Rent control in Cambridge, Mass.

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On a wall outside the Harvard Housing Office in Cambridge, Massachusetts, an anonymous street sage has inscribed the following day-glo painted message:

HELL is looking for an apartment in Cambridge
HEAVEN is finding one under rent control

Anyone who has had to look for rental housing in a rent-controlled community will detect more than a kernel of truth in this graffiti: Such a search can involve weeks, and sometimes months, of combing want ads, pounding the pavement, and finding a busy signal on the lines of landlords already besieged with callers seeking their coveted units. But for the chosen few whose search ends successfully, the payoff is heavenly: A lease on a rent-controlled apartment entitles the lucky bearer to accommodations that are 30 to 60 percent cheaper per month than an identical unit in the uncontrolled part of the market.

Between this heaven and hell lurk important questions, not just for policy-makers, but for all of us who will ever have to hunt for a new place to live or worry about being displaced from where we now call home. For example, do rent controls create a tight housing market in which it is impossible to find a place to live, or does a
tight housing market create opportunities for unfair profiteering and in so doing create a need for controls? Similarly, are rents high in the absence of controls because renegade landlords and speculators gouge tenants, or do these higher, market rents merely reflect the inflationary pressures bearing down on all of life's necessities, from food and clothing to transportation? And does rent control really work; does it fulfill the goals proclaimed by many of its proponents, for example by protecting the health and welfare of the poor, elderly, and handicapped?

Finding the answers to these questions is all the more important because rent control is sweeping the country. Indeed, during the last decade, such major cities as Los Angeles, San Francisco, Washington, D.C., and Boston have all adopted controls, as have some nine states and over 200 local communities from Santa Monica, California to Cambridge, Massachusetts.

Two generations of rent control

While the last decade saw an explosion of rent controls across the country, the rent control movement is hardly new. The first generation of controls surfaced in response to emergency housing shortages created by World War I. Initially, these emergency controls were "limited to servicemen and their families and to workers engaged in the production of war material." But by the end of World War I, controls were extended in many areas to the total housing market as a means to curtail pervasive rent profiteering.

While controls in most communities were gradually abandoned after the Armistice, they were reimposed when World War II created a second emergency housing shortage. These controls were initially concentrated in service-related areas such as military installations, Atlantic and Pacific ports, and major inland defense production cities; but enabling legislation designated the entire country as eligible for controls and marked their first use on a national scale.

During the war and the immediate post-war period, a number of states, including Connecticut, Illinois, Maryland, Minnesota, and New Jersey, passed "standby" rent control legislation to become effective when federal controls lapsed. These statutes went into effect in 1950; but by the mid-1950s, New York was the only state that still retained controls.

All remained quiet on the rent control front for the better part of the next two decades—until the Nixon administration shattered the peace in 1971 with its wage, price, and rent freeze. Like previous federal rent control measures, the Nixon freeze was a temporary
one, directed at a general (albeit peacetime) national emergency, namely, runaway inflation. Both prior to and in the wake of the Nixon freeze, however, many states and communities were seeking to impose controls of a different kind. These "second generation" controls were not temporary and absolute freezes related to a general emergency, but longer-term, peacetime economic controls that allowed for regulated rent increases, but left wages and prices alone.

Today, many of the conditions that precipitated the 1970s rent control movement persist. Mortgage interest rates remain stubbornly high and volatile, while the price of a single-family home or a condominium continues to escalate beyond the reach of more and more middle and lower income Americans. At the same time, the already-tight rental housing market is being further squeezed by a persistent stagnation in the construction of new apartment units.

Given these pressures, one must wonder whether the wave of peacetime rent controls that broke over the U.S. housing market in the 1970s will be followed by another, perhaps larger, wave of controls in the 1980s? If so, what will be the political causes and economic consequences? We can answer that question within the context of the rent control experience in Cambridge, Massachusetts, a city that has been at the vanguard of the new rent control movement.

On August 31, 1970, a year before the Nixon freeze, Massachusetts passed a state enabling act giving cities and towns with over 50,000 inhabitants the right to enact local rent control ordinances. A scant 14 days later, on a 7-2 vote by its city council, Cambridge became one of the first communities to adopt controls.

The Cambridge experience is a useful microcosm of the second generation of rent regulations, which are designed to be more adaptive to both overall and local economic conditions. If the major problems typically associated with rent control persist under this more innovative system, then the ritual indictment of rent control laid down by most economists will be all the more damning.

**Controlling an "unfair" housing market**

Drawing upon several court decisions from the 1920s, the Cambridge Rent Control Enabling Act asserts the constitutional right of the government to intervene in the housing market to prevent "serious threats to the public health, safety, and general welfare," while the source of those threats is identified as a "substantial and increasing shortage of rental housing accommodations" created by the failure of the housing market to produce an adequate supply of rental units.
Both this market failure and the nature of these threats to the public welfare shed considerable light on the ideological principles implicit in the rent control debate. For example, the alleged failure of the free apartment market to provide sufficient housing at affordable prices is the fount from which flow all liberal arguments for rent control. The nature of this failure is imperfect (and therefore, unfair) competition, a problem which is tied to a number of characteristics peculiar to apartment units. Among the 14 that housing analyst Monica Lett lists are durability and long construction time, lack of sufficient information among tenants and landlords, and "market segmentation" (e.g., by neighborhood or size of units), which reduces the substitutability of one unit for another. When these market imperfections are combined with conditions like those which have periodically plagued the economy over the last decade—high interest rates, inflated construction costs, and community-imposed constraints on growth—the frequent result is a housing shortage during which tenants are vulnerable to rent-gouging.

Liberals in Cambridge have used precisely this argument, first to enact and later to perpetuate the rent control system. These advocates cite Cambridge's extremely low vacancy rate as evidence of a housing shortage, a rate which typically hovers below 3 percent and makes Cambridge one of the tightest apartment markets in America. One major reason for this tightness is the heavy demand for living space by the large numbers of students and other transients who regularly flock to this intellectual and cultural mecca. At the same time, since the late 1960s, young professionals have increasingly begun to spurn suburban living for the more gentrified urban existence of Cambridge. And on the supply side, dense building patterns and zoning regulations that curb growth limit the space available for new construction.

According to rent control proponents, it is primarily these conditions that set the stage for a rapid rise in Cambridge rents during the late 1960s and early 1970s. They justified rent control on the basis of several further ideological arguments related to the effects of market failure.

The first was that controls were needed to prevent an undesirable and inequitable redistribution of income from tenants to landlords as a result of rent gouging. To liberals, profits garnered from shortages are "unearned" in the sense that they are the result, not of any sweat from the landlord's brow, but of the failure of market supply to meet demand. Accordingly, the government—in this case the Cambridge City Council—has the right to limit the property
rights of landlords through rent controls to prevent such a redistribution. (Conservative critics, of course, regard such a truncation as an unfair confiscation of landlord property.)

They also argued that the poor and elderly were threatened by profiteering landlords (inevitably portrayed as affluent property owners). Implicit in this characterization was a second important function of rent control: a more even distribution of income achieved through the subsidy of lower income tenants by higher income landlords.

The last, but in Cambridge hardly the least, important ideological argument for rent control centered upon the liberal concept of the community and the role of government in preserving that community. Besides a large student and transient population that clusters around the Harvard and MIT campuses and an influx of young professionals who have found living in Cambridge attractive, the city is also populated by diverse economic and ethnic groups. Large pockets of blacks, Irish, Italians, and Portuguese, and a significant elderly population, generally comprise the lower end of the city's income spectrum. The heavy apartment demand by the student-transient-professional troika creates a Hobson's choice for these ethnic and economic groups in the absence of rent control: Pay up or move out.

More often than not, the "move out" option means the displacement of lower and middle income families, who are forced from their homes by the invisible and impersonal hand of the market. This, in turn, means that the cohesive family fabric and colorful, cultural diversity of the community—viewed as an intrinsic good—is replaced by a more homogeneous and unstable population of wealthy (often single) professionals and students from upper income families. To liberals, this is not only economic discrimination, but it also creates great hardship for the displaced—particularly the elderly, for whom the burden of relocation is often the most heavy.

If one seeks an ideological explanation, then, it seems that Cambridge liberals have imposed and sustained rent controls on the basis of a judgment that the income distribution, displacement, and community effects generated by the failure of the apartment market are inequitable and undesirable.

Controlling the city council

Despite these compelling public interest arguments, an equally strong case can be made that special interests are responsible for rent control: A large voting majority of tenants has seized control of
the Cambridge City Council and used its power to impose confiscatory controls on a small minority of landlords, many of whom live outside the city and don't vote in its elections. Seen in this light, the liberal case for rent control serves only as a rhetorical cloak for tenant interests who, aided by like-minded city councilors, have commandeered policy in their own behalf. In the same vein, the language of the enabling legislation, with its declaration of an emergency and warning of threats to the public welfare, may be interpreted as mere boilerplate, inserted by special interests to meet the requirements of past court decisions regarding the constitutionality of imposing rent controls.

For those who believe that dollars translate into votes, the sheer magnitude of the redistribution involved in rent control lends support to this second hypothesis. Consider that market rents run from 30 to 60 percent above controlled levels on the 18,000-plus rent controlled units in Cambridge and that the average monthly rent is roughly $275. This means that controls redistribute from $18 to $36 million dollars annually from landlords to tenants and that the average tenant enjoys an annual benefit of $1,000 to $2,000. Public interest arguments notwithstanding, such a "reward" provides tenants with a great incentive to play the rent control game to their advantage.

The nature of Cambridge politics lends further support to the notion that tenant self-interest plays a large role in promoting rent control. In Cambridge, the rent control issue has been the single most effective grassroots organizing tool for politicians seeking a seat on the City Council. While rent control was a somewhat peripheral political issue when the city first instituted it in 1970, it has since played a major role in every biennial City Council election. Its singular prominence in Cambridge elections is ultimately attributable to the ability of skillful political entrepreneurs working closely with major tenant organizations to rally tenant interests around the rent control flag.

The major tenants' organizations in Cambridge include the Alliance of Cambridge Tenants, the Harvard Tenants Union, the Cambridge Tenants Organization, the Word of Tenants Association and the unlikely sounding Simplex Steering Committee. These organizations have banded together into the powerful Cambridge Rent Control Coalition, which claims a membership of over 10,000. However, most of the activities pursued by the coalition are performed by a small core of activists who regularly appear at City Council meetings and Rent Control Board hearings. This pattern of a large
interest group bloc led by a small activist elite is fairly typical of modern grassroots political movements.

However, it is not these tenant organizations which have played the most prominent role in making rent control an issue; rather, it is the Cambridge Civic Association (CCA), a political organization dedicated primarily to placing its slate of candidates in positions of power in the Cambridge government, from the school board to the city council.

A major plank of this avowedly liberal organization's platform has been the maintenance of rent controls. Since the imposition of these controls, it has successfully maintained four seats on the nine-seat council and, through a coalition with a fifth "independent" councilor, it has always been able to maintain a majority vote. The campaign tactics of the CCA's leading rent control advocate, Councilor David Sullivan, illustrate both the simplicity and power of local grassroots lobbying.

Sullivan, like all councilors, resides in Cambridge and, like some, lives in a rent-controlled apartment. Since 1975, he has campaigned for election and reelection throughout the year (as opposed to just near election time) by methodically knocking on the doors of Cambridge residents and explaining his positions. For such a "Johnny Appleseed" tactic, Sullivan incurs virtually no campaign costs other than shoeleather and time. His approach is very effective, since in a city of Cambridge's size it is possible to talk to virtually every resident in the time between two elections.

Moreover, Cambridge's unique system of "proportional voting" makes such a grassroots tactic particularly potent. Under that system, it is theoretically possible to win a seat on the Council by receiving less than 10 percent of the votes. Thus, if a candidate in Cambridge can nail down the strong support of only 2,500 people, he can win an election in which roughly 25,000 people vote.

At the same time, Sullivan has skillfully cultivated members of the press on such local papers as the Cambridge Express and Cambridge Chronicle as well as the Boston Globe. Like the CCA, he regularly "makes news" for his rent control stance. In doing so, he has made extremely effective use of a basic tool of the politician's trade, propaganda. For in espousing controls, Sullivan's liberal (or to critics, "leftist") rhetoric is laced with the language of naked power that Ralph Nader and his disciples have used so effectively: Landlords are ripping off tenants, powerful lobbies are blocking the will of the people, and developers are raping the Cambridge landscape. (When an opponent of rent control was appointed to be the land-
lord representative on the Cambridge Rent Board, Sullivan uncere-
moniously dubbed the woman the "James Watt of Cambridge,"
attempting to paint her as a pawn of developers.) Running on an
unadorned platform of the preservation of rent control, Sullivan has
managed to hold his seat through several elections.

Cambridge politicians have thus been highly successful in mo-
bilizing ordinarily weak and disorganized tenant interests into a solid
voting bloc which regularly returns the CCA slate to power to look
after tenant interests. In this effort, the rent control issue has proved
to be the lightning rod of support.

Analysis of voting patterns in Cambridge reveals that support
for rent control is based on roughly equal doses of ideological and
self-serving motives. Neither of the two interpretations alone can
serve as an explanation; in fact, it appears that controls have been
imposed through a successful coalition of liberals and tenant inter-
est. But do the benefits that accrue to tenants in rent-controlled
units justify the costs imposed by the system and are the public
interest goals of liberals actually well-served by rent control? These
questions cannot be answered without looking at the economic con-
sequences of rent control.

The high cost of control

On the subject of rent control, the economics profession has
reached a rare consensus: Rent control creates many more problems
than it solves. The primary effects of rent control, it is commonly
agreed, are a reduction in the supply of rental housing, the deterio-
ration of existing housing stock, and the erosion of a community's
property tax base. Secondary problems include increased adminis-
trative costs, unemployment associated with what is known as ten-
ant immobility or the "lock-in effect," increased energy consump-
tion, and discrimination against tenants. The question, then, is
whether the second-generation Cambridge controls have managed
to avoid these problems typically associated with rent control.

The traditional argument that rent control reduces the supply of
rental housing is based on the simple notion that real estate develop-
ers are motivated by profit: Because rent control reduces the profit-
ability of an apartment building, it reduces the rate at which such
buildings will be constructed. Instead, developers will choose to
build de-controlled new homes, condominiums, office buildings, or
simply not to build at all, investing their funds elsewhere.

Rent control advocates answer this argument by pointing out that
virtually every rent control law (including Cambridge's) exempts
new rental housing from controls. But rent control critics reply that these exemptions hardly solve the problem. As Monica Lett has written:

It is not apparent that even blanket exemption encourages new construction since the housing industry is often fearful that the exemption may be withdrawn at a later date. In this regard, New York City provides an example. After exempting all units constructed after February 1, 1947 in its original rent control law, twenty-three years later, the city imposed rent stabilization regulations on these structures.

Despite this controversy, the data appear to be generally consistent with the idea that controls reduce construction. For example, in England, where controls have been in effect for over 60 years, rental housing has shrunk from 61 percent to less than 15 percent of the country’s total housing. Similarly, New York has seen both the total number of its units and percentage of renters shrink, as has the District of Columbia which now has 8,000 fewer rental units and has experienced a sharp decline in the issuance of multi-family building permits since controls were imposed there.

In Cambridge, however, the problem is not so much a lack of new construction but rather a landlord shift to condominium conversions. Indeed, as befits a modern system of rent control, condo conversions represent a modern source of rental housing loss. In the absence of restrictions, the conversion option provides landlords with a relatively easy and convenient form of escape from rent controls. This “landlord’s loophole” is also very lucrative, as condominium conversion provides landlords with a selling price as much as double that of simply selling their property as a controlled rental unit.

Currently, Cambridge has very strict controls on condominium conversion. But before this loophole was closed, roughly 10 percent of the city’s rent-controlled housing stock was converted to condominiums and moved out from under the grasp of the ordinance. As a result, the share of renter-occupied private units has shrunk from 75 percent in 1970, to 72 percent in 1975, to 66 percent in 1980.

Today, however, the condo ban is under even greater siege than the rent control law itself. Ironically, much of the pressure comes from tenants in rent-controlled buildings who feel they are being unfairly denied the right to buy their units. Thus, if the condo ban is repealed (or overturned in a case pending in the courts), the city can expect an even further reduction of its rent-controlled stock. It is worth mentioning that rent control also creates an incentive to demolish rental buildings prematurely—either legally or through arson—and to build uncontrolled dwellings in their place. In Cambridge, for example, there have been a number of “forced demoli-
tions” through fires, some of suspicious origins. In place of these burned-out shells have arisen condominiums.

The second and perhaps most indisputable problem with rent control is that it leads to the deterioration of existing apartment units. When operations and maintenance expenses rise with inflation, the landlord typically has three options: raise rents, decrease or defer expenses, or sell out and reinvest in something more lucrative. Rent control places an obvious limit on the first option and discourages the third because it depresses the selling price of a controlled building. Typically, the landlord is left with the second option and the result is that he skims on expenses in order to preserve his net operating income.

While the short-term effects of this strategy may be slight, there is an avalanche of evidence that the long term effects are anything but slight. For example, in separate studies of New York’s “30-year rent control emergency,” economists John Moorhouse and George Sternlieb found that controlled units had less maintenance, were of lower quality, and had more deterioration than uncontrolled units. Joel Brenner and Herbert Franklin have drawn a similar conclusion about controls in England and France, and in a case study of Boston, Monica Lett estimated that for maintenance alone, landlords spent almost $50 less per year on each unit of controlled buildings.

In the most comprehensive study of Cambridge to date, Professor Herman Leonard of Harvard found corroborating evidence of such skimping. Because the Cambridge system makes rent adjustments on the basis of historical data and because there are delays involved in granting adjustments, inflation is allowed to erode the value of rent increases. As a result, landlords receive “only 70 to 75 percent of the amount designated by the Rent Control Board as ‘fair’” which, in Leonard’s words, constitutes a “dramatic squeeze” on the landlord’s operating margin. According to Leonard, this and other flaws in Cambridge’s system translate into less upkeep, lower quality, and faster deterioration of the city’s rent-controlled stock.

The third problem with rent control, erosion of the community tax base, is perhaps the most crucial issue (and often the least understood) in the rent control controversy. But the logic of this effect is simple: Rent controls lower the rental income of a piece of property, and this in turn lowers the market value of the property, since that value is nothing more than the capitalized value of the rent stream. Because tax assessments are based on a property’s market value, the amount of taxes the owner pays shrinks with the reduction in rents.

For example, suppose that in a given community landlords pay taxes roughly equal to 20 percent of their rental income. Thus, for
every dollar that rents are reduced due to controls, the taxing authority forgoes 20 cents. For an apartment valued at $250 per month with a rent ceiling of $200 per month, the difference in annual rents is $600, and the taxes foregone by the community equal $120 annually.

Again, the general evidence of the existence and magnitude of this loss is incontrovertible. For example, Elizabeth Roistacher estimates that controls in New York City have cost a whopping $115 million annually in foregone taxes. In Cambridge, Leonard found the actual tax loss to be considerable—$5 to $10 million per year, a figure which constitutes 10 to 20 percent of Cambridge's $50 million property tax base.

This loss in tax revenues is in turn reflected either in a higher tax burden for home owners and tenants in the non-controlled segment of the apartment market or a reduction in municipal services, or both. Given that: (1) the cost of municipal services is rising, (2) "backlash" votes like Proposition 13 in California and Proposition 2½ in Massachusetts have restricted property tax increases, and (3) the property tax is the single largest source of revenue in virtually all local communities, this erosion of the tax base is potentially devastating to cities' efforts to balance their budgets. At the same time, it represents a hidden drain on city coffers that far exceeds the city's reported expenditures on running its rent control system.

Tenants: locked in or left out

Besides the primary economic costs relating to the supply and quality of the housing stock and the size of the community tax base, rent control can also generate a number of well-acknowledged secondary costs.

The first such cost is that of supporting the bureaucracy which administers rent controls. In Cambridge, for example, the annual budget for the city's rent control board and related rent control activities runs to about $700,000. That means it costs taxpayers about $40 in regulatory costs for each of the roughly 18,000 apartment units under control. These regulatory costs are, however, merely the tip of the iceberg regarding treasury costs since, as we have seen, the $700,000 budgetary allocation constitutes a small fraction of the $5 to $10 million in lost property tax revenues.

A second, potentially more serious cost can be traced to the immobilization of tenants that rent control induces. Because of the rental "bargain" that tenants in controlled units enjoy and because controls can make it difficult to find similarly-priced accommodations elsewhere, there is a tendency for tenants to "stay put." In their
study of the Los Angeles experience, Rand researchers found a clear
"trend toward declining mobility of renter households" under rent
control, as measured by the percentage of renters moving annually.
Similarly, drawing on the Austrian experience, F.A. Hayek reports
that Vienna's tram traffic doubled between 1913 and 1928, primarily
because of inhibited mobility due to rent control.

One consequence of this "lock-in effect" is increased unemploy-
ment as workers are less willing to commute longer distances to find
and hold jobs. Similarly, there is less flexibility and job-switching in
the labor force; as a result, labor resources are distributed less effec-
tively because workers are less responsive to wage signals in the job
market.

Despite evidence of this "lock-in effect" elsewhere, it is doubtful
that Cambridge suffers very seriously from this particular malady.
In fact, Leonard reports a fairly rapid turnover in Cambridge, even
in controlled units. But, as we shall see below, this high turnover
rate is a double-edged sword: while minimizing "lock-in," it helps
to thwart one of the stated goals of rent control, namely, preserva-
tion of a diverse community.

Another secondary effect is an increase in energy consumption.
This inefficiency results from two factors. First, to the extent the
"lock-in effect" leads to longer commutes, workers consume more
gasoline. Second, and perhaps more relevant to Cambridge, the
city's rent control mechanism provides little incentive for landlords
to conserve fuel because of a "dollar-for-dollar" clause which allows
landlords to pass any increase in fuel expenses directly through to
tenants. Such pass-through clauses exacerbate a problem that is
endemic to rental property in general since renters are typically
charged for heat as part of their rent. This gives the renter little
incentive to conserve and the landlords little incentive to install con-
servation devices.

The final, not inconsequential, secondary cost of rent control is
that, ironically, it provides landlords with an expanded opportunity
to discriminate among precisely those kinds of tenants—ethnic and
racial groups, families, and people of low income—that it was de-
dsigned to protect. In particular, when landlords are not able to dis-
criminate among tenants on the basis of price, they are likely to
choose tenants more to their liking from the long line of potential
renters queuing up for their bargain apartments. Those likely to be
discriminated against include not only ethnic and racial groups
(e.g., Italians or blacks), but also families with children and lower-
income, less credit-worthy tenants. As an example of this form of
discrimination in Cambridge, Jeffrey Stearns has noted that "due to the high demand for housing in the city, landlords prefer and are able to rent their units to higher income tenants not receiving public subsidies."

This excess demand and queuing for rent control units also creates what economists call "non-price rationing" abuses. As Charles Baird has noted:

If the explicit rent on a dwelling unit is kept below what the supply and demand would generate in an unregulated market, the landlord and tenants may agree that in order for a tenant to get occupancy, a large non-refundable key deposit, cleaning deposit, or security deposit must be paid; they might agree that the tenants will pay for maintenance and repairs; they might agree that the tenants will purchase the secondhand furniture in the apartment for new furniture prices; or they might agree that each tenant will simply make an unrecorded cash payment to the landlord.

Proof of such abuses is necessarily anecdotal, but in Cambridge, as elsewhere in rent-controlled communities, anecdotes abound.

In summary, rent controls typically impose a number of both primary and secondary economic costs on communities that adopt them. From the universe of these costs, it appears that Cambridge suffers in some degree from almost all of these symptoms. Housing supply and quality appear to have been reduced, and the tax base has been significantly eroded. And while the city incurs relatively small administrative costs to run the system, there is indirect evidence that rent controls have also led to some discrimination, abuses of tenants, and possibly increased energy consumption, mostly of fuel oil (New England's primary heating fuel).

But do the benefits of rent control compensate for this diverse array of economic costs, and in conferring those benefits, are the ideologically-oriented, public interest goals of rent control achieved? The answer to both these questions appears to be no.

**Who really profits?**

The indisputably largest benefit of rent control accrues to tenants in the form of *rent deductions*. As noted above, the average Cambridge market rents are 30 to 60 percent higher than controlled rents, which average about $275 per month. Thus, the typical tenant in a rent controlled unit saves about $1000 to $2000 a year, which can constitute a substantial fraction of an individual's or family's income in the low and moderate ranges. However, having given rent control its major due, there are several additional considerations that must be taken into account which diminish the size of this ostensible benefit.
First, while this rent reduction is pure gravy to tenants in the short run, much or all of the gain is eroded over the long run by the reduction in housing services that is caused by the squeeze on expenditures discussed earlier. To the extent that landlords cut back on operating and maintenance expenses and allow their property to deteriorate, the quality and flow of housing services to tenants are reduced: Heat may be lowered and supplied more erratically, halls may be swept less frequently, the exteriors may be allowed to chip and peel, the plumbing may drip and leak, and there may be an increase in roaches or mice infestations as exterminator visits are reduced.

Thus, although tenants may pay less for their rent-controlled apartment, over time, the regulated landlord provides less. That means in order to calculate the net benefits of rent control to tenants, one must subtract this "deterioration effect" from the gross rent reduction. For example, in their analysis of Los Angeles, Rand researchers found that a 3.5 percent rent reduction from controls was partially offset by a 2.2 percent deterioration, for a net rent benefit of only 1.3 percent to tenants.

But even if the gain is smaller than it appears, tenants are still winners in the rent control policy game, right? Well, not exactly. The proper answer to that question is that while some tenants win, other tenants unquestionably lose. Consider the Cambridge housing stock. Rent control covers only about 50 percent of the total rental market. While rent control unquestionably reduces rents of tenants in rent-controlled units, it actually increases rents of tenants in uncontrolled units.

First, recall that in Cambridge, rent control means that landlords of rent control buildings pay $5 to $10 million less in property taxes because of the lower assessed values of their properties. If the city does not raise this revenue elsewhere, then everyone in Cambridge—tenants, landlords, home owners—shares this loss in the form of reduced city services. However, to the extent that the city raises taxes on uncontrolled property to offset the loss, the tax burden is shifted not only to single family homeowners, but also to tenants in the uncontrolled market. These tenants must bear part or all of the increase in the tax because landlords of uncontrolled apartments will pass it through to them in the form of higher rents.

At the same time, to the extent that controls reduce housing supply, excess demand drives up rents in the only sector where rents can rise—the uncontrolled sector. Thus prospective tenants not only pay more but also find their search for housing much more difficult and time-consuming than it otherwise would be.
What we have then is a situation in which, at best, only half of the tenants in Cambridge benefit from rent reductions while the other half, as well as those waiting in the wings to move into the community, actually suffer from higher rents and a harder search.

The next logical question, which also relates to the avowed ideological goals of rent control, is whether there is something special about rent-controlled tenants that warrants discrimination in their favor by the rent control system. Surprisingly, the answer is no. In examining the composition of tenants in the controlled versus uncontrolled sector, both Kirk McClure and Leonard found the two groups to be very similar in terms of distribution of income as well as the distribution of the elderly, students, professionals, and families. In other words, the poor, the elderly, and families—the three major groups targeted for benefits of rent control—were no more likely to be found in controlled than uncontrolled units.

This finding not only raises a disturbing question of equity—why does one group of tenants gain at the expense of another virtually identical group—but also casts doubt on the ability of rent control to meet its two major ideologically-motivated public interest goals, namely, income redistribution and the preservation of the community.

Rich tenants, poor landlords

Advocates justify this redistribution on the assumption that poor tenants receive this transfer of wealth from “rich” landlords. As a general proposition, this Robin Hood characterization of rent control is simply wrong: Richard Ault points out, for example, that there is no body of evidence indicating that tenants have significantly lower incomes than landlords. At the same time, there is a good bit of both systematic and anecdotal evidence to suggest that landlords are sometimes worse off than their tenants.

But the redistributive effects can be analyzed more precisely in terms of a “targeting efficiency”: What percentage of “deserving” households in the low and moderate income range actually occupy rent-controlled housing? As a general rule, the targeting efficiency of rent control and therefore its ability to help low income groups is very poor.

For example, in Los Angeles, only 48 percent of the households under rent control were occupied by low income tenants, while the remaining 52 percent were occupied by the middle and upper income brackets. In Cambridge, the targeting of rent control benefits is even worse. Only 35 percent of the tenants in controlled units had incomes of $10,000 or less, while 17 percent of the tenants had incomes over $25,000.
Thus, both as a program to redistribute income to the poor and as a means of specifically helping the elderly and families, the Cambridge rent control system is an extremely blunt and ineffective tool. Rather than targeting those groups of tenants the city has said it wants to protect, it merely provides assistance to a broad range of households: some rich, some poor, some elderly, and some students and professionals.

As for the goal of preserving a heterogeneous, culturally colorful, and cohesive community, it turns out that despite the apparent bargain in rent controlled units, most such units are vacated and then re-rented at least once every five years, and virtually all turn over once in a decade. When one tenant leaves, there is no guarantee that landlords will choose a new tenant from among the groups preferred by the city—the elderly, families, and low-income households. In fact, one might expect just the opposite for several reasons.

Landlords are more likely to exercise the expanded opportunity that rent control offers by discriminating precisely against those groups the city wants to protect: lower income individuals who are often viewed as less credit-worthy, families with children who cause more "wear and tear" on unit interiors, the elderly for fear they will be impossible to evict in the event of non-payment of rent. And blacks and Hispanics are less likely to win the favor of some white landlords who can instead choose a young and wealthy white professional.

Given these dynamics and the pressures bearing down upon Cambridge from the heavy influx of the student-transient-professional troika, it should not be surprising that apartment occupancy trends between the 1970 census (the year controls were first imposed) and the 1980 census indicate that rent control has failed miserably in its attempt to protect the community from broad-sweeping demographic changes. The number of families occupying rent controlled units has fallen a dramatic 50 percent, while both the total number of students and fraction of student households has nearly doubled, so that where students were once roughly one out of ten occupants, they are now roughly one out of five. At the same time, while the fraction of elderly households has suffered only a modest decline over the decade (falling from 18 to 15 percent), the number of professional households has doubled, so that while students and professionals once occupied only one-sixth of the controlled units, they now occupy about one-third.

In uncovering these trends, Professor Leonard concludes that "while rent controls may perhaps be able to insulate individual
Rent controls do not appear to be able to insulate the community from evolutionary changes."

Decontrolling

For communities which have or are considering rent control, the general policy prescription that emerges from the Cambridge experience is straightforward: Abandon controls and seek more effective and efficient policies to achieve the range of public interest goals that rent regulation seeks to attain. How such a general policy prescription will be administered will necessarily depend on the ideological bias of the particular community, for there will be inevitable controversy over both the range of goals pursued and the policy approach. For example, both liberals and conservatives may agree that the goal of alleviating a housing shortage and lowering the attendant high rents is desirable. But liberals may lean more towards a public housing program to alleviate that shortage, whereas conservatives may favor stimulating the private market through tax incentives to develop or "unfetter" that market through re-zoning that allows more growth and bigger buildings. Similarly, liberals and conservatives will doubtless differ on the merits of income redistribution and the preservation of ethnically and economically diverse neighborhoods. But surely rent control can no longer be considered as a means to implement these goals.

Unfortunately, the final problem rent controls create is how to abandon them without an enormous "rent shock" to tenants, for the longer control is in place, the larger is the gap between market and controlled rents.

Among the major cities that have removed controls in recent times—Boston, Los Angeles, Washington, D.C.—the preferred method seems to be vacancy decontrol. Under this policy option, rent control remains in effect until the tenants who occupied the units at the time they were decontrolled elect to move out.

The primary virtue of this approach is that decontrol occurs gradually. Most policymakers, therefore, find this type of transition politically more palatable than simply taking the lid off pent-up rents all at once. However, one unfortunate side effect is that vacancy decontrol amplifies the lock-in effect: Some tenants are apt to cling even more tenaciously to their rental bargain. A better option might be phased decontrol. Under this option, which is similar to the gradual lifting of oil and natural gas price controls, controlled rents would be allowed to rise, say over a two or three year period, to
market levels. Such a phase-in would both moderate rent shock and mute the lock-in effect. It would also give the city time to implement other policies to alleviate Cambridge’s chronic housing shortage.

Obviously, the details of any decontrol and expanded housing assistance program would require painstaking months of planning. But in the final analysis, any ideological debate over issues like the size of the public housing sector or the amount of desired redistribution should not obscure the incontrovertible fact that in communities that have rent control, such regulation has not solved any problems; accordingly, there should at least be a consensus that such a system has no place in either the liberal’s or the conservative’s conception of the public interest.