

UCLA ECONOMIC LETTER

REAL ESTATE AND THE MACROECONOMY



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Monthly condensed analyses of crucial real estate and economic issues offered by the UCLA Anderson Forecast and the UCLA Ziman Center for Real Estate. In this February 2021 Letter, UCLA Anderson Forecast Economist Leila Bengali investigates whether rent control laws in various cities in Los Angeles County affect the distribution of the types of residential properties, and what impact that may have on rental supply.

(A version of this article appeared as a report in the [June 2020 UCLA Anderson Forecast book](#).)

Could Rent Control Reduce Rental Supply?

An Analysis of Tenant-Protection Laws in L.A. County

By *Leila Bengali*

INTRODUCTION

2020 brought two notable statewide initiatives intending to address the rising cost of housing in California: the Tenant Protection Act of 2019 (AB 1482) and Proposition 21 (the Local Rent Control Initiative). Though the proposition failed, the political and societal impetus to address housing costs could mean that similar laws and propositions could come up again.

These types of laws affect rents landlords can charge and investment returns on rental properties, both of which will change landlords' incentives.¹

¹ See for example Autor, Palmer, and Pathak (2014), Diamond, McQuade, and Qian (2019) and Sims (2007). Though technically distinct, 'rent control' will be used to refer to rent stabilization and control.

This could affect the types of properties in a city if landlords convert their properties to types that are exempt from rent control laws or if new construction shifts towards exempt property types. Specifically, such laws may encourage landlords to shift their housing from for-rent to for-sale. The concern is that reducing the supply of rental housing may ultimately increase rents, as prices tend to rise when supply falls.

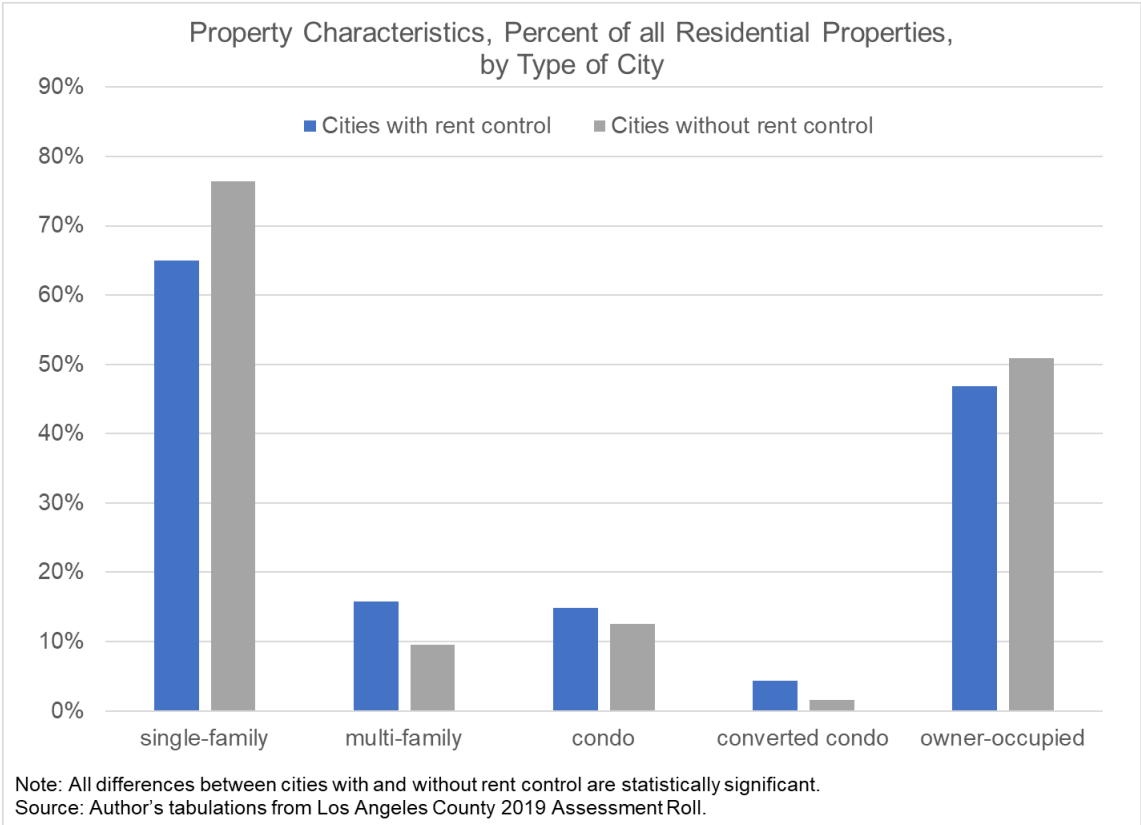
This report investigates whether rent control laws in various cities in Los Angeles County affected the distribution of the types of residential properties over the long run.

“Rent control laws may reduce the supply of units available for rent if existing properties are taken off the rental market (through conversions) or if new construction is more likely to be single-family.”

AGGREGATE COMPARISONS

To start, Figure 1 compares property and ownership characteristics between four cities with rent control (Los Angeles, Santa Monica, Beverly Hills, and West Hollywood) and the county’s cities that do not have rent control.² Relative to cities without rent control, these cities have a higher fraction of multi-family housing (not exempt from rent control laws), condominiums (generally exempt), a smaller fraction of single-family housing (exempt), and a smaller fraction of owner-occupied housing. Cities with rent control also proportionally have more units converted from rental to condominium status (which are generally exempt).³

Figure 1. Property characteristics in Los Angeles County cities, proportion of all residential properties



² Unincorporated Los Angeles, Culver City, and Inglewood passed rent stabilization rules too recently to be included in the analysis given data availability. All analysis also excludes mixed-use commercial/residential properties.

³ A converted condominium is a property that was converted into a condominium from another property type through an application and permitting process. Since such properties are converted rather than torn down, their property record retains the original construction year.

ANALYSIS

The aggregate comparisons suggest differences in property types between cities with and without rent control, but these aggregate differences alone do not necessarily mean that rent control causes changes from for-rent to for-sale. The reason is that rent control laws were created and approved at specific points in time in specific places in response to local housing conditions. This means that the types of properties in a city could have an effect on whether rent control was passed or not rather than the other way around. For example, cities with more renters and relatively fewer single-family properties may be more likely to have a successful vote on rent control, a pattern seen in Figure 1.

Two features of rent control help address this issue: not all cities in LA county have rent control and for those that do, there are exemptions. To a first approximation, properties built after a certain year (Y) are exempt, as are single-family homes and condominiums (in some cities) regardless of construction year. Comparing properties built just before and just after year Y in cities with and without rent control gives a better estimate of how rent control might affect property types.

There may be historical patterns in the popularity of different types of properties, and the patterns in cities without rent control indicate what we should expect to observe in the absence of rent control. That is, they serve as the counterfactual. If landlords react to rent control laws at a large enough scale, one would expect to see evidence that properties originally built before year Y (subject to rent control) would be more likely to have been converted to a type of property that is exempt from rent control than those built just after year Y.

Figure 2 gives a concrete example using the city of West Hollywood, where rent control is effective for multi-family properties built in or before 1979. The figure shows the fraction of properties constructed in each set of 5-year intervals that are currently (as of 2019) multi-family, condominiums, converted condominiums, and single-family homes. The figure shows that there are notably more converted condominiums (which are exempt) in properties originally built before 1979. This figure is suggestive that landlords reacted to rent control laws by converting properties to types that are exempt from control, but as noted above, condominium conversions could have been popular for properties originally constructed in the 1970's for reasons having nothing to do with rent control.

In analysis that accounts for such trends by using properties in cities without rent control for comparison, there is evidence of some reaction to rent control laws.⁴ As suggested by the figure, relative to cities without rent control, West Hollywood properties built just long enough ago to be rent controlled are more likely to have been converted into condominiums. There is a similar pattern in Beverly Hills (though the effect is not statistically significant), Los Angeles (though for the most part, converted condominiums are still subject to rent control), and Santa Monica (where some converted condominiums are exempt, though the laws regarding exemptions are complex).

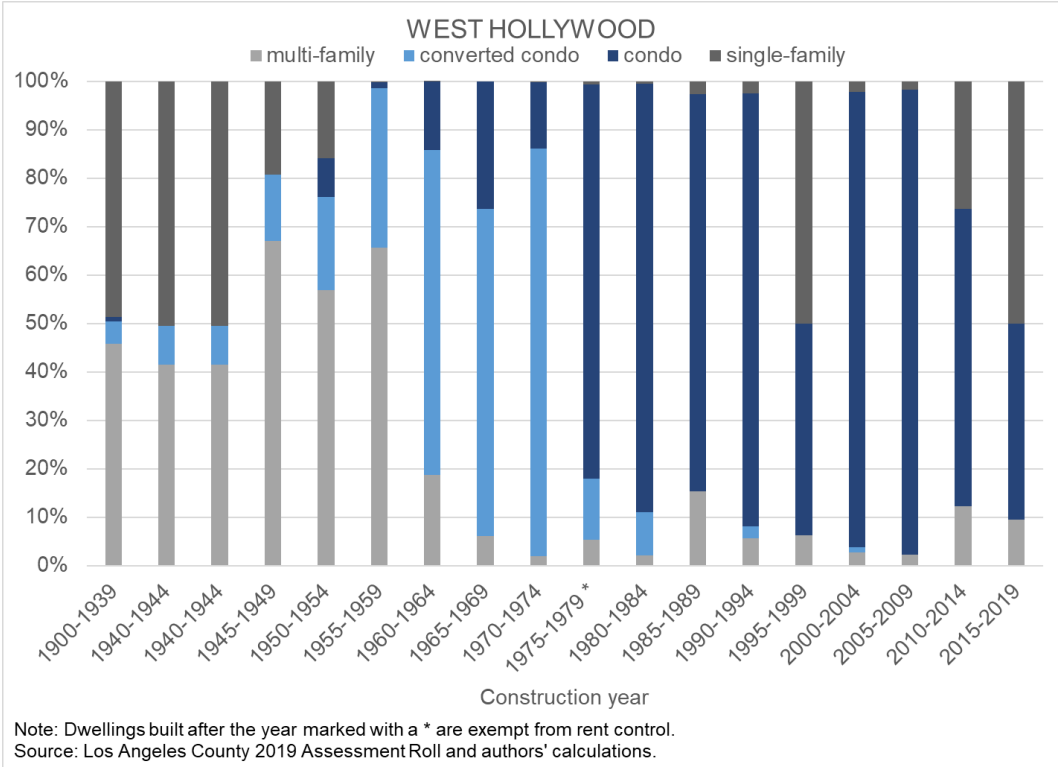
There is also evidence of a change in the types of properties constructed in years that follow the passage of rent control, when all property types are exempt. One interpretation is that property owners became wary that cities could expand rent control to later years, and shifted towards property types that would be exempt even if the construction year threshold for rent control were moved up. In Los Angeles, Santa Monica, and West Hollywood, relative to cities without rent control, there are proportionally more owner-occupied properties built in years that are just recent enough to avoid rent control.

These cities also show a shift away from multi-family housing (though not statistically significantly so in West Hollywood) and in Santa Monica and West Hollywood, a shift towards single-family housing for properties built in years when rent control no longer applies. Though the motives for these shifts are speculative, the results do suggest that rent control did in some instances result in landlords shifting from for-rent to for-sale housing.

These adjustments could potentially counter the intent of rent control laws by reducing the supply of units available for rent if existing properties are taken off the rental market (through conversions) or if new construction is more likely to be single-family. Consistent with the idea that multi-family rental properties yield more housing supply per unit of space, in the four cities examined here, the average number of housing units per property is highest and the average unit size (in square feet) is lowest for multi-family housing.

⁴ Details about the econometric model and results are available from the author upon request. The results are robust to the inclusion of city-specific factors that proxy for income and demographics as well as to alternative formulations run on data aggregated to the city-by-construction year level.

Figure 2. Property types in West Hollywood, percent of all residential properties by construction year



CONCLUSION

This Economic Letter opened by referencing two rent-stabilization initiatives aimed at helping renters; however, these were neither the only nor the largest disruption in rental markets in 2020. There was also the coronavirus pandemic and the recession it induced. As a result, there was a notable decline in demand for high-density rental housing (which, all else equal, puts downward pressure on rents) and some concern about reductions in rent payments, both of which affect a landlord’s balance of costs and revenue. In the short run, market exit by landlords is an unlikely reaction to changes in costs and revenue (and likely an unavailable one with eviction moratoria). A potentially more viable option is to find ways to keep costs down, perhaps by delaying building maintenance projects. Though building permits are a rough proxy for building maintenance, at least in the City of Los Angeles, the number and value of building permits pulled were down in most of 2020 compared to 2019, consistent with this story. It is also possible that delays in administrative processing and scheduling construction caused this reduction.

With the general cost of housing in the region increasing, so may be the pressure to expand rent control. Prior research and the results presented here raise the possibility that such laws – by reducing the rental supply and thus raising rents – could be partially counter-productive.

REFERENCES

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