

July 2022

HOT TOPIC ALERT

Rent Control



Introduction

Rent control is a topic that sparks controversy. While it has been adopted in some locations – usually dense, urban areas – it remains the exception rather than the norm across the United States. That said, efforts to impose rent control are on the rise throughout the country, propelled by concerns about tight housing markets, the lingering economic impact of COVID-19, as well as rising inflation.

Though such measures may be well-intentioned, opponents of rent control contend that these proposals fail to solve the problem facing renters and future homebuyers and are often counter-productive. Further, debates on rent control often prompt highly emotional and polarized discourse that pits housing providers against residents rather than build relationships amongst stakeholders to solve the longer-term problems and recent studies note that it does little to alleviate the root problem of housing affordability.

Definitions

Though often used interchangeably, “rent control” and “rent stabilization” have different meanings. [Rent control](#) sets specific limits on the amounts housing providers can charge for renting out certain units. By contrast, [rent stabilization](#) permits housing providers to introduce rent increases, usually annually, but only by a specific percentage. That percentage is often tied to an area’s [Consumer Price Index](#). Today, most efforts to legislate rental prices come in the form of rent stabilization. (For ease of reading, this paper uses the term “rent control” for both forms of rent regulation.)

History of rent control

Rent controls were introduced in select U.S. locations, such as New York City and Washington, DC, [as early as the 1920s](#), after the First World War dramatically slowed residential construction, sparking soaring prices. Such controls were imposed much more broadly [during the Second World War](#). With the war effort resulting in large-scale relocations of labor, local housing markets, especially in urban areas, were under strain. Concerns about negative effects on war production prompted the federal government to implement nationwide rent controls in the early 1940s.

The resulting price ceilings, often referred to as “first-generation rent control,” [were largely abolished](#) during the 1950s housing boom that followed World War II. Later versions of rent control that emerged in the 1970s were generally less stringent, and permitted regular increases. However, [New York City](#) retained strict price controls for certain units built before 1947. Today, about 22,000 of the units subject to those strict price controls remain. A larger number of units in the city [over 960,000](#) is still subject to the less stringent rent stabilization, that allows rental increases approved by the city’s Rent Stabilization Board.

[New York City](#) is an outlier. Only a few states, such as [California](#), [New Jersey](#), and [New York](#), explicitly permit rent control. Maryland law allows [Frederick](#) and [Washington](#) Counties to enact rent control ordinances, and [Montgomery County](#) and the [City of Takoma Park](#) have adopted such ordinances without explicit legislative authorization. Other jurisdictions do not expressly address the issue either way. Meanwhile, many states have passed preemption laws that [prohibit](#) local governments from adopting rent control measures.

How rent control works

Rent control comes in many different forms, but the laws and ordinances governing rent control can be grouped into [two major categories](#). “[Vacancy control](#)” restricts rent over the long run, and applies even when tenants change. The rent is usually set based on several factors, such as the cost of living or CPI, or it is based on the type of unit. When a tenant moves out, the housing provider can raise the rent only by the limited amount specified by a rent control board. Limited rent increases due to factors such as inflation or higher operating costs can also be permitted throughout a tenancy.

“[Vacancy decontrol](#)” applies only to the current tenant. When a tenant moves out for whatever reason, the housing provider may charge the new tenant a different, higher rent. However, the new rent may also be capped at a certain percentage over the previous rent, and permissible increases will not necessarily reflect market conditions. Just-cause eviction requirements are [sometimes introduced](#) to discourage the displacement of tenants in vacancy decontrol jurisdictions.

[New construction](#) is usually exempted from both forms of rent control, as are [buildings](#) with a low number of units, single-family homes and condominiums.

Advantages/disadvantages of rent control

Housing represents a [major share of household expenses](#). Drastic or sudden rent increases can be extremely disruptive. By preventing such increases, rent control proposes to significantly help current tenants build up their financial savings, and be a major incentive to renew a lease. Rent control proposals are billed as bringing various benefits to both individuals and the communities in which they reside, such as strengthening individuals' spending power and fostering neighborhood stability due to lower turnover. [Rent control proponents add that housing providers also benefit](#) by avoiding the costs, and the hassles, of dealing with vacant units.

However, rent controls do entail major disadvantages. By limiting housing providers' freedom to decide how much rent to charge, controls clearly infringe on private property rights without offering compensation. Limiting the income generated from rental property creates obvious disadvantages for housing providers in the short run. In the long run, this may also negatively affect property values, with appreciation limited due to a declining return on investment. The negative impact on a few properties can spread the decline [beyond individual properties, resulting in](#) lower property tax revenues for the community. The domino effect of lower tax revenues locally can impact transportation, school budgets and more.

Price controls can harm tenants as well. Housing providers may simply decide to take units off the market, [constricting supply](#). Other potential investors in residential property may decide not to enter the market at all. This can push up prices for other properties, ultimately [decreasing the affordability](#) of housing overall. Having to charge low rents also generates [less capital for improvements](#), meaning the quality of available properties will suffer. Housing providers will also be [less able to afford improvements or even routine maintenance](#) for their properties since they will not be able to recoup these expenses. The resulting decline can spill over from specific dwellings to broader neighborhoods.

Controls can also fuel gentrification. In San Francisco, [a study](#) by the National Bureau of Economic Research found that housing providers covered by certain controls ultimately shifted focus to other forms of real estate, especially condominiums, to evade the restrictions. These condominiums are generally sought after by higher income individuals, spurring income inequality in a community.

Price controls are also subject to abuse, with [wealthy tenants sometimes benefiting](#) from inheriting protected property, for which they pay nearly nominal rent. An especially notorious [example](#) is actress Mia Farrow paying about \$2,900 a month for the ten-room apartment on Central Park West in Manhattan that she grew up in. Situations such as this has prompted some to [maintain](#) that rent control should be means-tested.

[Alternatives](#) to rent control include rent subsidies paid by the government, or tax credits for low and middle-income renters. These subsidies or credits would protect renters from large rent increases, and would shift the responsibility for subsidizing tenants from

individual housing providers to society as a whole. Lower property taxes for residential rental property could also help keep units affordable, by providing [incentives](#) for housing providers to keep rent at a reasonable level, ultimately benefitting tenants. [Broader efforts](#) to tackle high land prices and prohibitive land-use policies could also be explored.

Recent legislation/developments

Burbank, CA

In Burbank, CA, the [Burbank Just Cause Eviction and Rent Regulation Measure](#) (Measure RC) proposed imposing rent regulations on certain units built before February 1, 1995, and would have limited annual rent increases to 0 to 7%. Specifically, only one rent increase per year would have been allowed, and the increase would have equaled the CPI for the 12-month period ending in March of the current year, rounded to the nearest ¼ percent. Single-family homes and condominiums would have been exempt from the rent regulations. [Over 22,000 units](#) would have been affected.

The [Burbank Association of REALTORS®](#) strongly opposed the measure. Together with the California Apartment Association, the Apartment Association of Greater Los Angeles, and many individual apartment owners, it [conducted a powerful campaign](#) that emphasized the rights of property owners, the threat to much-needed housing production in Southern California, negative effects for both corporate housing providers and “mom-and-pop” apartment owners, as well as the inevitable strain on the city budget. This campaign also benefited from an Issues Mobilization Grant from the National Association of REALTORS® (NAR). On November 3, 2020, the [proposal failed to pass](#), with 64 % of voters voting “no.”

Ohio

Meanwhile, Ohio has enacted legislation that explicitly prohibits local governments from adopting rent control. [House Bill 430](#) was signed into law in June 2022, and goes into effect on September 23, 2022. The [Ohio REALTORS®](#) supported the bill, noting that rent control devastates housing markets by decreasing supply and increasing prices. They were joined by groups such as the Ohio Apartment Association, Columbus Partnership, Ohio Mortgage Bankers Association, and the Ohio Manufactured Homes Association.

Asbury Park, NJ

In Asbury Park, New Jersey, the City Council in March 2021 unanimously adopted a REALTOR®-supported [rent-leveling ordinance](#). The ordinance permits vacancy decontrol while enacting rent controls on properties with five or more rental units. Specifically, the annual rent increase was limited to 3.5% or the increase in the CPI, whichever is greater. However, a local coalition submitted a ballot initiative to overturn the ordinance in favor of a broader rent control policy. A [key difference](#) was that this initiative would not have permitted vacancy decontrol.

The [New Jersey REALTORS®](#) teamed up with the [Monmouth Ocean Regional REALTORS®](#) to support the original ordinance, noting that it protected the community’s mom-and-pop housing providers by exempting smaller properties while subjecting most

larger apartment buildings to rent control. With the support of an Issues Mobilization Grant and REALTOR® Party vendors, they launched a [campaign](#) of targeted online ads that linked to a dedicated website, a “ballot-chase” phone call program targeting voters who had requested mail-in ballots, and four direct mail pieces all urging voters to support maintaining the original ordinance.

The ballot measure was [resoundingly defeated](#), with 688 voting for the stricter proposal and 1,166 supporting the original version. The final version of the ordinance ultimately adopted on December 22, 2021 did contain some further amendments. For example, the [final version of Ordinance 2021-40](#) applies to buildings containing three or more rental units. Moreover, at the expiration or termination of a lease, permitted rent increases are limited to 3.5 %, with the reference to the CPI removed. However, vacancy decontrol is generally permitted, with specific limits applying to properties that have received hardship rent increases.

Washington, DC

In Washington, DC, the City Council’s Housing and Neighborhood Revitalization Committee attempted to pass extensive rent control legislation in late 2020. The Committee’s [proposal](#) sought to, among other things, limit exemptions from rent control to newly constructed rental units for the first 15 years only, with controls automatically applying 15 years after construction. The Committee proposal would also have exempted apartment buildings only if they have three or fewer rental units, would have limited rent increases to once a year, even in units not covered by rent control, would have capped increases at the CPI, and would have eliminated rent increases based on a rental unit becoming vacant.

The [District of Columbia Association of REALTORS® \(DCAR\) pushed back](#), noting that the changes would have expanded rent control to virtually every building in the city. The changes would likely have curtailed housing growth, with smaller operations especially likely convert to condos. The Association instead urged the City Council to address COVID-related emergency housing issues and re-evaluate the situation once the emergency eased.

The grassroots efforts led by DCAR prompted the City Council to re-evaluate its bill, which [did not get voted on](#) during the 2020 council period. Instead, the DC City Council moved to strengthen Fair Housing Ordinances, which DCAR supported. In addition, in early 2021, Mayor Muriel Bowser formed a [Rental Housing Task Force](#), an objective entity representing all stakeholders, to examine DC’s preparedness to anticipate changes to the city’s affordable and market-rate rental housing market.

Minneapolis/St. Paul, MN

Minnesota law [prohibits](#) rent control unless specifically allowed in city charter or ordinance adopted at an election. However, in both Minneapolis and St. Paul, voters authorized rent control in elections held in November 2021.

In St. Paul, [53 % of voters](#) approved the [Residential Rent Stabilization Ordinance](#), which went into effect on May 1, 2022. The ordinance limits residential rent increases to 3 % in any 12-month period, even if there is a change of occupancy. It also directs the city to create a process for housing providers to request an exception to the rent increase limit based on the right to a reasonable return on investment. Unlike most other rent control measures, the St. Paul ordinance does not explicitly exempt newly constructed rental units.

It appears unlikely that the law will persist in its current form. [Mayor Melvin Carter has already called for](#) including a 15-year exemption for new housing, and making this retroactive. In February 2022, he announced the [formation of a Rent Stabilization Stakeholder Group](#). It includes 41 representatives from renters, homeowners, advocates, experts, rental property owners and housing providers, real estate finance and legal professionals, staff and others. This group will meet and outline recommendations toward improving the rent ordinance. Meanwhile, new data suggests that developers were avoiding the St. Paul market in light of the new law, with [new construction noticeably down](#) three months after it passed.

In Minneapolis, [voters authorized](#) the City Council to regulate rents on private residential property in Minneapolis by ordinance. However, no such measure has yet been adopted. Instead, at the state level, a [proposed bill](#) would have prohibited imposing rent control in Minnesota. The prohibition would be retroactive, nullifying any measures in place in either St. Paul or Minneapolis. The bill died when the Legislature adjourned *sine die*.

Boston, MA

Boston Mayor Michelle Wu has [spoken out in favor of](#) lifting the state's ban on rent control. In March 2022, she formed a [Rent Stabilization Advisory Committee](#), which consists of housing advocates, developers, tenants, and other stakeholders. The Committee is currently reviewing rent stabilization programs in other cities, and is tasked with outlining recommendations on stabilizing city rents and preventing tenant displacement. The committee will meet throughout 2022 and aims to develop a proposal for the next state legislative session.

Santa Ana, CA

Pursuant to California's [Tenant Protection Act of 2019](#), in effect since January 1, 2020, annual rent increases in the state are limited to no more than 5 % plus CPI, or 10 %, whichever is lower. Santa Ana's [Rent Stabilization Ordinance](#), enacted in November 2021, goes further. It caps rent increases to the lower of 3 % per year, or 80 % of the percent change in the CPI over the most recent 12-month period, for certain residential rental units and mobile homes. It applies to buildings built on or before February 1, 1995.

U.S. Congress

Rent control measures largely originate at, and focus on, the local level. Yet some members of Congress have also spoken out in favor of national rent control. United States Senator Bernie Sanders of Vermont, in his 2020 presidential campaign [advocated for a national cap](#) on annual rent increases. The cap would have limited rent increases to no more than 3% or 1.5 times the CPI (whichever is higher), and would have allowed states and cities to pass even stronger rent control standards. His proposal called for waivers for housing providers who make significant capital improvements to incentivize such efforts.

Representative Alexandria Ocasio-Cortez of New York introduced a [bill](#) in 2019 dubbed the Place to Prosper Act. It included controversial provisions that would have limited monthly rent increases to 3 % or the CPI for All Urban Consumers, whichever is greater, for housing markets nationwide. It was not enacted.

NAR activity and resources

NAR offers myriad forms of support for efforts to [fight rent control and rent stabilization laws](#) on both residential and commercial properties. For example, the Association makes available helpful resources that provide timely, pertinent information and can bolster advocacy campaigns. These include NAR's [position statement](#) on rent control and a comprehensive 2017 [White Paper](#) on the topic.

Issues Mobilization Grants

NAR also provides [Issues Mobilization Grants](#) to state and local REALTOR® Associations to support effective advocacy campaigns on public policy issues. The financial assistance is often crucial to success. In addition, the Association links members with staff and contract consultants who can assist them in developing a campaign strategy and suggest tools to use, including polling, direct mail, phone calls, grassroots mobilization, advertising (online, print, radio, and TV), and websites/social media.

As outlined in the examples above, state and local REALTOR® associations around the country have often capitalized on these resources. Other successful campaigns supported by Issues Mobilization Grants include quashing efforts to put a rent control initiative on the ballot in the city of [Long Beach](#), south of Los Angeles, in 2018, and countering efforts to impose rent control and just cause eviction legislation in [Santa Rosa, CA](#) in 2017.

Advocacy Everywhere Calls for Action and Education Efforts

REALTORS® also play a pivotal role in communicating on rent control issues through education and advocacy. For example, the Illinois REALTORS® website features a [custom landing page](#) that provides valuable educational information that counters rent control measures. Packed with cogent arguments about the negative effects of such

controls, specific advocacy suggestions, as well as sensible alternative avenues for addressing housing concerns, it can help REALTORS® across the United States reframe the conversation and ensure that they are engaged in relevant processes.

NAR's Advocacy Everywhere program issues Calls for Action to notify REALTORS when a proposal is active and prompts them to contact their elected officials about that proposal. The Call to Action was an essential part of the [District of Columbia Association of REALTORS® \(DCAR\)](#) push back against a proposed D.C. Ordinance that would expand and make permanent the District's rent control measures. The Call for Action prompted nearly 300 messages from REALTOR® members and the public, urging reason and restraint. The push back was, at least for the time being, successful. Property owners and housing providers have been spared from further restrictions. In Illinois, a [2019 Call for Action on four rent control bills](#) resulted in more than 10,000 messages opposing the measures being sent to elected officials. This was the highest ever level of participation on a Call for Action from the Illinois REALTORS.

Land Use Initiative

NAR's [Land Use Initiative](#) (LUI) supports member associations with public policy advocacy related to land-use issues. Specifically, the Association offers analyses of state or local proposed land use measures that affect the transfer of real property and are relevant for broad communities. Such measures can include comprehensive plans, amendments, legislations, ordinances or regulations. Reviews may also be available where a measure analyzed by LUI is later significantly updated.

The LUI also offers several land-use issues resources that can help members craft responses to proposed state legislation and local ordinances. These include a [database](#) containing past analyses of proposed measures, a [Growth Management Fact Book](#), providing in-depth discussions on land-use management policies and various land use management techniques, and a [webinar](#) on how to successfully use the LUI, which also features an expert analysis of tenant protection and short-term rental measures. Memoranda on specific measures are also provided such as the memorandum on [rent control in New Jersey](#).

External resources

Research laying bare the often unanticipated negative effects of rent control can also help guide policymakers. For example, a May 2022 [paper](#) by the National Bureau of Economic Research analyzed the price effects resulting from rent control in St. Paul, Minnesota. It shows that rent control caused property values to fall by 6-7 %, that higher-income tenants gained the most, and that, for properties with high-income owners and low-income tenants, the transfer of wealth was close to zero. As the authors note, the realized impact of rent control may very well have been the opposite of its intention.

Similarly, a 2019 [article](#) published in the American Economic Review scrutinized the effects of a 1994 rent control law in San Francisco. It found that rent control did lower

renters' displacement from the city. However, affected housing providers reduced rental housing supplies by 15%, by selling units to owner-occupants and redeveloping buildings. In the long run, the lost rental housing supply likely drove up market rents, ultimately undermining the law's goals.

Finally, [research](#) published by the National Bureau of Economic Research estimates that, after rent-control policies were eliminated in Massachusetts in 1995, the value of Cambridge's housing stock increased by about \$1.8 billion, with nearly \$1 billion of this increase resulting from the positive spillover impact of decontrol on the valuation of residential properties that were not previously covered by rent control.

Conclusion

With concerns about inflation and a looming recession mounting, rental rates are bound to be featured prominently in political discussions about countering economic hardship. Controlling rents via legislative efforts may at first glance seem like a simple and direct way to help individuals struggling with increasing housing costs, but truly understanding the long-term, broader ramifications of such measures is a [complex undertaking](#). Recent evidence underscores that the [potential for unintended consequences is real](#) □ suggesting that the energy poured into contentious rent control proposals could more productively be used for thoughtful and inclusive discussions about alternative ways to promote affordable housing.

Hot Topic Alerts are prepared for NAR by Legal Research Center, Inc.

To review NAR's other Hot Topic Alerts, text **HOT TOPIC** to **30644** to sign up for REALTOR® Party Mobile Alerts and a link will be sent directly to your mobile device. All Hot Topic Alerts can also be found on the REALTOR® Party webpage.

Questions or concerns contact Melissa Horn

Email: MHorn@nar.realtor

Phone: 202-383-1026

ADDITIONAL STATE & LOCAL RESOURCES

White Papers: Comprehensive reports prepared for NAR on issues directly impacting the real estate industry. Examples include: Rental Restrictions, Land Banks, Sales Tax on Services, State & Local Taxation, Building Codes, Hydraulic Fracturing, Foreclosure Property Maintenance, Climate Change, Private Transfer Fees.

Growth Management Fact Book: Analysis of issues related to land use and modern growth management topics include density — rate of growth, public facilities and infrastructure, protection of natural resources, preservation of community character, and affordable housing.

All available on [REALTOR® Party webpage](#) under the *State & Local Issues* tab.