House Bill 551 – Real Property – Residential Leases – Rent Restrictions

Position: Unfavorable

The Maryland REALTORS® opposes HB 551 which imposes rent stabilization on certain rental units statewide. As drafted the bill would limit annual rent increases for certain properties to no more than 2% each year. If the affected units were already below fair market value, the bill permits the rent to be increased by up to 4% in the first year of rental. Finally, a rental unit would not be subject to the restrictions of the bill if the rent for the unit reaches at least $2,250 per month.

The Maryland REALTORS® supports efforts to address rent and home prices outpacing income growth but believes the solutions are increasing housing supply. The Maryland Housing Needs Assessment estimates that there is a deficit of approximately 85,000 rental units for households with incomes less than 30% of area median income (AMI). Market imbalances drive property prices up which in turn drives taxes, insurance and other housing costs up. The supply and demand imbalance make many aspects of rental property more difficult for tenants, including searching for units and competing with other prospective tenants who may have better rent histories. Rent control and stabilization policies exacerbate rental shortages by driving investment away from rental properties and/or limiting investment and maintenance of those properties. Studies of rent restriction laws in Boston and Berkeley showed decreases in rental units of 8-12% when compared with adjacent non-regulated markets.

In addition, because investment property is valued, in part, by the return of money received from the property, rent control lowers the value of rental properties which, in turn, lowers the property tax returns to local government. Lower property taxes from affected investment property and lower transfer taxes from sale of these commercial properties are typical results of such laws. A New York Study (*A Financial Analysis of Rent Regulation in New York City: Costs and Opportunities, Peat Marwick, 1988)* reported a $370 million loss in property taxes as a result of the New York City rent control law. The reduced taxes from this sector of the housing industry place even greater burdens on homeowners and others to fund community needs given that nearly 60% of local government revenue is derived from real estate.

Finally, rent restrictions can increase the costs of rents to tenants in uncontrolled units. Some studies have shown a widening gap in rents between rent restricted and non-rent restricted units. For that reason, recommendations like rent assistance and tax credits can be better policy solutions because they distort the market less for all renters.

For these reasons, the REALTORS® recommend an unfavorable report.

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