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April 2, 2025

The Honorable Stephen M. Casey  
Chair, House Municipal Government and Housing Committee  
State House  
Providence, RI 02903

Re: H-5954 – An Act Relating to Property – Rent Control in the City of Providence

Dear Chair Casey:

We are writing on behalf of the Rhode Island Mortgage Bankers Association (“RIMBA”) to express our strong opposition to the above-referenced bill.

H-5954 is intended to address the “serious state of emergency” that exists in the City of Providence regarding low cost rental housing and is premised on the proposed legislative finding that “further action to protect residents from exorbitant rent increases and evictions is necessary to address serious threats to the public health, safety and general welfare.” The proposed solution in this bill is rent control, a tool that has been shown itself *unable* to solve such problems, and indeed to *exacerbate* them.

Rent control is ineffective and counterproductive as a housing policy. The profound economic and social consequences of government intervention in housing markets have been documented in study after study, over the past twenty-five years. In response to this hard-earned experience, states and local jurisdictions across the nation have banned or greatly constrained rent control. Nevertheless, legislatures and executive administrations continue to consider and impose rent controls, typically with a stated goal of preserving affordable housing for low- and middle-income families. The primary problem with that is that *rent control does not advance this important goal*. To the contrary, in many communities rent control actually reduces both the quality and quantity of available housing.

Too often, those who advocate for the use of rent control tools ignore the basic laws of economics that govern all markets (including housing markets). They seek to treat privately-owned, operated and developed housing stock as if it were a public utility. In so doing, they harm not only housing providers, but also, in the long-run, the very consumers and renters they intend to help.

This is because rents serve two functions essential to the efficient operation of housing markets:

- (1) compensating providers of existing housing units and developers of new units for the cost of providing housing; and
- (2) providing the economic incentives needed to attract new investment in rental housing, as well as to maintain existing housing stock.

In performing this second function, rents associated with housing are no different from any other market commodity, such as food or clothes. That means the amount producers supply is directly related to the prevailing market price. This second function is particularly important in evaluating the economic implications of rent control.

In an unregulated market, a housing shortage—the underlying reason cited in support of H 5954—would be addressed via two steps. First, in the short-term, rents on the margin would rise as consumers competed for limited available units. Over time, though, higher rents will encourage new investment in rental housing—through a variety of means, including new construction, rehabilitation, and conversion of buildings from nonresidential to residential use—until the supply increases to meet demand. Without the increased rents required to attract new investment, new housing construction will be improperly limited, preventing the necessary long-term solution to a housing shortage: creation of additional housing.

When a community artificially restrains rents by adopting rent control, it sends the market a false message. The market prices tell developers not to undertake new development and tell current providers to actually *reduce* their investments in housing. Under such circumstances, rent controls have the perverse consequence of reducing, rather than expanding, the housing supply. This is the precise opposite of the necessary increase in supply that supporters of H-5954 presumably seek.

And this is why economists are virtually unanimous in their condemnation of rent control as a solution to a housing shortage. In a survey of economists of the American Economic Association, fully 93 percent agreed that “a ceiling on rents reduces the quality and quantity of housing available.”<sup>1</sup> Why is this so universal among economists?

1. *Rent control inhibits new construction.* By forcing prices below market rate, it reduces the profitability of rental housing, directing investment capital out of the rental market and into more profitable markets. This leads to declines in construction. For example, the total number of rental units in Cambridge and Brookline, Massachusetts, fell by 8 percent and 12 percent respectively in the 1980s, following imposition of rent control. Rental inventories in most nearby communities rose during that period. Similarly, in California the total supply of rental units dropped 14 percent in Berkeley and 8 percent in Santa Monica between 1978 and 1990, even though the rental supply rose in most nearby cities. The United Kingdom provides an even more stark example: rent control has been in place since the Second World War, and during that time the share of all housing provided through privately owned rental units dropped from 53 percent to less than 8 percent by the mid-1980s, reflecting the outright flight of investment out of the rental housing market.

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<sup>1</sup> R.M. Alston, J.R. Kearl, and M.B. Vaughan, "Is There a Consensus Among Economists in the 1990s?" *American Economic Review*, May 1992, 82, 203-9. The criticism of rent control is so universally shared by economists that rent control is often cited in textbooks as the paradigmatic example of the harm governmental interference can have on the operation of a competitive market.

2. *Rent control contributes to a deterioration in existing housing stock.* By reducing the return on investments in rental housing, rent control also can lead to a drop in the quality and quantity of existing rental stock, including as a result of substantially reduced maintenance and repair of existing housing due to the limited returns available.

3. *Rent control reduces property tax revenue.* Rent control also reduces the market value of controlled rental property, both in absolute terms and relative to the increase in property values in unregulated markets.

4. *Rent control necessary requires substantial administrative costs.* The administrative costs of rent control can be substantial, often outweighing any limited short-term benefits of rent regulation. Rent controls require the creation of elaborate bureaucratic systems. Rental property must be registered; detailed information on the rental property must be collected; and elaborate systems for determining rents and hearing complaints and appeals of such rents must be established. These costs in both dollars and time fall not only on housing providers, but also on consumers and municipal authorities as well.

5. *Rent control reduces consumer mobility.* Obviously, the primary beneficiaries of any rent control system are those consumers lucky enough to find themselves in a rent-controlled unit. But even these consumers pay a price. Consumer “mobility” is substantially reduced by the reluctance of many consumers to part with the rent control subsidy. This means consumers who would otherwise move to smaller or larger homes, or closer to their jobs or family, will chose not to do so because they do not want to lose the subsidy. This loss of mobility can be particularly costly to families whose job opportunities are geographically or otherwise limited and who may have to travel long distances to reach those jobs available to them. And for the community at large -- including nearby communities that have not themselves imposed rent control -- reduced consumer mobility means increased traffic congestion, among other costs. Because of these spillover effects, rent control is an issue for state and regional policy, not just the municipality engaging in controls.

6. *The costs of rent control fall most heavily on the poor.* As described earlier, these costs include (a) an often substantial drop in the quality of existing rental housing, and (b) substantially reduced access to new housing, as well as second-order effects such as reduced geographic mobility and job opportunities. Poor families suffer a marked decline in existing housing as the quality of existing housing falls in response to reduced maintenance expenditures. The middle class can move out; for many reasons, poorer families lack this option. Economically disadvantaged families also are at a disadvantage when it comes to finding new housing. In a tight market, there may be more people looking for housing than available rental units, thereby giving housing providers substantial discretion in choosing among competing potential consumers. In an unregulated market, this consumer selection process will be governed by the level of rents. However, by restricting rent levels rent control causes housing providers to turn to other factors, such as income and credit history, to choose among competing consumers. These factors tend to bias the selection process against low income families, particularly female- headed, single-parent households.

7. *Ironically, higher income households benefit most from rent control.* A study of rent control in New York City found that rent-controlled households with incomes greater than \$75,000 received nearly twice the average subsidy of rent-controlled households with incomes below \$10,000. Another concluded that rent control had the greatest effect on rents in Manhattan, the borough with the highest average income. Similarly, studies of rent control in Berkeley and Santa Monica have found that the beneficiaries of controls in those communities are “predominately white, well-educated, young professionally employed and affluent,” and that rent control had substantially increased the disposable

income of these tenants while actually exacerbating the problems of low-income families. In Cambridge, Massachusetts, residents of rent-controlled housing were found to have higher incomes and higher status occupations on average than other residents of the city, including homeowners.

The answer to the problem of insufficient housing stock and rising rents is increasing the housing supply -- not by limiting rent. One way of stimulating the supply of affordable housing is through direct financial assistance to needy renters, whose increased purchasing power will lead to expansion of the quantity and quality of housing in the local market. In addition, targeted programs to subsidize the construction or rehabilitation of affordable housing can be an effective complement to direct renter assistance. More generally, removal of inappropriate regulatory and zoning-based barriers to housing construction can improve housing affordability for both renters and home owners.

Rent controls are unfair to owners of rental units **and** damaging to some of the same low- income renters they are intended to help. Given this reality, reliance on or expansion of rent control as a solution to the problem of housing affordability cannot be justified.

For the foregoing reasons, RIMBA strongly opposes adoption of H 5954.

Sincerely,

Rhode Island Mortgage Bankers Association