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PUBLIC HEARING ON

Bill 23-873, the “Rent Stabilization Program Reform and Expansion Amendment Act of 2020”

Before the Committee on Housing & Neighborhood Revitalization

Councilmember Anita Bonds, Chairwoman

Monday, November 9, 2020 9 p.m.
Virtual Hearing via Zoom

Testimony of Dr. Yesim Sayin Taylor
Executive Director
D.C. Policy Center

Good morning, Chairwoman Bonds and members of the Committee on Housing & Neighborhood Revitalization. My name is Yesim Sayin Taylor and I am the Executive Director of the D.C. Policy Center, an independent, nonpartisan think tank committed to advancing policies for a strong and vibrant economy in the District of Columbia. I thank you for the opportunity to testify on Bill 23-873.

Today, the D.C. Policy Center published a policy brief analyzing the potential impacts of B23-873. Here are the main takeaways from this study:

- At present, D.C. has 72,878 rent-controlled units. If the Council enacted this bill today, the number of rent-controlled units would immediately increase by 13,245. Most these units are in small buildings with four units, concentrated in Ward 5.
- Over time, through 2033, 26,300 more units would be impacted. 15,200 of these units are in Ward 6.
- Rent restrictions impact net operating incomes, which, in return reduce taxable assessments. Under B23-873, the beginning impacts would be muted because the pandemic-induced economic recession is already putting a downward pressure on rents and assessments. But over time, as the economy recovers and as more units are added, the value and tax losses could be significant.
  - Compared to a very conservative baseline of 2.9 percent growth in taxable assessments (the projected growth for 2024 in the CFO's September revenue estimates), B23-873 would likely result in assessed values that are lower by $3 billion by 2033—a loss of $134M in tax revenue combined between 2021-2033.
  - Compared to a baseline growth that mimics how assessed values grew between 2014-19 period, B23-873 could produce assessed values that are lower by $6 billion—a loss of $270M in taxes.
- **There is no guarantee that B23-873 would create citywide benefits.** Some units would be converted to condos, and others might never be built. Further, there is a rental market beyond rental apartments in the city, made up of single-family homes and condominiums, and basements. This shadow rental market has an estimated 55,000 units within the financial reach of households that make under 80 percent of AMI. Affluent renters with limited access to the rent-controlled stock could bid up the rents in the shadow rental market, displacing lower-income households.

Thank you for the opportunity to testify. I am happy to answer any questions you might have.

Appendix

Salient features of B23-873

Area	Policy	Current Law	Proposed changes
Universe of rentals	Exemption from law	Owners with **fewer than five units** in **buildings that received their building permits after 1975**.	Owners with **fewer than four units** in buildings that received their building permits **in the last 15 years.**
Rent Increases	Annual rent increase for existing tenants	**CPI + 2 percent, capped at 10 percent.** **Rents can increase if no increase happened in the last 12 months.**	**CPI only, capped at 5 percent.** **Rents can only increase in the 13th month after the last increase.**
	Rent increase on vacant units	**10 percent if the previous tenant was in the unit for under 10 years, 20 percent otherwise.**	**Not allowed.**
Petitions	Hardship petition	Permanent increase to **achieve a rate of return of 12 percent.**	Permanent increase to achieve **a rate of return that equals to the return on a 10-year Treasury Note during January of each year.** **Limit increases to 5 percent each year implemented over three years.** **Have a reserve account in place.**
	Substantial rehabilitation petition	**Permanent increase** up to **25 percent to cover the cost of investment**.	**Temporary** increase up to 25 percent to cover the cost of investment. **Increase spread over the IRS definition of depreciation period. For rental buildings, that is 27.5 years.** **Have a reserve account in place.**
	Capital improvement petition	Temporary surcharge on rents (15 percent if only less than all units are improved, 20 percent if all units are improved) to pay for capital investments. The surcharge is **spread over 64 months if improvements apply to 1 or more units or 96 months if they apply to the entire building.**	Temporary surcharge on rents (15 percent if only a few units are improved, 20 percent if all units are improved) to pay for capital investments. The surcharge is **calculated by using IRS depreciation schedules but spread at most over 64 or 96 months.** **Have a reserve account in place.**
	Services and facilities petition	Rents can go up or down with significant changes in services or available facilities	**Have a reserve account in place.**
	Voluntary agreements	Rents can increase for future tenants in return for improvements if 70 percent of the current tenants agree.	**Disallowed.**

How would the “Reclaim Rent Control” proposals change the District’s rental housing landscape?

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Research questions

01 How would B23-873 impact the landscape of rent-controlled units?

02 How would B23-873 change rents, building valuations and taxes?

03 How would the market respond?

01 How would B23-873 impact the landscape of rent-controlled housing?

- Current stock – 72,878 in 2,157 buildings
- 13,245 new rent-controlled units upon implementation, most in small buildings (2021)
- 26,296 more units added gradually through 2033, most in large multi-family built after 2006
- By 2033, 112,419 units would be impacted.

Impact of B23-873 on the rent-controlled stock

		Number of Buildings	Number of Units
Immediate Impact	Under rent control or potentially under rent ..	2,157	72,878
	Buildings with fewer than five units	2,135	8,540
	Large multi-family	41	4,705
	Total	4,333	86,123
Will be gradually added in the next 13 years	Buildings with fewer than five units	7	28
	Large multi-family	157	26,268
	Total	164	26,296
Grand Total		4,497	112,419

Source: Rental housing database compiled by the D.C. Policy Center. For sources and methodology, please see "*Appraising the District's rentals*"

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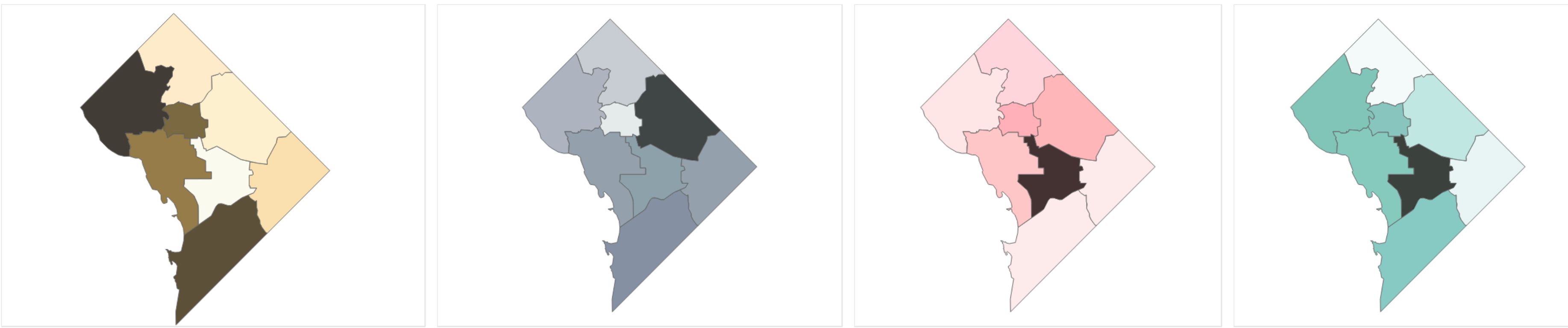
Wards 5 and 6 could see the largest increases in rent-controlled units

Current rent controlled stock - **72,878** | Added immediately - **13,245** | Added by 2033 - **26,296** | Stock in 2033 - **112,419**



	Current rent controlled stock	Added immediately	Added by 2033	Stock in 2033
Ward 1	12,192	498	2,966	15,656
Ward 2	11,532	1,768	2,260	15,560
Ward 3	13,584	1,361	824	15,769
Ward 4	5,749	997	1,377	8,123
Ward 5	5,612	3,114	2,870	11,596
Ward 6	4,606	1,790	15,116	21,512
Ward 7	6,626	1,730	426	8,782
Ward 8	12,977	1,987	457	15,421

Source: Rental housing database compiled by the D.C. Policy Center. For sources and methodology, please see "*Appraising the District's rentals*"

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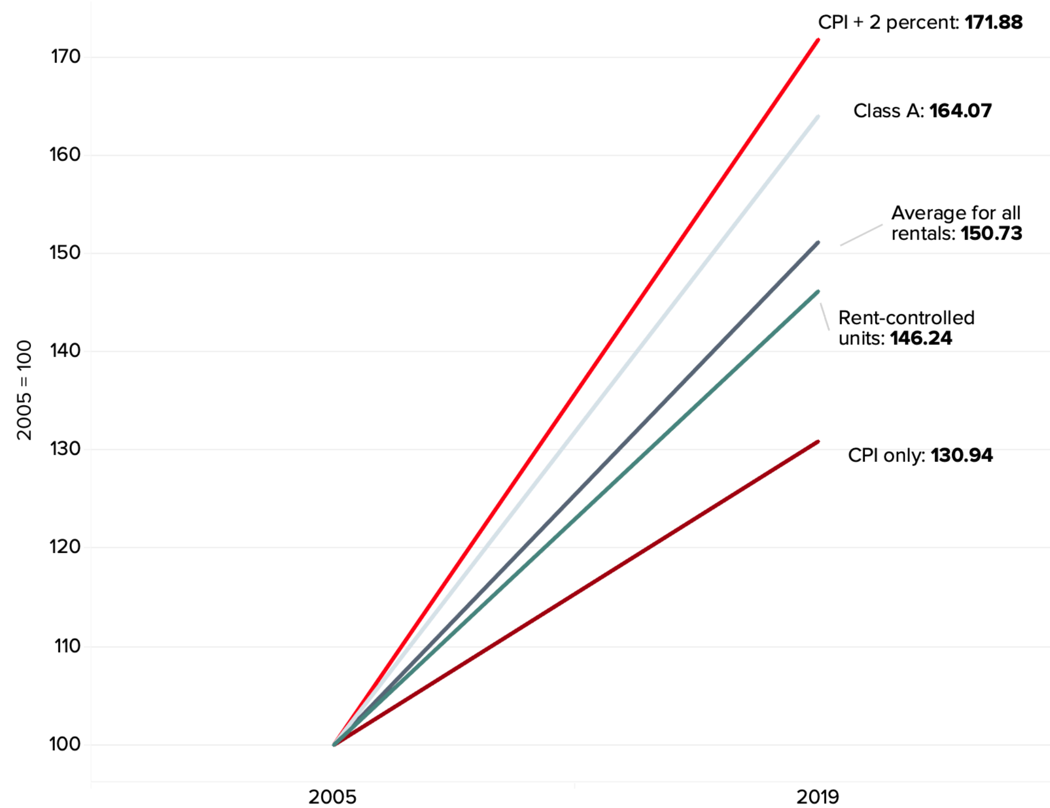
02 How would B23-873 change rents, building valuations and taxes?

- Rents in rent-controlled units have grown at an average rate of 2.8 percent since 2005.
- This is well below CPI+2 percent. Even Class A buildings had slower rent growth.
- It is also below rent inflation, which was 3 percent through the same period.
- If DC had “CPI only” rule, rents would have growth at closer to 2.3 percent.
- At present CPI estimate is 1.8 percent.



Sources: BLS, Delta Associates, and CoStar.

Notes: Washington metro area CPI data are from the Bureau of Labor Statistics. Long term rent growth for Class A properties is from Delta Associates. Actual rent growth for rent controlled units is from CoStar (calculated by year over year growth in per square foot effective rents). Actual rent growth for all rental properties in DC is the rent inflation published by the Bureau of Labor Statistics for the Washington metro area. CPI + 2 percent is calculated by the author.

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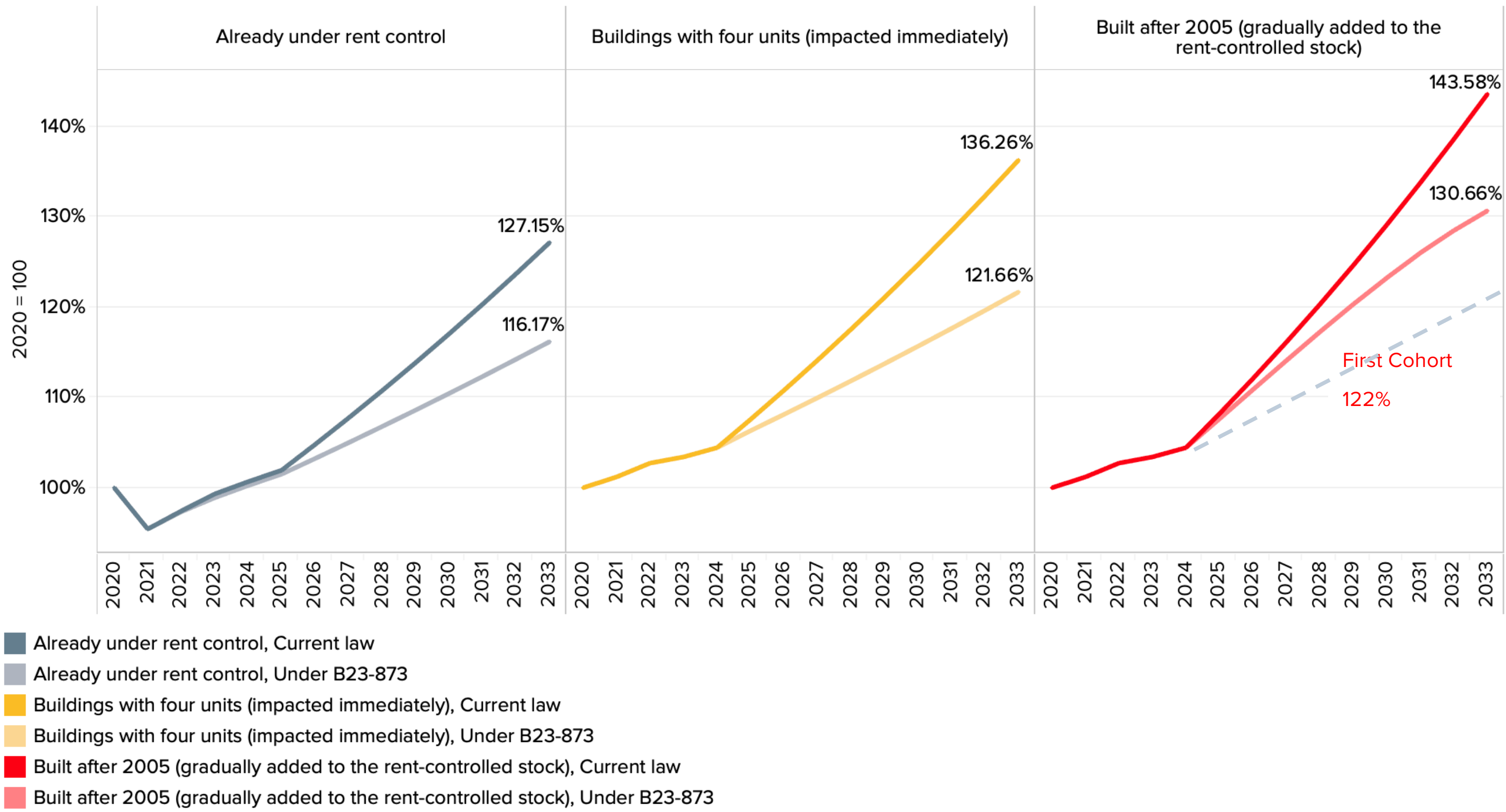
Projected rent growth under B23-873



Notes: The estimate uses the projections for CPI published in the September revenue estimate for 2020-2024 period. Out-years are assumed to be equivalent to the long-term average of 1.8 percent. The long-term growth for different groups past 2024 reverts back to their historical averages since 2005. For the group that would gradually be added to the rent-controlled stock, the estimate weights the future growth under B23-873 by the share of units that would be rolling into the rent-controlled stock each year beginning 2025.

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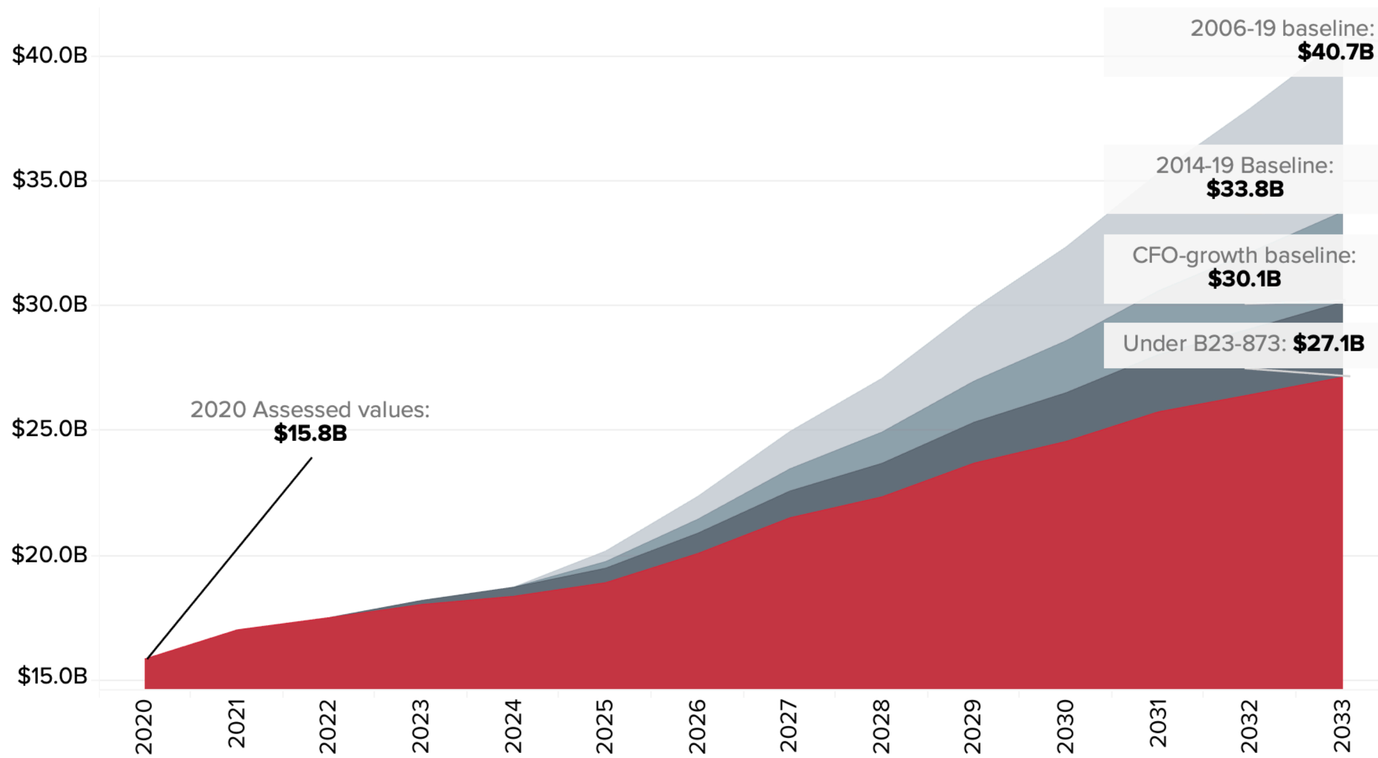
How did we assess the impact on valuations and taxes?

- Lower rents = lower net operating incomes = lower assessments
- This means taxes are going to be lower under B23-873
- We built a model with three baselines.
  - Period between now and 2033
  - How would property values grow if they grew the same way as 2006-2019?
  - How would property values grow if they grew the same way as 2014-19?
  - How would property values grow if they grew at 2.9 percent (the projected growth for real property taxes for 2024 by OCFO)
- We compare it to the projected growth under B23-873. We use 1.8 percent as the CPI, which would be a hard cap on rent growth.
  - 1.8 percent is the projected CPI for 2024 by the OCFO.

Projected taxable assessments under three different scenarios and B23-873

- We estimated the growth in the baseline scenarios and the B23-873 scenario separately for the rent-controlled stock, small buildings, and large multi-family because they have different growth histories.
- Under B23-873, even under the most conservative scenario, 10 percent of value is lost, but it could be as high ad a third of the value.
- Our estimate range: $3B to $7B by 2033.



Source: Assessed values are from the archived tax rolls for years 2006-2019. Cap rates from OCFO and CoStar. 2020-2024 growth projections are from the OCFO.

Note: Historic growth calculations remove the impact of the cap rate changes on assessment growth. Projections assume a constant cap rate.

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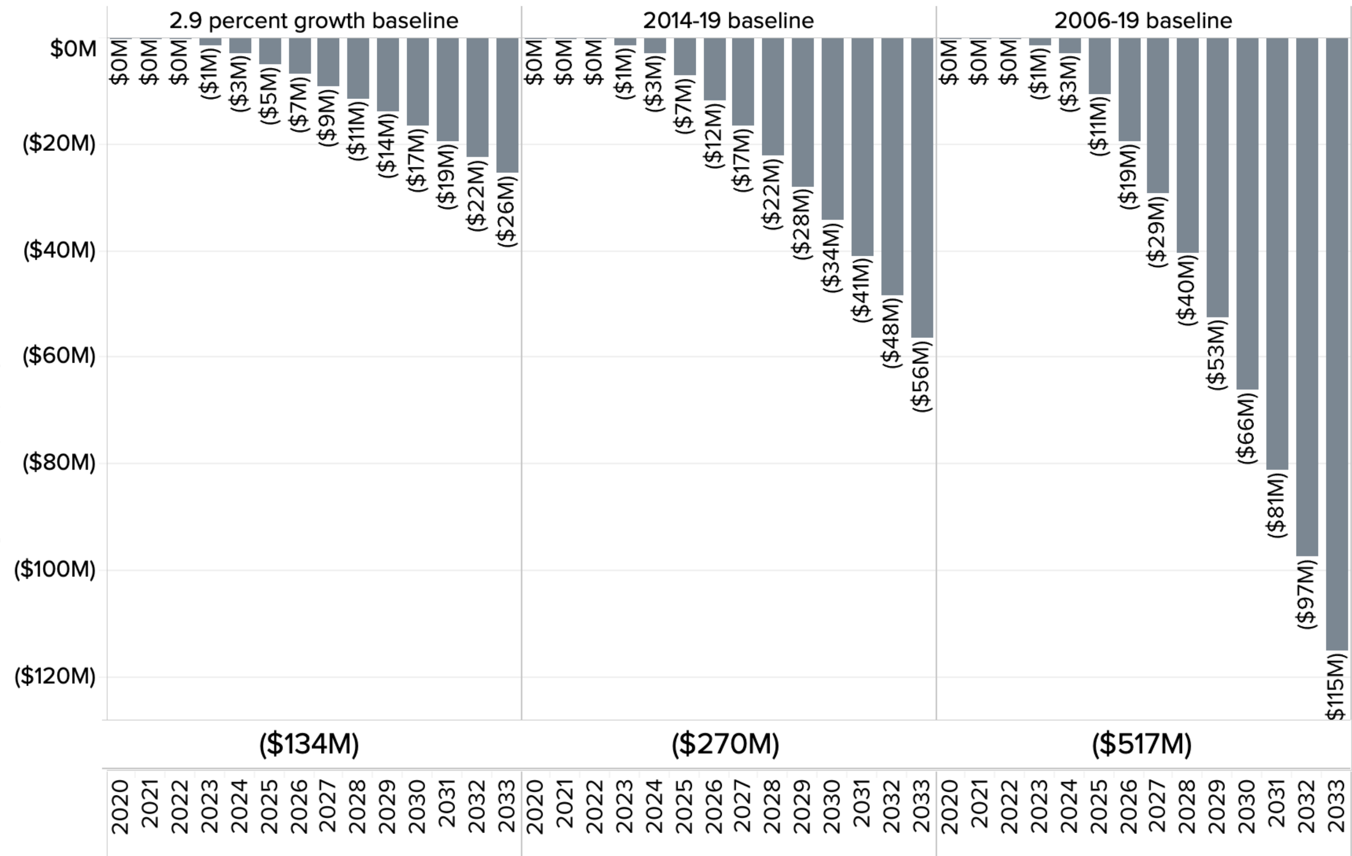
Initial impacts of B23-873 would be small at the beginning because rent growth expectations and assessment growth projections are either negative or very low.

Over time, as the recovery begins, and as more units fall under rent control, the losses would grow, and could reach anywhere between $134M and $517M combined through 2033.

Estimated loss in taxes under B23-873



Source: D.C. Policy Center projections based on assessment trajectories.

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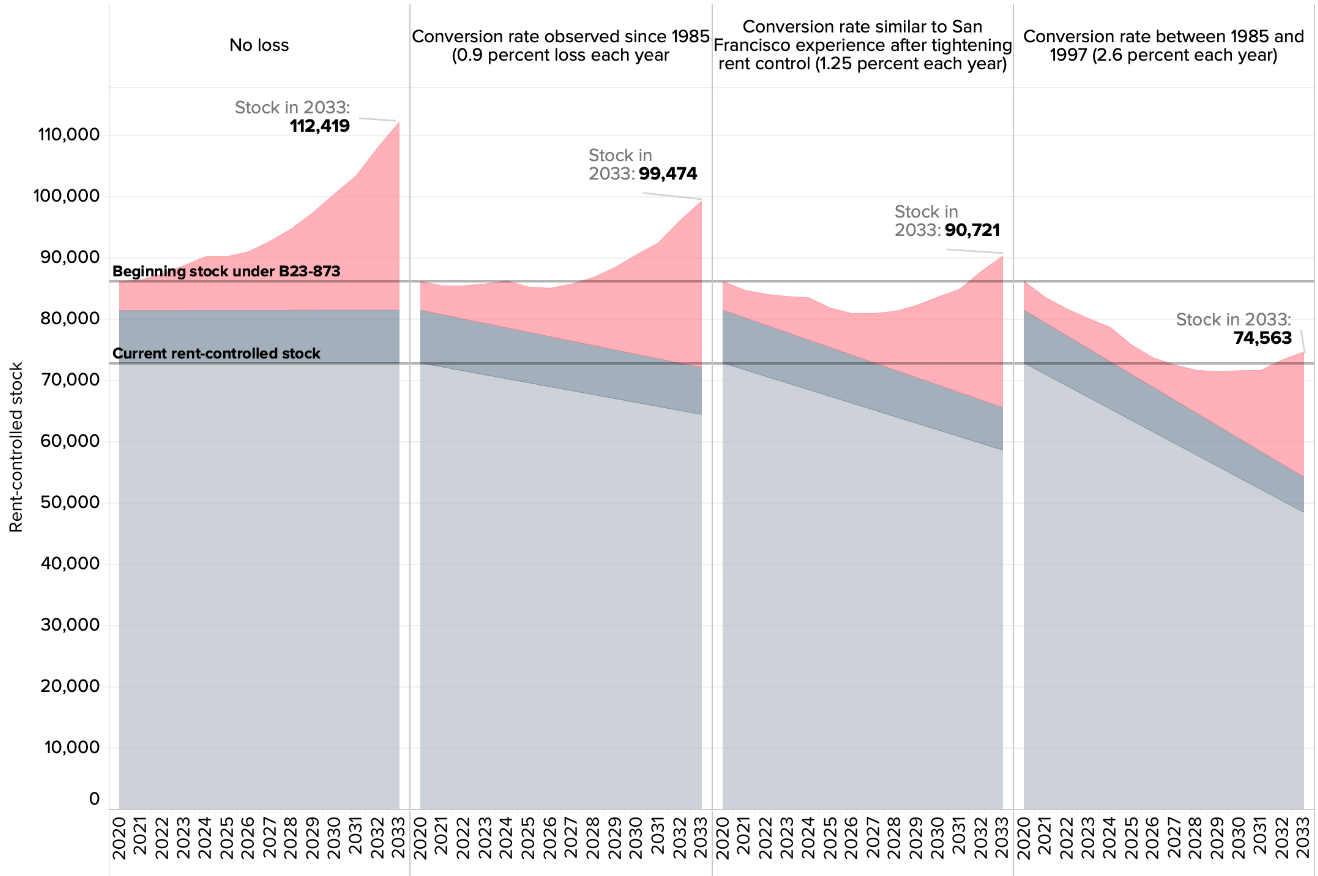
03 How would the market respond?

If rent growth under B23-873 does not provide sufficient returns, some units could be converted to condominiums.

If this conversion rate mimics what has happened in DC since the enactment of the Rental Housing Act, the stock could be 13,000 units lower in 2033 than the actual number of units that would be covered with no leakage.

If leakage mimics what happened between 1985 and 1992, we could end up where we started.

Leakage out of the rent-controlled stock under different scenarios



Source: Renter housing database compiled by the D.C. Policy Center.

Notes: The projections simply reduce the stock each by by equal amounts. For large multifamily buildings (red), we also add back the incoming units for each year.

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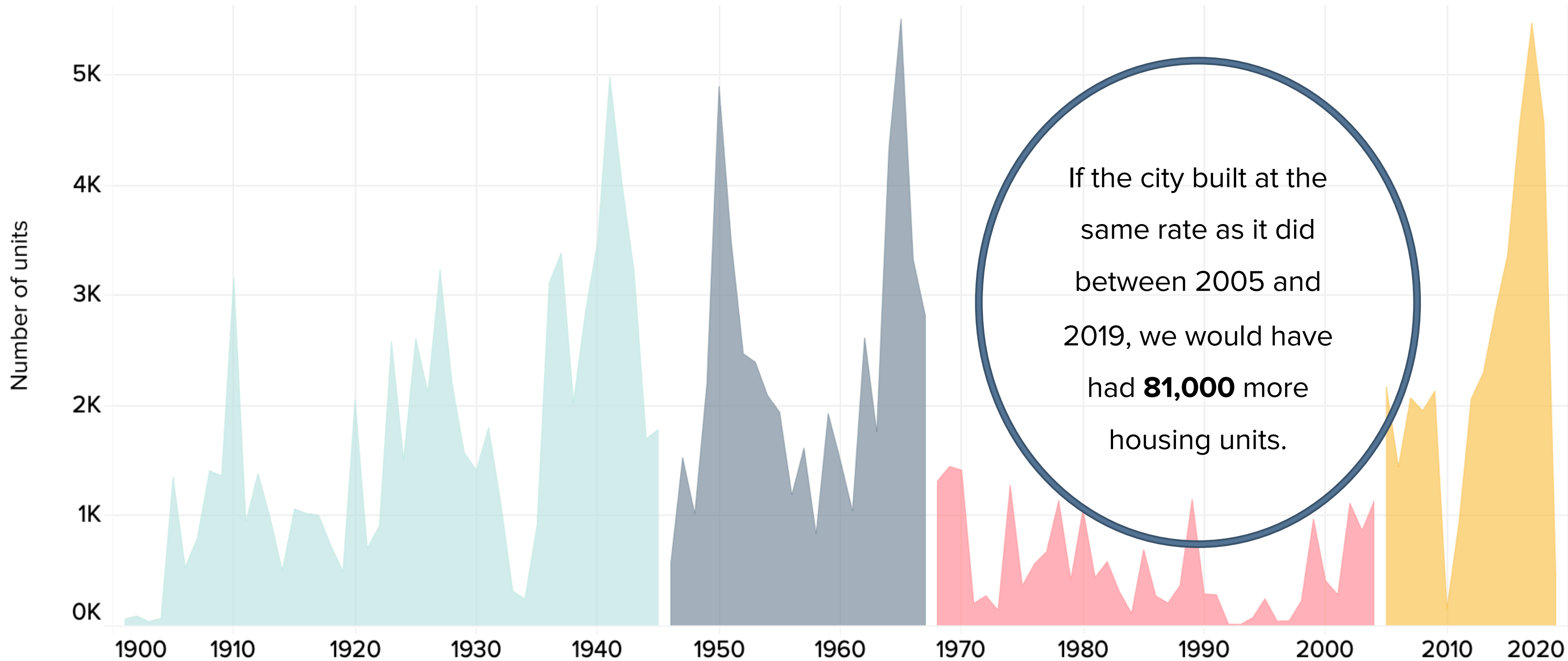
Some units might never be constructed.



Source: Integrated Tax System Public Extract, combined with information from Computer Assisted Mass Appraisal files (residential, condominium, and commercial) and master address repository.

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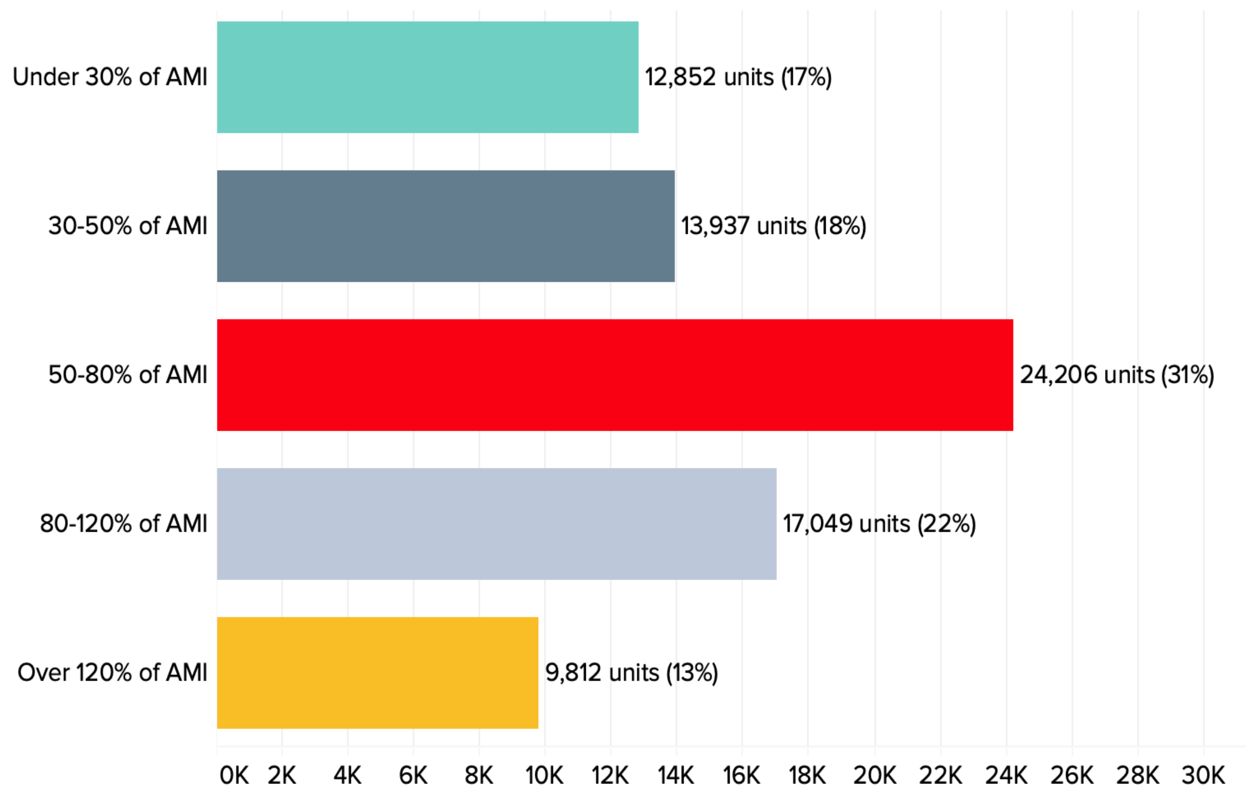
- Rents might be curtailed in the rent-controlled stock, but **rents could increase faster in other types of rentals.**
- D.C. has 80,000 units in the "shadow rental market." About 55 thousand of these units are within easier financial reach of lower income households.
- If high income renters flock to these stocks because of lower turnover, or fewer units, these affordable, attainable homes could disappear.

How affordable are shadow rental units?



Source: Appraising the District's rentals, Figure 20.

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