

May 2, 2007

Oregon Legislature
900 Court St NE
Salem, OR 97301

Legislature Committee,

In the Journal of the American Institute for Economic Research, Economist, Blair Jenkins writes the following in an article titled Rent Control: Do Economists Agree?: *"I find the preponderance of the literature points toward the conclusion that rent control introduces inefficiencies in housing markets. Moreover, the literature on the whole does not sustain any plausible redemption in terms of redistribution. The literature on the whole may fairly be said to show that rent control is bad, yet as of 2001, about 140 jurisdictions persist in some form of intervention."*

This lengthy article concludes with his summary assessment of findings which follows: *"My review of the rent-control literature indexed by EconLit finds that economic research quite consistently and predominantly frowns on rent control. My findings cover both theoretical and empirical research on many dimensions of the issue, including housing availability, maintenance and housing quality, rental rates, political and administrative costs, and redistribution. Navarro (1985) wrote, "the economics profession has reached a rare consensus: Rent control creates more problems than it solves." I see the literature as supporting the point of view that there are few long-run winners from the policy, that it is an example of the transitional gains gap."* (Econ Journal Watch Volume 6 Number 1 January 2009, pp 73-112)

The internet is an amazing tool that allows for research that can be easily accessed on about any subject so I decided that it would be worth setting aside some time in my busy work schedule to research the subject of "Rent Control" or as some call it "Rent Stabilization" since our government leaders are proposing major changes through HB 2004 that will dramatically alter the landscape for rental housing across the state. I believe that many in the legislature see this bill as the right and moral way to address the housing challenges we presently face but studies have shown that "...in the long run the disadvantages far outweigh the advantages." In a 1992 survey, 93.5% of economists agreed with the statement that *"a ceiling on rents reduce the quantity and quality of housing available."*

As a Real Estate Investor and Realtor for over 18 years, I have purchased, renovated, and managed numerous rental properties. I have felt positive about the opportunity to help people have safe and well maintained properties. Even though some did not respond in like manner leaving behind over \$20,000 in damages which remain in collections, I still feel it is important to provide good housing to those who need it with fair and reasonable terms.

I have also assisted other investors to take the risk and do the same. In the interest of full disclosure as investors we are not taking the risks, putting in the hours and at times enduring significant losses because we just have a noble desire to help the community. We do it because it makes good investment sense to take the risks and make the sacrifices. When the scales of the mission to help others on one side and the investment returns on the other are no longer held in balance by free market dynamics as a result of too much government intervention (HB 2004) then investors will find other ways to channel their efforts and money. The result will be that the present imbalance of supply and demand in Oregon rental housing will only get worse!

Our challenge in Oregon is not that we do not have enough rules it is because we have too many rules which are creating a roadblock for the normal market dynamics which will make the correction in the supply – demand equation. Due to a lot of factors including a large migration from California, who are fleeing the regulatory environment of that state by moving to Oregon, we have an extreme shortage of housing. On the Real Estate sales side we only have 2.5 months of inventory in the Salem area and in some areas even less when the norm is 6 months of inventory. The rental market is down to 1% vacancy when the norm is 5% creating a dramatic market deficiency. The underlying problem is that we do not have enough buildings to take care of the housing needs and as a result the high demand is driving up prices in both sectors.

So what is the answer? The same that it has been every time in history that this imbalance occurs which is *build more housing*. There are investors in the market who are willing to take the risk and put in the energy to make that happen. So what wisdom can our elected leaders provide as support to remedy the present challenge? They can and should open up the doors through reducing regulations which will allow entrepreneurs to do what they do best which is to solve the supply-demand imbalance by creating more housing inventory. Once that happens and the supply-demand equation is once again balanced then housing prices and rents will stabilize allowing all to benefit.

So our government leaders are at a crossroads that will impact the future of Oregon and our economy for years into the future. Do we take the course of many other government leaders like those in California, New York, New Jersey who have demonstrated by their decisions that increased government control on housing escalates the problem of limited housing? Or do we learn from history and the failures of others and reduce the regulations including voting no on HB 2004 and similar regulations so we can overcome our present challenges? A summary of my study yields the following insights on the impact that measures like HB 2004 have on the housing sector.

IMPACT ON RENTERS:

- Results In Limited Financial Rewards
 - Some tenants will receive limited financial rewards from rent control.
 - Since housing is limited and rent control will discourage more housing from being constructed then most tenants will not realize this financial reward.
- Creates Winners & Losers
 - "Rent control reduces the quality of available housing, deters investment and raises rents on tenants excluded from it protections.
 - Controlled units become less available and cause a substantial increase in rents in the Un-Controlled units.
 - When the tenants in Controlled Units vacate then rents are set at the area market rates established by the Un-controlled Units resulting in even higher rents in the Controlled Units.
- Encourages Tenant Exploitation
 - Enables tenants to exploit the program. It has been shown that families pass apartments down, subletting that jacks up the price, or they just never leave.
 - Tenant groups make continuous demands on government leaders to limit the rights of an owner in favor of the tenants. HB 2004 grants tenants the right to give a 30 day notice and walk without consequence yet the owner must give longer notices, pay tenant expenses, and allow authority over the property once reserved for the owner to

be transferred to the tenant. How can this be considered anything else than exploitation of owner property rights by tenants.

- Discourages Upward Economic Mobility
 - Many tenants put off buying indefinitely because of the low rent.
 - Tenants have been unwilling to move for a new job or career because it will mean losing the low rent. Ultimately the skill level of the population is diminished.
 - Tenants would rather pay the energy costs to drive excessive distances to work than lose their low rent housing.
- Reduces Available Housing
 - Many owners sell or convert their units reducing housing inventory. As a Realtor I showed homes this past weekend that investors were selling thus forcing the renters to move. I also had a vacancy which had numerous calls from prospective renters who were moving because their present rental home was being sold by the investor. Did the anticipation of HB 2004 have an impact on these decisions???
 - Less inventory with increased rental demand results in some families who may not have a home and many paying increased prices.
 - William Tucker of the Cato Institute argues that "rent control has a perverse effect of creating less affordable housing."

IMPACT ON OWNERS:

- Increases Retention – Less Turn-Over
 - Rent and management control in favor of the tenants cause them to stay longer resulting in less turn over for the owner. That would normally be considered a positive for the owner but not when it is the result of government intervention.
- Reduces Investment Return & Incentives
 - Economists and critics believe there are more long-term consequences of rent control, including lower property value and housing investment.
 - "Rent controls prohibit prices from rising above politically-determined levels. Under a price ceiling, fewer housing units are supplied than demanded, resulting in a shortage. While some tenants clearly benefit from the constraints, property owners experience a loss. However, the loss to landlords and would-be tenants is not completely redeemed by the gains of the benefiting tenants, resulting in a dead weight (net) loss and efficiency." (Varian 1996, 14)
 - Investors loss is not limited to income from renter but in the reduction of the value of property because few if any investors are willing to purchase under oppressive government regulation.
- Creates Management Challenges
 - Limits the ability to evict controlled tenants or raise their rents through improving their units. You are stuck with low-rent tenants until they choose to leave.
 - Tenants may 'game the system" to impose onerous conditions on the landlord forcing long cycles of judicial action, leading to considerable hardship for the landlord.
- Removes Incentives For Maintenance
 - The classic disadvantage relates to Housing Quality issues. Rent control discourages landlords from making repairs and upgrading their properties. This results in a decline in property values and tax revenues.
 - Landlords who own rent controlled apartments are often not able to earn enough money to adequately maintain buildings. This leads to run-down, poor quality housing.

In many cases, landlords, lose so much money that they are not able to even pay the debt on the properties and they abandon them. Both of these effects have been documented in New York and elsewhere, and go against the goals of rent control.

IMPACT ON GOVERNMENT:

Swedish Economist Assar Lindbeck once claimed that, "in many cases, rent control appears to be the most efficient technique presently known to destroy a city – except for bombing."

- Lowers Tax Income
 - Rent control impacts the community tax base because tax assessments are based on a property's market value, the amount of taxes the owner pays shrinks with the reduction in rents. The tax burden is then shifted to the uncontrolled sector including single family homeowners.
- Increases Litigation
 - Increases litigation between landlord and tenants translating into another layer of government bureaucracy and policing most often to protect the tenants who are seen as victims of the wealthy. The increased bureaucracy ultimately results in more taxes paid by all with a net loss to the general population including tenants.
 - Rent control restricts the property rights of owners as it limits what they may do with their property, requiring petitioning and other processes by law, prior to taking action against the renter.
- Requires Increased & Expensive Administrative Systems
 - EconLit: "Rent control creates a classic intervention dynamic, resulting in a cluster of controls including politically administered maintenance codes and requirements, response requirements, tenant protection measures, rent reductions, eviction controls, relocation measures, apartment-access guidelines, subletting controls, and restrictions on condominium conversion. The regulatory cluster tends to attenuate ownership of rental properties and create investment uncertainty. Private agreement is supplanted by political administration."

CONCLUSION:

In the article quoted in the introduction titled *Rent Control: Do Economists Agree?* Blair Jenkins makes these concluding remarks: *"If rent-control is such a "no-brainer" why bother to scrutinize the literature? The cluster of restrictions persists in roughly 140 jurisdictions in the United States as of 2001. As Hazlett (1982) notes, "economists have been notoriously thorough in convincing themselves of the destructive effects of rent control and notoriously inept at convincing anyone else. Better understanding of the issue might help correct the error, prevent other governments from falling into it, and promote an understanding among more economists."*

I hope that our government leaders in Oregon will prove that some really do listen and make decisions based on the historical facts with supporting research that reveal *Rent Control which includes suffocating management controls will not benefit the good citizens of Oregon*. I discovered that this afternoon the House voted 31-27 to pass this bill. I hope that this letter promotes Senators like yourself to vote NO on HB 2004 to keep Oregon both free and prosperous!

Sincerely,

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