24 Prescott Street
Cambridge, MA 02138
April 7, 1998

Councillor Kathleen Born
Chair
Committee on Housing and Community Development
Cambridge City Council
City Hall
Cambridge, MA 02139

Dear Councillor Born:

As I indicated at the committee hearing of April 1, 1998, I would like to expand upon my comments given about the deleterious impact of the end of rent control and to elaborate upon the policies I suggested would address some of its major consequences.

I have taken the data gathered in the study done by Atlantic Marketing Research for the Community Development Department as the basis for the analysis that follows. This is so even though it was evident from questions of both councillors and the public that the study may well have understated the damaging effects of the end of rent control by ignoring, among other factors, the impact of condominium conversion and the extent to which formerly rent controlled tenants sought shelter through public housing and the use of Section 8 certificates, as well as by the not uncommon biases of standard statistical methods to miss or undercount low-income, foreign-language speaking, or immigrant households. Nonetheless, in its current form the study presents a staggering picture, from which I would like to highlight three elements.

1. <u>Soaring Rents</u>

Rents have skyrocketed since the end of rent control. From December 1994 to the summer of 1997 the rents of remaining, formerly rent controlled tenants rose on average by $200/month. Where formerly rent controlled apartments had been vacated--and nearly two-fifths had been by 1997--rents had increased on average by $425/month. Rents in vacated apartments were actually higher than those which had always been market-rate, but it is also important to note that those "market-rate" apartments have seen not insignificant rent increases since 1994 as well.

It is sometimes--wrongly--assumed that the "market" defines an equilibrium representing a balance between supply and demand in the rental housing market. This is not the case. The surging rents in Cambridge are the product of a seemingly inexhaustible demand set against a relatively fixed supply of housing units. Technically this is called an economic rent, where high demand drives up prices, in this case, rents beyond any reasonable level. Under these circumstances landlords operate effectively like a monopolist, taking advantage of limited supply to charge excessive rents. This practice is generally described as rent gouging.

To this end, landlords have adopted a business strategy of renting vacated apartments to groups of individuals, often students, who by rooming together are able to pay exorbitant rents. The study found that 31 percent of the vacated units are occupied by students, and 39 percent percent are occupied by roommates. By this strategy landlords artificially raise the demand for rental housing, since demand depends upon both need and ability to pay. This in turn pushes all rents upward, as the threshold for what rent levels are or ought to be in the "market" is raised.

2. Very High Rent Burden

According to the study, 40 percent of all tenant households in privately-owned housing pay more than 30 percent of their income for housing, a percentage set in the early 1980s by the Reagan Administration to establish when excessive housing costs constitute a hardship. With policies largely hostile to low-income renters, the Reagan Administration had raised this threshold figure from 25 percent, so that the actual financial hardship to current Cambridge tenants is seriously understated.

Moreover, if one surveys all tenant households, including those in public housing and supported by Section 8 certificates, it seems likely that the median gross rent burden, the ratio of housing costs to income, of renters in Cambridge will exceed 30 percent. The 1990 U.S. Census provided figures for the median gross rent burden for renters in every town and city in Massachusetts: extrapolating from that, one can project that at 30 percent or higher, Cambridge would now place at or near the top of all communities in the state for the rent burden imposed upon tenants.

3. Limited New Investment

Through an accounting of the dollar value of all the building permits filed for rent-controlled properties in the first half of 1994, which was then compared with the value of all building permits filed for formerly rent-controlled properties in the first half of 1995 and 1996, the study was able to document the extent to which new investment in buildings followed the end of rent control. The study found that the level of such investment was "quite modest", less than $1 million more in the first half of 1996 than in the first half of 1994. Across all formerly rent controlled units this additional investment averages out to an additional $10/month per unit above the 1994 rent-controlled rent. That "modest" increase to allow for fixing up properties contrasts sharply with the median increases in rent of $200/month per unit for remaining tenants and $425/month per unit for vacated apartments. This contrast demonstrates that the windfall in rent increases taken in by landlords of formerly rent-controlled properties, more than $50 million annually, by 1997, has not been used --or was not required--to repair or improve buildings.

Two policy suggestions follow from the above analysis:

1. <u>Reinstituting Rent Regulation</u>

Rent regulation offers the best, comprehensive approach to preserving affordable housing in the face of widespread rent gouging and the housing jeopardy facing many thousands of Cambridge tenants today. While it would do nothing for those who have moved and left the city, already a shockingly large number, rent regulation would make it possible to slow significantly the continuing and rapid loss of affordable housing in the city and the large-scale displacement of tenants from the city.

2. <u>Introducing a Windfall Profits Tax</u>

Where landlords have pocketed a windfall through rent gouging, it would be equitable to tax part of that windfall to create a substantial housing fund to alleviate some of the deleterious effects of the end of rent control. Such funds could be used, for example, to help tenants already displaced to return to the city or to support other measures intended to preserve longer-term affordability of housing for low and moderate-income households. A windfall profits tax could be set on the basis of a combination of a threshold "high" rent and the amount by which the rent has increased since the end of 1994. In that way it would apply specifically to those landlords who have engaged in rent gouging.

I do not see these policy suggestions as mutually exclusive, and would ask both the Committee on Housing and Community Development and the City Council to give both serious consideration.

Respectfully submitted,

Michael Turk

cc: Cambridge City Council
Community Development Department

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24 Prescott Street
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April 7, 1998

Cambridge City Council
City Hall
795 Massachusetts Avenue
Cambridge, MA 02139

To the Honorable; the City Council:

Please find enclosed a copy of my analysis of the study describing the impact of the end of rent control and the policy suggestions I have made from that analysis, which I submitted to the council committee on housing and community development.

Thank you for your attention and consideration.

Sincerely,

Michael Turk

Consent Communication #5

5-259

A communication was received from Michael Turk, transmitting a letter enclosing an analysis of the study describing the impace of the end of rent control.

In City Council April 13, 1998

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