Referee Report on manuscript EEREV-D-26-00102
"Rent Control? Bad in Theory, Not Always in Practice"

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1. Summary

The paper examines the impact on household welfare of two types of rent controls: tenancy and unit controls. Under tenancy control landlords can only raise rents upon tenant turnover and rent discounts accumulate gradually with tenure; while under unit control the rent is fixed at a price below the free-market price.

Model details. The authors build a quantitative model of the housing and rental markets in which households are heterogeneous in age and household size, labor market productivity, housing tenure (ownership, renting, and homelessness), housing assets, mortgage debt, and financial assets. These households face income risk and eviction risk in tenancy-controlled units, and make a combination of discrete and continuous decisions about their living arrangement (own, rent, homelessness) as well as the standard consumption/saving choice. On the supply side, rental housing is provided by a competitive firm facing convex management costs, generating an upward-sloping long-run rental supply curve. The amount supplied by the firm in each segment (free-market or controlled) is determined by the share of the housing stock that is exempt from regulation.

Main findings. The authors find that in the long-run rent controls can improve welfare of newborn households, challenging the existing view that rent controls are bad as they lead to misallocation and shortages. Their result relies on how the government consolidates its budget constraint and redistributes back to households the increased rental company profits after a de-regulation. If excess government revenues are redistributed through tax cuts or lump-sum transfers to renters and homeless, then benefits outweigh distortionary effects and rent controls are welfare improving. On the other hand, if excess government revenues are rebated directly to newborns, no regulation is better than rent control.

2. Assessment

2.1. Relevance of the paper

In a world in which housing affordability pressures have intensified and distributional concerns sit at the center of housing policy, many governments have started to introduce, or have already introduced, measures aimed at controlling rental price growth. Hence, understanding the effects of rent stabilization policies in general and rent controls in particular is highly relevant. Therefore, the paper is well suited for a general interest journal.

The paper's contribution relies on a normative analysis of rent controls in a quantitative general equilibrium setting. Their model deviates from previous structural models aimed at studying rent stabilization policies by introducing a rental company that features an upward sloping rental supply curve – as in Rotberg and Steinberg (2024) – as well as by considering an imperfect government redistribution scheme for the increased rental company profits after de-regulation. These two features reveal that rent controls can reduce welfare, which goes against the previous convention and makes the results interesting.

2.2. Main comments

- Transitional dynamics

  The authors' welfare metric is the expected ex-ante utility of newborns. This is the consumption equivalent variation across steady states and therefore ignores the fact that it takes time to move from the old stationary equilibrium (e.g. tenancy control) to the new one (e.g. de-regulation).

  Recommendation: I woud like that the authors to solve the transition path for at least one of their experiments and show that welfare effects are comparable to those found by comparing steady states. Otherwise, these results give only fairly limited information about the true welfare consequences of de-regulation.

- Distributional effects

  The authors only look at the aggregate long-run welfare, quantity and price effects of changes in the rent control policies (Table 5). However, Favilukis, Mabille, and Van Nieuwerburgh (2023), which the authors cite several times, find that rent stabilization policies improve welfare but the gain comes mostly from benefiting young and low-income households, highlighting the importance of distributional aspects.

Recommendation: it would be useful to see how the welfare changes are distributed across different groups of households as one expects them to be heterogeneous. In fact, the different fiscal redistribution schemes can have significantly different distributional outcomes with lower taxes benefiting richer households and targeted transfers benefiting young or low-income households.

- Rental supply elasticity

A crucial parameter to assess whether rent controls are welfare improving is the rental housing supply elasticity because it determines how much rents change in equilibrium.
In their model, the rental supply elasticity is pinned down by the convexity of the marginal cost in the rental housing sector θ_2. This approach is similar to Rotberg and Steinberg (2024) or Greenwald and Guren (2025), as there is a one-to-one mapping between a model parameter and the elasticity of rental supply. Crucially, they empirically identify/estimate this parameter.
However, in this paper the authors pick θ_2 to generate a rental supply elasticity of 1 and argue that since dense urban areas, such as Toronto, have lower elasticities and theirs is below 1.4 – the identified rental supply elasticity to changes in property taxes in Rotberg and Steinberg (2024) – then their choice is a conservative upper bound.

Recommendation: I would encourage the authors to implement some robustness exercises around this parameter. For example, showing the welfare (and price) effects of de-regulation for a range of values of θ_2. An exercise like this one would not only tell us how sensitive welfare is to movements in rental prices but also inform us about the relative importance of the upward sloping rental supply curve assumption for the welfare results.
Additionally, one could try to exploit the results in Han, Ngai, and Sheedy (2025), who analyze the introduction of the Land Transfer Tax (LTT) in 2008 in the city of Toronto, to assess how well the model is able to match the rental supply elasticity associated to that policy change. Moreover, if the authors had access to the Multiple Listing Service (MLS) data used in Han, Ngai, and Sheedy (2025), they could potentially compare the rental price response to a particular shock between exempt units (i.e. those occupied after November 2018) vis-a-vis those subject to rent controls to help discipline the model's rental supply elasticity.

2.3. Suggestions

- You make a good effort in modelling the housing and mortgage markets, however, you do not exploit this feature of the model that much. I believe that it can be useful to dig deeper here because how the considered redistribution scheme interacts with mortgage credit constraints differs. Note that when the government budget is balanced through taxes, there is no direct effect on how loose credit constraints are as the LTI refers to pre-tax income. However, if the redistribution is via transfers, then it loosens the LTV constraint as households are wealthier and have more accumulated deposits to overcome it.
- In Section 5, you are devoting a whole page to describe the experiments to then come back to each of them in the following subsection. I would avoid the repetition as this description in page 31 does not add much and can be merged in Sections 5.1 - 5.4.

2.4. Typos

- PAGE 15: The unified budget constraint (7) writes rental payments in controlled markets as

$$\frac{\left((1-\alpha)\,\tilde{p}_{r,0}+\alpha\,\hat{p}_{r,0}\right)}{(1+\kappa)^{\iota'-1}}h'$$

where $\alpha = 0$ corresponds to tenancy control and $\alpha = 1$ to unit control. However, in page 11 they write *"Rents under unit-based control system, denoted as* $\hat{p}_{r,0}$*, are regulated at the unit level below the free-market rate* $p_{r,1}$*,* ***remain constant throughout a tenancy****, and cannot be increased by landlords upon tenant turnover"*. Therefore, this should be rewriten as:

$$\left((1-\alpha)\frac{\tilde{p}_{r,0}}{(1+\kappa)^{\iota'-1}}+\alpha\,\hat{p}_{r,0}\right)h'$$

so that rental payments in tenancy-controlled units should not decay at the annual rate κ.

- PAGE 17: There are some incorrect references. I managed to spot at least these two:
  - Araújo, Duarte, Alexander Karmann, and Gonzalo Paz-Pardo (2024), "Credit Shocks and the Housing and Rental Markets," ECB Working Paper 2977, European Central Bank.
  - Karlman, Markus, Karin Kinneruda, and Kasper Kragh-Sørensena, "Costly reversals of bad policies: The case of the mortgage interest deduction," Review of Economic Dynamics, 2021, 40, 85–107.

  The correct citations should be:
  - **Castellanos, Juan; Andrew Hannon**; Gonzalo Paz-Pardo (2024) **"The aggregate and distributional implications of credit shocks on housing and rental markets"**, ECB Working Paper No. 2977. European Central Bank
  - Karlman, Markus, Karin **Kinnerud**, and Kasper **Kragh-Sørensen**, "Costly reversals of bad policies: The case of the mortgage interest deduction," Review of Economic Dynamics, 2021, 40, 85–107.

References

Favilukis, Jack, Pierre Mabille, and Stijn Van Nieuwerburgh. 2023. "Affordable Housing and City Welfare." *The Review of Economic Studies* 90 (1): 293–330.

Greenwald, Daniel L., and Adam Guren. 2025. "Do Credit Conditions Move House Prices?" *American Economic Review* 115 (10): 3559–96.

Han, Lu, L. Rachel Ngai, and Kevin D. Sheedy. 2025. "To Own or to Rent? The Effects of Transaction Taxes on Housing Markets." *The Review of Economic Studies*. Advance article.

Rotberg, Shahar, and Joseph B Steinberg. 2024. "Mortgage interest deductions? Not a bad idea after all." *Journal of Monetary Economics* 144.