A Third Generation of Rent Control?

Evidence from San Diego's Rental Stock

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Overview

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Introduction

Motivation

- Rent control is among the most debated housing policies in economics.
- **First-generation** (pre-1970s): strict caps; strong negative supply effects.
- **Second-generation** (1970s–1990s): exemptions + vacancy decontrol; mixed outcomes.
- California's **AB 1482** (2020) created a statewide *light-touch* rent cap.
- San Diego had **no prior rent control** $\Rightarrow$ clean pre/post policy shift.

Research Questions

Does this “third generation” of rent control behave like older, stricter regimes?

1. Did AB 1482 affect landlord investment (renovation/addition permits)?
2. Did it induce **rental-to-non-rental conversions**?

Contribution

- First causal evidence on **statewide, mild rent control** in a major U.S. city.
- Evaluates whether new gen caps replicate classic supply distortions.
- Highlights the role of **policy design and intensity**, not merely the existence of controls.

Related Literature

Related Literature: First & Second Generations

First-generation rent control (strict)

Hard caps on rents, no vacancy decontrol → strong evidence of supply losses

- Olsen (1972): quality decline
- Pollakowski (2003): construction suppression
- Murray et al. (1991): deterioration, misallocation

Second-generation rent control (moderated)

Introduced vacancy decontrol and exempted new construction, retained meaningful constraints on rent growth.

- Smith & Tomlinson (1981): mixed supply effects
- Rydell & Neels (1985): lower investment
- Mengle (1985): reduced mobility
- Tan (2021): persistent negative impacts

Related Literature: Modern Evidence

U.S. evidence

- Diamond et al. (2019): conversions spike
- Autor et al. (2014): value rebound
- Gyourko & Linneman (1989, 1990): quality loss
- Chen et al. (2023): mobility effects

Mechanism

- Diamond et al. (2019): pre-conversion permits

Data

Data Sources

1. **Development Permits (2003–2025)**
   - Add/alter/repair permits often precede condo conversions.
2. **Rental Business Tax Accounts**
   - Identifies active rental stock; detects exits.
3. **ATTOM Parcel-Level Transactions (2003–2023)**
   - Ownership transfers, structural attributes, year built.
   - Enables treatment assignment (≥15 years old).

Sample Construction

Permits sample

- 1,558 rental buildings built after 1990.
- Tracks renovation/addition permits for currently active rentals.

Conversion sample

- Multifamily parcels with >4 units, non-owner-occupied.
- Exclude active rental businesses + implausible / non-arm's-length transfers (foreclosures, zero-value, very small buildings)
- Require major permit 1–2 years pre-transfer.

Methodology

Empirical Framework

Treatment definition:

- $T_{kt} = 1$ if building k is ≥ 15 years old in year $t \Rightarrow$ covered by AB 1482.
- Newer buildings: $T_{kt} = 0$ (exempt).

Difference-in-differences with:

- Parcel fixed effects (λ_k)
- Zip-year fixed effects (δ_{zt})

Permits specification:

$$\text{Permits}_{kzt} = \delta_{zt} + \lambda_k + \beta_1 T_{kt} + \varepsilon_{kzt}$$

Results

Renovation/Addition Permits

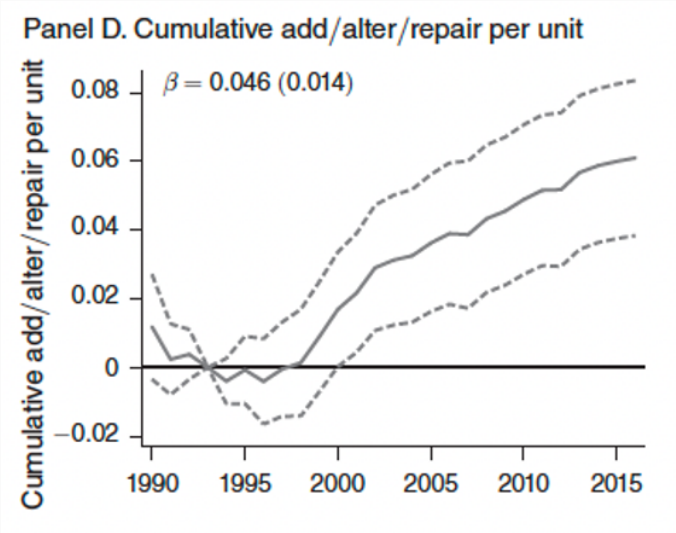
Main estimate:

$$\beta_1 \approx 0.0061$$

- $\approx$ 2.3% higher probability of a permit relative to exempt buildings.
- Implies $\sim$9 additional permits per year among regulated parcels.
- Magnitude far smaller than SF's 4.6% increase under stricter controls.

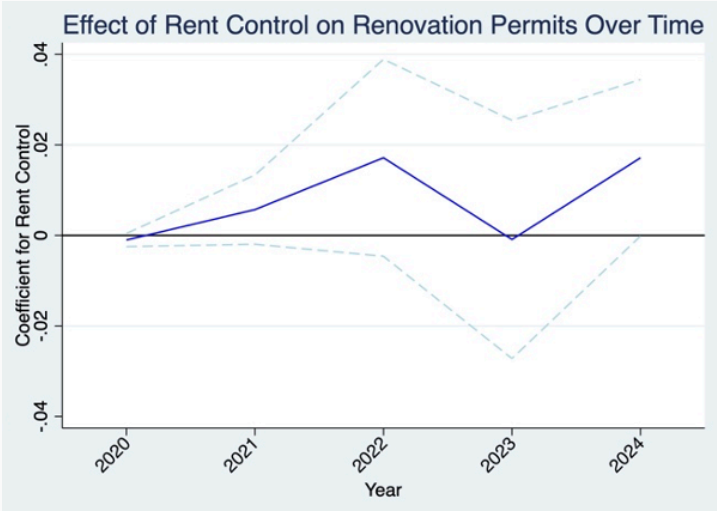
Event-Study Comparison: Diamond et al. (2019) vs. This Paper

SF 1994 rent control



Strong post-treatment spike ala Diamond et al. (2019).

SD 2020 rent control



Small, imprecise post-2020 increase.

- **SF 1994 expansion:** landlords responded strongly and immediately.
- **AB 1482 (new gen):** muted behavioral change and wide confidence intervals.

Rental-to-Non-Rental Conversions

Specification:

$$\text{Conversion}_{kzt} = \delta_{zt} + \lambda_k + \beta_2 \left(T_{kt} \times \text{Post}_t\right) + \varepsilon_{kzt}$$

- Conversion definition: rental property exiting the rental cohort following a pre-transfer add/alter/repair permit.
- Identification: buildings $\geq$15 years old (treated) vs. younger exempt stock (controls).

Main Findings (2003–2023):

- Estimated treatment effect:**negative but statistically insignificant** - implies **no measurable increase** in rental-to-non-rental conversions after AB 1482.
- Contrasts sharply with San Francisco (Diamond et al. 2019), where conversions rose by **7.9%**.
- New, lighter regulation does not induce traditional conversion margin.

Conclusion

Interpretation & Policy Implications

- AB 1482 is a **new generation of** regulatory regime:
  - Mild cap (5% + CPI, max 10%)
  - Exemptions for new stock
- Results:
  - Small increase in renovation permits.
  - No systematic conversion response.
- Implication:
  - New gen rent caps may protect tenants without severe supply distortions.

Summary

- San Diego's experience suggests a **third generation** of rent control: Effects are far more muted than earlier rent-control regimes.
- **Policy relevance for current debates:**
  - Proposals to "freeze the rent" in New York carry risks of replicating first-generation distortions.
  - LA RSO adjusting allowable rent increases (1–4%) signals renewed interest in pricing tools.
  - Findings show **design intensity matters more than the policy label**.
- Future data will allow evaluation of long-run impacts.

Questions?