Pernicious Effects of Rent Control

This document contains a summary of the most relevant studies that provide hard data to prove some or several of the pernicious effects of rent control: high administrative costs; housing stock deterioration; housing stock obliteration; low investment in development; loss of revenue taxes; loss of construction jobs; shrinking of housing services; benefits higher income tenants; and, diminished diversity. Studies addressing theoretical implications are listed in the bibliography and are excluded from this document.

ADMINISTRATIVE COSTS

Rent control requires costly enforcement procedures and a specialized bureaucracy. Hiring more officials to perform this job costs money, which could be used for alternate programs. In addition to these direct costs are the costs of losing taxes via lower assessments and lower number of business licenses (please see Deterioration of the housing stock) and the costs of other housing programs introduced to compensate for reduced private sector expenditure. Rent control administrative costs information can be obtained either through the Local Rent Control Board Financial Report and/or the City Budget. These might be requested directly to the City or it might be posted in the Internet.

For example, information obtained from the Santa Monica Rent Control Board, from the Annual Operating Budget and Final Budget Report fiscal years 1997 through 2002, shows that the Board, on average: spent $3,703,830; collected $3,771,496.20; had a surplus of $67,666.20; and, billed 26,764 units. In the fiscal years 1997-1998 and 1998-1999, the Board ran a deficit, but it managed to overcome it by cutting jobs and expenditures, while keeping revenues constant.

Sample studies about administrative costs:

Community Development Department, City of Berkeley, Rent Control in the City of Berkeley, 1978-1994: A Background Report for Updating the City of Berkeley’s General Plan Housing Element Berkeley, 1994. The Rent Stabilization Program costs about $2,500,00 annually to administer. In order to cover its costs, fees are collected from every unit ($115 in 1994) and this cost is passed to the tenants. The board administers around 18,700 units (the city has 24,455 units or 4,400 properties) and deals with 3,000 landlords.

JurEcon Inc., Rent Control: The Economic Effects, 1984. This economic study explores the consequences of rent control for landlords, homeowners, businesses and the community using data from the cities of Los Angeles and Santa Monica. The section on Public Sector Effect of Rent Control, proves a valuable resource. An example of the figures is this, in the year 1980-81 the City of Los Angeles spent $2,716,017 (1980 dollars) on rent control plus another $923,000 (for that same period and 1982-1983) for criminal prosecution of owners of apartments who did not comply with the ordinance (p.45). Also, since the City charges a $7.00 fee per unit, it has been making money from rent control up until the fiscal year 1984-1985 while burdening tenants and landlords (with unoccupied units) to bear the costs of administration.

Selesnick, Herbert L., Rent Control, D.C. Heath and Company, United States of America, 1976. This study conducted in Massachusetts was designed for legislative decision makers. Although some parts of the book advocate for rent control and the time span it covers is too short for meaningful evaluation, it shows that the measure: creates higher rents in adjacent markets;
increases underwriting mortgage refusal, thereby affecting new construction; and, creates new administrative costs.

St. John and Associates, *The Effects if Rent Control on Local Government Revenue*, September 1988. Written for a group of anti-rent-control organizations in Berkeley, the study lists the costs of rent control, a total of $5.8 for 1988, and provides some revealing statistics by jurisdiction (County, city) and tax (property, transfer, license fees, etc.). The amount lost in taxes, the study points out, *would be sufficient to provide a $250/month housing subsidy to over 1,900 rental units. This compares to only 1,600 Berkeley units subsidized by the Federal Government under the Section 8 program. The elimination of local rent control, in other words, would provide Berkeley with sufficient additional revenue to double the low income housing subsidy program with no additional taxation* (p. 18).

**DECONTROL**

Removing rent control will have the expected effect of raising rents, but not nearly as much as the detractors of the measure claim.

**Sample study** about decontrol:

Hayek, Friderick, Milton Friedman (Contr.), *Rent Control Myths & Realities*, Vancouver, Canada, The Fraser Institute, 1981. This book contains several essays about the politics, theory and practice of rent control. Chapter 13 is devoted to the issue of decontrol and presents a formula to calculate the impact of decontrol on rent prices, thereby providing us with an important tool for discussion setting aside unfounded speculations. Chapter 14 has a small section where advice is offered on decontrol strategies.

**DEMOGRAPHIC CHANGE**

Property owners discriminate between renters, choosing the ones that seem more likely to pay and maintain the property in good condition. Their objective is to minimize losses. This behavior results in displacement of low and lower-income population in favor of wealthier, more educated and less ethnically diverse one (gentrification), and ultimately change in the demographic composition of the city. Thus, while a particular group benefits from rent control, the population that seemingly needs lower rents, such as the one composed of seniors, students, minorities and low-income groups, is seeking housing in the non-rent controlled expensive rental market, wealthier households overstay their tenures and remove housing units from the market (see also *Shrinking of Housing*).

**Sample studies** that prove there is a direct link between rent control and changes in demographic patterns:

Block, Walter and Edgard Olsen (Ed.), *Rent Control: Myths and Realities*, The Fraser Institute, Vancouver, Canada, 1981. In the chapter “The Presumed Advantages and Real Disadvantages of Rent Control” by Richard W. Ault, the author points out that a fundamental problem of rent control is that there generally is no “mechanism for assuring that benefits are concentrated among poor tenants or that the greatest sacrifices are made by the wealthiest landlords.” He also says that studies have shown that in New York City, more than one-third of the families with below median incomes live in housing not subject to rent control while over one-half of the families with above the median income live in rent controlled units. Finally, he
challenges the assertion that rent control assists poor people by asking why ordinances are typically implemented in communities having high per capita incomes and, in most instances, having an unusually low proportion of low income residents?


Community Development Department, City of Berkeley, Rent Control in the City of Berkeley, 1978-1994: A Background Report for Updating the City of Berkeley’s General Plan Housing Element Berkeley, 1994. Demographic change is also felt in the surrounding communities of a rent-controlled city. This study on the City of Berkeley provides a clear example ofgentrification. Clearly, higher-income tenants have moved in to replace lower-income tenants as rents increased in both Albany and North Oakland, while the slower rate of increase in Berkeley rents allowed lower-income tenants to continue to rent here (p. 108).

Los Angeles Times, “Santa Monica: Only the Elite Need Apply”, April 8, 1984. In Santa Monica, according to the landlords interviewed for this article, it doesn’t make sense to advertise vacant apartments in the classified ads. Most advertising is done by word of mouth or listed with a rental agency that charges anywhere from $40 to $1,000 in finder’s fees. According to the Apartment Association, apartments are more often than not rented to young professionals who earn a lot of money and have the ability to canvass the community to find an apartment. The city’s planning department, according to the article, acknowledges that there has been a significant reduction in the availability of housing for low and moderate-income people since rent control was enacted. Rent control proponents point out, on the other hand, that the declining availability of low and moderate-income housing would have happened sooner without rent control.

Real Estate & Land Use Institute, Rent Control Issues and Impacts, Sacramento California, 1994. This study analyzes rent control in the cities of Berkeley and Santa Monica finding that it: creates biases against certain age groups, decreases the number on lower income renters, creates gentrification, changes in cultural diversity and decreases the percent of the population that rented. In the case of the subject cities, it appears that the age groups most likely to decline in size are those in which families are more likely to occur, affecting family composition, and in the elderly population (p. 5).

**DETERIORATION OF THE HOUSING STOCK**

Under-maintenance of rental properties is a common response to rent control. As time goes by, units deteriorate and tenants start complaining about the lack of maintenance. Measuring the increase in complaints and the type of deterioration (otherwise known as deficiencies in housing) are two indicators of deterioration of the housing stock.

Sample studies that prove there is a direct link between rent control and deterioration of the housing stock:

JurEcon, Rent Control: The Economic Effects, 1984. JurEcon’s researchers interviewed landlords in Santa Monica and Los Angeles to collect specific information about their apartment buildings before and after the implementation of rent control. One goal of the questionnaire was...
to determine the extent too which (if at all) landlords altered their expenditures on repairs and maintenance for their rental properties. The data indicates that Santa Monica landlords spend less on controllable operating costs (e.g. payroll, repairs and maintenance, administration, office expense and advertising) and, in addition, reduce capital expenditures more than Los Angeles landlords do. Additionally, the Santa Monica buildings appear to have had no capital improvement while buildings in Los Angeles have been improved on a regular basis and repaired on schedule.

Nieback, Paul L. (Ed.), The Rent Control Debate, Chapell Hill, North Carolina The University of North Carolina Press, 1985. In this book, Peter Rydell presents a condensed article of Los Angeles study (below). It summarizes its estimates of maintenance elasticity and gross deterioration rate for the City of Los Angeles. In a nutshell, *the sum of the percentage quantity and price reductions is approximately equal to the percentage rent reduction and during rent control deterioration steadily reduces the quantity of housing services and therefore diminishes the portion of rent reductions that can benefit tenants as price reductions* (p. 98). Also, *a pass through of all Operating and Maintenance cost increases translates into a constant cash flow but a real decline in the profitability of the building* (p. 49-50). Table 3.8, of the same study, shows an increase of the Operation and Maintenance Cost-to-Rent Ration for Rent-Stabilized Buildings in New York, years 1972-1982.

Mengle, David L., Rent Control and Housing Quality. UCLA Department of Economics, Los Angeles, California, 1983. Using advanced economic analysis, the dissertation shows that housing deterioration is more likely in rent controlled than in non-controlled markets; this document contains also some interviews with landlords where they admit to cutting back on services and maintenance as a result of rent control. The author proves two hypothesis about rent control and its effect on housing quality: (1) Landlords in controlled markets will cut back maintenance expenditures in order to maximize profits (or minimize losses), thereby causing quality to deteriorate to lower levels than would have been the case in a free market. (2) Quality deterioration, if observed, will tend to increase over time because disinvestments through depreciation only manifests itself slowly.


National Association of REALTORS®, Rent Control: A Non-Solution, Washington D.C., 1977. This book has a chapter dedicated to the direct effects of rent controls on existing housing, which includes a discussion on maintenance and repairs, demolition, abandonment, conversion, value and financing.


New York City Housing and Vacancy Survey, http://www.census.gov/hhes/www/nychvs.html . The survey contains tables for both controlled and uncontrolled units that provide a quick comparison between the characteristics of each.
Pollakowski, Henry, *Rent Regulation and Housing Maintenance in New York City*, MIT Center for Real Estate, May 1999. This is one of the most telling studies of the effects of rent control on maintenance in the city of New York. Some of the findings are: rental dwelling deficiencies and defects reflect landlord behavior better than others; maintenance deficiencies, dwelling characteristics, and occupants differ from pre-1947 and post-1947 stabilized rental housing stocks; and, mobility rate is linked to property upkeep.

**Warning:** not all the cities with rent control exhibit great deterioration due to strict regulations found in the Rent Control Ordinance which forces landlords to properly maintain the properties. If these rent controls do not allow for fair returns for landlords and only allow a rent increase in the magnitude of the operation and maintenance increases, then landlord’s income remains stable and there is a rapid decline in the building’s profitability.

### Diminished Property Value and Tax Base

Rent control results in loss of property value and lower assessments (which are a byproducts of deterioration and obliteration of the housing stock) that decrease the revenue obtained form property taxes. By comparing annual changes in property tax revenue since before the approval of rent control, might help establish how much is the City loosing due to this measure. Rent control, through time, diminishes the value of residential income property.

**Sample studies** that prove there is a direct link between rent control and loss of property tax income and changes in property value:

- Community Development Department, City of Berkeley, *Rent Control in the City of Berkeley, 1978-1994: A Background Report for Updating the City of Berkeley’s General Plan Housing Element Berkeley, 1994*. The major cost of the system to the City of Berkeley is not the cost of operating the program [$2,000,000 annually]; these costs are passed on to the tenants in higher rent ceilings. The real cost to the City is the foregone tax revenues that result from lower property values and rents. This loss is shared with the many government entities that share in property tax revenues, with Berkeley getting 40 percent, Alameda County 29 percent and the Berkeley Unified School District 18 percent of property tax revenues... In sum, the amount of foregone taxes from 1979 to 1991 totals $11,900,000, and the annual rate of foregone taxes had reached $1,825,000 a year in 1991 (pp.132, 136).

- JurEcon, *Rent Control: The Economic Effects*, 1984. According to JurEcon, the imposition of rent control will adversely affect the government’s ability to provide existing public services if it either erodes the real value of the existing tax base or necessitates public expenditures which are not currently being made. In their opinion, both effects have been noted in California. JurEcon found that several tax bases—property, income and sales—are affected by rent control.

- National Association of REALTORS®, *Rent Control: Case Histories and Bibliography*, Chicago, 1980. In testimony by William A. Moses, Chairman of the Board, Community Housing Improvement Program of New York City, before the Subcommittee on Economic Stabilization of the House Committee on Banking, Finance and Urban Affairs (October, 1975), he said: *New York City’s fiscal crisis cannot be dealt with effectively without restoring its real estate tax base. This cannot be accomplished unless rent controls and stabilization are phased out now.* Two and a half years later, in front of the same subcommittee, he testified that the New York City Department of Finance had reported a decline in assessed valuation of real estate in New York
City of more than $2.5 billion. This, he suggested, resulted from the impact of rent control on the city’s tax base.

Rydell, Peter et al., *The Impact of Rent Control on the Los Angeles Housing Market. Report N-1747-LA*, Santa Monica, The Rand Corporation, 1981. The study offers a calculation of present value of future landlord losses caused by Los Angeles rent control. For example, in 1986 under the control extended to 1990 with a 7.6 limit if no vacancy, 10 percent limit at a vacancy, landlords would have experienced losses with a total value of $634 per unit (in 1978 dollars).

St. John, Michael, *The Impacts of Rent Controls on Property Value. Working Paper No. 90-178*, Berkeley, Center for Real Estate and Urban Economics, University of California, 1990. This paper presents the results of changes in property value linked to rent control. The study focused on rent controls in the cities of Berkeley, Hayward and Oakland for the years 1970-1988. It concluded that while “moderate” or “soft” rent controls did not appear to have a significant effect on property values, “restrictive” rent controls did impact them negatively. For instance, after 10 years of restrictive controls, the value of residential income property in Berkeley is nearly 50% less than the value that would be expected to prevail in the absence of rent control.

St. John et al., *The Effects if Rent Control on Local Government Revenue*, September 1988. The study finds that rent control in Berkeley has diminished collectable tax revenues by nearly $4,000,000 per year as of 1988. This figure will grow to $10,600,000 by the year 2000. Cumulatively, rent control is responsible to date for the loss of $17.4 million in collectable revenue, a figure which will grow by the year 2000 to exceed $100 million. (These figures do not include the direct costs of administration of the Berkeley Rent Control Program. Currently about $2 million annually, the administrative costs have totaled some $14 million through 1988 and will total approximately $38 million by the year 2000.) (p. 2).

Sternlieb, George and James W. Hughes, *Rent Control’s Impacts on the Community Tax Base, The Appraisal Journal* 47, July, 1979, 381-394. In this article, the authors suggest that: rent control represents more than a transfer of resources between landlords and tenants. It is not a two party transaction, but rather a three party concern with the third party—all the other property taxpayers within the community—having to bear the ultimate cost of the rent control subsidy.

Sample studies that prove the existence of a direct link between rent control and diminished tax base:

Smith, Peter et al., *Impact Study: Effect of Rent Control on Community Tax Base,* Apartment House Council of New Jersey, September, 1981. The study, conducted on New Jersey and covering a 10 year span, proves that rent control results in lower property value, which in turn causes lower assessments. The conclusion being that rent control affects negatively the community’s tax base.

Rent control boards use a number of methods to calculate fair rent-control rents. The formulas vary depending on the ordinance and city. It has been found that the calculations fail to take into account vacancies and collection losses and understate some costs.

Sample studies:

Community Development Department, City of Berkeley, *Rent Control in the City of Berkeley, 1978-1994: A Background Report for Updating the City of Berkeley’s General Plan Housing Element Berkeley*, 1994. The Rent Control takes into account the net operating income to decide increases in rent. The study shows how this is calculated.

Lowry, Ira, *The Financial Performance of Rental Property under Rent Control: Berkeley, California, 1978-85, A California Housing Research Institute Report*, California, March 1985. This study criticizes the above study (CDC City of Berkeley) by saying that the Board and its consultants have generally acted as though net operating income were the difference between annualized scheduled contract rent and operating cost, ignoring vacancy and collection losses (p. 3).

St. John et al., *The Effects if Rent Control on Local Government Revenue*, September 1988. Page 8 of the study presents a table comparing the different types of rent control in California and the value of cash flow and value property. It includes information about the type of method of increase rents and the percent of year 1 value lost in time for property. The study focuses on Berkeley.

When rent control advocates (government officers and/or housing groups) talk about enacting rent control, they usually justify the need for the measure by pointing at the fact that “there is a housing crisis”. This crisis is broadly defined as: very low vacancy rates of rental units and high rental (and homeownership) prices. While this crisis statement is generally true, rent control advocates tend to treat vacancy rates and high housing prices as causes rather than symptoms of the housing problem. Thus, it is useful to assess the nature and depth of the crisis. Knowing the history of vacancy rates, the population growth rate and trend, rental prices growth versus inflation, are some of the indicators that will shed light on: how affordable is the entity; is the crisis permanent; is the affordability level likely to positively change with proposed rent control or not; and is this a local or regional problem. With these elements at hand, it will be easier to introduce the fact that rent control contributes to create or worsen a housing crisis because it makes the housing market more expensive. Trend comparison in the housing market before and after rent control in several cities proves this point. Sharp increases in rental prices in non-controlled units and below average vacancy rates are usually good indicators of how rent control has contributed to the housing crisis.

Warning: when using any dollar amounts annual comparisons make sure to index them in order to obtain inflation free results. Indexing allows you to get rid of inflation and depicts figures accurately; make sure that your rent control proponents are using indexed and same-source figures as well. Changing sources of information and not indexing figures yields to exaggerated estimates and trends that can tilt the argument in any direction.
Warning: if vacancy rates hit **five** percent or below, officials might consider rent control\(^1\).

Study that discusses the definitions of housing crisis and emergency criteria from certain rent control ordinances:

Lett, Monica R., *Rent Control: Concepts, Realities and Mechanisms*, New Jersey, The Center for Urban Policy Research, 1976. Although outdated, this study contains some interesting information about the definitions of housing crisis. From Exhibit 2-1 in p. 36, we learn that the top three criteria for defining a housing crisis in cities with rent control in the United States are (1st) Housing shortage, (2nd) Safety and general welfare and (3rd) Rent increases. Evictions ranks seventh tied with population growth, lack of new construction and cost of new construction as criteria for declaring a housing emergency that in turn justifies rent control.

Sample studies that prove that vacancy rates have an impact on the housing market:

Community Development Department, City of Berkeley, *Rent Control in the City of Berkeley, 1978-1994: A Background Report for Updating the City of Berkeley’s General Plan Housing Element Berkeley*, 1994. This study has statistics that prove that in the City of Berkeley vacancies rose due to rent control; vacancies increased from 3.5% in 1980 to 5% in 1990. Property owners hoped to sell their vacant units for owner occupancy or to get a tenant who receives rental assistance from the Berkeley Housing Authority under the Federal Section 8 program. These tenants pay an approximation of market rent, rather than the controlled rent (p. 77). In addition, a loss of rental units (3,100 out of 3,500) was due to rent control and increased home prices (p. 92). *To the extent that the City of Berkeley desires to reduce the rate of conversion of rental property to owner-occupancy it can act in several different ways, and loosening of rent controls in only one potential action among many* (p. 93).

Nieback, Paul L. (Ed.), *The Rent Control Debate*, Chapel Hill, North Carolina, The North Carolina University Press, 1985. In chapter 5, John Gilderbloom runs a regression analysis that shows that housing markets respond to vacancy rates only at relatively high levels. Rapid rates of new construction are unlikely to cause rents to fall. Income levels have a strong positive relationship with rent—the most powerful, in fact, of all the variables studied. (p. 90).

Sample studies that prove there is a direct link between rent control and creating a housing crisis:

Jurecon, *Rent Control: The Economic Effects*, 1984. The study contains a rental housing market model that evaluates the effects of rent control in the market. The model was tested using empirical evidence for the City of Los Angeles. The statistical result *strongly suggest that rent controls are largely responsible for the recent Los Angeles County rental housing shortage*. The theoretical and empirical result is that rent controls are quite disruptive to the real estate marketplace and will harm many of the parties concerned (p. 116).

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\(^1\) When vacancy rates approach five percent or lower. Officials are more motivated to enact rent control. This is considered a housing emergency. For an example of the five-percent threshold see: City of Santa Monica, CA, Rent Control Charter Amendment, art. XVIII, § 1803 (2002). *Five percent is a kind of turning point, under which you would seriously consider rent control… [That is] the general figure that has been used nationwide*. Neibeck, p. 77. *Testimony given in Milon Lifschitz, et al. v. City of Miami Beach, Florida, Appellee’s Brief* (Kansas City: E. L. Mendenhall, 1976).
Rydell, Peter et al., *The Impact of Rent Control on the Los Angeles Housing Market.* Report N-1747-LA, Santa Monica, The Rand Corporation, 1981. This study analyzes the overall effects of rent control in the City of Los Angeles. The study states that there is no evidence of a housing crisis in Los Angeles, but there is a tight market. *What has happened is that Los Angeles, like most American cities, has suffered double-digit inflation that increases the cost of producing housing services and thereby increases rents* (p. x).

Tucker, William, “How Rent Control Drives Out Affordable Housing”, *Policy Analysis*, May 21, 1997. Data from eighteen American cities shows that rent control has caused a housing shortage. Some of the symptoms of this are homelessness, difficulty finding a new apartment, crowding, exclusion of outsiders, generational subsidies favoring middle class professionals and gentrification.

**LOW INVESTMENT IN DEVELOPMENT**

Property owners adjust investment plans as soon as there is talk about rent control. The possibility that the ordinance can be later modified to include newer constructions is enough to upset investment in the area. Along with developers putting on hold investments and seeking safer cities, insurance companies might hike their insurance prices given the higher probability of damage to the buildings (due to under-maintenance). Measuring the change of building permits before and after rent control is a very good indicator of how construction rate has behaved. Asking insurance companies for quotes in two comparable areas, one with rent control and other without it, will highlight yet another cost of rent control. Bankers and lenders also assess their lending risk differently in rent-controlled areas, making it more difficult and more expensive to obtain loans.

**Sample studies** that prove there is a direct link between rent control and low investment in development:

Block, Walter and Edgard Olsen (Ed.), *Rent Control: Myths and Realities*, The Fraser Institute, Vancouver, Canada, 1981. In an essay entitled “The Presumed Advantages and Real Disadvantages of Rent Control” by Richard W. Ault, it is acknowledged that rent control discourages the construction of new rental housing is probably the one used most frequently by those opposed to rent control. Proponents of rent control usually deny that rent control has this effect because most rent control ordinances exempt newly constructed units. In response to this argument, Ault points out that *government has little credibility when it comes to assuring new investors that they will never be treated the way old investors are.* He cites the New York City example and suggests that investors will always view the extension of rent control to new units as very real possibility despite any ordinance or legislation that assures otherwise.

California Council for Environmental and Economic Balance, *Rental Housing in California: The Case for a State Role*, April, 1983. This study shows that *rent control ordinances have clearly discouraged investment in California’s multi-family unit construction.* It also contains some useful summaries of government studies that prove this very point.

Hohm, Charles F., “The Reaction of Landlords to Rent Control”, *American Real Estate and Urban Economics Association Journal*, Vol. 11, No. 4, 1983, pp. 504-20. This article presents the results of a questionnaire sent to landlords. Attitudes and responses to rent control are recorded and then analyzed. The results, not surprisingly, are that landlords fear rent control
and that the threat of rent control alone is resulting in a high proportion who are either trying to liquidate their holdings or are not investing any further in residential income property (p. 515).

JurEcon Inc., Rent Control: The Economic Effects, 1984. Chapter VII, entitled “Lenders’ perspectives on investment values”, presents the results of a lender survey. Most of these institutions agreed that rent control has impacted their lending decisions in several areas...the amount of the loans has decreased due to the lower appraised value of the properties (p. 91). In the same book, Chapter VIII presents a rental housing market model, put to the test using construction data for the City of Los Angeles the statistical results were clear: the rent control period has a significantly lower average level of construction (as measured by permits or number of units). If construction activity is reduced while population increases, the vacancy rate will fall which seems to be what happened in Los Angeles during the rent control period (p. 117).

Kirlin, John and Stephen B. Frates, Impacts of Rent Control Upon the Housing Stock of Selected California Cities, Sacramento Public Affairs Center, School of Public Administration, University of Southern California, September, 1979. Kirlin and Frates studied the effects of rent control on six California Cities – Berkeley, Beverly Hills, Davis, El Monte, Los Angeles and Santa Monica and concluded that some impact on new apartment construction can be identified. One generalization they can make, however, is that “rent control’s impact will be greater where previous regulation of the housing sector was weak”. They contrast Berkeley, Beverly Hills and Davis with Los Angeles and Santa Monica. The first three cities had land use policies which regulated and therefore constricted development before rent control was imposed. Consequently, rent control has had little impact. On the other hand, Los Angeles and Santa Monica were relatively supportive of real estate development and particularly of apartment development prior to the enactment of rent control. Subsequently, imposition of rent control reduced the number of rental units (by accelerating conversions by condominiums or demolition) and has virtually halted new apartment construction. Instead of helping to alleviate the housing shortage, rent control, by discouraging investment in new rental housing and encouraging the conversion of rental housing into other forms of occupancy, tends to create shortages where they did not previously exist and to make existing shortages even more severe.

National Association of REALTORS®, Rent Controls and the Financial Community, Economics and Research Division, June 1980. N.A.R. conducted a confidential survey amongst the Mortgage Finance Committee members of the Greater Boston Real Estate Board. The financial community (lenders, banks) provided candid and realistic answers about the negative effects that rent control has in investment (e.g. more restrictive lending on rent controlled property; lack of interest in investing in rent controlled cities) and on real estate business activities (e.g. higher interest rates for mortgages in rent controlled areas).

National Association of REALTORS®, Rent Control: Myths and Realities, Washington D.C., 1981. In this analysis of the effects of rent control on various eastern cities, N.A.R. focuses upon New York City, where rent controls have been in existence since 1943 and describes the effect of rent control upon it through the eyes of William A. Moses, Chairman of the Board, Community Housing Improvement Program of New York City. Mr. Moses, in testimony to the Subcommittee on Economic Stabilization of the House Committee on Banking, Finance and Urban Affairs (March 1978) commented on the faith that builders put into new construction exemptions: Governor Malcolm Wilson put in rent controls on everything built between 1969 and 1974, but said that anything built after this will not be subject to rent controls. Well, builders and bankers had heard that before and became reluctant to take anyone’s word for it. The word of the politicians was broken and rebroken and they [the builders] aren’t going to build anything that will leave them holding the bag with respect to rent controls.
National Association of REALTORS®, *Rent Control: A Non-Solution*, 1977, Washington D.C. This publication contains a chapter dedicated to the effects of rent control on new construction. The findings show that rent control retards investment, increases demolitions, affects financing negatively and decreases turnover rates in rent-controlled units.

Pacific Institute for Public Policy Research, *Resolving the Housing Crisis: Government Policy, Decontrol and the Public Interest*, 1982. In an essay entitled “Rent Controls and the Housing Crisis”, Thomas Hazlett describes the faith that builders and investors place in the “new construction exemption”. He points out that the mere threat of rent control has an effect upon apartment developers and their investors. Builders and investors make their decisions based on the price of alternative investment programs available to them. They know that all capital values are, by definition, discounted cash flows accruing from future returns, and, therefore, any event that changes expectations concerning the relative profitability of investments will alter investment patterns.

Penzer, Michael L., *The Rent Control Issue in California*, Special Publications Series Research Report, Federal Home Loan Bank of San Francisco, San Francisco, 1977. The author points out that mortgage lenders are reluctant to make new loans on rent-controlled properties, since there is an increased risk of default on such loans. Investors are also aware of the risks involved and may be less willing to approach lenders for loans on such properties (p. 11).

Real Estate & Land Use Institute, *Rent Control Issues and Impacts*, Sacramento California, 1994. This study analyzes rent control in the cities of Berkeley and Santa Monica from 1980 to 1990. Rent control is a disincentive to maintain and construct residential rental properties and the ordinances have failed at preserving rental housing.

Housing and Development Reporter, “San Francisco Mayor Vetoes Rent Control Expansion, Approves Lower Rent Hike Limit”, January 30, 1984, p. 759. On January 19, 1984, Mayor Dianne Feinstein vetoed a vacancy control ordinance passed by the San Francisco Board of Supervisors which would have strengthened the city’s existing rent control law. The following is excerpted from her veto message: Since the beginning of rent control, the inescapable fact is that virtually no new major unsubsidized rental housing has been built in the City—None at all. The one recent exception is St. Francis Place, a proposed development of 400 units of rental housing at Third and Folsom Streets. Despite major write downs on the land by the Redevelopment Agency, it took fifteen months to secure financing for this project. In fact they were denied financing by at least one lender because this was a “rent control city” and despite the fact that all new units are exempted from rent stabilization provisions. I strongly believe that if we are to ease the demand for affordable housing, we must increase the supply. This can only be achieved if there is a stable environment in which lenders have confidence. This is not true at present. This constantly changing political climate is providing an unwelcome environment for those who can help to alleviate the housing shortage. Just last week, a developer planning 150 units of low-cost housing in the Tenderloin informed me that he could not obtain financing because of this regulation.

Rosen, Kenneth T., *California Housing Markets in the 1980’s: Demand, Affordability and Policies*, Cambridge, Oelgeschlanger, Gunn & Hain, 1984. Ken Rosen’s analysis of California’s rental housing situation can be summarized into three main points. First, unless government provides sufficient incentives to encourage the private sector to invest in new rental construction California faces “a severe rental housing shortage problem for the remainder of the decade”. Second, the rental-housing problem is primarily an “incomes” problem as tenant
incomes are not expected to rise to the level where they could afford the market rent that would make new construction feasible. Third, the state not only needs new rental construction to address the shortage, it stands to benefit economically, as well. Rent control, therefore, is an ironic response to a rental housing shortage. Rosen points out that even moderate rent control results in a substantial decline in new construction.

Selesnick, Herbert L., Rent Control, D.C. Heath and Company, United States of America, 1976. This book makes a brief reference (p. 30) to a Boston bankers’ survey indicating that bankers refuse to grant loans and to grant mortgages to multifamily dwellings in rent-controlled areas.

Strachota, Robert J. and Howard E. Shenehon, “Market Rent vs. Replacement Rent: Is Rent Control the Solution?”, The Appraisal Journal, January 1983, pp. 89-95. The authors point out that the economic environment for new apartment construction throughout the United States is “already difficult” in the absence of rent control because market rents must almost double before new construction will make economic sense.

**Obliteration of the Housing Stock**

There are several ways in which units can be removed from the market. One of the first ones to appear is when property owners convert their units to condominiums in order to minimize losses. Condominium conversion permit applications before and after rent control can give us an idea about the intentions of landlords, while the actual number of applications approved will tell us how many units have been removed this way. A second strategy for diminishing losses, which can be tracked through unit removal, is when landlords decide that they themselves or their family should occupy their rental units. Some ordinances restrict the circumstances under which a landlord or his/her family can occupy a unit. If applicable, occupancy applications are another good measure of how many units have been lost. A third way in which units are removed from the market is when property owners let their units deteriorate until they are no longer useful or they catch fire. Sometimes fires are intentional, since it is more profitable to sell the property for its land value than to keep it as a rental place. The same logic applies to complete deterioration. The local fire department keeps statistics of housing units lost to fire and the city’s building permits keep statistics of demolition. It is useful to look at both statistics if the city has experienced rent control for a long period.

Sample studies that prove there is a direct link between rent control and obliteration of the housing stock:

Michael P. Murray, C. Peter Rydell, C. Lance Barnett, Carol E. Hillestad, and Kevin Neels, “Analyzing Rent Control: The Case of Los Angeles”, Economic Inquiry, Vol. XXIX, October 1991, pp. 601-625. The authors examine rent control in the city of Los Angeles finding that it *rent reductions motivate landlords to consider alternative uses for their apartments* (p. 616) and provides an economic model to estimate the rate of removals and conversions.

Rydell, Peter et al., The Impact of Rent Control on the Los Angeles Housing Market. Report N-1747-LA, Santa Monica, The Rand Corporation, 1981. The study calculates the percentage of loss in housing services caused by rent control in Los Angeles between 1979 and 1990. It puts emphasis on the question at which this loss occurs. *Removals and condominium conversions cause approximately the same loss in housing services as deterioration does, making the total loss approximately double the losses from deterioration.*
**PRICE CHANGES**

It seems like rental prices should remain somewhat stable since there are limits to how much the rent can increase. In reality, prices in the controlled market change as well as in the non-controlled market. Property owners, in order to offset the future losses that rent control imposes with the price caps, charge larger deposits which constitute both a premium and a barrier of entrance, only wealthier households are able to afford the new deposits. Sometimes tenants sublease their units and charge *key money* (special finding fees, furniture fees) or higher rents to the sub-tenants, thereby creating a black market where prices of rent controlled units are higher than what is allowed in the ordinance. Rents in non-controlled units, the free-market, rise because of excessive demand in the housing market, as consequences, rent control ends up spiraling prices in the whole housing free-market (rental and buyer) and propitiating gentrification. Rent control creates a black market in the controlled rental market, in addition to all the negative effects we have already mentioned (deterioration, obliteration, low investment, etc.). Measuring the changes in the free-rental market before and after is one way to prove that rent control has affected rental-housing prices. Comparing those prices to adjacent or similar areas without rent control might give an idea of the magnitude of this change. Obtaining information about prices in the black market and pricey deposits requires a little bit of journalistic investigation.

**Sample studies** that prove there is a direct link between rent control and changes in prices:

Hayek, Friderick, Milton Friedman (Contr.), *Rent Control Myths & Realities*, Vancouver, Canada, The Fraser Institute, 1981. This book contains several essays about the politics, theory and practice of rent control. The essays present data from European, Canadian and American cities affected by it. Page 95 contains a very telling example of *key money* in the City of New York.

Early, Dirk W. and Jon T. Phelps, “Rent Regulations’ Pricing Effect in the Uncontrolled Sector: An Empirical Investigation”, *Journal of Housing Research*, Vol. 10, Issue 2, 1999, pp. 267-285. This study focuses in the price changes in the unregulated housing market (the non-rent controlled units). Rent control has the effect of increasing rents in this sector. *Although new construction is exempt from current rent control laws, a reduction in supply of rental housing will occur if investors are wary of future controls affecting their units. Also, if controls reduce landlord maintenance, total housing supply in a market will fall. Using 1984 to 1996 data from the American Housing Survey, this study examines the role of rent controls in determining the variations in prices of uncontrolled rental housing across metropolitan areas* (p. 267).

Murray, Michael P., C. Peter Rydell, C. Lance Barnett, Carol E. Hillestad, and Kevin Neels, “Analyzing Rent Control: The Case of Los Angeles”, *Economic Inquiry*, Vol. XXIX, October 1991, pp. 601-625. The authors examine rent control in the city of Los Angeles finding that the tenant gains from rent control are the price reductions, which are the landlord losses. *Rent control confers most of its benefits early and extracts most of its costs late* (p.624).

St. John and Associates, *The Impacts of Rent Controls on Property Value*. Working paper no. 90-178, Berkeley, Center for Real Estate and Urban Economics, University of California, 1990. This article explains how rent control negatively affects property values, which increase at a lower rate than neighboring cities.
Nieback, Paul L. (Ed.), *The Rent Control Debate*, Chapel Hill, The University of North Carolina Press, North Carolina, 1985. This study points out that: if the rent regulations allow rents to be adjusted periodically according to the CPI or some other measure of changes in operating costs, rent control is not likely to offer much protection to tenants whose incomes are not similarly indexed to inflation (pp. 44-45). In other words, controlled rental prices do not offer a protection against inflation. This study offers evidence by calculating the median gross rent-to-income ration for the city of New York, for selected years.

Tucker, William, “How Rent Control Drives Out Affordable Housing”, *Policy Analysis*, May 21, 1997. Data from eighteen North American cities shows that the advertised rents of available apartments in rent-regulated cities are dramatically higher than they are in cities without rent control... In other words, inhabitants in cities without rent control have a far easier time finding moderately priced rental units than do inhabitants in rent controlled cities (p. 4).

### Shrinking of Housing Services

Once rent control is approved, tenants in rent controlled units have an incentive to remain in the property for a long time, primarily because of rent prices expected to remain below market rates, shortage of housing and regulations that make evictions more difficult. Hoarding or over-housing are alternative terms used to describe extended tenures which effectively remove rental units from the market, thereby shrinking the housing services offered by landlords. While obliteration of housing units is permanent, hoarding is considered to be temporary since there is always the possibility that the tenant could move and the unit will become marketable once more. One way to measure the shrinking of housing services is by comparing the average tenure before and after rent control.

Some studies have pointed at the possibility that elevated housing prices in combination with this shrinkage can force some renters into homelessness. Changes in the homelessness rate could be an indicator of this phenomenon. A second way to measure the shrinkage of services is to compare average rental household sizes and observe if there is there evidence of crowding in the free-market and under-housing in the controlled one. In the first case, if too many individuals are living in a household, it might mean it is too expensive and that they need to pool their income in order to afford a unit. This in turn might indicate a need for more affordable housing, a lack of vacant rental units and/or low incomes. On the other hand, if there are too many single wealthy individuals in the controlled market, there is under-housing. That is, few individuals are benefiting from cheap rental units while displacing families that might benefit from renting those units.

Sample studies that prove there is a direct link between rent control and changes in tenure:

Los Angeles Times, “Immorality: Tenants Under Rent Controls”, April 8, 1984. This article, which is about the effects of rent control in New York City, points out that tenants are, in a sense, trapped in their apartments because under New York City’s rent control law, “tenancy in perpetuity” continues as long as the apartment remains the principal residence of a tenant and is occupied at least 51 percent of the time. This leads to situations where, as is the case with the people interviewed for the article, New York City tenants have homes in the suburbs which they occupy for 49 percent of their time or less (at the time, even Mayor Edward Koch still has a rent control apartment in Greenwich Village and splits his time between it and the mayor’s mansion).
It is also pointed out that when re-renting the apartment, landlords are most anxious to rent the newly decontrolled units to young couples. The landlord knows that they are going to have to move to something bigger when they start having a family and therefore will allow him another opportunity to raise the rent. The more turnover—the better.

⚠️ **Warning:** see also the sections demographic change, obliteration of the housing stock and price changes, as these topics are all related.

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**RECOMMENDED READING**

Community Development Department, City of Berkeley, *Rent Control in the City of Berkeley, 1978-1994: A Background Report for Updating the City of Berkeley’s General Plan Housing Element Berkeley, 1994*. This rent control study, a truly horror story, unintentionally sheds light on the pervasive effects of rent control while pointing out that the “benefit” of rent control is about $3 in reduced rents to very low-income non-student tenants for every $1 that it costs the City and tenants in 1991. Using the statistics of the study we find that Berkeley, between 1980-1990, lost 1% of its population. At the same time, rental units decreased 12%, median home prices increased 166% and rents increased 74% and tenants income increased 96%! That is, housing became more expensive in spite of Berkeley loosing its population and rent control. In addition, the administration of the program costs about $2,500,000 per year, a costs (sic) which is passed on to tenants through the Annual General Adjustment. Rent controls reduce tax revenues from the property tax, the real property transfer tax and the business license tax on gross receipts (p. III).

Downs, Anthony, *A Revaluation of Residential Rent Controls*, Urban Land Institute, 1996, Brookings Institution. This book contains a thorough exposition of economic rent control theory supported by empirical findings about its negative effects. Rent control inhibits rental construction, increases removal of existing rental units, decreases maintenance, reduces tenant mobility, creates a black market, benefits non-poor households, transfers unjustly and compulsorily private resources from landlords to tenants, distorts property taxes and tax burdens and creates burdensome administrative costs. The book gives examples that support the case against rent control and exposes the failures of pro-rent control research studies. In addition, Appendix B summarizes studies that both present empirical evidence concerning the effects of rent controls and appear to use reliable analytic methods correctly (p.123).

Western Mobilehome Association, *Rent Control Manual*, Sacramento, CA, 1981. This book is a manual on how to fight rent control. “Section III The Case Against Rent Control” is very useful since it contains a summary of the case against rent control and quotes and data of rent control before 1980. The quotes are taken from both academic and recognized political sources of the time, lending credibility to the argument against rent control, are extensive, well researched and organized.