APARTMENT AND OFFICE BUILDING ASSOCIATION
OF METROPOLITAN WASHINGTON

Bill No: **HB 551—Real Property—Residential Leases – Rent Increase Restrictions**

Committee: **Environment and Transportation**

Date: **2/15/2022**

Position: **Oppose**

The Apartment and Office Building Association of Metropolitan Washington (AOBA) represents members that own or manage more than 23 million square feet of commercial office space and 133,000 apartment rental units in Montgomery and Prince George's Counties. Many AOBA members own or operate Class B and C properties that predominantly serve low and moderate-income families; they understand the importance of affordable housing.

This bill would establish rent control set at 2% on housing units built before1990 statewide. The bill applies to units that were already providing the most affordable rents as the bill targets Class B and Class C properties—those built in the 1980s, with rents below $2,250 and housing resident's that earn 50% AMI or less. The bill further limits rent increases to 1% a year during a state of emergency. Month-to-month leases are allowed a 1% rent increase and 0.5% during a state of emergency.

In Maryland there is a need for affordable housing options. AOBA member companies often provide high-quality, affordable rental housing. As such, AOBA members are well acquainted with the need for affordable housing, how to provide market-rate affordable housing and what is required to maintain affordable housing communities. However, this bill unintentionally penalizes those that are already providing naturally occurring-affordable housing by limiting rent increases at properties that offer affordable housing options with rents under $2,250. This disincentivizes providers from operating in that space as a 2% increase frequently does not track with the increased operating expenses to manage apartment communities. In this way, the legislation jeopardizes the State's ability to meet its affordable housing needs as it will take a mix of preservation and production to meet these needs. Government-enforced price control measures limiting the rents that property owners may charge are not the answer. In 2018, housing analyst Lisa Sturtevant, Ph.D., concluded "economists nearly universally agree that rent ceilings reduce the quantity and quality of housing and that even more moderate forms of rent stabilization have efficiency challenges and negative housing market impacts."

In a December 2020 Economic Impact statement for Bill 52-20, the Montgomery County Office of Legislative Oversight (OLO) writes, “economists generally conclude that rent control and stabilization laws generally do a poor job of targeting those with the greatest need and often the benefits are inefficiently and inequitably targeted.” House Bill 551 attempts to ensure that rent control is limited to those in need by defining a “restricted rental unit” as one that is occupied by a tenant that earns less than or equal to 50% of area median income. While this is a different type of “means testing” to last year’s bill, housing providers have no way of verifying which residents meet this threshold. Housing providers collect information about a prospective resident’s income at the time the resident is approved for the unit, however there is no way of knowing if the resident has experienced significant financial gain or setback. Thus, there is no way of knowing who makes less than or equal to 50% on any property at any given time. Unless this bill also intends to mandate on-going income verification which residents would rightly find invasive and housing providers are uncomfortable conducting.

Rent control has an ongoing adverse impact on the rental housing market by discouraging the development of rental housing and rendering investment in maintenance, capital improvement projects and rehabilitation near impossible. Investors will shift their investments to other non-rent regulated jurisdictions and will stall the development of new rental housing—creating less housing stock. When this decrease in rental housing stock coincides with increased demand, it leads to increased costs for consumers as there will be less options for market-rate affordable rental housing and less access to rent controlled units. According to the Montgomery Country OLO “such laws increase the number of condominium conversions, may reduce the number of new units constructed and can lead to disinvestment by landlords.” The OLO report also notes that there is “evidence that rent stabilization has led to neighborhood deterioration or increased crime in some locations.” Ultimately the reflex to implement rent control leads to less affordable and lower quality housing in the long-term.

We have real data on the impact of rent control in Maryland. In 2015, AOBA commissioned a study conducted by the Regional Economic Studies Institute (RESI) at Towson University to look at the economic and fiscal impact rent control legislation will have, and has had, in Montgomery County, Maryland. The research team found that the impact of rent control to a local jurisdiction, Montgomery County in this case, would result in reductions in property values of existing multifamily properties and would significantly decrease county property tax revenues. Rent control would also reduce income tax revenues paid by the 62% of multifamily property owners that resided in the County. Further, because rent control would disincentivize the construction of new multifamily and mixed-use properties, there would be revenue losses related to additional tax revenue and jobs. According to RESI, the specific fiscal impacts of rent control to Montgomery County included the following:

- Estimated annual tax revenue loss of $46.1 million in 2020 increasing to $101.3 million per year by 2025; and
- Ten-year (from 2015-2025) total tax revenue losses of $538.5 million.

If enacted, the County would have lost over half a billion dollars in local tax revenue, thus jeopardizing the County's financial stability.

By 2025, the loss of income from forgone construction projects and reduced employee mobility would have resulted in:

- Over 70,900 jobs unrealized
- Loss of $10.4 billion in County economic output; and
- Loss of $5.4 billion in wages.

In order to offset the fiscal impact of rent control with additional taxes, owner occupied households' property tax rates would increase an average of $267 per household in 2025. In this way, rent control picks winners and losers—low- and moderate-income homeowners would face a direct negative financial impact from the imposition of rent control.

As a case study of how rent control retards property values, we can look to both the County's earlier stints with rent control, and the City of Takoma Park. Montgomery County implemented rent control ordinances between 1973 and 1977 and again from 1979 to 1981. During these periods, sales prices for County multifamily buildings fell dramatically and no new rental units were constructed or planned despite very low vacancy rates. In 1980, Takoma Park also adopted a rent control ordinance. While the County let its rent control ordinance expire in 1981, Takoma Park has upheld its rent control laws to present day. Per RESI research, County property values increased substantially after the repeal while Takoma Park's values have remained stagnant.

AOBA also questions what data indicates that there is a widespread problem of exorbitant rent increases in Maryland? Data from the Montgomery County OLO, demonstrates that the median effective rent change between 2000 and 2020 for Montgomery (1.45%) and Prince George's (1.8%) Counties is lower than the rent change in Washington D.C. (1.95%)—which has rent control. As such, rents in the D.C. suburbs are increasing more slowly than in other jurisdictions in the Metropolitan Statistical Area.

This bill attempts to limit rent control in such a way that it only impacts those in need, however, as this statement reflects HB 551 has numerous negative unintended consequences that impact housing providers' ability to perform essential upkeep and maintenance, Maryland's housing stock, local jurisdictions as well as renters.

For these reasons AOBA requests an unfavorable report on HB 551.

For further information contact Erin Bradley, AOBA Vice President of Government Affairs, at 301-904-0814 or ebradley@aoba-metro.org.