

Testimony of Eric Fruits, Ph.D.  
House Committee On Human Services and Housing

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Chair Keny-Guyer and Committee Members:

My name is Eric Fruits. I am a Portland area economist and an adjunct professor at Portland State University where I have taught courses in real estate finance and urban economics.

At PSU, I am the editor of a quarterly journal focused on Oregon's residential and commercial real estate markets.

I have a masters and a doctorate degree in economics and a bachelor's degree in business economics and public policy. My research on residential real estate has been published in a top tier academic journal and I have contributed to a widely used real estate finance textbook that is now in its 15th edition.

A key discussion today involves state pre-emption of local rent control regulations.

Pre-emption must be maintained.

Pre-emption makes sense when local markets are interconnected such that the policies and activities in one locality spill over into another.

Well known and respected Harvard urban economist Edward Glaeser points out that rent control imposes costs on people both

inside and outside the local jurisdiction. For example, a housing shortage caused by rent control in Portland will spill outside the city limits and contribute to rising rents in Milwaukie, Gladstone, Gresham, and maybe even Troutdale.

When rent control stifles turnover and shrinks supply, people looking to move to the community are prevented by the lack of supply of available housing. Imagine a U of O grad turning down a job in downtown Portland because she cannot find housing within commuting distance.

These spillover impacts provide a compelling reason to maintain pre-emption.

Pre-emption provides regulatory stability. Portland's recent rent control ordinance is Exhibit A. It was rammed through in a matter of weeks and contained an emergency clause that put the rent control into effect the second the last commissioner voted. Property owners had no time to anticipate the ordinance and little time to react to it.

Now, imagine a patchwork of cities and counties throughout the state writing their own unique rent control laws. Owners of properties across different jurisdictions will have to juggle each different set of regulations. Renters moving across the state will face the mess of each city or county having its own regulations.

Portland's new rent control ordinance has no provision for city enforcement. Instead, Portland has dumped enforcement duties on Multnomah County's already clogged courts. If pre-emption is removed, county courts will be hearing thousands of cases spanning different jurisdictions. Judges and juries will have to

evaluate each case based on each locality's unique and idiosyncratic regulations.

Imagine being taken to court for the crime of trying to cover costs. Imagine serving on a jury to determine whether a rent increase was too high.

Oregon courts are notoriously backlogged with cases. Removing pre-emption will further clog our courts. Preventing these sorts of spillovers is precisely why pre-emption laws are put into place.

I understand that you are going to hear testimony today about the benefits of "rent stabilization." This is the new name for something known as "second generation rent control."

Rebranding a bad policy does not turn it into a good policy.

A simple scan of mainstream economics provides a clear conclusion. Heck, a comprehensive scan of mainstream economics provides a clear conclusion. Rent control is bad policy.

Paul Krugman wrote in the New York Times that rent control is "among the best-understood issues in all of economics, and—among economists, anyway—one of the least controversial".

As the saying goes: The science is settled.

Rent control reduces supply and creates shortages in rental housing. Sure, current renters are better off by paying lower rents. But, prospective renters—newcomers—are worse off when they can't find place to live. Property owners become a lot more choosier about to whom they rent when they are staring down rent controls.

When prices are capped, people have less incentive to fix up and rent out their spare bedrooms or basements. They have reduced incentives to build rental property. Why face the nightmare of over regulation when you can flip and sell? Why rent out an apartment when you can sell a condo? Oh, and by the way — sales prices are growing as fast as rents in many areas.

Another well-known feature of rent control is reduced maintenance. The urban economics textbook I use at PSU — written by a Lewis & Clark economist — dedicates half a chapter to the economics of property maintenance. The science is settled: If rent control reduces the revenues from property improvements, you will see less property improvement.

Second generation rent control is designed to be complex in order to delay and obscure the worst parts of first generation rent control. It's the economic version of wiping off the fingerprints at the scene of the crime. The crime still happened, it's just harder to catch the culprit.

Rent stability is more complex than rent control in the complicated rules determining how and by how much rents can rise. Add in the court system or a quasi-judicial housing panel and you've just built a regulatory morass. This is how to create a self-inflicted housing shortage.

You may hear testimony that maintenance issues can be dealt with by vigorous code enforcement.

First remember, Oregon tenants are already protected from retaliation if they report building code violations. Rent control does little or nothing to improve these already strong protections.

Remember, code enforcers enforce the code. They can't mandate that a unit get fresh coat of paint, a new carpet, or a kitchen remodel. These are the things that go by the wayside with rent control.

Here's the takeaway: Markets work. Markets work through the price system. Costly regulations lead to higher prices. Second generation rent control doesn't stop price increases, it merely delays and obscures them.

Markets work through supply and demand. If you make it unprofitable to supply housing, you'll see less housing supplied. Rent control and rent stabilization lead to housing shortages and worsen existing shortages.

This isn't Ph.D. economics. It's Econ 101. It's textbook. Rent control is bad policy and rebranding doesn't make it any better.