

CITIZENS BUDGET COMMISSION

1 Penn Plaza * Suite 640 * New York, NY 10119

Contact: Carol Kellermann Charles Brecher
212-279-2605, ext. 322 212-279-2605, ext. 315

CBC ISSUES REPORT ON RENT REGULATION IN NEW YORK CITY

Report Finds That Current Rent Regulation Is Poorly Targeted, and Not Effective in Providing Affordable Housing for Many Low-Income Households

New York, NY – June 2, 2010 – The Citizens Budget Commission (CBC) today released a report on rent regulation in New York City, a system that governs more than one million housing units representing more than half the City’s private rental market and one-third of the total housing stock. The scale of New York City’s regulation is unique among American cities and is highly controversial. The Commission prepared this report, *Rent Regulation: Beyond the Rhetoric*, to inform the debate over proposed changes in rent regulation and to get beyond the rhetoric that frequently characterizes discussion on this topic. The report addresses two questions:

- Who benefits from rent regulation?
- How valid are the criticisms made of rent regulation?

With respect to the first question, the report finds:

- *Rent regulation reduces rents for most affected units to levels significantly below that for comparable unregulated units, but these benefits are not well targeted.* Based on 2008 data, the average discount provided by rent regulation is about 31 percent or an average rent reduction of about \$5,500 annually per housing unit. These discounts are not well targeted to low- and moderate-income households. The highest-income households receive the largest average benefit, a discount about one-third greater than that for moderate-income households. Only about 60 percent of benefits accrue to households with incomes below \$50,000, and 14 percent go to households with incomes of \$100,000 or more. Moreover, the benefits are greatest for households in Manhattan, whose average discount is more than four times that of households in the Bronx.
- *Not all households in regulated housing benefit.* For nearly 30 percent the regulated rent is close to—or even higher than—the rent for comparable unregulated units, so there is little or no benefit from regulation. In the Bronx this figure is 42 percent, while in Manhattan it is 17 percent.
- *Despite rent regulation rent burdens remain “unaffordable” for most low-income households.* A common rule of thumb is that rental housing is affordable when rent is 30 percent or less of household income. By this definition in 2008 citywide about 54 percent of the households in

regulated units had affordable housing and about 52 percent of households in private, unregulated rental units had affordable housing. Among all households living in private sector rental units with incomes below \$35,000 annually citywide, only about 10 percent had affordable housing.

With respect to the frequently raised criticisms of rent regulation, the report finds one not backed by substantial evidence and four others to be valid:

- *Rent regulation is not a major cause of the low rate of new housing construction in New York City.* There is little evidence to support this criticism. The counter-evidence includes the facts that new construction is exempt from regulation unless owners opt for it in exchange for subsidies and that new construction rates are relatively low in New York City for owner as well as rental housing.
- *Regulation placed on a large part of the private rental stock raises rents for housing in the unregulated part of the market.* Removing a large part of the housing stock from market competition makes the competition tighter and rents higher in the part of the housing stock that is unregulated. About 669,000 households in 2008 in unregulated units paid a total of about \$1.9 billion, or an average of about \$2,800 per household per year, more in rent than would be the case if all units were deregulated.
- *Rent regulation decreases the City of New York's property tax revenue.* The lower rents attributable to rent regulation decrease property values and property tax liability. The estimated net property tax liability for private rental housing would increase by about \$283 million annually if no housing were subject to rent regulation.
- *Rent regulation leads to housing that is less well maintained.* The condition of housing as measured by the number of deficiencies (such as toilet or heating breakdowns and conditions of walls and floors) reported both by tenants and by Census field agents is worse in regulated than unregulated units, and this remains true even after adjustment for the age of the units.
- *Rent regulation causes "distortions" in patterns of housing consumption.* Because they benefit from significant discounts in their rent, tenants in regulated housing tend to stay in those units even when their housing needs or preferences change. Two types of distortions are evident. First, tenants in the relatively small (about 40,000) number of units subject to rent control, an older form of regulation, tend to over-consume housing by staying in large units after their family size declines; second, tenants in the far larger number of units subject to rent stabilization tend to under-consume, presumably staying in smaller units in order to benefit from the discount from regulation.

Recommendations

The report recommends policy changes to retain the benefits of regulation for low- and moderate-income households, reduce the adverse impacts of regulation, and expand and enhance the policy tools available to promote affordable housing:

- *The benefits of rent regulation now available to low- and moderate-income households should not be reduced, but they can be phased out for higher-income households.* Currently, high-income households lose rent protection only if their rent reaches \$2,000 per month. New legislation should phase out benefits for all high-income households. Regulation of units occupied by such households provides protection to those who do not need it, lowers property tax revenues for the City,

and does nothing to help provide low- and moderate-income households find and retain affordable housing.

- *The long-term contraction in the scope of rent regulation should be accompanied by expansion of other more effective programs to promote affordable housing.* The guiding principles for these initiatives should be to focus on keeping rent-income ratios for low- and moderate-income households below a threshold of about 30 percent, to rely primarily on competitive markets to set prices for housing, and to maximize reliance on federal funding rather than local funding for subsidies to lower-income households.

The goal of affordable housing cannot be achieved easily in New York City. The current gap between affordable rents and actual rents is enormous. Adequate federal funding to close the gap is not a realistic prospect. Therefore, for the foreseeable future, the role of state and local government should be to evaluate the efficiency and effectiveness of existing affordable housing programs and other policies such as zoning that affect housing investment, to experiment with additional programmatic models, and to expand their financial commitment as economic and fiscal conditions improve.

“The debate about rent regulation has historically been one based more on emotion than fact,” said CBC President Carol Kellermann. “It’s time to focus on the facts, and they show that rent regulation is poorly targeted. It doesn’t provide many low-income families with the help that they need.”

A full copy of the report is available at www.cbcny.org.

For further information, contact Kevin Medina at 212-279-2605 x342.

Founded in 1932, the Citizens Budget Commission is a nonpartisan, nonprofit civic organization devoted to influencing constructive change in the finances and services of New York City and New York State governments.