

Rent controls are in fashion again, and renters should worry

Capping rents is a lousy answer to the problem of high housing costs.

By Editorial Bloomberg Opinion | OCTOBER 3, 2019 — 5:58PM

California and Oregon recently imposed them. New York, Paris and Stockholm are adding more. And just about every other booming metropolis in the West is thinking about introducing them: rent controls.

The most extreme case may be Berlin. Its leftist government plans to cap most rents for five years and let tenants who spend more than 30% of their income on housing get reductions. Simultaneously, a petition is underway for a referendum to expropriate rental units from big corporate landlords.

Interventions in the housing market, which had their heyday during and just after World War II, are in fashion again. The appeal is obvious. Places like Amsterdam or San Francisco, precisely because they offer so much opportunity, attract newcomers. That demand drives up rents and crowds out poorer residents. The result is gentrification, inequality — and often misery, as apartment-hunting becomes ever more stressful.

Unfortunately, simply capping rents is the worst answer to this problem. In its flawed logic, it resembles fixing the price of bread when food becomes unaffordable. The effect is merely to exchange one form of scarcity (high prices) for another (empty shelves). In the case of rent controls, the distortions go even further.

A brute freeze on all rents would destroy any incentive to build new units. That's why even proponents of controls usually want to apply them only to older apartments, leaving new and future ones free.

That splits the rental market in two. In the smaller market for new and unregulated apartments, rents soar even faster. People who move into a city are in a hurry to start their new jobs or to enroll their kids in schools. In their impatience, they end up bidding against one another for what units are available, which tend to be the unregulated ones. Those who succeed tend to be well-off.

In the larger market for older and regulated homes, the existing tenants initially seem to be the big winners. But the longer they stay, and the more their controlled rent diverges from market rates, the less incentive their landlords will have to maintain or renovate their crumbling properties.

Perversely, the biggest winners among the incumbent tenants tend to be affluent, because they live in homes whose rents would rise fastest in the absence of controls. Poor people in rent-controlled units, meanwhile, may be discouraged from seeking a better job elsewhere if they think they can no longer afford to move, and so become more likely to stay poor.

To make matters worse, the supply of rental homes in the regulated market actually shrinks, as landlords find it more profitable to convert and sell their units. Counterintuitively, then, rent controls benefit an ever-declining pool of lucky tenants at the expense of just about everyone else. It's a boon for the rich and a bane for the poor, the young and new arrivals.

Discerning voters should call this out for what it is: left-wing populism, which offers simplistic answers to complex problems. Policymakers should instead aim to make building new rental units more, rather than less, attractive.

FROM AN EDITORIAL ON BLOOMBERG OPINION
