

From:
To: [Exhibits SHOUS; Sen Taylor](#)
Subject: Opposition to SB608 - Written Testimony
Date: Monday, February 4, 2019 12:28:14 PM

Dear Senator Taylor:

I am writing to urge you to **oppose SB 608**.

While the intention of SB 608 is a noble one (to address housing affordability in Oregon), in reality rent control will actually make the **problem much, much worse**.

Rent control is damaging for 3 reasons:

1. Rent Control **Reduces Supply**

- a. In our free market system, the price of a good is regulated automatically by supply-and-demand. If supply exceeds demand, the price falls...sellers have to slash prices to sell their product.
- b. Rent control, by capping a rental owner's possibility for margin, reduces supply because it discourages owners from entering (or staying) in the market. *If you were selling lemonade and I told you the price of lemonade was being capped, even though expenses (taxes, utilities, labor, etc) were going up each year...how long would you stay in the lemonade business?* Landlords don't own rental property altruistically, they own it to make money...if you take away their ability to earn a return, why would they stay in the rental housing business?
- c. I know many property owners who have recently sold their single-family investment properties (thereby removing these properties from the rental pool) and told me it was specifically due to their concern about rent control. Namely, that expenses will rise faster than their legal ability to raise rent... putting them in a position where they're making significantly less money, or even losing money. *This is a purely logical decision to make!* (And, with relocation fees, they have to pay a tenant to leave a property the owner is losing money on! How is that fair!?)
- d. **The only thing that reduces rent prices in a city is an abundance of rental housing supply**...the government has to make it easier and more affordable to build new housing. Putting a cap on the rent a landlord can charge only encourages them to exit the market... and take their rental property out of the market. (Just look at how

rents in high end apartments have been going down as a huge number of high-end apartments just finished construction and flooded the market. Supply and demand!) It also discourages new rental property construction...why risk capital if there is less upside?

2. Rent Control *Accelerates Rent Increases*

- a. Faced with the possibility of not being able to raise rents (rent control), landlords logically attempt to raise the rent at any and all opportunity.
- b. Previously, landlords would market a property at a reasonable asking rate, looking to fill a vacancy as soon as possible and knowing they could raise rents as needed later, to keep up with rising expenses. This is what keeps the housing market stable.
- c. Now, with the specter of rent control, a logical landlord will advertise the property for a VERY VERY high amount, and allow the property to sit on the market a LONG time in order to fetch that high price. That's because there's a disadvantage to advertising the property for a "reasonable" rate, as the landlord fears they may be perpetually locked into this price.
- d. As a result, rents have the result of rising at a faster pace than would exist without rent control. Ironic...but also perfectly logical!

3. Rent Control *Encourages Slumlord Behavior*

- a. In an unregulated market, a landlord must invest in their property to attract the best candidates, at the highest market rents. Once the tenant is in, a landlord's expenses go up over time (taxes, insurance, utilities) and so they raise rent. But the tenant is unlikely to be sympathetic to that, so the landlord must continue to invest in their property to convince tenants to stay despite rent increases. In this beautiful system, without any government interference, the landlord continues to maintain the property in exchange for the tenant continuing to pay rent.
- b. In a rent-controlled market, a logical (morals aside) landlord has *no* incentive to invest in their property. If anything, they seek to spend the absolute minimum on a property to keep it minimally habitable. The landlord gets no benefit (in the form of increased rents) from maintaining and improving the property. Therefore, major rent-

controlled cities (New York, Los Angeles, etc) have some of the worst maintained rental housing in the country...it's logical!

I ask the following questions:

- If rent control works, why are rents the highest in rent-controlled cities, while physical property condition is often the worst?
- If rent control works, why are people fleeing these cities and coming to Portland?

For many mom-and-pop landlords, margins are slim to begin with. Any control on their ability to set rent increases the likelihood they exit the market, thereby reducing supply, and increasing rent prices. The government doesn't supply housing...property owners do!

Smart landlords fear the future of rent control, so rent control encourages them to raise rents at any turn...thereby exacerbating the rate of rent increase.

Controlling rents also benefits the bad actors...discouraging maintenance in a property because the incentive has been removed.

Overall, imagine a city where permitting guidelines are so streamlined, and permit fees so reduced, that becomes easier and easier to construct new rental housing supply. You'll see an explosion in new rental housing coming online!

And imagine a city that takes a very light-handed approach to the free-market, allowing housing prices to fall at natural market levels, with natural competition keeping them from skyrocketing. You'll continue to have well-maintained housing as landlords compete for tenant's rent dollars, and owners building more rental housing.

If you truly want to make Portland's rentals more affordable, allow more supply and don't cap rents.

If you are truly concerned for Portland's low-income renters, offer them "golden-ticket" vouchers that allow them to apply the money directly to rent.

SB 608 threatens to greatly harm the affordable housing situation in Oregon, and I urge you to reject it when it comes to the Senate floor.

Sincerely,

Kohle Kreitzberg

Portland, Oregon