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A Book Review

# On Rent Control

Neal R. Peirce

**R**ENT CONTROL, once the foolishness of New York City alone, has been creeping to other cities across the country. Mounting evidence suggests that this regulatory device, designed to save tenants from "rent gouging" by rapacious landlords, is in fact a progressive disease leading to urban decay.

A few communities have tried to undo rent control ordinances adopted earlier in this decade. Last year, the Florida legislature dealt a death blow to Miami Beach's two-year experiment in rent control—in fact, it prohibited any Florida municipality from enacting a rent control law. And in Montgomery County, Maryland, the council ended its seven-year program after one of the bitterest disputes in its history.

But in many other areas, politicians continue to find rent control an easy answer to tenant voters angry over high-priced and scarce housing. New York City and Washington, D.C., have extended major portions of their programs for four years. Rent control now exists in 105 New York and 80 New Jersey municipalities, as well as in Baltimore, two Maryland counties, several Massachusetts communities, and various localities in Connecticut and Alaska. In the past year alone, the idea has been debated in such widely scattered cities as Los Angeles, San Francisco, Seattle, Ann Arbor, and Santa Barbara. Every time it comes up in a major metropolis, the surrounding communities also begin to consider it.

Yet it is becoming increasingly evident that rent control, however well intentioned, distorts relationships between housing needs and costs,

diminishes the housing supply for middle- and low-income tenants, and contributes to housing deterioration and abandonment.

Opponents of rent control programs agree there may be special circumstances—wartime in particular—when placing a lid on rents is essential. The grave error lies in bowing to political pressure and continuing the program when the emergency is over. At that time landlord groups may try to get it repealed, but with so many more tenants concerned about next month's rent, "it's political suicide to repeal it locally," says a Miami Beach city councilman. (The same official told me he was delighted the Florida legislature had relieved Miami Beach of the rent control albatross—but that he would never dare to say so publicly.)

A new independent study provides more solid evidence that rent control produces some of the bitterest fruits of government regulation. Controls can keep rents down, but at a price—argue Washington lawyers Joel F. Brenner and Herbert M. Franklin in *Rent Control in North America and Four European Countries* (Council for International Urban Liaison/Potomac Institute, 1977). "Rent control," they say, "is likely to have detrimental effects on the supply and maintenance of rental housing as great as any of the benefits to be gained, particularly for low income tenants."

When landlords cannot charge rents high enough to cover fixed costs and provide a reasonable profit, Brenner and Franklin conclude, maintenance and repair are reduced to the barest essentials. The result: deteriorating housing and neighborhood blight. In addition, the two lawyers report, rent control:

- May worsen housing shortages by discouraging private investment in new units and encouraging present owners to convert rental buildings into condominiums or cooperatives—or, in the worst situations, abandon them.

- Decreases a city's tax revenues—and thus its capacity to provide quality parks, schools, and other services—because the taxable value of apartment buildings is based on rent receipts.

- Places the burden for housing the poor on only a few jurisdictions in a metropolitan area. The political pressures for control are likely to be greater in the financially distraught center cities and older satellite areas than in the affluent suburbs.

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- Helps many affluent tenants who have little or no need for protection, while sometimes missing poor people who live in smaller buildings that escape the regulatory net.

- Keeps difficult-to-find large apartments out of the hands of growing families because older tenants are encouraged to remain in units much larger than they need.

A theoretical case can be made for rent control, Brenner and Franklin note: Housing is a basic necessity. In inflationary times a tenant can trim some parts of his budget but cannot refuse to pay the rent. One can argue that housing is a public good whose price should be regulated the same as any public utility. And rent control prevents landlords from reaping excess profits when housing is scarce.

The problem with the rapacious landlord argument is that the rate of return in the rental housing industry is not high. Indeed, it is so low in many cities that owners are abandoning their properties. When John Lindsay became mayor of New York, former U.S. Representative Herman Badillo (now New York's deputy mayor) once said, "he used to boast he was getting after the slum landlords" to make repairs; but by the end of his term, Lindsay was "thankful when he could find a slumlord."

Despite rent control's popularity in the United States in recent years, this country has had relatively little experience with the system. Therefore Brenner and Franklin turned to four Western European nations—the Netherlands, West Germany, France, and Britain—to study the long-term effects.

All four countries studied—and many others in Europe—have had rent controls at least since World War II. After the war, Brenner and Franklin report, many European countries decided they could not or would not rely on the private sector to provide housing for low- or moderate-income people. These governments developed comprehensive housing programs, placing the pre-war housing stock under rent control and either building rental housing themselves or subsidizing private developers. The result: new investment in private, unsubsidized rental housing below the luxury level is essentially nonexistent in Europe, and in some countries the private sector is now only a residual supplier of rental housing.

Most countries have since tried at least to raise rents, if not eliminate controls. The

French exempted new construction from rent controls in 1948 and are now slowly decontrolling the pre-war stock. The West Germans have eliminated rent control in the usual sense and substituted a system under which rents are regulated only after the landlord and tenant make an initial contract. The Dutch have eliminated rent controls in the less populous parts of the country.

Perhaps the clearest indictment of rent control in the United States is the refusal of the federal Department of Housing and Urban Development—in buildings it has insured or subsidized—to abide by local rent control. HUD preempts local controls to preserve its "economic interest," and the courts have upheld the department. That means developers with federally insured mortgages can use the federal government as a lever to raise rents, leaving developers with conventional financing to fight on their own.

Housing assistance for low- and moderate-income Americans is unquestionably necessary in the current U.S. economy. It is likely that it will be some time before the supply of rental units catches up with demand in today's world of sky-high interest rates. If the economic picture brightens, however, the housing outlook for low-income people may brighten far more rapidly in cities without rent control, as the private market builds more units for the more affluent, who, in turn, move out of adequate housing that then "trickles down" to the working classes. There is also some hope for needy families in the federal government's so-called Section 8 program, which pays the difference between 25 percent of family income and what is considered the fair rent for the housing in question. The program assures builders and landlords steady rent and lets them increase rents to cope with inflation.

FROM THEIR comprehensive study and objective analysis of experience with rent control in Europe, the United States, and Canada, Brenner and Franklin draw a crystal clear message: Rent control prevents expansion of the housing stock and, in so doing, hurts both investors and renters. Those localities with rent control should phase out the programs as quickly as possible. Those who have not yet ventured down the primrose path of controls would do well never to start. ■