

Rent control will make housing shortages worse

The latest trend in housing policy will compound decades of failure



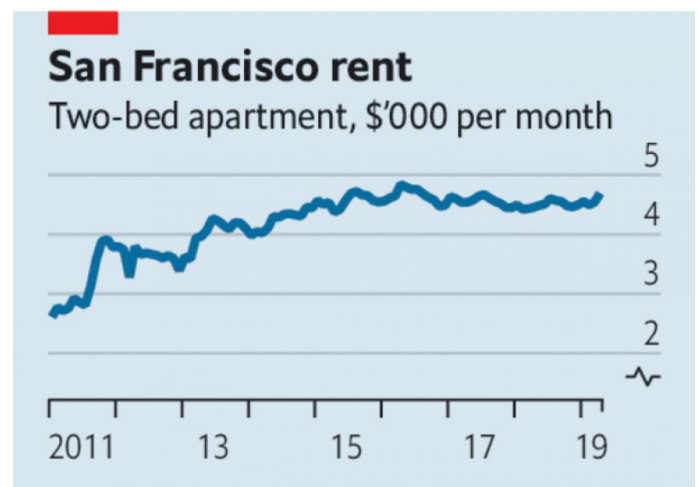
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THE OVER-REGULATION of homebuilding in and around thriving cities is one of the great economic-policy failures of recent times. In London the median full-time employee renting the median two-bedroom flat works nearly half the year just to pay the landlord. In San Francisco rent is so high that a four-person household with an income of \$129,000 might still qualify for federal handouts. Housing shortages like these have helped suck wealth away from young renters, fuelling tension between the generations. Supply restrictions have a high economic cost—by one estimate, curbs in just three successful cities lower overall GDP in the United States by almost 4%. As more and more voters find themselves on the losing end of property markets, they have also generated a political backlash. In America and Europe politicians are thus under pressure to reduce housing costs.

A rethink of housing policy is certainly overdue. Many of the new ideas are welcome, for example more building and recognition of the harm wrought by NIMBYism (the attitude of homeowners campaigning against nearby developments). Britain has improved the regulation of rental contracts, a vital component of a functional housing market. Unfortunately, at the same time an old and rotten idea is being resurrected—rent controls. If these proliferate, they will, just like rules that stymie

building, skewer property-market outsiders and protect favoured residents.

Across the West rent controls are back in fashion. On September 11th California's lawmakers passed a bill that would cap annual rent increases across the state at 5% plus inflation. The state is following in the footsteps of Oregon, which earlier this year limited most rent rises to 7% plus inflation. Some Democrats want rents managed nationally. On September 14th Bernie Sanders, a senator and presidential contender, said that the limit everywhere should be 3% or 1½ times inflation, whichever is higher (see [article](#)). Meanwhile London's mayor, Sadiq Khan, has called for rent controls in the capital. Berlin's legislators have voted to freeze rents for five years from 2020; some German politicians have called for national rent caps. Paris reintroduced rent controls in July, having scrapped them in 2017.



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Rent controls are a textbook example of a well-intentioned policy that does not work. They deter the supply of good-quality rental housing. With rents capped, building new homes becomes less profitable. Even maintaining existing properties is discouraged because landlords see no return for their investment. Renters stay put in crumbling properties because controls often reset when tenants change. Who occupies housing ends up bearing little relation to who can make best use of it (ie, workers well-suited to local job opportunities). The mismatch

reduces economy-wide productivity. The longer a tenant stays put, the bigger the disparity between the market rent and his payments, sharpening the incentive not to move.

The resulting damage is clear from the fate of two American cities. In the mid-1990s Cambridge, Massachusetts, scrapped its rent controls, while San Francisco made its regime even stricter. In Cambridge apartments freed from rent control saw a spurt of property improvements. San Francisco experienced its own residential investment boom, but one that was aimed at getting round the rules, for example by converting rental properties so that they could be sold. The subsequent 15% reduction in supply by affected landlords pushed up rents across the city by more than 5%.

It is unrealistic to expect politicians to ignore voters' demands. But the danger is that one abuse of power is replaced by another as renters, just like NIMBYs, campaign for regulations to lock newcomers out of the market. Although today's residents might benefit from capped rent increases, outsiders, faced with less supply and fewer opportunities, will suffer. Just ask the 636,000 people who were queuing at the end of 2018 for a diminishing stock of rental housing in rent-controlled Stockholm. There, the average waiting-time to find a long-term tenancy is ten years and black-market rentals have begun to thrive. Rent control harms almost everyone eventually because the housing stock deteriorates.

Falling home-ownership rates in countries like Britain and America mean that it is more important than ever for the rental market to function well. Yet rent controls will only make it worse. As a solution to housing shortages, they are snake oil. Voters and politicians everywhere should reject them. ■

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Democrats clamour again for rent control

Some of their ideas will have no effect. Others will actually reduce the supply of new housing

AMERICAN CITIES took up rent control in a moment of crisis during the second world war, when workers

migrated en masse to factories just as the building of new housing was sharply restricted to conserve materials. In response the federal government froze prices on 80% of the country's rental stock. Today America's thriving cities face a homemade crisis. The typical one-bedroom flat in New York now rents for \$2,450; the equivalent in San Francisco rents for \$3,620. Although the building of new housing is no longer constrained by a massive war effort—only by rules and regulations of questionable design—Democrats in charge of high-cost cities are trying to revive these old ideas.



Oregon passed a statewide rent-control measure in February. New York passed a complicated bill over the objections of its powerful property lobby in June. Gavin Newsom, the governor of California, is expected to sign one into law soon even though voters rejected a rent-control expansion effort last November. Bernie Sanders, a socialist senator running for president, included nationwide rent-control as part of his housing-policy plan (at a cost of \$2.5trn over ten years). Mr Sanders's proposal suggests a nationwide cap of either 3% or 150% of inflation, whichever is higher. Elizabeth Warren has said that states should not pre-empt local efforts at rent control, but has not gone so far as to propose a national standard.

Rent control is reviled by almost all economists because of the distortions it creates in housing markets. While some people benefit, the resulting shortages harm non-subsidised residents and incentivise flat-hoarding by tenants and neglect by landlords. The most recent crop of efforts, which are better designed, may not be so bad. But they are, in the end, a means of temporary political appeasement because the true, underlying problem—supply—is harder for Democrats to tackle.

Rather than enabling bureaucrats to fix the price of all one-bedroom flats in the city, new efforts at rent control instead aim to limit the annual rate of increase on specified units. The higher this cap is set, the less distorting (and therefore more pointless) the policy becomes. Oregon has set its annual cap at 7% plus inflation. California would place it at 5% plus local inflation. Neither of these is likely to apply outside the hottest rental markets. The typical flat in Portland, Oregon, would not have been affected last year, according to data from Zillow, a property website, though those in Los Angeles would have been.

Even with more careful design, problems still arise. When three Stanford economists, Rebecca Diamond, Franklin Qian and Timothy McQuade, studied San Francisco's rent-control scheme they found that

though the lucky renters stayed put, affected landlords cut supply by 15%, driving up rents by 5% citywide. More than half of rental stock in New York City is either rent-controlled or rent-stabilised, though prices have surged all the same. When *The Economist* examined the most recent New York Housing and Vacancy Survey, conducted in 2017, we found 25,000 households in Manhattan with annual incomes greater than \$200,000 living in rent-controlled and rent-stabilised flats. Landlords with such affluent tenants could petition to get rid of rent restrictions, but this mechanism has now been removed by the state legislature. At least the little people are being looked after. ■

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