



# RENT CAPS ADD TO THE SUPPLY SQUEEZE

## How Rent Caps Could Shrink Washington's Rental Market (2025–2045)

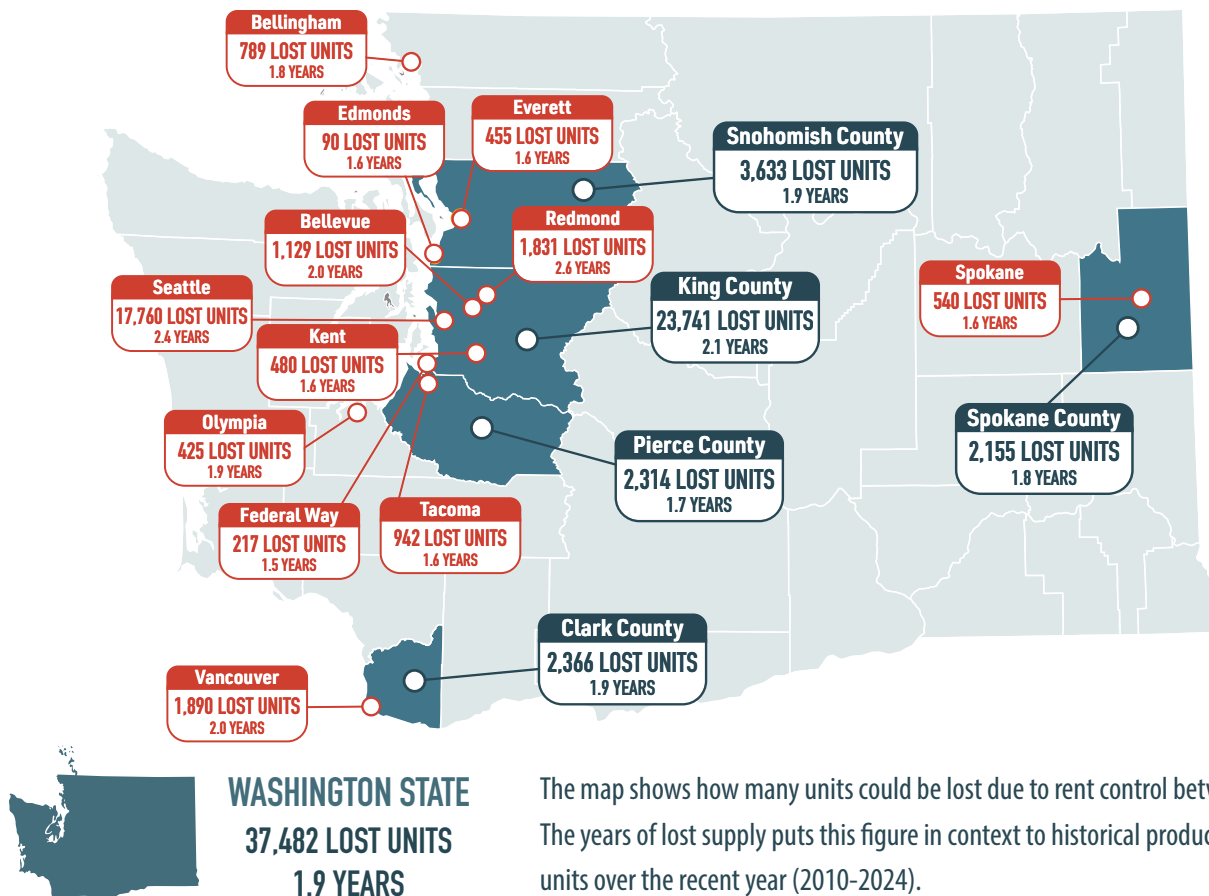
To assess how rent caps could affect future housing production in Washington State, ECONorthwest developed an estimate that applies findings from academic research to Washington's housing market conditions. Specifically, our analysis draws from a 2019 Stanford University study by Rebecca Diamond, Timothy McQuade, and Franklin Qian, which examined how rent control policies reduce the supply of rental housing.<sup>1</sup>

The Stanford study analyzed San Francisco's rent control policies following changes in 1994, measuring their impact on

renter behavior, tenancy duration, and housing supply. The study found that **rent control led to a 6% reduction in rental housing supply**, primarily due to increased condo conversions and fewer new rental units being built. At the time, San Francisco's rent caps averaged around 4% per year.

Applying these findings to Washington State, we modeled the potential reduction in apartment production over the next two decades. While this approach does not assess a specific rent cap proposal in Washington, it offers a critical perspective on the likely consequences of such policies, particularly in terms of long-term housing availability.

## HOUSING UNITS THAT COULD BE LOST DUE TO RENT CONTROL



The map shows how many units could be lost due to rent control between 2025–2045. The years of lost supply puts this figure in context to historical production of multifamily units over the recent year (2010–2024).

<sup>1</sup> Diamond, R., McQuade, T., & Qian, F. (2019). The effects of rent control expansion on tenants, landlords, and inequality: Evidence from San Francisco. *American Economic Review*, 109(9), 3365–3394. DOI: 10.1257/aer.20181289

## Supply Delayed, Crisis Extended

Even moderate rent cap policies, like those historically implemented in San Francisco, could significantly reduce Washington's housing supply. **Over the next 20 years, rent caps could result in 37,482 fewer housing units being available, with 79% of these losses concentrated in King, Pierce, and Snohomish counties**—the areas most in need of new housing.

To put this in perspective, **this reduction would amount to 13% of the multifamily housing stock built statewide from 2010 to 2024.** In practical terms, it would be the equivalent of nearly two years of lost housing production, meaning that for almost two out of the next 20 years, no new housing would be built at all. Such a slowdown would further exacerbate affordability challenges, making it even harder to meet the state's growing housing needs.

### \$1.76 Billion in Lost Sales Tax Revenue

Rent caps could slash Washington's sales tax revenues by \$1.76 billion over the next 20 years. A unique aspect of Washington's tax system is that construction is taxed at the retail sales tax rate, making it a critical revenue source for the state. During periods of economic growth, state, county, city, and special purpose taxing districts—such as transit agencies—depend heavily on these revenues. With fewer housing projects moving forward under rent caps, these jurisdictions stand to lose a major funding stream that supports infrastructure, public services, and economic development.

### \$192 Million in Lost Property Tax Revenue

Rent control could also reduce property tax collections by \$192 million over the next 20 years, further straining local budgets. Since the passage of Initiative 747, Washington's property tax system is reliant on new construction to generate revenue above the 1% limit factor. Without a steady flow of new developments, state and local governments are limited to just 1% annual levy growth, leaving essential services underfunded. The decline in multifamily construction and property values under rent caps further weakens tax revenues, making it even harder for communities to invest in schools, emergency services, and infrastructure.



ECONorthwest prepared this analysis for the Partnership for Affordable Housing (PAH) and is responsible for the content of this analysis. ECONorthwest staff who contributed to this report include Morgan Shook, Mike Wilkerson, PhD, and others.

As Washington's policymakers debate changes to statewide regulations that govern rent control, the PAH is interested in advancing the community's understanding of the potential impacts of various types of rent control regulations on housing development and affordability in Washington.

The staff at ECONorthwest prepared this report based on their knowledge of economics, and on information derived from government agencies, the reports of others, interviews of individuals, or other sources believed to be reliable. ECONorthwest has not independently verified the accuracy of all such information and makes no representation regarding its accuracy or completeness.

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**\$192M** Property Tax Revenue  
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