

Under Control? The Impact of Rent Regulations in 1920s New York City

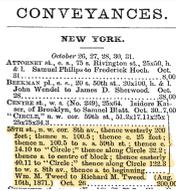
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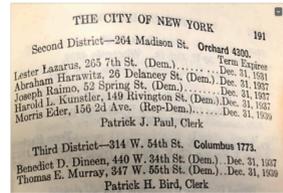
Abstract

In April 1920 New York City introduced the first rent control law in the United States. The policy provides a new type of rent control which has not been studied previously. While rent increases of more than 25 percent per year were banned, the main effect of the controls was to give judges, who were elected by municipal district, the ability to evaluate on a case-by-case basis whether a rent increase was "reasonable". A judge could reinstate the previous rent or could grand tenants to stay up to one year under their old rent. This gave the judges de facto discretionary authority over rents, since "reasonableness" was in practice not bound to the 25 percent rule, meaning the intensity of the policy could vary by judge. We digitize data on conveyances and recorded leases from archives and listed rents from newspaper ads, to build a novel database of housing market outcomes for New York City from 1918 to 1935. We also assemble a judge-level dataset, including political affiliation from the NYC Official City Directory, newspaper articles and information contained in the federal US census, including personal background, exploiting their parents' birthplace as an instrument for political affiliation. We then implement three different approaches to assess the impact of rent control policy on housing market outcomes: a standard difference in differences approach; a spatial regression discontinuity design; and an instrumental variable strategy.

Data



Builders' Guide Sales Records 28680 transaction data: address + characteristics, transaction date and price; buyers and sellers info



The Green Book Details of all 74 incumbent judges from 1918 to 1935: names; judge residential address + Municipal district + Political party affiliation re-election date.



NYT Real Estate Rental Records 22109 rental listings: house address + characteristics (# bedrooms) + rent price and terms (utilities included or not).

Identification

Were republican judges different from other non-republican judges?

Republican judges

- Republicans were the party of big business (Link, 1959)
- Republican Party tended to oppose legislation designed to redistribute wealth or to assist the laboring classes (Nelson, 2001).

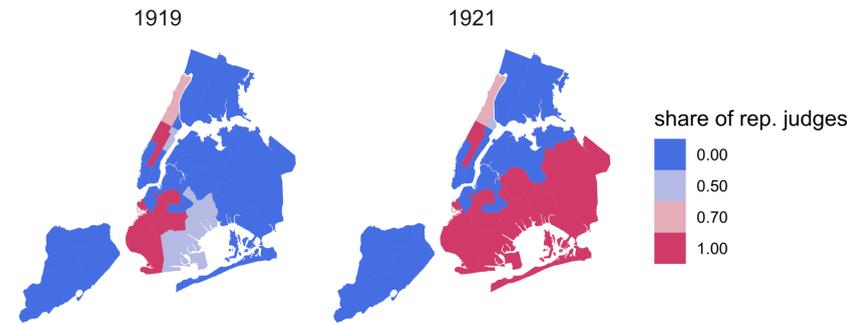
Democrat judges

- Democrat party torn between progressive electorate in cities and rural southern states (Link, 1959).

Judge index

- We construct a judge index ranging from 0=landlord judge to 1=tenant judge from newspaper articles relating 33 judges to rent cases. The correlation between being a Republican and the index value is $\rho_{Republican, index} = -0.183$

Figure 1. Distribution of republican judges by court district



Difference in difference approach

Under assumption of no differences between republican and Democrat court districts prior to treatment conditional on controls we use the following simple DiD specification:

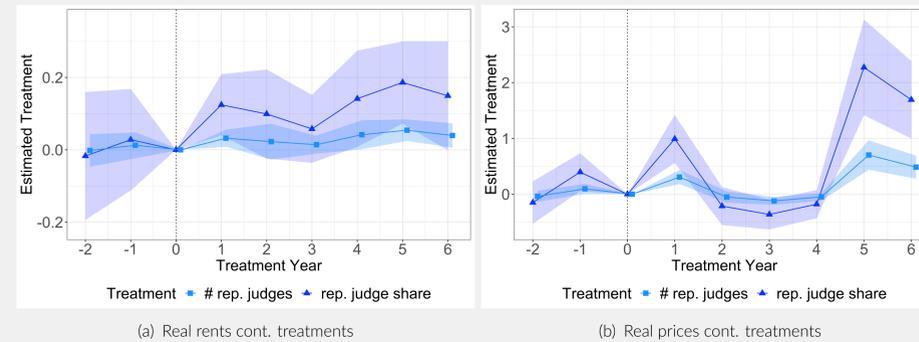
$$y_{i,t,m} = \beta \times post_{1920} \times T_{t,m} + X_{i,t,m} + \mu_t \times year_t + \gamma_t + \theta_m + u_{i,t,m} \quad (1)$$

We propose four different treatments for $T_{t,m}$ such as the (1) share of republican judges in year t in district m ; (2) number of republican judges in year t in district m .

Table 1. Effect of treatment (1918-1926)

Dependent Variables:	log(rent)		log(price)	
Model:	(1)	(2)	(3)	(4)
$\beta_{rep. judge share}$	0.1160*** (0.0239)		0.0611 (0.0973)	
$\beta_{\# rep. judges}$		0.0312*** (0.0064)		0.0230 (0.0277)
Observations	12,492	12,492	5,779	5,779
R ²	0.31038	0.31037	0.22075	0.22081

Figure 2. Time path of rental prices



Regression discontinuity approach

We use the border between Republican and Democrat controlled court districts as treatment and employ the following spatial regression discontinuity design:

$$y_{i,t} = \delta \cdot 1(distance_i > 0)_{i,t} + f^a(distance_i) + f^b(distance_i) \cdot 1(distance_i > 0)_{i,t} + X_{i,t,m} + \mu_t \times year_t + \gamma_t + \theta_m + u_{i,t} \quad (2)$$

$distance_i$ is distance from border of MCD, which is positive (1) if the MCD has a share of republican judges of more than 50% and negative otherwise or (2) positive if all judges republican and negative if all judges democrats (excluding mixed districts).

Figure 3. Rent prices around threshold

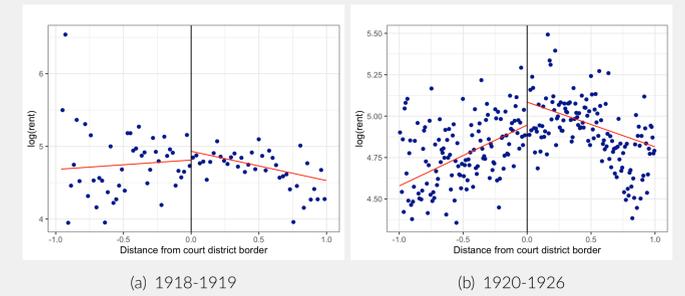


Figure 4. Transaction prices around threshold

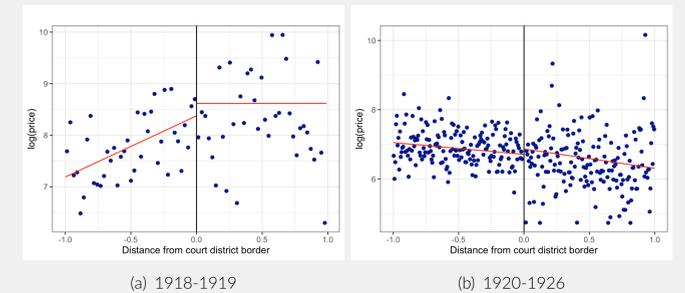


Table 2. EDD coefficients for rents and transaction prices

Dependent Variables:	log(rent)		log(price)	
Model:	(1918-1920)	(1921-1926)	1918-1920	(1921-1926)
δ	0.1992 (0.1381)	0.1462** (0.0599)	-0.1134 (0.3253)	0.1678 (0.1800)
Observations	2,154	9,452	1,017	3,723
R ²	0.41365	0.29646	0.30871	0.18946

Mechanism

Segmented markets

↓ P controlled area → ↑ competition for rent-controlled unit → households with higher willingness to pay move to uncontrolled segment → ↑ price in uncontrolled segment