

# St. Paul's Rent Control Experiment Is Increasingly Disastrous

In November, FEE Policy Correspondent Brad Polumbo wrote about a new policy in St. Paul, Minnesota which stood to implement the strictest rent control policy in the United States.

"The city just approved a rent control measure that will limit landlords' ability to increase rents on its 65,000+ rental properties," [wrote](#) Polumbo. "They will not be able to increase prices by more than 3 percent each year under the new law. Controversially, the initiative does not account for inflation and applies to new construction, not just existing properties. This makes the St. Paul rent control measure one of the strictest in the US—if not the world."

The policy, which does not go into effect until May, was passed [with the support](#) of St. Paul Mayor Melvin Carter, a Democrat in his second term. After the policy passed, however, Carter announced he was seeking to exempt new developments, saying the law would cause a housing shortage.

"Turning off our supply of new housing would be disastrous for us as a community," Carter [said in an interview](#) following his successful reelection.

In February, Carter renewed his plea to create an exemption to the housing policy he supported.

"Every single city that we can find with the rent stabilization policy in place provides an exemption to incentivize construction of new housing units, and so should St. Paul," Carter [said](#), according to *MPR News*. "We cannot afford to lose the thousands of housing units currently on pause while we wait for bureaucratic processes at City Hall to

run their course.”

He was rebuffed by housing advocates, however.

“This appears to be something that is kind of gutting a large part of the ordinance that was passed by the voters,” said Margaret Kaplan, president of the St. Paul-based Housing Justice Center. “I don’t understand what a backward-looking exemption, what kind of problem that’s trying to solve at all. It’s not that the developers are going to unbuild the buildings that they have.”

## **Building Permits Down 80 Percent**

Ms. Kaplan has a point that there’s something strange about a mayor of a major U.S. city actively “gutting” a policy he openly supported because of the damage he claims it will wreck.

Putting that absurdity aside, new data from St. Paul show Carter is right to be worried. *Minnpost* writer Bill Lindeke summarizes the “grim” results.

“With three months of data on the books since the passage of the rent control measure in November, results are rather grim for anyone hoping for new apartment buildings in St. Paul,” Lindeke [writes](#). “Compared to the same period during the previous year, multifamily building permits are down over 80 percent. Meanwhile, in Minneapolis overall construction is up as the economy has rebounded.”

As Lindeke explains, even if developers want to continue building in St. Paul, they face stiff headwinds because they can no longer get financing.

*“Because people making financing decisions view rent inflexibility as increasing risk, they have been simply leaving St. Paul construction projects by the wayside. As one St. Paul developer described during a recent round*

*table discussion, 'it's a concern.'*

*"We have two projects with 260 units where the capital stack was all put together and ready to go, but when the ordinance passed those investors went away," explained Kou Vang, president of JB Vang Real Estate. 'A lot of our investors were family funds, stuff of that nature, and they still went away.'"*

## **The Solution to High Housing Prices**

As anyone who has ever taken Economics 101 can tell you, the solution to the high cost of housing isn't [price controls](#). The answer is to increase the supply of housing.

Rent control policies, however, do the opposite. They discourage housing construction and investment. Economists disagree on many things, but [one thing they do not disagree on is the harmful effects of rent control](#).

The reason economists agree that rent control reduces the quantity, affordability, and availability of housing—beyond simple economics—is that we have copious amounts of historical data that all tell the same story.

In his book [Basic Economics](#), economist Thomas Sowell painstakingly documents the destructive results of rent control policies around the world. (A Swedish economist once quipped that rent control “appears to be the most efficient technique presently known to destroy a city—except for bombing.”)

Here are just a few examples he offers, which I've condensed:

- In Melbourne, Australia, not one housing unit was built for nine years—nine years!—because rent control laws had destroyed the profit motive.
- In Santa Monica, California, in 1979, the number of

building permits dropped by 90 percent in just a few years because—again—rent control laws had destroyed the incentive to create new housing.

- In the 1970s, residents in Washington, DC, saw housing stock decline from 199,000 to less than 176,000. Why? Because many people decided to stop renting their homes because of price controls.

The examples go on and on and on. Sadly, Sowell points out, rent control laws do the most damage to those they are intended to help.


“In short, a policy intended to make housing affordable for the poor has had the net effect of shifting resources toward housing affordable only by the affluent or the rich, since luxury housing is often exempt from rent control,” he writes.

You don’t need to be a professional economist to foresee the disastrous results of rent control—though some professional economists did point out the foolishness of St. Paul’s policy.

“Econ 101 strikes again,” [commented](#) John Phelan, an economist for the Center of the American Experiment, following the release of St. Paul’s figures on building permits. “The city government is now scrambling desperately to undo the damage wrought by this utterly predictable disaster.”

The lesson for Mayor Carter? Don’t support price controls in the first place.

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*This article was originally published on FEE.org. Read the [original article](#).* 

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