

REGIONAL
MANAGEMENT
INC.

TESTIMONY on HOUSE BILL 551

Submitted By: Amy Macht, President Regional Management, Inc
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Dear Delegates,

Although this Bill is Entitled: **Rental Leases – Rent Increase Restrictions**

I believe that the intent of the Bill is to ensure that Tenants whose income is equal to or below 50% of the Area Median Income* do not experience rental increases of more than a small percentage per year.

I believe an additional goal of the delegates is that there be **more**, not less, housing affordable to tenants in this income bracket or even at 80% of the Area Median Income.

However, the way this Bill is structured will achieve the opposite effect over even a medium timeline.

What is the situation today, after two years of CoVid

It is my experience that, without the infusion of assistance to tenants that has been provided by Federal and State government, rental housing that rents below 15% Above Fair Market Rent* would not have survived the last 2 years.

Costs have increased substantially, from supply side cost increases for materials and appliances, to water, sewer, oil and gas price increases and employee wage and benefit increases. Furthermore, rental income has been drastically reduced because of CoVid related rental restrictions and delinquencies.

This situation is not over by any means. The least expensive units we manage have the highest delinquency rate, reaching as high as 35%, whereas even slightly higher rent units have delinquency rates of about 15%. We have been working with tenants to encourage them apply for aid so that we do not have to evict them. However, if aid is not forthcoming, tenants will need to step up their payments or there will be no other choice. Some tenants have not paid rent since March of 2020. Many are 8-10 months behind.

Maryland just announced that there will be another infusion of aid, however what will happen when that aid is used up?

* These are Measurements defined and used in Bill 551.

The Housing Affordability Problem

The reason the housing market is not working for demand to stimulate the supply of affordable housing, is not that the rents are too high, it is that the tenants' income is too low. Actual building and maintenance costs, taxes, etc. restrict the ability to supply units at a price affordable to low income tenant households.

The private rental market of pre-1990 housing is the largest source of affordable housing. The Government sponsored affordable housing supply is small and the costs of building what is being built today as Affordable Housing is in the \$300,000 per unit range, and even after that, the rents are still subsidized monthly.

A private pre-1990 unit costs an average of about \$10,000/year to maintain not including debt service. At \$60,000 per unit of debt, debt service would add an additional \$4,000/year.

An owner receiving any amount of rent less than \$14,000/year or \$1,166/month for a pre-1990 unit is unlikely to be able to pay for what needs to be paid for. This amount is in sync with the Fair Market Rent for a one-bedroom in the Baltimore – Columbia-Towson Market of \$1,124/month and the two-bedroom Fair Market rent of \$1,395.

With a Median Household Income of \$51,485 in Baltimore, a household paying 30% of their income could afford to pay \$1,287/month. However, a household with 50% of the Median Household Income could only afford half of that, or \$643/month.

A landlord who receives \$643/month won't be able to maintain the property, which means that more of the older properties, often called "naturally occurring Affordable Units", will be lost by becoming substandard, or will be demolished for their land value.

If there are fewer of these units, there will be less available to tenants, even for tenants with a higher percentage of the Median Household Income. **What is needed is a way to preserve these naturally occurring affordable units so that there are as many of them as possible.**

A Solution

I think the proponents of this legislation understand that households who have less than 50 % of the Area Median Income need their housing costs subsidized.

The question is how and who pays.

My testimony above is that even if it were fair to do so, having the property owners of the least expensive housing subsidize their tenants is a losing strategy for preserving affordable housing.

In the last 20 months the State and its jurisdictions have provided rental assistance in unprecedented amounts. Why can't the State and the local governments, the non-profits and the housing experts take the lessons of this time and devise a State sponsored Rental Assistance Program that survives this CoVid period and helps low income Marylanders, without causing the deterioration of the very housing that is needed?

One idea that came to me while considering the parameters that were laid out in HB 551, was to have the low income household apply to the government for a reduction in their rent payment. After proper vetting the government would award the property owner a waiver of Property Taxes and/or Water and Sewer Charges, equal to the difference between the tenant's reduced rent and the Fair Market Value of the Unit. This employs elements of the current CoVid rent relief programs while making it more affordable to the government by requiring a tenant contribution.

It would need to be decided in this concept how much of the waived revenue should be absorbed by the local government or by the State. Either way this is placing a shared responsibility on all Marylanders as a matter of important public policy. It will help the lower income tenants, while not penalizing the property owner who is providing the service and commodity you wish to have function responsibly in order for the lower income tenant and community to thrive.

This is just one idea. But isn't it more economical and environmentally sound than having to replace naturally affordable housing with new units at \$300,000 a unit?

Amy Macht, President
Regional Management, Inc.
amacht@regionalmgmt.com
410-538-2370