Rent Control

Rent control measures legally mandate price ceilings for private sector housing units. The laws either limit the price that property owners may charge renters or the amount that property owners may increase the price from year to year. The laws usually create an administrative bureaucracy that will implement and enforce pricing. In the U.S., New York City and San Francisco have the greatest number of rent-controlled units, but the total number has been in steady decline since the mid-20th Century. The U.K. eliminated private sector rent control in 1988. Rent regulations are much more common in other Commonwealth countries, like Canada, and in the European Union.

Rent control is usually advanced as a progressive policy designed to protect renters in low-income brackets from high or increasing rents. Economists, however, on both the right and left of the political spectrum, almost uniformly oppose it. A 1992 poll of members of the American Economic Association found 93% agreeing with the statement "a ceiling on rents reduces the quality and quantity of housing." A 2015 poll of 41 IGM economic experts found only one who agreed with the statement that rent control measures "have had a positive impact over the past three decades on the amount and quality of broadly affordable rental housing in cities that have used them."

Absent a mandated price ceiling, prices for rental properties are determined by the countless individual decisions that affect its supply and demand. Individuals base these decisions on things like preferences for living in certain areas, preferences for owning rather than renting, tolerance for longer commuting times, budget constraints, property tax levels, other parts of tax law, building and zoning regulations, maintenance costs, interest rates and inflation.

The economic case against rent control has two main components. First, assuming that the legally mandated price ceiling is below the market equilibrium price, as in Figure 1, the policy will produce an artificial housing shortage. Property owners will tend to find ways to supply fewer units when they are required to accept lower prices for them. For example, they may curtail new investment in affordable housing or convert existing properties to alternative uses: a private condo association, short-term vacation rentals or non-residential rentals. Alternatively, the policy can affect the quality of the supply since owners face less incentive to invest in proper maintenance of properties when returns are low. Additionally, renters situated in rent-controlled units will be hard-pressed to give them up, even if they might otherwise have downsized apartments when, say, their grown children have left the home. On the demand side shortages result from lower-than-market prices making renting in the area more attractive to more people, including people who might otherwise buy a home or commute from another area.

Since rent-controlled prices no longer function to allocate rental units efficiently, some property owners substitute non-price allocation methods for matching applicants up with available supply. They can be choosy, requiring an excellent credit history or forbidding pets or children. Some property owners employ hidden price allocation

measures, like illegal "key money." The model generally suggests that rent control measures have regressive rather than progressive effects.

The second component of the economic case advances a further point about allocative efficiency. In Figure 2, the marginal benefit curve represents the benefit to consumers from additional housing units, and the marginal cost curve represents the amount suppliers must receive to provide those units. Under the conditions modeled, renters and landlords will make transactions until the rental price is bid up to $1500/month, which affords 100,000 rental units. Landlords would not find any takers who would cover the cost of offering additional units because that cost exceeds renters' marginal benefit. At the equilibrium where marginal benefit equals marginal cost, the consumer surplus is the amount renters benefit from transactions where they pay less than they might have agreed to pay. The producer surplus is the amount landlords benefit from transactions where they can charge more for a unit than it costs to produce it.

Introducing a price ceiling in Figure 3 has three consequences. First, it reduces the producer surplus. Property owners will not provide more than 50,000 units because the marginal cost of additional units is more than they can legally charge. Second, it increases the consumer surplus because individuals who are able to rent those 50,000 units were willing to pay more than $1500/month, and only have to pay $1000. But, finally, it prevents the mutually beneficial transactions between producers and consumers represented by the next 50,000 units on the horizontal axis. This is deadweight loss, a measure of how much worse off society is as a result of the policy. The combined economic case suggests that both low-income individuals and the aggregate society may do worse under a rent control regime.

Defenders of the policies do not deny that demand curves slope downwards. They also usually concede that rent control can improve housing affordability only for some. The issue, however, is whether policy makers can expertly tailor and benevolently administer rent control measures that will avoid severe shortages against the backdrop of a more comprehensive set of low-income public housing programs. If they can, then they can avoid most of the individual harmful consequences predicted by stock economic models.

A further issue is the relative weight of allocative efficiency as a value. Rent control defenders suggest that tenants possess a reasonable moral claim to continued occupancy based on their past contributions to their communities. Additionally, they suggest that neighborhoods characterized by income diversity and long-term occupant stability have value that is not captured by economic models.

– Kyle Swan

See also Deadweight Loss; Government failure; Pricing, Ethical Issues in; Rents, Economic; Unintended Consequences, law of

Further Readings

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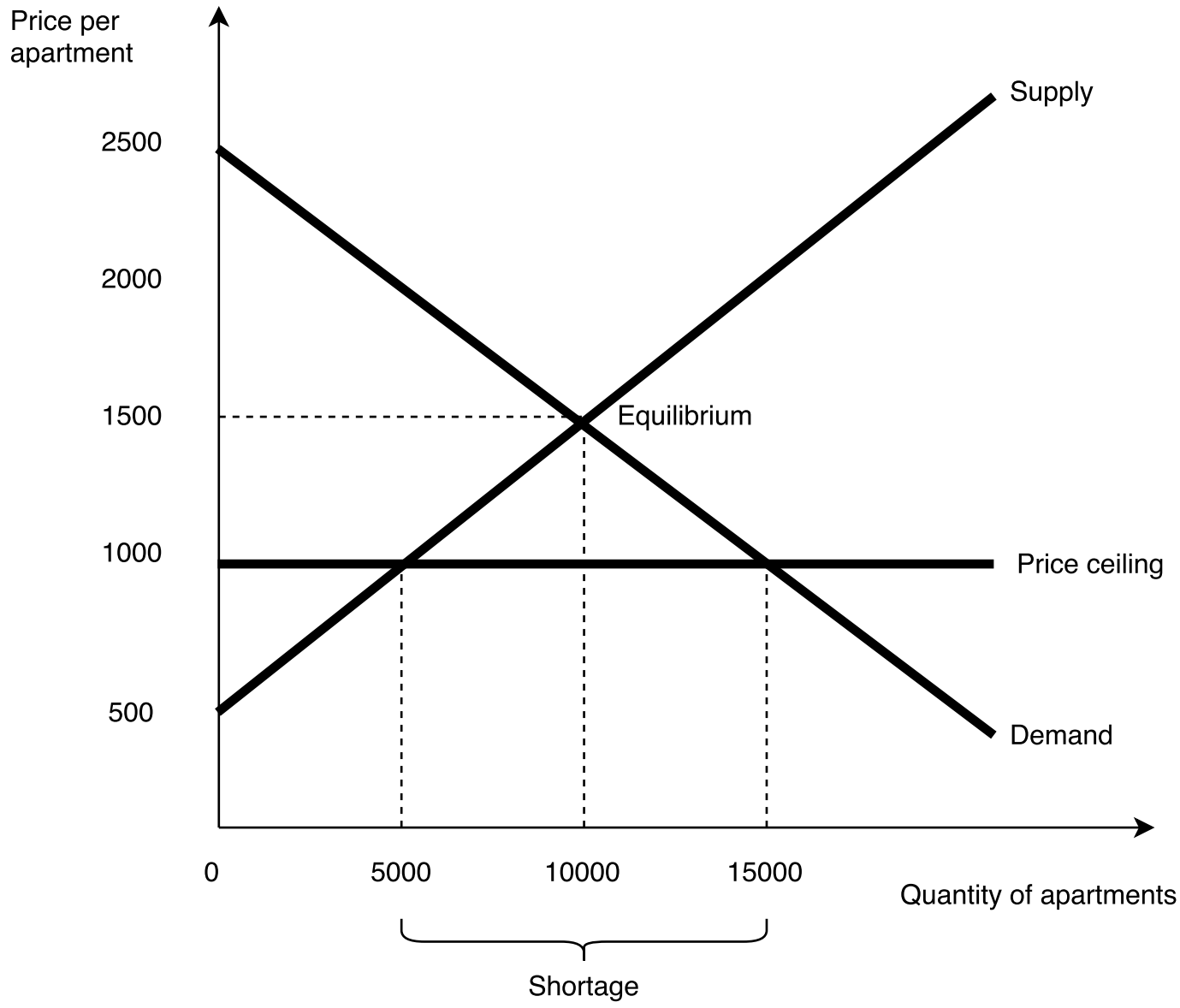
Price per apartment
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Supply
Equilibrium
Price ceiling
Demand
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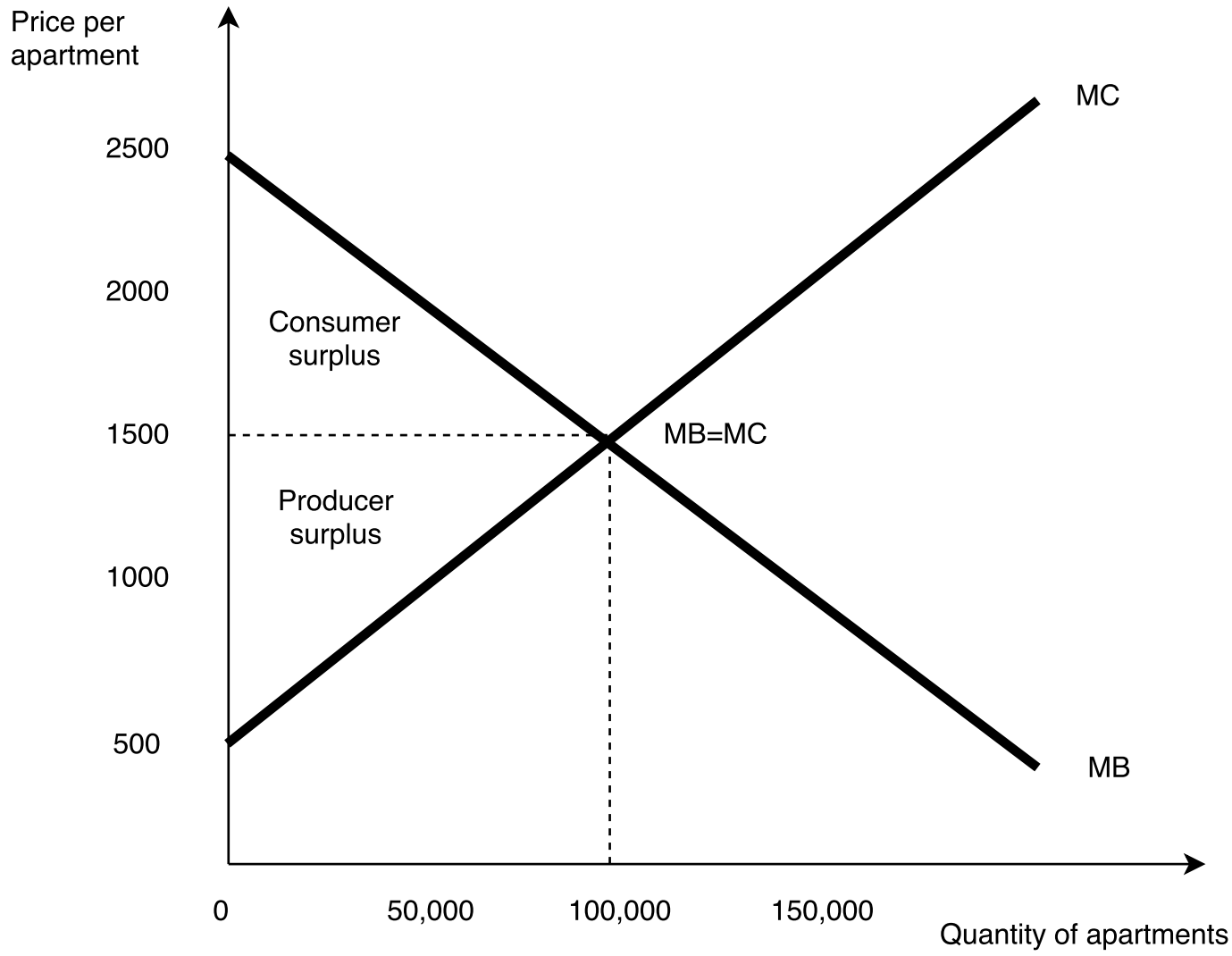
Quantity of apartments
Shortage


Price per apartment
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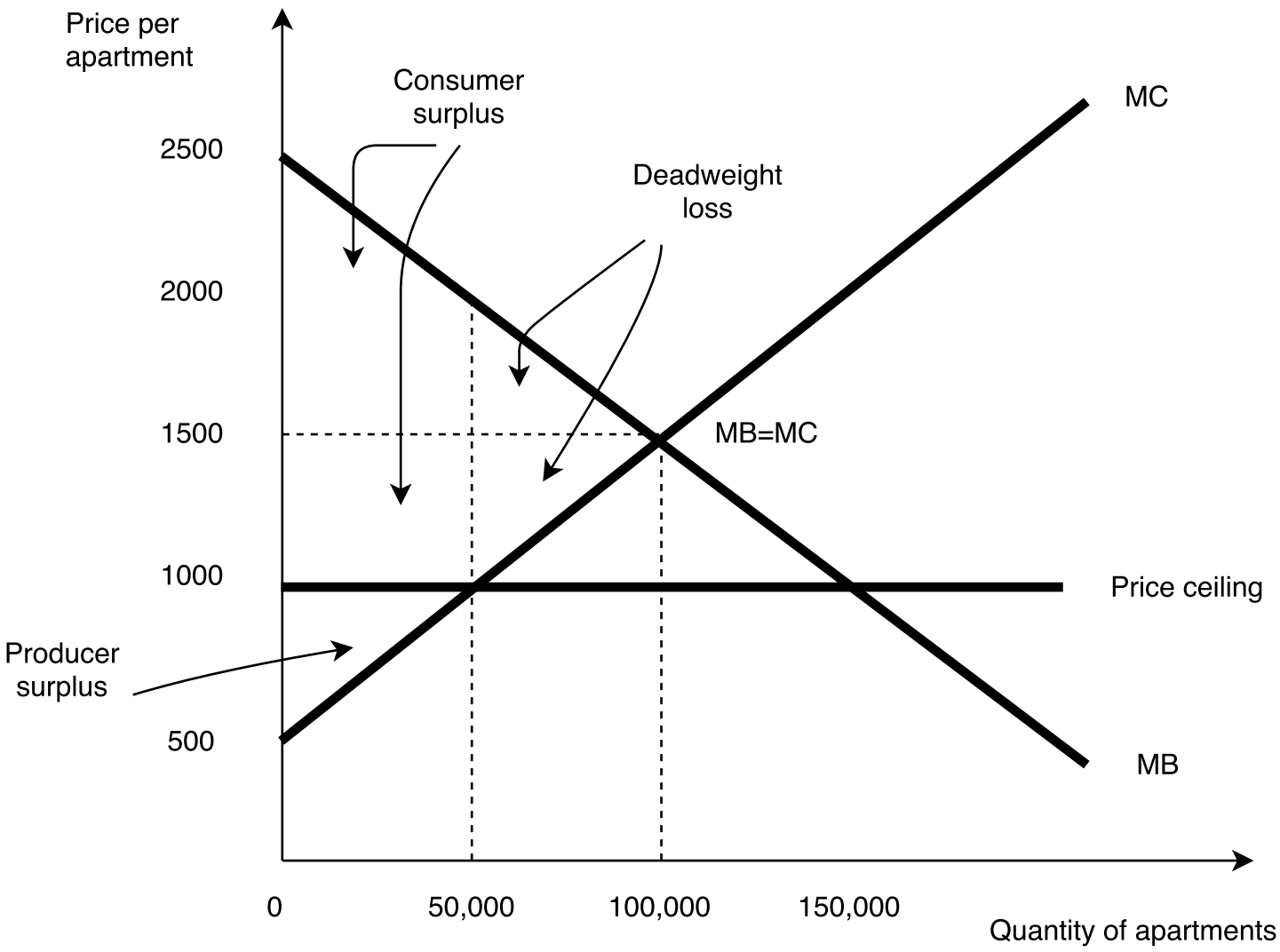
Price per apartment
Consumer surplus
Deadweight loss
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Price ceiling
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