

Attend a **FREE** Better Trading WEBINAR, LiveOnTheWeb and discover a better way to trade. REGISTER TODAY



IBD FREE TRIAL

Home Stock Research eIBD News IBD Editorials Education Community IBD TV Store

Enter Symbol/Keyword Get Quote Search Site

IBD EDITORIALS



L.A.'s Big Freeze

Posted 04/15/2010 06:54 PM ET

Redistribution: Is the Los Angeles city council hellbent on sticking it to the little guy yet again, this time by cutting the housing stock? It couldn't come up with a better blueprint for that than its new scheme to freeze rents.

Wednesday, Los Angeles City Councilman Richard Alarcon introduced a motion to freeze rents, solely, he claims, because he cares about "fairness."

According to him, "a one-year hold on increases in rent (will) help our working families, and give the council time to consider longer-term fixes to ensure fairness in our rent control ordinance."

As if they needed a year to get a clue. Alarcon's plan, which sounds wonderful at first hearing, will in fact stiff ordinary people as landlords lose their incentive to stay in the housing business.

And freezing rents will do just that. Landlords will lose revenue as their costs continue to rise.

The basic market reality is each unit rented represents a contract between a willing buyer and a willing seller who agree on price. When the city council interferes, based on the idea that landlords only raise costs out of malice, the result is a less willing seller.

From there, it just gets worse. Units not subject to the law will go up in price to make up for those rented below market rates.

Investment in apartments will fall. Not only will it mean it's harder for a tenant to get a sink repaired, but capital improvements on buildings will decline. America's second city will look shabby.

The longer the freeze stays, the worse it gets. History shows that "temporary" freezes are never temporary. L.A. will eventually achieve the Beirut-like effect of the South Bronx during its Fort Apache days in the 1980s. That area got blown out because New York instituted "temporary" rent control measures during World War II that, somehow, never got lifted.

Abandoned units became commonplace, robbers tore out their metal pipes to sell for scrap and squatters moved in. Disregard for an unworkable law also led to a rise of illegal units, as housing got hard to find. Ever wonder why places like Cairo and Rio de Janeiro are ringed with shantytowns? A big reason is rent control.

As if that's not bad enough, a rent freeze will also cut city tax revenues, too. According to the Cato Institute, rent control leads to a decline in property value assessments.

Registration Benefits

IBD Forums

Participate in an IBD Forum and connect with other IBD subscribers.

GET eIBD AND START USING THE #1 INVESTING STRATEGY

Offer Includes:

- 1 Month of eIBD Plus 1 Month Free
- Action Plan DVD
- Live Investing Workshop

FISHER INVESTMENTS™

Don't Run Out of Money in Retirement

If you have a \$500,000 portfolio, download the guide by *Forbes* columnist Ken Fisher. Even if you're not sure how to start rebuilding your portfolio or who to turn to for help, this must-read guide includes research and analysis you can use right now. Don't miss it!

[Click here to download](#)

Most Popular



Most Viewed Highest Rated

All Articles Media

[Stocks End Mixed In Choppy Trading](#)

[Nasdaq, S&P And Dow Up, But NYSE Composite Slips](#)

[Leaders Set Pace As Stocks Advance In Faster Trade](#)

[IBD Market Wrap - 4/15/10](#)

[IBD 2 Minute Tips – When to Get Into – And Out Of – The Market](#)

04/16/2010 11:00:37 AM ET

Investing Tip

Before buying stocks, compare them to a checklist that includes essential technical and fundamental characteristics.



That, in turn, means less tax revenue for city coffers. Not a smart move for a city that's already hundreds of millions in the hole.

It all shows that Alarcon's real scheme isn't to relieve working families, but to create a special interest group that will defend its privilege of paying below-market rents. Two-thirds of L.A.'s population pays rent, and 13 of the 15 city council members are Democrats.

That provides a nice setup for a way to get re-elected, even if your political popularity is waning fast.

The result will be less mobility and dynamism in a city that uniquely thrives on temporary deal-making. The only place for this economically foolish plan is the cutting room floor.

Avg. Rating: (11) Your Rating: ☆☆☆☆☆
[Email](#) | [Print](#) | [Comment](#) | [BOOKMARK](#) | [License](#)

[« Previous Article in IBD Editorials](#)

See Also

- [Israel Or Terrorists](#) 04/15/2010 06:54 PM ET
- [Climate-Gate Gets A Whitewash](#) 04/15/2010 06:54 PM ET
- [Jobs On Aisle Three](#) 04/15/2010 06:54 PM ET
- [For CEOs, Reforms Turn Reprehensible](#) 04/15/2010 05:43 PM ET
- [Small Business Vs. Big Government](#) 04/15/2010 05:43 PM ET

Comments Showing 1-5 of 8 [Leave a comment](#)

« « First | « Previous **1** 2 Next » | Last » »

Posted By: Serfdumb(1270) on 4/16/2010 | 10:50 AM ET

Amounts to confiscation of property - in name of 'fairness'. If the blood suckers keep getting their way, will lead to more & more loss of property rights; e.g. Pelosi's idea for Gov't confiscation of 401Ks and IRA accounts - in the name of 'fairness'. 'Fairness' to a politician means what's yours is mine to buy votes with and do as I please, cause I know best how YOU should live, work, breath, make & spend earnings, etc., it's called tyranny.

Posted By: acierno(1485) on 4/16/2010 | 10:46 AM ET

rent control is a crime it leads to; no new rental construction, decay of existing units, state control of once private property for political aims, loss of city and state revenue. also most of the people who own rental properties are not donald trump, they are mom and pop businesses that generally occupy the commerical area to secure their businesses. they rent out the rest of the building to make ends meet, if you drive these people out you also lose on the commerical tax revenue ala the bx

Posted By: InCincy(220) on 4/16/2010 | 8:53 AM ET

This will probably benefit the coastal enclaves. So, there will be wealthy communities on the ocean and in the hills overlooking favelas. It will be just like Rio or Mexico City (but with an ocean). Government does not recognize that it IS NOT A LACK OF REVENUES that is the problem. IT'S FUNDING RIDICULOUS PROMISES. Everything's free in America, everything's free in America.....

Posted By: EbPaceNYC(165) on 4/16/2010 | 7:45 AM ET

Looking at the stats, 2/3 of the pop are renters, and 13 of 15 council ppl are dems. Maybe some of these pols want in on the Charlie Rangel special of multiple rent control apts for their personal and political uses. Anyway, you'll end up like NYC with ppl who can't normally afford rent in a neighborhood but bc grandma lived there when it became rent controlled, they end up paying way below market rates in some nice areas. And then some ppl will struggle to make ends meet bc they're paying non controlled rents in order to subsidize the others.

Posted By: Osamas Pajamas(1870) on 4/15/2010 | 11:19 PM ET

Scorched earth is the best policy --- burn these buildings to the ground and tell the bloodsuckers --- "Seize this!"

« « First | « Previous **1** 2 Next » | Last » »

Trading Center

More than a trade. More for the trader.

Trade free for 30 days at TD AMERITRADE.

- [Lessons on Buying Stocks](#)
- [Lessons on Selling Stocks](#)
- [What is CAN SLIM?](#)
- [How to Invest in Options](#)
- [Investing Education Videos](#)