D.C. POLICY CENTER

Policy Brief

How would the "Reclaim Rent Control" proposals change the District's rental housing landscape?

Impacts on the rent-controlled stock, rents, valuations, and future of rental housing in D.C.

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November 9, 2020

The D.C. Council is considering six separate bills that would amend its rent control law, including **Bill 23-873, the Rent Stabilization Program Reform and Expansion Amendment Act of 2020.** This bill, which is based on the various policy proposals from the "Reclaim Rent Control" platform, proposes comprehensive and sweeping changes to the District's rent control laws, including the universe of eligible units, calculation and timing of rent increases including, and various petition processes providers use to raise rents in order to make improvements to their buildings. If enacted, over time, the bill would impact a significant number of housing providers in the city, the rents they could charge, the returns they realize, and the valuations of their buildings, and the tax revenue the city collects. This policy note examines these potential impacts on the District's the rent-controlled stock, rents, property valuations, tax revenue, and the future of the city's rental housing.

Executive Summary

The D.C. Council is considering six separate bills that would amend the District's rent control laws. Among these six**, B23-873, the Rent Stabilization Program Reform and Expansion Amendment Act of 2020,** which reflects the policy proposals of the "Reclaim Rent Control" platform, offers the most comprehensive and sweeping changes, affecting every aspect of the law including the number of eligible units, the calculation and timing of rent increases (including increases on vacant units,) and the petition processes housing providers use to raise rents in order to make improvements to their buildings. If enacted, the bill would impact a wide array of housing providers in the city, including the rents they could charge, the returns they could realize, and the future valuations of their buildings. These changes—particularly the affected building valuations--would affect the tax revenue the city collects.

By the end of 2019, the District had an estimated 113,281 taxable rental apartment units. These units were collectively valued at $22.5 billion and generated annual tax revenue of $192 million for the city. Since 2006, the city has been adding a net average of 2,000 rental units per year, increasing yearly assessed values by $615 million. Rents for these buildings have grown at an average rate of 3 percent between 2006 and 2020.

Using the rental housing database compiled by the D.C. Policy Center for its comprehensive review of rental housing in the District, this policy brief examines the bill's potential impacts on the District's rent-controlled stock, rents, property valuations, tax revenue, and the future of the city's rental housing.

The main findings of this report are the following:

Limiting exemptions from rent control:

Current law exempts from rent control buildings that acquired their construction permits after 1975, and housing providers who own fewer than five units. With these exemptions, the city has an estimated 72,878 rent-controlled units in 2,157 rental apartment buildings. B23-873 would limit the exemptions to buildings built in the last 15 years and to housing providers who own fewer than four units.

- Limiting exemptions to large multifamily buildings built in the last 15 years would immediately expand the rent-controlled stock by 4,705 units (a 6 percent increase).
- Each year following the possible adoption of B23-873, additional buildings and units would be subject to rent control. For example, 14 years following the adoption of B23-873, an additional 25,006 units in 157 buildings would become subject to rent control, potentially increasing the rent-controlled stock by 42 percent from its current (2020) level.
- Limiting the exemptions to providers with fewer than four units (compared to fewer than five units under current law) could add 2,164 buildings with 8,656 units to the rent-controlled stock (an 11 percent increase over the current base). As the majority of these buildings were built before 1977, this impact would be immediate.

- Ward 6 could see the largest increase in rent-controlled stock from the proposed 15-year rolling exemption. 58 percent of the units in large multifamily buildings built since 2005 are in Ward 6.
- Wards 5, 7, and 8 would see the largest impacts from expanding rent control to providers with four units. Three quarters of such small buildings are in these three wards.

Limiting rent growth:

- Over the years, the average rent growth in rent-controlled apartments has generally remained under the legislated Consumer Price Index (CPI) + 2 percent cap. Average annual rent growth across all rent-controlled buildings in D.C. between 2005 and 2019 was an estimated 2.8 percent. Had rents grown at CPI+2 percent, as allowed under the current rent control law, the average annual rent growth would have been 4 percent. Average annual rent growth in Class A apartment buildings during the same period was an estimated 3.6 percent.
- Because B23-873 would remove almost all possible means of raising rents above CPI by (a) eliminating vacancy increases; (b) making it harder to file various petitions; (c) significantly reducing rent increases providers can seek under various petition processes; and (d) limiting landlords to a fixed 30-day period for implementing rent increases each year, the CPI will likely be the ceiling on rent growth.
- Under B23-873, rents would grow, on average, 0.8 percentage points slower for units that are currently under rent control, if long term CPI remains at the projected 1.8 percent. For units that are not currently under rent control, but would be subjected under B23-873, annual rent growth could decline by 1 to 1.2 percentage points each year.
- The immediate impact of B23-873 on rent growth would be muted because the pandemic-induced economic recession is projected to put negative pressure on rents between 2020 and 2022. However, the CPI cap would become binding during the post-COVID recovery. As a result, housing providers who are relying on the recovery to make up for their current losses would not be able to do so under B23-873.

Impact on building valuations and tax revenue:

- With limited rent growth, the income generating capacity of rent-controlled buildings would also decline, lowering their value and taxable assessments. Consequently, tax revenue would decline.
- Comparing the projected assessment growth under B23-873 with three different baseline scenarios show that rent-controlled apartment buildings could lose anywhere between ten percent to one-third of their assessed value over the next decade. These losses would grow even faster over time as more buildings become subject to rent control and the impacts of restricted rent growth are compounded.
- Because the pandemic-induced economic recession itself is putting negative pressure on assessments, the immediate impacts of B23-873 on tax collections may be minimal. But over time, revenue losses would become significant. Even compared to a conservative scenario

with a 2.9 percent annual growth in real property taxes (the CFO's projected growth rate for real property taxes in 2024), B23-873 could cost the District a combined $134 million over the next 11 years. To put this number in perspective, this is greater than the total real property taxes paid by all taxable rental apartment buildings in 2020 (an estimated $112 million). And if the District's future assessment growth were to replicate its experience between 2006 and 2019 period, Bill 23-873 could depress revenue by over half a billion dollars between now and 2033.

Impact on the future of the District's housing

- Under B23-873, approximately 112,400 units could be subjected to rent control by 2033. But the actual rent-controlled stock could be smaller.
- Some units could be taken out of the rental market. Limited rent growth and lower returns will likely push some housing providers to convert their buildings into condominiums or co-ops. For example, between 2021 and 2033, if providers were to convert their units from rentals to condominiums at the same rate as observed since 1985, the actual rent-controlled stock could be approximately 97,000 units by 2033. If this leakage rate mimicked what the District experienced between 1985 and 1992, the stock would only reach 74,750 by 2033—close to its current size.
- Others might never be constructed. The impacts of B23-873 would also be felt on future development, for example, shifting construction activity from rentals to condominiums, and when condominiums do not make financial sense, impairing future development. These changes will increase the cost of housing—at least for some residents who lose their rent-controlled units—in the District of Columbia, affecting both the development of market rate units and the production and preservation of affordable units.
- Some lower-income households could see higher rents. Although B23-873 would increase the number of rent-controlled units in the District, and limit their rent growth more severely, rents could end up increasing faster for some households. This is because rental apartments make up only 60 percent of the rental housing in the District, the remainder are in *the shadow rental market* (which consists of approximately 80,000 single-family homes and condominiums rent by their owners). At present, the shadow rental market is an important source of affordable housing in the city, providing 55,000 units that are within financial reach of households that earn less than 80 percent of Area Median Income. If restricted rents in the rental apartment market reduce availability of rent-controlled units (by reducing turnover, pushing some providers out, or stopping new construction), high-income renters could compete rents in the shadow stock, displacing lower income renters in the shadow rental market.

What can the city do to keep rents low?

- Simply preventing rents from rising will not create affordability in the District's rental market. Lower rents and returns in rent-controlled buildings will force some housing providers to

reduce investments in these buildings and tempt others to take their buildings out of the rental market entirely by converting them into condominiums.

- To get renters into units they can afford, the city must first recognize that housing is an ecosystem, and its different parts (rental v. owner-occupied, market-rate v. affordable) work together. Market actors—renters, homeowners, housing providers, developers and investors—respond to policy changes, and their actions collectively shape the housing market. That is, a single policy lever, like rent control, will not operate in isolation and therefore might not be able to bring about the desired policy outcome of getting renters into units they can afford.
- The city should make it easier to build new rental units. Rents will grow much slower if there are more rental units, including rental housing for middle and high-income renters.
- Keeping the District attractive to investors will help continue the housing construction boom that began in early 2000s have added more than 50,000 net new units. More units will be built if the District's economy remains strong, its population and households keep growing, government services are reliable and the city's financial management is sound, and if housing policies do not create unnecessary regulatory risk and assure investors of a healthy return on their investments.
- Ultimately, the city's broader perspective for rental housing should recognize that a strong rental housing market relies on convincing a large number of actors to become and remain landlords. These include homeowners who rent out their entire homes, basements or ADUs, or convert their single family homes into residential flats, small landlords of generally older buildings that serve lower income renters, and large housing providers, some with investor backing, that must make a certain return on their investments in order to remain in the market. B23-873, and its companions, ignore these considerations.

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Introduction

Rising rents in the District of Columbia, along with increased pressure on rental housing from higher income renters, have led to a debate on whether to expand rent control provisions in the city. In July of 2020, the D.C. Council voted to retain the city's rent control laws (expiring at the end of 2020) for another ten years without any changes. Since then, at least six legislative proposals have been introduced in the Council offering various modifications to the law. Five of the six bills make changes to different sections of the rent control laws, including means-testing tenants, or limiting how providers can increase rents when they make improvements to units or the entire building. The sixth proposal, which is based on the policy positions of the "**Reclaim Rent Control**" platform, offers sweeping changes including a potentially-significant expansion of the rent-controlled stock, stricter restrictions on how rents can be increased from year to year, and various limitations to the petition processes housing providers use to raise revenue for investments in their buildings.

This policy brief offers an analysis of, **Bill 23-873, the Rent Stabilization Program Reform and Expansion Amendment Act of 2020**.[1] We focus on this bill because it offers the most profound changes to the District's rent control laws, while including many of elements of the other five bills the Council is considering.[2] We examine the potential impact of the bill on the size of the rent controlled stock, rents, building valuations and tax revenue. We also discuss the implications on the bill for the entire housing ecosystem and its future.

Part I of the brief provides a summary of the key provisions of the current rent control laws in D.C. Part II provides a comparison of B23-873 to the current law. Part III examines how the landscape of rent-controlled housing would change in the event of the implementation of the bill and during the fourteen-year period that would follow. Part IV examines rent growth under the provisions of the bill and the implications on building valuations and tax revenue. Part V discusses potential implications of an overly restrictive rent-control system on the overall health of the housing market and affordability. Part VI concludes with a discussion of policy options for the city.

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[1] B23-0873 was introduced by Councilmembers T. White, and Nadeau on July 27, 2020 and has been referred to the Committee on Housing and Neighborhood Revitalization on September 22, 2020. A hearing on the bill has been scheduled for November 5, 2020.

[2] A summary of the other five bills can be found in the Appendix. The D.C. Policy Center's analysis of the other five bills can be found here.

I. What are the provisions of the District's current rent control laws?

D.C.'s rent control laws, first enacted in 1985, are designed to stabilize rents for current tenants to protect them from rapid, unreasonable increases in their rents. While landlords can increase rents from year to year, these increases must be within established parameters and be predictable.

Who is covered?

The rent control laws are written broadly, and apply to all rental properties in the city,[3] with a series of exemptions limiting their application. At present, the laws exempt: (a) housing providers who own fewer than five units, including units in condominiums and cooperatives; (b) units in buildings built after 1975,[4] (c) units that were vacant when the law took effect, and (d) buildings that are under a building improvement plan and receiving rehabilitation assistance from the city's Housing Production Trust Fund.

What are the limitations on rent growth?

For most units, the law limits rent growth to change in the Consumer Price Index plus two percent (hereafter, CPI + 2 percent), and allows for an increase if the last increase was at least 12 months ago. Further, the landlord must give a 30-day notice of any rent increase.

When a unit becomes vacant, the rent offered to the new tenant can be increased to up to 20 percent above the rent the previous tenant paid, depending on the tenure of the previous tenant.[5] This means, as tenants turn over, rents can increase by more than the allowable CPI + 2 percent.

When can a housing provider seek larger rent increases?

A housing provider may petition city authorities[6] for larger allowable increases under five different circumstances:

Under **hardship petitions**, housing providers must demonstrate that their rate of return on their investment in the rental property is less than 12 percent.[7] If providers can document lower returns by sharing information about their revenues and expenditures, they can raise rents enough to earn a 12 percent rate of return on the rental property.

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[3] The exceptions are dormitories, hospitals, rental units operated by a foreign government, and long-term temporary housing oerated by a non-profit (needs to be apporved).

[4] To be exact, the law exempts buildings with an approved building permit issued after 1975. Buildings that obtained construction permits prior to 1975 are subject to rent control even if construction was competed in later years.

[5] If the previous tenant was in the unit for more than 10 years, the cap is 20 percent, and if the tenant was in the unit less than 10 years, the cap is 10 percent. Previously, rents were allowed to increase to match the rent charged for a substantially similar unit, but no more than 30 percent. The Vacancy Increase Reform Amendment Act of 2018 changed this provision. (D.C. Law 22-223, 66 DCR 185, Effective Feb. 22, 2019)

[6] The petitions are filed with the city's Rent Administrator. If the Rent Administrator denies the petition, the housing provider can seek a hearing at the Office of Administrative Hearings to settle the dispute.

[7] Here, rate of return is defined as net income earned over a year as a share of provider's equity in the building.

Under **substantial rehabilitation petitions**, the housing provider may permanently raise rents for a rehabilitation project, which is defined as a project that costs more than half the assessed value of the building (or the unit). After the rehabilitation petition is approved, rents could permanently increase by up to 25 percent.

Under **capital improvements petitions**, the housing provider can petition to temporarily raise rents by an amount enough to cover the cost of capital improvements.[8] If approved, the provider must complete the work before raising the rents. If the capital improvement is building-wide, like replacing a roof, the costs are spread over eight years and the rent surcharge is limited to 20 percent of the rent; if they pertain to some units only (like replacing windows), the costs can be spread over 64 months and the surcharge, which only applies to tenants whose units were improved, cannot be more than 15 percent of the rent. Low-income elderly and disabled tenants are exempted from the surcharge.

Under **services and facilities petitions**, rents can be increased if the housing provider provides a new service or facility and decreased if the provider eliminates and existing service of facility. For example, if the building closes a fitness center previously available to tenants, tenants may petition for a rent reduction.

Under **70 percent voluntary agreement petitions,** tenants can voluntarily agree to increased rents in return for capital improvements, services and facilities, or repairs and maintenance. If approved, the housing provider can increase rents by the amount in the agreement only after meeting the requirements of the agreement. So long as seventy percent of the tenants agree, all tenants are included in the rent changes, including those who did not sign it.

Table 1 – Provisions of the current rent control law in D.C.

Area	Policy	Current law
Universe of rentals and renters	Exemption from law	Owners with fewer than five units or in buildings built after 1975.
	Income targeting	None.
Rent Increase	Annual rent increase for existing tenants	CPI + 2 percent, capped at 10 percent. Certain limits for elderly or disabled tenants.
	Rent increase on vacant units	10 percent if the previous tenant was in the unit for less than 10 years, and 20 percent otherwise.
Petitions	Hardship petition	Permanent increase to get a rate of return of 12 percent.
	Substantial rehabilitation petition	Permanent increase up to 25 percent to cover the full cost of investment. Certain exemptions for elderly or disabled tenants.
	Capital improvement petition	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 spread over 64 or 96 months depending on project coverage.
	Services and facilities petition	Rents can go up or down with significant changes in services or available facilities
	Voluntary agreements	Rents can increase for tenants (current, future, or both) in return for improvements if 70 percent of the current tenants agree.

[8] These include work to rehabilitate or improve a housing accomodation, or replace items that have exhausted their useful life. The investment must be "depreciable," and include things like replacing a roof or an elevator, installing new windows, installing new plumbing or appliances.

II. How would Bill 23-873 change rent control laws in D.C.?

Bill 23-873, the **Rent Stabilization Program Reform and Expansion Amendment Act of 2020** would make comprehensive and sweeping changes to the current rent control laws, affecting every aspect including the universe of rent-controlled units, calculation and timing of rent increases including increases on vacant units, and various petition processes.

A. Changes to exemptions

Bill 23-873 would expand the universe of rent-controlled units in two ways. First, it would create a dynamic rent-controlled stock by limiting exemptions to units in buildings that received their building permits in the last fifteen years.[9] For example, if the bill were to be implemented this year, the exemptions would apply to units in buildings that received their building permits after January 1, 2005. And with each passing year, the exemption threshold would move up one calendar year.

Second, the bill would limit the exemptions to landlords with fewer than four units in multifamily buildings, subjecting even smaller landlords to rent control.[10] At present, landlords with fewer than five units are exempted.

B. Changes to rent increases

Bill 23-873 would limit annual rent increases for existing tenants to the growth in Consumer Price Index (CPI), capping this increase at 5 percent at most.[11] Current law allows for CPI+2 percent, and the allowable rent increase is capped at 10 percent regardless of the growth in CPI.

The bill would also restrict the time window a landlord can implement a rent increase to the 30-day period after the anniversary of the last increase.[12] At present, rents can increase if no increase happened in the last 12 months. That is, if a housing provider last increased rents in February 1 of 2019, rent can increase any time after February 1, 2020 (but won't be allowed to increase again for 12 months after that next increase). Using this example, B23-873 would require providers to implement a rent increase between February 1, 2020 and March 1, 2020 only; and if a provider forgoes that increase during the 30-day period, the provider would not be allowed to increase rents until February 1 of 2021.

Bill 23-873 would also do away with vacancy increases.[13] At present, when a unit is vacated by the current tenant, its rent for the next tenant can increase by up to 20 percent if the previous tenant occupied the unit for more than 10 years and by up to 10 percent otherwise. This provision of the District's rent-control laws is the key indicator that the laws are designed to provide price stability for the existing tenants, and not deliver rents that are significantly below-market for new tenants.

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[9] By amending D.C.OfficialCode§42-3502.05(a)(2).
[10] By amending D.C.OfficialCode§42-3502.05(a)(3).
[11] By amending D.C. Official Code § 42-3502.08(h).
[12] By amending D.C. Official Code § 42-3502.08(g).
[13] By amending D.C. Official Code § 42-3502.08(h) and repealing D.C. Official Code § 42-3502.13.

Eliminating vacancy increases means that rents would be allowed to grow by CPI only, and at most by 5 percent.

Table 2 – 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.**

C. Changes to the petition process

Bill 23-873 would change various provisions for the hardship, substantial rehabilitation, and capital improvement petitions, and would disallow voluntary agreements. The bill proposes many changes to these petition processes; we summarize below the most salient changes.

The bill changes the allowable rate of return for hardship petitions from 12 percent to the rate of return that equals to the return on a 10-year Treasury Note during January of each year.14 In January of 2020, this return was equal to 1.76 percent. Additionally, regardless of the actual increases allowed under a hardship petition, actual annual increases would be capped at 5 percent annually, and implemented over a period of no longer than 3 years.[15]

Bill 23-873 would also make rent increases allowed under **a substantial improvement petition** only temporary[16] and would require that the housing provider recover the cost of the improvements over the depreciation period, which, under current IRS rules, is 27.5 years for rental buildings. At present, rent increases allowed under a substantial improvement petition are permanent.

Bill 23-873 would require that when filing **capital improvement petitions** (improvements that cost less than half the appraised value of a rental apartment building), housing providers use the IRS depreciation schedules to calculate the allowable surcharges they request to support the capital improvements. But the bill leaves in place the 64-month and 96-month surcharge periods, which means that for capital investments with a longer depreciation period, the provider would not be able to recoup the entire cost of the investment.[17] At present, providers can spread the full allowable cost over the prescribed period and do not have to use IRS depreciation guidelines.

For all petition processes, B23-873 would require that housing providers have in place a **replacement reserve account**.[18] Providers would be required to deposit in this account $250 per unit each year beginning with the adoption of the bill, and this amount would be required to increase by CPI each year. A housing provider would not be allowed to use any of the petition processes until such a reserve is in place and holds at least three years' worth of deposits in it.

Finally, B23-873 would disallow voluntary agreements.[19]

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[14] By adding a new definition under D.C. Official Code § 42-3501.03.
[15] By adding a new subsection under D.C. Official Code § 42-3502.12.
[16] By adding a new subsection under D.C. Official Code § 42-3502.14.
[17] By amending D.C. Official Code § 42-3502.10.
[18] By adding a new section under D.C. Official Code § 42-3502.
[19] By repealing D.C. Official Code § 42-3502.15.

III. How would Bill 23-873 impact the rent-controlled stock?

At present, the District has an estimated 113,281 rental apartment units in 4,767 taxable buildings. An estimated 72,878 units in 2,157 buildings are already subject to rent-control.[20] An estimated 31,980 units in 198 large buildings built after 1977 are currently exempt from rent control. But only 52 of these buildings are completely unregulated. Approximately 146 buildings built since 2007 (25,000 units) are subject to inclusionary zoning requirements. Finally, an estimated 9,370 units are in 2,400 small buildings that have fewer than five units.[21] Most of these small buildings are old—built before 1977—but some are recent conversions from single-family units combined into a single building and then subdivided into multiple rental apartments. (The methodology appendix that begins on page 42 explains why these numbers are estimates.)

Table 3 – Rental apartment stock in DC, by regulatory period

		Number of buildings	Number of units
Under rent control or potentially under rent control	Built before 1976	2,061	68,354
	Built in 1976 or 1977	6	769
	Unknown	100	3,815
Not subject to rent control	Unregulated (1978 to 2007)	52	5,967
	Subject to Inclusionary Zoning Requirements (2007 onwards)	146	25,006
Buildings with fewer than five units	Built after 1977	23	81
	Built before 1977	2,379	9,289
GRAND TOTAL		4,767	113,281

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

Note: Buildings with fewer than five properties include those coded as rental apartment buildings and flats with 2-4 units. Excluded from the count are 108 units in flats reported as being occupied by their owners. Also excluded are rental units in condominium buildings. The data are presented for taxable units only and exclude those in buildings owned by the District of Columbia or receive some type of tax exemption.

[20] This is the equivalent of all 57 percent of all rental apartment units, 35 percent of all rental housing (including the "shadow rentals"), and 23 percent of all housing in the city.

[21] This estimate is based on the number of units in flats and conveersions in residential apartment buildings coded as those with fewer than five units. The tax database describes them as units under one roof, converted from apartment buildings (flats) or single family homes (conversions) into multifamily use.

A. Changes to the exemption period

If adopted, B23-795 would change the exemption period for multifamily rental apartment buildings from those that obtained their building permits before 1976 to those that obtained their building permits in the last fifteen years.

We estimate that upon adoption, B23-795 would immediately apply to 41 multifamily rental apartment buildings (with five or more units) with 4,705 units, increasing the rent-controlled stock by about 6.5. This relatively small number reflects the low level of construction activity in the city between 1977 and 2005. More than a of third of these 4,705 units are in Ward 2 and one-fifth each are in Wards 3 and 6 (Appendix Figure 1).

Over the next fourteen years, 157 more buildings with 25,006 units would gradually become subject to rent-control. The growth will be slow at first and increase in pace in 2028 (when units built after 2012 begin losing their exemptions) by adding 10 or more buildings containing 2,000 to 4,000 units each year. If all of these buildings remain as rentals, by 2033, the number of rent-controlled units in large buildings could reach 103,559 (a 42 percent increase from its current level, Table 4).

Table 4 – Impact of B23-783 in multifamily apartment buildings with five or more units

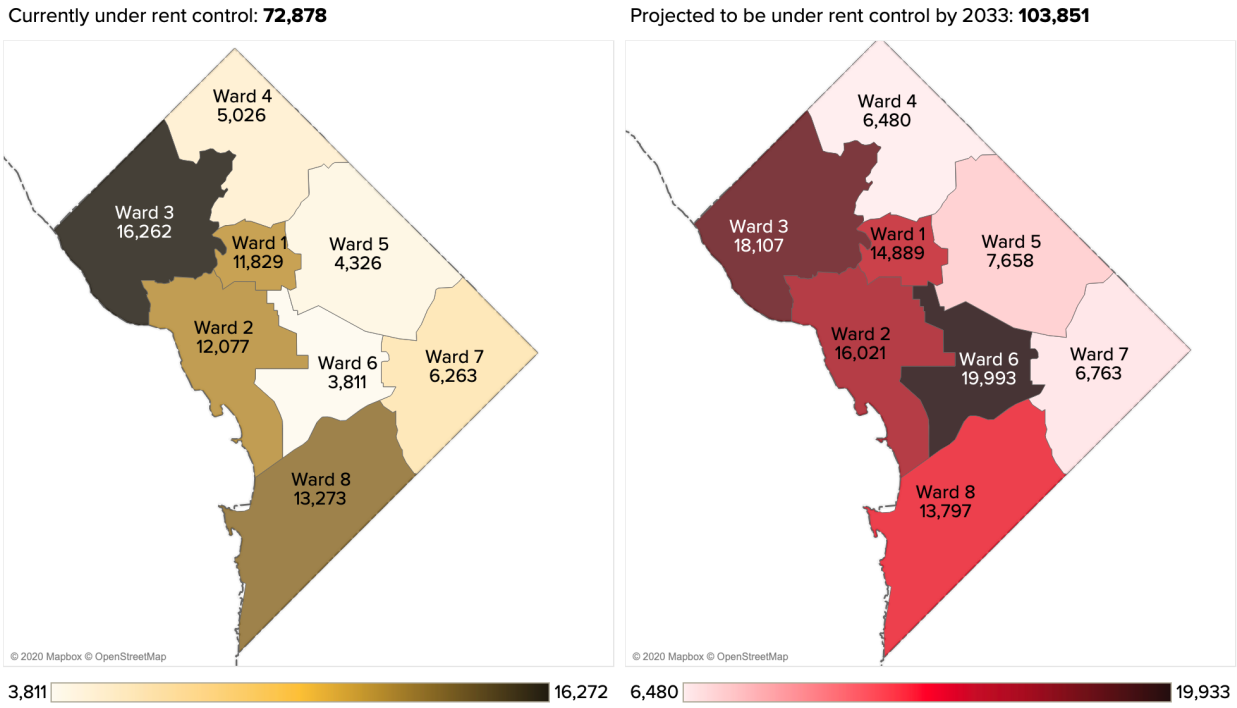
		Number of Buildings	Number of Units
Under rent control or potentially under rent control	Built before 1977	2,157	72,878
Immediately subject to rent control under B23-873	Built between 1977 and 2005	41	4,705
Gradually added in the next 13 years	2006	3	256
	2007	8	1,006
	2008	5	1,311
	2009	8	1,457
	2010	1	10
	2011	6	794
	2012	8	1,704
	2013	10	2,035
	2014	14	2,640
	2015	22	3,054
	2016	21	2,934
	2017	28	4,581
	2018	22	4,194
GRAND TOTAL		2,354	103,559

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

Limiting the exemption period to fifteen years would have different impacts in different parts of the city. The most dramatic shifts would take place in Ward 6, which has been the center of new

multifamily apartment development in the city since 2005, reflecting the transformative changes that happened first in NoMa, Mount Vernon Triangle, and the Navy Yard, and later around the H Street Corridor, and the Southwest Waterfront. At present, Ward 6 accounts for only 5 percent of the rent-controlled stock. In contrast, 58 percent of units in multifamily apartment buildings constructed since 2005 are in Ward 6. By 2033, when all these units would become subject to rent control, Ward 6's share of rent-controlled units could be the largest of any ward, at 19 percent, followed by Ward 3 at 17 percent. Ward 4 would have the fewest number of rent-controlled units by 2033, accounting for only 6 percent of the rent-controlled stock by that year (Figure 1).

Figure 1 - Rent-controlled units in buildings with five or more units, current and projected by 2033 under B23-873



Source: Housing database compiled by the D.C. Policy Center.

Note: The buildings are estimated to lose their exemption from rent control one year after the year they are built. The numbers do not account for any providers who might want to take their units out of the rent-controlled stock.

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B. Changes to minimum number of units

As shown in Table 2, an estimated 9,370 rental units are small buildings with fewer than 5 rental units. These units are currently exempted from rent control. B23-874 would limit the exemption to providers with three or fewer units.

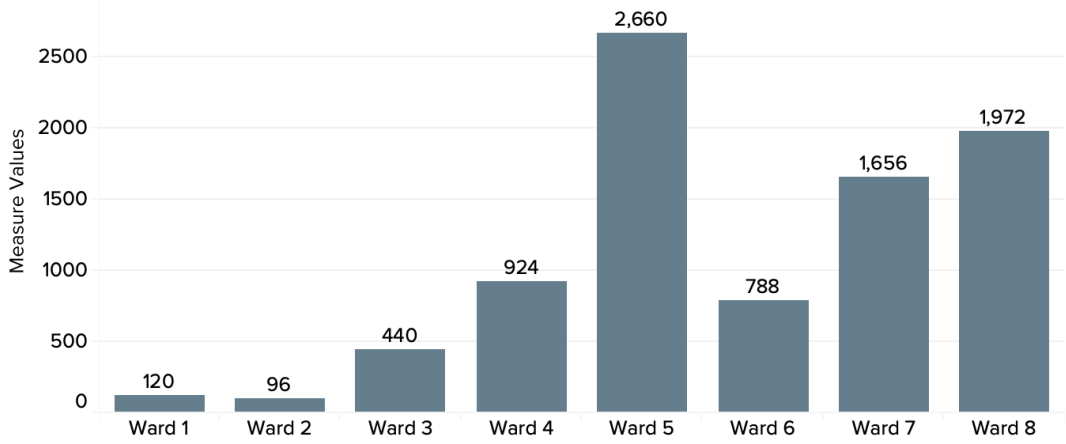
We estimate that limiting the exemption to buildings with fewer than four units would impact 2,164 buildings with 8,656 units. Almost all these units would immediately be subject to rent control since

small rental apartment buildings are typically built before 1977 (Figure 2, top panel). [22] Ward 5 alone accounts for more than a quarter of the units that would be immediately subject to rent control under B23-873. Wards 7 and 8 would also see substantive increases, with over 1,500 units each, whereas the inclusion of properties with four units would make almost no impact in Wards 1 and 2 (Figure 2, bottom panel).

Figure 2 - Current rent-controlled stock v. projected stock by 2033 under B23-873

		Number of Buildings	Number of Units
Buildings with four units	Built before 1977	2,152	8,608
	Built after 1977	12	48
	Total	2,164	8,656
Buildings with fewer than four units	Built before 1977	227	681
	Built after 1977	11	33
	Total	238	714
Grand Total		2,402	9,370

The distribution of units in buildings with four units across wards



Source: Housing database compiled by the D.C. Policy Center.
Note: Buildings with fewer than five units include properties coded as rental apartment buildings and flats with 2-4 units. Excluded from the count are 108 units in flats that are recorded as owner-occupied. Also excluded are units in condominiums and conversions. The data are presented for taxable buildings only and exludes those properties that are either owned by the District of Columbia or those receiving tax exemptions.

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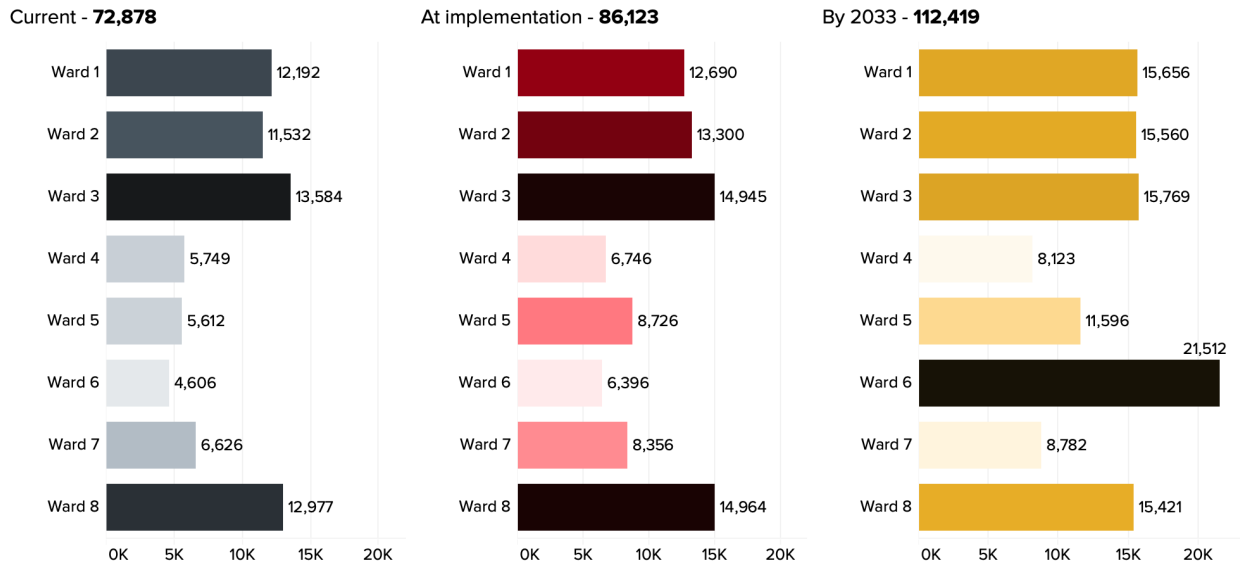
[22] This estimate is entirely driven by the building size and does not include owners with four units in disparate buildings because we cannot provide a reliable estimate for owners with units in disparate buildings. Our best estimate for this group is approximately 560 units owned by 140 separate providers. But there is a lot of uncertainty regarding this estimate because we only know the registered name of the owner which could be an LLC whereas the rent control laws apply to natural persons.

C. Overall impact

When put together, the more restrictive exemptions would immediately expand the stock of rent-controlled units by an increment of 13,500 units to 86,123 upon the implementation of B23-873. The immediate impacts would largely be driven by the expansion of rent control to small buildings with four units. Ward 8 would have the largest number of rent controlled units, and Wards 5 would have more rent-controlled units than Ward 7.

By 2033, the city's rent-controlled stock would expand to 112,419 units. The distribution of these units would also change considerably—as years pass, the rolling 15-year window would capture more of the city's recent development, which has been especially strong in Ward 6. By 2033, the number of rent controlled units in this ward would be more than five times the number today (Figure 3).

Figure 3 - Current number of rent controlled units and projected number of units that would be impacted by B22-873



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

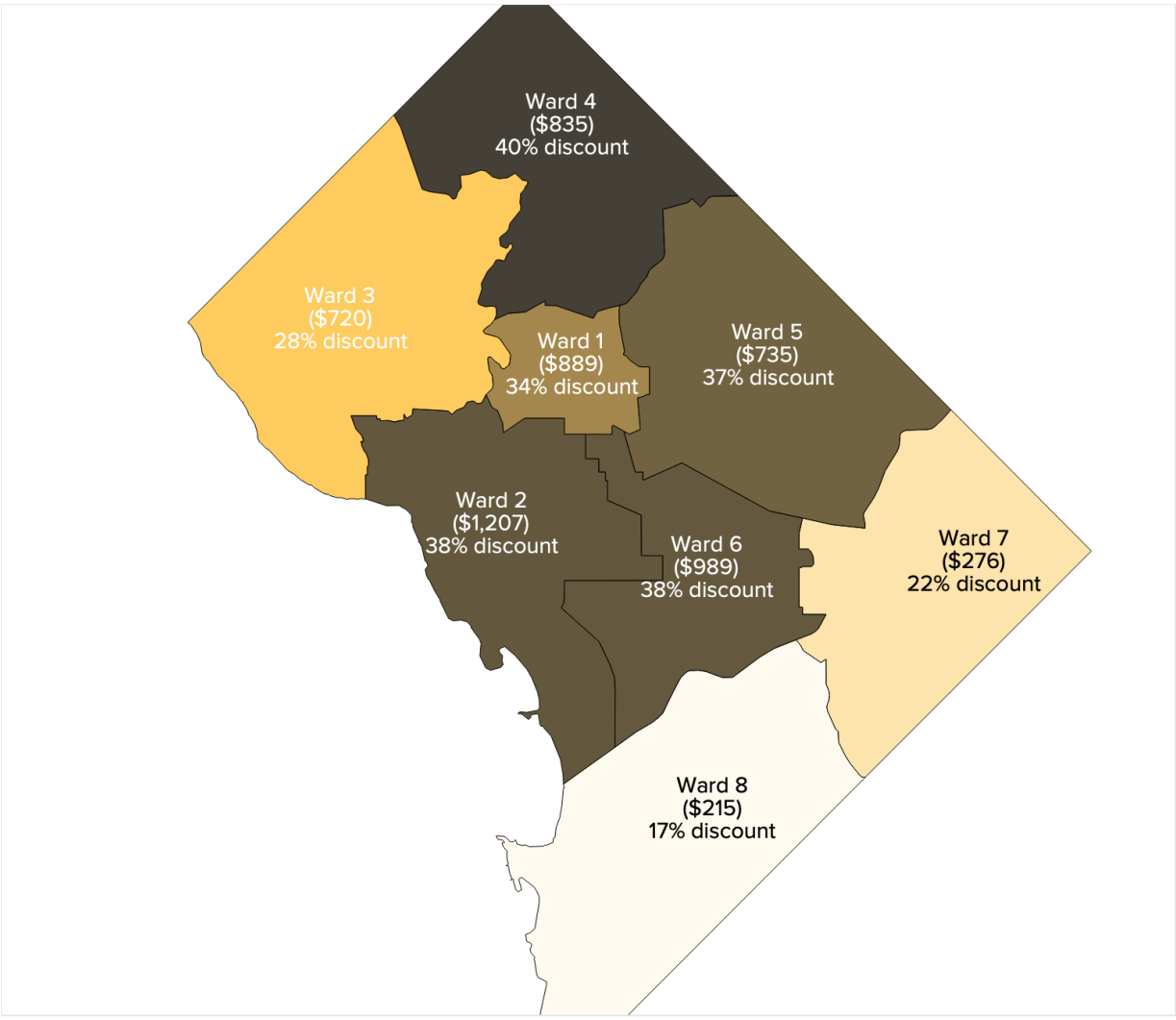
The dramatic increase in the number of rent-controlled units in the recently built Class A buildings in Ward 6 highlights that the beneficiaries of expanding rent control would be the tenants living in these buildings, and not necessarily the lower income households in the city.

The actual number of rent-controlled units, however, could be much fewer than what is projected here. Some units would leave the rent-controlled stock through condominium conversions; other units might become unavailable if reduced operating incomes make it difficult to keep them habitable. The District's rent-controlled stock has shrunk by about 30 percent since the adoption of the Rental Housing Act for these very reasons. In fact, with more restrictive rents, B23-873 could further increase the leakage rate out of the rent-controlled stock. We revisit this issue in Part IV.

III. How would Bill 23-873 impact rents, valuations and tax revenue?

Many factors impact the trajectory of rents in a city including the increase in renter households relative to the number of available units, incomes, and the overall strength of the economy. In cities like the District, with relatively restrictive land use regulations, rent control laws could put a significant wedge between market rents and rents providers are able to charge in rent-controlled units.

Figure 4 – The median rent discount on rent-controlled units by ward, 2019



Rent prices in the rent-controlled stock relative to the rent prices in the uncontrolled stock:

-40% -17%

Source: Housing database compiled by the D.C. Policy Center. Rent data are from December 2019 Costar.

Note: The median rent is measured across buildings and not units based on the rents averages across each building.

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According to D.C. Policy Center research, rents in rent-controlled buildings can be notably lower than the rents in uncontrolled buildings. The median rent-controlled building in the District rents its units at rates that are 25-35 percent below the median rents for units in the uncontrolled stock. These differences are not entirely because of rent control: they also reflect the differences in building location, age, amenities, and the different mix of units across the rent controlled and uncontrolled stocks. For example, location alone can explain much of the variation in rents. Rent-controlled units can rent at a 40 percent discount in Ward 4, 38 percent discount in Wards 3 and 6, but only at a 17 percent discount in Ward 8 (Figure 4). But this gap between market rents and rent-controlled rents could be much bigger under B23-873 if the District experiences rent growth similar to its past.

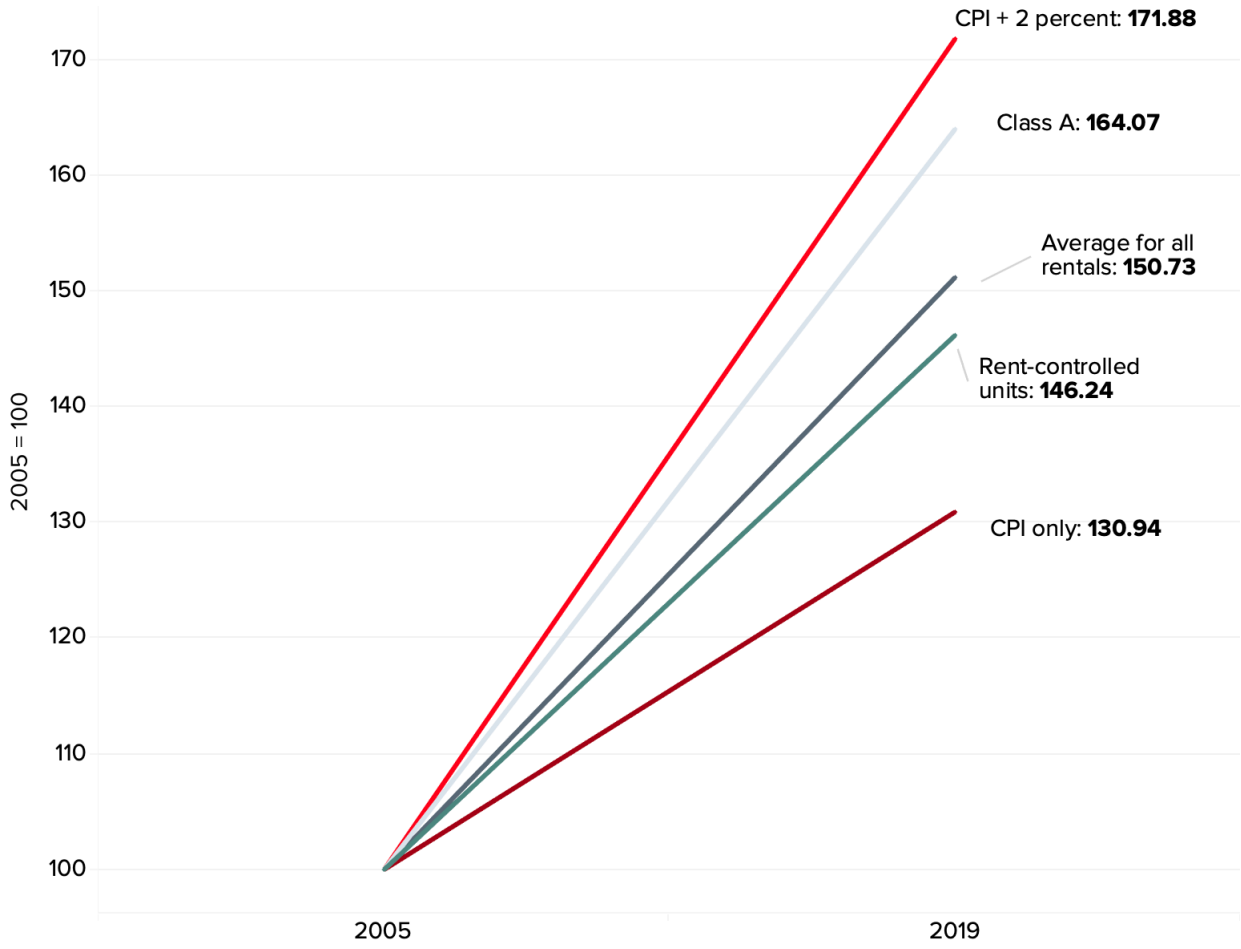
A. How much did the rents grow since 2006?

Data from 2006 to 2019 show that rents in rent-controlled units grew, on average, by 2.8 percent, or a combined 46 percent over this period (Figure 5).[23] Averaged across years, rents grew at rates slower than the allowable rate of CPI + 2 percent, which averaged about 4 percent through these years, and would have yielded a combined growth of 72 percent. During this period, even Class A properties,[24] on average, did not grow as much as CPI +2 percent. Rents in Class A properties grew by an average of 3.6 percent per year, or by a combined 64 percent (Figure 5)[25]. The muted growth in rent is a likely result of significant number of new units delivered during this period, and strong production of new housing has served as a natural control on rents. [26]

The observed rent growth averaged across years is certainly different from the actual rent growth that tenants experienced from year to year.[27] Some units and buildings likely had higher rent growth if they had high turnover, or increased rents through a petition process. This is important to remember because the existing slack between CPI+2 percent and the actual rent growth allows housing providers to be nimbler, allowing them to raise rents at varying rates from year to year depending on the market conditions and conditions in their buildings, such as vacancy rates and turnover. This slack between what was permissible (the equivalent of roughly 4 percent per year between 2005 and 2019) and what the market was able to bear (the equivalent of 2.8 percent during the same period) has allowed housing providers better manage their margins and remain in service.

[23] This estimate is based on CoStar data on rent history filtered for multifamily buildings with five or more units built before 1977.
[24] Class A properties are generally newer properties built within the last 15 years with top amenities, high-income earning tenants and low vacancy rates..
[25] Per Delta Associates.
[26] See, for example, this study from the Office of the Chief Financial Officer.
[27] This is the average growth across the city, and does not reflect the experiences of individual housing providers or tenants.

Figure 5 – Actual growth in rents compared to various scenarios



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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B. How would B23-873 change the rent trajectory?

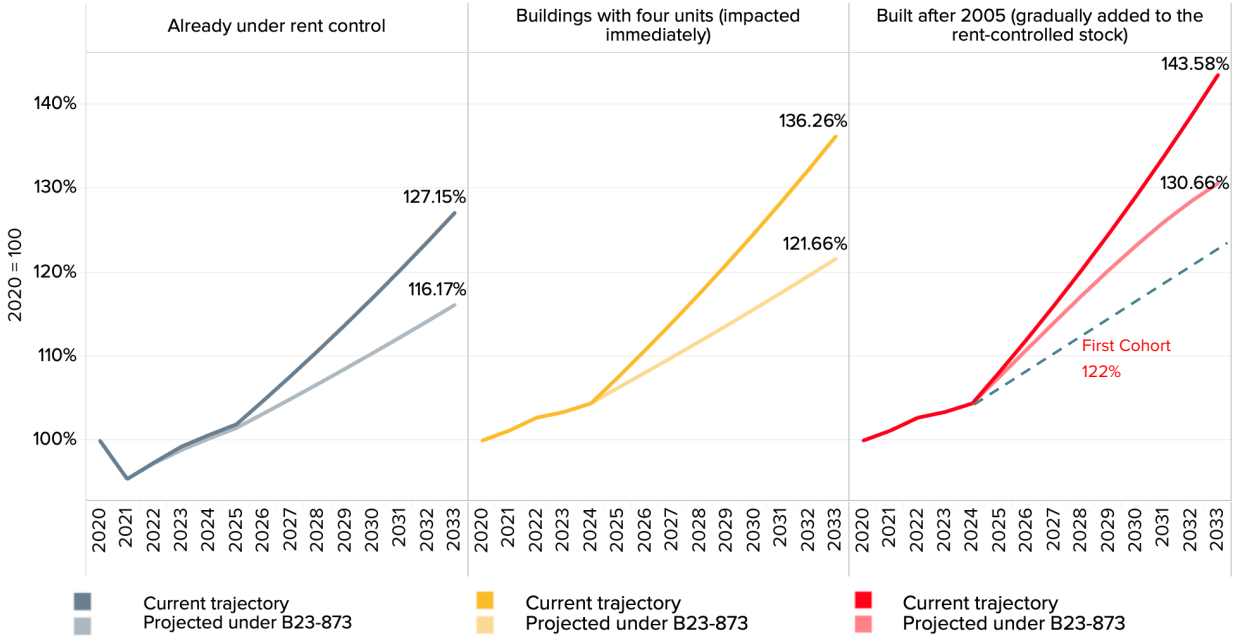
Bill 23-873 would limit rent growth in rent-controlled buildings to growth in the Consumer Price Index (CPI) only. The CPI will likely be a hard cap given the other limitations in the bill: elimination of vacancy increases and voluntary agreements, and significant tightening in the other petition processes would mean that most providers would not be able to raise rents by more than the CPI. It is hard to know what CPI would be in 2033, our best estimate is what is projected by the Office of Chief Financial Officer for 2024, which is 1.8 percent.

Buildings currently under rent control and those with four units would immediately be impact by this change. Additionally, 4,705 units in large multifamily buildings constructed between 1977 and 2005 would also be immediately impacted. Over the following thirteen years, as additional buildings would

incrementally become subject to rent control, more units would be subject to the CPI-only ca. A consideration of potential rent trajectories under B23-873 suggests that annual rent growth could decline by 0.5 percent to 1 percent per year as a result of the CPI-only limitation.

Initially, the impact of B23-873 on rents would be muted by the current economic recession. While this may seem like a good thing—that the rent limitations of the bill would not be that different from the market outcomes—it is a real concern for housing providers who will be relying on post-recession growth to make up for their current losses, making it even harder for them to return to pre-pandemic operating levels. Over time, the gap between the rent trajectories under current law and under B23-873 would widen.

Figure 6 – Potential rent trajectories under current law and under B23-873



Sources: BLS, Delta Associates, CoStart and OCFO.

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.

For the housing stock currently under rent control, rent growth under B23-873 would be depressed by 11 percent between 2022 and 2033 (the period assumed to be past the economic recession). In other words, rents would grow 0.73 percentage points slower each year, at a projected rate of 1.65 percent under B23-973 compared to 2.42 percent under current law (Figure 6, left panel). For small buildings with four units, the combined impact over the same period would be a 15 percent decline in

rents by 2033 compared to the baseline (the equivalent of rents growing 1 percentage point slower each year (Figure 6, middle panel).[28]

The impact of the bill on the multifamily buildings built after 1977 would be felt gradually, because each year only a certain share of these units would be rolled into the rent-controlled stock (See Appendix Figure 2). Figure 6 depicts this impact by weighing the rent growth by the share of units that would be rolled into the rent- controlled stock each year.[29] When adjusted for this gradual rollout, we find that by 2030, rents would be 13 percent lower under B23-873 by 2033 compared to the baseline scenario. The actual impacts would be different for different cohorts. For example, for the first cohort that would be immediately included in the rent-controlled stock. (buildings constructed in 2006), the gap between rent growth under current law and under B23-873 would be 23 percent by 2033. That is, for these units, rents would grow 1.2 percentage points slower each year compared to the baseline scenario (Figure 6, right panel).

C. What does this mean for valuations and tax revenue?

Rent control, by design, limits operating incomes, which, in turn, depresses the values of apartment buildings subject to control. This lower valuation impacts both the city's tax revenue (lower assessed values) and the future housing development patterns (the likelihood of decreased construction of rental housing due to lower return on investment).[30]

In the District, income generating properties, including multifamily apartment buildings, are assessed based on the net revenue after accounting for operating expenses—known as the net operating income—they earn in every year. Under this "income method," the assessed value of a buildings is equivalent to the present value of all future net income that the building could generate. Tax assessors calculate this value by discounting the future string of net operating incomes (revenue from rents minus the costs of operating and maintaining the building) by a cap rate, which is a discount rate that captures the overall conditions in the rental housing market.[31] Tax assessors further adjust this calculation by considering vacancy rates, the physical condition, and other salient features of each building.

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[28] These trajectories are based on certain assumptions about how the markets behave between now and through the end of the pandemic. The CPI estimates for 2020-2024 are taken from the OCFO's estimates published in the September 2020 revenue estimates. The rent growth projections through 2025 are from CoStar. In the longer term, both the CPI and rent growth are projected to return to their historic averages.

[29] For example in 2030, only 60 percent of the units that are not currently under rent control would be brought into rent control under B23-873. So the estimate presented in figure 6 assumes that 62 percent of the units grow at the slower rate dictated by B23-873 this year and the remainder will grow at the baseline rate.

[30] For example, when New York City adopted its universal rent control laws, the sale prices for multi-family buildings impacted by the change have reportedly declined by over 17 percent.For details, see Kathleen Howley, "Rent Control Law Sends New York Building Values Tumbling," The Wall Street Journal, June 25, 2019.

[31] Cap rates could be different for different buildings. The OCFO publishes six different cap rates, three for high rise buildings and three for low rise buildings based on building location. Buildings with LIHTC support have adjusted cap rates.

Under this valuation system, taxable assessments change for two reasons. First, taxable assessments grow if net operating incomes grow. This would happen as a result of rent growth, or as a result of increased efficiencies in building operations that could follow, for example, the installation of new windows or an energy-efficient furnace, or the replacement of a 24-hour concierge with keyed entry to the building. Second, assessments change if cap rates change, for example if a similar building is sold at a high price, or if the underlying expectations about the market's performance changes. A lower cap rate means that future earnings are discounted at a lower rate, increasing the present value of future net operating income of a building, even if the net operating income stays the same.

Model structure

The main focus of this brief is the impact of stricter rent-control laws on net operating incomes and their growth trajectories.[32] Because B23-873 would remove almost all possible means of raising rents above CPI by (a) eliminating vacancy increases, (b) making it harder to file various petitions, (c) significantly reducing rent increases providers can seek under various petition processes, and (d) limiting landlords to a fixed 30-day period for implementing rent increases each year, its impact on net operating income growth would be significant.[33] Consequently, under B23-873, the CPI growth could become the absolute cap on rent growth for rent-controlled buildings, and therefore a *de facto* cap on net operating income growth. To the extent that current expectations about the future of CPI are lower than the current expectations of future rent and operating income growth, both assessed values and tax revenue would decline.

Two key variables drive the analysis presented in this section:

1. **The selection of the baseline growth assumptions.** In other words, what kind of rent and income growth are providers projecting for the next ten to fifteen years? These expectations are shaped by current market conditions (such as the impact of COVID-19), future pipeline of housing, demand projections, and historic growth in rents and incomes. This brief considers three different baselines:
    i. **Growth trajectory in assessed values and the implied growth in net operating incomes observed between 2006 and 2019**. We chose the first period to begin in 2006 because that is the earliest year for which we have tax and assessment data at the individual building level.
    ii. **Growth trajectory in assessed values and the implied growth in net operating incomes observed between 2014 and 2019.** We chose this second period to begin in 2014 to limit our analysis to more recent history, removing both the high growth periods before the Great Recession, and the relatively modest growth observed through 2014.

[32] Our analysis keeps the cap rates constant through our projections.
[33] The net operating incomes could futher be depressed if the various petition processes that allow housing providers to increase rent in order to make investments in their buildings become impaired under the bill.

iii. **Growth trajectory for real property taxes from the OCFO's most recent revenue projections (published in September 2020.)** We chose the third scenario to build an extremely conservative alternative.

2. **The selection of growth assumptions under B23-873.** That is, what kind of rent and income growth should housing providers expect if the District were to adopt B23-873? This expectation is largely shaped by the projections for the CPI. This brief uses a CPI growth rate of 1.8 percent through our projection period. This is the OCFO's published CPI projection for fiscal year 2024.[34] The actual inflation could be higher or lower, but our goal is to capture the expectations about rent growth under B23-873, so using the CPI projections is appropriate.

Three separate calculations of the potential losses in assessed values are presented for (1) buildings currently under rent control; (2) small buildings with four units that would be immediately subjected to rent control; and (3) large multifamily buildings that are built after 1977 and would over time roll into the rent-controlled stock by 2033. The section ends with a projection of property tax revenue losses that result from lower assessed values.

The projections presented in this section assume that all buildings subjected to the rent control regime under B23-873 would remain in the rent-controlled stock. While leakage from the rental market would reduce these impacts, they would come at the expense of affordability in the overall housing market. These implications are discussed in Part IV of this brief.

Is this a fiscal impact analysis?

A fiscal impact analysis compares the revenue and expenditure impacts of a proposed legislation to the revenue and expenditure trajectories in an approved budget and financial plan. This analysis is then overlaid on the budget and financial plan period which is the current (or the most relevant) fiscal year and the three subsequent years. The purpose of a fiscal impact statement is to inform budget decisions.

The purpose of this brief is to inform policy decisions. For these reasons, the analysis focuses on a longer period of 13 years, and it presents multiple scenarios including scenarios based on historic growth as well as the projected growth. The reasons for this approach are the following:

- Because tax assessments for income generating properties lag actual economic activity by two years, a fiscal impact statement would not capture the impact of restricted rent growth for the first two years after the adoption of B23-873 and only a small loss in the last two years of the financial plan. This brief focuses on a longer period because these losses compound over time.

[34] It is very difficult to estimate the CPI over long periods of time and few sources put longer term inflation rates in the US at anywhere between 1.7 percent to 2 percent See the OECD, IMF, and Federal Open Market Committee estimates for US. And the average rate of annual inflation was 1.77 percent between 2010 and 2020.

- In some scenarios, this brief uses historic growth rates as opposed to the baseline revenue in the city-approved budget because baseline revenue tends to be conservative. In this way, the projections take into consideration the positive (and occasionally negative) real property tax revenue surprises the city had experienced since 2006.
- As an alternative, a third scenario that pegs the baseline growth to the OCFO's projected growth for property tax revenue in the year 2024. And all baseline scenarios also use the OCFO's published estimates of real property tax growth for the fiscal year 2021 to 2024 period.[35]

There are other, secondary impacts of the bill that can reduce tax revenue for the city. Declining rents, even if they were in the future, would change the behavior of market actors sooner because market actors take into consideration future conditions when they make decisions. Depressed revenues in the future would impact current sales and investment activity and new constructions, with a cascading impact on the entire housing market in the city. Quantifying these impacts require additional assumptions for which we do not have enough data, but Part IV of the brief discussed some of these implications.

Impact on properties currently under rent control

The first group of properties that would be impacted by B23-873 are those that are currently under rent control. As noted, an estimated 72,878 units in 2,157 buildings are subject to rent control in the District of Columbia. According to tax rolls, in 2019, these buildings were collectively valued at $11.6 billion. Combining tax data from 2006 through 2019, we were able to compile the tax assessment histories for 2,050 of these 2,157 buildings (95 percent). Over that period, the collective taxable assessments for these buildings grew by an average of 8.5 percent year over year (or 189 percent combined over the 13-year period—the equivalent of about a tripling of the assessed values).

This strong growth was the result of multiple factors. For the period between 2006 and 2019, both declining cap rates and growing operating incomes fueled assessment growth. The gradual decline in cap rates from 7.4 percent in 2006 to about 5.4 percent in 2019 explains about 35 percent of the increase in values during this period.[36] In other words, improvements in the underlying market conditions account for about a third of the value appreciation. The remainder is largely driven by the increases in net operating incomes. When adjusted for cap rate changes, the growth in taxable assessments during this period points to an implied average annual growth in net operating incomes of 6.4 percent (Table 5).[37] This value is implied because it is the residual growth after the influence of cap rate changes on valuations is removed.

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[35] Therefore, we expect our projections to look like the OCFO's analysis for the financial plan period. To the extent that our projections would be different from the OCFO's fiscal impact analysis of this bill, this difference will be driven by the estimated growth rate in net operating incomes under B23-873.

[36] The implied annual growth in net operating incomes is 3.8 percent.

[37] This is a much higher rate than the rent growth during this time (an average of 2.8 percent for rent-controlled buildings), because it shows the cumulative impact of rent growth and operating cost savings.

Table 5 –Baseline growth scenarios and implied net operating income growth for buildings already under rent control

	Beginning cap rate	Historic growth in assessed values [3]	Implied annual NOI growth[4]
Scenario 1 – 2006 to 2019	7.4 percent[1]	189 percent	~ 6.4 percent
Scenario 2 – 2014 to 2019	6.5 percent[1]	35 percent	~ 4 percent
Scenario 3 – growth projected for the last year of financial plan	N/A	N/A	~2.9 percent
Ending cap rate for all scenarios	5.7 percent[2]		

Table notes:
[1] CoStar. [2] The mid-point of the median cap rates published for high-rise and low-rise apartment buildings by the OCFO for the tax year 2019. Office of Tax and Revenue (2018), Tax Year 2019 Analytics Book, p.23. [3] From archived tax roll data for years 2006 through 2019. This is the residual growth in assessed values when controlling for the changes in the cap rate. Implied rate based on the assessed value growths and cap rates. [4] The estimated annual growth in NOI is the annual growth rate that produces the associated historic growth presented in column 2 given the cap rates.

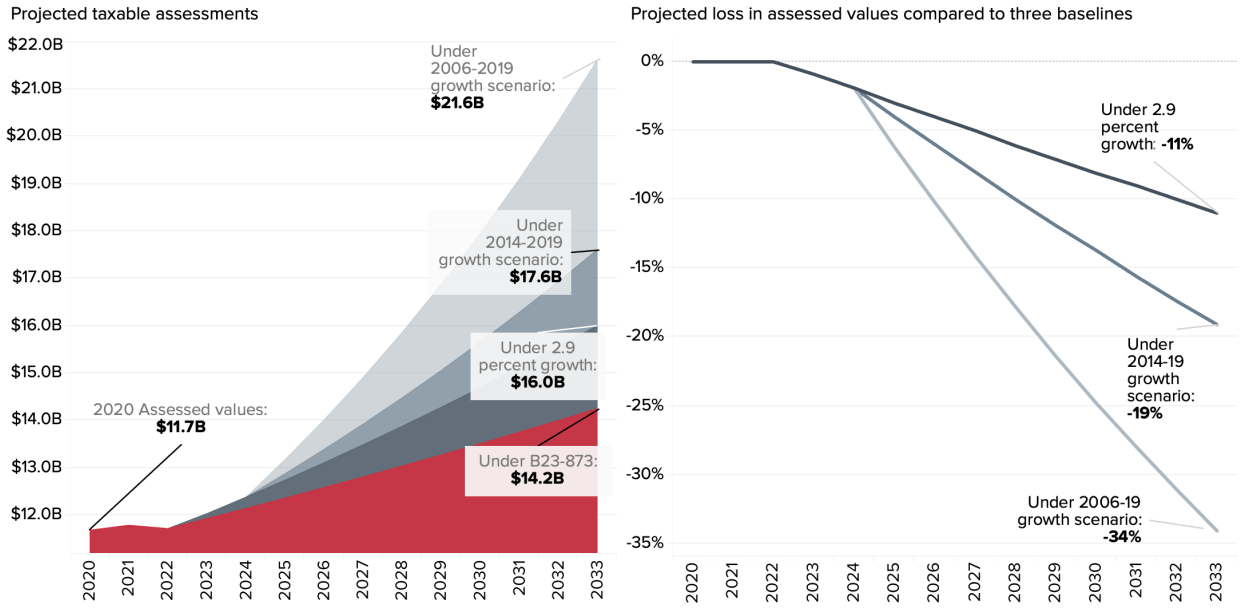
For the period between 2014 and 2019 (Scenario 2 in Table 5), both the growth in assessments and the decline in cap rates were more muted. During this period, the combined taxable assessments of the 2,050 rent-controlled buildings for which we have data increased by 35 percent. The cap rates had already declined to 6.5 percent and stabilized by 2014, but they still account for about 40 percent of the change in valuations. The remainder was driven by net operating income growth, which is estimated at four percent for this five-year period.

The third scenario presented in Table 5 simply assumes that baseline assessments would grow by 2.9 percent, replicating the OCFO's projected growth rate for real property tax revenue. As the analysis keeps cap rates constant for the projection period, both taxable assessments and net operating incomes would also grow at this rate.

The results of these three scenarios are presented in Figure 7. If assessments were to grow at the same rates as they did between 2006 and 2019, the assessed values of the properties currently under rent control would grow to $21.6 billion by 2033.[38] If the growth in assessments were similar to the rates we saw between 2014 and 2019, their values would grow to $17.6 billion. And if assessments were to grow at the rates projected by the OCFO for 2024, the value of these buildings would grow to $14.2 billion. In comparison, under B23-873, the assessed values would grow only to about $11.7 billion by 2033. These losses are the equivalent of a 12 percent loss in the most conservative scenario. But considering the assessment growth history in the city, B23-873 could wipe out anywhere from one fifth to a third of building valuations by 2033.

[38] When cap rates are constant, which is what is assumed in this exercise, the assessments are entirely driven by NOI growth. The detailed on the variables used for the projection model are available in Appendix Table 1.

Figure 7 – Potential assessment trajectories for buildings already under rent control



Source: See Appendix Table 1. 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.

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Impact on buildings with four units

B23-873 proposes to limit exemption from rent control to providers with fewer than four units compared to the current threshold of fewer than five units. This provision would immediately expand rent control to an estimated 2,152 buildings across the city.

We have been able to track continuously assessment value changes between 2006 and 2019 for 2,145 of these buildings (more than 99 percent). Examination of their assessed values shows that among these small buildings, the combined tax assessments more than doubled over the 2006 to 2019 period, growing from $511 million to $1.3 billion (the equivalent of a 156 percent growth). And during the period from 2014 to 2019, their assessed value grew from $733 million to $1.3 billion (79 percent growth). That is, value appreciation was twice as fast for these small buildings during the 2014-19 period as compared to the 2006-19 period. This trend is profoundly different from the assessment growth trend for larger multifamily buildings currently under rent control.

For this group, the changes in the cap rates can explain 40 percent of the assessment value growth between 2006 and 2019 and therefore the implied net operating income growth in this period is 4 percent. In contrast, between 2014 and 2019, the changes in the cap rates can explain only 30 percent of the growth in assessed values; the remainder was driven by growth in net operating incomes, estimated at 8 percent for this period (Table 6).

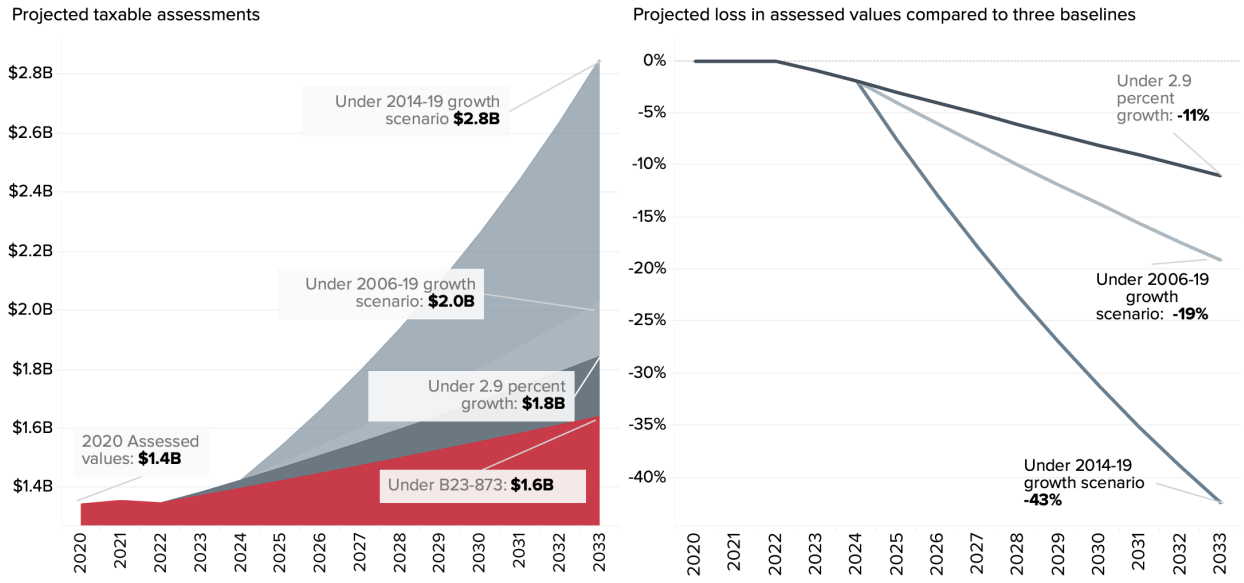
Table 6 – Baseline growth scenarios and implied net operating income growth for small buildings with four units

	Beginning cap rate	Historic growth in assessed values [3]	Implied annual NOI growth[4]
Scenario 1 – 2006 to 2019	7.4 percent[1]	156 percent	~ 4 percent
Scenario 2 – 2014 to 2019	6.5 percent[1]	79 percent	~ 8 percent
Scenario 3 – growth projected for the last year of financial plan	N/A	N/A	~2.9 percent
Ending cap rate for all scenarios	5.7 percent[2]		

Table Notes:
[1] Costar. [2] The mid-point of the median cap rates published for high-rise and low-rise apartment buildings by the OCFO for the tax year 2019. Office of Tax and Revenue (2018), Tax Year 2019 Analytics Book, p.23. [3] From archived tax roll data for years 2006 through 2019. This is the residual growth in assessed values when controlling for the changes in the cap rate. Implied rate based on the assessed value growths and cap rates. [4] The estimated annual growth in NOI is the annual growth rate that produces the associated historic growth presented in Column II given the cap rates.

Under B23-873, the assessed values for small buildings is projected to grow from a base of $1.3 billion in 2020 to $1.63 billion by 2033. In contrast, growth in assessments at a rate similar to that observed between 2014 and 2019 would have yielded a combined assessed value of $2.9 billion. This is a value loss of 42 percent by 2033. Compared to the assessment that would have prevailed had operating incomes grown at rates observed between 2006 and 2019, B23-873 could depress values by nearly 20 percent. Even under the most conservative scenario, B23-873 could erase 10 percent of values by 2033 (Figure 8).

Figure 8 – Potential assessment trajectories for small multifamily buildings built before 1977



Source: See Appendix Table 2. 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.

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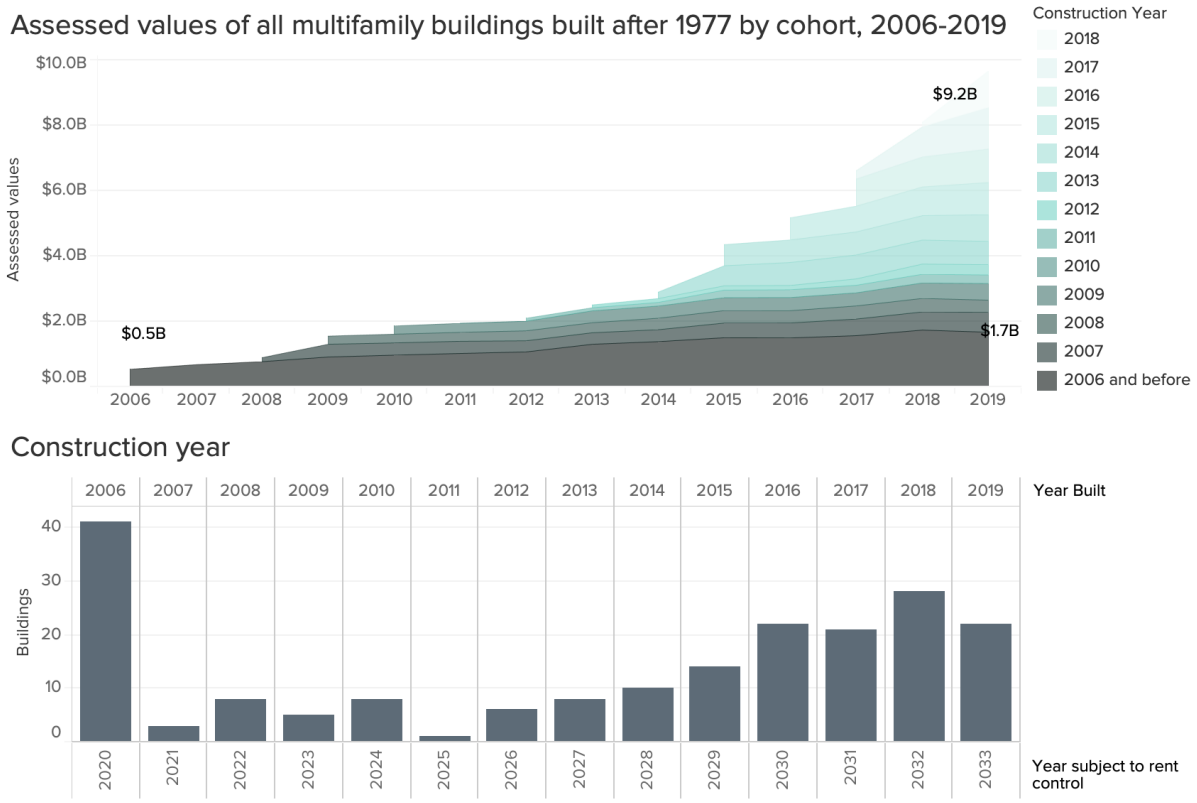
Impact on large buildings built after 1977

Analyzing the impact of B23-873 for multifamily buildings constructed after 1977 must take into consideration the tax base growth from new construction as well as when each cohort of buildings is subjected to rent control under the bill. Administrative data show 197 such buildings that gradually entered the tax records from 2006 to 2019. The assessment growth between 2006 and 2019 reflects not just the appreciation buildings experienced, but also the growth in the tax base due to these new buildings. Between 2006 and 2019 the total assessed values of multifamily apartment buildings constructed after 2006 grew from $0.6 billion to $9.2 billion, but 80 percent of this growth was due to the base growth (Figure 9, top panel).

Additionally, each cohort of buildings would be subject to B23-873 in different years, and therefore their valuation would be altered in different years. In the first year of implementation, only 44 buildings would fall outside the 15-year exemption window and therefore become rent-controlled. This number would grow steadily through 2033 (Figure 9, bottom panel).

Figure 9 – Assessed values of all multifamily buildings built after 1977 and rate at which they enter the base



Source: Tax assessments are from historic tax rolls for 2006 through 2019 published by the OCFO and archived by the Office of Revenue Analysis. Number of new buildings is calculated by the actual year built information for each buildings in the District's Computer Assisted Mass Appraisal database. Data presented for multifamily rental apartment buildings with 5 or more units only.

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To ensure that the measured growth rates reflect only the value appreciation and not the base growth, the analysis keeps the assessment base constant for the reference period. Consequently, the assessment growth calculation for the 2006-2019 period reflects the value appreciation for the 44 buildings built before 2006 and therefore were continuously on the tax rolls between 2006 and 2019.[39] The assessed values of these 44 buildings increased by 149 percent between 2006 and 2019, and the gradual decline in the cap rates accounts for 30 percent of the assessment growth. This implies that net operating incomes for these 44 buildings grew by approximately 7.5 percent on average each year.

Similarly, the 2014-2019 growth rate calculations use data from 107 properties that were constructed before 2014 and were continuously on the tax rolls between 2014 and 2019.[40] The assessed values for these properties grew from $3.2 billion to $4.7 billion over these five years, and the gradual decline in the cap rates can explain 38 percent of this appreciation. Therefore, the implied average annual growth in net operating incomes of these properties was approximately 4 percent during this period (Table 7).

Table 7 – Baseline growth scenarios and implied net operating income growth for small buildings with four units

	Beginning cap rate	**Historic growth in assessed values [3]**	**Implied annual NOI growth[4]**
Scenario 1 – 2006 to 2019	5.9 percent[1]	216 percent	~ 7.5 percent
Scenario 2 – 2014 to 2019	5.2 percent[1]	35 percent	~ 4 percent
Scenario 3 – growth projected for the last year of financial plan	N/A	N/A	~2.9 percent
Ending cap rate for all scenarios	4.7 percent[2]		

Table Notes:[1] Costar cap rate reports for buildings built after 2005. [2] The mid-point of the median cap rates published for Class A high-rise apartment buildings by the OCFO for the tax year 2019. Office of Tax and Revenue (2018), Tax Year 2019 Analytics Book, p.23. [3] From archived tax roll data for years 2006 through 2019. This is the residual growth in assessed values when controlling for the changes in the cap rate. Implied rate based on the assessed value growths and cap rates. [4] The estimated annual growth in NOI is the annual growth rate that produces the associated historic growth presented in Column 2 given the cap rates.

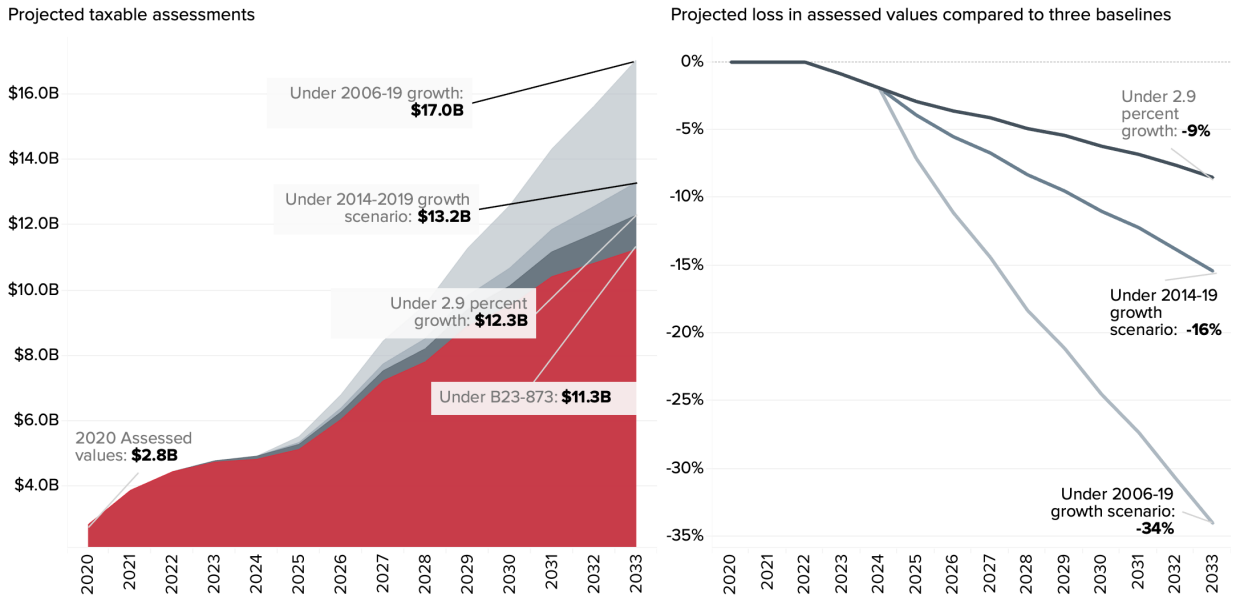
Because buildings built after 2005 would gradually roll into the rent-controlled stock under B23-873, only a small share of assessed values would be continuously depressed for the 13-year projection period. Under B23-873 the assessed values of impacted properties would grow from $2.9 billion in

[39] We found 66 taxable properties that were continuously on the tax rolls between 2006 and 2019, but some of these were not yet multifamily buildings in 2006. Some were vacant lots and others were under different use. We exclude those 19 properties from our calculations.

[40] There are 136 properties that were continuously on the tax rolls between 2014 and 2019. We exclude 29 properties that were vacant lots or were under some other use in 2014 from our analysis.

2020 to $11.2 billion in 2033, but most of this growth would be associated with the expansion in the number of rent-controlled buildings (Figure 10).

Figure 10 – Potential assessment trajectories for large multifamily buildings built after 1977



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.

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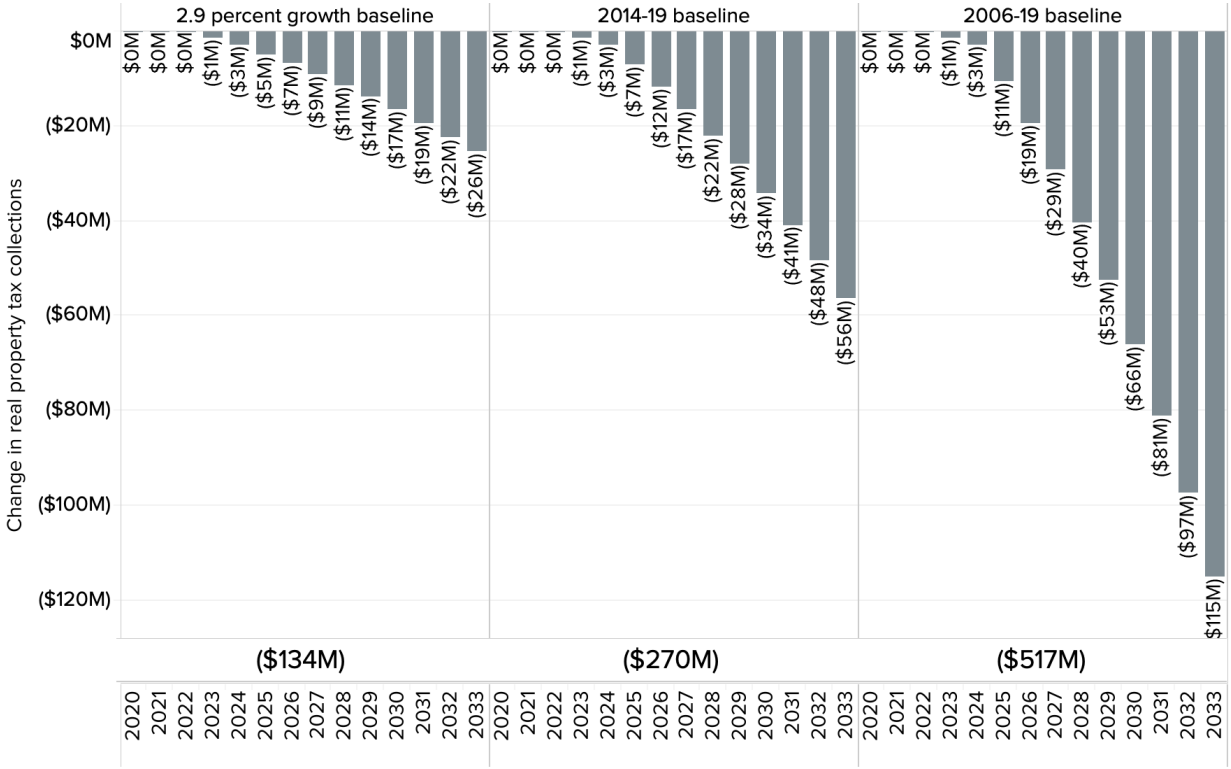
Using the same base expansion but 2006-2019 growth patterns yields a combined assessed value of $17.9 billion. This is the equivalent of a potential value loss of 34 percent under B23-873. Compared to the assessment that would have prevailed had operating incomes grown at rates observed between 2014 and 2019, B23-873 could depress values by nearly 15 percent. Under the most conservative scenario, B23-873 would erase 8.5 percent of values by 2033.

Tax revenues under B23-873

The direct impact of depressed assessed values under B23-873 is revenue loss for the city. In all the scenarios presented, the losses would begin at modest levels but would grow to substantial amounts over the years. The revenue losses in the first few years would be modest because the pandemic-induced recession, with or without rent-control, is projected to put a negative pressure on rents, resulting in modest to negative taxable assessment growth between 2020 and 2022. As more years pass and more buildings become subject to rent control, the losses would grow faster because of (a)the compounding impact of rent growth restrictions, and (b) the growing rent-controlled stock. We estimate that by 2033, B23-873 could reduce the annual tax revenue from the rental apartment stock by anywhere between $26 million (compared to the 2.9 percent growth scenario) and $115 million (compared to the 2006-2019 growth scenario). (Figure 11).

Figure 11 – Tax revenue projections under B23-873 relative to baseline



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

The combined losses over the projection period would also be significant. Even under the most conservative scenario, where property values would grow at 2.9 percent, one would expect a revenue loss of a combined $134 million over the next 11 years. To put this number in perspective, this is greater than the total real property taxes paid by this base in 2020 (an estimated $112 million). And if the District's future assessment growth were to mimic its experience between the 2006-2019 period, Bill 23-873 could depress revenue by over half a billion dollars between now and 2033.

IV. How would Bill 23-873 change the future of housing in D.C.?

The underlying tension in rent control policies is balancing the desire to stabilize rents for tenants against the need for the housing providers to a turn a reasonable profit from their operations. Unlike housing subsidies, which are paid for by public dollars, rent control laws try to split the economic value created in the rental housing market between tenants and housing providers. On the one hand, policymakers worry that without rent control laws, providers can increase rents opportunistically, jeopardizing renter households' housing stability. On the other hand, if the rent control laws diminish the returns for housing providers too much, providers could reduce how much they invest in their buildings, and when the opportunity allows, convert them into condominiums.

Much of the debate regarding rent control is centered around how to split this value from the rental housing market between tenants and housing providers. But decisions the District makes about rent control policy would have impacts that go beyond the size, value, and tax contributions of the rent-controlled stock. The housing market in the District of Columbia is interconnected. Different components—rentals versus owner-occupied, subsidized versus market rate—are distinctions we adopt for policy, but these segments work together and respond to changes in each other. Individual actions by renters, homebuyers, banks, investors, and developers—including decisions taken in response to policy changes—collectively shape the housing market and determine the market's ability to meet overall housing needs. Because of the complexity of this ecosystem, a singular policy lever such as "stricter rent control" will not always get to the desired result.

In the case of B23-873, stricter rent growth will reduce the operating incomes for rental apartments and reduce tax revenue for the city. But the bill's impacts would not end there. Over time, because they have lower profits, some providers will invest less in their buildings reducing the quality of housing.[41] Others will convert buildings into condominiums or coops. The impacts would be felt on future development too: rental housing projects that have not broken ground yet might be delayed or converted into condominium projects. Or they could be completely scrapped. All these would make rental housing more—and not less—expensive and could result in greater resident displacement.

Drainage out of the rental market

If all units that would be subjected to rent control under B23-783 by 2033 remain active as rentals, the number of rent-controlled units in the District would increase to 112,400—a 55 percent increase from the current stock, or approximately 5,000 more than the units placed under rent control when the District enacted the Rental Housing Act in 1985.[42] But actual growth in the rent-controlled stock will likely be lower than the total number of units impacted by this bill. Loss in rental income, inability to cover costs, and higher returns elsewhere could incentivize housing providers to convert their units

[41] For buildings under mortgage, if the assessed values fall below the lender-required loan-to-value ratio, providers would be further pressured

[42] For details, see Margery A Turner, "Rent Control and the Availability of Affordable Housing in the District of Columbia: A Delicate Balance" (Urban Institute, 1988). Interested readers can find a brief history of the District's rent control laws here.

into condominiums or take them out of the housing stock altogether if the cost of keeping them habitable becomes prohibitive.

Both the District's own experience with rent control, and analyses of rent control laws from other jurisdictions, show that housing providers do respond to tightening of rent control laws by taking their units out of the rental stock, especially if they expect that a loss of rental income will make it more difficult to cover operating costs, or if they can find better returns in alternative investments.

For example, one study from 1988 shows that at the time of the enactment of the Rental Housing Act, the District had an estimated 107,000 units under rent control; today, it has 72,878.[43] This puts the loss in rent controlled units at 31 percent over 35 years (or an annual rate of about 0.9 percent). Further, data from apartment directories from the early 1990s show that this was more rapid immediately following the enactment of the Rental Housing Act. The best we can tell, within the first seven years of rent control, the number of rent-controlled units in multifamily rental apartment buildings had already dwindled down to slightly above 85,000.[44] This is the equivalent of a 2.7 percent loss in units each year. Many of these units were converted into condominiums.[45]

Other research corroborates these findings. For example, in her book, *The Politics of Staying Put*, [46] Professor Carolyn Gallaher estimates that between 2000 and 2007, some 1,147 rental apartment buildings with 26,645 units were converted into condominiums in the District.[47] Some of these units were purchased by their previous tenants under the District's TOPA laws. But others, in buildings where tenants did not exercise their TOPA rights, or have signed away those rights, the units have often been redeveloped into expensive units with prices the former tenants are not able to afford—what Professor Gallaher calls "exclusionary displacement." There is presently no data available to quantify how rents change when units are converted under TOPA laws, but in her sample of seven buildings that changed ownership through TOPA, she finds that forty percent of units went through TOPA ended up as units beyond the means of their former low- and middle-income tenants.

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[43] Data on how many units were subject to rent control at the time of the passing of the Rental Housing Act is scant. According to a study conducted by the Urban Institute in 1988 for the Department of Consumer Affairs, at the time of the passing of the law, the District had about 160,000 rental units, and two thirds of these were subject to rent control. This would put the loss at 31 percent over 35 years. For details, see Margery A Turner, "Rent Control and the Availability of Affordable Housing in the District of Columbia: A Delicate Balance" (Urban Institute, 1988).

[44] Based on a review of apartment building directories from 1992, the D.C. Policy Center found 85,000 units that would be subject to rent control.

[45] Condo conversions do not necessarily take units out of the rental market, but could take them out of the rent-controlled stock. Administrative data suggest that since 2006, about 9,770 rental apartment units have been converted into an ownership structure. Among these, 48 buildings restructured themselves as cooperatives between 2006 and 2009, removing 726 units from the rental stock. The remainder, or about 9,000 units, became condominiums, and of these, one third are now occupied by their owners. This estimate is developed by comparing 2006 tax record to 2019 tax records.

[46] Carolyn Gallaher, The Politics of Staying Put: Condo Conversion and Tenant Right-to-Buy in Washington, DC (Temple University Press, 2016).

[47] The source for these numbers is data provided to the author by the Department of Consumer and Regulatory Affairs.

When we examined the tax records from 2006 to 2019, we found that 560 rental apartment buildings were converted into condominium buildings representing a loss of approximately 9,769 units. An additional 9 buildings were converted into hotels or dormitories, and 16 were redeveloped as commercial buildings.[48]

These impacts are not unique to the District. For example, only 10 years after San Francisco extended its rent control laws to buildings with fewer than five units, the number of rental units in such buildings had declined by 15 percent, and the number of tenants in these buildings had declined by 25 percent. This is the equivalent of 1.5 percent loss each year. Similar magnitudes of unit loss have been documented for New York and New Jersey municipalities that have rent control ordinances.[49]

Given these experiences, what could the rent-controlled stock look like under B23-873 fifteen years after its enactment (which would subject nearly all rental apartment units in today's stock to rent control)? As noted earlier, when enacted, B22-873 would immediately bring into rent control 8,628 units in small buildings with four units, and 4,705 units in large mutifamily buildings (all built before 2006). By 2033, the total number of units covered by this bill would increase by 39,337 units, bringing the number of units potentially under rent control to 112,419 (Figure 12, first panel).

What if, between now and 2033, the District experiences the same type of loss in the rent-controlled stock as it did since 1985? This would be an equivalent of almost 1 percent of the rent-controlled stock converted into condominiums (or about 1,000 units each year), the total number of rent-controlled units by 2033 could be 99,500. That is 13,000 fewer units thant the scenario that assumes no loss (Figure 12, second panel). A loss in the rent-controlled stock at a rate similar to what San Francisco experienced ten years after it extended its rent-control to small buildings would mean nearly 22,000 fewer units (Figure 12, third panel). Finally, a loss rate similar to what the city expreienced within the first seven years of the enactment of the Rental Housing Act could bring the rent controlled stock to 74,563 units by 2030, or just 1,870 units more than the current stock (Figure 12, last panel).

It is important to note that it is not possible to precisely estimate what the actual leakage rate might be during this period. Providers' decisions to "remain in service versus sell" would largely depend on market rent trajectories, and their ability to find buyers. However, the significant reduction in potential rent growth compared to current law and the consequences on property valuations (and therefore returns to investment) under B23-873 could lead to a much deeper loss in the rent-controlled stock than what the District has historically experienced.

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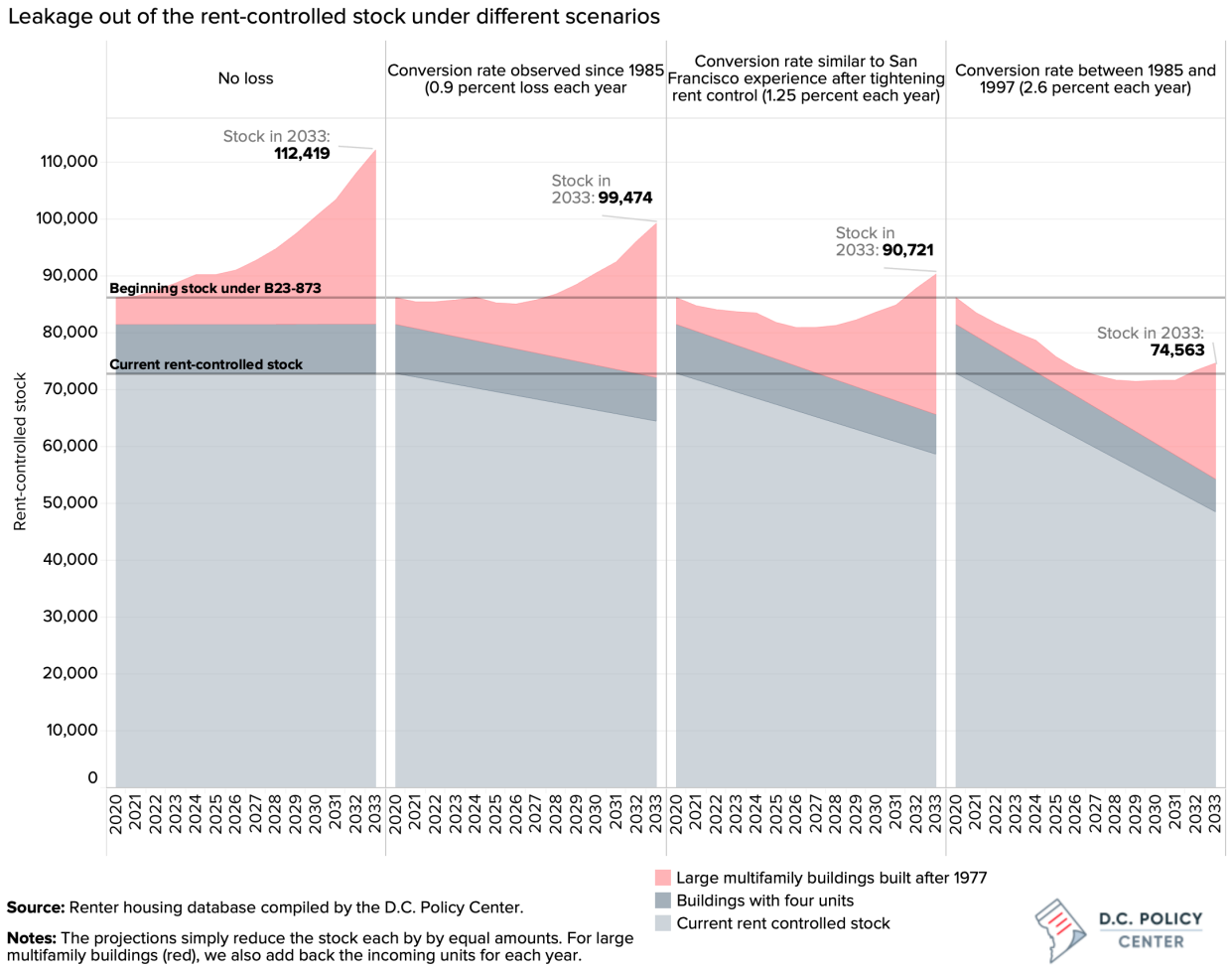
[48] Estimated by examining the use codes for properties that have continuously been on the tax rolls between 2006 and 2019.

[49] For the San Francisco experience, see Diamond et. al. (2019); for New York, see Barker (2018), and for New Jersey, see Ambrosius et. al. (2015). Interested readers can find a review of the literature on the impacts of rent control laws here.

Figure 12 – Projected number of rent-controlled units by 2033 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.

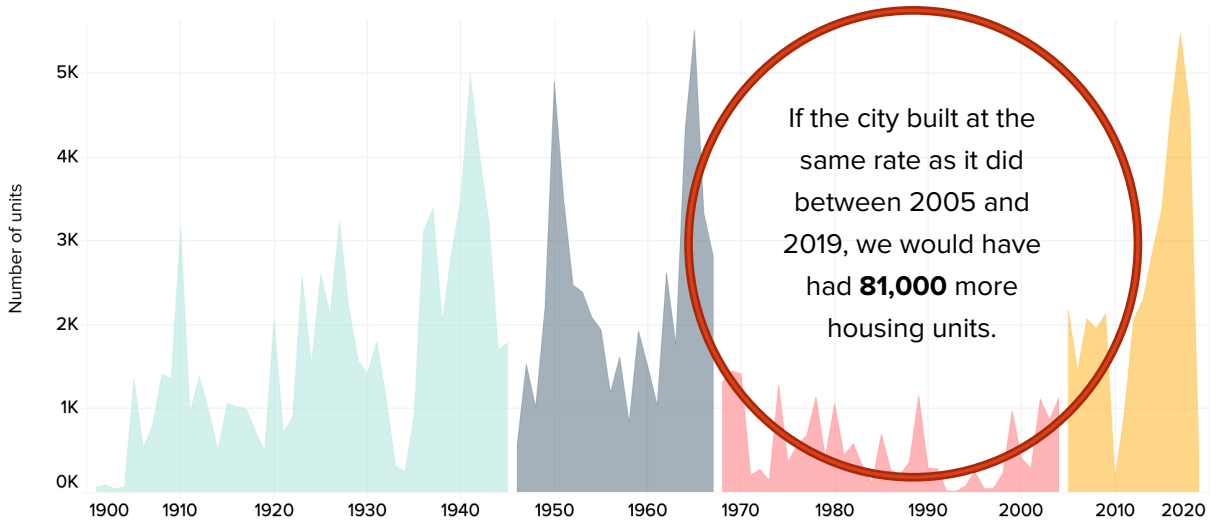
Impacts on the future of housing

Today's housing stock is the sum of the unit production in previous years. If production slows down for long periods of time, the stock suffers. In the height of a construction boom, it seems like building may go on forever, but that's seldom the case. It takes a unique confluence of factors to have a continuous construction boom in the residential sector: a growing population (and a growing number of households), a robust economy, reliable government services, sound financial management, a high quality of life that is attractive to residents, expectations on the developer's side that their investments will yield acceptable returns, willingness on the part of financing institutions to lend to developers, which means they see the market a worthy investment with low risks, and policies that signal the city welcomes investments.

The District has been experiencing a continuous construction boom since 2005. Tax records put the net growth for all housing during that period at over 45,000 units.[50] Three quarters of the units built during this time are rentals (90 percent in the last four years).

We do not need to look back too far to observe a period when construction activity nearly came to a standstill. Between 1968 and 2004, the city's housing stock expanded by only 9,336 units, or under 500 units per year. And rental housing was only about half of this stock. The dearth of construction activity during this period is one of the key causes of housing affordability crises today. If construction activity during that 36-year period was similar to what the city experienced since 2005, the District would have had 81,000 more housing units including 60,000 more rental apartments today (Figure 13).[51]

Figure 13 – Residential construction activity in D.C. (new construction minus demolitions)



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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What happened between 1968 and 2003 was not in response to a single city policy; rather it reflects that market conditions, including the District's falling population, deteriorating economy and finances, poor government services, which collectively contributed to an unstable economic environment that did not provide returns sufficient enough to investors to build in the city. This is not to say that B23-873 will alone be responsible a precipitous decline in housing construction; but it is to highlight that housing supply and affordability today are s a function of construction volume in the past. To the

[50] WDCEP's economic deveopment report puts it to closer to 70,000 but this discrepency is largely because these are gross numbers which do not account for the units taken out to make room for new development. Tax records account for this.

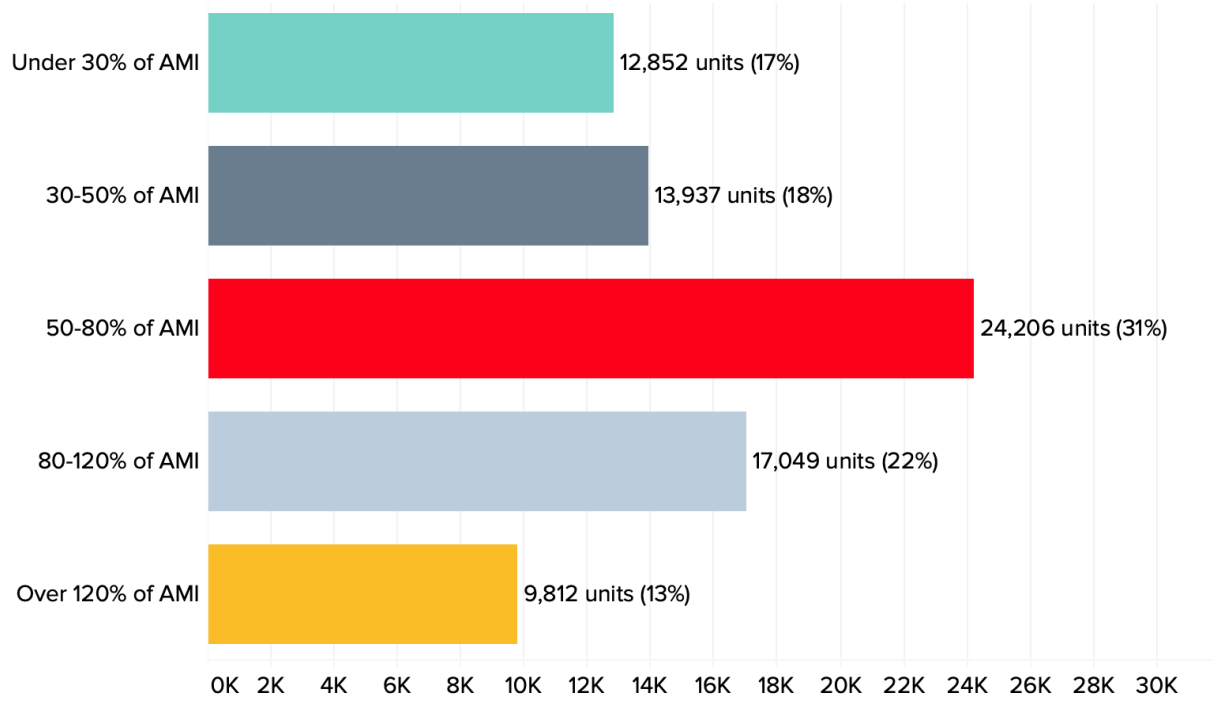
extent that stricter rent control laws diminish current production, future renters and homeowners will face higher housing costs.

Can rents still be high if a larger share of the stock is subjected to rent control?

It is an easy thing to assume that a stricter rent growth restriction applied to a larger share of rental housing would eventually reduce the rent growth in the entire city, and thus, overtime, make housing in D.C. cheaper. But given that there is a rental market beyond rental apartments, and the impacts of stricter rent control could lead to faster rent growth for rental units outside of the apartment buildings.

Already, single-family homes, condominiums, flats, and units in conversions, make up nearly 40 percent of the District's rental housing.[52] This "shadow rental market" (a less regulated—and sometimes unregulated—source of housing) is fluid. Homeowners frequently move their units in and out of the rental market. For example, one fifth of the 87,000 owner-occupied condominiums and single-family homes in 2006 had become rentals in 2019. Conversely, of the 39,500 condominiums and single-family homes that were rentals in 2006, nearly 15,000 (38 percent) were, as of September 2019, owner-occupied.

Figure 14 – Shadow rental market units by rents



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

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[52] This is approximately 83,000 out of 207,400 rental homes in the District. For details, see here.

Earlier work by the D.C. Policy Center has shown that this shadow rental market has been an important source of affordability in the city.[53] Grouping the shadow rental market units by their estimated rents shows 12,850 units that could potentially serve the lowest end of the rental market, with rents at or below $750 per month and 51,000 units that could be affordable for households that earn less than 80 percent of Area Median Income (Figure 14).

If fewer rental apartments are built or some rental apartments are converted into condominiums, then, over time more renters would increasingly turn to the shadow rental market, bidding rents up and enticing more homeowners to rent their units. This pressure, especially from high-income renters, could make the affordable and attainable units in the shadow rental market more expensive. High income renters are already a source of pressure on the District's rental housing: An estimated 47,000 renters in the District who earn 30 percent of AMI, and 42,000 renters who earn over 120 percent of AMI (Appendix Figure 3). These affluent renters could easily push low-income renters out of the shadow rental market by offering to pay higher rents. As a result, rents could increase faster even when rent control laws are stricter.

[53] See Appraising the District's Rentals, Chapter 3.

V. What can the city do to keep rents low?

As renter incomes rise in the District, the upward pressure on rents in rental housing is becoming stronger. This could make policies proposed by the "Reclaim Rent Control" platform seem appropriate, since the immediate impact would be to put more units under rent control and slower rent increases. But the lower rents in rent-controlled buildings are compared to market rate rents, the more likely that housing providers will reduce investments in these buildings, and the higher the temptation to take them out of the rental market entirely by converting them into condominiums. As this study has shown, in addition to lowering valuations and tax revenue, stricter rent control policies can end up aggravating housing affordability crises and increase resident displacement.

Further restricting housing provider income will frustrate the District's affordability goals. The city has firsthand experience with how expensive affordability can be: The District provides substantial subsidies for the creation and preservation of affordable housing units in addition to a combination of federal and local rent subsidies. These subsidies, when combined, account for more than $175 million of the District's annual budget. If the District were to go beyond an extension of the current rent stabilization law and enact stricter rent control laws, absent any other supports, the city would simply push the cost of subsidizing affordability from the government's balance sheet to housing providers' balance sheets—creating what is essentially an unfunded mandate. And the market will not passively internalize this—the mostly likely outcome will be fewer, and not more, rent-controlled units.

What can the city then do to slow rent growth to get renters into units they can afford?

- **Recognize that housing is an ecosystem.** The boundaries delineating different types of housing are more blurred than policy tools would imply. Market actors—renters, homeowners, housing providers, developers, and investors—respond to policy changes, and their actions collectively shape the housing market. For example, if more families want homeownership in the District, fewer single-family homes will be rented out. If housing production is impeded, the subsidies required to preserve affordable housing increase. Hence, a single policy lever that ignores how the entire housing system functions will rarely bring about the desired policy outcome.
- **Make it easier to build.** Rents will grow slower if there are more rental units, including rental housing for middle and high-income renters. First and foremost, the city's policy efforts should focus on using land as productively as possible, specifically through less restrictive land use practices: increasing allowable density as much as possible and easing infill development. The city can also improve the regulatory environment by hastening the pace of the issuance of building permits, which at present creates a significant barrier for new development. And some of these changes will require changing commonly held beliefs about what creates value and beauty in a thriving, inclusive city.
- **Keep the District attractive to investors.** Even more units will be built if the District's economy remains strong, its population and household count keeps growing, government services are

reliable and the city's financial management is sound, and its housing policies remove regulatory risk thereby giving comfort to investors that investing in the District is a safe bet.

- **Create policies for small landlords.** The District has 9,370 units in rental apartment buildings with three or four units, and B23-873 will immediately impact 2,150 small landlords that collectively manage over 8,600 of these units. These landlords have much smaller operating margins and are more likely to abandon their rental units under B23-873.
- **Build a broader perspective for rental housing**. The city must also think beyond multifamily rental apartment buildings when formulating its rental housing policies. The shadow rental market—the units built for ownership but rented out by their owners—fills a significant gap in meeting housing demand by offering a greater variety of units at a greater variety of prices across all parts of the District of Columbia. The District, with its commitment to ADUs and infill development, has chosen to pursue housing policies that depend upon current homeowner's willingness to become landlords. However, absent from the current housing and zoning debates in the District of Columbia are a more comprehensive view of rental housing and a discussion of a more comprehensive rental housing policy. The District can reshape its rental housing policies to consider what would convince a large number of homeowners to become future landlords—and what would continue to convince current landlords to keep their units as rentals. B23-873, and its companions, completely lack this perspective.

Data and methodology appendix

1. Why are the numbers presented in the study estimates?

Three sources of uncertainty make it difficult to know exactly how many units exist in multifamily buildings, and how many are subject to rent control.

First, we do not have full administrative records on the number of units in multifamily apartment buildings and this information must be compiled using multiple resources. This is because, unlike condominium buildings and conversions, where each unit is registered separately for tax purposes, rental apartment buildings (and coops) have a single entity that owns the entire building. The number of units are sometimes reported in the Computer Assisted Mass Appraisal database, and sometimes they are not. Step-by-step details of these calculations can be found here.

Second, we do not have full administrative records on the date when a building has received its building permit, making it difficut to determine whether a building is subject to rent-control laws. The tax assessment records are missing the Actual Year Built (AYB) data for 99 multifamily rental apartment buildings which account for an estimated 3,810 units. We include these in the rent-controlled stock as noted in Table 3.

Third, we have little information on the landlords who own units in disparate buildings including condominium buildings. An analysis of the District's rental stock in condominiums, conversions, and flats (not including rental apartment buildings with five or more units) shows that this number is possibly small. We could find 130 such small landlords that collectively own about 1,520 units that are subject to rent control. This estimate is obtained by grouping units owned by the same owner (as trascribed in the tax rolls) in buildings with the appropriate use code (residential flats, condominiums and conversions), and only includes propoerties that do not receive a homestead exemption.

2. What are the other five proposals considered by the DC Council consideration?

Five other bills offer more limited in the changes to the rent control laws.

Bill 23-237, the Rent Concession Amendment Act of 2019 requires that when advertising a unit, the housing provider must disclose the base rent, the surcharges, and when offered, the discounts on the rent for an introductory period, commonly known as concessions. The goal of the legislation is to ensure that the tenants have full knowledge of the base rent they would have to pay when their discount period is over. The bill also states that a discounted rent offered to a new tenant cannot be less than 90 percent of the base rent.

Provisions of the Rent Concession Amendment Act

Area	Policy	Current Law	Proposed Change
Rent Increase	Annual rent increase for existing tenants	CPI + 2 percent, capped at 10 percent. Certain limits for elderly or disabled tenants. **Rents can increase if no increase happened in the last 12 months.**	**Rents can only increase in the 13th month after the last increase.**
	Rent increase on vacant units	Up to 20 percent depending on the tenure of the previous tenant. **No limitations on concessions.**	**Rent with concessions cannot be lower than 90% of base rent.** If the provider needs a deep concession to fill the unit, the new base rent will be no more than 1.1 times to concession rent. Provider to advertise both the base rent and the concession.

Bill 23-530, the Rent Stabilization Affordability Qualification Amendment Act of 2020 implements income limits on tenants who are eligible to rent from the rent-controlled stock. At present, there is no income test or verification requirement for tenants in rent-controlled units. Under the proposed bill, a tenant would be eligible to rent a rent-controlled unit only if the tenant's monthly income[54] in the previous calendar year was 5 times or less the monthly rent.

Provisions of the Rent Stabilization Affordability Qualification Act

Area	Policy	Current Law	Proposed Change
Universe of rentals and renters	Income targeting	None.	Monthly renter **income at the time of lease signing cannot be more than five times the rent**.

Bill 23-877, the Substantial Rehabilitation Petition Reform Amendment Act of 2020, limits the duration for which a housing provider can implement surcharges to cover the cost of a substantial rehabilitation to the period of amortization as determined by the Internal Revenue Service rules for residential properties. (The depreciation period for rental property under IRS rules is 27.5 years.) Under the bill, the net cost of the rehabilitation is calculated by subtracting from the cost any operating cost savings the landlord might experience as a result of the rehabilitation (for example by installing an efficient heating or cooling systems) and the costs are distributed to tenants proportional to the size of their units. Under current law, the rent surcharges under substantial rehabilitation petition are permanent, and the surcharges do not account for the cost savings from rehabilitation.

Further, to be able the charge a surcharge, the bill requires that rehabilitation projects for over 10,000 sq. ft. gross area meet or exceed the Green Communities certification standards—a set of requirements on the design, construction, and operation of multifamily buildings that contain

affordable housing units. To be eligible to receive certification, rental apartment buildings must serve residents at or below 60 percent of Area Median Income. The bill does not require that the provider receives Green Communities certification but leaves it up to the Rent Administrator to make that determination.

Provisions of the Substantial Rehabilitation Petition Reform Amendment Act

Area	Policy	Current Law	Proposed changes
Universe of rentals and renters	Income targeting	None.	If "meet or exceed" Green Communities certification standard mean meeting eligibility test as well, then **a building must serve tenants at or under 60 percent of AMI.**
Petitions	Substantial rehabilitation petition	**Permanent** increase up to 25 percent to cover **the full cost** of investment. Surcharge applied **equally on all units**, regardless of size. Substantial rehabilitation defined as investment that is at least half the assessed value of the building.	**Temporary** increase up to 25 percent to cover **the "net" cost** of investment. **Increase spread over** the IRS definition of depreciation period. For rental buildings, that is **27.5 years.** Surcharge applied **in proportion to unit size**. For buildings that are above Substantial rehabilitation defined further as a building rehabilitation plan that **meets Green Communities certification standards**.

Bill 23-879, the Capital Improvement Petition Reform Amendment Act of 2020 similarly imposes limits on how much landlords can recoup, and over what period, if they invest in capital improvements that are not large enough to qualify as "substantial rehabilitations." The bill specifically directs the housing providers to spread the cost of capital improvements over 27.5 years, thereby reducing the temporary surcharge they can impose on the rent. Further, it caps the rent increases to 15 percent, and requires that the surcharges be applied in proportionate to unit size.

Provisions of the Capital Improvement Petition Reform Amendment Act

Area	Policy	Current Law	Proposed changes
Petitions	Capital improvement petition	Temporary increase in rents to pay for **the full cost of capital investments** up to **15 percent paid over 64 months if improvements are made to some units**, and **up to 20 percent paid over 96 months if improvements are made over all units.** Surcharge applied u**niformly to all effected units regardless of size.**	Temporary increase in rents to pay for **the net cost of capital investments** up to **15 percent paid over 27.5 years.** Surcharge applied **proportionate to the unit size.**

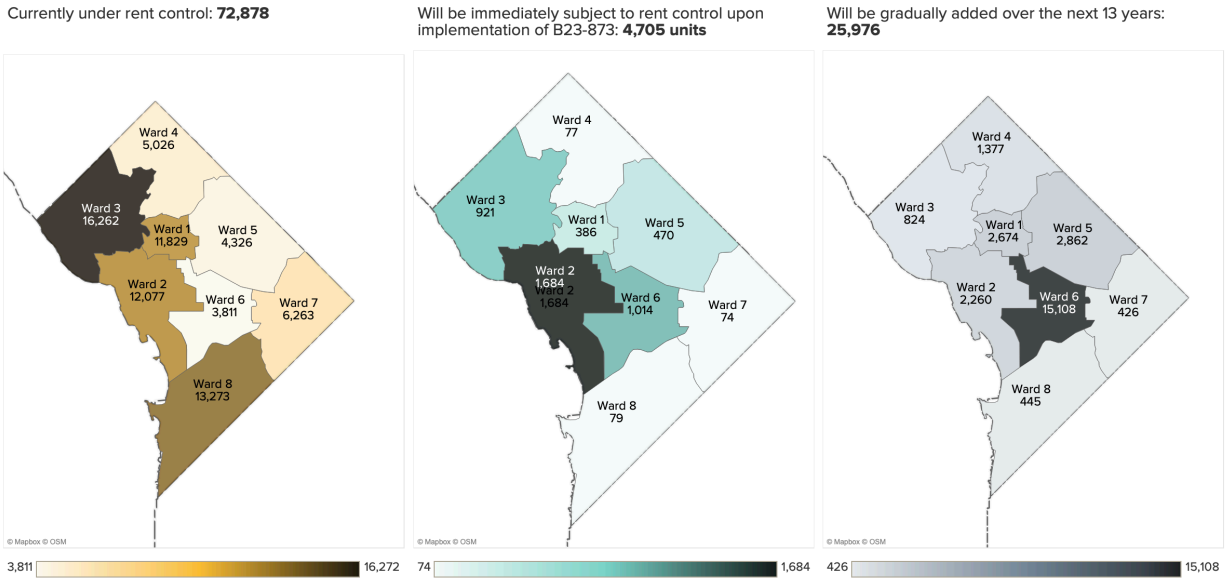
Bill 23-878, the Voluntary Agreement Moratorium Act of 2020 proposes a 2-year moratorium on voluntary agreements.

Provisions of the Voluntary Agreement Moratorium Act

Area	Policy	Current Law	Proposed changes
Petitions	Voluntary agreement petition	Rents can increase in return for investments in the building or services offered so long as 70 percent of current tenants agree.	A two-year moratorium.

3. Additional data and charts

Appendix Figure 1 - Changes in the rent-controlled stock by ward upon adoption of B23-873 and over the next fourteen years



Source: Housing database compiled by the D.C. Policy Center.
Note: The buildings are estimated to lose their exemption from rent control one year after the year they are built. The numbers do not account for any providers who might want to take their units out of the rent-controlled stock.

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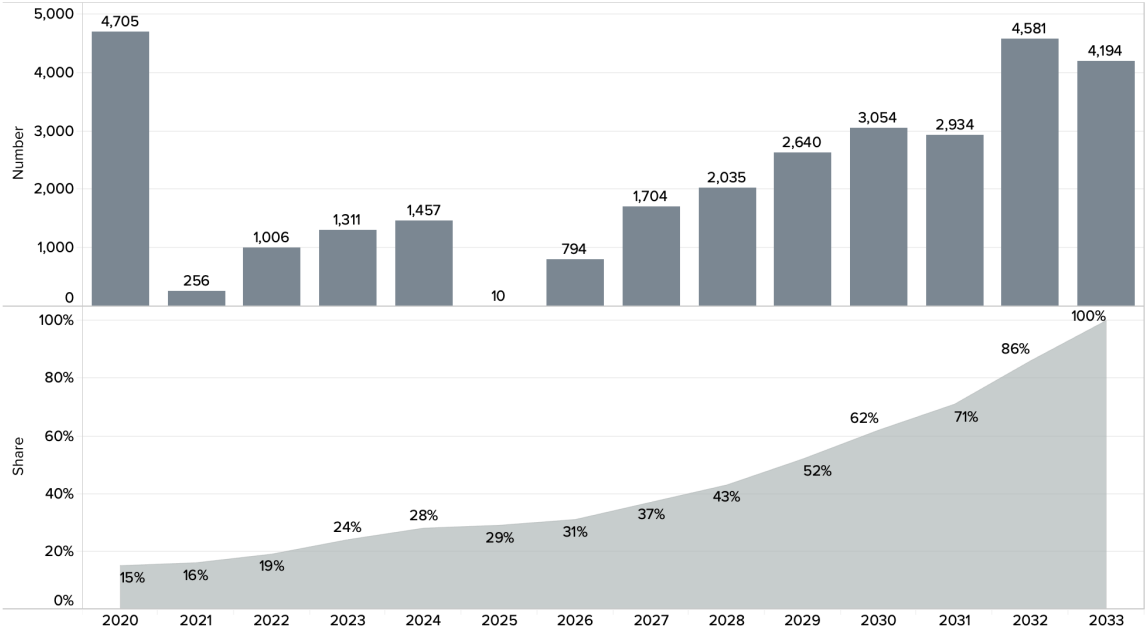
Appendix Figure 2 – Number and cumulative share of units that would be rolled into the rent-controlled stock between 2020 and 2033

Number and cumulative share of units that would be rolled into the rent-controlled stock between 2020 and 2033



Source: Rental Housing database compiled by the D.C. Policy Center

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Appendix Table 1 – Impact of B23-873 on properties currently under rent control under three different scenarios

		Assessed values (2006-19 scenario)	Assessed Values (2014-19 scenario)	Assessed values (2.9 percent annual growth)	Value under B23-873
ACTUAL	2006	$3.6B	$3.6B	$3,606.7M	$3.6B
	2007	$4.4B	$4.4B	$4,355.9M	$4.4B
	2008	$5.3B	$5.3B	$5,262.9M	$5.3B
	2009	$5.8B	$5.8B	$5,807.7M	$5.8B
	2010	$6.2B	$6.2B	$6,191.2M	$6.2B
	2011	$6.5B	$6.5B	$6,503.9M	$6.5B
	2012	$7.0B	$7.0B	$7,021.2M	$7.0B
	2013	$7.3B	$7.3B	$7,250.1M	$7.3B
	2014	$7.7B	$7.7B	$7,724.5M	$7.7B
	2015	$8.5B	$8.5B	$8,479.3M	$8.5B
	2016	$8.7B	$8.7B	$8,686.9M	$8.7B
	2017	$9.4B	$9.4B	$9,358.7M	$9.4B
	2018	$10.3B	$10.3B	$10,308.2M	$10.3B
	2019	$11.4B	$11.4B	$11,374.2M	$11.4B
PROJECTED	2020	$11.7B	$11.7B	$11,670.0M	$11.7B
	2021	$11.8B	$11.8B	$11,775.0M	$11.8B
	2022	$11.7B	$11.7B	$11,704.4M	$11.7B
	2023	$12.0B	$12.0B	$12,020.4M	$11.9B
	2024	$12.4B	$12.4B	$12,369.0M	$12.1B
	2025	$13.2B	$12.9B	$12,727.7M	$12.3B
	2026	$14.0B	$13.4B	$13,096.8M	$12.6B
	2027	$14.9B	$13.9B	$13,476.6M	$12.8B
	2028	$15.9B	$14.5B	$13,867.4M	$13.0B
	2029	$16.9B	$15.0B	$14,269.5M	$13.3B
	2030	$17.9B	$15.7B	$14,683.4M	$13.5B
	2031	$19.1B	$16.3B	$15,109.2M	$13.7B
	2032	$20.3B	$16.9B	$15,547.3M	$14.0B
	2033	$21.6B	$17.6B	$15,998.2M	$14.2B

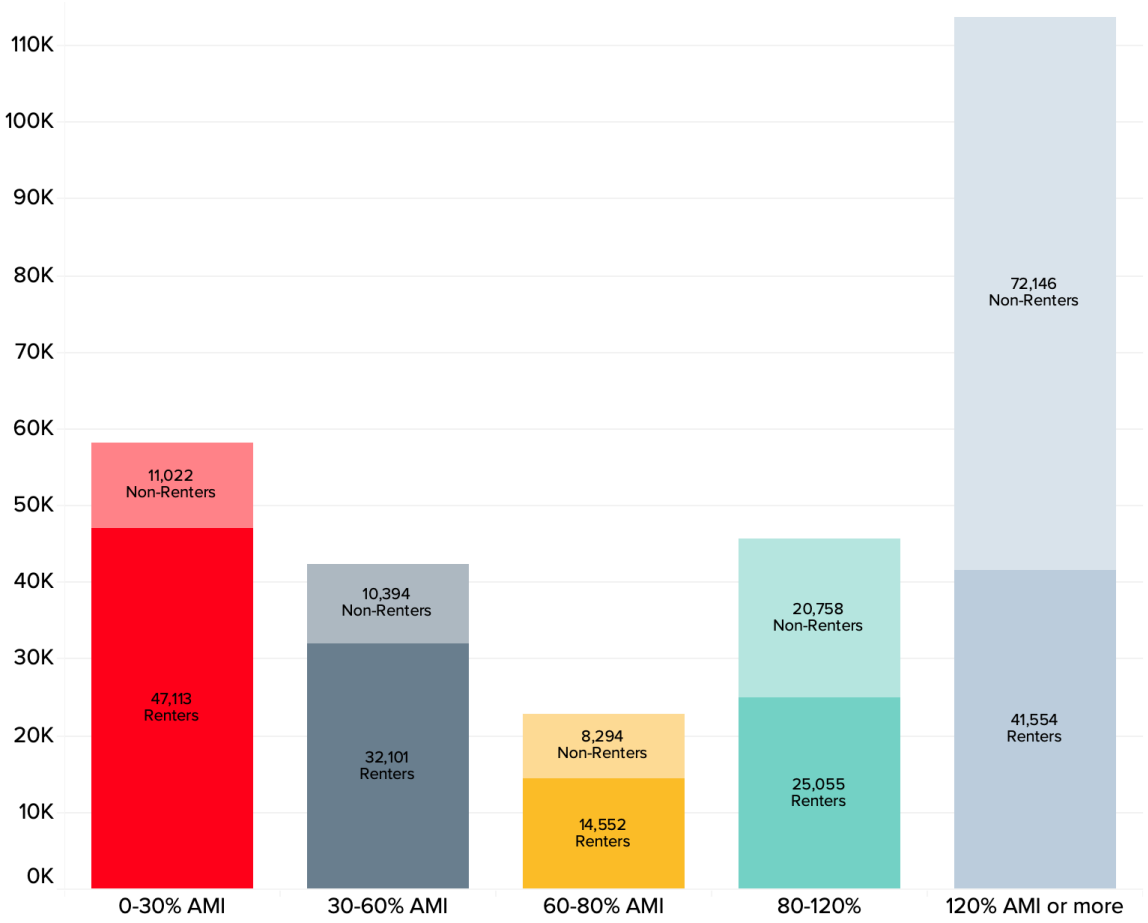
Source: DC OCFO, CoStar and author's deliberations.
Note: Current assessed value and tax revenue growth between 2020 and 2024 reflects the OCFO projections as of September 2020. Cap Rate is the mid point of the estimates for the apartment buildings provided by the OCFO in its Market Analytics Handbook. NOI under current law is estimated by multipying the asssessed values with the cap rate. NOI under B23-873 uses the rent growth projections presented in Part III. Value under B23-873 is obtained by dividing the NOI under B23-873 by a cap rate of 5.7 percent.

Appendix Table 2 – Impact of B23-873 on small buildings with four units under three different scenarios

		Assessed Values (2014-19 scenario)	Assessed values (2.9 percent annual gr..	Assessed values (2006-19 scenario)	Value under B23-873
ACTUAL	2006	$512M	$512M	$512M	$512M
	2007	$713M	$713M	$713M	$713M
	2008	$844M	$844M	$844M	$844M
	2009	$889M	$889M	$889M	$889M
	2010	$853M	$853M	$853M	$853M
	2011	$786M	$786M	$786M	$786M
	2012	$739M	$739M	$739M	$739M
	2013	$714M	$714M	$714M	$714M
	2014	$733M	$733M	$733M	$733M
	2015	$825M	$825M	$825M	$825M
	2016	$897M	$897M	$897M	$897M
	2017	$1,006M	$1,006M	$1,006M	$1,006M
	2018	$1,098M	$1,098M	$1,098M	$1,098M
	2019	$1,311M	$1,311M	$1,311M	$1,311M
	2020	$1,345M	$1,345M	$1,345M	$1,345M
PROJECTED	2021	$1,357M	$1,357M	$1,357M	$1,357M
	2022	$1,349M	$1,349M	$1,349M	$1,349M
	2023	$1,385M	$1,385M	$1,385M	$1,373M
	2024	$1,425M	$1,425M	$1,425M	$1,398M
	2025	$1,540M	$1,467M	$1,483M	$1,423M
	2026	$1,663M	$1,509M	$1,542M	$1,449M
	2027	$1,796M	$1,553M	$1,603M	$1,475M
	2028	$1,939M	$1,598M	$1,668M	$1,501M
	2029	$2,095M	$1,645M	$1,734M	$1,528M
	2030	$2,262M	$1,692M	$1,804M	$1,556M
	2031	$2,443M	$1,741M	$1,876M	$1,584M
	2032	$2,638M	$1,792M	$1,951M	$1,612M
	2033	$2,850M	$1,844M	$2,029M	$1,641M

Source: DC OCFO, CoStar and author's deliberations.
Note: Current assessed value and tax revenue growth between 2020 and 2024 reflects the OCFO projections as of September 2020. Cap Rate is the mid point of the estimates for the apartment buildings provided by the OCFO in its Market Analytics Handbook. NOI under current law is estimated by multipying the asssessed values with the cap rate. NOI under B23-873 uses the rent growth projections presented in Part III. Value under B23-873 is obtained by dividing the NOI under B23-873 by a cap rate of 5.7 percent.

Appendix Figure 3 – Renters and non-renters by income, 2018



Source: American Community Survey, 2018 1-year PUMS data tabulations

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