House Bill 551

Committee: Environment and Transportation
Date: February 15, 2022
Position: Unfavorable

This testimony is offered on behalf of the Maryland Multi-Housing Association (MMHA). MMHA is a professional trade association established in 1996, whose members consist of owners and managers of more than 210,000 rental housing homes in over 958 apartment communities. Our members house over 538,000 residents of the State of Maryland.

House Bill 551 ("HB 551") establishes statewide rent control at **2%** for properties that were built before 1990, are occupied by residents who make 50% of AMI or less, and charge a certain amount of rent. Further, HB 551 establishes rent control at 1% for properties during any "state of emergency" and for one year thereafter.

I. HB 551's Unintended and Detrimental Consequences

HB 551 retroactively locks rental properties with naturally occurring affordable housing into an unsustainable economic model. In CY 2021, the U.S. inflation rate was 7%, which significantly increased the costs that housing providers must pay for services, property maintenance, and repairs. Under HB 551's 2% cap on rent increases, it will take housing providers 3.5 years to simply match the rate of inflation from 2021.

HB 551 only covers properties built before 1990, precisely the properties that are more likely to require costly maintenance and expensive renovations. Under HB 551, renovations and maintenance of rent-controlled properties with existing residents would quickly become untenable, particularly where the housing provider is supplying utilities as part of the rent. Existing properties would be unable to sustain maintenance and repair costs, and over time, Maryland's housing stock would be significantly depleted.

Due to the overwhelmingly negative impact of rent control, it is likely that housing providers will actively seek to avoid the policy, and HB 551 unintentionally incentivizes investors to only build luxury apartment properties. For example, the bill excludes properties that are rented at 15% or more of the value determined by the U.S. Department of Housing and Urban Development ("HUD").

HB 551 contains language which is unclear. First, it establishes rent control at 1% <u>during</u> a "state of emergency" and for <u>one year after the emergency ends</u>. States of emergency can be enacted at any time, for any duration, and for any number of reasons. The most recent example of this is the "state of emergency" declared by Governor Hogan in January 2022 for the snowstorm on Maryland's eastern shore. Pursuant to HB 551, that snowstorm would have enacted a yearlong 1% cap on rent. This example demonstrates how a one time, temporary state of emergency could, under this bill, have overreaching effects on housing because of the one year "tail." Due to the broad reasons for which states of emergency can be declared and the one year rent-control requirement in HB 551 after a state of emergency ends, HB 551 would subject Maryland's affordable housing providers to excessive and random budget limitations, which would jeopardize existing properties and dissuade new investment.

Secondly on Page 2 -3, Lines 30 through 32, the definition of "Restricted Rental Unit" requires the landlord to constantly monitor and make inquiries regarding a tenant's income level. This is likely to be found to be an invasion of tenant privacy and in the case of unsubsidized properties would be a new and overly burdensome requirement.

Finally on Page 3, Lines 8-9 the definition of tenant is broadened to an ambiguous concept of "another individual entitled to use or occupancy." This upends current Maryland Landlord Tenant law. The Lease agreement between the Landlord and the tenant fixes the lawful occupants of a property and those persons are listed in the lease. Landlords hold no privity of contract with any other person other than the lawful tenant. This bill now creates a new category of protected persons which current law does not and should not recognize.

II. Rent Control's History and Failures in Maryland

The history of rent control dates back to before the Second World War, but the policy became prevalent in the 1970's. The pervasive misconception that rent control would benefit individuals with lower incomes resulted in disastrous effects, and many of the policies were ultimately repealed or supplanted. **What was once old, has again become new, and HB 551 now attempts to establish a version of the same policies that were rejected decades ago.**

Montgomery County attempted rent control twice, once from 1973-1977 and again from 1979 -1981. According to a report from Towson University on Montgomery County's policies, "During this period, sales prices for apartment buildings fell substantially, and essentially no new units were constructed or planned for development, despite very low vacancy rates."[1] In spite of the policy's negative impacts, Takoma Park chose to implement its own rent control policy. As the Towson University study notes, "Following the expiration of Montgomery County rent control in 1981, [Montgomery] County property values increased substantially, while Takoma Park values remained stagnant."[2]

When Montgomery County's Office of Legislative Oversight (OLO) reviewed a rent control policy considered by the county, OLO noted,

> "Within the field of economics there is broad agreement that rent control and stabilization laws produce negative economic consequences. Housing analyst Lisa Sturtevant succinctly summarized the consensus in the field: '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.'"[3]

As part of their review, OLO reviewed median effective rent changes in Montgomery and Prince George's County. Based on the data provided in the report, rent in both Montgomery and Prince George's Counties has increased more slowly than rent in Washington, D.C. over the past 20 years. As OLO notes, "None of this general data indicates that rents are increasing rapidly in Montgomery County…"

HB 551 shares many similarities with Washington, D.C.'s rent control law, which has resulted in the 3rd highest rental prices in the country and a severe housing shortage. Confirmed by decades of economic research, Washington D.C.'s results hold true for other locations that have enacted forms of rent control. In short, HB 551

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[1] Regional Economic Studies Institute of Towson University, Economic and Fiscal Impacts of Rent Control Legislation in Montgomery County, Maryland, June 19, 2015.

[2] Id.

[3] Montgomery County Office of Legislative Oversight, *Economic Impact Statement, Bill 52-20*, 2020.

will have the same negative effects that have resulted in Washington, D.C. and other jurisdictions that implemented forms of rent control policies.

The vast majority of Americans reside in locations with no rent control. In these locations, the regulatory atmosphere encourages tenant bargaining power and continuous maintenance and renovation of properties to meet market demands. Simply stated, this atmosphere does not exist in locations with rent control. According to a 2019 National Multifamily Housing Council survey, 34 percent of property owners that operate with rent-controlled locations have already reduced investment or development and 49 percent are considering doing so moving forward.[4] This evidence aligns with the basic economic tenet that government price controls reduce revenue and incentivize investors to look elsewhere.

III. Negative Community and Economic Impact

MMHA's members provide valuable housing options to Maryland's underserved communities, and member investment in properties built prior to 1990 is directly tied to the success of the surrounding community. The powerful relationship between a property and its resident community promotes a beneficial situation that attracts additional resources for the community, including grocery stores, pharmacies, and employment opportunities. By regulating the price of rent in properties built before 1990, HB 551 ensures that underserved communities residing in covered properties will be the last to receive investments into their communities.

Current investment in properties built before 1990 is utilized to renovate buildings, offer more sustainable housing options, and benefit the surrounding community. Under this bill, housing providers will be limited in their ability to attract investment in their properties or to mortgage their properties because of the negative cash flow effects of this bill. With the knowledge that rent prices will remain stagnant in spite of any renovations to properties built before 1990, new investors will instead favor communities without rent control. As a result, Maryland's residents that reside in or near rental properties built before 1990 will suffer the most.

In a report reviewing a potential rent control policy in Montgomery County, researchers from Towson University estimated that the county would experience annual tax revenue *losses* of $46.1 million in 2020, increasing to $101.3 million per year by 2025; and a ten-year total tax revenue loss of $538.5 million. Further, the report noted that the State of Maryland would likely experience a direct $327.8 million loss in revenue during the same ten-year period due to unrealized sales and income tax.[5]

Taxes are not the only casualty of rent control policies. As the Towson University report notes, the economic ripple effect of Montgomery County's policy would have resulted in losses of income, foregone construction projects, and reduced employee migration. Based on an econometric model, the report estimated that 70,900 jobs would have gone unrealized, the county would have experienced a $10.4 bill loss of economic output, and workers would have experienced a loss of $5.4 billion in wages.[6]

IV. Conclusion

HB 551 will severely reduce viable property investment, result in a significant decrease in affordable units and result in financial losses to residents, and increased rent prices. For these reasons, MMHA respectfully requests

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[4] National Multifamily Housing Council, *Rent Control: A 2019 Recap and a 2020 Look Forward*, (Jan. 15, 2020).

[5] Regional Economic Studies Institute of Towson University, *Economic and Fiscal Impacts of Rent Control Legislation in Montgomery County, Maryland*, June 19, 2015.

[6] *Id*.

an unfavorable report on HB 551. **MMHA continues to point to decades of research and empirical evidence that prove rent control does not work, and MMHA respectfully request an unfavorable report on HB 551.**

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