

I. Rent Control: A Non-Solution: Prepared by Department of Economics and Research - National Association of Realtors - 1977 - A Summary of th Text.

A. Basic Arguments For Rent Control: Proponents of rent control argue their case from an extremely parchial viewpoint. They see rent control as a means to protect the limited fixed income of some households in a period of housing shortage. Perhaps the most commonly stated purpose for enacting rent controls is that lower income households living on a fixed income need protection from substantial rent increases by the market system. In general, tenants living in controlled housing units pay less rent than they would given an uncontrolled market; consequently, it is argued that rents must be regulated in order to protect certain tenants who have a difficult time in meeting their rent obligations.

Proponents of rent control further argue that housing is such a unique commodity that prices must be controlled since there are no substitutes for basic shelter, especially during housing shortages. If rents are increased, tenants have little alternative except to pay the increase given the short supply; since the supply of rental housing cannot be expanded quickly enough to offer immediate relief.

On the surface these arguments merit attention. Housing is a necessity; rent increases can create hardships. However, this problem should not be viewed as an owner's responsibility, but rather a responsibility of society as a whole.

II. Direct Effects of Rent Controls On Existing Housing: Rent controls have many adverse effects on the existing housing stock. 1) Lower levels of outlays for maintenance and repair in rent controlled communities; 2) Decreased value of rental properties, increased conversions to condominiums and difficulties in refinancing rental properties.

Rental housing, like alternative investments, must offer a rate of return that is competitive with investments of comparable risk. As operating costs increase and rental income remains stable, or increase at a rate below costs, the return to the investor is deluted. Under these conditions, investors must make a choice of accepting a rate of return not commensurable with risk, or attempting to reduce costs in order to equalize the return. It is a fact that the most immediate way to reduce cost is to limit expenditures for maintenance and repair. Maintenance and repair expenses represent variable costs. Mortgage, insurance, taxes and utilities are fixed obligations that must be paid - they are priority items for the owner.

Study During Period 1968-1975 - Institue of Real Estate Management

New York *	6.3%	Average percent of gross income being used for maintenance and repair during the period of 1968-1975.
Boston *	7.0%	
Baltimore	8.0%	
Chicago	7.7%	
San Francisco	9.0%	

* Rent Controlled Cities.

- B. Domolition, Abandonment and Conversion: In non-rent controlled cities the vacancy rates tend to be in a 5-7% range. These cities can afford to lose a portion of their housing stock, especially the lower-grade housing. In a city, such as New York, its' vacancy rate is about 2-3%. They cannot afford more demolition and abandonment. When rental units are removed from New York's housing stock, the critical housing shortage is further exacerbated. Rent controls remove any incentives for owners to preserve their properties.

In Lynn, Massachusetts, after the adoption of rent controls, the number of demolitions and abandonments of rental housing increased and the tax base eroded. (Refer to "Analysis & Impace of Rent Control Program in Lynn, MA" - Office of the Mayor, David L. Phillips, May 1974.)

Rent controls increase the removal of rental units from the housing stock through condominium conversion. When controls become cumbersome, when values as a rental property is reduced (In Lynn, MA, between 1971, precontrol, to 1973, the median price of rental units decreased by 12% from \$2700 to \$2373.), owners will seek to recapture their investment through conversion. The rental housing stock in Washington, D.C. contracted by 3500 units from 1970 to 1974 (Refer to "Annual Housing Survey, 1974 - Housing Characteristics for Selected Matropolitan areas, Washington, D.C." Department of Commerce, Bureau of the Census, 1975).

- C. Property Tax Burden And Shifts In Tax Base: Rent controls have adversely affected the level of tax receipts collected from the controlled sector. Since the value of controlled units increase at a rate below that of the non-collected sector, a tax shift occurs which places a greater tax burden upon real property that is not controlled.

Single-family homeowners, commercial and industrial property owners will pay proportionately higher taxes in order to fill the void created by the reduced share of assessed value on multifamily units.

The value of income-producing properties is directly related to the income-producing capability of that property. If income falls, the value of the property declines. The tax paying ability of the property is diminished.

In Cambridge, MA, Charles R. Laventy, principal tax assessor stated in a report on rent control dated October, 1976 that the city experienced its "first decrease in the tax base since the Depression." In New York, the market value of rent controlled property declined 31%. In Lynn, MA, in a report of May, 1974, from the office of Mayor David Phillips, there was a decrease in the tax base of over \$1.9 million.

It has been observed in a number of rent control communities of a shifting tax burden and an increasing tax rate. In Cambridge, MA the percentage of gross rental income allocated for real estate

taxes was 22% when rent control was initiated in 1970. By 1976, this tax burden increased to 30% of gross income. The state's average is 22%. It is illogical to assume that developers would locate in Cambridge when they can build in other cities with a lower tax rate. Private development has accounted for less than 9% of the units built between 1970 and 1973 in Cambridge.

In Washington, D.C. rent control caused a shift in the tax base. In 1976, the assessed value of multidwelling units increased by 6%, the assessed value of single family homes by 40%. The single family homeowners are being forced to absorb increased costs of city services through higher assessments, while revenues from rental units are being artificially constrained because of lower values attributable to rent controls.

- D. Effects On New Construction: In rent control areas developers and investors have shown a lack of confidence in the rental market. In some areas the regulations are so strict that investors can receive a better return at lower risk in the bond market.

For many communities, new construction is exempt. The new units have an additional burden in competing with the rent controlled units. The rents for the new units will be significantly higher, reflecting the higher construction costs, land costs and interest rates. Higher vacancy rates in the newer non-controlled units exist as a result. In Boston, the vacancy rate from 1968-1975 for elevator buildings was 10%; for the units built from 1961 to 1967, the vacancy rate was only 1.1%. Rent controls are intended to alleviate the effects of housing shortages. In the long run, rent control aggravates the shortage by restricting supply. New private rental construction significantly decreases in rent control areas; not only are less rental units being constructed but new units are not being built to replace the number of demolitions of old units. This imbalance further aggravates the housing shortage.

- E. Turnover Rates: In rent controlled units, the incentive for tenants to move decreases. This tendency to stay in their rent controlled unit reduces the efficiency of the total housing stock. Older tenants continue to occupy accommodations larger than the physical size their households require, simply because it would be more costly to move. Rent control under these conditions is little more than a subsidy for middle/upper income households and is not really helping households the controls were intended to assist.

- F. Costs of Operations vs. Increases in Rents: Your rent dollar still buys more goods and services when compared to other commodities in the market place. From 1967-1977, the overall CPI increased by 82%, rents by 53%, homeownership, fuel and medical care by 200%. In 1974-1976, the consumer price rose by almost 70% more than rents. During the last 10 years, the CPI increased by 88%, family income by 80%, price of single family dwellings by 239%, rents by only 55%. (Bureau of Labor Statistics and Department of Commerce.)

Rents have increased slowly. One reason was the result of heavy oversupply and increased vacancies. Owners are hesitant to increase rentals in a soft rental market. Another reason is that 60% of the rental market is controlled by small landlords who seem to prefer stability to maximized income.

During the past 12 months, the CPI for residential units increased by 9.2% compared to 13.2% for all goods and services. It must be remembered that the landlord, after receiving his rent dollar, must then purchase his supplies and services in order to operate his units from the higher priced market place.

- G. Economic Benefits of New Construction: Any community must consider the negative implications of rent controls from the standpoint of reduced housing maintenance, less new construction and eroding tax base. There are very important factors that also must be considered. These factors include the number of jobs and business income lost because rent controls reduce outlays for maintenance and repair and reduce new construction.

The U.S. Department of Commerce estimates that for every \$1 billion dollars spent on new construction, personal income (direct wages paid) would increase by \$315 million, personal consumption expenditures increase by \$285 million. New construction has a multiplier effect on the local economy in creating more employment opportunities, higher levels of income, and increased consumer spending. For every \$1 billion dollars spent on maintenance and repair, personal income increases by \$500 million and personal outlays by \$450 million. (US Department of Commerce, Bureau of Census - February 1974 on "Survey of Current Business.")

There has been much pressure placed upon the legislature to allow rent controls to exist for mobil home developments. The arguments presented in the various materials to you very much apply to this particular rental market.

In fact, mobile home parks are a perfect example in which the local governments have been a major cause in the increasing of rents and decreasing of supply. It is very difficult to obtain a zone change for the construction of new mobile home parks. There is a tremendous opposition to such developments, especially from single family home residences who fear that their property values will significantly decrease. In Las Vegas, try to buy land and place your mobile home upon that land. You will find that the zoning laws will make it difficult if not impossible to place your mobil home on the land. As a result, supply decreases. When supply decreases, and when there is an increase in demand, price increases. Real estate is probably one of the few markets left where the laws of supply and demand really effect price.

The city and county commissions have restricted new mobil home developments, not only decreasing the supply, but also effecting the ability of a mobile home center to leave one park and go to another park if they are dissatisfied with its conditions, or rental levels.

The local governments have very much played a role in the increase of operating costs to all income producing properties, including mobil home parks. In the past year, the rubbish removal firms received a 35% increase in rates, water increased by 10%, electricity by 15%, gas by 15%, sewer by 15%. These increases were approved by commissions and state agencies. During this same period cost of materials for maintenance and repair increased by over 24%.

These factors can not be ignored. There are other alternatives to rent control. Some of these alternatives are:

- A. Federal and state renter tax credit.
- B. Section 8 - rent subsidiaries to the elderly, handicapped and lower income level households.
- C. Rent gouging - independent review boards to review case-by-case complaints where an individual believes he has received an unfair increase.
- D. Programs by local and state governmental levels for the development of new construction, in forms of tax incentive, state interest rate program, reconsideration of zoning laws.