



WHY RENT CONTROL HURTS RENTERS

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There's no hot button issue hotter than rent control. Even the most courageous politician quakes at the idea of opposing it. For starters, no one likes landlords. Second, those who benefit from rent control -- and there are a lot of them -- vote. And it has huge emotional appeal.

Imagine this six o'clock news story: a reporter interviews a senior citizen describing how she'll have to vacate her small apartment, her home for twenty five years, if her rent control isn't maintained. What politician wants to go up against that?

These are just a few of the reasons why, once a city adopts rent control, it's almost impossible to dislodge it. But does rent control work? Does it lower or raise housing costs? And does it increase the building of more affordable housing? It might surprise you to know that nearly all economists -- on the right and the left -- from the late Milton Friedman to Paul Krugman agree that the answer is no.

In a survey of 464 economists in the May 1992 issue of American Economic Review, 93% said that "a ceiling on rents reduces the quantity and quality of housing available." Why the unanimity? Because it's an accepted economic principal that government imposed price controls -- and that's what rent control is -- always leads to price distortions --- in this case rents. This applies everywhere, but let's focus on New York City, the place where I have concentrated my research.

New York has the biggest rental market in the country. Of the city's 8.2 million residents, 5 and a half million rent. And these five and a half million renters live in about 2.2 million apartments or rented houses.

Every year, a city board votes on how much owners of rent-regulated apartments will be able to charge their tenants for the following year's one-year or two-year leases. The board members base their decisions not on supply and demand but on an estimate of how much costs such as fuel and insurance have risen. And, of course, how much of an increase voters will tolerate.

Think about what this means: the longer you stay in your apartment the more you benefit from below-market rents. Or to put it another way, why would you ever leave your rent controlled apartment?

The late screenwriter Nora Ephron once noted with some satisfaction that she moved into a five-bedroom apartment on the Upper West Side in 1980 and stayed there for 24 years, paying one-third the true market rent.

The well-off who benefit from great rents have the resources (in part from the money they've saved on rent!) to make their own improvements to their units – paint, redecorate and so on. But what about the majority of renters who have much less money? They're not so lucky because landlords can't afford to improve or even maintain their rent-controlled apartments. Since they can't raise rents to market levels, they can only make a profit by keeping their costs to an absolute minimum.

And there's another reason landlords have little incentive to maintain rent controlled apartments. They have no fear that their renters will move out. And if they do, there's always a long line of people waiting to move in.

And consider one more unintended consequence of rent control. Why would investors build new apartments for anyone but the very wealthy in a city where rents are controlled?

The answer, of course, is that they rarely do. The vast majority of new residential construction in New York is geared to the wealthy who can pay rents above the controlled limit or who are willing to buy their apartments outright as condos or co-ops. These expensive units are well beyond the reach of the middle class, let alone those lower on the economic strata.

In sum, rent control

- 1: Hurts the people it's supposed to help.
- 2: Gives landlords little incentive to improve their housing stock.
- 3: Discourages construction of new housing for all but the rich.

And the voters love it!

So rather than dream of the day when New York or Los Angeles and other rent controlled cities might abandon this self-destructive urban policy, maybe we should see this as a cautionary tale that well illustrates a valuable maxim: be wary of government programs bearing gifts. Like the famous horse that destroyed an ancient city, they come with all sorts of problems.

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