

HB19-1106, or the “Rental Application Fairness Act”, sets standards and conditions for landlords to use during the application process when renting their properties. It aims to make the application process more fair and transparent for tenants and applicants.

If HB19-1106 is passed, the cost charged for an application would have to be the amount it costs to process it for the landlord. Additionally, landlords would only be able to charge this cost at all of their properties and to all of their applicants. Further, if an application is rejected, the landlord would have to provide the applicant with reasons why their application was rejected. The landlord would be restricted to using the previous 7 years of credit when considering an application.

The bill stipulates that if this process is violated, then the landlord would be liable to pay the applicant double the application fee charged as well as any incurred legal fees in court.

Colorado ranks 43rd in the nation when it comes to protecting the rights of renters, according to RentCafe. RentCafe came to this conclusion by taking into consideration ten different criterion renters interact with, such as security deposits (Balint, 2018).

For example, Colorado does not have a law that requires landlords to give tenants advanced warning before entering. Another example is Colorado’s short eviction notice requirements. Colorado only requires a three day notice for eviction notices for both lease violations or non-payment of rent. This is very short compared to other states, such as Vermont where a 14 day notice is required for nonpayment of rent or 30

days for lease violations (Balint, 2018). HB19-1106 aims to protect the rights of renters and improve the state's reputation as a renter-friendly state.

Colorado is also a state experiencing rapid growth and an increasing demand for housing. A study done on lower-middle income housing reported this growth, "In 2000, Denver had a population of 554,636. The city has added nearly 128,000 new residents since then (in 2015), growing 23 percent." (Elliot, 2017). The same study compared this to the growth in housing, which lagged behind population growth at 17% between the same time period (Elliot, 2017).

A growing demand for housing and a supply that does not have as much growth makes renters likely to have to apply for many apartments before finding one where their application is chosen, making the application process costly for renters.

The government's role is to intervene when there is a market failure, an externality, or to regulate a public good's usage to make it more efficient. At times, there are reasons for the government to intervene for redistributive purposes. The Rental Application Fairness Act both addresses a market failure and a redistributive issue by addressing discrimination. Therefore, HB19-1106 should be passed to create a more efficient outcome in the Colorado housing market.

We can look at the number of suppliers or landlords in a market to assess if a market failure exists. In his study, Cronin found that the average number of landlords in multifamily "submarkets" (neighborhoods) in Washington D.C was 4.09 (Cronin, 1983). Having a limited amount of competition amongst suppliers allows landlords to have a large amount of control of the market. The same study found that on average across

D.C, 70% of the units in submarkets are owned by one firm (Cronin, 1983). Owning a large share of the supply allows landlords to pursue their interests and make profits above the optimal level, creating an efficient market.

Similarly, in Santa Barbara, Linson found that over 50% of the rental housing was controlled by 60 owners (Linson, 1978). Research has shown that many rental markets operate with few suppliers, allowing for each landlord to control a considerable share of the market. Having such a small amount of suppliers may also allow for the landlords to collude to increase their market power and operate more monopolistically (Cronin, 1983). The contraction of the amount of landlords leads to a market where renters are disadvantaged.

It is important that the government addresses this market failure because this is a situation where competition will not drive housing prices to the optimal price. Because landlords have the ability to manipulate the market to suit their interests, the government should step in to defend the rights of renters to help them in their disadvantaged position.

Further, this bill would also address housing discrimination practices landlords can use by mandating that the landlord charges the same price for all applicants. The bill gives applicants legal recourse for situations when landlords treat them unfairly.

Allowing for discrimination is not an economically efficient outcome. For example, a discriminatory landlord may lease their property to a less-than-efficient tenant solely because of their internalized thoughts on people of certain groups.

Sommervoll notes in his article on housing discrimination that, “Discrimination, however, is likely in any market where agent type influences the profitability or utility derived from a transaction” (Sommervoll, 2012). Because landlords perceive different people as better or worse tenants, they are likely to discriminate in their application practices to make sure they lease to the tenant they think would be best. In the housing application process specifically, “ethnicity, gender, presence of children, and sole parent status are all commonly perceived to be correlated with contract default and can be readily detected” (Sommervoll, 2012).

The Rental Fairness Application Act decreases the potential for discriminatory actions in the application process by leveling the playing field and mandating that all applicants pay the same price. Further, requiring landlords to respond to failed applications and explain why they did not choose them for the property mitigates the chance that landlords are able to use discriminatory practices to fill their properties.

HB19-1106 would give more rights to the renters in Colorado. It also adds regulations to a market in which landlords have an excess of market power. It would address problems of discrimination by ensuring that all applicants are treated equally in the application process, therefore achieving a more efficient outcome in the market for rental housing in Colorado. Due to all of these things, I support the passage of The Rental Fairness Application Act.

References

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