RENT CONTROL

More Politics, Less Housing

An Analysis

Roger Valdez, **SEATTLE FOR GROWTH**

Seattle For Growth, a 501c4 non-profit, was founded by builders, developers, and landlords to advocate for more housing and better housing policies. You can learn more and support our efforts at **seattleforgrowth.org**

SEATTLE FOR GROWTH

INTRODUCTION

As local governments in growing metropolitan areas increase rules and regulations that limit housing production, housing prices increase.[1] Among the responses these local governments consider is controlling housing prices by legislative fiat. Rent control policies promise consumers frustrated with rising prices an end to inflation.

Central to this promise of rent control is the assertion that supply of housing has no effect on or relationship with its price; rent control advocates reject the basic economic principle that price is a quantitative measure of supply and demand.[2] Instead these advocates view price arbitrarily set by people who develop and manage rental property.[3] Rent control is a form of price control that attempts to solve inflation through legislation rather than increases in production.

> **RENT CONTROL ADVOCATES REJECT THE BASIC ECONOMIC PRINCIPLE THAT PRICE IS A QUANTITATIVE MEASURE OF SUPPLY AND DEMAND.**

WHAT IS INFLATION?

"Inflation is caused by too much money chasing after too few goods." This definition, attributed to Milton Friedman, is a good and efficient one.[4] But for most people inflation is simpler still: "Prices that are too high." When it comes to housing, we could revise Friedman's quote to "Housing inflation is caused by too many people chasing too few units of housing." When five people want an apartment, and each makes an offer of tenancy, the person who can bid up the monthly rent will eventually "win" that apartment. People with less money will walk away and be forced to try again.

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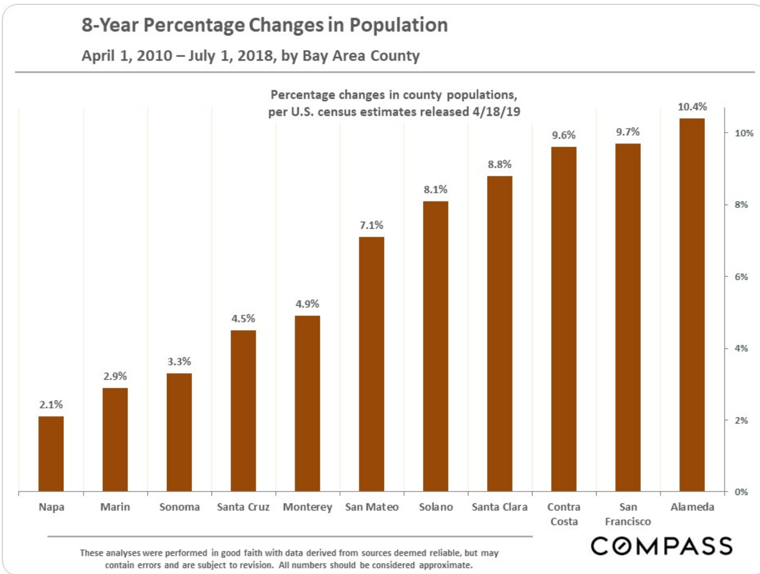
1 For example, in California prices are rising and real estate analysts believe this is due to regulation, "Housing is more affordable in places where land is cheaper and developers face fewer regulatory and legal barriers that, in California, delay construction and drive up legal and consulting fees." *Southern California Monthly Rents Will See Triple-Digit Increases Over the Next Two Years*, Business Wire, October 25, 2019.

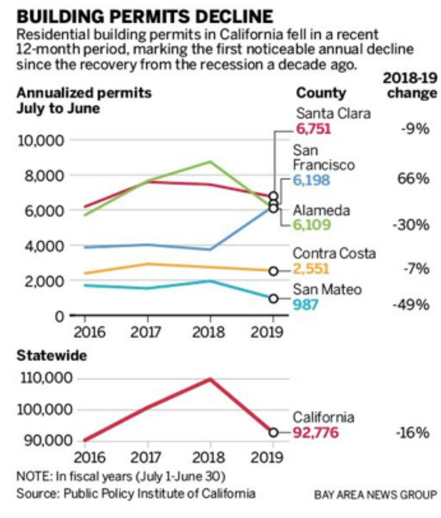
2 "Let financial speculators and corporate developers determine new construction, let the supply of market-rate rental apartments increase. And at some point, magically, rents will come down and create housing affordability," *Rent Control FAQ*, Seattle City Councilmember Kshama Sawant, April 2019.

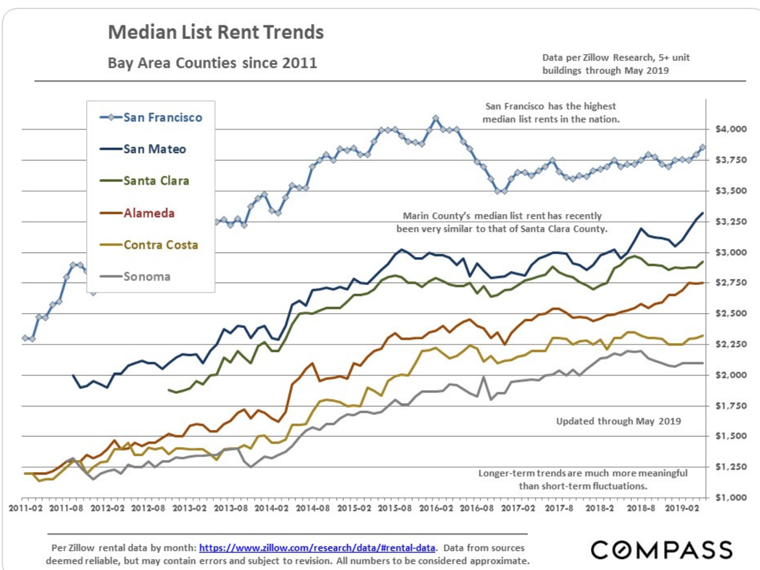
3 "Rent and rent increases are determined by the relative balance of political power between renters and the real estate ruling class," Ibid.

4 Perry, Mark J., *My Favorite Milton Friedman Quotes*, American Enterprise Institute, November 17, 2016.

The Three Ps of Housing Inflation: Population, Permits, Price







Stiff competition for rental housing is not caused by some people having “too much money,” but because there are not enough choices. When such a state exists, average prices rise as potential and existing tenants have to compete for with each other for a scarce resource, housing. As demand for housing rises, more and more people who earn less money are “priced out.” This is how housing inflation works in growing cities.

HISTORY OF PRICE CONTROLS

A rational and reasonable person considering inflation and its obvious impacts on people with less money might conclude that the government should simply set or control prices, limiting the amount that sellers could ask. This idea has been around as long as people have. Hammurabi's Code (c. 1792 – c. 1750 BCE),[5] one of the earliest known legal documents, literally written in stone, had very specific price controls (law 272,"If any one hire a cart alone, he shall pay forty ka of corn per day).[6]

About 2,000 years later, the Roman Emperor issued an "Edict on Maximum Prices" which set very specific prices (best quality olive oil 30 cents) for goods and services to stop the "avarice that swells and grows with fierce flame" among merchants. What was the penalty for violating the edict? Death! But it was universally violated.[7]

As recently as the 1970s the United States attempted a series of price and wage controls to tame rising prices. Like all the efforts before, the controls failed, creating widespread shortages of basic items and food.[8]

So why do politicians keep proposing orders and laws to halt prices by fiat? It's good politics and it seems to provide the fastest and most compassionate solution. However, the evidence from the last 4,000 years shows us that efforts to control prices have the opposite effect: they discourage production, cause hording, and result in rationing of goods.

Most importantly, price controls don't stop rising prices since scarce items still command high prices in uncontrolled black markets, and when those items do become available at the set price, their limited supply means that few people will ever get the item at lower cost.

HISTORY OF RENT CONTROL

An older but still very useful history of rent control by John W. Willis, *Short History of Rent Control Laws*,[9] shows that rent control is as old as other price controls or at least as old as the Roman Empire. Willis makes the case that throughout history war and disaster played a role in housing inflation that led to governments attempting to control housing prices. Often this was due to loss of income by tenants resulting in an inability to pay, but in every case looked at by Willis across Europe and Asia, it was scarcity of housing and the inelasticity of housing that drives the disequilibrium between supply and demand.

> Rent is an inflexible charge. If it goes up, the tenant has little choice but to pay more or to move to a less expensive lodging, and in times of housing shortages the latter alternative is an illusory one.[10]

And for landlords facing rent control the complaint then was familiar as the one we hear today.

> About all he can do is refuse to build new housing. Some invasion of the rights of the landlord is of course implicit in the idea of rent control.[11]

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5 Nagarajan, K.V., *The Code of Hammurabi: An Economic Interpretation*, International Journal of Business and Social Science Vol. 2 No. 8; May 2011

6 Translated by, King, L.W., *The Code of Hammurabi*, Lillian Goldman Law Library, Yale Law School, 2008

7 Kent, Roland G., *The Edict of Diocletian Fixing Maximum Prices*, 69 U. Pa. L. Rev. 35, (1920)

8 Rafuse, Jack, *History 101: Price controls don't work*, Chicago Tribune, June 7, 2007

9 Willis, John W., *Short History of Rent Control Laws*, 36 Cornell L. Rev. 54 (1950)

10 Ibid, at Page 57

11 Ibid, at page 59

Willis also points out that, "If the history of rent control teaches any lesson, it is that once such controls have been imposed, they are difficult to remove."[12] Willis mentions Austria's imposition of rent controls before World War II which through republican, authoritarian, and Nazi periods, that only ended when the national government "permanently assumed the responsibility for providing housing.[13]

In the United States, rent control has always been controversial. As far back as the onset of World War II, when the federal government considered rent control, the National Defense Advisory Commission saw the relationship between low supply and high prices and recommended that controls only "be resorted to only when new construction is not sufficiently rapid and extensive to meet the need and where local communities can find no other means to check a disastrous rise in rents."[14]

Willis ends his history with an outline of arguments leveled at rent control up to the post war period, some valid in his view, and others "claptrap" and "spurious."[15] Those arguments are very similar to the ones we hear today. Rent control,

- "Stifles new construction," since it creates uncertainty about whether the costs of new construction will create enough return to recoup the costs of construction and operations.
- "Drives [existing] housing off the rental market," for the same reasons it stifles production. When revenues are low, and costs to operate rentals get too high, owners covert units into a use other than rental housing.
- "Leads to large public housing programs." This warrants further discussion,[16] but even in 1950 there was a sense that once rents are controlled, private business leaves the housing economy, and a situation like post-war Austria will arise: state ownership and management of all housing.
- Hoarding. "Tenants therefore continue to occupy apartments larger than they need after their families have decreased in number; this results in a form of hoarding of space." Willis goes on to say that the criticism is that, while rent and eviction control may benefit those who have a place to live, it is of less assistance and may even be a hindrance, for the reasons just stated, to those who do not." When tenants, rationally, don't want to give up a controlled unit, supply is again suppressed and those with no place to go suffer.
- Would be a taking or theft of private property. Willis calls this a "specious" argument citing its makers as suggesting that since it results in a tenant living in his property without consent, rent control violates the basic notion that "thou shalt not steal." We'll see later, though, that takings law has evolved beyond this.
- Violates the bedrock legal principles of a contract. Willis, in his footnotes cites an important case at the time, one that went against landlords, *Block v. Hirsh*.[17] The dissent in the case written by Justice McKenna is one that articulates both the problem of taking property without due process and contract. As to taking, citing the 5th Amendment to the Constitution, McKenna found that at other times of economic distress, government "did not induce the relaxation of constitutional requirements nor the exercise of arbitrary power."[18]

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[12] Ibid, at page 71

[13] Ibid, at page 69

[14] Ibid, at page 78

[15] Ibid, pages 84 and following

[16] Valdez, Roger, *In Defense Of More Housing: Let's Stop Arguing About Housing And Build More*, Forbes, March 6, 2017

[17] *256 U.S. 135 [1921]*

[18] Page 256 U. S. 160

> McKenna writes that the "Rent Law" from Washington DC being considered by the court in *Block*, "is contrary to every conception of leases that the world has ever entertained, and of the reciprocal rights and obligations of lessor and lessee." The idea of a lease is that when it is over or violated, the contract is over. Rent control upends the ability of a lease to reflect a set of terms that if broken mean an end to tenancy. One party, the private owner of a rental unit, can no longer set the terms of the use of his property in a lease.

Throughout its long history, like all price controls, rent control has created controversy and mixed results. At times of great upheaval, when people have little or no money, housing has been destroyed, or suddenly demand has surged and supply of housing has not been able to keep up, prices rise and calls for rent control rise with them. The arguments and evidence against rent control and the frustration with housing inflation that spur the calls for it, have not changed over the intervening decade since Willis wrote his history.

WHY RENT CONTROL IS NOT A GOOD HOUSING POLICY

First, if rent control was simply a dispute among economists there would be no question that rent control is a bad idea. One survey of the economic studies found that, "on the whole [it] may be fairly said to show that rent control is bad."[19] But rent control isn't about economics, but about politics.

One doesn't have to embrace the price system as described, for example, by Friedrich Hayek in *The Use of Knowledge in Society*, to agree with the idea that while sellers set an asking price, the final determination of price is established by interactions between buyers and sellers in a market.[20]

However, the democratization of prices is an irresistible siren call for politicians and activists; who wouldn't support the notion that what we pay for essentials shouldn't be determined by the vagaries of a "free market," but by a simple and direct vote, a consensus enforced by government. "How much is that gallon of milk?" someone asks. "It's $1.89," someone answers. "Why?" And the answer is, "Because we say so!"

Advocates of rent control attribute the asymmetrical power relationship between landlord and tenant favoring the landlord not the fact that housing supply is low, and the tenant has no other choice but to pay higher rent, but to the landlord's greed. Landlords set prices based on how much they want to earn.

Worse, rent control advocates would say, landlords use price to decide what kind of person they want to live in their property; price can be used to discriminate against people because of their race or other characteristics. Taking away the ability of landlords and tenants to negotiate price puts the control of price to broader community consensus, protecting the consumer and ensuring fairness of the distribution of housing to those who need it at a price they can afford, regardless of class, race, or characteristics.

So the following discussion, a digest of what makes rent control a bad policy won't persuade activists whose battle is in the streets and in the footnotes of empirical studies on housing economics, where they always dispute the data.[21] However, it is important to establish that rent control does not accomplish the goals it sets out to achieve – better

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[19] Jenkins, Blair, *Rent Control: Do Economists Agree?,* Econ Journal Watch 6, Number 1 January 2009, pp 73-112

[20] Hayek, Friedrich, *The Use of Knowledge in Society*, American Economic Review, XXXV, No. 4, September, 1945, pp. 519–30.

[21] *Stanford Study On San Francisco Rent Control Is Flawed and Misleading*, Housing is a Human Right, November 18, 2018

outcomes for people with less money – but it also creates more problems for people with less money who are in need of housing.

For this review I am drawing on a survey of studies completed by Lisa Sturtevant of the National Multifamily Housing Council's Research Foundation. Sturtevant gathered and reviewed empirical studies conducted since 1972 conducted on rent control in the United States.[22]

Table 1. Empirical Studies of Rent Control and Rent Stabilization (By Publication Date)

AUTHORS	GEOGRAPHICAL AREAS
Olsen (1972)	NYC
Rydell et al. (1981)	Los Angeles
Fallis and Smith (1984)	Los Angeles
Mengle (1985)	Multiple
Navarro (1985)	Cambridge, MA
Linneman (1987)	NYC
Peat Marwick (1988)	NYC
Gyourko and Linneman (1989)	NYC
Levine, Grisby and Heskin (1990)	NYC
Turner (1990)	Washington DC
Rappaport (1992)	NYC
Caudill (1993)	NYC
Honig and Filer (1993)	NYC
Moon and Stotsy (1993)	NYC
Ault, Jackson and Saba (1994)	NYC
Nagy (1995)	NYC
Malpezzi (1996)	Multiple
Gissy (1997)	Multiple
Grimes and Chressanthis (1997)	Multiple
Nagy (1997)	NYC
Early and Phelps (1999)	Multiple
Early (2000)	NYC
Glaeser (2002)	California, New Jersey
Glaeser and Luttmer (2003)	NYC
Krol and Svorny (2005)	New Jersey
Sims (2007)	Boston
Sims (2011)	Boston
Diamond, McQuade and Qian (2017)	San Francisco

I've reviewed the primary sources and will cite some of them in the discussion below.

[22] Sturtevant, Lisa, *The Impacts of Rent Control: A Research Review and Synthesis*, Guidance, May 2018

Rent Control Reduces Supply of Existing Rental Housing

Once a rent control ordinance is implemented the ability of a property owner to set prices to cover costs of operation, to maintain cash flow, and to pay taxes is impacted. This creates an incentive to shift residential rental property to other uses that aren't regulated.[23] In San Francisco, "landlords treated by rent control reduced rental housing supplies by 15% by selling to owner-occupants and redeveloping buildings."[24]

And since "rent control incentivized landlords to substitute away from an older rental housing stock towards new construction rentals and owner-occupied condos," the new units were much more expensive than older ones, eliminating housing options for people with less money.[25]

Increases Prices for Housing Without Rent Control

Once rent control is applied, "excess demand caused by the controls spills over into the uncontrolled sector and increases rents," in New York that meant rents went up as much as 25 percent.[26] Once a unit is rent controlled, it is no longer on the market and thus people who would have been able to rent that unit before for more money must find other options. That demand then flows toward new construction or other units without rent control.

Additionally, worry about expansion of rent control incentivizes managers of rental property to more aggressively price their product. Rents usually are jagged in their rise and fall, and property managers worry about not being able to keep up with expenses and not being competitive, so pricing often reflects costs and demands. Worry about future limits encourages making increases sooner. Something like this is occurring now in Oregon, where after statewide rent control passed, rents "skyrocketed."[27]

Benefits Not Effectively Distributed (Rationing)

Because rent control ordinances do not means test residents, the benefits of lower rents often accrue to people that either earn more money or who earn more money over time. Additionally, the benefit of having rent lower than market rent may or may not help people that supporters intended to help. In a study of New York rent control in the 1960s, found that the "benefits were higher for older tenants, richer tenants, and white tenants than for their counterparts," and "the cost to landlords exceeded the benefits to tenants by about 75 percent."[28]

Even when apartments are price controlled, if they aren't abundant, and one can't pay more for them, then people must wait in line for them. Bread lines in the Soviet Union were symbolic of the fact that bread was cheap, but there wasn't any bread to be had. Because of this, people with plenty of money to spend end up in rent-controlled apartments they won't leave. One study of New York's rent control scheme found that, "20 percent of the apartments are in the wrong hands."[29] People with less money to spend can't leave their location, and people with more money subsidize their lives

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[23] Sims, David. (2007). *Out of control: What can we learn from the end of Massachusetts rent control?*, Journal of Urban Economics. 61. 129-151. 10.1016/j.jue.2006.06.004.

[24] Rebecca Diamond & Franklin Qian & Timothy McQuade*, The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco*," 2018 Meeting Papers 918, Society for Economic Dynamics, page 1

[25] Ibid, Page 22

[26] Caudill, Steven B. "Estimating the Costs of Partial-Coverage Rent Controls: A Stochastic Frontier Approach.*" The Review of Economics and Statistics*, vol. 75, no. 4, 1993, Page 727

[27] Rothman, Stephanie, *Rising costs felt by renters in Oregon in wake of rent control bill*, KVAL TV, Eugene, Oregon, Friday, June 28th 2019

[28] Ault, R. & Saba, R., *The economic effects of long-term rent control: The case of New York City*, The Journal of Real Estate and Finance Economics (1990), Page 1

[29] Glaeser, Edward L., and Erzo F.P. Luttmer, *The Misallocation of Housing Under Rent Control*, American Economic Review 93(4): 1027-1046, (2003), Page 1044

with lower housing costs. In both cases, important utility is given up to hang on to a unit because all other housing costs are rising.

Reduction of Mobility (Hoarding)

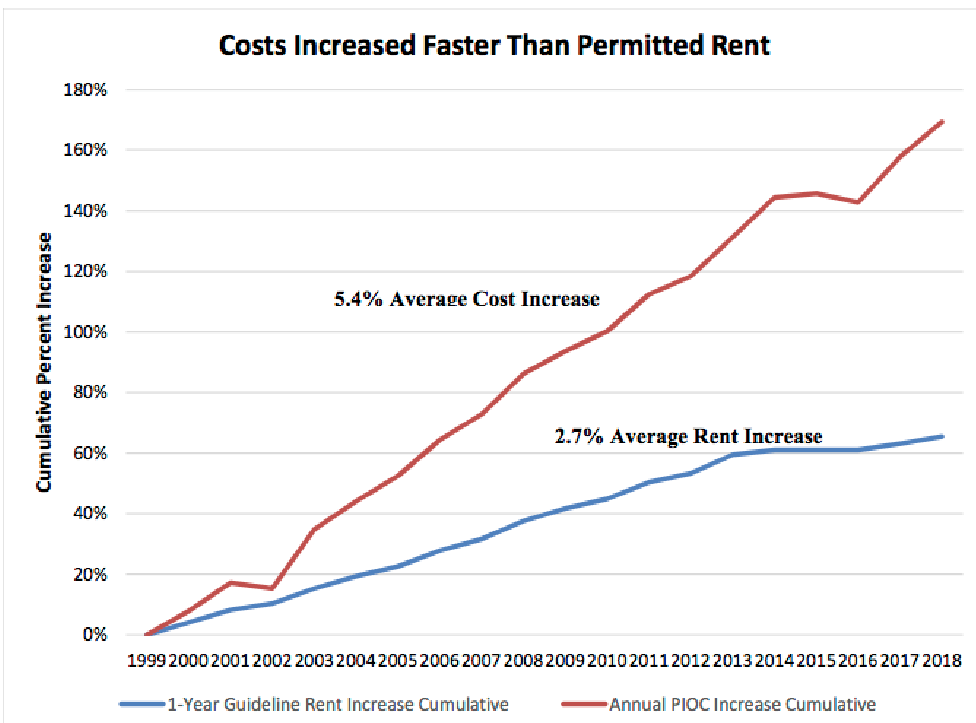
This brings us to the next related problem, that of hoarding of the benefit once it is gotten. While landlords are incentivized by rent control to take their property off the market, tenants are similarly incentivized to keep their apartment to themselves by not moving. One interesting study was able to quantify this by looking at commute times: "The most restrictive [rent control] ordinances have the strongest effect on commute times."[30]

This isn't surprising, but confirms other studies that found households, once paying below market rent, wouldn't change their address even when other things in their life changed. The Stanford study, which looked at a period beginning in 1993, found that "tenants who receive rent control protections are persistently more likely to remain at their 1993 address relative to the control group."[31]

Leads to Deferred Maintenance and Decline of Quality

The problem with rents that don't reflect anything other than an arbitrary determination by a government board extends to cost management. In New York, landlords are suing the Rent Governance Board (RBG) in part because rent control does not allow properties to keep up with costs.

CHART 1: RGB-Permitted Rent Cumulatively Increased at Half the Rate of Owners' Costs



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30 Krol, Robert, and Shirley Svorny. 2005. The Effect of Rent Control on Commute Times. Journal of Urban Economics 58(3): 421-36.

31 Rebecca Diamond & Franklin Qian & Timothy McQuade, *The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco*," 2018 Meeting Papers 918, Society for Economic Dynamics, page 15

This imbalance between costs and the ability to cover them with rent revenue should be obvious. But does it lead to the overall decline in building quality.

According to Sturtevant's review, "there is no clear association documented in the empirical research between rent control and building quality."[32]

Why is this evidence lacking? One reason mentioned in the literature is the presence of other rules and codes that mandate upkeep. One other possibility not cited in the literature is that, as discussed above, many rent controlled units end up being taken off the market, so the issue never arises. Still, across the country, the ability of rental properties to stay rental properties depends on the ability of managers to cover costs, and the only way to do that is with rent revenue, and if it is locked, the business loses money, incentivizing conversion.

Racism is real and has long had an impact on housing choice and opportunity. But suppressing supply with regulation, including rent control, means less housing and higher prices. Because a disproportionate number of poor people are people of color, the negative impacts of rent control are carried by people of color. What's better, a system where the government (the same one that runs the police department) allocates a few rent restricted housing units, or an expansion of supply that allows people looking for housing many choices that are affordable, convenient, and comfortable?

Coercive and Inefficient Subsidization

For the last 100 years, since the *Block* case, courts have more or less maintained the precedent that rent control does not constitute a taking by the government of private property without due process. However, the legal case mentioned above is going to test that precedent.[33] The case argues that rent control is,

Arbitrary and irrational in violation of the Fourteenth Amendment's Due Process Clause; they effect a physical taking of property in violation of the Constitution's Takings Clause; and they constitute a regulatory taking of property in violation of the Takings Clause. The Rent Stabilization Laws are therefore facially unconstitutional.[34]

The study by Ault et al cited earlier, based its assumptions on the difference between controlled units and uncontrolled units and quantified that at 25 percent. In other words, if owners of rent-controlled properties could measure how much they are losing per month, it could be as much as 25 percent, or more.

As Justice McKenna pointed out (and so does the lawsuit) emergencies and crises, even when clearly established, should not, "induce the relaxation of constitutional requirements nor the exercise of arbitrary power." That difference between what a unit could command on the market and the one set by, in this case, the Rent Guidelines Board is a model of arbitrariness and inefficiency. Rent control takes value away from a private asset without any process

[32] Sturtevant, Lisa, *The Impacts of Rent Control: A Research Review and Synthesis*, Guidance, May 2018, Page 13

[33] Barbanel, Josh and Parker, Will, *Landlords Challenge New York's Rent-Control Law in Federal Court*, The Wall Street Journal, July 16, 2019

[34] *Community Housing Improvement Program v. Rent Guidelines Board,* Case 1:19-cv-04087 Document 1 Filed 07/15/19

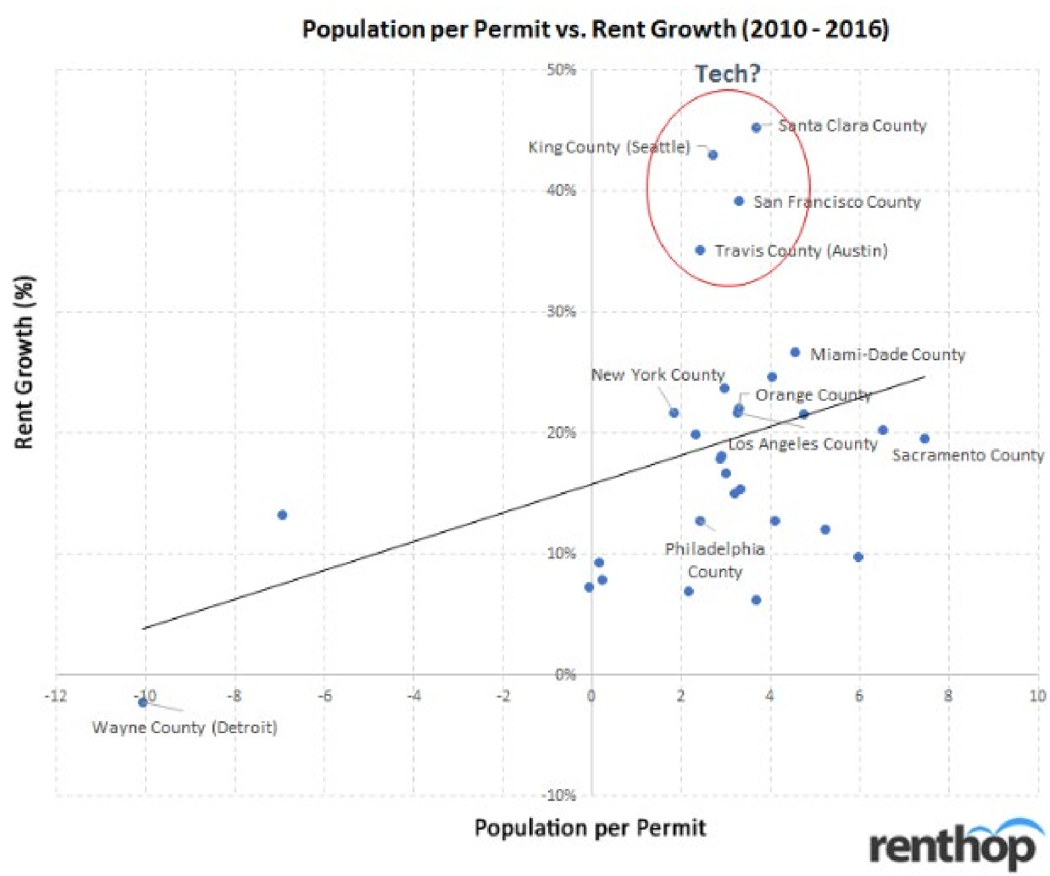
other than legislative fiat, then, as we've seen distributes it in a way that does not benefit the people it is supposed to help.

THERE ARE BETTER SOLUTIONS

Those who believe that price is a social construct manipulated by property owners for their benefit generally embrace price controls not because it is good economics or even good housing policy but because, ironically, it puts the power of price in only a few hands. In contrast, a market sets price when people negotiate, bargain, and innovate. A market disperses power through production and price; when there is scarcity, the seller has an advantage, if there is an abundance, the consumer wins more often. The following are ideas built on the principle of expanding the abundance of housing and choice the only thing that will truly reduce the suffering created by housing scarcity.

More Housing, Less Regulation

"Regulation raises housing rents and values and lowers homeownership rates."[35] This statement shouldn't come as a shock if supply and demand are linked to price. There are three critical variables to consider when substantiating this, population, permits, and price.



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35 Malpezzi, Stephen, *Housing prices, externalities, and regulation in U.S. metropolitan areas*, Journal of Housing Research 7: 209-241, Page 236

The RentHop study is worth quoting at length.

> Between 2010 and 2016, the counties (and their respective cities) with the highest pop/permit ratios are Sacramento, San Antonio, Riverside, and Fairfax (Washington Metro). Sacramento is especially underbuilt, with over 7.4 people per building permit. Construction in San Antonio, Riverside, and Washington have also not kept pace relative to population, with pop/permit ratios of 6.5, 6.0, 5.2 respectively. Cities in California seem particularly tight in general. While California (the most populous state) has six counties in the largest 30 national counties, all of them are in the top 50th percentile in pop/permit. This might not be very surprising, since California has often been associated with NIMBY behavior.[36]

While this kind of data is highly localized a review of average price compared with population growth is easy to do and the ratio of permits to people is a worthwhile index and useful predictor of price.

Local governments control permits and, in the end, control price. When regulations limit permits in the face of rising population growth, prices rise. If we're concerned about rents, then local government needs to speed up the permitting of new housing by reducing regulation.

Producers of housing can meet most of the demand in the economies of urban and rural areas if government allows it. Here are some practical ideas of where to start pruning away the overgrowth of housing regulation.

- Encourage more mixed-use multifamily housing
- Allow smaller units with shared kitchens and common areas
- Eliminate design review and restrictions
- Eliminate all height, bulk, and scale limits
- Eliminate redundant and excessive utility requirements (including impact fees)
- No parking minimums or requirements
- Incentivize the speedy processing of permits
- Require annual review of building and land use codes
- Eliminate all rules, restrictions, code requirements not benefiting health or safety
- Require consumer cost impact for all existing and new rules or regulations

We Already Control Rents (With Incentives)

There are already programs that cap rents and are far more efficient than rent control. For example, in Seattle the Multifamily Exemption (MFTE) Programs has created thousands of units with rent restrictions in for-profit market rate buildings. In addition, the Low-Income Housing Tax Credit (LIHTC) program and the voucher program supported by the Department of Housing and Urban Development (HUD) have created thousands more units with lower rents. How many?

> There are already 36,000 [in Seattle] that are rent restricted, meaning the rents of those units are locked in—controlled if you like—for anywhere from 12 to 40 years. Those 36,000 units, roughly 44 percent of all the units at those levels of income are set by government agencies and covenants; they are a mix of units paid for by government grant, the city's housing levy, through the city's Multifamily Tax Exemption (MFTE) program, or vouchers issued by the Seattle Housing Authority.[37]

[36] Here's Why Rents are So High, RentHop, December 21, 2017

[37] Valdez, Roger, We Don't Need Rent Control, Publicola, May 6, 2015

If politicians and activists want to control rents in privately managed apartments, then they can pay for that control by becoming an investor. Programs like the MFTE are very efficient because they buy down rent in 20 percent of new units in a new building by freeing the developer of a portion of property tax for 12 years. And this is possible without having to buy land, build, pay for financing, or operations of that building.

This program could be expanded to include existing construction. Again, the advantage to the taxpayer's investment is that there is very little risk and very high return on exchanging the deferred tax to create the benefit of lower rent. In addition, this creates the integration of race and class that so many advocates say is needed by including lower income people in market rate apartments. The MFTE program far outpaces other efforts to create this kind of inclusion.[38]

> **IF POLITICIANS AND ACTIVISTS WANT TO CONTROL RENTS IN PRIVATELY MANAGED APARTMENTS THEN THEY CAN PAY FOR THAT CONTROL BY BECOMING AN INVESTOR.**

Cash for Rent

As long as the normative standard for housing costs is 30 percent of gross monthly income, buy down the "cost burden" with direct cash payments for rent rather than building new subsidized housing. Cost burdened households don't need a unit years from now – they already have one – they're just paying more than the normative standard today. Most cost burden could be eliminated quickly and efficiently with cash payments.

We've already explored this option, and it is far more efficient and compassionate than building new units of housing.

A CASH SUBSIDY FOR A FAMILY OF 3						
Annual Income	Monthly Income	Rent for 2 Bd (30% of Gross Monthly Income)	Actual Rent	Difference	Annual Cash Subsidy Needed	Subsidy Over 10 Years
$32,520	$2,710	$813	$1,355	$542	$6,504	$65,040

A UNIT FOR A FAMILY OF 3						
Total Cost of Built Unit	Monthly Operating Costs	Annual Operating Costs	Operating Costs Over 10 Years	Annual Rent Collected	Rent Collected Over 10 Years	Subsidy Over 10 Years
$400,000	$417	$5,004	$50,040	$9,756	$97,560	$352,480
					SAVINGS	$287,440

The savings achieved by buying down "cost burden," the amount a household pays above 30 percent of their gross monthly income, is enormous. And more importantly, it solves a real problem fast without having to take the risk and expense of buying land, and building, financing, and operating units.[39]

[38] Valdez, Roger, MFTE, Levy, More Efficient than Linkage Tax, November 5, Seattle For Growth.

[39] Valdez, Roger, Give Cash Payments To Families For Housing, Forbes, December 12, 2016

Reform and Improve the Section 8 Voucher Program

The Housing Choice Voucher program, usually called "Section 8," is a well-intended program that aims at getting people with less money for housing into market rate apartments. The problem is that the program is complicated and subject to many limitations imposed by local housing authorities and governments. It's time to move beyond vouchers – something that requires too many strings – and toward cash.[40] There are a growing number of proposals for direct cash benefits as a more efficient and compassionate way of helping people.[41] State and local governments should explore this idea as well.

Other Ideas

- **End zoning** – Zoning is a 20th century solution to a 19th century problem and premised on the notion that separating use is good planning; it isn't. Allowing many uses – manufacturing, retail, and residential, for example – closer together is more sustainable and efficient that separating uses. Zoning also creates geographic differences in typology that heighten scarcity of housing choices. Zoning also segregates people, limiting their opportunities.
- **Incentivize density** – It is efficient to have more people living on less land and it is more sustainable. Tax incentives should be structured to allow fewer people on more land but with incentives for people who live in greater concentrations.
- **Impact investing** – People with less money with needs that they can't meet create costs to the broader community. These costs can be identified and if they can be reduced through intervention, that intervention has a value that can be monetized. Providing low or no barrier shelter and housing along with case management and other services is a short-term cost, but if it is effective those costs can be paid back, with interest, when savings to government budgets are realized.[42]

CONCLUSION

Rent control isn't about economics it is about power. The purpose of price controls and rent control in particular is to take away the ability of private property owners and people who need housing to negotiate price. In a free market, prices aren't set by one group or committee, but by people trying to meet each other's needs. Rent control takes that away and puts prices under the control of the government.

Housing inflation is caused by a lack of housing. The three Ps are critical: Population, Permits, and Price. When local governments overregulate housing, they benefit incumbents by increasing the value of their asset and increase housing prices. This is especially true when population surges because of new jobs and prosperity in a city or region, and is the real cause of "skyrocketing" prices.

Rent control helps few people and harms many more. Although people lucky enough to win the rationing game find themselves in a cheap apartment, everyone else bears the burden of even higher prices for housing. The notion that even more complete control of prices will solve this problem is yet untested, but expansion of rent control beyond existing housing to new housing and eliminating options for property owners would ensure more conversion and complicate an already complex regulatory environment.

More housing, not more rules, is the answer. As long as housing is scarce, tenants will have to compete with each other for housing rather than landlords competing for tenants with lower prices or rent concessions.[43] When vacancy rates

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[40] Valdez, Roger, *Beyond Vouchers And Toward Cash For Rent*, Forbes, October 2, 2019

[41] Valdez, Roger, *What Do People Struggling To Pay Rent Need? Cash!*, Forbes, September 9, 2019

[42] Valdez, Roger, *Housing First Contributes to Livability*, Sightline Institute, April 3, 2009

[43] "a concession is a reduced rent price or comes in the form of a gift that has a certain value. The most common concessions right now are no-fee apartments, one month of free rent, two months of free rent, or amenities like a free gym membership," *Your Guide to Rental Concessions in New York City*, Julep, January 8, 2018.

are low, and supply is limited, consumers see their money buy less. Allowing builders and developers more freedom to build ameliorates and solves housing price issues.

There are better, more efficient ways of helping people. Programs that invest public resources in offsetting costs of rent restrictions and that get cash into the hands of people who need rent money are the best way to help people. For people who need even more complex services and support, programs that invest private dollars for public benefit offer an opportunity to save money and lives.[44]

[44] Valdez, Roger, *Massachusetts Tries A New Solution For Chronic Homelessness*, October 17, 2016

CASE STUDY: A Builder's Perspective on Rent Control

Gary Cobb is a Seattle builder who wrote this email to legislators in 2018 when they were considering a lifting of the state's ban on rent control. This letter was first published at **SEATTLE FOR GROWTH** in January of 2018.

Hello,

This email is being sent regarding the state of Washington and rent controls. I am a Seattle builder of single family and town homes for the last 20 years. I am now in permit to build a 35-unit apartment in West Seattle. These units will be called SEDUs (small efficiency dwelling units) these are low rent affordable units to the public. I am planning to build own and operate this building as a supplement to a retirement plan. These units will become available in 2019 at current market rate rentals.

I am only one small guy here and already your vote will immediately serve to eliminate 39 apartments if rent controls are placed into law. How many more will be converted to other uses or never brought to reality due the lenders walking out and the builders unwilling to take the risk?

This is what will happen if you elect to bring in rent controls into the city of Seattle (my city of 62 years). I will not be able to gain financing to build this project. My banks (3) that I am talking with will stop lending to apartment builders leaving me and many other builders without financing. This simple fix called rent control will leave 35 people or couples and or others without these homes available to live in. This decision will leave many apartment projects to look for other means of completion or other uses like leave in the scrap heap.

My retirement plans will change. We the builders will no longer look to the city of Seattle to build apartments. We don't just build and get rich as people think we do. We build to meet a market need taking on great amounts of risk and much stress in the process hoping to make a profit or just get paid for our time. One of the risks of building is artificial rent controls as it artificially causes us to go bankrupt as we soon may not be able to cover the raising of taxes and interest rates and other expenses of ownership.

I also own a 4-unit mixed use building in Seattle. This building has 4 apartments and 2 commercial spaces I maintain and rent. The apartments will be converted to commercial spaces and the renters will end up dispersed with 4 less apartments to live in. These spaces converted to commercial will bring about the same as apartments do today but without the artificial rent controls to deal with.

I am only one small guy here and already your vote will immediately serve to eliminate 39 apartments if rent controls are placed into law.

How many more will be converted to other uses or never brought to reality due the lenders walking out and the builders unwilling to take the risk? You will see rents far higher than they are today with rent controls as the new needed unit stop being built. If you vote to enact rent controls, you are ultimately agreeing to vote to eliminate housing for a growing population of this state. I hope you choose well to serve the real needs of the people of this state.

Kind regards,
Gary Cobb

CASE STUDY: Airline Price Controls

The PBS series, Commanding Heights has a great example of how removing regulation created more competition and lower prices. Whatever you think of the airline industry today, it is far cheaper because there are more options. When prices were controlled, competition happened anyway, even in the form of carriers trying to offer better food. Before Stephen Breyer became a Supreme Court Justice, he worked on deregulating the airlines. This is quoted from the film.

Stephen Breyer:

There was agreement: [The airline industry] is a competitively structured industry. Competition ought to work. Now, if you take a group of competitors and make an artificial rule that prohibits them from competing in price, then they'll still compete. They will compete in service. And that's just what was happening.

What we discovered at that time, which is long gone, is that there was the Aloha Pub in the back of a Continental airplane. The great sandwich war [occurred] when the regulatory agency, in an effort to stamp out competition [in order] to raise profits, told them they couldn't compete by having better and better sandwiches.

But the most important form of competition was simply putting on more flights and having ever more seats and having them ever emptier. It's nice to have a seat next to you that's empty. And our first witness, Lou Engman, the chairman of the Federal Trade Commission, pointed out that when the business traveler flies, he's delighted under regulation to have an empty seat next to him where he puts his briefcase. But would he be so happy if he understood that he's paying full fare for the briefcase?

Then [Harvard University economist] Dick Caves had written a book where he said that there are industries where there is a lot of service, and you make a lot of money, for example, flying from New York to Los Angeles. And then, he said, there's other service, let's say, from New York City to Buffalo where airlines wouldn't make less money. And he said what they're doing... is they're taking the profits from the profitable route and using them to subsidize the short, unprofitable route. But, he asked, why should a grandmother flying to see her grandchildren in Los Angeles pay more so that the businessman flying up to Buffalo could pay less? That was a good argument.