

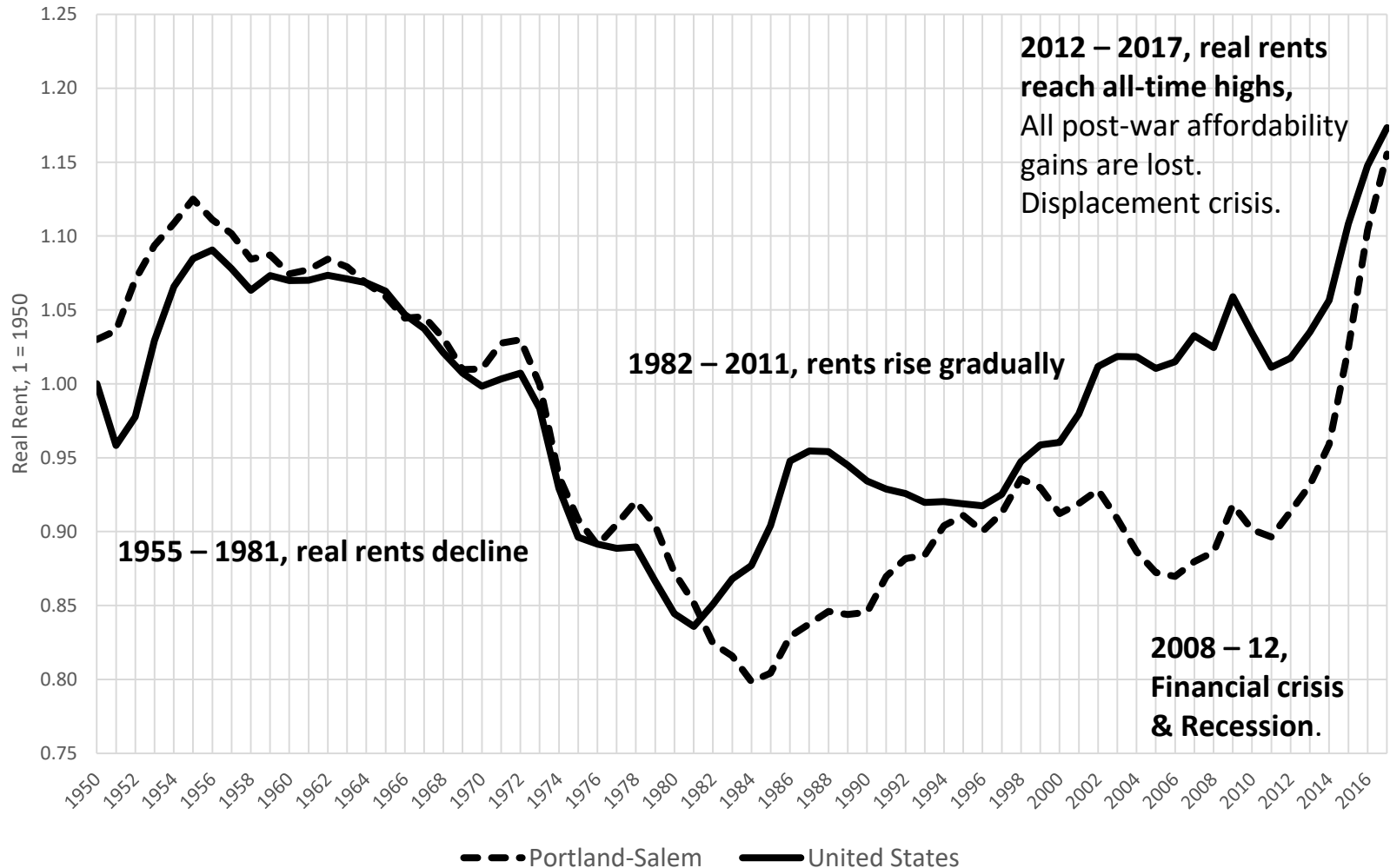
1. Why the Rental Housing Market Fails to Meet Demand
2. Benefits of Rent Stabilization and Response to Concerns

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# Real Rent, U.S. Cities & Portland-Salem Metropolitan Area, 1950 -2017

Real Rent = constant dollars, constant quality (Increase in CPI Rent/Increase in CPI All Items Less Shelter)



# Market Failure in Production of New Rental Housing – Supply Side

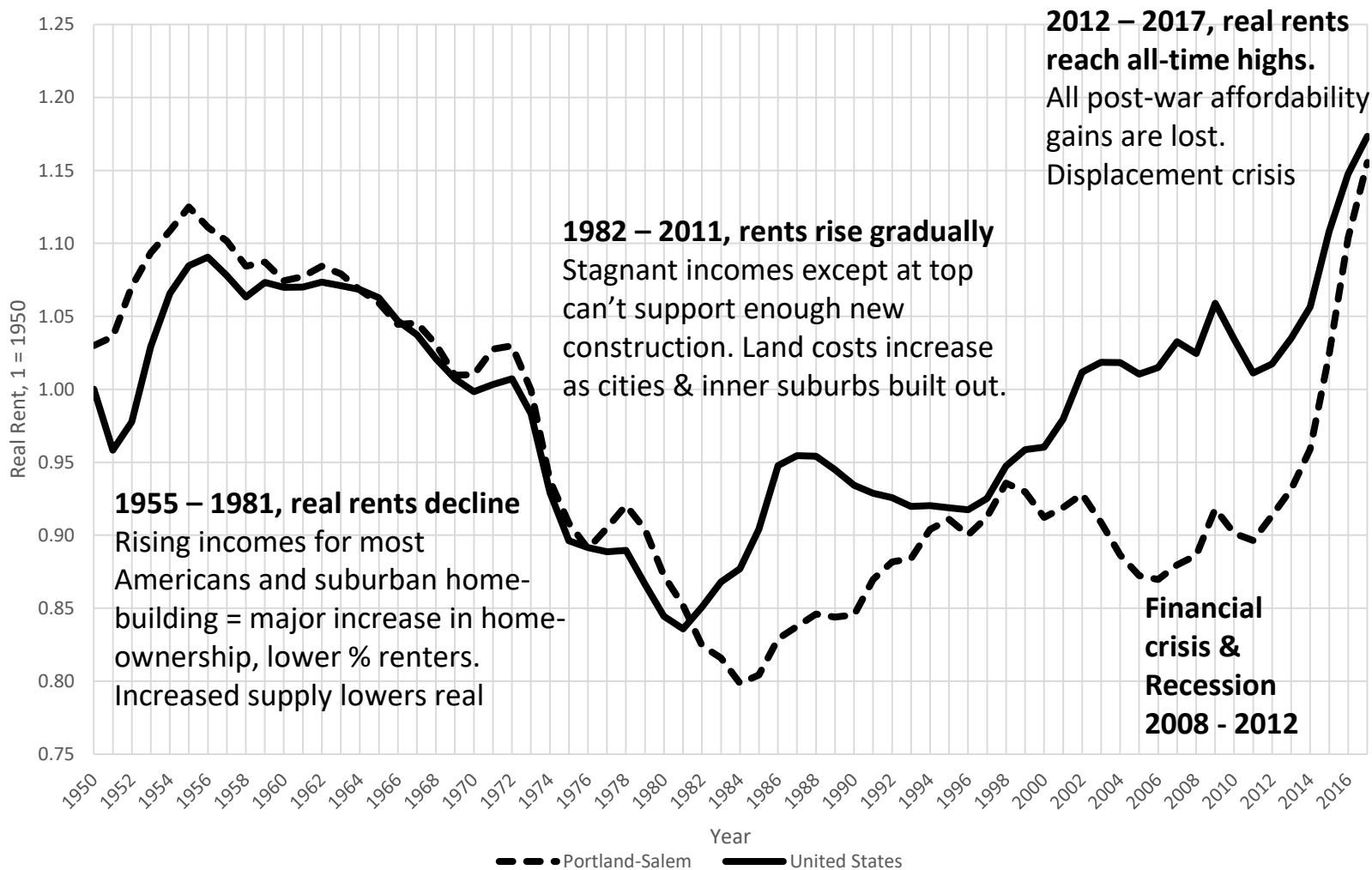
- New construction adds less than 1% annually
- Restrictive land use regulations
  - Exclusionary single-family zoning
- In-fill development is more expensive
  - Land costs more – purchase & clear existing buildings
  - Higher density has higher construction costs
  - Requires higher construction skills
- Shortage of skilled construction workers
- Insufficient public infrastructure funding

# Market Failure in Production of New Rental Housing – Demand Side

- New rental housing is built for higher-income tenants who pay rents high enough to pay off costs of construction.
- Most tenants can't afford new housing. They live in older housing where costs of construction paid off long ago – “filtering down” process.
- Increasing need at all income levels, but rent increases in older housing do not result in production of additional older housing.
- No market mechanism links production of new housing to need for older housing.
- *The market tends to under-supply additional rental housing*

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# Benefits of Proposed Rent Stabilization Law

- Modest protection for tenants
  - Rent increases limited to CPI + 7% annually
  - Good cause for eviction
- Slow displacement, give more time to find other housing in same community
  - Major health and mental health effects from forced displacement
  - Difficulties for schools, community stability
- Reduce speculation
  - Investors have range of strategies: maximize current rents or use lower rents to keep stable tenancies
  - When “stability” investor sells, new owner may change strategy
  - Attracts short-term investors who purchase to raise rents, reduce maintenance, increase NOI and sell quickly

# Response to Concerns

- Rent Stabilization will not discourage new construction
  - 15 year exemption, most developer projections go 10 – 15 years and project rents increasing only slightly above the rate of inflation.
  - Studies find no effect on new construction from even much stronger rent regulations in New Jersey, California
- Rent Stabilization will not discourage major renovations
  - Landlords typically take out additional mortgage financing and amortize the cost over 10 to 20 years
  - Typical seismic work will be covered with the 7% over inflation, most expensive work may take 2 increases