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Housing in New York City

The great Manhattan rip-off

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Rent controls, New York's particular bane, are poised to receive yet another unwelcome extension

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IT WAS one of many price controls brought in during the grim, panicky period between the attack on Pearl Harbour in 1941 and America's move to a full wartime economy in 1943. The housing market was seen as another thing that needed to be rationed or, at least, regulated—alongside rubber, petrol, coffee and shoes. By 1947 all these controls were phased out, except property-price regulations. Most cities have since scrapped these market distortions; the capital of capitalism has not.

Only one-third of New York City's 2m rental apartments are free of some kind of price restraint. A city board sets annual increases and administers an ever more complicated system. In some buildings, people live in similar apartments but pay wildly different levels of rent. In others, lone grandmothers sit in huge apartments, aware that moving would mean paying more for a smaller place elsewhere.

The oldest controls cover pre-1947 buildings (including any number of lovely houses on the city's most fashionable streets): these have average rents of $500 a month. A second tier, covered by rent stabilisation, rent for $760. Unregulated apartments cost an average of $850, but this number is deceptive, since it includes the worst buildings in the outer boroughs.

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On June 15th, 60 years after this “temporary” measure was introduced in New York City, rent control once again comes up for renewal by the state government in Albany. It will almost certainly pass. Back in 1997, the then free-market-friendly Republican state Senate and the then free-market-friendly state governor, George Pataki, tried to get rid of rent restraints, but ran into fierce resistance from the Democrat-controlled assembly. “What exactly is ‘homeland security' if your homes are not secure?” cried Sheldon Silver, the Assembly speaker, at a recent rally.

A compromise “reform”, won in 1997 against the odds, removed only 23,000 renters from a pool of almost 1m. The wretched 23,000, cruelly deprived of price controls, qualified for this punishment either by having income of more than $175,000 for two consecutive years and living in apartments whose rent was above $2,000 a month, or by moving into empty apartments costing more than $2,000 a month.

Buried in the 1997 agreement, however, was a detail that moved the next re-approval date to a time when no elections were due. If any time was right for debating the issue on economic rather than emotional grounds, it should be now.

In the intervening years, however, New York's politics have changed. A grinding recession and the sharp drop on Wall Street seem to have blunted state politicians' enthusiasm for market forces. The same governor and state Senate that fought for the cause in 1997 have lost their nerve. At best, they will keep the reforms won six years ago. Truly opening up New York's housing market is no longer on the table.

This is odd, because there is growing evidence that the transition from a strictly regulated to an unregulated market is less painful than people like Mr Silver make out. The most striking example has been in Cambridge, Massachusetts, where tight restrictions were lifted in 1994 after 23 years. A study by Henry Pollakowski, an economist at the MIT Centre for Real Estate, shows no dire consequences. Instead there has been a huge surge in housing investment, even allowing for the 1990s housing boom.

It is hard to find any economist who supports rent restraints. Price controls, even if laboriously tweaked, inevitably produce inefficiencies, reduce supply and cause bad side-effects. Black markets and bribery thrive. Building maintenance is often ignored. Landlords and tenants find themselves in poisonous relationships, since they are linked by law rather than by voluntarily renewable contracts. Unscrupulous property owners go to dangerous lengths to evict tenants in order to get higher-paying replacements; as a result, tenant-protection laws have been enacted that make it almost impossible to evict even a scoundrel.

Meanwhile, a vast bureaucracy has grown up to administer the price controls, supported by volunteers and litigators. The property owner who misses a filing deadline, or has his paperwork mislaid, can be blocked from even permissible rent increases. Given all this, most sane New Yorkers would rather eat their money than join the rentier class.

Oddly enough, for those landlords adept at navigating the system, returns are likely to be unaffected by price caps, as long as properties were acquired after they had been imposed and the potential for income is understood. Indeed, although the press depicts the fight over price restraints as tenants versus landlords, it is more accurate to see it as tenants paying a below-market rent versus tenants who, in effect, pay the cost of this subsidy, says Peter Salins, the provost of the State University of New York and co-author of a book on New York's housing market (“Scarcity by Design”, Harvard University Press, 1992).

Who, then, are the lucky tenants? According to another study by Mr Pollakowski, most benefits go to tenants in lower and mid-Manhattan, where the residents are relatively wealthy. The city's poorer folk, most of whom live in the outer boroughs, receive little or nothing. Perhaps the strongest argument offered by supporters of rent control is that it promotes stability; but, typically, long-term tenants in unregulated markets receive similar concessions, since it is in a property-owner's interest to retain dependable renters in his buildings.

Mr Salins says the members of the state legislature are well aware of all the basic arguments about the evil effects of price controls on the property market. They believe even more strongly, however, that voters do not like getting socked with rent increases. For New York's politicians, it is a time of small thoughts.