

Part 1

Rent Control: The Progressive Hypothesis versus Economic Reality

The "progressive hypothesis" of rent control put forth by rent control advocates assumes that rising rents, left unchecked, will force less advantaged tenants out of a community, resulting in loss of ethnic, cultural and economic diversity. Proponents of rent control assert that holding rents down will prevent the displacement of those unable to pay higher rents: low-income households, minorities, the elderly and families, especially single-parent families.

Most economists, however, dispute the progressive hypothesis as inconsistent with the laws of supply and demand, which predict that holding rents down will discourage housing providers and thus diminish the supply of rental housing. Furthermore, reduced rents increase the number seeking apartments, creating an even tighter housing market. In the intensified scramble for scarce desirable apartments, the advantaged win out over the poor. So, economists contend, rent control actually fosters, rather than prevents, a housing shortage and gentrification.

The progressive hypothesis is further refuted in the **1991 Report to Congress on Rent Control**, by the U.S. Department of Housing and Urban Development. That report concluded that under rent control:¹

1. Housing quality usually deteriorates.
2. Benefits of rent control are poorly targeted.
3. A significant number of well-to-do renters live in rent-controlled apartments and enjoy substantial benefits while many low income renters receive little or no benefits, and
4. Some landlords of rent-controlled properties have low incomes but nevertheless bear the burden of rent control transfers. Thus it appears that current rent control policies are highly inefficient, inequitable, and ineffective mechanisms for helping lower income tenants.

This study analyzes the impact of rent control in Cambridge. It evaluates and refutes the progressive hypothesis.

Gentrification Defined

Gentrification is a process of neighborhood or community change characterized by:

- increasing resident income levels, fewer poverty level households
- higher resident educational levels
- smaller households, fewer families, more single persons
- fewer minorities and elderly persons

¹ Report to Congress on Rent Control, U.S. Department of Housing and Urban Development, Sept. 1991.

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1993 California Rent Control Study

A recent California study² identified and tested the progressive hypothesis, by comparing Berkeley and Santa Monica -- that state's two cities with restrictive rent controls³ -- to 20 other comparably sized communities in that state. Using U.S. Census data for each community, the California study tracked patterns of change from 1980 to 1990.

Over this decade, in the two rent-controlled cities, the total number of rental units dropped by 10 percent, the number of households receiving public assistance decreased, and the number of households with below-poverty incomes, blue collar workers and less educated persons all declined. Meanwhile, in these same two rent-controlled cities, the number of households with higher incomes, with professional or managerial occupations, with better education and not receiving public assistance increased.

In the 20 comparison communities in California without rent controls, these patterns of change were absent; rental housing stock generally increased, and the ratio of poor to more advantaged households remained roughly stable over the decade.

Thus the 1993 California study refutes the progressive hypothesis that rent control would prevent gentrification in Berkeley and Santa Monica. The study's author suggests that rent control may even have accelerated gentrification in those two cities during this period.⁴

Rent Control as an Agent of Gentrification

Two dynamics, if true, explain how rent control accelerates gentrification:

1) Rent control induces a housing shortage and a tight housing market. The control of rents induces housing providers to withdraw apartments from the market, discourages developers from creating new units, encourages fewer tenants to occupy each apartment, and increases the demand for lower priced apartments.

² Michael St. John, Rent Control in Perspective: Impacts on Citizens and Housing in Berkeley and Santa Monica Twelve Years Later, August 1993, funded by the Pacific Legal Foundation, examined the demographic impacts of restrictive rent controls, using 1980 and 1990 U.S. Census variables, comparing each with its surrounding communities, its SMSA (Standard Metropolitan Statistical Area), and 10 comparably-sized cities in northern California (for Berkeley), and another 10 in southern California (for Santa Monica).

³ "Restrictive rent controls" act continuously, regardless of tenant turnover, without allowing rents to move to market levels between tenants. This distinction is important because a number of other communities -- in California as well as in Massachusetts -- have the less restrictive "decontrol/recontrol" form of rent control that permit rents for new tenants to be reset at market level or even become permanently decontrolled after vacancy. Cambridge and, until recently, Brookline are considered in this study to have "restrictive" rent control.

⁴ Michael St. John, The Distributional Impact of Restrictive Rent Control Programs in Berkeley and Santa Monica, California, 1993, p. 2, in a paper prepared for the 1993 conference of the Western Economic Association, Lake Tahoe, CA, June 23, 1993.

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2) A tight market favors the advantaged in gaining access to available rent-controlled apartments. In the absence of any financial means test to control tenant access, the advantaged have better apartment-hunting and bargain-finding skills, and do better in securing desired but scarce rent-controlled housing. Also, owners prefer tenants with higher credit ratings.

If rent control actually fosters a housing shortage and gentrification, then we have a paradox: holding down rents to help disadvantaged persons actually makes the housing situation become worse for these same people. Fewer available, lower-priced apartments produce an intensified scramble by the better-skilled to obtain them.

Testing for Rent Control as an Agent of Gentrification

In order to determine whether rent control actually helped disadvantaged households, this study examined both the controlled housing market in Cambridge and the socio-economic characteristics of its rent-controlled tenants. To establish a baseline for comparison, this study also looked at non-controlled housing markets and at non-controlled tenants. The impact of rent control would be reflected in the observed differences in these comparisons.

Another way to establish the impact of rent control is to observe changes over time. Accordingly, to isolate the specific effects of rent control, this study examined the changes in the housing market and changes in tenant characteristics from 1980 to 1990, both within Cambridge, and also by comparing this city (along with Brookline, which also had a restrictive form of rent control over the 1980-to-1990 decade) to all the other large communities in Massachusetts.

The primary source of data for this study were the U.S. Censuses for 1980 and 1990. The Cambridge Election Commission residency listings and records of the Cambridge Rent Control Board were also used. The data were analyzed by computer using standard statistical methods as well as the new technique of desktop mapping.

This report integrates the findings of several recent studies by this researcher examining rent control from a number of data perspectives. The graphs presented here are based on data presented in studies and appendices comprising part 2 of this final report.⁵

⁵ See Appendix B in Part 2 for a complete discussion of research methodologies.