

Rent Control / Rent Stabilization

BACKGROUND

Rent Control policies (also known as rent stabilization) are government-enforced price control or cap measures limiting the rents that property owners may charge in market rate rental housing. Rent control laws mandate an artificial cap on rent and eliminates the basic principal of supply and demand from the price determination. This distorts the housing market by acting as a deterrent and disincentive to develop new rental housing and to maintain the existing stock. In practice, these policies have the effect of increasing the cost of all housing by forcing a growing community to compete for fewer housing units.

Economists agree that when prices are held below natural levels, investor capital leaves an industry to seek a better return elsewhere. In fact, other than price controls on gasoline in the 1970s, there are no comparable examples of price controls in any other sector of the American economy. Yet, for some reason, policymakers have historically looked at rent as an acceptable service to enact a price control. By comparison, while many in the country struggle to simply find a meal, policymakers have yet to consider price controls on this most basic human need. Government has also yet to propose a policy to restrict or cap the sales price of a home to make homeownership more affordable.

Arizona is not immune as to rent control legislation. In 2017, SB1358 was introduced in effort to reverse the state preemption on rent control. Fortunately, the bill was defeated. Most recently California and Oregon have enacted rent control policies. These newly enacted Rent Control laws may appear on their surface as a more amenable version of the 1970's-era Rent Control policies that set hard limits on rent increases. However, most economists still agree that, just like older versions of Rent Control, these "modern" Rent Control policies have the effect of increasing housing demand because of a reduction in the future supply.

If price controls, even ones that are advertised as being more reasonable or better suited to adjust to market conditions, didn't have such adverse effects on the economy, then there would be no reason to not implement these policies on all good and services across every industry.

***"The analysis of rent control is among the best understood issues in all of economics...a ceiling on rents reduces the quality and quantity of housing. Almost every freshman level textbook contains a case study on rent control, using its known adverse side effects to illustrate the principles of supply and demand."** -Paul Krugman, columnist with the New York Times and a Nobel Prize-winning economist*

Meeting Arizona's Housing Demand

ARIZONA APARTMENT INDUSTRY BY THE NUMBERS

37% of households are renters

763.8k apartment residents

926k rental homes

559.1k apartment homes

ARIZONA NEEDS 236K NEW APARTMENT HOMES BY 2030 TO MEET DEMAND AND CONTROL THE COST OF HOUSING

Meeting the state's demand for apartments will take courageous steps at the federal, state and local levels of government.

HIGHLIGHTS

- Economists overwhelmingly agree that Rent Control is inefficient, counterproductive and leads to long-term underproduction of new housing units.
- When competitors agree to raise or lower prices, government calls it “Price Fixing” and it is a violation of federal anti-trust laws. However, when the government requires competitors to raise or lower prices, government calls it “Price Controls” and it is legal.
- Rent Control discourages the investment and development of new rental housing which is crucial to restoring the balance between supply and demand in local housing markets.
- With limited ability to recover operational costs, owners are forced to postpone or reduce investment in maintenance and improvements to rent-controlled properties.
- To preserve the quality and value of their properties, owners may convert rent-controlled units to condominiums, short-term vacation rentals, housing not subject to rent control or demolish or repurpose the buildings altogether.
- With no ability to earn a profit on their investment, developers are incentivized to take their dollars to other, non-rent-controlled communities.
- Rent control reduces tax revenue as the assessed value of rent controlled properties decline and with it the property taxes they generate ultimately impacting schools, public safety and other critical services.
- Rent Control does not focus on those most in need of assistance, instead it gives everyone the perceived benefit of a government-imposed price control.

Price Fixing vs Price (Rent) Control

One is illegal, the other is not...

According to the Federal Trade Commission, *Price Fixing* is “an agreement (written, verbal, or inferred from conduct) among competitors that raises, lowers, or stabilizes prices or competitive terms. When consumers make choices about what products and services to buy, they expect that the price has been determined freely on the basis of supply and demand, not by an agreement among competitors. When competitors agree to restrict competition, the result is often higher prices. Accordingly, price fixing is a major concern of government antitrust enforcement.”

So while government makes it illegal for businesses to “fix” their prices, there is no legal protection against similar government-imposed price fixing, such as Rent Control.

ALTERNATIVES TO RENT CONTROL

Instead of rent control, policymakers should be focused on attracting more multi-family housing to be built, including affordable and workforce housing, translating to lower prices through increased supply, while delivering needed units to keep pace with soaring demand. A 2017 analysis forecasted demand for 236,000 new apartments in Arizona by 2030 to keep pace with the anticipated need.

- Encourage the production of new affordable housing projects to increase the supply of housing options.
- Create or expand statewide Voucher programs or rental assistance programs without the bureaucracy of HUD Housing Choice Vouchers/Section 8.
- Create new state and local incentives to increase the production of affordable housing options.
- Reinstate ongoing funding of the Arizona Housing Trust Fund to the pre-Great Recession levels.
- Eliminate local barriers such as land use restrictions, design guidelines and discretionary review processes to encourage new housing investments.