

MARCH 28, 2023 PUBLIC HEARING
BILL 16-23 LANDLORD-TENANT RELATIONS
RENT STABILIZATION “THE HOME ACT”

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Thank you for the opportunity to share my first-hand experience as a small landlord grappling with rent control over the last 35 years in both the *People’s Republic* of Santa Monica, CA & the *People’s Republic* of Takoma Park. It has been time consuming, excessively costly, and frustrating. It is driving droves of small property owners out of business at a time when large government affordable housing projects don’t seem to provide a solution.

I would like to kindly remind you all that we should stay focused on the objective: To help low-income renters afford Montgomery County housing and to keep our county welcoming to people of all backgrounds and income levels.

Rent control is a VERY blunt instrument because it requires ALL landlords (whether they can individually afford it or not) to subsidize ALL tenants whether they need it or not. I have the data to prove that the benefit of capping ALL rents would be wasted on at least 50% of renter households. ¹

¹Census data shows that there are 16,235 or 29.2% of all renter households in Montgomery County earn 50% or more of The median household income of \$71,150 of renter households can afford \$1,779 in monthly rent which is more than the current MOCO median rent of \$1,706. This means that capping ALL rents capping ALL rents would be wasting a benefit on at least

Even worse is the amount of money it will cost the county to administer a rent control program.

City/County	# Renter Households	Rent Control Budget
Takoma Park MD	3,300	\$400,000 ²
Santa Monica CA	33,344	\$5.5 million
Montgomery Co MD	162,000	\$19.6 - \$27 million per YEAR ³

Keep in mind that Santa Monica, like MOCO, already has its own multimillion housing budget working on the issue of affordable housing.

Every million dollars NOT spent on creating and maintaining a rent control bureaucracy could provide \$1400 vouchers to 60 more families for an entire year.

Rent Control is a short-term political solution to a long-term problem that benefits existing tenants and hurts prospective tenants.

50% of households and then owners aren't paying income tax on this lost revenue.

² Please don't waste 30 – 70% of the benefits of lower rents on renters who don't need the subsidy.

³ Estimate based on 5 x Santa Monica households – 49 x Takoma Park households.

Rent control is one of the few areas of economics that has almost 100% consensus that it is not an efficient solution though the short-term political benefits seem to offset the proven long-term destructive aspects of creating and funding a new county bureaucracy.

Rent Control has proven to be counterproductive to the long-term goal of providing an abundant and affordable housing supply! Rent Control is one of the few issues that both liberal and conservative economists tend to agree.

Larry Summers, the economist who served President Obama as Treasury Secretary, and went on to become the president of Harvard said in a 2019 NY Times article: “Rent Control is the surest way to destroy a city’s housing stock.”

Nobel laureate Paul Krugman -who is known to be even more progressive -has said “econ 101 teaches that **artificially compressing rents results in a shortage of rentable properties.** The lower fixed price of rents increases the demand for rental housing while reducing the quantity of it offered for rent.”

More importantly the unintended consequences of rent control impact the quality of life for current and prospective residents of Montgomery County because rent control favors EXISTING tenants and incentivizes them to be less geographically mobile because they don’t want to lose their unit specific subsidy! Since they move less often there is less housing available for prospective residents.

Takoma Park has one of the lowest vacancy rates in the country making it very difficult for a newcomer to obtain an affordable apartment. These artificially low rent units are treated like a lottery ticket!

Please ask yourself is the “juice worth the squeeze?” After 35 years I firmly believe the answer is NO! Just because there are two competing proposals on the table doesn’t mean you have to pick one and create a costly new bureaucracy here in Montgomery County!

For more research data on this most important subject please refer to the attached academic article by Dr. Merritt Tollison, An Economic Case against Rent Regulations in Montgomery County, Maryland, 29 POL'y Persp. 1 (2022).

I beg you to please choose the most efficient and effective way of providing affordable housing to current and prospective residents of our great county: **direct financial assistance to rent burdened tenants**. This is also important in reducing displacement and supporting affordable housing supply.

An Economic Case Against Rent Regulations in Montgomery County, Maryland

Merritt Tollison

A new light rail system threatens to increase pressure on Montgomery County's already-chronic housing shortage for low- and middle-income residents. The 16-mile Purple Line rail corridor, expected to be completed in 2026, will run adjacent to a substantial proportion of the county's naturally occurring affordable housing and a large population of vulnerable cost-burdened renters. Proposed economic development around the new transit stations could usher in an increase in economic development that portends rapid increases in home values, rents, and land prices. To preserve affordable housing and reduce displacement in the wake of this development, the Montgomery County Council is debating rent regulations for a county-wide transit-centered buffer zone. This policy, however, would have a negative effect as economists overwhelmingly agree that rent controls cause inefficiency, inequity, negative externalities, disutility, and restricted mobility. This paper uses an economic analysis to show that local rent regulations would fail to mitigate the chronic housing shortage and that costs to communities and businesses will outweigh the benefits provided to protected tenants. Montgomery County should reconsider implementing the proposed rent regulations, reevaluate similar policies, and expand efficient, targeted support for low-income renters.

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BACKGROUND

Rent control policies have been used in expensive metropolitan housing markets since World War II when rent ceilings and rent freezes sought to remedy housing shortages from large population increases in urban areas related to military production (Fetter 2013). Over time these World War II era price controls have been replaced with less restrictive policies regulating rent increases instead of fixing rent amounts (Diamond 2018).

In the Washington metropolitan area, the District of Columbia and the city of Takoma Park, Maryland are two of the six states/districts nationally that currently maintain state or local rent control policies. (City of Takoma Park 2021; Department of Housing and Community Development 2021; National Multifamily Housing Council [NHMC] 2022). Other than Takoma Park, Montgomery County (MC) has not enforced rent control since 1983 and instead uses a voluntary rent guideline system (Department of Housing and Community Affairs [DHCA] 2021). The voluntary guideline is a county recommended maximum rent increase—1.4 percent for 2021—to be imposed once in a 12-month period (DHCA 2021). Landlords are required by code to provide advance notice of price changes and are encouraged to keep rent increases at the lowest possible level, as the County has the authority to review any rent increase deemed excessive.

Montgomery County's proposed rent regulations would make these voluntary regulations mandatory for transit zones, assert control over the frequency and amount of rent increases, and set base rental amounts for certain units to prevent rents from rising so rapidly that they outpace the average occupant (Montgomery County Council 2020). In the long run, this regulation seeks to prevent displacement and preserve the supply of affordable housing. This policy would apply to all buildings over five years old that are one mile or less from Metro, Amtrak, and light rail train stations and one-half mile or less from Bus Rapid Transit stations (Montgomery County Council 2020). The purpose of MC's proposed rent regulation is to prevent rents from rising so rapidly that they outpace the average occupant. In the long run, this regulation seeks to prevent displacement and preserve the supply of affordable housing. Similar to rent control policies in other metropolitan areas, the MC proposal is popular among low-income renters, tenant advocates, and progressive politicians.

Recent research on urban rent control indicates substantial benefits to controlled tenants as newly available housing market data supported calculations of the effects of past rent decontrol in Cambridge, Massachusetts and policy expansion in San Francisco, California (Autor et al. 2014; Diamond et al. 2019). In both cases, tenants living in regulated properties benefited from substantially lower rents. In Cambridge, controlled rents were over 40 percent lower relative to tenants living in properties that were never regulated (Autor et al. 2014, 670). In San Francisco, rent protections also provided stability as renters' probabilities of staying at the same address increased by 19 percent over a ten-year period (Diamond et al. 2019, 3367).

Though rent control provides social insurance that protects the housing security of tenants facing rent increases, price ceilings cause potential problems for the economy in the long run. In the next section, I provide an overview of the four main economic arguments against rent control. I then turn to the assumptions that underlie Montgomery County's proposal. I conclude with

alternative policy recommendations to address the preservation of affordable housing and the reduction of housing displacement with anticipated price pressures of local transit expansion.

ECONOMIC ARGUMENT AGAINST RENT CONTROL

Rent control is a redistributive policy where a small group of current tenants benefits from a tax initially borne by landlords but with additional long-term costs to individual renters and the surrounding community. The four economic principles of efficiency, externalities, equity, and restricted mobility, describe the overall costs to society due to rent control policies.

EFFICIENCY: REDUCED AFFORDABLE HOUSING AND ECONOMIC LOSS

Rents perform two essential functions in housing markets (NMHC, n.d.). First, they compensate providers and developers of housing units for the cost of providing shelter to tenants (NMHC n.d.). Second, through profits they attract new investments in rental properties and incentivize landlords to maintain existing housing (NMHC, n.d., 1). In unrestricted markets, rents are set at the equilibrium point of supply and demand with landlords (producers) and renters (consumers) exchanging rent and housing in an efficient manner that balances utility and profit.

When a rent-control ceiling is instituted at a price below the market equilibrium, developers invest less in new housing and spend less on existing housing, resulting in a rental shortage. Indicators of these shortages include declines in rental construction, increases in rental conversions, decreases in the quality and quantity of existing rental stock, and scarcities of available and affordable rental housing. The total benefit to society decreases due to the deadweight loss from this market distortion. For example, research studying the effects of ten years of rent control in Cambridge estimated a \$2 billion total cost to local property owners due to the price ceiling (Autor et al. 2014, 668). Of this cost, only \$300 million was transferred from landlords to protected tenants through reduced rents, resulting in a \$1.7 billion deadweight loss borne by owners of never controlled properties through depressed property values and reduced rents as the neighborhood became less desirable for new construction and investment (Autor et al. 2014, 668).

In unregulated markets, a two-step process involving the renters and housing producers resolves rental shortages. First, increased competition between renters for available units causes short term rents to rise (NMHC, n.d.). In the longer term, high rents encourage developers and landlords to invest in rental housing (NMHC, n.d.). Investments of new construction, rehabilitation, and buildings conversion from business to residential use effectively remedy the initial housing shortage (NMHC, n.d.).

In controlled markets, rental shortages still increase as the overall decrease in rent prices and transactions discourages the entry of landlords and disincentivizes development. With price ceilings, excess rental demand spills over to uncontrolled higher priced rentals or condos. With high demand and small quantities, uncontrolled units experience large price increases. During San Francisco's rent control period, citywide market rents increased by 51 percent at least partially due to condo conversions and losses of affordable rental housing (Diamond 2018). Increasing rents in high price, uncontrolled rental markets attract developers, further disincentivizing affordable housing construction. Though rent control is typically accompanied by policies to stimulate

housing construction, the offset is likely not enough to remedy the market forces of supply and demand.

EXTERNALITIES: GENTRIFICATION AND DISINVESTMENT

Rent control also negatively effects the community not engaged in the rental transaction through the externalities of gentrification and disinvestment. Whether neighborhoods fall prey to gentrification or disinvestment depends on landlords' responses to the regulation and the characteristics of the surrounding area (Diamond 2018). In high-income, well-resourced communities, gentrification occurs as landlords try to recoup their rental losses by converting buildings to condominiums or redeveloping buildings to exempt them from rent control. In less- resourced communities, landlords respond to the loss of profits with decreased maintenance efforts and disinvestment (Diamond 2018).

San Francisco experienced citywide gentrification when rental housing supply fell by 15 percent over a ten-year period (Diamond et al. 2019, 3368). The city's housing supply shifted toward new higher-end units and condos, attracting residents with at least 18 percent higher income relative to the controlled tenants in the same zip code (Diamond et al. 2019, 3368). In turn, this increased citywide rents and exacerbated income inequality as higher-income residents moved into the city and lower income tenants who did not benefit from rent control were forced out (Diamond et al. 2019). Though rent controlled tenants were less likely to be displaced, the average tenant lived in a census tract with declining property values, educational attainment, employment support, and income levels (Diamond et al. 2019, 3367).

Cities with rent control policies typically experience overall disinvestment in the residential rental market. The threat of price controls encourages potential landlords to favor alternative property investments such as condos, offices, hotels, or commercial buildings that respond with healthy vacancy rates and slowly increasing rental rates (Block et al. 1981). Individual landlord disinvestment results from the imposition of fixed rents unaccompanied by controls of building operating and maintenance expenses, reducing the landlord's ability and incentive to supply high- quality tenant services (Block et al. 1981). As a result, protected tenants experience decreased maintenance response and minimal service provision that may reduce their enjoyment to a level on par with the lower controlled rent amount (Block et al. 1981).

In Cambridge, landlord disinvestment extended to neighboring uncontrolled housing, as it lowered the neighborhood's overall amenity value and desirability (Autor et al. 2014). Once rent control was lifted, all market values increased substantially with decontrolled units' property values increasing by 45-50 percent (13-25 percent more than never controlled properties), spurring new construction and increasing rental supply (Autor et al. 2014,703).

EQUITY: UNCERTAIN BENEFITS TO LOW-INCOME RENTERS

Rent control is a redistributive policy where a small group of current tenants benefits from a tax initially borne by landlords. Unlike redistributive taxes, rent control acts broadly and keeps rental rates low for anyone living in units defined by rent regulations (Lawler 2020). A study of New York rent control comparing the distribution of family income with the distribution of

benefit-adjusted income revealed that low-income families were just as likely to access benefits as higher income renters (Gyourko and Linneman 1989, 65). Additionally, there is an enormous variation in benefits among families of controlled housing with similar incomes and demographics as the value of excess of market rent over controlled rent is different based on the unit (Block et al. 1981, 115) As a result, rent control policies are unable to target low-income, rent-burdened households and instead provide substantial rental benefits to many higher-income tenants (Gyourko and Linneman 1989, 66).

Not only do they have an equal chance at receiving a lower rent subsidy than high income renters, but low-income renters in both controlled and uncontrolled units bear the burden of less direct rent control costs. As seen in Cambridge, landlords in less amenity-rich neighborhoods counter rent control by allowing buildings to decline and fall into disrepair. The lower-income renters that the policy seeks to help have no choice but to remain in the rent-controlled deteriorating buildings. The housing shortage from rent control magnifies the effects on low-income tenants as non-controlled landlords have more say in who they rent to and can discriminate based on income and credit history (Desmond and Wilmers 2019). Research has also shown that rent control benefits fall unequally on different racial populations. Black and Puerto Rican residents under New York City's rent control policies received lower annual monetary benefits of reduced rent than their white counterparts despite their overrepresentation in the rental market (Gyourko and Linneman 1989, 63).

In the long term, homeowners and non-controlled renters bear the majority of the costs of rent control. When price controls limit investment return and building quality, the assessed value of rent-controlled properties tends to decline and lower overall property-tax revenue (Diamond 2018). The post-decontrol appreciation of controlled and never-controlled properties in Cambridge indicates that the city received 20 percent less in annual property tax revenue during rent control (Autor et al. 2014, 702). This property tax impact affects homeowners and property investors in the city and regional economy which in the case of Cambridge is estimated at \$2.0 billion over 10 years (Autor et al., 2014, 702).

While current renters benefit from controlled rates, new tenants face significant entry costs to the rental market as the number of affordable units dwindle. Rent control policies widen the disparity between rent-controlled housing and luxury housing, pricing new tenants out of quality rental areas. These tenants are disproportionately the low-income, single, and young renters that the policy seeks to support.

RESTRICTED MOBILITY

Rent control also impacts the labor decisions of protected tenants. The San Francisco study shows that rent control reduces renters' mobility by 19 percent (Diamond et al. 2019, 3367). The desire to stay to reap the benefits of this regulation counteracts the mobility required to access employment and other economic opportunities. In some cases, the lack of mobility adds to negative neighborhood externalities with long commutes and high-cost car dependence. Controlled renters absorb other costs to continue their tenancy such as childcare fees, negative health effects, and the opportunity cost of lost income.

In sum, the economic case against rent control shows that any increase in neighborhood stability and price protection for controlled tenants is offset with high costs to businesses, homeowners, property investors, and other renters. Additionally, the potential benefits of neighborhood stability can be offset by gentrification and disinvestment responses by landlords and developers. Rent control also serves to disincentivize housing mobility of controlled renters. As a result, they remain in mismatched units or face decreased economic opportunities to avoid high and increasingly unaffordable market rate rents. Mandating that landlords limit rent increases is not only counterproductive, but it also increases housing shortages and escalates rental rates.

ANALYSIS OF MONTGOMERY COUNTY'S PROPOSED RENT REGULATION

Montgomery County's case for rent regulations centers on tenant protection against rent gouging near major transit centers. Rent gouging is defined as raising rents at a higher percentage than the county's annual Consumer Price Index (CPI), a compilation of inflation and area rents (Montgomery County Council 2020). The County's Housing Preservation study highlights the risk of losing affordable housing units near transit hubs with anticipation of rising rents near the new Purple Line (McMillan and Dunn 2020). The study estimates that in the next ten years, over 4,000 deed-restricted and naturally occurring affordable housing units within a mile of transit stations may become unaffordable for low-income renters (McMillan and Dunn 2020).

This local case needs to be evaluated to determine if the transit-centered rent regulation will protect tenants from rent gouging and gentrification. To justify the regional impacts of rent control, two criteria need to be met. First, evidence needs to show that there is current and/or expected rent gouging near transit stations relative to outlying areas. Second, this policy needs to benefit low-income tenants with stability and monetary benefits that far outweigh the cost to the rest of the region.

RENTAL RATES IN MONTGOMERY COUNTY

Over the past twenty years, the 1.48 percent average annual rent increase in MC has been lower than the overall region and neighboring rent-stabilized Washington D.C. (OLO 2020). In 2020, the average county rent of \$1,677 is eight percent lower than the predicted value calculated to reflect inflation over a twenty-year period (OLO 2020). Quarterly variations in rent increases and decreases also do not indicate a need for concern with increases greater than three percent in just 23 percent of quarters over the last 20 years (ibid.). These increases are further offset by declines in 18 percent of the quarters indicating an overall long-term natural progression of rent increases and decreases in MC (ibid.). Additionally, rents within the targeted policy buffer zone, one mile from transit stations, have a .2 smaller annual increase (1.28% versus 1.48%) than county wide rental housing (OLO 2020).

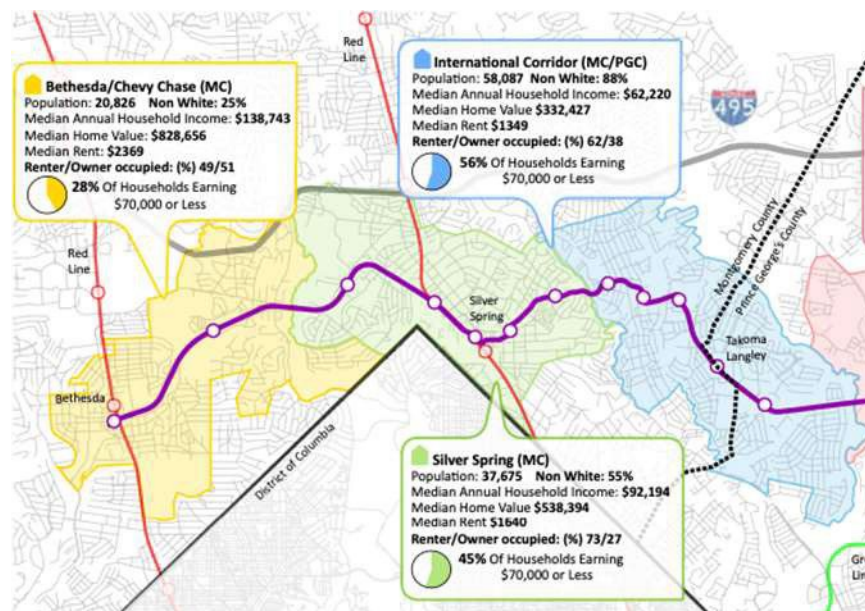
The rent regulation proposal assumes that completing the light rail line will cause rental rates near the stations to increase beyond inflation. A summary of housing research suggests that proximity to public transit can lead to rents between zero and 10 percent higher (Wardrip 2011). This impact, however, depends on mediating factors such as housing type, extent and reliability of the transit system, housing market strength, and neighborhood resources and amenities (Wardrip

2011). Within a single market, transit stations can have widely disparate effects on housing prices in nearby neighborhoods. Transit accessibility has been associated with increased home prices near higher-income station areas and also a dampening effect in lower-income neighborhoods (Wardrip 2011). This finding is concerning for MC because the affordable areas requiring preservation may experience disinvestment magnified by the price dampening effect of transit.

BENEFITS & COSTS

Rent regulations benefit a small group of controlled tenants at the expense of landlords, households, future tenants, and non-controlled tenants. To effectively preserve affordable housing, this small group of tenants needs to benefit substantially from the social insurance of rent support. While Montgomery County’s policy targets a narrow geographic area, it applies broadly to renters of all income levels. As seen in Figure 1, there is a huge disparity in the buffer zones around Purple Line stations both in income and race. The rent regulations would impact both high-income tenants in the Bethesda and Chevy Chase area (\$2,369 median rent) and lower-income renters in the International Corridor (\$1,349 median rent) (Purple Line Corridor Coalition 2019).

Figure 1: Purple Line Demographics



Source: Purple Line Corridor Coalition (2019)

Figure 2: Purple Line Demographics (Alternative)



Source: Purple Line Corridor Coalition (2019, p.64)

Renters within one mile of the county’s Metro and Amtrak stations have the highest overall income of all tenants in the region (OLO 2020). Therefore, to provide for more equitable outcomes, the rent regulation would need to center on Bus Rapid Transit and Purple Line stations and exclude housing near Metro and Amtrak stations. However, this regulation's lack of income targeting would still have the unintended consequence of supporting well-resourced populations.

The costs of this rent control policy to businesses and households throughout the county offsets any benefits to rent-controlled tenants. The economic impact statement for this proposal clearly states that this rent regulation would have an overall negative economic impact on the region (OLO 2020). The economic impact model shows that a one-year rent stabilization of one percent relative to market rates for the designated area would affect a \$9.3 million tax on the real estate owners due to decreased asset values and property tax revenue (ibid.). This model predicts that county households will absorb the employment and earning losses from the real estate industry and uncontrolled tenants will face increased rents and rental housing shortages (ibid.). The economic impact statement indicates that a one percent relative difference in controlled and uncontrolled rental rates would result in an overall annual economic cost to county households of \$6 million, not including indirect impacts or spillover effects (OLO 2020).

AFFORDABLE HOUSING ALTERNATIVES

Rent controls will impose high costs on Montgomery County households and will not effectively increase the supply of affordable housing. The County should more strongly consider and reinvest in alternative policies to ameliorate the looming housing shortage.

Currently, MC is supporting several affordable housing programs and studies to propel affordable housing preservation and creation (McMillan and Dunn 2020). Affordable housing programs provide a high level of support for tenants and promote affordability through rental assistance, moderately priced dwelling units, right of first refusal, condo conversion controls, and renter tax credits (McMillian and Dunn 2020).

One such program already in existence is the Moderately Priced Dwelling Unit (MPDU) Program, through which Montgomery County has coordinated with private developers to produce affordable housing over the past thirty years (Montgomery County Council 2004). This program requires developers to set aside up to 15 percent of new housing for low to moderate income residents (Montgomery County Council 2004). Over the 99-year control period of MPDU rental units, the county sets the initial rates and regulates the annual rent increases to keep the unit affordable to households earning 65 percent of Area Median Income (70 percent for high rise apartments) (Montgomery County Council 2004). The county currently has over 2,000 MPDU controlled rental units, of which 900 are located along the Purple Line corridor (DHCA 2021). Though the MPDU program is similar to the proposed rent control regulations as it taxes developers for the sole benefit of controlled tenants, it is smaller scale and income targeted.

It is essential that naturally occurring affordable housing in the county is preserved and additional housing is built for low to moderate income households. To increase supply, targeted programs could provide tax credits or subsidies for the construction or rehabilitation of affordable housing. Removal of inappropriate regulatory barriers to rental housing construction and the threat of rent control could also serve as a guarantee to developers tasked with meeting housing supply goals.

Direct financial assistance to rent burdened tenants is also important in reducing displacement and supporting affordable housing supply. Less distortionary housing policies such as government subsidies or tax credits could remove landlords' incentive to decrease housing supply but still provide insurance for low-income families against large rent increases (Diamond 2018). While rent control results in tenants spending income on consumption other than housing, housing subsidies and credits are directly applied to an individual's housing costs resulting in improved conditions while not limiting mobility. Housing subsidies can target improved conditions for low-income renters by basing the allowance on a percentage of the recipient's rent, if housing meets certain standards. Benefits can also be allocated as tax credits or unrestricted cash grants for rent burdened tenants. The use of subsidies or other grants is determined based on the policy's goal; if the aim is to induce families to occupy better housing, housing allowances are the most efficient and equitable means of subsidizing housing.

Montgomery County currently uses property taxes to support a redistributive housing choice voucher program that provides over seven thousand rent subsidies to working poor households in privately-owned properties. This program can target renters based on income, percentages of housing to subsidize, and select high priority geographic areas. As this housing choice voucher program does not decrease the entry of developers and landlords, it supports renters while allowing market rates to remain affordable and affordable housing development to grow. Montgomery County should explore an expansion of its housing choice voucher program to low-

income tenants affected by Purple Line construction as a more effective and equitable alternative than the proposed rent regulations.

CONCLUSION

Montgomery County's proposed rent regulations seek to preserve affordable housing for low-income renters who might experience rent gouging and gentrification due to light rail transit expansion. Economic research indicates that this type of rent regulation benefits current rent-controlled tenants at the expense of the real estate industry, county households, non-controlled tenants, and future tenants. This regulation is inefficient, inequitable, and has extensive negative externalities and spillover effects resulting in higher unregulated rents and less rental construction. Local evidence does not justify these negative effects and instead shows that the geographically limited, broadly applied proposed policy would increase income inequality by supporting high income households. Less distortionary and more targeted affordable housing policies need to be evaluated as effective alternatives to rent regulations. For example, the expansion of a housing choice voucher system to rent-burdened tenants in the transit areas could serve as social insurance without reducing profit and disincentivizing supply. In addition, MPDU's and other local affordable housing policies with a rent control basis should be analyzed for their short- and long-term economic impacts on the region and the housing supply. These policies may need to be amended in addition to the imposition of supply side incentives such as tax breaks and developer subsidies so that the County's housing shortages can be effectively remedied by the local housing market.

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