

# GOVERNING

## THE STATES AND LOCALITIES

### **Rent Control: An Old, Bad Idea That Won't Go Away**

**With urban rents rising sharply, there's a push to reintroduce it. But it won't fix the affordable-housing shortage.**

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The Bradley Cooper-Lady Gaga remake of *A Star Is Born* isn't the only thing from the 1970s making a comeback this year. After most states passed laws blocking rent control in the 1980s and '90s, there's now a push to reintroduce it from coast to coast.

Californians will be voting Tuesday on a ballot measure that would repeal a state law prohibiting cities from expanding rent control. In Illinois, the state legislature is contemplating eliminating a ban on rent control and creating six boards to manage rents statewide. Meanwhile, the New York city council is considering a potentially unconstitutional commercial rent-control proposal that would limit property owners' ability to increase rents for office, industrial and retail space.

This resurgence comes in the face of escalating pressure to "do something" about sharply rising rents in urban areas. Yet economists of all political persuasions are highly skeptical that rent controls can be successfully re-imagined. Indeed, it is difficult to think of another policy where conservative economist Thomas Sowell, who once observed that "the goals of rent control and its actual consequences are at opposite poles," can agree with liberal economist Paul Krugman. As Krugman, a *New York Times* columnist, explained in 2000, introductory economics teaches that artificially compressing rents results in a shortage of rentable properties. The lower fixed price increases the demand for rental housing while reducing the quantity of it offered for rent.

That's because landlords confronted with the regulation are incentivized to convert properties to other, higher-return uses. Developers, meanwhile, find new rentable accommodations less profitable to build, compounding the scarcity-of-supply problem that often drives high rental prices in the first place.

This is not just theory. Following a 1994 rent-control expansion in San Francisco, research found that landlords converted rental properties to owner-occupied apartments and condos better suited to higher-income families to avoid being subject to the regulation. The supply of new rentable housing fell too, increasing underlying market rents by over 5 percent. Rent control both increased the cost of non-controlled rental accommodations and accelerated gentrification.

Tenants with rent-controlled apartments benefit financially, but there are tradeoffs for them as well. Landlords under rent control have strong incentives to neglect maintenance or upkeep, allowing properties to fall into disrepair until the market price for the unit reflects the rent-controlled price. And property owners can become more discerning about the types of tenants they want to rent to, making potential tenants jump through administrative hoops to capture the prize. This can also discourage tenants from moving to new jobs or more appropriately-sized housing. It's been estimated, for example, that 21 percent of rent-controlled tenants in New York City live in properties with the wrong number of rooms for their needs.

Faced with this historical evidence, advocates today instead emphasize the benefits of rent control on tenant security. They advocate regulations that limit price hikes in fixed tenancy periods, but with rents free to adjust when a tenancy ends. This is said to protect tenants against so-called "economic eviction" -- huge unforeseen jumps in rent that force a tenant to move out.

No doubt tenants value security. But that such contracts are not widespread in free markets suggests that landlords value the flexibility to adjust rents to market conditions and their experience with tenants. Changing the balance of risks in favor of tenants would require higher rents to compensate.

All of this indicates that tenancy rent controls and security regulation will -- at best -- lead landlords to front-load rent hikes, select tenants likely to stay for short periods, or provide poor service during tenancies if underlying market rents are rising rapidly. At worst, tenancy rent controls would increase overall market rents by raising risks to landlords and reducing investment in new stock, particularly if the controls are perceived as a precursor of more-onerous regulation.

The truth about housing affordability is that high rental prices communicate that the supply of rentable property in the market is scarce relative to demand. The urgent message emanating from many desirable U.S. cities is that too few rentable units have been produced over long periods. But crude rent controls will worsen this shortage. And more flexible rent regulation amounts to just suppressing this price message for a lucky few tenants in the short term, in ways likely to worsen affordability more broadly.

Rent control can't overcome the structural challenges to affordability that high-cost cities face, and a rent-control revival diverts attention from pro-development reforms that matter. Policymakers who care about housing affordability should leave rent control where it belongs: in the past.

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