

Some Implications of the Re-imposition of Rent Control on Montgomery County, Maryland

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BACKGROUND

In January 2005, the University of Maryland's School of Public Policy produced a study analyzing the effects of the rent stabilization program in Takoma Park, MD. Findings from the study showed that the program had suppressed rents below market levels. The study also documented an overall loss in total rental units. The study stated that "rent control artificially constrains the rental income to property owners, thus reducing the appraised value of the properties." It did not find that the primary benefit of lower rents was targeted to those least able to afford higher rents.

When discussion began in the spring of 2008 about possibly reintroducing rent control County-wide, the 2005 Report was revisited by Jacqueline Rogers and her Graduate Assistants. While that report does not require updating, they concluded that some additional research might help inform any upcoming legislative discussion. Thus, the following report:

- Looks historically at assessment increases in Takoma Park compared to the County as a whole;
- Extrapolates the impact of rent control on assessments in Montgomery County over the next couple of decades; and
- Provides insight into the percent of income Montgomery County residents are currently paying for rent, as a way to assess the extent of the affordability problem.

It also provides information about changes to Takoma Park's rental property inventory and summarizes recent changes to the City's rent control ordinance.

ASSESSMENT INCREASES 1999 TO 2007

Rental properties are categorized as part of the real property base and are divided into three geographic groups in Montgomery County. Based on their location, each group is reassessed tri-annually by the State Department of Assessments and Taxation (SDAT), which is charged with assessing all Maryland properties. The amount of change in the full cash value, or market value, is then phased in over a three-year period.

Reassessments have proven to be the largest contributor to the growth in the real property tax base. It is estimated that the reassessment growth over the next three years will be experiencing a decelerating growth trend, leading to a growth in the total assessable base of 9.4 percent by FY10.¹

Table 1 below shows that from 1999 to 2007 Montgomery County saw a marked increase in rental property value, with the overall county taxable assessment base increasing 348% (average annual growth percent change of 21%). Although Takoma Park also experienced growth, it was at a slower rate of 208% (average annual growth percent

¹ *How to Fund the Budget*. County Executive's Recommended FY09 Operating Budget and Public Services Program. . Accessed at http://www.montgomerycountymd.gov/content/omb/FY09/psprec/how_to_fund_budget.pdf

change of 15%). When excluding Takoma Park’s rent controlled assessment base from the total Montgomery County base, the total rental property assessment base growth increases to 368% (average annual growth percent change of 21%).

Based on 1999-2007 numbers, the average annual growth in the taxable assessment of a typical apartment building in Takoma Park grew only at 71.1% of the rate of rest of the county. It is reasonable to conclude that the taxable assessment base of rental properties in Takoma Park has a slower growth since SDAT uses the income approach to determine taxable assessments. Rent control effectively reduces the rent available to property owners, thereby reducing the appraised value of the rental properties.

Table 1: Assessment Analysis

	<i>Real Estate Value</i>	<i>Average Taxable Assessment</i>
<i>All Montgomery County Taxable Assessment</i>		
1999	\$1,359,909,946	\$1,292,690
2007	\$5,903,580,608	\$5,787,824
Percent Change	348% (Total)	21% (Per Annum)
<i>All Montgomery County Excluding Takoma Park Taxable Assessment</i>		
1999	\$1,323,693,006	\$1,516,258
2007	\$5,775,079,011	\$7,094,692
Percent Change	368% (Total)	21% (Per Annum)
<i>Takoma Park Taxable Assessment</i>		
1999	\$36,216,940	\$202,329
2007	\$128,501,597	\$623,794
Percent Change	208% (Total)	15% (Per Annum)

Note: All rental properties included in the taxable assessment base were coded by SDAT with a land use code 113 (Garden Apartment Rental) and 117 (High-Rise Apartment, Elevator Rental)

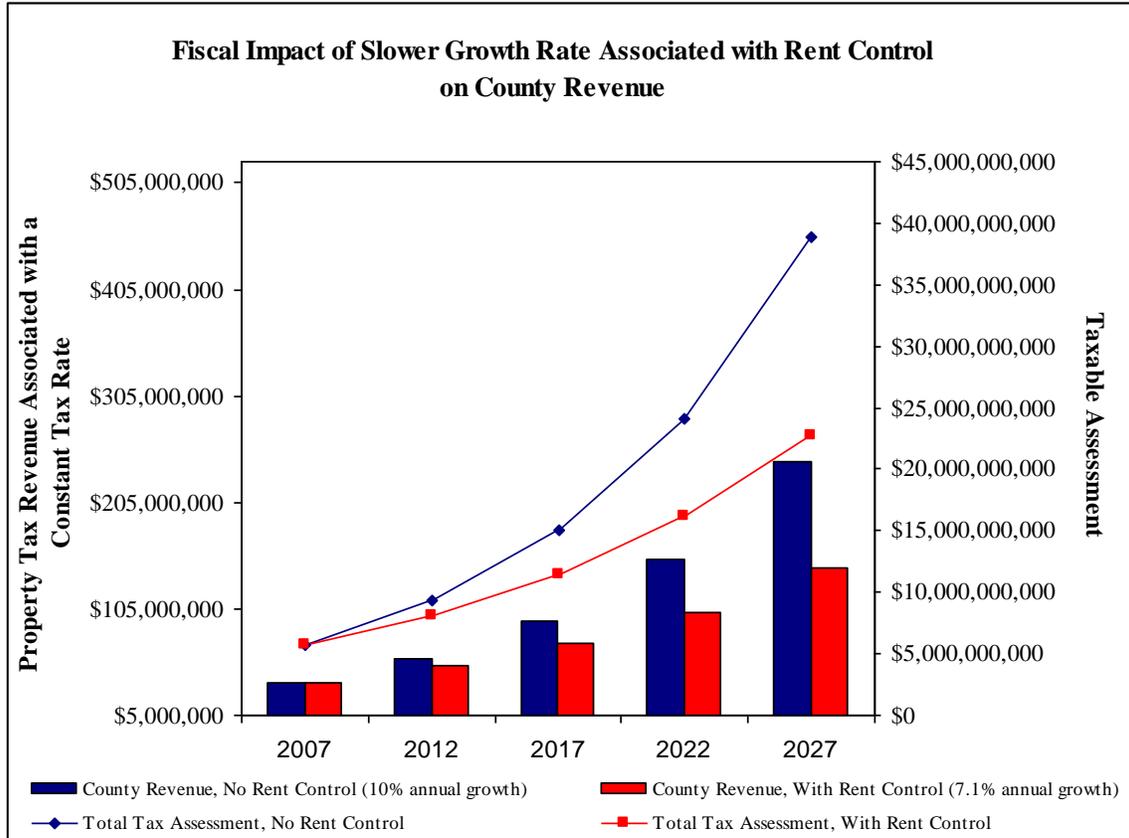
EXTRAPOLATION OF IMPACT OF RENT CONTROL 2007 TO 2027

The smaller growth rate associated with rent control in Takoma Park has a significant impact on County revenues, and to a lesser degree on State revenues. Chart 1 and Table 2 illustrate the effect that rent control could have by applying Takoma Park’s relatively slower average annual growth rate to the rest of the County.

Based on Montgomery County’s FY10 estimates of the overall real property tax base growth, this analysis uses the conservative estimate of a 10% annual growth rate for the overall rental property assessable base without rent control. Using the average annual growth rate associated with Takoma Park’s rent control policy calculated in Chart 1, a 10% annual growth rate without rent control corresponds to a 7.1% annual growth rate

with rent control. The analysis is extrapolated from 2007 to 2027 in 2007 dollars and uses 2007 tax rates and number of properties.

Chart 1: Projected County Rental Property Revenue Increases with and without Rent Control



In 2007, the County real property tax rate was \$.627 per \$100 dollars of assessed value. Table 2 demonstrates that the County would forgo property tax revenue associated with depressed property appraisal values due to rent control based on the following formula: Forgone property tax revenue= (total tax assessment base, no rent control – total tax assessment base, with rent control) * real property tax rate.

Table 2: Projected Revenue Impacts of Rent Control 2007-2027: Comparison of 10% Annual Growth Rate without Rent Control to 7.1% Rate with Rent Control

Year	Total Tax Assessment, No Rent Control	Total Tax Assessment, with Rent Control	County Revenue, No Rent Control (.627 Tax Rate)	County Revenue, with Rent Control (.627 Tax Rate)	Property Taxes Forgone	Increased County Rates Needed to Neutralize Forgone Taxes (10 versus 7 % Growth Rate)
2007	\$5,775,079,011	\$5,775,079,011	\$36,209,745	\$36,209,745	0	0.627
2012	\$9,300,822,498	\$8,137,767,628	\$58,316,157	\$51,023,803	(\$7,292,354)	0.717
2017	\$14,979,067,641	\$11,467,074,621	\$93,918,754	\$71,898,558	(\$22,020,196)	0.819
2022	\$24,123,938,227	\$16,158,460,943	\$151,257,093	\$101,313,550	(\$49,943,543)	0.936
2027	\$38,851,843,754	\$22,769,177,724	\$243,601,060	\$142,762,744	(\$100,838,316)	1.070
Total	\$369,619,491,182	\$262,122,680,729	\$2,317,514,210	\$1,643,509,208	(\$674,005,002)	

In order to neutralize the forgone taxes one option would be to raise property taxes. However, by 2027 rates would have to be nearly doubled to account for lost revenue, with County real property tax rates increased to 1.070.

While this is only a projection, it does provide a window into the long term fiscal impacts of imposing rent control on Montgomery County’s rental properties.

ANALYSIS OF RENT TO INCOME RATIOS IN TAKOMA PARK AND MONTGOMERY COUNTY

One criticism of rent control policies is that they subsidize the housing costs of affluent individuals, who do not need housing assistance.² Examining the ratio of gross rent to household income among renters reveals the kind of “subsidies” received by higher income tenants under rent control. This analysis examines U.S. Census data and a survey of Takoma Park apartment buildings (with rent control) and buildings in Silver Spring (a neighboring area of Montgomery County without rent control) to determine the extent to which a rent stabilization policy benefits individuals who are not in need of rental subsidies. Silver Spring was identified as an appropriate comparison jurisdiction for Takoma Park due to the two communities’ proximity to each other, their similarly advantageous locations near Metrorail and other public transportation, and their similar income levels.

Some research has also suggested that rent control policies may not increase lower-income individuals’ access to affordable housing. According to this research, rent control privileges higher-income renters who have superior market information and encourages

² Pollakowski, H. (2003). *Who Really Benefits from New York’s Rent Regulation System?* New York, NY: Center for Civic Innovation. Accessed at http://www.manhattan-institute.org/pdf/cr_34.pdf

landlords to select more affluent, stable tenants in order to protect their properties.³ Accordingly, this analysis also compares the percentage of renters who do not have affordable housing (defined as those renters who pay more than 30 percent of their gross monthly incomes towards rent⁴) residing within Takoma Park against the percentage of such renters residing within Silver Spring.

Table 3 uses data from the 2000 Census to compare median rents, median household incomes, and gross rent-to-income ratios between Takoma Park, Silver Spring, and Montgomery County as a whole. While median rents in Takoma Park were somewhat lower than in Silver Spring – probably due to rent control – Table 3 indicates that median household incomes differed only slightly between the two jurisdictions in 2000. More importantly, the Census data indicated that there was no statistically significant difference between the percentage of renters who paid 30 percent or more of their incomes towards rent in Takoma Park and the percentage of such renters in Silver Spring. In other words, rent control may not have helped significantly greater numbers of lower-income residents obtain affordable rental housing in Takoma Park as compared with neighboring Silver Spring.

Furthermore, Table 3 demonstrates that rent control may subsidize numerous higher-income tenants who do not struggle with housing affordability. According to Table 3, 18.5 percent of renters in Takoma Park paid less than 15 percent of their gross monthly incomes towards rent in 2000. Some of these tenants were presumably affluent enough not to require housing assistance – yet all such tenants would have benefited from rent control.

More recent survey data appear to confirm some of these findings. Table 4 reports the results of a 2008 University of Maryland survey gathering rent-to-income information from 5 buildings from Takoma Park, 9 comparable buildings from Silver Spring, and 12 comparable buildings from other areas in Montgomery County (for a total of 26 buildings).⁵ The survey was conducted over a two month period from May 2008 to July 2008, and property owners were asked to provide their best estimates of gross rent-to-income ratios for current tenants.⁶ These buildings were largely class B and C properties, selected for comparability across jurisdictions. Finally, all 5 buildings from Takoma Park were subject to rent stabilization, while those from other jurisdictions were not.

³ Downs, A. (1996). *A Reevaluation of Rent Controls*. Washington, DC: The Urban Land Institute.

⁴ According to U.S. Department of Housing and Urban Development standards, housing costs are considered affordable if they amount to 30 percent or less of the resident's income.

⁵ Appendix A includes a list of the surveyed buildings and their characteristics.

⁶ To increase data reliability, rent-to-income information from all properties was gathered only for current tenants entering leases within the previous three years (on or after May 1, 2005).

Table 3: Comparison of Median Rent, Median Income, and Percentage of Renters with Estimated Gross Rent-to-Income Burdens in Takoma Park and Silver Spring (2000 Census)

	<i>Median Rent</i>	<i>Median Household Income</i>	<i>Gross Rent-to-Income Ratio¹</i>						
			15% of Income or Less Paid Towards Rent	15.1% to 20.0%	20.1% to 24.9%	25.0% to 29.9%	30.0% to 34.9%	More than 35.0%	More than 30%²
Takoma Park Percentage of Renters with Gross Rent-to-Income Ratio (3,572 renters)	\$664	\$48,490	18.5%	16.6%	16.2%	13.2%	9.2%	26.1%	35.4%
Silver Spring Percentage of Renters with Gross Rent-to-Income Ratio (16,661 renters)	\$803	\$51,653	17.5%	17.8%	15.6%	12.5%	9.2%	27.4%	36.6%
Montgomery County Percentage of Renters with Gross Rent-to-Income Ratio (97,307 renters)	\$914	\$71,551	18.5%	17.1%	15.7%	11.9%	9.0%	27.8%	36.6%

Notes: 1. All data obtained from U.S. Census (2000). Median rents and household incomes in 2000 dollars. Renters for whom rent-to-income ratios were "not computed" are excluded from the figures reported. Analysis includes 3,572 renters from the City of Takoma Park; 16,661 renters from the Silver Spring "census-designed place" (excludes Takoma Park); and 97,307 renters from Montgomery County (includes Takoma Park, Silver Spring, and other communities). 2. There was no statistically significant difference between the percentage of renters paying more than 30 percent of their gross monthly income towards rent in Takoma Park versus Silver Spring (p=0.157)

As Table 4 indicates, the 2008 survey found that the percentage of renters who paid 30 percent or more of their incomes towards rent was significantly higher in Takoma Park than the percentage of such residents in Silver Spring – suggesting that rent control may not greatly improve housing affordability in Takoma Park. In fact, the proportion of surveyed Takoma Park renters paying 30 percent or more of their incomes towards rent was 12 percentage points higher than among surveyed Silver Spring renters.

The 2008 survey also found that 25 percent of renters in Takoma Park paid less than 20 percent of their gross household incomes towards rent – suggesting again that rent control may subsidize significant numbers of individuals who do not need housing assistance.

Table 4: Renters with Estimated Gross Rent-to-Income Burdens for Samples of Buildings in Takoma Park, Silver Spring, and in Comparable Areas of Montgomery County (2008 University of Maryland Survey)

	<i>Gross Rent-to-Income Ratio¹</i>						
	10% of Income or Less Paid Towards Rent	10.1% to 20.0%	20.1% to 30.0%	30.1% to 40.0%	40.1% to 50.0%	More than 50.0%	<i>More than 30%²</i>
Only buildings within Takoma Park							
Percentage of Renters with Gross Rent-to-Income Ratio (196 units)	2.6%	22.4%	33.7%	22.4%	9.7%	9.2%	41.3%
Only buildings within Silver Spring							
Percentage of Renters with Gross Rent-to-Income Ratio (2,781 units)	1.5%	17.2%	52.1%	19.9%	6.8%	2.5%	29.2%
All Montgomery County buildings³							
Percentage of Renters with Gross Rent-to-Income Ratio (5,305 units)	3.4%	20.8%	45.3%	20.4%	7.1%	3.1%	30.5%

Notes: 1. Renters for whom recent rent-to-income ratios were unavailable (e.g. those entering leases prior to May 1, 2005) are excluded from the figures reported. 2. The percentage of renters paying more than 30 percent of their gross monthly income towards rent in Takoma Park's sampled properties was significantly higher than in Silver Spring's sampled properties (p<0.001). 3. In Table 4, "all Montgomery County buildings" includes all 26 buildings surveyed, including the buildings from Takoma Park, Silver Spring, and other areas.

One explanation for rent control's apparently limited impact on housing affordability is that the policy may mask its own positive effects. For instance, rent stabilization might assist more low-income renters with obtaining higher-quality housing in Takoma Park than in non-rent-stabilized areas, and these renters might be willing to pay relatively high, "unaffordable" percentages of their gross monthly incomes for such housing. The similarity between Takoma Park and Silver Spring's median incomes in Table 3, however, raises some doubts about this explanation, since it does not appear that Takoma Park has attracted significantly larger numbers of low-income residents than Silver Spring (according to the Census 2000 data).

An alternative explanation is that Takoma Park's rent stabilization policy may privilege higher-income renters who have better access to market information and who are more attractive to landlords seeking affluent, stable tenants. Under rent stabilization, landlords may perceive such tenants as being less likely to jeopardize their already-diminished rental incomes and property values. As these higher-income renters enter a rent-stabilized housing market, the effective supply of "affordable" apartments for lower-income renters might be reduced to levels identical with (or even below) those in Silver

Spring and other areas of Montgomery County – particularly if rent stabilization constricts the overall supply of rental units by inhibiting new construction and encouraging condominium conversions, as is suggested below. Consequently, lower-income renters would find themselves at a competitive disadvantage for obtaining more limited numbers of “affordable” rent-stabilized apartments within Takoma Park, and such renters might be forced to seek more expensive housing within the city or leave the jurisdiction entirely.

CHANGES TO TAKOMA PARK’S RENTAL PROPERTY INVENTORY AND ITS RENT CONTROL LAW

There has been a significant loss in available rental units in Takoma Park since 1990. Between 1990 and 2004, the City lost approximately 560 rental units.⁷ Over the same period, the County gained over 11,000 rental units.⁸ Between 2005 and 2007, 158 rental units in Takoma Park were converted into condominiums. Another 50 units are in the process of being converted this year with an additional 220 units in the pipeline.⁹

The implications of a County-wide rent control program on the long term availability of rental units are unclear. Past history suggests that rent control might spur a wave of condominium conversions and that it would inhibit future construction of rental units.

In December 2007, Takoma Park revised its rent stabilization program. The program now categorically exempts single family homes while all condominium rentals are now subject to the rent stabilization rules. In addition, newly constructed rental units are exempt from rent stabilization for 5 years. Finally, the program allows for annual rent increases up to 100% of the CPI. Previously, the program had allowed for increases of up to 70%. It is too soon to evaluate the effects of these policy changes, although many were undertaken to encourage new rental development. The policy changes demonstrate that rent control programs can inadvertently manipulate market incentives.

CONCLUSION

This review of assessable base growth, projected property tax revenues with and without rent control and rent to income ratios in selected properties suggests that the County has little to gain and potentially much to lose, were it to enact rent control legislation.

⁷ Rogers, J; (2005); Takoma Park, MD Rent Stabilization Policy Analysis

⁸ Maryland-National Capital Park and Planning Commission,
http://mcparkandplanning.org/research/data_library/real_estate_development/housing/M-NCPPCHousing-RentalUnitsbytype.shtm

⁹ Takoma Park Department of Housing and Community Development

Appendix A: List of surveyed properties for rent-to-income analysis in Table 4

Apartment Properties Surveyed (Table 4)	Number of Units Surveyed	Class	Council District
Building 1	227	A	District 1 (Bethesda, Chevy Chase, Garrett Park)
Building 2	171	A	District 1 (Bethesda, Chevy Chase, Garrett Park)
Building 3	55	A	District 1 (Bethesda, Chevy Chase, Garrett Park)
Building 4	192	A-	District 1 (Bethesda, Chevy Chase, Garrett Park)
Building 5	129	A-	District 1 (Bethesda, Chevy Chase, Garrett Park)
Building 6	210	B	District 3 (Gaithersburg, Rockville)
Building 7	393	C	District 3 (Gaithersburg, Rockville)
Building 8	318	B	District 3 (Gaithersburg, Rockville)
Building 9	323	B	District 3 (Gaithersburg, Rockville)
Building 10	91	B	District 3 (Gaithersburg, Rockville)
Building 11	171	B-	District 3 (Gaithersburg, Rockville)
Building 12	48	B	District 4 (East County)
Building 13	285	B	District 5 (Silver Spring, Takoma Park, Wheaton)
Building 14	280	C	District 5 (Silver Spring, Takoma Park, Wheaton)
Building 15	857	C	District 5 (Silver Spring, Takoma Park, Wheaton)
Building 16	221	B	District 5 (Silver Spring, Takoma Park, Wheaton)
Building 17	56	B	District 5 (Silver Spring, Takoma Park, Wheaton)
Building 18	305	B	District 5 (Silver Spring, Takoma Park, Wheaton)
Building 19	366	B	District 5 (Silver Spring, Takoma Park, Wheaton)
Building 20	100	B	District 5 (Silver Spring, Takoma Park, Wheaton)
Building 21	125	B	District 5 (Silver Spring, Takoma Park, Wheaton)
Building 22	286	B	District 5 (Silver Spring, Takoma Park, Wheaton)
Building 23	38	B	District 5 (Silver Spring, Takoma Park, Wheaton)
Building 24	7	B	District 5 (Silver Spring, Takoma Park, Wheaton)
Building 25	21	B	District 5 (Silver Spring, Takoma Park, Wheaton)
Building 26	30	B	District 5 (Silver Spring, Takoma Park, Wheaton)