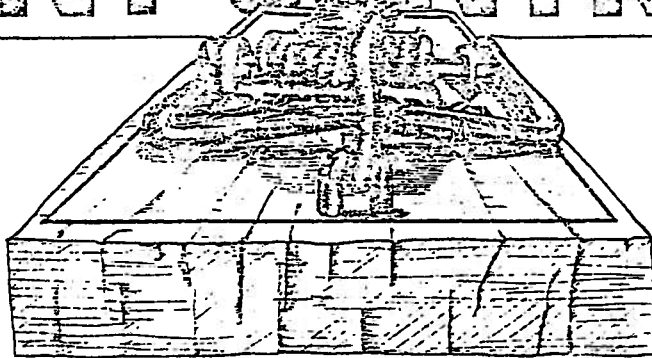


RENT CONTROL



A TRAP FOR APARTMENT RESIDENTS AND HOMEOWNERS

More than 200 communities in the United States had some form of rent control by mid-1976. Today, approximately 14% of all urban dwellers live in areas with existing state control. Another 14% live in areas where state and local governments have recently considered rent control legislation. Of this total 28%, 14% live in rent-controlled units.

Why? Because rent control would appear to be a popular solution to an unpopular problem—inflation. In a world where everything is becoming increasingly expensive, the idea of paying a fixed, stable rent for comfortable housing seems to be extremely attractive. But are the assumed benefits of rent control fact or fantasy?

Let's take a close look at what rent control means to you, whether you are an apartment resident or a single-family homeowner. How does it actually affect you—in terms of dollars and cents, quality of housing and community growth?

Let's also examine the results of rent control where they are most apparent—in communities that have lived with rent control longer.

Minimums

Minimum Income

One of the main reasons rent control does not work is because it ignores a very basic fact of our current economy. Costs continue to escalate. No one is immune. It is not just a landlord to anyone who goes to the grocery store, buys clothes, drives a car, or pays taxes. In short, the escalation of costs is obvious to anyone who lives in this country. The property owner is no exception.

Once rents become "fixed" by legal means, the property owner is forced to operate a building within the boundaries imposed by limited income. However, the costs of operating the building, i.e. taxes, utilities, maintenance and labor, continue to climb. These costs to the

expenses, the property owner has no choice but to cut costs in the areas most apparent to apartment residents—



minimum income and property owner's ability to pay for maintenance and repairs. If you just don't have the cash flow, i.e. surplus income, to undertake more than minimum maintenance to keep a building operable, eventually if rent controls continue or are extremely severe, even minimum maintenance becomes too much of a burden. Consequently, slow deterioration of the building begins. Renters' dissatisfaction grows. Potential rental prospects become discouraged. Building abandonment becomes a real possibility, and there is nothing the owner or manager can do because the income necessary to rectify the situation is simply not there. Residents who don't understand this natural progression and enthusiastically support the passage of rent control legislation, may eventually find themselves living in a slum.

No Place To Live

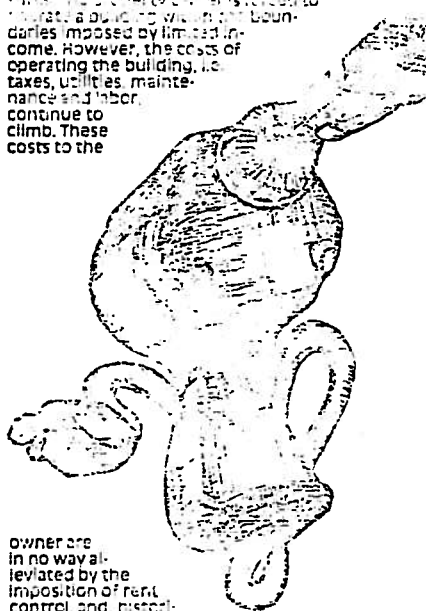
Rent controls were initially instituted to help low-income families and newly-formed households locate and afford adequate housing. Instead, experience indicates that rent controls have had the opposite effect. Instead of making housing more affordable and more readily available, rent controls have proven to be very effective means of increasing the housing shortage. How does this happen?

First and foremost, those who provide housing—investors, builders and owners—have either experienced or experienced the negative effects of rent control. They lose confidence in the rental market's return on investment because they are well aware of what has happened to properties located in rent-controlled areas, such as Boston, New York City, Washington, D.C. and Lynn, Massachusetts.

There is also evidence that the Federal Government is no exception. In the Fall of 1973, the U.S. Department of Housing and Urban Development preempted all of its financial units from any local or rent control.

High vacancy rates, abandonment and demolition are investors' nightmares and there is very real evidence that this occurs.

owner are in no way alleviated by the imposition of rent control and, historically, rent control commissions have not approved rental increases in amounts sufficient to cover increased costs. Principal and debt service costs are fixed. Increasing taxes and utility bills must be paid in order to meet these "must be paid"



Abandonments and Demolitions

For instance, since rent control was adopted, Lynn, Massachusetts has shown a substantial increase in the number of demolitions and abandonments. Since the adoption of rent control in 1972, the total housing stock has decreased. In 1972, 244 dwelling units were demolished as compared to 59 being built. In 1973, 347 units were demolished while 463 new units were constructed, 71% of which were in a subsidized housing project.

Another well-publicized example is New York City. From 1965 to 1975, dwelling units lost through abandonment in New York City totaled about 200,000 units. Up until a few years ago, the problem of abandonment had been primarily confined to low-income neighborhoods. However, since the adoption of rent control, many rental units that once accommodated New York City's middle-income population have been abandoned.

While the vacancy rate for rental units in New York City is relatively low (about 3%), the number of demolitions each year falls in the range of 30,000 to 50,000 units. The number of newly-constructed units has fallen short of the number of demolitions. This imbalance further aggravates the housing shortage.

Condominium Conversions

In addition, when faced with rising expenses and limited income, property owners, who have already invested in rental units, tend to remove them from the housing stock through condominium conversions. In Washington, D.C., for example, between 1974 (when rent controls were introduced) and 1977, 8,000 units have been lost. Whenever rent control is introduced, owners and investors try to get out of the rental business as fast as possible.

No New Buildings

Ironically, although it is exempt from controls in many communities, new construction comes to a virtual halt. This is not so hard to understand in light of the results of

days included in rental control legislation already affecting existing units is a discouraging factor to developers.

Also, new units have a reduced chance of financial success because they must compete with existing controlled units. This is particularly true in areas where there are more controlled units than there are new units. They need to retrieve some of this increased expense through building income, i.e. rent, and are therefore compelled to seek rents significantly higher than rents in the controlled unit market. They enter the market with all the odds against their investment. Many investors foresee this high risk situation and take their investing funds elsewhere.

Obviously, this increases the housing shortage. It also deprives the community's residents of potential employment and increases in income that could have resulted from increased construction activity.

Household Immobility

Do rent controls actually help low-income families and newly-formed households locate and afford adequate housing? Because rent controls accelerate abandonments, demolitions, and condominium conversions, while at the same time depressing new construction, low-income families experience more and more difficulty even locating adequate housing, much less affording it.

Adding to these obstacles is the fact that rent controls are imposed on existing units and current residents. Current residents do not necessarily fall into the category of low-income families. In fact, existing residents may have middle or high incomes since they have already been able to afford to pay free market rents.

Although rents become stabilized as a result of rent control, rent control legislation does not take into account the increase over the years of a resident's income. In other words, rent control disregards the resident's ability to pay free market rents. Therefore, since the rent in rent-controlled buildings is relatively low, residents who could afford free market rents are reluctant to move. At the same time, the growing lower-income and newly-formed households, who badly need low-rent housing, discover it is unavailable to them. This group, which theoretically should benefit from rent control, is forced into the open market to search for housing.

Property Taxes Climb

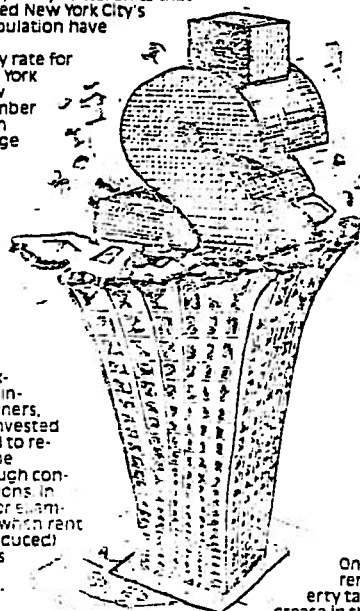
One of the most tragic results of rent control is the effect on property taxes due to the substantial increase in the number of demolitions and abandonments. In Lynn, Massachusetts, the estimated amount of the structural demolition since rent control was adopted was \$1.9 million. This represented a significant decrease in the city's tax base. These disastrous results were noted, and, in 1970, Lynn, Massachusetts voted to lift rent controls.

Erosion of a community's tax base seems to be a natural outgrowth of rent control.

because, in most cases, tax values of multi-family buildings are based on their capacity to earn. When that capacity is artificially depressed by rent controls, value is depressed and the property taxes on those buildings are lowered.

of its essential services, such as fire and police departments, schools and public transportation, through real estate taxes. In order to maintain these services, a city is forced to shift the tax burden to the single-family homeowner.

The result is that owners of non-rent-controlled properties—primarily single-family homeowners—must pay a greater proportion of local property taxes. The ultimate effect is that the single-family homeowner is subsidizing the rent-controlled apartment dweller. For example, in Washington, D.C. in 1977, the increased assessed value of single-family homes was eight times greater than the increase for multi-family units.



NO BARGAIN

What, then, are the actual, documented effects of rent control? Does it really provide comfortable housing in a healthy market at minimal expense? NO!

- Instead, rent control brings:
 - Decrease in maintenance and repair, and resulting deterioration of housing.
 - Eventual abandonment and demolition of unprofitable buildings.
 - No mobility for low-income families.



- Reduction in housing choices available.
- A halt to new construction.
- Excessive condominium conversions.
- Increased taxes for the single-family homeowner.

You can halt the widespread threat of rent control. Take action when rent control legislation is introduced in your local legislature. Let your congressman know that rent controls are a bargain you can't afford.