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Transcript

The Hidden Costs of Rent Control

Jim Lapides:

Orange County, the home of Orlando, spent tens of thousands of dollars to bring in consultants to say, "Hey, help us study this housing affordability challenge we have here in central Florida. What should we do about it?" And the consultants said, "There's this huge imbalance between supply and demand. And if you're thinking about rent control, it's actually a terrible idea. It'll make the problem worse. You shouldn't do it." What does the commission decide to do? They say, "Hey, let's go pursue rent control anyway, even though we think it's a bad idea."

Kevin Cameron:

Welcome back to Code 53, the Apartment Podcast. I'm Kevin Cameron with NMHC, and I'm joined as always by my co-host, Alison Johnson.

Alison Johnson:

On this show, we bring you into conversation with apartment industry executives, leading experts in the multi-family sector, and a diverse group of practitioners.

Kevin Cameron:

To help you learn everything it takes to create communities, from business strategy, to design, to finance and leadership.

Alison Johnson:

And today on Code 53, we're tackling the topic of rent control and we're investigating why a failed policy proven to reduce housing supply and negatively impact the low income households it aims to support, continues to proliferate in state houses and city halls across the country, compounding complex housing affordability and accessibility challenges.

Kevin Cameron:

The harsh and preventable realities of rent control policy and the role multifamily developers can play in promoting better solutions, coming right up.

Announcer:

The Code 53 podcast is brought to you by NMHC, the National Multi-Family Housing Council, the place where the leaders of the apartment industry come together to guide their future success. From owners to managers and developers, NMHC's members create thriving communities by providing apartment homes for 40 million people, contributing \$3.4 trillion annually to our nation's economy.

Alison Johnson:

I think any useful discussion of rent control has to begin with a refresher on how we got here.

Kevin Cameron:

Absolutely, Alison. Rent control is nothing new. It started after World War II and has been commonplace in communities since then. The effects have been studied for generations and show that rather than improving the availability of affordable housing, rent control laws exacerbate shortages, cause existing buildings to deteriorate and disproportionately benefit higher income households. Forbes Magazine contributors even listed rent control as one of the 10 worst economic ideas of the 20th century. And yet, new rent control proposals are proposed by the policy makers every year.

Alison Johnson:

What you're saying here is that rent control is a political response to public sentiments around housing, not an economic one. There are facts and a lot of nuance to this issue, which is why we are lucky to have the NMHC expert on the past, present, and future of rent control with us on the show today. Jim Lapides is NMHC's Vice President of Advocacy and Strategic Communications, and he joins us today from Washington DC. Jim, welcome to the Code 53 Podcast.

Jim Lapides:

Thank you guys so much for having me. It's a real privilege to be on the show with you both.

Kevin Cameron:

All right, Jim, get us all up to speed on rent control. Walk us through what is happening in communities and why this failed policy is increasingly under consideration by cities year in and year out.

Jim Lapidès:

Well, I think the first and foremost thing we all need to recognize is that there is a significant housing affordability challenge around the country. Families are struggling to make their payments, and with the inflation and rising costs around the country, that's only put tremendous pressure on people around the country. We have this huge challenge and cities and states are trying to figure out, what can we do to address this? And their challenge is that they have very few levers that they can pull to help locally. They don't have the funds to provide universal housing vouchers for people. They really only have a few levers, the main one being providing things like tax incentives. And so they look at something like rent control, which is politically popular, it doesn't "cost anything," and they're able to fix a problem right away or at least say they are.

Jim Lapidès:

And it gets them reelected because the bottom line is that politicians feel tremendous pressure from their constituents to deal with this challenge. And rent control is an easy, fast, and potentially free solution for policy makers. But unfortunately, as we all know, nothing could be further from the truth. But it's such an easy option for folks to consider, that they want to just jump into it right away. And that's our big challenge is that it feels good. It feels like something they can do right away, but it doesn't address the root cause of the challenges that cities and our country is facing right now.

Alison Johnson:

Jim, you've painted a picture where community leaders are feeling pressured to deliver results sooner than the market can really do so. We know that it takes years to build a multi-family community. Many developments don't make it to occupancy for at least five years, in some cases. Our audience appreciates the seriousness of the housing supply problem in America today, and I'm sure many of them are working on projects or pursuing development projects in communities that would address the housing shortage, in many communities that are considering rent control. If we know rent control isn't the answer, what are some practical alternatives that could help move the needle and improve housing affordability in the communities that need it the most?

Jim Lapidès:

Well, Alison, I think you touched on a real key point here is that there's a tremendous shortage of homes of all types for people around the country. In fact, we just commissioned a study with the National Apartment Association that showed that there's a shortage today of 600,000 apartment homes, and that's a result of under building from the Great Recession. And there are a variety of other studies that show that there are 4 million plus home shortage around the

country. And that of course is going to make prices go up in places where you have high demand. What can people do about it? Well, we have to address the supply shortage. And Alison, you're right, it's going to take some time, but there are a lot of tools in the toolbox for people that they can do today. There is a low income housing tax credit, so let's talk to the federal side for a second.

Jim Lapidès:

You have things like the Low Income Housing Tax Credit, which is a critical tool to help develop truly affordable housing around the country. And I think we're also hearing from the Biden administration that we need to make it easier to build. We need to remove these regulations that exist around the country. We did a study with the National Association of Home Builders, have found that more than 40% of all new development costs are strictly from regulations alone. That's not to say that all regulations are bad, but you certainly need to look at are there duplications, other things that are unnecessary? Because that results in one of two things happening, either only a certain kind of price point for a project can get built or nothing get built at all, which only exacerbates the problem that you're trying to solve. We really got to find clever and creative ways to build more supply.

Jim Lapidès:

Things like reducing parking requirements, providing zoning relief, providing regulatory relief. And in fact, I would encourage everyone who is interested in finding housing policy solutions to visit housingtoolkits.nmhc.org, where we have a robust set of tools that any locality can apply to help address this tremendous supply shortage that they're facing and the communities are facing around the country.

Jim Lapidès:

But Alison, you're right, that is a long term solution and it's been a long term in the making. What can we do today, that's an alternative to rent control? Well, I think if there's anything that the pandemic taught us is that if you provide assistance to people who need it, it works. There were these dire predictions of a tremendous tsunami of evictions that was going to take place during the pandemic, but we were able to help people who had this temporary financial hardship and we didn't face a crisis at all.

Jim Lapidès:

And so I think providing direct assistance to people is a critical tool that the federal government in particular needs to take the lead on. We at NMHC are quite vocal in terms of fully funding the Housing Choice Voucher Program with some improvements so that everyone who needs access to a voucher, you can get it. There's a huge shortage of these vouchers around the country and

that's putting tremendous pressure on cities to act. Moreover, sometimes, you have a medical bill or a car issue, you have a temporary financial challenge and there needs to be funds to help people get over these temporary challenges so they can get back on their feet. And NMHC is a big supporter of that as well. If you are able to put assistance in the hands of people who need it, combined with this long term addressing the housing supply shortage, that's how we get there.

Jim Lapides:

The hard part is finding the political will to do so because unfortunately we have things like nimbyism that we have to combat. We have people pushing back on the whole concept of development that they think that's just greedy developers that are out there trying to get rich, when all they want to do is provide housing for folks. There's these huge challenges out there, but the bottom line is that it's a two step process.

Jim Lapides:

First, we need to address the supply shortage. If we don't work on that, we'll never get there. And two, we need to help people today who are facing financial hardships to get them on their feet and help get it to that point where we've reached that supply equilibrium. And I think a third point that I also want to make here too is that a lot of people talk about rent control as a tool of protecting residents, so it's not just about housing affordability, but what can we do to help ensure that they're not facing unnecessary hardships? Well, I want to quote the economist, Jenny Shroeder from the Brookings Institute who says, "The best tenant protection is an abundance of housing." If we can provide enough housing options for people that they can find a place that they need, that is their best protection. And fortunately, that is not the situation in most places around the country.

Kevin Cameron:

Yeah, Jim, This is something that NMHC has been advocating for, for decades at this point, talking about the need to address the housing shortage on the supply side of things, looking at how it's simple economic supply and demand, building more housing to combat the demand of housing out there. And I think you touched upon kind of what's going on at the federal levels, and we can talk about what happened state and locally in a second. But I think for the first time at the federal level, you're kind of hearing an acknowledgement from the Biden administration that we do need to do some work on the supply side of things and investing in more housing, whether it be more funding for the low income housing tax credit or Section 8 housing choice vouchers. Do you think that that federal recognition from the Biden administration and Congress may trickle down?

Jim Lapides:

That's a great question. And the hope is that it does. And in fact, a lot of what the Biden administration is talking about and proposing is really on the local level, mostly providing carrots. They don't have a lot of sticks that they are willing to use at the moment because the challenge really is, as you said, Kevin, is at the local level. All real estate is local, it all happens at the city level, really at the block level. And what the Biden administration, I think we would like to see them do is try to find some sticks to go with those carrots to really encourage some of these municipalities to enact, because the real challenge is that the communities that are well off, the places where there are great jobs are often the hardest places to build. And moreover, because they're already well resourced, they don't even want the funds, they don't need them, they don't need to build a community, they're very happy to keep it exactly the way it is today with zero changes whatsoever.

Jim Lapides:

What can the Biden administration do, or what can a state do? And I think what's interesting is what's taking place in California right now. They passed a series of laws that are really going to hold some local cities' feet to the fire so that they actually live up to their housing production goals. In California, for decades, each city has had to, in theory, produce a certain number of homes to keep up with their quota of housing a certain number of Californians, of which no city has ever, ever, ever met that quota. But the challenge is that no one has ever held cities accountable for not building homes. Well, that's changing. And I think California hopefully will provide a model to other states where you see so much nimbyism, so much fighting against development, so much pushback against just even basic rezoning, that something has to give.

Jim Lapides:

And I think in California, it's beginning to give. Now only time will tell in terms of how effective those are in terms of the implementation. But we're already seeing the state go after the most notorious nimby enclave of all, San Francisco. And it's going to be a very interesting fight to watch. I am quite looking forward to see how this interaction between the state and the city works because usually states are loathed to get involved at this type of politics because it's, as any developer knows, go to a city council meeting, and it is not for the faint of heart. The hope there is that I think we'll see this trend coming from California, hopefully move around the country where unfortunately you have to see more state level action to get involved in what has typically been a very, very local issue in terms of zoning and housing construction.

Kevin Cameron:

Yeah, that's such a great segue. You have all of these practical solutions that you just before the stuff that the Biden administration is doing, what California is doing to help move the needle on this. Yet you still have so many localities in states that are looking at rent control as the solution of choice. Let's belabor that point of how bad of a policy rent control can actually be for a

community, because there are some interesting case studies as of late that really drive that point home. Let's talk about some of those, maybe starting with our friends in Minnesota.

Jim Lapides:

To kind of frame the discussion a little bit, we've always known that rent control as a complete disincentive to invest in housing. And there's been numerous research that shows that the more rent control is enacted, the less housing is available, the lower quality of the housing that is available is there for folks. And it just results in making the very problem worse. And in fact, we've done a couple studies through NMHC, one finding that 60% of our member firms were already actively reducing investments in rent controlled markets, and another 15% were considering reducing their investments in these rent controlled markets. And then another study with the National Association of Home Builders found that 87.5% of builders were actively avoiding rent controlled markets. This has been nothing new, this is just the latest data that confirms that people like to avoid these regulations because they make housing difficult, if not impossible.

Jim Lapides:

Knowing that going in, St. Paul decided to pass what I believe is the most restrictive rent control regulation in modern American history, which is a flat 3% cap on all housing, no exception for new construction type of homes or even vacancy. And what you saw there was new construction permits plummeted by more than 80%, just immediately. And I think what was really telling about that market and about housing in general is that typically housing policy takes years, if not decades, to see the results. And here in St. Paul, you saw a complete immediate whiplash reaction to what is truly a terrible policy. And what had led to you was the local leaders had to scramble to try to fix this. And what they've done is changed almost every aspect of this rent control law in order to try to make it work. And even then, developers are still very weary.

Jim Lapides:

They're still split, maybe 50/50, they're considering whether to still pursue this market or not. Because developers and their capital are like water. They're going to flow to the path of least resistance. And if they're going to get resistance in St. Paul, then there are many other markets that they can pursue. And I have conversations with folks like this all the time because they want to know where is rent control happening and where is it not? And where do I feel safe making a long term investment? It's a really, really devastating regulatory regime that's taking place in St. Paul. And I think if there's one good thing that's come out of it is that it's led to such a backlash that Minneapolis, which is right next door, which is now considering pursuing a rent control regulation of its own, is definitely thinking twice about what type of policy are they going to implement.

Jim Lapidès:

And I think around the country people are going to reconsider what is that going to look like because it's been so terrible to the city. But I think the challenge is that, as we've been talking about, it still feels great for local politicians. They don't care about the history or whatever happens. They care about making a vocal part of their constituents happy and getting reelected. Unfortunately, I don't think the issue of St. Paul in seeing what a devastating impact it's been, is going to stop it from appearing in other parts around the country.

Alison Johnson:

Jim, you've outlined a really critical challenge to owners and operators of multifamily housing properties. In order to bring new supply online, they are having to push back on policies that have traditionally been outside of their interest. And so the question naturally rises, what can developers do now? How can they help in communicating with local policy officials, in communicating with local constituencies, or more importantly, in helping NMHC raise awareness about what other options are available to communities that want to address the housing affordability challenges in their community?

Jim Lapidès:

It's so important to be vocal because this is an issue that no one else is going to advocate on this except for our industry. And to give you an example of the political challenges that we face, let's talk about Florida for a second. Orange County, the home of Orlando, is also looking at pursuing a rent control policy. Now, keep in mind that despite all of the literature that shows that's terrible, we've talked about this. But more importantly, they commissioned a study. They spent tens of thousands of dollars to bring in consultants to say, "Hey, help us study this housing affordability challenge we have here in central Florida. What should we do about it?" And the consultants, doing all the homework that one should do said that, "Hey, there's this huge imbalance between supply and demand, so we need to figure out ways to add more housing to it. And by the way, if you're thinking about rent control, it's actually a terrible idea. It'll make the problem worse. You shouldn't do it."

Jim Lapidès:

What does the commission decide to do? They say, "Hey, let's go pursue rent control anyway, even though we think it's a bad idea." Why? Because they think it's a political winner. And this goes back to big picture rent control from a policy perspective, is perhaps the easiest policy that we can argue against. Rare do you see, is this a conservative or a liberal argument? It's literally decades of economists of all stripes talking about how terrible this is. But the politics are so bad, and that's why it's important for the industry to get involved. What I would encourage people to do is visit a resource that NMHC has developed, it's called Growing Homes Together.

Jim Lapidès:

If you're to go to growinghomestogether.org, we have tons of research and information and more importantly, how do you talk about this issue? How do you have productive conversations with policy makers on an issue that politically is a really difficult one? How do you bridge that gap? We put a tremendous amount of work into those resources. And also too, I would encourage you guys to be involved in NMHC. It's so important we're leading this, but also I would encourage you guys to be involved in your local chapter. Pay attention to what's going on, because no one else is going to advocate for this except for the industry, that's the bottom line. And if we don't show up, only the other side shows up and we get policies like what happened in St. Paul. You guys are our leaders and we need you there to be involved and I'm happy to work with anyone here on this issue. It is so important, perhaps the most important issue our industry is facing right now.

Kevin Cameron:

And it'll continue to be the quick and easy answer. I won't say it's the quick and easy solution. It's the quick and easy answer to give someone for local politicians.

Alison Johnson:

Yeah. And for you listeners out there, we will put in our script notes for this episode, all of the web links to the information products that Jim has mentioned, definitely make use of those. They are available to the public and we produce them to help you, so definitely take a look at those. Rediscovering the ugly truth about rent control comes at a serious cost to many communities who don't do their research. We know that there is no silver bullet to this issue, that communities that invest in themselves attract developers who are eager to do the same. That's how the multifamily marketplace can best address the supply demand imbalance and positively impact lower income households.

Kevin Cameron:

Jim Lapidès, NMHC, Vice President of Advocacy and Strategic Communications, thank you so much for joining us on Code 53 today, for walking us through this ever important and pressing issue.

Jim Lapidès:

Thank you guys so much for having me. It's a real honor and privilege to speak with you guys today.

Alison Johnson:

And thanks to everyone downloading and sharing this podcast. Coming up in our next episode, how decision makers in residential commercial real estate weigh the data when making CapX investments. Subscribe and meet us right back here on Code 53, the Apartment Podcast.