

The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality

Evidence from San Francisco

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Rent control as a solution to affordable housing?

Rising rents reignited debate over expanding rent control provisions

- IL, OR, CA considering repealing laws barring cities from rent control
- 5 Bay Area cities voted on rent control in 2016, with it passing in 2 cities

Previous research warns against negative efficiency consequences:

- Housing over-consumption(Olsen (1972), Gyourko and Linneman (1989)), mis-allocation (Glaeser and Luttmer (2003), Sims (2011)), negative neighborhood spillovers(Sims (2007), Autor et al. (2014)), maintenance under-investment (Downs (1988), Autor et al. (2014))

Affordable housing advocates argue tenants greatly value rent control, enabling them to stay in neighborhoods they value

- Incomplete markets leave tenants few ways to insure against rent risk
- Residents with large stocks of neighborhood-specific capital very vulnerable to rent risk

1994 San Francisco Rent Control Ballot Initiative

- San Francisco rent control began in 1979
 - Covered rental units built before June 13, 1979
 - Capped annual nominal rent increases within a tenancy but not between tenants
- Exempted multifamily housing with 4 units or less
 - 44% of 1990 rental housing stock
- Small multifamily housing increasingly sold to larger businesses
- 1994 SF ballot initiative removed exemption
 - Barely passed in November 1994
 - All multifamily structures with 4 units or less built 1979 or earlier were now subject to rent control

In this paper, we combine:

- **New data:** Near universe of address-level migration data for SF residents, linked to assessor data. ID renters, owners, and rent-control status
- **Natural experiment of rent control expansion:** 1994 ballot initiative suddenly rent controlled all small multi-family structures built prior to 1980
 - Compare tenants/parcels in buildings built 1900-1979 vs 1980-1990 within same zipcode who moved in prior to law in same year

Tenant Effects

- 12% ↑ remaining at 1994 address, 7% ↑ remaining in SF than control
- LLs remove tenants (buyouts or evictions) in most profitable zips:
 - Zips with large rent increases, recent migrants treated by RC **more** likely to move away
 - Observable amenities (median house price, college share) **worse** for tenants treated with RC

Property Effects

- 25% ↓ in RC-ed rentals, 8% ↑ in owner-occupancy, 7% ↑ in non-RC rentals
 - Evade RC: new construction, convert to condo, sell to owner occupants
- Treated properties had 5% **higher** levels of renovation permits

RC fueled gentrification: Pushed housing stock towards new construction and owner occupants, catering to higher income residents

- 1 Data
- 2 Reduced Form Analysis: Tenant Effects
- 3 Reduced Form Analysis: Property Effects
- 4 Conclusion

1 Infutor

- Entire address history of SF residents between 1990-2016
- Provides street address, dates of residence, name, age, gender

2 DataQuick

- Public records information on San Francisco properties
- Provides use-code, age of building, number of units, and post-1988 transaction history including buyer and seller names

3 San Francisco Assessor's Office

- Provides information on parcel spits, such as converting multifamily housing to condos

4 San Francisco Planning Office

- History of permits associated with each parcel
- Provides information on large investments, renovations

Imputing Race

- Use two-step procedure to impute race of individuals
- NamePrism software provides baseline racial probabilities based on first and last names
- Update probabilities based on racial distribution of 1990 census block using Bayes' Rule:

$$\Pr(r|g, s) = \frac{\Pr(r|s) \Pr(g|r)}{\sum_{r' \in R} \Pr(r'|s) \Pr(g|r')}$$

- Classify all individuals with a maximal posterior probability greater than 0.8

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Reduced Form Effects: Quasi-Experimental Design

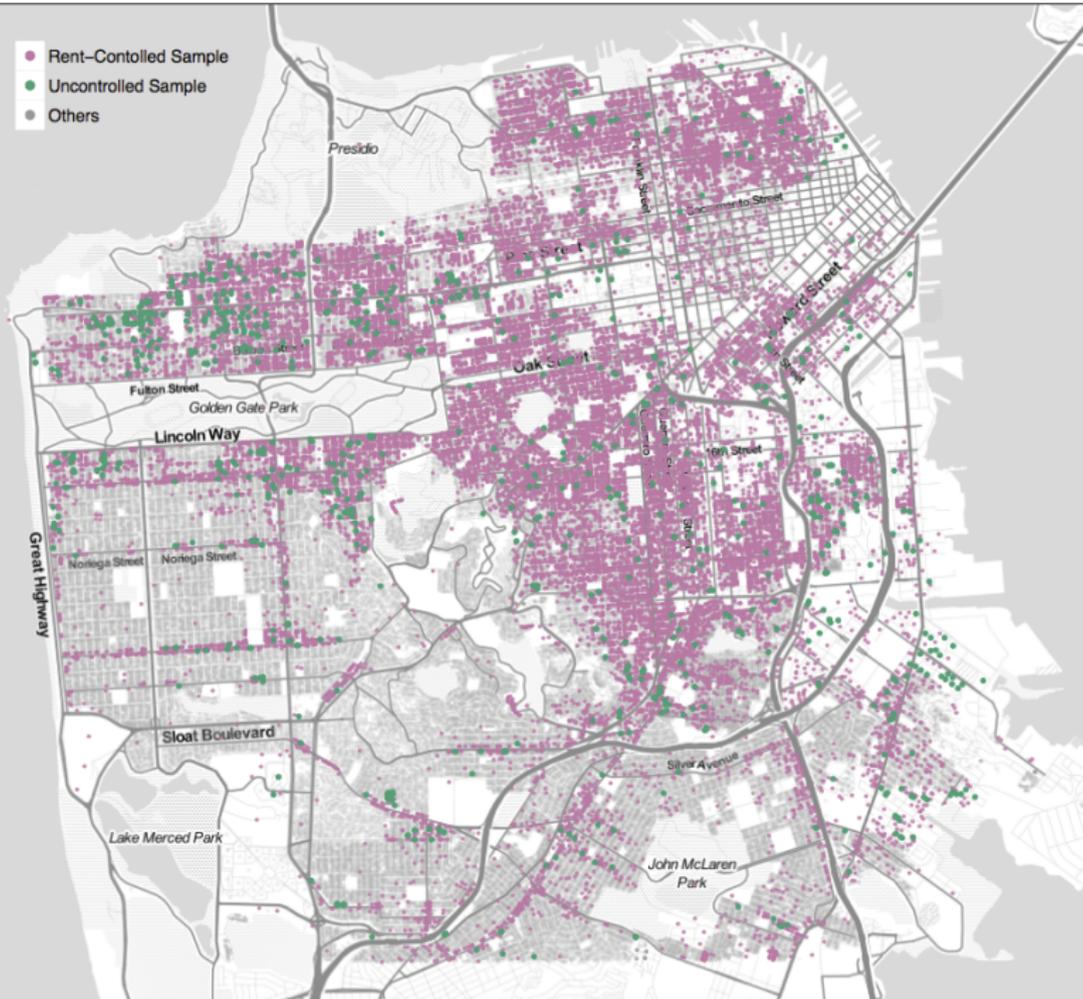
- Treatment Group: Renters living in small multifamily buildings built 1900-1979 at end of 1993
- Control Group: Renters living in small multifamily buildings built 1980-1990 at end of 1993
 - Exclude new construction due to selection concerns
 - New buildings only have new tenants
- Identification: renters/buildings in treatment group vs. control group not on different trends
 - Include zipcode \times year FEs (compare treat vs. control within zip)
 - Include year moved \times year FEs (compare treat vs. control within tenancy duration)
 - Use only buildings built 1960-1979 as robustness test

Reduced Form Effects: Regression Equation

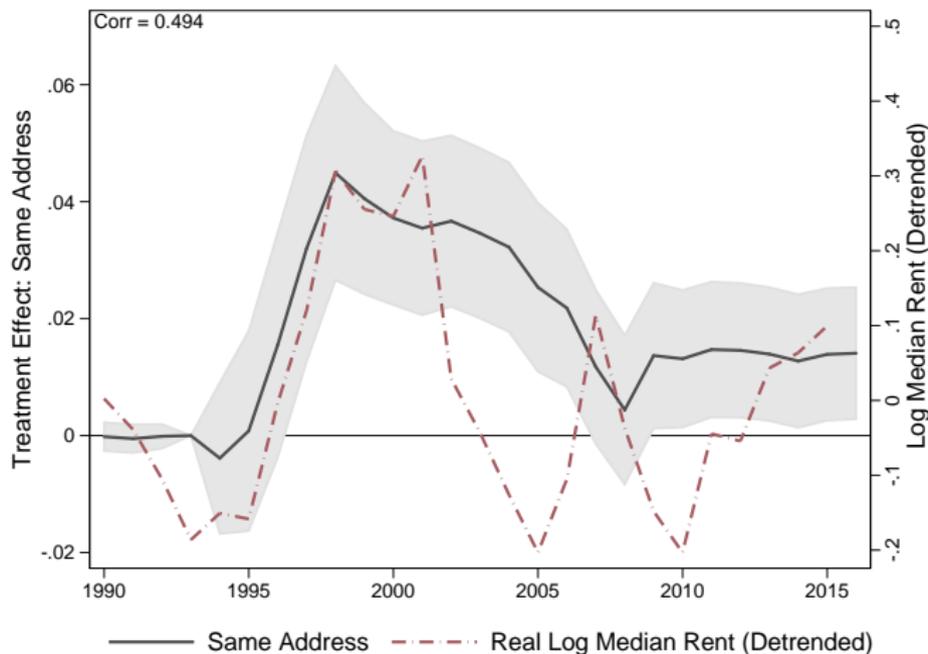
$$Y_{it} = \alpha_i + \beta_t \times T_i + \gamma_{st} + \eta_{zt} + \epsilon_{it}.$$

- Y_{it} : Outcome of interest, e.g. whether still at 1994 address
- α_i : Renter or building FEs
- β_t : Impact of rent control in year t
- T_i : Treatment indicator
- γ_{st} : Years at 1993 address \times year FEs (tenant regressions only)
- η_{zt} : Zipcode by year FEs

- Rent-Controlled Sample
- Uncontrolled Sample
- Others



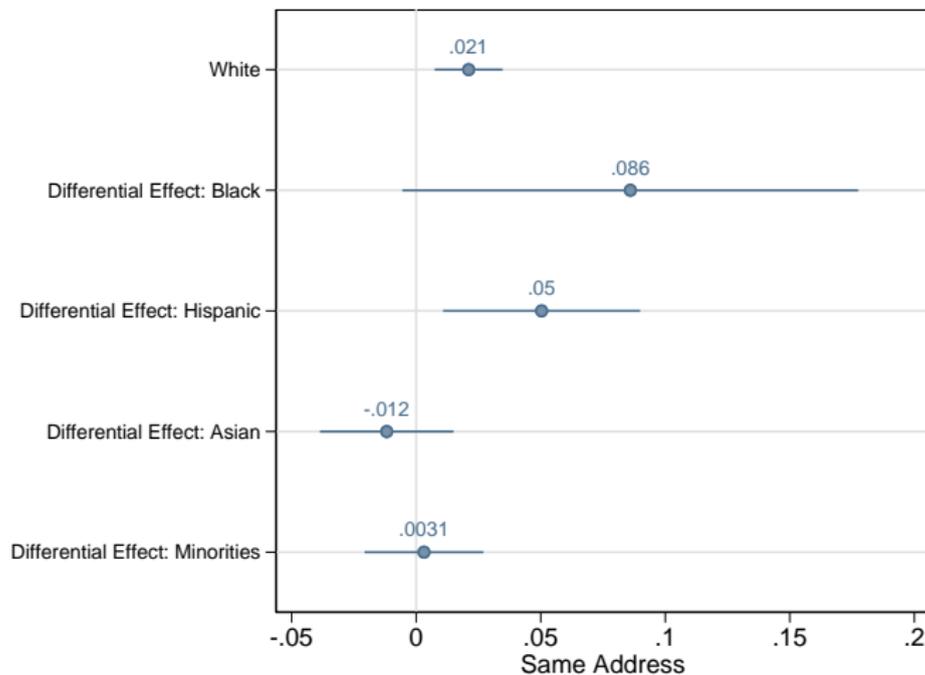
Treated Renters More Likely to Remain at their Address



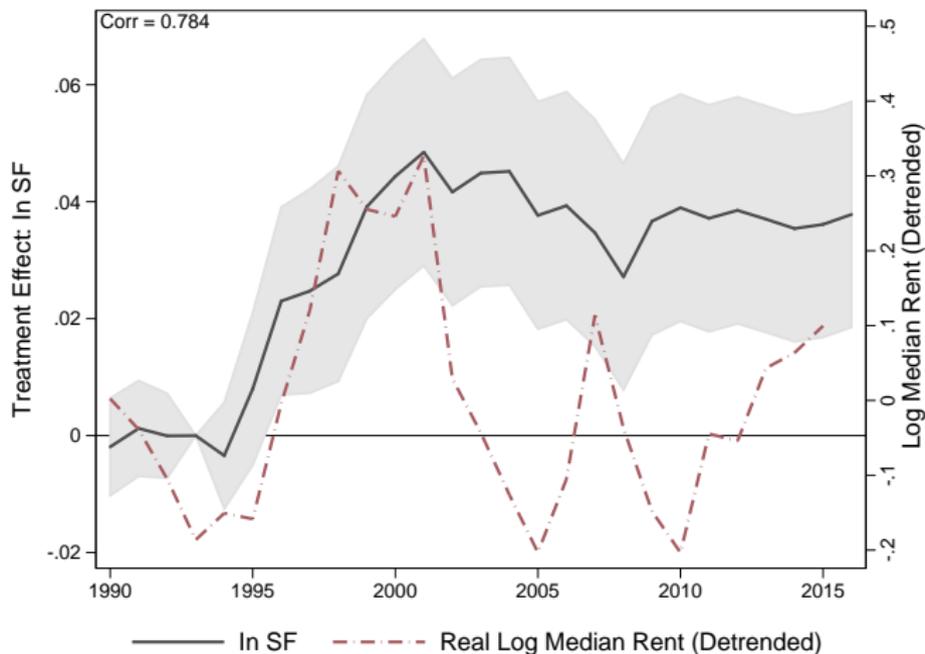
In medium to long term, treated renters 13% to 20% more likely to remain at 1994 address than control group.

Heterogeneity by Race

Black and Hispanic Renters most likely to remain in rent controlled apartment

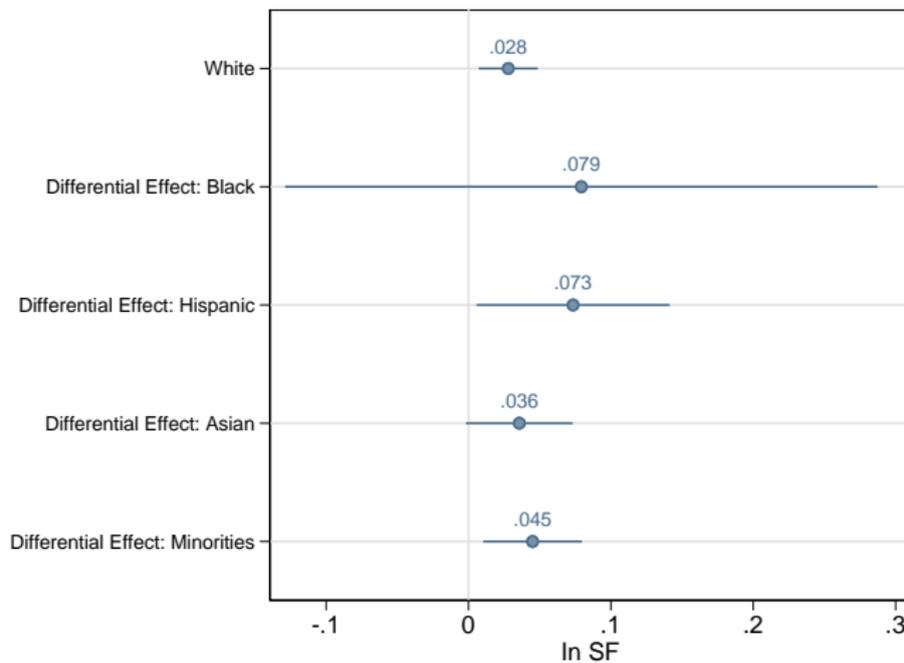


Treated Renters More Likely to Remain in SF



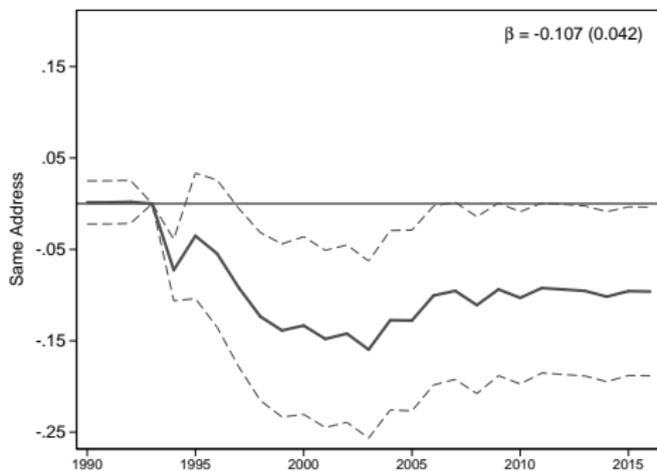
In medium to long term, treated renters 13% to 20% more likely to remain at 1994 address than control group.

Rent Control Limited Displacement of Minorities from SF

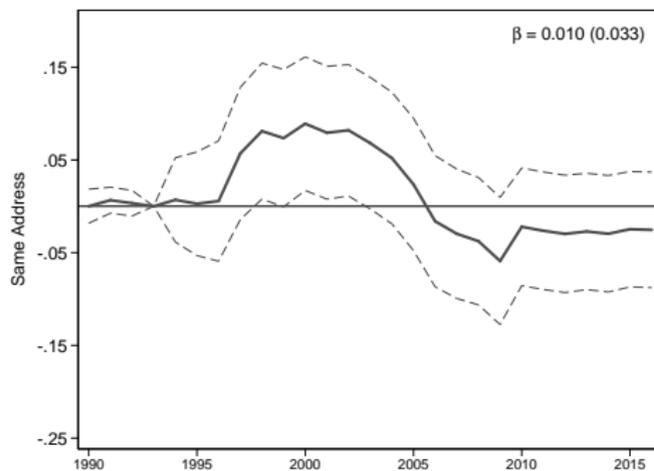


Heterogeneity by Age and Tenancy Duration

Older, High Turnover Renters Less Likely to Remain in High Appreciation Census Tracts

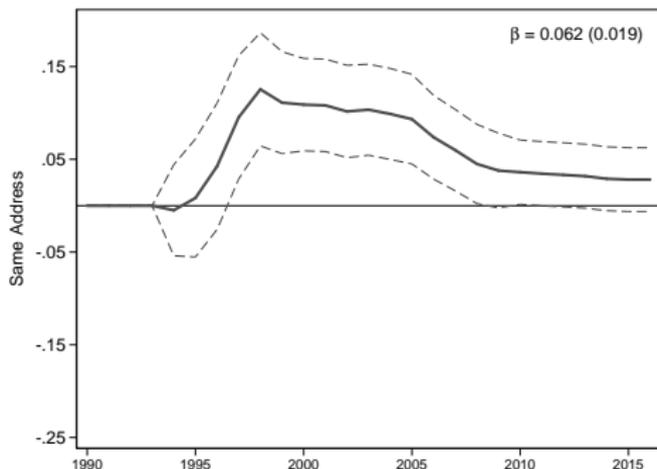


(a) High Rent Appreciation Tracts

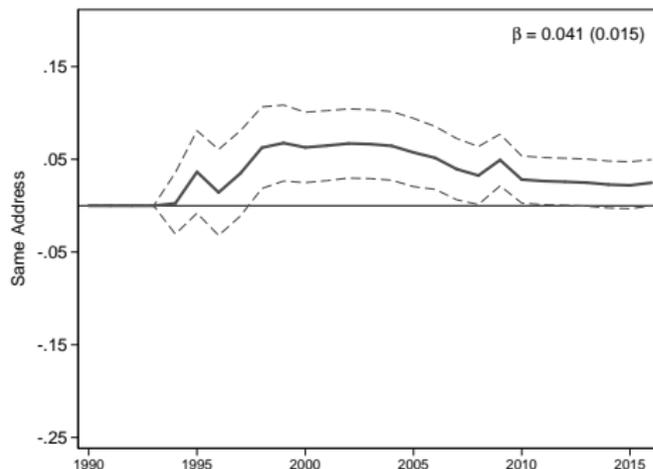


(b) Low Rent Appreciation Tracts

Older, Low Turnover Renter Treatment Always Positive



(a) High Rent Appreciation Tracts

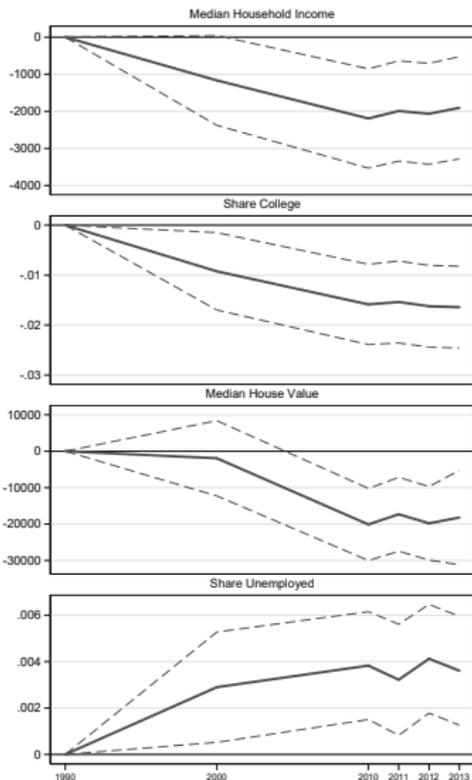


(b) Low Rent Appreciation Tracts

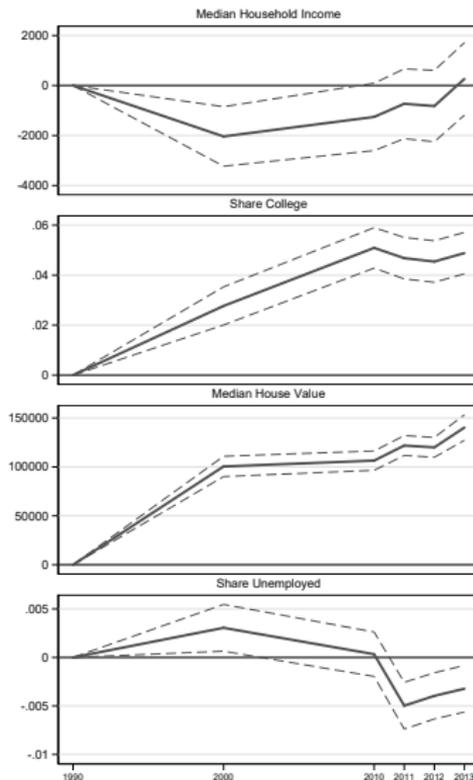
Younger renters have similar, but quite muted, treatment effects.

Impact on Tenants' Neighborhood Quality

Treatment Effect



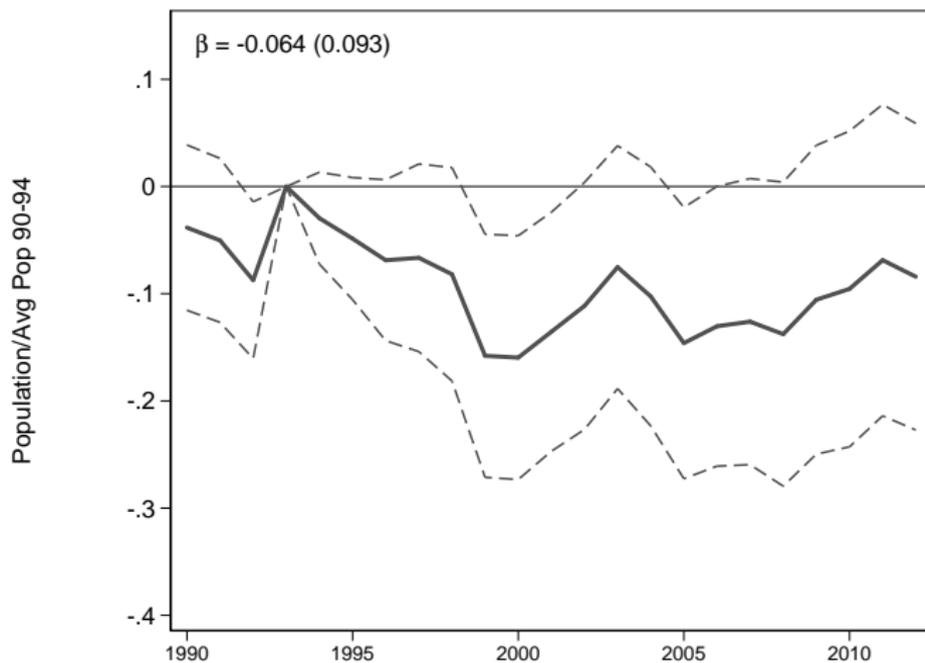
No Moving Placebo



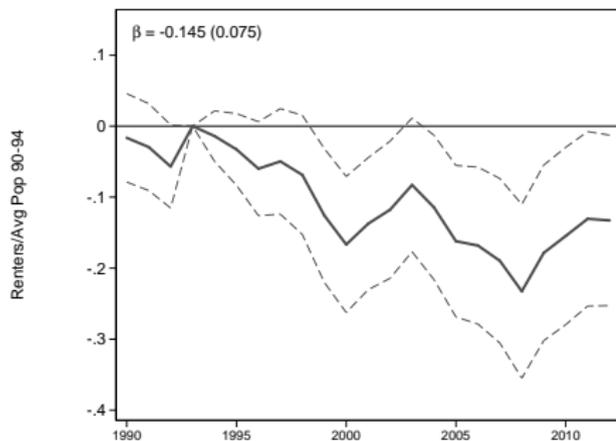
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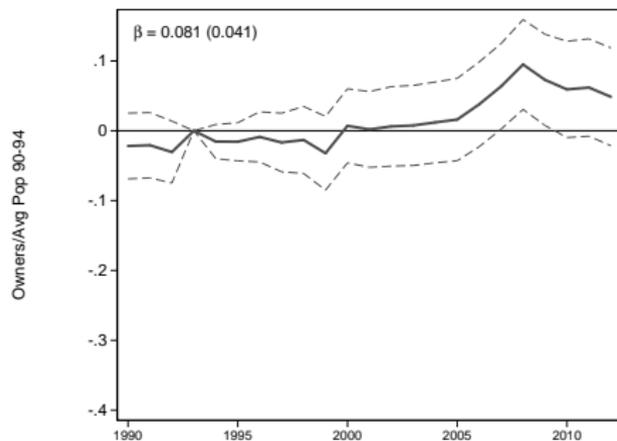
Statistically Insignificant 6% ↓ in Pop. at Treated Buildings



15% ↓ in Renters and 8% ↑ in Owners at Treated Buildings



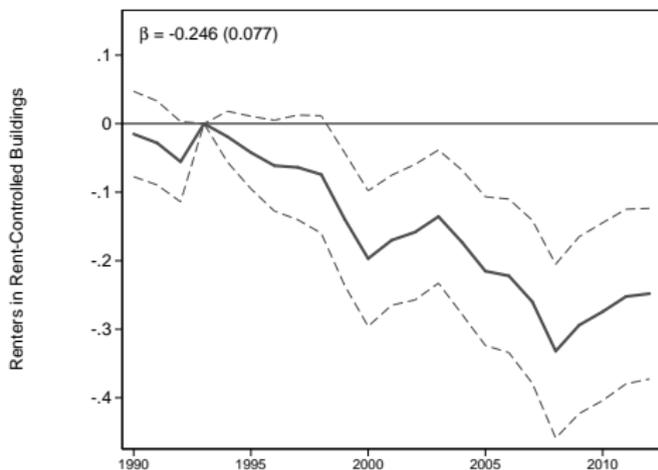
(a) Renters/Average Population 1990-1994



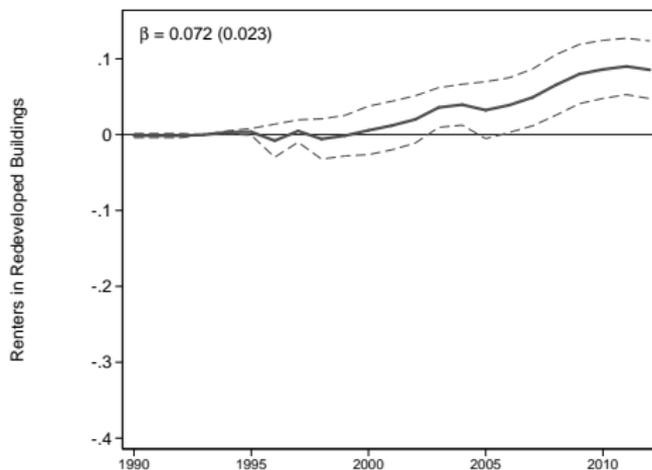
(b) Owners/Average Population 1990-1994

Treated Landlords Redevelop their Properties

25% ↓ in Renters in Rent-Controlled Units, 7% ↑ in Renters in Redeveloped Properties



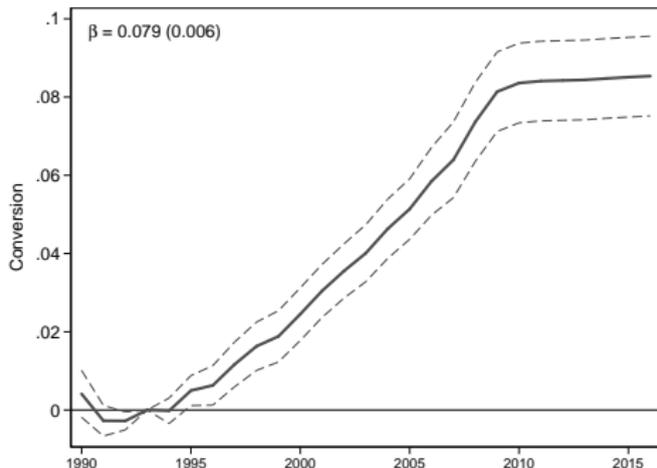
(a) Renters in Rent-Controlled Buildings



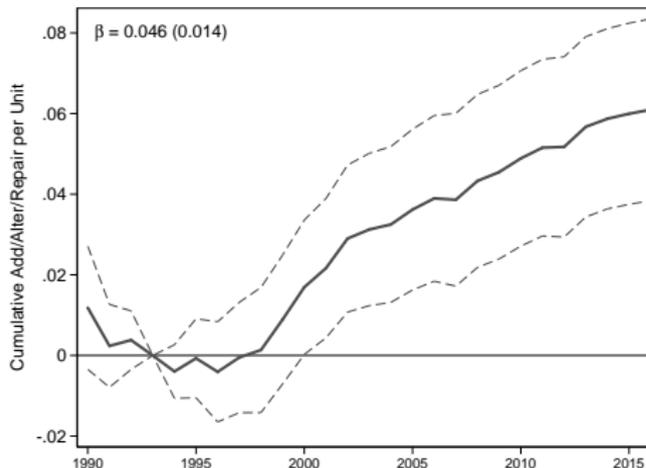
(b) Renters in Redeveloped Buildings

Treated Landlords Convert to Condo

8% Increase in Condo/TIC Conversions, 5% Increase in Renovation Permits



(a) Conversions



(b) Add/Alter/Repair Permits per Unit

Landlord response fuels gentrification!

Higher Income Residents in Treated Buildings

Residents have 18% higher income

| | (1) Per Capita Income |
|--------------|--------------------------|
| Treat | 1292 (522) |
| Constant | 53084 (514) |
| Control Mean | 45703 |
| Control S.D. | 22071 |
| R^2 | 0.398 |
| Observations | 24271 |

2.8% increase, but only 15.3% of properties were renovated. Assuming these higher income are in these renovated properties → 18% higher income residents

Putting it all together

The case for rent control:

- Prevents displacement from the city among tenants present when law changes, especially for minorities
- Our companion paper: Most of welfare benefits are lower rents (not better amenities, less moving)
- Likely enabled lower income households to remain in the city

The case against rent control:

- Despite preventing displacement, neighborhood amenities do not increase
- Landlords remove 25% of the rent controlled housing stock, replacing with owner occupants, new construction
- Companion paper: Decreased supply led to 5% higher rents for entire city
- Fueled gentrification through making housing stock cater to high income tastes

Overall, rent control benefits renters in the short run, but hurts them in the long run.

Suggests municipal votes to pass rent control inefficient as votes do not include long run tenants not living in the city at time of voting

Conclusion

- '94 RC HHs gained by receiving lower rents, enabling them to stay in SF longer, especially minorities (but not in higher amenity areas)
- Areas where rents most below market, LLs removed tenants either through buyouts or evictions
 - Evictions: strips away insurance value of RC when tenants need it most
- LLs responded with 6% decline in rental housing supply, transformed the housing stock to cater to higher income HHs, fueling gentrification
- Forcing LLs to provide rent insurance undermines goals of rent control.
- Possible solution: Gov provided rental social insurance
 - Tie insurance payments to neighborhood rents (similar to HUD's neighborhood FMRs)
 - Allows tenants to move within neighborhood, improving allocative efficiency
- Optimal rent social insurance is a point of future research