

# 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 from Infutor, 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
- **New simple “diff-in-diff” estimator that identifies dynamic discrete choice model of tenant migration:**
  - Compare  $\Delta$  over time in probabilities of remaining at 1994 address vs. out-migration between treatment and control tenants
  - Relate these to utility benefits of rent control
  - Builds on CCP-DDC methods using renewals (Arcidiacono & Miller (2011), Arcidiacono & Ellickson (2011), Scott (2013)).

## 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 redevelopment
  - 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

## **Ex-post Partial Eq Benefit to Tenants Covered by RC:**

- Young (old) HHs benefited on average by \$2300 (\$6600) **each year**
- 90% of benefits from below market rent + tenant buyouts
- Small effects from lower moving costs, more neighborhood capital
- Aggregate benefit to '94 tenants treated by RC: \$2.9 billion

## **GE Welfare Effects on all renters**

- Decreased rental supply increased market rents by 5.1%
- Aggregate welfare loss to renters of \$2.9 billion
- 42% of GE welfare loss born by future SF residents

# Outline

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

## 1 Infutor

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

- History of individual parcels in San Francisco
- Provides information on parcel spits, such as converting multifamily housing to condos

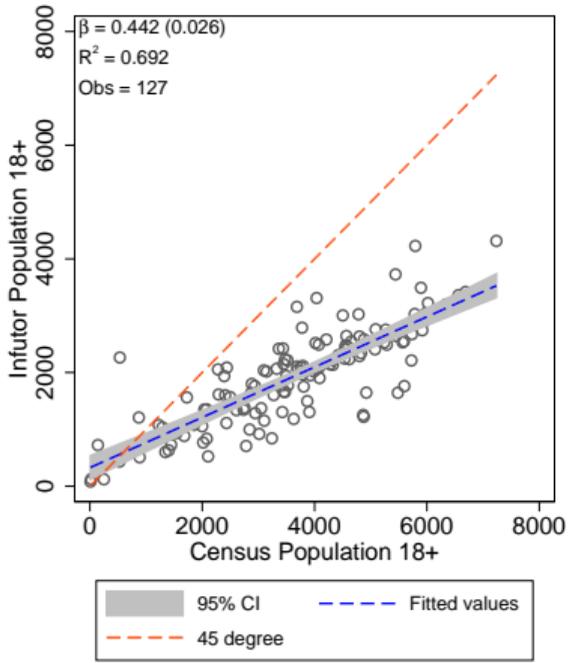
## 4 San Francisco Planning Office

- History of permits associated with each parcel
- Provides information on large investments, renovations, and changes in building use type

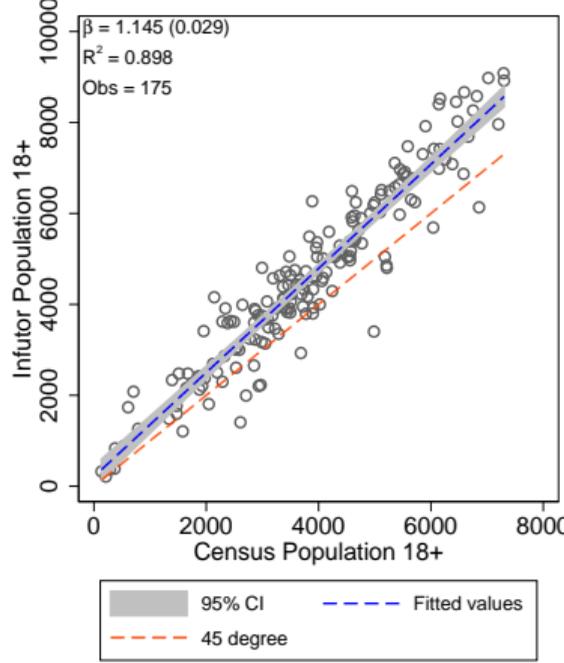
## 5 San Francisco Rental Data

- SF wide time series provided by Eric Fisher of Experimental Geography
  - Collected historical apartment advertisements back to 1950s
- Use imputation procedure to construct rents at zipcode level
  - Census data to construct relationship between house prices and rents
  - Impute using annual zipcode house price index

# Infutor Data Highly Representative of San Francisco Population in 1990 and 2000



(a) 1990 Census Population



(b) 2000 Census Population

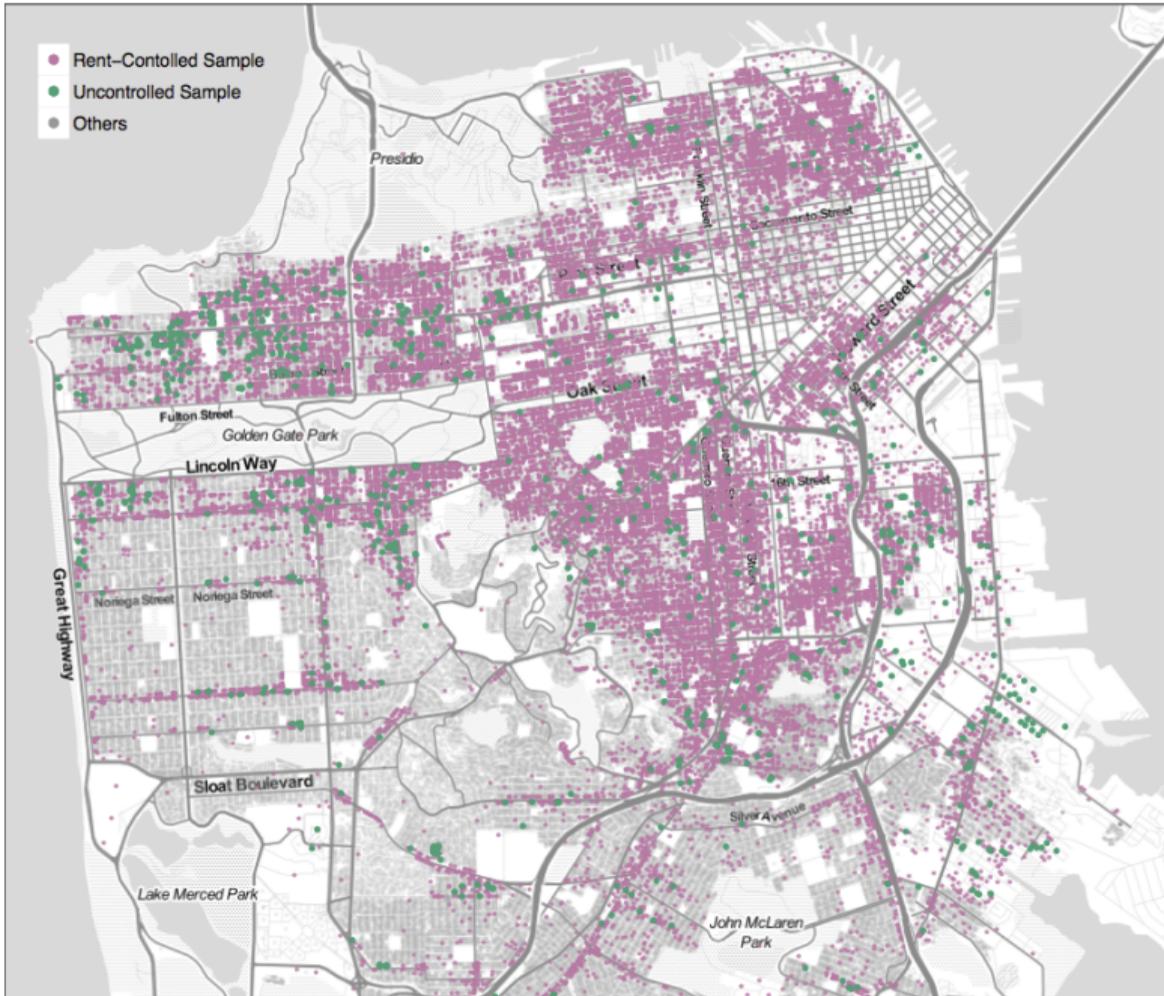
Also match well census tract variation in building age and ownership rates.

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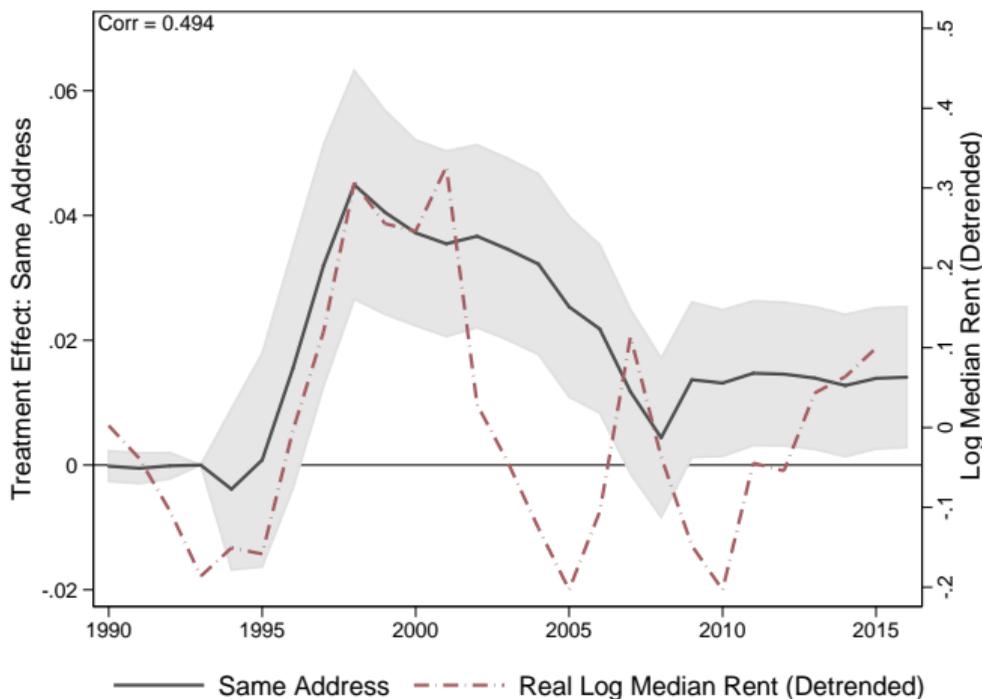
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# Reduced Form Effects: Quasi-Experimental Design

- 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

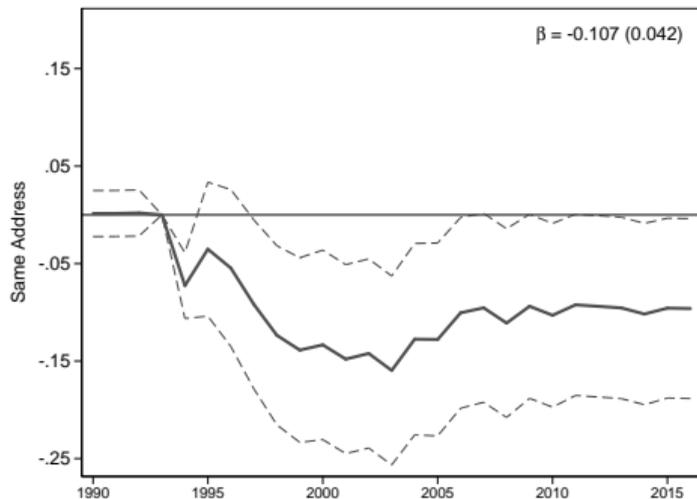


# Treated Renters More Likely to Remain at their Address

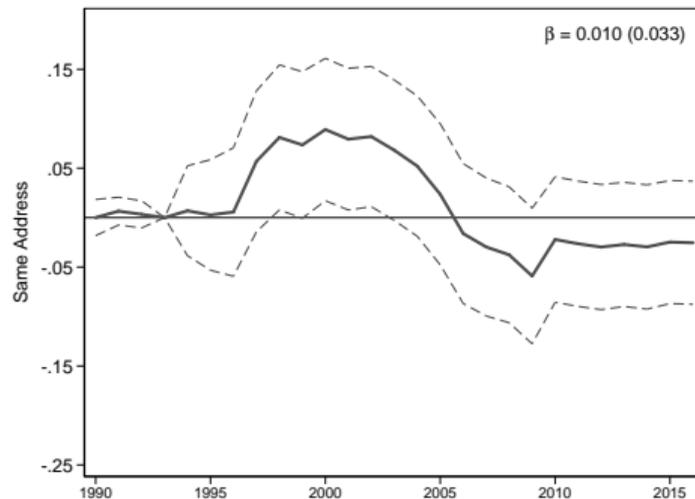


In medium to long term, treated renters 13% to 20% more likely to remain at 1994 address

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



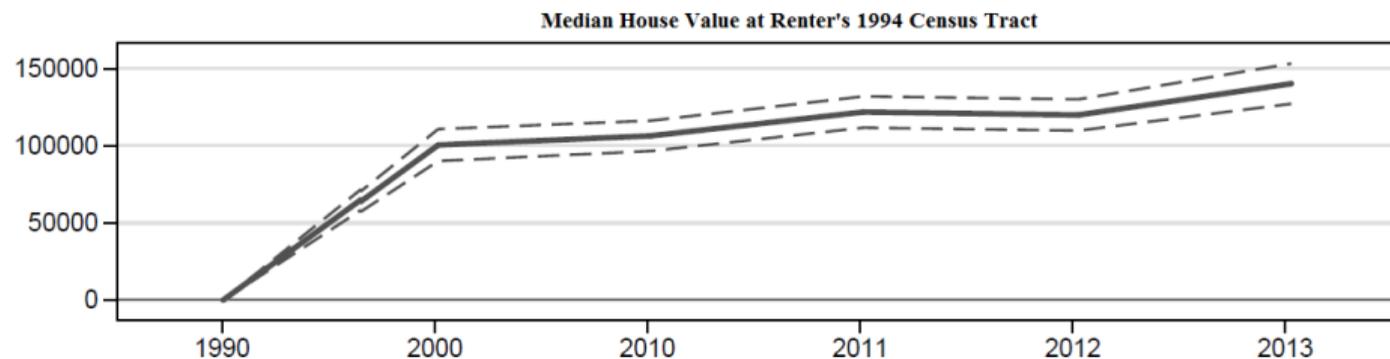
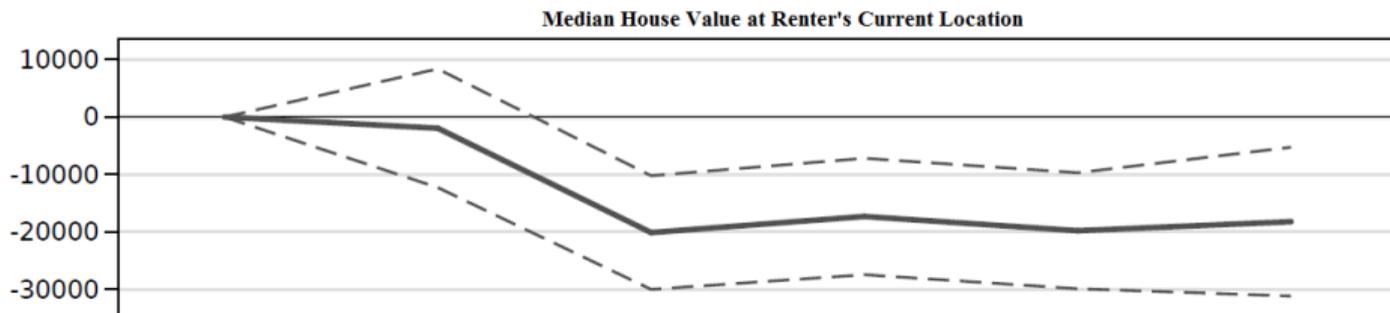
(a) High Rent Appreciation Tracts



(b) Low Rent Appreciation Tracts

# Tenants Treated with RC Live in Lower Priced Tracts

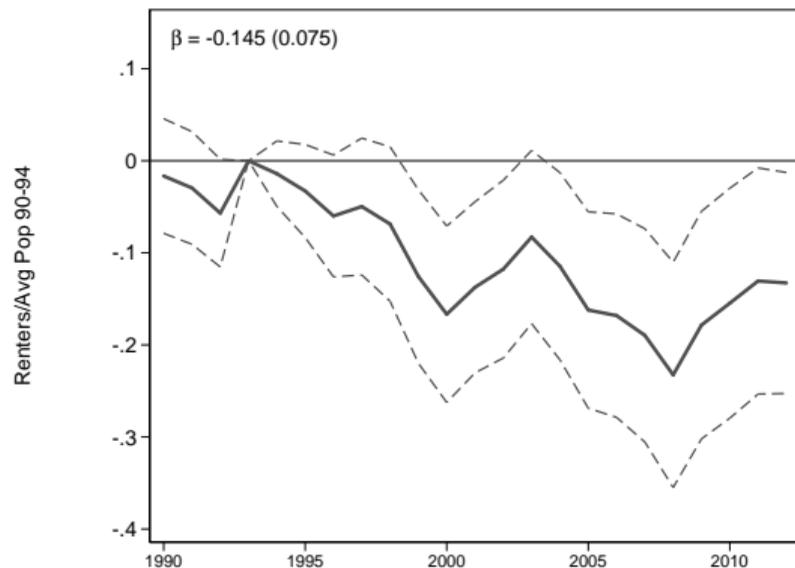
Had treated tenants remained in 1994 homes, would have lived in higher priced tracts



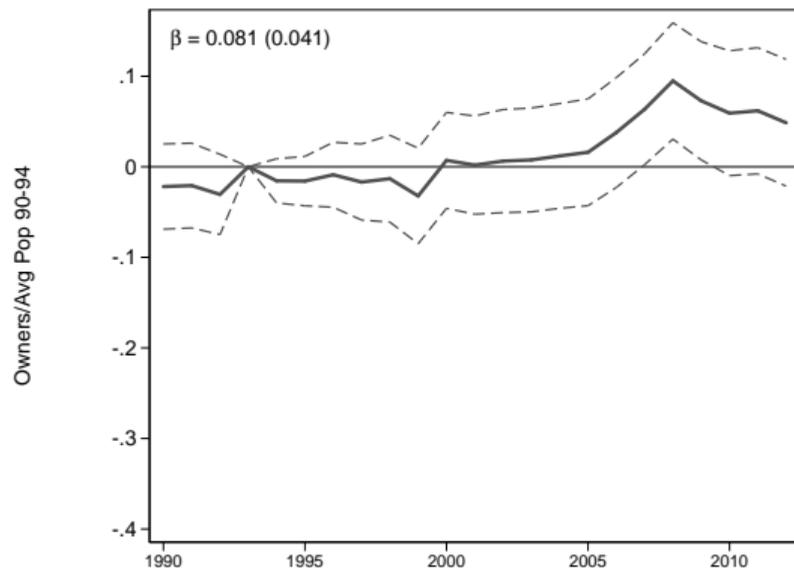
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# 15% ↓ in Renters and 8% ↑ in Owners at Treated Buildings



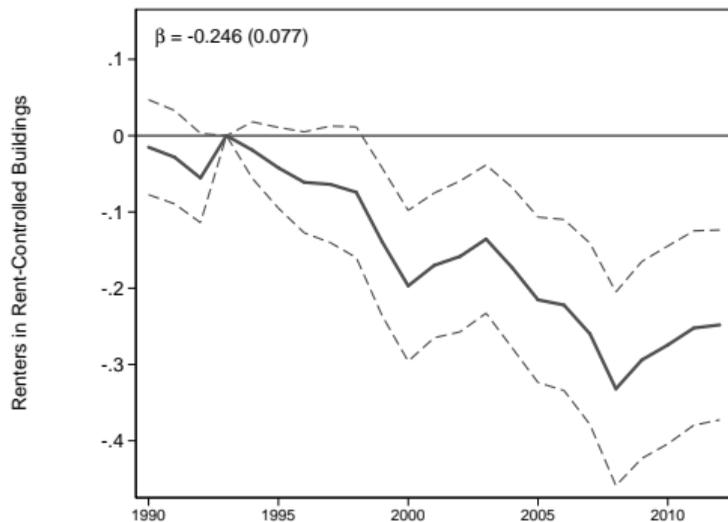
(a) Renters/Average Population 1990-1994



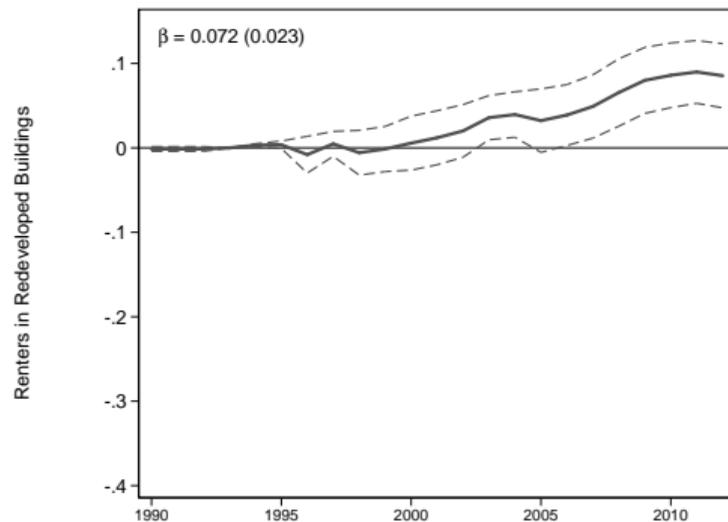
(b) Owners/Average Population 1990-1994

# Treated Landlords Redevelop their Properties

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



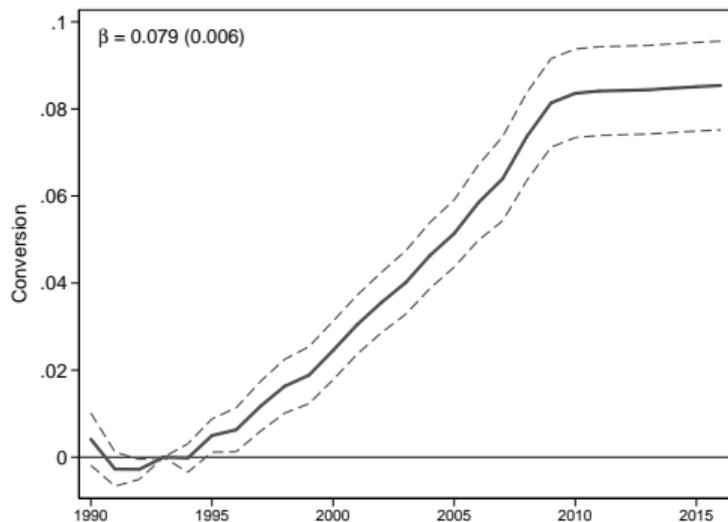
(a) Renters in Rent-Controlled Buildings



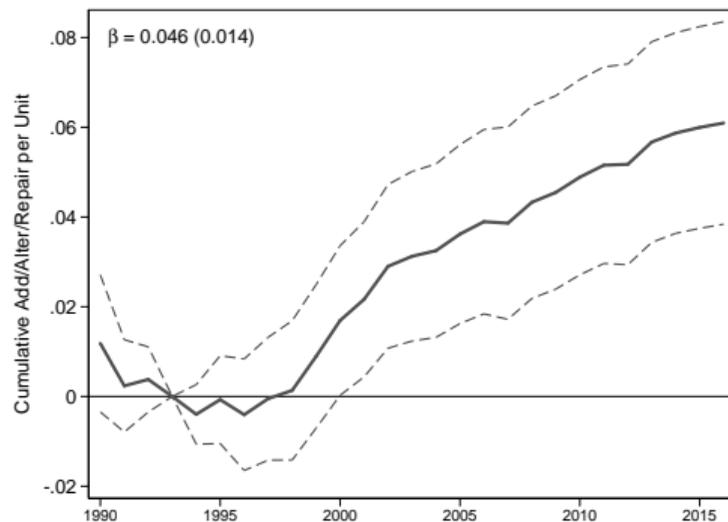
(b) Renters in Redeveloped Buildings

# Treated Landlords Convert to Condo

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



(a) Conversions



(b) Add/Alter/Repair Permits per Unit

Landlord response fuels gentrification!

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# Ex-post Welfare Effects of SF Rent Control

Welfare Effects of 1994 Rent-Controlled Cohort in 2010 Dollars

	Young Residents (Age 20-39)			Old Residents (Age 40+)		
	Cumulative	Per Year	Share	Cumulative	Per Year	Share
Rent	32,722	1,818	79.6%	52,929	2,940	44.2%
Payoff	18,650	1,036	45.4%	36,071	2,004	30.2%
Neighborhood Capital	1,181	66	2.9%	1,395	77	1.2%
Fixed Moving Cost	2,098	117	5.1%	9,477	526	7.9%
Distance of Moves	706	39	1.7%	6,684	371	5.6%
Amenity	1,073	60	2.6%	-318	-18	-0.3%
Match Value	-15,308	-850	-37.2%	13,388	744	11.2%
<b>Total per Person</b>	<b>41,121</b>	<b>2,285</b>		<b>119,625</b>	<b>6,646</b>	

- Aggregate PDV welfare benefit to tenants treated by '94 RC: \$2.9 Billion

# GE Welfare Effects from Decreased Rental Supply

- Decreased rental supply increased avg market rents by 5.1%
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# Conclusion

- '94 RC HHs gained \$2.9 billion from RC, mostly from low rents
- 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

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