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Examining the efficacy of rent control: an empirical analysis
for consideration of rent control in Seattle

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Abstract

Examining the efficacy of rent control:
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Rent control has been a controversial set of regulations since its initial implementation in 1942. The perceived costs and benefits align with efficiency and distributional consequences. The perceived costs include a reduction of units, lower levels of maintenance, lower levels of new construction, and reduced mobility. The perceived benefits include lower rent levels, reduced rates of gentrification, community stability and increased security for lower income, elderly, minorities, and families and with children. Using a systematic review of eight broad, empirical studies I will examine the evidence to ascertain whether the theories of rent control policies are upheld in practice. I will then extrapolate from those results to form opinions about the possible effects on the Seattle rental housing market.

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Chapter 1. Introduction and Purpose

Rent control has been vociferously debated amongst economists and policy makers for generations. In an oft quoted 1992 survey of economists, 93% agreed or partially agreed that “a ceiling on rents reduces the quantity and quality of housing available” (Brown 2009). There is an ideological tension between economists and developers on the one hand favoring a free market approach to housing and housing advocates and tenants on the other who tend to advocate for a more regulated market as a means to control housing costs. Certainly, to some extent that tension is representative of a broader ideological approach to society in general (Arnott 1995). Despite this debate, there seems to be a recognition by politicians that they are in need of tools to provide housing for constituents, particularly those for whom the market is not tailored, such as middle and low income individuals and working families. Perhaps because of this, rent control has been implemented in dozens of communities all over the country. This thesis aims to delineate both sides of this debate in order to better understand whether rent control might be applied to positive effect in the city of Seattle, Washington.

Many generations of scholars and economists, including American and to a lesser extent Europeans claim that the only path to a healthy housing market is the free market. (Albon and Stafford 1987). Meanwhile, it is not the intent of most housing advocates to further constrain supply and inhibit the construction of new housing (Yi 2017), rather they seek to protect

those earning low wages from being displaced. Efforts to exploit the middle ground of this ideological split are plentiful and include inclusionary zoning, density bonuses, and Section 8 vouchers. Whether these programs are successful is open to debate, but they do not seem to be reducing housing costs in the aggregate. A 2005 Housing and Urban Development Report (HUD) found that during the period between 1985 and 2005, housing costs on average in America increased faster than all other items measured by the Consumer Price Index (Eggers and Moumen 2008).¹ And in 2015, despite a slight reduction from 2014, 48.3% of renter households remained cost burdened, meaning they were paying 30% of their income towards housing (State of the Nation's Housing Report 2017). A Pew Charitable Trust report examines costs from before and after the recession and finds an inflation adjusted increase in housing costs of 38% between 1996 and 2014. Despite the upwards of \$46 billion each year spent by the United States federal government on low income housing programs (Collinson, Ellen and Ludwig 2015), these efforts are treading water at best.

The possible benefits of rent control are primarily distributional concerns and include security of tenure for tenants, preservation of affordability of the rental housing stock, prevention of windfall profits (regressive redistribution of wealth), and a benefit to racial minorities, families, the elderly and economically deprived classes. The perceived drawbacks are primarily efficiency costs and include a reduction of units,

¹ 104% increase in housing costs between, despite only a 74% increase in the price for all other goods. https://www.huduser.gov/portal/publications/pdf/Trends_hsg_costs_85-2005.pdf

misallocation of housing, reduced rates of construction, higher prices for uncontrolled units, and a lack of maintenance. Debates about rent control generally break down along these lines, which also align to some extent with philosophical divisions about the role of government in ensuring affordability as opposed to largely or exclusively market forces. This argument will by no means be settled here, nor perhaps even in national discourse. It is reasonable however, for a community to consider how they value housing and the market when considering a rent control provision in their jurisdiction (Heskin et al. 2000).

This paper focuses on Seattle, where housing has become increasingly unaffordable in the past several years, with rents rising 57% since 2011 (Rosenberg 2017). Since 2010, according to the Washington State Office of Financial Management Seattle has added 78,140 new residents, many of them earning high salaries in the rapidly expanding tech industry. Contrary to other high cost cities, such as San Francisco,² Seattle is also seeing a rapid expansion of its housing supply. The city has added nearly three times as many units (31,963) in the same six-year time period, between 2010 and 2015 (Seattle Department of Planning and Community Development). Unit Growth is expected to continue as 2017 and 2018 are due to see a record number of new units, almost 10,000 in 2017 and 12,000 in 2018 (Rosenberg 2016). Because of this new supply rents have recently

² San Francisco has added approximately 11,244 units between 2010 and 2015 or an average of 1,874 per year. http://default.sfplanning.org/publications_reports/2015_Housing_Inventory_Final_Web.pdf

decreased by about \$50 on average across the region last quarter. Rents are still up 4.5 percent year over year. Rent decreases are occurring in Seattle neighborhoods that are seeing the largest growth in new apartments, such as South Lake Union. New apartment buildings are also seeing higher vacancy rates than previously (Rosenberg 2018). However, although rents in hot Seattle neighborhoods are stagnating, they have actually increased more quickly in outlying areas due to the displacement in Seattle. South King County and Pierce County, traditionally lower income areas to the south of Seattle have seen 7.8 percent rent increases in the past year. Vacancy rates are the highest in luxury buildings, which correlates to their higher asking rents. This potentially indicates that the new supply is “not in a price category that the median wage earner in the City can afford” (Richter 2018). It will take some time before these vacancies put downward pressure on rents that those workers can afford.

Commonly, the discussion in the media and policy circles is that the free market forces of supply and demand will cure the problem and affordability will return to the Emerald City. However, this has not proven true in the past. According to Seattle’s Department of Planning and Community Development, “the 14 percent increase in housing units between 2000 and 2010 substantially outpaced population growth and household formation within the same decade.” Despite this, rents still increased by 2.9% during the decade, adjusted for inflation (American Fact Finder). While it is undoubtedly true that amidst a booming population and employment growth,

Seattle must continue to add units to the housing stock, there is scant evidence that simply increasing supply will control rents, particularly for those at lower income levels.

Furthermore, as Seattle becomes denser, older and often more affordable housing stock is being demolished. Since the beginning of 2012, there have been 644 demolition permits issued, 144 of them for multifamily structures. Amidst the most recent Seattle boom, which began in 2012 (Richter 2017), displacement has increased dramatically. This is particularly true of the African American community in Seattle (KUOW 2017) who have faced a long and relatively recent history of discrimination in the location of housing options. Until 1968, redlining largely forced minority communities to reside south of the University District Bridge. Many of these areas faced decades of disinvestment and have now been substantially gentrified. More recent immigrant groups, also largely residing in the south end of Seattle are experiencing similar displacement pressures. In 2015 the City's Race and Social Justice Initiative analyzed demographic trends and found a high risk of displacement in historically minority communities such as the International District, Central District and Columbia City.

Displacement is not confined to minority groups. Long-time Seattle residents, those who helped build the community features that create such a vibrant city are also feeling the squeeze. Both land and home prices are reaching record high levels, whether for individuals or developers. Recently, median home price in Seattle passed the \$700,000 mark, putting housing out

of reach for large segments of the work force. Median home prices and prices for developable land is at a level higher than the pre-recession amounts in all four regional counties (Rosenberg(2) 2017).

Amidst these tremendous market pressures and inequitable access to housing, many Seattlites are struggling to hold on to homes. The city is entering its third year of a Homelessness State of Emergency (Kroman 2017), and eighth year of rent increases (Rosenberg 2018). As a result, many Seattle groups are now appealing for more government intervention. There have been several new regulations within the city of Seattle, such as the “First-in-Time” measure (SMC 14.08), short-term vacation rental taxes, as well as stricter rental agreement regulations (SMC 7.24) (Nickelsburg 2017, Seattle Office for Civil Rights, Seattle Department of Planning and Development). Many more regulations have been proposed in an effort to remedy housing affordability. While these regulations may help facilitate access to homes that are already affordable to certain people, it does little to quell the rise of housing costs. Calls for rent control have multiplied as increasing rents continue to put pressure on residents’ expendable income, with an estimated 20% of Seattle households severely cost-burdened (U.S. Census Bureau).³

The ability for a municipality in Washington State to enact rent control was made illegal at the state level in 1981. That could be overturned by the state legislature, which is precisely what is being proposed by some Seattle

³ Paying 50% or more. US Census Bureau.

groups and council members. To examine whether that would be prudent, this paper seeks to discover whether there is generalizable empirical evidence from municipalities with either past or present rent control in a broad spectrum of both efficiency costs and distributional impacts. The second chapter of this thesis will examine the features of rent control, the history of rent control policies throughout the United States, as well as the various battles to implement rent control in Seattle itself. A systematic review of eight empirical studies from 1989 to 2017, and the methods of that review will be examined in the third chapter. The fourth chapter will be devoted to a discussion of the findings. The final chapter will discuss the implications of those findings for Seattle and present an alternative policy suite for housing affordability.

Chapter 2. Literature Review

2.1 How Rent Control Works

In the simplest terms rent control⁴ is a cap on the amount of rent a landlord is permitted to charge a tenant. This can manifest itself in different ways depending on the type of rent control system. In the United States, rents are often frozen at a certain date, then the amount it is allowed to increase is controlled. Under this method a date is chosen at which point the rents are “frozen,” and are not permitted to rise above a specific point. For a sitting tenant, rent is often permitted to rise an amount determined by the regulation. Depending on the community this could be a set percentage⁵ or a percentage of the consumer price index (CPI).⁶ This increase is intended to accommodate any increase in owners’ operating costs, and allow their profits to keep pace with inflation.

Once a tenant vacates an apartment, there are a couple alternatives. In ‘vacancy control’ programs the rent is not permitted to rise in between tenants, or is permitted to rise by the same set percentage as for a sitting tenant. ‘Vacancy decontrol’ allows rents to adjust to market rate rental levels between tenants. After a tenant signs a lease on a controlled apartment in the rent control system, they then receive the same protections regarding

⁴ The programs discussed in this thesis are Second Generation rent control programs, which were implemented at a municipal level, mostly in the 1960s and 1970s. The original program was a Federal program. The history will be outlined in Section 2.2.

⁵ For NYC rent stabilized (i.e. second generation rent control) units with lease renewals between October 2017 and September 2018 rent is allowed to increase 1.25% for a 1-year lease and 2% for a 2-year lease. New York City Rent Increase: <http://www1.nyc.gov/nyc-resources/service/2069/new-york-city-rent-increase>

⁶ For example, Cambridge in the late 80s allowed an increase of .85 percent of CPI (Sims, 2011).

cost increases. Whether a community employs vacancy control or decontrol significantly contributes to the affordability levels of apartments, as shown in the studies examined in Chapter three. Vacancy decontrol can have the effect of gradually reducing the number of units participating in rent control, as apartments can revert to market rate between tenants. Similarly, a 1991 HUD report found that 50% of apartments in Boston that were qualified for rent control (had been constructed or converted before 1969), had undergone vacancy decontrol and reverted to market rate rents. This meant that at the time of repeal in 1994 only 14% of Boston's rental housing stock (22,000 apartments) remained under active rent control (Sims 2006).

Rent control programs in general only apply to buildings already in existence at the time of the freeze date. Depending on the housing stock of a particular locale, this can affect the number of units participating in the rent control program. In New York City's rent stabilization program⁷ apartments (6 or more units) built between 1947 and 1974 are included (those units built before 1947 are rent controlled). This accounts for about 30% of all housing units and 47% of all rental units (NYC Housing and Vacancy Survey 2014). Nearly all rent control programs exempt single family housing, duplexes and triplexes.

⁷ New York City is anomalous in that it has maintained its original Rent Control program, as well as implemented Second generation controls in 1969, which is called "Rent Stabilization." Both programs run concurrently, although the number of rent controlled units continues to shrink, according to the 2014 Housing and Vacancy Survey there were only 24,000 rent-controlled buildings and over one million Rent Stabilized buildings. Rent control maintains stricter price controls, but the main difference is the building year of the units.

Most programs also exempt new construction, either completely or for a period of years. Many localities with rent control also allow for “luxury” units, or those with rents at a certain high level to be permanently uncontrolled and completely dependent on market forces to set their rents. In New York City, after an apartment rent increases above \$2,733.75 the apartment becomes permanently decontrolled (NYC Rent Guidelines Board). This was not in the original federal plan, because it incentivizes developers to build more expensive units. According to the O.P.A. (Office of Price Administration) director Chester Bowles, “elimination of controls on higher-rent dwellings would result in “an even stronger tendency on the part of some builders” to construct houses selling for \$8,000 or more. The acute need, Bowles added, is for houses built to sell for \$5,000 or less” (The Seattle Times October 24, 1945). These are the circumstances currently in Seattle as well, with much of new housing being built for higher incomes, as discussed in Chapter 1.

The initial Federal program of rent control, as well as subsequent programs also often contain eviction protections for tenants, which were uncommon before WWII. These protections proved to be a vital portion of the original rent control program, and even in cases where rent control has been abolished many communities have maintained or even strengthened tenant rights; Seattle is an example of this.

It is important to note that this is not the only approach to rent control. Many communities in European countries have various forms of

price regulation in regard to rent. Although some of the same theoretical concerns exist in other countries, many European systems persist, or have been only recently relaxed. In many European cities, the rebuilding process after the second world war was lengthy, and rent control systems have persisted longer. Several European cities have been slow to abandon controls and some cities or countries still have highly regulated rental housing systems. Some, such as Berlin have implemented new regulations (Arnott 1995). In the Netherlands, where 90% of the rental housing stock is controlled, they employ a grading system, whereby a dwelling unit is graded based on size, amenities, and other attributes and a maximum price is set (huurcommissie.nl).

2.2 History of Rent Control in the U.S.

Rent control was first employed in the United States with inflationary pressures and rising costs during World War II. The regulations were first implemented in 1942 on a federal level as part of the Emergency Price Control Act (Bloom and Newman 1974). The program was designed to keep millions of people sheltered during the disruptive circumstances of wartime. Rent control was only implemented in defense areas, or communities experiencing rapid growth or other housing market disruptions as a result of population growth due to wartime production of goods. There were up to 487 rent-controlled areas across the United States by 1945 (The Seattle Times,

September 18, 1945). Rent controls were enacted as a temporary measure to control and stabilize the housing market. Rent control was a small part of widespread price controls on commodities as well as wages.

At the time of the Emergency Price Control Act in 1942, several methods of price control were debated. These include the appraisal method, a grading of properties, the 'fair rent' method, and the 'freeze' method (Lett 1976). The appraisal method approach entails that the value of the property determines the rent level. The rent would be set at 1/12 of a given percentage of that value. Generally the capital value is "the value of an income-producing property (which) is substantially related to its income potential" (Lett 1976). This is a method of valuing capital that inherently benefits the property owner, because if the market value of properties appreciates, say by the addition of 1.5% increase of new, more expensive units, all units in the area are likely to increase in value. This increase could be captured by the owner regardless of improvements to the property (Guerrieri et al. 2013).

Grading properties was a method that assigned each property to a category then set a market rent for each level of property. A comparable method of grading properties exists in some European countries, such as the Netherlands, which determine the allowable rent of each unit based on the size, amenities, location and other tangible features. The 'fair rent' method, according to scholar Monica Lett, was a "nebulous concept, existing only in the minds of the most optimistic Pollyannas," and is only functional in

conjunction with another method (1976). The ‘freeze’ method set the price at a level of market rent on a particular date, and did not allow that rent to change.⁸ Ultimately, this is the system congress implemented, although they did acknowledge that this method, like the others, would produce some inequities.

In this system rent was frozen at a date contingent on local circumstances. The theory was that this price was set by the free market before wartime activities influenced that particular housing market. Each date was established independently at cities around the country as war time activities ramped up. During the period of federal rent controls rent was not allowed to rise above this level, except in very special circumstances. In the initial version of federal rent control policies, prices also did not adjust for inflation; in fact, rent control was intended to stave off inflation in the exceptional circumstances of the war. However, this aspect was often criticized by landlords, particularly after the coexisting system of price controls was eradicated. First generation federal rent control was intended to be temporary, and some legal rulings⁹ require that it be so in order to maintain its constitutionality (Lett 1976).

In the immediate aftermath of the war, congress- Democrats and Republicans alike, were hesitant to lift controls, because despite push-back from the construction and real estate industries, rent control was an

⁸ The initial federal system differs in this respect from the second generation systems analyzed in this thesis.

⁹ Including *Nebbia vs. New York*, *Yakus vs. United States*, *Bowles vs. Willingham*. Many lawsuits are based on the Emergency Price Control Act of 1942. This act was upheld multiple times, but the keyword is “emergency.” The constitutionality depends on the ability to show an emergency situation.

extremely effective means of controlling the cost of living for thousands of American families. Additionally, construction materials continued to be in short supply following the war which slowed construction of new units, keeping demand high. Federal rent control did finally get lifted in 1951, with a brief resurgence under President Nixon in 1973 amidst massive inflation due to the oil crisis.

The 1960s and 1970s saw a wave of new local *moderate* or *second generation* rent control policies. The municipalities that instituted rent control are mostly concentrated in New York, New Jersey, Massachusetts, and California. Regulations were fought for by tenants in cities with rising rents. In New Jersey, median rents rose 64% compared to a CPI increase of only 33% between 1960 and 1970 (Gilderbloom and Ye 2007). Rent increases occurred regardless of whether a city was growing or experiencing a housing shortage. Older east coast cities, such as Boston which experienced negative population growth¹⁰ and corresponding disinvestment, as well as newer cities facing massive population growth such as those in California¹¹ both saw rent increases.

Rent control provisions have primarily been weakened nationwide since the early 1990s. In November 1994 Massachusetts residents voted on a statewide ballot referendum to overturn existing rent control provisions.

These were present in three communities in the Boston area: Boston,

¹⁰ Boston saw a 33% reduction in population between 1950 and 1980.

<http://www.iboston.org/mcp.php?pid=popFig>

¹¹ Los Angeles which saw nearly 50% population growth in the same period, 1950-1980. <http://www.la Almanac.com/population/po02.php>

Cambridge and Brookline. The initiative, Question 9, narrowly won statewide, despite being soundly defeated in the cities with rent control policies (Autor et al. 2014). Similarly, in 1997 the California state legislature approved the Costa/Hawkins Bill, which still allowed for rent control, but required the phasing-out and prohibition of more stringent vacancy control aspects of those systems (Heskin et al. 2000). Despite numerous economic studies discounting the efficacy of rent control, it continues to be an embattled subject in various communities across the country. For many policy makers it is seen as an attractive option, especially to preserve affordability, and prevent displacement. Rent Control programs effect a large portion of the rental housing market, there are existing models to borrow from, and the legality has been maintained on the federal level as recently as 2005.¹² There is a precedent for its implementation. However, although it is often advanced as a solution to high rent levels, it is not frequently realized. This is true in communities that have already removed rent controls as well. Rent control amendments and petitions have popped up sporadically in Boston, for example, as long-time residents struggle with rises in rent.¹³ Richmond, California, located across the Bay from San Francisco is a rare example of a city who voted to implement rent control regulations in 2016.

¹² In *Lingle v. Chevron*.

¹³ Including but not limited to 1998, 2003 and 2015 according to local Boston news sources.

2.3 Rent Control in Seattle

As early as 1919 Seattle began discussing rent control regulations to stabilize rents during the post-World War I growth in the city. An ordinance was introduced to the council on October 21, 1919 (The Seattle Times, October 22, 1919.) Housing had been an issue for several years as growth in industry caused the Seattle population to boom. There was subsequently a dire need for work-force housing. Some historians even link housing cost increases and unit shortages to the 1919 general strike (Webb 2011). Insults were hurled vociferously in City Council meetings from both sides- renters claiming their landlords were raking in 40% profits and excluding children, while landlords accused supportive council members of being “Bolshevik.” According to reporting by the Seattle Times, in the lead up to first world war, rents jumped by 175% (The Seattle Times, August 24, 1943.) Ultimately, the apartment owners won the early battle, and rent control in Seattle was not established until the Federal Government established rent control areas during World War II. Seattle, along with Bremerton, Tacoma, and other area communities had their rent ceiling set to the amount as of April 1, 1941. All residential rental properties had to be registered by July 1, 1942. Apartment owners complained, and several were reported to the Office of Price Administration (O.P.A.) and fined for violating the rental rules (The Seattle Times, June 11, 1945). In October of 1942, Leon Henderson from the O.P.A. defended the system of price freezes stating that rents would be stabilized

“at the level which landlords and tenants had worked out for themselves by free bargaining in a competitive market which had not yet been affected by the impact of war activities” (Lett 1976).

Throughout and following the war, landlords both locally and nationally united to oppose rent ceilings. With the war raging, construction also stalled during those years, as significant amounts of materials as well as labor were employed overseas; this kept demand high. Amidst housing shortages that would have driven up prices in an unregulated market, landlords were given some concessions under rent control. As people doubled up landlords were able to charge more rent. In 1943, Seattle landlords brought a lawsuit to revoke rent control, but the constitutionality of rent control had already been upheld twice in federal courts. Further, landlords claimed that the rental price at the time that Seattle’s limit was set was too low, because supply at the time was “overstocked” (The Seattle Times. September 20, 1943.) The same Seattle Times article quotes the area O.P.A. chief, B.C. Koepke as saying that despite rent control, rents had climbed 103%.

After the conclusion of the war, rent ceilings persevered for a number of years. As Congress debated terminating the O.P.A., states and municipalities to begin exploring the idea of enacting their own rent control programs. New York City’s is the largest and most well-known, but Seattle also began researching how a rent control program would work locally. In 1946, Washington Governor Monrad Wallgren convened a state legislative

session in an attempt to pass a statewide rent control bill (The Seattle Times, July 21, 1946.) Amidst talks of a local program in 1946, relationships between stakeholders intensified. Two large apartment groups- Apartment House Owners' Association and Pioneer Apartment Group began threatening to hold units vacant to protest rent control. According to them, there were 6,993 vacant units in King County, nearly half of which were uninhabitable, allowed to disintegrate because of lack of profit (The Seattle Times, November 12, 1946). Ultimately, after being threatened with conspiracy charges by the city attorney, the apartment groups abandoned their proposed strike.

At the end of 1947, Mayor William Devin's Housing Advisory Board released a report that stated that at least 36,000 units were needed in Seattle over the next three years to ease the housing shortage; this is contrasted by groups like the Pioneer Apartment Group, who asserted that there was in fact no shortage, they just needed the freedom to raise rents (The Seattle Times December 27, 1947). "Apartment operators contend that rent ceilings encourage tenants to occupy more space than they need and prevent the functioning of a free market which, within a short time after controls were removed, would stabilize rentals and end the housing shortage" (The Seattle Times February 8, 1948). An additional element advanced by apartment owners is that with the ability to create profits, units held vacant would re-enter the housing supply, according to apartment groups there were 6,693 vacant units in King County, where Seattle is the

largest city. The controversy, present to this day, was the number of units a housing market needs to create a price equilibrium, and how they are allocated. Those with the ability to generate profits will naturally would like to see the supply lower so high prices are allowed to regulate the market.

Amidst this local debate and confusion in 1946 and '47 both labor and veteran's groups supported the continuation of rent control as a means of protecting their constituents' interests. Developers and real estate interests predictably opposed the controls, as well as the findings in Mayor Devin's Housing Advisory Board report. In response to that report, real estate groups request another survey with "differentiation between "need and desire." The board (real estate) will insist that rent control is and has been the main obstruction to the solving of the housing emergency, and that only by lifting of controls on residential rents can the problem be solved" (The Seattle Times December 27, 1947). This group is concerned that "shortage may not be translated overnight into overabundance" (The Seattle Times February 8, 1948), despite high amounts of population growth. Further contributing to housing shortages is a market skewing to higher income properties, incompatible with the socioeconomic segment with the most need, which Mayor Devin's report notes is mostly in lower socioeconomic segments. There was a tension between different factions about what constitutes a housing shortage and how and to what level that need would be best remedied- a debate that continues to this day.

Despite a last-ditch effort by advocates to get a local law passed, federal rent control finally ends in Seattle on September 30, 1952. Amidst local pressure, a group of apartment owners and real estate industry folks formed a “Fair Rent Commission” to work with landlords on keeping rent increases to reasonable levels. The first 453 rent increases approved by the commission in 1952 averaged about 7%. As it is not a legal entity, this commission is soon abandoned, and rent increases are left to the landlords’ discretion.

Rent control again comes to the forefront in 1962 in preparation for Seattle’s Century 21 Exposition, which coincided with a flurry of evictions of long-term tenants in favor of “transient” residents renting apartments for the duration of the fair (The Seattle Times April 2, 1962). The city council proposed a rent control ordinance at this juncture and lost the court test for the constitutionality of its ordinance (The Seattle Times April 25, 1962). Rent ceilings are proposed in some neighborhoods in the early 1970s, such as Pike Place, Pioneer Square and the International District for urban renewal purposes.

In the spring of 1976 according to the Seattle Times, the local housing market experiences an increase of out of state investors, as well as rising rents. Anecdotally, the victims of cost increases and speculative sales which appear in media are the elderly and families with children. Marie Donohoe, a local lawyer protecting tenants in these cases writes a rent control proposal, which puts the freeze date for rents at June 1, 1975, but

allows for increases in the case of capital improvements. At the time, she asserts that the common conception that merely by building new units, older units become more affordable is debatable. “If we consider the “trickle-down” theory, she says, then upper and middle-income people are competing with the poor for the older housing and taking more opportunities away from them” (The Seattle Times, November 28, 1976). Although the proposal initiates a study it’s ultimately defeated in January 1977. Seattle’s vacancy rate remains at around 1% through the rest of the 1970s. In the latter part of the decade an increase in condo conversions initiates new debate about rent control, but the political will is absent (The Seattle Times, June 21, 1978).

In 1978 a Housing Conference proposed a new rent stabilization bill that provides tenant protections, yet allows for rent increases. Councilman Michael Hildt leads the way on housing affordability issues, although he does not support rent control. However, “he doesn’t agree with the theory that just by building more-expensive housing other units will become available for low-income persons” (The Seattle Times February 4, 1979). Rent control continues to be debated, as vacancy rates hover around 1%, and according to one report, the market has not provided *any* housing within reach of low-income families since 1972 (The Seattle Times March 4, 1979). In 1980, as a culmination of the local conversation about housing affordability, low vacancies, and market forces, a rent control initiative is put on the ballot.

Brought by a group called Renters and Owners Organized for Fairness (ROOF), Initiative 24 would fix rents to July 1, 1979 rates, while

allowing for an increase once a year, which would total half of the CPI inflation levels (inflation only accounts for about 25% of an owner's costs, the bulk of the costs are the mortgage, which doesn't change) The proposal also aimed to control demolitions of habitable housing units in favor of speculative developments. It included a provision that demolition permits not be granted unless the property had been held by that owner for at least three years. Additionally, if the owner were to demolish a structure, an equivalent amount of housing at the same cost level would have to be provided within a two-mile radius (The Seattle Times April 6, 1980). The proposed rent control did not apply to new units. There was also a sunset clause written into the Initiative that when the market maintained a 5% vacancy rate, rent control would have been phased out. The main goal of this aspect of the rent control provision is to preserve and profit on the investments made in previous years with the construction of housing. This part of Initiative 24 is also touted today as a good measure for housing affordability, and housing preservation is included in then Mayor Murray's 2015 *Housing Affordability and Livability Agenda* (HALA).

A housing industry lobbying group (Coalition for Affordable Housing) formed to combat the Initiative (The Seattle Times June 1, 1980). The group received far more funding than Initiative 24 backers. The Mayor and other councilmembers promoted certain provisions from Initiative 24 and other affordability measures, such as the demolition clause, just eviction practices, multi-family zoning changes and fines on vacant units, without going as far

as supporting a more comprehensive package which included rent control. The battle raged on until Election Day, 1980. At this time, amidst a conservative sweep and the beginning of the Reagan era, Initiative 24 is defeated.

Then, in 1981 under what was considered by many to be a conservative mandate, the State legislature under pressure from the Affordable Housing Commission, introduced and passed a statewide rent control ban (The Seattle Times, April 17, 1981). Nevertheless, rent control has become part of the affordability debate over the years when housing becomes unaffordable and displacements become common. In the 2017 Mayoral race, at least two candidates were advancing or were supportive of rent control policies. Several council members, namely Socialist Kshama Sawant have been actively promoting a rent control policy since as early as 2015.

2.4 Theoretical Impacts of Rent Control

New York City lawyer and housing advocate Timothy Collins writes on the claims of the housing industry:

“...the arguments against rent regulation are carefully framed as public-spirited efforts to expand and improve the housing stock...They claim that the shortest path to habitable, affordable, and improved housing is through unfettered markets. Rent regulation, they assert, causes housing shortages, retards new construction, leads to deterioration and

abandonment, unfairly reduces owner profits, hurts the local economy, causes declines in tax revenues, results in underutilization of existing units, primarily benefits the rich, hurts newcomers and co-op owners, and even leads to homelessness” (Collins 2003).

This is a good summary of the objections to rent control put forth by economists and many politicians over the past several decades. This statement from a housing advocate is also indicative of the heatedness of the rent control debate. Stakeholders are equally passionate in advocating for the perceived benefits, which include lower rent levels, less displacement, slower rates of gentrification, and protection for low income, elderly, and minority populations. Below, I’ll outline these main theoretical objections and benefits of rent control provisions. These primarily break down into efficiency costs and distributional impacts. The former is about how efficiently the market is allowed to operate to deliver units, and the latter concerns the welfare and equity of the distribution of resources (Gyourko and Linneman 1989).

Rent control becomes a system of redistribution, transferring wealth from the owners to the tenants. There is a philosophical argument, popularized by Henry George in the late 19th century, that because society as a whole has contributed some of the value, a percentage of the assessed value is due back to society in the form of higher taxes (Wortel-London 2018). This is referred to as a land valuation tax, or a location tax. As Anthony Downs writes:

...”to shield the initial tenants from these higher rents would essentially transfer some of the basic benefits of owning the properties concerned from the owners to the tenants, without compensating the owners. In fact, this argument implies that all increases in property values not directly caused by the owners themselves (such as renovations) should not belong to the owners. Rather, those increases should belong to society in general, because they result from actions carried out by society in general- that is by persons or forces other than the owners. Therefore, society can legitimately compel the owners to transfer some or all of those value increases to the tenants (1996).”

Society is providing many of the amenities which allow a property to gain in value, such as parks, utilities, transportation systems and zoning discretion.

Distributional benefits, such as prevention of gentrification, housing stability and lower rents for controlled units are not generally debated. The literature seems to suggest that these benefits most certainly exist for some people. The disputed aspects of these benefits have more to do with the efficacy of their application, the equity of regulations and the overall, long-term ability of the housing market to meet supply. Rent control is often implemented with the intent to protect residents from displacement, and indeed these regulations have an inherent bias towards those who are already in a housing unit.

Economists, especially in the earlier works on rent control, often use theoretical arguments to contest rent control policies. According to the theory of supply and demand, rent control should distort the market in certain ways

that destroy housing affordability by creating some of the inefficiencies discussed in this paper- ultimately creating a housing shortage that increases rent levels. It's very challenging to prove causality in these studies because it's difficult to examine two identical markets side by side. Nonetheless, these theoretical concerns have become permanent fixtures in the rent control debate. Later in this thesis, I will examine some empirical evidence to see whether these objections hold true.

Another aspect of this debate is whether or not the housing market is truly representative of a "free" market. As Arnott and others have noted, the debate about rent control is not only an ideological one, but a methodological debate about how housing markets work and whether they are perfectly or imperfectly competitive. A discussion on the free market nature and endemic market interventions and distortions will follow the theoretical objections.

Interventions into the housing market, such as rent control, are said to impede the free market forces of supply and demand and yield results that are detrimental for the system as a whole. "The classic textbook interpretation is that rent control causes a loss of welfare solely through the under provision of apartments" (Chang and Sanders 2010). The unfettered market is supposed to function such that high prices will signify unmet demand, which prompts the market to create supply, so long as the demand is unmet (and prices remain high) until it reaches a market equilibrium. This

equilibrium will presumably ensure that units are at an affordable price. In a healthy housing market, often thought of as having a vacancy rate of 5% units will become affordable simply because there will be a surplus of housing units. However, “as with many free market arguments it ignores factors that may prevent this (new supply)” (Hanly 1991). In Seattle new housing could be delayed or prevented by an extensive design review process, zoning constraints, neighborhood objections, or a shortage of labor. The free market approach also does not account for the *type* of housing constructed. Under a free market system in which the majority of housing is constructed by the private sector, the natural tendency will be for developers to construct housing types that ensure the most profit. As noted primarily by politicians since the initiation of rent control, the increase in supply is often unmatched to the economic segment with the greatest need for housing.

In the face of price ceilings, shortages will be multi-pronged. Firstly, landlords will remove existing units from the supply chain- either chose to take units off the market to remain vacant or be allowed to deteriorate, will sell them, or will convert them to other uses. In many rent control regulations, landlords are allowed to remove properties from the rent-controlled market segment if they either live in them, improve them so dramatically that they surpass the luxury de-control level or sell them as condominiums.

Secondly, an artificial reduction in price encourages more people to inhabit rental housing, or to remain in rental housing longer than they

normally would. “Binding price controls attract new renters who would not be interested in renting at market prices” (Glaeser and Luttmer 2003).

Consumers of units in a restricted market are theoretically less likely to leave the rental market for homeownership. Federal housing policies in the U.S. has long been skewed to encourage homeownership. The most prominent justifications for this are to build personal wealth and that it stabilizes communities and “establishes a connection with good citizenship” (Glaeser 2011). Post housing market crash, an increasing number of scholars are beginning to question whether this is good policy, but it has been the de facto preferred housing model since the great depression. Tax policies, such as the mortgage interest deduction also serve to incentivize homeownership.

Thirdly, economists argue that people may also be more likely to consume more rental housing than is necessary for their lifestyle, causing a misallocation of housing resources. In other words, single people living in two bedroom apartments long after their children have moved out and removing that large apartment from a family, further reducing the supply of that housing type. The New York City Rent Guidelines Board in 1999 studied the apartment sizes of single senior citizens and found that those living in apartments with two or more bedrooms had a 43.5% share in non-regulated apartments, 34% in rent-controlled apartment and only a 24% share in rent-stabilized apartments. From New York City’s rent control and rent stabilization programs there is no evidence over the past 30 years that housing is misallocated at a higher rate than market-rate housing, at least

amongst the elderly (Collins 2003). Of course misallocation is also present in uncontrolled markets as well as the homeownership market.

Finally, one of the most prominent arguments against rent control is that construction rates of new units in a controlled market area will be significantly lower than under an uncontrolled market. Even though most cities with rent control have clauses which exempt new construction, the idea is that those who invest in housing development will favor “instead investment outlets where the returns were unregulated” (Albon and Stafford 1986). The presence of rent control in a municipality will have a chilling effect on the market, because the threat that those new units will eventually be folded into the rent control program is enough to keep developers away. Most, if not all rent control regulations apply to buildings already in the housing stock at the time the ordinance is put in place. Only New York City abandoned rent control, and then re-implemented a similar program in 1969, called *rent stabilization* and expanded the number of apartments to include those constructed before 1968 but after the 1947 cut off for rent controlled buildings.

A further efficiency cost of rent control is the theory is that landlords will skimp on both cosmetic and structural maintenance in order to compensate for the reduced profit. Building owners under most second generation rent regulation systems are allowed increases for both capital

improvements as well as an increase in operating costs. The amount allowed on the increases will often more than twice pay for them in 14 years, according to work produced by the New York State Tenant & Neighbors Information Service (2003). Property owners in Cambridge had the perception that the Rent Control Board only allowed for small rate increases, and evidence from that city indicates that “applications for rent adjustments were infrequent- once per decade for a typical unit” (Autor et al. 2014). This is a difficult metric to quantify, because cosmetic issues are not generally tracked by federal or municipal entities; although some serious housing deficiencies such as a lack plumbing and kitchen facilities are tracked by the U.S. Census Bureau. Housing deterioration that does occur is often housing in lower-income neighborhoods (Sims 2006). Tenant incomes simply cannot cover the increased rent required to get a return on capital improvements. This happens in low-income neighborhoods regardless of the presence of rent control. Amenities and location will determine much of the value of a unit, and presumably those factors would also lead to lower profits and thus less capital investment (Pollakowski 2003).

The aforementioned reasons for the reduction of supply, as well as an increased demand for controlled units, are said to create disproportionately high prices of uncontrolled units in jurisdictions with rent control. (Neo) Classical economists insist that without rent control a natural bell curve would form, and prices would equalize more towards the middle. Some

scholars and observers of rent controlled markets insist that the excess demand for low cost controlled units “spills over” into the uncontrolled sector, leading to higher rents for uncontrolled tenants. Glaeser and Luttmer (2003) suggest that in the face of artificially low prices, some tenants may choose to stay in the rent-controlled sector despite a desire or ability to vacate a rent-controlled unit.

Economist Henry Pollakowski sites a “renter’s subsidy,” or the difference between what a renter in a controlled apartment pays and what a market rate renter pays. This subsidy is adjusted to take into account features that affect rents, such as square footage, the quality and age of a unit, and asserts that without rent control these factors alone would determine that the rental unit remains at a lower price. Yet, in the following studies we will see that when rent control is abandoned, or apartments are vacated and allowed to adjust to market rents, *all* rental units in that market increase in cost, at least in the aggregate.

The alleged inequity of rent control can be viewed in a couple ways- between tenants themselves or between tenants and landlords. Many opponents of rent control assert that it is inequitable because rent-controlled apartments are so much more affordable that people hold onto them for years, thus barring others from taking advantage of the benefits of a lower rent level. Ironically, levelling this criticism seems to imply that *more* rent-controlled units would be beneficial. A 1994 Rent Control Board study found

that tenants in rent-regulated buildings typically have a tenure length three to four years longer than those in unregulated housing (Collins 2003).

Numerous other studies, including the ones featured in Chapter 3, have found that tenants have longer tenures in rent-controlled units. Rent control does intrinsically benefit sitting tenants and long-time residents, leaving younger and newer residents with fewer opportunities at below market rate housing.

Other economists provide both anecdotal and empirical evidence that more benefits are accrued by wealthier people, who hold onto their rent-controlled apartments well longer than they “need” them. In New York celebrities and entrepreneurs such as Nat Sherman famously “hogged” princely accommodations because they cost so little (Glaeser and Luttmer 2003). Multiple empirical studies have found evidence that the welfare benefits are not distributed to those in need, but are randomly applied and poorly targeted, hence inequitably distributed. Misallocation can also be used to describe a broader circumstance of the misallocation of apartments, not by size but across demographic subgroups. Classic economic theory assumes that in a period of shortages, the goods will be allocated efficiently, mostly based on price. Glaeser and Luttmer describe a scenario examining New York City in which rent controlled apartments are allocated randomly, based neither on willingness to pay, nor need for affordable housing.

Equity between tenants and landlords is ethically a bit more challenging, because generally landlords are already economically better off

(Micheli and Schmidt 2015). It sets the problem of poverty in the hands of individual landlords, as opposed to governments or charitable organizations. Milton Friedman, a well-known proponent of neo-classical economics and George Stigler in their famous book on rent control, argue that the fact that “better housing goes under free market conditions to those who have larger incomes or more wealth is, simply a reason for taking long-term measures to reduce the inequality of income and wealth” (in Albon and Stafford 1987). However, more recent research from Micheli and Schmidt reveal findings that in fact, rent ceilings, at least in the German housing market, may have more positive effects, or fewer negative effects than an increase in the income tax on higher earners (2015). In effect, the redistribution of income from landlord to tenant under a rent control program is inequitable to the landlord because it reduces the landlord’s profits while not distributing those profits in an equitable way.

An argument could also be made that a property owners’ rights are being infringed upon when the returns on their investments are being controlled- constituting a taking. A return on investment in the real estate field is largely determined by net operating income; this is the amount of income after mortgage debts, vacancies and operating expenses. Major components of operating expenses include property tax, insurance, utilities (which are sometimes passed on to tenants), administration and maintenance. During the period of federal rent control, because of shortages, prices for many goods but especially labor for maintenance and fuel were

also controlled as part of the war effort. Some argue that rent control itself cannot exist in a fair way without concurrent controls on fuel and labor costs. Landlords and real estate interests, including corporate and out of area investors are some of the most strident objectors to rent control, because the restrictions reduce their ability to generate what they perceive to be an adequate return on their investment.

Second generation rent controls often include provisions by which a landlord can raise rents to accommodate increasing costs. Tim Collins reports on a 1999 study conducted by the NYC Rent Guidelines Board comparing net operating income from the period of 1967-1970 against data from 2007, shows that landlord profits are holding steady at 38 cents on the dollar. Furthermore, rent control legislation in many places have or had provisions which enable property owners to claim a hardship in cases of net operating loss. Only a small number of landlords make these claims.

The concept of tenant mobility straddles the distributional and efficiency sides of the debate. This is the idea that the economy is better served when people alter their situations based on their circumstances. Whether tenant mobility is seen as an efficiency cost or a distributional effect has been contested, and some scholars assert that distributional effects determine a large portion of these “costs,” therefore in some studies (such as Gyourko and Linneman) these costs are being overestimated by between 10 and 20% (Ault et al. 1992). Nonetheless, tenure duration (or tenant stability)

is found to be longer in rent controlled units within a city, or rent controlled cities than in uncontrolled circumstances.

However, if there is a deep discount or disincentive to relocate for better employment opportunities, or because of a change in economic or life-cycle circumstances there could be a net loss in economic output, primarily as a result of longer commute times. Krol and Svorny (2005), building on previous research, found longer commute times associated with rent-controlled communities in New Jersey between the years 1980 and 2000, results which should be expected to be extrapolated to other municipalities. However, commute times have increased in general for commuters in the United States since 1980. Travel time increased Nationwide from 21.7 minutes in 1980 to 25.3 minutes in 2010 (The National Report on Commuting Patterns and Trends 2013). Additionally, residential location “greatly effects access to opportunity” (Katz et al. 2000), add as neighborhoods are becoming more segregated by both race and income in the United States, higher income areas are likely to have greater outcomes for residents. This is a result of the quality of schools, crime rates, a richer social network, and green space. If tenants are discouraged to move to better locations, that could have a high efficiency cost.

Interestingly enough, a reduction in tenant mobility is criticized by economists, but preventing tenant displacement is often one of the main reasons for implementing a rent control regime, as community stability is seen as a positive sign for healthy communities. According to Arnott,

“discounts” for long-term tenants in the uncontrolled sector are also well-documented. “A common explanation is that longer-term residents are better tenants. They are older on average and more stable. They are also more likely to behave well, having formed personal ties with other building residents (1995).”

2.5: Is the housing market a “free” market?

One cannot discuss rent control without mentioning supply and demand, which are lauded by neo-classical economists as a necessary function for a healthy society. However, there are specific conditions that must be met for a truly competitive market to exist, and there are ways that the housing market differs from other commodities. At the forefront of impeding the free market is a layer of “policy distortions” constructed to deal with other market imperfections; including zoning, design review, property taxes and impact fees (Arnott 1995). Many of these are designed either to protect property rights for wealthy individuals or to reaffirm the commons. An asymmetric availability of information between tenant and landlord and heterogeneity of both housing units and tenants also contribute to the imperfect quality of housing markets (Arnott 1995). Gilderbloom and Appelbaum go further: “We conclude that rental housing markets depart in crucial respects from the assumptions underlying the competitive model and therefore, we anticipate that rents will not respond in a straightforward

manner to changes in supply. An unequal power relationship exists between landlords and tenant in which the former can dominate the latter in determining rent. Other research has shown that only a select number of landlords or management companies control a decisive proportion of the rental housing stock in many urban areas” (1987). This can create a monopolistic effect on the availability of rental housing.

According to Monica Lett, “urban housing markets do not always provide a representative picture of what, theoretically, constitutes a competitively sound market. The distinctive characteristics of the housing market makes the application of conventional market theory difficult and further contributes to cloudy understanding of its functioning” (1976). In addition to policy distortions, unequal availability of information, and consolidation of supply, there are several components of a housing unit itself that create unique conditions for housing markets. These include features such as spatial immobility, durability of the product, heterogeneity of both the housing unit, as well as both the supplier and demander of said unit, the convertibility of housing units, and the cost of a housing unit. The expensiveness has created submarkets in mortgage borrowing and rental housing. Changing one’s occupancy is also extremely costly (Rothenberg 1991).

These unique features of the rental housing market are among those that may erode the applicability of conventional economic theories of supply and demand to the rental housing market. In an analysis of how conventional

economic theory should apply to rental markets, Gilderbloom and Applebaum (1987) found little empirical support that vacancy rates and new construction were directly related to rental housing prices, and instead advance the idea that rent is instead associated with income levels and high homeownership costs. This is not to say that simple supply and demand does not have any effect on rental housing prices; merely to suggest that the straightforward way conventional economic theories are applied to the study of rental housing markets, and specifically rent control policies may not represent the full picture.

Chapter 3: Methods and Systematic Review

My purpose in engaging a study in rent control is to examine whether it is an effective means, supported by empirical evidence, of providing broad and lasting housing affordability. As outlined in the introduction, Seattle is a rapidly growing city with high levels of population growth and tens of thousands of units of new construction. This activity is leading to gentrification, disruption of long-standing communities, which are disproportionately communities of color, as well as changes in the city's urban fabric that have been controversial. In 1994, Seattle developed an *urban village strategy* in order to target residential and commercial growth into pockets of already urbanized areas. This strategy had multiple goals, but the most prominent was to plan for high levels of growth in the city (*Toward a Sustainable Seattle* 1994). This planned growth was accomplished by upzoning areas within dense, walkable neighborhoods, while preserving single family areas. Upzones were meant to encourage developers to create more housing by allowing for additional height (Barnett 2005). Those additional units were meant to “open up affordable housing elsewhere in the neighborhood if tenants relocate and vacate older units; it's the law of supply and demand” (Jennings 2005). Whether these policies will indeed achieve their goals eventually, the city has continued to see rising rents and low vacancy levels. It is within this framework that I sought to explore other options for achieving affordability. What I am concerned with is whether there

is empirical evidence that modern rent control policies can create and maintain housing affordability, particularly for those with lower incomes, and prevent displacement due to cost increases, with a reasonable level of efficiency costs.

For this reason, I decided to conduct a systematic review of articles. A systematic review differs from a meta-analysis in the methods of analyzing the data collected. Whereas a meta-analysis uses statistical methods to summarize the results of the studies collected, a systematic review answers a defined research question by evaluating a smaller group of studies based on specific empirical data (Hall 2006) In this case, my research question was whether rent control contributed to a greater level of affordability without excessive efficiency costs. I wanted to address the issues that had surfaced in the course of my background research, about which there was much theoretical debate. These I categorized as distributional effects and efficiency costs.

I chose only those studies which presented empirical evidence. I discarded some articles that utilized empirical data but contained too many assumptions. These articles eliminated the ability to show causation because the real-life circumstances were distorted by said theoretical assumptions. I also wanted to focus on those that were as recent as possible, so I limited my search to those after 1988. This also corresponds to the period of second-generation or moderate rent controls, which have been described above. I would have preferred to study only those after the massive increase

in real estate values, corresponding to post-1995, but I could not find an adequate number of articles. I also used primarily academic articles, because those were also responding to the same framework within which all my research was housed. Although some reports from institutional sources were readily available, their source and financial backing was not always clear. I did consult some of these types of reports, but I will not be covering their contents here. I also chose studies that were broad in their findings. I wanted to include as many factors as possible, so very narrowly focused articles were consulted, but excluded from this review. Finally, New York City presents an anomalous housing market in numerous ways, the continuing presence of first generation controls being one important one, and my focus as with other scholars was on alternate cities. But ultimately, I have included two studies from New York, simply because of the city's prevalence in the body of research on rent control. Many more recent articles about rent control concern European cities, which have been slower to abandon a more regulated housing market than American municipalities. Although there are valuable lessons to glean from international examples, they diverge too much from the American experience to be included in this review.

Causation and generalizability of these studies is extremely hard to establish. Housing markets and communities are enormously complicated and sensitive to local circumstances. What works in one place may not work in another. In different ways, Seattle's unique set of variables is comparable to a couple prominent examples. In terms of size, economic growth, the

presence of a high tech economy and highly educated population, Boston quickly comes to mind. However, population density is almost 50 percent higher in Boston, the housing stock is much older, and contrary to Seattle, Boston saw population decline from 1960 through 1990, growing rapidly only since 2010 (US Census Bureau). In other ways, Seattle is much more similar to the rent-controlled communities in California, which have grown rapidly in the post-war years. Many, such as Santa Monica, are predominantly single family housing, as Seattle is. The key difference in California cities is that unit growth within most of these cities, particularly in the Bay Area and Santa Monica has been stagnant at best. So, there are multiple caveats in attempting to apply the results of these studies to the Seattle housing market.

Studies were found using the University of Washington's library search, Google scholar and the references of articles consulted for the literature review portion of this work. Although I read many more, after applying my criteria I examined a set of eight articles that contained extensive empirical data. Of the eight studies in this review, two are based on New York City, three in the Boston metropolitan area (including Cambridge and Brookline), two represent California cities, and one examines rent control in New Jersey, where there are over 100 communities with rent control. Some of these studies will be more applicable to compare to the Seattle experience than others. The most pertinent being the Boston area studies and the recent San Francisco study. The titles are as follows:

- Autor, David H.; Palmer, Christopher J.; Pathak, Parag A. 2014. "Housing Market Spillovers: Evidence from the End of Rent Control in Cambridge, Massachusetts"
- Diamond, Rebecca; McQuade, Tim and Qian, Franklin. 2017. "The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco."
- Gilderbloom, John I.; Ye, Lin. 2007. "Thirty years of rent control: A survey of New Jersey cities."
- Glaeser, Edward L. and Erzo F.P. Luttner. 2003. "The Misallocation of Housing under Rent Control."
- Gyourko, Joseph; Linneman, Peter. 1989. "Equity and efficiency aspects of rent control: An empirical study of New York City."
- Heskin, Allan; Levine, Ned; Garrett, Mark. 2000. "The Effects of Vacancy Control: A Spatial Analysis of Four California Cities."
- Levine, Ned; Grigsby, Eugene; Heskin, Allan. 1990. "Who Benefits from Rent Control? Effects on Tenants in Santa Monica, California."
- Sims, David P. 2006. "Out of control: What can we learn from the end of Massachusetts rent control?"
- Sims, David P. 2011. "Rent Control Rationing and Community Composition: Evidence from Massachusetts."

In my analysis, I differentiated between distributional and efficiency effects. The benefits of doing so became apparent during the course of this research, as they represent alternative motivations and ideologies and the results generally align with one or the other in terms of benefits and costs. Generally, housing advocates, community organizers and left-leaning politicians tend to emphasize the distributional effects, while economists and right-leaning politicians highlight the efficiency costs. This ideological debate certainly extends beyond housing concerns. My thesis aims to utilize the data from these studies to examine the holistic effects of rent control on the

rental housing market. The results were then inserted into two tables, one representing distributional effects, the other efficiency costs. This was both an organizational and demonstrative tool for me. These tables also served as an analytical tool for me to synthesize and summarize the outcomes of the eight studies. Some of the sub-categories will be highlighted for their importance for Seattle's rental housing market. These will be represented by figures showing a table of positive or negative results. Because Seattle is growing I will highlight unit supply and new construction in efficiency costs. Distributional concerns highlighted will be rent levels, displacement, tenant tenure and targeting of benefits.

The results of this systematic review of empirical studies are not conclusive. Different studies come to different, sometimes opposite, conclusions on the same component of study. For example, in terms of who accrues the most benefits, or how well the benefits affect the poor, various studies diverge in their conclusions. However, the outcomes for the distributional effects were typically more positive. In general, based on these studies, rent control seems to facilitate affordable housing opportunities for a broader variety of ethnic and socio-economic groups and help to prevent gentrification. However, there is also an indication that property owners will remove units in a rent-controlled city, ultimately resulting in a reduction of rental housing units. Rent control did not seem to affect new construction.

Figure 1 Efficiency Costs

Source	Number of Units	New Construction	Maintenance	Homeownership
1. “Housing Market Spillovers.” Autor, Palmer, Pathak. CAMBRIDGE	Residential units increased by about 6% post decontrol, 32% increase for condos. Landlords were incentivized to convert units to condos pre-1979.	New investments: permit value almost doubled '91-'94 and '95-'04.	Lower: Cambridge was unlikely to grant increases due to investments. Following decontrol, annual investments roughly doubled.	
2. “Effects of Rent Control.” Diamond, McQuade, Qian SAN FRANCISCO	30% fewer renters in RC buildings 1994-2002. Rental supply decreased by 15%. RC buildings 10% more likely to convert to condos.			10% increase in owners at a parcel in the late 2000s.
3. “30 Years in New Jersey.” NEW JERSEY	Lower median number of rooms in rental units in RC towns (suggesting landlords might be subdividing RC units)	No effect on new construction	Slightly higher percentage of rental units with plumbing deficiencies. But not significant	
4. “Equity and Efficiency.” Gyourko and Linneman. NEW YORK			Lower: 31% of RC units described as dilapidated or deteriorating versus 5% of uncontrolled units.	Lower homeownership rates. Those who receive rent control benefits own less often.
5. “Vacancy Control.” Heskin, Levine, Garrett. CALIFORNIA	Lower, by 4.4%	Lower in VC, by about 4%		higher rates of homeownership.
6. “Who benefits from Rent Control” Levine, Grigsby, Heskin SANTA MONICA	Lower: vacancy rate of about 1.7%			
7. “Out of Control” Sims, D. BOSTON MSA	6-7% change in probability of units being rented. (around 15,000 fewer units)	Had little effect on new construction	Decontrol reduces probability of major problems, but not significantly different from 0. Aesthetic	

			maintenance is improved by 6%.	
8. "Community Composition." Sims, D. CAMBRIDGE				

Figure 2. Distributional Effects

Source	Tenant tenure	Displacement	Rent Levels	Lower rent burden	Minorities, Children, Low Income and Elderly	Gentrification
1. “Housing Market Spillovers” Autor, Palmer, Pathak. BOSTON	“residents of controlled units were significantly less likely to turn over than residents of noncontrolled units.	Lower. More poor people were able to live in Cambridge. After decontrol “substantial tenant turnover.”	40% lower in RC units (1994-1997). Rents rose by 13% in never-controlled units.		Limited evidence suggested less affluent and students were overrepresented	Property values remained low during rent control era.
2. “Effects of Rent Control.” Diamond, McQuade, Qian SAN FRANCISCO	Tenants are between 10 and 20% more likely to remain at their address. Also, more likely to remain in San Francisco.	“Absent rent control essentially all of those incentivized to stay in their apartments would have otherwise moved out of SF”	They conclude 1994 RC initiative led to a 5.1% city-wide rent increase for all units.	Yes. On average between \$2300 and \$6600 per year.	Older people in more stable neighborhoods are more likely to stay at their 1993 address. There is evidence that older people in gentrified areas are being offered pay outs to leave.	Likely caused gentrification by landlords attempting to avoid RC.
3. “30 Years in New Jersey.” NEW JERSEY			About the same. \$36 lower on average.	Cities with rent control have lower incomes	RC cities had more POC and lower incomes.	
4. “Equity and Efficiency.” Gyourko and Linneman. NEW YORK	Longer		Lower	RC units saved \$2440-- - 27% of income. Total benefits were \$3bn (1984 dollars), 1/3 of all rent paid in NYC	whites get more benefits proportional to income, but black and Puerto Ricans highly represented. Benefits rose up to a family size of 7. Benefits are poorly targeted with respect to income.	
5. “Vacancy Control.” Heskin, Levine, Garrett. CALIFORNIA	Longer	Lower turnover (by about 10.1%)	Lower by 1/3		More Hispanics, more children in vacancy controlled areas.	No evidence that rent control caused gentrification

<p>6. Who Benefits from Rent Control?" Levine, Grigsby, Heskin SANTA MONCIA</p>	<p>2.3 years longer for the average tenant. However, 71.4% of tenants had moved into their apt. since RC took effect.</p>	<p>Lower</p>	<p>Lower: they compared LA metro and found an average of \$159 less than expected had RC not been put in place. (about 25%)</p>	<p>Less. By comparing shelter costs, they found that for the 20% paying the highest proportion of income to rent, these burdens were lower in 1987. Tend to be the lowest income people.</p>	<p>More white people, decrease in blacks and Latinos. But not that much change. Some effect on children and esp. elderly</p>	<p>"Has slowed." The population by income remained the same, except for very high income people, which increased.</p>
<p>7. "Out of Control" Sims BOSTON MSA</p>	<p>1.84 years longer.</p>		<p>When utilities are included, \$64 less for all units, with rents increasing at an increasing rate. RC units about \$340 lower.</p>		<p>Blacks and Hispanics underrepresented in RC segment. Lower incomes more highly represented. RC is "associated with increasing the isolation of black and Hispanic residents."</p>	<p>Rents lower in non-controlled units, likely because of lower overall quality of units, indicating lack of gentrification</p>
<p>8. "Community Composition" Sims CAMBRIDGE</p>		<p>Minorities and poor people were still more highly represented in Cambridge 5+ years after decontrol. However, at decontrol, white and Asians increase and black and Hispanic decrease</p>			<p>More black residents (4%), neutral on white and Hispanic. RC associated with fewer Asians. Blacks especially tended to be concentrated in pockets with the most RC units.</p>	<p>Fewer poor people lived in high rent control areas in Cambridge during rent control than did after controls were abolished. More economic sorting.</p>

Chapter 4: Findings

The studies I examined were all broad in the topics they explored. Most of them examined some aspects of both the distributional effects as well as the efficiency costs. Of course, these two dynamics are intertwined in a system as complex as a housing market. However, the interests and concerns for different groups either opposing or advocating for rent control are mutable and sometimes have different timelines. Some communities have used rent control to disrupt rapid rent increases in the short-term. However, academics and economists tend to take a long-term approach of housing market health. In the following examination of the findings I will divide the discussion between the effects for tenants directly (welfare or distributional), and the effects on the housing market in determining the means and methods of providing supply (efficiency costs).

Some of these articles used a pre-test/ post-test approach to rent control, utilizing a natural experiment when it was eliminated or implemented. Others compared communities within geographically similar areas that either had control, had been decontrolled, or had never had rent control contemporaneously in an effort to gauge whether rent control was the causal factor in a number of distributional and efficiency concerns. Because in all of these rent control systems there are certain types of units that have been decontrolled or were never controlled- new construction for example, each study also examines the two rent control types side by side.

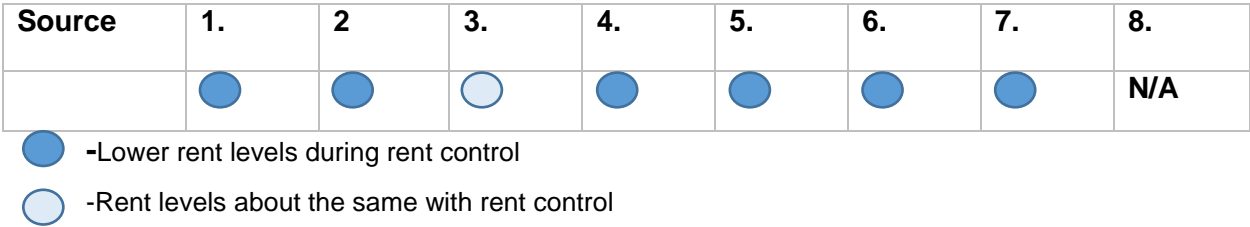
4.1 Effects for Tenants- Distributional Effects

The findings substantiate that rents were lower, and tenants stayed longer in their homes in communities that had rent control. Many also found that gentrification and displacement were slowed in these communities, particularly those with vacancy control. San Francisco diverged from these results. The evidence was more mixed for *who* received the benefits from rent control. Some found support that poorer people or minorities benefited more from rent control as compared to wealthier residents or white residents (Other studies, Gyourko and Linneman's New York City study, the New Jersey survey, and the Heskin et. al's study of vacancy controlled communities in California found a greater diversity of residents in terms of age, family status, or race than would otherwise be present. Not all studies concluded the same, some of them found that benefits were poorly targeted towards those who may have the most need. All of the studies focused on sitting tenants or the community as a whole. None of the studies specifically examined whether rent control had negative effects on *new* community members, except perhaps *Who Benefits from Rent Control? Effects on Tenants in Santa Monica, California*, which did find that apartments were often passed through personal contacts, and that about 75 percent of tenants had moved into their apartments after the adoption of rent control. The Santa Monica study noted that rent control policies are "most effective at protecting those who have housing already" (Heskin et al. 2000), which is a common criticism of rent control and represents one aspect of the inequity in

rent control ordinances. This could be salient for Seattle as the area is a rapidly growing region. According to the state’s Office of Financial Management, the city of Seattle has grown by 105,000 people since April 2010, a 15% increase.

All of the studies that looked at rent levels for sitting tenants in rent-controlled apartments (see Figure 3) presented here provide compelling evidence that rent control policies, particularly vacancy control, do in fact control rent increases for sitting tenants.

Figure 3. Rent levels during rent control



Autor et al. and Sims’ studies of Cambridge, also found a decrease in rent levels in the overall market, due to decreased quality of units. In Cambridge at the time of decontrol in 1995, only about a third of rental units were controlled. At the elimination of rent control, rents in Cambridge for controlled apartments rose by 40% in three years, while rents of never controlled apartments for sitting tenants rose 13% (Autor et al. 2014). These results imply that meeting demand for lower priced units creates a downward pressure on the rents of all units in a particular market. This study certainly

provides evidence that rent control policies do positively impact affordability on a broader level.

All of the six studies that examined tenant tenure (see Figure 4) found that residents stayed in their apartments longer, or were less likely to move, under rent control than without. Although economists see this as a disadvantage of rent control, for housing advocates and community leaders this indicates a higher amount of community stability and tenure security.

Figure 4. Tenant Tenure during rent control

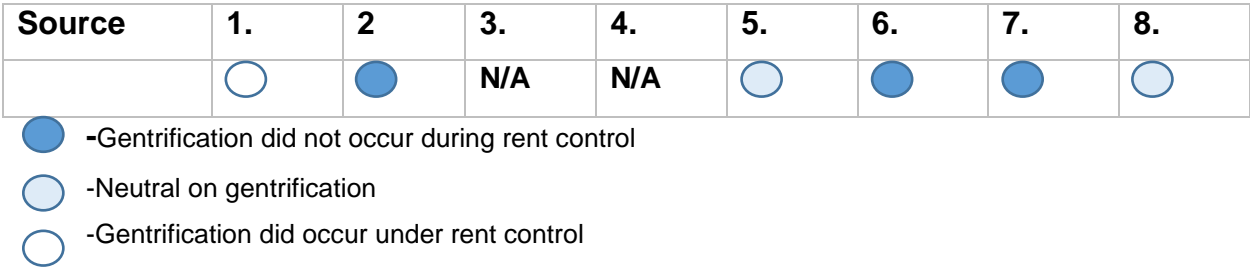
Source	1.	2.	3.	4.	5.	6.	7.	8.
	●	●	N/A	●	●	●	●	N/A

● -Longer tenure/ less turnover during rent control

Four studies, Autor et al., Sims (2006), Heskin et al., and Levine et al. also found that the pace of gentrification (Figure 5) was either slowed or stopped by the existence of rent control. This is particularly true in communities that opted for a vacancy control system. In Cambridge, for example, which employed vacancy control, Sims (2006) found that the presence of rent control may have even lowered the rents of non-controlled apartments because of poor maintenance. That is perhaps not a desirable effect of regulations, but nonetheless, it did seem to prevent gentrification in Cambridge. Similarly, in two of the California studies, *The Effects of Vacancy Control: A Spatial Analysis of Four California Cities* and *Who Benefits from Rent Control? Effects on Tenants in Santa Monica, California*, both of which

concentrated on cities with vacancy control, the authors found that gentrification and displacement were significantly slowed or stopped. In the study by Heskin et al., the authors state that the primary goals of rent control were to increase community stability by reducing tenant turnover, and “these results suggest that this goal was achieved, at least for these block groups.” Contrary to these findings, in San Francisco, Diamond et al. found that by encouraging landlords to redevelop their properties into higher income; either for sale or rent, “rent control has actually fueled the gentrification of San Francisco.”

Figure 5. Gentrification during rent control



Evidence was less conclusive for the *type* of resident receiving benefits from rent control policies. Often, preserving housing opportunities for families with children and the elderly are top concerns for those advocating for rent control. This was true with the push for rent control in Seattle in the late 1970s as well. In the studies presented here, the two California studies did find support that rent control, in this case specifically vacancy control policies, did increase the number of children and elderly in those communities. Heskin et al. found a statistically significant higher

percentage of children under 18 in vacancy controlled areas than non-controlled areas, although the increase was only 1.5%. The Santa Monica study was less conclusive on this front. Although the percentage of children under 18 stayed about the same (16%) between the years 1979 and 1989, the number of children per household decreased, while the average family size stayed about the same. This perhaps indicates a larger number of smaller families, however the differences between the two periods in this study are very small.

The evidence regarding rent control to maintain or promote racial diversity is also mixed (see Figure 6). The Santa Monica study suggested a lower presence of both African American and Hispanic residents, but the sample size is very small since Santa Monica was and remained at the time of the data collection a largely white city. However, new residents to Santa Monica after the implementation of rent control were also disproportionately white. Sims' study of Cambridge (2011) indicates that rent control allowed Cambridge to maintain higher black and Hispanic populations. He found that "the removal of rent control is responsible for increases of 2–2.4 percentage points in white residents and 1 percentage point in Asians, as well as decreases of 1.7–2 percentage points in black and 1.3 percentage points in Hispanic residents." In a 1989 New York City study, Gyourko and Linneman found that blacks and Puerto Ricans received fewer rent control benefits than their white counterparts in the aggregate, but that both groups were over-represented in the rent-controlled sector, because of the higher

proportional amount of renters. However, the high presence of people of color in rent-controlled units indicates that those groups are receiving benefits. A study with contrary results from the Boston area by Sims (2006), found little evidence that “rent control programs effectively transfer this surplus to tenants society might wish to help, such as the poor or minority households.” Blacks were particularly under-represented in rent-controlled units, inhabiting only 12 percent of units, despite making up 25 percent of the population in Boston and Cambridge during rent control. One of the critiques of rent control policies, particularly early on, was that without economic indicators of tenant suitability (i.e. the ability to pay high rents), landlords would discriminate on other means, namely race or family status. The authors failed to present concrete evidence that this was occurring, but it interesting to see it correlated in later studies.

Figure 6. Welfare targeting during rent control- by race

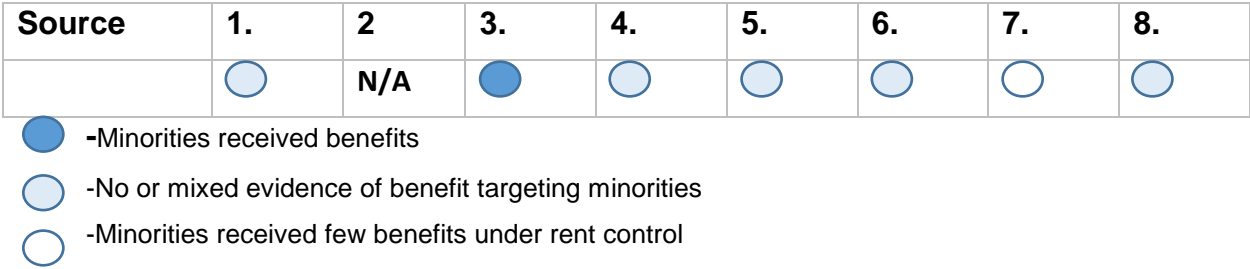











Figure 7. Welfare targeting during rent control- by income

Source	1.	2.	3.	4.	5.	6.	7.	8.
		N/A			N/A			

-  -Lower income people received benefits
-  -No or mixed evidence of benefit targeting lower income people
-  -Lower income received few benefits under rent control

Whether rent control policies are equitable or provide a form of welfare for poorer families is inconclusive in the empirical studies presented here (Figure 7). In theoretical books and articles, policies are presented as being enormously inefficient. The studies included in my review do show that rents are lower in cities with rent control. Suggesting that for sitting tenants of any income level, there are certainly financial benefits being transferred from landlord to tenant. In Cambridge, Sims (2006) found a total of 17 million dollars a month being transferred from landlord to tenant. He found that 30% of tenants in Cambridge units were in the top two income quartiles. However, that means that 67% of tenants were at median income or below.

Proportionate to their income, a rent reduction would amount to a much larger welfare benefit for those at lower income levels. Gyourko and Linneman found in their study that lower income families were not more highly represented in rent-controlled units. Meaning that economic benefits were poorly targeted. “If the primary social benefit of rent controls are their distributional impacts, they were not successful in New York.” Contrary to Sims and others, Levine et al. found rent control to transfer more benefits to low income tenants, and that in fact, “the Santa Monica rent control law has

been most beneficial for low income households.” The goal of rent control in Santa Monica was largely to protect sitting tenants and avert the effects of increasing gentrification. The authors go on to clarify that these findings are also specific to the Santa Monica community, and to the vacancy control policy present at that time. Gilderbloom and Ye’s 2007 study of 161 New Jersey cities found a higher median income in uncontrolled cities, perhaps indicating that wealthier people prefer wealthy communities or that housing is indeed better maintained and with greater amenities in uncontrolled cities. They also found that rent controlled cities had a higher percentage of people of color, and had a larger proportion of renters. Whether this indicates causation, or as Sims asserts in his study of Cambridge, poorer people are clustered in areas with poorly maintained apartments, is unclear.

The evidence in these empirical studies suggests that some of the perceived welfare effects of rent control occur to a large extent. All of the studies found less tenant turnover, more community stability, reduced effects of gentrification, lower (or in the case of New Jersey, the same) rent levels. This evidence gives some justification to the calls for instituting such housing policies. Of course, these benefits are attained by all sitting tenants when rent control is implemented, or those who are fortunate enough to find a rent-controlled apartment. These benefits accrue irrespective of income, race or age; meaning it is quite difficult to effectively target the benefits to specific groups. As Grigsby et al. write: “rent control should be viewed as one of a

number of policy strategies that can be employed to improve the housing situation for selected target populations,” it is not however a perfect system.

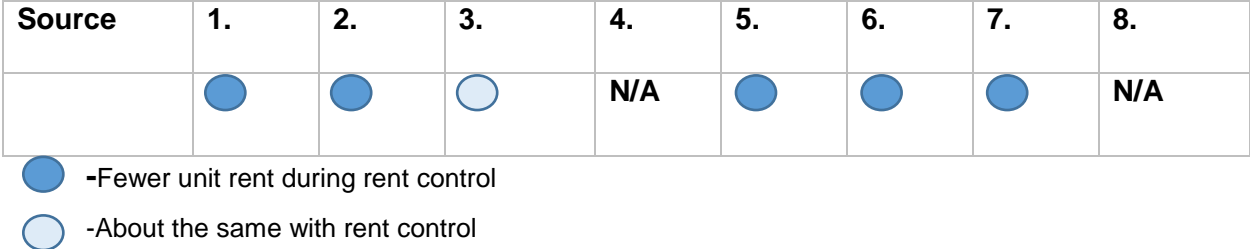
4.2 Effects on the Housing stock- Efficiency Costs:

The main long term detrimental economic effect theorized about rent control policies is that it exacerbates housing shortages by further constraining supply. It allegedly does this in several ways, highlighted in chapter 2, but largely by reducing the amount of new construction and by owners removing existing units from the housing stock. These are two sides of the same coin. In that the owners of existing or potential new units are responding to the reduced opportunity for profit by opting out of the housing system. This could have long term effects on the housing supply, by sustaining or aggravating housing shortages. The studies presented in this review present divergent evidence on the supply front. None of them found a reduced rate of new construction. However, five of the eight studies did find a reduction in total units, indicating that owners were either living in units they would not otherwise occupy or they were leaving them vacant. Other efficiency costs include a reduction in maintenance, and possibly reduced property values or varying rates of homeownership.

As stated, five of the eight studies found a lower total unit count in rent-controlled areas (Figure 8). In the four California communities studied by Heskin et al. (2000), East Palo Alto, Berkeley, West Hollywood and Santa

Monica, there were 4.4% more rental units in decontrolled block groups in comparison to controlled areas. Sims’ study of the Boston area indicates a 6% decrease in total unit inventory after rent control was enacted, indicating that landlords were removing units from the rental pool. In this case, a 6% reduction in housing units amounts to “thousands” of units. It appears likely that the removal of these units from the rental stock was more likely that they were owner-occupied, were housing relatives, or were larger homes that would have been subdivided and sold as condos in an uncontrolled area. Results from San Francisco indicate that landlords reduced the rental housing supply by 15% after 1994 in an effort to remove their units from the rent control unit pool, often by renovating and selling them as condominiums.


Figure 8. Unit counts during rent control




As for new construction, rates appear to be almost neutral in rent controlled versus non-controlled areas (Figure 9). However, for rapidly growing communities, such as those in California, the studies suggest a slightly lower rate overall, and a lower rate of new construction for rental units, which could exacerbate housing shortages. Heskin et al. find higher net new construction in non-vacancy controlled areas, by about 4%. In some California communities, there was a slightly lower amount of new *rental*

units, but a concurrent increase in the amount of new condominiums (Heskin et al. 2000). Diamond et al. didn't study new construction in San Francisco, since it is exempt from rent control regulations. In the Boston area, the rent control period coincided with flat or negative population growth, so neutral findings in that case could have more to do with a lack of demand for new units. However, after the conclusion of rent control there was a rash of condominium conversions, amounting to an 8% increase in total housing units. Additionally, in Cambridge there was a 20% increase in permit activity in the years following decontrol (after 1994), this includes both improvements and new construction, although in this case they found mostly rehabilitation and condo conversions (Sims 2006).

Figure 9. New construction during rent control

Source	1.	2.	3.	4.	5.	6.	7.	8.
		N/A		N/A		N/A		N/A

 -Fewer unit rent during rent control
 -About the same with rent control

Two studies, both based in the Boston area found a lower rate of maintenance. This is difficult to measure because no entity tracks aesthetics or cosmetic maintenance. However, Sims (2006) found that decontrol reduces the probability of a unit experiencing “major maintenance problem(s),” the difference was about 6% for structural maintenance issues. Autor et al. (2014) suggest a reduction in maintenance not only for controlled

units, but for uncontrolled units in neighborhoods with high numbers of controlled units, since rent control allows lower income residents to reside in parts of the city that may otherwise become more expensive. They recorded an increased rent level partly due to greater maintenance. “Prices rise directly because of the lifting of the cap and indirectly because of improved maintenance and increased production of local amenities throughout the neighborhood.”

A further effect of decontrol in the Boston area was on underlying property values. Pathak et al. present evidence that in Cambridge property values were depressed by the presence of rent control. Their study examined the effects of a rent control policy on the whole of the housing stock. In Cambridge after the termination of rent control property values rose dramatically, along with rents. This increase in property values was correlated with a concurrent flurry of capital investments, but the authors conclude that:

“allocative rather than investment” accounts for much of the total property value gain. “The economic magnitude of the effect of rent control removal on the value of Cambridge’s housing stock is large, contributing \$2.0 billions of \$7.7 billion in Cambridge property appreciation in the decade between 1994 and 2004. Of this total effect, only \$300 million is accounted for by the direct effect of decontrol on formerly controlled units, holding exposure constant, while \$1.7 billion is due to the indirect effect.”

Most of the gain in property value was found in properties that were never controlled. In the case of Cambridge this study certainly provides evidence

that rent control causes a reduction of capital improvements and maintenance, and that the presence of rent control regulation does seem to have a chilling effect on the market, as economists have theorized. But, it could be construed in another way, that when the ability to capture profits opened up, property values and rents increased without much connection to costs or capital improvements. The increase in property values will undoubtedly lead to increased revenue for the city or county, particularly salient for Seattle residents who rely very heavily on property tax.

A final effect of rent control presented by these studies, and one that is not often mentioned in the theoretical examinations of rent control policies is the effect on homeownership. Some assume that receiving a dramatic benefit in the form of a controlled rent, and tenant security will entice people to remain in their units, as opposed to seeking out the option of homeownership. Two of the studies, *The Effects of Vacancy Control: A Spatial Analysis of Four California Cities*, and *Equity and efficiency aspects of rent control: an empirical analysis of New York City* specifically mention the effects of rent control on homeownership rates. The California study found an increase in homeownership rates in the four studied cities with vacancy control. Some possible explanations for this phenomenon in California was in the rent control regulations themselves, some of which allowed for ownership conversions, or for demolitions if a property was to be owner occupied. Alternatively, the provisions could have induced developers to create more condominiums in the first place, or finally, the depression of

property values facilitated affordability in those markets for moderate income people to buy homes. San Francisco (Diamond et al. 2017) experienced a decline in supply, partly to convert units for high income condo buyers. In contrast, Gyourko and Linneman's study supported the theory that homeownership rates would be repressed: "consumers with large expected rent control benefits had lower demands for homeownership."

The efficiency effects of rent control regulations on the total housing stock as elucidated by these studies presents evidence that those policies can lead to a net decrease of rental units, and lower levels of maintenance, although some studies found only reduced cosmetic maintenance. It seems to have no effect, at least in the short term, on new construction. It has been found to depress property values, although "it does not destroy long-term underlying land values." This could be seen to have both positive and negative effects, depending on perspective. On the one hand, it may facilitate homeownership for lower-income individuals, protect against inflationary property risks, and lower housing costs for everyone in a controlled market. On the other hand, investors and property owners have less opportunity to gain profit, and municipalities may benefit from increased property values with higher tax revenues.

Chapter 5: Discussion and Conclusion

5.1 Discussion

I began this study as a proponent of rent control. Living as an adult in a growing region with rising rents, it's nearly impossible to escape not just the media reports but anecdotal evidence from friends and family that rental increases are causing displacement, a reduced amount of disposable income and neighborhood disruption. Although I began my research with an open-mind, I was hoping to find a politically unpopular silver bullet. We know that rent control *could* be implemented in the form common in the United States, as it has been many times. It is perhaps easier to try to tweak older policy solutions in the hopes of achieving new outcomes. And indeed, evidence from this systematic review indicate that rent control does appear to have many possible positive effects, including lower rent levels, reduced gentrification, less displacement, and potentially a progressive, although somewhat inefficient system of welfare redistribution. However, some of the negative effects theorized by economists are also present in communities with rent control. This includes reduced cosmetic maintenance, reduced property values and a net decrease in rental units.

Perhaps one reason so many scholars and policy makers are attracted to the idea of rent control is that they understand that we need some type of regulation to ensure that the lower and middle classes can afford housing; a sentiment that appeared in much of my research materials. As noted in research about San Francisco, “due to incomplete markets, in

the absence of rent control many tenants are unable to insure themselves against rent increases” (Diamond et al. 2017). Even if they have found housing already, moving costs can be substantial and disruptive. Rent control is a local solution that does not depend on the Federal government altering its policy towards funding low-income or affordable housing. There is also a recognition that mixed neighborhoods can improve equity and upward mobility, as opposed to socioeconomically segregated neighborhoods. Meanwhile, since a home is most Americans’ largest asset and the primary way families build wealth, there is a push from homeowners to protect their investment. Most of the many market interventions employed by cities that impact the availability and price of housing favor these constituents and typically make housing either more expensive or more difficult to build. These interventions include but are not limited to building codes, parking requirements, minimum lot sizes, open space requirements, zoning, design review and height limits. Whether these regulations are in fact what creates a vibrant, desirable city or mires a population in unaffordability is continuously debated.

The primary downfall of rent control, as evidenced in these studies, is that it reduces supply. There does not seem to be much evidence that it impacts new construction, but it does remove units from the pool of rental properties. So long as Seattle relies on the private market to supply housing units, rent control will probably exacerbate extant housing shortages. If Seattle could implement a mechanism to build large numbers of new units or

prevent the removal of units that would be an improvement on existing forms of rent control. Other countries do rely much more heavily on the state or non-profit developers to construct new housing. In the Netherlands, up to 90% of rental housing is owned and operated by non-profit corporations (Haffner 2014). In that country the providers are able to secure low-cost loans, backed by the state for construction of new units. While there are several non-profit housing providers in the city of Seattle, and 47,385 apartments affordable to those making 50% of Area Median Income (Seattle Comprehensive Plan 2017), they often rely on federal funding mechanisms, have long waiting lists for new units, and are expensive to construct.

Those entities that rely on Federal funding would probably have to wait for federal policy to change, but Seattle could implement a low-cost loan program for individual homeowners to add Accessory Dwelling Units (ADUs) and Detached Accessory Dwelling Units (DADUs). A few possible benefits for this would be a reliance on the existing housing stock, (about half of which is single-family homes) the ability for low income homeowners¹⁴ or those on a fixed income to stay in their homes more affordably, less disruption for neighborhood form, and more affordably built units. New mandatory housing affordability measures and zoning changes currently being debated in Seattle encourage greater use of ADUs and DADUs, but without a funding mechanism, the benefits would be skewed towards the already wealthy or development interests.

¹⁴ Up to 33% of Homeowners are cost burdened according to Seattle's Comprehensive Plan.

As stated in chapter 1, Seattle is adding housing units at a very rapid pace. However, the trend has been to build luxury or high rent apartments. A full 75% of new units added in Seattle have been of the luxury type. A common observation about rent control is that the supply being created does not match with the socioeconomic segment with the greatest need for housing. According to a CoStar report in 2016, a full 80% of new apartments created nationwide are “luxury” units, while Seattle is slightly behind the trend at about 75% new luxury units (Groskopf 2016). An effort to limit the number of permits for luxury units would undoubtedly cool Seattle’s hot market, and in the end we may get a slower addition to the inventory, but perhaps more stability and a greater diversity in the additional housing stock. I was unable to find any reports of cities doing this, although I have heard anecdotes that Whistler, British Columbia used to limit luxury construction. Some cities, including Mercer Island, a high income suburb of Seattle, and Portland, Oregon have implemented or are planning a cap on home sizes. The hope is that by restricting the building of large homes, it can disrupt the cycle of the destruction of “starter” homes in favor of McMansions, which drive up prices. Some housing types that represent the most affordable options, such as congregate housing, SROs or boarding houses are forbidden in large parts of the city, after complaints from homeowners in low density neighborhoods (City of Seattle 2013).

The market for housing, although it may be distorted, does rely on supply and demand mechanisms, and efforts to increase supply in Seattle

are most of all stymied by the low densities allowed by zoning in large tracts of Seattle. 50% of Seattle's developable land is zoned single family with lot size limits of 5,000 (Seattle Comprehensive Plan 2015). Some of these areas have even lost density since the 1970s because of a decrease of family size. However, single family homes also make up a substantial amount of the affordable housing in the city in the form of group living. This is a housing type that is not typically included in rent control provisions, nor is it frequently available to low income people, for example those with housing vouchers. There is considerable evidence that single family zoning impacts housing affordability. "The evidence suggests that zoning is responsible for high housing costs and, to us, this means that if we are thinking about lowering housing prices, we should begin with reforming the barriers to new construction in the private sector" (Glaeser and Gyourko 2002). There has been an effort to abandon or loosen single family zoning in Seattle, which has met with push back amongst several groups of stakeholders. Although eliminating single family zoning in favor of lowrise zones is politically challenging, there is also considerable support. Controlling for the size of the building, Floor Area Ratio zoning or simply maintaining the limits on the number of unrelated people allowed in a structure could achieve similar building types, blend in with surrounding existing structures, and respond to long-term changes in demographics, such as smaller family sizes. Additionally, the cost of constructing a typical wood building is about 15

percent less per square foot than the cost of a steel structure (U.S. Department of Housing and Urban Development 2002).

Signs of success at controlling prices can be found in cities worldwide. In 2015 Germany implemented a *Mietpreisbremse*, or rental price brake. This ordinance ensures that rents (which are rent controlled with vacancy decontrol), are not permitted to rise above 10% of the average of an area. This was implemented after large price increases in rapidly gentrifying neighborhoods, particularly in Berlin, which saw a 45% increase in rents between 2004 and 2014 (Welt.de). This was implemented not to stop rental price increases, but to slow the pace. This regulation does not apply to new construction. Preliminary results showed a reduction in the cost of new contracts (Trauthig 2015), but on average rents have continued to rise since then (Oltermann 2017). One potential downfall of a regulation like this is that it could create pockets of concentrated poverty, so a greater effort would have to be paid to equitably distributing amenities.

Certainly it would be interesting to see how implementing a rent control policy of a different sort would play out in Seattle. An amenity-based grading system for example could allow for more flexibility, but could also incentivize behavior by landlords that would benefit tenants, like green upgrades to reduce utility costs. Other types of taxation, such as taxing the property instead of the home, as suggested by Henry George but used only rarely would levy higher taxes on desirable locations for development. Instead property would be taxed based on the number of units that could (or

perhaps should) be on the property. This would capture some of the value added by tax payers. However, this could prove tremendously unpopular with single family homeowners in desirable locations, particularly those who have been in their homes a long time. Even a very high cap on rent increases, such as a 25% cap or the option of longer leases could benefit sitting tenants who want to remain in their community.

5.2 Conclusion

The reasons a community would implement rent control, and the type of policy will contribute to the perceived success of said regulations. In several of the articles examined, rent control policies are most effective for those who already have housing, thus the goals of preventing displacement, slowing gentrification and maintaining existing community composition could be achieved with the help of rent control. Rent control will not necessarily be helpful for in-migrants. Who to protect from displacement and who should have the best access to affordable housing is a debate Seattle is having right now. Ads that advise people to choose coding as a profession, because high salaries in that field allows for access to housing have appeared on buses and elicited much outrage. A new law or “First-in-Time” requirements approved in August 2017 by Seattle City Council requires landlords to rent to the first applicant who meets their own criteria. The law was introduced by Councilwoman Lisa Herbold in response to property management

companies creating rent packages for new residents employed by local tech companies. Media reports of housing being bought up by foreign investors and either sitting vacant or promptly being rented to high-earning newcomers are also prevalent and sparking anger, regardless of their veracity. These concerns are both valid and perhaps will never be sufficiently addressed. Certainly, some long-term residents have already been pushed out by high prices, and probably will be in the future. But, it does appear from these empirical studies that rent control could stem some of that tide. The results it could have on rest of the housing market, including for those who are still moving to Seattle, are less clear, but probably negative in the long-term. However, as with any regulation, we should be careful that it does not have unintended consequences, as Heskin, Levine and Grigsby assert, rent control should be employed as part of a number of policy strategies to regulate the housing market. But, “we cannot assume that market conditions will solve urban housing problems without some form of public intervention.”

It’s important that we not necessarily be harnessed to past mistakes and programs to guide the policy of the future. Certainly, we can see by rising costs of housing across all segments of the economy, despite the vast amounts of money spent by the government that housing policy in its current form is not leading to desirable outcomes. Some control on both the costs of constructing housing, and the price of housing to consumers would be beneficial. This echoes what many scholars have said, including Richard Arnott (1995) “The thrust of my argument to this point is as follows. It is

possible to design a set of rent regulations that results in an improvement in efficiency over the unrestricted market equilibrium.” Achieving some type of control over the whims and follies of the market is desirable. But it seems that in order to accomplish this we need to look forward to a new type of housing policy.

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