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The Perverse Effects of Rent Regulation

By ADAM DAVIDSON

For Alejandro Suarez, the change in the East Village is easily visible on the shelves of the bodega where he has worked for seven years. On the corner of East 12th Street and Avenue A, the store used to be at the borderline between the richer people to the West and the poorer people to the East. When Suarez started, he sold lots of beans and rice to the Hispanic people who lived on the block. But Goya products are now crammed on a tiny shelf way in the back, while up front, there's a huge and growing selection of organic produce, vegetarian sandwiches and high-end energy bars.

The East Village and the broader Lower East Side make up one of the most economically integrated parts of the city. It is one of the last places where the fairly rich and the very poor live on the same blocks and shop in the same bodegas. But the area is steadily becoming more like most of Manhattan: dominated by those with high incomes paying seemingly absurd rents, while the poor either leave or stay in government housing on the periphery. While older affordable housing is reaching the end of its life cycle, new affordable housing's major source of public funding — Congress — is planning comprehensive tax-and-spending reform. This could pose an existential threat to New York's regulatory efforts to keep Manhattan affordable for the poor.

So what would happen if Manhattan were completely free of rent regulations and other forms of housing subsidies? According to several housing analysts, it would quickly become an island occupied solely by middle class and rich people. Christopher Mayer, a housing economist at Columbia Business School, imagines tens of thousands of professionals, currently scared away by insane rents, moving in from Brooklyn, Queens and Hoboken — even Philadelphia and Chicago. "Poor people would be priced out of Manhattan," he says. "Period." But an East Village where nobody makes less than $90,000 a year might actually damage the city's long-term prospects.

Manhattan has had an outsize impact on the world's culture and economy in large part because of its economic diversity. Home to broke writers and wealthy publishers, starving painters and well-heeled collectors, unproven fashion newcomers and the established house
other symbiotic pairings, Manhattan has been a place where unlikely ideas can
audience and, sometimes, dominate the mainstream. For 200 years, the East
as an initial toehold into this chaotic mess. But rent regulation may not be help

diverse.

Rent control first appeared in the 1940s, when soldiers returned to the city seeking apartments for their new families, causing rents to rise drastically. Since then, countless housing programs have been created at local, state and federal levels, but the biggest housing intervention in New York today is rent stabilization: a slightly more flexible version of rent control, in which a city board of experts annually determines how much more landlords can charge their tenants.

The problem, though, is that these programs actually make the city much less affordable for those unlucky enough not to live in a rent-regulated apartment, Mayer says. The absurdity of New York City's housing market has become a standard part of many Econ 101 courses, because it is such a clear example of public policy that achieves the near opposite of its goals. There are, effectively, two rental markets in Manhattan. Roughly half the apartments are under rent regulation, public housing or some other government program. That leaves everyone else to compete for the half with rents determined by the market. Mayer points out that most housing programs tie government support to an apartment unit, not a person. "That is completely nuts," he says. It creates enormous incentive for people to stay in apartments that no longer fit their needs, because they have had kids or their kids have left or their job has moved farther away. This inertia is a key factor in New York's housing shortage. One East Village real estate agent told me that only 20 to 30 units are available in the entire area any given month.

This might be acceptable if all the rent-controlled and rent-stabilized units were inhabited by the poor people the programs were designed to help and if most poor people lived in rent-regulated units. But according to data from N.Y.U.'s Furman Center for Real Estate and Urban Policy, a majority of people in rent-regulated Manhattan apartments make far above the poverty level.

Interestingly, advocates for continued rent regulation and those who oppose it largely agree on what would happen if the programs were eliminated. It would be win-win-lose: great for landlords and the middle class and awful for people who benefit today. Mayer walked me through a likely result. Many of the people receiving some sort of government subsidy would have to leave their apartments, probably for the outer boroughs. The landlords of those units would invest in upgrades and charge higher rents. At the same time, the subset of apartments that had been market rate would see their rents fall, because there would be, suddenly, twice as many apartments in the market.

For Mayer, as for many economists, this is proof that rent regulation is an incredibly expensive program, preventing billions of dollars of development. It also creates an odd lotterylike system in which those who are lucky enough to have a rent-regulated apartment can live in the best parts of the city for next to nothing and everyone else is shunted aside. Eliminating rent regulation would be such a huge windfall for landlords, Mayer says, that he could imagine a sort of grand bargain. The programs go away, but landlords have to pay higher property taxes. The extra city revenue could go to a fund to help poor people afford market-rate apartments. In theory, this could be designed to make the shift win-win-win. The city could stay socioeconomically diverse without any six-bedroom apartments renting for $225.

Vicki Been, the director of N.Y.U.'s Furman Center, says most rent-regulation advocates acknowledge some of Mayer's criticisms but want to keep the programs anyway. "We can't just say, 'Let's get rid of rent regulations and replace them with the optimal system,' " she says. "The political forces that would get rid of rent regulation would not be the forces looking for optimal legislation." It would be landlords and developers. In the political battles that define New York's real estate market, she says, the poor rarely come out ahead. And rent regulation — however inefficiently — does help many poor people.

Rent regulation is very likely to go away, eventually, even without any explicit effort to kill it. Some 231,000 units have been deregulated over the last 30 years. Every year, thousands more leave the program or are torn down, replaced by new condo buildings serving the wealthy. The number of market-rate units has been going up more quickly lately, and the pace will, most likely, only increase. Barring some unlikely shift in the economy or policy, Manhattan will have fewer and fewer poor people each year and almost none whatsoever in a few decades. What happens if all the rich people are on one island and the poor but creative are somewhere else? It might just destroy the strange admixture that makes Manhattan so appealing in the first place.

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