MONTGOMERY COUNTY PLANNING DEPARTMENT
THE MARYLAND-NATIONAL CAPITAL PARK AND PLANNING COMMISSION

MCPB
Item No. 6
Date: 02/04/2021

Bill 52-20 - Protections Against Rent Gouging Near Transit

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Completed: 01/28/2021

Description:

Bill 52-20 - Protections Against Rent Gouging Near Transit, would set standards regarding rents charged within 1 mile of rail transit stations, and within ½ mile of bus rapid transit stations. Rents within these areas would be required to comply with rent guidelines published by the Department of Housing and Community Affairs (DHCA) under Chapter 29. Certain rental properties would be exempt from the rent standards under the bill including certain owner-occupied properties, religious and non-profit organizations, and licensed facilities, among others, would be exempt.

A regulated rental unit under the bill would be permitted to raise rent by an allowable increase once per year. Alternatively, the landlord would be permitted to "bank"[1] the allowable increase and apply it to a future year. Landlords subject to the bill would be required to submit annual reports regarding their rents to DHCA.

Background:

Bill 52-20 was introduced on December 8, 2020 by lead sponsor Councilmember Jawando. Bill 52-20 aims to limit rent increases in rental housing units within a 1-mile (Red Line and Purple Line) and ½-mile (Bus Rapid Transit) transit buffer. Bill 52-20 does the following:

1. establishes protections against rent gouging for certain units;
2. sets the base rental amount for certain rental units;
3. provides for exemptions from certain rent protection requirements;
4. requires each landlord to submit an annual report regarding rents; and

[1] A landlord may increase the rent for a vacant rental unit by the actual dollar amount of any annual rent allowances that were not charged to the tenant vacating the rental unit. Such increase may take effect only if the rental unit became vacant as a result of a voluntary termination of the tenancy by the tenant or a termination of the tenancy by the landlord for cause. This rent increase may be in addition to any rent allowance increase that the landlord may impose on or after 12 months from the date of the last rent allowance increase for that rental unit.

5. generally, amend County law concerning rents and landlord-tenant relations.

Bill 52-20 would establish a rent stabilization system to regulate rents for most rental units with 1-mile of rail, and ½-mile of bus rapid transit stations. The maximum rate at which rents could be increased would be published by the Department of Housing and Community Affairs under the current *Voluntary Rent Guideline*[2] system. The *Voluntary Rent Guideline* is established annually by the County Executive and is based on the rental component of the Consumer Price Index for the Baltimore-Washington Metropolitan Area (CPI) which is updated each year. In 2020, the recommended amount was 2.6 percent.

About Rent Regulations:

As summarized in the Montgomery County Preservation of Affordable Housing Study, rent regulations refer to a broad suite of policies, often referred to under the umbrella terms "rent control" or "rent stabilization." These rent regulations aim to limit the rents that private landlords may charge tenants. There is significant variation in program design related to the applicable properties, the level of oversight in rent setting, and the permitted level of rent increase. The effectiveness of rent regulation is the subject of significant debate among economists and housing practitioners, with proponents focusing on resident stability and skeptics asserting that negative consequences on housing production and other adverse effects outweigh any benefits.

An effective rent regulation is one that limits the ability of property owners to increase the rent on an existing property beyond what is necessary to maintain the property and perhaps without disincentivizing investment in existing properties or discouraging development of new housing. Balancing the limits on increasing rents with the need for private investment in housing is the central tension of rent regulation policies.

The Montgomery County Preservation of Affordable Housing Study laid out five key considerations that any rent regulation policy will need to balance:

1. **Market Strength**: The strength of the existing multifamily rental market will determine whether rent stabilization may be viable. This can be determined through three indicators: net absorption—the number of new units that are being rented out annually; new multifamily starts—the number of new projects beginning annually; and stabilized property resale volume—the velocity of existing property sales. If the market is weak with low growth, such a policy may do more harm than good.
2. **Properties Covered**: Targeting is vital for a successful rent stabilization policy. If rent stabilization policies include new construction, they often stymie new development. Instead, rent stabilization should target properties with the highest rates of rent increase, often older and smaller properties.

[2] Voluntary Rent Guideline.
https://montgomerycountymd.gov/DHCA/housing/landlordtenant/voluntary_rent_guideline.html

3. **Rent Increase Cap**: The rent increase cap must be set to an amount that targets potential rent gouging without reducing investment. In Oregon and California, these caps were set at 7 and 5 percent, respectively, far exceeding any regular rent increase or the pace of inflation. The appropriate cap should be set based on the strength of Montgomery County's multifamily real estate market to ensure continued investment.
4. **Property Investment Exemptions**: A common drawback to rent stabilization is that it disincentivizes owners to properly upkeep their properties and make larger capital expenditures as required. Montgomery County needs to ensure that the cap allows for these investments to be recouped and incentivizes maintenance of safe and habitable apartments, and that the County continues to require a minimum level of upkeep through enforcement of building codes.
5. **Market Expectations**: Real estate markets are sensitive to market expectations—if there is a perception that rents will be further regulated or that regulations are temporary, landlords will adjust their actions accordingly. Any proposed rent regulations should be enacted swiftly and property owners should be given confidence that the rules will remain consistent in the short-term.

Tradeoffs:

When considering the merits of a rent regulation, Planning staff compiled and researched a list of pros/cons that should be carefully weighed before implementing the policy. While Planning staff attempted to research the pros/cons to balance the discussion, there should be an understanding that this is a highly debated list and may not be exhaustive. Please refer to references for sources used to research the tradeoffs.

Pros

- **Preserved Affordability:** the lower rents of rent-regulated apartments can help make housing affordable to low- and moderate-income people that are able to acquire the regulated unit.
- **Stability:** Because rents are capped, tenants are much more inclined to stay in a property long term. Moving out of the property would potentially mean risking a sizable increase in price for their next place.
- **Improved Economic Opportunity[3]:** Rent regulation, by reducing rent burdens and preventing de facto eviction caused by rapid rent increases, can potentially improve economic opportunity for residents by enabling them to remain in neighborhoods with growing economic opportunities.
- **Reduces Displacement:** People of color are more likely to be low-income and renter, and thus to benefit from reduced displacement risks and cost burdens. In addition, reduced displacement helps to promote neighborhood integration.
- **Provide landlords with a secure cash flow opportunity:** When a rent-regulated apartment or home becomes a better deal for a tenant, then they are increasingly motivated to continue renewing their

[3] Residential stability in poor neighborhoods does not lead to the same positive outcomes, so the location of rent-regulated units matters.

lease agreement. If the legally allowed rent increases keep up with the incurred expenses, rent regulation can make a building easy to manage and turn it into a relatively secure cash flow opportunity.

- **Lower turnover:** As the rents are capped, tenants are more inclined to stay in a property long term. This means that landlords won't have to deal with vacancy every year because the current tenants will likely renew their lease.

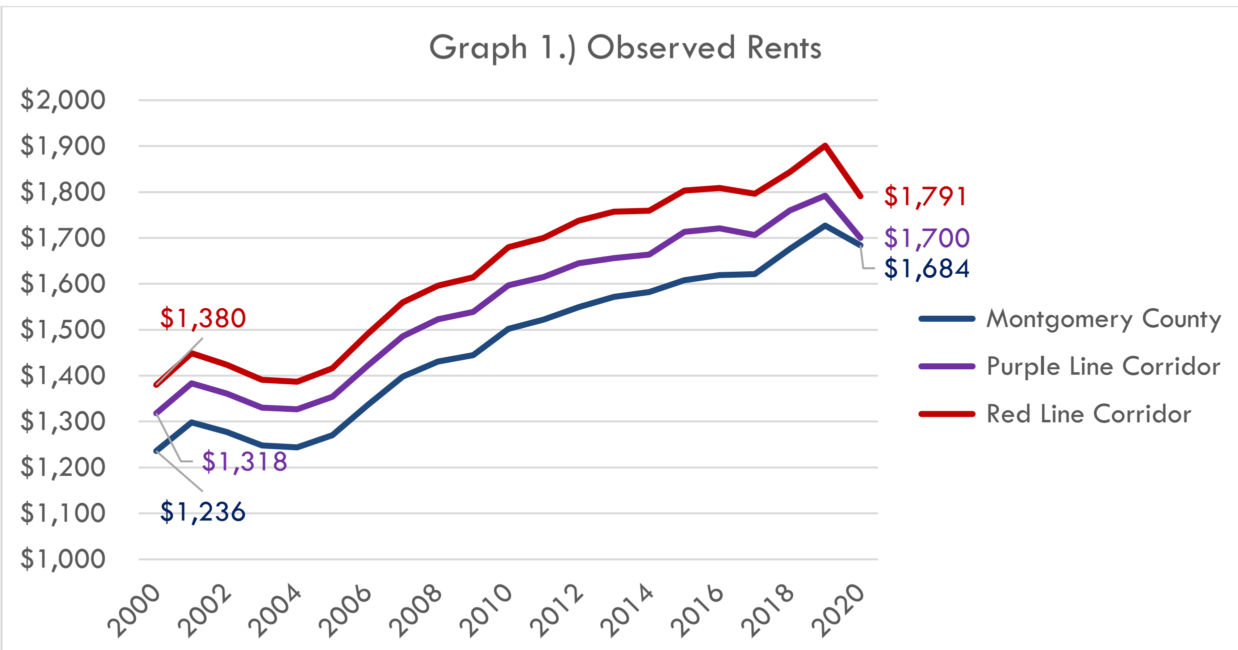
Cons

- **Supply Constraints:** The benefits of rent regulations enjoyed by residents in regulated units may be offset by the negative effects on the uncontrolled units (for example, units just over a mile from a transit station outside the regulated area), which may experience more rapidly rising rents caused by increasingly constrained supply.
- **Deteriorated Housing Quality:** Rent regulations laws can contribute to deteriorated housing quality by creating disincentives for landlords to maintain their properties.
- **Disincentivizes new rental development:** Land developers may be more likely to build condominium properties than apartments if some or all the units in the apartment building would be subject to rent regulation.
- **Rent regulation policies do not always account for the impact of property taxes:** Rent regulation policies do not always consider how changes in property taxes can burden landlords with rent-regulated units. For example, in New York City, a remarkably high percentage of rent goes for property taxes. In such situation, it is unsustainable to expect the landlord to keep absorbing these increases. Therefore, if a city decides to overhaul its existing rent regulation laws or implement new ones, they must consider the impact of property taxes on rents.
- **Enhanced difficulty evicting problem tenants:** Just as good tenants are incentivized to renew their leases in rent-regulated cities, problem tenants are as well. Rent regulation policies often include provisions that make it more difficult to evict tenants, which can be problematic if a legitimate cause for eviction arises.
- **Tenant mismatch:** Once a tenant has secured a rent-regulated apartment, they may not choose to move in the future and give up rent regulated unit, even if their housing needs change or their income increases.
- **Loss of rental units due to condo conversion and:** Rent regulation laws lead to a reduction in the available supply of rental housing in a community, particularly through the conversion to ownership of regulated buildings.
- **Loopholes:** Another downside of rent regulation is that it is difficult to craft legislation that completely avoids loopholes for landlords to take advantage of. For instance, landlords may rent a furnished flat and might be able to charge a much higher rent compared to renting the same flat in an unfurnished condition.
- **Poorly targeted benefits:** By design, rent regulation protects existing tenants and provides benefits to those living in rent-regulated units, but it is unable to ensure that the households most in need receive those benefits. As existing tenants are incentivized to retain their unit regardless of their income, over time much of the benefit of regulated rent could accrue to wealthier households.

Analysis:

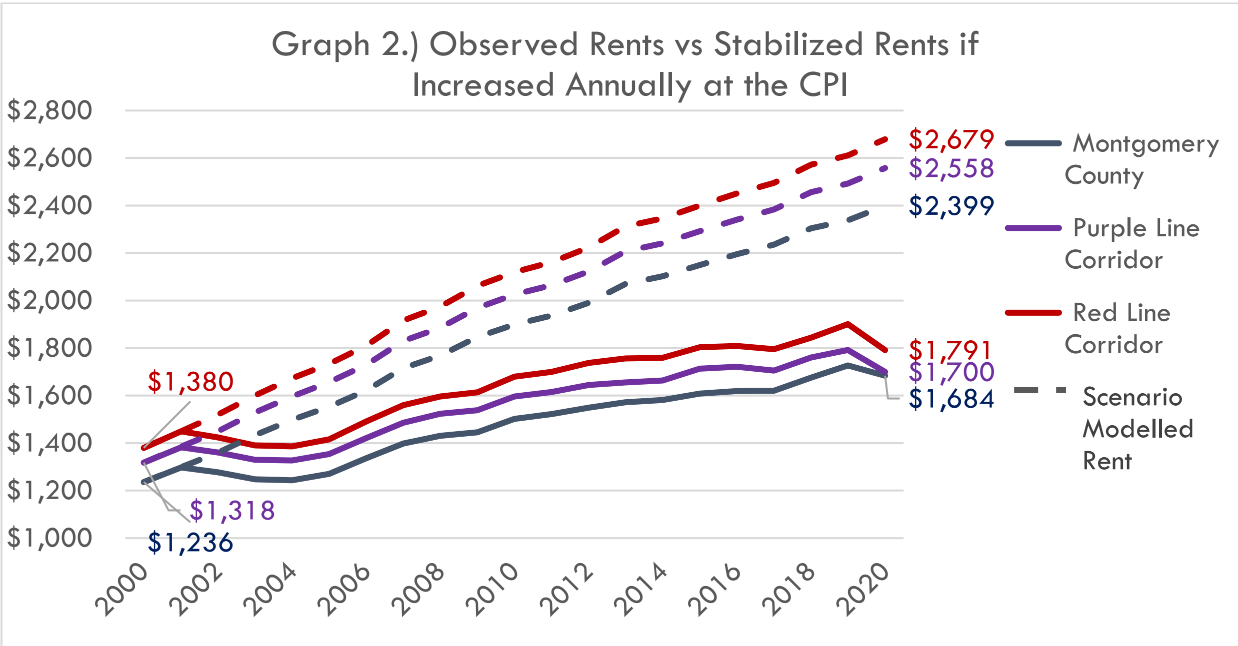
Although the proposed rent regulation policy explicitly addresses future rent increases, it is useful to consider how the policy might have affected market rents if it had been in place since the year 2000. The following series of graphs compares actual rent data from CoStar within the entire County, the Red Line Corridor, and the Purple Line Corridor. The analysis demonstrates that Bill 52-50 would not have had much impact on market-level rents.

Graph 1 (please refer to the appendix for tables with the numerical values shown in the graphs) shows the observed market rents (the average effective rents that were charged), the actual rents that occurred in the absence of any rent regulation measure within the County, the Purple Line corridor, and the Red Line corridor. For this analysis we assume that these represent the market-clearing rent that landlords would instinctively try to attain. Overall, rents increased by between 36% and 40% between 2000 and 2019, a notable total increase but only 1.63% to 1.78% at an annualized pace.

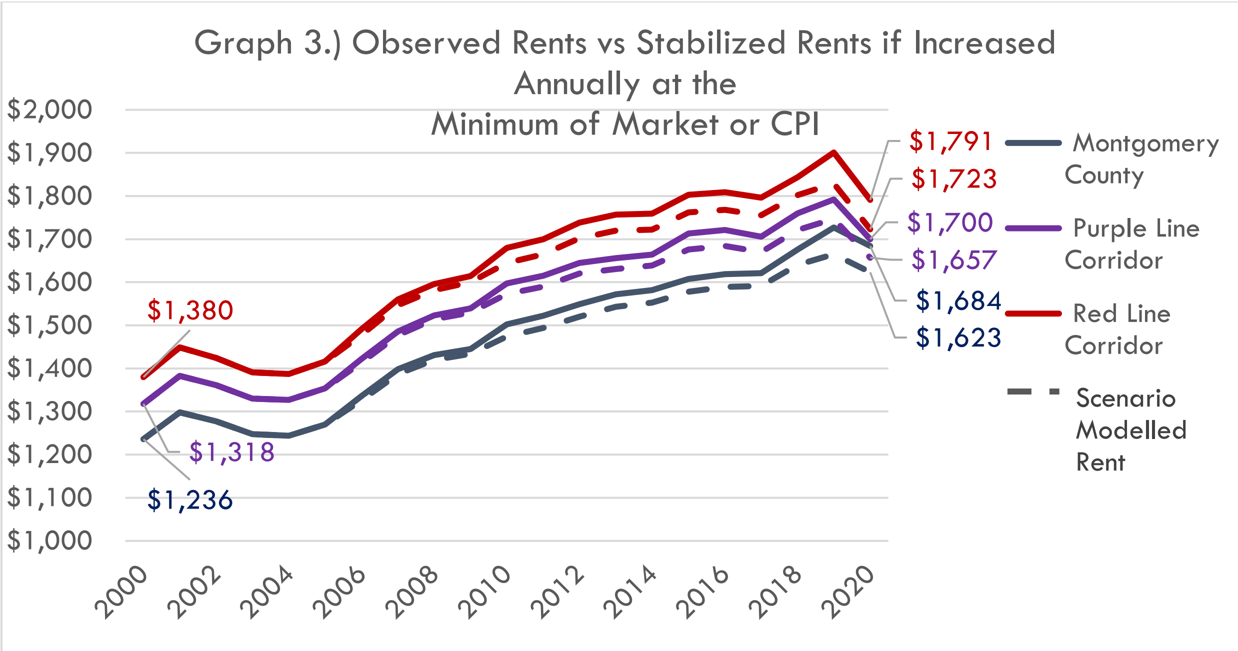


Source: CoStar

Graph 2 lists what rents would have been if market conditions enabled property owners to raise rents at the allowed CPI pace every year. The graph shows that overall the observed market far lagged the CPI: if landlords had increased rents at the allowed CPI rate each year, the increase from 2000 to 2019 would be more than double the actual market increase in rents: an 89% rise compared to 36% to 40%.



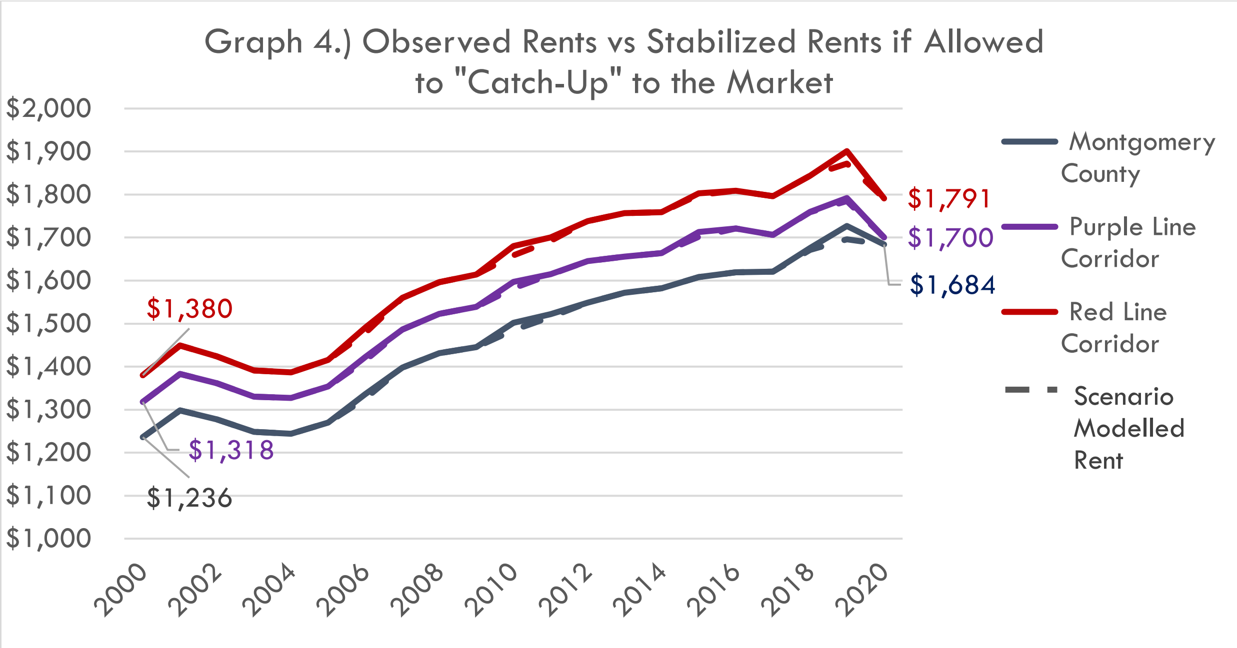
Graph 3 applies the rules from Bill 52-50 to show how rents would have changed, assuming no impact to the supply of housing, if property owners were constrained by both the market and the allowed rent cap. In this graph rents in each geography increase each year at the lesser of the CPI or the actual observed percentage market rent increase. The result is a modest impact in which rents are lower by approximately $50 to $70 per month. While that is meaningful, it still represents a 33% to 35% total increase in rents compared to the actual 35% to 40% increase experienced.



Source: CoStar, Montgomery County Planning Countywide Planning & Policy, Montgomery County Planning Research & Strategic Projects

Graph 4 best represents real world conditions, minus the potential impact on the supply of housing. In this graph total rents cannot exceed the actual observed market levels shown in Graph 1 but may increase at the maximum rate permissible (the CPI) until they reach that constraint. Thus, if in one-year rent regulation measures limit market rents, in the next year property owners will increase rents at a pace faster than what the market actually achieved but below the CPI to 'catch up' to the natural market rents shown in Graph 1.

Bill 52-50 would have limited rent increases in 4 or 5 of the past 20 years, but in each case, rents would have 'caught up' to the market the next year or the year after that. In sum, if Bill 52-50 had been in force since 2000, market rents in 2020 would be at the same level as they currently are today without any rent regulation intervention. It should be noted again that this analysis does not consider how Bill 52-50 might have influenced the supply of new housing which also might have influenced market rents.



Source: CoStar, Montgomery County Planning Countywide Planning & Policy, Montgomery County Planning Research & Strategic Projects

The limit to Bill 52-50's impact in looking at past data is simply that despite being an overly expensive place to live, market-wide rents have not actually increased rapidly in Montgomery County and in the two focus geographies in the last two decades. While rents were 40% higher countywide in 2019 than they were in 2000, this is a 1.78% annualized pace over 20 years which is much less than the annualized 3.37% increase in the CPI. It is also less than the roughly 2% annual minimum rent increase that developers hope for when evaluating real estate opportunities. CPI also doesn't reflect changes in income, and median income has not kept pace with the rising costs.

The above analysis is unlikely to quiet the debate about rent regulations in Montgomery County. Opponents of the measure will point to the conclusion that Bill 52-50 would have had little impact on rents in the past 20 years to argue that it is one more burden on developers and landlords that will drive away new housing supply and achieve little in return. Proponents will counter that this is a feature of the legislation, that it is a well-designed rent stabilization measure precisely because it would have little ultimate impact on market-wide rents but will give the County tools to protect residents from the most egregious examples of rent gouging.

Other County Initiatives and Studies: It is well documented in other Montgomery County Planning initiatives including the Rental Housing Study and Housing Needs Assessment that housing here is too expensive and rent is a cost that is burdensome to many households. It is also well documented that the county needs new tools to help combat rising housing costs. As mentioned above in "About Rent Regulations," the recently released 2020 Preservation of Affordable Housing Study discussed rent stabilization and went on to point the way to other tools to help preserve our limited supply of affordable housing. Whether rent regulation is ultimately the right policy, we should also consider a suite of tools to preserve housing and affordability:

Category	**Key Recommendations from the 2020 Preservation of Affordable Housing Study**
Strategy and outreach	• Triage opportunities to preserve affordability, focusing on near-term opportunistic approaches such as COVID-19-related policies to bridge towards future comprehensive preservation efforts.
Land use and planning	• Site- or type-specific redevelopment incentives. • Consider a transfer of development rights program that builds off the County's agricultural TDR program to preserve priority existing affordability and continue to designate affordable housing as a public benefit.
Capital financing	• Targeted acquisition funding • The County should maintain elements of Housing Initiative Fund (HIF) administration that are consistent with or set the standard for national best practices and should explore opportunities to expand HIF resources to better meet the needs of the preservation pipeline.
Operating subsidy/cost reduction	• Expand utilization of rental agreements through the County's PILOT provision.

Conclusion:

Given the completed analysis on rents in Montgomery County and the Red Line and Purple Line transit corridors, staff believes the proposal will have a limited impact on rents in Montgomery County. The benefits of proposed rent regulation will likely be existing tenants of rental units within the transit buffers through preserved affordability. The proposed rent regulation, however, will also have unintended negative consequences on the broader housing market that need to be weighed carefully, specifically in its impact on housing supply, quality, and overall rents. Montgomery County has struggled for years with increasing its housing supply, and after signing on to the ambitious Metropolitan Washington Council of Governments housing goals in 2019, the county needs to do everything it can in its power to achieve these housing targets.

References

Office of Legislative Oversight. (2020). *Economic Impact Statement - Bill 52-20 Rent Control.* Rockville: Montgomery County Council.

Rajasekaran, P., Treskon, M., & Greene, S. (2019). *Rent Control: What Does the Research Tell Us about the Effectiveness of Local Action?* Washington D.C: Urban Institute.

Attachments:

Attachment 1: Bill 52-20

Attachment 2: Planning staff jurisdictional comparison matrix for rent regulations

Attachment 3: OLO RESJ Impact Statement

Attachment 4: OLO Economic Impact Statement

Appendix:
Table 1:

Table 1: Observed Market Rents (1-Mile Buffer)			
Period	**Montgomery County**	**Purple Line Corridor**	**Red Line Corridor**
2000	$1,236	$1,318	$1,380
2001	$1,298	$1,383	$1,449
2002	$1,277	$1,361	$1,424
2003	$1,248	$1,330	$1,391
2004	$1,244	$1,327	$1,387
2005	$1,270	$ 1,354	$1,416
2006	$1,336	$1,422	$1,491
2007	$1,398	$1,486	$1,560
2008	$1,431	$1,523	$1,596
2009	$1,445	$1,539	$1,614
2010	$1,502	$1,597	$1,680
2011	$1,522	$1,615	$1,700
2012	$1,549	$1,645	$1,738
2013	$1,572	$1,656	$1,757
2014	$1,582	$1,664	$1,759
2015	$1,608	$1,713	$1,803
2016	$1,619	$1,721	$1,809
2017	$1,621	$1,706	$1,796
2018	$1,676	$1,760	$1,844
2019	$1,727	$1,792	$1,901
2020	$1,684	$1,700	$1,791
2000-2019 Growth	40%	36%	38%
Annual Compound Rate	1.78%	1.63%	1.70%

Table 2:

Table 2: Rents If Increased at CPI Annually			
Period	**Montgomery County**	**Purple Line Corridor**	**Red Line Corridor**
2000	$1,236	$1,318	$1,380
2001	$1,299	$1,385	$1,450
2002	$1,360	$1,450	$1,519
2003	$1,434	$1,529	$1,601
2004	$1,498	$1,597	$1,673
2005	$1,553	$1,657	$1,734

2006	$1,622	$1,729	$1,811
2007	$1,716	$1,830	$1,916
2008	$1,769	$1,886	$1,975
2009	$1,847	$1,969	$2,062
2010	$1,899	$2,025	$2,120
2011	$1,937	$2,065	$2,162
2012	$1,991	$2,123	$2,223
2013	$2,070	$2,208	$2,312
2014	$2,102	$2,241	$2,346
2015	$2,150	$2,292	$2,400
2016	$2,195	$2,341	$2,451
2017	$2,235	$2,383	$2,495
2018	$2,304	$2,457	$2,572
2019	$2,338	$2,493	$2,611
2020	$2,399	$2,558	$2,679
2000-2019 Growth	89%	89%	89%
Annual Compound Rate	3.41%	3.41%	3.41%

Table 3:

Table 3: Rents increased at the minimum of market or CPI			
Period	**Montgomery County**	**Purple Line Corridor**	**Red Line Corridor**
2000	$1,236	$1,318	$1,380
2001	$1,298	$1,383	$1,449
2002	$1,277	$1,361	$1,424
2003	$1,248	$1,330	$1,391
2004	$1,244	$1,327	$1,387
2005	$1,270	$1,354	$1,416
2006	$1,326	$1,414	$1,478
2007	$1,387	$1,477	$1,547
2008	$1,420	$1,514	$1,582
2009	$1,434	$1,530	$1,600
2010	$1,474	$1,573	$1,645
2011	$1,494	$1,590	$1,665
2012	$1,520	$1,620	$1,702
2013	$1,543	$1,631	$1,720
2014	$1,553	$1,639	$1,722
2015	$1,578	$1,676	$1,762
2016	$1,589	$1,684	$1,768
2017	$1,591	$1,670	$1,755
2018	$1,640	$1,721	$1,802

2019	$1,665	$1,747	$1,829
2020	$1,623	$1,657	$1,723
2000-2019 Growth	35%	33%	33%
Annual Compound Rate	1.58%	1.49%	1.49%

Table 4:

Table 4: Rents allowed to 'catch up' after being constrained by the CPI			
Period	**Montgomery County**	**Purple Line Corridor**	**Red Line Corridor**
2000	$1,236	$1,318	$1,380
2001	$1,298	$1,383	$1,449
2002	$1,277	$1,361	$1,424
2003	$1,248	$1,330	$1,391
2004	$1,244	$1,327	$1,387
2005	$1,270	$1,354	$1,416
2006	$1,326	$1,414	$1,478
2007	$1,398	$1,486	$1,560
2008	$1,431	$1,523	$1,596
2009	$1,445	$1,539	$1,614
2010	$1,485	$1,582	$1,659
2011	$1,515	$1,614	$1,692
2012	$1,549	$1,645	$1,738
2013	$1,572	$1,656	$1,757
2014	$1,582	$1,664	$1,759
2015	$1,608	$1,702	$1,799
2016	$1,619	$1,721	$1,809
2017	$1,621	$1,706	$1,796
2018	$1,671	$1,759	$1,844
2019	$1,696	$1,785	$1,872
2020	$1,684	$1,700	$1,791
2000-2019 Growth	37%	35%	36%
Annual Compound Rate	1.68%	1.61%	1.62%

Montgomery County Council

Committee: PHED
Committee Review: At a future date
Staff: Christine Wellons, Legislative Attorney
Purpose: To introduce agenda item – no vote expected
Keywords: #NoRentGouging

AGENDA ITEM #11D
December 8, 2020
Introduction

SUBJECT

Bill 52-20, Landlord-Tenant Relations – Protection Against Rent Gouging Near Transit

Lead Sponsor: Councilmember Jawando

EXPECTED ATTENDEES

None

COUNCIL DECISION POINTS & COMMITTEE RECOMMENDATION

- N/A; Bill introduction

DESCRIPTION/ISSUE

Bill 52-20 would:

(1) establish protections against rent gouging for certain rental units;
(2) set the base rental amount for certain rental units;
(3) provide for exemptions from certain rent protection requirements;
(4) require each landlord to submit an annual report regarding rents; and
(5) generally amend County law concerning rents and landlord-tenant relations.

SUMMARY OF KEY DISCUSSION POINTS

- N/A

This report contains:

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Bill 52-20	©1
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Sponsor Memorandum	©12

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Agenda Item 11D
December 8, 2020
Introduction

M E M O R A N D U M

December 3, 2020

TO: County Council

FROM: Christine Wellons, Legislative Attorney

SUBJECT: Bill 52-20, Landlord-Tenant Relations – Protection Against Rent Gouging Near Transit

PURPOSE: Introduction – no Council votes required

Bill 52-20, Landlord-Tenant Relations – Protection Against Rent Gouging Near Transit, sponsored by Lead Sponsor Councilmember Jawando, is scheduled to be introduced on December 8, 2020.[1] A public hearing is tentatively scheduled for January 12, 2021 at 1:30 p.m.

Bill 52-20 would:
(1) establish protections against rent gouging for certain rental units;
(2) set the base rental amount for certain rental units;
(3) provide for exemptions from certain rent protection requirements;
(4) require each landlord to submit an annual report regarding rents; and
(5) generally amend County law concerning rents and landlord-tenant relations.

BACKGROUND

The purposes of Bill 52-20 are to increase affordable housing and to prevent rent gouging near transit stations.

SPECIFICS OF THE BILL

Bill 52-20 would set standards regarding rents charged within 1 mile of rail transit stations, and within ½ mile of bus rapid transit stations. Rents within these areas would be required to comply with rent guidelines published by the Department of Housing and Community Affairs (DHCA) under Chapter 29.

Certain rental properties would be exempt from the rent standards under the bill. Specifically, certain owner-occupied properties, religious and non-profit organizations, and licensed facilities, among others, would be exempt.

#NoRentGouging

A regulated rental unit under the bill would be permitted to raise rent by an allowable increase once per year. Alternatively, the landlord would be permitted to "bank" the allowable increase and apply it to a future year.

Landlords subject to the bill would be required to submit annual reports regarding their rents to DHCA.

This packet contains:	Circle #
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Bill No. 52-20
Concerning: Landlord-Tenant Relations – Protection Against Rent Gouging Near Transit
Revised: 11/25/2020 Draft No. 3
Introduced: December 8, 2020
Expires: June 8, 2022
Enacted: ______
Executive: ______
Effective: ______
Sunset Date: None
Ch. _____, Laws of Mont. Co. ______

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

Lead Sponsor: Councilmember Jawando

AN ACT to:
(1) establish protections against rent gouging for certain rental units;
(2) set the base rental amount for certain rental units;
(3) provide for exemptions from certain rent protection requirements;
(4) require each landlord to submit an annual report regarding rents; and
(5) generally amend County law concerning rents and landlord-tenant relations.

By adding
Montgomery County Code
Chapter 29, Landlord-Tenant Relations
Sections 29-56, 29-57, 29-58, 29-59, 29-60, 29 61, and 29-62

Boldface	*Heading or defined term.*
Underlining	*Added to existing law by original bill.*
[Single boldface brackets**]**	*Deleted from existing law by original bill.*
Double underlining	*Added by amendment.*
[[Double boldface brackets**]]**	*Deleted from existing law or the bill by amendment.*
* * *	*Existing law unaffected by bill.*

The County Council for Montgomery County, Maryland approves the following Act:

Sec. 1. Article VI is renamed and Sections 29-56, 29-57, 29-58, 29-59, 29-60, 29-61, and 29-62 are added as follows:

Article VI. Central Data Collection, [and] Rent Guidelines, and Protection Against Rent Gouging Near Transit.

* * *

29-56. [Reserved.] Protections against rent gouging – definitions; applicability.

(a) *Definitions*. In this Section, the following terms have the meanings indicated:

Anti-gouging law means the law codified in Sections 29-56 through 29-62.

Discontinued rental unit means a rental unit in a rental facility or previously licensed rental facility that is not occupied by a tenant and for which the Department has approved an application for discontinuation.

Existing rental unit means a rental unit or a discontinued rental unit.

Regulated rental unit means a rental unit subject to the anti-gouging law.

Transit station means a place regularly used for pickup and discharge of passengers from rail passenger vehicles. *Transit station* includes a MARC station, Metro station, and a Purple Line station.

(b) *Applicability of anti-gouging law*. Except as provided in section 29-58, the anti-gouging law applies to all residential rental units within:

(1) 1.0 mile of a transit station; or

(2) ½ mile of a bus rapid transit station.

29-57. [Reserved.] Anti-gouging – rent increases and frequency - general.

(a) *Rent increases*. A landlord must not increase rent for any regulated rental unit by an amount in excess of the allowable amount under the anti-gouging law.

(b) *Frequency of rent increases.* A landlord must not increase rent for any regulated unit more often than allowed under the anti-gouging law.

29-58. [Reserved.] Rental units exempt from anti-gouging.

(a) *Exemptions.* The anti-gouging law does not apply to:

(1) any unit in a licensed facility, the primary purpose of which is the diagnosis, cure, mitigation and treatment of illnesses;

(2) any unit in a facility owned or leased by an organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code if:

(A) the primary purpose of the organization is to provide temporary shelter for qualified clients; and

(B) the organization has notified the clients residing in the facility of the temporary nature of their housing at the beginning of their residence;

(3) an owner-occupied group house;

(4) a religious facility, including a church, synagogue, parsonage, rectory, convent, and parish home;

(5) a transient lodging facility subject to Chapter 54;

(6) a school dormitory;

(7) a licensed assisted living facility or nursing home;

(8) any building originally designed and constructed to contain only 2 dwelling units, one of which the owner currently occupies as a principal residence; or

(9) an accessory apartment.

(b) *Exemptions subject to an application for exemption.*

(1) *Application required.* The Department must, after receiving an application from the owner, grant an exemption from the anti-gouging law to the following rental units:

(A) an individual rental unit leased to tenants assisted under a federal tenant based assistance program or similar federally funded rent subsidy program;

(B) a rental facility subject to a regulatory agreement with a governmental agency that controls the rent levels of not less than one-half of the rental units in the rental facility and restricts the occupancy of those rental units to low and moderate income tenants; or

(C) a newly constructed rental facility with 2 or more rental units for a period of 5 years after the issuance of a rental license.

(2) *Termination of exemption.*

(A) *General.* An exemption under paragraph (b) expires the earlier of:

(i) 1 year; or

(ii) when the conditions entitling the rental unit to an exemption cease to exist.

(B) Exemptions granted under to subsection (b)(1)(B) of this Section expires the earlier of:

(i) the termination of the agreement with the governmental agency entitling the rental facility to the exemption; or

(ii) when the conditions entitling the rental facility to an exemption cease to exist.

(C) An exemption granted under subsection (b)(1)(C) of this Section expires on the 5th anniversary date of the issuance of the initial rental housing license, regardless of when the application for an exemption was made by the owner.

(D) *Renewability of exemption.* An exemption granted under paragraph (b) is renewable annually if the owner reapplies for the exemption.

(3) *Rents upon termination of exemption.*

(A) For a rental unit receiving an exemption under subsection (b)(1)(A) and (b)(1)(B), upon the termination of the exemption, the base rent for any unit and the reference point from which the rent may be increased under the anti-gouging law is the allowable rent as reported in the annual rent report for each unit at the time the exemption began plus the annual rent allowance for each year that the unit was exempt.

(B) For a rental unit in a newly constructed rental facility receiving an exemption under subsection (b)(1)(C) of this Section, upon the termination of the exemption, the base rent for any unit and the reference point from which the rent may be increased under the anti-gouging law is the rent charged for each unit at the time of the expiration of the exemption. For any unit not rented when the exemption period terminates, the base rent must be the rent charged when the unit is first rented to a tenant. If the actual rent paid by a tenant differs from the rent stated in the report or the lease, then the actual rent must be the base rent.

29-59. [Reserved.] Anti-gouging - establishment of base rent.

(a) *Rents for discontinued rental units.*

(1) Except as provided in subsection (a)(2) of this Section, the base rent for a discontinued rental unit, and the reference point from which the rent may be increased under the anti-gouging law, is the banked rent reported in the annual rent report at the time the rental unit was discontinued plus the annual anti-gouging allowance for each year that the rental unit was discontinued.

(2) If a rental unit remains discontinued for an uninterrupted period of 5 years, the owner may charge unrestricted rent for the unit when it is first newly rented to a tenant. The rent the owner charges the tenant sets the base rent for the unit and the reference point from which the rent may be increased under the anti-gouging law.

(b) *Rents following renovation, reconfiguration or consolidation of existing rental units.*

(1) This paragraph applies only to renovation, reconfiguration, and consolidation projects performed in vacant existing rental units.

(2) If the renovation or reconfiguration of an existing rental unit does not result in a 10% or greater change in the floor area of the unit, then the banked rent reported for the unit in the annual rent report at the time the rental unit became vacant plus the annual rent

allowance for each year that the rental unit remained vacant is the maximum rent that the owner may charge for the unit when it is first rented to a tenant.

(3) If the floor area of a renovated or reconfigured unit is more than 10% smaller or larger than the unit it replaces, then the banked rent reported for the unit in the annual rent report at the time the rental unit became vacant plus the annual rent allowance for each year that the rental unit remained vacant, reduced or increased by a percentage equal to the reduction or increase in the floor area of the unit before its renovation or reconfiguration, is the maximum rent that the owner may charge for the unit when it is first rented to a tenant.

(4) When 2 or more rental units are consolidated to create a single rental unit, the base rent for the new unit, and the maximum rent that the owner may charge when the unit is first rented to a tenant, is the base rent of the largest unit increased by the percentage increase in the floor area from the largest unit to the resulting unit.

(5) Before an owner may increase the rent for a unit under subsection (b)(3) or (b)(4) of this Section, the owner must first obtain approval from the Department. The owner must submit a completed application form and documentation demonstrating the appropriate adjustment to the base rents (which may include construction plans, photographs and video recordings of the original and reconfigured units), and may be required to undergo an inspection of the property.

(c) *Rents following purchase of an owner-occupied condominium unit.* The new owner of a previously owner-occupied condominium unit, purchased in a bona fide arm's length transaction, may charge unrestricted rent for the unit. The rent the owner charges the initial tenant sets the base rent for the unit and the reference point from which the rent may be increased under the anti-gouging law.

(d) *Reset of base rent for owner-occupied condominium units.* When the owner of a previously rented condominium unit occupies the unit for at least 12 consecutive months as his or her principal residence, the owner may charge unrestricted rent for the unit when the owner next rents the unit to a tenant. The rent the owner charges the tenant sets the base rent for the unit until the owner again occupies the unit for at least 12 consecutive months.

29-60. [Reserved.] Anti-gouging – annual rent increases; frequency of rent increases; and notification of rent increases.

(a) *Annual rent allowance.*

(1) The Department must calculate an annual rent allowance equal to the voluntary rent guidelines identified in Section 29-53. The Department must publish the annual allowance in the County Register and on the County website.

(2) The annual rent allowance remains in effect for a 12-month period beginning July 1st of each year and ending on June 30th of the following year.

(3) Rent increases for regulated rental units may be increased by an amount not to exceed the annual rent allowance in effect at the time of the rent increase.

(4) Rent increases less than permitted in this Section may be banked as provided in Section 29-61.

(b) *Frequency of rent increases.*

(1) *Occupied rental units.* Only one rent increase is permitted within a 12-month period for any occupied regulated rental unit.

(2) *Vacant rental units*. The rent for a vacant regulated rental unit may be increased up to the banked rent, and the annual rent allowance may be applied before the owner leases the rental unit under Section 29-61.

(c) *Notice of annual rent increases.* A landlord must provide notice to a tenant in a regulated rental unit as provided in Section 29-54.

29-61. [Reserved.] Anti-gouging - banking of authorized annual rent increases.

A landlord may increase the rent for a vacant rental unit by the actual dollar amount of any annual rent allowances that were not charged to the tenant vacating the rental unit. Such increase may take effect only if the rental unit became vacant as a result of a voluntary termination of the tenancy by the tenant or a termination of the tenancy by the landlord for cause. This rent increase may be in addition to any rent allowance increase that the landlord may impose on or after 12 months from the date of the last rent allowance increase for that rental unit.

29-62. [Reserved.] Anti-gouging - annual reporting requirements.

On or before September 30th of each year, each landlord must submit to the Department a rent report for the 12-month period beginning July 1st and ending on the preceding June 30th on a form provided by and in the manner prescribed by Department regulations.

[29-56] 29-63 - 29-65. Reserved.

LEGISLATIVE REQUEST REPORT

Bill 52-20

Landlord-Tenant Relations – Protection Against Rent Gouging Near Transit

DESCRIPTION: Bill 52-20 would:

(1) establish protections against rent gouging for certain rental units;

(2) set the base rental amount for certain rental units;

(3) provide for exemptions from certain rent protection requirements;

(4) require each landlord to submit an annual report regarding rents; and

(5) generally amend County law concerning rents and landlord-tenant relations.

PROBLEM: Rent gouging and unaffordable housing near transit centers

GOALS AND OBJECTIVES: Set standards regarding rent increases near certain transit stations.

COORDINATION: DHCA

FISCAL IMPACT: Office of Management and Budget

ECONOMIC IMPACT: Office of Legislative Oversight

EVALUATION:

EXPERIENCE ELSEWHERE: To be researched

SOURCE OF INFORMATION: Christine Wellons, Legislative Attorney

APPLICATION WITHIN MUNICIPALITIES: Variable

PENALTIES: Enforcement and penalties under Chapter 29.

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MONTGOMERY COUNTY COUNCIL
ROCKVILLE, MARYLAND

WILL JAWANDO
COUNCILMEMBER
AT-LARGE

December 3, 2020

TO: Councilmembers, Chiefs of Staff

FROM: Councilmember Will Jawando

RE: ZTA 20-07, R60 Zone Uses and Standard
Bill 52-20, Landlord-Tenant Relations, Protections Against Rent Gouging Near Transit

On Tuesday, December 8th, I will be introducing two proposals to ensure we have "More Housing for More People." ZTA 20-07 and Bill 52-20 will increase the overall housing stock in the county and preserve affordable housing near transit.

ZTA 20-07, R60 Zone Uses and Standard

This ZTA amends the Montgomery County Zoning Ordinance to:

- Allow duplexes, townhouses, and apartments in the R-60 zone under certain circumstances, within 1 mile of a Metrorail Transit entrance;
- Amend the density, infill development, and parking standards in the R-60 zone under certain circumstances
- Generally amend the provisions for R-60 zoned property near Metrorail Stations

Bill 52-20, Landlord-Tenant Relations, Protections Against Rent Gouging Near Transit

- Establishes protections against rent gouging for rental units within 1.0 mile of a Metrorail and Purple line transit station and within ½ mile of a bus rapid transit station;
- Sets the base rental amount for certain rental units;
- Provides for exemptions from the rent protection requirements;
- Requires each landlord to submit an annual report regarding rents; and
- Generally amends County law concerning rents and landlord-tenant relations.

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WWW.MONTGOMERYCOUNTYMD.GOV/COUNCIL

I chose to introduce these proposals together because if we are to meet the goal of adding ten thousand new housing units in Montgomery County by 2030 as part of the broader goal set by the Metropolitan Washington Council of Governments (COG), we must have an all hands on deck approach that includes multiple solutions.

Taken together this ZTA and legislation will help us accomplish several important shared goals:

1. more affordable housing near transit;
2. greater accessibility to employment opportunities for people who must rely on public transportation to get to work;
3. protection from rent gouging and reduced push out and gentrification for renters who currently live near transit;
4. positive impact on the environment due to fewer cars on the road and,
5. allow “Missing Middle” housing types such as duplexes, triplexes, and quadruplexes to be built helping to address the need for additional housing supply.

Increasing the amount of affordable housing stock that is needed within that number will require even more planning, however, the solutions must include reasonable protections while increasing housing supply.

The recent Preservation Housing study presented to the PHED Committee by the M-NCPPC Department of Planning, showed that one of the top risk factors in loss of both Deed Restricted Rental Housing and Naturally Occurring Affordable Housing in Montgomery County is proximity to transit. These proposals can provide a win-win situation for all: Transit oriented affordable housing can be accessible to everyone; landlords maintain the ability to reasonably increase rents up to the Voluntary Rent Guidelines each year and when needed to cover renovations or upgrades; Missing Middle housing can be built to increase housing stock in parts of the county without placing a mandate on the entire county.

I invite my Council colleagues to join me as co-sponsors of this legislation and ZTA. Should you have any questions, please feel free to contact Pamela Luckett in my office.

cc Christine Wellons
Jeff Zyontz
Marlene Michaelson
Selena Singleton
Linda McMillan

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Rent Regulation Jurisdiction Research				
Jurisdiction	***Rent Increase Allowed***	***New Development Exemption? (if yes, how long)***	***Turnover Rules? (what happens to rents after units are vacated/turned over?)***	***Notes***
Montgomery County, MD (PROPOSED)	The maximum rate at which rents could be increased would be published by the Department of Housing and Community Affairs under the current Voluntary Rent Guideline system. The Voluntary Rent Guideline is established annually by the County Executive and is based on the rental component of the Consumer Price Index for the Baltimore-Washington Metropolitan Area which is updated each year. In 2020, the recommended amount was 2.6 percent.	DHCA must grant an exemption from the anti-gouging for a newly constructed rental facility with 2 or more rental units for a period of 5 years after the issuance of a rental license	A landlord may increase the rent for a vacant rental unit by the actual dollar amount of any annual rent allowances that were not charged to the tenant vacating the rental unit. Such increase may take effect only if the rental unit became vacant as a result of a voluntary termination of the tenancy by the tenant or termination of the tenancy by the landlord for cause. This rent increase may be in addition to any rent allowance increase that the landlord may impose on or after 12 months from the date of the last rent allowance increase for that rental unit.	
Takoma Park, MD	Allowed rent increases: Equal to annual Consumer Price Index-Urban (CPI-U) for the Washington-Baltimore area. Permitted Rent Increase (July 2019-June 2020) - 1.6%. Permitted Rent Increase (July 2020-June 2021) - 0.4%	Newly Constructed Rental Facilities (1) For a period of five years after the issuance of a rental license (2) With two or more dwelling units	Rent Increase possible by the actual dollar amount of any annual rent stabilization allowances possible if the rental unit became vacant, as a result of: (1) voluntary termination of the tenancy by the tenant (2) termination of the tenancy by the landlord for cause.	(a) Renovated or reconfigured rental facilities or combined rental units are not eligible for an exemption from rent stabilization. (b) This rent increase may be in addition to any rent stabilization allowance increase that the landlord may impose on or after 12 months from the date of the last rent stabilization allowance increase for that rental unit.
Washington, DC	Allowed Rent Increase for most tenants: CPI-U percentage plus 2%, but not more than 10%. Allowed Rent Increase for elderly or disabled: Maximum increase in rent charged is the CPI percentage only, but not more than 5%.	Proposed Rent Control Amendment: (1) Housing accommodations constructed after December 31, 1975 but before 2005 (2) Rental units added to an existing housing accommodation after January 1, 1980 but before 2005 (3) Units owned by housing providers who own fewer than 5 units	The housing provider can raise the rent charged upon a vacancy to: (1) 10% more than was charged to the former tenant, or (2) Rent for a comparable rental unit, but not more than 30%	(a) The Council of the District of Columbia is considering amendments to a pending rent control Bill. (b) A proposed amendment aims to limit the "new construction" exemption to 15 years, and thereafter the housing accommodation and added rental units would become subject to rent control. (c) DC's program includes rehabilitation and capital improvements exceptions under which rents can be permanently or temporarily (depending on the scale of the improvements) increased to allow the landlord to recover the capital expenditure. (d) Once there has been a vacancy increase in rent, the housing provider cannot make another increase in rent for 12 months, even if another vacancy occurs.

New York City, NY	Allowed Rent Increase: No more than 5%, plus the local rate of inflation	A building with three or more apartments constructed or extensively renovated on or after January 1, 1974 are subject to rent stabilization. On ensuring rent stabilization in the buildings, the building is entitled with special tax benefits. The tax benefits continue until the tenant vacates.	Units subject to vacancy decontrol, which means: (1) If vacated, they move to the weaker rent-stabilization market if they are in a building with six or more units, and (2) They become unregulated if in a building with fewer than six units.	(a) Upon vacancy, units can also be deregulated if they hit a certain rent threshold ($2,733.75 in 2018).
Oregon	Allowed Rent Increase: Statewide, no more than 7% plus annual inflation. Permitted Rent Increase (2021): 9.2%. Permitted Rent Increase (2020): 9.9%.	The limit doesn't apply to: (1) Buildings less than 15 years old, and (2) Buildings under government-subsidized rents	There is no limit on rent increases if a tenant decides not to renew their lease.	(a) Inflation is calculated using the Consumer Price Index published by the U.S. Bureau of Labor Statistics.
California	Allowed Rent Increase: Limited to 5%, plus local inflation, but could never exceed a total of 10%.	The state law exempts buildings constructed in the last 15 years.	The Costa-Hawkins Act also allows "vacancy decontrol" of rent-controlled units, meaning landlords can raise rents to market levels when tenants move out both, (1) Voluntarily (2) After being evicted for rent non-payment	(a) City specific rent control laws supersedes the state-level laws. In cities without local rent-control laws, the state law prevails. (b) The building exempted from rent-control have a rolling date structure, meaning units built in 2006 will be covered in 2021, units built in 2007 will be covered in 2022, and so on.
City of San Francisco, CA	Allowed Rent Increase: No more that 7% per year.	A 15-year "rolling" exemption exempts new construction built both (a) After June 13, 1979, and (b) With an original certificate of occupancy that was issued within 15 years before the date of rental.	No vacancy control in San Francisco which means, when a tenant moves out, a landlord can raise the rent to market value.	(a) If the original certificate of occupancy was issued on July 31, 2006 it would be exempt from the new State law to and including July 30, 2021, if issued July 31, 2007, until July 30, 2022, etc.

Racial Equity and Social Justice (RESJ) Impact Statement

Bill 52-20: Landlord-Tenant Relations-Protection Against Rent Gouging Near Transit

Summary

The Office of Legislative Oversight (OLO) expects Bill 52-20 to have a favorable impact on racial equity and social justice (RESJ). The favorable impact of rent restrictions on housing units near bus rapid transit and light rail stations, however, may be offset in part by the unfavorable impact of such restrictions on rentals near Metrorail and MARC train stations that could exacerbate disparities in housing and access to public transit hubs by race, ethnicity, and income.

Background

Bill 52-20, introduced on December 8, 2020, is one of several recent bills that seeks to expand affordable housing and consumer protections for renters in Montgomery County.[1] Bill 52-20 in particular responds to the Montgomery County Preservation Study's call for policymakers to consider rent regulations and other approaches to preserve and expand affordable housing in the County for low- and moderate-income residents.[2]

The Preservation Study finds that the County is at-risk of losing affordable housing units, particularly near major public transit hubs that are essential to connecting residents to employment and other opportunities. The study finds that:

- Deed-Restricted Affordable Housing: About 62% of deed-restricted housing units (2,085 units) that are set to expire in the 2020's and 2030s are located within 1 mile of a rail transit station (existing or planned). Many of these units are clustered around the Silver Spring, Bethesda, and Wheaton Metrorail stations that have experienced increased development activity in recent years.

- Naturally Occurring Affordable Housing (NOAH): Additionally, between 7,500 and 11,000 NOAH units are projected to be lost between 2020 and 2030. Proximity to transit is driving the loss in NOAH units, particularly among units with rents under $1,250 near stations inside the Beltway. Roughly 2,300 NOAH units are "at-risk" of becoming unaffordable for households with earnings of up to $80,000 for a family of four are within one mile from transit. Areas along the planned Purple Line have already demonstrated a rapid decrease in low-rent units in the past decade; the loss of low-rent units has been most rapid around the Bethesda Metro Station.

With the finding that proximity to transit is likely to accelerate the loss of affordable housing in the County, the Preservation Study recommends several policies to help stabilize affordable housing units, including regulating rents to help preserve affordable units in desirable and accessible locations. In response, Bill 52-20 extends prohibitions against annual rent increases in excess of the County's voluntary rent guideline (2.6% for 2020) undertaken in response to the pandemic to rentals located within 1 mile of rail and half mile of bus rapid transit stations.

Of note, Bill 52-20 would apply to every housing unit near transit hubs, not exclusively affordable housing units. More specifically, Bill 52-20 would cap annual rent increases for most privately-owned housing near transit stations to the County's voluntary rent guidelines established by the consumer price index (CPI). Any rent increases above this amount are defined as "rent gouging" and thus are prohibited under the bill unless the property has undergone significant redevelopment that merits reimbursement to property owners through rental rate increases in excess of the CPI.

Towards these ends, Bill 52-20 seeks to:

- Establish protections against annual rent increases above the County's current voluntary guidelines;
- Set the based rental amount for certain rental units;
- Provide for exemptions for certain rent protection requirements;
- Require each landlord to submit annual report regarding rents; and
- Generally amend County law concerning rents and landlord-tenant relations.

IMPACT OF RENT REGULATIONS ON SOCIETY[3]

Research on the economic impact of rent regulation generally finds that the cost of rent regulations to property owners in diminished rents and to future renters in higher rents, generally exceed the benefits of reduced housing costs to renters who secure rent stabilized housing.[4] As such, economists generally agree that rent regulations generate a negative net impact on society. It is important to consider research from other discipline, however, to fully understand the potential impact of housing on society because not all societal impacts can be captured by market analyses.[5]

Research drawn from other disciplines (e.g. public health, education, urban planning and sociology) shows that housing fulfills important societal goals as it provides safety and security to individuals and families. Housing stability, in particular, is recognized as one of the most significant benefits of rent regulations. Nearly every research study finds that tenants in rent-regulated apartments stay in their apartments longer and benefit from rent discounts. Rent regulations decrease tenant mobility and increase housing stability for rent-stabilized residents. Rent regulations also provide protections against de facto evictions as landlords cannot raise rents beyond regulated rates to force tenants out.

Of note, U.S. policies generally prioritize housing stability as a policy goal. These policies, however, generally prioritize housing stability for those with more wealth (homeowners rather than renters). Public policies that have made housing more stable for those with the most wealth include tax deductions for home mortgages, retirement accounts, and children's savings funds as well as the securitization of home loans. Those with less wealth that are unable to access policies that support housing and economic stability miss out on these benefits and often struggle with forced mobility.

Researchers have found that housing stability promotes physical, social and psychological wellness while housing instability leads to stress and diminished health outcomes. This is especially the case for those who move due to financial reasons, and occurs more often for women than men, and among Black women in particular. Further, housing stability promotes education attainment as frequent moving can disrupt children's learning and social support systems that can lead to and/or exacerbate learning and behavioral problems.

Research shows that renters and jurisdictions with rent regulations tend to be older, lower-income, and headed by more single-mothers and people of color. But as lower-income tenants benefit from rent regulations, so do middle- and higher-income tenants. Moreover, while people of color and low-income residents may be over-represented in rent-regulated units, they may not benefit proportionately from price reductions in rent. For example, one study found that rent savings from rent regulations relative to income were higher for White families than for Black or Latinx families.[6]

The consensus among many is that rent regulations are not efficient at targeting those most in need. Because rent regulations benefit both low-income and high-income renters, disparities in housing by income are not necessarily narrowed with rent regulation policies. More efficient approaches to making affordable housing available to those most in need include directly subsidizing renters with housing vouchers, government subsidies, and/or tax credits for renters that make market rate units affordable for low-income residents. The public's willingness to support such measures at the scale required to meet the demand, however, may be limited. As such, rent regulations may represent a second-best, but politically feasible solution to addressing housing instability among low- to moderate-income residents.

DEMOGRAPHIC DATA

Higher rates of renting among Black and Latinx residents in Montgomery County suggest that Bill 52-20 could help narrow disparities in housing affordability by race and ethnicity. A review of available data shows that:

- 50% of Latinx households and 58% of Black households resided in renter-occupied housing compared to 25% of White and Asian households;[7] and
- 55% of Black households and 62% of Latinx households were rent burdened, spending more than 30 percent of household income on rent and utilities, compared to 43-44% of Asian and White households.[8]

Yet, understanding the potential impact of Bill 52-20 on RESJ requires more than understanding renting and housing affordability patterns by race and ethnicity across the County. It requires understanding the demographics of renters who would be most impacted by the bill, namely those residing within one mile of existing and planned rail stations and within a half mile of bus rapid transit (BRT) stations. The table below based on five-year 2015-2019 estimates from the American Community Survey describes demographic data compiled and analyzed by the Montgomery County Planning staff on renters near transit hubs.[9]

	All Occupied Housing Units		All Occupied Rental Housing Units		Occupied Rentals in Metro/MARC Buffer*		Occupied Rentals in BRT/Purple Line Buffer**	
All	370,950		128,318		63,935		37,153	
White	193,556	52%	47,211	37%	25,396	40%	8,375	23%
Black	66,036	18%	38,604	30%	13,990	22%	13,071	35%
Asian	52,315	14%	13,824	11%	7,351	11%	2,727	7%
Latinx	49,945	13%	24,728	19%	9,761	15%	6,974	19%
Other***	33,814	9%	18,229	14%	7,437	12%	6,006	16%

* includes Metro Rail and MARC stations, including those with BRT and Light Rail stations
** includes only BRT Stations, Light Rail Stations or combined BRT/Light Rail Stations
***includes Native American, Pacific Islanders, Two or More Races, and any Other race

A review of the data shows that:

- White households are concentrated among renters in close proximity to Metro and MARC rail stations, accounting for a 40% of renter households near existing train stations. This compares to accounting for less than 23% of renter households near BRT and Purple Line stations, and 37% of renting households across the County overall, but 52% of all households in the County.

- Black households are concentrated among renters near BRT and Purple Line stations, accounting for 35% of the renters near these new and planned transit stations. This compares to accounting for 22% of renters near Metro/MARC and 30% of all renting households across the County, but 18% of all households in the County.

- Other race households are also concentrated among renters near BRT and Purple Line stations, accounting for 16% of renting households there compared to 12% of renting households near Metro/MARC stations, 14% of renter households across the County, and 9% of all households in the County.

- Latinx households are proportionately concentrated among renters near BRT and Purple Line stations, accounting for 19% of renting households near new and planning transit stations and 19% of renters across the County. However, they are underrepresented among renting households near Metro/MARC stations, accounting for 15% of renting households. This compares to accounting for 13% of all households in the County.

- Asian households, conversely, are proportionately concentrated among renters near Metro/MARC stations, accounting for 11% of renting households near existing rail stations and 11% of renters across the County. However, they are underrepresented among renting households near BRT and Purple Line stations, account for 7% of renting households. This compares to accounting for 14% of all households in the County.

Anticipated RESJ Impacts

Enacting rent regulations in transit hub communities seems like an effective strategy for reducing disparities in housing affordability and access to public transit by race and ethnicity since a majority of Black and Latinx residents in the County are renters. But residents' ability to access the benefits of rent regulations near Metrorail and MARC stations is dependent on their wealth rather than their need for affordable housing, as renters near existing rail stations are often more affluent than renters elsewhere in the County. More specifically, the demographics of renters located near existing Metro and MARC rail stations suggest that higher-income and White renters will disproportionately benefit from Bill 52-20 in these communities, and in turn widen some housing disparities by race and ethnicity.

The demographics of renters near BRT and Purple Line stations, however, suggest that lower-income renters will benefit from rent regulations established near new and planned transit stations, and in turn, Black and Latinx residents will benefit disproportionately. Black and Latinx residents likely account for a majority of renters in these areas that live in affordable housing units and need of affordable housing. Rent regulations applied to communities that serve large percentages of low- and moderate-income residents and that include many affordable housing units can be effective at preserving affordable housing units and preventing the displacement of low-income residents in response to increased development associated with public transit investments.

Overall, OLO anticipates that benefits of rent regulations for low- and moderate-income households near BRT and Purple Line stations will equal or exceed the benefits of rent regulations for moderate- and high-income households in housing units near existing rail stations. Moreover, given disparities in median income, rates of homeownership and entrepreneurship by race and ethnicity,[10] OLO anticipates that White and Asian landlords will be more negatively impacted by the enactment of rent regulations than Black and Latinx landlords. Taken together, OLO anticipates that Bill 52-20 will advance racial equity and social justice relative to reducing disparities in housing and revenues for rental property owners by race and ethnicity.

Methodologies, Assumptions and Uncertainties

This RESJ impact statement and OLO's analysis relies on several sources of information. They include:

- Racial Equity Profile, Montgomery County, Office of Legislative Oversight
- Montgomery County Preservation Study, Montgomery County Planning Department
- Rent Matters: What are the Impacts of Rent Stabilization Measures? University of Southern California
- What Does Economic Evidence Tell Us About the Effects of Rent Control? Brookings Institution[11]

Recommended Amendments

Based on a review of the data and recommendations for preserving and expanding affordable housing in the County offered in the Montgomery County Preservation Study, this RESJ statement offers three considerations for recommended amendments to Bill 52-20 as follows:

- **Narrow the scope of Bill 52-20 to Bus Rapid Transit and Purple Line stations rather than all transit hubs**. Limiting Bill 52-20 scope to rentals within 1 mile of the Purple Line and a half a mile of BRT stations provides an opportunity to focus on preserving affordable housing for low- and moderate-income renters rather than stabilizing rents for low-, moderate- and high-income renters alike. Black, Latinx, and low-income renters account for a greater share of renter households near new and planned transit stations than renters near existing rail stations. The loss of affordable rentals near new and planned transit stations also likely poses a greater risk of displacing Latinx, Black and low-income renters than the loss of affordable units near existing rail stations as the vast majority of those rentals are not affordable for low- and moderate-income households.

- **Incorporate the Preservation Study's recommendations for enacting rent regulations as amendments to Bill 52-20.** The Montgomery County Preservation Study recognizes that rent regulations can be an effective tool at preserving rental affordability if their design provides sufficient income for property owners to maintain their properties and does not discourage new housing development or property maintenance. The study offers five recommendations for developing rent regulations that could be incorporated as amendments to Bill 52-20:

  - Assess the strength of the multifamily rental market to determine the viability of rent regulations by monitoring the number of new units that are being rented out annually; the number of new multifamily project starts; and stabilized property resale value that measures the velocity of existing property sales.
  - Target properties covered by rent regulations to those with the highest rates of rent increase and generally excluding new construction to not stymie new development.
  - Set rent increase cap to an amount that targets potential rent gouging without reducing investment. They note that caps in Oregon and California were set at 7 and 5 percent respectively and that a cap in Montgomery County should be based on the market strength of multifamily rentals locally.
  - Create property investment exemptions that encourage property owners to upkeep their properties and make larger capital investments as required.
  - Cultivate rental housing market expectations among property owners that rent regulations with be enforced and remain consistent in the short-term so that owners will adjust their actions accordingly.

- **Consider additional Preservation Study policy recommendations as amendments to Bill 52-20.** In addition to targeted rent regulations, the Preservation Study offers additional policy recommendations for preserving affordable housing that can also be considered as potential recommended amendments to Bill 52-20. The table below summarizes these recommendations.

Summary of Montgomery Preservation Study Framework and Recommendations

Policy Category	Core Activities	Key Recommendations
Strategy and Outreach	Analyze preservation needs and opportunities, coordinate efforts to achieve goals	• Triage opportunities to preserve affordable housing • Ensure that preservation efforts promote and do not hinder opportunities for new development

Land Use and Planning	Leverage rules governing or guiding development to incentivize or require preservation of affordability (e.g. MPDUs)	• Allow or incentivize directly preserving existing NOAH as an alternative to MPDU compliance • Consider transfer of development rights program to preserve existing affordability and continue to designate affordable housing as a public benefit
Tenants' Rights	Leverage rules on how stake-holders participate in the market to preserve affordability (e.g. COVID-19 rent relief bill, Right-of-First Refusal)	• Consider studying an expansion of rental stabilization after the COVID-19 crisis that is carefully designed to ensure a "healthy pipeline" of new development along with preservation of residents at-risk, especially along the Purple Line expansion
Capital Financing	Provide financial resources to undertake preservation interventions (e.g. Housing Initiative Fund, HOC Multifamily Mortgage Financing Program)	• Explore opportunities to expand the HIF to increase the affordable unit pipeline • Adjust HIF guidelines to align with new low-income housing tax credit (LIHTC) income averaging regulations • Review allocation decisions to ensure that funding criteria promotes preservation, particularly at lower income levels
Operating Subsidy and Cost Reduction	Offer incentives and resources that make it financially feasible for landlords to offer reduced rents to lower-income tenants (e.g. Payments-in-lieu-of taxes)	• Expand utilization of rental agreements though the County's payment-in-lieu-of taxes (PILOT) provisions • Evaluate previous reduced rent program for elderly tenants and explore development of a preservation tax credit

Community Engagement

Using the OLO RESJ Legislative Review Tool,[12] OLO staffers Elaine Bonner-Tompkins and Theo Holt facilitated a RESJ Team Review with County government and community-based stakeholders to discuss the potential impacts of Bill 52-20 on communities of color and low-income residents. This RESJ Team Meeting designed to incorporate a broad set of perspectives into the development of this RESJ impact statement was convened on December 17, 2020 and included:

- Brandy Brooks, Racial Solutions, LLC and Montgomery County Renters Alliance
- Lisa Govoni, Housing Planning Coordinator, Montgomery County Planning Department
- Jane Lyons, Coalition for Smarter Growth
- Linda McMillan, Senior Legislative Analyst, Montgomery County Council
- Stephen Roblin, Performance Management and Data Analyst, OLO

Caveats

Two caveats to this statement should be noted. First, estimating the impact of legislation on racial and social inequities in Montgomery County is a challenging, analytical endeavor due to data limitations, uncertainty, and other factors. Second, this RESJ statement is intended to inform the legislative process rather than to determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent OLO's endorsement of, or objection to, the bill under consideration.

Contributions

Dr. Elaine Bonner-Tompkins, OLO Senior Legislative Analyst, drafted this RESJ impact statement.

[1] See Bills 49-20, 50-20 and 51-20
[2] See slides from Montgomery County Preservation Study included in November 25, 2020 packet to Planning, Housing, and Economic Development Committee worksession (Pam Wellons and Linda McMillan, Montgomery County Council) https://www.montgomerycountymd.gov/council/Resources/Files/agenda/cm/2020/20201130/20201130_PHED3.pdf
[3] Primary source for this section Manuel Pastor, Vanessa Porter, and Maya Abood, Rent Matters: What are the Impacts of Rent Stabilized Measures? October 2018 https://dornsife.usc.edu/assets/sites/242/docs/Rent_Matters_PERE_Report_Web.pdf
[4] See Economic Impact Statement for Bill 52-20 at https://www.montgomerycountymd.gov/olo/eis.html
[5] Manuel Pastor, Vanessa Porter, and Maya Abood
[6] Joseph Gyourko and Peter Linneman, "Equity and Efficiency Aspects of Rent Control: An Empirical Study of New York City, cited in Pastor, Porter and Abood
[7] Data from 2019 American Community Survey, 1-Year Estimate
[8] OLO Montgomery County Racial Equity Profile at https://www.montgomerycountymd.gov/OLO/Resources/Files/2019%20Reports/RevisedOLO2019-7.pdf
[9] Unpublished ACS data compiled and shared with OLO on December 24, 2020 by Montgomery County Planning Housing Coordinator Lisa Govoni that tracks renter households by race and ethnicity and by census track with centroid inside transit buffer for 1 mile within existing and planned train stations and a half mile of bus rapid transit stations.
[10] See data points reported in OLO Montgomery County Racial Equity Profile
[11] https://www.brookings.edu/research/what-does-economic-evidence-tell-us-about-the-effects-of-rent-control/
[12] https://www.montgomerycountymd.gov/OLO/Resources/Files/2020%20Reports/RESJLegislativeTool.pdf

Economic Impact Statement

Office of Legislative Oversight

BILL 52-20 Landlord-Tenant Relations – Protection Against Rent Gouging Near Transit

SUMMARY

The Office of Legislative Oversight (OLO) expects Bill 52-20 to have a negative economic impact overall. Residents of rent stabilized units would periodically benefit from lower rent increases. Residents of non-rent stabilized units would likely face increased rent costs. The economic benefit to households is smaller than the economic cost to businesses, in part because the household sector would absorb employment and earnings losses associated with decreased revenue for businesses in the real estate industry. Artificially constrained rents will also have a negative impact on asset values and property tax revenues.

Research indicates that rent stabilization could lead to reduced supply of rental housing and upward pressure on the prices of unregulated units (including owner-occupied units). This reduced supply could occur as a result of condominium conversion or reduced construction activity. Research also indicates that rent stabilization programs often result in disinvestment by owners, including deferred or foregone maintenance. There is evidence that rent stabilization has led to neighborhood deterioration or increased crime in some locations.

Available evidence does not indicate that rents are increasing more quickly near transit, more quickly than inflation, or more quickly than they are in nearby jurisdictions. Rents near transit stations have fallen 5.8% in 2020, and over the past 20 years have increased more slowly than they have for the County as a whole. Rents in Montgomery County have increased more slowly than they have in nearby/comparable jurisdictions, including Washington, DC which has a form of rent stabilization.

BACKGROUND

Bill 52-20 was introduced on December 8, 2020. The purpose of bill 52-20 is to limit the magnitude and frequency of rent increases in rental housing units near transit - to wit, the bill states that it:

- establishes protections against rent gouging for certain units;
- sets the base rental amount for certain rental units;
- provides for exemptions from certain rent protection requirements;
- requires each landlord to submit an annual report regarding rents; and
- generally amend County law concerning rents and landlord-tenant relations.

Bill 52-20 ('Protection Against Rent Gouging Near Transit') would establish a rent stabilization regime to regulate rents in almost all rental units within 1 mile of rail transit stations, and within ½ mile of bus rapid transit stations. Relative to rent stabilization measures in other jurisdictions, Bill 52-20 is narrow in its geographic scope and broad in its applicability within those geographic boundaries.

Under Bill 52-20, 'rent gouging' is any rent increase that is greater than what is allowed under Bill 52-20. The maximum rate of increase allowed would be established by reference to the "voluntary rent guidelines" as described in Section 29-53 of the Montgomery County Code. Those guidelines, which are based on a measure of regional rental housing inflation from the previous year, would then establish the maximum rent increase for the year beginning on July 1 and ending on June 30.

To illustrate, the voluntary rent guidelines issued in early 2022 will be based on the initial estimate of regional housing inflation for the calendar year 2021. Those guidelines would remain voluntary for rental units outside of Bill 52-20's geographic boundaries but would represent the maximum allowable increase for all regulated units during the year that begins on July 1, 2022 and ends on June 30, 2023.

The legislation does not include a "vacancy de-control" allowance; put differently, the regulation of rate increases continues in between tenancies with limited exceptions.[1] The bill does not include an allowance for temporary or permanent rent increases to recapture capital expenditures.

Brief History of Rent Control and Stabilization

Rent control legislation takes a variety of forms, though in all forms it is essentially a redistributive policy. Some forms control the *level* of rents in regulated units whereas other forms limit the *rates of increase* for rents in regulated units.

Many rent control or stabilization regimes allow for de-control when a tenant vacates the unit, whereas in other regimes control or stabilization is maintained between tenancies. In many jurisdictions, the rent control or stabilization only applies to units built before a certain year, or to units in buildings with more than some threshold number of units.

Legislation to control or stabilize rents has a relatively long history in some of America's most expensive metropolitan housing markets. The New York City area, the Boston area, the Los Angeles area, and the San Francisco Bay area are among the regions with the most extensive histories of rent control. However, rent control is not actually a recent American innovation – rent control has emerged in many places and under a variety of circumstances over the centuries, often as a political response to an exogenous economic shock like war or famine.[2]

Rent stabilization was first enacted in Washington, DC in 1985. Generally, DC's rent stabilization law limits rent increases to 2% above inflation, though rents for registered elderly or disabled tenants can only increase by the lower of either inflation or the annual social security cost of living adjustment. When a tenant vacates a unit, the landlord may increase the rent by up to 10% or 20% (depending upon the length of the previous tenant's tenure) above the last rent that the previous tenant paid. Many units are exempt from the law, including units in buildings built after 1975 and units owned by housing providers who own fewer than 5 units. DC's program also includes rehabilitation and capital improvements exceptions under which rents can be permanently or temporarily (depending on the scale of the improvements) increased to allow the landlord to recover the capital expenditure. The District is currently considering several proposals for changes to its rent control laws.

Rent Control and Stabilization in the Economics Literature

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

[1] Line 115 of Bill 52-20 does include an exception for certain units that have been discontinued and not occupied by a tenant for a period of 5 years. Lines 190-196 permit an owner to "bank" any unused rent allowances that were not charged to a vacating tenant.
[2] See, e.g., John Willis, "Short History of Rent Control Laws," Cornell Law Review 36, no. 1 (1950): 54-94. The title is intended to be ironic – the article is a comprehensive history of rent control measures up to 1950.

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]

The research literature indicates that establishing a ceiling on rents does have negative overall impacts, though the nature and extent of those impacts varies depending on research methodology, time, place, and regulatory regime.[4] Two recent overviews of the economics research provide useful, succinct summaries of the findings regarding the effectiveness of rent control and stabilization laws in achieving their objectives.

- The Urban Institute's 2019 literature review[5] succinctly summarized the research regarding the intended effects of rent control efforts: "Although rent control has generally been found to have positive effects for residents in controlled units, these benefits may be offset by negative effects in the uncontrolled sector."
- A recent Brookings article, *What does economic evidence tell is about the effects of rent control?,* summarized recent research findings thusly: "Rent control appears to help affordability in the short run for current tenants, but in the long run decreases affordability, fuels gentrification, and creates negative externalities on the surrounding neighborhood. These results highlight that forcing landlords to provide insurance to tenants against rent increases can ultimately be counterproductive. If society desires to provide social insurance against rent increases, it may be less distortionary to offer this subsidy in the form of a government subsidy or tax credit."

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 or inequitably targeted.

- The Urban Institute's 2019 research review[6] summarized the research literature thusly: "By design, rent control protects incumbency and provides benefits to those living in rent-controlled units, and it is not targeted to those households with the most need. Over time, even if residents in rent-controlled units benefit, the policy may not be distributing benefits equitably if others who could benefit cannot obtain such a unit. Given its weak targeting mechanism and potential to reduce supply of rental units, some have argued that it is an ineffective policy solution for gentrification."
- Studies generally find that rent control and stabilization efforts lead to increased costs for tenants who are unable to find housing in the controlled sector. One study found that in the first two years after Los Angeles adopted rent

[3] Lisa Sturtevant, "The Impacts of Rent Control: A Research Review and Synthesis," National Multi Housing Council, 2018. Similarly, a 1992 survey asked for economists' views on 40 common economic policy questions.[3] That survey found that there was more agreement on the question of rent control than on *any* other common economic policy issue (92.9% of respondents either *generally agreed* or *agreed with provisos* with the following statement: "A ceiling on rents reduces the quantity and quality of housing available").

[4] While this analysis includes citations to several research papers, the authors relied heavily on two studies that present particularly strong research methodologies and findings: (1) David Sims' 2007 article in the Journal of Urban Economics on the end of rent control in Massachusetts ("Out of control: What can we learn from the end of Massachusetts rent control?"); and (2) a more recent study of the expansion of rent control in San Francisco by Rebecca Diamond, Tim McQuade, and Franklin Qian ("The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco").

[5] Prasanna Rajasekaran, Mark Treskon, and Solomon Greene, "Rent Control: What Does the Research Tell Us about the Effectiveness of Local Action?" Urban Institute, January 2019.

[6] Ibid.

control, the policy had caused the rents of uncontrolled units to increase three times more quickly than rents of controlled units.[7]

- Some studies have indicated that rent control and stabilization programs do a poor job of targeting those with the greatest need, or that some of the benefit ends up accruing to higher income individuals. For example, David Sims (2007) found that 30% of the controlled units in Cambridge, MA were occupied by households in the top half of the income distribution.[8]

Many economists conclude that rent control and stabilization laws provide the largest benefits to those who do not move and may encourage individuals to remain in units that no longer suit their needs.

- Multiple studies have found that tenants living in rent-controlled units are less likely to move than tenants in uncontrolled units.[9] Other studies have concluded that the primary beneficiaries are seniors and other groups that are less likely to move (as a result of stable household size).[10]
- Tenants in controlled units may be less likely to change jobs or more likely to commute long distances to remain in their controlled unit.[11] In doing so, those tenants continue to benefit from the rent control or stabilization policy but absorb other costs in order to continue their tenancy (e.g., opportunity cost of lost income, childcare costs, health outcomes).[12]
- Rent control and stabilization leads to a greater mismatch between households and units (e.g., growing families staying in smaller units, aging individuals staying in larger units).[13] This mismatch can have housing supply implications that affect both the controlled and uncontrolled units in the market.

Economic research often shows that rent stabilization laws lead to supply-side pressures, both in terms of *quantity* and *quality* of supply. To wit, such laws increase the number of condominium conversions, may reduce the number of new units constructed, and can lead to disinvestment by landlords.

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[7] George Fallis and Lawrence Smith, "Uncontrolled Prices in a Controlled Market: The Case of Rent Controls," The American Economic Review 74, no. 1 (1984): 193-201.

[8] David Sims, "Out of Control: What Can We Learn from the End of Massachusetts Rent Control?," Journal of Urban Economics 61, no. 1 (2007): 129-151.

[9] See, e.g. Diamond, McQuade, and Qian 2017; Glaeser and Luttmer 2003; Gyourko and Linneman 1989; Sims 2007.

[10] See, e.g., Ed Glaeser, "Does Rent Control Reduce Segregation?" Harvard Institute of Economic Research, Discussion Paper No. 1985 (2002).

[11] One study found a statistically significant relationship between the presence of rent regulation in a city and commute times who live in those cities. Robert Krol and Shirley Svorny, "The Effect of Rent Control on Commute Times," Journal of Urban Economics 58, no. 33 (2005): 421-36.

[12] See also, e.g., John Nagy, "Increased Duration and Sample Attrition in New York City's Rent-controlled Sector," Journal of Urban Economics 38, no. 2, (1995): 127-137.

[13] One study found that between 15% and 21% of New York City apartment renters lived in units that were either larger or smaller than the units that they would live in if they lived in a city without rent control or rent stabilization, and that misallocation also occurred in non-controlled units and owner-occupied units in New York City. Ed Glaeser and Erzo Luttmer, "The Misallocation of Housing Under Rent Control," American Economic Review 93, no. 4 (2003): 1027-1046.

- Rent control and stabilization can result in some existing rental units being converted into owner-occupied condominium units.[14] One study of San Francisco's housing market found that conversion of units in small (unregulated) buildings by itself was responsible for a 7% increase in rents for the entire city.[15]
- Studies have reached a variety of conclusions regarding the effect of rent control regimes on new construction and have generally struggled to separate the impact of rent control from other factors such as the economic cycle and credit availability. That said, new construction and units in newer buildings are often exempt or otherwise outside of the control of local rent control regimes.[16]
- Some studies find a relationship between rent control and disinvestment by landlords, increased spending by tenants on unit or building upkeep, and even neighborhood deterioration and crime.[17] One study concluded that while the relationship between control and maintenance problems was significant, the maintenance problems tended to be aesthetic in nature.[18]

Montgomery County Rental Market – Regional and Historical Context 2000 to 2020

Co-Star's dataset includes nearly 100,000 multi-family rental units in Montgomery County. Approximately 6% of those units are characterized as senior housing, corporate housing, military housing, or vacation housing. An additional 6% of total units are characterized in the Co-Star dataset as "affordable" units - those that are in a community in which all rents are discounted or below market and may include units that have tenants with Section 8 vouchers or be units financed with low-income housing tax credits (LIHTC). Co-Star's dataset has 86,986 rental units in Montgomery County after excluding those units categorized as 'affordable', senior, corporate, military, and vacation rentals.[19]

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[14] Sims (2007) concluded (page 143) that "[T]here is weak evidence that rent control affected the extensive quantity of housing units supplied in Boston, but much stronger evidence that rent control led owners to shift units away from renting. The 6-7 percentage point change in rental probability between controlled and uncontrolled zones may seem small, but when applied to all three cities it implies that rent control kept thousands of units off the market."

[15] Rebecca Diamond, Tim McQuade, and Franklin Qian, "The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco," NBER Working Paper No. 24181, 2017.

[16] The restrictions/protections of Bill 52-20 would apply to units in new buildings as well, which could lead to a greater negative impact on new construction than one would anticipate in a jurisdiction that only applies rent control or stabilization to older buildings.

[17] Sims' 2007 study of Cambridge, Massachusetts is one study that did find a relationship. In that study, Sims found that rent control there did result in some deterioration in the quality of the rental housing stock.

[18] Sims (2007) wrote about his findings that indicate a relationship between controlled units and chronic aesthetic maintenance issues (page 144): "The estimates demonstrate that ending rent control leads to a significant reduction in these maintenance problems. A unit was almost 6 percentage points less likely to experience such problems once its zone is decontrolled. Though rent control does not seem to lead to catastrophic maintenance failures, it appears to reduce maintenance performed on rental units. As landlords can be fined for allowing water and heat failures, but not for cracked paint, this result is not surprising."

[19] For purposes of analysis, it makes sense to exclude "affordable" units because the rents for those units are not determined by the market. Roughly 40% of the Montgomery County units categorized as "affordable" in Co-Star's dataset are owned by either the Housing Opportunities Commission or Montgomery Housing Partnership. If the intent is that some subset of the units categorized as "affordable" should be subject to the requirements and prohibitions of Bill 52-20, then some effort should be made to seek input from those providers to determine whether Bill 52-20 would negatively affect their operating revenues.

Average effective rents in Montgomery County's rental housing market generally increase only modestly.[20] According to Co-Star Analytics, the average annual change for Montgomery County's rental multi-family housing stock from 2001 to 2020 is 1.48% per year.

Table 1: Annual Effective Rent Changes 2000 to 2020, Montgomery County

Year	Annual Effective Rent Change
2020 YTD	-3.6%
2019	3.1%
2018	3.4%
2017	0.0%
2016	0.4%
2015	1.6%
2014	0.5%
2013	1.3%
2012	1.9%
2011	1.3%
2010	4.0%
2009	0.9%
2008	2.3%
2007	4.6%
2006	5.1%
2005	2.1%
2004	-0.3%
2003	-2.3%
2002	-1.7%
2001	5.0%
Mean Annual Rate of Change	***1.48%***

Source: Jacob Sesker, OLO, Co-Star Analytics (2020)

[20] The Co-Star Analytics dataset includes two measures of rent – 'effective rents' and 'asking rents.' Effective rents are preferable for economic analyses because they represent a more meaningful economic number – the rent charged by the landlord net of concessions. While effective rents more accurately reflect the economics of the transaction, it is worth noting that the difference over time is minimal. For example, the average annual rate of change for effective rents, as shown in Table 1, is 1.48%. The average annual rate of change for asking rents during the same time period is 1.50%.

Nearly half of the rental units in the County are within 1-mile of existing rail transit. The data shows that rents in the 42,649 units within 1 mile of existing Metro and MARC train stops have increased more slowly than units that are not within the 1-mile radius. A cursory review of variables indicates that a possible explanation for this is the prevalence of smaller units (studios, 1-bedrooms) near transit which are more volatile in terms of occupancy and rents.

Table 2: Transit Proximity and Annual Effective Rent Changes 2000 to 2020

Year	Annual Effective Rent Change - Within 1 Mile of Rail Transit	Annual Effective Rent Change - Montgomery County as a Whole (from Table 1)
2020 YTD	-5.8%	-3.6%
2019	2.9%	3.1%
2018	3.0%	3.4%
2017	-0.8%	0.0%
2016	0.2%	0.4%
2015	2.2%	1.6%
2014	0.3%	0.5%
2013	1.0%	1.3%
2012	1.6%	1.9%
2011	1.1%	1.3%
2010	3.8%	4.0%
2009	1.0%	0.9%
2008	2.3%	2.3%
2007	4.6%	4.6%
2006	5.2%	5.1%
2005	2.1%	2.1%
2004	-0.2%	-0.3%
2003	-2.2%	-2.3%
2002	-1.7%	-1.7%
2001	5.0%	5.0%
Mean Annual Change	***1.28%***	***1.48%***

Source: Jacob Sesker, OLO, Co-Star Analytics (2020)

During the past 20 years, effective rents within 1 mile of existing rail transit stations have usually increased modestly - not more than 3% - when compared to rents during the same quarter in the previous year. Increases of more than 3% have occurred in 19 of the past 80 quarters. Effective rents have declined in 15 of the past 80 quarters.

Table 3: Rail Proximate Units, Effective Rent Changes vs. Prior Year Quarter 2000 to 2020	
Directional Change	**Number of Quarters**
Increasing more than 3% per 4 quarters	19
Increasing up to 3% per 4 quarters	46
Decreasing	15
Total	**80**

Source: Jacob Sesker, OLO, Co-Star Analytics (2020)

The information in Tables 1-3, taken together, indicates that average rents in Montgomery County are increasing modestly, that average rents near existing transit have actually increased more slowly than average rents countywide, and that average rents increase modestly during most 3-month periods. While there are periods in which rents increase more steeply, the "long view" illustrates that rents charged by landlords are not increasing quickly relative to overall inflation.[21]

When examined in the context of the region, rents are increasing more slowly in Montgomery County than they are in comparable nearby jurisdictions, including Washington, DC.[22]

Table 4: Annual Average Effective Rent Changes, 2000 to 2020, Selected Geographies		
Geography	**Avg. Effective Rent Change**	**Median Effective Rent Change**
Montgomery County, MD	1.48%	1.45%
Prince George's County, MD	2.15%	1.80%
Washington, DC	1.54%	1.95%
Fairfax County, VA	1.53%	1.70%
Arlington, VA	1.42%	2.00%
Alexandria, VA	1.69%	1.55%

Source: Jacob Sesker, OLO, Co-Star Analytics (2020)

None of this general data indicates that rents are increasing rapidly in Montgomery County and does not indicate that any such problem is more acute near rail transit stations. Program-level data tells a similar story. In response to our questions, the Department of Housing and Community Affairs' (Office of Landlord-Tenant Affairs) indicated that it received only 19 complaints about rent increases in FY19 and 44 such complaints in FY20.

[21] The average effective rent of Montgomery County multi-family rental housing units in 1Q 2000 was $1,178. Inflating that number using the Bureau of Labor Statistics' inflation calculator would result in a rent of $1,816 per month in November 2020. However, actual average effective rents in 4Q 2020 are only $1,677 (or nearly 8% below the inflated 2000 rents). https://www.bls.gov/data/inflation_calculator.htm

[22] As noted previously, Washington, DC has had some form of rent control or stabilization continuously since 1985.

Additional Context: The Voluntary Rent Guidelines and Measures of Inflation

Bill 52-20 establishes a maximum allowable annual rent increase via reference to Section 29-53 of the County Code. Section 29-53 establishes the County's voluntary rent guidelines, which heretofore have been voluntary for all units in Montgomery County. Subsection (b) describes the method the County is to use in establishing the guidelines.

> *29-53 (b): The guidelines must be based on the increase or decrease in the residential rent component of the Consumer Price Index for All Urban Consumers (CPI-U) for the Washington-Arlington-Alexandria Core Based Statistical Area (CBSA) as published by the United States Department of Labor, Bureau of Labor Statistics, or any successor index, for the preceding calendar year, unless an alternative standard better reflecting the costs of rental housing in the County is established by regulation.*

The BLS reports several housing-related inflation figures, but the appropriate measure of inflation would be the CPI-U Rent of Primary Residence for the Washington region. Due to time limitations, the authors did not reach out to DHCA to determine how the CPI-U factors into the voluntary rent guidelines.

The data is derived from surveys based on a sample. Survey responses are adjusted to account for several factors, such as whether parking or utilities are included. Per BLS,[23] survey questions include the following:

> *"What is the rental charge to your household for this unit including any extra charges for garage and parking facilities? Do not include direct payments by local, state or federal agencies. What period of time does this cover?"*

Table 5: Measures of Rent Increases and Inflation (Indexed to 2010)

Year	Montgomery County's Voluntary Rent Guidelines (set each spring based on previous year's CPI, then applied for the upcoming fiscal year)		CPI-U for Washington-Arlington-Alexandria CBSA - Rent of Primary Residence	
	%	Index	%	Index
2020 YTD	2.6%	126.4	2.8%	128.4
2019	1.5%	123.2	2.0%	124.9
2018	3.1%	121.3	2.6%	122.4
2017	1.8%	117.7	2.4%	119.2
2016	2.1%	115.6	1.5%	116.5
2015	2.3%	113.2	2.5%	114.8
2014	1.5%	110.7	1.7%	112.0
2013	4.0%	109.1	2.8%	110.0
2012	2.8%	104.9	3.9%	107.1
2011	2.0%	102.0	3.0%	103.0
2010	-	100.0	-	100.0

Source: Jacob Sesker, OLO, Bureau of Labor Statistics, Montgomery County, Co-Star Analytics (2020)

[23] BLS Factsheet, *How the CPI Measures Price Change of Owners' Equivalent Rent of Primary Residence and Rent of Primary Residence.* https://www.bls.gov/cpi/factsheets/owners-equivalent-rent-and-rent.pdf

METHODOLOGIES, ASSUMPTIONS, AND UNCERTAINTIES

In preparing this Economic Impact Statement, OLO relied upon data from public data sources and from Co-Star (a third-party private sector vendor). OLO reviewed applicable economic research. OLO also relied on the Bureau of Economic Analysis RIMS-II datasets, which were used to create an example that would help to illustrate the relative economic impact of reduced private industry activity and benefits of additional household spending. OLO's conclusions are also based on the authors' economic and local policy expertise.

From an economic perspective, the rent stabilization regime is a tax on the real estate industry for the direct benefit of tenants of certain units. It is assumed that the primary economic impacts of Bill 52-20 would occur as result of the reduced private sector economic activity and increased resources available to certain households. These impacts are the subject of the illustrative example discussed towards the end of this Economic Impact Statement.

Secondary impacts result from the distortionary effect of that tax. Those impacts are not quantified, but could include the following:

- Artificial limits on price increases leading to faster increases in prices for unregulated units, including owner-occupied housing;
- Rent stabilization resulting in fewer instances of rents being reduced in response to economic factors because establishing a new, lower base rent could "lock in" the effects of the downturn for years to come;
- Rent stabilization affecting the quantity of supply, as existing rental units are converted to condominium ownership and as construction of new units declines;
- Rent stabilization affecting the quality of supply as the levels of investment and maintenance in the regulated housing stock falls in response to price controls; and
- Rent stabilization resulting in geographic distortions because the bill would impose a tax on owners of land in some locations but not in others and would benefit tenants in some locations but not in others.

Quantifying the economic impacts of Bill 52-20 would require detailed information about all housing units (renter and owner occupied, near and far from transit), modeling macroeconomic scenarios, modeling microeconomic decisions (such as whether to convert a building to condos), modeling spillover effects in neighborhoods, and modeling price responses to changes in supply.

The scope of the analysis was limited by several key uncertainties. Those uncertainties generally fall into the following broad categories:

- Challenges relating to the underlying assumption;
- Challenges relating to measurement and indexing;
- Challenges related to macroeconomic volatility and the business cycle; and
- Challenges related to modeling pricing and microeconomic decisions.

Challenges and issues relating to the underlying assumption

Reducing rents would certainly help families that are squeezed by stagnant real wages, skyrocketing healthcare and college tuition costs, and childcare costs that are unaffordable to all but the most fortunate families. However, it may very well be that rent increases are not among the top causes of that squeeze.

In any event, the data available does not indicate that rents in Montgomery County generally - and specifically in proximity to transit - are rising rapidly. As a result. it is difficult to quantify the cost to businesses or the benefit to individuals and households of stabilized rents.[24]

One uncertainty limiting this analysis is the distribution of rent increases across the universe of transit-proximate units. Co-Star's dataset includes averages by geography and at the building level but does not include either the entire distribution or the medians. Moreover, Co-Star does not separately report rents for new tenants and existing tenants. It is possible that rents for existing tenants increase modestly, reflecting the reduced vacancy risk for the property owner, while lease rates for first time tenants increase more rapidly, and that these differences are obscured even in the building-level averages reported. It is also possible that there are individual property owners who choose to increase rents much more steeply, though determining whether this is indeed a problem would require reviewing hundreds of buildings individually.

Challenges and issues related to measures of inflation

Additional uncertainty results from the mismatch between the price to be regulated (rents) and the index that would establish the maximum price increases. The housing components of the Consumer Price Index seem to have little relationship to the data available regarding reported rents during the same time periods.[25] In addition, the voluntary rent guidelines do not appear to be based on the actual annual average inflation of the CPI-U for rent of primary residence, and OLO has not verified whether the County has used the measure consistently or correctly.

Moreover, there could be feedback loops between the index upon which the voluntary rent guidelines are based and future economic activity. Under the bill, future Montgomery County allowable rent increases would be based on a measure of past rent increases across the region. Montgomery County is one of the larger jurisdictions in the region, meaning that future allowable rent increases in Montgomery County would depend on a measure of recent rent increases in a region of which Montgomery County is a significant component. In other words, indexing rents based on the voluntary rent guidelines would impact rental rates in the County, which in turn could influence future values of the index. This feedback effect introduces a level of complexity that would be challenging to model.

An additional challenge is that Section 29-53 (Voluntary Rent Guidelines) makes clear that the guidelines should be based on the increase *or decrease* in rental housing inflation. It is possible that the inflation measure that is used to set the voluntary rent guidelines could decrease at some point during this or a subsequent economic downturn. Whether that occurs, when it occurs, and to what degree would have a large effect on any calculation of the costs to landlords of regulated units or the benefits to tenants of regulated units.

Challenges and issues related to unusual macroeconomic volatility

The legislation would establish base rents during a period of unusual economic volatility. The legislation could potentially "lock in" some portion of this year's 5.8% decline in effective rents for units within 1 mile of rail transit. That lost income

[24] While it is indisputable that many middle-class families are feeling squeezed, several factors are at least as significant as annual rent increases: stagnant real wages, a loss of employment protections, longer lifespans and reduced retirement security, the skyrocketing cost of college education, childcare costs that are unaffordable to many families, and health care inflation that continues to burden employees and employers (placing downward pressure on wage and salary growth).

[25] One recent paper examined the historical inaccuracies and measurement challenges for rent inflation. "The official rate was overestimated by 1.7 to 4.2% annually during the Great Recession but underestimated by 0.3 to 0.9% annually during the current expansionary period." Brent Ambrose, Ed Coulson, and Jiro Yoshida, "Housing and Inflation Rates," Center for Research and Education for Policy Evaluation, Discussion Paper No. 43, July 2018.

would function as a substantial ongoing tax on the real estate industry. Furthermore, since many periods of steeper rent increases occur either when the economy is overheating or when the economy is recovering from recession, business cycle scenarios would need to be developed in order to model the impact of this legislation.

In addition, it is hard to know how this legislation would affect landlords' choices during subsequent economic downturns. Landlords often reduce rents for new tenants during significant economic downturns. One potential response to rent regulation would be for landlords to hold the line and maintain rents even as landlords in surrounding jurisdictions are reducing rents. Similarly, tenants in an unregulated market can choose to take advantage of a period of declining rents by obtaining cheaper or higher quality housing. This opportunity would not be available if landlords chose to maintain rather than reduce rents during a downturn.

Challenges and issues related to prices and microeconomic factors

A critically important challenge is understanding the extent to which changes to supply will affect the price of rental housing in the unregulated market.

Behavioral responses to price signals and market regulation will also affect economic outcomes. For example, one challenge is modeling the degree to which landlords will attempt to recoup some actual or potential lost revenue by decreasing capital and operating expenditures.

Another challenge is modeling the degree to which tenants will respond to landlord disinvestment. For example, tenant responses could include increased spending by tenants on building and unit upkeep and maintenance, or tenant location preferences could change in response to perceived deterioration of transit-proximate neighborhoods.

Research literature suggests that the degree to which such regulations affect construction investment varies depending on timing relative to the business cycle, factors related to the specific nature of the legislation in question (such as whether it exempts new construction or only applies to buildings built before a certain year), and factors such as the nature and quality of the existing inventory. Modeling the impact on construction would be time consuming, and the results could potentially affect prices in the regulated market, prices in the unregulated market, as well as employment, income, and output in construction, real estate, and other affected industries.

VARIABLES

The primary variables that would affect the economic impacts of Bill 52-20 include:

- Timing of the business cycle;
- Annual costs (both one-year and long-term averages) to landlords of limiting rent increases to the percentage increase or decrease each year as established in the voluntary rent guidelines;
- The distribution of rent increases across the universe of regulated units and properties;
- The degree to which the costs of the regulation are borne by local, as opposed to non-local property owners;
- The degree to which the benefits and costs of the regulation accrue to current County residents versus non-County residents who might subsequently seek housing in Montgomery County;
- Income, household size, employment status, and age of residents in transit proximate units.

IMPACTS

WORKFORCE ▪ TAXATION POLICY ▪ PROPERTY VALUES ▪ INCOMES ▪ OPERATING COSTS ▪ PRIVATE SECTOR CAPITAL INVESTMENT ▪ ECONOMIC DEVELOPMENT ▪ COMPETITIVENESS

Businesses, Non-Profits, Other Private Organizations

The *Real Estate and Rental and Leasing Industry*, as defined for the purpose of government statistics, generated more than $16.3 billion of economic output in 2019. The industry constitutes more than 17% of Montgomery County's economic output and more than 21% of the private industry output in the County.

Table 6: County GDP (2019)

Real Estate and Rental and Leasing	Private Industry Subtotal	Gross Regional Product (2019 $)
$16,347,430,000	$76,740,259,000	$95,585,447,000

Source: Jacob Sesker, OLO, Bureau of Economic Analysis

Reducing income in the real estate industry would reduce economic activity in other private industry and would result in a loss of earnings and employment as well as economic activity and output. Assets with reduced income-producing potential are less valuable, meaning that there would be a negative impact on property values and tax revenues generated by properties that are near transit. Other potential impacts, such as landlord decisions regarding expenditure on maintenance and general levels of construction activity, are likely to be negative. Furthermore, condominium conversion is a common outcome when rent stabilization measures are adopted.

Rental income from rail-proximate units is more than $930 million, equivalent to nearly 1% of the County's economy (See Table 7). These figures do not represent the entire universe of rental units that would potentially be affected.

- Not included are units that would be proximate to future transit stations (i.e. those that are within 1 mile from a Purple Line stop, or within ½ mile from a Bus Rapid Transit stop).
- Also not included are units that are categorized by Co-Star as corporate housing, military housing, vacation rental, senior housing, or subsidized affordable units.

If the voluntary rent guidelines limited rent increases to 2% when market forces otherwise would have led to a 3% increase in rent, that 1% difference would function as a tax on the owners of real estate for the direct benefit of their tenants. The one-year cost of this tax for the owners of real estate (using 2020 effective rents) would be $9.3 million (1% x $930 million). Note that much of that amount would be lost in each subsequent year as a result of the compounding effect of basing each year's allowable rent on the previous year's rent as adjusted by the price index.

An uncertainty in this instance is what affect this legislation would have on non-profit organizations whose primary purpose is not to provide temporary shelter to qualified clients (the exception on lines 33-40). It is conceivable that some non-profit affordable housing providers who do not qualify for this exemption would be negatively affected by the legislation – that impact has not been modeled.

Residents

Households in Montgomery County and across the nation are under increasing financial pressure, and there is a growing awareness and body of research related to this "middle class squeeze." That squeeze is not simply the result of increased housing costs but is the result of several factors: stagnant wages, decreased employment and retirement security, limited savings and longer lifespans, rapid inflation of health care costs, and childcare and college education costs that are high and continue to rise.

As previously stated, it is not possible to forecast or project the impact on the County's economy without additional information. However, the primary impact on households in the regulated rental units would be a benefit in the form of reduced rent, which would then enable those households to spend more on other categories of goods and services.[26]

Benefits to residents and households would also include the benefit of being able to maintain the social capital that is tied to their location. Such social capital includes maintaining neighbors and connections to friends, household service providers, neighborhood businesses and amenities, schools, and support networks.

Other potential negative impacts on residents and households include higher rents in the uncontrolled sector (e.g., in housing that is outside of the 1-mile radius from existing transit stops), landlord disinvestment resulting in increased spending by tenants on unit/building maintenance, and economic costs associated with the mismatch of units and tenants that results from individuals and households remaining in units that no longer meet their needs.

Illustration: One-time Economic Impacts of a One-time Reduction in Allowable Rent Increases

While it is not possible to model the impacts of rent stabilization without having additional information, it is possible to illustrate the relative magnitude of some such impacts. Returning to the example of a one-time, 1% reduction in achievable rents will enable a quick analysis of the relative costs and benefits of the redistribution of rent income/costs.

- This reduction in rents would result in reduced private sector economic activity. The real estate industry would spend less money, both on labor inputs (affecting employment and earnings from employment) and would on other inputs.
- At the same time, households who benefit from the reduced rent increase at their transit-proximate unit would have additional money available to spend. In the abstract, that amount should equal the lost income for the real estate industry. However, the household sector is also losing earnings in the form of reduced spending on labor by the real estate industry.
- An additional key assumption is that the extra resources available to households will *not* be spent on real estate (i.e., it is assumed that the savings would not be used to rent more expensive housing units that otherwise would have remained vacant and which are outside of the regulated geography).

	Table 7: Rental Income Associated with Units Near Existing Rail Transit	
	Illustrative Impacts: Capitalized Value, Property Tax Revenue, and Economic Multiplier Impacts	
	# of Units, >1 mile existing rail	42,649
Times	Average Effective Rent/Unit/Mo.	$1,818
Times	Mo./Yr.	12
Equals	*Gross Rent Income/Yr.*	*$930,430,584*
	Illustrative Capitalized Value and Tax Revenue Impacts	
	Illustrative: Income Loss from 1% Reduced Rent	($9,304,306)
Divide	Cap Rate (for converting net operating income to asset value)	5.31%

[26] Note, however, that not all of the reduced rent accrues to households as a benefit because some households will have lost earnings as a result of the reduced revenue among businesses in the real estate industry.

Equals	*Illustrative: Asset Value Lost*	*($175,222,332)*
Times	Weighted Average Tax Rate / $100	$1.0264
Equals	*Illustrative: One Year Property Tax Impact*	*($1,798,482)*
	Illustrative: Economic Impacts on Private Industry From Reduced Real Estate Income	
	Input: Cost to Real Estate Industry of Reduced Rent Increase Equal to 1% of Rent	($9,304,306)
	Final Demand Output Change (Reduced Economic Activity)	($11,744,825)
	Earnings Impact (Reduced Earnings) in Montgomery County	($1,395,646)
	Employment Impact (Fewer Jobs) in Montgomery County	(41.4)
	Final Demand Value Added (Reduced GDP or Economic Output)	($8,427,840)
	Illustrative: Economic Impacts on Household Sector from Reduced Rents	
	Input: Benefit to Households from Reduced Spending on Rent	$9,304,306*
Less	Offset: Reduced Income to Households from Contraction of Real Estate Industry	($1,395,646)
Equals	*Net Benefit to Household Sector*	*$7,908,660*
	Final Demand Output Change (Increased Economic Activity from Household Spending)	$4,795,811
	Earnings Impact (Earnings from Employment Resulting from Household Spending)	$1,105,631
	Employment Impact (More Jobs) in Montgomery County	25.5
	Final Demand Value Added (Increased GDP or Economic Output)	$2,811,529
	Illustrative: Net Economic Impacts of 1% Reduction in Real Estate Income (Rents)	
	Net Final Demand Output Change	($6,949,014)
	Net Earnings Impact	($290,015)
	Net Employment Impact	(15.9)
	Net Final Demand Value Added Change	($5,616,312)
Source: Jacob Sesker, OLO, Bureau of Economic Analysis, Co-Star Analytics (2020)		

*The transfer to households is equivalent to $18/month per unit.

Table 7 shows that the impact of reducing rents on asset values is substantial and affects real property tax revenues, and that the negative economic impacts of reduced income in the real estate industry exceed the positive economic impacts of increased household spending. Keep in mind that input-output analyses are linear – the impact of a one-time, 2% reduction in rents would be double the impact shown in Table 7.

- **Illustrative impact on asset values:** Assuming that operating expenses are unchanged, a reduction of rental income will result in a corresponding reduction of net operating income (NOI). That reduced NOI, when capitalized at the appropriate "cap rate", produces an estimate of the value of the income producing asset at that moment in time. The example in Table 7 illustrates the impact of a 1% reduction in rents (reduced increase) capitalized at 5.31% - the value of regulated residential rental buildings would decline by $175 million. Not included in this number is any other adjustments as a result to changes in operating expenses, occupancy rates, maintenance expenditures, compliance costs, etc. Also not included is any indirect impact on real estate values or spillover effect resulting from neighborhood deterioration. The reduced rents also result in reduced property tax revenue for the County (by $1.8 million), though this analysis does not attempt to model the impact of that reduced revenue.
- **Illustrative Impact on Earnings and Employment:** Table 7 illustrates that the net effect on earnings and employment is likely to be negative – a loss of jobs, and a corresponding loss of earnings by County workers

(earnings include sole proprietor and partnership income, and exclude several items including taxes and social insurance costs). While household spending offsets a portion of the losses, this illustration shows that a one-time 1% decline in allowable rents would result in the loss of 16 jobs and close to $300,000 of earnings for County households.

- **Illustrative Impact on Economic Activity and Output:** The impact of a 1% reduction in allowable rents would be more substantial when viewed through the lens of economic activity and output. Increased household spending offsets approximately 40% of the reduced economic activity (final demand output) and 33% of the reduced gross regional product (final demand value added). However, on balance the result of this 1% reduction in allowable rents would be to reduce the level of activity and overall size of the County's economy.

QUESTIONS FOR CONSIDERATION

OLO has recently produced economic impact statements for three bills (Expedited Bill 50-20, Bill 51-20, and Bill 52-20) related to rental housing and landlord responsibilities. All three are likely to have a negative economic impact on landlords. Should the Council desire more economic analysis, OLO suggests conducting an examination of the aggregate economic impact of these bills.

One question for consideration is the legality and practicality of mandating that rents decrease in accordance with the voluntary rent guidelines, which under Section 29-53 may either increase or decrease depending on the underlying index.

Some rent stabilization measures are based on broad measures of affordability (e.g., the broad consumer price index) and include a buffer that provides some additional flexibility for the market while retaining the circuit-breaker function of regulation (e.g., Washington, DC's CPI + 2% rent stabilization). THE CPI for rental housing is a measure of housing cost, though it is not limited to measuring rents, and the regional measure is likely to be heavily influenced by Montgomery County's housing costs given that Montgomery County is one of the largest jurisdictions in the region. OLO recommends further consideration of whether this measure – which may be adequate for the purposes of establishing a voluntary guideline – is appropriate for the purpose of establishing a statutory maximum for all regulated units.

To the extent that the Council is interested in learning more about the distribution of rent increases, OLO recommends a statistical analysis of DHCA's housing dataset to determine whether rent gouging is common, and to determine whether instances of steep rent increases correspond to other factors related to the buildings (such as age), the units (such as size), the property owners (such as whether they are local), or the tenancy status (such as re-leasing or vacated).

Additional objective, third-party analysis of Takoma Park's housing stock, neighborhood performance relative to peer neighborhoods, and economic outcomes for property owners and residents may be helpful in reaching a better understanding of the impact of rent control measures in a local context. Such analysis may be particularly helpful in understanding issues related to property disinvestment by landlords, neighborhood deterioration, spillover effects in surrounding neighborhoods and in the unregulated stock, and crime. In addition, it may be worth exploring the fiscal costs to the City of Takoma Park and to Montgomery County of landlord disinvestment, e.g. whether buildings in Takoma Park have lower capitalized values than similar/paired buildings outside of the municipal boundary, the impact if any on tax revenues, and a review of the cost of any subsidies related to that disinvestment.

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CAVEATS

Two caveats to the economic analysis performed here should be noted. First, predicting the economic impacts of legislation is a challenging analytical endeavor due to data limitations, the multitude of causes of economic outcomes, economic shocks, uncertainty, and other factors. Second, the analysis performed here is intended to *inform* the legislative process, not determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent OLO’s endorsement of, or objection to, the bill under consideration.

CONTRIBUTIONS

Jacob Sesker, contractor for OLO, prepared this report with contributions from Stephen Roblin (OLO).