

Ahern and Giacoletti (2023):  
The Redistribution of Housing Wealth Caused by  
Rent Control

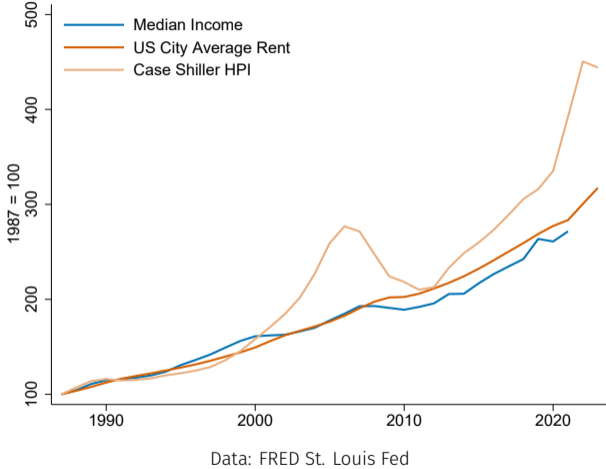
Discussion by Lu Liu

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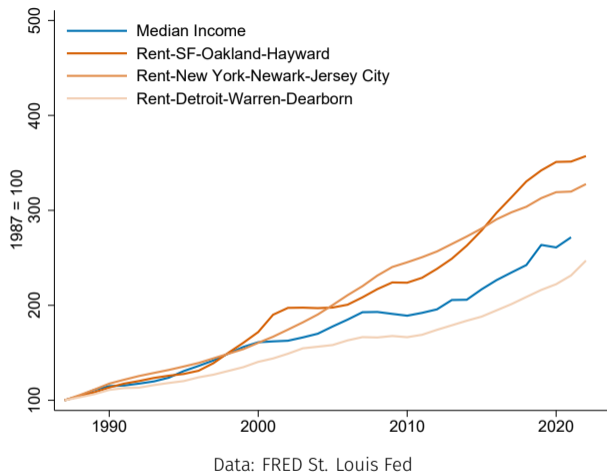
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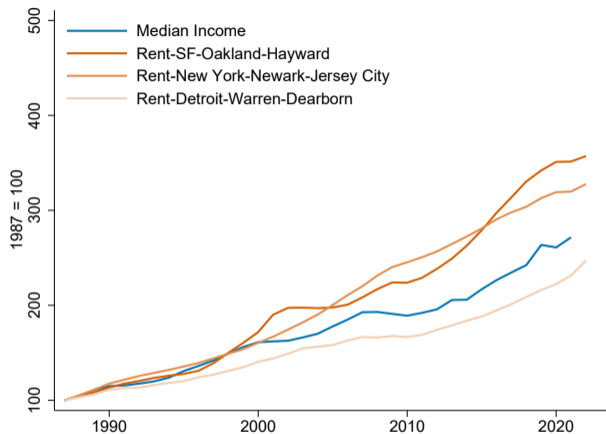
# Motivation: Housing and Rental Affordability



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Data: FRED St. Louis Fed

- Policy tools? This paper: [rent control](#)
- Who benefits, who loses?

## A Brief History of Rent Control in the US

- U.S. Emergency Price Act of 1942: rent controls of New York (“First Generation”)
  - Fix rent to March 1943 levels
  - “To prevent ‘speculative, unwarranted, and abnormal’ rent increases during the war” (Gyourko and Linneman 1989)
- 1950-1960: Most jurisdictions removed rent controls
- 1960s-1970s: “Second Generation”
  - Resurgence of rent controls, high inflation (e.g. CA/NJ/NY/MA/WA)
  - Allow for minor rent increases, range of tenant protection measures
- 1994 policy changes:
  - Cambridge, MA (Autor–Palmer–Pathak, 2014) → role of spillover effects
  - SF, CA (Diamond–McQuade–Qian, 2019) → medium-term supply response may raise prices

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- 2020s: “Third Generation?”
  - High inflation, high mortgage rates, affordability, homelessness ...
  - More aggressive forms of rent control? Max. rent increase

(Based on Jenkins 2009)

## This Paper

- Quantify redistributive effects of rent control policy in 2021 (max. 3% rent growth) on housing wealth of renters, landlords, homeowners (St. Paul, Minnesota)
- **Key findings:**
  - Average property values fell by 4.4% to 5.8%, including owner-occupied houses
  - Higher-income renters gained more than lower-income renters
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- **Discussion points:**
  - 1 Empirics (brief)
  - 2 Wealth redistribution to renters
  - 3 Welfare and equilibrium effects
  - 4 Role of political economy



## City of St Paul's Rent Stabilization Ordinance

*“The City of Saint Paul’s Rent Stabilization Ordinance, initially approved by voters in November 2021, was amended by City Council in [April 2022 and] September 2022. Changes to the law took effect on January 1, 2023. [...] The Rent Stabilization Ordinance aims to address a [shortage of affordable residential rental housing](#) in the City of Saint Paul and ensure all residents have access to affordable housing.”*

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### Intuition:

- Cap the growth of rents at 3% for *everyone* (at least until April 2022; sample: Jan 2018 - July 2022)
- Implication: policy [more binding in areas with faster-growing rents](#)
  - Higher-income households receive greater implicit transfers than lower-income households
- Redistributive effects: not well-targeted?

# Comment 1: Empirics

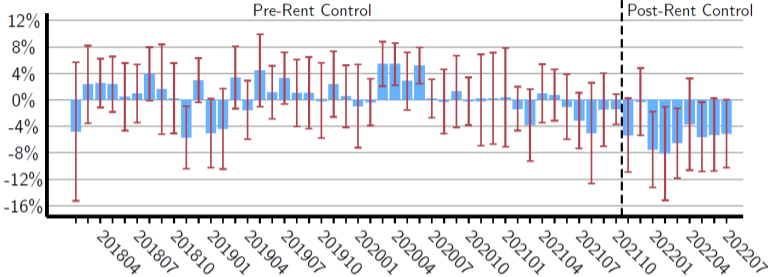


FIGURE 2. REAL ESTATE PRICES IN ST. PAUL VS. ITS SUBURBS BY MONTH

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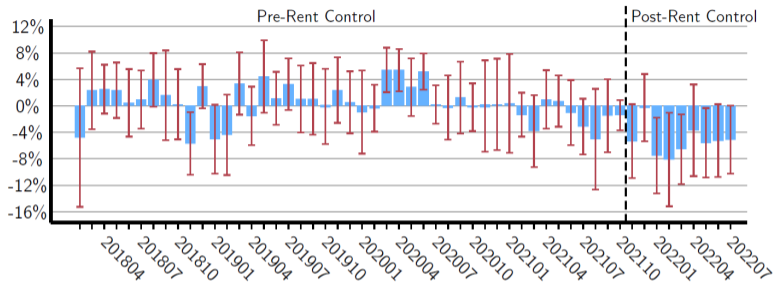


FIGURE 2. REAL ESTATE PRICES IN ST. PAUL VS. ITS SUBURBS BY MONTH

- Q: Change in transaction quantities (St Paul vs suburbs)?
- Price effect depends on probability of ever needing to rent out: source of unobserved heterogeneity?
  - Compositional shift in sellers, buyers and properties?
  - Downward bias? Sell to buyers that are less likely to need to rent out (reduces capitalization/price effect), do not sell properties that are likely to be rented out
- Diamond et al. (2019) find strong landlord responses to policy incentives

## Comment 2: (Wealth) Redistribution to Renters?

- Calibrate a present value relationship to provide an estimate of the direct capitalization effect of rent control policy
  - Can then compute: indirect effect = measured effect - E[direct effect])
  - Fairly straightforward for owner/landlord

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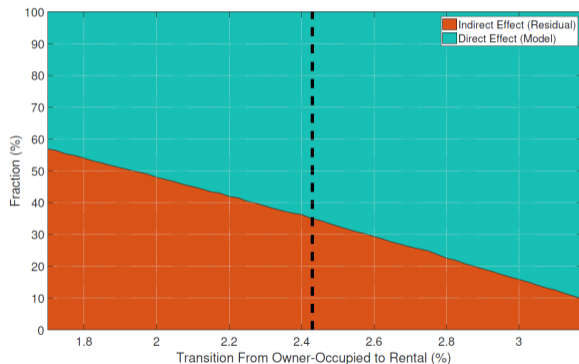


FIGURE 3. DECOMPOSITION OF LOSSES FOR OWNER-OCCUPIED HOUSES

## Comment 2: (Wealth) Redistribution to Renters? (cont'd)

- How to think about **wealth redistribution to renters**?
  - Implicitly, “representative renter” who stays in the property forever (pre and post policy)
  - Fairly stylized

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- ... Difficult to think about benefit to renter as **pure wealth transfer**
  - **Insurance benefit** vs.  $\uparrow$  expected tenure in rent-controlled property, **misallocation**  
(e.g. Glaeser–Luttmer 2003, Favilukis–Mabille-van Nieuwerburgh 2023)
  - Net benefit of rent control to renter would be:

$$\begin{aligned} & E[\text{PV rents (current tenure)}] + E[\text{PV future rents elsewhere (T - current tenure)}] - \\ & E[\text{PV rents under rent control (curr. tenure + } \Delta)] - \text{misallocation loss} + \text{insurance benefit} - \\ & E[\text{PV future rents elsewhere (T - current tenure - } \Delta)] \end{aligned}$$



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- **Targeting**: loss could be smaller, insurance benefit larger for lower-income households

## Comment 3: Rent Control and Welfare in Equilibrium

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- **GE:** Insurance benefit vs. misallocation with spatial & labor market eqm (Favilukis–Mabille–van Nieuwerburgh 2023)
  - Rent control can be welfare-improving, especially with better targeting:
  - E.g. income qualification at entry, requalification in each period
  - Expansion of affordable housing share mandate at construction (due to spatial reallocation)
  - Expansion of housing voucher system
- **Other welfare dimensions:** effects on home ownership and other life-cycle decision, evictions/homelessness (Abramson 2022)

## Comment 4: Political Economy of Rent Control?

- Rent control as local policy: incumbent residents get to vote on policy
  - Rent control causes **lock-in**: insurance linked to staying in place
  - **Benefits incumbent renters**, but displaces potential movers to the city
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- **Cautionary tale** of voting for lock-in: California Proposition 13 (enacted in 1978)
  - Limits local property taxes to 1% of purchase price (or assessed value in 1975) + cap increases at 2% per year
  - Prop. 60: encouraging older people to move, but also Prop. 58 and Prop 193: pass homes from parents to children (grandchildren) without rise in assessed value
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- **In St Paul, may help explain why policy was amended so quickly**
  - Could help motivate why we care about house price effects? Owners did not like it.
  - Need to design affordable housing policies that **target low-income HHs dynamically**, **avoid political gridlock**

## Conclusion

- A careful empirical exercise to help evaluate an important policy: rent control
  - Focus on house price effects & wealth redistribution
- Discuss assumptions behind housing “wealth transfer” to renters, why differential impacts matter (political economy?), other dimensions of redistribution that could be affected (maybe for future work).
- Looking forward to future iterations and more work on this topic!