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Testimony of the Boston Municipal Research Bureau
Before the
City Council's Committee on Government Operations

November 23, 2004

**Regarding: Community Stabilization: Tenants and Small Property Owners Protection
Act Docket # 1404**

Madam Chair and Councilors, my name is Sam Tyler and I am the President of the Boston Municipal Research Bureau. I am here today to testify on behalf of the Research Bureau in opposition to the Community Stabilization: Tenants and Small Property Owners Protection Act. We know that there is a problem about the rent levels in Boston, especially for our low and moderate-income citizens. However, we believe that this act before you would move the City of Boston in the wrong direction. The proposed act cannot solve this housing problem, but it could make the problem worse by hindering efforts to develop more rental housing for all income levels for Boston residents. I recognize that this proposal before you reflects changes from a similar plan two years ago in an attempt to address concerns raised at that time. However, passage of this act would have a chilling effect on financing housing in the City at a time when housing production has been increasing and median rents in Boston have been declining. An administrative bureaucracy would be required creating a new layer of regulation. Rather than try to regulate rental housing, we believe that the City should continue its attention on increasing the supply of rental housing, working with a broad coalition of interests. The City of Boston has been a leader among municipalities in the Commonwealth in creating new housing for all income levels through its three-year Leading the Way program and its subsequent Leading the Way II program now underway.

The business community in Massachusetts is acutely aware of the problem of affordable housing or workforce housing for its employees and its importance to keeping the economy growing. Businesses and nonprofit institutions such as hospitals and colleges recognize that affordable housing has become a more critical factor in their ability to attract employees for jobs and to make housing accessible for their employees closer to work. The voice of business joined with other interests will make housing production a higher priority for the Commonwealth. The passage last year of Chapter 40R, the smart growth legislation to promote housing production is one indication of a greater focus on housing among business, nonprofit and government leaders. With the momentum increasing for housing production, now is not the time to add more control in Boston.

Rent Stabilization Will Affect Housing Production

Rent stabilization will not help increase the supply of rental housing in Boston. In fact, it may actually reduce the supply of rental housing in the long run because it introduces uncertainty with governmental price controls on rental housing. Rent stabilization:

1. Discourages developers from building new rental housing. Even though new construction of rental housing is exempt from the act, developers do not trust that their new units would not be subject to rent control in the future. This proposed act would cover rental properties that were exempt from the 1972 rent control ordinance that exempted rental properties constructed after January 1, 1969.
2. Restricts housing finance sources that are becoming more global and have other options with far less uncertainty of return on investment.
3. Motivates owners to convert their rental properties to other uses, particularly condominiums.

Rent Decline in Boston

The timing of this proposal comes after the largest rent increases have occurred and during a period that is experiencing a softening of the market with declining rents as vacancies are up and more incentives are being offered by landlords. Rental housing prices showed large increases in the mid 1980s and mid 1990s, yet have not shown those same tendencies since 1998. Controlling the growth of current prices that are now decreasing has limited benefit. Between 1983 and 1986, median advertised rents for two bedroom apartments in Boston increased by about 47%, while they increased by about 65% between 1995 and 1998. Rent growth then began to slow down and from 1998 to 2001, advertised two bedroom rents increased by about 13%.

Most recently over the past three years, Boston's two-bedroom median advertised asking rents have declined. Based on a survey by the City's Department of Neighborhood Development, the median asking rent has decreased by 17.6% from 2001 to September of 2004. Actual rents may be somewhat lower since the median advertised asking rents do not reflect incentives offered by owners such as a free month's rent. Of the fifteen neighborhood areas of Boston, eleven have showed decreases in asking rents during this period. The only real increase has come in the central/downtown area of Boston, reflecting the construction of luxury apartments.

The declining rents in Boston are also reflected in HUD's fiscal 2005 Fair Market Rents (FMR) that became effective on October 1, 2004. The FMRs affect Section 8 housing funds and are used as benchmarks for other housing programs. The FMRs for fiscal 2005 decreased from the prior year from 10.8% for two-bedroom units to 19.6% for four-bedroom units.

Growth of Rental Housing Development

Boston has experienced a growth in the production of rental housing in recent years through private and public development in response to demand and the need to restore units lost over the past decade. US Census data indicates that while over the last decade the number of occupied rental housing units has increased by 4,382, the City suffered a net loss of 3,957 rental units as its substantial reserve of vacant units was depleted through occupancy or conversion to other uses, particularly condominiums. Rental housing has been lost in Boston, in part, because investment dollars have found their way to more lucrative rates of return in other endeavors, even within the housing industry. Even the City turned more of its focus and available state and federal resources from rental housing to home ownership in the past several years. Changes in the 1987 tax laws limited rates of return realized by investors in rental housing, and public dollars for housing were cut through the mid 1990s and have yet to regain their fiscal 1989 levels.

Housing construction in Boston has increased significantly in the period from 1996 to 2003 based on housing units authorized by building permits. A comparison of housing permits in Boston from the three years from 1996-1998 to the three years from 2001-2003, showed an increase of 156.5% based on US Census Bureau data compiled by the Boston Redevelopment Authority. Permits for 1-4 unit housing increased by 149.8% and permits for 5+ unit housing increased by 159.8%.

However, since 2000, the City has increased affordable housing production through its Leading the Way Housing Strategy. As of June 30, 2003, the total number of new rental units permitted was 4,322 of which

2,372 or 54.9% were affordable rental units. Also built were 522 affordable owner units, bringing the total affordable housing units to 2,892. Of these housing units, 88% were available to low- and moderate-income households. Approximately half of the affordable housing produced was achieved by traditional DND-financed multi-family development programs. BRA/DND development projects and the City's Inclusionary Development Policy accounted for the bulk of the remaining units.

Impact on Value

The control over rent increases that is provided in this act should not have an immediate negative affect on values or property tax collections. As rental property, these structures are valued based on the revenues they generate. Revenues will not decline but would be expected to grow within the stated increases allowed and therefore, both the value and tax bills would not decline because of this act. However, rent limitations could create a drag on the values of affected properties over time and cause a small shift in the tax burden to higher valued residential properties within the residential class.

Increased City Costs

Enactment of this special act will require an increase in city spending to fund the agency designated to administer this plan. The legislation does authorize the administering agency to institute fees to help defray costs but these fees just add to the cost of owning and managing rental housing in Boston. The Rent Equity Board in 1989 operated with a budget of over \$2.0 million in today's dollars and a staff of about 40 people. While a staff and budget that large should not be required in fiscal 2006, tight resources will be required to be allocated to support the regulatory requirements to implement this act.

Conclusion

The Bureau recognizes that rent levels are high in Boston but we believe that the more effective solution lies with increasing the supply of rental housing, not placing price controls on existing housing. While no one measure will solve Boston's housing problem, the special act before you will only make the current situation worse, not better. Passing this act even if it is not approved by the Legislature will send the wrong signal and could affect housing financing in Boston. Housing production has increased in Boston over the past few years and production has become a greater priority in Massachusetts for economic reasons. The City should continue its efforts to generate and encourage more housing construction and not create impediments to this effort. The Bureau stands ready to assist in any collaborative undertaking to study and recommend action on this issue.