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FEDERAL TRADE COMMISSION

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July 1, 1987

Senator Ray Moore
Washington State Senate
Olympia, Washington 98504

Dear Senator Moore:

The Federal Trade Commission's Seattle Regional Office is pleased to accept your invitation to comment on Senate Bill 5601,¹ which would establish rent controls for mobile home parks.² We recommend against the passage of this bill. We believe that even short-term rent control would be undesirable because it would tend to decrease the supply of mobile home spaces and increase the demand for existing spaces. Rent control would therefore exacerbate the shortages that already exist. We suggest that legislation to eliminate impediments that may constrain the supply of mobile home spaces would better serve consumer interests.

The Federal Trade Commission is charged with maintaining competition and protecting consumers from restraints of trade.³ In accordance with this role, the Commission and its staff submit written comments or provide testimony to federal, state, and local legislative bodies and administrative agencies to explore competition-based approaches to various policy issues. Our goal is to assist decision-makers by identifying how various legislative proposals may affect competition and consumers.

The Commission's staff has previous experience in analyzing the effect of price restrictions, including rent controls. In March 1987, for example, Commission staff provided the New York City Council with written comments on several proposed rent control ordinances. Earlier, a member of the staff testified before the District of Columbia City Council on that city's proposed Rental Housing Act of 1985.

¹ This letter briefly addresses Senate Bills 5076 and 5768 as well, which also concern mobile homes.

² These comments represent the views of the Seattle Regional Office and of the Bureaus of Competition, Consumer Protection, and Economics of the Federal Trade Commission, and not necessarily those of the Commission. The Commission has, however, voted to authorize submission of these comments to you.

³ See 15 U.S.C. § 41 et seq.

We appreciate the concerns that others have expressed with regard to rising rental fees in Washington State mobile home parks. Mobile homes are a major source of low-cost housing in this country. Senate Bill 5601 deals with rising rental fees by establishing a form of rent control as a short-term solution, until a long-term solution can be found. As we will explain more fully below, we do not believe that rent control represents sound public policy, even if it is temporary in nature. Nor do we think that rent control will accomplish the goal of avoiding serious economic hardship for large numbers of mobile home tenants. We believe that market-based strategies that can increase the supply of parks and rental spaces would be a better solution.

Effects of Rent Control

Rent control is not a new idea. The concept has been tested in many places around the country. One lesson is clear: rent control reduces market incentives that would otherwise operate to increase the supply of rental units.⁴ Rent control of mobile home spaces tends to reduce supply because it reduces the profitability of new investments in mobile home parks. With rent control, land now used for mobile home parks, as well as land that might be available for this use in the future, will in some cases be more profitable if used differently. Also, rent control increases uncertainty about the level of future government intervention. The uncertainty associated with even short-term rent control discourages investment, so it would not be surprising to see reductions in the supply of parks and spaces.

Rent controls may also create an excess demand both by lowering the price (so that more spaces are demanded) and by decreasing the availability of spaces. This will aggravate any existing shortage of parks and exacerbate rather than alleviate the problems in this industry.

Rent control has several other adverse effects. First, it tends to reduce quality. At controlled prices, owners of mobile home parks will have less incentive to maintain high standards. This may lead to deterioration in the quality of existing mobile

⁴ The adverse effects of rent control are well documented. See, e.g., R. Ault, The Benefits and Costs of Rent Control in New York City (1983); C. Baird, Rent Control: The Perennial Folly (1980); Rent Control: Myths and Realities (W. Block & E. Olsen ed. 1981); Moorhouse, Optimal Housing Maintenance Under Rent Control, 39 S. Econ. J. (July 1972); and Olsen, An Econometric Analysis of Rent Control, 80 J. Pol. Econ. (Nov./Dec. 1972).

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home parks. Since the imposition of controls creates an excess demand, landlords can reduce maintenance and still keep their units occupied. The level of maintenance becomes the major adjustment mechanism available to landlords to set real rental rates at a market level.

Second, rent control may reduce local tax revenues. Limiting the income earned by rental property will make it less valuable. Because the land is less valuable, total tax revenues raised at a given property tax rate will be less.⁵ For instance, rent control in Cambridge, Massachusetts substantially reduced property tax collections.⁶ Similar results were found in New Jersey, where the tax value of a representative 30-unit apartment building increased by 9% per year for a two-year period before control and by only 1.3% a year after control.⁷

Third, rent control may lead to discrimination in the rental market. In a rent-controlled market, there will be more people who want units at the stabilized price than there are units. Landlords (or park owners) can discriminate in renting these units on the basis of personal characteristics of the tenants and still rent out all available units.⁸

These various negative effects of rent control are not always immediately visible but occur gradually over time. Nevertheless, they are real and well documented.

Does Senate Bill 5601 Avoid These Problems?

Senate Bill 5601 attempts to avoid these problems by: (1) establishing only "short-term" rent control; (2) allowing rent increases equal to the residential rent component of the

⁵ Tax rates may then be increased. Rent control can also result in a mistaxing of rental property in relation to non-controlled property. Decisions concerning the use and development of such property may then be distorted by the differences in tax treatment.

⁶ Navarro, Rent Control in Cambridge, MA, 78 The Public Interest 83-100, 1985.

⁷ See Harney, The Invisible Tax: What Homeowners Pay to Support Local Rent Controls 5-6 (1982).

⁸ See, e.g., Navarro, supra, note 6 at 85.

consumer price index; and (3) allowing for appeals to county boards.⁹ These and other complex provisions of the bill should lessen the impact of, but may not eliminate, the adverse consequences discussed above. Senate Bill 5601 could still lead to a reduced supply of spaces in mobile home parks, poorer quality parks, lower tax revenues, and increased opportunity for discrimination. A lower level of maintenance would still be the mechanism used to set rental rates at market levels. Weakening the impact of rent control does not turn these adverse effects into benefits.

Senate Bill 5601 states that rent control would remain in effect until "long-term solutions may be developed." Although short-term rent control may do less harm than long-term control, it has been observed that short-term rent control almost inevitably becomes long-term control.¹⁰ Even if the bill is intended to impose rent control only temporarily, the pressures to maintain rent control that have been observed in other states may also come to bear in Washington.

We also note the administrative complexity of Senate Bill 5601. Local rent control boards must be created, and for mobile home parks established after January 1, 1986, a local appeal board must determine fair net operating income. In determining fair net operating income, adjustments must be made for increased or decreased expenditures on a dollar-for-dollar basis for a sizable list of operating expenses. It appears that the local boards would operate essentially as small utility regulatory agencies. Those familiar with such operations know that they can be costly and cumbersome. Even without addressing all the provisions of the bill, it is apparent that Senate Bill 5601 would create an expensive and complex administrative apparatus to administer rent controls that, in our view, are themselves undesirable.

A Better Solution:
Removal of Market Impediments

A better approach to the perceived problems would be one that allows the market to increase the supply of mobile home spaces. Senate Bills 5758 and 5076 appear to represent attempts to implement such market solutions.

⁹ The bill's appeals provisions provide for individual adjustments in rents to compensate park owners in cases where rental increases otherwise permitted will not produce adequate "net operating income."

¹⁰ See Navarro, supra note 6.

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Senate Bill 5768 takes a step toward a long-term solution in that it would alter existing local planning and zoning restrictions to permit the placement of manufactured housing in districts where it would be compatible with, and comparable in value to, existing or developing housing. Without commenting on the merits of the particular bill, we favor the approach taken in Senate Bill 5768, to the extent it reduces current government restrictions on the availability of mobile home spaces and thus increases their supply.

We believe that Senate Bill 5076, which creates a commission composed of state and local officials to study ways to increase the availability of land for the development of mobile home parks, also has the potential to effect useful change.¹¹ The commission's charge would be to study the operation of parks and to recommend provisions designed to (1) increase competition among mobile home parks, (2) increase the supply of land available for mobile home parks, and (3) address the problems of cost increases for these parks. To the extent the recommendations succeed in reducing governmental impediments to competition and supply, Senate Bill 5076 is more likely to effect a long-term solution. Rent control, even in the relatively modest form contemplated by Senate Bill 5601, has the potential to obstruct a long-term solution.

In conclusion, we urge the Legislature to remove market impediments that now constrain the supply of mobile home spaces. We urge against contributing to whatever problems already exist by enacting rent control and thus reducing supply. Senate Bill 5076 would facilitate finding a long-term solution involving a minimum cost to both taxpayers and mobile home residents.

¹¹ Senate Bill 5076 mentions the possibility of a subsidy and this is not a feature of the bill we endorse. We also note a minor drafting difficulty with Section 3(1)(c) of Senate Bill 5076. This provision now reads, in part, "Solve the problem of continual increases in mobile home rental spaces. . . ." We believe the provision was intended to read "Solve the problem of continual increases in costs for mobile home rental spaces. . . ."

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We are grateful for this opportunity to present our views
and hope they will be of assistance to the Legislature.

Sincerely,



Richard O. Zerbe, Jr.
Economist



George J. Zweibel
Regional Director