# The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco

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# Rent Control Renaissance

- Alive + well in parts of CA, DC, NJ, NY, MD
- 8 RC-related 2016 ballot ?s in Bay Area
- Seattle and Portland prohibited but flirting
- Denmark, Sweden, Holland, Paris, India, Cambodia…
- Recent strengthening in Berlin
- *Whisper campaign against Costa Hawkins

# Why won't Rent Control die?

- After all... record-setting consensus among economists about its unintended consequences
  - Alston, Kearl & Vaughn (1992), IGM Forum (2012)
  - RC "most efficient technique presently known to destroy a city—except for bombing." -Assar Lindbeck (1972)
  - Blunt instrument – not means tested
- But for all its faults, rent control is
  - Immediate (esp. relative to growth in supply)
  - Widespread—operates at scale
  - "Off-budget," ("no" tax revenue required)
  - Favors incumbent renters (i.e. current voters)
- Populist appeal of price ceilings
  - Landlords aren't a sympathetic class

# Why now? Perfect storm for acute crisis

1. Ongoing economic expansion…
2. …especially in areas proposing RC
3. => population flows to job-creating areas
4. Increase in renting, gentrification
5. Supply constraints
6. Tepid wage growth
7. Normal solution (ownership) unattainable
8. Concerns over displacement, community character

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1BD 1BA $1500/MONTH

# "Second-wave" Rent Control Laws

- Respond to quantity and quality argument

- Exempt new construction: crucial!

- Quality argument nuanced

  - Most laws allow for some recovery of CAPEX

  - Some tenants happily accept trade-off

- Vacancy decontrol means horse has left barn for future residents

# Summary: Expansion of RC led to

- <u>Tenants</u>
    - Longer tenures (less displacement)
    - Benefits for some ($4,500/year/person)
    - Insurance against rent increases 50%, monetary value 34%, no moving costs 15%, staying in favorite neighborhood 1%
    - Rent increases for those not covered (7%)
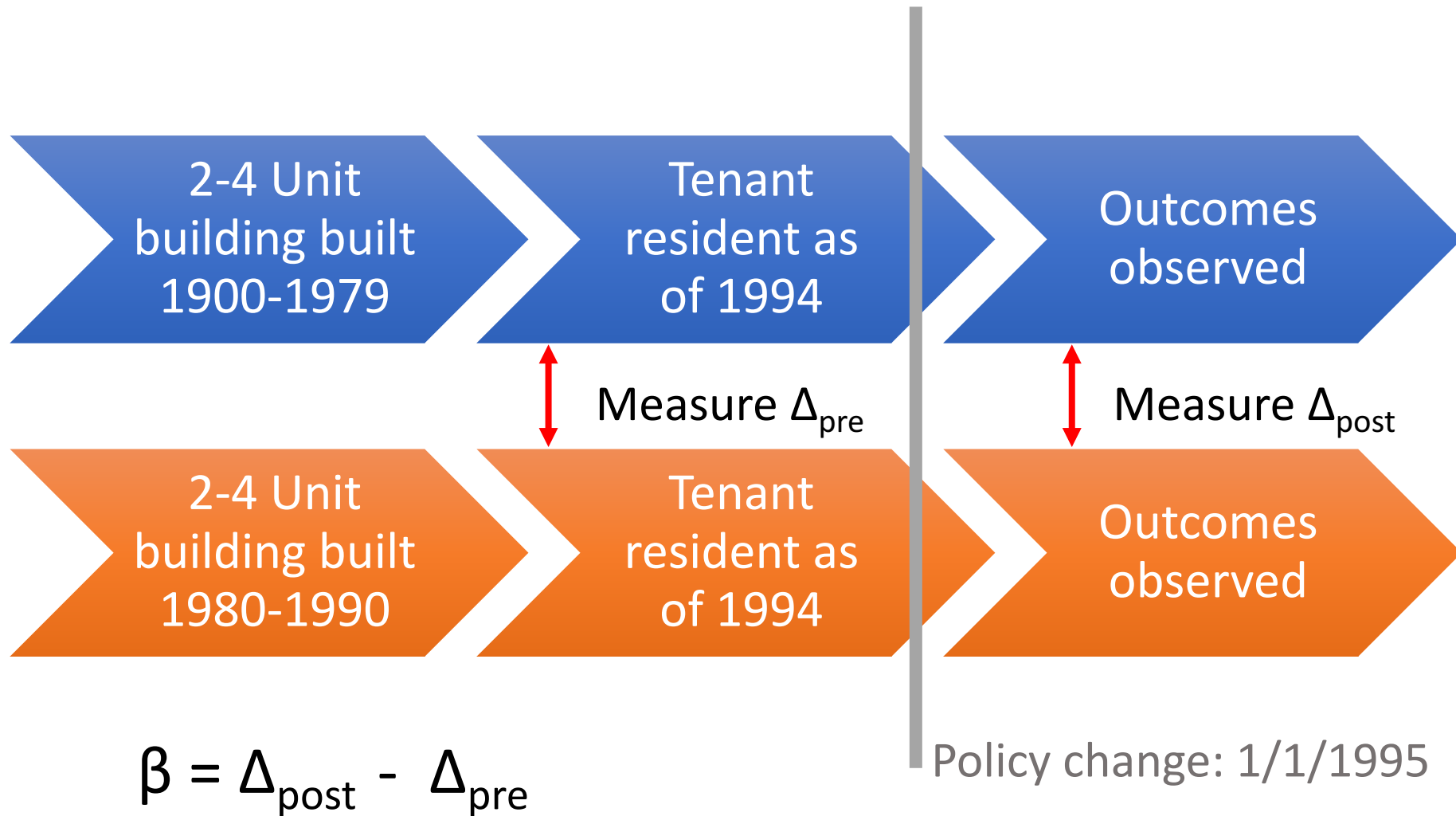    - Intuitive heterogeneity

- <u>Landlords</u>
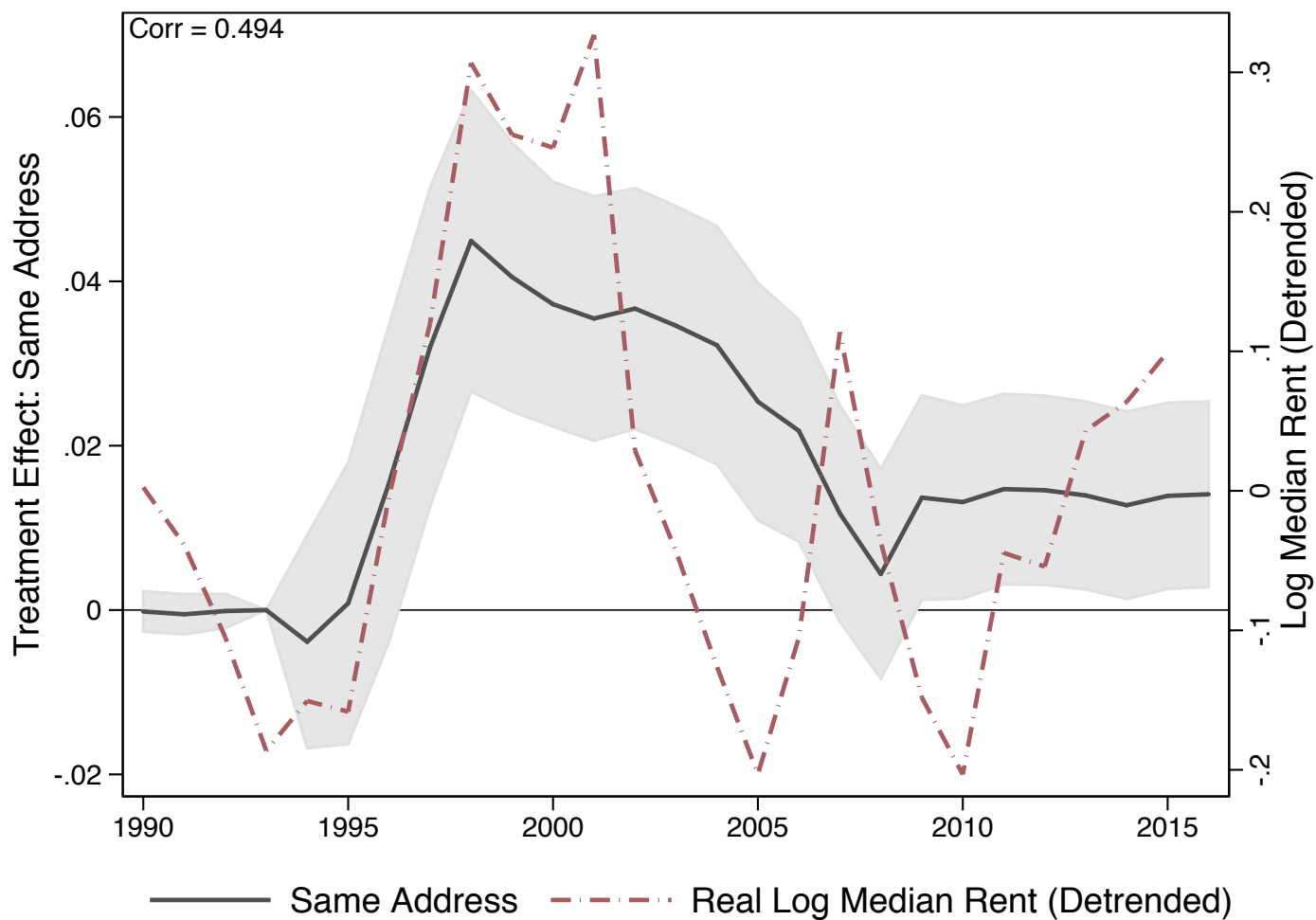    - Reduce supply (conversions, redevelopment, density)

- <u>Inequality</u>
    - Welfare redistribution: On net $5 bn welfare
    - Redevelopment gums up the filtering process
    - Potential abuse of inequality's sex appeal in title

# Identification Strategy



| 2-4 Unit building built 1900-1979 | Tenant resident as of 1994 | Outcomes observed |

Measure $\Delta_{pre}$          Measure $\Delta_{post}$

| 2-4 Unit building built 1980-1990 | Tenant resident as of 1994 | Outcomes observed |

Policy change: 1/1/1995

$$\beta = \Delta_{post} - \Delta_{pre}$$

# "Figure 1"

## (a) Staying at Same Address

# What about trends in age gradient?

- Selection into new vs. old buildings doesn't matter!
- Time-varying selection into new vs. old **does**
- Do current controls take care of this?
- Zip code x year fixed effects?
- Cohort x year?

Likelihood tenant still in place

Year building built

1994
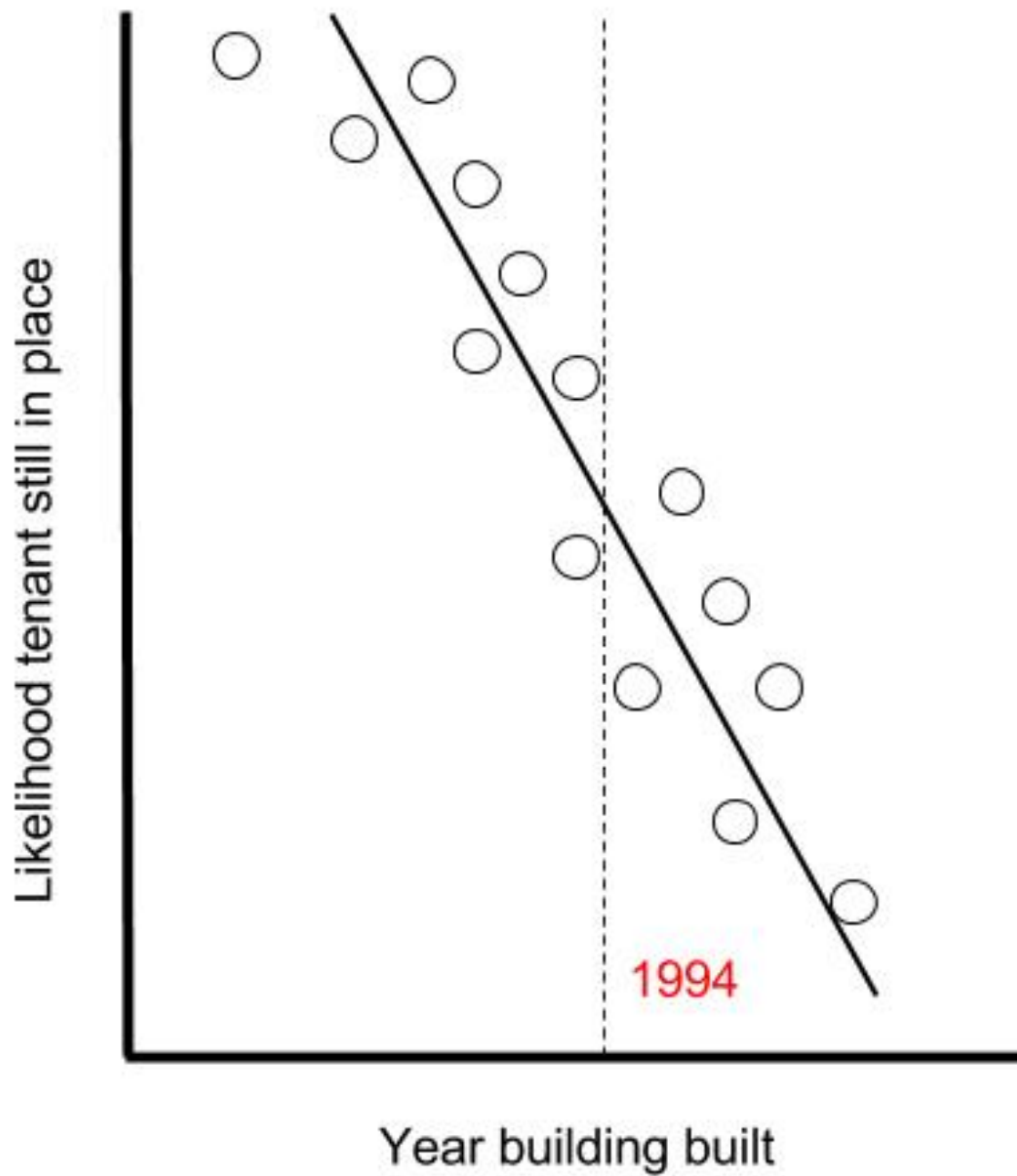
# Need for time-varying coefficients on structure age (Cambridge evidence)
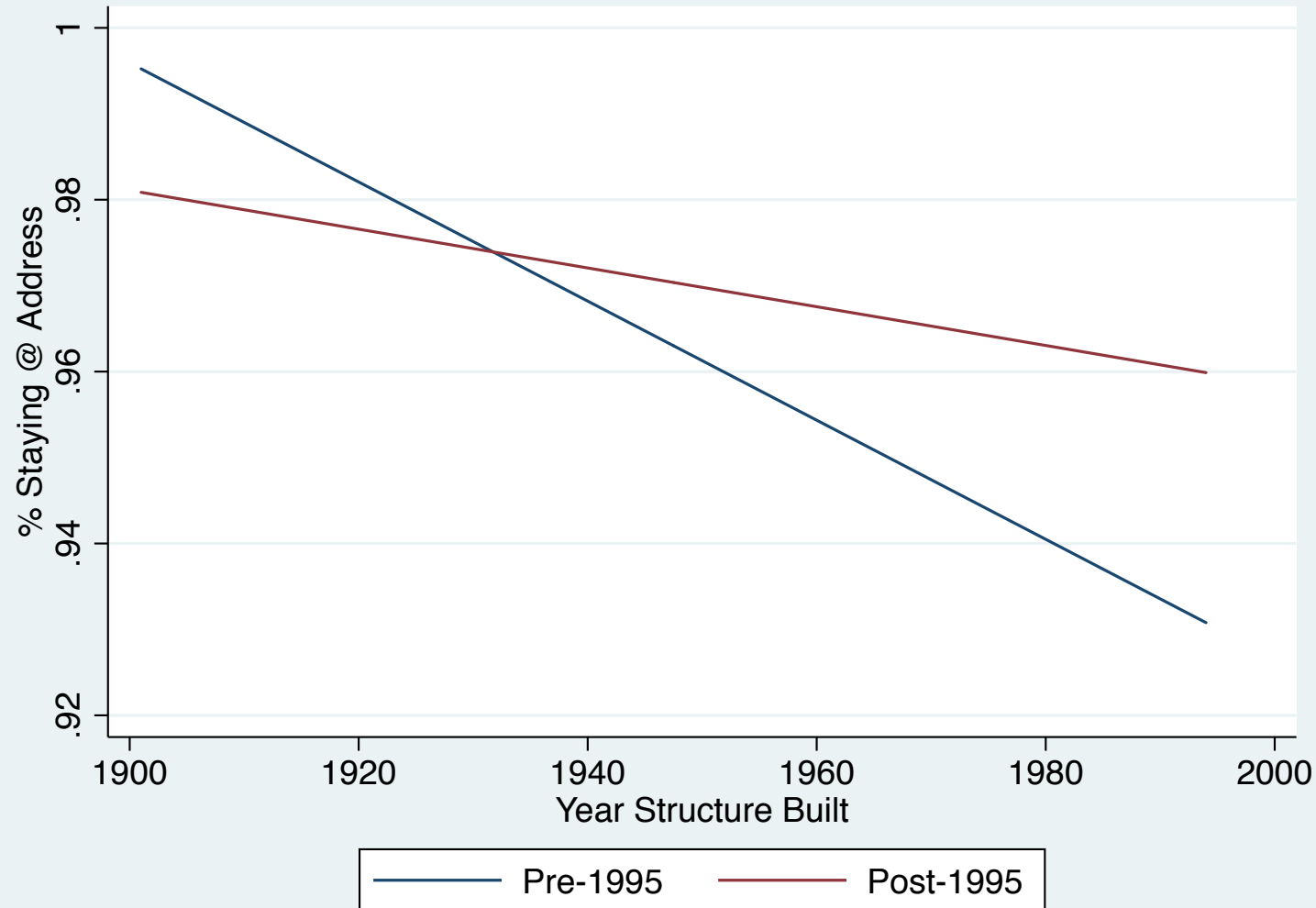
# Why a structural model?

- In the real world, not everyone gets u-bar in a spatial equilibrium. Displacement matters.

- Lots of competing claims about relative magnitude of intended/unintended consequences (ex. UI).

- Can't independently measure value of displacement, uncertainty, subsidy, pecuniary externality, supply response, etc.

- Structure and data on migration choices and supply response allow us to quantitatively value different channels.

# What's missing from model

- Onus to consider all purported channels
- Community welfare from neighborhood stability (neighborhood character – changes in $\omega_{jt}$)
- Allocative inefficiencies (no matching)
- Agglomeration (consequence of allocative efficiency?)
- Prevention of future prospective resident entry
- Utility flow from change in housing quality
- Discussion of how gov't might insure tenants against acute rent increases w/o LL moral hazard, etc.

# Little things

- Do rank-preserving rent changes matter?
- Seems ad hoc which utility factors depend on $\tau_h$ vs. $\tau_n$
- Sims (2007) *does* find maintenance effects
- Rational expectations fine for state variable transitions, and bias not being differential by treatment/control seems fine, but GMM exclusion restriction seems like a stretch

# Conclusion

- RC not dead! Worth embracing and evaluating claims about its importance and consequences

- Prior literature: identification only from RC removal

- Prior literature: estimate effects through capitalization

- This paper: meld reduced-form evidence with rich structural model to put numbers to claims

- RC may not show up on city books but very costly

- Important to nail down most popular channels