

4/10/2019

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March 29, 2019 · 5:06 AM ET

Heard on Morning Edition

GREG ROSALSKY

Rent control is returning to some communities. But evidence suggests there are better ways to keep low-income people housed.

STEVE INSKEEP, HOST:

How can Americans make housing more affordable? In many places, housing prices are rising much more rapidly than wages. The market is bad enough to revive movements for rent control. For decades, of course, some cities have frozen rents or limited rent increases. Last month, for the first time, an entire state imposed rent control - Oregon. Greg Rosalsky from NPR's Planet Money podcast asked if there are better ways to make housing affordable.

GREG ROSALSKY, BYLINE: Back in 1994, San Francisco renters had a lot to be happy about. The 49ers were about to win a Super Bowl. The Internet was taking off. And a new law, which expanded rent control around the city, told a lot of landlords they could only raise rents to about half the rate of inflation. That was only about 1 percent that year, which was the lowest rent increase most renters had seen in over a decade.

REBECCA DIAMOND: All of the potential good things about rent control you do see going on for that initial set of renters.

ROSALSKY: That's Rebecca Diamond, an economist at Stanford University who studied rent control in San Francisco. She says renters in 1994 did have a reason to believe rent control was awesome.

DIAMOND: But then the problems of rent control start to show up in the longer run.

ROSALSKY: Obviously, landlords were not thrilled with rent control. And at first, they couldn't do much about it. But after a few years...

DIAMOND: You see them substituting away from supplying affordable rental housing into other types of real estate where there's no cap on the profits they can make.

ROSALSKY: They got out of the rental business by doing things like selling their properties as condos, or they bulldozed their buildings and built new ones because the law didn't apply to new construction.

DIAMOND: So we find that in the long run, landlords decreased the supply of rent-controlled housing by 25 percent.

ROSALSKY: That's a huge decrease in the number of rentals. And because supply went down while demand continued going up, it meant higher rents for a group of people often forgotten in rent-control debates, future renters.

DIAMOND: So renters overall don't even necessarily benefit from rent control.

ROSALSKY: If you're grandfathered into a rent-controlled unit you plan on staying in forever, rent control is great - for everyone else, not so much. Diamond's study is just one of many that shows that the policy ends up making housing, overall, less affordable, which is why the MIT economist Albert Saiz says...

ALBERT SAIZ: The evidence is very clear that rent control doesn't work the way it's intended to work.

ROSALSKY: Both economists think there are better ways to provide affordable housing. The ultimate solution is building more homes. But there are more things we could do to lower rents.

SAIZ: There are policies that look a bit like rent control but that do not necessarily distort the housing market.

ROSALSKY: The benefit of rent control is it helps renters avoid the financial shocks of big rent increases. Diamond says that means it's basically like an insurance policy.

DIAMOND: The question is, how do we want to fund that type of insurance?

ROSALSKY: Instead of imposing a rigid price control on the value of rentals, Diamond says it'd be better if we funded rent insurance like we fund other insurance programs.

DIAMOND: And, indeed, the government already provides many types of insurance policies.

ROSALSKY: Saiz agrees we should ease the pain of skyrocketing rents through a government-funded insurance program. And he argues we should fund it by taxing the gains on property values.

SAIZ: And that would actually be redistributed to help people who need affordable housing.

ROSALSKY: These economists say this policy could help renters in distress while also avoiding the negative side effects of rent control. And with it, a rising tide of property values could help lift all households.

Greg Rosalsky, NPR News.

(SOUNDBITE OF TYCHO'S "RECEIVER")

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