Testimony of Michael Bodaken on Rent Regulation in Montgomery County.

My name is Michael Bodaken. I have lived in Montgomery County for over 30 years and very much appreciate the opportunity to speak to you this evening. I'm here in my personal capacity but should say that I have served as Deputy Mayor of Los Angeles where we had a rent stabilization ordinance and as head of the National Housing Trust where we developed over 3000 apartments during my tenure. I currently serve as an Adjunct Professor at the University of Maryland School of Public Policy. Tonight, I will pose and answer a few questions that justify the adoption of a rent stabilization ordinance in our county.

FAQs on Rent Regulations

Q: Does Rent Regulation lead to housing disinvestment?

A: Rent regulation has no discernible impact on new housing construction. And the booming real estate market in the metropolitan DC region shows no sign of slowing down.

Little evidence supports the theory that rent stabilization decreases housing production. The evidence shows that overall market conditions, interest rates, costs of materials, and zoning have much more influence over new housing supply than rent regulations. This is particularly the case in prosperous locations like Montgomery County

Thus, despite having had rent stabilization for nearly 50 years, Washington D.C. ranks 2nd out of 98 nationwide markets in multifamily development activity.[1]

The Washington, D.C. real estate market has been growing at a much healthier pace compared to most peer metros. Median home and rental prices have steadily increased since the pandemic real estate boom. Nearly 26,000 new multifamily units are projected to be completed by June 2022. The average rental price of multifamily units is $1,890 (September 2021) – a 5% increase year over year. [2]

Washington, D.C. has continued to experience high demand over the past year, even seeing occupancy increase year-over-year to 95.5%, a 0.2% increase. In 2021, over $9 billion in assets exchanged hands, eclipsing the previous 10-year high by over $2.4 billion. With prospective homebuyers being priced out of buying thanks to increasing interest rates due to rising inflation, rent increased across every submarket and property class throughout Washington, D.C.[3]

While some have suggested that rent stabilization in Takoma Park, Maryland has led to disinvestment there, I find that argument, not at all useful. Takoma Park is not a good proxy for

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[1] Lima One Capital, 2022.

[2] Ibid.

[3] Summary of Washington DC Multifamily Real Estate Performance, Luke Williams.

Montgomery County, a jurisdiction covering nearly 500 square miles of land area and a population of over 1 million households;

Instead, I believe the experience of other, larger, vibrant metropolitan areas is more relevant to a discussion of rent regulation in Montgomery County.

Initially, it's worth mentioning that DC, Oregon, and California have adopted *statewide* rent regulation laws that have had no discernible impact on real estate investment in those jurisdictions. More relevant, study after study of rent stabilization laws in metropolitan areas have seen no discernible impact on housing investment.

Massachusetts: In an analysis of housing supply after the repeal of rent control in three Massachusetts cities—Boston, Cambridge, and Brookline—a 2007 study found that the end of rent regulation had a negligible effect on the construction of new housing. [4]

New Jersey: Multiple longitudinal studies comparing New Jersey municipalities with and without moderate rent regulation found no significant relationship between rent regulation and new housing construction.[5]

California: The Urban Displacement Project assessed housing production from 2007 to 2013 and found that the six cities with rent regulation in the Bay Area produced more housing units per cap than cities without rent stabilization.[6]

Q. Does Rent Stabilization Lead to Housing Stability?

A. Rent stabilization leads to housing stability. Housing stability is associated with better life outcomes for those who can stay in a home they desire.

Much has been said about the horrors rent stabilization will visit upon real estate investment in Montgomery County. *In stark contrast, little has been mentioned about the positive economic and social impact of rent stabilization on our County's residents.*

Notably, none of these outcomes were referenced in AOBA's 48-page report on the economic impacts of rent stabilization on Montgomery County.

[4] David Sims, "Out of Control: What Can We Learn from the End of Massachusetts Rent Control?" Journal of Urban Economics 61, 1 (2007): 141–142.

[5] John I. Gilderbloom and Ye Lin, "Thirty Years of Rent Control: A Survey of New Jersey Cities," Journal of Urban Affairs 29, 2 (2007): 213–214; Joshua Ambrosius, John Gilderbloom, William Steele, Wesley Meares, and Dennis Keating, "Forty Years of Rent Control: Reexamining New Jersey's Moderate Local Policies after the Great Recession," Cities 49 (2015): 128.

[6] Miriam Zuk, "Rent Control: The Key To Neighborhood Stabilization?" Urban Displacement Project, September 9, 2015

One often hears about the importance of housing stability in the promotion of homeownership. Indeed, housing stability is highly correlated with physical, social, and psychological well-being; higher educational achievement by the young; and benefits for people of color.[7]

Rent stabilization provides stability and affordability for current tenants. Tenants living in rent-regulated units move less frequently, are less likely to experience destabilizing forced moves and pay substantially less than tenants in non-regulated units of similar size and quality[8].

Further, rent stabilization disproportionately benefits those who need stable housing most: low-income tenants, seniors, people of color, women-headed households, persons living with disability and chronic illness, families with children, and others who have the least choice in the rental market and are most susceptible to rent gouging, harassment, eviction, and displacement. [9]

In contrast, housing instability can make it challenging to find and keep employment: people who experience eviction, for example, are up to 22 percent more likely to be laid off, even with a stable employment history. Displacement and the negative health impacts of housing instability lead to absenteeism, reduced productivity, and higher turnover—significant costs for employers. Unaffordable rents also hamper firms from attracting or retaining employees. Frequent moves lead to worse school and health outcomes. [10]

Q. Do low-income and minority rental households benefit from rent regulation?

A. Yes.

Critics of rent regulation often cite that rent regulation is not targeted to those needing household assistance the most, i.e., low income, disabled, senior, and/or minority households.

While it is true that rent regulation is not targeted to those in need, those benefitting from rent stabilization are primarily low-income minority households.

The demographics of rental households in Montgomery County make this plain.

- While constituting far less than these numbers in our overall population, nearly 60 percent of black and Hispanic household renters pay more than 30% of their income for rent.[11]
- Unsurprisingly, those who are low income are disproportionately represented in those who are cost-burdened. 72% of cost-burdened households earn less than 50% AMI

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[7] Ibid.

[8] Our Homes, Our Future, February 2019 (PolicyLink).

[9] Ibid.

[10] Ibid and *Moving Matters*, U.S. Department of Education (2015)

[11] HAND Survey, 2022.

(~$70,000 for a household of 4). Nearly all (96%) of severely cost-burdened households earn less than 50% AMI.[12]

Thus, while rent stabilization is not a targeted program, in practice, those who will most benefit are those who are more rent burdened, i.e., African American, Hispanic, and low-income households.

Q: Doesn't Rent Stabilization lead to lower maintenance and poor housing conditions?

A: No

When assessing the impacts of rent stabilization on building quality, it is important to distinguish between cosmetic improvements in a building's appearance and functional maintenance issues that decrease quality of life (e.g., plumbing, electrical failures, wiring shorts, etc.). A study covering 1978-1987 in New York City found that landlords in rent-stabilized buildings conducted maintenance, whereas other economic factors such as buyouts and vacancy decontrol induced landlords to renovate. A study of the abrupt repeal of rent regulation laws in Boston, Brookline, and Cambridge, Massachusetts shows that rent stabilization had no significant effect on functional maintenance issues, but that units were less likely after repeal to experience "chronic aesthetic" problems (e.g., broken paint or plaster, holes in walls, and loose railings).there are not significant consequences, suggesting that many quality issues could be mitigated by stricter enforcement of housing code violations, rewarding landlords who invest in housing.

Q. Can't We Just Build More Housing?

A: Yes, we can and should build more affordable housing. But there is no way to "build" our way out of our current affordable housing crisis. Worse, the housing we build is not affordable to those most likely to be displaced by large rent hikes.

The theory of filtering is not borne out by data. A recent study shows that the United States lost nearly 4 million low-cost rental units (defined as under $600/month) from 1990 to 2017.[13]

This loss is despite a net gain of 10.9 million rental units during this time. Ninety-five percent of this net increase stems from units renting for over $1,000/month. If the filtering theory panned out, then this increase in high-rent units should have led to an overall decrease in rents—or at least a slower increase. But this has not been the case. In 1990, 46 percent of rental units

[12] Briefing on "The State of Affordable Rental Housing in Montgomery County", January 25, 2023.

[13] Elizabeth La Jeunesse, Alexander Hermann, Daniel McCue, and Jonathan Spader, "Documenting the Long-Run Decline in Low-Cost Rental Units in the US by State," Joint Center for Housing Studies of Harvard University, September 2019.

nationwide went for under $600/month (inflation-adjusted). In 2017, that number decreased to just 16 percent.[14]

In short, rent regulation, providing owners with a reasonable return provides both stability and affordability. *The stability and affordability provided by rent regulation would have cascading benefits for communities and our broader society.*

[14] Ibid.