

# THE LOCAL IMPACT OF RENT CONTROL





## Local Dilemma

Holding the line on property taxes while providing top-notch services to New Jersey residents is getting harder for mayors and local elected officials each year. At the same time, the State of New Jersey is still struggling with obligations such as pension payments, school funding, and efforts to keep businesses in-state. For mayors and local officials, this means that the future of state assistance for local governments looks bleak.

In the face of dwindling state assistance and already high property taxes, how can local leaders improve their municipalities, increase investment and revenues, and elevate the quality of life of their constituents? One solution is to phase out rent control.

## How Rent Control Impacts You, Your Constituents, and Your Municipality

Rent control is a government-instituted policy that limits rent increases. Unfortunately, this hampers reinvestment, stagnates property values, and limits property tax revenues. Apartment communities require constant reinvestment to maintain their residents' quality of life and safety. But when rent is drastically limited due to rent control, reinvestment is inhibited and property values stagnate. As an elected official, this impacts your bottom line and shifts the property tax burden disproportionately onto homeowners.

## Hidden Shift in the Property Tax Burden Due to Rent Control

Property taxes provide the much-needed funding for the services and governance your constituents expect. When multifamily property values stagnate due to rent control, the property tax burden disproportionately falls on homeowners to make up that lost revenue. Specifically, if rents were not restricted on apartment communities in your municipality, those property values would rise accordingly -- and so would the property tax revenue. Phasing out rent control would mean the burden of property tax increases would fall fairly on all residents in your municipality.



## Phasing Out Rent Control: How and Why

Slowly phasing out rent control protects existing tenants from increases in rent, while still encouraging reinvestment in apartment communities. This is called permanent vacancy decontrol. Permanent vacancy decontrol limits rent increases for existing residents, but as each unit goes vacant, it allows the rent on that vacant unit to become market rate.

This gradual increase in rents will allow property owners to reinvest in their properties. Given the competition for quality apartments, property owners are incentivized to make improvements, upgrade appliances, and add amenities. As a result, this improves the overall quality of the apartment community. As the quality of the apartment community improves, property values go up. When property values increase, so do property tax revenues.

## Conclusion

It is rare that a simple policy change can help a local government improve the quality of life for its residents, meet constituent demands for comprehensive services, and keep property tax increases at bay. But, by phasing out rent control: reinvestment increases; the quality of affected multifamily properties improves; the quality of life for those tenants improves; multifamily property values increase; and property tax revenues increase.

# Q&A



## Q: What is rent control?

**A:** Rent control is a government mandate that sets a maximum allowable rent on rental units. In New Jersey, this is done at the local level. It suppresses the standard of living and quality of life for those living in rent controlled units; decreases the local property tax base; and leads to housing shortages. Most of the nation has abandoned antiquated rent control regulations for innovative affordable housing policies. Yet, New Jersey is one of only four states (NY, NJ, MD, and CA), along with Washington, D.C., that still impose rent control. In fact, 35 of the 46 states without rent control have affirmatively enacted legislation prohibiting local governments from imposing it.

## Q: What is permanent vacancy decontrol?

**A:** Permanent vacancy decontrol removes outdated price limits on rent controlled units only after those units are vacated by the tenants. This gradually phases out rent control while protecting the residents that are currently living in rent controlled apartments.

## Q: What are real life examples of towns in New Jersey that benefited from permanent vacancy decontrol?

**A:** Permanent vacancy decontrol has been implemented in municipalities across the State of New Jersey by both Republican and Democratic municipal councils and mayors, and most recently in:

Bayonne (Hudson County); Cherry Hill (Camden County); Eatontown (Monmouth County); Hamilton (Mercer County); and Hammonton (Atlantic County). In each of those municipalities, we saw increased investment in housing without displacing current residents.

## Q: How has rent control negatively impacted New Jersey?

**A:** Rent control negatively impacts property values, assessed values, capital improvement and maintenance expenditures. More specifically, NJAA recently commissioned a study to assess the economic impact of rent control. Results concluded that property values would be \$3.2 billion higher and assessed values of those properties would be \$2.2 billion higher but for rent control. Furthermore, the study estimated that rent control curtailed capital improvement investment in apartment communities by \$18 million annually; reduced annual maintenance expenditures in apartment communities by approximately \$23 million; and lowered the quality of living in apartment communities.



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