Economic Impact Statement

Office of Legislative Oversight

Expedited Bill 30-21

Landlord-Tenant Relations – Restrictions During Emergencies – Extended Limitations Against Rent Increases and Late Fees

SUMMARY

The Office of Legislative Oversight (OLO) anticipates that Expedited Bill 30-21 would have a net negative impact on economic conditions in the County. Using input-output analysis, OLO estimated that the non-transfer of higher rents and late fees from affected tenants to landlords would result in net negative economic effects. However, the negative economic effects of the Bill could be reduced if the residential rental sub-sector is sufficiently profitable to absorb the loss of revenue, landlords are able to pass some portion of costs to prospective tenants, and the Bill reduces housing insecurity for tenants and the economic costs associated with it.

BACKGROUND

Expedited Bill 30-21 would amend the COVID-19 Renter Relief Act which the Council enacted on April 23, 2020. The COVID-19 Renter Relief Act (hereinafter "the Act") prohibited landlords from raising rent above the County's voluntary rent guidelines during the COVID emergency declared by Governor Hogan and for a period of 90 days after the expiration of the emergency.[1] The emergency ended as of August 16, 2021.[2] As a result, the prohibition on rent increases above the voluntary rent guidelines will end in November 2021.

If enacted, Bill 30-21 would make two changes to the Act. First, it would extend the temporary prohibition against raising rents above the voluntary rent guidelines, which stands at 1.4% for 2021, until one year after the expiration of the emergency. Second, it would prohibit a landlord from charging fees for late rent payments during the emergency and for a one-year period after the expiration of the emergency.[3]

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[1] Montgomery County Council, Expedited Bill 30-21, Landlord-Tennant Relations – Restrictions During Emergencies – Extended Limitations Against Rent Increases and Late Fees, See Bill in Introduction Staff Report, https://apps.montgomerycountymd.gov /ccllims/DownloadFilePage?FileName=2721_1_15581_Bill_30-2021_Introduction_20210713.pdf. /DownloadFilePage?FileName=2720_1_15580_Bill_29-2021_Introduction_20210713.pdf.

[2] https://governor.maryland.gov/wp-content/uploads/2021/08/2760_001.pdf

[3] Expedited Bill 30-21.

Like much of the country, the COVID-19 pandemic and economic recession have significantly affected renters and landlords in the County. Due to job loss and other economic disruptions, many tenants have been unable to keep up with rent payments, causing substantial losses in rental income for landlords.

In her 2020 analysis of the crises' impacts on rental housing in the County, Natalia Carrizosa (OLO) found the following:[4]

- Eviction moratoria and rental assistance programs likely have been successful in reducing evictions. There is a risk of a "wave of evictions" when temporary moratoria expire.
- Risk factors for loss of housing due to the pandemic and/or recession likely include the following: loss of employment income, cost-burdened prior to the pandemic (more than 30% of income spent on rent), presence of children under 18, lower levels of educational attainment, low income, Black, and Latinx.
- Owners of small rental properties, as well as Black and Latinx owners,[5] likely have experienced greater relative losses of rental revenue for several reasons. First, tenants in homes and small multi-family buildings are more likely than tenants in larger buildings to work in the industries most impacted by the pandemic and recession. Second, small multi-family buildings generally charge lower rents than large buildings. Third, tenants in small multi-family buildings tend to have lower incomes.[6]

Recent data from the U.S. Census Bureau's weekly Household Pulse Survey (HPS) indicates that rental housing insecurity remains a problem in the Washington DC Metropolitan Area. (Note that HPS provides data at the metropolitan level, not the county level). **Table 1** presents the most recent survey results for three measures of rental housing insecurity:

- Payment Status – whether households are caught up on their rent payment
- Payment Confidence – households' confidence in their ability to make next month's rent payment
- Perceived Eviction Likelihood – households' perception of the likelihood they will be evicted in the next two months

[4] Natalia Carrizosa, "COVID-19 Recovery Outlook: Cost-Burdened Renter Households," Office of Legislative Oversight, Montgomery County Council, September 21, 2020, https://www.montgomerycountymd.gov/OLO/Resources/Files/2020%20Reports/COVID-19RecoveryOutlook-CostBurdenedRenters.pdf; and Natalia Carrizosa, "COVID-19 Recovery Outlook: Evictions in Rental Housing," Office of Legislative Oversight, Montgomery County Council, June 16, 2020, https://www.montgomerycountymd.gov/OLO/Resources/Files/2020%20Reports/COVID-19Recovery-Evictions.pdf.

[5] On impacts to Black and Latinx landlords, see Nathaniel Decker, "The Uneven Impact of the Pandemic on the Tenants and Owners of Small Rental Properties," Turner Center for Housing Innovation, UC Berkeley, July 2021, https://ternercenter.berkeley.edu/wp-content/uploads/2021/07/Small-Rental-Properties-Decker-July-2021.pdf; and Laurie Goodman and Jung Hyun Choi, "Black and Hispanic Landlords Are Facing Great Financial Strain because of the COVID-19 Pandemic," Urban Institute, September 4, 2020, https://www.urban.org/urban-wire/black-and-hispanic-landlords-are-facing-great-financial-struggles-because-covid-19-pandemic-they-also-support-their-tenants-higher-rates.

[6] On impacts to small landlords, see Elijah de la Campa, "The Impact of COVID-19 on Small Landlords in Albany and Rochester, New York," Joint Center for Housing Studies, Harvard University, March 11, 2021, https://www.jchs.harvard.edu/blog/impact-covid-19-small-landlords-albany-and-rochester-new-york; Decker, "The Uneven Impact of the Pandemic on the Tenants and Owners of Small Rental Properties."

The results from the most recent survey round (July 21 to August 2, 2021) for households in the Washington DC Metropolitan Area indicate the following:

- Approximately 16% of renter households were not caught up on their rent payments.
- Approximately 22% of renter households had "no confidence" or "slight confidence" in their ability to make the next month's rent payment.
- Approximately 35% of renter households felt it was "very likely" or "somewhat likely" that they would be evicted within the next two months.

These findings are generally consistent with previous survey results dating back to April 28, 2021. (See **Tables A1-A3** in the Appendix.)

Moreover, the most recent survey results presented in **Table 1** are generally consistent with Carrizosa's findings regarding household characteristics associated with rental housing insecurity. As shown in **Table 1**, households with the following characteristics had higher percentages of rental housing insecurity than the total averages:[7]

- Elderly
- Latinx
- Black
- Lower educational attainment
- Presence of children
- Experienced recent loss of employment
- Lower income

Consistent with the unequal economic impacts of the crisis, the HPS data indicate that a minority, yet significant, portion of tenants in particular demographic groups in the metropolitan area continue to face rental housing insecurity.[8] In addition to the economic strain it places on households, tenant challenges paying rent also impact landlords, particularly those with relatively larger shares of tenants who entered the crisis in a more vulnerable economic state and/or have been disproportionately impacted by the crisis. As previously indicated, small and minority landlords appear more likely to fall in this category.

[7] For this survey round, respondents with incomes over $200,000 also expressed rental housing insecurity. However, a cursory look at data from previous survey rounds seems to suggest that this finding is anomalous.

[8] For more on the groups most impacted by the crisis, see for example "Black women face a persistent pay gap, including in essential occupations during the pandemic," Economic Policy Institute, https://www.epi.org/blog/black-women-face-a-persistent-pay-gap-including-in-essential-occupations-during-the-pandemic/; "Older workers were devastated by the pandemic downturn and continue to face adverse employment outcomes," Economic Policy Institute, https://www.epi.org/publication/older-workers-were-devastated-by-the-pandemic-downturn-and-continue-to-face-adverse-employment-outcomes-epi-testimony-for-the-senate-special-committee-on-aging/; and "Latinos face disproportionate health and economic impacts from COVID-19," American Center for Progress, https://www.americanprogress.org/issues/economy/reports/2021/03/05/496733/latinos-face-disproportionate-health-economic-impacts-covid-19/.

Table 1. Rental Housing Insecurity in Washington DC Metropolitan Area (July 21 to August 2, 2021)

	Not currently caught up on rent payments	No or Sight slight? confidence in ability to pay next month's rent	Very or somewhat likely to leave this home due to eviction in next two months
Total	**16%**	**22%**	**35%**
Age		0%	
18 - 24	-	19%	-
25 - 39	14%	17%	**39%**
40 - 54	19%	**31%**	25%
55 - 64	**20%**	**23%**	19%
65 and above	**24%**	**24%**	**60%**
Hispanic origin and Race			
Hispanic or Latino (may be of any race)	**24%**	**42%**	**52%**
White alone, not Hispanic	9%	7%	6%
Black alone, not Hispanic	**20%**	**36%**	**53%**
Asian alone, not Hispanic	15%	20%	8%
Two or more races + Other races, not Hispanic	**44%**	7%	16%
Education			
Less than high school	**58%**	**74%**	**83%**
High school or GED	13%	**30%**	2%
Some college/Associate's degree	**21%**	**24%**	**37%**
Bachelor's degree or higher	9%	10%	33%
Presence of children under 18 years old			
Children in household	**25%**	**36%**	**49%**
No children	11%	17%	22%
Respondent or household member experienced loss of employment income in last 4 weeks			
Yes	**41%**	**41%**	34%
No	9%	18%	37%
Household income			
Less than $25,000	**20%**	**38%**	15%
$25,000 - $34,999	**38%**	19%	8%
$35,000 - $49,999	**28%**	**29%**	**67%**
$50,000 - $74,999	3%	**24%**	**80%**
$75,000 - $99,999	3%	6%	0%
$100,000 - $149,999	14%	11%	12%
$150,000 - $199,999	1%	0%	-
$200,000 and above	**27%**	**27%**	**100%**

Source: Census Bureau, Household Pulse Survey; Stephen Roblin

Despite the uneven impacts of the crisis on certain tenants and landlords, the residential rental markets in the County and broader Washington DC Metropolitan Area appear to be rebounding from when it hit bottom in the 2020-21 winter. This conclusion is based on rent and vacancy trends in data from CoStar, a commercial real estate information and analytics provider.[9]

Staff from the Montgomery County Planning Department provided CoStar data to OLO. The data provided includes the following indicators:

- Average daily asking rent per square foot for all multifamily rental properties by jurisdiction, namely Washington DC and Fairfax, Montgomery, and Prince George's Counties.
- Average daily asking rent per square foot for all multifamily rental properties in Montgomery County by building class (A, B, and C).
- Quarterly vacancy rates for all multifamily rental properties by jurisdiction.

OLO staff produced the graphs and tables presented below from this data.

It is important to note the data does not reflect the entire population of residential rental units in the jurisdictions. The data reflects all multifamily rental properties in the CoStar database. Excluded are units that rent as an agreement between an individual owner and an individual tenant, such as a condominium in a building that the owner chooses to rent.[10] Despite this limitation, OLO believes the CoStar data provides an accurate reflection of changes over time in the residential rental markets.

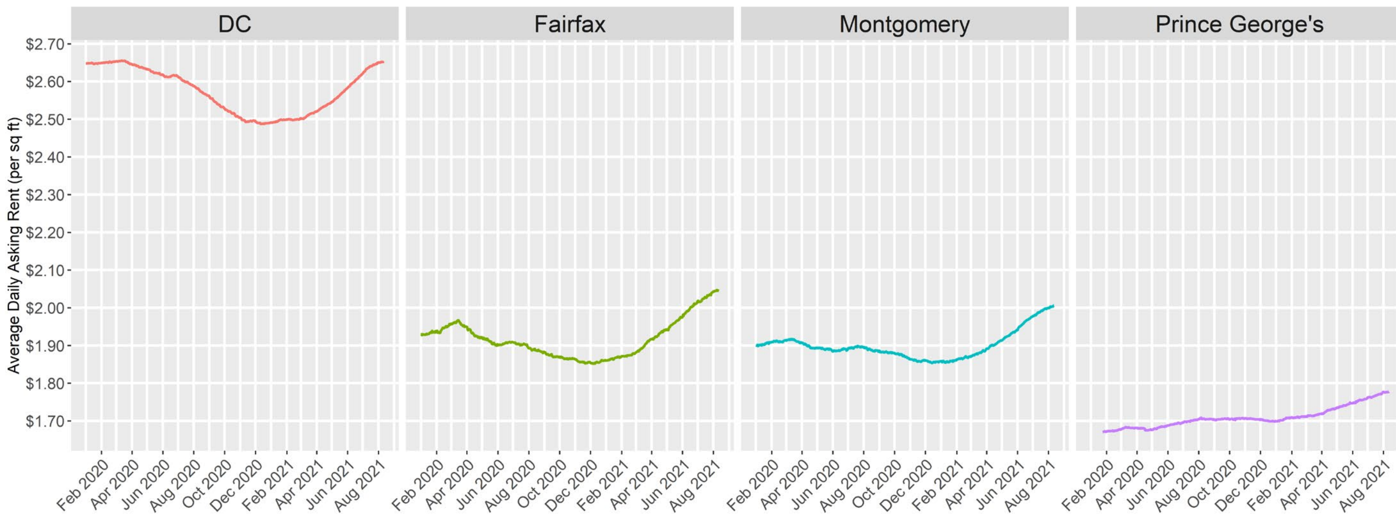
<u>Rents by Jurisdiction:</u> **Figure 1** and **Table 2** provide an overview of average daily asking rents for multifamily by jurisdiction from January 1, 2020 to August 12, 2021. As indicated in both, Montgomery County has followed the regionwide pattern of rents reaching their 2020 peak in March, sharply decreasing until December 2020, and rebounding during the spring and summer months of 2021. Prince George's County is the exception to this pattern in which rents have remained relatively stable throughout the crisis.

In Montgomery County, multifamily property rents have rebounded strongly.

- In 2020, the pre-pandemic average daily asking rent reached as high as $1.92 per square foot and dropped to $1.85 in December—a 4% decrease from the pre-pandemic peak.
- By May 2021, the average daily asking rent reached the pre-pandemic peak of $1.92 per square foot and has continued to climb.
- As of August 12, 2021, the average daily asking rent has reached $2.01 per square foot—a 5% increase over the pre-pandemic peak of $1.92.

[9] CoStar.com, About CoStar, https://www.costar.com/about.
[10] OLO correspondence with Montgomery Planning Department staff.

Figure 1. Average Daily Asking Rent for Multifamily Rental Units by Jurisdiction



Source: CoStar; Montgomery County Planning Department; Stephen Roblin

Table 2. Minimum and Maximum Average Daily Asking Rent for Multifamily Rental Units by Jurisdiction

	Pre-Pandemic Period 1/1/2020 - 3/15/2020	**Pandemic Period (3/16/2020 - 8/12/2021)**	
	Maximum Rent (per sq ft) *Date*	*Minimum Rent (per sq ft)* *Date*	*Maximum Rent (per sq ft)* *Date*
DC	$2.66 3/12/2020	$2.49 12/12/2020	$2.65 8/12/2021
Fairfax	$1.97 3/15/2020	$1.85 12/7/2020	$2.05 8/8/2021
Montgomery	$1.92 3/10/2020	$1.85 12/14/2020	$2.01 8/11/2021
Prince George's	$1.68 3/12/2020	$1.68 4/20/2020	$1.78 8/12/2021

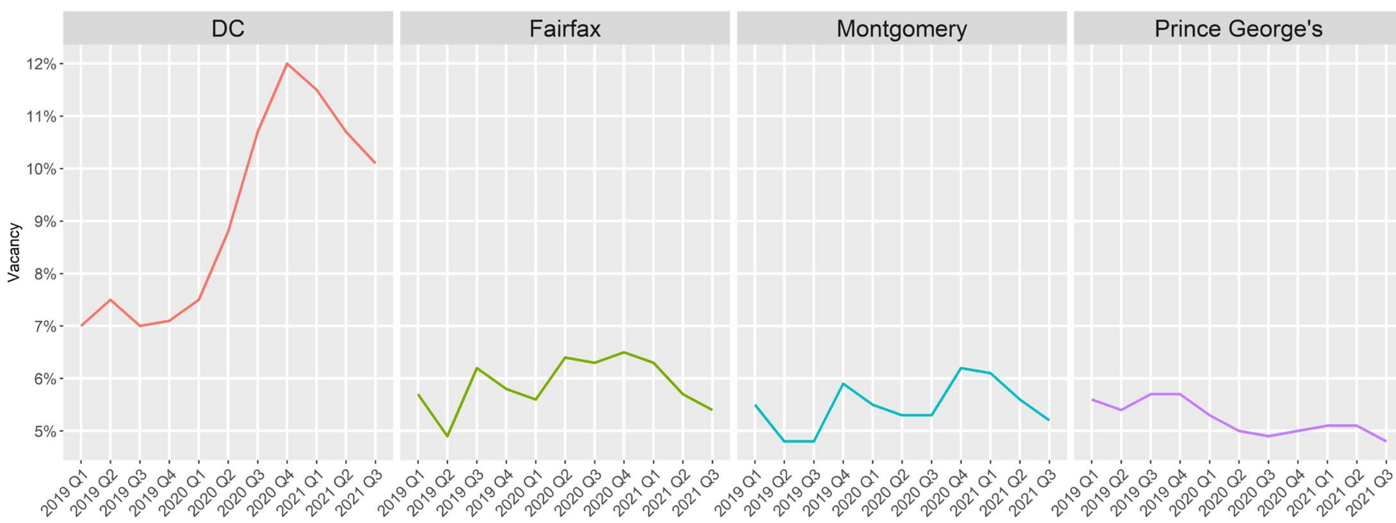
Source: CoStar; Montgomery County Planning Department; Stephen Roblin

Vacancy by Jurisdiction: **Figure 2** and **Table 3** provide an overview of vacancy rates for multifamily by jurisdiction from the first quarter in 2019 to the third quarter in 2021. Montgomery County has followed the regionwide pattern in terms of vacancy rates. Rates reached their lowest point in the first and second quarters in 2020, sharply increasing until the fourth quarter in 2020, and dropping in subsequent quarters. Again, Prince George's County is the exception to this pattern in which vacancy rates have remained relatively stable throughout the crisis.

In Montgomery County, multifamily property vacancy rates have rebounded.

- In 2020, the vacancy rate reached its lowest point of 5.3% in the first and second quarters. Since then, the vacancy rate climbed to 6.2% in the fourth quarter in 2020—a 17% increase over the lowest rate that year.
- As of the third quarter in 2021, the vacancy rate reached 5.2%—a 2% decrease from 5.3%.

Figure 2. Average Quarterly Vacancy Rates for Multifamily Rental Units by Jurisdiction



Source: CoStar; Montgomery County Planning Department; Stephen Roblin

Table 3. Minimum and Maximum Average Vacancy Rates for Multifamily Rental Units by Jurisdiction

	Pre-Pandemic Period 2019 Q4 - 2020 Q2[11])	Pandemic Period 2020 Q3 - 2021 Q3	
	Minimum Vacancy Quarter	*Maximum Vacancy Quarter*	*Minimum Vacancy Quarter*
DC	7.1% 2019 Q4	12% 2020 Q4	10.1% 2021 Q3
Fairfax	5.6% 2020 Q1	6.5% 2020 Q4	5.4% 2021 Q3
Montgomery	5.3% 2020 Q1 & Q2	6.2% 2020 Q4	5.2% 2021 Q3
Prince George's	5% 2020 Q2	5.1% 2021 Q1 & Q2	4.8% 2021 Q3

Source: CoStar; Montgomery County Planning Department; Stephen Roblin

Rents by Building Class: **Figure 3** and **Table 4** provide an overview of average daily asking rents for multifamily properties in Montgomery County by building class from January 1, 2020 to August 12, 2021. Building class designations differentiate buildings based on quality. To illustrate, Class A multifamily properties include luxury apartments with higher average rents and tend to have higher-income tenants. Class B refers to older properties with lower average rents and tend to cater to middle-class tenants. Compared to Class A and B, Class C properties are the oldest, have the lowest average rents, and tend to have moderate- to low-income residents.

In Montgomery County, multifamily property rents across all building classes have rebounded strongly.

- **Class A Rents:** In 2020, the pre-pandemic average daily asking rent for Class A multifamily properties reached $2.27 per square foot. With the onset of the pandemic, it dropped to $2.15 in November 2020—a 5% decrease from the pre-pandemic peak. By late-April 2021, rents rebounded to the pre-pandemic peak of $2.27 and continued to climb. As of August 2021, rents have reached as high as $2.37—a 4% increase over the pre-pandemic peak.
- **Class B Rents:** For Class B multifamily properties, the pre-pandemic average daily asking rent reached $1.82 per square foot. It dropped to $1.77 in November 2020—a 3% decrease from the pre-pandemic peak. By mid-April 2021, rents rebounded to the pre-pandemic peak of $1.82 and continued to climb. As of August 2021, rents have reached as high as $1.92—a 5% increase over the pre-pandemic peak.

[11] This table includes 2020 Q2 within the "pre-pandemic period" because of the lag in time between the start of the pandemic and tenants vacating properties.

- **Class C Rents:** For Class C multifamily properties, the pre-pandemic average daily asking rent reached $1.71 per square foot. The lowest it dropped to was $1.68—a 2% decrease from the pre-pandemic peak. By early-May 2021, rents rebounded to the pre-pandemic peak of $1.71 and continued to climb. As of August 2021, rents have reached as high as $1.77—a 4% increase over the pre-pandemic peak.

Figure 3. Average Daily Asking Rents for Multifamily Rental Units in Montgomery County by Building Class

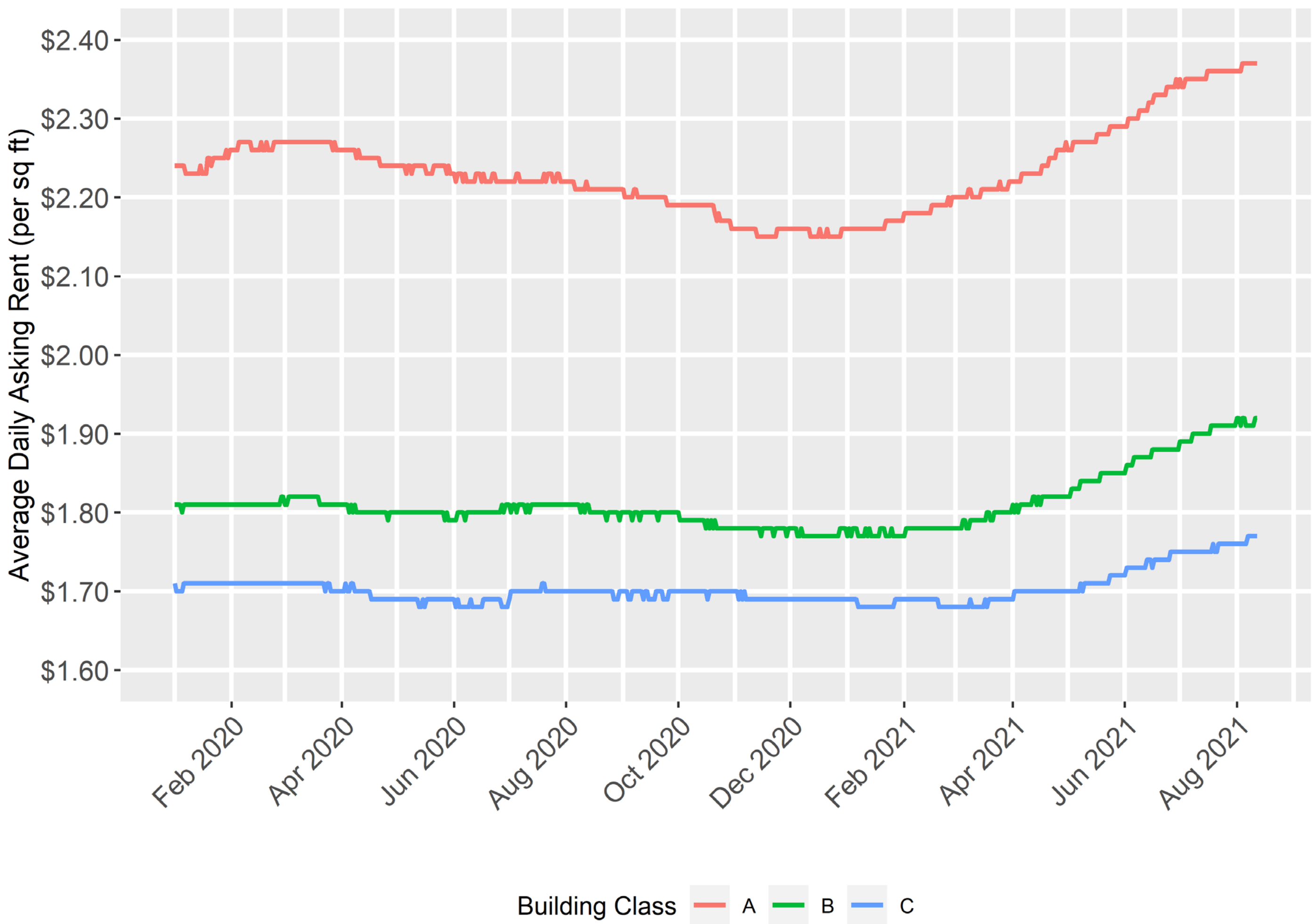


Table 4. Minimum and Maximum Average Daily Asking Rent for Multifamily Rental Units by Building Class in Montgomery County

	Pre-Pandemic Period 1/1/2020 - 3/15/2020	Pandemic Period 3/16/2020 - 8/12/2021	
	Maximum Rent (per sq ft)	*Minimum Rent (per sq ft)*	*Maximum Rent (per sq ft)*
Class A	$2.27	$2.15	$2.37
Class B	$1.82	$1.77	$1.92
Class C	$1.71	$1.68	$1.77

In sum, Montgomery County's path through the crisis has closely paralleled Fairfax County. Yet, Fairfax County was the only jurisdiction examined here that did not impose any form of rent control during the pandemic. See **Table 5**. The residential rental market in Prince George's County has been the most stable; Washington DC's trajectory has been the most turbulent. Between these paths are the residential rental markets in Montgomery and Fairfax Counties. As reflected in rents and vacancy rates, both markets took a big hit with the onset of the pandemic and bottomed-out in the 2020/21 winter. The markets rebounded in subsequent months and have surpassed their maximum rent and minimum vacancy rates in the early months of 2020.

How have rent trajectories paralleled each other in Montgomery and Fairfax Counties despite the difference in emergency rent control measures? It is beyond the scope of this analysis to explore all possible explanations. However, OLO believes the most likely explanation is that the temporary prohibition on rent increases above Montgomery County's voluntary rent guidelines only applies to existing tenants, not prospective tenants.[12] As a result, the sharp increase in rents since the nadir likely has been due to new leases.

Table 5. Rent Control During Pandemic by Jurisdiction

Jurisdiction	Temporary Price Restriction	Termination
DC	Prohibits rent increases[13]	December 31, 2021
Fairfax	None[14]	N/A
Montgomery	Prohibits rent increases above the County's voluntary rent guidelines[15]	90 days after expiration of statewide emergency
Prince George's	Prohibits rent increases for a "tenant with a substantial loss of income"[16]	90 days after expiration of statewide emergency

[12] Montgomery County Council, Expedited Bill 30-21.
[13] See link https://ota.dc.gov/sites/default/files/dc/sites/ota/publication/attachments/Act%2024-125%20Summary%20-%20Post-PHE%20Changes%20to%20Tenant%20Protections2021.08.03.pdf
[14] See link https://www.fairfaxcounty.gov/cableconsumer/csd/tenant-landlord-faqs
[15] See link https://montgomerycountymd.gov/DHCA/covid-19_summary_renter_relief.html
[16] See link https://www.princegeorgescountymd.gov/DocumentCenter/View/31333/CB-16-2020-Website-Text---FINAL.

METHODOLOGIES, ASSUMPTIONS, AND UNCERTAINTIES

Enacting Expedited Bill 30-21 has the potential to affect landlords, tenants, and broader economic conditions through two effects—the “rent effect” and “fee effect.”

Rent Effect: The rent effect refers to the economic impacts from extending the temporary prohibition against raising rents on existing tenants above the voluntary rent guidelines until one year after the expiration of the emergency. Doing so would primarily affect economic conditions in the County on the condition that the residential rental market would support rent increases above the voluntary rent guidelines during the timeframe of the extension (roughly November 2021 to November 2022). If this occurs, the rent effect would translate into forgone rental revenues for landlords, resulting in a net increase in household income.

The data presented above suggest that some multifamily rental properties across building classes in Montgomery County can currently support rent increases above the current voluntary rent guideline for 2020 at 1.4%. For this reason, OLO anticipates that extending the current rent control measure for one additional year would keep rents lower for existing tenants in certain properties/units than they would otherwise be without enacting Expedited Bill 30-21.

It is important to emphasize however the uncertainty surrounding this prospect. Even if the current path of the residential rental market in the County continues, data limitations prevent OLO from estimating the magnitude of the rent effect in terms of the total rents charged in the County during the one-year extension and the distribution of the rent effect across building classes. Compounding the uncertainty is the possibility of the current path of the residential rental market in the County being a poor indicator for its condition during the timeframe of the temporary rent control extension. Indeed, another downturn in the market due to changes in public health conditions cannot be ruled out, particularly given the slow progress in the global vaccination effort and the potential for new, more virulent variants of COVID-19 to spread.

Fee Effect: The fee effect refers to the economic impacts from prohibiting a landlord from charging fees for late rent payments during the emergency and for a one-year period after the expiration of the emergency. The fee effect would translate into forgone revenues from fees collected by landlords, resulting in a net increase in household income.

Data limitations also prevent OLO from estimating the magnitude of the potential fee effect. However, OLO believes there is less uncertainty regarding the economic effects of prohibiting landlords from charging fees for late rent payments than extending the temporary rent control measure. Collecting late fees arguably is less dependent on conditions in the broader residential rental market than setting rents. To illustrate, even if market conditions do not support rent increases above the voluntary rent guidelines, OLO anticipates that landlords would be able to collect some portion of the total fees charged against tenants.

Given the likelihood that enacting Expedited Bill 30-21 would generate rent and fee effects, OLO makes the following assumptions in this analysis:

> **Assumption:** The non-transfer of higher rents and late fees from affected tenants to landlords would result in a net decrease in revenue for the landlords and net increase in household income for the tenants during the timeframe of the policy. Described in terms of economic sectors, the non-transfer would result in a net decrease in total revenue for the real estate industry and a net increase in income for County households.

Methodology: Due to the data limitations raised above, OLO cannot predict the total economic impact of enacting Expedited Bill 30-21. The goal of this analysis is to assess whether enacting the Bill would likely result in a net positive or negative impact on overall economic conditions in the County. To do so, OLO uses input-output (I-O) analysis, a form of quantitative macroeconomic analysis based on the interdependencies between different economic sectors or industries within a national, state, or regional economy.[17]

I-O analysis is a methodology commonly used by local planners, policymakers, and investors to estimate how changes in economic activity affect other rounds of spending across all sectors within a specified economy. Importantly, the effect on other rounds of spending diminishes over time due to "leakages," or "money that no longer circulates within the economy because of savings, taxes, or imports."[18]

To clarify the concepts, consider the following illustration: On the one hand, the net increase in household income for tenants affected by the Bill may increase their consumption from restaurants based in the County, which in turn would increase the restaurants' revenues. The positive economic effects would diminish from leakages, like the restaurant owners using a portion of the revenues to purchase equipment produced outside the County. On the other hand, the net decrease in revenue for affected landlords may lead them to lay-off employees who reside in the County. These residents may reduce their consumption from local restaurants, thereby negatively affecting their revenues. The negative economic effects would also diminish from leakages, like restaurant owners refraining from purchasing imported equipment.

To perform the I-O analysis for Expedited Bill 30-21, OLO uses the Regional Input-Output Modeling System (RIMS II) final-demand multiplier for the real estate industry and household sector. The RIMS II multipliers, developed by the U.S. Bureau of Economic Analysis,[19] measure the ripple effects of changes in economic activity in terms of four measures:

- Output (sales): total market value of industry output,
- Value-Added: total value of income generated from production (equivalent to gross domestic product),
- Earnings: employee compensation plus net earnings of sole proprietors and partnerships, and
- Employment: number of full- and part-time employees.[20]

Industries with relatively high multiplier values for these measures result in greater output, value-added, earning, and employment for every additional dollar of economic activity in those industries. There are multipliers for 64 industries in the County. **Table 6** presents the values of the RIMS II real estate and household multipliers for Montgomery County.

Table 6. RIMS II Household and Real Estate Multipliers for Montgomery County

Sector	Output	Earnings	Employment	Value-Added
Household	0.7951	0.1587	3.8028	0.4936
Real Estate	1.3845	0.1744	4.7589	0.9816

[17] For a non-technical description of I-O analysis, see https://www.investopedia.com/terms/i/input-output-analysis.asp.
[18] U.S. Bureau of Economic Analysis, *RIMS II: An Essential Tool for Regional Developers and Planners*, December 2013, G-3, https://apps.bea.gov/regional/rims/rimsii/rimsii_user_guide.pdf.
[19] Ibid.
[20] Ibid, 3 – 3 and 3 – 4.

Using the Rims II multipliers, OLO estimates the net change in output, earnings, employment, and value-added in the County for every $1 million non-transfer from the household sector to the real estate industry. As illustrated in **Table 7**, the non-transfer would result in approximate loss of $589,400 in output, $15,700 in earnings, $488,000 in value-added, and 1 job per every $1 million "transfer."

Importantly, these estimates are not predictions. Instead, they are intended to illustrate the general magnitude of the potential changes in the measures. On this basis, OLO expects that enacting Expedited Bill 31-21 would likely result in a negative impact on overall economic conditions in the County.

Table 7. Estimates of I-O Analysis

Multiplier	Economic Change ($)	Output ($)	Earnings ($)	Employment (jobs)	Value-Added ($)
Household	+ $1M	$795,100	$158,700	4	$493,600
Real Estate	- $1M	-$1,384,500	-$174,400	-5	-$981,600
Net Multiplier Effect		**-$589,400**	**-$15,700**	**-1**	**-$488,000**

Scope Limitations: It is important to note that the I-O analysis used here does not account for several factors that would likely influence the economic impacts of enacting Expedited Bill 30-21. These factors include:

- current profitability of the residential rental sub-sector
- ability of landlords to pass the costs of the Bill onto prospective tenants
- extent to which the Bill would reduce the economic costs associated with housing insecurity for tenants

As discussed in subsequent sections, sufficient profitability of the residential rental sub-sector, the ability of landlords to pass on costs to prospective tenants, and reduced housing insecurity would mitigate the negative economic impacts of the Bill.

VARIABLES

The primary variables that would affect the economic impacts of enacting Expedited Bill 30-21 are the following:

- total annual rent revenues;
- total late fee revenues;
- total household income of existing tenants;
- profitability of residential rental sub-sector;
- ability of landlords to pass costs onto prospective tenants; and
- total number of tenants facing housing insecurity.

IMPACTS

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

Businesses, Non-Profits, Other Private Organizations

OLO anticipates that enacting Expedited Bill 30-21 would have a negative impact on private organizations in the County in terms of several of the Council's priority indicators.[21] The primary businesses affected would be landlords in the residential rental sub-sector. As previously discussed, OLO anticipates that market conditions would support rents above the voluntary rent guidelines for certain properties/units. By extending the temporary prohibition against raising rents on existing tenants above the voluntary rent guidelines until one year after the expiration of the emergency, certain landlords would lose rental revenues that they otherwise would collect in the absence of enacting the Bill. Forgone rental revenues, in addition to late fees, would result in a net decrease in business income for the affected landlords and could potentially result in workforce reductions in efforts to reduce operating costs to compensate for revenue loss.

As illustrated in the I-O analysis, the net reduction in landlord revenues due to the rent and fee effects would also have negative economic impacts on businesses that provide goods and services for landlords. For example, landlords may reduce their expenses for building maintenance and repair to compensate for revenue loss. If so, businesses that provide these services would experience revenue decreases. The magnitude and scope of the negative interindustry effects would depend largely on the net loss of revenue from the rent and fee effects. Additional factors include the profitability of the residential rental sub-sector and ability of landlords to pass the costs of the Bill onto prospective tenants.

Profitability: The level of profitability would affect landlords' ability to absorb the loss revenues. Landlords with strong gross profit may face less pressure to reduce their operating costs associated with labor, repair and maintenance, and other activities. While a thorough assessment of the profitability of the residential rental sub-sector is beyond the scope of this analysis, OLO notes conflicting trends at the current juncture. On the one hand, the fact that average rents have surpassed the pre-pandemic height and the vacancy rate has dropped below the pre-pandemic low suggests that the sub-sector is on the upswing. See **Figures 1-3** and **Tables 2-4**. On the other hand, the sub-sector experienced significant declines in revenues due to rent non-payments and delays. Meanwhile, landlords have experienced increases in operating expenses in certain areas. For example, water rates through the Washington Suburban Sanitary Commission (WSSC) have increased since the start of the pandemic.[22] Moreover, in OLO's conversations with local landlords, they stressed that trash removal costs have increased.

Ultimately, OLO suspects that there is significant variation within the sub-sector in terms of profitability. If secondary source evidence is indicative of local conditions, then owners of small rental properties, as well as Black and Latinx owners, likely have tighter profit margins.[23]

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[21] Montgomery County Code, Sec. 2-81B, Economic Impact Statements, https://codelibrary.amlegal.com/codes/montgomerycounty/latest/montgomeryco_md/0-0-0-80894.

[22] https://bethesdamagazine.com/bethesda-beat/government/montgomery-prince-georges-jointly-pass-6-water-sewer-rate-increase/

[23] On impacts to small landlords, see Elijah de la Campa, "The Impact of COVID-19 on Small Landlords in Albany and Rochester, New York," Joint Center for Housing Studies, Harvard University, March 11, 2021, https://www.jchs.harvard.edu/blog/impact-covid-19-

Ability to Pass on Costs: As previously discussed, the sharp increase in rents in the County is likely driven by new leases, as current rent control measure applies only to existing tenants. The extent to which landlords can pass on the costs of extending the rent control onto new tenants would mitigate the negative impacts to the residential rental sub-sector. Landlords' ability to do so would likely depend on several factors. For one, it is possible that landlords may gain pricing power if the positive trends in the market continue. If so, some landlords may be more willing to test demand elasticity by increasing rents above what they would otherwise without the rent control measure.

Second, the net revenue loss from the combined rent and fee effects may incentivize landlords to seek new tenants through lease non-renewal, eviction, or other avenues. For example, Maryland landlords have filed 550 tenant-holding-over-actions (eviction suites related to expired leases) in October 2020 – a 117% increase over the previous year, since eviction bans during the pandemic do not protect against lease expiration.[24]

Competitiveness: It is not anticipated that the Bill will significantly undermine the County's competitiveness in the residential rental sub-market for a few reasons. First, relative to other peer jurisdictions, the County's market is doing well. See **Figures 1-3** and **Tables 3-4**. Second, the duration of the rent control is one year, which should not pose long-term issues.

Private Sector Capital Investment: The primary effect in this regard is likely a decrease in repair and maintenance for existing properties. OLO does not anticipate the Bill would undermine future developments of rental housing – market-rate or affordable. This is because the duration of rent control is one year and new development projects take a long time to plan, authorize, and construct.

Residents

OLO anticipates that enacting Expedited Bill 30-21 would have a positive impact on County residents in terms of several of the Council's priority indicators. The primary residents impacted by the Bill would be existing tenants. Existing tenants would experience a net increase in household income. This would be especially helpful for residents of Class B and C buildings (buildings with lower average rents that cater to middle-class and moderate-to low-income residents).

Tenants who will suffer temporary losses of income, such as furloughed employees who return to work, would benefit the most. 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 pay off their debts more rapidly to landlords. OLO has no way of estimating the number of households that would fall into this category. Nevertheless, there are theoretical and empirical reasons to expect that a lower debt burden for renters could stimulate the local economy, mainly by increasing disposable spending for these renters, and potentially reduce job loss among the working poor and other economic costs associated with housing insecurity.[25]

small-landlords-albany-and-rochester-new-york; Decker, "The Uneven Impact of the Pandemic on the Tenants and Owners of Small Rental Properties."

[24] "Landlords in Maryland are Exploiting a Loophole to Evict Renters During the Pandemic, Advocates Say," by Ally Schweitzer, DCist, March 11, 2021, https://dcist.com/story/21/03/11/landlords-in-maryland-are-exploiting-a-loophole-to-evict-renters-during-the-pandemic-advocates-say/

[25] See, for example, Matthew Desmond and Carl Gershenson, "Housing and Employment Insecurity among the Working Poor," Social Problems 63: 46-67, https://scholar.harvard.edu/files/mdesmond/files/desmondgershenson.socprob.2016.pdf.

However, the freeze on rent increases may 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. 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. If these tenants are displaced/evicted, it could lead to negative impacts such as lost income, work disruption, moving costs, attorney's fees, court fees, etc.[26]

For residents who own rental properties, they may experience a net income loss due to this Bill. However, as previously discussed, these residents or landlords may rely on other avenues to make up for lost income such as tenant holding over and non-renewing lease, due to rent control.

DISCUSSION ITEMS

The Councilmembers may want to consider the following discussion items:

- Whether the residential rental sub-sector has been sufficiently profitable to absorb the loss of rental and late fee revenue;
- The extent to which the Bill would reduce housing insecurity and the economic costs associate with it; and
- If there is a more targeted approach that can focus on tenants with need.

WORKS CITED

Montgomery County Code. Sec. 2-81B. Economic Impact Statements.

Montgomery County Council. Expedited Bill 30-21, Landlord-Tenant Relations – Restrictions During Emergencies – Extended Limitations Against Rent Increases and Late Fees. Introduced on July 13, 2021.

Montgomery County Office of Procurement. FY20 Annual Report: Minority, Female and Disabled-Owned Businesses (MFD) Program.

U.S. Bureau of Economic Analysis. *RIMS II: An Essential Tool for Regional Developers and Planners*. December 2013.

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 <u>not</u> represent OLO's endorsement of, or objection to, the bill under consideration.

[26] Stephanie Bryant, Natalia Carrizosa, and Kelli Robinson, "Evictions in Montgomery County," Office of Legislative Oversight, Montgomery County Council, October 2018, https://www.montgomerycountymd.gov/OLO/Resources/Files/2018%20Reports/2018_10EvictionsMontgomeryCounty.pdf.

CONTRIBUTIONS

Stephen Roblin (OLO) prepared this report, with assistance from Blaise DeFazio (OLO).

APPENDIX

Table A1. Status of Last Month's Rent for Households in Washington DC Metro Area (2021)

	Household currently caught up on rent payments			Occupied without rent
	Yes	No	Did not report	
7/21- 8/2	79%	16%	0%	5%
6/23 - 7/5	81%	15%	0%	4%
6/9 - 6/21	79%	17%	0%	3%
5/26 - 6/7	84%	13%	0%	2%
5/12 - 5/24	79%	18%	0%	2%
4/28 - 5/10	82%	13%	0%	5%

Source: Census Bureau, Household Pulse Survey; Stephen Roblin

Table A2. Confidence to Pay Next Month's Rent for Households in Washington DC Metro Area (2021)

	Confidence to pay next month's rent						Occupied without rent
	No confidence	Slight confidence	Moderate confidence	High confidence	Payment is/will be deferred	Did not report	
7/21- 8/2	11%	11%	21%	52%	0%	0%	5%
6/23 - 7/5	7%	14%	10%	64%	1%	0%	4%
6/9 - 6/21	11%	11%	11%	61%	1%	2%	3%
5/26 - 6/7	5%	16%	11%	63%	1%	1%	2%
5/12 - 5/24	11%	10%	12%	63%	1%	1%	2%
4/28 - 5/10	8%	9%	13%	65%	1%	0%	5%

Source: Census Bureau, Household Pulse Survey; Stephen Roblin

Table A3. Likelihood of Eviction for Households in Washington DC Metro Area (2021)

	Likelihood of leaving this home due to eviction in next two months				
	Very likely	Somewhat likely	Not very likely	Not likely at all	Did not report
7/21- 8/2	21%	15%	38%	20%	7%
6/23 - 7/5	39%	13%	34%	10%	3%
6/9 - 6/21	4%	15%	36%	45%	1%
5/26 - 6/7	6%	10%	45%	35%	4%
5/12 - 5/24	26%	14%	25%	29%	6%
4/28 - 5/10	27%	17%	34%	22%	0%

Source: Census Bureau, Household Pulse Survey; Stephen Roblin