Economic Impact Statement

Office of Legislative Oversight

Expedited Bill 18-20

Landlord-Tenant Relations – Rent Stabilization During Emergencies

SUMMARY

On April 14, 2020, the Montgomery County Council introduced Expedited Bill 18-20. Although economic impact statements are not required for expedited bills due to time limitations,[1] the Office of Legislative Oversight (OLO) wants to offer a preliminary analysis of the economic impacts of Expedited Bill 18-20. Overall, we expect the bill to have a net positive impact on the economy in Montgomery County, Maryland, although it would not impact all groups the same and may have a negative impact on local landlords that would need to be monitored.

BACKGROUND

The novel coronavirus pandemic has triggered a global recession that many economists believe will be worse than the Great Recession during the 2000s.[2] With the highest number of coronavirus cases and deaths in the world, the United States is the epicenter of the pandemic.[3] The emergency mitigation measures taken at the state and local levels to slow the spread of the disease (closure of nonessential businesses and schools, stay-at-home orders, etc.) have severely restricted economic activity. These measures, combined with falling oil/commodity prices, financial market volatility and supply-chain disruptions,[4] have caused a rapid and massive economic contraction in the U.S., which many economists expect to reach its nadir in the second quarter.[5] Having lost more than 700,000 jobs in March,[6] economists expect the U.S. to shed millions more in the

[1] County Council, Bill No. 10-19 Legislative Branch – Economic Impact Statements - Amendments, Montgomery County Maryland, 3.
[2] See, for example, Gita Gopinath, "The Great Lockdown: Worst Economic Downturn Since the Great Depression," *IMF*, April 14, 2020, https://blogs.imf.org/2020/04/14/the-great-lockdown-worst-economic-downturn-since-the-great-depression/ (accessed April 18, 2020); and Elisabeth Waelbroeck-Rocha and Nariman Behravesh, "COVID-19 Recession to Be Deeper Than That of 2008-2009," *IHS Markit*, March 30, 2020 https://ihsmarkit.com/research-analysis/covid19-recession-to-be-deeper-than-that-of-20082009.html (accessed April 5, 2020).
[3] FT.com. "Coronavirus Tracked: The Latest Figures as the Pandemic Spreads," *Financial Times*, https://www.ft.com/coronavirus-latest (accessed April 18, 2020).
[4] For a depiction of the channels through which the coronavirus is impacting the economy, see Coronavirus and the Economy: Alternative Data Monitor, Sector In-Depth, Moody's, April 14, 2020, 5, https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1223320 (accessed April 17, 2020).
[5] See, for example, Jeff Cox, "Goldman Says Downturn Will Be 4 Times Worse Than Housing Crisis, Then An 'Unprecedented' Recover," *CNBC*, April 14, 2020, https://www.cnbc.com/2020/04/14/goldman-downturn-will-be-four-times-worse-than-the-financial-crisis.html (accessed April 19, 2020); Patti Domm, "JPMorgan Now Sees Economy Contracting By 40% in Second Quarter, and unemployment reaching 20%," CNBC, April 9, 2020, https://www.cnbc.com/2020/04/09/jpmorgan-now-sees-economy-contracting-by-40percent-and-unemployment-reaching-20percent.html (accessed April 19, 2020); and Waelbroeck-Rocha and Behravesh, "COVID-19 Recession."
[6] BLS.gov. The Employment Situation – March 2020. U.S. Bureau of Labor Statistics. April 3, 2020. https://www.bls.gov/news.release/empsit.nr0.htm?via=webuproar (accessed April 6, 2020).

coming months.[7] Meanwhile, millions of more Americans who are currently furloughed (i.e. on leave without pay) eagerly await their return to work.

Like the nation at large, Montgomery County and all jurisdictions in the surrounding region are in an economic tailspin. With the entire Washington metropolitan area under stay-at-home orders and nonessential businesses closed, economic activity has been reduced to a trickle. Crucially, unlike previous recessions, the presence of the federal government will offer little insulation from the immediate economic effects of the coronavirus pandemic. As Jeannette Chapman, director of the Stephen S. Fuller Institute, explains,

> In a typical recession, the federal government is a stabilizer for the region by being a consistent, or growing, source of income for a significant share of local businesses and households. In turn, these federally dependent businesses and households spend money at other local businesses, supporting secondary activities even during a business cycle downturn. In this downturn, households and businesses will reduce expenditures at local businesses *even if their incomes are unchanged as households, businesses, and governments implement strategies to flatten the curve of the pandemic* [emphasis added].[8]

The inability of the federal government to insulate the region from the recession is illustrated by recent unemployment claims. The sharp increase in unemployment claims in Montgomery County from early-March to mid-April is consistent with the trajectory of unemployment claims in the country.[9] In contrast to the economic decline phase, the presence of the federal government should strengthen the region's economy during the recovery phase. "The source of funding and the workforce of the federal government and federal contractors," Chapman writes, "will be less affected by the disruption, making it easier for both the businesses and the associated households to resume normal operations."[10]

To mitigate the consequences of the economic tailspin, the Montgomery County Council has introduced Expedited Bill 18-20, which would temporarily establish the only County-wide rent control regulation for residential properties. Under current law, landlords possess the legal discretion to change rental rates for residential properties in the County.[11] Putting aside the issue of Moderately Priced Dwelling Units (MPDU),

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[7] See, for example, Josh Bivens, "Even With Already-Passed Relief and Recovery Measures, Job Losses From the Coronavirus Shock Could Easily Exceed 20 million," Economic Policy Institute, April 6, 2020 https://www.epi.org/blog/even-with-already-passed-relief-and-recovery-measures-job-losses-from-the-coronavirus-shock-could-easily-exceed-20-million/ (accessed April 6, 2020); and Domm, "JPMorgan Now Sees."

[8] "The Effect of the Coronavirus Pandemic on the Washington Region's Economy," Stephen S. Fuller Institute, March 18, 2020 https://sfullerinstitute.gmu.edu/2020/03/18/coronavirus/#_ftn1 (accessed April 2, 2020).

[9] Stephanie Bryant and Leslie Rubin, COVID-19: Unemployment Update, Office of Legislative Oversight, Montgomery County Council, April 16, 2020, https://www.montgomerycountymd.gov/OLO/Resources/Files/2020%20Reports/UnemploymentOverviewOLO6.pdf (accessed April 16, 2020).

[10] Chapman, "Effect of the Coronavirus Pandemic."

[11] Montgomerycountymd.gov, Amount of Allowable Landlord Rent Increase, Montgomery County, Maryland, https://www3.montgomerycountymd.gov/311/Solutions.aspx?SolutionId=1-TYH51 (accessed April 18, 2020).

the sole exception is the incorporated City of Takoma Park, where landlords are prohibited from increasing rents above certain limits.[12] Expedited Bill 18-20 would prohibit landlords from increasing residential rents until 120 days after the Governor ends the state of emergency,[13] which he declared on March 5, 2020.[14] For landlords who have already notified tenants of rate increases that would occur during the duration of the policy, they would need to inform their tenants "in writing to disregard any notice of a rent increase."[15] The bill includes a sunset provision, stipulating that the temporary freeze on rent increases "must expire, and must have no further force or effect, upon the 121st day following the expiration of the catastrophic health emergency."[16]

INFORMATION, ASSUMPTIONS and METHODOLOGIES

No one can be certain about the *depth* or *duration* of the unfolding economic recession. This uncertainty is evidenced by the wide variation in forecasts on GDP, unemployment and other key indicators, as well as varying expert opinion on when the eventual recovery will take place. For example, Goldman Sachs economists predict a "V"-shaped recovery, in which the economy quickly rebounds in the third quarter.[17] Meanwhile, other economists predict a much longer "U"-shaped recovery, especially if the current pandemic triggers a financial crisis.[18]

Given the great uncertainty about the depth and duration of the pandemic and related recession, OLO believes it is unwise to quantify the impacts of Expedited Bill 18-20 on the County economy by using multipliers or other methods. Instead, OLO bases its expectations on staff judgment and, more importantly, draws attention to variables that the Council should monitor in order to assess the impacts of the bill and the overall state of the economy in the County and broader region.

VARIABLES

The variables that could affect the economic impacts of the temporary freeze on rent increases in the County are the following:

- Duration of the state of emergency in Maryland

[12] Takomaparkmd.gov, Rent Stabilization, City of Takoma Park, Maryland, https://takomaparkmd.gov/government/housing-and-community-development/rental-housing/rent-stabilization/ (accessed April 18, 2020).
[13] County Council, Expedited Bill No. 18-20 Landlord-Tenant Relations – Rent Stabilization During Emergencies, Montgomery County Maryland, 2.
[14] Governor Lawrence J. Hogan, Declaration of State of Emergency and Existence of Catastrophic Health Emergency – COVID 19, State of Maryland. March 5, 2020, https://governor.maryland.gov/wp-content/uploads/2020/03/Proclamation-COVID-19.pdf (accessed April 18, 2020).
[15] Ibid.
[16] Ibid, 3.
[17] Cox, "Goldman Says."
[18] Carmen M. Reinhart and Kenneth Rogoff, "The Coronavirus Debt Threat," *Wall Street Journal*, March 26, 2020 https://www.wsj.com/articles/the-coronavirus-debt-threat-11585262515 (accessed April 3, 2020).

- Unemployment and wage rates for renters, especially those most impacted by COVID-19 and the economic downturn—namely, elderly, low-income, minority, and immigrant residents, owners of small nonessential businesses, and workers in leisure & hospitality, retail, and other industries that rely heavily on discretionary spending[19]
- Number of renters and landlords who reside in the County
- Proportion of cost-burdened renters (i.e. proportion of households that spend 35% or more of their income on housing[20])
- Supply of rental housing for low-income households
- Vacancy rates
- Profit margins for landlords who reside in the County

To monitor the overall state of the County economy, the Council should concentrate on indicators that are released in a timely manner. OLO recommends that the Council monitor the following indicators:

- **Quarterly changes in GDP for Maryland, Virginia, and the District of Columbia.**[21] While County GDP would be an appropriate measure of the overall strength of the economy, the most recent county-level data from the Bureau of Economic Analysis (BEA) is for 2018.[22] A more timely option is the state-level GDP data BEA releases much closer to real time.
- **Washington Coincident Index** and **Washington Leading Index**. These indices are prepared by the Stephen S. Fuller Institute, which is a leading source of expert analysis on the Washington metropolitan area economy. The Coincident Index measures "the current state of the metropolitan area economy based on a combination of regional indicators, including wage and salary employment, consumer confidence, retail sales, and domestic passenger volume." The Leading Index "forecasts the performance of the metropolitan area economy six to eight months in advance based on a combination of regional indicators, including unemployment, consumer expectations, retail spending, and residential building permits."[23] The Institute updates and reports these indices monthly.
- **Monthly Unemployment Rates for the County[24]** and **Weekly Unemployment Insurance Claims for the County**.[25]

[19] Chapman, "Effect of Coronavirus Pandemic."
[20] Montgomery County Planning Department, 2019 Montgomery County Trends: A Look at People, Housing and Jobs Since 1990, January 2019, 64.
[21] BEA.gov, GDP By State, U.S. Bureau of Economic Analysis, https://www.bea.gov/data/gdp/gdp-state (accessed April 7, 2020).
[22] BEA.gov, Local Area Gross Domestic Product, 2018, U.S. Bureau of Economic Analysis, https://www.bea.gov/data/gdp/gdp-county-metro-and-other-areas (accessed April 7, 2020).
[23] Sfullerinstitute.gmu.edu, Economy Watch, https://sfullerinstitute.gmu.edu/economy-watch/ (accessed on April 7, 2020).
[24] DLLR.state.md.us, Local Area Unemployment Statistics, Maryland Department of Labor, https://www.dllr.state.md.us/lmi/laus/ (accessed April 20, 2020).
[25] DLLR.state.md.us, Unemployment Insurance Initial Claims by County, Maryland Department of Labor, https://www.dllr.state.md.us/employment/uicounty.shtml (accessed April 20, 2020).

- **Wage Rates for the Region**.[26]
- **Number of Businesses in the County**.[27]
- **Sales and Use Tax Receipts in the County**.[28] To our knowledge, the best way to capture changes in sales in the County is tax receipt data.
- **Human Mobility in the County** and **Change in Seated Diners in the Region**.[29] Economists are concerned that the economic recovery could be undercut by the residual fear and anxiety that reduces consumer demand even after "social distancing" measures have been lifted.[30] Using human mobility data, Unacast has created a publicly available scorecard for social distancing. Tracking changes in mobility in the County will indicate whether residents continue to engage in social distancing due to residual fears after the pandemic passes. Another way to monitor residual fears would be to track year-over-year changes in seated diners at restaurants in DC and Maryland. This data is made publicly available by OpenTable.[31]

IMPACTS

Businesses, Non-Profits, Other Private Organizations

Workforce, operating costs, property values, capital investment, taxation policy, economic development, competitiveness, etc.

Overall, OLO believes that Expedited Bill 18-20 would have a mixed impact on private organizations in the County. Landlords would be the primary private actors impacted by the temporary freeze on rent increases because they would bear the cost of the policy in the form of lower profit margins. Lower profits would result in relative increases in operating costs for landlords and perhaps reduce capital investments in their residential properties. These costs would likely be most impactful for individual landlords with no other sources of income.

Importantly, only landlords who plan to increase rents would be directly impacted by the bill. If the experience of the Great Recession is any indication, we should expect that a significant portion of landlords would increase rents during the current crisis. As indicated in the 2019 Montgomery County Trends report, asking rents per square foot (inflation adjusted) steadily increased throughout the recession.[32] However, compared to the Great Recession, the current crisis has resulted in sharper reductions in income for a broader segment of the County

[26] BLS.gov, U.S. Bureau of Labor Statistics, https://www.bls.gov/oes/current/oes_47900.htm (accessed April 20, 2020).
[27] Quarterly Census of Employment and Wages (QCEW) data for Maryland, Maryland Department of Labor.
[28] Marylandtaxes.gov, Sales and Use Tax Comparative Revenue, Maryland Office of the Comptroller https://www.marylandtaxes.gov/reports/sales-and-use.php (accessed April 20, 2020).
[29] Unacast.com, Social Distancing Scoreboard, Unacast, https://www.unacast.com/covid19/social-distancing-scoreboard (accessed April 18, 2020).
[30] Peter S. Goodman, "Why the Global Recession Could Last a Long Time," *New York Times*, April 1, 2020, https://www.nytimes.com/2020/04/01/business/economy/coronavirus-recession.html (accessed April 2, 2020).
[31] OpenTable.com, The State of the Restaurant Industry, OpenTable, https://www.opentable.com/state-of-industry (accessed April 2, 2020).
[32] Montgomery County Planning, Department, 2019 Montgomery County Trends, 62.

population, given the higher rates of permanent and temporary job loss.[33] For this reason, more landlords may plan to maintain, or even reduce, rents for their tenants during the current recession. For these landlords, the bill would not change their behavior; it would legally require actions that they will take of their own volition. Thus, the policy would not directly impact their profit margins, operating costs, and capital investments. At most, it could require them to extend the rent freeze for a longer period than they would otherwise.

Another important consideration is the degree to which the bill impacts landlords *who reside in the County*. Some proportion of landlords who would be impacted by the bill reside outside the County. In these cases, the bill would, in effect, shift the direct costs to other jurisdictions. However, to the knowledge of OLO staff, there is no data on the home jurisdictions for all owners of rental properties in the County. Therefore, we are unable to estimate this cost leakage.

Finally, it is possible that the temporary freeze on rents could benefit businesses in the County. Unlike landlords, the renters who would be impacted by the bill *all reside in the County*. For this reason, it is possible that the temporary freeze on rent hikes would result in a net increase in disposable income for County residents, in which case some portion of the income would be spent on local businesses once social distancing measures are relaxed.

In terms of the other indicators prioritized by the Council, OLO does not expect that the bill would have a meaningful impact. Economic development, competitiveness, property values, and taxation policy will be influenced by the trajectory of the recession and federal relief measures far more than the temporary freeze on rent increases.

Residents

Employment, property values, taxes paid, etc.

OLO believes that Expedited Bill 18-20 would have a positive impact on County residents. Renters who will suffer *temporary* losses of income, such as furloughed employees who return to work, would benefit the most from the bill. For these households, the temporary freeze on rent hikes would prevent them from falling deeper in arrears. Once their income rebounds, they would be able to more rapidly pay off their debts to landlords. OLO has no way of estimating the number of households that would fall into this category. Nevertheless, there are theoretical reasons to expect that a lower debt burden for renters could stimulate the local economy, mainly by increasing disposable spending for these renters.

However, the temporary freeze on rent increases would not provide enough financial support to prevent eviction for households that sustain deep and enduring losses of income, particularly low-income households. OLO is unable to accurately estimate the number of households that will fall in this category. However, skyrocketing unemployment and the high rates of cost-burdened rental

[33] Bryant and Rubin, Unemployment Update.

households (i.e. households that spend 35 percent or more of their income on rent) indicate that the number will be substantial.[34] These households will fall deep in arrears, which will incentivize landlords to assume the time and monetary costs associated with pursuing evictions and finding new renters, once the Sheriff's Office rescinds the stay on evictions.

Importantly, many landlords may not be deterred from taking on these costs out of fear that they will be unable to replace tenants, particularly low-income tenants. The insufficient supply of affordable housing, low vacancy rates, and increase in low-income households over decades indicate that demand for rental properties will remain high relative to supply, which will tempt landlords to shop for tenants that will be able to pay higher rates (even if below asking).[35] This said, the largest deterrent for pursuing eviction may end being the backlog in the Courts. This backlog will dramatically slow down the writ of resolution and eviction process, thereby giving tenants more time to attain adequate employment and/or find a mutually aggregable settlement with their landlords.

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[34] Montgomery County Planning, Department, 2019 Montgomery County Trends, 64.
[35] Ibid, 63, 65.

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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

Stephen Roblin (OLO) drafted this economic impact statement.