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Rent Control: A Bad Idea That Keeps Coming Back

The curious thing about bad ideas is how they never seem to die. No matter how many times an idea has failed in the past, there's always someone, somewhere willing to give it another try.

Is it any surprise, then, that American socialists, who stubbornly refuse to learn the lessons of their ideology's astronomic body count and penchant for throwing once-thriving economies down the drain, are attempting to resurrect the nearly universally discredited doctrine of rent control from the catacombs of good-intentions-gone-wrong?



The Rent-control Revival

Representative Alexandria Ocasio-Cortez (D-N.Y.), the democratic socialist whose support for ambitious big-government programs such as the Green New Deal and Medicare for All has made her a darling among the Democrats' rising progressive wing, is once again moving the needle for her party leftward with a sweeping anti-poverty legislative suite.

The package, which Ocasio-Cortez has entitled "A Just Society: A Place to Prosper Act 2019," is comprised of six bills: the Recognizing Poverty Act, the Place to Prosper Act, the Mercy in Re-Entry Act, the Embrace Act, the Uplift Our Workers Act, and legislation to ratify the UN Covenant on Economic, Social and Cultural Rights.

Some of the changes Americans could expect if Ocasio-Cortez' Just Society becomes law include, according to her, a prohibition on landlords "discriminating" against potential tenants based on source of income, making it easy for those using housing vouchers to rent anywhere; billions of dollars a year for education and outreach concerning the dangers of lead-based paint; and, of course, nationwide rent control.

The legislation includes an annual rent increase cap of three percent, a limit that goes further than even the nation's most progressive states. Oregon caps rent increases at seven percent after inflation. A California bill signed into law in October puts the limit at five percent plus inflation.

Speaking to the progressive news organization NowThis about her new program, Ocasio-Cortez said, "A just society treats housing as a right, not a privilege."

While A Just Society is unlikely to gain serious traction in Congress while Republicans maintain their hold on the Senate, its central premise that housing is a "right" that must be guaranteed to every person by the government (and paid for by taxpayers) is already finding expression in state legislatures around the country.

Oregon: In February, Oregon became the first state in the union to pass statewide rent control. The



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vote in favor was largely along party lines, with Democrats citing rising rents and the falling availability of affordable housing as grounds to crack down on landlords.

In addition to the seven-percent rent cap, the measure places additional limits on landlords' ability to evict tenants, requiring them to provide a month of paid rent in some circumstances.

California: The Golden State followed in Oregon's footsteps in September, outdoing its neighbor with a five-percent rent increase cap and provisions that landlords may only evict tenants if they have "just cause," such as failing to pay rent or damaging the property.

The Tenant Protection Act marks a comeback for the California rent-control movement, which encountered a setback after its failure to convince the state's voters to say "yes" to Proposition 10 last November.

Prop 10 would have repealed the 1995 Costa-Hawkins Act, a law that protects the right of landlords to raise rent to market rates after tenants move out while also banning municipalities from applying their local rent-control policies to single-family rentals or to units built before 1995.

Rather than kill the movement, Prop 10's defeat at the polls galvanized tenant leaders and organizers, culminating in the landmark legislation authored by State Senator David Chiu, a San Francisco Democrat.

"The housing crisis is reaching every corner of America, where you're seeing high home prices, high rents, evictions and homelessness that we're all struggling to grapple with," Chiu said. "Protecting tenants is a critical and obvious component of any strategy to address this."

Chiu is correct that his state is in dire straits. California has the highest housing prices in the nation. And in Chiu's hometown of San Francisco, which has long been known for having some of America's strictest rent-control policies, the homeless population has grown by 17 percent since 2017.

California as a whole accounts for roughly half of the country's unsheltered homeless population. And after adjusting for housing costs, it has the highest state poverty rate: 18.2 percent — five points above the national average.

State politicians have attempted to address the issue with several multibillion-dollar programs for shelters and subsidized housing, without success.

So now it seems the question progressive legislators are asking themselves is, "Why not make the housing subsidies easier by bringing the rents down first?"

With Oregon and California setting the stage, that's a question that progressive lawmakers in every state will increasingly ask themselves.

Rent Control: Coming to a City Near You

In fact, rent-control proposals have arisen as legislation or ballot initiatives in about a dozen states since 2017, including in Washington, Colorado, and Nevada.

New York passed a housing stability and tenant bill last summer that, while not as far-reaching as California's or Oregon's, further restricts the conditions under which landlords may raise rents and lowered the cap for Major Capital Improvements. Major capital improvements are classified as improvements, typically involving replacements or upgrades, that benefit all tenants of a building (new



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roof, new boiler, etc.). Major capital improvements often justify rent increases. Formerly, the maximum amount rent could be increased in rent-stabilized apartments after a major capital improvement was six percent in New York City and 15 percent elsewhere in the state. Now that has dropped to two percent in New York City and everywhere else.

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The Illinois Legislature is weighing two bills that would lift the state's 22-year-old ban on rent control. One of them would not only lift the prohibition, but also establish six "regional rent control boards" throughout Illinois.

Currently, 37 states flat-out ban rent control, while eight allow their cities to enact it, but have no cities that have chosen to do so. In addition to rent-control hotbeds Oregon, California, and New York, the states of New Jersey and Maryland, along with the District of Columbia, have localities that practice some form of rent control.

But is rent control the panacea to housing woes its proponents would have us believe it is? Not everyone is convinced.

"Rent control is definitely having a moment across the country," says Jim Lapides of the National Multifamily Housing Council. "But we're seeing folks turn to really shortsighted policy that will end up making the very problem worse."

Many economists understand the futility of the types of policies currently being pursued in California. History has shown that rent control ultimately hurts tenants instead of helping them.

The Truth About Rent Control (Hint: It Doesn't Work)

In his book *Economic Facts and Fallacies*, Stanford economist Thomas Sowell explains that by lowering the profitability of apartments, rent control disincentivizes the building of these dwellings — reducing the supply and thereby raising the price:

Meanwhile, the lower rate of return on investments in new apartment buildings, because of rent control, cause[s] fewer of them to be built. Where rent control laws are especially stringent, no new apartment buildings at all may be built to replace those that are wearing out. Not a single apartment building was built in Melbourne for years after World War II because of rent control laws. In a number of Massachusetts communities, no rental housing was built for a quarter of a century, until the state banned local rent control laws, after which building resumed.

Or, as Milton Friedman put it:

Rent control is a law that supposedly is passed to help the people who are in housing. And it does help those who are in current housing. But the effect of rent control is to create scarcity, and to make it difficult for other people to get housing.

San Francisco is a prime example of rent control's failed record (though the lesson appears to have been lost on hometown hero David Chiu).

The city's infamous rent-control law (the rate increase cap for March 1, 2019 through February 29, 2020 is 2.6 percent, and was 1.6 percent last year) was passed in 1979 as a "temporary" measure to



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alleviate the era's high price inflation. Rental units certified for occupancy before June 13, 1979 are subject to rent control under the San Francisco Rent Ordinance (SFRO), while units certified after that year are exempt.

Within a decade of the rent-control law's passage, construction of new multifamily housing fell by a remarkable 32 percent.

And yet for all the promises made by the rent-control crowd, rents in San Francisco are anything but under control. A report from this year by the San Francisco-based apartment search platform Zumper found that the median rent for one-bedroom apartments in the city is \$3,700 — the highest ever recorded by the platform for any city.

New Yorkers are also longtime victims of rent control, which disincentivizes making rental units available. This and other government policies, such as zoning laws, put upward pressure on prices. One-bedroom apartments go for an average of \$2,945 a month. A two-bedroom apartment will set you back \$3,777 a month.

As you might expect, some of the “beneficiaries” of New York City's rent-control policy are the wealthy. A 2014 analysis by DNAinfo found that a polo-playing millionaire (who allegedly broke up Governor Andrew Cuomo's marriage), a tobacco executive, and the head of a leading U.S. hedge fund are just some of the financial elites who have lived in rent-stabilized New York apartments, paying a mere fraction of their units' true market value, likely for the sole reason that rent stabilization “applies generally to apartments in buildings with at least six units that were built between 1947 and 1974,” according to the *New York Times*.

Many such individuals have their main residence elsewhere and use their relatively cheap NYC home as a glorified hotel room when they happen to make a visit to the city.

Rent control negatively affects middle- and lower-income renters in another way: by lowering the quality of dwellings over time. Because landlords make a smaller profit under rent control, they start cutting corners on maintenance, which naturally results in worse living conditions for tenants.

Moreover, the decreased profitability of rental units prompts owners to convert their units into condos and sell them off, cutting supply further.

Let the Free Market Roll

But if rent control isn't the answer, what is?

As with most crises, the recent rent-control movement is a case of government intervention being used as a solution to a problem caused by government intervention.

Why is there a shortage of affordable housing in the first place? Because there's insufficient development.

It all goes back to basic economics. The scarcer something is, the higher its price will be. Sellers can charge more when they know everyone's fighting over the same pie. But increase supply and prices go down. Buyers aren't going to pay an arm and a leg for that pie when they know there's a pie stand readily available on every corner of their street.

Supply often works together with competition. When there are multiple sellers or providers offering the same product or service, creating high supply, they all strive to have the lowest prices possible to



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remain competitive and win over consumers — who have the freedom of choosing from a multitude of options.

It's called the free market. It works beautifully without any micromanaging government entity telling anyone what to do. Developers will keep building housing so long as they see people are willing to pay for it — which consumers clearly are, given how residents of expensive areas pay rents of over \$3,000, even when doing so constitutes considerable financial sacrifice. And the constant construction keeps prices balanced at healthy levels.

The problem isn't that the free market has failed. It's that it isn't being allowed to work.

Many communities, including San Francisco, have strict zoning laws and ordinances that greatly restrict the number of building permits that can be issued.

Similarly, a number of areas have urban growth boundaries, which bar development outside their delineated boundary lines. Sold as a way of reducing urban sprawl, these policies drive down housing construction, ramping up prices for residents.

Not surprisingly, Oregon is one of among a handful of states that requires its cities to establish urban growth boundaries.

If lawmakers in blue states really wanted to offer their constituents affordable housing, they would repeal their strict zoning ordinances and reform urban growth boundaries to allow for more development.

Of course, it's much more electorally profitable to lay the blame on landlords and promise voters Big Brother will come in to solve all their problems, so look for more rent-control proposals.

Sadly, for the people who put their faith in such political leaders, the remedy will ultimately prove worse than the illness.

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