NATIONAL MULTIFAMILY HOUSING COUNCIL

Tool: Rent Control

THE HOUSING AFFORDABILITY TOOLKIT

Developed in Partnership with
HR&A Advisors

Rent Control

Rent control is a counterproductive housing policy that does not address any of the key factors driving housing affordability.

What Is Rent Control?

Apartments have long provided people a flexible and inherently affordable housing option. However, as the number of renters has reached an all-time high, there has been a surge in demand. This has made it difficult for millions of families nationwide to find quality rental housing that is affordable across the income spectrum and has placed significant pressure on the available apartment supply. In response, some municipalities have tried to artificially restrict rents. While some of these rent control policies may be well intentioned, numerous studies have shown that rent control fails to increase the availability of affordable housing. Economists almost universally agree that rent controls reduce the quantity and quality of housing.[1]

Rent control regulations limit the amount of rent a landlord can charge, either by setting a rent ceiling or by limiting rent increase.[2] Currently, rent control regulations are in effect in four states and in Washington, D.C., while 36 states explicitly prohibit municipalities from implementing rent control.

How Rent Control Works

A set of price control regulations codify restriction on a city's rental housing market. The specific rules that govern rent control vary significantly between cities. Generally, these regulations establish which units rent control applies to, the conditions in which rent can rise, the amount of increase, how long rent control may remain in place, and processes for appeals and monitoring.

> **"The absurdity of New York City's housing market has become a standard part of many Econ 101 courses, because it is such a clear example of [rent control] that achieves the near opposite of its goals."**
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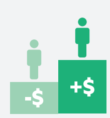
> – Adam Davidson, *New York Times,* 2013.[3]

Rent control impacts affordability in three key ways

Rent control leads to a decrease in the supply of overall units and an increase in rents for unregulated units.



Rent control is an inefficient tool that often benefits high-income households as much as, if not more than, low-income households.

Rent control is complicated and expensive to administer.

1 NMHC, 2017
2 The Economist. "Do Rent Controls Work?," 2015
3 New York Times. "The Perverse Effects of Rent Regulation," 2013

Impacts

1. Rent control leads to a decrease in supply of overall units and an increase in rents for unregulated units.

Rent control leads to a decrease in the supply of overall units and an increase in rents for unregulated units. Studies across the country have found that forcing rents below market price has reduced the supply of new housing. This occurs in two ways:

> **1. Price ceilings make rental housing an unprofitable venture, and developers have less incentive to build.** Money flows out of the local rental market and into more profitable markets.

Cambridge, MA ended rent control in 1995. As a result, annual investment expenditures more than doubled for all residential property from 1995 to 2004.

> **2. Property owners are incentivized to convert apartments into condos,** which benefits higher-income households that can afford to own a home. The conversion of apartments to condos increases displacement **and creates a significant risk of displacement for existing residents.**

A study in Los Angeles, CA found that vacancy control resulted in a 7% decline in rental units as landlords converted apartments to condos.

These phenomena reduce the overall supply of housing and lead to increased competition for existing units – especially for those that remain unregulated. This drives up rents.

ACCELERATING GENTRIFICATION IN SAN FRANCISCO, CA

A Stanford Graduate School of Business study released in 2018 tracked the effects of rent control in San Francisco since their expansion of regulation in 1994. The study found that rent control reduced the supply of housing in the city by 6% and was responsible for more than 5% of the increase in rental prices of unregulated units. Additionally, rent control incentivized landlords to convert their properties into condos, further decreasing supply and raising rents. This may have accelerated gentrification in the Mission District, as smaller buildings that were once market-rate affordable housing rapidly became condos.

The study also found that the initial benefits of rent control helped existing tenants at the expense of new tenants. Tenants who lived in rent-regulated units before 1993 benefited by a net of $2.7B – exactly equal to the direct and indirect costs borne by new tenants living in unregulated units from 1993 onward. This created winners and losers and provided no overall benefit to tenants.

1 Author et al "Housing Market Spillovers: Evidence from the End of Rent Control in Cambridge, MA." Journal of Political Economy, University of Chicago, 2014
2 Ellis Act Evictions, Anti Eviction Mapping Project, 2018
3 Stanford Graduate School of Business. "Rent Control Winners and Losers," 2018

Impacts

2. Rent control is a blunt tool that does not efficiently target benefits.

Rent control is a blunt and inefficient tool that often benefits high-income households as much as, if not more than, low-income households. Rent control regulations are tied to units instead of households, and a rent-controlled unit can go to a household of any income. Low-income households must compete with higher-income households for rent control and receive no preference. There is significant evidence that this leads to a large and often arbitrary subsidy that can benefit households able to afford market-rate rents.

A 2000 study by the San Francisco comptroller found that 25% of rent-controlled units were occupied by households with incomes over $100,000.[1]

In 2012, the NYU Furman Center found that the median income of households in prized rent-stabilized units in Manhattan was higher than the median income of market-rate residents in all but eight neighborhoods across all five boroughs.[2] Higher-income residents in Manhattan paid less for their apartment than lower-income households in the cheaper markets of Brooklyn and Queens.

A study in Cambridge, MA found that households in rent-controlled housing had higher incomes than the citywide average, including the average incomes of homeowners.[3]

There are a number of reasons that rent-controlled apartments are more likely to end up with higher-income households residing in them. When a household leaves a rent-controlled apartment, the residents often "pass on" the apartment to someone in their social network in the same income level. In Los Angeles, there is evidence of a gray market of "key fees" that require potential tenants to pay a significant up-front cost for a rent-regulated unit. This practice further restricts lower-income households from accessing affordable, regulated units.[4]

Households in rent-controlled housing in Cambridge, MA had higher incomes than the citywide average.

1 New York Times, "San Francisco Rent Control Unintended Consequences," 2012
2 NYU Furman Center, 2012
3 Goetze, "Rent Control: Affordable Housing for the Privileged, Not the Poor," 1994
4 L.A. Weekly, "L.A. Moves to Curb "Cash-for-keys" Rent-Control Landlord Scams," 2016

Impacts

3. Rent control is complicated and expensive to administer.

Rent control requires 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 falls 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 the rents for only 28,000 apartments.

Denver's housing stock consists of 72,200 multifamily rental units that were built before 2000, which represents about half of the city's entire rental housing stock. These units vary widely in scale, owner type, and current leasing arrangements. To enact a rent control policy, the contracts of each of these units would need to change and be regulated by the city.

> **This would cost Denver an additional estimated**
> **$10 MILLION**[1]

1 Based on the cost of rent control administration in Santa Monica, CA, at $142 per unit annual

Considerations

Rent control does not address any of the key factors driving housing affordability challenges.

An insufficient supply of rental housing, rising development and operation costs, and stagnant incomes are the factors driving growing housing affordability challenges. Cities must address these key factors to address affordability. Rent control does not address any of these factors.

- Rent control decreases supply. Studies have shown that rent control leads to an overall decrease in supply as landlords convert units to condos and developers cannot bring units to market.
- Rent control increases administrative operation costs. Rent control adds compliance costs and the overall cost to operate rental housing.
- Rent control is not tied to those who need it. It does not provide a targeted subsidy for lower-income households who need assistance the most.

Rent control seeks to treat the symptom of rising rents without addressing these underlying factors. This leads to unintended consequences that shifts the affordability burden among tenants and often decreases overall housing affordability. Improving housing affordability means closing the gap between what a household can afford and what it costs to develop and operate rental housing. It also includes ensuring that the supply of rental housing can keep up with rising demand.

Local governments have many tools at their disposal that can decrease the affordability gap and increase overall supply. Rent vouchers can help increase what households can pay for units. Tools like property tax incentives, public land subsidies, and other developer incentives can decrease the cost to develop and operate housing, while expanding by-right development can help increase overall supply.

Economists have long considered rent control a failed housing policy – the benefits for a few select tenants do not outweigh the substantial economic and social costs. Cities around the country have shown that these policies have led to higher rents and fewer units overall.[1]

1 New York Times. "Why Rent Control Is a Lightning Rod," 2018