dead duck.

Rent Controls Solve the Symptom, Not the Problem

Why are economists so overwhelmingly against rent controls? One reason is that they mistake the symptom for the problem.

Look again at the *Times* quote. It identifies two problems: “the nation’s highest housing prices and a swelling homeless population.”

Regarding the first, we must ask ourselves *why* prices are high. They are high because the demand for housing in California is high relative to the supply of it. And why is that? As [I wrote in February](#):

The bizarre [story](#) of Bob Tillman’s five-year, \$1.4 million legal battle to turn his coin-operated laundromat into an apartment building shows how regulations constraining supply coupled with rising demand have driven house prices ever higher. Again, when politicians in the Golden State complain about the lack of affordable housing, they themselves are in large part responsible for that lack in the first place.

Regarding the second problem, the “swelling homeless population,” rent control will do nothing whatsoever for these folks. The problem, remember, is too many people wanting to live in a given stock of housing. Capping the price of that housing by government decree will do nothing to solve that problem. What would help is getting rid of the government regulations that restrict the supply of housing.

Prices are not problems; they are signals of problems. Trying to solve the problem by treating the signal is like trying to slow down your car by fiddling with the speedometer.

Rent Controls Have Unintended Consequences

A second reason economists overwhelmingly oppose rent controls is that they always have unintended consequences. Rent controls are the opposite of minimum wage laws. Where minimum wage laws are price floors, rent controls are price ceilings.

Economic theory is pretty clear about what the effects of a price ceiling will be. As Figure 1 shows, at equilibrium rents are \$600, and 300 units of housing are both supplied and demanded. If you cap the rent at \$400, however, you decrease the number of homes supplied to 200 and *increase* the number of homes demanded to 400. You now have an excess of demand over supply of 200 (demand of 400 minus supply of 200). If you were motivated by a concern for a shortage of housing, congratulations, you just made it worse. It wasn't intended, but it was a consequence.



This might sound a little wacky. How can the supply of housing fall? Landlords don't demolish their houses in response to a fall in rents, so shouldn't the demand curve be vertical? In this case, a reduction in rents would see no consequent fall in the number of homes available.

But, wacky as it might sound, the supply of housing *is* responsive to price changes—it is “price elastic,” in the jargon. An old but excellent and still sadly relevant book titled [*Verdict on Rent Control*](#) examines episodes from a number of countries and finds:

[I]n every country examined, the introduction and continuance of rent control/restriction/regulation has done much more harm than good in rental housing markets—let alone the economy at large—by perpetuating shortages, encouraging immobility, swamping consumer preferences, fostering dilapidation of housing stocks and eroding production incentives, distorting land-use patterns and the allocation of scarce resources—and all in the name of the distributive justice it has manifestly failed to achieve.

A recent paper by economists Rebecca Diamond, Timothy McQuade, and Franklin Qian titled "[The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco](#)" found:

[L]andlords of properties impacted by the law change respond over the long term by substituting to other types of real estate, in particular by converting to condos and redeveloping buildings so as to exempt them from rent control. This substitution toward owner occupied and high-end new construction rental housing likely fueled the gentrification of San Francisco, as these types of properties cater to higher income individuals. Indeed, the combination of more gentrification and helping rent controlled tenants remain in San Francisco has led to a higher level of income inequality in the city overall.

Again, it wasn't intended, but it was a consequence.

Rent controls propose using government regulation to solve the symptom —high prices—of a problem—a shortage of housing—which government regulation created in the first place. As public policy, it is as ineffective as trying to take down a tornado with a Colt Python.



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John Phelan

John Phelan is an economist at [the Center of the American Experiment](#) and fellow of The Cobden Centre.

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Does rent control work?

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Rising rents in UK cities has brought rent control policies to the forefront of political debate. The Scottish National Party/Scottish Green Party coalition has recently proposed a nationwide system of rent controls, in an attempt to make housing more affordable.

Related Questions

Rents have been rising steadily in most of the UK's biggest cities, making rental housing more difficult to afford for millions of people living in (or aiming to live in) rental accommodation.
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In Scotland, cumulative rents increased by 45.8% and 40.9% over the last decade (<https://www.gov.scot/publications/private-sector-rent-statistics-scotland-2010-2020/>) in the country's two largest urban areas, Edinburgh and Glasgow, respectively. Recently, the ruling Scottish National Party (SNP) have agreed to work together with the Scottish Green Party (SGP) to create a shared economic programme, which contains the plan to '[implement an effective national system of rent controls](https://www.gov.scot/news/agreement-with-scottish-green-party/) (<https://www.gov.scot/news/agreement-with-scottish-green-party/>).

housing more affordable. The focus is on the private rented sector (PRS), where properties are rented from private landlords and, unlike in the case of the social rented sector (SRS), housing is not subsidised.

What does evidence from research tell us?

Rent controls are meant to mitigate the harmful economic consequences of rapid increases in rent costs – or rent inflation – in urban areas. Rent inflation can squeeze lower income tenants out of the neighbourhoods they live in and increase commuting times (Ahrens and Lyons, 2020 (https://journals.sagepub.com/doi/full/10.1177/0042098020910698?casa_token=a4UkLMvy1SsAAAAA%3AHYL2R7MjwmRdDJz-bjX-Q1QjnxGtgz-N6RAL55seAfSJ4FvQ2YZqyzcrwHJ3J8CPnyyrbZV8dAEEw)). By limiting or obstructing residential mobility, it can lead to a misallocation of labour when rising rents drive workers out of high-productivity areas (Nunns, 2021 (https://www.tandfonline.com/doi/pdf/10.1080/00779954.2020.1791939?casa_token=a68sLhTSaicAAAAA:-KhC3Kj_g24EswqdCl9GQo_11QDXRvnxEJ3p0ziDY9jG9O6mY7FsInf5PPLcyTf6jNRjcCyFGwjRw)).

Displacement of tenants from their homes due to rising rents can also have damaging psychological and social consequences on the individuals and communities affected, as people having to move away from their long-term homes can sever long-standing community ties (Slater, 2021 (<https://www.tandfonline.com/doi/pdf/10.1080/02723638.2021.1958473?needAccess=true>)).

The key question that economists are trying to answer is whether rent control policies are effective at mitigating these negative economic (and social) consequences.

Most of the empirical evidence on the effectiveness of rent control comes from large US cities, where rent control regulations have been in place for decades. For example, San Francisco has had rent controls in place for the last 42 years on properties built before 1980, while in New York City, rent control policies have been a feature of the housing market since the 1940s (Arnott, 1995 (<https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.9.1.99>)). The main aim of these policies is to prevent rents from rising, and several recent studies find that they are generally successful at lowering (or maintaining) rents for controlled housing units (Sims, 2007 (<https://www.sciencedirect.com/science/article/pii/S0094119006000635>); Autor et al., 2014 (https://www.journals.uchicago.edu/doi/full/10.1086/675536?casa_token=fDs53HREE0AAAAA%3AsRjtddOuLHe283gWTM46cNfe0cWusd4Xn0XP9ThxZmPcQzsOkcC6iTpdT9MAa7XtV8go1YXRUQ); Diamond et al., 2019 (<https://www.aeaweb.org/articles?id=10.1257%2Faer.20181289&ref=mainstreem-dotcom>)).

Rent controls are also found to reduce displacement for controlled units – that is, tenants having to move out due to rising rents (Glaeser and Luttmer, 2003 (<https://www.aeaweb.org/articles?id=10.1257/000282803769206188>); Sims, 2007 (<https://www.sciencedirect.com/science/article/pii/S0094119006000635>); Diamond et al., 2019 (<https://www.aeaweb.org/articles?id=10.1257%2Faer.20181289&ref=mainstreem-dotcom>)) There is even evidence that they are particularly effective at preventing the displacement of racial minorities in some contexts, with one study (<https://www.aeaweb.org/articles?id=10.1257%2Faer.20181289&ref=mainstreem-dotcom>) showing that San Francisco's rent control resulted in minority tenants being much less likely to move away from the city compared with white tenants. This suggests that when rent control policies cover disadvantaged minority populations, these policies can help foster racial diversity in affected areas.

Despite its benefits for tenants, there is also evidence that rent control can have large negative effects on the rest of the rental market. For example, San Francisco's 1994 rent control law led to a 5.1% increase in overall (city-wide) rents over the course of the next two decades (Diamond et al., 2019 (<https://www.aeaweb.org/articles?id=10.1257%2Faer.20181289&ref=mainstreem-dotcom>).

The overall rise in rents created a cost of \$2.9 billion accrued to current and future renters, which was offset by the benefits received by tenants living in the controlled units.

This study also sheds light on an important behavioural response to rent control by owners of rental properties: landlords substituted to other types of real estate (such as properties exempt from rent control). This lowered the housing supply and shifted it towards less affordable types of housing, leading to rents rising at an even higher rate.

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This finding is largely consistent with the predictions of basic microeconomic models: rent controls lower the price of housing and at this lower price less housing is offered ([Glaeser and Luttmer, 2003](https://www.aeaweb.org/articles?id=10.1257/000282803769206188)). Housing quality is also reduced as landlords can no longer make up losses from renovating properties by raising rents ([Sims, 2007](https://www.journals.uchicago.edu/doi/full/10.1086/675536))
(<https://www.sciencedirect.com/science/article/pii/S0094119006000635>).

These theoretical stipulations are supported by evidence from several empirical studies ([Early, 2000](https://www.sciencedirect.com/science/article/pii/S0094119099921630) (<https://www.sciencedirect.com/science/article/pii/S0094119099921630>); [Sims, 2007](https://www.journals.uchicago.edu/doi/full/10.1086/675536) (<https://www.sciencedirect.com/science/article/pii/S0094119006000635>); [Autor et al, 2014](https://www.journals.uchicago.edu/doi/full/10.1086/675536) (<https://www.journals.uchicago.edu/doi/full/10.1086/675536>)).

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(<https://www.sciencedirect.com/science/article/pii/S0094119006000635>); [Autor et al, 2014](https://www.journals.uchicago.edu/doi/full/10.1086/675536) (<https://www.journals.uchicago.edu/doi/full/10.1086/675536>).

[casa_token=fDsz53HREE0AAAAA%3ASrJtddOuLHJe283gWTM46cNfe0cWusd4Xn0XP9ThxZmPcQzsOOkcC6iTpdT9MAa7XtV8go1YXRuQ](https://www.journals.uchicago.edu/doi/full/10.1086/675536)). These policies should target lower-income residents who would otherwise be priced out of rapidly gentrifying neighbourhoods. Yet, even when there are benefits from rent control for certain incumbent households, it is not always clear whether the 'right' households are the ones that are targeted.

For example, one study has highlighted that a smaller share of rent-controlled housing units belonged to the bottom quartile of the income distribution than to the top quartile ([Sims, 2007](https://www.journals.uchicago.edu/doi/full/10.1086/675536))
(<https://www.sciencedirect.com/science/article/pii/S0094119006000635>). Similarly, evidence shows that New York City's rent control policies benefited all rent-controlled households equally across the income distribution ([Gyourko and Linneman, 1989](https://www.socsci.uci.edu/~jkbrueck/course%20readings/gyourko%20and%20linneman2.pdf))
([http://www.socsci.uci.edu/~jkbrueck/course%20readings/gyourko%20and%20linneman2.pdf](https://www.socsci.uci.edu/~jkbrueck/course%20readings/gyourko%20and%20linneman2.pdf)).

Another important consideration is that rent controls can lead to mismatches between tenants and housing units. Once rent control is imposed on a property, the tenant might choose not to move away in the future (this would mean effectively giving up rent control) even if their housing unit is no longer appropriate for them ([Glaeser and Luttmer, 2003](https://www.aeaweb.org/articles?id=10.1257/000282803769206188))
(<https://www.aeaweb.org/articles?id=10.1257/000282803769206188>); [Sims, 2011](https://www.journals.uchicago.edu/doi/full/10.1086/665416)
(<https://www.degruyter.com/document/doi/10.2202/1935-1682.2613/html>); [Bulow and Klemperer, 2012](https://www.journals.uchicago.edu/doi/full/10.1086/665416) (<https://www.journals.uchicago.edu/doi/full/10.1086/665416>?
[casa_token=rpfYJmmBw0AAAAA%3AJEd9hKp4T1YrpWSYqMlsM3YmfYAC7-5E5fhMqrUdLuwNofZf4IeVJqBfWnmkskCv_Veh99t9tCw](https://www.journals.uchicago.edu/doi/full/10.1086/675536)). This can lead to, for example, single households living in large apartments, or large families living in small studios ([Diamond, 2018](https://www.brookings.edu/research/what-does-economic-evidence-tell-us-about-the-effects-of-rent-control/))
(<https://www.brookings.edu/research/what-does-economic-evidence-tell-us-about-the-effects-of-rent-control/>).

Are there gaps in the research?

Recent studies use high-quality administrative data and the effects they identify rely on varying exposure to rent control. The results tend to correspond to theoretical stipulations ([Sims, 2007](https://www.journals.uchicago.edu/doi/full/10.1086/675536))
(<https://www.sciencedirect.com/science/article/pii/S0094119006000635>); [Autor et al, 2014](https://www.journals.uchicago.edu/doi/full/10.1086/675536)
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(<https://www.tandfonline.com/doi/pdf/10.1080/19491247.2017.1336876>?
[casa_token=Z1wNBU8F2R0AAAAA:1nNwot6Dz4PFdRHS8IIO5X0id2MzoIwJ5Nq6cWtE6LB11rplLRB4bGrNJj3Z61MTGDMgQPz_jiKfEQ](https://www.journals.uchicago.edu/doi/full/10.1086/675536)); [Donner and Kopsch, 2021](https://www.aeaweb.org/articles?id=10.1257%2Faer.20181289&ref=mainstream-dotcom)
(<https://gpc.stanford.edu/sites/g/files/sbiyb8226/f/rentcontroldonnerkopschjan11.pdf>); [Breidenbach et al, 2021](https://www.journals.uchicago.edu/doi/full/10.1086/675536) (<https://www.journals.uchicago.edu/doi/full/10.1086/675536>?).

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xEYvbPky_mpNonQB30L-6pkch0dd1j46vUejij64MVQ5_LA8)). For example, Germany introduced a nationwide system of rent controls in 2015, but, according to recent research, this has had no persistent effect on rental prices, instead resulting in reduced housing quality. The households who benefitted from lower rents in the short run were mostly higher income ones (Breidenbach et al, 2021 ([But are researchers looking at all types of rent control? One crucial piece of ambiguity in the analysis of rent control policies is related to the way in which they are designed.](https://www.sciencedirect.com/science/article/pii/S0166046221000971?casa_token=TeuXQhe1uP8AAAAAA:vM57YsjA4ZYteAyTNVoEbK7CbF-xEYvbPky_mpNonQB30L-6pkch0dd1j46vUejij64MVQ5_LA8)).</p></div><div data-bbox=)

First, there can be harder (first-generation) rent control policies which set price ceilings, and softer (second-generation) policies that regulate rent increases whilst ensuring certain provisions for landlords. In fact, first-generation rent controls are all but extinct in European countries (Kettunen and Ruonavaara, 2020 (<https://www.tandfonline.com/doi/full/10.1080/02673037.2020.1769564>)). Yet most of the empirical evidence is focused on the harmful effects of these policies, and not the effects of second-generation rent controls (Slater, 2021 (<https://www.tandfonline.com/doi/pdf/10.1080/02723638.2021.1958473?needAccess=true>)).

Second, rent control policies can include very specific provisions to address known issues associated with them. For example, while rent control could incentivise landlords to convert rental properties into other types of real estate, if policy-makers limit these responses through well-designed regulations, and complement rent control with other policies (promoting homebuilding, for example) some of the related negative effects could be mitigated (Pastor et al, 2018 (<http://aagla.org/wp-content/uploads/2019/10/USC-Dornsife-Rent-Matters.pdf>)).

What does the future hold?

High rates of rent inflation in urban areas, like that witnessed over the last decade in Scotland's two largest cities, can bring with it several negative economic consequences. As mentioned, rising rents can exclude lower income tenants from urban rental markets, making it more difficult to live close to (or relocate for) employment opportunities. If these tenants need to move away to suburban and rural locations where rents are more affordable, this could increase commuting times or make people turn down work opportunities that would have otherwise been appropriate.

Policy-makers have good reason to target this issue and design policies that mitigate the harmful effects of rapidly rising rents. But a key question is whether rent control is the appropriate policy to tackle rent inflation, and, if so, what type of rent control policies would be the most efficient?

In Scotland, if the SNP-SGP coalition were to go ahead with its plans to implement a nationwide system of rent controls, such a system would have to be carefully designed to avoid the potential negative effects of rent control policies discussed above. The specific details of this policy are not yet clear (<https://www.gov.scot/publications/scottish-government-and-scottish-green-party-shared-policy-programme/pages/a-fairer-scotland/#Housing>), although the SGP leadership have alluded to (<https://inews.co.uk/opinion/snp-green-deal-scotland-rent-controls-fairer-renting-buying-1166729>) provisions for landlords to cover certain costs, suggesting that the proposed rent controls will likely be of the second-generation kind. It is also worth noting that the Scottish Government already has a localised rent control policy in place, called Rent Pressure Zones (RPZ) (<https://www.gov.scot/policies/private-renting/rent-pressure-zones/>). Local councils can apply to become a RPZ if rents are rising too fast in the area, and the government can apply rent caps if these applications are accepted. There are currently no RPZs in Scotland, and it is unclear how this policy would be incorporated into the new rent control framework.

Rent controls can benefit those in controlled housing units, but these benefits must accrue to disadvantaged groups who need the wealth transfer and access to neighbourhood opportunities the most. Importantly, they should not just apply to those who happened to occupy rent-controlled housing at the moment of policy implementation.

If rents controls are implemented, landlords must also be compensated (perhaps through a subsidy or tax-credit system) so that they continue to invest in rental housing, and do not sell or convert their properties.

Finally, given that such policies will likely lead to a reduction in the housing supply, rent controls should be complemented with policies that increase the supply of available housing. This is line with the Scottish Government's current policy of encouraging investment in building affordable homes. At the same time, plans to expand social housing (<https://www.gov.scot/policies/more-homes/affordable-housing-supply/>) could also help mitigate the effects of rising rents on lower income tenants.

Where can I find out more?

- More on the proposed rent control policies in Scotland through the SGP website (<https://greens.scot/content/scotland-can-make-renting-fair>)
- A Freakonomics podcast episode (<https://freakonomics.com/podcast/rent-control/>) on rent control
- A summary of the related research (<https://www.brookings.edu/research/what-does-economic-evidence-tell-us-about-the-effects-of-rent-control/>) by Rebecca Diamond (Stanford University) published by the Brookings Institute

Who are experts on this question?

- Edward Glaeser (<https://scholar.harvard.edu/glaeser/home>)
- Rebecca Diamond (<https://www.gsb.stanford.edu/faculty-research/faculty/rebecca-diamond>)
- Joseph Gyourko (<https://real-estate.wharton.upenn.edu/profile/gyourko/>)
- Tom Slater (<https://blogs.ed.ac.uk/tomslater/>)

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Rent Control

By Walter Block



By Walter Block,

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New York State legislators defend the War Emergency Tenant Protection Act—also known as rent control—as a way of protecting tenants from war-related [HOUSING](#) shortages. The war referred to in the law is not the 2003 war in Iraq, however, or the Vietnam War; it is World War II. That is when rent control started in New York City. Of course, war has very little to do with apartment shortages. On the contrary, the shortage is created by rent control, the supposed solution. Gotham is far from the only city to have embraced rent control. Many others across the United States have succumbed to the blandishments of this legislative “fix.”

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price, or a rent ceiling, on what landlords may charge tenants. If it is to have any effect, the rent level must be set at a rate below that which would otherwise have prevailed. (An enactment prohibiting apartment rents from exceeding, say, \$100,000 per month would have no effect since no one would pay that amount in any case.) But if rents are established at less than their equilibrium levels, the quantity demanded will necessarily exceed the amount supplied, and rent control will lead to a shortage of dwelling spaces. In a competitive market and absent controls on prices, if the amount of a commodity or service demanded is larger than the amount supplied, prices rise to eliminate the shortage (by both bringing forth new **SUPPLY** and by reducing the amount demanded). But controls prevent rents from attaining market-clearing levels and shortages result.

With shortages in the controlled sector, this excess **DEMAND** spills over onto the noncontrolled sector (typically, new upper-bracket rental units or condominiums). But this noncontrolled segment of the market is likely to be smaller than it would be without controls because property owners fear that controls may one day be placed on them. The high demand in the noncontrolled segment along with the small quantity supplied, both caused by rent control, boost prices in that segment. Paradoxically, then, even though rents may be lower in the controlled sector, they rise greatly for uncontrolled units and may be higher for rental housing as a whole.

As in the case of other price ceilings, rent control causes shortages, diminution in the quality of the product, and queues. But rent control differs from other such schemes. With price controls on gasoline, the waiting lines worked on a first-come-first-served basis. With rent control, because the law places sitting tenants first in the queue, many of them benefit.

The Effects of Rent Control

Economists are virtually unanimous in concluding that rent controls are destructive. In a 1990 poll of 464 economists published in the May 1992 issue of the *American Economic Review*, 93 percent of U.S. respondents agreed, either completely or with provisos, that "a ceiling on rents reduces the quantity and quality of housing available."¹ Similarly, another study reported that more than 95 percent of the Canadian economists polled agreed with the statement.² The agreement cuts across the usual political spectrum, ranging all the way from Nobel Prize winners **MILTON FRIEDMAN** and **FRIEDRICH HAYEK** on the "right" to their fellow Nobel laureate **GUNNAR MYRDAL**, an important architect of the Swedish Labor Party's **WELFARE** state, on the "left." Myrdal stated, "Rent control has in certain Western countries constituted, maybe, the worst example of poor planning by governments lacking courage and vision."³ His fellow Swedish economist (and socialist) Assar Lindbeck asserted, "In many cases rent control appears to be the most efficient technique presently known to destroy a city—except for bombing."⁴ That cities like New York have clearly not been destroyed by rent control is due to the fact that rent control has been relaxed over the years.⁵ Rent stabilization, for example, which took the place of rent control for

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NEW YORK CITY HOUSING MARKET IS NOT IN RENT-CONTROLLED OR RENT-STABILIZED UNITS, BUT IN condominiums and cooperative housing. But these two forms of housing ownership grew important as a way of getting around rent control.

Economists have shown that rent control diverts new **INVESTMENT**, which would otherwise have gone to rental housing, toward greener pastures—greener in terms of consumer need. They have demonstrated that it leads to housing deterioration, fewer repairs, and less maintenance. For example, Paul Niebanck found that 29 percent of rent-controlled housing in the United States was deteriorated, but only 8 percent of the uncontrolled units were in such a state of disrepair. Joel Brenner and Herbert Franklin cited similar statistics for England and France.

The economic reasons are straightforward. One effect of government oversight is to retard investment in residential rental units. Imagine that you have five million dollars to invest and can place the funds in any industry you wish. In most businesses, governments will place only limited controls and taxes on your enterprise. But if you entrust your money to rental housing, you must pass one additional hurdle: the rent-control authority, with its hearings, red tape, and rent ceilings. Under these conditions is it any wonder that you are less likely to build or purchase rental housing?

This line of reasoning holds not just for you, but for everyone else as well. As a result, the quantity of apartments for rent will be far smaller than otherwise. And not so amazingly, the preceding analysis holds true not only for the case where rent controls are in place, but even where they are only threatened. The mere anticipation of controls is enough to have a chilling effect on such investment. Instead, everything else under the sun in the real estate market has been built: condominiums, office towers, hotels, warehouses, commercial space. Why? Because such investments have never been subject to rent controls, and no one fears that they ever will be. It is no accident that these facilities boast healthy vacancy rates and relatively slowly increasing rental rates, while residential space suffers from a virtual zero vacancy rate in the controlled sector and skyrocketing prices in the uncontrolled sector.

Although many rent-control ordinances specifically exempt new rental units from coverage, investors are too cautious (perhaps too smart) to put their faith in rental housing. In numerous cases housing units supposedly exempt forever from controls were nevertheless brought under the provisions of this law due to some “emergency” or other. New York City’s government, for example, has three times broken its promise to exempt new or vacant units from control. So prevalent is this practice of rent-control authorities that a new term has been invented to describe it: “recapture.”

Rent control has destroyed entire sections of sound housing in New York’s South Bronx and has led to decay and abandonment throughout the entire five boroughs of the city. Although hard statistics on abandonments are not available, William Tucker estimates that about 30,000 New

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too-rational fear that rent control will become even more stringent, no sensible investor will build rental housing unsubsidized by government.

Effects on Tenants

Existing rental units fare poorly under rent control. Even with the best will in the world, the landlord sometimes cannot afford to pay his escalating fuel, labor, and materials bills, to say nothing of refinancing his mortgage, out of the rent increase he can legally charge. And under rent controls he lacks the best will; the incentive he had under free-market conditions to supply tenant services is severely reduced.

The sitting tenant is “protected” by rent control but, in many cases, receives no real rental bargain because of improper maintenance, poor repairs and painting, and grudging provision of services. The enjoyment he can derive out of his dwelling space ultimately tends to be reduced to a level commensurate with his controlled rent. This may take decades, though, and meanwhile he benefits from rent control.

In fact, many tenants, usually rich or middle-class ones who are politically connected or who were lucky enough to be in the right place at the right time, can gain a lot from rent control. Tenants in some of the nicest neighborhoods in New York City pay a scandalously small fraction of the market price of their apartments. In the early 1980s, for example, former mayor Ed Koch paid \$441.49 for an apartment then worth about \$1,200.00 per month. Some people in this fortunate position use their apartments like hotel rooms, visiting only a few times per year.

Then there is the “old lady effect.” Consider the case of a two-parent, four-child family that has occupied a ten-room rental dwelling. One by one the children grow up, marry, and move elsewhere. The husband dies. Now the lady is left with a gigantic apartment. She uses only two or three of the rooms and, to save on heating and cleaning, closes off the remainder. Without rent control she would move to a smaller accommodation. But rent control makes that option unattractive. Needless to say, these practices further exacerbate the housing crisis. Repeal of rent control would free up thousands of such rooms very quickly, dampening the impetus toward vastly higher rents.

What determines whether or not a tenant benefits from rent control? If the building in which he lives is in a good neighborhood where rents would rise appreciably if rent control were repealed, then the landlord has an incentive to maintain the building against the prospect of that happy day. This incentive is enhanced if there are many decontrolled units in the building (due to “vacancy decontrol” when tenants move out) or privately owned condominiums for which the

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may free ride on his neighbors. But in the more typical case the quality of housing services tends to reflect rental payments. This, at least, is the situation that will prevail at equilibrium. If government really had the best interests of tenants at heart and was for some reason determined to employ controls, it would do the very *opposite* of imposing rent restrictions: it would instead control the price of every *other* good and service available, apart from residential suites, in an attempt to divert resources out of all those other opportunities and into this one field. But that, of course, would bring about full-scale socialism, the very system under which the Eastern Europeans suffered so grimly. If the government wanted to help the poor and was for some reason constrained to keep rent controls, it would do better to tightly control rents on luxury unit rentals and to eliminate rent controls on more modest dwellings—the very opposite of the present practice. Then, builders' incentives would be turned around. Instead of erecting luxury dwellings, which are now exempt, they would be led, "as if by an invisible hand," to create housing for the poor and middle classes.

Solutions

The negative consequences of rent legislation have become so massive and perverse that even many of its former supporters have spoken out against it. Instead of urging a quick termination of controls, however, some pundits would only allow landlords to buy tenants out of their controlled dwellings. That they propose such a solution is understandable. Because tenants outnumber landlords and are usually convinced that rent control is in their best interests, they are likely to invest considerable political energy (see [RENT SEEKING](#)) in maintaining rent control. Having landlords "buy off" these opponents of reform, therefore, could be a politically effective way to end rent control.

But making property owners pay to escape a law that has victimized many of them for years is not an effective way to make them confident that rent controls will be absent in the future. The surest way to encourage private investment is to signal investors that housing will be safe from rent control. And the most effective way to do that is to eliminate the possibility of rent control with an amendment to the state constitution that forbids it. Paradoxically, one of the best ways to help tenants is to protect the [ECONOMIC FREEDOM](#) of landlords.

Rent Control: It's Worse Than Bombing

NEW DELHI—A "romantic conception of [SOCIALISM](#)" ... destroyed Vietnam's economy in the years after the Vietnam war, Foreign Minister Nguyen Co Thach said Friday.

Addressing a crowded news conference in the Indian capital, Mr. Thach admitted that controls ... had artificially encouraged demand and discouraged supply.... House rents had ... been kept low ... so all the houses in Hanoi had fallen into disrepair, said Mr. Thach.

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I realized it was stupid and that we must change policy, he said.

—From a news report in *Journal of Commerce*, quoted in Dan Seligman, "Keeping Up," *Fortune*, February 27, 1989.

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States New York "public advocate" Mark Green: "the number of rent-controlled apartments fell 18.2% between 1991 and 1993 and the new data we have analyzed shows an even greater decline—30%—from 1993 to 1996. Indeed, the total number of rent-controlled apartments has fallen by 75% from its peak of 285,000 in 1981" (<http://www.tenant.net/Alerts/Guide/papers/mgreen1.html>). This is due to the fact that when rents reach a certain level (\$2,000 per month under certain conditions), apartments leave the controlled sector altogether. Inflation plus a "hot" New York City housing market have pushed many units above this level. See on this <http://www.housingnyc.com/html/resources/faq/decontrol.html>. Ken Rosenblum, Mike Golden, and Deborah Poole provided the above cites.

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MUNGER ON ORGAN TRANSPLANTS, PRICES, AND COMPETITION

Mike Munger of Duke University talks with EconTalk host Russ Roberts about the limits of prices and markets, especially in the area of health. They talk about vaccines, organ transplants, the ethics of triage and what role price should play in allocating. The discussion concludes with a discussion of how markets respond to price controls, particularly minimum wages.

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The Evidence Against Rent Control

March 29, 2019 · 5:06 AM ET

Heard on Morning Edition



GREG ROSALSKY

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Rent control is returning to some communities. But evidence suggests there are better ways to keep low-income people housed.

STEVE INSKEEP, HOST:

How can Americans make housing more affordable? In many places, housing prices are rising much more rapidly than wages. The market is bad enough to revive movements for rent control. For decades, of course, some cities have frozen rents or limited rent increases. Last month, for the first time, an entire state imposed rent control - Oregon. Greg Rosalsky from NPR's Planet Money podcast asked if there are better ways to make housing affordable.

GREG ROSALSKY, BYLINE: Back in 1994, San Francisco renters had a lot to be happy about. The 49ers were about to win a Super Bowl. The Internet was taking off. And a new law, which expanded rent control around the city, told a lot of landlords they could only raise rents to about half the rate of inflation. That was only about 1 percent that year, which was the lowest rent increase most renters had seen in over a decade.

REBECCA DIAMOND: All of the potential good things about rent control you do see going on for that initial set of renters.

ROSALSKY: That's Rebecca Diamond, an economist at Stanford University who studied rent control in San Francisco. She says renters in 1994 did have a reason to believe rent control was awesome.

DIAMOND: But then the problems of rent control start to show up in the longer run.

ROSALSKY: Obviously, landlords were not thrilled with rent control. And at first, they couldn't do much about it. But after a few years...

DIAMOND: You see them substituting away from supplying affordable rental housing into other types of real estate where there's no cap on the profits they can make.

ROSALSKY: They got out of the rental business by doing things like selling their properties as condos, or they bulldozed their buildings and built new ones because the law didn't apply to new construction.

DIAMOND: So we find that in the long run, landlords decreased the supply of rent-controlled housing by 25 percent.

ROSALSKY: That's a huge decrease in the number of rentals. And because supply went down while demand continued going up, it meant higher rents for a group of people often forgotten in rent-control debates, future renters.

DIAMOND: So renters overall don't even necessarily benefit from rent control.

ROSALSKY: If you're grandfathered into a rent-controlled unit you plan on staying in forever, rent control is great - for everyone else, not so much. Diamond's study is just one of many that shows that the policy ends up making housing, overall, less affordable, which is why the MIT economist Albert Saiz says...

ALBERT SAIZ: The evidence is very clear that rent control doesn't work the way it's intended to work.

ROSALSKY: Both economists think there are better ways to provide affordable housing. The ultimate solution is building more homes. But there are more things we could do to lower rents.

SAIZ: There are policies that look a bit like rent control but that do not necessarily distort the housing market.

ROSALSKY: The benefit of rent control is it helps renters avoid the financial shocks of big rent increases. Diamond says that means it's basically like an insurance policy.

DIAMOND: The question is, how do we want to fund that type of insurance?

ROSALSKY: Instead of imposing a rigid price control on the value of rentals, Diamond says it'd be better if we funded rent insurance like we fund other insurance programs.

DIAMOND: And, indeed, the government already provides many types of insurance policies.

ROSALSKY: Saiz agrees we should ease the pain of skyrocketing rents through a government-funded insurance program. And he argues we should fund it by taxing the gains on property values.

SAIZ: And that would actually be redistributed to help people who need affordable housing.

ROSALSKY: These economists say this policy could help renters in distress while also avoiding the negative side effects of rent control. And with it, a rising tide of property values could help lift all households.

Greg Rosalsky, NPR News.

(SOUNDBITE OF TYCHO'S "RECEIVER")

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Noah Smith

Yup, Rent Control Does More Harm Than Good

Economists put the profession's conventional wisdom to the test, only to discover that it's correct.



Not helping. *Photographer: Justin Sullivan/Getty Images*

By Noah Smith

January 18, 2018 at 2:00 AM PST

Rent control is one of the first policies that students traditionally learn about in undergraduate economics classes. The idea is to get young people thinking about how policies intended to help the poor can backfire and hurt them instead. According to the basic theory of supply and demand, rent

control causes housing shortages that reduce the number of low-income people who can live in a city. Even worse, rent control will tend to raise demand for housing – and therefore, rents – in other areas.

Rent control, the Econ 101 student learns, helps a few people, but overall does more harm than good.

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Over the years, rent control has acquired a special bogeyman status among economists. Assar Lindbeck, a Swedish economist who chaired the Nobel prize committee for many years, once reportedly declared that rent control is “the best way to destroy a city, other than bombing.”

In the real world, of course, things rarely work exactly as they do in Econ 101. Labor markets don’t seem to follow the basic supply-and-demand model. Minimum wages don’t seem to throw many people out of work. Building more highways often increases traffic. Given the existence of all these cases where simple models break down, might economists’ negative view of rent control be unjustified?

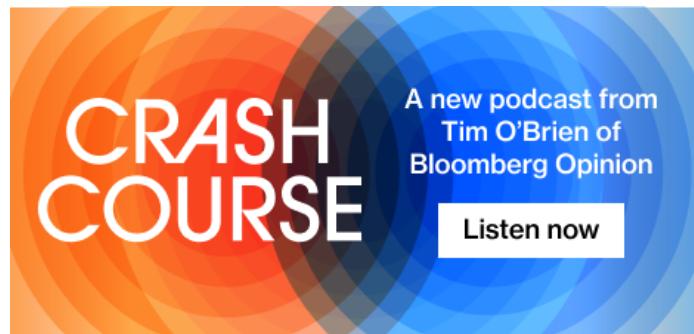
As with so many questions, the answer can only come from looking at data. Economists Rebecca Diamond, Timothy McQuade and Franklin Qian have a new paper that looks at the effects of rent control in San Francisco, a city notorious for high housing costs. They find that the effects of rent control are pretty much what economics textbooks would predict.

Many studies rely on patchy or incomplete data, but not this one. Diamond and her colleagues used data from a private company that was able to combine public records to track the addresses of all San Francisco residents between 1980 and 2016, even if they moved out of California. This allowed them to study the effects of a change in San Francisco’s rent control policy in 1995. Previously, all small multi-family buildings were exempt from rent control, but since 1995, only buildings built after 1980 are exempt.

How did this large increase in rent control affect renters? Predictably, people subject to the new policy became less likely to move – between 8 and 9 percent less likely, over the medium to long term.

But not all renters benefitted equally. The new policy created a powerful incentive for landlords either to convert rental units into condominiums or to demolish old buildings and build new ones. Either course forced existing tenants – especially younger renters – to move. Landlords affected by the new 1995 policy tended to reduce rental-unit supply by 15 percent.

Being forced to move is traumatic. Not only is it expensive, it can take people out of their longtime communities. It also tends to hurt the most vulnerable members of society the most, since it often forces them to move to poorer neighborhoods with lower education levels and higher unemployment.



There are two other important but invisible groups of people who were hurt by San Francisco's rent policy. First, there are people who want to move to the city, but can't. Second, converting apartments into condos reduces the supply of rental housing and raises rents. The authors' model estimates that the 1995 policy raised rents in San Francisco by 5.1 percent. That is certainly an unwelcome development in a region plagued by high housing costs:

Up, Up and Away

Bay Area California monthly rent price index

Source: Federal Reserve Bank of St. Louis
1980=100

So rent control helped some people and hurt others. How can these effects be weighed? Diamond and the others constructed an economic model of the demand for housing that let them measure the utilitarian consequences of the policy, and found that the benefit to those who get to stay in their homes almost exactly balances out the various harms the policy causes. Ultimately, they say, rent control is a wash.

But few people are likely to believe strongly in the assumptions of this particular model – there's the risk that rent control could be more harmful than the authors realize. For example, if greater housing density increases citywide productivity, as is probably the case, the effects of rent control are even more pernicious. And policymakers who believe in an ethos of "first do no harm" have reason to be skeptical of a policy whose effects are so ambiguous.

In the end, the strongest argument against rent control is that there are better ways to protect vulnerable renters. Diamond and her coauthors suggest an idea that I've also endorsed in the past – a citywide system of government social insurance for renters. Households that see their rents go up could be eligible for tax credits or welfare payments to offset rent hikes, and vouchers to help pay the cost of moving. The money for the system would come from taxes on landlords, which would effectively spread the cost among all renters and landowners instead of laying the burden on the vulnerable few.

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BROOKINGS

Report

What does economic evidence tell us about the effects of rent control?

Rebecca Diamond Thursday, October 18, 2018

Steadily rising housing rents in many of the US's large, productive cities have reignited the discussion whether to expand or enact rent control provisions. Under pressure to fight rising rents, state lawmakers in Illinois, Oregon, and California are considering repealing laws that limit cities' abilities to pass or expand rent control. While rules and regulations of rent control vary from place to place, most rent control consists of caps on price increases within the duration of a tenancy, and sometimes beyond the duration of a tenancy, as well as restrictions on eviction.

New research examining how rent control affects tenants and housing markets offers insight into how rent control affects markets. While rent control appears to help current tenants in the short run, in the long run it decreases affordability, fuels gentrification, and creates negative spillovers on the surrounding neighborhood.

A substantial body of economic research has used theoretical arguments to highlight the potential negative efficiency consequences to keeping rents below market rates, going back to Friedman and Stigler (1946). They argued that a cap on rents would lead landlords to sell their rental properties to owner occupants so that landlords could still earn the market price for their real estate. Rent control can also lead to "mis-match" between tenants and rental units. Once a tenant has secured a rent-controlled apartment, he may not choose to move in the future and give up his rent control, even if his housing needs change (Suen 1980, Glaeser and Luttmer 2003, Sims 2011, Bulow and Klemperer 2012). This mis-allocation can lead to empty-nest households living in family-sized apartments and young families crammed into small studios, clearly an inefficient allocation. Similarly, if rental rates are below market rates, renters may choose to consume excessive quantities

of housing (Olsen 1972, Gyourko and Linneman 1989). Rent control can also lead to decay of the rental housing stock; landlords may not invest in maintenance because they can't recoup these investment by raising rents. (Downs 1988, Sims 2007).

Of course, rent control also offered potential benefits for tenants. For example, rent control provides insurance against rent increases, potentially limiting displacement. Affordable housing advocates argue that these insurance benefits are valuable to tenants. For instance, if long-term tenants have developed neighborhood-specific capital, such as a network of friends and family, proximity to a job, or children enrolled in local schools, then tenants face large risks from rent appreciation. In contrast, individuals who have little connection to any specific area can easily insure themselves against local rental price appreciation by moving to a cheaper location. Those invested in the local community are not able to use this type of "self-insurance" as easily, since they must give up some or all of their neighborhood specific capital. Rent control can provide these tenants with this type of insurance.

Until recently, there was little data or natural experiments with which to assess the importance of these competing arguments, and to assess how rent controls affects tenants, landlords, or the broader housing market. But newly-available housing-market data spanning periods of dramatic change in rent control laws in Cambridge, MA and in San Francisco, CA have allowed economists to examine these questions empirically. While these studies do find support for the idea that existing tenants benefit from the insurance provided by rent control, they also find the overall cost of providing that insurance is very large.

From December 1970 through 1994, all rental units in Cambridge built prior to 1969 were regulated by a rent control ordinance that placed strict caps on rent increases and tightly restricted the removal of units from the rental stock. The legislative intent of the rent control ordinance was to provide affordable rental housing, and at the eve of rent control's elimination in 1994, controlled units typically rented at 40-plus percent below the price of nearby non-controlled properties. In November 1994, the Massachusetts electorate passed a referendum to eliminate rent control by a narrow 51–49 percent margin, with nearly 60

percent of Cambridge residents voting to retain the rent control ordinance. This law change directly impacted properties previously subject to rent control, enabling landlords to begin to charge market rents.

Autor, Palmer, and Pathak (2014) (APP), studies the impact of this unexpected change and find that newly decontrolled properties' market values increased by 45 percent. In addition to these direct effects of rent decontrol, APP find removing rent control has substantial indirect effects on neighboring properties, boosting their values too. Post-decontrol price appreciation was significantly greater at properties that had a larger fraction of formerly controlled neighbors: residential properties at the 75th percentile of rent control exposure gained approximately 13 percent more in property value following decontrol than did properties at the 25th percentile of exposure. This differential appreciation of properties in rent control-intensive locations was equally pronounced among decontrolled and never-controlled units, suggesting that the effect of rent control had been to reduce the whole neighborhood's desirability.

The economic magnitude of the effect of rent control removal on the value of Cambridge's housing stock is large, boosting property values by \$2.0 billion between 1994 and 2004. Of this total effect, only \$300 million is accounted for by the direct effect of decontrol on formerly controlled units, while \$1.7 billion is due to the indirect effect. These estimates imply that more than half of the capitalized cost of rent control was borne by owners of never-controlled properties. Rent controlled properties create substantial negative externalities on the nearby housing market, lowering the amenity value of these neighborhoods and making them less desirable places to live. In short, the policy imposed \$2.0 billion in costs to local property owners, but only \$300 million of that cost was transferred to renters in rent-controlled apartments.

Diamond, McQuade, and Qian (2018) (DMQ) examine the consequences of an expansion of rent control on renters, landlords, and the housing market that resulted from a unique 1994 local San Francisco ballot initiative. In 1979, San Francisco imposed rent control on all standing buildings with five or more apartments. Rent control in San Francisco consists of regulated rent increases, linked to the CPI, within a tenancy, but no price regulation between tenants. New construction was exempt from rent control, since legislators did not

want to discourage new development. Smaller multi-family buildings were exempt from this 1979 law change since they were viewed as more “mom and pop” ventures, and did not have market power over rents.

This exemption was lifted by a 1994 San Francisco ballot initiative. Proponents of the initiative argued that small multi-family housing was now primarily owned by large businesses and should face the same rent control of large multi-family housing. Since the initial 1979 rent control law only impacted properties built from 1979 and earlier, the removal of the small multi-family exemption also only affected properties built 1979 and earlier. This led to a differential expansion in rent control in 1994 based on whether the small multi-family housing was built prior to or post 1980—a policy experiment where otherwise similar housing was treated differently by the law.

To examine rent control’s effects on tenant migration and neighborhood choices, DMQ examine panel data that provides address-level migration decisions and housing characteristics for the majority of adults living in San Francisco in the early 1990s. This allows them to define a treatment group of renters who lived in small multi-family apartment buildings built prior to 1980 and a control group of renters living in small multi-family housing built between 1980 and 1990. Their data allows them to follow each of these groups over time up until the present, regardless of where they migrate.

Between five and ten years after the law change, the beneficiaries of rent control are 19 percent less likely to have moved to a new address, relative to the control group’s migration rate. Further, impact on the likelihood of remaining in San Francisco as whole was the same, indicating a large share of the renters that rent control caused to remain at their 1994 address would have left San Francisco had they not been covered by rent control.

These effects are significantly stronger among older households and among households that have already spent a number of years at their address prior to treatment. This is consistent with the fact that both of these populations are likely to be less mobile. Renters who don’t need to move very often are more likely to find it worthwhile to remain in their

rent controlled apartment for a long time, enabling them to accrue larger rent savings. Finally, DMQ find these effects are especially large for racial minorities, likely indicating that minorities faced greater displacement pressures in San Francisco than whites.

While expansion of rent control did prevent some displacement among tenants living in San Francisco in 1994, the landlords of these properties responded to mitigate their rental losses in a number of ways. In practice, landlords have a few possible ways of removing tenants. First, landlords could move into the property themselves, known as move-in eviction. Second, the Ellis Act allows landlords to evict tenants if they intend to remove the property from the rental market, for instance, in order to convert the units to condos. Finally, landlords are legally allowed to offer their tenants monetary compensation for leaving. In practice, these transfer payments from landlords are common and can be quite large.

DMQ find that rent-controlled buildings were 8 percentage points more likely to convert to a condo than buildings in the control group. Consistent with these findings, they find that rent control led to a 15 percentage point decline in the number of renters living in treated buildings and a 25 percentage point reduction in the number of renters living in rent-controlled units, relative to 1994 levels. This large reduction in rental housing supply was driven by converting existing structures to owner-occupied condominium housing and by replacing existing structures with new construction.

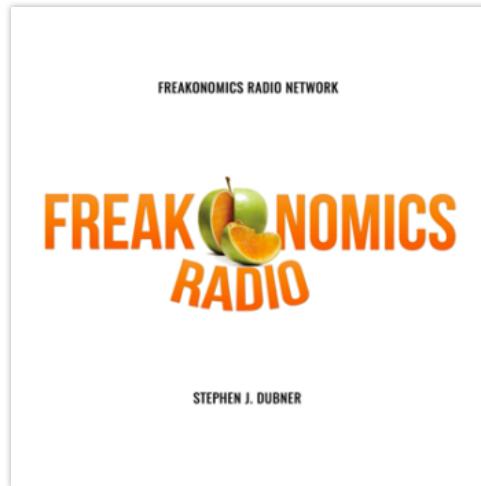
This 15 percentage point reduction in the rental supply of small multi-family housing likely led to rent increases in the long-run, consistent with standard economic theory. In this sense, rent control operated as a transfer between the future renters of San Francisco (who would pay these higher rents due to lower supply) to the renters living in San Francisco in 1994 (who benefited directly from lower rents). Furthermore, since many of the existing rental properties were converted to higher-end, owner-occupied condominium housing and new construction rentals, the passage of rent control ultimately led to a housing stock that caters to higher income individuals. DMQ find that this high-end housing, developed in response to rent control, attracted residents with at least 18 percent higher income. Taking all of these points together, it appears rent control has actually contributed to the gentrification of San Francisco, the exact opposite of the

policy's intended goal. Indeed, by simultaneously bringing in higher income residents and preventing displacement of minorities, rent control has contributed to widening income inequality of the city.

It may seem surprising that the expansion of rent control in San Francisco led to an upgraded housing stock, catering to high-income tastes, while the removal of rent control in Cambridge also lead to upgrading and value appreciation. To reconcile these effects, it is useful to think about which types of landlords would respond to a rent control expansion versus a rent control removal. In the case of rent control expansion, some landlords will choose to recoup some of their losses by converting to condo or redeveloping their building to exempt it from rent control. However, other landlords may choose to accept the rent control regulation, and no longer perform maintenance on the building and allow it to decay. In the rent control expansion case, one would see an increase in condo conversions and upgrades, driven by the landlords that chose to respond in this way. However, when rent control is removed, the landlords who own the rent controlled buildings are the ones who didn't choose to convert to condo or redevelop in response to the initial passage of rent control. Indeed, one would expect this subset of landlords to choose to upgrade and invest in their properties once the rent control regulation is removed.

Rent control appears to help affordability in the short run for current tenants, but in the long-run decreases affordability, fuels gentrification, and creates negative externalities on the surrounding neighborhood. These results highlight that forcing landlords to provide insurance to tenants against rent increases can ultimately be counterproductive. If society desires to provide social insurance against rent increases, it may be less distortionary to offer this subsidy in the form of a government subsidy or tax credit. This would remove landlords' incentives to decrease the housing supply and could provide households with the insurance they desire. A point of future research would be to design an optimal social insurance program to insure renters against large rent increases.

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EPISODE 373

Why Rent Control Doesn't Work

As cities become ever-more expensive, politicians and housing advocates keep calling for rent control. Economists think that's a terrible idea. They say it helps a small (albeit noisy) group of renters, but keeps overall rents artificially high by disincentivizing new construction. So what happens next?

00:00

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Apr 3, 2019
By Stephen J. Dubner

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EPISODE TRANSCRIPT

I'm sure you know this already, but let me say it anyway: cities have become really popular, all over the world. An ever-larger share of the U.S. and global population lives in cities, and that large share is expected to get even larger. As demand for city living grows, the supply of housing often can't keep up. Which results in — and you know this too — a rise in prices. In the U.S., median rent has doubled since the 1990's, outpacing inflation by quite a bit. In many cities, this makes it hard for people who already live there to stay, and hard for people who'd like to move there. I'm sure you've heard the horror stories about rents in cities like London and Hong Kong; Seattle and San Francisco, where the median one-bedroom apartment costs about \$3,700 a month. The problem is so bad in New York City that it inspired a new political party.

Jimmy McMILLAN: I represent the Rent Is Too Damn High Party. People are working eight hours a day and forty hours a week and some a third job.

New York, like many cities, has over time put in place various affordable-housing policies. One time-honored tradition is some form of rent control. That might mean setting a price cap on what a landlord can charge or limiting the amount the rent can be raised. Here's the Stanford economist **Rebecca Diamond**.

Rebecca DIAMOND: From an economics point of view, it provides insurance against getting priced out of your neighborhood.

And rent control seems to be having a moment. It already exists in a number of places.

DIAMOND: The most expensive cities in the U.S., they almost all have rent control.

And the appetite is spreading.

DIAMOND: You see rent control popping up politically when housing prices and rents are going up.

Among the cities currently considering some form of rent control are Chicago, Philadelphia, Providence, and Denver. Oregon recently became the first state to pass a **rent-control bill**. A statewide proposition in California failed, but some cities there are moving ahead on their own. A **recent report** by a consortium of affordable-housing advocates says that if all the proposed rent-control legislation were to pass, nearly one in three American tenants would have some kind of rent protection.

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Most economists say that rent control is a bad idea, as is just about any form of price control. They believe that markets work best when supply and demand are allowed to find a natural equilibrium,

with price acting as the referee. Here's one such economist.

GLAESER: My name is Ed Glaeser and I am the Fred and Eleanor Glimp professor of economics at Harvard, where I teach both microeconomic theory and the economics of cities.

DUBNER: Ed, you have one minute to convince someone that rent control is a terrible idea. Go.

GLAESER: All right. So, I've already squandered five of my seconds. It's not particularly fair. It's not a good way of allocating scarce space. It's not a good way of helping the downtrodden. It's a way that freezes a city and stops it from adjusting to changes, a way that freezes people in apartments and stops the motion that is inherent in cities.

So that's a baseline economic take, at least. Let's try to unravel this issue, starting with a brief history of rent control.

GLAESER: Rent controls really became ubiquitous in World War II, and the idea here was, the nation was laying down its life to try and bring freedom to the world, and it seemed wrong that some people who were well-placed should earn some form of extra bonuses by being able to raise up rents on people, maybe whose sons and daughters were off fighting for the U.S. elsewhere. And rent control was seen as being a way of, somehow or other, trying to keep America being a bit fairer during World War II. Now, lots of places introduced rent control during this period. After the war, most of them got rid of it because that cause seemed to be a little bit less pressing. But, some cities kept it, and New York, of course, is the most famous place that still has it.

Glaeser himself grew up in New York.

GLAESER: I lived in a rent-stabilized unit for the first ten years of my life. I mean something like 72, 74 percent of New York City's households were renters in those days. And indeed, the mid-1970s was an era in which New York's housing didn't seem that expensive, affordability just wasn't the same issue that it was today. Now, flash forward 30 years, the cities have been enormously successful, they haven't built enough to accommodate the new demand. They risk becoming boutique towns affordable only to the wealthy, and people are desperate to see that those cities don't push out every poor resident, that they don't become monocultures built around the privileged and the rich, and rent control appears to be at least one avenue for doing it. But it's a very blunt instrument.

Just how blunt? There are decades' worth of economic research describing the downsides of rent control. The first major [paper](#) was written in 1946 by [Milton Friedman](#) and [George Stigler](#); here's Friedman:

Milton FRIEDMAN: Rent control is a law that supposedly is passed to help the people who are in housing. And it does help those who are in current housing. But the effect of rent control is to create scarcity, and to make it difficult for other people to get housing.

Where did this scarcity come from? For one, developers had less incentive to build new housing if there was a ceiling placed on what they could charge. Friedman also argued that rent control created a "haphazard and arbitrary allocation of space." This was echoed in a 1972 [paper](#) by Edgar Olsen, which found that rent control led to what economists call an "overconsumption" of housing.

GLAESER Let's say you rented an apartment in New York in 1955, you had three small kids, you rented a three-bedroom. It was perfectly matched for the needs of you with your kids growing up. They moved out of the house in the early 70's. By the late 80's, maybe your husband or wife actually died and you're living on your own in a three-bedroom apartment in New York. But, my goodness, would you ever move out? Your rent is a fraction of what the market rent is. One of my favorite stories

about this – and this is quoted by Ken Auletta's [The Streets Were Paved with Gold](#), he cites Nat Sherman, the famous tobacconist to the world, who had this big shop on Fifth Avenue, who said that he pays, I forget what it was.

DUBNER: \$355 a month for a six-room apartment, it says here.

GLAESER: Isn't that amazing? Keep in mind, it's a few decades ago. But it's an unbelievable deal. Now, what's outrageous about this is, he then says, "I think it's fair because I use it so rarely," right? Which means that he's not getting very much value out of it, but the crazy thing about this is, there were lots of New Yorkers who would love to have that apartment and it would get a lot more value out of it.

In 1997, Ed Glaeser did his own analysis of rent control in New York City, trying to determine just how economically inefficient it was. He and his co-author, Erzo Luttmer, found that “this misallocation of bedrooms leads to a loss in welfare which could be well over \$500 million annually to the consumers of New York, before we even consider the social losses due to undersupply of housing.” Glaeser’s work has also inspired a new generation of economists to further the literature on rent control.

DIAMOND: Historically, people relied much more on theory in making their arguments about rent control.

That's Rebecca Diamond again. She's a former student of Ed Glaeser's.

DIAMOND: Because even without a lot of data you can make some pretty simple theoretical predictions about what rent control might do to a housing market.

But there are some things that theory alone cannot tell you.

DIAMOND: One of the biggest open questions in the literature of rent control is: what happens to those tenants that get rent control? Really, how much are the renters benefiting, because they're the potential big winners of rent control. And to

measure that, you really need to have data on where everybody lives, and who gets access to rent control, and whether they decide to stay in that rent-controlled apartment or go somewhere else. And traditional data sources that economists work with very rarely track migration of an individual.

DUBNER: So you recently co-authored with Tim McQuade and Franklin Qian a paper called "The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco." First, if you would, talk about the data.

DIAMOND: Yeah, we have some really cool data. So, traditional data sets, you can get things on the distribution of earnings and income, things like that. But you won't also see their migration. So, we have this, you could call, administrative data, which tracks people's address histories.

DUBNER: And where did these migratory data come from?

DIAMOND: We bought them from a company called Infutor. They are a company that works in "identity management." So they have this history of addresses for everyone which they collect from a number of different sources and stitch them together, which is very useful for the private sector and firms that need to keep track of up-to-date addresses. But from a research perspective, it's super-exciting data because it's so big and so detailed.

Armed with this super-exciting data on individual tenants, Diamond and her fellow researchers set out to measure some of the long-term effects of rent control in San Francisco. They made particular use of a change in the city's rent laws. San Francisco had rent control, but it didn't apply to many of the city's smaller apartment buildings.

DIAMOND: And the exemption was basically thought of as, "Well, these are mom-and-pop landlords. They don't have market power. They're not corporations. So we don't need to regulate their rents." And then newspapers reported that those smaller multi-family buildings were increasingly purchased by corporate entities, because that's really where you could make your money in the housing market. And that led to a vote in 1994 where everyone in the city got to vote about whether we could

remove this small multi-family exemption, and that would then expand rent control, not just to the large multi-family housing stock, but also the small multi-family housing stock. And that, indeed, passed.

DUBNER: So, you've got this awesome new law – awesome for you guys, at least, as researchers – that lets you mark before and after. It's a perfect little natural experiment with a control group. And then you've got these wonderful data sets. And then you mash up all of these data together and analyze it and you find the following: your paper concludes that among many things "rent control limits renters' mobility by 20 percent and lowers displacement from San Francisco, especially for minorities." So let's start with this: what does it mean exactly that renters' mobility is lowered by 20 percent, and why is that important?

DIAMOND: So, we look at whether the renters who get access to rent control choose to remain in their newly rent-controlled apartment. So, we find that they are 20 percent more likely to remain there, relative to our control-group renters who don't get access to rent control.

DUBNER: So, that seems totally unsurprising, yes?

DIAMOND: Yes, I more see that result as a validation that our data is good and high-quality and we have something to work with here.

DUBNER: Okay. Further, you write that "rent control lowers displacement from San Francisco." What does that mean, exactly?

DIAMOND: So, we can look at not just whether you remain in the actual apartment you lived in when you got access to rent control, but whether you remain in San Francisco as a whole. We find rent control has a dramatic impact on whether you actually live in San Francisco or not. So, it prevents those renters from leaving the city as a whole, which I think from a policy perspective of rent-control advocates, that's one of the goals they talk about as preventing displacement from the city.

DUBNER: And then you write that, especially for minorities, that displacement is lowered.

DIAMOND: Right. So, when you look at that first cohort of renters that already lived in the city at the time of rent control, it is definitely helping minorities more. It's preventing displacement of them especially.

DUBNER: Furthermore, you write that landlords who are susceptible to rent control "reduce rental housing supplies by 15 percent either by converting to condos, selling to owner-occupants, or redeveloping buildings." So, now it starts to get a little more complicated. Can you talk about who's now starting to win here and who's starting to lose here?

DIAMOND: So, obviously, when the landlord is first notified about rent control, he or she can quickly deduce that his or her rental stream is going to be lower than previously expected. And just like any other business owner, they might think about changing their business strategy. So, if renting out their apartments is no longer very profitable, now they may decide, "Oh, maybe it's worthwhile to convert to condos and sell off the apartments to owner-occupants" and that would be a way to recover some of this lost income. Or, another thing they could do is, say, knock down their old building and build some new construction and either sell those as condos or rent them out as apartments.

Both of those options would avoid them having to pay this tax of rent control, help recoup some of their losses – which is good for the landlords, but is going to undermine the goals of rent control because now we're going to have less rental housing out there available for rent control.

So you can start to see how rent control may be accomplishing a narrow, short-term goal – making existing housing more affordable for a select group of people – at the expense of the long-term goal of making a city more affordable generally.

DIAMOND: When you pass rent control, the landlords of the property suddenly getting covered by rent control are losing so much money, they no longer really want to rent their apartments out at the prevailing new prices, so they decrease their

supply of rental housing to the market. And if there's less supply, that's going to drive up prices.

DUBNER: Okay, so, let me just make sure I have it pretty straight. You find evidence that rent control increases gentrification, one component of which is the displacement of low-income tenants. On the other hand, you also find evidence that low-income people, including minorities – at least those who are in rent-controlled units already – they're likely to disproportionately benefit from rent control.

So, if I'm an affordable-housing advocate, I might say, "Oh, fine, fancy Stanford professor – who I'm sure has some kind of great income and/or housing subsidy and/or situation – I don't care that some landlords are suffering. I don't care that the policy is having some downstream effects that you don't like. I need to make sure that low-income people aren't going to get a rent increase of 50 percent overnight." So, how do you respond to that argument?

DIAMOND: So, when you think about those initial tenants, that's the best bet you're going to get for the benefits of rent control to low-income tenants: the people that are already in the housing. But even though we find that those tenants are much more likely to stay in their apartment, when we look 10, 15 years later, the share of those 1994 residents that are still there is down to 10 percent or so. So 90 percent of them no longer live in that initial apartment.

And it's that next low-income tenant that wants to live in the city, that low-income tenant is going to have a very hard time finding an affordable option, because now there's going to be less rental housing, the prices that that low-income tenant are going to face when they want to initially move in are going to be higher than they would have been absent rent control.

DUBNER: I'm curious how generalizable you think your findings from San Francisco are for other cities.

DIAMOND: I would suspect that the actual quantitative loss of rental supply or benefits to the tenant will depend a little bit city to city, but I think the qualitative

takeaway that landlords are savvy and are going to work hard to not lose money on their investments, I think is a very general point.

For economists who already felt confident in the theoretical arguments against rent control, research like Diamond's provides empirical evidence that essentially tells the same story. Yes, there are some winners in rent control; but the losing is more widespread, and longer term. But how about empirical evidence from a reverse angle — that is, not when a city adds or expands rent control, like San Francisco did, but when it gets rid of it?

DIAMOND: So, there's other work by David Autor and coauthors that looks at the removal of rent control in Cambridge, Massachusetts, in 1994.

By the early 1990s, Cambridge was one of the few remaining rent-control strongholds in Massachusetts. Landlords had been trying to get rid of it for years. But there are a lot fewer landlords than there are tenants, so any attempt to change the local law was voted down. Finally, the rent control opponents had a winning idea: put the issue up on a statewide referendum, where there might be less empathy for all those city dwellers with below-market rents. When the referendum was held, nearly 60 percent of the voters in Cambridge were opposed — but, statewide, it passed, and so Cambridge began to deregulate its rents. Years later, a trio of M.I.T. economists examined the effects of removing rent control.

GLAESER: Okay, so, the classic paper on this has been written by David Autor, Parag Pathak, and Chris Palmer.

Ed Glaeser again.

GLAESER: It showed that when units were brought out of rent control, their owners invested in them. So, they upped the quality of the units; there was more of a supply of higher-end housing.

DIAMOND: They find that the rent-controlled apartments experience a lot of renovation. Landlords renovate a lot, and that drives up the desirability of living in

those apartments. Also, they find that that creates spillovers onto the nearby apartment buildings that they themselves weren't rent-controlled.

GLAESER: So neighboring apartments became more valued as a result of the end of rent control. And the most recent paper has shown that crime has gone down – particularly, street crime has gone down right after the elimination of rent control in Cambridge.

DIAMOND: So it looked like rent control had negative externalities on the neighborhood.

So what does economic research tell us about rent control? There are at least two conclusions – which, if I'm reading it right, sort of work against each other. The first conclusion is that rent control doesn't help many people for very long, in part because it constrains the supply of affordable housing. The second conclusion is that just getting rid of rent control does not, in and of itself, lead to more affordable housing; in fact a deregulated housing market can easily lead to less affordable housing. The Boston-Cambridge area is one of many places experiencing a steep shortage in not just affordable housing but housing overall.

So even if you accept that rent control is a big contributor to the affordable-housing problem, getting rid of it isn't necessarily a solution. You can see why politicians and policy-makers are confused. In Massachusetts, in fact, there's currently a movement to bring back statewide rent control. And as we mentioned earlier, Massachusetts is not alone.

DIAMOND: So, we just had this big vote in California about whether we should repeal a statewide law that restricts the scope of rent control in California, and indeed we did not repeal that law.

DUBNER: So, somebody read your paper.

DIAMOND: It was interesting to see how our results were used by policy makers and media on both sides of the fight. Because indeed, some of our results are, like, rent control are good, others make them look bad. You've got to read the whole paper

and take it all into account to make a decision, but it was a very policy-relevant paper for that discussion.

DUBNER: I'm curious what you can tell us about the political dimensions of rent control. I may be wrong, but I believe that rent control is generally supported by Democrats and generally opposed by Republicans.

DIAMOND: I think it's a simplification to say all Democrats support rent control. But I think in the short run, you can see the benefits of rent control – the tenants right away benefit. What's much harder to see are these indirect effects that take a long time, and it's harder to put your finger on that. The losses are spread everywhere a little bit, and harder to see walking down the street or talking to your constituents.

GLAESER: There certainly are some poor people who can benefit. And, it's a very tangible benefit, right? It's not some complicated thing which requires you to trust in the market. It's just sort of very clear, and if you think that people on the left, many of them just don't trust markets to begin with, then saying there's going to be some negative market effect to them, that sounds like capitalist hocus-pocus, whereas, what they can see right now is that Mrs. Reyes's rents won't go up because of their regulation.

Vicki BEEN: Economists tend to believe their models and say, "End of story," and, "Believe me," right?

That's Vicki Been.

BEEN: But communities don't necessarily have to believe economists, and so economists need to do a better job of responding to the very real fears that communities have.

Been used to be commissioner of the New York City Department of Housing Preservation and Development. Now she's a law professor at New York University, and she directs the Furman Center for Real Estate and Urban Policy.

BEEN: The Furman Center has embarked on a project that we call "Not Your Grandmother's Rent Control" to try to figure out, if you were starting from scratch, and you were designing the most efficient rent-regulation system, what would that look like?

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As we've been hearing, economists are generally opposed to rent control. It rewards some people, but fairly arbitrarily; it punishes many others, and generally doesn't do much to improve overall access to housing. That said, most people don't think like economists, or even believe them. Which is why many politicians and members of the public think rent control is a great idea.

David EISENBACH: Well, I'm in favor of residential rent control and rent regulations.

That's **David Eisenbach**; he teaches history at Columbia University and he recently ran for a citywide office in New York called public advocate. There are in New York City about 3.4 million apartment units, nearly 1 million of which are rent-stabilized. And New York's rental market is incredibly expensive – as it is in many other cities with regulated rents, like San Francisco. Economists argue that overall high prices are a direct consequence of rent regulation; what does Eisenbach think?

EISENBACH: I disagree. I mean, there are a lot of reasons why real estate in San Francisco and real estate in New York are high. Blaming it on rent stabilization is definitely not it. The consequences of getting rid of either rent control and/or rent stabilization would be the immediate displacement, of a big portion of the population, and that would just be cruel at this point. I don't know how anybody could justify – even somebody looking at it purely in economic terms – how anybody could justify that, just in human terms. You're going to blame the high rents on rent control? Come on.

Okay, so Eisenbach does not believe the economic research on rent control. What does he believe in?

EISENBACK: Well, first and foremost, I'm an angry New Yorker who walks around the streets of New York and sees empty storefront after empty storefront, and just feels like my city is dying.

New York's commercial rents have spiked along with its residential rents. And in some parts of Manhattan, as much as 20 percent of the retail space is either vacant or soon to be vacant.

EISENBACK: And I found out that there is this bill called the Small Business Jobs Survival Act. It was initially submitted back in the 1980's and I figured, why don't I run for office pushing this bill? And so I ran for public advocate on the platform, "We're going to pass this bill; it's going to save small business in New York City."

We should say that Eisenbach did not win the election. He came in 13th in a field of 17. But he did get a fair amount of attention for talking about all those empty storefronts, which have upset a lot of people.

EISENBACK: There are two major provisions of the Small Business Jobs Survival Act. One: it guarantees a 10-year lease renewal offer from the landlord to the tenant for any tenant with a commercial lease in New York City. Number two: if the landlord and tenant cannot come to an agreement, they go to legally binding arbitration, and that arbitrator then will pick a fair market rent, which will then be charged in the next 10-year lease renewal.

Opponents of this proposal call it commercial rent control.

EISENBACK: But this bill, the Small Business Jobs Survival Act, is absolutely not rent control. It doesn't put a limit on how much rent can be charged, which is the very definition of rent control. It's legally binding arbitration. Much different.

DUBNER: Are there other cities that have this kind of small-business jobs protection

on the real-estate front that works well?

EISENBACK: It's going to be unique.

Even though Eisenbach lost his election, he still believes the Small Business Jobs Survival Act may get through New York's City Council. I was interested to know what the economists we've been speaking with – Rebecca Diamond of Stanford and Ed Glaeser of Harvard – what they thought about commercial rent regulation.

DIAMOND: So, I'm also very interested in that, and I also know almost nothing about it. I have never seen any work on it.

GLAESER: You can easily tell a story where the threat of some form of rent control makes a vacancy problem worse in the short run. So, for example, I don't want to rent right now to a lower-end tenant who could fill my space, because I'll be locked in by the rent-control law and I've got that tenant forever. So, that means, I'm going to really hold out for a blue-chip tenant because I have this threat of this law over my shoulder.

So, do I think vacant empty storefronts are a problem? Sure. I mean, we can talk about it from a perspective merely as an urbanist, where we think it's unattractive to have these things, but I'm also disturbed by it as an economist, because someone's got space to sell, there are people who want to buy that space. Why isn't the transaction happening, right? It's sort of – the market is going awry. And the answer to that – of why the market is going awry – is not immediately obvious.

There are of course plenty of theories as to why so many storefronts in New York are vacant. Here again is Vicki Been, the former housing official who studies the real-estate market at NYU.

BEEN: I think there are a lot of questions about how commercial rent regulation would work and how it might interfere with an efficient market. One concern that I

would have right now is, we seem to be in the middle of an upset, of a transition in retail in general, because of the availability of Internet retail. A lot is in flux.

GLAESER: But there are two points of evidence against that. One of which is that many of these storefronts formerly held services, and I don't think a nail salon has been made obsolete by Amazon just yet. And secondly, the rents, the asking rents, at least according to the most recent Real Estate Board of New York report, in many of these areas are still sky-high. It's not like there's no demand for areas where you're charging \$300, \$400 per square foot to rent these areas.

In the long term, all the economic push for both the landlords and the tenants is to get those units occupied and get the rent payments again flowing to the landlord.

Landlords, whether small or large, are often left out of public discussions about property markets. And if they're not left out, they're usually drawn as villains. Vicki Been, in thinking about the project she calls "Not Your Grandmother's Rent Control," is trying to change that.

BEEN: I think the thing that you really need to focus on is: how can I ensure that the landlord is getting a reasonable return, right? Because otherwise, people will take their money and put it elsewhere and you won't get building. And how can we at the same time try to close some of these avenues that landlords could use to try to escape rent regulation without it becoming a system that's so weighed down with so many different enforcement challenges that it kind of collapses of its own weight, right?

You need to pay attention to the different ways in which property owners are making money on the property, so you really need to have a holistic look. At the same time, you need to have very open-eyes view of the kinds of costs that we're imposing on them.

There's one huge cost that drives real-estate prices, whether we're talking about rentals or sales, for both commercial and residential buildings.

BEEN: In New York City, for example, a very high percentage of rent goes for property taxes. So we can't be saying to landlords, "Hey, keep prices down – but by the way, your property tax just went up by 10 percent. So we have to recognize that, okay, we as a taxpaying body have an obligation to understand the effect that those increases may have on rents, and we can't just turn around and say to the landlord, "You absorb them," right? "Don't pass them onto the tenant." Because that's an unsustainable system.

GLAESER: It's certainly true that renters implicitly have to pay for property taxes. And it's not obvious that's wrong, because the idea of property taxes is they're paying for city services and renters use city services, too. That's obviously not wrong.

DUBNER: So, here's a big question that I really hope you can answer, because I've wondered this for a long time. Some of the biggest property owners in a city like New York – and some of the wealthiest property holders generally – are universities, religious institutions, hospitals, and other not-for-profit institutions, which makes them either partially or wholly exempt from paying property taxes. So, I'm curious, how does that exemption affect a) the taxes paid by everyone else, and how does that b) ultimately affect housing prices for everyone.

GLAESER: First of all: clearly, you're right. The government has decided to subsidize certain institutions by enabling them not to pay property taxes. And from a purely accounting point of view, those taxes need to come from somewhere else.

On the other hand, it is also true that at least some of the institutions that you're talking about have proven to be extraordinarily important for the economic health of the area, right? We're subsidizing the university student, right? We're making it cheaper for them to rent than it would be otherwise. Is that fair? Well, we thought that, somehow or other, it was a good idea to subsidize educational institutions at one point in time. We thought there might be some spillovers from that, some benefits from encouraging people to become educated. But, we should be open to

re-investigating that, and anyway, you shouldn't take my word for it, because after all, I'm the employee of an educational institution.

We can ask whether or not the blanket property-tax exemption that we've given to religious institutions and educational institutions is appropriate. I mean, that seems like a reasonable question to ask. In the case of religious institutions it in some sense goes back to fundamental issues about separation of church and state in the U.S., but we can still ask this question.

I would be surprised if we think that changing those tax rates is the number-one step to take to promote affordability in New York City though, relative to bringing more space on market that you can actually build on, changing the regulations. I mean, it seems like that's not likely to be the case, but it is true that you move stuff to a religious or educational use, in many cases you're moving away from an owner who would actually build on it. And that's also correct.

So what have we learned about housing, especially affordable housing, especially in the most desirable cities? For starters, we've learned that it's complicated. Property taxes play a large, underappreciated role in driving up costs, and the tax burden isn't necessarily spread so equitably. Rent regulations, meanwhile, appeal to the public and politicians, but they also create perverse incentives that in the long run work against affordable housing. How about housing vouchers: aren't they a more flexible way to subsidize housing?

BEEN: The advantage of a voucher is, you can go through all of those eligibility requirements and really target the voucher to the families that you think are most in need. And we in New York, and in many other major cities, we have prohibitions against a landlord refusing a tenant because they're using a voucher rather than earned income.

But we're still getting enormous resistance from landlords, because if you have a federal government that shuts down and isn't paying its voucher payments, and there, the landlord is stuck with that, right? Or if you have a city, like New York City

did, that issued vouchers and then changed its mind, and said, "Oops, that program is over," then the landlord has a tenant in place who no longer can pay the rent and the landlord has to take them to court and bear the costs of that.

Meanwhile, the market price of housing in a place like Manhattan lies somewhere between punitive and prohibitive. So if rent control isn't a viable tool in the fight for affordable housing, what is?

GLAESER: The most natural tool towards affordability is supply, and to make sure that we are making it easy enough to build moderate-cost rental-apartment buildings in these cities.

Ed Glaeser again.

GLAESER: We've used regulations to so restrict our ability to provide affordable housing units that now we're at this restricted frozen-in-amber form. In the case of New York — gosh, New York is New York. It's hard to imagine how much housing you'd really need to sate demand for New York.

DUBNER: What about Boston, where you live? Boston is facing what it calls a historic housing shortage. The city's growing, not enough housing to match. What do you suggest Boston do to accommodate that surge, other than let the market work its famous magic?

GLAESER: Look, drive around Boston. It doesn't look overcrowded to me, and I don't think it should look overcrowded to anyone else. There's a lot of vacant industrial space that could easily house tens of thousands of units. If you made it easy enough to build, I've got to think that this is a doable problem, at least from an engineering and economics point of view. The politics, of course, are more difficult.

DUBNER: What, specifically, would need to be done to change it?

GLAESER: So, the big answer is, you need, as-of-right zoning that enables fairly high-density levels over a fair amount of space. So, currently Boston's zoning plan is

highly antiquated. Every project is handled on an ad-hoc basis. Usually, it involves variances that are quite high from the original plan, which means that they are highly subject to judicial challenge. All of that is a recipe for uncertainty and delay and endless community meetings.

The thing that works best is when you have something where you've decided in advance, "This is how much we're going to allow to build; there are a couple of simple rules that you've got to follow. Come here, bring your units and make it happen." And that's what's needed. That's what actually works. It's not something that involves a 10-year negotiation process, but something that says, "Here are the rules upfront. Go to it."

It should be noted that not all U.S. cities impose the same level of red tape you see in Boston and New York and San Francisco.

GLAESER: If you want to look for affordability, the American Sunbelt is pretty great. The Atlantas, the Houstons, the Dallases, the places that just have made it very easy to build over the last 40 years – you want to ask why Atlanta, Dallas, Houston, Phoenix each added a million people between 2000 and 2010 as metro areas, it's because they make it astonishingly easy to build. And you can go and you can buy a great-looking house for a fraction of what you'd pay in New York in these places.

We don't have an affordable housing crisis in the U.S. nationally. We have lots of affordable housing in places with names like Atlanta, but just not in New York City.

Many European cities, meanwhile, are more like New York – in fact, exaggerated versions of New York.

GLAESER: Much of Europe is quite restrictive in your cities, but I'm much more comfortable about the idea that much of central Paris is patrimony of the world that needs to be protected.

While policies vary from city to city and country to country, almost all major European cities have rent control.

GLAESER: Sweden, of course, is the place where Assar Lindbeck, the famous economist – and although he was market-oriented, he certainly skewed to the left – Assar famously said that, “short of bombing, I know of no way to destroy a city that was more effective than rent control,” and he certainly had Stockholm in mind.

Tommy ANDERSSON: Right now, there are around 10 million people living in Sweden. Around 550,000 of these people were standing in a queue waiting for an apartment in Stockholm. That is 5 percent of the Swedish population.

That's the economist Tommy Andersson.

ANDERSSON: I am a professor at Lund University, which is located in the south of Sweden. I focus on an area called market design.

Sweden has nationwide rent control.

ANDERSSON: The rental system in Sweden is based on collective bargaining. So according to the Swedish law, there is a union called the Swedish Union of Tenants and their job is essentially to negotiate the rents for tenants. And it's based on something which is called the utility value, which essentially means that if you have two comparable apartments, they should have the same rents. Another objective that they have is that they should keep the rents low. The rents cannot be increased by too much.

If you've been listening closely, it may not surprise you to learn that this system has led to a housing shortage.

ANDERSSON: Because people will not invest in new buildings unless they can get good returns. So if you look at this report written by the National Board of Housing, Building, and Planning from 2016, they estimated that Sweden needs around 440,000 new homes before 2020.

And that's not going to happen. This shortage is what can lead to long lines to get an apartment, especially in the more desirable places. How long do you have to wait in Stockholm?

ANDERSSON: You have to wait for 10 or 20 or even 30 years to get an apartment right now, if you would sign up today.

What if you don't want to wait 10 or 20 or 30 years for an apartment?

ANDERSSON: So, there are no official figures because it's a black market. But it's clear that there exists a black market. You can get an apartment in several different ways. So one of them is essentially to buy a contract with black money. You can also bribe someone in charge of allocating available apartments to get the better position in the queue. And another thing which is popular is these fake swaps. So, you're allowed by law to swap apartments with other persons. So you're just pretending that you are swapping apartments, but essentially you're not.

In the old days what I had heard – and I must stress that I don't have any scientific evidence of this – but apparently, black contracts used to cost around 10 percent of the market value. But in recent years it has actually grown to say 20 percent of the market value of the apartment. So it's expensive to buy a black contract. You know, it's always a risk to be involved in this business because even if you paid the money, it's not clear that you will get the apartment simply because, I mean, there are criminal gangs involved in this as well.

That doesn't sound like what the designers of the Swedish rental system were going for. But the housing market in Stockholm is so bad that even business leaders there have risen up in protest.

ANDERSSON: The C.E.O. and the founder of Spotify, in 2016, he wrote an [open letter](#) to the people of Sweden saying that unless you solve this housing situation in Stockholm, Spotify may consider moving its headquarters out of Stockholm simply because we cannot find housing for our future employees.

If policy makers can't figure out smarter ways to encourage more affordable housing, you can expect to see this kind of scenario playing out in cities all over the world.

* * *

Freakonomics Radio is produced by Stitcher and Dubner Productions. This episode was produced by **Zack Lapinski**. Our staff also includes [Alison Craiglow](#), [Greg Rippin](#), [Harry Huggins](#), [Matt Hickey](#) and [Corinne Wallace](#). Our theme song is "Mr. Fortune," by the Hitchhikers; all the other music was composed by [Luis Guerra](#). You can subscribe to *Freakonomics Radio* on [Apple Podcasts](#), [Stitcher](#), or [wherever you get your podcasts](#).

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SOURCES

- [Rebecca Diamond](#), Associate Professor of Economics at Stanford Graduate School of Business.
- [David Eisenbach](#), history lecturer at Columbia University.
- [Vicki Been](#), former commissioner of the New York City Department of Housing Preservation and Development and law professor at the New York University School of Law.
- [Ed Glaeser](#), Fred and Eleanor Glimp Professor of Economics at Harvard University.

- **Tommy Andersson**, economics professor at Lund University.

RESOURCES

- “**Roofs or Ceilings?: The Current Housing Problem**,” by Milton Friedman and George J. Stigler (*Foundation for Economic Education, Inc.*, 1946).
- “**An Econometric Analysis of Rent Control**,” by Edgar O. Olsen (*Journal of Political Economy*, 1972).
- “**The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco**,” by Rebecca Diamond, Tim McQuade, and Franklin Qian (*National Bureau of Economic Research*, 2019).
- “**Housing Market Spillovers: Evidence from the End of Rent Control in Cambridge, Massachusetts**,” by David H. Autor, Christopher J. Palmer, and Parang A. Pathak (*Journal of Political Economy*, 2014).

COMMENTS

66 Comments

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JE**James Emanuel**

⌚ 4 years ago edited



The focus of this discussion was way too narrow. It was confined to the rental sector in isolation. But the rental sector is a part of a larger housing market.

Ask yourself why people rent. A large number rent because the cost of buying a home is way too high. People have been priced out of the market.

The reason is that residential housing has become a speculative asset.

And so we find ourselves in a upward price spiral. Real estate prices tick up, rents are correlated to real estate prices on the basis of rental yield, less people are able to afford to buy a home and so the demand for rental property increases, more speculators move in and so it goes on.

This is the story of London, New York and many other big cities since the turn of the millenium and politicians have ignored it. Worse still some politicians are residential property speculators themselves which is ironic because they are conflicted and cannot represent the best interests of the very citizens that voted them into public office.

This is a social economic issue because every location requires labour for essential work at the lower end of the earnings spectrum - police, firefighters, bus drivers, waitresses, etc. As prices of property rise these people are forced further and further out of cities. Eventually the cost and burden of commuting to work will drive them to seek alternative employment. Then what?

The question then becomes whether it is socially and economically desirable for residential property to be a speculative asset.

In many parts of Switzerland it is prohibited for foreigners to invest in residential property in order to limit the undesirable effects of property speculators pricing national residents out of the market.

Some parts of the Netherlands have rent controls across the entire rental market in order to cap the amount of rent any landlord is able to charge. In so doing real estate values become quasi-capped because landlords are unwilling to pay higher prices for real estate if yields fall too low (the upward price spiral is disrupted).

Rent controls used in this way help ordinary hard working people to have a reasonable chance of acquiring equity in property and owning their own home. This is very socially desirable for a host of reasons including, but not limited to: (a) crime rates have been shown to be far lower in areas with higher home ownership; (b) home ownership is more conducive to creating cohesive communities; (c) more people take a longer term interest in resolving neighbourhood issues; (d) it creates a spendthrift society in which too few people save enough for their needs later in life whereas paying down a mortgage on a property and accumulating a large equity stake in a home over several decades is the perfect default saving mechanism.

PODCASTS **ON THE RADIO** **BOOKS**
FREAKONOMICS RADIO **NO STUPID QUESTIONS**
PEOPLE I (MOSTLY) ADMIRE **INVESTMENT**
FREAKONOMICS, M.D.

THE ECONOMIC OF RENT CONTROL **WORLD** **THINGS** **SPECIAL SERIES** **HOLISTICALLY**

Freakonomics revisited this topic and addressed some of the issue that I have raised. I would love to hear if the views of economists change when looking at this issue more holistically.

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ABOUT

BLOG



cprk1 → James Emanuel
 THE HOSTS

⌚ 4 years ago

Exactly. Economics should be about allocating resources in the way that produces the most social value. Land value speculation has been a curse of western economies since the 80s. Nobody thinks it would be good for the price of bread to double in a year - why is the opposite true when it comes to houses?

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 CONTACT



Michael Lewyn → cprk1
 ⌚ 4 years ago

1. If you really wanted to make it easier to buy a house, why not price controls for for-sale housing instead of for-rent housing?
2. Blaming the problem on speculators confuses cause and effect. People would be price-gouging if housing prices weren't out of control.



3 1 • Reply • Share ›



To cki

⌚ 3 years ago

→ Michael Lewyn

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 played? Price controlling for-sale houses would have practically the same impact on the housing market as rent-control has on the rental market.

Price controlling for-sale houses would cause many sellers of their homes to choose to not sell their houses as they would not get a solid return on investment as they are forced to sell at a low price. Therefore, many would choose to rent their homes instead or convert it to something with a higher return consequently constricting the supply of houses and driving prices up??

Were you at all listening to the effects of price control?

2 0 • Reply • Share ›



cprk1 → Michael Lewyn
 ↪ 4 years ago

Yep I'm for controlling house prices, in the same way the Govt seeks to stop control the price of bread and other essentials by capping inflation.

1 1 • Reply • Share ›



Koert DuBois → James Emanuel
 ↪ 4 years ago

We need to recognize the importance of urban planning and zoning. The only allowable use of a residential property should be for housing (including rental housing).

There should be severe penalties and significant tax consequences for those who use residential properties as speculative commodities or for lodging.

It's not that complicated; we have the tools at our disposal to make it easier to buy (or rent) a house than it is to use that house as gambling chip in the real estate casino. We simply need to implement those tools.

I agree that this episode (although mostly well done) failed to address the root cause of the housing crisis. With appropriate planning and reasonable regulations, the housing market becomes balanced, sustainable, fair, and (by definition in a free market) affordable.

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mattwardman → Koert DuBois
 ↪ 4 years ago

Bizarre comment.

Lodging IS housing.

0 0 • Reply • Share ›



Koert DuBois → mattwardman
 ↪ 3 years ago

Let's see you try and say that with a straight face.

0 0 • Reply • Share ›



Jeffiekins → mattwardman
 ↪ 4 years ago

I think he meant temporary housing, like AirBnB.

0 0 • Reply • Share >

**Verena**

🕒 4 years ago

Too bad freakonomics didn't look at systems that work: look at Vienna, where the city itself owns a third of all apartments, where supply is adequate and rents are still affordable. The city has been involved for 100 years, building, rebuilding, renovating, always with an eye to quality. Not without problems, but way better than New York! Or all those initiatives on the areas in Germany where US and French Army have left - big areas that have been and are being developed to a large extent by collectives of renters, who are deeply involved in all the building decisions and are free to agree on different kinds of rent. Rules like one person, one room, or the ability of asking tenants to offer their rent for the last 10 Percent of the rent, so that some people pay a Little more and some a little less.. All sorts of fun and interesting experimentation, that also creates communities from the very beginning. Or look at Berlin, where a proposal to buy back apartments from landlord cooperations who own more than 3000 apartments will be on the ballot soon!

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**Michael Lewyn**

→ Verena



🕒 4 years ago

I don't think there's a lot of political support for more public housing.

1 0 • Reply • Share >

**Jeffiekins**

→ Michael Lewyn



🕒 4 years ago

In the U.S., that's true, because there's so little trust in government generally. But it could work, possibly, in some cities, if (a big "if") they can keep the project local and about corruption.

It seems to me there are a handful of well-run mid-sized cities. The problem is it could never spread beyond that handful, since so few U.S. cities are well-run.

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**Michael Cole**

🕒 4 years ago

A pretty frustrating episode.

Cambridge looks like a disaster with its current rent pricing. Removing rent control didn't end up leading to the creation of a significantly large enough rental stock to keep down price inflation vs median incomes.

Some stats around Cambridge:

The Median household income of a Cambridge resident is \$75,909 a year.

Medium rent in 2017 was \$2,957, which would be 46.7% of median family income before accounting for taxes.

Medium house prices were \$793,500, which is 10.4X the median family income (US average is around 4.4X, SF is around 19X.)

So much of this episode feels like a simplified conclusion: removing rent control leads to higher property prices for the entire city, which is a clearly good.

To me, one of the most damaging policies we've implemented is the [1031 Exchange](#). Basically, if you sell a property, and you use your gains to buy a more expensive property, you can avoid paying taxes on those gains. This leads to a damaging spiral of mis-incentives, where everyone was incentivized to keep moving up the housing chain and buying more and more expensive properties. The inflated housing prices of this policy leads to future buyers having to take on larger sized loans to buy their properties, charging their renters more to break even, and only those making the loans really benefit. There is no question though that the 1031 rules massively inflate property prices, which on paper boost the GDP, and therefore in a simplified economic equation would look like it's a great policy.

I always appreciate when Freakonomics takes economist's ideas and then layers on context on top of them. This episode felt like their oversimplified view of good outcomes was taken at face value, when it disregards the extreme number of confounding factors and adverse consequences around this market.

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C **cprk1** → Michael Cole
🕒 4 years ago edited

I agree with this. We have exactly the same problems in the UK. The free market does not, to my mind, produce better outcomes when it comes to housing. Indeed market failure in the sector triggered the 2008 crash!

Capitalist countries like the UK and US should view house price inflation as a bad thing and control it (in the same way that food price inflation is kept low).

2 0 • Reply • Share ›

T
H **Ted Hall**
🕒 4 years ago

I found this discussion incredibly bizarre because there was no discussion of supply. The laws and rules regarding zoning, construction, land availability And the like with all seem to be incredibly important to consider when discussing rent control. Rent control might look very different in San Francisco if you could actually build apartments in San Francisco! What of ending rent control in Cambridge occurred concomitant with more lower rent apartments coming onto the market and then phasing out rent control?

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**Ian Quinn**

4 years ago

This is a weak episode - it should be called weakonomics not freakonomics.

The asymmetric power dynamic in landlord-tenant relations (especially in the residential rental market) prevents rental prices from ever reaching a stable equilibrium. Here in Baltimore, Maryland; there is no rent-control whatsoever. Landlords can file eviction actions as soon as rent is one day late and the eviction docket is expedited (trial is to occur five days after the landlord files the complaint - and the tenant is given a mere four days after the trial in which they may note an appeal). Here in Baltimore, there is an appalling lack of "affordable" housing despite the presence of easily 30,000 vacant buildings throughout the city. Landlords routinely raise the rent by 3 to 7 percent every year (basically, they raise the rent just enough so that staying put and paying the extra money is still less costly than incurring the expense of searching for and moving to a different address. It is a vicious, exploitative, and extortionate business practice that reduces the disposable income of tenants, decreases their quality of life, and prevents local businesses from being patronized by tenants. The precariat class that makes up the bulk of the city population is stressed out, disaffected, and increasingly anomie as neighborhoods decay and die (to eventually be bought up by developers who tear down the old structures and construct up-market rental properties). Rent-control, just-cause requirements for evictions, and returning tenant's due process to rent court proceedings - these are fantasies that are invariably shot down by the landlord-friendly legislators who seem to think of landlords as an especially put-upon class of people constantly beset by slick sociopathic tenants who have plenty of money but fall behind on their rent just for the fun of it.

9 2 • Reply • Share >

**cprk1**

4 years ago edited

I really struggled with this episode. I thought Freakonomics was supposed to test conventional, classical economic assumptions?

I live in London and although rent control may be flawed, let me tell you: a laissez faire housing market is an absolute disaster.

The first study in the episode was very interesting but the problem with the design of the rent control seemed to be that it applied only to existing tenants and not incoming tenants.

More problematically, the studies referenced in the programme did not compare outcomes overtime in a fully rent controlled city compared to a similar city in the same country with a totally laissez faire housing market. It seems that in all examples used the cities used a combination of rent control and free market.

The elephant in the room is that landlords are literally 'rent seekers'. They extract rent from tenants without creating value. When there is an oversupply of demand vs supply they have no incentive to reduce rents or invest in their housing stock. They are not owed a living and I don't understand why their market power shouldn't be restricted. Also landlords are responsible for increasing house prices as they add to the number of buyers.

The economists interviewed also assumed there was no role for the state in supplying new houses or restricting demand from non-resident buyers. There is also more that the state could

houses, or restricting demand from non-resident buyers. There is also more that the state could do in the form of regulation of landlords and planning regulations. Another problem is the oversupply of credit by mortgage lenders, who are the biggest winners from increasing house prices.

The market does not always produce the most socially optimal outcome. The state already adjusts the prices of most goods and services through taxation, regulation, immigration control, prohibition etc. There is no reason why housing should be exempt. Capitalism should be about increasing workers' disposable incomes by reducing living costs and increasing wages.

The simple fact of the matter is that rent control alone cannot solve the problem of the huge increase in demand for inner city housing since the 1980s. But the market cannot resolve this either!

If you want to see what outcomes a laissez faire housing market produces then try living in London on an average salary!

9 2 • Reply • Share ›



James Emanuel → cprk1

⌚ 4 years ago

Very well said. I have added my own comments on a similar theme above.

2 0 • Reply • Share ›



Ty Murphy → cprk1

⌚ 4 years ago

Please help me understand your viewpoint. If you feel you are being treated unfairly by those around you, why not move, change careers, or seek further education to increase your income. I left Denver, CO for these reasons and am sure the housing disparity is marginal compared to London. It seems more reasonable to change your dynamic than to take earning potential from others via legislation.

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mfs

⌚ 4 years ago

There's a lot of discussion on how rent regulation leads to "overconsumption of housing", but um.... isn't that a huge problem in owner-occupied housing as well? Housing markets are pretty inefficient in general. Does the marginal inefficiency introduced by various types of rent regulation outweigh the social goals of housing stability for families and the elderly? I hear a big ^\(^)/^-

4 0 • Reply • Share ›



Koert DuBois → mfs

⌚ 4 years ago

Simple supply/demand economics don't apply to housing markets, particularly those like here in Southern California.

We have unlimited demand, tempered only by a combination of pricing and job availability. Additional development doesn't solve supply/affordability problems, it just makes us more crowded with more intense competition.

With appropriate planning and reasonable regulation (including keeping homeowners' incentives out of the hands of speculators) the market will find its own balance at levels that are, by definition, affordable.

We should all be focused on getting money out of local politics and exploring options like Vancouver's speculation tax and stopping the spread of the Airbnb cancer.

2 0 • Reply • Share ›

engibneer

🕒 4 years ago edited

One way to increase supply (so as to reign in wayward housing markets), whether you keep rent-control laws in place or not, is to build and maintain housing and transportation infrastructure as an ongoing public development policy. Curiously, this episode gives no consideration to the possibility that housing doesn't have to be produced through private enterprise on a for-profit basis. It's almost as if Mr. Dubner is pushing a pro-gentrification agenda. Forget YMIBY; we need some PHIMBY!

3 0 • Reply • Share ›

DebbieP

🕒 4 years ago

I generally love Freakonomics, but this episode draws the wrong conclusion by using a completely flawed conceptual framework and an incomplete understanding of rent laws in NYC, and ends up with the argument that the real estate lobby has used to tear apart tenant protections in NY state. And I have a feeling that the current fight over the rent laws in Albany inspired the publication of this episode now.

First, on rent-control/stabilization:

1. The picture of an older widow paying \$300 for a rent-controlled 3BR ever since the 50s is a farce: the system changed to rent-stabilization in the late 70s, the rent increases change each year and are set by a board who takes into consideration cost increases for landlords as well as the cost of living and wage growth in the city. The income data is publicly retrievable and there are only a handful of rent-stabilized buildings in the whole city that are *not* profitable.

2. The real estate lobby carved out loopholes in the stabilization laws in the 90s, creating opportunities to increase rents beyond the legal limits and to remove units from stabilization once the rents went above a threshold. This created an incentive for landlords to (abusively) raise rents as quickly as possible, spurred on by speculative investors who advertise their intent to buy buildings, evict tenants on a rolling basis to get a vacancy bonus enough times to reach the destabilization threshold, and sell the building for much more than the buying price.

Stabilization did not create this cycle though; it was non-enforcement of the laws, and

[see more](#)

9 4 • Reply • Share ›

D**DebbieP**

→ DebbieP

🕒 4 years ago

Sorry to be a "noisy" tenant advocate, but we have to be "noisy" because we don't have the money to get our voices heard like RE lobbyists. But if this episode had kept a responsibly critical distance from the anti-regulation arguments, it would have consulted other academics, like Matthew Desmond, who wrote *Evicted: Poverty and Profit in the American City* (did you know that there are more evictions per capita today than during the Great Depression?). A responsible critical distance would also mean questioning Glaeser and Diamond when they claim ending rent control lowered the crime rate in Cambridge (c'mon, correlation vs causation is Econ 101!!), or questioning Glaeser when he cites REBNY stats as if they were neutral, when they are the biggest lobbying arm of the RE industry! As an outlet that is widely read/heard by the well-meaning non-specialist public, this podcast really ought to be able to do better, especially when analyzing a topic of this importance.

6 2 • Reply • Share >

**Koert DuBois**

→ DebbieP

🕒 4 years ago

It's good to see an increasing number of people recognize that there are easy solutions, which are being ignored because they don't favor special interests.

If we could get the money out of politics, we wouldn't be having this discussion.

2 1 • Reply • Share >

M**m_pipik**

→ DebbieP

🕒 4 years ago

Debbie P

This is such a good analysis. It seems the academics really don't get the dynamics of rent control. In NYC much of the rent control is in public housing too. One fault (if you want to call such) is that apartments and rent control can be passed down to later generations. Perhaps, there needs to be some limit on succession rights.

0 0 • Reply • Share >

SB**Skeptical By Nature**

🕒 4 years ago

I love the predictable cognitive dissonance on display from the liberal fans of Freakonomics. Rent Control, Minimum Wage, Welfare; ride on Don Quixote, ride on! And pretend not to notice that you are harming the very people you claim to help. Here's an idea, measure your outcomes rather than your intentions. That will cure your "progressivism."

4 1 • Reply • Share >

**SageThinker**

→ Skeptical By Nature

🕒 4 years ago

The topics you name --- rent control, minimum wage, and welfare --- are all needed only because capitalism is inherently a system of exploitation that keeps the majority of people in managed poverty. That's where the "cognitive dissonance" may arise. I also do not like market distortions, but these specific ones are needed because so many people are in poverty because of capitalism's inherent dynamic. It arose on the pattern of Enclosure in England, when the rich industrialists saw that only when the common people do not have affordable access to land, do they come to work for low wages. It is a macroeconomic management of the people putting us in artificial poverty so we will be labile wage workers. It's a systemic compulsion to labor for low wages.

4 2 • Reply • Share ›



DebbieP → Skeptical By Nature

④ 4 years ago



Oh, heaven forfend that we have a minimum wage!

But seriously... there is data to prove that rent-stabilized buildings in NYC are still profitable, data to prove that 50% of renters all over NY state are unsustainably rent-burdened (=paying 35% or more of their income in rent) and the increase in these figures has correlated with laws eroding rent-stabilization, as well as data to prove that NYC is faring better in preventing homelessness than similar cities without rent regulations.

Skepticism is valuable when it's used to actively seek out answers, but skepticism can also be a crutch for lazy academics (i.e. they just take the data handed to them by industry, or study only the easy metrics) or lazy policymakers (who don't want to do the work of problem-solving, or who don't mind having lobbyists write their bills for them). If you're going to lazily complain about progressives, you should probably remember that it's progressives who passed laws against child labor and slavery, who started medicare and social security, who stopped factories from dumping whatever they want wherever they want... In each of these cases, there were plenty of people who said the big scary change was going to cripple the American economy, but today our lives are measurably better because of them!

2 2 • Reply • Share ›



sturpcv

④ 4 years ago



The podcast mentioned long empty stores in New York where landlords continue to ask for high rents. I've noticed the same situation in the DC area and in San Francisco. Would love to hear an episode explaining this. I strongly suspect that its due to perverse real estate incentives in the tax code which encourages this behavior for realty companies.

2 0 • Reply • Share ›



SageThinker

④ 4 years ago



Land and housing --- both rent and sale --- is a key exploit of capitalism and how it drives the majority of people into wage slavery -- we are compelled to work far more than is natural or

majority of people into wage slavery.... we are compelled to work far more than is natural or good, because the wealthy maintain a system that makes housing too expensive for most people. This is not just conspiracy or fancy but is a documented position of the rich in the formation of capitalism, as shown in this book, *The Invention of Capitalism* by Michael Perelman:

[see more](#)

3 1 • Reply • Share ›



n2y2

⌚ 4 years ago

Allow me to summarize the negative comments here:

Supply-demand economics is great, but don't come after my rent controlled apartment because I love paying lower than market prices.

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Elena Genuos → n2y2

⌚ 3 years ago

Supply and demand don't always function as predicted by the theory. For obvious reasons once one reads the actual theory. And it isn't because of the government.

1 1 • Reply • Share ›



PH

⌚ 4 years ago

This episode ignored the effect of income inequality on the rental market. The Uber rich can buy \$238 million apts or rent at any price to be in the city for convenience - also poor utilization. London has suffered from a huge influx of international money as has NYC that have distorted real estate markets.

Perhaps a broader question: do markets function well in an environment of extreme inequality?
Phill

2 1 • Reply • Share ›

**Elena Genuos** → P H

🕒 3 years ago

They can also afford to mop up all the property that comes onto the market then rent it out. And as Adam Smith predicted there will be actual and de facto collusion to keep rents high.

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RH**rob hollander**

🕒 4 years ago

These economists gave only one valid criticism of rent regulations: it drives developers and landlords away from the rental market to the condo market, leaving fewer rentals overall. Since condos are less financially accessible, the net result would be less affordable housing. There's an easy fix for this: require all the new affordable housing created through inclusionary housing (NYC, for example, requires a percent of affordable housing in any new development in upzoned neighborhoods) be rental only. The Viennese model also works -- 62% of its residents live in public housing. Since many of those residents are middle-class, the housing is viable and well-served and maintained, and not the political and financial burden of our US model.

The other arguments against rent regulations reveal the confirmation bias of the economists themselves. A favorite is the misallocation of space: rent regulation encourages a couple to remain in a three-bedroom apt after their children have left the nest. However, no economists complain that a single owner-resident of a townhouse on 5th Ave -- or any single owner of a house in the city -- is misallocating space that could be used to alleviate the housing crunch to lower market rents. There might be other sound economic reasons to encourage the wealthy to misallocate space, but so are there other economic and social reasons for empty nesters to misallocate their space too. Misallocation of space = Misallocation of space -- unless you've got a bias against low income renters or a bias in favor of the wealthy or homeowners.

[see more](#)

1 0 • Reply • Share >

**Elena Genuos** → rob hollander

🕒 3 years ago

Even if new construction does happen it always comes online at the same or higher price than existing property. So the wealth transfer still happens.

1 0 • Reply • Share >

N**NL13**

🕒 4 years ago

It would be interesting to add low income housing tax credits (LIHTC) to this discussion. LIHTC accounts for about 90% of all affordable rental housing created in the United States, but I don't think a lot of people know what it is or how it works.

1 0 • Reply • Share >

**Jack Cranshaw**

🕒 4 years ago

One thing that I've never understood is why salaries don't compensate. There's a high demand for housing, so prices go up. It's more expensive to live there, so people move away. Fewer people to do things means that salaries go up, so people are paid more, so it's easier to pay the rent. It seems like the market should be working on increasing the renter's income as well as the rent itself. My assumption as to why this doesn't happen is that you have an effectively infinite external sink of employees that will work at a low, essentially fixed, income.

1 0 • Reply • Share >

**DebbieP**

→ Jack Cranshaw

🕒 4 years ago

One reason that salaries don't compensate is that labor union membership is very

14 Reasons Rent Control Hurts Housing, Respected Economist Says

By [By The Editors](#) - March 31, 2022



Respected economist [Jay Parsons](#) says science and history show why rent control does not work and hurts the affordability of rental housing.

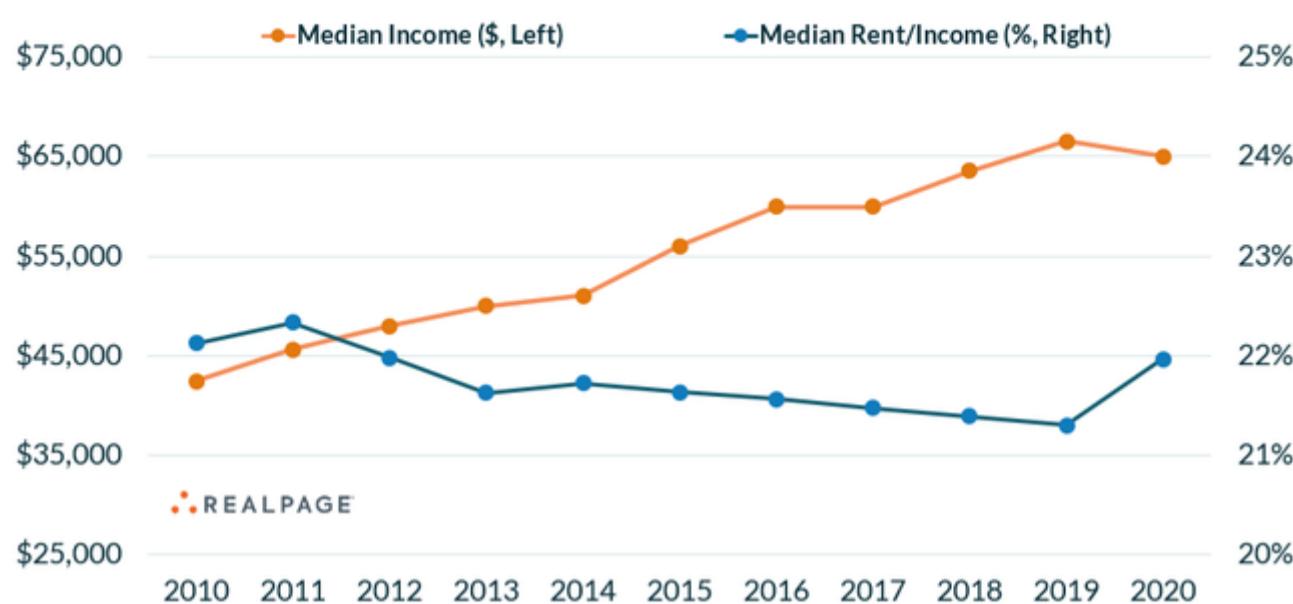
In a long [Twitter thread](#), Parsons says, "Lots of articles of late are saying things like 'rent control remains rare due to landlord opposition.' This is very misleading. Sure, landlords oppose it. But who cares? More importantly: The SCIENCE of economics opposes rent control. And history, too.

"It's disingenuous to say, 'landlords argue rent control reduces supply and backfires on low-income households.' Science and history show us the facts, and that's more important than whatever landlords say," Parsons explains. You can follow him on twitter @jayparsons. Here is what Parsons writes:

1. Rent control is rare because history shows us it doesn't work as intended. Rent control is a short-term fix for current residents, at expense of long-term affordability for a much broader population. This from a [Stanford economist](#).
2. You might argue: We'll exempt new construction from rent control, so it's OK! But the [science says otherwise](#).
3. The science of economics also tells us that rent controls not only limit new supply, but also lead to removal of existing supply, New York being a case in point.
4. That science also tells us that rent control provides benefit to a share of households but at enormous cost, one being inability to fund maintenance. Rent control often leads to poorly maintained, outdated housing — and battles between tenants and landlords over upkeep.
5. One important note that is often overlooked: Rent control primarily benefits wealthier households who do not need the benefit. Case in point: Former NYC Mayor Ed Koch for decades kept a \$475-a-month bargain in high-end Greenwich Village, which meant he (and many others) received benefits others need more — which means wealthier households are either squatting in affordable units or squandering benefits that could otherwise be spent on lower-income households in need.
6. Historically, price controls in the United States were associated with the Soviet Union— which made it a "red flag" for many Americans. For Soviets, price controls led to severe supply shortages, a runaway black market and depression... but three decades later, memories and lessons are fading.
7. Rent-control proponents point to Europe as models, but fail to point out the resulting disaster of a supply shortage. Read this quote from an economist in Sweden: "Five percent of the entire population is on a waiting list for a rental." Wow!
8. In Toronto, rent controls sharply reduced new construction to only pricey units and gave way to a surge in for-sale condos as "shadow" alternatives, bought by small investors and rented out individually, ultimately making affordability worse.
9. In Cambridge, Mass., research showed the city benefitted from the *removal* of rent controls in the 1990s. A Harvard professor noted more supply, more maintenance/upgrades, and less crime.
10. In an IMR survey of economists, only two percent said rent controls in places like New York and San Francisco have had a positive impact on affordable housing.
11. Opposition to rent control is not a partisan issue. Economists on both sides of the aisle oppose it, from right-wing Milton Friedman to left-wing Gunnar Myrdal (both Nobel winners).
12. Myrdal stated: "Rent control has in certain Western countries constituted, maybe, the worst example of poor planning by governments lacking courage and vision."
13. The science of economics tells us the best solution to affordable housing is supply. Harvard's Ed Glaeser: "The most natural tool towards affordability is supply, and to make sure that we are making it easy enough to build moderate-cost rental-apartment buildings in these cities." But not ironically, most cities with rent control or that are seriously discussing it are themselves guilty of making it way too difficult to build housing— which makes what does get through more expensive.
14. Direct subsidies to lower-income renters are also effective in solving housing access issues without distorting supply, yet they're underfunded at every level and too often entangled in red tape.

In summary, Parsons says, "Rents have kept up with incomes in market-rate apartments, which is why rent control is mostly a misallocation of resources to wrong households. The root problem is underfunding and undersupply of affordable housing by governments at every level."

Rent-to-Income Ratios Hold Around 22% in U.S. Market-Rate Apartments



About the author:

Jay Parsons serves as vice president and head of economics and industry principals for [RealPage](#). He is a frequent author and speaker on topics including rental housing investment and asset management strategy, rental housing policy issues, risk management and property management – covering apartments and single-family rentals.

[Blog: Respected Economist Takes Down Rent Control](#)

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