

OPINION | REAL ESTATE

## Rent Control Needs Retirement, Not a Comeback

The definition of policy insanity is to repeat the same mistake and hope for a different, better outcome.

By [Megan McArdle](#)

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Supply, meet demand. *Photographer: Dick Darrell/Toronto Star via Getty Images*

According to the Wall Street Journal, rent control seems to be making a retro comeback

<https://www.wsj.com/articles/rent-controls-a-bane-of-landlords-are-gaining-support-as-costs-soar-1517749201>.

Most forms of intelligent life could be forgiven for asking why.

Serial experimentation with this policy has repeatedly shown the same result. Initially, tenants rejoice, and rent control looks like a victory for the poor over the landlord class. But the stifling of price signals leads to problems. Rent control starts by producing some sort of redistribution, because the people with low rents at the time that controls are imposed tend to be relatively low-income.

But then incomes rise, and rents don't. People with higher incomes have more resources to pursue access to artificially cheap real estate: friends who work for management companies, "key fees" or simply incomes that promise landlords they won't have to worry about collecting the rent. (One of my favorite New York City stories involves an acquaintance who made \$175,000 a year, and applied for a rent-controlled apartment. He asked the women taking the application if his income was going to be a problem; she looked at the application and said, "No, I think that ought to be high enough.")

So the promise of economic justice erodes over time, as lucky insiders come to dominate rent-controlled apartments, especially because having gotten their hands on an absurdly cheap apartment, said elites are loathe to move and free up space for others.

The longer the rent-control policies remain, the more these imbalances grow. The gap between the rent that is charged, and the rent that could be charged in a competitive market, widens. Deprived of the ability to make a profit, landlords skimp on maintenance and refuse to build new housing. If you loosen the law to incentivize renovation, or new building, this only creates new forms of dysfunction: discrimination against tenants who might stay longer than a few years (limiting the ability to raise rents); a decontrolled market that has to absorb all of the excess demand created by locking up so much of the housing market in rent-controlled leases that rarely turn over; even landlords who renovate *too* often, the better to raise the rent. This arrangement is very good for the people who happen to have gotten their hands on a rent-controlled apartment, and very bad for everyone else, especially newcomers to the city.

These failures are well-known – see, for instance, [this lengthy literature review](https://econjwatch.org/file_download/238/2009-01-jenkins-reach_concl.pdf?mimetype=pdf) <[https://econjwatch.org/file\\_download/238/2009-01-jenkins-reach\\_concl.pdf?mimetype=pdf](https://econjwatch.org/file_download/238/2009-01-jenkins-reach_concl.pdf?mimetype=pdf)> from Blair Jenkins, or the most recent addition to the canon, a [Stanford study](https://www.nber.org/papers/w24181?utm_campaign=ntw&utm_medium=email&utm_source=ntw) <[https://www.nber.org/papers/w24181?utm\\_campaign=ntw&utm\\_medium=email&utm\\_source=ntw](https://www.nber.org/papers/w24181?utm_campaign=ntw&utm_medium=email&utm_source=ntw)> on rent control in San Francisco. They help explain why rent control went out of fashion among policymakers. So what's going on in the minds of lawmakers in California, Illinois and Washington who are pushing to repeal laws that forbid rent control and limit the ability of cities to regulate rent increases?

Well, one thing that's happening is simply that lawmakers, like everyone else, tend to forget. When rent control was creating problems, lawmakers could see those problems. Now that rent control regimes have been eased in many places, those problems have become invisible.

In the meantime, other problems have become more apparent. Rent control is one of the most effective ways to destroy a city's housing stock, but it's far from the only one. You can also enact extremely strict building codes, with lengthy and highly bureaucratic processes, which will restrict the supply of housing. This is what has happened in many American cities, even as the disparity between the wealth creation in cities and that in the countryside has widened.

This has created a real problem for activists and lawmakers. The people who have most benefited from the shifting of national wealth toward a handful of urban centers are using their money to bid up the cost of scarce housing. Even if politicians in those cities loosen the building restrictions, new supply will take years to come online, and there are people who are struggling with rent right now. And of course, making it easier to build is unlikely to be popular with local homeowners who want to keep their community intact and their home prices high. If you're in that situation -- and too young to remember the problems that rent control created -- price controls seem pretty appealing.

But policymakers should remember that a price is just the intersection of supply and demand. If you alter the price, but don't alter the supply or the demand, the problem doesn't go away; rationing just shows up in different forms. There will still be too many people who cannot find housing in your area.

Worse still, price controls actually make the scarcity worse. They increase demand — who wouldn't want to live in New York City in a \$600-a-month apartment? [1](#) Meanwhile, price ceilings reduce the supply because they decrease the incentive to build, and can make it downright imperative to remove rental housing from the market and turn it to some other use -- condos, warehouses, anything that won't trigger the rent controls.

And in the long run, the situation for the very low-income people you're trying to help probably gets worse. After all, if you take price signals out of the market, *something* has to ration the limited supply of housing: years-long wait lists, or personal friendships, or credit scores, or side payments to people lucky enough to have some housing. The wider the gap between supply and demand gets, the worse that rationing will be. And the people left out by those forms of rationing will be every bit as needy and deserving as the people currently being forced out by higher rents; given the deleterious effects on the supply of rental housing, possibly more so.

If politicians actually want to make sure everyone who needs a place to rest their head has one, there's only one way to do it: Build more housing. Which means, in turn, loosening the legal restrictions and community veto points that make it so hard to add supply. Because there's no way to escape the fundamental math: Unless you build enough housing to shelter the people who want to live in your city, a whole lot of people will be left out in the cold.

*This column does not necessarily reflect the opinion of the editorial board or Bloomberg LP and its owners.*

1. *Yes, yes, I know — “Lots of people!” But there are a lot more people who would be interested in living in New York on \$600 a month for a studio than at \$2,000.*

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