

The Case Against Rent Regulation

**Presentation to the Prince George's County Rent
Stabilization Work Group**

Thursday, July 13, 2023



Introductions

AOBA's member companies own and manage **66,000 apartment units** in Prince George's County, accounting for **over half of the County's total rental housing stock and roughly 20% of the County's overall housing stock.**



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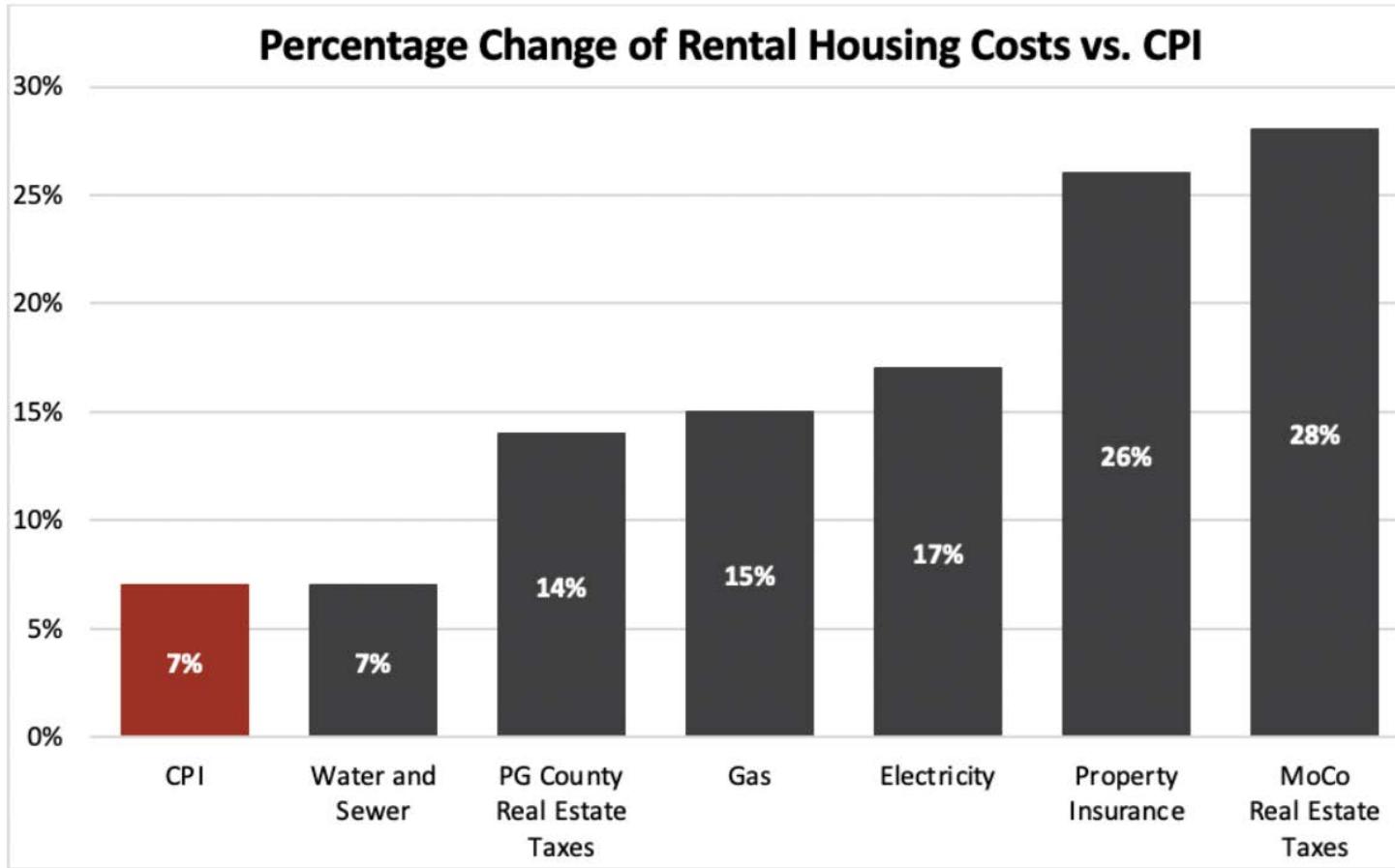


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The Costs of Providing Housing Have Skyrocketed



Rent Regulation Challenges the Multifamily Rental Housing Financing Model

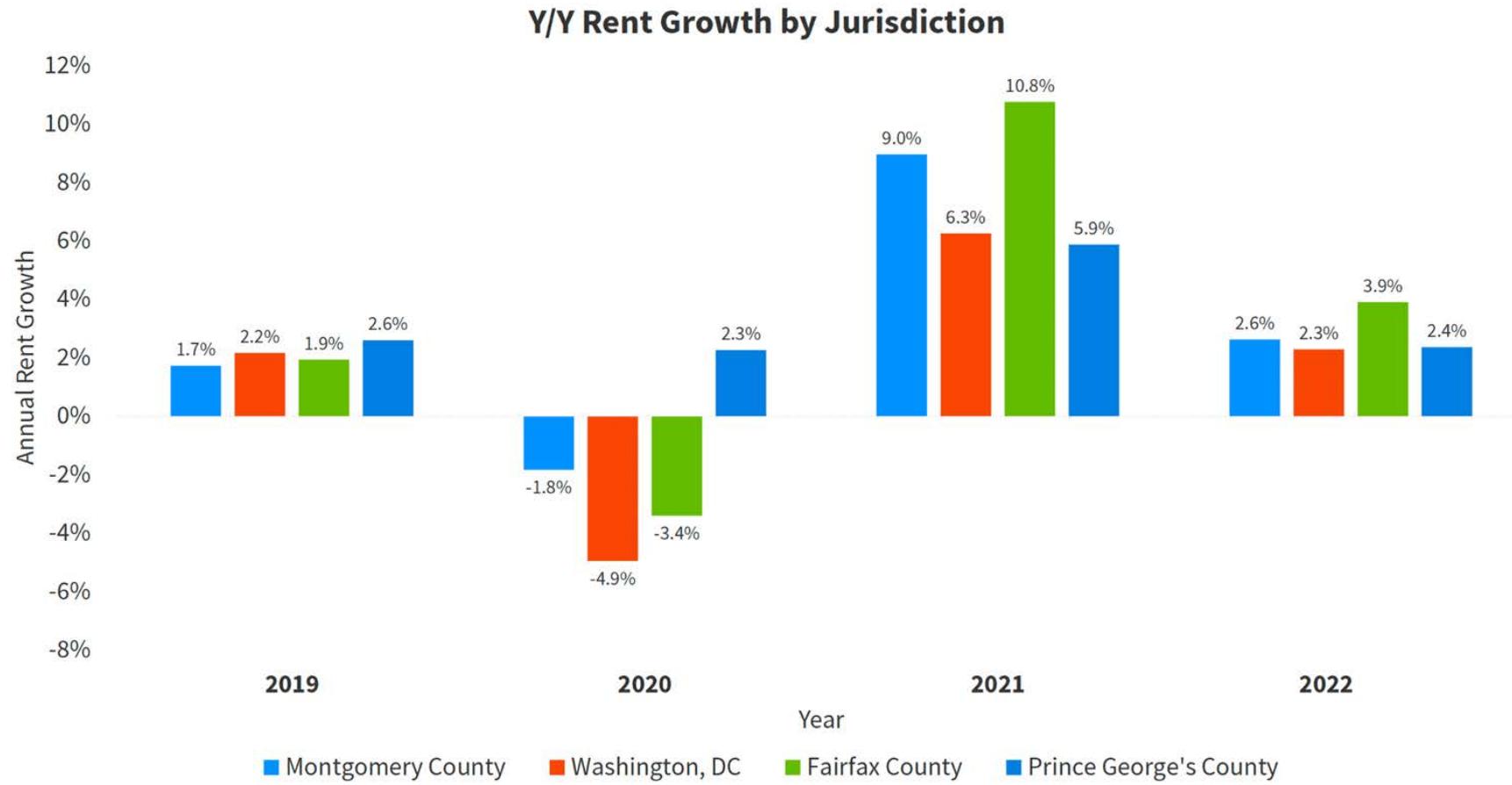
- Interest rates have risen exponentially and continue to climb
- Multifamily revenues (rents) are stagnant and even declining
- Financiers are requiring investors bring more capital to the table

These difficult refinancing conditions create a perverse incentive to sell or reposition older naturally occurring affordable housing communities

Impact of Legislative Mandates on Housing Affordability

- Maryland State Benchmarking requirements
- Fire Sprinkler Mandate for high-rise apartment buildings
- Montgomery County BEPS
- Prince George's County Security Camera requirement (Held by PHED Committee)

Market Overview



The Shortcomings of Rent Regulation as a Policy Approach to Housing Affordability

Table 1. Empirical Studies of Rent Control and Rent Stabilization
(By Publication Date)

Authors (Date)	Geographical Areas
Olsen (1972)	NYC
Rydell et al. (1981)	Los Angeles
Fallis and Smith (1984)	Los Angeles
Mengle (1985)	Multiple
Navarro (1985)	Cambridge, MA
Linneman (1987)	NYC
Peat Marwick (1988)	NYC
Gyourko and Linneman (1989)	NYC
Ault and Saba (1990)	NYC
Gyourko and Linneman (1990)	NYC
Levine, Grisby and Heskin (1990)	Santa Monica
Turner (1990)	Washington, DC
Rappaport (1992)	NYC
Caudill (1993)	NYC
Honig and Filer (1993)	NYC
Moon and Stotsky (1993)	NYC
Ault, Jackson and Saba (1994)	NYC
Nagy (1995)	NYC
Malpezzi (1996)	Multiple
Gissi (1997)	Multiple
Grimes and Chressanthis (1997)	Multiple
Nagy (1997)	NYC
Early and Phelps (1999)	Multiple
Early (2000)	NYC
Glaeser (2002)	California, New Jersey
Glaeser and Luttmer (2003)	NYC
Krol and Svorny (2005)	New Jersey
Sims (2007)	Boston
Sims (2011)	Boston
Diamond, McQuade and Qian (2017)	San Francisco

Rent Stabilization:

- Limits supply
 - Disincentivizes development
 - Encourages conversions
- Decreases quality
- Increases jurisdiction-wide rents
- Poorly targets low-income renters

San Francisco, CA

Background:

- 1979: rent control enacted
 - Exempted new construction
 - Only buildings with 5+ units
- 1994: rent control expanded to include small multifamily

Results:

- Landlords 8 percentage points more likely to convert
- Rent controlled housing supply dropped 15 percent, leading to an overall increase in rents
- Redeveloped housing filled by residents with 18% higher income
- Renters citywide lost \$2.9 billion (2010 dollars)
- 42% of negative effects born by future residents

Source: Diamond, McQuade, & Qian, "The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco" (2018), *Published by National Bureau of Economic Research* (Researchers from Stanford University)

Cambridge, MA

Background:

- 1970: Rent control enacted on pre-1969 units
 - Restricted removal of units from market
 - Rent-controlled rates 40% lower than market rate
 - No vacancy decontrol
- 1994: MA prohibits rent control statewide

Results:

- Average property value rose 16%
- Decontrolled apartment values up 18-25%
- Non-controlled units near RC gained 13% more than others
- Total values rose \$2.0 billion between 1994 and 2004 (2008 dollars)

Source: Autor, Palmer, Pathak, "Housing Market Spillovers: Evidence from the End of Rent Control in Cambridge, Massachusetts" (2014), *Published by University of Chicago Press* (Researchers from M.I.T.)

St. Paul, MN

Background:

- 2021: Rent stabilization enacted
 - 3% percent cap
 - No vacancy decontrol
- 2022: City council weakened rent control policy because of unintended consequences

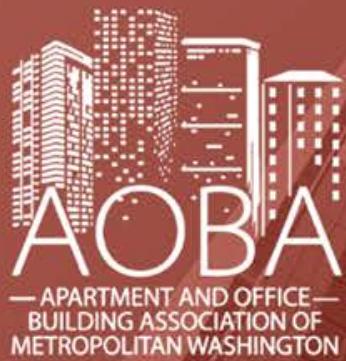
Results:

- Property values decreased 6-7%, aggregate property value lost \$1.6 billion
- Largest winners were white, high-income renters
- Largest losers were minority, low-income owners
- Transfer of wealth from high-income owners to low-income renters was close to zero
- New multifamily building permits declined 80% ([MinnPost](#))

Source: Ahern and Giacoletti, "Robbing Peter to Pay Paul? The Redistribution of Wealth Caused by Rent Control" (2022), (Researchers from University of Southern California and National Bureau of Economic Research)

Key Takeaways

- Rent regulation will lead to a degradation of our existing housing stock and a reduction in property values/local real estate tax revenues
- Rent regulation will deter Investment in new housing stock we so desperately need as a community
- Rent regulation will not address our supply/demand imbalance and will even exacerbate the dearth of housing opportunities for all

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