THE JOSIAH BARTLETT *Center for* PUBLIC POLICY

Rent control would only worsen New Hampshire's housing crisis

Policy Brief

“In many cases rent control appears to be the most efficient technique presently known to destroy a city—except for bombing.”

— Swedish economist Assar Lindbeck

New Hampshire renters have endured steadily rising prices for many years. Their frustration has reached the point that some lawmakers and activists are advocating a policy once unthinkable in the Granite State: rent control.

The sense of helplessness for many apartment dwellers is real. From 2013-2022, the median rent for a two-bedroom apartment in New Hampshire rose from $1,076 to $1,558, an increase of 26% according to the New Hampshire Housing Finance Authority’s 2022 Rental Rental Cost Survey. For all rentals, the increase was 32%. This is well above the inflation rate. Had the median New Hampshire rent tracked the national Consumer Price Index over the last decade, it would be about $200 lower.

Rent control is being offered as a remedy for this desperate situation. But more than 75 years’ worth of research into the effects of rent control reveals a disastrous record.

Establishing a government-mandated cap on rents or rent increases does not suddenly detach the housing market from the rest of the economy or the rules that govern it. Investors will continue to seek strong profits, and if government artificially shrinks their returns on one form of investment, they will seek better returns elsewhere.

No one has to be a landlord. People choose to build and own apartments in anticipation of earning a significant return on their investment. Studies on the effects of rent control laws show that they tend to make communities worse off by reducing investment in rental properties, shrinking the supply of apartments, raising market rents, lowering overall property values, and locking renters into sub-par units while discouraging them from building their own wealth through homeownership.

Here are a few of the demonstrated harms caused by government rent control policies:

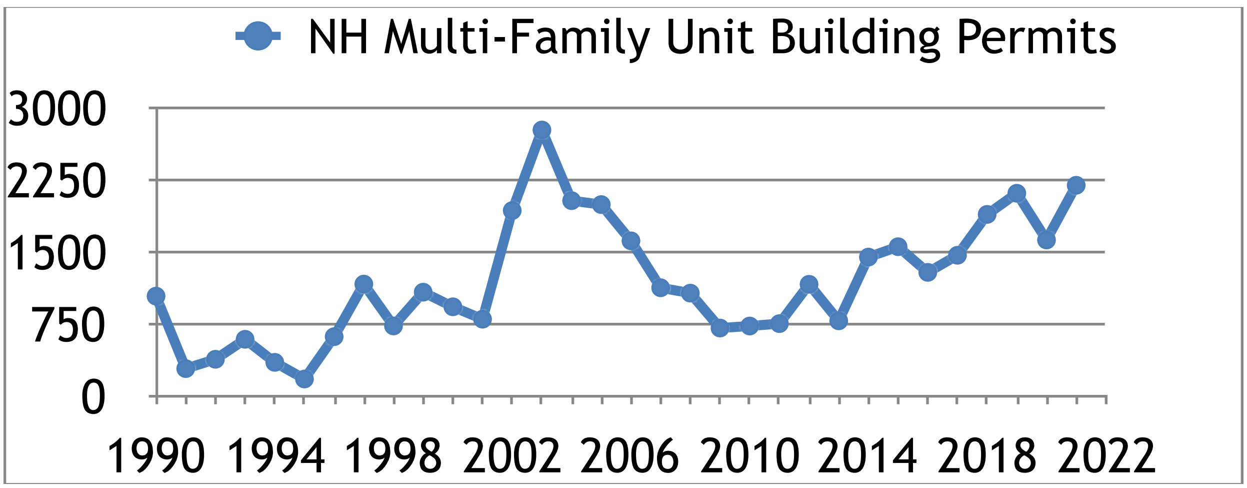
- St. Paul, Minn., passed a rent control ordinance in 2021. A University of Southern California study the next year found that “rent control caused property values to fall by 6-7%, for an aggregate loss of $1.6 billion.” It further found that “the tenants who gained the most from rent control had higher incomes and were more likely to be white, while the owners who lost the most had lower incomes and were more likely to be minorities. For properties with high-income owners and low-income tenants, the transfer of wealth was close to zero. Thus, to the extent that rent control is intended to transfer wealth from high-income to low-income households, the realized impact of the law was the opposite of its intention."

- A 2018 study of rent control in San Francisco found that the imposition of rent controls reduced the supply of rental housing by 15%, raised rents by 5%, and fueled the conversion of lower-end rental units to higher-end condominiums. The authors found that "landlords of properties impacted by the law change respond over the long term by substituting to other types of real estate, in particular by converting to condos and redeveloping buildings so as to exempt them from rent control. This substitution toward owner occupied and high-end new construction rental housing likely fueled the gentrification of San Francisco, as these types of properties cater to higher income individuals. Indeed, the combination of more gentrification and helping rent controlled tenants remain in San Francisco has led to a higher level of income inequality in the city overall."
- From 1970-1994, Cambridge, Mass., imposed strict rent controls and made it hard for the owners of rent-controlled properties to convert them to other uses. Those ordinances were abolished with the passage of a 1994 referendum banning rent control in Massachusetts. Lifting controls increased apartment construction. "Over the next several years, direct dollar investments in housing units, as measured by building-permit filings, more than doubled on an annual basis," a 2012 study found.
- A 2007 study in Massachusetts found that caps did lower rents in controlled buildings, but also "led to deterioration in the quality of rental units" and encouraged apartment building owners to "shift units away from rental status."
- A 2000 study of the effects of rent control on tenants found that rent control raised market rents and that "the average benefit to tenants in regulated units is negative. This implies that, on average, tenants in rent regulated units would be better off if these controls had never been established."
- A 2019 study of rent control in Berlin, Germany found that rent control "reduces rents in the controlled sector, but also leads to rent increases for uncontrolled units. And it "reduced the propensity to move house within rent controlled areas, but only among high-income households," meaning it conferred strong benefits on wealthier households.
- A 1989 University of Pennsylvania study of rent control in New York City found that capping rents discouraged homeownership, helped whites more than minorities, and reduced investment in and upkeep of rent-controlled units. In short, rent control lowered the quality of apartments while simultaneously discouraging renters from becoming homeowners. "The expected rent control benefits had a significantly negative influence on the propensity to own. That is, consumers with large expected rent control benefits had lower demands for homeownership."

- A 2009 review of the economic literature on rent control found that "economic research quite consistently and predominantly frowns on rent control." It also found that the effect on homelessness was inconclusive. "Several empirical studies find no clear relationship between rent control and homelessness," according to the review. Some studies found that rent control increased homelessness, others that it had no clear effect or reduced homelessness. Given the mixed results, rent control should not be considered a solution to the problem of homelessness.

The negative effects of rent control are so thoroughly documented that there's almost no disagreement among economists, left or right, on the issue. "The analysis of rent control is among the best-understood issues in all of economics. Its known adverse effects illustrate the principles of supply and demand," as Paul Krugman, the economist and left-wing New York Times columnist, put it.

Supply and demand explains New Hampshire's high rents. The chart below shows building permits issued for multifamily housing going back to 1990.



Though building permit approvals for multi-family housing have slowly increased, they haven't kept up with demand. As a result, New Hampshire's rental vacancy rate fell from 3.4% in 2013 to 0.5% in 2022, according to the New Hampshire Housing Finance Authority. Developers in New Hampshire have built more apartments in the last decade. But they're renting as fast as developers can build them.

New Hampshire's high rents are not caused by greed or avarice or capitalism. They're the direct result of a decades-long dip in apartment construction, which our previous research suggests is largely the result of government-imposed constraints on building.

The remedy is not for government to attempt to cap apartment prices. It is for government to permit the construction of enough new rental units to meet demand.