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Phillipsburg

Rent-Control Study

Prepared For:

Town of Phillipsburg, New Jersey

Prepared By:

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Project Overview

Debates over the benefits and downsides of rent regulation continue, with empirical research as well as speculative and anecdotal assertions informing perspectives. To be sure, an effective rent-regulation ordinance would necessarily include thoughtful policy details informed by consideration of potential positive and negative impacts of such a measure. 4ward Planning was hired by the Town of Phillipsburg to analyze the prospective impacts of instituting a rent-control ordinance in the Town of Phillipsburg and to answer the following primary questions aimed at answering the pros and cons of establishing a rent control program in the town of Phillipsburg:

- If enacted, how many households within the township are likely to benefit?
- How should a rent control protocol be structured (e.g., which properties are subject to rent control, what are the rules for setting affordable rent thresholds, and for what period of time)?
- How might landlords whose properties would be subject to rent control measures be impacted financially?
- How will a rent control ordinance impact future residential rental development in Phillipsburg?
- How will rent control impact the market and assessment value of subject properties?
- What are national best-case examples of rent control programs?
- How should a rent control board be established and who should serve on the board?

Recommendations

Rent-Control Ordinance Elements

Based on the foregoing research and interview findings, 4ward Planning recommends the following elements be incorporated within a rent control ordinance, should the town of Phillipsburg consider implementation of rent control:

- Rent control should be applied to units built before 2005, which should cover better than 95 percent of the town's rental stock.
- Buildings containing three or more units and where the owner does not reside in any of the units shall be subject to rent control
- Group lodging facilities such as hotels/motels, boarding houses, educational dormitories, public housing, housing accommodating Section 8 recipients, and nursing homes should be exempt
- Permitted annual rent increases should be tied to the consumer price index (CPI) for the Northeast Region (as published monthly by the U.S. Bureau of Labor Statistics, covering the states of Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont.) and multiplied by a factor of 1.1-percent to account for a property owner profit margin. The Northeast Region CPI used shall be for the month preceding the month in which the increase is to occur.

- Upon voluntary vacation of a rent-controlled unit, the landlord shall be allowed to increase the base rent at the time of vacation by no more than 10-percent, and up to 15-percent based on a documented need for making capital repairs to the unit or the common area of the property.
- A landlord shall have opportunity to request a waiver from the rental increase cap once annually based on a documented need to make capital repairs to one or more units, or the common area of the property, or for documented extraordinary annual increases in utility or property insurance costs (extraordinary cost increases shall be at a minimum of two times the increase of the Northeast CPI for the 12 months preceding the requested waiver). Approval of the requested increase shall be at the discretion of the rental control governing body.

According to our case study analysis, a municipal rent-regulation ordinance should anticipate potential unusual increases in CPI, if rent increase limits are to be tied to the CPI.

The following table summarizes the above municipal rent-control ordinance elements.

Municipality	Age of Units	Units-in-Structure Ordinance Applies to	Rent Increase Limits	Vacancy Decontrol	Exceptions
Phillipsburg	Units built before 2005	3+	CPI for the Northeast Region and multiplied by a factor of 1.1% to account for a landlord profit margin	Yes (10% maximum increase up to 15% for approved capital investments)	Group lodging facilities such as hotels/motels, boarding houses, educational dormitories, public housing, housing accommodating Section 8 recipients, and nursing homes

Administrative Structure

According to our case study analysis, and the capacity of local government staff within the town of Phillipsburg, we recommend the creation of a volunteer board of seven representatives, consisting of four persons who reside in a rental property in Phillipsburg which meets the eligibility for being subject to rent control; four landlords of properties meeting the eligibility for being subject to rent control but owning properties not housing any of the tenant representatives; and one representative of the town of Phillipsburg who is neither a landlord nor a renter in the town of Phillipsburg.

The board shall meet on an as needed basis to hear disputes, waiver requests and review for prospective recommendations for updating the rent control ordinance.

Selected volunteers shall have staggered terms of one, two, and three-years and be appointed by the Mayor of Phillipsburg with advice and consent of council. The Phillipsburg governing body may choose to provide a small stipend to volunteer board members to cover the cost of transportation to and from the municipal building.

Potential Rent Control Impacts

Based on third-party research, financial feasibility analysis (later discussed), as well as interviews with New Jersey-based municipal rent-control administrators, 4ward Planning identified the potential short- and long-term impacts associated with municipal rent-control programs. 4ward Planning endeavored to identify the likelihood of one or more of these impacts occurring in Phillipsburg should a rent control ordinance be placed in effect.

Cost-Burdened Renter Households Benefited

Although rent control in New Jersey - what it is and how it works - varies widely across municipalities (presented in more detail in the New Jersey Rent-Control Ordinance section), it generally applies to residential buildings and multi-family apartments with three or more units. Single-family homes and smaller buildings are typically exempt, as are units built in the last 30 years or supplemented by federal or state housing assistance. In 2022, Phillipsburg had approximately 1,380 renter-occupied housing units in multi-family buildings with three or more units, with nearly all of Phillipsburg total housing stock (94 percent) built before 1990). According to 2018-2022 ACS estimates, 1,490 renter households in Phillipsburg were cost-burdened, with 385 of these cost-burdened renter-occupied households living in buildings with five or more units (1,105 cost-burdened renter-occupied households live in single family homes or in small multi-family buildings with four or less units). If a rent-control ordinance were enacted in Phillipsburg, these represent potential households positively impacted by a rent-control ordinance.

Tenant and Neighborhood Stability

Rent-controlled apartments make housing costs more predictable and affordable, preventing displacement of lower- and moderate-income tenants. Areas with a significant proportion of rent-controlled units tend to have lower turnover, allowing long-term tenants to form strong community ties and to be more invested in the safety and prosperity of the neighborhood. Renting offers more flexibility and mobility compared to owning a home, which can be appealing for those who need to move by choice or necessity. A large share of renters in Philipsburg are recent movers, having moved into their home in the past 15 years. In 2022, 85 percent of housing units in buildings with two or more units moved into their home in 2010 or after.

Reduced Revenue to Landlords

Rent-control measures restrict landlords from raising rents to the extent they might wish, thus placing a ceiling on profitability. Some landlords may attempt to compensate for reduced revenue on rent-controlled properties by raising the rents on their market-rate units and artificially inflating local market-rate housing (as well as pricing out some would-be renters). Although there are no statewide rent regulation statutes in New Jersey, the state's collective municipal rent-control policies are widely considered moderate, as they allow landlords to apply for rent increases under specific conditions, such as economic hardship or insufficient returns on investment. According to our case study analysis, finding a healthy balance in meeting the needs of both tenants and landlords is essential to a successful rent-regulation ordinance. Modest annual rent increase caps protect tenants from unanticipated, inequitable rent increases leading to possible displacement, while tools such as temporary vacancy decontrol and consideration of hardship and capital costs increases offer financial safeguards to landlords.

However, and as the high-level financial analysis performed and discussed later in the study demonstrates, landlords are made worse off, financially, with the implementation of rent control.

Building Maintenance and Investment

Landlords may choose to delay or forgo building repairs as a result of rent-control impacts on their revenue, leading to rental housing disinvestment, neglect and lower property value. Some landlords may intentionally (and illegally) withhold necessary repairs from the apartments of existing tenants to force them out and either take advantage of vacancy decontrol statutes or convert the units in attempt to dodge rent-control restrictions.

Future Residential Rental Building Development

In reaction to rent-control restrictions, some landlords may choose to convert eligible units into market-rate condos, removing them from the rental market entirely. Likewise, some land developers may elect to build for-sale units rather than apartments if some or all of the units in the apartment building would be subject to rent control – an unwelcome effect which can be mitigated by exempting new construction from rent-control measures (e.g., North Arlington, NJ, as highlighted in the case studies section, exempts newly constructed units from rent regulation until the unit is re-rented, while other cities, such as Portland, Maine, exempt new construction beyond a given year).

As a general practice, statewide, properties less than 30 years old are typically exempt from rent control ordinances, in recognition of the need for these newer developments to adequately cover debt service.

Property Values

Given a rent-control ordinance will curtail the annual amount of revenue a residential rental property can otherwise command, it is likely the property’s value (both market and assessed) will be impacted and, concomitantly, the real property tax revenue to the Town of Phillipsburg. 4ward Planning’s high-level financial analysis (see page 27) on two hypothetical rental properties (one subject to rent control and the other, identical in all other respects, not subject to rent control) demonstrates a marked difference in the market values and associated real property tax levies of these properties.

Market Analysis

4ward Planning performed a high-level market analysis focused on population and household trends (inclusive of age, income, housing tenure, and housing costs) and residential rental housing stock (age, estimated rents, units per structure (e.g., duplexes, multi-family, etc.), and rental rate trends).

Population and Household Trends

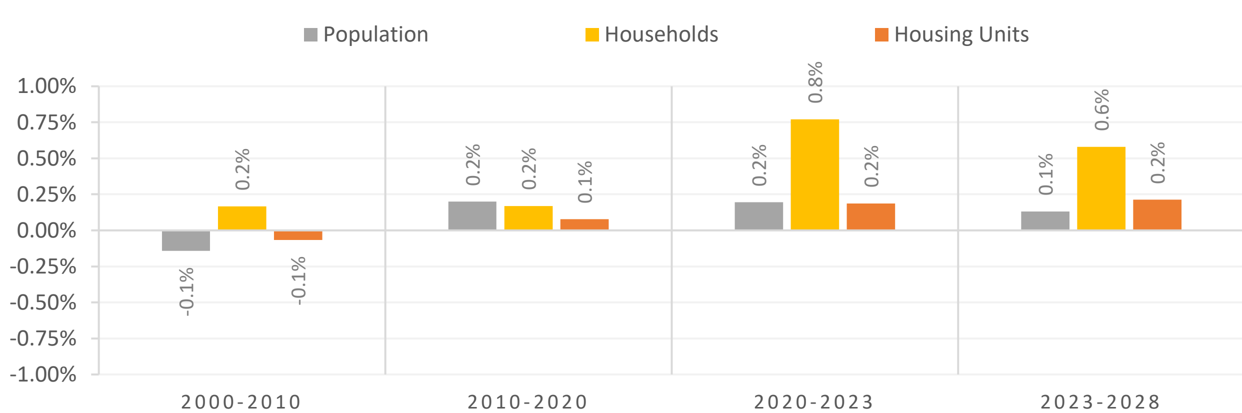
According to Esri, the town of Phillipsburg has approximately 15,550 residents, 6,180 households, and 6,780 housing units. In recent years, household growth in Phillipsburg has outpaced housing unit growth, with total households increasing by 0.8 percent per year from 2020 to 2023, compared to 0.2 percent per year for housing units.

Figure 1. Population, Household, and Housing Unit Trends

	2000	2010	2020	2023	2028
Population	15,166	14,950	15,249	15,546	15,751
Households	6,043	5,925	6,024	6,176	6,357
Housing Units	6,651	6,607	6,659	6,784	6,929

Source: Esri

Figure 2. Annualized Population, Household, and Housing Unit Trends

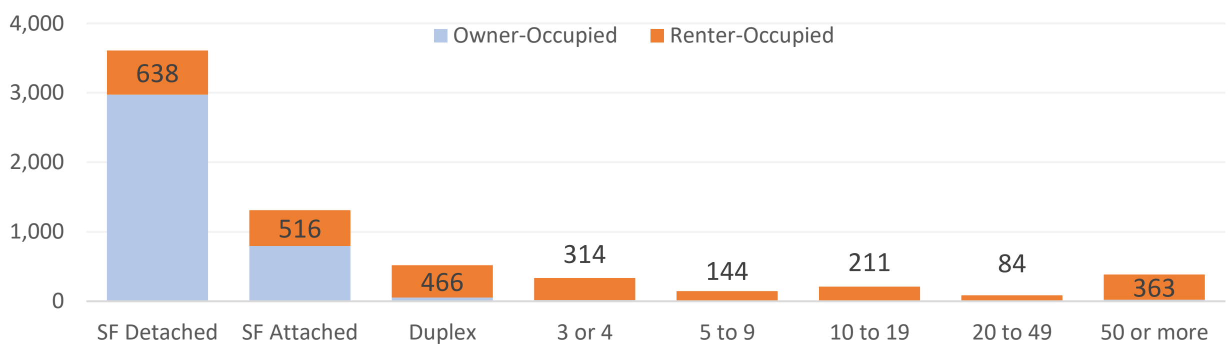


Source: Esri

Housing Tenure and Type

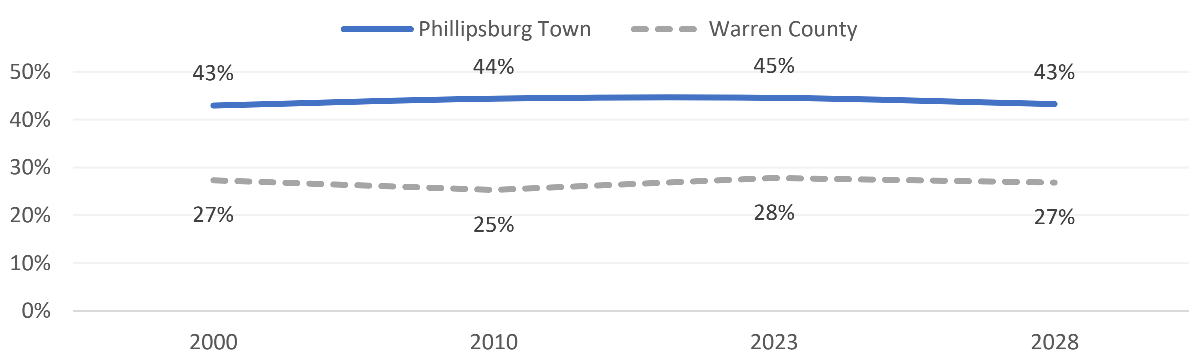
According to 2022 American Community Survey (ACS) data, Phillipsburg contains approximately 6,780 homes. Seventy-three percent of Phillipsburg's housing stock (5,290 homes) is characteristic of single-family housing (SF detached and SF attached). A relatively high share of homes in Phillipsburg are renter-occupied (45 percent), compared to Warren County (28 percent). In 2022, Phillipsburg had approximately 1,380 renter-occupied housing units in multi-family buildings with three or more units.

Figure 3. Housing Tenure by Units in Structure: Phillipsburg, 2022



Source: U.S. Census Bureau, 2018-2022 American Community Survey 5-Year Estimates, B25032

Figure 4. Renter-Occupied Housing Trends

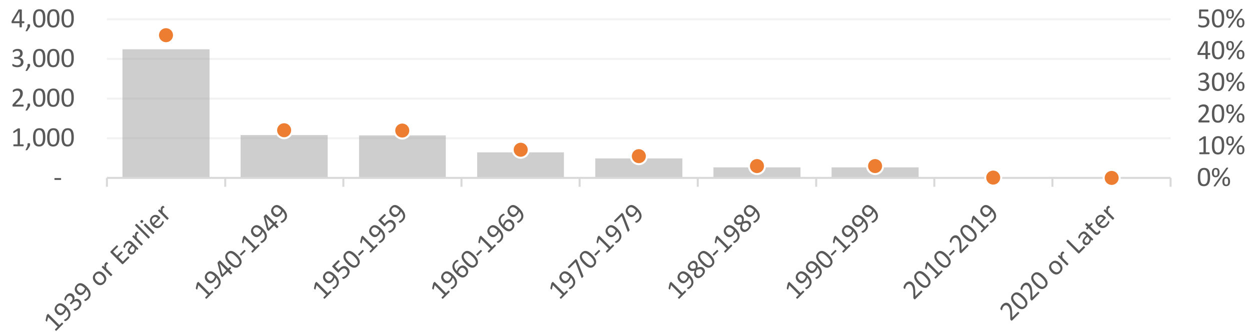


Source: Esri

Housing Age

Nearly half of Phillipsburg's housing stock (3,240 units) was built before 1940, with 94 percent built before 1990 and little built in the past two decades. Some of Phillipsburg's older housing may need rehabilitation due to age or presence of lead-based paint.

Figure 5. Housing Units by Structure Type, 2021

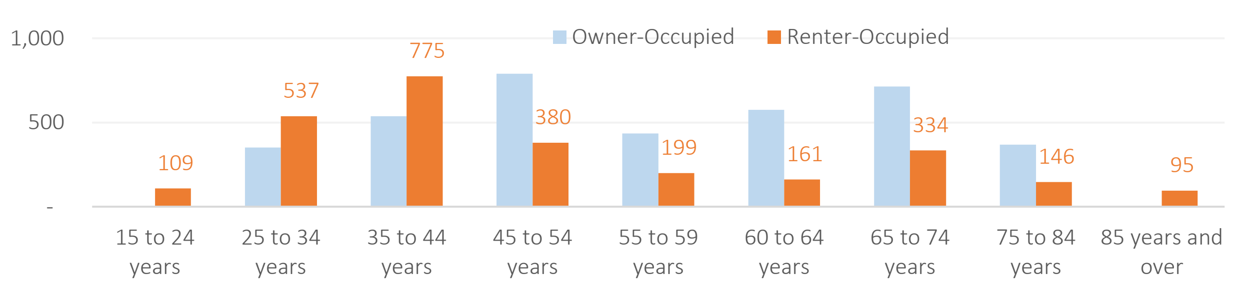


Source: Esri

Renters by Age

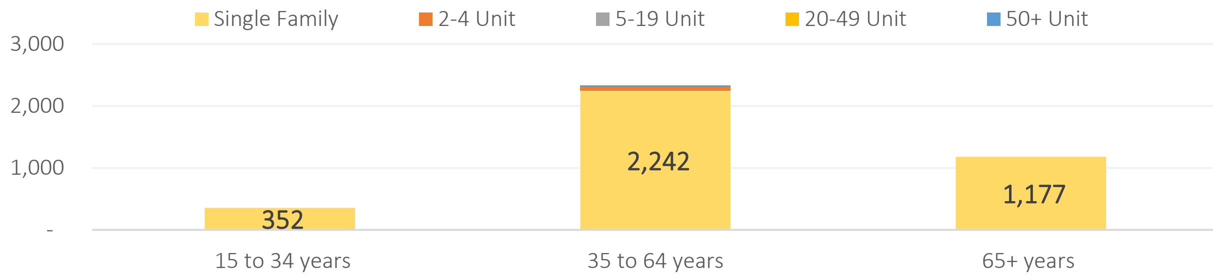
The population living in Phillipsburg is relatively young. In 2023, the median age in Phillipsburg was 38.6 years, compared to 43.8 years in Warren County. In 2022, renter households between ages 35 and 44 represented the largest age cohort in Phillipsburg (775 persons). While approximately 240 renter households in Phillipsburg were occupied by persons ages 75 or older who may represent vulnerable households (i.e., living on fixed incomes and/or with health or mobility issues), these older households largely resided in single-family homes. Residents between ages 35 and 64 represented those householders living in buildings with two or more units.

Figure 6. Phillipsburg Population by Age and Housing Tenure, 2022



Source: U.S. Census Bureau, 2018-2022 American Community Survey 5-Year Estimates, B25007

Figure 7. Phillipsburg Renter Householders by Age and Housing Type, 2022

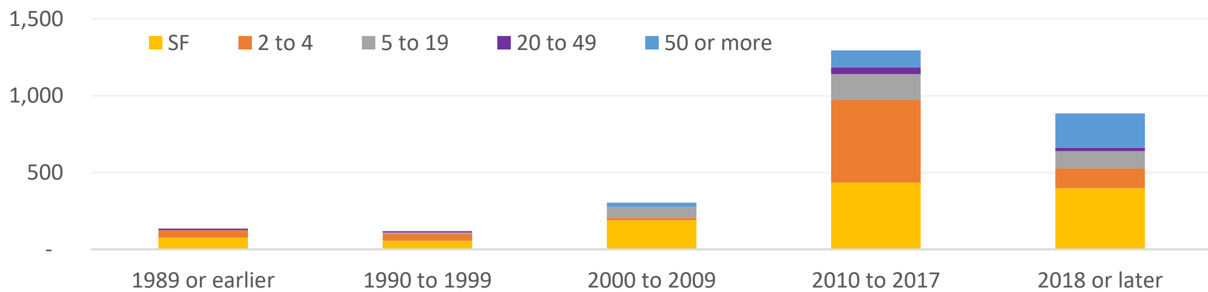


Source: U.S. Census Bureau, 2018-2022 American Community Survey 5-Year Estimates, B25125

Renter Households by Year Moved

Renting offers more flexibility and mobility compared to owning a home, which can be appealing for those who need to move by choice or necessity. A large share of renters in Philipsburg are recent movers, having relocated into their homes in the past 15 years. In 2022, 85 percent of renter households in buildings with two or more units moved into their homes in 2010 or after.

Figure 8. Renter-Occupied Households by Year Moved and Building Unit Count

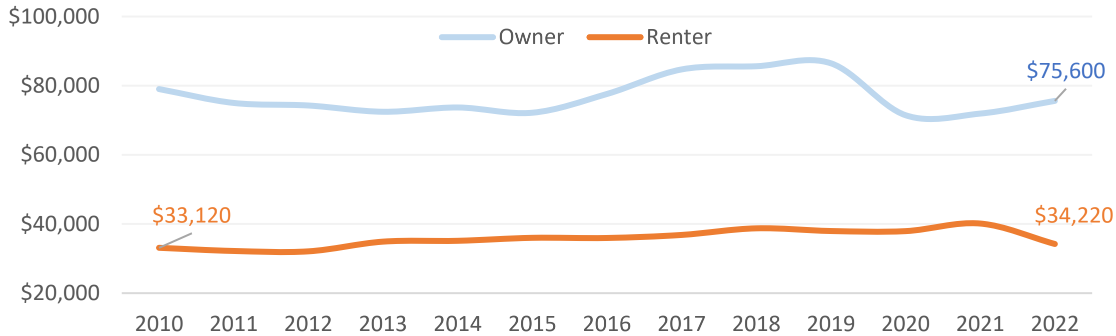


Source: U.S. Census Bureau, 2018-2022 American Community Survey 5-Year Estimates, B25129

Household Income

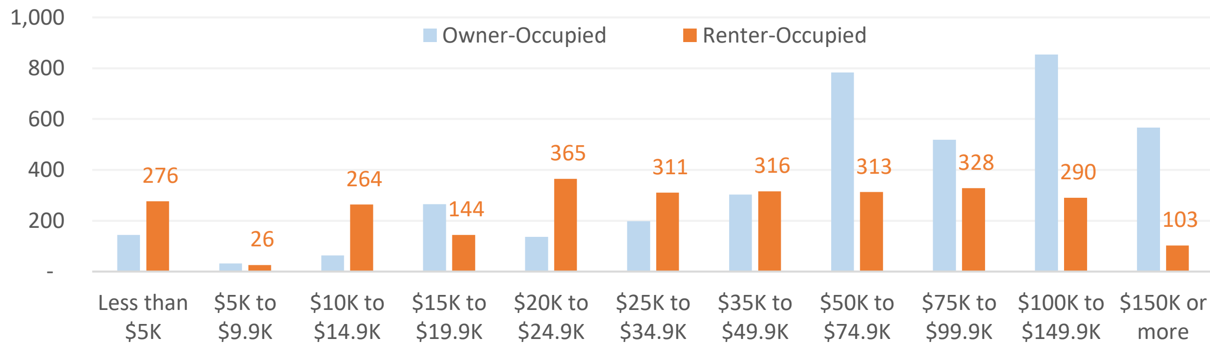
In 2022, the median household income among renter-occupied households in Phillipsburg was 45 percent of owner-occupied household incomes - $34,220 and $75,600, respectively. In 2022, approximately 1,390 renter-occupied households in Phillipsburg had annual household incomes less than $35,000.

Figure 9. Phillipsburg Median Household Income (2022 Dollars)



Source: U.S. Census Bureau, 2018-2022 American Community Survey 5-Year Estimates, B25119

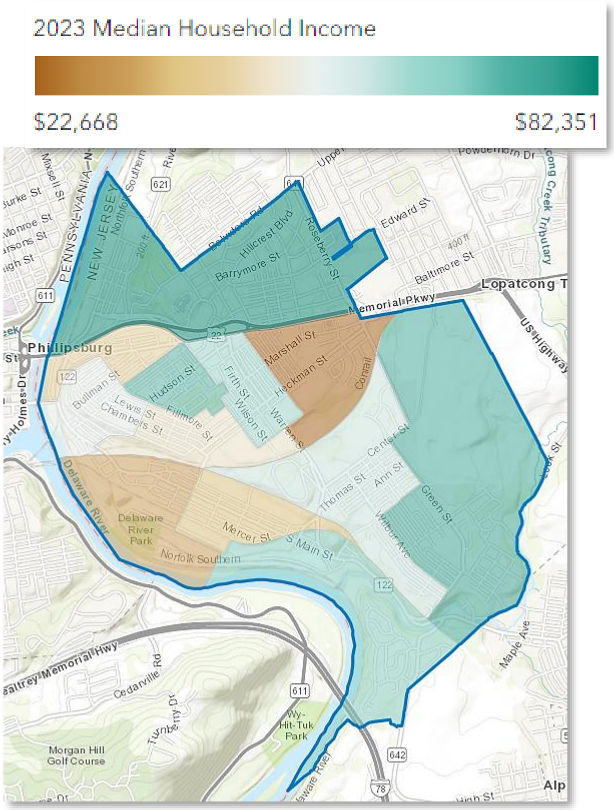
Figure 10. Housing Tenure by Household Income (2022 Dollars)



Source: U.S. Census Bureau, 2018-2022 American Community Survey 5-Year Estimates, B25118

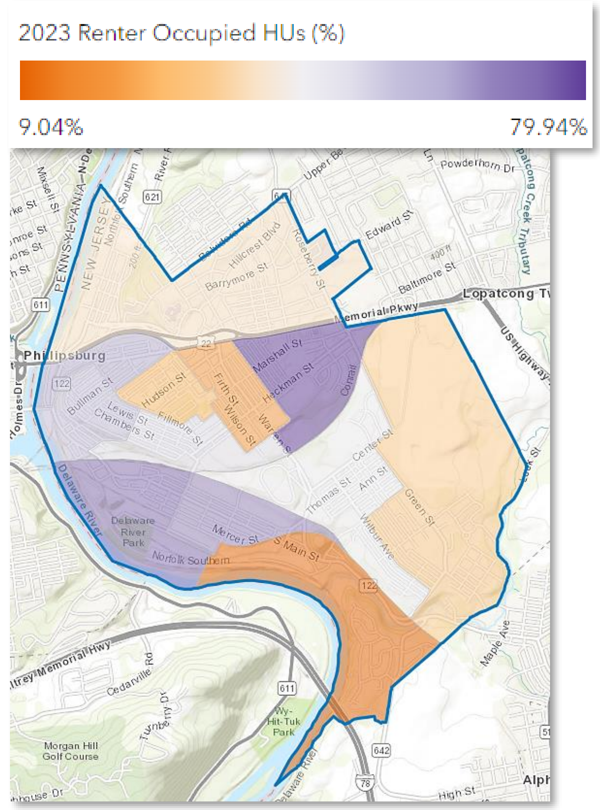
The following maps illustrate that lower-income households are more likely to rent than own.

Figure 11. Median Household Income



Source: Esri

Figure 12. Renter-Occupied Househeolds

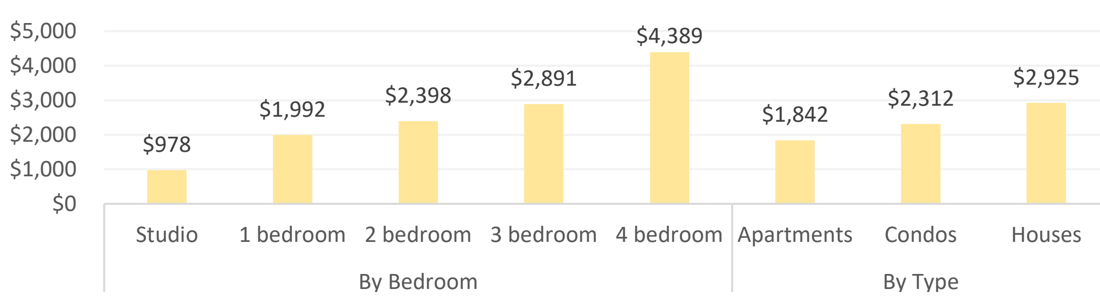


Source: Esri

Average Rents

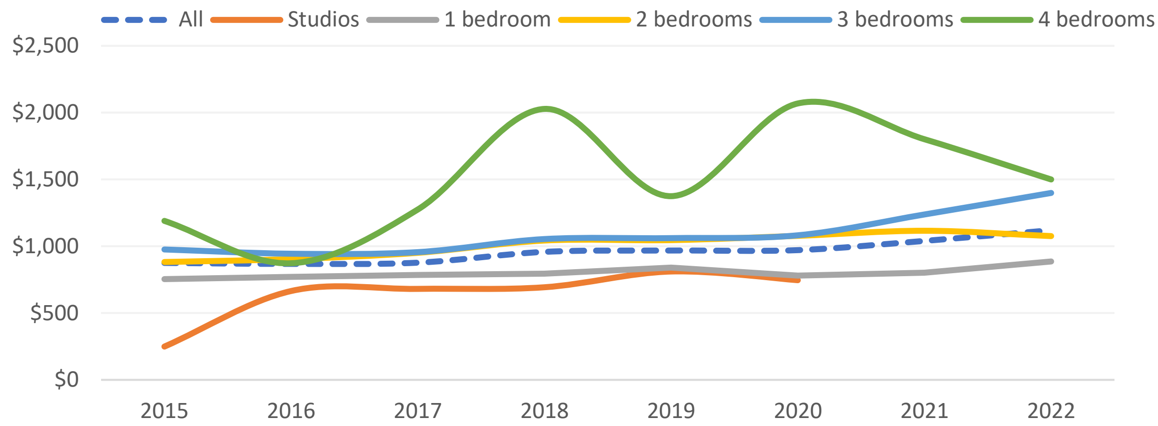
According to Zumper, a national online rental platform, the monthly rent in Phillipsburg ranges from $1,842 for an apartment to $2,925 for a house. Rents by bedroom count range from $978 for a studio to $4,389 for a four-bedroom unit. According to the U.S. Census Bureau, gross rent is the contract rent plus the estimated average monthly cost of utilities (electricity, gas, and water and sewer) and fuels (oil, coal, kerosene, wood, etc.).

Figure 13. Average Rents by Bedroom Counts



Source: Zumper

Figure 14. Median Gross Rent Trends

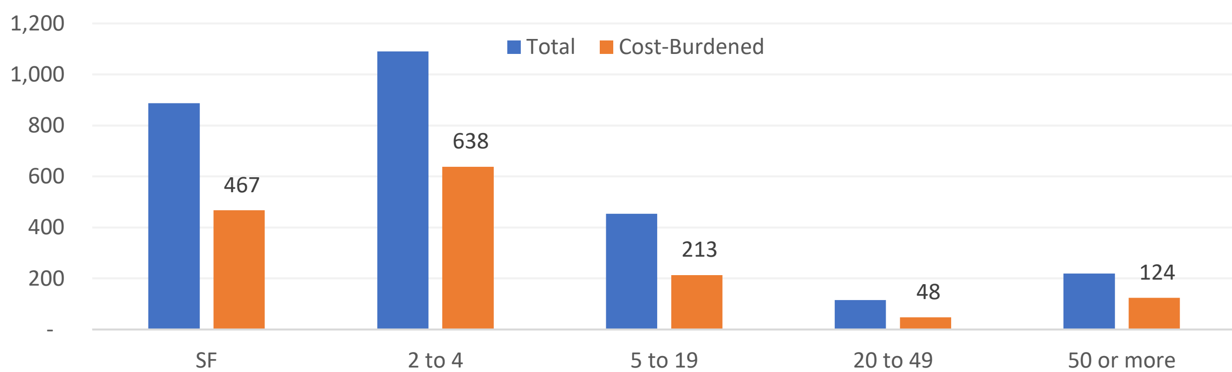


Source: American Community Survey, 5-Year, B25031 | Median Gross Rent by Bedrooms

Rent Cost-Burdened Households

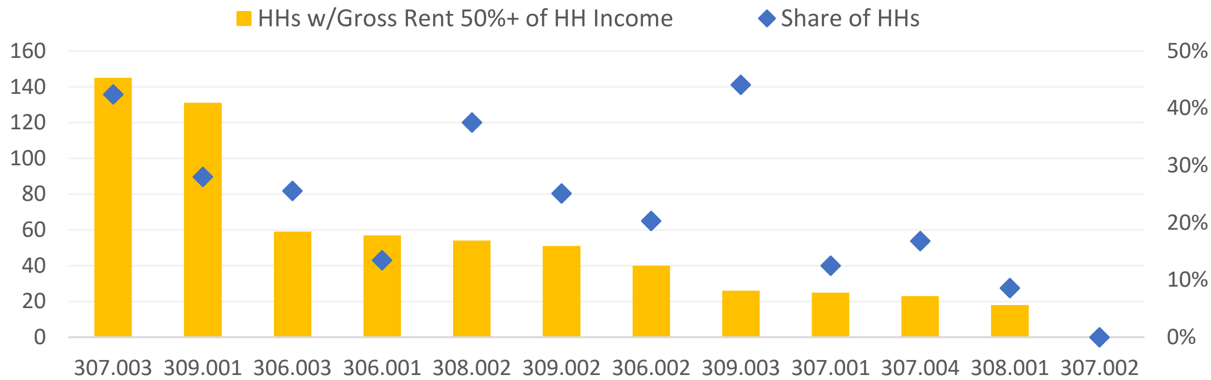
The American Community Survey collects a variety of housing cost information for renters (monthly rent and utility bills). A renter-occupied household is considered cost-burdened when it spends more than 30 percent of its income on housing. According to 2018-2022 ACS estimates, 1,490 renter households in Phillipsburg were cost-burdened, with 1,105 of these households living in single-family homes or in small multi-family buildings with four or fewer units. Just 385 of these cost-burdened, renter-occupied households lived in buildings with five or more units.

Figure 15. Renter Households by Units in Structure and Cost-Burden, 2022



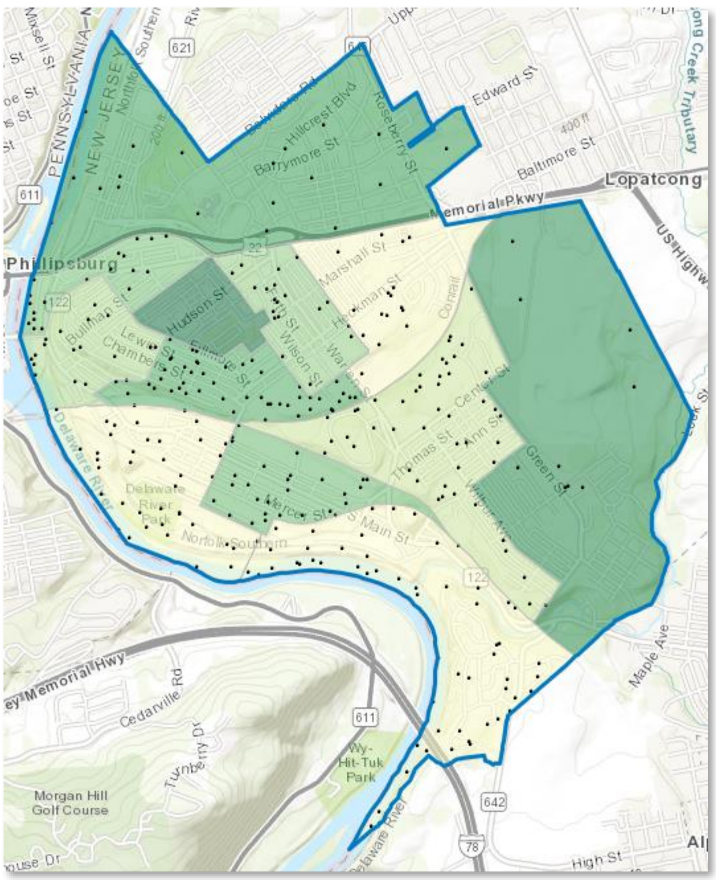
Source: U.S. Census Bureau, 2018-2022 American Community Survey 5-Year Estimates, B25073

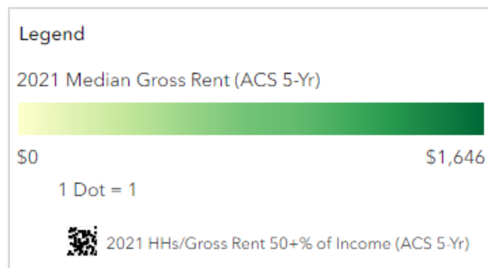
Figure 16. Severely Cost-Burdened Renters by Block Group: Phillipsburg, 2021



Source: Esri

Figure 17. Severely Cost-Burdened Households with Gross Rent 50+% of Income, 2021





This map highlights median gross rents by block group (green) and the number of Phillipsburg households with gross rents equivalent to more than 50 percent of their household incomes (dots). The majority of severely cost burdened households are located south of Morris Street and west of Warren Street.

Source: Esri

Background

Historical Perspective of Rent Regulation

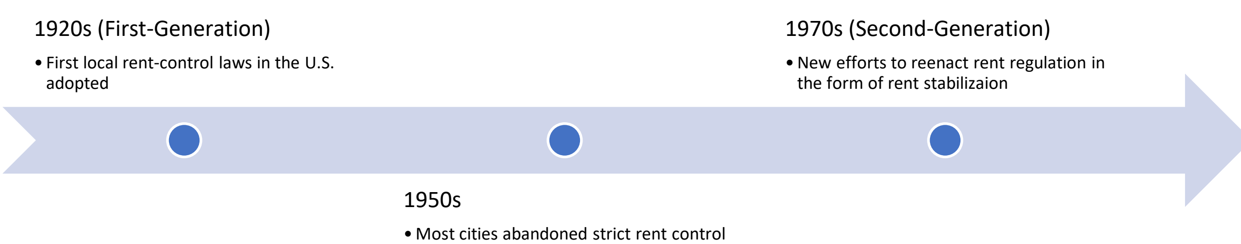
To better assess prospective rent-control models and potential impacts, it is helpful to understand the history of rent regulation in the United States – which also highlights the distinction between *rent control* and *rent stabilization*.

The first local rent-control laws in the U.S. were adopted in the 1920s, and they gained prominence over the next few decades. The World War II economy spurred dynamic labor market growth in several cities, forcing rents to increase. In response, local policymakers, most notably in New York City, implemented price ceilings and rent freezes. During the postwar 1950s housing boom, most cities abandoned this strict version of rent control, commonly known as first-generation rent control.

New efforts to enact rent control took off in the 1970s. But these second-generation polices were more moderate than the previous efforts. Unlike first-generation rent control, newer policies that allowed periodic rent increases tended to apply only to certain building types rather than to all tenant-occupied housing. These second-generation rent-control laws, often referred to as "rent stabilization" to distinguish them from stricter first-generation policies, were introduced in several large or growing coastal cities, especially in California and the Northeast[1] - with New Jersey being prominent in second-generation rent stabilization measures. Currently, Maine, New York, New Jersey, Maryland, and the District of Columbia are the only eastern states with local rent-regulation measures.

Thus, rent regulation is a blanket term for government intervention in the residential rental market employing either rent-control or rent-stabilization measures. Generally, rent control refers to the application of strict rent ceilings, limiting the amount a landlord can charge for a protected unit – which today represents relatively few apartments, nationally. Rent stabilization allows for yearly rent increases, typically a small percentage of the previous year's rent.[2] Although the term *rent control* is still broadly and interchangeably used to describe rent regulation, educating the community on the distinctions between and potential impacts of different types of rent regulation can be a valuable consensus tool.

Figure 18. Rent-Control Timeline



[1] Prasanna Rajasekaran, Mark Treskon, and Solomon Greene, "Rent Control: What Does the Research Tell Us About the Effectiveness of Local Action?" Urban Institute (2019)

[2] Clark Merrefield, "Rent Control and Stabilization Policies," The Journalist's Resource, Harvard Kennedy School (2021)

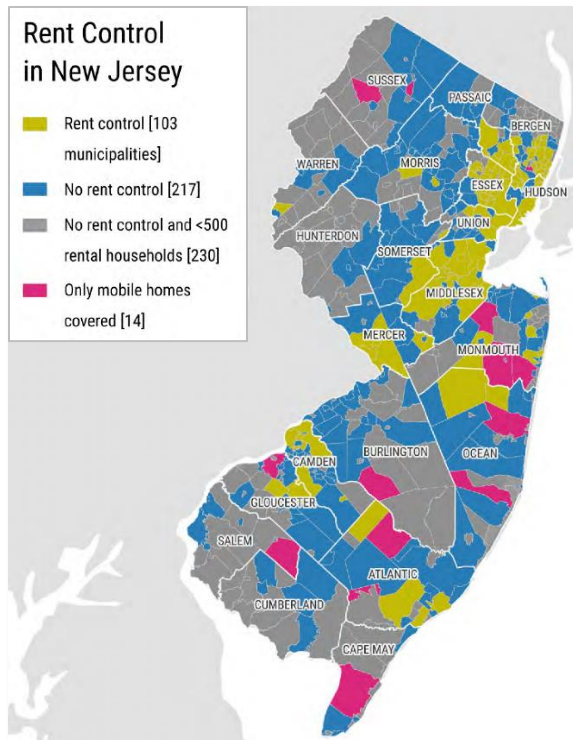
New Jersey Rent-Control Ordinances

4ward Planning performed a review of third-party literature and available data concerning the structure and implementation of rent-control ordinances in New Jersey. Findings include the threshold maximum annual rent increases and the index (e.g., consumer price index (CPI)) to which these increases may be tied. A summary of rent-control ordinances for each of the five New Jersey municipalities identified highlight key elements that may inform Phillipsburg's proposed rent-control ordinance.

Background

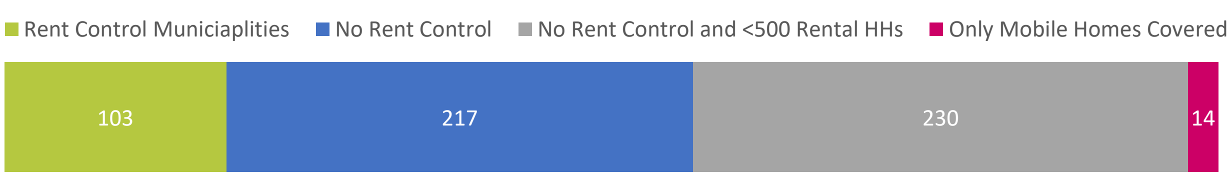
Although there are no statewide rent regulation statutes in New Jersey, the state sets a few rent-control parameters (e.g., exempting many units built in the last 30 years), and its collective municipal rent-control policies are widely considered moderate, as they allow landlords to apply for rent increases under specific conditions, such as economic hardship or insufficient returns on investment. This balance aims to protect tenants while ensuring landlords can maintain their properties and earn reasonable returns. With 117 municipalities – primarily clustered in the northern and central urban and suburban portions of the state (particularly in Essex, Hudson, Bergen, and Middlesex Counties) - having adopted various forms of rent regulation since the 1970s, New Jersey is a significant area of study for such policies, providing insight on their impacts on housing markets. [3]

Figure 19. New Jersey Rent Control Map



Source: Bloustein School of Planning and Public Policy, Rutgers University, 2024

Figure 20. Rent Control Among New Jersey Municipalities



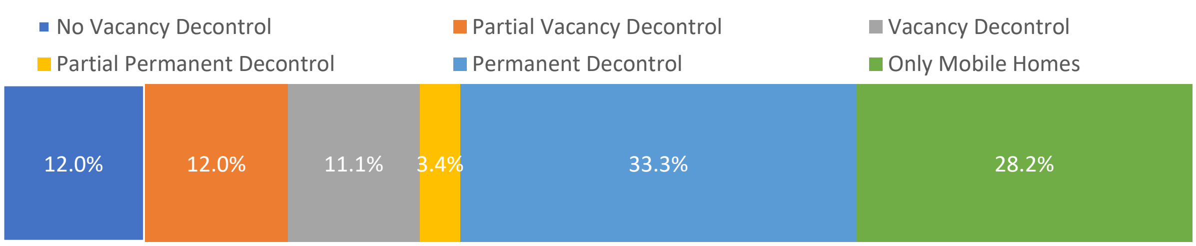
Source: Bloustein School of Planning and Public Policy, Rutgers University, 2024

[3] Stephen Malpezzi, "Digging Deeper on Rent Controls," Rutgers Center for Real Estate (2017).

Although rent control in New Jersey - what it is and how it works - varies widely across municipalities with their own political, economic, and social contexts, it generally applies to residential buildings and multi-family apartments with three or more units. Single-family homes and smaller buildings are typically exempt (with the exception of mobile homes in some municipalities), as are units built in the last 30 years or supplemented by federal or state housing assistance. Municipal ordinances regulate the amount landlords can increase rents each year, limiting increases to between two and six percent – applying either a fixed percentage annual allowable increase or an increase tied to the CPI. Municipalities may allow other rent increases and decreases related to capital improvements, rehabilitation, insufficient return on investment, substandard housing conditions, and changes in taxes and service fees.[4]

Although many municipalities have incorporated *vacancy decontrol* in their ordinances, letting rents on regulated units surpass allowable increases upon vacancy, most of these municipalities offer full or partial rent-regulation coverage upon the next tenancy – which is, essentially, temporary vacancy decontrol. About a dozen municipalities have installed permanent vacancy decontrol, which means new tenants will never benefit from the unit's prior rent ceilings and that the rent-regulation ordinance is being phased out. Other municipalities that offer vacancy decontrol have created parameters for its application, such as restricting vacancy decontrol to units in good condition or to those in which significant capital improvements have been made.[5]

Figure 21. Share of NJ Municipalities with Rent Control, 2024



Source: Bloustein School of Planning and Public Policy, Rutgers University, 2024

[4] Eric Seymour et al., *Rent Control in New Jersey* (Ralph W. Voorhees Center for Civic Engagement, Edward J. Bloustein School of Planning and Public Policy, Rutgers University, 2024).

[5] Ibid.

Example New Jersey Rent-Control Ordinances

The following table highlights and details five New Jersey municipal rent-control ordinances relevant to Phillipsburg in size and population:

Municipality	Est. 2023 Population	Population Density	Units-in-Structure Ordinance Applies to	Rent Increase Limits	Vacancy Decontrol	Exceptions
Phillipsburg	15,328	4,779	TBD	TBD	TBD	TBD
Eatontown	13,496	2,327	2+ and mobile homes	CPI (NY-East NJ); up to 15% for capital improvements	Yes (permanent)	Units rented after 2015, owner-occupied housing structures with 2 units or fewer, motels, hotels, similar premises, commercial buildings
Highland Park	14,959	8,277	3+	CPI ((NY-East NJ) average increase over 60 months	Yes	Motels, hotels, similar premises, commercial, stock cooperatives and condominiums where charges to residents are fixed by an elected board, newly constructed and first-time rental units, owner-occupied 3- and 4-unit dwellings, single structures w/50%+ of area available to rent is commercial (excluding basements)
Metuchen	14,977	5,282	1+	Lesser of 7.5% and % difference of CPI 90 days prior to lease expiration/termination & 90 days prior to lease term commencement	Yes	Motels, hotels, similar premises, owner-occupied dwellings with 3 units or less
North Arlington	16,370	6,625	3+	Up to 4% annually; up to 2% for seniors 65+	Yes (30% maximum increase)	Motels, hotels, similar premises, newly constructed first-time rentals (until re-rented)
Woodland Park	13,191	4,588	1+	CPI-U between "third month next preceding" month in which agreement takes effect & 1 year prior to that month. Max. of 2.5%	Yes	Owner-occupied dwellings of 5 or fewer units of housing, stand-alone garage spaces, motels, hotels, and similar premises

Source: DCA 2022 Rent Control Survey; Eatontown Buildings Department; North Arlington Buildings Department

East Coast Rent-Control Ordinances Case Studies and Findings

Based on third-party research, 4ward Planning developed four case studies associated with rent stabilization implemented by municipalities in the Eastern United States – two in New Jersey, selected for being most similar in size, population, and character to Phillipsburg among the New Jersey municipalities previously highlighted; one in Maine; and the other in the District of Columbia, the latter two of which were selected as East Coast examples of second-generation rent regulation established recently and several decades ago, respectively.

These case studies identify the impetuses for putting rent control ordinances in place and the experiences encountered, including any unanticipated consequences of establishing rent control. 4ward Planning conducted interviews with both New Jersey program administrators to gain insights into lessons learned which could help shape Phillipsburg's rent-control ordinance.

The following are key findings resulting from our case-study analysis:

- Finding a healthy balance in meeting the needs of both tenants and landlords is essential to a successful rent-regulation ordinance. Modest annual rent increase caps protect tenants from unanticipated, inequitable rent increases leading to possible displacement, while tools such as temporary vacancy decontrol and consideration of hardship and capital costs increases offer landlords financial safeguards.
- Incorporating provisions for disabled and senior tenants in rent-regulation policy avoids displacement of some of the community's more vulnerable residents.
- A municipal rent-regulation ordinance should anticipate potential new residential and lodging development, as well as unusual increases in CPI, if rent increase limits are to be tied to the CPI.
- Establishing a thorough, updated rent-regulated property inventorying and landlord reporting system is important to creating a smooth oversight process.
- Smaller municipalities, in particular, should consider the assembly style of and need for a distinct rent-regulation board. Some have found that board meetings scheduled on a by-need basis or the appointment of municipal staff (e.g., mayor, council members) as rent-regulation administrators in lieu of a board is sufficient based on the size of the municipality.

Figure 22. Rent-Control Case Study Communities

Source: LoopNet

Eatontown, New Jersey

Ordinance Year: 2006
Maximum Annual Rent Increase: NY-East NJ CPI; up to 15% for capital improvements
Common Exemptions: Units rented after 2015, owner-occupied housing structures with two or fewer units, motels, hotels, similar premises, commercial buildings

Background

The Borough of Eatontown first arranged a rent-regulation agreement with the owners of several large multi-family dwellings in the early 1980s to balance their interests with those of their tenants, represented by a tenants' rights committee, encouraging fair housing practices and limiting rent increases. In 2006, after the original property owners were no longer active and Eatontown recognized the need for borough-wide rent-stabilization measures, it established a municipal ordinance, which included multiple-unit dwellings and the borough's two mobile home parks. However, in July 2015, the ordinance was amended to exempt any units that were rented to new tenants after that time – implementing permanent vacancy decontrol and, ultimately, phasing out the borough's rent regulation.

Structure

Presently, Eatontown's rent-regulation ordinance covers most multiple-dwelling units (only two-unit owner-occupied structures are exempt) and mobile homes that have been occupied by the same tenants prior to 2016. Annual increases for these units are capped at the CPI for the month of the year in which the lease is renewed. The borough's rent leveling board meets upon request, which can include a landlord's petition for hardship consideration and capital improvement increase, allowable up to 15 percent.

Impacts & Lessons Learned

Based on our conversation with the Eatontown Buildings Department, the phasing out of the rent-regulation is changing the character of the borough's rental stock and neighborhoods, as even some of its long-term residents in rent-regulated units are challenged to afford increases tied to the CPI. Although the regulation process has necessitated oversight and negotiations with landlords, tenants and neighborhoods have benefitted by protections from unanticipated and inequitable increases.

Sources: Conversation with Eatontown Buildings Department, Jun 7, 2024; DCA 2022 Rent Control Survey

Figure 23. Examples of Units for Rent in Eatontown

Sources: MHVillage.com; Apartments.com

North Arlington, New Jersey

Ordinance Year: 1986
Maximum Annual Rent Increase: Up to four percent; two percent for seniors 65+
Common Exemptions: Buildings with fewer than three units, newly constructed first-time rentals (until re-rented), motels, hotels, similar premises

Background

Established in 1986, North Arlington's rent-control ordinance was originally administered by a rent-control board. Recognizing the borough is not large enough to necessitate a standalone authority, North Arlington dissolved the board in 1994, directing landlord-tenant appeals and issues to the mayor and borough council. Where legal counsel is required, the borough attorney is engaged in the process.

Structure

Presently, North Arlington's rent-control ordinance - which sets annual rent increase limits at four percent, and two percent for senior tenants ages 65 and older - covers residential structures of three or more units that have been previously occupied. Thus, exempted properties include buildings with fewer than three residential units and newly constructed first-time rentals. Although North Arlington does not currently have motels, hotels, or similar premises, they are listed as exempt properties in the event they are built.

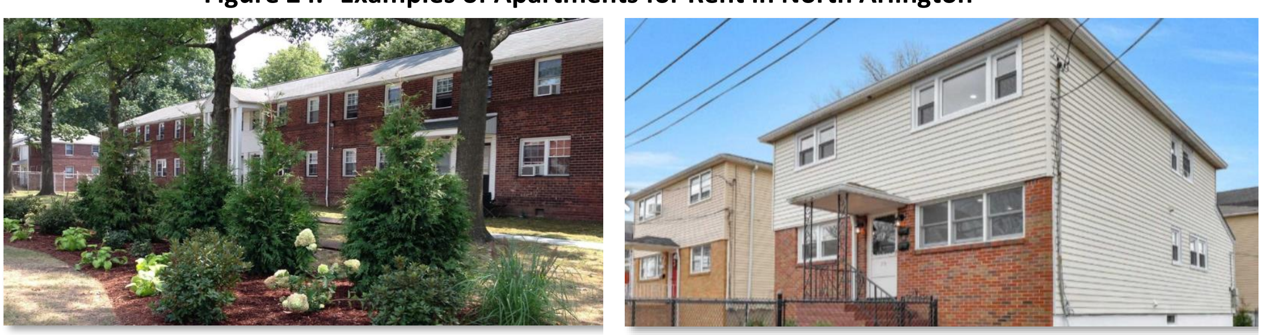
The Borough offers landlords temporary vacancy decontrol, which occurs when a tenant voluntarily vacates a rent-regulated apartment, with increases of no more than 20 percent and rent-regulation limits reinstated 12 months after a new tenant's occupancy. Landlords are also offered consideration for hardship or capital improvement increases or capital improvement requests are allowed for landlords.

Impacts & Lessons Learned

According to our conversation with North Arlington's Buildings Department, the Borough's rent-regulation ordinance structure aims to balance the needs of both landlords and tenants, with provision for senior tenants whose incomes are likely to have declined. Generally, the oversight and administrative process has been smooth.

Sources: Conversation with North Arlington Buildings Department, Jun 7, 2024; DCA 2022 Rent Control Survey with Eatontown Buildings Department, Jun 7, 2024; DCA 2022 Rent Control Survey

Figure 24. Examples of Apartments for Rent in North Arlington



Source: Apartments.com

Portland, Maine

Ordinance Year: 2021
Maximum Annual Rent Increase: 70 percent of CPI
Common Exemptions: Built after April 2020; owner-occupied buildings with four or fewer units; units that are publicly controlled or subsidized; rentals at hotels, inns, and boarding houses; accessory dwelling units; units owned, operated, or managed by municipal housing authorities; accommodations in a hospital, convent, church, religious facility, or extended-care facility; dormitories owned and operated by an institution of higher education or by Portland Public Schools

Background

In response to rising housing costs that have made finding affordable rentals challenging for many residents, Portland, Maine's voters approved a city rent-control ordinance in November 2020, which took effect on January 1, 2021, establishing a base rent for most of the city's long- and short-term rental units and caps on the amount by which landlords may increase rents annually. Additionally, the ordinance set forth various tenant protections including notice of rent increases, additional notice or payments before evicting certain tenants, prohibiting discrimination on the basis of funding (such as Section 8 or GA), and provision of tenants' rights to new tenants. In 2022, Portland voters further lowered annual rent increases, banned application fees, and extended the timing for rent-increase notice.

The City's rent-control ordinance also established the Housing Safety Office as its rent board to conduct hearings in response to tenant complaints, mediate disputes between tenants and landlords, and consider landlords' requests for rent increases and exemptions. Meeting monthly, the rent board is intended to help mediate disagreements over issues like maintenance, repairs, rent increases, and evictions without having to go to court.

Structure

The key provisions of Portland's rent-control ordinance include limiting annual rent increases on existing tenants to 70 percent of the CPI rate. Exemptions from this rent cap are granted to new construction built after April 2020; owner-occupied buildings with four or fewer units; units that are publicly controlled or subsidized; rentals at hotels, inns, and boarding houses; accessory dwelling units; units owned, operated, or managed by municipal housing authorities; accommodations in a hospital, convent, church, religious facility, or extended-care facility; and dormitories owned and operated by an institution of higher education or by Portland Public Schools.

Landlords must register their rental units with the City and certify their compliance with the rent cap each year. Tenants can report violations of the ordinance to Portland's Housing Safety Office. If a landlord illegally raises the rent above the cap, the tenant can take legal action to recover excess rent paid. The City can also fine landlords from $50 to $500 per violation of the ordinance.

Portland's rent-control ordinance allow landlords to increase rents by five percent of the established base rent when a new tenant occupies a unit, but only if the previous tenancy was terminated voluntarily. A landlord may also use "banked rent" to increase rent, meaning that if a landlord did not apply an allowable increase for a given year, that increase can be banked for use in a future year.

Additionally, landlords may petition for increasing rents based on demonstrated capital improvements to covered units. However, rent for a covered unit can never exceed 10 percent of the base rent.

While the State of Maine does not impose rent-control regulations, the State provides certain protections for tenants, particularly when it comes to rent increases by landlords. Specifically, landlords must give tenants 90 days' written notice prior to raising rents and are prohibited from raising the rent more than once every 12 months for current tenants. Maine law also provides tenants with protection against evictions without proper cause. Landlords cannot terminate a tenancy or refuse to renew a lease without a valid, statutorily approved reason.

Impacts & Lessons Learned

As rent stabilization is relatively new to Portland, its impacts are slowly unfolding. However, it is clear the ordinance is an effective tool for stabilizing rents and protecting tenants in the short term, guarding them against unfair evictions and allowing them to anticipate rent increases. Since the ordinance was adopted, Portland voters have rejected amendments which would have allowed landlords to claim more exemptions from rent-stabilization regulations.

Following Portland's lead, the City of South Portland enacted a similar rent-stabilization ordinance in 2023, signaling a growing statewide interest in rent stabilization measures. At the state level, several proposals have been introduced to allow cities and towns to adopt rent stabilization ordinances. Campaigns are underway in cities like Bangor, Lewiston, and Augusta to establish local rent boards and stabilization policies. Tenant advocacy groups have launched petition drives and begun lobbying city councils.

Still, some locals and community leaders worry that landlords are responding to slimmer profit margins by seeking out high-earning or subsidized tenants and leaving higher-priced units vacant for months instead of lowering rents, or that they will allow their units to fall to disrepair to make up for income shortfalls. Moreover, many landlords find the ordinance confusing and restricting, reducing revenue and making it less likely they'll be able to afford building improvements. Rent-control debates in Portland, as in other municipalities with such ordinances, remain, asking if rent-control measures are more than short-term fixes for current tenants and local economies.

Sources: City of Portland www.portlandmaine.gov; "Maine Rent Control Laws in 2024," Hemlane, Mar 21, 2024; Norman, Zara "Under Rent Control, Portland Landlords Seek Richer Tenants and Keep Units Vacant," Bangor Daily News, Jan 8, 2024; Ohm, Rachael, "Is Portland's Rent Control Ordinance Working?" Portland Press Herald, Jan 17, 2023

Figure 25. Examples of Apartments for Rent in Portland

Source: Apartments.com

District of Columbia

Ordinance Year: 1985
Maximum Annual Rent Increase: CPI + two percent for tenants under age 62; CPI for older and/or disabled tenants
Common exemptions: Built after 1975, building with fewer than five units, owned by an individual with fewer than five rental units in D.C., federally or district-subsidized housing, vacant since 1985, receiving rehabilitation assistance through HUD, some cooperative housing

Background

Rent stabilization was first enacted in the District of Columbia in 1975, with current policies governed by the Rental Housing Act of 1985, which is intended to allow landlords to make a reasonable profit and protect tenants from sizeable, unpredictable rent increases. There are at least 73,000 rent-stabilized units in the District, according to a 2020 report by the D.C. Policy Center (though other sources have placed this number at between 85,000 and 125,000).

Structure

The District of Columbia's rent-stabilization law limits the amount landlords can charge in annual rent increases to the CPI plus two percent. There are no income requirements to be eligible for rent-controlled housing in D.C. The Rental Housing Act stipulates that rental units in D.C. must be registered with the Department of Housing and Community Development's (DHCD) Rental Accommodations Division (RAD) and designated as either subject to rent control or exempt from rent control. Rent control automatically applies for any unit that is not registered with RAD. The law requires owners to fill out a form that includes ownership information, the number of units in the building, the number of bedrooms in each unit, the vacancy status, and either the current monthly rent or the rent control exemption for each unit.

According to DHCD's website, the most common exemptions to the rent-control law are for units receiving government subsidies (e.g., housing vouchers), units built after 1975, units that were vacant when the law was passed, and units owned by small landlords (i.e., individuals who own four or fewer rental units in D.C.). The law also requires landlords to disclose the rent-control status and rent histories to new tenants. If tenants discover they have been charged more than the law allows, they can petition for a refund and reduction in rent. But the three-year statute of limitations begins to run as soon as a tenant starts paying the increased rent, regardless of whether the landlord has disclosed a unit's rental history. The practice of concealing the rent-control status has been problematic for D.C. renters.

When a landlord leases a rent-controlled unit to a tenant with a housing voucher, the unit is temporarily exempt from rent control, and landlords can charge market rate. But they also must file the exemption with DHCD. When a voucher tenant leaves, the unit must be promptly returned to rent-control stock, and the new rent should be based on the rate before the voucher holder moved in. After the exemption ends, the rent increase is capped at the last rent amount on file before the exemption took effect, plus all yearly increases the landlord would have been entitled and an additional 10 percent in lieu of missed vacancy increases.

Additionally, landlords may petition for increasing rents based on substantial capital improvements to rehabilitation of covered units, as well as significant increases in building service and maintenance costs.

In June of 2023, the District Council took emergency action to prevent a rent hike crisis by temporarily capping the allowable rent increase for rent-stabilized units at six percent (and a cumulative 12 percent for the following two years, with four and eight percent for seniors and those with disabilities), as the increase was projected to be 8.9 percent - the highest it had been in 40 years.

Impacts & Lessons Learned

The absence of meaningful data regarding rent control in D.C. isn't a new issue. Despite a recent council mandate to the DHCD for a database of all rent-stabilized apartments, D.C. still does not have information about how many units there are, the conditions of the units, or how much tenants are currently paying. This information could help lawmakers decide how much they can cap rent increases without risking the loss of more rent-controlled units. a 2020 rent control study, the D.C. Policy Center estimated that about 73,000 out of the total 124,000 apartments in D.C. were subject to rent control. But it's a hard number to confirm, as units that were originally under rent control can fall out if they're converted into condos, demolished, or subsidized by the government.

The D.C. Housing Authority (DCHA) administers housing vouchers and determines the value of each voucher. Recent findings by the U.S. Department of Housing and Urban Development (HUD) show DCHA has failed to take the necessary steps to ensure the housing vouchers it administers are valued at market rate. Some landlords of rent-controlled properties have been accused of taking advantage of this arrangement by intentionally delaying maintenance on their units to drive out tenants in favor of voucher holders to turn a higher profit.

Sources: Amanuel, Suzie "How Some Landlords Skirt D.C.'s Rent Control Law," Washington City Paper, Nov 22, 2023; Carbone, Mariel, " DC Council Votes to Cap Rent Hikes at 6% for Rent-Controlled units," DC News Now, Jun 6, 2023; Cuccia, Annemarie, "How a Lack of Information is Influencing DC's Rent Control Debates," Street Sense Media, Jun 21, 2023; DC Department of Housing and Community Development www.dhcd.dc.gov

Figure 26. Examples of Apartments for Rent in the District of Columbia

Source: Apartments.com

Financial Analysis

Recognizing rental properties subject to some form of rent control are likely to be valued differently than similar properties having no rent controls, 4ward Planning performed a basic proforma analysis on a hypothetical existing multi-family rental property to identify its estimated market value and associated real property tax levy under rental increase restrictions and without such restrictions.

Analysis Assumptions

The below table exhibits the number of units, initial monthly rents and associated annual gross revenue for the hypothetical multi-family property.

Figure 27. Hypothetical Multi-Family Property: Revenue Assumptions

Unit Type	Units	Monthly Rents	Annual Revenue
Studio	4	$1,000	$48,000
1BR	10	$1,250	$150,000
2BR	12	$1,650	$237,600
3BR	4	$2,100	$100,800

Monthly rents were assumed for older multi-family housing properties (those built before 1995), to be consistent with the application of rent-control ordinances statewide and, thus, these would be properties typically lacking the higher-end amenities found in newer multi-family units (e.g., pool, clubhouse, fitness center, concierge services, etc.).

Phillipsburg's current tax rate ($4.196 per $100 of assessed value) was utilized in the proforma analysis to determine the property tax levy.

Two separate capitalization rates were used (*the capitalization (cap) rate represents an average ratio of a property's net annual operating income (NOI) to the average sales price of comparable properties (in this case, older multi-family rental) within the market area. It approximates what the market return rate should be for an investor, given the project's risk profile*):

- 5.5-percent cap rate for non-rent-controlled property
- 7.0-percent cap rate for rent-controlled property

The higher cap rate associated with the rent-controlled property (which would result in a lower capitalized property value than the non-rent-controlled property) reflects the higher financial risk of owning the property, given revenue constraints and increased challenges of covering annual maintenance and capital repairs.

Figure 28. Hypothetical Multi-Family Property: Model Factors

	No Rent Control	Rent Control
Vacancy Rate	5.0%	5.0%
Annual Rent Escalation	4.0%	3.0%
Annual Property Tax Escalation	2.0%	2.0%
Operating Expense Rate (excluding taxes)	30.0%	30.0%

Total Property Tax Rate	4.196%	4.196%
Cap Rate	**5.5%**	**7.0%**

Financial Analysis Findings

Market Values

As exhibited in the two hypothetical scenario proformas presented on the following page, the rent-controlled property (reflecting a hypothetical 3.0-percent permitted annual increase in rents, which is relatively reflective of CPI over the past ten years) results in a lower annual market value, relative to the non-rent-controlled property (hypothetical annual rent increases of 4.0 percent, which is reflective of average rental rate increases over the past five-years). Furthermore, the difference in market value between the rent-controlled property and non-rent-controlled property is stark; the year 10 market values are $5,118,109 and $4,063,257 for the non-rent-controlled and rent-controlled properties, respectively - representing a $1,054,852 difference or a 21-percent value reduction for the rent-controlled property.

Real Property Tax Revenues

Similarly, the difference in real property tax revenues generated by the rent-controlled property relative to the non-rent-controlled property is also significant, with the cumulative 10-year tax levies totaling $1,497,981 and $1,811,537 respectively – a $313,556 reduction in tax revenue associated with the rent-controlled property to the Town of Phillipsburg.

It should be noted that the variation in both market value and real property tax revenue is a function of the permitted annual rental rate increase, with smaller rental rate increases resulting in lower market values and lower real estate tax revenues than larger annual rental rate increases, all other factors remaining equal. Furthermore, it is not inconceivable that the permitted rental increase rate under a rent controlled property would be different from a non-rent-controlled property's rent rate increase.

While not a certainty, the implementation of a rent-control ordinance will likely make those properties subjected to it realize reduced market values and payments of lower property taxes than they otherwise would absent rent control. However, to the extent that the rent rate increase percentage threshold is relatively high (e.g., three-percent per annum), rent control will have little if any negative impact on the property's value or associated real property tax revenue.

The following are the two proformas for each hypothetical scenario.

Figure 29. Hypothetical Multi-Family Property Proforma: No Rent Control (Cap Rate 5.5%)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Potential Gross Rent	$536,400	$557,856	$580,170	$603,377	$627,512	$652,613	$678,717	$705,866	$734,100	$763,464
Vacancy Loss	$26,820	$27,893	$29,009	$30,169	$31,376	$32,631	$33,936	$35,293	$36,705	$38,173
Effective Gross Rent	$509,580	$529,963	$551,162	$573,208	$596,137	$619,982	$644,781	$670,573	$697,395	$725,291
Operating Expenses	$160,920	$167,357	$174,051	$181,013	$188,254	$195,784	$203,615	$211,760	$220,230	$229,039
NOI	$348,660	$362,606	$377,111	$392,195	$407,883	$424,198	$441,166	$458,813	$477,165	$496,252
Market Value	$3,595,916	$3,739,752	$3,889,343	$4,044,916	$4,206,713	$4,374,981	$4,549,981	$4,731,980	$4,921,259	$5,118,109
Tax Levy	$150,885	$156,920	$163,197	$169,725	$176,514	$183,574	$190,917	$198,554	$206,496	$214,756

Source: 4ward Planning Inc.

Figure 30. Hypothetical Multi-Family Property Proforma: Rent Control (Cap Rate 7.0%)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Potential Gross Rent	$536,400	$552,492	$569,067	$586,139	$603,723	$621,835	$640,490	$659,704	$679,495	$699,880
Vacancy Loss	$26,820	$27,625	$28,453	$29,307	$30,186	$31,092	$32,024	$32,985	$33,975	$34,994
Effective Gross Rent	$509,580	$524,867	$540,613	$556,832	$573,537	$590,743	$608,465	$626,719	$645,521	$664,886
Operating Expenses	$160,920	$165,748	$170,720	$175,842	$181,117	$186,550	$192,147	$197,911	$203,849	$209,964
NOI	$348,660	$359,120	$369,893	$380,990	$392,420	$404,192	$416,318	$428,808	$441,672	$454,922
Market Value	$3,114,148	$3,207,572	$3,303,800	$3,402,914	$3,505,001	$3,610,151	$3,718,455	$3,830,009	$3,944,909	$4,063,257
Tax Levy	$130,670	$134,590	$138,627	$142,786	$147,070	$151,482	$156,026	$160,707	$165,528	$170,494

Source: 4ward Planning Inc.