

IN DEFENSE OF RENT CONTROL

JAKE BLUMGART · APR 1, 2015



Rent control has long been criticized by economists, but the list of theoretical harms often aren't observable in reality. With a lack of serious public housing funding, the policy may be one of the best, and cheapest, ways to protect low-income families.

Rent control is basically dead. The policy is long gone in big cities like Chicago and Boston, and advocates are on the defensive in San Francisco and New York City, where there are only 27,000 units left down from more than two million in the 1950s. In the latter case, at least, 47 percent of the city's housing stock is still rent stabilized—meaning that the price of covered units can only be raised a set percent every year. But even that is a 12 percent decline from 1991.

Landlords and real estate developers hate these laws and are largely responsible for organizing the political efforts that have precipitated their decline. Rent regulations are also exceedingly unpopular among economists, opinion columnists, and armchair urbanists. In a column way back in 2000, Paul Krugman explained the rationale behind the opposition of the chattering classes:

THE ANALYSIS OF RENT CONTROL IS AMONG THE BEST-UNDERSTOOD ISSUES IN ALL OF ECONOMICS, AND -- AMONG ECONOMISTS, ANYWAY -- ONE OF THE LEAST CONTROVERSIAL. IN 1992 A POLL OF THE AMERICAN ECONOMIC ASSOCIATION FOUND 93 PERCENT OF ITS MEMBERS AGREEING THAT "A CEILING ON RENTS REDUCES THE QUALITY AND QUANTITY OF HOUSING." ALMOST EVERY FRESHMAN-LEVEL TEXTBOOK CONTAINS A CASE STUDY ON RENT CONTROL, USING ITS KNOWN ADVERSE SIDE EFFECTS TO ILLUSTRATE THE PRINCIPLES OF SUPPLY AND DEMAND. SKY-HIGH RENTS ON UNCONTROLLED APARTMENTS, BECAUSE DESPERATE RENTERS HAVE NOWHERE TO GO -- AND THE ABSENCE OF NEW APARTMENT CONSTRUCTION, DESPITE THOSE HIGH RENTS, BECAUSE LANDLORDS FEAR THAT CONTROLS WILL BE EXTENDED?

But even mild rent regulations of the sort that exist in New York are rarely, if ever, extended to encompass unsubsidized new units these days. Which is why it was so surprising when the board of supervisors in San Mateo County, California, announced earlier this month that they would study the feasibility of implementing such a policy (the county currently does not employ such a measure). All of the members of the board said they were skeptical of the idea, the *San Jose Mercury News* reported, but the tech industry-fueled housing crunch is so bad they were willing to give it consideration.*

“The high cost of housing has always been a challenge in San Mateo County, but now it’s reached a crisis level,” Supervisor David Pine told the newspaper. “So this is the time for cities, the county and other stakeholders to look at every tool available to provide more affordable housing.”

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The San Francisco Bay Area is not the only region struggling with a tight housing market. Displacement pressures in and around New York, Seattle, Boston, Washington, D.C., and even Chicago are stoking community concerns as capital floods into urban areas that, even 20 years ago, were still struggling with the fallout of the mid-20th century urban crisis. It’s worth asking if rent regulations should be part of the ongoing policy debate—especially because it has been so widely derided in the media for so long—and what aspects of the larger issue it should be expected to address.

“The argument for rent control should be distinguished from the argument for affordability per-se,” says Joshua Mason, an economics professor at Roosevelt University. “The real goal of rent control is protecting the moral rights of occupancy. Long-term tenants who contributed to this being a desirable place to live have a legitimate interest in staying in their apartments. If we think that income diverse, stable neighborhoods, where people are not forced to move every few years, [are worth preserving] then we collectively have an interest in stabilizing the neighborhood.”

Renters are often maligned for not investing in their neighborhoods or houses. Mason argues that rent regulations give tenants a greater stake in their community and incentivize them to put time, energy, and even money into their homes. Without that kind of security in their occupancy, there is little return for contributing to the neighborhood and building relationships in the surrounding blocks.

The common critique, elucidated in Krugman’s column, is that regulating rents on some housing units will drive up rents on those that are not controlled, while resulting in less new housing development because real estate interests are disinclined to build if they can’t be guaranteed market rate returns. According to this logic, housing stability for older residents should not take precedence over the ability of new residents to move to a highly desirable community. And, as the argument often goes, building more market rate housing creates more affordable housing eventually. (Maybe in some places, but not in tight markets like Silicon Valley and New York.)

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But a comprehensive review of literature by New York housing lawyer Timothy Collins found that the received wisdom regarding rent regulations is overly simplistic—partially because hard ceilings on rents are often imagined, while the reality is more often (as in New York’s case) a more measured approach meant to discourage landlords from dramatically raising rents and displacing tenants.

Collins argues that New York’s two largest building booms took place during times of strict rent controls: the 1920s and the post-war period between 1947 and 1965. (He is not arguing that the regulations provoked the building, just that they didn’t restrain it in the same way strict zoning codes did in the mid-1960s.)

“New York’s moderate rent regulations have had few, if any, of the negative side effects so confidently predicted by industry advocates,” Collins writes. “More important, rent regulations have been the single greatest source of affordable housing for middle- and low-income households. I should note that many of these findings came as a surprise to me. When I first joined the Rent Guidelines Board staff in 1987, I believed that rent regulations in New York City probably did have some long-term harmful effects. I was proven wrong.”

Outside the city, one economist found that housing construction in New Jersey fell by 52 percent in cities that enacted rent control regulations in the early 1970s—but fell 88 percent in those that didn’t. The policy also did not affect the landlords’ desire to keep their properties in good condition. One study from 1988 found that “there is no basis for economists’ strongly-held belief that rent control leads to worse maintenance.”

Collins also found that all the apartments that experts expected to open up with the introduction of rent regulations did not materialize after rent control was removed from Boston. In 1994, real estate interests in Massachusetts organized a statewide referendum to end rent control—which only existed in Boston, Cambridge, and Brookline—and just barely won. But Census data shows that Boston’s vacancy rate was four percent before the regulations were phased out and 2.9 percent four years after they were done away with—scrapping rent control had, at the very least, not generated a measurable effect on apartment availability. The median price for a two-bedroom apartment doubled in the meantime.

An *Economist* article on the end of rent control in Cambridge reported that 40 percent of covered tenants moved out of their apartments after the end of rent regulations in the city—rents had increased by 50 percent—and reports of evictions rose by a third. A 2012 study seems to show that the removal of rent regulations did nothing to lower housing prices and ended Cambridge's tenure as a mixed-income neighborhood.

Simply building more units to bring down overall prices might work in some settings. But in tight housing markets that are already heavily developed, as most major Northeastern or West Coast cities are, it's unclear whether rents are primarily driven by supply.

In neighborhoods that are in commuting distance of economically vibrant areas, the level of demand may be too high to accommodate by simply building new units. This is especially applicable to mass transit nodes near job centers like New York or San Francisco: There are far too few of both for supply to reliably set prices that working class—let alone impoverished—residents can afford.

Rent regulations only helps incumbent tenants, of course, so new construction is needed to address the full range of housing needs in an area like San Mateo—both affordable and market rate. Traditional public housing long ago fell out of favor (if for often unjust reasons), but affordability subsidies like Section 8 vouchers and low-income housing tax credits have largely taken their place.

A newer tool for creating affordable housing is inclusionary zoning, which requires developers to offer a certain percentage of their new units as affordable (this is a cornerstone of Bill DeBlasio's housing plan). But these newer forms of ensuring stability and a mix of incomes are less reliable. Landlords in booming areas reject Section 8, while inclusionary zoning requires new buildings—and a lot of them if substantial amounts of affordable housing are to be created. That takes a lot of time—time in which families who need access to good neighborhood schools, convenient mass transit, and longtime community connections can be displaced. The promise of rent control or stabilization policies is that these tenants will have relief when they need it.

“Rent regulation is a response to the power imbalance between landlords and tenants, which creates an opportunity for landlords to exploit tenants that certainly exists in tight market cities like New York,” says Tom Waters, housing and policy analyst for the Community Service Society of New York. “And one of the most important benefits of rent regulation in New York City is that organizers can go and form tenant associations and have tenants withhold rent in order to deal with leaks or problems like that. If the landlord had the power to evict everyone who complains it would be a lot harder to do that.”

Will rent regulation be a serious part of the policy discussion again? Its return faces significant headwinds. Some states with competitive housing markets—like Massachusetts—have long ago banned such policies. Even in New York, one of the areas where the need for such protections is greatest, the future is uncertain. The city's rent regulations are up for re-negotiation this spring. DeBlasio had initially hoped to win control of them from state lawmakers in Albany, which would have given the city a greater latitude in its rent regulations and possibly reversed the steady decline in the number of regulated units. But last fall's election cemented a Republican majority in the state senate, and conservative Democratic governor Andrew Cuomo remains unfriendly to many of the liberal mayor's proposals.

Given this political climate, rent regulations may continue their slide into oblivion. But rent control and stabilization stand a better chance of making a comeback than, say, public housing, because they don't require massive federal expenditures. That's why small municipalities like Bloomfield, New Jersey, can actively consider it as part of their toolkit, just like their counterparts in San Mateo (who have already rhetorically backed away from their initial gambit). In already densely developed areas with crowded housing markets, where working class populations face a serious threat of displacement, rent regulation may be worth a second look.

***UPDATE — April 2, 2015:** This story has been updated to reflect that unsubsidized new units are the ones rarely covered by rent regulation extensions.



SOCIAL JUSTICE

INSIDE CHICAGO'S ACTIVIST EFFORTS TO SECURE RENT CONTROL

Local organizers are pushing hard to get rent control on a spring referendum—but can their efforts succeed?



SOCIAL JUSTICE

IN DEFENSE OF THE LAW-BREAKING CYCLIST

Until more is done to integrate bikes with auto traffic, Jake Blumgart will do whatever keeps him safe.



ECONOMICS

PREFERENTIAL RENT TREATMENT IS HURTING NEW YORK CITY'S POOREST NEIGHBORHOODS

The units are supposed to be protected from steep rent hikes. But thanks to a loophole, owners can seek big rent increases anyway.



NEWS

FOR SOME NEW YORK LANDLORDS, IT'S LEGAL TO TAKE TAX BREAKS AND THEN RAISE RENTS WITHOUT LIMIT

The protections stem from when Rudy Giuliani, together with the real-estate industry, maneuvered behind the scenes in 1995 to exempt downtown Manhattan apartments from rent stabilization rules.



ECONOMICS

DO WE NEED TO FORCE PEOPLE TO LIVE IN THE HOMES THEY OWN?

With more and more individual investors looking to real estate as just another money-making commodity to add to their portfolio, rents are being driven to unreachable heights for all but the wealthiest among us.



NEWS

NEW YORK LANDLORDS EXPLOIT RENT LOOPHOLES THAT INADVERTENTLY FOSTER HOMELESSNESS