NO ROOM FOR RENT: ADDRESSING RISING RENT PRICES THROUGH PUBLIC INVESTMENT AND PUBLIC POWER

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INTRODUCTION

Economists are in the midst of a vigorous debate about the causes and likely duration of the uptick in inflation that we've seen in recent months. But while recent polling suggests that rising prices are on the minds of many Americans, the truth is that most don't much care why prices are rising—only that they are rising at all (Morning Consult and Politico 2021). If policymakers want to alleviate the price increases facing families, they would be wise to start with the single biggest line item in household budgets: rent. Taking on our country's enduring rental affordability crisis should be a top priority, one that will not be accomplished by contractionary monetary policy.

The rent has eaten first in household budgets for decades now, even long before the pandemic, and is on track to continue to do so for years to come absent any major intervention. Although rents dropped considerably during 2020, as many individuals left some of the most expensive rental markets like New York City and San Francisco, the latest data show that rent prices have not only recovered from pandemic losses, but now exceed pre-pandemic growth trends (Salviati et al. 2021).

As predicted by many macroeconomists, including those in the White House Council on Economic Advisers, rising rent prices are now a major contributing factor in official measures of inflation. Between August and September, the Consumer Price Index's (CPI's) measure of rent was up 0.5 percent, the fastest increase in nearly 20 years (US Bureau of Labor Statistics 2021a). And because shelter constitutes a plurality of the basket of goods that CPI measures (rent and owners' equivalent of rent make up about one-third of the CPI), increases in rent could play a major role in driving continued inflation measurements in upcoming months.[1]

Much more important than how rent price increases impact measures of inflation is their disproportionate impact on household budgets. People feel rent increases acutely. Because

[1] This issue brief assesses rent prices through several different indicators to paint a holistic picture of rising housing costs. The Consumer Price Index (CPI) tries to measure the actual change in rental costs borne by consumers month-to-month. The Apartment List data (Salviati et al. 2021) look at market rents for vacant units.

it is such a large-ticket item, even small increases in rent matter a lot more to families than a temporary spike in the price of many other goods that are not total necessities or whose purchases can be put off until prices decline. Rent is a cost that families absolutely must bear, and moving to find shelter at a lower cost is labor intensive, time consuming, and expensive—if it's even possible to find that lower-cost shelter at all, an unlikely feat as rental vacancies hit record-breaking lows (US Census Bureau 2021a).

Policymakers in Washington and in states and cities across the country should quickly begin to put in place policies to take on the rising cost of rent. History shows us we cannot expect the private market to develop or sustain affordable housing to meet the needs of millions of people; ensuring stable shelter for all will require major investment and a reshaping of public power in our housing markets. In particular, policymakers should:

1. Fund a major increase in the supply of affordable housing, especially social housing—alleviating supply constraints that have been at the center of increasing rents for decades—and by extension, work with municipalities to adopt new forms of zoning regulation that can enable that increase in supply of affordable housing; and
2. Pursue rent stabilization policies (i.e., rent control) to curb future price hikes and rent profiteering.

Ultimately, surging rents will undermine the impact and effectiveness of many of the Biden administration's top priorities—potentially absorbing or overtaking any wage increases resulting from expansionary monetary policy and a tight labor market, any income benefits provided by the expanded Child Tax Credit, and any net household budgetary savings from subsidies to help families cover the rising costs of childcare, energy, health care, or elder care (US Bureau of Labor Statistics 2021b). President Biden must pursue a whole-of-government approach to combat rental price hikes—not because they contribute to overall inflation, but because they will be felt throughout the income distribution and across the country, hitting the lowest-income families hardest and resulting in economic strain, eviction, homelessness, and ever-worsening inequality. This approach must start with, at the bare minimum, passing the Build Back Better agenda with its proposed investments in housing supply.

HOUSING COSTS

Prior to the pandemic, traditional indicators of the economy told us that we were on the tail end of a more than decade-long period of economic expansion—the longest expansion in over 150 years of record-keeping (Smialek 2021). GDP was growing and headline unemployment falling, reaching just 3.5 percent by February 2020 (US Bureau of Labor Statistics 2021c). But for many, this story of the economy was incomplete: While low-income Americans were seeing wage growth for the first time in over a decade, for many, it never felt like an economic boom (US Census Bureau 2021b).

One of the primary culprits was soaring housing costs, which easily overtook income gains, and then some. Over the last two decades (across three recessions), housing costs—especially for renters—have increased substantially, all while federal spending on housing assistance relative to these cost burdens plummeted (US Census Bureau 2021c; Joint Center for Housing Studies 2020). While renter incomes grew by 0.5 percent from 2001 to 2018, rents increased by 13 percent (Mazzara 2019). The result was a growing number of renters who spent an increasingly large share of their monthly income on rent. According to the Joint Center for Housing Studies of Harvard University, the number of cost-burdened renters (those who spend more than one-third of their income on rent and utilities each month) increased by roughly 6 million between 2001 and 2019 to 20.4 million households—or nearly half of all renters (Joint Center for Housing Studies 2020).

Black and Hispanic or Latinx households are more likely to be renters across income levels and are disproportionately represented in jobs with low wages, compounding the damage of these rental unaffordability trends (Joint Center for Housing Studies 2021; National Low-Income Housing Coalition 2021a). In 2019, 28 percent of white households were renters, compared with 58 percent of Black households and 54 percent of Latinx households. Renters with disabilities are also particularly vulnerable to housing cost burdens and a lack of accessible shelter options (Lake, Novack, and Ives-Rublee 2021). Homeownership policies designed to exclude and extract from communities of color, especially Black communities, have caused huge gaps in wealth and financial stability and have led to certain communities facing the greatest risk of displacement due to rising costs of living (Glotzer 2021).

While rent prices dropped throughout 2020, that trend has recently reversed (Gerstein 2020). Rents prices in 2021 have soared past pre-pandemic expectations (Tanzi 2021b). The shelter index rose 0.4 percent in September and accounted for over half of the monthly increase in measures of core CPI (the index for all items outside of food and energy) (US Bureau of Labor Statistics 2021a). The fastest rent growth has taken place in so-called "affordable," mid-sized cities, in part driven by large swaths of the labor force transitioning to remote work and dispersing from larger to smaller housing markets. But even larger cities that have been slower to recoup pandemic price declines—like New York and San Francisco—are rebounding (Salviati et al. 2021).

Notably, many cities saw huge price drops in housing during the COVID-19 recession, and subsequently one would expect major housing price increases to appear more pronounced than had they continued on a non-pandemic trend. Accounting for this base effect demonstrates that rising rents are even larger than anticipated. The fact remains that these price increases are simply untenable for renters' existing incomes, and even more so when factoring in the pandemic-related arrears that nearly 6 million households currently face (National Equity Atlas 2021). Rent increases are unlikely to reverse, and will stay persistently high relative to income growth. A number of factors are responsible for this, including historically low rental vacancy rates that will drive high demand for months to come; the inelastic nature of housing as a good, as constructing new housing takes a considerably long time relative to the pace of price changes; and the fact that housing is an absolute necessity, and has been the largest line item by far for household budgets for decades.

Shelter costs comprise a significant amount of both the Consumer Price Index (CPI) and the Personal Consumption Expenditures (PCE), and elevated rent prices will both increase inflation and drive discretionary incomes down. Housing costs far outweigh other expenditures as a proportion of household spending (Statista 2021). In 2020, spending on housing was more than double the next-largest line item (transportation costs) for all households regardless of their composition (US Bureau of Labor Statistics 2021d). Analysis of pandemic-related inflation indicates the outsized impact that rising rents have on low-income households in particular, as rent currently comprises 8 percentage points more of low-income households' spending compared with spending by all households (Mason and Melodia 2021). This is consistent with a long-observed pattern of higher effective inflation for basic necessities (including, and especially, housing) that hits low- and middle-income families hardest (Council of Economic Advisors and Office of Management and Budget 2021).

Before the COVID-19 crisis through to today, the trend in rising home prices has priced out many potential homeowners from the market and expanded the pool of renters subject to instability and scarcity in rental supply. Recent data also show that the surge in housing costs over the last year have led to ballooning wealth for many existing homeowners, while simultaneously stripping renters of their savings and capturing more and more of their income (Tanzi 2021a). The boom in cash purchases of homes has placed homeownership further out of reach for a growing number of households, and placed the issue of rising rents at the center of those households' financial strain.

Responding to the high cost of housing with contractionary monetary policy would be both ineffective in bringing down costs and actively harmful to the most vulnerable workers and their families. Raising interest rates would discourage critically needed investments in housing supply by making it more expensive to access capital needed for construction, which is often financed by debt (Bivens 2021). Research also shows that the concurrent rise in unemployment rates would hit Black and brown workers the worst, as well as dampen potential wage growth of all workers at the lower end of the distribution, all while these workers are already being squeezed by ever-rising rents (Mason, Konczal, and Melodia 2021). Failure to address the real roots of these cost increases—by deferring to misguided austerity responses or by not investing at the scale that is needed—will only further exacerbate gaps in housing and financial security.

CONTRIBUTIONS TO COST

While the pandemic certainly exposed supply shortages in the stock of rental homes, these shortages have been around for decades, with growth in housing construction far below population growth (Bernstein et al. 2021)—trends that accelerated after the Great Recession, with new residential construction down nearly 40 percent since January of 2006.

Housing supply is, of course, tied to the cost of production, including materials and labor. Although the cost of lumber spiked briefly, reaching an all-time high in May of 2021, lumber prices have since returned to pre-pandemic levels. Further, job growth is picking up in residential construction, alleviating labor shortages (Dominguez 2021). Ultimately, supply shortages result from land use restrictions and other barriers to long-term investments in our current economy—both rooted in longstanding politics of who should and should not be included in prosperity and public good—that won't be impacted in any way by austerity-minded monetary policy (Glaeser 2017).

America's rental supply shortage is fundamentally a story of land use policies biased toward single-family zoning, which makes it difficult to build the kind of multi-family units that make up most of the affordable rental stock in this country. About two-thirds of permits authorized in recent years have been for single-family homes (Bernstein et al. 2021). This is largely because in three-quarters of urban land in the US, it's illegal to build multi-family units such as townhouses, duplexes, and apartment buildings.

These restrictions are also inextricable from the immense inequality in power and wealth, especially by race, that has pervaded our economy for decades. Growing inequality has incurred a long trend of disinvestment in public housing and federally supported, genuinely affordable rental housing since the 1970s, with hundreds of thousands of public housing units lost in the past 30 years alone (Rice 2016; Bernstein et al. 2021). Wealthier homeowners have also wielded their outsized political and financial influence to weaponize regulations in overwhelming favor of single-family zoning that might appear race- and class-neutral, but perpetuates residential segregation by race (Demsas 2021). These regulations also preclude the steps that localities, states, and the whole country need to take to address housing needs for marginalized communities and bring down the costs of housing for all of us in the long run.

Where rental housing is massively constrained, particularly near major centers of employment, landlords can charge a premium year after year. Such rent increases are a demonstration of the outsized market power landlords can hold: Their increase in profits comes not as a result of improvements to their housing investment or other productive behavior, but due to a scarcity of supply, to the detriment of tenants. Absent more supply—the increase of which is already a protracted process—or price controls, there are simply no headwinds pushing against ever more rent hikes. Any successful policy solutions to the rental affordability crisis must take on the root causes of supply, as well as the power of landlords vis-à-vis their tenants.

POLICY SOLUTIONS

INCREASING SUPPLY: INVESTMENT AND RE-REGULATION

Bringing down rents requires a dramatic increase in the supply of affordable housing. The Biden administration's Build Back Better agenda and the major legislation that Congressional housing advocates are shepherding through the budget reconciliation process both call for historic investments in improving housing affordability and housing quality throughout the United States, for renters and homeowners alike. These plans strive to allocate $150 billion (White House 2021b) to account for decades of disinvestment—and the disproportionate impact that high housing costs have on Black, brown, and low-income Americans—a testament to the opportunity at hand to meet the country's needs. To make full use of this opportunity, we cannot double down on mistakes of the past.

The latest Build Back Better proposal is estimated to build or rehabilitate about a million affordable units over 10 years (White House 2021b). That's a historic investment—especially considering that the Obama administration allocated only $14 billion in the aftermath of the housing crash of the Great Recession (Williams and Weaver 2021). But taking into account the upwards of 20 million cost-burdened renter households whose housing costs can (and will) push them to the brink if our housing market continues on this trend demonstrates that in order to meet the actual gap in our housing supply, we must ensure that:

a. No further compromises are made on the level of federal housing investments that have been proposed;

b. These investments go to economic actors that can truly fortify housing affordability and security rather than be siphoned off by for-profit developers looking to parlay federal investment into subsidies for luxury accommodations (Quinton 2019); and

c. More is continuously invested in the future to meet our housing goals.

Ultimately, we can't afford more of the same private, market-centered solutions. This means shifting power away from landlords and real estate developers, investing instead in ownership models that keep housing out of the reach of real estate speculation—from a recommitment to public housing to expanding different forms of social housing. In addition to repealing the Faircloth Amendment—which has prohibited any increase to public housing stock since its passage in 1998—and reinvesting in public housing, the Department of Housing and Urban Development can work with municipalities, localities, and nonprofit housing providers across the board to develop social housing that is kept permanently affordable by its dedicated preservation and capped costs outside of the private market (People's Action 2019). The Housing Trust Fund, set to receive $15 billion through the budget reconciliation process, is one vehicle by which the federal government can do this (National Low-Income Housing Coalition 2020). Just as homeowners today can access a 30-year Federal Housing Administration mortgage as a "public option" in the housing market, investing in social housing would expand the role of the public sector in guaranteeing permanent housing affordability for tenants or even homeowners on publicly owned or nonprofit-owned land—and stimulate climate-resilient construction and job production in the process (Hendricks et al. 2021).

Increasing federal funds for housing development will not bring down costs, however, if existing land use regulations preclude development and maintain concentrations of NIMBY and for-profit developer power in local housing markets. The zoning reform incentives outlined by the administration are a start, but moving the needle will require continued aggressive organizing nationwide toward land use policies that prioritize construction of genuinely affordable housing based on the needs and visions of residents, communities, and the planet (White House 2021a).

There are a number of ways to approach smarter and more equitable land use regulation. The federal government can act by requiring changes in land use policy as a condition of federal grants, or even by preempting local land use practice on the grounds of the economic and social impacts—namely, racial and economic segregation—that restrictive zoning causes beyond any one locality itself (Schill 1992). Policies in California; Portland, OR; and Minneapolis, MN exemplify state- and local-level steps to improve restrictive zoning policies toward increased density and decarbonization for new development (National Low-Income Housing Coalition 2021b; Andersen 2020; Kahlenberg 2019; Cohen et al. 2019). However, zoning changes to spur development (such as upzoning in some urban areas) may exacerbate displacement in lower-income communities of color whose neighborhoods are subject to rising land values and gentrification (Janzer 2021). Key interventions to prevent this include coupling development with robust protections for existing residents in those communities, such as rent control and collective ownership models, as well as targeting upzoning to higher-income, whiter neighborhoods and suburban areas.

RENT CONTROL

From Roosevelt-era rent control policies in the Emergency Price Control Act of 1942 to price controls in the Affordable Care Act of 2010, regulations on price have long been part of the federal government's policy toolkit. Price controls are particularly appropriate for absolute necessities—like shelter and medical care—and where concentration of power in the market limits consumer choice and results in excessive profits. Controlling rent prices by limiting increases to rent serves to curb this power and stabilize housing costs without any effective social cost, given that most contemporary rent control policies allow for capital improvements to factor into potential increases and thus do not tax actual productive behavior (i.e., the upkeep of properties).

While rent control and rent stabilization policies fell out of favor during the deregulatory turn of the 1980s, these policies were commonplace across major metropolitan areas beginning in the 1920s with Washington, DC, and later New York City. As more attention has been focused on the affordability crisis for renters, rent stabilization policies are once again picking up steam, with Oregon becoming the first state to adopt statewide stabilization with a 2019 law and California quickly following suit (Dreier 2019). While these pieces of legislation are certainly a step in the right direction, it is important to consider the result of too-high caps on rent increases (in Oregon, rent can be raised at a rate equal to the CPI measure plus 7 percent; in California, CPI plus 5 percent). This is an especially relevant concern now, as elevated inflation would allow for very large rent raises year to year. About 182 municipalities in four states (California, Maryland, New York, and New Jersey) have some form of policy enacted to limit rent increases above a certain amount (Rajasekaran, Treskon, and Greene 2019). Most recently, voters in St. Paul, MN passed a ballot measure that will cap rent increases at 3 percent a year, including for newly constructed units and even if the tenant changes—though landlords can appeal this limit in special circumstances (Jackson 2021; Ballotpedia 2021).

Early investigation into modern rent stabilization policies has shown a strong positive effect on rental affordability, the incidence of evictions, and neighborhood stabilization—a key indicator often overlooked (Pastor, Carter, and Abood 2018). While economists have long thought rent control policies would curtail housing supply, research suggests that modest rent stabilization policies do not deter new construction; the old zero-sum thinking around tenant protections and increasing supply needn't be the case when considering limits on increases to rent (rather than a cap on absolute rents overall) (Rajasekaran, Treskon, and Greene 2019). Keeping rent prices stable and other means of tenant protection are critical to making supply-side solutions for housing affordability effective.

Rent control hasn't received a lot of attention at the federal level, but Senator Bernie Sanders (I-VT) included it in his housing policy agenda during the 2020 presidential primary (his proposal capped annual rent increases at either 3 percent or 1.5 times CPI, whichever is higher) and Representative Alexandria Ocasio-Cortez (D-NY) proposed a piece of federal rent control legislation during her first year in office. This legislation, the Place to Prosper Act, capped annual rent increases at the higher of 3 percent or CPI for landlords with five or more residential properties or two or more manufactured housing parks.

The Administration could also encourage rent control in myriad ways that don't require legislation. One option includes offering competitive grant programs for both housing and transportation funding that are tied to the promotion of rent stabilization, similar to Senator Elizabeth Warren's (D-MA) past proposals for housing legislation. Another option, proposed by Senator Cory Booker (D-NJ) to encourage inclusionary zoning, could be to withhold existing federal funding from localities that don't promote rent stabilization. A final option could be similar to the whole-of-government approach proposed by the Obama administration in 2016 to encourage states to alleviate occupational licensing—the administration released a set of best practices for states and cities, and stood up a federal grant program to fund the implementation of those best practices in states and localities (White House 2016).

In housing markets desperate for an increase in affordable units, landlords have immense market power. Absent caps that preclude egregious rent hikes, many landlords will continue to impose large annual increases in rent, further straining tenants who are already cost-burdened and reaping profits for themselves outside of any actual capital improvements. Cities and states that have imposed rent control policies have seen considerable success, starting to empirically demonstrate that Reagan-era concerns around these policies constraining supply were overblown.

CONCLUSION

Well before the COVID-19 pandemic and the current inflation debate, the unaffordability and scarcity of housing in the United States have cost our economy huge amounts (Hsieh and Moretti 2019). Federal investments to support housing for the vast majority of low- and middle-income households have never come close to the scale needed to actually provide safe, stable shelter for all. Policymakers have a singular opportunity to combat the most significant financial burden for tens of millions of working people and their families, but without adequately addressing housing costs in both the short and long term—from stabilizing rent prices to increasing affordable, accessible housing supply—the Biden administration's economic policy accomplishments, drive for racial and gender justice, and legacy will all be undermined. Cutting back on investments now is an approach that we truly cannot afford. Building a stronger, more sustainable, and more equitable economy for the future is only possible with housing solutions that correct for austerity-driven mistakes of the past.

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