

SINCE THE EARLY EIGHTIES, THE NATIONWIDE REAL ESTATE INDUSTRY HAS PUSHED HARD TO ROLL BACK RENT CONTROLS. NOW IT'S BITING THE BIG APPLE.



## The Landlords Stage A Rent Strike

PETER DREIER

New York's rent law expires June 15, and unless the Republican governor, Republican-controlled Senate and Democratic-controlled Assembly reach agreement, more than 2 million tenants of New York City's rent-regulated apartments, as well as others in smaller cities and suburbs, will lose all protections. The politicians in Albany have been practicing brinkmanship, keeping the media well fed but making tenants nervous.

Like much of politics, the fight over rent control boils down to a struggle between organized money and organized people. The landlord lobby typically trots out small-property owners as the public face of the anti-rent control campaign, "Mom and Pop" landlords beleaguered by a bureaucracy that protects affluent tenants. But in fact the real estate forces are dominated by fat cats. Over the past five years they dramatically increased campaign contributions to the state G.O.P. and its candidates, making the industry one of the biggest donors in state politics. Last year the Neighborhood Preservation Political Action Fund and the Real Estate Board PAC, both major industry groups, were the fourth- and sixth-largest contributors to state legislative races, according to a report by the New York Public Interest Research Group. The landlord-sponsored Rent Stabilization Association PAC, which was formed in 1992 and has given about \$750,000 to state candidates and party committees, was not far behind. Since 1993, *The New York Times* reported, a small group of major developers and landlords—Donald Trump, the Fisher brothers, Bernard Mendik, the Milstein family, Sheldon Solow, Peter Kalikow, Lewis Rudin and Leonard Litwin—gave more than \$1.1 million to state candidates and party committees, mostly Republicans. "Getting rid

of the rent laws is a very big deal to us," as one landlord put it.

Apartments represent two-thirds of New York City's 3 million housing units. Only about 70,000 units are still under the old rent-control system, which covers apartments built before 1947 in which the same tenants (or immediate family members) have lived since 1971. These units tend to have the lowest rents (averaging \$428 a month) and poorest tenants (average income: \$13,428). About 1 million apartments fall under the city's rent-stabilization system, which covers apartments built before 1947 in which tenants vacated rent-controlled units, those built between 1947 and 1969, and a few recent buildings with special tax breaks. (There are another 60,000 rent-stabilized apartments in the Nassau, Westchester and Rockland County suburbs.) Rents in stabilized apartments average \$600, about \$80 below rents in unregulated units, although the size of the "discount" varies widely. Also at risk are provisions protecting tenants against arbitrary evictions. The systems follow different formulas, but generally they allow landlords to raise rents based on their annual costs.

Last December, State Senator Joseph Bruno, the Republican majority leader, declared his intention to wipe out all rent protections, which have been in place in New York in one form or another since World War II. Bruno, who represents rural Rensselaer County, has little to lose by alienating voters in New York City and its suburbs. But the state's two top Republicans—Governor George Pataki and his political mentor, U.S. Senator Alfonse D'Amato—worry about the sizable tenant vote and hope to broker a compromise between the current system and no system at all.

In mid-May, Pataki announced his support for "vacancy de-control," a policy that allows landlords to raise rents to market levels when a tenant dies or voluntarily vacates a regulated apartment. (As this article goes to press, Bruno has accepted vacancy

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decontrol under pressure from downstate Republicans.) New York once tried vacancy decontrol—about 400,000 apartments were removed from regulations between 1971 and 1974. Rent-controlled units went up an average of 52 percent. Not surprisingly, landlord harassment and evictions escalated, because under vacancy decontrol owners gain when tenants leave. Decontrol was such a disaster that after three years the state legislature (with both houses controlled by Republicans) and Republican Governor Malcolm Wilson repealed it. Pataki has pledged to strengthen anti-harassment laws in tandem with vacancy decontrol, but tenant groups say landlords will find ways to circumvent the law and don't trust the governor to enforce it.

It is a sign of the real estate lobby's political and ideological power that vacancy decontrol is now identified as the middle-ground position. Vacancy decontrol is like calling for eliminating seat belts for new cars while keeping them in cars people already own. Sooner or later, as people replace old cars, there will be no seat belts at all. Bruno, who has received lots of the landlord lobby's money, positions himself as the "extremist" so Pataki, whose pockets also jingle with real estate cash, can appear moderate. If either Bruno or Pataki gets his way, landlords win. In late May, after weeks of denouncing Pataki's plan, the Rent Stabilization Association proved the point by buying \$200,000 worth of radio ads in its favor.

Since the early eighties, the nationwide real estate industry beefed up its political arsenal and began using rent control as a symbol of "big government." Unable to roll back rent control at the local level, the industry, led by the National Multi Housing Council, looked to the federal and state governments for help. In 1981 and 1982, Senator D'Amato introduced legislation backed by the Reagan Administration to punish cities with rent control by denying them federal housing subsidies. After a bruising battle that included intense lobbying by tenant groups and help from then-Speaker Tip O'Neill (whose home city, Cambridge, Massachusetts, had a strong tenant movement and a strong rent-control program), the D'Amato bill went down to defeat.

But by 1995, thirty states, none of which had rent-control laws, had passed legislation preventing local governments from enacting them. In the past two years the real estate lobby has used its political muscle (with both Democrats and Republicans) and the tenants' weakness to abolish rent control in Massachusetts and severely weaken it in California, once hotbeds of tenant activism. Today more than half of the roughly 150 localities in the nation with some kind of rent regulation are in New Jersey, where the New Jersey Tenants Organization has built a strong base in working-class and middle-income suburbs.

Tenants are notoriously difficult to organize. For one thing, they generally move a lot. In most parts of the country, middle-class renters aspire to homeownership and have little reason to become tenant activists. But renting is a way of life for many middle-class New Yorkers as well as the poor, and the city has a long history of effective tenant organizing. The New York State Tenants and Neighbors Coalition (N.Y.S.T.N.C.), an umbrella of 148 local tenant and community organizations, is leading the

pro-rent control campaign. It has more than 20,000 dues-paying members and an impressive staff of eighteen organizers and lobbyists who can maneuver inside and outside electoral politics. They've held protest rallies at city hall and the State Capitol in Albany. The movement has its own Web site (<http://tenant.net>) to keep tenant activists, the media and others abreast of the battle.

In April, realizing they were three votes shy of a pro-rent control majority in the State Senate, the coalition began targeting six key Senate districts (two in New York City and four in the suburbs) with Republican incumbents. Through a telephone and door-to-door canvass, the coalition has contacted every tenant who is registered to vote in these districts at least once, and organized constituent meetings with the senators. The coalition has enlisted some important allies. Two days after N.Y.S.T.N.C. leaders met with him, New York's John Cardinal O'Connor, in a May 11 sermon at St. Patrick's Cathedral, urged state lawmakers to maintain the current system. The major unions have made preserving rent control a priority, not only because many of their members

live in regulated apartments but because they see it as a weapon against anti-union Republicans. Unions have provided phone banks and volunteers, lobbied legisla-

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tors and included rent-control information in their newsletters. Republican New York City Mayor Rudolph Giuliani reluctantly supports the status quo. "Giuliani could single-handedly stop vacancy decontrol," says Michael McKee, the coalition's chief organizer, "but he's not using his bully pulpit for tenants the way he did with parking tickets for U.N. diplomats."

On May 20, N.Y.S.T.N.C. bused more than 5,000 tenants to Albany for a protest rally at the State Capitol, brandishing signs, buttons and caps proclaiming, "I'm a Tenant and I Vote" and "No Protection, No Election." Assembly Speaker Sheldon Silver, a Manhattan Democrat who is leading the pro-rent control forces in the legislature, told the crowd that Pataki "cares more about a few of his campaign contributors than he does about millions of you.... What kind of governor allows hard-working, taxpaying citizens to be threatened with the loss of their homes?"

Democrats have allied themselves with the tenants. Since Pataki, D'Amato and Giuliani soon face re-election, their likely opponents are attacking them as tools of the landlord lobby. In late April the Democrats began a TV and radio ad campaign, costing about \$100,000, urging voters to hold Pataki and D'Amato personally responsible if the legislature weakens rent laws.

In many ways, the battle over rent control is a surrogate for broader ideological issues. Tenant activists and their allies argue that rent regulations are needed to restore balance between renters and landlords, who control a scarce but fundamental necessity. Landlords argue that rent control is unwarranted interference with their private property rights. They've turned New York's rent-control wars into a battle of images and ideas, assisted by hired academics and think tank policy wonks who turn out reports, testify at hearings and talk to reporters.

First, landlords argue that rent control doesn't even do what its proponents want—protect the poor. The lobby has been successful at identifying wealthy and high-profile New Yorkers—movie stars,

politicians, business executives—who live in regulated apartments with rents far below what they can afford. It's true that some New Yorkers in rent-controlled apartments own summer homes and drive BMWs. In 1993, the last time the rent laws were renewed, Bruno successfully pushed for "luxury decontrol," which eliminated regulations on apartments occupied by people with incomes over \$250,000 and with rents above \$2,000. This year Governor Pataki, in addition to promoting vacancy decontrol, wants to lower the luxury decontrol floor to \$175,000. This would affect only 13,000 households—about 1.4 percent of rent-stabilized apartments. Contrary to landlord propaganda, only about 5 percent of rent-stabilized households (and fewer than 1 percent of rent-controlled households) have incomes above \$100,000.

In fact, according to the 1996 New York City housing and vacancy survey, about one-quarter of the approximately 1.1 million households in rent-stabilized apartments are poor. About 48 percent have annual *household* incomes below \$25,000, and 68 percent earn below \$40,000. Even in rent-stabilized apartments, the typical tenant spends one-third of household income on rent. Twenty-nine percent spend at least half their income on rent.

Second, the landlord lobby claims that if we get rid of rent control, banks and developers will start a rental housing construction boom. Don't count on it. Studies that compare similar cities with and without rent control reveal that they have about the same amount of new rental housing construction. Why? For one thing, rent-control laws, including New York's, permanently exempt new buildings from rent regulation. The city's biggest postwar housing boom occurred from 1947 through 1966, when strict controls covered most existing apartments. In contrast, the last time New York lifted rent controls—in the early seventies—no boom followed. Given the current costs of financing, construction and land, a developer of a new apartment building in New York City needs to get rents of at least \$1,600—\$19,200 a year—just to break even. (The figures are even higher in much of Manhattan.) There simply aren't enough households in New York City that can afford that kind of rent to jump-start a new construction boom.

Deregulation might trigger a small spurt of new high-end rentals, in the \$2,000-to-\$5,000-a-month range. This, developers allege, will increase the inventory of new apartments and start the "filtering down" process, whereby wealthy renters move up to newer and fancier buildings, leaving the other apartments for the middle class and the poor. More likely, deregulation will lead to "filtering up," as landlords respond to the intense competition for scarce apartments by raising rents. Even in older buildings with lower operating costs, break-even rents are often higher than many poor people can afford, even with rent control. In the city's poor neighborhoods, the rents allowed under rent control are sometimes higher than "market" rents.

That explains why the landlord lobby's third claim—that rent control leads landlords to abandon their buildings because they can't make a decent profit—is bogus. A recent study by the Rent Guidelines Board found that landlords' profits have grown steadily since 1992. In New York's middle-class or high-income areas, stabilized rents, though often significantly below the market, allow landlords to maintain their buildings and make a profit. Abandonment, not surprisingly, is concentrated in poor neigh-

borhoods—as it is in St. Louis, Cleveland, Detroit and other cities that never had rent control. The problem is growing poverty—low-wage jobs and inadequate welfare payments.

In other words, the basic problem is that the poor don't have enough money to pay what some landlords expect in order to stay in business. The solution is to give poor people more money so they can pay rent. That's what various government housing programs over the years have tried to do. But nationwide, only one-third of all low-income renters—those who are eligible for housing subsidies—get any. This comes in the form of rent vouchers, public housing and Section 8 housing. In New York City, it's slightly higher, in part because the state government once helped build subsidized housing for moderate-income families (like the Mitchell-Lama developments) and because New York made good use of the federal public housing program.

But Congress is slashing the HUD budget, and New York State has virtually ended subsidies for new housing construction. As a result, most poor tenants are subject to the housing marketplace. According to a new study by Michael Schill and Benjamin Scafidi of New York University, there are more than 1 million low-income households in New York City (not counting the homeless) but only about 750,000 apartments with rents they can reasonably afford. So why don't powerful landlord and developer groups lobby Washington for more housing subsidies for the poor—or to build more mixed-income housing? They complain that it's society's job, not theirs, to house the poor, but don't put their clout into efforts to increase government funding. Nor do they protest huge tax breaks to rich investors, landlords and homeowners. For example, half the mortgage interest deduction—a subsidy worth \$58 billion in fiscal 1995—goes to homeowners who make over \$100,000. In contrast, HUD's entire budget is only \$20 billion.

Let's imagine that they succeed in dismantling the rent laws. What will happen? Decontrol in cities like Cambridge, Massachusetts, and Santa Monica, California, is both recent and gradual, so it's too early to draw conclusions about its effects. In New York City, though, a study sponsored by the landlords' Rent Stabilization Association predicted that deregulation would lead to average rent hikes of more than 13 percent—but as high as 51 percent on Manhattan's Upper West Side.

For the poor, the mad scramble to find apartments in a market with a near-invisible vacancy rate will force many to double and triple up in overcrowded housing. Even then, many will wind up spending almost all their income—whether from wages, welfare or both—just to keep a roof over their heads. We'll see a substantial increase in homelessness. Mix in the impact of recent cuts in federal welfare and housing subsidies—depriving many poor families of subsistence income—and the lot of New York's underclass will soon resemble turn-of-the-century misery.

Some middle-class tenants will simply move out of New York City, changing the character of many neighborhoods. For many of those who remain, there won't be much left to spend at the corner grocery store and the supermarket, the clothing store, the video store, the dentist, the bookstore, the taxi and the local pharmacy. And forget the theater. There'll be even less money to sustain a neighborhood retail economy in the city's poor and

working-class neighborhoods. Those small, typically minority-owned businesses will particularly suffer.

So far, however, New York's business leaders seem willing to let the relatively small but well-organized landlord lobby hold the city's economy hostage. The city's major employers, retail chains, restaurant and supermarket industries and neighborhood business associations have not seriously weighed in on rent control. If they did, their general antigovernment ideology and Republican predilections would probably point them in the wrong direction. The city's four daily newspapers, too, have all editorialized in favor of vacancy decontrol.

Rent control has its flaws, but it does more good than harm.

It protects working-class people from the worst excesses of the marketplace, and it assures that some middle-class people can still afford to live in the city. It guarantees that New York won't become a two-tiered society, affordable only to the very rich and, for those lucky enough to live in government-subsidized housing, the very poor. And from the perspective of the broader business community, it guarantees that New Yorkers will have enough income left after paying their rent to shop for food and clothing and even take in the occasional movie. No one has yet figured out a better way—short of massive federal direct subsidies to tenants or nonprofit community developers—to enable average New Yorkers to stay in the city. ■

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