The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco

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Rent Control Renaissance

• Alive + well in parts of CA, DC, NJ, NY, MD
• 8 RC-related 2016 ballot ?s in Bay Area
• Seattle and Portland prohibited but flirting
• Denmark, Sweden, Holland, Paris, India, Cambodia...
• Recent strengthening in Berlin
• *Whisper campaign against Costa Hawkins
Why won’t Rent Control die?

• After all... record-setting consensus among economists about its unintended consequences
  • Alston, Kearl & Vaughn (1992), IGM Forum (2012)
  • RC “most efficient technique presently known to destroy a city—except for bombing.” -Assar Lindbeck (1972)
  • Blunt instrument – not means tested

• But for all its faults, rent control is
  • Immediate (esp. relative to growth in supply)
  • Widespread—operates at scale
  • “Off-budget,” (“no” tax revenue required)
  • Favors incumbent renters (i.e. current voters)

• Populist appeal of price ceilings
  • Landlords aren’t a sympathetic class
Why now? Perfect storm for acute crisis

1. Ongoing economic expansion...
2. ...especially in areas proposing RC
3. => population flows to job-creating areas
4. Increase in renting, gentrification
5. Supply constraints
6. Tepid wage growth
7. Normal solution (ownership) unattainable
8. Concerns over displacement, community character
SAN FRANCISCO BE LIKE

1BD 1BA $1500/MONTH
“Second-wave” Rent Control Laws

• Respond to quantity and quality argument

• Exempt new construction: crucial!

• Quality argument nuanced
  • Most laws allow for some recovery of CAPEX
  • Some tenants happily accept trade-off

• Vacancy decontrol means horse has left barn for future residents
Summary: Expansion of RC led to

- **Tenants**
  - Longer tenures (less displacement)
  - Benefits for some ($4,500/year/person)
  - Insurance against rent increases 50%, monetary value 34%, no moving costs 15%, staying in favorite neighborhood 1%
  - Rent increases for those not covered (7%)
  - Intuitive heterogeneity

- **Landlords**
  - Reduce supply (conversions, redevelopment, density)

- **Inequality**
  - Welfare redistribution: On net $5 bn welfare
  - Redevelopment gums up the filtering process
  - Potential abuse of inequality’s sex appeal in title
Identification Strategy

2-4 Unit building built 1900-1979

Tenant resident as of 1994

Outcomes observed

Policy change: 1/1/1995

Measure $\Delta_{\text{pre}}$

Measure $\Delta_{\text{post}}$

$\beta = \Delta_{\text{post}} - \Delta_{\text{pre}}$
“Figure 1”

(a) Staying at Same Address

Corr = 0.494

Treatment Effect: Same Address

Log Median Rent (Detrended)

-0.2

-0.1

0

0.1

0.2

0.3

1990

1995

2000

2005

2010

2015

Same Address

Real Log Median Rent (Detrended)
What about trends in age gradient?

• Selection into new vs. old buildings doesn’t matter!
• Time-varying selection into new vs. old does
• Do current controls take care of this?
• Zip code x year fixed effects?
• Cohort x year?
Need for time-varying coefficients on structure age (Cambridge evidence)
Why a structural model?

- In the real world, not everyone gets u-bar in a spatial equilibrium. Displacement matters.
- Lots of competing claims about relative magnitude of intended/unintended consequences (ex. UI).
- Can’t independently measure value of displacement, uncertainty, subsidy, pecuniary externality, supply response, etc.
- Structure and data on migration choices and supply response allow us to quantitatively value different channels.
What’s missing from model

• Onus to consider all purported channels
• Community welfare from neighborhood stability (neighborhood character – changes in $\omega_{jt}$)
• Allocative inefficiencies (no matching)
• Agglomeration (consequence of allocative efficiency?)
• Prevention of future prospective resident entry
• Utility flow from change in housing quality
• Discussion of how gov’t might insure tenants against acute rent increases w/o LL moral hazard, etc.
Little things

• Do rank-preserving rent changes matter?
• Seems ad hoc which utility factors depend on $\tau_h$ vs. $\tau_n$
• Sims (2007) *does* find maintenance effects
• Rational expectations fine for state variable transitions, and bias not being differential by treatment/control seems fine, but GMM exclusion restriction seems like a stretch
Conclusion

• RC not dead! Worth embracing and evaluating claims about its importance and consequences
• Prior literature: identification only from RC removal
• Prior literature: estimate effects through capitalization
• This paper: meld reduced-form evidence with rich structural model to put numbers to claims
• RC may not show up on city books but very costly
• Important to nail down most popular channels