



Can a law make rent cheaper?

A rent cap is a price ceiling: the shortage it makes, how it grows with time, and what San Francisco saw after 1994.

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Problem · tool

rent control

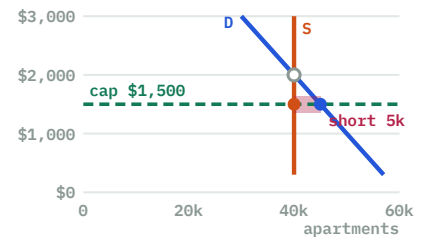
- **Problem** → rents rise faster than pay → families must move away
- **Tool** → **rent control** = law capping the rent (or how fast it may rise) = **price ceiling** on housing · tenants pay less · the city pays nothing
- **Price ceiling** = legal maximum price · matters only if **below** the market price (Micro 4)

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The cap in the model

year 0

- Toy city · demand $Q = 60 - 10r$ (r in \$ thousands, Q in thousands) · **40,000** apartments this year (supply vertical) · market rent **\$2,000**
- Cap **\$1,500** → renters want **45,000** · exist **40,000** ⇒ **SHORTAGE 5,000** = wanted – for rent
- Tenants inside save **\$500** a month = **\$6,000** a year
- Cap at or above market rent ⇒ **nothing changes** · e.g. \$2,400 cap, \$2,000 rent · but rent would rise to \$2,600 ⇒ cap **bites**

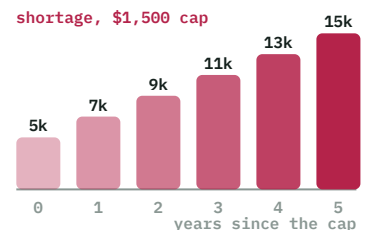


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Time matters

elasticity of supply

- Short run: buildings exist ⇒ supply **inelastic** · long run: landlords sell, rebuild, build fewer rentals ⇒ supply **elastic** (Micro 3)
- Cap stays \$1,500 · supply $Q = 40 + 4t(r - 2)$ → for rent **40, 38, 36, 34, 32, 30** thousand (years 0-5) ⇒ shortage **5 → 15** thousand
- Gentler cap \$1,800: shortage **2,000** (year 0) → **6,000** (year 5)



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Life in a shortage

non-price rationing

- Rent cannot rise ⇒ something else decides who gets a home: **queues**, luck, friends, cash on the side = **non-price rationing**
- Tenants stay put even if home no longer fits · **less repair** (queue of renters ⇒ shabby flat still rents)
- Numbers: cap \$1,600 → renters want **44,000** · shortage **4,000** · tenants save $40,000 \times \$400 =$ **\$16 million** a month

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Evidence

San Francisco 1994

- Nov 1994 · cap extended to buildings with **2-4 apartments** built **before 1980** · newer ones stay free ⇒ **natural experiment** (like buildings, only the cap differs)
- Diamond, McQuade, Qian (Stanford) · tenants **~20% more likely to stay** · rentals of capped landlords **-15%** (sales, conversions, rebuilds) · city rents **~+5%**
- Rentals gone ⇒ renters move to uncapped flats ⇒ **more demand** ⇒ higher rents · gain to tenants 1995-2012 ≈ **\$2.9 billion** ≈ cost of higher rents to all renters
- 200 capped rentals – 15% = **170**

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Other tools

build · vouchers

- **Build more** (zoning: what may be built where) ⇒ supply **right** · 50,000 apartments ⇒ market rent **\$2,000 → \$1,000** · below \$1,500 cap ⇒ cap **no longer matters**
- **Vouchers** = state pays part of rent for low incomes ⇒ demand **right** ⇒ with a cap, shortage **wider**

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Trade-off

policy card

- **Insiders** (tenants already in) gain · **outsiders** (newcomers) pay: fewer rentals, higher rents · landlords collect less
- **FOR** shields tenants from sudden rises, stay near jobs, schools, friends · **AGAINST** shrinks supply over time, raises rents for newcomers
- **Positive** (testable: rentals -15%) vs **normative** (values: "should")
- Policy card: problem **rising rents** → tool **price ceiling** → model **shortage 5,000 → 15,000** → evidence **SF: tenants stayed, rentals -15%, rents +5%** → trade-off **today's tenants vs tomorrow's renters**