

P U B L I C H E A R I N G

before

ASSEMBLY COMMERCE, INDUSTRY AND PROFESSIONS COMMITTEE

on

ASSEMBLY BILL NO. 504

(Just and Reasonable Rate of Return
on Residential Property Act)

Held:
May 9, 1978
Senate Chamber
State House
Trenton, New Jersey

MEMBERS OF COMMITTEE PRESENT:

Assemblyman Byron M. Baer (Chairman)
Assemblyman W. Cary Edwards
Assemblyman John A. Girgenti

ALSO:

Dale C. Davis, Jr., Research Assistant
Legislative Services Agency
Aide, Assembly Commerce, Industry and
Professions Committee

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NOTE: The Assembly Commerce Industry and Professions Committee received voluminous reports at the public hearing from many interested parties, and has subsequently received other materials which have not been printed as a part of this transcript, but they are considered to be a part of the hearing record and shall be on file with the Legislative Services Agency available for public inspection.

ASSEMBLY, No. 504

STATE OF NEW JERSEY

PRE-FILED FOR INTRODUCTION IN THE 1978 SESSION

By Assemblymen BAER, JACKMAN, SCHUCK, HOLLENBECK,
BURNS, CONTILLO, MARTIN, BURSTEIN, GEWERTZ,
PELLECCHIA, DOYLE, VAN WAGNER, FLYNN and
SHAPIRO

AN ACT concerning rate of return on residential rental property
and supplementing Title 2A of the New Jersey Statutes.

1 BE IT ENACTED *by the Senate and General Assembly of the State*
2 *of New Jersey:*

1 1. This act shall be known and may be cited as the "New Jersey
2 Just and Reasonable Rate of Return on Residential Property Act
3 of 1978."

1 2. As used in this act:

2 a. "Fair net operating income" means gross maximized annual
3 income less reasonable and necessary operating expenses, such ex-
4 penses not to exceed 60% of gross maximized annual income.

5 b. "Gross maximized annual income" means all income resulting
6 directly or indirectly from the operation of a property or building
7 including, but not limited to, all rent received or collectable includ-
8 ing any rent from a less than arms length transaction, the land-
9 lord's share of interest on security deposits, all earnings from com-
10 missions, vending machines, deductions from security deposits, late
11 fees, pet fees, parking fees, pool fees, key charges, finder's fees,
12 amounts received from successful tax appeals, income from re-
13 bates, tax surcharges, capital improvement surcharges, rent sur-
14 charges, and hardship surcharges, computed in accordance with the
15 provisions and limitations of this act.

16 c. "Reasonable and necessary operating expenses" means all
17 valid expenses incurred and paid by a landlord for a residential
18 rental property during the period reflected in income computed in
19 accordance with the provisions and limitations of this act.

20 d. "Landlord" means the owner or operator of any residential
21 rental property in this State who is subject to the provisions of a
22 local rent control or rent leveling ordinance regulating increases in
23 the rental of such property.

24 e. "Residential rental property" means any house, building,
 25 mobile home or land in a mobile home park or tenement leased for
 26 residential purposes subject to a local rent control or rent leveling
 27 ordinance regulating increases in the rental of such property.

1 3. Notwithstanding the provisions of any local ordinance to the
 2 contrary, no landlord shall increase the rental in any residential
 3 rental property, nor shall any local rent control board permit a
 4 landlord to increase any rental in any residential rental property
 5 except in accordance with the provisions of this act.

1 4. Whenever a landlord shall determine that the reasonable and
 2 necessary operating expenses computed in accordance with the pro-
 3 visions of this act are greater than 60% of the gross maximized
 4 annual income of a residential rental property, he may make
 5 application to the local rent control or rent leveling board for a
 6 hardship increase of rent.

1 5. In any such application the landlord shall specifically allege
 2 that:

3 a. He is an efficient operator of the residential rental property;

4 b. The residential rental property is in a safe and sanitary con-
 5 dition, free of any local State health violations which would cause
 6 a unit or structure to become less liveable;

7 c. The owner is in full compliance with all State and local laws
 8 pertaining to tenant's rights; and

9 d. All rentals collected and charges, including those arising out
 10 of any nonresidential use, result from arms length transactions.

11 If at any time during the course of consideration of a hardship
 12 increase pursuant to the provisions of this act, the rent control or
 13 rent leveling board shall determine that the landlord is not in sub-
 14 stantial compliance with any or all of the above, the board may
 15 temporarily withhold further consideration of the application for a
 16 hardship increase until such time as the landlord has corrected any
 17 such deficiency.

1 6. In computing gross maximized annual income under this act
 2 the following limitations shall apply in all cases:

3 a. No allowance shall be permitted for a vacancy, except as may
 4 be adequately demonstrated as the result of market conditions;

5 b. Income and expenses arising out of a nonresidential use, in-
 6 cluding that for professional or commercial space shall result from
 7 arms length transactions;

8 c. No loss caused by a nonresidential use may be considered.

1 7. In computing reasonable and necessary operating expenses
 2 under this act the following limitations shall apply in all cases:

3 a. Taxes shall be limited to amounts actually paid, including
4 those in escrow for appeal and the landlord shall further demon-
5 strate that taxes assessed against the property were reasonable
6 and, if not, have been appealed;

7 b. Repairs and maintenance shall be limited to arms length
8 transactions and shall be reasonable and necessary so as not to
9 cause over-maintenance of the premises. Cost of service contracts
10 shall be prorated over the period covered. Painting costs shall be
11 prorated over the number of years of actual painting cycle in the
12 building, but in no event shall painting be prorated at a period of
13 more than 3 years for the interior of dwelling units or 5 years for
14 the exterior and common areas;

15 c. Purchase of new equipment shall be reflected and prorated
16 over the useful life of the item;

17 d. Legal and auditing expenses shall be limited to reasonable and
18 necessary costs of the operation of the property. No legal expenses
19 or audit expenses shall be allowed as a deduction that does not
20 directly result from the landlord tenant relationship. A landlord
21 may not deduct expenses incurred in litigating any declaratory
22 or injunctive relief as to his rights under any State, local or Federal
23 law except for actions in the nature of a writ of mandamus. All
24 costs shall be itemized on the application;

25 e. Management fees shall be limited to actual services performed,
26 including the resident manager's salary, telephone expenses, post-
27 age, office supplies, stationary, and the value of the apartment
28 provided if included in income. In no event shall management fees
29 exceed 5% of the first \$50,000.00 of gross maximized income, in-
30 cluding commercial and professional space income, 4½% of the
31 next \$25,000.00 4% of the next \$100,000.00 3½% of the next
32 \$100,000.00, and 3% of any amount over \$250,000.00;

33 f. Salaries not included in management fees shall be limited to
34 actual services performed, and amounts for similar positions in
35 the area, including rental value, if included in income and expenses
36 and wages and benefits paid;

37 g. Advertising shall be limited to actual costs that are reasonable
38 to ensure occupancy only. Where waiting lists exist, advertising
39 expenses shall not be allowed;

40 h. Utilities including, but not limited to, gas, electric, water, oil,
41 shall derive from arms length transactions and the landlord shall
42 demonstrate that all reasonable efforts to conserve energy and
43 fuels have been used. A certification from the Department of

44 Energy that states all reasonable efforts have been made to con-
45 serve and reduce usage shall be required;

46 i. Insurance shall derive from all arms length transactions pro-
47 rated over policies and shall not include landlord's life, medical, or
48 other personal policies;

49 j. No penalties, fines, or interest for any reason shall be allowed;

50 k. The history of the income and expenses shall be consistent
51 with the application or fully documented as to any changes. Where
52 an owner has, for at least 2 years, spent more than 60% for reason-
53 able and necessary operating expenses the rent board may allow
54 the increase over the same number of years.

1 8. The landlord shall make application to the local rent control
2 or rent leveling board, together with all necessary certifications in-
3 cluding an application by the owner and his agent to demonstrate
4 that they are not earning a fair net operating income. The applica-
5 tion shall include the amount of increase and percentage of increase
6 requested, together with all facts and figures of at least 5 years of
7 income and expenses, if available. At the time of application the
8 landlord shall notify all tenants affected in writing that an applica-
9 tion is being made and is available to any tenants requesting the
10 same. The owner shall also make available to the tenants and the
11 rent control or rent leveling board all records and books supporting
12 the application. Any interested tenants or group of tenants or
13 association of tenants who wish to be heard at the public meeting
14 may notify the rent control or rent leveling board of their intention
15 and the rent leveling board shall permit that tenant, group of
16 tenants or association of tenants to be parties to the hearing. This
17 provision shall be liberally construed as to afford ample oppor-
18 tunity for all interested parties to present their views before the
19 rent control or rent leveling board.

1 9. Within 45 days of receipt of the completed application, or 30
2 days, in the event of Federal or State involved housing, the local
3 rent control or rent leveling board shall hold a public hearing and
4 make a transcript of that hearing. If, due to no fault of the owner,
5 the rent control or rent leveling board shall not hear the application
6 within 45 days and reach a determination 30 days thereafter, the
7 owner shall be entitled, upon notice to the tenants affected, to collect
8 the amount requested providing the amount does not exceed 10%
9 above the current rent. If the amount exceeds 10% above the
10 current rent, the owner shall be limited to only 10% until the
11 determination has been reached by the rent control or rent leveling
12 board. The board may proceed to stay the increase by resolution,
13 if in fact, the delay has to stay the increase by resolution, if in fact,
14 the delay has been contributed to by the landlord. Any increase

15 paid by the tenant shall be without prejudice and after a determina-
16 tion, that a lesser amount of increase or of no increase should be
17 allowed, the tenant paying the increase shall be permitted an im-
18 mediate deduction or offset against rents becoming due and owing
19 of all excess rents paid after written notice to the owner of the
20 amount involved. In no event shall any increase be greater than
21 10% per year over the base rent and automatic increase allowed.

1 10. The rent control or rent leveling board shall appoint a com-
2 mittee within 15 days, after the application is received, for the
3 purpose of setting up a prehearing conference which shall include
4 the landlords and affected tenants for the purpose of ascertaining
5 facts specifying issues in dispute and establishing stipulated facts
6 and determining whether the application is complete. Within 10
7 days prior to prehearing any party in interest may submit inter-
8 rogatories to a landlord or to any other party in interest to be
9 answered prior to the prehearing conference. Should any matters
10 set forth in interrogatories be disputed as to their applicability,
11 said issues shall be resolved at the prehearing conference and be
12 considered as part of the application. If answers are not provided
13 by Landlord according to a preconference ruling, then the applica-
14 tion shall be considered incomplete and if not completed in a
15 reasonable period of time, the application shall be dismissed. If
16 answers are not provided by any tenant, group of tenants or asso-
17 ciation of tenants or any other party other than landlord according
18 to a preconference ruling, and if not provided in a reasonable period
19 of time, any issues whether factual or legal specifically relating to
20 such interrogations shall be resolved in favor of landlord.

1 11. If after a full hearing the rent control or rent leveling board
2 shall determine that the landlord is in full compliance with the pro-
3 visions of this act, it shall permit a rental increase sufficient to
4 reestablish the 60% relation of fair net operating income and any
5 increase granted under a fair net operating income formula shall
6 be prorated to all of the units within the structure or on the prop-
7 erty; provided, however, that where a lease is in effect for a
8 property, or for any portion thereof, no increase for that property
9 or portion thereof shall be permitted until the expiration of such
10 lease.

1 12. If any provision of this act or the application thereof to any
2 person or circumstance is held invalid, such invalidity shall not
3 affect any other provision or application of the act, which can be
4 given effect without such invalid provision or application, and to
5 this end, the provisions of this act are declared to be serveable.

1 13. This act shall take effect immediately.

STATEMENT

Over 110 municipalities in this State have enacted some form of rent control over the past 5 years. Three communities define "Just and Reasonable Return." Since December, 1975, all rent ordinances must include and provide for an owner to apply for a "Just and Reasonable Return" based upon our Supreme Court's decision upholding the right of the municipality to enact a local rent ordinance with or without any automatic increases or surcharges. A uniform standard to define "Just and Reasonable Return" is needed.

The purpose of this bill is to allow an efficient owner of residential property in New Jersey, whose property is under local rent control to receive a uniform rate of return as a just and reasonable profit known as a fair net operating income. Whenever, the reasonable and necessary operating expenses exceed 60% of the gross maximized income a hardship increase should be permitted to maintain the 60% relationship, this increase once permitted by the local rent control and leveling board shall be passed on to the tenant in occupancy, providing however, that where there is a lease in effect, no increase shall be permitted until the expiration of the lease.

ASSEMBLYMAN BYRON M. BAER, Chairman: The hearing of the Commerce, Industry and Professions Committee on Assembly 504 will come to order. I am Assemblyman Byron Baer, Chairman of the Committee. Assemblyman Girgenti is on my left, and Assemblyman Edwards is on my right - not by prearrangement - and Mr. Davis, on my far right, is the Staff Director of the Committee.

This bill concerns rate of return for residential rental property. It establishes procedure and standards for settling disputes in so-called hardship cases in municipalities where rent control or rent leveling ordinances are in effect. The major purpose of this legislation has been to create some degree of standardization, particularly because there have been conflicting interpretations, and also because the technical nature of dealing with these matters has been a very heavy burden for many rent leveling boards without standards having been provided for them, and, lastly, because recent litigation has indicated a need for legislative definition in this area.

I want to emphasize that this bill does not deal with the subject matter of whether to have rent control or not have rent control in this State. It does not propose to create rent control or rent leveling or eliminate it. That is not its function. I know there are very strong feelings on the part of many people present for or against that proposition, but that is not the purpose of this hearing, and I hope that we will not have our purpose diverted with attempts to open up that question.

This legislation does not propose to provide an entire standardized mechanism for rent leveling that every municipality would have to follow prior to appeals. It deals specifically with the appeal procedure standards, specifically with the standards, and that is the purpose of this hearing, to hear views for or against the proposals here, or alternative means of dealing with this problem.

Just a word with regard to the history of this legislation - this legislation was first introduced in 1977. It was on the agenda of this Committee a couple of times late in 1977. We heard appeals on the part of some parties, particularly the builders, to delay consideration, so there would be further opportunity for preparation and research. We conducted an all-day meeting on this legislation that had some similarities to a hearing prior to the budget recess. I believe March 1st was the date of that meeting. At that point we heard more requests for additional time for preparation, and also requests for a full-dress hearing. Because this legislation is legislation that has such serious economic effects, and because it is very important to see to it that it provides fairness and is workable, we are having this hearing at this time. There has been approximately one month notice. We are looking forward with great interest to the testimony of those coming before the Committee.

I want to emphasize, to be helpful to the Committee in guiding it in its action, it is very important to be specific. To be constructive, it is very important to propose specific features. To merely testify to the effect that one is supportive of the legislation or in opposition to the legislation is interesting, but it doesn't help us greatly. If there are persons present who have objections to the legislation and do not want us to proceed with it as it is, please be specific as to what changes you want in the legislation. If the opposition, for instance, has no constructive elements or no specifics in terms of alternatives, that certainly will be taken into account in our evaluation.

I would like to discuss a little bit the procedure for today. We are very fortunate in that there has been a combination and a cooperation of effort on the part of many witnesses. This does not happen too often, and I think it is the kind of thing that can be of great value to the Committee. There are seven witnesses who are appearing on behalf of the New Jersey Builder's Association, the New Jersey Association of Realtors, and the Apartment House Council of the New Jersey Builder's Association, each dealing with different aspects. This type of coordination in presenting an overall picture can be very valuable to the Committee, and I want to in advance commend the different organizations for having gotten together and coordinated your testimony in this way. Likewise, the New Jersey Tenants Organization has four witnesses who are appearing before us who will be dealing with different aspects of this. This is very helpful.

I do want to ask the forbearance on the part of some of the other witnesses, because in order to get this testimony in a coherent and whole manner, I would like to have these two coalitions or organizations present their witnesses in sequence, and unless the time taken becomes excessive, I will try to do it that way. So, I would like to ask the forbearance of the rest of you who will be witnesses today. I know it is very frustrating to wait through a long period for one's testimony. But, this procedure, I think, in the longrun will be most beneficial to the Committee.

I just want to state that Mr. Davis is receiving--- If there are people present who have not yet signed up to testify, there are forms that Mr. Davis has left on the desk right in front of you. Please fill out the form and give it to Mr. Davis. I would like to ask your assistance, if someone joins the hearing, and sits down near you, who may not be aware of that procedure, would you quietly inform them of it. We expect that we will be taking a short recess approximately around noon; I am not sure of the precise time. That will coordinate with a break for a number of people who are present to participate in something that is happening elsewhere in the State House. At that time, I will be able to announce whether that will be a brief recess or whether we will have our lunch break at the same time.

The first witness is Herb Klein. I want to welcome you Assemblyman Klein. It is nice to see you in the legislative chamber again, since you served so well in the Legislature.

Do any other members of the Committee want to make an introductory statement? If not, please proceed, Mr. Klein.

H E R B E R T C. K L E I N: Thank you very much, Mr. Chairman. Thank you, members of the Committee. But particularly I thank you, Mr. Chairman, for your kind words. For the record, my name is Herbert C. Klein. I am an attorney and I am spokesman today for the New Jersey Builders Association---

ASSEMBLYMAN BAER: Herb, would you excuse me, there was one other thing that I meant to include in my opening statement. I wanted to state that the legislation before us I consider, as a starting point. It is not cast in stone, and there are, for instance, a couple of specific corrections that I wanted to bring to everybody's attention right now in the hope that a lot of time won't be spent dealing with these deficiencies. One of them deals with Section 3. The effect of Section 3 presently is to require, or it certainly can be interpreted as to require, every landlord that wants to have an increase to go through a hardship procedure. That was not the intention of the legislation, and that will be changed

with language that would read as follows, substituting for Section 3, "No landlord shall increase the rental in any residential rental property covered by any local rent control or rent leveling ordinance for hardship and just reasonable return except as provided herein." Obviously that makes a very major difference.

On page 3, line 13, there is an error. Where the first word "more" is, it should read "less."

Please excuse the interruption. You may proceed.

MR. KLEIN: Thank you very much. Mr. Chairman, Assemblyman Edwards, Assemblyman Girgenti, as I started to state for the record, my name is Herbert C. Klein, and I am attorney and principal spokesman for the New Jersey Builder's Association, the Apartment House Council of New Jersey, the New Jersey Association of Realtors, and the New Jersey Assembly of Property Owners.

I am sure it comes as no surprise to the members of the Committee that we are flatly opposed to A-504. But, before getting into our specific complaints about the matter before us - and those complaints will be directed toward the bill as submitted, rather than any revisions, because obviously it is impossible to evaluate the impact of the revisions that have just been briefly announced - and before getting into our specific comments, I offer the following very brief comments about our position very generally.

We oppose rent control or rent leveling in any form based upon demonstrable evidence that such measures have never worked anywhere or to anyone's ultimate benefit. Conversely, rent controls have universally contributed to the detriment of all concerned, whether it be the apartment house resident, the apartment owner, the home owner, or tax paying public, or the effective or cost conscious government administrator.

We believe that the basic economic concept of supply and demand in a free market is the cornerstone of a healthy housing environment. It is only through a free market that incentives for builders and investors will encourage the private sector to once again prime the pump for multi-family housing production. Such a process will guarantee fair rents by creating a substantial surplus of apartments from which tenants are free to pick and choose, and I might say that if the advocates of rent control would really wish to do a service to the cause of tenants and to insure that there would be a fair and reasonable rental structure, they would best serve such a cause by working to insure that there be legislation adopted that would guarantee that there would be an ample supply of housing available. Unfortunately, this legislation, rather than serving such an end, achieves exactly the opposite purpose.

Now, I am realistic enough not to expect you to take our word on the subject. After all, I speak for a special interest group, but I also suggest to you that you keep in mind that the proponents of rent control are also a special interest group. Obviously, I am speaking of the tenants. Because we believe that the problem at hand is vital to this State, and because of the crucial timing of this situation, we have assembled from around the country experts, economists, urbanologists, tax experts, financiers, and others, to present to you the facts upon which you may make an informed decision.

The heart of the issue before us is not a question of the rights of one group or another, but rather the future of housing in New Jersey. Today we will demonstrate the indisputable fact that rent control in New Jersey is the architect of a housing wasteland. A-504 provides the mechanism that will spell the end of conventionally financed housing in our State. Advocates of rent control as a device to help those with low income, or those living on fixed incomes, say that rent control would achieve such a purpose. Certainly the ideal in theory is a good one. These people should be protected, but that is not the way the rent control system truly operates. Rent

control in effect and in reality is an enormous subsidy for the middle and upper class. And that statement is a direct quote from the New York Times Magazine. We will demonstrate throughout this proceeding that the New Jersey home owner will be the victim who will be in the end forced to support this subsidy through an increased property tax burden.

I ask you, why should the President of the American Stock Exchange live in a rent controlled apartment which costs \$600 a month, when its fair rental value is \$1200 a month? The Daily News recently did an article about the affluent who drive Rolls Royces but have apartments with artificially reduced rents subject to New York rent control regulations. But you don't have to go to New York. This is a New Jersey issue. Let's take a look at Fort Lee or some of the other luxury rent control buildings in this State. You will find hundreds, perhaps even thousands, of professional and high income business persons earning six figure incomes who are residing in rent controlled apartments. A final thought before getting on with the specifics of the deficiencies of A-504, New Jersey is still a home owner state. It is this large population of home owners who represent the vast majority of the citizens of this state who are going to be forced to carry the burden of rent control until it eventually impacts on the whole state through massive tax measures.

Historically, the housing industry has quoted what opponents on the issue have called hollow statistics about New York. They said the New York experience is not relevant, that it can't happen here. Well, we will clearly demonstrate to you today that it can happen here, and it is already happening. Rent control causes abandonment and physical deterioration of buildings which effectively erodes the municipal tax base. As an example of this, New York City has lost some 300,000 units to abandonment during the past decade, and has another 300,000 units on the verge of abandonment. That is enough units to house the population of two cities the size of Boston, Massachusetts. Rent control prevents the production of new rateables, because no investor in his right mind will put capital into a project in a rent controlled town.

Fort Lee, for example, where developers once competed vigorously for residential building opportunities has not seen a new multi-family building since rent controls were introduced six years ago. That means no new multi-family construction in Fort Lee in the last six years. Now, that is not fantasy. It is fundamental. Apartment buildings whose incomes are restricted are less valuable, and accordingly they are taxed less. New York City's assessed valuation dropped by a mind boggling \$3 billion in the last three years which converts to a tax burden of \$260 million that must be assumed by the tax paying public. In New York, the commercial real estate owner may be able to carry a part of that burden. In New Jersey it falls squarely on the home owner.

My statement, formal statement, says that I have two newspaper clippings here. Actually I have three, and I am going to talk to you about the third in a moment. One is from the Hudson Dispatch in 1972. It is attached to my statement, and it quotes the late Martin Aranow, who was then the Tenant Association leader, as saying that there would be no shift in real estate taxes to the home owner, and that, in effect, taxes would stabilize.

A second clipping is from the Bergen Record of a few days ago. I have a report which states that Fort Lee has been ordered to re-value its tax structure which will mean tax reductions of millions of dollars on apartment buildings and a gigantic dent in the homeowner's pocketbook - all due to rent control, because of the dramatic effect of now non-income-producing rental properties in that borough.

And, finally, perhaps most dramatically, and this one was just handed to me this morning, is a clipping from the Bergen Record of May 5th - that is this past Thursday or Friday, I believe--- I am sorry, I will have that in a moment along with copies to be distributed to members of the Committee, but what the clipping says is that there was--- Here is the headline, "Four Fort Lee Landlords Win \$2.2 million Tax Refund." Now, that is this past Friday. Now, who is going to pay that \$2.2 million to support the government of Fort Lee? Well, you know who it is going to be; it is the home owners of Fort Lee.

Now, this follows the slash of apartment house assessments last year by some \$100 million in assessment. That translates - and this is the most important thing - to the average home owner in Fort Lee into an additional \$250 annually on his tax bill. You are shortly going to hear about a report by Dr. James Hughes, an Urbanologist at Rutgers, which depicts and predicts that there will be a further increase in the individual home owner's bill of \$500 annually, when the full impact of the Fort Lee apartment house reductions is finally felt. So, for the first time, like our neighbors on the other side of the Hudson River, we unfortunately have to say it is happening here.

We stressed Fort Lee because it is the municipality where rent control was first actively supported in New Jersey. As such, it serves more or less as the model for some 120 municipalities with local rent control. Hence, the full impact of the disastrous effect of rent control can first be seen in this borough. But another graphic example is already emerging in Par-Troy which has a mix of single family homes and garden apartment complexes in Morris County. Here a similar picture is taking place, although it is just beginning. In 1972, there were reduced assessments of \$734,000 which translated into a \$32,000 shift in taxes to the home owner. Now, you may say, that is not a lot of money, but let's see what's just over the hill in Par-Troy. There are \$20 million worth of appeals on apartment house tax assessments in Par-Troy, and they are soundly conceived, and if they are successful, it will mean a \$1 million shift in property taxes to the one family home owner, but this insidious system which attacks the very fiscal fabric of the municipality, its tax base, will eventually take its toll elsewhere. It will impact the entire tax structure.

I know there are those in this room, including the Chairman, who fought for and income tax in this State to provide property tax relief to the home owner. Rent control is already eating up the benefits of that fine program of property tax relief, and it is going to get worse. We are especially opposed to Assembly Bill 504 because it embodies the most damaging recommendations that we have seen in the six-year history of rent control in New Jersey. It will create a fiscal holocaust which will impact upon every citizen of this State. The results are predictable if A-504 is adopted. It will insure that the housing industry will find it near impossible to build conventionally financed multi-family housing again, and that means no rateables. It will destroy the municipal tax base by forcing deterioration and ultimate bankruptcy and abandonment of existing properties. It will unleash an avalanche of successful tax appeals by owners of non-income producing rental properties. We have already seen this, but it is only the tip of the iceberg, and we have already spelled out what the impact has already meant in Fort Lee and is meaning in other municipalities as well.

It will cause interminable administrative hearings on hardship applications, plus many thousands of legal actions that will require a significant drain on the

municipal treasuries, and again on the individual taxpayer. It will mandate an exodus of working class families, who, according to demonstrable statistics have already begun to flee New Jersey for the Sun Belt States, because they cannot cope with the rising prices of single family homes, or the non-production of suitable apartment dwellings that would normally accommodate them. In the end, and unfortunately, I fear the end may come sooner rather than later, it will deny the tenant the adequate housing his leadership has fought so militantly to protect.

Unquestionably, these results will occur because A-504 first of all relies solely on a political mechanism, the local rent board, to deal with highly technical problems involving financing of multi-million dollar structures, problems which board members for the most part are no more equipped to confront than they are to regulate a medical-surgical procedure. The emphasis on this type of administration flies directly in the face of the latest thinking by both the Federal Government and the Judiciary in ruling on this very issue in New Jersey.

Secondly, A-504 picks a formula out of the air to attempt to standardize all apartment expenses. Fort Lee's 2.5% rental increase formula was recently held by Judge Harvey Smith to have no basis in fact. That is contained in his report to the State Supreme Court. A-504 in addition to that totally ignores the idea that debt service is a major element of the expense of rental housing. The illogic of the entire formula in A-504 is akin to the Fort Lee formula, and is even worse in its reality and effect.

Let me add a personal aside. As a former Assemblyman, I am, of course, aware that it is the role of this legislature rather than the courts to formulate the laws of our State. But I refer to Judge Smith's findings because they represent the most far reaching fact gathering proceedings on the subject of rent control, and also because they relate directly to the area in which the rent control movement has had its greatest impact. I would also like to note for the record that we have submitted to this Committee 2,220 pages of testimony from the proceedings before Judge Smith.

Now, A-504 is further deficient in that it attempts to quantify a general concept of fair rate of return for all buildings. That is a task equivalent to a tailor designing a suit of clothes to fit every person. The standard set forth is impossible to justify, to justly administer, because no two buildings are alike. There are scores of variables that work, for example, age, size of the building, type of construction, mortgage financing, just to name a few. A-504 creates a monstrous bureaucracy by making every single request for a rental increase for every individual apartment subject to review by the local rent board. This will multiply such cases by the thousands and pad the municipal payroll with professional thieves of a small army of lawyers, accountants, and experts of all kinds, and who will fund this bureaucracy? The taxpayer.

The United States Department of Housing and Urban Development, HUD, in the last two years has stepped in to supersede local rent control authority in New Jersey in order to protect FHA mortgages on the properties which it finances in the State. Obviously, the Federal Government knew what it was talking about. It recognized that it couldn't live with local rent control administration in New Jersey. It recognized that local rent control boards were unable to act intelligently and equitably on the problem. This bill relegates every request to a hardship basis, subject to months, or perhaps years, of proceedings at great cost to all segments of the population.

Now, I understand from the Chairman that the proposed revision would somewhat modify that. It is impossible to determine the extent of that modification, but it would seem quite clear to me that, if not all, certainly most applications would be subject to the procedures of A-504.

It predestines every application for a rental increase to litigation in the law. It sets up stringent pre-conditions even for getting to appear before the Board, and then leaves no other course of appeal but the courts. For example a tenant complaint as trivial as a leaky faucet or a burned out light bulb in a hallway would disqualify the apartment owner from receiving even a hearing on his application for a rent increase. Would such a proviso encourage unjust tenant complaints, or vandalism, already considerable, in an effort to halt any rent increase?

Finally, A-504 creates an impossible tightrope or catch 22 situation with regard to maintenance. Owners are warned to keep their buildings in perfect shape, because if they don't, they can't have a hearing, but they are also warned to keep equally vigilant about overdoing maintenance, and the poor apartment house owner who can't strike a proper balance is caught in the middle and gets no relief whatsoever. Where is the razor's edge line, and how do you find it?

The next comments that I am about to make are offered specifically on behalf of the New Jersey Builder's Association, its Apartment House Council, and the New Jersey Assembly of Property Owners. As we have previously mentioned, we are totally opposed to rent control in any form. But we are also realists, and we must deal with the political realities and the fact that the courts have seen fit to grant local police powers to municipalities on this subject. Unfortunately, local regulation has resulted in an impossible situation, which is a crazy quilt network of some 130 different forms of local controls. Therefore, in order to make the best of what is a terrible situation, and hopefully to design an interim solution that will begin to counteract the willful consequences which have already been felt, we will speak to the shortcomings of A-504 and make fundamental recommendations that are sorely lacking in this legislation.

First of all, A-504 is a perfect example of legislation in a vacuum. It deals with a slice of the pie, or one segment of the issue, namely, the hardship appeal, but not the issue, and that is, local rent control ordinances. The measure dwells on the appeal procedure without defining the law it is designed to appeal. In other words, A-504, to use an analogy, is concerned about painting the house without first giving thought to building it. If this narrow systematic approach is taken, the problems woven into the current fabric of rent control in our State will not be alleviated. Following this standard, each problem will then demand separate attention. Legislation will react to problems rather than eliminate them.

Based upon the experience, the collective experience of the industry, plus the reinforcement of the findings contained in Judge Smith's decision, we believe that if this Legislature is to act, what is really needed is State enabling rent control that will set the needed standards for local rent control ordinances. It is our opinion that only through such legislation covering the following points can there be a real chance to create and maintain a healthy housing environment in this State.

A-504 relies on the hardship procedure exclusively to determine rent increases. As Judge Smith's opinion indicates, hardship applications should be the exception, not

the rule.

The only fair rental increase formula designed to date has been the market basket items of the Consumer Price Index, the so-called CPI. In his opinion, Judge Smith identified the CPI as the truest yardstick available for the rental market. He added that municipalities that use fractions of CPI or flat percentages had failed to substantiate any validity for such an approach. Clearly, in our opinion, and in that of Judge Smith's, as that of many experts as well, the uniform standard for equitable rent leveling in this State, if this State is to have it, should be the CPI. That is the standard that the late Martin Aranow of the New Jersey Tenants Organization originally recognized and suggested and that is the standard that should be adopted, if there is to be a standard.

Without a full CPI increase, New Jersey faces the continued stagnation of real estate values, with attendant reductions in apartments and enormous shifts in the tax burden to the home owners. Unhappily these trends are already well underway. It should be noted that the CPI was the original yardstick offered by Mr. Aranow, as I have indicated, in the tenant's organization quest for a perfect rent barometer. Now, of course, they find fault with that yardstick, but why should the owner of rental housing be limited to a 2.5% annual increase when wages, personal income, the price of food, clothing, cars, and just about everything else is rising at an annual rate of 6% or more.

The concept of rent control has been twisted from its original purpose of protecting the tenant in residence from unfair and gouging increases. Any forward thinking legislation should establish a formula to elevate automatically the rent on a vacant apartment to fair market value. There is no reason for any rent control on vacant apartments.

Detractors have said traditionally that vacancy decontrol - which is what I refer to - invites apartment owners to unjustly evict tenants so as to raise rents. However, under New Jersey's "Tenant's Bill of Rights" and specifically the "No Cause, No Eviction" provisions, it is impossible to evict a tenant without just cause, and no one knows that better than the Chairman of this Committee, since he was the author of that legislation.

Contrary to other allegations, housing experts have maintained that vacancy decontrol is the only positive aspect of the rent control morass in New York City. In this regard, it should also be noted that vacancy decontrol provides real incentives for apartment owners to maintain units in hopes of earning higher rentals as each unit is vacant. Judge Smith dealt with this subject as well in his findings and said, and I quote, "When an apartment becomes vacant, the direct need for control vanishes." He also said that the Tenant's Bill of Rights makes such controls unnecessary. He also commented, and again, a direct quote, "According to the evidence, vacancy decontrol would have a stimulating effect upon a stagnant Fort Lee type real estate market. Vacancy decontrol is now obligatory in Fort Lee."

This kind of liberation from strict controls is already in effect in a number of our municipalities. It should be in effect in every municipality which has rent leveling. We can also cite two reports from New York's Urban Development Corporation which lend credence to the traditional industry arguments that vacancy decontrol encourages new investments, while simultaneously urging existing owners to retain and indeed improve their properties.

Dr. George Sternleib, who is the Director of the Rutgers University Center for Urban Policy Research, was recently misquoted in published reports on the subject

of vacancy decontrol. It was said the Dr. Sternleib opposed vacancy decontrol. Well, we have a letter which is attached to the statement, which is being submitted to the Committee along with our other papers, in which Dr. Sternleib is a staunch advocate of this concept and so states in the letter.

Now, let's talk about taxes. They are an uncontrollable element on the apartment owner's balance sheet. Opponents of taxes past will argue that the owner has the right to appeal, but realistically this is not a serious right, because there is a four-year appeal process right now and there are more than 24,000 appeals backlogged on the State level. Furthermore, even if the appeal is successful, most local ordinances require that the proceeds of the appeal be shared with the tenant, if not wholly returned to him. When rent ceilings were invoked initially in New Jersey, apartment owners were promised by proponents of rent control that tenants would share the burdens of real estate tax increases. In the much heralded Fort Lee experience, this promise was soon repudiated as tax escalation became significant. In his opinion to the high court, Judge Smith cited the repeal of the tax escalation provision or the tax pass through provision in labeling the rent code of Fort Lee confiscatory and invalid.

Now, another uncontrollable and difficult item for the owner is the problem of fuel and utilities. During the inflationary spiral of the 1970's propelled by the Arab oil embargo, owners were faced with skyrocketing costs at the very time they were legally obliged to hold the line on rents. Statewide leveling enabling legislation must provide for capital improvement--- I'm sorry. Statewide rent leveling enabling legislation must provide for surcharges for utilities and for fuels. Another provision ought to be and must be included for capital improvement surcharges. We use the word surcharges in the plural, since we view the surcharges as two-fold. First, the property owner should be allowed to surcharge on a formula basis any capital improvement which may be mandated by annual inspections by the Bureau of Housing Inspection of the Department of Community Affairs. Apartment owners would be hard pressed to survive such mandatory requirements without the cost being shared by the tenant who directly benefits by such improvements.

Under such a provision, the local rent board as well as tenants would be notified of the surcharges, but they would be automatic and not subject to debate, since they are mandatory as we have already indicated.

A second form of capital improvement surcharge should be incorporated to provide for those improvements which although not mandated are necessary. In such a case, prior approval of the rent board would be needed before such a surcharge could be imposed. The composition of the rent board is important. State enabling legislation must insure the independence or at least the reasonable objectivity of rent boards by redefining their structure. We suggest the following composition: Two tenants, two home owners, two apartment owners, one independent member.

A principal reason why the Department of Housing and Urban Development stepped in to supersede local rent boards in New Jersey on FHA sponsored projects was the total ineffectiveness of the existing procedure in this State. Legislation must require the establishment of county or regional boards to deal with hardship applications, and they should be properly staffed with members who have the expertise to understand the complicated nature of large real estate transactions, and the

financial aspects of them. Furthermore, the costs of any appeal procedure should not be borne by the apartment owner only as has been the case in the past. I do not think that the cost is a significant matter, because with an equitable and uniform standard, the number of hardship applications would be reduced to a minimum.

One of the major deficiencies in A-504, however, is that it focuses solely on this hardship process. Under a good law there would be few if any hardship situations, because the basic regulation would establish standards to insure that there would be available a fair and reasonable return, and thereby the owner would avoid being pushed to the point of having a hardship situation.

Judge Smith suggested in his opinion that the administrative process of hardship applications should be the exception, not the rule. We wholeheartedly agree with those sentiments. Still another shortcoming of A-504 is that it fails to recognize the need to establish a housing emergency. Experience has shown that when the vacancy rate is less than 2%, tenant mobility is restricted. But above that level there is mobility. Hence, we recommend that a 2% vacancy rate be established as a standard for determining when a housing emergency exists in a given county. Such a standard might be raised to 5% if you take into consideration the so-called turnover rate in measuring the vacancy rate.

Rent control should be allowed only in municipalities where the vacancy rate is determined in accordance with the above standards. In the interests of home rule, we would further recommend that rent control be allowed only when adopted by ordinances which are in accordance with standards established in state enabling legislation.

Finally, only municipalities in which there are apartments should adopt local rent leveling ordinances. We strongly recommend that any new units that are constructed after the effective date of the local rent ordinances be perpetually exempted from rent control. In that fashion, we will provide the impetus sorely needed to spur new construction. Any local ordinance adopting rent control or rent leveling should be subject to the sunset concept. Quite simply what we mean is that the ordinance should self-destruct after two years. Of course, it could be renewed by a municipality at the end of that two year period, but it would give the municipality an opportunity to re-examine periodically the existence of an emergency if one does exist in the area, and to take action as may be appropriate.

These then constitute the major elements of a statewide rent leveling enabling act which we offer to you for your consideration. Unless rent leveling is abolished in this State, or unless major reforms of the kind we now recommend are adopted, the economic consequences to the State will be disastrous.

ASSEMBLYMAN BAER: Mr. Klein, I know you are getting near the end. Your testimony has come to most of an hour. I think most of the rest is basically a summary. I note as you have been testifying that you have been following fairly close to what you have prepared. I am concerned about the scheduling of this entire hearing. The idea of having a number of witnesses, as I commented before, as experts is quite helpful. It was my understanding through Mr. Davis that the testimony of your coalition was cumulatively going to be in the vicinity of two hours, and I am becoming quite concerned, since the larger part of an hour has been consumed by your testimony. I do want to allow time for the coalition of other witnesses also to testify, and if it continues like this, I don't see that they will have much of an opportunity today, and some of them have planes to make. So, would

you allow us to proceed at this point to some of the expert witnesses that you have.

MR. KLEIN: Mr. Chairman, I appreciate that my statement has been lengthy. I can assure you, however, that it is very close to a conclusion, and that the additional material that I have to present is not a summation of what has already been said, but is new and significant material. I also assure you that the other speakers that have been assembled by our group will have much shorter statements to make, and will deal with specific aspects of the problem. So, if you will indulge me for five more minutes, I think we can solve the problem.

ASSEMBLYMAN BAER: We will be able to stay within or very close to the two hours, then?

MR. KLEIN: I think so.

ASSEMBLYMAN BAER: Very good, then, proceed.

MR. KLEIN: Thank you very much, Mr. Chairman. I wanted to deal with what I think is perhaps as important an aspect of this problem that may exist, and that is the impact of rent control on the State's economy. The statistics on multi-family housing starts rapidly demonstrate this impact. From 1970 to 1973, a period when there was substantially no rent control in this State, multi-family housing starts averaged 23,000 units annually. From 1974 to 1977, when there was widespread rent control, multi-family housing starts averaged only 8,500 units annually.

Now, we recognize that there may have been other factors involved in this downturn. However, it is significant that in the rent control years, virtually all of the multi-family housing starts were in subsidized housing or in HUD mortgages, neither of which is subject to local rent control. The message, gentlemen, is loud and clear. Builders and investors are unwilling to build multi-family units in this state which are subject to rent control.

Now, let's transfer this loss of housing units into a loss of jobs and personal income. The rent control years resulted in some 14,500 fewer multi-family units annually. According to statistics available, this would result in the loss of approximately 14,500 jobs in the construction trades annually, and a loss of more than \$135 million in wages. That is not a total economic loss. The total economic loss is much greater. But wages alone in the construction trades suffered a loss of \$135 million each year during the rent control era. In a state that has placed a primary emphasis on new jobs, and on economic recovery, rent control is a form of regulation we simply cannot afford.

I stated before, we have assembled for you today a battery of experts from around the country. These include Professor John D. Matthews of the University of Wisconsin, who will discuss the decline in market value of property subject to rent control. Dexter Kamilewicz, who will discuss---

ASSEMBLYMAN BAER: Why don't you introduce them one by one?

MR. KLEIN: Fine, I would be perfectly happy to do that. Mr. Chairman, gentlemen, I thank you very much for your courtesy and for the indulgence you have given me with regard to the time, on what I think all agree is a vital subject. I will be happy to answer any questions which you or any members of the Committee may have.

ASSEMBLYMAN BAER: Thank you very much for your testimony. Are there any questions from members of the Committee.

ASSEMBLYMAN EDWARDS: I have none right now. I would like to hear the expert witnesses.

ASSEMBLYMAN GIRGENTI: You will be around, right, Herb?

MR. KLEIN: I will be around until the hearing closes and I will be happy at any time to answer any questions.

ASSEMBLYMAN BAER: Very good. Thank you very much for your testimony. I guess the next witness will be Dr. Matthews; is that right?

MR. KLEIN: Yes, since you had indicated that I could introduce each of the witnesses, our first witness is Professor John Matthews of the University of Wisconsin. Dr. Matthews is an economist who has studied rent control in Madison, Wisconsin, and who has studied particularly the impact of rent control on tax structure and on the value of rental property. Dr. Matthews.

D R. J O H N M A T T H E W S: First of all, I would like to explain what I feel is my relevance to this occasion. I am a Professor of Business at the University of Wisconsin. I have taught at the Northwestern University, Boston University, in Brussels, and I have been at the University of Wisconsin for the last six years.

Approximately two years ago the issue of rent control came up in Madison, Wisconsin, and I was approached by the financial community of Madison, Wisconsin, which included all the savings and loans and all the banks with the exception of two Milwaukee based organizations, to look into the possibility or impact of tax shift phenomenon as it might impact upon Madison were rent controls to be introduced, and I would like to address my testimony with respect to the issue at hand, that is, how sensitive the tax burden might be with respect to the decision that you people are facing soon, with respect to your bill.

First of all, the tax burden shift, if there is one, is a function, certainly, of how the pie slices up, so to speak, with respect to the tax base of the municipality. And I have an extract of my report, which is in a binder, which you have a copy of called "Rent Control Project - And It's Impact on the Property Tax Structure in Madison, Wisconsin." It was written by a co-author and I in September of '76. But, anyway, in 1978 there is approximately \$2 billion worth of property in Madison. I know that because I am the Statistical Analyst for the City of Sussex and have been that for the past three years also. Of that property, approximately 17% is represented by a market value of rental units. Those are duplexes up to units of several hundred units and more.

Now, the question is, what is the phenomenon here, and how does it work? I wish to kind of compartmentalize what I am going to say by, one, if there is a loss in rental property value, what will be the impact on the single family home owner, using Madison as a case in point; number two, why should there be a loss in value; why is this a reasonable expectation; and, number three, what data is there available which has been used by a number of studies which support the fact that, or indicates that, the property values do decrease.

Number one, we have this relationship here. Single family homes represent 50% of the tax base in Madison; 17% of the tax base is represented by rental units; the other part of the tax base consists of commercial, personal property, manufacturing, agricultural and things like that. If the assessed value drops for any reason with respect to rental property, the question is, who is going to be holding the bag? Of particular interest was the impact upon the single family home owner in Madison, Wisconsin. So, what I wanted to do was translate a drop in market value of apartment units to a direct impact upon the single family home owner. Obviously, if less taxes are extracted from one sector of the tax base, more dollars must be extracted from the remaining part of the pie. In that respect, the mill rate, our

net levy per \$1000 of assessed value would have to increase, and this next chart indicates for our community what that relationship would be.

First of all, I might indicate that the form of my analysis is very similar to Dr. Hughes' analysis which was done for another report which will be referenced later, I think. The methodology is almost---

ASSEMBLYMAN BAER: May I interrupt you? Are these charts also reproduced in this report?

DR. MATTHEWS: Yes, they are, right. You have a copy of all those charts. They are in that report.

ASSEMBLYMAN BAER: Can you refer to them by page number as you proceed?

DR. MATTHEWS: Okay. The first chart was, I believe, Table 3, if my memory serves me correctly. Yes, the first chart is Table 3 on page 9-- Two pages past page 9, I'm sorry. This next chart is on page 16, correct.

All this indicates is that on the bottom line we are talking about decreasing market values for rental units, and as the decrease goes from zero percent down to a 100% drop, which means essentially they would be worthless, the mill rate would have to rise, which would be applied to the rest of the tax base in order to keep the same number of dollars which equaled the net tax levy in 1975. And the reason it is '75 is because this report was originally done in 1976.

But, anyway, the linear relationship applies between the mill rate, which was used at that time - \$42 per \$1000 of assessed value, would increase to 47.4; if rental property dropped by 50% in market value, it would increase to \$52.3 per \$1000 if rental property were for some reason to be worthless or otherwise disappear. So that relates in a very straightforward sense, I believe, the relationship between the market value of rental units and the resulting mill rate that would have to be applied to the rest of the tax base to extract a constant number of dollars to equal the net tax levy that was used or obtained in Madison, Wisconsin, for that particular year. It just indicates that if for one reason or another one portion of the tax base disappears, the other part of the base would have to pick up the marbles, so to speak, and there are more marbles to pick up per dollar of assessed value, so that mill rate would have to increase.

In translating what I have just said into the impact upon a single family home, the next chart, which is on page 18 in your booklet, indicates what the relationship is. For example, for a \$40,000 home - which is the right-hand vertical axis of this chart - when the mill rate was \$43 per \$1000, the \$40,000 would pay approximately \$1735 per year in taxes.

ASSEMBLYMAN BAER: Wait, excuse me. Could you go back to the other chart. I just want to make sure I understand this. I am not questioning you on it at this point, going into new areas, but I want to make sure that I understand this.

The indication at the bottom is the percentage of the value loss of just rental property, right?

DR. MATTHEWS: Yes, just rental property.

ASSEMBLYMAN BAER: I see, that is the scale. Now, what do you have there that indicates what the actual loss has been?

DR. MATTHEWS: That will come a little bit later.

ASSEMBLYMAN BAER: In other words, is this a hypothetical chart, or is this based on experience? I am not sure I understand.

DR. MATTHEWS: Well, let's see, this is the reflection of the tax base that existed in 1975 in Madison, Wisconsin, and this simply indicates the relationship

between --- Let's say, if there were a loss in market value, or assessed value, in rental property, how much would the mill rate have to increase in order to make up for the loss of that portion of the tax base.

ASSEMBLYMAN BAER: Oh, I see, if there were a loss.

DR. MATTHEWS: If there were a loss.

ASSEMBLYMAN BAER: But this isn't based on any--- I see, this is based on hypothetical figures on the loss.

DR. MATTHEWS: Right, using the tax structure and the assessment segments of the tax base that were in existence in Madison at the time.

ASSEMBLYMAN BAER: The total number of rateables in the various categories.

DR. MATTHEWS: Exactly right, yes.

ASSEMBLYMAN BAER: Now, one other question, just to understand that, when you referred to this being made up by the rest of the tax base, does that mean that the way this chart is designed, if for instance there was a 50% loss in the tax base of rental property that you would be making up that entirely on non-rental property, on the rest of the property.

DR. MATTHEWS: Commercial, agricultural, single family home, personal property, all the other sectors would share equally in the shift of the tax from the rental sector to the non-rental sector.

ASSEMBLYMAN BAER: Then the way this chart is based, that tax increase would not fall as the rate increases, that tax increase would not fall in turn on the rental properties too, which would pay in part for the shift in that way. This hasn't been based that way. This is based on the rest, according to your testimony.

DR. MATTHEWS: There are calculations that have gone on behind the scenes, and what we have done is this: We said, okay, let's say there is an initial drop - and I will go through this little scenario with you - of 50% in the market value of apartment units. The first step would be to increase the mill rate to extract the amount of dollars that the rental property is no longer generating in tax dollars. But the mill rate increased, which means that the higher mill rate has been applied to the rental sector now. We have taken that into account. I don't want you to leave with a feeling or have me leave giving you the feeling that this was not reflected in the figures, because it was. These are equilibrium mill rates, which takes into account that because the mill rate would be higher we would be getting more dollars from the rental sector too.

ASSEMBLYMAN BAER: I appreciate your making that clear, because your initial testimony went the other way.

DR. MATTHEWS: Thank you for asking. Now, the question is, what does the mill rate change, what impact does it have on the single family home owner, and we were particularly concerned about the single family home owner, because they do represent half of the tax base of Madison, Wisconsin, and as I indicated, for example, a home assessed at \$40,000 would have their assessment go or taxes go from \$1735 - which is the very right-hand chart or line of the chart here - up to perhaps almost \$1900 if, let's say, rental unit value declined by 50%. So this just relates the mill rate to the assessed value of the property and transforms it into a tax bill, and therefore, for any given home of assessed value, you can see how the taxes would change.

In this case, for a \$40,000 home, there would be approximately a \$160

increase in taxes in that year. That is fine--- not so much fine, but the question is, what might be a reasonable scenario in which to talk about rates of change of property. Now, it is not desirable, or let's say it is not possible, really, to speak in terms of just nominal rates of change of value. For example, if a home changed hands at \$100,000 in 1970, and \$100,000 again in 1978, there is no paper profit or loss, clearly, because both transactions were for \$100,000.. But, clearly, since the rate of appreciation on most homes --and with respect to the cost of goods sold, the rate of appreciation and inflation - shows there is some real loss of value involved, because \$100,000 today is worth less than it was seven or eight years ago, what we want to do is take into account the historic rates of appreciation of property in Madison, which we have done, and we have developed four scenarios which are discussed on page 20 of your booklet.

Scenario number one hypothesized for an example market values of apartment units will diminish slightly in nominal dollar value, 3% per year, when the rate of inflation is a modest 4% per year. And you might say, so what has the rate of inflation got to do with it? Well, the rate of inflation is being applied in our analysis to all other property in the city - most importantly, single family homes. And the objective here is to assess or to reflect the fact that if there is any disparity in rates of growth between segments of the tax base --- Let me repeat that, if there is any disparity between the rates of growth of segments of the tax base, the tax burden will inexorably show.

For example, if rental units don't appreciate or depreciate in value, in market value, let's say they stay constant in nominal dollar value, it would appear to the naive observer that there is no tax burden shift over time, if those rental properties don't decrease in value. But, if your single family homes in New Jersey are appreciating at approximately the same rate that they are in Madison, Wisconsin, which is about 15% per year, the home that you own, if it is appreciating at 15% per year, will be representing a larger share of the tax base as years go by unless every segment of the tax base appreciates at exactly the same rate. So what we have done is we have said, look at scenario number one, slight nominal loss in dollar value for the apartment units when the rate of inflation is a modest 4%. That doesn't reflect, I think, what we are used to.

Scenario two might be a little bit more relevant. It is the same as one, but market values of apartment units diminish substantially at 9%--- Let me skip that. Number three is a little bit better.

Scenario three is the same as one. What was one? Slight nominal decline in value of apartment units, but the rate of inflation is a substantial 8%, and I think scenario three probably reflects what has been happening in many communities over the last several years, especially with the rate of appreciation of single family homes. So, looking at scenario three, and considering that for a minute, the next chart, which is on page 21 of your booklet, indicates the percentage drop in value of apartment units as a function of time. What does that mean? Well, again, for scenario number three, what it indicates is that when the rate of appreciation of all other property is approximately 8%, and when market value for apartment units, assessed value, drops only slightly, 3% per year, the percentage drop in terms of the tax base that the rental units represent will drop by about 10% the first year; will decrease by a total of 19% by the end of the second year; will continue to decrease, for example, by the fifth year to something a little bit more than half their original real worth or original segment of the tax base.

Let me just give you an example. If scenario three were in effect for five years, in Madison, Wisconsin, let's say, originally in Madison, Wisconsin, the rental units represented 17% of our tax base. If scenario three were in effect for five years, the 17% of the tax base that it originally represented would be 59% of 17% or approximately, I would guess it would drop from 17% down to 11%. And all the other segments of the tax base would have to make up for the smaller share that rental units represent.

What does this mean, again, for the single family home owner? For the \$40,000 home, assessed value, again for scenario number three, if scenario number three were in effect for one year, we are talking about a \$29 higher tax bill for that home owner. If it has been in effect for five years, we are talking about \$130 increase in his tax bill. This is over and above the normal rates of increase in expenditures, in the net tax levy that the city would make. In other words, this is kind of a rent control tax for the single family home owner. It represents an incremental increase in property taxes the single family home owner would have to make, simply because the rental units are not generating as many tax dollars as they historically had done.

ASSEMBLYMAN EDWARDS: That is a per year amount you are talking about.

DR. MATTHEWS: That is a per year amount, yes, it is. So, for example, for the entire five year period, to come up with a total contribution, so to speak, in some of those five numbers across any given line that you care to be interested in.

Well, that is what it looked like in Madison, at the time, and you might ask me, how does rent control work out in Madison. I can't respond to that simply because it was a referendum issue. It went up for a popular vote, and 85% of the residents of Madison, Wisconsin - which is a very liberal city in a very progressive state - voted against rent control. So, with respect to what happened, well, there is no rent control. This analysis was done primarily for the financial community who were very worried about their risk posture with respect to mortgages they had---

ASSEMBLYMAN BAER: Excuse me, we would like to recess now. I must apologize for interrupting your testimony. Would you make a point of where you are, and what we will do is to recess, I think, for a very brief period, as brief as this ceremony takes, because I think we are running behind. We will come back.

DR. MATTHEWS: I have a very real interest in a brief recess, because I have to catch a plane from Philadelphia at two o'clock if I can do that.

ASSEMBLYMAN BAER: You are not the only one.

DR. MATTHEWS: Okay, thank you.

ASSEMBLYMAN BAER: The Committee will stand in recess.

(Whereupon a recess was taken.)

AFTER RECESS:

ASSEMBLYMAN BAER: Dr. Matthews, since being interrupted in the middle like that creates a little break in concentration, perhaps you could go back a very brief amount, and start again.

DR. MATTHEWS: Sure. As I said initially, I was going to try to compartmentalize my comments into basically three sections - number one, if property values do drop for rental units, using Madison as a case in point, how

would the tax burden shift to primarily the single family home owner; number two, what would be the extent, aside from the mechanism, by which that happens, what would be the extent of the tax shift; and, finally, number three, address myself to the issue of declining market values and what kinds of empirical data have been used and are available which support the thesis that there is either a declining value in rental unit property value or a decrease in the rate of appreciation, and we are at the third segment right now.

Let me briefly summarize again. These dollar increases in the 1975 tax burden on single family homes for any one of four scenarios that might capture your fancy so to speak indicate the dollar amounts that the single family home owner would have to pay--- Of course, if we are talking about a \$400,000 business, you could multiply the entries in the lower section of this table by ten, because that is for a \$40,000 home. If we are talking about a \$400,000 business, you would multiply by ten to find out what the shopkeepers and everyone else would pay in additional taxes to take up the slack, so to speak, of the tax dollars which are not being obtained from the rental units.

I had originally planned simply to reference a couple of bits of data which were disseminated at the point in time when this report was written. This is now late in '76, and for example, on page 24 I have a quote from David L. Phillips, Lynn, Massachusetts, from the Office of the Mayor, and his quote is, "There has been a decrease in the number of sales of multi-family structures since '71. In addition, multi-family structures have begun to decrease in value. For example, the median sales price per unit of rental housing in 1971 was \$8,750. In 1972, since the adoption of rent control, the median sales price for rental units was \$7,791. Further, the median sales price for 1973 was \$7,673." That is a nominal drop in value of 12.3% in two years, during which inflation was averaging about 8% per year, which reflects a drop in rental unit value of between 25% and 30% in constant 1972 dollars, and in terms of relating that to one of these scenarios, that type of property value drop relates to scenario two as it turns out, if it had been in effect for two years.

And, if that had happened in Madison, we would be looking at an additional \$73 taxes for a \$40,000 home. That was what I was going to terminate my presentation with when I was flying out here on Sunday, but in the interim I have come across a report which has been written by one of those people who will be giving testimony today, and I assume that this report will be discussed later on, and that person is Mr. John Gilderbloom, whom I believe is present somewhere in the assemblage. John, hello.

I read the report with a great deal of interest yesterday, with nothing else to do, because this report was certainly a piece of cake to present. I am very familiar with it. I spent about twelve hours going over this report, and since I won't be around to ask questions of Mr. Gilderbloom later, I would simply--- Well, I would feel remiss if I did not comment on the data and the use of the data, particularly the use of multi-regression analysis in analyzing the data that he has used and I am sure will relate to you sometime later in the day. I am going to use his data, as a matter of fact, as an indication of the drop in the rate of appreciation of rental units in Massachusetts.

When Mr. Gilderbloom presents his article, or his paper, I assume it will be similar to the one that I was looking at, and I have copied a table from it,

which is the last page of this paper that I wrote yesterday. There are a couple of typographical errors you will have to bear with me on, but, anyway, the title of this paper is "An Analysis in Declining Rates of Appreciation of Rental Property in Massachusetts." There should be an enclosure in that bundle of papers that you have been presented with. And if you could extract that eight page document, so you can follow basically the arguments, it would help you follow my comments.

Basically, the topic at hand now is the final one, and that is, what have property values been doing? So, if you take that document out, on the very last page, there is a Xerox copy of page 36 of Mr. Gilderbloom's report, the title of which is referenced in this little document. And what it is, is sixteen pairs of sales. This is a technique which I referred to as paired sale analysis which can be used to measure rates of appreciation. I use a technique similar to this in Madison, Wisconsin, for estimating rates of appreciation for single family homes. The correct application of this technique is a perfectly legitimate way to measure rates of appreciation of whatever property you care to look at. Have you found this page? It is the very last page of that document.

Now, what that represents is sixteen sales--- Excuse me, it represents sixteen properties, all of which have sold twice. For example, property number one sold first in the year 1968. The sales price was \$56,000. It sold again in 1970 for a sales price of \$72,000. And if you look to the second column from the right, that column is headed by sales price, and it is further headed by annual percentage increase in sales price. You will see the entry 14.3%. That indicates that property over the two year period increased in value at an average rate of 14.3%. That is fine. There are sixteen sales here. Each has two sales prices and two sales dates, and the increase in the sales price has a percentage, which is related in the second column from the right. So far so good.

Now, basically a weighted average is taken of those percentage increases, and we have as a result the entry 10.1% at the very bottom of that column. The reader is left with the impression - and I was left with the impression - that this is meant to imply that since the sales in the left-hand column occurred before rent control, the sales in the right-hand column occurred after rent control, the average rate of increase in apartment complex value was 10.1% per year. That is a very misleading and inaccurate conclusion. I would simply like to indicate why that is inaccurate and misleading. And I would like to use a simple analogy.

Let's assume we have a sixty year old man who weighs 180 pounds, and I could calculate a rate of appreciation in terms of weight - 180 pounds divided by 60 is 3 pounds per year. Let's assume I have a twenty year old man who weighs 180 pounds. The rate of appreciation in weight is 9 pounds per year. Let's assume I have a very healthy nine year old who weighs 180 pounds. The rate of appreciation is 20 pounds per year. Now, I can calculate an average and call it a statistic. I can take the average of the rates of appreciation in weight of those three individuals and say the average weight gain was 3 pounds per year for one, 10 pounds per year for the other, 18 pounds per year for the third. What do I get? Well, I get a number to be sure. Now whether that is relevant for any decision I am going to make is quite another thing.

So, let me show you an alternative analysis that I use in Madison, Wisconsin for the City of Sussex - and I have used for two years, and I am writing a research paper on with a co-author at the University of Wisconsin in statistics, and this is kind of a variant of this statistical technique. I would like you to refer to

page three of this document.

ASSEMBLYMAN BAER: Excuse me, how much longer is your testimony going to take?

DR. MATTHEWS: Just about five minutes. I will be done quickly.

ASSEMBLYMAN BAER: Because we normally provide rebuttal at the later part. If each witness in turn makes not only his own presentation but his comments on any of the other witnesses, I am not sure when we are going to get out of here.

DR. MATTHEWS: Well, I have to leave. I will leave time for any questions.

ASSEMBLYMAN BAER: Normally, rebuttal in that sort of situation is submitted in writing within a period of time, but if you can be brief.

DR. MATTHEWS: Sure. Okay, what is table one on page three? If you would look at that for a moment, you see the thing at issue here is not the average rate of appreciation over a seven year period. But what is at issue, really, is how the rate of appreciation changes.

The thing of interest here is how the rate of appreciation changes from year to year. Now, you will notice this table has sixteen rows, one for each and every property. At the head of each column are the years '68, '69, '70, '71 through '74. Now, that first sale, you will recall, for that first home took place in 1968, and sold again in 1970, a two year period. The average rate of appreciation, which I simply extracted from that table that you just looked at, was 14.3% per year. So, I said, okay, fine. The home sold in '68 for the first time. It appreciated 14% for '69, 14% for 1970, and it sold, and that is why those two entries are in there for those two years, '69 and '70.

The next property, for example, if you look back at the table, the average rate of appreciation was 17.6% for three years. And those are using Mr. Gilderbloom's figures. On down the line to the sixteenth property which sold in '67, appreciated for five years, I guess, and sold again in 1973. Now, what is at issue here is not the average appreciation over seven years, but the average appreciation for each year of the seven years, because what we would like to do is try to measure the rate of appreciation before and after rent control, or before and after it had some impact.

Now, the final row in that table is simply the average of the above entries. For example, in the first column, 1968, you have eight entries. If you took the average of those eight rates of appreciation applied to the eight properties which sold in '67 and appreciated through '68, you get an average appreciation rate of 9.7%. If you average the numbers in the column 1969 - I did this last night, and I didn't have a good calculator - it says 8.4%. Would you change that please to 9.6%. So the first year the rate of appreciation apparently was 9.7%, the second year was 9.6% and the third year was also 9.6% in that series. The fourth entry, 3.5% is correct. The fifth entry, 3.5% should be changed to 3.9, and finally, we have 1973 whose average is 3.8%, not 3.6%. I apologize, but I didn't have my Texas Instruments calculator when I did this, and finally, the final column, 1974, that entry should be a negative point eight percent.

So, you see, the years 1968, 1969, and 1970, as far as this data is concerned, it is not my data, the data was used in Mr. Gilderbloom's report, indicate a fairly constant rate of appreciation, between 9% and 10%. In 1970, I theorized that home owners in ---

ASSEMBLYMAN BAER: Excuse me, I don't think you need to testify further describing the chart that is in front of us.

DR. MATTHEWS: Fine. Thank you.

ASSEMBLYMAN BAER: Do you have anything further?

DR. MATTHEWS: Nothing, other than one short comment. I use multiple regression a lot. I am the Statistical Analyst for the City of Sussex and my degree is in quantitative methods. Classic application of linear regression to a situation as it is applied to rent control may or may not be appropriate. First of all, the situation as it is applied to the rent control study in New Jersey indicates that there is a control group, which is non-rent control counties and cities, and an experimental group which is rent controlled cities. Now, in the classical statistical modeling, the assumption is if you are going to compare two populations - in this case rent control versus non-rent control - there is no information crossing borders which would cause the actions of the controlled group to change regardless of what happens to the experimental group.

For example, if we are talking about white mice, the white mice in the controlled group get fed well and everything, and they are well taken care of. The white mice in the experimental group are given red dye number two or whatever. Now, the white mice in the control group never know what happened to the white mice in the experimental group. There is no information crossing borders. And in that controlled situation, you can compare the effects of red dye number two versus no red dye number two, and it is quite reasonable to do so. Perspective property owners are not white mice. They read the paper. And they evaluate their future decisions or the rationality of their future decisions with respect to what they observe happening in the rent controlled areas.

The entire structure of the Gilderbloom report is such that they hypothesize the existence of a controlled experiment like white mice. When in fact whatever happens in the rent control area, good, bad or indifferent, will certainly influence the behavior of all people in the non-rent controlled area, because of the possibility rent control may be brought in.

So what I am saying is, if I am one of two brothers - and I was - and my dad swatted my big brother for not eating mashed potatoes, it not only changed my big brother's behavior, it also changed mine, because I saw what happened. Now, a statistical analysis when applied to the situation---

ASSEMBLYMAN BAER: Excuse me, are you saying that where there are towns or cities without rent control and there are negative economic indicators, that these are caused by rent control in other communities, therefore, if there is abandonment in Philadelphia, or depreciation in the value of property, that is caused by rent control in New Jersey?

DR. MATTHEWS: No, but that is a good question. What I mean to imply is that if building rates change in rent controlled areas because of the changing economic benefits that are expected from property ownership, then the behavior of perspective investors in non-rent control might reasonably expect it to be the same if they perceive a real possibility of rent control being implemented in the future in non-rent controlled areas.

So, what I am saying is, under the threat of rent control, my behavior as an investor might be no different from someone who is in fact under rent control. Do you see the point? I will eat my mashed potatoes, even though I didn't get hit. My brother got hit and he is eating his mashed potatoes. So, in terms of comparing my brother with me, there is no difference, and one of

the major points in the Gilderbloom thesis is that there is no difference in behavior patterns in rent controlled areas versus non-rent controlled areas. And what I simply want you to think of is, if my big brother got hit for not eating mashed potatoes, and he starts eating them, I am going to eat mine, and in classical statistical applications to behavior patterns like that, the statistical evidence would see, well, there is no difference between the child that got hit and there is no difference between the child that didn't get hit, so, therefore, the effect of hitting had no impact, when in fact it modified the behavior of both populations.

Anyway, I disagree with the statistical structure that was used in the entire study, more specifically the way the rates of appreciation were manipulated to imply that the underlying rate of appreciation was 10.1% in Massachusetts, when in fact a very simple, straightforward analysis of the same data - and this is his data, not mine - indicates that there is an abrupt change.

ASSEMBLYMAN BAER: I hate to interrupt, but time is pressing. I think you are repeating the same point over.

DR. MATTHEWS: I am finished.

ASSEMBLYMAN BAER: I would like to get on to questions, because the time is short here. I think we all understand the point you are making.

DR. MATTHEWS: Fine, thank you.

ASSEMBLYMAN BAER: First of all, I would like to ask you a fundamental question. What aspect of this particular legislation is all this directed towards?

DR. MATTHEWS: Inasmuch as the decision before the people of the State who are for this bill, more specifically, inasmuch as it will affect the viability or attractiveness of investment in the rental sector, and whatever impact it has in diminishing property values in terms of market value, that impact will not only fall upon the property owner, but eventually will in fact, economically speaking in terms of tax shift, be felt by the entire population.

ASSEMBLYMAN BAER: Well, that is the point that you have been making, but that doesn't answer my question, which is, what aspect of this legislation are you making that point for?

DR. MATTHEWS: Well, the aspect that if the controls are too tight, or not flexible enough to reflect the realities of managing the property, getting a decent return on investment, they will obviously impact economically on the community in the manner that we have been discussing, the tax shift.

ASSEMBLYMAN BAER: If the controls are too tight.

DR. MATTHEWS: Yes.

ASSEMBLYMAN BAER: I see. So, you are illustrating this principally to make the point that the controls should not be excessively tight, otherwise, these economic circumstances would result.

DR. MATTHEWS: Yes.

ASSEMBLYMAN BAER: And if the controls are reasonable, then the results would be reasonable.

DR. MATTHEWS: I hesitate to extrapolate the hypothesis to that point. I wouldn't make that statement. I don't know, you know, what is the reasonable amount of control and what is unreasonable. I am not in a position to comment on that.

ASSEMBLYMAN BAER: All right. Now, in your testimony, and in what you have

written, you made reference to the fact that there were other factors that affect these economic indices other than rent control. Have you made any effort to identify what they were? I think right in the beginning of your testimony you allowed for that. Have you identified what these other factors are?

DR. MATTHEWS: I would have to have that read back to me. I am not sure---

ASSEMBLYMAN EDWARDS: I think Mr. Klein was the one who testified to that effect.

DR. MATTHEWS: Oh, perhaps Mr. Klein made mention of something like that. I don't think I did.

ASSEMBLYMAN BAER: I see. Well, have you determined that there are other factors that affect property value, other than rent control?

DR. MATTHEWS: Well, yes, there is a host of factors - the average income of the people that live in the neighborhood, the socio-economic concerns, a variety of issues. Rent control is not the only one - the availability of land, the energy situation, in terms of making it more costly to live in a suburb versus the central city. Certainly there is a host of those factors.

ASSEMBLYMAN BAER: In these particular property values that have been studied, have you made any effort to differentiate how much of that impact was caused by other factors and how much was caused by the variable of rent control.

DR. MATTHEWS: Well, no I haven't. The underlying hypothesis is that whatever factors are working, they are roughly the same, and may or may not be accounted for or reflected in the data. It is a very difficult task, because there is a variety of explanations for almost any data set, as we have seen.

ASSEMBLYMAN BAER: I note that one method in your work that you have used to identify changes in property value is the change in the average sale price from year to year.

DR. MATTHEWS: Yes.

ASSEMBLYMAN BAER: Has there been any effort to isolate out the properties that are being sold in a given year, maybe of a different nature? The market may be shifting in terms of what people are buying or selling, and there are other variables that could be responsible for a change in the average per unit sale price from year to year other than just general changes in the value of the property. In other words, the sample from year to year may not be an identical sampling. How can you correct for that, or can't you?

DR. MATTHEWS: Well, in many situations you simply can't because there are so many variables beyond your control.

ASSEMBLYMAN BAER: At one point you made reference to applying to the results what would happen, and applying the Lynn experience to Madison. And then the projections on the tax rate. But if the Lynn profile in terms of the percentage of rateables that are multi-family rental, and the percentage of rateables that are commercial, and the percentage that are home owners, if that profile is different from Madison, you can't necessarily assume that that result would be just carrying out what you have on the chart; isn't that correct?

DR. MATTHEWS: That is correct. If there are more rental units that are in the tax base, the effects that we just talked about would be more dramatic.

ASSEMBLYMAN BAER: And if they are less---

DR. MATTHEWS: They would be less, right. 17% of our tax base was rental unit property.

ASSEMBLYMAN BAER: Well, wait a minute, if you have more rental units, isn't the effect less dramatic? It's the other way around. If you have a situation where 80% of the units are rental, and there is a devaluation, let's say, of so many million, and then that is assessed across the entire spectrum, four-fifths of that will be picked up again by the rental units, wouldn't it, and one-fifth would fall on the non-rental. Whereas, if you have it the other way around, you would have most of it falling on the homes, but if the homes represented a total pool of assessed value much greater than the apartments, it would be spread thinly; is that incorrect?

DR. MATTHEWS: I think not, but let me give you two extreme examples. Number one, let's say there is \$100 million of assessed property---

ASSEMBLYMAN BAER: Can you speak to my question, though.

DR. MATTHEWS: Oh, the answer is no. Yes, in response to that, the analogy I am going to give you, I think, will lend some light on it. Let's assume we have \$100 million of assessed property in the city, and \$1 was worth those apartments. If the apartment diminishes in value to zero, it is not going to make any change in the mill rate, because it was such a small segment of the tax base to begin with.

ASSEMBLYMAN BAER: If it diminishes to zero, did you say?

DR. MATTHEWS: Yes, if \$100 million worth of assessed value in a city is less than 1% rental unit, less than 1% rental unit---

ASSEMBLYMAN BAER: I don't think we have anything where it diminishes to zero.

DR. MATTHEWS: Well, or to a small amount---

ASSEMBLYMAN BAER: That is such a weird result. Then you can't put anything back on it. It disappears out of the town somehow.

DR. MATTHEWS: Right, and the mill rate would be essentially unchanged, because you have such a small part of rental property in the tax base. If, on the other hand, 99% of the tax base is rental property, and 1% is single family homes, for an example, let's say the rental property drops in value 50%; if you want to extract the same taxes, the mill rate will have to increase by 100%. It will have to double. Here is this 1% single family home owner, and he is going to see a tax bill exactly twice what it was. So you have the relationship, as the rental population represents a larger portion of your tax base, the single family home owner more and more and more will tend to be holding the bag. For whatever tax dollars you don't get from the rental population, you are going to have to get from the single family home owner.

ASSEMBLYMAN BAER: Thank you. One other thing I wanted to ask you, you made reference, for example, to situations where property values were increasing 15% a year, and this was in the context of discussing the erosion of property value that could occur from just standing still.

DR. MATTHEWS: Yes, that is exactly right.

ASSEMBLYMAN BAER: How can one correct out for, in studies, property value increases that are caused by factors other than inflation - some suburban values go up, at quite a high rate in sales housing, because demand is increasing, or whatever the market conditions, at a substantially greater rate than the rate of inflation. It wouldn't be correct, then, to assume that if rental units failed to go up at the same 15%, if they only went up at, let's say, the rate of inflation, they represented some liability, how do you correct out for that, or is it not possible?

DR. MATTHEWS: Well, since the City Assessor, and I assume it is the same in New Jersey as it is in Wisconsin, is charged with the burden of estimating market value and not explaining why it is that high or that low in value, he just has to estimate it, and that is his job. In terms of somehow adjusting for it, it is not legal, I don't think, in Wisconsin - and I assume not in New Jersey either - in that no one really cares why a home is as valuable as it is, all we are charged with is finding the value. The ultimate impact, though, is when you have differential rates of appreciation - assuming no new building ---

ASSEMBLYMAN BAER: Yes, but I think you were suggesting that if an apartment didn't increase, hypothetically, 15%, if it increased at a lower rate, that that would be attributable to the effect of rent leveling. We are here not talking about the assessor's duty, which is to be blind to the reasons for increases, except to the extent to which that sharpens his skills, but we are trying to talk about what causes these changes, and you seem to have suggested that if rental property doesn't increase, let's say, at 15% that that represents some failure to keep up with inflation, and a shifting of the burden that represents an injustice. But I don't see where you have provided a procedure to differentiate between situations where there may be - due to market factors - an appreciation in the non-rental real estate market that is greater than inflation due to those market factors.

DR. MATTHEWS: At that point I was speaking to comments - sometimes I see written articles that kind of project a comforting feeling that the market value of apartment units eventually stabilizes. In times of double digit inflation a stable assessed value, or a stable market value of any sector, if it remains at whatever level it would start at, and just stays there, when your home is appreciating at 15% per year, it is not a value judgement. I am not indicating it is fair or unfair, all I meant to indicate was that eventually the tax burden will shift continually over time from --- If it is a rental unit that is stagnate in value, the tax burden will shift from them to the single family home owner, and it would be the exact reverse, if for some reason single family home values stagnated, and apartment rental units skyrocketed. The tax burden would then shift to the apartment dweller, and that is what will happen. I am not making a value judgement or don't mean to imply one with respect to whether it is right or wrong, or should, or should not, be adjusted. I am just indicating that that is what happens when there is differential rates of appreciation in your tax base among the various segments.

ASSEMBLYMAN BAER: Thank you. Are there any other question? Assemblyman Girgenti.

ASSEMBLYMAN GIRGENTI: One point. Have you read the bill that we presently have?

DR. MATTHEWS: Yes, I have.

ASSEMBLYMAN GIRGENTI: And do you have any specific input on that bill directly? I realize what you are saying, you oppose the concept entirely. Addressing yourself to that bill in particular, do you have any specific input?

DR. MATTHEWS: When I got the bill I called a number of people in the city, first of all the City Assessor. And I said, look, what would a 60% expense to revenue ratio do to the rental unit stock in Madison, and he said, well, typically today - his name is Ray Waterworth - the expense to revenue ratio is between 45% and 50%. If it ever gets anywhere near 60%, the home owner would very likely be in a negative cash flow position, where their rentals don't even cover the costs

of debt service, principal, interest and the other expenses in owning a property. And he said it would be very detrimental, if Madison is at all similar to New Jersey, in that respect.

As far as my own personal views, I am not a real estate person. I guess I am modeler in quantitative methods person, so I really don't have any personal input in regard to that.

ASSEMBLYMAN GIRGENTI: Can you just tell me very quickly - I think you mentioned it before we were going out - what is the situation in Madison? It was repealed?

DR. MATTHEWS: It was a referendum situation, and it came up for a vote, and again, in one of the few state capitals whose mayor has gone to Cuba twice, we have a very liberal city and a very progressive State, and it was 85% against. That was the end of it, so to speak, for about a year now.

ASSEMBLYMAN GIRGENTI: Thank you.

ASSEMBLYMAN EDWARDS: I just have one question, are you familiar with out county property tax structure?

DR. MATTHEWS: No, I am not.

ASSEMBLYMAN EDWARDS: Assuming we do have a county property tax structure in New Jersey, each county strikes its own tax rate to support its county government that is assessed against real property, I am assuming that the same principals would apply if a county or the majority of the county were to adopt some kind of rent control, that the impact across the other assessments for other types of properties would be affected?

DR. MATTHEWS: Yes, exactly the same principals. It is really a very simple--- It is almost like slicing up a pie. There is nothing involved about it. The dollars have to come from somewhere. There is a total assessed value. Calculate the mill rate, to get the net tax levy, and then you go back and see, where did we get the dollars, and if there is a slice of the pie that is shrinking relative to others, the others are going to pick up the tab. Whether it is agricultural property or manufacturing, it doesn't make any difference.

ASSEMBLYMAN EDWARDS: One more question, on the referendum in Madison, what percentage of Madison's population are apartment dwellers versus others?

DR. MATTHEWS: I am glad you asked. There are approximately 32,000 single family homes. There are approximately 28,000 apartment units. In a city of 200,000 people, there are approximately 40,000 university students, and also there is another technical school in the city. The total student population probably is around 44,000 voting age, 18 years and above. It might be interesting to note that of the seventeen districts, only 2 were even close to supporting---- Only two districts out of seventeen districts supported rent control, and they were close. Most of the students voted against rent control. Most of the students who voted - let me put it that way - voted against rent control.

ASSEMBLYMAN EDWARDS: Are there any profiles on that vote, on the makeup of the voters that was taken at that particular time?

DR. MATTHEWS: In terms of house dweller versus apartment dweller?

ASSEMBLYMAN EDWARDS: In terms of apartment dweller versus students, versus percentages of individuals who voted out of each of those classes? Are you aware of any?

DR. MATTHEWS: I was the analyst for pre-election queries, 800 random phone calls, and the apartment dwellers - about two to one - were against rent control.

I mean when you figure in the aggregate it was six to one, there area lot of people even in apartments who weren't in favor of that particular ordinance.

MEMBER OF THE AUDIENCE: Can I ask a question?

ASSEMBLYMAN BAER: Excuse me, I should explain the procedure here in this hearing. We do not have cross-questioning like that. The only people that will be speaking before the Committee are those who have signed up as witnesses in advance, and they will be testifying in turn. At this point, we are having questions from the Committee.

ASSEMBLYMAN EDWARDS: Do you have any idea why the apartment dwellers were opposed to the rent control?

DR. MATTHEWS: I would like to think it had something to do with the report that I did. I may be wrong, but we discussed the issues on television as to pro-rent control, and con-rent control groups. They were both represented on television, and there was a long series of articles in both newspapers. One is very conservative, and the other is very liberal, and the issue was well discussed, and, I don't know.

ASSEMBLYMAN EDWARDS: I haven't read your report, yet, obviously, but do you mention in there or do you have any knowledge of the vacancy rate and the viability of the apartment construction industry in Madison, and how competitive the market is in that particular circumstance?

DR. MATTHEWS: Well, most of the interest in rent control centered around the student areas, downtown, central student areas. The University of Wisconsin is located very close to the State capital, which is the exact center of the city. And that is where most of the interest was, although there are large segments of the ex-urban areas which are apartment complexes. As far as the vacancy rate is concerned, I think it was relatively respectable, like 4% or 5%, or something like that. But the closer you got to downtown, the vacancy rate diminished. You know, there is always a demand for student housing. I don't know if that lends any light on anything.

ASSEMBLYMAN EDWARDS: Thank you.

ASSEMBLYMAN BAER: Very, very briefly, and you can just give a figure here, roughly, do you know what percentage of the rental units are student occupied?

DR. MATTHEWS: Well, students, whether they live in university housing or city housing or commercial housing can still vote.

ASSEMBLYMAN BAER: I asked you what percentage of the rental units are student occupied. I didn't ask about--- If you don't know, don't spend a lot of time on it.

DR. MATTHEWS: I sure don't know.

ASSEMBLYMAN BAER: I want to thank you very much for your testimony and sharing this information with us.

DR. MATTHEWS: My pleasure.

ASSEMBLYMAN BAER: Herb, I will not be able to put Mr. Kristof on. I am going to put Mr. Gilderbloom on. I will not be able to follow, having all of your people going in sequence. This is stretching on to be quite late, and Mr. Gilderbloom also has a plane and a tight schedule. In view of the fact that what we just heard tied in very much subject-wise with Mr. Gilderbloom's testimony, I want to proceed with his testimony now. We are prepared to defer lunch.

MR. KLEIN: May I point out that the next speaker on the agenda is Dr. Frank Kristof, and Dr. Kristof is the Vice-President of the New York Housing and Urban Development Corporation, and is quite an eminent expert on the subject of urban affairs---

ASSEMBLYMAN BAER: I have no doubt on his eminence as a witness.

MR. KLEIN: If I may, he also, as I explained to you in my memorandum, does have a scheduling problem, and I would think he would be entitled to ten minutes. So, if you are going to continue, I would request that he be the next speaker.

ASSEMBLYMAN BAER: I am sorry. I won't be able to comply with that. You have been getting equal treatment. So far all testimony for the last close to two hours has been from your organization or coalition. Mr. Gilderbloom has a scheduling problem too. There were no commitments made in advance of today about timing like this. The agenda that was available this morning was that which was tentatively intended to guide the Chairman. I explained at that time that changes might be made as necessary, and I believe that we are being more than fair, not only in the time that your witnesses have been allowed, but in the fact that they have carried all of the presentation up to this point.

Mr. Gilderbloom also has a tight schedule, and this is topically related, and I do want to hear him at this time, even though it means delaying our luncheon break.

ASSEMBLYMAN EDWARDS: Mr. Chairman, if both of these gentlemen have a scheduling problem, I would like to see both of them, before we go to lunch, say what they have to say. I don't think we should be favoring one over the other and then take a lunch break and have one individual hanging out. I have no objections to which one of them goes first, but if they do, I am perfectly willing to listen to both of them, so that we can finish that part of it up, and they can move on. I would think that would be an equitable way of resolving it.

ASSEMBLYMAN BAER: Well, what I have proposed, I think, is perfectly equitable. for the reasons I have stated, but I have no objection to staying here if it is the unanimous feeling of the Committee, but there is a limit to human endurance and I might suggest also to attentiveness if we go way beyond the lunch break, but I am willing to do it. But, at any rate, I will proceed at this point.

ASSEMBLYMAN GIRGENTI: Yes, I agree that we should hear both individuals.

ASSEMBLYMAN BAER: Okay. Mr. John Gilderbloom, please.

J O H N G I L D E R B L O O M: My name is John Gilderbloom. I am an Associate Fellow at the Foundation for National Progress and a consultant for the Department of Housing and Community Development for the State of California for the past two years. Having earned a Master's Degree in Sociology, I am currently working on a Ph.D. at the University of California in Urban Sociology on the impact of moderate rent controls in New Jersey over a five-year period. I also recently won an award for my research on rent control from Western Governmental Regional Association for the best policy analysis. My testimony today does not necessarily represent the official findings or policies of the Department of Housing and Community Development or the Foundation for National Progress.

I am happy that the HCD has allowed me to come out here and provide for you some testimony. Just an added comment: I am extremely tired from the long jet ride out here - just extremely tired.

I have been requested to testify on how the New Jersey rent control ordinances have affected the following: The construction of new housing; the maintenance of existing rental properties; property values, including any tax shift which rent control might cause; the economic effects upon tenants and landlords; and specific administrative and procedural features of the New Jersey rent control ordinances.

My testimony is quite brief. In fact, it is five pages and I think I will read it out loud. I might improvise on a few statistics and stuff like that.

As I have noted in my March 1978 report - which we have available - there are two kinds of rent control: restrictive and moderate. It is the former that has given rent control such a bad name. It is the restrictive rent controls that have put a virtual freeze on all rents, which prohibited the landlord from meeting rising costs without allowable return on investment. In New York, for example, restrictive controls have generally led to a decline in the quality and quantity of the housing stock. We have really no dispute with Mr. Klein on his argument that New York rent controls have been very detrimental, at least up until the 1970's.

ASSEMBLYMAN BAER: Excuse me, could you push that microphone closer?

MR. GILDERBLOOM: Okay. To avoid such problems, moderate rent controls were developed. Moderate rent controls are designed initially to exempt all new construction from an initial exemption to an absolute exemption. For example, in Massachusetts there is an absolute exemption. As mandated by the courts, of course, moderate rent controls must also provide for annual rent adjustments to compensate for escalating costs and guarantee a "fair and reasonable return on investment." In general, the courts have ruled that a just and reasonable return must be "commensurate with returns on investments in other enterprises having corresponding risks."

For example, in Hoboken, New Jersey, "a fair return on the equity investment in real property shall be considered to be six percent above the maximum passbook demand deposit savings on account interest rate available in the municipality." Thus, moderate rent control does not necessarily result in across-the-board general rent relief for tenants. But, Instead, it works mostly to control extreme or erratic rent increases. In other words, moderate rent controls will only provide protection against rent gouging and, in general, will not affect those tenants whose landlords are earning a fair and reasonable return on investment.

Aside from protection against rent gouging, we also concede that moderate rent controls also provide incentives for better maintenance. Maintenance must be at the same level as before rent controls were enacted. In addition, the rent controlled building must be in substantial compliance with the local housing codes. If for some reason major housing code violations exist or upkeep has fallen, then the rent control board has the power to deny all future rent increases until the violations are corrected.

My argument is simple in that basically in looking at moderate rent controls, close to one-half millions dollars has been spent by various real estate groups trying to show an empirical causal relationship between rent control and a declining rate in construction, a decline in maintenance, and a decline in valuation of apartments, relative to non-controlled apartments where the market is free and competitive.

Let me go into the evidence, which I will recite very quickly and then we can go into the questions. For the most part, we would generally consider New Jersey rent control ordinances moderate. However, as rent control analyst Monica Lett points out, "an equitable defined ordinance does not, however, guarantee equity in its administration." Indeed, in a few cases rent control boards have not acted in the interest of the general public but at the behest of either landlord or tenant groups. Thus, the law itself is not problematic but the rent control board itself could become problematic. This analysis assumes a nonproblematic rent control board. In New Jersey and Massachusetts all the evidence seems to indicate that short term moderate rent controls have not caused a decline in construction, maintenance or valuation of controlled apartments relative to non-controlled units.

Basically, for the most part we feel that the studies commissioned by the real estate industry have been very useful in that they have not been able to show an empirical causal relationship, or, that is to say, we have not seen any empirical evidence in New Jersey to demonstrate that these moderate rent controls have led to a general decline in the quality or quantity of the housing stock.

Data from three different sources show that short term moderate rent controls have no net effect on new construction of multiple-family construction. Gruen's recent account, which was commissioned by the California Housing Council and various builders groups in New Jersey found that there was no significant shift in apartment construction from rent controlled cities to non-rent controlled cities. Urban Planning Aid reports that after the enactment of controls in four Massachusetts cities, multi-family construction in rent controlled cities actually increased. My own analysis of 26 rent controlled and 37 non-rent controlled cities in New Jersey found that the existence of moderate rent control had no net impact on construction. We looked for various variables which we thought might affect the relationship.

According to interviews with builders that I made in August and September, builders are continuing to build in rent controlled cities for two reasons. First, it is difficult for the builder to leave a community which he is already familiar with. Understanding of future developments, knowledge of business trends, planned externalities, such as parks, schools, churches, and other builders' plans are essential to a builder's success. Such knowledge can only come from a long and direct involvement in the community.

Second, the nature of moderate rent control also contributes to a builder's decision to stay and build in the community. Naturally, the exemption of all new construction might eventually fall under rent controls, the guarantee of a "reasonable return on profit" is also crucial to a builder's decision to stay and build in rent controlled areas. As one builder put it, "Rent controls don't bother me, I'm not a gouger, just a guy trying to make an honest buck."

Statistics also show that maintenance has not declined in cities where moderate rent controls have been enacted. Sternlieb's study, which, again, was commissioned by real estate groups, found that in Fort Lee, New Jersey and in Boston, Massachusetts, over a three year period, maintenance expenditures have remained about constant since the enactment of rent controls. However, this has the shortcoming of only being a three-year study. We looked at another study of Brookline, Massachusetts of over 2,000 rent controlled apartment units, done by Joseph Eckert at Curry College, Massachusetts. He found that the percentage of the rent dollar going into maintenance has not declined since the enactment of rent control six years ago and, moreover, he found that capital improvements in the City of Brookline, with a moderate rent control formula, actually increased.

On the basis of data from Massachusetts and New Jersey, it seems that moderate rent control has not caused a reduction in the amount of money going into maintenance and in certain cases maintenance has increased. The reason for this, according to those rent control board members and analysts interviewed concerning that law, is that the law allows for landlords to pass the full cost of repairs and improvements on to the tenant. Moreover, almost all the ordinances in New Jersey and Massachusetts mandate that landlords must retain the same level of services and maintenance that existed before the enactment of moderate rent controls.

Evidence also indicates - and this is very important to follow - that controlled rental property has continued to appreciate in value and this rise in value has been about parallel to cities where the market is free and competitive. A report by the Massachusetts Department of Corporations and Taxation found that rent control had no systematic affect on property valuation. That is, the study that was alleged to be done by me was not done by me, it was done by the Massachusetts Department of Corporations and Taxation and that is their own conclusion: That rent control had no systematic affect on property valuations.

Similarly, a study by the City of Brookline Revenue and Rent Control Study Committee reported that the gross rent multiplier has remained about the same since the enactment of rent control. Moreover, economist Joseph Eckert's - of Curry College - study of Brookline, Massachusetts over a six year period found that rent control had not caused the burden of taxes to be shifted from landlords to homeowners. Lastly, my own study of 26 rent controlled and 37 non-rent controlled cities in New Jersey, using multiple regression techniques for suburban location, population increases, median rent, percent tenant, percent black, tax rate, tax rate increases, construction, and demolitions found that the rise in value of rent controlled apartments was about the same as in non-controlled apartments where the market was free and competitive.

Under moderate rent control the valuation of rental property will continue to increase at about the same pace as other non-rent-controlled apartments. Moderate rent controls are typically introduced where the market mechanism has been

impeded from functioning correctly and consequently landlords have taken advantage of a tight housing situation by charging exorbitant rents. With the introduction of moderate rent controls, the increase in the valuation of the rental stock has been slowed only to the approximate level at what the market would bear under normal conditions. It could also be argued, however, that the time period studied is too short to accurately determine whether controlled properties, over this four-year period, are declining in relation to non-controlled apartments.

And, lastly, the actual administrative costs of moderate rent control depends upon the formula used to adjust rents and the number of appeals requested by landlords or tenants. In general, there are two basic formulas to adjust rents - the Cambridge and New Jersey approaches. The Cambridge approach requires a large formalized administrative system with building-by-building review. The Cambridge approach costs about \$13.00 a unit. The New Jersey approach allows rent to go up annually according to a fixed percentage ranging from 2.5% to 7%. Such a formula has the advantage of being easier to administer and, moreover, the only time boards deal with a specific building is when they get a complaint from either a landlord or a tenant. The cost of such controls average to be about \$1.37 per unit. The actual per unit cost of rent control is also a function of the number of appeals made by landlords and tenants to the rent control board. Naturally, the more appeals the more expensive rent control will be.

Thank you. I will take questions.

ASSEMBLYMAN BAER: Thank you for your testimony.

MR. GILDERBLOOM: Oh, yes - also, besides me being a consultant to the Department of Housing, I have also included an article by Chester Hartman, called the "Big Squeeze", which just came out today in the latest issue of "Politics Today", which was formerly "Skeptic Magazine." He has taught at the University of California, Berkeley, Harvard, and Yale. He was an Associate in the National Housing Law Project at the University of California and he is the author of several books on housing and social policy and he reviews all of my research. (see p. 1x)

I also want to point out that the people I worked with on my study -- one of the was Michael Tiets, who, as you know, wrote the 1970 Rand Report on New York, which is basically negative.

Now, I will take questions. This, of course, is a very brief and short summary of my work. I encourage the Committee to spend about one hour reading my brief review of the literature, which is included in this article. I will also be coming out with a number of academic publications specifically discussing my regression analysis in which we have used a number of models. In fact, in terms of looking at the appreciation of property, we used four different models to see if we could find, using different independent variables and different model specifications, a significant effect of rent control and we could not find that.

Also, I will be revising the report to add some other information to it as well. I am also writing a couple of other articles on it. Of course, my Ph.D. is a five year study of rent controls, which I will be starting this summer on property valuation. I think that will be described more because, as you know, I think in 1977 all property in New Jersey was reassessed and we will get a more accurate determination of rent controls' effect on rent controlled property relative to non-rent controlled property.

ASSEMBLYMAN BAER: Would you repeat that last sentence?

MR. GILDERBLOOM: My study currently is a four-year study and now we

are going to look for evidence over a five-year study period. We know that most New Jersey cities now have undergone reassessment of all property and I think that will be a more telling story.

The point is, using rigorous statistical techniques, neither financed by landlord or tenant groups, both in Charles Eckert's study - which bothers to look at the valuation of apartments only - and my study, we cannot find any empirical evidence, as of yet, over a short period of time, that these moderate rent controls in New Jersey have had a bad effect. Now, of course, we are assuming again a non-problematic rent control board that allows for costs to be passed along to the landlords.

ASSEMBLYMAN BAER: You made reference to your regression analysis being published soon -- how soon will that material be available?

MR. GILDERBLOOM: Well, it has been sent to a journal - or will be sent a journal soon and we expect to get it published in about six months. But, as soon as I get the okay, I will be able to release it to this group and let you see it.

ASSEMBLYMAN BAER: What time span are we talking about?

MR. GILDERBLOOM: Oh, one month.

ASSEMBLYMAN BAER: You heard Mr. Matthews criticize your methods and say in effect that trying to have the equivalent of a control for comparison - or looking for these comparisons - is invalid and therefore should not be used. Could you address yourself to his criticism - not my effort to summarize it?

MR. GILDERBLOOM: Basically, his first criticism is using the Massachusetts Department of Corporations and Taxation figures and trying to argue that rent control properties are continually depreciating. I think that the fact of the matter is, and what we are trying to argue, 15 reports have been done on moderate rent controls - a lot that haven't been brought to your attention. They have been unable to find any statistical relationship showing a decline in the valuation of property. Now, many people might want to interpret this differently in terms of this chart from the Massachusetts Department of Corporations and Taxation. The point of the matter is, it still does not show, even when he recalculates those figures, that there has been a decline in the property valuation and, besides that, again, we don't really think too much of that study anyway. It is only 16 apartment units.

What we are trying to look for is evidence which will indicate a shift or a decline. In fact, the way we set up the methodology, we did expect to find - under our hypothesis, because of all the research - that we should find a decline in apartment construction. In fact, what we were looking at originally was, we were reading reports in New Jersey that there was actually a halting of construction - a complete halt. In Fort Lee, for example, it is important to make the differentiation between rising values and actually a decline in values. One report that we read said that there would actually be a decline in the apartment valuation in Fort Lee, New Jersey from 1972 to 1980 of 46% - actual decline. And, as our report notes, we looked at those apartments and we have seen that those apartments have continually appreciated in value.

In terms of his criticism about regression analysis--

ASSEMBLYMAN BAER: May I interrupt? At what rate, do you recall?

MR. GILDERBLOOM: Well, again, it is a poor sample. I mean it is only 11 units that the economist looked at and he predicted that the valuation of these properties would go down from their present level to a 46% decline by 1980. By

1977, it was supposed to be a 26% decline. We looked at these same apartments. We went to the tax assessors office. It should be pointed out that a number of these units are under appeal. But, nevertheless, we found that the values continued to appreciate an average of 81%.

ASSEMBLYMAN BAER: You are talking about assessed value?

MR. GILDERBLOOM: Yes, assessed valuation. Now, in terms of the regression analysis, that is just another way of trying to sort out the various factors that lead to either a decline or an increase in the valuation or taxable output of apartments. And, there are a number of factors. What regression analysis attempts to do is control for all those relevant factors that might affect the valuation of those apartments and then to search the rent control variable and see its net impact.

The charts I haven't included in this study, which will be included in the next study, are, we show just on basic tables, that the property valuations have increased at the same percentage as in non-rent-controlled cities. But, the more important part is that when you control for all the relevant variables, you still find no net impact on rent controlled cities. But, of course, we are talking about just a four-year period.

Now, of course, beyond just the short period of time that we are looking at, we can hypothesize that perhaps only moderate rent control, again, reduces those units - or slows down those units - which have been subject to rent gouging. We find that the valuation of the apartments continues to rise, but it is not going to rise at the same rate as before rent controls were enacted because generally, again, we found a tight housing market which permitted skyrocketing rates.

It is my hypothesis - and we are going to test this out again; this has not been confirmed by any empirical data - that before rent controls were enacted in these 26 cities that we looked at, I think you would see that the valuation of these apartments was actually increasing more than the non-rent-controlled cities -- maybe five, maybe 10 percent more. But, since the enactment of these moderate rent controls, we found that this valuation has been slowed down to about parallel to the non-rent-controlled cities. And, the non-rent-controlled cities might be a proxy of where the market is working freely and competitively. That is, perhaps, where we see rent control being enacted; where you have economic conditions which push tenants to push for rent control because of exorbitant rent increases. And, where you don't have rent control in New Jersey, this indicates that economic conditions have not pushed up rents to a point where tenants have been mobilized and have asked for rent controls. But, again, we are investigating this because, again, the relationship is rather an interesting one and is rather telling.

The other possible explanation is that you might have a trade-off effect of, whereas under a non-problematic, moderate rent control type system, you can have a situation where we no longer have rent gouging going on but the inefficient operators are now raising their rents at efficient rates. That is a possibility too. There are about four possible explanations. I guess the point is though, we cannot empirically verify, when we look at apartment valuations themselves, an actual decline in rent-control cities relevant to non-rent-control cities. That is important.

I guess another study has been mentioned and we dismiss it, which looks

at the total taxable base. In my study, that we have done for the Department of Housing, we found that the total taxable base in these rent-controlled cities and non-rent-controlled cities has gone up identically - at a 25% level. The reason I say that is because a popular study often quoted, cited, and also discussed in my report, by Charles Laverty, says that the actual total property assessed value in the City of Cambridge went down \$4 million and he blames this on rent control. But, in talking to either Sandra Graham or the administrative assistants in the City of Cambridge, we found that actually they believe the result was because of one of two reasons: One was that 95 industries had left; two, the University of Harvard and M.I.T. have continually been buying up property since 1972 and been taking the property off the tax rolls. And, those are two important reasons.

In our study of New Jersey and the rent controlled cities, we did find three cities that had a total assessed value that actually declined. We talked to those three cities - to the tax assessors - and the tax assessors in each of those three controlled cities were asked to explain the reason for the decline and not one of them attributed the decrease to the existence of rent controls. But, no clear picture of the primary cause of the the erosion of the cities' tax base emerged in Jersey City or Paterson, or Orange City. But, instead, the tax assessors usually blamed it on causes ranging from requests by industries for reduced valuations, coupled with threats to leave the jurisdictions if such requests were not granted -- neighborhood transition and public housing. That is discussed on page 32.

ASSEMBLYMAN BAER: Thank you. I think you answered that question.

MR. GILDERBLOOM: Okay.

ASSEMBLYMAN BAER: I have just two or three more questions. One, when you have rent gouging, can this create an artificially-inflated increase in the value of those premises?

MR. GILDERBLOOM: We believe so. That is one of the premises of our findings - that rent controls in New Jersey have only reduced the amount of that percentage of tenants subject in a community to extreme rent increases. That is only brought down to normal market rates. If you use rents as an indicator of valuation of apartments, then that would be true.

ASSEMBLYMAN BAER: You have referred a couple of times to the possibility of what you term problematic local boards. Do you have any recommendations for dealing with that problem, or possible problem, as you describe it?

MR. GILDERBLOOM: I think it would be premature at this point. Again, we are saying that in certain cases we have read - historical cases as well - you can get a rent control board--

ASSEMBLYMAN BAER: Excuse me. I am having difficulty hearing you. I don't know whether you are talking too low, too rapidly, or just not distinctly enough - or whether it is something with my ears. But, it is a strain to hear you.

MR. GILDERBLOOM: Okay. We have generally found that there have been certain cases in the history of rent control where you can get a sympathetic board, one which is sympathetic to landlord interest. In other words, you can get a rent control board that is basically very sympathetic to the interest of real estate. In fact, I just testified in Sacramento on a mobile home park board. There was a study done and they found that under the present system, which was supported by both mobile homeowners and by tenants, that between 1970 and 1975

they had actually used that formula for calculating rent increases - that the rent increases would have been greater than the actual rents in existence without rent controls. Then again you can get what we call restrictive, or moving away from moderate, rent controls into a sort of more restrictive rent control where you can get a pro-tenant rent control board, which can deny needed rent increases for the landlords and perhaps lead to a general rent relief for tenants. As a result, this could cause property valuations to decline more than when the market was free and competitive. There, indeed, in that particular case with what we call a problematic rent control board, you could actually have valuations going down relative to where the market is free and competitive, or what the market would bear under normal conditions. I think that is more of an initiative judgment on my part.

ASSEMBLYMAN BAER: Thank you. That concludes my questions. Do you have any questions, Assemblyman Edwards?

ASSEMBLYMAN EDWARDS: I have to swallow.

MR. GILDERBLOOM: Oh, I wish I was eating what you are eating. I am so hungry.

ASSEMBLYMAN EDWARDS: I have a number of questions. Fort Lee interests me because Fort Lee is probably the largest municipality with the longest history in New Jersey of rent control. I notice your table on page 35. That indicates changes in assessed values as determined by the assessors in question.

MR. GILDERBLOOM: Yes.

ASSEMBLYMAN EDWARDS: Do you know the method they used to calculate, of the three available methods for assessing in New Jersey?

MR. GILDERBLOOM: Yes. I don't really feel good about talking about Fort Lee in general, but basically he used - this could probably be contested - the reproduction cost method. According to an interview with me, he said it was difficult to use an income capitalization approach because he couldn't get figures from landlords that he could verify from a certified public accountant. In fact, if you want me to, I can read some statements from a certified public accountant trying to see whether these expense accounts by landlords could be verified. In sum, what the certified public accountant says is that it is impossible. These figures don't relate to the operating experience of other apartments where we can verify these expenses.

The other cost, of course, is sales and he said he couldn't look at sales because there hadn't been any recent sales of apartments.

ASSEMBLYMAN EDWARDS: The reproduction costs, with inflation, would automatically show increases that would have no relevance, really, to the marketplace, is that correct? I mean, without rent leveling - no rent leveling - the marketplace itself as to the availability of sale of apartment buildings, using the reproduction method, would not necessarily be valid for income producing property. I think that is the argument that has been brought forward by the property owner.

MR. GILDERBLOOM: Yes, I had the sense that the tax assessor was saying, "Look, this is the only verifiable information that I have. I would like to use the income method."

ASSEMBLYMAN EDWARDS: I am not asking about the assessors. I know if they don't have the income figures, they can't use the income method of determining value. I clearly understand that. But, with reference to the impact of the increase or decrease in the value of the property, if bricks cost 50% more

in 1977 than they did in 1972, then his values, as stated in this chart on page 35, would so reflect, which have no bearing at all on whether or not we have rent leveling or the market factors. There could be slums that are being created. You could have a building that should really be demolished and it could have been worth at one time \$1,000 and with this reproduction cost in square footage, it would be \$30,000 now, but that would not be a reflection on the value of that building; it would be a reflection on the increased cost of materials and labor to construct that building. That was my only point. So, we are not really dealing with an analysis of values here or impact of rent leveling, we are dealing with it in the abstract of cost and labor and materials.

MR. GILDERBLOOM: Yes. I think the main point of this is that, again, we are looking at an argument which suggested that these buildings had actually declined in valuation in '77 - 25%, according to a major study financed by real estate interests.

ASSEMBLYMAN EDWARDS: Yes, I understand that.

MR. GILDERBLOOM: And we just called up the tax assessor and asked what he was assessing the values at and he also warned us, of course, that they are under tax appeals and that this increase could vary. I think the main point, again, is to show that the value itself of these 11 apartments - which isn't a very good sample and we can criticize ourselves for that-- But, again, this report in itself is a review and critique of the literature. In fact, again, we feel that the only real kind of evidence you can look at is when you look at a large sample, such as Eckert looked at - 2,000 units. You can verify the expenses and costs and if you look at it over a suitable period of time as a control for relevant variables and use a rather rigorous statistical and methodological procedure, this will insure an accurate and unbiased methodological outcome.

ASSEMBLYMAN EDWARDS: Yes. You know, you made reference to the chart in particular and I have been involved in some tax appeal work and I know that the particular method you are using just doesn't apply to a market situation dealing with income-producing properties. I just wanted to be sure that we were dealing with reproduction cost and not an income cost.

MR. GILDERBLOOM: Right. This is a reflection of reproduction costs, according to the tax assessor.

ASSEMBLYMAN EDWARDS: The second question that I have is, you have consistently referred to a moderate rent control.

MR. GILDERBLOOM: Yes, moderate rent control with a non-problematic rent control board.

ASSEMBLYMAN EDWARDS: Using those adjectives and applying them to A-504, how do you see the impact and what specific recommendations do you have with reference to A-504, as it presently constituted?

MR. GILDERBLOOM: I have not been authorized by the Department of Housing to comment on that specifically. I have only been authorized to comment specifically on my work in terms of the experience of New Jersey over the short period of time and it would be inappropriate for me to comment on that. I'm sorry. But, if you want to send a request to California, I will be happy to fly out here again. Maybe I can see the Statue of Liberty this time.

ASSEMBLYMAN EDWARDS: So, there are no specific suggestions you would have with reference to what a moderate A-504 would be?

MR. GILDERBLOOM: No, these are more or less theoretical definitions

that we are using.

ASSEMBLYMAN EDWARDS: What did you say?

MR. GILDERBLOOM: Theoretical definitions. In other words, we are applying this concept and seeing whether this particular kind of rent control system is having these adverse effects, as has been alleged by the real estate industry. Their facts show that after a three-year period there have been declines in maintenance, declines in apartment construction, and declines - actual declines - in the value of apartments.

ASSEMBLYMAN EDWARDS: Let me ask you something, hypothetically. Mr. Klein, in his testimony earlier - and I think you heard that - alluded to the possibility of it being more favorable to have a statewide rent control procedure, as opposed to locally-determined rent control procedure. How do you feel about that, vis-a-vis your moderate rent control definition?

MR. GILDERBLOOM: Can I rephrase your question to make sure I understand it?

ASSEMBLYMAN EDWARDS: Well, I am really looking for your reaction to Mr. Klein's proposal on statewide rent control as opposed to -- you heard him.

MR. GILDERBLOOM: Okay. Could you restate that so I can make sure I clearly understand it?

ASSEMBLYMAN EDWARDS: Well, he proposed, in his statement, various methods by which we should adopt legislation that would control the rent control boards of various municipalities and set up minimum criteria by which an ordinance could be drafted in order to standardize it throughout the State. Do you find that a preferable method of arriving at this moderate rent control, as opposed to the method that is presently being used in New Jersey?

MR. GILDERBLOOM: No, I don't think it would be appropriate. I think you can take from my work some certain conclusions and draw conclusions for yourself. But, I think it would be inappropriate right now for me to comment on whether State regulation - State guidelines - are appropriate.

ASSEMBLYMAN EDWARDS: Well, I am not saying they are appropriate. I am talking hypothetically about the entire State being controlled vis-a-vis local municipalities. Is that a preferable method of rent control?

MR. GILDERBLOOM: We haven't studied that actual impact. We have only studied locally administered rent controls in New Jersey. It would be simply hypothetical and I really want to stick to what I know - the statistics and the arguments there. I am sorry.

ASSEMBLYMAN BAER: Assemblyman Girgenti.

ASSEMBLYMAN GIRGENTI: Yes. You have done a study of New Jersey. In the places you were, would we be categorized, according to you, as having moderate rent control in all cases?

MR. GILDERBLOOM: No.

ASSEMBLYMAN GIRGENTI: What areas are we not, or are we restrictive, in your opinion?

MR. GILDERBLOOM: Well, I would have to do - again - a study of that. Part of redoing my study would be to reclassify the 26 cities I looked at and try to develop criteria as to what cities are stricter and which are moderate and see, again, if we find a relationship. I have to do a study on that again to analyze every rent controlled city, its laws, and its impact and then try to draw some conclusions from that. We are looking at sort of the second wave of rent controlled

cities in New Jersey that adopted it on or around the period of January, 1973, without looking at the first wave of cities such as Fort Lee, New Jersey, which we could generally consider, in a sense, less than moderate.

ASSEMBLYMAN GIRGENTI: All right, one of my questions, is would you consider Fort Lee moderate or restrictive?

MR. GILDERBLOOM: Well, I think there is kind of a fuzzy point there. I haven't really-- The only thing I have done is call up the Tax Assessor and I talked to him about how much the apartment valuations had gone up. But, my feeling is that it has not necessarily been the average form of New Jersey rent control and you would find it more or less on the sidelines, in terms of it not really being representative of the general form of rent control that is normally enacted in New Jersey. So, we sort of have a mean and then we have differences and some are more liberal, as I note in my report. We have some cities which give an 8% rent increase allowable and some cities allow 2 1/2%. I guess the extreme form would be Fort Lee. But, I think other people will talk about Fort Lee and I am not that familiar with it by just looking at a sample of 26 cities. This was more or less the second wave of cities that enacted it and one of the cities wasn't Fort Lee.

ASSEMBLYMAN BAER: I just want to ask you to try and make your responses a little more brief, if you would.

MR. GILDERBLOOM: Okay.

ASSEMBLYMAN BAER: Time is rushing on.

ASSEMBLYMAN GIRGENTI: What is the criteria that you use?

MR. GILDERBLOOM: Oh, it is very simple. We took every city that enacted rent control in New Jersey from October 1972 to April of 1973, so it would be as close as January 1st of 1973, and then we wanted to see the effect of housing, starting from January 1st, 1973 through December of 1975. We are now extending that study from January 1st, 1973 to December of 1977. So, in other words, we found that the rent population in these cities was generally about 33%. We found that the lowest rent population in these cities that we chose was, I think, 12% and the population of all these cities, except for 2, was all over 13,000. So, we had a sample of rent controlled cities with populations of all over 12,000 and a rental population of at least 13% or more.

Then, in our non-rent-controlled sample we chose every city in New Jersey that had a population of over 13,000 and had a renter population of over 13% and did not have rent control between 1973 and 1975. So, it is a very simple method. In other words, we chose all cities that had a population of over 13,000 and a tenant population of more than 14%. It is a self-selective sample then, under that criteria.

ASSEMBLYMAN GIRGENTI: Going back to Assemblyman Klein's testimony, in his original presentation I believe part of it stated that the trend - such as Fort Lee - is that we are losing these ratables and this type of situation seems to be a contradiction of what you are saying here. The Builders' Association and I assume other groups feel that they no longer want to build in these cities because of this problem. According to your - I just read it briefly - presentation you are saying that people are saying they are willing to build and want to build in these areas.

MR. GILDERBLOOM: They can live with it.

ASSEMBLYMAN GIRGENTI: Is this what you are saying? According to your

statement, builders continue to build in rent controlled cities for two reasons. When you say that, what kind of a survey was this? Was this done by two people or was this--?

MR. GILDERBLOOM: We surveyed -- it was a qualitative interview, which means we just simply surveyed people and asked for their opinions and we called up builders who were building in rent controlled cities.

ASSEMBLYMAN GIRGENTI: Well, was there a wide survey?

MR. GILDERBLOOM: Well, we choose 50 people in the county - in Bergen County. People applied for building permits, small units and large units -- we called them up and asked they why they were building in a rent controlled city. And, we took another sample of non-rent controlled cities -- "Why are you building there"? And, these are the reasons that came up for their decision.

ASSEMBLYMAN GIRGENTI: Well, were there any opinions on the other side of the scale?

MR. GILDERBLOOM: On this?

ASSEMBLYMAN GIRGENTI: On the other side of the spectrum.

MR. GILDERBLOOM: People building in non-rent controlled cities?

ASSEMBLYMAN GIRGENTI: Right.

MR. GILDERBLOOM: We asked a very open-ended question so we wouldn't bias it - we wouldn't say, "Is rent control hurting you?" We said, "Why did you decide to build in this city?" And, not one of them mentioned, "Well, we are trying to get away from rent control," or, "We built in this city because we knew rent control would never be enacted." There were other reasons. Again, basically to be successful, according to these builders - according to my parents - you have to live in the community and you have to know what is happening; you have to be involved in business clubs and associations and you have to know where the next plant is going to be built, or the next park is going to be built in order to be successful. Generally, it is an involvement in the community and it is very difficult for a builder to simply pack up his bags and move to another city that he is unfamiliar with. He doesn't know where the next business trends are or where the next park is going to be built, or what is generally happening politically in that community.

ASSEMBLYMAN GIRGENTI: I would also say it is not conducive to making a profit. If he is not going to go anywhere, I think that he will pack up his bags.

MR. GILDERBLOOM: Yes.

ASSEMBLYMAN GIRGENTI: The other point is--

MR. GILDERBLOOM: And that's -- We state that in the report: That a restrictive form of rent control is not conducive to a builder building there and it will lead to a general decline in construction.

ASSEMBLYMAN GIRGENTI: Are you saying that Fort Lee is restrictive?

MR. GILDERBLOOM: I would say that it is on -- you know, you take a pendulum and it is on this-- You know, like here are most of the rent control ordinances and Fort Lee is sort of over here in terms of it being restrictive. So, I would say it would not generally be the classic example of - or representative of - the typical rent control ordinance.

ASSEMBLYMAN GIRGENTI: It is not the ideal.

MR. GILDERBLOOM: Well, it is not necessarily a typical ordinance.

ASSEMBLYMAN EDWARDS: It is on the restrictive side of the ones that you checked?

MR. GILDERBLOOM: Yes. It would generally be considered more restrictive than the mean or the average type of rent control ordinance.

ASSEMBLYMAN GIRGENTI: All right. You were here for the presentation that Mr. Matthews made before. What are your reactions to his statement that the tax base is dwindling and this will mean more of a situation for the homeowners who are left there and who will have to pay an increased tax burden? What have you found? You know, have you found the opposite of this?

MR. GILDERBLOOM: Well, he is talking about a hypothetical case and he has no empirical evidence. That is what we were talking about -- where are the facts? Where is the data?

ASSEMBLYMAN GIRGENTI: Well, I believe Mr. Klein pointed out Fort Lee. The problem has developed. You talk about Parsippany-Troy Hills - there is a trend setting in. These are concrete cases.

MR. GILDERBLOOM: Okay.

ASSEMBLYMAN GIRGENTI: Do you have anything on the other side of the spectrum, or do you have any reaction to that?

MR. GILDERBLOOM: Well, we generally found that when we looked at these rent controlled cities, in terms of their taxable output and their valuation, that over a short period of time - four years is all the data we had available - these buildings continued to increase at a parallel rate to non-controlled cities where the market is free and competitive. In other words, you have a situation where before rent controls were enacted - this was my hypothesis when we tested it out - that probably in these rent controlled cities you found that valuations were - in these 26 cities - probably increasing more than in those non-rent-controlled cities we looked at - those 36 or 37 cities we looked at. With the introduction of moderate rent controls we found that -- in other words, the slope was going up like this and the non-rent-controlled cities were like this. Now, with the introduction of moderate rent controls, you found that the valuation had been slowed down but only parallel with what the market would bear under normal conditions. This is also backed up, of course, by Eckert's study, which did an exhaustive study of Brookline over a six-year period and found that there was no tax shift from landlords to homeowners. He did a computer simulation model and he found - given that these values had been slowed down somewhat, what would this be in relationship if the market was free and competitive, or operating under normal conditions? - he found that these valuations, again, would be about parallel.

So, what I am saying is, the basic point here is moderate rent controls will slow down the valuation of apartments but only relative to non-controlled areas where the market mechanism is working.

ASSEMBLYMAN GIRGENTI: Whose study was that?

MR. GILDERBLOOM: Joseph Eckert.

ASSEMBLYMAN GIRGENTI: Can you submit that to our Committee? Is there any way of us getting hold of that?

MR. GILDERBLOOM: Do you want me to mail it? Yes. I will mail it to you. It is a 500-page document and I summarized it in one paragraph. That is one of the limitations of my own studies - that we have had to just summarize data and not go into the specific methodologies.

ASSEMBLYMAN GIRGENTI: Can I ask you another question? Who are you

representing at this hearing right now?

MR. GILDERBLOOM: Just myself.

ASSEMBLYMAN GIRGENTI: Yourself? And, what is your--? The reason I am asking this is, number one, we are discussing a particular bill, which is A-504. Assemblyman Edwards asked a question and I am asking it too because we are here to study the implications of this bill and the problem with it and you have given us a lot of theory and ideas that are a hypothetical, or whatever, viewpoint. But, I am looking for concrete material that concerns this bill, A-504; how it is going to affect the overall picture. You really can't respond to that.

MR. GILDERBLOOM: Right. I have only been asked to talk about dealing with the arguments that these controls in New Jersey - the typical type of rent control in New Jersey - have led to a decline in construction, or a halt.

ASSEMBLYMAN GIRGENTI: I would suggest - and I am not even criticizing Dale, or whoever sent out this type of information - that we are certainly interested in background but we would like you to react to the bill that we are dealing with too now. You know, we are going around in circles. You are giving us facts. The other group has given us facts. That is the way the process works. But, I would like to have something on A-504.

Mr. Klein came in and spoke about his reaction to the bill; what he thought it would do. He made a few recommendations in terms of if we had to have a state rent control law. But, I would like to have something from you in terms of how you would react to this bill.

ASSEMBLYMAN BAER: Let me just explain something, if I may, in terms of procedure. This witness was requested to testify here today by Dale Davis for the Committee, at the request of the New Jersey Tenants Organization. They felt that his testimony would be helpful to us. In terms of his role, he could only come here at the request of the Committee. So, that is why the request was made.

This witness is not parallel to Assemblyman Klein, as presenting the capsule, or summary, or overview of the position of the New Jersey Tenants. He is testifying, perhaps, a little bit out of sequence. Certainly, he is not in similar sequence to the Coalition of the New Jersey Builders, property owners, and realtors because of a time deadline. But, I assume that we will get comparable testimony.

Although I did stress at the beginning of the hearing the importance of specifics, I couldn't single out this witness for comments of this sort anymore than Doctor Matthews, whose testimony was somewhat parallel, except in the conclusions.

ASSEMBLYMAN EDWARDS: At whose expense is he here?

MR. GILDERBLOOM: The Foundation for National Progress, which is a non-profit organization.

ASSEMBLYMAN GIRGENTI: Well, let me assure you -- and, Byron, I know you realize it, I--

ASSEMBLYMAN BAER: Just one moment. Do you wish to make that a practice - of requesting that of all the witnesses?

ASSEMBLYMAN EDWARDS: No, I was just--

ASSEMBLYMAN BAER: Because I think if we are going to get into that, we ought to have that answer from Mr. Matthews and from each of the others.

ASSEMBLYMAN EDWARDS: I think they stated who they were. I was just

curious as to who he was here for and who was paying his expenses.

ASSEMBLYMAN BAER: Well--

ASSEMBLYMAN EDWARDS: Because he didn't seem to represent any specific group. I wasn't aware that he had been requested by the Committee or by the Committee staff to testify here.

ASSEMBLYMAN BAER: Well, I just explained that. Although he is here at the request of the Committee, there was no effort made, whatsoever, to disguise that he is a part of the presentation by the New Jersey Tenants. That was made specifically clear in the beginning.

ASSEMBLYMAN EDWARDS: That's all I wanted to know.

ASSEMBLYMAN BAER: Right. That was how he was--

ASSEMBLYMAN EDWARDS: No criticism intended.

MR. GILDERBLOOM: Again, we take no advocacy position. It is common, at least in California, that I will often testify to just give out evidence and not necessarily comment on the specific bill.

ASSEMBLYMAN EDWARDS: I see.

ASSEMBLYMAN BAER: He doesn't work for them, but apparently they felt his testimony would be helpful to us.

ASSEMBLYMAN EDWARDS: I understand.

ASSEMBLYMAN GIRGENTI: I understand that. We wanted to hear it.

MR. GILDERBLOOM: Well, actually, I didn't know I was coming out here until Sunday - until I got a call from the Department of Housing saying, "You are going out to New Jersey; pack your bags."

ASSEMBLYMAN GIRGENTI: Well, we want to hear testimony from all sides of the issue. We are not trying to shut off any kind of debate. My question was -- And, I think the Chairman explained that you did not have the introduction which we did have on the other side. I was looking for more specific input on Bill A-504.

MR. GILDERBLOOM: Okay.

ASSEMBLYMAN GIRGENTI: I really have no more questions. I thank you for your cooperation. I do see contradictions in what you have said here today, as compared to what has been said by other people already. I don't know - and I am not going to get critical of your report - in certain portions how accurate it is. I mean, I think you should have been more specific in terms of builder's reactions and so forth. I really don't see that much here that is concrete.

ASSEMBLYMAN BAER: Well, I would hope for the most part that the Committee members refocus on asking questions and getting information because the time situation is bad. Later on we can comment on our views of the testimony. Your comments were very brief, but I just don't want that to open up a whole new area of dialogue on the part of the Committee at this time.

MR. GILDERBLOOM: I think what is important, if I can respond to that, is that I worked on this -- I have been working on this area for two years and we tried to compile every report done by both the real estate industry, tenants groups, and also by academicians on the effect of New Jersey's and Massachusetts' second generation, or moderate type rent controls. All the empirical evidence that we have been able to gather is included in there and we think that the empirical evidence therein stated tells the story and, in fact, the statistics there and the data that was given actually wrote the report for us. In other words, the statistics dictated our conclusions and when we find studies done by three different groups looking at whether housing starts have gone down and

they show no apparent relationship, it is important to state that. Again, the important finding is, there are yet to be any statistics which demonstrate, causatively or empirically, a relationship. There are lots of hypotheses and theories. In fact, my conclusions are just limited to challenging, or contending with, those who argue that short-term moderate rent controls have led to these adverse effects.

I think if you read the report, it is very reasonable and it is very logical in terms of what we are arguing, but included are some of your criticisms as well. We argue for more studies. We argue to look at New Jersey over a longer period of time and to do other things to make distinctions in terms of the different types of rent controls in New Jersey - as we have generally had it formed under one classification.

ASSEMBLYMAN BAER: But, your studies do include New Jersey.

MR. GILDERBLOOM: Yes.

ASSEMBLYMAN BAER: They do include, also, areas that aren't rent controlled and they cover quite a number of variables.

ASSEMBLYMAN GIRGENTI: I have one more question, if I may?

ASSEMBLYMAN BAER: Oh, one moment, Assemblyman Girgenti has another question.

ASSEMBLYMAN GIRGENTI: I don't mean to be critical of your studies because I have not read them yet. It was just presented to us this morning. Maybe it was just in the presentation, but there has been a lack of clarity in certain areas. Perhaps it is partly my fault but I have not read your work, so I am not being critical of any of the work you have done. All I am saying is that there are contradictions between what you have said and what other groups have said. My job, as well as the other Assemblymen here, is, we have to make a decision and we are looking for input. I appreciate your appearing before us.

MR. GILDERBLOOM: It was fun to fly out here. I think a lot of the contradictions raised - I point out three or four studies and there is another study that raises a different issue - are because those studies are critiqued in my study and we raise questions about their validity - methodologically or statistically. I think that is important. If you had asked a question on a specific study, I think I could have dealt with that as well.

ASSEMBLYMAN BAER: Well, I think neither you nor Doctor Matthews has made any effort to conceal the fact that your conclusions are at variance with each other.

MR. GILDERBLOOM: Yes. My conclusion is that--

ASSEMBLYMAN BAER: I think that is quite clear to the Committee and we will study that material.

Now, I have a couple of more questions but I do want to urge you to reply very, very briefly because I am concerned about the time situation, as you know. Someone else has a very tight situation too.

Aside from the dialogue with the builders, have you, on the basis of any of your work, determined whether what you term moderate rent control retards construction, or stops construction? Have you done any analytical studies to that effect?

MR. GILDERBLOOM: In terms of whether -- in certain specific cities?

ASSEMBLYMAN BAER: Yes. I mean, like for instance, one could examine what is happening in -- I am not proposing to do a study, but one could compare

the construction that occurs in Philadelphia with the construction in Fort Lee in the same period of time and maybe get some idea of whether the difference in construction rates is due to rent control, or maybe there are other major economic factors that are affecting the Northeast, or whatever. I am not here to design a study but I am asking you if you, in fact, have conducted any to reach a conclusion on this subject, other than just interviewing builders?

MR. GILDERBLOOM: We looked at empirical data over a three-year period to measure, first, whether there was an increase or a decline in rent control versus non-rent controlled cities. Then we controlled for a number of variables, ecological variables, such as percent tenant, population increases, tax rate -- I would say about 10 variables.

ASSEMBLYMAN BAER: Right. And, what were your conclusions?

MR. GILDERBLOOM: We found no empirical evidence to indicate that rent control had any net impact on construction.

ASSEMBLYMAN BAER: Is that a study that would be available to be sent to us?

MR. GILDERBLOOM: Some of the data is already included in the study I have handed out to you in this yellow folder. Another study is by Gruen and Gruen. It looks at 7 counties and breaks it up in terms of rent control and non-rent control.

ASSEMBLYMAN BAER: Okay. That we have in its entirety. On the question-- I don't want to spend a lot of time, I just want to get your conclusions. If there is data in support of it, you can send it to us.

MR. GILDERBLOOM: Okay.

ASSEMBLYMAN BAER: I am getting very nervous about the time situation facing Dr. Kristof.

MR. KLEIN: For your information, Mr. Chairman, as a result of the delay Dr. Kristof has been forced to leave. So, he will not be able to testify.

ASSEMBLYMAN BAER: All right. I am very sorry to hear that.

MR. KLEIN: I tell you that simply for your timing purposes.

ASSEMBLYMAN BAER: Thank you very much.

Also, the Committee has heard testimony that rent leveling, or rent control, subsidizes the middle class. We have also heard testimony, or conclusions, that it forces an exodus of the working class. I am lumping these three questions together in the interest of time. Dr. Kristof notwithstanding, I don't want to have other witnesses lose out on time. And, also, we heard similar concerns expressed about abandonment. Have you conducted studies that would have a bearing on these alleged problems?

MR. GILDERBLOOM: It is a big question but I will reply as briefly as possible.

ASSEMBLYMAN BAER: Please, very brief.

MR. GILDERBLOOM: A number of studies, of course, have argued that even moderate rent control leads to abandonment, or demolitions. However, we found, again, no empirical evidence to support that claim and if abandonment were occurring in New Jersey as a result of it, the first evidence of that would be declining maintenance and we have not seen, in the studies commissioned by both the real estate industry and by Joseph Eckert, a decline in maintenance after three or six years of rent control.

Second is the idea that even if you look at New York with the restrictive rent control which our Department of Housing is strongly in disfavor

with, because we do admit it is a very poor law, we cite from the National Urban League which found that New York ranked fifth behind four other non-rent controlled cities in rates of abandonment. We cite a number of other studies, a recent one was in Newsweek, 1977, which showed that there is no relationship in New York between abandonment and rent control. We also looked at demolitions in New Jersey to see if it was a possible indicator of abandonment. I don't really think that is a very good indicator.

ASSEMBLYMAN BAER: All right. All that is in the material that you have submitted to us?

MR. GILDERBLOOM: Right. And the other important question is--

ASSEMBLYMAN BAER: Because of time, I would rather you would just tell me it is in the report.

MR. GILDERBLOOM: Okay.

ASSEMBLYMAN BAER: If you don't mind. Unless there is something you want to tell me that isn't in the report.

MR. GILDERBLOOM: There is one case too about whether rent controls will hurt the working class. There is a parallel or hypothetical argument which argues that with rising housing costs, that could push, actually, industry to leave a community because the work force could no longer afford to live there and is forced to look for other locations, such as the Sun Belt, where housing is cheaper and the work force will not push demands upon the industry for higher wages. One of the interesting things about Cambridge is, according to a number of labor historians I talk to, the idea that housing cost pushed -- or, in a sense, was one of the reasons why industry left, because the labor force could no longer afford to live there.

In Santa Barbara, where I live - as you know, if you read the recent Wall Street Journal article - industry is also leaving there because of the high cost of housing. The work force needed to support that industry could no longer afford to live there. So, there is that converse argument that speculative or exorbitant rent increases can actually force the working force out of a neighborhood. Then it should be investigated.

ASSEMBLYMAN BAER: And you have evidence here that that is what happened in Cambridge?

MR. GILDERBLOOM: Yes, according to a number of sources, but this is yet to be tested out.

ASSEMBLYMAN BAER: Oh.

MR. GILDERBLOOM: But, I think it is an interesting thing to pursue and research.

ASSEMBLYMAN BAER: One last question I wanted to ask you: In Mr. Klein's testimony, he cited certain authorities that stated that vacancy decontrol served no purpose. I have also heard lines of reasoning and arguments that -- Let me restate that. Having rent controls on vacant apartments serves no purpose, and, therefore, this was an argument for vacancy decontrol.

I have heard converse arguments that claim that eliminating the controls insofar as vacant units is concerned and permitting vacancy decontrol because the turnover soon results in significant additional rent increases, ends up with some of the same problems that rent control was trying to stop in the first place, with rentals well in excess of that necessary to cover expense and make a reasonable profit - something approaching gouging. What is your view, if any, on vacancy

decontrol?

MR. GILDERBLOOM: No comment.

ASSEMBLYMAN BAER: Okay.

MR. GILDERBLOOM: That was a short one.

ASSEMBLYMAN BAER: Very good. I won't press the point.

Mr. Edwards, you had a question?

ASSEMBLYMAN EDWARDS: I have a yes or no question, Mr. Chairman.

You previously indicated that the studies that have been run in New Jersey and elsewhere have resulted in basically hypothesis and unsupportable - empirically unsupportable - documentation and that we are dealing with hypothesis by most people, including yourself, in dealing with most of these questions, is that correct?

MR. GILDERBLOOM: And then applying those hypotheses and testing them empirically.

ASSEMBLYMAN EDWARDS: Yes, I understand. But, that was the basis of what was said before?

MR. GILDERBLOOM: Yes, I guess you could say that. That is, we are looking at the evidence. We have seen the theories and now we are looking for -- you know, in order to have a theory you need the evidence.

ASSEMBLYMAN EDWARDS: Yes. Really, I did understand what you were saying.

ASSEMBLYMAN BAER: All right. I want to thank you very much for your testimony and for giving us all the information that you brought us today.

MR. GILDERBLOOM: Thank you very much.

MR. KLEIN: Mr. Chairman, I wonder if it would be possible for me to ask Mr. Gilderbloom a couple of very brief questions?

ASSEMBLYMAN BAER: No. We don't normally do that in our hearings and I can see that opening up something that will be far more time consuming than just a few questions because everybody is going to want to take advantage of that. And, with such able advocates all over the room, we won't even be able to finish with our first group of witnesses.

MR. KLEIN: I assume that there will be no objection, at some point, before the hearing is closed for me to comment briefly with respect to his comments?

ASSEMBLYMAN BAER: I hope, time permitting, if we finish with all of the witnesses that that will be possible.

MR. KLEIN: Thank you, Mr. Chairman.

MR. GILDERBLOOM: Thank you very much for letting me testify. I appreciate it.

ASSEMBLYMAN BAER: Thank you. I do want to say, in reference to Dr. Kristof and in reference to any other -- Oh, very good. I didn't know this was here. I was going to say that we would see to it that the record would be open for a week to permit any testimony, submitted in writing, to be put in the record for anybody who is unable to wait. Please express my regrets to Dr. Kristof. That opportunity also exists in terms of witnesses who want to submit material rebutting testimony of other witnesses.

ASSEMBLYMAN EDWARDS: This is a six page statement by Dr. Kristof, Mr. Chairman.

ASSEMBLYMAN BAER: Yes, this is the statement of Dr. Kristof. (see page 3x)

Who would you prefer to have as your next witness?

MR. KLEIN: The next witness scheduled after Dr. Kristof was David

Raybin, an attorney who conducted the proceedings before Judge Smith in the Fort Lee case in which Judge Smith rendered his findings to the Supreme Court. Mr. Raybin is here to briefly summarize the findings of Judge Smith with regard to the Fort Lee situation.

ASSEMBLYMAN BAER: What is the status with Mr. Kamilewicz? Is he present?

MR. KLEIN: I'm sorry, Mr. Kamilewicz is out of the room, but we will take him after Mr. Raybin.

ASSEMBLYMAN BAER: The reason I asked that is, we have all received copies of that decision. I know I have read it and I am wondering whether the other members of the Committee have read it. In view of the time situation, I don't know whether it is the best priority of time to have a witness testify summarizing a decision that we have all received and either read or certainly will read.

MR. KLEIN: Mr. Chairman, Mr. Raybin and Mr. Kamilewicz are both available to testify today. We do intend to have both testify. If the Committee prefers that Mr. Kamilewicz testify first, he will do so but Mr. Raybin will then follow.

ASSEMBLYMAN BAER: Well, the day is going on and as I watch the clock I am trying to figure this so that we have an opportunity for the New Jersey Tenants to have their witnesses too. So, I think it is important that we focus on the most relevant material.

ASSEMBLYMAN EDWARDS: Well, I want to hear these two witnesses, in particular. I am interested in the case and the outcome and the background behind it. The mere reading of the decision, I don't think summarizes all of the facts that are involved.

ASSEMBLYMAN BAER: What is the testimony of Mr. Kamilewicz? What is the thrust of that?

MR. KLEIN: Mr. Kamilewicz is going to testify about the experience with respect to rent control in Cambridge and in Boston, Massachusetts.

ASSEMBLYMAN BAER: Well, what I would like to do, if you don't mind, is to hear Mr. Kamilewicz now. We can hear Mr. Raybin later. Since that is testimony on the law, I am not sure that it is so vital that it be in sequence.

MR. KLEIN: It is not going to be on the law. It is going to be on the facts in Fort Lee. I can't think of anybody who could give more insight into that factual situation than Mr. Raybin. I might add that Mr. Raybin will be relatively brief. So, if there is no serious objection on the part of the Committee, may I ask that you indulge us with respect to this since Mr. Raybin is ready to proceed at this time.

ASSEMBLYMAN BAER: What were you going to ask, Assemblyman Girgenti?

ASSEMBLYMAN GIRGENTI: I would like to let him make a brief presentation.

ASSEMBLYMAN BAER: How brief is your presentation going to be?

MR. RAYBIN: I doubt that it will be more than 10 or 12 minutes.

ASSEMBLYMAN BAER: All right, proceed please.

D A V I D N. R A V I N: Mr. Chairman, members of the Committee, my name is David Ravin. I am an Attorney at Law of the State of New Jersey and a member of the firm of Ravin and Kesselhaut. Our firm was co-counsel in certain litigation before the Superior Court. As you know, there were appeals. It went up to the Supreme Court, and the Supreme Court remanded this specifically on the question of a just and reasonable return.

Now, at your last public hearing on March 1, 1978, my partner, Martin Kesselhaut appeared and told you that the decision of Judge Smith was imminent. As a matter of fact, it came down the next day, and a copy of that decision was forwarded to you.

We have also furnished to the Committee a copy of the complete transcript of that hearing. All witnesses, obviously, were under oath, and there was a wealth of testimony with respect to Fort Lee. I have been here this morning. I listened to all the witnesses. There were unbelievable facts brought out with respect to Fort Lee as far as the details, which none of these witnesses, both on behalf of the property owners and on behalf of the tenants have really addressed themselves to. What I would like to do--You do know that in 1972, Fort Lee adopted a rent control ordinance. In 1974 this was replaced with a flat 2 1/2% increase, plus a tax passed through. The 1974 ordinance was sustained by Judge Smith, after a plenary trial. In 1976 when the Fort Lee tax rate rose by one-third, Fort Lee repealed the tax surcharge provision, thus limiting the landlord to a 2 1/2% increase. This ordinance was also sustained by Judge Smith in January of 1977. Then it worked its way up the Appellate process and went back for a just and reasonable return hearing before Judge Smith.

The proofs at these hearings before Judge Smith under oath covered the values of various buildings involved, the effect of the ordinances on debt, depreciation, and profit, and on value, and the impact of rent controls on the Fort Lee community. The trial lasted seventeen days, and Judge Smith subsequently filed his findings and determinations consisting of 42 pages. This is going to be heard by the Supreme Court on May 22nd, which incidentally makes an unbroken string of fifteen years that I have been in court on my birthday, and they are going to determine whether or not the just and reasonable return finding by Judge Smith squares with all of the decisions that the Supreme Court has issued.

Now, Judge Smith found that for the current year, and at that time it was 1977, apartment assessments amounting to \$192 million were on appeal to the Bergen County Board of Taxation, and tax appeals involving additional millions, and stretching back to 1973 are on appeal to the State Division of Tax Appeals. He found further that the Fort Lee construction boom of the '60's has grounded to a complete halt. And no apartments for residential purposes have been built since 1972. I might say that what he was referring to was that any apartments that had been started had been started prior to the imposition of rent controls. But once rent controls went on, there were no more applications for building permits, and in fact, no apartments have been built.

The owners in the Fort Lee case engaged Moses Sternlieb, a certified public accountant, who obtained financial information from 35 owners of 7,542 apartment units---

ASSEMBLYMAN BAER: Excuse me, I am very concerned with the time here. Mr. Klein said you were going to discuss this case. At this point all I hear is your telling us what the findings were, and just giving us a factual rundown of what

occurred there. I thought you would have some discussion on it. Now, I am very concerned about our using time well here, and I do not want to spend a lot of time now on merely reciting findings of a case that we have all received copies of, as important as it is, which we have read, will be re-reading. I would appreciate it if you would have some discussion about the case that you want to present us with, but please don't just give us a repeat or a condensation of the findings of the case.

MR. RAVIN: Well, I respectfully say to you, Mr. Chairman, that you will not find this in the decision, and what I am telling you is the background of the decision. When I tell you that there were 7,542 apartment units that responded, what I am saying to you is that approximately 85% of the rental units owned by the various owners in Fort Lee were covered by the financial reports that were rendered in the course of this decision. In other words, I heard testimony this morning, the fact that there was no hard evidence, that they were not able to get any facts and figures, and what I am saying to you is that the accountant, M. Sternlieb and Company, sent out requisitions for reports for the owners in Fort Lee and got this mass of---

ASSEMBLYMAN BAER: Is Mr. Sternlieb not going to be testifying here?

MR. RAVIN: Mr. Sternlieb--- A representative of Mr. Sternlieb's office is going to be here testifying with regard to other facets, not with respect to this. There will be no duplication of testimony.

ASSEMBLYMAN BAER: All right, proceed.

MR. RAVIN: What I am trying to say is that this information upon which this was based was certified audited information. It was prepared on HUD forms, and as back-up to verify the information, the accountant looked at financial statements, income tax returns, W-2 forms, mortgage statements, and real estate tax bills for the years 1970 through 1976. What there was was a full panoply of the financial information of the apartment owners in Fort Lee. There has not been any other municipality that's had its apartment owners subjected to the rigorous withdrawal of information from their records as happened in this case.

Now, in 1976, Fort Lee real estate taxes increased 33% over the prior year and 50% over 1974, while operating expenses rose 43% from 1973 to 1976. The 2 1/2% limitation on rent increases was made even more restrictive by the tax surcharge repealer. Judge Smith concluded that while it is not reasonable to anticipate future increases in expenses that were found to have been present during the period in question, 1970-77, because of the Arab oil embargo he said it would be unrealistic to prognosticate annual operating cost increases of only 2 1/2%. He concluded that of all the overwhelming and unrefuted evidence demonstrated that there was never a factual basis to justify the imposition of the 2 1/2% limitation. There was no finding by the municipality; there never was a finding by the municipality; it was just a flat imposition of the ordinance, and they might as well have taken 1%; they might have taken 4%, but they happened to seize on 2 1/2%.

In addition to that, the properties that were involved in the reports included properties that were in receivership, in bankruptcy, those that had applied for HUD preemption, and rent leveling board hardship relief, and he concluded that eventually every apartment building, including MED-I, will not be able to function without a hardship increase.

Now, from the copy of the transcript, and the exhibits that were forwarded to you, Judge Smith took as one of his models MED-I. This is an apartment house

which is deemed extremely successful. It has a full occupancy; it has a waiting list, and the conclusion, the inescapable and inevitable conclusion was that based on the rent ordinance at two and a half percent that that apartment, that high rise apartment, by 1982 was going to be insolvent. It would not be able to meet its debt obligations.

Now, one of the things that Judge Smith went into was the fact that there was no rational basis for predicating a rate of return completely upon mortgage terms, and when implied in individual cases, the landlord with the best financing was limited to the lowest rate of return. You had a very bizarre situation going on in these apartments in Fort Lee, that no matter how good the terms of the mortgage were, that the better they were, the lower the increase the rent board would be willing to give, and so Judge Smith found that utilizing that type of a method that there was no way the apartment owners were going to get a just and reasonable return.

Now, Judge Smith stated, and this is the argument that is going to be made to the Supreme Court, that a valid rent control must permit efficient operators to earn a reasonable return without resort to hardship exceptions and limit the use of hardship to the atypical case, and what he found was that there was no atypical case in Fort Lee, that everybody was up on hardship because there was absolutely no standard that could be supplied that would work.

There were witnesses brought in from all over the country, and again, I must stress to you that with the exception of one accountant who came in and testified about the effects of a tax shelter, there were no witnesses presented by the municipality, no witnesses that were presented by the Public Advocate, and as a matter of fact, the Public Advocate wound up stating for the record that he thought that two and a half percent was an unfair return. And Judge Smith quoted that in his opinion.

One of the things that I would like to point out to you was that---

ASSEMBLYMAN BAER: Can you bring your remarks to a conclusion now, because twelve or fifteen minutes ---

MR. RAVIN: I am surprised the time ran that fast.

ASSEMBLYMAN BAER: If you have further remarks, you will have an opportunity at the end of the hearing, or if we have any time at the end of today, if by any chance we continue tomorrow, you will have an opportunity then, but I would appreciate it if you would bring this to a conclusion now, and we will get into the questions then too.

MR. RAVIN: It will take about two minutes. Professor Hughes, who is associated with the Rutgers University, testified at the remand trial, and discussed the fiscal and social impact of rent control. I am not going to give you a complete analysis, but I do have one exhibit here from Dr. Hughes' report. This chart shows the changes in the proportional share of ratable value for the years 1970-1975 and from 1975-1977. And if you look at it, at the very bottom, you will see that from 1970-1975, the apartment share of total valuation increased from 40.87% to 51.77% or a growth rate of 26.6%, while at the same time, the residential share of ratables declined from 39.30% to 31.49% or a decline of 19.9%. After rent control, when apartment construction terminated, the apartment share of the total valuation declined from 51.77% in 1975 to 50% in 1977 or a 3.4% decline, and the residential sector increased from 31.49% to 32.71% or an increase of 3.9%.

There you see dramatically based on facts that the shift is beginning to occur, and will gain momentum, and will continue until the tax base formed by the residential home is destroyed. These people will not be able to afford to pay their taxes. It is starting. It is dramatic. It is there.

Now, what I have tried to do is to pull out the essence of my report. I have copies available for you, and if you have any questions, I will be happy to answer them.

ASSEMBLYMAN BAER: That report that you are giving us contains the chart?

MR. RAVIN: It doesn't contain the chart. The chart is in the evidence which was submitted to your Committee, and this is an extrapolation of that chart.

ASSEMBLYMAN EDWARDS: Can we get a copy of that. I think it is in the transcript that the Committee has, but we can't all have copies of that complete transcript. It is too large. I think that chart would be of particular interest, especially since you referred to it. If you could make a copy of that available to us, we would appreciate it.

MR. RAVIN: Absolutely.

ASSEMBLYMAN BAER: Thank you for your testimony.

ASSEMBLYMAN EDWARDS: Are we going to question this witness?

ASSEMBLYMAN BAER: I would like to hold those questions until later, unless--- We are going to run out of time here. The opposition has had about three hours, and the support has had about one, and the day is going to go by without having had an opportunity for balance here. I am getting very concerned about that.

MR. RAVIN: Mr. Chairman, I have to leave. I am sorry. I have been here ever since ten o'clock this morning. And I will not be able to wait around until the end of the day. I have to be in court tomorrow.

ASSEMBLYMAN BAER: Can your question be very brief?

ASSEMBLYMAN EDWARDS: Well, I can sit here and question Mr. Ravin for a long time, because I happen to think that this particular area of this particular case is the reason we are sitting here, and the details of that case, I think, are material with reference to the outcome. Mr. Chairman, I see no way, myself, that we are going to be able to, as a Committee, complete hearings and get the data that we need this afternoon. At best we have another hour, an hour and a half. I am not as interested today in balancing the testimony as I am in getting all that I can get from all sides, so that I can properly evaluate this, and I would look forward to another day of hearings, or two days of hearings, if necessary, in order to arrive at a full set of information available to myself.

ASSEMBLYMAN BAER: I appreciate that, but I have come to the conclusion that there is importance to having a fair balance on the initial day of presentation, and I intend to see to it that that is provided. Now, I did not wish to have this testimony at this time. I could have insisted as the Chairman's prerogative. I have tried to be flexible. At this point the opposition has had three times the amount of time to testify that the other side has, the support, and there was an assurance given on the shortness of this testimony, so I would like to request that either the questions be very short, or that we continue this later on in the course of the hearing. If there isn't an opportunity at the end of today, then tomorrow. But, everyone's convenience is involved, and it isn't just a question of convenience of the witnesses on one side. There are severe transportation problems and scheduling on both sides. But I think it is important that we have a fair balance, and as a matter of fact, hearings held here normally do have a very fair

balance. It is a very unusual thing to try to hear a bunch of witnesses on one side in a group. I wanted to make an effort to do it today because it would enhance the cohesiveness, but I can't do that at the expense of fairness, and I am sure that, Mr. Klein, if you were put in a situation where you would be waiting for such a long period of time, you would want to be heard on the initial date too.

ASSEMBLYMAN EDWARDS: Mr. Chairman, I guess it is the lawyer in me. I like to hear the plaintiff's and the defendant's side in some sequence, because to take it out of sequence, I think, destroys the continuity of it, not just the testimony we are hearing now, but also the tenants. I think it destroys the continuity of what they want to present also. I was willing to take a couple witnesses out of line, so that we could facilitate them for matters of their own convenience in returning, but it is difficult for me to get a grasp, or attempt to get a grasp without having some kind of continuity of presentation on both sides, and I can't agree with you on that. That is nothing against the tenants, because I would feel that same way if they were sitting here right now. I feel that there should be a continuity to their presentation, otherwise you tend to lose it.

ASSEMBLYMAN BAER: What you are objecting to is the procedure that is normally followed on all Committees in both houses here. It is an extraordinary thing to have all the witnesses continue from one side before the others are heard, and I only entertained the idea initially on a tentative basis in the belief that there would be a full opportunity for both sides to be heard by the end of this day. It is apparent to me now that we are at a juncture where, if we continue, we will not be able to provide that balance of fairness this day, and I intend to see to it that that is provided, as Chairman, and I would appreciate it if you would allow the Chairman that prerogative.

ASSEMBLYMAN GIRGENTI: At this point, Mr. Chairman, I agree, I want to hear Mr. Ravin in the future again, and I would like to have an opportunity, but I agree that we should give the tenants an opportunity because we have listened throughout the day to one side. I certainly want to hear more, so perhaps we can schedule a hearing on another day when he can be available. But I think we should hear some of the tenants too, because they have come down here.

ASSEMBLYMAN BAER: Well, we have the opportunity to continue over to tomorrow, and if we are not able to conclude today, we will do that. This chamber has been reserved for that purpose, and the Committee members have been noticed of that for quite some time.

MR. KLEIN: I just want to underscore what Mr. Ravin had said, and that is, he is not available tomorrow. Certainly, it seems to me that the comments of Assemblymen Edwards and Girgenti about another day make a great deal of sense, but it would seem to me respectfully, it should be another day that is scheduled in advance, so the witnesses can make the appropriate arrangements, and that will enable the Committee and the Assembly to have a full and complete record from all witnesses that may be available to shed light.

I am sure in view of the importance of the subject, I think he would agree also.

ASSEMBLYMAN BAER: I will not agree to cancel tomorrow's continuation day, and schedule some date in the future for further delay. This matter has seen many delays, and I don't intend to allow for whatever good purpose or motive the process to be delayed where that can be avoided. There has been a very full

opportunity for your clients to be heard today at great length. It is a very unusual thing for clients to be able to testify before a Committee of the legislature, even to the length it has occurred already today. That opportunity can be extended until tomorrow. We have allowed individual witnesses to testify at great length, and even now, when I am calling an interruption of this witness's testimony I am permitting further opportunity for testimony later.

This is a great deal of latitude. I do not intend to debate the matter indefinitely with you.

MR. KLEIN: It is not my intention to debate that matter, Mr. Chairman.

ASSEMBLYMAN BAER: Very good, because we will go on to the next witness. We are not going to debate this indefinitely. I am concerned with the fairness to all parties, and I am not going to get into an extended dialogue or colloquy with you on this.

MR. KLEIN: In fairness to this witness, Mr. Chairman, could you either permit him to be questioned at full at length right now, or schedule another day other than tomorrow. Either of those alternatives is accepted.

ASSEMBLYMAN BAER: I understand that. You have already requested that. And I have stated that I do not intend to do that, and I do not intend to have this hearing go into a lengthy procedural discussion. I have tried to be as courteous as possible, but I do not intend to surrender this Chairmanship to you, Mr. Klein. Other witnesses who are here also may have had to make adjustments in their schedule for tomorrow. This chamber has been reserved for tomorrow for an extended period of time, and it has been known that this was a back up possibility. It was announced at a committee meeting probably three weeks ago that we were having this back up, and the witness has the opportunity of appearing tomorrow. He will be questioned at length. I have provided an opportunity if the questions were going to be very brief, which was not taken advantage of, and the witness also has the opportunity to submit material in writing of whatever length he wishes, which can also be in response to any questions that might be communicated to him by whatever means. But at this point, I would like to provide an opportunity for the New Jersey Tenants Organization, as Assemblyman Girgenti has already pointed out, they have not even had an opportunity to present their lead off witness that might provide the Committee with the benefit of having a general picture of where they stand on this, because we had to take one of their witnesses out of order, because of his transportation problem, so without further discussion on this, I do want to hear at this time a witness from the New Jersey Tenants Organization, and I would appreciate it if you would allow that opportunity.

Mr. Baslow, do you intend to be the lead off witness?

DAVID BASLOW: Yes, Mr. Chairman. Mr. Chairman, members of the CIP Committee, unfortunately, many of our witnesses, including our Counsel, had to leave because of appointments they had later in the afternoon, and we will be submitting our written documentation, and their comments will be submitted to the Committee in writing on the merits of the bill.

I think what is perhaps most annoying about the hearing up to this point is that no one has touched on the subject matter before you. We all know that the reason we are here today is as a result of problems that we are having in the communities that have enacted rent legislation, the problems, the legitimate problems, that the landlords, the owners of multiple dwellings are having with some rent boards, with some municipalities, and the legitimate problems the

tenants are having with some rent boards and with some municipalities.

And what we were seeking, and what I think we find in the substance of the Assembly Bill 504 is a concept to start to deal with the existing problems in some communities in setting forth guidelines so that there is an absolute understanding of what a landlord is entitled to as a just and reasonable return. We recognize problems do exist in communities such as Fort Lee, and I think the appearance of many of the major landlords from that community here today indicates that there is a tremendous problem in the community of Fort Lee. There are problems in other communities, but perhaps not as great yet, but, nevertheless, it is headed in that direction.

I don't know if all the problems are a result of the local ordinance that has been enacted in Fort Lee or in any other community, but I do know that there are problems, and we are looking for a way of setting a uniform standard to enable a rent board to have guidelines for the first time, to have an understanding of the financial data and the reviews, and be able to provide relief to the property owner who is efficient, and who needs relief greater than the automatic percentages allowed by a municipality, and at the same time protect tenants from rent gouging.

A-504 as it is introduced in concept has our support, and the concept is FNOI, fair net operating income. It is in effect in Cambridge, Massachusetts, and very basically our understanding of it is that if a landlord is unable to meet increased costs due to the limitation of the automatic increase, he can apply to a local rent board for a just and reasonable return or his standard operating income by documenting his expenses and the relief provided within the statute will allow the rent board to determine and to allow a pass-through of dollar for dollar increase cost. That seems reasonable, and it also seems to be the solution to the problems that some landlords in this room are faced with today. And, again, it is unfortunate that none of them have addressed the issue.

In reviewing the 60/40 formula, we find that it doesn't reflect the reality of the market. One of the witnesses stated earlier this morning - it was quite a while ago, so I don't even remember which witness it was - that the average ratio of income to expenses was more in the area of about 50%. Based on statistics from the National Institute of Real Estate, the 1977 edition, we find that the average for different types of units range from high rise luxury buildings to garden apartments, range in the area of between 50% and 52% of income used for expenses, therefore, we feel that the 60/40 relationship that is currently in 504 is unrealistic and should be changed to more reasonably reflect the actual market. To suggest that relief is being offered, and yet to have most owners of multiple dwellings not be able to gain that relief, doesn't make too much sense to us.

What we are suggesting are amendments to that section to deal with the average ratio of a particular building within a community. The average ratio is a minimum of three years operating income to expenses, and when there is an increase in that ratio, when more money, more of the rent roll, is being used for expenses, the landlord should have the ability, if the automatic increase doesn't cover him, to apply for a just and reasonable return, or FNOI increase. And, again, that increase would be a dollar for dollar increase in cost. We have attempted ---

ASSEMBLYMAN BAER: Can you give an example of how that would work?

MR. BASLOW: Yes, we have attempted to put together in chart form an example of the concept that we are talking about. What we have done here is

taken an example. And, by the way, we have tested this concept against all the hardship applications that have been made in several communities to get a feel for it to see what effect it has, and we have found--- and if the owners of several multiple dwellings who have submitted hardship applications would review their own file, I think they would find that the relief granted by this concept would be similar to the relief granted by the courts, if the rent board had denied increase, or by the rent boards, and perhaps in some cases, even greater relief than the courts have allowed.

Basically, what we have done here is, we are saying, go back for a three year period of time for income. We have taken an example of a building with income initially of \$250,000. In this particular situation, there was an automatic increase of 5% permitted, and we have reflected that 5% increase without allowing or considering increased tax surcharges or any other increases allowed or eligible for. And that reflects the difference in income from \$250,000 to \$275,600, and we have averaged that out. It comes to \$262,700. And this is the current year of the application. This is a concept that we are suggesting would be one that we could support. We are finding that they are workable, reasonable, and necessary operating expenses. We begin with \$175,000 and we allow that to increase at a straight rate of 8% a year, which is not reality. We find that expenses have not increased at a straight rate of 8% per year. And that brings us to an average of operations expenses to \$189,400.

ASSEMBLYMAN BAER: Excuse me, I don't see where the 8% fits in.

MR. BASLOW: We have just allowed expenses to increase at an annual 8% amount, to demonstrate the way this formula would work. We have allowed the rent to increase 5% a year and the expenses to increase 8% a year to demonstrate the example to you.

ASSEMBLYMAN BAER: I see.

MR. BASLOW: The average ratio of income to expenses is 72.1% in this example. In 1978, the average ratio was 76.2%.

ASSEMBLYMAN BAER: Just one moment, please. I will see if we need to pause for Assemblyman Girgenti. Let me just see if he is going to be gone for a moment or not, because I think---

If it is going to be a brief period, I will pause. Maybe he had to make a phone call or something.

MR. BASLOW: We were explaining that the average ratio in this example works out to 72.1%. In 1978, we allowed again the rent to increase by 5% and we come out to an average ratio of income to expenses of 76.2%. Now, it should be noted, excluded from expenses are amortization and financing costs and depreciation. As 504 describes, we also have limitations upon income. We think they are reasonable. I think some technical changes could be added to them. However, using that example of limitations of expenses, this landlord, this property owner, in this situation would be able to now apply to the local rent board for an increase or an adjustment in his rent known as a just and reasonable or standard operating income increase.

A dollar for dollar increased cost that this owner would be entitled to comes to \$16,300 which is an increase in operating costs from 1978 for the prior year, 1977. So one thing we have here is the entry when the relationship of income to expenses increases in the current year over the average three years, and the next thing is the type of relief - in this case, it is \$16,300 or the dollar

for dollar increase for cost in 1978 over 1977. That just again dramatizes the concept - the FNOI increase would be the dollar for dollar increase or \$16,300.

Now, what we are suggesting is that since this was total relief of increased costs of the year of application to the prior year, that this would then preempt the local standard for a twelve-month period. So, in this case it allowed a 5% increase, and this provided for a greater than 5% increase; this would be the increase permitted and not the local standard. We would suggest that this would become part of the base rent, so that this owner would not continuously come to the rent board in the future in order to be able to continue to get the same dollars where we have recognized an increase in operating cost.

That is the concept we are dealing with, and with that concept incorporated into 504, we find that an acceptable standard. We also like the language within the 504, giving guidelines, again, for the first time to a local rent board, as to when to hear the application. The owner, or the tenant, can reasonably anticipate or expect when a hearing will take place, when a decision will be forthcoming. It incorporates the federal rule 403 which requires on FHA insured property that, within thirty days of application, the rent board must hear the application and must come to a decision. It is all incorporated within 504, and we think, again, with these modifications, 504 is a concept that is acceptable to us. The concept is recommended for support by our Board of Directors, if it is amended.

ASSEMBLYMAN BAER: Do you have, in ordinary letter size form, those charts reproduced for us?

MR. BASLOW: We will submit it, yes.

ASSEMBLYMAN BAER: Very good, continue please.

MR. BASLOW: Again, dealing with the merits, I could debate the arguments that have been put forth, the appeals that we have heard about, the successful tax appeals. Those are all currently being appealed. There are no final decisions. But, again, I think as reasonable people, what we are saying is, yes, we recognize a problem in some communities, and we are not saying, and we are not willing to say - I don't think anyone can demonstrate to us - that problem is a result of rent legislation. But we are saying that there is also a problem with rent legislation in those communities and in other communities. What we find, and I think the Cambridge Rent Board in their experience supports what we find, is that if you had a situation like this, most communities, as opposed to having an owner come in and open his books year after year after year, administratively it would be easier to find a more flexible formula to consider the increased costs. But when that municipality does not consider the increased costs, there should be a way to grant relief.

We also believe that once a standard is adopted on a statewide basis, it certainly will help mortgage lenders to understand their financial risk, and be able to come back into communities if they have been staying away. That hasn't been documented. It has been speculated to, and we are saying, well, where there is smoke, there might be fire, why not deal with the problem.

The tenants' solution isn't rent control, and we have never suggested that. The solution is more housing. Rent control was a result of a critical housing shortage. It wasn't the cause of it. And, as long as that shortage is with us, we feel that we need to protect tenants from rent gouging. Again, some communities

have gone further, and they have attempted to shift profits from multiple dwellings and taken out the incentives that have been provided by federal and state legislators. What we are saying is that this, perhaps, will restore that shift, will continue to allow those incentives to work, and what it does is, it separates the ownership of multiple dwellings into two businesses. One business is the investment, the purchase, for whatever reason someone gets into real estate, the sale, the appreciation, depreciation, is one business, and this is saying that the operation of the multiple dwelling is a separate business. And this is the end of it that hurts tenants, or that in some situations may be hurting owners, and we are saying that this is the area we should address, and that if we attempt to consider the total business as one, there is no solution, but when we are able to separate the incentives and not deal with the profits provided for the resale of a multiple dwelling, or the refinancing of a multiple dwelling, we are then able to begin to deal with a problem in a realistic way.

ASSEMBLYMAN BAER: I take it that pause indicates you have concluded your initial testimony; is that right?

MR. BASLOW: Yes, I have.

ASSEMBLYMAN BAER: We heard testimony today about the problem of the 60% standard and the many variables that affect housing, be it age, architectural styles, such as height, number of floors, number of units, things of that sort, where people have testified that makes unworkable the use of the single standard.

Is it your testimony then that following this formula we have a flexible standard that takes into account all these different variables that affect the rental housing market?

MR. BASLOW: Absolutely, because we are going right to a particular operation within a particular community, and we are basing it, the information, on the operation of that particular building, and also mobile home park. So, we are saying that although there are unique expenses to a high rise building that might not be shared by a mobile home park in the same community, this formula deals with that high rise luxury building, and also the mobile home park, because it is the figures from those operations and we feel that effectively deals with the problem.

ASSEMBLYMAN BAER: Just one moment. I would like to have a recess for ten minutes, and then we can proceed with questions. I am reminded that we haven't provided a proper break for the stenographers.

(Whereupon a recess was taken.)

AFTER RECESS:

ASSEMBLYMAN BAER: The meeting will come to order. Mr. Baslow, will you return to the witness seat? Did you have a prepared statement, by the way?

MR. BASLOW: No, a prepared statement will be prepared and submitted along with the rest of the testimony of witnesses that had to leave because of the late hour.

ASSEMBLYMAN BAER: Before we proceed, I would like to ask Mr. Davis to see to it that there are slips for witnesses who wish to testify and I would like to ask any of the witnesses who wish to testify who have not yet had an opportunity to testify to fill out a new slip - even if you filled out a slip before, or even if you are one of the witnesses associated with one of the combined efforts - and I

would like you to indicate on that slip how long you intend to take in your testimony. And I might mention that one of the factors that will guide me in the order in which the witnesses will be taken will be the length of testimony. Those who are going to testify briefly - all other things being equal - we will try to put on ahead of those who want to testify at length.

We were in the process of asking questions of Mr. Baslow. I wanted to ask you, Mr. Baslow, to explain for us the reasons for the various exclusions from the formula. You made reference to some of them earlier. If you could identify again the exclusions, and the rationale for those exclusions.

MR. BASLOW: These are exclusions from expenses that you are asking about. Well, these are exclusions and limitations. I would just like to comment that one of the major problems that we have been faced with by some of our more radical economists, who would normally be here testifying on behalf of the bill supported by NJTO, is that they felt that this standard was too liberal and gave the owners of multiple dwellings too much.

The limitations to expenses that have been advanced by these economists deal with, one, real estate taxes, and it limits it only to the amount actually paid and owed during a particular year, so that an owner of a multiple dwelling could not delay his payment of taxes and then have a double tax bill within a one year period. It would only be the actual real estate taxes for that particular year actually paid, and would also allow any amounts set aside for appeals the 10% that is allowed to be considered paid.

It also deals with a limitation on repairs and maintenance, and basically all expenses, as well as income. They are to be limited to an arm's length transaction, or the value of those transactions should be included in the item for income or expenses.

Legal and auditing expenses have been limited to the actual costs incurred in the operation of the multiple dwelling and not in the litigation of the owner's legal rights. We feel that is a reasonable approach, since a tenant doesn't have the ability to deduct from rent any litigation costs in connection with exercising or testing what their rights are under a particular statute, whether it be a pro-tenant or pro-landlord statute. And we feel that there has to be some equity.

Management fees have been limited to a percentage of gross rent roll. Basically, HUD allows a straight 5% of rent roll for management fees. They don't care if it is spent, or how it is spent. On the other hand, New York City, under their rent control formula, allows a sliding scale which is more restrictive than the one proposed under Section E management fees. And we feel, again, it is a reasonable approach. We have gone out into the market, and we have found that licensed property managers charge in this area, and this is also a little over what they normally charge, depending on the rent roll.

ASSEMBLYMAN BAER: Where you make reference to HUD, are you referring to any HUD insured property?

MR. BASLOW: Any HUD insured property at all, whether it is HUD owned---

ASSEMBLYMAN BAER: That is not just subsidized property, any type of HUD involvement.

MR. BASLOW: Correct. HUD limits it to 5% for the rent roll for management fees. Again, we feel that is too liberal, and we also feel that the restrictions in other communities are too restrictive and we feel that we have struck a balance that tests the real market. This is what you can hire a certified

property manager for to properly manage the multiple dwelling.

ASSEMBLYMAN BAER: And is there any restriction in terms of the applicability of that 5% by HUD, in terms of the size of the apartment building, how many units, or in terms of physical configuration high rise garden apartment or age, or any other variables that might affect that?

MR. BASLOW: Now, there is not.

ASSEMBLYMAN BAER: I see.

MR. BASLOW: The bill before you also limits advertising expenses to only allowing advertising where there are no bonafide waiting lists available for that multiple dwelling. Insurance is limited to the insurance of the operation of the building only. Penalties, fines, and interests for any reason should not be allowed, and it is as written in the bill that is before you now. The reason for that is, an efficient operator would not incur penalties, fines, or any interest other than the mortgage interest. We feel that mortgage interest as well as the amortization of the mortgage itself, as well as depreciation, should absolutely be excluded from expenses. We feel that if we attempt to recognize and also deal with equity, such as, how do you deal with an owner who has fully paid their mortgage, how do you deal with a new owner, how do you deal with an existing owner who has to re-finance, we realize that is why the ratios are down to the 50% area, and we feel that the 50% left over is sufficient to cover not only these costs, but also a cash return on a positive cash flow.

Did that answer your question? I don't know if there are any other limitations that were set forth?

ASSEMBLYMAN BAER: My attention wandered for a moment. Did you cover the ones that relate to debt service?

MR. BASLOW: Yes, we feel it should not be allowed as a reasonable and necessary expense. It would only encourage further financing, and it would be at higher interest rates. We would have to examine the arm's length transaction between those interest rates and financing arrangements. It is also interesting to note that the New Jersey statutes that had been enacted in 1954 are currently available to a municipality; they may enact an ordinance under the state statute for substandard housing. It goes into the same concept, standard operating income, and it reduces it down to 20% of rent roll, and also excludes from it amortization and interest. We also find that true in Massachusetts where it is currently in effect in Cambridge, and also in a concept similar to this out of Boston. Those items are excluded from expenses, and we feel that it should follow suit. It is reasonable. It makes sense to us.

ASSEMBLYMAN BAER: Do you have any questions, Assemblyman Girgenti?

ASSEMBLYMAN GIRGENTI: No questions.

ASSEMBLYMAN BAER: Assemblyman Edwards.

ASSEMBLYMAN EDWARDS: You mentioned earlier in your testimony that you were interested in the viable multi-family construction market in the State of New Jersey. It is a real solution to your problems and to most tenants' problems - a truly competitive market with a sufficient housing stock to make it competitive and thus potentially eliminate the necessity for rent control or any kinds of local ordinances along those lines.

Mr. Klein in his presentation this morning presented the prospect of uniformly established standards for all municipalities in the State dealing with

rent control, rather than let it continue in a piecemeal method as it has, and he gave a lot of examples of bases that he would particularly promulgate. There are acknowledged problems in municipalities that don't have enough multi-family dwellings, so that the individual political clout is sufficient to mandate the passage of a rent control ordinance, and there is probably a great deal of rent gouging that does go on in multi-family dwellings where there are no particular controls or ordinances. It seems as though the philosophy, at least, of Mr. Klein's presentation would help resolve that problem. How do you in the New Jersey Tenant's Association feel about that proposal and a statewide control or standard?

MR. BASLOW: We have examined statewide rent controls where they exist or where they have existed in the past, and we find that there is no long-range or short-range benefit to having a state standard that municipalities can adopt.

If we are talking about a concept mandating rent control for every multiple dwelling in the State of New Jersey, I think we would have to reconsider our position. However, we have problems that are unique to a particular municipality or to a particular region. Somehow I can't believe, and the figures support this, that the increase in certain costs in Bergen County are not the same as increased costs in Cape May. Increased costs in mobile homes are different than the costs in high rise luxury buildings. Older construction has different problems, and we feel that it is dealt with at that local level, and it seems to be effective in what we have now, and we have 120 municipalities in the State of New Jersey. And those 120 municipalities are the most populated - tenant populated - communities in our state, so we feel the majority of tenants are being protected.

If what you are suggesting is a mandatory statewide rent control law, and yet still allow the municipality to determine the automatic increases, we would absolutely be able to support that concept.

ASSEMBLYMAN EDWARDS: I only looked at Mr. Klein's statement as he was reading it, and he seems to be indicating a system whereby there would be local rent control boards, but the standards under which they would operate would be established on a statewide basis. And the standards, the general standards, would therefore be reasonable. I don't know how familiar you are with planning boards, but planning boards review various development applications or problems on an individual unique basis, based on standardized guidelines plus a certain amount of flexibility at the local level, for ordinance adoption to meet the individual needs of that community.

I - and maybe I am mistaken - seem to gather from Mr. Klein's statement that he was promoting a system of that particular nature. I find my questions unanswered as to the viability of the multi-family construction market in the state under the present status or confused status of rent control or rent leveling; I find this bill addressing one aspect of it, which is potentially one requirement of rent control to permit gouging. I don't find it addressing the real problem. I seem to find the tentativeness out in the market place. I have no empirical data to base it on, and from what I gather today neither does anybody else - one way or the other. I seem to be more inclined to listen to the philosophy of a statewide control. I know that seems to fly in the face of home rule and a lot of other very nice cliches, but there are certain things that the local municipality can control, and there are certain things they can't. We went through a uniform construction code because of some of these problems of

local municipalities and the variances between them and the viability of an industry. On the one hand, we as the legislature are trying to promote housing startings, multi-family in particular, and the Governor is, and the economic development administration and various other people.

I would be interested to hear the input of the New Jersey Tenants Association, vis-a-vis a program as I have just outlined, or if you already have one, or a position, I would like to hear it and/or get some documentation with reference to that.

MR. BASLOW: Well, certainly, as proponents of rent leveling that currently exists in municipalities, I think our decision would have to remain, that unless it could be demonstrated that a state mandatory rent control bill would correct rent gouging in every community in this state, and the type of procedures that would be permitted under it would allow a municipality to become more restrictive if the need for a particular municipality required that it become more restrictive, it certainly would have our support.

However, in no way can it be demonstrated again that what we currently have--- It is not as confusing as some opponents would like us to believe. A community has a local standard, and anyone going into that community, whether it be a tenant, a developer, an existing owner, mortgage lender, they know that community, and they are pretty stable. Again, I think we are reacting to a couple of communities that have suffered several amendments as a result of massive litigation, and we are not dealing with the overall 118 communities that have rent control working, and it is effective and it is protecting tenants, and owners aren't filing for hardship adjusting reasonable returns, so we have something out there in the community that is working that is involving community people. However, again, if it is being suggested that we have a mandatory state rent control law that protects every rent payor in the State of New Jersey and protects him to at least what they are protected now, if not more, we would absolutely support it without any question.

ASSEMBLYMAN BAER: Now, Mr. Girgenti has a question, but I have asked him to defer it. There are two people here who are facing very critical scheduling problems, Mr. Kamilewicz and Mr. Herrick. Mr. Kamilewicz wants ten minutes, and Mr. Herrick just two. I also understand that Mr. Fox and Mr. Finlayson have indicated that they are willing to cede their time so that Mr. Kamilewicz can speak; is that correct?

MEMBER OF THE AUDIENCE: Yes.

ASSEMBLYMAN BAER: All right, thank you very much. That is very courteous of you. Now, between Mr. Herrick and Mr. Kamilewicz, which way should we proceed?

MR. KLEIN: Mr. Chairman, I think Mr. Herrick has the most critical time problem, so if we could I think we have agreed that Mr. Herrick would go first.

ASSEMBLYMAN BAER: All right. I want to thank you very much, Mr. Baslow, and we will have some questions for you later.

MR. KLEIN: There has been reference during the course of this hearing already as to whether or not a builder would pick up his bags and leave if the investment climate were not favorable. We would now like to present to you Mr. Norton Herrick who is a builder who has built for twenty years in New Jersey and is doing just that.

N O R T O N H E R R I C K: Mr. Chairman, members of the Committee, my name is Norton Herrick. I have been a developer and investor in New Jersey real estate for the past seventeen years. My company is Herrick-Richards Construction Company

of Morristown, and I am also a resident of Parsippany, New Jersey. I will be as brief and as candid as possible.

I consider myself somewhat of an expert on the subject of rent control, because as an apartment owner I have unsuccessfully tried to co-exist with such legislation not only in Fort Lee but also in Parsippany. On the specific subject of this bill, hardship applications, let me just say that I believe I have logged more hours in hardship hearings than any five apartment owners that I know.

We have heard, and will continue to hear, a lot of statistics here today. Unfortunately, my company is one of those statistics. Before rent controls were imposed in this State, we had a very active real estate development program. We were building apartments and acquiring land for future development. Obviously, that activity generated jobs and produced rateables and tax dollars for local municipalities.

We quickly learned that we could not survive economically under rent control. What do I mean by economic survival? Each time we start a new job we are gambling. Just like the crap shooters soon to be slaving away over their dice in Atlantic City we gamble that we have correctly guessed the size, durability, taste, the economic and social levels of the market, and also that we can produce the projected buildings within the time and cost parameters necessary to make all the previous guesses come true. I use the word guess advisedly, for despite all the market research and expertise we can bring to bear, the moment of decision is always like stepping off the high dive at the swimming pool. And to prove my point, I would like to cite the Edsel automobile.

The point to all this is that only the promise of profit induces us to risk our money and reputation. The risks are large, and without the incentive of a just profit potential they are not taken. We are forced to go elsewhere to a more hospitable climate for risk takers. We have since sold off one apartment building and at least six parcels of land throughout the State on which we had planned to build.

In Fort Lee, we gave up on two parcels even though we had already spent more than \$75,000 in the planning stages for two more apartment projects which would have totalled approximately 800 additional units for the Borough of Fort Lee.

We still have one luxury building in Fort Lee only because no one wants to buy it. I ask you, would you buy a luxury building completed in 1971 which has never produced a positive cash flow? We invested close to \$2 million in that building with absolutely nothing to show for it. In Wharton, which is not a rent controlled town, but would obviously be under the threat of rent control, we labored for three years in winning approval of a 300 unit garden apartment complex. The legal fees and proceedings cost us no less than \$100,000. Because of the threat of rent control, the only sensible thing for us to do was to amend a plan for townhouse condominiums instead. And that is what we did. Townhouse condominiums are now being built on this site.

What I am saying is - and this is not a threat, because it is after the fact; we have already done it - we are doing no business in New Jersey because there is just no business to be done. Our residential building program is at a halt in this State, and all of our energies and resources are being directed into those states with reasonable laws permitting a fair rate of return on our investment.

To date we have purchased four out of state apartment complexes, and we have two more under contract at the moment. New Jersey is my home state. My father was a home builder here before me. I went to college to study home building so I could continue his work. I have been in business here for seventeen years, and I am now forced to leave the state that I love because a badly designed political solution has been concocted to control one segment of the economy. On the Meet the Press program of May 7, 1978, Robert Strause, the President's inflation fighter, stressed the fact that wage and price controls are unproductive and will tend to stifle the economy if imposed. The same economic reasoning applies to our State Government.

I might also add that our company is in the planning stages of moving its offices from New Jersey to either Charlotte, North Carolina or Atlanta, Georgia. I respectfully ask you to consider the alternatives. On one hand, renewed production of apartment housing by the private sector will decide benefits of jobs and dollars for the State or rent control which stifles construction, deprives people of adequate housing, and drives investors out of state. You can't have it both ways. Thank you.

ASSEMBLYMAN BAER: I want to thank you for your testimony. I hope you catch your plane. Are there any questions?

ASSEMBLYMAN GIRGENTI: On your one luxury building that you built in Fort Lee, what has been the problem? You said there has never been a cash flow. Is it a direct result of---

MR. HERRICK: Well, it is a combination of rent control, fantastic increases in the taxes, and utilities.

ASSEMBLYMAN GIRGENTI: Thank you.

ASSEMBLYMAN BAER: This has been occupied, though?

MR. HERRICK: Yes, it has been occupied since 1971.

ASSEMBLYMAN BAER: Thank you for your testimony. Mr. Kamilewicz. I understand your testimony is going to be no longer than ten minutes.

MR. KLEIN: Mr. Chairman, and gentlemen, Mr. Dexter Kamilewicz is an executive with the Greater Boston Real Estate Board, and he is familiar with the problems of rent control in Cambridge and in Boston.

D E X T E R K A M I L E W I C Z: Thank you very much. My name is Dexter Kamilewicz. I am Managing Director of the Rental Housing Association, a division of the Greater Boston Real Estate Board. I was previously a project manager in the real estate office of the Massachusetts Institute of Technology, which was a major rental housing owner in Cambridge. MIT has since sold off its off-campus housing units. I also served as Assistant Director for Housing for MIT and in that capacity assisted students seeking off-campus rental housing. I thus saw the problem from the perspective of both landlord and tenant.

I would now like to share with you my experiences and conclusions regarding rent control in Cambridge. When it comes to the discussion of rent control, emotions run high. And there is a tendency to disregard readily available facts from communities where it has been tried. Cambridge and Boston have had rent control since 1970. The facts indicate that rent control has not lived up to its promise - quite the opposite. Rent control has had an adverse effect on these communities. The adverse and inequitable impact of rent control has been felt in several ways. Virtually no new housing has been built by the private sector investors since the

advent of rent control. There has been reduction of real estate taxes of existing rental property and erosion of municipal tax base and a corresponding shift of tax burden to the single family home owner.

There has been a deterioration of rental housing maintenance and general maintenance standards coupled with the beginnings of demolition and abandonment. I might parenthetically indicate that although I have not seen the study that was made in Brookline that indicated that levels of maintenance have remained at the same rate prior to rent control, but considering the inflationary spiral, that information would indicate that since you can't purchase as much as you could before 1970 with today's dollars, that that would indicate a severe lack of maintenance being possible under that funding.

The tenant is paying a small proportion of his income on---

ASSEMBLYMAN BAER: Excuse me, could you provide us with that data?

MR. KAMILEWICZ: No, I cannot. What I am doing is taking the data that was presented earlier in that report made in Brookline. According to a previous person who was testifying, the maintenance and repair levels had not changed during the advent of rent control, and what I am saying is that taking those facts, and knowing the fact of the inflationary spiral, it seems to me that if those levels are to remain constant rather than increasing, that that must exhibit a decline in repair and maintenance.

ASSEMBLYMAN BAER: Well, since this isn't your own work, do you know whether that data has or hasn't been corrected for inflation?

MR. KAMILEWICZ: I don't know. It is not something I introduce. It is a response to Mr. Gilderbloom's response about the Eckhardt Study in Brookline. That I am not aware of. I haven't seen it. I just make the observation.

ASSEMBLYMAN BAER: All right, thank you.

MR. KAMILEWICZ: The tenant is paying a smaller portion of his income on housing than he did before rent control. However, the home owner is paying a far greater portion of his income on housing than in pre-rent control era.

According to the principal assessor of the City of Cambridge, Mr. Charles R. Laverty, Jr., taxes for multi-family buildings represented 22% of gross income in 1969. That was before the advent of rent control - i.e., 22¢ out of every \$1 collected in rent went to real estate taxes.

Abatement applications rose at a rapid rate and have resulted in over \$600,000 in abated taxes annually. Reductions in assessments amounted to \$4 million in 1976-77 alone. In spite of the development of some non-residential properties in recent years, the valuation of these new properties have just replaced decreased valuations for multi-family dwelling units. I do have a copy of Mr. Laverty's report. I don't know whether it is included in your package, but I will leave it for the Committee. Mr. Laverty is the principal assessor for the City of Cambridge, and has been for years, and his qualifications are included within the report.

Mr. Laverty also did a comprehensive analysis of property values for multi-family buildings in Cambridge, and he concluded that properties in adjacent rent control communities have values 40% greater than Cambridge. The experience in the City of Boston has been equally disastrous. In fiscal 1976, there was a 46% increase in tax abatement applications - over 14,000 applications, mostly from the multi-family dwellings. Tax delinquencies for the last quarter of fiscal 1977 were greater than 31% of the multi-family inventory.

It is further estimated that the city of Boston will be required to reduce its property valuations by \$22 million due to reduced assessments of rent controlled properties that have consistently received abatements over the past three years. Considering that real estate taxes account for 70% of the city's income, it is not difficult to understand why property taxes which represented about 25% of gross before rent control now require 35¢ to 40¢ out of every rent dollar, which is an extraordinarily high figure considering that the national rate is about 16%. Furthermore, while real estate taxes have risen dramatically in Boston for multi-family housing, Boston single family owners have also had to carry the burden.

In 1976, Boston levied a 28% increase in the tax rate, a rate which now stands over \$250 per \$1000 of valuation. Much of this data is enclosed within a report that was prepared at the request of the Mayor of the City of Boston by staff members of his administration, and I leave that for the Committee. It is quite lengthy, but there is a significant amount of data that I do report in my testimony.

Rent control has also impacted heavily upon the private sector investment. In Cambridge during the period from 1970 to 1973, less than 9% of the 3,172 units were privately financed. In Boston, during the decade of the sixties, 68.6% of the 13,679 units constructed were invested in by the private market. From the period of 1970 to 1976, this had dropped to 28.5%. In 1976, only 6% of new multi-family housing attracted private investment. During the 1970's about 6700 units were demolished in Boston. Of those, 6,000 units were under rent control. One question that is often asked about rent control in the greater Boston area goes something like this: If the construction of new housing is exempt from rent control, how can it be argued that rent control has a negative impact on new housing? The answer is quite fundamental. In greater Boston, the cost of living has increased 84.5% over the last ten years, while rents have increased only 67.5%. Under conditions such as these where market rents significantly lag, what is necessary to make new construction possible, combined with the ever present threat of extending rent controls to cover new construction, it is nearly impossible to convince the private sector to have confidence to make such an investment. It is interesting to also note that the City of Boston's report on rent control cited the Harbridge House study which indicated that rents in Massachusetts' control communities rose 13.4% from 1970 to 1974, while the cost of maintaining housing units rose 25%.

It is also interesting to note that during that period of time, according to the report of the Mayor of the City of Boston, that median tenant income rose at a rate of, I believe, 21.3% which is in excess of the rent increases.

While renters in the greater Boston area have benefitted over the last ten years, the home owner has continued to be the subject of reality. The home owner has experienced a 91.2% increase in the cost of operating his home over the last ten years, not including the cost of utilities, which we all know have risen quite dramatically during that period of time. It is also interesting to note that the average sale of the single family house has risen 128.5% over the same period.

In Massachusetts the landlord is theoretically guaranteed a fair return, and I emphasize the word "theoretically." In Cambridge and Boston, regulations

are similar to Assembly Bill 504 in that they establish detailed complicated administrative procedures that a landlord must go through in order to show that he is not getting a fair return, and to establish his right to an increase. As a result, rental properties caught in an administrative morass have found that their income has shrunk rapidly, and in many cases turn to losses. In Cambridge, according to figures developed by a member of the Cambridge rent board, rents adjusted by a constantly changing variety of general rent adjustment formulae have increased at a rate of 58% since rent control began---

ASSEMBLYMAN BAER: Excuse me a minute, you mean in Cambridge in every instance where there is an increase they have to go through an appeal; is that what you are saying?

MR. KAMILEWICZ: No, what I am saying is that what happens in Cambridge is that the rent board periodically reviews the cost of living. It decides what that cost of living increase has been. It will give a general adjustment, according to its own figure, as it passes it on to owners who are required to go through a process similar to an individual adjustment, in that they must present data which backs up their statements right down to the last penny, in order to qualify for those general adjustments. In the case that that adjustment is not seen by the owner to be adequate to develop a fair return, as far as he is concerned, he would then have to go through an individual adjustment process, which is a fairly likely process.

ASSEMBLYMAN BAER: I understand. Let me break in at this point and say that you have taken substantially more than fifteen minutes.

MR. KAMILEWICZ: I am sorry about that.

ASSEMBLYMAN BAER: That is understandable, but we did take into account - one of the things in terms of the sequence here-your expectation that you would take ten minutes. I noticed that with few exceptions you have been reading very closely the text of what you have submitted here, which we will study carefully in any case. May I ask you if you could forego reading verbatim and just add what special comments or amplifications you might find it necessary to do.

MR. KAMILEWICZ: I would be very happy to do that. I think that it is worth commenting that under the process which Cambridge does use - and Boston in a very similar way - for the process of adjustments, whether they be general or whether they be individual adjustments, it is important to know that these are based on individual regulations promulgated by the rent board itself, and not through the overall ordinance. And in the manipulation of the figures that go on - for instance, Mr. Lavery in his report indicated that while the rent board's figure showed in a period around 1973 that there ought to be a 6.5% increase when in fact the rent board would offer a 30% increase after going through the paperwork and the hearings in order to achieve that level. It is also interesting to note that the formulae that are used, and the processes that one must go through are so terribly complicated that they are very difficult to follow. In the greater Boston area there are a significant portion of units which are owned by single investors, small investors. I might indicate that the association which I represent from the greater Boston area, two-thirds of my members own or manage twelve units or less. Their ability to comprehend the complex regulations that are promulgated by the board is very heart rendering, particularly since they made investments that they expected would keep them in good stead in the

future without having to make extraordinary efforts to justify every single move they made. It is difficult enough for the lawyers and the accountants and the courts to understand the regulations, so, therefore, there is a lot of litigation.

It also is interesting that a very high percentage of people do not go back for an individual adjustment, but instead try to minimize their expenses since they cannot - at least in their own judgement and their own perception - develop income that is necessary to cover the costs which they believe would keep their property up to maintain their asset. I think that is an important thing to point out in terms of 504.

I think I might also indicate that there was a question earlier on vacancy de-control. Boston does have vacancy de-control which came about after a court action where the city of Boston had within its ordinance a vacancy de-control or regulation which they did not administer, and the court did require them to administer it. It is interesting that the Boston rent control board indicated that - and this paper comes out in September of 1977, and this is the Mayor's report again - they made a sample of formerly controlled units that were vacancy de-controlled. And what they found was that - and this was prior to a general adjustment that ranged from 7% to 13% having an average of about 11% general adjustment because of the extraordinary tax increase - over 17% were re-rented at less than the legal maximum rent under rent control; that over half were re-rented at an increase of less than 15%, and the remaining levels were not changed, and I think that one of the things that we found after controls were lifted, the post World War II controls, that there wasn't the incredible efforts to increase rents. The truth of the matter is that in order to make a living you have to respond to your customer. Your customer pays the bills, and you can't do that sort of a thing in a free market area and get away with it. It becomes difficult, however, in a controlled market - as we have heard from testimony of the previous speaker - that when you have a situation where no new construction, particularly privately financed construction, is going on, you have a situation where rent control becomes a self-fulfilling prophesy in that shortages do occur, and under any controlled situation which have been tried for years, and unsuccessfully, you pay a terrible price for that.

I also think that it is interesting to note that during the Nixon administration, which was referred to, the wage and price controls did not work. They were universally rejected, and people were very, very unhappy with it, and I think that in the case of rental property what you have is a situation where it is politically terribly easy to focus on the private sector owner of property to provide relief that the wider system ought to be providing, and what you have is a situation under rent controls where you do not require the society at large to fulfill the obligations which they so often present to the public, and that is, to provide decent, safe, sanitary housing. So, it becomes a self-fulfilling prophesy in that regard. The shortages will create abuses. There is no question about it. But rent control is a very difficult solution, and the literature indicates that it really hasn't worked all over the world in that regard.

ASSEMBLYMAN BAER: I want to thank you for your testimony. It did take twice as long as you estimated. I am a little concerned about the time of some of the others. Let's see what we have in the way of questions. Are there any questions?

Hearing no questions, I do want to thank you very much for your testimony. And I hope that you make your transportation. Thank you so much.

We just have a few witnesses left, most of whom express a willingness to be very brief. So I am hopeful that we can finish up here today. Possibly we can be out of here by five o'clock. Matt Shapiro.

MATTHEW SHAPIRO: My name is Matthew Shapiro. I am the President of the Fort Lee Tenants Association, and Vice-President of the New Jersey Tenants Organization. My basic purpose is to try to dispell some of the notions or what I would call myths that have been promulgated about the Fort Lee situation. But, before I do that, I would just like to comment on one thing that the previous speaker said, and that was that when rent controls are eliminated, somehow higher rents don't result. In fact, in some cases, lower rents than the maximum permissible under the ordinances result. If that is truly the case, then there is nothing wrong with rent control.

But, as to Fort Lee, the idea that everyone who lives in Fort Lee is rich is something that has been said time and again, not only here today, but in the newspapers, at public meetings of various sorts. It is simply not true. It is not true at all. There is a complete range of incomes in the town of Fort Lee. There are many people who are on rent subsidy in Fort Lee. There is a large working class element in Fort Lee, middle income, lower middle income, also upper middle income, also fairly wealthy. I happen to live in a project that I would say varies from low income to middle income, lower middle income, regular middle income. There are a lot of people in Fort Lee. It is not simply the high rise wealthy community that many people project it as. There are people with very limited financial abilities that live there - a lot of them, not just one or two, a lot. That is one thing.

ASSEMBLYMAN BAER: Mr. Shapiro, I feel very bad to make this point now, but I want to try to divide the time that we have left among the few witnesses, so try to limit yourself as narrowly as you can and allow time for the others. I know it is very frustrating when you have been sitting here all day and your testimony is going to be far shorter than many of those who have testified to hear a request to further condense it, but---

MR. SHAPIRO: I want to go home. I will be very snort. I would also like to let you know that the strict regulation in Fort Lee, 2 1/2% is not in effect, has never been in effect. The tenants in Fort Lee have, since 1972, been paying full consumer price index increases, up until the present day. When the 2 1/2% was enacted, it was immediately restrained. It still is restrained, since November 6th of 1974 when a new law was passed. Tenants have not benefitted from it. Many tenants have in fact been forced to move because they could not afford the full consumer price index increases which, at various times, were a double digit increase. So, yes, there has been a shift in Fort Lee, a shift of tenants out of it.

The lack of new construction in Fort Lee has been attributed to rent control. That is a fallacy. Fort Lee for two years had a high rise moratorium, a moratorium on building apartment buildings. Fort Lee wishes or has expressed the wish in its public policy not to have more residential buildings. That was the reason for the moratorium. In fact, this year there was an--- There is no longer a moratorium, but this year there was an application to build a high rise apartment building, and it was turned down by the planning board. I believe it was turned down twice.

There are other factors, and those factors are essentially that Fort Lee is overbuilt in terms of residential property, high rise residential property. We don't need any more. We do need rateables. We have financial problems, and those problems we are trying to solve by getting commercial rateables. There are properties that are bankrupt. There is a very large piece of property that is being auctioned, and hopefully we will get more money from these properties and try to solve the financial problems of Fort Lee.

I would like to say one thing about the tax appeals and the tax shift concept. The four appeals that were granted - which of course are still on appeal; that is not over - they were for the years 1974 through 1976. In 1974 there was no 2 1/2%, no strict limit, full CPI increases, no escrow account whatsoever, until the end of the year. The law was passed on November 6th. The first rent increases that it would cover were December 1st leases. Therefore, only 1/12th of 1974 had any effect on the 2 1/2% even in terms of the escrow account that's been established, and yet there was a reduction in taxes for 1974. This would tend to indicate that the reasons for these reductions lie more in the methods that are being used in the tax assessments than in the rent control itself. I have more to say, but I see that the time is short.

ASSEMBLYMAN BAER: I want to thank you very much, and I appreciate your briefness, so that others can speak.

MR. SHAPIRO: I would like two more seconds. The Carriage House, about which Mr. Herrick testified, would have gotten an increase under the FNOI formula. He would have been eligible. I have the figures right here.

ASSEMBLYMAN BAER: Thank you. Any questions from the Committee?

ASSEMBLYMAN EDWARDS: Well, Mr. Chairman, there are questions that I think we would like to ask a lot of these people; are we going to have a chance to get some of these problems addressed further at a subsequent hearing day?

ASSEMBLYMAN BAER: We have just three more witnesses left, most of whom will be very brief, so I am doubtful that we will find it necessary to schedule another hearing day. I think that any of the witnesses will have opportunity to submit material to us in writing. If you have some questions, we will see to it that they are forwarded to the witnesses so that they can respond. But I think if we were to schedule another hearing day, we would find only a tiny portion would be utilized. Whatever information we want from the witnesses can be gotten without the great difficulty of having a whole day. So, any questions of this witness?

ASSEMBLYMAN GIRGENTI: Just one point. On this bill that we are discussing right now, A-504, your organization is completely behind it, and you support everything that is in this bill, or are there any changes that you would recommend?

MR. SHAPIRO: We support the bill with the amendments suggested by Mr. Baslow earlier.

ASSEMBLYMAN GIRGENTI: All right, so with those amendments, that bill is acceptable to you.

MR. SHAPIRO: That is correct. Don't get the idea that it is something that we love, something that we are looking for. There is a problem that has to be addressed, and this is a solution to the problem.

ASSEMBLYMAN GIRGENTI: One question, and I will ask you because you are Vice-President of the organization, your concept in terms of the overall picture of rent control is the home rule type of position as opposed to state mandated or state leveling?

MR. SHAPIRO: Well, that depends on what type of state rent control you are talking about. This was the question that was asked of Mr. Baslow earlier. Prior testimony suggested state enabling legislation. That is purposeless. There is no reason for enabling legislation. Towns have the ability to legislate right now. The problem with town ordinances now is not the formulas that they have for automatic increases, because those meet the needs of the individual towns. It is the lack of uniformity in the approach to just and reasonable return. That is the problem and that is why there is a bill addressed to that problem. Were there to be a state mandatory law, which would allow towns to have it strict, as they have it now, certainly that would be a concept that we would embrace. That is a different concept than the one that was proposed by the real estate people.

ASSEMBLYMAN GIRGENTI: Thank you.

ASSEMBLYMAN BAER: Thank you. Any other questions of the witness? If not, thank you very much, Mr. Shapiro.

The next witness is Mr. Magee of the Taxpayers Political Action Committee. Is Mr. Magee present? I see you have a rather short statement. Is there any amplification you would like to make other than this statement?

EDWARD T. MAGEE: Not at all. But I would like to read it because I have given it to the press, and I know that it is in the Jersey Journal paper today, and I said that I would appear here, so I assure you it won't take me long. I will read fast, as they say.

ASSEMBLYMAN BAER: Well, let me just check one moment here. Is Mr. Siegle still present?

MR. KLEIN: Yes.

ASSEMBLYMAN BAER: And you want an opportunity to speak to us too? Do you have a prepared statement?

MR. KLEIN: Yes, he does.

ASSEMBLYMAN BAER: And Mr. Palmeri, you want to speak also; is that correct?

MR. KLEIN: Yes, he does.

ASSEMBLYMAN BAER: What I would prefer you to do, if you don't mind, is give us an opportunity just to quietly read this ourselves, and then I think that is the fastest thing, out of courtesy to the others, so that they have a chance, because we are looking at that five o'clock deadline, to see if we have any questions.

(Whereupon Committee read prepared statement of
Edward T. Magee, which appears on page 9x in the Appendix.)

ASSEMBLYMAN BAER: The Committee is finished reading the statement. It is a very effectively worded statement. Do you have any further amplification that you want to make, or should we go right to questions.

MR. MAGEE: Right to questions, if you so desire, sir.

ASSEMBLYMAN BAER: I appreciate your courtesy, particularly when you have been waiting here all day. Assemblyman Edwards?

ASSEMBLYMAN EDWARDS: I find the statement self-explanatory.

MR. MAGEE: Thank you.

ASSEMBLYMAN BAER: Assemblyman Girgenti.

ASSEMBLYMAN GIRGENTI: This statement is very thorough, as you said, and it is self-explanatory, really. It is very clear.

ASSEMBLYMAN BAER: I want to thank you for your testimony, and I want to thank you for your special courtesy in helping the Committee out with its limited time.

MR. MAGEE: Assemblyman Baer, thank you for your attention.

ASSEMBLYMAN BAER: Mr. Siegel. Mr. Siegel, will you give us an opportunity to read your statement, to see if that will expedite things?

(Whereupon Committee read prepared statement of
Carl Siegel, which appears on page 11x in the Appendix.)

ASSEMBLYMAN BAER: May I ask you a question, Mr. Siegel. These figures were presented as part of the Fort Lee case?

C A R L S I E G E L: Not in this format, sir. These were taken from the figures submitted. This is Med Towers I, which has been stated before was---

ASSEMBLYMAN BAER: But this is included in the information that was part of that case?

MR. SIEGEL: Yes, all this information was extracted from that.

ASSEMBLYMAN EDWARDS: Well, this is an analysis of A-504 and its impact on Med I. It is not the figures that were presented. It is taking 504 and applying those figures.

MR. SIEGEL: That's correct.

ASSEMBLYMAN BAER: Oh, I see, yes. Proceed, please.

MR. SIEGEL: Mr. Chairman, and members of the Committee, my name is Carl Siegel. I am a CPA, and I am manager in the certified public accounting firm of M. Sternlieb and Company located in Hackensack, New Jersey. Our firm has examined the financial records and the operations of the thirty-five complex buildings in the Fort Lee rent case.

We presented our findings to the Honorable Harvey Smith in the hearings on the ordinance which he conducted under the direction of the Supreme Court. Now, I have those here, if you don't have them already.

ASSEMBLYMAN BAER: We each have copies of the decision and the findings.

MR. SIEGEL: Do you have copies of our work?

ASSEMBLYMAN EDWARDS: No, we do not. That is what I asked for. I asked that question earlier. I asked Mr. Ravin about that, and he indicated that you would be here and be able to submit that to us.

MR. SIEGEL: I will give that to you. We took Med Towers as a representative building as Judge Smith did, and analyzed it based on your number 504 bill, and we find that in the six years from 1970, if the rent was to stabilize until the expenses reached 60%, that this building would not have any rent increase for those six years, and by 1975, it would show a definite cash flow. In 1976, it would have a devastating cash flow.

Also, as you heard, this building is considered one of the better operations in Fort Lee. We didn't take a building whose operations were poor. Now, also, this building would not qualify for hardship relief under A-504 until 1977. In reviewing the other buildings in Fort Lee, there are several that have received hardship increases from the Borough, or have had rent control pre-empted by HUD, and one of these buildings is Norton Herrick's building which was mentioned before, and under A-504, his building would not get any relief.

So, in many cases, A-504 is more restrictive than Fort Lee's 2 1/2% rent laws. That is about what I wanted to say.

ASSEMBLYMAN BAER: All right, this is very pertinent information. Not all of the testimony here today has been right on target. This is certainly very pertinent, and I want to particularly thank you for having prepared this. Obviously, this is based on the bill in its present form.

MR. SIEGEL: Yes.

ASSEMBLYMAN BAER: What would work out with some of the alternate formulas proposed today is another matter. Let me see if there are any questions from members of the Committee.

ASSEMBLYMAN GIRGENTI: Mr. Chairman, at this point, I think that we should analyze this and read it and then perhaps get back to him individually with questions before we meet again on the bill at all, so that he can give us further information. I would like to study this and look it over. We really have a lack of time right now.

ASSEMBLYMAN EDWARDS: I would also like to see a submission of the same analysis with the proposed amendments maybe submitted to the Committee.

MR. SIEGEL: Well, if I can get a copy of those proposed amendments, I would be certainly happy to do it for you.

ASSEMBLYMAN EDWARDS: If we can get that information to him, I would like him to do that.

ASSEMBLYMAN BAER: All right, very good. That would be helpful. I want to thank you for the pertinentness of this, and for your brevity, two very difficult things to combine.

At this point I just want to ask before I raise a question with Mr. Palmeri. Mr. Baslow, have you prepared any type of similar analysis for the workings on the alternate formula that you propose for some of the specific buildings?

MR. BASLOW: Yes, except we used actual figures. I believe the statistical data used at the trial was not actual figures, but adjusted figures as if all buildings were built at the same time.

ASSEMBLYMAN BAER: Okay, if you would submit that along with whatever explanation goes with it, that would be very helpful.

Now, at this point I find myself in a dilemma, because we have one other witness who has been patiently waiting, Mr. Palmeri, and we have---

MEMBER OF AUDIENCE: There is a difference in the answer that was given in his analysis.

ASSEMBLYMAN BAER: Mr. Baslow will be submitting material to us based on his analysis, based on his proposed formula today, not based on the formula as it exists presently in the bill. As soon as that is submitted to the Committee, a copy of it will be available to you.

ASSEMBLYMAN EDWARDS: I think what I had asked was about the revisions that were proposed earlier be given to the witness so that he can do the same analysis based on the changes. That was all I asked for.

ASSEMBLYMAN BAER: Very good.

ASSEMBLYMAN GIRGENTI: I think there was a comment that the figures he used were not actual figures.

ASSEMBLYMAN BAER: At this point I am not going to re-open the floor to Mr. Baslow, even though he got that in his response to my request for material. Any of that dialogue can be carried out in material submitted to the Committee

following up. Any person has a right to submit material to the Committee in rebuttal of other testimony or fresh material. I would like to have the material submitted within a week. If any members of the Committee have questions that they want to address to any of the witnesses, directly, so that the witnesses will provide written material to the Committee, that will be welcome. Also, if you wish to give those questions to Mr. Davis, he will see to it that those inquiries are made.

Mr. Palmeri. I want to ask you, since we are past five o'clock, if you would be willing to make your submission in writing. You say you will be very brief. Let me just check with the stenographers here, if they are willing to stay.

All right, we will go ahead.

ANTHONY PALMERI: My name is Anthony Palmeri, and I am a landlord and a real estate broker, and a realtor in Fort Lee, and have been for twelve years. I have been selling investment properties for at least twelve years, and I am going to dispense with my written statement at this point. What I would like to say is that the very essence of the bill leaves out two very vital factors. I have prepared a description of the vacancy to control paragraph and a cost of living increase. That should be incorporated in the bill.

In fact, I brought along the zoning ordinance from Richfield Park which incorporates all of these three items. I would like to submit to you, Mr. Chairman, and the Committee, a written or a modified bill that I think would work, if I may. I will submit these items to you.

Now, there is one item that is very important, and that is, vacancy decontrol. I am a landlord that owns apartment houses from 45 to 50 year old four-story walk ups to a luxury high rise in Hackensack. In Cliffside Park we have a 5% pass through, a vacancy decontrol factor, and tax pass through, and a viable approach to hardship. In Cliffside Park there are three tax appeals in progress which have nothing to do with rent control. In Cliffside Park I own a thirty-six family that has no problems whatsoever because we have a reasonable modified rent control ordinance.

In Hackensack I have a building that was purchased for one million four in 1974, and today it has a marketable value of one million one, because of restrictive rent control. I am a professional. I haven't had the time or expertise to prepare a hardship increase on that building. That is all I have to say.

I would respectfully request that you review my submissions, and I will send you a modified copy.

ASSEMBLYMAN BAER: All right, I want to thank you for your testimony and your brevity and patience. Are there any questions from the Committee?

ASSEMBLYMAN GIRGENTI: Again, we will read this material, because at this point, to rush through it, would not be doing it justice.

ASSEMBLYMAN BAER: I want to thank you very much. I do want to say that the Committee will study these materials very carefully, plus any supplemental material that is provided. There has been some very pertinent information submitted, although the largest part of the rhetoric today was dedicated to the question as to whether to have rent control or not, which this bill does not purport to affect.

ASSEMBLYMAN GIRGENTI: The only point is, Byron, we appreciate the input that we got from all the individuals and their patience, especially the ones that spoke at the end, because we know it was a long wait, and sometimes their

expectations were not fulfilled, but we appreciate their patience.

ASSEMBLYMAN BAER: Yes, Mr. Klein.

MR. KLEIN: May I ask a question of the Chairman? On behalf of Mr. Ravin and Dr. Kristof and myself, none of whom had an opportunity to answer any questions of the Committee, we offer ourselves to be ready at any time to respond to any questions either in writing or verbally.

Secondly, since there are materials that have not yet been submitted, such as Mr. Baslow's analysis of the impact of A-504 on certain properties in Fort Lee, may we have, say, ten days after those materials are filed with the Committee to respond to them?

ASSEMBLYMAN BAER: I am not able at this point to guarantee that the hearing record will be kept open that long, because that depends somewhat on some of the mechanical matters involved, but in any case, I am sure that it will come to our attention, whatever response is made.

MR. KLEIN: All I am saying, Mr. Chairman, is that it is virtually impossible. You suggested a one week deadline for anybody to submit rebuttal material. We are perfectly satisfied with that deadline insofar as material which has been submitted today, but for the material that is submitted one week from today by Mr. Baslow, when you close the record at the end of one week, effectively you shut off our opportunity to rebut.

ASSEMBLYMAN BAER: Well, the material that Mr. Baslow is presenting is on a proposed amendment, not on this bill in its present form. At any rate, that material will be available to you, whether or not it will be in the printed record, I am not certain. I will try to see if that is possible, depending on the mechanics. But, as you well know, the record here has a somewhat different role than that of a trial where the record is used in a different manner. It will, in any case, become a permanent part of the records of the Committee, and available for any inspection in any future issue of legislative intent.

Again, I want to thank you all for your patience, and for the very voluminous testimony. We have had a great deal of expertise and information presented. I particularly want to thank the stenographers for their patience who have worked today under most difficult circumstances, and I apologize to you for any imposition to you. Thank you very much. The hearing is adjourned.

* * * *

NOTE: The Assembly Commerce, Industry and Professions Committee received voluminous reports at the public hearing from many interested parties, and has subsequently received other materials which have not been printed as a part of this transcript, but they are considered to be a part of the hearing record and shall be on file with the Legislative Services Agency available for public inspection.

Continued from Page C-

gests that short-term modern controls have no measurable negative impact, this should not be taken to mean that no such relationship might exist in the future."

The difference between Gruen and Gilderbloom is that Gilderbloom takes no public position for or against rent control, while Gruen says that based on what little data is available and the experience with it in other countries, it inevitably will turn out bad.

The Rent Control Alliance in Santa Barbara has of course launched Gilderbloom's reports against that of Gruen, noting that Gruen was hired by anti-rent control forces while Gilderbloom was paid by neither side.

1X Gilderbloom says he examined 15 reports on both sides, and that those in the past two years (Gruen's came out in 1977) "are characterized by data rendered suspect because of non-representative sampling and use of highly selective statistics."

Gilderbloom used a computer in his statistical analysis, and Sternberg said he also was the only researcher to use "regression analysis" in the field. This is a sophisticated method that, roughly speaking, takes into account all the variables that would impact upon a given condition such as whether a specific city's rent control law leads to abandonment of apartments. The result is a more refined, or precise, statistical outcome, in theory, leading to more accurate conclusions.

Gilderbloom and Gruen also agree there is a difference between moderate, or reformed-style, rent controls such as the one proposed in Santa Barbara, and the restrictive ones dating to World War II days in New York City. Both agree that the old rigid laws, in Gilderbloom's words:

"Seem to have led eventually to serious problems such as little or no new construction, declining maintenance, declining sales and — arguably — declining rates of return on investment."

Gilderbloom says "the aim of moderate rent controls is to avoid the problems traditionally associated with restrictive rent controls such as declines in the rate of construction . . . It is the type of rent control which courts around the country have ruled must be enacted in order to guarantee due process and fairness to property owners. These controls are designed more to prevent rent gouging than to give general rent relief."

"Rather than holding rent levels relatively constant, moderate rent controls attempt to regulate the increase on a year-to-year basis. Such controls provide owners with annual rent increases to compensate for increases in operating costs and taxes as well as providing incentives for capital improvements."

Gilderbloom deals first with the effect of moderate rent control on new residential construction, noting that a number of studies including Gruen's have argued it leads to a decline in multi-family construction. (A special 1975 county census found that almost half the housing units in Santa Barbara are multi-family).

Gruen and the other respondents, very almost exclusively on two particular 1974-75 and 1976 studies.

In the case of one, the Sternlieb study, he notes it surveyed lending institutions in Fort Lee, N.J., and Boston to see if rent control affects lending. But, Gilderbloom says, the sample was too small and the questions too vague and so the ensuing studies on that data are of little value.

In the other case, the Urban Land Institute study of Washington, D.C., which has moderate rent control, the results were meaningless because other factors weren't taken into consideration, he says. That study found a 32.4 percent drop in multi-family construction after rent control.

But it didn't consider such vital matters as availability of land nor did it match construction activity with cities that didn't have rent control in the same period:

"Can the Urban Land Institute explain the significant 90 to 100 percent drop in construction . . . in such non-rent controlled cities in New Jersey as Trenton, Camden and Vineland, and in California cities such as Anaheim, Torrance, Emeryville, San Bruno, San Mateo and Palo Alto during the same period, or the doubling of construction in rent-controlled cities of Jersey City, Bayonne City, Edison Township, Dumont Borough, Linden City and Springfield during the same period?"

In addition, he says his figures show that in the San Francisco area, where rent control was in effect from 1946 to 1975, regardless of rent control . . . in the periods 1970 to 1972 and 1973 to 1975 . . . and the decline in construction was even greater in non-rent-controlled cities than in controlled cities."

In suburban cities, which Santa Barbara most closely resembles, he says that multiple-family construction fell 63 percent among non-controlled cities and 41 percent in controlled cities (Gilderbloom used 26 rent-controlled cities and 37 without it for his New Jersey study.)

Gilderbloom's report goes counter to the argument put forth by the Santa Barbara Housing Council in a flyer it mailed recently to all households with registered voters in the city — about 25,000. It was the second such mailing, each one costing about \$5,000. It stated that "the rent control initiative would drive investment capital away from Santa Barbara, resulting in a general deterioration in both the physical environment and the economic life of the community."

The Housing Council flyer also told renters — who make up about 60 percent of Santa Barbara households — that "In every city where rent control has been tried it has resulted in poorly maintained living quarters, deteriorating buildings and abandoned housing."

Gilderbloom said the facts in New Jersey don't support such a flat statement, and that one of the studies the foes of rent control cite as evidence — Sternlieb — "relied on data supplied for the most part by real estate organizations rather than audited income statements from rent boards."

Gilderbloom concludes, "On the basis of data from Massachusetts and New Jersey, it seems that moderate rent control has not caused a reduction in the amount of money going into maintenance, and in certain cases maintenance has increased."

Gruen and Gilderbloom agree a crucial factor in whether rent-controlled property is reasonably maintained is whether the landlord feels guaranteed of a fair break — that is that his full cost of repairs and improvements can be passed on to tenants. Most moderate laws allow that specifically.

While its supporters say the Santa Barbara law allows this, it doesn't require it specifically. Here's what it does say:

"The (elected rent control) board shall set rents at fair and equitable levels. . . The board . . . shall specifically consider all relevant factors including, but not limited to, increases or decreases in property taxes; unavoidable increases or decreases in operating and maintenance expenses; capital improvement of the controlled rental unit as distinguished from normal repair, replacement and maintenance; increases or decreases in living space, furniture, furnishings or equipment; substantial deterioration of the controlled rental unit other than as a result of ordinary wear and tear; failure on the part of the landlord to provide adequate housing services or to comply substantially with the Santa Barbara housing code; and other applicable state and local statutes and landlords' rate of return on investment."

Gilderbloom also said blaming rent control for causing substantial abandonment of housing or demolition of it has no factual basis that he could discover. He quotes the New York Temporary State Commission on Housing and Rents:

"The abandonment process is a social and economic process which is both cumulative and self-generating, spreading through many low-income and

ghetto neighborhoods. Rent control, however, can have little effect for it is clear that it is the oldest, least desirable tenement housing which is abandoned — housing which is unable to produce substantially more income in a free market."

Gilderbloom notes that many rent control foes claim it causes local tax bases to decline. The anti-rent-control flyer mailed to Santa Barbarans says that "When rents are controlled, the value of income-producing property declines sharply. In order to make up for the severe drop in the tax revenues from rental property, the property taxes on private homes will increase substantially."

But Gilderbloom says his comparison study of the 26 controlled cities and 37 non-controlled ones showed "no evidence to suggest that rent control causes a decline in a city's tax base. In fact, controlled cities experienced a parallel increase in total assessed value compared to non-controlled cities. Between 1973 and 1976, the total tax base for controlled cities and non-controlled cities had identical increases of 25 percent."

Both states in the total tax

paign will be deluging voters with quotes and opinions based on various reports such as Gilderbloom's or Gruen's. What credence is attached to them, or whether Santa Barbara voters will even pay attention to experiences elsewhere, is an unknown factor not even regression analysis can explain.

My name is Frank S. Kristof.

I am a Housing Economist by profession with 26 years of experience in this field, including 3 1/2 years as a Market Analyst for the Federal Housing Administration, 1 1/2 years as a Consultant to the New York State Temporary Rent Commission, 4 years as Assistant Chief of the Housing Division, U.S. Bureau of the Census, 8 years as Chief Economist of the New York Housing and Redevelopment Board, and 9 years as the Director of Economics and Housing Finance, and now Vice President of the New York State Urban Development Corp. Despite my public affairs background, I am here in a personal capacity--without compensation--at the request of Professor George Sternlieb, Director for the Center of Urban Policy Research at Rutgers University. Professor Sternlieb thought it would be useful if I shared with this committee, my experiences with rent control in New York City relative to the Assembly Bill A-504 now before you.

After 35 years of rent control, the rent controlled housing stock of New York City is in a shambles. In the 13 years since 1965, the City has lost through abandonment about 260,000 apartments--enough to house the entire population of Boston, Mass. and leave a comfortable rental vacancy rate of nine percent. The direct loss to the City of New York in the form of presently delinquent taxes or taxes written off in the past five years because the buildings now are gone, exceeds \$1.5 billion dollars. This has made a major contribution to New York's present fiscal crisis. I note this is an end result and not something that occurs overnight. The groundwork for it was laid, however, in the rent control system of the post-World War II years 1947-1965. The abandonment process actually began seriously in 1965.

But let me shift to basics. What is the function of rent control? Since there is a proposal before the Assembly, and it has a high cost, ostensibly to the property-owner, but actually to the whole community as we will later note, it must, or should, perform a social function. What is the social purpose of holding down the cost of housing to occupant tenants? Because they are needy, low-income families? Not exactly, in a community such as Fort Lee, the range of tenant incomes in rent-controlled housing ranges from roughly \$10,000 to \$150,000 a year--and there are very few at the \$10,000 end of the scale. Englewood, Lodi, Hasbrouck Heights, Leonia, Fair Lawn? Everyone of these are essentially middle or upper income communities.

And precisely what do rent controls accomplish? Here I will use New York City as my example. For one thing, it enormously increases the demand for housing because the price is held down. And how do we know this? Very simple--the vacancy rate in New York City was at one percent level in 1950 and remained there until after some 500,000 white middle-class families moved out of the City and threw their apartments on the market between 1947 and 1965, and the City and State agencies built about 200,000 low-income and middle-income apartments at the same time. Only then, in 1965, did the vacancy rate finally move above 2 percent. In the meantime, the City received an enormous inflow of rural low-income Black and Puerto Rican families seeking employment in a city where rents were known to be low.

When, in 1969, New York placed its post-1947 construction under rent stabilization, private multi-family housing came to a virtual standstill, very much as has been experienced in Fort Lee and other communities under rent control. The great bulk of New Jersey's rental housing, about 95 percent, is privately financed, full tax paying housing. And if you

seeking to put an end to the further construction of such housing in this state--you have found the secret to doing so--this bill before you effectively will achieve this result.

Aside from this, let it be very clear what else you will accomplish by this bill. You will be shifting the burden of housing costs from renters--very slowly but very steadily, onto the backs of home owners, commercial and industrial taxpayers. As existing controlled housing becomes less profitable, certiorari proceedings will reduce the assessed values of this rental housing and tax rates will be forced up on all real property taxpayers to make up for the tax losses on rental housing.

And when you are in the process of achieving very questionable results, consider who you are benefiting. A fair contingent of low-income tenants and a considerably larger number of middle- and upper-income tenants. If it is low-income tenants you are seeking to protect, rent control is a blunderbuss way of accomplishing such a result.

But let us turn to another line of logic connected with rent control in New Jersey--a desire to prevent apartment owners from making what local community councils regard as "excessive" profits. This is largely a myth. With the costs of operating apartments reaching the most inflationary levels in the history of this country, it does not take much to bleed the profits from rental housing. Turning to the data in the Fort Lee case, note the data of the Mediterranean Towers example:

	<u>Increase in Operating Costs</u>	<u>Permitted Rent Increase</u>
1973-74	18 percent	2 1/2 percent
1974-75	7 percent	2 1/2 percent
1975-76	14 percent	2 1/2 percent

Source: Harry B. Helmsley, et al. vs. Borough of Fort Lee, et al.
Findings and Determinations, March 1, 1978, p.11.

It would take very few more years of operating results like those shown above to turn this very profitable enterprise into a loser.

In this context, I quote Professor Leo Grebler then of Columbia University who made some observations in 1952 about the first abandoned buildings in New York City--the Lower East Side of the 1920's and 1930's:

"It has often been observed that a basic problem in urban land use is the slowness with which the quantity and quality of housing and other urban improvements respond to changes in living standards, technology, location of urban activities, transportation facilities, and the host of other dynamic factors that influence land use. In a nutshell, the problem is that of fixed real estate inventories versus moving people and establishments who use these inventories. This is back of many if not all maladjustments in urban form and structure; it is also back of the hazards of real estate investments which, because of their fixity and durability, are mercilessly exposed to the effects of dynamic change."¹

There are about eight or nine thousand owners of some 23,000 buildings containin 260,000 apartments that have been abandoned in New York City in the last thirteen years who have discovered that rental housing is a highly risk-laden business. Each of these owners lost what he thought was an inheritance to pass on to his children. Instead they found their investments wiped out. I find it a hollow mockery to see how cavalierly

1. Leo Grebler, Housing Market Behavior in a Declining Area, 1952
Columbia University Press, New York, N.Y., p.14.

al governments in New Jersey assume that this buisness is one whose excess profits are fair game to be transferred to their largely reasonably well-off tenants.

Let us be blunt about this. Rent control as conceived and carried out in New Jersey is not a measure to protect the poor--it is essentially a middle-class rip-off of the most unpopular victim in our society--the landlord. Let me point out that the same thing is true of rent control in New York City. If it were not essentially middle-class who were beneficiaries of this program, the poor would have seen this legislation vanish many years ago. The proof is in the pudding. I have many times proposed to the rent control officials of the City that they institute a means test, to confine rent control benefits to families who really need it, by instituting a requirement that the rent paid for an apartment equal at least 25 percent of the tenant's income. This is a mandatory requirement for all federally subsidized low- and moderate-rent housing. Why should not tenants in privately subsidized housing not meet this test? The horror with which this proposal was dismissed made me feel as if I had sold my mother to the devil for 50 cents.

In 1969, the Rand Corporation estimated that the difference between the economic rents and controlled rents of some 1.2 million housing units under rent control in the City, was about \$800 million or \$650. per family. Using this technique, I estimate that between 1943 and 1976 a total income transfer (subsidy) of \$20 billion was made to tenants from landlords, mortgage lenders, the City (in lost real estate taxes) and in repairs and improvements not made on the properties. And as in the case in New Jersey, this subsidy went to all tenants whether millionaires or welfare recipients.

I once again point out, an income transfer of this magnitude cannot

come entirely from the owners of rental property; it is supported by the whole community, which has to pick up the tax burdens shifted from rental structures to home owners and business properties. The community must suffer the loss of real estate values, the lack of proper maintenance and repair of controlled units, the cessation of new apartment construction, and finally a rental housing shortage of serious magnitude that never had been contemplated by the authors of legislation such as the proposed bill before you. This is a high price to pay to maintain the standard of living of mostly middle-income tenants in your communities.



TAXPAYERS POLITICAL ACTION COMMITTEE

TAXPAC

P.O. BOX 175 KEARNY, N. J. 07032

201-627-1533

Edward T. Magee
241 Union St., Jersey City, N. J.
201-434-1690; 627-1424; 991-1613

May 9, 1978

Members of the New Jersey Legislature:

I speak in the name of citizens of New Jersey who are opposed to the enactment of the NEW JERSEY JUST AND REASONABLE RATE OF RETURN ON RESIDENTIAL PROPERTY ACT OF 1977. I am chairman of the Taxpeyers Political Action Committee, a statewide organization, and president of the West Side Ward Republican Club of Jersey City, whose members I represent.

There are many who believe that our country became the greatest nation in history because of certain fundamental institutions on which it was founded, namely, limited government, private property, the free market and the underlying moral imperatives. I believe this was best expressed by Thomas Jefferson, the founder of the Democratic Party, when he observed, "that government is best which governs least."

Nevertheless, while almost from the beginning the government began to grow in size and scope, the country did move forward to the point where it became a world power and offered to people from every part of the globe an opportunity to come and live in its freedom, prosperity and opportunities.

We can get some idea of the enormous growth of government when we reflect that around the time of the Civil War it required only five cents out of every dollar to support government at all three levels. We are told that today it takes 42 cents. Stated another way this means that in the middle of the 19th century people worked 19 days for themselves and the 20th day to pay for the cost of government. Today we work 2 days out of every 5 for government. And President Gerald Ford said in his "State of the Union" message in 1975 that if the present trend continues, it will require 50 cents out of each dollar to pay for government.

Now if the quality of life in our day were good, or even satisfactory, we might justify the tax contribution we are making by saying that worthwhile things cost money. Unfortunately however, the exact opposite is the case, and there is little reason to anticipate any improvement in the near future.

In our own state, while our population has increased a little more than 60 per cent in the 32 years since World War II, annual state spending has gone up over 4,500 per cent—more than 70 times as much. Apparently the growth of government does not necessarily usher in "the good life."

Now along comes A504 which proposes to lead to more regulations, agencies and governmental supervision and thereby interfere further with one of the fundamental institutions referred to above, namely, the free market. Worse than that, however, is the fact that experience shows rent control legislation to be counter-productive. In the long run it actually hurts the tenants, the very people it purports to help. When the owners of property cannot make a profit on their investment, they abandon it.

New York City, Jersey City and Newark are a few examples of what happens next. The properties are then vandalized, the community soon takes on the appearance of a bombed-out war-torn city, the tax base is eroded and a heavier tax burden is placed on the home owners, the rent payers and the businesses which remain. No wonder everyone who can moves out of such stricken municipalities.

To the advocates of rent control I pose one question: How is it that on its way to greatness, this country for 175 years did not have rent control? The answer is that obviously such legislation was not a necessary ingredient of our progress.

Members of the committee, I urge you to advise the Senate and the General Assembly to vote against A504.

My name is Carl Siegel, CPA and I am a Manager in the certified public accounting firm of Sternlieb and Company located in Hackensack, New Jersey.

Our firm has examined the financial records and the operations of a number of the Fort Lee apartment properties.

We presented our findings to Hon. Harvey Smith in the hearings on the Fort Lee ordinance which he conducted under the direction of the Supreme Court. We now hand our findings to you.

We have now analyzed these findings for a highrise building to determine how this property would fare under the so-called hardship standards of A-504. The results of the analysis are set forth in the worksheet we now present to the committee.

Therefore, if A-504 had become law several years ago, the properties we studied would have generally produced cash flow deficits in at least two years; that is, the actual cash expenditures exceeded rental income. Yet, not withstanding that fact, these same properties would not even have qualified for "hardship" relief under A-504.

Also, in reviewing the other buildings in Fort Lee, there are several that have received hardship increases from the Borough, or have had rent control pre-empted by HUD. These same buildings also would not qualify for hardship relief under A-504.

FILE 17-1

THREE AREAS THAT MUST BE INCLUDED IN ANY PROPOSED RENTAL CONTROL BILL:

A. VACANCY DECONTROL:

Any dwelling unit as described by this statute which shall become vacant shall be decontrolled from the requirements of this statute and local ordinance, and thereafter shall not be subject to the requirements of the statute or ordinance until re-rental at which time said dwelling unit shall fall once again under the requirements of this statute or local ordinance.

B. COST OF LIVING INCREASE:

A cost of living rent increase as follows:

At the expiration of a lease or termination of lease of periodic tenant, no landlord may request or receive a percentage increase in rent which is greater than the percentage increase in the Consumer Price Index for the past calendar year prior to the termination of the lease.

For the periodic tenant, whose lease shall be less than one year, said tenant shall not suffer or be caused to pay increase in any fiscal year, which exceeds the percentage increase of the Consumer Price Index for the past calendar year prior to the termination of the existing lease.

Where a tenant provides their own heat, no landlord may request or receive a percentage increase in rent which is greater than three quarters (3/4) of the percentage of the Consumer Price Index for the past calendar year, prior to the termination of the lease.

No more than one increase shall be permitted within any twelve month period.

C. HARDSHIP INCREASE:

A just and reasonable return:

- a.) Market value to be established (taking into consideration market rental).
- b.) An 11% net return on net cash flow prior to debt service after all reasonable operational expenses are documented and deducted following H.U.D. criteria for the various types of structures.

LEGAL NOTICE

VILLAGE OF RIDGEFIELD PARK NOTICE

NOTICE is hereby given that the above Ordinance was introduced and passed on first reading at a meeting of the Board of Commissioners of the Village of Ridgefield Park, held on January 24, 1978, and that at a meeting of the said Board of Commissioners to be held at the Municipal Building, 234 Main Street, Ridgefield Park, New Jersey, on February 14, 1978, at (prevaling law) or as soon thereafter as the matter may be considered for final passage, at which time and place all persons who may be interested therein will be given an opportunity to be heard concerning the same.

A copy of this Ordinance has been posted on the Bulletin Board upon which public notices are to be posted in the Municipal Building of the Village of Ridgefield Park, and a copy is available up to and including the time of such meeting to the members of the general public of the Village of Ridgefield Park who shall request such copies at the office of the Village Clerk in said Municipal Building in the Village of Ridgefield Park, New Jersey.

DATED: January 24, 1978

Harold Jones, Village Clerk
AN ORDINANCE TO AMEND AND SUPPLEMENT CERTAIN ORDINANCES WITHIN THE VILLAGE OF RIDGEFIELD PARK, INCLUDING "AN ORDINANCE TO STABILIZE AND REGULATE RENTS WITHIN THE VILLAGE OF RIDGEFIELD PARK AND TO ESTABLISH A RENT STABILIZATION BOARD;" DATED MAY 13, 1975, and "AN ORDINANCE TO AMEND AN ORDINANCE TO STABILIZE AND REGULATE RENTS WITHIN THE VILLAGE OF RIDGEFIELD PARK AND TO ESTABLISH A RENT STABILIZATION BOARD" adopted on December 20, 1975.

BE IT ORDAINED by the Board of Commissioners of the Village of Ridgefield Park as follows:

SECTION 1: That Section 1, DEFINITIONS, be amended and supplemented to read as follows:

(1) "Vacancy Decontrol" means any dwelling unit, as defined by this Ordinance, which shall become vacant, shall be decontrolled from the requirements of this Ordinance and thereafter shall not be subject to the requirements of this Ordinance relating to the establishment of cost of living rent increases between the landlord and tenant, as set forth in the Ordinance, provided there is no evidence of harassment or undue pressure by the landlord, or a group of tenants, in the case where an apartment becomes vacant the landlord shall forward in duplicate on a proper form prescribed by the Rent Stabilization Board the amount of the rent charged the new tenant, the duplicate copy of which shall be given by the Rent Stabilization Board to the Tax Assessor.

~~Any landlord who fails to furnish the information to the Rent~~

Stabilization Board of the amount of rent charged to a new tenant upon vacancy decontrol occurring within thirty (30) days of the tenant occupying the dwelling unit, shall be prohibited from making use of the provisions of Vacancy Decontrol for that particular dwelling.

SECTION 2: That the existing Section 2, COST OF LIVING RENT INCREASE, is hereby amended to read as follows:

Establishment of rents for each a landlord and tenant in housing space and dwellings, to which this act is applicable shall hereafter be determined by the provisions of this Ordinance. At the expiration of a lease, or at the termination of a lease of a periodic tenant, no landlord may request or receive a percentage increase in rent which is greater than the percentage increase in the Consumer Price Index for the past calendar year prior to the termination of the lease. For a periodic tenant whose lease shall be less than one (1) year, said tenant shall not suffer or be caused to pay any rent increase in any fiscal year which exceeds the percentage increase in the Consumer Price Index for the past calendar year prior to the termination of the existing lease. Where a tenant, however, provides his own heat, no landlord may request or receive a percentage increase in rent which is greater than three quarters (¾) of the percentage increase in the Consumer Price Index for the past calendar year prior to the termination of the lease. (The full percentage increase or three-quarters (¾) of the percentage increase in the Consumer Price Index for the past calendar year shall be the same as the full percentage difference or three quarters (¾) of the percentage difference in the Consumer Price Index for the prior calendar year). Nothing contained herein shall prohibit a written lease for longer than a one (1) year period, which lease may provide for the annual increment permitted by this Ordinance.

No more than one rent increase shall be permitted within any twelve (12) month period. Should a landlord elect not to raise his rent after a twelve (12) month period from his last raise, he may do so in any month for the balance of the next twelve (12) months. The purpose of this paragraph is to permit the landlord to elect not to raise his rents for eleven (11) months or less, and still maintain his legal base rent position. If a landlord is to preserve his right to the maximum rent allowed for any calendar year or fiscal year, he must raise the rent to that maximum during that year, and in so doing, the landlord would be entitled to future increases in the same calendar month in each subsequent year.

Any proceeding to review any rental increase must be commenced within one (1) year of the next effective date thereof by the tenant. For purposes of the computation of what the allowed rent should be for this ordinance, the Rent Stabilization Board shall only be required to take into consideration the lease for the rental unit or the rent charged to the prior tenant which occupied the dwelling unit.

(a) Any dwelling unit, as defined by this ordinance, which shall become vacant as defined in the

section on definition for Vacancy Decontrol, shall not be subject to the ordinance for purposes of rent stabilization.

SECTION 3: That Section 4, INCREASE IN RENTALS AND NOTIFICATION TO TENANTS, be amended and supplemented to read as follows:

Any landlord seeking a cost of living increase shall notify the tenant by means required by applicable statutes or ordinances, or rules of the Rent Stabilization Board, or the calculations involved in computing the increase in accordance with the allowable percentage increase as permitted by the ordinance, which notice shall be given in the case of a tenant who has a lease for a period of one year or more, at least 60 days before the expiration of the lease of increase and for a tenant who has a tenancy for less than a period of one (1) year, at least 45 days before the expiration of the tenancy of the increase that he is seeking, which in any event shall not be greater than that allowed by this ordinance. A copy of the notification of all rent increases to the tenants shall be sent and made a part of the records of the Rent Stabilization Board. Any violation of this section will prohibit any landlord from making use of the provisions of Vacancy Decontrol for the dwelling involved.

SECTION 4: That subsection (1) of Section 11, RENT STABILIZATION BOARD is hereby amended to read as follows:

(1) The following fees are established payable to the Treasurer of Ridgefield Park by the party or parties seeking relief or rulings:

1. Request (written) for ruling without hearing: \$5.00
2. Request (written) for ruling with oral hearing before the Board: \$10.00.

3. In the event a tenant requests an oral hearing after the initial request for a ruling without hearing, there shall be an additional charge of \$10.00.

4. Tenants who are Senior Citizens (meaning persons over the age of 62 years) shall be charged: \$3.00

5. Application for increase in permitted rental per dwelling unit: \$15.00

In the event that a multiple dwelling has in excess of ten units, the fee for additional units over ten shall be, per unit \$10.00.

6. Application for increase under the hardship surcharge per dwelling unit: \$15.00.

In the event that a multiple dwelling has in excess of ten units, the fee for additional units over ten shall be, per unit if the ruling is negative, the Rent Stabilization Board may charge for reasonable costs of investigation: \$10.00.

7. Application for an increase under the capital improvement and service surcharge by a landlord shall be \$10.00 up to the first \$2,000.00 and one half of one percent (½) addition for expenditures in excess of \$2,000.00. Filing fees paid by landlords for rental surcharge for capital improvements are to be added to the cost of the capital improvement and may be amortized over the life of the improvements.

SECTION 5: That Section 15, REGISTRATION is hereby amended to add the following paragraph:

Every landlord of ten or more dwelling units, which are subject to this ordinance shall post in the lobby of each building, or a lobby or no lobby, in another appropriate conspicuous place, in and around the premises, the following notice, at least 12" x 12". There is a rent stabilization ordinance in the Village of Ridgefield Park.

FOR INFORMATION CONTACT:
RENT STABILIZATION BOARD
234 MAIN STREET
RIDGEFIELD PARK, N.J. 07075
(201) 641-9125

Upon this ordinance becoming effective, a copy of this ordinance shall be circulated to each landlord, who shall forward to the Rent Stabilization Board within sixty (60) days, a complete list of all tenants, their apartment number and the rent charged to each one of the tenants, as of March 1, 1978.

Any violation of this section will prohibit any landlord from making use of the provisions relating to Vacancy Decontrol for the dwelling.

SECTION 6: SEVERABILITY
It is hereby declared to be the intention of the Board of Commissioners that the sections, paragraphs, sentences, clauses and phrases of this ordinance which are severable and if any phrase, clause, sentence, paragraph or section of this ordinance hereby adopted shall be declared unconstitutional or otherwise invalid by the valid judgment or decree of a Court of competent jurisdiction, such unconstitutionality or invalidity shall not affect any of the remaining phrases, clauses, sentences, paragraphs and sections of this ordinance.

SECTION 7: AUTOMATIC REPEAL OF CONFLICTING ORDINANCES
Any and all ordinances or parts thereof in conflict or inconsistent with any of the terms and provisions of this Ordinance are hereby repealed to such extent as they are so in conflict or inconsistent, provided, however, that the repeal of this Ordinance shall not prevent or bar the continuance or institution of any proceedings for enforcement heretofore commenced in violation of any existing ordinances of the Village of Ridgefield Park.

SECTION 8: EFFECTIVE DATE
The Rent Stabilization Board shall have within its power the right and ability to enforce this Ordinance immediately upon passage and publication or as of the first day of the month following the passage and publication of this Ordinance.

Sun Bulletin, Feb. 2, 1978

Fee: \$78.20

(33)

AN ANALYSIS IN DECLINING RATES OF APPRECIATION
OF RENTAL PROPERTY IN MASSACHUSETTS

by

John P. Matthews

Associate Professor of
Business Administration at
The University of Wisconsin

May 1978

AN ANALYSIS IN DECLINING RATES OF APPRECIATION
OF RENTAL PROPERTY IN MASSACHUSETTS

Background

Various methods may be employed to measure rates of appreciation of real property. Some of these methods are inherently more intuitively attractive than others. For example, measuring assessed value differences of property will reflect differences in market value only to the extent that assessments are an accurate reflection of market value. One intuitively attractive way to measure appreciation rates is to search for properties which have sold twice over the time period of interest. If the property has remained unchanged during the time interval, then the increase (or decrease) in sales prices for the property can be assumed to reflect the rate of appreciation for that property over the time period between sales.

The analysis which follows points up two results, which are:

- 1) Rent control may cause rental property to cease appreciating at historic rates, and
- 2) raw statistics can be reported in such a manner as to distort the underlying pattern inherent in the data.

First of all, the analysis which follows is based upon data from the Massachusetts Department of Corporation and Taxation and is referenced in both the "Harbridge House Report" and the paper entitled "The Impact of Moderate Rent Control in the United States: A Review and Critique of Existing Literature" by J. Gilderbloom.

The data employed was referenced by both to support the thesis that rent control does not adversely affect rental property appreciation rates. As we shall see, a simple analysis of the data indicates that the data does not support their thesis, and if anything, tends to refute their claim.

Data

The entire data set from Table XXI of the Gilderbloom report is enclosed as Appendix A to this treatise. The data consists of 16 rental properties which sold twice. The first sale was before rent control, the second occurred after rent control. For example, the first property sold once in 1968 for \$56,000.00 and again in 1970 for \$72,000.00. The average rate of appreciation over this two-year period was 14.3% per annum. It is important to realize at the outset that while the average rate of appreciation was 14.3%, it is quite possible that it appreciated at, say, 20% the first year and 8.6% the second year (or any other set of numbers which sum to an average of 14.3%).

Viewing each of the 16 sales in this manner it is then reasonable to see if a rate of appreciation could be estimated for each year of the period which the data spans - from 1967 to 1974. That is the objective of the following section of this analysis.

Display of average rates of appreciation

In Table One, below, the entries reflect the average rates of appreciation associated with each of the 16 apartment complexes. For example, recall the first complex sold for the first time in 1968 and then again in 1970. Its average rate of appreciation

was 14.3% per annum. Note that the first row of Table One has two entries of 14.3%, one each in the 1969 and 1970 columns. Thus, as far as this property is concerned, the average rate of appreciation for those years, and only those years, is 14.3%. Similar entries have been made in Table One for the other 15 properties.

Table One							
Average Rates of Appreciation of 16 Sets of Sales (1968-70)							
Sale	1968	1969	1970	1971	1972	1973	1974
1		14.3%	14.3%				
2	17.6	17.6	17.6				
3		-3.6	-3.6	-3.6			
4	6.9	6.9	6.9	6.9			
5	5.1	5.1	5.1				
6		5.8	5.8	5.8	5.8	5.8	
7		1.0	1.0				
8		5.0	5.0	5.0	5.0	5.0	
9		-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
10	2.5	2.5	2.5	2.5	2.5		
11	37.1	37.1	37.1				
12		31.1	31.1				
13		10.2	10.2	10.2	10.2		
14	0.2	0.2	0.2	0.2	0.2	0.2	0.2
15	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2
16	10.5	10.5	10.5	10.5	10.5	10.5	
col.							
aver.	9.7%	8.4%	8.4%	3.5%	3.5%	3.6%	-1.8%

Note that no sale spans the entire seven year period of interest with the exceptions of the 14th and 15th sales. Therefore to measure the average rate of appreciation for a given year one must

consider only those properties whose sales spanned that year. For example, only 8 of the 16 sales took place before 1968 and therefore only those 8 sales can reflect the underlying rate of appreciation for that year. Those properties whose sales took place after 1968 will reflect rates of appreciation that exist after 1968.

When one evaluates the data a pattern is evident such that there appears to be a strong relationship between the average rate of appreciation of the property and the occurrence in time of the second sale. In general, the later in time the second sale occurs the lower is the average rate of appreciation for the property.

Estimation of appreciation rates

A simple, but yet meaningful device for estimation of appreciation rates is to average the column entries in Table One. The entries in the final row of Table One display the average entry in the column immediately above it. For example, in the column headed 1968 the average of the 8 entries is 9.7%. Thus, an estimate of the rate of appreciation for 1968, based on the properties whose sales span that year is 9.7%. Continuing, all 16 sales span the year 1969 and their average appreciation rate is 8.4%.

Note that the average rate of appreciation drops from a rather stable 8 to 9% for years 1968 to 1970 and drops to a rather stable 3 to 4% for years 1971 to 1973. Note also that the average rate of appreciation drops below zero in 1974 to a negative 1.8%.

At this point I would like to ask the reader to review the simple, straightforward and, I think, intuitive nature of the analysis that was suggested above. First, an average rate of

appreciation was calculated for each property based upon the difference between the first and second sales price. Next, the rate of appreciation is associated with only those years that are spanned by the first and second sales of that property. Finally, an average rate of appreciation for each year was calculated by average the rates of appreciation for those properties whose sales dates spanned the year of interest.

Results

As indicated above, rates of appreciation abruptly fell from an average range of 8 to 9% per annum to a level between 3 and 4% per annum and finally turned negative for the last year for which data is available. One may ask why rates of appreciation "held up", so to speak, for 1970, a post rent control year. In response to that query I would offer the following explanations:

- 1) prospective investors were not aware of the full impact of rent control on the viability of property ownership as an investment. Similarly, sellers were not yet aware in 1970 of how difficult property management was going to be under rent control and did not lower their expectations and prices until they had gained some experience with life under rent control, or,
- 2) most of the appreciation which by our analysis was associated with the year 1970 really represents higher rates of appreciation which existed in the years previous to 1970. In other words, it is not at all improbable that the real

rates of appreciation for 1968 and 1969 were well above the 9% level and the rate for 1970 was well below the 8% level. Be that as it may, it is rather obvious that the rate of appreciation of properties represented by the data provided dropped from their historic levels to a rate less than 50% of what they had been.

A comment on the Gilderbloom analysis of the data.

At this point it may be instructive to see how the same data can be used to fabricate an alternative, misleading hypothesis. Consider the second to the last column of Appendix A, headed by the phrase "Annual Percentage Change In Sales Price". Gilderbloom calculates an average annual rate of appreciation by simply adding together the rates of appreciation of each of the 16 properties and dividing the result by 16 to obtain an average of 10.1%. Note that by doing so he has ignored the important fact that some properties have sales dates which span a period of time falling mostly before the start of rent control, others span a period of time mostly after the start of rent control. To calculate one single average (10.1%) and present it as being representative of the entire seven year period is naive at best, and conveniently deceptive at worst. To clarify this point if the reader is at all in doubt in regard to the point of the argument just presented, consider the following.

- 1) The highest rates of appreciation are associated with properties whose second sale occurred in 1970, early in the seven year time-span. This was, perhaps, a period of time in which the full impact of rent control was, for some, in doubt.

- 2) Since sales spanning a longer time period and stretching well into the post-rent control period are associated with the lowest (and negative) rates of appreciation it is clear that there is some systematic impact of rent control on rental unit appreciation.

Since the time spanned by the sales of each unit is ignored in the Gilderbloom study, one obtains an irrelevant statistic which does not reflect the underlying rate of appreciation during the period nor anything else of worth or interest.

Conclusion

It has been shown that average appreciation rates for the 16 properties referenced in the Gilderbloom report indicate a drastic difference between pre- and post-rent control periods. The data employed was documented by a disinterested third party and therefore one may assume that it was not selected to support one hypothesis or another. In passing, it was noted that the same set of data was manipulated by another author in such a manner as to mask the underlying rate of appreciation that is so apparent when evaluated objectively. Gilderbloom's statement in reference to the data are,

"Analysis of the data shows an average increase in the sale prices of 10.1%, and an average increase in assessment of 13.1% between the two periods (pre-and post-rent control) under study".

The author hopes that the reader now has a more informed opinion of the true structure of the rates of appreciation suggested by the data.

TABLE XXI

APPRECIATION IN RENTAL APARTMENT COMPLEX SALES IN MASSACHUSETTS

First Sale			Second Sale			Annual Percentage Change In:	
Year	Price	Assessment	Year	Price	Assessment	Sale Price	Assessment
1968	\$ 56,000	\$22,000	1970	\$ 72,000	\$20,000	+14.3%	- 4.5
1967	23,000	8,500	1970	35,200	9,500	+17.6%	+ 2.0
1968	46,000*	N/A	1971	41,000*	N/A	- 3.6	N/A
1967	51,000	17,000	1971	65,000	23,000	+ 6.9	+ 0.8
1967	136,000	40,000	1970	157,000*	52,000	+ 5.1	+ 5.0
1968	123,000*	34,000	1973	165,345*	35,100	+ 5.8	+ 1.0
1968	26,000	7,500	1970	26,500*	9,500	+ 1.0	+13.3
1968	40,000	N/A	1973	50,000	N/A	+ 5.0	N/A
1968	130,000	50,700	1974	125,440*	74,700	- 0.5	+ 4.5
1967	40,000	9,000	1972	45,000*	16,000	+ 2.5	+15.5
1967	22,000*	8,100	1970	46,500	21,000	+37.1	+53.0
1968	66,000*	9,500	1970	107,000*	19,000	+31.1	+20.0
1968	55,000	10,500	1972	77,500	15,000	+10.2	+10.7
1967	130,000*	40,800	1974	132,000	40,800	+ 0.2	0.0
1967	40,000	13,000	1974	38,000	17,500	- 2.2	+ 4.9
1967	21,500	7,200	1973	40,000	9,000	+10.5	+ 4.2
Total	1,018,500	287,400		1,223,485	362,100	+10.1	+13.0

*Assuming that buyer takes over seller's mortgage.

N/A=not available.

Source: Massachusetts Department of Corporations and Taxation

From: Harbridge House Report

THE IMPACT OF MODERATE RENT CONTROL
IN THE UNITED STATES:
A REVIEW AND CRITIQUE OF EXISTING LITERATURE

March 1978

John Gilderbloom
Graduate Intern

Edited by David Morrison

Department of Housing and Community Development

Arnold C. Sternberg
Director

NOTE:

The information and conclusions expressed in this paper are the work of the author and do not necessarily represent official findings or policy of the State of California or the Department of Housing and Community Development.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

921 Tenth Street, Sacramento, CA 95814
(916) 445-4775



March 28, 1978

To All Interested Persons:

Since July 1976, this Department has employed on a part-time basis as a graduate student assistant, John Gilderbloom of the University of California at Santa Barbara, to research the subject of rent control. Mr. Gilderbloom's first report appeared in September 1976 and was supplemented a year later in September 1977. Since those reports appeared, questions have been raised about the methodology employed and the conclusions reached in Mr. Gilderbloom's work.

No less than seven studies have appeared since the Department published Mr. Gilderbloom's original reports. As a result, we asked Mr. Gilderbloom to undertake a review of those studies with an eye toward re-evaluating his original premises and conclusions. The results of that work conducted over the past year are contained in this study on the impact of moderate rent control in the United States.

It is the judgment of the Director of this Department, who was responsible for Mr. Gilderbloom's employment, that his work is the most important work in the field of rent control to appear in recent years. As the only researcher in this area to apply statistical techniques in the form of regression analysis of the economic impact of rent control, his work provides a new and insightful look at the operation of moderate rent control.

In the conduct of his research, this Department asked for a comprehensive review of available research in the area and left it to Mr. Gilderbloom to determine the exact nature of his work and the manner in which he conducted his research. It is our opinion that the report he has produced represents the highest level of scholarly and objective research on this topic. Moreover, Mr. Gilderbloom's research was subject to rigorous scrutiny and review by a number of respected members of California's academic community who supervise Mr. Gilderbloom's graduate work.

We are, therefore, pleased to be able to add to the literature in this most controversial field what we perceive to be a thorough and scholarly contribution.

Sincerely,

A handwritten signature in dark ink, appearing to read "Arnold C. Sternberg".
Arnold C. Sternberg
Director

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SECTION I

INTRODUCTION

This report is a revision and update of a draft report issued by the Department of Housing and Community Development on September 7, 1976, entitled, "Report to Donald E. Burns, Secretary, Business and Transportation Agency on the Validity of the Legislative Findings of A.B. 3788 and the Economic Impact of Rent Control." After completion of that report, a number of new studies appeared (Institute of Real Estate Management, 1976; Gruen and Gruen, 1977; Brenner and Franklin, 1977; California Housing Council, 1977; Coalition for Housing, 1977; Lett, 1976) challenging the conclusions of the September 7, 1976, study. This updated report analyzes these studies and incorporates them into the original report. The result of that analysis does not change the conclusions reported in the original September 7, 1976, report.

The major findings of this updated report are that no evidence of statistical significance can be found to support the contention that short-term moderate rent control (see page 2) has led to a reduction in conventionally-financed multi-family residential construction, a decline in maintenance, an erosion of the tax base, relative to non-controlled cities, or an increase in abandonments or demolitions. Those studies analyzed since the appearance of the 1976 report are characterized by data rendered suspect because of non-representative sampling and use of highly selective statistics.

This report examines fifteen reports, both pro and con, on the subject of moderate rent control. It examines existing but previously unanalyzed data. It offers new data from the records of building code inspectors, tax assessors, and planning commissioners. It incorporates interviews with rent control administrators, rent control analysts, government housing officials, and many others. In addition, multiple regression analysis techniques are used in analyzing data.^{1/} Each section of this report begins with a critique and analysis of conventional rent control literature and then proceeds to examine data using multiple regression analysis.

This report, however, should still be viewed with caution; while all available data suggests that short-term modern controls have no measurable negative impact, this should not be taken to mean that no such relationship might exist in the future. The conclusions herein are limited only to the short-term impact of rent control.

Rent Control in America

Rent control programs in the United States can be classified into two broad subgroups: restrictive and moderate.^{2/} World War I and II and New York City rent control programs fall into the restrictive category, while the programs of New Jersey, Massachusetts, Washington, D.C., and Miami, Florida are generally classified as moderate (Achtenberg, 1976: 10).

Restrictive Rent Controls

Restrictive rent controls seem to have led eventually to serious problems such as little or no new construction, declining maintenance, declining sales and, arguably, declining rates of return on investment. (Friedman and Stigler, 1949; Hayek, 1930; de Jouvenel, 1949; Paish, 1940; Rydenfelt, 1972; Samuelson, 1947; Willis, 1940; Seldon, 1972; Pennance, 1972; Keating, 1976). World War I and II rent controls put a virtual freeze on rents (Blumberg, et al., 1974). New York City's own rent control program, from 1949 to 1970, followed the federal government's termination of controls. Prior to reforms in 1969 and 1970, according to Emily Achtenberg (1976: 10), New York's rent control program "may have accelerated the process of private disinvestment by making it difficult for many owners to earn a reasonable return on investment." Lowry and Teitz argue that New York's program had prevented landlords from increasing rents sufficiently to meet costs (Teitz, 1970; Lowry, 1970; Kristoff, 1977). Lowry (1970: 12) argues, "by preventing rents from rising in step with the costs of supplying rental housing, it (New York's rent control program) has left owners with few alternatives to undermaintenance and reduction of building services."

Moderate Rent Control

Moderate rent controls, commonly referred to as second generation controls, must be distinguished from restrictive rent controls (Blumberg, et al., 1974). The aim of moderate rent controls is to avoid the problems traditionally associated with restrictive rent controls such as declines in rate of construction, levels of maintenance, etc. It is the type of rent control which courts around the country have ruled must be enacted in order to guarantee due process and fairness to property owners. These controls are designed more to prevent rent gouging than to give general rent relief.^{3/}

Rather than holding rent levels relatively constant, moderate rent controls attempt to regulate the increase on a year-to-year basis. Such controls provide owners with annual rent increases to compensate for increases in operating costs and taxes as well as providing incentives for capital improvements (Blumberg, 1974: 242; Lett, 1976: 91; Bloomfield, 1973). If the allowable rent increase fails to allow for a "reasonable return on investment" or provide for major capital improvements or services, the landlord may apply for a "hardship increase" in rents. In Washington, D.C., a minimal rate of return is defined by law. (Lett, 1976: 109). On the other hand, should maintenance or services decline or code violations exist in the building, the rent control board can either reduce the amount of rent collected or prohibit future rent increases until the problems are corrected. In addition, all new construction and other substantially rehabilitated housing are excluded from regulation, with the exclusion ranging from initial exclusion to an indefinite exemption (Bloomfield, 1973; Blumberg, 1974: 242; Lett, 1976: 91).

SECTION II

THE EFFECT OF RENT CONTROL ON NEW RESIDENTIAL CONSTRUCTION

A number of studies have argued that moderate rent control leads to a decline in conventional multi-family construction (Gruen and Gruen, 1977; Brenner and Franklin, 1977; Urban Land Institute, 1976; California Housing Council, 1977; Phillips, 1974; Coalition for Housing, 1977; Lett, 1976; Sternlieb, 1974, 1975). These studies have relied almost exclusively on the empirical evidence in the Sternlieb (1974, 1975) and the Urban Land Institute (1976) reports to support their claims. However, certain deficiencies in Sternlieb's and Urban Land Institute's data gathering and analysis put into question the validity of other studies which have used their work.

In Sternlieb's (1974, 1975) Boston and Fort Lee studies, he conducted a survey of banks to determine if rent controls effect bankers' lending practices for both construction and long term financing. Sternlieb (1974: 90-102; 1975: VIII) reports that 74% of the bankers interviewed in Boston and 68% of those interviewed in Fort Lee indicated rent control "influenced" loan activity. According to Sternlieb:

The majority of mortgagors in the sample presently lending on multifamily structures regard rent control as an influential factor in their lending decisions. Many believe that rent restrictions coupled with continually rising costs of construction and operation produce a high level of mortgage risk. Indeed, so prohibitive to investor return is the combination of spiralling costs and controlled income that a number of commercial bankers are shying away from rent controlled areas (Sternlieb, 1975: VIII-12).

There are, however, a number of methodological problems with Sternlieb's approach. First, the sample is too small. Only 22 lending institutions in his Fort Lee study and 15 of his Boston study, which were lending for multi-family structures, responded to Sternlieb's questionnaire, therefore making statistical inference problematic (Sternlieb, 1974: 94; 1975: VIII-5). Second, the reliability of the questionnaire is debatable. The questions are ambiguous in that asking merely whether rent control "influences" lending practices may mean different things to different lenders (Sternlieb, 1974: 97; 1975: VIII-4). Indeed, perhaps some bankers are flatly refusing to lend in controlled areas; others still may be lending, but only in certain areas for certain types of buildings to particular developers, or on different terms (higher interest rates, shorter loan terms); or for other loans, consideration may not necessarily depend on the existence of rent control, but rather on the kind of rent control program or on the rent leveling board membership. Or, perhaps some lenders are refusing loans for capital improvements, but permit mortgages for new construction. Sternlieb never makes these distinctions.

Another approach to determine whether lenders were giving preference to non-controlled areas might have been to examine permits issued for new multi-family construction.^{4/} This approach might also test the validity of the bankers' statements.

The Urban Land Institute attempted this in their study of Washington, D.C., but their analysis lacked the proper controls to give it any meaning. They reported that, after enactment of controls, multi-family residential construction dropped 92.4%. In 1970, 10,667 units were built and in 1974, only 814 units were built (Urban Land Institute, 1976: 20). The Urban Land Institute, however, failed to control for other important independent variables which would influence construction (e.g., availability of land, socio-economic factors). Also, the Urban Land Institute did not match construction activity in Washington, D.C., with other non-controlled cities during the same period. For example, can the Urban Land Institute explain the significant 90%-100% drop in construction from 1970 to 1974 in such non-controlled cities in New Jersey as Trenton, Camden, Vineland, and in California cities such as Anaheim, Torrance, Emeryville, San Bruno, San Mateo, Palo Alto, etc., during the same period,⁵ or the doubling of construction in rent controlled cities of Jersey City, Bayonne City, Edison Township, Dumont Borough, Linden City, and Springfield during the same period?⁶

Gruen and Gruen's (1977: 38-39) assertion that there was a decline in permits for apartment construction in rent controlled communities relative to non-controlled areas is unsupported by their data. Table I indicates that in the seven New Jersey counties with 25% or more of their municipalities under rent control, no discernable pattern emerges as to whether builders are choosing to build more in non-controlled cities as opposed to controlled municipalities. Overall the totals for the seven counties indicate that no statistically significant shift (-0.5%) occurred: three counties showed declines in percentage of apartment construction in rent controlled cities, three counties showed increases in percentage of apartment construction in rent controlled cities, and one county indicated no significant difference (-0.7%). Beyond this data, Gruen and Gruen's other statistics fail to isolate sufficiently the relative impact of rent control compared to other relevant factors. Simply classifying counties as either "rent controlled" (25% or more municipalities have ordinances) or "non-rent controlled" (one "non-rent controlled county" (Mercer) has 23% of its municipalities under rent control), and making comparisons between the two categories, might reflect many factors other than the existence of rent control. Again, these statistics reveal no strong relationship between construction and rent control.

As Table II demonstrates, the amount of apartment construction as a percent of state construction, before and after imposition of rent controls, has remained about the same in five "rent controlled" counties, while in two "rent controlled" counties (Essex and Middlesex), apartment construction has actually increased (Gruen and Gruen, 1977: 37). Overall, the total apartment construction in "rent controlled" counties as a percent of state construction increased slightly from average of 5.92% in 1972 to 9.0% in 1976. On the other hand, the percentage decline of apartments constructed between 1972 and 1976 as compared to total units built reveals that three out of seven "rent controlled" counties had increases in apartment construction above the statewide average, while four other counties fell below the statewide average.

TABLE I
 LOCATIONAL DISTRIBUTION OF RESIDENTIAL BUILDING PERMITS, BY TYPE
 (THESE PERMITS INCLUDED CONDOMINIUMS)

County		1972				1976				Change 1972-1976 % of Construction in Rent-controlled Communities	
		Number		Percent		Number		Percent		Total	Apt.
		Total	Apt.	Total	Apt.	Total	Apt.	Total	Apt.		
Bergen	rc	3268	2862	72.6	94.3	892	548	50.8	92.6	-21.8	-1.7
	nrc	1246	174	27.4	5.7	863	44	49.2	7.4		
Camden	rc	2159	900	46.0	36.6	706	158	30.0	23.0	-16.0	-16.6
	nrc	2538	1557	54.0	63.4	1644	529	70.0	77.0		
Passaic	rc	709	468	51.9	72.0	405	134	58.6	90.5	+ 6.7	+18.5
	nrc	658	182	48.1	28.0	286	14	41.4	9.5		
Union	rc	883	355	51.7	59.2	519	316	74.9	100.0	+23.2	+41.8
	nrc	824	245	48.3	40.8	174	-0-	25.1	-0-		
Essex	rc	2068	1566	89.9	99.6	1022	824	67.8	68.5	-22.1	-31.1
	nrc	233	7	10.1	0.4	486	379	32.2	31.5		
Hudson	rc	1973	1535	89.4	94.4	531	349	48.6	66.2	-40.8	-28.2
	nrc	235	91	10.6	5.6	561	178	51.4	33.8		
Middlesex	rc	3238	1991	68.8	75.2	2520	1503	86.3	97.4	+17.5	+22.2
	nrc	1468	658	31.2	24.8	412	40	13.7	2.6		
Total	rc	14298	9677	66.5	76.9	6665	3832	60.1	76.4	- 6.4	- 0.5
	nrc	7192	2914	33.5	23.1	4426	1184	39.9	23.6		

Source: New Jersey Department of Labor and Industry, Division of Planning and Research; U.S. Department of Commerce, Construction Reports.

From: Gruen & Gruen (1977)

TABLE II

Residential Construction in Selected Counties: Number
of Permits Issued -- Includes Condominiums and Insured

County	1972		1975		1976	
	Total	Apt. ¹	Total	Apt. ¹	Total	Apt.*
Bergen	4504	3036	1408	455	1755	592
Camden	4697	2457	1386	138	2350	687
Passaic	1367	650	579	246	691	148
Union	1707	600	448	133	693	316
Essex	2301	1573	1148	373	1303	1203
Hudson	2208	1626	990	671	1092	527
Middlesex	4706	2649	2147	968	3002	1543

Residential Construction in Selected Counties: Percent
of State Construction (Permits Issued) - Includes
Condominiums and Insured

County	1972		1975		1976		Change from 72-76 Percentage Change in Rent Control Countries
	Total	Apt.*	Total	Apt.*	Total	Apt.*	
Bergen*	6.9	10.0	6.1	3.2	5.8	3.0	-02.0%
Camden*	7.2	3.1	8.1	3.4	7.8	9.3	+01.2%
Passaic*	2.1	2.1	2.5	4.5	2.3	2.0	-00.1%
Union	2.6	2.0	1.9	2.4	2.3	4.3	+02.3%
Essex	3.5	5.2	4.9	15.9	5.0	16.2	+11.0%
Hudson*	3.4	5.4	4.3	12.1	3.6	7.1	+01.7%
Middlesex	7.2	3.7	9.2	17.5	9.9	20.8	+12.1%
Total		5.92		9.14		9.67	+ 3.75

¹ Apartment category includes structures with 5 or more dwelling units.

Sources: New Jersey Department of Labor and Industry, Division
of Planning and Research; U. S. Department of Commerce,
Construction Reports.

From: Gruen and Gruen (1977).

Construction in Massachusetts

A 1974 study of rent control in Massachusetts by Urban Planning Aid (1974) indicated that new construction in rent controlled areas exceeded that in non-rent controlled areas (See Table III). The report found that 54% more multi-family units were built between 1971 and 1973 than between 1968 and 1970 in rent controlled communities, while in non-rent controlled communities only 39% more multi-family units were built between 1971 and 1973 than between 1968 and 1970. The building of subsidized housing in rent control areas of Massachusetts increased 69% between 1971 and 1973 compared to 1968 to 1970, while construction of subsidized housing in non-rent controlled areas was below this rate, increasing only 47% between 1971 and 1973 compared to 1968 to 1970.

Construction in New Jersey Using Multiple Regression Techniques

An examination of multi-family residential construction in 63 New Jersey cities -- 26 rent controlled cities and 37 non-rent controlled cities -- found no empirical evidence that rent control causes a decline in construction.

Using descriptions of municipalities compiled by the Division of State and Regional Planning in New Jersey, sample cities were classified into three categories: urban center, urban-suburban, and suburban. Urban center cities are densely populated with extensive development. Urban-suburban cities are near urban centers but not as highly developed, with larger residential areas. Suburban cities are predominantly single-family residential units within a short distance of an urban area. Cities were then further classified into two categories: non-rent controlled cities and cities that enacted rent control between September, 1972, and April, 1973. Approximately 300 cities fell within these two categories. It was then decided to eliminate all municipalities with populations under 12,940 or with 14% or less of the housing stock in rental units (New Jersey Division of State Police: 1973; U.S. Department of Commerce 1970). This procedure resulted in the current sample of 26 rent controlled cities and 37 non-rent controlled cities.

Discussion of rates of construction, demolitions, and taxes refer to the percentage increase or decrease in permits issued between 1973 and 1975 (rent control period) in comparison to 1970 to 1972 (non-rent control period). Building permit data as an indicator of construction has been used in previous rent control research (California Housing Council, 1977; Coalition for Housing, 1977; Urban Land Institute, 1976; Selesnick, 1976). This figure excludes all single and two-family homes and publicly-owned housing units including all housing units owned by federal, state, and local governments, public housing authorities and military bases (New Jersey Department of Labor and Industry, 1975).

If the contention that rent control adversely affects new rental housing construction is sound, then a decline in non-public multiple-unit construction should be evident in controlled cities compared to non-controlled cities. Because of the cyclical nature of the construction industry, it is important to note any general declines in construction in both controlled and non-controlled cities. One good example of this is the 25% decline in single-family home construction for the entire state of New Jersey between

TABLE III

Dwelling Units Authorized by Building Permits Structures with Three or More Units (From Local Records)

City/Town	1968		1969		1970		1968-1970	
	S	US	S	US	S	US	S	US
Boston	1,201	1,156	715	371	394	26	2,310	1,553
Brookline	0	35	100	0	71	207	171	242
Cambridge	573	95	0	51	634	90	1,207	236
Somerville	0	44	0	101	110	58	110	203
Lynn	94	24	0	103	0	42	94	169
Total	1,868	1,354	815	626	1,209	423	4,892	2,403
							6,295	
City/Town	1971		1972		1973		1971-1973	
	S	US	S	US	S	US	S	US
Boston	985	81	1,583	1,014	732	139	3,300	1,234
Brookline	0	58	130	793	0	31	130	882
Cambridge	427	190	747	332	354	392	1,528	914
Somerville	0	173	0	144	80	86	80	404
Lynn	346	126	0	48	327	443	673	617
Total	1,758	628	2,460	2,331	1,493	1,091	5,711	4,050
							9,761	

S=Public Housing, FHA 221 (d) 3 and 236.

US=Unsubsidized, including FHA insured housing.

Source: Urban Planning Aid.

the periods 1970 to 1972 and 1973 to 1975. Overall, non-rent controlled cities showed a 65% decline in multi-family construction for the period 1973 to 1975 compared to 1970 to 1972. In rent controlled cities, construction decreased 19% (Table IV).

Looking at construction by city type, suburban and urban center cities show a general decrease in construction, regardless of rent control, and the decline in construction was even greater in non-rent controlled cities than in controlled cities. Table V shows that construction of multiple-family dwellings in urban center cities dropped 68% in non-controlled cities, while in controlled cities construction fell 35% during the same period. In addition, four controlled cities experienced increases in multiple-family construction, while only one non-controlled city had an increase in construction during the same period. A similar finding occurred in suburban cities. In non-controlled cities, multiple-family construction fell 63%, while in controlled cities, multiple-family construction declined 41%. Four of the controlled suburban cities had increases in construction during 1973 to 1975 period. (Table VI). In rent controlled urban-suburban cities, the third category, total multiple-family construction increased 64%, while construction in non-controlled urban-suburban cities declined 65%. Three rent controlled and three non-controlled cities had increases in construction during 1973 to 1975 (Table VII).

Critics, however, might argue that the above two studies fail to control for suppressor effects and confounding variables. One way of overcoming this problem is through regression analysis, an approach yet to be utilized in recent research examining moderate rent controls. Regression analysis attempts to determine the net effect of one particular variable while controlling for other variables. In this case the variable rent control -- controlling for median rent, percent Black, percent tenant, municipal population growth,⁷ city type and city size -- revealed no statistically significant effect on new multi-family residential construction^{8/} (Gilderbloom, 1978).

According to interviews, builders continue to build in most rent controlled cities for two reasons. First, it is difficult for the builder to leave a community with which he is already familiar. Understanding of future developments, knowledge of business trends, planned externalities (parks, schools, churches, etc.) and other builders' plans are essential to a builder's success. Such knowledge comes from a long and direct involvement in the community. Second, the nature of moderate rent control also contributes to a builder's decision to stay and build in the community. Naturally, the exemption of all new construction is an inducement to continue building. But, since new construction might eventually fall under rent controls, the guarantee of a "reasonable return on profit" is also crucial to a builder's decision to stay and build in rent controlled areas.^{9/}

TABLE IV

NEW JERSEY'S NON-PUBLIC, MULTI-UNIT
FAMILY RESIDENTIAL CONSTRUCTION
GRAND TOTALS & % CHANGE

<u>Rent Control Cities</u>	<u>1970-72</u>	<u>1973-75</u>	<u>% Change</u>
Urban Center	4,941	3,202	-35.2%
Urban-Suburban	1,137	1,362	+63.3
Suburban	647	382	-41.0
Grand Total	6,725	5,446	-19.0
 <u>Non-Rent Control Cities</u>			
Urban Center	5,136	1,664	-67.6%
Urban-Suburban	255	306	-64.6
Suburban	5,657	2,070	-63.4
Grand Total	11,658	4,040	-65.3

Source: State of New Jersey, Department of Labor and Industry,
Division of Planning and Research

TABLE V
URBAN CENTER
NON-PUBLIC, MULTI-UNIT FAMILY RESIDENTIAL
CONSTRUCTION TOTALS AND % CHANGE

Urban Centers	1970-72	1973-75	Number Change	% Change from Col. 1 to Col. 2
Rent Control				
East Orange City	312	373	- 39	- 5.9
Irvington	372	50	- 322	- 86.6
Orange City	560	113	- 447	- 79.8
Bayonne City	0	251	+ 251	---
Jersey City	334	394	+ 10	+ 1.1
New Brunswick	291	0	- 291	-100.0
North Brunswick	1,064	246	- 818	- 76.9
Paterson	411	670	+ 259	+ 63.0
Elizabeth City	465	451	- 14	- 3.0
Linden City	32	154	+ 72	+ 37.3
Total	4,941	3,202	-1,739	- 35.2
Non-Rent Control				
Garfield	12	0	- 12	-100.0
Camden	302	175	- 127	- 42.2
Bridgeton	0	360	+ 360	---
Millville	1,021	0	-1,021	-100.0
Vineland City	1,180	0	-1,180	-100.0
Trenton	744	246	- 498	- 66.9
Long Branch City	792	660	- 132	- 16.7
Plainfield City	233	153	- 80	- 34.3
Rahway City	352	70	- 282	- 80.1
Total	5,136	1,664	-3,472	- 67.6

Source: State of New Jersey, Department of Labor and Industry, Division of Planning and Research

TABLE VI

SUBURBAN
NON-PUBLIC, MULTI-UNIT FAMILY RESIDENTIAL
CONSTRUCTION TOTALS AND % CHANGE

<u>SUBURBAN</u>	<u>1970-72</u>	<u>1973-75</u>	<u>Number Change</u>	<u>% Change from Col. 1 to Col. 2</u>
Rent Control				
Cedar Grove Twp.	0	26	- 26	----
West Orange	0	106	+106	----
East Brunswick	131	0	-131	-100.0
Edison Twp.	34	209	+125	+148.3
Piscataway Twp.	140	0	-140	-100.0
Parsippany-Troy Hills Twp.	0	0	0	0.0
Wayne	242	0	-242	-100.0
Springfield	0	41	+ 41	----
Total	647	382	-265	- 41.0
Non-Rent Control				
Ramsey Boro.	9	8	- 1	- 11.1
Moorestown Twp.	6	50	+ 54	+900.0
Glassboro Boro.	373	36	-287	- 76.9
Eatontown Boro.	536	0	-536	-100.0
Madison Boro.	0	14	+ 14	----
Point Pleasanton	12	37	+ 25	+208.3
New Providence Boro.	0	0	0	0.0
Hamilton Twp.	1,500	740	-760	- 50.7
Lawrence	260	320	+ 60	+ 23.1
Maple Shade	1,436	444	-992	- 69.1
Millburn	0	46	+ 46	----
Deptford	530	213	-417	- 66.2
Cranford	241	33	-208	- 86.3
Westfield	20	0	- 20	-100.0
Neptune Twp.	204	0	-204	-100.0
Natawon Twp.	430	69	-361	-160
Total	5,657	2,070	-3,587	- 63.4

Source: State of New Jersey, Department of Labor and Industry, Division of Planning and Research

TABLE VII

URBAN SUBURBAN
NON-PUBLIC, MULTI-UNIT FAMILY RESIDENTIAL
CONSTRUCTION TOTALS AND % CHANGE

<u>Urban Suburban</u>	<u>1970-72</u>	<u>1973-75</u>	<u>Number Change</u>	<u>% Change from Col. 1 to Col. 2</u>
Rent Control				
Fair Lawn Boro.	0	0	0	0.0
Elmwood Park	0	0	0	0.0
Dumont Boro.	0	36	+ 36	----
Cliffside Park Boro.	821	1,390	+569	+ 69.3
Palisades Park Boro.	36	0	- 36	-100.0
Verona	0	336	+336	----
Highland Park Boro.	200	100	-100	- 50.0
Roselle Twp.	30	0	- 30	-100.0
Total	1,137	1,362	+725	+ 63.8
Non-Rent Control				
Collinswood Boro.	6	35	+ 29	+433.3
Haddonfield Boro.	0	135	+135	----
Montclair	7	93	+ 36	+122.9
Kearny Town	101	6	- 35	- 94.1
Carteret Boro.	36	0	- 36	-100.0
Hawthorne Boro.	306	9	-297	- 97.1
Phillipsburg Town	229	0	-229	-100.0
Roselle Park Boro.	122	28	- 94	- 77.0
Saddle Brook Twp.	58	0	- 58	-100.0
Hillside	0	0	0	0.0
Pennsauken Twp.	0	0	0	0.0
Total	865	306	-559	- 64.6

Source: State of New Jersey Department of Labor and Industry,
Division of Planning and Research

SECTION III

THE EFFECT OF RENT CONTROL ON HOUSING MAINTENANCE

A number of opponents of rent control have cited Sternlieb as proof that maintenance declines under moderate rent controls (Kain, 1975; Lett, 1976). Sternlieb reasons that if allowable rent increases lag behind rising costs, then maintenance and fuel expenditures will be reduced (Sternlieb, 1974: 3). In his Boston study, Sternlieb found that rents increased only 6.7%, while operating expenses increased 15.2% (Sternlieb, 1974: 28-46). Similarly, in his Fort Lee study, Sternlieb found that allowable rents rose only 5.5%, while expenses jumped 22% (Sternlieb, 1975: III-11).

But Sternlieb's estimation of percentage increase in rents and costs appear to be questionable in at least two ways (Achtenberg, 1975). First, Sternlieb excluded mortgage payments in computing percentage increase in total costs. Such costs are usually constant and account for one-third to one-half of a landlord's expenses. When these "mortgage" costs are included in computing total percentage increase in costs, the percentage drops sharply from its original figure (Achtenberg, 1975; Gilderbloom, 1978).

Secondly, Sternlieb relied on data supplied, for the most part by real estate organizations rather than audited income statements from rent boards. Such data might contain exaggerated operating costs and understated rent increases (Achtenberg, 1975; Katz, Biber and Lawrence, 1977; Pentifallo, 1977; Gilderbloom, 1978). For example, a recent Certified Public Accountant's report was unable to verify the operating expenses of one of the 11 apartments examined by Sternlieb in Fort Lee (Katz, Biber and Lawrence, 1977). Moreover, according to the Tax Assessor of Fort Lee, New Jersey, the reported total rents collected by landlords are significantly understated compared to the actual rent charged to tenants (Pentifallo, 1977: 9). Pentifallo found that landlords understated the amount of rent collected by an average of 38%. Had Sternlieb based his conclusions on audited income and operating statements available from New Jersey and Massachusetts rent boards, they might have been more reliable.

One way of examining whether or not rent increases are keeping pace with rising costs is to determine whether landlords are actually reducing the amount of money going into maintenance (Sternlieb, 1974: 3). An examination of Sternlieb's own data indicates that this is not the case. In his Boston study (Table VIII), Sternlieb's data show that slightly higher percentages of net rent received went into building maintenance and services between 1971 and 1973 in the rent controlled sample (14.8% in 1971 vs. 16.6% in 1973) than in the non-rent controlled sample (14.0% in 1971 vs. 15.0% in 1973). In addition, Sternlieb's study indicates almost a parallel increase in the amount going into maintenance in controlled buildings compared to non-controlled buildings--19.7% vs. 21.4%, respectively. In his Fort Lee study (Table IX), Sternlieb's data indicates that the amount of money going into maintenance increased by 21.4% during rent control. In addition, the percentage of the rent dollar going into maintenance increased from 22% in 1972 to 25% in 1974.

TABLE VIII

Average Annual Operating Results from Sternlieb's Sample
Greater Boston Area

Rent Control Sample		Non-Rent Control Sample
Building Maintenance & Services		

1971	\$23,052	53,863
1972	\$31,160	62,475
1973	\$33,584	71,439

Average Percent Change

1971-72	11.1%	6.1%
1972-73	7.7%	14.4%
1971-73	19.7%	21.4%

Increase in Maintenance Costs as a
Percentage of Net Rent Received

1971	14.8%	14.4%
1972	15.5%	13.7%
1973	16.6%	15.0%

From: The Realities of Rent Control in the Greater Boston
Area, by George Sternlieb

TABLE IX

FORT LEE, NEW JERSEY
AVERAGE ANNUAL OPERATING RESULTS
For 11 Apartments

1972 - 1974

Building Maintenance and Service

1972	254,193
1973	264,460
1974	308,024

Average Percent Change

1972-1973	+ 4.04
1973-1974	+16.47
1972-1974	+21.13

Operating Results as a Percentage
of Net Rent Received

1972	21.67
1973	21.95
1974	24.90

Source: Lett, Monica; Rent Control 1976, Center for Urban Policy Research, Rutgers University.

Maintenance And Capital Improvements In Massachusetts

Economist Joseph Eckert (1977) in his recently completed study found that maintenance had not declined in rent controlled buildings. He examined audited income and operating statements of rent controlled properties in Brookline between 1970 and 1975. Between 1970 and 1974, the average percentage of the rent dollar going into maintenance and repair increased from 4.2% in 1970 to 5.0% in 1974 (Table X). In the disaggregated form, maintenance in 5 to 12-unit buildings and 13 to 25-unit buildings declined slightly--3.8% vs. 3.0% and 4.1% vs. 3.6% respectively, and increased for 26 to 50-unit buildings and 50 units or more--2.9% vs. 5.0% and 4.8% vs. 6.0% respectively (Table XI).

In both the aggregate and disaggregate form, capital improvements increased. In the aggregate form (Table X), capital improvements increased 0.6% in 1970 to 2.2% in 1974. In the disaggregate form, capital improvements increased from 1.0% to 3.0% in 5 to 12-unit buildings, from 0% to 3.1% in 13 to 25-unit buildings, from 0% to 2.0% in 26 to 50-unit buildings, and 1.0% to 2.0% in 50 unit or more buildings (Table XI). Similarly, Achtenberg (1974: 7) found that permits for alterations, additions, and repairs increased in Cambridge by 40%, in Brookline by 24%, in Somerville by 22%, and in Lynn by 69% since the adoption of rent controls in these Massachusetts cities. In three of these cities, there has also been a rise in the estimated cost of work to be completed. According to Eckert (1977: 322-323),

All of the data sets taken together would lead us to conclude that landlords were spending about as much for repairs as a percentage of rent after six years of rent control as they were in the year immediately preceding rent control.

Why Moderate Rent Control Does Not Appear to Lead to Reduced Maintenance

On the basis of data from Massachusetts and New Jersey, it seems that moderate rent control has not caused a reduction in the amount of money going into maintenance, and in certain cases maintenance has increased. The reason for this--according to those rent control board members and analysts interviewed in New Jersey, Massachusetts, and Florida--is that the law allows for landlords to pass the full cost of repairs and improvements on to the tenant. According to Eckert (1977: 324),

One positive and successful Board policy for encouraging maintenance involves a provision for special limited hearings for landlords who wish to make major repairs, capital improvements or renovations (previously outlined in Chapter 1). These hearings result in the landlord's receiving a guarantee from the Rent Board as to the amount of additional rent he can charge once the capital improvements are made.

Moreover, almost all the ordinances in New Jersey and Massachusetts mandate that landlords must retain the same level of services and maintenance as that existing before the enactment of moderate controls. If, for some reason maintenance declines, the tenants can file a complaint with the rent control board. According to Eckert,

TABLE K

COST CATEGORIES AS A PERCENT OF GROSS INCOME: AGGREGATE FORMSSAMPLE A

<u>Category</u>	<u>Percent of Gross Income</u>		
	<u>1971</u>	<u>1972</u>	<u>1973</u>
Payroll	4.3	4.2	5.0
Supplies	-	0.6	0.2
Electricity	2.2	2.1	4.3
Water	0.3	1.0	0.7
Gas	-	-	-
Heating Fuel	4.1	7.1	11.5
Painting & Decorating	1.9	0.7	1.6
Maintenance & Repair	4.2	4.6	5.0
Services	-	-	-
Insurance	2.0	2.2	2.2
Real Estate Taxes	24.3	25.3	25.0
Other Taxes & Fees	-	-	0.3
Miscellaneous	0.3	0.4	0.2
Management	4.7	4.9	4.7
Capital Improvements	0.6	1.7	2.2
All items including taxes	49.7	55.3	62.9

Each percentage in Sample A is the average of percentages for buildings of 1-25 units and 26-and-above units. Total sample size: 195 buildings.

TABLE XI

COST CATEGORIES AS PERCENT OF GROSS INCOME: DISAGGREGATED FORM

Category	5-12 Unit Buildings			13-25 Unit Buildings			26-50 Unit Buildings			50+ Unit Buildings		
	1970	1973	1974	1970	1973	1974	1970	1973	1974	1970	1973	1974
Payroll	3.6	3.6	3.5	3.4	2.6	3.4	3.0	3.4	4.5	5.3	5.5	6.0
Supplies	-	-	-	-	-	-	-	1.0	1.0	-	1.0	-
Electricity	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.5	3.5	3.5	7.0
Water	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.5
Gas	-	-	-	-	-	-	-	-	-	-	-	-
Heating Fuel	8.4	13.0	15.6	6.4	8.4	12.7	5.1	7.8	15.5	2.2	4.0	9.0
Painting & Decorating	1.0	-	-	2.0	1.0	1.0	2.0	2.4	4.5	1.0	1.0	1.0
Maintenance & Repair	3.8	5.2	3.0	4.1	3.4	3.6	2.9	3.8	5.0	4.8	5.3	6.0
Services	-	-	-	-	-	-	-	-	-	-	-	-
Insurance	3.4	4.0	3.0	3.4	3.0	3.0	2.0	2.4	4.5	1.0	1.0	1.0
Real Estate Taxes	27.6	32.0	27.7	29.3	25.3	27.0	23.7	27.0	31.0	21.6	24.4	22.0
Other Taxes & Fees	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	1.0	-	-	-	1.0	-	1.0	1.0	1.0	-	-	-
Management	5.4	6.0	4.9	5.4	5.2	5.6	4.6	5.0	5.5	4.2	4.2	4.0
Capital Improvements	1.0	2.0	3.0	-	1.0	3.1	-	1.4	2.0	1.0	2.0	2.0
All Items Including Taxes	57.2	67.8	65.7	56.0	52.9	61.4	46.3	54.8	74.5	46.6	52.1	59.5
Apartments in Sample	340			480			394			932		

Source: Files of the Brookline Rent Control Board
 From: Eckert: 1977

Tenants proving negligence in maintenance can expect a rent reduction until the problem is corrected, and in some cases the Board might initiate a full building hearing if tenants' complaints seem particularly widespread in a particular building. It is probable that in this atmosphere landlords simply are not able to cut maintenance or capital improvements significantly without the Board taking action to stop this reduction of services.

According to Shirley Green, Rent Control Director of Newark, New Jersey, if a landlord wants to increase his or her rents in excess of maximum allowable increase, the property must be without code violations. According to Sylvia Aranow, the former Rent Control Chairperson for Fort Lee, before rent control was enacted, it was difficult to get a landlord to fix code violations.

Before rent controls, landlords could easily overlook bad conditions if there was a violation in existence just by ignoring it. Finally, the building inspector would get fed up with it and haul him into court and the judge would fine him \$15. Big deal, it didn't correct the violations. It was easier to pay that than to go out and pay \$1,000 to correct what really was the problem to begin with -- lack of maintenance.

Eckert (1977: 324) concludes by arguing that it is these positive and negative inducements that cause maintenance to remain stable.

Abandonment

A number of studies have argued that rent control leads to abandonment and demolitions (Sternlieb, 1974: 88; Phillips, 1974: 2; Apartment and Office Building Associations, 1977). However, no empirical evidence is offered to support the claimed correlation. In fact, if abandonment were occurring, the first sign would be declining maintenance (Nourse, 1975: 185-90); yet all available data suggests this is not the case. Even studies examining the restrictive controls of New York have been unable to prove a causal relationship between controls and abandonment. For example, a nationwide study of abandonment ranked New York fifth, behind four non-rent controlled cities (St. Louis, Cleveland, Chicago, and Hoboken) in rates of abandonment (National Urban League, 1971: 1-18). Furthermore, a recent study by the Women's City Club of New York concluded that no significant relationship exists between abandonment and rent control; instead, the report claims that abandonment results from redlining, vandalism, and failure of tenants to pay rents (Newsweek, 1977: 100). According to the Temporary State Commission on Housing and Rents in New York:

The abandonment process is a social and economic process which is both cumulative and self-generating, spreading through many low income and ghetto neighborhoods. Rent control, however, can have little effect for it is clear that it is the oldest, least desirable tenement housing which is abandoned -- housing which is unable to produce substantially more income in a free market (1974: 82).

Demolition And Rent Control

Phillips (1974: 2) and Frenette (1977) have argued that the demolition of existing housing stock increase as a result of rent control. Data collected on the number of units demolished in New Jersey between 1970 and 1975 indicates total demolitions of units decreased 8% in rent controlled cities and 9% in non-rent controlled cities (Table XII).

In rent controlled urban center cities, demolitions decreased 6%. Six out of ten cities show declines in the number of units demolished. In urban center non-rent controlled cities, demolitions increased 55% (Table XIII). Demolitions in controlled urban-suburban cities show a 30% decrease during the rent control period. Only three out of the eight controlled cities demonstrated increases in demolitions. In non-controlled urban-suburban cities, demolitions decreased 48% (Table XIV). In suburban cities, demolitions of residential units decreased 34% in rent controlled cities; in non-controlled cities demolitions decreased 34% (Table XV).

It is also important to note that the number of demolitions in suburban cities, both controlled and non-controlled, is relatively small. A regression analysis controlling for, multifamily construction, median rent, percent black, percent tenant, municipal population growth, city type and city size, found that the variable rent control had no net effect on demolitions of housing units^{10/} (Gilderbloom, 1978).

Given this data, the conclusion of three recent reports -- Coalition for Housing (1977: 28), Lett (1976), and Gruen and Gruen (1977 -- that maintenance in rent controlled housing has declined is questionable. Lett's (1976: 136) study, the most comprehensive of the three, contends on the basis of a reanalysis of Sternlieb's data that the "controlled group provided \$4 per unit less per month in maintenance". Lett's reanalysis is questionable in that she uses two different methods of breaking down expenses for controlled and non-controlled properties. In her analysis of the 20 non-controlled properties she looked at an average of all her units, but in her rent control sample she chose only one "typical" apartment on which to base her conclusion. Thus 69 out of the sampled 70 controlled properties are excluded from analysis. The remaining rent controlled property is far from typical in terms of maintenance expenditures. As Sternlieb's data already indicates the average increase in the amount of money going into maintenance was 19.7% for the seventy properties between 1971-1973; in Lett's "typical" rent controlled apartment the amount of money going into maintenance increased only 11.5%.

Coupled with this problem is the fact that her "typical" rent controlled apartment collected only \$176 a month in rent, while the average monthly rent of the non-controlled properties was \$232. Lett's comparisons should have been based on similar net rents, or by making a comparison of the percentage of the rent dollar going into maintenance. Using the latter method, Lett would have found that 16.5% of the rent dollar went into maintenance in the controlled property, while only 14.2% of the rent dollar went into maintenance in the non-controlled properties.

Given these findings, the Coalition for Housing (1977: 28) claim (based on Lett's work) that rent control has resulted in the "rapid deterioration of existing housing stock and poorer living conditions for tenants" is without foundation. Lastly, the argument by Gruen and Gruen (1977: 80) that "many

TABLE XII

NEW JERSEY'S DEMOLITIONS:
GRAND TOTALS AND % CHANGE

<u>Rent Control Cities</u>	<u>1970-72</u>	<u>1973-75</u>	<u>% Change</u>
Urban Center	3,432	3,242	- 5.5%
Urban-Suburban	96	67	-30.2
Suburban	230	187	-33.6
Grand Total	3,308	3,495	- 3.2
 <u>Non-Rent Control Cities</u>			
Urban Center	1,093	1,691	+54.7%
Urban-Suburban	363	190	-48.4
Suburban	347	223	-34.3
Grand Total	1,808	1,653	- 3.6

Source: State of New Jersey Department of Labor and Industry,
 Division of Planning and Research

TABLE XIII

DEMOLITIONS IN URBAN CENTER CITIES
TOTALS AND % CHANGE

<u>Urban Centers</u>	<u>1970-72</u>	<u>1973-75</u>	<u>Number Change</u>	<u>% Change from Col. 1 to Col. 2</u>
Rent Control				
East Orange City	191	54	-137	- 71.1
Irvington	51	69	+ 13	+ 35.3
Orange City	46	60	+ 14	+ 30.4
Bayonne City	88	42	- 46	- 52.3
Jersey City	1,631	1,950	+319	+ 19.6
New Brunswick	15	176	+161	+1,073.3
North Brunswick	23	17	- 6	- 26.1
Paterson	1,085	661	-424	- 39.1
Elizabeth City	253	176	- 77	- 30.4
Linden City	49	37	- 12	- 24.5
Total	3,432	3,242	-190	- 5.5
Non-Rent Control				
Garfield	21	51	+ 30	+ 142.9
Camden	385	665	+280	+ 72.7
Bridgeton	30	200	+170	+ 566.7
Millville City	54	39	- 15	- 27.8
Vineland City	202	208	+ 6	+ 3.0
Trenton	165	221	+ 56	+ 33.9
Long Branch City	90	56	- 34	- 37.8
Plainfield City	123	202	+ 79	+ 64.2
Rahway	23	49	+ 26	+ 113.0
Total	1,093	1,691	+598	+ 54.7

Source: State of New Jersey, Department of Labor and Industry,
Division of Planning and Research

TABLE XIV

DEMOLITIONS IN URBAN-SUBURBAN CITIES
TOTALS AND % CHANGE

<u>Urban-Suburban</u>	<u>1970-72</u>	<u>1973-75</u>	<u>Number Change</u>	<u>% Change from Col. 1 to Col. 2</u>
Rent Control				
Fair Lawn Boro.	9	9	0	0.0
Elmwood Park	5	15	+ 10	-200.0
Dumont Boro.	3	4	- 1	- 33.3
Cliffside Park Boro.	13	13	- 5	- 27.3
Palisades Park Boro.	16	14	- 2	- 12.5
Verona	4	5	+ 1	+ 25.0
Highland Park Boro.	6	2	- 4	- 66.7
Roselle Twp.	35	5	- 30	- 85.7
Total	96	67	- 29	- 30.2
Non-Rent Control				
Collinswood Boro.	3	4	+ 1	+ 33.3
Haddonfield	5	4	- 1	- 20.0
Montclair	19	10	- 9	- 47.4
Kearny Town	22	20	- 2	- 9.1
Carteret Boro.	250	66	-194	- 74.6
Hawthorne Boro.	15	24	+ 9	+ 60.0
Phillipsburg Town	10	0	- 10	-100.0
Roselle Park Boro.	6	11	+ 5	+ 83.3
Saddle Brook Twp.	6	7	+ 1	+ 16.7
Hillside	18	23	+ 5	+ 27.8
Pennsauken Twp.	4	21	+ 17	-425.0
Total	368	190	-178	- 48.4

Source: State of New Jersey, Department of Labor and Industry,
Division of Planning and Research

TABLE XV

DEMOLITIONS IN SUBURBAN CITIES
TOTALS AND % CHANGE

<u>Suburban</u>	<u>1970-72</u>	<u>1973-75</u>	<u>Number Change</u>	<u>% Change from Col. 1 to Col. 2</u>
Rent Control				
Cedar Grove Twp.	2	9	+ 7	+350.0
West Orange	44	19	-25	- 56.8
East Brunswick	36	4	-32	- 88.9
Edison Twp.	22	0	-22	-100.0
Piscataway Twp.	28	47	+19	+ 67.9
Parsippany-Troy Hills Twp.	8	29	+21	+262.5
Wayne	127	64	-63	- 49.6
Springfield	13	14	+ 1	+ 7.7
Total	280	156	-94	- 33.6
Non-Rent Control				
Ramsey Boro.	10	8	- 2	- 20.0
Moorestown Twp.	15	10	- 5	- 33.3
Glassboro Boro.	7	17	+10	+142.9
Eatontown Boro.	0	0	0	0.0
Madison Boro	12	5	- 7	- 58.3
Point Pleasant	13	8	- 5	- 38.5
New Providence Boro.	3	2	- 1	- 33.3
Hamilton Twp.	169	57	-112	- 66.3
Lawrence	6	14	+ 8	+133.0
Maple Shade	21	12	- 9	- 42.9
Millburn	7	1	- 6	- 85.7
Deptford	56	61	+ 5	+ 8.9
Cronford	20	15	- 5	- 25.0
Westfield	1	1	0	0
Neptune Twp.	3	0	- 3	-100.0
Matawon Twp.	4	17	+13	325.0
Total	347	228	-119	- 34.3

Source: State of New Jersey, Department of Labor and Industry,
Division of Planning and Research

New Jersey rent control ordinances will work to discourage maintenance and rehabilitation expenditures in some neighborhoods" has no empirical basis. According to Gruen and Gruen (1977: 77):

We were not able to collect sufficient data on housing quality and/or landlord expenditures to comprehensively measure the type and degree of housing quality change that has taken place since the imposition of rent control ordinances.

SECTION IV

TAXES AND VALUATION OF PROPERTY

Many claim that rent control causes the local tax base to decline. Both the construction of new rental housing and the condition of the existing stock determine the size and health of a city's rental property tax base.

The notion of an eroding tax base is plausible only to the extent that the alleged adverse effects of rent control upon new construction and maintenance are accepted. Sternlieb and others have argued that declining construction and maintenance in cities makes the erosion of the tax base "imminent" (Sternlieb, 1975: VII-23). However, the foregoing sections demonstrate that moderate rent control has not adversely effected new construction and maintenance. Therefore, in the absence of any other generally accepted correlation between controls and ill effects, the claim that rent control causes an erosion of the tax base should be reexamined.

Furthermore, the practice of drawing a correlation between rent control and the total tax base is subject to question. Rent controlled properties are not sufficiently isolated from other types of non-controlled properties (industrial, commercial, single family, vacant, etc.), to establish the claimed negative correlation. For example, apartments in New Jersey make up only a small proportion (6%) of the total property tax base (Gruen and Gruen, 1977: 60).

Changes in Total Tax Base

Both Laverty (Cambridge Tax Assessor) (1976) and Sternlieb (1974) have argued that the total tax base has either become stagnant or declined in a number of Massachusetts cities with rent control. Always cited is Cambridge, where the tax base declined from \$280 million in 1970 to \$276 million in 1974 (Sternlieb, 1974; Laverty, 1976). Also cited are Lynn and Somerville, but it should be pointed out that the tax base in both of these cities began declining two years previous to the enactment of rent control. On the other hand, the total tax base of Brookline and Boston has increased steadily since enactment of rent controls.

Assuming for research purposes, a correlation between rent control and the total tax base, this report compares the tax base of 26 controlled and 37 non-controlled cities in New Jersey. The data offers no evidence to suggest that rent control causes a decline in a city's tax base. In fact, controlled cities experienced a parallel increase in total assessed value compared to non-controlled cities.

Between 1973 and 1976, the total tax base for controlled cities and non-controlled cities had identical increases of 25% (Table XVI). In controlled urban center cities the tax base increased 27%, and in non-controlled cities the tax base increased 25% (Table XVII). In urban-suburban cities, controlled cities' property value increased 9%, while non-controlled cities' property value rose 31% (Table XVIII). In controlled suburban cities, the assessed value of property increased 29%, while in non-controlled suburban cities the assessed value of property increased 21% (Table XIX).

TABLE XVI

NEW JERSEY'S TOTAL ASSESSED VALUES:
 GRAND TOTALS AND % CHANGE
 (IN THOUSAND)

<u>RENT CONTROL</u>	<u>1970</u>	<u>1973</u>	<u>% Chg. '70-'73</u>	<u>1976</u>	<u>% Chg. '73-'76</u>	<u>% Chg. '70-'76</u>
Urban Center	3,744,466	4,136,938	+10.48	5,266,165	+27.30	+40.64
Urban-Suburban	1,009,952	1,259,598	+24.72	1,367,590	+ 8.57	+35.41
Suburban	2,324,749	3,599,755	+54.84	4,644,342	+29.02	+99.78
Grand Total	7,079,167	8,966,291	+27.08	11,278,097	+25.36	+59.31

NON-RENT
 CONTROL

Urban Center	1,685,550	2,068,285	+22.71	2,591,420	+25.29	+53.74
Urban-Suburban	1,501,751	2,069,861	+37.33	2,705,003	+30.69	+80.12
Suburban	1,992,388	3,220,525	+61.60	3,890,566	+20.91	+95.22
Grand Total	5,180,189	7,358,671	+42.05	9,186,989	+24.35	+77.35

Source: New Jersey Department of Labor and Industry, Division of
 Planning and Research, U. S. Department of Commerce,
 Construction Reports

TABLE XVII

URBAN CENTER: TOTAL ASSESSED VALUES
(In Thousands)

Urban Center	1970	1973	% Change '70-'73	1970	% Change '73-'76	% Change '70-'76
Rent Control						
East Orange City	301,625	306,658	+ 1.67	435,435	+ 41.99	+ 44.36
Irvington	314,746	309,118	- 1.79	314,229	+ 1.65	- 0.16
Orange City	130,452	132,182	+ 1.33	131,842	- 0.26	+ 1.07
Bayonne City	363,062	380,918	+ 4.92	395,122	+ 3.73	+ 8.83
Jersey City	809,395	783,110	- 3.25	780,166	- 0.38	- 3.61
New Brunswick	221,180	292,562	+ 32.27	302,133	+ 3.27	+ 36.60
North Brunswick	90,507	275,644	+204.56	321,069	+ 16.48	+254.74
Paterson	472,425	596,920	+ 26.35	596,495	- 0.09	+ 26.24
Elizabeth City	552,136	558,836	+ 1.21	975,252	+ 74.51	+ 76.63
Linden City	488,938	500,982	+ 2.46	1,014,522	+102.51	+107.50
Total	3,744,466	4,136,938	+ 10.48	5,266,165	+ 27.30	+ 40.64
Non Rent Control						
Garfield	136,554	246,246	+ 80.33	249,746	+ 1.42	+ 82.89
Camden	288,282	273,757	- 5.04	262,458	- 4.13	- 8.96
Bridgeton	71,450	90,823	+ 27.11	100,866	+ 11.06	+ 41.17
Millville City	87,646	100,123	+ 14.24	109,439	+ 9.30	+ 24.86
Vineland City	247,062	297,993	+ 20.61	498,481	+ 67.28	+101.76
Trenton	343,512	336,514	- 2.04	328,768	- 2.30	- 4.29
Long Branch City	129,198	140,324	+ 8.63	313,998	+123.74	+143.04
Plainfield City	253,560	252,213	- 0.53	391,384	+ 55.18	+ 54.36
Rahway City	128,286	330,274	+157.45	336,280	+ 1.82	+162.13
Total	1,685,550	2,068,285	+ 22.71	2,591,420	+ 25.29	+ 53.74

Source: New Jersey Department of Labor and Industry Division of Planning and Research,
U.S. Department of Commerce, Construction Report.

TABLE XVIII
URBAN-SUBURBAN: TOTAL ASSESSED VALUE
(In Thousands)

Urban-Suburban	1970	1973	% Change '70-'73	1976	% Change '73-'76	% Change '70-'76
Rent Control						
Fair Lawn Boro.	268,353	272,580	+ 1.58	277,562	+ 1.83	+ 3.43
Elmwood Park	114,941	153,691	+ 33.71	154,412	+ 0.47	+ 34.34
Dumont Boro.	150,855	152,564	+ 1.13	154,181	+ 1.06	+ 2.20
Cliffside Park Boro.	94,980	163,531	+ 72.17	254,395	+ 54.89	+166.68
Palisades Park Boro.	73,239	114,774	+ 56.71	118,062	+ 2.86	+ 61.20
Verona	104,506	154,048	+ 48.06	161,094	+ 4.03	+ 54.03
Highland Park Boro.	81,092	122,892	+ 51.55	132,934	+ 0.03	+ 51.60
Roselle Twp.	121,906	124,718	+ 2.31	126,050	+ 1.07	+ 3.40
Total	1,009,952	1,259,598	+ 24.72	1,367,590	+ 8.57	+ 35.41
Total less Cliff- side Park Boro.	914,972	1,096,067	+ 19.79	1,114,295	+ 1.66	+ 21.78
Non Rent Control						
Collinswood Boro.	71,822	104,403	+ 45.36	108,236	+ 3.66	+ 50.69
Haddonfield Boro.	78,632	143,437	+ 82.42	147,308	+ 2.70	+ 87.34
Montclair	282,449	282,795	+ 0.12	460,977	+ 63.01	+ 63.21
Kearny Town	317,836	341,297	+ 7.38	340,437	- 0.25	+ 7.11
Carteret Boro.	155,774	199,771	+ 28.24	202,652	+ 1.44	+ 30.09
Hawthorne Boro.	151,659	215,785	+ 42.28	221,585	+ 2.69	+ 46.11
Phillipsburg Town	61,994	101,401	+ 63.56	103,577	+ 2.14	+ 67.08
Roselle Park Boro.	63,330	141,936	+124.12	141,271	+ 0.47	+124.07
Saddle Brook Twp.	129,326	141,004	+ 9.03	149,548	+ 6.06	+ 15.64
Hillside	76,116	153,634	+101.84	321,479	+109.25	+122.35
Pennsauken Twp.	112,813	244,398	+116.64	507,943	+107.83	+150.25
Total	1,501,751	2,069,861	+ 37.83	2,705,003	+ 30.69	+ 80.12

Source: New Jersey Department of Labor and Industry Division of Planning
and Research; U.S. Department of Commerce, Construction Report.

TABLE XIX
SUBURBAN: TOTAL ASSESSED VALUE (In Thousands)

Suburban	1970	1973	% Change '70-'73	1976	% Change '73-'76	% Change '70-'76
Rent Control						
Cedar Grove Twp.	98,407	102,197	+ 3.85	226,558	+121.69	+130.23
West Orange	265,599	414,439	+56.04	4,70,794	+ 1.53	+ 56.43
East Brunswick	251,912	482,712	+91.62	542,212	+ 12.33	+115.24
Edison Twp.	476,856	914,901	+91.86	963,205	+ 5.28	+101.99
Piscataway Twp.	237,324	413,795	+74.36	611,573	+47.80	+157.70
Parsippany-Troy Hills Twp.	275,886	495,377	+79.56	513,649	+ 3.69	+ 86.16
Wayne	568,151	615,272	+ 8.29	1,048,741	+68.76	+ 82.76
Springfield	150,614	161,062	+ 6.94	338,010	+103.65	+117.78
Total	2,324,749	3,599,755	+54.84	4,644,342	+ 29.02	+ 99.78
Non Rent Control						
Ramsey Boro.	102,970	170,910	+65.98	118,797	+ 10.17	+ 82.87
Moorestown Twp.	134,790	154,809	+14.85	257,772	+66.51	+ 91.24
Glassboro Boro.	61,079	75,685	+19.98	79,613	+ 5.19	+ 26.21
Eatonville Boro.	85,486	96,586	+12.98	201,681	+108.81	+135.92
Madison Boro.	138,610	147,028	+ 6.07	189,147	+ 1.44	+ 7.60
Point Pleasant	101,040	189,607	+87.66	199,175	+ 5.05	+ 97.12
New Providence Boro.	157,474	161,101	+ 2.30	202,986	+63.24	+ 67.00
Hamilton Twp.	174,989	378,123	+116.08	408,763	+ 8.10	+133.59
Lawrence	67,552	266,155	+294.00	310,527	+ 16.67	+359.69
Maple Shade	59,677	94,643	+ 58.59	120,646	+ 27.47	+102.16
Millburn	372,494	384,043	+ 3.10	398,880	+ 3.86	+ 7.08
Deptford	22,612	174,507	+671.75	215,114	+ 23.27	+851.33
Cranford	99,972	206,733	+106.09	422,248	+104.25	+322.37
Westfield	124,438	409,148	+228.80	416,392	+ 1.77	+234.62
Neptune Twp.	173,181	188,467	+ 8.83	197,643	+ 4.87	+ 14.13
Matawan Twp.	114,524	122,980	+ 7.38	131,687	+ 7.08	+ 14.99
Total	1,992,888	3,220,525	+ 61.60	3,890,566	+ 20.81	+ 95.22

Source: New Jersey Department of Labor and Industry, Division of Planning and Research, U.S. Department of Commerce, Construction Report.

Three controlled cities and three non-controlled cities had declines in the tax base. Tax assessors in each of those three controlled cities were asked to explain the reasons for the decline, and not one of them attributed the decrease to the existence of rent controls. No clear picture of a primary cause of the erosion of a city's tax base emerged. Instead, each city had its own set of causes ranging from requests by industries for reduced valuations coupled with threats to leave the jurisdiction if such requests were not granted, to neighborhood transition, public housing, "white flight," redevelopment, tax loopholes, and redlining.

The following explains declines in tax ratables in the three rent controlled New Jersey cities which evidenced a reduced tax base.

Jersey City

Margaret Jeffers, Tax Assessor for Jersey City, stated that rent leveling had "no impact" on the total ratables and that total property values went down because of property acquired by the Jersey City Redevelopment Agency and the City of Jersey. Also, a recent influx of "disharmonious groups" contributed to slight decrease in property values. Overall, she claimed the true value of property not to be dropping, but instead to be going up.

Paterson

The City of Paterson had a small drop of 1.75% in total ratables from 1972 to 1973. According to Jim Krieger, Senior Assessing Clerk for Paterson, the value of rental housing has stabilized over the years and the assessed valuation of single-family homes has continued to increase. Krieger believes that there have been four main reasons for the decline in ratables: (1) much of the taxable property has become exempt because it has been acquired by Paterson Redevelopment Agency; (2) buildings have been demolished; (3) there have been increases in the amount of exempt property such as charitable institutions and churches; and (4) there have been large reductions in assessed valuation of property demanded by both businesses and industries. Thus, Krieger contends that the ratables have gone down because the number of exempt properties has increased and the tax assessors have been forced to lower the assessed value of certain industrial property. In general, however, taxable property has increased in value.

Orange City

In Orange City the total assessed value declined because of "reductions granted by the State on commercial and industrial property" according to John Cuccollo, Chief Tax Assessor. For example, when Litton Industries closed its plant, the assessed value fell from \$850,000 to \$350,000. Cuccollo reports that sales prices of residential units climbed 40% between 1973 and 1976 and that values are "maintaining their pace."

Taxable Output of Apartments

Two studies which have examined the impact of moderate rent controls solely on the valuation of apartments concluded that the burden of taxes did not shift from multi-family apartments to single family housing (Eckert, 1977; Gilderbloom, 1978).

Brookline, Massachusetts

Eckert's study attempts to assess the impact of rent control on the value of multi-family property in the City of Brookline. He notes that since rent control took effect, the net valuation of multi-units declined from \$92,691,900 in 1970 to \$86,343,700 in 1976 (Eckert, 1977: 327). Furthermore, the amount of taxes paid by single-family homes increased from 37.2% in 1970 to 41.23% in 1976 (Eckert, 1977: 340). While arguing that this was caused by the "permanent loss from the multi-unit property tax base from conversions and abatements," Eckert significantly adds, "(t)his has been offset by the gain to the single family class from condominiums" (Eckert, 1977: 356). In other words, by converting rental units into condominiums, the taxable value of these converted buildings increased from \$5,337,544 to \$11,066,176. As a result of conversion, these properties were taken out of the rental property category and reclassified into the single-family category. Moreover, the reduced assessments, because of abatements, is "about what would be expected ... if the market was free and competitive" (Eckert, 1977: 344). As a result, the amount of properties classified under single-family residential category increased, but the burden of taxes did not shift from landlords to homeowners.

New Jersey

But is Brookline unique compared to other municipalities with moderate rent control? A recent study of 26 New Jersey towns with rent control and 37 without rent control over a four year period found that moderate rent controls have not caused the total taxable value of controlled rental property to decline relative to non-rent controlled apartments (Gilderbloom, 1978). A regression analysis -- controlling for tax rate increase, city type, percent tenant, median rent, multi-family residential construction, city size, number of demolitions and municipal population growth -- found that the variable rent control had no net effect on total taxable output of rental property in controlled cities in comparison to non-controlled cities.^{11/} In addition, it was found that there was no statistically significant relationship between rent control and increase in the tax rate. This finding could be subject to a wide variety of interpretations. One plausible explanation is that moderate rent controls do not necessarily reduce rents below the market, but instead bring them in line with rent in non-controlled cities. Or another interpretation is that moderate rent controls regulate only the proportion of the housing stock that is subject to erratic or extreme rent increases. Yet another interpretation is that the time period studied is too short to accurately determine whether controlled properties are declining in relation to non-controlled apartments.

Appreciation of Property

Contrary to Sternlieb's claim that the value of apartment buildings he examined in Fort Lee, New Jersey, would fall in value, the assessed valuation of these properties has risen sharply. Table XX demonstrates that all eleven apartments which he examined have risen in value ranging from 37% to 222% -- with a mean increase of 81%.^{12/} This trend runs contrary to Sternlieb's prediction that the assessed valuation of these buildings would fall 49.2% between 1974 and 1980.

A similar rise in apartment values has been reported by the Massachusetts Department of Corporations and Taxation which examined a sample of rental properties in the City of Cambridge which were sold between 1967 and 1968 (pre-rent control) and resold between 1970 and 1974 (post control enactment) (Table XXI). The data was collected but never analyzed because, according to the Assistant to the Chief of the Bureau of Local Assessment, "... rent control appeared to have no systematic effect upon sale prices ..." Analysis of the data shows an average increase in sale prices of 10.1%, and an average increase in assessment of 13.1%, between the two periods under study.

Another study of the City of Brookline by the Revenue and Rent Control Study Committee (1974) which compiled sales prices and gross rental incomes of rent controlled buildings showed that the gross rent multiplier has remained stable since the commencement of rent control.

TABLE XX

Increase in Apartment ValuesSternlieb Looked At*

<u>Name</u>	<u>1972</u>	<u>1977</u>	<u>% Increase</u>
Starliner	940,100	1,292,500	37%
Horizon House	10,622,000	13,713,300	29%
Riverview	3,437,400	5,455,900	56%
Presidential	4,926,500	6,908,300	39%
Crystal	2,611,100	4,215,700	61%
Pembroke	4,301,300	7,592,300	50%
Park Hill	2,410,900	4,134,400	73%
LaCross	3,257,300	6,378,300	127%
North Bridge	6,539,000	13,322,700	103%
Palisades Terrace	1,367,300 *	3,361,900	31%
Palisades Gardens	1,093,100	3,527,300	222%
Total	72,480,300	131,585,100	31%

Source: Fort Lee Tax Assessors Office, collated September 1, 1977

*I would like to thank William Reilly of McGarter and English who provided the names of the eleven apartments Sternlieb looked at.

* 1974 assessment

TABLE XXI

APPRECIATION IN RENTAL APARTMENT COMPLEX SALES IN MASSACHUSETTS

First Sale			Second Sale			Annual Percentage Change In:	
Year	Price	Assessment	Year	Price	Assessment	Sale Price	Assessment
1968	\$ 56,000	\$22,000	1970	\$ 72,000	\$20,000	+14.3%	- 4.5
1967	23,000	8,500	1970	35,200	9,500	+17.6%	+ 2.0
1968	46,000*	N/A	1971	41,000*	N/A	- 3.6	N/A
1967	51,000	17,000	1971	65,000	23,000	+ 6.9	+ 8.8
1967	136,000	42,000	1970	157,000*	52,000	+ 5.1	+ 6.0
1968	123,000*	33,000	1973	165,345*	35,100	+ 5.8	+ 1.0
1968	26,000	7,500	1970	26,500*	9,500	+ 1.0	+13.3
1968	40,000	N/A	1973	50,000	N/A	+ 5.0	N/A
1968	130,000	58,700	1974	125,440*	74,700	- 0.5	+ 4.5
1967	40,000	9,000	1972	45,000*	16,000	+ 2.5	+15.5
1967	22,000*	8,100	1970	46,500	21,000	+37.1	+53.0
1968	66,000*	9,500	1970	107,000*	19,000	+31.1	+50.0
1968	55,000	10,500	1972	77,500	15,000	+10.2	+10.7
1967	130,000*	40,800	1974	132,000	40,800	+ 0.2	0.0
1967	45,000	13,000	1974	38,000	17,500	- 2.2	+ 4.9
1967	21,300	7,200	1973	40,000	9,000	+10.5	+ 4.2
Total	1,018,500	287,400		1,223,485	362,100	+10.1	+13.0

*Assuming that buyer takes over seller's mortgage.

N/A=Not available.

Source: Massachusetts Department of Corporations and Taxation

From: Harbridge House Report

FOOTNOTES

^{1/}I want to thank Michael Teitz, Matt Edel, Roger Friedland, Sandy Jencks, Bill Bielby, Rich Appelbaum, and Lynna Rossi for their suggestions and guidance in doing the regression analysis. With the exception of Joseph Eckert, regression analysis is an approach yet to be utilized in recent research examining moderate rent control. Regression analysis allows for the control of inter-correlation, estimates the linearity of a relationship, studies for interaction effects, and provides indications of the relative effect of independent variables on the dependent variable. According to Kim and Kohout (1970: 321-322):

Suppose, for example, that a researcher is interested in predicting political tolerance (the dependent variable) from Education, Occupation, and Income (the independent variables), all of which have been measured at least on interval scales for a sample of respondents. Through multiple regression techniques the researcher could obtain a prediction equation that indicates how scores on the independent variables could be weighted and summed to obtain the best possible prediction of Political Tolerance for the sample. The researcher would also obtain statistics that indicate how accurate the prediction equation is and how much of the variation in Political Tolerance is accounted for by the joint linear influences of Education, Occupation, and Income. The researcher may also wish, in this connection, to "simplify" the prediction equation by deleting independent variables that do not add substantially to predict accuracy, once certain other independent variables are included. For instance, if the contribution of Income to explaining variation in Political Tolerance is trivial when used in combination with Education and Occupation, the researcher may decide to delete Income from the predictors. The main focus of the analysis is, however, the evaluation and measurement of overall dependence of a variable on a set of other values.

Instead of focusing on prediction of the dependent variable and its overall dependence on a set of independent variables, the researcher may concentrate on the examination of the relationship between the dependent variable and a particular independent variable. For example, the researcher may wish to examine the influence of Education on Tolerance. However, a simple regression of Tolerance on Education will not provide an appropriate answer because the level of Education is confounded with Occupation and Income, that is, the more educated one is, the more likely one is to have a higher status occupation and higher income. Occupation and income levels may themselves affect tolerance. Therefore, the researcher would want to examine the impact of Education while controlling for variation in Occupation and Income, and would use multiple regression to get a variety of "partial coefficients." Emphasis in this case is on the examination of particular relationships within a multivariate context.

^{2/}Webster's Seventh New Collegiate Dictionary defines moderate as: "Observing reasonable limits avoiding extreme political or social measures limited in scope or effect."

3/Shirley Green, Rent Control Director, Newark, New Jersey says:
"Basically (moderate) rent control is really a mechanism to assist people who are being subjected to exorbitant rents ..."

4/It can be argued that this data could be misleading because the time period was too short and construction was already planned before enactment of controls. Unfortunately, data for a longer period of time is still unavailable as of this writing. In addition, according to interviews with builders in New Jersey, many were aware from one to two years before enactment of rent control that rent regulations were pending in their respective cities.

The assistant director of the Somerset County, New Jersey Planning Board explained, "(t)he factors that enter into determination toward the production of housing are most heavily related to economic conditions and the housing and building requirements. The fact that Franklin Township has an ordinance which provides a modicum of control over rents I do not believe enters into consideration of developers." Cite from Gilderbloom: 1976: II-7.

5/Building Permit Data for Non-Controlled Cities Source: U.S. Bureau of the Census, Construction Reports, Housing Authorized by Building Permits and Public Contracts and New Jersey Department of Labor and Industry.

<u>City</u>	<u>1970</u>	<u>1974</u>
Trenton	539	0
Vineland	452	0
Camden	418	0
Anaheim	3,987	351
Torrance	1,006	94
Emeryville	903	0
San Bruno	1,354	0
San Mateo County	1,175	0
Palo Alto	3,939	288

6/New Jersey Department of Labor and Industry building permits issued for rent controlled cities. Rent control enacted between October, 1972, and April, 1973.

<u>City</u>	<u>1970</u>	<u>1974</u>
Dumont	0	36
Linden City	0	39
Bayonne	0	50
Springfield	0	41
Jersey City	0	531
East Brunswick	0	45

7/Since the vacancy rate is for 1970, it was determined that a more accurate indicator of demand would be municipal population growth from 1970 to 1972.

8/Controlling for other independent variables, the equation accounted for over one-third of the explained variation (adjusted R^2 0.36602). The dummy variable rent control (0 for rent controlled cities and 1 for other cities) was not statistically significant at the .10 level (F 0.822; d.f. 8,54; beta -0.12454). Note: a more elaborate discussion of this method and data will be discussed in a forthcoming paper, "The Impact of Moderate Rent Control in New Jersey", Foundation for National Progress.

9/No data can be found in Sternlieb's Boston work that substantiates the claim made by both California Housing Council (1977: A) and Coalition for Housing (1977: 32) that,

Sternlieb documented a 67% drop in privately financed housing construction in Boston from 1971 to 1973 following imposition of rent controls, while in Massachusetts cities without rent controls there was a significant increase in construction.

Moreover, no empirical support can be found in Phillips' (1974: 9) argument that "very little private market rental rate housing is being constructed" in four Massachusetts rent controlled communities. Nor is there any evidence to validate the statement made by Coalition for Housing (1977: 32) that, "In virtually every case where rent control is imposed, new multi-unit residential construction virtually ceases to exist." Recent comparisons of residential construction in rent controlled and non-rent controlled cities in Massachusetts and New Jersey show that construction rates appear to be unaffected by moderate rent control.

10/The dummy variable rent control (0 for rent controlled cities and 1 for other cities) was not statistically significant at the .10 level (F 0.917; d.f. 9,53; beta +0.05820). Controlling for other independent variables, the regression equation accounted for almost all of the explained variation (adjusted R^2 0.87839). Note: a more elaborate discussion of this method and data will be discussed in a forthcoming paper, "The Impact of Moderate Rent Control in New Jersey", Foundation for National Progress.

11/The dummy variable rent control (0 for rent controlled cities and 1 for other cities) was not statistically significant at the .10 level (F 0.006; d.f. 10,52; beta +0.01163). Controlling for other variables the regression explained over one-third of the variation in the dependent variable (adjusted R^2 0.26076). Also of interest, the variable percentage black was not significant at the .10 level (F 0.025; d.f. 9,53). Note: a more detailed discussion of this method and data will be discussed in a forthcoming paper, "The Impact of Moderate Rent Control in New Jersey", Foundation for National Progress.

12/A number of these apartment owners are currently appealing their assessments.

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BUYING CLOTHES, WALK TO
WORK AND POSTPONE
THE DOCTOR, BUT IF
YOU CAN'T PAY THE RENT,
YOU'RE OUT ON THE STREET.

The Big Squeeze

By Chester Hartman

Some 25 million US households — more than one out of every three — live in quarters that someone else owns. Renters tend to live in cities; they make less money than homeowners. One in three tenant households has an annual income of under \$5,000, and a disproportionate number of tenants are members of racial minorities. (57 percent of black households rent, whereas 67 percent of white households own.) People rent either because they cannot afford to buy, can't make a large down payment, don't have the credit rating or the steady income necessary to meet mortgage payments, or because their lifestyles lead them to prefer renting.

Living in a home owned by somebody else has its obvious disadvantages. Under most state laws landlords are quite free to exercise their property rights. They choose whom they will accept as tenants; they can evict at the end of the lease period (if there is a lease) by giving 30 days' notice. Any reason at all will suffice (none need be stated); they make the decisions about repairs and improvements. Most important of all, landlords decide how much rent you will pay. They're restrained only by what some people call "the market"; that is, by what the traffic will bear.

How do market forces affect renters in our society? According to the 1975 Annual Housing Survey (the most recent nationwide data available), 10.5 million of those 25 million renter households were spending 25 percent or more of



their income for housing; 6.6 million of them were paying 35 percent or more. If you're a middle- or upper-income household, high rent merely means you can't take the winter vacation you once counted on or you can't afford a new stereo. Money that went for nonessential consumption items now goes to pay the rent. But if you're in the lower income brackets, the money comes out of the food budget, medical care, clothing or transportation. High rents make decent living pariously difficult. Housing costs are inexorable. They are of a fixed amount, must be paid regularly and, if you default, the consequences are immediate and harsh. You can always eat less, stop buying clothes for awhile, walk to work and put off seeing the doctor. But if you can't pay the rent, you're out on the street. The precariousness (even the futility) of life as a tenant is well illustrated by a recent Hart Poll commissioned by the City of Boston. It showed that almost half of the tenant population there would be forced to move should their monthly rents be increased by just \$25.

For low-income persons, the old yardstick used by housing economists — that one should devote 25 percent of his income to housing — tends to splinter. A more realistic way of looking at housing costs has been developed by University of Massachusetts professor Michael Stone. He took the minimum budget for an adequate standard of living, as calculated by the US Bureau of Labor Statistics, then added up all the nonshelter expenses in the BLS budget. Subtracting the latter from the former he found the difference left over for housing. The results are startling: A family of four earning \$7,500 or less can't afford anything for housing if life's other necessities are to be provided. At the \$8,500 income level, the household can afford to devote 8 percent of its income

to housing; at \$9,500, 14 percent; at \$10,500, 20 percent. Only at the \$12,000 income level can the family of four realistically expect to spend 25 percent of its income on the place they live. Renters clearly are having a far worse time of it than most housing policy experts realize. In some cities the crunch is particularly terrible. In Boston, for example, BLS data indicate that a family of four needs \$11,104 to achieve a minimally adequate standard of living, yet median income for Bostonians who rent is only \$7,400, two-thirds of what is needed.

The Meaning of Rent Control

It's no wonder that the cry is being heard for rent control. Very few cities yet have it. Nationally, no more than

Telling people who live in East St. Louis that they should cherish present relations with their landlords would be like telling slaves not to disturb the warm and wonderful relationship with Ole Massa.

five percent of renter households are covered by any form of rent control, real or sham. (The "rent stabilization" guidelines found in some localities offer next to nothing in protection.) Rent control has to be seen for what it is in economic terms: the transfer of (potential) income from landlords to tenants. The magnitude of such income transfer can be great. A Rand Corporation study estimated that for New York City in 1968 the aggregate transfer amounted to \$807 million, or \$650 per affected family. A 1977 report by the Temporary Commission on City Finances estimates that throughout the 33-year life of rent control in New York the total income transfer has been \$20 billion. Quite obviously, landlords don't have much good to say about this kind of thing. In the anguished words of a Berkeley, California, landlord, "The problem with rent control is that it interferes with profit, and when you interfere with profit you are interfering with the American way of life."

Actually, "interfering with profit" is very much a part of American life, as it must be in any decent society. A landlord might find it profitable to build an

office tower or a glue factory in a residential neighborhood, but we have zoning laws to prevent it; he might find it profitable not to make repairs or not to heat an apartment, but we have housing codes tending to restrain such avarice. So, society does rightly intervene in the profit-seeking acts of entrepreneurs when public welfare is in jeopardy. The question to be asked is whether rent control serves well such high purposes. According to the Temporary Commission on City Finances study, 62 percent of the protected families in New York City had incomes under \$8,000 (1970 data); an even higher proportion of protected families lived on less than the BLS stipulated minimum budget.

Few, if any, proponents of rent control would argue that it is a perfect tool, but it does tend to do what it is designed to do: reduce the rents of lower-income housing consumers by in effect transferring profits from landlords and the lending institutions that back them (or for whom they front). Rent control poses things starkly along class lines, haves versus have-nots.

An obvious problem of most existing rent control systems is that not everyone who needs help gets it, since not all housing is covered, and that some people who do not need help get it anyway. From the landlords' perspective, some property owners are not that well-off themselves, and in certain cases have lower incomes than their tenants. But rent control systems can be devised and adjusted to eliminate most such defects. And imperfections in a system, no matter how loudly its flaws are ballyhooed by cynical detractors, don't necessarily discredit rent control as a socially useful device. Landlords, as a class, are far wealthier than tenants as a class; where there is no limit to what landlords are able to extract from tenants, a tight housing market such as exists in almost every US city means no relief to the hard-pressed tenant.

Many of the other alleged drawbacks of rent control turn out, upon close analysis, to be bugaboos. Recent research by John Gilderbloom, a graduate student in sociology at the University of California, and Emily Achtenberg, of the Greater Boston Community Development Corporation, has called into question the negative conclusions of the various rent control studies. It had been said, for example, that new housing construction is inhibited in areas with rent control. But the researchers who

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Chester Hartman holds a PhD in city and regional planning from Harvard and has taught at Harvard, Yale and the University of California at Berkeley. He was senior planning associate at the National Housing Law Project at the University of California. Mr. Hartman is the author of four books, including Housing and Social Policy (Prentice-Hall, 1975) and Yerba Buena: Land Grab and Community Resistance in San Francisco (Glide, 1974). He is the founder of the Planners Network, a national group of radical planners and community organizers.

vins, will continue to argue that solar energy, at least the "soft" part of it leading to small, decentralized power sources, is not only incompatible with large centralized power, but cannot be developed if we persist in our evil ways and build more power stations, especially the nuclear kind.

In all his arguments — and he has taken on some well-known experts — he gets terribly involved in the detailed costs of solar power versus the other energy sources, all of which is not really relevant, I think. If solar energy is really cheaper, it'll win out. And it is winning out in many cases today — as I have tried to show.

I disagree with Lovins on his assertion that hard and soft energy paths are mutually exclusive. Even he admits, however, that they "are not technically incompatible — reactors and solar collectors could in principle coexist." But he gets very fuzzy when he tries to prove his point. Nuclear power, he claims, prevents us "through logistical competition and through cultural and institutional incompatibility, from pursuing the tasks of a soft path . . . in three ways: by starving its components into garbled and incoherent fragments; by changing social values and perceptions in a way that makes the innovations of a soft path more painful to envisage; and by evolving institutions, policy actions, and political commitments in a way that inhibits those same innovations."

I fail to see what all this means. But I suspect that he just dislikes nuclear energy. It may not be any safety issue that bothers him, or even the disposal of wastes; probably just the idea of proliferation of nuclear weapons — judging from his past writings. Never mind that countries can acquire or even construct nuclear weapons without power reactors, and that the fuel reprocessing of reactors can be "fixed" so that weapons construction isn't feasible.

It's a little easier for me to figure out the chief political apostle for the solar movement, Professor Barry Commoner of Washington University. In appearances on college campuses around the country he inveighs against nuclear energy directly, but more particularly against the capitalistic system. He argues that the energy crisis is a consequence of capitalistic decisions based on obtaining maximum profit. He seems to be unaware of sound economic arguments that profits are necessary to justify investments, and that the attempt to

economic system gives the incentive for improvements that are passed along to the consumer in the form of lower prices.

His argument about the cause of the energy crisis has been prominently displayed in the *New Yorker* and elsewhere. He reiterated it in a recent interview he gave at the University of Texas:

The only sensible option is solar and the only way to carry out a transition to solar energy is to use public funds. We could use the power of public money to create this industry before the equipment is profitable. People must realize we have the money to do this. Private enterprise will only do it when conventional sources of energy become too expensive. What I'm really talking about is new ways of rebuilding the US economy with greater social control over the means of production.

I marvel at the simple faith in government displayed by folks like Commoner. Don't they understand the mentality of the burgeoning unresponsive bureaucracy? After all, Barry, these are the people who brought us the Atomic Energy Commission, not to mention the postal service. And how much should taxes be raised in order to subsidize energy consumers?

There are those who believe that America's energy industry already has more "social controls" than any other, not just price regulation but more insidious controls. They may well be a substantial cause of our energy difficulties rather than our salvation. I subscribe to this view, and I am skeptical about simply spending vast sums of public money. Judging from past experience, government is likely to end up supporting cumbersome, impractical projects, with cost-plus contracts going to the usual government-oriented corporations.

There was talk among those coordinating Sun Day about setting up a citizens' movement, and a powerful new political coalition, based on the "people's energy source." The cause of solar energy will not be advanced if Sun Day degenerates into a vehicle for radicalism, as has happened before with persons on the ragged fringe of the environmental movement — those who claimed that pollution control is not compatible with capitalism and that air and water smell sweeter in a socialist economy.

If Sun Day were to raise the con-

age individual entrepreneurs to involve themselves in solar energy development, and more tinkers to devise and build their own solutions, then much good can come of it. But don't expect miracles. ■

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came to that conclusion did not attempt to explain a similar construction falloff in nearby areas without rent control. Using a sophisticated statistical technique known as regression analysis, which permits isolation of the effect of a single variable in a complex situation where many factors are at work simultaneously, Gilderbloom compared 26 rent controlled and 37 uncontrolled New Jersey cities and found "no empirical evidence that rent control causes a decline in construction." Achtenberg's data on Massachusetts showed that, in the two years after institution of rent control, construction increased by 54 percent over the two previous years. The increase was only 39 percent in uncontrolled communities. Gilderbloom's New Jersey data comparing the 1970-72 and 1973-75 periods showed that construction of multifamily buildings in non-rent controlled communities declined 65 percent, compared with a 19-percent decline where rents were regulated.

Arguing with Abandon

Another spurious claim made by opponents of controls is that they cause housing maintenance to fall off: If the landlord doesn't take in enough money, he won't keep the place fixed up. A further extension of this argument is that rent control eventually leads to housing abandonment. But the arguments don't account for the fact that landlords neglect and abandon buildings even where there is no rent control. In fact, a National Urban League study of abandonment ranked New York fifth behind four cities that don't limit rents — St. Louis, Cleveland, Chicago and Hoboken. A Women's City Club (NYC) study of abandonment, carried out in 1977, found that "buildings with higher rents were as likely to be abandoned as comparable ones with lower rents"; and, "rent control [did not] emerge as a reason for abandonment." Even the Temporary State Commission on Housing and Rents in New York City concluded, "Rent control . . . can have little

effect for it is clear that it is the oldest, least desirable tenement housing which [is] abandoned — housing which is unable to produce substantially more income in a free market."

On the maintenance question, a 1977 doctoral dissertation by economist Joseph Eckert, based on audited income operating statements of rent controlled properties in Brookline, Massachusetts, showed an actual increase in the percentage of the average rent dollar going into maintenance and repair, from 4.2 percent in 1970 to 5 percent in 1974. Emily Achtenberg's data for four Boston area communities (Cambridge, Lynn, Somerville and Brookline) show that permits for alterations, additions and repairs increased 22-69 percent after adoption of rent controls.

Another criticism is that rent control leads to lower property tax valuations, hence to a decline in city revenue and, in the case of New York, fiscal crisis. Such arguments, of course, hinge on the disputed claim that rent control produces declines in maintenance. But again, a careful look at actual data suggests the answers are far from clear. Cambridge, a rent controlled city, suffered a \$4 million decline in its tax base from 1970-74, but the slide began two years before rent control was imposed. The adjacent cities of Boston and Brookline, which also have rent control, both have experienced steady increases in their tax base. Using regression analysis on the 26 controlled and 37 noncontrolled New Jersey cities that he studied, John Gilderbloom found an identical 25-percent increase in the tax base of each grouping. Three rent controlled cities did experience a tax base decline (Jersey City, Paterson and Orange City). The tax assessors in these places were interviewed. None of them attributes the decline to rent control. Rather, they cited property acquisition by tax-exempt agencies (a redevelopment authority, charitable institutions, etc.) and a policy of reducing assessments so as to influence businesses not to leave town for more appealing locales.

Another charge: Banks won't give mortgage loans in rent controlled areas. In the 1984-ish parlance of the housing experts, the word for that is "disinvestment." Gilderbloom's and Achtenberg's critiques cover this one as well. And they aren't alone. The Gruen & Gruen study of New Jersey (done for the California Housing Council, a statewide landlord association) concluded that such cutbacks by lenders do not occur

when "pass-throughs" are allowed, that is, when some provision is made for rents to go up as costs experienced by landlords rise. An important reason for pass-throughs is higher interest payments. Almost all current rent control systems permit such costs to be passed on to tenants, and almost all current systems exclude new construction from controls. The supposed drying up of mortgage money, under present conditions, looks like a red herring.

Finally, one confronts the incredible claim that rent control sours relations between landlord and tenant. As the California Housing Council's Gruen & Gruen report puts it: "We value the ability of landlords and tenants to be able to cooperate and communicate amicably . . . Our studies lead us to believe that the psychological attitudes engendered by rent control shatter the presently nonwarlike relations between landlords and tenants." Good God, what are they talking about? Take a look at East St. Louis, Chicago's South Side, San Francisco's Western Addition, Flatbush, any urban lower-income neighborhood. Telling people who live in East St. Louis that they should cherish present relations with their landlords would be like telling slaves not to disturb the warm and wonderful relationship with Ole Massa.

Fact and Fiction

What is one to make of the claims and counterclaims, the studies and rebuttals? The big, expensive studies of rent control — by George Sternlieb, Gruen & Gruen and other consulting firms — tend to be commissioned and paid for by landlord groups and others who want to attack rent control, and that includes some government bodies. They hire experts likely to support such predispositions. Not all consultants and academics are above a bit of statistical manipulation and biased procedures. John Gilderbloom, in his study, points out crucial methodological weaknesses in the massive studies undertaken by George Sternlieb of Rutgers, the academic white knight of the rent control critics. Sternlieb "relied on data supplied for the most part by real estate organizations, rather than . . . audited income statements from New Jersey and Massachusetts rent boards." Another major study, by Monica Lett of Sternlieb's Center for Urban Policy Research, concludes that maintenance in rent controlled housing has declined. For her study she calculated expenses for non-

controlled units by taking an average of 20 properties. But only one "typical" rent controlled apartment from the 70 in her sample was used as the basis for her conclusions. Oddly, this "typical" apartment had a much lower proportion of rent money going into maintenance than the average rent controlled unit, and a \$56 lower monthly rent than the noncontrolled units. Using methodology like that, one can easily reach the hoped-for conclusions. A recent Mayor's Committee on Rent Control, appointed to evaluate Boston's system, included several known opponents of rent control and was chaired by the Mayor's special housing adviser, an outspoken rent control critic. The committee had no rent control advocates serving on it. It solicited no testimony or counsel from affected tenants and neighborhood groups; it selectively used biased data and oversimplified analysis; it didn't evaluate or even discuss the benefits of rent control. Its conclusions — not supported by data in the report itself — were, not surprisingly, that rent control ought to be dropped, except for elderly tenants.

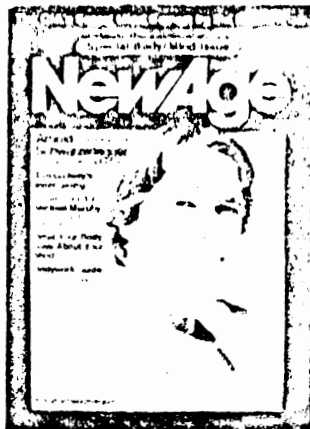
So many studies damn rent control because, for the most part, that's what they're designed to do. There's little objective analysis because the subject is so loaded, politicized and related to self-interest. Furthermore, the relative political and economic power of landlords and tenants is well illustrated in recent maneuvers by property owners. In Florida and California, monied interests succeeded in persuading the state legislatures to pass "preemption" bills forbidding cities from enacting rent control measures. The bills failed to become law only because of governors' vetoes. (The California Housing Council's Sacramento lobbyist currently is a central figure in an FBI investigation into suspected vote-buying, and the legislative bill to ban local rent control ordinances is a topic of interest in that investigation.) Berkeley's realtors and apartment owners raised \$143,000 (two-thirds of which came from other parts of the US, and from as far away as Taiwan and South Africa) to defeat Berkeley's 1977 rent control initiative. Landlords persuaded the New York legislature to impose "vacancy decontrol" on New York City, resulting in the decontrol within three years of several hundred thousand apartments as tenants moved out. And a National Rental Housing Council has just been formed to coordinate activities opposing local

rent control campaigns. It is modeled after the California Housing Council and has a \$500,000 war chest from members who are levied \$2.50 per unit in dues.

While real estate interests traditionally have wielded their power most effectively at state level, a move is on now to mount a Washington based attack on the threat of rent control. In this, the "fiscal crisis" and the administration's bail-out of New York City play right into their hands. A recent article on the NRHC in *Multi-Housing News* noted that "attempts have been made to involve bond rating organizations such as Moody's to include rent control as a factor in establishing lower ratings for municipal bonds." In the midst of the Big Apple's fiscal crisis, landlord groups nearly persuaded the then Treasury secretary, William Simon, to make termination of rent control a condition for federal aid. Simon did influence Senator William Proxmire's Banking, Housing and Urban Affairs Committee to state in a report it issued that "rent control was a major cause of the decline in the city's tax base and housing stock." (Proxmire might more appropriately have focused on the activities of the "golden triangle" of bankers, real estate developers and politicians that Jack Newfield and Paul Dubrul described in their account of New York's sob story, entitled *The Abuse of Power: The Permanent Government and the Fall of New York*.) Legislators and politicians at the federal, state and local levels have tried to zap rent control. Some of them are big beneficiaries of campaign contributions from real estate interests. The courts likewise have thrown monkey wrenches into local campaigns and ordinances. Judges come from the same class as landlords and quite commonly have real estate holdings of their own. Tenants clearly lack the power, the money and the organization to match the influence of their landlords.

The "bottom line" is that rent control is needed if poor people are not to be squeezed beyond endurance. The worst thing about rent control, in my view, is that it doesn't go far enough. The major components of the rent bill — mortgage payments, property taxes, utility costs, maintenance — are not controlled. Most so-called rent control ordinances allow these costs to be "passed through" from landlord to tenant. Where this is done (as under New York City's "rent stabilization" guidelines, which are replacing

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true rent control there), tenants get little real protection (and landlords have scant incentive to economize). Rents often are already too high for lower-income tenants. Adding to the rent the landlord's costs in rising property taxes, utility bills and mortgage payments (especially where buildings have been resold at speculative prices, and refinanced at higher interest rates) can make the burden insufferable. If housing costs are to stay within reach of lower-income households (and, increasingly, middle-income households too), a more comprehensive attack on housing costs, of which rent control is but an element, will have to be mounted. This must include progressive property tax reform, steps to deal with energy and utility prices and, most important, an attack on the central element of housing costs — mortgage financing.

Beyond Rent Control

Rent control in its present form is not a radical measure, for it assumes the present housing market almost unchanged, including the notion of a fair return for landlords. (Peter Marcuse, who heads Columbia University's planning department, has pointed out that "fair return" is a somewhat circular concept, since it is based on appraised value, which in turn is based on capitalization of return from the asset. "Whatever return existed inevitably comes out as fair, and always will," says Marcuse.) Society must begin to take housing problems seriously. As the middle class begins to suffer, it undoubtedly will. The notion that housing is a commodity to be bought, sold and rented out, primarily for purposes of profit making, is wrong. It will become increasingly untenable, as the profit-taking cycle of rising prices and mortgage financing puts housing out of the reach of ever larger numbers of Americans. Demands for rent control are just one part of the growing movement for state intervention in the "free market." "Antispeculation" laws designed to eliminate, through heavy taxation, the fast turnover of property by speculators already exist in Vermont and the District of Columbia and are a major political issue in San Francisco and Los Angeles. Laws regulating or preventing the conversion of rental housing into condominiums exist in three California jurisdictions — Menlo Park, Palo Alto and Marin County — in the District of Columbia and New York

City. Currently, such proposals are being considered in San Francisco. Demolition of rental housing is regulated in New York City, and an ordinance requiring private redevelopers to replace housing they tear down (under the theory that a city has the obligation to protect its lower-rent housing stock) is to be introduced in San Francisco. In the well-publicized case of San Francisco's International Hotel, the city's Housing Authority has brought an eminent domain action to acquire an old hotel from its new owner, who wants to demolish it for downtown office use. The city would retain it as low-rent housing.

Many of the so-called problems of rent control arise because it is such a limited measure, lacking a context of related regulations and programs to ensure that people get decent housing at an affordable price. If private real estate developers are going to refuse to build new housing or to invest in maintaining their current holdings because they are subject to rent control, the solution is not to throw up one's hands in defeat and pay off these extortionists but to take steps to produce and maintain housing through direct public sector action. In any case, since privately produced housing is so far beyond the reach of people with modest incomes, how is the usual run of new construction going to do them much good? If rent control in one city skews supply and demand factors in adjacent cities, the answer is obvious: Extend rent control to entire housing market areas. Rent control is not so strange a beast; it works well enough in such nonsocialist countries as England, West Germany, France, the Netherlands and Canada. If landlords refuse to keep up their properties, the answer is strong housing code enforcement. Municipal governments should be empowered to directly repair and place liens on such properties or even take over their management.

The value of rent control, apart from the progressive income transfers it effectuates, is that it is an immediate, gut issue around which people can organize. As they work to improve their own housing conditions, their consciousness is raised about the workings of the housing system; the demands they make on the system as a whole are sharpened. As tenant activists in New York City and elsewhere now see, the issues transcend the individual evil landlord (although there are plenty of them). Rental housing is all involved with mortgage lending, land prices and

politics at local, state and national levels. People begin to see that the notion of a "free market" in housing is ludicrous. Government programs such as FHA, Fannie Mae, urban renewal and highway building have aided the middle class and ruined our cities at the expense of the poor. The real housing subsidies are not the pittance spent on public housing but the income tax system itself, which provides billions in subsidies to the rich via mortgage interest and property tax deductions and real estate shelters. Merely providing housing subsidies to poor people, in the context of the present private market, will not work because the lion's share ends up in the pockets of landlords and lenders.

Such insights lead to others: Homeowners face many of the same problems as renters; their interests fundamentally coincide. The same mortgage system, regressive property taxes and utility ripoffs are making home ownership difficult or impossible for more and more Americans. Only one-quarter of the country's households can now afford a newly constructed house, compared with two-thirds in the 1950's. Nationally, nearly seven million owner-households are devoting 25 percent or more of their income to housing. More than three million are paying 35 percent or more. On a \$40,000 house, with a \$30,000 mortgage, at prevailing interest rates and terms, mortgage payments over 25 years amount to a staggering \$80,000, of which over \$50,000 is interest alone. The concept of home ownership becomes less and less meaningful; a homeowner is in many ways merely the bank's tenant (and with introduction of new types of mortgages, which call for increasing payments over the life of the mortgage rather than fixed payments, the parallels with renting become even more striking).

Rent control is something nearly everyone accepted at times of emergency, as in World War II. But it is time to recognize that America's housing will be in a state of emergency until fundamental changes are effected. Rent control has limited utility; there are inevitable problems associated with it. But in the absence of rent control, tenants are at the mercy of merciless forces known as the housing market. Rent control is one way for tenants to fight back, to assert their own interests. And that could be the beginning of a movement this country needs, to change the housing system at its roots. ■

Not out from the assembly since 1977

11/1/77

1970		1971		1972	
Income	1736493	1736493	1736493	1736493	1736493
Real income, operating	1736493	1736493	1736493	1736493	1736493
Less: interest	1736493	1736493	1736493	1736493	1736493
Net real income	1736493	1736493	1736493	1736493	1736493
Operating & other income	231750	231750	231750	231750	231750
Total income	1968243	1968243	1968243	1968243	1968243
Expenses	125103	125103	125103	125103	125103
Building & administration	(1817)	(1817)	(1817)	(1817)	(1817)
Operating	245005	245005	245005	245005	245005
Maintenance	129137	129137	129137	129137	129137
Taxes & insurance	306977	306977	306977	306977	306977
Total expenses	799981	799981	799981	799981	799981
Net real income	1168262	1168262	1168262	1168262	1168262
Operating profit before depreciation	50089	50089	50089	50089	50089
Depreciation	29	29	29	29	29
Net real income after depreciation	1110873	1110873	1110873	1110873	1110873
Debt service	741600	741600	741600	741600	741600
Interest & amortization	13226	13226	13226	13226	13226
Real income	794027	794027	794027	794027	794027
Total Debt service	316037	316037	316037	316037	316037
Net real income	161	161	161	161	161
Income	15527	15527	15527	15527	15527
Real income	71	71	71	71	71
Income	112240	112240	112240	112240	112240

1973 2

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1976 2

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STATEMENT BY THE NEW JERSEY ASSOCIATION OF REALTORS
before the
ASSEMBLY COMMERCE, INDUSTRY AND PROFESSIONS COMMITTEE
on

ASSEMBLY BILL 504

"An Act Concerning Rate of Return
on Residential Rental Property
and Supplementing Title 2A of
the New Jersey Statutes"

May 9, 1978

My name is Robert F. Ferguson, Jr. I reside at 2388 Linden Place, Manasquan.

I am the Executive Vice President of the New Jersey Association of Realtors, a 15,000 member trade association comprised of licensed real estate brokers and sales persons.

The Association maintains offices at 295 Pierson Avenue, Edison, New Jersey.

The Officers and Legislative Committee of the New Jersey Association of Realtors have reviewed Assembly Bill 504 and can find no redeeming features in this legislation. Therefore, I have been instructed to register with this committee our strong opposition to the bill.

Assembly Bill 504, according to its title, purports to establish a "Just and Reasonable Rate of Return on Residential Property" under rent control. I call to your attention that this is not what A-504 does....rather A-504 establishes an unworkable attempt to permit hardship increases which result due to rent control.

NJAR feels strongly that A-504 is one of the most dangerous pieces of legislation to be introduced in many years.

The sponsors of A-504 were motivated to seek to establish a hardship procedure because rent control, the real evil that should be investigated by this committee, has been a dismal failure and A-504 only serves to "compound the felony".

The question of a "just and reasonable rate of return" on multi-family housing is a complex issue that does not lend itself to a simplistic politically oriented solution as embodied in A-504.

You have already heard today from expert witnesses concerning the action of the New Jersey Supreme Court in remanding the Fort Lee Rent Control Ordinance to Judge Harvey Smith for "further factual findings and reconsideration".

I have sent members of the committee a copy of Judge Smith's "Findings and Determinations" and I am confident that you have reviewed his detailed analysis of the question of a "fair rate of return" and you have determined A-504 is attempting to move the multi-family housing industry to the brink of financial disaster.

NJAR urges that A-504 be held in committee until such time as the finest legal minds in the state and the Supreme Court have had an opportunity to digest Judge Smith's findings and issue a decision in the Fort Lee case.

I have studied government and am fully aware of the constitutional charges to the three branches of government and why they have their guaranteed responsibilities, however, because of the tremendous impact, the Court's decision will have on the citizens of New Jersey, NJAR urges that this committee hold in abeyance any further deliberations on A-504 until the Court has acted. I believe there is sufficient precedent here in New Jersey to add credibility to this request.

NJAR recognizes the legislative prerogative to act, nevertheless, we urge that a statesmen-like posture be taken at this time.

Rent control while purportedly only touches a minority of the citizens of our state has, in reality, a dangerous side effect on all of us regardless of what form of housing we live in or which communities we reside.

I could recite again what you have already heard concerning property abandonment, bankruptcies, lack of preventive maintenance and a lack of confidence on the part of the private sector to build new multi-family housing units. NJAR is not going to belabor these points; not because they are not important but because they have been adequately covered by other witnesses today.

Rather, NJAR intends to point out a fact which in our minds has not received sufficient attention.

Ladies and gentlemen, in 1976, the Legislature passed a Gross Income Tax for the sole purpose of raising revenues to lessen the real estate tax burden in New Jersey. To a degree there has been some relief, depending where one resides. I state now for the record that Rent Control and A-504 will erode the promised tax relief.

Successful tax appeals by owners of multi-family housing in rent controlled communities will force a shift in real property taxes to other forms of real estate most notably one family dwellings.

In Fort Lee, it is reported homeowners will face tax increases of between 30 and 40 percent when the New Jersey Tax Appeal Court ratifies the findings of the Bergen County Tax Board. This is not a fictional or theoretical smoke screen by NJAR but, rather, a statement of fact. Property owners in communities that do not have rent control will also face higher taxes as their share of county taxes increase because of tax reductions in other communities.

Real property tax money must be raised for municipal and county services and when the tax load, because of rent control is shifted, others are required to subsidize tenants through higher taxes.

The one family owners will not remain a disinterested spectator in the rent control debate when he learns that he faces higher real property taxes

NJAR, therefore, concludes on the theme that rent control and A-504 are not in the best interest of all the residents of New Jersey including the tenants and we urge A-504 not be released from committee.

The Realtors further recommend that a Legislative Study Committee be constituted which would review the entire rent control subject and issue a factual report.

Thank you.

May 8, 1978

TO: MEMBERS OF THE ASSEMBLY COMMITTEE ON COMMERCE,
INDUSTRY AND PROFESSIONS

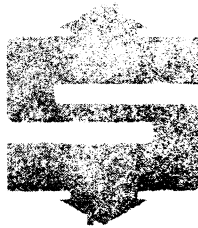
RE: ASSEMBLY BILL 504, THE "NEW JERSEY JUST AND
REASONABLE RATE OF RETURN ON RESIDENTIAL
PROPERTY ACT OF 1978."

At the first public hearings on A-504, the Apartment House Council of New Jersey testified that given 30 days notice, we would bring before this committee top experts from across the nation to address, in a comprehensive and intelligent fashion, the concepts embodied in A-504.

To this end, the Apartment House Council would like to report to the committee that we will bring forth the following witnesses at the public hearings on A-504, scheduled for Tuesday, May 9, 1978:

1. A general spokesman for our position.
2. A representative from Madison Wisconsin.
3. An urbanologist/economist.
4. A representative from Cambridge, Massachusetts.
5. A legal expert from the Fort Lee "Just and Reasonable Rate of Return" case.
6. Accountants from the same Fort Lee case.
7. A New Jersey property owner.





SAVINGS BANKS' ASSOCIATION OF NEW JERSEY ☐ 80 MAIN STREET, WEST ORANGE, N.J. 07052 ☐ 201 - 325-3600

May 15, 1978

TO: MEMBERS OF THE ASSEMBLY COMMERCE, INDUSTRY AND PROFESSIONS COMMITTEE

RE: A 504

The Savings Banks' Association of New Jersey is non-supportive of Assembly Bill 504. We disagree with the concept of promulgating rent control measures on a statewide basis with the disregard of circumstances that are particular to the geography and the economy of certain areas. The unfavorable results of imposing wide range control over divergent areas is quite evident in other states. We need look only at New York City as an example of how unrealistic controls will deter owners from reinvesting in their properties, causing them to become marginal apartment houses and leading to abandonments. The application of the 60 percent of gross maximized annual income formula may be compatible with luxury-type housing in which the total rental income is substantial; however, this formula has little value when applied to properties that aren't able to produce substantial income. These properties are very vulnerable to rent control limitations, and the introduction of time-consuming, burdensome administrative procedures could result in deferred maintenance and property deterioration.

Also of importance is a question whether mortgage interest will be allowed as a reasonable and necessary operating expense under A-504. While the Bill details many allowable expenses; such as -- taxes, repairs and maintenance, legal and auditing expenses, management fees, etc.-- it is silent as to the status of interest on mortgage indebtedness. Similar properties can produce different net rents even at the same gross income depending upon the underlying mortgages on the properties and their respective interest rates. We don't know how interest would affect the determination of fair net operating income under A-504.

In view of the foregoing, it is the position of this Association that A-504 is ill-considered and will have an adverse effect on apartment housing investment, thereby producing rental housing shortages within the State.

Respectfully submitted,

Bernard Alicks
Executive Vice President

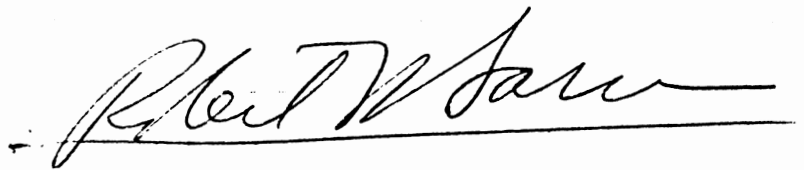
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PRESIDENT	FIRST VICE PRESIDENT	SECOND VICE PRESIDENT	TREASURER	EXECUTIVE VICE PRESIDENT
Ernest Forbes President The Howard Savings Bank Newark, New Jersey	Ariyn D. Ru. President The Raritan Savings Bank Raritan, New Jersey	Donald C. Sims President Union County Savings Bank Elizabeth, New Jersey	Earle C. Page, Jr. President Burlington Savings Bank Burlington, New Jersey	Bernard Alicks COUNSEL Hugo M. Pfaltz, Jr.

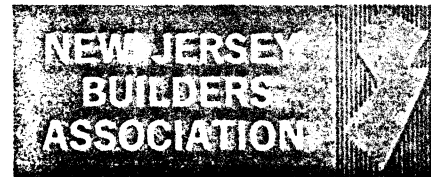
STATEMENT OF ROBERT LARSON
ON BEHALF OF THE MORTGAGE BANKERS ASSOCIATION
OF NEW JERSEY ON MAY 9, 1978

Mr. Chairman and members of the Committee, the Mortgage Bankers Association thanks you for the opportunity you have provided to make this statement on A-504.

We heard a substantial portion of the testimony presented today in opposition to the bill. We generally support this testimony and wish to go on record as being opposed to A-504.

A handwritten signature in dark ink, appearing to read "Robert Larson", is written over a horizontal line. The signature is fluid and cursive.

Robert Larson
President
MBA of N.J.



April 24, 1978

Mr. Dale C. Davis Jr.
Assembly Commerce, Industry
and Professions Committee
The State House
Trenton, New Jersey 08608

Dear Dale:

Today I delivered to your desk the transcripts of the consolidated case involving Harry Helmsley, New Jersey Realty Company and Americana Associates vs. the Borough of Fort Lee, assigned to Superior Court Judge Harvey Smith for findings and determinations.

These are the transcripts that we offered as an exhibit for the hearings on A-504 in March, and would like to enter as an exhibit in the hearings on May 9, 1978.

Thank you for your continuing cooperation.

Sincerely,

Philip J. Cocuzza
Executive Vice President

PJM/fv

1977 OFFICERS

FRANK GAMBONY President	PHILIP J. COCUZZA Executive Vice President
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AFFILIATED ASSOCIATIONS

• National Association of Home Builders • Atlantic Home Builders Association of N.J. • Home Builders Association of Cape May County • Central Jersey Builders Association • Builders Association of Cumberland County • Builders Association of Metropolitan N.J. • Builders Association of Northern N.J. • Home Builders Association of Northwest N.J. • N.J. Shore Builders Association • Home Builders Association of Somerset & Morris Counties • Home Builders League of South Jersey





NEW JERSEY MOBILEHOME ASSOCIATION

340 WEST STATE STREET, IN THE HISTORIC STATEHOUSE DISTRICT, TRENTON, NEW JERSEY 08618 • 609 . 393 . NJMA
- A. E. PETRICK, CAE, EXECUTIVE DIRECTOR

To: Assemblyman Byron Baer
Commerce, Industry and Professions Committee

From: A. E. Petrick, CAE
Executive Director

Date: May 1, 1978

Re: A504

This is a follow-up to our testimony on March 1 at the last public hearing on A504, the just and reasonable rate of return bill. We testified then in opposition because of the devastating and unreasonable effects it would have on mobilehome communities.

If cursory review of the bill brings these objections, it's an indication of the deep-seated problems that would be unveiled with in-depth study, such as you and your committee have no doubt done since that public hearing.

1. You indicated that the intent of the bill is to provide a yardstick for local boards to decide a just and reasonable rate of return. It is not intended to prevent local ordinances from allowing increases. But that's not how the bill is worded. Mr. Will Roberts of our Association questioned whether we must address the bill as written or the bill as interpreted.
2. The bill indicates that interest on mortgage payments may not be considered part of the costs in the 60/40 calculation of costs vs. profit. That's impossible. A house owner can not eliminate the interest cost on his mortgage payment when he's figuring his budget. Neither can a business.
3. The percentage allowed for a manager does not allow mobilehome communities even a fraction of the cost of a manager. A 100 site community with a home site lease of \$100, after they deducted free home site rental for the manager, would have a total of \$4,225 to pay the manager, secretary, stationery, postage, telephone, etc. You personally agreed, Assemblyman Baer, it would be impossible to fund all those expenses with that allowance.
4. The bill was stated to be based on the Cambridge experience. In his brief for the Supreme Court for the Fort Lee rent control case, Judge Smith just indicated that the Cambridge experience was not a good one and that it resulted in exorbitant costs for all concerned.
5. This bill will adversely affect the availability of mortgages. The banker can expect that costs will go up - expenses, taxes, overhead, are all on a rising scale. If the owner of the property is tied to income that cannot go up accordingly, the bank will not lend the money. This would totally

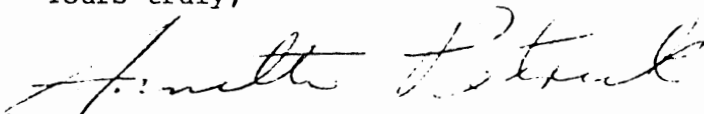
- more -

stifle financing of new mobilehome communities and multi-family dwellings in New Jersey during a time when such stimulus is desperately needed by our economy.

6. The representative of the Mobile Home Owners Association, William Palmer, in his testimony on March 1, agreed that interest should be allowed, on that portion of the funds that is actually for financing of the community. Mr. Palmer recommended that the owner be allowed interest plus 15%.
7. The portion about arms length transactions could be extremely inhibiting. A less than arms length transaction could be completely legitimate and even money saving. Residents should not be denied that savings.
8. Certification of energy conservation by the Department of Energy could create extra expenses and a new layer of bureaucracy.
9. The bill indicates that no increase would be allowed where the community or building does not meet health standards. Is that reasonable? Or would it preclude making the repairs?
10. The figures in this bill are extremely arbitrary. No two businesses are alike and it's inconceivable that this over-all bill could or should be applied to all.

NJMA respectfully requests that this bill not be passed as it is unworkable, arbitrary and counterproductive to its stated goals.

Yours truly,



Annette E. Petrick, CAE
Executive Director

AEP:jt

Davis
MAY 18 1978

CLIFFSIDE PARK TENANTS ASSOCIATION
POST OFFICE BOX 46
CLIFFSIDE PARK NEW JERSEY

May 16, 1978

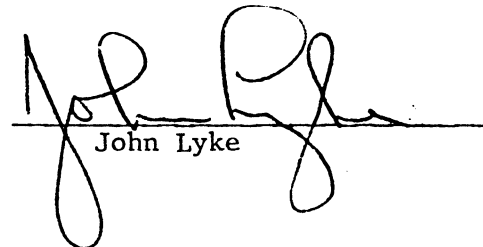
Mr. Dale Davis
Legislative Services
Commerce, Labor, & Industry Committee
State House
Trenton, New Jersey 08625

Re: Assembly Bill No. 504
Public Hearing

Gentlemen:

Enclosed is my testimony which I would like to be a part of the public record. I remain

Very truly yours,


John Lyke

JRL:dl
Enclosure

cc: New Jersey Tenants Organization

TESTIMONY OF MR. JOHN R. LYKE, PRESIDENT, CLIFFSIDE PARK TENANTS ASSOCIATION, MEMBER OF THE BOARD OF DIRECTORS, NEW JERSEY TENANTS ORGANIZATION.

Mr. Chairman: After being present at the entire public hearing on Assembly Bill No. 504, held on May 9, 1978 I feel obligated to submit this written testimony addressing, first, the testimony of Mr. Tony Palmieri (the last speaker of the day) and secondly, the overall issue he raised, that of "vacancy decontrol".

Vacancy decontrol allows for any increase in rental after an apartment becomes vacant. Two years ago, Mr. Palmieri was one of the chief sponsors of this measure adopted by the Borough of Cliffside Park, NJ. Mr. Palmieri owns a 36 unit building in Cliffside Park that is approximately thirty (30) years old. Two years ago, before vacancy decontrol was locally adopted, the tenant population in his building was stable with tenants paying a moderate rent and the percentage of tenancy turnover being very low. Today many of the rents have nearly doubled-even discounting the hardship increase of \$45-\$60 per apartment, which was previously granted the landlord - with almost no increase in maintenance service, and improvements are at a minimum. Currently, tenants who have not moved from Palmieri's building are complaining to government officials about the escalating rent roll and the turnstile tenancy due to maintenance complaints not being processed expeditiously.

Overall the vacancy decontrol concept undermines the effectiveness of any rent ordinance, rewards the "bad" landlord and penalizes the "good" landlord, and hurts those tenants who are in the greatest need of help.

Generally, the following reasons given for consideration of vacancy decontrol have been given by landlords wherever rent legislation exists or is contemplated:

- Vacancy decontrol will allow landlords to receive higher rents and this, in itself, will be a step towards a "free market".
- Additional rental income from the vacated apartment will cover increases in operating costs.
- Vacancy decontrol will spur investments in residential property, both in renovation of existing housing and new construction.
- The additional rents will provide incentive to make capital improvements, supply better services, increase maintenance.
- The tide of deterioration of buildings and even abandonment will be stemmed by vacancy decontrol.

These reasons sound very sane, healthy and even promising, but I am sorry to report that they add up to nothing but dreams.

The effects of vacancy decontrol have been thoroughly examined, studies and reported. I refer to in particular to the studies and surveys conducted by the New York State Division of Housing and Community Renewal (HCR), the New York City Housing and Development Administration (HDA), the 1974 Report on Housing and Rents by the well-publicized Stein Commission, and also the report on that subject by Professor George Sternlieb of Rutgers.

The findings of these studies overwhelmingly concur with those of the New Jersey Tenants Organization, namely, and in summary, that there is no benefit to vacancy decontrol. Among the findings were the following major points:

- Excess rents recovered by landlords because of vacancy decontrol were not reinvested in capital improvements, but in fact resulted in an actual decrease of 30% in renovation.

- Vacancy decontrol failed to stimulate capital investment either in new or renovated buildings, and failed to reduce abandonment.

- New construction was unaffected by vacancy decontrol.

- Vacancy decontrol encouraged a disparity in rents.

- Vacancy decontrol succeeded only in increasing residential units beyond those rents necessary to cover increased costs and succeeded in creating chaos in the rental market.

- The HDA study concluded reduced controls led to reduced maintenance. The study showed that in 1972 the decontrolled units received less expenditure by landlords than regulated units.

- The policy of returning apartments to the free market fails because with vacancy rates hovering around 0, no free market exists.

- Vacancy decontrol leads to tenant harassment and insecurity.

And most importantly, studies and our experience have shown that vacancy decontrol has placed extreme hardship on the elderly and the poor in the form of increased rent and insecurity.

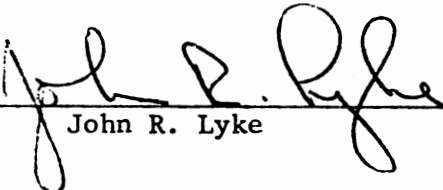
The impact of vacancy decontrol falls heavily on the elderly who must seek new residences because of the shrinking size of their family and their reduced economic strength; on the low income and disadvantaged tenant who are continually in search of affordable housing; and on the newly married who have new financial obligations and little resources to devote to rent. Vacancy decontrol penalizes those who need the most help.

On the other side of the coin, vacancy decontrol penalizes the "good" landlord while giving a bonus to the "bad" one. If a tenant finally finds an apartment that is well maintained and is within the tenant's means, the tenant is more likely to stay in that apartment and that building will have the smaller turnover rate. But the building which is poorly maintained or where the tenants are treated poorly will suffer a higher turnover and, because of vacancy decontrol, the owner is well rewarded for his lack of concern for the tenants, the building and the community.

All of these findings apply to both vacancy decontrol policies which impose no restrictions on re-rental increases and those imposing some limits, such as the 25% rent increase limitation in East Orange.

Based on these facts I implore the legislature to disregard Mr. Palmieri's testimony or any other person who is attempting to spread this disease known as vacancy decontrol.

Respectfully submitted,



John R. Lyke

Davis

MAY 17 1978

VERONA TENANTS ORGANIZATION
PO Box 194
Verona, NJ 07044

May 15, 1978

Joint Committee on A504
c/o Dale C. Davis Jr.
Legislative Services
Room 318, State House
Trenton, NJ 08625'

Gentlepeople:

As I was unable to stay last week to testify on A504 the following is my opinion as a tenant leader and is based on discussion with many tenants in and out of my own organization.

First: Contrary to Mr. Baer's pleading, the hearing was on Statewide Rent Control. The reason for this was that even the builders and owners realize that the rules should be the same for the entire State.

Secondly, A504 is a BAD bill. The owner who has paid off the mortgage would be guaranteed a minimum of 40% of the income as profit but the owner who has a new mortgage may have an excuse for tears.

Thirdly: an accountant compared A504 with the Verona Rent Control Ordinance and said A504 would be bad for us.

Fourth: the complaints that I receive as Acting President and Founder of the Verona Tenants Organization deal with the constantly increasing rents and the fight to get repairs.

Fifth: we need a STRONG Statewide Moderate Rent Control Bill that includes Rent Board Rules, Subpena Power for Rent Boards, no increase: if other than minor repairs are needed and remain unrepaired for a reasonable time for needed repair, that no increase be allowed if Health Laws remain in violation, that all apartments except new construction renting for the first time be covered - that includes even owner occupied two family homes, that rent goes with the apartment and not with the tenant.

A fair and Reasonable Return should be on income, 6 - 10% Less than 6% would merit review by the Rent Control Board for an increase above say the Verona lease formula, CPI increase in the 1st 9 months of the yearly lease with a maximum yearly increase of 5.5%. Over 10% profit would justify a reduced increase in rent.

Basically, A504 seemed to have a good handle on allowable expenses.

Uninhabitability penalties of reduced rent should not be allowed as a factor in calculating % profit but the full rental should be called income just as if collected.

Expenses for repairs that have gone neglected for years and now cost more because of escalating damage and cost should be prorated and not all taken at one time.

Hardship rental increases shall not become a part of the base rent when due to non-recurring expenses such as required repairs.

Our free enterprise system is important but PEOPLE are more important. When people must pay 80% and more of their income for rent in order to stay in an area that they have lived in for years, something is wrong.

When assessments are reduced on properties that could not justify hardship increases, it means that huge increases in rents preceded Rent Control and the over inflated values are now leveling off. Tenants for several years were paying more than their fair share of taxes without income tax credit because rents were going up 40 to 50% at a time.

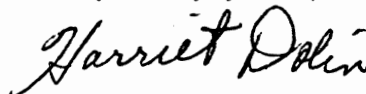
According to a report last week on TV or Radio the CPI including the expected for 1978 has gone up 56 % since 1970. That is all items. My rent has gone up 83%. It was uncoⁿsciable increases that brought on Rent Control. My experience is not unique The Federal Controls came just too late to save NJ renters.

We know a landlord must make a profit to stay in business but people must live in dignity. In solving this tough riddle include all the tenants of New Jersey.

If the people are afraid that they will pay more property tax, if rental property pays only its fair share, then remind these people that it will cost much more to subsidize tenants or to pay for more welfare or SSI. The taxpayer is going to pay. What is equitable? Rents should not pay taxes for private homes or vice-versa. Each should be realistically assessed.

Your attempt to solve the problem is most appreciated.

Very truly yours,



Harriet Dolin
Acting President VTO

CC Assemblyman Fortunato

MAR 11 1987

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