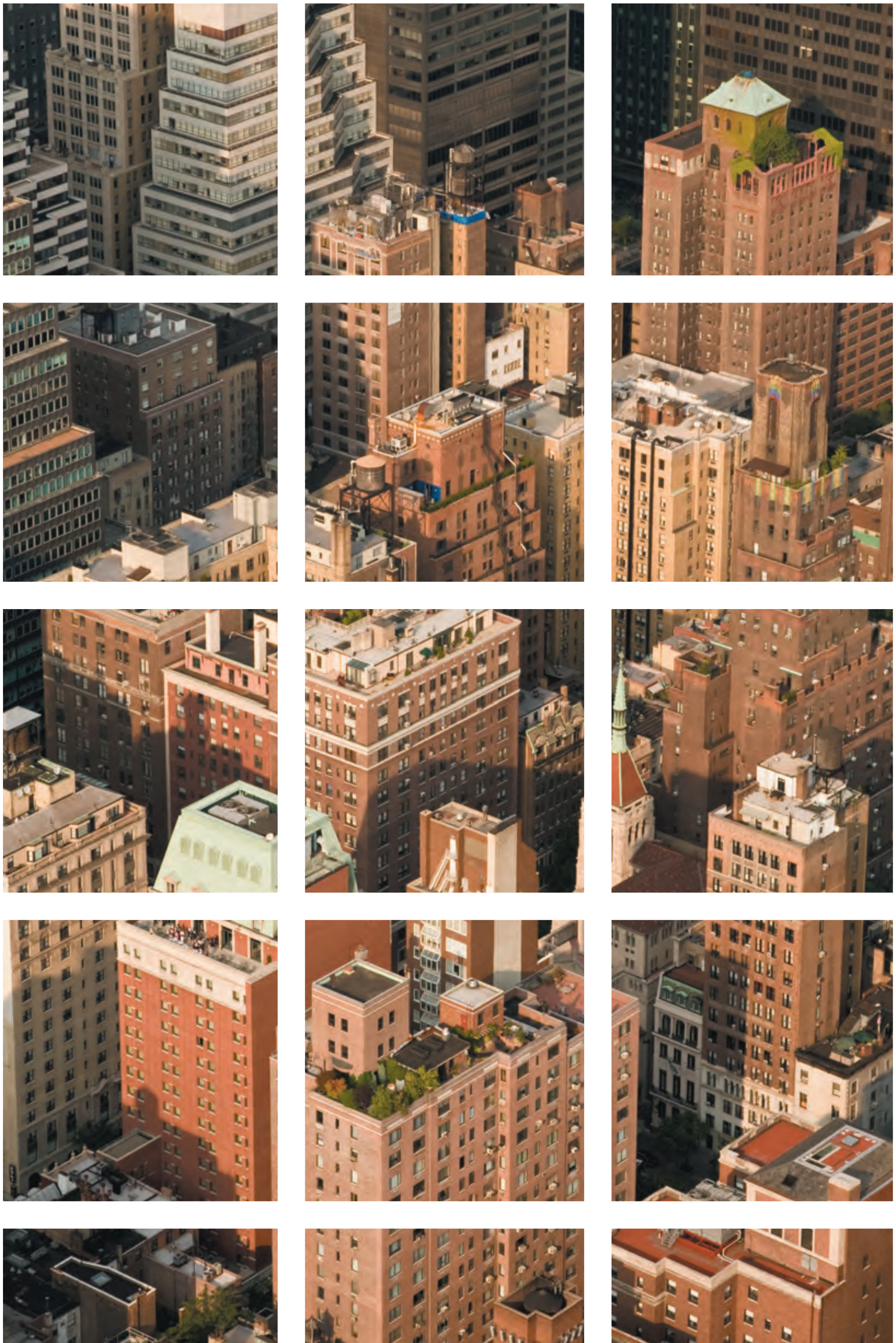
Rent Regulation: Beyond the Rhetoric

June 2010



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FOREWORD

Founded in 1932, the Citizens Budget Commission (CBC) is a nonprofit, nonpartisan civic organization devoted to influencing constructive change in the finances and services of New York State and New York City governments. A major activity of the Commission is conducting research on the financial and management practices of the State and the City.

All research by the CBC is overseen by a committee of its trustees. This report was completed under the auspices of the Rent Regulation Committee. We serve as co-chairs of that Committee. The other members of the Committee are Paul R. Alter, Charles Bendit, Les Bluestone, Lawrence B. Buttenwieser, Bud H. Gibbs, H. Dale Hemmerdinger, Robert N. Hoglund, Brian T. Horey, William Hubbard, Robinson Markel, Joyce Miller, Alair A. Townsend, W. James Tozer, Jr., Edward Wallace, Mark A. Willis, Emily Youssouf, and James L. Lipscomb, *ex officio*.

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The report was prepared by Elizabeth Roistacher, Professor of Economics at Queens College and The Graduate Center of the City University of New York, with research assistance from Tammy Pels, Senior Research Associate of the Citizens Budget Commission. Charles Brecher, Research Director of the Citizens Budget Commission, provided editorial and research guidance.

Walter L. Harris, Co-Chair
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EXECUTIVE SUMMARY

In New York City more than one million housing units, representing more than half the private rental market and one-third the total housing stock, are subject to rent regulation. This scale of regulation is unique among American cities and is highly controversial.

Proponents claim rent regulation protects affected tenants from otherwise likely excessive rent increases in New York's tight housing market and helps make housing affordable for low- and middle-income households who otherwise could not live in their own home in New York City. Critics claim the regulations give substantial benefits to upper-income households who could afford unregulated rents, cause rents to be higher among unregulated units than would otherwise be the case, encourage some families to stay in apartments longer than they otherwise would, curb construction of new housing, discourage landlords from properly maintaining regulated units, and lower property values of buildings with regulated units, thereby depriving the City of New York of property tax revenue.

Current rent regulations trace their origins to federal price controls imposed on the city's rental housing market in 1943 during World War II. The federal rules applied to housing built before February 1947. In 1951 New York State opted to assume the controls on the pre-1947 housing stock on grounds that the local housing market continued to experience a low vacancy rate. In 1969 rent regulation in a modified form (rent stabilization) was applied to housing built after 1946. The rules that applied to both older and newer housing have been altered several times since, with periods of full or partial vacancy decontrol and other modifications. Nevertheless, the justification for all rent regulation remains the tight local housing market. The legal basis for current rent regulations is the continuation of a vacancy rate of 5 percent or below as an indication of a housing "emergency."

In 1993 the State Legislature, which authorizes rent regulations, responded to the critics by allowing certain high-rent units to be deregulated. From 1994 through 2008 at least 190,000 units were removed from regulation, although additions to the regulated stock lowered the net decrease to about 118,000 units. In 2009 and 2010, in response to calls for expanded regulation, legislation was passed by the State Assembly to limit future deregulation and to restore to regulation most of the units deregulated since 1993. In May 2010, Governor David Paterson proposed raising the rent threshold for deregulation and extending regulation for eight years beyond its current expiration in 2011. Legislative deliberation on these proposals is underway.

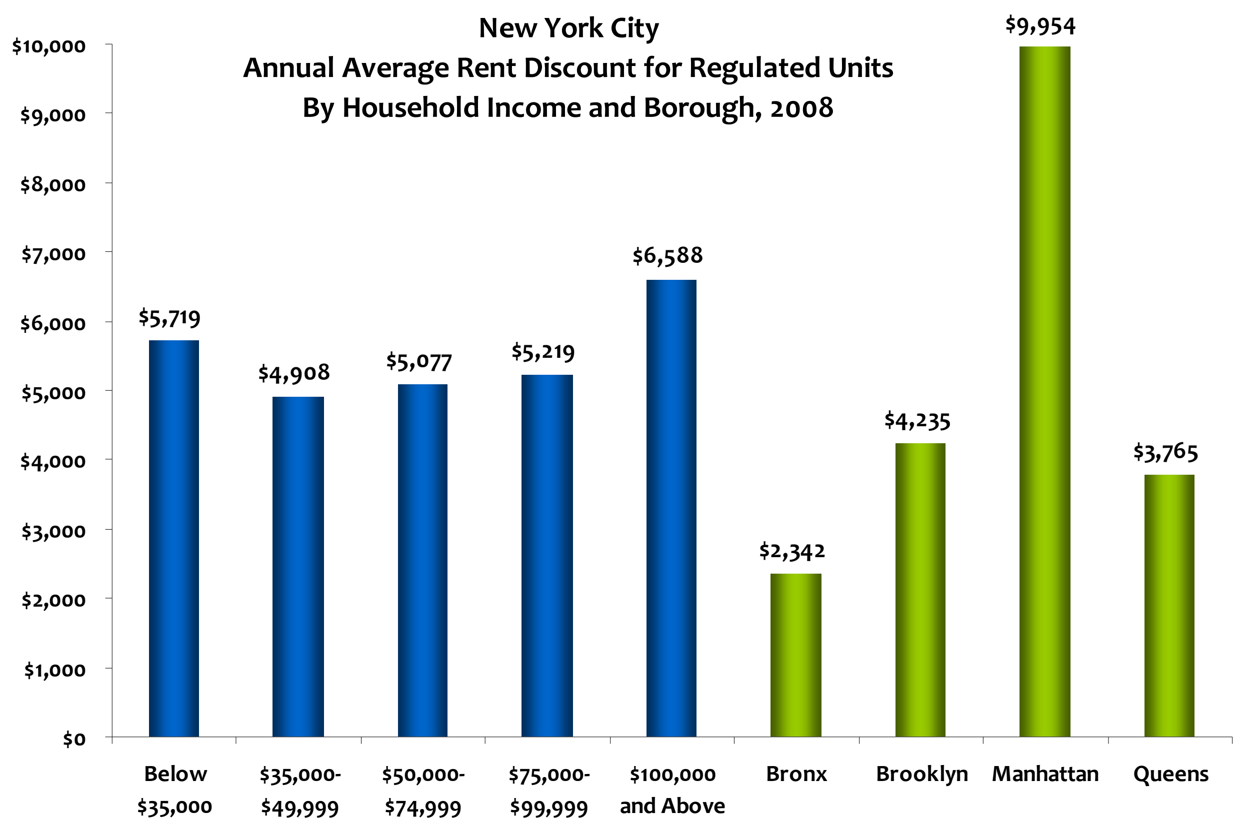
The Citizens Budget Commission (CBC) prepared this report to inform debates over changes in rent regulation. We have focused on the economic impacts of regulation and not on other social objectives, such as long-term continuity of family residence, which sometimes are offered as a justification of rent regulation. Based on the evidence, the CBC concludes that it would be counter-productive to expand the scope of rent regulation. Future modifications of rent regulations should be considered as part of a longer-term effort to reduce barriers to housing supply and to promote affordable housing in New York City.

Findings: Who Benefits from Rent Regulation?

1. *Rent regulation reduces rents for most affected units to levels significantly below that for comparable unregulated units, but these "discounts" are not well-targeted.* Based on 2008 data, the average discount provided by rent regulation is about 31 percent. This represented an average rent reduction of about $5,500 annually per housing unit.

   As shown in the chart below, 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. The benefits are greatest for households in Manhattan, whose average discount is more than four times that of households in the Bronx.

2. *Not all households in regulated housing benefit*. While the majority of households in regulated units receive significant rent discounts, 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 the figure is 42 percent, while in Manhattan it is 17 percent.



Source: CBC analysis of the 2008 New York City Housing and Vacancy Survey.

3. *Rent regulation reduces rent burdens for many low- and moderate-income households, although rent burdens remain "unaffordable" for most low-income households.* Housing affordability is not a precise concept, but common practice is to define rental housing as affordable when rent is 30 percent or less of household income. By this definition, in 2008 about 54 percent of rent-paying households in private, regulated units had affordable housing citywide and about 52 percent in private, unregulated rental units had affordable housing. Among households living in private sector rental housing with incomes below $35,000 annually, citywide about 10 percent had affordable housing.

   Nonetheless, households in regulated units typically now pay less rent than they would if rent regulation were eliminated. Without current regulations, the share of tenants previously in regulated units with affordable housing would decrease from about 54 percent to 44 percent or by about 92,000 households. However, under this scenario of full deregulation rents in the unregulated sector would decline, making housing affordable for an additional 50,000 households in that sector. This change would make the net decrease in households with affordable housing about 42,000. Among households with incomes below $35,000 annually, the share with affordable housing would drop from about 10 percent to 6 percent, or by about 24,000.

Findings: Assessing the Criticisms of Regulation

1. *Despite the claims of critics, rent regulation is **not** a major cause of the low rate of new housing construction in New York City.* The rate of new housing construction in New York City has lagged that in other large American cities for many years, and rent regulation is sometimes blamed. 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. Other studies suggest the low construction rate in New York is attributable largely to the high cost of new construction. One connection between high construction costs and rent regulation is the difficulty in vacating and demolishing older buildings in order to construct larger new ones due to "hold-out" tenants protected by rent regulation, but this is only one of myriad factors causing high construction costs in New York.

2. *Regulation placed on a large part of the private rental market raises rents for housing in the unregulated part of the market.* Removing a large part of the housing stock from market competition in setting rents makes the competition tighter and rents higher in the part of the housing stock that is unregulated. Assuming that rents in unregulated units average about 15 percent higher than would be the case if all private rental units were deregulated (an assumption explained in Appendix C of the report), some 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.

3. *Rent regulation decreases the City of New York's property tax revenue by about $283 million annually.* The property tax paid by owners of private rental housing is based on the value of their property, which in turn is based on the amount of income the property generates. The lower rents attributable to rent regulation decrease property values, and property tax liability, from the level that would exist if the property were not subject to regulation. Using the potential impacts of full deregulation on rents in both the regulated sector (where rents would rise) and the unregulated sector (where rents would fall), the estimated combined net property tax liability for private rental housing would increase by about $283 million annually if none of this housing were subject to rent regulation.

4. *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.

5. *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; their median number of rooms per person (3.03) is nearly double that among tenants in unregulated housing (1.67). 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; their median number of rooms per persons is 1.49, below that in the unregulated sector (1.67).

Conclusions and recommendations

The broad conclusions emerging from this research are:

- Rent regulation provides poorly targeted, but significant, benefits.
- Despite rent regulation, affordable housing remains a serious problem for a large majority of low- and moderate-income households in New York City.
- Rent regulation imposes substantial costs on New Yorkers in the form of higher rents in unregulated units, lost tax revenues, and a less well maintained housing stock.

Future policy changes should be designed to retain the benefits of regulation for low- and moderate-income households, reduce the adverse impacts of regulations, and expand and enhance the policy tools available to promote affordable housing.

1. *Benefits now available to low- and moderate-income households should not be reduced, but the poorly targeted benefits can be removed at an accelerated pace by phasing out regulation 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 with affordable housing.

2. *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 this initiative 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.

INTRODUCTION

In New York City more than one million housing units, representing more than half the private rental market and one-third the total housing stock, are subject to rent regulation. This scale of regulation is unique among American cities and is highly controversial.

Proponents claim rent regulation protects affected tenants from otherwise likely excessive rent increases in New York's tight housing market and helps make housing more affordable for low- and middle-income households who otherwise could not live in their own home in New York City. Critics claim the regulations give substantial benefits to upper-income households who could afford unregulated rents, cause rents to be higher among unregulated units than would otherwise be the case, encourage some families to stay in apartments longer than they otherwise would, curb construction of new housing, discourage landlords from properly maintaining regulated units, and lower property values of buildings with regulated units, thereby depriving the City of New York of property tax revenue.

In 1993 the State Legislature, which authorizes rent regulations, responded to the critics by allowing certain high-rent units to be deregulated. From 1994 through 2008 at least 190,000 units were removed from regulation, although additions to the regulated stock lowered the net decrease to about 118,000 units. In 2009 and 2010, in response to calls for expanded regulation, legislation was passed by the State Assembly to limit future deregulation and to restore to regulation most of the units deregulated since 1993. In May 2010, Governor David Paterson proposed raising the rent threshold for deregulation and extending regulation for eight years beyond its current expiration in 2011. Legislative deliberation on these proposals is underway.

The Citizens Budget Commission (CBC) has prepared this report to inform debates over changes in rent regulation.[1] The report is organized in four parts.

- The first part provides background information including a history of rent regulation laws and an overview of the rental housing market in New York City.
- The second part describes the benefits of current rent regulations in the forms of "discounts" to affected households and increases in "affordable" housing for New Yorkers.
- The third part assesses the evidence relating to five criticisms of rent regulation in New York.
- The final part makes recommendations for future rent regulation policy and affordable housing programs based on the findings discussed in the previous sections.

BACKGROUND

Three types of background information are useful for understanding the current debate about rent regulation. First, it is important to know the key developments in the history of the current system of regulation. Second, it is useful to have an overview of the current rental market for New York City housing. Third, it is relevant to understand how the characteristics of those living in regulated housing differ from other households.

A Brief History of Rent Regulation[2]

Rent regulations were imposed in New York City in 1943 as part of a larger program of wartime price controls.[3] During World War II a shortage of housing as a result of diversion of construction materials and manpower to the war led the federal government to authorize rent controls in major metropolitan areas. The federal controls remained in place after the war. However, as an incentive to housing production, federal law exempted from regulation newly constructed rental housing granted a certificate of occupancy on or after February 1, 1947. This created two tiers of rental housing – an older stock subject to regulation and a newer stock not subject to regulation.

In 1951, in anticipation of an end to federal controls, the State of New York opted to continue rent control under state law for the older stock previously subject to federal regulation. In 1962 the State transferred administrative authority for rent control to the City of New York. During the 1950s and 1960s various categories of rental housing were decontrolled.[4]

In 1969, in response to well-publicized complaints about rising rents and falling vacancy rates, particularly in Manhattan,[5] the City adopted a new Rent Stabilization Law. Regulation of older housing was retained, and a new, less restrictive form of regulation was imposed on rental housing with six or more units built after 1946. The New York City Rent Guidelines Board (RGB), which was created prior to the legislation to evaluate a plan for industry self-regulation, was given the authority to determine annual maximum increases for new and continuing leases for regulated post-1946 housing, a role it continues to have today.[6] Thus, since 1969, New York City has had two systems of rent regulation – rent control and rent stabilization.

In 1970, in response to charges that the relatively tight regulation of housing subject to rent control was causing owners to neglect and abandon that housing, the method of regulation was changed. The Maximum Base Rent Program was introduced for pre-1947 units subject to rent control. Under this program rents in covered apartments without significant code violations would receive an annual increase to move toward a "maximum base rent" calculated to provide a building with an adequate income.[7]

In 1971 the regulations on controlled and stabilized housing were eased through a "vacancy decontrol" law. It removed from regulation any unit that became vacant. In the same year, the State enacted legislation (the "Urstadt Law") that prevents the City from passing any rent or eviction legislation more restrictive than what is embodied in state law.

In 1974 the Emergency Tenant Protection Act (ETPA) ended vacancy decontrol. In addition, the law made apartments in controlled and stabilized buildings with six or more units that had been deregulated subject to rent stabilization.[8] Since that time, when controlled units are vacated, they are permitted one increase to a market rent; that new rent then becomes the unit's base rent under the rent stabilization rules.[9] Through these provisions, most previously rent-controlled housing has been transferred to rent stabilization; in addition, the ETPA brought rental apartments in buildings with six units or more built between 1969 and 1974 under the rent stabilization rules.

In 1983 administrative authority for rent regulation was transferred back to the State, specifically its Division of Housing and Community Renewal (DHCR). The justification for continued rent regulation was and still is the existence of a "serious public emergency" defined by a rental vacancy rate of 5 percent or below.[10] New York City is the only major U.S. city with a large number of housing units subject to rent regulations continuously since World War II.[11]

Two avenues for deregulation were created by state legislation in 1993. First, "high-rent vacancy decontrol" allowed vacated units that reach a legal rent of $2,000 per month or more to be removed from regulation.[12] Second, "high-rent/high-income decontrol" (sometimes referred to as "luxury decontrol") permitted units with regulated rents of $2,000 or more and occupied by tenants with a household income of at least $250,000 for two consecutive years to be removed from regulation.

In 1997 state legislation widened the avenues for deregulation. "Luxury decontrol" was made somewhat easier by lowering the income threshold from $250,000 to $175,000, where it remains today. The rent threshold for "high-rent vacancy decontrol" was made easier to reach through the authorization of an automatic 20 percent increase for new leases for vacated apartments.[13] High-rent vacancy decontrol is further facilitated by the ability of owners to institute individual apartment improvements while a unit is vacant; one-fortieth of the cost of the improvements can be added to the monthly rent.

These decontrol provisions have led to a decline in the number of units subject to rent regulation. As shown in Table 1, since 1994 about 190,000 units have been removed from rent regulation, with the annual number reported to DHCR ranging between about 12,000 and 17,000 in the most recent years.[14] For reasons discussed below, between about 4,000 and 8,500 units have been added to the regulated stock in recent years; this makes the net decline in the number of regulated units between about 5,500 and 9,000 annually, or less than 1 percent per year.

Since 1994 the leading source of deregulation has been high-rent vacancy decontrol.[15] In 2008 this provision resulted in at least 12,800 units being removed from regulation, and the number likely will grow as the $2,000 rent threshold remains in effect.

Luxury decontrol provisions have had a smaller effect. Only about 4,500 units have been directly deregulated under these provisions, but this number likely understates the impact because some higher-income households may have vacated their units in anticipation of landlord action. Looking ahead, this provision does not have the potential of affecting a large number of households. In 2007 only 32,000 regulated households had an income of $175,000 or above, and only half of these households had rents at $1,500 or above.

Table 1: Changes to the New York City Private Regulated Housing Stock, 1994-2008

	1994-2002	2003	2004	2005	2006	2007	2008	1994-2008
Losses from the Private Regulated Stock								
Co-op/Condo Conversion	(32,660)	(1,474)	(1,564)	(1,692)	(1,567)	(1,455)	(1,405)	(41,817)
High-rent Vacancy Decontrol [a]	(24,370)	(8,204)	(8,856)	(9,272)	(9,983)	(10,342)	(12,800)	(83,827)
High-rent/High-income Decontrol	(2,956)	(198)	(194)	(265)	(301)	(309)	(278)	(4,501)
Expiration of Tax Benefits	(26,476)	(1,505)	(1,102)	(996)	(499)	(431)	(552)	(31,561)
Other	(18,959)	(1,311)	(1,301)	(1,820)	(1,624)	(1,667)	(1,798)	(28,480)
Total Losses	**(105,421)**	**(12,692)**	**(13,017)**	**(14,045)**	**(13,974)**	**(14,204)**	**(16,833)**	**(190,186)**
Additions to the Private Regulated Stock								
Voluntary Regulation with Tax Benefits	27,999	3,922	7,244	5,148	4,197	5,972	7,543	62,025
Mitchell-Lama Buy-outs	2,984	279	229	732	3,040	2,517	101	9,882
Other	303	20	129	66	81	35	35	669
Total Additions	**31,286**	**4,221**	**7,602**	**5,946**	**7,318**	**8,524**	**7,679**	**72,576**
Net Loss	**(74,135)**	**(8,471)**	**(5,415)**	**(8,099)**	**(6,656)**	**(5,680)**	**(9,154)**	**(117,610)**

a) Reporting of high-rent vacancy decontrol did not become mandatory until 2001.

Note: Within the private regulated sector, 35,615 units passed from the rent-control program to the rent-stabilization program from 1994 through 2008.

Source: New York City Rent Guidelines Board, "Changes to the Rent Stabilized Housing Stock in New York City in 2008," June 4, 2009.

In recent years the loss of regulated units has been offset to some degree by new units becoming voluntarily subject to regulation in exchange for property tax benefits. The City has property tax exemption programs (referred to as 420-c, 421-a and 421-g) offering exemptions to newly constructed housing in exchange for placing rental units under rent stabilization. Another program (known as J-51) provides benefits for rehabilitation of existing housing, again requiring that rental units become subject to rent regulation.[16] Over the 1994-2008 period, nearly 62,000 units were added to rent regulation through these programs. Expiring benefits under these programs during this period led to about half that number passing into the unregulated rental market.[17] It is hard to predict accurately the magnitude of these factors, but a likely scenario is a future decline in regulated housing averaging about 10,000 to 15,000 units annually, or 1.0 to 1.5 percent of the current regulated stock.

The decontrol provisions were at the center of debate in 2003 when the rent regulation laws were last renewed. The 2003 legislation for the most part left these provisions unchanged, and the rules were extended for eight years, until June 15, 2011. The few changes made moved toward greater deregulation. One such change allows a unit to be removed from rent regulation if the legal maximum rent reaches at least $2,000, even if the apartment is then rented for a “preferential rent” (one that is below the unit’s legal ceiling) of less than $2,000.

In recent years, the State Assembly has passed bills that would promote stricter and broader regulation. Particularly noteworthy is a 2010 bill that would terminate high-rent vacancy decontrol and return to rent regulation previously deregulated units with rents below $5,000.[18] Another bill would repeal the Urstadt Law, effectively returning to the New York City Council the authority to establish rent regulations.[19] Governor Paterson's May 2010 proposal would increase to $3,000 the rent threshold for decontrol provisions and limit retroactive payments resulting from recent litigation related to the decontrol of units in buildings receiving J-51 program tax benefits.[20]

Administration of rent regulations costs about $42 million annually. The DHCR is responsible for the administration of rent regulations in New York State, and its fiscal year 2009-10 appropriation is $41.3 million.[21] The Rent Guidelines Board, a city agency, spends about a half million dollars annually on research related to the determination of annual rent increases for units under its jurisdiction.[22] The administrative costs of the rent stabilization system are partly offset by about $8 million in dedicated fees paid by the owners of rent-stabilized units.[23] The City of New York reimburses DHCR about $41 million annually for expenditures related to the administration of the program in the City.

Overview of the New York City Rental Housing Market[24]

New York City's housing market is unusual in three ways – a high share of rental housing, a low vacancy rate, and a high share of rental housing subject to rent regulation. As shown in Table 2, more than two-thirds (67 percent) of New York City's 3.1 million households occupy rental housing.

For the United States as a whole, the percentages are reversed with about two-thirds of all households owning their home and just one-third renting. Among central cities nationwide, the share of households renting was a higher 47 percent, still substantially below New York City's rate.[25]

Among the city's two million renters, just over half are in units subject to rent regulation. Within this group, about 40,000 are subject to the older rent controls and over one million are subject to rent stabilization. About 736,000 households live in private rental housing not subject to rent regulation. Another large group, nearly one-quarter million households, lives in housing owned or operated as part of government programs, including the city's large public housing stock operated by the New York City Housing Authority.

The vacancy rate for all housing in New York City in 2008 was below 2.8 percent, with the rate for owner-occupied housing a lower 2.5 percent and the rental vacancy rate 2.9 percent. The vacancy rate for unregulated rental housing was nearly 4.8 percent, while regulated housing had a lower rate of less than 2.2 percent. As noted earlier, the persistence of a vacancy rate of 5 percent or less provides the legal basis for the "emergency" condition that justifies rent regulation statutes.

New York City's vacancy rates are extremely low by national standards. Among the nation's principal cities, the average rental vacancy rate is a much higher 10.2 percent, more than triple that in New York City.[26] In fact, for rental housing no other large city in the United States has a vacancy rate as low as New York City's. The 2008 rates in Los Angeles and Boston were 4.1 percent and 4.7 percent, respectively; Washington, DC, was a higher 6.5 percent and Chicago 7.3 percent.[27] The vacancy rate among ownership units nationally was 3.7 percent in 2008, also above New York City's 2.5 percent.[28]

Table 2: New York City Occupied Housing Units and Vacancy Rates by Ownership and Regulatory Status, 2008

	Number of Occupied Housing Units		Vacancy
	Amount	Percent	Rate [a]
Ownership	**1,019,345**	**32.9%**	**2.53%**
Owner Conventional	624,759	20.1%	2.24%
Owner Co-op/Condo	359,884	11.6%	3.13%
Mitchell Lama Co-op	34,702	1.1%	1.45%
Rental	**2,081,953**	**67.1%**	**2.91%**
Private Regulated Rental	1,041,116	33.6%	2.15%
Rent-Controlled	39,901	1.3%	0.00%
Rent-Stabilized	1,001,215	32.3%	2.15%
Pre-1947 Stabilized	700,554	22.6%	2.36%
Post-1946 Stabilized	300,660	9.7%	1.67%
Private Unregulated Rental	735,941	23.7%	4.75%
Public Housing	183,809	5.9%	0.83%
Mitchell Lama Rental	58,978	1.9%	2.32%
Other Government Regulated	62,108	2.0%	1.32%
All Units	**3,101,298**	**100.0%**	**2.79%**

a) Vacancy rate is calculated as the number of vacant available units divided by the sum of occupied units and vacant available units.

Source: 2008 New York City Housing and Vacancy Survey.

Who Lives in Regulated Housing?

The households living in the three major sectors of New York City's housing stock – owner occupied, unregulated private rental and regulated private rental – differ in their characteristics. Those in regulated rental housing tend to be smaller households than those in the other sectors, to be headed by individuals older than the household heads of unregulated renters and younger than those of owners, and to have median incomes lower than those in the other sectors. (See Table 3.)

With respect to household size, the mean for those in rent-stabilized units is about 2.2, well below the average for those in conventional owner-occupied units (3.0) and below the average for renters of unregulated housing (2.5), but larger than that for households in co-ops and condos (2.0).

Table 3: New York City Household Characteristics by Ownership and Regulatory Status, 2008

	Head of Household		Mean Household Size	Median Household Income
	Median Age	Percent Age 65 and Older		
Ownership	**52.0**	**24.7%**	**2.57**	**$70,000**
Owner Conventional	53.0	25.9%	2.95	$66,600
Owner Co-op/Condo	50.0	21.2%	1.97	$82,000
Mitchell Lama Co-op	58.0	38.7%	1.82	$36,532
Rental	**43.0**	**15.5%**	**2.28**	**$36,200**
Private Regulated Rental	45.0	16.5%	2.17	$35,297
Rent-Controlled	68.0	59.5%	1.64	$24,000
Rent-Stabilized	44.0	14.7%	2.19	$36,000
Pre-1947 Stabilized	43.0	12.0%	2.23	$35,000
Post-1946 Stabilized	46.0	21.2%	2.10	$38,000
Private Unregulated Rental	38.0	8.1%	2.47	$50,000
Public Housing	50.0	25.0%	2.30	$12,920
Mitchell Lama Rental	52.0	31.9%	2.11	$24,036
Other Government Regulated	59.0	43.4%	1.91	$12,000
All Households	**46.0**	**18.5%**	**2.37**	**$45,000**

Source: 2008 New York City Housing and Vacancy Survey.

In terms of age, the median age for those in rent-stabilized units is 44 with about 15 percent age 65 or older. This is a notably younger median and share than for both types of owner-occupied housing. However, the occupants of regulated units tend to be older than those in unregulated rental housing, where the median age of household heads is 38 and only 8 percent are age 65 or older.

The median income of households in rent-stabilized units, about $36,000 annually, is below that for the other major sectors. The figure for owner-occupied units is nearly double that level, and the figure for households in unregulated rental housing is nearly 40 percent higher, or about $50,000.

The relatively small number of households in pre-1947 units still under rent control is a distinct subset of those in regulated housing. They tend to be much older, with nearly 60 percent age 65 or older; they are in small households typically consisting of a single individual or couple, and have relatively low incomes that average $24,000 annually. Given the rules for remaining in this program, a majority of the 40 percent of households with younger heads probably had the unit pass from one generation to another.[29]

A more complete picture of the income distribution of households in each major type of housing is presented in Table 4. Households in the regulated rental sector have the largest proportions in the lowest income categories – about 48 percent below $35,000 and 30 percent below $20,000. The large percentage of households with incomes below $20,000 can be explained in part by the city's high poverty rate and in part because some households with low incomes (such as students) may be receiving additional support from parents not reported in the survey as income, although the survey is supposed to capture such income. In addition, some elderly households have low incomes but substantial assets.[30]

Table 4: New York City Households by Income and Regulatory Status, 2008
(percent distribution)

Household Income [a]	Private Regulated Rental	Private Unregulated Rental	Owner Occupied	All Households [b]
Below $20,000	30.0%	19.0%	14.9%	25.3%
$20,000 to $34,999	18.3%	15.6%	10.7%	15.1%
$35,000 to $49,999	14.4%	15.1%	9.3%	12.5%
$50,000 to $74,999	16.7%	18.9%	17.3%	16.4%
$75,000 to $99,999	8.6%	11.0%	13.2%	10.2%
$100,000 to $124,999	5.2%	7.3%	10.5%	7.1%
$125,000 to $174,999	3.7%	5.9%	12.2%	6.7%
$175,000 and Above	3.1%	7.3%	11.9%	6.7%
Total Percent	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Total Number	**1,041,116**	**735,941**	**1,019,345**	**3,101,298**

a) Annual income in 2007.

b) Includes other categories not shown separately, such as public housing.

Note: In the case of missing data, the Census Bureau assigns household income, or one of its components, based on a household's characteristics. See New York City Housing and Vacancy Survey "Overview" http://www.census.gov/hhes/www/housing/nychvs/2005/overview.html.

Source: 2008 New York City Housing and Vacancy Survey.

Nonetheless, a substantial number of households in regulated housing have relatively high incomes. An annual income of $100,000 or more puts a household in the top 20 percent citywide, with an income more than twice the median. About 125,000 households in regulated housing fall into this category; they comprise about one of every eight households in regulated units.

It also should be noted that a substantial number and share of households in unregulated rental housing have relatively low incomes. About one-fifth of those in unregulated housing have incomes below $20,000 annually, and more than one-third below $35,000. The group in these two lower income categories represents more than 250,000 households.

WHO BENEFITS FROM RENT REGULATION?

Advocates of rent regulation cite its benefits with respect to two related policy objectives. First, it reduces the rents paid by protected households from what would be higher rents in an unregulated market with low vacancy rates. This benefit is, in effect, a rent "discount" for protected households and is available to families at all income levels whose units are regulated. Second, rent regulation is intended to make it possible for an increased number of low- and moderate-income families to live in New York City by making their housing "affordable." The first policy objective seeks to solve a problem associated with constraints on housing supply; the second addresses a problem resulting primarily from the inadequacy of incomes relative to rent.

Despite differences in the nature of the problems that produce these objectives, both are pursued through the same mechanism. Under rent stabilization, the maximum rent increase allowed is set every year and specified for those renewing for one or two years. The allowable increase under a two-year lease is greater than under a one-year lease, but generally less than double that rate. If 1993 is taken as a starting point, then the allowable rent increase for stabilized units through 2008 would have totaled 45.7 percent for those taking successive two-year leases and 57.2 percent for those taking successive one-year leases.[31] The lower figure is below the rate of increase in general inflation as measured by the local consumer price index over this period (51.3 percent). Perhaps more significant, both rates of increase are well below the increase in the price index for the operating costs of housing over the same period (100.7 percent). (See Table 5.)

Of course, not all households stay in the same units for such long periods. Actual rents for regulated housing can and do rise more rapidly because additional increases are allowed upon vacancy or for capital improvements or owner hardship, some units move from rent control to rent stabilization, and new units granted tax exemptions may be added to the regulated stock at market rates. Table 5 shows the trends in median rents for each sector since 1993. The rents for stabilized housing increased 76.2 percent, higher than under the preceding scenario but still below the rate for operating costs and below the rate in the unregulated sector. In 2008 rents in the stabilized sector were about 23 percent lower than for unregulated units, a greater differential than in earlier years.

This aggregate comparison of rents for regulated and unregulated housing gives some indication of the magnitude of the discounts associated with rent regulation. However, the units in each sector are not the same in terms of location or quality, and more detailed analysis is needed to gauge the actual discounts provided to tenants by rent regulation.

Table 5: New York City Median Monthly Contract Rent by Regulatory Status, Selected Years 1993-2008

	1993	1996	1999	2002	2005	2008	Percent Change 1993-2008
Median Monthly Rent							
Private Unregulated Units	$640	$690	$750	$850	$1,000	$1,200	87.5%
Rent-Stabilized Units	$525	$600	$650	$700	$844	$925	76.2%
Rent-Controlled Units	$366	$428	$477	$500	$551	$721	97.0%
Percent Difference from Unregulated							
Rent-Stabilized	(18.0%)	(13.0%)	(13.3%)	(17.6%)	(15.6%)	(22.9%)	NAP
Rent-Controlled	(42.8%)	(38.0%)	(36.4%)	(41.2%)	(44.9%)	(39.9%)	NAP
NY-Metro Consumer Price Index [a]	154.1	166.5	175.5	191.1	212.4	233.1	51.3%
Price Index of Operating Costs [b]	1.0	1.1	1.2	1.4	1.7	2.0	100.7%

NAP = Not Applicable.

a) Data as of the end of March. Census collects data for the Housing and Vacancy Survey during the first half of the year.

b) CBC calculations as of the beginning of each year.

Sources: Anthony Blackburn, *Housing New York City 1993*, City of New York Department of Housing Preservation and Development, June 1995, p. 203, Table 6.5. Moon Wha Lee, *Housing New York City 1996*, City of New York Department of Housing Preservation and Development, September 1999, p. 317, Table 6.13. Moon Wha Lee, *Housing New York City 1999*, City of New York Department of Housing Preservation and Development, October 2001, p. 347, Table 6.13. New York City Housing and Vacancy Surveys, Years 2002, 2005 and 2008. New York City Rent Guidelines Board, *Housing NYC: Rents, Markets and Trends 2000 and 2008*. United States Department of Labor, Bureau of Labor Statistics, *All Urban Consumers Consumer Price Index*, New York-Northern New Jersey-Long Island Metro Area.

Estimates of Rent Discounts

The magnitude of the discounts provided by rent regulation can be estimated using two alternative sets of assumptions. The first approach uses multiple regression analysis to compare, in effect, closely matched units in the regulated and unregulated sectors and attributes actual rent differences to the impact of regulation. This method is described in Appendix B. It yields estimates that correspond to popular perceptions of the benefit of regulation for the current occupants of regulated units. That is, it is an estimate of how much their actual rent falls below the rent for a comparable unit that is not regulated.

A second approach takes into account the impact that full deregulation of the housing market would have on rents in the private rental sector. That is, if regulation were eliminated, rents in the new market would fall because some households in currently regulated units would leave the rental market in favor of ownership, another location or some other option. As a result total demand for rental housing would fall and overall average rents would be lower. The benefits based on this assumption are harder to estimate; an approach for doing so is described in Appendix C.

Table 6 summarizes the estimated discounts provided by regulation to different types of households under the first set of assumptions.[32] Overall the average discount is about 31 percent, or $5,500 annually. However, the discounts vary by income group. The greatest percentage discounts are for those with incomes below $20,000 annually and for those with incomes between $125,000 and $175,000.

The discounts also vary notably by borough. Households in Manhattan benefit the most with discounts averaging nearly $10,000 annually, or 40 percent. In contrast households in the Bronx get discounts averaging 19 percent, or less than $2,400 annually.

For a significant share of households regulation provides no economic benefits. For about 19 percent of the regulated households, there is no effective discount because the actual rent is higher than that predicted based on housing characteristics in the unregulated sector, and for another 11 percent the discount is less than 10 percent of the predicted unregulated rent. (See Table 7.) In the Bronx regulation provides little or no discount to 42 percent of regulated households. In contrast, Manhattan households benefit disproportionately from regulation. Only about 17 percent of the regulated households in Manhattan are receiving little or no discount, while 40 percent receive a discount of at least 50 percent. (It is important to note that both high- and low-income households are occupants of regulated housing in Manhattan.[33])

Table 6: Estimated Rent Discounts for Private Regulated Housing Units by Selected Characteristics, 2008

	Actual Mean Monthly Contract Rent	Predicted Mean Monthly Rent	Estimated Mean Monthly Rent Discount	
			Amount	Percent
All Private Regulated	**$1,023**	**$1,485**	**$462**	**31.1%**
Regulatory Status				
Rent-Controlled	$863	$1,734	$870	50.2%
Rent-Stabilized Pre-1947	$990	$1,423	$433	30.5%
Rent-Stabilized Post-1946	$1,117	$1,592	$474	29.8%
Household Income				
Below $20,000	$841	$1,366	$525	38.4%
$20,000 to $34,999	$920	$1,329	$409	30.8%
$35,000 to $49,999	$959	$1,368	$409	29.9%
$50,000 to $74,999	$1,060	$1,483	$423	28.5%
$75,000 to $99,999	$1,159	$1,594	$435	27.3%
$100,000 to $124,999	$1,294	$1,810	$516	28.5%
$125,000 to $174,999	$1,308	$2,020	$712	35.3%
$175,000 and Above	$1,857	$2,264	$407	18.0%
Race/Ethnicity				
White, Non-Hispanic	$1,200	$1,774	$574	32.4%
Black, Non-Hispanic	$867	$1,212	$345	28.4%
Hispanic	$872	$1,284	$412	32.1%
Other	$1,113	$1,539	$426	27.7%
Borough				
Bronx	$828	$1,023	$195	19.1%
Brooklyn	$913	$1,266	$353	27.9%
Manhattan	$1,234	$2,063	$830	40.2%
Queens	$1,039	$1,353	$314	23.2%
Staten Island	$825	$1,218	$393	32.3%

Note: Excludes households receiving government housing assistance and households paying zero rent. It is assumed that households with zero rent would also pay zero rent if there were deregulation.

Source: CBC analysis of 2008 New York City Housing and Vacancy Survey.

Table 7: Discounts for Private Regulated Units by Borough, 2008
(percent distribution)

Borough	Predicted Unregulated Rent Less Than Actual Rent	Discount from Zero to <10%	Discount from 10% to <25%	Discount from 25% to <50%	Discount 50% and Above	Total	Number of Regulated Units
Bronx	25.4%	16.1%	23.9%	24.3%	10.4%	100.0%	169,950
Brooklyn	19.7%	11.7%	22.4%	28.7%	17.5%	100.0%	250,101
Manhattan	12.2%	5.0%	12.3%	30.7%	39.8%	100.0%	278,587
Queens	20.1%	13.5%	24.0%	29.7%	12.7%	100.0%	197,125
Staten Island	*	*	*	*	*	*	7,218
Citywide	**18.5%**	**10.9%**	**19.9%**	**28.7%**	**22.0%**	**100.0%**	**902,981**

* Too few observations for statistical significance.

Note: Excludes households receiving government housing assistance and households paying zero rent. It is assumed that households with zero rent would also pay zero rent if there were deregulation.

Source: CBC analysis of 2008 New York City Housing and Vacancy Survey.

The discounts described above correspond to what many New Yorkers see as a major benefit of regulation – rents below those for similar units in the unregulated market. But this is not indicative of what would happen if regulation were eliminated entirely, a relevant policy scenario.

As explained in Appendix C, our best estimate is that without regulation rents in the currently unregulated sector would be about 15 percent below current (2008) levels.[34] Accordingly, the predicted rents for currently regulated units in an entirely unregulated scenario would also be about 15 percent less than under the assumptions used above in Tables 6 and 7. The lower predicted rents yield lower estimated discount amounts for currently regulated units. In terms of aggregate amounts, the total rent discount associated with regulation under these assumptions is about $2.6 billion.[35]

The distribution of this $2.6 billion in benefits by household type is summarized in Table 8. The last column of the table reports the ratio of the share of benefits to the share of total households for each household type ("benefit distribution ratio"); ratios greater than 1.0 indicate more generous benefits, and those below 1.0 show less favorable treatment. Disproportionately large shares of benefits are received by households in rent-controlled units, by those living in Manhattan and by white, non-Hispanic households. Households with annual incomes between $125,000 and $175,000 also receive a disproportionately large share of benefits.

Table 8: Benefit Distribution Ratio for Private Regulated Housing Units by Selected Characteristics, 2008

	Percent of Units	Percent of Aggregate Benefits	Benefit Distribution Ratio (% of Benefits/% of Units)
All Private Regulated	**100.0%**	**100.0%**	**1.00**
Regulatory Status	**100.0%**	**100.0%**	**1.00**
Rent-Controlled	3.8%	9.6%	2.55
Rent-Stabilized Pre-1947	66.5%	61.1%	0.92
Rent-Stabilized Post-1946	29.7%	29.3%	0.98
Household Income	**100.0%**	**100.0%**	**1.00**
Below $20,000	25.6%	34.2%	1.34
$20,000 to $34,999	18.1%	15.9%	0.87
$35,000 to $49,999	15.4%	13.1%	0.85
$50,000 to $74,999	18.2%	15.3%	0.84
$75,000 to $99,999	9.5%	7.8%	0.82
$100,000 to $124,999	5.7%	5.9%	1.02
$125,000 to $174,999	4.1%	7.0%	1.71
$175,000 and Above	3.4%	1.0%	0.28
Race/Ethnicity	**100.0%**	**100.0%**	**1.00**
White, Non-Hispanic	39.0%	50.2%	1.29
Black, Non-Hispanic	21.4%	14.6%	0.68
Hispanic	29.7%	27.2%	0.91
Other	9.8%	8.0%	0.81
Borough	**100.0%**	**100.0%**	**1.00**
Bronx	18.8%	3.3%	0.17
Brooklyn	27.7%	18.9%	0.68
Manhattan	30.9%	67.0%	2.17
Queens	21.8%	10.1%	0.46
Staten Island	0.8%	0.7%	0.88
Total Number ($ in millions)	**902,981**	**$2,593**	

Note: Excludes households receiving government housing assistance and households paying zero rent. It is assumed that households with zero rent would also pay zero rent if there were deregulation.

Source: CBC analysis of 2008 New York City Housing and Vacancy Survey.

Impacts on Housing Affordability

The most common approach to judging the affordability of housing relies on a rent-income ratio. The federal Section 8 Rental Voucher Program sets a standard for affordable housing as a rent-income ratio of no more than 30 percent. This 30 percent standard is appropriate for most low- and moderate-income households; for upper-income households the 30 percent standard is less meaningful because they have sufficient discretionary income to allocate a higher percent to housing and still cover other necessities, but in general they spend far less than the 30 percent standard.

If this 30 percent standard is applied to total income for all private rental housing in New York City, then about 53.2 percent of these households have affordable housing.[36] (See the next-to-last column of Table 9.) However, among those with incomes below $35,000 annually, the share with affordable housing is a much lower 9.8 percent. In the moderate-income categories the share ranges between 59.0 and 87.5 percent; in contrast, for those with incomes above $100,000 the share paying 30 percent or less is 94.5 percent.

How much difference does rent regulation make in promoting affordable housing? One way to address this question is to compare citywide the share of households with affordable housing in the regulated and unregulated sectors. While the overall shares differ only slightly (53.8 versus 52.4 percent), there is a greater difference among the lower-income groups. The share of households citywide with affordable housing among those with incomes below $35,000 in regulated units (11.3 percent) is greater than for the same income group in unregulated units (7.1 percent). The difference is especially large in the $20,000 to $35,000 group (21.1 versus 12.0 percent). Substantial differences in the shares of households with affordable housing are also evident among the moderate-income groups.

Another way to address this question is to use the scenario described above in which rent regulation is eliminated and rents rise in the regulated sector and fall in the unregulated sector. (See the last column of Table 9.) Under this scenario, the net change in the share of households with affordable housing is a drop of 2.7 percentage points from 53.2 percent to 50.5 percent, or about 42,000 households. However, among households currently in the regulated sector, the drop is larger – from about 53.8 percent to 43.6 percent, or about 92,000 households, 69 percent of whom have income below $50,000. In contrast, among those in the unregulated sector, due to the decline in rents the share of households with affordable housing rises from 52.4 to 59.9 percent, or about 50,000 households.

Among higher-income families, those with incomes above $100,000 annually, the elimination of rent regulation would have little impact on housing affordability. The share of households in this group with rent-income ratios 30 percent or less actually would rise slightly as the benefits of lower rents in the unregulated sector outweigh increases in the regulated sector.

In sum, rent regulation does not make housing affordable for a large number of lower-income households, although it does shield them from even higher rents. In addition, many lower-income households are, not surprisingly, facing high rent burdens in the unregulated sector.

Table 9: Private Rental Households with Rent-Income Ratios of 30 Percent or Less by Regulatory Status and Income, 2008

Household Income	All Households	Households in Analysis [a]	Percent of Households with Rent-Income Ratio of 30 Percent or Less: Current Rent	Percent of Households with Rent-Income Ratio of 30 Percent or Less: Without Regulation [b]
Private Regulated				
Below $35,000	503,017	394,925	11.3%	2.6%
$35,000 to $49,999	150,242	138,623	69.3%	48.2%
$50,000 to $74,999	173,405	164,317	88.3%	75.8%
$75,000 to $99,999	89,603	86,135	96.5%	89.1%
$100,000 and Above	124,848	118,981	98.6%	96.9%
All Households	**1,041,116**	**902,981**	**53.8%**	**43.6%**
Private Unregulated				
Below $35,000	254,126	211,021	7.1%	12.2%
$35,000 to $49,999	110,797	103,006	45.2%	59.2%
$50,000 to $74,999	139,272	130,659	72.9%	81.3%
$75,000 to $99,999	80,760	77,136	77.5%	87.9%
$100,000 and Above	150,986	147,297	91.1%	95.0%
All Households	**735,941**	**669,119**	**52.4%**	**59.9%**
All Private Sector Rental				
Below $35,000	757,143	605,946	9.8%	5.9%
$35,000 to $49,999	261,039	241,629	59.0%	52.9%
$50,000 to $74,999	312,678	294,976	81.5%	78.2%
$75,000 to $99,999	170,363	163,271	87.5%	88.6%
$100,000 and Above	275,834	266,278	94.5%	95.9%
All Households	**1,777,057**	**1,572,100**	**53.2%**	**50.5%**

a) Excludes households receiving government housing assistance and households paying zero rent. It is assumed that households with zero rent would also pay zero rent if there were deregulation.

b) Rents assumed to be 15 percent below predicted unregulated rents.

Note: Rent-income ratios use contract rent.

Source: CBC analysis of 2008 New York City Housing and Vacancy Survey.

ASSESSING THE CRITICISMS OF RENT REGULATION

Five criticisms are often raised about rent regulation:

- It discourages new construction of rental housing.
- It causes higher rents for households in the unregulated sector.
- It lowers the property tax revenue available to the City of New York.
- It leads owners to maintain their property less well than if it were unregulated.
- It causes distortions in the housing market by leading renters to occupy housing with more or less space than if rents were unregulated.

The following subsections consider the evidence for these points.

Little Impact on New Construction

One allegation about rent regulation is that the constraint on profitability discourages new housing production. However, there is little evidence to support this contention, and it is reasonable to speculate that current regulations are encouraging investment in the unregulated sector due to the high rents paid for those units.

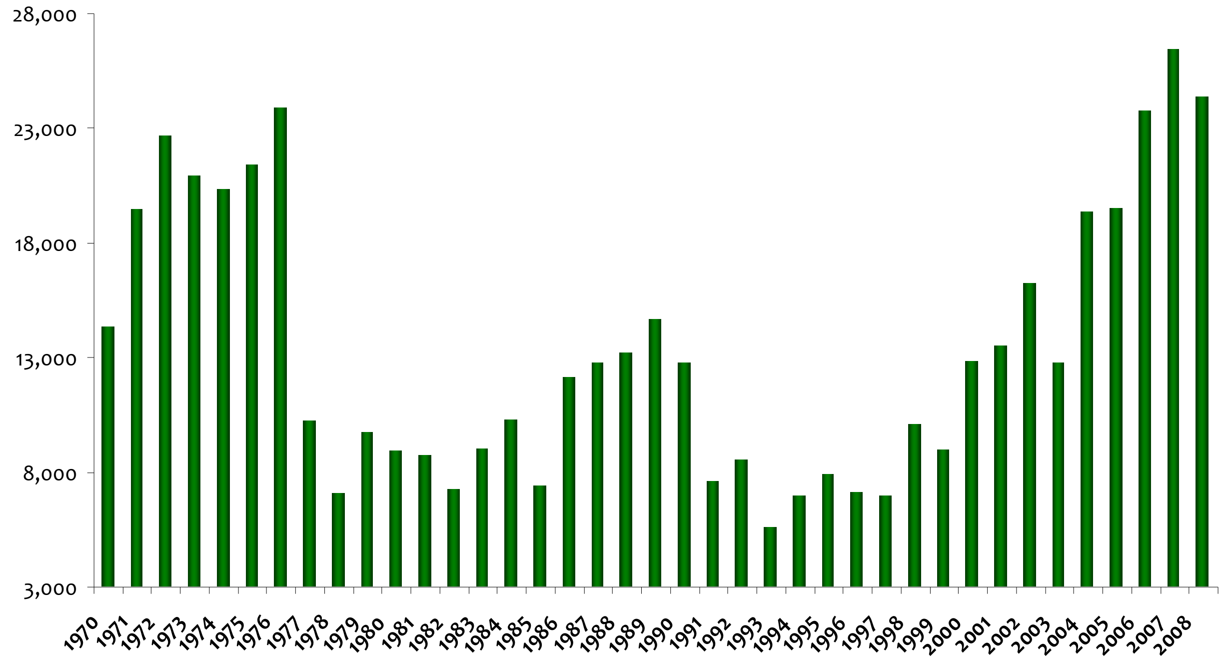
In New York City new construction has been exempt from regulation since 1974, but much of the newly constructed rental housing since that year has been completed in conjunction with subsidy programs that require units to be placed under regulation. For example, from 1994 through 2008, about 62,000 units were added to the stabilized stock through various tax incentive programs. (Refer to Table 1.) Developers have evidently expected that the limitations on profits associated with regulation are low compared to the benefits received under subsidy programs.

Nevertheless, new construction rates are low in New York City compared to other places. For example, according to the American Housing Survey, from 2000 through 2003 the average annual rate of newly constructed rental units as a share of existing rental units was 0.2 percent for New York City, compared to 0.5 percent for all central cities and 0.8 percent for the United States as a whole. For New York City owner-occupancy housing, annual new construction rates were also far lower than elsewhere: 0.57 percent versus 1.13 percent and 1.63 percent, respectively.[37]

The situation appears to have improved for most of the 2004-2008 period. The number of new residential units completed (renter and owner) in New York City grew from 19,000 to 26,000 units annually.[38] (See Figure 1.) Thus, on a base of approximately 3 million units, the average annual new construction rate from 2004 through 2008 was about 0.7 percent. [39]

Clearly, New York City has comparatively low rates of new construction for owner and rental housing. The question is whether rent regulation is responsible for the low rate of new construction of rental housing. That both renter and owner new construction rates for New York City are low suggests that rent regulation explains, at best, part of the difference; rather, some other factors affect all new construction.

Figure 1: New York City New Dwelling Units Completed, 1970-2008



Source: New York City Rent Guidelines Board, *2009 Housing Supply Report*, June 4, 2009.

The most likely explanation of the low rates is the high cost of construction in New York City. A recent study of comparative costs of residential new construction shows that hard costs of construction, excluding land, were 19 percent higher in New York than for comparable housing in Chicago, 24 percent higher than in Los Angeles, and 56 percent higher than in Dallas.[40] The biggest differences were associated with the cost of labor rather than materials. The fact that land costs and soft costs such as architectural and attorneys' fees are also higher in New York drives up the cost differentials even more.

The study cited above is an update of a 1999 study of the cost of new construction in New York City; the 1999 study concluded that constraints on rents did not discourage investment in new housing.[41] The authors did find that tenants in regulated housing were able to "hold out" and excessively restrict the ability of owners to renovate or demolish buildings in order to provide new housing units. Tenants are in a position to demand windfall payments and to slow down the process of renewal, driving up the cost of new housing.

However, the problem of tenant hold-outs under rent regulation is only one of a litany of factors that raise the cost of new construction. Other problems identified in the study are: the availability and cost of land, restrictive environmental and zoning regulations, delays in the Uniform Land Use Review Process, delays in processing permits, high labor costs and "wasteful" union work rules, illegal practices such as extortion, bid-rigging and bribery, the city's tax and fee structure, and a "stringent, voluminous, detailed, complex and arcane" building code.[42] This litany of problems confronting new construction suggests that the removal of rent regulation alone would do little to promote investment in new housing.

There is no way of knowing whether developers fear the extension of regulation to the unregulated housing that has been built since 1974. The government has in the past reneged on its commitment to keep previously unregulated housing free of regulation. The 1947 exemption of rental housing built as of that year lasted until the imposition of rent stabilization in 1969.[43] While rent stabilization did not initially apply to housing constructed from 1969 on, the ETPA brought housing built between 1969 and 1974 into the regulatory system. The regulatory laws have been moving toward deregulation since 1993. While a recent Assembly legislative package proposed tightening controls, it did not propose regulation of private rental housing constructed since 1974.

Finally, rent regulation may serve as a spur to new construction. The presence of rent regulation drives up the price of housing in the unregulated sector, making new construction more profitable than it would otherwise be. While rigid regulations in the past may have discouraged new construction, it is not clear that this argument remains valid given the trend over the past 15 years toward deregulation and given the higher rents attainable in the unregulated sector.

Higher Rents for Unregulated Households

The previous analysis suggested a 15 percent average reduction in rents for those currently in the unregulated sector if rent regulation were eliminated. This represents an aggregate rent reduction for these 669,000 households of $1.9 billion annually.[44]

Table 10 presents estimates of the distribution of the predicted rent reductions among various groups of households in the currently unregulated sector, assuming that every household in this sector receives a 15 percent reduction. The average reduction would be about $233 monthly or about $2,800 annually. Disproportionately large shares of rent reductions would go to households in Manhattan and in the higher-income groups because they have, on average, higher rents.

Lower Property Tax Revenues

Rent regulation, if it is effective, keeps rents below what they otherwise would be. Lower rents result in lower property values and, consequently, lower property tax revenues. Estimating the impact on property tax revenues requires estimating rents in the absence of regulation.

The scenario described earlier to estimate the impact of eliminating rent regulation on rents in the regulated and unregulated sectors provides a basis for estimating the impact on property tax revenues. Appendix C explains this scenario. The result is an estimated increase in aggregate annual rent of $2,593 million on previously regulated units and a decrease in aggregate annual rent of $1,872 million on units in the previously unregulated sector. The net change in annual aggregate rent is $721 million.[45] (See Appendix Table C-1.)

Assuming that the changes in rent are not associated with changes in operating expenses, these are tantamount to changes in net income. Translating these into market value (capitalization rate of 14.4 percent) and then assessed value (assessment ratio of 45 percent) and applying the fiscal year 2008-09 tax rate ($12.596 per $100 of assessed value) produces additional annual property tax revenues of $283 million.[46] The details of these calculations are provided in Appendix D.

Table 10: Estimated Rent Reduction from Full Deregulation for Private Unregulated Rental Units by Selected Characteristics, 2008

	Actual Mean Monthly Rent	Estimated Mean Benefit from Monthly Rent Reduction	Percent of Aggregate Benefits from Rent Reduction	Percent of Units	Benefit Distribution Ratio (% of Benefits/% of Units)
Household Income					
Below $20,000	$1,156	$173	12.2%	16.4%	0.74
$20,000 to $34,999	$1,217	$183	11.9%	15.1%	0.78
$35,000 to $49,999	$1,285	$193	12.7%	15.4%	0.83
$50,000 to $74,999	$1,375	$206	17.3%	19.5%	0.88
$75,000 to $99,999	$1,661	$249	12.3%	11.5%	1.07
$100,000 to $124,999	$1,888	$283	9.3%	7.7%	1.21
$125,000 to $174,999	$2,216	$332	9.1%	6.4%	1.43
$175,000 and Above	$2,974	$446	15.2%	8.0%	1.91
All Households	**$1,554**	**$233**	**100.0%**	**100.0%**	**1.00**
Borough					
Bronx	$1,104	$166	6.2%	8.8%	0.71
Brooklyn	$1,184	$178	27.4%	36.0%	0.76
Manhattan	$2,750	$412	42.5%	24.0%	1.77
Queens	$1,228	$184	20.5%	25.9%	0.79
Staten Island	$988	$148	3.3%	5.2%	0.64
All Households	**$1,554**	**$233**	**100.0%**	**100.0%**	**1.00**

Note: Excludes households receiving government housing assistance and households paying zero rent. It is assumed that households with zero rent would also pay zero rent if there were deregulation.

Source: CBC analysis of 2008 New York City Housing and Vacancy Survey.

Less Adequate Maintenance

Because it constrains profit and the return on investment, rent regulation is criticized for discouraging maintenance of and investment in existing housing. Some evidence to test the criticism of reduced maintenance is available in the New York City Housing and Vacancy Survey. It reports two types of information on maintenance: (1) Census field agents report on the observed condition of the building in which a unit is located.[47] (2) Tenants report on whether or not their apartments have certain maintenance deficiencies.[48]

Table 11 shows differences in the mean number of maintenance deficiencies reported by tenants for regulated and unregulated units. Because the age of a unit is an important determinant of condition, the categories in the table “control” for this factor. In each of the cells for which there is adequate data, regulated housing shows more tenant-reported deficiencies than unregulated housing. For example, for multiple dwellings built from 1947 through 1969 tenants in regulated units report, on average, almost twice the number of maintenance deficiencies. All of the differences are statistically significant.[49]

Table 11: Mean Number of Maintenance Deficiencies for Housing Units by Status, 2008

	Rent-Controlled	Pre-1947 Rent-Stabilized	Post-1946 Rent-Stabilized	Private Unregulated
Deficiencies Reported by Tenants				
Old Law Tenement (Built Pre-1901)	NA	1.37 *	NAP	0.87
New Law Tenement (Built 1901-1929)	NA	1.73 *	NAP	0.91
Multiple Dwelling Built after 1929	NA	1.41 *	1.05 *	0.58
1970 and Later	NAP	NAP	0.86 *	0.53
1947 to 1969	NAP	NAP	1.10 *	0.65
All Structure Classes	**1.28** *	**1.57** *	**1.07** *	**0.78**
Deficiencies Reported by Census Field Agents				
Old Law Tenement (Built Pre-1901)	NA	0.28 *	NAP	0.18
New Law Tenement (Built 1901-1929)	0.13	0.32 *	NAP	0.21
Multiple Dwelling Built after 1929	NA	0.13 *	0.04 *	0.03
1970 and Later	NAP	NAP	0.05	0.02
1947 to 1969	NAP	NAP	0.04	0.02
All Structure Classes	**0.19**	**0.28** *	**0.06** *	**0.11**

* Different from the mean for unregulated units at a 5 percent statistical significance level.

NA = Not Available. Too few observations.

NAP = Not Applicable.

Source: CBC analysis of 2008 New York City Housing and Vacancy Survey.

Table 11 also displays information on building conditions reported by Census field agents. The evidence again suggests that regulated apartments are in buildings that are less well maintained. These results cannot be called powerful evidence of differences, but they support the contention that regulation has an adverse impact on maintenance.[50]

Another important aspect of investment in existing housing is the extent to which capital improvements are made. The Housing and Vacancy Survey does not provide any direct information on such upgrading. Nevertheless, the current regulations give owners a strong incentive to make individual apartment improvements as a way of obtaining rent increases and moving an apartment toward decontrol. These are most frequently implemented when a unit is vacant because no approval is required.[51] Building-wide major capital improvements (MCI's) are less easily implemented because they require a more difficult approval process.[52] Hence, the system favors more cosmetic upgrading over more systemic improvements.[53]

Finally, it should be noted that rent regulation is not a cause of housing abandonment. The high rates of abandonment in the 1970s took place not only in New York, but in many other older cities. The low incomes of tenants were more a factor in constraining rents than was rent regulation. The in-migration of many low-income households and the exodus of many middle-income households from central cities in the 1960s and 1970s was the fundamental cause of high rates of abandonment.[54]

Distortions in Space Allocation

When rents are kept below their market levels, households are obtaining bargains that may induce them to live in housing different from what they would otherwise lease or purchase. The common expectation is that space will be "over-consumed" because older tenants in larger, rent-regulated apartments do not move to smaller apartments as the number of people in their household declines. This appears to be the case for tenants in rent-controlled units; they have the highest space consumption per person of all types of rental or ownership status, including conventional owner-occupied housing. (See Table 12.)

However, rent regulation appears to lead to under-consumption of space for households in the rent-stabilized sector relative to space consumption in the unregulated rental sector. Because housing is relatively expensive in the unregulated sector, many households in stabilized units under-consume space in order to take advantage of lower rents in the regulated sector. Consumption in the unregulated sector is also affected by rent regulation. Since rents are higher than they would otherwise be, households in the unregulated sector are likely to be consuming less space than if there were no rent regulation.[55]

Table 12: Mean and Median Number of Rooms per Person by Ownership and Regulatory Status, 2008

	Mean	Median
Ownership	**2.54**	**2.00**
Owner Conventional	2.62	2.00
Owner Co-op/Condo	2.40	2.00
Mitchell Lama Co-op	2.64	2.50
Rental	**1.96**	**1.67**
Private Regulated Rental	1.92	1.49
Rent-Controlled	2.76	3.03
Rent-Stabilized	1.88	1.49
Pre-1947 Stabilized	1.86	1.49
Post-1946 Stabilized	1.94	1.49
Private Unregulated Rental	1.93	1.67
Public Housing	2.17	2.00
Mitchell Lama Rental	2.17	2.00
Other Government Regulated	2.08	2.00
All Households	**2.15**	**2.00**

Source: 2008 New York City Housing and Vacancy Survey.

Table 12 does not take into account that space consumption depends on a household's characteristics as well as the housing unit's regulatory status. However, multiple regression analysis that adjusts for differences in household income, household size, and borough supports the simple tabular results. (See Appendix E.) Households living in rent-controlled units consume on average more space per person than in the unregulated sector, while households living in stabilized units consume less, after adjusting for the other variables, with differences between the regulated and unregulated sectors being statistically significant.[56] Regulation has the impact of reducing access to large apartments for households in both the stabilized and unregulated sectors.

RECOMMENDATIONS

Rent regulation provides benefits to and imposes costs on New Yorkers. The evidence presented in this report points to three major conclusions about the benefits and costs:

- Rent regulation provides poorly targeted, but significant, benefits in the form of rent discounts. The total discounts, measured from what rents would be if regulations were eliminated, equal about $2.6 billion annually, disproportionately aiding those in Manhattan, white non-Hispanic households, and those in the higher-income groups.
- Despite rent regulation, affordable housing remains a significant problem for a large majority of low- and moderate-income New Yorkers. Among households with incomes below $35,000 annually, only about 11 percent in private regulated housing and 7 percent in unregulated rental housing have rent-income ratios in the "affordable" range of 30 percent or less.
- Rent regulation imposes substantial costs in the form of (1) higher rents equal to about $1.9 billion annually for those in unregulated rental housing, (2) lost property tax revenues of about $283 million annually for the City of New York, and (3) a less well maintained housing stock than might otherwise be available. In addition, rent regulation leads some rent-controlled households to stay in larger apartments longer than they would rent without the substantial discount, and a larger number of rent-stabilized households to stay in smaller apartments than they otherwise would.

Future changes in rent regulation laws should maintain the desirable benefits of the program while reducing the inequities and social costs. The general direction should be to keep discounts for low- and moderate-income households currently receiving them, to phase out discounts for higher-income households, and to reduce costs in the form of higher rents for those renting in the unregulated market by increasing the number of units in that sector. At the same time, new initiatives, more effective and better targeted than rent regulation, should be developed and tested as mechanisms for promoting affordable rental housing.

A Cautionary Note: Avoid Moving in the Wrong Direction

The existing regulations facilitate progress in the desired direction. They reduce the discounts for higher-income households and reduce the number of units in the regulated sector by about 1 percent annually. At the same time large numbers of low- and moderate-income households continue to receive significant benefits.

Two measures passed in 2010 by the State Assembly move in the wrong direction and would be counterproductive. One such measure is eliminating high-rent vacancy decontrol. The current gradual deregulation provision motivates improvements to the stock and gradually frees the rental market from regulation and its costs. Second, re-regulating some apartments that have been deregulated would bring more higher-income households under regulation and further misallocate the benefits of regulation. While it is not possible to identify from available data which units in the unregulated sector were previously regulated,[57] the New York City Housing and Vacancy Survey provides some insight into the impact of re-control. Approximately 53 percent of households in the unregulated sector with rents of at least $2,000 and less than $5,000 per month have incomes of $100,000 or more. Re-regulating these apartments would bring into regulation many households not in need of protection, and do little or nothing to help provide affordable housing to low- and moderate-income households.

Similarly, Governor Paterson's proposal to raise from $2,000 to $3,000 the rent threshold for decontrol would not help low-income households obtain affordable housing and would be of limited benefit to those with moderate incomes. If the threshold is raised, as regulated units with monthly rents between $2,000 and $3,000 become vacant higher-income households are likely to move into them. Such households do not lack options in the unregulated rental market. Almost 92 percent of unregulated rental units have monthly rents below $3,000. The Governor's proposal to raise the ceiling will extend benefits to many households who can afford market rents. It will slow the pace of deregulation and a move toward a rental market that will take pressure off unregulated rents, with little or no rent benefit to households with low and moderate incomes.

Full vacancy decontrol (as opposed to the current high-rent vacancy decontrol) is a more comprehensive approach to expanding the stock of unregulated housing without harming the low- and moderate-income households that now occupy rent-regulated units – except to the extent that it increases tenant harassment to encourage a vacancy. About 130,000 regulated units are vacated in a single year compared to the 12,800 units that underwent high-rent vacancy decontrol in 2008.[58] However, full vacancy decontrol should not be pursued in the near term because of its adverse impact on the stock of affordable housing. Data for 2007 indicate the annual turnover rate for regulated apartments with rents under $1,000 per month is about 8 percent, and the rate for units renting from $1,000 to $1,500 per month is about 16 percent – roughly 47,600 units. Presumably many of these rents would escalate significantly if the vacated units were removed from regulation. Losses of this magnitude of housing affordable to lower-income households should not be promoted in the absence of better alternatives for providing affordable housing. Although there is no guarantee that low- and moderate-income households will be the ones obtaining the lower-rent regulated vacancies, it is likely that the nature of the housing and neighborhoods where such units are located will, for the most part, be less attractive to higher-income households. Even if these lower rents are currently market rents, keeping the units under regulation will prevent excessive increases as the local economy recovers from recession. While full vacancy decontrol may induce some upgrading of properties to attract higher-income tenants, the incentive is far weaker than under the high-rent vacancy decontrol provision currently in place.

Recommendation 1. Reduce inequities and expand the unregulated housing stock by phasing out benefits for all higher-income households.

Currently, high-income households lose rent protection only if their rent reaches $2,000 per month. Why should high-income households with lower rents maintain protection? The rationale is that if the household vacates such a unit, it will then be available for a household with a lower income; that is, it will be preserved as a reasonably priced housing unit. This is an unlikely outcome for two reasons. First, the lower the rent, the less likely it is that a household will vacate. Second, under the current system, upon vacancy, an owner is likely to move the rent of a unit attractive to a high-income household toward the $2,000 decontrol ceiling by making apartment improvements.

New legislation should phase out benefits for all high-income households. As noted earlier, regulation of units occupied by such households provides protection to those who do not need it, lowers the City's property tax revenues, and does nothing to help provide low- and moderate-income households with affordable housing. The definition of a high-income household is inherently arbitrary, but the current level of $175,000 could be lower; for example, $150,000 is three times the citywide median and $100,000 is twice the median. Households with such incomes can afford most unregulated rents; 30 percent of $150,000 covers a monthly rent of $3,750, and 30 percent of $100,000 covers a monthly rent of $2,500. In 2008, 97 percent of unregulated rents were below $3,750 and 87 percent were below $2,500. Fully 86 percent of the households in regulated units with incomes above $100,000 had rents below $2,000 per month, and the comparable figure for those with incomes above $150,000 was 78 percent. The phase-out could be implemented by allowing higher rent increases (for example, 20 percent annually) over a fixed number of years. Alternatively, they could be subject to deregulation after one or two additional years under the current rules.

Recommendation 2. Develop and expand effective programs to promote affordable housing.

The previous recommendation will improve rent regulation by better targeting the benefits to low- and moderate-income families, but it will not change the harsh fact that many low- and moderate-income households in New York City pay a high proportion of their incomes for rent. New York faces a daunting challenge in making housing affordable to those with modest incomes. As calculated from Table 9, citywide more than 1.1 million households in private rental units have incomes below $75,000 annually, and more than 60 percent of these households pay "unaffordable" rents in that their rent exceeds 30 percent of their income.[59] In dollar terms, the gap for these families between the 30 percent threshold and current rent burdens exceeds $5.2 billion annually.[60]

Rent regulation is one tool for addressing this enormous problem, but as the evidence in this report shows, it is an inefficient and ineffective tool. It is inefficient in that many of its benefits go to higher-income households rather than those most in need of affordable housing and in that it has harmful side effects such as higher rents for families in unregulated units and less adequate maintenance for regulated units. It is ineffective in that even among households protected by rent regulation the share paying rents above 30 percent of their income is high – about 59 percent for those with annual incomes below $75,000.

Much more effort and investment is needed to make housing more affordable in New York City. Enhanced strategies are needed to expand the housing supply and to increase the capacity of lower- and moderate-income households to pay economically necessary rents.

New construction is an important mechanism for increasing housing supply and reducing pressures on rents, especially in a city that has been experiencing population growth. Since the nature of the supply-side problems is primarily local in character, it falls on local government to remove obstacles, paying particular attention to whether its own policies and regulations are part of the problem.

Municipal officials have taken some steps in the right direction. Several of the City's programs providing tax abatements and tax exemptions are directed at stimulating new construction. In 2008 the 421-a program, which requires a certain amount of linked affordable housing production, was modified in a way that could increase the production of affordable housing.[61] The Bloomberg administration and the City Council have modernized the building code, which should help reduce construction costs. The City also has undertaken extensive rezoning that allows for some net increase in residential development.[62] In addition, the Bloomberg administration has been implementing a major initiative to preserve or build 165,000 units of affordable housing by 2014, with an anticipated average public subsidy of about $51,600 per unit. While the initiative is large in scale for a local government, the number of affordable units preserved or produced will be small relative to the number of households in need.[63] The City's efforts to promote and preserve housing supply are helpful, although more emphasis on dealing with the factors creating high construction costs – especially those that are the result of government policies – could make them even more effective.[64]

On the demand side, federal housing programs, in particular Section 8 vouchers, provide rental assistance for low-income families, but these programs are inadequate to meet the needs. For the income maintenance programs, Temporary Assistance to Needy Families (TANF) and Supplemental Security Income, the level of support is extremely low.[65] The City has funded the Senior Citizens Rent Increase Exemption (SCRIE) through property tax abatements to owners. It covers rent increases in excess of 33 percent of income for elderly households with annual incomes of $29,000 or less. SCRIE aids about 46,000 households at a current annual cost of about $88 million. The City also provides similar support to individuals with disabilities through the Disability Rent Increase Exemption program, which helps about 8,000 recipients at a current annual cost of $21 million.[66]

Given the size of the affordability gap noted above, it is beyond the capacity of local government to provide direct housing support to all families that need it; and, moreover, such income-redistribution initiatives can have adverse fiscal consequences at the local level.[67] The more appropriate roles for the City are to reduce barriers created by its own policies, to continue streamlining existing programs, and to develop and test new programs that might serve as national models.

APPENDIX A: Rent Regulation in Other American Cities

During World War II the federal government mandated rent controls in major American cities in response to the prohibition of new rental construction (enacted to save building materials for defense production) and to increased demand for housing from an influx of workers to metropolitan areas. Federal rent control lasted in New York City from 1943 to 1951. Most communities, except for New York City, disbanded their rent controls soon thereafter. By the mid-1950s, New York State was the only state to retain rent controls.[68]

In response to double-digit inflation and rising rents in the 1970s, many communities in the Northeast and California enacted new rent control laws. By the mid-1980s, 200 communities had some form of rent control.[69] The communities were in New York, New Jersey, Massachusetts, California and Washington, DC. These newer laws have been referred to as "second-generation" controls because they provided for greater flexibility in adjusting rents than the stricter form of regulation introduced during World War II.

More recently, most municipalities and states with rent regulations have trended toward reduced regulation, either through vacancy decontrol, "vacancy de-regulation/re-regulation" (explained below), expanded provisions for annual rent increases, or the elimination of rent regulation measures. The American Housing Survey conducted by the U.S. Census Bureau in 2007 found that 3.7 percent of renter-occupied units in central cities were rent-regulated.[70]

In Massachusetts, the cities of Boston, Cambridge, Brookline, Somerville and Lynn adopted rent regulations in the early 1970s.[71] By 1979, following a change in state law requiring local approval for rent regulations, regulations remained only in Boston, Cambridge and Brookline. In 1975 Boston passed vacancy decontrol, which permanently removed a unit from regulation upon vacancy, resulting in a reduction in the number of regulated units from 100,000 to 25,000 by 1983. In 1994, a statewide ballot referendum ended rent regulations entirely. Massachusetts had approximately 40,000 rent-regulated units at the time, including 20,000 units in Boston. In order to ease the transition to a market system, the state legislature provided one- or two-year extensions for lower-income tenants, with special thresholds for the elderly or disabled. Under the Massachusetts Rent Control Prohibition Act (1994), municipalities are permitted to enact rent control only with significant restrictions, including that the municipality must compensate owners of rent-controlled units from general fund sources for the difference between each unit's "fair market rent" and "rent controlled rent."[72]

Since the late 1970s, local rent regulation laws have existed in several Californian cities, including San Francisco, Los Angeles, Santa Monica, Berkeley, West Hollywood, East Palo Alto and Cotati. Local rent regulation laws in these municipalities must follow the requirements of state law, embodied in the 1995 Costa-Hawkins Rental Housing Act. Among other provisions, the Costa-Hawkins Act exempts housing constructed after 1995 (while keeping all existing regulations in place), requires "vacancy de-regulation/re-regulation" provisions, and exempts single-family homes from regulation.[73] The "vacancy de-regulation/re-regulation" provisions allow landlords to increase the rent on rent-regulated units to market rates when a tenant vacates the apartment. The new rent is then subject to the annual percentage increase limits mandated by local guidelines until the new tenant moves out.

In Los Angeles rent regulation applies to units built prior to October 1, 1978.[74] According to a 2009 report by the Los Angeles Housing Department, about 638,051 rental units, or two-thirds of renter-occupied units in Los Angeles, are subject to regulation.[75] All units are allowed an annual rent increase in accordance with the local Rent Stabilization Ordinance. The rent increase for the year ending June 30, 2009, was 3 percent. Landlords can also apply for rent increases for capital improvements or for a "just and reasonable" cause. Similarly, San Francisco has had rent regulations since June 1979.[76] Annual rent increases are set at 60 percent of the consumer price index. Landlords can apply for additional rent increases for capital improvements or increases in operational costs. About 170,000 rental units, or about 81 percent of the rental housing stock in San Francisco, are rent-regulated.[77]

In Washington, DC, rental units built before 1976 are subject to rent regulations.[78] For households in which the head is neither elderly nor disabled, the rent may be increased annually at a rate of the consumer price index plus 2 percent, up to an annual increase of 10 percent. Upon vacancy, the landlord may increase the rent to the level of a "comparable rental unit," up to a 30 percent increase. Landlords may also petition for rent increases for hardship, capital improvements, increased services, substantial rehabilitation, or an agreement with 70 percent of the tenants.

New Jersey passed its first rent control act in 1953.[79] The act required that the municipality prove existence of a housing shortage and the necessity of rent control. However, in 1957 the New Jersey Supreme Court revoked this act, making rent control legislation a statewide matter.[80] In 1973, after rents were briefly regulated under federal price controls again, New Jersey reversed its state law and allowed municipalities to decide on their own rent regulations if they have a "critical housing need."[81] As of 2007, 98 out of 566 municipalities had some degree of rent regulation, including the cities of Hoboken, Jersey City, Newark, Camden and New Brunswick.[82] All New Jersey rent regulation laws allow an annual rent increase, although the increase varies by city. Some increases are tied to the consumer price index; others are a set annual percentage. Some cities also allow for rent increases for capital improvements, increases in the cost of utilities, and/or increased taxes. Most New Jersey cities with rent regulations also have "hardship provisions."[83] A hardship increase is allowed when a landlord is not making a "fair rate of return" on his or her investment. Additionally, approximately 80 percent of the New Jersey municipalities with rent regulations now have some form of "vacancy de-regulation/re-regulation."[84]

APPENDIX B: Predicting Unregulated Rents for the Regulated Rental Housing Stock

To predict what a regulated dwelling would rent for in the unregulated housing market, a regression equation was constructed relating the natural log of monthly contract rent to the dwelling characteristics of occupied private, unregulated units in which a new tenant took occupancy from 2006 through early 2008.[85] These units accounted for 43 percent of the units in the unregulated sector. By limiting the sample to units with new tenants, the analysis offers a reasonable prediction of what a regulated unit would rent for if it were placed on the unregulated rental market. The regression results are summarized in Table B-1.

The predictions from this model indicate what a single unit would rent for if it were deregulated. They do not indicate what rents would be if a large number of units were deregulated or if the market were fully deregulated. However, the results are useful for examining the distribution of subsidies and for predicting initial asking rents under partial or full deregulation.

Table B-1: Summary of Regression Analysis for Unregulated Rents

Variable	Coefficient Value	t-statistic
Constant	7.1505	40.44 *
Number of Bedrooms	0.1807	16.85 *
Number of Non-bedrooms	0.0805	6.04 *
1 to 5 Units in Building	-0.0361	-0.76
6 to 19 Units in Building	0.0322	0.66
50 to 99 Units in Building	-0.1237	-2.61 *
100 or More Units in Building	0.3177	7.18 *
Passenger Elevator in Building	0.0498	1.08
Old Law Tenement Built Before 1901	0.0769	1.76
New Law Tenement Built Between 1901 and 1929	-0.0106	-0.27
Built Before 1929 but Not New or Old Tenement	0.0050	0.14
Built Between 1930 and 1946	-0.0011	-0.03
Built Between 1970 and 1989	-0.0043	-0.09
Built Between 1990 and 1999	0.0843	1.31
Built 2000 or Later	-0.0414	-1.28
Number of Maintenance Deficiencies	0.0144	1.45
Building Condition Rated Sound	0.0439	0.68
Number of Condition Problems in Unit	-0.0090	-0.32
Structures in Area Rated as Good or Excellent	0.0186	0.97
Broken or Boarded-up Windows in Area	-0.0611	-1.59
Commute Time to Central Business District	-0.0035	-3.64 *
Median Sub-borough Income (divided by 1,000)	0.0027	1.56
Electricity Included in Rent	-0.0706	-2.61 *
Mott Haven, Morrisania, Highbridge or Fordham	-0.7671	-5.82 *
Soundview, Pelham, Williamsbridge or Kingsbridge	-0.5988	-5.03 *
Park Slope, Bay Ridge or Flatlands	-0.4059	-4.85 *
Williamsburg, Lower East Side or Brooklyn Heights	-0.1602	-1.72
Borough Park, Bedford Stuyvesant, Bushwick, East New York, Coney Island, Brownsville, North Crown Heights or South Crown Heights	-0.5847	-5.14 *
Rockaways, Bensonhurst or Sheepshead Bay	-0.6349	-5.76 *
Flatbush, Sunset Park or East Flatbush	-0.6343	-6.14 *
Greenwich Village, Chelsea or Stuyvesant Town	-0.0685	-1.55
East Harlem, Morningside, Central Harlem or Washington Heights	-0.5648	-4.99 *
Astoria, Sunnyside, Jackson Heights or Elmhurst	-0.4039	-4.25 *
Jamaica, Flushing, Kew Gardens, Riverdale, Throgs Neck or Middle Village	-0.5436	-5.81 *
Hillcrest, Forest Hills, Howard Beach, Bayside or Bellerose	-0.4587	-4.90 *
Staten Island	-0.6703	-7.67 *

*Statistically significant at the 5 percent level.

Note: The adjusted R-squared is 0.502. The dependent variable is the natural log of "monthly contract rent." Number of unweighted observations equals 2,123. Omitted "dummy" variables are: "20 to 49 Units;" "Built Between 1947 and 1969;" and "Upper West Side and Upper East Side." Dummy variables explicitly included are measured relative to the omitted categories.

Source: CBC analysis of 2008 New York City Housing and Vacancy Survey.

APPENDIX C: Estimating Rents if Rent Regulation Were Fully Eliminated

The predicted unregulated rents used to estimate tenant benefits or "discounts" are not the same rents that would prevail if rent regulation were to be fully eliminated. The predicted unregulated rent is a measure of the rent on a single regulated unit if only that unit, or a small number of units, were deregulated. If all units were simultaneously deregulated, significant market rent adjustments would occur. The rents in a fully deregulated market provide a better basis for estimating aggregate changes in rent, benefits to tenants, and property tax impacts associated with rent regulation.

Reasonable modeling assumes that rents would be lower than they currently are in the unregulated market. Why? Because some households obtaining regulated housing would not be able (or choose) to compete for housing in an unregulated market. Thus, more households are in the market when there is regulation. The result is increased competition for unregulated housing when a portion of the market is subject to regulation, forcing up rents in the unregulated sector, with perhaps some pressure on prices in the ownership sector as well.[86] The larger the portion of the housing market that is regulated, the more unregulated rents will be driven up because a larger number of households that cannot afford (or would not choose) unregulated rents will be able to occupy regulated units. The fact that 57 percent of private rental housing units[87] are regulated suggests that, on average, there should be a significant difference between a unit's predicted unregulated rent and what it would rent for in a fully deregulated market.[88]

In order to make our estimate of aggregate rents if rent regulations were fully eliminated, we assume: If rents under full deregulation are x% below currently unregulated rents, then rents on apartments in the unregulated sector would fall by x% upon deregulation and rents in the formerly regulated sector would end up with market rents x% below their predicted unregulated rent as the entire rental market adjusted to deregulation. The prediction of rent under full deregulation is calculated as:

[(100-x%)/100) times predicted unregulated rent]

for formerly regulated units, and as:

[(100-x%)/100) times unregulated rent]

for units that had not been subject to regulation. For example, if fully deregulated rent is 10 percent below the predicted unregulated rent, then fully deregulated rent for a regulated unit would equal (.90 times predicted unregulated rent). Similarly, rents on units not subject to regulation would be expected to be equal to 90 percent of what they are in the unregulated sector while a portion of the market is subject to regulation.

Our regression analysis has indicated that, on average, regulated rents represent a 31 percent discount from predicted unregulated rents. We do not have a precise technique for determining how much unregulated rents would fall if rent regulation were fully eliminated (our x% factor above). Therefore, we explore a number of alternative assumptions about this adjustment.

We examined four scenarios:

1. Assume fully deregulated rents are 10% below current unregulated rents.
2. Assume fully deregulated rents are 15% below current unregulated rents.
3. Assume fully deregulated rents are 20% below current unregulated rents.
4. Assume fully deregulated rents are 25% below current unregulated rents.

Each of these scenarios leads to a change in aggregate rents, resulting from increases in currently regulated rents and decreases in currently unregulated rents. Scenario 2, a 15 percent decline in unregulated rents upon full deregulation, is about half the size of our mean predicted "discount" of 31 percent (the percentage by which the actual mean regulated rent falls below its mean predicted unregulated rent). This "half-way point" scenario is selected as reasonable because of the absence of an *a priori* reason to assume that the decline would be toward either the high or low end of the 31 percent range. Specifically, the mean regulated rent is predicted to rise from $1,023 to $1,485. Thus, regulated rents are, on average, 31 percent below predicted unregulated rents. If rents with full deregulation are 15 percent below current (2008) unregulated rents, then a fall in our predicted unregulated rents would reduce the predicted increase by approximately half to $1,262.

Table C-1: Assuming Full Deregulation: Estimating Mean Rents and Aggregate Change in Rent

	Regulated	Unregulated	Total Private Rental Units
Step 1: Predict monthly rent increase to unregulated rents for regulated apartments.			
Number of Units (000s)	903	669	1,572
2008 Mean Monthly Contract Rent	$1,023	$1,554	$1,249
Mean Monthly Predicted Unregulated Rent	$1,485	NAP	NAP
Predicted Mean Monthly Benefit to Regulated Units	$462	NAP	NAP
Percent Increase from Regulated to Unregulated Rent	45.2%	NAP	NAP
Percent Decrease from Unregulated to Regulated Rent	(31.1%)	NAP	NAP
Step 2: Assume unregulated rents fall 15 percent with full deregulation.			
Estimated Mean Monthly Rent with Full Deregulation	$1,262	$1,321	$1,287
Estimated Adjusted Mean Monthly Benefit to Regulated Units	$239	NAP	NAP
Estimated Decline in Mean Monthly Unregulated Rent with Full Deregulation	NAP	($233)	NAP
Estimated Aggregate Annual Rent Increase/(Decrease) (*$ millions*)	$2,593	($1,872)	$721

NAP = Not Applicable

Note: Excludes households receiving government housing assistance and households paying zero rent. It is assumed that households with zero rent would also pay zero rent if there were deregulation.

Source: CBC analysis of 2008 New York City Housing and Vacancy Survey.

Table C-1 shows the calculations that yield a net change in aggregate annual rents of $721 million under the assumption that with full deregulation unregulated rents would fall by 15 percent. Table C-2 shows the results for a number of other assumptions. If rents fell by only 10 percent, the net change in aggregate annual rents would be over $2 billion. On the other hand if unregulated rents fell by either 20 percent or 25 percent, aggregate rent would fall, as the smaller increases in the rents of previously regulated units would be more than offset by the larger declines in rent in the unregulated sector.

Table C-2: Alternative Scenarios for Aggregate Change in Rent upon Full Deregulation

	Regulated	Unregulated	Total Private
Assume unregulated rents fall 10 percent with full deregulation			
Estimated Mean Monthly Rent with Full Deregulation	$1,337	$1,399	$1,363
Estimated Adjusted Mean Monthly Benefit to Regulated Units	$314	NAP	NAP
Estimated Decline in Mean Monthly Unregulated Rent with Full Deregulation	NAP	($155)	NAP
Estimated Annual Rent Increase/(Decrease) *($ millions)*	$3,397	($1,248)	$2,150
Assume unregulated rents fall 20 percent with full deregulation			
Estimated Mean Monthly Rent with Full Deregulation	$1,188	$1,243	$1,211
Estimated Adjusted Mean Monthly Benefit to Regulated Units	$165	NAP	NAP
Estimated Decline in Mean Monthly Unregulated Rent with Full Deregulation	NAP	($311)	NAP
Estimated Annual Rent Increase/(Decrease) *($ millions)*	$1,788	($2,495)	($707)
Assume unregulated rents fall 25 percent with full deregulation			
Estimated Mean Monthly Rent with Full Deregulation	$1,114	$1,166	$1,136
Estimated Adjusted Mean Monthly Benefit to Regulated Units	$91	NAP	NAP
Estimated Decline in Mean Monthly Unregulated Rent with Full Deregulation	NAP	($389)	NAP
Estimated Annual Rent Increase/(Decrease) *($ millions)*	$983	($3,119)	($2,136)

NAP = Not Applicable

Note: Excludes households receiving government housing assistance and households paying zero rent. It is assumed that households with zero rent would also pay zero rent if there were deregulation.

Source: CBC analysis of 2008 New York City Housing and Vacancy Survey.

APPENDIX D: Annual Property Tax Revenue Gain from Full Deregulation

In Appendix C the net annual aggregate rent increase associated with full deregulation is estimated to be $721 million. This net is a result of a rise in currently regulated rents and a decline in currently unregulated rents.

To convert this difference in rental income into an annual property tax revenue amount, we first assume that the increase in aggregate annual rent is not accompanied by any increase in expenses other than taxes, so the change in aggregate rent is equivalent to a change in net revenue. The next steps are:

1. To determine the change in market value, capitalize the $721 million rent income increase. The capitalization rate is the average used for tax year 2009-10 by the New York City Department of Finance for apartment buildings with 10 or more units, 14.434 percent.[89] This yields an estimated increase in capital value of $4,995 million.

2. Adjust the estimated increase in market value of $4,995 million to increased assessed value. Using the Department of Finance's assessment ratio of 0.45 yields an estimated increase in assessed value of $2,248 million.

3. Apply the 2008-09 Class 2 statutory tax rate ($12.596 per $100 of assessed value) to this estimated change in assessed value. This yields an estimated property tax collection increase of $283 million.

No adjustment is made for phasing in market or assessed values (as the property tax works in practice). The object here is to estimate the full potential tax increase.

APPENDIX E: Space Consumption Model

To determine if a unit's control status has a significant impact on the allocation of space per person in the rental market, a regression equation was constructed to relate the number of rooms per person to control status, controlling for household income, number of persons in the household and the borough location of the unit. The sample of households used for the regression included all private sector rent-regulated units and all private sector unregulated rental units. The regression finds that households in rent-controlled units consume significantly more space than households in unregulated rental units, and households in rent-stabilized units consume significantly less space. The regression results are summarized in Table E-1.

Table E-1: Summary of Regression Analysis of Space Consumption

Variable	Coefficient Value	t-statistic
Constant	2.9829	119.27 *
Total Household Income (divided by 1,000)	-0.0004	-3.95 *
Number of Persons in Household	-0.4781	-77.22 *
Rent-Controlled	0.4688	7.61 *
Rent-Stabilized	-0.1614	-9.06 *
Bronx	0.1998	7.42 *
Brooklyn	0.1815	7.65 *
Queens	0.1501	5.91 *
Staten Island	0.1843	3.76 *

*Statistically significant at the 5 percent level.

Note: The adjusted R-squared is 0.621. The dependent variable is rooms per person. The number of unweighted observations equals 10,125. Omitted dummy variables are: "Unregulated" and "Manhattan." Dummy variables explicitly included are measured relative to the omitted categories.

Source: CBC analysis of the 2008 New York City Housing and Vacancy Survey.

ENDNOTES

[1] The analysis and recommendations in this report focus on the impact of rent regulations on rent levels. Rent regulation laws provide non-rent protections to affected tenants, such as the right to lease renewal with an option of a one-year or two-year lease. These non-rent protections are not assessed in this report. CBC released a preliminary report on rent regulation titled "Nine Facts New Yorkers Should Know About Rent Regulation" in July 2009. On July 9, 2009, the U.S. Census Bureau revised the weighting of the 2008 New York City Housing and Vacancy Survey, the primary data source for this report and the preliminary report. This report uses survey data after the revised weighting; the July 2009 preliminary report uses survey data prior to the revisions. Although the revisions did not have a significant impact on our findings, the figures in the preliminary report do not exactly match the data in this report. In addition, the data analysis has been modified from the July 2009 report in some technical ways.

[2] Much of this section relies on Timothy Collins, "An Introduction to the New York City Rent Guidelines Board and the Rent Stabilization System," New York City Rent Guidelines Board, March 2006. Retrieved April 19, 2010, from http://www.housingnyc.com/html/about/intro/toc.html (hereafter "RGB Introduction").

[3] Rent control, previously introduced in New York City in 1920, was eliminated by 1929. RGB Introduction, pp. 20-21.

[4] In 1953 vacant apartments in one- and two-family homes were decontrolled. In 1958, 1964, and 1968 apartments with high rents underwent "luxury decontrol." RGB Introduction, p. 13.

[5] "City Charges Landlords Gouge Renters of Uncontrolled Units," *The New York Times*, July 22, 1968.

[6] The 1969 law charged the Rent Stabilization Association (RSA), an owners' group, with drafting a code governing lease renewals, evictions, and other owner-tenant matters. A separate Conciliation and Appeals Board also was created in 1969 to address tenant challenges to rent increases and evictions. It was abolished in 1983. The RSA lost its code-making authority two years later. It remains an active trade organization. RGB Introduction, pp. 29-30. The RGB is currently composed of nine members – two representing owners, two representing tenants, and five representing the public.

[7] The "maximum base rent" is currently adjusted every two years to reflect changes in the cost of operating and maintaining housing. The "maximum collectible rent," however, cannot increase more than 7.5 percent per year. Retrieved April 19, 2010, from http://www.nysdhcr.gov/Rent/FactSheets/orafac22.htm.

[8] Nassau, Rockland, and Westchester counties are also covered by the ETPA.

[9] A "Fair Market Rent Appeal" process allows an incoming tenant to challenge this initial rent as not bearing a relationship to a "fair" market rent. RGB Introduction, p. 79.

[10] Laws of New York State, Emergency Tenant Protection Act of 1974, Section 2 and Section 3, subdivision (a). New York City Administrative Code, Chapter 3, Section 26-401 and Section 26-414.

[11] A few other jurisdictions in New York State have had some form of rent control in effect since World War II. Other cities adopted rent controls, mostly during the 1970s, in the face of rising urban rents. Rent regulations still exist in Los Angeles, San Francisco, Washington, DC, and some New Jersey jurisdictions. See Appendix A.

[12] In 1994 the DHCR interpreted the statute to mean that the new tenant had to agree to a rent of $2,000 or more. In 1997 the New York City Council tried to interpret it to mean that the *vacating* tenant's legal rent had to be $2,000 in order for the unit to be decontrolled, but state legislation overrode this city regulation. See New York City Rent Guidelines Board, "Changes to the Rent Stabilized Housing Stock in New York City in 2008," June 4, 2009, p. 6. Available from http://www.housingnyc.com/downloads/research/pdf_reports/changes2009.pdf.

[13] The 20 percent increase is for a two-year lease. The permissible vacancy increase for a one-year lease is lower and depends on the specific guidelines for any given guidelines year, which runs from October 1 through September 30.

[14] Owners have been required to report high-rent vacancy deregulation to DHCR only since 2001, and compliance with this requirement is incomplete; thus, the numbers reported in Table 1 for high-rent vacancy decontrol are lower bounds.

[15] In the earlier years reported in Table 1, conversion of regulated apartments to cooperatives or condominiums was the major source of losses from the regulated stock. Originally, conversion plans required that tenants holding at least 35 percent of the prospective shares agree to the building's conversion; once the plan became effective, tenants who did not buy could be evicted. In the early 1980s a non-eviction plan was introduced that allowed an owner/sponsor to undertake conversion with agreement of tenants holding only 15 percent of the prospective shares, and those not wishing to buy retaining the right to remain as rent-regulated tenants. This change greatly facilitated conversions. While demand for ownership (driven by rising incomes and the tax benefits) was an important factor in motivating conversions, a non-eviction conversion allowed owners to decontrol rental units as regulated tenants vacated. Hence, even in the absence of a strong demand for multiple-dwelling forms of ownership, the opportunity to decontrol regulated housing units created an incentive for owners to institute non-eviction conversion plans. The slowed rate of subtractions from the regulated stock due to conversions in more recent years indicates not only that fewer conversions are taking place, but also that the number of regulated units remaining in converted buildings is dwindling. While rent regulations played some role in the past in promoting conversions, opportunities for conversion appear now to be nearly exhausted.

[16] In the earlier years of the J-51 program, prior to the inception of rent stabilization, units were required to be placed under rent control.

[17] Recent court decisions involving apartments in Stuyvesant Town and Peter Cooper Village relate to the interaction of requirements under the J-51 program and the 1993 deregulation provisions; the October 2009 Court of Appeals decision concluded that units in properties receiving J-51 benefits were not eligible for deregulation. Roberts v. Tishman Speyer Props., L.P. 13 NY3d 270. New York State Court of Appeals. 22 Oct. 2009. Also see Harold Shultz, "Court of Appeals Delivers Final Word on Stuy Town," *Inside Edge*, Citizens Housing and Planning Council, November 2009. Available from http://chpcny.org/pubs/Court%20of%20Appeals%20Decides%20Stuy%20Town.pdf.

[18] New York State Legislature, A2005/S2237A (2010).

[19] New York State Legislature, A1688/S749 (2010).

[20] New York State Department of Housing and Community Renewal, Press Release, May 26, 2010. Retrieved May 26, 2010, from http://www.dhcr.state.ny.us/PressRoom/news100526.htm. Also, see endnote 17.

[21] Estimate based on revenues in the New York State miscellaneous special revenue fund for "NYC Rent Rev" from the New York State Division of the Budget, *Fiscal Year 2009-10 Enacted Budget*, April 1, 2009, p. 332. Total estimate includes $41,052,000 deposited in the "NYC Rent Rev" fund and $225,000 for the administration of rent control.

[22] Estimate provided by the New York City Department of Housing Preservation and Development.

[23] New York City Office of Management and Budget, *Revenue Financial Plan Detail for Fiscal Years 2010-2014, January 2010 Financial Plan*, January 28, 2010, p. 44.

[24] The data presented in this report, unless otherwise indicated, are from the 2008 New York City Housing and Vacancy Survey (HVS) or earlier versions. This sample survey is undertaken generally every three years in order to provide an estimate of the rental vacancy rate and to assess conditions in the rental housing market. In this report, 2008 figures from the HVS are sometimes referred to as "current." Tables and analysis using the HVS are based on occupied housing only, unless otherwise specified. Data retrieved July 13, 2009, from http://www.census.gov/hhes/www/housing/nychvs/2008/nychvs08.html. The number of rent-stabilized units reported in the HVS differs from data reported by DHCR, which is based on registration numbers.

[25] U.S. Department of Housing and Urban Development, Office of Policy Development and Research and the U.S. Department of Commerce, Economics and Statistics Administration, U.S. Census Bureau, *American Housing Survey for the United States: 2007,* Series H-150, Issued September 2008, p. 12, Table 1B-1 Introductory Characteristics – All Housing Units Central Cities. Available from http://www.census.gov/prod/2008pubs/h150-07.pdf.

[26] The vacancy rate is calculated as the number of vacant available units divided by the sum of occupied rental units and vacant available units. The largest city in each metropolitan statistical area is designated a "principal city." Additional cities qualify if specified requirements are met concerning population size and employment. National data is from the U.S. Census Bureau, Housing and Household Economic Statistics Division, *Housing Vacancies and Homeownership, Annual Statistics: 2008*, Table 1, Rental and Homeowner Vacancy Rates by Area. Retrieved April 19, 2010, from http://www.census.gov/hhes/www/housing/hvs/annual08/ann08ind.html.

[27] Calculated by CBC as vacant units available for rent divided by the sum of vacant units available for rent, vacant but rented units, and occupied rental units. Based on data from the U.S. Census Bureau, *2008 American Community Survey - 1 Year Estimates,* Table B25004: Vacancy Status.

[28] See endnote 26.

[29] A unit in this category cannot have been vacated since 1970. For family members or other co-habitants to have succession rights, they must have resided in the unit for two years or more.

[30] The 2008 New York City Housing and Vacancy Survey indicates that in the regulated sector 13 percent of the under $20,000 income group has a household head 30 years of age or younger, and 34 percent of this group has a household head of at least 65 years of age.

[31] Increases in rents are compounded. Calculation assumes tenant initiated lease between January 1, 1993, and October 1, 1993, and tenant does not pay for heat separately. CBC analysis of New York City Rent Guidelines Board, Apartment Orders #25 through #39. Available from http://www.housingnyc.com/downloads/guidelines/aptorders2010a.pdf.

[32] Many of the subsequent tables exclude households receiving government housing assistance or paying zero rent. This filtering of households yields results similar to those obtained by using "out-of-pocket rent" instead of contract rent.

[33] Of the 278,587 households in regulated units in Manhattan in the analysis in Table 7, 102,390, or 37 percent, have annual incomes below $35,000, and 25 percent have incomes of $100,000 or more.

[34] The most reasonable assumption is that the adjustment to full deregulation will lower unregulated rents by about half the amount of the 31 percent discount of 2008 regulated rents from 2008 unregulated rents. We use this half-way point because there is no *a priori* reason to assume it would be larger or smaller.

[35] This estimate excludes households in government housing programs and those not paying any rent. Aggregate benefits should not be calculated based on the 31 percent discount reported in Table 6 because the discount would fall if all units were deregulated.

[36] The federal program's definition of income allows for some adjustments to income. Our analysis uses 30 percent without any adjustments. This difference is unlikely to alter substantially the magnitude of the estimates presented.

[37] The 2003 American Housing Survey (AHS) is the most recent one for New York. Earlier AHS data indicate that New York City's rate of new construction is low compared to other large central cities. From 1995 through 1999 the average annual New York City rate for rental housing was 0.07 percent, compared to 0.42 percent for Detroit, 0.25 percent for Chicago, and 0.23 percent for Los Angeles. U.S. Department of Housing and Urban Development, Office of Policy Development and Research and the U.S. Department of Commerce, Economics and Statistics Administration, U.S. Census Bureau: *American Housing Survey for the New York-Nassau-Suffolk-Orange Metropolitan Area: 2003,* Series H-170, Issued December 2004, p. 102, Table 4-1 Introductory Characteristics – Renter Occupied Units, Sub-area One; *American Housing Survey for the New York-Nassau-Suffolk-Orange Metropolitan Area: 1999,* Series H-170, Issued March 2001, p. 92, Table 4-1 Introductory Characteristics – Renter Occupied Units, Sub-area One; *American Housing Survey for the Detroit Metropolitan Area: 1999,* Series H-170, Issued March 2001, p. 92, Table 4-1 Introductory Characteristics – Renter Occupied Units, Sub-area One; *American Housing Survey for the Chicago Metropolitan Area: 1999,* Series H-170, Issued March 2001, p. 92, Table 4-1 Introductory Characteristics – Renter Occupied Units, Sub-area One; *American Housing Survey for the Los Angeles-Long Beach Metropolitan Area: 1999,* Series H-170, Issued March 2001, p. 92, Table 4-1 Introductory Characteristics – Renter Occupied Units, Sub-area One. Retrieved April 19, 2010, from http://www.census.gov/hhes/www/housing/ahs/metropolitandata.html.

[38] These recent completion rates appear high compared to many previous years shown in Figure 1. Compared to housing production in even earlier periods, however, these recent rates are relatively low. In the early 1960s, new production reached 60,000 in a single year, a level driven by the anticipation of a 1964 zoning law change. In the 1920s completions exceeded 100,000 units in two different years. RGB Introduction, p. 22.

[39] During the 2004-2008 period, the number of permits for new construction grew from 25,208 to 33,911. In 2009 the number of permits issued in New York City dropped 82 percent, from 33,911 to 6,057. U.S. Bureau of the Census, Manufacturing, Mining and Construction Statistics, *Monthly Building Permits Data by County*. Retrieved April 19, 2010, from http://censtats.census.gov/bldg/bldgprmt.shtml.

[40] R.S. Means Construction Cost Data., reported in Jerry Salama, Michael Schill and Jonathan Springer, *Reducing the Cost of New Housing Construction in New York City: 2005 Update,* Furman Center for Real Estate and Urban Policy, New York University, 2005, Table 4. Available from http://furmancenter.org/files/publications/NYCHousingCost2005.pdf.

[41] Jerry Salama and Michael Schill, *Reducing the Cost of New Housing Construction in New York City*, Furman Center for Real Estate and Urban Policy, New York University, 1999. Available from http://furmancenter.org/files/publications/NYCHousingCost.pdf.

[42] In 2008 the City of New York introduced the first modernization of the building code since 1968. See Sewell Chan, "New Construction Codes Take Effect," *New York Times*, July 1, 2008. Retrieved April 19, 2010, from http://cityroom.blogs.nytimes.com/2008/07/01/new-construction-codes-take-effect/?scp=14&sq=new%20york%20city%20building%20code&st=cse. See also New York City Department of Buildings, "New NYC Construction Codes: Building Code Revisions." Retrieved April 19, 2010, from http://www.nyc.gov/html/dob/html/model/ibc.shtml.

[43] The rent stabilization law initially applied to buildings with six or more units and a certificate of occupancy dated prior to March 11, 1969. RGB Introduction, p. 29.

[44] The number of households excludes those in government programs or paying zero rent. The $1.9 billion figure is calculated from Table 10 as follows: $233 mean benefit per month x 12 months x 669,000 households.

[45] The analysis ignores any changes associated with upgrading or downgrading of rental property as well as any changes in the ownership sector. It also does not address the possibility of further investment in new construction.

[46] In practice, caps on increases in assessed or market values constrain how much taxable assessed value can increase. These caps are not reflected in this analysis; it indicates the full potential annual tax loss associated with regulation.

[47] The Census field agents report on the condition of external walls, windows, stairways and floors.

[48] Maintenance deficiencies include toilet breakdowns, heating equipment breakdowns, additional sources of heat needed, presence of mice and rats, cracks or holes in interior walls or floors, broken plaster or peeling paint on ceiling or inside walls and water leakage inside apartment.

[49] A 5 percent level of significance is used for all statistical tests in this report.

[50] One study of New York City showed some adverse effects on maintenance when rent-controlled housing was compared to rent-stabilized housing and unregulated housing. It found stabilized housing to be more like unregulated housing. Choon-Geol Moon and Janet G. Stotsky, "The Effect of Rent Control on Housing Quality Change: A Longitudinal Analysis," *The Journal of Political Economy*, Vol. 101, No. 6 (Dec., 1993), pp. 1114-1148.

[51] Because owners do not have to file applications for individual apartment improvements (although for rent-controlled apartments a notice of increase must be filed with DHCR and for rent-stabilized apartments a tenant consent form is required if the unit is occupied), data on the frequency and extent of improvements for stabilized housing are not available. See New York State Division of Housing and Community Renewal, "Rent Stabilization/Control: Frequently Asked Questions." Retrieved April 28, 2010, from http://www.dhcr.state.ny.us/Rent/faqs.htm.

[52] To be eligible for an MCI rent increase, the improvement must be a new installation and not a repair of old equipment. After the owner submits an application, the DHCR notifies tenants and gives them an opportunity to submit responses to the application. The DHCR will issue an order either granting the application in whole or in part or denying the application. If an application is approved, 1/84 of the cost is added to the monthly rent. For rent-stabilized apartments, the rent adjustment collectible in any one year is capped at 6 percent of the tenant's rent; for rent-controlled apartments the adjustment collectible in any one year may not exceed 15 percent of the tenant's rent. If the DHCR approves an application for a rent adjustment, the owner may adjust the rent during the term of an existing lease only if the lease contains a clause specifically authorizing such an increase. In contrast, rent increases for individual apartment improvements made while an apartment is vacant do not require an approval process. See New York State Division of Housing and Community Renewal, "Fact Sheet #24: Major Capital Improvements." Retrieved April 28, 2010, from http://www.dhcr.state.ny.us/Rent/FactSheets/orafac24.pdf.

[53] A study of the impact of decontrol in Cambridge, Massachusetts concludes that rent controls in that city had been a significant deterrent to investment in existing housing and suggests that the Cambridge experience is evidence that regulation has discouraged investment in New York City. While the Cambridge regime had provisions for rent increases tied to capital improvements, there was no potential for vacancy decontrol; therefore, the Cambridge system lacked the same strong incentive to make improvements as the current New York City system. Accordingly, the Cambridge results cannot be generalized to the current system in New York. They are more indicative of what occurs under a more restrictive set of controls. See Henry Pollakowski, "Rent Control and Housing Investment: Evidence from Deregulation in Cambridge, Massachusetts," Civic Report 36, Manhattan Institute for Policy Research, May 2003. Available from http://www.manhattan-institute.org/pdf/cr_36.pdf.

[54] David Bartelt and Ronald Lawson, "Rent Control and Abandonment: A Second Look at the Evidence," *Journal of Urban Affairs*, Vol. 4, No. 4 (Sept., 1982), pp. 49-64.

[55] An alternative method for evaluating space consumption relative to an unregulated market is to compare New York City's regulated households' space consumption to that of similar households in other cities without rent regulation. However, many differences across cities in housing stock and household tastes render such a comparison subject to its own shortcomings.

[56] A study of space misallocation in New York City using 1993 data and comparing New York to other cities found that 20 percent of units were misallocated under rent regulation, either with too much housing or too little housing being consumed. That same study also found a small amount of misallocation in terms of the quality of housing using most of the maintenance deficiencies that are included in Table 11 above. Edward L. Glaeser and Erzo F. P. Luttmer, "The Misallocation of Housing under Rent Control," *The American Economic Review*, Vol. 93, No. 4 (Nov., 2003), pp. 1027-1046.

[57] The Census Bureau is in the process of creating a longitudinal file that will allow linkages of units across time. This file would be helpful in identifying units that moved from a regulated to an unregulated status.

[58] The last year for which it is possible to calculate turnover of units using the 2008 Housing and Vacancy Survey is 2007; this is the basis of the estimated 130,000 units. The estimate is the number of households that moved into a regulated unit in 2007, adjusted for additions to and subtractions from the regulated stock during that year.

[59] These calculations exclude households in government programs and those paying zero rent.

[60] This calculation is based on CBC analysis of the 2008 New York City Housing and Vacancy Survey.

[61] The boundaries of so-called "exclusion areas," those in which developers receiving benefits are required to provide units for low- and moderate-income households, were significantly expanded in 2008. Retrieved April 27, 2010, from http://www.planyc.org/taxonomy/term/53. Controversies remain as to whether the program is tilted enough toward affordable housing and whether the costs (in terms of forgone property taxes) for new housing units, regardless of whether affordable or luxury, remain too high. See, for example, Pratt Center for Community Development, "Still Subsidizing Luxury Development," December 6, 2006. Available from http://prattcenter.net/sites/default/files/publications/PrattCenter-421a-Still_subsidizing_luxury_development.pdf. On the other hand, some developers argue that the new rules will reduce housing production.

[62] A recent study found that the rezoning initiatives led to down-zoning as well as up-zoning, but that, on net, these changes could result in a maximum of 100 million additional square feet of residential development capacity, added to an estimated 2003 base of approximately six billion square feet of residential capacity. "How Have Recent Rezonings Affected the City's Ability to Grow?" Furman Center for Real Estate and Urban Policy, New York University, March 2010. Available from http://furmancenter.org/files/publications/Rezonings_Furman_Center_Policy_Brief_March_2010.pdf.

[63] New York City Department of Housing Preservation and Development, *The New Housing Marketplace: Creating a More Affordable, Viable, and Sustainable City for All New Yorkers*, As updated on February 22, 2010. Retrieved April 19, 2010, from http://www.nyc.gov/html/hpd/downloads/pdf/New-Housing-market-plan.pdf.

[64] Higher costs are often unintended consequences of government policies. For example, the 421-a program can raise total development costs by driving up the price of land. State policies, such as required environmental reviews, can also add to costs.

[65] For example, under TANF a family of four in New York City receives a basic public assistance grant of $345 per month and a monthly shelter allowance of $450. New York State Office of Temporary Disability Assistance, New York State Plan and Executive Certification: Administration of the Block Grant for Temporary Assistance for Needy Families, Attachment E: Standard of Need. Retrieved May 4, 2010, from http://www.otda.state.ny.us/main/tanf/TANF2009-Attachment-E.pdf.

[66] Projected for fiscal year 2010. New York City Department of Finance, Office of Tax Policy, *Annual Report on Tax Expenditures, Fiscal Year 2010*, February 2010, p. 10. Available from http://www.nyc.gov/html/dof/html/pdf/10pdf/ter_2010_final.pdf.

[67] If a local government engages in income redistribution programs that are more generous than those of other jurisdictions, its tax burdens are driven up relative to other places, encouraging tax-paying households to flee, further driving up tax burdens. If lower-income households are attracted to a more generous locale, tax burdens become even greater. Therefore, higher levels of government (ideally, the

federal; second-best, the state) should support consistent levels of redistribution across jurisdictions. Nevertheless, the City currently engages in comparatively high levels of income redistribution, partly because the State mandates it, and partly because the City has chosen to step in where intergovernmental support has been inadequate.

[68] RGB Introduction, pp. 24-25, and Anthony Downs, "Residential Rent Controls: An Evaluation," The Urban Land Institute, 1988.

[69] William Tucker, "How Rent Control Drives Out Affordable Housing," Cato Institute, May 1997. Retrieved April 19, 2010, from http://www.cato.org/pubs/pas/pa-274.html.

[70] U.S. Department of Housing and Urban Development, Office of Policy Development and Research and the U.S. Department of Commerce, Economics and Statistics Administration, U.S. Census Bureau, *American Housing Survey for the United States: 2007,* Series H-150, Issued September 2008, p. 233, Table 4-12 Income Characteristics – Renter-Occupied Units. Available from http://www.census.gov/prod/2008pubs/h150-07.pdf.

[71] Peter Dreier, "Rent Deregulation in California and Massachusetts: Politics, Policy and Impacts," May 1997. Prepared for the Housing 1997 conference sponsored by New York University School of Law Center for Real Estate and Urban Policy and the New York City Rent Guidelines Board. Available from http://www.tenant.net/Alerts/Guide/papers/dreier/dreier.pdf.

[72] The General Laws of Massachusetts, Chapter 40P, Section 4. Retrieved April 19, 2010, from http://www.mass.gov/legis/laws/mgl/40p-4.htm.

[73] California Apartment Association, Costa-Hawkins Rental Housing Act – General Overview, Updated 2003. Retrieved April 19, 2010, from http://www.caanet.org/AM/Template.cfm?Section=Operational_FAQ&template=/CM/HTMLDisplay.cfm&ContentID=7224.

[74] City of Los Angeles Housing Department, Rent Stabilization General Information Bulletin, February 2009. Retrieved April 19, 2010, from http://lahd.lacity.org/lahdinternet/Portals/0/Rent/02BULL-GENERAL%20INFORMATION.pdf.

[75] City of Los Angeles Housing Department, Economic Study of the Rent Stabilization Ordinance and the Los Angeles Housing Market, 2009. Available from http://lahd.lacity.org/lahdinternet/Portals/0/Rent/RSO_Study_Exec_Summary_wCover.pdf.

[76] San Francisco Rent Board, "The Mission of the Rent Board." Retrieved April 19, 2010, from http://www.sfrb.org/index.aspx?page=940.

[77] Ibid. According to the 2008 American Community Survey from the U.S. Census Bureau, San Francisco has 195,714 occupied rental units and 13,916 vacant rental units.

[78] District of Columbia, Department of Housing and Community Development, "What You Should Know About Rent Control in the District of Columbia." Retrieved April 19, 2010, from http://www.dhcd.dc.gov/dhcd/lib/dhcd/services/rental/rentcontlfs7.pdf.

[79] Sharon Henry, "Three Decades of Rent Control: After 30 Years, is the Law Still Valid in Hoboken?" *Hudson Reporter,* December 10, 2002. Retrieved April 19, 2010, from

http://www.hudsonreporter.com/view/full_story/2386267/article-Three-decades-of-rent-control-After-30-years--is-the-law-still-valid-in-Hoboken-?.

[80] Wagner v. Newark, 24 N.J. 467, 478, 132 A.2d 794 (1957).

[81] Inganamort v. Fort Lee, 62 N.J. 521, 303 A.2d 298 (1973).

[82] New Jersey Apartment Association, "2007 Report on New Jersey Municipal Rent Controls," October 1, 2007. The total number of municipalities with rent regulation rises to 124 if mobile home regulations are included.

[83] John Gilderbloom and Lin Ye, "30 Years of Rent Control: A Survey of New Jersey Cities," *Journal of Urban Affairs,* Vol. 29, No. 2 (May, 2007), pp. 207-220.

[84] Ibid.

[85] Private, unregulated units occupied by tenants paying zero rent are excluded from the analysis. The 2008 New York City Housing and Vacancy Survey was fielded between January and May 2008.

[86] Any impact on ownership prices and consequent changes in property tax revenues are not taken into account in our analysis.

[87] This calculation is based on a total of 1,572,100 private rental units that are not in any government housing programs and in which tenants are not living rent-free: 903,000 in the regulated sector and 669,000 in the unregulated sector.

[88] Some regulated units would have little or no change if rent regulation were eliminated. Others, particularly those in Manhattan, would have very large changes. See Table 7.

[89] New York City Department of Finance, *Fiscal Year 2010 Guidelines for Properties Valued Based on the Income Approach, Including Office Buildings, Retail, Parking Lots and Garages, Hotels, and Residential Properties,* January 2009, p. 35. Retrieved April 19, 2010, from http://www.nyc.gov/html/dof/html/pdf/09pdf/tent_assess_guidelines_09.pdf. Capitalization rates for fiscal year 2008-2009 were not available.

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