

# The Age of **RESPONSIVE REAL ESTATE**

Presented by Econometric Advisors

**2020  
SPRING  
CLIENT FORUM**

**CBRE**

# REAL ESTATE 2030

## WILL MULTIFAMILY APPEAL BE THREATENED BY RENT CONTROL LEGISLATION?



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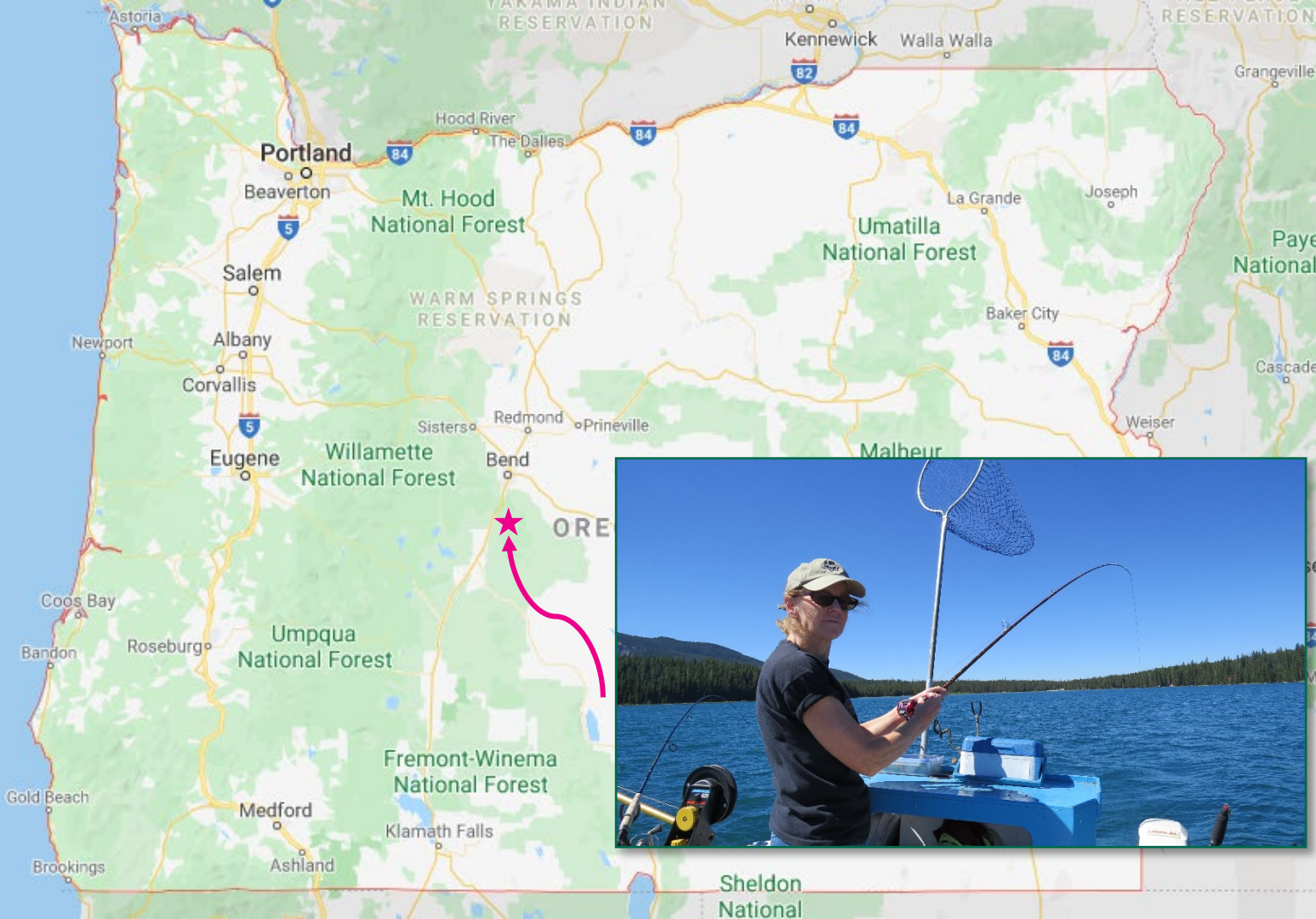
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Director  
CBRE Research

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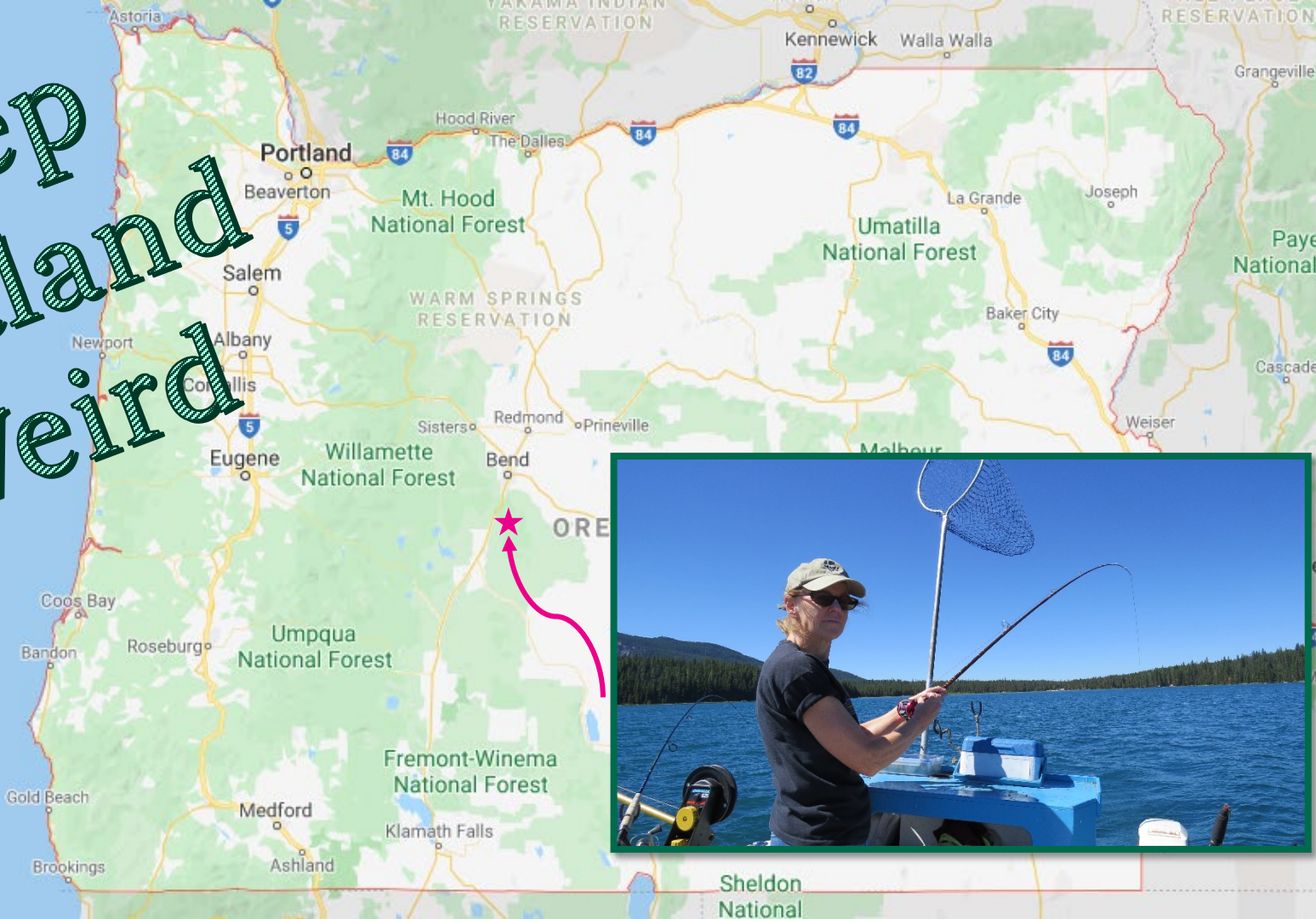
# February 2019





Sheldon National

# Keep Portland Weird



Sheldon  
National

# WILL MULTIFAMILY APPEAL BE THREATENED BY RENT CONTROL LEGISLATION?

## JEANETTE RICE

- Some roots of rent control sentiment
- Basics of new rent control measures
- Impacts

## NATHAN ADKINS

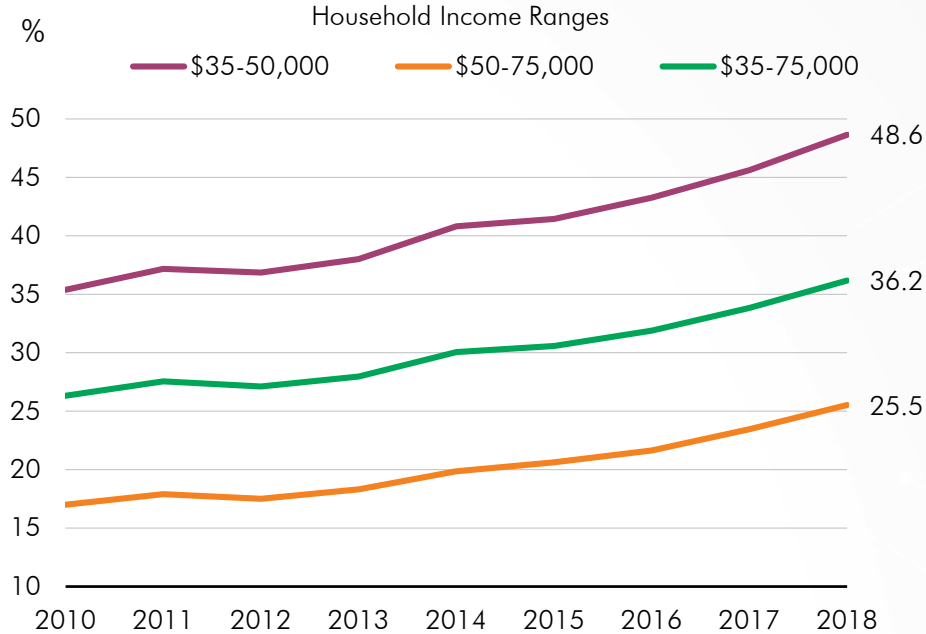
- Rent control & housing economics – does rent control achieve its aim?

## PANEL – DEALING WITH RENT CONTROL

- **Greg Ames – Development Perspectives**
- **Dr. Neil Blake – Global Perspectives**
- **Gleb Nechayev – Institutional Investor/Owner Perspective**
- **Eric Willet – LA Resident Perspective**

# WORKFORCE HOUSEHOLDS ARE PAYING MORE OF THEIR INCOME ON RENT

## Workforce Households Which Are "Rent Burdened"



Source: CBRE Research, U.S. Census Bureau (American Community Survey), Q4 2019. "Rent burdened" defined as paying 30+% of income on rent.

# OREGON, CALIFORNIA, NEW YORK RENT CONTROL LEGISLATION

## Basic Components of Rent Control Legislation

	Oregon	California	New York
Measure	Oregon Senate Bill 608	Assembly Bill 1482: Tenant Protection Act of 2019	The Housing Stability and Tenant Protection Act of 2019 (Senate Bill S.6458)
Basic Rent Control Law	Rent increases capped at CPI+7% (for renewals of existing residents)	Rent increases capped at CPI+5% (for renewals of existing residents)	Annual rent increases capped at 2.5% on two-year leases on rent-regulated apartments
Effective	February 2019	January 2020	June 2019
Geography	Entire state of Oregon	Entire state of California	Entire state of New York (local option?)
Covered	Multifamily properties 15+ years old	Multifamily properties 15+ years old	Tighter requirements for "deregulating" apartments
Vacancy Decontrol	Yes. Rents on vacated units not subject to rent caps (with some exceptions)	Yes. Rents on vacated units not subject to rent caps (with some exceptions)	No
Additional Notable Aspects of Law	Greater resident protection with respect to lease terminations; evictions without cause no longer allowed	Greater resident protection with respect to lease terminations; evictions without cause no longer allowed	Rent increases of renovated units are capped at 2%. There is no expiration to the new legislation, unlike former laws



Source: CBRE Research, Q1 2020.



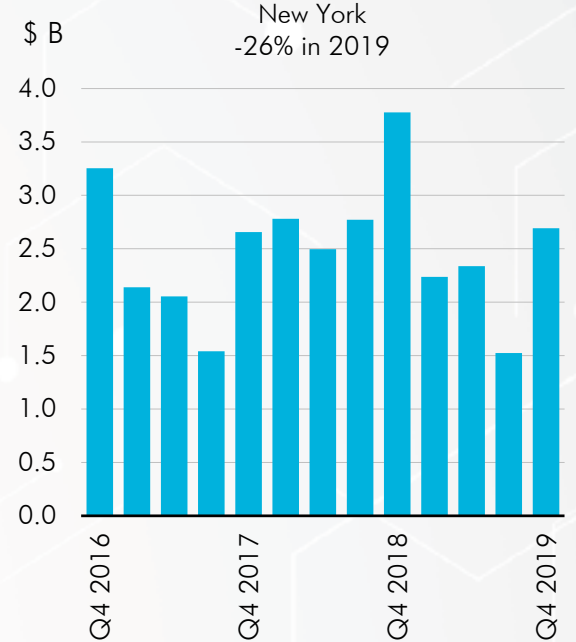
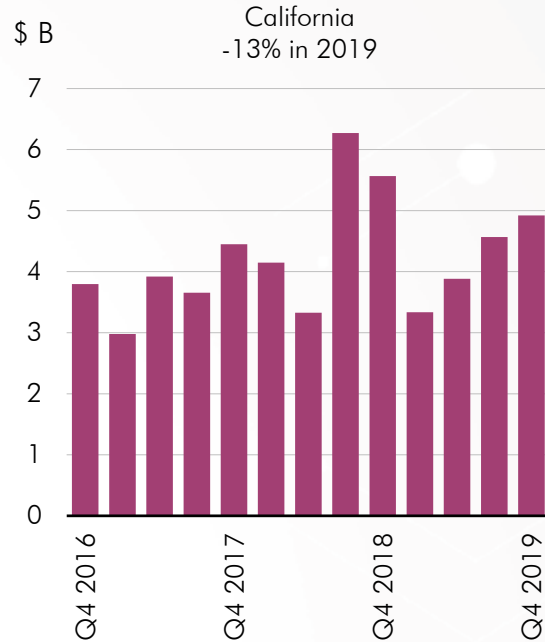
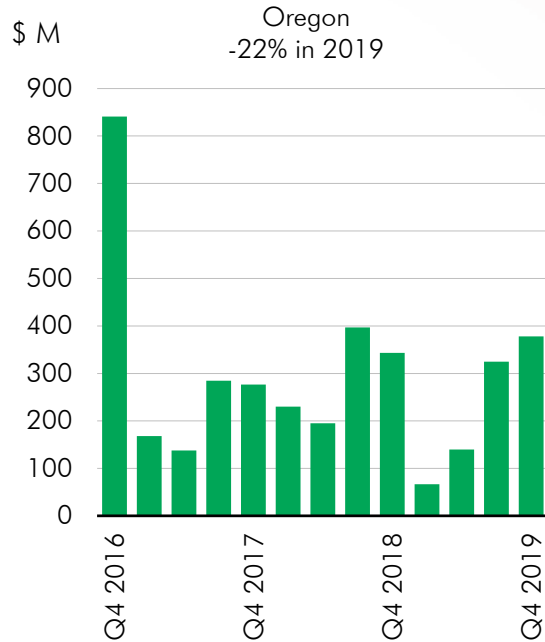
# WILL MULTIFAMILY APPEAL BE THREATENED BY RENT CONTROL LEGISLATION?

## IMPACTS

- Development
- Investment
- Investor Sentiment - Capital Diverted Elsewhere
- “Contagion” of Rent Control Legislation – Geographic, other Policy

# HAS INVESTMENT BEEN IMPACTED? YES

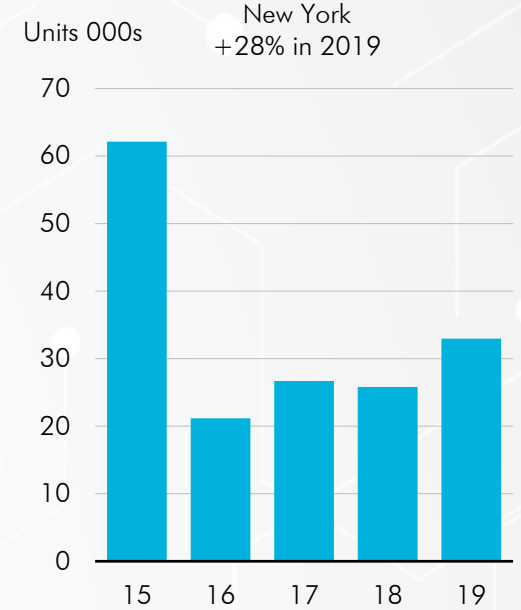
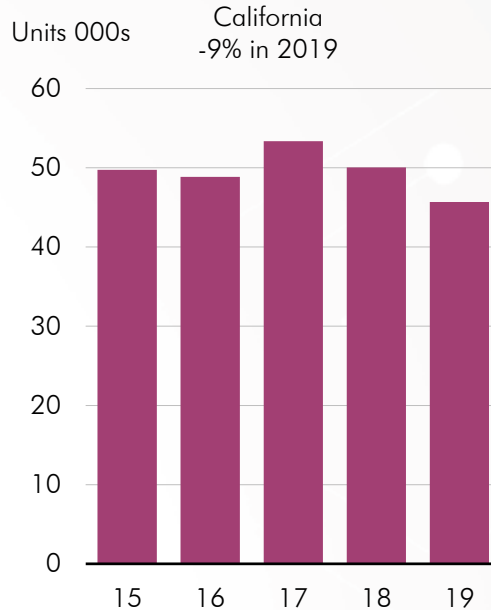
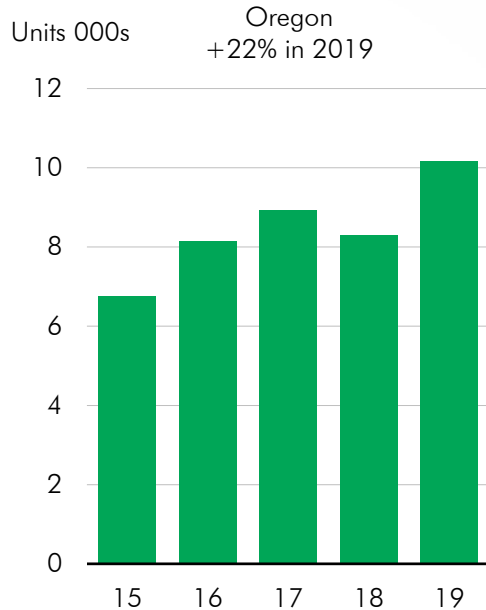
Multifamily investment volumes in Oregon, California and New York – properties 15+ years old



Source: CBRE Research, Real Capital Analytics, Q4 2019.

# HAS DEVELOPMENT BEEN IMPACTED? – NOT REALLY, NOT YET

## Multifamily units permitted in Oregon, California and New York



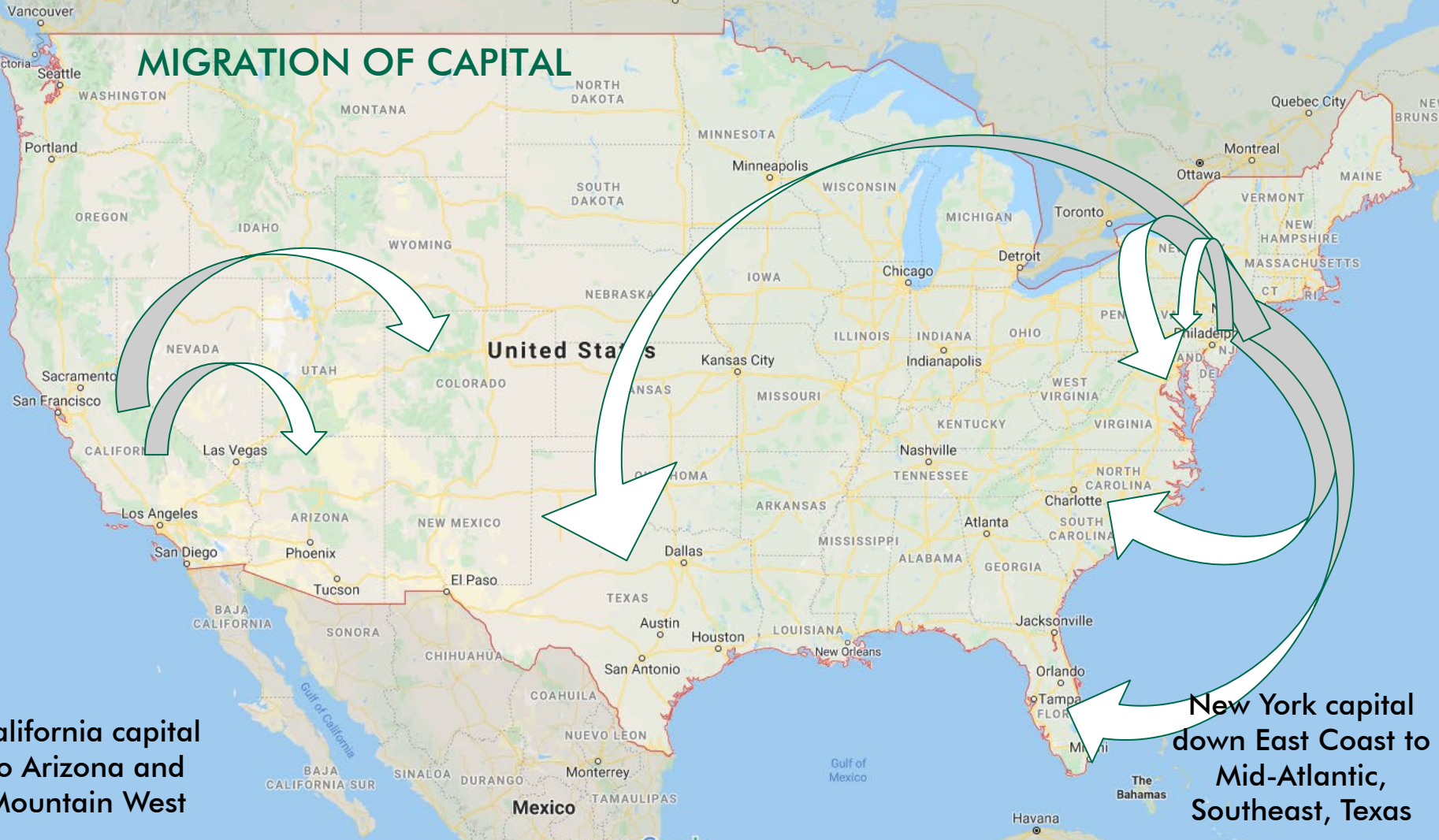
Source: CBRE Research, CBRE Econometric Advisors, Q4 2019. New York 2015 spike due to 421-a tax-abatement incentives and expiration of program.

# WILL MULTIFAMILY APPEAL BE THREATENED BY RENT CONTROL LEGISLATION?

## IMPACTS

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# MIGRATION OF CAPITAL



California capital to Arizona and Mountain West

New York capital down East Coast to Mid-Atlantic, Southeast, Texas

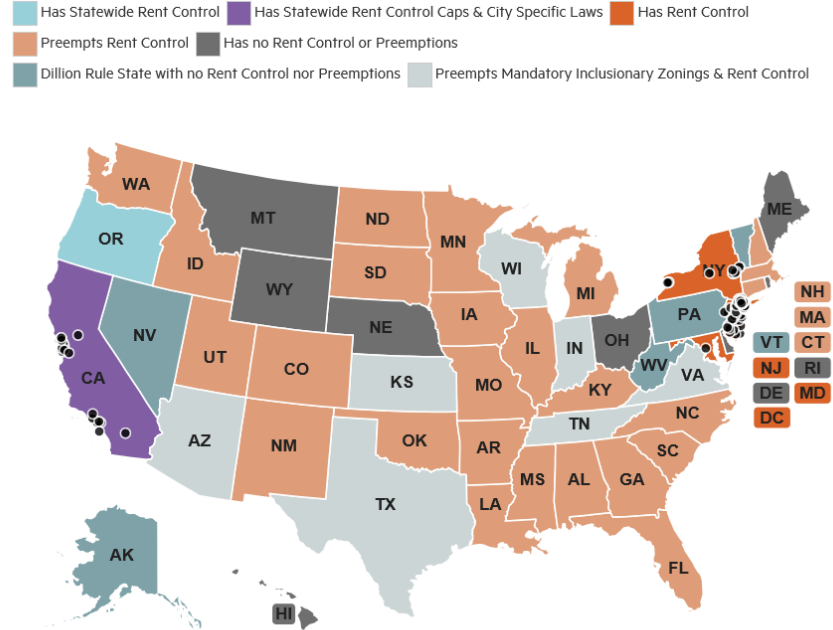
# WILL MULTIFAMILY APPEAL BE THREATENED BY RENT CONTROL LEGISLATION?

## CONTAGION

- Geography
- Other Policy & Legislation  
(unfavorable and favorable)

Rent control may become a “way of life” in U.S. multifamily – one that the industry needs to work with rather than fight against.

## National Multifamily Housing Council Rent Control Laws by State



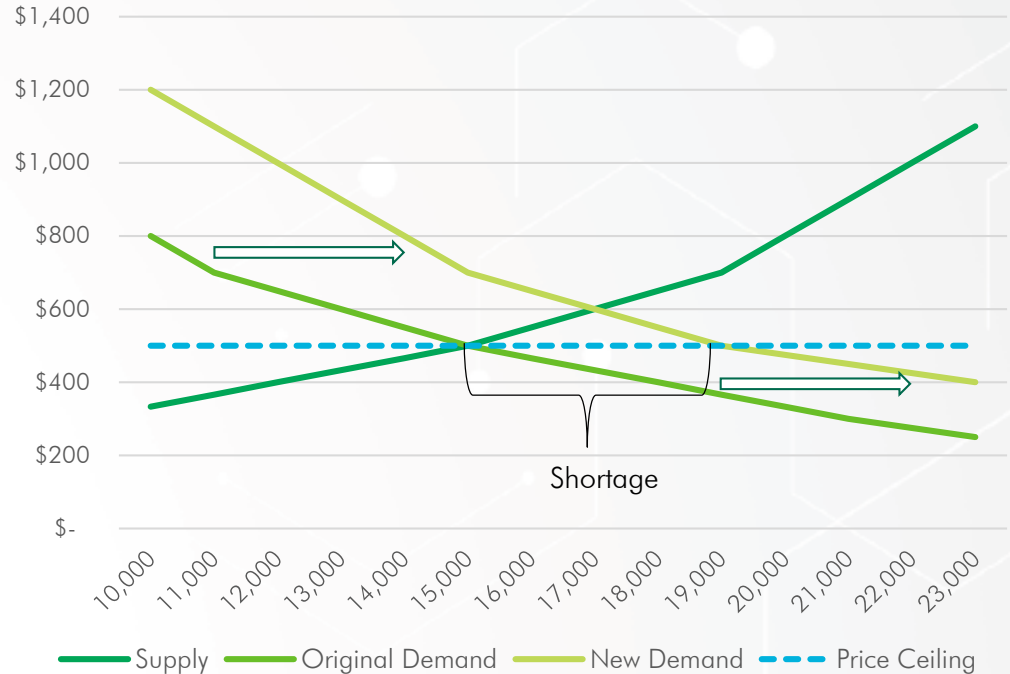
*\*Not intended for use as legal advice. Information pulled from publicly available sources.*

# ECON 101:

## SUPPLY AND DEMAND CURVE AND THE EFFECT OF RENT CONTROL

### Scenario

1. A tech company builds a second HQ in your city.
2. People don't like paying 20% more for rent. Rent control enacted.
3. A price ceiling caps rent at the old level, \$500.
4. But the demand remains high.
5. At \$500, 19,000 units are demanded, but only 15,000 supplied.
6. Now we have a shortage of 4,000 units.



## WHAT THE EXPERTS SAY

9 OUT OF 10 ECONOMISTS AGREE:

**93 percent of U.S. respondents agreed, either completely or with provisos, that "a ceiling on rents reduces the quantity and quality of housing available". – American Economic Review, May 1992.**



# EMPIRICAL RESULTS ON RENT CONTROL

## WHERE IT SUCCEEDS

- Diamond, McQuade, Qian (2019): rent control increased the probability of remaining in an apartment by 20% in SF



# EMPIRICAL RESULTS ON RENT CONTROL

## WHERE IT FAILS: REDUCES SUPPLY

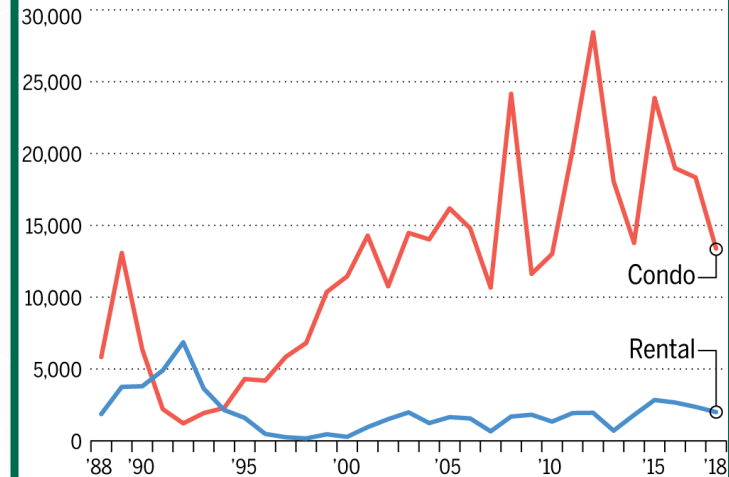
- Diamond et al. find that landlords subjected to rent control reduced housing by 15%
- Sims (2007) rent control is significantly associated with conversions of apartments to condos in Boston
- May disincentivize new construction according to Glaeser (2002)

### FALLING BEHIND

*While condo starts have skyrocketed in the Toronto CMA, rental starts continue to lag*

#### RENTAL VS. CONDO STARTS

TORONTO CENSUS METROPOLITAN AREA, 1988 — 2018



SOURCE: STATISTICS CANADA

NATIONAL POST

# EMPIRICAL RESULTS ON RENT CONTROL

## WHERE IT FAILS: INCREASES NONCONTROLLED RENTS

- Diamond: reduction in multifamily structures with less than 5 units alone resulted in a 7% increase in noncontrolled rents in San Francisco.
- Caudill (1993): New York City rents were about 20% higher. Fallis and Smith (1997): similar results in Los Angeles.
- Sims (2007): rent control associated with a deterioration of rental quality.

**“Rent control is a law that supposedly is passed to help the people who are in housing. And it does help those who are in current housing. But the effect of rent control is to create scarcity, and to make it difficult for other people to get housing.”- Milton Friedman**

# EMPIRICAL RESULTS ON RENT CONTROL

## WHERE IT FAILS: INEFFICIENCIES AND MISALLOCATIONS

- Early (2000): renters stay in units further away from work
- Krol and Svorney (2005): rent control lengthens commute times
- Glaeser and Luttmer (2003): 15% to 21% of New York City apartment renters lived in larger or smaller units than they would have without rent control

**“This misallocation of bedrooms leads to a loss in welfare which could be well over \$500 million annually to the consumers of New York, before we even consider the social losses due to undersupply of housing.”**

***–Glaeser & Luttmer***

## WHAT THE EXPERTS SAY

9 OUT OF 10 ECONOMISTS AGREE:

**“In many cases rent control appears to be the most efficient technique presently known to destroy a city—except for bombing.”**

**-Assar Lindbeck, Swedish economist**