

## The stupidity of rent controls

Last month I made a [submission on affordable housing](#) to the House of Representatives inquiry on the topic and answered some questions during a short appearance. With the limited time available, I stuck to five key actions to address the problem, which left many other potential points unaddressed. The key theme could be summarised as “government intervention has made housing less affordable, here’s five things that will counter those incorrect government interventions”.

Arguably the dumbest form of government intervention for housing is the imposition of rent controls. Those who advocate for these have almost certainly never read the short work from French Economist Frederic Bastiat, “[That which is seen, and that which is not seen](#)”. Whilst published in 1850, the examples given of the unseen negative consequences of government policy are valid still today. It highlights how politicians have a habit of emphasising the positive outcomes of a particular course of action, whilst completely ignoring the costs and negative outcomes. The military, taxation, infrastructure, the arts, the provision of credit and unions all get a mention, with Bastiat consistently illustrating who is paying for a supposedly free lunch.

At the basic level, rent controls appeal as landlords can easily be painted as greedy and tenants painted as needy. Why shouldn’t government intervene in the relationship between these groups so that tenants have lower rents and landlords have lower profits? What is seen with rent controls is that existing tenants have lower rents, at least in the medium term. What is unseen is that existing tenants often reside in housing that isn’t maintained to the same standard and that new tenants suffer with higher rents and less choice in where to live.

The recent example of the city of St Paul, Minnesota is instructive. The citizens narrowly voted to restrict rent increases to 3% per annum on both existing and new dwellings, with politicians duly passing a law to that effect. The response by property owners and developers has been swift, with a wave of [new buildings and renovations paused or cancelled](#). Lenders are also pulling back, uncertain whether the economics of new projects will be sufficient to ensure the loans they make are comfortably serviced.

None of this is surprising to those who have followed the long history of failed rent control policies. Rent controls in Sweden have resulted in a [nine year waitlist](#). In New York, a common tactic has been for landlords to cease spending on maintenance in rent controlled buildings, as laws allow for rents to be materially increased after demolition or substantial upgrades. Studies on rent controls [implemented in France between 1914 and 1948](#) show that rents did indeed fall as a percentage of income, but the quality of buildings and the amount of construction also plummeted.

Rent controls are an example of government intervention in order to fix the problems caused by previous government interventions. The previous interventions typically include controls on zoning and construction, which have increased the cost and reduced the supply of new housing. The rational course of action would be to eliminate these barriers, thus allowing increased supply to push down the cost of renting.

Written by Jonathan Rochford for Narrow Road Capital on 20 November 2021. Comments and criticisms are welcomed and can be sent to [info@narrowroadcapital.com](mailto:info@narrowroadcapital.com)

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