

Rent Control

In 2019, Oregon and California became the first states in the nation to adopt a statewide rent control law. Rent control is simply a price control for leased housing and it can function in a number of ways. The strictest rent control policies either specify a rental price by government fiat or prohibit rental rates from increasing during the lifetime of a tenancy. More lenient rent control policies allow rental rates to rise by a specified amount over the lifetime of a tenancy.

Although many American cities experimented with rent control policies in the 1970s, no state had enacted rent controls statewide until 2019. Oregon's law took effect first and limited the annual rise in rental rates to 7% plus the rate of inflation during the lifetime of a tenancy if the unit is 15 years or older at the time the lease is executed. Rates could reset prior to accepting a new tenant, but would be controlled during a tenancy. In 2023, Oregon lawmakers tightened the control further by capping the annual increase to 10% regardless of the rate of inflation. California's law is similar but applies only to housing units owned by a corporation or real estate investment trust. It limits annual increases to the lower of: 10%; or 5% plus the rate of inflation.

In 2022, Nevada's Culinary Union unsuccessfully sponsored a initiative to impose rent controls in North Las Vegas. Then-Gov. Steve Sisolak responded by predicting lawmakers would take up rent control in 2023.¹ Lawmakers introduced four different rent control proposals. These ranged from legislation that would give cities and counties express authority to enact rent control on their own² to a far-reaching proposal backed by the Culinary Union that would mirror California's approach, but with stricter controls. It would have limited annual increases to the lower of: 5% or the cost of inflation and would exempt units constructed within the past 15 years or units that are the only unit owned by a landlord.³

Key Points

Like all price controls, rent control distorts the balance of supply and demand. Prices are the mechanism that communicate signals between consumers and producers of any good. When prices are unable to move freely, producers don't receive the signal to respond to an increase in demand with a corresponding increase in supply, resulting in a shortage.

Rent control leads to fewer units and poor maintenance. Price controls limit the profit potential of housing investment and may even expose investors to potential losses. These limitations discourage investment in housing markets subject to rent control.

Rent control may make housing affordability worse. In San Francisco, landlords reduced the supply of rental units by 15% after rent control was adopted, leading to a city-wide rent increase of 5.1% that fell largely on renters of non-controlled units.⁴

Rent control leads to less turnover of existing inventory. Renters who benefit from price controls tend to retain a residency longer than they otherwise would, leading to less availability for rising generations. In 1994, voters in the City of Cambridge, Mass., repealed rent control laws that began in 1970. Immediately, housing turnover increased and new housing starts doubled on an annual basis as the value of rental properties as an asset increased by 18% to 25%.⁵

Rising housing costs in Nevada result from a supply shortage and rising inflation. As during the 1970s, the United States has recently faced rising inflation after nearly doubling the money supply between March 2020 and December 2021.⁶ Inflation is not the only driver of rising rent prices, however, as new housing starts have not kept pace with population growth since the 2007–09 recession. Key reasons for this include local zoning ordinances,

¹Dana Gentry, "Sisolak: Legislature May Take Up Rent Control," Nevada Current, June 30, 2022.

²Nevada Legislature, 82nd Session, Senate Bill 371.

³Nevada Legislature, 82nd Session, Senate Bill 426.

⁴Rebecca Diamond et al., "The Effects of Rent Control Expansion on Tenants, Landlords and Inequality: Evidence from San Francisco," National Bureau of Economic Research Working Paper # 24181, December 2017.

licensing fees, and the unavailability of land for private development.⁷

Recommendations

Do not implement rent control. Nevada needs to encourage greater investment in rental housing to keep prices in check. Rent control dissuades this investment.



Source: University of Nevada Center for Regional Studies, "Housing Needs Assessment Report January 2022."

Monthly Listings and Availability of Single-Family Homes, 2016 – 2023



Source: Las Vegas Realtors, "Monthly Housing Market Update: December 2023."

⁵ David Autor et al., "Housing Market Spillovers: Evidence from the End of Rent Control in Cambridge Massachusetts," National Bureau of Economic Research Working Paper # 18125, June 2012.

⁶ Federal Reserve Economic Data, "Monetary Base, Total."

⁷ Michael Calabrese et al., "The Construction of a Crisis," Nevada Policy Research Institute policy study, April 2022.