ARE HOUSING RENTAL MARKETS THAT COMPETITIVE?

#1 BACKGROUND

Lack of affordable housing is a pressing issue in major cities.

48% of US tenants are cost-burdened, as of 2018.

Most economists agree that perfect competition is a good description of this market.

Berlin, Barcelona and Santa Ana, CA recently adopted new rent control policies.

#2 DYNAMIC MONOPOLY

In alternative to perfect competition, I put forward a new search model, where:

- Tenants move if they find a cheaper housing unit that compensates for the moving cost: $r^{offer} + moving\ cost < r$.
- Given imperfect info, tenants search and find housing units at a given rate $\lambda \geq 0$.

#3 THEORETICAL RESULTS

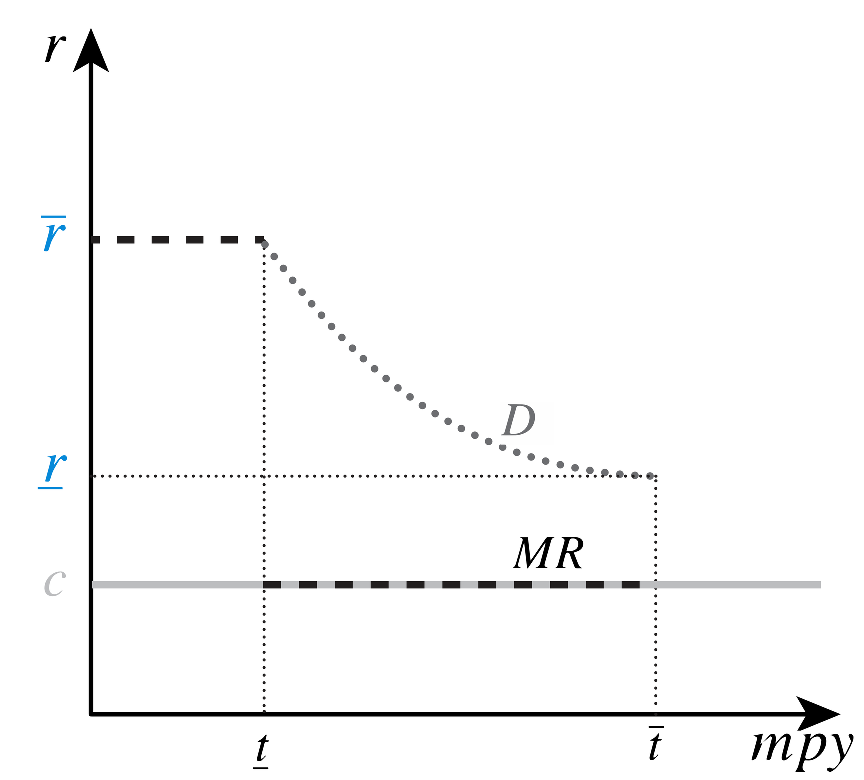

Figure 1 - Dynamic Monopoly Model of the housing rental market

- Residual demand (D) with a negative and finite average elasticity. Landlords have market power.
- Landlords are not price-takers. They can charge $\underline{r} \leq r \leq \bar{r}$.
- Landlords face a trade-off: The higher the rent (r) charged, the less months per year (mpy) their units are rented, on average.
- Rent controls may reduce all rents charged in the market. And only create shortages if the supply is constrained.

#4 EMPIRICS

- Objective: Estimating the elasticity of the residual demand.
- Data: American Housing Survey data for NYC | 2001 - 2013.
- Methods: Duration analysis, to account for interval and right censoring and time-varying covariates in data.
- Identification: Exogenous variation in rent due to rent regulations and subsidies.

#5 EMPIRICAL RESULTS

-6 to -10 Negative and finite average elasticity of -6 to -10 of the residual demand in NYC.

Landlords have substancial dynamic monopoly power in NYC.

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