Demystifying Rent Control
What it is, What it isn’t, & What we know about its impacts
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What We’ll Cover

• The Basics
• Example Policies
• Current Status in Illinois and across the U.S.
• What the research says (and doesn’t say)
• General takeaways
• Possible next steps
The Basics

First Generation Rent Control: “Rent Ceilings”

- A freeze on rental prices
- Creates a shortage
- Economists universally oppose
- Emerged in the U.S. in WWI & WWI
- No longer in use

Source: Study.com
The Basics

Second Generation Rent Control: “Rent Stabilization”

• Nixon administration instituted in 1971 during a period of rapid inflation

• Typical attributes
  – Automatic annual increase permitted, up to a cap
  – Vacancy decontrol: rents reset to market levels after a tenant leaves
The Basics

Second Generation Rent Control: “Rent Stabilization”

• Rent stabilization is a form of insurance against large increases

• It helps prevent people from getting priced out of their current apartments or neighborhoods
The Basics

Components of “Rent Stabilization”

- Defining the Regulated Universe
- Setting Rent Increases
- Other Protections for Tenants

Source: NYU Furman Center
The Basics

Components of “Rent Stabilization”

Defining the Regulated Universe
- Universe of regulated properties
- Tenant income qualifications
- Deregulation
- Tracking and enforcement

Setting Rent Increases
- Process
- Increases beyond annual rate
- Hardship increases

Other Protections for Tenants
- Vacancy bonuses
- Capital improvement
- Eviction & harassment protections
- Special provisions for particular tenants

Source: NYU Furman Center
## Rent Stabilization Examples

<table>
<thead>
<tr>
<th>Regulated Units</th>
<th>Washington, DC</th>
<th>San Francisco, CA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Units Built Before</td>
<td>1975</td>
<td>1979</td>
</tr>
<tr>
<td>Exceptions</td>
<td>Small landlords (owning 4 or less units)</td>
<td>Owner occupied buildings of 4 or less units; repealed in 1994</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Allowed Rent Increases</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>During a Tenancy</td>
<td>Once annually; CPI + 2%; total cap at 10%</td>
<td>Once annually; 60% of CPI; bank unused increases</td>
</tr>
<tr>
<td>Vacancy Allowance</td>
<td>May increase up to 10%</td>
<td>No limit (Vacancy Decontrol)</td>
</tr>
<tr>
<td>Special Increases</td>
<td>Hardship increase: May increase to allow a 12% ROI</td>
<td>Special circumstances: May increase to market rate</td>
</tr>
<tr>
<td>Exceptions</td>
<td>Capital improvements; rehabilitations</td>
<td>Capital improvements</td>
</tr>
<tr>
<td>Additional Protections</td>
<td>Just Cause Eviction</td>
<td>Yes</td>
</tr>
</tbody>
</table>

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[Source](metroplanning.org) @metroplanners
Current Status Nationally

Source: National League of Cities
Current Status Nationally

Recent Developments

• First Statewide Mandated Policy in Oregon
• Strengthened NYS Rent Stabilization laws
• Several cities across California are passing new rent regulations.
  – EX: Culver City 1-year rent freeze while studying a permanent rent regulation system.
Current Status in Illinois

State Preemption, Grassroots Movement to Repeal

• Rent Control Preemption Act passed in 1997
• Lift the Ban Coalition formed to repeal act
• Gov. Pritzker on record as supporting
• Mayor Lightfoot on record as opposing
• Recent bills failed in Springfield
Notes on the Research

• Much of economic research is theoretical
• Empirical studies tend to focus on a few well-known examples
  – San Francisco, CA
  – Cambridge, MA
  – New Jersey
Effects: New Housing Production

• *Common Argument:* it disincentivizes new unit production

• *Research Findings:* Little evidence of impacts on new construction
  – USC regression analysis of 76 NJ cities found no statistically significant effect
  – Logical given exemptions for new construction
Effects: Supply of Rental Housing

• **Common Argument**: Reduces supply by incentivizing landlords to remove units from the market through:
  – Condominium conversions
  – Landlord occupancy (i.e. owner move in’s)

• **Research Findings**: Several studies confirm
  – 2018 Stanford study on San Francisco
    • Rent controlled buildings 10% more likely to convert
    • Rental housing supply decreased by 15%
Effects: Supply of Rental Housing

- **Counter point:** policy can prevent condominium conversions

- **Example:** Cambridge, MA repealed rent control and conversion prohibitions in 1994
  - 2014 study found the condominium stock increased 32% after repeal; even as housing stock decreased 6%
  - Suggests policy can effectively prevent conversions
Effects: Rental Stock Quality & Maintenance

• *Common Argument*: It reduces unit quality because investment costs cannot be recouped through rent increases

• *Research Findings*: Some evidence that rent stabilization reduces maintenance
  – 2014 Cambridge and 2007 MA studies

• *Counterpoints*:
  – Effect can be mitigated by better code enforcement and capital improvement allowances
  – Landlords still have incentive to protect their investment through maintenance
Effects: Affordability in Stabilized Units

• **Common Argument:** It provides savings for those in stabilized apartments

• **Research Findings:** Generally supports this conclusion
  – A 2012 study on Cambridge, MA found rents in stabilized units were 44% lower than in non-stabilized units
Effects: Affordability in Unstabilized Units

• **Common Argument**: Unregulated units will see increases due to constrained supply

• **Research Findings**: Mixed results, but generally regulations can lower costs for all renters
  – Empirical studies show rent stabilization slightly increases affordability in non-controlled units
  – 2003 NJ and CA study: regulated cities had a 10% lower growth in rents - even after controlling for other factors
  – 2018 San Francisco study: rent regulation led to a city-wide rent increase of 5%

• Increases and decreases both possible depending on the policy design
Effects: Property Values

- Research is mixed on this issue
- Lowers property values
  - 2012 Cambridge study: elimination of rent stabilization led to a property value increase
    - 18 – 25% for regulated units
    - 12% for never regulated units
- Minimal effect on property values
  - 2015 New Jersey study of 74 regulated and 87 non-regulated cities found
    - Rent stabilization had no significant impact on appreciation or foreclosure rates
- Important implications for rent and government revenue
Effects: Housing Stability

• **Common Argument:** prevents forced moves and increases stability for those in regulated units

• **Research Findings:** Broad agreement that rent stabilization decreases mobility for treated units
  – 2018 SF study found those in controlled units are:
    • 20% more likely to remain in their units
    • 4.5% more likely to remain in San Francisco in the medium term

• Economists argue this could lead to over consumption, driving up costs
Why Stability Matters

• Significant body of research demonstrates the negative effects of instability

• People who move for financial reasons are:
  – 2.6 times more likely to report fair or poor health
  – 2 times as likely to report depression

• Students who frequently change schools are more likely to repeat a grade

• Moving frequently results in lower high school graduation rates

• Low income families have the highest mobility rates
Effects: So Who Benefits?

- Regulated units are disproportionately comprised of people who are elderly, people of color, or low-income
  - Several studies find the elderly are primary beneficiaries
  - 2015 New Jersey study: cities with rent stabilization had 25% lower median incomes and 70% more Black residents

- Weak targeting to those most in need
  - Middle, upper-middle class also benefit
  - 1989 study: the benefit-to-income ratio was higher for White families than for Black or Puerto Rican families
Effects: Summary

• Minimal effect on new housing construction
• Reduces overall rental supply by incentivizing conversions
  – Policy may be able to prevent
• Provides savings for tenants in stabilized units
• May provide savings for tenants in non-stabilized units
  – Depends on policy design
• Negative impact on maintenance
  – Can be mitigated through code enforcement
• Uncertain effect on property values
• Increases renter stability and prevents displacement in the short-run
  – The elderly, racial minorities, and low-income disproportionately live in regulated units
• Weak targeting to those most in need
Research Gaps

Missing Data:
• Unclear impacts on rents of unregulated units
• Little to no local data exists on rental trends (i.e., how fast are rents rising?)

Outstanding Questions:
• Beyond short-term forced displacement prevention, what are the long-term impacts of rent stabilization?
• What are the impacts on neighborhoods with depressed housing markets?
• What are the benefits of increased housing stability?
• What are the costs of forced mobility?
Conclusions on Rent Stabilization

• Blunt tool yet operates at scale
• Nuances in policy design will shape impact
• Landlords will exploit loopholes, including unforeseen ones
• Many unknowns about the effects
• Not a simple solution for affordability or preventing displacement
• The baseline policy creates some incentives that are misaligned with the policy’s goals
• In the short run, the policy limits forced mobility and prevents displacement
  – In the long run, effectiveness is uncertain
Questions?
References Part 1


*Rent Board: Landlord & Tenant Information*. (n.d.). Retrieved from City and County of San Francisco: https://sfrb.org/landlord-tenant-information#general_info