



THE DOMINO EFFECT OF RENT CAPS

How Falling Property Values Strains Housing Supply

Partnership for Affordable Housing



ECONorthwest

ACKNOWLEDGMENTS

ECONorthwest prepared this analysis for the Partnership for Affordable Housing (PAH) and is responsible for the content of this analysis. ECONorthwest staff who contributed to this report include Morgan Shook, Mike Wilkerson, PhD, and others.

As Washington's policymakers debate changes to statewide regulations that govern rent control, the

PAH is interested in advancing the community's understanding of the potential impacts of various types of rent control regulations on housing development and affordability in Washington.

The staff at ECONorthwest prepared this report based on their knowledge of economics, and on information derived from government agencies, the reports of others, interviews of individuals, or

other sources believed to be reliable. ECONorthwest has not independently verified the accuracy of all such information and makes no representation regarding its accuracy or completeness.

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Rent control policies, while intended to protect tenants and improve affordability, come with substantial and often predictable unintended consequences. This report, prepared by ECONorthwest for the Partnership for Affordable Housing, presents findings from a comprehensive review of global evidence and a detailed analysis of rent caps in California. Together, they reveal the long-term harm these policies cause to property valuations, housing supply, and community development, making a compelling case for pursuing alternative housing strategies.

Key Findings

1 The Global Evidence Is Clear

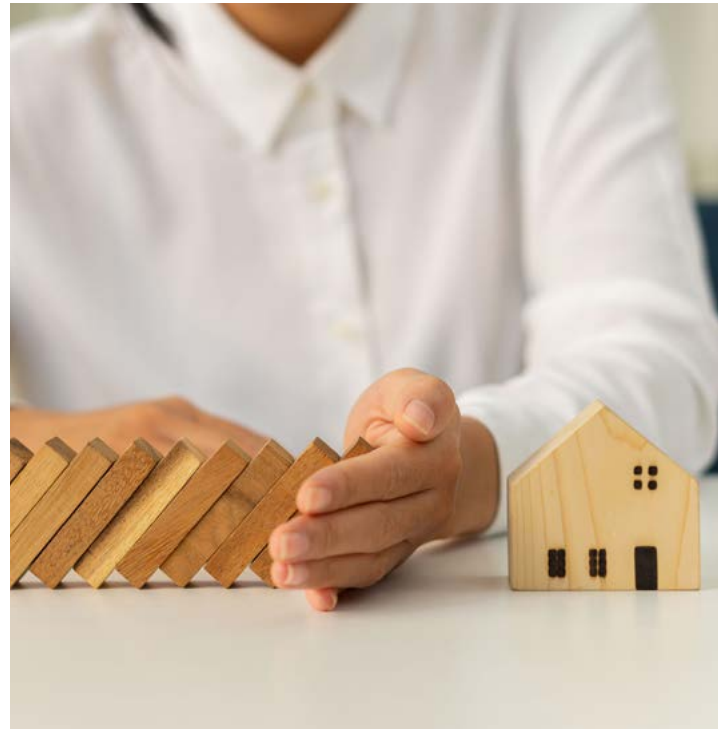
Extensive research from over 200 studies worldwide consistently shows that rent caps lead to reduced housing mobility, declining housing quality, constrained housing supply, and market distortions. These unintended effects often hurt the very renters these policies aim to protect by limiting access to affordable, quality housing over the long term.

2 Findings from California's Rent Caps

Our original research on California's cities, including San Francisco, Oakland, and San Jose, demonstrates how varying levels of rent caps affect property markets. In cities with strict rent caps, multifamily property values fell by up to 9%, development slowed, and spillover effects further depressed valuations of nearby uncontrolled properties. These results illustrate the relationship between stricter rent caps and long-term market harm.

3 Why We Care About Lower Multifamily Valuations

The devaluation of multifamily properties has far-reaching implications. Lower valuations reduce the financial feasibility of new construction, leading to fewer rental units being built or maintained. Developers often shift to for-sale housing or commercial uses, exacerbating rental shortages. Additionally, reduced property values encourage deferred maintenance, contributing to deteriorating housing quality. Neighborhood disinvestment, slower revitalization, and higher financial burdens on single-family homeowners further compound the negative effects.



Policy Implications

Instead of implementing rent caps, policymakers should consider evidence-based solutions that directly enhance housing supply and affordability without triggering harmful ripple effects:



Short-Term Rental Assistance: Direct financial support to low-income renters can provide immediate relief without distorting market incentives.



Pro-Housing Supply Reforms: Streamlining permitting processes, increasing zoning for multifamily housing, and providing development incentives will address long-term supply constraints.



Preservation of Existing Affordable Units: Protecting current affordable housing through targeted programs can prevent further erosion of housing availability.

In conclusion, rent caps create more harm than good, reducing the availability of affordable housing and undermining long-term market stability. By pursuing pro-growth housing policies, Washington's policymakers can promote sustainable solutions that provide affordable housing opportunities for all.

1 WHAT ARE RENT AND PRICE CAPS?

Rent control laws are steadily gaining traction in the Washington Legislature as elected officials attempt to address the growing housing costs and unaffordability witnessed by their constituents. During the 2023-24 legislative session, two “rent stabilization” bills—SB5961 and HB 2114—were introduced, however both failed to be codified into law. With little change in the state’s real estate markets and housing affordability, it is more likely than not that similar laws will be reintroduced and debated in Olympia over the coming years.

The Partnership for Affordable Housing (PAH) is a consortium of housing provider groups with a mission to advocate for sensible, evidence-based policies to support housing and housing affordability. PAH has engaged EConorthwest to research and communicate key dynamics of rent control policies to policy makers. Our aim is to provide members of the Washington Legislature access to key takeaways—from independent, rigorous, and data-driven research on rent control—as they evaluate their options, craft their policies and implement them into law.



Often the terms **rent control** and **rent stabilization** and **rent caps** are used interchangeably, while other policymakers and researchers posit that these policies are wholly different.

This research brief does not delve into the difference between the three terms, focusing rather on individual components of a policy and their impact.

In the remainder of this research brief, we use the term rent control to apply to all forms of potential policy, and, therefore, no meaning should be ascribed to the selection of the term.

Rent control or “rent cap” policies vary widely in design and implementation. Across the United States and globally, jurisdictions have developed distinct rent control measures with differing objectives, policy parameters, and evaluation metrics. While these policies often produce similar effects on various stakeholders, the extent of their impact depends significantly

on the specific details of the policy design. If rent control laws are enacted in Washington, their exact provisions could have far-reaching direct and indirect consequences. Therefore, every aspect of such a policy must be carefully analyzed and thoughtfully crafted to ensure clarity and effectiveness.

Rent control policies are one type of tenant protection that limits rent increases and directly impacts how property managers operate their buildings. Jurisdictions often pair rent control with additional tenant protections to create a more comprehensive framework. These protections can include minimum lease term requirements, relocation assistance mandates, just cause eviction policies, rights to organize and redemption, health and environmental reporting obligations, “no harassment” policies, and free or subsidized access to legal resources and training.¹

Components of “Rent Control” Policies

While rent control is often viewed as a single housing policy, it encompasses a wide range of approaches, with significant variation across jurisdictions. Rent control policies are defined by several key parameters, which differ based on local regulations. The most emphasized parameter is the allowable rate of rent increase over a specific time period.

What is a Rent Cap or Rent Control?

Rent control is a government policy that sets limits on how much landlords may raise rent on tenants. All rent control policies are intended to keep housing costs lower for renters.

Some policies include procedures landlords must follow before raising rents, or provisions that make it more challenging to evict tenants and raise rents for new occupants. In certain jurisdictions, rent increase approvals are managed by dedicated boards, while others explicitly state allowable annual rent increases in the policy language, often tying them to economic indicators like the Consumer Price Index (CPI). Additional parameters may specify which types of units are exempt from rent control and detail processes for landlords to request increases above the allowable rates.

Exhibit 1 provides a summary of different policy parameters and the levels of stringency.

1 Sasha Forbes, “Protecting Renters from Displacement and Unhealthy and Climate Vulnerable Housing,” Strong, Prosperous, and Resilience Cities Challenge, November 13, 2018, <http://www.sparcchub.org/wpcontent/uploads/2018/11/Issue-Brief-Protecting-Renters-from-Displacement-and-Unhealthy-and-Climate-Vulnerable-Housing-11.13-1.pdf>.

WHAT ARE RENT AND PRICE CAPS?

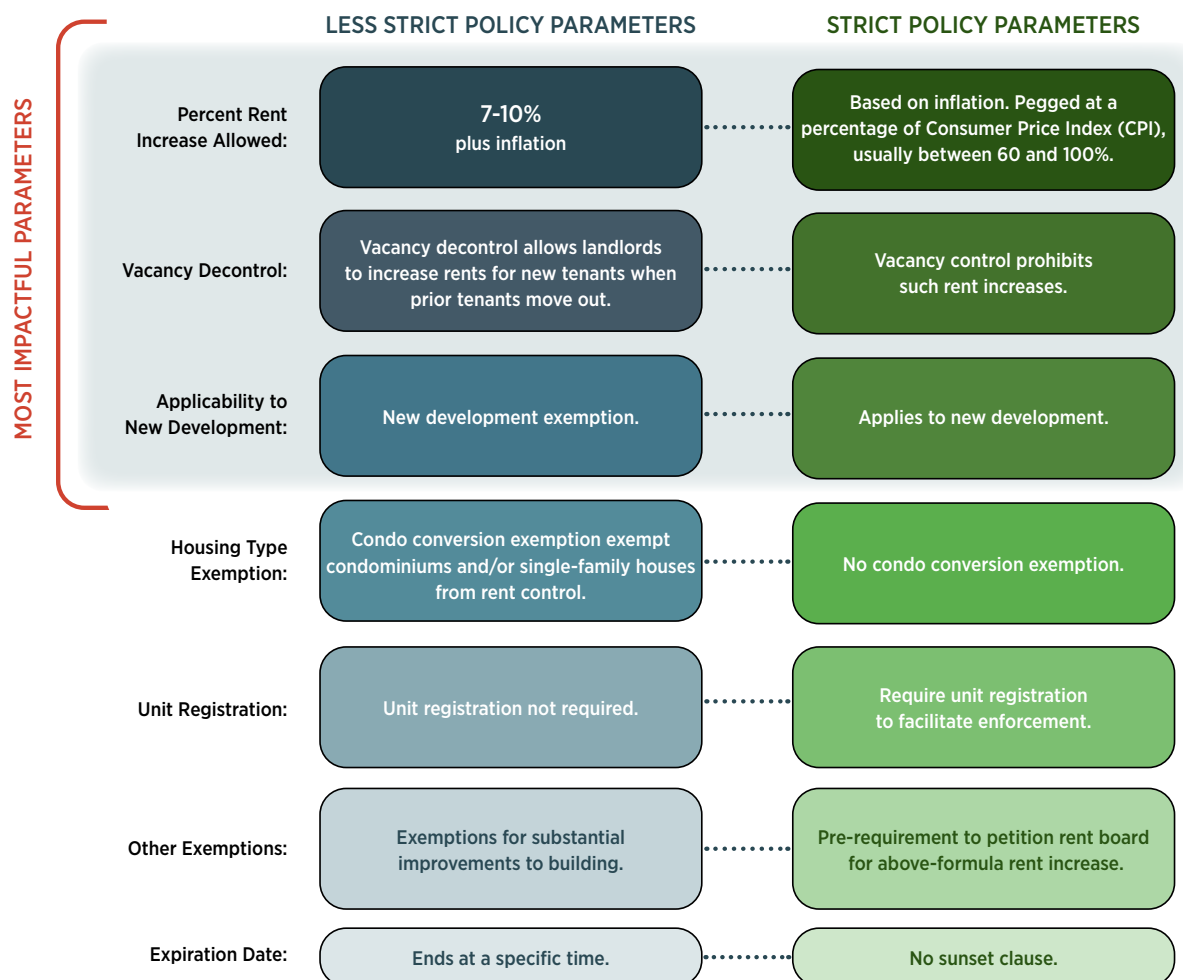
Researchers often classify the rent control policies as **weak, moderate, or strict based on their relative immediate benefits to tenants**. Distinguishing policies as less strict or strict appears to be largely determined by whether policy observers perceive a city's rent control policy to be a binding constraint on rent increases for units in that jurisdiction. This classification allows researchers to compare rent control policies across various jurisdictions even if the underlying combination of parameters varies. It is believed that stricter policies generally create greater immediate benefits to tenants and are generally inversely related to investor and developer interests in maximizing returns.^{2 3}

All rent control policy parameters carry both intended and unintended consequences. These decisions on rent

control are fraught with risk, as each parameter can generate secondary effects—spillovers that impact tenants, landlords, and real estate developers in ways that extend far beyond the policy's original intent.

When these secondary effects are not thoroughly analyzed and weighed, they can lead to unintended and potentially significant disruptions in the community and economy. For instance, a poorly calibrated policy might inadvertently discourage housing investment, reduce the availability of rental units, or shift tax burdens to homeowners. To avoid such outcomes, policymakers need a clear vision and well-defined goals, ensuring that the policy not only addresses tenant issues effectively but also anticipates and mitigates the broader consequences it might trigger.

Exhibit 1: Rent Control Policy Parameters that Inform a Policy's Stringency



Source: ECONorthwest analysis; California Tenants' Rights (2016)⁴. Note: Three other policy parameters include rent rollback, eviction regulation, and rent control board composition.

² Louis M. Rea and Dipak K. Gupta, "The Rent Control Controversy: A Conversation of the California Experience," *Glendale Law Review* 4, no. 2. (1982): 128.

³ W. Dennis. Keating, *Rent Control in California: Responding to the Housing Crisis* (Berkeley: Institute of Governmental Studies, 1983), 7-9.

⁴ Portman, Janet, and J. Scott Weaver. *California Tenants' Rights*. Berkeley: Nolo, 2016

THE NATIONAL AND GLOBAL EVIDENCE: NEGATIVE IMPACTS OF RENT CAPS AND RENT CONTROL

Extensive research from jurisdictions worldwide has established clear evidence of the unintended negative consequences of rent control. A comprehensive review of over 200 studies, including those from Europe, North America, and Asia, consistently identifies several key impacts. Rent control is shown to reduce housing mobility, discourage new construction, lead to housing misallocation, and lower overall housing quality.

These impacts, documented in major studies and reviews, highlight the predictable nature of rent control's unintended consequences. While the intent is to protect tenants, rent caps often harm the long-term affordability and availability of housing.



Construction (16 Studies)

Rent control discourages new construction of rental housing, as developers are less incentivized to invest in projects with capped returns. The uncertainty surrounding future policy changes further exacerbates this issue, leading to a decline in rental housing supply. Some studies noted that this impact may be less severe in cases where new construction is exempt from rent control, but overall development often shifts towards owner-occupied or luxury housing.

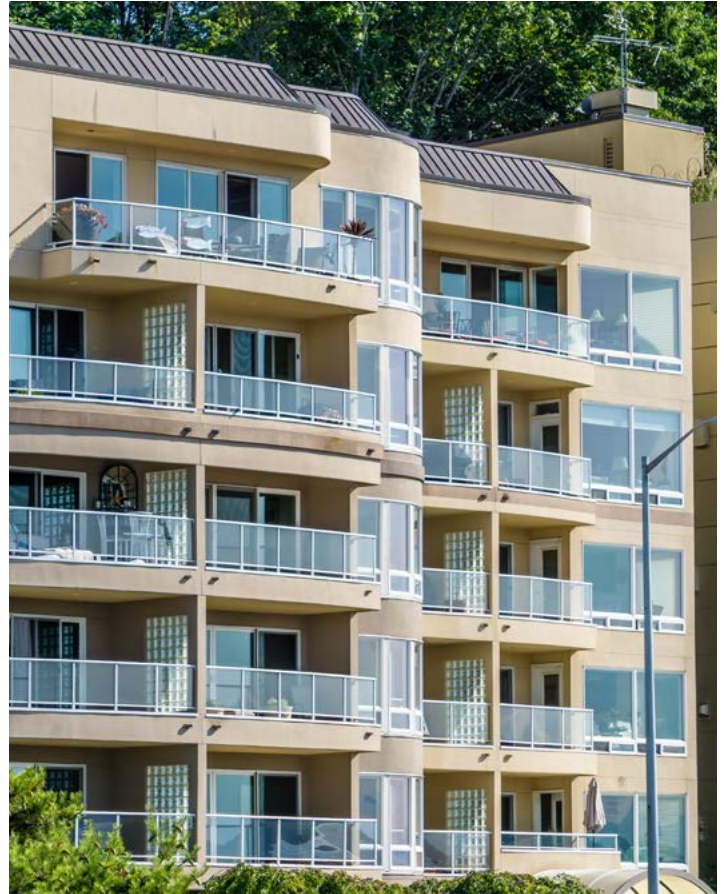
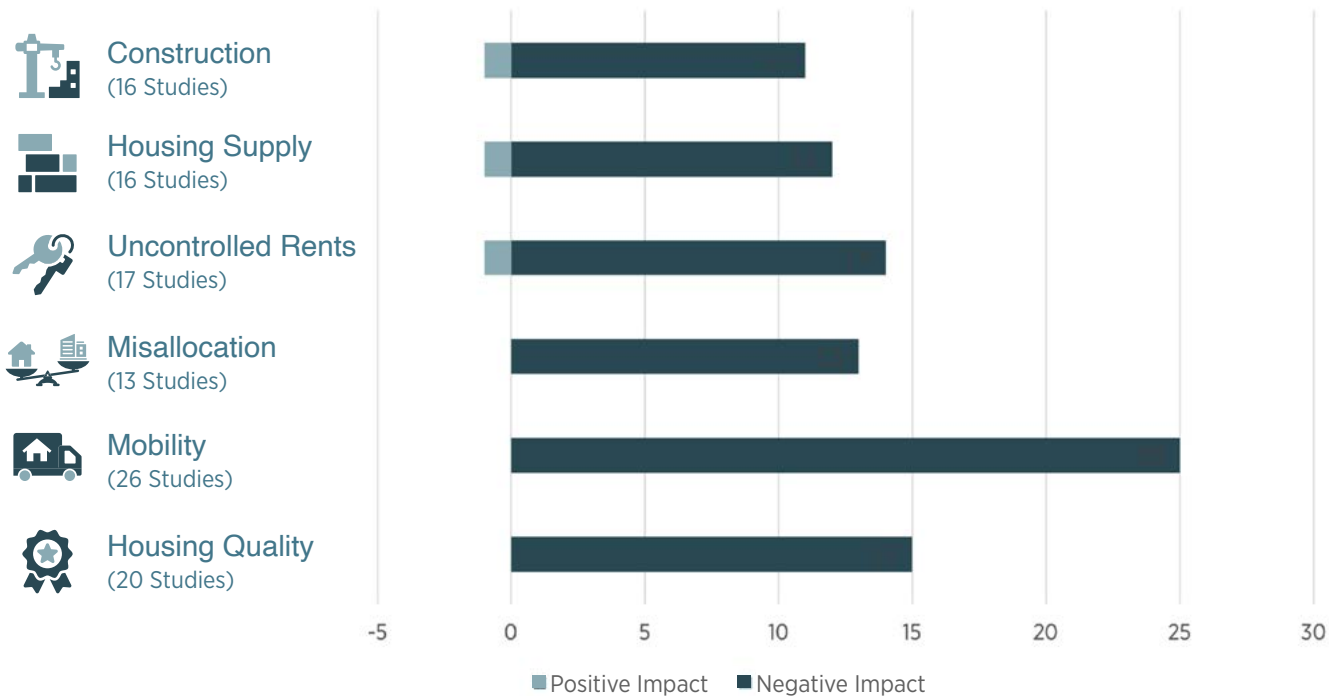


Exhibit 2: Summary of Global Studies of Rent Control



Source: Konstantin Kholodilin, Rent control effects through the lens of empirical research: An almost complete review of the literature, Journal of Housing Economics, 63 (2024).

THE NATIONAL AND GLOBAL EVIDENCE: NEGATIVE IMPACTS OF RENT CAPS AND RENT CONTROL



Housing Supply (16 Studies)

Rent control reduces the overall housing supply by discouraging both new development and the retention of existing rental properties. Landlords may convert rental units to owner-occupied homes or other uses to escape rent control regulations. This shrinkage of the rental market further tightens housing availability, particularly in high-demand areas.



Uncontrolled Rents (17 Studies)

While rent control caps rents for regulated units, it often leads to higher rents for unregulated properties due to increased demand in the uncontrolled sector. This spillover effect exacerbates affordability issues for tenants unable to access rent-controlled housing, driving up overall market rents and contributing to housing inequities.



Misallocation (13 Studies)

Rent control distorts housing markets by allocating units based on regulation rather than need or income. Higher-income tenants may occupy rent-controlled units, leaving lower-income households excluded. Additionally, long-term tenants may occupy properties inappropriate for their current needs (e.g., single individuals in large apartments), further straining the housing market and reducing the efficient use of available units.



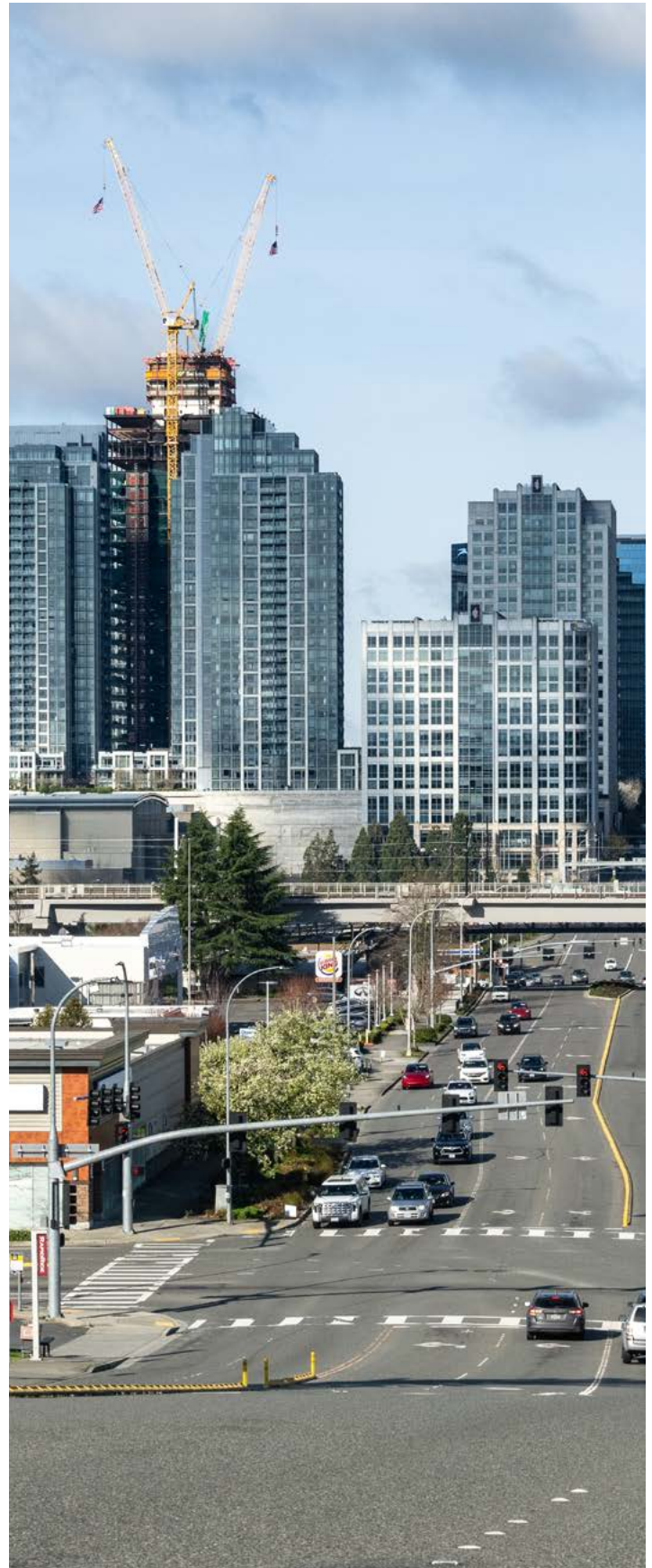
Mobility (26 Studies)

Rent control reduces residential mobility as tenants in controlled units are incentivized to stay due to lower rents, even when their housing needs change. This immobility creates mismatches in housing availability, such as families occupying units too large for their needs, while others struggle to find appropriately sized homes. Reduced mobility also hampers labor market flexibility, as tenants are less likely to move for job opportunities, potentially worsening regional economic outcomes.



Housing Quality (20 Studies)

Landlords of rent-controlled properties often have diminished revenues, reducing their ability or incentive to maintain and upgrade their properties. This results in a decline in housing quality over time, as buildings deteriorate. Landlords may defer necessary repairs or forego improvements altogether, leading to long-term depreciation in both property value and livability for tenants.



3 RENT CAP POLICIES: A VARIABLE LANDSCAPE

Limited Research on the Effects of Rent Cap Restrictions

Despite the extensive body of research on rent control, there has been limited study of the effects of varying rent cap policies. To address this gap, ECONorthwest conducted an in-depth analysis of rent control impacts across three cities in California: San Francisco, Oakland, and San Jose. Each city features a different level of rent cap stringency, providing a valuable opportunity to analyze how varying rent caps influence housing markets.

Rent Control Policies in the Bay Area

Rent control policies in the Bay Area provide a qualitative case study in the variability of rent control policies. Additionally, they are the ideal study area to evaluate the quantitative effects of the different types of rent control in a real estate market. This is because the region has a largely consolidated real estate market that is responsive to a similar regulatory and demographic landscape. In other words, **studying rent control in the Bay Area provides as close a proxy to a natural experiment as one can find in the social sciences.**

Our analysis of rent control policies in San Francisco, Oakland, and San Jose rests on prior inventories of rent control policies by the Urban Displacement Project (UDP), located at the

University of California at Berkeley. UDP used the California Tenants' Rights Guide typologies to characterize each policy as strict or weak.⁵ Exhibit 2 provides a summary of rent control policy parameters in cities in the Bay Area.

In California, the Costa-Hawkins Rental Housing Act was enacted in 1995, limiting the scope of rent control policies at the local level. Certain policy parameters that communities might otherwise be interested in implementing are not legal per this law. Specifically, the law limits rent control in California to buildings built before 1995 or the date of local rent control policy adoption, prohibits vacancy control, and exempts single family dwellings and condos. Thus, rent control policies do not apply to new construction in California at this time. For this reason, the notion of weak and strict denoted in Exhibit 3 should be qualified. These are strict and less strict policies within a policy environment that does not allow even stricter forms of rent control.

Recent ballot measures and policies have contemplated changes to California's rent control restrictions. Proposition 10, which voters rejected in 2018, would have repealed Costa-Hawkins and allowed local jurisdiction to implement any form of rent control. Assembly Bill 36, introduced in December 2018, would have modified Costa-Hawkins to allow rent control to apply to units of a certain age rather than buildings built before a fixed date.

Exhibit 3: Summary of Cities in the Bay Area with Rent Control

City	Year Introduced, Last Modified	Allowable Rent Increases	Stringency
San Francisco	1970, 2019	60% of CPI, not exceeding 7%	Strict
Berkeley	1980, 2005	65% of the Consumer Price Index (CPI). Once a year.	Strict
East Palo Alto	1983, 2010	80% of the CPI but not exceeding 10%. Once a year.	Strict
Mountain View	2016	100% of the CPI. Once a year.	Weak
Oakland	1980, 2019	100% of the CPI; more if landlords have "banked" their rent increases. Once a year.	Weak*
Richmond	2016	100% of the CPI. Once a year.	Weak
Hayward	1980, 2003	5% maximum annual increase.	Weak
Los Gatos	1980, 2004	5% maximum annual increase or 70% of the increase in the CPI, whichever is greater. Once a year.	Weak
San Jose	1985, 2016	5% maximum increase (8% maximum increase prior to 2016); more if the last increase was more than 24 months ago. Once a year.	Weak

Source: U.C. Berkeley analysis⁶; California Tenants' Rights (2013).⁷ *For our analysis, we have added "Weaker" to the scale and classified Oakland's policy as moderate due to the lower rent increase limitation.

⁵ Ibid.

⁶ Mitchell Crispell, Rent Control in the Bay Area (Berkeley: Urban Displacement Project, 2016), 3.

⁷ Janet Portman and David W. Brown, California Tenants' Rights (Berkeley: Nolo, 2013), 76-87.

This section explores the relationship between the stringency of rent control policies and development viability, as measured through property valuations. Here we define key terms in real estate, explain how property valuations relate to development feasibility and finally describe the empirical model and describe its results. Overall, we find a statistically significant negative impact of rent control policies in the Bay Area on property valuations.

Key Terms

To complete an analysis of rent control policy impacts on building valuation, we evaluated a metric called the **capitalization rate** (cap rate). The capitalization rate is a metric that real estate investors use to assess the value and return potential of real estate in a particular area. The lower the cap rate, the lower the perceived risk of owning and operating the building, and therefore higher values for the same net operating income of a building.

The **net operating income** (NOI) of a building is the amount of money the owner is left with after subtracting the operating expenses of the building from the total revenue they collect through rent.

Smaller prevailing capitalization rates thus imply lower market risk and greater values for otherwise similar assets.

Why Would Rent Caps Effect Cap Rates?

The net operating income (NOI) of a property is typically presented as an annualized figure, reflecting its performance over many years. Consequently, the cap rate inherently accounts for the long-term impacts of any policy on NOI. A rent control policy that limits rent growth for some or all units over time reduces the potential income a property can generate, thereby decreasing its value as an investment.

To illustrate, consider two neighboring properties with identical NOIs in the previous year. If one property is subject to strict rent control, limiting the owner's ability to raise rents, while the other property can adjust rents freely to market levels, the rent-controlled property would be less attractive to investors. This diminished appeal would result in a higher cap rate for the rent-controlled property, reflecting the greater perceived risk and reduced income potential.

Investors evaluate properties by applying cap rates to projected NOI to calculate their value. For rent-controlled properties, investors tend to apply higher cap rates to account for the risk of constrained rent growth in the future. This adjustment reflects a more cautious valuation approach, recognizing the inherent limitations imposed by rent control. Over time, such policies systematically reduce the perceived and actual value

of owning and operating rent-controlled properties within the investment market.

How We Study the Impact

To evaluate the relationship between rent control policies and capitalization rates, we built several linear regression models to estimate the influence of rent control policies on cap rates using Costar multifamily real estate sales transaction data. EConorthwest initially undertook this study in 2019 to model different development scenarios under differing stringency of rent control laws. We update this model in 2024 for this report and make use of the latest data available.



The **capitalization rate** is a metric used to estimate the risk-adjusted expected rate of return on real estate investments. The expected rate of return can determine whether investors choose to place their capital with one investment or another. In real estate, the ability to attract capital determines whether or not proposed buildings are actually built.

The capitalization rate is defined as the net operating income of the building in a given time period divided by the market value of the building in that time period.

Smaller prevailing capitalization rates imply lower market risk and greater values for otherwise similar assets.

How does the cap rate influence building valuation?

An example:

For a building with net operating income of \$1M, a cap rate of 4.5% equals a total value of \$22.2M. If that cap rate metric increased by 0.50% to 5.0% due to real or perceived risk, the total value would be reduced \$2.2M to \$20M. For a building with a greater net operating income of \$5M, the same increase in cap rates impacts the total value by \$11M, from \$111M to \$100M.

$$\text{Value} = \frac{\text{NOI (Net Operating Income)}}{\text{Cap Rate}}$$

IMPACT OF RENT CONTROL ON PROPERTY VALUATION

ECONorthwest collected transaction data for which a capitalization rate was available from properties in three Bay Area markets: San Francisco, Oakland, and San Jose. Each of these markets has a different rent control policy, implemented at different times, with varying levels of restrictiveness. The San Francisco rent control policy applies to buildings built before 1979, the Oakland policy applying to buildings built before 1980, and the San Jose rent control policy applies to buildings built before 1985.

Our linear regression models estimate the relationship between rent control and capitalization rate using building level features, market indicators, and categorical variables to account for differences in neighborhoods. We fit four models: one for each of the Bay Area cities and another model for the data from all three cities combined. Each of the non-dummy variables in the model was significant at an alpha level of 0.05 with the exception of macroeconomic control variable, which was significant at an alpha level of 0.1. Our model of cap rates controls for:

- Age of the building
- Building characteristics (as measured by Costar’s star rating system)
- Neighborhood (using both zip codes and submarket names)

- Building sales price
- Year of sale
- Macroeconomic condition (average federal funds rate in the year of the sale)
- Applicability of a rent control policy (and stringency of the rent control policy for the blended model)

ECONorthwest used the attributes within the model to isolate the factors that influenced the transaction value. The control group was relatively small due to the limited number of transactions of new housing stock in these Bay Area geographies. While there is a small control sample for the variable of interest, it proved to be statistically significant at the 0.01 level, which is the highest standard. Exhibit 3 provides a summary of how each city’s rent control policy influenced the capitalization rate of property transactions. It also shows how rent control influenced cap rates on all property sales for the three cities combined (Blended Model).

Findings: Rent Caps Impact the Cap Rate

This table compares the impacts of rent control policies in San Francisco, Oakland, San Jose, and a blended model across these cities, focusing on cap rates and property value reductions for rent-controlled buildings.

Exhibit 4: The Impact of Rent Control on Cap Rates in San Francisco, Oakland, San Jose, and the Bay Area

Geography	Type of Rent Control Policy	Allowable Rent Increase	Total Property Sale Observations*	Risk Premium on Cap Rates	Property Value Reduction
San Francisco	Strict	Allows annual rent increases at 60% of CPI, not exceeding 7%.	5,422 (96% rent controlled)"	+0.44% Results suggest a rent-controlled building has a cap rate that is a half a percentage point higher than a building that is not rent controlled, all else equal. Rent control has an impact on the value of the property.	-8.9%
Oakland	Moderate	Allows rent increases of 100% of the CPI; more if landlords have “banked” their rent increases. Once a year.	1,692 (97% rent controlled)"	+0.18% Results suggest a rent-controlled building has a cap rate that is a 20 basis points higher than a building that is not rent controlled, all else equal. Rent control has an impact on the value of the property.	-3.8%
San Jose	Weak	Allows 5% annual increase (allowed 8% prior to 2016); more if the last increase was more than 24 months ago. Once a year.	2,464 (96% rent controlled)"	+0.19% Results suggest a rent-controlled building has a cap rate that is a 20 basis points higher than a building that is not rent controlled, all else equal. Rent control has an impact on the value of the property.	-4.1%
Blended Model	Blended	Blended	9,578 (96% rent controlled)"	+0.32% Results suggest a rent-controlled building has a cap rate that is 30 basis points higher than a building that is not rent controlled, all else equal. Rent control has an impact on the value of the property."	-6.6%

Source: ECONorthwest analysis. *The timespans for the building transactions that we compiled varied by city: San Francisco: 1990 through 2024; Oakland: 1989 through 2012; San Jose: 1990 through 2024. Note: Only the models for San Francisco and “Blended” were significant at p = 0.05. However, while the p-values for Oakland and San Jose do not meet conventional significance thresholds, the direction and magnitude of their effects align with theoretical expectations and are consistent with the results of the other two models.

IMPACT OF RENT CONTROL ON PROPERTY VALUATION



Strict rent control policies, like those in San Francisco, are associated with significant increases in cap rates and substantial reductions in property values, reinforcing the financial burden these policies place on rental housing markets. Transaction data consistently demonstrates that investors value rent-controlled properties less than unrestricted properties, leading to suppressed property valuations and

decreased investment in new housing. Regardless of the specific provisions of rent control policies, the model showed declining property values across all cities with rent regulations. This confirms that rent control—regardless of its stringency—erodes investor confidence, distorts market incentives, and ultimately reduces the financial viability of rental housing development.

WHY LOWER PROPERTY VALUATIONS MATTER FOR HOUSING POLICY

The Connection Between Lower Property Valuation and Development Impacts

Lower property valuations caused by rent caps create a cascade of negative effects on land development and the broader housing market. As property values decline, the profitability of rental properties diminishes, making it harder for developers to secure financing and justify new projects. Lower valuations reduce the expected returns on investment, limiting developers' ability to meet lending criteria and obtain project funding. This directly impacts the financial feasibility of future development, particularly for multifamily housing, which is essential for addressing housing shortages. Without sufficient investment, housing production slows, exacerbating long-term affordability issues and leaving communities with fewer rental options.

When rent cap policies are implemented, the value of rent-cap properties decreases compared to those not subject to such regulations. This devaluation has a profound impact on the feasibility of multifamily property development, as it directly influences the financial attractiveness of these projects for investors and developers.



Challenges in Attracting Capital

Investors base their decisions on the potential returns a property can generate. Rent control limits rental income growth, reducing the expected NOI over time. Consequently, properties subject to rent control offer lower returns, making them less attractive to investors. In a competitive capital market, developers may struggle to secure financing for rent-controlled projects, particularly in jurisdictions with strict rent control policies.

Pressure on Land Costs

To make a rent-controlled development financially viable, developers would need to compensate for the reduced returns by lowering other costs, particularly land acquisition. This creates a downward pressure on land prices in areas where rent control is in effect. However, if landowners are unwilling to sell at lower prices, fewer sites become feasible for development. In highly competitive urban areas with already limited land availability, this further restricts the potential for new multifamily housing projects.

Variability Across Rent Control Strength

The severity of these impacts depends on the strictness of the rent control policy:

- **Strict Rent Caps:** Substantial limitations on rent increases and high regulatory burdens lead to pronounced reductions in multifamily development feasibility, significantly constraining housing supply.
- **Moderate Rent Caps:** Policies with more flexibility, such as allowing rent increases tied to inflation or higher caps, reduce the negative impacts on development feasibility but still create challenges compared to a market without rent control.
- **Weak Rent Caps:** Policies with minimal restrictions, such as higher allowable rent increases or exemptions for newer properties, have a less pronounced effect on housing supply but still add a layer of complexity and risk for developers.

Lower Development Feasibility and Reduced Housing Production

When rental property values decline, developers face greater difficulty securing financing for new construction, as lower valuations reduce expected returns and limit their ability to meet lending criteria. This results in fewer projects breaking ground, particularly for multifamily rental units, which are critical for addressing housing shortages.

Importantly, these missed opportunities represent a hidden cost: properties that don't develop, develop later, or develop at a smaller scale than they otherwise would have remain unseen in the public discourse. This hidden counterfactual—the housing that could have existed—is difficult to measure but has profound implications, as it delays or permanently reduces the housing stock needed to alleviate long-term affordability challenges. With diminished investment, housing production slows, creating ripple effects that limit rental availability, inflate prices, and deepen housing supply shortages over time.

Conversion to For-Sale Housing

As rental properties become less viable under rent caps, property owners and developers often convert rental units to for-sale housing, such as condominiums or single-family homes, which are typically exempt from rent control. This shift reduces the available rental housing stock, further limiting options for renters and increasing pressure on the remaining rental units in the market.

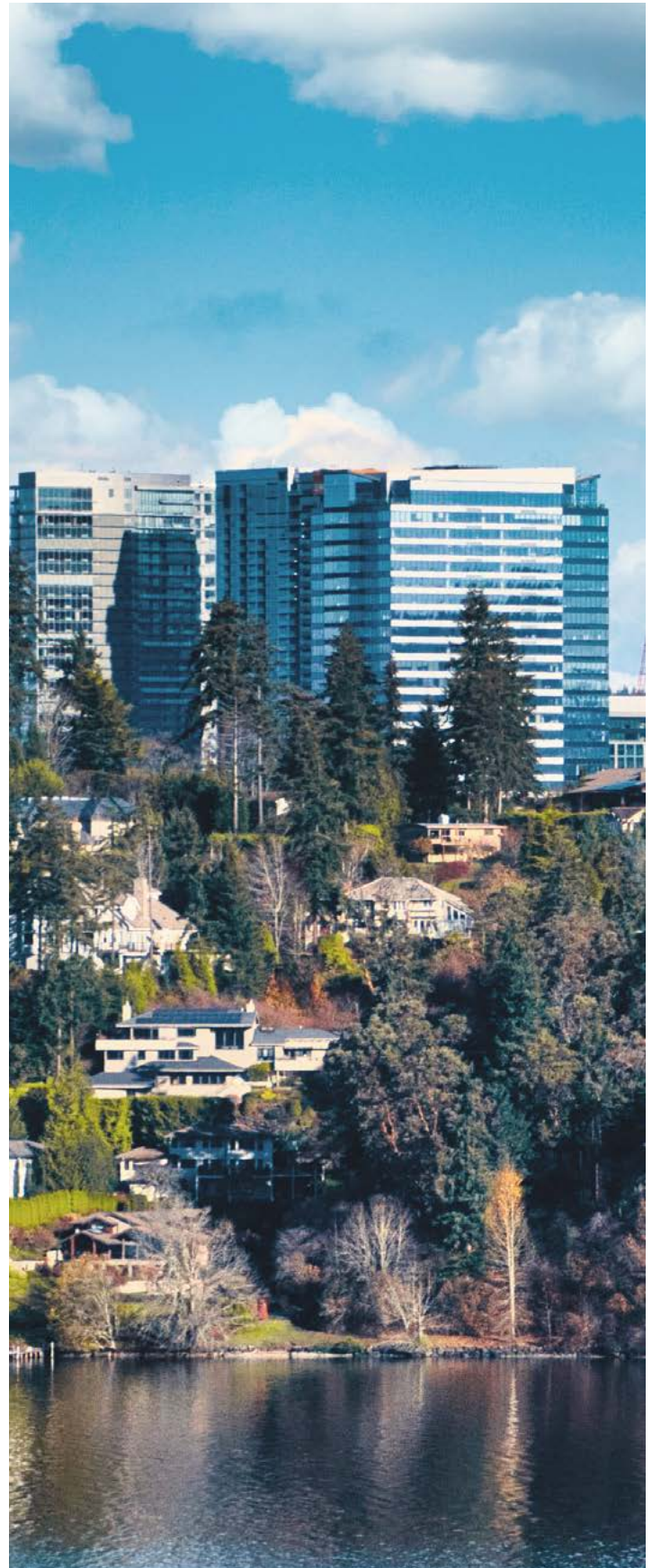
WHY LOWER PROPERTY VALUATIONS MATTER FOR HOUSING POLICY

The reduction in the feasibility of multifamily development is always relative to other available land-use options. For example, in many cases, developers find greater returns in commercial uses like office, retail, or mixed-use developments that are less constrained by rent restrictions. For residential properties, another viable alternative is simply to take the property out of the rental market entirely and convert it to ownership housing. This dynamic creates a systemic drain on the rental supply, leading to fewer affordable housing options, higher rents for remaining units, and broader disruptions in meeting long-term housing needs.

Declining Housing Quality

Lower property valuations also affect landlords' incentives to maintain or upgrade their properties. With constrained rental income, many landlords defer maintenance or reduce investments in property improvements, leading to a gradual deterioration in housing quality. Over time, this decline can result in aging housing stock that no longer meets the needs of tenants or local building standards.

The issue is compounded because maintenance deferrals can create a feedback loop—as properties degrade, their market value further declines, making it even less attractive for landlords to reinvest. This dynamic results in properties that fall below acceptable living standards, contributing to housing stock that deteriorates faster than it otherwise would. Additionally, renters may bear the hidden costs of living in subpar housing, including higher utility costs from inefficient buildings and health risks from neglected repairs, such as mold or structural issues.



6 MOVING TOWARD EFFECTIVE HOUSING SOLUTIONS

Rent Caps: Too Much Collateral Damage for Housing and Future Renters

Our findings in California align closely with global empirical research on the unintended consequences of rent caps, reinforcing the long-term risks to housing markets, **even when less strict policies are imposed**. The consistent patterns observed include:

- **Reduced Housing Supply Growth:** Stricter rent caps deter both the construction of new rental units and the retention of existing rentals. Over time, this exacerbates supply shortages, particularly in regions already facing housing underproduction.
- **Shifts in Development Priorities:** Developers often pivot toward luxury housing or owner-occupied projects, which are typically exempt from rent caps, further limiting affordable rental options.
- **Long-Term Affordability Challenges:** Instead of improving affordability, rent caps create segmented markets where tenants in controlled units benefit while others face higher rents and reduced options in the uncontrolled sector.
- **Inequities and Misallocation:** Higher-income tenants often remain in rent-controlled units due to the favorable conditions, while lower-income families struggle to find available housing. This misallocation worsens disparities and limits access to affordable housing for those who need it most.

Continued Focus on What Works and Following the Evidence

While rent caps aim to address affordability, the evidence shows that they often exacerbate housing challenges by limiting supply, discouraging investment, and creating market inefficiencies. Lower property valuations discourage new multifamily development, lead to deferred maintenance of existing units, and incentivize conversions to for-sale properties, all of which reduce the availability of affordable rental housing. These factors collectively strain the rental market and leave low-income renters with fewer viable options, ultimately harming the very populations rent caps intend to help.

Additionally, the spillover effects of reduced property values extend to entire neighborhoods, slowing revitalization efforts and undermining local economic growth. As investments in housing and infrastructure diminish, communities face broader consequences, including reduced job creation, delayed infrastructure improvements, and declining public services due to reduced tax revenue. Over time, this creates a cycle of stagnation and declining living standards.

Policymakers should prioritize targeted solutions that directly benefit those most in need, such as:

- **Short-Term Rental Assistance:** Direct subsidies for lower-income households can provide immediate relief without distorting the market or limiting future housing development.
- **Pro-Housing Supply Reforms:** Streamlined permitting processes, increased zoning for multifamily housing, and incentives for affordable housing development can address long-term supply shortages and reduce price pressures.
- **Preservation of Existing Affordable Units:** Protecting current affordable housing through targeted programs can prevent further erosion of housing availability and maintain stability in the housing market.

While rent caps aim to address affordability, the evidence shows that they often exacerbate housing challenges by limiting supply, discouraging investment, and creating market inefficiencies. Washington's policymakers have a critical opportunity to avoid the long-term pitfalls of rent caps by adopting strategies that foster sustainable growth, equitable housing access, and long-term affordability. By doing so, they can help create a housing environment that balances tenant protections with a robust and sustainable housing supply.





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