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To: Speaker of the House, Tina Kotek
Members of the House Committee On Human Services and Housing

Re: Testimony of Dr. Randall Pozdena regarding HB 2001 and HB 2004

It is my understanding that the House Committee On Human Services and Housing is receiving testimony regarding two bills—HB 2001 and HB 2004— that, if enacted, have the potential to affect rental housing markets in Oregon. The purpose of submitting this testimony is to urge you to resist intervention by the State in the rental market for real estate. I base this advice on my professional training and experience in housing economics and finance, and the wide agreement of other economists with my position.

My Testimony Regarding HB 2001

If enacted, HB 2001 would repeal the existing statewide prohibition on city and county ordinances regulating rents. I am opposed to any change in the law that will permit regulation of rents, particularly imposition of rent ceilings (“rent control”). This opinion is buttressed by the following facts:

- ◆ Economists have long concluded from theory and observation that rent control has pernicious effects on both tenants and landlords. It introduces distortions in the balance of demand and supply that have negative impacts on economic welfare and create inequities in otherwise well-functioning markets for housing services. A survey of the membership of the American Economics Association over 20 years ago found 93 percent agreement on this position, and recent surveys have had similar findings.¹
- ◆ Even interventionist economists such as Paul Krugman are in agreement that the issues that plague rent control are “among the best-understood issues in all of economics, and—among economists, anyway—one of the least controversial”.²
- ◆ More importantly, Oregon’s current housing affordability and equity challenges do not have their origins in the manner in which tenants and property owners contract to obtain housing services. Rather, the affordability challenges are due to policies of the

States that have made the supply of land for housing progressively more costly as population and income have grown. Site values per housing unit have increased by 900 percent between 1990 and today.³

- ◆ Central among the policies responsible for this growth is the imposition of Urban Growth Boundaries that rigidly circumscribe where housing and how much development may occur. Rising site values, rents and home prices are a warning that housing supply is not keeping up with demand; imposing rent control is tantamount to simply shooting the canary in the coal mine—it does not address the underlying causes.⁴ Site-restricting policies have also been shown to be discriminatory against low income and minority seekers of affordable housing.⁵
- ◆ It is axiomatic when growing demand meets constrained supply that the price, availability, diversity and financial accessibility of housing services will suffer. Indeed, these were the conditions, in World War II, that raised fears of housing shortages when soldiers returned. Fortunately, vigorous and responsive development opportunities allowed a boom in affordable housing. As a result, by 1960, wartime government intrusion in the rental market had ceased everywhere but New York City.⁶
- ◆ If rental supply and demand cannot be equilibrated through prices (because of government rent controls) the market will achieve equilibrium through other means. Unfortunately, these means include such unsavory outcomes as discrimination, side payments, under-maintenance, tenant maintenance, finder's fees, conversion to unregulated uses, redirection of investment to other markets, etc.⁷
- ◆ Any rent control policy that maintains rents below the free market level also puts tenants' long-term welfare at risk. This is because artificially low rents encourage a locational lock-in effect and reduce the job-search incentives of tenants. This creates adverse effects on the tenant job quality, income and employment in the long run.⁸
- ◆ Some so-called "second generation" rent control policies allow upward rent adjustments when tenants vacate a unit. (San Francisco currently employs such policies.) Rent control advocates claim that this approach avoids the more distortions of conventional rent ceilings. In fact, however, simple logic suggests that if the policy yields material below-market rental opportunities, that the distortions will be material as well.
- ◆ Additionally, the rent-stabilization approach encourages a higher rate of growth when rents are allowed to adjust. This is because both tenants and landlords rationally expect that some period of fixed rents will occur. Additionally, since a smaller fraction of the stock of units are vacant at any point in time, higher rents must prevail to meet market demand. This increases the disparity in rents in the market and further discourages mobility of those in the rent controlled units.⁹

My Testimony Regarding HB 2004

It is my understanding that HB 2004, if enacted, would prohibit landlords from terminating month-to-month tenancy without cause except under certain circumstances with 90 days' written notice and payment of relocation expenses.

It is my opinion that this proposal unnecessarily impairs a voluntary practice that is to the mutual benefit of tenants and landlords. I wish to express my opposition to enactment of a ban on so-called no-cause terminations or evictions. The basis for my opposition is as follows.

- ◆ A month-by-month lease is a voluntary arrangement that confers benefits on *both* the tenant and the landlord, as this *FindLaw* definition makes clear:

*A month by month lease (also referred to as a month-to-month lease) is an arrangement in which the lease may be altered or terminated by **either party** after giving notice, typically at least 30 days in advance. This type of lease offers [the tenant] more flexibility since [the tenant] will not have to pay a penalty or lose a deposit if [the tenant] ... wants to live elsewhere. However, the landlord may raise [the tenant's] rent, change the rental terms, **or even evict [the tenant] for any reason**, with a similar minimum advance notice.*¹⁰[emphasis added]

- ◆ Such lease agreements have evolved to equitably balance the value of the rental agreement to both parties. Specifically, a month-to-month rental agreement confers a valuable option on the renter since it affords greater mobility and lower costs than would be the case under a fixed-term lease. Balancing this is the option that is conferred on the owner, in return, to be able to terminate or change the rental agreement terms on or before the renewal date, or evict the tenant if necessary without specific cause.
- ◆ To change this balance in a one-sided manner by creating an additional impediment to eviction constitutes a taking of value from the owner if applied to existing such rental agreements. It will incentivize the owner to change new agreement terms or cease leasing the property on a month-to-month basis to avoid this taking of value in the future. In the latter case, both parties lose flexibility that the long history of this practice suggests is valuable. In the UK, failure to protect landlord rights to terminate leases has led to the highest eviction rate in Europe.
- ◆ There is no evidence that evictions are used excessively in Oregon housing markets, *for any reason*, let alone to simply terminate month-to-month leases. According to data obtained from *Redfin*, the total eviction rate for the Portland metro area in 2014 was less than 20 per 1000 rental households. The eviction rate related to termination of month-to-month leases is thus lower still. Among other metro areas with recent, large increases in the median rent to median income, Portland's eviction rate appears to be low-to-average.¹¹

- ◆ The *Refin* analysis hypothesizes that evictions are amplified in areas that experience rapid increases in the rent-to-income ratio. The analysis does not demonstrate this relationship statistically. However, if true, then the solutions to the use of eviction to terminate month-to-month leases are policies that reduce the cost pressures on housing—not interference in the pricing or terms of rental agreements.

Conclusions

- ◆ If Oregon truly wishes to make rental (and other) housing more affordable, it should reject HB 2001 and revise its policies that artificially constrain development of housing.
- ◆ If Oregon is truly concerned about fair treatment of tenants and landlords in lease agreements, it should reject HR 2004. Oregon should allow the parties to a month-to-month lease to continue enjoy the valuable flexibility such agreements afford both parties. Passage of HB 2004 would make both parties worse off in the long run.

Sincerely yours,



About the Author

Randall Pozdena is President of QuantEcon, Incorporated, an Oregon based economics and finance consultancy. He is also a Senior Director of ECONorthwest, an economics and planning consulting firm with offices in Portland, Eugene, Seattle, and Boise. Pozdena received his BA in Economics with Distinction from Dartmouth College and his PhD in Economics from University of California, Berkeley. He is a former professor of economics and finance and a former research vice president of the Federal Reserve System.

Pozdena is the author of *The Modern Economics of Housing*, a textbook for real estate professionals, and the author or contributor to over 100 published articles and books. He has served Oregon in many capacities including as a member and Chair of the Oregon Investment Council, a member of the Oregon Governor's Council of Economic Advisors, and a member of the Oregon Quality Education Commission. The opinions expressed herein are those of the author.

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² Krugman, Paul. 2000. Reckonings: A Rent Affair, *New York Times*, June 7, The Opinion Page.

³ Author's analysis of Washington County residential site values. Client private.

⁴ <https://www.oregon.gov/LCD/docs/publications/insideboundaries.pdf>

⁵ Pozdena, Randall. 2002. Smart Growth and Its Effects on Housing Markets: The New Segregation, The National Center for Public Policy Research Washington, D.C.

⁶ Pozdena, Randall. 1988. *The Modern Economics of Housing*, Chapter 7.

⁷ Thies, Clifford F. 1993. Rent Control with Rationing by Search Costs: A Note. *Journal of Real Estate Finance and Economics* 7(2): 159-165.

⁸ Glaeser, Edward L. 2002. Does Rent Control Reduce Segregation? Harvard Institute of Economic Research Discussion Paper No. 1985. Cambridge, MA: Harvard University,
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⁹ Pozdena, Randall. op cit,

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¹⁰ <http://realestate.findlaw.com/landlord-tenant-law/what-is-the-difference-between-a-month-by-month-lease-and-a-fixed.html>

¹¹ <https://www.redfin.com/blog/2016/12/millions-of-renters-face-eviction-why-todays-housing-market-is-partially-to-blame.html>