

Rent Stabilization Home Rule Petition

Presentation for Legislative Matters Committee

November 14, 2023

Home Rule Petition

Process Overview



Main Decision Areas

- ▶ Amount of rent cap
- ▶ When/how base rents are set
- ▶ Exceptions to rent cap
- ▶ Buildings exempt from rent stabilization
- ▶ Scope of just cause eviction protections
- ▶ Vacancy decontrol
- ▶ Banking of increases
- ▶ Protections, if any, for condo conversion, demolition or rehab

How Base Rents Are Set

BASE RENTS

- ▶ Occupied Units: the rent charged twelve months prior to the passage of the local ordinance will be the base rent when an increase is applied
- ▶ Vacant Units: the last rent charged will be the base rent - if there has been no rent charged within the last five years, base rent is set by the owner

CONSIDERATIONS

- ▶ Without a look back period, owners could dramatically increase rents in anticipation of rent stabilization effective date
 - ▶ Boston HRP: no lookback period
 - ▶ Enabling bill: 12-month lookback period
- ▶ High volume of tenant testimony calling for look back period

Annual Rent Cap

RENT CAP

- ▶ An annual rent cap of CPI for urban consumers set in Sept. of prior year plus 2%, up to a maximum of 5%
 - ▶ Enabling legislation (S.1299): CPI or 5%, whichever is lower
 - ▶ Boston HRP (H.3744): CPI plus 6%, up to a max of 10%

Examples:

- ▶ Tacoma Park MD: 100% of CPI
- ▶ San Francisco: 60% of CPI
- ▶ California statewide: CPI plus 5% up to 10%
- ▶ Washington DC: CPI plus 2% not to exceed 5%
- ▶ Portland Maine: 7% annually

Potential Exceptions to Annual Rent Cap

Exceptions to Rent Cap

Items that may be considered for exception rents include but are not limited to:

- ▶ Certain maintenance and capital costs
- ▶ Utility costs for which the owner is responsible
- ▶ Rapid increases in property taxes

Considerations:

- ▶ High volume of testimony received regarding concerning capital improvements and other increased costs which may not correspond to CPI
- ▶ Modelled after Boston HRP which allows, but does not require, City to grant cap exceptions
- ▶ No similar exceptions in enabling legislation

Exemptions from rent stabilization

Exemptions from Somerville HRP:

1. Owner occupied- 3 units or less
 1. Boston - 6 or less; Enabling bill- 4 or less
2. New construction for first 15 years after certificate of occupancy
3. Public housing; multi-family housing with project-based rental subsidies; does not exempt units with tenant-based vouchers
4. Units where the owner shares kitchen and bath with tenants in their own apartment
5. Hotels/Motels other transient guest housing
6. Dormitories/religious facilities/extended care/residential care for the elderly, etc.

Considerations/Research - New Construction Exemptions

- ▶ Professor Goetz from Univ. Minnesota
 - ▶ Empirical research does not support allegations that rent stabilization, particularly with temp exemptions, inhibits new housing starts
 - ▶ Range of exemptions for new development around the country, shortest exemption periods of 5 years and longest 30 years - no empirical research done on impact of varying time frame of exemptions for new construction
- ▶ Cori Mian from POAH:
 - ▶ Generally, projects annual rent increases between 2% and 3%, so an allowable increase up to 5% should not have significant impact at least on affordable housing developers
- ▶ Holding periods for real estate generally between 5 and 10 years- multiple opinions state this will not substantially impact new residential construction

Scope of Just Cause Eviction Protections

► Why are just cause eviction protections essential when rents are controlled?

Just cause protections are critical to prevent:

- ✓ Arbitrary evictions
- ✓ Discriminatory evictions
- ✓ Retaliatory evictions

Preventing eviction from a rent control apartment is often critical to the family's health and well-being and limiting evictions overall is critical to neighborhood stabilization

Scope of Just Cause Eviction Protections

Allowable reasons for eviction:

- ▶ Failed to pay rent
- ▶ Substantial violation of material term of lease
- ▶ Substantial damage to unit
- ▶ Criminal activity that threatens health/safety of residents, or persons lawfully on premises
- ▶ Owner wants unit for own use or for owner's family
- ▶ Owner seeks to remove unit to convert to condos, to demolish and convert to non-residential use

City Council will determine additional grounds for eviction, if any, by local Ordinance

VACANCY DECONTROL

- ▶ Vacancy Decontrol - what is it?
 - ▶ Owners can reset base rents for new tenants when an existing tenant leaves with no limit on the base rent charged
- ▶ Decision - Somerville HRP
 - ▶ The Committee did NOT include vacancy decontrol in its draft HRP
- ▶ Why no Vacancy Decontrol?
 - ▶ Vacancy Decontrol creates a strong financial incentive to force tenants out of their homes
 - ▶ To stabilize rents on an on-going basis not only to promote housing stability but also to counter gentrification and ensure equitable access to Somerville's available rental units on an on-going basis

Banking of rent increases

- ▶ Banking in the rent stabilization context- what is it?
 - ▶ Some rent stabilization laws allow owners to “bank” or save up rent increases
 - ▶ e.g. Landlord is allowed to raise the rent in 2023 by up to 5%. She only raises the rent by 2% in 2024, so she can raise the rent 7% the following year
- ▶ Decision - Somerville HRP
 - ▶ Does not include a provision allowing for banking
- ▶ Considerations
 - ▶ allowing banking can lead to rent increases that tenants cannot absorb all at once which creates housing instability
 - ▶ allowing banking between tenancies can impede equitable access to rent control units

Demolitions and Removal from Rental Housing Market

- ▶ The HRP allows just cause for eviction if the owner wants to demolish, convert to condo or to non-housing use
 - ▶ S.1299 (enabling) allows just cause eviction for conversion to non-residential; conversion to condo or for demolition - not for substantial rehabilitation.
 - ▶ H. 3744 (Boston HRP) allows for just cause eviction for any good cause business reason
- ▶ The HRP empowers the City to create requirements by Ordinance for relocation plans and relocation payments