RENT CONTROL IN WASHINGTON STATE

The Impact on Housing and Affordability

ECOnorthwest

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ECOnorthwest

ACKNOWLEDGMENTS

ECONorthwest prepared this analysis for the Partnership for Affordable Housing (PAH) and is responsible for the content of this analysis. ECONorthwest staff who contributed to this report include Morgan Shook, Mike Wilkerson, PhD, and others.

As Washington's policymakers debate changes to statewide regulations that govern rent control, the PAH is interested in advancing the community's understanding of the potential impacts of various types of rent control regulations on housing development and affordability in Washington.

The staff at ECONorthwest prepared this report based on their knowledge of economics, and on information derived from government agencies, the reports of others, interviews of individuals, or other sources believed to be reliable. ECONorthwest has not independently verified the accuracy of all such information and makes no representation regarding its accuracy or completeness.

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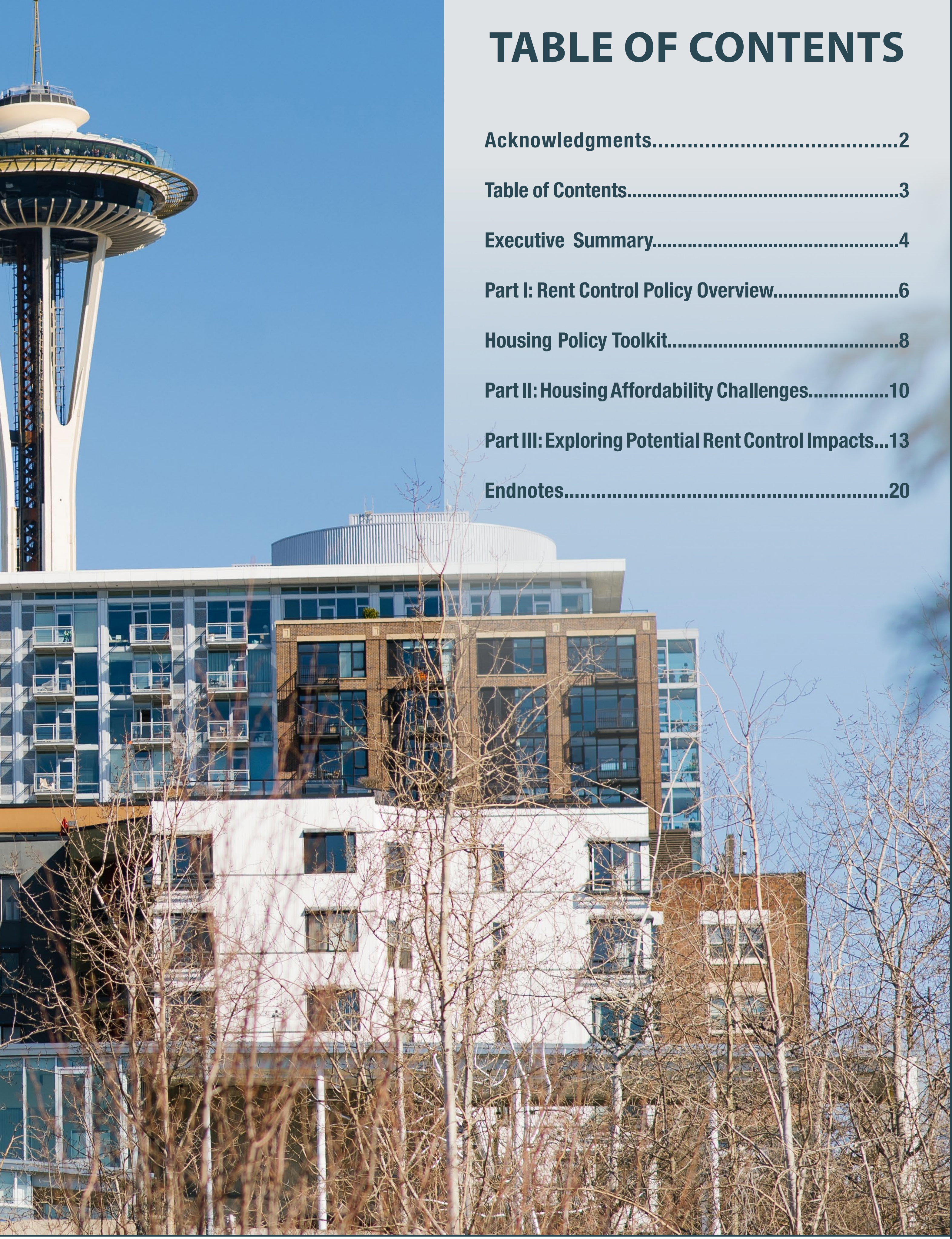


EXECUTIVE SUMMARY

Since 1981, per RCW 35.21.830, local jurisdictions throughout Washington State have been prohibited from enacting controls on rent. As Washington's policymakers debate changes to statewide regulations that govern rent control, the Partnership for Affordable Housing (PAH) is interested in advancing the community's understanding of the potential impacts of various types of rent control regulations on future housing conditions.

What is rent control?

Rent control is a government regulation that sets limits on how much rental housing providers and property owners may raise rents on existing renters.

Rent control is the broadest term that covers these policies, however "rent stabilization" can mean something similar. Generally, "rent control" refers to a policy that freezes rental prices. "Rent stabilization" generally allows some annual increase via a policy (i.e. pegged to inflation) or some process (such as through a Rent Stabilization Board). These two approaches to rent control can have very different impacts on the market, depending on how they are implemented.

Rent control does not address Washington's underlying housing challenges

Housing development statewide has not kept up with population and job growth causing communities across Washington to grapple with the resulting effect of increasing demand and too little supply. Rent control does not address the underlying causes of increasing rents. In fact, decades of experience and empirical evidence suggest that some rent control policies can exacerbate the challenge of housing affordability and accelerate rising rents, if those policies stifle the market's ability to deliver needed new homes to the marketplace.

What makes a rent control policy more or less strict?

The report differentiates between more or less strict versions of rent control.

MORE STRICT versions typically apply to most units in an area and feature rent price caps indexed to inflation or below.

LESS STRICT versions of rent control have higher rent price caps, exempt new construction for a period of time, and have vacancy decontrol. Vacancy decontrol allows rents to reset to market rate when a tenant vacates a unit.

Rent control is counter-productive

Evidence across decades of academic literature shows that well-intentioned rent control policies often have unintended harmful effects on the overall housing market and the populations they intend to support. Even if rent control appears to help renters in rent-controlled units in the short run, in the long run, it could decrease affordability and fuel gentrification. A summary of the academic and empirical research on rent control finds the following significant takeaways:

- **Rent control laws can reduce the available supply of rental housing.** The research suggests that landlords were induced to convert their properties into condominiums or not to redevelop their properties into rental housing. The totality of available research indicates that rent control implementation has failed to produce beneficial policy outcomes.
- **Rent control policies can lead to higher rents in the uncontrolled market.** Under rent control, rents are often higher than would be expected without rent control. While housing units that are subject to rent control have rents that are lower than market rents, the broader impact that these policies have on housing supply causes all other renters to pay more.
- **Residents of rent-controlled units are less geographically and economically mobile.** The benefit of living in a rent-controlled unit can cause renters to remain in their units longer than they would without rent control, leading to a mismatch in unit type or size and the need of the household. The impact of this issue is that renters become "tied" to their units leading to less geographic, and ultimately, economic mobility.
- **Rent control policies do a poor job of targeting benefits.** While some low-income families do benefit from rent control (at least initially), higher-income households also benefit from rent reductions. There are more efficient and effective ways to assist lower-income individuals and families who have trouble finding housing they can afford. These policies should be the focus of housing policy discussions for state legislators.

Potential negative impacts from rent control in Washington State

Using the findings from a Stanford study[ii] evaluating the impact of rent control on housing production in San Francisco, ECONorthwest estimated the potential impact to future housing production if the State of Washington implemented a similar rent control policy.

Impact the production of needed housing units. Even less strict versions of rent control (as seen historically in San Francisco) could lead to 16,100 fewer units built over the next 10 years. Approximately 77% of these housing units would be in King, Pierce, and Snohomish counties where there is the greatest need to add housing. This is equivalent to 7% of the multifamily stock statewide built since 2010, approximately 90% of a years' worth of housing production.

Impact economic activity and jobs. Rent control could reduce the investment in housing to the tune of $4.0 billion in economic activity over 10 years. This investment would reduce employment in the skilled construction trades and other professional services. Impact property tax collections. Rent control could reduce property tax revenues by $185 million over 10 years. In the aftermath of Initiative 747, state and local property tax collections are now heavily reliant on the amount of new construction value. Without new construction, governments would be unable to grow their revenues beyond the statutory limitation of 1% levy growth a year.

Impact sales tax revenues. Rent control could reduce sales tax revenues by $390 million over 10 years. A peculiar feature of Washington's tax code is the taxation of construction at the retail sales tax rate. State, county, city, and special purpose taxing districts are heavily reliant on taxable retail sales from construction, particularly during times of economic growth.

Recommended Path Forward – Focus on proven housing solutions that address Washington's housing challenges

Washington State already has many policies that delay and influence the cost of development of new housing. Rent control would add another barrier, lowering operating income from new units and making new housing projects less feasible.

The intent of a rent control policy is to keep monthly housing costs from increasing faster than incomes for tenants who can least afford it. These policies may prevent a rise in individual household's cost burdening, but they do so while generating negative impacts in the market as a whole and leaving all renters worse off.

Policymakers should proceed with caution before considering any forms of rent control without more rigorous study of the issues and potential unintended consequences of making housing less affordable, increasing displacement, and impacting low-income renters and minority communities. Any proposal put forward by Washington legislators should assess the following:

- The impact of price controls on housing production and housing affordability;
- The potential mis-allocation of benefits of increased renter stability associated with rent control;
- The social equity impact of rent control on low income and minority populations;
- The impact on tax revenues to state and local government and their ability to adequately fund education and public safety; and
- The cost to implement and oversee these measures on local budgets.

PART I: RENT CONTROL POLICY OVERVIEW

Washington must find a better way forward on housing policy

In the wake of the housing crises across the country, many states and localities are pushing to introduce rent control as a policy to address housing affordability. The resurgence of rent control policies responds to mounting public pressure for legislators to do something about rising rents in urban areas. The underlying issue emanating from many urban places is that too few rentable units have been produced over long periods — creating shortages of homes.

Policy makers are right to focus on the importance of housing policy. Housing is central to many broader public policy issues such as economic opportunity, environmental sustainability, and overall personal well-being. With that central importance, policy makers must take great care to craft policies that address the underlying causes of housing affordability and think about the long-term effects on housing markets for both current and future generations of Washingtonians.

Rent control is a type of price control that prohibits rents from rising above politically determined levels. Generally, the term "rent control" refers to a policy that freezes rental prices whereas "rent stabilization" generally allows some annual increase via a policy (i.e. pegged to inflation) or some process (such as through a Rent Stabilization Board). There is little doubt that tenants with rent-controlled apartments benefit financially, however, the cost of those benefits is outweighed by negative impacts elsewhere in the housing market.

Evidence across decades of research on rent control can be briefly summarized: rent control creates many more problems than it solves. This policy report gives policymakers a framework to understand the issues around rent control, chiefly as the policy has evolved over the past several decades and its potential impact on the broader community.

The economics of rent control – the paradox on rental prices

Rent control and rent stabilization are laws placing a maximum price, or a "rent cap," on what landlords may charge renters. If these policies are to have any impact, the rent cap must be set at a level below what would have otherwise prevailed. But if rent control levels are sufficiently established at less than their equilibrium levels, the quantity demanded will necessarily exceed the amount supplied, and rent control will lead to a shortage of housing units.

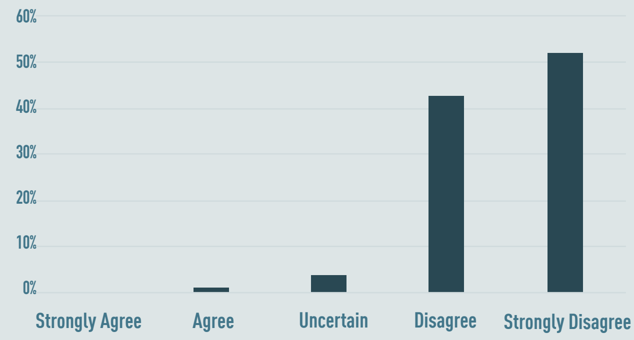
In a well-functioning housing market (absent controls on prices), housing shortages stimulate prices to rise and bring forth new supply. But price caps prevent rents from attaining market-clearing levels and shortages result. Paradoxically, then, even though rents may be lower in the rent-controlled sector of the housing market, they rise for uncontrolled units and may be higher for rental housing as a whole.

Consensus Among Economists: No Positive Impacts of Rent Control

A panel of expert economists finds that local laws on rent control in New York and San Francisco have had no positive impacts on the quality of affordable rental housing in those respective cities.

The initiative on Global Markets at the University of Chicago's Booth School of Business surveys expert economic panelists on current topics in public policy. The purpose of the survey is to inform the public about the extent to which economists agree or disagree on important public policy issues. They are asked to agree or disagree with a statement and express their level of confidence (to weight their response).

Statement: Local ordinances that limit rent increases for some rental housing units such as in New York or San Francisco, have had a positive impact over the past three decades on the amount and quality of broadly affordable rental housing in cities that have used them.



Source: IGM Booth School of Business, http://www.igmchicago.org/surveys/rent-control accessed Dec. 2019.

Rent control covers a broad array of price control policies

Rent control is often discussed as a uniform set of laws and conditions. While first-generation rent control featured fairly simple and blunt price controls, subsequent changes to these laws, second-generation, now include a variety of parameters that determine how more or less strict it can be.

PART I: RENT CONTROL POLICY OVERVIEW

How a policy is implemented affects its impact, including those that may benefit from living in a rent-controlled home and the broader negative effects to society as a whole. These include the following set of parameters:

- What level of rent increase is allowed?
- Is vacancy decontrol, or rent resets, allowed?
- Does it apply to new development?
- Are there condominium conversion exemptions?
- Do units have to register for enforcement actions?
- Are there expiration dates?

What makes a rent control policy more or less strict?

The report differentiates between more or less strict versions of rent control.

MORE STRICT versions typically apply to most units in area and feature rent price caps indexed to inflation or below.

LESS STRICT versions of rent control have higher rent price caps and can exempt new construction and have vacancy decontrol.

MOST IMPACTFUL PARAMETERS

	LESS STRICT POLICY PARAMETERS	STRICT POLICY PARAMETERS
Percent Rent Increase Allowed:	7-10% plus inflation	Based on inflation. Pegged at a percentage of Consumer Price Index (CPI), usually between 60 and 100%.
Vacancy Decontrol:	Vacancy decontrol allows landlords to increase rents for new tenants when prior tenants move out.	Vacancy control prohibits such rent increases.
Applicability to New Development:	New development exemption for 10 to 15 years of operation or into perpetuity.	Applies to new development.
Housing Type Exemption:	Condo conversion exemption exempt condominiums and/or single-family houses from rent control.	No condo conversion exemption.
Unit Registration:	Unit registration not required.	Require unit registration to facilitate enforcement.
Other Exemptions:	Exemptions for substantial improvements to building.	Pre-requirement to petition rent board for above-formula rent increase.
Expiration Date:	Ends at a specific time.	No sunset clause.

Source: ECONorthwest analysis; California Tenants' Rights (2016).[i] Note: Three other policy parameters include rent rollback, eviction regulation, and rent control board composition.

HOUSING POLICY TOOLKIT

There are proven tools to address housing affordability challenges

Rent control is often described as a way to improve housing affordability for low-income renters amid local housing crises. However, there are many ways to preserve housing affordability that do not have the same adverse impacts on the housing supply. Many communities are interested in taking steps to encourage the production of new housing to meet the needs of new residents and maintain affordability for existing residents. Broadly, these policies support new housing development, but implementation can be complex and time-consuming. Since housing markets function at a regional scale, housing policies require participation from jurisdictions across a region to create measurable effects on the ground. Jurisdictions should explore a variety of policies in the following three categories:

- Promote more housing development suitable to meet the needs of all income and demographic groups
- Promote a diverse housing stock by preserving existing units or expanding affordability in new units.
- Support residents by offering assistance to help stabilize housing or home-buying assistance.

"Affordable Housing" vs. "Housing Affordability"

This research brief refers to "affordable housing" as regulated housing units that have income or rent-restrictions to ensure the housing is occupied by low-income households (usually under 60% of an area's median family income).

Housing affordability refers to any type of housing, regulated or not that costs less than 30% of a household's pre-tax income. This definition is a generally accepted definition of affordability.

Production costs are a challenge — reducing development costs can make housing easier to develop

Removing policies to reduce costs can help speed up new private housing development, thereby increasing supply. This includes reducing mandatory requirements for building construction; reducing, or waiving, government-fees; and, reducing permitting and land entitlement timelines.

Rent-regulated affordable housing is necessary to help low-income households.

While for-profit developers build the majority of new housing, it is financially difficult to build new housing affordable to low-income households without incentives to reduce the cost to build and operate the units. Direct funding for affordable housing (grants, loans, and subsidies) is insufficient due to chronic funding shortages from federal, state, and local governments. There are many types of government interventions, programs, and policies that can work with the private sector to encourage rent-regulated affordable housing development without negatively impacting new market-rate development. The following policies work with the housing market, not against it:

- Development incentives (financing or zoning)
- Tax credit programs
- Multifamily Property Tax Exemption (MFTE) for affordable construction
- Project-based rental assistance
- Tenant-based rental assistance or vouchers

Policies that require affordability (such as inclusionary zoning), need to be carefully calibrated to ensure that they are not too strict. The less strict the affordability policy, the more new market-rate production will come online, increasing supply in the market.

Governments should play a role in preserving existing rental units

Because of the limited supply of rent-regulated affordable housing, most low-income households that pay less than 30% of their income on housing live in unregulated units. These units are affordable because they are often older, have fewer amenities, or are in neighborhoods with less transit and

Development Incentive Tools at Work

The MFTE is an example of a policy that has worked well by encouraging market-rate developers to include affordable units.

Since 2007 26 cities and one county across Washington have used the MFTE program with **424 developments**, creating an estimated **7,325 rent-restricted units** and **27,560 market-rate units.**

other services. Jurisdictions need to preserve these units, ensuring they remain affordable and well-maintained. Some preservation programs and tools could include:

- Multifamily Property Tax Exemption (MFTE) for preservation housing
- Grants and low-interest loans to rehabilitate market-rate affordable units in exchange for including rent restrictions
- Building inspection and maintenance requirements to ensure habitability standards
- Property registration databases to track sales of unregulated affordable housing
- Real estate investment trusts and other loan pools that crowd-source investments in affordable housing; these non-governmental funds can be deployed quickly to compete with private-sector buyers in a fast-moving market
- Expedited permitting for rehabilitation and preservation projects
- Reduced, waived, or government-financing of fees for rehabilitation and preservation projects
- Strong public-private partnerships with affordable housing providers to own and operate newly preserved market affordable housing

While rent control can ensure that *some units* remain affordable, research has shown that its negative effect on the overall supply of rental housing can outweigh the limited positive effects, and actually hurt those it was intended to help[ii, iii, iv] (see pages 13-15 for literature on the consequences of stringent policies).

Governments can be a partner in implementing tools to promote affordable homeownership

As homeownership is the primary mechanism for asset and wealth-building in the U.S., many cities recognize that there are barriers to homeownership for low-income and minority households. Many programs around the country seek to remove these barriers, including:

- Down payment assistance for homeownership
- Community land trusts
- Shared equity programs
- Land lease programs
- Land banking of surplus public land
- Cooperative housing models

By solely focusing on rents, rent control policies exclude homeowners and do not help renters who would like to buy homes. Further, rent control policies do not help to bridge the intergenerational gaps in asset and wealth creation.

> *"If the goal is to increase integration, then there are many better means than the bureaucratic and highly distortionary rent control … Rent control is a very socially costly means of occasionally getting integration, and housing vouchers or other supply-side policies seem likely to be much more efficient."*
>
> **— Ed Glaeser**
>
> **Excerpted from "The Misallocation of Housing under Rent Control"**

Many policies can help stabilize renters without affecting housing supply

Some policies and programs help stabilize cost-burdened or vulnerable renters that do not have the same negative consequences on the overall rental housing market that rent control has. These include rental assistance programs, termination notice periods, health and environmental reporting or inspection requirements, fair housing policies, case management, and free or reduced access to legal resources, mediation, and education.[v] Of these, publicly funded short- and long-term rental assistance is one of the best ways to help low-income renters remain housed.[vi]

Housing underproduction is the primary driver of the housing crisis

Washington is in the midst of a record economic expansion, now in its tenth year. The state has seen strong population growth and a dramatic shift in the makeup of its economy. Nearly crippled from the housing market crash and recession, many housing markets across the state took years to respond to this new demand, and in many places, development has still not caught up. Construction has not kept pace with population growth and household formation. The end result of this mismatch has been rising prices for housing for all income groups. Lower-income households are harmed most from these housing shortages because they are less able to bid up prices in a rising market.

Housing is already costly to build and rent control would add another barrier to development

Some Puget Sound areas have produced new housing units while not keeping pace with the scale of strong population and job growth. In other areas of the state, however, very little new housing has been built since the Great Recession, and what has been built is either very expensive or part of the short-term rental-vacation home market. The result ends up being the same: there are too few homes to keep up with demand, and prices are rising.

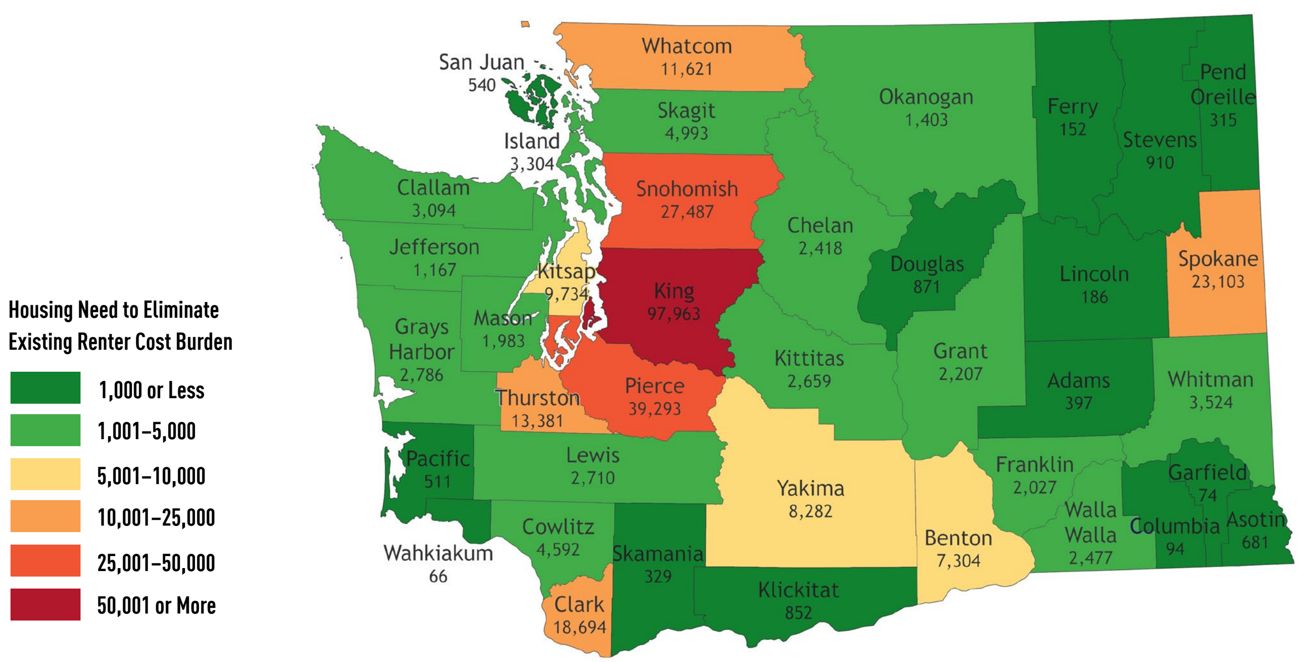
As new households form, they fill up vacant homes or compete for existing homes, pushing up prices and rents. New housing construction in many communities, especially those near Puget Sound, have struggled to keep pace. Since the 1960s, the national average has been 1.1 new “housing starts” (the start of construction) for every new household formed. Many states and counties are producing far fewer units than this.

A one-size-fits-all rent cap does not fit local area dynamics

Many areas of the state see rents rise due to supply and demand imbalances. This has resulted in significant impacts to many issues of public import, perceptions of household displacement, and increasing levels of traffic congestion as people commute longer and longer distances from home to work. However not all parts of the state are seeing the same level of rent increases nor are facing the same affordability issues. From 2012 to 2022, there was a large variance in average county-level multi-family rent increases. This variance is reflective of different levels of employment growth, migration, and housing units built. Given the wide variation in market dynamics, a one-size-fits-all statewide rent control policy may stall multi-family development in areas that are struggling to see any new housing.

Indeed, in the map below, based on an analysis of Washington State Department of Commerce’s housing action plan tool, the state needs close to 304,000 units in additional housing supply (does not count housing needed to meet population growth) to eliminate housing cost burdening today. Housing cost burdening disproportionately effect low-income households.

COUNTY-LEVEL HOUSING UNITS NEEDED TO ELIMINATE COST BURDENING (2020)



Cost burdening is already a problem, and without additional housing supply, it will only become a larger problem for more Washington residents.

According to Census Bureau data, 48.9% of all Washington State renters paid more than 30% of their gross incomes on housing in 2018. This cost-burdening crowds out spending on other necessities like food, transportation, and healthcare. In the early 2000s, most parts of the state had average rents that were affordable to households making 60% of Median Family Income (MFI). When rents are affordable to households making 60% or less of MFI, by definition, there isn't an affordability challenge, as subsidized units would be renting for the same amount as the market-rate units.

Seattle was the exception, with rents affordable to households making around 80% of MFI from 2000 to 2010. After the Great Recession, rents began increasing faster than incomes in many parts of the state. The average one-bedroom apartment in Seattle is only affordable to households making at least 100% of MFI, while in Vancouver, average rents increased from around 60% MFI to 80% from 2010 to 2019. Not all markets throughout the state are experiencing an affordability crisis. For example, in Spokane, average rents have consistently stayed near 60% of MFI from 2000 to 2019.

Government land use regulations impact housing affordability

Private sector development is the driving force behind almost all new housing supply. But it can only happen when land, public policies, market feasibility, and capital come together to create a viable opportunity. While the housing market is governed by economic fundamentals of supply and demand, government regulations like rent control policies can impact the feasibility of new development and overall quantity.

Housing production occurs at the intersection of policy, feasibility, capital, and land

Due to stringent growth management requirements, land availability is very limited outside urban growth areas, as most of the easiest or lowest cost parcels inside of existing growth boundaries are already built out, and most is built or zoned at very low densities. Development feasibility is largely determined by numerous markets, including rents, construction and material costs, and interest rates. Much like stocks and bonds, capital for development can dry up when the required rate of return is not met. Housing development occurs during a limited opportunity window. Rent control would add another policy complication to development.

Additional factors driving the affordability crisis include …

It has become harder and more expensive to build a range of new market-rate housing types due to:

- Rising construction costs.
- Rising government fees and taxes.
- Rising regulatory costs and delays (i.e. zoning, permitting).
- Exclusionary zoning regulations that limit options for smaller homes.
- The land is largely built out, with development occurring on expensive or more difficult parcels remaining
- More high-income households are turning to the rental market, driving up demand.
- Out-of-state investment buyers are bidding out home buyers with conventional financing, particularly at the lower end of the price range. As of 2018, a quarter of homes purchased in King County were purchased with cash.
- Nationally, median wages have been stagnant and have lagged behind growth in housing costs and rent. After many years of rising housing costs, wage growth at the median is just beginning to pick up.

Housing development relies on inputs set by interrelated markets and stakeholders that are always in flux:

- **Land availability and price.** Developers assess whether housing is the highest and best use for a site.
- **Public policies** can limit housing development allowed, usually for aesthetic, health, safety, or economic reasons. Policies in place across Washington include impact fees, real estate taxes, and permit review processes, and required environmental review processes.
- **Market feasibility.** Developers compare the expected rental revenues or prices against the construction costs (e.g., labor and materials).
- **Capital.** To pay for the costs of development, developers must attract investors who expect a competitive return on investment. When the return on investment is insufficient for housing, investor capital can flow to other sectors like stocks or bonds.

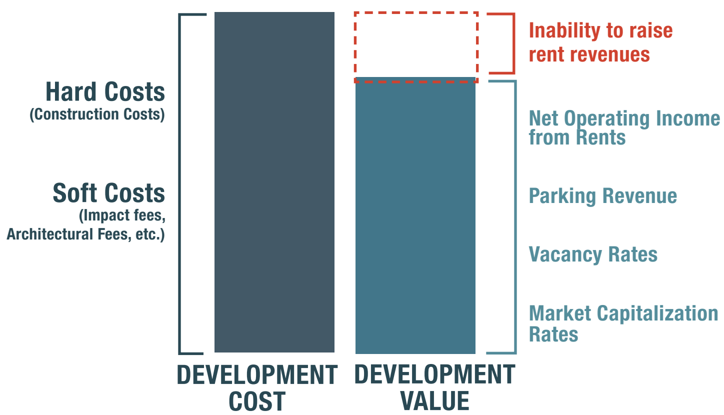
"Rent control doesn't help many people for very long, in part because it constrains the supply of affordable housing."

— Rebecca Diamond,

As featured on the Freakonomics Podcast, "Why Rent Control Doesn't Work (Ep. 373)." http://freakonomics.com/podcast/rent-control/

Policies can have long-term, cumulative impacts on housing markets

In the short term, removing housing regulations would not solve the housing crisis facing many communities across the state, and would have many unintended consequences (such as nonconforming uses, heights and densities misaligned and haphazardly built, etc.). But in the long term, eliminating unnecessary barriers or requirements on housing development could help to improve housing affordability by increasing new supply to meet strong demand.



For new housing development to occur, rents must be high enough to support the cost of operating the property and pay for the debt used to fund construction. Like any mortgage, construction debt is predictable as an expense. However, the operating expenses can vary widely, and labor, maintenance, materials, taxes, and fees typically grow with inflation. Properties must be able to raise sufficient revenues (rents less vacancy, and concessions) to cover these expenses and make their debt payments. Statewide policies limiting rent increases can make new development infeasible, resulting in less supply overall. If demand continues to grow and new supply is restricted, housing costs will continue to rise.

Cumulatively, numerous policies that delay new development can drive up costs and reduce overall supply. Rent control could further impact development feasibility, resulting in reduced housing supply.

2019 changes to the REET could impact housing production

In 2019, the state legislature increased the state portion Real Estate Excise Tax by over 134% for properties over $3 million. The plan included specific spending (1.7% must be deposited in the Public Works Assistance Account, 1.4% must be deposited in the City-County Assistance Account; 79.4% must be deposited in the general fund, and the remaining amount must be deposited in the Education Legacy Trust Account). The specifics of the tax are important to housing production, since taxes, fees, and other policies have an impact on a housing developer's ability to pay for the land – and thus – their ability to build new housing units.

When taxes, fees, and policies drive down housing developers' ability to pay for the property, the prospective site goes from being a housing development opportunity to maintaining the status quo of the existing use. All things being equal, adding additional tax burdens slows the market for housing production. A recent analysis by Up for Growth showed that the increase in REET could add as much as $30 to the monthly rent of an apartment over time.

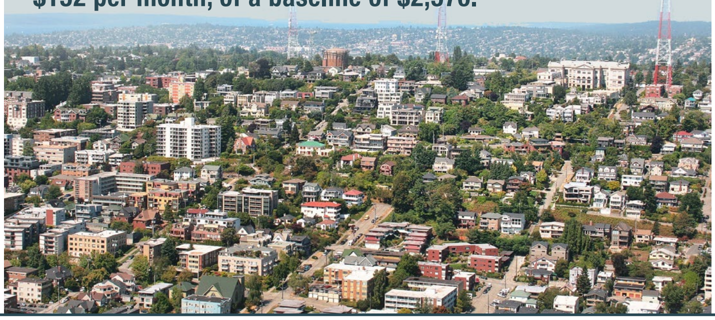
Growth Management directs higher-density housing to urban areas. Since 2010, the rate of housing unit growth in multi-family units has grown twice as fast as the rate of growth of single-family units. However, the REET structure places more burden on multifamily, commercial, and industrial properties (likely to account for 80% of all new expected REET revenues). In addition, the counties of King, Pierce, and Snohomish accounted for 69% of the state's $726 million REET collections (the fiscal year 2015). These issues are likely to compound housing production calculations in the areas that need to grow the most to meet rising demand and in-migration.

Source: ECONorthwest.

Cumulative Policy Impacts Reduce Development Feasibility

ECONorthwest recently analyzed the impact of faster permitting times for the City of Seattle.

Reducing permitting times from 24 months to 12 months for a newly constructed building could result in a **rent reduction of $152 per month, of a baseline of $2,570.**



PART III: EXPLORING POTENTIAL RENT CONTROL IMPACTS

A review of the literature about rent control's impacts on renters and housing supply

While prohibited in Washington, some local jurisdictions in other parts of the country have established rent control laws as a way to increase housing stability and reduce housing displacement, especially for low-income families. ECONorthwest reviewed the body of literature evaluating the impacts of rent control on housing quality, supply, and renter outcomes.

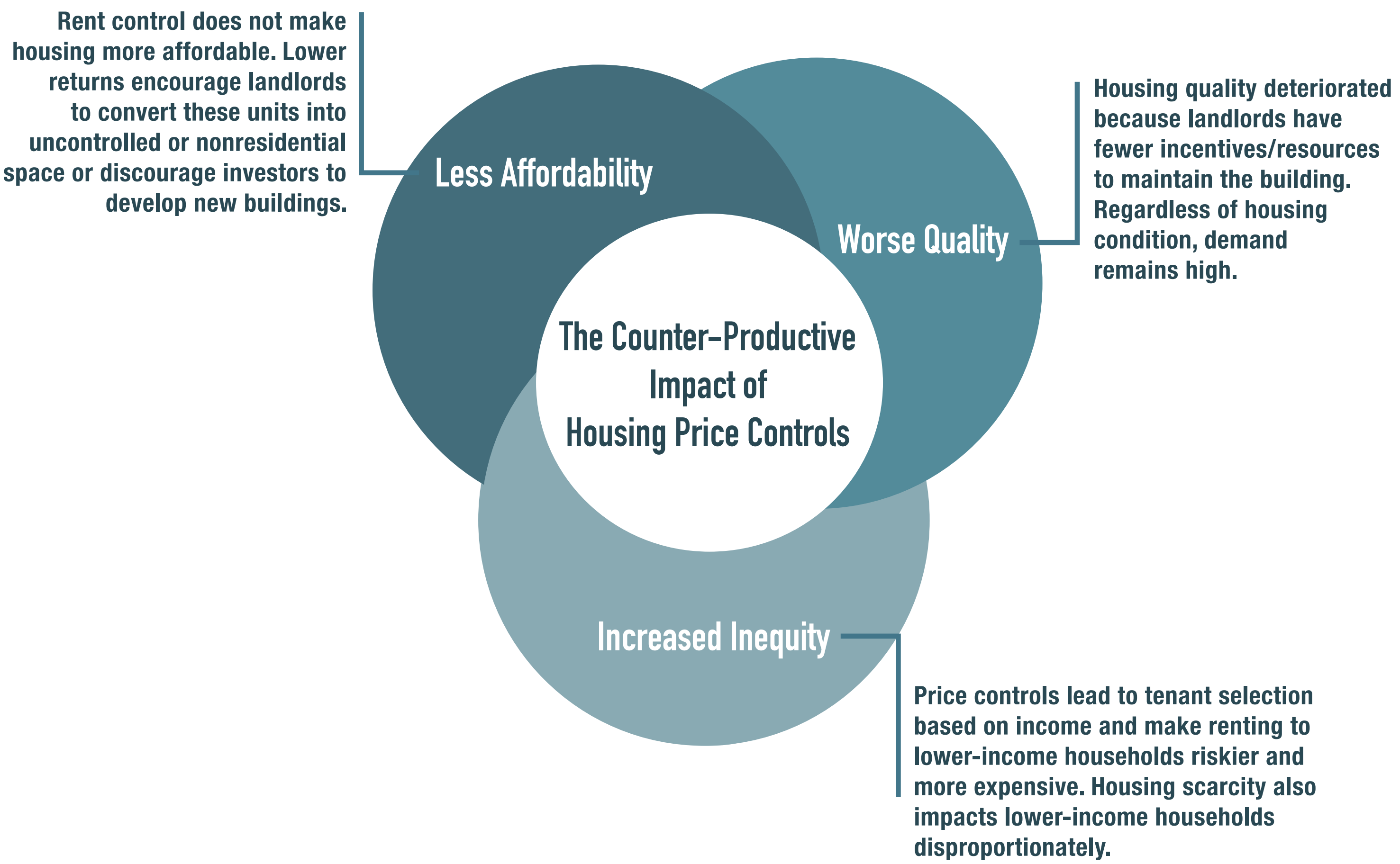
At a high-level, price control is inefficient because it artificially reduces the price and decreases the quantity and quality of goods. Rent control reduces prices and improves housing stability for incumbent renters, but it limits housing options for new renters. Subsequent forms of rent control and rent stabilization policies have been enacted, and there is no clear academic or professional consensus on the impact of these less strict policies and how they differ from more strict implementations.

Impact of a rent control policy depends on its specific parameters

Rent control policies are complex, containing multiple policy attributes or a bundle of sub-policies. While these attributes can be designed to be more or less stringent, policy variations are often difficult to account for when considering the findings of rent control studies.

In our review of the literature, ECONorthwest did not find any academic research that quantified the impacts of rent control policies at varying levels of stringency. This lack of quantifiable facts allows others to introduce over-generalizations into the debate. For example, Pastor et al. took research findings from Gilderbloom and Lin, which addressed moderate rent control policies (without considering the implications for stringent rent control regulations), and concluded that "on balance, rent regulations do not impact new housing construction." In a study that looked at the effects of vacancy provisions in rent control

THE COUNTER-PRODUCTIVE IMPACT OF HOUSING PRICE CONTROLS



policies, Heskin et.al. present the notion that their findings could support "virtually any position on rent control."[vii]

In summary, the lack of research that distinguishes the impact of policy attributes, and their true effect, should give policymakers heavy pause. At the very least, policymakers must consider the reality that unintended consequences may be introduced through potentially misguided policy creation.

> *"Almost every freshman-level textbook contains a case study on rent control, using its known adverse side effects to illustrate the principles of supply and demand. Sky-high rents on uncontrolled apartments, because desperate renters have nowhere to go - and the absence of new apartment construction, despite those high rents, because landlords fear that controls will be extended? Predictable."*
>
> **— Paul Krugman,**
>
> **As featured on the New York Times, "Reckonings; A Rent Affair"**

How specific parameters of rent control policies impact the financial viability of real estate development (from the perspective of a profit-motivated investor, subject to generally accepted practices of financial underwriting) is predominately untested. Some findings suggest rent control policies can act as a binding constraint on rent increases in a local market and decrease development viability.

Rent control can only do so much to protect renters from displacement

A study by the Urban Displacement Project found that many neighborhoods in San Francisco experienced less displacement than they would have expected had rent control policies not been in place. However, a synthesis of empirical research throughout the U.S. suggests that rent control policies generally lead to higher rents in the uncontrolled market and diminish the welfare of residents in the larger region.[viii] As the authors of a 2019 Urban Institute report state: "promoting stability may, over time, lead to a growing mismatch between people who live in a rent-controlled unit and people who need one."[ix]

> *"It appears rent control has actually contributed to the gentrification of San Francisco, the exact opposite of the policy's intended goal."*
>
> **— Rebecca Diamond,**
>
> **As featured on the Freakonomics Podcast, "Why Rent Control Doesn't Work (Ep. 373)." http://freakonomics.com/podcast/rent-control/**

Further, because rent control policies may impact a housing provider's ability to raise rents, many landlords seek policy avoidance by converting rent-controlled apartment units to condominiums. When this happens, rent control can lead to greater displacement and scarcity in the affordable housing supply.

Rent control can lead to an inefficient allocation of housing

Households often sort themselves into housing based on their household needs and preferences relative to what is available in the market in their price range. In tight or artificially tight markets, households may be *inefficiently* allocated to housing (e.g., single-person households renting large apartments; larger households unable to find units with sufficient bedrooms). This phenomenon can present both economic and welfare issues (e.g., higher housing cost burden rates, overcrowding, etc.).

Rent control does not help mitigate residential segregation or inefficient allocation of housing.[xi, xii, xiii, xiv, xv, xvi] A 2003 study by Glaeser et al., finds that there are economic and significant differences in housing misallocation in New York City (a market with rent control) compared to rent control-free markets (a 103-city control group), for demographic subgroups based on age, income, education, and presence of children. This study found that the amount of misallocation was only balanced (in New York City versus the control group) for single-person households and households with three or more members.

In early work by Glaeser, et al. (1997), the authors lay out the potential costs of misallocation due to rent control in New York City. Their estimate of rental apartment misallocation was $200 per apartment per year or over $500 million annually to the consumers of New York (in total).[xviii]

In the long run, rent control results in housing scarcity

Rent control policies have led to the conversion of rent-controlled units to condominiums, directly reducing the supply of rental housing.[xix] A 2019 study in San Francisco found that rent control seemed to trigger a measurable decrease in the availability of small, two- to four-unit multifamily rental units (a 6% overall decline in the supply of rental units).[xx] The article further cites that the total number of renters living in rent-controlled units declined by 25% over time, due to housing providers converting their properties to housing types that were exempt from the San Francisco rent control policy.

Early researchers on the topic of rent control described the potential negative impacts on housing supply, stating that “the very existence of even moderate rent control may have a negative psychological effect on investors thereby depressing housing construction.”[xxi] The policy that may influence housing supply and demand imbalances is a risk as reductions in housing supply will increase housing costs (respective of non-rent-controlled units) or, as aforementioned, incent the conversion of rent-controlled condominiums.

Market conditions determine the impact of a rent control policy’s impact

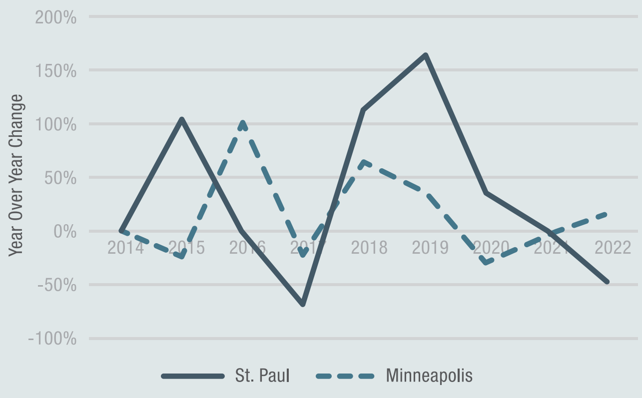
By reducing the ability for the market to find rents sufficient to cover operating costs, rent control policies can limit new construction by negatively impacting development feasibility (see page 12). When an area sees a strong demand for housing, long-term limitations on new supply — like the underproduction Washington State saw between 2010-2017 (see map on page 10) — results in increased price growth.

Experience in St. Paul –

Fewer Housing Units and Unintended Impacts

In November of 2021, St. Paul voters approved a ballot measure that launched one of the strictest rent control measures in the nation. That measure capped residential rent increases at 3% annually on all units and without exception for small landlords or new housing construction.

The law likely had some chilling effect on new construction permits where the city saw permits fall dramatically in the year after. According to the U.S. Census tracking of multifamily building permits, year over year permits fell 48% in 2022 from 2020 after the law took effect at the end of 2021.



In September of 2022, the city council exempted newly constructed units and affordable housing from the rent cap. The council also changed allowed housing providers to raise rents up to 8% plus inflation if a unit is vacant due to a “just cause” – a type of vacancy decontrol provision.

There has not been a comprehensive analysis of the impact of rent control in St. Paul to date, but a recent paper published in March of 2022 on Social Science Research Network (SSRN is an open access research platform used to share early-stage research) by University of Southern California Marshall School of Business professors Kenneth Ahern and Marco Giacoletti found a pattern of falling property values in St. Paul after the passage of rent control. By charting home sale prices between January 2018 and January 2022 in St. Paul and the surrounding five counties, they found that the introduction of rent control coincided with 7% decline in real estate values in St Paul, and up to a 13% decline in property values for rental properties specifically, compared to neighboring jurisdictions.

Ahern and Giacoletti also found evidence that rents are constrained most in neighborhoods where incomes are high across the board, or where renters’ incomes outstrip owners’ incomes. This implies that the impact of rent control is poorly targeted - a major finding from other research on rent control. Further analysis by the team found that the largest transfer of wealth came from relatively low-income owners to relatively high-income renters.

Minneapolis Considers Rent Control

In Minneapolis, voters approved a change to the city charter to allow the council to consider and enact rent stabilization. Minnesota, like many states, restricts the ability of local governments to consider and enact rent controls. Approval of the voters was necessary to allow the council to move forward. In June of 2023, the council voted 5-4 not to advance a draft ordinance to committee meaning that the earliest a ballot proposal can go to voters will be in 2024.

In April of 2023, a city staff report charged with evaluating a rent stabilization law concluded that rent control could slow housing development and cost the city too much to enforce. Their specific findings included:

- A rent stabilization policy would not effectively address the problem of renter cost-burden (benefit targeting).
- The costs and detrimental impacts of a rent stabilization policy would outweigh any potential benefits in addressing renter cost-burden.
- Deeper investment in known effective strategies to boost incomes and support renters would more effectively address the problem of renter cost-burden, without impeding the creation and preservation of rental housing units that are needed for Minneapolis residents.

PART III: EXPLORING POTENTIAL RENT CONTROL IMPACTS

Market cycles and local economic conditions are the primary determinant of housing feasibility and ultimately production. Applying research from one market to a different set of market conditions will result in different levels of impact.[xxii, xxii]

Rent control can lead to poorly maintained housing and spillover effects on non-rent controlled properties

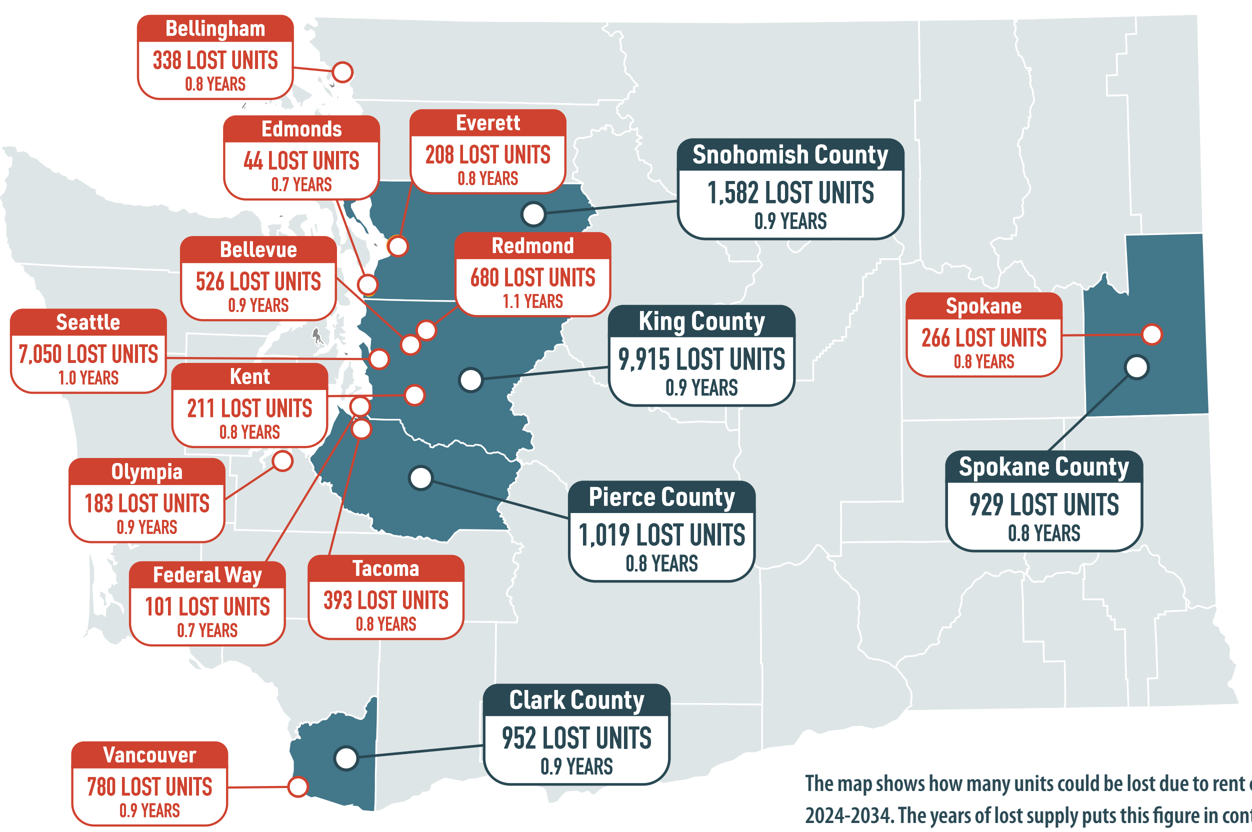
Research demonstrates that rent control policies can lead to a lack of investment in properties, resulting in poorly maintained housing and habitability issues. Owners of rent-controlled units may invest less in maintenance because the rent-controlled units are less likely to be vacated. A study of the end of rent control in Massachusetts in 1995 showed rent control had deteriorated the quality of some rental units.[xxv] The price effects of poor maintenance can be inferred from the post-1995 appreciation of rent-controlled units and near-by units that were never rent-controlled.[xxvi] Just prior to the elimination of rent control in 1995 in Cambridge, controlled units typically rented at 25 to 40 percent below the prices of nearby uncontrolled units, a clear benefit to renters in those units. Immediately following rent decontrol, rents at formerly controlled units in Cambridge increased steeply.

More surprisingly, the authors also find a “large and significant” spillover impact from the removal of rent controls onto the valuation of never-controlled properties. Although the value of previously controlled units rose by proportionally more than the value of never-controlled units, the never-controlled units were both more numerous and more desirable than the decontrolled units. Consequently, more than half of the induced rise in residential real estate values, about $1 billion, was due to positive spillovers to the market value of never-controlled housing units.

Rent control can lead to lower mobility

Research on rent control policies has shown that many long-term renters may be reluctant to move to avoid losing their below-market housing. This can lead to some households staying in large units longer than appropriate (e.g., after children move out), or this can encourage others to settle for overcrowded housing (e.g., if the household grows).[xxvii]

HOUSING UNITS THAT COULD BE LOST DUE TO RENT CONTROL



The map shows how many units could be lost due to rent control between 2024-2034. The years of lost supply puts this figure in context to historical production of multifamily units over the recent year (2010-2023).

The 2019 study in San Francisco leveraged a naturally occurring change following the 1994 eradication of a rent control exemption for small multi-family housing of 4 units or less in San Francisco. Using migration data from before and after the exemption was removed, renters living in a controlled unit, compared to the control group, were between 10% and 20% more likely to extend their tenancy in the medium to long term.[xxviii]

Another study from New York found that the expectation of rent control benefits altered mobility patterns and tenure. Those in controlled apartments were less likely to move (i.e., longer tenure), and families seeking controlled apartments were more likely to move. Overall, the likelihood of ownership dropped for those expecting benefits, as well.[xxix]

The implication of this is dependent on the individual opportunities of the renters. Increased tenancy could provide stability and prevent displacement if their current location increases access to higher-paying jobs. If that is not the case, or if rent control disincentivizes renters from moving to an area with greater economic opportunity, then other benefits of rent control may not be justified.

"In the short run, you can see the benefits of rent control — the renters right away benefit. What's much harder to see are these indirect effects that take a long time, and it's harder to put your finger on that. The losses are spread everywhere a little bit, and harder to see walking down the street or talking to your constituents."

— Rebecca Diamond,

As featured on the Freakonomics Podcast, "Why Rent Control Doesn't Work (Ep. 373)." http://freakonomics.com/podcast/rent-control/

Rent control's potential impact in Washington

A rent cap's impact on Washington's future supply from 2021 to 2030

To evaluate the potential impact of a rent control policy on housing production in Washington State, ECONorthwest built a model that adapts the findings from the academic literature to housing market conditions observed in Washington State. Specifically, our model uses a 2019 Stanford University report by Rebecca Diamond, Timothy McQuade, and Franklin Qian to understand how rent control reduces the housing supply available to renters. Under their model, housing supply is reduced by rent control leading to the conversion of more housing to condos and fewer units being produced.

The Stanford study looked at renter behavior (including the length of tenancy and potential displacement) when a rent control policy changed in 1994 and estimated the impact of the rent control policy on housing supply in San Francisco. This study found that the overall rental supply decreased by 6% due to the policy. Rent caps in San Francisco averaged around 4% a year during that time.

We applied these findings to the State of Washington's apartment production over the next ten years. While rent control is not a uniform policy and varies across markets, applying academic research from one market to inform potential outcomes in another market provides some critical insight but can be limited in the sense it is not able to test a specific proposal in Washington State. Despite this important note, applying findings from related studies on rent control remains a helpful exercise to frame the potential order of magnitude of outcomes related to housing production.

- Rent control could reduce housing production.
  - Even less strict levels of rent control (than seen historically in San Francisco) would lead to 26,000 fewer units built over the next 10 years. (2,400 per year statewide.)

- Equivalent to 14% of the multifamily stock statewide built in the last decade, approximately 1.5 years' worth of housing production over the last decade.
- 67% of the units are located in the Puget Sound region (King, Pierce, Snohomish), the areas most in need of housing.

- Rent control could reduce property tax levies. Rent control could reduce property tax revenues by $200 million over 10 years. In the aftermath of Initiative 747, state and local property tax collections are now heavily reliant on the amount of new construction value. Without new construction, governments would be unable to grow their revenues beyond the statutory limitation of 1% levy growth a year.
- Rent control could reduce sales tax revenues by $301 million over 10 years. A peculiar feature of Washington's tax code is the taxation of construction at the retail sales tax rate. State, county, city, and special purpose taxing districts are heavily reliant on taxable retail sales from construction, particularly during times of economic growth.

A statewide policy would produce disproportionate results across the state. In counties with limited projected apartment production over the next ten years, the impact would be less than in areas with rapidly increasing apartment production.

Recommended Path Forward – Focus on proven housing solutions that address Washington's housing challenges

Washington State already has many policies that delay and increase the cost of development of new housing. Rent control would add another barrier, lowering operating income from new units and making new housing projects less feasible.

There is a large body of research that has documented the perils of rent caps. While it is indeed true that rent control can keep housing prices in check for those that live in a controlled unit, these policies often come at the expense of negative impacts elsewhere in the housing market that leave all other renters worse off. While less strict rent control policies are in places in some communities, it is far from clear that these policies avoid the major pitfalls of the more strict and well-studied rent control policies that have been enacted over the years.

Policymakers should proceed with caution before considering any forms of rent control without more rigorous study of the issues and potential unintended consequences of making housing less affordable, increasing displacement, and impacting low-income renters and minority communities. Any proposal put forward by Washington legislators should assess the following:

- The impact of price controls on housing production and housing affordability,
- The potential misallocation of benefits of increased renter stability associated with rent control,
- The social equity impact of rent control on low income and minority populations,
- The impact on tax revenues to state and local government and their ability to adequately fund education and public safety, and
- The cost to implement and oversee these measures on local budgets.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