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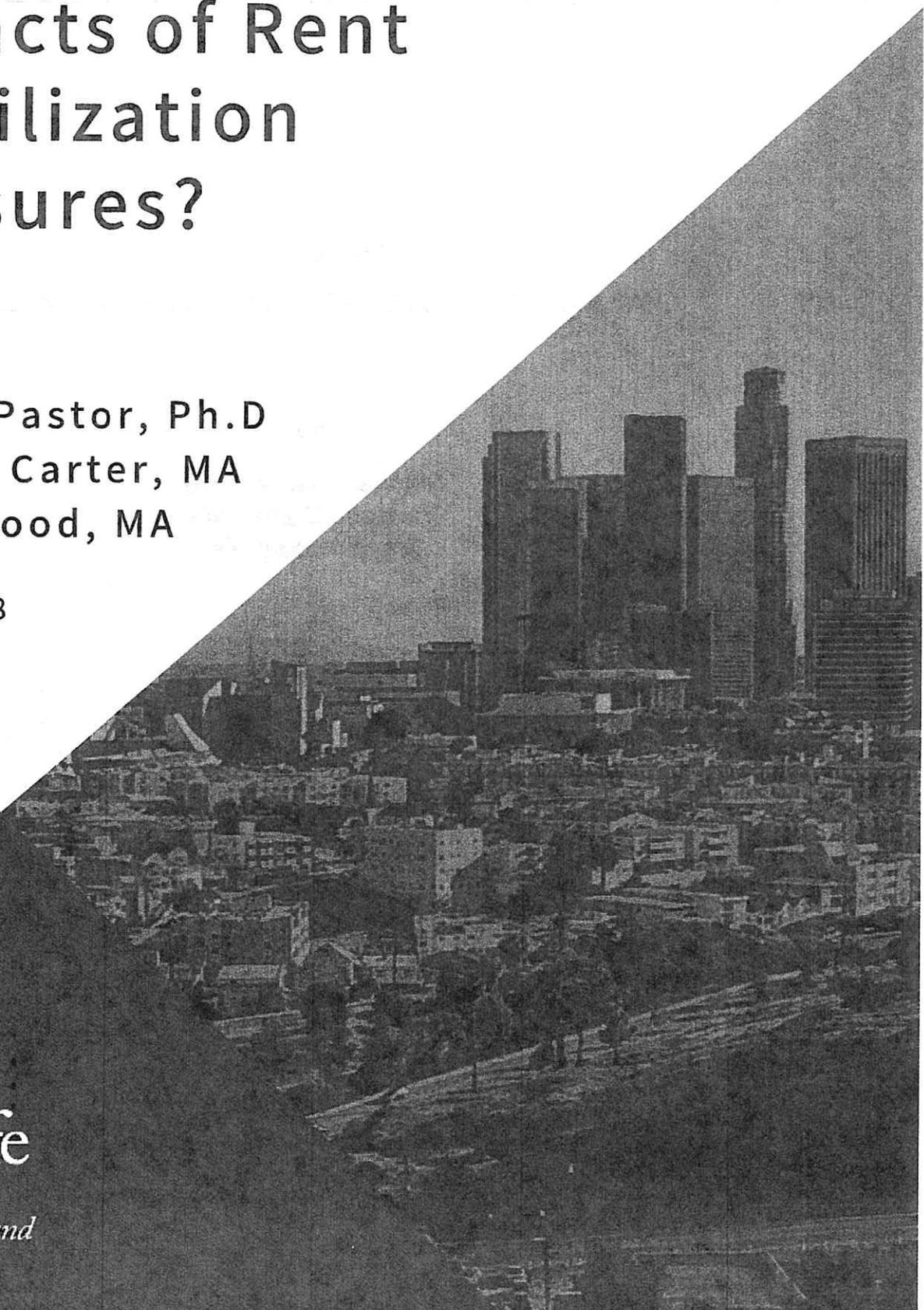
# Rent Matters: What are the Impacts of Rent Stabilization Measures?

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Manuel Pastor, Ph.D  
Vanessa Carter, MA  
Maya Abood, MA

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By  
Manuel Pastor, Ph.D  
Vanessa Carter, MA  
Maya Abood, MA

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## Executive Summary

Among the first concepts often taught in traditional economics classes are the notions that the minimum wage tends to reduce employment and that rent regulation tends to reduce housing availability. In recent years, the evidence supporting the negative impacts of the minimum wage has become increasingly weak: economists generally agree that moderate increases in the minimum wage have almost no discernible impacts on overall employment, partly because higher-paid workers have more money to spend, tend to be more motivated, and are often better matched with their jobs.

But what about rent regulation? It is important to note that popular demand for restricting rent increases tend to occur in times of acute housing shortfalls, such as in the U.S. during World War II. Early rent regulations were often quite severe in their application, but subsequent forms of rent control—viewed as the second generation of rent stabilization programs—tend to allow rents to rise as long as they remain below some target, offer decontrol if the property is vacated, and seek to stabilize housing through other mechanisms such as restrictions on evictions.

As in the minimum wage literature, the evidence on the impacts of these more moderate rent regimes is more mixed than older economics textbooks might indicate. Evidence suggests there is little negative impact on new construction, which is logical given that newly produced units have no initial rent targets. However, there is also research that suggests that rent regulations may lead landlords to reduce maintenance or take units off the market through conversion into condos or owner move-in evictions. Some proponents of rent regulations have argued for limiting what they see as loopholes by, for example, making condo conversion more difficult.

Renters in the controlled or impacted units tend to experience real welfare gains as rent increases lag. What is interesting is the spillover effects: a key experiment in Cambridge showed that the elimination of rent regulations led to rent increases in both controlled and non-controlled units. This effect is likely due to displacement from gentrification: as decontrol forced out lower-income residents, neighborhoods became more attractive to those better-off potential tenants who wanted to cluster among those of similar means.

Income clustering effects may also explain why studies of New Jersey—the state with the most jurisdictions with rent regulations—find little impacts on rent levels and unit availability once researchers control for income, neighborhood racial composition, and other related factors. Rent regulations, in short, benefit incumbent renters in controlled and maybe even proximate uncontrolled units by promoting housing stability. Indeed, the impact of rent regulations on neighborhood stability is one area where there is broad agreement in the literature.

A recent Stanford study on rent control in San Francisco concurred that there were positive effects of rent regulations on housing stability, although the study was made famous, in part, due the authors' statement that rent regulations also "likely fueled the gentrification of San Francisco." If gentrification is taken to mean displacement, it is important to realize that the study found that rent regulations promoted housing stability as beneficiaries of rent stabilization were 10 to 20 percent more likely to stay in their homes long-term. Rent regulations were found to confer nearly \$3 billion in benefits on incumbent renters in the form of lower rents, but these welfare benefits were offset by decreases in available units (as landlords utilized loopholes allowing them to remove units that would be stabilized from the market) and subsequent rent increases in decontrolled units.

While this implies a sort of wash, the researchers note that 42 percent of the offsetting welfare loss was experienced by future residents—those yet to move to the city who presumably had higher incomes.

Because of this, the net benefit for incumbent residents was positive. Moreover, given the Cambridge finding about overall rent hikes after decontrol combined with research on vacancy control in California, one wonders whether the displacement from gentrification would have been even worse had rent regulations not been in place in the face of the tech boom.

Should we value housing stability? Certainly, this has long been an important public policy priority for the U.S., although almost all programs to support stability (federal loan guarantees, interest rate deductibility, and other mechanisms) are aimed at higher-income homeowners rather than lower-income renters. Housing stability is associated with physical, social, and psychological well-being; higher educational achievement by the young; and benefits for people of color. These gains are difficult to price into cost-benefit analyses, but they are real nonetheless and they help to explain why governments are willing to “distort” the free market to promote home ownership.

One criticism of rent regulations is that they are a blunt tool that can create a misallocation of housing resources—why exactly should a particular set of incumbent renters gain and is there a more targeted way to improve the lives of low-income renters? While this is a reasonable concern, a commonly proposed alternative solution of giving large subsidies to landlords to keep low-income residents in place seems a politically impractical giveaway. For example, there are currently nearly 190,000 residents in the city of Los Angeles queued up for 20,000 vouchers to close the rent gap, suggesting that the public generosity needed for what some see as an “optimal” solution is sorely lacking.

The current evidence cannot answer all the questions swirling about rent regulations. For example, much more needs to be known about the impacts on mom-and-pop (or small) landlords; one could imagine they might value the stability of tenants associated with rent regulation but lose from lower potential profits. In addition, more research is needed on the net impact on business activity; renters spending less on housing might be more able to spend on other local-serving business, and this potential spillover effect from rent regulation is one for which research has not generally accounted.

While more research remains to be done, the evidence does suggest that the strident debate about rent regulations may be driven more by ideology and self-interest—on all sides—and that public policy would benefit from a more measured discussion. What this review of literature suggests to us is that rent regulations are one tool to deal with sharp upticks in rent. They have less deleterious effects than is often imagined—particularly if we are talking about more moderate rent stabilization measures—and they do seem to promote resident stability and can therefore help to slow the displacement dimension of gentrification.

At the same time, proponents of rent stabilization must be clear that limiting rent increases cannot fully solve the housing crisis confronting much of urban California. That will require that rent regulations be combined with robust efforts to promote housing supply, particularly of affordable units, and job training and economic development programs that can lift incomes and promote mobility. Such a multi-pronged approach can help to deal with the housing stresses and strains that are currently worrying renters, owners, and employers alike.

## Introduction

In California, the debate around the housing crisis is at a fever pitch. After prior inaction, the state legislature was lauded for passing a package of 15 housing bills in the fall of 2017. The crisis has also led to social-movement organizing and calls for rent regulation that have been growing in strength and political power. In 2018 in Southern California, Inglewood, Long Beach, Glendale, and Pasadena all filed or prepared to file ballot initiatives to allow for rent stabilization (McGahan 2017). Additionally, in Northern California, Richmond and Mountain View have passed new rent regulations and Santa Cruz and Sacramento have citizens' initiatives planned for November 2018 (Smith 2018, York 2018). And on the November 2018 ballot is a proposition seeking to eliminate the Costa-Hawkins Rental Housing Act, a piece of legislation that sharply curtails the use of rent regulation ordinances by local jurisdictions.

As a result of this renewed action on rent regulations, politicians, advocates, organizers, researchers, and philanthropies are looking to understand the impacts of such measures on cities and regions. Most recently, a 2018 report by Stanford professors ignited controversy by suggesting that rent regulations "fueled the gentrification of San Francisco" by incentivizing landlords to evict tenants and convert rental units into condominiums (Diamond, McQuade, and Qian 2018:18). The report reinvigorated an academic and political debate over rent regulations.<sup>1</sup> While rent regulation is only one part of a policy agenda to address our housing crisis and surely must be complemented by a vigorous effort to improve housing supply, it has become of interest because it has an important niche: it is easy to implement and it can quickly address the economic pain of some.

Our literature review examines the existing academic research on the economic and social impacts of rent regulations. Rent regulation laws, which are typically passed on a local level, set maximum rates for annual rent increases and prohibit landlords from evicting tenants without just cause. While rent regulations and tenant protections vary from city to city and ordinance to ordinance, most U.S. rent ordinances are moderate in that they allow for landlords to maintain a return on investment, while preventing tenants from excessive price gouging. We use the term "rent

### Key Terms

*Rent Regulation:* General term referring to policies that aim to make rent affordable.

*Rent Freeze/Rent Control:* Rent regulations that strictly limit increases in rent. In the U.S., such first-generation rent regulations were used around WWI and WWII.

*Moderate Rent Control/Rent Stabilization:* Rent regulations that are more flexible (e.g., allow for small annual rent increases, vacancy decontrol, etc.). In the U.S., such second-generation rent regulations have been the prevailing policy design since the 1970s.

*Vacancy Decontrol:* A rent regulation stipulation that sets units back to going rate after a tenant leaves.

*Forced Mobility:* When a tenant leaves a unit in which they would like to stay because of increased rent, decreased habitability, and other means landlords might use to force a vacancy.

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<sup>1</sup> Just one month before the publication of this report, the Haas Institute at UC Berkeley published their own report on rent stabilization with a focus on the state's housing crisis, the role of government, and strategies to solve the housing crisis, including the benefits and limitations of rent control policy (Montejo, Barton, and Moore 2018). Their findings are similar to ours with more emphasis on the role of government and the importance of rent stabilization as a solution that can immediately ease rent burden.

regulation” broadly, because “rent control” and “rent stabilization” refer to two specific types of rent regulation.

To preview our findings from the literature, we note that rent regulations tend to arise in a situation of imbalance in the rental market in which skyrocketing rents tend to threaten deeply held social priorities like maintaining neighborhood stability and preventing landlords from profiting excessively from passive ownership of land. Regulations are not perfect instruments: they may protect incumbent renters who are not low-income and they must be accompanied by programs to increase supply, particularly of affordable housing, in the longer-run. In short, housing advocates need to consider multiple tools and strategies (of which rent regulation is one), including short- and long-term cash transfers to help cover rent, improvements in workforce standards to increase take-home pay (e.g., instituting wage boards), and, of course, measures to increase the supply of affordable rental housing.

On the other hand, despite the considerable ink that has been spilled about the Stanford study’s suggestions that rent control creates gentrification, the study did find that the direct beneficiaries of rent control experienced more housing stability over time. Moreover, comparable research on a similar “hot market” in Cambridge, Massachusetts, suggests that the elimination of rent restrictions has important spillover effects that lead to displacement of low-income people, while another set of research on vacancy control in California suggests that it might actually curb gentrification pressures. Meanwhile, studies of more moderate rent regulation schemes do not provide evidence of reductions in new housing supply. Overall, the research suggests a role for rent regulations in addressing the current housing crisis plaguing large swaths of urban California. Again, a sole focus on rent regulations will miss the overall housing crisis mark—but a rejection of this tool will miss what is likely a shared goal of ensuring all Californians can have shelter that they can afford.

We begin our review below with a brief history of rent regulations and then turn to the impacts of rent regulations. We first explore what rent regulations do for housing affordability from several points of view. We pay some attention along the way to the impact on mom-and-pop landlords, as they are a group often used to cement opposition to rent regulations; however, we note that the research on this topic is scant. We then look at the ways that rent regulations promote residential stability and what that means for the lives of tenants. Finally, we consider the relationship between rent regulations, equity, and overall societal well-being.

Any review of the empirical effects of rent regulations is limited in three ways. First, there are a limited number of places that have enforced rent regulations and the ordinances vary by city, as do the demographics and politics of those places. So, there are a small set of cases to study and they are not necessarily comparable. Second, the most recent wave of rent regulation occurred in the 1980s and 1990s. Up until a few years ago, no major city enacted or repealed rent regulations. As a result, we report on some older literature although our general preference in literature reviews is to focus on the most recent and most up-to-date studies.

Finally, most literature on rent regulations comes from the discipline of economics. While this perspective is critical, economic literature typically treats housing as an exchangeable commodity and focuses on the monetary value of homes by comparing rents and home prices. However, the value of housing in most people’s lives and the importance of housing in society cannot be captured solely through a market analysis. Housing fulfills important social needs—it provides stability, safety, and security to individuals and families, outcomes that are valued but not always tagged with a market price. For that reason, our analysis integrates economic literature with an analysis of housing and tenant mobility drawn from the fields of public health, education, urban planning, and sociology.

## History of Rent Regulations

History shows that rent regulations often emerge when there is population migration chasing economic growth following a period of low housing production, much like today. Rent caps and rent ceilings existed in medieval France, Spain, and Italy (Willis 1950). In the United States, rent protections first started during World War I because of low vacancy rates and massive labor-market restructuring for war production (Schaub 1920). Eighty-two cities established “Fair Rent” committees comprised of landlords, tenants, organized labor, and the general public. They lacked the legal power to impose restrictions but were able to arbitrate tenant-landlord conflicts and threatened profiteering landlords with tax increases, expulsion from real estate boards, stricter enforcement of health and building laws, and even shutting off fuel supplies (Willis 1950).

After WWI, New York City faced severe housing shortages, skyrocketing rents, and wholesale eviction of tenants. In the face of heightened social pressure, the city passed peacetime rent regulations, spanning from 1920 to 1929. The effort began as a means of stopping what were perceived as unjust evictions but evolved into regulations to prevent “unjust, unreasonable, and oppressive” increases in rent, or rent increases of more than 25 percent (Keating, Teitz, and Skaburskis 1998:152). Both the New York Court of Appeals and the U.S. Supreme Court upheld the peacetime rent regulations on the grounds that they were necessary for addressing a housing crisis (Keating et al. 1998, Baar and Keating 1975). Generally, New York City has a strong legacy of rent regulations because so many in the city are tenants.

While there were some rent protections passed during the Great Depression, rent control did not become a matter of public policy again until World War II (Willis 1950). In the 1940s, military production and factory work led to massive population growth in urban areas. The federal government feared that landlords would take advantage of the relocating workforce and that rising rents would stall war production. As a result, in 1942, the federal government established an independent agency to control prices and freeze rents (Fetter 2013). The rent freeze covered approximately 80 percent of the nation’s rental housing stock and lasted through the late 1940s, with some areas continuing rent control well into the 1950s, over five years after the war ended (Fetter 2013). Fetter found that wartime rent regulations significantly contributed to an increase in wartime homeownership, even when controlling for “incomes, savings, tax benefits to homeowners, expectations across cities, or endogenous choice of base dates” (2013:27).

Perhaps unsurprisingly, with another international conflict came another wave of regulations: Republican President Richard Nixon instituted a wage and price control program from August of 1971 to January of 1973 with the intent of easing the rapid inflation accompanying the Vietnam conflict. It included a rent stabilization element that tenants found appealing, leading to pressures that are said to explain the widespread continuation of rent stabilization programs in New Jersey (providing a bevy of cases for the subsequent empirical work reviewed below; see Keating, et al., 1998). In California, Berkeley tried to continue rent control through a local citizen’s initiative in 1972 but the California Supreme Court found it unconstitutional.<sup>2</sup>

During the late 1970s, rent regulation campaigns re-emerged as a result of increased political activism and ongoing inflation from the oil crisis. Part of the backdrop in California was the 1978 passage of Proposition 13, a measure that capped real estate taxation and was touted by its supporters as a win for tenants, who supposedly would benefit from lower rents via the trickle-down benefits of lower property

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<sup>2</sup> Other jurisdictions in the U.S. also tried to maintain rent regulations. For example, in 1975, Washington D.C. also instituted a rent control ordinance that has been modified over time but remains in effect (Turner 1998).

taxes. When the promise of lower rents failed to materialize after the proposition was passed— inflation-adjusted median rents in California rose more than 40 percent in the decade following Prop 13—tenants argued that they too deserved stable housing and price protections and began organizing for rent reforms.<sup>3</sup> In the 1970s and 1980s, Santa Monica, Berkeley, San Francisco, Los Angeles, San Jose, West Hollywood, and East Palo Alto all passed rent stabilization ordinances in response to growing tenant advocacy. (Keating et al. 1998, Tucker 1997)

The 1970s-era second-generation rent regulations, also called “moderate rent control” or “rent stabilization,” differed from the war-time rent freezes or rent control (Jenkins 2009; Gilderbloom 1981). They typically permit an automatic percent rent increase and include vacancy decontrol, which sets units back to market rate after a tenant leaves (Arnott 1995). Although Santa Monica, Berkeley, and East Palo Alto, and West Hollywood originally had vacancy controls<sup>4</sup> that kept rents in place even after a tenant moved, a 1995 state law (Costa-Hawkins Rental Housing Act) required rent ordinances to include vacancy decontrol measures and limited rent regulations to units built before 1995 or whenever a local rent regulation was passed (e.g., 1979 in San Francisco) (Murphy 2018, Mallakh 2001).

Another key feature in moderate rent control or second-generation rent stabilization ordinances is that landlords can petition to pass some of the costs of capital improvements and building remodels onto tenants (Arnott 1995, Gilderbloom 1981). The ability to raise rents by a capped percent and the option to petition for additional property maintenance expenses ensures a “fair return on investment,” which courts have defined as a return commensurate with enterprises of similar risk level (Keating 1998, Baar 1983, Gilderbloom 1981).

As this brief history shows, rent regulations have often been considered a necessity in the context of a housing emergency to ensure social and economic goals are collectively met. Yet, the purpose, political forces, and structure of rent regulations have varied over time. In this current moment of labor-market restructuring, growing global industries, low rental vacancies, and growing inequality—with California now the fourth most unequal state in the country with the highest percentage of all states of those considered poor using a housing-adjusted poverty measure—it is not surprising that rent regulations have regained momentum.<sup>5</sup>

## What Are the Economic Impacts of Rent Regulations?

Understanding the economic impact of rent regulations requires a basic knowledge of the nature of rent as a return on investment. In general, if a company invests and creates a new or improved product, it is likely to both make profits and improve overall social productivity. Land, however, is generally a more passive investment: An increase in rents may arise for reasons having to do nothing with whether a landlord has improved his or her actual housing product but instead may arise due to external factors such as the overall set of market conditions, nearby public investments (such as new transit lines), or

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<sup>3</sup> See [www.census.gov/hhes/www/housing/census/historic/grossrents.html](http://www.census.gov/hhes/www/housing/census/historic/grossrents.html). Perhaps the most serious affront to renters: Increases in median rents had seriously lagged behind increasing in house values during the 1970s but after Prop 13, the rates of increases were nearly the same, with renters not having any increase in housing wealth to show for it.

<sup>4</sup> West Hollywood allowed for up to a 15 percent increase upon vacancy with some exclusions; a modified version of vacancy control (Heskin et al. 2000:163).

<sup>5</sup> The inequality measure is the Gini coefficient; state-level calculations and comparisons were made using data from the American Community Survey available at American FactFinder ([factfinder.census.gov](http://factfinder.census.gov)). The housing-adjusted poverty measure is called the supplemental poverty measure; California’s ranking can be calculated using Table A-5 at [www.census.gov/library/publications/2017/demo/p60-261.html](http://www.census.gov/library/publications/2017/demo/p60-261.html).

other sorts of public policies. This is one reason why even free-market economists have favored land taxes as a way to sop up excess profits (that is, profits arising from conditions external to the quality of the housing itself) and encourage the more efficient use of land.<sup>6</sup>

In that context, rent regulations are intended to address this divergence between what might be termed “building rent” and “land rent” and provide greater rental affordability for tenants in regulated units. As such, they have the potential to protect tenants from unexpectedly rapid price increases in hot real estate markets and, by so doing, dampen displacement pressures. The research reviewed below suggests that moderate regulations do not appear to decrease housing construction but may incentivize landlords to remove existing units from the rental market through condominium conversion or other methods. In keeping with the discussion above, multi-city analyses find that the broader economy and local conditions may have more impact on real estate values than rent regulations.

### Affordability in Rent-Regulated Units

Studies have shown that affordability for tenants in rent-regulated units is improved. Long-term tenants living in rent-regulated units receive considerable benefits by paying substantially less than what would otherwise be the case (Clark and Heskin 1982; Sims 2007).<sup>7</sup> In Boston, MA, and the nearby suburbs Cambridge and Brookline, rent regulations were implemented in the late 1960s and early 1970s and then repealed in 1995 through a statewide ballot measure (Autor, Palmer, and Pathak 2012; Sims 2007). The sudden and immediate repeal of rent stabilization allowed researchers to more accurately study the price impacts of rent regulation.<sup>8</sup>

Sims (2007) found that the end of rent stabilization resulted in an average \$131 jump in rents (in 2017 dollars) in previously controlled areas.<sup>9</sup> Similarly, using Cambridge rent survey data, Autor, Palmer, and Pathak (2012) estimate that rents in controlled units were 44 percent lower than in non-controlled units of similar quality, size, and characteristics. In California, a 1982 study of Los Angeles tenants by Clark and Heskin (1982) found that prior to the introduction of rent regulations, tenants who lived in a unit for three to five years received a tenure discount of 12.7 percent for a one-bedroom apartment and 21.7 percent for a two-bedroom apartment. The tenure discount is due to the fact that, very often, landlords chose to either not raise rents or raise rent more slowly than average for existing tenants. In comparison, tenants who lived in rent-stabilized units for three to five years received a discount of 26.5 percent for a one-bedroom apartment and 30.9 percent for a two-bedroom apartment. In another study of vacancy controlled cities in California, Heskin, Levine, and Garrett (2000) found that rents were kept lower, perhaps unsurprisingly.

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<sup>6</sup> For a recent popular explanation of this point, see [www.economist.com/blogs/freeexchange/2015/04/land-value-tax](http://www.economist.com/blogs/freeexchange/2015/04/land-value-tax).

<sup>7</sup> A standard convention is to describe the alternative as “market rent.” But this suggests that there is a fair and open market which is not the case in the California rental market where land use is regulated, supply does not meet demand, and production cannot ramp up instantaneously. Simply saying “what would otherwise be the case” is more precise as it is the rent that would emerge in the absence of rent stabilization, regardless of how structurally impacted or “free” the housing market might be.

<sup>8</sup> The governor of Massachusetts did allow tenants of a certain age or poverty level to remain in their units for one to two years during the transition period. Thus by 1997, all previously rent-regulated units were decontrolled (Sims 2007).

<sup>9</sup> Dollars converted to 2017 dollars from 1998 dollars using BLS CPI for all items in Boston-Cambridge-Newton, MA-NH, all urban consumers, not seasonally adjusted. The 1998 dollar amount was \$84.

Product quality is also important in considering the impact of rent regulations: Some research shows that tenant affordability comes at the cost of better maintenance (Kutty 1996; Sims 2007). For example, Sims (2007) found that chronic maintenance problems (such as holes in walls or floors, chipped or peeling paint, loose railings, etc.) were more prevalent in controlled than non-controlled units during the rent-control era and that this differential fell substantially with rent stabilization's elimination. To avoid these issues, jurisdictions with rent regulations typically increase code enforcement and have specific programs for landlords to request rent increases to pay for capital improvements (Gilderbloom 1981). Specific provisions in rent stabilization ordinances, like allowances for rent increases contingent on quality improvements, conditional annual rent increases, and stringent enforcement of quality codes, may address concerns about deteriorating maintenance (Gilderbloom 1981; Kutty 1996).

### Affordability in Non-Controlled Units

Q: Do rent regulations increase the cost of renting non-regulated units?

A: On balance, no—and where they do, closing policy loopholes can help. In fact, some research shows that rent regulations could help keep rent more affordable for all renters.

Studies based on empirical data have found that rent regulations either slightly increase rental affordability in non-controlled units or have a modest effect on rents when controlling for other factors. For example, Glaeser's (2003) study of New Jersey and California found that cities with rent regulations had 10 percent lower growth in median rents than cities without rent regulations, even when controlling for other factors. (However, Glaeser raises issues of housing misallocation, a topic we come back to below.) This finding is based on citywide 1970 Census data (before rent stabilization) and 1990 Census data (after rent stabilization) but did not distinguish between controlled and uncontrolled units.

Sims' (2007) study of rents in Boston, Cambridge, and Brookline, Massachusetts, distinguished between controlled and uncontrolled units. His results indicate that having 10 to 12 percent of rent-stabilized units in an area decreases the rents of non-controlled units by \$23 to \$28, which would be \$36 to \$44 in 2017 dollars.<sup>10</sup> Ambrosius and colleagues (2015) sharpen up the analysis further by comparing housing trends for New Jersey cities with and without rent stabilization using 2010 Census data. New Jersey makes a prime case study since, as noted earlier, it has a large number (over 100) of municipal governments that have adopted rent regulations. While rent stabilization jurisdictions did show smaller increases in rents than jurisdictions without such regulation, the difference disappeared in a regression analysis that controlled for population, income, and housing characteristics.<sup>11</sup>

So, why do rents in uncontrolled units seem to go down? Traditional economic theory would suggest that although rent regulations may improve affordability for long-term tenants, it should come at the cost of broader affordability for all renters. According to traditional theory, a price cap on rents should restrict the supply of housing, lead to a shortage of units, and ultimately drive up rents in uncontrolled units (Block and Olsen 1981; Epstein 1988; Friedman and Stigler 1946). This line of thinking typically proclaims that rent restrictions limit the supply of housing because landlords and developers have less

<sup>10</sup> Dollars converted from 1998 dollars to 2017 dollars using BLS CPI for all items in Boston-Cambridge-Newton, MA-NH, all urban consumers, not seasonally adjusted.

<sup>11</sup> Rent per room was actually higher in rent-controlled units. This is because such units have fewer rooms, on average (Ambrosius et al. 2015:128–29).

incentive to invest in new development (Block and Olsen 1981). So why are many studies showing the contrary?

Sims (2007) suggests that rent-stabilized buildings have more maintenance and habitability concerns and thus drive down surrounding rents and property values. Ambrosius and colleagues (2015) find that rent-regulated areas tend to be lower income, have low homeownership, and more people of color; this neighborhood composition may be less appealing to higher-income renters (and so actually work against gentrification in the sense of demographic change and displacement). Finally, prospective renters might be unwilling to pay significantly higher rents in uncontrolled units, since they might try to wait for a rent-regulated unit to come on the market. This could pressure landlords to offer lower prices than they normally would.

In contrast with the range of earlier findings, Diamond and colleagues (2018) found that San Francisco's rent regulation induced a decrease in housing supply that led to a city-wide rent increase of 5 percent. They suggest that this is largely due to landlords removing rental units from the market and converting them to condos, tenants in common (TICs), or by other redevelopment to exempt units from regulation. While Diamond et al. (2018) recommend offering subsidies to tenants as a way to avoid these landlord backlash effects, closing the loopholes around conversion could also help ameliorate these impacts. There have been so many pressures driving up rents in San Francisco in recent years that one concern is whether the increase in rent costs the authors found due to rent stabilization would have actually been outpaced by what might have emerged had rent hikes been completely unrestricted.

Indeed, research on the removal of rent stabilization in Cambridge, Massachusetts, in the 1990s suggests that rents went up on both controlled and non-controlled units when rent regulation was removed, with tenants of previously stabilized units seeing a 40 percent increase in rent (Autor, Palmer, and Pathak 2012). One is left to wonder about the potential impact of decontrol in San Francisco, given the feeding frenzy the local real estate market has become. On the other hand, research from Heskin, Levine, and Garrett (2000) found that in California cities with vacancy control (in which there are limits on rent increases as tenants change), there was no evidence of gentrification. Their study looked at Berkeley, Santa Monica, West Hollywood, and East Palo Alto from 1980 to 1990—at the beginning of the tech boom, so gentrification pressures were weaker—and found that tenants had lower rents and longer tenure. This suggests that tighter, not looser, rent regulations might slow gentrification.

What are we to make of these results? With the exception of the Stanford study, researchers found that rents stayed the same or were lowered in units without rent stabilization but in proximity to stabilized units. In a supercharged market like San Francisco, rents did increase, but it is unclear—even in a well-done effort that seeks to control for as many other factors as possible—if that impact is from rent stabilization or from the escalating and highly unusual demand pressures that have made the city uncommonly unaffordable. In any case, the bulk of the research suggests that rent regulations can not only make controlled units more affordable but it may also make non-controlled units more affordable—albeit due to maintenance issues and some degree of residential sorting—suggesting a role for rent regulation as a tool in response to skyrocketing housing costs.

## The Impact of Rent Regulations on Housing Stock

### Impact on Real Estate Values

**Q:** Do rent regulations decrease the property values of apartment buildings for owners?

**A:** While it is reasonable to assume that property values are diminished by rent regulations, research on this issue is mixed.

Autor, Palmer, and Pathak's (2012) analysis of residential buildings in Cambridge, MA, reveals that rent-stabilized properties were valued at a discounted rate when compared with non-rent-stabilized properties and that the elimination of rent regulation helped make up part of the gap, increasing the value of formerly stabilized properties by 18 to 25 percent. The study used two years of assessment data—1994 (during rent stabilization) and 2004 (after rent stabilization)—and a commercial database covering changes in ownership of residential properties from 1988 to 2005 to conduct the comparison. Some degree of undervaluation is to be expected: as noted earlier, one of the underlying principles behind rent stabilization (or a land tax) is the idea that part of the value of a property has to do with forces outside the control of the landlord and so represent excess profits that may be socially undesirable from the point of view of efficient allocation of overall resources.

Perhaps most significantly, Autor and colleagues (2012) also examined whether or not the repeal of rent regulation in Cambridge, MA, resulted in a spill-over increase in property values for previously uncontrolled buildings. They found that repeal of rent stabilization resulted in a 12 percent increase in market valuations of never controlled houses between 1994 and 2004.

"As many professional landlords will readily admit, higher rents may help them meet their monthly obligations but true profits come not through cash flow, but through property appreciation."

- Ambrosius and colleagues (2015:131)

Why the spillover effect? The increases in property values were due in part to increased rental revenue and additional maintenance and improvements. Although their data sets did not allow a complete analysis of micro-level resident attributes, the authors suggest that part of the spillover effects on property values were due to changing attributes of residents and "the production of other localized amenities that made Cambridge a more desirable place to live" (Autor, Palmer, and Pathak 2012:31). In other words, after decontrol led to the 40 percent rent increases noted by Autor and colleagues (2012), lower-income residents were likely forced out of Cambridge and replaced by wealthier residents. This could suggest that rent stabilization is an important strategy to slow gentrification.

Cambridge is, however, a small city where university students give the housing market a particular dynamic that is not replicable in most other cities. In contrast, Ambrosius and colleagues (2015) had a sample of 74 rent-stabilized cities and 87 non-rent-stabilized cities in New Jersey. These authors found that neither the presence nor the strength of rent stabilization had a significant impact on appreciation or foreclosure rates. Although they initially identified slightly higher changes in property values in rent-stabilized cities (112.8 percent as compared to 109.5 percent in non-rent-stabilized cities) and a slightly higher rate of foreclosure in rent-stabilized cities (4.8 percent as compared to 3.5 percent in non-rent-stabilized cities), these differences can be explained by other factors, the most significant of which were median income, the share of rental housing, and local demographic composition. While the study is specific to the New Jersey case, it is a more robust analysis as it takes into account population change, the share of the population that is African-American, median household income, vacancy rates, and

more; in contrast, Autor and colleagues' (2012) data set is focused solely on real estate and their method does not control for the socioeconomic characteristics of tenants. More work needs to be done in this area of investigation.

#### Impact on New Construction

Q: Do rent regulations decrease housing production and supply?

A: On balance, rent regulations do not impact new housing construction. When such regulations allow for condo conversions and redevelopment that exempts the property from rent regulations, units are taken off the market.

On balance, new housing supply is more influenced by cyclical in the local economy and other local conditions than rent restrictions (Arnott 1995; Gilderbloom 1981). This is particularly true of moderate rent control, which exempts new construction and includes vacancy decontrol (Gilderbloom 1981). One study suggested a stifling impact on construction, but it relied on surveys of banks with regards to how rent regulations affect lending rates for landlords. Seventy-four percent of Boston bankers and 68 percent of Fort Lee bankers reported that rent regulations “influence” loan activity and contribute to mortgage risk. However, the analyses rely on a small sample size (37 lending institutions in total), a qualitative assessment by bankers who may be ideologically predisposed to dislike rent regulation, and a nebulous definition of “influence” (Gilderbloom 1981 reporting on Sternlieb 1974, 1975).

A 1976 report by the Urban Land Institute (ULI) analyzed building permits and found that multifamily housing construction in rent-regulated areas dropped in Washington, D.C., from 1970 to 1974 (Black 1976 as reported by Gilderbloom 1981). But Gilderbloom (1981) notes that the analysis did not control for other variables such as availability of land and changes to the economy. He points out construction dropped in many cities from 1970 to 1974 without rent regulations and increased in many cities with rent regulations during the same period of the ULI study.

Alternatively, Gilderbloom and Ye (2007) used regression analysis of 76 New Jersey cities with rent stabilization and found that there was little to no statistically significant effect of moderate rent control on new construction after controlling for population, racial demographics, population change, income, the percentage of units that were renter occupied, vacancy rates, and unit age. Similarly, Sims (2007), in an analysis of Boston, Cambridge, and Brookline, MA, found that while building construction permits did rise after the repeal of rent stabilization in 1995, multifamily building permits actually reached their height in the mid to late 1980s—during rent stabilization. In short, there is not much evidence to support the notion that moderate rent stabilization impacts new construction, a pattern that makes sense given the ways in which moderate regimes tend to exclude new units from coverage.<sup>12</sup>

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<sup>12</sup> Indeed, former Berkeley Housing Director Dr. Stephen Barton has suggested that rent control could actually boost the construction market noting that in a hot real estate market, without rent stabilization or tenant protection, wealthy incoming tenants will crowd out lower-income renters—as has happened in places like San Francisco. In his view, if tenant protections allow current tenants to stay in their homes then the newer, wealthier tenants would both drive demand for new housing and be able to afford the rents required to make new developments pencil out. Excluding new construction from rent regulations is key in this scenario and is the standard way regulations have been written in California.

### Impact on Existing Rental Housing Stock

Rent stabilization, however, can affect existing stock by inducing landlords to remove controlled units from the market. This can happen in two main ways. First, owners can move into their units, as some rent regulations exempt apartment buildings if the owner lives in one of the units. Most ordinances still allow a landlord to evict a tenant if the unit will be used as the owner's primary residence. Second, a unit can be taken off the market by converting the unit from a rental unit to a condominium. Several studies find that rent stabilization may encourage owners to take their units off the market in these two ways (Diamond, McQuade, and Qian 2018; Fetter 2013; Heskin, Levine, and Garrett 2000; Sims 2007). For example, Sims' (2007) study of Boston, Cambridge, and Brookline, Massachusetts, compared rental and ownership patterns during and after rent stabilization. His study found that housing units in decontrolled areas were 7 percent more likely to become rentals after the end of rent stabilization than those units located in areas that were never controlled.

The structure of rent regulations influences how units are taken off the market. Heskin, Levine, and Garrett's (2000) study of Los Angeles found that the incentive to convert rental properties to ownership units was even more evident in places with vacancy control, where the unit remains at a price lower than would otherwise be the case after a tenant moved out. They estimate that vacancy control resulted in a 7 percent decline in rental units.<sup>13</sup> More recently, a Stanford study by Diamond, McQuade, and Qian (2018) found that rent stabilization incentivized landlords to convert rental units into condos, tenants in common (TICs), or owner occupied units; or redevelop the buildings to become exempt from rent stabilization. According to their estimates, this led to a 15 percent decrease of the rental stock and an even larger reduction in the number of tenants living in protected buildings.

In response to the Stanford study, some community groups have suggested that authorities could prevent the downside of unit reduction by closing loopholes that allow for rental to condominium conversions (Tenants Together 2018). At a local level, most jurisdictions that have rent stabilization ordinances already have some regulations limiting condominium conversions, including prohibiting condo conversions for buildings of a certain size, capping the percentage of rental units that can be converted, requiring that tenants have the opportunity to purchase the building before it goes to market, or by requiring landlords to pay tenants significant relocation costs (Bakker 2005; Gorska and Crispell 2016).<sup>14</sup> However, in California, under state law, the Ellis Act allows landlords to evict all of the tenants in a building, after which the landlord might convert the units into condominiums or demolish the building and put up a new apartment building if the local government allows it. Tenants Together and other advocacy organizations have been advocating to repeal the Ellis Act in order to preserve rental housing while maintaining the benefits of rent stabilization (Dreier 2017).

### What About Mom-and-Pop Landlords?

**Q: Do rent regulations disproportionately impact mom-and-pop landlords, as compared to corporate landlords?**

**A: The literature does not clearly address this question.**

<sup>13</sup> They also found that vacancy control corresponded with lower rents, longer tenant tenure, and more kids—as well as shift from tenancy to ownership.

<sup>14</sup> For an interactive map of condominium conversion ordinances, see Matthew Miller's Condominium Passage Over Time map [public.tableau.com/profile/matthew.miller2971#!/vizhome/Ordinances/Dashboard1](https://public.tableau.com/profile/matthew.miller2971#!/vizhome/Ordinances/Dashboard1)

Unfortunately, existing academic research on rent regulations does not generally attempt to distinguish between mom-and-pop landlords and larger scale investors; indeed, very few studies have attempted to define “small-scale,” “mom-and-pop,” or “amateur” landlords. Some suggest that mom-and-pop owners are more likely to charge lower rents and negotiate with tenants, which may mean that, as a group, they are likely less impacted by moderate rent regulations (Gilderbloom et al. 2009; The Furman Center for Real Estate and Urban Policy and Johns Hopkins Institute for Policy Studies 2013).

Still, further research needs to be done to better understand how rent regulations impact the real estate value of units owned by mom-and-pop landlords. If rent-stabilized properties are, in fact, offered at a discounted price (as per some of the research reviewed above), it may be more feasible for mom-and-pop landlords to enter the market, thus encouraging entrepreneurship and asset-building. However, given the likely impact of rent regulation on reducing returns, mom-and-pop landlords with fewer capital resources may also be more likely to abandon properties or allow their units to fall into disrepair than larger landlords who could marshal funds for improvements. Further research is required to explore these speculations and determine the balance of effects.

### Does Rent Regulation Promote Housing Stability?

Nearly every academic study finds that rent stabilization decreases tenant mobility and increases housing stability for rent-stabilized residents (Ault, Jackson, and Richard Saba 1994; Clark and Heskin 1982; Diamond, McQuade, and Qian 2018; Gyourko and Linneman 1989; Munch and Svarer 2002). A study of San Francisco tenants living in buildings with two to four units found that medium- and long-term beneficiaries of rent stabilization are 10 to 20 percent more likely to remain in their units and roughly 4 percent more likely to remain in San Francisco. Based on the results, older tenants and long-term residents appeared to benefit most from rent stabilization and have the longest sustained tenure (Diamond, McQuade, and Qian 2018). In short, rent regulations help to ensure community continuity, aging in place, and retention of a workforce in high-cost cities, although this can lead to problems for the entry of newcomers.

Indeed, given the mixed evidence on the effects of rent stabilization on housing supply, most economists who are critical of rent regulations focus on how restricted tenant mobility leads to housing misallocation (Ault, Jackson, and Richard Saba 1994; Glaeser and Luttmer 2003; Hardman and Ioannides 1999). They argue that rent stabilization can keep people from moving into units that better meet their shifting tastes and preferences; basically, renters may decide to stay in their current rent-stabilized units even if their family size has changed or their income has grown, and so the “fit” is imperfect. On the other hand, rent stabilization helps to counter mobility that is driven by force (e.g., suddenly escalating rents due to external market conditions) rather than by choice—something that those campaigning for moderate rent control highlight as a primary concern (Dreier 2017). In any case, for market-oriented economists, the rental market is an “optimization problem” and restricting people who could and want to pay more for a unit means that the wrong person is in that home and overall social welfare is reduced.

How one considers the balance of these tendencies is a key policy question. In the oft-mentioned Stanford study, the authors note that tenants benefiting from rent stabilization gained nearly \$3 billion in welfare (in present-discounted value, a process that tries to account for what a benefit in the past

may be worth today).<sup>15</sup> They suggest that there was an equivalent loss in welfare for those who saw their rents rise as this red-hot market was wracked by induced condo conversions that reduced available rental stock. They note that 42 percent of those costs were borne by future renters—that is, those who were not in the city at the beginning of the period and who found it more expensive to move in later. The authors do recognize that “incumbent residents benefit on net” (Diamond, McQuade, and Qian 2018:31).

Thus, part of the debate boils down to the value we place on housing stability, a factor which is hard to quantify in purely monetary terms. Indeed, while rent regulation ordinances provide an economic incentive for people to stay in place, they also provide protection against *de facto* evictions. All moderate rent stabilization ordinances in the United States prohibit landlords from evicting tenants except if the tenant has breached the contract. While other legal strategies like “just cause eviction” ordinances similarly protect tenants from eviction, in the absence of rent regulation, landlords raise rents as a way to force tenants out. As Matthew Desmond and other academics have concluded, evictions are becoming epidemic and can be devastating for families and communities, not only in the short-term but for generations (Desmond 2012; Desmond and Gershenson 2016; Desmond and Kimbro 2015).

### Why Does Housing Stability Matter?

Is housing stability important for society to consider, even if newcomers to a market may be disadvantaged? The U.S. has certainly tended to make housing stability a public policy goal. After the Great Depression in the 1930s, in response to the flood of foreclosures and homelessness, the federal government deemed housing stability too important to leave to the privatized mortgage market and created incentives and regulations to encourage more stable consumer lending products. Prior to the Great Depression, home loans were primarily short in duration and often with variable interest rates. The 30-year fixed-rate mortgage exists because of extensive government guarantees and incentives provided to banks like the creation of Fannie Mae and Freddie Mac and the invention of mortgage securitization (Min 2013). Additionally, the messaging around Proposition 13 in the 1970s focused on the benefits of housing stability for homeowners—particularly for older residents (Cannon 2009).

However, U.S. tax and fiscal policy has generally prioritized the economic stability of homeowners over renters. Christopher Howard (1999) refers to the tax expenditures and social policies that benefit those with wealth as the “hidden welfare state.” These include tax deductions on retirement accounts, home mortgage interest, children’s saving funds, and more, in effect making housing and finances more stable for those with more wealth—middle- and upper-income residents. This leaves renters missing these economic benefits and struggling with forced mobility.

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<sup>15</sup> Because of data limitations, the Diamond, McQuade, and Qian (2018) study was limited to 1994 to 2012, and thus missed the most recent rapid rent increases and the subsequent extra benefits that may have accrued to rent-stabilized tenants; for that run-up in rent, see [www.bayareamarketreports.com/trend/second-wind-may-2017](http://www.bayareamarketreports.com/trend/second-wind-may-2017). The study also does not seem to capture what might be termed “partial benefits” to those who moved in the middle of the period studied and may have entered with a higher initial rent but then benefited from limited increases over a shorter sub-period; this latter point was discussed in email correspondence with the authors.

The benefits of residential stability include:

- *Physical, social, and psychological wellness*

Research has shown a correlation between forced moves and stress (e.g., anxiety, depression, etc.) and well-being (e.g., substance abuse, premature mortality, etc.) (Bures 2003; Desmond and Kimbro 2015; DeWit 1998; Exeter et al. 2015; Fowler, Simpson, and Schoendorf 1993; Liu et al. 2014; Morris, Manley, and Sabel 2018; Oishi and Schimmack 2010; Stokols and Shumaker 1982). However, researchers argue that assessing the impact of mobility alone without considering the reason for mobility (such as eviction, foreclosure, divorce, etc.) leaves out important issues like poverty, joblessness, and family conflict (Anderson et al. 2014; Flouri, Mavrouli, and Midouhas 2013; Morris, Manley, and Sabel 2018). In response, Burgard, Seefeldt, and Zelner (2012) examined how different causes of housing insecurity affected health and well-being. They found that people who moved in the past three years for any reason were slightly more likely to be in poor or fair health, report anxiety attacks, and have depression than those with no instability. People who moved for financial reasons were 2.6 times more likely to report fair or poor health, 2.5 times more likely to experience an anxiety attack, and nearly twice as likely to experience depression than those with no instability. In one study, researchers found that introverts struggled to build strong social ties when there were frequent moves in childhood. As adults, these introverts (when compared to extroverts) had higher rates of mortality (Oishi and Schimmack 2010).

Studies in both the U.S. and abroad have found that evictions and foreclosures have stronger effects on the mental and physical effects of women than men (Bolívar Muñoz et al. 2016; Nettleton and Burrows 1998; Vásquez-Vera et al. 2017). Given this gendered pattern, it is significant that Rosenfield and Ziff (2018) report on research showing that stress during pregnancy can have long-term negative effects on the child. There is also a racial dynamics; for example, Black women are more likely to face eviction than Latino or white men or women in Milwaukee County (Desmond 2012). In *Evicted*, Matthew Desmond (2016) suggests that eviction is to Black women what incarceration is to Black men. Desmond describes how “poor black men may be locked up, but poor black women are locked out,” which only further propagates economic disadvantage (2016:98). Desmond documents that one of the reasons for evictions is the inability to pay rent—which requires *at least* a two-pronged response of keeping housing costs low as well as boosting take-home pay.

- *Educational attainment*

Frequent moving can disrupt children’s learning and social support systems, which can dampen learning and exacerbate behavioral problems. Students who repeatedly change schools are more likely to lag behind their peers in reading and math and more likely to repeat a grade, even when controlling for demographic characteristics (Garriss-Hardy and Vrooman 2005; Simpson and Fowler 1994). Children from low-income families are particularly at risk since low-income households have the highest mobility rates (Coulton, Theodus, and Turner 2009). One study shows the connection between income and the achievement gap, finding that chronic stress in childhood results in impaired working memory later in life (Evans and Schamberg 2009). Several studies also show that moving frequently results in lower high-school graduation rates (e.g., Gasper, DeLuca, and Estacion 2012).

## Does Rent Regulation Result in Greater Societal Well-Being?

Economists have long tried to quantify the distributional impacts of rent regulations, typically through cost-benefit analyses that compare the dollar benefit received by tenants relative to the dollars lost in revenue by landlords (Lyytikäinen 2006; Micheli and Schmidt 2015).<sup>16</sup> Reasonably enough, one expects that renters will gain while landlords will lose—but there is also the potential that gains for renters could help fuel demand in other parts of the local economy.

For example, in a recent report looking at housing in the Bay Area—a supercharged housing market that according to Zillow Research’s August 2018 rent index is the only place with metro areas more expensive for renters than Los Angeles<sup>17</sup>—the authors found that if “economically insecure Bay Area renters paid only what they could afford for housing, their [collective] spending power could grow by \$4.4 billion” (Treuhaft, Pizarek, Ross, and Scoggins 2018:19). The authors report that excess spending on housing (that is, paying more than 30 percent of income for rent and utilities, a standard considered “housing-burdened”) not only takes away from discretionary spending but also from everyday expenses, like food and childcare.

Businesses have clearly seen the need to address the housing crisis. Even tech companies report being refused by potential workers and everyday businesses struggle to find employees who can afford to live nearby. A recent study by Beacon Economics conducted for Next 10, a non-profit based in the Silicon Valley, has found that California is seeing low-income households leave the state even as high-income households move in, a pattern suggesting that the state’s high taxes are not scaring people away while the state’s high rents are pushing people away (Khouri 2018). As we have noted, tackling the state’s housing dilemmas will require more than one approach but rent regulations can play a role in ameliorating pressures, at least in the short- to medium-term.

While the distribution of benefits between renters and landlords—and between landlords and other business activities—is of interest, there is also the question of the allocation of benefits between renters. Are the renters that do benefit from rent regulations those who are the most in need?

## Is Rent Regulation Benefiting Those Who Need It Most?

**Q:** To what extent do rent regulations benefit low-income residents? Does rent regulation create incentives for moderate- and higher-income renters to stay in their units?

**A:** Research shows that renters under regulations and cities with rent stabilization tend to be older, lower-income, more headed by single-mothers, and more commonly people of color. However, this is not at the exclusion of younger, wealthier, whiter renters. For example, just as researchers have found that lower-income tenants benefit from rent regulations, so do middle- and higher-income tenants. Rent regulations are not efficient at targeting those who need them most.

<sup>16</sup> For example, Sims (2007) found that rent stabilization resulted in a \$17 million per month transfer from landlords to tenants in Boston, Brookline, and Cambridge, Massachusetts, combined.

<sup>17</sup> See “United States and 50 Largest Metro Areas: August 2018,” Real Estate and Rental Overviews by Metro Area, Local Market Overviews, Zillow Research, available at [www.zillow.com/research/local-market-reports/](http://www.zillow.com/research/local-market-reports/).

Several studies have found older households tend to be the primary beneficiaries of rent regulations (Clark and Heskin 1982 in Los Angeles; Glaeser 2003 in Manhattan; Gyourko and Linneman 1989 in New York City). Many researchers have found that tenants in rent-stabilized units or jurisdictions have lower incomes (Ambrosius et al. 2015; Gilderbloom and Ye 2007; Glaeser 2003; Gyourko and Linneman 1989). Similarly, Ambrosius and colleagues' (2015) study found that New Jersey cities with moderate rent control had nearly 25 percent lower median incomes and 70 percent more Black residents than cities without.

Moderate rent control appears to benefit people of color. In a few studies, rent-regulated units have been shown to be comprised of disproportionately more people of color than their non-regulated counterparts, including New Jersey (Ambrosius et al. 2015; Gilderbloom and Ye 2007), California (Heskin, Levine, and Garrett 2000), Cambridge, MA (Sims 2011), and some parts of New York City (Gyourko and Linneman 1989).<sup>18</sup> Gyourko and Linneman (1989) found that in uncontrolled units, 12 percent of households were headed by a Black person, 3 percent headed by a Puerto Rican, and 22 percent by a single woman. In controlled units, in comparison, 19 percent of household heads were African-American, 14 percent Puerto Rican, and 32 percent single women.

While people of color and low-income people may be disproportionately represented in rent-stabilized units, they may not benefit proportionately from price reductions. Gyourko and Linneman (1989) found that the benefit-to-income ratio, or the percent of the rent savings from rent regulation relative to annual income, was higher for white families than for either Black or Puerto Rican families. Furthermore, the study found that rent stabilization provided moderate progressive benefits for lower-income families, but that income was not highly correlated with benefit. Thus, they conclude that "while many poor families received benefits, so too did many higher income families. In a similar vein, while many low-income families benefitted from rent regulations, many other equally poor families received no benefits," (Gyourko and Linneman 1989:66). Glaeser (2003) similarly argues that while rent stabilization provides low-rent places to live in costly cities that would otherwise be unaffordable, older people and people without children primarily benefit from economic integration. Thus, he concludes, "rent control is not targeting the people who are likely to gain the most from integration" (Glaeser 2003:199).

One valid argument against moderate rent control is that it does not specifically target low-income residents and, as such, middle- and higher-income tenants will exploit the benefits (Davidson 2013). This is one reason that those who are against rent regulations because of the potential for misallocation argue that a better approach would be to directly subsidize renters with a dramatic expansion of Section 8 vouchers (which allow for renters to pay less than they normally would with the government making up the difference), other forms of housing vouchers (Glaeser 2003), government subsidies, or tax credits for renters (Diamond, McQuade, and Qian 2018).

While a sensible view in theory—who could argue against more efficient targeting of subsidies and interventions?—it is important to take into account the public's willingness to support such measures. For example, the City of Los Angeles had not opened up Section 8 to new applicants for 13 years before finally creating a new lottery program to get on the waiting list for Section 8 in 2017. Nearly 190,000 people applied for 20,000 spots, suggesting that demand is exceeding the generosity of taxpayers and housing authorities that is needed to achieve the holy grail of allocative efficiency (Schrank 2018).

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<sup>18</sup> Gyourko and Linneman's (1989) analysis comprised almost 15,000 renters throughout New York City. In contrast, Glaeser's (2003) restricted sample of around 2,600 renters in Manhattan found that rent-stabilized units had more white renters than non-rent-stabilized units.

In short, there is often a gap between theory and policy realities. Social Security and Medicare are available to everyone in part because if the government means-tested and limited senior aid to those truly in need—which is what economists would prefer—political support would collapse. Similarly, we could let the market set wages and then make up for any difference in what it takes to survive with direct income payments. However, that is not popular, partly because it is seen as a subsidy to corporations who pay low wages, and so Americans tend to support minimum wage laws instead. Americans would probably take the same view if we eschewed rent regulations in San Francisco and instead gave incumbent residents payments that would promptly head into the swelling coffers of apartment owners. Rent regulations may represent a second-best but politically feasible solution to housing instability.

## Conclusion

This report has sought to examine the empirical evidence on rent stabilization. While there are some divergences in views in the literature, there is a general consensus that tenants in rent-regulated apartments stay in their apartments longer and typically benefit from rent discounts. Despite being viewed by some as a market distortion, such housing stability reduces evictions (forced mobility) and can provide important societal benefits. These benefits are often not quantified but they can be particularly important for lower-income people and people of color who are disproportionately impacted by housing instability, evictions, and forced relocation.

While some research suggests that rent regulations lead to higher rents in unregulated units, other research points to lower rents overall. While moderate rent control does not seem to impact new construction—logical since part of the moderation is not applying rent controls to the initial price of new units—research shows that stricter rent regulation spurs the conversion of rental units into owner-occupied properties (e.g., condo conversions). Based on this finding, rent regulations should be carefully crafted to take into account this phenomenon. Other policy design consideration might include the inclusion of single-family dwellings and policies about building maintenance as well as other ways landlords may indirectly push out tenants.

Rent regulation is not a silver bullet and is a somewhat blunt policy tool that generally favors less advantaged populations but does not always target those who need it most. Gilderbloom and Ye go so far as to argue that moderate rent control that includes vacancy decontrol and exempts new construction is “toothless” and more of a “symbolic” than “distributional” housing reform (2007:216). However, it is relatively simple to administrate, does not require tax expenditures, and protects some tenants from price gouging. Moreover, it is an anti-displacement tool: when Cambridge, MA, lifted its rent ordinance, there was an influx of wealthier residents. And in San Francisco, rent stabilization has allowed long-term, lower-income residents to stay in their homes rather than being pushed out to far-flung suburbs.

The debate about rent regulations can sometimes be at a fever-pitch, but the research suggests that a more even tone might be appropriate. Pressures for rent regulations arise when markets are hot and seem to have benefits, particularly for housing stability, that go unrecognized by fervent opponents. At the same time, proponents of tenant rights need to recognize that while rent regulations can prevent both sudden sharp upticks in rent and unjust evictions, California also needs broader policies to increase affordable housing production targeted to those most in need (including families) and labor market interventions to ensure that wages keep up with the cost of living.

At the end of the day, a multi-pronged approach is required to address the state's housing crisis *and* create a more stable path for mobility in today's economy. With increasing evidence that racial and income inequalities are a drag on sustained growth (Benner and Pastor 2015) and with housing costs limiting consumer spending on other items and creating problems for working retention and attraction, it is critical to go beyond past arguments and experiment with a variety of methods to create a California economy and housing market that work better for all the state's residents.

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## Appendix: Data Profile of Rent Stabilization in Los Angeles and Santa Monica

The literature suggests that rent stabilization can lead to longer-term residential stability and is likely to assist less advantaged households; at the same time, there may be problems of allocation in terms of effectively delivering benefits to those who face the most barriers to affordable rent. While we did not conduct an extensive empirical analysis, we looked at the characteristics of those living in units governed by a rent stabilization ordinance (RSO) compared to those in other units. We did this for two jurisdictions, Los Angeles and Santa Monica, for which we could approximate the geography and use some designations to draw the micro-data necessary to draw a picture of the two populations. The data and methods used are discussed at the end of this appendix.

According to the data profile depicted on the next page, in Los Angeles, a slight majority of renters live in rent stabilized units (56 percent). They are distributed across the age spectrum and have a similar age profile to non-RSO renters. However, there are higher rates of poverty among RSO renters than non-RSO renters. Latinos disproportionately benefit from RSO as do, to a lesser degree, undocumented immigrants. This correlation may simply be due to these communities living in older housing stock, as LA's RSO does not include mechanisms to precisely benefit any particular group of people. However, this is consistent with the previous literature on less advantaged communities benefiting. On average, LA's RSO units have fewer rooms and bedrooms than non-RSO units, and lower rent—both in aggregate and when split apart by unit size and so affordability is enhanced. For the RSO units, 44 percent have been in the hands of the same tenant for 5 years or more; the figure for the non-RSO units is 38 percent, suggesting that rent stabilization does indeed encourage residential stability—but also that there remains a significant degree of turnover in RSO units.

In Santa Monica, the share of tenants in RSO units is greater than that in Los Angeles: 76 percent. The age profile is a bit older in RSO units and it is somewhat whiter and higher income; this pattern on income and race is consistent with the age finding but the fact that RSO residents have higher income is consistent with the housing allocation issues raised in the literature. As for RSO units compared to non-RSO units, they have about the same number of rooms and bedrooms. On average, RSO units cost about \$206 less than non-RSO units which is a smaller discount than in LA where that difference is \$270. And as in LA, the majority of units turn over in under 5 years but the turn-over is even more rapid in the non-RSO units.

One important caveat: the Santa Monica data is based on a smaller raw sample and so the trends there may be less reliable than what are seen for Los Angeles. What the larger Los Angeles data profile shows is congruent with the literature: those in rent-stabilized units are less advantaged. And both profiles are also consistent with the literature: those in rent-stabilized units generally pay lower rents, and tend to be able to stay in those units for a longer period of time.

# RSO UNITS AND TENANTS

2012-2016

	Los Angeles				Santa Monica			
	RSO		non-RSO		RSO		non-RSO	
<b>Tenants</b>	1,289,294	56%	1,025,290	44%	52,799	76%	16,246	24%
<b>Age of Tenants</b>								
<18		23%		25%		11%		17%
18-24		11%		12%		9%		7%
25-35		23%		23%		29%		36%
36-64		35%		33%		40%		30%
65+		8%		7%		11%		10%
<b>Tenants Living Below 150% of Poverty</b>		48%		44%		23%		26%
<b>Race/Ethnicity of Tenants</b>								
Non-Hispanic white		20%		23%		64%		55%
African-American or Black		10%		9%		4%		-
Latino		57%		53%		19%		23%
Asian-American/Pacific Islander		10%		12%		8%		10%
Other		2%		2%		5%		-
<b>Immigration Status of Tenants</b>								
US-born		56%		59%		75%		72%
Foreign-born, naturalized citizen		13%		14%		13%		12%
Legal permanent resident (LPR)		13%		12%		9%		9%
Undocumented immigrant		18%		15%		4%		-
<b>Rental Units</b>	507,821	59%	346,175	41%	29,760	79%	8,150	21%
<b>Units by # of bedrooms</b>								
Studio		88,025		32,032		3,309		-
1 bedroom		214,787		97,877		13,064		3,063
2 bedrooms		169,343		128,541		10,787		2,956
3 bedrooms (3+ in Santa Monica)		29,436		64,685		2,600		-
4 bedrooms		4,563		18,716				
5+ bedrooms		1,667		4,324				
<b>Rooms (average)</b>		3.2		3.9		3.5		3.5
<b>Bedrooms (average)</b>		2.3		2.9		2.4		2.6
<b>Median Rent</b>		\$1,030		\$1,300		\$1,546		\$1,752
<b>Median Rent by Bedrooms</b>								
Studio		\$805		\$927		\$1,133		-
1 bedroom		\$993		\$1,014		\$1,464		\$1,649
2 bedrooms		\$1,254		\$1,359		\$1,900		\$2,164
3 bedrooms (3+ in Santa Monica)		\$1,519		\$1,568		\$2,061		-
4 bedrooms		\$1,418		\$1,752				
5+ bedrooms		\$889		\$2,061				
<b>Average Tenure in Unit</b>								
12 months or less		20%		23%		21%		28%
13 to 23 months ago		9%		10%		10%		-
2 to 4 years ago		27%		29%		23%		32%
5 to 9 years ago		17%		17%		12%		-
10 to 19 years ago		19%		14%		18%		-
20 to 29 years ago		6%		4%		9%		-
30+ years ago		3%		2%		8%		-

Source: USC PERE (Program for Environmental and Regional Equity) analysis of 2012- 2016 American Community Survey (ACS) microdata accessed from the Integrated Public Use Microdata Series (IPUMS). Ruggles, Steven J., Katie Genadek, Ronald Goeken, Josiah Grover, and Matthew Sobek, 2017, Integrated Public Use Microdata Series: Version 7.0 [Dataset], Minneapolis, MN: University of Minnesota.

Note: Missing data due small sample size (50 cases or less).

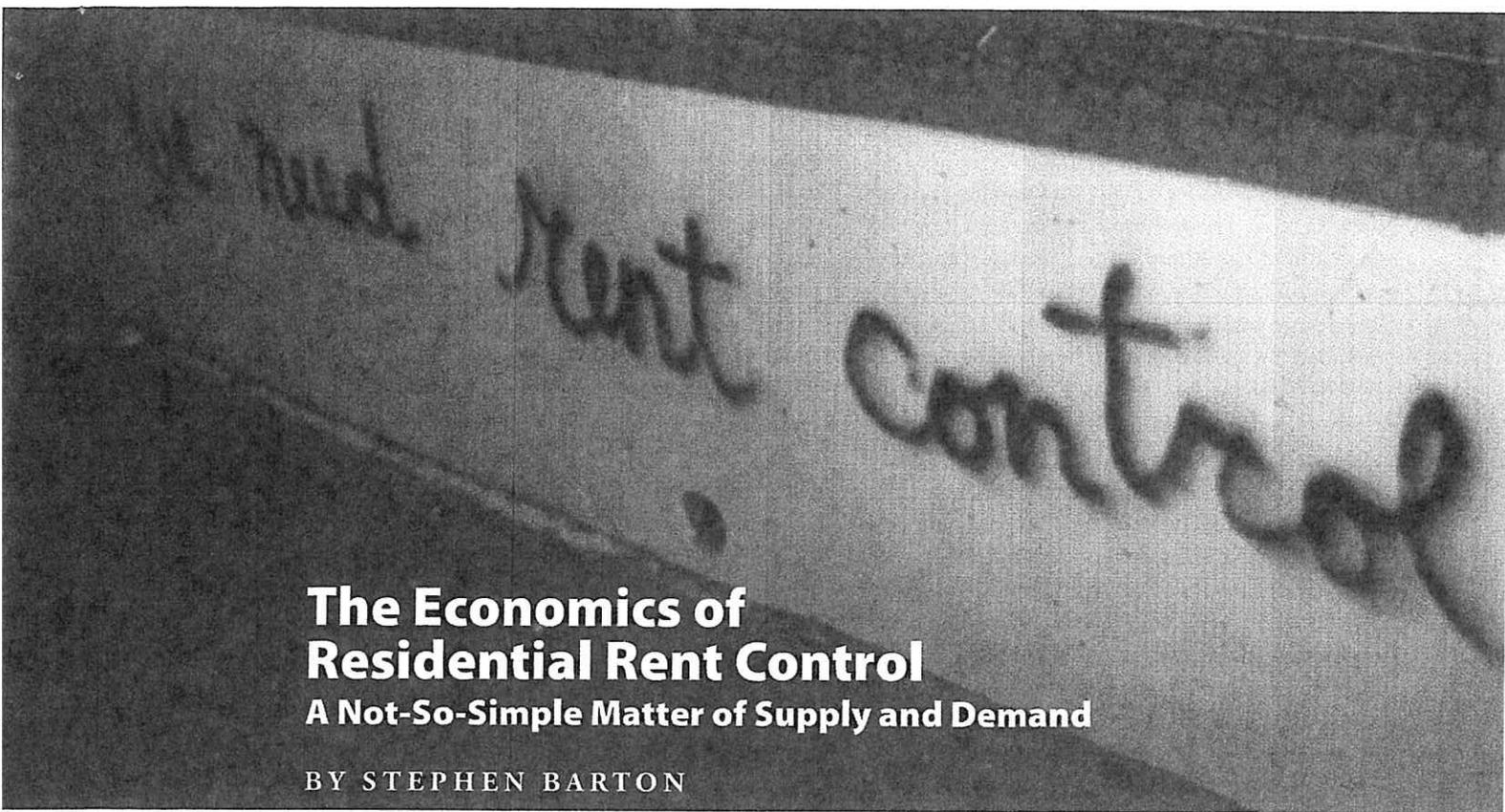
## Brief Methodology

Profile data is based on author analysis of 2012-2016 American Community Survey (ACS) microdata accessed from the Integrated Public Use Microdata Series (Ruggles et al. 2017). We used Public Use Microdata Areas (PUMAs) to approximate the geographies, but neither city are perfectly fits with its corresponding PUMAs. The PUMA used for Santa Monica misses a bit of the southern portion of the city and, for example, the PUMAs used to approximate the City of Los Angeles includes Veterans Park, Culver City, the City of San Fernando, etc. while parts of other neighborhoods (e.g., Hollywood) are missing. Nonetheless, the ACS remains the most rich and accessible data source for exploring the demographics of rent-stabilized jurisdictions.

In order to estimate which units and people are under rent stabilization, we had to make some decisions in order to identify them in the dataset. Los Angeles' RSO includes units built on October 1, 1978 or earlier and Santa Monica, April 10, 1979 or earlier (with some exceptions for units built later). Based on how the ACS data is structured, we had to choose units built in 1979 or earlier, instead of being able to isolate more exact dates. In LA, RSO units are also restricted to those with two or more units or one-unit structures with adjoining walls (e.g., town homes). We compared the number of units we found in the micro-data to those published by each city and we had a reasonably close approximation, so have confidence that our estimation procedure identified the correct units.

For more on Los Angeles' RSP, see: <https://hcidla.lacity.org/RSP-Overview>

For more on Santa Monica's RSO, see: <https://www.smgov.net/Overview.aspx>



# The Economics of Residential Rent Control

## A Not-So-Simple Matter of Supply and Demand

BY STEPHEN BARTON



Graffiti in support of rent control, location unknown, March 2009.

Credit: Flickr user [alaspoorwho](#), CC BY-SA 2.0 license.

AS THE UNITED STATES EMERGED FROM THE FINANCIAL CRISIS AND recession of 2007–2009, rents in many areas increased rapidly, reaching previously unheard-of levels. This resulted in a massive and continuing transfer of wealth from tenants to real estate investors, displacement of hundreds of thousands of tenants, and a major increase in homelessness. In response, several cities in California and New York passed the first new rent control ordinances in over 30 years and there are serious efforts to eliminate state-level prohibitions on rent controls in Illinois, Oregon, and Washington. In California, a broad coalition of community and tenant organizations put an initiative measure on the November 2018 ballot to repeal statewide restrictions on local rent controls. The ballot measure lost, but the effort received national publicity and brought renewed attention to the case for rent control.

Much of the economic literature critical of rent control is based on analyses of the stringent controls established during World War II, which lasted into the 1970s in New York City and parts of Europe. This generation of rent controls sometimes held rents below the level necessary to operate and maintain the controlled buildings, delivering short-term benefits to tenants at the cost of long-run deterioration. These findings simply do not apply to modern “second generation” rent control systems. Throughout the United States the courts have established that landlords have a constitutional right to a fair return on their investment, which typically requires annual increases in rent ceilings sufficient to cover increases in operating and maintenance costs and an increase in normal cash flow (profit) so that the value of that cash flow is not reduced by inflation. Economist Richard Arnott suggested that in light of this, “economists should reconsider their blanket opposition to current rent control systems and evaluate them on a case-by-case basis.” Research on the practical effects of second generation rent controls has come up with mixed results, largely because to be effective rent controls must be part of a broader set of programs. You will not learn about that from the public policy discourse found in the news media or, indeed, from most economists.

Rent control can provide tenants with stability and fair rents in cities where the rental housing market is unable to stabilize rents on its own. It can protect millions of tenants very quickly and at low cost, with its administration paid for by fees charged to the landlords benefitting from increased rents. The opponents of rent control claim the “science” of economics has shown that rent control is not only ineffective but harms the low and moderate-income people it is intended to help and endangers needed housing development. When closely examined, however, these claims prove to be based on simplistic, misleading models of the rental housing market and to ignore important non-monetary human values in favor of a utopian idealization of “the market.”

## A Choice of Values

Rent control provides tenants with stability and predictable rents. The real estate industry has long told us that homeownership is good because it increases community stability, while renters are “transient.” Then when tenants demand the stability that can be provided by rent control the real estate industry switches from the civic language in which stability is a virtue to the economic language of efficiency so that harmful “transience” becomes beneficial “mobility.” In the economics literature, it is said that rent control results in “reduced mobility” and that this causes an “inefficient allocation” of rental units. This is typically illustrated with stories about a few high-income tenants who choose to remain in a rent controlled apartment rather than move into a higher-rent apartment closer to a new job or of a size more suited to their current needs. It is never illustrated with the stories of the low-income seniors, childcare workers, and others who are able to stay in their community rather than being pushed out entirely because they could not afford the current market rent for any size of apartment. Nor do the analyses focused on mobility distinguish between moves that people make voluntarily to improve their lives and moves forced by increasing rents (displacement). There is a substantial medical and sociological literature documenting that the displacement of low-income people creates severe stress, with long-term health and mental health impacts—costs that receive no attention from the economics literature.

When there is a shortage of any good, rising prices ration the existing supply, allocating the scarce good to those willing and able to pay the most. If we let prices ration scarce housing, we are saying that high-income people are more deserving of access to the neighborhood or city of their choice than low-income people, and that the time people have lived in an area and the presence of family and friends is important only to the extent that it is backed up by an ability to pay higher rents.

## Housing Is Not a Simple Commodity

Mainstream economists and the real estate industry typically argue that affordable housing crises are a simple matter of supply and demand. In a typical statement, the National Multifamily Housing Council, a major industry association, assures us that rents “provide the economic incentives needed to attract new investment in rental housing, as well as to maintain existing housing stock. In this respect,

housing is no different from other commodities, such as food and clothing—the amount producers supply is directly related to the prevailing market price.” In this model, rental housing is a simple commodity and the rental housing market is self-correcting, so that rising rents will quickly generate additional supply and restore affordability, while rent controls will necessarily result in reduced maintenance and less construction of new housing.

In the real world, rental housing is a far more complex commodity than tomatoes or shirts, and those complexities create serious problems in matching supply with demand. Among the barriers to perfect competition is the fact that demand for housing is dependent on its location. Apartment modules can be built in a factory in Idaho and

**The real estate industry argues that rent control forces the landlord to “subsidize” tenants, when in fact the landlords are extracting unearned land rent from their tenants, taking publicly created value for private profit.**

shipped for hundreds of miles to California, but unlike smart phones, their value when assembled depends on where they are ultimately located.

## Housing Prices Include Land Value and Land Rent

Housing necessarily sits on land, whose value as a location is created by the larger society rather than by the building owner. Much of the value of rental housing in California comes from competition for access to coastal locations with growing job markets and high levels of natural and cultural amenities. In *The Wealth of Nations*, generally considered the founding work of market economics, Adam Smith pointed out that the “rent of houses” can be divided into the “building rent,” the rent actually necessary to operate and maintain the building, and the “ground rent,” which reflects demand for a desirable location. Smith went on to say that ground rent is a “species of revenue which the owner, in many cases, enjoys without any care or attention of his own.” The real estate industry knows this quite well. It is virtually impossible to attend a real estate conference without hearing, multiple times, that the three most

>>

## RENT CONTROL

important determinants of whether an investment in real estate will be profitable are “location, location, and location.”

What the industry loves about increases in land value is that they require little, if any, investment on the part of the property owner. Instead they result from the private and public actions of the residents in making their community a good place to live, typically some combination of government services and investment in infrastructure, neighborhood amenities, and private investment that increases employment. The real estate industry argues that rent control forces the landlord to “subsidize” tenants, when in fact the landlords are extracting unearned land rent from their tenants, taking publicly created value for private profit.

Adam Smith argued further that “though a part of this revenue should be taken from (the owner) in order to defray the expenses of the state, no discouragement will thereby be given to any sort of

industry. ... A tax upon ground-rents would not raise the rents of houses.” He was one of the first in a long line of economists, the most notable American being Henry George, who recognize that land-value taxation is “efficient” because it taxes value created by the larger society, not the value created by the property owner or the property owner’s employees. This analysis of land rent also applies to rent control, which can be used to limit increases in land rent without reducing the rent below what is actually necessary to operate and maintain the building.

When it is possible to sufficiently increase the supply of housing at a desirable residential location, then the location will not be scarce and market competition will eliminate the land rent. Some inland locations are surrounded by flat, easily buildable land in all directions. But especially in coastal cities, geographic constraints limit the potential to increase the supply of housing. Since these limited urban areas are largely built out, they can only increase housing supply through increases in density, and this increases the per-unit

## PAUL KRUGMAN GETS IT WRONG TWICE IN ONE COLUMN

Opponents frequently point to “liberal economist Paul Krugman,” winner of a Nobel Prize in economics, to show that liberals and conservatives alike oppose rent control. On June 7, 2000, Krugman wrote a column in the *New York Times* about a story published on the previous day describing how dozens of applicants for apartments offered for rent in San Francisco were trying to impress prospective landlords with resumes, credit reports, and personal enthusiasm. Krugman knew this must be caused by rent control, even though he stated that he “didn’t know a thing about” the San Francisco housing market. “Landlords don’t want groveling—they would rather have money. In uncontrolled markets the question of who gets an apartment is settled quickly by the question of who is able and willing to pay the most.” But under San Francisco’s rent-stabilization system, rents for new tenancies are set by the landlord without restriction and then controlled again based on the new initial rent. These landlords could easily have raised their asking prices or had prospective tenants bid against each other, so what was really going on?

San Francisco was in the midst of the first dot-com boom. Thousands of newly hired, highly paid tech workers were moving into the city and rents were skyrocketing. Some landlords had not realized how high they could raise the rents, and were learning this when so many prospective tenants showed up. Other landlords were unsure whether the dot-com boom would last and wanted to get stable tenants rather than risk having tenants move out a few months later and have to re-rent the apartment at a lower rent. And in fact, when the dot-com boom collapsed in 2002, thousands of tech workers lost their jobs and rents went part of the way back down for a few years before turning upward again. So the story Krugman read the day before reflected the effects of incomplete knowledge and economic uncertainty rather than the effects of rent control.

Krugman followed this error with yet another. He claimed San Francisco had “an absence of new apartment construction, despite those high rents, because landlords fear that controls will be extended.” In fact, rising rents had already resulted in a substantial increase in apartment construction that continues to this day. The fact that Paul Krugman could produce a column of such breathtaking inaccuracy demonstrates the hold that simplistic models of the rental-housing market have on even top-level economists.

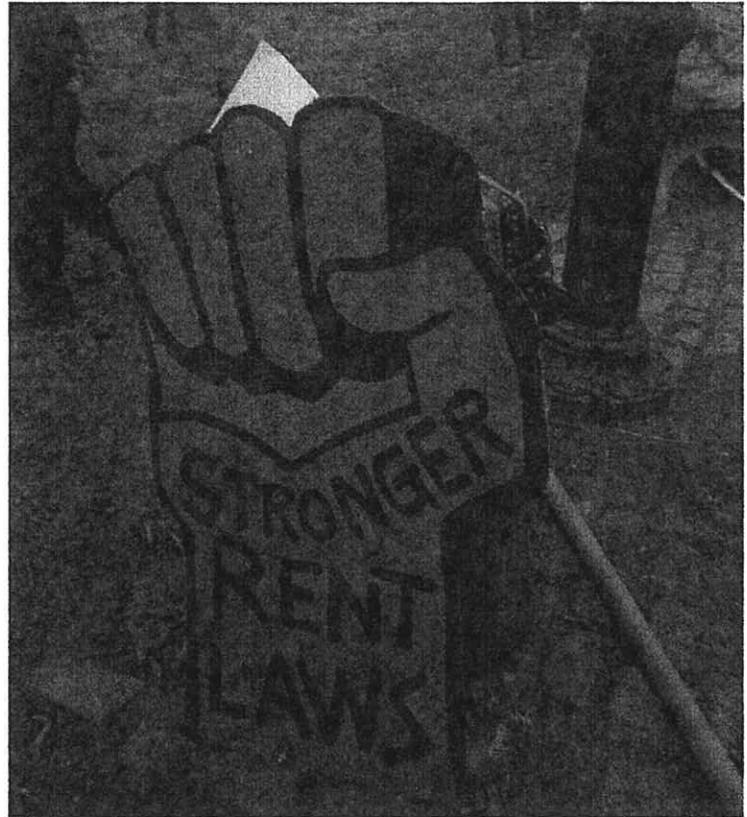
construction cost. Geographic constraints are exacerbated by the real estate industry's successful century-long campaign to identify the single-family home as the "American Dream" and to create land-use regulations that exclude higher-density housing from single-family neighborhoods.

The opponents of rent control invariably claim that high housing costs are entirely the result of government interference with the market through exclusionary land-use regulations and that eliminating them will allow the market to become fully competitive and solve the supply problem. This ignores the other limitations of geography and increasing costs of production with increasing density. A recent study from the Federal Home Loan Mortgage Corporation estimates that two-thirds of San Francisco's excessive housing cost is the result of its geography, since 75% of the area within 50 miles of its downtown is under water or on steep hills, and another third of the excess housing cost is the result of restrictive zoning. It also ignores the disconnect between supply and demand that results from two other factors that distinguish rental housing from other commodities: its high development cost and its long life.

### ***There Is a Disconnect between Supply and Demand in Rental Housing***

The real estate industry endlessly repeats the claim that the rental housing affordability crisis is a "simple matter of supply and demand" and that increased supply is the only legitimate response. This is quite understandable, since this approach preserves the current massive transfer of income from tenants to real estate investors indefinitely. A very long period of time is required to substantially increase supply when adding 2% to the housing stock in a given year is a high rate of production. Currently, California is adding less than 1% per year and there is already a statewide and nationwide shortage of skilled construction workers that will take years to overcome before production can substantially increase. In areas with growing economies, it is hard for housing production to keep up. Nor is there any certainty that increased production of new housing will be sustained long enough to reduce rent burdens on most tenants.

Rising demand for rental housing increases rents throughout the rental-housing stock but does not generate additional housing supply at all price levels. Supply can only be added through



new construction, and the expected rent for a newly constructed building must be enough to profitably pay off the costs of its construction as well as meet the ongoing costs to operate and maintain it. Then, once much of the cost of construction is paid off, after the first decade or so of operation, the property can be profitably operated and maintained at a substantially lower rent. If continued new housing construction pulls higher income tenants away from buildings as they age, then owners of the older buildings will compete to attract tenants and will bring rents down closer to the minimum necessary to profitably operate and maintain the building. This process is called "filtering down." Most tenants live in older rental housing because they cannot afford the rents necessary to pay off the costs of construction but can afford to pay enough for a landlord to profitably operate and maintain the building once the construction costs are paid off.

However, there is no market mechanism to ensure "filtering" will happen or that the amount of housing that filters down will match the need for it. The Joint Center for Housing Studies at Harvard University reports that multifamily housing production increased for several years, but as vacancy rates have risen at the high end of the rental market,

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**A sign from the Rally to Save NYC, a protest in favor of stronger tenant laws and repeal of laws favoring landlords and developers, New York City, May 14, 2015.**

**Credit: Wikimedia Commons, The All Nite Images, CC BY-SA 2.0 license.**

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## RENT CONTROL

multifamily housing production has declined, even though vacancies remain low in the rest of the rental market. The only way to directly respond to the growing need for housing with lower rents is for government to subsidize the costs of new construction, thus creating what is commonly referred to as “affordable housing” where rents only need to cover the costs of operation, maintenance, and a renovation reserve.

Increases in the rents charged for older housing cannot result in the production of additional older housing. They simply inflict hardship on tenants and transfer income from non-owners to owners. Their only “purpose” is to ration access to scarce rental housing based on who can pay the most money. These are the increases that are limited by rent controls.

### **Rent control needs companion policies because landlords will work to evade regulation by finding other more profitable ways to use the rental housing under their control.**

Rent control, in its various forms, reduces the hardships caused by rent increases that result from a scarcity of older housing. It provides an alternative method of rationing access, giving priority to security of tenure and stability rather than to whoever has the most money. Modern rent-control systems in the United States exempt new construction, which makes sense because that is the sector of the rental housing market in which price increases will generate additional supply. This in turn explains why the empirical literature finds that modern rent control systems have no discernable effect on new construction.

#### ***Tenants Lack Bargaining Power Under Conditions of Scarcity***

Since rent control simply limits the level of land rent, and owners receive at least as much rent as they would in a perfectly competitive market, they will have the revenue necessary to profitably operate and maintain their property. To evade this conclusion, opponents of rent control typically make two self-contradictory arguments: that increased

supply will stabilize and even lower rents without reducing maintenance, but that if rent controls stabilize rents somehow landlords will be unable to maintain their property.

When they are not simply hypocritical, arguments that rent controls will result in reduced maintenance and lower housing quality are based on a simplistic understanding of the rental housing market. Maintenance is not a direct response to the amount of rent paid but rather to the differential between the rent that can be obtained for well-maintained versus poorly maintained rental housing. In a tight rental housing market, reduced maintenance may not result in much of a reduction in rent, especially for those landlords with lower-income tenants who have few alternatives and little bargaining power. We see this routinely with low-income tenants in coastal California, who often live in substandard conditions yet pay rents that would be well above average in other parts of the United States.

Rent-control systems under which landlords can evict tenants only with good cause (i.e., for good reasons such as non-payment of rent or damaging the unit rather than for complaining about poor maintenance) can help re-establish the differential by empowering tenants to call for code enforcement and petition the rent control program for rent decreases for code violations. A study of Washington, D.C., found that code violations declined after rent control began and that the exempt housing stock had a higher rate of deficiencies than the housing under rent control. A recent review of the empirical literature sponsored by the National Multifamily Housing Council, which is hostile to rent controls, found that “rent-controlled buildings potentially can suffer from deterioration or lack of investment, but the risk is minimized when there are effective local requirements and/or incentives for building maintenance and improvements.”

#### **Rent Regulation Must be Part of a Broader Program to be Effective**

Rent control needs companion policies because landlords will work to evade regulation by finding other more profitable ways to use the rental housing under their control. A frequent finding in studies of rent control is that some landlords will convert their rental properties to condominiums and sell them to owner-occupants, thus reducing the overall stock of rental housing. Local governments have control over condominium conversion and often ban this

response by landlords. Alternatively, some cities treat this as a desirable effect and pass accompanying legislation to give tenants a right of first refusal to buy their apartment, provide them with down-payment assistance, and offer lifetime leases to those who don't want to buy. There are also a few landlords who have sufficient income from property in other cities that they can afford to hold buildings vacant in protest against rent control. Vacant building taxes provide one potential response. As the latter situation makes clear, what is involved here is a power struggle, not simply the impersonal forces of the market at work.

Rent control systems in New York City and in a few other cities have "vacancy control," meaning that rents are not allowed to increase to current market levels when a tenant moves out and a new tenant moves in. It is often claimed that landlords will select higher-income tenants over lower-income tenants to reduce non-payment of rent, so that rent control will not benefit the tenants who need it most. There is some evidence to the contrary from the experience of Berkeley under strong rent control, where it appeared that apartments continued to circulate within the same social circle as tenants moved out. In addition, Berkeley allowed landlords to obtain higher rents when they rented to tenants receiving federal Section 8 assistance, leading to high participation in that program. Nonetheless, the landlord maintains control over the selection of new

tenants, so it could be useful to explore providing incentives to encourage landlords to rent lower-rent units to lower-income tenants.

Many rent control systems allow rent to jump to whatever the market will bear between the departure of an old tenant and the arrival of a new tenant, a policy called "vacancy decontrol." A cap on rent increases starts up again at the start of a new tenancy. (This type of system is often called "rent stabilization" in contrast with stronger "rent control.") Since these systems can be evaded by evicting long-term tenants, they are normally accompanied by a requirement that landlords show "good cause" for evictions. Landlords faced with a combination of rent control, vacancy decontrol, and good cause for eviction requirements may become less tolerant of minor lease violations and increase evictions for cause. Cities can deal with this by providing emergency rental assistance to renters who suffer short-term loss of income and by requiring that landlords provide tenants with sufficient opportunity to correct a lease violation. This portfolio of policies—vacancy decontrol, rent control, good cause, and emergency rental assistance—reduces displacement. Since rents rise to the market level as tenants move, such systems do not maintain affordability over the long run and other affordability programs are necessary.

The power of the real estate industry is such that sometimes policy moves the wrong way, as

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### THREE MAINSTREAM ECONOMISTS HIDE THEIR OWN FINDINGS

Economists Rebecca Diamond, Timothy McQuade, and Franklin Qian recently conducted a sophisticated study of the effects of the 1994 expansion of rent stabilization to two- to four-unit properties in San Francisco. Their study found that thousands of renters were able to remain in San Francisco due to rent controls. It also found that the owners of the newly regulated small buildings shifted 15% of the units out of the rental market, mostly by converting them to condominiums, and that this loss of rental units increased market rents. Having found effects that both reduced and increased gentrification, the authors proceeded to make the much-publicized claim that "rent control has actually fueled the gentrification of San Francisco, the exact opposite of the policy's intended goal." What they really found was that allowing condominium conversion had fueled gentrification and undercut the positive effects of rent stabilization.

They also found that the overall financial benefits to tenants were still higher than the costs that resulted from allowing condominium conversions. But they hid this finding by explicitly omitting from their calculations the "benefits for renters who moved into the impacted units in later years (after 1994) which presumably were also quite large" and by closing the study in 2012, just after the end of the recession and before the rapid rent increases of the last six years. As a result, opponents of rent control routinely make the false claim that this study showed that the benefits of rent control to one group of tenants were entirely offset by its costs to other tenants. The authors conclude that a massive program of rent subsidies would work better than rent control, but make no suggestions for where the money might come from. It appears that three mainstream economists were so deeply attached to market solutions that they were unable to accept their own findings.

shown by the abolition of rent controls in Massachusetts in 1994, the abolition of vacancy controls in California in 1995, and the many state-wide prohibitions on local rent controls. In any place where rent control is needed because the market does not supply sufficient housing affordable to lower-income tenants, the long-term goal should be to provide capital subsidies to build up the supply of permanently affordable housing owned by nonprofit housing corporations, limited-equity cooperatives, and community land trusts. Social ownership protects against political changes hostile to the presence of low-income residents. That is a very long-term and expensive solution, but taxes on land value or land rent would be one very fair way to raise the money. The California cities of Berkeley and East Palo Alto increased their taxes on the gross receipts of residential rental properties to fund affordable housing and homelessness prevention, as close to a tax on land rent as state law allows.

Finally, many people don't make enough money to afford even the minimum rent necessary to pay for the ongoing operation and maintenance of rental housing. Even when the rental housing market is working well, or if there is a substantial supply of socially owned housing rented at cost, the lowest-income people will need rent subsidies or, better yet, higher wages and a guarantee of a decent income for those unable to work.

### Rent Control and Human Rights

Rent control is one of many efforts to uphold human dignity by expanding human rights, those rights which are held to be inherent in all people, and restraining forms of private property that give owners power over non-owners. Economist and historian Albert O. Hirschman described three rhetorical themes consistently used by opponents of human rights. These themes, which he called "the rhetoric of reaction," are: *perversity*—the argument that a reform will harm those it is intended to help; *futility*—the argument that a reform will do no good; and *jeopardy*—the argument that the reform will endanger progress already made. This is an accurate description of the arguments made against rent control and in defense of the power of real estate investors to exact unearned land rent from tenants. Opponents claim it will harm tenants by

reducing the supply of rental housing through conversion to owner-occupancy, result in reduced maintenance to match lower rents, and endanger the new construction needed to house a growing population. But as we have seen, the rental housing market is not a simple matter of supply and demand. Instead, it is inherently prone to failure and persistent scarcity in urban areas with growing economies. When demand far outstrips supply, only rent regulation has sufficient scope and timeliness to stabilize tenants' lives, reduce forced displacement, and limit the hardships caused by unfair and unnecessary rent increases. **D&S**

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**STEPHEN BARTON** is on the board of the Bay Area Community Land Trust and was Housing Director for the City of Berkeley and deputy director of the Berkeley Rent Stabilization Program. He holds a Ph.D. from the University of California, Berkeley and is the author of numerous articles on housing policy.

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