

## Rent Control Legislation in 2018

Rent control is a highly contentious issue in the property management world. Basically, rent control is a price control technique which limits the amount a property owner can charge for renting out a home, apartment, or other type of real estate. Rent control acts as a price ceiling by preventing rents either from being charged above a certain level or from increasing at a rate higher than a predetermined percentage. The amount of rent permitted may vary across jurisdictions and property types, but is generally set at a level considered affordable to renters.

Though rent control might seem like a new issue, it has been around for decades. In 1942, President Franklin D. Roosevelt signed the Emergency Price Control Act into law. The goal of the act was to prevent inflation in the booming, fully employed wartime economy by setting price controls nationwide. The Act, which was amended 1947 to exempt new construction, expired in 1951. In 1951, New York, anticipating the withdrawal of federal controls, adopted a rent regulation system similar to the federal arrangement. From the late 1960s through the early 1980s, other cities subsequently adopted rent regulations and by the late 1970s, 170 municipalities had rent regulation laws in place. However, in the 1980s, an “emerging conservative onslaught” effectively curtailed any additional rent regulation ordinances.

Currently, only four states, California, Maryland, New Jersey, and New York and the District of Columbia explicitly authorize local rent regulation. In general, the laws in these four states identify the jurisdictions that are permitted to adopt rent controls, the method to be used to calculate rent, and the properties that are exempt. Conversely, 27 states have laws that prohibit their local governments from adopting rent control. Nineteen states neither permit nor prohibit local rent control. In these states, local governments may be permitted to adopt rent control ordinances.

Passionate arguments abound supporting and opposing rent control. Proponents of rent control will point to its economic benefits for tenants and property managers. Tenants are comforted by the fact that an increase a property manager can charge is capped. In communities where rents in the open market have grown more quickly than the cap set by rent control laws, tenants may have saved hundreds or thousands of dollars. Property managers may also favor rent control since tenants will be motivated to keep their unit. This can create a building full of tenants who do not cause problems and always pay their rent on time and in full.

However, arguments against rent regulation are numerous and encompass both economic and social effects. Some of the most frequently cited arguments against rent regulation include:

- **It reduces the quantity of available housing** – Most economists assert that setting a price ceiling on housing reduces the housing supply in a market. With maximum prices set, there is less incentive to build new rental property.
- **It reduces the quality of available housing** – Because rent control reduces the return on rental housing investments, it can lead to a decline in the existing rental quality as property managers faced with decreasing revenues may be forced to reduce the amount they invest in maintaining and repairing existing housing.
- **It reduces a property manager’s incentive to maintain controlled property** – Rent control discourages property managers from maintaining their property. When rent ceilings limit supply

and turnover, landlords are less motivated to maintain properties in order to attract new tenants.

- **Decreases a Property Managers Ability to Meet Expenses** – Because rent control force rents below the market price, it reduces potential profitability of rental housing. This loss of revenue may make it difficult for a property manager to meet routine expenses.

Even with the many negative effects of rent control, lawmakers and tenant advocates are implementing initiatives to repeal laws banning cities from imposing rent control or limits to regulate rent increases. Below is a summary of these recent activities in California, Illinois and Washington State.

### **California**

In January, **Assembly Bill 1506**, was considered by the Assembly on Housing and Community Development Committee. The bill would have given cities the authority to create new rent controlled housing by repealing the 1995 Costa-Hawkins Act. The Act prevents large amounts of housing stock from being covered under local rent control ordinances. The measure failed to pass by falling one vote short of the necessary threshold to move forward.

The threat to end current protections still exists as there are efforts to place the Costa-Hawkins Act on the November 2018 ballot. Should it qualify for the ballot, the campaigns for and against repeal would likely be expensive and bruising.

IREM will continue to work with our California Chapters to oppose such a measure.

### **Washington**

Two bills addressing rent control, **House Bill 2583 (HB 2583)** and **Senate Bill 6400 (SB 6400)**, were introduced into the Washington legislature. The bills would permit local cities and counties to allow rent control on rented/leased residential properties as they see fit and would repeal the 1981 state preemption against rent control.

Hearings on both bills were conducted in their respective Committees and there was an abundant amount of testimony supporting and opposing the legislation. Proponents of the bill argued that it would give more affordable housing to low-income tenants, especially those living in the Seattle area. Supporters also spoke of the need to keep affordable housing in Seattle and rent control was one of the tools in the “tool box” to allow low-income tenants to live, work and retire in Seattle.

As neither of these bills were voted out of committee, they are dead for the 2018 session. However, there is talk of reintroducing the legislation in 2019, when there may be greater support for rent control in the state legislature.

IREM will continue to work with Western Washington Chapter No. 27 to oppose the measure.

### **Illinois**

Rent control has become a campaign issue in the 2018 governor’s race. Democratic gubernatorial candidates J.B. Pritzker and Daniel Biss have announced their support for rent control and the legislation introduced by Representative Will Guzzardi. Rep. Guzzardi, a Democrat who represents Chicago neighborhoods on the Northwest Side, formally introduced a rent control bill (House Bill 2430) in February of 2017.

The bill contains a single written line: The Rent Control Preemption Act (RCPA) is repealed. RCPA is a 1997 law prohibiting cities and other local governments from enacting rent control measures.

Repeal of RCPA could eventually produce a number of unintended negative consequences for property owners, tenants, and tax payers. As previously mentioned, rent control initiatives could create an environment of disinvestment and possibly neglect as some property owners. Property owners would be discouraged from maintaining and upgrading their properties because costs will rise but revenues will be fixed.

IREM will keep our members informed of any developments in Illinois.

**Ted Thurn**

Director, Government Affairs

[www.irem.org](http://www.irem.org) | [tthurn@irem.org](mailto:tthurn@irem.org)

