

# RENTAL HOUSING ASSOCIATION

## GREATER BOSTON REAL ESTATE BOARD



24 SCHOOL STREET • BOSTON • MASSACHUSETTS 02108

617-523-2910

### THE REALITIES OF RENT CONTROL IN THE GREATER BOSTON AREA

( A SUMMARY OF A REPORT PREPARED BY THE CENTER FOR URBAN POLICY RESEARCH OF RUTGERS UNIVERSITY UNDER THE DIRECTION OF DR. GEORGE STERNLIEB. )

A. All elements of the community, not just landlords and tenants, have a stake in the results of Chapter 842. The results so far:

\* 1. The tax base in controlled municipalities is eroding.

The buildup of cases before the Appellate Tax Board, the level of abatement increase, and the failure to develop a formula for landlord relief are measuring sticks of an erosion of values which must be felt by the municipalities and certainly by the state as a whole. Within a city under Chapter 842, single family homeowners and industrial properties must bear more of the tax burden. In the Commonwealth, state government must give proportionately more aid to cities with controls. ( Pages 71-89. )

2. The negative opinion toward rent control held by lending institutions means that private investment to increase the housing supply has been virtually eliminated.

\* Out of 31 banks surveyed, 26 said controls inhibit investment in rental housing. A single bank said they did not have that result. Four did not answer. ( Pages 90-102. )

3. Funds in controlled units available for building maintenance are inadequate.

\* This leads to property deterioration, which is harmful to tenants and undesirable for the municipalities involved. ( Page 3, page 46. ) The rise in maintenance costs --- claimed by private landlords but largely ignored by rent boards --- can be verified by the experience and certified operating figures of government-subsidized and public housing. (Pages 48-53. )

\* 4. Conversion of rental units to condominiums is clearly stimulated by controls. Rent control, as a response to a housing shortage, ends up decreasing the supply.

For example, conversions in Boston were up 258% in 1973 and 1974 in 1974, and the most desirable units were the ones removed from the rental market.

( Continued on Next Page. )

The Realities of Rent Control  
in the Greater Boston Area  
Rutgers University

On the other hand, laws forbidding conversion, in conjunction with rent control, will only accelerate the trends which see rental property owners unable to maintain their buildings, struggling to pay property taxes, and not capable of meeting mortgages. ( Pages 198-213.)

B. The provisions of Chapter 842 and the local administration of the law have gone too far in an effort to control one segment of the economy in a time of general inflation.

\* 1. Rents in controlled units have not kept pace with operating costs. The squeeze on owners leads to unpaid taxes, declining maintenance and mortgage foreclosures.

A study of 26,600 apartments --- 12,000 private or limited dividend and 14,600 subsidized --- reveals that rents in units under Chapter 842 increased 6.7% in 1971-1973. However, expenses were up 15.2%. Rents in non-controlled units rose 13.3%. After mortgage payments, many buildings had a negative cash flow. (Chapters 2 - 4, especially pages 28 - 46. )

2. The local rent board formulas, for increases and fair return to owners, are loaded to an inordinate degree against landlords.

There are no provisions for projected cost increases. No allowances are given for vacancies and uncollected rent. Capital improvements and rehabilitation are discouraged. Adjustments in rent are not sufficient to compensate for inflation. ( Chapter 7, pages 103 - 121, and Appendix I, pages 135 - 156. )

3. Complicated rent board procedures and overemphasis on individual hearings have left thousands of units without any rent increase in four years.

The red tape under Chapter 842 is stupefying. ( See pages 182 - 197. ) It is no wonder that the time lag, between the date of a petition for an increase and the date of decision, is 3 months in Boston, 3.7 months in Brookline, and 5.5 months in Cambridge. ( Page 119. ) Units receiving increases are small in absolute numbers ( Page 105 ) and as a percentage of all controlled units. ( See especially pages 107 - 111. )

\* 4. Rent Control is often pictured as a measure against the large absentee landlord. In practice, it is devastatingly unfair to the small owner.

For example, in Boston in 1973, only 2.3% of all controlled owners with four or fewer units received any kind of increase. Also in 1973, only 8.1% of all controlled owners with 5 to 19 units received an increase.

( Continued on Next Page. )

The Realities of Rent Control  
in the Greater Boston Area  
Rutgers University

In 1974, 2.8% of owners with 1 - 4 units and 9.5% of owners with 5 - 19 units had increases. ( Pages 107 - 111. )

C. If Chapter 842 is extended beyond 1975, what amendments would be necessary to help avoid the effects seen since 1970?

1. The legislative and executive branches of the state government must not be allowed to abdicate their role in setting standards.

Unsupervised local administration has led to confusion, discontent, and litigation. The results of allowing each community to flounder in administering rent control, in the name of home rule, are amply demonstrated throughout the report, especially in Appendix I. This matter is also considered in the chapter on the attitude of banks. ( Pages 101 - 102. )

- \* 2. A system for rent increases which features city-wide adjustments is preferable to the present emphasis on handling each case individually.

Theoretically, individual hearings would be the fairest method; but, in practice, 90% of all units in Boston, for instance, have never received an increase. ( Pages 107 - 111. ) The administrative workload and bureaucratic expense --- passed on to the taxpayers --- would be reduced by general increases. More time would be available to spend on difficult specific cases and to coordinate efforts toward encouraging rehabilitation and capital improvements. ( See, for example, page 163 and pages 169 - 174. )

3. Any increase in real estate taxes must be automatically reflected in a proportionate rent increase.

This issue should not be confused with any perceived need to change the tax structure; e.g., income tax credits for tenants, etc. Whether or not such reforms take place, the community can only be harmed by making it difficult, and sometimes impossible, for a landlord to pay property taxes. ( Pages 71 - 77. )

4. If the present housing stock is to be maintained and new private investment encouraged, rents must keep pace with operating expenses.

Another type of public policy confusion should be avoided here. The inability of some tenants to pay rent increases is a problem for the entire society. Since even the public housing sector has failed to meet this problem, it is unwise to place all the burden on private investors. In addition, banks will not lend for new construction, if there is the likelihood that builders and owners won't be able to pay off their mortgages. ( See Chapter 6. ) A suggested system for rent control boards, involving Bureau of Labor Statistics indicators, is described in Appendix V, pages 214 - 246. )

EXECUTIVE SUMMARY

Rent control was instituted in the late 1960's to address the housing shortage caused by the diminishing supply and increasing demand for rental units. This squeeze created conditions wherein some landlords raised rents to levels prohibitive for lower income families and those on fixed incomes. The stability of neighborhoods was threatened as families and the elderly moved in search of affordable housing, and were replaced by more transient residents.

In 1968, the Mayor created the Rent Control Board to see that rent increases reflected legitimate increases in operating expenses, and not simply a determination by landlords of what the market would bear. This was the first of a series of actions and legislation designed to control rents. It was anticipated that such control, combined with an increase in housing production, would ease the pressure on those less able to compete for rental units in the open market. Rent control was conceived as an "emergency" measure, designed to ease an acute situation. It was not intended to be a comprehensive, long-range solution to housing problems.

In June 1977, almost a decade after the first rent control program was established, the Mayor appointed an in-house Committee to examine the housing market, the administration of rent control, and the effect of controls on the housing stock, and to make recommendations for future City policy. It was felt that, like all City policies, rent control should be re-examined to determine its continuing effectiveness.

1. The Committee found that the demand for rental units has substantially declined since the institution of controls. This is a reflection of both the City's efforts to increase production of housing specifically for low and moderate income people, and a reduction in the population seeking private rental units.

2) The Committee found that administering rent control had proven to be more complicated than originally anticipated. Landlords and tenants found procedures cumbersome and confusing, and the Rent Control Administration was swamped with case-by-case review of requests for rent increases, evictions, and vacancy decontrol petitions.

3) The Committee also found that rent control had adversely affected the City's housing stock. Many long-term, responsible landlords, perceiving controls as a threat to the profitability of their investments, cut corners on maintenance; other landlords sold their property to new owners interested primarily in speculative short-term gains, and others simply walked away from their property.

Given reduced demand for units, increased abandonment and deferred maintenance of properties, the Committee questioned whether the continuation of rent controls was consistent with other policies designed to preserve the City's housing stock and to insure that low and moderate income households have access to decent and affordable living accommodations. The continuation of rent control as it is currently administered may, in the long run, reduce the quality and quantity of units available to low and moderate income families.

For these reasons, the Committee has suggested amendments to the existing rent control program to take effect in 1978. Under the proposed changes, rent controls would be lifted for all but a well-defined class of needy elderly -- those persons 62 years of age or older, living on fixed incomes in rent controlled units. Though most landlords agree that the elderly are long-term responsible tenants, property owners meeting a disproportionate share of the elderly housing needs should be compensated for loss in rental income. The Committee has recommended that relief for such landlords be granted through the standard tax

abatement process. In this way, the City will be contributing to the cost of maintaining rents at a level older Bostonians can afford.

The Committee has recommended that amendments to the rent control ordinance be submitted to the City Council for approval as soon as feasible. Following approval of a new program, the Rent Control Administration should be trained in the new procedures and residents should be informed of the changes. There should be time between approval of a new program and its effective date, to allow for smooth transition.

# The Real Estate Board of New York, Inc.

12 East 41st Street, New York, N. Y. 10017

Telephone 212-532-3100

December 1975



## THE REAL ESTATE TAX BASE AND THE HOUSING INVENTORY IN NEW YORK CITY

Real estate taxes in New York City account for 44%, or \$3.246 billion, of locally-raised revenues in the City's 1975-1976 expense budget. When revenues from water charges and the commercial rent tax are added to real estate taxes, real estate's direct share of locally-raised revenues totals 49%.

The real estate tax base is divided as follows:

office buildings	17%
utilities	16%
apartment buildings	31%
one and two-family houses	16%
all other properties	20%

New York's total housing inventory consists of approximately 2.85 million housing units, 30% of which are located in privately-owned one- and two-family houses and cooperative and condominium apartment buildings.

The remaining 70%, or approximately 2 million units, are occupied by renters. The approximate distribution of units in the rental inventory is as follows:

rent-controlled buildings	55%
rent-stabilized buildings	19%
public housing	8%
Mitchell-Lama developments	6%
miscellaneous	12%

About 30% of the units in rent-controlled buildings have been vacated since July 1971 and have been placed under rent stabilization.

The economic plight of New York's rental housing is pointed up by two sets of figures. According to the Bureau of Labor Statistics, the cumulative increase in operating costs for rent-stabilized apartment buildings between April 1967 and April 1975 was 91.3%. A survey of 17 sound rent-controlled buildings revealed that between 1970 and 1974 average rents increased by 35.6% while operating costs increased by over 56%.

THE CITY RECORD

THURSDAY, JUNE 16, 1977

THE CITY OF NEW YORK—OFFICE OF THE COMPTROLLER

STATEMENT Summarizing the CITY'S CASH RECEIPTS and DISBURSEMENTS on a VOUCHER BASIS (excluding SINKING FUNDS AND TRUST FUNDS) (in Thousands) During the Month of APRIL, 1977 and for the Period JULY 1, 1976 to APRIL 30, 1977

STATEMENT OF TAX ANTICIPATION NOTES, ISSUED, REDEEMED and OUTSTANDING and of the OUTSTANDING TAXES (in \$ Thousands) as of APRIL 30, 1977

Fiscal Years	Outstanding Taxes April 30, 1977, Excluding Assessments Collectible With Taxes	Tax Anticipation Notes		Tax Anticipation Notes Outstanding April 30, 1977
		Issued in 1976-1977	Redeemed in 1976-1977	
1971-1972 and Prior Years .....	\$76,244	.....	.....	.....
1972-1973 .....	35,042	.....	.....	.....
1973-1974 .....	56,877	.....	.....	.....
1974-1975 .....	91,732	.....	.....	\$90,480
1975-1976 .....	148,365	.....	.....	193,161
1976-1977 .....	401,455	.....	.....	1,171,270
<b>TOTAL</b> .....	<b>\$809,715</b>	.....	.....	<b>\$1,451,270</b>

Unpaid Real Estate Taxes - 1976/77	\$ 401,455,000
Unpaid 1975/76 and prior years	408,260,000
Total Cancellations & Remissions of Real Estate Taxes - 1971-1976	601,500,000
<u>Estimated Unpaid Water &amp; Sewer Tax</u>	<u>110,000,000</u>
<b>Total:</b>	<b>\$ 1,521,215,000</b>