NMHC Report: Rent Regulation Policy in the United States

Research Finds Rent Control and other Rent Regulation Laws Hurt Renters Seeking Housing Opportunity and Affordability, and Disproportionally Benefits Higher Income Renters

In 2018, Dr. Lisa Sturtevant completed a literature review for the National Multifamily Housing Council (NMHC) on rent control and its associative effects.

Dr. Arthur C. Nelson, Professor Emeritus at the University of Arizona, reaffirms – and builds upon – these findings as part of a 2024 report that explores more recent impacts of rent control and rent regulation policies in the U.S.

The 2024 report incorporates new, peer-reviewed and academic articles that illustrate various rent regulation programs that reduce the supply of housing in communities across the nation—therefore increasing housing costs.

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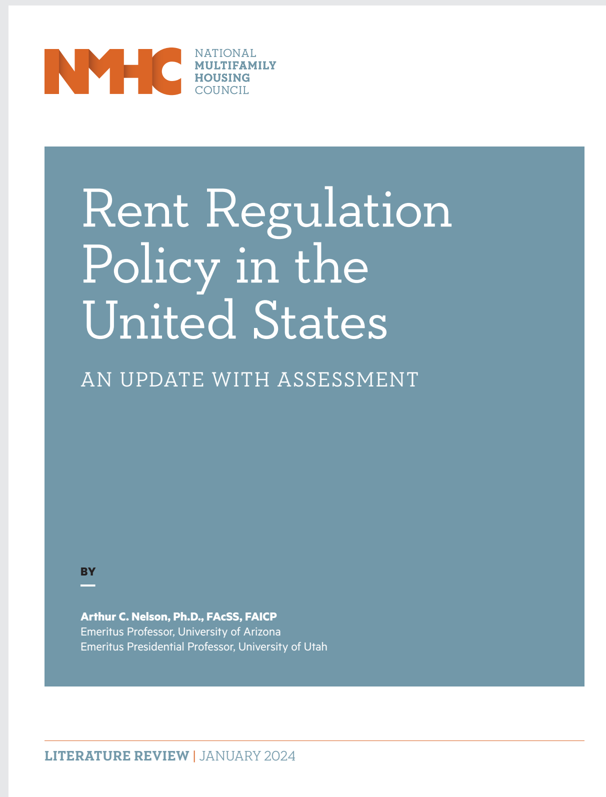
NMHC NATIONAL MULTIFAMILY HOUSING COUNCIL

Rent Regulation Policy in the United States

AN UPDATE WITH ASSESSMENT

BY

Arthur C. Nelson, Ph.D., FAcSS, FAICP
Emeritus Professor, University of Arizona
Emeritus Presidential Professor, University of Utah

LITERATURE REVIEW | JANUARY 2024

WHAT THIS RESEARCH COVERS

As part of the report, Dr. Nelson reaffirms several key impacts of rent control policies identified within the 2018 research including:

- Reducing the available supply of rental housing in a community;
- Raising rents in uncontrolled communities within the same larger market area;
- Forcing residents into units that do not best meet their needs, perhaps depriving other residents of units they need;
- Increased fiscal costs associated with rent control programs; and
- Deterioration or lack of investment in rent-controlled buildings.

Along with reinforcing these impacts, the 2024 report also identifies new impacts of rent control in its various forms including:

- Disincentivizing investment in the rental community, resulting in fewer rental units;
- Inhibiting mobility, thus creating a barrier to entry for new renters seeking housing in rent-controlled communities;
- Distributing the limited benefits of rent regulation disproportionally to higher-income, older and white residents, respectively;
- Substantially reducing the value of rent-regulated properties as well as nearby unregulated rental properties, thereby reducing real estate tax revenue to the locality; and
- Failing to address, if not negatively impacting, eviction prevention, renter well-being, renter educational attainment opportunities and neighborhood quality.

KEY FINDINGS

Insights from this literature review further reinforce years of prior research from both the United States and in cross-country comparison demonstrating that rent control and rent regulation policies fail to meet their purported objective of creating a more affordable rental housing market, especially for those of more modest means.Instead, the research begs for more effective, alternative ways in which to service households most in need of affordable rental housing, including expanding supply to meet market needs.

Read on for an exploration of report findings.

ORIGINAL FINDING: Rent regulation reduces the available supply of rental housing in a community.

RECENT INSIGHT: Rent regulation disincentivizes investment in the rental community, resulting in fewer rental units.

- San Francisco, CA - Property owners converted some rental units to condominiums from 2004-2013, even against the backdrop of an onerous conversion lottery process and a period of strong rental demand (Asquith 2019). A separate study of San Francisco from 1994—when rent control was expanded to include formerly exempt, smaller complexes—to 2012, reinforced the finding of reduced supply through condo conversions, those being more likely in rent-regulated buildings, as well as through demolitions of rental buildings (Diamond, McQuade, and Qian 2019a).
- East Palo Alto, CA- Rent control was enacted in 2010. An analysis of Census data from 2010-2019 did not find a statistically significant impact on the availability of rental units in the city, although an analysis comparing the city to similar cities without rent control found that the regulation did not offset any increases in median rent in East Palo Alto (Gaffney 2021). A possible interpretation is that while housing demand increased in the market area as a whole, rent control policies inhibited private sector willingness to invest in East Palo Alto specifically, deemed riskier by its adoption of such a policy.
- Considering the international, comparative perspective, Kholodilin and Kohl (2023) show that especially since the global financial crisis of 2008-09, a combination of rent regulation and generous homeowner subsidies have led to increases in owner housing and decreases in private rental housing, surmising that the combination of the two policies have the effect of crowding out investment in the creation of new rental supply.

ORIGINAL FINDING: Rent regulation forces residents into units that do not best meet their needs, perhaps depriving other residents of units they need.

RECENT INSIGHT: Rent regulation inhibits mobility, creating a barrier to entry for new renters seeking housing in rent-controlled communities.

- Using data from 2002 through 2017, Jiang, Quintero, and Yang (2023) shed light on additional mechanisms leading to mobility loss, finding that rent regulation was associated with a five percentage-point increase in residents' unemployment status. They reasoned that rent regulation can discourage job search efforts and incentivize workers to remain in a city even if there are better opportunities available to them elsewhere.
- Diamond, McQuade, and Qian (2019a), in their study of expanded rent regulation in San Francisco, noted reduced mobility by 20% in rent-regulated units. Older residents and residents who had already spent a number of years in the unit were further incentivized to remain in their unit regardless of income, negatively impacting those seeking entry into a local market, now even more restricted through rent regulation.
- The mobility effects of rent regulation are not uniquely a U.S. phenomenon. A natural experiment conducted using Norway's removal of rent control in 1982 determined that it was more costly for a potential resident to find, and thus decreased the chances of them finding, a home in a preferred location when those homes were subject to rent control compared to after rent control had been removed (Oust 2018a, 2018b).

ORIGINAL FINDING: Rent regulation forces residents into units that do not best meet their needs, perhaps depriving other residents of units they need.

RECENT INSIGHT: The limited benefits of rent regulation accrue disproportionally to higher-income, older and white residents, respectively.

- In New York City over the period of 2002-2017, an examination of rent-regulated units produced insight into the distribution of quality-adjusted rent discounts, relative to hypothetical market rents, under the City's rent control regime. As a result of the fact that rent regulation policies do not include means testing, benefits were regressively distributed with respect to income (Chen, Jiang, and Quintero 2023).
- In St. Paul, MN, where rent control was adopted in 2021, the exact same result occurred—higher-income residents gained the most from rent regulation (Ahern and Giacoletti 2022). Additionally, the research done both in St. Paul and New York City found that white residents received higher discounts than minority residents.
- Other groups disproportionately benefitting from holding on to rent regulated units, regardless of income, were older residents, residents with longer tenures, and households aware of the existence of a rent discount (Diamond, McQuade, and Qian 2019a; Chen, Jiang, and Quintero 2023).

ORIGINAL FINDING: There are fiscal costs associated with rent control programs.

RECENT INSIGHT: Rent regulations substantially reduce the value of rent-regulated properties as well as nearby unregulated rental properties, thereby reducing real estate tax revenue to the locality.

- Recall that in 2021, St. Paul, MN adopted rent control. In a comprehensive analysis, Ahern and Giacoletti (2022) estimated a 6-7% drop in property values due to rent control, totaling a loss of $1.6 billion. Not only that, but the falling property values in St. Paul spilled over into closely neighboring areas, even though those neighboring areas did not have rent control themselves.
- In 2023, Cambridge, MA implemented a $22 million guaranteed basic income program for qualifying households. In lieu of the removal of rent regulation in 1994, a total of $1.8 billion was added to the capitalized value of Cambridge's residential housing stock (Autor, Palmer, and Pathak 2014), the added nominal property tax revenue of which would roughly cover funding for the 2023 basic income program.
- Building on their previous research, Autor, Palmer, and Pathak (2019) estimated that crime reduction accounted for 10 percent of the residential property value appreciation that resulted from Cambridge removing rent regulation.

ORIGINAL FINDING: Rent regulation causes deterioration or lack of investment in rent-controlled buildings.

RECENT INSIGHT: Rent regulation does not reduce evictions or further well-being, educational attainment or neighborhood quality.

- Recent analysis of eviction filings in San Francisco, after a 1994 ballot initiative expanded the scope of rent regulation, determined that for a given resident in a rent-controlled unit, the likelihood of eviction was 2.4 times higher per year than the baseline eviction rate (Gardner 2022). Separate work on the subject found no significant evidence that increases in local demand equated to evictions or attempted evictions in rent-regulated units (Asquith 2019). At best, this evidence suggests that rent regulation is not an eviction prevention tool, and in turn, does not support educational attainment or increased well-being, but instead, either makes eviction more likely or has no statistical impact.
- Removing rent regulation in Cambridge caused a 16 percent decline in crime, equivalent to approximately 1,200 fewer reported crimes annually. Examining similarly-sized cities over the same time period as Cambridge's change in policy, the literature concludes that crime reduction was a unique, city-wide phenomenon, not just displacing crime to nearby areas but a true reduction in it (Autor, Palmer, and Pathak 2017, 2019).