RENT CONTROL

During 2019, several US jurisdictions implemented or expanded rent control policies for multifamily real estate in an effort to address growing political concerns about housing affordability.

We asked members whether they invest in multifamily real estate and how they view the effectiveness of rent control policies to address affordability.

- Respondents that invest in multifamily in rent control markets:
  - o "There are multiple ways of addressing rent control (i.e., New York City and Portland and very different). Limits on rent increases within market rates or requirement of affordable components make sense. Random and sudden changes, as happens in New York City, make no sense."
  - o "If the rent control approach allows for reset to market rent on vacancy, then reinvestment will occur into the housing stock, still making rental rate growth possible. If no rent reset, the market's stock will see major deferred maintenance and quality of available housing rapidly deteriorate."
  - o "Despite the current rent increase caps, there is also concern that a more reasonable cap is an entry into a program that can be further restricted later."
  - o "Best approach is inclusionary zoning. A portion of units is more manageable."
  - o "We need to let local zoning laws and supply/demand continue to function as drivers of new development in our markets."
- Respondents that do not invest in multifamily in rent control markets:
  - o "Rent growth is a function of job market growth and new construction supply in any given city. Constraint on new construction (i.e., supply) is a major factor in huge rental growth. If demand is larger than supply, rents would obviously keep growing in the near term but would revert back to normal rates in medium to long term. We have seen rent rates in markets growing then coming back down, due to the state of the job market, as labor moves around. Rent control would not resolve the issue of housing affordability as much as allowing supply to grow."
  - o "As the issue of income inequality accelerates, the drift towards rent control measures will likely become more and more common. Those in the real estate industry that are against rent control need to help formulate an actionable alternative that will appeal to politicians and voters that are concerned with the real estate consequences of income inequality."
  - o "Politically motivated, over the long run these policies have clearly injured the people they claim to help by driving markets to sub-standard housing quality, reduced supply, and corruption."
  - o "Rent control is bad for investment and growth both in quality and quantity. It discourages capex investment and results in deteriorating standards and quality of assets. Policies should seek alternative ways to provide affordable housing."

62%

BELIEVE RENT CONTROL MAKES MODERATE INCOME OR WORKFORCE HOUSING INFEASIBLE

74%

BELIEVE RENT CONTROL CONSTRAINS NEW SUPPLY

We asked members to respond to several statements regarding the effectiveness of rent control policies in addressing housing affordability.

Two-thirds of respondents do not agree that rent control is an effective policy to address housing affordability. Respondents tend to believe that rent control constrains new supply (74%) and skews development toward high-income or luxury housing by making moderate income or workforce housing infeasible (62%).

Just over half of respondents believe that rent control regulations, as typically implemented, have sufficient flexibility to allow reasonable levels of rent growth. However, when asked whether rent control markets tend to be markets that have strong demand growth, stability, and liquidity (so that constraints on rent growth are offset by other factors making these markets highly desirable) more disagree (44%) than agree (35%).

Those who invest in multifamily in rent control markets are a bit more inclined to agree that rent control regulations allow reasonable rent growth (21% agree vs. 8% of non-investors) and are more inclined to view rent control market as tending to have strong demand growth, stability, and liquidity that makes them otherwise highly desirable markets for investment (45% vs.23%).

Differences also emerge in how multifamily investors in rent control markets price investments. Active multifamily investors are less inclined to require a higher total return when pricing an investment in a rent control market (24% vs. 42%), but far more inclined to require a higher initial income return to offset lower rent growth and appreciation in value (59% vs. 46%).