

There Remains a Rational Basis for Rent Stabilization in College Park, Maryland

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There Remains a Rational Basis for Rent Stabilization in College Park, MD

Executive Summary

Introduction

During the spring of 2005, Sage Policy Group, Inc. (Sage) authored a report indicating that there existed a rational basis for a then-contemplated rent stabilization program/ordinance in the City of College Park, MD. The study team arrived at its conclusion based upon a combination of data analysis and literature review regarding the history of rent stabilization in the U.S. In its 2005 report, the study team wrote that the “program was likely to be conducive to the following desired policy outcomes:

- enhanced homeownership;
- stable rents that promote housing affordability; and
- fewer violations of the City Code.”

Homeownership is still falling in College Park, MD

One of the primary objectives of the original ordinance was to reinforce homeownership by diminishing the incentive for homeowners to convert their properties into rental units. Available data indicate that there remains a public policy rationale for attempting to constrain the pace of rental conversion based on ongoing declines in homeownership.

Rents in College Park continue to rise

According to data from the University of Maryland, College Park Off-Campus Housing Services, rent in College Park has continued to rise. The rate of rent increase was a bit sharper within the “Room in House” category than for one-bedroom apartments.

City code violations still higher among rental units

Violations of the City Code produce a number of negative outcomes, including additional City costs to observe violations, record them, process them and on occasion rectify them. To the extent that rental units tend to exhibit greater propensity to generate violations, the City has another rationale to promote homeownership. According to 2007 and 2008 data, rental units still generate higher first code violations per unit than owner-occupied units do, particularly rental units that are in buildings with four or fewer units.

Conclusion: There Remains a Rational Basis for Rent Stabilization in College Park

The same factors that caused the study team to conclude that there exists a rational basis for rent stabilization in College Park in 2005 still exist. Rental conversion continues, homeownership is falling and rents are rising. Moreover, given development of new rental housing opportunities, the City has a rational basis to encourage renters to live in new professionally-managed units, thereby inducing owner-occupied housing to remain owner-occupied.

There Remains a Rational Basis for Rent Stabilization in College Park, MD

Introduction

During the spring of 2005, Sage Policy Group, Inc. (Sage) authored a report indicating that there existed a rational basis for a then-contemplated rent stabilization program/ordinance in the City of College Park, MD. The study team arrived at its conclusion based upon a combination of data analysis and literature review regarding the history of rent stabilization in the U.S. In its 2005 report, the study team wrote that the “Program is likely to be conducive to the following desired policy outcomes:

- stable rents that promote housing affordability;
- enhanced homeownership; and
- fewer violations of the City Code.”

The 2005 report also noted that other college towns in the Mid-/South Atlantic region of the United States experienced some of the same worrisome trends that the City of College Park was experiencing, strongly suggesting that the real estate dynamics of college towns render rent stabilization efforts particularly relevant to them. For instance, the 2005 report found that in Charlottesville, Va., owner-occupied units declined fully 38 percent over an eight-year period. Chapel Hill, N.C. reported that nearly a third of its nuisance complaints occurred in rental conversions most proximate to the central part of campus. At that time, the study team noted Chapel Hill’s Comprehensive Plan, which stated that there was a need to “implement a strategy to address the effects on neighborhoods of the conversion of owner-occupied residences to rental properties.” Chapel Hill clearly perceived a rational basis upon which to act to alter the functioning of its real estate markets and associated quality of life outcomes.

In College Park, estimates for 2004 indicated that 57.4 percent of the City’s occupied units were owner-occupied, down from 59.2 percent in 2000. The City’s then-prevailing homeownership rate was lower than rates in Prince George’s County, Maryland and the U.S. Further, although College Park’s median household income was lower than that of Prince George’s County, the Washington, D.C. Metropolitan Area and Maryland, the City’s average rent was higher. The study team also discovered that rental units demonstrated a higher propensity for first notice violations of the City Code than owner-occupied units.

Four years have passed since the submission of that report. This report is intended to be an update of the 2005 study, with the goal of determining the extent to which new data/information has altered the rational basis calculus. As of this writing, the City of College Park is contemplating an extension of its rent stabilization ordinance, perhaps with some modification. In this update, Sage considers a number of factors, including trends in rent, the pace of conversion of owner-occupied single-family housing to rental units, and trends in City Code violations across owner-occupied and rental housing stock.

Homeownership did not stop declining in College Park since Sage’s initial report

One of the primary objectives of the original ordinance was to reinforce homeownership by diminishing the incentive for homeowners to convert their properties into rental units. Available data indicate that there remains a public policy rationale for attempting to constrain the level of rental conversion based on ongoing declines in homeownership.

Exhibit 1 below indicates that between 2004 and 2008, the share of owner-occupied housing declined in College Park, MD despite rising in both Prince George’s County and Maryland during that period. The 2004-2008 period was admittedly an unusual one for housing markets, with the early portion of that period associated with the now-ended housing boom, and the latter stages of that period associated with the ongoing housing bust. The overall impact of market activity during this period was to raise homeownership countywide and statewide. This did not occur in College Park, however, where the share of owner-occupied units declined from 57.4 percent in 2004 to 57.0 percent in 2008. By contrast, countywide, homeownership rose during this period from 63.1 percent in 2004 to 65.8 percent four years later.

Exhibit 1: Housing Unit Breakdown in College Park, Prince George’s County and Maryland, 2000, 2004 and 2008 Estimates

Area	Share of Owner-Occupied Housing Units			Renter Share of Occupied Housing		
	2000	2004	2008	2000	2004	2008
College Park, MD	59.2%	57.4%	57.0%	40.8%	42.6%	43.0%
Prince George’s County	61.8%	63.1%	65.8%	38.2%	36.9%	34.2%
Maryland	67.7%	68.8%	69.9%	32.3%	31.2%	30.1%

Source: U.S. Census Bureau, Decision Data, Sage

From a public policy perspective, there are a number of reasons that government at every level (federal, state and local) supports homeownership, including for the creation of positive household wealth effects on average, community stability, and as will be discussed later in this report, improved property maintenance. Homeownership is also conducive to community engagement in democratic processes, including those associated with local issues.

Dietz (2003) surveyed numerous studies from the social sciences, medicine, psychology, and other academic fields to analyze the social effects of homeownership. He found four major areas of social benefits to homeowners with respect to their families and communities:¹

¹ Dietz, R. (2003). *The Social Consequences of Homeownership*. Ohio State University Department of Economics and Center for Urban and Regional Analysis.

- Children of homeowners are more likely to finish high school, perform better on school achievement tests and have fewer behavioral problems;
- Political activity is higher among homeowners than renters;
- Homeowners are generally more satisfied with their lives;
- Homeownership in neighborhoods enhances property values.

Rents in College Park continue to rise

According to data from the University of Maryland, College Park Off-Campus Housing Services, rents in College Park have continued to rise. The rate of rent increase was a bit sharper within the “Room in House” category than for one-bedroom apartments. One of the goals of the ordinance under consideration is to prevent significant increases in rents over short periods of time and faithful implementation of the ordinance would prevent that from occurring. The most recent data regarding rents in College Park indicates that there is still upward pressure on rents.

Exhibit 2: Findings from Market Scan of Rental Listings in College Park, MD, 2004-2009

Type of Housing	Average Monthly Rent per Unit		5-year % Growth
	2004	2009	
One Bedroom Apartment	\$809	\$988	22.1%
Room in House	\$467	\$579	24.0%

Source: University of Maryland, College Park Off-Campus Housing Services, Sage

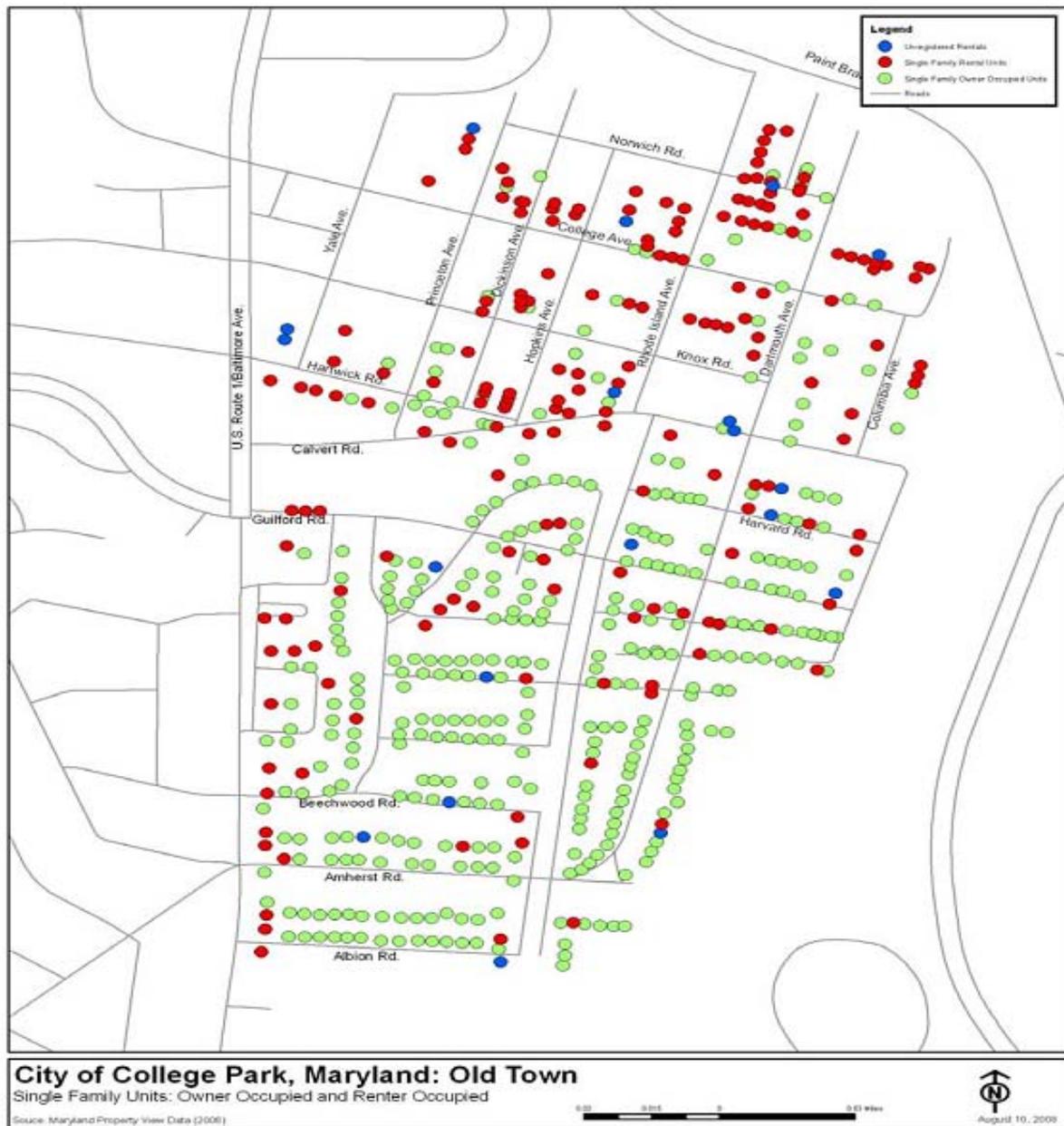
This has much to do with the structure of rental demand in College Park. According to the University of Maryland, in 2009, 48 percent of all undergraduates lived in University-owned or affiliated housing, with the remainder, 52 percent, living off-campus. Of this latter percentage, an estimated 68 percent of all undergraduates lived within a one-mile radius of the campus. The implication is that demand for rental units is highly concentrated in certain geographic areas, and this concentrated demand has the tendency to place upward pressure on rents.

There is evidence to suggest that implementation of the rent stabilization ordinance would under certain circumstances reduce rental rates. For instance, according to the City, at 6707 Baltimore Avenue, the 2008/2009 rent is \$4,200 (based on advertised rent), which is in excess of the rent ceiling per Chapter 127 of the ordinance (rent ceiling effective July 1st, 2009 = \$3,958 based on an SDAT assessed value of \$659,670). The City has no record that this property is registered for rent stabilization as required by Chapter 127.

Similarly, at 7307 Princeton Avenue, 2008/2009 rent is \$2,400 spread over four tenants. The rent was slated to increase to \$3,000 on June 1st, 2009, which would be over the rent ceiling per Chapter 127 (certain information supplied by tenant report). The SDAT assessed value effect July 1st 2009 is \$414,550, with an associated rent ceiling of \$2,487.30. The City has no record that this property is registered for rent stabilization.

Exhibit 3 provides a clearer geographic perspective regarding the clustering of demand. The map shows the propensity of single-family properties to be occupied by renters East of the main part of the University of Maryland, College Park campus. The elevated level of demand in this part of College Park has translated into substantial rental conversions and is also consistent with significant increases in rent over time. Through its rent stabilization ordinance, the City of College Park has attempted to reduce the pace of rental conversion and to limit annual expansion in rent levels to promote greater affordability.

Exhibit 3: Map of Old Town, City of College Park, Single Family Units, Owner Occupied, and Renter Occupied



City code violations still higher among rental units

Violations of the City Code produce a number of negative outcomes, including additional City costs to observe violations, record them, process them and on occasion rectify them. To the extent that rental units tend to exhibit greater propensity to generate violations, the City has another rationale to promote homeownership through a rent stabilization program that reduces the incentive to convert owner-occupied units into rental units.

Exhibit 4 reflects occupied housing units by type in College Park, MD. According to the Census Bureau, of College Park's 4,012 single-family detached units, more than one in five is now used for rental purposes. With respect to single-family attached units, more than three in four units is now a rental property.

Exhibit 4: Occupied Housing Units by Type, 2005-2007 Average

Housing Unit Type	Renter-occupied	Owner-occupied
1-Detached	895	3,117
1-Attached	126	37
2 Apartments	0	0
3-4 Apartments ²	107	13
<i>Subtotal 1-4 Units</i>	<i>1,128</i>	<i>3,167</i>
5-9 Apartments	181	0
10 and up Apartments	1,071	37
<i>Subtotal 5 Units and up</i>	<i>1,252</i>	<i>37</i>
Total All Types	2,380	3,204
<i>Source: U.S. Census Bureau</i>		

There are very few violations attributable to larger apartment buildings, which tend to be professionally managed. This is reflected in the fact that there were only 12 code violations in 2007 associated with buildings with five or more units. In 2008, there were 5 code violations among this group.

According to Census data, there are 1,128 rental units in structures with four or fewer units. This is reflected in Exhibit 4. Exhibit 5 shows that among this group, there were 1,096 first-time listed exterior code violations in 2007, or 0.97 (1,096/1,128) listed exterior violations per housing unit. During that same year total owner-occupied units generated 0.44 first-time notice exterior violations per housing unit, significantly fewer than those associated with rental units in structures with four or fewer units. The number of exterior violations among larger apartment buildings is also far less than those in buildings with less than four renter-occupied units, perhaps

² Reflects circumstances in which the owner of a property may also live in the structure.

a reflection of the benefits of professional management.³ When total exterior violations are considered, there were 1.22 first-notice exterior violations per rental unit in structures with four or fewer units. The corresponding number for owner-occupied units was 0.54.

Exhibit 5: College Park, MD First Notice Code Violations by Type and Housing Breakdown, Exterior Property Maintenance Only, 2007

Code Violation	Residential Rental⁴	Owner-Occupied
Grass and Trash	230	405
Inoperable Vehicles	46	170
Vehicle Parked in Grass	84	100
Graffiti	2	6
Toters	251	241
Trash Out Early	19	49
Illegal Signs	1	10
Litter	381	323
Dumpster	2	9
Miscellaneous	45	58
Zoning Violations	35	30
Total Listed Violations	1,096	1,401
Total Exterior Violations	1,367	1,733

Source: City of College Park

³ If one considers all structures with renters, owner-occupied units generated 0.44 first notice listed code violations per unit (1,401/3,204) and renter-occupied units generated 0.46 violations per unit (1,106/2,380). These figures were reflected in an earlier draft of this report. That draft was submitted by the study team in July of 2009.

⁴ Violations only pertain to rental units in buildings with four or fewer units.

As exhibit 6 shows, listed residential rental violations totaled 854 in 2008. The first-time code violation ratio for 2008 therefore was 0.76 (1,096/1,128) violations per housing unit. That figure is lower than the corresponding statistic from 2007, but still substantially higher than the 0.32 violations per unit associated with owner-occupancy during that year. When one considers total exterior violations, there were 0.92 violations per unit. The corresponding tally for owner-occupied units was 0.38.

Exhibit 6: College Park, MD First Notice Code Violations by Type and Housing Breakdown, Exterior Property Maintenance Only, 2008

Code Violation	Residential Rental ⁵	Owner-Occupied
Grass and Trash	240	350
Inoperable Vehicles	37	147
Vehicle Parked in Grass	67	66
Graffiti	2	1
Toters	217	189
Trash Out Early	50	101
Illegal Signs	0	5
Litter	219	125
Dumpster	3	26
Miscellaneous	3	3
Zoning Violations	16	16
Total Listed Violations	854	1,029
Total Exterior Violations	1,038	1,211

Source: City of College Park

A New Consideration: More professionally-managed rental units on the way

Since Sage authored its original report, a wave of new rental development projects has either been completed, been approved, or is close to approval. Importantly, the rent stabilization ordinance does not generally apply to these units. Indeed, it can be argued that by providing a disincentive to convert owner-occupied housing into rental housing, the City has preserved a greater share of rental demand for newer, professionally-managed apartments. Among the student housing projects under construction are South Campus - Phase 4 (368 beds), Mazza Grandmarc Apartments (630 beds) and University View II (516) beds.

Through its rent stabilization program and development approval process, the City of College Park may be able to support an equilibrium in which a greater share of renters lives in professionally-managed settings conducive to better service to residents and greater capacity to limit code violations. This latter point is made due to the likely availability of greater property management resources as well as more frequent managerial presence on the properties themselves.

⁵ Violations only pertain to rental units in buildings with four or fewer units.

At the same time, this equilibrium would be associated with greater owner-occupancy in single family units. This would allow the City to more fully reap the benefits of homeownership discussed above. This consideration in and of itself may be enough to supply a rational basis for ongoing rent stabilization efforts.

Conclusion: There remains a rational basis for rent stabilization in College Park

The same factors that caused the study team to conclude that there exists a rational basis for rent stabilization in College Park, MD in 2005 still exist. Rental conversion continues, homeownership is falling and rents are on the rise. Research indicates that stable homeownership is associated with numerous societal benefits and that to the extent that homeownership declines, communities are less well-positioned to enjoy those benefits.

Moreover, given development of new rental housing opportunities, the City also has a rational basis to encourage renters to live in new professionally-managed units, thereby inducing owner-occupied housing to remain owner-occupied. Data suggest that a migration of renters to professionally-managed units in larger apartment buildings would significantly reduce the number of first-time code violations in the City of College Park.