



Metropolitan **Planning** Council
Demystifying Rent Control

**What it is, What it isn't, & What we know
about its impacts**

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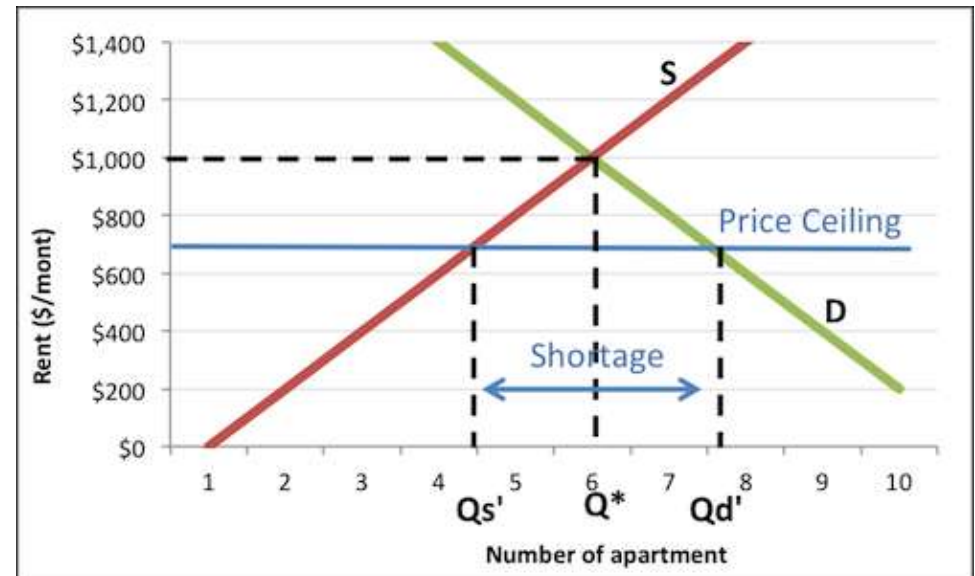
What We'll Cover

- 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”

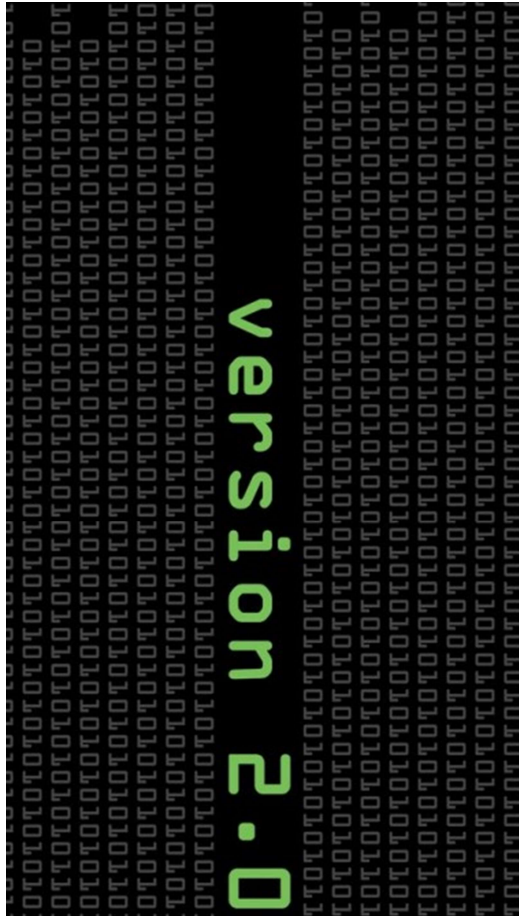
- A freeze on rental prices
- Creates a shortage
- Economists universally oppose
- Emerged in the U.S. in WWI & WWII
- No longer in use



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

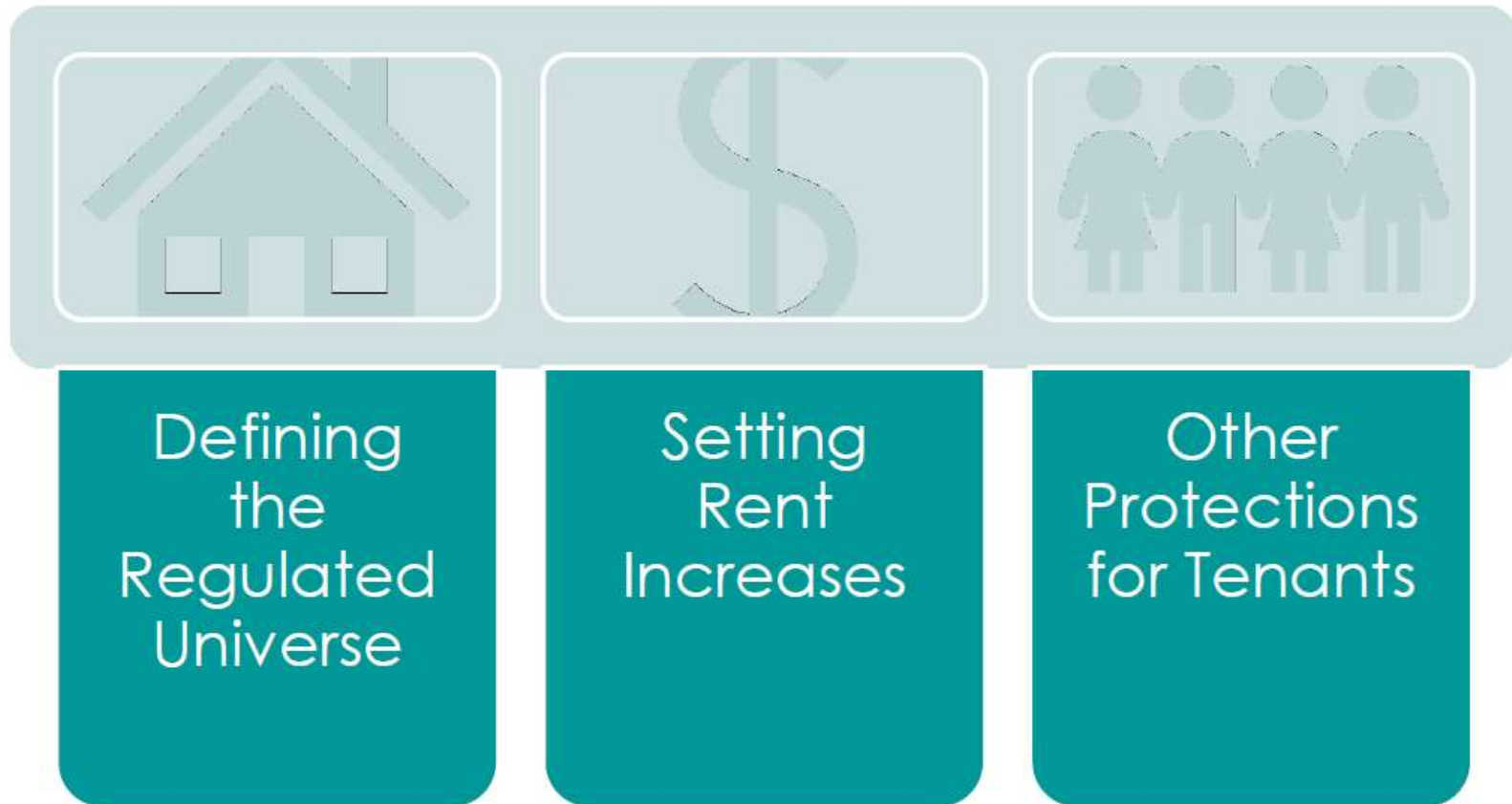
Second Generation Rent Control: “Rent Stabilization”

- 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

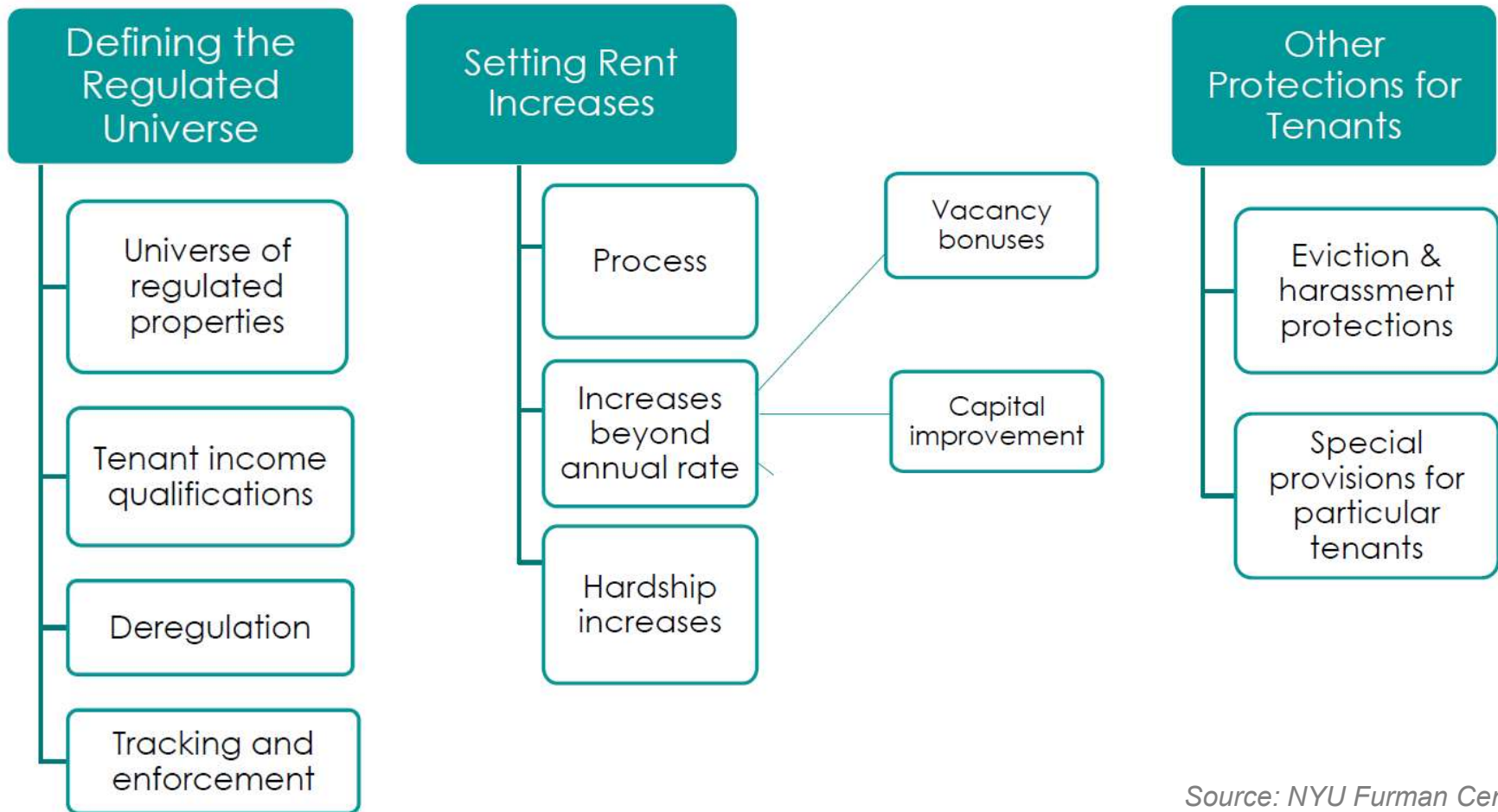
Components of “Rent Stabilization”



Source: NYU Furman Center

The Basics

Components of “Rent Stabilization”

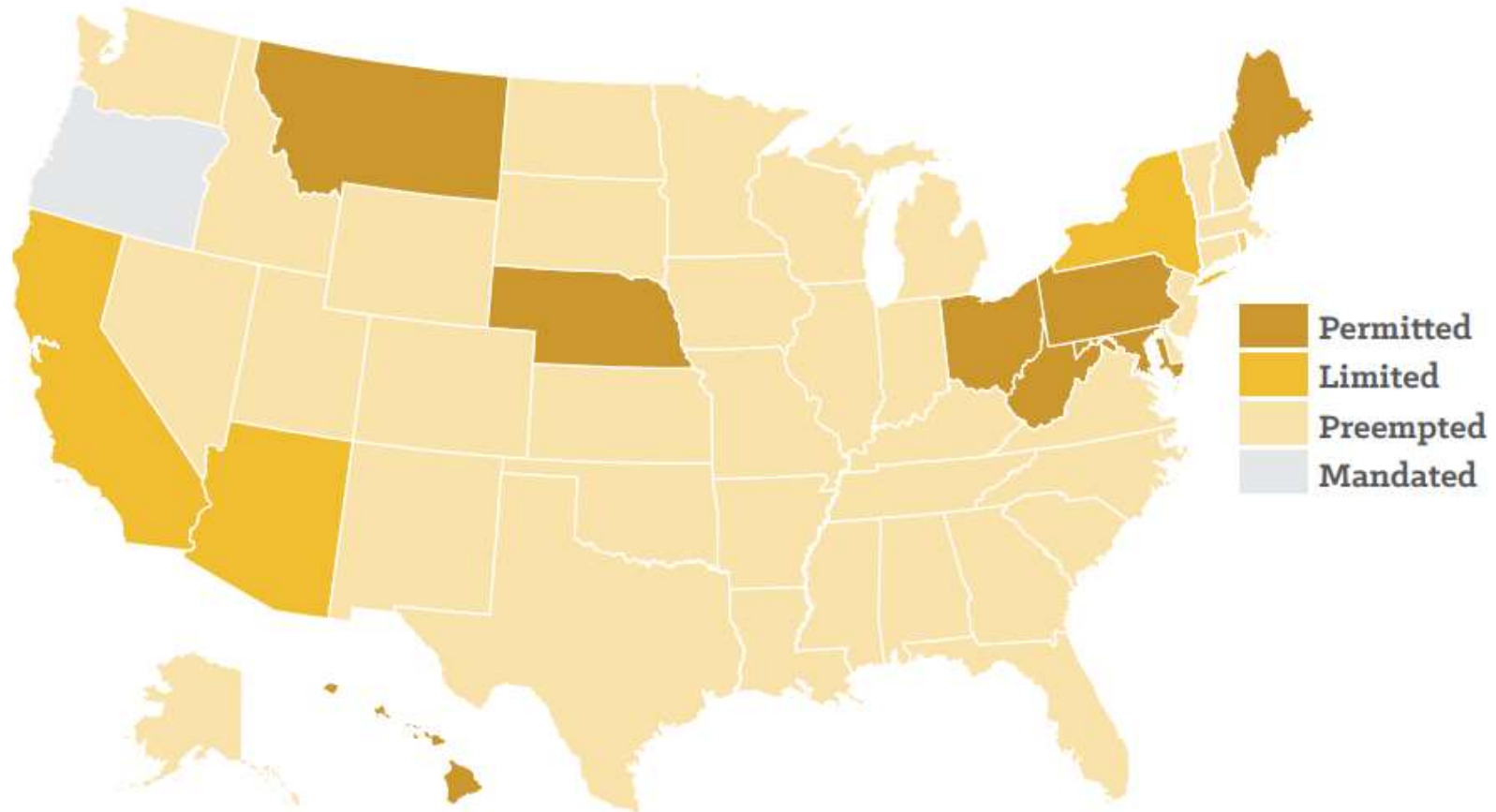


Source: NYU Furman Center

Rent Stabilization Examples

		Washington, DC	San Francisco, CA
Regulated Units	Units Built Before	1975	1979
	Exceptions	Small landlords (owning 4 or less units)	Owner occupied buildings of 4 or less units; repealed in 1994
Allowed Rent Increases	During a Tenancy	Once annually; CPI + 2%; total cap at 10%	Once annually; 60% of CPI; bank unused increases
	Vacancy Allowance	May increase up to 10%	No limit (Vacancy Decontrol)
	Special Increases	Hardship increase: May increase to allow a 12% ROI	Special circumstances: May increase to market rate
	Exceptions	Capital improvements; rehabilitations	Capital improvements
Additional Protections	Just Cause Eviction	Yes	Yes

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?



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