The Diamond-McQuade Study on Rent Control
A Flawed Analysis of S.F. Rent Control by Wall Street for Wall Street

In fall 2017, a paper blaming rent control for the gentrification of San Francisco was released by Rebecca Diamond and Tim McQuade – two business school professors at Stanford University who used to work for Wall Street banks – as well as Franklin Qian, a Ph.D. economics student. Diamond is a former **Goldman Sachs** asset manager, while McQuade previously worked for **UBS Investment Bank**. Their research has long sought to downplay the harms of gentrification, and their work has even argued the drawbacks of building low-income housing in richer neighborhoods. This analysis of rent control was recently published by the Cato Institute[1], a libertarian think tank that has for decades pushed the agenda of corporate America.

Diamond and McQuade's misleading conclusions were quickly magnified and repeated by mainstream media. However, their study has **not been properly peer reviewed**. Furthermore, to date, the authors have actually released three different versions of their study: September 2017[2], October 2017[3], as well as January 2018[4] editions. These versions differ in the figures calculated, their findings and datasets, and aspects of methods. Far from being definitive, all versions of the study are seriously flawed, and biased in favor of Wall Street landlords in both their framing and deceptive packaging of results.

Flaw #1: The claim that rent control increased gentrification in San Francisco is extremely misleading and totally overblown, and ignores the loopholes in the laws that allow condo conversions.

- The authors claim that rent control "likely fueled the gentrification of San Francisco" because they found landlords under rent control are more likely to convert their units to condos (January 2018, pp. 2). But they solely focus on rent control in incentivizing these conversions and **totally ignore the loopholes in San Francisco's law, in addition to the statewide Ellis Act, that are actually to blame for condo conversions.** They choose not to focus on these loopholes in order to blame rent control.

Flaw #2: The study's conclusions about rent control increasing the costs to other tenants are based on a seriously skewed dataset with limited applicability to the total housing stock in San Francisco and to other cities as well.

- **The study only considers small, 2-4 unit apartment buildings** (January 2018, pp. 6-7) -- but they apply their results to San Francisco as a whole. These smaller buildings are more prone to condo conversions than are larger buildings, leading to skewed results that just happen to support the arguments these authors are trying to make about rent control. Furthermore, **the majority of rent housing in San Francisco is in buildings with more than 4 units**.

[1] https://www.cato.org/publications/research-briefs-economic-policy/effects-rent-control-expansion-tenants-landlords
[2] https://cepr.org/sites/default/files/McQuade,%20Tim%20DMQ_Paris.pdf
[3] http://conference.nber.org/confer//2017/PEf17/Diamond_McQuade_Qian.pdf
[4] http://www.nber.org/papers/w24181

Flaw #3: The study vastly underestimates the benefits of rent control by excluding tenants that moved into their rent-controlled units after 1994, and by only studying up until 2012.

- The study looks at tenants who lived in rent controlled units from 1994-2012, **but doesn't count gains to those who moved into rent stabilized units after 1994.** The authors themselves admit these benefits to tenants moving in post-1994 are likely "quite large" (January 2018, p. 26). **Still, they don't even attempt to include these massive gains in their calculations.** This leads to a major underestimation of the benefits of rent control.
- The study also only analyzes this data up until 2012, and thus does not include the significant benefits of rent control gained during more recent years, through 2017, as rents rapidly skyrocketed.

Flaw #4: The first two versions of the study (from September and October 2017) were deceptively packaged to bury positive conclusions found about rent control that don't fit within the authors agenda. These are the versions that got the most attention.

- In the first version of this report, the authors claim that the benefits of rent control significantly outweigh their alleged costs: protected tenants saved a total of $7.1 billion (October 2017, pp. 40), and all other renters lost a total of $5 billion from rising rents (October 2017, pp. 1). **This figure of $7.1 billion in total benefits was buried on page 40, while the figure of $5 billion in costs was on the very first page of the report.** Furthermore, the authors blame rising rents on rent control while completely ignoring the arrival of tech companies and much higher paid employees that allow corporate landlords to drastically raise prices. Ultimately, however, even Diamond-McQuade's flawed analysis finds significant net benefits from rent control.
- All versions of the study found evidence for what rent control advocates have been saying for a long time: rent control keeps people in their homes, and saves tenants money. **Looking at the actual empirical data -- not mathematical projections -- they found that tenants under rent control are 20% more likely to remain in their units, and rent control saves tenants between $2,300 and $6,600 per person each year** (January 2018, pp. 1, 4)**.**

Flaw #5: The authors have released three different versions of the study, manipulating their mathematical models in each one to make rent control look worse.

- The first two versions of this study reported total benefits of $7.1 billion (October 2017, pp. 40). **Then, in the January version, they inexplicably restricted their dataset and changed their calculations** to reach a figure of only $3.9 billion (January 2018, pp. 26), which they further reduced to a total of $2.9 billion by using an arguably irrelevant accounting measure 'present discounted value' (January 2018, pp. 4).
- There are unlimited ways to manipulate datasets and models, and these authors are clearly making this up on the fly.