City of Hyattsville Rent Stabilization Comments

Monday, September 16, 2024

The Apartment and Office Building Association (AOBA) of Metropolitan Washington is the leading non-profit trade association representing the owners and managers of approximately 155 million square feet of commercial office space and 430,000 residential units across the Washington Metropolitan region. AOBA represents members that own or manage more than 23 million square feet of commercial office space and 133,000 apartment rental units in Montgomery and Prince George's counties. On behalf of its member companies, AOBA submits the comments below on the proposed Rent Stabilization Ordinance for the City of Hyattsville.

AOBA understands the Council's desire to pass rent stabilization to keep tenants housed in the City of Hyattsville. **However, passing a more restrictive law than the county is premature given that the county law has not yet taken effect and its impacts to the county's housing market and economy have not been assessed.** Additional regulation on housing providers in Hyattsville will be a significant deterrent to economic development in the city, which will stifle housing supply, deter direct investment, and will lead to deferred maintenance of current properties.

<u>Flat CPI is far too restrictive</u>

AOBA worked closely with Prince George's County councilmembers and staff to bring a medium in rent cap increases. A stricter rent cap on units in Hyattsville will directly contradict the effort the county made in the writing of its policies. While AOBA believes there are concerns that remain in the final county bill, AOBA's primary concerns lie with a stricter rent cap. A flat rate set to the Consumer Price Index (CPI) does not allow housing providers to keep up with rising operating expenses such as utility regulations, insurance premiums, Building Energy Performance Standards (BEPS), and other legislative mandates.

Utility costs accumulate and according to the Decarbonizing Strategy study prepared for the State, decarbonizing Maryland would require approximately $30 billion in Electric Transmission & Distribution (T&D) infrastructure upgrades in order to deliver the increased electricity supply to customers. This cost includes new feeders, upgrading existing feeders, and building new or upgrading existing substances. As for insurance premiums, the Bipartisan Policy Center notes, between 2020 and 2023, multifamily insurance rates increased by an average of 12.5% annually leading to financially unviable apartment projects and operations.

Also, as we discuss rent stabilization, it is critical to remember any new regulations on multi-family properties must be seen within the context of Building Energy Performance Standards (BEPS). This is one of the legislative mandates we are the most concerned about as our members and their tenants will be forced to comply at an estimated cost of $20,000+ per unit. This estimate is based on case studies from members and Steven Winters

Associates (SWA). We note that SWA is the same consulting firm that Montgomery County used to produce their BEPS Technical Report, regarding the cost of complying with Montgomery and District of Columbia BEPS. Working with AOBA, SWA, examined the cost of BEPs in specified units. The costs do not include heavy-up costs required to increase electrical capacity at the property. In both case studies, the marginal costs of meeting BEPS is an increase of nearly $44 per square foot or 400% above the cost of doing nothing. For a comparison, the Council is welcome to find more information about the cost in Montgomery County at this link.

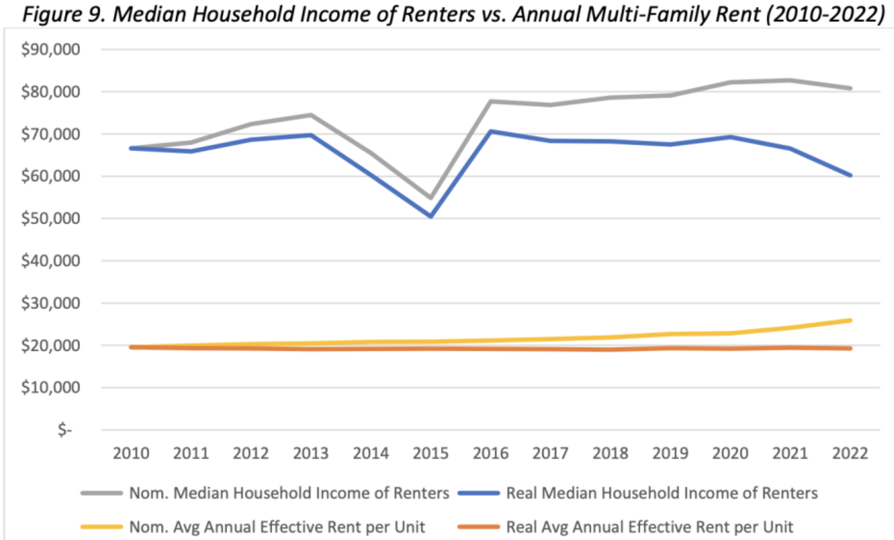
Directed to the County law, we are also concerned about the definition of capital improvements in the County's rent stabilization law. The County law defines capital improvements as "permanent structural alterations." This definition should be changed to "permanent physical alteration" to better align with the improvements necessary to comply with Maryland Building Energy Performance Standards (BEPS).

As for other legislative mandates, the County has required security cameras to be placed in most apartment buildings. The cost of providing security camera installation amounts to about $1 million. Much of the cost comes from installation, hardware, and labor costs, in addition to creating infrastructure to support data storage and Wi-Fi capabilities for the cameras. This is just the upfront cost required for this endeavor for one property with no financing or payment plan to pay this cost over a 45-day-to-six-month period.

Not a rent problem but a wage problem

In neighboring Montgomery County, the City of Rockville commissioned a study to explore rent stabilization in their city. According to the staff report, real average rents in Rockville between 2010 and 2022 have been relatively flat, while real median household income declined over the same period.

Figure 9. Median Household Income of Renters vs. Annual Multi-Family Rent (2010-2022)



Source: CoStar; U.S. Census ACS 1-Year Estimates; Federal Reserve Bank of Minneapolis Inflation Calculator

The Enterprise report that the City of Hyattsville commissioned examined rent growth between 2016 – 2021 but did not compare the rent growth to inflation over the same period. Furthermore, that analysis is incomplete because it looks at a short time period that is partly distorted by the pandemic. AOBA encourages the Council to examine both nominal and real increases versus wage growth between 2010 – 2022 like Rockville did.

Administrative Costs

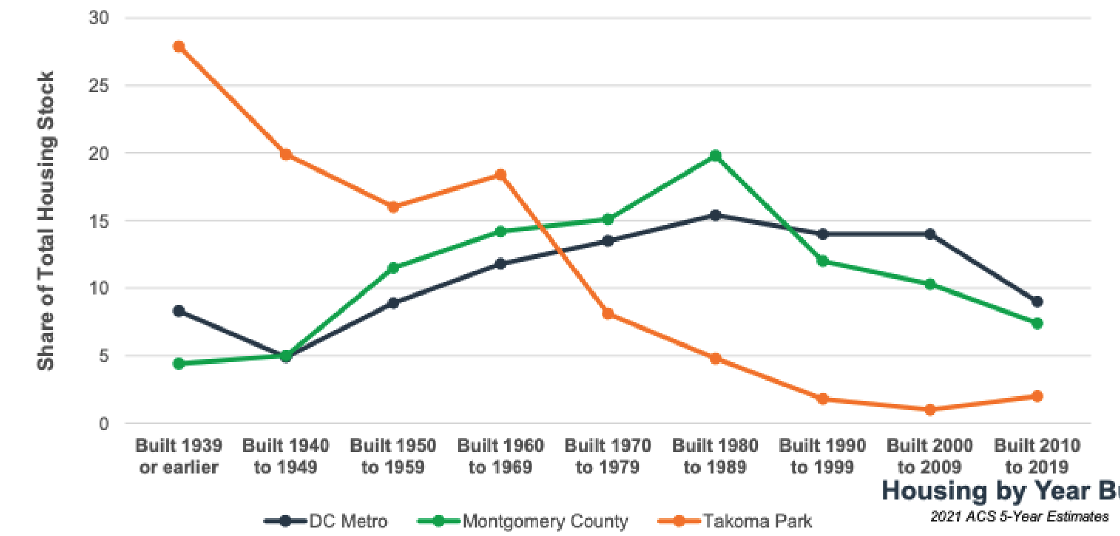
The City of Hyattsville does not have an appropriate number of staff to work with any new regulation in addition to county regulations. For reference, Montgomery County Government allocated nearly $1million dollars for 10 new positions to help implement rent stabilization. Prince George's County faces similar hurdles with their final law. As proposed, HCC-065 anticipates nearly a quarter of a million dollars in the FY25 budget to meet staff expectations. Respectfully, AOBA believes this cost will be at the low end as full-time staff and software development fees will increase year over year, especially as potential delays of implementation are inevitable as seen in Montgomery and Prince George's County.

Hyattsville will see a continuation of decreasing property values for multifamily buildings and the County will see a drop off in recordation taxes in the County. In 2022, Prince George's County saw 22 transactions totaling just over $1.3 billion dollars in sales. As of 2023, post temporary rent stabilization in Prince George's County, there were only two sales totaling $34.6 million. The County effectively saw a 97 percent change in year over year total sales volume. Between FY2022 and FY2025, the County will see a rough loss of $77 million in transfer and recordation taxes. This lost revenue will directly impact the County and the City's ability to provide services, beautification, and housing opportunities to residents.

Reduction of Housing Supply

The City of Hyattsville has taken big steps to bring new investment and economic development to the city. Since 2004, the city has successfully begun to implement the Gateway Arts District Sector Plan, a second draft of the West Hyattsville-Queens Chapel Sector Plan (WHQC) and a West Hyattsville Transit District Development Plan in the West Hyattsville Transit District Overlay Zone (TDOZ). However, if rent stabilization is to move forward, there will be a negative impact on the current living conditions of residents in multifamily units. The city is proposing to exclude renovated rental properties from any exemption of the rent stabilization policy unless the renovation adds at least 10 percent to the floor area of the unit. That is an unfairly high bar for housing providers of some of the oldest buildings in the city to meet. Yet, at the same time, the second draft of the WHQC sector plan notes the city should "work closely with property owners, the Cities of Hyattsville and Mount Rainier, and Prince George's County to retain key multifamily developments and to ensure continued maintenance, rehabilitation, and rent stabilization of strategically located multifamily housing throughout the sector plan area." Rent regulations will directly contradict the housing goals set forth in the WHQC sector plan draft.

If the city aims to work with property owners and aims to ensure maintenance and the rehabilitation of properties throughout the city, the bar must be removed. Housing providers can only rehabilitate and provide tenants with the ability to live with dignity if they can recoup their expenses. Anything outside of this will only push housing providers away from reinvesting in their property and eventually lead to the displacement of hundreds of tenants. When neighboring jurisdictions like the City of Takoma Park is examined, the city has not seen new development since the 1970s. Moreover, a 2024 report from the National Multifamily Housing Council notes that rent regulations incentivize conversions of properties that effectively remove housing choices from renters leading to a dwindling supply of units in the long run.



Housing by Year Built
2021 ACS 5-Year Estimates

Vacancy Control

Additionally, AOBA is concerned about the vacancy control provisions of any rent stabilization law, and particularly for tenants that are evicted for failure to pay rent or a breach of lease. We note that the cost of turnover for a two-bedroom unit in Prince George's County can be up to two months' rent, at a minimum. Housing providers have a built-in disincentive to avoid the eviction process, especially because the average length for an eviction is 146 days in Maryland and during the 2024 legislative session, the state of Maryland raised the fees to file for an eviction. If the housing provider is forced to evict, thousands of dollars can be added in legal costs and lost rent.

In Prince George's County, evictions can take closer to 6 months or 180 days. There is a high bar for landlords to bring a breach of lease case to the courts. This can be illustrated by Maryland's Department of Housing and Development data showcasing the difference in the amount of failure to pay rent (FTPR) cases versus the amount of breach of lease cases, 27,719 compared to 242 respectively. Nearly half (11,227) of FTPR cases are cancelled or expired, with 51 breach of leases cases canceled. Most importantly, between 15 and 25% of both cases make their way to a final eviction court order. This is seen clearly with 4,180 failures to pay rent cases moving to an eviction court order and 58 breach of lease cases. Keep in mind that data is from courts, so there are almost certainly cases of folks moving out before sheriff-initiated evictions. One study found that vacancy controls led to a decline in the supply of rental units while similar jurisdictions with no vacancy control saw an increase in rental housing supply.

Conclusion

Rent regulations can almost certainly be a net negative for the residents of the city and its housing providers. Long-term rent regulation will not reduce the cost of renting and in the long run, this policy will further dwindle housing supply. Both the city of Hyattsville and Prince Georges County may see difficult budget years soon and the loss of further investment into the locality will only exacerbate the shortcomings of local government services. **The only way to truly examine the outcome of rent regulation in Prince George's County is to allow for the already passed county law to take effect, study and assess the market's reaction.** To be clear, rent regulation from the City of Hyattsville, without any other policy initiatives to combat low supply would be premature and negatively affect the city's residents.

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