

Three Essays on Housing and Rents

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Abstract

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Introduction

What do Landlords do? Real Estate, Growth, and Distribution

Abstract

The labor share of the national income has decreased in the past 40 years as the capital share has grown, in contravention of Kaldor’s stylized facts of growth. Further decompositions of the capital share of income found that, unexpectedly, the gains in capital’s share of income have come from an increased flow of income to *housing*, rather than corporate and industrial capital (Rognlie 2015). I hypothesize that this macroeconomic movement in the labor share is driven by a regional change in the relationship between capital, labor, and land. I posit that that real-estate capitalists are able to take advantage of the urban and regional geography of rents to capture a greater share of gains from increased productivity growth. I further propose that this ability is driven by agglomeration effects in cities, leading to a regional stagnation equilibrium where disproportionate growth in land rents chokes off growth in urban regions.

Research Questions

How much of increases in regional income are captured by landlords? What are the conditions governing the distribution between wages and rents?

Introduction

Background

Regional inequality has become a topic of considerable importance since the Great Financial Crisis. Much of the recent literature in labor and urban economics has been on the subject of “superstar cities,” the phenomenon where the largest cities undergo rapid growth in income and employment, while smaller ones stagnate and decline.

A major focus of the theoretical and empirical literature has been on the skill-sorting of cities, with skill-biased technical change driving in-migration of skilled labor and rising costs driving out-migration of lower-skilled workers into depressed suburbs and smaller cities.

The rise of superstar cities has led to a consequent crisis of housing in *all* cities of the United States, with increases in homelessness and declines in homeownership and affordability across-the-board, but especially in urban centers of the most productive city-regions.

Much of the recent literature on the relationship between housing and regional growth focuses on the elasticity of the housing supply with respect to housing regulations, particularly zoning. Though the theoretical result is relatively straightforward (tight housing regulations cause high land rents, leading to skill sorting), empirical support for this conclusion has been somewhat ambiguous. Relaxation of the political constraints on zoning may (Hsieh and Moretti 2019) or may not (Freemark 2019) have led to a decrease in the cost of housing.

I focus on the role that distributive conflict plays in the creation of urban space and inequality. Rognlie (2015) uses NIPA data to show that the decline in the labor share during the past 30 years seems to be due to an increase in the share going to housing capital, rather than corporate capital. Similar shifts in the distribution of income can be seen in breakdowns of GDP by metropolitan areas. It is also clear that housing prices and rents have risen rapidly over the same period, in a geographically uneven fashion. The implications of extreme variances in housing costs are widespread; Chetty et al. (2014) and Derenoncourt (n.d.) show that there are place-based effects to human capital mobility, and that high housing costs can lock low-income people out of high-mobility areas.

The mainstream urban economics and inequality literature generally agree that the housing crisis is largely the result of government failure; zoning laws in a particular locale are voted on by constituencies containing incumbent landowners, in whose interest it is to keep growth in the housing stock as low as possible. Those who would benefit from housing expansion, i.e. potential emigrants, obviously cannot vote to influence zoning laws in another city. This leads to low-skilled workers being “trapped” in low-productivity cities that sort by skill-biased technical change (Ganong and Shoag 2017).

Much of this literature relies on the spatial equilibrium approach begun by Von Thunen, and assume perfectly competitive markets for land, housing and construction. If this were the case, then divergence between housing prices and construction costs would be an indication of government failure (Glaeser, Gyourko, and Saks 2005). However, the spatial equilibrium approach has real trouble dealing with issues of scale; for example, a construction firm equipped to build in a dense urban region must be considerably more sophisticated and capital-intensive than a firm building in small outlying towns.

In addition, Knoll, Schularick, and Steger (2014) find that 87% of shifts in housing prices in the United States in the last century can attributed to changes in the price of land, rather than housing or other land improvements. So it is unclear whether we can attribute prices in excess of marginal costs solely to regulation or to other factors, such as monopolization or returns to scale.

Description of Approach

My contribution to the literature is to analyze the role of landed property through the lens of distributive conflict. To be certain, I do not deny the role of supply constraints in limiting access to affordable housing in rapidly-developing, high-mobility urban areas; a successful housing policy, for example, would include incentives to build more and denser housing stock. However, as Freemark (2019) shows, supply-side policies focused on upzoning do not necessarily result in the reduction of rents and housing prices or the expansion of the housing stock (let alone the expansion of the supply of *affordable* housing). I contend that the elasticity of the housing supply is itself endogenously determined through conflict between landlords, developers, capitalists, and worker-tenants. Essentially, I hope to describe the way that economic power is exerted through the markets for land and housing. My approach has two major components:

1. I build on the empirical results of Agarwal, Ambrose, and Diop (2019); the authors showed that 5 years after an increase in the minimum wage, rent increases had absorbed the entirety of the windfall to minimum wage earners. I show that this also occurs for productivity increases *in general*; in the absence of policy interventions such as rent controls or robust social housing, increases in productivity and wages simply appear as a transfer payment to owners of land.
2. I provide a theoretical explanation of the way that class conflict over land rents shapes urban geography. This can be considered an approach parallel to Stiglitz (2015)’s Henry George Theorem, which showed that under certain conditions, any value generated by public infrastructure will be accrued to landlords. Specifically, in the presence of strong agglomeration effects in a city of fixed size, housing will tend to be underproduced, and increases in the housing stock will tend to increase developer profit, rather than decrease the cost of housing.

The relevant policy implication is as follows: Relaxation of building constraints (YIMBYism) will not necessarily increase the stock of affordable housing, since it will constitute a transfer of land rents to the property developer. This is due to the fact that new construction creates new use values (physical areas for residence) but also exchange values (a new quantity of appreciating assets).

Rent Control Revisited: Is it Good, Actually?

Abstract

Research Questions

1. Who benefited from the relaxation of rent control regulations in a number of American cities during the period 1965-1995? What impact did this have on growth and distribution (between wages, profits, and rents)? The supply of housing?
2. Who would benefit from a current imposition of rent control in urban rental markets?

Introduction

Rent control is about as ‘solved’ a problem one can get in economics, trotted out as a classic example of the dangers of price controls: ultimately causing housing shortages, deterioration of the housing stock, and paradoxically higher rents, hoisting the poor souls it was designed to help upon their own petards. It does double duty as an illustration of another scientific principle, Pavlovian conditioning; simply mention the word ‘rent control’ in the presence of an economist and prepare to hear, like clockwork, the Assar Lindbeck quote about city blocks and aerial bombings, accompanied by a level of smugness approaching the radioactive.

Despite the near-consensus of the experts on this issue, calls for the enactment of rent control have persisted throughout the development of American cities, and have succeeded in many instances. In recent years, calls for rent controls have become increasingly salient in the rapidly-growing “superstar” cities in the coastal regions of the USA.

The purpose of this essay is add to the existing literature on rent control in the United States. I examine the effects of rent controls on the supply of rental housing, but I also focus on *neighborhood effects* that have often been ignored by most work done on rent controls. Specifically, I propose that rent control’s main positive effects occur through neighborhood stabilization– they allow residents to retain access to amenities and public goods that they might not otherwise have access to were they displaced by rising rents. Chetty et al. (2014) and others have shown that place matters in terms of economic outcomes for individuals; while displacement may not be welfare-reducing in the neoclassical sense, as Glaeser (2003) and others have argued, in all likelihood it reduces access to neighborhood institutions that allow for intergenerational upward mobility. If that is the case, urban policy designed to stabilize neighborhoods may be crucial to promote equitable urban growth.

This essay has two major components:

1. Testing the effect of rent controls on the housing supply, affordability, and neighborhood composition
2. Testing the ability of rent controls to retain access to ‘neighborhoods of opportunity’ as identified by Chetty et al. (2014).

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