the Stranger

The Case Against Rent Control

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A large majority of economists oppose rent control, and they've opposed it for a long time. To give people a sense of just how much some economists don't like this policy, critics like to use a phrase attributed to the Swedish economist, Assar Lindbeck, who said rent control was “the best way to destroy a city, other than bombing.”

The Rental Housing Association of Washington, aka landlord lobbyists, puts the argument more plainly. Rent control laws lead to “higher rents, fewer homes, and more rundown apartment buildings," they say in their latest fact sheet.

But lately, researchers have been pushing back against this narrative. They call into question the conclusions of studies written by trickle-down economists, and focus on rent control’s generally unexplored social benefits, as well as the psychological toll rent instability takes on populations. These researchers argue that rent control legislation prevents displacement, and, when paired with policies that encourage the construction of more housing, has a role in addressing the affordability crisis in the short term.

A Little History

For all the disagreement surrounding rent control, everyone seems to agree on one thing: tenants stay in rent-controlled units longer than they otherwise would. So, as an anti-displacement measure, rent control works, especially for older people. Whether staying put is good for those tenants and for everyone else, however, is the issue animating the recent scholarly debate.

Before we run through those arguments, a 2018 review of rent control studies from the University of Southern California, which I’ll be relying on heavily later on in this post, helpfully calls out a distinction between two generations of rent control laws.

The first generation of rent control swept across the U.S. during World War II. To keep urban workers focused on building guns and not on paying high rents, the federal government created an agency to freeze or strictly limit rent increases. But when we talk about rent control now, we’re talking about “second generation” rent controls, which have variously risen and declined in popularity since the 1970s.

During this period, state and local governments have been experimenting with “rent stabilization measures.” Rather than freezing rents entirely, these laws cap rents at a certain percentage plus the cost of inflation. Some also exclude new construction from the caps, and most allow landlords to raise rents to so-called “market rates” after tenants leave and/or raise rents past the cap for big upgrades.

The General Criticism

The conversation around this second generation of rent control roughly splits into two schools of thought. The free-market economists, following the anti-regulation theories of Milton Friedman, have produced the largest and most substantial body of evidence.

They survey places such as Boston, Washington D.C., New Jersey, New York, and California, and conclude that rent stabilization efforts reduced the supply of apartments, unfairly housed people who could afford more expensive housing, drove up rent prices for new renters, and led to degraded buildings that reduced surrounding property values and thus decreased the amount of tax revenue those cities could raise.

On that last point, Capital Policy Analytics, a consulting firm run by Ike Brannon, a former fellow at the libertarian Cato Institute and current senior fellow at the conservative Jack Kemp Foundation, projects that capping rents at 7% per year in Seattle would amount to an annual loss of $5.5 million in property tax revenue, assuming property values wouldn’t “fully [follow] market value changes.”

Anyhow, let’s breakdown these concerns one at a time.

Rich Renters Slumming It

Maybe the most flashy argument against rent stabilization is that some financially successful tenants end up squatting in apartments for years even though they can afford more expensive places. The RHA holds up a San Francisco city planning study showing that “almost half of all rent-controlled units [in San Francisco] are occupied by tenants that make $100,000+ per year.”

Critics also point to extreme cases, such as the one where an off-Broadway actress, Patricia O’Grady, ended up only paying about $30 a month for 16 years for her two-bedroom, cold water Greenwich Village apartment. Though O’Grady “didn't earn much as an actress,” reports CNN, “she didn’t need to” thanks to New York’s rent control laws.

Since people will take advantage of such a broad system—especially those with more time and money to do so—the RHA and other landlord groups tend to advocate for “means-tested” solutions to the affordability crisis, such as providing housing subsidies to people based on their incomes, or giving developers property tax breaks for including affordable housing in their new buildings.

The Supply Problem

Corporate landlords also express concern that rent stabilization will scare off big developers looking to make easier money in cities with fewer regulations, which would further reduce the housing supply. That's not something you want to do in the middle of a housing crisis.

USC researchers say this concern isn't supported by evidence. A recent study of New Jersey, which has a large number of cities with and without rent stabilization, found "little to no statistically significant effect of moderate rent control on new construction after controlling for population."

However, the latest research out of Stanford shows that rent stabilization did decrease the housing supply in San Francisco, but not by scaring away developers.

To get around the city's tenant protections, landlords knocked down their buildings and built new apartments exempt from rent caps. Others converted rentals into condos or moved into a unit they were renting out. As a result of landlords exploiting those loopholes, San Francisco's rental stock dropped 15%, which "likely" led to a "city-wide rent increase of 5%." Due to those condo conversions, researchers also saw a 25 point drop in the percentage of renters living in stabilized units. So rent stabilization wasn't just bad for new residents looking for apartments, they argue, it led to the very "gentrification" that advocates were hoping to avoid.

Degraded Properties

Landlords allowing rent-stabilized apartments to go to hell could be another problem, since rent caps might cut into funds they use to maintain old buildings. But reviews of the studies on this issue are mixed.

In his research of rental units in Boston, Econ professor David Sims found that rent control "led to deterioration in the quality of rental units, but these effects appear to have been concentrated in smaller items of physical damage." However, a literature review conducted by the National Multifamily Housing Council (i.e. the developer lobbyists), shows there is "no clear association documented in the empirical research between rent control and building quality, particularly if other ordinances, requirements or incentives are present to have landlords maintain buildings."

Backfiring

The argument against rent stabilization that scares me the most is the one I hear from California landlords, who warn that landlords will treat rent caps like targets. Since landlords wouldn't be able to jack up rents when faced with large repairs or remodels, they'll raise rents to the cap every year instead of not raising rents some years or suddenly raising them 60% when they decide to join the RHA. Washington State House Rep. Cindy Ryu, a commercial landlord and chair of the House's housing committee, says "that fear is real."

"In a 'free market' [those quotes are Ryu's], people will do what they think the market will bear," Ryu added.

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In answer to the concerns listed above, rent stabilization advocates cite a 2018 review from the University of Southern California and another from the Haas Institute at Berkeley.

What do we do about rich people taking advantage of the system? Well, the RHA doesn't mention that their percentage of units "occupied by tenants that make $100,000+" includes "an unknown number" of condos that are not subject to rent control because researchers couldn't separate converted condos from rent-controlled units in census data. Moreover, that same study shows that a majority of the rent-controlled stock goes to San Francisco's extremely low, low, or middle-income workers.

But why not simply subsidize rents to ensure that benefits only redound to those who truly need them?

On the surface, that solution sounds like an efficient use of resources. After all, we already have these kinds of programs. And the benefit for landlords is certainly clear. They can raise the rents as high as the market can bear, and the government can swoop in to pick up the tab low-income renters can't pay.

However, there's no reason governments can't expand rent subsidy programs *and* stabilize rents at the same time. Expanding subsidies wide enough to meet the need, however, would be expensive, and the money to fund expansion would be hard to come by, especially in any sort of progressive way. Washington boasts the most regressive tax structure in the country, so low-income residents would end up paying a higher percentage of their paycheck than rich residents for the property and sales taxes needed to fund bigger and more robust programs.

As for potential supply problems posed by rent stabilization, the researchers at USC say closing the condo conversion loophole and preventing landlords from hiking rents after tenants vacate rent-stabilized apartments could help prevent the loss of housing units.

Incidentally, they're also skeptical that rent stabilization alone led to higher rents across San Francisco, and argue that rent increases may have, in fact, been worse without that tenant protection in place.

Absent stabilization, landlords may have jacked rents way up to exploit the tech sector gold rush. After all, the researchers point out, when Cambridge, Massachusetts ditched rent stabilization in the 1990s, rents skyrocketed for both stabilized and non-stabilized units, with "previously stabilized units seeing a 40 percent increase in rent." Furthermore, a study published in the *Journal of the American Planning Association* in 2000 showed no evidence of gentrification in "Berkeley, Santa Monica, West Hollywood, and East Palo Alto" between 1980 to 1990, which was right "at the beginning of the tech boom." Unlike San Francisco, those cities prevent landlords from hiking rents after tenants move out, suggesting that "tighter, not looser, rent regulations might slow gentrification."

To the extent that rent stabilization ends up creating slums, analysts argue better code enforcement and allowing landlords to petition for rent increases beyond the cap could fix the issue. Though, of course, better enforcement is easier said than done.

It’s also worth remembering that rent hikes don’t always correspond with material improvements to buildings. Haas Institute researchers remind us that “government action, which is supported by the collective contributions of all citizens, is responsible for a portion of increased property values, no matter what property owners do.”

That is, landlords bank on public investments such as parks, transit hubs, good schools, and beautification projects, which are paid for by everybody. And yet renters are getting taxed twice—once for paying for all that infrastructure, and then again for living close to it. In that context, evening out the playing field with rent stabilization seems just.

It’s easy to get bogged down in all the potential negative consequences of rent stabilization, and policymakers would do well to heed these concerns, but a lot of this discussion is, as I'm sure you can tell, academic in both senses of the word.

Researchers and advocates supportive of rent stabilization aren't pitching it as a silver bullet to end the affordability crisis. Instead, they see it as a necessary, short-term solution in a more comprehensive plan to “produce, protect, and preserve” affordable housing. Rent stabilization stops the bleeding, they argue, but, in order to be effective, it needs to be paired with policies that increase the overall supply of housing.

Movements in California, Oregon, and New York rode to victory on that messaging. They took on corporate developers, realtors, building trades unions, timid Democrats worried about reelection, and near total Republican opposition to give renters some semblance of the stability they need.

In tomorrow's third installment of this series, I’ll talk about how and why they did that.