

Rent Control for Oregon's Future

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The lion's share of credit for this presentation belongs to Aimee Ingles, of Tenants Together, San Francisco. However I am prepared, having researched all of her references and invested a great deal more of my own so that I can say unequivocally that I have verified every statement you are about to read. Several link references are listed in the endnotes along with documents posted on OLIS. So there should be four files listed for you to look at.

Myth Busting: We discuss the various myths surrounding rent control, counter to several stated in the testimony of Dr. Eric Fruits to the committee, February 28, 2017.

We will discuss how rent control is not a threat of any kind, also the benefits both economic and social attributed to stabilization. Yes this is a promotion, but unlike other visitations you may have heard, we explain what went wrong, and what solutions corrected those wrongs.

We present a brief description of what rent control will look like in Oregon.

Historical background

The first generation of rent control dates to the fifties as returning soldiers flooded the demand for housing from WWII. The second generation started in the 70's very ambitiously and suffered through a great amount of turmoil and over-reaction by states. What we propose here is a true "third generation" that has fully learned the lessons of history.

We realize we live in a capitalist system and must serve both that and our people's need for stability, so that we can avoid those fights that were so damaging in the past.

With more and more cities grappling with displacement and rising rents, it's time to implement serious policy solutions to stabilize communities. Myths abound on rent control policy and prevent cities from pursuing what is really a moderate and reasonable regulation of the largely unregulated private rent market. Unless you think landlords should be able to raise rents however much they want, whenever they want, it's time to take rent control seriously and evaluate it based on the facts.

Even if you haven't taken an Economics 101 class, you may have heard the conventional wisdom that "93% of economists are against rent control." You can bet landlords and real estate interests have had a field day citing this criticism of rent control and this haunts tenants and affordable housing advocates to this day.

Decades ago economists weighed in on New York's "classic" rent control and haven't seriously looked at the policy since. "Classic" or "first generation" rent control did not allow any increases at all, and landlords had to prove they were financially burdened in order to increase rents. "Second generation rent control like that Tenants Together are supporting in cities in California, allows an automatic increase annually with inflation (CPI) which through research has been found to track well the increases in landlord costs.

Let's unpack the statistic this conventional wisdom comes from: a 1992 survey of US economists in which 93% agreed with the statement "A ceiling on rents reduces the quantity and quality of housing available."^[1] Whether this is true or not, by agreeing to this statement economists aren't actually saying they're "against rent control." The framing of this statement does not reflect what rent control actually is in most contexts and does not ask economists to examine what other factors might impact housing markets.

Further, sociologists have more recent studies of rent control that deserve attention. A 1996 study by two University of Louisville sociologists published in the Journal of Urban Affairs examined over 120 cities in New Jersey, with some rent control, concluding that "rent control did not impact most measures of cost, quality, and quantity of rental housing."^[2]ⁱⁱ A study in Alberta, Canada, in 2013 had similar

findings, that rent control helps keep tenants in their homes and does not adversely affect the housing market. It is not a given that rent control in California negatively impacts the “amount and quality of broadly affordable rental housing.”[3]ⁱⁱⁱ

First, modern rent control laws are not a ceiling on rents. The only true ceiling existed in New York before 1970, and the policy has since been overhauled. As Richard Arnott has written in his paper, “Time for Revisionism on Rent Control” in 1995, “...generalizing from the New York experience may be more like inferring the effects of a gentle breeze from the ravages of a hurricane.” Except during World War II as an emergency measure no city in California has had or currently has a rent ceiling. Rent control is, in reality, a “set of regulations governing not only allowable rent increases, but also conversion, maintenance, and landlord-tenant relations” in order to prevent rent-gouging and displacement. [4]^{iv}

Second, modern rent control has no impact on the construction of new housing. In most places new housing is exempt. In San Francisco, units built after 1995 are categorially exempt, with developers falling over themselves to build in San Francisco, the boom and bust cycles of housing construction seem to follow the overall health of the economy rather than any relation to rent control. In Manitoba, which controls rents even after a tenant leaves (known as vacancy control, which is illegal in California), there’s a rolling goalpost of new units being exempt from rent control until several years after construction.

In a study of rent control in Manitoba, after over a decade of rent control, “additions to rental stock were higher than the national average on a per capita basis and outstripped the building of condominiums since the mid-1990s, with the construction of new rental units in the province’s largest city, Winnipeg, at their highest level in twenty years.” [5]^v

Rent control is not meant to build housing, so why would it be criticized for not doing so? Rent control will keep landlords from gouging tenants with 20-200% increases and require them to give just reason for eviction from their homes. Keeping the affordable housing we have, should be just as important as building more housing. Let rent control do what it does best, as a piece of the puzzle to help the housing crisis.

Third, rent control has no impact on the quality of housing available. Modern rent control allows landlords to pass through a percentage of operating and maintenance costs for capital improvements, if these costs have increased beyond the annual allowable increase.

Quoting from Aimee Ingles: “As an advocate for tenants who hears from folks all over the state, most of which do not live in a city with rent control, I know slumlords are a big problem everywhere. While tenants in the big coastal cities face rising rents and displacement, habitability issues are the biggest concern for tenants elsewhere. The culprit for this is usually a city code enforcement agency that neglects to actually cite landlords who violate health and safety housing codes” – the way the whole state of Oregon is right now. “In contrast, San Francisco and Los Angeles, both cities with rent control ordinances, have some of the strongest code enforcement practices in California, and have relatively fewer problems with holding slumlords accountable.”

Why do high rents happen anyway?

San Francisco’s rent ordinance is perennially blamed by critics for its high rents. However rent control does not make rents rise, that’s like blaming a fire on the presence of a firefighter. It makes sense that the expensive cities are the ones that pass rent control – these regulations get considered, passed and retained in response to high prices. When modern rent control laws were first passed in California, they were passed in response to landlords raising prices in response to inflation in the 1970’s and not lowering them, as promised, for the passage of Prop 13, a huge tax relief measure. Instead they raise rents even more. It makes sense landlords would try to make as much money as they can by evicting tenants and gouging rent when there is an astronomical amount of money to be had out there. We’ve seen this happen in North Dakota.

Why not build-baby-build instead? Trickle-down housing policies don’t work when market rate housing is out-of-reach for most residents. Co Star, a real estate research firm reported that of 370,000 multi-family rental units completed from 2012 to 2014 in 54 metropolitan areas, 82% were considered “luxury.” Luxury housing is the new “market-rate.” Building housing for high-income people attracts

more high income people, rather than lowering prices to levels affordable to low and moderate income people.

High income renters don't just go for the newer units, they demand older units too, and are able to outbid lower-income tenants.[6]^{vi} Many cities without rent control are seeing higher rents on older units and new units are unaffordable

Oregon is unique.

California has a couple of big roadblocks that Oregon does not. Now if you read through the Rent Control Toolkit I provided you. [7]^{vii} You see quite a bit of discussion about the Costa-Hawkins and Ellis Act restrictions.

Costa-Hawkins stripped the state of vacancy control (or vacancy decontrol as it's called), isolated single family home and condominiums from rent control and constrained rent control to buildings built before 1995, the date of its passage. Needless to say this was devastating and San Francisco, as a result, became the new Nation's capital of high rents.

Then came the Ellis Act, which permits landlords to remove an entire property from the rental market, evict everyone and put it back as high dollar rentals or condominiums. Without vacancy control as a deterrent, San Francisco, alone, suffered 10 thousand Ellis Act evictions.

There are many such restrictions enacted in the early days across the nation. Oregon is not one of them. The consequences **then** were not known. Today, they are, and any attempt to propose such laws here or anywhere else would have to face the whole devastating Nation-wide history of widespread evictions, with the poor and middle class it's targets.

Please note California citizens were still, before and after, much better protected from evictions than Oregonians. **Hence the dire need for HB 2004.**

One point I always pound upon while lecturing about rent control is this: Property values in Oregon are one-fifth what they are in the SF Bay Area. Logic would presume **rents** would follow at one-fifth of theirs. Instead it's only about half. So I

pose this question for identical buildings: If a five million dollar Bay Area property easily gets a 15% return, what do Oregon landlords' one million get?

I would dare to guess a great deal more.

Consider the following:

Oregon has the “18th lowest per-capita personal income in the U.S., sandwiched between Louisiana and Missouri.”[8]^{viii} At \$40,233 by this article (\$28,867 HUD) in 2015.[9]^{ix} It, in itself, is something to be ashamed of, while rents average \$1,620 for Portland and \$1,122 for Eugene. (2016 figures). This means a great many tenants are “shelter poor” paying a huge percentage of their income towards rent.

The damage done by 32 years of unfettered rent increases is very clear. I wish there was a way to take it all back, but I am at a loss as to how. However our plan is to stabilize where we are now. We hope to make this time a new “zero point” from which renters can regain their lives, hopes and dreams, free of the fear of that the next paycheck, will not be enough to cover the rent and face either homelessness or become a part of that Nomadic tribe forever seeking the next lowest rental.

The greatest contributing factor to homelessness today are the people who can't make that last payment or have to choose between paying rent, or paying for medicine or feeding themselves or their children.

The cost factor, or equity vs. return on investment

Real estate investments are better than the stock market and much more stable. One can buy a building or land, stand back and watch inflation build upon his investment. Of course that is money put aside to earn. Rental properties, on the other hand, give immediate returns on top of all this. Typically costs are a combination of mortgage payments, property taxes, insurance and probable property management fees, but not all costs are a loss. Some contribute to equity.

Equity is defined as the net value that a landlord has in a building. The down payment is the “initial equity” while the rest is covered by a loan or mortgage. “At any point in time, the initial equity, plus the part of the mortgage that was paid off

by the tenants, plus any appreciation value of the property is the landlord's total equity in that property.”

“Before the landlord pays off the mortgage and owns the property outright, he can use the equity in many ways. Because equity is considered part of (his) net worth, the landlord can use the property as collateral for other loans. Real estate equity is almost always used by speculating landlords to build a vast portfolio of real estate holdings while using very little of their own money... Meanwhile, tenants pay the rents, which in turn are used to pay the landlord's mortgage, property taxes, insurance and building maintenance and to keep the landlord's credit rating secure.” [10]^x

Tenants are trapped in an economic arrangement by which they buy the landlords building for them, and when years pass, as the mortgage is paid off, becomes pure profit to the landlord. Without claim to any of that equity, tenants rent becomes their total cost, lost and un-retrievable to bolster someone else's credit.

It's important to understand that even if a rental complex remains empty, profit is still guaranteed from an investment standpoint. Landlords could charged half the rents they do now, below mortgage costs, and still come out way ahead. However:

We will accept the mandate that mortgage payments plus all of the above will be considered costs, insofar as guaranteeing a “return on investment,” until such time as perceptions changes. I include this discussion to keep this seed of truth in your mind.

The Way Out

Tenants always have a way out many landlords believe. Some may say to tenants, “Buy next time, real estate is cheap here. Buy your way out of this rat-race.” However they are so strapped by high rents that saving for even a modest down payment cannot be hoped for. As a result homeownership has plummeted here and nationwide. “The homeownership rate is at its lowest in nearly 50 years, falling to 63.7 percent in 2015. It's a “decade-long slide” that is “unprecedented in American history.”[11]^{xi} Even the hope of ever owning a home amongst tenants has dropped to single digit percentages. Sellers are finding more difficult to move their homes

on the market. Many give up and alternately learn it's very lucrative to rent them out instead. So much for the American Dream.

A Sample Rent Control Ordinance

What will rent control look like in Oregon as distinct from other states? We plan a true “Third Generation” ordinance that has learned from history—successes, failures and all of the lessons learned, taken from every source currently available. Portions below unique to Oregon will be marked with an asterisk “*”.

It may start out with this statement:

“The purpose of this ordinance is to promote neighborhood and community stability, healthy housing, and affordability for renters in the City of Portland, Eugene, etc. by controlling excessive rent increases and arbitrary evictions to the greatest extent allowable under Oregon law while insuring a fair return on their investments.”

First, **Rent Increases:** The ordinance will apply to all rented primary residences and small Oregon owned businesses* current and future. Residences include apartments, mobile and manufactured home park facilities, rented rooms, residence hotels (long term), single family homes*, and condominiums*. Its effects help the wealthy as well as the poor and everyone in between. Allowable rent increases will be set yearly at some percentage of the Consumer Price Index (CPI) for the area. 60% is strongly suggested as being sufficient to cover increased maintenance costs.

Exceptions: All new construction, business and residences built after the effective date of this ordinance, will be free of rent controls for a period of ten years. This is to encourage the building of new residences and businesses for the purposes of allowing developers to regain their costs. Thereafter they fall under the ordinance. Sort of a rolling goal-post to promote badly needed new homes.

Relocation Payments: For those experiencing no-fault evictions at actual costs or some set minimum figure. Special extra consideration awarded to persons over the age of 60, or disabled who meet the standards of disability under SSI, and catastrophically ill tenants.

Vacancy Control*: Equally essential to the entire program. Rent rates remain the same for new tenants entering vacated rental sites. This allows for a more mobile work force to follow the work and job changes in a sustainable manner. It also takes away the financial incentive to evict anyone. Evictions stop best when you take away the profit motive behind them. It does require an annual registration. Certificates get issued for landlords and tenants alike, with information on their rights and where to go for help.

Rent Board: An elected board composed of however many persons according to each city's needs, to administer and adopt regulations regarding petitions, hearings, and other important matters. It will be complaint driven, as most fair housing agencies already are, but may also be pro-active, empowered to investigate evidence of violations and prosecute if necessary on their own.

Appeals Process: Landlords may appeal for rent increase compensation for unusually high repair expenses and capital improvements. Tenants may also appeal for rent reduction for such as a non-conforming rent increase, or for reduced services, garage, laundromat, storage spaces, etc. removed, or because of habitability issues—lack of needed repairs.

Additional Tenant Protections: Expanded eviction controls that help enforceability within the framework of Oregon law. The city is free to adopt other protections such as anti-harassment laws, disclosure obligations, routine code inspection programs, and annual registration of rental units.

Funding: A per-unit registration fee made through direct billing or added property tax on rentals. Eugene already has a \$10 per-unit, per-year charge for their Rental Housing Program, landlords currently billed directly.

In Conclusion

Home is sacred. It applies as much to a rental as one you own. It may be your property, but it is still our home. What we do with our homes defines who and what we are. Where we are is our community. Neighbors whom we get to know and share our lives with and invest with the capital of friendship and share a sense

of belonging. Our children develop the same sense of attachment with their friends and schools. Unfettered no-fault evictions shatter all those links.

Freedom is defined by what we have left over after all expenses; call it “disposable income.” You may have heard of the term “Wage Slaves,” the condition where we are trapped by some need that is beyond our instincts and real desires. Trapped by a job we don’t like made to stay to vest a pension or pay rent; trapped from investing in new ideas, and dreams of creating something else. Tenants are by definition, in today’s market, “Wage Slaves” because they cannot afford to go further. High rents saps the fundamental value of our work.

Stability, on the other hand, allows us to invest more in ourselves, the community and the economy. People with incomes as low as Oregon’s trend are more likely to spend what is disposable. The economy feels this immediately. Shops get the incentive to provide more goods, grow, hire more workers, and give raises. Hope is restored as the future is no longer set, that feeling of freedom rises again.

Homeless advocates often ask me what rent control might do for them. I explain that the rising rents and eventual eviction that makes people homeless, stops, and when one finds a truly affordable home they can feel assured they’ll never have to leave. No, this is not a cure for homelessness, but it will help keep boarder-line tenants from growing the ranks.

I ask you to give the people this chance to get their lives back together again. I never want to hear another story about an evicted 52 year old woman freezing to death in her car again, ever! [12]^{xii}

1.ⁱ Alston, Richard M., J. R. Kearl, and Michael B. Vaughn. 1992. “Is there a consensus among economists in the 1990’s?” *American Economic Review* 82(2): 203-209.

2.ⁱⁱ Gilderbloom, John I., John P. Markham, 1996 “MODERATE RENT CONTROL: Sixty Cities over 20 Years.” *Journal of Urban Affairs*, University of Louisville, 426W. Bloom St., Louisville, KY 40208.

<http://onlinelibrary.wiley.com/doi/10.1111/j.1467-9906.1996.tb00388.x/abstract;jsessionid=99EAF89F462B4EC686C48BD6E028E6DA.f04t04>

3.ⁱⁱⁱ Sadavg, Mike, 2013. Sky High Rents: The debate over rent control.” *Alberta Views*, April 2013, Vol. 16, No. 3

4.^{iv} Arnott, Richard. 1995. “Time for Revisionism on Rent Control?” *The Journal on Economic Perspectives*, Vol. 9, No. 1: pp 99-120. Posted on OLIS, file name: “Revisionism on Rent Control.pdf”

5.^v Grant, Hugh. 2011. "An Analysis of Manitoba's Rent Regulation Program and the Impact on the Rental Housing Market." University of Winnipeg, Winnipeg, 39, Posted on OLIS, file name: "Manitoba rental_report.pdf"

6.^{vi} Forbes, Jim and Matthew C. Sheridan, 2004, "The Birth of Rent Control in San Francisco." San Francisco Apartment Magazine Online, June 2004, www.sfaa.org/0406forbes.html

7.^{vii} Ingles, Aimee and staff of Tenants Together. Rent Control Toolkit, "Communities Thrive with Rent Control: A guide for California cities." Posted on OLIS, file name: "Complete_Rent_Control_toolkit_final.pdf." More info at www.tenantstogether.org

8.^{viii} Young, Molly, 2014. "Despite top earnings growth, Oregon's per-capita income still lower than most states." March, The Oregonian/OregonLive: http://www.oregonlive.com/money/index.ssf/2014/03/despite_top_earnings_growth_oregons_per-capita_income_still_lower_than_most_states.html

9.^{ix} \$40,233 is what is cited in the article above, however this figure varies greatly from source to source. Oregon HUD places it at \$28,867, but none reveal their method of calculation for closer scrutiny.

10.^x San Francisco Tenants Union. "Tenants' Rights Handbook," Chapter 2: Understanding Landlording, pp 5-10. Available only through membership, \$40 at www.sftu.org

11.^{xi} Abbey-Lambertz, Kate. 2016. "Homeownership in The U.S. Has Plummeted, but Not By Choice." The Huffington Post, June. "The explosion on the rental side of the housing market has pushed vacancy rates down and rents up. More renters than ever before are "cost-burdened," or putting over 30 percent of their income toward monthly rent." <http://www.huffingtonpost.com/entry/home-ownership-down-us-576c5f67e4b017b379f56dfa>

12.^{xii} "Portland Woman Who Died of Hypothermia Was Evicted for Being Late on \$338 in Rent." <http://www.wweek.com/news/city/2017/01/09/portland-woman-who-died-of-hypothermia-was-evicted-for-being-late-on-338-in-rent/>