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Senate Commottee on Housing  
Senator Shermia Fagan  
Senator Fred Girod  
Senator Jeff Golden  
Senator Tim Knopf  
Senator Laurie Monnes Anders

I get it. Oregon is popular. People keep moving here. Demand for housing is high, and housing supply is low. Rents go up. Housing becomes less affordable.

You want to help people who are struggling to make ends meet.

You reach for the obvious solution - if rents are high, just stop rents from going up. Other cities are doing it, Sounds simple. It's not.

Politicians are gratified to give aid to renters, but rent control is the worst thing government can do.

Rent control results in less housing not more, and exacerbates the imbalance between demand and supply when only increased supply will bring housing costs down.

When income is capped, housing providers do not continue in a business that does not allow them to maximize their investment. Rent control allows one party, renters, to get a benefit at the expense of the other party, the owner. But only the burdened owner carries the risk and responsibilities of providing the benefit to the renter. The renter has no risk- no skin in the game.

Rent control and rent stabilization transfers the value of one person's work to another. One person's income becomes another's subsidy. This forced wealth

distribution is theft of property by government fiat. As a rental housing owner, my personal income is at stake, but there is no limit to the income the renter can make. This is a one-way deal where government makes the rules, picks the winners, punishes the losers - pitting one side against the other.

For thousands of years, landlords have been hated. Whether they are good or bad landlords is of no consequence - they are all seen as greedy fat-cats living high off of hapless tenants.

But why vilify just landlords? Why not producers and sellers of other necessary goods and services? Why not limit prices for groceries? Cap the price of new and used cars? Why not put a limit on what doctors can make? You know why. Goods and services would dry up as valued workers and businesses quit or went elsewhere. So it is with housing providers. Society needs us, but who would want to be a landlord in such a punitive regulatory environment?

Good solutions exist.

- DO use state taxes to solve this societal crisis by issuing vouchers to low-income renters - not to high and middle income renters.
- DO incentivize housing providers to produce more housing and keep existing rentals in service.
- DON'T take my income and give it to another.

Landlords are not the problem, we are the solution to the housing crisis.

**Attached Chart:** San Francisco's initial allowable rent increase on 1982 was 7%. It was 7% for 2 years, 4% for the next 8 years, and has been an average of 1.6% for 28 years. Owners are being systematically driven out of the rental business. So who is the greedy party?



ALLOWABLE ANNUAL RENT INCREASES

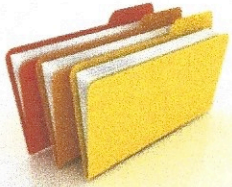
A landlord may increase the tenant's base rent once every 12 months by the amount of the allowable annual rent increase without filing a petition at the Rent Board. Effective March 1, 2019 through February 29, 2020, the allowable annual increase amount is 2.6%. This amount is based on 60% of the increase in the Consumer Price Index for All Urban Consumers in the Bay Area, which was 4.4% as posted in November 2018 by the Bureau of Labor Statistics. To calculate the dollar amount of the 2.6% annual rent increase, multiply the tenant's base rent by .026. For example, if the tenant's base rent is \$1,500.00, the annual increase would be calculated as follows: \$1,500.00 x .026 = \$39.00. The tenant's new base rent would be \$1,539.00 (\$1,500.00 + \$39.00).

Table with 2 columns: Effective Period and Amount of Increase. Lists rent increase percentages from 1982 to 2020, including special periods for 1992 and 1993.

# Administrative Nightmare!

## San Francisco Rent Control Board

### Forms Center



- Tenant Forms
- Landlord Forms
- Appeal Forms
- Rate and Fee Schedules
- Miscellaneous Forms
- Fact Sheets

Many forms are also available in [Español](#) and [中文](#) this website and in our offices.

Document Number	Rent Board Forms: Tenant
516A	Tenant Petition and Form A: Decrease in Housing Services (fillable PDF)
516B	Tenant Petition and Form B: Failure to Repair and Maintain (fillable PDF)
516C	Tenant Petition and Form C: Unlawful Rent Increase (fillable PDF)
516D	Tenant Petition and Form D: Passthrough Challenge (fillable PDF)
517	Subtenant Petition (PDF)
518	Tenant Summary Petition (for pending unlawful rent increase) (PDF)
519	Tenant Report of Alleged Wrongful Eviction (fillable PDF)
520	Tenant Report of Alleged Wrongful Severance of a Housing Service Pursuant to Ordinance §37.2(f) (PDF)
521	Ellis Tenant Packet (PDF)
524	Tenant Financial Hardship Application (PDF)
551	Alternative Dispute Resolution (ADR) Request Form (PDF)
553	Expedited Hearing Information and Application (PDF)
554	Objection to Expedited Hearing Order (PDF)
958	OMI - Tenant's Change of Address Form (fillable PDF)
1006	RAD Tenant Petition (PDF)

Document Number	Rent Board Forms: Landlord
526	Capital Improvement Petition: Properties with 1-5 Residential Units (fillable PDF)
527	Capital Improvement Petition: Properties with 6 or More Residential Units (fillable PDF)
528	Capital Improvement Petition: Seismic and Other Work Required by Law (fillable PDF)
530	Operating and Maintenance Petition (PDF)
531	Special Circumstances Petition (based on rents for comparable units) (PDF)
532	Proposition I Past Rent History Petition (PDF)
533	Utility Passthrough Petition (fillable PDF)
534	Substantial Rehabilitation Petition for Exemption (PDF)
535	Petition for Extension of Time to Complete Capital Improvements (PDF)
536	Section 1.21 (tenant in occupancy) Petition (PDF)
537	Petition for Determination Pursuant to Section 6.14 and/or Costa-Hawkins (PDF)
538	General Obligation Bond Passthrough Worksheets (1998-Present)
539	Water Revenue Bond Passthrough Worksheet (fillable PDF)
540	Water Bond P-T Worksheet Multi-year (fillable PDF)
541	Ellis Act Forms (withdrawal of residential units from rental market) (PDF)
542	Utility Passthrough Calculation Worksheet (fillable PDF)
543	Instructions for Completing Utility Passthrough Calculation Worksheet (PDF)
544	Landlord Petition Other Ground (PDF)
546	OMI-Statement of Occupancy Complete Packet Forms A-C (PDF)
546A	OMI-Statement of Occupancy Form A: Landlord Has Not Recovered Possession (fillable PDF)
546B	OMI-Statement of Occupancy Form B: Landlord Has Recovered Possession and the Owner or Relative is Occupying the Unit (fillable PDF)
546C	OMI-Statement of Occupancy Form C: Landlord Has Recovered Possession and the Owner or Relative is not Occupying the Unit (fillable PDF)
551	Alternative Dispute Resolution (ADR) Request Form (PDF)
553	Expedited Hearing Information and Application (PDF)
554	Objection to Expedited Hearing Order (PDF)
955	OMI-Request for Recission (PDF)
958	OMI-Tenant's Change of Address Form (fillable PDF)
960	Ellis-Request for Recission (PDF)

993	Request Hardship Hearing (PDF)
1000	Pre-buyout Disclosure Form (PDF)
1001	Landlord Declaration regarding Buyout Disclosure (PDF)
1007	Notice to Tenant Req'd by §37.9(c)-Eng-Sp-Ch-Viet-Rus-Tag.pdf (PDF)

Document Number	Rent Board Appeal Forms
556	Appeal to the Board – Tenant or Landlord (PDF)
558	Landlord Hardship Appeal & Hardship Application (PDF)
559	Declaration of Non-receipt of Notice of Hearing – Tenant or Landlord (PDF)
560	Notice of Withdrawal of Appeal – Tenant or Landlord (PDF)

Document Number	Rent Board Rate and Fee Schedules
571	Allowable Annual Rent Increases (1982-present) (PDF)
572	Security Deposit Interest Rates (1983-present) (PDF)
573	Rent Board Fee History (1999-present) (PDF)
574	Capital Improvement Imputed Interest Rates (PDF)
575	Capital Improvement Uncompensated Labor Rates (PDF)
576	Estimator Fee Schedule (PDF)
577	List of All Rates (PDF)
578	Relocation Payments Under 37.9A (PDF)
579	Relocation Payments Under 37.9C (PDF)

Document Number	Rent Board Miscellaneous Forms
581	Request for Postponement of Hearing (PDF)
582	Request for Extension of Open Record (PDF)
583	Proof of Service Form (PDF)
584	Notice from Petitioner of Amended Petition (PDF)
585	Notice of Withdrawal of Petition – Tenant or Landlord (PDF)
586	Notice of Withdrawal of Unit from Petition – Landlord only (PDF)
587	Request for Duplication Services and/or Review of File (PDF)
588	Request for Full Decision After Minute Order – Tenant or Landlord (PDF)
589	Tenant Election Form for 100% Capital Improvement Passthrough Alternative (PDF)
590	Referral List for Other Government Offices and Non-Profit Agencies (PDF)
591	Unlawful Detainer (Eviction) Procedures and Time Chart (PDF)
592	Uniform Residential Hotel Visitor Policy (PDF) The one page version for posting is available in seven languages: Uniform Hotel Visitor Policy.
593A	Tenant Hardship Application for Interpreter (PDF)
593B	Subtenant Hardship Application for Interpreter (PDF)
594	Landlord Hardship Application for Interpreter (PDF)
595	Landlord Withdrawal of Unit from UPT Worksheet for Tenant Hardship (PDF)
598	Rental Assistance Programs in SF – Referral List (PDF)
599	Request for Refund of Rent Board Fee (PDF)
990	Good Samaritan Tenancy Information (PDF)

Document Number	Rent Board Fact Sheets
501	Fact Sheet 1 - General Information
502	Fact Sheet 2 - Repair Issues
503	Fact Sheet 3 - Security Deposits, Interest on Security Deposits, and The Rent Board Fee
504	Fact Sheet 4 - Eviction Issues
505	Fact Sheet 5 - Landlord Petitions and Passthroughs
506	Fact Sheet 6 - Tenant Petitions
507	Fact Sheet 7 - Annual Allowable Rent Increases and Banked Rent Increases
508	Fact Sheet 8 - Hearings, Mediations and Appeals
509	Fact Sheet 9 - Utility Passthroughs
510	Fact Sheet 10 - Water Revenue Bond Passthroughs

#### STAY CONNECTED



## Rent Control Makes for Good Politics and Bad Economics

By Gary Galles

One needn't read very much about public policy before coming across some statement to the effect that "bad economics makes good politics." This statement is clearly untrue when good politics is defined as furthering mutually beneficial arrangements, as good economics is central to that task. But the statement is often true when good politics is defined as attracting 50%-plus-one votes on some issue or candidate, which is a much different standard, leaving plenty of room for government-imposed harms to be imposed on citizens.

Few issues reflect this divergence between "good" politics and bad economics more clearly than rent control. **One of the most universally accepted propositions among economists is that rent control produces a host of adverse social consequences with its large involuntary redistribution of wealth and suppression of market prices** as communicators of information and incentives. Despite that, it has been adopted as policy in many places and times — and now is a good time to revisit these issues, as efforts are currently underway in several states (including California, Oregon, Washington, and Illinois) to repeal existing statewide restrictions on rent control.

### How Rent Control Destroys Value

**Rent control takes a large portion of the value of residential properties from landlords.** It does so by removing owners' rights to accept offers willingly made by potential renters. And the value of the rights involved are large. For example, after Toronto imposed rent control in 1975, affected building values fell by 40% over five years, and a decade ago, such losses were estimated at \$120 million annually in Santa Monica. A law like rent control, which can take half or more of each apartment's value from the landlord, harms them just as much taking away half of their apartments, even though the latter is recognized as theft. Those stripped property values are given to current tenants, whose resulting bonanzas are shown by the fact that those under strict rent control almost never leave.

### Rent-Controlled United Decline in Quality and Quantity

By taking away so much of the effective ownership of rental housing from owners, rent control creates several other additional adverse effects. Without owners' ability to capture the value of their buildings, the rental housing stock deteriorates in both quantity and quality. Reduced incentives for maintenance and repair erodes existing rental housing. Further, owners retain little incentive to construct new rental units, bringing new apartment construction to a virtual halt, taking with it local construction jobs and tax revenues. Rental units are also converted to condos and non-housing uses to escape the burdens rent control imposes. All of this reduces rental housing availability, which worsens the problem of inadequate housing rather than alleviating it.

Rent control also increases discrimination and landlord-tenant hostility. Owners who can no longer be compensated for increased costs created through crowding, water usage, potential damage, or reduced probability of actually paying the rent — or any other unattractive tenant characteristic — have sharply reduced incentives to accommodate those who might impose them. This is why rent controlled areas, rather than helping those of low and moderate means, become increasingly populated by higher income tenants with few children. Further, tenants blame "greedy" landlords for not providing the services they desire, and landlords view tenants as the enemy engaged in an ongoing rip-off, even though rent control is the real culprit.

### Rent Control Creates Black and Gray Markets

Rent control's artificial restrictions on mutually agreed upon exchanges also lead to evasion attempts, such as under-the-table payments, agreements to renovate apartments or upgrade appliances at private

expense, personal connections, etc. Not only do these alternative forms of competition favor higher income renters, rather than “the poor” (who populate rent control rhetoric but far less of the housing available under it), they lead to rent control boards to stymie such attempts. That enforcement, as well as the costs landlords must bear both to defend themselves and comply with its edicts, consumes a great deal of resources that could have been put to productive uses.

Despite such an overwhelming case for rent control being bad economics, why has it not been equally politically unattractive? The essential reason is that in cities where rent control is imposed, existing local renters, who are the recipients of the value taken from landlords, form a political majority who approve of that theft, vote for it, and go to great lengths to rationalize and defend it as part of “the wonders of democracy.”

Rent control offers current tenants perhaps the greatest economic returns of any policy they could use their majority power to enact. Not only do they save what can far exceed \$1,000 a month compared to what market prices would be, they are also awarded what amounts to life tenure. If you saved \$1,000 a month and stayed 10 years, that would be \$120,000, while staying 21 years would generate over a quarter million dollars in benefits. And many long-term tenants have saved themselves far more. What other political act offers local renters so great an economic benefit in exchange for their votes? Rent control’s “pro renter” rhetoric also allows a powerful form of misrepresentation. Rent control benefits current renters, but it does not benefit renters overall. It harms all renters and potential renters who aren’t already in rent-controlled units. It harms all those who seek to rent apartments after rent control is imposed, mainly finding “no vacancy” signs instead. But they don’t get a vote in the communities to which they’d like to move. Even though those who are eventually successful in finding a controlled unit have been harmed, once there, they don’t want their finally-achieved good deal halted. Rent control also harms renters in surrounding communities, as the restricted supply of available units raises rents there, as well. But *they* don’t get a vote, either. Rent controls also harm those who rent houses, which are usually exempt, because rent control’s reduction in housing availability leads those rents to be bid up as well.

Rent control also involves unusual characteristics that weakens and divides opposition.

### **The Long-term Effects of Rent Control**

Because housing is durable, there is an unusually sharp dichotomy between short-run and long-run effects. The short-term effect of imposing rent controls on the available supply of rental units is quite small. Proponents can focus only on the immediate effects to argue that objections are unsubstantiated. However, the cumulative effect of ongoing rent control is very large, leading many economists over the years to recognize its ability to decimate the supply of urban housing.

Property owners, who might be expected to be unified in opposition to the threat to property rights rent control poses, are also subject to divide and conquer techniques.

Not only are rental housing owners far outnumbered by current tenants, many of them live outside the jurisdiction considering rent control, undermining their voice. And if they raise money for an opposition campaign, their efforts against the harm that would be imposed on them can be easily demonized as proof of how much they rip off tenants whenever they are given a chance.

### **Some Property Owners Benefit**

Property owners are also split in other ways. Owners in neighboring areas, who would otherwise tend to side with those in the jurisdiction considering rent control, due to the similar threat posed against them, can be bribed away because the reduction of housing supply “next door” increases their demand and raises their rents. Owners of commercial property, who are usually exempt from rent control, can benefit from higher rents for their properties due to the influx of higher income residents rent control brings. The

restriction in supply of rental units in an area also raises the price of owner-occupied homes, undermining their support against rent control.

**Rent control can give current tenants massive windfalls taken from owners by their dominant majority vote.** That also means politicians who cater to that politically dominant majority can more easily acquire and maintain power. The fact that current tenants benefit at the expense of those in nearby areas and all other future prospective tenants can be masked by pretending current tenants interests are the same as all actual and prospective tenants. Rent control also splits owner opposition to the threat of expropriation by exempting commercial uses and houses in the jurisdiction by increasing the value of their properties, as does the spillover gains they capture from the reduced supply of rental housing nearby. That combination goes a long way to explain why, in majority renter areas, the truly bad economics of rent control frequently translates into “good” 50%-plus-one piracy politics.

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## Greedy-Bastard Economics

This is an example of greedy-bastard economics: rather than tracing their understanding of something they dislike back to its ultimate source, people only trace it back until they get to someone they can demonize as a greedy bastard. That is, scapegoats become what Frederic Bastiat called "what is seen," while the real cause remains "what is unseen." Unfortunately, that real cause is frequently the coercive hand of government, moving control of resources to itself, and the blame for the resulting consequences to others.

In the case of rental housing, rent control rather than the "greedy-bastard" landlord may be the real cause. Rent control undermines landlords' incentives to provide the services tenants want, because it denies landlords the ability to receive adequate compensation to make their efforts worthwhile. What landlords are blamed for is in fact one of many predictable, adverse consequences of rent control, including housing shortages, increased discrimination, increased uses of subterfuges to evade the controls (like tying willingness to rent to astronomical key deposits or the simultaneous rental of furniture, parking or other goods), reduced construction, and deterioration of the housing stock.

All these predictable effects follow without landlords being any greedier than anyone else (although rent control might attract greedier people, who are more willing to do what it takes to get around the regulations), which should properly place the blame at the feet of the government body that imposed the controls. But instead, government gets to control resources without paying for them, while "greedy-bastard" landlords who would otherwise look for ways to cooperate with renters get the blame. Rent control is not the only example of the adverse effects of price controls. All price ceilings reduce the quantities traded, wiping out the wealth that would otherwise be created by mutually agreed-upon arrangements. They also increase discrimination (and evasion efforts) by lowering the cost of saying "none for you." And people blame the greedy bastards they deal with directly rather than the greedy bastards in government who are the actual cause and who impose the cost of doing their will on others without compensation.

Price floors such as minimum wage laws, Davis-Bacon "prevailing wage" requirements (which far exceed prevailing wages), and agricultural price supports push allowed prices up instead of down. However, they also increase discrimination (by buyers rather than sellers), and reduce the quantity of mutually agreed arrangements and the wealth they would have created (by making buyers willing to buy less).

All of them increase the costs borne by producers, and therefore by consumers and taxpayers, but place blame on producers rather than the policy makers responsible. And as with all price controls, they make prices, which are the signals of relative scarcity by which social cooperation is maintained, misleading indicators. Market prices are messengers of the effects of government restrictions, but they are not themselves to blame.

Hidden taxes are another mainstay of greedy-bastard economics. They give the government resources and control, but give the blame to those whom people deal with directly. The employer half of Social Security and Medicare is a prime example. Employers must pay 7.65 percent directly to the government, on top of the wages they pay employees.

"Market prices are messengers of the effects of government restrictions, but they are not themselves to blame."



But since employers know they must bear those costs, they offer less pay for a given level of employee productivity. The consequence is anger at employers for not paying employees what they are worth, when any such effect is actually the result of compensation being siphoned off by government. Similar effects are triggered by employer-paid unemployment, worker's compensation insurance, and other non-wage forms of compensation. The resulting government rake-off from employees' total compensation leaves them less to take home, triggering resentment at employers. But government claims credit for all the benefits those dollars finance.

Corporate taxes, which economists particularly object to for the large distortions and costs to society they cause, are another major example of greedy-bastard economics. To the extent that those higher costs result in higher prices, the corporations are demonized for greed, but government gets the resources. Similarly, to the extent these costs lead to reduced wages, workers blame employers, but government gets the resources. In addition, these taxes reduce the after-tax rate of return on corporate investments, reducing the level of those investments, slowing the growth of worker productivity and the income it would generate.

Similarly, taxes imposed on "not me" are ways for government to claim credit for the resulting spending without the blame for the tax burden. America's highly disproportionate, "soak-the-rich" income-tax burdens are the largest and most obvious example. These income taxes not only finance the largest fraction of government spending, but also allow almost two in five households to have negative income taxes, largely because of the refundable Earned Income Tax Credit.

In addition, taking away a great deal of the after-tax incentive for high-skill individuals to bear the risk and put in the effort to find ways to benefit others reduces the value of output supplied. Thus, it acts as a tax on others when the reduced supply of productive services raises prices.

"Not me" taxes include hotel room taxes, which are largely imposed on people from out of state to finance benefits for residents. They also include import tariffs and quotas, dumping restrictions, and other barriers to international trade. By the time the goods reach consumers, their burdens are already included in the price (as with value-added taxes in other countries), and sellers can once again be blamed for the revenues government receives.

Government mandates and regulations, whose estimated burdens exceed \$1 trillion a year, also take advantage of greedy-bastard economics. The web of restrictions is vast, running the gamut from Sarbanes-Oxley burdens to low-income housing set aside to qualify for permission to build, yet buyers are only dimly aware of the burdens these rules impose on producers.

But whatever they are called, those regulations give government added control over resources. And, since they act like taxes (an employer doesn't care whether a \$100,000 burden of dealing with government is called a tax or a regulation), they raise costs and prices to others, for which suppliers will largely be blamed.

Similarly, government barriers to entry, like licensing regulations, restrict supply and competition, but focus complaints about prices and shoddy performance on those in the industry. Antitrust laws, which often restrict competition in the name of protecting it, are used to demonize efficient firms and practices. Such laws let the government claim credit for consumer protection even as they undermine the competitive process that is the real protection.

Inflation is another page from the same playbook. While it is caused by government expansion in the money supply, those in government can always point fingers at some greedy bastards other than themselves, whether it is businessmen raising prices or workers demanding higher wages in response. Greedy-bastard economics is also used to separate responsibility from blame for financial bubbles. For instance, the housing and bad-loan bubble was widely blamed (especially by those overseeing

government regulations) on greedy loan originators and unregulated markets. This blame was used to promote increased government intervention as a cure.

"Greedy-bastard economics is also used to separate responsibility from blame for financial bubbles." But government's hand was everywhere you looked in any serious attempt to understand the alleged "market failure." The Fed's maintenance of interest rates far below what the level of savings would actually sustain made housing falsely profitable. Allegations of redlining led to implicit government requirements that banks lend to borrowers who didn't meet conventional financial standards, and whom banks knew often couldn't repay their debts.

Under pressure for financial malfeasance and other failings, Fannie Mae and Freddie Mac made it clear that they were in the market for "bad" loans in a big way (well over \$1 trillion). Given that their hidden subsidies (particularly implicit government guarantees worth over \$2 billion a year and lower capital requirements than the rest of the financial system) had made Fannie and Freddie by far the dominant players in mortgage lending, this declaration told others that bad loans were far safer than they really were. No matter how bad the loans, Fannie and Freddie would take them off your hands. When that implicit guarantee suddenly dissolved, market participants (worldwide, not just in the United States) were suddenly faced with the real risks and far-lower values of these assets.

Even the latest healthcare "reform" reflects greedy-bastard economics. Pundits blame insurance companies for rising healthcare costs, yet ignore the plethora of government mandates and restrictions, not to mention subsidies to subgroups of citizens (e.g., the elderly or poor), which raise the costs to everyone else. Similarly, insurance companies are blamed for excessive administrative costs, even though these are directed largely at dealing with fraud, government impositions, and the supposedly obvious waste of profits.

Having tarred insurance companies with the blame, government now proposes more greedy-bastard economics as the solution. Such policies will further increase costs that can be blamed on insurance companies: Companies won't be able to deny coverage for preexisting conditions, which means they must pool higher cost customers in with lower cost customers, thus requiring higher premiums. They will not be able to control risk by putting annual or lifetime caps on coverage, similarly raising costs that must be borne by all policy holders. They will be required to include certain preventative care with no extra charge, and to limit out-of-pocket costs, which also may maim the private markets for catastrophic coverage.

In reality, scarcity is the cause of many of the difficult choices individuals face. However, governments prefer to find "greedy-bastard" bogeymen to blame. This allows governments to play as saviors rather than as the parasites causing the problems in order to benefit favored constituencies at others' expense. But government has no power to eliminate scarcity.

Government, beyond its role of defending voluntary arrangements against force and fraud, only makes the effects of scarcity worse. It substitutes decisions by people with worse information and incentives, backed by the power of coercion, for decisions by people with better information and incentives. That is why it is actually government "solutions" that increase the influence of greedy bastards in society. After all, "greedy bastard" is an excellent description of someone who demands power over others without cost or their willing consent; and falsely blames others to gain it.

## Voters Said No in California, but Other States Have Rent Control Battles Looming

Proposition 10 was rejected but rent control is on the agenda in other places across the country. Why? It's not the affordable housing fix-all people think.

Nolan Gray, Urban planning researcher and a contributor to Market Urbanism  
Adam A. Millsap is assistant director of Florida State University's Hilton Center.

Nov 7, 2018

Yesterday voters in California rejected Proposition 10, which would have repealed current restrictions on how much city governments can control or cap rents.

It was a bill that activists succeeded in getting on the ballot and it's no surprise California was a battleground: According to recent HUD data, 54 percent of all California renters are "rent-burdened" — meaning they spend more than a third of their income on rent—and 29 percent are "severely" rent-burdened, meaning they spend more than half of their income on rent. Existing affordable housing programs are simply not producing enough affordable units.

But rent control would do very little to help those burdened with high rents, and with rent-control activists in states like Illinois, Colorado, and Oregon all pushing similar restrictions, this issue is likely to rear its head again and again in cities and states across the country.

There's a reason why, after a brief period of experimentation with rent control in the aftermath of World War II, a cross-ideological consensus emerged opposing the policy. It was Assar Lindbeck, a noted socialist economist, who famously said "Next to bombing, rent control seems in many cases to be the most efficient technique so far known for destroying cities." What did Lindbeck understand that current advocates don't?

The primary problem with rent control is that it leads to fewer housing units. The first thing to happen under rent control is that many apartments are simply taken off the rental market. Researchers note this effect in a 2007 paper that studies rent control in Boston. Higher-quality units are converted into condominiums or co-ops, for which prices are not regulated, while mostly lower-quality units remain on the controlled rental market.

Rent control also reduces the number of housing units by discouraging future construction. If developers are worried that rent control will be applied retroactively to their new units, they will be hesitant to build new rental housing. With a shortage of units at the heart of California's housing crisis, allowing cities to extend rent control to newer units or apply it to existing units would make the affordability crisis worse in both the near and long-term. This is partly why California originally joined a majority of U.S. states in placing tight rules on cities' ability to adopt rent control.

But rent control means more than lost units. Even if we restrict ourselves to looking at rent-controlled units, the policy doesn't always help low-income families. For example, many of the people who are able to secure a scarce rent-controlled unit aren't actually low-income. In a 1989 study of rent control in New York City, researchers found that the city's rent controls were inefficiently targeted, thus benefiting upper and middle-income renters as much as low-income renters.

Beyond merely not helping low-income tenants, there's good evidence that rent control might actually hurt them in the long run. The same study found that tenants in rent controlled units were less mobile than similarly situated tenants renting market-priced units. Since rent control works like a lottery, tenants in controlled units often end up staying in one place to capture the benefits of artificially-low rent, even if they would otherwise have moved.

A later study of Danish rent control zeroed in on the effects of this incentive to stay put, finding that tenants in rent-controlled units often remain unemployed or accept lower-paying local work rather than move to high-opportunity areas. Where a typical tenant can move with relative ease, tenants in rent-controlled areas face large hurdles. Not only do they risk losing their current unit by leaving, but they also have to start at the bottom of a waiting list for a unit in a new neighborhood. In this way, rent control can actually hurt working families by disincentivizing moves to prosperous areas.

Without a doubt, California needs a robust policy response to the state's housing affordability crisis. Policies that involve streamlining the construction of new housing at all income levels and expanding and reforming existing housing voucher programs like Section 8 could help. But as attractive as rent control may appear, it's simply not a viable solution and will only hurt the very families that rent-control advocates aim to help.

# Rent Control

By Walter Block

New York State legislators defend the War Emergency Tenant Protection Act—also known as rent control—as a way of protecting tenants from war-related [housing](#) shortages. The war referred to in the law is not the 2003 war in Iraq, however, or the Vietnam War; it is World War II. That is when rent control started in New York City. Of course, war has very little to do with apartment shortages. On the contrary, the shortage is created by rent control, the supposed solution. Gotham is far from the only city to have embraced rent control. Many others across the United States have succumbed to the blandishments of this legislative “fix.”

Rent control, like all other government-mandated [price controls](#), is a law placing a maximum price, or a “rent ceiling,” on what landlords may charge tenants. If it is to have any effect, the rent level must be set at a rate below that which would otherwise have prevailed. (An enactment prohibiting apartment rents from exceeding, say, \$100,000 per month would have no effect since no one would pay that amount in any case.) But if rents are established at less than their equilibrium levels, the quantity demanded will necessarily exceed the amount supplied, and rent control will lead to a shortage of dwelling spaces. In a competitive market and absent controls on prices, if the amount of a commodity or service demanded is larger than the amount supplied, prices rise to eliminate the shortage (by both bringing forth new [supply](#) and by reducing the amount demanded). But controls prevent rents from attaining market-clearing levels and shortages result.

With shortages in the controlled sector, this excess [demand](#) spills over onto the noncontrolled sector (typically, new upper-bracket rental units or condominiums). But this noncontrolled segment of the market is likely to be smaller than it would be without controls because property owners fear that controls may one day be placed on them. The high demand in the noncontrolled segment along with the small quantity supplied, both caused by rent control, boost prices in that segment. Paradoxically, then, even though rents may be lower in the controlled sector, they rise greatly for uncontrolled units and may be higher for rental housing as a whole.

As in the case of other price ceilings, rent control causes shortages, diminution in the quality of the product, and queues. But rent control differs from other such schemes. With price controls on gasoline, the waiting lines worked on a first-come-first-served basis. With rent control, because the law places sitting tenants first in the queue, many of them benefit.

## The Effects of Rent Control

Economists are virtually unanimous in concluding that rent controls are destructive. In a 1990 poll of 464 economists published in the May 1992 issue of the American Economic Review, 93 percent of U.S. respondents agreed, either completely or with provisos, that “a ceiling on rents reduces the quantity and quality of housing available.” Similarly, another study reported that more than 95 percent of the Canadian economists polled agreed with the statement. The agreement cuts across the usual political spectrum, ranging all the way from Nobel Prize winners [milton friedman](#) and [friedrich hayek](#) on the “right” to their fellow Nobel laureate [gunnar myrdal](#), an important architect of the Swedish Labor Party’s [welfare](#) state, on the “left.” Myrdal stated, “Rent control has in certain Western countries constituted, maybe, the worst example of poor planning by governments lacking courage and vision.” His fellow Swedish economist (and socialist) Assar Lindbeck asserted, “In many cases rent control appears to be the most efficient technique presently known to destroy a city—except for bombing.” That cities like New York have clearly not been destroyed by rent control is due to the fact that rent control has been relaxed over the years. Rent stabilization, for example, which took the place of rent control for newer buildings, is less restrictive than the old rent control. Also, the decades-long boom in the New York City housing market is not in

rent-controlled or rent-stabilized units, but in condominiums and cooperative housing. But these two forms of housing ownership grew important as a way of getting around rent control.

Economists have shown that rent control diverts new investment, which would otherwise have gone to rental housing, toward greener pastures—greener in terms of consumer need. They have demonstrated that it leads to housing deterioration, fewer repairs, and less maintenance. For example, Paul Niebanck found that 29 percent of rent-controlled housing in the United States was deteriorated, but only 8 percent of the uncontrolled units were in such a state of disrepair. Joel Brenner and Herbert Franklin cited similar statistics for England and France.

The economic reasons are straightforward. One effect of government oversight is to retard investment in residential rental units. Imagine that you have five million dollars to invest and can place the funds in any industry you wish. In most businesses, governments will place only limited controls and taxes on your enterprise. But if you entrust your money to rental housing, you must pass one additional hurdle: the rent-control authority, with its hearings, red tape, and rent ceilings. Under these conditions is it any wonder that you are less likely to build or purchase rental housing?

This line of reasoning holds not just for you, but for everyone else as well. As a result, the quantity of apartments for rent will be far smaller than otherwise. And not so amazingly, the preceding analysis holds true not only for the case where rent controls are in place, but even where they are only threatened. The mere anticipation of controls is enough to have a chilling effect on such investment. Instead, everything else under the sun in the real estate market has been built: condominiums, office towers, hotels, warehouses, commercial space. Why? Because such investments have never been subject to rent controls, and no one fears that they ever will be. It is no accident that these facilities boast healthy vacancy rates and relatively slowly increasing rental rates, while residential space suffers from a virtual zero vacancy rate in the controlled sector and skyrocketing prices in the uncontrolled sector.

Although many rent-control ordinances specifically exempt new rental units from coverage, investors are too cautious (perhaps too smart) to put their faith in rental housing. In numerous cases housing units supposedly exempt forever from controls were nevertheless brought under the provisions of this law due to some “emergency” or other. New York City’s government, for example, has three times broken its promise to exempt new or vacant units from control. So prevalent is this practice of rent-control authorities that a new term has been invented to describe it: “recapture.”

Rent control has destroyed entire sections of sound housing in New York’s South Bronx and has led to decay and abandonment throughout the entire five boroughs of the city. Although hard statistics on abandonments are not available, William Tucker estimates that about 30,000 New York apartments were abandoned annually from 1972 to 1982, a loss of almost a third of a million units in this eleven-year period. Thanks to rent control, and to potential investors’ all-too-rational fear that rent control will become even more stringent, no sensible investor will build rental housing unsubsidized by government.

### **Effects on Tenants**

Existing rental units fare poorly under rent control. Even with the best will in the world, the landlord sometimes cannot afford to pay his escalating fuel, labor, and materials bills, to say nothing of refinancing his mortgage, out of the rent increase he can legally charge. And under rent controls he lacks the best will; the incentive he had under free-market conditions to supply tenant services is severely reduced.

The sitting tenant is “protected” by rent control but, in many cases, receives no real rental bargain because of improper maintenance, poor repairs and painting, and grudging provision of services. The enjoyment he can derive out of his dwelling space ultimately tends to be reduced to a level commensurate with his controlled rent. This may take decades, though, and meanwhile he benefits from rent control.

In fact, many tenants, usually rich or middle-class ones who are politically connected or who were lucky enough to be in the right place at the right time, can gain a lot from rent control. Tenants in some of the nicest neighborhoods in New York City pay a scandalously small fraction of the market price of their apartments. In the early 1980s, for example, former mayor Ed Koch paid \$441.49 for an apartment then worth about \$1,200.00 per month. Some people in this fortunate position use their apartments like hotel rooms, visiting only a few times per year.

Then there is the “old lady effect.” Consider the case of a two-parent, four-child family that has occupied a ten-room rental dwelling. One by one the children grow up, marry, and move elsewhere. The husband dies. Now the lady is left with a gigantic apartment. She uses only two or three of the rooms and, to save on heating and cleaning, closes off the remainder. Without rent control she would move to a smaller accommodation. But rent control makes that option unattractive. Needless to say, these practices further exacerbate the housing crisis. Repeal of rent control would free up thousands of such rooms very quickly, dampening the impetus toward vastly higher rents.

What determines whether or not a tenant benefits from rent control? If the building in which he lives is in a good neighborhood where rents would rise appreciably if rent control were repealed, then the landlord has an incentive to maintain the building against the prospect of that happy day. This incentive is enhanced if there are many decontrolled units in the building (due to “vacancy decontrol” when tenants move out) or privately owned condominiums for which the landlord must provide adequate services. Then the tenant who pays the scandalously low rent may “free ride” on his neighbors. But in the more typical case the quality of housing services tends to reflect rental payments. This, at least, is the situation that will prevail at equilibrium.

If government really had the best interests of tenants at heart and was for some reason determined to employ controls, it would do the very *opposite* of imposing rent restrictions: it would instead control the price of every *other* good and service available, apart from residential suites, in an attempt to divert resources out of all those other opportunities and into this one field. But that, of course, would bring about full-scale socialism, the very system under which the Eastern Europeans suffered so grimly. If the government wanted to help the poor and was for some reason constrained to keep rent controls, it would do better to tightly control rents on luxury unit rentals and to eliminate rent controls on more modest dwellings—the very opposite of the present practice. Then, builders’ incentives would be turned around. Instead of erecting luxury dwellings, which are now exempt, they would be led, “as if by an invisible hand,” to create housing for the poor and middle classes.

## Solutions

The negative consequences of rent legislation have become so massive and perverse that even many of its former supporters have spoken out against it. Instead of urging a quick termination of controls, however, some pundits would only allow landlords to buy tenants out of their controlled dwellings. That they propose such a solution is understandable. Because tenants outnumber landlords and are usually convinced that rent control is in their best interests, they are likely to invest considerable political energy (see [Rent Seeking](#)) in maintaining rent control. Having landlords “buy off” these opponents of reform, therefore, could be a politically effective way to end rent control.

But making property owners pay to escape a law that has victimized many of them for years is not an effective way to make them confident that rent controls will be absent in the future. **The surest way to encourage private investment is to signal investors that housing will be safe from rent control. And the most effective way to do that is to eliminate the possibility of rent control with an amendment to the state constitution that forbids it. Paradoxically, one of the best ways to help tenants is to protect the [economic freedom](#) of landlords.**

## Rent Control: It's Worse Than Bombing

new delhi—A “romantic conception of socialism” ... destroyed Vietnam’s economy in the years after the Vietnam war, Foreign Minister Nguyen Co Thach said Friday.

Addressing a crowded news conference in the Indian capital, Mr. Thach admitted that controls ... had artificially encouraged demand and discouraged supply.... House rents had ... been kept low ... so all the houses in Hanoi had fallen into disrepair, said Mr. Thach.

“The Americans couldn’t destroy Hanoi, but we have destroyed our city by very low rents. We realized it was stupid and that we must change policy,” he said.

—From a news report in *Journal of Commerce*, quoted in Dan Seligman, “Keeping Up,” *Fortune*, February 27, 1989.

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### Further Reading

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### Footnotes

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Gunnar Myrdal, “Opening Address to the Council of International Building Research in Copenhagen,” *Dagens Nyheter* (Swedish newspaper), August 25, 1965, p. 12; cited in Sven Rydenfelt, “The Rise, Fall and Revival of Swedish Rent Control,” in *Rent Control: Myths and Realities*, Walter Block and Edgar Olsen, eds. (Vancouver: The Fraser Institute, 1981), p. 224.

Assar Lindbeck, *The Political Economy of the New Left* (New York: Harper and Row, 1972); cited in Sven Rydenfelt, “The Rise, Fall and Revival of Swedish Rent Control,” in *Rent Control: Myths and Realities*, Walter Block and Edgar Olsen, eds. (Vancouver: The Fraser Institute, 1981), pp. 213, 230.

States New York “public advocate” Mark Green: “the number of rent-controlled apartments fell 18.2% between 1991 and 1993 and the new data we have analyzed shows an even greater decline—30%—from 1993 to 1996. Indeed, the total number of rent-controlled apartments has fallen by 75% from its peak of 285,000 in 1981” (<http://www.tenant.net/Alerts/Guide/papers/mgreen1.html>). This is due to the fact that when rents reach a certain level (\$2,000 per month under certain conditions), apartments leave the controlled sector altogether. Inflation plus a “hot” New York City housing market have pushed many units above this level. See on this <http://www.housingnyc.com/html/resources/faq/decontrol.html>. Ken Rosenblum, Mike Golden, and Deborah Poole provided the above cites.