

Economic Impact Statement

Montgomery County, Maryland

Bill 9-26, Rental Housing - Maintenance Standards and Essential Services - Air-Conditioning

Summary

The Office of Legislative Oversight (OLO) anticipates that Bill 9-26 would negatively impact overall economic conditions in the County, as measured by the Council's priority economic indicators.

By requiring landlords of detached single-family home rentals to meet air-conditioning requirements, the Bill would primarily affect landlords and tenants of detached single-family rental properties that currently lack air conditioning. This analysis summarizes findings from an impact evaluation of the economic effects of Montgomery County's mandatory air-conditioning requirement enacted in 2020 and uses those findings to draw evidence-based conclusions about how Bill 9-26 is likely to affect landlords, tenants, and other stakeholders.

Landlords who comply with the policy would incur upfront installation and related operating costs. Based on landlord behavior after the 2020 AC requirement, affected landlords would likely pass most of these costs on to renters through higher rents, which appear sufficient to recover AC-related expenditures over the medium to long term. Additionally, some landlords—especially those that install central HVAC systems—may recoup a portion of their upfront investment through higher property values.

Another group of local businesses that may be affected by the Bill are air-conditioning sales, installation, and repair firms. As more detached single-family rentals come into compliance, these firms could experience increased demand for units, installation work, and ongoing service, which would, all else equal, raise their revenues and profits.

Tenants of affected properties would likely bear most of the economic burden of the policy. First, the experience of the 2020 air-conditioning requirement, indicates that a substantial share of installation costs would likely be passed through from landlords to tenants, particularly for new leases. Second, despite the County's rent stabilization law, landlords retain mechanisms within the law—such as banked increases and capital improvement surcharges—to recover new costs over time. For affected households, these higher rents would significantly increase nondiscretionary housing expenses, effectively reducing the income available for other necessities and discretionary spending. Additionally, once air conditioning is installed, many tenants—particularly those who pay utilities directly—may face higher electricity bills, further increasing total housing-related costs.

However, for individual tenants, additional rent costs could be partially or fully offset in cases where access to landlord-provided air conditioning eliminates out-of-pocket spending on their own heat-mitigation measures such as purchasing fans or temporary cooling devices. Access to air-conditioning may also reduce the likelihood of incurring medical expenses related to heat-related illnesses.

Background and Purpose of Bill 9-26

Extreme heat and heat waves pose a serious risk to public health. Prolonged exposure to heat can lead to heat stress, heat exhaustion, and even death.¹ Access to air conditioning can keep residents safe during heat waves and prevent heat-related illnesses and deaths.²

In 2020, Bill 24-19 was enacted requiring landlords to provide air-conditioning in rental units from June 1st – September 30th. Specifically, the units are required to maintain a temperature no higher than 80 degrees Fahrenheit, whether the unit has a thermostat controlled by the landlord or one controlled by the tenant.³

Under current County law, there are two exemptions for the types of rental units required to provide air-conditioning: detached single-family homes and units located on sites listed in the National Register of Historic Places.⁴

If enacted, Bill 9-26 would make the following changes to air-conditioning requirements in the County Code:

- Changing the period for air conditioning requirements in rental properties from June 1st – September 30th to May 15th – September 30th; and
- Requiring detached single-family home rentals, regardless of if the thermostat is controlled by the landlord or by the tenant, to meet air-conditioning requirements.⁵

Bill 9-26 was introduced by County Council on February 10, 2026.

Information Sources, Methodologies, and Assumptions

As required by Section 2-81B of the Montgomery County Code, this Economic Impact Statement evaluates the impacts of Bill 9-26 on residents and private organizations, using the Council's priority economic indicators as the measure. In doing so, it examines whether the Bill would have a net positive or negative impact on overall economic conditions in the County.⁶

In this analysis, OLO relies on an impact evaluation conducted by researcher Xiyue (Michelle) Li, who studies the economic effects of Montgomery County's mandatory air-conditioning requirement enacted in 2020. Impact evaluations are a core tool of evidence-based policymaking.⁷ Federal and Maryland guidance treats impact evaluations that use randomized control trials and quasi-experimental design⁸ as strong evidence on policy

¹ [National Integrated Heat Health Information System, "Learn About Extreme Heat", Accessed 2/11/2026.](#)

² [National Resources Defense Council, "Toward a Renter's Right to Heat-Safe Housing", June 9, 2022.](#)

³ [Bill 24-19 - Landlord Tenant Relations - Obligation of Landlord - Air Conditioning, Montgomery County Council, Enacted March 2, 2020.](#)

⁴ [Ibid.](#)

⁵ [Introduction Staff Report for Bill 9-26, Montgomery County Council, Introduced February 10, 2026.](#)

⁶ Montgomery County Code, "[Sec. 2-81B, Economic Impact Statements.](#)"

⁷ Gertler, Paul J., Sebastian Martinez, Patrick Premand, Laura B. Rawlings, and Christel M. J. Vermeersch. [Impact Evaluation in Practice, Second Edition](#). Washington, DC: Inter-American Development Bank and World Bank, 2016.

⁸ In randomized control trials, participants are randomly assigned to the treatment or control group. In contrast, quasi-experimental designs do not use random assignment. They typically identify a control group that is as similar as possible to the treatment group and use statistical tools (such as fixed effects or matching) to control for remaining differences between the groups.

impacts⁹

Li's study uses unit-level panel data from Montgomery County's Rental Facility Occupancy Survey and a quasi-experimental method (difference-in-differences) to estimate how requiring landlords to provide air conditioning affected monthly rents. The main analysis focuses on units in both the 2020 and 2021 surveys to track compliance with the policy and its immediate rent effects. In this design, the treatment group consists of rental units that did not have air conditioning in 2020 and were required to comply with the policy, while the control group consists of units that already had air conditioning before the mandate and were not required to make new AC investments.¹⁰

In the sections that follow, OLO summarizes the findings of this impact evaluation and uses them to draw evidence-based conclusions about how Bill 9-26 is likely to affect renters, landlords, and overall economic conditions in the County.

Scope Limitation: While this analysis focuses on direct economic impacts measured through observed rent changes, it is important to note that requiring landlords to provide air conditioning could also produce indirect economic benefits. Improved tenant health and comfort may reduce heat-related illnesses and associated medical expenses, thereby lessening financial strain on residents. However, OLO does not account for these potential indirect benefits in its analysis.

Variables

The primary variables that would affect the economic impacts of enacting Bill 9-26 are the following:

- Total annual AC installation and maintenance costs; and
- Average monthly rents.

Impacts

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

Findings from Li's Impact Evaluation

Cost pass-through arises when a business changes the prices of the products or services it supplies following a change in its own costs.¹¹ In this case, Li's impact evaluation examines cost pass-through for landlords, asking whether and to what extent they pass on the costs of complying with Montgomery County's air-conditioning requirement to tenants through higher monthly rents.

⁹ For example, the Maryland State Department of Education (MSDE) and the Maryland Longitudinal Data System (MLDS) Center explicitly emphasize randomized and well-implemented quasi-experimental evaluations as key sources of evidence on program and policy impacts. Maryland State Department of Education, "[Definition of Evidence-Based and Levels of Evidence](#)," accessed March 20, 2026. Henneberger, Angela, "[Program Evaluation in the Absence of Randomization: How Can Propensity Score Methods Help?](#)" Maryland Longitudinal Data System (MLDS) Center, June 5, 2018.

¹⁰ To control for differences between the treatment and control groups, Li estimates difference-in-differences models with apartment unit fixed effects and month-year fixed effects, which account for building/spatial characteristics and shifts in rents over time.

¹¹ RBB Economics, [Cost Pass-Through: Theory, Measurement, and Potential Policy Implications](#) (Report prepared for the Office of Fair Trading, United Kingdom, 2014).

The study found the following:

- **Most landlords complied with the air conditioning requirement using lower cost options.** About 60 percent of units that needed AC complied with the requirement within the first year. Landlords generally installed window or portable AC units rather than more expensive central systems.
- **For new leases, the study finds that rents increased for units required to add air conditioning compared to similar units that already had AC.** These rent increases are estimated at 62 to 101 dollars per month for affected units.
- **Across all occupied units, the study finds smaller rent increases from the air conditioning requirement than for new leases.** For all leases in the market, the policy is estimated to have raised monthly rents by about 41 to 52 dollars for affected units compared to units that already had air conditioning.
- **The air conditioning requirement had larger effects on rents for new leases than for all leases because rent caps and COVID era protections limited what landlords could charge existing tenants.** During the study period, Maryland’s COVID-era eviction protections and Montgomery County’s COVID-19 Renter Relief Act, which limited rent increase notices to the County’s Voluntary Rent Guideline (2.6 percent, then 1.4 percent, and later 0.4 percent),¹² meant that many existing tenants’ rents could not be raised enough to fully account for AC-related costs. As a result, more of the passthrough occurred when units turned over and new leases were signed.
- **The study finds that rent increases from the air conditioning requirement are concentrated in higher income neighborhoods.** In census tracts with median household incomes around 100,000 to 162,000 dollars, estimated monthly rent increases for affected units range from 68 to 170 dollars, while effects in lower income tracts are small and not statistically significant.
- **The study suggests that some of the large rent increases may reflect landlords using the air-conditioning mandate as an opportunity to make broader upgrades to their units, not just to add AC.** In other words, when landlords invested to comply with the requirement, some appear to have bundled in additional improvements, and the higher post-policy rents likely capture the combined effect of AC installation and these other upgrades rather than the cost of AC alone.

Businesses, Non-Profits, Other Private Organizations

OLO anticipates that Bill 9-26 would impose short-term compliance costs on affected landlords and generate modest gains for air-conditioning sales, installation, and repair firms. Over the long term, however, the remaining negative impacts on landlords are likely to be minimal, and the gains to these firms would be more than offset by the diffuse negative effects of reduced discretionary spending by affected tenants on other County businesses.

Landlords

The primary businesses affected by the change in law would be landlords in the residential rental sub-sector. By requiring landlords of detached single-family home rentals to meet air-conditioning requirements, those who comply with the policy would incur short-term operating expenses by installing window or portable AC units or more expensive central systems.

¹² Montgomery County Department of Housing and Community Affairs, “[Voluntary Rent Guideline](#),” accessed March 25, 2026.

However, based on landlord behavior after the 2020 AC requirement, affected landlords would likely pass through costs onto renters through higher rents over time. Evidence from Li's study of the 2020 mandate suggests that, for units required to add air conditioning, landlords increased monthly rents enough on new leases to recover AC-related expenditures over the medium to long term.

Three important considerations about the impact on landlords should be made.

Long-run cost recovery: While landlords are limited in their ability to increase rents due to the County's Rent Stabilization Law, affected landlords would likely recover virtually all expenses for several reasons. First, because the County's Rent Stabilization Law allows annual rent increases that typically exceed inflation,¹³ landlords can gradually adjust rents upward to recoup one-time AC-related expenses over multiple years while preserving their profit margins. Second, the County's rent stabilization framework provides multiple mechanisms for landlords to recover new costs over time. The law permits limited surcharges for qualifying capital improvements and allows landlords to use "banked" rent increases that were not taken in previous years, subject to an overall cap on total annual increases.

Third, exemptions and jurisdictional limits in the rent stabilization framework further reduce potential financial strain on landlords. Many units are exempt from the County's rent caps (including certain small owner-occupied properties, newer buildings, and other specified categories), and rental units located within incorporated municipalities such as Rockville and Gaithersburg are not covered by the County's rent stabilization law.

Finally, conditions in the local rental market give landlords substantial pricing power to recover new costs over time. County and Planning analyses describe a supply-constrained rental market, which contributes to upward pressure on rents and relatively low vacancy rates. As a result, landlords should be able to incorporate air-conditioning-related costs into rents without significantly increasing the risk of prolonged vacancies or tenant loss.¹⁴

Geographic variation: Li's impact evaluation also suggests that the rent effects of the air-conditioning requirement are not uniform across the County. Estimated rent increases are concentrated in higher-income census tracts, while effects in lower-income areas are small and not statistically significant. This implies that the Bill may have somewhat larger financial impacts on landlords in higher-income neighborhoods that are more likely to see rent pass-through.

Property values: For landlords that choose to install central HVAC systems rather than lower-cost window or portable units, the long-term costs of compliance are likely to be offset in part by higher property values.¹⁵ As a result, some landlords may recoup a portion of their upfront investment through increased asset values in addition to higher rents.

¹³ The maximum allowable annual rent increase for covered units is set each year as the lesser of (a) the Consumer Price Index for All Urban Consumers for the Washington-Arlington-Alexandria Area (CPI-U) plus 3 percentage points, or (b) 6 percent. Montgomery County Department of Housing and Community Affairs, "[Rent Stabilization](#)," updated September 17, 2025.

¹⁴ Montgomery County Planning Department, [Montgomery County Housing Needs Assessment](#), July 2020.

¹⁵ Zillow, "[Central Air Conditioning Commands \\$5,500 Premium](#)," July 3, 2018; Laurie Stone, "[Increasing Home Value Through Home Energy Upgrades](#)," *RMI*, March 22, 2016.

Other Businesses

Another group of local businesses that may be affected by the Bill are air-conditioning sales, installation, and repair firms. As more detached single-family rentals come into compliance, certain firms may experience a short-term increase in demand for units, installation work, and ongoing service, which would, all else equal, raise their revenues and profits.

However, because the number of newly covered rental units is limited relative to the County's overall housing stock and because many landlords are expected to choose lower-cost options (such as window or portable units) rather than full HVAC replacements, any aggregate increase in spending for AC contractors is likely to be modest and temporary.

At the same time, the higher housing costs faced by affected tenants—outlined in the following section—would likely reduce their discretionary spending, creating diffuse, negative impacts on other local firms through slightly lower household demand for goods and services.

Residents

OLO anticipates that Bill 9-26 would negatively impact certain residents in the County, as measured by the Council's priority economic indicators.

The primary residents affected by the change in law would be tenants in the residential rental sub-sector, specifically those renting detached single-family homes that currently lack air-conditioning.

Based on the experience of the 2020 air-conditioning requirement reviewed in Li's study, much of the cost of installing window or portable AC units or more expensive central systems would likely be passed through from landlords to tenants, particularly for new leases. Li estimates that the mandate raised monthly rents by about 41 to 52 dollars across the rental market and by about 59 to 102 dollars for units with new tenants. When scaled by the observed compliance rate, these effects translate into annual rent increases of roughly 813 to 833 dollars for all units that added air conditioning and 1,170 to 2,023 dollars for newly leased units that complied with the requirement.

For affected households, these higher rents would significantly increase nondiscretionary expenses, effectively reducing net household income available for affected residents. Given the County's long-standing rental housing affordability crisis and the large share of cost-burdened and lower-income renters,¹⁶ additional rent burdens stemming from air-conditioning pass-through would be especially detrimental to tenants who already devote a high share of their income to housing costs.

Three additional considerations about the Bill's potential impacts on tenants are summarized below:

Energy/utility costs. Once air conditioning is installed, many tenants—particularly those who pay utilities directly—may face higher electricity bills, which can increase total housing-related costs.

Geographic variation. Based on Li's study, rent increases may be concentrated in higher-income census tracts.

¹⁶ Montgomery County Planning Department, [Montgomery County Housing Needs Assessment](#), July 2020.

Heat-related expenses and offsets. For individual tenants, any additional rent costs would be partially or fully offset in cases where access to landlord-provided air conditioning eliminates out-of-pocket spending on their own heat-mitigation measures (such as purchasing fans or temporary cooling devices) and reduces the likelihood of incurring medical expenses related to heat-related illnesses.

Net Impact

OLO anticipates that Bill 9-26 would have an overall negative net impact on economic conditions in the County. Landlords of detached single-family rentals would incur new air-conditioning installation and operating costs but would likely recover most of these expenses over time through higher rents. Tenants would bear most of the burden through higher nondiscretionary housing costs and, for many who pay utilities directly, higher electricity bills. This would reduce their discretionary income and local household spending. While County-based air-conditioning sales, installation, and repair firms could experience increases in demand, some landlord spending would flow to firms outside the County. Additionally, any gains for these businesses would likely be outweighed by the diffuse, negative effects of reduced tenant spending on other local firms.

Discussion Items

Not applicable

Caveats

Two caveats to the economic impact analysis conducted 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, PhD (OLO) prepared this report.