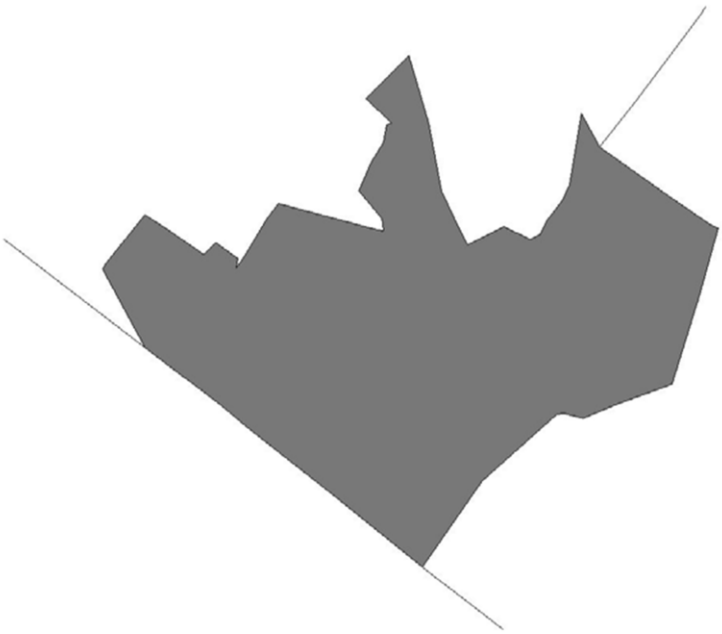
Takoma Park, MD
Rent Stabilization Policy Analysis

January 2005



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Introduction

Takoma Park is the only jurisdiction in Maryland that imposes rent control on rental properties. Rent control in Takoma Park is governed by Takoma Park's Rent Stabilization Law, which has been in effect since 1980. All landlords owning two or more rental units in Takoma Park are subject to rent stabilization. The Rent Stabilization Law sets annual percentage guidelines for increases in rents. The Rent Stabilization Allowance is the percentage that a rent may be increased on a yearly basis, which is set as 70% of the Consumer Price Index.[1] The rent on an occupied unit may be increased only once a year up to the Rent Stabilization Allowance in effect. The Allowable Rent is the highest rent that can be charged for a vacant unit, which includes any rent stabilization allowances and capital improvement petition increases. A landlord can increase the rent upon vacancy of a unit up to the highest Allowable Rent, only if the previous tenant voluntarily vacated the rental unit or breached the lease.

The City of Takoma Park is located in Montgomery County, Maryland. It has a population of around 17,000 and about 3,800 renter-occupied housing units out of a total of 7187 units.

This study provides preliminary analysis of Takoma Park's rent stabilization policy. It is divided into seven sections, including:

1. **COMPARATIVE ANALYSIS OF RENT LEVELS**
2. **TENANT RENT-INCOME LEVEL SURVEY RESULTS**
3. **TENANT RENT-INCOME LEVEL CENSUS DATA ANALYSIS**
4. **FISCAL IMPLICATIONS OF RENT CONTROL IN TAKOMA PARK FOR THE STATE, COUNTY AND CITY GOVERNMENTS**
5. **COMPARISON OF RENT CONTROL ORDINANCES**
6. **RENT CONTROL LITERATURE REVIEW**
7. **ANALYSIS OF MULTI-FAMILY HOUSING ASSESSED PROPERTY VALUE**

The purpose of this research was to collect data about various aspects of Takoma Park's rent stabilization program in order to help inform the ongoing debate around the effectiveness of the policy. As a result, the intention of this study was not to offer specific recommendations for changes to the policy.

SUMMARY OF FINDINGS

The following are some of the key findings that resulted from this research:

- **Takoma Park's rent stabilization program appears to have suppressed rents below market levels.** The current median monthly rent levels under the Takoma Park rent stabilization policy are $707 for an efficiency, $853 for a

[1] The Rent Stabilization Allowance is 1.8% from July 1, 2003 to June 30, 2004.

one-bedroom apartment, and $1035 for a two-bedroom apartment. In comparison, the Montgomery County median fair market rent levels are $1026 for an efficiency, $1212 for a one-bedroom apartment, and $1401 for a two-bedroom apartment. Furthermore, the allowable rent range for a Takoma Park efficiency is $677-$780, well below the Montgomery County median fair market rent level for an efficiency.

- **Rents in Takoma Park fall below the level permitted under alternative affordable housing programs**. The median level for Takoma Park apartments is less than rent levels under the Montgomery County Moderately Priced Dwelling Unit (MPDU) program and the Section 8 payment standard, regardless of unit size.

- **Many Takoma Park renters experience a lower rent-to-income ratio when compared to renters throughout the state and country.** An examination of Census data on the rent and income levels of Takoma Park renters demonstrates that a larger percentage of Takoma Park households experience a gross rent-to-income ratio less than 30% as compared to Montgomery County, Maryland and US renter households.

- **Collectively, the Takoma Park, Montgomery County, and the State of Maryland governments could be losing $795,000 annually in foregone taxes as a result of the policy.** This is due to the fact that rent control artificially constrains the rental income to property owners, thus reducing the appraised value of the properties.

- **The assessed value of Takoma Park's multi-family housing as a percentage of the city's total assessed value has declined from 11.6 percent in 2000 to 8.5 percent in 2004.**

- **The number of rental units available in Takoma Park has declined by 14 percent since 1990.** Takoma Park has lost approximately 560 rental units between 1990 and 2004.

- **Takoma Park's rent control policy appears more restrictive than most rent control ordinances in other jurisdictions when specific policy features are compared.** A 'stringent" rent control ordinance generally severely limits the landlords' ability to raise rents, thereby, strictly limiting profit potential. In turn, by significantly restricting the owners' return on their investments, a substantial disincentive for the production of new housing or reinvestment in existing housing is created.

For more information about this report please contact Todd Nedwick at tnedwick@umd.edu or Jonathan Martin at jdmartin@umd.edu.

1. Comparative Analysis of Rent Levels

Takoma Park's rent stabilization policy appears to suppress rent levels well-below market value. This is an important observation when evaluating the effects of a rent control policy. As explained by Anthony Downs in a ***Reevaluation of Rent Controls***, rent control ordinances vary in their effect on rent levels depending on specific policy characteristics.[2] A moderate or 'temperate" rent control ordinance may not have much of an effect on rent levels but will act to protect renters from facing sharp and substantial rent increases.

COMPARISON OF HOUSING VOUCHER RECIPIENT POPULATIONS AMONG MONTGOMERY COUNTY ZIP CODES

The lower rent levels have resulted in a high concentration of housing voucher recipients residing in Takoma Park. Table 1-A below compares the proportion of Montgomery County voucher holders living in Takoma Park with the city's proportion of the total county population. Out of the approximately 5,600 housing voucher holders residing in Montgomery County, 2.9 percent reside in Takoma Park. In comparison, Takoma Park's general population equals approximately 2.0 percent of Montgomery County's general population.

The table also includes data on other county zip codes that contain a high concentration of housing voucher holders. The general geographic area associated with the zip code is in parentheses. Takoma Park's zip code is one of 11 zip codes in the county, out of approximately 40 or so zip codes, where the proportion of voucher holders exceeds the zip code's proportion of the county's general population. The 10 other zip codes are listed in the table.

Table 1-A
Comparison of Housing Voucher Holders as a Percentage of Population

Zip Code	*% of voucher holders residing in the zip code*	*% of county population*	*% of county renter-occupied units*
Takoma Park	2.9%	2.0%	3.7%
20866 (Burtonsville)	2.1	1.3	.9
20874 (Germantown- West)	8.4	5.6	5.6
20876 (Germantown- East)	2.8	2.5	2.1
20877 (Gaithersburg)	6.9	3.4	5.9
20879 (Gaithersburg)	5.4	2.5	1.7
20902 (Wheaton)	6.5	4.9	4.8
20903 (Silver Spring)	5.2	2.6	3.9
20904 (Silver Spring)	13.0	5.6	7.9
20906 (Silver Spring)	14.9	7.0	7.4
20910 (Silver Spring)	6.7	4.1	10.3

SOURCES: Count of voucher holders provided by the HOC of Montgomery County; Population and renter-occupied counts from 2000 Decennial Census

[2] Downs, Anthony. *A Reevaluation of Rent Controls*. The Urban Land Institute: Washington, D.C., 1996.

COMPARISON OF RENT LEVELS AMONG ALTERNATIVE AFFORDABLE HOUSING MODELS

Takoma Park's rent control policy has suppressed rent levels to the point where they are below the level permitted under alternative affordable housing programs. Table 1-B below compares the rent of alternative affordable housing models in the area. Both the allowable Takoma Park rent range and the median rent are compared to the Montgomery County Moderately Priced Dwelling Unit (MPDU) program, Section 8 vouchers, and the University of Maryland Graduate Student Housing. The table highlights a high-end property in Bethesda, a property in Silver Spring, and rents for Garden Apartments under the MPDU program, the allowable rent under Section 8 vouchers, and Graduate Student Housing. University of Maryland's Graduate Student Housing is privately owned and managed on a long term ground lease. Rents are benchmarked to comparable properties in the area, not including the properties listed below, and must be 18% lower than rents at the benchmarked properties. The HOC payment standard represents the rent owners are allowed to assess for an individual with a housing voucher. A renter pays 30% of his or her income towards rent with HOC paying the remaining difference to the owner up to the ceiling. If rent is above the ceiling, the renter pays the difference.

The comparison suggests that with the exception of the maximum allowable rent for one and two bedroom units in Takoma Park, rents in Takoma Park are lower than most of the other options. Median rents most closely align with Graduate Student Housing, which is benchmarked at 18% below market.

Looking at the efficiency units, Takoma Park rents are significantly lower than all the rents except for the lowest rent at the Bennington and for Graduate Student Housing.

Looking at one bedroom units, it is notable that the highest allowable rent in Takoma Park is directly equivalent to the Palisades highest MPDU rents. The median Takoma Park rent ranges from $149 to $414 less than the other rents.

In the case of the two bedroom units, the maximum allowable Takoma Park rent is meaningfully above the maximum MPDU rent at the Palisades, but median rent is once again lower than all other rents except Graduate Student Apartments. The median Takoma Park rent is $366 lower than median fair market rent in Montgomery County, $305 lower than the Section 8 rent, $177 below the lowest rent at the Bennington and $129 below the MPDU maximum rent for garden apartments.

These comparisons demonstrate that that the Takoma Park rental housing stock is for the most part not generating rents comparable to those allowed for other affordable housing programs which puts the entire rental inventory out of sync with the marketplace.

Table 1-B. Rent Comparison Analysis:
Montgomery County MPDU program, Section 8 Vouchers, University of Maryland Graduate Student Housing and Takoma Park

	Montgomery County Median Fair Market Rent (plus utilities)[2]	The Palisades of Bethesda (MPDU plus utilities*) 1	The Bennington – Silver Spring (MPDU plus utilities*)1	Max. Monthly Rent for Garden Apts. (MPDU plus utilities*)1	Section 8 (110% Payment Standard plus utilities*)2	UMD Graduate Housing 3 (incl. utilities *)	Takoma Park Allowable Rent Ranges and Median Rent (in italics) – incl. utilities*#
Efficiency	$1026	$1013-$1063	$778 and $953	$903	$1011	$692	$677-$780 *$707*
One Bedroom	$1212	$1232-$1267	$875 and $1027	$1002	$1142	$807	$310-$1269 *$853*
Two Bedroom	$1401	$1479-$1539	$1212 and $1328	$1164	$1340	$983	$594-$1773 *$1035*

1 Data from Montgomery County Department of Housing and Community Development
2 Data from Montgomery County Housing Opportunities Commission
3 Data from Southern Management Corporation Owner/Manager of Property
* Utilities based upon HOC average utility rates (including electric, gas, and water)
# Data from Takoma Park Department of Housing and Community Development

Table 1-C shows the number of allowable Takoma Park rents that exceed the maximum rent level for three selected MPDU units.

Compared to the MPDU affordable housing model, only a small percentage of allowable Takoma Park rents exceed the maximum allowable MPDU rent. As a result, the Takoma Park rental market is out of synch with the surrounding area.

There is virtually no allowable rent exceeding the high-end Palisades of Bethesda MPDU unit.

Takoma Park has no efficiency apartments that exceed maximum MPDU rent levels.

Only 2% percent of allowable rents for traditional high-rise apartments exceed the allowable rent level for rents in Takoma Park. 11% of one bedroom apartments in Takoma Park have an allowable rent greater than the garden apartment MPDU rent level.

Four percent of two bedroom apartments in Takoma Park have allowable rents greater than maximum MPDU levels. 14% of one bedroom apartments in Takoma Park have an allowable rent greater than the garden apartment MPDU rent level.

Table 1-C. Percentage of Allowable Takoma Park Rents Exceeding Maximum MPDU Rent Levels

	Takoma Park Maximum Allowable Rent (plus utilities)#	MPDU Maximum Allowable Rent (plus utilities)	Percentage of Takoma Park Apartments above Maximum Allowable MPDU Rent
Efficiency	$780		
The Palisades of Bethesda (MPDU plus utilities) **1**		$1063	0%
The Bennington - Silver Spring (MPDU plus utilities)1		$953	0%
Maximum Monthly Rent for Garden Apartments (MPDU plus utilities)1		$903	0%
One Bedroom	$1269		
The Palisades of Bethesda (MPDU plus utilities) **1**		$1,267	0 % (1 apartment)
The Bennington - Silver Spring (MPDU plus utilities)1		$1027	2% (25 apartments)
Maximum Monthly Rent for Garden Apartments (MPDU plus utilities)1		$1002	11% (147 apartments)
Two Bedroom	$1773		
The Palisades of Bethesda (MPDU plus utilities) **1**		$1539	0.6% (8 apartments)
The Bennington - Silver Spring (MPDU plus utilities)1		$1328	4% (54 apartments)
Maximum Monthly Rent for Garden Apartments (MPDU plus utilities)1		$1164	14% (182 apartments)

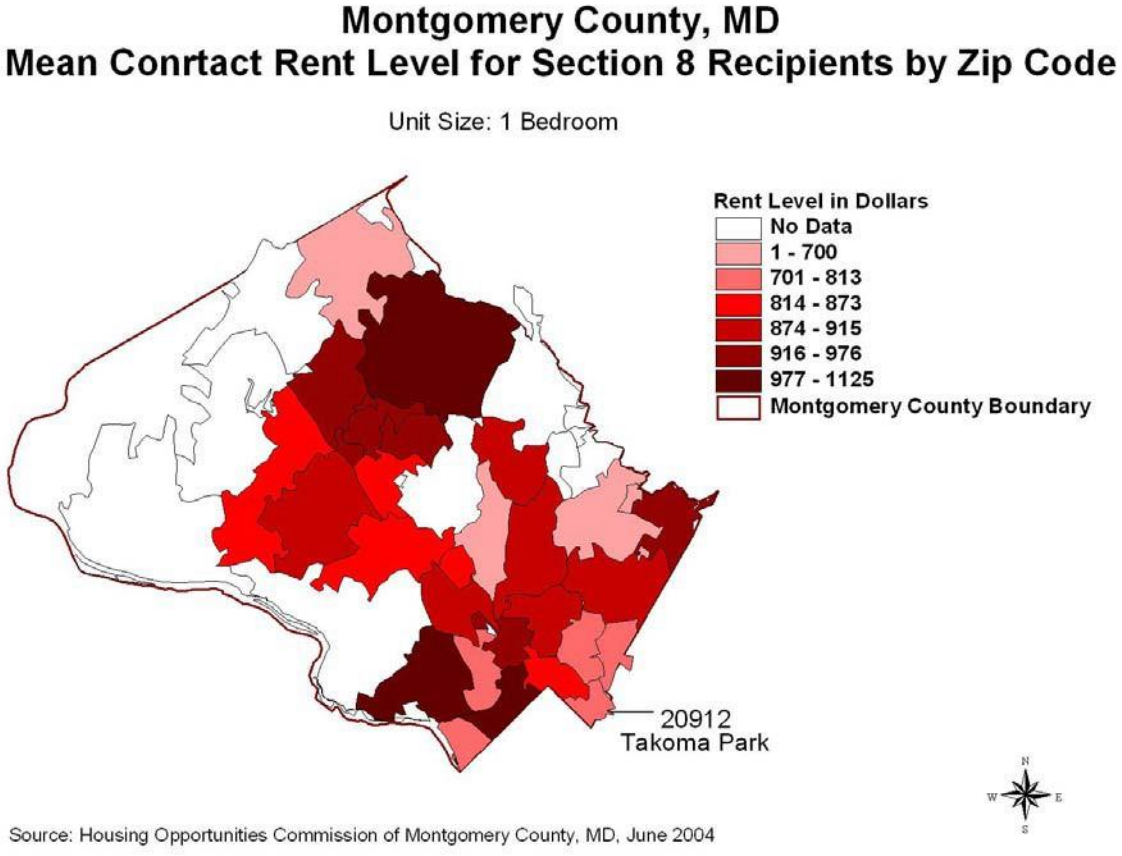
1 Data from Montgomery County Department of Housing and Community Development
Data from Takoma Park Department of Housing and Community Development
Note: Takoma Park and MPDU utility rates are based upon the Montgomery County Housing Opportunities Commission utility estimates for Section 8 vouchers. Garden apartments have a higher utility rate compared to other rental units.

FURTHER RENT LEVEL COMPARISONS

Figures 1-A through 1-C below present data on the mean contract rent level for Section 8 voucher recipients as provided by the Housing Opportunities Commission of Montgomery County. As the maps demonstrate, the greatest difference in rent levels between Takoma Park rental units and rental units in the adjacent zip codes occurs for apartments with three bedrooms.

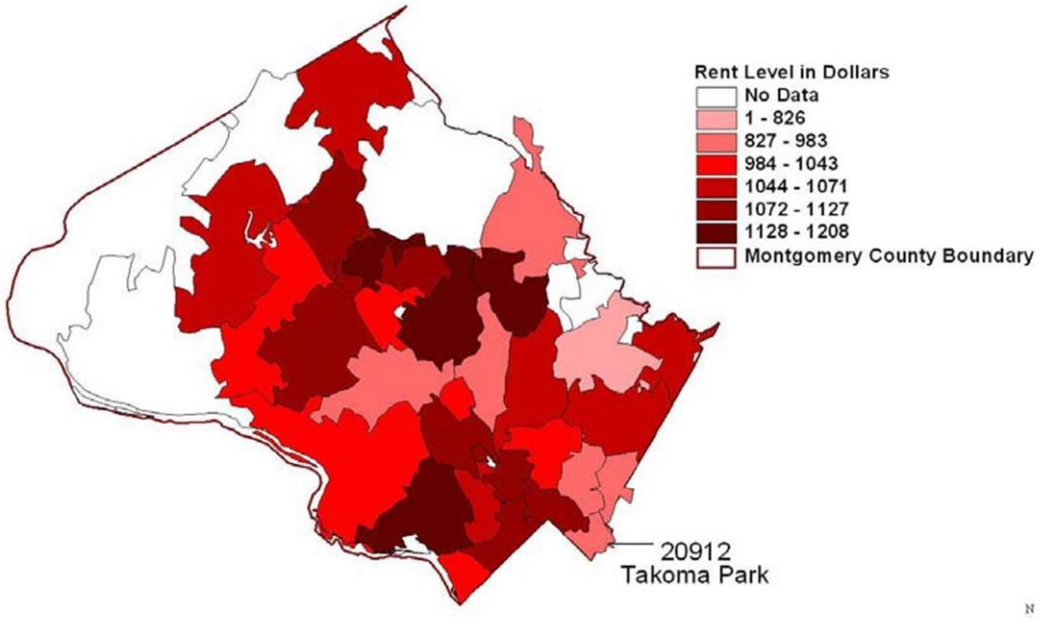
Figure 1-D on page 10 presents data from the 2000 U.S. Decennial Census on the median contract rent level for the five census tracts that make up Takoma Park and a subset of census tracts that surround Takoma Park. As the map demonstrates, for three of the five census tracts within Takoma Park's incorporated boundary (signified by the bolded black line), the median rent level falls within a range that is below that of the immediately surrounding census tracts in both Montgomery and Prince George's counties. However, it is important to keep in mind that this analysis is based on the median contract rent level for all apartment units within the census tract and does not consider the distribution of rental units by number of bedrooms.

Figures 1-A through 1-C



Montgomery County, MD
Mean Contract Rent Level for Section 8 Recipients by Zip Code

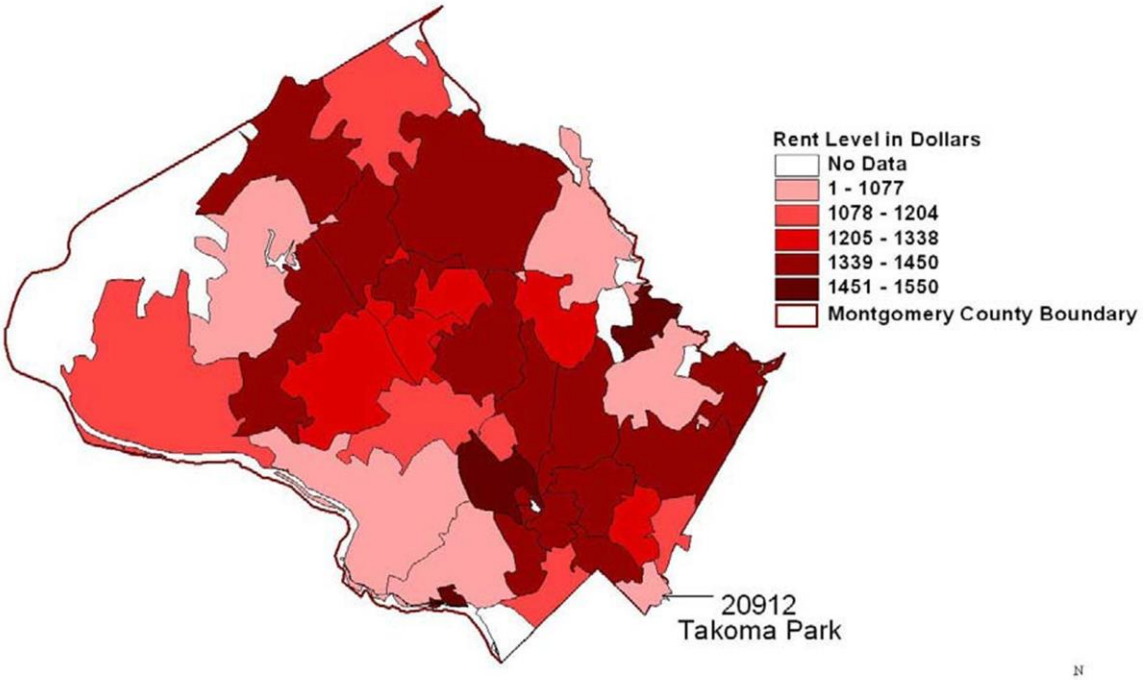
Unit Size: 2 Bedrooms



Source: Housing Opportunities Commission of Montgomery County, MD, June 2004

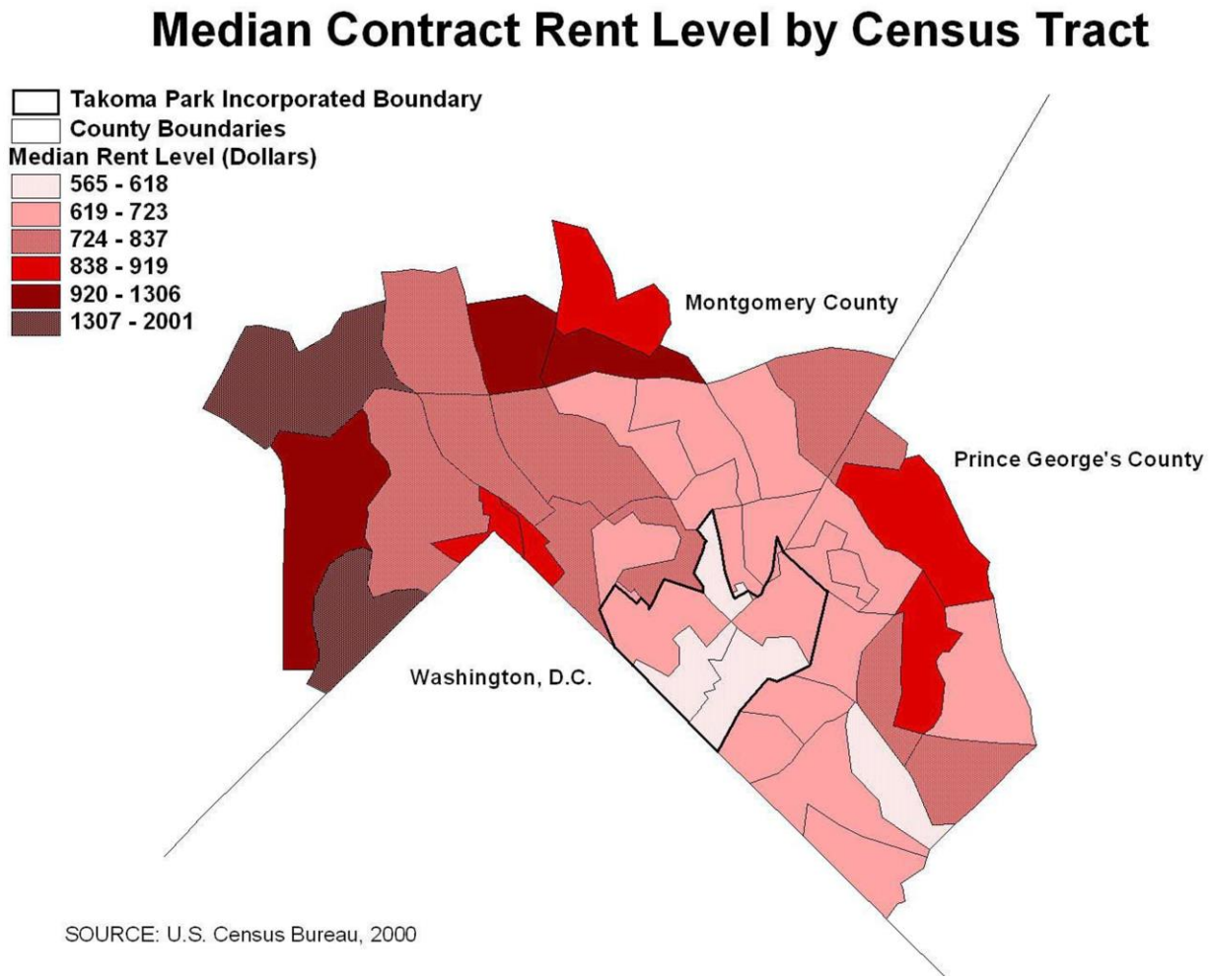
Montgomery County, MD
Mean Contract Rent Level for Section 8 Recipients by Zip Code

Unit Size: 3 Bedrooms



Source: Housing Opportunities Commission of Montgomery County, MD, June 2004

Figure 1-D


Median Contract Rent Level by Census Tract
Takoma Park Incorporated Boundary
County Boundaries
Median Rent Level (Dollars)
565 - 618
619 - 723
724 - 837
838 - 919
920 - 1306
1307 - 2001
Montgomery County
Prince George's County
Washington, D.C.
SOURCE: U.S. Census Bureau, 2000

2. Tenant Rent/Income Level Survey Results

A major criticism of rent control policies is that they essentially subsidize the housing costs of individuals who do not generally need housing assistance based on their income. One way to observe this is to examine the ratio of monthly gross rent to household income among renters. A survey of a sample of Takoma Park apartment buildings was conducted to determine the extent to which the rent stabilization policy benefits individuals who are not in need of rent subsidies.

SURVEY RESULTS

To assess whether residents of rent-controlled properties are primarily households who cannot afford market-determined rents, data were collected on residents' income and compared to their rent payments. In all, the income and rent levels of 315 renter households were collected to assess the rent burden experienced by Takoma Park residents.

According to HUD standards, housing costs are considered affordable if they amount to 30 percent or less of the resident's income. This analysis revealed that 60 percent of the renters in the buildings examined pay 30 percent or less of their income on rent. The results of this analysis are displayed in Table 2-A.

This analysis also reveals that there is considerable variation in tenants' rent burdens among the 4 buildings. For example, 40 percent of the residents in Building 3 pay 30 percent or less of their income on rent. It is important to note that this building contains a significant number of residents who receive housing assistance, such as Section 8 vouchers. Conversely, 88 percent of residents in Building 2 are paying 30 percent or less of their income on rent.

Table 2-A. Percentage of Renters with Specific Gross Rent-to-Income Burden for a Sample of Takoma Park Apartment Buildings

	Gross Rent-to-Income Ratio						
	10% or Less	**10.1% to 20.0%**	**20.1% to 30.0%**	**30.1% to 40.0%**	**40.1% to 50.0%**	**More than 50.0%**	***30.0% or Less***
Building 1 (22 Units)	0%	40%	40%	20%	0%	0%	***80%***
Building 2 (120 units)	8%	38%	42%	12%	0%	0%	***88%***
Building 3* (135 Units)	0%	7%	33%	24%	15%	20%	***40%***
Building 4 (189 units)	4%	25%	36%	19%	5%	11%	***65%***
All Units	3%	21%	36%	20%	8%	12%	***60%***

NOTE: Renter percentages may not add up to 100% for each building because of rounding. Although the 4 buildings included contain 466 units total, data were not available for 151 units. These numbers are based on the 67% of the 466 units for which rent and income data were available.

*Building contains a number of tenants who receive Section 8 housing vouchers or other housing assistance.

It is also important to note that approximately one-quarter of the households examined for this analysis pay 20 percent or less of their income to rent. These residents are benefiting from the rent subsidy provided by the rent stabilization policy despite their higher incomes. This is explained further in Table 2-B below. Using Takoma Park median rent levels, it is possible to calculate the minimum income level necessary for a renter who pays 20 percent or less of annual income on rent. For example, based on the monthly median rent level for a Takoma Park efficiency, spending 20 percent or less of annual income on rent payments would require a minimum annual household income of $42,400. This income level is more than $4000 greater than the maximum income level allowed under the Montgomery County MPDU program for a one-person family. Likewise, a household occupying a two-bedroom apartment in Takoma Park would need a minimum annual income of $62,100 if 20 percent or less of income is paid on rent. This income level is $15,100 greater than the maximum income level permitted for a 3-person family to participate in the MPDU program. Using the MPDU program income requirements as a standard, it appears that those Takoma Park renters paying 20 percent or less of their income on rent are able to afford market-level rents.

Table 2-B. Income calculations for households with a rent burden of 20 percent

	Takoma Park median rent level	**Annual household income if 20% of income is paid on rent**	**Max. income allowance under MPDU program (family size)**
Efficiency	$707	$42,400	$38,000 (1 person)
One-Bedroom	$853	$51,180	$42,000 (2 persons)
Two-Bedroom	$1035	$62,100	$47,000 (3 persons)

SOURCE: MPDU income requirements from the Montgomery County MPDU application: http://www.montgomerycountymd.gov/Content/DHCA/housing/housing_P/mpdu/pdf/mpduapplication.pdf

3. Rent/Income Census Data Analysis

In order to further understand the rent burden experienced by Takoma Park residents, Census data on the rent and income levels of Takoma Park renters were analyzed and compared to data on Montgomery County, Maryland and US renters. This analysis revealed that a larger percentage of Takoma Park households experience a gross rent-to-income ratio less than 30% as compared to Montgomery County, Maryland and US renter households.

COMPARATIVE ANALYSIS OF RENT LEVEL BURDEN

Table 3-A draws on data from the *2002 American Community Survey* conducted by the U.S. Census Bureau to compare the proportion of renter households that experience specific gross rent-to-income ratios for Takoma Park renters, Montgomery County renters, Maryland renters and US renters. Compared to these jurisdictions, Takoma Park has the lowest proportion of renters with a monthly gross rent that is greater or equal to 35 percent of household income. In addition, 61.6 percent of Takoma Park renters pay a monthly gross rent that is less than 30 percent of their household's income. This compares to 54 percent of Montgomery County renters, 56.2 percent of Maryland renters, and 51.4 percent of all US renter households. This comparison is also presented as a graph in Figure 3-A.

Table 3-A. Gross Rent as a Percentage of Household Income

Gross Rent-to-Income Ratio	Percent of the Renter Population			
	Takoma Park	***Montgomery County***	***Maryland***	***United States***
Less than 15.0 percent	17.7%	12.7%	15.4%	14.7%
15.0 to 19.9 percent	15.8%	16.2%	15.5%	13.4%
20.0 to 24.9 percent	15.5%	14.7%	14.7%	12.6%
25.0 to 29.9 percent	12.6%	10.4%	10.6%	10.7%
30.0 to 34.9 percent	8.8%	12.1%	7.9%	7.9%
35.0 percent and more	24.9%	31.4%	28.9%	33.4%
Not computed	4.7%	2.5%	5.3%	7.3%
Less than 30.0 percent	61.6%	54.0%	56.2%	51.4%

SOURCE: Data are from the *2002 American Community Survey* conducted by the U.S. Census Bureau; The "Not Computed" category consists of units for which no cash rent is paid and units occupied by households that reported no income.

Figure 3-A. Gross Rent as a Percentage of Household Income

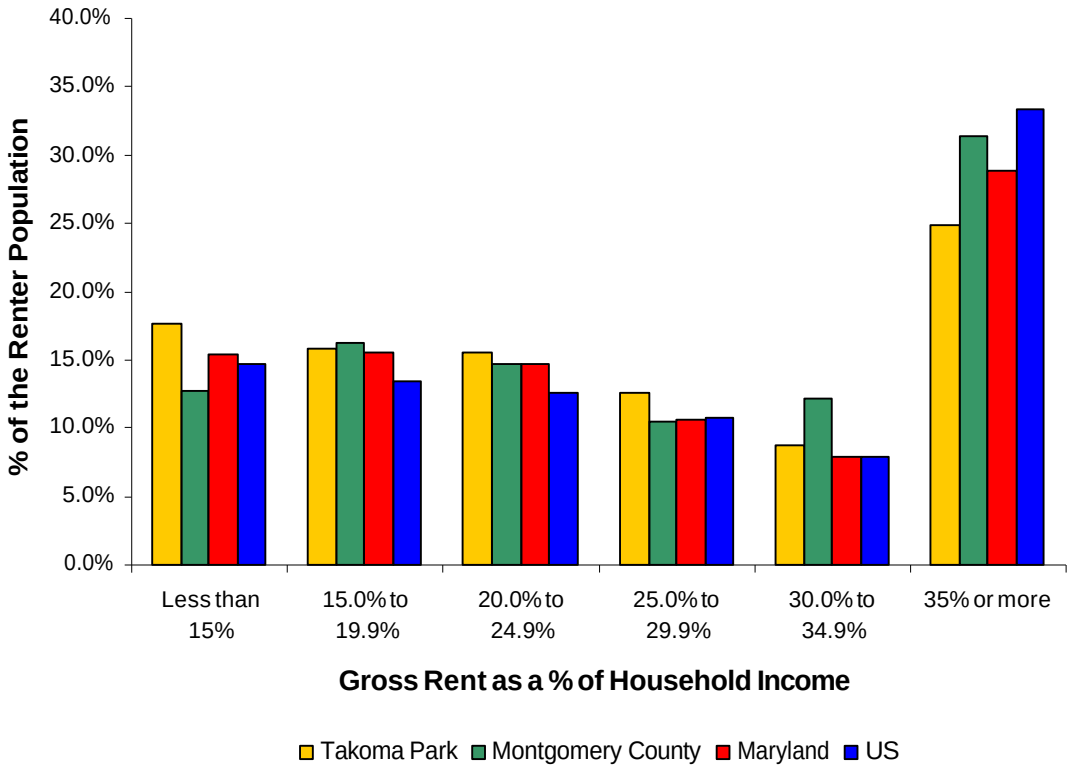
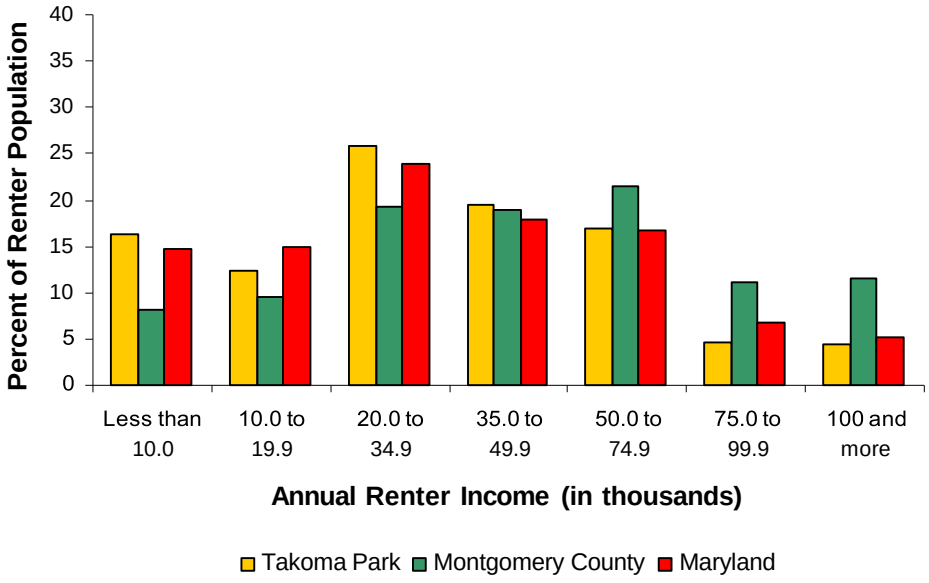


Figure 3-B presents the distribution of household income levels for all renters in Takoma Park, Montgomery County and Maryland, as reported in the 2000 Census (Data are from the Census 2000 Summary File 3- Sample Data- Table H73). The income distribution of Takoma Park renter households is fairly similar to the income distribution of Maryland renters; however, Takoma Park contains more low-income renter households and fewer high-income renter households when compared to Montgomery County.

Figure 3-B. Distribution of Household Income Level among Renters



RENT LEVEL BURDEN CENSUS TRACT COMPARISON

Using census data, a further comparison was made between Takoma Park census tracts and Montgomery County census tracts with similar median renter household incomes in order to understand if the rent burden level experienced by Takoma Park residents is unique. Displayed in Table 3-B are 13 Montgomery County census tracts with a median renter household income of between approximately $27,000 and $38,000. These income levels compare closely to the median household income level of renters residing in Takoma Park's 5 census tracts which can be found in Table 3-C (on page 16).

This analysis reveals that Takoma Park renters are more likely to spend less of their income on rent even in comparison to other Montgomery County renters with similar income levels. In four of the five Takoma Park Census tracts, 62% or more of renters are paying less than 30 percent of their income on rent. In comparison, in only 2 of the 13 comparable tracts are this many renters paying less than 30 percent of their income on rent. Furthermore, in the Takoma Park census tract with the highest median renter household income (Tract 7017.04, Table 3-C), 69% of renters are paying less than 30 percent of their income on rent. This is 12 percentage points higher than the Montgomery County tract with the most similar median renter income level (Tract 7007.10, Table 3-B).

Table 3-B. Rent Burden in Montgomery County Census Tracts with Comparable Renter Median Incomes to Takoma Park Tracts

	Tract 7009.01	***Tract 7009.04***	***Tract 7021.01***	***Tract 7032.02***	***Tract 7020***	***Tract 7023.02***	***Tract 7039.02***	***Tract 7024.02***	***Tract 7025***	***Tract 7009.02***	***Tract 7029***	***Tract 7007.10***	***Tract 7008.15***
Total number of renter households	762	719	851	364	835	724	798	1,345	1,441	323	797	353	370
Median renter household income	26974	28750	30491	30625	34115	34167	34674	34978	35829	35927	36693	37361	38611
Percent of income paid towards rent	**Percentage of Renters with Specific Gross Rent-to-Income Burden**												
Less than 15.0 percent	15	23	11	10	19	19	13	16	18	24	16	16	19
15.0 to 19.9 percent	14	8	9	23	14	20	18	19	14	15	15	24	20
20.0 to 24.9 percent	15	21	23	7	13	14	15	14	12	17	18	14	5
25.0 to 29.9 percent	13	7	14	16	11	11	10	12	17	2	7	2	9
30.0 to 34.9 percent	12	9	8	14	12	8	6	9	9	2	6	19	8
35.0 percent and more	27	30	32	23	29	24	23	28	27	33	33	16	39
Less than 30.0 percent	***57***	***59***	***57***	***57***	***57***	***64***	***56***	***61***	***63***	***58***	***55***	***57***	***54***

Table 3-C. Rent Burden in Takoma Park Census Tracts

	Tract 7017.01	*Tract 7018*	*Tract 7017.03*	*Tract 7017.02*	*Tract 7017.04*
Total number of renter households	909	996	666	860	331
Median renter household income	25733	30510	33854	34294	37292
Percent of income paid towards rent	**Percentage of Renters with Specific Gross Rent-to-Income Burden**				
Less than 15.0 percent	16	21	13	18	20
15.0 to 19.9 percent	16	12	15	20	20
20.0 to 24.9 percent	16	12	20	14	18
25.0 to 29.9 percent	9	16	14	11	10
30.0 to 34.9 percent	9	7	10	11	5
35.0 percent and more	29	26	24	22	18
Less than 30.0 percent	***57***	***62***	***62***	***63***	***69***

RENT LEVEL BURDEN BY HOUSEHOLD INCOME

Tables 3-D through 3-H break down the monthly gross rent-to-income ratios for specific household income levels (Data are also from the Census 2000 Summary File 3- Sample Data- Table H73). The data presented here seems to suggest that Takoma Park's rent stabilization program disproportionately benefits moderate-income households over lower-income households. For example, Tables 3-D and 3-E show that a similar percentage of renters in Takoma Park, Montgomery County and Maryland with household incomes of less than $20,000 have a gross rent-to-income ratio of 30 percent or more. Thus, the rent burden for the poorest households is very similar across all of these jurisdictions. This is in sharp contrast to the rent burden experienced by higher-income households. Approximately 85 percent of Takoma Park renters with a household income between $35,000 and $49,999 have a gross rent-to-income ratio of 24 percent or less. This compares to 43 percent and 66 percent of Montgomery County and Maryland renters respectively with a gross rent-to-income ratio of 24 percent or less.

Tables 3-D through 3-H. Rent Burden for Specific Income Groups

3-D. Household Income: Less than $10,000

	Percent of the Renter Population		
Rent-to-Income Ratio	***Takoma Park***	***Montgomery County***	***Maryland***
Less than 20 percent	2.9%	2.9%	3.9%
20 to 24 percent	4.1%	3.1%	3.3%
25 to 29 percent	2.2%	6.8%	7.3%
30 to 34 percent	1.1%	3.0%	3.8%
35 percent or more	64.1%	63.1%	63.0%

3-E. Household Income: $10,000 to $19,999

	Percent of the Renter Population		
Rent-to-Income Ratio	***Takoma Park***	***Montgomery County***	***Maryland***
Less than 20 percent	4.3%	5.9%	8.6%
20 to 24 percent	2.8%	3.3%	4.8%
25 to 29 percent	1.5%	3.4%	7.7%
30 to 34 percent	6.3%	4.4%	9.1%
35 percent or more	77.7%	79.3%	65.0%

3-F. Household Income: $20,000 to $34,999

	Percent of the Renter Population		
Rent-to-Income Ratio	***Takoma Park***	***Montgomery County***	***Maryland***
Less than 20 percent	6.0%	5.4%	13.7%
20 to 24 percent	17.8%	6.2%	16.6%
25 to 29 percent	30.9%	14.0%	20.3%
30 to 34 percent	25.8%	18.9%	17.2%
35 percent or more	17.6%	53.0%	27.7%

3-G. Household Income: $35,000 to $49,999

	Percent of the Renter Population		
Rent-to-Income Ratio	***Takoma Park***	***Montgomery County***	***Maryland***
Less than 20 percent	43.2%	14.0%	36.6%
20 to 24 percent	41.3%	28.9%	28.9%
25 to 29 percent	10.2%	27.0%	17.5%
30 to 34 percent	2.9%	14.1%	7.2%
35 percent or more	1.4%	14.2%	5.9%

3-H. Household Income: $50,000 to $74,999

	Percent of the Renter Population		
Rent-to-Income Ratio	***Takoma Park***	***Montgomery County***	***Maryland***
Less than 20 percent	84.6%	52.0%	69.0%
20 to 24 percent	6.9%	25.7%	17.1%
25 to 29 percent	1.3%	10.0%	5.5%
30 to 34 percent	3.6%	6.2%	2.5%
35 percent or more	0.0%	4.3%	1.7%

4. Fiscal Implications of Rent Control in Takoma Park for the State, County and City Governments

This analysis examines the fiscal implications of rent control for Takoma Park, Montgomery County, and the State of Maryland. The principal finding is that the County, State and City collectively lose at least $400,000, annually in property tax revenues on the rental properties with more than 20 units, which are under rent control in Takoma Park. The scenario analysis shows that the foregone taxes fall into the range of $401,000 to $686,000. This analysis was based on 1,681 units or 45% of the total rental units. Extrapolating to the entire inventory and adjusting for 'exempt" units, the annual tax loss could reach $795,000. This extrapolation should be verified through further study.

METHODOLOGY

The total number of units within the properties with more than 20 units accounts for approximately 58% of all rental properties in the city, therefore, the property tax foregone on these big properties would be a good estimate of the tax foregone on all the rental properties, although it would be a conservative estimate. Because some buildings with more than 20 units are exempt from rent control, the total number of units covered in this study is 1681, accounting for 45% of all rental properties in the city. Exemptions are made for owner-occupied group homes, accessory apartments, and properties that are used for treatment of illnesses. As later analysis reveals, the annual property tax loss on the big properties with more than 20 units is estimated as $411,000. Since these properties account for 45% of all rental units in the city, assuming the tax losses are uniform across units, the annual tax losses for the entire rental stock is estimated as $795,000 (also with the assumption that 13% of units are exempt from rent control). By comparing controlled properties to comparable properties outside the City boundaries, the study seeks to establish the reduction in assessed value associated with rent control and to compute the annual tax foregone as a result.

The amount of the property tax bill is determined by this formula:

*Bill=Assessment*Rate*

Assessments are based on the fair market value of the property and are issued by the state Department of Assessments and Taxation (SDAT). For rental properties, SDAT uses the income approach to determine the assessment. Rent control artificially constrains the rental income to property owners, thus reducing the appraised value of the properties.

The model SDAT uses to determine assessment of rental properties can be simplified by using this formula[3]:

[3] The model SDAT uses to determine assessment of rental properties is as follows:

For each type of unit (efficiency, one-bedroom, two-bedroom, and three-bedroom): Number of units * monthly rent * 12=annual rent

Value = E*(number of units * monthly rent) * 12 * (1- vacancy rate) * (1- expenses rate) / (base rate + effective tax rate)*

In this formula, the parameter 'number of units" is given; the parameter 'effective tax rate" is set as 1.808 for FY 2004; the base rate adopted by SDAT when appraising property values is 9.000; other parameters are not fixed. In consultation with SDAT, industry benchmarks of such a generic vacancy rate of 3% for rent controlled units and 5% for uncontrolled units was stated, and an expense rate of 60% was assumed.

A crucial step in this study is to estimate the rent level of the properties in Takoma Park if there were no rent control. The best estimate would be the rent levels of the properties comparable to those in Takoma Park but under normal market conditions. The Montgomery County Landlord-Tenant Office's database was used to identify comparable properties. According to market survey, the rents are mainly determined by the market area a property is in, the building type, and amenities. For each target property in Takoma Park, a group of comparable properties with the same features in terms of market area, building type, and amenities (only major amenities as criteria: washer/dryer, utilities, and pool) was identified. (Appendix 1 lists all the properties used for the comparables analysis, with each group of target properties followed by their comparable properties.) Then the average rent of each group of comparables was calculated to get an estimate of market-determined rent corresponding to the target property.

By applying estimated market rental incomes to the units in the Takoma Park sample to the appraisal model, the differential in property values attributable to rent control can be calculated. The foregone property tax revenues can be derived by applying tax rates of State, County and Municipal governments to this differential.

In addition, sensitivity analyses were conducted on the results. In the best scenario highest possible rent obtained by comparable properties was used; in the worst scenario lowest rent obtained by comparable properties was used. In the base case, assumptions were made on the key parameters, such as vacancy rate, expenses rate, and base rate. The sensitivity

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Gross potential income= the sum of annual rent of all types of units

Deduct vacancy and collection loss: vacancy and collection loss = gross potential income * vacancy and collection loss rate

Effective gross income = gross potential income – vacancy and collection loss

Deduct expenses: expenses = effective gross income * expenses rate

Plus other income

Net operating income = effective gross income – expenses + other income

Capitalization rate = base rate + effective tax rate

Property value = net operating income / capitalization rate

In the above model, the item "other income" is usually negligible. So the model can be simplified by using the formula in this study.

analysis is run by using representative values of key parameters, which fall into the reasonable range.

All of the valuation analyses are included in a spreadsheet model. Part 1 of the model exhibits all the target properties and their corresponding comparable properties, with major property characteristics identified; Part 2 is the model SDAT uses to determine assessment of rental properties; Part 3 shows the base case scenario. The values of the properties under rent control are estimated by applying rent-controlled rents and market rents (market rents are obtained from the average rents of comparable properties) to the SDAT appraisal model, respectively. Thus the reduction in property values resulting from rent control is estimated. Multiplying the aggregate decrease in property values by property tax rates arrives at the tax revenues foregone by the State, County and City governments. Part 4 shows the scenario analysis, with the highest and lowest estimated foregone tax revenues calculated. Part 5 is the sensitivity analysis. This part reveals if the estimates in this study are reliable, and what the range of the possible values of the foregone taxes is.

RESULTS

In the base case, the reduction in appraised property values associated with rent control is $22,700,000. The base case of this analysis shows that the County, State, and City lose $171,000, $30,000, and $150,000 annually in property tax revenues, respectively, as a result of rent control in Takoma Park. Takoma Park also has a special area property tax, which is levied on properties classified as Tax Class 74. [45] The amount of the special area property tax foregone is $60,000 per year, which is supposed to be shared by the County and the City. If the special area property tax is also included, the total effective tax rate would be 1.808, thus the total amount of tax foregone is approximately $411,021 annually. At the county level, the tax foregone by the county is equal to 0.026% of Montgomery County's projected property tax revenues in FY2004.

Table 4-A. Estimated Foregone Taxes: Base Case Scenario

	Decrease in Assessment	Property Tax Rate (FY 2004)	Property Taxes Foregone
Montgomery County Property Tax	$22,733,442	0.751	$170,728
Maryland State Property Tax	$22,733,442	0.132	$30,008
Takoma Park Property Tax	$22,733,442	0.660	$150,041
Other Taxes Shared by County and Municipality	$22,733,442	0.265	$60,244
Total Tax Foregone	$22,733,442	1.808	$411,021

[4] All sample properties in this study belong to Tax Class 74.

[5] The special area taxes comprise transit tax, fire district tax, advance land acquisition tax, metropolitan tax, regional tax, and recreation tax.

The best estimate of foregone taxes is obtained in the base case. In order to capture the range of all the possible values of the tax loss, a scenario analysis is conducted by applying the lowest and highest rents of comparable properties to the appraisal model, respectively. It shows that the three levels of government collectively may lose property taxes from $401,000 to $686,000.

Table 4-B. Estimated Foregone Taxes: Scenario Analysis

	Decrease in Assessment (lowest)	Tax Rate (FY 2004)	Taxes Foregone (lowest)	Decrease in Assessment (highest)	Tax Rate (FY 2004)	Taxes Foregone (highest)
Montgomery Property Tax	$22,190,691	0.751	$166,652	$37,950,328	0.751	$285,007
Maryland State Property Tax	$22,190,691	0.132	$29,292	$37,950,328	0.132	$50,094
Takoma Park Property Tax	$22,190,691	0.66	$146,459	$37,950,328	0.66	$250,472
Taxes Shared by County and Municipality	$22,190,691	0.265	$58,805	$37,950,328	0.265	$100,568
Total Tax Foregone	$22,190,691	1.808	$401,208	$37,950,328	1.808	$686,142

The sensitivity analysis is conducted to test whether the estimate in the base case is sensitive to the changes in assumptions on the parameters, and to show the possible values of the tax loss under different assumptions.

The result is sensitive to the change in average comparable rent, suggesting that comparable rent is the single most important factor in estimating the foregone taxes. Table 4-C reveals that if the comparable rent is 8% lower than the market rent employed in this study, the total foregone taxes could be as low as $296,000; if the comparable rent is 20% higher than the market rent employed in this study, the total foregone taxes could be as high as $698,000. Since the comparable rent is obtained through reliable method and data, the estimates in this study are supposed to be credible. However, more accurate identification of comparable properties would add more credibility to the estimates.

Table 4-C. Sensitivity Analysis of Average Comparable Rent

	Change in Average Comparable Rent*					
	Base (0%)	**-8%**	**-5%**	**+10%**	**+15%**	**+20%**
Aggregate Decrease in Assessed Value (in 000)	$22,733.4	$16,390.3	$18,768.9	$30,662.4	$34,626.9	$38,591.4
Montgomery County Property Tax	$170,728	$123,091	$140,955	$230,275	$260,048	$289,821
Maryland State Property Tax	$30,008	$21,635	$24,775	$40,474	$45,707	$50,941
Takoma Park Property Tax	$150,041	$108,176	$123,875	$202,372	$228,537	$254,703
Other Taxes Shared by County and Municipality	$60,244	$43,434	$49,738	$81,255	$91,761	$102,267
Total Taxes Foregone	$411,021	$296,336	$339,343	$554,376	$626,054	$697,732

*Note: Change in average comparable rent refers to the percent change from the base case average comparable rent.

The result is not sensitive to vacancy rate or base rate, meaning that the estimate in the base case is reliable. As Table 4-D and Table-E show, the estimated total foregone taxes don't vary much when the vacancy rate or the base rate is deviated from those employed in the base case.

Table 4-D. Sensitivity Analysis of Vacancy and Collection Allowance

	Vacancy and Collection Allowance		
	Base (-3%)	**-4.00%**	**-5.00%**
Aggregate Decrease in Assessed Value	$22,733,442	$22,499,077	$22,264,711
Montgomery County Property Tax	$170,728	$168,968	$167,208
Maryland State Property Tax	$30,008	$29,698.78	$29,389.42
Takoma Park Property Tax	$150,041	$148,493.90	$146,947.09
Other Taxes Shared by County and Municipality	$60,244	$59,623	$59,001
Total Taxes Foregone	$411,021	$406,783	$402,546

Table 4-E. Sensitivity Analysis of Capitalization Base Rate

	Capitalization Base Rate		
	Base (9.0)	**8.0**	**10.0**
Aggregate Decrease in Assessed Value	$22,733,442	$25,051,289	$20,808,184
Montgomery County Property Tax	$170,728	$188,135	$156,269
Maryland State Property Tax	$30,008	$33,068	$27,467
Takoma Park Property Tax	$150,041	$165,339	$137,334
Other Taxes Shared by County and Municipality	$60,244	$66,386	$55,142
Total Taxes Foregone	$411,021	$452,927	$376,212

As Table 4-F shows, the result is moderately sensitive to expenses rate. This means that if the expenses rate adopted in this study is not correct, the result will deviate by a moderate amount from the correct one. Consultation with SDAT suggests that the expense rate of 60% used in the base case is the best estimate for all the properties studied as a whole. Therefore, the results in this study are reasonably reliable.

Table 4-F. Sensitivity Analysis of Operating Expenses Rate

	Operating Expenses Rate					
	Base (60%)	**45%**	**50%**	**55%**	**65%**	**70%**
Aggregate Decrease in Assessed Value (in 000)	$22,733.4	$31,258.5	$28,416.8	$25,575.1	$19,891.8	$17,050.1
Montgomery County Property Tax	$170,728	$234,751	$213,410	$192,069	$149,387	$128,046
Maryland State Property Tax	$30,008	$41,261	$37,510	$33,759	$26,257	$22,506
Takoma Park Property Tax	$150,041	$206,306	$187,551	$168,796	$131,286	$112,531
Other Taxes Shared by County and Municipality	$60,244	$82,835	$75,305	$67,774	$52,713	$45,183
Total Taxes Foregone	$411,021	$565,153	$513,776	$462,398	$359,643	$308,265

Overall, the various sensitivity analyses exhibit that the base case result of the valuation analysis is reasonably reliable and that the range of the possible values of foregone taxes is from $300,000 to $700,000.

ANALYSIS

The fiscal implications for governments can be evaluated in two ways: One is to consider the foregone tax as a share of total property tax revenue by each level of government. As indicated in the 'results" part, at the county level, the percentage is 0.026%. Judged by this metric, the fiscal impact of rent control in Takoma Park doesn't seem to be significant to County government, and it would be even less significant to State government.

The other is to compare the foregone taxes with the current level of taxes generated by rental properties in Takoma Park. The result of this comparison can be estimated by a typical property in the city. Using the sample property as an illustration, the estimated difference of its value under rent control and not under rent control is $3,852,618, while its actual assessed value is $9,092,800. That is, the property value decrease is equal to 42.3% of its current assessed value. It also means that the State, County and City governments all together annually lose property tax revenue from the building equivalent to 42.3% of the property tax it currently generates. We could estimate that the tax loss due to rent control is about 42% of the tax revenues those rental properties under rent control currently contribute to governments. By this standard, the foregone tax is by no means a negligible amount. Moreover, the aggregate actual assessed value of the sample properties is $57,217,000, [6]while the estimated non-controlled value of the sample properties totals $79,290,000. The difference between the two values is $22,073,000.

The scenario analysis shows that the tax loss falls into the range of $401,000 and $686,000. The base case result is very close to the lowest possible result, suggesting that the base case estimate is rather conservative.

The sensitivity analysis shows that the level of comparable rent has the most influence on the estimates, which verifies that rent control has a significant effect on the assessed property values and the tax loss.

[6] The data are for 2004, and are provided by SDAT.

5. Comparison of Rent Control Ordinances

As mentioned in Section 1, rent control ordinances vary significantly in specific policy characteristics. Many analyses of rent control's effects classify ordinances as either 'temperate" or 'stringent". The likely impact of an ordinance on the housing market will depend on the specific features of the policy.[7] A 'stringent" rent control ordinance generally severely limits the landlords' ability to raise rents, thereby, strictly limiting profit potential. In turn, by significantly restricting the owners' return on their investments, a substantial disincentive for the production of new housing or reinvestment in existing housing is created.

COMPARISON OF STRINGENT AND TEMPERATE RENT CONTROL ORDINANCES

The following table summarizes some of the major characteristics of rent control ordinances and describes the features of both stringent and temperate ordinances.[8] In this context, Takoma Park's ordinance appears to fall towards the stringent end of the spectrum.

Rent Control Ordinance Characteristics	Stringent Controls:	Temperate Controls:	Takoma Park :
1. What classes of units are exempt from the regulations?	Exempt very few classes of units.	Exempt more classes of units.	Exempts the following classes: • owner-occupied group homes; • Accessory apartments; • Landlords owing only one rental unit; • Properties that are used for the treatment of illnesses
2. Is construction built after a certain date exempted from the regulations?	Do not exempt new construction or there is a history of violating new construction exemptions by later placing units under controls.	Exempt new construction built after a certain date, usually no later than when the law was passed. Also, there is no history of violating this exemption.	New construction is not exempted.
Examples:	**New York City:** NYC has twice violated past new construction exemptions.	**Los Angeles:** Exempts all units built after 1978. Most rent control ordinances exempt new construction.	

[7] Downs, Anthony. *A Reevaluation of Rent Controls*. The Urban Land Institute: Washington, D.C., 1996
[8] As described in Anthony Downs' book (See the preceding footnote).

Rent Control Ordinance Characteristics	Stringent Controls:	Temperate Controls:	Takoma Park :
3. Are owners permitted to raise rent to market levels upon vacancy (known as vacancy decontrol)? Is the rent re-controlled once the unit is reoccupied?	Do not permit vacancy decontrol or place a cap on the amount rent can be raised. Require units to be subject to re-control after a short period of time.	Allow rent increases up to market level. May not require re-control, but most do.	Does not have vacancy decontrol. Allows rent to increase by any annual rent stabilization allowances which were not already charged to the tenant vacating the unit. Requires approval of the city before the landlord can raise the rent on a vacant unit. Units are never decontrolled.
Examples:	**Washington, D.C.:** When a rental unit becomes vacant, a housing provider may increase the rent ceiling by up to 12% of the previously authorized rent ceiling. The unit remains controlled.	**New Jersey:** Eighty percent of New Jersey's 115 rent-controlled municipalities now have some form of vacancy decontrol. More than half have full vacancy decontrol that allows rents to be raised to market levels before coming under rent control again.	
4. How are allowable rent increases determined? How is the rent base rate percentage increase calculated? What body sets the increase?	Keep the base rate percentage below the overall inflation rate by indexing the increase to a fraction of the CPI. Put the responsibility for rate increase decisions in the hands of rent boards that have significant discretion and are often sympathetic toward tenants.	Permit rent increases equal to the increase in the CPI. Give decision-making authority to the city council. Determine allowable rent increases that permit owners to realize a competitive rate of return on their investment.	Allows an annual rent increase equal to 70% of the CPI for the Washington Metropolitan area. Places authority to set the annual allowance with the Takoma Park Department of Housing and Community Development.

Rent Control Ordinance Characteristics	Stringent Controls:	Temperate Controls:	Takoma Park :
	Examples: **Berkeley:** Rent Increases are not tied to the CPI. The percentage increase allowed is determined annually by the Rent Stabilization Board. The Board consists of 9 elected commissioners. The Board often grants a rent increase in absolute dollars as opposed to a percentage of the rent level.	**Washington, D.C**.: Permits rent increases on an annual basis equal to the Consumer Price Index for Urban Wage Earners and Clerical Workers.	
5. How much of income spent on upgrading, rehabilitating or renovating a unit is an owner permitted to recoup?	Require owners to petition the rent board and affected tenant for advanced approval of rent increases associated with these types of improvements. May require these types of costs to be amortized over a very long period of time when calculating the allowable rent increase (i.e. 15 years).	Most likely do not require owners to petition for rent increases after making the improvements or, if petitions are required, they are approved in higher proportions than under stringent ordinances. Require less time to recapture the costs (i.e. 3 to 5 years).	Requires a landlord to file a rent increase petition with the Commission on Landlord-Tenant Affairs in order to raise rent more than the rent stabilization allowance. Allows the petition to be filed before or after the work is done, but no longer than six months after completion. Requires the direct cost of the improvement be $200 or more per unit, or at least $2500 for the entire building. The amortization schedule varies by type of improvement (i.e. Out of 50 types of improvements, 36 are amortized at 10 or more years, including 18 types of improvements amortized at 15 years).

Rent Control Ordinance Characteristics	Stringent Controls:	Temperate Controls:	Takoma Park :
6. To what extent are owners permitted to raise rents when they incur extraordinary operating expenses that impact their rate of return?	Tie requests to the rate of return earned by the landlord during some designated base year. Do not take into consideration debt financing when calculating the rate of return. Turn down most hardship requests.	Establish a target rate of return (i.e. 9-12%) that owners are permitted to maintain. Allow hardship petitions if net income declines two years in a row. Approve most hardship requests. Consider debt financing when computing appropriate profit rate.	Measures increases in operating expenses against a base year (1990). Allows for hardship petitions for the cost of refinancing a loan under certain circumstances. Allows hardship petitions if the landlord demonstrates that the interest rate on a loan has increased by 3 or more percentage points between the base year and the petition year.
Examples:		**Washington, D.C.:** Permits landlords to submit a hardship petition if they find that their rent ceilings do not provide for a 12% rate of return.	
7. How restricted are owners from converting rental properties into condominiums?	May forbid the eviction of tenants to carry out the conversion. Require a large proportion of tenants to approve the conversion. Require owners to pay the moving costs of displaced tenants. May limit the number of units in the city that can be converted each year.	Will allow the eviction of tenants and require fewer tenants to approve the conversion. Do not mandate owners pay relocation fees of displaced tenants. Do not place limits on the number of rental units that can be converted each year.	Takoma Park Code does not contain any specifics regarding restrictions on rental property conversions.
Examples:	**Los Angeles:** A landlord must provide monetary relocation assistance when a tenant is evicted due to condominium conversion or for commercial use of the property.		

6. Rent Control Literature Review

A considerable amount of literature has been written about rent control ordinances since the mid-seventies when a number of cities adopted rent control policies in response to rising inflation. Although much has been written from the perspectives of both supporters and dissenters, the majority of the literature appears critical of most types of rent control policies. The following is a summary of findings from approximately thirty studies of various aspects of rent control.

SUMMARY OF FINDINGS

Downs, Anthony. *A Reevaluation of Rent Controls*. The Urban Land Institute: Washington, D.C., 1996.

The first source evaluated, *A Reevaluation of Residential Rent Controls* by Anthony Downs, presents a summary of the major justifications for and against rent controls. Downs prepared this summary after his own examination of many rent control studies.

Arguments against rent control. The author outlines the following possible adverse effects of rent control regulations:

- Inhibition of new rental construction or withdrawal of existing rental units:
    - Stringent rent control laws weaken the incentive for developers and owners to build more housing by limiting the potential profitability of doing so. Rent control laws may also lead to reductions in the existing housing stock by creating incentives for owners to convert rental properties into condominiums. As a result, rent controls may contribute to the housing shortage that most likely led to the creation of the regulations to begin with.
    - Many rent control regulations attempt to deal with this by exempting new construction. This exemption may prove ineffective at motivating developers because existing rents will still not be permitted to rise to levels that justify the full costs of construction plus allow owners to make an adequate return on their investment.
    - This particular effect has been shown to not be as significant for more moderate or temperate rent control laws. These laws usually permit owners to earn a reasonable return on their investment.
    - Studies show that a rent control ordinance's impact on new construction will be influenced by the amount of vacant land and appropriately zoned land available to the community.

- Owner underinvestment in maintenance and services:
    - Controlled residential rents may not rise as fast as operating expenses. Landlords are faced with the option of earning less on their investment or cutting back on maintenance spending.

  - Many rent control laws deal with this by allowing owners to pass through repair and renovation costs to tenants in the form of rent increases. But rent control administrators have been shown to not allow landlords to pass through enough costs to justify the investments.
  - Consistent underinvestment leads to sufficient enough declines in the quality of housing units that they eventually must be removed from the housing stock, contributing to the housing shortage.
  - Studies suggest that the more stringent the form of rent controls used, the greater the resulting deterioration in the rental housing stock. No clear conclusion about the effect of temperate rent controls on maintenance spending can be derived from existing evidence.

- Reduced tenant mobility:

  - Rent control provides incentives for tenants to remain in their rent-controlled units, regardless of the suitability of the unit. Renters that are in place when rent control takes effect stand to benefit, while prospective renters face obstacles to entering the community.
  - Studies show that stringent controls have a much more a significant effect on tenant mobility than more temperate controls.

- Use of non-price devices to ration scarce units:

  - Rent controls provide an incentive for landlords to become more selective in choosing tenants. Landlords will tend to choose more affluent, stable tenants in order to protect their property. This is seen as being detrimental to minorities and low-income people and contributing to gentrification.

- Allocation of benefits to non-poor households:

  - Non-poor beneficiaries of rent control outnumber poor beneficiaries because non-poor households outnumber poor households in the overall population. It is inevitable that rent control will benefit a significant number of middle- and high-income households.
  - Poorer households are less likely to take advantage of the rent control complaint system because of a lack of information about the system.
  - Studies show that the greatest beneficiaries of rent control, both in numbers and in absolute size of average rental savings per households, are middle- and upper-income households.

- Unjust compulsory transfer of private resources:

  - Rent control ordinances force owners to transfer their resources to tenants. The government is effectively protecting one group of private citizens by compelling another group of private citizens to forgo resources. The extent of this depends on the size of the rent discount, or the difference between the rent in the controlled market and what the rent would be in an uncontrolled market.

  - The redistribution of resources is often inefficient and inequitable. Tenants who do not move receive large benefits at the expense of those who do. The size of the benefit received by the tenant is often less than the amount of resources forgone by the owner.
  - Studies show that the size of the rent discount varies significantly by the type and duration of the rent control ordinance in effect.
  - If owners are unable to realize a sufficient return on their investment, property owners will experience reduced property values.

- Distortions of property taxes and tax burdens:

  - As the market value of controlled properties declines, a change will occur in the way property tax burdens are allocated within the community.
  - Controlled properties may be assessed at lower values than if they were not controlled. This results in a reduction of the community's property tax base.
  - Studies have confirmed that rent controls reduce the assessed values of rental properties, but no empirical evidence exists to suggest that controls increase the share of property taxes borne by other types of property owners.

- Creation of burdensome administrative costs:

  - Total public sector costs of administering rent control vary depending on the stringency of the ordinance. In 1988, the temperate Los Angeles ordinance required a staff of 19 persons to administer rent control for 478,000 units at a cost of $5.5 million or $11.51 per unit. Also in 1988, a more stringent Santa Monica ordinance required a 40 person staff to administer rent control for 30,000 units at a cost of $4.6 million or $152 per unit. The LA law required tenants and owners to split a $14 fee per unit. Santa Monica charged $144 per unit.

Justifications cited for adopting rent control. Adoption of rent control has been commonly justified for the following reasons:

- Combating poverty and the shortage of low-rent housing:

  - Rent control advocates argue that without controls rents could rise exorbitantly during a housing shortage which will adversely affect those households with low- or fixed incomes.
  - Nationwide, renter incomes in real dollars have been declining while real median gross rents have been rising since the mid-1970s.
  - Rent control should be used as a means to combat poverty by reducing the burden of rent on low-income households to help them cope with their economic problems.

- Preventing the displacement of low-income households during gentrification and increases in land values:

  - Rent control is the only way to ensure that low-income families can remain in their communities when gentrification causes rental prices to rise exorbitantly. Rent control advocates stress the disruption to social networks when households are forced to leave their communities.
  - In communities that have desirable amenities, a jump in the demand for housing and the influx of higher income families will cause housing prices to soar. Without rent control, low income households would be displaced, disrupting their social networks and commuting patterns.
  - Neighborhoods with high land values necessitate high rents in order to cover high development costs.

- Preventing an increase in rents in areas where new housing supply is blocked by zoning ordinances:

  - Zoning laws that restrict the entry of new rental units into a community create a monopolistic advantage for the existing apartment owners. These owners are able to raise rents above the level that would induce the creation of additional units.
  - Rent control advocates argue that zoning laws can create the two conditions that truly justify rent controls: strong demand and blocked entry of supply. These two conditions served as justifications for the enactment of rent control policies during a time of war.

Delta Associates, "Apartment Data and Analysis of Rent Control for Montgomery County, MD", prepared for the Apartment and Office Building Association, September 2001.

Findings.

- An examination of building permit and assessment data suggests that rent control in Takoma Park has resulted in a reduction in the production of apartments, a reduction in the value of apartments, and a decline in the quality of maintenance of apartments.
- When Montgomery County had rent control between 1973 and 1981, the production of apartments was depressed more so than in other jurisdictions.
- The average annual percent change in assessed value of Takoma Park apartments between 1988 and 2001 was 1.5%. This is compared to 4.0% for Montgomery County during the same period.
- Prior to the enactment of rent control in Takoma Park, the percentage of total building permits issued for single-family and multi-family structures was 46.9% and 53.1% respectively. When rent control was in effect, 68.5% of the total number of building permits issued were for single-family units, while 31.5% were for multi-family structures.

Arnott, Richard, "Time for Revisionism on Rent Control?" *Journal of Economic Perspectives*, Winter 1995, Vol. 9, 99-120.

Findings.

The author distinguishes between the more restrictive 'first-generation" rent controls that were enacted prior to the 1970s and the 'soft, second-generation" rent regulations that were enacted post-1970s. While housing economists have been adamant in their opposition to first-generation controls, the author suggests that opposition to less restrictive, 'well-designed rent control programs" is more muted among today's housing economists. Some features of second-generation rent regulation programs include: automatic percentage rent increases; cost pass-through provisions which permit landlords to apply for rent increases greater than the automatic rent increase; and rate-of-return provisions that permit discretionary rent increases to ensure a 'fair" rate of return. Because of the flexibility inherent in second-generation rent regulations, the author contends that it is inappropriate to generalize about their effects and that they should be evaluated independently of the experience of first-generation controls. For example, he argues that it is misleading to generalize the effects of rent control on other jurisdictions by relying on the New York City experience.

The author critiques a number of empirical studies that have been done to measure the effects of second-generation rent regulations in various jurisdictions. He offers the following conclusions:

- One way to measure the effects of rent control on quality-adjusted rent, quality-adjusted rental housing value, the volume of construction, maintenance, and tenant mobility is to estimate the pre-control behavior of the market and forecast it forward assuming no controls were implemented. The difference between the actual performance of the market and the forecasted performance would determine the effects of the controls. However, the problem with this approach is the difficulty controlling for other influences on the market. These influences could include: the state of the local macroeconomy; government housing and tax policy; and the dynamics of the local real estate cycle.
- Another problem with existing studies is that housing data are inadequate, such as the failure to collect data on maintenance by landlords.
- The comparison of regulated and unregulated rental sectors that exist in the same jurisdiction helps to control for some of the aforementioned market influences. However, the unregulated sector should not be treated as an uncontrolled market because there is a link between the two sectors. For example, if quality-adjusted rent is higher in the unregulated sector it could be due to the difference in the age between the regulated and unregulated housing stock. It is necessary to consider a building's age when comparing rents.

He further concludes that whether second-generation controls are harmful depends on the package of the regulations adopted. Based on his analysis of the existing literature, he believes many of the claimed effects of controls are imperceptible.

Gilderbloom, John I. and John P. Markham, "Moderate Rent Control: Sixty Cities Over 20 Years", *Journal of Urban Affairs*, Vol. 18: Issue 4, 1996, 409-431.

Findings.

- Monthly rents are $72 a month lower in controlled cities, than noncontrolled cities.
- The percentage increase in rents between 1970 and 1990 was lower in rent controlled cities.
- Median incomes are lower in rent controlled cities.
- The percentages of blacks, overcrowded units, and units built before 1940 are higher in rent-controlled cities.
- A slightly higher percentage of rent controlled units are without plumbing and have fewer rooms.
- Moderate rent control has no impact on new construction.
- Rent control tends to reduce the median number of rooms.
- While mild forms of rent control can succeed in limiting extreme rent increases, they are not effective in ensuring affordability.

Heskin, Allan, J. Eugene Grisby III and Ned Levine, "Who Benefits from Rent Control: Effects on Tenants in Santa Monica, CA", *APA Journal*, Spring 1990, 140-152.

Findings.

This paper tests the theory that rent control leads landlords to engage in noneconomic rationing of units. This theory suggests that rent controls provide an incentive for landlords to become more selective in choosing tenants. Landlords will tend to choose more affluent, stable tenants in order to protect their property. This is seen as being detrimental to minorities and low-income people and contributing to gentrification. This study focuses on the question of which groups among Santa Monica's tenant population have benefited from rent control. The following conclusions were made by the authors:

- The actual rent levels in 1987 were 'substantially" lower than what would have been expected if rent levels had increased at the same rate as residential rates throughout the Los Angeles County. While the savings in actual dollars is greater for those who pay higher rents, the savings as a proportion of rent level was very similar across all rent levels.

- There was a definite decrease in the rent burden of those households that pay 40% or more of their income on rent. In 1979-80, the average shelter cost was 34% of annual income. In 1987, the average was approximately 30%.
- The rental household income distribution in 1986 was very similar to the income distribution in 1979. The authors concluded that gentrification appeared to have been attenuated.
- The white renter population increased while the black and Latino populations decreased. The authors suggest that one explanation for this could be an increase in racial discrimination in selecting tenants since the implementation of rent control. However, Census data showed that the black population in Santa Monica was declining since 1970, nine years before rent control took effect. At the same time, the Latino population increased for LA County during the same time that it decreased in Santa Monica.
- The proportion of the population who are elderly increased significantly. This increase is seen as a direct consequence of rent control law. The authors concluded that the law was effective in keeping housing affordable for the elderly.

Office of NY Public Advocate Mark Green, "Rent Destabilization Study: An Analysis of the Fairness to Landlords of Rent Increases Granted by the Rent Guidelines Board for Stabilized Apartments", May 1997.

Findings.

- The rent increases and corresponding income to landlords has kept pace with inflation while data from the Housing and Vacancy surveys reveal that tenant income has dropped.
- The Rent Guidelines Board has regularly granted rent increases that are as high as needed to maintain a reasonable profit.
- The approach to rent stabilization in NYC has successfully created a fairer tenant-landlord relationship in NYC's noncompetitive housing market than would exist without regulation.

Olsen, Edgar. "The Impact of Vacancy Decontrol in NYC", Paper that appears on the NYC Rent Guidelines Board's website.

Findings.

- The distributional effects of vacancy decontrol are likely to be different from the distributional effects of the immediate deregulation of rents. Households with the largest rent discount stand to lose the most under immediate deregulation; however, current occupants of rent regulated units would not necessarily incur costs from vacancy decontrol.

- Vacancy decontrol would lead to higher levels of public services without increased tax rates because it would increase the market values of properties containing newly decontrolled units increasing their assessed values.
- Vacancy decontrol would result in small increases in rent for the majority of rent regulated apartments vacated over the two years after its implementation, except in Manhattan. Apartments with the largest rent discounts are much less likely to be vacated.
- New York City would remain diverse with or without vacancy decontrol. Vacancy decontrol would gradually lead to some changes in who lives where, but these changes would not be massive. In part, this is because it would have little effect on the locational decisions of households living in owner occupied or publicly subsidized housing. In part, it is because the characteristics of households currently living in rent regulated units are surprisingly similar to the households in apartments renting at market rates.

Pollakowski, Henry O.. *Rent Control and Housing Investment: Evidence from Deregulation in Cambridge, Mass*. Center for Civic Innovation at the Manhattan Institute: New York, May 2003.

Findings.

- Investment increased by 20% over what would have been the case if rent control had been maintained.
- Investment increases occurred across a wide variety of settings- both affluent and modest income neighborhoods, varying structure type, and varying concentration of formerly rent-controlled buildings.
- During the first four years after deregulation, substantial upgrading of the buildings occurred with average annual expenditures increasing threefold.
- No neighborhood income distinction or structure type makes a substantial difference in terms of post-deregulation investment.
- 16 to 24 percent of the post-deregulation investment in formerly rent-controlled buildings would not have occurred without deregulation.
- Implications: 'It is impossible to predict the precise magnitude of housing investment increase that NY would experience in the aftermath of complete deregulation. However, the Cambridge experience suggests that if NY's policymakers wish to achieve significant improvements in housing quality they should seriously consider deregulation."

Pollakowski, Henry O.. *Rent Regulation and Housing Maintenance in NYC*. Center for Civic Innovation at the Manhattan Institute: New York, May 1999.

Findings.

- While NY rent stabilization policy encourages preventative efforts to ensure the maintenance of quality housing, these regulations are time-consuming and costly to implement.

- Unregulated rental housing is considerably better maintained that is stabilized housing, however, other dimensions of the rental stock need to be considered, such as age and location of dwellings. Also, the rent discounts for specific dwellings vary across dwellings and over time.

Pollakowski, Henry O.. *Who Really Benefits from NYC's Rent Regulation System?*. Center for Civic Innovation at the Manhattan Institute: New York, March 2003.

Findings.

- The majority of New Yorkers living in subsidized rental housing are not paying rents that are below market price once quality, size, and location are considered.
- Regulated units could not command the same rent as unregulated units in an unregulated market because they are more likely to be older, less well-maintained and have fewer amenities or located in less desirable locations.
- Expanding the supply of housing by deregulation would take pressure off of the unregulated market and would lower rents. Deregulation would not result in an increase in rent equal to the subsidy that exists under regulation.
- Stabilization has virtually no effect on rents throughout most of the city, especially in neighborhoods dominated by low- and moderate-income households. Median rent subsidies (determined by taking into consideration dwelling characteristics) generated by rent stabilization are significantly less than the raw difference between regulated and unregulated median rents.
- Rent regulation makes unregulated rent higher because it channels unmet demand to the unregulated sector.
- Since deregulation would result in a considerable downward pressure on rent in the unregulated market, the greater the extent of deregulation, the lower the new equilibrium rent.

Rydell, C. Peter, C. Lance Barnett, Carol E. Hillstead, Michael P. Murphy, Kevin Neels, and Robert H. Sims. *The Impact of Rent Control on the Los Angeles Housing Market*. Santa Monica: The RAND Corporation, August 1981, N-1747-LA.

Findings.

Based on theoretical analysis, the study identifies five characteristics of rent control laws that play a role in determining the law's effects on the housing stock:

- How long will the law be in effect?
- What is the coverage of the law- which dwellings are subject to it, which are exempt?
- What rent increases are permitted for continuing tenants?
- How much can landlords raise rents when their dwellings turn over?
- Under what circumstances does the dwelling become permanently decontrolled?

Los Angeles' temperate law was shown to have the following effects:

- The effect of rent control city tax receipts is minor. The average annual losses under the law are less than .7% of the city's property tax revenues. The authors concluded that the property tax losses had no substantial effect on the city's ability to maintain and enlarge the infrastructure.
- Total costs to owners are significant and substantially larger than total benefits to tenants.
- Rent control would cause an estimated 2.2% reduction in housing stock due to deterioration in ten years, compared to what would occur without the controls.
- Rent control is an inefficient means of aiding low-income households compared to public assistance programs. Under rent control, residents gained 40 cents per dollar of total owner losses. In comparison, the authors estimated that tenants would have gained 34 cents in net benefits per dollar of public housing program costs; housing allowances produced 82 cents in benefits per dollar in program costs; and cash assistance programs produced 89 cents in benefits per dollar of program costs.

Turner, Margery A.. *Housing Market Impacts of Rent Control: The Washington, D.C. Experience*. The Urban Institute: Washington, D.C., 1990.

Findings.

- D.C. rent control has kept rents lower than they would have been in its absence. The monthly rent for the average unit would range from $50 to $200 higher without rent control.
- Benefits are not spread equitably or efficiently. Affluent renters obtain direct benefits if they stay in a unit long enough. Poor renters pay rents just as high as those in the open market if they have to move.
- Rent control has not eliminated profitability. Investment in D.C. rental housing compares favorably with other alternative investment opportunities. But without controls, gross rent revenues would have been 33% higher.
- The proportion of units that are physically deficient declined from 26% to 20% under the rent control ordinance. The rate of deficiencies was higher among exempt units.
- The size of the rental stock declined precipitously. This decline was comparable to housing stock declines that occurred in many cities without rent control. The supply in rental housing began to increase towards the end of the period studied. The housing inventory was studied between May 1985 and April 1987.

Achtenberg, Emily Paradise. "The Social Utility of Rent Control" in *Housing Urban America*. Aldine Publishing Company: Chicago, 1973.

Published in 1973, the author of this essay discusses a number of questions about the social utility of rent controls that were being enacted throughout the country at the time. In particular, she considers the following questions: how effectively does it accomplish its primary purpose- reducing housing costs to levels more appropriate considering tenants' ability to pay; how equitably and efficiently are the costs and benefits distributed; and, what is the impact of rent control on other housing policy goals?

Findings.

- The effectiveness of rent control at keeping rents low is limited by the existence of pressures on rental costs, including inflationary pressures on the goods involved in housing production, higher tax rates, and increases in interest rates over time. As a result, a reasonable rent control system that permits landlords to continue to earn a 'reasonable" profit cannot go very far toward alleviating a housing crisis. Long-range solutions should instead ideally include a vast expansion of supply or an increase in the purchasing power of tenants.
- Rent control results in inequities within groups of landlords and tenants. Among landlords, inequities arise between those in the controlled and uncontrolled sectors. Owners of uncontrolled housing benefit disproportionately more than owners of controlled housing when there is a shift in demand since they have more freedom to raise rents. Rent control creates inequities among tenants by providing benefits to low-income tenants that reside in controlled housing, while equally 'deserving" tenants outside of the controlled housing are denied protection. In addition, 'deserving" tenants will be denied entry into controlled housing while 'undeserving" tenants inevitably receive benefits by residing in controlled housing.
- A more appropriate redistributive system would tie rent protection to characteristics of housing occupants as opposed to characteristics of housing units. The problem under this system is, absent government subsidies, landlords would most likely be denied a fair rate of return.

Eckert, Joseph K.. "The Effects of Rent Controls on Assessment Practices and Income Adjustment Mechanisms for Rental Housing in Brookline, MA".

This study examined the effects of rent control on Brookline's property tax base over a 12-year period and was conducted by a Brookline assessor.

Findings.

- Intraclass and interclass tax differentials existed in Brookline's tax base prior to the imposition of rent control. Rent control had the effect of eliminating these differentials, resulting in increased tax abatement activity.
- There was an average decline of thirty percent in the taxes paid by rent control properties. The author attributed four-fifths of this decline to the elimination of intraclass differentials and one-fifth to the impact of rent controls.

- The tax-rate increase applied to the entire tax base after the imposition of rent control can be attributed to different sources, including: the elimination of the above-average assessment errors through abatement activity that existed in the rental property tax base prior to the imposition of rent control; the elimination of the original interclass assessment ratio differences; and the continuation of intraclass abatements after the differentials are eliminated. The author does not consider all of these sources to be undesirable effects of rent control since a portion of the rate increase resulted from landlords being unfairly assessed prior to rent control.
- The conversion of rental units to condominiums as a result of rent control may increase the total tax base of the town. The valuation of the single-family class increases at an amount greater than the valuation lost to the rent controlled sector.

Lincoln Institute of Land Policy. Summary of the proceedings, "Rent Control: Its Effect on Housing Availability and Assessed Values", a conference conducted in 1976.

This conference included a half-dozen professionals of various disciplines, including Cambridge city council members, tax assessors and economists. The conference aimed to address the following economic questions: is there an economic argument for rent control arising from a failure of an unregulated market to function effectively; is there a redistributive argument for rent control, or would redistribution be better served through cash transfer programs; what is the cost-benefit trade-off of rent control; and, what is the impact of rent control on property values?

Findings.

- The conclusion was made that economists and politicians look at the issue in a very different light. While economists fault rent control for disrupting the free market, politicians see rent control as serving a function that the free market ignores: protecting the ability of a particular class to remain in a given neighborhood. A city council member from Cambridge, MA described rent control as fully justified for protecting racial minorities, the poor and the elderly from pressure to move out of their neighborhood. This argument was countered on the grounds that rent control may hurt racial minorities because in-migrants to a rent controlled area are disadvantaged by the fact that there is an incentive for residents to remain in their rent-controlled unit. In addition, it was argued that rent control hurts the working class by reducing their mobility and locking them into jobs accessible from their rent-controlled housing.
- One measurement of the effect of rent control on property value is the trend in the gross rent multipliers. When rent control began in Cambridge, properties went for 6-7 times income. But the multipliers began to decline and reached an average of 3.2 six years after rent control was enacted.
- A Cambridge city council member explained that the lack of empirical studies successfully isolating the effect of rent control on assessed values precluded him from opposing rent control. For example, he contended that the loss of

tax revenues on the account of abatements suffered by Cambridge had more to do with high local spending which discouraged business expansion and resulted in a higher tax rate.

- The conclusion was made that much of the disagreement between politicians and economists over rent control depends on different rates of time discount: economists are primarily concerned about the adverse long-term consequences, while politicians are focused on what is happening right now or in the short-term. In addition, the long run distortions to the market warned by economists are not heeded because those who benefit from controls are not convinced that the long-term benefits to everyone that would arise from the abolition of rent control are worth more than the short-term gains to themselves. A preferable alternative would need to be offered to those receiving benefits in order for them to be persuaded to forgo the benefits associated with rent control.

St. John, Michael. "The Distributional Impact of Restrictive Rent Control Programs in Berkeley and Santa Monica, CA".

This study uses Census data to examine the demographic impacts of the restrictive rent control programs in Berkley and Santa Monica. The author tests the notion that rent control is a 'progressive" policy option by demonstrating that it does not benefit those classes of people that were the intended target of the policy: families with children, the elderly, the disabled and lower-income households. The author concludes that it is necessary to reconsider the notion that rent control is a policy essential to the preservation of a community's ethnic, economic and cultural diversity. It appears instead that rent control programs in these cities may have created conditions that inhibited housing opportunities for economically marginal or needy households.

Findings.

- In Berkley and Santa Monica, the number of households receiving public assistance, with below-poverty incomes, blue-collar workers, and less educated people decreased after the first decade rent control programs were in existence. The number of households with upper incomes, having professional and managerial employment, having better educations, and not receiving public assistance increased in these cities over the same time period.
- The demographic changes that occurred in Santa Monica and Berkley are not consistent with the changes that occurred in similar-sized cities in the same vicinity.
- Berkley and Santa Monica both lost rental housing over the decade, while no other comparison cities lost rental units; in fact, most comparison cities gained substantial numbers of rental units.
- The percentage of low- and very low-income households decreased in Berkley and Santa Monica but rose in most comparison cities, while the number of high-income households increased in the two cities. The median income in Berkley and Santa Monica rose by more than the increase in the median income in any of the comparison cities.

- Minority populations increased in the two cities just as they increased in the comparison cities.
- The elderly population increased by 1% in Berkley and decreased by 2% in Santa Monica, but increased in the comparison cities by between 3% and 60%.
- The number of female-headed households declined by 24% in Berkley and 27% in Santa Monica but increased for the surrounding metropolitan statistical areas.
- Only in Berkley and Santa Monica were there major decreases in the number of persons with high school and less than high school educations.

St. John Associates. "The Effects of Rent Control on Local Government Revenue".

This study was conducted in 1988 and measured the effect of Berkley's restrictive rent control program on local revenue collection. The study focused on rent control's impact on business license fees, property taxes, and transfer taxes. The authors also attempted to gauge the administrative costs associated with running the program.

Findings.

- Rent control programs affect tax collection to varying degrees depending on the restrictiveness of the program. Restrictive programs, most notably characterized by no vacancy decontrol provision, have major negative effects on local revenue collection.
- Restrictive rent control programs lead to the conversion of rental units to owner-occupied hosing which compounds the adverse effect of rent control on revenue collection because the lost units are not subject to business license fees.
- Rent control in Berkley diminished tax revenues by approximately $4,000,000 per year as of 1988.
- Rent control programs without vacancy decontrol reduce the value of the income stream by 17 to 34 percent, whereas a program with vacancy decontrol is estimated to reduce the value by 2 percent.
- The study demonstrates that free market rents in the San Francisco metropolitan area increased, on average, with the inflation rate for all items.
- Rent control programs that allow rent increases equal to the inflation rate have no significant effect on property value or property tax revenues.
- California permits an automatic two percent increase in assessed value. If rent control restricts increases in property value below 2 percent, the property owners will request an assessment reduction, effectively further lowering revenues.
- Revenue loss from decreased transfer taxes is proportional to the loss in property value caused by rent control since transfer taxes are generally a proportion of sale price.
- Whether or not administrative costs directly reduce funds which would otherwise be available for other government functions depends on the program structure. Programs that are paid for through the general fund directly reduce revenue, whereas programs that charge property owners a per-unit fee to fund

the program may not directly reduce government funds; however, these fees could represent property-based income that could potentially be available for other purposes.
- The author estimates a per unit subsidy that could have been afforded with the amount of tax revenue foregone as a result of rent control.

St. John, Michael. "The Impact of Rent Controls on Property Value".

The study conducted in the late-1980s tested the effects of a variety of rent control programs on the market value of residential income property. Three cities (Berkeley, Hayward and Oakland) with rent-control programs that range from most to least restrictive were studied against non-rent-controlled cities; all cities are located in the same county.

Findings.

- Berkley was considered to have the most restrictive program because it did not allow rents to increase at the inflation rate and did not permit vacancy decontrol. The results suggest that after 10 years of regulations, the value of residential property in Berkley was 50% less than the value that would have been expected absent rent control.
- In the less restrictive cities, property values were found not to have been significantly affected by rent control.
- Berkley had the highest price per unit and price per square foot at the beginning of the study period, but had the lowest prices by the end of the study period.
- The decline in property value in Berkley was unique to multiple-unit properties and did not carry over to single family units.
- In every other city studied, real values of single-family homes and multiple-unit properties rose over this time period.
- The use of a control set- single-family units in Berkley- allowed the author to conclude that the decline in property values of multi-unit properties is a result of rent control.
- In the cities with less restrictive rent control programs, the value of apartments rose and fell along with the values of single-family homes and other rent control exempt housing, allowing the author to conclude that moderate rent control has no discernable effect on property value.
- Whether measured by price per unit or price per square foot, real values of Berkley apartments were lower in 1988 than they were in 1970, whereas real values of apartments in the surrounding cities were double their 1970 value in 1988.
- The average decline in value per unit was estimated to be at $32,690 in Berkley. This was determined by assuming that Berkley's property value would have increased at the same rate as the property in the non-controlled cities. The aggregate value lost citywide was estimated to be over $600 million.

Sternlieb, George, and John W. Hughes. "Rent Control's Impact on the Community Tax Base" in *America's Housing: Prospects and Problems*. Center for Urban Policy Research: Rutgers University, 1980.

This essay published in 1980 details a study of the effect of rent control on the tax base of Fort Lee, New Jersey. Fort Lee enacted a rent control ordinance in 1972 that prohibited annual rent increases in excess of the CPI or 2.5%, whichever is less.

Findings.

- Rent control is not a two-party transaction between tenants and landlords, but a three-party transaction with all other taxpayers in the community forced to bear the costs of the rent control subsidy.
- The authors estimated that from 1970 to 1976 the proportion of income consumed by expenses for multi-dwelling properties rose from 41% to 56.6%.
- For the building that served as the model for measuring changes in property value, the gross rent multiplier (capitalized value divided by total income) declined from 5.67 in 1971 to 4.21 in 1976.
- If a community does not want new apartment construction, rent control could be endorsed to achieve this goal and may be considered preferable to exclusionary zoning.
- Apartment tax appeals rose from 6.5% of total valuation in 1973 to 25% of total valuation in 1977. The potential tax impact of these appeals rose from $655,843 in 1973 to $4,709,939 in 1977. When these appeals are taken into consideration, the proportion of total assessed value made up by apartments declined from 50% to 42.8%. Thus, the balance of real property in the community must compensate for this gap.

Studio Spring 2000 (UMD). "Affordable Housing in Takoma Park".

The Spring 2000 Community Planning Studio of the University of Maryland's Urban Studies Planning Program examined a range of issues related to the availability of quality affordable housing in Takoma Park.

Findings.

- Most landlords in Takoma Park are unsatisfied with the Rent Stabilization program and do not believe they are making a reasonable profit.
- Seventy percent of landlords surveyed said they do not file petitions for rent increases when making capital improvements.
- Eighty-two percent of landlords responded that the city council was not responsive and is too pro-tenant.
- Sample properties in Takoma Park are better maintained than sampled properties in adjacent areas when evaluated from the exterior.
- The majority of landlords do not charge the highest allowable rent under the rent stabilization policy and the majority of landlords charge 70% or more of

the highest allowable rent level. This could suggest that the rent control policy is not depressing rents below market level.

Weitzman, Phillip. "Rent Controls and the Community Tax Base: A Critique of the Empirical Literature".

Weitzman believes that empirical studies of rent control's affect on the tax base which rely upon tax assessments or assessment appeals as indicators of the effect of rent control are flawed and inconclusive.

Findings.

- There may not be a one-to-one correspondence between the implementation of rent controls and the market value of apartment buildings. Other factors that can lead to decreased capital values should be considered, including: higher interest rates; higher rates of taxation; decreased economic prospects for the region; and decreased prospects for the neighborhood in which given properties are located.
- The most widely publicized study of rent control's effect on the community tax base ('Rent Control's Effect on the Community Tax Base", by Sternlieb and Hughes) suffers from a number of flaws. First, the study relied on unaudited data submitted by apartment owners. Weitzman believes these data are unreliable since apartment owners likely submitted such data for the purposes of obtaining monetary benefits. Weitzman believes that only independently audited financial statements can truly reflect changes in a landlords' net income situation. Second, the study assumed that landlord tax appeals were the direct result of declining market values and did not investigate actual changes in apartment building values. Weitzman criticizes Sternlieb and Hughes for not considering potential flaws in the assessment process which would lead to discrepancies between assessment results and actual market value. Third, Sternlieb and Hughes failed to examine the effects controls may have had on values of other taxable real properties in the community.
- Weitzman believes one reason why the assessment process may fail to accurately reflect market value is the finding that landlord groups often encourage property owners to avoid filing hardship petitions and file abatement petitions instead. This is because many rent control boards require significant documentation, property inspections and public hearings when considering a petition. The abatement process is generally cheaper, less time consuming and requires less scrutiny.
- Weitzman criticizes another study for assuming that, absent rent controls, taxes for apartments would have amounted for the same percentage of total taxes seven years after rent control was adopted. The study in question compared the rate of growth in assessments for apartment buildings in rent controlled and noncontrolled cities in New Jersey. The study's author found that the growth rate for assessments of apartment buildings was far superior in noncontrolled than controlled cities. Weitzman contends that there is no basis to assume that any loss in the percentage of taxes paid by apartment owners is prima facie a result of rent control.

- The author concludes that the assessment process does not accurately track changes in the market value of residential rental properties for a number of reasons: assessment reductions may be a result of procedures, formulas or assessor sympathies that do not relate to trends in market value; assessment trends could reflect inequities that predated rent control; landlords could bypass hardship adjustments in favor of assessment appeals; there is a general unavailability of audited income expense data to researchers; and there is a need to take into consideration the effects of general reassessments over long periods of time.

7. Analysis of Multi-Family Housing Assessed Property Value

As discussed in Section 4, rent control policies are believed to suppress the assessed property value of multi-family housing units. The value of multi-family housing is assessed according to income-generating potential. By artificially limiting income-earning potential through restricting rent increases, rent control can have the effect of suppressing assessed property value. In addition, rent control can limit property owners' ability to invest in their housing which can have the effect of further inhibiting growth in assessed value.

TRENDS IN THE ASSESSED VALUE OF TAKOMA PARK APARTMENTS

Table 7-A shows the trend in Takoma Park's total assessed value by property classification for the 2000-2004 levy years. The assessed value of Takoma Park apartments has increased from approximately $88 million in 2000 to $96 million in 2004; however, apartments' percentage of total assessed value has declined from 11.6 percent in 2000 to 8.5 percent in 2004.

Table 7-A. Takoma Park Total Assessed Value (A.V.) and Percent of Total Assessed Value by Property Classification for Levy Years 2000-2004 (in millions)

	Levy Years									
Class of Property	**'00 Total A.V.[9]**	**'00 % of Total**	**'01 Total A.V.**	**'01 % of Total**	**'02 Total A.V.**	**'02 % of Total**	**'03 Total A.V.**	**'03 % of Total**	**'04 Total A.V.**	**'04 % of Total**
Residential	580.97	76.0%	641.75	77.5%	700.92	78.5%	760.72	79.5%	917.36	81.1%
Residential/Condominiums	7.38	0.9%	9.10	1.1%	10.82	1.2%	12.54	1.3%	19.10	1.7%
Commercial	80.61	10.5%	81.69	9.9%	83.71	9.4%	84.99	8.9%	92.64	8.2%
Industrial	.41	0.05%	.28	.03%	--	--	--	--	--	--
Apartments	88.80	11.6%	89.89	10.8%	91.57	10.3%	91.42	9.6%	96.33	8.5%
Other	6.10	0.8%	5.80	0.7%	5.94	0.7%	6.98	0.7%	6.36	0.6%
Total	***764.27***	***100%***	***828.52***	***100%***	***892.95***	***100%***	***956.65***	***100%***	***1131.79***	***100%***

[9] Beginning in 2001, data are presented at the 100 percent level. Data prior to 2001 are restated to reflect 100 percent value.

Table 7-B compares the trends in total assessed value by property classification for Takoma Park and Montgomery County. Panel 1 demonstrates that between 2000 and 2004 the total assessed value of residential properties in Takoma Park increased by 57.9 percent while the total assessed value of apartments increased by only 8.5 percent. In comparison, between 1999 and 2003 the total assessed value of apartment properties countywide increased by 11.8 percent.

Panel 2 of Table 7-B compares the change in each property classification's share of total assessed value. Between 2000 and 2004, the share of Takoma Park's total assessed value made up by apartment properties declined by 26.7 percent. This compares to a decline of 6 percent in apartment properties' share of the county's total assessed value.

Table 7-B. Percent Change in Total Assessed Value and in Percent of Total Assessed Value by Property Classification

	1. Total Assessed Value	
Class of Property	**Takoma Park between 2000 and 2004**	**Montgomery County between 1999 and 2003**
Residential	57.9%	16.3%
Commercial	14.9%	31.1%
Apartments	8.5%	11.8%
Total Base	***48.1%***	***18.1%***
	2. Percent of Total Assessed Value	
Residential	6.7%	-1.4%
Commercial	-21.9%	11.7%
Apartments	-26.7%	-6%

SOURCES: Takoma Park Assessment data provided by the Montgomery County Dept. of Finance; Montgomery County data are from the 2003 Montgomery County CAFR

TRENDS IN THE NUMBER OF RENTAL UNITS

The number of Takoma Park rental units has declined by 14 percent since 1990 from 3924 renter-occupied units in 1990 to approximately 3366 units in 2004 (Table 7-C). It is important to consider if this trend is directly attributable to the rent control policy. By limiting the profit potential of rental housing, Takoma Park's rent control policy may be creating an incentive for property owners to convert rental stock into single-family homes or condominiums. As a result, the policy could be contributing to a decline in the number of available affordable housing units.

Table 7-C. Total Number of Renter-Occupied Units

	Count of rental units
1990	3924
2000	3765
2003	3339
2004	3366

SOURCES: 1990 and 2000 data from the U.S. Decennial Censuses; 2003 and 2004 data provided by Takoma Park City staff.

Appendix 1: List of the Comparable Properties for the Fiscal Implication Analysis (Section 4)

NAME	STREET
MONTGOMERY ARMS APARTMENTS (GARDEN)(UNDER RENOVATION)	8712 COLESVILLE RD
ST. CHARLES APARTMENTS	8710 CAMERON ST
CORONA	714 SLIGO AVE
PARKSIDE TERRACE APTS.	506 EASLEY ST #T3
GOODACRES APARTMENTS	8619 PINEY BRANCH RD
PINE RIDGE APARTMENTS	8617 PINEY BRANCH RD
SLIGO CREEK APARTMENTS	8804 MANCHESTER RD
TANGLEWOOD APARTMENTS	8902 MANCHESTER RD
MONTERREY APARTMENTS	7925 CHICAGO AVE
STRATFORD TERRACE (UNDER RENOVATION)	9061 MANCHESTER ROAD
THAYER TERRACE APARTMENTS	525 THAYER AVE
PARK WAYNE APARTMENTS	2 MANCHESTER PLACE
CARROLL APARTMENTS, THE	8733-8739 CARROLL AVE
FOXHALL	8715 PINEY BRANCH RD
QUEBEC TERRACE, 1010	1010 QUEBEC TERRACE
PLYMOUTH STREET, 8804-8806	8804 PLYMOUTH ST
OAK RIDGE APARTMENTS	1028 QUEBEC TERRACE
NORTHWEST PARK	475 SOUTHAMPTON DR

FLOWER BRANCH	8628 PINEY BRANCH RD
BRADFORD ROAD, 8808-8810	8808 BRADFORD RD
SLIGO HILLS APARTMENTS	9000 MANCHESTER RD
SILVER SPRING AVENUE, 610-12-14	610 SILVER SPRING AVE
UNIVERSITY MANOR APARTMENTS	820 UNIVERSITY BLVD, EAST
NOLTE AVENUE APARTMENTS	8200 NOLTE AVE
ROUND HILL APARTMENTS	8584 FREYMAN DR
COLE SPRING PLAZA	1001 SPRING ST
GEORGIAN TOWERS	8750 GEORGIA AVE
TWIN TOWERS	1110 FIDLER LA
BLAIR EAST APARTMENTS	1220 EAST WEST HIGHWAY
BLAIR HOUSE APARTMENTS	8201 16TH ST
BLAIR PLAZA APARTMENTS	1401 BLAIR MILL RD
SILVER SPRING TOWERS	816 EASLEY ST
CLARIDGE HOUSE	2445 LYTTONSVILLE RD
PARKSIDE EAST	710 ROEDER RD
SUMMIT HILLS APARTMENTS (HIGHRISE)	1701 EAST WEST HIGHWAY
COLESVILLE TOWERS	8811 COLESVILLE RD
CHATEAU, THE	9727 MOUNT PISGAH RD
SPRINGWOOD	1220 BLAIR MILL RD
SUBURBAN TOWERS	8600 16TH ST
COLE SPRING PLAZA	1001 SPRING ST
GEORGIAN TOWERS	8750 GEORGIA AVE

MONTGOMERY ARMS APARTMENTS (MR)(UNDER RENOVATION)	8712 COLESVILLE RD
SILVER SPRING HOUSE	555 THAYER AVE
SLIGO HOUSE APARTMENTS	603 SLIGO AVE
MONTGOMERY TOWERS	415 SILVER SPRING AVE
KEN MIL	9119 MANCHESTER RD
BARBIZON APARTMENTS	735 SLIGO AVENUE
DALTON APARTMENTS	733 SLIGO AVE
HILLBROOK TOWERS	515 THAYER AVE