Rethinking Rent Regulation

Misallocation of our housing stock is not good for the city

Robert Knakal

One of the most prominent needs in the New York City real estate market is affordable housing.

With the expected growth in our population over the next couple of decades, it is imperative that work-force housing exist. This is housing for police officers, firemen, teachers and the scores of other workers who make this city run. An insufficient supply of affordable housing for these folks is a critical issue for the economic well-being of the city that future local administrations will have to address. Most of our elected officials continually, and inaccurately, refer to our rent-regulation system an "affordable housing" program. Rent control and rent stabilization do not create affordable units as options for our current work force.

In fact, rent regulation actually does just the opposite, as it reduces the number of options for new residents coming into the marketplace. There are 3.3 million dwelling units in NYC, but someone new coming into town looking for an apartment really has only 2.3 million "choices," as 1 million units remain stuck in the rent-regulation system.

This constraint on supply means that market-level rents are artificially high due to the artificially low rents paid by folks who have been in apartments for a long time. Study after study shows that in the absence of price controls, market prices are lowered. Getting rid of rent regulation would mean more choice and lower rents for the overwhelming majority of New Yorkers. It would also mean lower property taxes for those in free-market properties, as currently regulated properties would begin to contribute an appropriate level of taxes.

No I haven't lost my mind—I don't expect rent regulation to go away anytime soon. But the program's existence undeniably exacerbates the housing problems we have here. Until the nonregulated residents of New York realize that they are paying higher rents and higher property taxes than they should be because they are the ones subsidizing rent-regulated tenants, and they become vocal about it to local politicians, rent regulation isn't going anywhere.

Another negative aspect of rent regulation is that the benefits of subsidized rent levels create motivation for occupants of these units not to move, regardless of whether the unit's size is appropriate for them or not. Therefore, we have little old ladies living in three-bedroom apartments by themselves and families of four or five living in one- or two-bedroom apartments. This misallocation of our housing stock is not good for the city.

Furthermore, the fact that these rent subsidies are given out based on inertia rather than need, as there is no means testing on rent regulation, means that this program does not address the affordability issue.

So how does the city create the affordable work-force housing that is so desperately needed?

One idea would be to bring back the 421a program in its original form to create needed affordable units. Changes to this program were precipitated by elected officials who don't fully understand the program.

Another idea is to create a citywide 421g-type program to incentivize the private sector to convert obsolete office buildings into affordable housing. There is an oversupply of office space presently, and removing some excess space would simultaneously strengthen the office-space market and create affordable housing.

Lastly, the city could stimulate the creation of additional affordable housing units by providing FAR bonuses. Giving FAR bonuses in ratios of 3 to 1, or 4 to 1, to developers doesn't cost the city a dime. It just takes the political will to address those who will inevitably complain that larger buildings are blocking out the sun or are creating negative impacts on the quality of life.

If these no-cost incentives are created properly, it is very likely that affordable units will be created by the private sector, eliminating the need for the government to try to figure out how to provide these units and creating a more livable city.

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America's Infrastructure Crises

From the Tappan Zee to the F train, costs of reversing years of neglect are enormous, but will rise exponentially every year until fixed

Sam Chandan

During his State of the Union address last week, President Obama pushed for renewed investment in the country's weakening infrastructure.

In the ranking of proposals making the rounds in Washington, this one falls low on the scales of partisanship. Party ideologies aside, the quiet majority in Congress stands to benefit from a program that would see new spending reach virtually every district in the nation. If there is one arena in which policy makers' individual incentives might trump doctrine, this could be it.

There is nothing new about the infrastructure debate. In both the public and private spheres, there is fairly broad agreement that our roads, bridges, ports and power grids are not keeping pace with our national ambitions. If that consensus has been met with inaction, it's because the costs of reversing years of neglect are rightly seen as enormous, and because there is no agreement at all about how to pay for the solutions.

Is there an infrastructure crisis in America? The commercial real estate powers are generally proponents of investment, but that doesn't mean it's good public policy. If you've ever checked into one of New York's airports, driven across the Tappan Zee Bridge or had occasion to board the F line, the answer seems as obvious now as it was a decade ago.

But anecdotal evidence can play both ways. If the sum total of your exposure to New York's transit system is a bird's-eye view of Fulton Center, the idea of underinvestment might seem absurd.

From an economic vantage point, the litmus test for infrastructure investment must be the value we get from spending increasingly scarce resources. Whether it's framed in terms of a generational investment in high-speed rail or a business improvement district's plans to deploy public wireless Internet access, will the dollars spent make us that much more productive? Andy Haughwout at the New York Fed put it this way in an analysis that followed the September 11 attacks:

"[W]hile the benefit of some public works can hardly be disputed, a key policy issue is whether additions to our stock of public infrastructure provide overall benefits that exceed their costs."

If you're so inclined, Mr. Haughwout's work offers a cogent assessment of the dimensions of the economic analysis. For practical purposes, I would argue that the political bar should be set high in making a determination; there are simply too many priorities exerting demands on the nation's purse and too many distortions from further revenue-raising.

In a 2011 report on the state of the nation's infrastructure, the American Society of Civil Engineers estimated that its current state of disrepair costs us $129 billion each year in lost productivity. Moreover, the report posits that the costs will increase exponentially if steps are not taken to avert further deterioration. Maybe. Without an abundance of bridge collapses in the evening news, arguments about whether disaster is imminent will persist. Like so many of our nation's problems, the gradual erosion of our position does not elicit a response; only an immediate crisis jars us from complacency.

The weight of economic and policy analysis lends itself to ramping up our infrastructure investment. A 2011 discussion paper from the Hamilton Project at the Brookings Institution coined the phrase "Fix It First, Expand It Second, and Reward It Third," as a means of addressing "a prioritization of new projects over care for existing infrastructure." The Treasury Department, along with the Council of Economic Advisers, issued its own report last March. Defenestrate both and you will still find someone to argue that underinvestment is undercutting our economic competitiveness.

Suppose the arguments hold sway: how to pay for it all in an era when government largesse is seen as stifling innovation and growth? The National Infrastructure Bank is one possibility. Another is Build America Bonds, though these would compete for investment in other risk-free assets if issued in sufficient quantity. Public-private partnerships sound like the smart solution but have been disappointing in practice.

Whichever it is, doing nothing is the worst of all options for the country's future.

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