Statement by the National Apartment Association to the

Joint Committee on Housing regarding

H.3924, An Act Enabling Local Options for Tenant Protections

January 14, 2019

Thank you for the opportunity to submit this statement on behalf of the National Apartment Association (NAA). NAA serves as the leading voice and preeminent resource through advocacy, education and collaboration on behalf of the rental housing industry. As a federation of 155 affiliates, NAA encompasses over 82,000 members representing more than 10 million apartment homes globally. NAA believes that rental housing is a valuable partner in every community that emphasizes integrity, accountability, collaboration, community responsibility, inclusivity and innovation.

NAA has significant concerns with H. 3924, "An Act Enabling Local Options for Tenant Protections." Specifically, we worry that Section four, allowing local governments to implement rent control, will only serve to exacerbate the state's housing affordability challenges.

Rent control proponents argue that enabling municipalities to limit rent increases will prevent displacement of cost-burdened renters and ensure housing remains affordable; however, the experience in some of the nation's most expensive cities paints a much different picture. San Francisco, New York City and Washington, D.C., three of the nation's most desirable places to live and work, continue to grapple with housing affordability and displacement challenges despite their long-standing rent control ordinances.

An overwhelming consensus of housing policy experts across the political spectrum rejects the notion that this policy leads to greater affordability and decreased displacement. Rather, the prevailing opinion is that rent control policies work against affordable housing objectives because they misallocate and distribute benefits at random, discourage investment in new and existing rental housing, erode property values causing losses in tax revenue, increase the cost of rent overall and, ultimately, create scarcity, leading to an overall shortage of quality, affordable rental housing (see attachment A).

<u>Demand for Rental Housing in Boston is Significant</u>

It is no surprise that Massachusetts is experiencing affordability challenges. Legislators widely accept that the state has been unfriendly to development, while studies and media reports often cite that Massachusetts has not been permitting enough housing to meet its needs since the 1980s. For apartments, the lack of development is demonstrably worse. According to apartment industry research,[1] 65 percent of Massachusetts apartments were built before 1980, with only 17 percent built since 2000.

The result of this severe lack of development activity means 7,000 new units per year are needed just to keep up pace with present rental housing demand. Of this demand, 71 percent (4,700 new units) are located in Boston and the surrounding counties where Not In My Backyard (NIMBY) activism and discretionary, time-consuming and unpredictable zoning approval processes have stymied needed development, relegating what little is built to areas with poor walkability and limited access to public transportation.[2] [3] As a result, the strong economic growth experienced by the region, which has become the leading technology innovation hub outside of Silicon Valley, has not been matched by increased housing production.

[1] https://www.weareapartments.org/data/Massachusetts

[2] https://www.citylab.com/equity/2019/06/nimbys-housing-boston-massachusetts-single-family-zoning/591964/

[3] https://ma-smartgrowth.org/wp-content/uploads/2019/06/03/FINAL_Multi-Family_Housing_Report.pdf

This lack of housing production, combined with a growing demand for apartments, has put a significant strain on families throughout the state. Too many are paying too much for housing or making other sacrifices such as living an hour or more away from their jobs.

Governor Charlie Baker (R) has committed to taking on these affordability challenges through his administration's Housing Choice Initiative, which offers a combination of incentives, technical assistance and grant funding to facilitate housing production statewide. Part of the initiative is H.4263, An Act to Promote Housing Choices, which would lower the threshold required to change zoning for all communities in the Commonwealth to 50 percent. This legislation makes it easier for municipalities to pursue policies that enable greater housing development, such as reductions in parking requirements and minimum lot sizes, density bonuses, "Smart Growth" or "Starter Homes" districts that increase housing near transit and high activity centers and allowing the development of accessory dwelling units (ADUs). Another bill, H. 1288 by Reps. Kevin Honan (D) and Andy Vargas (D), sets a housing unit target of 427,000 units by 2040 (21,350 units annually).

<u>Rent Control Will Make Housing Affordability Challenges Worse</u>

Allowing cities and towns to enact rent control runs counter to the intent of these bills and the Governor's overall housing plan and would worsen the state's housing affordability challenges. For Boston specifically, enacting rent control likely would lead to a significant reduction in the development of rental housing, increased demand and higher rents city-wide.

A 2019 study by Capital Policy Analytics modeled the impact of implementing a rent cap of 7 percent on the cities of Chicago, Denver, Seattle and Portland, quantifying these negative consequences (See attachment B). The study found:

- Despite the inclusion of a 15-year exemption for new construction, a 7 percent rent cap would significantly discourage investment in new properties. Seattle would see a reduction in construction of 1,739 units per year, with 779 fewer units constructed annually in Denver, 320 fewer per year in Chicago and 233 in Portland.
- Annual maintenance spending would fall by an estimated $5.9 million in Seattle, $4.5 million in Denver, $5.4 million in Chicago, and $2.7 million in Portland.
- Decreased maintenance would put 46,085 units in Seattle, 35,163 units in Denver, 42,460 units at operational risk in Chicago, and 21,052 units in Portland at operational risk.
- Significant lost rental income for property owners would translate into hundreds of millions of dollars in property value loss. This, in turn, would lead to lower property tax collections totaling between $3.5 million (Denver) and $6.1 million (Chicago) annually.

While the Boston Metropolitan Statistical Area is not included in this pilot research, it resembles Chicago in terms of the share of older apartments (built before 1980; 66 percent and 57 percent respectively, according to CoStar), which typically require more upkeep. Boston is more closely aligned with Denver in terms of projected apartment demand, with an average of 4,700 new units needed per year to meet demand in Boston compared to Denver's 4,000.

Based on these similarities, it would be reasonable to conclude that implementing a rent cap of 7 percent in Boston would result in outcomes falling within the range of the cities analyzed. Moreover, it is important to note that H. 3924 would allow cities and towns to cap rent increases at any level they choose. A more severe cap on rents would likely lead to further losses of supply, greater decreases in maintenance spending and place more existing units at risk. Finally, although jurisdictions attempt to minimize the impact on rental housing markets by exempting new construction, the risk that the policy could be amended in the future to cover more units and lower the allowable annual rent increase acts as a major deterrent for investors.

Rent control also would undermine developers' ability to access financing that is critical to building housing at affordable price points. In its 2019 Housing Reform Plan,[4] the U.S. Department of Treasury (DOT) made clear:

> [S]ome states and other jurisdictions have explored expanding the scope of their rent control laws. These laws interfere with the functioning of local housing markets, tending to decrease the supply and quality of the available housing… By limiting the rental income on multifamily properties, these laws also increase the credit and other risks associated with [Government Sponsored Enterprise (GSE)]-acquired loans that are secured by multifamily properties in rent-controlled jurisdictions."

DOT proceeded to recommend that "[Federal Housing Finance Agency] should revisit the GSEs' underwriting criteria for acquisitions of multifamily loans secured by properties in rent-controlled jurisdictions, perhaps prescribing lower loan-to-value ratio ("LTV") limits or other underwriting restrictions on these acquisitions." Enactment of this failed policy would encourage investors to shift their investments to other non-rent regulated jurisdictions.

Rent Control Negatively Affects Existing Rental Housing

The extensive academic literature on rent control provides detail on how investors and housing providers respond to artificial restrictions on rents. When rent control is enacted, housing providers reduce maintenance activities to basic upkeep and delay or altogether abandon planned renovations as the potential return on those investments decrease. The reduced maintenance and delayed timeline for capital improvements lead to significant devaluation, resulting in declining assessed property values and subsequently lower property tax revenue. Over time, this lack of investment expedites the deterioration of critically needed housing stock.

Rent Control Benefits Are Poorly Targeted

Nearly every form of government assistance requires applicants to meet certain income thresholds to qualify, a method commonly referred to as "means testing." Means testing prevents individuals who do not objectively need government assistance from receiving it. Rent control does not traditionally employ any sort of means testing or financial qualification, resulting in renters with moderate or even high incomes benefiting from rent-controlled housing.

In a 2007 study on the effects of the end of rent control in Boston, David Sims concluded that low-income families were not the largest beneficiaries. According to Sims' analysis, 26 percent of rent controlled units were occupied by tenants with incomes in the bottom quartile, while 30 percent of units were occupied by renters in the top half of the income distribution. Margery Turner reached a similar conclusion when she analyzed the impacts of rent control on the Washington, D.C. rental market. In her study, "Housing Market Impacts of Rent Control: The Washington, D.C. Experience," Turner found that rent control did not efficiently benefit low-income renters and favored long-term renters over frequent movers, regardless of income level.

Rent Control Does Not Address Underlying Causes of Housing Affordability Challenges

Proposing rent control as a way to decrease the cost of housing is highly misleading and ignores how government-induced barriers to new development and the resulting increased costs affect the affordability of rental housing. Development costs can be broken down into three categories: The purchase of land and associated costs such as legal and transfer taxes; hard costs such as labor and building materials; and soft costs, which include entitlements (legal approval to develop a property), building permits, design and other non-direct construction costs.

Municipalities increase these development costs in myriad ways. These include requirements for unnecessary and burdensome design reviews and impact studies for proposed developments, increased

[4] https://home.treasury.gov/system/files/136/Treasury-Housing-Finance-Reform-Plan.pdf

entitlement or building fees, delays in the plan review period, imposition of disproportional impact fees on new apartment development, biasing zoning policy against rental housing and levying unduly high real estate taxes. Such actions disproportionately inflate development costs and detrimentally impact the operating expenses of a property and the rent necessary to cover financing costs and pay back investors.

In 2018, Hoyt Advisory Services conducted a national survey of government entities, private developers and rental housing owners covering 241 metropolitan markets to better understand factors that affect the development of new apartment supply. The survey informed the development of NAA's U.S. Barriers to Construction Index, which yielded three general takeaways:[5]

1. **Input from local citizens significantly influences development.** In addition to the importance of land availability, most survey respondents indicated that local resident involvement is important in influencing residential building activities. Citizen opposition to growth/NIMBY activism acts as a deterrent to development, negatively influencing the rate of new apartment construction critical to supplying enough housing to meet demand.
2. **Rising land and labor costs are inhibiting the production of affordable housing.** One-third of survey respondents indicated that construction costs including labor, hard and soft costs have increased by more than 20 percent during the past five years, with another 45 percent indicating that construction costs are up by 11 to 20 percent. Similarly, 30 percent of survey respondents indicated that the cost of undeveloped land rose by more than 20 percent in the past five years, with 36 percent reporting costs increasing by 11 to 20 percent.
3. **Complex approval systems are correlated to affordability issues.** The development process is especially complex in markets such as New York, Baltimore, Washington, D.C., San Diego, Honolulu, San Francisco, Sacramento, Philadelphia and San Jose. Many of these large, coastal markets also correspond to states that have low renter affordability.

Rent control does nothing to mitigate these barriers or others that stand in the way of the development of rental housing. Instead, it will create a significant new barrier to development in the highest-demand areas of Massachusetts, such as Boston, that are most in need of additional supply.

<u>Conclusion</u>

The lack of housing that is attainable for working families is one of the most pressing issues facing the nation. H. 3924 will not fix Massachusetts' housing affordability challenges. It will aggravate them by severely reducing future rental housing development in the state. Allowing cities and towns to implement rent control will only intensify the state's affordability problems and runs counter to the solutions outlined in the Governor's Housing Choice Initiative. Massachusetts, like many states with large, employment-rich metro areas, is working diligently to resolve concerns facing cost-burdened renters. However, these concerns require investment in long-term solutions to close the gap between supply and the demand for housing in places like Boston where there are critical needs.

Thank you for the opportunity to submit comment regarding rent control and its detrimental effect on housing affordability. We respectfully urge the Joint Committee on Housing to issue an adverse report on H.3924.

[5] https://www.naahq.org/news-publications/barriers-apartment-construction-index

The Academic Evidence Against Rent Control Policies

Nobel Prize-winning Economist Milton Friedman: *Rent control is a law that supposedly is passed to help the people who are in housing. And it does help those who are in current housing. But the effect of rent control is to create scarcity, and to make it difficult for other people to get housing.*

Stanford University

The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco

Rebecca Diamond, Tim McQuade, & Franklin Qian
2019

Diamond, McQuade and Qian (2017) found that: **landlords with properties covered by rent control were more likely than other property owners to convert their units to condominiums or to redevelop their buildings, which reduced the supply of available rental housing in the city.** The authors also estimated that the reduced supply of rental housing—in just this one segment of the multifamily housing stock; that is, properties with four or fewer units—led to **a seven percent increase in city-wide rents.**

Massachusetts Institute of Technology

Housing Market Spillovers: Evidence from the End of Rent Control in Cambridge, Massachusetts

David H. Autor, Christopher J. Palmer, and Parag A. Pathak
2014

Rent control devalues real estate markets. Autor, Palmer, and Pathak estimate that **abolishing rent control added about $1.8 billion** to the value of Cambridge's housing stock between 1994 and 2004. They found that rent control also had **negative effects** on the neighborhood including **increased crime**.

HARVARD UNIVERSITY

Does Rent Control Reduce Segregation?

Edward L. Glaeser
2003

Glaeser examined whether rent control increased residential integration in seven cities with rent control in New Jersey and found that **rent control was actually associated with *increased* economic segregation** in New Jersey municipalities.

The New York Times

Economists have three main criticisms of rent control. They say it helps renters today at the expense of renters tomorrow. They also see it as a **blunt instrument**: While helping to stem economic displacement in the short term, it leads to **long-run problems** by encouraging landlords to exit the rental business, and future landlords to not enter. And **it can divert resources from low-income renters** to those with moderate and even high incomes. In a 2002 study, San Francisco found that about **a quarter of its rent-controlled units** were occupied by households with incomes **over $100,000**. That number has to be much higher today.

Nobel Prize Chair and Economist Assar Lindbeck: "*In many cases rent control appears to be the most efficient technique presently known to destroy a city—except for bombing."*

SHAPE Illinois

Modeling the Impacts of Rent Control

With the passage of a statewide cap on rents in Oregon and California, as well as expanded rent regulations in New York and Washington, D.C., rent control policies are gaining traction across the United States.

Although there is no shortage of academic research on the negative effects of rent control, NAA engaged Capital Policy Analytics (CPA) to model its impacts on four metropolitan areas, all of which have had increasing calls for rent control during the past two years: Chicago, Denver, Seattle and Portland.

The rent growth cap in Oregon limits the increase in rent to 7 percent plus inflation as measured by the Consumer Price Index (which varies widely across years and regions of the country). Rent control has many possible forms, but CPA used the Oregon legislation as a likely precedent for other governments and chose to examine the imposition of a similar limit, excluding inflation, on the amount of annual growth in rental prices.

Rent growth caps affect the apartment industry in several ways, each of which is estimated in the model. The most direct effect is on the monthly rent for units that would have experienced a growth above 7 percent in a given year. Limiting rent growth affects the long-term viability of building new units and performing maintenance on existing units as it changes the expected return on investment for each of these activities. By limiting rents, a rent growth cap also will affect new construction as it will change the expected return on this investment. The combined effects of limiting rents and deterring new construction work to reduce owner profitability. A cap on rent increases essentially becomes a de facto cap on the profits of building owners, and that gets negatively capitalized in the value of rental property.

Each of these effects represent inefficient outcomes relative to allowing the market price to adjust according to supply and demand. By not allowing the market for dwellings to function properly, rent control changes the allocation of housing investment across space. Under normal conditions, rising rent levels would be met with increased building in an area, curbing long-term growth in rents. However, rent control blunts the price mechanism, causing a misallocation of housing investment both within and across metropolitan areas.

CPA constructed several models to examine the effect of a rent growth cap on the study markets. First, the change in expected rents was modeled through an examination of historical rent increases. Those data were used to assign a probability that an apartment owner is likely to see a spike in demand that results in a rental price increase that exceeds the 7 percent cap in a given year for each area. That expected rent change was linked to estimates of new supply and maintenance expenditures, and the outputs from those models were combined to estimate the effect of rent caps on total income and, ultimately, property values. All estimates reflect the impact of a 7 percent rent growth cap on rental units in building with 5 or more units.

The analysis of the model outputs concluded:

- The expected change in rental values across metropolitan areas ranged from 2 percent in Chicago and Portland to 5 percent in Denver and 9 percent in Seattle.
- The effect on new apartment construction would also be substantial but it varies significantly across metropolitan areas. Seattle would see a reduction in construction of 1,739 units per year, with 779 fewer units constructed annually in Denver, 320 fewer per year in Chicago and 233 in Portland.
- The models estimate that annual maintenance spending would fall by $5.9 million in Seattle, $5.4 million in Chicago, $4.5 million in Denver and $2.7 million in Portland.
- The total rental income lost for apartment owners would be significant. The model estimated that total annual income loss would be $33 million in Seattle, $24 million in Chicago, $23 million in Denver and $10 million in Portland. These loss estimates include both the income lost due to restricting rents and the income lost from foregone construction.
- The projected income reductions logically translate into declines in the value of apartment properties. The model output estimated an aggregate loss of property value of $213 million in Portland, $462 million in Denver, $487 million in Chicago and $655 million in Seattle.
- If property value losses are realized in the assessment of property, then they would also be realized by lower property tax collections. Taking the property loss estimates from the low-discount rate model and assuming that property assessments follow market value losses, annual property tax revenue losses would be more than $6 million annually in Chicago, with losses of more than $5 million in Seattle and Portland and $3.5 million annually in Denver.

A 7 percent growth cap on rents would have a substantial impact on the apartment rental market in the areas studied. The estimates suggest that a non-trivial percentage of units would be bound by the policy and that this would lead to rent losses for building owners. The fact that rents would not be able to fluctuate to meet market conditions in the metropolitan area and across neighborhoods will have far-reaching implications. A 7 percent cap would substantially reduce the amount of new unit construction and have a negative impact on maintenance expenditures.

Finally, the models show that the 7 percent growth cap would depress annual income for owners and ultimately be capitalized into falling property values. Falling property values could have further implications not explored in the study such as declines in local wealth and public services funded by the local property tax base.

Using the results of a 2017 Report, "U.S. Apartment Demand – A Forward Look," produced by Hoyt Advisory Services for NAA and NMHC, we estimate the long-term effects of rent control and how it could impact vitally needed rental housing units by 2030. These figures are presented in the following charts.

For more information on impact model methodology and assumptions, please contact Paula Munger @ pmunger@naahq.org.

Impacts of Rent Control: Chicago

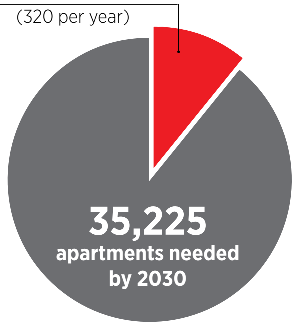
What happens when a 7 percent annual cap is put on apartment rents?

100%

of Chicago's future apartment housing stock needs may be INFEASIBLE.

Result of 7% rent cap by 2030

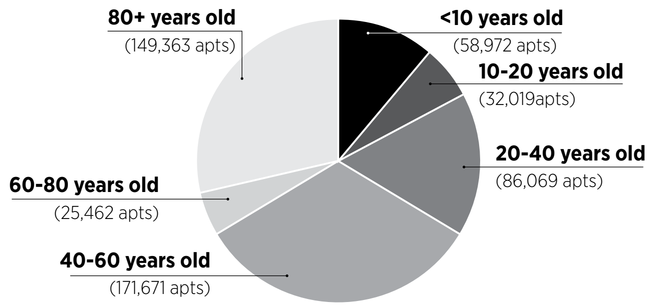
Decreased New Apartment Supply



3,840 units may not be built by 2030.

Result of 7% rent cap by 2030

Decreased Spending on Maintenance & Repairs



42,460 units at risk through 2030 because of decreased maintenance

35,225 units needed through 2030

46,300 units at risk through 2030

Unintended Consequences

- With decreased opportunity to earn a profit on their investment, developers are incentivized to take their dollars to other non-rent controlled communities.
- Over time, the lack of investment speeds up the deterioration of properties and eventually leads to the loss of critically needed rental housing.
- Housing development, rehabilitation and property maintenance generate significant economic benefits in terms of job creation and wage growth, and overall economic value to the State economy. Rent control policies eliminates most of this benefit as development, renovation and rehabilitation of rental housing activity is significantly reduced or eliminated.

Additional Impacts of Rent Contol in Chicago

Result of 7% rent cap

Decreased

Apartment Property Values

$487.8

million loss in values

because of decreased income

Result of 7% rent cap

Decreased

Property Tax Revenue

$6.1

million loss each year

Result of 7% rent cap

Decreased

Apartment Rental Income

$24.6

million loss each year

All of these impacts make Chicago a less desirable place to do business for apartment property investors, developers, owners and operators.

Chicago apartments and their residents **contribute $92.0 billion** to the metro economy every year and **support 443,800 jobs**.

Sources

1. "Modeling the Impact of Rent Growth Caps on Metropolitan Apartment Markets" Capital Policy Analytics for the National Apartment Association, April 2019. A 7% rent cap was chosen by the report author as the basis of this study.
   Sources in this report include Zillow, U.S. Census Bureau, 2013-2017 American Community Survey 5-Year Estimates, U.S. Census Bureau American Housing Survey and Lincoln Institute of Land Policy "50-State Property Tax Comparison Study for Taxes Paid in 2017"
2. "U.S. Apartment Demand – A Forward Look," Hoyt Advisory Services for NAA and NMHC, May 2017
3. 2013-2017 American Community Survey 5-Year Estimates
4. CoStar
5. weareapartments.org

Produced by NAA Research

Notes

- Impact model results for estimated rent reduction based on Zillow Rental Listings metropolitan area median, and neighborhood data for 5+ unit apartment buildings.
- Estimated decrease in maintenance spending based on the number of apartment units in buildings with 5 or more units and average 2-year maintenance spending per unit in the 15 largest metropolitan areas from the American Housing Survey 2017.
- Estimated property value decreases utilize the rate of return on a 30-year Treasury Bill.
- Property tax loss estimates based on apartment property tax rates for each city reported in the Lincoln Institute of Land Policy "50-State Property Tax Comparison Study for Taxes Paid in 2017", Appendix Table 5A . The estimates of revenue loss reflect assessed value fully following market value changes.
- All source, impact and forecast data cover the Chicago-Naperville-Elgin, IL-IN-WI Metropolitan Statistical Area with the exception of property tax impacts.
- Apartments are defined as located in properties with 5 or more units.

For more information on impact model methodology and assumptions, please contact Paula Munger @ pmunger@naahq.org.

Impacts of Rent Control: Denver

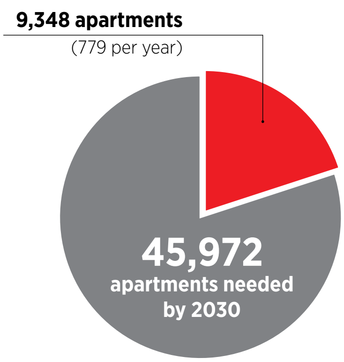
What happens when a 7 percent annual cap is put on apartment rents?

97%

of Denver's future apartment housing stock needs may be INFEASIBLE.

Result of 7% rent cap by 2030

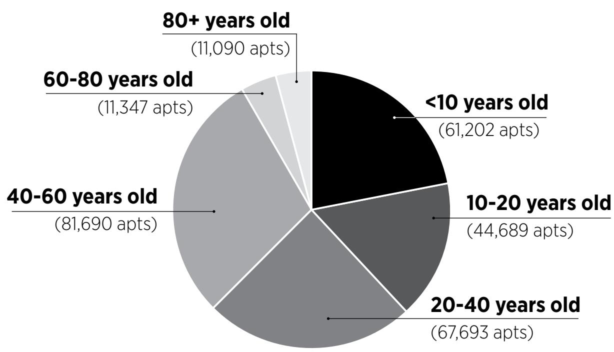
Decreased New Apartment Supply



9,348 units may not be built by 2030.

Result of 7% rent cap by 2030

Decreased Spending on Maintenance & Repairs



35,163 units at risk through 2030 because of decreased maintenance

45,972 units needed through 2030

44,511 units at risk through 2030

Unintended Consequences

- With decreased opportunity to earn a profit on their investment, developers are incentivized to take their dollars to other non-rent controlled communities.
- Over time, the lack of investment speeds up the deterioration of properties and eventually leads to the loss of critically needed rental housing.
- Housing development, rehabilitation and property maintenance generate significant economic benefits in terms of job creation and wage growth, and overall economic value to the State economy. Rent control policies eliminates most of this benefit as development, renovation and rehabilitation of rental housing activity is significantly reduced or eliminated.

Additional Impacts of Rent Contol in Denver

Result of 7% rent cap

Decreased

Apartment Property Values

$462.2

million loss in values

because of decreased income

Result of 7% rent cap

Decreased

Property Tax Revenue

$3.5

million loss each year

Result of 7% rent cap

Decreased

Apartment Rental Income

$23.3

million loss each year

All of these impacts make Denver a less desirable place to do business for apartment property investors, developers, owners and operators.

Denver apartments and their residents **contribute $39 billion** to the metro economy every year and **support 186,400 jobs**.

Sources

1. "Modeling the Impact of Rent Growth Caps on Metropolitan Apartment Markets" Capital Policy Analytics for the National Apartment Association, April 2019. A 7% rent cap was chosen by the report author as the basis of this study.
   Sources in this report include Zillow, U.S. Census Bureau, 2013-2017 American Community Survey 5-Year Estimates, U.S. Census Bureau American Housing Survey and Lincoln Institute of Land Policy "50-State Property Tax Comparison Study for Taxes Paid in 2017"
2. "U.S. Apartment Demand – A Forward Look," Hoyt Advisory Services for NAA and NMHC, May 2017
3. 2013-2017 American Community Survey 5-Year Estimates
4. CoStar
5. weareapartments.org

Produced by NAA Research

Notes

- Impact model results for estimated rent reduction based on Zillow Rental Listings metropolitan area median, and neighborhood data for 5+ unit apartment buildings.
- Estimated decrease in maintenance spending based on the number of apartment units in buildings with 5 or more units and average 2-year maintenance spending per unit in the 15 largest metropolitan areas from the American Housing Survey 2017.
- Estimated property value decreases utilize the rate of return on a 30-year Treasury Bill.
- Property tax loss estimates based on apartment property tax rates for each city reported in the Lincoln Institute of Land Policy "50-State Property Tax Comparison Study for Taxes Paid in 2017", Appendix Table 5A . The estimates of revenue loss reflect assessed value fully following market value changes.
- All source, impact and forecast data cover the Denver-Aurora-Lakewood,CO Metropolitan Statistical Area with the exception of property tax impacts.
- Apartments are defined as located in properties with 5 or more units.

For more information on impact model methodology and assumptions, please contact Paula Munger @ pmunger@naahq.org.

Impacts of Rent Control: Portland

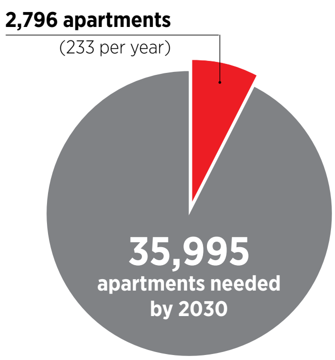
What happens when a 7 percent annual cap is put on apartment rents?

67%

of Portland's future apartment housing stock needs may be INFEASIBLE.

Result of 7% rent cap by 2030

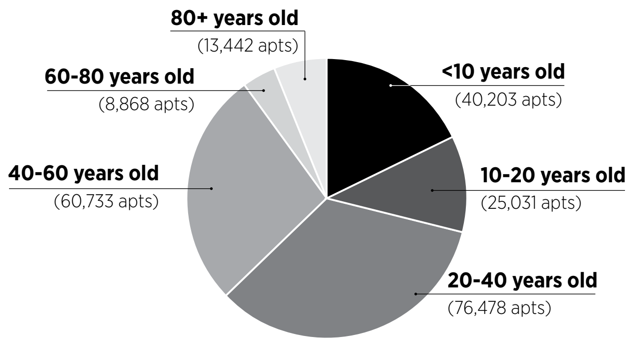
Decreased New Apartment Supply



2,796 units may not be built by 2030.

Result of 7% rent cap by 2030

Decreased Spending on Maintenance & Repairs



21,052 units at risk through 2030 because of decreased maintenance

35,995 units needed through 2030

23,848 units at risk through 2030

Unintended Consequences

- With decreased opportunity to earn a profit on their investment, developers are incentivized to take their dollars to other non-rent controlled communities.
- Over time, the lack of investment speeds up the deterioration of properties and eventually leads to the loss of critically needed rental housing.
- Housing development, rehabilitation and property maintenance generate significant economic benefits in terms of job creation and wage growth, and overall economic value to the State economy. Rent control policies eliminates most of this benefit as development, renovation and rehabilitation of rental housing activity is significantly reduced or eliminated.

Additional Impacts of Rent Contol in Portland

Result of 7% rent cap

Decreased

Apartment Property Values

$213.9

million loss in values

because of decreased income

Result of 7% rent cap

Decreased

Property Tax Revenue

$5.2

million loss each year

Result of 7% rent cap

Decreased

Apartment Rental Income

$10.8

million loss each year

All of these impacts make Portland a less desirable place to do business for apartment property investors, developers, owners and operators.

Portland apartments and their residents **contribute $32.2 billion** to the metro economy every year and **support 160,100 jobs**.

Sources

1. "Modeling the Impact of Rent Growth Caps on Metropolitan Apartment Markets" Capital Policy Analytics for the National Apartment Association, April 2019. A 7% rent cap was chosen by the report author as the basis of this study.
   Sources in this report include Zillow, U.S. Census Bureau, 2013-2017 American Community Survey 5-Year Estimates, U.S. Census Bureau American Housing Survey and Lincoln Institute of Land Policy "50-State Property Tax Comparison Study for Taxes Paid in 2017"
2. "U.S. Apartment Demand – A Forward Look," Hoyt Advisory Services for NAA and NMHC, May 2017
3. 2013-2017 American Community Survey 5-Year Estimates
4. CoStar
5. weareapartments.org

Produced by NAA Research

Notes

- Impact model results for estimated rent reduction based on Zillow Rental Listings metropolitan area median, and neighborhood data for 5+ unit apartment buildings.
- Estimated decrease in maintenance spending based on the number of apartment units in buildings with 5 or more units and average 2-year maintenance spending per unit in the 15 largest metropolitan areas from the American Housing Survey 2017.
- Estimated property value decreases utilize the rate of return on a 30-year Treasury Bill.
- Property tax loss estimates based on apartment property tax rates for each city reported in the Lincoln Institute of Land Policy "50-State Property Tax Comparison Study for Taxes Paid in 2017", Appendix Table 5A . The estimates of revenue loss reflect assessed value fully following market value changes.
- All source, impact and forecast data cover the Portland-Vancouver-Hillsboro, OR-WA Metropolitan Statistical Area with the exception of property tax impacts for the City of Portland.
- Apartments are defined as located in properties with 5 or more units.

For more information on impact model methodology and assumptions, please contact Paula Munger @ pmunger@naahq.org.

Impacts of Rent Control: Seattle

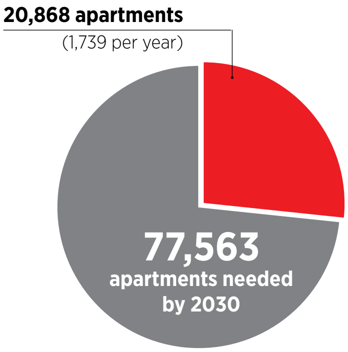
What happens when a 7 percent annual cap is put on apartment rents?

86%

of Seattle's future apartment housing stock needs may be INFEASIBLE.

Result of 7% rent cap by 2030

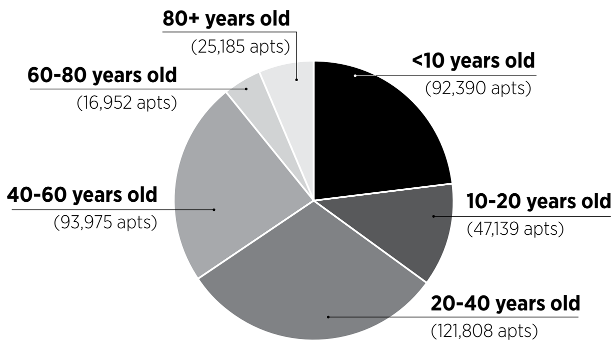
Decreased New Apartment Supply



20,868 units may not be built by 2030.

Result of 7% rent cap by 2030

Decreased Spending on Maintenance & Repairs



46,085 units at risk through 2030 because of decreased maintenance

77,563 units needed through 2030

66,953 units at risk through 2030

Note: Nearly 9 percent of public housing in Kings County failed the most recent HUD inspection, likely impacted by a $3.8M decrease in the KCHA maintenance budget. Like the public sector, deferred maintenance in the private sector due to limited ability to recover operational costs leads to eroding housing conditions.

Unintended Consequences

- With decreased opportunity to earn a profit on their investment, developers are incentivized to take their dollars to other non-rent controlled communities.
- Over time, the lack of investment speeds up the deterioration of properties and eventually leads to the loss of critically needed rental housing.
- Housing development, rehabilitation and property maintenance generate significant economic benefits in terms of job creation and wage growth, and overall economic value to the State economy. Rent control policies eliminates most of this benefit as development, renovation and rehabilitation of rental housing activity is significantly reduced or eliminated.

Additional Impacts of Rent Contol in Seattle

Result of 7% rent cap

Decreased

Apartment Property Values

$655.6

million loss in values

because of decreased income

Result of 7% rent cap

Decreased

Property Tax Revenue

$5.5

million loss each year

Note: A 200-unit apartment development generates $11.5M in new tax revenues over a 10-year period. The 20,868 units that won't be developed between now and 2030 will equate to a $51M loss in sales tax revenue alone.

Result of 7% rent cap

Decreased

Apartment Rental Income

$33.0

million loss each year

All of these impacts make Seattle a less desirable place to do business for apartment property investors, developers, owners and operators.

Seattle apartments and their residents **contribute $34.4 billion** to the metro economy every year and **support 118,600 jobs**.

Sources

1. "Modeling the Impact of Rent Growth Caps on Metropolitan Apartment Markets" Capital Policy Analytics for the National Apartment Association, April 2019. A 7% rent cap was chosen by the report author as the basis of this study.
   Sources in this report include Zillow, U.S. Census Bureau, 2013-2017 American Community Survey 5-Year Estimates, U.S. Census Bureau American Housing Survey and Lincoln Institute of Land Policy "50-State Property Tax Comparison Study for Taxes Paid in 2017"
2. "U.S. Apartment Demand – A Forward Look," Hoyt Advisory Services for NAA and NMHC, May 2017
3. 2013-2017 American Community Survey 5-Year Estimates
4. CoStar
5. weareapartments.org
6. King County Housing Authority
7. U.S. Department of Housing and Urban Development
8. Washington Multi-Family Housing Association

Produced by NAA Research

Notes

- Impact model results for estimated rent reduction based on Zillow Rental Listings metropolitan area median, and neighborhood data for 5+ unit apartment buildings.
- Estimated decrease in maintenance spending based on the number of apartment units in buildings with 5 or more units and average 2-year maintenance spending per unit in the 15 largest
  metropolitan areas from the American Housing Survey 2017.
- Estimated property value decreases utilize the rate of return on a 30-year Treasury Bill.
- Property tax loss estimates based on apartment property tax rates for each city reported in the Lincoln Institute of Land Policy "50-State Property Tax Comparison Study for Taxes Paid in 2017", Appendix Table 5A . The estimates of revenue loss reflect assessed value fully following market value changes.
- Tax revenue from development source: Washington Multi-Family Housing Association
- All source, impact and forecast data cover the Seattle-Tacoma-Bellevue, WA Metropolitan Statistical Area with the exception of budget figures and property tax impacts.
- Apartments are defined as located in properties with 5 or more units.

For more information on impact model methodology and assumptions, please contact Paula Munger @ pmunger@naahq.org.