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The Impacts of Rent Control: A Research Review and Synthesis

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About NMHC

Based in Washington, DC, the National Multifamily Housing Council (NMHC) is a national association representing the interests of the larger and most prominent apartment firms in the U.S. NMHC's members are the principal officers of firms engaged in all aspects of the apartment industry, including ownership, development, management and financing. NMHC advocates on behalf of rental housing, conducts apartment related research, encourages the exchange of strategic business information and promotes the desirability of apartment living. Nearly one-third of Americans rent their housing, and almost 15 percent live in an apartment (buildings with five or more units). For more information, contact NMHC at 202/974-2300, e-mail the Council at info@nmhc.org, or visit NMHC's Web site at www.nmhc.org

About the NMHC Research Foundation

In 2016, NMHC formed a non-profit (501(c)(3)) Research Foundation to produce research that will further support the apartment industry's business interests. The work supported by the NMHC Research Foundation raises the industry's standard of performance and encourage worldwide investment in the sector. The NMHC Research Foundation funds unique and original research on a wide range of topics, including issues related to development and redevelopment activity, affordable and workforce housing, demographics, tax policy, regulatory environment and zoning and land use, among others. For more information, visit www.nmhc.org/Research-Foundation.

About the Author

Dr. Lisa Sturtevant has been involved in research and analysis on local economic, demographic and housing market conditions for more than 15 years. As president of Lisa Sturtevant & Associates, LLC, she leads housing needs assessments and planning projects for local communities throughout the country. In addition, she conducts special studies on housing issues for local and national organizations.

Introduction

Rent control laws limit the amount of rent a landlord can charge, either by setting a rent ceiling and/or by limiting rent increases. The latter approach is sometimes referred to as a rent stabilization policy. Most rent control or rent stabilization policies also set rules for the conditions under which a landlord can evict a tenant.

Many policies allow landlords to petition for greater rent increases if they make significant improvements to the property. New York City's rent control and rent stabilization laws are well known, but rent control has also been adopted in cities in California, New Jersey, Massachusetts and Maryland and in the District of Columbia. There are initiatives underway presently to expand rent control in California (where rent control was restricted in 1995 by the Costa-Hawkins Rental Housing Act) as well as Illinois, Washington and Oregon.

Renewed interest in rent control is a reaction to growing housing affordability challenges across the country and in high-cost coastal markets, in particular. As rents continue to rise, rent control is being advocated by some as a mechanism to help mitigate the rental affordability challenge and make it easier for lower-income individuals and families to find housing they can afford in high-cost regions.

Imposing limits on rents would seem to be a logical way to keep housing costs low for people who need affordable housing. However, there are significant problems associated with rent control programs. Economists nearly universally agree that rent ceilings reduce the quantity and quality of housing and that even more moderate forms of rent stabilization have efficiency challenges and negative housing market impacts.¹

This report synthesizes the empirical research on the effects of rent control and rent stabilization on individual renters and communities, building on prior evaluations of the rent control literature.² This report does not include a review of every rent control study. Rather, the research included in this review includes only empirical studies of rent control and rent stabilization programs in the U.S. Theoretical studies were excluded, as were studies that simply provided a descriptive analysis of a rent control program. Non-U.S. studies were excluded with the presumption that housing markets and housing policy are substantially different in other countries that have implemented rent control. The vast majority of the studies included in this synthesis were published in peer-reviewed journals, though other studies (e.g., consulting reports) were included if they met the other criteria.

The earliest study included in this synthesis was published in 1972 and the latest was released in 2017. The reviewed research includes case studies of programs in a single market—New York, Boston, Los Angeles, San Francisco, Santa Monica, Washington, D.C.—as well as fewer studies that take a cross-sectional approach across markets. Most of the research employed various

¹ Jenkins, Blair. 2009. Rent Control: Do Economists Agree? *Econ Journal Watch* 6(1): 73-112.

² In addition to Blair (2009), see also Turner, Bengt and Stephen Malpezzi. 2003. A Review of Empirical Evidence on the Costs and Benefits of Rent Control. *Swedish Economic Policy Review* 10: 11-56.

multivariate statistical techniques, while a small handful of studies were able to take advantage of a policy change that created a natural experiment (see Table 1).

Table 1. Empirical Studies of Rent Control and Rent Stabilization (By Publication Date)

Authors (Date)	Geographical Areas
Olsen (1972)	NYC
Rydell et al. (1981)	Los Angeles
Fallis and Smith (1984)	Los Angeles
Mengle (1985)	Multiple
Navarro (1985)	Cambridge, MA
Linneman (1987)	NYC
Peat Marwick (1988)	NYC
Gyourko and Linneman (1989)	NYC
Ault and Saba (1990)	NYC
Gyourko and Linneman (1990)	NYC
Levine, Grisby and Heskin (1990)	Santa Monica
Turner (1990)	Washington, DC
Rappaport (1992)	NYC
Caudill (1993)	NYC
Honig and Filer (1993)	NYC
Moon and Stotsky (1993)	NYC
Ault, Jackson and Saba (1994)	NYC
Nagy (1995)	NYC
Malpezzi (1996)	Multiple
Gissy (1997)	Multiple
Grimes and Chressanthis (1997)	Multiple
Nagy (1997)	NYC
Early and Phelps (1999)	Multiple
Early (2000)	NYC
Glaeser (2002)	California, New Jersey
Glaeser and Luttmer (2003)	NYC
Krol and Svorny (2005)	New Jersey
Sims (2007)	Boston
Sims (2011)	Boston
Diamond, McQuade and Qian (2017)	San Francisco

What Is Rent Control?

Rent control often refers to laws that set caps on rents, while rent stabilization generally refers to policies that regulate how often and how fast rent levels can increase.³ Generally adopted at the municipal level, rent control laws often are coupled with rules related to tenant eviction and to exceptions to the rent levels or increases under certain circumstances. New York City has the most established rent control laws, but there are currently rent control policies in place in communities in California, New Jersey, Maryland and the District of Columbia.

Local rent control or rent stabilization policies can vary on different dimensions:

- Regulation of rent *level* or rates of rent *increases* and how these levels or rates are set;
- Types of residential buildings or units subject to rent control, based on the age or size of the building, and, consequently, what share of the locality's rental stock is subject to rent control;
- Rules on rent changes upon a tenant vacating a rent-controlled unit (i.e., vacancy allowances/vacancy decontrol policies); and
- Eviction rules that outline the circumstances under which landlords of rent-controlled buildings can turn out a tenant.

The variation in rent control and rent stabilization policies has important implications for understanding findings from the research on policy impacts and for generalizing specific findings to other existing and potential rent control policies. Market conditions also matter when measuring the effects of rent control or rent stabilization, as does the length of time the law has been in place. Furthermore, rent control is one of many different forms of regulation that can impact housing supply and price, and sometimes it can be challenging to isolate rent control's impact.

Key Findings

Even with these caveats, there are several clear and consistent findings about how rent control laws impact residents, landlords and local housing markets:

1. Rent control and rent stabilization policies do a **poor job at targeting benefits**. While some low-income families do benefit from rent control, so, too, do higher-income households. There are more efficient and effective ways to provide assistance to lower-income individuals and families who have trouble finding housing they can afford.
2. Residents of rent-controlled units move less often than do residents of uncontrolled housing units, which can mean that rent control causes **renters to continue to live in**

³ Policies are sometimes referred to as “first-generation” and “second-generation” rent control to distinguish between stricter programs with rent caps and more moderate programs that regulate rent increases and provide tenant protections. In this paper, the term “rent control” is generally used to refer to both types of programs unless otherwise specified.

units that are too small, too large or not in the right locations to best meet their housing needs.

3. **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.
4. Rent control and rent stabilization laws lead to a **reduction in the available supply of rental housing** in a community, particularly through the conversion to ownership of controlled buildings.
5. Rent control policies **can hold rents of controlled units at lower levels** but not under all circumstances.
6. Rent control policies **generally lead to higher rents in the uncontrolled market**, with rents sometimes substantially higher than would be expected without rent control.
7. There are **significant fiscal costs** associated with implementing a rent control program.

Impacts of Rent Control

The research on rent control and rent stabilization programs has examined the effects of those regulations in several different areas:

- **Targeting Housing Benefits:** How well do rent control policies assist the individuals and families most in need of affordable housing?
- **Allocation of Existing Housing Units:** Do rent control policies lengthen tenancy duration? Do they create a mismatch between units and households?
- **Maintenance and Building Quality:** Does rent control lead to a decline in building maintenance and lower building quality?
- **Housing Availability:** Does rent control reduce the overall supply of rental housing?
- **Rent Levels:** Are rents of controlled units lower than market-rate rents? Does a shortage in housing supply caused by rent control lead to higher rents in the uncontrolled market?
- **Fiscal Impacts:** Do rent control policies lead to lower levels of property tax revenue collected by the municipality? How substantial are administrative costs associated with rent control laws?
- **Homelessness:** Does rent control increase homelessness as a result of reduced housing supply?

The following review assesses the research evidence on each of these issues.

Targeting Housing Benefits

Hypothesis: Limiting rent levels or rent increases under a rent control law allows lower-income individuals and families to gain access to housing they can afford in high-cost housing markets. Depending on how it is implemented, a rent control strategy can create and preserve mixed-income neighborhoods and can help promote racial and economic integration.

Alternative: Because rent control creates a limited pool of below-market units, the law creates a system where landlords are incentivized to exercise greater control over tenant selection. Landlords of rent-controlled buildings could make units more readily available to households with particular characteristics (e.g., higher-income households, households without children) or prospective tenants who can pay a fee to apply for rent-controlled units. As a result, rent control may not meet the needs of individuals and families most in need of affordable housing.

Overview of Findings: Rent control and rent stabilization policies do a poor job at targeting benefits. While some low-income families do benefit from rent control, those most in need of housing assistance are not disproportionately the beneficiaries of rent control. Furthermore, rent control generally does not lead to more economically and/or racially integrated neighborhoods.

Implications: Rent control/rent stabilization is not an efficient mechanism for helping lower-income households access affordable housing. There are more effective ways to provide assistance to lower-income individuals and families who have trouble finding housing they can afford. For example, researchers point to increasing the number of federal housing vouchers and expanding the Low-Income Housing Tax Credit (LIHTC) program as more promising ways to create more affordable housing options.

Research Findings on Targeting Housing Benefits

Research demonstrates that New York City's rent control and rent stabilization laws are administered indiscriminately and benefits from the programs tend to be quite small and poorly targeted. Based on the research reviewed, the inefficiency in targeting benefits in New York has increased over time.

Using data from 1968⁴, Gyourko and Linneman (1989) found some poorer individuals were benefiting from New York City's rent control program; however, there was no evidence that the program successfully targeted those most in need, so benefits of rent control were also enjoyed by higher-income households. Using the same data, Olsen (1972) came to a slightly different

⁴ The New York Housing Vacancy Survey (NYHVS) was administered in 1968 and 1981 and provided detailed data on residents of rent-controlled, rent-stabilized and uncontrolled units. Therefore, a number of studies of NYC's rent control programs use 1968 or 1981 data. The NYHVS currently is administered by the U.S. Census Bureau every three years to comply with New York state and New York City rent regulation laws.

interpretation, demonstrating that renters who lived in rent-controlled apartments had significantly lower average incomes than those in uncontrolled units. However, Olsen (1972) concluded that there was significant variation in the distribution of the benefits of rent control and that New York City's program was "a poorly focused redistribution device."

Looking at data between 1965 and 1968, Ault and Saba (1990) found that residents of rent-controlled apartments tended to be more likely minority and elderly—two groups a rent control policy could want to target. However, over time, they found that the benefit of the rent control subsidy in New York City was greater for higher-income households than for lower-income or minority households. Furthermore, renters with similar needs or characteristics were very unlikely to receive similar levels of benefits under New York City's rent control law, indicating that the program did a poor job of targeting assistance.

These early studies of New York generally provide evidence from the city's rent control law, adopted in the 1940s, rather than the later-implemented rent stabilization law. Using 1981 data, Linneman (1987) also concluded that both the city's rent control and rent stabilization programs were targeted haphazardly, benefitting some low-income households, particularly seniors, but generally doing a poor job at directing housing benefits to those most in need. Early (2000) used data from 1996 and confirmed not only that rent control and rent stabilization in New York City were poorly targeted, but also that the city's laws induced landlords to change the way they recruited tenants, giving preference to older and smaller households. This observation that older households (i.e., seniors) and smaller households (i.e., households without children) were preferred by landlords of rent-controlled properties was also made by Linneman (1987), Gyourko and Linneman (1989) and Ault and Saba (1990).

While New York City's rent control history is unique in many ways, the lack of efficient targeting of the potential benefits of a rent control program is observed in other communities. In the Boston metropolitan area, Sims (2007) found that in the late 1980s and early 1990s, lower-income households were not well served by rent control programs. Specifically, he found that about a quarter (26 percent) of rent-controlled units were occupied by tenants with incomes in the bottom quartile while 30 percent of rent-controlled units were occupied by tenants in the top half of the income distribution. Navarro (1985) had come to a similar conclusion about rent control programs in the Boston area, examining data from the 1970s.

In her study of Washington, D.C.'s rent control policy, where about two-thirds of the stock was under control during the 1980s, Turner (1990) concluded that D.C.'s rent control policy did not benefit renters efficiently or equitably. In particular, the policy benefited renters who remained in their units a long time (including affluent renters) and did not provide assistance to recent or frequent movers (including poor individuals and families at risk of homelessness) who were unable to pay the above-market rents landlords could charge upon a tenant's departure.

A benefit of a rent control policy could potentially be an increase in economic and racial integration if lower-income households are able to access housing in higher-income neighborhoods. However, there is scant evidence of this benefit in the empirical research. Glaeser (2002) examined whether rent control increased residential integration in eight cities with rent control in California and in seven cities with rent control in New Jersey. In rising cost regions, such as those in California, rent control did increase lower-rent housing options; however, the occupants of rent-controlled units in California and the beneficiaries of living in higher-opportunity neighborhoods tended to be seniors rather than families with children. In New Jersey, where housing

markets were on the decline, rent control was actually associated with *increased* economic segregation in municipalities.

Using earlier data from 1979 and 1987 to evaluate Santa Monica's rent control policy, Levine, Grigsby and Heskin (1990) found the city's rent control program did provide benefits to low-income households in the city, finding no evidence that the city's rent control policy provided a disproportionate benefit to middle- and higher-income households. However, there was no impact on economic or racial integration in the community as a result of rent control.

Sims (2011) examined whether rent control in Cambridge, Mass., increased economic and racial segregation and found that rent control appeared to increase the share of minority residents in the city, but it was associated with a decrease in the proportion of very low-income residents. Sims (2011) concluded that the modest impacts on racial integration in Cambridge were overshadowed by the increases in economic segregation in the community.

Allocation of Existing Housing Units

Hypothesis: Rent control acts as a price control, which limits the overall supply of housing and does not allow units to be allocated to the residents who would benefit most since price cannot be used to sort renters into different units. Renters who gain access to rent-controlled apartments stay in those units longer than they would in a market-rate unit, even if the unit is no longer appropriate for their household (e.g., too big or too small, based on changes in household composition).

Overview of Findings: Residents of rent-controlled units are less mobile than residents of uncontrolled housing units, and the benefit of living in a rent-controlled unit causes tenants to remain in their units longer than they would without rent control, leading to a mismatch in unit type or size and the need of the household.

Implications: Reduced mobility caused by rent control may limit the availability of so-called "family-sized" units (i.e., units with three or more bedrooms) if tenants of rent-controlled units remain in units after children have moved out on their own. There could also be instances of housing overcrowding if residents of rent-controlled units stay in homes that are too small as their family grows (e.g., after the birth of a child or when a relative moves in). Reduced mobility associated with rent control could have other impacts.

Tenants of rent-controlled units may be less likely to change jobs or may be more likely to endure long commutes because they do not want to move into a new unit. Rent control may induce people to put off homeownership and to remain renters longer to take advantage of below-market rents. Finally, when residents of rent-controlled buildings stay in their units as their incomes increase, rather than move into units with higher rents, the result is a reduction in the supply of affordable housing available to those with lower incomes.

Research Findings on Allocation of Existing Housing Units

Studies on rent control and rent stabilization in New York City consistently demonstrate that these policies have been associated with reduced residential mobility and a significant “mismatch” between tenants’ housing needs and the characteristics of the units. Gyourko and Linneman (1989) used 1968 data to examine the distributional consequences of rent control in New York City, demonstrating that New York City’s rent control policy led to longer tenures and lower likelihoods of homeownership among tenants in rent-controlled units. Ault, Jackson and Saba (1994) also examined 1968 data and estimated that the typical rent control tenant remained in his or her unit about 18 years longer than an otherwise identical tenant in an uncontrolled unit.

Other research in New York City attempted to differentiate the residential mobility impacts of rent control versus the more moderate rental stabilization program by using later data. Using data from 1981, Linneman (1987) compared length of tenancy among residents living in uncontrolled units with tenancy among those living in units under the city’s rent control law and units subject to the city’s later-enacted rent stabilization law.

Residents of strictly controlled rental units received significant rental subsidies relative to those of the stabilized and uncontrolled sectors, and that subsidy led to these renters remaining in their units significantly longer than they would otherwise be expected. But Linneman noted that there was no significant difference in the tenancy durations of residents of rent-stabilized units and uncontrolled units. At the time of the data collection (in 1981), New York City’s rent stabilization policy had only been fully implemented for seven years (since 1974), which may partially explain why no difference between tenants of uncontrolled and rent-stabilized units was found.

Nagy (1995) also compared residential mobility between renters living in rent-controlled units and rent-stabilized units using data from 1978 and 1987 (between four and 13 years after full adoption of rent stabilization in New York City). He found that tenants of rent-controlled units were, in fact, significantly less mobile than those living in rent-stabilized units; however, the differences were not so clear after accounting for the differences in the socioeconomic characteristics of the two types of renters. For example, renters living in rent-controlled units were more likely to be white and older compared to rent-stabilized renters, and those characteristics themselves are associated with reduced mobility.

Rappaport (1992) examined the effects rent control had on the probability of rental vacancies and occupant turnovers in New York City, which is a slightly different way of looking at residential mobility and length of tenure. She found that compared to uncontrolled units, a rent-controlled apartment was about eight percent less likely to turn over in a three-year period.

Lower levels of residential mobility and longer tenures in current units suggest that tenants of rent-controlled units would be more likely to live in housing that is not optimal either in terms of size or amenities. Using data from the 1990 Census and comparing the New York City apartment market to comparable areas that had not adopted rent control, Glaeser and Luttmer (2003) found that between 15 and 21 percent of New York City apartment renters lived in larger or smaller units than they would if they were living in a city without rent control or rent stabilization (with the range depending on whether unit size was measured by rooms or bedrooms). The authors cautioned that in New York City there also is a “housing misallocation” among both renters in uncontrolled buildings and owners when compared to other markets, suggesting that the New York City market may be generally inducing misallocation of units.

In 1994, San Francisco adopted rent control protections for small multifamily housing (four units or less) built prior to 1980. Diamond, McQuade and Qian (2017) compared outcomes for tenants and landlords of small pre-1980 buildings and post-1980 buildings to estimate the impact of rent control on residential mobility. The authors found that residents of rent-controlled buildings were between 10 and 20 percent more likely to stay in their current unit over the study period, with the effects significantly stronger among older households and among households that already had a long tenure in their current unit, two groups that have lower levels of residential mobility even absent having access to a rent-controlled unit.

Washington D.C.'s rent control law was adopted in 1985 and applied limits on rent increases to all units in buildings built before 1975. In an evaluation of rent control in D.C., Turner (1990) found that tenants of rent-controlled units moved less frequently than tenants of other units, concluding that the city's rent control program contributed to the very low rates of residential mobility observed in the city. Turner (1990) did not find evidence of reduced probabilities of homeownership associated with rent control in Washington D.C.

Krol and Svorney (2005) examined the impacts on residential mobility of rent control programs in New Jersey more implicitly by examining the links between length of commute and presence of rent control. Using data from the 1980, 1990 and 2000 censuses, the authors found a positive and statistically significant relationship between the presence of rent control in a city and commute times for workers who lived in those cities. The municipalities with the most restrictive regulations were associated with the longest average commute times. Krol and Svorney (2005) suggested that in New Jersey, a lack of household mobility was the driver of the longer commute times and concluded that the relative immobility of the population was the factor underlying the relationship they observed between rent control and commute times.

Maintenance and Building Quality

Hypothesis: Limiting rents through a rent control or rent stabilization law reduces the return on investments in rental housing and will cause landlords to choose to undermaintain their properties until the output of housing services (as measured by housing quality and amenities) declines to the level that is supported by the below-market rents.

Alternative: Even as rent control may limit landlords' desire to maintain their properties, other local ordinances that require landlords to maintain units to certain standards, to repay tenant maintenance expenditures, and/or to permit rent increases for well-maintained or upgraded units could counteract the potential negative impacts on housing quality associated with rent control.

In addition, a rental subsidy in the form of rent control could encourage tenants to contribute to maintenance and upkeep, counteracting any possible deferred maintenance on the part of the landlord.

Overview of Findings: There is no clear association documented in the empirical research between rent control and building quality, particularly if other ordinances, requirements or incentives are present to have landlords maintain buildings.

Implications: Rent control laws in communities that have comprehensive requirements related to building maintenance may mitigate any potential negative impacts on housing quality. However, without appropriate incentives or requirements, landlords of rent-controlled buildings will be unlikely to make improvements to buildings. Furthermore, tenants of rent-controlled buildings may feel obligated to take on more maintenance responsibilities and costs, which ends up reducing the benefits of the rent control subsidy.

Research Findings on Maintenance and Building Quality

Earlier studies of rent control in New York City did find a negative relationship between rent control and building quality, but researchers noted that it is difficult to isolate the rent control impacts since the law applied to older and often lower-quality buildings. Using data from 1968, Gyourko and Linneman (1990) found that New York City's rent control law had a large and significant negative impact on the quality of rental buildings, but the impact was primarily for non-high-rise buildings and buildings that were already in a state of disrepair when rent control was adopted. In the same study, Gyourko and Linneman (1990) provided modest evidence that rent control in New York City induced maintenance and upkeep on the part of individual residents of controlled units.

The relationship between rent control/stabilization and building quality in New York City is even less clear cut in later years. Moon and Stotsky (1993) offered mixed evidence that rent control led to a decline in housing quality in New York City over the 1978 to 1987 period. While there was a possibility of the quality of rent-controlled units to decline over time, Moon and Stotsky (1993) found that maintenance and improvements occurred in rent-controlled buildings when other economic conditions were favorable to induce landlords to renovate. For example, if landlords were able to offer a payout to existing tenants and/or were able to capitalize on higher rents when existing tenants moved out, they could be incentivized to maintain their buildings. This research also found that longer-term tenants of rent-controlled units in New York City were incentivized to provide maintenance and upkeep of their property even if the landlord did not.

Rent control was ended in Massachusetts in 1995, and the termination of rent control laws in cities in the Boston metropolitan area provided a type of natural experiment to examine the impacts of rent control. While Sims (2007) primarily focused on impacts of rent control on housing supply, the findings from this research also suggested that in the late 1980s and early 1990s, rent control in Boston was associated with modest deterioration in the quality of the rental housing stock without a counteracting tenant-supplied maintenance and upkeep. Similarly, while not the primary outcome analyzed in their evaluation of rent control in Los Angeles, researchers at RAND (Rydell et al. 1981) found evidence of deferred maintenance and upkeep in rent-controlled buildings.

However, after 15 years of rent control in Washington D.C., Turner (1990), found no evidence of a decline in housing quality and, in fact, documented that units exempt from rent control in D.C. had more maintenance issues than rent-controlled buildings. She concluded that other local policies helped to ensure building quality in the city.

Looking across the country at other communities with rent control, Mengle (1985) attempted to examine the relationship between housing quality and rent control across eight metropolitan areas in the mid-1970s, with a dataset that included four metropolitan areas where rent control was present and four where rent control was not present. While Mengle (1985) found evidence of reduced residential building quality in the metropolitan areas with rent control, it was noted that rent control laws varied considerably across municipalities in the study, but the model did not explicitly attempt to account for those policy differences or attempt to ascertain other regulations or ordinances that could incentivize building maintenance.

Housing Availability

Hypothesis: Regulations that limit rents could reduce the availability of rental housing in both the short- and long-term. Rent control could induce landlords of properties covered by the law to convert their buildings to condominium ownership, thereby taking rental units off the market. The supply of affordable rental housing could also be diminished if landlords redevelop their properties such that the new units are not subject to rent-controlled laws. Longer-term, while rent control regulations almost always exclude new construction, if rent control puts downward pressure on market rents or if developers fear that in the future new units will be subject to controls, they may not build new housing.

Overview of Findings: Rent control and rent stabilization laws generally led to a reduction in the available supply of rental housing because landlords were induced to convert their properties into condominiums or to redevelop into housing not subject to rent control regulations. The impact of rent control on new construction is less clear cut in the empirical research.

Implications: Rent control incentivizes landlords to convert their rental properties into condominiums, particularly when there is strong demand for and a lack of homeownership opportunities in a community. New housing construction may be negatively impacted if developers are uncertain about future applications of rent control and rent stabilization policies.

Research Findings on Housing Availability

While there is a substantial body of theoretical work on the relationship between rent controls and housing supply, there is surprisingly little empirical research on the impacts.

In a study of San Francisco over the 1995 to 2012 period, Diamond, McQuade and Qian (2017) found that, overall, landlords with properties covered by rent control were more likely than other property owners to convert their units to condominiums or to redevelop their buildings, which reduced the supply of available rental housing in the city. Diamond, McQuade and Qian (2017) estimated that the reduced supply of rental housing—in just this one segment of the multifamily housing stock; that is, properties with four or fewer units—led to a seven percent increase in city-wide rents.

Sims (2007) came to a similar conclusion in Boston. While he found no significant relationship between the presence of rent control and the level of new housing construction in the Boston area, rent control was associated with a shift from units offered as rentals to those offered as

ownership, with landlords of rent-controlled buildings converting their units to condominium. In the Boston region, therefore, it was estimated that rent control kept thousands of rental units off the market.

In California and New Jersey, over the 1970 to 1990 period, Glaeser (2002) found mixed results on the relationship between rent control and housing supply. In California, the supply of housing in cities with rent control increased more slowly than it did in cities without rent control; however, the difference was not statistically significant until Glaeser (2002) controlled by initial city size. In New Jersey, there was a significant impact of rent control on the housing stock, with the overall supply of housing actually declining in cities that had adopted rent control. However, that effect disappeared when city size was controlled for. Thus, these findings suggest no clear-cut relationship between rent control and housing construction but also suggest that rent control impacts housing availability differently in different kinds of markets.

Rent Levels

Hypothesis: Rent control will keep rents of units in controlled buildings lower than market rents, but if rent control results in a decline in the rental housing supply, then rents for uncontrolled units will be higher than what they would be without a rent control program in place.

Alternative: Depending on the vacancy decontrol policy, landlords of rent-controlled buildings could set initial rents higher than market rents to compensate for lower future rents allowed under rent control. Furthermore, tenants would be willing to pay higher rents initially if they knew that rent increases would be capped over time.

Overview of Findings: Units subject to rent control usually have rents that are lower than market rents, which provide a benefit to tenants of those units, often inducing them to stay longer than they would otherwise. However, when a rent control policy includes a vacancy decontrol or vacancy allowance condition, new residents of controlled units could actually pay more than market rates initially.

Rent control policies generally lead to higher rents in the uncontrolled market, with rents sometimes substantially higher than would be expected without rent control (i.e., between 10 to 25 percent higher). Over time, if rent control does not apply to new construction, there is some evidence that the impact on uncontrolled rents diminishes.

Implications: Rent control policies can hold rents of controlled units at lower levels and benefit some tenants, particularly those who do not move often. However, adopting a rent control law will lead to rent increases in the unregulated market, which reduces the well-being of residents of uncontrolled units and can actually diminish the overall welfare of all residents. Attempting to moderate a rent control policy by implementing a vacancy decontrol provision could actually increase the rents of controlled units in the short-term.

Research Findings on Rent Levels

There is general consensus that rent control policies without vacancy allowances do lead to lower rents for units in rent-controlled buildings. Gyourko and Linneman (1989) found that rent

control resulted in significantly lower rents for controlled units. In fact, they estimated that the reduced rents created a substantial subsidy for beneficiaries of rent control, possibly as high as 27 percent of renters' total annual income. In a study of Los Angeles rent control over the 1969 to 1978 period, Fallis and Smith (1997) documented that rent control was, indeed, responsible for keeping the rents of controlled units low.

Newer rent control and rent stabilization policies typically have a vacancy decontrol or vacancy allowance policy that makes it more difficult to be certain that units in buildings subject to rent control will have below-market rents. Under New York City's rent stabilization program, when a tenant vacates a unit, the landlord can reset the rent level, increasing it by up to 20 percent. Rent increases as allowed under the rent stabilization policy then apply to this new, higher rent.

This vacancy allowance feature could result in some tenants of rent-stabilized apartments paying higher-than-market rents, at least initially. Nagy (1997) found that in 1981, tenants of rent-stabilized units paid higher rents than did tenants of similar, uncontrolled apartments. However, tracking tenants over time, Nagy (1997) found that rent-stabilized tenants had below-market rents six years later (assuming they remained in the rent-stabilized unit.)

A bigger concern among policymakers has been whether adopting rent control will lead to increases of rents in the unregulated market, typically through a reduction in the supply of rental housing. Caudill (1993) analyzed the New York City rental market in 1968 and concluded that rents of uncontrolled units in the city were between 22 and 25 percent higher than they would have been had rent control not been in place.

Early (2000) used New York City data from 1996 to demonstrate that rent control drove up rents of uncontrolled units in the city and that the increase in rents in the overall rental market actually made tenants of rent-controlled units worse off than they would have been if rent control had not been in place. Lower rents in the broader uncontrolled market would have given rent control tenants more opportunities to live in a unit that was a better fit for their needs, and their overall utility would have been increased.

Fallis and Smith (1997) found that two years after the adoption of rent control in Los Angeles, uncontrolled rents increased more than three times faster than rent-controlled units, and the researchers concluded that it was the rent control policy itself—and not other characteristics of the uncontrolled units or market—that led to the significantly greater rent increases.

In Boston, Sims (2007) documented a more complicated relationship among rent control, building quality and rent levels to find that rent levels of unregulated units declined in buildings near rent-controlled buildings that were of lower quality.

There have been attempts to examine the link between rent control and market rents in cross-sectional studies. While there are unanswered issues related to the endogeneity between rising rents/rent levels and adoption of rent control, Malpezzi (1996) used data for 54 metro areas to demonstrate a positive, significant relationship between the presence of a rent control policy and median rent in the metropolitan area. Early and Phelps (1999) examined the impact of rent control on uncontrolled rents in 49 metropolitan areas over the 1984 to 1996 period.

Results from this analysis suggested a positive and statistically significant relationship between the presence of rent control and uncontrolled rents—specifically, the introduction of rent control increased median uncontrolled rent levels by more than 13 percent. However, if rent control did

not apply to new construction, the effect diminished over time, and between two and three decades after adoption of rent control, there is no significant relationship between the presence of rent control and rent levels in the uncontrolled market. (Like other cross-sectional studies, there was no attempt in either of these two studies to account for the variability in rent control programs and the fact that policies are often only in place in select municipalities within a region.)

Fiscal Impacts

Hypothesis: Because rent control limits investment return, and potentially building quality, it can also reduce the value of the property and, as a result, lower the amount of property tax revenue collected from the property owner. In addition, rent control increases public expenditures through administrative procedures to implement and oversee the rent control program.

Overview of Findings: While there is very little empirical research on the topics, rent control laws can reduce the amount of property tax revenue collected on rental properties and can be associated with fairly high administrative costs.

Implications: There can be significant costs to the municipality (and potentially to the state) of implementing rent control.

Research Findings on Fiscal Impacts

There is very little empirical research on the relationship between rent control and local property tax revenue. In his analysis of rent control in Cambridge, Mass., Navarro (1985) concluded that the city lost out on between five and 10 million dollars per year in property tax revenue as a result of lower property values induced by rent control. In New York City, a study conducted by the accounting firm Peat Marwick (1988) estimated that there was a loss in taxable assessed property values attributable to rent control at approximately \$4 billion in the late 1980s, which meant that the city lost out on an estimated \$370 million annually in property tax revenue.

Rent control regulations create administrative processes that would not be required without the law. As a result, there is a cost to the municipality (and potentially to a state) to implement, administer and enforce a rent control program. In Cambridge, Navarro (1985) estimated that the public costs to administer the city's rent control program totaled about \$40 per unit. Linneman (1987) concluded that the administrative costs associated with New York City's rent stabilization policy were "substantial and inefficient."

Homelessness

Hypothesis: Rent control reduces the availability of housing and, therefore, can increase homelessness in a community.

Overview of Findings: There is no consistent relationship observed between rent control and the prevalence of homelessness.

Implications: Given the complex causes of homelessness, a rent control policy has an unknown effect on a community's homeless population, but if it reduces the availability of affordable housing in that community, the homeless population will be better served by programs that are more specifically targeted.

Research Findings on Homelessness

In a review of the relationship between homelessness and rent control in metro areas across the country, Honig and Filer (1993) found no significant association either between the presence of a rent control policy and homelessness or between rent control and incidences of overcrowding. Early and Olsen (1998) found that rent control was associated with decreased rental vacancy and increased rents, which could increase homelessness; however, they found that those potential effects were more than offset by other effects that decreased homelessness. Using 1990 data, Grimes and Chressanthis (1997) found a significant though very small impact of rent control on the level of homelessness, though as Gissy (1997) also concluded, it is possible that underlying factors related to both the likelihood of adopting rent control and level of homelessness could be an intervening factor explaining the relationship.

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