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Rent Control: A Failed Solution to Housing Unaffordability

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HIGHLIGHT

Rental prices have hit historic highs, straining household finances, especially among low-income people. Tenant activists and some local policymakers have proposed reviving the failed retro idea of rent control as a solution despite many states outlawing it. Setting limits on rental prices or the rate of rent increases distorts the rental housing market to the harm of most renters. When rent control was imposed, it benefitted a few residents—some of whom were wealthy, not poor—at the cost of shrinking the supply of rental units for everyone else as well as other counterproductive outcomes.

INTRODUCTION

Housing affordability is a vexing problem in the United States and has been for many years. Rising shelter costs have worsened since the start of the pandemic due to a tight housing market and rising interest rates. Rental prices have reached near historic highs and are big drivers of the consumer price index—the primary measure of inflation.

Average rent prices have increased 8.9 percent per year since 1980, but the acceleration in overall inflation in 2021 drove the national average to over 18 percent year-over-year. As a result, nearly 15 million U.S. renter households are cost-burdened—meaning they spend more than 30 percent of their income on rent and utilities. Household budgets are strained, with low-income families shouldering a heavier burden.

Rent regulation may appear to be an appealing solution to housing unaffordability. Advocates push policymakers to impose new restrictions on rental increases. However, rent regulation leads to counterproductive outcomes at best and devastating impacts at worst. Rent control and rent stabilization:

- shrink the supply of rental housing
- reduce the quality of rent-controlled units
- worsen inequities by allowing some wealthier residents to exploit the system to the detriment of poor and disadvantaged individuals
- punish property owners and disincentivize them from renting out their units

Tellingly, even in rent-controlled cities such as New York City, Boston, and Los Angeles, residents are even more cost-burdened than in non-rent-controlled areas. Rent control is a failed retro idea that would only worsen access to affordable housing. We need greater regulatory reforms that reduce the costs and red tape for constructing new housing and expanding the housing supply.

Rent regulation is used as a tool to control the costs of housing, but has the opposite effect. Decades of research demonstrate that rent control distorts the housing market. It limits the supply of housing by discouraging the development of new rental housing units and the quality of housing by discouraging the maintenance of rental housing units. Some renters may be better off with rent caps, and their financial situations may improve, but many more renters are left to fight for fewer, costlier options, worsening their financial burdens.

Currently, eight states have rent control (or stabilization) policies in place at the state or local level: California, the District of Columbia, Maine, Maryland, Minnesota, New Jersey, New York, and Oregon. Meanwhile, 33 states prevent local governments from adopting rent control regulations.

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BACKGROUND

Rent regulation occurs through two means: rent control and rent stabilization. The term "rent control" is loosely used to cover both, but the two are distinct. Rent control refers to a government-dictated limit on the amount that property owners can charge to rent private properties. Rent stabilization is a cap on the pace of rent increases. According to the National Association of REALTORS, "true rent control is fairly rare, and becoming more uncommon." Most of the new proposals being floated today are rent stabilization.

Increasingly, as housing inflation costs have soared—spiking from 1.8 percent in January 2021 to 8.5 percent in June 2022—rent control advocates and some policymakers are considering rent regulation to control costs for residents.

BENEFITS OF RENT CONTROL

Rent control advocates believe that price controls are life savers for residents whose incomes have largely not kept pace with rents, especially low-income households and seniors. They advance several arguments: Rent control (a) protects against significant rate hikes; (b) prevents displacement of residents by allowing vulnerable people to stay in their units even as home values and rents rise; (c) reduces evictions for non-payment of rent; (d) increases occupancy rates as tenants are likely to remain longer and rent-controlled units are easier to fill.

Advocates purport that rent control can create and preserve affordable housing for low- and middle-class households. However, if it were that simple, wouldn't every community enact rent control caps? Ample historical examples of failed rent control experiments explain the folly of this policy.

NEGATIVES

For decades economists have been unified in condemnation of rent control, agreeing that the costs outweigh the benefits of the policy.

Rent Control Reduces the Quantity Of Rental Units

Rent regulation has led to decreases in the overall rental housing stock and new construction. In 2019, researchers Rebecca Diamond, Tim McQuade, and Franklin Qian studied the impact of a 1994 law implementing rent control in San Francisco and found that it led to a 15 percent reduction in rental housing and a 25 percent reduction in the number of renters living in rent-controlled units. To avoid the impact of the law, property owners responded by converting the units to condominiums or selling to owner-occupants and redeveloping buildings. Rent-controlled buildings were 10 percent more likely to be converted into condos than comparable non-controlled buildings.

In other rent-control cities, the supply of units also fell. New York City has lost 130,000 rent-controlled units to condo and co-op conversions since 1993. In Cambridge and Brookline, Massachusetts, rental units fell by 8 percent and 12 percent in the 1980s. Between 1978 and 1990, rental units in Berkeley, California fell by 14 percent and in Santa Monica by 8 percent. In all of the cities, rental supply rose in most nearby cities that did not have rent control.

Rent control in Massachusetts before 1995 reduced rents but also led owners to shift away from renting, reducing supply. Conversely, in the Boston metropolitan area, ending rent controls increased the supply of rental housing.

Similarly, rent control can hamper the construction of new rental units, even if new construction is explicitly exempted by the regulations. Out of uncertainty about future policy changes, developers may not want to risk losing the financial incentives for investing in new construction. After Cambridge, Massachusetts removed rent control in 1995, the number of building permits issued for improvements and new construction increased by approximately 20 percent while annual permit expenditures doubled. More recently, when St. Paul, Minnesota approved a 3 percent rent cap ballot measure, new multi-family building permits plummeted 80 percent in just the first three months. Instead, development shifted to the neighboring market of Minneapolis, which experienced a nearly 70 percent increase in permits.

Rent Control Reduces the Quality Of Rental Units

Faced with the financial strain from reduced revenue, owners may be unable to maintain and repair existing rental units. For example, rent-controlled buildings in Cambridge, Massachusetts were deteriorated and "in worse condition" than non-controlled buildings. Most of the benefits to consumers from rent control in Los Angeles were offset by a loss of available housing due to the deterioration of properties.

Rent Control Makes Renting Less Profitable for Owners

Rent regulation punishes property owners by limiting the profit they can earn without compensating them for that loss. If the costs of renting out a property exceed the income earned, property owners have no incentive to rent.

Policymakers often do not consider the rising costs that property owners face that lead them to increase the rents they charge such as increased mortgage costs from rising interest rates; rising costs for property management, landscaping, maintenance, and repair services; rising utility costs; shortages and inflation on appliances and materials; rising insurance rates, HOA fees, and rental licenses. Evictions and tenant replacements also result in unexpected costs such as legal fees, repair and cleaning, and advertising to find new tenants.

Local governments also stand to lose tax revenue if rent control or rent stabilization is implemented. This is due to the assessed value of rent-controlled properties declining.

Rent-Controlled Properties Have Negative Spillover Effects On Neighborhoods

Rent-controlled properties can lower the value of neighborhoods by making them less desirable. As a result, non-rent-controlled properties pay the price of depreciated values. When Cambridge, Massachusetts, decontrolled—or lifted rent control from—units, their value increased by 45 percent, but nearby properties that were never rent controlled also shot up in value. Overall, the end of rent control added $1.8 billion to the value of Cambridge's housing stock between 1994 and 2004.

Local governments also stand to lose tax revenue if rent control or rent stabilization is implemented. This is due to the assessed value of rent-controlled properties declining. In addition, municipalities face significant new administrative costs as they create new bureaucracies to manage rent-controlled units. Minneapolis recently concluded that the loss of revenue and new enforcement costs (among other concerns) outweighed the benefits of new rent control measures and rejected such proposals.

Despite the label of "greedy" that property owners get charged with, many are working and middle-class individuals. Some 44 percent of property owners who rent to tenants are women, and 31 percent are people of color. Rent regulations undermine their financial security and ability to build generational wealth.

Rent Control Rewards Wealthy Renters and Punishes Disadvantaged Groups

Finding a rent-controlled or stabilized unit is a coveted benefit enjoyed by a lucky renter (and potentially his or her offspring). The below-market rents encourage residents living in covered units to remain there even as their income grows and their ability to pay more increases. As a result, this worsens inequalities and serves as a poor tool to target affordable housing units to those in need. In New York City, affluent, older (and white) renters disproportionately benefited from rent control. In Cambridge, tenants in rent-controlled units on average had higher incomes and professions with higher status than other residents, including homeowners. Evidence and stories abound of wealthy residents reaping the benefits of rent control such as an Afghan princess and heiress paying just $390 for a two-bedroom apartment in the Upper East Side of New York City.

Rent-controlled apartments can be "passed down" over generations regardless of income as in New York City. Even if the number of occupants falls as children leave home, renting parents have no incentive to leave. Meanwhile, growing families without means are forced into smaller, more expensive units that strain their household budgets. Newcomers to rent-controlled areas and those without connections face difficulty accessing this affordable housing.

Perceptions

Public perceptions of rent regulations vary. Generally, the public is receptive to the idea of keeping rising rental prices in check. For example, in a 2023 UMass Amherst/WCVB poll, 71 percent of Massachusetts residents strongly or somewhat supported allowing local governments to set limits on annual rent increases.

National polling by the National Apartment Association finds that over half of Americans would support rent control to address housing affordability in their local communities. This support varies by income level and age, as those younger and in lower income brackets are more likely to support rent control than those who are older and in higher brackets—who consequently are probably more likely to be property owners. Regionally though, respondents in areas with rent control are less likely to support it.

Housing providers oppose rent regulation because it reduces the housing supply. Seven in ten housing providers indicated that rent control measures in an area would discourage them from investing and developing there or encourage them to shift their plans to other markets.

As housing affordability continues to place pressure on household budgets, we may expect approval for the policies to rise. However, if Americans knew the harmful impacts of rent control, or if they understood that other solutions could bring down rental costs, they might be persuaded to favor these other solutions over rent control.

SOLUTIONS

Increase Housing Supply

The best solution to housing unaffordability is to expand the number of available dwellings. That can be done in many ways without being disruptive to tenants, property owners, and communities.

Specific land-use regulations often raise the costs of construction. Setting a minimum for lot sizes (i.e., the area that something may be built on) and parking spaces limits housing density and raises development costs. Well-intended inclusionary zoning, which requires that developers set aside a certain percentage of units to lease or sell at below-market rates, increases costs for developers and discourages construction. Boundaries to protect farms and forests from urban development also have the same impact. As research indicates, in the long term, all of these policies restrict housing supply. By reforming or eliminating land-use regulations and other zoning restrictions, municipalities can encourage new construction or expand rental units in current living spaces.

Local jurisdictions could allow for the construction of multiple-unit dwellings to be built or expanded on single-family lots. Examples include building duplexes and triplexes, splitting up single-family homes to create new units, erecting small detached units, and conversion of garages and unfinished basements into rental units. Not only do they "gently" expand the housing supply in residential neighborhoods, but property owners, who may be older, enjoy added rental income to supplement their budgets.

"One way to achieve a 10 percent supply increase is to add one triplex per block in a large area. Without taking behavioral effects into account, a 5 percent reduction in rent would decrease the number of rent-burdened households by 7 percent."

— Salim Furth

As Mercatus scholar Salim Furth explained during his testimony before the Maryland General Assembly, "One way to achieve a 10 percent supply increase is to add one triplex per block in a large area. Without taking behavioral effects into account, a 5 percent reduction in rent would decrease the number of rent-burdened households by 7 percent."

Means Testing

If abolishing rent regulations is not possible, jurisdictions should at least include means testing to ensure that only the truly needy stay in those units. Income eligibility is the only way to ensure that higher-earning residents don't occupy rent-controlled units indefinitely while poor residents wait endlessly for a few available spots. Tenant activists oppose means-testing, but their arguments about the cumbersomeness of checking incomes can be overcome without burdening property owners with new red tape. Perhaps their real fear is losing financial support for their causes from the well-heeled interests that benefit from rent control.

Housing Subsidies

Programs already exist that provide financial support for housing directly to eligible individuals. Voucher programs boost the buying power of low-income residents, which expands their access to apartments they could not afford on their incomes alone. Like other social safety net programs, eligibility for voucher programs should be income-dependent to target the benefit of low-income households, and they should not disincentive work.

CONCLUSION

A heavy-handed government approach to addressing housing affordability will not solve this problem. Unwinding the government's distortionary impact on the housing market can encourage the investment and construction needed to expand the supply of housing for Americans of all incomes and lower housing costs.

WHAT YOU CAN DO

Get Informed

Learn more about rent control. Check out:

- Manhattan Institute
- Mercatus Center
- National Association of REALTORS
- National Apartment Association

Talk to Your Friends

Help your friends and family understand these important issues. Share this information, tell them about what's going on, and encourage them to join you in getting involved.

Become a Leader in the Community

Start an Independent Women's Network chapter group so you can get together with friends each month to talk about a political/policy issue (it will be fun!). Write a letter to the editor. Show up at local government meetings and make your opinions known. Go to rallies. Better yet, organize rallies! A few motivated people can change the world.

Remain Engaged Politically

Too many good citizens see election time as the only time they need to pay attention to politics. We need everyone to pay attention and hold elected officials accountable. Let your Representatives know your opinions. After all, they are supposed to work for you!

ABOUT INDEPENDENT WOMEN'S FORUM

Independent Women's Forum (IWF) is dedicated to building support for free markets, limited government, and individual responsibility. IWF, a non-partisan, 501(c)(3) research and educational institution, seeks to combat the too-common presumption that women want and benefit from big government, and build awareness of the ways that women are better served by greater economic freedom. By aggressively seeking earned media, providing easy-to-read, timely publications and commentary, and reaching out to the public, we seek to cultivate support for these important principles and encourage women to join us in working to return the country to limited, Constitutional government.