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APPROPRIATIONS FOR 1980

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HEARINGS

BEFORE A

SUBCOMMITTEE OF THE
COMMITTEE ON APPROPRIATIONS
HOUSE OF REPRESENTATIVES

NINETY-SIXTH CONGRESS

FIRST SESSION

SUBCOMMITTEE ON DISTRICT OF COLUMBIA APPROPRIATIONS

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PART 4

RENT CONTROL IN THE DISTRICT OF COLUMBIA

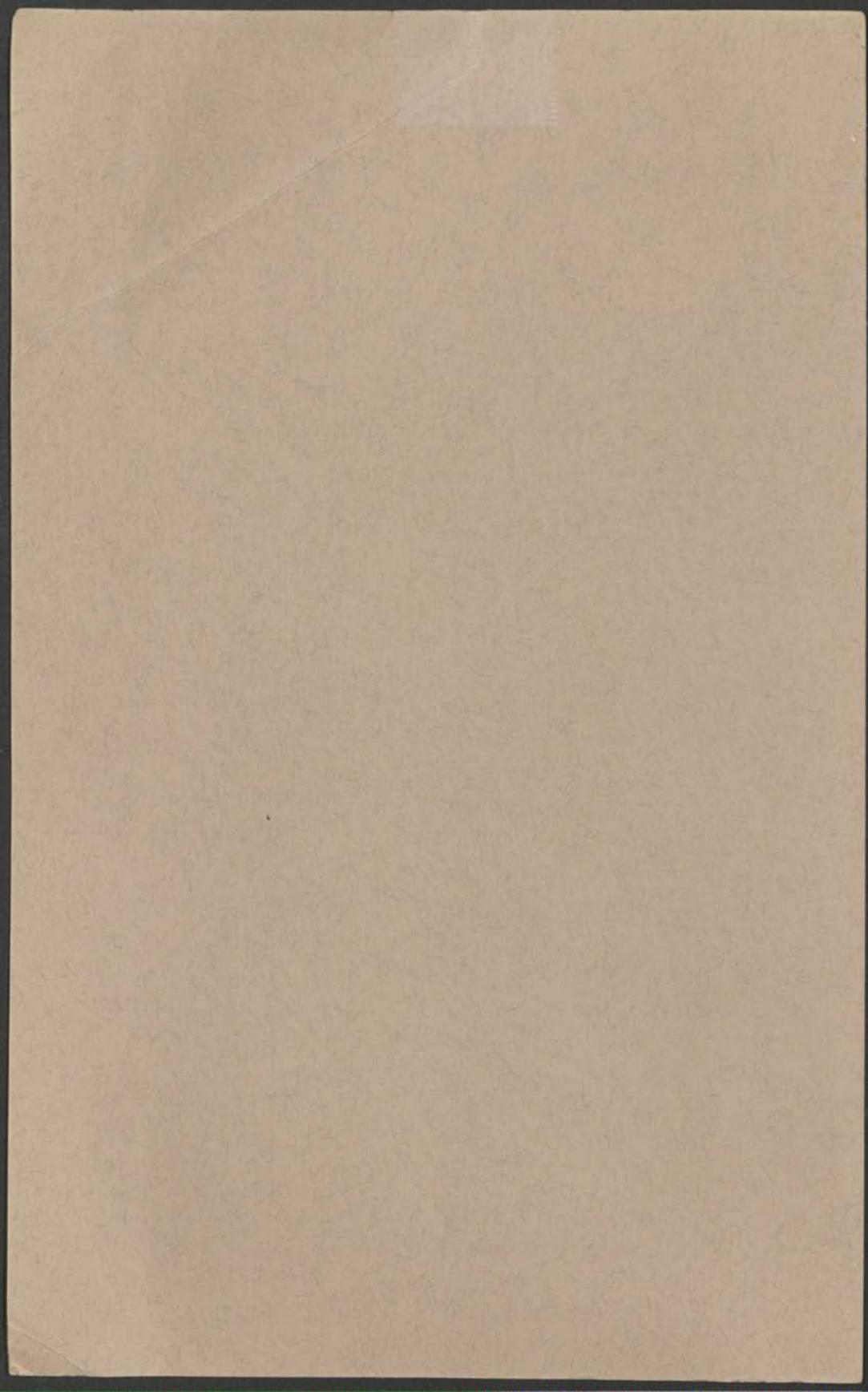
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PART 4 RENT CONTROL IN THE DISTRICT OF COLUMBIA

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WASHINGTON: 1980

THE HISTORY OF THE
CITY OF BOSTON

FROM THE FIRST SETTLEMENT
TO THE PRESENT TIME
BY NATHANIEL BENTLEY

LONDON: PRINTED BY RICHARD CLAY AND COMPANY, LTD.
BUNGAY, SUFFOLK

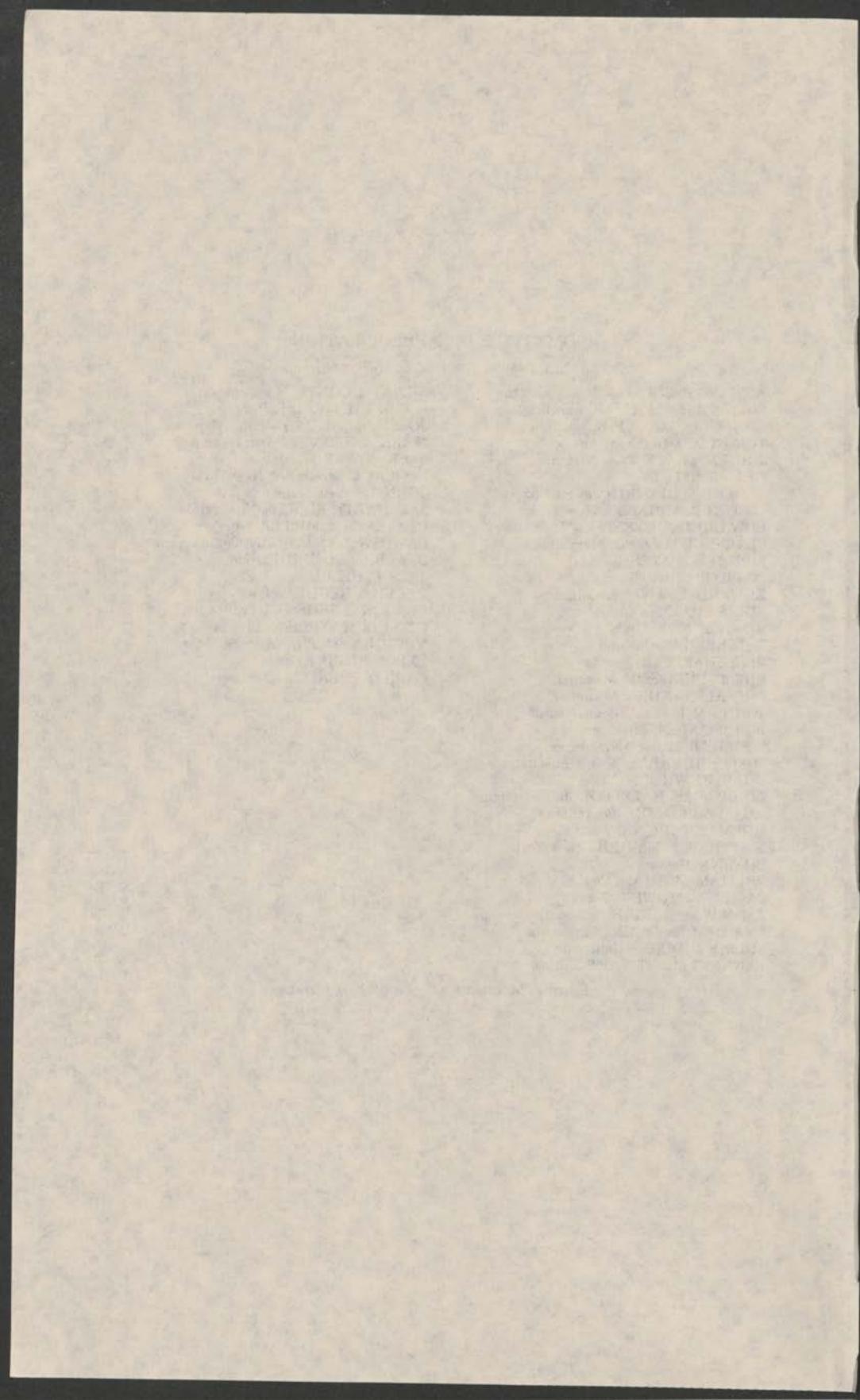
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DISTRICT OF COLUMBIA APPROPRIATIONS FOR FISCAL YEAR 1980

WEDNESDAY, NOVEMBER 28, 1979.

RENT CONTROL IN THE DISTRICT OF COLUMBIA

WITNESSES

DOROTHY KENNISON, DIRECTOR, OFFICE OF RENTAL ACCOMMODATIONS
JEROME SHUMAN, CHAIRMAN, RENTAL ACCOMMODATIONS COMMISSION
MARIE NAHIKIAN, MEMBER, RENTAL ACCOMMODATIONS COMMISSION
JAMES CLAY, DEPUTY DIRECTOR, DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
CAROLYN SMITH, ACTING DIRECTOR, DEPARTMENT OF FINANCE AND REVENUE
JAMES M. CHRISTIAN, GENERAL COUNSEL, COUNCIL OF THE DISTRICT OF COLUMBIA
GLADYS W. MACK, ASSISTANT CITY ADMINISTRATOR FOR BUDGET AND RESOURCE DEVELOPMENT

OPENING REMARKS OF CHAIRMAN WILSON

Mr. WILSON. The committee will come to order.

We expect other members of the committee shortly.

I want to thank everybody for being here.

Some of you will recall that back in March of this year at our first meeting on the District's Fiscal Year 1980 budget we discussed with both Mayor Barry and Council Chairman Dixon the impact of rent control on the city's tax base. During that discussion, I made the following statement, and I quote:

Mr. WILSON. Since the appropriation the Committee is asked to provide for the District is directly affected by the tax base of the District, I do not think it would be an interference to anybody's jurisdiction if it were the wish of the Committee after we do the routine hearing to conduct an in-depth study on the impact of rent control on the tax base.

It might be that rent control is helping the tax base because it is changing rental units into condominiums and they are taxed higher. It is possible we could be doing a service to the city because we are a bit isolated from the emotional and political aspects you speak of.

That statement appears on page 82 of our 1980 hearings.

There has been, and I am sure there will be some criticism that this is not a proper subject for this committee to be discussing, but I, of course, by calling the hearings, feel differently because the committee is charged with the responsibility of providing a Federal payment that amounts to some \$200 million to \$300 million to the District. Therefore the subject of rent control and its impact on the

growth of the District's tax base is of great importance. Aside from that, this committee is very much interested in the problems here in our Nation's capital.

We have spent days in the subway tunnels. We have spent days with Councilwoman Winter observing the success of the home-steading program. And we have also spent a lot of time with Mr. Robert Moore, the Director of the City's Department of Housing and Community Development, who can't be with us today.

INTRODUCTION OF WITNESSES

We will start our hearing this morning with testimony from officials of the District government. We have with us Mrs. Dorothy Kennison, the Director of the Office of Rental Accommodations; Mr. Jerome Shuman, Chairman of the Rental Accommodations Commission, and—

Mrs. KENNISON. Ms. Nahikian is representing Mr. Shuman.

Mr. WILSON [continuing]. James Clay, Deputy Director of the Department of Housing and Community Development.

Ms. MACK. We expect him, Mr. Chairman.

Mr. WILSON. Carolyn Smith, who is the Acting Director of the Department of Finance and Revenue; Mr. James Christian, who is representing the District of Columbia Council.

Mr. CHRISTIAN. And Chairman Dixon.

Mr. WILSON. And of course, we have our good friend, Gladys Mack, the Assistant City Administrator for Budget and Resource Development.

PREPARED STATEMENT OF RENT ADMINISTRATOR

With that we will recognize you, Mrs. Kennison, and before you start, we will place your statement in the record at this point. [The statement referred to follows:]

STATEMENT IN SUPPORT OF RENT CONTROL—GOVERNMENT OF THE DISTRICT OF COLUMBIA, BY DOROTHY J. KENNISON, RENT ADMINISTRATOR

Good morning, Congressman Wilson: As the Rent Administrator of the District of Columbia, I am responsible for administering the provisions of the Rental Housing Act of 1977, Law 2-54. This position provides me first-hand information to justify the existence of rent controls for the District and to support continuance of this or similar legislation.

At the outset it is important to categorically state that the purpose of D.C. Law 2-54 is to preserve the housing stock for residents of the District with special emphasis being placed on the availability of suitable and affordable accommodations for low and moderate income residents. This mandate has been argued by opponents of Rent Control. Indeed, some question whether our efforts result in reduced housing stock; others accuse the rent intervention program as a method to "subsidize middle and upper income families;" and the more irate raise emotions by asking if Rent Controls are tantamount to governmental confiscation of private property. These myths and others will be fully explored.

1. DOES RENT CONTROL CAUSE LOSS OF RENTAL UNITS?

The District has indeed witnessed decline in rental housing stock since 1974, the year that the D.C. Rent Control Laws were first enacted and has documented an increase in single family owned homes. In 1974, the District had 188,500 rental units according to the Annual Housing Survey of 1974. The Municipal Planning Office estimated that the District has 175,900 rental units as of December 31, 1978. This five-year loss of 12,600 rental units correlates very closely with increases in owner occupied units. In 1974, the District had 79,100 owner occupied single family homes.

In 1978, 91,300 were identified, an increase of 12,200. Further, the 1974 Annual Housing Survey showed 29,000 rented single family homes. Therefore, it appears that a large portion of the rental unit decline may merely reflect sale of previously rented single family houses.

A closely related argument against Rent Control is that three relatively new housing market trends, cooperative, condominium and apartment/hotels are the direct result of rent control. For example, during the period of 1974 to 1978, a total of 6,000 rental housing units converted to condominium or cooperative ownership. At the same time, 18,000 rental units applied for permission to convert to condominium or cooperatives. An additional 4,000 units are estimated to be involved in the process of conversion to apartment/hotels.

A careful analysis of this condominium related trend does not support the conclusion that rent control fosters conversion. Rent controls affect units throughout the District of Columbia. Therefore, if there was the assumed direct correlation between controls and these three types or rental unit conversions one would expect to see conversions spread evenly across the District. We find, however, the three phenomena are highly isolated in certain older D.C. neighborhoods, such as Foggy Bottom, Logan Circle, Capitol Hill and in some areas of the Shaw neighborhood. Rather, this pattern of occurrence more closely corresponds to the locations of the older 19th Century town houses and an inordinately high market demand for the purchase of these type units. We conclude that the phenomena of condominium conversion and cooperative conversion are more functions of market demand for these types of ownership than a function of the negative impact of the District's market intervention programs.

Secondarily, it has been noted on a nationwide basis that real estate investment patterns generally are changing from the traditional rental housing investment and toward the shorter term, higher yield condominium conversion investment. On a national basis, there is virtually no correlation between the enactment of local rent controls and the extent of local conversion to condominium or cooperative. For example, Chicago, Illinois which saw over 100,000 units converted to condominiums during calendar year 1978, has not controls whatsoever, on its rental market.

2. DOES RENT CONTROL SUBSIDIZE MIDDLE AND UPPER INCOME FAMILIES?

In the Rental Housing Act of 1974, the automatic pass through provision of Section 206 provide for rent increases which pass on annual increases in operating costs. Using a methodology developed by George Sternlieb of Rutgers University, the Rental Accommodations Commission carefully analyzes cost trends and authorizes annual rent increases to cover them. Hence, the question of subsidizing the District's middle and upper income families does not focus on an ability to pass through justifiable increases in operating expenses, but rather on the potential rental increases which landlords feel households would pay were there no controls. These potential rental rates would be controlled by the Law of Supply and Demand for District housing with little relationship to increases in operating costs due to inflation. Thus, it is not correct to conclude that the District's controls force landlords to carry the burden of operating cost increases which cannot be passed on to financially able middle and upper income tenants. But it is correct to say that the District's rent controls prevent landlords from charging whatever rent the market will bear.

3. DO THE DISTRICT'S MARKET INTERVENTION PROGRAMS IN EFFECT CONFISCATE RENTAL PROPERTY BY LIMITING LANDLORD'S ABILITY TO MAKE MONEY BY FULLY EXPLOITING THE MARKET?

In my opinion, and in the opinion of the courts, the answer is no. The courts have held that the District has the right to impose regulations on its housing market, if those regulations are part of an attempt to address a serious social problem. The displacement of low and moderate income households is viewed as a serious social problem. On the other hand, we are continuing to refine both our legislation and our administrative procedures to give the rental housing industry the rent increases needed to cover actual increases in operating expense in a more timely manner.

4. DOES RENT CONTROL RESULT IN SMALL LANDLORDS GOING OUT OF BUSINESS?

Nothing I have received leads me to the conclusion that any significant numbers of small landlords are abandoning their rental properties, let alone abandoning their property because of rent control. Certainly, there are instances where small landlords for a variety of reasons default on their mortgages, and lose their buildings. In these instances three primary factors are at play. First, the buildings are

carrying a massive deferred maintenance load. The repair costs associated with this problem eat away at building incomes without improving the quality of life in the building. Secondly, tenants in the worst buildings outraged by conditions, refuse to pay their rent. Finally, because of a lack of resources and management skills, the owners of these buildings are not aware of how to achieve all of the rent increases they are entitled to under the District's rent control laws. We are trying to address some of these programs during the current fiscal year. A Public Education Specialist will be hired to head the process of informing small landlords of the services available from the Rental Accommodations Office and their rights under the Rental Housing Act of 1977. In addition, the Department of Housing and Community Development is in the process of implementing an Apartment Preservation Program designed to restore distressed buildings to a sound fiscal and physical status without requiring huge increases in rent.

Enough of responding to ill founded criticisms of the Housing Act of 1977. The justification accepted by the courts and permitting continuance of Rent Control Laws for the District of Columbia, to avoid severe social problems is the primary reason for governmental intervention in the rental housing market.

The emergence of the Post World War II baby boom generation on the housing market of the District of Columbia poses for us both an opportunity and a crisis. After experiencing a relatively weak housing market, and a somewhat pessimistic outlook for the growth of our real estate tax base for the 15 year period from 1960 to 1975, we now find ourselves with strong annual appreciation both in our tax base and in the value of our housing stock. In 1978, we noted that the average unit of rental housing had an assessed value of \$9,000. The average asking price of condominium units during 1978 was approximately \$97,000. The \$88,000 increase from an assessed value of \$9,000 to a condominium sale price of \$97,000 is indicative of both the strength and the vitality of the District of Columbia's housing market.

Within the context of a strong housing market, however, the District of Columbia faces a socio-economic crisis. The rate at which rental units are being converted from the occupancy of low and moderate income households to the occupancy of upper and middle income housing is for us socially unacceptable and threatening. Faced with the problem of rapid conversion of housing stock to meet the demands of higher income families with the resulting displacement of the poor, the District must continue and further refine its housing market intervention programs. These programs, which include rent control, cooperative control, condominium control, eviction reform, control of rehabilitation, and a guaranteed return of eight (8) percent of the assessed market value, are designed to slow down the rate at which units of housing are lost to use by low and moderate income families while permitting reasonable returns on owners' investments.

A preliminary displacement study conducted by the Rental Accommodations Office finds that a large number of low and moderate income households, especially in the N.W. section of the city face the threat of displacement during the immediate years to come. These households are living in rental units which are lying in the path of the ever growing demand for District rental housing by the Post World War II baby boom generation households. We have already noted in some neighborhoods, that significant numbers of low and moderate income households have been displaced by housing market pressure for conversion. An even large number of low and moderate income households have been forced to move to less expensive units because of an inability to afford even the rent increases calculated under rent control.

One of the most often asked questions in the District is where do these families go? Many low and moderate income families are moving to low rent units in far Northeast and Southeast, others are moving into Prince Georges County. Even more revealing, however, are statistics from the Evictions Review Section of RAO. Data show that increasingly, families are beginning to join forces and "double-up" in order to compete for housing at the District's current rental rates. The resultant overcrowding of rental units is indicated by the sharp increase in the number of Notices to Vacate filed with the Evictions Review Section due to "violation of tenancy." In the final analysis, the housing problems of low income families can not be addressed through rent controls alone. Programs that produce additional units of housing for low and middle income people is the only realistic solution. The Mayor recently announced that the District is now undertaking a series of programs which are designed to produce an additional 5,000 to 6,000 units of low and middle income housing over the next three (3) to four (4) years.

The point at which the District's displacement crisis is resolved through both the production of new units of low and moderate income housing, and the easing of

housing market demand by new middle and upper income households has yet to be established.

Clearly, the District's market intervention programs, including rent controls, have had a variety of impacts on its housing market. Many of these impacts are predictable and a direct outgrowth of the kind of market intervention program we have adopted. The suppression of the rate at which units are converted to meet the demands of higher income households is an example of a predictable impact. Landlord fear and ignore of rent control procedures are examples of unpredictable impacts. The housing market of the District of Columbia is very complex. In order to achieve sound planning regarding any intervention in that market, the District is in need of clear, timely and sophisticated analysis of major market trends as they occur. Beginning early next year, the District of Columbia will, as a whole, engage in a public debate over the successor legislation to the Rental Housing Act of 1977. Our current base of knowledge allows us to answer certain types of questions regarding events in our housing market and the consequences these events have had both on the decisions of owners/investors and on the lives of citizens. But there are other opportunities to expand our information base.

D.C. Law 2-54 requires all owners of rental property located within the District of Columbia to file registration forms or claims of exemption with the Rental Accommodations Office. Hence, the District of Columbia has amassed a large quantity of financial and ownership data about the operation of its rental housing market. But computerization and compilation is needed. An analysis of this data could allow the District and the Rental Accommodations Office to begin the process of understanding how the rental housing market specifically, and the housing market generally works. Registration information already contained in RAO files show financial operating costs and patterns of change for the period 1975 through 1978 that could categorically establish the impact of Rent Control Laws. This information should be augmented by records from other government departments, such as Licenses, Inspections and Investigations, the Department of Housing and Community Development, and the Department of Finance and Revenue, etc. The combined data, reduced to a usable form, could allow the RAO to conduct studies of rental market operating trends, patterns of single family home price increases, and patterns of condominium conversion.

In future Budget Submissions, the creation of a Statistical Monitoring System for Housing to track our market and let us know when the crisis is over is one of my highest priorities. However, there is need for immediate interim relief.

In order to rationally develop a proposed successor to the current rent control law, the Rental Housing Act of 1977, we need to undertake a major analysis of our rental housing market. In particular we need to review the consequences of our past interventions, both on the operation of rental housing and on the perceptions and attitudes of owner/investors. Our ultimate goal is a program which equates controls with the particular market event they are to address. Ideally, we should be able to minimize the extent of our market intervention programs, through much more sophisticated and carefully focused approaches.

This is the type of program the District needs, and in which the District can use to determine the successor to D.C. 2-54. We need your support in securing necessary funds, to this end I ask for your support.

I will be happy to respond to any questions you may have.

GENERAL STATEMENT OF RENT ADMINISTRATOR

Mrs. KENNISON. Thank you and good morning, Congressman. I would like to first apologize for the Mayor who is not able to be here.

As the Rent Administrator of the District of Columbia, I am responsible for administering the provisions of the Rental Housing Act of 1977, Law 2-54. This position provides me first-hand information to justify the existence of rent controls for the District and to support continuance of this or similar legislation.

Mr. WILSON. When did we first have rent control in the District?

Mrs. KENNISON. 1974.

At the outset it is important to categorically state that the purpose of D.C. Law 2-54 is to preserve the housing stock for residents of the District with special emphasis being placed on the

availability of suitable and affordable accommodations for low and moderate income residents.

This mandate has been argued by opponents of rent control. Indeed, some question whether our efforts result in reduced housing stock; others view the rent intervention program as a method to "subsidize middle and upper income families;" and the more irate raise emotions by asking if rent controls are tantamount to governmental confiscation of private property.

These myths and others will be fully explored.

RENT CONTROL AND LOSS OF RENTAL UNITS

This is one of the questions that is raised. Does rent control cause a loss of rental units?

The District has indeed witnessed a decline in rental housing stock since 1974, the year that the D.C. Rent Control Laws were first enacted, and has also documented an increase in single family owned homes.

In 1974, the District had 188,500 rental units according to the Annual Housing Survey of 1974.

The Municipal Planning Office estimated that the District had 175,900 rental units as of December 31, 1978.

This five-year loss of 12,600 rental units correlates very closely with increases in owner-occupied units.

In 1974 the District had 79,100 owner-occupied single family homes. In 1978, 91,300 were identified, an increase of 12,200.

Further, the 1974 annual housing survey showed 29,000 rented single family homes. Therefore, it appears that a large portion of the rental unit decline may merely reflect the sale of previously rented single family houses.

A closely related argument against rent control is that three relatively new housing market trends, cooperatives, condominiums and apartment hotels are the direct result of rent control.

CONDOMINIUM CONVERSION AND COOPERATIVE OWNERSHIP

For example, during the period of 1974 to 1978, a total of 6,000 rental housing units were converted to condominium or cooperative ownership. At the same time, an additional 18,000 rental units applied for permission to convert to condominium or cooperatives. An additional 4,000 units are estimated to be involved in the process of conversion to apartment/hotels.

A careful analysis of this condominium-related trend does not support the conclusion that rent control fosters conversion. Rent controls affect units throughout the District of Columbia. Therefore, if there was the assumed direct correlation between controls and these three types of rental unit conversions, one would expect to see conversions spread evenly across the District.

We find, however, the three phenomena are highly isolated in certain older D.C. neighborhoods, such as Foggy Bottom, Dupont Circle, Adams Morgan, Logan Circle, Capitol Hill and in some areas of the Shaw neighborhood.

Mr. WILSON. That is where the condominium conversions are taking place?

Mrs. KENNISON. That is right, sir.

Rather, this pattern of occurrence more closely corresponds to the location of the older 19th Century townhouses and an inordinately high market demand for the purchase of these type units.

We conclude that the phenomena of condominium conversion and cooperative conversion are more functions of market demand for these types of ownership than a function of the negative impact of the District's market intervention programs.

Secondarily, it has been noted, on a nationwide basis, that real estate investment patterns generally are changing from the traditional rental housing investment and toward the shorter term, higher yield condominium conversion investment. On a national basis, there is virtually no correlation between the enactment of local rent controls and the extent of local conversion to condominium or cooperative.

For example, Chicago Illinois, which saw over 100,000 units converted to condominiums during calendar year 1978, has no controls, whatsoever, on its rental market.

Mr. WILSON. It still does not?

Mrs. KENNISON. It still does not.

Mr. WILSON. Do you have any information as to whether or not there are rental units where condominium conversions are being denied in Chicago?

Mrs. KENNISON. I don't have that information, sir. Some staffer may have it.

RENT CONTROL AND SUBSIDIZATION

The second question that is posed often about rent control is: "does rent control subsidize middle and upper income families?"

In the Rental Housing Act of 1974, the automatic passthrough provision of section 206 provides for rent increases which pass on annual increases in operating costs.

Using a methodology developed by George Sternlieb of Rutgers University, the Rental Accommodations Commission carefully analyzes cost trends and authorizes annual rent increases to cover them. Hence the question of subsidizing the District's middle and upper income families does not focus on an ability to pass through justifiable increases in operating expenses, but rather on the potential rental increases which landlords feel households would pay were there no controls.

These potential rental rates would be controlled by the law of supply and demand for District housing with little relationship to increases in operating costs due to inflation. Thus, it is not correct to conclude that the District's controls force landlords to carry the burden of operating cost increases which cannot be passed on to financially able middle and upper income tenants.

But it is correct to say that the District's rent controls prevent landlords from charging whatever rent the market will bear.

Do the District's market intervention programs in effect confiscate rental property by limiting landlords' ability to make money by fully exploiting the market?

In my opinion, and in the opinion of the courts, the answer is no. The courts have held that the District has the right to impose

regulations on its housing market, if those regulations are part of an attempt to address a serious social problem.

The displacement of low and moderate income households is viewed as a serious social problem.

On the other hand, we are continuing to refine both our legislation and our administrative procedures to give the rental housing industry the rent increases needed to cover actual increases in operating expense in a timely manner.

RENT CONTROL AND SMALL LANDLORDS

Do rent controls result in small landlords going out of business?

This is a question that has been raised frequently. Nothing I have received leads me to the conclusion that any significant numbers of small landlords are abandoning their rental properties, let alone abandoning their property because of rent controls.

Certainly there are instances where small landlords, for a variety of reasons, default on their mortgages, and lose their buildings. In these instances, three primary factors are at play.

First, the buildings are carrying a massive deferred maintenance load. The repair costs associated with this problem eat away at building incomes without improving the quality of life in the building.

Secondly, tenants in the worst buildings outraged by conditions, refuse to pay their rent.

Finally, because of a lack of resources and management skills, the owners of these buildings are not aware of how to achieve all of the rent increases they are entitled to under the District's rent control laws.

We, at the Rental Accommodations Office are trying to address some of these programs during the current fiscal year. A Public Education Specialist will be hired to head the process of informing small landlords of the services available from the Rental Accommodations Office and their rights under the Rental Housing Act of 1977.

APARTMENT PRESERVATION PROGRAM

In addition, the Department of Housing and Community Development is in the process of implementing an Apartment Preservation Program, designed to restore distressed buildings to a sound fiscal and physical status without requiring huge increases in rent.

Enough of responding to ill-founded criticisms of the Housing Act of 1977. The justification accepted by the courts and permitting continuance of rent control laws for the District of Columbia to avoid severe social problems, is the primary reason for governmental intervention in the rental housing market.

The emergence of the post-World War II baby boom generation on the housing market of the District of Columbia poses for us both an opportunity and a crisis. After experiencing a relatively weak housing market, and a somewhat pessimistic outlook for the growth of our real estate tax base for the 15-year period from 1960 to 1975, we now find ourselves with strong annual appreciation both in our tax base and in the value of our housing stock.

In 1978, we noted that the average unit of rental housing had an assessed value of \$9,000. The average asking price of condominium units during 1978 was approximately \$97,000, the \$88,000 increase from an assessed value of \$9,000 to a condominium sale price of \$97,000, is indicative of both the strength and the vitality of the District of Columbia's housing market.

SOCIO-ECONOMIC CRISIS

Within the context of a strong housing market, however, the District of Columbia faces a socio-economic crisis. The rate at which rental units are being converted from the occupancy of low and moderate income households to the occupancy of upper and middle income housing is for us socially unacceptable and threatening.

Faced with the problem of rapid conversion of housing stock to meet the demands of higher income families with the resulting displacement of the poor, the District must continue and further refine its housing market intervention programs.

These programs, which include rent control, cooperative control, condominium control, eviction reform, control of rehabilitation, and a guaranteed return of eight percent of the assessed market value, are designed to slow down the rate at which units of housing are lost to use by low and moderate income families while permitting reasonable returns on owners investments.

A preliminary displacement study conducted by the Rental Accommodations Office, finds that a large number of low and moderate income households, especially in the northwest section of the city face the threat of displacement during the immediate years to come.

These households are living in rental units which are lying in the path of the ever growing demand for District rental housing by post-World War II baby boom generation households. We have already noted in some neighborhoods, that significant numbers of low and moderate income households have been displaced by housing market pressure for conversion. An even larger number of low and moderate income households have been forced to move to less expensive units because of an inability to afford even the rent increases calculated under rent control.

OVERCROWDING IN RENTAL UNITS

One of the most often asked questions in the District is, where do these families go? Many low and moderate income families are moving to low rent units in far northeast and southeast, others are moving into Prince Georges County. Even more revealing, however, are statistics from the Evictions Review Section of RAO. Data shows that increasingly, families are beginning to join forces and "double up" in order to compete for housing at the District's current rental rates.

The resultant overcrowding of rental units is indicated by the sharp increase in the number of Notices to Vacate filed with the Evictions Review Section due to "violation of tenancy."

SOLUTION: PRODUCTION OF ADDITIONAL HOUSING UNITS

In the final analysis, the housing problems of low income families cannot be addressed through rent controls alone. Programs that produce additional units of housing for low and middle income people are the only realistic solution.

The Mayor recently announced that the District is now undertaking a series of programs which are designed to produce an additional 5,000 to 6,000 units of low and middle income housing over the next three to four years.

Mr. WILSON. Who will own these units, the District government?

Mrs. KENNISON. Or subsidized housing. That is part of it. The District owns, as well as subsidizes housing.

The point at which the District's displacement crisis will be resolved through both the production of new units of low and moderate income housing, and the easing of housing market demand by new middle and upper income households has yet to be established.

Clearly, the District's market intervention programs, including rent controls, have had a variety of impacts on its housing market. Many of these impacts are predictable and a direct outgrowth of the kind of market intervention programs we have adopted. The suppression of the rate at which units are converted to meet the demands of higher income households is an example of a predictable impact.

Landlord fear and ignorance of rent control procedures are examples of unpredictable impacts. The housing market of the District of Columbia is very complex. In order to achieve sound planning regarding any intervention in that market, the District is in need of clear, timely and sophisticated analyses of major market trends as they occur.

EXPIRATION OF RENT CONTROL LAW

Beginning early next year, the District of Columbia will, as a whole, engage in a public debate over the successor legislation to the Rental Housing Act of 1977. This act expires in September 1980.

Our current base of knowledge allows us to answer certain types of questions regarding events in our housing market and the consequences these events have had, both on the decisions of owner/investors and on the lives of citizens. But there are other opportunities to expand our information base.

DATA BASE ON RENTAL PROPERTIES

D.C. Law 2-54 requires all owners of rental property located within the District of Columbia to file registration forms or Claims of Exemption with the Rental Accommodations Office. Hence the District of Columbia has amassed a large quantity of financial and ownership data about the operation of its rental housing market. But computerization and compilation are needed.

An analysis of this data could allow the District and the Rental Accommodations Office to begin the process of understanding how the rental housing market specifically, and the housing market

generally works. Registration information, already contained in RAO files, shows financial operating costs and patterns of change for the period 1975 through 1978 that could categorically establish the impact of rent control laws.

This information should be augmented by records from other government departments, such as the Department of Licenses, Inspections and Investigations, the Department of Housing and Community Development, and the Department of Finance and Revenue, etc. The combined data, reduced to a usable form, could allow the RAO to conduct studies of rental market operating trends, patterns of single-family home price increases, and patterns of condominium conversion.

In future budget submissions, the creation of a statistical monitoring system for housing, to track our market and let us know when the crisis is over, is one of my highest priorities. However, there is need for immediate interim relief.

In order to rationally develop a proposed successor to the current rent control law, the Rental Housing Act of 1977, we need to undertake a major analysis of our rental housing market.

In particular we need to review the consequences of our past interventions, both on the operation of rental housing and on the perceptions and attitudes of owner/investors.

Our ultimate goal is a program which equates controls with the particular market event they are to address. Ideally, we should be able to minimize the extent of our market intervention programs through much more sophisticated and carefully focused approaches.

This is the type of program the District needs, and which the District can use to determine the successor to D.C. Law 2-54. We need your support in securing necessary funds; to this end I ask for your support.

I would be happy to respond to your questions and this panel also.

Mr. WILSON. Thank you, very much, Mrs. Kennison.

I believe there are other members on the panel this morning who would like to make a statement. Ms. Nahikian?

REMARKS OF COMMISSION MEMBER NAHIKIAN

Ms. NAHIKIAN. Congressman Wilson, the Rental Accommodations Commission, which is the appointed body made up of three tenant representatives, three landlord representatives, and three public members, which interprets, writes the regulations, and functions as an appellate body to the Rent Administrator's Office, does not have a formal statement to make. We would be happy to respond to questions, since we are most directly responsible for ordering the enactment of rent increases on an annual basis, to cover increased operating costs and in terms of promulgating rules and regulations for the operation of the Rental Housing Act.

SHORTAGE OF RENTAL HOUSING STARTS

Just briefly, one question you raised earlier during Mrs. Kennison's testimony about construction of rental units, and you specifically asked about Chicago, I don't have statistics specifically on

Chicago, but what I can tell you is that there is a severe shortage of starts of rental housing nationally.

According to the City Court Mortgage Corporation, rental housing starts on a national level fell to the lowest level in twenty years the first quarter of 1979 and at that point they were predicting even lower levels of rental housing starts. That is non-subsidized private liability. There is a great dearth and gap nationally in the construction of rental units, and I think that is very much reflected here in the District although we have seen a surge of the construction of luxury rental units, and new construction is exempt from rent controls.

Mr. WILSON. All new construction?

Ms. NAHIKIAN. Yes, sir.

Mr. WILSON. I think that is probably due to the high interest rates. Also, the number of housing starts nation-wide are low which makes 1979 sort of a bad year to compare.

In my part of the country, for instance, I am sure that rental housing starts are off too, but last year in Houston, for instance, a large number of moderate income rental units were built.

But I am not sure how applicable that is.

Mrs. KENNISON. Of course, you have land there. The District of Columbia is certainly limited in the amount of land left to build on.

Mr. WILSON. I am not so sure about that. Do you have a statement Mr. Christian?

ABSENCE OF COUNCIL CHAIRMAN

Mr. CHRISTIAN. If the other panel members do not have statements, speaking for Council Chairman Dixon, Mr. Wilson, first let me also offer the Chairman's regrets for not being able to be here. He had a longstanding commitment out of the city and will not be back in the city until the end of the week and consequently asked me to appear to make some extemporaneous remarks generally as to the Council's posture.

LEGISLATIVE HISTORY OF RENT CONTROL

I suspect the chairman will submit a written statement concerning the evolution of rent control legislation before you complete your deliberations.

[The statement referred to follows:]

CAPSULE LEGISLATIVE HISTORY OF RENT CONTROL LEGISLATION FOR THE DISTRICT OF COLUMBIA—JANUARY 9, 1980

The genesis of current rent control in the District of Columbia is H.R. 4771 a measure introduced on February 27, 1973 by Delegate Walter Fauntroy, to regulate the rents which landlords, in the District, could charge tenants. This measure, enacted by the Congress of the United States, became Public Law 93-157 on November 21, 1973. It authorized the District of Columbia Council to adopt regulations controlling rents and required that the regulations assure landlords a reasonable rate of return.

Pursuant to Public Law 93-157, the District of Columbia Council adopted Regulation 74-8, a regulation designed to impose a temporary freeze on rents while allowing the Council time to develop a comprehensive measure. Due to technical errors within it, Regulation 74-8 was superseded by Regulation 74-9, which became effective April 29, 1974, on an emergency basis. Regulation 74-9 was superseded by

Regulation 74-13, a measure identical to 74-9 in content but, enacted by the Council to respond to procedural objections.

The first comprehensive rent control measure adopted by the Council after the initial group of temporary measures was Regulation 74-20. Regulation 74-20 was adopted on July 26, 1974 and became law on August 1, 1974. This measure provided an administrative framework for the implementation of rent control. An automatic increase formula allowed landlords to raise rents by specified percentages and included a "hardship" provision whereby landlords were permitted increases beyond the specified percentages given the finding of certain enumerated conditions. Under Regulation 74-20, tenants were also protected from capricious evictions, decreases in services and excessive rent increases.

During the closing months of 1974 and early 1975, it became increasingly obvious that the rent control program contemplated by Regulation 74-20 was not working in a satisfactory manner. Members of the Housing Rent Commission established by Regulation 74-20, complained publicly that the \$85,000 appropriated by the Congress was insufficient to administer the program effectively. It was further charged that the Executive Branch of the District of Columbia was providing inadequate supplementary assistance. Some tenants claimed that landlords were filing an excessive number of hardship petitions in order to sabotage the Commission. Some landlords claimed that the problems resulted from the irresponsible behavior of tenant representatives on the Commission. Whatever the reasons, the Commission could not process these petitions within the required sixty days.

Faced with this state of affairs, landlords challenged Regulation 74-20 in the District of Columbia Superior Court. The court began allowing landlords to increase rent levels whenever the Commission could not in a timely manner process petitions. Landlords, unhappy that the Regulation was not held invalid, and the government, displeased with allowance of increased rents, appealed the decision. On appeal the District of Columbia Court of Appeals in effect held:

1. The pass through and reasonable rate of return requirements mandated in P.L. 93-157 (the Congressional Authority) had not been fully complied with in Regulation 74-20, and

2. Inadequate administrative procedures which result in unduly long periods of time for landlords or tenants to receive remedies in response to petitions may constitute lack of due process.

However, the recent control program continued in operation; and on January 22, 1975, shortly after its inauguration, the newly elected Home Rule Council of the District of Columbia held hearings on the need for continued rent control. The testimony indicated that some form of rent control was needed. What seemed evident, however, was the need for substantially increased logistical support and a mechanism to expedite proceedings in order to reduce the backlog of cases.

In response to the testimony, Councilmember Nadine Winter introduced Bill 1-40, a bill to stabilize rents in the District of Columbia and to establish a Rent Stabilization Commission. The bill was designed to offer the same protection to tenants and landlords as accorded in Regulation (74-20). However, it differed from the regulation in that it removed from the Housing Rent Commission its administrative role. The Commission was designed to be a policy and appeal board with the administrative and de novo adjudicatory functions transferred to a Rent Administrator. These changes were made in an effort to expedite processing of petitions and to encourage the maximum attention to procedural requirements.

Hearings were held on Bill 1-40 on April 9, 1975 and the Council unanimously adopted it on June 10, 1975. On June 27, 1975 Mayor Walter Washington returned Bill 1-40 with his disapproval while expressing full support of rent control. The Mayor suggested that the measure was primarily defective due to the fact that it

1. failed "to provide an equitable rent stabilization program which protects tenants against excessive rents while at the same time providing landlords with a reasonable return".

2. created "unending adverse impacts on the city's housing supply". and,

3. impaired construction and rehabilitation of rental stock which could result in "a significant loss and deterioration of the less than adequate existing rental stock".

The Council chose not to override the veto but to accept the Mayor's offer to be available with his staff to resolve these concerns.

The Mayor, the Committee, other Councilmembers and staff from the Executive and Legislative branches worked to resolve differences. On July 15, 1975, a new Rental Accommodations Act (Bill 1-157) received its first reading in the Council. This new bill essentially embodied the fundamental thrust and intent of Bill 1-40 which had been vetoed by the Mayor. However, major changes agreed to were:

1. The newly created Rental Accommodations Office was changed from an independent agency to one established as an agency of the District of Columbia government within the Executive Office of the Mayor.

2. An exemption was provided for all new unit construction for which the initial certificate of occupancy was issued after February 2, 1973 for the initial leasing period or the first of tenancy (whichever occurs first).

3. The formula for rent increases was changed to provide a floor of eight percent as opposed to seven percent as a reasonable rate of return.

4. The maximum allowable rent increase was changed from four percent of the amount computed in the rent increase formula plus a pass-through provision for utilities to five percent, with no allowance for pass-through of utility costs.

5. The limitation on depreciation expense in the rate of return formula was removed.

6. The registration and filing procedures were simplified and the time necessary for the procedures was reduced.

7. Hardship provisions were added to allow landlords to file petitions for an additional increase where (after allowable increases) a negative cash flow could be shown.

In order to preclude having the rent control program mandated by Regulation 74-20 expired without the new program contemplated by Bill 1-157 operational, the council enacted on an emergency basis a ninety day transitional program provided the following:

1. The provisions of Regulation 74-20 would remain in effect for a period of sixty days after enactment.

2. During this interim period, the Housing Rent Commission would not receive or act upon any petition for adjustment of rent filed with it and would continue action on those previously filed.

3. Landlords could not raise any rents except pursuant to previous commission or court order.

4. provisions of Bill 1-157 would be incorporated into the transition program sixty days after its effective date.

The new permanent rent control legislation, D.C. Law 1-33, the "Rental Accommodations Act of 1975," which replaced Regulation 74-20 became effective on November 1, 1975. This rent control legislation remained in effect relatively unchanged until amended by D.C. Law 1-129, an "Act to Preserve the Habitability of Rental Units Subject to Notice to Vacate." This measure amended the Rental Accommodations Act of 1975 by giving the Rent Administrator increased authority; changed the Commission's quorum requirements; deleted service on the Rent Administrator of eviction notices for non-payment of rent; provided exemption of housing accommodations of four (4) units or less, new construction on federally or District owned properties, and deleted quarterly registrations. Further amendments permitted the Rent Administrator to hire staff outside Civil Service requirements and to delegate authority to hear and make final decisions on petitions to hearing examiners employed by the Commission.

On April 26, 1977 the Council's Committee on Housing and Urban Development conducted a public hearing to determine what should be the legislative response to the fact that Rental Accommodations Act of 1975 would expire in November 1977. A draft bill which Councilmember Nadine Winter intended to introduce was the foundation of discussion at this hearing. The tenants present supported the continuation of rent control with many suggesting improvements within the Rental Accommodations Office. Landlords cited delayed maintenance and increased utility costs as central to their desire for rapid decontrol. On April 28, 1977 Councilmember Nadine Winter introduced Bill 2-152 the "District of Columbia Rental Accommodations Act of 1977". This measure had as its primary purpose the protection of tenants from unreasonable and excessive rent increases or service decreases. Rent increases allowed under this legislation were to be based on higher operating costs caused by the previous winter's severe weather. These increases ranged from two to ten percent based upon the types of utility services provided by landlords. Permitted increases could exceed these levels if the landlord's rate of return fell below eight percent, provided the Rent Administrator approve such increases. Landlords were permitted to rehabilitate properties but only after a four month notice to tenants. Tenants were protected from unwarranted evictions and harassment and were given the opportunity to purchase their housing accommodations if a landlord offered it for sale.

On May 13, 1977, Councilmember Arrington Dixon introduced Bill 2-158, the "District of Columbia Housing Assistance Act of 1977". This bill, as introduced,

intended to put into place a permanent law with built-in flexibility to meet changing conditions in years ahead. The essential protections for tenants and landlords contained in previous laws were generally continued including a number of new aids for tenants and landlords.

A Public Hearing on both Bill 2-152 and Bill 2-158 on June 15, 1977. Fifty people testified before the Committee representing agencies of the District government, tenants, and landlords. Testimony received from tenants strongly supported the need to continue rent control but stressed the desire to develop a more self-administering program. Tenants' views ranged from restricting rent to only twenty-five percent of income, to raising the idea of rent increases based on the Consumer Price Index. Landlords strongly restated their position that the city's housing stock had been allowed to deteriorate because of rent control and that adjustments had to be made to compensate for past utility cost increases.

After consideration of both Bill 2-152 and Bill 2-158 on June 22, 1977 and several meetings thereafter by the Committee on Housing and Urban Development; the Council adopted a modified version of Bill 2-152 which became D.C. Law 2-54, the "Rental Housing Act of 1977" effective March 16, 1978. The Rental Housing Act of 1977 with relatively few minor amendments is the current rent control law for the District of Columbia.

REMARKS OF JAMES CHRISTIAN

Mr. CHRISTIAN. At this point in time my remarks are going to be basically aimed at sort of giving an overview of where the Council stands and what its plans are and legislation pending before it in this area generally.

Preliminarily, let me indicate that the Council has not undertaken any formal oversight study or had any request made to the agencies in the Executive branch to provide it with any sort of financial data regarding the impact of rent control on the tax base of the city.

The Council has, during the course of its preparation of the fiscal year 1981 budget, the Committee on Finance and Revenue did some preliminary work in terms of the impact, but that was very preliminary and sketchy in nature and consequently did not figure significantly in the formulation of the budget request.

As it stands now, there are approximately thirteen pieces of legislation pending before the Council which in some form or fashion impact generally on this area. The one that I think is probably quite significant and very much highlighted recently has been the condominium conversion legislation. We have no plans now for any immediate review of the Rent Control Act as it stands.

EXPIRATION OF RENT CONTROL LEGISLATION

The Council is fully aware of the fact that the Act, as has been indicated to you, expires September 30, 1980.

SCHEDULE FOR CITY ACTION ON RENT CONTROL LEGISLATION

Our schedule certainly would behoove the whole government to move sometime in February or March, certainly no later than that, to begin to take a look at the whole area and come to grips with some kind of determination as to whether or not it is to be continued and in what form or whether alternatives need to be put in place.

The Housing and Economic Development Committee, chaired by Councilwoman Hardy, had the primary responsibility for reviewing this entire area and she has a number of measures pending before

her not directly related to rent control, but having some impact upon the housing market in the city.

We don't contemplate that there will be any significant pieces of legislation reported out of that committee in this area prior to the end of this year, but certainly there may well be some measures at the beginning of next year.

It is certainly our hope in the Council that the data that has been collected by the Rental Accommodations Office in their continuing review of the area will be shared with us at a very early date, so we will be in a position to do some preliminary ground work on legislative proposals.

We also are awaiting the annual report of the Rental Accommodations Commission. They have indicated to us that they are on track and will meet sort of a delayed deadline for submitting their report to us in terms of impact of their work.

With those elements certainly beginning in next year, we will take a full review generally of the impact and then look at alternative measures and come up with legislative proposals.

HOUSING FINANCE AGENCY

One item that I think needs to be made a part of the hearing record is the fact that we have pending in the Congress now legislation dealing with the establishment and implementation and operation of a housing finance agency for the District of Columbia. The legislation was adopted and passed last year and some questions were raised with respect to the authority of the Council and the government to enact that measure and its effectiveness.

Therefore, legislation was introduced and passed by the House earlier this year, went to the Senate, and there was some disagreement with some of the provisions and consequently a conference has been requested.

The Council is of the view that the Housing Finance Agency is another element that can contribute significantly to the alleviation of this problem and therefore we would hope that legislation from the Federal side would get some attention and be moved expeditiously through the process.

MEASURES UNDER CONSIDERATION BY COUNCIL

I would also like to submit for the record those measures which the Council has under consideration and which do have some impact on the housing market and with some annotations to them if that is permissible, Mr. Chairman.

Mr. WILSON. Yes, that will be fine.

[The information follows:]

STATUS OF LEGISLATIVE MEASURES—JANUARY 9, 1980

Bill 3-9—Residential Housing Stock Increase Incentive Act of 1979

Introduced: January 2, 1979

Referred: January 3, 1979

Present Status: Pending in Committee on Housing and Economic Development for report and in Committee on Finance and Revenue for comment only.

Bill 3-18—Senior Citizen Tenancy Amendment

Introduced: January 10, 1979

Referred: January 11, 1979

- Present Status:* Pending in Committee on Housing and Economic Development for report.
- Bill 3-57—Eviction Goods Transportation & Storage
Introduced: January 23, 1979
Referred: January 24, 1979
Present Status: Pending in Committee on Housing and Economic Development for report.
- Bill 3-95—Rental Stabilization Exemption Act
Introduced: February 6, 1979
Referred: February 7, 1979
Present Status: Pending in Committee on Housing and Economic Development for report.
- Bill 3-124—Rental Housing Locator Consumer Protection Act of 1979
Introduced: March 21, 1979
Referred: March 22, 1979
Present Status: Pending in Committee on Housing and Economic Development for report; Public Hearing held on November 8, 1979.
- Bill 3-134—Condominium-Cooperative Eviction Extension
Introduced: April 10, 1979
Referred: April 12, 1979
Present Status: Pending in Committee on Housing and Economic Development for report.
- Bill 3-157—Home Purchase Financing Assistance
Introduced: May 22, 1979
Referred: May 24, 1979
Present Status: Pending in Committee on Finance and Revenue for report and in Committee on Housing and Economic Development for comments only.
- Bill 3-167—Rental Housing Locator Standards Act
Introduced: June 13, 1979
Referred: June 14, 1979
Present Status: Pending in Committee on Housing and Economic Development for report; Public Hearing held on November 8, 1979.
- Bill 3-222—Rental Housing Conversion and Sale Act
Introduced: November 13, 1979
Referred: November 14, 1979
Present Status: Pending in Committee on Housing and Economic Development for report.
- Bill 3-225—D.C. Cooperative Association Amendment Act
Introduced: November 15, 1979
Referred: November 19, 1979
Present Status: Pending in Committee on Housing and Economic Development for report.
- Bill 3-232—Encouragement of New Rental Housing Units Act
Introduced: November 20, 1979
Referred: November 21, 1979
Present Status: Pending in Committee on Housing and Economic Development for report.

and

- Act No. 2-291—District of Columbia Housing Finance Act
Present Status: Became D.C. Law 2-135 on March 3, 1979. Authorizing legislation H.R. 3824 passed by both the House and Senate awaiting appointment of conferees.

Mr. CHRISTIAN. With that, that closes my formal remarks and certainly I will be available for any questions you might have.

Mr. WILSON. Who is representing Mr. Moore and the Housing Department?

Mr. CLAY. I am.

ABANDONMENT OF PROPERTY BY LANDLORDS

Mr. WILSON. I don't know exactly to whom this question should be directed, but anyone who knows the answer is welcome to respond.

What happens when landlords abandon their buildings? Do the buildings revert to the city because of delinquent tax payments?

Mr. CLAY. If a building is abandoned and that building is vacant, the city's requirement is that that building be rendered sanitary so that it does not become a danger to the community and the people who live around it.

The owner would then be required to have the building boarded up. If the owner refuses to do that, the city would then take the appropriate steps to render that building at least sanitary and board it up.

Mr. WILSON. And the same ownership?

Mr. CLAY. And place a lien against the property, yes.

NUMBER OF VACANT BUILDINGS

Mr. WILSON. Do you know how many units are in that status today?

Mr. CLAY. That have actually been boarded up and the city has placed liens against them?

Mr. WILSON. Yes, or are in the process of being boarded up. Would you hazard a guess?

Mr. CLAY. Are you talking about buildings particularly or just units?

Mr. WILSON. Units or buildings.

Mr. CLAY. I can't give you an answer. I can submit for the record the best number we have.

Mr. WILSON. Would it be in the hundreds?

Mr. CLAY. I rather doubt it would be in the hundreds.

Mr. WILSON. In buildings?

Mr. CLAY. In buildings.

Mr. WILSON. In units?

Mr. CLAY. In units maybe.

Mr. WILSON. Can you submit that for the record?

Mr. CLAY. Yes, I will.

[The information follows:]

VACANT BUILDINGS AND UNITS

The following information represents boarded up buildings in which the District has placed a lien on the property. These figures represent buildings per year.

Fiscal year 1979 (Oct. 1, 1978-Sept. 30, 1979) 33 buildings

Fiscal year 1978 (Oct. 1, 1977-Sept. 30, 1978) 29 buildings

Fiscal year 1977 (Oct. 1 1976-Sept. 30, 1977) 21 buildings

Thus, there was a total of 83 buildings over a period of less than three years which the city boarded up and placed liens against.

Additionally, we want to indicate that the Department of Housing and Community Development has engaged a private firm to prepare a study of vacant buildings and units in the District of Columbia. As of July 1978, the following represent an estimate of vacant buildings and units reported in two categories.

Multi-Unit Structures (Buildings/Units) Approximately 385/2600

Rooming Houses (Buildings/Units) Approximately 36/265

The Department is discussing with the contractor to provide an update of these data, which we expect to be complete in February or early March 1980. We would be happy to share the final results with the Subcommittee Chairman.

TENURE OF MRS. KENNISON AS DIRECTOR

Mr. WILSON. I am not going to take too much time here because the other members of the subcommittee may want to ask questions. Mrs. Kennison, did you assume this job with the new administration?

Mrs. KENNISON. I did, sir.

DECLINING POPULATION AND HOUSING NEEDS

Mr. WILSON. I too am concerned with the social problems of displacement. I live on Capitol Hill and I have seen it and I understand the problem.

Is it not true that the population of the District is declining? You talked about the baby boom, but is it not true that the population in the District is declining?

Mrs. KENNISON. I think we have seen a decline, yes, but not significantly so, sir. Yes.

Mr. WILSON. But the baby boom and the declining population do not equate because we have less demand.

Mrs. KENNISON. Yes, but the baby boom means smaller households, two-person households, and one-person households, who are displacing larger households.

They are moving into buildings where three families lived, for example.

Mr. WILSON. But that would seem to relieve the problem rather than add to it.

Mrs. KENNISON. Relieve it to what extent?

Mr. WILSON. Not as much space is required. It doesn't take as much space for two people as it does for seven.

Mr. CLAY. I think what Mrs. Kennison is saying is, we have in the city those areas in the city like some of our former urban renewal areas, Shaw, 14th Street, where historically I guess, what, twenty years ago, these large houses, say on Logan Circle, were one-family houses, and this is true in the 14th Street area.

During the period in the late fifties and sixties they became rooming houses, became housing for three or four families. What we see now is that those families are being displaced and one couple is turning that one house that formerly served four or five families into a large single-family house.

That is what she is talking about. Those people are the people who we are most concerned about, where they go in terms of their affordability, in terms of rent, of what they can pay, so the need is still there.

While there might be a slight decline in population because the housing that normally would have filtered down to the people who can afford to pay only what they are paying in these larger houses which house several families, is no longer available, the market is declining in terms of what they can afford.

Mr. WILSON. I have many more questions but I will only ask one more in the interest of time.

RENT SUBSIDY PROGRAM

Mrs. Mack, the Mayor did not request in his budget anything for rent subsidy, did he?

Ms. MACK. In the fiscal year 1981 budget to the Council?

Mr. WILSON. Yes.

Ms. MACK. There was not a request by the Mayor. However, the budget, as approved by the Council, does have funding for a rent subsidy program.

Mr. WILSON. How much?

Ms. MACK. A million dollars.

Mr. WILSON. That is not very much, is it?

Ms. MACK. That is right, it is not a lot, but that is what was made available by the Council.

Mr. WILSON. Mr. Natcher?

REMARKS OF CONGRESSMAN NATCHER

Mr. NATCHER. Thank you, Mr. Chairman.

Mr. Chairman, I want to commend you upon calling this hearing today. I think it is very much in order as far as the District of Columbia Subcommittee on Appropriations is concerned.

Mrs. Kennison, for a number of years, as you know, I was chairman of this committee. Now we have a good chairman.

RENT CONTROL AND POPULATION DECLINE

I recall back a number of years ago we had 756,000 people in the City of Washington. I believe the census of 1970 will show that the figure is 756,510. My guess now is that the 1980 census will show the District's population to be in the neighborhood of 655,000 or 656,000. I believe, Mrs. Kennison, that the census in 1960 also showed a loss in population in the City of Washington. I know that my chairman here, Mr. Wilson, in the regular hearings on the budget for 1980, developed the fact that we lost over 6,000 school children here in our City of Washington during the past year.

Now, with our loss in population, and our loss each year of up to 6,000 children in our schools, does rent control enter into this picture?

Mrs. KENNISON. I would think it would in future years.

Mr. NATCHER. To what extent as far as rent control is concerned? As you and this gentleman have pointed out, your rent control law expires, September 30, 1980. The census will start in January of 1980, and the census will have just about been completed at that time. I think it is a major matter as far as population is concerned in the City of Washington. Do you think rent control plays a part in the loss of people here in our Nation's Capital?

Mrs. KENNISON. I don't feel comfortable in saying that the population of the District will go down significantly because of the demand for living in the city, in the capital of the world. The job market is bringing people here. They are living on the fringes of the city because they can't get in the city, so much so Montgomery County has begun to look at rent control.

I think if they could come into the city, they would be here. The subway is here. The energy crunch is causing people to find the

city an attractive place to live, and I just don't believe that we will experience a reduction in population.

I think if there were housing available, many of the people who live on the fringes of the city would be here.

UNEMPLOYMENT IN CITY

Mr. WILSON. Don't we have a serious unemployment problem in the city?

Mrs. KENNISON. Serious unemployment problem in the city? Yes, we do.

RENT CONTROL AND EFFECTS ON POPULATION

Mr. NATCHER. So, in other words, you believe rent control is not driving people out of the District of Columbia?

Mrs. KENNISON. Yes, it is. As you displace these people with the higher income people—

Mr. NATCHER. I know.

Mrs. KENNISON. No, rent control is not driving them out. It is the demand factor.

Mr. NATCHER. Assuming you had no rent control as of tomorrow, would that affect the people as far as habitation is concerned here in our nation's capital?

Mrs. KENNISON. Certainly it would. I think the rents would be whatever the market would bear. The market is here. There is a high income group of people living in this town.

Mr. NATCHER. As the Director of the Office of Rental Accommodations, do you and the members of your staff work with the Department of Licenses, Investigations and Inspections from time to time?

Mrs. KENNISON. Yes, we do, sir.

MAINTENANCE OF RENTAL PROPERTY

Mr. NATCHER. What is the situation as far as rental property is concerned here in Washington from the standpoint of upkeep and maintenance? Are they properly maintained?

Mrs. KENNISON. I haven't had too many complaints about deferred maintenance. Maybe some of the other housing department people can respond to that. I haven't received data to that effect.

Can you answer that?

Mr. NATCHER. I know Ms. Mack could probably tell you that for a number of years the District would ask for an increase in the number of inspectors. They needed them to inspect the wiring and plumbing in rental property to see if tenants had hot water at proper times, not just cold water.

You and the members of your staff work with this department?

Mrs. KENNISON. Yes. The Rental Accommodations Commission, in the report, did address that.

Ms. NAHIKIAN. The 1978 annual report of the Rental Accommodations Commission to the Council of the District of Columbia, Chapter 3, which we can submit for the record, addresses the quantity and quality of rental housing stock in the District, and it spoke about the housing inspection branch's classification system

and concluded in that report that we had seen an increase in the quality of the rental housing stock in the District of Columbia; that there had been a significant progression of housing from a category C to a category A building, and the conclusion, which was a very general one albeit, was that in many ways rent control had to improve the quality of the housing stock because rent increases are contingent on substantial compliance with the housing code.

Mr. NATCHER. Thank you, Mr. Chairman.

Mr. WILSON. Mr. Pursell.

Mr. PURSELL. I will yield for the time being.

Mr. WILSON. Mr. Stokes?

REMARKS OF CONGRESSMAN STOKES

Mr. STOKES. Thank you, Mr. Chairman.

Mr. WILSON. How about Cleveland, Mr. Stokes? Do you have rent control in Cleveland?

Mr. STOKES. No, we don't.

Mrs. Kennison, on page nine of your prepared testimony, you make the statement:

"Data show that increasingly families are beginning to join forces and 'double up' in order to compete for housing at the District's current rental rates. The resultant overcrowding of rental units is indicated by the sharp increase in the number of Notices to Vacate filed with the Evictions Review Section due to 'violation of tenancy.'"

Would you explain to us what you mean by that, particularly where you refer to people joining forces and doubling up?

"DOUBLING UP" OF FAMILIES

Mrs. KENNISON. In the doubling up I am referring to those households where two and three families are living together, Mr. Stokes, in order to pay the rent.

A single household cannot afford the rent and so they pool their financial resources in order to pay, and in many instances sometimes they can't find housing at the time they are evicted, so they pool up with friends or family members.

In our Evictions Section we receive notices to vacate. By law landlords have to send us copies of the notices to vacate that they have rendered to tenants in order that we may review them for legal sufficiency. We find that in the lease agreements, tenants are told the number of people who can occupy those units. If the landlord finds that there are three or four times that number living in the building, he has the right to ask for the property because the agreement has been violated.

He normally gives them thirty days' notice to quit. If they don't, he can sue for possession of the property.

Mr. STOKES. I suppose you are confronted with two things then, aren't you? Number one, a legal violation of the lease, which the courts would have to sustain the landlord's position on.

Secondly, you probably have a violation of your housing ordinances with respect to the number of persons who can occupy rental housing. Is that not correct?

Mrs. KENNISON. That is correct.

Mr. WILSON. Pardon me. We have a very important vote on the House floor so why don't we recess and when we get back we will continue with you, Mr. Stokes.

[Brief recess taken.]

Mr. WILSON. When we recessed, Mr. Stokes had the time.

Mr. STOKES. Thank you, Mr. Chairman.

UNEMPLOYMENT AND INCOME LEVELS

Mrs. Kennison, referring to the earlier discussion we were having, I would be interested in knowing whether there is any demographic data available that describes the number of low and moderate income persons within the District and the number or ratio of unemployed that fall within that category. I think that information would help the committee to put into perspective the relationship between the number of low income and unemployed persons and the amount of housing available.

[The following information was supplied for the record:]

UNEMPLOYMENT DATA

Information on unemployment for the District as a whole is 9 percent. This is in contrast to unemployment for the heads of households residing in the District's public housing, which is 70 percent (source: Property Management Administration, Department of Housing and Community Development, 1979). Unemployment among teenagers and young adults from low and moderate income households is even higher. Data on unemployment among low and moderate income households in the District is unavailable.

INCREASE IN RENTAL STOCK

Mr. STOKES. Secondly, would you supply for the record how much rental housing stock has been built over the period of the last ten years?

Mrs. KENNISON. Very little, but I will be glad to supply the exact figures for you, sir.

Mr. STOKES. That would be very helpful.

[The information follows:]

NUMBER OF HOUSING UNITS BUILT BETWEEN 1970 AND 1978

The number of housing units built between 1970 and 1978—units built in multi-family and single-family structures are reflected below:

Year	Single-family	Multi-family	Total
1970.....	220	1,690	1,914
1971.....	176	658	834
1972.....	181	410	591
1973.....	198	1,592	1,790
1974.....	1,226	0	1,226
1975.....	306	130	436
1976.....	605	1,363	1,968
1977.....	1,007	1,187	2,994
1978.....	1,288	885	2,173

OPERATION OF DISTRICT'S RENT CONTROL LAW

Now, would you give us some idea of exactly how the rent law works in the District?

Mrs. KENNISON. The Rental Accommodations Act provides landlords an eight percent rate of return on the assessed market value of the property. If he falls below the eight percent rate of return on the assessed market value, he can apply or petition the office for a hardship increase based on falling below the eight percent rate of return. There are also opportunities for rent increases annually based on increases in operating costs. Tenants can petition the office and challenge landlord increases.

They can also come to us to discuss and petition us on reduction in services, and if the examiner finds that there is really a reduction in services, the rents are accordingly reduced.

Tenants may challenge a rent increase based on code violations. Again, if that is found true, there are adjustments made in the rents, code violations that are generally considered substantial by the Housing Department, not just normal code violations, but substantial ones.

Mr. Shuman would like to respond further. He is the Chairman of the Rent Commission.

Mr. STOKES. We would be delighted to hear from you.

REMARKS OF COMMISSION CHAIRMAN JEROME SHUMAN

Mr. SHUMAN. I just wanted to add a couple of points to what Mrs. Kennison said.

In addition to the hardship route, a landlord who may be receiving an eight percent rate of return on the assessed value of the housing accommodation, but may be experiencing a negative cash flow, may file for a negative cash flow increase and receive an increase on the rent ceiling that will enable him to cover his cash flow so that he will have a positive cash flow.

Mr. STOKES. So, there are two options within the eight percent ceiling?

Mr. SHUMAN. Well, that is correct. He may file a hardship petition because he is receiving less than an eight percent return or, if he is receiving an eight percent return, but experiencing a negative cash flow, then he may petition for an increase on that basis.

I might also add with respect to the eight percent return, it is more of a base than it is a maximum.

There is nothing in the law that says that a landlord may not receive more than an eight percent return. It is just that he is not eligible for a hardship petition increase unless he is receiving less than an eight percent return. So there are many, many landlords who are receiving more than an eight percent rate of return. In those instances they may elect not to pursue the hardship route, but, rather, to take an automatic increase in a given year.

So the law doesn't knock them down to an eight percent return, but it brings them up to an eight percent return when they are receiving less than that.

RATE OF RETURN TO LANDLORDS

Mr. STOKES. Would you give us some idea as to what kind of a return some landlords can actually receive or do receive in light of what you have just said?

Mr. SHUMAN. We would not know that because we have no way of placing a limit. The law does not attempt to place a limit. The law takes the position that a landlord should be able to receive a reasonable return on his invested capital by gearing it or tying it into his investment.

The law takes into account that we are in an inflating economy so the law looks at the assessed value of the housing accommodation and says that he is entitled to receive an eight percent rate of return on the assessed value without regard to his actual dollar investment, so that if he is already receiving in excess of, for some reason, an eight percent rate of return, then there is no reason for him to file a hardship petition, but, if at any stage he falls below that level, then he can file a hardship petition and receive a rent increase that will bring him up to the eight percent level.

Mr. STOKES. As I assess it, that law favors the landlord, not the tenant. Is that correct?

EQUITY OF RENT CONTROL LAW

Mr. SHUMAN. I think the law is designed to be an equitable law. The law recognizes the fact that there is a housing problem and that tenants may be put in a rent squeeze because of the unique market in the District of Columbia, but the law also recognizes the fact that we are in a period of an inflating economy and that the landlords who have invested in property should receive a fair rate of return and it has set the level of eight percent as a fair rate of return and it has tied that to the assessed value rather than the actual dollar investment.

NUMBER OF HARDSHIP PETITIONS

Mr. STOKES. Is data available that would tell us the number of applications filed by landlords who experience cash flow problems or those who do not get a return of eight percent?

Mr. SHUMAN. We can supply you with the number of hardship petitions that have been filed.

Mr. STOKES. And also those that are granted and those that have been denied?

Mr. SHUMAN. Yes, we can supply you with that data.

[The information follows:]

PETITIONS FOR ADJUSTMENTS

During fiscal year 1979, 479 Landlord Petitions for Adjustment were filed with the Rental Accommodations Office. An additional 1,304 Tenant Petitions/Complaints were also filed. This represented a substantial increase in the RAO caseload over fiscal year 1978.

Of the 1,783 petitions filed with the Rental Accommodations Office during fiscal year 1979, 231 decisions of the Rent Administrator, or 12.956 percent, were appealed to the Rental Accommodations Commission. The Commission held hearings on 218 cases, including some cases for which the appeals were received in fiscal year 1978. The number of Commission decisions appealed to the D.C. Court of Appeals during fiscal year 1979 was approximately 15.

Under the Rental Housing Act of 1977, D.C. Law 2-54, which became effective on March 16, 1978, 630 Landlord Petitions for Adjustment have been filed. A total of 1,832 Tenant Petition/Complaints have also been filed.

Mr. STOKES. Can you tell us whether you grant more than you deny or—

Mrs. KENNISON. I can say we grant more than we deny.

Mr. STOKES. Mr. Chairman, I have several other questions. However, I don't want to take too much time.

Mr. WILSON. Why don't you ask one or two more?

Mr. STOKES. All right. Thank you.

ALLOWABLE INCREASES IN OPERATING COSTS

You mentioned the allowable increases in operating costs. What are some of the factors that go into the commission's calculation of allowable increases?

Mr. SHUMAN. You said the operating costs. Are you talking about the automatic increase that the commission is authorized to permit, or the eight percent rate of return pursuant to a hardship petition, or maybe—let me do it this way. Let me explain it first in the context of a hardship petition and then I will try to explain it in the context of an automatic increase.

With respect to the hardship petition, what we look to see is whether, after taking into account all of the expenses of operating the building—for example, if the landlord pays for the cost of utilities, if the landlord has to have a management agent, or if the landlord has to engage in certain maintenance operations with respect to the building—we look at all of those as expense items, and then apart from those the landlord is entitled to receive an eight percent rate of return.

Mr. STOKES. What if his application to you is denied? Does he have a right of appeal?

Mr. SHUMAN. Yes, he does. In the first instance the petition is filed with the Rental Accommodation Office. At that juncture a hearing may be held, and in most instances there is a hearing, at which time the landlord can present his argument and his data. The tenants will also have an opportunity to challenge the data at that juncture. A decision will be made by the hearing examiner. That decision may then be appealed to the Rental Accommodations Commission.

NUMBER OF COMMISSION MEMBERS

The commission is composed by law of nine members. Presently there are eight positions that are filled. One person resigned from the commission. Three of those members of the commission are tenants. Three of those members are landlords, and three of those members are public members.

APPEAL OF LANDLORD OR TENANT

Then if either party, the landlord or the tenant, is dissatisfied with the decision of the Rental Accommodations Commission, an appeal may be taken from the Commission to the Court of Appeals for the District of Columbia.

Mr. STOKES. The Chairman has been very lenient and I don't want to extend my time much more. I have just one other question. I will submit any others I have for the record.

HARDSHIP APPLICATIONS FILED

I would like to have you provide for the record the number of landlords in the District of Columbia, and also the number of landlords who file hardship applications with your commission. Then, we can get some indicia of those who are suffering a rate of return less than eight percent?

Mr. SHUMAN. Yes, we can supply that.
[The information follows:]

NUMBER OF APARTMENT BUILDINGS AND COMPLEXES REGISTERED WITH RAO AS OF MID-MAY 1979

Quadrant	Registered rental accommodations ¹		Units		Average number of units per accommodation
	Number	Percent	Number	Percent	
Northwest.....	3,263	38	65,349	58	20.0
Northeast.....	2,428	28	15,064	13	6.2
Southeast.....	2,669	31	26,491	24	9.9
Southwest.....	299	3	5,142	5	17.2
City total.....	8,659	100	112,046	100	12.9

¹ An "accommodation" may be a single building with one or more units or it may be a complex consisting of a number of buildings.
Source: Hank Straus, Program Assistant, D.C. Rental Accommodations Office.

Number of hardship petitions filed by landlords with RAO

Fiscal year 1979.....	479
From Mar. 16, 1978 (when present law took effect) to Dec. 14, 1979.....	656
Between Nov. 1, 1975, and Mar. 15, 1978 (under prior law).....	1325

Mr. WILSON. We have some landlords who will testify and I imagine they will be able to present some of that information also.

Mr. STOKES. Fine.

Mr. WILSON. Mr. Rudd?

Mr. RUDD. Thank you, Mr. Chairman.

I would like to direct my questions to you, Mrs. Kennison, and go through you direct to whomever else might want to answer the questions. If they are not answerable, you can possibly submit the answers for the record.

YEAR RENT CONTROL WENT INTO EFFECT

How long has the rent control law been in effect?

Mrs. KENNISON. Since 1974. There have been three separate acts. We are on the third act now.

Mr. WILSON. What month?

Mrs. KENNISON. August 1974.

Mr. RUDD. Thank you.

COST AND IMPACT OF RENT CONTROL

My concerns in this rent control area are really just two, and the first one has to do with what impact rent control has on your tax base.

I know that studies of rent control experienced in major U.S. cities have shown that rent control depresses the value of rental property, and it is just reasonable and logical that it do that. This means that as the property value is depressed—held down by the rent controls—the tax base of the property is also depressed at the same time, meaning that you have a limited tax base. The experience in New York City, for example, has been that in order to offset the depressed tax base on rental property, they have to raise increased revenue from tax on property of single homeowners and commercial buildings.

The second area of concern for me is what the impact of this rent control law may be on the cost of government administration—the endless tenant and landlord disputes that have to arise from this, and have to be tested in the courts, as you were just pointing out.

For example, I think in New York it costs \$13 million yearly to administer the rent control program, and there were nearly half a million cases in the Housing Court in 1975 there.

[The information follows:]

The Rental Accommodations Office was established by the Rental Accommodations Act of 1975, D.C. Law 1-33. Its first year of operation was FY 1976. The predecessor of the Rental Accommodations Office was the D.C. Housing Rent Commission, which was included in the budget of the Department of Housing and Community Development. The budgets of these two entities are listed below:

[Amount in thousands]

Fiscal year 1975	\$85.0
Fiscal year 1976	143.2
Fiscal year 1977	770.4
Fiscal year 1978	814.0
Fiscal year 1979	837.0
Fiscal year 1980	930.6

PROPERTY VALUE OF RESIDENTIAL AND RENTAL PROPERTIES

Mr. RUDD. The question I have specifically is, can you tell me for the record—you can provide it—what has been the trend in increasing property values of rental and nonrental properties in the District of Columbia before and after the rent control law went into effect in August 1974?

Mrs. KENNISON. Let me defer to the Department of Finance and Revenue.

Mr. RUDD. You may not be able to answer that here. If you can't, just for the record.

Mr. WILSON. Would you restate the question?

Mr. RUDD. Yes, the question is, what has been the trend in increasing property values on rental and nonrental properties in the District of Columbia before and since the rent control law went into effect in August 1974?

Ms. SMITH. I do not have the separation of those two types. I can submit that later for the record.

Mr. RUDD. That will be fine.

Ms. SMITH. But overall there has been an increase in terms of property value.

Mr. WILSON. Mr. Rudd, I think that is probably the most pertinent question that has been asked and I think that probably we should get those figures in real dollars. We should make an inflationary adjustment.

Mr. RUDD. That is a very pertinent observation and I make that request of them.

Thank you, Mr. Chairman.

I have a couple of other quick questions.

Mr. WILSON. Go ahead.

Mr. RUDD. As a part of this overall question, would you provide for the record a table showing the average property value of rental properties in the District, and the value of non-rental properties, and the percentage increase in value each year since 1969? I don't think that can be in real dollars. You can submit that later.

Ms. SMITH. I will provide the information for the record.

[The following information was supplied for the record:]

The information below presents real estate tax base data from tax year 1973 to the present. From 1977 the tax base is broken down into single-family residential, multi-family residential (owners and renters), and commercial properties. 1977 and subsequent years are the only ones for which we have this breakdown.

REAL PROPERTY TAX BASE INFORMATION

<u>Tax Year</u>	<u>Taxable Value</u>	<u>Percentage Change</u>
1973	\$6,608,615,989	---
1974	6,854,501,944	3.7%
1975	7,123,299,148	3.9
1976	7,431,462,487	4.3
1977	8,190,487,182	10.2
1978	9,125,140,126 ^{1/}	11.4
1979	10,685,484,447	17.1
1980 Prelim.	12,365,346,119	15.7

Use Type Breakdown

	<u>Taxable Value</u>	<u>Percent of Total</u>	<u>Percentage Change</u>
<u>1977</u>			
Single Family residential	\$3,761,267,558	45.9%	25.1%
Multi-family residential	1,273,606,523	15.6	(12.7)
Commercial	3,155,613,101	38.5	6.4
Total	\$8,190,487,182	100.0%	10.2%
<u>1978</u>			
Single Family residential	\$4,501,155,052 ^{1/}	49.3%	19.7%
Multi-family residential	1,324,438,519	14.5	4.0
Commercial	3,299,546,555	36.2	4.6
Total	\$9,125,140,126	100.0%	11.4%
<u>1979</u>			
Single Family residential	\$5,472,341,131 ^{1/}	51.2%	17.8%
Multi-family residential	1,435,301,763	12.9	8.4
Commercial	3,831,820,692	35.9	16.1
Total	\$10,685,484,447	100.0%	17.1%
<u>1980 Prelim.</u>			
Single Family residential	\$6,529,801,416	52.8%	19.32%
Multi-family residential	1,562,926,796	12.6	8.89
Commercial	4,272,617,907	34.6	11.50
Total	\$12,365,346,119	100.0%	15.7%

^{1/} Includes \$6,000 homestead value, which was later deducted in computation of real estate taxes.

March, 1979

TOTAL NUMBER OF RENTAL UNITS

Mr. RUDD. Would you also please provide for the record a table showing the total number of rental units in the District of Columbia for each of the five years before rent control went into effect and every year since August 1974?

Ms. SMITH. All right.

[The following information was supplied for the record:]

TABLE SHOWING THE TOTAL NUMBER OF RENTAL UNITS IN THE DISTRICT OF COLUMBIA SINCE 1974

For the period under consideration, the sources of available information on the number of rental units in the District of Columbia are the 1970 Census, the Annual Housing Survey of 1974, the Annual Housing Survey of 1977, and the 1978 estimate of the Department of Housing and Community Development. The Annual Housing Survey of 1977 has yet to be released by the Bureau of the Census.

1970: ¹		
	Renter occupied.....	188,500
	Vacant for rent	10,600
	Total	199,100
1974: ²		
	Renter occupied.....	180,000
	Vacant for rent	8,500
	Total	188,500
1978: ³		
	Estimated rental units.....	175,900

¹ 1980 Census, U.D. Dept. of Commerce, Bureau of the Census.

² 1974 Annual Housing Survey, U.S. Dept. of Commerce, Bureau of the Census.

³ Municipal Automated Geographic Information System (MAGIS), D.C. Department of Housing and Community Development and the Office of Planning and Development.

TRENDS IN NUMBER OF HOUSING UNITS

Mr. RUDD. Thank you. I have another couple of questions.

With the table showing the number of rental units for each year before and after rent control, please provide your explanation for the trend in the number of units, including the number of new rental units, whatever the trend might be.

Ms. SMITH. All right.

[The following information was supplied for the record:]

TRENDS IN RENTAL HOUSING UNITS

Changes in the number of renter and owner occupied housing units in the District of Columbia are directly related to four distinct types of market activity.

1. *Demolition.* During the period from 1974 through 1979, demolition of both single-family and multi-family units declined:

DEMOLITION PERMITS ISSUED IN THE DISTRICT OF COLUMBIA FOR RESIDENTIAL UNITS

Calendar year	Single-family units	Multi-family units
1974.....	470	18
1975.....	343	11
1976.....	273	2
1977.....	171	0
1978.....	218	3
1979.....	126	0

DEMOLITION PERMITS ISSUED IN THE DISTRICT OF COLUMBIA FOR RESIDENTIAL UNITS—
Continued

Calendar year	Single-family units	Multi-family units
Total	1,601	34

Source: Permits Branch, Department of Licenses, Inspections and Investigations, Monthly Raze Reports, 1974-79.

2. *Conversions of rental units to condominium and cooperative ownership.* Based on Data from the Neighborhood Improvement Administration of the Department of Housing and Community Development, 6,596 units of rental housing were converted to either condominium or cooperative during the period from January 1, 1974 through August 30, 1979. Of these conversions, 47% or 3,094 units were located in Ward 3. Ward 2 contained 25% of the conversions with 1,636 units. Wards 1 and 7 both had 13% of the conversions with 854 and 838 units respectively. One hundred fifty three (153) units or 2% of all conversions were in Ward 6. In addition 13 units were converted in Ward 4 and 8 units were converted in Ward 8.

3. *The sale of one to four unit rental structures for owner occupancy.* The Annual Housing Survey of 1974 reported that the District had 29,000 renter occupied single-family homes. An additional 31,200 units in two to four unit structures were also renter occupied. During the period from 1974 through 1979, it is believed that a significant number of these units became owner occupied. This is especially true of the rented single-family homes, to which the bulk of the rented units converted to owner occupancy are attributed. The 1977 Annual Housing Survey has not yet been released by the Bureau of the Census.

4. *New construction.* While the number of new non-subsidized rental units built between 1974 and 1979 is relatively small in comparison to the early 1960's, a significant number of single-family and multi-family units were added to the housing stock.

UNITS BUILT IN SINGLE-FAMILY AND MULTI-FAMILY STRUCTURES BETWEEN 1974 AND
1978

Year	Single-family	Multi-family
1974	1,226	0
1975	306	130
1976	605	1,363
1977	1,007	1,187
1978	1,288	885
Total	4,432	3,565

Source: Metropolitan Washington Council of Governments (COG).

COSTS OF ADMINISTERING RENT CONTROL

Mr. RUDD. What has been the cost of administering the rent control law each year since it went into effect, and can you give me just an estimate on that or not?

Mrs. KENNISON. The cost is from \$800,000 to \$900,000. We are about a million now. We are predicting in 1981 it will be close to a million dollars to administer the act. I should also note we do charge a registration fee of \$2 per unit and we are proposing that that fee be increased to \$10 per unit in order to pay the cost of administering the Rental Housing Act.

Mr. RUDD. I am one of your renters.

Mrs. KENNISON. It will cost you about 87 cents more in your rent.

NUMBER OF LANDLORD-TENANT CASES

Mr. RUDD. I have two additional brief questions. I would also ask that you put this information into the record to nail it down exactly. How many landlord-tenant cases have you had each year, and how many cases have gone through landlord-tenant court?

Do you have those figures readily at hand?

Mr. SHUMAN. I wanted to ask for clarification. Do you want to know how many cases are going to landlord-tenant court or how many cases have been appealed from the commission to the Court of Appeals?

Mr. RUDD. Why don't we have all cases that have gone to landlord-tenant court, and all those that have been appealed. You can separate them.

Mr. SHUMAN. We don't have any data on the number of cases that go to the landlord-tenant court because they may go to landlord-tenant court on issues separate and apart from rent control. There may be some violation of a lease agreement—

Mr. RUDD. I am only interested insofar as whatever figures you may have that come to your attention.

Mr. SHUMAN. Those would be primarily cases that would be appealed from the decision of the Rent Administrator and from the commission to the court.

Mr. RUDD. And the area of jurisdiction if you have some figures on it, the dates of your rentals.

Mr. SHUMAN. All right.

[The following information was supplied for the record:]

*Cases filed with the landlord/tenant branch of D.C. Superior Court, 1974-79
(calendar)*

1974	116,782
1975	120,608
1976	114,408
1977	110,461
1978	107,701
1979	102,497

LANDLORD PETITIONS

Mr. RUDD. The last question I have is: Of the total cases involved, how many have been decided against the landlord and how many in favor of the landlord?

[The following information was supplied for the record:]

LANDLORD PETITIONS

"Between March 21, 1977 and December 31, 1978, landlords filed a total of 1,082 hardship petitions under D.C. Laws 1-33 and 2-54. The petitions affected a total of 24,991 housing units. . . . During this period, final decisions were made on 937 petitions affecting 22,315 housing units. Of the 937 petitions on which decisions were made, 868 were approved, representing 93 percent, and 69 were dismissed (disapproved)"

Source: District of Columbia Rental Accommodations Commission, 1978 Annual Report to the Council of the District of Columbia, Chapter II, An Analysis of Harsh Petitions for Rent Increases Filed under D.C. Laws 1-33 and 2-54, pages 21-22. March, 1978.

During Fiscal Year 1979, October 1, 1978 through September 30, 1979, "data show that a total of 414 petitions were filed citywide, affecting 6,801 rental units, of which 196, or 47.3 percent were approved; 4 were denied; 117 were withdrawn or dismissed; and 97 were pending."

Source: The Unpublished 1979 Annual Report of the Rental Accommodations Commission to the Council of the District of Columbia; Chapter 3, Landlord Hardship Petitions for Rent Increases Filed and Approved During Fiscal Year 1979, Page 3p.B

Mr. RUDD. I thank you for your time, Mr. Chairman.

RENT CONTROL AND PROPERTY TAX BASE

Mr. WILSON. I have one more question. I am very interested in Mr. Rudd's question. Let me see if I can put it this way: Since 1974, has there been a reduction in collected tax dollars as a result of the impact of rent control on the assessible base of apartment properties in the District?

Ms. SMITH. No, there has not been.

Mr. WILSON. Collected.

Ms. SMITH. Collected tax dollars.

Mr. WILSON. When we talk about this, we are talking about Watergate as well as moderate and low income properties.

Mr. RUDD. We are talking about the effect.

Mr. WILSON. Yes. We thank you very much.

Mr. Stokes has another question.

ASSUMPTIONS UNDER RENT CONTROL LAW

Mr. STOKES. I would like to clear up what I think is a bit of confusion with respect to the usage of the term "rent control law." I want you to assume that I own a four-apartment dwelling in the District which I rent to tenants.

Mrs. KENNISON. Four units?

Mr. STOKES. Yes, four units.

Mr. WILSON. That wouldn't be under rent control. It is eight units.

Mr. STOKES. I see.

Assume hypothetically that I own eight suites in an apartment building which I rent. Tell me how your rent control law affects the amount of rent I may charge each tenant.

MORE THAN 8 PERCENT RATE OF RETURN

Mr. SHUMAN. We can put it into several categories.

One, let's assume that at the time the rent control law went into effect that you were receiving much more than an 8 percent rate of return. Let's assume, hypothetically, that at that time that you were receiving a 50 percent rate of return.

Then there would be no need for you to come in to petition for an increase or you would not be eligible to do that. There would be nothing in the law that would bring your rent levels down.

Mr. STOKES. Nor am I required to reduce my rents.

Mr. SHUMAN. You would not be required to reduce your rents.

Let's assume because of an increase in expenses, that hypothetically now you are receiving only a 20 or 25 percent rate of return. You do not have to reduce your rents.

LESS THAN 8 PERCENT RATE OF RETURN

Now, let's assume another situation. Let's assume that you were receiving at the time that the rent control law went into effect an amount less than that. Today let's assume that you are receiving less than an 8 percent rate of return because of inflation and costs.

Then you may petition for an increase that would bring you up to an 8 percent rate of return on the assessed value of your building.

Now, let me add some additional factors into the hypothetical.

Let's assume for the sake of our discussion that the building has an assessed value of a million dollars. And let's assume for the sake of our discussion that including your downpayment and your payments since that time, that your total out-of-pocket investment is, let's say, \$500,000.

Now, in that instance, you would receive or you would be able to get an 8 percent rate of return after your expenses on the million dollars, not the \$500,000 out-of-pocket investment.

NEGATIVE CASH FLOW PETITIONS

Now, let's also assume, then, a third situation. Let's assume that because of many various factors, including financial factors, that the building is producing an 8 percent rate of return, but because of your expenses related to mortgage payments that you may have a negative cash flow. You may come in and petition to get an increase so that you will have a positive cash flow on your building.

AUTOMATIC INCREASE AND RATE OF RETURN

Now, let me go back, because I left one factor out in the first example that I used. Let's assume for sake of discussion that you are presently receiving a 20 percent rate of return due to some historical, for some historical reasons or unique factors about your building.

Last year the landlords were eligible to receive up to a 9.4 percent increase, automatic increase. Now, that related to factors other than the return on the assessed value. That related to their operating cost ratios. And that was an automatic increase.

This year the Commission has also been considering an automatic increase, and will in the near future make some recommendations with respect to that. That would not affect any landlord that we are aware of until some time in June.

But the Commission will make a determination within a matter of days or weeks with respect to that. And so a landlord may be eligible, in spite of the fact that he is receiving already a substantial rate of return on his invested capital, to take that automatic increase, without showing any hardship, without showing he is below an 8 percent rate of return, or without showing that he is experiencing a negative cash flow.

GUARANTEED RATE OF RETURN

Mr. STOKES. You have done an excellent job of explaining your law.

Now, if I understand what you are saying to me, the bottom line is this: If I am an investor and before the law came into effect I was making 50 percent return on my investment, the law does not affect me.

If I am making less than 8 percent return on my investment, the law does affect me by guaranteeing me that I am entitled under your applicable procedure to receive an 8 percent return on my investment. Is that correct?

Mr. SHUMAN. That is correct. Equal to 8 percent of assessed market value, which may be more than your investment.

Mr. STOKES. In essence, your law is a guaranteed rate of return for the investor, isn't it?

Mr. SHUMAN. Well, I wouldn't go quite that far. I don't think it is a guaranteed rate of return. It is a guaranteed opportunity for the rate of return.

One of the problems that we may have is somewhat of a lag. Sometimes a landlord who may be eligible for the increase, may not be aware of that, and I think that is why we have a lot of opposition many times, or they may not prepare their petitions and file.

Or there may be instances where there are code violations existing. Under the law a rent increase cannot go into effect while there are substantial code violations. And part of that, the reason for that, was to induce landlords to fix up their buildings.

Mr. STOKES. I understand those exceptions. But all things being equal regarding this opportunity, I would be entitled to a guaranteed rate of return up to 8 percent on my investment.

Mr. SHUMAN. On the assessed market value.

Mr. STOKES. Thank you.

Mr. SHUMAN. May I just add one additional point.

SUBSTANTIAL REHABILITATION PETITION INCREASE

There is a provision in the law that offers sort of a bonus for landlords to fix up their buildings, and that is a substantial rehabilitation increase.

If the landlord makes a substantial rehabilitation, that is, invests more than what would have been 50 percent of the market value at the time in terms of rehabilitating the property, he can then file a substantial rehabilitation petition and receive a 125 percent increase, up to 125 percent increase in his rent ceiling.

So that is a substantial bonus and an inducement to encourage landlords to repair and fix up their properties.

If I may, I think there is another point that is very important to look at.

EXCLUSION OF NEW CONSTRUCTION FROM RENT CONTROL

When we talk about whether rent control is a deterrent to the housing stock in the District of Columbia, I think it is very impor-

tant to us to note that new constructions are not subject to the rent control law.

Mr. WILSON. Would you yield on that point?

Would it not be a question of anxiety for the investor and for the person he was borrowing money from? Unless this is provided for in the Home Rule Charter, the City Council could easily decide that they wanted to change that provision after the person got his apartment building built, right?

Mr. SHUMAN. Well, I don't think it would be that easy. I am not certain of all the constitutional ramifications of it. But I don't think that that person would be in any different position than a person in a city which has no rent control law and that may be 10 years from now decide to pass a rent control law.

I think that in this environment one should be more comfortable in making that investment because the policy of the law is to encourage an increase in the housing stock. And I think one can assume that the city is operating in good faith and that the builder is operating in good faith, and in his construction, in reliance upon that, and that the city is not going to turn around and do something to undercut that.

LEGISLATIVE HISTORY OF RENT CONTROL

Mr. STOKES. Just one other question, Mr. Chairman.

Who is here today that can give us some understanding of the legislative history of this legislation?

Mr. CHRISTIAN. Mr. Stokes, I can provide you with a general sort of overview of the development and historical background.

I have indicated to Chairman Wilson we will be submitting a formal sort of statement from the Chairman of the Council with respect to the evolution of the legislation and the current status of measures pending in the Council as well.

[CLERK'S NOTE.—The material referred to appears on pp. 12-15.]

Mr. STOKES. If you are going to submit that for the record, I won't ask that we take up time for it now.

Thank you, Mr. Chairman.

Mr. PURSELL. Mr. Chairman?

Mr. WILSON. I yield to Mr. Pursell.

Mr. PURSELL. Just a couple of brief questions. I am not going to get into the pros and cons of rent control.

Mr. WILSON. Do you have it in Ann Arbor?

Mr. PURSELL. We have debated it heavily. I have 86,000 student constituents in my district, so it is a volatile issue.

APPOINTMENT OF COMMISSION MEMBERS

Just from an oversight standpoint, the Mayor appoints the commission members, and you are chairman of that commission?

Mr. SHUMAN. Yes, that is correct.

Mr. PURSELL. Is the appointment subject to confirmation by the Council?

Mr. SHUMAN. That is correct.

EQUITABLE REPRESENTATION OF ALL PARTIES

Mr. PURSELL. Do you feel in your own mind, or whoever might want to comment to the contrary on it, that both tenants and landlords, appropriate investors, have a process for proper representation? Is there fairness on both sides, as in labor-management decisions?

Do the tenants and management-oriented people have the means to have fair hearings and an opportunity to be heard, and is there fair representation of both sides on the commission? And, is there opportunity for expression of all viewpoints?

Mr. SHUMAN. I think there is a fairness in terms of the representation and also the opportunity to be heard. At each stage in the process, both sides may be represented by counsel. We find as a matter of fact that landlords are more often represented by counsel than tenants are.

And it may be just a function of different economic status, or it may be a function of the way in which they see their interests. I don't know the reasons for that. But I know that both sides are frequently represented.

OPEN MEETINGS

Mr. PURSELL. Are all your meetings open.

Mr. SHUMAN. Our hearings are open hearings. Not only are our hearings open hearings, our deliberations are open. And at the time of a hearing we attempt to make a decision at that juncture, and we discuss it.

The procedure in terms of hearings are we allow the moving party before the commission to make an initial statement. Then members of the commission may ask questions. Then we allow the other side to make a statement, and members of the commission may ask questions.

Then the commission will enter into its period of deliberation, during which time the parties or members of the public are all invited to remain present. But they do not participate unless a member of the commission explicitly invites them or asks a question.

ANNOUNCEMENT OF MEETINGS

Mr. PURSELL. Are your meetings announced ahead of time?

Mr. SHUMAN. Yes, sir. Sometimes we may not have a very long announcement—for example, if we have to reschedule a meeting. But they are announced in advance. And we frequently have members of the public, members of the press, that will just come in and sit in at one of the meetings.

HEARING REQUESTED BY TENANT

Mr. PURSELL. So a small tenant who has a problem with codes or other legitimate complaints or concerns can request to be heard before the full body?

Mr. SHUMAN. The process is, first, they might have a hearing before a hearing examiner. They would apply, or express their

grievance or complaint with the Rental Accommodations Office. A hearing examiner would be assigned to hear that case.

And if the person is dissatisfied with the decision of the hearing examiner, the person can then appeal the case to the commission. And at that stage—

Mr. PURSELL. So the commission as a whole, or yourself, determines whether he or she can come before the full commission?

Mr. SHUMAN. No. Generally, the person determines that by making the appeal. However, in some instances cases are heard in panels.

The commission under the law is permitted to hear the case in a panel. However, the panel must be composed of at least one landlord member, one tenant member and one public member. So generally we will have a panel of three that will hear some cases.

The more complex cases are the cases that involve more pervasive issues. We reserve those for the full commission. The full commission will be composed of at least five members, one that must be a landlord, one a tenant, and one a public member.

You may have all, but you must have at least five in order to have a quorum.

FREQUENCY OF COMMISSION MEETINGS

Mr. PURSELL. How often do you meet?

Mr. SHUMAN. It varies. We met anywhere from one to sometimes we have met four times a week. I think that the past year our total number of meetings was well over 100 meetings.

Generally, we meet on Monday nights and Tuesday nights. By nights I mean we start at 6:00, 6:30, and we then will hear approximately three cases. That may take us generally until about 10:00 to 10:30.

We try to cut off at about that time. There have been instances where we have gone beyond that. Sometimes we meet more often. This week we will have three meetings because we are working on regulations.

In the past we have often met on Saturday mornings to work on regulations. But we reserve the evening meetings primarily for hearings on cases.

Mr. PURSELL. Through the chair—is there anybody from tenant groups here that would disagree with that, in terms of fairness?

[No response.]

MAKE-UP OF COMMISSION MEMBERS

How many are appointed that represent both sides? Is it done in a fair and equitable manner?

Mr. SHUMAN. There are three landlord members, three tenant and three public members.

Mr. PURSELL. You represent the public?

Mr. SHUMAN. I am a public member.

Mr. PURSELL. Thank you. I have no further questions, Mr. Chairman.

NEWSPAPER EDITORIAL

Mr. WILSON. At this point, we will place in the record an editorial from the Washington Post entitled "The Trouble With Rent Control."

[The editorial follows:]

[From the Washington Post, Mar. 5, 1979]

THE TROUBLE WITH RENT CONTROL

In 1975, the City Council enacted its first rent-control law. It was a crowd-pleasing move; city officials, desperate to find an easy way to hold down skyrocketing rents, simply imposed a citywide freeze on rent increases. And though they considered it a temporary measure, council members extended it year after year—pressured by vocal constituent groups who saw rent control as a struggle of the "good guys" (tenants) against the "bad guys" (landlords).

Now, four years later, there is ample evidence that rent control is destroying the city's rental-housing market. For one thing, there has been a dramatic decline in the amount of rental housing in town. No new rental units have been built since 1976—and none is currently planned. Realtors are bailing out of the rental business in growing numbers, converting their properties to cooperative or condominium apartments. So great is this transfer that the number of rental units converted in 1978 was *triple* that of 1977. Realtors say that the city's rent freeze forced them out of the business, that they could not keep up with rising costs of such things as utilities—let alone make a profit. Those who remained in the rental market are cutting back on security, building maintenance and other services to make ends meet.

This drop in the amount of housing has, predictably, hit tenants of modest means most severely—the very people rent control was supposed to protect. Not only are those tenants finding their buildings converted out from under them, but the cost of cooperatives and condominiums is so high that few can afford to purchase one. The added pressure of inflation has prompted many tenants to take landlords to court in hope of staving off conversions; others are trying to find rental units elsewhere in town. And a considerable number of those tenants are simply moving out of the city.

What can be done? In fact, city officials have only three choices. They could abruptly abandon rent control—an option that is as unlikely as it would be imprudent. Rents would doubtless soar while conversions increased, resulting in chaos throughout the housing market. Or, officials could simply continue the rent-control system pretty much as it is. No doubt that has appeal to some council members; they would be able to sidestep the city's housing problems while appearing responsive to their constituents. Such action—or, more accurately, inaction—would result in legislation created to avoid political controversy—hardly the kind of law-making that the city needs.

The last choice—and in our view, the best one—is for Mayor Marion Barry and council members to plan the careful phasing out of rent control. They should set a deadline by which the job will be done—in two years, let us say. During that time, abandoned city-owned housing could be renovated; housing codes could be enforced; dilapidated units could be repaired; realtors could be required either to renovate privately owned abandoned houses or, failing that, to sell them to the city. By means of an increase in the amount of housing, rental and otherwise, *all* income groups could have a chance to live in this city. It is a powerful reason for getting rid of rent control.

CONCLUSION OF TESTIMONY FROM CITY OFFICIALS

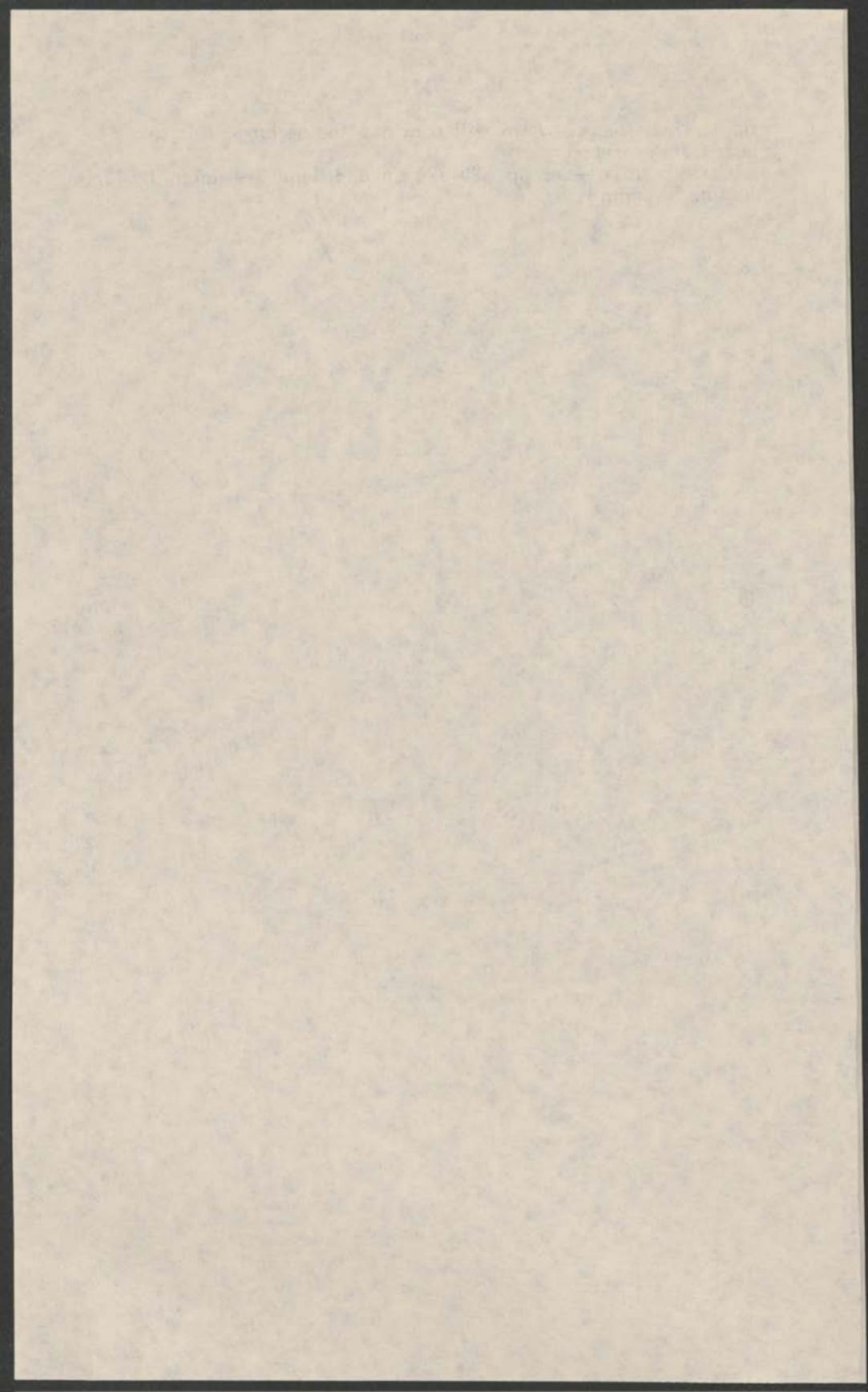
Mr. WILSON. Mrs. Kennison, we want to thank you and your associates very much. There is a lot more interest than I anticipated, so I expect our hearing will continue through tomorrow.

We may ask you to submit other information for the record. You are certainly welcome to stay for the remainder of the proceedings.

Since the basic thrust of the city testimony was in defense of the rent control law and philosophy, we will now hear from some landlord groups. We will continue until about 1:15 if that is all

right. Then tomorrow we will continue for as long as it takes to hear from everybody.

[CLERK'S NOTE.—See pp. 320-324 for additional testimony by Mr. Jerome Shuman.]



TESTIMONY OF CITIZENS AND ORGANIZATIONS OF THE DISTRICT OF COLUMBIA

WEDNESDAY, NOVEMBER 28, 1979.

WITNESS

JOHN T. O'NEILL, EXECUTIVE VICE PRESIDENT, APARTMENT AND OFFICE BUILDING ASSOCIATION OF METROPOLITAN WASHINGTON

Mr. WILSON. Our first outside witness is Mr. John T. O'Neill. Mr. O'Neill is the Executive Vice President of the Apartment and Office Building Association of Metropolitan Washington.

PREPARED STATEMENT

We will place your prepared statement in the record at this point.

[The statement referred to follows:]

Mr. Chairman, I want to thank you for the opportunity to testify on the effect of eight years of rent control in the nation's capital.

My name is John T. O'Neill, Executive Vice President of the Apartment and Office Building Association of Washington, D.C.

AOBA is a regional trade association founded here in 1933, and we are a federated chapter of our national association, the Building Owners and Managers Association. Our members own or operate over 65,000 apartment units and over 29 million square feet of office space in the District of Columbia.

To put this matter into perspective, D.C. landlords have been allowed the following rent increases since August 15, 1971:

1. A 2½-percent increase on month to month tenants in 1972 thru January 1973. Federal Control Phase II.
2. February 1973 thru September 1975, a 12.3 percent increase.
3. September 1975, a 5-percent increase if your rate of return was less than 8 percent.
4. 1978 March, 2-10 percent dependent on utilities provided in rent.
5. 1979, 5 to 9.4 percent dependent on your operating cost ratio to rental income.

Totals maximum—Percent

1972.....	2.5
1973-1975.....	12.3
1975-1977.....	5.0
1978.....	10.0
1979.....	9.4
Total.....	39.2

During this 8-year period, the total rent increase authorized was 39.2 percent, or less than 5 percent per year average change.

The Consumer Price Index went up 88 percent since 1969, heating oil increased from 8¢ per gallon to 90¢ today.

D.C. electric costs have increased over 150 percent, water and sewer charges increased 92 percent, natural gas increased 90 percent, and apartment license fees went up 400 percent.

The long term effect has been to reduce the supply of rental housing over 25,000 units, increase the deterioration of many properties, place over 25 percent of all D.C. rentals in negative cash flow positions. Increased delinquent utility bills to Pepco and Washington Gas to over \$700,000 currently. Forced the City to pay

\$400,000 in outstanding heating bills for apartment properties. Costs over \$1 million to administrate rent control, thousands more in legal services by the Corporation Counsel's Office.

Landlords cannot raise rents, borrow capital for improvements, cannot sell without offering to tenants, cannot convert to other uses.

Hardship rent increase petitions filed with the rent control office average over six months to completion with many cases taking one year or more. Owners must hire accountants to prepare and document two years operating and income statements, then hire attorneys to represent their interests before the hearing examiners and the Rent Commission.

The City Council and the Mayor are paralyzed with fear of political repercussion if they vote to remove rent controls.

The law provides a significant rent subsidy to all tenants in the City regardless of financial need at the expense of property owners.

We estimate that the rent control law provides tenants with \$15 to \$20 million per year in rent subsidies.

It has been estimated by the District Government that there are 20,000 households in the City paying more than 35 percent of income for rental housing. Despite this fact, Title III, the rent subsidy section of the rent control law, has yet to be funded in any amount.

Rent control is diminishing the supply of rental housing, accelerating deterioration reducing property tax yields, has eliminated all sources of private capital for improvements or new construction.

We recommend that this Committee take whatever action is necessary to phase out local rent controls, sales restrictions, condominium moratoriums and speculator taxation.

Vacancy de-control is the most logical and orderly manner to phase out controls over a fixed period of time. This process allows the owner to increase rents to market levels when any tenant voluntarily vacates or is ordered to vacate by the courts.

With a 30 percent annual tenant turnover factor in the District, it would decontrol a substantial number of units in a two or three-year period.

Another method of phase out controls is to decontrol certain types or classes of property at a fixed point in time. Luxury rental decontrol seems to make economic sense, however the debate begins on the selection of rent level to be decontrolled.

A new three-year rent control law will probably be enacted by the City Council during the next few months, as the present law is due to expire September 1, 1980.

We strongly believe that phase out of rent control, using the vacancy de-control process must be accompanied by funding local rent subsidies for needy families and elderly households on fixed income.

A rent subsidy amount of \$50.00 to \$65.00 per month to households with incomes of \$10,000 or less would materially improve their ability to pay today's housing cost.

This program, if funded, could be administered by existing D.C. agencies, providing federal rental assistance or administering public housing. We do not believe that tenants presently receiving public assistance or rent subsidies under Section 8 should be eligible for local assistance.

We do not believe our elected officials will take the initiative to rid the City of its housing problems; therefore, we urge your Committee, in the interest of the economic well-being of the City, to assist the City in resolving these critical matters.

I will be happy to answer any questions you may have.

GENERAL STATEMENT

Mr. O'NEILL. Mr. Chairman, I wish to thank you for the opportunity to testify on the effect of eight years of rent control in the nation's capital.

My name is John T. O'Neill, Executive Vice President of the Apartment and Office Building Association of Washington, D.C.

AOBA is a regional trade association founded here in 1933, and we are a federated chapter of our national association, the Building Owners and Managers Association. Our members own or operate over 65,000 apartment units and over 29 million square feet of office space in the District of Columbia.

RENT CONTROL IN EFFECT SINCE 1971

To put this matter into perspective I think one needs to go back into the beginning and look at the allowed rent increases since August 15, 1971.

Mr. WILSON. Excuse me. There has been rent control in effect since—

Mr. O'NEILL. August 15, 1971.

Mr. WILSON. That is at variance with earlier testimony.

Mr. O'NEILL. Phase one of federal rent and price controls began on August 15, 1971, and it froze all prices and rents through January of 1972. Then phase two came into effect. We start there with a 2½ percent rent increase granted under the Federal Wage and Price Control Administration in 1972, and the law was abandoned in January 1973.

RENTS ROLLED BACK

While the District of Columbia enacted its rent control law on August 1, 1974, they rolled back rents to February 1973 levels, so that the continuation of Federal control, local control, was not interrupted.

RENT INCREASES ALLOWED UNDER RENT CONTROL

To go to the point that Mr. Stokes raised earlier, if you had raised your rents in August 1974 higher than 12.3 percent over the February 1, rent level, they had to be rolled back or reduced to the 12.3 maximum level on August 1974.

Then in 1975 we got another rent increase from the law, a 5 percent increase in rent, if your rate of return was less than 8 percent. If you had a rate of return of more than 8 percent at that time, you were not allowed the 5 percent increase in 1975.

There were no increases granted under the law in 1976 or 1977 except through the hardship petition procedure.

In 1978 the law allowed a 2 to 10 percent rent increase to landlords, depending on the utilities you provided in the rent, if you provided all utilities and air conditioning you were allowed the maximum of 10 percent.

If you provided all utilities and no air conditioning it was 9 percent, and it was a graduated scale on down to 2 percent, if the landlord paid none of the utilities.

In 1979 we were allowed somewhere between a 5 to 9.4 percent increase in rents depending on the operating cost ratio to income of the property.

The average in the city at that time, I believe, was 60 percent of operating expense to income. You could get the 9.4 if you were at that level. If you were below that level, you got progressively less, down a sliding scale.

INCREASES IN RENTS VERSUS OPERATING COSTS

Taking the eight years as a total, and looking at the allowed increases under these laws of the various rent control laws, there have been three of them—1972, 2.5; 1973 to 1975, 12.3; 1975 to 1977,

5 percent; maximum allowed 1978, 10 percent; 1979, 9.4 percent, a total of 39.2 percent allowed rent increase under rent control in the District of Columbia in eight years, or less than 5 percent per year annual change.

During the period 1969 to present the Consumer Price Index has gone up 88 percent, heating oil costs went from 8 cents a gallon to 90 cents a gallon today, over a 400 percent increase.

D.C. electric costs have increased over 150 percent since we started rent control, water and sewer charges increased 92 percent, natural gas costs increased 90 percent, and apartment license fees, a particular insult, went up 400 percent.

EFFECTS OF RENT INCREASES

The long-term effect of these unreasonably low rental rent increases has been to reduce the supply of rental housing over 25,000 units. It has accelerated deterioration of many properties, and it has placed over 25 percent of all the District rental properties in negative cash flow.

Mr. PURSELL. What do you mean over 25,000 units?

Mr. O'NEILL. Lost, since we began rent control—

Mr. PURSELL. A loss of 25,000 units in the eight-year period?

Mr. O'NEILL. That is correct.

Mr. WILSON. Are those condominium conversions or abandoned buildings?

Mr. O'NEILL. Some are condominium conversions. Some are conversions to apartment hotels. Some of them are absolutely outright changes to single family residences, and others straight out abandonments and boarded up buildings in the city.

At First and New York Avenue we have been looking at 200 units for six or seven years that nobody would spend any money on to bring them back on the market. They have been boarded up for years.

BUILDINGS EXEMPT FROM RENT CONTROL

Mr. WILSON. I hate to interrupt, but we are getting to the heart of the problem here.

Now, the previous testimony has been that a new building, a new apartment building is exempt from rent control. If you take an abandoned building and restore it, is it exempt or not?

Mr. O'NEILL. Yes, if it has been off the rent control market for a period of over one year. In other words, if it has not been in rental use for over one year, and is restored, it is exempt from rent control.

Mr. WILSON. Thank you.

STUDY RECOMMENDED ELIMINATING RENT CONTROL PROGRAM

Mr. O'NEILL. The 25 percent of rental properties which have negative cash flow was found in a study done for the city by the Development Economics Group, for which the city paid \$50,000 to do this study, and the study recommended very strongly at that time, back in 1977 that they eliminate the rent control program or

they will eliminate the rental housing. They didn't like the result, so they ignored the study.

DELINQUENT UTILITY PAYMENTS

To put the condition of the rental housing industry in some further perspective, Pepco and Washington Gas reported to the City Council three months ago that there were approximately 100 master meter apartment properties in the District of Columbia who were delinquent in their utility bills to the tune of over \$700,000.

The city's response—they banned the shutoff of utilities for non-payment of bills. They did not conduct, as we called for, an investigation of the 100 properties to determine why they could not pay their utility bills.

No investigation as of this date has been undertaken to understand why these properties are in such distress, or whether the landlords are all fraudulent crooks stealing the money and going to the Bahamas.

In 1979 and 1978 the city was forced to pay out of its 513 funds \$400,000 in unpaid fuel oil and heating bills for various properties in the District of Columbia owned by private sector landlords who could not pay their bills, could not assure continuation of heat in those buildings.

The city paid over \$400,000 for heating oil for landlords in the District of Columbia. So the great shape we are all in is certainly not evident.

COSTS OF ADMINISTERING AND PREPARING RENT CONTROL LAW

It cost over \$1 million a year to administer the rent control law, although it is only budgeted at \$850,000. There is no way to determine the number of CETA employees and others who have been assigned to that shop from other agencies of the D.C. Government.

Secondly, there is no estimate of the cost of the Corporation Counsel's office to provide legal services to this agency. They are many.

The landlords, of course, are challenging the law constantly in the courts. The Corporation Counsel must represent the city in all of these cases that go up on appeal to the D.C. Court of Appeals.

We have no idea what it is costing the city to defend the rent control law in the various challenges that have gone against it.

Landlords in this city cannot raise rents without authority directly from this office.

POLICY OF LENDING INSTITUTIONS

Landlords cannot borrow money for capital improvements. The lenders of the city will not make loans on rent controlled properties because they are certain that there is no ability to repay the borrowed capital.

Mr. WILSON. Is that a policy with all the lending institutions?

Mr. O'NEILL. That is correct.

Mr. WILSON. Is it a written policy?

Mr. O'NEILL. No, sir. There have been public statements by Thomas Owens of Perpetual Savings and Loan that they will not

make loans on rent control properties. Others have made those kinds of statements public and private to the council.

RESTRICTIONS ON SELLING RENTAL PROPERTIES

We cannot sell our properties first without offering them to the tenancies. Regardless of the fact that the economic level of the tenancies may make it impossible for them to even purchase the property, you must give them 180 days first right of refusal, or the right to match any offer that is made on your property for purchase.

Of course, now you cannot even convert it to other uses because of the moratorium on condominium conversions and the moratorium on conversion to apartment hotel or any other use.

I heard a rumor last week that there was a bill going around to be probably introduced in the District City Council to somehow or other try to force landlords to stay in the rental business.

BACKLOGS IN HARDSHIP RENT INCREASE PETITIONS

Hardship rent increase petitions, which was a favorite topic here a little while ago, filed with the Rent Control Office average over six months to completion with many cases taking one year or more to final resolution.

There is a substantial backlog of cases in the office, on a constant basis.

Owners must hire an accountant, first of all, to prepare a hardship petition because you must prepare two years' past history of operating costs and income, and documentation for every dollar you claim as an expense.

That is a rather large undertaking. When you file a petition for hardship rent increase, it is generally a stack about two inches high of paper, and every tenant is entitled to a copy of that paper.

I have seen hardship petitions on 100-unit buildings delivered with a truck to the Rental Accommodations Office.

Secondly, the owner must hire an attorney to represent his legal interests before hearing examiners and rent commissioners.

COSTS TO FILE HARDSHIP PETITION

We have estimated conservatively that it costs somewhere between \$5,000 and \$10,000 in out-of-pocket costs to prepare and to file a hardship petition. It is based retroactively on expenses incurred.

Of course if you file a petition today, you would get an answer sometime in late 1980, and by then your expenses have changed again, so the guarantee of a rate of return is never there because there is always that time lag of at least one year.

POLITICAL ASPECTS OF RENT CONTROL

The City Council and the Mayor are paralyzed with fear of political repercussions if they vote to remove rent controls, although they are fully aware that rent control is having a deleterious effect on the rental providers of the city.

RENT SUBSIDIES THROUGH RENT CONTROL LAW

The law provides a significant rent subsidy to all tenants in the city regardless of their financial need at the expense of property and property owners. We estimate that the rent control law provides tenants with \$15 million to \$20 million per year in rent subsidies, which obviously takes the city off the hook in funding rent subsidies out of its own budget.

It has been estimated by the District Government that there are 20,000 households in the city paying more than 35 percent of income for rental housing. Despite this fact, Title III, the rent subsidy section of the rent control law, has yet to be funded in any amount.

The amount of \$1 million that has been put in the budget for fiscal year 1981, and I believe a similar amount in fiscal year 1980, is simply start-up cost and will provide no rent subsidy dollars to anyone from the estimations we have had from the Department of Housing and Economic Development.

Rent control is surely diminishing the supply of rental housing. It is also accelerating the deterioration of rental property despite the fact that you were told that the quality of rental housing is improving.

HARDSHIP PETITIONS CONTESTED BY TENANTS

The rent administrator well knows that every hardship petition filed is contested by the tenants in every instance with claims of deterioration and trouble in their housing—the building is in disrepair.

Every case is contested by the tenants claiming code violations and deterioration of housing conditions. I don't know how they can possibly say that there is an increase in the quality of the rental housing stock in the District of Columbia.

Also, the Department of License and Inspection can easily provide you with documentation on the increased citations for code violations since the rent control law started.

DEFERRED MAINTENANCE

Also, the Rent Control Office itself could very well tell you their own annual studies of operating costs definitely show that landlords are spending less money now for maintenance and repairs than they were spending in 1973, per room, per dollar of rent collected, or any other way you want to measure it.

There is less money being spent for maintenance and repair. There is more and more deferred maintenance.

If you happen to be in the unfortunate position of needing a new roof on your rental building in the District of Columbia, a roof on a 20-unit building will cost \$15,000. If you don't have the capital, you cannot borrow it. If you could borrow the capital, you would not be able to raise the rent to repay the capital without permission from the rent administrator.

The rent administrator has to determine that the capital improvement is in the interest of the tenants and approve the plans and the cost before the improvement is undertaken. The maximum

that they could give you as a rent increase on a capital improvement is a 10 percent rent change.

On substantial rehabilitation, which was brought up by Dr. Shuman, I would like to ask the rent administrator to provide you with documentation on how many landlords have come in and filed for a 125 percent increase on their substantial rehabilitation, and how many landlords have filed petitions for capital improvement rent increases.

That will be very revealing documentation because I believe there are hardly any in the four or five years that they have been administering this law.

RENT CONTROL AND PROPERTY TAX YIELDS

Rent control has reduced the property tax yields regardless of what the assessor said to you earlier. The assessment base has been declining. It has been declining by losses of rental stock, and the increases in assessments on apartments are extremely low whenever there are increases.

The increases are apparent in Ward 3, in the upper northwest corridors, where they are having increases in assessments on apartments, and diminishing all through southeast and southwest. There are less property tax dollars being collected.

GROSS RECEIPTS TAX

There is also another tax that landlords pay, and that is a residents and professional license tax. It is essentially based on gross receipts. I would like to know the yield on those and the decline in that tax revenue source. We haven't been able to get that information ourselves, Mr. Chairman.

They recommended that this committee take whatever action is necessary to phase out local rent controls—sales restrictions, condominium moratoriums, and speculator taxations.

AVERAGE AGE OF RENTAL PROPERTY

The average age of the property in the District of Columbia is 37 years old, and 37-year-old buildings need infusions of new capital constantly to keep them habitable and in good condition. We cannot attract capital from anywhere for District of Columbia rental stock.

PHASEOUT THROUGH VACANCY DECONTROL

Vacancy decontrol is the most logical way and orderly manner in which to phase out controls over a fixed period of time. This process would allow the owner to increase rents to market levels when any tenant voluntarily vacated his unit or is ordered to vacate by courts for nonpayment of rent.

NONPAYMENT OF RENT

Now, that is another factor that is never taken into consideration in the condition of rental stock of the District of Columbia. We

file 120,000 cases a year for nonpayment of rent in the City of Washington, D.C., 10,000 cases a month.

The average case costs the landlord three month's rent loss before he is receiving any court service or marshal service. He is losing three month's rent on every case.

In most cases, the better tenants in the building who pay their rent are suffering the consequences of those who do not fulfill their rental obligation. That is having a serious economic effect on rental supply as well as rent control.

TURNOVER RATE AND DECONTROL

With the 30 percent annual turnover rate in the District of Columbia—and this is where tenants vacate and new tenants move in, and they go in and out—it would decontrol over a three-year period a substantial number of rental units.

DECONTROL BY CLASS OF PROPERTY

Another method, of course, to phase out rent controls would be to decontrol certain types or classes of property at a fixed point in time.

At one time we were opposed to allowing four unit owners out from under the rent control law. But we finally supported letting them out from under this law because of its onerous provisions, particularly on small owners.

Luxury decontrol is another method that has been mentioned as a way of taking rent control off a portion of the rental stock where the occupants have the economic capability of paying the real cost of housing.

Luxury decontrol seems to make economic sense. However, the debate begins when we talk about the selection of the rent level to be decontrolled. Some people think that luxury is \$700. Some people think luxury is \$300. So, there is a great debate over that.

NEW RENT CONTROL LAW

A new three-year rent control law will be enacted by the D.C. City Council during the next few months because I am sure they don't want to be equating this subject during their elections next year. The present law expires September 30, 1980.

RENT SUBSIDIES

We strongly believe that phase-out of rent control using the vacancy decontrol process must be accompanied at the same time by funding of local rent subsidies for needy families and elderly households on fixed income.

A rent subsidy amount of \$50 to \$65 per month to households with less than \$10,000 income would materially improve their ability to pay today's housing costs.

Now, this program, if funded, could be administered by existing D.C. agencies, including the federal Rental Assistance Office administering Section 8, for example, in the District Government, or

the office administering the 12,000 or so public housing units in the District of Columbia.

They qualify people all the time for housing assistance in two agencies of the D.C. Government. So, I don't see that there would be any significant increase in cost in the administrative program to either one of those offices.

We do not believe that tenants presently receiving public assistance or rent subsidies under Section 8 or federal programs should be eligible for this local assistance. We believe this assistance should go to working poor families.

COMMITTEE ACTION URGED

We do not believe our elected officials will take the initiative to rid the city of its housing problems. Therefore, we urge your committee in the interest of the economic well being of the city to assist the city in resolving these critical matters.

If I might, Mr. Chairman, a couple of points were brought up by the government witnesses that I would like to do some clarifying on.

RESPONSE TO PREVIOUS TESTIMONY

Mrs. Kennison stated that the condominium conversions were displacing low and moderate income tenants. That is totally false.

First of all, by their own design the city designed a law which allowed only upper and middle income buildings to convert. They set rent levels above those of the Section 8 levels of the federal housing program.

Mr. WILSON. What level is that?

Mr. O'NEILL. \$221 on an efficiency per month, \$265-\$270 on a one-bedroom, and over \$300 on a two-bedroom.

Mr. WILSON. Does that mean that under the present condominium freeze, if the rent is higher than those figures, you can convert to condominium?

Mr. O'NEILL. No, not with the moratorium. But before they imposed moratorium, they were allowing buildings to convert that had the higher rent levels. So the better buildings and the upper rental income buildings of the city were those converting.

In fact, a study done of 1,000 conversion units in March 1978 by Development Economics Group showed the average household income in 1,000 converted units was \$25,000. They were all found in the Ward 3 corridor, Connecticut Avenue, Wisconsin Avenue. There were no displacements of low and moderate income tenants.

She said that the research on the registration and the exemption forms filed in the city needs to be done. They do have a wealth of data. I am not sure they are interested in research of the data because the data will show that the rental housing industry is in dire straits—if they finally do research the data.

COMPOSITION OF RENT COMMISSION

The commission itself is supposed to be made up of three tenant members, three public members, and three landlord members. Un-

fortunately, the public members are not always unbiased against apartment owners.

In fact, we have asked the Mayor repeatedly to remove Dr. Shuman from the chairmanship of that commission because he is so absolutely prejudiced and biased against landlords. He is like a fourth tenant member there.

We are absolutely opposed to his reappointment when his term expires. It is not a good forum for equity.

We have favored a replacement of the commission with three attorneys who do not own rental housing or do not represent any particular interest, but a quasi judicial body that would hear cases, if we are to continue with rent control.

DECREASE IN APARTMENT LICENSES

In 1973 the city was issuing 12,500 apartment licenses every year; that is, a license for a building, four units or more, is required in the District of Columbia.

In 1979 they issued 8,300 apartment licenses. I have asked the question repeatedly of all the public agencies where did the 4,000 apartment licenses go, or where did the 4,000 buildings go. No one can tell me the answer.

MEDIAN RENTAL INCOME IN 1974

Mrs. Kennison stated that tenants were doubling up in the city and they cannot pay the rent. In 1974 the Census update showed the median rental income or the rent level in the District of Columbia was \$180, including utilities, in 60 percent of the properties, not a high rent by any standard in 1974.

MORTGAGE PAYMENT EXCLUDED FROM 8 PERCENT FORMULA

The 8 percent rate of return formula was explained in great detail and how beneficial it was to landlords. If Mr. Stokes had bought his building since the imposition of rent control and had a mortgage on that building which required a \$1,000 per month mortgage payment to the lender, you would not be allowed to use the \$1,000 mortgage payment as an expense against your 8 percent rate of return.

So it discounts in most cases 35 to 50 percent of your expense of operating or providing rental housing your debt service.

Mr. WILSON. Would you go through that again?

Mr. O'NEILL. The 8 percent rate of return does not allow any expense for debt service, new or old. If you have a mortgage payment, that is tough. That expense is discounted completely in calculating your rate of return.

Rate of return is a misnomer at 8 percent because it does not include all of the expense of providing rental housing. If there is any debt on the property, that debt is not allowed as an expense in calculating your rate of return.

Mr. WILSON. Are you supposed to just take petty cash when you build an apartment building?

Mr. O'NEILL. It ignores the fact that you have to send the lender every month a certain amount of money because if you don't they

will foreclose on you. They won't even give you credit for the interest on that portion of the payment, let alone the principal portion.

I think the principal portion is questionable as an expense because that is a principal reduction. But the interest on that debt is an expense to the property provider. It is totally discounted in all this formula.

So, the 8 percent rate of return is not 8 percent. It is probably more like 5 percent. If they do a study of all the registration statements, every landlord is required to calculate his rate of return on the front of his registration form, they could quickly tell you that the average rate of return is below 8 percent, and hopefully you will hear from a lot of landlords today who will tell you about their rate of return. In most cases, zero.

Tell some of these small landlords how he is going to get together \$5,000 or \$6,000 and hire an accountant and attorney to go fight for a rent increase. The 8 percent rate of return formula.

NEGATIVE CASH FLOW

Then Dr. Shuman went into great detail about explaining to you if you were in negative cash flow, because you considered debt service finally, and you are in negative cash flow, you are entitled to a rent increase to bring you up to a positive cash flow of 1 percent.

So you can be in negative cash flow, and be entitled to a rent increase, but all you can get is enough to give you a 1 percent positive cash flow.

Mr. STOKES. Mr. Chairman, may I ask an additional question. What does the law say in that respect?

Mr. O'NEILL. That is what the law says. 1 percent positive cash flow in negative cash flow petitions.

Mr. STOKES. What did Dr. Shuman say?

Mr. O'NEILL. He said they would bring you to a positive cash flow, but he did not tell you it is 1 percent. I think 1 percent is absurd as a rate of return on anything. At least the investor community feels that way, Mr. Stokes.

That is not a rate of return that anyone is interested in. No capital formators I know are interested in 1 percent rate of return. You can make more money in a CD deposit, or a passbook savings account, than you can on that basis.

There was, as I mentioned earlier, a rent rollback if your rents on August 1974 were higher than 12.3 over February 1973.

REHABILITATION AND CAPITAL IMPROVEMENT INCREASES UNKNOWN

Again, I would like to ask how many substantial rehabilitation increases have been granted and how many capital improvement increases have been requested by landlords under their law.

The law does not work. It is too cumbersome. It takes too long.

DELAYS IN ACTING ON HARDSHIP PETITIONS

The law says they are supposed to give us an answer on a hardship petition in 90 days. They do never give you an answer in

90 days. You are lucky if you get an answer in six months or one year.

By then all of your expenses have changed once again so that you could turn right around and file another hardship petition when you get the answer, if they would let you. But you cannot file a hardship petition until they tell you the time is ripe—"now you can file."

You can take an automatic increase and still be in negative cash flow and ask to file a hardship petition. They say no, you must wait six months before you can file a hardship petition, even though you are losing money.

That is the end of my remarks. I would be happy to answer any questions you might have.

Mr. WILSON. Mr. O'Neill, I have one question.

EFFECT OF RENT CONTROL ON PROPERTY TAXES

I am curious to know if your association would be able to furnish us with—maybe it is impossible, maybe it is too subjective—but would it be possible to make any sort of an estimate as to your judgment of how much the rent control law has cost the District of Columbia in property taxes?

Mr. O'NEILL. We did a study two years ago showing a net loss of \$5 million a year. I don't know what that situation is now. That was two years ago. I do have that study, and it was based on the assessor's data.

[CLERK'S NOTE.—Additional information on this subject appears on pp. 248-249.]

COST OF RENT SUBSIDY PROGRAM

Mr. WILSON. Do you have any estimate of what the rent subsidy program that you recommended would cost? I believe it might have been in your testimony.

Mr. O'NEILL. Yes. Somewhere between \$10 million and \$12 million a year.

Mr. WILSON. Those are all the questions I have.

Mr. Natcher?

IMMEDIATE EFFECT OF ABOLISHING RENT CONTROL

Mr. NATCHER. Mr. O'Neill, assume that on Monday of next week we had no rent control in the City of Washington. What changes would we have?

Mr. O'NEILL. I imagine that rents would probably go up equal to the rate of inflation currently being experienced in the economy, somewhere between 10 and 12 percent.

Mr. NATCHER. Would elimination of rent control bring any people back into the City of Washington?

Mr. O'NEILL. I think they are coming, anyway.

Mr. NATCHER. Coming back?

Mr. O'NEILL. Yes.

INTERCITY AREAS

Mr. NATCHER. Now, Mr. O'Neill, you know this. In the innercity areas of Detroit, San Francisco, and all large cities, people are moving out. The census next year will show that people are moving out of the inner section of large cities—cities that don't have rent control. What is causing these people to move out, Mr. O'Neill?

Mr. O'NEILL. People are moving for various reasons.

Mr. NATCHER. What would be one of the major reasons?

Mr. O'NEILL. Well, at one time in this city the city was not considered a safe place to live. Another major reason for people not wanting to come to the city is that the school system is terrible, and people cannot be assured of a quality education for their children.

Now, that is a major factor in attracting families to cities. The cities are becoming a place of single people and young adults, couples without children. That is what the cities are becoming because they have not been places for family raising.

Mr. NATCHER. Mr. O'Neill, when I was chairman of this committee I had something to do with the police department. Everyone in the City of Washington will tell you that. We built it up to about 5,100 officers—percentagewise, one of the largest police departments in the United States.

Mr. O'NEILL. That is correct.

Mr. NATCHER. We decreased crime somewhat. We said we ought to have police officers walking the beats on the streets. Let the people see them. We continue losing people regardless of that, Mr. O'Neill.

Take your Census of 1960, your Census of 1970, the Census next year—and you would agree with this—it is going to be under 660,000.

Mr. O'NEILL. That is correct.

IMPACT OF RENT CONTROL ON POPULATION LOSS

Mr. NATCHER. When you talk about rent control, what example can you give me of a city that does not have rent control where you don't have a similar situation from the standpoint of loss of people in that city? Can you name a city?

Mr. O'NEILL. Yes, Los Angeles, California.

Mr. NATCHER. Are you sure about that?

Mr. O'NEILL. Houston, Texas.

Mr. NATCHER. You are sure about that?

Mr. O'NEILL. Yes, sir. Houston, Texas, Dallas-Fort Worth, Los Angeles, San Francisco are all experiencing in-migration, gains in population constantly.

Mr. NATCHER. No rent control in any of those cities?

Mr. O'NEILL. Oh, yes. There is rent control in Los Angeles today. It was incorporated the last four months, been there four months. There will be a change.

Mr. WILSON. What about San Francisco?

Mr. O'NEILL. San Francisco has now incorporated a rent control law.

Mr. NATCHER. You say there will be a change. What kind of change?

Mr. O'NEILL. I believe there will be a loss in the number of dwelling units and an out-migration. Because everything is going to be for sale. What we are doing is we are ignoring, I think, the most serious crisis in America, and that is the rental housing industry demise.

We can no longer provide rental housing and make a profit sufficient to attract capital. That is the most ignored crisis in America. Rent control only exacerbates the problems the rental housing industry has.

We cannot build new rental housing because the cost is \$60 a square foot. We can build it, but it is only available to very high income people. I am talking about rents above \$400, \$500 a month plus utilities—if you build a building today.

Now, all we do with rent control exacerbates that situation. The converters of America can only prosper because there are landlords ready willing and in a great hurry to sell them their buildings and get out of the rental business. That is because they are not making an adequate rate of return.

RENT CONTROL IN WASHINGTON, D.C., VERSUS OTHER CITIES

Mr. NATCHER. Mr. O'Neill, do you see any difference between the City of Washington and any other city from the standpoint of the necessity of having rent control? This is our nation's capital. In other words, a lot of people here work for the government. There is no heavy industry, no smokestacks. Is there any difference between the City of Washington and any other city from the standpoint of needing rent control?

Mr. O'NEILL. No, sir.

Mr. NATCHER. Thank you, Mr. Chairman.

Mr. WILSON. Mr. Pursell?

RESTRUCTURING OF RENTAL ACCOMMODATIONS COMMISSION

Mr. PURSELL. If you had an opportunity to restructure the Rental Accommodations Commission to be representative of both landlords and tenants fairly, how would you propose that? You are somewhat critical of its make-up.

Mr. O'NEILL. Yes. We would favor probably the employment of three attorneys to sit as essentially a quasi official judicial body, to hear cases as opposed to having the landlord-tenant factions competing with the vote for the public members, who are the swing votes in every instance.

Mr. PURSELL. The three public representatives represent the balance of power there? Are the three landlord representatives and tenants always in disagreement on negotiations?

Mr. O'NEILL. Generally speaking. They sometimes vote with each other, but generally speaking they are on opposite sides of the issue. The public members should be neutrals and true neutrals, but they are not. It is very difficult to find a true neutral.

Mr. PURSELL. Why do you think three attorneys would be any different?

Mr. O'NEILL. Because they would have to conduct hearings on a proper basis. If you are going to conduct evidentiary hearings there are rules of procedure, there are rules of evidence, there are fact-

finding methodologies that are established in law. People are trained for that purpose.

Mr. PURSELL. But doesn't the commission have counsel there present in terms of legitimate process?

Mr. O'NEILL. The hearings are conducted on a parliamentary basis.

Mr. PURSELL. Does the commission, when it is in open meeting, formally constructed as a commission, have an attorney present from the Corporation Counsel's staff?

Mr. O'NEILL. There is a staff attorney assigned, yes, sir. For example, consistently in hardship cases new evidence is allowed to be presented before the commission—when in fact they are hearing an appeal from an administrative ruling by a hearing examiner.

The rules of evidence are clear. What was presented in that case is what we now judge on appeal. We don't bring any new evidence. You don't allow any hearsay to be brought into hearings. You allow fact. That is not the case in Rent Control Commission hearings.

Mr. PURSELL. You think three attorneys will make a difference?

Mr. O'NEILL. I would think it would be an improvement. It might help to eliminate all this factionization between tenants and landlords, and get them out of this picture. It is very hard for a landlord or a tenant to be unbiased when they are sitting and hearing a case. Very hard for them to be impartial.

Mr. PURSELL. I guess those of us in legislative bodies tend to at least try to keep an open mind and be conciliatory towards the other point of view so that we can have a spirit of constructive problem solving.

Tenants and landlords both have a stake in the economy and in the future of the Washington, D.C. community. To take a continually biased position, one point of view or the other, would be counterproductive, in my opinion, to the future of the city.

INTERPRETATION OF LAW BY RENT COMMISSION

Mr. O'NEILL. That is right. To bring it into perspective, there was a provision placed in our rent control law that said if the landlord and 70 percent of his tenants could agree, they could agree to a rent increase, if they could agree, in writing.

The Rent Commission interjected itself into that process. The law clearly states that if 70 percent of the tenants agree, the landlord may incorporate the increase on 100 percent of the property. That is what the law says.

The Commission's interpretation is that the 70 percent of the tenants can get the increase, but the 30 percent who didn't sign don't get the increase.

That is an interpretation clearly outside the intent of the law because I know who made the amendment on the D.C. City Council, Nadine Winter, and the concept was very clear that if the landlord could work it out with his tenants, that the increase should be allowed to go into effect.

That was the intent, and that was the law, but the interpretation is different in the commission.

Mr. PURSELL. So in your opinion, the Commission does not represent the total best interests of the community as a whole, because of the very hard lines of demarcation.

Mr. O'NEILL. The demarcation is too great.

Mr. WILSON. Mr. Stokes.

CLARIFICATION OF RESPONSE TO EARLIER TESTIMONY

Mr. STOKES. Thank you, Mr. Chairman.

Mr. O'NEILL, in interpreting your remarks relative to those of Mrs. Kennison and Dr. Shuman, you do not want me to have the impression that they testified falsely before this committee, do you?

Mr. O'NEILL. I would say that a statement that condominium conversions were displacing low-income people is false.

Mr. STOKES. Anything else?

Mr. O'NEILL. I would say the 8-percent-rate-of-return explanation did not give you all the facts. I think the negative-cash-flow interpretation did not give you the facts as to what the real result was in the end for the landlord.

The statement that the quality of housing conditions has improved in the District of Columbia is totally false. The Licensing and Inspection Division can give you ample evidence that there is an increase in citations for code violations every year.

The tenants themselves as they come before these hearing bodies consistently use the same defense: "The place is falling down." For them to make these statements when they hear these tenants every week complaining about their housing conditions as a defense against granting another increase to the landlord and to say the condition of the rental stock is improving—I leave that judgment up to you, Mr. Stokes.

MEMBERSHIP OF ORGANIZATION

Mr. STOKES. You testified that persons in your organization either own or operate 65,000 units. Is that correct?

Mr. O'NEILL. Yes, sir.

Mr. STOKES. How many owners-operators are we talking about?

Mr. O'NEILL. We have a little over 1,100 members ranging from those who own 9 units to 2,000 of various sizes. We represent about 50 percent of the total rental units in the city, those of four units or better.

HARDSHIP PETITIONS FILED

Mr. STOKES. Would you tell me the number of those persons either owning or operating those units that have filed hardship applications or petitions with the Commission?

Mr. O'NEILL. The volume has been approximately 500 to 800 cases per year, approximately.

Mr. STOKES. In terms of increases granted as a result of the petitions, would you give us some idea of the percentage the Commission has granted?

Mr. O'NEILL. The majority are granted either in whole or in part. The evidence is relatively clear in most cases that there is a justifiable need.

Mr. STOKES. It would follow also that the Commission has been relatively responsive to such petitions that have been filed?

Mr. O'NEILL. Except to use dilatory tactics and try to delay and delay and remand back to the hearing examiner and stretch out the process and nit-pick the expense.

Mr. STOKES. What percentage of the cases are appealed by the owner-operators?

Mr. O'NEILL. I do not know the percentage being appealed to the D.C. Court of Appeals.

Mr. STOKES. It would have to be a relatively small number if we take your prior testimony into consideration.

Mr. O'NEILL. Yes.

INCREASE IN CODE VIOLATIONS

Mr. STOKES. You indicate there has been an increase in code violations since the rent-control law went into effect?

Mr. O'NEILL. Yes.

Mr. STOKES. Would you explain the relationship between the rent law and code violations?

Mr. O'NEILL. When your rental income is limited or set and your expenses are uncontrolled, you make decisions about where you are going to spend money. The first decision is, I must pay the utility bill, the oil bill or the mortgage payment, and what is left may be spent for maintenance and repair. Those are things that can be deferred, are not of an economic necessity.

When you have a certain amount of dollars to be distributed, that is the last item that comes on the budget. You will meet your payroll, your utility bills, the essentials to keep the doors open and the lights on. If there is enough money left over, there will be money for paint or repair.

APPLICATIONS FOR CAPITAL IMPROVEMENTS

Mr. STOKES. Would that be your rationale in saying there have been hardly any applications eligible for rehabilitation under the law?

Mr. O'NEILL. That is correct. The formula does not make any sense. Under capital improvement, I do not believe there have been any applications for capital improvement increases to my knowledge in 1979 at all; and I think there was one case in 1978.

Let us assume my capital improvement is a new roof. First I must get bids, plans and specs, and costs estimated, and submit those to the rent administrator through a petition process, and they must approve the capital expense and the nature of the improvement. They must take into consideration the effect it will have on tenants, et cetera. Then the maximum rent increase they can give you under that section is a 10-percent increase, which means if you are going to carry this out to its finality, it will take you over 10 years to recover the capital expenditure for the new roof. That is a recovery of capital not acceptable to investors, so nobody uses it.

DISPLACEMENTS RESULTING FROM CONVERSIONS

Mr. STOKES. I have just one other question: With reference to places where condominium conversion is taking place, is that not usually a displacement of the tenants who were there at the time of the conversion, and generally based upon the inability of the previous tenants to pay the rent?

Mr. O'NEILL. It varies project-by-project, but the average tenant who purchases in a building that converts is around 35 percent, and it can go as high as 50 percent. There could be anywhere from 50 to 60 percent perhaps who elect not to buy.

The Development Commission interviewed 1,000 individuals, non-purchasing tenants in 1978. They indicated the reasons for not purchasing were not that they could not afford to purchase, but that they did not like the condominium concept, their job may require a transfer, other kinds of reasons other than affordability. Three percent of the tenants in the survey indicated simply could not afford, and primarily because the city designed its conversion law that way, so that only the upper-income buildings were converted.

LACK OF APPARTMENT BUILDING CONSTRUCTION

Mr. STOKES. Mr. O'Neill, can you tell us why, in light of the fact that the rent control law does not apply to any new apartments being built in the city, no new apartment buildings are being put up in the District?

Mr. O'NEILL. The builders are not confident. We for example had a condominium moratorium several years ago. They took the moratorium off and established the rent levels. But then many people wanted to get out of the rental business, primarily because it is not too profitable. Then they closed the door again. The Holiday Corp. in 1973 completed one building, and in 1974, opened the second section, brand new housing. Then he found out in August of 1974 that he was subject to rent controls. His rents were not controlled for the first year in operation, but for a year after. They made a change in the law now that new construction is not affected.

Assume I build a new building and I raise the rents 12 percent the second year. What is to say the City Council will not get incensed because a lot of tenants come down and say, "We had a big increase"? We have no confidence; we cannot get financing from all the major financiers who used to finance this stuff. All we can build is luxury rental. I looked at a building in the District of Columbia, the Latrobe. The HUD subsidized rate was 7 percent; beginning rents were \$380 for an efficiency, plus electricity. That is not the kind of housing we need. The existing rental housing is the cheapest in town, including section 8 subsidized.

Mr. STOKES. Thank you, Mr. Chairman.

Mr. WILSON. I want to thank you, Mr. O'Neill.

There has been more interest in this hearing than we anticipated when we scheduled the time. No one has had lunch yet, and I think it would be in the best interest of everyone if we would recess at this point and resume the hearings in the morning at 10 o'clock, and continue until everyone is heard.

We heard from city officials and Mr. O'Neill who represents the overall landlord situation. Tomorrow we will ask the rest of you to try to limit your oral testimony to 5 minutes. I am very sorry we cannot hear everyone today.

We will adjourn until 10:00 o'clock tomorrow morning.

THURSDAY, NOVEMBER 29, 1979.

WITNESS

FREDERICK D. GRAY, LANDLORD

Mr. WILSON. The committee will come to order.

Before we adjourned yesterday, we heard testimony from city officials and were only able to hear one of the 29 public witnesses scheduled to be heard.

Since the story in the paper this morning we have had requests from other witnesses who would like to testify on both sides, but we have decided to limit oral testimony to the 29 witnesses who had requested time previous to yesterday.

We want to thank all of you for coming back. Our first witness this morning is Mr. Frederick Gray.

I believe you are a landlord?

Mr. GRAY. Yes; I am. I wish to thank you, Mr. Chairman, and other Members of the committee for the opportunity to appear before this committee this morning.

Mostly, I wish to thank Almighty God for giving you the wisdom and the courage to try to correct that which is wrong.

I own a 12-unit apartment building on Gainesville Street, Southeast.

I have had the building since 1972. It belongs to me, had been owned by my cousin, the late George Bowne, a judge in the State of Maryland, Prince George's County.

He expired in June, 1972, and I bought the building from his mother. I was going fairly good, keeping my nose above water until rent control. I am a carpenter by trade with over 35 years in the building business. Most of the work I do myself.

At this very moment my electricity, my gas, and my oil is about to be cut off. I am unable to meet the payments on that building. I have been using my paycheck to subsidize my tenants, and I can attribute this to only the laws on the rent control and the way that the rent control is administered.

My lawyer and I filed a hardship petition in July. After working two days to get the facts together I appeared, or we appeared before a Mr. Roper, the hearing officer, and he asked me, along with my lawyer, if I was registered, and I said, "Yes, I am."

I have been registered. "Well, there is nothing in the files that say you are registered."

I said, "Mr. Roper, I have been registered and I have been registered every year. Every time the law says I should register I register."

Well, we just got a call from Mrs. Rolland, who is the chairman up there on that Board, and she said, "I am going to have to deny this petition." I said, "What for?"

She said, "Well, you are not registered."

I went to the front desk and I said, am I registered? She said, "Yes; I told Mrs. Rolland that we lost one of your files."

He still refused to hear it. He denied it.

My lawyer drew up the paper and said that we were withdrawing our request after that. The problem that I am having is no new problem, I am sure of that. All landlords have it. I can't even give my building away. I can't even give it away. Nobody wants it.

I am not realizing 8 percent, nor am I realizing 1 percent. I am in the hole.

Mr. WILSON. Do you have a positive cash flow?

Mr. GRAY. No.

Mr. WILSON. Negative cash flow?

Mr. GRAY. Yes, sir. The tenants very well understand the loopholes in rent control. I have tenants that I have been over there working that never say anything is wrong. They are behind in their rent, but my lawyer summoned them to court. They will come and say it is a lot of violations. In fact, before they get to court they will call the housing inspector.

The housing inspector will come out and give me four or five violations, and when I call the housing department, the inspectors will say, "Well, we know, you have a very good apartment. Who does your work, Mr. Gray?"

I say, "I do most of it myself."

He said, "What are they complaining about?"

I said, "They don't want to pay rent." When they go to court the court says put your money into the Registry of the Court. It's three months before I can get the money, if they put it in. Most of the time they don't put it in, they move to another place.

I have borrowed all of the money that I can borrow from the National Savings and Trust Company to meet the expenses on that building. I have an enlarged heart and hypertension, and my doctor said to get from under this situation because if you don't you will not be on this earth much longer, but I can't get rid of it. No one wants it.

Any time that you cannot pass your expenses along to your tenants, that you have to support them, then something is wrong with the system.

In 1945 I landed on Iwo Jima, and never did I think that I would live in a city that would make me believe that I wanted to be on welfare, and that is just what it is about to come to, because they are faring better than what I am faring, and I am sometimes working three jobs in order to try to make ends meet, so I am in trouble.

That is why I am here. I need help from someone and, truthfully, if there is anything in your power to do away with rent control you ought to do away with it this moment, because it is actually driving the people out of the city. They are coming over in my county, Prince Georges County, looking for places to live so it is not helping people, especially the black people. It is hurting the black people.

Mr. WILSON. Mr. Gray, what is the average rent that you charge? What are you allowed to charge by the Rent Control Commission?

Mr. GRAY. The average is \$225. They permitted me to go up 9 percent I think it was in September.

Mr. WILSON. What would you need to realize an 8 percent return and a positive cash flow on your investment?

Mr. GRAY. About \$300, because I pay all the utilities. I pay the gas; I pay the electric, and just two weeks ago I had to climb through a window on a Saturday evening because they changed the locks on all of the apartment doors. I don't have the keys to them.

Mr. WILSON. Who changed the locks?

Mr. GRAY. The tenants changed them, and I had to take a ladder, crawl through a window to cut the water off and two color television sets that were running. If that was a self-contained building, they wouldn't leave it on, because they would have to pay the utilities themselves.

Mr. WILSON. Do most of your tenants have jobs, or are they on welfare?

Mr. GRAY. Most of them are welfare people, and I sent them notices twice to say that the building was up for sale, as I am supposed to do by the law. I want to know if you are on welfare, how can you buy a \$100,000 building? If you can, you don't need to be on welfare, and then how they get around paying the rent is to knock holes in your walls and disconnect the track under the sinks, so water will leak down and rot your ceiling out so that they can call Housing and tell Housing you have violations, and they don't have to pay the rent.

This is what is happening to me right now.

Mr. WILSON. What is the address of your building?

Mr. GRAY. The address is 2841 Gainesville Street, Southeast.

Mr. WILSON. What was the name of the gentleman that refused to hear your petition, because he said you were not registered?

Mr. GRAY. Mr. Roper.

Mr. WILSON. R-O-P-E-R?

Mr. GRAY. Yes, sir.

Mr. WILSON. Is Mr. Roper in the room?

[No response.]

Mr. GRAY. I asked for help at the rent control. The people who work there told me it is not worth a darn, Mr. Gray, but what can I do? I work here. I own buildings myself, and I can't get them out.

Mr. WILSON. Do you have more damage on the building?

Mr. GRAY. Yes, sir; I am \$2,065.19 behind on the first trust, and \$202.76 behind on the second trust.

I owe an \$800 oil bill because Hess Oil, because my credit was so good, said, "We will try to play along with you and see what will happen."

Mr. WILSON. How much rent is owed to you?

Mr. GRAY. What is today, the 29th? I have received four rents for November.

Mr. WILSON. And how many apartments have you got?

Mr. GRAY. I have 12, but I have 3 vacant, and I refuse to rent the 3 because I am going to get the same thing because the people in there tell the other tenants what to do to avoid paying rent, how you can circumvent it.

What they do is get together and, well, in fact some of the tenants over there say, Mr. Gray, we were going to pay our rent, but we had a meeting last night and Mrs. So and So got up and say you know all you got to do is call Housing; and when they are summoned to court you just tell them you got a violation and they will make that landlord fix it first and by that time you can get your money together.

They have the money because they are on welfare but they go on the corner and play bingo with it. That is what they do with it. I have a family too, and I am supposed to make my money and support welfare cheaters. I am tired of it. I love this country and I need help so that I will not lose what I worked so hard for. This country has been good to me, but it is always said, you must work for what you want and I was raised like that.

My people, my father taught me to get out and work for it, but to see people knocking holes in your walls and disconnecting sinks so what is being run down, I won't go into two apartments over there for fear I might get myself into trouble. My lawyer advised me not to go over there. He went to court last week and he gave me a list of things to do, and he said they are going to pay the money into the Registry of the Court.

He said, "Fred, I know there is nothing wrong with that apartment. I got to work along with the system." And only one judge, Judge Beard, was smart enough to know that certain people were lying with a money order stub, oh, I sent Mr. Gray. Judge Beard said that don't mean nothing. All of the other judges for a year and a half recognize a rent receipt and they go out the court laughing at me and the lawyer.

The other judges say, OK, it must have gotten lost, but when Judge Beard say get a writ there is three that owed me \$800. They went to the welfare and other people, Salvation Army and all and got the money together and paid it, and three or four days after they paid it they called me and said something is wrong over there. They called my lawyer. My lawyer said, "Oh, oh, Freddie, they were made to pay up so they are tearing down your apartment again."

I am not going to lie before this committee. What I have stated to you and to this committee is nothing but the truth, so help me God, so I am telling the truth.

I will not lie to you, and the building to my right and to my left, the owners say I am going to walk away from mine, but I happen to pick up the paper and I saw that you had become the new Chairman and I guess six, seven, eight months ago, and you were going to hold hearings.

I sat down in my office and wrote you a letter to give you some of the things that I was going through. Again, I am going to state that I am about to lose everything that I worked hard for because of welfare cheaters, and I know that they are welfare cheaters because they are living in my building, taking care of orphan children and getting paid for taking care of orphan children and the husband is living with them.

Some people ought to have their heads examined to say, well, rent control has been beneficial to this city. That is not true. I have been knowing my attorney, Mr. Blum for 30 years. I know the

whole family. Mr. Blum's father helped me to buy the first piece of property that I ever owned in my life. Mr. Blum is 82 years old, and his son went to law school and we became very close.

He said:

I just don't understand the way the system works. Now they are tearing up your place, but what can I do? You got to do \$200 or \$300 worth of work before you can collect \$900, and then when you get that, next month when it becomes due they will do the same thing over and over again.

All I want you all to do is to take that building, you can have it. I don't want it. I don't need it no more. I can't win. The system is built against me, so you don't want no property in this city.

Mr. WILSON. That is very impressive testimony, Mr. Gray, and I am going to come out and look at your building.

Do you have any questions, Mr. Natcher?

Mr. NATCHER. Are your problems with the rent control office or with the Department of Inspections? Where have you had your major problems?

Mr. GRAY. Rent control, because the Inspection Department knows very well what the tenants are doing.

Mr. NATCHER. You don't have any problem as far as the Department of Inspections is concerned?

Mr. GRAY. No; they do go over there and cite me for violations, but they know what is happening.

Mr. NATCHER. Have they cited you recently?

Mr. GRAY. Right within the last three days, from the same people.

Mr. NATCHER. Present tenants?

Mr. GRAY. Yes.

Mr. NATCHER. You don't have any problems as far as hot and cold water?

Mr. GRAY. No, sir. I was over at 11 o'clock last night unstopping a drain that they put rags and paper in, and I was over there the night before until 12:30.

Mr. NATCHER. Have you ever had any problems from the standpoint of complaints that there is no hot water?

Mr. GRAY. No; once in a while, Mr. Natcher, they will call Housing and say the water is cut off, not cut off, that the water is not hot, and when I go over there the drain is stopped up. So we have a summer and winter hook-up. The system runs clear round to heat the water, to give them hot water.

Mr. NATCHER. Mr. Gray, just assuming now when the rent control law expires on September 30, 1980, the City Council renews it and carries it on into the future. What do you need to correct your problem?

If you could wave a magic wand this morning what would correct your problem, better treatment by the rent control office?

What would do it?

Mr. GRAY. If the rent control was off and then the owners, the landlords could pass the high utility bills on to the tenants.

Mr. NATCHER. That would correct your situation?

Mr. GRAY. Maybe; I will tell you what would really correct it more than anything else is to build a law so that the people cannot go into court and lie and the judges believe them.

Mr. NATCHER. You don't want to change human nature now, Mr. Gray.

Mr. GRAY. I wished I could.

Mr. NATCHER. Well, all right. I see what your problems are and they are serious. You know we not only have a new Chairman, but we have a good Chairman now, Mr. Gray. We have a new one and a good one.

Thank you very much.

Mr. GRAY. Thank you very much.

Mr. WILSON. The next witness is Mr. Mike Williams.

Is he here?

Mr. Williams is not here.

Our next witness is Joseph Ney. I don't believe he is here either. We are making progress here.

THURSDAY, NOVEMBER 29, 1979.

FAR SOUTHEAST COMMUNITY ORGANIZATION, INC.

WITNESS

ROBERT BLANDFORD, TENANT

Mr. WILSON. Our next witness is Mr. Robert Blandford a tenant. Mr. Blandford, do you speak for yourself or for an association?

Mr. BLANDFORD. I would like to say that I am speaking for myself, but I do work for a community organization that is very much involved with housing problems.

Mr. WILSON. And in what capacity do you work for this organization?

Mr. BLANDFORD. I am a planner in charge of planning.

Mr. WILSON. Are you hired by the city?

Mr. BLANDFORD. No; it's a community-based organization.

Mr. WILSON. What is the name of it?

Mr. BLANDFORD. Far Southeast Community Organization. We do have a contract with HUD and also with the D.C. Department of Housing and Community Development.

Mr. WILSON. And they fund the organization?

Mr. BLANDFORD. Right; well, most of it is funded, and there also are individual-private funding sources. However, I wanted to testify from my point of view as a tenant.

Mr. WILSON. Where do you live?

Mr. BLANDFORD. I live in 1754 T Street, Southeast, which is in Ward 6.

Mr. WILSON. Is it an apartment house?

Mr. BLANDFORD. Yes; it is an apartment building.

First, I would like to say good morning to the committee and the other guests here and the other people who came to testify.

I would like to talk briefly about some of the history of rent control.

In 1940 the Rent Control Act was enacted by Congress to deal with the congested situation with regard to housing. That was caused by the national emergency in the National Defense Pro-

gram, and it became increasingly difficult for many workers who worked in the city to obtain adequate housing and, therefore, there was a Rent Control Act that dealt with the District in 1940.

The 1949 Housing Act which is a Federal Act spelled out a goal of a decent home and suitable living environment for every family. The D.C. Housing Relations stressed the same point or the same objectives, and the regulations and the Code is the basis for the D.C. Rent Control law.

In early 1970 many public and private complaints were made to the Superior Court, the Landlord and Tenant Division that spoke to the backlog of cases. The fact that there were 19 to 20 months of backlog, there was an appeal to Congress for an administrative office or body to deal with tenant-landlord issues from an unbiased point of view, and there was a need to relieve the courts of some of this burden.

Congress then gave the City Council the power to enact rent control and Congress approved the plan for D.C. rent control law, and I would like to say that if rent control were abolished there is at present still a backlog of cases at the L&T Court, the Landlord and Tenant Court. There is a backlog now, and if rent control were abolished I think that situation would be aggravated.

After yesterday's testimony from the government, I would like to say that experience points out that adjudication of cases is not the problem at RAO. The problem is a staff shortage. The fact that this subcommittee should appropriate more funds to deal with landlord and tenant problems so that they won't have to wait six months. Tenants have to wait also, so it's a dual process and I would like to make it clear that tenants suffer from this in the same way the landlords do.

The rent control law in effect in Washington, D.C. must be maintained in order to provide the framework in which tenants can exercise their right to push for the enforcement of laws to provide safe, decent and affordable houses. Moreover, the rent control law has developed popular support in its defense among tenants.

Tenants now take the initiative in pressing for their rights, and the adverse effect of pressuring landlords to keep their units in habitable condition. The tenants' right to rent control law is non-negotiable and unsusceptible to deals or trade-offs.

It was a popular movement or at least in part that led the City Council to enact the rent control law in 1974 and presently it is the popular sentiment of tenants in the City that it will be maintained at any price.

Again, that it is non-negotiable, for in the final analysis it's the resident's right in a democratic situation, in a democratic environment, even in D.C., to petition for referendum to recall any official who takes an action to alter or to gut the rent control bill.

Moreover, the Rental Accommodations Office is an essential instrument of the rent control law, and without that office the tenant would have no administrative office to assist him or her in taking the initiative to correct violations of the D.C. Housing Code, to complain of illegal rent increases or harassment by the landlords.

Many owners, investors of apartments in Southeast are presently creating dummy spin-offs, trusts and corporations in order to circumvent the law, the law which requires that buildings be in substantial compliance with the D.C. Housing Code regulations.

It was stated that at this point that there are many buildings that are not being fixed, that are not being maintained around the city, that there are more citations of Housing Code violations by the Inspector's Office. This is true in part, because tenants are taking the initiative and tenants are not waiting any longer for the District government or for the individual landlord to get the inspector out on a yearly basis, because those inspections have been spot.

They come in and look at two or three apartments out of 50 or a 60-unit complex, but it's the tenant's right to contact the Housing Inspection branch to request a total inspection of buildings, and this is the basis for so many complaints at the Rental Accommodations Office, but this is legal and this is the tenant's right, and it is becoming more difficult to get decent housing in the city, and do away with rent control would create a class of urban refugees in the City of Washington.

Although I would give credence to the statement that condominium conversion at this time in Southeast is not displacing that many low income people, there is a real potential for it, and that potential is that if we had vacancy decontrol it would create a situation where rents would begin to escalate and one of the main conditions or requirements for an owner to get a certificate of eligibility would allow him to convert his unit is that the rent is at a certain ceiling, and we see rents escalating to reach that ceiling, so that is another detrimental effect on tenants who were trying to maintain a home at a low cost.

Finally, I also would like to say that most of the testimony has dwelled on the rent ceiling. The rent ceiling is just one small portion, and I would give it a worth on a scale of zero to 100, 15 percent.

The rent ceiling is just one aspect of the rent control law. The rent control law allows and provides protections for tenants and also for landlords, and rent increases must be consonant with wage increases or the Consumer Price Index and subsidies are not the answer.

Just like a subsidy is not the answer for the Chrysler Corporation, it's not the answer for landlords, because what you do, we have heard testimony and an appeal about welfare people and the fact that they are destroying property and being destructive, well, that is another welfare situation where we are going to give subsidies.

Are we going to subsidize the owners to ensure that they get a sufficient level of profit. This does not lead to development of Washington, D.C. nor on a national scale does it lead to development, but more complicated problems and it prevents a balanced budget when we take it in a national context.

Subsidies are not the answer. They are only ephemeral, a short-lived situation. All subsidies are at the whims of political dictates and used as hand-outs to property owners and that will not lead to

safe, decent and affordable housing for residents in the City of Washington.

Mr. WILSON. Do you think that rent control has led to safe, decent and affordable housing?

Mr. BLANDFORD. There are still 25,000, 30,000 buildings not even registered that are supposed to be registered. If you look at a lot of these units, there are people still living in these units.

No certain categories of occupancy have been issued to the owners of these buildings, but they do collect rents every month, and I think that tenants are beginning to, sure, some of the methods that tenants use to fight back may be unauthorized and kind of shady, but I would submit that there are a lot of shady deals on both sides of the scale, and I think that a process has been created where at least the District government is beginning to cite landlords where properties are not in compliance with the housing regulations.

Now, there still exists a problem in terms of whether or not the landlord fixes these properties up after they have been cited, and in many cases they don't and the Corporation Counsel, the D.C. Corporation Counsel is not moving with much gusto or interest on the part of the D.C. Code.

The Code states that there should be fines and penalties for landlords who do not bring these buildings in substantial compliance. Now, if they closed them down, that is their right, but in many cases these buildings are not closed and people are still living in them. I do feel rent control is beginning the process where buildings come into compliance with the standards.

I do believe that buildings are beginning to come into compliance with the Housing Code Standards in the city.

Mr. WILSON. I only have one question Mr. Blandford.

Do you discount the testimony that we have heard from the first two public witnesses? Were you here yesterday.

Mr. BLANDFORD. Yes; I was.

Mr. WILSON. Do you discount the testimony presented to the committee which revealed that in many cases landlords are suffering from lack of a positive cash flow, and as a consequence they are unable to pay their utility bills and are unable to keep the buildings open?

Mr. BLANDFORD. I know that to be a fact in some cases, but I don't think that that is the main problem, no I don't.

I discount that. I think it is not the rule. There is no proof to show that it is the rule. It is not the rule and in many cases there are some units, because when the rent control law came into effect, if an owner was charging a low rent at that time, then I agree he was frozen into that, but there is a general applicability which gives him a certain increase each year.

Some are at a disadvantage, because they were charging a low rent when the law went into effect, but at the same time the law gives them the right to apply for a hardship petition, but in many cases, well, there was a statement made that owners who apply for hardship petitions in many cases, the tenants are there and the tenants know about it and challenge those. That is not the case.

In many cases hardship petitions have been granted at RAO, and no tenants came out to testify. Tenants did not have the knowledge

of it when they were sent this document in the mail, they knew nothing about what it was and by the time they found out that rent had been into effect it was too late.

There are cases in Southeast where the Rental Accommodations Office has given increases to landlords and there are still major Housing Code violations that affect the safety of those buildings, or let us say, of the residents in those buildings.

Mr. WILSON. Would you tell me the name of your organization one more time?

Mr. BLANDFORD. The Far Southeast Community Organization, but I would also like to say that even before I worked for this organization, I have been working there two years, I have been fighting for decent housing for myself for the last five years in the city.

I was at the testimony in 1974 when Mr. John O'Neill testified. I also testified, and I am saying essentially the same thing that I said then. There is a need for rent control in the city, and it is my fight with my realty company, Waggaman and Browner on Wisconsin Avenue, it has been my battle with that company, and it has been my experience, I fought the case at RAO and went to the Rental Accommodations Office three times to get some kind of solution to my problem, and I also went to court to get some kind of solution to my problem.

Mr. WILSON. Would you mind telling the committee, and if you don't it is okay. But would you mind telling me what percentage of your income you pay for shelter?

Mr. BLANDFORD. For rent I pay a very low percent of my income for rent. I pay about, I haven't figured it up, but I don't mind stating it. My rent is \$133 a month. That is without including utilities, and I admit that the—

Mr. WILSON. Do you pay your own utilities?

Mr. BLANDFORD. Yes; I pay my own. It comes close to the average that was mentioned of \$180 a month when we look at it on a citywide basis. I pay \$174 a month.

Mr. WILSON. Are you married?

Mr. BLANDFORD. No; I am not.

Mr. WILSON. Do you have any questions?

Mr. NATCHER. No questions, Mr. Chairman.

Mr. WILSON. Mr. Rudd?

Mr. RUDD. I will pass at this point.

Mr. WILSON. Thank you very much.

Is Mr. Vaughn Wallace in the room?

THURSDAY, NOVEMBER 29, 1979.

**METROPOLITAN WASHINGTON PLANNING AND HOUSING
ASSOCIATION**

WITNESS

RICK EISEN, DIRECTOR FOR NEIGHBORHOOD IMPROVEMENT

Mr. WILSON. Our next witness is Mr. Rick Eisen. Mr. Eisen, is it correct that you are the Director for Neighborhood Improvement, Metropolitan Washington Planning and Housing Association?

Mr. EISEN. Yes, sir.

Mr. WILSON. How is that Association funded?

Mr. EISEN. It is a citywide advocate association. Its primary funding comes from United Way and we also have a couple of large contracts with the D.C. Department of Housing and Community Development, in an amount about equal to the United Way, no HUD money.

Mr. WILSON. Thank you very much.

Please proceed with your testimony.

[Mr. Eisen's statement follows:]

PREPARED STATEMENT

TESTIMONY ON RENT CONTROL SUBMITTED BY: METROPOLITAN WASHINGTON PLANNING AND HOUSING ASSOCIATION

My name is Rick Eisen and I am director of Neighborhood Improvement for the Metropolitan Washington Planning and Housing Association (MWPHA). MWPHA is a citizens advocacy organization concerned with the housing and related problems of lower income Washington area residents. The Association has operated continuously since 1934. Mrs. Eleanor Roosevelt was one of the co-founders.

RENT CONTROL IS A LOCAL ISSUE

We have consistently supported strong home rule provisions for the District. We feel very strongly that Washington, D.C. should be self governed as other cities are. The officials who make decisions which effect the daily lives of over a half million Washington citizens should have to answer to those citizens at the ballot box.

While we recognize that the Constitution and the Home Rule Act reserve to the Congress the ultimate power to govern the District, we think that as a practical matter Congress should not become involved in local decisionmaking. Congressional review should be limited to matters which are exclusively focused on federal issues, such as the amount and nature of the funding of the federal payment.

In our view, rent control is a purely local issue. Its impact on the D.C. tax base is, likewise, a purely local matter. As a result, we think it should be left completely to the discretion of the City Council and the Mayor to shape rent control as well as other housing legislation. As locally elected officials, they must listen to the voices of the lower income citizens we represent.

It is for these reasons that we joined other community and tenant leaders in calling on the chairman of this subcommittee to cancel these hearings and to leave decisions on rent control to City government.

RENT CONTROL IS A NECESSITY

As a substantive matter, we would voice to this Subcommittee, the same strong support for rent control which we have, and will continue to, voice to the City Council and the Mayor. While rent control is not a perfect tool, it is the only realistic method for protecting thousands of lower income residents from displacement and exorbitant rents. At least 60,000 to 80,000 households cannot afford market rate housing in the District. The uncontrolled side of the housing market, i.e., sale of single family homes, demonstrates what happens in terms of highly speculative housing prices pushing home-ownership way beyond the ability of the vast majority of the city's residents to afford. Elimination or weakening of rent control would have a similar effect on the rental market.

The amount of federal and local subsidies is woefully inadequate. With the need in the neighborhood of 60,000 to 80,000, the amount of subsidized units available each year can be counted in the hundreds or, at best, a couple thousand. Lifting rent control would increase even further the number of households which need subsidies.

While we strongly support housing subsidies from both federal and local appropriations, we do not see them as a substitute for rent control. Subsidies of approximately half a billion dollars would be required if there were to be a serious attempt to

eliminate rent control without wreaking havoc on the lives of D.C.'s lower income community. In addition, tens of thousands of middle income D.C. tenants would be pressured out of the market if rent control were eliminated and they were not made eligible for subsidies. And if they were made eligible, the price tag would rise even further out of sight. It is this political and economic reality which leads to the conclusion that continuation of strong rent control laws is an absolute necessity to maintain D.C.'s current population.

A final basic point which we went to emphasize is the relation between rent control and code compliance. The rent control law offers tenants and the City some leverage in forcing recalcitrant landlords to eliminate code violations before rent increases may be put into effect.

We are also submitting a more detailed position paper in support of rent control. This paper was submitted to the Mayor last April.

CONCLUSION

We trust that this Subcommittee will agree that the future of rent control should be left to locally elected officials and that this Subcommittee will focus its efforts on matters of federal concern.

Thank you.

POSITION PAPER: THE CASE AGAINST RENT DECONTROL

REBUTTAL TO ARGUMENTS AGAINST RENT CONTROL

The major obvious benefit of the District's moderate rent control is that it protects tenants from rent increases they could not afford in an open market. It provides them with the security of knowing that once their rent has been increased, there can be no other increase for at least a year (or 6 months in the case of a hardship petition).¹

Rent control also provides an important side benefit which is to encourage compliance with the housing code. The 1978 Annual Report of the District of Columbia Rental Accommodations Commission (RAC Report) quotes Tom Butler, chief of the Housing Inspection Branch of the D.C. Department of Housing and Community Development's Neighborhood Improvement Administration, as indicating that "rent control laws, which have made rent increases contingent upon substantial compliance with the housing code, have resulted in better code compliance." (p. 50). A similar conclusion was reached by John Gilderbloom in an excellent review of studies on the Impact of Moderate Rent Control in the United States. (p. 20)

Two major adverse effects of rent control are asserted so often by opponents of rent control that they have almost been accepted by the sheer weight of repetition. The contention is that because of rent control, landlords cannot make a fair rate of return and cannot keep up with inflation; therefore, no new rental units are constructed and existing rental units are converted to condominiums, apartment hotels or other higher income use.

1. Rent control is not responsible for sluggish new multifamily market

The fact is that there is no real evidence to support either of these conclusions. Undoubtedly, these trends are definitely occurring, i.e., few private, unsubsidized rental units are being constructed and thousands of rental units are being converted to condominiums and apartment hotels. However, the reasons for these trends have no particular relationship to rent control.

First of all, little new construction of multifamily rental housing is taking place anywhere in the United States. Based on the February, 1979, rate, only 447,000 new multifamily (2 units or more) construction starts can be projected for 1979. Of these, 195,000 in fiscal year 1979 and 230,000 in fiscal year 1980 are to be HUD subsidized, with another 50,000 to 100,000 per year to involve other federal programs. This pattern of very little nonsubsidized multifamily construction activity applies regardless of the presence or absence of rent control.

The RAC report makes the point explicitly. "There have been no reliable studies that indicate the degree to which these major trends in the rental housing market can be attributed to rent controls or the other housing market interventions adopted by the District . . . The extent to which the District's rent control program may have imposed financial constraints on the operation of rental housing that decrease its ability to cope with inflation has not been established." (p. 45-46)

Gilderbloom, in his study, very effectively delates the arguments provided in the two major studies which conclude that there is such a connection—one by Professor

¹ A negative cash flow petition has no time limit, but it does require that RAO consider the impact on the tenant in allowing an increase.

George Sternlieb of Rutgers University and one by the Urban Land Institute here in the District. All of the other studies which have followed were based on these two.

Gilderbloom points out that Sternlieb's sample of lenders who reported that rent control "influenced" their policy on lending for new rental housing, consisted of only 15 in Boston and 22 in Fort Lee, New Jersey. In addition, his questionnaire was so ambiguous that its reliability is "debatable."

The Urban Land Institute's study of building permits concluded that after imposition of rent control, multifamily construction dropped 92.4 percent in D.C. But it failed to account for such essential variables as availability of land, socio-economic factors, etc. In addition, it failed to match activity in D.C. with activity in noncontrolled cities during the same 1970 to 1974 period, when in fact the drop in construction rate was comparable or even more pronounced in noncontrolled cities.

More importantly, Gilderbloom's own study of 26 rent controlled and 37 noncontrolled New Jersey cities with similar economic and social characteristics, found that there was actually more new construction in the rent control cities than in the noncontrolled ones. In short, other factors appear to be much more significant than the presence or absence of rent control.

In the District, an added factor is that with the tremendous amount of commercial revitalization, hotels, office buildings, and department stores bring higher profits than multifamily rental housing. Undoubtedly, this is a factor in the limited multifamily construction, as well.

2. Rent control is not responsible for condominium conversion trends

The short response to the contention that rent control causes condominium conversion is that other major American cities such as Chicago, Houston, and Denver have comparable or even higher rates of condominium conversion than D.C. does. For example, in Chicago, as many as 45,000 rental units have been converted in the past two years; as many as 8,000 have converted or are scheduled for conversion just since January. Yet Chicago and Denver and Houston and many others are not subject to rent control.

The RAC Report notes: "The investment patterns of the industry are increasingly being geared toward short term investment rather than more traditional long term investment involved in the operation of rental housing. *This is a trend that can be identified all over the country*, although it is more acute in the District of Columbia." (Emphasis added, p. 52)

The fact that large segments of the District's population are highly mobile, professional couples with two substantial incomes, also contributes significantly to the increase in condominium conversion. These are households who seek the advantages of city living, including shorter commuting distances, and who need the investment to protect their incomes from the federal tax bite. That is, the deductions from income for interest payments and property taxes gained through homeownership mean significantly lower taxes, whereas in rental housing they would have to pay similar costs to cover the landlord's interest and property taxes, but would not be able to write them off (although some lower income renters do qualify for the property tax credit).

A change in the federal and D.C. income tax laws to eliminate these deductions would have a much greater impact on the demand for condominiums—and thus the pace of conversion—than any changes in the rent control laws.

3. Rent control does not prevent landlords from keeping pace with inflation

Rent control in D.C. does not prevent landlords from increasing rents—an automatic rent increase is provided annually; if the landlord does not receive an 8 percent rate of return, a hardship petition may be approved; and if there is a negative cash flow, another increase may be approved at any time. The automatic increase may be obtained no matter what the rate of return—thus the 8 percent is a minimum, not a maximum.

More importantly, the rate of return is based on assessment, rather than equity. It is calculated on the basis of the property's fair market value, not on the equity actually invested by the owner. In fact, many owners who obtain rent increases to reach the 8 percent rate of return are, in fact, already receiving a significantly higher rate of return on their actual investment. To MWPFA's knowledge, no studies have been done on this view of rate of return.

In addition, the substantial tax benefits to an owner in terms of depreciation allowance, interest and property tax deductions are above and beyond any other rate of return to the landlord.

In short, the current rent control law is not at all unfair to landlords. Nonetheless, as noted above, the contention that it is unfair and that it is the root of the conversion problem and the sluggish new multifamily market has been repeated so

many times that the media and elected officials have accepted it as gospel. Even many tenants have been convinced that rent control is the source of their potential displacement.

As this paper has attempted to show, however, rent control is not responsible for the ills of the D.C. housing market. More importantly, removal of rent control, absent a comprehensive housing plan, would do nothing to change the market, except to exacerbate the problem.

REBUTTAL TO RENT DECONTROL PROPOSALS

Amendments proposed by the Apartment and Office Building Association (AOBA) would: (1) exempt from rent control all units vacant since March 16, 1978 (instead of January 1, 1977, as under current law); (2) decontrol all units with a certificate of eligibility for condo conversion where the owner agrees not to exercise the right to convert before March 16, 1981; (3) decontrol all units renting for \$400/month or more as they become vacant; (4) decontrol all units renting for \$200/month or more as they become vacant after January 1, 1980; (5) double the allowed increase on controlled units as they become vacant; and (6) allow rent increases for required capital improvements without RAO approval.

The net impact of these proposals would be to virtually gut rent control before its official expiration in September, 1980. There is not one quid pro quo offered in any of these amendments. Yet in the covering letter with the AOBA proposals, Mr. O'Neill boldly asserts that "these amendments are essential to getting the boards off and stopping or slowing the condominium conversion movement". As the experience of other cities shows these amendments would in no way lead to these desirable results. And worse, they would result in substantially more displacement and hardship on low and moderate and even middle income tenants. In fact, estimates based on NIA statistics show that 15,000 units are already subject to certificates of eligibility for condo conversion, and an additional 15,000 units are within easy reach of the rent levels which are needed to qualify for eligibility for condo conversion.

More specifically, exempting an owner with a certificate of eligibility from rent control simply because of a commitment not to convert until March, 1981, (this date, according to the Rental Housing Act of 1977 would be September, 1980) is nothing short of outrageous. While it ostensibly would guarantee the present tenant a home until 1981, realistically many tenants would be driven out by inability to pay higher rents. In fact, so many tenants could be forced out by uncontrolled rent increases, that conversion could be accomplished earlier than 1981 because too few tenants would be left to object and the majority remaining could vote to convert. If the tenant did make it to 1981, when the unit was converted, there is no requirement that alternative housing be provided. In sum, this provision would postpone displacement, award unlimited rental increases and place many units in the "high rent" category (eligible for conversion) which currently are not.

The assumption of these proposed amendments, as with the current condominium law, is that a high rent means an ability to absorb the increased cost of a condominium conversion. MWPHA experience has been that many tenants in a so called high rent buildings are, in fact, moderate or even low income, particularly elderly and handicapped people on fixed incomes. These are people who choose, or are forced, to pay disproportionate percentages of their income for decent housing. The fact that a tenant lives in an apartment building on upper Connecticut or Wisconsin Avenues does not mean that he or she can afford even higher rents. The high rent/low rent distinction is thus fatuous and should not be used.

Similarly, providing for decontrol of all units over \$400/month does not account for unit size. Even if the high rent distinction did make sense, surely there is a difference between \$400 for an efficiency or a one bedroom and \$400 for a three or four bedroom unit.

ALTERNATIVE PROPOSALS

Rent control clearly needs to be continued at least until a comprehensive City housing program is developed, funded and implemented. Before decontrol should be seriously discussed, methods to increase housing supply and provide assistance for those who cannot pay market rents must be developed. Obviously, there is a need for the City to aggressively seek and use all possible federal programs, to dramatically expand use of D.C. appropriations for subsidized housing and to provide expanded opportunities through implementation of the Housing Finance Agency legislation. In addition, numerous proposals for City initiatives have been suggested by many sources, including MWPHA. It is not the purpose of this position paper to repeat or critique those proposals. However, a variety of possible initiatives will be

suggested, which, taken together, could provide the basis for a realistic long range alternative to rent control.

1. Alternative comparable units

Before a unit is decontrolled or converted to a condominium or another higher income use, the owner could be required to locate a comparable unit for the displaced tenant. Comparable would mean similar size, amenities and cost. Cost would include not only rent and utilities, but any increase in the cost of commuting to and from place of employment. The City should enforce this kind of requirement. Currently there is a provision which requires an owner who converts to condominiums to provide housing assistance payments to low and moderate income tenants whose rent increases because of the forced move. But few, if any, tenants benefit from this provision because there is no enforcement mechanism and owners do not volunteer the information.

2. Funding and expansion of rent supplements

The Rental Housing Act of 1977 intended that the rent stabilization program, which allows increases in rents to landlords, include a rent supplement program for low income tenants. However, first time funding will not begin before June, 1980. If AOBA's proposals were accepted, this major component of the original rent control approach would be starting as the rest of the program was ending.

Instead, initiation of the rent supplement program should be moved up until the end of calendar year 1979, with funding through a fiscal year 1979 supplemental. In addition, program benefits should be made available for low income coop members, as well as renters.

3. Moderately priced dwelling unit concept

Serious consideration should be given to authorization of the moderately priced dwelling unit (MPDU) concept which has been adopted in Montgomery County. Under this approach, if an owner agreed to provide 30 or 35 percent of the new or rehabilitated units at rents (or prices) which could be afforded by low and moderate income people, then the other 65 or 70 percent of the units could be exempt from any rent controls provided that no current rent controlled units were demolished to make room for the new units. A quid pro quo such as this would be fair to both low income residents and developers.

4. Income mix voluntary subsidy

MWPHA has developed a concept whereby some residents in a multifamily building or complex would pay a greater amount in monthly payments in order to allow lower income residents to pay less.² In a cooperative housing project, a variety of incentives to adopt such an approach have been suggested, including greater income tax deductions for the higher paying members, better amenities for the higher paying members, concern about maintaining income mix and cultural diversity, possibility for reimbursement, etc.

The D.C. government could provide additional incentives for higher paying residents to effectively subsidize lower paying ones, including income tax deductions or credits or property tax abatement or exemption. While the concept was designed for tenant initiated co-ops, it could also be applied to rental or condominium situations to preserve housing for low and moderate income D.C. residents.

5. Greater support for co-ops

Another aspect of a long range housing policy is increased support for cooperative housing, particularly for low and moderate income residents. The primary concern of the overwhelming majority of D.C. tenants is security of tenure. As a result, increasing numbers of tenants have begun to take a serious look at the coop housing alternative, because of the control it provides for residents over their living situation. To the extent that the need for modestly priced rental units can be met by coop units, the City should actively support that movement. A realistic funding level in the neighborhood of \$25 million/year is needed for technical assistance, front end costs, acquisition and rehabilitation, management training, and support for neighborhood based housing development corporations.

In addition to providing this kind of support, two other concrete positive steps could be taken by D.C. government. One would be to extend the negotiating period for tenant organizations beyond the present 90 days to as least 180 days, as envisioned by a March 17, 1979 RAC ruling which has not yet been issued in regulation form. This change should be made part of permanent legislation.

Another step which could improve the ability of tenant organizations to negotiate purchase of their building(s) would be a cooperative agreement between the City

² See MWPHA Analysis, "Maintaining Housing Income Mix Without Government Subsidies."

and HUD/FHA to try to streamline the HUD/FHA process. Currently, HUD estimates that 8 to 11 months are needed to process an application for multifamily insurance, greatly limiting the usefulness of those programs for tenant organizations. However, a concerted effort on the part of the City and HUD could cut this time to a more workable 4 to 5 months. (The Rosemary Village co-op in Montgomery County, in admittedly exceptional circumstances, was processed in three months.)

6. Tax incentives

As an alternative to decontrol, a variety of income tax and property tax incentives could be considered in exchange for maintaining and/or providing low cost units. These flexible fiscal tools could be used in a number of different ways to accomplish different purposes.

For example, foregoing approvable rent increases could be allowed as a tax deduction. Or an agreement not to convert to condominiums and not to increase rents could be given a value and then deducted from the owner's taxable income, or property taxes on such a unit could be abated or exempted.

This type of approach would protect the tenant from rent increases and/or displacement, provide an economic incentive to the owner, cost the D.C. government less because it is not a dollar for dollar credit and be easy to administer since the mechanisms for collecting D.C. taxes are already in place.

7. Additional tax dollars

In order to fund some of the suggested proposals, the City should look to the expanding D.C. tax base. As noted in MWPHA's testimony before the City Council's Committee on Housing and Economic Development, the tax base in old downtown alone expanded by over 24 percent from 1977 to 1978. In addition, two specific areas to examine for additional revenues are the reduction or elimination of some of the institutional property tax exemptions and homestead exemptions for high income homeowners.

Approximately 55 percent of the total assessed value of all real property in the city is institutionally exempt, representing a loss of \$173.1 million in tax revenues at 1977 rates. Of this, \$6.4 million is lost solely because of special Congressional exemptions.

The homestead exemption allows all homeowners, regardless of income, to exempt \$9,000 from their residential property tax assessment, resulting in a uniform savings of \$138/year. For low and moderate income homeowners, this represents a significant savings. However, what is the justification for saving a \$50,000 or \$100,000/year homeowner a total of \$138/year, when those taxes could be used to fund programs aimed at more pressing problems? Approximately 42,000 homeowners in the District have annual incomes in excess of \$15,000; they qualify for \$5.8 million in property tax exemptions. If even half of those were not exempt, several million dollars per year could be shifted to other programs.

These and other sources of additional tax revenues should be examined. The fundamental point is that the District does have the financial ability to address the types of proposals suggested in this position paper.

Mr. EISEN. I was glad to hear you say yesterday that your interest in these hearings was primarily in the Federal payment and the relationship between the effect of rent control on the tax base in this city, and I assume from that you mean the ultimate decisions on rent control are with the city government and that is certainly the position that we would strongly agree with.

As I understand it, these hearings are supposed to be about the relationship between the rent control and the tax base in the city, and there has been a very limited amount of discussion.

Mr. WILSON. We are all interested. I think we might expand that a little bit to say we are all interested in the economic growth in the city and the job situation but I do certainly agree with you that the total authority is properly with the city regarding rent control.

Mr. EISEN. I think that in terms of the impact of rent control and the tax basis of the city, it's more to put that in context, that the amount, the figures I have seen, the amount of property taxes from multifamily property in the city represents about 3½ percent

of the total budget of the city, so we are talking about a very limited amount of money in terms of the overall budget of the city.

I understood from what the woman from the Department of Finance and Revenue testified yesterday there has been little, if any, impact on rent control from a tax base. There are a number of other factors that need to be taken into consideration in looking at the impact of rent control on taxes.

One is the tremendous impact in the commercial tax base in this city. I don't have figures, but I do know in the immediate downtown area, the assessed value has increased about 25 percent just in one year from 1977 to 1978, and my assumption is that there has been a comparable increase in the commercial tax base across the city.

I think also that I don't happen to believe that rent control is responsible for condominium conversion, and I would be glad to go into the reasons.

I don't think it is true; but if you assume, and people have been claiming that, and in fact what condominium conversions do is increase the tax base for the obvious reason when assessments are on an individual unit basis instead of on a building basis, the tax base goes up so that if anything, if you could make the argument that rent control is responsible for conversion that it increases the tax base instead of decreasing it.

The reason for condominium conversions is the fact that you have got a lot of people who are single in two-person households who want to be homeowners, and the cost of renting, the tax and equity advantages, those are the much stronger reasons for why you have got a condominium conversion problem in the city than rent control. The fact that you see a similar process in other cities like Houston, Chicago, like Denver, where there is no rent control, is further indication of the fact there is not much of a relationship between rent control and condominium conversion.

Mr. WILSON. Do you support a moratorium? Do you think there should be laws to prohibit condominium conversion?

Mr. EISEN. I don't believe in a permanent moratorium. The purpose of the present moratorium was to give the Council time to enact permanent legislation. You may be familiar with the fact that there was legislation recently introduced on a permanent basis by 9 of the 13 Council members, and I would generally support provisions in that, and there are a number of restrictions on the way the buildings can be converted.

The overall impact would be to start having a much greater number of relationships, joint ventures between tenants and owners. If that law were to be passed, what the impact of it would be generally would be that there would be a change in investment patterns in the cities, and developers and investors would have to deal much more directly with tenants. It is already beginning to happen.

We work with a number of lower income buildings. What sense does it make to give the right to purchase a building with a lot of welfare tenants? Well, in fact we have worked with buildings with very low income tenants who have succeeded in purchasing their building, and in one of the cases I was just working on there is a

joint investment kind of possibility that is being pursued, and there are a number of other cases like that that I would cite.

I think that that is the direction that it is going in. It doesn't mean there is not going to be investment or profits in the city. It means that tenants are going to have a much greater say in how that happens.

Mr. WILSON. Mr. Eisen, there are only two committee members here at this time, so we can be kind of informal.

Do you believe the testimony yesterday that investors or financial institutions simply will not finance apartment buildings in Washington? Do you believe that?

Mr. EISEN. Basically I believe that, but I would counter that with the fact that there is not much rental housing being built anywhere.

Mr. O'Neill's testimony which indicated that you can't really build rental housing in cities other than for very high luxury rates, and most people don't want to be renting at those kinds of rates, that they are going to have to be coming in with new construction, even if you had no rent control law, I mean you simply don't have new units, new rental units being built anywhere, and the problem is inflation, not rent control.

Mr. WILSON. I think that in Mr. Rudd's district and in my district there are certainly a great number of rental units being built, but I am really interested in one point.

You obviously have spent a lot of time and thought and a lot of blood and effort on this. Do you think that a tenant is better off living in Mr. Gray's building with the problems that he obviously has, or do you think a tenant would be better off with a rent subsidy?

Mr. EISEN. I don't think those are either/or situations. They are an independent situation.

Mr. WILSON. But what if you had to choose?

Mr. EISEN. It depends on what you mean by a subsidy situation. In my prepared testimony which I submitted yesterday, I made the point if you really were going to provide enough subsidies for everybody in the city on the basis that they are paying 25 percent of their income for rent which is the standard used by the Federal Government—

Mr. WILSON. Does shelter generally cost more across the country?

Mr. EISEN. There was a long debate in Congress about increasing it, but they did not. Twenty-five percent of your income is still the standard, and even if you went to 30 percent, the point would still be the same. If you were going to subsidize all of the people in the city who needed subsidies in order to pay 25 percent of their income, it would cost a lot more than the \$12 million or \$15 million which was mentioned.

It would cost \$150 million or \$300 million or \$400 million.

Mr. WILSON. Is that in your prepared testimony?

Mr. EISEN. Essentially, what I am suggesting is that there are anywhere, depending on whose numbers you count, there are anywhere from between 50,000 and 65,000 households in the city who are paying more than 25 percent of their income for rent, and the overwhelming majority of incomes are under \$10,000 a year, so if

you assume their average rent paying ability is \$125 that would be something like \$7,500.

If you figure, particularly if you eliminated rent control, you would have much higher rents and no ceiling on the amount of subsidies. Okay, that is an important factor. If you talk about substituting subsidies for rent control, it should be rent control and subsidies; but if you talk about substituting it, you end up having a much higher rent level, so if you figure conservatively it would be \$300 a unit, and the average is \$150 a month per person.

Mr. WILSON. Per family.

Mr. EISEN. That is 60,000 to 80,000 households, and that is where I am coming up with figures of \$125 to \$300 million, and I think those figures are conservative. There are a lot of people who are not being counted and who are doubled up in two or three families in one unit and overcrowded, and if they had the opportunity to move into an adequate shelter, the cost would go even higher.

I am in support of subsidies when you provide it as an entitlement. If the city and the Federal Government were willing to support those kinds of funding levels, but to talk about \$12 million or \$25 million as a substitute for rent control I would be absolutely opposed to something like that.

Mr. WILSON. Is it possible that there could be a blend—you obviously know a whole lot more about this than I do—or a form of rent control for apartments that generally rent around \$300, \$350, and then you had a subsidy. Would a blend like that work?

Mr. EISEN. I think it would be very difficult to develop something like that. There are assumptions constantly made about the fact that high rent necessarily means high income. The fact is, it doesn't. What it often means is elderly people who have been living there for 20 years, and 20 years ago when they first moved in and were working, could afford it, they have gotten used to the neighborhood, don't want to leave; what is happening is, they are paying 30, 40, 50 percent of their income.

Some of this testimony yesterday that condominium conversions in high rent buildings doesn't displace anybody is simply not the fact as we have seen them.

Mr. WILSON. Do you think there should be rent control in Watergate?

Mr. EISEN. I am not sure about that. We are not talking about Watergate.

Put it this way: If there was a way, and I do not think a blanket lifting would do it, if there were a way to assure nobody paid more than 25 percent of their income. The problem is, you have mixed-income buildings. All these simplistic assumptions that because a building is high rent means that you are only subsidizing high-income people, it is just not consistent with the facts. The facts are, most of those buildings have a significant income mix.

A lot of the buildings converted in Adams Morgan, Mount Pleasant, have substantial numbers of lower-income families who are being pushed out. One of the buildings I was talking about earlier that we are looking to with possible joint investment, something like 80 percent of the people in the building have incomes of under 10 or \$12,000. It will take Federal subsidies to make that kind of deal work. That is fairly typical.

Mr. WILSON. In that particular case, are those people just at the bottom end of the working population?

Mr. EISEN. Mostly. I think there is only one or two people on welfare. Most of the other ones are either elderly or simply have a waiter's job.

Mr. WILSON. Minimum wage?

Mr. EISEN. Minimum wage kind of job, and simply have incomes in the 7, \$8,000 range. If they don't succeed in buying that building or don't get a subsidy from somewhere else, they are going to be pushed out of the city or pushed into doubling or tripling up. That is what would happen.

Mr. WILSON. The present rent control law is inadequate?

Mr. EISEN. It offers them the opportunity to purchase their building. It gives them a designated time period—that works when there is a technical organization that can come in and work with them and potentially help them buy the building.

Mr. WILSON. That is what your organization does?

Mr. EISEN. That is one of the things our organization does. We are funded by the city. That is what we are funded to do. I think that is a very important part of the rent control law.

The accusation that that provision only benefits middle- and upper-income people is not consistent with our experience.

Mr. WILSON. Mr. Rudd.

Mr. RUDD. This is an interesting dialog. How many members are there in your association?

Mr. EISEN. I think there is about 400 or 500. I am not terribly familiar. Of the staff, there are ten staff members.

Mr. RUDD. Ten staff members?

Mr. EISEN. There are other members, I think there are 400 or 500.

Mr. RUDD. Where do you generate your revenue in order to operate?

Mr. EISEN. We have an ongoing grant from the United Way. In addition, we have two contracts with the government which uses money from HUD. One of the grants is to work with tenant associations, lower income tenant associations, attempting to purchase their buildings.

Mr. RUDD. You are, in effect, governed by the District of Columbia Government?

Mr. EISEN. I would be hard-pressed to agree with that one.

Mr. RUDD. I am asking.

Mr. EISEN. No. We have a contract with them. That particular portion of the money has to be used for the purpose of assisting low-income tenant associations. The money from United Way is the basic source of funding.

There is an agreement, a fairly broad advocacy kind of activity and technical assistance activities training; we hold workshops, seminars, things like that.

Mr. RUDD. I am sure this is set out in this statement of yours which I have not had the chance to read completely. What is your major goal?

Mr. EISEN. Our major goal is to improve the housing and deal with the related problems of lower-income residents of the Metro-

politan Washington area, and this particular set of goals changes with the times. The organization has been in existence since 1934.

Mr. RUDD. Yes.

Mr. EISEN. So every year there is a funding process with United Way and with the D.C. Government and the goals for the year and the report for the year—

Mr. RUDD. Your goal is to establish guidelines for rent control?

Mr. EISEN. No, it is to do whatever is necessary to improve housing conditions for lower-income residents in the city. We are obviously strong supporters of rent control, so we do what we can to advocate rent control. We work with tenant associations to help them purchase their buildings, training sessions to teach other tenant advocates about their rights under the law, about housing programs and problems.

Mr. RUDD. What I think you are really talking about is concern and aid for disadvantaged people.

Mr. EISEN. Yes, that would be basically it.

Mr. RUDD. OK.

I notice you said in your testimony that you felt the reason there was no longer any construction here is because of inflation. But if you believe in a competitive market, if there was an incentive to build, do you think there would be construction?

In other words, if a private investor were going to build or even receive aid from the government, as much of the housing in Washington, D. C. was built originally, including the large apartment buildings and all of that—if there was an incentive to obtain a return on the investment, it seems to me there would be construction. So I am not sure it is inflation in the sense you were talking about.

Mr. EISEN. You cannot build rental housing if you don't have a market.

Mr. RUDD. That is correct.

Mr. EISEN. And if the costs—Mr. O'Neill's testimony yesterday was talking about, I do not remember the figure he threw out, but it was extremely high, what it cost just to meet basic construction and operating costs. The market for rental units at that level is extremely limited. That is what I am saying.

The only housing that is going to be built for lower-income people, which we would certainly support, we are strong supporters of the Federal subsidy—

Mr. RUDD. There is really no incentive to have new buildings. If we are talking about advantages, this area should assume a responsibility for what you are doing, or rely more heavily on you, or have more control over your organization in some way to take care of disadvantaged people.

Mr. EISEN. We are a very small organization. We have staff of about ten people. All we are really able to do is advocate and work on the fringes in effect. We are not the city government. We don't have the kind of resources of the city or Federal Government. What we are doing is acting in a watchdog capacity to make sure that the city government, Federal Government, private industry—

Mr. RUDD. How does one become a member of your association?

Mr. EISEN. I think it is about \$5 registration membership fee; that is all there is to it. I would be glad to send you a membership card.

Mr. RUDD. No, I am just interested.

Mr. EISEN. I mean I am serious. That is all there is to it as far as I know.

Mr. RUDD. Well, I might be interested in that. Send me more information about membership and your accomplishments. I will take a look at it.

Mr. EISEN. I will do that.

Mr. RUDD. Thank you, Mr. Chairman.

Mr. WILSON. Mr. Eisen, I have one more question. I really think your testimony has been meaningful and important.

I was in the building business before I came to Congress and I have a little knowledge of it, although the building environment is considerably different in Texas than it is in Washington, D.C. But let's go back to the apartment building with the tenants who make under \$10,000, the working poor, how many units are there?

Mr. EISEN. The specific one I am talking about? 21.

Mr. WILSON. 21 units. If they succeed in buying the building, where is the financing coming from?

Mr. EISEN. Well, in this particular building, owner take-back financing is a possibility, meaning the owner acts as a lender. The owner takes a down payment and then there is a monthly payment.

Mr. WILSON. Is it interest at market rates?

Mr. EISEN. In this particular case it is below market rate.

Mr. WILSON. What is the interest rate in this particular case? What is the interest that you are talking about?

Mr. EISEN. 10.5 percent. That is one of the reasons why it is attractive and why it is possible it would work.

Mr. WILSON. What will be the payments? I assume these tenants don't have much to make a large down payment?

Mr. EISEN. That is a good assumption.

Mr. WILSON. At 10.5 percent, what are their mortgage payments going to be?

Mr. EISEN. Well, the total—this owner take-back in this case would be on an interim basis. There would be an attempt to get long-term financing through the Federal Housing Administration. For the interim part it would be about \$2500 a month for the 21 units, the acquisition price.

Mr. WILSON. A little over \$100 a month?

Mr. EISEN. Yes, per unit.

Mr. WILSON. Is the owner getting a fair market price for his property?

Mr. EISEN. More than a fair market price, much more than a fair market price. The owner take-back financing is a little misleading because there is a balloon payment at the end. At the end of a 5-year period it will have a large balance.

Mr. WILSON. Where is that going to come from?

Mr. EISEN. Long-term financing through the Federal Housing Administration. We have serious timing problems; you cannot process a loan through the FHA in less than eight months to a year.

Mr. WILSON. I am familiar with that problem.

Mr. EISEN. So that the time limits under the D.C. law allow a total of six months from initial notice?

Mr. WILSON. Is the owner happy with this arrangement?

Mr. EISEN. It has not been contracted yet.

Mr. WILSON. Is he cooperating? Is he enthusiastic about it?

Mr. EISEN. No. The way it generally works—the way it works is there usually is a third party purchaser, okay. What happens is the owner contracts with the third party and then—

Mr. WILSON. What is an example of a third party? Who would want to do that?

Mr. EISEN. Anybody who wants to buy the building. Presumably the third party wants to buy the building and convert it to condominiums. We do not know for sure but that is a reasonable assumption.

What happens is, the third party contracts and says to the tenants—the terms I gave you are terms offered to the third party purchaser. The rights the tenants have are to match those terms. It is possible the law is fuzzy. There have been court decisions that have left up in the air, the interpretation of the law. But at a minimum it is fairly clear if the tenants are able to match the terms that have been offered to a third party purchaser, the terms that I gave you are what has been offered to this third party. If the tenants are able to match those terms, then there will be a contract with the tenants.

Mr. WILSON. Just a couple of brief questions.

On a scale of 1 to 10, with 10 being the most, how much do you personally oppose vacancy decontrol?

Mr. EISEN. 10 is the most? About 10.

Mr. WILSON. How much do you personally oppose say decontrol of rents that are above \$750 a month?

Mr. EISEN. Above \$750 a month? I have trouble answering that one because I do not think that ever happens like that.

What happens is that whenever you have a luxury level, there are a lot of ways under the present law to try to get a unit up to that level. There has been a history of that happening. That is the reason that most people who oppose luxury decontrol are concerned that if you start allowing any units to be decontrolled, what happens—for example, it was stated yesterday the substantial rehabilitation process is hardly ever used. In my experience that is not true.

What happens, you can increase a rent by 125 percent, you start with a rent that is \$200. You say we will set a luxury level of \$450. If you increase the \$200 by 125 percent, you are up to \$450. There are plenty of cases of that happening, because that is considerably above what was set for the condominium conversion rate level. It is the same concern that would happen with luxury decontrol.

To try to answer you, \$750 or \$800, I have trouble doing that, but that is what the concern is in luxury decontrol.

Mr. WILSON. Thank you very much. I am sure that we may ask you to come back again.

Mr. EISEN. Thank you.

THURSDAY, NOVEMBER 29, 1979.

WITNESS

DAVID HILLMAN, PARTNER, CENTRAL MANAGEMENT CO.

Mr. WILSON. Is Mr. David Hillman here?

Mr. HILLMAN. Yes.

First I would like to say good morning and thank you for inviting me to speak. I am very flattered that you are interested in what I have to say.

First I will give you a little background on our company and on myself. We are a little controversial in the industry.

The company is a privately-owned syndication and management company. We own approximately 35 apartment projects in the Washington area with about 10,000 dwelling units.

I personally am also a CPA. I started this company in 1965 during an earlier crisis in the apartment business when overbuilding had created high vacancies and projects could be purchased in the Washington area for little or no money down. The income tax incentives are what first got me into the business.

In 1969 I merged with another individual who owned several apartment houses inside the City of Washington, D.C., which he and his family had built over a number of years. Together we have since formed a lot of different syndicates which have acquired additional buildings until we are where we are today.

The majority of the deals we have made have been to acquire financially-troubled properties at relatively cheap prices, and in all cases the prices are much less than the replacement cost or the real value of the properties. By applying what we think are good management techniques and doing selective rehabbing and upgrading the properties, we are able to make reasonably good profits from them.

I have some some basic facts about the apartment business and rent controls as I see them. The first thing is that the apartment business is the garbage end of the real estate industry and always has been. The business has never been healthy because profit margins have always been fairly low. In the past apartment construction was encouraged by income tax subsidies through rapid depreciation, that type of thing. Since that has been discontinued, new apartment construction has virtually disappeared except in certain rapid growth areas in the country.

Apartments really do not stand up as legitimate investments, they never have. The profit margins are just too low. The industry is overregulated and rent controls in my opinion do not, I say again, do not have any effect on profits or rent levels. I think the industry is so regulated at this point we are almost a utility and we have practically a cost-plus contract with no incentive to really control costs. Rent controls do erode property values and they cause all other classes of taxpayers to foot the bill.

I believe rent controls impede normal movements in the market and they create false shortages. Rent controls cost a lot of money to administer. Rent controls are politically easy to get into and they are politically difficult to get out of. Rent controls promote extreme hostility between landlords and tenants and they intrude very deeply on what should be a private transaction.,

Rent controls have made my company quite prosperous because we have learned how to use all of the disadvantages to our advantage. Their continued existence will make us a lot more money but their continued existence is an offense to us because we believe in capitalism. We also believe their continued existence will further elevate the so-called housing shortage by reducing the rental stock further.

I would like to tell you a little bit about our operations in the District.

Mr. WILSON. May I ask you one question?

Mr. HILLMAN. Yes, sir.

Mr. WILSON. You started out by saying essentially you acquire properties that are in financial trouble?

Mr. HILLMAN. Yes.

Mr. WILSON. Are they in financial trouble primarily because of rent control?

Mr. HILLMAN. Yes.

Mr. WILSON. Thank you.

Mr. HILLMAN. Just to answer that, about 30 percent of our business now is in Montgomery County, Maryland, which had very strong rent controls until recently and we acquired all of that business within the last three years.

In the District of Columbia, we do not purchase property. We will not purchase property in the District. We are making money in the D.C. properties that we own since the courts ruled that in order for rent control to be constitutional, increased operating costs must be passed through.

The D.C. Government's application of rent controls and its lack of long-term reliable policy make it absolutely impossible to obtain financing in the District. The District Government and the court system are heavily weighted in favor of the tenant who does not abide by his lease. We have learned to operate around this but we cannot operate with money. An apartment project is not financible in the District with private funds.

I note that the point of these hearings is on the tax base and I do not have anything specific on the District tax base, but I can give you specifics on Montgomery County which I think would apply to the District if someone researched it.

As I said earlier, in recent years we have acquired nearly 3,000 apartment units in Montgomery County. We have acquired every single one of these at very bargain basement prices. We make good returns on our investment on all of them. Without rent controls we would have never been able to purchase these properties at prices we could afford.

Mr. RUDD. May I ask a question there?

Mr. HILLMAN. Yes, sir.

Mr. RUDD. You say without rent control you would never have been able to purchase the property. Is that because rent control drove the value of the property down to where you could reach it?

Mr. HILLMAN. And because the psychological make-up of the owners. Rent control put the owners in a posture where they felt there was no market for the sale of their properties.

Mr. RUDD. Thank you, sir.

Mr. HILLMAN. These properties had a combined—six apartment projects with I believe 2,800 units in them—had a combined assessed value, fair market value as made by the Maryland State Tax Assessor, of some \$46 million. We paid \$29 million for these properties in total. That is a difference of \$16 million below their assessed value.

Historically, in most cases property sells for much more than its assessed value. In fact, Montgomery County has imposed an additional transfer tax on the difference between assessed values and actual transfer prices. Due to reassessments on these properties, we are paying, or will be paying as soon as we get done with the appeal hearings, about \$350,000 less in real estate taxes than was being paid before we bought them.

In my prepared testimony which I submitted to you—

Mr. WILSON. That is an amazing figure.

Mr. HILLMAN. Yes, sir, it is a lot of money. There I listed the properties by the date they were purchased and the names of them and the prices paid and the assessed values. I do not care to really read them off now. We now own about 7 percent of the total rent-controlled stock in Montgomery County, which means one in every 14 tenants resides in one of our projects.

Rent control in general, I believe, are pushed by special interest groups and in many cases they do it by exploiting racial composition. Supposedly landlords are white and all poor tenants are black. They are passed in general by people with little or no understanding of business and the housing market in general.

I do not believe rent controls help the people that really need it. They are no help to lower income groups and particularly elderly and retired persons.

Mr. WILSON. Why not, Mr. Hillman?

Mr. HILLMAN. Because most rent control laws get hung up on percentages, rather than actual dollars. Where someone is paying \$100 a month rent, which I know of projects where there are people still paying that, a \$20 increase may not be catastrophic to their budget, but percentagewise it is 20 percent of the rent, so it is out of the question. That \$20 may be all the landlord needs to get it together.

Older properties generally have lower rents and those are the ones that are marginal anyway. I was about to address that point. It leads to abandonment of older properties and it leads to the stagnation of middle-aged properties due to a lack of incentive to upgrade. There is very little incentive for a landlord to put in new carpeting in a high-rise-type building or new shrubbery, if you can't get anything back for it. In the District you can't even get it from a new tenant. So there is no incentive to try to attract a tenant to the building who can pay more rent.

Rent controls definitely prevent the construction of new properties. I believe they really do not have an effect on profit but they are used as an excuse by inefficient landlords. That is because of the pass-through provisions.

If you take the trouble to read the law and you can afford a lawyer, there are ways to get the rents that you need to get.

In conclusion, I would just like to say that the problems which rent control proponents promote can be addressed better by direct subsidies to those tenants who can show genuine financial need. Montgomery County, Maryland rent control ordinances have been models for other parts of the country—particularly in California—Montgomery County is now under a voluntary system and present plans call to end that system next year. They are replacing that with a system of county-funded subsidies that will go to tenants who can show genuine hardships and they will apply only to rent increases, not to the base rents.

Mr. WILSON. Does Montgomery County include Rockville, and Bethesda?

Mr. HILLMAN. Yes, sir; and Silver Spring.

Mr. WILSON. Where there are a lot of really high-priced units?

Mr. HILLMAN. That is sort of a misconception. Most of the housing in Montgomery is middle income, the vast majority of it. The expensive buildings are all down in Chevy Chase.

Mr. WILSON. That is incredible testimony, Mr. Hillman.

Do you spend a lot of money on lawyers in your company?

Mr. HILLMAN. I think so, yes, sir.

Mr. WILSON. I mean that has to be the answer. Is it not true that your ability to constantly have really first-class attorneys is probably as important as anything else to your success? Is that correct?

Mr. HILLMAN. It is a factor, yes; it is a very important factor.

Mr. WILSON. Did you hear Mr. Gray's testimony?

Mr. HILLMAN. Yes, I did. My heart goes out to him.

Mr. WILSON. It conflicts a little with what you say because he is probably an efficient landlord, especially in that he does so much of the repair work himself.

Mr. HILLMAN. I think he is. But one of the things rent control ignores is the market. Mr. Gray is in a different part of town than we are; Mr. Gray's tenants are in a different market than we have. If I were owning buildings like Mr. Gray's, I would have to operate in a different fashion. We do own buildings of that nature and we operate differently.

Mr. WILSON. Do you operate many buildings where your tenants are mostly welfare tenants?

Mr. HILLMAN. Not mostly. We have buildings that have welfare tenants in them.

Mr. WILSON. But mostly they are the working poor?

Mr. HILLMAN. Our buildings run the entire spectrum.

Mr. WILSON. Mr. Rudd?

Mr. RUDD. I want to thank you for your direct and candid testimony. I can appreciate what you are saying.

I have a question I think that would be good for you, with your background experience, and knowledge. It is with regard to new construction.

Mr. HILLMAN. I hope I can answer.

Mr. RUDD. I am estimating that the population of the District has really decreased about five percent in the last few years, since 1970. It takes a lot of hard work to research a buy. I understand that. So you earn every dime you get, because you put a lot of effort into this. I am not taking that away from you. In fact, I compliment you on it.

Mr. HILLMAN. Thank you.

Mr. RUDD. However, is rent control a factor in whether new construction is practical or necessary? Is it a factor in whether values of buildings, in some cases, have gone down to a point where you could pick them up and others shot up enormously?

Generally speaking, could you address yourself to that?

Mr. HILLMAN. Yes. In Montgomery County, where I have done a lot of work, I have had occasion to research that myself and get some figures on it. And according to the figures that were published this summer by the Council of Governments, the overall population of the entire Washington area, which is about 3 million people, has only increased by 35,000 people since 1970.

A lot of people around here are still living in the 1960's when thousands of people were moving into this area by the week. But the overall area has not had the growth that it had in previous years. I think it is probably stabilizing or entering a period of very slow growth.

Mr. WILSON. Our constituents will certainly be glad to hear that.

Mr. HILLMAN. There is still, even with 14 percent interest rates and the whole shooting match, a lot of new house construction. Regardless of the text of these hearings, there is an awful lot of people in the Washington area that make an awful lot of money and somebody is buying all those \$100,000-\$150,000 houses.

And the condominium thing is right on the heels of that, which, regardless of what the statistics say, the vacancy rate in Washington is a very deceiving thing. Where it says there is only a 1 or 2 percent vacancy rate, that seems terrific compared to other parts of the country. But underlying the vacancy rate is the fact that there is a very large portion of marginal people in those buildings.

By marginal, I do not mean lower income, I mean those people belong in more expensive housing and they are taking advantage of bargain basement prices and taking up space needed by other people. It is very difficult in some areas to rent apartments and it is very difficult to raise rents.

When we have to get rent increases in Prince Georges County, which got rid of rent control three years ago, we leave a notice on the doorstep and run like mad.

Mr. RUDD. I am not interested in getting into your business. That is not the reason for the next question I have for you. It is curiosity.

I know from personal knowledge 25 years ago, the first time I came to Washington, some of the townhouses so-called were then called row houses—here on Capitol Hill, for example. They were selling for \$9,000 to \$10,000. I know we have had tremendous inflation. Those same abodes today are called townhouses, and are not dressed up, not much else is done to them, except a quick paint job. They will go for \$140,000 to \$180,000—a tremendous advance.

This is not the market you are in, I realize, but does this help your market? I guess you could call them two- or three-family dwellings, or one-family dwellings. That market is obviously different than the market you go into when you buy a building. But do the values in that market help you?

Mr. HILLMAN. That market helps us in our luxury buildings because a lot of those houses—real estate is our only industry here. You have a lot of people who enjoy selling buildings back and forth to each other every week at higher and higher prices. But in between they have to get a tenant who is going to pay some rent and hopefully let him carry that building for a while.

There are probably 10 or 15 percent of the market of people that rent—rent single-family dwellings, townhouses or row houses. As the rents accelerate in those houses, it does help us keep our luxury buildings full.

Mr. RUDD. Thank you, sir.

Mr. WILSON. Mr. Chappell.

Mr. CHAPPELL. Thank you, Mr. Chairman.

I missed some of the testimony so I may be a little bit behind the curve here.

It seems to me if you balance supply and demand adequately, then you remove the need for rent control; would you agree with that?

Mr. HILLMAN. Absolutely.

Mr. CHAPPELL. Do we have that balance between supply and demand in today's market?

Mr. HILLMAN. I think there is an adequate supply, it is not an oversupply, but the people—particularly middle-income people—who are paying very small portions of their income towards rent are very reluctant to move to purchased housing or larger rental housing or whatever, and the apartments are not changing hands from tenant to tenant as fast as they should.

Five years ago we had a 40 percent turnover rate in most of our buildings. Today it is 8 or 10 percent.

I know of cases where people have moved out of the area, have retired and gone to Florida, but the rent on their apartment is so cheap that they keep the apartment so they can come up and visit relatives for two or three months a year. We have several of those in our buildings.

Mr. CHAPPELL. Do you have any figures on the number of vacant units in the market at this time?

Mr. HILLMAN. I would say in Washington it is probably under two percent; in the Maryland suburbs it is probably under three percent; the Virginia suburbs probably four to five percent.

Mr. CHAPPELL. Do you mean in all categories of housing or is there one category where you find a greater percentage?

Mr. HILLMAN. In luxury housing there is probably zero percent at this point, or very close to it.

Mr. CHAPPELL. If you have a zero percent, then you do not have proper competition in the marketplace, is that correct?

Mr. HILLMAN. No, you don't. I think anyone that wants an apartment and has the money to pay for it can get one. They may not be able to move in on the same day but they can get one in a month or two.

Mr. CHAPPELL. The real question to help me is, how can we get enough housing out there to give us a competitive market? If you have a competitive market, it seems to me the need for rent control automatically falls. How can we best get this competitive market?

Mr. HILLMAN. I really don't have the answer to that.

Mr. CHAPPELL. If you took rent controls off, would that give you more or less competition in the marketplace?

Mr. HILLMAN. I think that would free up some units and there would be more housing available, yes, sir. I think it would end the condominium craze or really put a damper on it. Condominiums are removing rental units from the market. There is a much higher percentage of people buying them for speculation than living in them.

Mr. WILSON. Have you converted any of yours to condominiums?

Mr. HILLMAN. I have sold a couple of real losers to converters, yes. We have not converted any of our units ourselves.

Mr. CHAPPELL. In your opinion, how is rent control affecting the incentive of investors to build more housing so you can have more competition out there? Obviously if you have a zero vacancy rate, you simply have, in all probability, lost the competitiveness in the marketplace.

Mr. HILLMAN. Inside the city a project cannot be built with private financing because lenders will not lend money. They won't even lend us money on a short-term basis to acquire a property.

Mr. CHAPPELL. Why is that?

Mr. HILLMAN. Because of rent control. They have a paranoid fear of it and they haven't learned there are ways to live with it.

Mr. CHAPPELL. So in your opinion, if you remove rent controls, this would get more competition in the marketplace?

Mr. HILLMAN. Yes, I think it would. It may not return it to the type of market we had ten years ago, but I think there would be more competition.

Mr. CHAPPELL. Do you think this would free up money for lenders to loan to investors?

Mr. HILLMAN. I think it would. Lenders would much rather lend several million dollars on one property than on two or three single-family homes.

Mr. CHAPPELL. Have you talked to some lenders who have said that is the reason they are not lending more money for production of rental units?

Mr. HILLMAN. Yes, I have. I probably have been turned down by every major life insurance company in the country.

Mr. WILSON. We had testimony yesterday to that effect. It is in writing.

Mr. CHAPPELL. I have no further questions.

Mr. WILSON. Thank you very much, Mr. Hillman. You have presented the committee with incredible testimony.

Mr. HILLMAN. Thank you.

THURSDAY, NOVEMBER 29, 1979.

WITNESS

MARK LOONEY, EMERGENCY COMMITTEE TO SAVE RENTAL HOUSING

Mr. WILSON. Our next witness is Mr. Mark Looney of the Emergency Committee to Save Rental Housing.

Mr. Looney, as we have asked the other people who represent organizations, is your organization funded through the government in any way?

Mr. LOONEY. No, we are not.

Mr. WILSON. Purely private?

Mr. LOONEY. Yes.

Mr. WILSON. Thank you.

Mr. LOONEY. My name is Mark Looney. I serve as the coordinator of the Emergency Committee to Save Rental Housing, which is a coalition of over five community and tenant organizations throughout the District of Columbia.

I am also Chairperson of Advisory Neighborhood Commission 3B, and I have been a tenant in the District of Columbia for the last ten years.

The Emergency Committee to Save Rental Housing protests the scheduling of these hearings today by Congressman Wilson on the District's rent control law. Last week we joined with several other community and tenant groups in sending a telegram requesting that these hearings be canceled. We protest these hearings for several reasons.

First, there was no public notice of these hearings to invite community groups to testify. AOBA and its local member real estate developers persuaded Congressman Wilson to hold these hearings only involving real estate industry representatives and city officials.

Mr. WILSON. Who persuaded me?

Mr. LOONEY. The real estate industry.

Mr. WILSON. You said—

Mr. LOONEY. AOBA.

Mr. WILSON. What is that?

Mr. LOONEY. Mr. O'Neill's organization.

Our organization and other tenant groups were not informed directly of the hearings. We found out by accident. Members of the press also did not know about these hearings.

Secondly, we believe that this committee has no jurisdiction to hold hearings on our city's rent control law. This law has already been in effect for several years. Congressman Wilson's authority is to deal with the city's budget, not with laws that have been previously approved.

We share the sentiments of most of the District's residents that Congress already has too much authority over the city. We share a desire to be able to control our budget and have our city council pass laws without congressional review.

How would the citizens of Lufkin, Texas, feel if Congress reviewed their laws and budget and held hearings on laws that were already in effect?

Third, we believe it is a conflict of interest for Congressman Wilson to hold hearings on tenant-landlord legislation since he, like many members of Congress, has made several real estate investments in the city. The houses owned by Congressman Wilson are covered by several sections of the rent control law, such as the eviction protection, the first right of tenants in his homes to purchase those homes if they are sold, et cetera.

Since these hearings have not been canceled, we wish to offer our wholehearted support for rent control. As we realize that the present rent control law expires in September 1980, we urge continuation of rent control in a stronger form with stricter enforcement.

Now I think all of us realize that our nation is experiencing a national housing crisis. And it not only affects rental housing but it affects people who are trying to buy homes. It is happening not just in the District of Columbia and its metropolitan area, but it is happening throughout the country.

I think we have to ask ourselves if several members of Congress cannot afford to buy houses in the District of Columbia and they have to live in their offices, hasn't it become a serious national problem that just does not affect people who are on welfare? It is affecting everybody. But certainly those people, those low-income people, those low-income people are being hit hard too, just like apparently members of Congress are also being hit hard.

The GAO this month warned that rental housing stock is being severely diminished nationally by condominium conversion and that something needs to be done.

HUD has issued a report which clarifies that conversions do not happen because of rent control but because of a desire for land owners to make large profits, period.

Rent control does not cause condominium conversions. We know cities such as Chicago, Seattle, Houston, Columbus and many other cities throughout the country have not had rent control and suffer from condominium conversions due to real estate speculation.

Additionally, in regard to the excuse that you are using to criticize our rent control law in this committee, the possibility that building prices have been deflated because of rent control and therefore appropriate taxes are down, that is a false assumption.

This committee, nor the real estate industry any time during these hearings has presented any documented evidence nor any case studies at all showing that building prices have been falling and therefore property taxes have gone down.

The opposite is true. I will give you an example, since nobody else from the real estate industry has provided any examples. There is a building at 1735 New Hampshire Avenue, a 36-unit building. What is happening in this building is typical of what is happening with buildings throughout the metropolitan area in terms of speculation. This building was purchased by a well known speculator, Mark Brodsky, who owned a home where the tragedy happened in Mount Pleasant and several people were killed in a half-way house that was not kept up to code. Mr. Brodsky bought

this building in the spring of 1978 for \$350,000. He is now selling it for, guess how much, a year and a half later, \$1 million.

Now, I think that is a typical example of what is happening to rental buildings in the city, which is going to bring in a lot more property tax money to the District of Columbia.

The trend we see nationally is to control this type of speculation, to pass tougher rent and condominium conversion controls. Rent examples of cities that have done this are Los Angeles, Santa Monica and the people of Baltimore.

We agree with the findings of a national study on rent control done by the state of California last year, the Gilderbloom report, and I hope that all the members of this committee read that report carefully.

We can supply copies of it to you. Very often as Mr. O'Neill did yesterday, the real estate industry quotes Mr. George Sternleib, who is often hired by them to do studies about rent control and condominium conversions.

Mr. Gilderbloom is very critical of Mr. Sternleib and the State of California found it appropriate to publish his report. His report concludes that rent control does not cause a reduction in apartment rental units construction, does not precipitate a decline in maintenance, does not lead to an erosion of the tax base nor an increase in abandonment or demolition. He also cites studies done on new apartment construction in New Jersey showing that cities in New Jersey that have had rent control have had an increase in new apartment construction such as they had in Massachusetts.

In closing, I would just like to say if rent control is lifted in the District of Columbia, the realtors will raise rents sky high. We don't need to have our pocketbooks plundered any further.

Thousands of people will be displaced if rent control is ended.

Do you know, Mr. Congressman, that the Mayor of this city estimates with our present rate of condominium conversion—the Mayor of Washington estimates that with our present rate of condominium conversion and with the present rate of speculation and displacement, even with rent control, that if something does not happen to make the laws more strongly enforced, since this committee has not given enough money to the rent control office, that the Mayor himself estimates in the next four years over 120,000 people will be displaced, over 120,000 people. If rent control is lifted, a lot more people than that would be displaced, and that is a very bad thing to consider.

The claim is often made by the industry that money is lost under rent control. We have heard several people try to make that claim today, yet it is interesting that these people have presented you with no documented figures at all.

Mr. WILSON. I would like to ask you, do you doubt Mr. Gray's testimony?

Mr. LOONEY. I haven't seen any figures; I haven't seen the budget.

Mr. WILSON. Didn't you hear his testimony?

Mr. LOONEY. I heard his testimony but I haven't seen any figures.

Mr. WILSON. But you believe that he probably is misrepresenting the situation and that he is making money?

Mr. LOONEY. I am not sure. He hasn't presented any figures at all. We know that the law here allows for a guaranteed rate of return and the fact is that often a much higher rate of return is made. I personally have helped organize tenant associations in several hundred buildings and in all those buildings more than an eight percent rate of return was made. I looked at the information supplied to the rental accommodations office. Why was more than an eight percent rate of return made? Because the law is not enforceable enough here, the city doesn't have enough money for the office.

Therefore, they estimate that over a third of the units in this city have had illegal rent increases. So, in other words, a third of the units in the city are not using rent control. We have heard rumors and you have brought this up in your questions that a rent subsidy program could be a replacement for rent control. This would not adequately protect low and moderate income people in the District.

Remember that 70 percent of our population are tenants. A subsidy by itself, without controls, will cheat the taxpayers. It will increase inflation because all it does is subsidize the landlords who will greatly increase their rents.

We can control inflation better by having stronger rent control and having subsidies operating together with rent control. Let's remember that in the recently released inflation report that just came out that housing prices were at the top of the list; that Mr. Kahn said they raised the inflation percentage by two percentage points just because of the housing.

I argue that is because of speculation, like the speculation that we see going on right in this city.

Finally, we also oppose luxury decontrol. Everyone should be covered by rent control. The history of our condominium law here, which obviously has not worked effectively, shows that when you set a luxury rent level you encourage people to raise rents illegally.

We also oppose vacancy decontrol which we feel would be a disaster for the residents of the city. So let's support strong rent control; let's oppose decontrol and vacancy decontrol; Congress, keep your hands off our rent control law, protect the rights of D.C. lawmakers to pass laws and keep them without outside interference from Congress.

Mr. WILSON. Mr. Looney, just a couple of things.

Number one, the first person to call us to testify before this hearing was a tenant. The only people that we notified of the hearings were the city.

Number two, Congress has not in any way affected adversely or otherwise the rent control law. The rent control law was passed by the city and allowed to stand by Congress.

Number 3, this committee has to appropriate between two and three hundred million dollars a year to run the city. Therefore, we feel that the taxpayers of the United States have an interest in whether or not the city's tax base is healthy and self-supporting.

Mr. LOONEY. Well, sir, I would like to make a suggestion that if you are going to hold hearings on rent control and how that affects the city's tax base, why don't you also hold hearings on real estate speculation and let's look into some of the illegal practices that

have happened in the city by the real estate industry which is forcing thousands of people out of their homes?

I would also like to make the point that if Congress is seriously concerned about the housing crisis in this city and in the nation, that what we need is to have more Federal money spent to help subsidize construction because construction has dropped nationally because the cost of materials has become too high and, as Mr. O'Neill himself said yesterday, once you build an apartment building now you have to charge luxury rents unless you get a subsidy.

It is ridiculous for Congress to continue to overfeed our bloated military budget and to fund projects such as the M-X missile and at the same time to cut back on Section 8 subsidies.

So the fault for the housing crisis lies largely with Congress also and the way it is spending its money.

Mr. WILSON. What is your occupation?

Mr. LOONEY. I work for the Emergency Committee to Save Rental Housing.

Mr. WILSON. Thank you very much.

THURSDAY, NOVEMBER 29, 1979.

WITNESS

HAROLD F. LAWSON, LANDLORD

Mr. WILSON. Next we have Mr. Harold Lawson. I believe Mr. Lawson is a landlord.

Would you tell us, Mr. Lawson, the nature of your properties? Do you own a lot of properties, a few properties?

Mr. LAWSON. I have personal ownership of over fifty apartment units.

Mr. WILSON. Thank you.

Mr. LAWSON. I manage others for other clients.

Mr. Chairman and members of this congressional committee, may I express my appreciation for this opportunity to come before you and present my positions and views on the effects of rent control in the District of Columbia, especially as it has impacted on the economic viability of the many small landlords in this jurisdiction.

May I vary before I forget something. You keep talking about tax bases. It is not in my testimony here, but I have a building that has been boarded up for two years. The tax base has gone up, up, up; income has been zero for better than two years. There has been no tax assessment, anything, but each and every year my tax fee has gone up and up and up. There is no appeal for it; there is nothing for it. I just have an increased tax base. Certainly the tax money must be going up because some of my money unjustifiably is going into the tax pot.

Mr. WILSON. I would agree that in your case you are being wronged, but as a matter of record, figures from the Office of Real Estate Assessment for the District, of Columbia show that apartment properties have decreased in value by \$221.7 million from

1975 to 1978. This is according to District of Columbia figures. So they are gouging you somewhere.

Mr. LAWSON. Sir, it does not apply to me. My personal investment goals: As an investor, it was my original intention to provide my family with a real estate portfolio that would accomplish the following: A zero balance cash flow or a small negative cash flow at the worst while we were gainfully employed. I guess in the accounting world that makes sense.

I wanted to provide a positive cash flow for the family when retirement age arrived.

Property that would maintain itself without continuous cash input from the family coffers.

Property that would provide the family business with an entree into the world of big business and leverage with the money marketplace.

Provide family members, as well as others, with an opportunity for self-employment, an on-the-job training opportunity for entry into the world of business, and the basis for a family business that could be passed on from generation to generation.

All of the names on my letterhead are all family members. I wanted to provide an opportunity to prove to myself and others that hard work, honesty and integrity were success-oriented concepts in any and all neighborhoods.

Personal experiences in the rental property investment market:

From 1968 through 1972 my experiences as a landlord and property owner were very positive and many of my personal goals and aspirations were achieved:

I was able to get rents paid in a timely fashion with a high frequency, landlord/tenant actions were very infrequent; property damage by tenants was minimal, housing code enforcement appeared to be fair and impartial.

Then rent control arrived and was imposed on 1973 rent structures and nothing has been the same since. The smaller landlords were uninformed re the impending imposition of controls over rent structures and thus were grossly unprepared to deal with the ominous economic realities inherent in this local legislation. I personally was unprepared for exploitation of the rent control concept by all of those who aspired to local political offices.

The prevailing cliché was/is, "there are more renters in the District than property owners." The young man just before me said there were 70 percent of the people in the city who were tenants. That is a very powerful political instrument. Inherent or built in bias against rental property owners is apparent to me at this point.

The effects of rent control to me are inflation, escalating utility costs, increased maintenance expenses and a regulated rent structure caused smaller landlords and some larger companies to operate in the red because income did not cover expenses.

Property taxes increased, licensure expenses increased; for my operation alone the cost of doing business with the city increased 433 percent in one step. For us utility costs soared and cash flow was greatly reduced by debt service: utilities for 50 units, 1974 at \$800 per year; utilities for 42 units, 1978, at \$2,600 per year with eight units closed down.

As taxes went up so did our payments; insurance fees went up. At this point in the game it is almost impossible to get insurance coverage of certain kinds for a man doing business in the rental property market here in the District of Columbia.

My rent loss, 1974 at \$2,000 for the year and in 1978 the loss was over \$12,000, non-payment of rent and does not include vacancy losses.

I am up \$18,000. The rent loss, 1974, I lost around \$2,000 for the year. This year alone I was forced to file over \$22,000 of rent loss cases.

Lending institutions refused to loan money to smaller landlords to improve and upgrade their properties. Personal loans could be obtained in small amounts but substantial loans based on equity in commercial properties were unobtainable.

Rent control has forced the landlords to subsidize the tenants' cost of living, i.e., the landlord was/is forced to use his personal monies so that tenants can live on his property.

For example, in 1978 I was forced to refinance my personal home for \$12,500 to pay for utilities used by my tenants. In 1979 I was forced to borrow \$7,100 against some certificates of deposit so that I could pay for oil used in 1978 and to provide a slush fund to pay for utilities and fuel oil to be used in 1979 and 1980.

I can get \$10,000 and I can get \$15,000 because my name is Lawson and I have been doing business with banks a long period of time. But if I need \$50,000 to renovate, upgrade, I can't get \$50,000. I can turn in a net worth statement better than \$500,000 or \$600,000 but I can't borrow \$50,000 because all of my properties are rental properties; that is a fact.

I can substantiate that.

Mr. WILSON. Could I interrupt you there?

Is it uneconomical for you to convert your units to where the tenants pay their own utilities?

Mr. LAWSON. That goes back to the lending institutions again, sir. My best cost figure so far has been around \$550 a unit for conversion to a multi-metered situation.

Multiply that by 50—and we haven't talked about the gas yet. That is another problem. I don't know exactly what that figure is, but it is more money than any institution would lend me.

Mr. WILSON. If you had the capital, could you do that under the rent control law without interference from the city?

Mr. LAWSON. There has to be some interference. If you change the structure to an all-utility situation financed by the landlord, you must apply to this rent control agency for a restructuring of the rent based on a change in your cost figure and an increase in the cost figure for living for the tenant.

Rather complicated, sir. You need a battery of Philadelphia lawyers to do business with RAO.

Then the expense to hire these people is so great that it is unfeasible to even try to deal with the hardship petitions. I hear them talking about hardship petitions and all the opportunities available to us landlords to remedy our red ink situation. Sir, it is a fiction; it is a myth.

But can you take a round wrench and take off a square nut? It just won't work, sir. I have people come into my office and say I

will run you through a hardship petition and charge you \$25 a unit as an initial fee, and we will take as final compensation whatever gains we get in rent increase for you for the first three months.

It sounded a little ridiculous to me, Mr. Chairman, and I did not deal with it. I see another problem here in the Landlord Tenant branch of the Superior Court and the District Housing Code Enforcement Branch. I maintain they rigidly enforce the rights of the tenant but no one, not one agency or bureaucrat that I know of will act to ensure the landlord of his right to his legal rental fees.

It seems a gross injustice to me, Mr. Chairman, and I suspect that you would have to go down and witness the idiotic operations that are represented by the Landlord and Tenant Court procedures to have any feeling for what I am talking about. I guess in street parlance, we talk about con games and the con artists. This has become one of the most fantastic con games that you can imagine.

It's beautiful, and I would represent to you, Mr. Chairman, that there is finer legal representation for free to the con artists than I can buy with all of the money that I can get together. It's fantastic.

There are times when sensible landlords will not present cases to the Landlord and Tenant Court. They will not allow them to go, because the final position is such an idiotic one, that it's insulting to even the lowest mentalitiy, let along a high mentality.

Under rent control housing code enforcement becomes a major economic factor for all landlords and especially small landlords. It is my observation that the housing code enforcement branch of the District Government practices selective code enforcement and this impacts unjustly on the smaller landlords.

I have one example here:

Two small black landlords were selected as scapegoats to test the effectiveness of the housing department's code that allows for the jailing of landlords who are unable to pay utility bills. Why select small and black landlords? What role did the Department of Housing play in these cases? Was there an interaction between officials of the utility companies and bureaucrats in the Department of Housing?

These questions cry out for an answer.

Is there truly selective code enforcement? I suggest there needs to be some examination of the housing and court enforcement branch. We are talking about dollar bills and to the small landlord they become very, very important.

I suggest to you that we need housing code enforcement, but I suggest to you that we need it impartially, across the board. What is good for me is good for everybody. If I have to live with the code, then everybody should have to live with the code.

I suggest this ought to be flipped over so we have a tenant code of behavior. Mr. Gray, the first man here, is not lying. I can duplicate a thousand times. I can take you into the area where I operated, and I can show you hundreds and hundreds of examples of the behavior that Mr. Gray described.

The con game says it doesn't exist because who wants to admit to guilt. No one does, but it is there. I can show you a housing project there at 22nd and Hartford Streets, I guess it is called the Garfield Project or something like that. It has been in court three years, the craziest pattern of litigation that I ever heard of.

There is a man who wants to improve his property and he can't improve his property. Why? Because he must guarantee to certain income levels to people that they must be able to buy a piece of property there. The housing code requires that he give them three offers to move to other properties, and supply certain funds to assist them in moving, but he is in court, this group is in court for three years, 200 units out there tied up in this litigation.

Then I can take you out to another park, 5 and 6 units out there boarded up owned by the government. The housing is not here. It's not true. It is here. The tenants who should take care of this property are not here. I say it is a tenant problem more than it is a landlord problem, and rent control, well, once you set the law up that says, hey, if you got a housing code violation you don't have to pay your rent.

If I want to spend money on some dope or buy whiskey or run up and down the streets on a fun mission, I am not going to pay you my rent. I am going to kick a hole in your wall and pull a light switch out or reach up and snatch a fixture up out of the ceiling.

I am going to run up and down the streets with my women, just have a good time off of your money and, Mr. Chairman, that is what is happening to a very great extent. The court's records will prove it and I suspect that there are more landlords who could testify to that position.

In summary, I would like to say that rent control has proven a disaster especially for the smaller landlords. A new, difficult and cumbersome bureaucracy has been created, RAO, with an apparent inherent bias against landlords. Historical review suggests that rent control has not worked and will not work. Rent control equals property abandonment.

I once called to the RAO office looking for information on an application or something. I would have thought I was in the middle of some kind of a left-wing rally or something, because I got some of the craziest advice over the telephone all oriented towards the tenant and against the landlord, and the person at the other end of the telephone didn't bother to ask me to identify myself and really didn't care.

I have never gone through that insult since, but I refuse to listen to those kinds of conversations.

Inflation with its escalating costs for fuel oil, utilities, maintenance costs, salaries, et cetera, cannot be equitably adjusted via rent control mechanisms. The bureaucratic processes are too cumbersome to respond to profound crises that threaten the economic viability of all investment property owners.

A fair and just Landlord Tenant Court system is badly needed, one that deals fairly and justly with the rights of the tenant and the landlord.

Some mechanism must be developed to guarantee the landlord his right to collect his legal rents. To date all mechanisms are oriented toward the so-called rights of the tenant.

The constitutional rights of property owners in the District of Columbia apparently need additional protection. Political expediency appears to be eroding the right of self-determination for each and every property owner in the District of Columbia.

Rent control is forcing many District rental property owners to subsidize their tenant populations. Present rent structures do not allow landlords to cover all operational expenses through rental income.

Funding sources must be made available to all investment property owners so that a viable rental housing market can be kept operational. We need funds to assure that housing code enforcement demands can be met; property upgrading can be achieved as needed; proper maintenance standards can be met, and needed housing units can be kept on the rental market.

An investigation of the housing code enforcement branch and its policies is needed so that all landlords, irrespective of economic size, can be assured of equal, fair and impartial enforcement activities.

Mr. Chairman, I thank you again for the opportunity to come before you.

Mr. WILSON. You said you had a boarded up apartment building that you were having to pay taxes on. How many units involved?

Mr. LAWSON. Nine units, sir.

Mr. WILSON. Why did you board it up?

Mr. LAWSON. I couldn't meet the costs, and I couldn't collect the rents and, number three, the tenants that I am dealing with were totally destructive. My money went up and down the road with the cars and the whiskey and the girls.

Mr. WILSON. Why don't you sell it instead of keeping it and boarding it up and paying taxes on it?

Mr. LAWSON. You had very good testimony about why you can't sell. I couldn't get my money out of it, sir, and at the present time it is an economic strain on me to carry it, but I am able to carry it because I bought at a very reasonable level.

I bought under the same kinds of circumstances as Mr. Hillman, 6½ percent; 7 percent money is not out on the streets anymore. I am holding on and hoping that things will change. I don't know where the hope is coming from, but there has to be real light somewhere in this dark tunnel, at least I hope so. Maybe I will live that long. Maybe I won't.

Mr. WILSON. Thank you very much, Mr. Lawson, for your very interesting testimony.

THURSDAY, NOVEMBER 29, 1979.

WITNESS

RAYMOND J. HOWAR, PRESIDENT, WASHINGTON BOARD OF REALTORS

Mr. WILSON. Our next witness is Mr. Raymond J. Howar, President of the Washington Board of Realtors.

Mr. HOWAR. Congressman Wilson, other Members of the committee, I would like to thank you for this opportunity to testify before you.

My name is Raymond J. Howar. I am a native and resident of the District of Columbia. My primary business is real estate invest-

ments. The business was started by my father, A. Joseph Howar in 1921. He, incredibly, is still alive today at the age of 98.

Historically, since the 1920's, the focus of our business has been the development and operation of multi-family rental properties, primarily in the City of Washington and since the 1950's in neighboring Virginia.

As of the inception of District of Columbia rent controls in 1974 our family holdings consisted of some 650 apartment units in six buildings located primarily in the Foggy Bottom and Cathedral Avenue areas off Massachusetts Avenue. Most of my tenant profiles historically have been middle and lower middle income renters with a large percentage of government employees in the Foggy Bottom area.

Annual turnover was approximately 25 percent and the operating cost ratios, that is, the operating cost ratio is the ratio of expenses to income average ranged from 46 to 48 percent. That is out of every income dollar 46 to 47 cents went to pay expenses; the balance 53 to 54 cents was available to pay debt service, make necessary capital expenditures and pay the owners a reasonable profit.

This operating ratio was on a par with the local and national averages. The age of the properties varied from 6 to 36 years, but all were maintained in top condition; necessary improvements and repairs were always made, exteriors of the buildings were painted every three years and the properties were considered viable investments on which my parents in their declining years could rely on.

Let's look at what has happened since rent control started in 1974 and what its effect has been after five years.

Today, out of our original portfolio of 6 buildings and 650 units, we only have one building containing 21 units that has not either been sold, leased for another use, under contract for sale, or under negotiation for sale.

Why?

Owning rental housing in Washington under existing rental control laws is no longer profitable or desirable. Starting in late 1977, after the passage of the latest law 2-54 by far the most onerous to date, I made the financial decision to bail out of the rental housing business and invest in other ventures.

Why? Simple arithmetic. With unfair and unrealistic controls on our income and no controls on our expenses we saw our operating expense ratios rise to 75 percent and 78 percent. That is to say, 75 to 78 cents out of every dollar collected went to pay expenses. That left 22 to 25 cents to pay debt service and profit. Forget any improvements. I have not been able to paint the exterior of any building since 1974 or make any capital improvements.

For example, 1010 25th Street, Northwest, 88 units currently owned by my 73 year old mother is under contract to the Tenants Association at a purchase price of \$1,900,000.

Mr. WILSON. Where are they getting the money, Mr. Howar?

Mr. HOWAR. I don't know. Very interesting historically, I went to them with an idea of keeping this building as a rental project and requested from them a 15 percent voluntary increase in rent. They turned me down, because they knew what the financial picture of the building was.

In fact they forced me to sell to them. The profile of the tenants, 51 percent are buying, the average income in the building is, I believe, in excess of \$15,000 to \$18,000. The tenants are currently paying 17 to 18 percent of the maximum on an average for their rents. There are no Federal fundings involved.

There are no Federal funds that I know of that the tenants are relying on for sale. They are doing it right. They have a realtor who is their financial advisor and a private attorney. They are well-funded in their internal. They know what they are doing. I do believe that they are going to go to settlement.

Mr. WILSON. They got permanent financing somewhere?

Mr. HOWAR. Yes; they have to borrow the permanent financing. The 1978 net earnings on this building was \$15,000 after paying \$36,000 in debt service and a 6 percent management charge. That \$15,000 represents a 1.1 percent return, and the \$1.9 million minus the mortgage balance which is roughly \$300,000.

If you think that's bad, prior to a rent increase in 1979, the cash earnings for 1977 were only \$7,500. Needless to say my mother had no choice but to live on her savings.

It might be questioned whether I was diligent enough in pursuing hardship petitions and other means at my disposal under existing law to better the financial condition of this and other properties under my control.

The answer to this is simple. I spent four years as one of the landlord members on the Rent Commission of the District of Columbia. I know the law well. I was a part of the appellate division of that body. I spent over \$8,000 in legal and accounting fees to receive a total of 1 percent increase in one case and a 4.5 percent increase in another case. Both cases took almost a year to adjudicate.

Rent control has proved to be a "non-solution" to Washington housing problems. After five years of rent control we have had substantially no new non-subsidized rental housing starts and have lost over 18,000 housing units from our housing inventory.

That 18,000 is the minimum. Nobody knows how far that goes. The road to deterioration and decay of the remaining stock is well under way as evidenced by the Rent Commission Annual Report to the Council in 1977 and 1978. The 1979 Annual Report I am told will show further evidence of deterioration and rise in the operating ratio. The operating ratio according to the Rent Commission and the report to the Council in 1978 stated the average operating ratio in the city was in excess of \$640 out of every thousand, or an operating ratio of above 64.

Mr. Burns, the government statistician, an economist who did this report, was not asked to testify before you because he described to us commission members the housing stock in the District of Columbia as being dangerous.

He said the majority of the stock is in there holding by its fingernails. His description of it was disastrous.

Rent control has held nothing but "empty promises" to the low and moderate income tenants it purports to help and protect. Last year's Rent Commission report to the City Council showed the largest rent increases awarded under the hardship process were in the low and low moderate income wards of the city.

What has rent control meant to the moderate and upper moderate income tenants in Wards 2 and 3? A bonanza. A survey at the Van Ness Apartments showed the average tenant was paying only 14 percent of their income for rent.

In the properties that my family owns, the average tenant has been paying 17 to 18 percent of his income for rent. My own personal experiences show 17 percent. No wonder the hue and cry from those wards when any mention of relaxation of controls comes up.

What has been the effect of rent control on the tax base of the city? Millions lost. Not only from closed buildings but, most importantly, the real estate assessment of apartments is based on the net income it generates. Since net income under rent control has constantly decreased assessments of apartment buildings have only increased slightly if at all over the past five years.

Most owners would be able to get substantial decreases in their assessments if they appealed their assessments, but the way the law is structured, the higher the assessment the more advantages one has in filing a hardship petition, because the 8 percent return is based on that assessment figure.

What is the solution to the housing problems of the city? Not rent control. It has been proven to be a "non-solution" as have all the other regressive housing laws passed so far by the City Council. We in the housing industry have been the "whipping boys" of inflation.

As president of the Washington Board of Realtors and as a private citizen who is an investor in rental real estate I would urge certain actions be taken to promote confidence in the investment in our industry.

In order to have investment there has to be confidence. You have heard testimony of the fact that insurance companies will not lend money on rental housing. I have talked to major life insurance companies. We had a building in Foggy Bottom where the loan had come up for renewal.

It was only because we had a history of a business transaction with a life insurance company that spanned a 35-year term and the personal enforcement of the owners which were basically my mother and three other owners and the basis of their financial statement that we were able to get a continuation of that loan.

We need immediately to decontrol all vacant units;

Decontrol all rents over the HUD fair market rent level for existing buildings;

Phase out rent control by January 1981;

Eliminate all current restrictions on housing, such as condo and co-op moratorium and controls, speculation tax, et cetera.

Target those citizens in need and assist them with rent supplements or relocation funds derived from taxes paid by the entire community where responsibility lies, not just an indirect subsidy that landlords have been forced to bear.

I resent my mother having to subsidize tenants who don't need that subsidy. We have done it on an individual basis in the past, and I can bring letters of testimony of thanks from people who have been our tenants over the years who have not had rent

increases because they were elderly, or whatever, but I chose to make that subsidy myself where it was needed.

Rent control is a product of inflation; rent control does not cure inflation; its relief to renters is temporary; its long range impact is most harmful to the very people it seeks to help.

The producers and financiers of rental housing must be recognized as legitimate business persons seeking a fair return on investments, but at the same time providing a primary public service. Stability can be restored only by recognizing that rent control is not the answer, and that the property owners cannot be used continuously as the whipping boys of inflation.

Help for the needy and elderly can be procured only through a partnership between government and the private sectors at all levels in the spirit of free enterprise.

CONDOMINIUM AND COOPERATIVE CONVERSIONS STUDY

That is the end of my prepared statement. I have brought and would like to insert in the record a copy of the Condominium and Cooperative Conversions Study of the District of Columbia that was prepared and dated October, 1979 by the Development and Economics Group that was paid for by a group of real estate investors, because primarily we could not get the city or the Council or anybody else to do it.

I basically attack the fallacies that have been around about what condominium conversions have done. In the study in all the conversions that happened in the city in the sample used, it showed, to answer Mr. Stoke's question of yesterday, of the tenants who did not buy, 11 percent of those who did not buy had incomes of under \$10,000.

We don't know what their assets were. They could have been somebody who is elderly. We don't know what their assets were, but they chose not to buy.

[The report referred to follows:]

Condominium and Cooperative Conversions in the District of Columbia

I. Survey of Non Purchasing Tenants

II. Fiscal Impact of Conversion

III. Buyer Profile

Prepared by
Development Economics Group
Division of
Raymond, Parish, Pine & Weiner, Inc.
October 1979

EXECUTIVE SUMMARY

I. Survey of Non-purchasing Tenants

Since the enactment of D.C. Law No. 1-89 in September, 1976 ("Condominium Act of 1976"), 14,642 units in 204 buildings have been certified eligible to convert to condominiums. Of these, 4,278 units in 77 buildings have been registered, the final step in the conversion process before any units may be sold.

Of the 2,106 units in 30 buildings registered and converted to condominiums between January 1, 1978 and June 30, 1979 where there was direct displacement, at least 512 units (24 percent) were purchased by building tenants.

Non-purchasing tenants surveyed were generally single-person households (67 percent), non-elderly (78 percent), and reported annual household incomes of between \$10,000 and \$25,000 (49%). While there were proportionally fewer single-person households and proportionally more elderly households in our earlier 1978 survey, the non-purchasing tenant profile does not vary greatly between September 1976 - December 1977 and January 1978 - June 1979, the two periods covered by the surveys.

As in the 1978 report, approximately half of all tenants surveyed moved to another unit within the same neighborhood, and in both surveys, 80 percent rented, rather than bought another

unit. The median length of time to find alternate housing was reported to have been two months in the 1979 survey.

In the 1979 survey, tenants generally paid more for alternative rental units than they had been paying for apartments before conversion (+17.9%). However, the average apartment size increased as well, from .79 bedrooms to 1.17 bedrooms per unit, or an average .22 bedrooms per unit increase.

SUMMARY TABLE

	<u>No. Bldgs.</u>	<u>No. Unit</u>
Certificates of Eligibility to Convert to Condominium issued 9/1/76 to 6/30/79	204	14,642
Registrations approved 9/1/76 to 6/30/79	77	4,278
Percent of buildings/units both certified and registered	38%	29%

II. Fiscal Impact of Conversion

The assessed value of 20 buildings under analysis increased 236 percent between FY'72 and FY'79. The increase in tax revenue realized by the District from these buildings was approximately \$590,000, or an increase of 118 percent, in spite of a 24 percent reduction in the tax rate and \$154,000 in foregone revenue due to the homestead exemption. If the same buildings had appreciated only as much as the overall District tax base, or 66 percent, and the homestead exemptions not granted, the District would have realized a net increase in revenue of only \$114,700. Thus, conversion of these 20 buildings resulted in approximately \$475,000 of additional tax revenue in FY'79, or approximately \$270 per year per unit.

III. Buyer Profile

In the ten buildings surveyed, 90 percent of the condominium units were purchased by owner-occupants. Almost 70 percent of the purchasers had resided in the District prior to buying a condominium, and over 50 percent of all buyers had rented in the District prior to buying (includes tenant purchasers).

INTRODUCTION

In March, 1978, Development Economics Group prepared a report entitled "Survey of Non-purchasing Tenants in Apartment Buildings Converted to Condominiums Under D. C. Law No. 1-89." The report was commissioned by a coalition of some seventeen real estate trade associations, companies and individuals. One hundred eight non-purchasing tenants who had been displaced by conversion since the law was enacted were contacted by telephone to determine who was displaced, reasons for not purchasing, the cost and location of alternate housing and the length of time that was required to find alternate housing.

In August, 1979, Development Economic Group was retained by the Washington Home Ownership Council to prepare a fiscal impact analysis of conversion on the District's real estate tax base, to determine where condominium buyers lived previously and to update the March 1978 survey. In updating the survey of non-purchasing tenants, a larger sample of 150 tenants was drawn from a universe of buildings which had progressed in the conversion process past the period of first refusal for tenants since the enactment of D. C. Law No. 1-89, the Condominium Act of 1976. Buildings included in the earlier survey were not resurveyed.

On May 22, 1979, the Council of the District of Columbia enacted D. C. Act 3-44, the "Emergency Condominium and Cooperative Act of 1979", which was subsequently extended until October 22, 1979. The major provisions of the act are as follows:

1. No building may receive a Certificate of Eligibility to Convert to Condominium (C. E.), or, in the case of

cooperatives, an exemption to convert, until the expiration of the act;

2. No building already certified eligible to convert may be registered unless:
 - a. the C. E. was granted based on tenant consent; or
 - b. "substantial investment" had been made by the developer prior to May 22, 1979. Substantial investment has been defined generally as more than \$1,000 per unit, or a maximum of \$50,000 per building for the purposes of this act; or
 - c. the building was purchased prior to May 22, 1979 for the purpose of conversion.
3. An Emergency Condominium and Cooperative Commission was created to recommend permanent legislation to deal with the problems of tenants impacted by conversion of their buildings.

The moratorium imposed by D.C. Act 3-44 has temporarily halted the conversion of buildings which had not received C. E.'s prior to May 22, 1979 as well as buildings which do not meet the criteria for registration approval, necessary before any units may be sold. The purpose of this report is to provide data to the industry and public officials which will be useful in formulating public policy decisions affecting rental housing and condominium and cooperative conversions in the District. This report is not a comprehensive analysis of condominium and cooperative conversions, but rather a detailed analysis of two aspects of conversion which need to be directly

addressed in any permanent legislation following expiration of the Emergency Act: 1) conversion-related displacement of households disadvantaged in competing in the housing market because of age or income; and 2) the impact of conversion on the public treasury.

Background Information

The first step in converting an apartment building into a condominium is receiving a Certificate of Eligibility to Convert to Condominium (C. E.). A C. E. may be granted if:

- 1) the building is a "high rent" building as defined by the D. C. Council;
- 2) a majority of the heads of household consent to the conversion;
- 3) the building had been vacant for twelve consecutive months ending on June 30, 1976; or
- 4) the District of Columbia vacancy rate for low and moderate

income housing is computed to be greater than 3 percent. C. E.'s have been granted based on the first three conditions. As shown in Table 1, 14,642 units in 204 developments have received C.E.'s since September 1976 when the Condominium Act was passed. A comprehensive list of buildings certified eligible to convert is included in the Appendix as Tables A-1 (covering the period prior to our first survey, September 1976-December 1977), and A-2 (from January 1978-June 1979).

Table 1

CERTIFICATES OF ELIGIBILITY
 Sept 1, 1976 to June 30, 1979

<u>Year</u>	<u>No. Bldgs</u>	<u>No. Units</u>	<u>Average Units/Bldg.</u>
Sept-Dec 1976	11	646	59
1977	35	1,787	51
1978	115	10,792	94
Jan-June 1979	<u>43</u>	<u>1,417</u>	<u>33</u>
TOTAL			
Sept '76-June '79 #204		14,642	72

Source: D.C. Department of Housing and Community Development;
 Development Economics Group

Tenants in buildings converted to condominiums must be given 120 days notice of the conversion. Such notice must be given no later than ten days after the declarant's application for registration is approved, the next step in the conversion process. Table 2 lists all buildings by address and year which have been registered over the same period. In all, 77 buildings, with 4,278 units, have been registered, of which three buildings containing 284 units were in Fairfax Village, an ongoing conversion begun prior to 1975 and specifically permitted to continue under the Condominium Act of 1976.

Table 2

CONDOMINIUM AND COOPERATIVE CONVERSIONS
 CERTIFIED AND REGISTERED BETWEEN 9/1/76 AND 6/30/79

<u>Sept.-Dec. 1976</u>	<u>No. Units</u>
1. 1831 California St. NW	10
<u>1977</u>	
1. 1718 Corcoran St. NW	26
2. 1018 E. Capitol St.	6
3. 2123 California St. NW	58
4. 1746-56 Corcoran St. NW	35
5. 1821-25 Riggs Pl. NW	10
6. 4701 Connecticut Ave. NW	57
7. 2029 Connecticut Ave. NW	22
8. 1747-49 Church St. NW	17
9. 309 4th St. SE	7
10. 311 4th St. SE	7
11. Fairfax Village VII	76
12. Fairfax Village VIII	50
13. Fairfax Village IX	158
	<u>529</u>
<u>1978</u>	
1. 1915 Calvert St. NW	14
2. 115-117 E St. SE	31
3. 1901 19th St. NW	10
4. 1525 Q St. NW	14
5. 2230 California St. NW	43
6. 1815 18th St. NW	14
7. 3901 Tunlaw Rd. NW	39
8. 3051 Idaho Ave. NW	92
9. 3701 Connecticut Ave. NW	262
10. 1705 P St. NW	20
11. 1758 Corcoran St. NW	4
12. 4200 Cathedral Ave. NW	184
13. 2205 California St. NW	28
14. 3014-20 Dent Pl. NW	35
15. 1800 R St. NW	72
16. 5410 Connecticut Ave. NW	166
17. 2711 Ordway St. NW	42
18. 1855 Calvert St. NW	32
19. 644 Massachusetts Ave. NE	50
20. 1545 18th St. NW	195
21. 18 9th St. NE	39
22. 1824 19th St. NW	4
23. 4700 Connecticut Ave. NW	55
24. 4740 Connecticut Ave. NW	166
25. 1325 13th St. NW	35
	<u>1,646</u>

1979

1. 11 2nd St. SE	30
2. 640 Buchanan St. NW	12
3. 1740 New Hampshire Ave. NW	15
4. 3616 Connecticut Ave. NW	34
5. 2127 California St. NW	104
6. 1717 T St. NW	7
7. 1822 T St. NW	8
8. 2227 20th St. NW	35
9. 201 E St. SE	8
10. 5406 Connecticut Ave. NW	63
11. 3035 Q St. NW	5
12. 1718 P St. NW	182
13. 1825 Florida Ave. NW	11
14. 2201 L St. NW	169
15. 101-03 2nd St. NE	7
16. 4000 Tunlaw Rd. NW	290
17. 1615 Q St. NW	170
18. 115 D St. SE	26
19. 1731 T St. NW	1
20. 410-20 11th St. NE	24
21. 1519 Church St. NW	3
22. 2009 Belmont St. NW	15
23. 1330 New Hampshire Ave. NW	226
24. 1907 S St. NW	1
25. 2410 20th St. NW	42
26. 1810-12 Ingleside Terr. NW	10
27. 1925 16th St. NW	18
28. 3420, 26 16th St. NW	154
29. 4027-29 Benton St.; 4000-02 Beecher St. NW	95
30. 614 Maryland Ave. NE	5
31. 1050-52 25th St. NW; 2502-10 M St. NW	14
32. 2129 Florida Ave. NW	46
33. 1880 Columbia Rd. NW	49
34. 3315 Wisconsin Ave. NW	65
35. 3900 Tunlaw Rd. NW	100
36. 2149 California St. NW	11
37. 1721 U St. NW	3
38. 4570 MacArthur Blvd. NW	35
	<u>2,093</u>

SUMMARY

<u>Year</u>	<u>No. Buildings</u>	<u>No. Units</u>
Sept. - Dec. 1976	1	10
1977	13	529
1978	25	1,646
Jan. - June 1979	<u>38</u>	<u>2,093</u>
Total Sept. 1976 - June 1979	77	4,278

Source: D. C. Department of Housing and Community Development;
Development Economics Group.

Table 3
 SUMMARY OF C.E.'S AND REGISTRATIONS
 Sept.1976-June 1979

<u>Year</u>	<u>C. E.'s</u>		<u>Registrations</u>	
	<u>No.Bldgs</u>	<u>No. Units</u>	<u>No.Bldgs</u>	<u>No. Inits</u>
Sept-Dec.1976	11	646	1	10
1977	35	1,787	13	529
1978	115	10,792	25	1,646
Jan.-June1979	<u>43</u>	<u>1,417</u>	<u>38</u>	<u>2,093</u>
TOTAL	204	14,642	77	4,278

Source: D.C.Department of Housing and Community Development;
 Development Economics Group.

The main source of information for Tables A-1 and A-2 is the master list maintained by the D. C. Department of Housing and Community Development. Discrepancies in the number of units recorded on DCDHCD's master list, individual building files maintained by that office and developer records result from confusion in the definition of "unit". Some office and storage rooms, potentially housing units, are reported; some buildings have more or fewer units after conversion due to remodeling; some residential property management units are not counted. When a discrepancy was found, it was assumed that the records of the building owner were correct.

In Tables A-1 and A-2, the buildings are categorized by four groups, roughly in the order the C.E. was received, as follows:

- 1) Eligible buildings which have not been registered as of June 30, 1979. A building must be registered before any condominium units can be sold.
- 2) Eligible buildings vacant for more than one year prior to conversion. Even though the C.E. may have been granted based on high rent or tenant consent, these buildings are categorized separately in that tenants who moved more than one year before the building was certified eligible to convert would be difficult to locate and not necessarily displaced due to conversion.
- 3) Eligible buildings occupied solely by the owners prior to conversion. In most cases, this represents a single-family home converted to multi-family, displacing no one.
- 4) Eligible buildings which have begun the conversion process by giving tenants notice of intention to convert, but which have not completed the period of first refusal for tenant purchase.
- 5) Eligible buildings which have been registered, allowing sale of units.

Table 4

SUMMARY TABLE
 BUILDINGS RECEIVING CERTIFICATES OF ELIGIBILITY TO CONVERT
 TO CONDOMINIUMS
 9/1/76 to 6/30/79

	<u>No. Buildings</u>	<u>No. Units</u>	<u>%</u>
<u>Buildings which have been Registered</u>			
Vacant for more than 1 year	21	297	
Owner-occupied	3	5	
Tenant period of first refusal not passed by 6/30/79	2	89	
Fairfax Village (Not included in survey)	3	284	
All others	<u>48</u>	<u>3,603</u>	
TOTAL REGISTERED	77	4,278	29%
TOTAL UNREGISTERED	127	10,364	71%
Total receiving C. E.'s	204	14,642	

Source: D. C. Department of Housing and Community Development;
 Development Economics Group.

I. SURVEY OF NON-PURCHASING TENANTSMethodology

From Table A-2E, 24 buildings with 2,259 units which had received C.E.'s since Jan 1, 1978 had also passed the period of first refusal for tenants, and thus were initially included as buildings in our tenant survey. However, it was found that for two buildings, 4000 Tunlaw Road, N.W. and 2201 L Street, N.W., it would be difficult to survey non-purchasing tenants in that tenants had been offered the option to stay as renters for one to two years. Therefore, it was impossible to determine which tenants had moved out as a direct result of conversion, and these two buildings were eliminated from the survey. The remaining 22 buildings with 1,800 units were included in the survey.

At the time of our 1978 tenant survey, some buildings eligible to convert had not begun the conversion process, or had not passed the period of first refusal for tenants, and thus were not included in our survey. Table 5 lists these buildings, and identifies 8 buildings with 306 units which had passed the period of first refusal for tenants by June 30, 1979. These buildings were added to our 1979 tenant survey. Seven additional buildings, with 490 units, still have not begun the conversion process at this time. For four other buildings, we were unable to contact the owner, and the C.E. has been withdrawn for one other building.

Table 5

UPDATE OF 1978 TENANT SURVEY*

Address	No. Units	1979 Building Status		
		Not Begun	Period of First Refusal Lapsed	C/n Con- tact Owner
1. 6101 16th St. NW	203	203		
2. 3405 Prospect Pl. NW	4	4		
3. 115-117 E St. SE	31		31	
4. 11 2nd St. SE	30	30		
5. 1525 Q St. NW	14		14	
6. 3901 Tunlaw Rd. NW	39		39	
7. 2219 California St. NW	21	21		
8. 1848 Wyoming Ave. NW	18	18		
9. 2153 California St. NW	53	53		
10. 1758 Corcoran St. NW	4		4	
11. 2032 Belmont Rd. NW	161	161		
12. 3616 Connecticut Ave. NW	34		34	
13. 3014-20 Dent Pl. NW	35		35	
14. 2512 Q St. NW	100	100 (withdrawn)		
15. 4471-91 MacArthur Blvd. NW	45		45	
16. 2127 California St. NW	104		104	
17. 1511 22nd St. NW	19			19
18. 2301 Connecticut Ave. NW	26			26
19. 640 Buchanan St. NW	13			13
20. 1705 P St. NW	20			20
TOTAL	974	590	306	78

*Includes certified buildings which had not begun the conversion process, or which had begun the process but had not passed the period of first refusal for tenants.

Source: Development Economics Group.

Altogether, 30 buildings, with 2,106 units, comprise the universe from which a systemic sample of non-purchasing tenants was drawn (Table 6). Of the 30 buildings in the survey, lists of non-purchasing tenants were obtained for 28 buildings from developers or managing agents. For the other two, Haines Criss-Cross provided a list of the most recent building occupants. Of the 2,106 units, 512 units, or 24 percent, were purchased by building tenants.

In the 1978 survey, 32 percent were purchased by tenants. It is interesting to note that the addition of one building which completed the period of first refusal just after the cut-off date of our survey, and the two buildings which converted, but offered tenants the option to rent, (listed in Table 7), would raise the percent of tenant-purchasers to 36 percent or slightly more than in our 1978 survey.

An additional 14 units had been used as offices, and 15 units were kept as rental for elderly and/or low-income tenants. The remaining 1,565 units comprise the sampling frame. A sample of 150 households, or approximately 10 percent, was drawn, and tenants were contacted by telephone. No households which were known to have moved out of the Washington area were contacted. All telephone calls were made during the evening hours or on weekends to avoid skewing the sample in favor of households with someone home during the day, typical of the elderly. Twenty-seven buildings were represented in the survey. We were unable to locate any former tenants in three small buildings which had been virtually emptied through normal attrition. Where a household drawn could not be reached or could not be identified, the next person on the list was contacted. The survey was conducted during the period August 6 through September 6, 1979.

Table 6

BUILDINGS REPRESENTED IN TENANT SURVEY

<u>Address</u>		
1. 4000 Beecher Rd. NW	95	4**
2. 2009 Belmont Rd. NW	15	-
3. 2127 California St. NW*	104	6
4. 2149 California St. NW	11	-
5. 1880 Columbia Rd. NW	49	11
6. 3616 Connecticut Ave. NW*	34	4
7. 5410 Connecticut Ave. NW	166	46
8. 1758 Corcoran St. NW*	4	1
9. 3014-20 Dent Pl. NW*	35	7
10. 115-117 E St. SE*	31	5
11. 201 E St. SE	8	-
12. 2129 Florida Ave. NW	46	8
13. 4471-91 MacArthur Blvd. NW*	45	1
14. 4570 MacArthur Blvd. NW	35	11
15. 644 Massachusetts Ave. NE	50	1
16. 1330 New Hampshire Ave. NW	226	79
17. 2711 Ordway St. NW	42	3
18. 1718 P St. NW	182	97
19. 1525 Q St. NW*	14	1
20. 1615 Q St. NW	170	79
21. 1800 R St. NW	72	-
22. 1721 U St. NW	3	3
23. 3315 Wisconsin Ave. NW	65	21
24. 3900 Tunlaw Rd. NW	100	12
25. 3901 Tunlaw Rd. NW*	39	2
26. 18 9th St. NE	39	4
27. 3420, 26 16th St. NW	154	N.A.
28. 1545 18th St. NW	195	99
29. 2227 20th St. NW	35	1
30. 2410 20th St. NW	42	6
TOTAL:	2,106	512

24%

*Received C. E. between 9/1/76 and 12/31/77; unstarred buildings received C. E. since 1/1/78.

** Many tenants purchased units in other sections of the development.

Source: Development Economics Group.

Table 7

TENANTS PURCHASING IN BUILDINGS NOT INCLUDED IN TENANT SURVEY
(registered in 1979)

<u>Address</u>	<u>Total Units</u>	<u>No. Tenants Purchasing</u>	<u>Percent Tenants Purchasing</u>
1. 2201 L St. NW	293	185	63%
2. 4000 Tunlaw Rd. NW	169	43	25%
3. Van Ness North	<u>466</u>	<u>360</u>	77%
TOTAL	928	588	63%

Source: Development Economics Group.

Table 8
SUMMARY OF BUILDINGS REMAINING IN SURVEY

All units	2,106
Less: Units used as offices	14
Units kept as rentals	15
Units purchased by tenants	<u>512</u>
Remaining under study	1,565
No. households surveyed	150
Percent	10%

Source: Development Economics Group.

Major FindingsTenant Characteristics

Tenants who did not purchase a condominium unit were surveyed as to household size, occupation of the adult members of the household, presence of any elderly members in the household and annual household income. The results of this part of the survey are presented in Tables 9 through 12.

Size of household - Over two-thirds of the households surveyed in 1979 were single-person households, while only 6 percent of the households surveyed had three or more members. In 1978, 56 percent of the households were single-person households.

Table 9
SIZE OF HOUSEHOLD

<u>Size</u>	1979		1978
	<u>No. Responses</u>	<u>Percent</u>	<u>Percent</u>
Single person	100	67%	56%
Two persons	40	27%	36%
Three or more persons	7	4%	8%
No response	3	2%	-
TOTAL	150	100%	100%

Occupation - In 1978, just less than half the households surveyed reported at least one "professional" employee (lawyer, physician, teacher, executive, etc.), while a quarter were retired. In the 1979 survey, only a third reported a professional employee household member, while non-professional employees composed 38 percent of those responding, and households with no one employed, (generally where the adult members were students) rose to 8 percent from 2 percent. Nineteen percent reported being retired in 1979.

Table 10

OCCUPATION OF RELOCATED TENANTS

Occupation	1979		1978
	No. Responses	Percent	Percent
Professional	50	33%	44%
Non-professional	56	38%	29%
None (Unemployed or student)	12	8%	2%
Retired	29	19%	25%
No response	3	2%	-
TOTAL	150	100%	100%

Age - Households with at least one elderly member (65 years of age or older) dropped from 30 percent in 1978 to 21 percent in 1979. This is principally a function of the differing characteristics between buildings in the 1978 survey (many along upper Connecticut Avenue) and buildings in the 1979 survey, where proportionately more buildings were close to the business section of town, attracting a younger tenantry able and willing to pay a premium for being near place of employment.

Table 11

AGE

	1979		1978
	<u>No. Responses</u>	<u>Percent</u>	<u>Percent</u>
Elderly member in household	32	21%	30%
No elderly members in household	117	78%	70%
No response	<u>1</u>	<u>1%</u>	-
TOTAL	150	100%	100%

Household Income - The annual household income did not vary much between those surveyed in 1978 and 1979. About half of these surveyed reported an annual household income of between \$10,000 and \$25,000 in both 1978 and 1979; slightly more reported incomes less than \$10,000 per year in 1979 than in 1978 (14 percent compared to 11 percent).

Table 12
ANNUAL HOUSEHOLD INCOME

<u>Income</u>	<u>1979</u>		<u>1978</u>
	<u>No. Responses</u>	<u>Percent</u>	<u>Percent</u>
Less than \$10,000	21	14%	11%
\$10,000 to \$25,000	73	49%	50%
More than \$25,000	37	24%	39%
No response	<u>19</u>	<u>13%</u>	-
TOTAL	150	100%	100%

Characteristics of Alternative Housing

All but two households surveyed had found alternative housing. While two-thirds of the households surveyed in 1978 stayed in the District, in 1979 three-fourths of the households surveyed stayed in the District, 45 percent in the same neighborhood. Another 25 percent stayed within the same quadrant even though they did not stay in the same neighborhood. Twenty-four percent of the households

surveyed moved to suburban Virginia or Maryland in 1979, compared to 28 percent in 1978 (Table 13).

Table 13
LOCATION OF ALTERNATIVE HOUSING

<u>Location</u>	<u>1979</u>		<u>1978</u>
	<u>No. responses</u>	<u>Percent</u>	<u>Percent</u>
Within same neighborhood	68	45%	50%
Within same quadrant, but not same neighborhood	37	25%	15%
Within D.C., but not same quadrant	7	5%	1%
SUBTOTAL, in D. C.			75%
Moved to suburban Maryland	16	11%	17%
Moved to suburban Virginia	20	13%	11%
Other*	<u>2</u>	<u>1%</u>	<u>6%</u>
TOTAL	150	100%	100%

*Includes households who have not yet found alternative housing.

The time to find alternative housing increased between 1978 and 1979. Thirty percent of the households surveyed this year found alternative housing in one month or less; over 50 percent found alternative housing within the same

period in 1978. All but 15 percent found alternative housing in three months or less, however, within the 120 day notice period required under D. C. Law I-89. Many tenants said that while they took as long as three months to find another place to live, they had not looked intently throughout the entire three months. The median time to find alternative housing was reported to have been one month in 1978; in 1979, the median figure was two months (Table 14).

Table 14

LENGTH OF TIME TO FIND ALTERNATIVE HOUSING

<u>Time</u>	<u>1979</u>		<u>1978</u>
	<u>No. Responses</u>	<u>Percent</u>	<u>Percent</u>
One month or less	45	30%	51%
One week or less	15		
Two weeks	7		
Three weeks	2		
One month	21		
Two months	40	27%	22%
Three months	16	10%	12%
More than three months	27	18%	8%
Other*	22	15%	7%
TOTAL	150	100%	100%

*Includes 2 households who had not yet found alternative housing and 22 non-responses.

Median time to find alternative housing:

1978 one month
1979 two months

Eighty percent of the tenants surveyed, both in 1978 and 1979, moved to another rental unit, and about the same proportion purchased either single-family homes or condominiums or cooperatives in other buildings (Table 15).

Table 15
TYPE OF TENURE OF ALTERNATIVE HOUSING

<u>Tenure</u>	<u>1979</u>		<u>1978</u>
	<u>No. Responses</u>	<u>Percent</u>	<u>Percent</u>
Rental	120	80%	80%
Purchased a single family home	11	7%	9%
Purchased a condominium or cooperative in another building	11	7%	4%
Other*	8	6%	7%
TOTAL	150	100%	100%

*Includes 2 households who have not yet found alternative housing.

To determine the difference in the cost of housing for tenants who moved from converted buildings, we compared the pre-move and post-move rents where the rent/utility structure did not change. All tenants whose rent included utilities in both units, and all tenants whose rent did not include utilities in both units are listed, along with number of bedrooms per unit, as Table 16. The change in rent ranged from a decrease of \$201 per month to an increase of \$345 per month. The pre-move average monthly rent was reported to have been \$271; the post-move rent was reported to have been \$320, or an increase of approximately 18 percent.

Average unit size, as measured by number of bedrooms, increased as well. While the average unit before conversion had .79 bedrooms (due to a large proportion of efficiency apartments, listed as "0" bedrooms), the replacement rental housing averaged 1.01 bedrooms per unit, or an average increase of .22 bedrooms.

Compared to 1978, when rents increased 14.4 percent but the number of bedrooms per unit increased an average .04 bedrooms per unit, the tenants surveyed this year again paid more for alternative housing than tenants in the 1978 survey, but substantially increased the amount of space rented (Tables 16 and 17).

Table 16
CHANGE IN MONTHLY RENT AND UNIT SIZE*

<u>Old Monthly Rent</u>	<u>No. Bedrooms</u>	<u>New Monthly Rent</u>	<u>No. Bedrooms</u>	<u>Change in Rent</u>	<u>Change No. Bedrooms</u>
\$473	2	\$272	2	\$-201	-
380	2	182	0	-198	-2
367	2	250	1	-117	-1
305	1	200	2	-105	+1
395	1	292	1	-103	-
289	1	198	1	-91	-
240	1	180	1	-60	-
329	1	273	1	-56	-
315	1	262	1	-53	-
257	1	210	1	-47	-
276	1	242	1	-34	-
305	1	274	1	-31	-
300	1	273	1	-27	-
306	1	289	1	-17	-
315	1	315	1	-	-
310	0	310	0	-	-
217	0	218	0	+ 1	-
409	2	411	2	+ 2	-
375	1	377	1	+ 2	-
243	0	247	0	+ 4	-
325	1	330	1	+ 5	-
219	0	228	0	+ 9	-
212	0	221	0	+ 9	-
210	0	220	0	+10	-
305	1	319	1	+14	-
272	0	286	1	+14	+1
270	1	284	1	+14	-
173	0	188	0	+15	-
230	0	250	0	+20	-
358	1	380	1	+22	-
187	0	210	0	+23	-
188	0	213	0	+25	-
340	1	366	1	+26	-
281	1	315	1	+34	-
254	2	289	1	+35	-1
218	0	257	0	+39	-
280	1	322	1	+42	-

Table 16 (cont.)

CHANGE IN MONTHLY RENT AND UNIT SIZE*

<u>Old Monthly Rent</u>	<u>No. Bedrooms</u>	<u>New Monthly Rent</u>	<u>No. Bedrooms</u>	<u>Change in Rent</u>	<u>Change No. Bedrooms</u>
320	1	363	1	+43	-
306	1	350	1	+44	-
210	0	257	0	+47	-
329	1	380	1	+51	-
312	1	365	2	+53	+1
227	1	283	1	+56	-
179	0	245	1	+66	+1
223	0	290	1	+67	+1
389	2	463	2	+74	-
270	1	345	1	+75	-
427	2	508	1	+81	-1
172	0	253	0	+81	-
264	1	350	2	+86	+1
229	0	319	1	+90	+1
210	0	300	1	+90	+1
350	1	450	1	+100	-
250	0	350	1	+100	+1
250	0	350	1	+100	+1
250	0	350	1	+100	+1
225	0	325	1	+100	+1
200	1	300	1	+100	-
249	1	355	1	+106	-
153	0	262	0	+109	-
155	1	270	2	+115	+1
280	0	397	1	+117	+1
244	2	362	2	+118	-
145	1	295	1	+150	-
135	1	295	1	+160	-
314	1	480	2	+166	+1
300	2	481	1	+181	-1
343	1	543	2	+200	+1
176	1	440	3	+264	+2
250	1	550	1	+300	-
210	1	550	2	+340	+1
255	1	600	4	+345	+3
<u>\$19,529</u>	<u>57</u>	<u>\$23,029</u>	<u>73</u>	<u>+\$3,500</u>	<u>+16</u>

Change in monthly rent = +17.9%

*No change in rent/utility structure.

Table 17
 SUMMARY TABLE
 Change in Rent and Size of Unit

	<u>1979</u>	<u>1978</u>
Pre-conversion:		
Average number of bedrooms per unit	.79 bedrooms	1.17 bedrooms
Average rent per unit	\$271	\$286
Alternative rental housing:		
Average number of bedrooms per unit	1.01 bedrooms	1.21 bedrooms
Average rent per unit	\$320	\$327
Average change in number of bedrooms	+ .22 bedrooms	+ .04 bedrooms
Average change in monthly rent	+17.9%	+14.4%

Source: Development Economics Group.

Tables 18 through 20 present the offering prices to tenants, as reported by tenants surveyed. One hundred thirteen tenants responded; thirty-seven could not remember the offering price to them. The range and median offering price for each unit size are listed along with the median offering price as reported by tenants in 1978. The results are summarized in Table 21.

TABLE 18

OFFERING PRICE TO TENANTS OF EFFICIENCY UNITS

<u>Number</u>	<u>Price</u>
1	\$25,000
3	27,000
3	28,000
2	29,000
1	29,500
1	30,000
1	32,000
1	34,000
1	35,000
1	36,000 (median)
2	38,000
1	38,900
2	39,000
1	40,000
2	43,000
4	45,000
1	50,000
<u>2</u>	<u>65,000</u>
30	

1978 median = \$28,000

TABLE 19

OFFERING PRICE TO TENANTS OF ONE-BEDROOM UNITS

<u>Number</u>	<u>Price</u>
1	\$31,500
1	40,000
2	42,000
1	42,500
2	45,000
3	46,000
1	46,400
2	47,000
2	48,000
1	48,500
6	50,000
1	51,000
1	51,500
2	52,000
1	52,500 (median)
1	53,000
1	54,000
2	54,500
1	54,600
8	55,000
1	57,000
2	58,000
2	60,000
1	65,000
1	66,000
1	67,000
1	70,000
1	77,000
1	78,000
1	79,000
1	90,000
<u>1</u>	120,000
54	

1978 median = \$44,000

TABLE 20

OFFERING PRICE TO TENANTS OF TWO-BEDROOM UNITS

<u>Number</u>	<u>Price</u>
1	\$46,500
1	50,000
2	55,000
1	56,000
1	57,000
1	59,500
2	62,000
1	62,500
2	65,000
1	66,000
1	70,000
1	72,000 (median)
1	74,500
2	80,000
1	82,500
2	87,000
1	90,000
1	94,000
1	95,000
1	96,000
1	105,000
1	106,000
1	112,000
1	125,000
<u>1</u>	
29	

178 median = \$69,000

TABLE 21
SUMMARY TABLE

<u>Unit Size</u>	<u>Range of Offering Prices</u>	<u>1979 Median</u>	<u>1978 Median</u>
Efficiency Units (30)	\$25,000 to \$ 65,000	\$36,000	\$28,000
One-bedroom Units (54)	\$31,500 to \$120,000	\$52,500	\$44,000
Two-bedroom Units (29)	\$46,500 to \$125,000	\$72,000	\$69,000
TOTAL (113)	\$25,000 to \$125,000		

Source: Development Economics Group.

Finally, non-purchasing tenants were asked why they did not purchase their units. In most cases, the reason for not purchasing involved financial considerations. Thirty percent felt they could not afford to buy. Twenty percent said that the units were too expensive (there is some overlap in responses). Over half of all responses were related to finances, while only one respondent said that time to arrange financing was a factor in the decision not to purchase. Ten percent of the tenants who did not buy were either moving anyway, or were not permanent D.C. residents.

Table 22

REASONS FOR NOT PURCHASING UNIT

<u>Financial Considerations</u>	<u>No. Responses</u>	<u>Percent</u>
Could not afford to buy	44	25%
Price too high; too expensive	30	17%
Not a good investment	14	8%
Did not have down payment	4	2%
Cannot get financing	1	.5%
Indefinite maintenance costs	1	.5%
Want to use money for other things	1	.5%
Monthly cost too high	1	.5%
Subtotal	96	54%
<u>Other Considerations</u>		
Did not like building	16	9%
Prefer to rent	11	6%
Did not like management/developer	8	4%
Apartment too small	8	4%
Too old to buy	8	4%
Planning to move anyway	8	4%
Did not like condo concept	6	3%
Did not like renovation	6	3%
Not ready to buy	2	1%
Not permanent D. C. residents	2	1%
Did not like location	2	1%
Security problems	2	1%
Not enough time	1	.5%
Did not like unit	1	.5%
Wanted own apartment w/o roommates	1	.5%
Bought something else	1	.5%
	83	43%
TOTAL	179	97%*

*Does not add to 100% due to rounding.

Note: Responses not cumulative; some respondents gave more than one reason for not purchasing.

II. FISCAL IMPACT OF CONVERSION

In order to determine the magnitude of the fiscal impact of conversion of the District's tax base and annual tax revenue, the change in assessed value and taxes paid between FY'72 and FY'79 was calculated for a group of buildings which were registered during 1975, 1976 and 1977. In all, 37 buildings were registered during this time. Of these buildings, ten were eliminated from analysis because it was impossible to separate other sections of the development which were not converted to condominiums (Fairfax Village and Capital Park). An additional 7 buildings were dropped because they were either gutted in the conversion process or very small. The remaining 20 properties, with 1,755 units, were examined.

Using the Municipal Automated Geographic Information System (MAGIS), a system of information developed and maintained jointly by the D. C. Office of Planning and Development and the D.C. Department of Housing and Community Development, the assessed values and taxes due for each of the properties were calculated for FY'72 and FY'79. In FY'79, after the conversion had been completed, the assessed value of each building is a composite of assessments for each individual unit in the building and the common areas. The use of MAGIS allowed compilation of more than 1,755 separate assessments (garages are assessed separately as well), a task which would have

Table 23
ESTIMATED MARKET VALUES FOR SELECTED PROPERTIES
FY '72 and FY '79

Address	No. Units	No. Unimproved Exempts.	X	FY '72 M. V. *		Per Unit	FY '79 M. V. **		Per Unit	Changu H. V. FY '72 to FY '79	Z Increase
				\$	Units		\$	Units			
1. 4100 Cathedral St. HU	91	64	702	\$ 2,257,060	30,297	\$ 7,327,800	\$80,525	\$ 4,570,760	166Z		
2. 2319-61 Myoming Ave. HU	17	9	51Z	380,691	22,394	1,199,900	70,582	819,209	215Z		
3. 2501 Galveret St. HU	107	61	57Z	2,322,923	21,710	5,384,500	50,322	3,061,577	132Z		
4. 2111 Connecticut Ave. HU	52	35	67Z	956,505	18,394	2,494,600	67,973	1,538,095	161Z		
5. 2231 Bancroft Pl. HU	8	7	86Z	134,871	16,859	770,000	96,250	635,129	471Z		
6. 2126 Connecticut Ave. HU	61	40	66Z	994,669	16,302	4,129,300	67,693	3,136,851	315Z		
7. 2131 Devonshire Pl. HU	173	127	73Z	2,680,831	14,360	9,607,600	53,534	7,126,569	287Z		
8. 4600 Connecticut Ave. HU	270	173	64Z	3,734,275	13,831	11,309,700	42,184	7,655,625	205Z		
9. 2500 Q St. HU	278	174	63Z	3,725,280	13,600	11,569,600	41,545	7,824,320	210Z		
10. 2600 61st St. HU	70	46	66Z	901,282	12,875	2,580,200	36,860	1,678,918	180Z		
11. 2123 Callifornia St. HU	58	24	41Z	676,923	11,671	2,319,650	39,991	1,642,527	243Z		
12. 3901 Cathedral St. HU	122	83	68Z	1,767,083	11,942	4,425,700	35,981	3,078,617	229Z		
13. 1851 Columbus Rd. HU	73	43	59Z	788,425	10,800	1,856,800	25,408	1,066,375	135Z		
14. 4701 Connecticut Ave. HU	55	41	75Z	516,154	9,385	1,865,790	70,287	3,349,616	669Z		
15. 3100 Connecticut Ave. HU	178	119	67Z	1,606,504	9,025	6,824	38,328	5,217,756	375Z		
16. 2615 20th St. HU	20	19	95Z	172,500	8,625	1,029,500	51,475	857,000	691Z		
17. 1746-56 Corcoran St. HU	45	16	35Z	352,771	7,839	1,308,800	29,084	956,079	271Z		
18. 2007 O St. HU	25	8	32Z	91,092	3,644	1,165,100	46,604	1,074,008	1,179Z		
19. 2400-10 Good Hope Rd. SE	26	18	69Z	86,252	3,317	523,300	20,127	437,068	507Z		
20. 1716-20 Corcoran St. HU	26	7	27Z	56,686	2,177	1,184,700	45,565	1,128,024	199Z		
TOTAL/AVERAGE	1,755	1,114	63Z	\$24,082,677	\$13,722	\$80,934,600	\$46,116	\$56,851,923	236Z		

*FY '72 measurements adjusted to market values; FY '72 measurements were based on 1969 values.

**FY '79 measurements at 100% of market value, based on 1976 values.

SOURCE: HAGIS, B. C. Office of Planning and Development; Lusk's D.C. Assessment Directory 1979; Development Economics Group.

been nearly impossible and less accurate if done manually. The MAGIS files also indicate which unit owners claimed the homestead exemption in FY'79, an indication of the minimum number of owner-occupied condominium units. (Owners must file a special form to receive the exemption; it is not automatic.) As an additional check on the accuracy of the data, the square feet of land area was matched year to year to insure comparability. Table 23 presents data for each of the twenty buildings.

From FY'72 to FY'79, the estimated market value of the set of properties increased from \$24,082,477 to \$80,934,399, an increase of over 236 percent. As a point of comparison, the District-wide tax base increased only 66 percent over the same period, adjusted to reflect market value in the same way as for the buildings under analysis. The Washington, D.C. area Consumer Price Index, Series C (Housing) increased only 60 percent between 1969 and 1976, (FY'72 assessments based on 1969 sales; FY'79 assessments based on 1976 sales) again far below the increase calculated in Table 23. The reasons for the extraordinary increase in assessments, relative to area housing costs and other District property, may be due to a number of causes, outlined below.

- 1) The change in assessment practices from FY'72 to FY'79 - Washington did not have an annual reassessment program in FY'72, and some of the increase may be a reflection of "catch-up" increases. However, this would also be reflected in District-wide increases, which did not increase so drastically.

- 2) The change in method of assessment or lack of uniformity in assessment practices. It is impossible to determine whether assessments were made on the basis of replacement cost, income or comparable sales for the earlier year.
- 3) Substantial reinvestment and upgrading expended by developers to enhance the marketability of condominium units. While this is definitely the case in a number of buildings on the list, the level of reinvestment varies from building to building. Undoubtedly, some substantial upgrading is reflected in FY'79 assessments.
- 4) The additional value assigned to each unit as a result of conversion from rental apartment to condominium. As each unit is sold, it is reassessed based on sales prices of comparable units in the same and other buildings. Apartment buildings sold as rentals will not bring the same per unit price as units sold individually as condominiums as rental property is assessed and appraised on the basis of income. Under rent control, rental income is restricted, whereas homes are assessed on the basis of comparable sales.

In calculating taxes due the District in FY'72, the effective tax rate of \$2.08 per \$100 of market value is applied to the assessor's estimated market value, \$24,082,477 for the buildings under study. The taxes due were \$500,916. The task is a little more complicated for FY'79, although assessments, already at 100 percent of market value, do not have to be adjusted. In FY'79, the homestead exemption, in the amount of \$9,000 per unit, was allowed as a deduction from assessed value for 1,114 owner-occupied

condominium units. In addition, there were two tax rates, one for commercial properties and one for residential properties. The applicable rate in FY'79 was \$1.54 per \$100 of assessed value for all units in a converted building. From Table 24, the taxes due for the same set of buildings converted to condominiums was the amount of \$1,091,989, an increase over FY'72 of \$590,242, or 118 percent.

As a matter of public policy, the District annually adjusts the tax rate so as not to take full advantage of escalating market value increases which outpace income increases. Both the homestead exemption and the annual adjustment of the tax rate are tax advantages the District provides as incentives for home ownership. In doing so, the District chooses to forego significant revenue. Therefore, beyond the actual dollar increase in taxes due to the District from the buildings under study, we have also calculated the premium value attached to a public policy which assists home ownership.

If the FY'72 effective tax rate were applied to the FY'79 assessments for the buildings under study, without the advantage of the homestead exemption, the taxes due would have been \$1,683,435 ($\$80,934,399 \times .0208$), or over \$592,000 more than with the reduced tax rate and homestead exemption. This figure represents the amount of tax revenue the District forgives the 1,755 condominium owners under study, or approximately \$337 per unit annually.

It should be noted that in FY'80, two tax rates apply within the same building. Investor-owned units are not eligible for the homestead exemption, and are also taxed at the higher commercial rate (\$1.54 per \$100 assessed value). Owner-occupied units are taxed at the rate of \$1.22 per \$100 assessed value, reduced by the \$9,000 homestead exemption.

Table 24
 CHANGES IN TAXATION OF SELECTED PROPERTIES
 FY'72, FY'79

	FY	FY'72	FY'79
Assessed value*		\$24,082,477	\$80,934,400
less: homestead exemption			- 10,026,000
Taxable value		\$24,082,477	\$70,908,400
times: effective tax rate		x .0208	x .0154
Taxes due		\$ 500,916	\$ 1,091,990
Change in taxes due, FY'72 to FY'79			+\$590,984
Percent			+118%
Change in assessed value, FY'72 to FY'79			+\$56,851,923
Percent			+236%
Change in adjusted tax base, District-wide, FY'72 to FY'79			+ 66%
Change in Consumer Price Index, Series C (Housing) for metropolitan Washington, 1969 to 1976**			+ 60%
Tax revenue forgone due to homestead exemption, FY'79 (\$10,026,000 x .0154)			\$154,400
Tax revenue forgone due to annual rate adjustment, FY'79 (.0208 - .0154) x \$80,934,400			\$437,046
Tax revenue without homeownership incentives, FY'79 (\$80,934,400 x .0208)			\$ 1,683,435
Change in taxes due assuming appreciation equal to District- wide appreciation (+66%), without homestead exemption (\$24,082,477 x 1.66 x .0154).			\$615,644
Percent			+ 23%

*FY'72 assessed value and tax rate have been divided by .65 to raise to figures comparable to FY'79.

**FY'72 assessments based on 1969 sales (prices); FY'79 assessment based on 1976 sales (prices).

SOURCE: Development Economics Group.

III. BUYER PROFILE - LOCATION AND TENURE OF PREVIOUS RESIDENCE

Development Economics Groups conducted a survey of buildings converted to condominiums in 1978 and 1979 where units have been offered to the general public for sale. Data on condominium purchasers were obtained for ten buildings, with 602 units, where the previous address, rent/own status and investor-owners could be identified. This list of buildings is not comprehensive because of the confidential nature of financing applications, the primary source of the information. In most cases listed in Table 25, the information on condominium buyers was compiled by the real estate firm which handled the sale of the building, at the time of the sale. While these buildings are not presented as representative of all buildings converted to condominiums, they are presented as case studies. All buildings are in the northwest quadrant; small buildings (less than 40 units) and large buildings of over 100 units are included. Except for 4570 MacArthur Blvd., N.W., which has not sold out, and 3701 Connecticut Ave, N.W., which has data compiled only for efficiency units, all units in the buildings listed are accounted for.

Major Findings

Only ten percent of the units in the case study buildings surveyed were purchased by investor-owners. Conversely,

90 percent of the units purchased were for owner-occupancy. This figure is somewhat higher than the 63 percent owner-occupied figure in Table 23 (the group of buildings used to analyze the fiscal impact of conversion of the District). The reasons for this are that the buildings in Table 25 were converted during a later period, 1978 and 1979, than the buildings in Table 23, 1975 through 1977. High rates of inflation and appreciation make it advantageous for an owner to retain ownership of a condominium, even when other circumstances, such as marriage, job transfer, etc., require different housing. Longer-term owners are more likely to fit this pattern. In addition, the homestead exemption, which was the basis for estimating the percent of owner-occupied units, is only granted to owners who apply for it. It is reasonable to assume that some owner-occupants neglected to apply for the exemption, making the 63 percent figure a minimum one. Finally, financing has been more difficult to obtain for investor-owners than for owner-occupants.

The second major finding of the case study survey is the high proportion of purchasers who were District residents prior to buying a condominium, 69 percent. Only approximately 20 percent of the condominium units were purchased by suburbanites moving into the District and people moving to the Washington area. Accordingly, the net displacement of District households out of D.C. is only 20 to 30 percent. Some investor-owned units are undoubtedly rented to households which were previously D.C. residents. Further, one-quarter of the condominium units were purchased by households which had previously rented other units in D.C., freeing those rental units, in turn, for other renters.

TABLE 25
BUYER PROFILE
Selected Condominium Conversions Since January 1, 1978

Address	1 Units Sold To Date	2 Bought by Tenants	3 No. Investor Owned	4 Moved from Md., Va. side	5 Moved from Out- side D.C.	6		7 Total D.C. D.C.	
						a Renters	b Homeowners		
1. 1055 Calvert St. NW	32	-	2	4	-	22	4	-	26
2. 3616 Connecticut Ave. NW	34	4	4	2	3	20	1	-	25
3. 3701 Connecticut Ave. NW (efficiency units only)	83	18	-	32	5	20	-	8	46
4. 3014-20 Dent Pl. NW	35	5	1	2	4	14	6	-	25
5. 3015 Idaho Ave. NW	92	25	-	17	2	-	-	48	73
6. 4570 MacArthur Blvd. NW	7	-	1	4	-	2	-	-	2
7. 1718 P Street NW	182	97	17	23	7	15	3	13	128
8. 3901 Tunlaw Rd. NW	39	2	1	7	1	27	1	-	30
9. 3315 Wisconsin Ave. NW	63	21	21	5	2	22	2	-	35
10. 2227 20th St. NW	35	1	11	5	1	18	4	-	28
	602	173	88	101	25	150	21	74	418
	29%	10%	17%	17%	4%	25%	3%	12%	69%

Source: Development Economics Group.

APPENDIX

Table A-1

CURRENT STATUS OF BUILDINGS RECEIVING CERTIFICATE OF ELIGIBILITY
TO CONVERT TO CONDOMINIUM BETWEEN 9/1/76 and 12/31/77

<u>Building</u>	<u>No. Units</u>
A. CERTIFIED ELIGIBLE TO CONVERT, BUT NOT BEGUN AS OF 6/30/79	
1. 6101 16th St. NW	203
2. 3405 Prospect Pl. NW	4
3. 11 2nd St. SE	30
4. 2219 California St. NW	21
5. 1848 Wyoming Ave. NW	18
6. 2153 California St. NW	53
7. 2032 Belmont Rd. NW	161
8. 1511 22nd St. NW	19
9. 1914 Connecticut Ave. NW	145
10. 2301 Connecticut Ave. NW	26
	680
B. CERTIFIED ELIGIBLE TO CONVERT, BUT VACANT MORE THAN ONE YEAR PRIOR TO CONVERSION	
R 1. 1821-25 Riggs Pl. NW	10
R 2. 1915 Calvert St. NW	14
R 3. 1718 Corcoran St. NW	26
R 4. 1018 E. Capitol St.	6
R 5. 1815 18th St. NW	14
R 6. 1740 New Hampshire Ave. NW	15
R 7. 1824 19th St. NW	4
R 8. 1705 P St. NW	20
R 9. 640 Buchanan St. NW	12
	121
C. CERTIFIED ELIGIBLE TO CONVERT, BUT OCCUPIED SOLELY BY OWNER PRIOR TO CONVERSION	
None	
D. CERTIFIED ELIGIBLE TO CONVERT, BUT PERIOD OF FIRST REFUSAL FOR TENANTS NOT COMPLETE AS OF 6/30/79	
None	
E. CERTIFIED ELIGIBLE TO CONVERT, AND REGISTERED AS OF 6/30/79	
R 1. 1746-56 Corcoran St. NW	35
R 2. 1747-49 Church St. NW	17
R 3. 2205 California St. NW	28

Table A- (cont.)
 CURRENT STATUS OF BUILDINGS RECEIVING CERTIFICATES OF ELIGIBILITY TO CONVERT
 BETWEEN 9/1/76 AND 12/31/77

R 4.	4701 Connecticut Ave. NW	57
R 5.	1901 19th St. NW	10
R 6.	2029 Connecticut Ave. NW	22
R 7.	4700 Connecticut Ave. NW	55
R 8.	2230 California St. NW	43
R 9.	309 4th St. SE	7
R 10.	311 4th St. SE	7
R 11.	3015 Idaho Ave. NW	92
R 12.	3701 Connecticut Ave. NW	262
R 13.	4740 Connecticut Ave. NW	166
R 14.	4200 Cathedral Ave. NW	184
R 15.	2127 California St. NW	104
R 16.	3616 Connecticut Ave. NW	34
R 17.	1758 Corcoran St. NW	4
R 18.	3014-20 Dent Pl. NW	35
R 19.	115-117 E St. SE	31
R 20.	1525 Q St. NW	14
R 21.	3901 Tunlaw Rd. NW	39
R 22.	1831 California St. NW	10
R 23.	2123 California St. NW	58
R 24.	11 2nd St. SE	30
		<hr/>
		1,344

TOTAL: 44 Buildings, 2,145 Units

Excluded from analysis:

1.	Fairfax Village VII	76
2.	Fairfax Village VIII	50
3.	Fairfax Village IX	<u>158</u>
	Total	284

NOTE: "R" preceding address identifies registered buildings.

NOTE: 2512 Q St. NW has withdrawn C. E.; 2129 Florida Ave. NW had C. E. revoked and reissued, and is included in Table A-2E.

Source: D. C. Department of Housing and Community Development; Development Economics Group.

Table A-2
 CURRENT STATUS OF BUILDINGS RECEIVING CERTIFICATE OF ELIGIBILITY TO CONVERT BETWEEN 1/1/78 AND 6/30/79
 A. CERTIFIED ELIGIBLE TO CONVERT, BUT CONVERSION NOT BEGUN AS OF 6/30/79

Address	Effs.	1 Bd.	2 Bd.	3+ Bd.	7	Total Basis for	
						No. Units	C.E.
1. 101 North Carolina Ave. Se	-	31	14	-	1	46	H.R.
2. 4201 Cathedral Ave. NW (East)	27	187	67	37	-	318	H.R.
3. 4201 Cathedral Ave. NW (West)	25	101	54	37	-	297	H.R.
4. 1517 30th St. NW	-	-	1	21	-	22	H.R.
5. 1305, 11, 15 30th St. NW	-	6	12	-	-	18	H.R.
6. 2121 P St. NW	197	83	16	-	-	296	H.R.
7. 3101 P St. NW	3	3	1	-	-	7	H.R.
8. 4338 Halley Terr. SE	-	4	-	-	-	4	T.C.
9. 2001 16th St. NW	20	9	17	-	4	50	H.R.
10. 2515 K St. NW	34	62	-	-	-	96	H.R.
11. 2100 Connecticut Ave. NW	41	46	7	-	2	723	H.R.
12. McLean Gardens	99	19	-	-	723	118	H.R.
13. 2030 F St. NW	209	88	7	-	-	304	H.R.
14. 1255 New Hampshire Ave. NW	1	11	9	-	-	21	H.R.
15. 1824 Belmont Rd. NW	19	94	-	-	-	113	H.R.
16. 522 21st St. NW	67	291	34	-	-	392	H.R.
17. 2480 16th St. NW	8	96	8	-	-	112	H.R.
18. 2401 H St. NW	151	30	-	-	-	181	H.R.
19. 922 24th St. NW	-	14	21	7	-	42	H.R.
20. 1830 17th St.	-	115	116	-	-	231	H.R.
21. 1221 Massachusetts Ave. NW	1	6	-	-	-	7	H.R.
22. 3226 N St. NW	-	15	-	-	-	15	H.R.
23. 1719 35th St. NW	60	116	-	-	-	176	H.R.
24. 1230 13th St. NW	153	33	1	1	-	108	H.R.
25. 2430 Pennsylvania Ave. NW	209	92	-	-	-	301	H.R.
26. 3001 Connecticut Ave. NW	-	-	-	-	4	4	H.R.
27. 1714 Corcoran St. NW	-	6	2	-	-	8	H.R.
28. 1719-12 Corcoran St. NW	-	-	12	-	-	12	H.R.
29. 2701-11 Hartford St. SE	-	-	32	-	-	32	H.R.
30. 1503-07 30th St. NW	127	30	8	-	-	165	H.R.
31. 1400 20th St. NW	-	4	4	-	-	8	H.R.
32. 3331 N St. NW	-	-	-	-	16	16	T.C.
33. 921-57 Randolph St. NW	-	2	2	-	-	4	H.R.
34. 1247 E St. SE	60	-	-	-	-	68	H.R.
35. 1464 Rhode Island Ave. NW	-	-	-	-	-	-	-

Table A-2 (cont.)
 CURRENT STATUS OF BUILDINGS RECEIVING CERTIFICATE OF ELIGIBILITY TO CONVERT BETWEEN 1/1/78 AND 6/30/79
 A. CERTIFIED ELIGIBLE TO CONVERT, BUT CONVERSION NOT BEGIN AS OF 6/30/79

Address	E f f s.	1 Bd.	2 Bd.	3+ Bd.	7	Total		Basis for C.E.
						No.	Units	
36. 705 Quincy St. NE	-	4	-	-	-	-	4	T.C.
37. 905 Quincy St. NW	-	4	-	-	-	-	4	T.C.
38. 1844 Columbia Rd. NW	10	9	4	-	-	-	23	T.C.
39. 1735 New Hampshire Ave. NW	11	-	24	-	-	-	35	T.C.
-44. Columbia Plaza	302	336	157	3	-	-	798	H.R.
45. 220 C St. SE	36	12	-	-	-	-	48	H.R.
46. 1824 S St. NW	-	1	12	4	-	-	17	T.C.
47. 1726 S St. NW	-	-	3	1	-	-	4	H.R.
4E. 2800 Wisconsin Ave. NW	87	20	-	-	-	-	107	H.R.
4S. 1808 Connecticut Ave. NW	-	29	-	-	-	-	29	H.R.
50. 3001 Veazey Terr. NW	29	207	215	15	-	-	466	H.R.
51. 1101 New Hampshire Ave. NW	146	47	10	-	-	-	203	H.R.
52. 1415 Rhode Island Ave. NW	13	90	6	-	-	-	109	H.R.
53. 3210 Wisconsin Ave. NW	16	40	30	-	-	-	86	H.R.
54. 1733 20th St. NW	4	1	15	-	-	-	20	T.C.
55. 429 N St. SW	160	129	102	-	-	-	391	H.R.
56. 2901, 15 Connecticut Ave. NW	70	120	46	-	-	-	236	H.R.
57. 1822 Vernon St. NW	1	4	-	6	-	-	11	T.C.
58. 2011, 11 Kalorama Rd. NW	-	1	7	-	-	-	8	H.R.
59. 4500 Connecticut Ave. NW	2	63	47	7	-	-	119	H.R.
60. 1420 H St. NW	60	81	-	-	-	-	141	H.R.
61. 1440 N St. NW	124	9	-	-	-	-	133	H.R.
62. 1740 R St. NW	-	2	-	1	-	-	3	H.R.
63. 2038 18th St. NW	-	5	2	-	-	-	7	T.C.
64. 624 Maryland Ave. NW	-	5	2	-	9	-	9	7
65. 1408 10th St. NW	-	13	3	-	-	-	7	T.C.
66. 1726 17th St. NW	1	5	-	-	-	-	16	H.R.
67. 724 7th St. SE	-	12	-	-	-	-	6	H.R.
68. 730 7th St. SE	-	10	5	-	-	-	12	H.R.
69. 750-58 7th St. SE	-	24	11	1	-	-	15	H.R.
70. 1776-78 Lanier Pl. NW	-	15	-	-	-	-	36	H.R.
71. 1910 T St. NW	-	4	-	-	-	-	15	H.R.
72. 1912 T St. NW	-	4	1	-	-	-	4	H.R.
73. 321 12th St. NE	-	4	1	2	-	-	5	H.R.
74. 1829 Phelps Pl. NW	-	1	2	-	-	-	3	T.C.

Table No. 2 (cont.)
 CURRENT STATUS OF BUILDINGS RECEIVING CERTIFICATE OF ELIGIBILITY TO CONVERT BETWEEN 1/1/78 AND 6/30/79
 A. CERTIFIED ELIGIBLE TO CONVERT, BUT CONVERSION NOT BEGUN AS OF 6/30/79

Address	Efts.				Total No. Units	Basis for C.E.
	1 Bd.	2 Bd.	3+ Bd.	?		
75. 2716 Wisconsin Ave. NW	4	5	8	-	17	H.R.
76. 3133 Connecticut Ave. NW	109	79	117	10	315	H.R.
77. 1824-26 California St. NW	-	16	-	-	16	T.C.
78. 1341 East Capitol St.	9	8	8	-	25	T.C.
79. 1625 S St. NW	-	-	-	8	8	?
80. 423 10th St. SE	-	5	-	-	5	
TOTAL	2,828	3,095	1,166	151	767	8,007

Table A-2 (cont.)
 CURRENT STATUS OF BUILDINGS RECEIVING CERTIFICATE OF ELIGIBILITY TO CONVERT BETWEEN 1/1/78 AND 6/30/79
 B. CERTIFIED ELIGIBLE TO CONVERT, BUT VACANT MORE THAN ONE YEAR PRIOR TO CONVERSION

Address	Effs.						Total No. Units	Basis for C.E.	Notes
	1 Bd.	2 Bd.	3+ Bd.	7					
R 1. 1717 T St. NW	-	-	-	7	-	-	7	H. R.	
2. 3143-45 NE Pleasant St. NW	80	8	-	-	-	-	88	Vacant	
R 3. 1822 T St. NW	-	8	-	-	-	-	8	T. C.	
4. 1615 Swann St. NW	1	1	6	-	-	-	8	Vacant	
R 5. 1855 Calvert St. NW	-	27	5	-	-	-	32	Vacant	
R 6. 3035 Q St. NW	-	3	2	-	-	-	5	H. R.	
7. 1933 18th St. NW	-	-	-	13	-	-	13	Vacant	Gutted
8. 1495 Newton St. NW	6	23	2	-	-	-	31	Vacant	
9. 625 3rd St. NE	-	-	6	-	-	-	6	Vacant	
R10. 1825 Florida Ave. NW	1	10	-	-	-	-	11	Vacant	
11. 1664 Columbia Rd. NW	-	13	-	-	-	-	13	H. R.	
R12. 1325 13th St. NW	-	-	-	35	-	-	35	Vacant	Gutted
R13. 101-103 2nd St. NE	-	-	1	-	-	-	1	H. R.	
14. 215-25 Newcomb St. SE	-	-	-	62	-	-	62	Vacant	62 to 49 units
15. 1820 Kalorama Rd. NW	-	-	-	6	-	-	6	Vacant	
16. 1425 Q St. NW	-	-	-	-	-	-	-	Vacant	
R17. 410-20 11th St. NE	-	1	2	-	-	-	3	Vacant	
18. 1317 Rhode Island Ave. NW	-	-	-	24	-	-	24	Vacant	
19. 1507 Park Rd. NW	-	-	-	20	-	-	20	Vacant	
20. 1725 New Hampshire Ave. NW	-	14	-	-	-	-	14	Vacant	
21. 1741 T St. NW	21	18	6	-	-	-	45	T. C.	
R22. 1810-12 Ingleside Terr. NW	13	-	12	-	-	-	25	T. C.	
23. 14524-56 Euclid St. NW	6	4	-	-	-	-	10	Vacant	
R24. 1925 16th St. NW	-	2	6	-	-	-	8	Vacant	
R25. 614 Maryland Ave. NE	-	3	8	7	-	-	18	H. R.	
26. 2138 California St. NW	-	2	3	-	-	-	5	H. R.	
27. 1742 U St. NW	2	-	2	-	-	-	4	H. R.	
28. 1651 Lamont St. NW	-	3	15	-	-	-	18	H. R.	
29. 323 Maryland Ave. NE	3	3	-	-	-	-	6	T. C.	
R30. 1050-52 25th St. NW	-	-	-	14	-	-	14	?	
2502-10 M St. NW	-	-	-	-	-	-	-	Vacant	
31. 631 Constitution Ave. NE	1	5	-	-	-	-	6	Vacant	
32. 1761 U St. NW	-	-	-	5	-	-	5	Vacant	Gutted
33. 308 E. Capitol St.	-	1	8	1	-	-	10	H. R.	
34. 1442 Corcoran St. NW	-	3	2	-	-	-	5	Vacant	
35. 66, 76, 80 New York Ave. NW	-	-	-	82	-	-	82	Vacant	
TOTAL	134	158	86	8	323	-	709		

Table A-2 (cont.)
 CURRENT STATUS OF BUILDINGS RECEIVING CERTIFICATE OF ELIGIBILITY TO CONVERT BETWEEN 1/1/78 and 6/30/79
 C. CERTIFIED ELIGIBLE TO CONVERT, BUT OCCUPIED SOLELY BY OWNER PRIOR TO CONVERSION

Address	Effs.	1 Bd.	2 Bd.	3+ Bd.	?	Total No. Units	Basis for		Notes
							C.F.	C.F.	
1. 1231 New Jersey Ave. NW					1	1	T.C.		1 unit to 3 units
R 2. 1731 T St. NW					1	1	T.C.		1 unit to 5 units
R 3. 1519 Church St. NW			3			3	T.C.		
R 4. 1907 S St. NW					1	1	T.C.		1 unit to 3 units
5. 1835 16th St. NW			4			4	T.C.		
6. 1640 21st St. NW			2			2	T.C.		
7. 1751 Willard St. NW		1				1	T.C.		1 unit to 5 units
8. 7 Logan Circle					1	1	T.C.		1 unit to 3 units
9. 6 Logan Circle					2	2	T.C.		2 units to 8 units
10. 1747 18th St. NW					1	1	T.C.		1 unit to 4 units
11. 1812 Calvert St. NW					1	1	T.C.		1 unit to 4 units
12. 1851 Mintwood pl. NW					1	1	T.C.		1 unit to 2 units
TOTAL	-	-	1	9	9	19			

Table A-2 (cont.)
 CURRENT STATUS OF BUILDINGS RECEIVING CERTIFICATE OF ELIGIBILITY TO CONVERT BETWEEN 1/1/78 AND 6/30/79
 D. CERTIFIED ELIGIBLE TO CONVERT, BUT PERIOD OF FIRST REFUSAL FOR TENANTS NOT COMPLETE AS OF 6/30/79

Address	Eflgs.	1 Bld.	2 Bld.	3+ Bld.	?	Total		Basis for C. E.
						No.	Units	
R 1. 5406 Connecticut Ave. NW	38	25	-	-	-	-	63	H.R.
R 2. 115 D St. SE	3	20	3	-	-	-	26	H.R.
3. 1250 4th St. SW	120	180	122	-	-	-	422	H.R.
4. 2829 Connecticut Ave. NW	70	28	-	-	-	-	98	H.R.
5. 1260 21st St. NW	62	86	10	-	-	-	158	H.R.
6. 1425, 35 4th St. SW	64	184	32	-	-	-	280	H.R.
7. 1301 20th St. NW	50	98	20	-	-	-	168	H.R.
TOTAL	407	621	187	-	-	-	1,215	

Table A-2 (cont.)

CURRENT STATUS OF BUILDINGS RECEIVING CERTIFICATES OF ELIGIBILITY TO CONVERT
BETWEEN 1/1/78 AND 6/30/79

E. CERTIFIED ELIGIBLE TO CONVERT, AND REGISTERED AS OF 6/30/79

<u>Address</u>	<u>EFF.</u>	<u>1Bd.</u>	<u>2Bd.</u>	<u>3+Bd</u>	<u>?</u>	<u>Total No. Units</u>
R 1. 4000 Beecher St.NW					95	95
R.2. 2009 Belmont Rd.NW		6	9	-		15
R.3. 2149 California St.NW	8	2	1	-		11
R.4. 1880 Columbia Rd. NW	32	17	-	-		49
R.5. 5410 Connecticut Ave.NW					166	166
R.6. 201 E St. SE	-	1	7	-		8
R.7. 2129 Florida Ave.NW	12	25	8	1		46
R.8. 4570 MacArthur Blvd.NW	20	15	0	0		35
R.9. 644 Massachusetts Ave.NW	15	33	2	-		50
R10. 1330 New Hampshire Ave.NW	161	44	21	-		226
R11. 2711 Ordway St.NW	1	35	6	-		42
R12. 1718 P St.NW	132	44	6	-		182
R13. 1615 Q St.NW	44	66	60	-		170
R14. 1800 R St.NW	64	8	-	-		72
R15. 1721 U St.NW	-	1	2	-		3
R16. 3315 Wisconsin Ave.NW	10	22	32	-	1	65
R17. 3900 Tunlaw Rd.NW					100	100
R18. 18 9th St. NE	13	24	2	-		39
R19. 3420-26 16th St.NW	48	81	24	1		154
R20. 1545 18th St.NW	36	159	-	-		195
R21. 2227 20th St.NW	6	15	14	-		35
R22. 2410 20th St.NW	3	36	2	1		42
R23. 2201 L St.NW	100	67	2	-		169
R24. 4000 Tunlaw Rd.NW	40	150	98	2		290
TOTAL	745	851	296	5	362	2,259

R = Registered

Source: D. C. Department of Housing and Community Development;
Development Economics Group.

Mr. HOWAR. The condominium conversions that have taken place have been basically in the Foggy Bottom and upper Northwest quadron of the city as evidence by the city's own figures in this report of June, 1979.

I will leave this for the committee's attention. They could look at it as well as a copy of this report.

I also have for the committee a copy of the Rental Statement from the management company provided to the owner, my mother, on that one building I mentioned that shows the income and expenses for 1977 and 1978.

[NOTE.—The material referred to has been retained in the committee's files.]

Mr. HOWAR. I view myself as a sophisticated investor. I have spent all my life in real estate and construction. My father has been in the business over 50 years. I was brought up on it. It's the only business I know.

We are still investing in the city. We have gone into the commercial sector. I have seen my assets on office buildings rise at a phenomenal rate. There is no reason why the same cannot be true in the apartment sector. Our rents in the city are 25 percent at a minimum below the market condition for healthy economic structure.

It is very easy to have rent control and say all right, we will ease the ravages of inflation on the tenants by keeping their rents down, but if those buildings close, if those buildings deteriorate, have we helped the tenants in the long run?

I think not.

Mr. WILSON. Thank you very much, Mr. Howar.

I have one question, and that is, did the people who bought the building, buy it as a co-op?

Mr. HOWAR. It is under contract with the tenants, sir, and I am not sure whether they will go the co-op or condominium route. I have two buildings under contract, the third building under negotiation.

I am unsure. They do have in each case good financial advisors. They have good lawyers. They are a sophisticated group of tenants. They want to buy.

Mr. WILSON. They are high income people relatively?

Mr. HOWAR. I imagine the average income in the building is around \$18,000 to \$24,000.

Mr. WILSON. They will probably get their financing from a local savings and loan institution?

Mr. HOWAR. Yes, sir.

Mr. WILSON. Thank you very much.

THURSDAY, NOVEMBER 29, 1979.

WITNESS

MICHAEL WILLIAMS, EXECUTIVE DIRECTOR, CAPITOL EAST COALITION FOR HOUSING & NEIGHBORHOOD IMPROVEMENT, INC.

Mr. WILSON. Is Mr. Michael Williams here?

Mr. Williams is the Executive Director of the Capital East Coalition.

Mr. Williams, describe your organization just very briefly so we will know where you are coming from.

Mr. WILLIAMS. In my prepared statement, it is described in the introduction, CEC, which is funded by the Department of Housing and Community Development of the District Government, is a nonprofit, tax-exempt organization incorporated in 1977 to provide housing expertise and assistance to residents of the Near Southeast/Capitol Hill area. A substantial portion of the organization's activities involve assisting renters with difficulties they have encountered, such as illegal rent increases, evictions, housing code violations, condominium conversion and general abuses by owners and property managers.

Mr. WILSON. How many different organizations are there like this one? We have had testimony from others. Do you know?

Mr. WILLIAMS. I do not think I have ever counted.

Mr. WILSON. 29, 30?

Mr. WILLIAMS. I would not say it would be that many. You have tenant associations which are active.

Mr. WILSON. Are these funded through the city government?

Mr. WILLIAMS. No. The city government funds different agencies for different reasons. The reason that my agency is funded, there is a group of agencies across the city known as project area committees established through HUD, or better known as PACs on the street. CEC is one of those coalitions, a PAC that works in a designated community area. The designated community development area for our area is from North Capitol to the river, east and west. North it goes to Constitution, south it goes to the freeway.

There are I would estimate maybe six or seven, eight community development areas in the city and each of them has a organization which is funded to assist persons in those areas with down payment assistance.

Mr. WILSON. How many salaried people do you have?

Mr. WILLIAMS. We have five. The Executive Director of CEC, Michael Williams, is also Chairperson of the citywide Housing Foundation, which provides information, organizing expertise, and technical assistance to renters throughout the District of Columbia.

Mr. Williams also served as a member of the Emergency Condominium Cooperative Conversion Commission, which was empaneled this summer to study the condominium conversion dilemma and make recommendations to the Housing and Economic Development Committee of the District of Columbia City Council. The report, which contained a separate statement of Mr. Williams, was submitted to the Council in September 1977.

I do not know if you have ever received one. The only copy I have is this one. I highly recommend that members of this committee receive copies. I know they are available through Legislative Services of the City Council. Contained in the report are our recommendations as well as a problem statement which outlines the dilemma of condominium conversions as well as the housing shortage in the District. Mr. Howar suggested you get a copy of this.

I would also recommend for concise information, this is probably the best you can get. The title of it is Housing Problems, Conditions and Trends in the District of Columbia.

Thirdly, I would recommend that you get a copy of the mayor's draft housing policy of the District of Columbia.

Mr. WILSON. We have that.

Mr. WILLIAMS. With respect to the general decline in available rental housing, for various reasons to be mentioned later, the rental stock in the District has sharply decreased since early in the decade. Hardly a day passes without mention in the daily papers and electronic news media about long-time residents of the District being evicted or living in subhuman conditions because the owner cannot or will not make the residence livable. Renters in family buildings face unrestricted rent increases and the danger that the owner will sell because the property has greatly appreciated in value.

Mr. WILSON. Would you repeat that?

Mr. WILLIAMS. Renters in family buildings face unrestricted rent increases and the danger that the owner will sell because the property has greatly appreciated in value.

Mr. WILSON. How can that be true with rent control? How can they face those unrestricted rent increases?

Mr. WILLIAMS. I am going into that.

In the Capitol Hill area, which is the target or service area of CEC, low- and moderate-income renters are being displaced from their homes of 12, 15, 20-plus years. The only safeguard against such intolerable activity is section 601 of The Rental Housing Act and accompanying regulations.

To answer your question, to go on further, I discuss single-family homes which are exempt from rent control. The primary rental market on Capitol Hill, near Southeast area, is single-family homes, which are exempt from rent control.

Mr. WILSON. But generally those are not occupied by low-income people, are they?

Mr. WILLIAMS. Yes, the working poor, as you call them. Most of the people we work with in the Capitol area who are still there renting single-family homes are the working poor.

Mr. WILSON. Do they have any protection under the law?

Mr. WILLIAMS. Not for rent control, no, not for increases in rents.

Mr. WILSON. They have eviction protection. Mr. Looney said the tenants in the one I own were protected against eviction under the law.

Mr. WILLIAMS. Eviction protection?

Mr. WILSON. Yes.

Mr. WILLIAMS. You mean if they sell the house. If the house is sold, the only protection they have is the one I am about to describe, which is section 601 of the Rental Housing Act, which allows the occupants of the house to buy the house at mutually agreeable terms, but they are not mutually agreeable.

Usually what happens is, the occupant who has been there, raised their family, 15, 20-odd years, the numbers change but the problems are the same. They receive a notice that the owner desires to sell the house. The purchase price or sales price is usually

60, \$70,000. We are talking about people whose incomes range from 10 to \$18,000. That is a tremendous gap.

I also might repeat again, these are people who have lived in those homes as renters for 15, 20 years. They are given without warning or anything a notice that they either have to buy in 45 days or move. That is the only protection they have in the Housing Act, or rent control as it is commonly known.

Mr. WILSON. What if an owner wanted to sell an apartment house that has maybe 8 units in it?

Mr. WILLIAMS. Section 602 would require that they first give notice to the tenant, that they have the first opportunity to buy; what is commonly known as the right of first refusal.

The single family, the occupant has 45 days to contract with the owner on mutually agreeable terms. If they are not mutually agreeable, they get a letter, "Either contract with us on this or we will sell to a third party."

On section 602 the same procedure except they have 90 days to contract with the owner.

Mr. WILSON. That is the only difference?

Mr. WILLIAMS. Yes. There are settlement provisions in section 601 for single families which state settlement must occur within 60 days after 45. The act and regulations are silent for 602. However, there have been some rulings and interpretations that at least 60 days is to be applied since 60 days is written into 601.

Section 601 allows residents of single-family homes the opportunity to purchase their dwellings prior to a third party. For many the difference between immediate displacement and some semblance of security is the Rental Housing Act or rent control, as it is more commonly known.

However, for those households that reside in single-family homes that have not been sold, another serious problem will confront them. Most single-family rentals are exempt from rent control, so in an area as attractive to higher-income households as Capitol Hill is low-income, mostly blacks face unrestricted and unconscionable rent increases.

While single-family rentals that are affordable by lower-income households become extinct, the multifamily rentals are also under attack by converters who have threatened to go to Congress if necessary to seek redress or sympathy because the local legislators and executive branch will not allow them to cause massive displacement of lower-income households.

I recently took a program in California a month ago. I appeared with a realtor, major converter in the city; shortly after the program we had a discussion and dialogue discussing housing. Thereupon, in the midst of myself and the host of the program, there was a barrage of threats made. One of the threats made was that we would go, we being the realtors, will go to Congress and have them deal with the situation since we have not been able to get what we want from the City Council.

Mr. WILSON. You understand we have no power to—

Mr. WILLIAMS. No, I am just making you aware of what I consider to be very pertinent facts.

Mr. WILSON. How can it be a threat if the threat cannot be carried out?

Mr. WILLIAMS. I find it kind of ironic that we are now sitting here a month later after that threat was made to me. Also, the threat was made to the housing director; I had a conversation with him some two weeks ago.

Mr. WILSON. Mr. Moore?

Mr. WILLIAMS. Mr. Moore; he said when he was speaking at a National Association of Homebuilders or some association, the same developer, converter, made the threat to him in the midst of many others. So I do not take that idly just from the threat made to me. It was made to the Housing Director of the District of Columbia.

Mr. WILSON. You are aware that the District passed a rent control law and the Congress did nothing to interfere with it and it is in effect?

Mr. WILLIAMS. That is my feeling, yes, sir.

I also find it kind of strange if that is indeed the case why we are here now.

Mr. WILSON. As you know, we are holding hearings on whether the rent control law is having an adverse effect on the city's tax base and whether the taxpayers in my district are going to have to pay more money to support the District of Columbia.

Mr. WILLIAMS. I understand the theme behind these hearings. I also think I have to read between the lines.

Mr. WILSON. You are entitled to do that.

Mr. WILLIAMS. The position of the heavily-financed developers is that land or property that has been used to house low-moderate income blacks is too valuable a commodity to be left unplundered.

Close to 30,000 units or 13 percent of the city's 1970 rental stock is in the process of condominium conversion. The pattern of permits issued shows that inner-city Washington, D.C., is saturated with condominium units that were once rentals. Areas known as DuPont Circle, Foggy Bottom, 16th Street Corridor, Connecticut and Wisconsin Avenues, Logan Circle, Shaw, and of course Mt. Pleasant have become known as the war zone because renters are not going to sit idly while a few who desire greater riches diminish the hopes and aspirations of people who have a stake in this town.

In an article published in the Washington Post, dated April 28, the headlines read: 10 Percent of Rental Conversions this year will be in D.C. The article states:

Rental units in the Washington metropolitan area are being converted into condominiums or cooperatives faster than in any other urban market in the U.S. except New York and Chicago. Approximately one out of ten of the 130,000 apartment units expected to be converted to individual ownership nationwide in 1979 will be located in the District or nearby suburbs.

Therefore, without much more discussion, even the most ardent supporter of massive displacement and exorbitant profits can agree that the conversion of rental properties is a significant contributing factor to the decline of rental properties.

During the summer of this year the mayor and the Department of Housing and Community Development simultaneously released a study entitled Problems, Conditions and Trends in the District of Columbia and the Mayor's Draft Housing Policy, both of which I have shown you. Both documents describe the enormous housing shortage and plight of low-moderate income persons in the District.

As quoted in the Post on June 21:

The documents contain statistics that confirm the worst fears of many officials studying the city's housing crisis. The problems are so severe that D.C. Housing Director Robert L. Moore said it will take more than four years of the Barry administration to solve them. We're talking about maybe a 20-year planning frame.

The statistics reveal the following: About 60,000 housing units, more than one of every five in the city, are substandard with major housing code violations. They would require thousands of dollars in repairs to make them habitable. Thousands of other units are vacant and boarded.

Displacement of the poor is complete in some neighborhoods and spreading rapidly to others.

More than 10,000 people are on the city's waiting list for public housing, with waiting over five years for occupancy more the rule than the exception. I can assure you that that is the rule because we work with persons looking for public housing and we know, as a matter of fact, it is five and a half years now.

Mr. WILSON. Let me ask you this, Mr. Williams, as you probably know, the school population is declining in Washington, and there was a recommendaiton last year that several schools be closed. What would you think about selling some of those properties in order to get money to build public housing on others, since public housing is in such short supply and in the midst of a crisis?

Mr. WILLIAMS. Selling the schools to do what now?

Mr. WILSON. Maybe you have two surplus school properties in an area, so you sell one of them in order to get money to build subsidized housing on the other.

Mr. WILLIAMS. I think it is feasible. It is the first time I have ever heard anything of that nature.

Mr. WILSON. Have you any suggestions?

Getting away from the rent control issue a bit—obviously you have given it a lot of thought—have you any ideas how to establish more subsidized public housing, how to relieve that 10,000 waiting list?

Mr. WILLIAMS. I think the answer is probably more money from here to build more public housing. The idea you just mentioned probably is one that could work. This needs to be thoroughly explored as to how the tension can be relieved.

Mr. WILSON. You think more Federal money would be the answer?

Mr. WILLIAMS. Yes, I think more money.

Mr. WILSON. To be fair—I do not reject that at all—but to be fair, if you think that, then you cannot say it is none of our business or improper for us to have hearings on the whole housing spectrum, especially if you are going to be asking for more Federal money for subsidized housing.

Mr. WILLIAMS. If we were, that would be what we would be preparing ourselves for here, subsidized—

Mr. WILSON. You are right; admittedly I was getting away from the rent control issue, but I was curious as to your thoughts.

Mr. WILLIAMS. What to do? More dollars, Federal as well as private industry, would have to supply that.

Mr. WILSON. Private industry is not doing it.

Mr. WILLIAMS. As well as retaining rent control. Relieving this city of rent control won't solve that at all. It will make it worse. What you will have is displacements in the authority. The industry report which Mr. Howar asked you to read, there is on page 5 a map showing the massive displacement in the City of Washington.

Mr. WILSON. Where is Capitol Hill on that map?

Mr. WILLIAMS. Capitol Hill is this big red area.

Mr. WILSON. What does the red on the map stand for?

Mr. WILLIAMS. Totally completed displaced of low- or moderate-income people. Capitol Hill, Dupont Circle, Adams-Morgan, Mount Pleasant.

Mr. WILSON. What does 12th and C Street show?

Mr. WILLIAMS. Where?

Mr. WILSON. Southeast.

Mr. WILLIAMS. Right in the Capitol Hill area. It is right on the border of this orange and red, yes, exactly on the border. Here is the one.

Mr. WILSON. We have a pretty big public housing project right there.

Mr. WILLIAMS. Four of them in Capitol Hill.

Mr. WILSON. Those people are not being displaced?

Mr. WILLIAMS. We have a penitentiary and they haven't been either. I am talking about public housing.

Mr. WILSON. Are you comparing public housing to a penitentiary?

Mr. WILLIAMS. Almost.

Mr. WILSON. Really?

Mr. WILLIAMS. This report was about public housing. As long as you have public housing you are not going to have poor people displaced. What they are talking about is private housing in the inner city of Washington. As the report indicates, these areas in inner-city Washington, they are where the lower- or moderate-income people lived, are now totally displaced.

Mr. WILSON. Do you accept that sometimes economic factors can come to bear on these things?

Mr. WILLIAMS. Surely.

Mr. WILSON. Natural economic forces?

Mr. WILLIAMS. Yes, sir. I think that is the purpose of rent control.

Mr. WILSON. To combat these natural economic forces?

Mr. WILLIAMS. I do not know about natural, but economic forces, yes.

As I stated, displacement of the poor is complete in some neighborhoods and spreading rapidly to others as the map indicates. More than 10,000 people are on the city's waiting list for public housing, and about 60,000 tenants and more than 14,000 homeowners need some form of housing assistance from the city because of standard housing conditions or overcrowding.

By 1985, there probably will be a shortage of 19,000 units that will be needed to meet the demands of more than 300,000 households.

Although home ownership in the city apparently is increasing about two-thirds of the city's housing units in 1977 were rentals.

This represents a substantial change from 1970 when about 82 percent of the city's housing was rental, a difference of 16 percent.

The facts contained in the report and policy statement reflect an obvious problem of insufficient safe and habitable dwellings for District residents. In other words, in the District the housing conditions are so poor that thousands of residents cannot expect to satisfy a basic requirement for survival or subsistence, namely shelter.

Rent control was enacted for the purpose of stabilizing or curbing the tide of rising housing costs. The elected and representative officials of District residents designed and implemented that would allow District renters basic safeguard against the shelter shortage and at the same time allow owners reasonable profits and timely recourse should profits diminish. The legislation contains several exemptions, one of which is newly-constructed multifamily building.

Rent control, among other controls, has allowed renters not to be removed from dwellings. The shortage of available housing has created tremendous tension for decent shelter. A controlled free rental market in D.C., especially inner-city Washington, would create a less attractive atmosphere and future for renters than now exists. Low-moderate income blacks, elderly, handicapped, and persons on fixed income, students as well as other persons not of sufficient income to meet the demands of a free market have basic safeguards and market restraints or controls. These controls mean that renters can expect increases of housing costs but the increases are planned and not arbitrary; reasonable and not ridiculous.

A stabilizing factor has been the controls imposed by our City Council and administered by our elected mayor. The law is fair, equitable, and reasonable for owners as well as renters.

Mr. WILSON. You are the first witness to say that. Most of the other witnesses have either said it is not strong enough or it should not be there.

Mr. WILLIAMS. I also have some problems with it in areas. But I think the basic thrust of it is as I described, it is fair and reasonable. I think in the forum of the City Council and with the mayor and his assistants in housing, that tenants as well as landlords can work on those problems we may commonly see as in error where we may have our differences. That forum has been provided to us by the Barry Administration as well as the new Council, and I think has worked quite well.

I think as time goes on we will continue to work on those aspects of the Rental Housing Act and Condominium Conversion Act that are not feasible or cause hardship to either owners or renters.

In summary, the impact of rent control on the availability of rental housing has been to continue to allow the persons who have historically resided here to remain. Rent control has not been the culprit of a housing shortage and subsequent displacement, but has served as an aid to the constituents of our elected officials.

I have taken some notes from some of the testimony that I have heard. One statement was about the hardship petitions. I do not think it was brought to your attention, which is in our RAO annual report, which I do not have here but I suggest the congressmen receive copies.

Between 90 and 97 percent—this is on a ward basis—of the hardship petitions are approved. If memory serves me correctly, there is not a ward in this city where hardship petitions are granted in less than 90 percent of the cases.

Mr. WILSON. How about the time involved?

Mr. WILLIAMS. I do not know if that was in the annual report or not. I know there have been complaints about realtors. I have also spoken with Miss Kennison concerning the time involved. They would like to see it expedited as well as everyone. That would require more staff, more money, than they currently have. What tenants have done, willing to work with Miss Kennison on this problem, is train members from our staff.

I have a member on our organization who serves as an intern in the Rental Accommodations Office. What she is learning to do is the ins and outs of the Rental Housing Office. I hope she will be of some assistance in expediting some matters.

Mr. WILSON. Do you think she will be impartial?

Mr. WILLIAMS. I do not think she will be a hearing examiner. Hearing examiners require money to be hired. It was never designed that this person or any person from any agency would serve as a hearing examiner. They would act as support staff, act as an outreach office to curtail some petitions that do not need to be filed by tenants or whatever.

There would be more than just expertise in the office, there would be expertise in the community as well. That does not now exist especially in the tenant community. I have heard complaints about landlords having to buy lawyers to represent their interest, whatever, at the hearing before the RAO Commission. The story of our tenants is, we do not have the money. We have to rely upon legal assistance places like neighborhood legal services.

Mr. WILSON. But that is provided through public funds.

Mr. WILLIAMS. Yes, but they cannot handle all the cases. Often we find laymen who have trained themselves in the Rental Housing Act representatives of massive buildings before the Rental Accommodations Commission.

I might add that their opponent is a lawyer from whatever law firm that is trained in this area, that is trained not only in Rental Housing Act but three years of formal legal training behind him. So we are fighting on an entirely different basis. We do not have the representation but we are trying to do the best we can with the situation.

Mr. WILSON. I will ask you one more question and then I will yield.

You have said several times in your testimony that the District needs more rental housing.

Mr. WILLIAMS. Yes.

Mr. WILSON. Do you believe the testimony that has been presented by the landlords that Prudential Life Insurance Company and the other large insurance companies, the traditional sources of capital for multifamily dwellings, will not make loans in the District of Columbia?

Mr. WILLIAMS. I do not think—

Mr. WILSON. I am just asking if you believe that.

Mr. WILLIAMS. For the District of Columbia; I believe it is for the entire country from what I have been reading.

Mr. WILSON. Not in Houston.

Mr. WILLIAMS. That may be the mecca for homebuilding or building in general. But I have read all homebuilding is down.

Mr. CHAPPELL. Not so in Florida.

Mr. WILLIAMS. Reports I read from realty—

Mr. WILSON. In other words, and I think this is a central point, you do not believe that because of rent control, lenders will no longer loan money for multifamily housing in the District of Columbia?

Mr. WILLIAMS. No.

Mr. WILSON. You think it is a national problem?

Mr. WILLIAMS. I think it is a national problem.

Mr. WILSON. Mr. Chappell?

Mr. CHAPPELL. Mr. Chairman, I want to make my statement clear.

We have not found where it is a big trend in Florida for lenders not to make that kind of loan. I am surprised that we hear it is kind of a national problem. It may be somewhat of a trend but it is certainly not a general factor in my area.

How would you propose to get more housing?

Mr. WILLIAMS. Well, number one, I would propose that we stabilize the housing we now have. That would be to maintain strong rent control, also to maintain a strong condominium conversion regulatory process.

Mr. CHAPPELL. Do you think the private sector can do the best job in providing housing? Or do you think it can be done better and is more the responsibility of the Federal Government to provide public housing?

Mr. WILLIAMS. I think it has to be both, sir. Both have to work hand-in-hand to provide more housing.

Mr. CHAPPELL. Let's assume that the District Government does not have the capacity to do it all, how are you going to get the private sector to do it?

Mr. WILLIAMS. Make it less attractive to convert the condominiums is certainly one way.

Mr. WILSON. But that does not produce any new housing.

Mr. WILLIAMS. It does, indirectly. If you cut off the condominium conversion problem, conversion of already existing rental stock, that lessens the incentive to reap the exorbitant profits that developers and owners as well achieve by selling those units as condominiums. That is the bottom line in the situation.

Mr. CHAPPELL. What right does the government have to tell a person he cannot convert his property from one use to another?

Mr. WILLIAMS. I think police power—

Mr. CHAPPELL. Police power?

Mr. WILLIAMS. Yes, that is the basis of these controls. I think they are totally constitutional.

Mr. CHAPPELL. I thought welfare was supposed to be the criterion. It may sound like a police policy but it is going to the welfare of the people. That is the policy under which it is done; it certainly is not police power.

Mr. WILLIAMS. I think it has.

Mr. CHAPPELL. Let's get back to the central issue.

If a man has a piece of property out there that he is not getting what he perceives to be a fair return on his investment, how are you going to get him to improve it or how are you going to get him to build new units? That is the thing that bothers me. And how are you going to get the lending institutions to do it if they do not feel it is a good investment because of rent control?

Mr. WILLIAMS. I don't think it is because of rent control. I think—

Mr. CHAPPELL. Well, let's pursue that just a minute. Of course there are both sides of the issue. You simply don't believe that rent control has anything to do with that?

Mr. WILLIAMS. I have yet to see any facts or figures on that. I have heard testimony before this committee that that is the reason, but where is the documentation, as some other witnesses have asked?

Mr. CHAPPELL. What is the cause of it?

Mr. WILLIAMS. Of what, sir?

Mr. CHAPPELL. What is causing those lenders not to want to make loans for new construction, and what is it that is causing the owners not to want to create new units and upgrade what they have?

Mr. WILLIAMS. First of all, who is of the belief that lenders are not willing to lend to persons who are building rental properties in the District? Condominiums are being built in the District of Columbia, so I have no knowledge that that is in fact the case.

Mr. CHAPPELL. What is the case?

Mr. WILLIAMS. Why it is not being built? It is not as profitable as condominiums. That is probably the primary reason and also inflation, the cost it takes to build new rental housing and the rise of rents that it would take to maintain that building.

Mr. CHAPPELL. If they are building condominiums, they must have a demand for those condominiums; therefore, condominiums are certainly picking up some of the need.

Mr. WILLIAMS. Yes, it is.

Mr. CHAPPELL. All right; pretty soon that is certainly going to saturate.

Mr. WILLIAMS. No; I do not believe, because not everyone wants to be a homeowner nor does everyone want to buy a condominium.

Mr. CHAPPELL. That is right. Eventually you have reached the point where supply and demand, will stabilize. I am still not clear in my mind that what you propose would help to get these people to build rental units. Do you think the profit motive has anything to do with building more rental units?

Mr. WILLIAMS. Yes; you have condominiums which are shown to be a great incentive for profit. A percentage of profit reaches conversions as well as new construction of condominiums. I certainly do think it is profit. You get more exorbitant profits for rental units than you do for housing.

Mr. WILSON. What would you do?

Mr. WILLIAMS. Start conversion of the rental property we already have.

Mr. CHAPPELL. Do you think it is the function of government to tell a landlord owner that he can't convert his piece of property from a rental unit to a condominium if he wants to?

Mr. WILLIAMS. Yes, sir, I do think it's the function of government, and I think our local elected officials have been responsive to that need of the constituents.

Mr. WILSON. Mr. Williams, I want to get back—and I think you are a thoughtful young man and a reasonable witness, and certainly a good spokesman for your point of view—and let's suppose you do stop all conversions. That still doesn't answer the question; it simply leaves the rental stock exactly where it is today. And what we are talking about is how would you get more units built?

Mr. WILLIAMS. That is just it; the incentive to build. If you cannot convert existing properties then the incentive is to build.

Mr. WILSON. No; they will build them somewhere else.

Mr. WILLIAMS. I don't particularly agree with that either. It has been shown that this Washington, D.C. area is a boom town, for many years and appreciation of property here has been tremendous, so I think someone who is willing to invest in property and did not care to invest in Washington is making an unwise decision, if they had traditionally done so. We have an appreciation of 10, 15, 20 percent.

Mr. WILSON. That is primarily in private homes on Capitol Hill?

Mr. WILLIAMS. It extends to multifamily buildings as well.

Mr. WILSON. I don't think so. I don't want to be argumentative.

Mr. WILLIAMS. The building that I lived in, a man bought it in 1974 for \$1 million. It was resold in about 1977 for \$2 million and he has been trying to convert it for the last year, and hopefully will be able to reap up to \$4.4 million.

Mr. WILSON. Is he going to be able to convert it?

Mr. WILLIAMS. No; he is not.

Mr. WILSON. So he will not reap \$4 million.

Okay. Thank you very much.

Mr. CHAPPELL. I have one more question, Mr. Chairman.

Do you have the statistics on what is now generally considered to be a proper return on the investment of property owners? What percentage do you folks project as a proper spread for a rental unit?

Mr. WILLIAMS. The current law allows 8 percent on assessed values.

Mr. CHAPPELL. An owner is entitled to earn 8 percent?

Mr. WILLIAMS. On the assessed value, not on his investment.

Mr. WILSON. Is that usually higher or lower than the investment?

Mr. WILLIAMS. I would think it would be higher.

Mr. WILSON. But I think we had testimony, Mr. Chappell, indicating that debt service is not allowed to be included in the formation of that 8 percent return.

Mr. CHAPPELL. Debt service is not permitted to be included?

Mr. WILSON. That is what we were told earlier.

Mr. WILLIAMS. I do not know.

Mr. WILSON. Thank you, Mr. Williams, and I am sure we will see each other again.

Mr. WILLIAMS. I am sure.

Mr. WILSON. Where do you live?

Mr. WILLIAMS. Dupont Circle.

Mr. WILSON. I thought you were over in southeast.

Mr. WILLIAMS. That is where I work.

Mr. WILSON. Is Viola Bowen here?

[No response.]

[Note.—See pp. 324-325 for prepared statement of Viola Bowen.]

Is Jean Rhodes here?

[No response.]

Is Deborah Williams here?

[No response.]

THURSDAY, NOVEMBER 29, 1979.

NATIONAL RENTAL HOUSING COUNCIL

WITNESS

DR. RICHARD FRANCIS, EXECUTIVE VICE PRESIDENT

Mr. WILSON. Our next witness is Dr. Richard Francis. Dr. Francis, would you please describe your organization to us? We have asked earlier witnesses to do this for us.

Dr. FRANCIS. Our organization, the National Rental Housing Council, was formed about one year ago, a year and a half ago, to present the industry's view on the issue of rent control and to sort of promote the whole issue of the crisis of multifamily housing in the United States.

Mr. WILSON. Are you a nationwide organization?

Dr. FRANCIS. We are a nationwide organization which is funded by support from builders, developers and owners of multi-family properties.

Mr. WILSON. You are the operating head of this organization?

Dr. FRANCIS. Yes.

Mr. WILSON. Is your headquarters in Washington?

Dr. FRANCIS. Yes, sir; 1800 M Street in Washington.

I am not going to run through the entire litany of the problems of rent control since you have been deluged with it in the last two days.

I want to use the hearing record as an example for my own problems, as far as getting the message across around the country as to the problems of rent control. You have assembled a fine witness list, and certainly a great series of problems and the problems as to rent control itself.

STATUS REPORT ON RENT CONTROL

Let us begin with just a few things: First I have given you a map and a status report to sort of put into perspective where rent control is in the United States today.

[The material referred to follows:]

National Rental Housing Council

1800 M Street, N.W., Suite 285-N • Washington, D. C. 20036 (202) 659-3381

THE SPREAD OF RENT CONTROL

RENT CONTROL ACTIVITIES THROUGH NOVEMBER 15, 1979

ALABAMA

In August, local citizens and landlords who have been involved with the research for better tenant-landlord relations in BIRMINGHAM decided unanimously in favor of a rental housing commission to act as mediator/arbitrator in disputes. Two other proposals, one to require certificates of occupancy, the other to license apartment managers/owners, have been shelved until a fact finding commission is appointed by the City Council to study the issues. The City Council will have final approval of any recommendations drafted by the legal department concerning rental housing regulations. Due to state laws and weak home rule in Alabama, BIRMINGHAM cannot regulate rents under a rent control system. Recommendations are expected to be prepared within the next few months.

ALASKA

Alaska passed a temporary state enabling act in 1974, which allowed municipalities to create rent controls to deal with local housing emergencies. FAIRBANKS, ANCHORAGE, and VALDEZ had rent controls in effect, all of which expired in July 1977 upon completion of the Alaskan pipeline.

ARIZONA

*State Senator Richard Kimball, D-PHOENIX, after meeting with about 200 renters, most of whom are senior citizens, announced that he may introduce a rent control measure in the next Legislative session. Kimball expects little support from the Republican-controlled Legislature for this measure.

According to Kimball, 2,000 apartments in central PHOENIX were converted to condominiums last year and many more are expected to be converted in the near future. Among Kimball's proposals will be (1) that the Legislature grant property tax exemptions for new construction and require that two rental units be built for every condominium conversion, (2) lawmakers should balance property taxes for renters and homeowners, and (3) landlords should be required to give 30 days' notice for every 5% increase sought.

A form of rent control on mobile home parks was introduced in the 1978 Legislature and defeated.

CALIFORNIA

In the wake of the widespread rent control activity, which has recently been surfacing all around California, the rental housing industry finds itself confronted with the uncertainty brought on by repetitious rent control initiatives and ill-conceived legislation, which is deterring investment in new construction and significantly depressing the rental housing market.

Two distinct efforts by different housing groups have been undertaken in California to place measures which address the rent control problem on the June 1980 statewide ballot. The Golden State Mobilehome Owners League (GSMOL) circulated a statutory initiative entitled "Rent Stabilization," but failed to gather the required signatures within the specified time limit. A second group, Californians for Fair Rents, representing the

*Indicates update since last rent control status report.

(NOTE: Status report updates will be provided on a monthly basis by written request only.)

major apartment, real estate, and industry associations, is circulating a proposed constitutional amendment, which would create statewide standards to which all locally enacted rent control ordinances would have to conform. In order for the Californians for Fair Rent Initiative to qualify the constitutional amendment for the ballot in 1980, 553,000 signatures of registered voters are required.

The Californians for Fair Rent amendment would apply to all dwelling units offered for rent, including mobile homes and mobile home park spaces, except single-family residences and new construction first occupied by tenants after June 1980. In making rent control exclusively a matter of local control, the initiative provides that the state shall not establish statewide rent control. In addition, any local rent control ordinance must be enacted by the voters and cannot continue in existence for more than 4 years unless the voters approve reenactment.

Under the proposed amendment, any rent control ordinance in existence in June 1980 must be brought into conformity with the state constitutional standards by the next election. The ordinance must contain provisions establishing an appointed representative commission to resolve rent increase grievances. The ordinance must also permit rents to be increased up to the Consumer Price Index, plus reasonable amounts for improvements and extraordinary costs to conform to codes. Finally, the proposed amendment provides that the state also may establish a statewide commission to resolve grievances resulting from rent increases or rollbacks.

The Californians for Fair Rent Initiative was certified for circulation by the state Attorney General on August 13, 1979.

***ALAMEDA.** At the October 16 meeting of the City Council, the Council decided not to make any decisions concerning rent control for the city. The Council did recommend that (1) the Council not act at this time on a rent control ordinance for the city, (2) not to cause rent control to come before the electorate, (3) consider a rent review committee instead of rent control, (4) act to help elderly on fixed incomes. At present, rent increases are being monitored by the Council.

ARCATA. Despite the defeat of rent control by a 54 to 46% margin on April 24, 1979, proponents of the issue immediately began talking about putting forth another initiative. The Arcata Better Housing Committee, an owners/realtors group, met with these proponents to discuss problems that still exist. Together they presented the problems to the City Council, which has appointed a comprehensive task force to further study the situation.

BELLFLOWER. A rent control hearing and discussion took place at the January 9, 1979, City Council meeting. The problem is essentially with mobile home park tenants, and the Council decided to set up a voluntary mediation council.

BERKELEY. A rent control initiative, Measure I, passed on the November 1978 ballot. Eighty percent of Proposition 13 savings must be returned to the tenants in 12 monthly installments during 1979.

*Measure I is due to expire on December 31. At a meeting on November 13, the City Council decided to implement a 3 month rent freeze effective January 1, 1980, to give the Council time to decide on a more permanent ordinance for the city. Landlords will have to register all rental units, evictions will be for just cause only, and rents on all rental units will be frozen. An emergency housing situation was declared in 1972 and remains in effect.

In other action, two major landlords have gone to court seeking a ruling on the validity of the current measure. On July 20, Alameda County Superior Court Judge Robert K. Barber held that the ordinance does not apply to commercial leases that were in effect prior to June 6, 1979, and called for rent increases after June 6, 1979. The court will set a date for a trial on the larger issue of the ordinance's validity.

BEVERLY HILLS. The ordinance as amended in August 1979, allows increases according to the CPI. A maximum overall increase of 15% for one bedroom apartments with rents under \$425 and two bedroom apartments with rents over \$525 are allowed under the provisions of the ordinance. A 20% maximum overall increase may be allowed for one-bedroom units with rents from \$425 to \$600, and two bedroom units with rents from \$525 to \$600. These percentages include capital improvement increases. If a landlord's aggregate tax liability for city business license taxes, plus property taxes have increased more than the amount of the CPI allowable adjustment for the same year period, he may add this amount to apartment rents prorated among the apartments on a square-footage basis. There is no vacancy decontrol provision and a seven member Rent Adjustment Board will review owner's hardship applications. The ordinance is due to expire in December 1980.

BREA. The *Star Progress* in this city reports that some 100 BREA residents have joined forces with the Brea Political Action Committee to gain enough signatures for a rent stabilization initiative to be placed on the April 1980 ballot. The City Clerk's office has not yet seen the petition, but according to the *Star* it calls for a rollback of rents for all renters (including mobile home park tenants) to May 31, 1979, levels; requests that rents be held stable for a period of 5 years; protects apartment renters from eviction without "just cause," and recommends that any rent raises be based only on an increase in taxes and metered utility rates. The initiative would also establish a rent stabilization board with the authority to control whether or not apartments could be converted to condominiums. Petitioners have 180 days from the first day of circulation, August 24, to gather 1,975 signatures of registered voters. As of September 26, 2,500 signatures have been gathered, although the group says their goal is 4,000.

***BURLINGAME.** On November 6, 1979, voters rejected a rent control initiative 66 to 34%.

CAMPBELL. A task force appointed by the City Council is studying the rent control issue and will submit its findings to the City Council in January. Tenants are urging the city to adopt a rent control ordinance similar to the one adopted in San Jose in July, which allows for an 8% increase in rents per year.

***CAPITOLA.** A rent control ordinance was approved by the City Council in November and will go into effect on December 8, 1979. The ordinance limits rent increases in mobile home parks only based on the increase in the CPI in the San Francisco area or not greater than 8% per year. A rent review board will determine whether or not increases are justified when they go above the 8% limit and also must approve all rent increases. There are provisions for landlords to recover emergency maintenance costs from the mobile home park tenants. Most of the people living in the nine mobile home parks are elderly on fixed incomes.

CARSON. On August 20, 1979, the City Council approved a mobile home rental review board consisting of 15 members appointed by the City Council. Rents in mobile home parks will remain at May 1, 1979, levels. Applications for rent increases must be filed with the Rental Review Board, who in turn will advise tenants that the application has been filed. The Board will hold a hearing for each application within 60 days of receipt at which time the applicant and affected tenant may offer any testimony. The Board's decision whether or not to grant rental increases will be based on a number of considerations such as changes in the CPI, Voluntary Pay and Price Standards promulgated by the Federal government, the rent lawfully charged for comparable mobile home spaces in the city, the completion of any capital improvements, changes in property taxes or other taxes related to the subject mobile home park, changes in rent paid by the applicant for the lease of the land, changes in utility charges, and changes in reasonable operating and maintenance expenses.

CHINO. There are presently no controls in this city. The City Staff is studying the feasibility of an ordinance for mobile home parks and the legal entanglements that might be involved. A vote of the electorate will be taken in the near future, but the outcome will not legally bind the City Council to act in one way or another. No action is expected until December or January.

CLAREMONT. The City Council decided against a rent control ordinance for the city, and on August 28 approved recommendations to assist in the development of non-profit housing for the elderly and handicapped. A mediation board, probably consisting of the housing planner and city manager, will be established to handle tenant-landlord disputes. The majority of the people in Claremont are against rent control because they are against government intervention of any kind.

CONTRA COSTA COUNTY. A survey by the County Planning Department revealed that the county's 85 mobile home parks have a 5.7% vacancy rate and concluded that the rate is too high to provide any legal basis for rent control. The Contra Costa County Home Advisory Committee decided against any rent controls and legislation in September and will make that recommendation to county supervisors.

***COTATI.** On November 6, rent control won approval by voters 55 to 45%. Cotati's new ordinance applies to apartments of 3 or more units and mobile homes and freezes rents at June 1, 1978, levels. A five member Rent Appeals Board appointed by the City Council has power to set the rent ceilings for all controlled rental units. Landlords may apply for hardship increases.

CULVER CITY. The City Council is still reluctant to implement any form of rent control in their city unless there is strong evidence of rent gouging taking place; however, a study conducted by the housing staff and chief administrator has been forwarded to the Council for review.

***CUPERTINO.** A rent control petition circulated by the CUPERTINO Citizens for Rent Relief has been turned over to the Registrar of Voters office to validate the signatures collected. If certified, the issue of rent control will face a public vote in 1980.

DAVIS. A rent control law was passed by the voters in November 1978, that would have rolled back rents and required a pass-on of Proposition 13 tax savings to tenants. On April 10, 1979, Superior Court Judge Harry Ackley ruled that the DAVIS rent control law is unconstitutional. The ruling states that the law is "confiscatory in nature" and is a "violation of the due process clauses of the U.S. and California constitutions." The rent control law is voided in DAVIS unless an Appellate Court Judge stays the lower court decision.

DOWNEY. On August 14, the City Council unanimously agreed that a rent control ordinance for the city would be an "unwarranted infringement upon the free enterprise system" and that it "has no place in DOWNEY." The request for a rent control ordinance came from a group of citizens calling themselves the DOWNEY Citizens for Fair Housing. A spokesman for the group told the Southeast News in DOWNEY that the group's goal is to stop widespread rent gouging. The city presently has a moratorium on condominium conversions, which is due to expire shortly. The City Council must hold a public hearing in order to extend the moratorium.

***EL MONTE.** Voters rejected rent control for their city on November 6, 68 to 32%. The EL MONTE Citizens for Fair Housing sponsored a petition drive to place the initiative on the ballot earlier in the year. The petition called for a temporary freeze on residential rents, a rent rollback to the highest level paid in May 1978, limits on future rent increases, and the establishment of a rent control board. EL MONTE was the first city in California to impose rent control after the passage of Proposition 13. The City Council of this Los Angeles-area city enacted a 6 month moratorium on rent increases July 29, 1978, but declined to extend the rent freeze when it expired January 31, 1979.

***FOUNTAIN VALLEY.** Mobile home park tenants asked the City Council to impose a moratorium on rent increases and create a rent review board in September. On October 2, the City Council chose to act as mediator between landlords and tenants and not to impose any rent controls.

GARDENA. The Rent Control Subcommittee of the GARDENA Citizen's Advisory Committee is holding public meetings to obtain information from citizens as to whether or not there is a need to recommend rent control for the city, and if so, in what form or manner. After the public meetings are held, the subcommittee will prepare a report on its recommendations and considerations on the rent control issue for the GARDENA City Council.

***GLENDALE.** In a "show of strength" move, the GLENDALE Tenant Association began circulating a rent control petition on October 5 to present to the City Council before January 1. The petition will demand that "the GLENDALE City Council enact rent controls and eviction protection laws for all residential and commercial rentals." The group plans to obtain 10,000 signatures of registered voters before presenting it to the Council. If the Council fails to act, the association plans an initiative drive to put the ordinance before the voters. The City Council is unanimously opposed to rent controls.

***HAYWARD.** Although voters in HAYWARD rejected the rent relief ballot measure in July 50.9% to 49.1%, a proposed ordinance drafted by the City Attorney was formally introduced at the City Council meeting on October 1. Several workshops have been held, but no decisions have been made by the Council. According to the Tribune in Oakland, the draft ordinance calls for landlords to limit increases at mobile home parks to 7.5% and to 8% for other rental housing from July 19, 1979, to June 30, 1980. The HAYWARD Citizens for Rent Relief began a tenants' hotline on August 22 after announcing plans to begin another petition drive to put the rent control issue before voters next April.

HAWTHORNE. The City Council established a Rent Mediation Board in August consisting of four renters, three landlords, two apartment managers, two consumer advocates, and one council member (to vote only in case of a tie). The Board will have the power to investigate allegations of rent gouging and offer compromises in rental disputes, but cannot order any rent rollbacks or freezes. A newly formed organization calling themselves the Los Angeles Coalition for Economic Survival recently established a HAWTHORNE chapter and are expected to arouse interests for rent control among HAWTHORNE citizens.

HENET. A rent control ordinance was defeated September 12, 1979, but a mobile home park ordinance is still being considered.

***LANCASTER.** On June 4, the City Council passed a resolution opposing rent control, stating that it was counterproductive to the production of rental housing. The resolution was passed by a 4-0 vote. However, tenants of one mobile home park have organized an effort to establish some form of rent control measure within the city after experiencing 30% rent increases. The group is circulating a petition to present to the City Council.

LA VERNE. Mobile home park tenants brought an issue to the Council early in 1978, but the ordinance for controls was defeated.

LOMA LINDA. An ordinance was defeated in May 1978, but mobile home park tenants are organized and continue their activity.

LONG BEACH. On March 20, 1979, a rent control advisory measure was overwhelmingly defeated 68 to 32%.

LOS ANGELES (City). LOS ANGELES has been under a new rent control program since May 1, 1979, which establishes a rent base, allows a 7% increase 12 months after the last increase, exempts luxury units, allows for vacancy decontrol, and establishes a seven member commission.

*On October 16, Superior Court Judge Vernon Foster ruled that the LOS ANGELES rent control law is not confiscatory. Foster's ruling was in response to a landlord's claim that the law was unconstitutional and prevented him from earning a fair return on his investment.

LOS ANGELES (County). As of July 21, 1979, rent control is in effect in unincorporated areas of LOS ANGELES County. County Supervisors passed the 1 year ordinance for rent controls by a 3-to-1 vote in June. Rents are now rolled back to May 31, 1978, as a base level, with an annual 7.5% rent increase allowed. Landlords who have not increased rents since the base date may increase rents by 15%. Other provisions of the law include vacancy decontrol, just cause for eviction, passthroughs for capital improvements if approved by the Rent Adjustment Committee, and exemptions for new residential construction and luxury units. Approximately 63,000 rental units in the county will be subject to controls as stipulated by the ordinance.

***MARINA DEL REY.** The MARINA DEL REY Lessees Association has filed a lawsuit against the Board of Supervisors and the county in Santa Monica Superior Court. The lawsuit contends that rent control as adopted on July 17 by the supervisors illegally interferes with price-control provisions of the long-term master leases landlords signed with the county for use of marina land. The suit also asks the court to overturn the rent control ordinance as it applies to MARINA DEL REY only. The landlords want the court to overturn an ordinance adopted last spring by the supervisors limiting landlords' rights to evict "live-aboards" in marina slips. The attorney for the landlords stated that the live-aboard ordinance interferes with provisions of the master lease, and is an unconstitutional use of the county's police power to benefit a special-interest group. No court date has been scheduled for the lawsuit, and it is predicted that it could take years to bring the case to trial.

MILPITAS. On June 5, 1979, voters rejected a measure to roll back rents to pre-Proposition 13 levels by a tally of 54 to 46%. An unusual aspect of the measure is that it would have controlled rents on commercial as well as residential properties.

MODESTO. Under pressure from mobile home park tenants, the City Council directed its staff to study rent stabilization. The completed study on mobile home parks was presented to the Council on August 14, at which time 3 hours of testimony concerning rent stabilization was also taken. Although the Council is aware of the rental problems in MODESTO, four of the city's five council members spoke out against rent controls, and no action has been taken.

MOUNTAIN VIEW. A petition by tenant groups has qualified for a special election in the spring of 1980. If this measure passes, rents will be rolled back to 1978 levels.

*A proposal to hold all rent hikes over 7% this year in an escrow account until a rent relief measure on the April ballot is decided was killed by the City Council on October 8.

***NORWALK.** Citizens dissatisfied with recent rent rollbacks are still calling for some form of rent control for the city. The City Council is not in favor of rent control, but in October approved a Consumer Rental Mediation Board to receive complaints and mediate rental disputes.

OAKLAND. A rent control proposal was submitted to the City Council in July and has been turned over to Committee for further consideration.

***PALO ALTO.** At a meeting held by the Human Relations Council on September 27, a proposed ordinance was introduced under the name of Rental Protection. The Council considered the proposal at its October 11 meeting but a decision is not expected until January. If approved, the ordinance would limit increases to 7% per year and be modeled after similar ordinances in San Jose and San Francisco. Tenants are calling for immediate action because of enormous increases experienced recently.

A rent control initiative failed on the November 1978 ballot, which would have required a 100% rebate to tenants of Proposition 13 savings. It would have allowed for adjustments due to local tax increases, unavoidable increases in operating expenses, or improvements. The initiative also included residential, commercial, and industrial property.

PASADENA. A rent mediation board will be established in the next few months to hear tenant-landlord complaints. It will not have any authority and will act only in an advisory capacity.

REDWOOD CITY. The County Supervisor in REDWOOD CITY has proposed the creation of a series of renter appeal panels to negotiate increases in rents throughout San Mateo County. The panel would have no legal powers except for the "power of public opinion through the press."

RIALTO. RIALTO has adopted a mobile home rent control ordinance.

RIVERSIDE. The City Council voted to deny requests to roll back rents for mobile home park tenants and apartment tenants on October 10, 1978. No action since that time.

ROSEMEAD. The Mayor of ROSEMEAD, responding to requests from mobile home park tenants to take some action to combat alleged gouging and tenant harassing tactics in the city, said he will not propose rent controls.

SALINAS. SALINAS voters turned down a rent control initiative on June 5 by a 2-to-1 margin. Similar to other California propositions, Measure J would have rolled back rents to pre-Proposition 13 levels.

SAN BERNARDINO. SAN BERNARDINO has established a rent review board and a renter's hotline. The board is now seeking authorization to subpoena evidence, impose fines, and power to protect tenants who report rent increases from retaliatory evictions. The City Council has rejected a proposal to roll back rents on mobile home park spaces. A rent control ordinance was defeated in September 1978, but mobile home rent control continues as an issue.

SAN BRUNO. The City Council held a public hearing on July 30 to consider a tenant group's rent control proposal. Testimony was heard from realtors, owners, homeowners, and tenants, but no action has been taken and rent control has not been on the Council's agenda since that time.

SAN FRANCISCO. The San Franciscans for Affordable Housing's petition to have the city's rent control ordinance strengthened was overwhelmingly defeated 59 to 41.

A Residential Rent Stabilization and Arbitration Ordinance, passed by the city's Board of Supervisors on June 12, freezes rents at their April 15, 1979, levels and provides for rental increases of 7% per year. If rents have not been raised in 2 years, a 14% increase is allowed, and a 21% increase is permissible if rents have not gone up for 3 years. The measure also includes vacancy decontrol and a sunset clause for the ordinance to automatically expire after 15 months.

SAN JOSE. On September 28, the Tri-County Apartment House Owners Association filed suit in Santa Clara County Superior Court against SAN JOSE's recently adopted rent control ordinance. The apartment owners' group alleges that a section of the law that establishes special provisions in tenant hardship cases is unconstitutional, and that the provision that requires apartment owners to pay \$8.75 per year for each unit toward a fund to be used for maintenance of the ordinance enforcement apparatus violates the Jarvis-Gann amendment to the state constitution, which prohibits imposing special taxes without approval of two-thirds of a city or county's electors.

The SAN JOSE City Council passed the rent control ordinance by a 4-to-1 vote on July 10 and formally adopted the measure on August 7. The new law allows landlords to raise rents 8% per year without question, while increases above that can be contested in a mediation and arbitration process before the Rent Relief Commission. Landlords may pass on higher costs for such things as capital improvements, maintenance and operation, and rehabilitation. Rents may also be raised to whatever the market will bear when a tenant leaves an apartment voluntarily or is evicted for not paying the rent. The ordinance covers most residential rental property, including mobile home lots. There are exemptions, including any rental units constructed after the ordinance goes into effect on September 7.

SAN JUAN CAPISTRANO. A stabilization law was passed in March 1979, which established a five man board to review mobile home park rent hikes when a majority of tenants protest. The board makes recommendations to the City Council, but the bottom line gives the Council the power to reject rent hikes in excess of Federal Consumer Price Index increases.

SAN LUIS OBISPO. Discrimination in renting units to families with children is the current issue in this city, but it is expected that mobile home park tenants will propose some form of rent control in the near future.

SAN MARCOS. The city has a rent control moratorium on mobile home park rent increases.

SANTA CLARA. In September, the City Council voted to set up a voluntary Rent Relief Committee to hear tenant-landlord disputes. The Committee has not yet taken form, but the City Council is seeking volunteers to include landlords, tenants, and citizens. The city is still receiving calls for rent control, however.

SANTA CRUZ. Voters rejected rent control in a March 6, 1979, election for the second time in a few months, 54 to 46%.

SANTA FE SPRINGS. Rent control failed to pass at the September 28, 1979, City Council meeting.

*SANTA MONICA. Proposition Q, a rent control modification initiative, which would allow rents to be increased according to changes in the annual CPI, decontrol voluntarily vacated apartments, and exempt rented single-family homes from rent control, was defeated in the November 6 election.

SANTA MONICA's rent control ordinance approved on April 10, 1979, which rolled back rents to levels that existed prior to the passage of Proposition 13 and is administered by a five member rent control board with power to determine the rate of rent increases, remains in effect. The Board also has power to administer eviction control, grant permission for demolitions and abandonments, and approve conversion of rental units to condominiums.

*STANISLAUS. On October 2, the STANISLAUS Board of Supervisors refused to accept the recommendation for a county government mediation board to arbitrate rent increases and other complaints by mobile home owners.

STOCKTON. A proposal to establish a five member commission to arbitrate disputes over rent increases in the city's seven mobile home parks was rejected by a 5-2 vote of the City Council on August 20.

*TORRANCE. The City Council, on September 18, went on record opposing a rent control ordinance for the city for the seventh time since the passage of Proposition 13. Council members said such an ordinance would be an ineffective, short-term solution to a complex problem.

VISTA. The issue in this city is with mobile home park tenants who want to stop mobile home park owners from converting the parks for some other use. Rent control is not an issue at this time, and the rent committee has received little response from questionnaires mailed to renters in the city.

WEST COVINA. In its first major report to the city, the WEST COVINA Rental Mediation Board urged the city in July to continue opposition to any form of mandatory rent control. The Board was set up in January with the encouragement of the City Council as an alternative to rent controls. Composed of three tenants, three members representing landlord and realty interests, and a mutual chairman, the Board meets monthly to discuss landlord-tenant complaints that arise, ultimately providing all concerned parties with written summaries of their recommendations. The summaries are advisory only, having no legal binding power.

WESTMINSTER. A mediation board of two landlords, two tenants, and three others was set up to function after January 1, 1979.

COLORADO

Two bills controlling rents were submitted at the beginning of the state's 1979 legislative session, but both failed to gain favorable consideration. Rent control was proposed for BOULDER in 1971, but was never acted upon.

CONNECTICUT

Nine communities have Fair Rent Commissions.

A bill in the legislature requiring landlords not to increase rents for the elderly any more than the cost of living died in Committee in 1979.

The legislative Councilman in HAMDEN is looking into the possibility of forming a Rent Commission to stop rent gouging in the city.

The city of WEST HARTFORD has approved a Fair Rent Commission to be appointed by the City Council in the near future.

*DISTRICT OF COLUMBIA

(Information provided by the Rental Housing Industry Coalition)

Rent control went into effect in Washington, D.C., with the enactment of the District of Columbia Rent Control Act of 1973. The measure rolled back rents to a base period in 1973, and permitted increases totaling 12.32% for that year and 1974, although landlords could petition for additional increases upon proof of hardship. The current law, the District of Columbia Rental Accommodations Act of 1975 (RAA), was approved by the Mayor on August 15, 1975, and became effective on November 1, 1975.

The RAA covered virtually all privately owned rental residential properties in the District of Columbia, including single-family homes. All property was required to be registered with the Rent Administrator. The measure established a rate ceiling for each rental unit, based on the February 1, 1973, "base rent." To that base was added a 12.32% allowance, plus a maximum additional increase of 5% over two years. The 5% rent increase was only available to owners whose "rate of return" was less than 8% under a formula contained in the Act.

To administer this law, a nine member "Rental Accommodations Commission" was appointed by the Mayor to promulgate rules and procedures. The Mayor also appointed a Rent Administrator, who was in charge of administering the rent control program under the rules and procedures established by the Commission. The Administrator was charged with deciding, in the first instance, all cases brought under the Act, and was required to do so within 30 days of the filing of the appeal. Thereafter, judicial review lay in the District of Columbia Court of Appeals.

Since its inception in 1975, the RAA was under constant criticism from all sectors of the community. The Rental Accommodations Commission proposed sweeping emergency revisions to the law in 1975 and the measure was allowed to expire October 31, 1977.

In January 1976, the City Council approved a 3 year extension of rent control. Under this measure, there will be automatic rent adjustments of between 2 and 10% in the first year. During the second and third years, rent increases will be tied to increases in the CPI. A new provision allows landlords to increase the rent by any amount they ask for, if 70% of the tenants agree.

Rental housing owners in Washington, D.C., are now calling upon the City Council to alleviate the restrictions under the present rent control law due to the sharp increase in home fuel oil costs.

FLORIDA

"A group of tenants' associations dissatisfied with the state's rent control statute have organized in Florida to have the law repealed. The tenants' associations claim that existing rent control laws are inadequate. A SUNRISE city attorney plans to prepare a resolution asking the Florida Legislature to repeal the law.

Legislation (H 1071) was introduced in the Florida Legislature in April 1979, to change the criteria by which rent control ordinances may be imposed by local governments. Provisions in the measure stated that if a local governing body found a rental housing vacancy rate of less than 2% within its jurisdiction, and they established that such a vacancy rate constituted a serious menace to the general public, then the governing body may implement rent controls that are "necessary and proper to eliminate the housing emergency." The bill was favorably reported out of the House Community Affairs Committee and placed on the calendar where it died with the close of the session.

A 1977 state law enables communities in Florida to pass rent control ordinances, with several stipulations. One such provision is that only apartment buildings where rents average less than \$250 per month can be rent controlled. Also, voters must approve any rent control ordinance, and such laws must automatically expire after 1 year.

With apartment vacancy rates currently running about 1.5% in DADE COUNTY, the MIAMI BEACH City Commissioners have taken action to protect tenants by unanimously approving a 1 year emergency ordinance designed to prevent rent gouging. The new law, passed on August 1, prohibits unconscionable rent increases and defines such an increase as one which is "two times greater than the percentage increase in the Consumer Price Index." (During the first 6 months of 1979, the CPI has risen at an annual rate of 13.5%.) Landlords found in violation of the regulation face fines of up to \$500 as well as a possible jail sentence of up to 60 days.

The new ordinance may be contested, however, since the 1977 state law permits rent controls only on apartments in buildings where rents average \$250 or less a month. There is a legal problem involved in trying to eliminate rent gouging without imposing state-barred rent controls.

An earlier rent control ordinance in MIAMI BEACH expired December 31, 1976. An effort in 1978 to impose controls in MIAMI BEACH and LAUDER HILL was rejected by the courts.

GEORGIA

The Apartment Renters Association was formed in ATLANTA in 1978 to deal with tenant/landlord problems including rent control. So far no action has been taken to impose rent controls.

HAWAII

*Tenants of the Professional Building in HILO have asked the County Council to introduce and pass a rent control ordinance to afford renters some measure of protection from exorbitant rent increase. The tenants claim that rents were doubled shortly after the building was sold a few months ago.

Rent control has been introduced in every legislative session over the past few years, but it appears that there is no organized effort pushing it and nothing has resulted. A bill (S 455) was also introduced in the 1979 session, which would have mandated maximum rent increases of only 5%, but the measure died in committee.

IDAHO

A mobile home park rent control measure passed the state Senate, but was defeated in the House during the 1979 legislative session.

ILLINOIS

*Tenants in EVANSTON have recently asked the City Council to impose some form of rent control in the city and to enact a moratorium on condominium conversions.

The House of Representatives defeated H1838 this past spring. The bill was designed to allow cities with a population of 500,000 or more (i.e., Chicago) to create a Fair Rent Commission with powers to reduce any rent amount or modify any rent administration technique when it determined a rent amount to be excessive according to standards it adopted. The Commission could also have ordered escrow payments and expense disclosures, and would have received and investigated complaints regarding rent.

In CHICAGO, a city alderman is drafting an ordinance to set up a Fair Rent Commission now that the Senate House legislation has failed. Apparently, this will be patterned after similar laws in Connecticut, but the draft is not yet complete.

Rent control was rejected by the CHICAGO City Council in 1977.

LOUISIANA

A 1978 effort to put a rent control measure on the ballot in NEW ORLEANS was rejected by the City Council. The Council's move was upheld by the courts. Subsequently, state legislation was enacted that preempts all local rent control laws.

MAINE

In 1975, enabling legislation was passed, but no rent control exists at present. A 1977 statewide rent control measure, attached to another bill, was defeated in Committee.

MARYLAND

*In a hotly contested campaign, voters in BALTIMORE approved a rent control proposal on November 6 by a 52 to 48 margin. The rent control victory resulted apparently because the heavy approval rate in high renter areas was not offset in precincts with strong homeownership.

The rent control measure, which goes into effect next January, rolls city rents back to levels of November 1, 1978, allowing for 4 to 6% increases. The rent control law will be administered by a five member landlord-tenant commission. The commission will be responsible for setting annual rent limits starting in 1981 and considering property owner requests for hardship increases.

Rent control opponents already have planned a suit against the measure, which is scheduled for hearing in the Circuit Court in mid-November.

Elsewhere in the state, MONTGOMERY COUNTY reinstated rent control in March. Rent increases above a 10% ceiling rate will trigger an investigation by the Office of Landlord-Tenant Affairs, which has the authority to roll back rents to "an acceptable level."

Statewide controls in Maryland ended June 30, 1975.

MASSACHUSETTS

The City Council, on the recommendation of Mayor Kevin White, voted on August 1 to continue BOSTON's rent control law, due to expire on December 31. The ordinance will continue in its present form including vacancy decontrol. The 3-year extension of the law means that it will expire in a non-election year. Mayor White was reelected to his third term on November 6.

In May, a citywide coalition, the All City Organization's Alliance for Rent Control, was formed to fight for the renewal and strengthening of the present ordinance and to eliminate the vacancy decontrol provision, which they claim will eliminate rent control over the next 3 years, and will provide little protection for tenants. The Alliance further urged an end to evictions due to condominium conversions, but this request was rejected by the City Council by a 7-2 vote. The City Council is now being asked to reconsider the All City Organization's Home Protection Bill, which would extend rent control, repeal vacancy decontrol, recontrol all decontrolled units, and stop evictions for condominium conversions. The bill, sponsored by Councilor Raymond Flynn, was originally presented to the City Council in mid-July and was defeated 8-1. It appears unlikely that the Council will reconsider this bill.

Mayor White also announced the formation of an 11-member commission consisting of two members to be named by the Rental Housing Association, two by Fair Share, three by the City Council, and four by him to study the impact of rent control on the city.

Two other cities currently have rent controls -- CAMBRIDGE and BROOKLINE. The SOMERVILLE Council voted to end controls beginning March 1, 1979.

In May, voters in AMHERST defeated a referendum to impose rent control for the second time. With about a 30% turnout, the measure lost by approximately 60 to 40%.

LYNN had rent control ordinance for 3 years, but an ordinance to extend the controls was defeated in November 1976.

MICHIGAN

An EAST LANSING initiative was defeated in 1976 and 1976. ANN ARBOR also defeated rent control proposals.

MINNESOTA

The ST. PAUL Tenants Union, claiming that the city's rental market has become so tight that rents are spiraling out of control, asked City Council members in late July to strongly consider legislation limiting yearly rent increases. The Tenants Union is calling for the creation of a nine-member rent adjustment board to establish ceilings on rent increases and to hear applications for exemptions. The Council is holding action until research on the issue is completed by the city's Department of Planning and Economic Development.

Earlier this year, a tenant's union in MINNEAPOLIS sought a rent control ordinance, but there was minimal support for it in the City Council and nothing resulted. Rent controls were rejected in MINNEAPOLIS in 1975 also.

MISSOURI

*Members of the Democratic Socialist Organizing Committee in COLUMBIA are planning a petition drive to put a rent control initiative on the 1980 general election ballot. The group needs about 3,000 signatures from registered voters in order to qualify the initiative.

If passed, the initiative would establish a seven-member board with the power to set maximum rental rates and oversee landlords' activities. All new properties built after January 1, 1980, would be exempt from the ordinance. City Counselor Synder stated that creating a voter-elected rent control board that would require landlords to keep their property in good condition could conflict with the city's rental licensing ordinance. The existing ordinance requires owners and operators of rental housing to apply for housing inspections and obtain certificates of compliance with housing code provisions.

NEVADA

In late June, a City Councilman in NORTH LAS VEGAS requested that the City Attorney's Office draft a rent control ordinance. Since then, the Council has voted down this proposal and tabled another motion that would form a mediation board between landlords and tenants.

NEW HAMPSHIRE

(Information provided by the Rental Housing Industry Coalition)

A rent control ordinance was effectively defeated in NASHUA in 1978. The ordinance attempted to permit rent withholding by tenants if violations of building codes were present.

NEW JERSEY

*Landlords in New Jersey's 140 rent controlled towns are calling for some type of relief from increased heating costs through a passthrough charge from tenants. The landlords claim that they are losing a fair profit on their investments and that smaller apartment house owners might lose their investments due to the increased expense.

The Apartment House Council of New Jersey has asked the Byrne administration for a law this year that would establish a 90% passthrough of increased costs to tenants in a fixed adjustment based on cost estimates. The passthrough would be adjusted again at the beginning of the next heating season.

ATLANTIC CITY. Rent control has been in effect since 1973. According to the ordinance, landlords are automatically granted yearly rent increases to match cost of living increases reflected in the Consumer Price Index, which was 8.29% in March 1979. Besides monitoring rent increases, the Board's office also tells tenants where to take complaints, such as maintenance problems or rent increases in buildings subsidized by the Federal Department of Housing and Urban Development, that do not fall under the ordinance. A new landlord can charge whatever the traffic will bear when he opens his building, but once he sets a rent, any increase is subject to review by the Board.

BAYONNE. The present rent control ordinance was passed in the early 1970s. There are presently 225 to 350 buildings under rent control. In February 1979, the City Council stated that tenants living in two, three, and four-family houses will not be protected under the rent control ordinance. The Board found that to expand the present administration abilities to cover all tenant-occupied houses would be very costly. City officials are studying the rent control ordinances of many other cities throughout the country trying to solve the problem of how to protect the tenant who lives on a fixed income, while at the same time being fair to the landlord oppressed by inflation.

A number of changes are being proposed to the ordinance, among them would be placing four family units under the ordinance and allowing for fuel increase passthroughs to tenants. A decision on the amendments will be made by the City Council in November.

BELLEVILLE. Rent control was originally enacted here in 1974 and amended in 1976. The ordinance allows rent increases of 5% in any 12 month period, although a landlord may apply for a hardship rent increase to meet his payments if he is not realizing a 10% return on his investment. Landlords may seek additional rent for major capital improvements or services, but these increases cannot exceed 15% of the tenant's rent. The ordinance also established a five member Rent Leveling Board, and requires that all rental units be registered by the property owners with the Town Clerk.

Essex County Superior Court Judge Paul B. Thompson ruled on August 6 that the BELLEVILLE rent control ordinance is constitutional. The Branch Brook Tenants Association filed a suit in Superior Court after tenants were given a 13.5% rent hike earlier this year when commissioners voted to allow the apartments' owners a hardship increase above the town's 5% ceiling. The boost was granted under a local formula which allows landlords to make at least a 10% return on the value of their property. The Times-News in BELLEVILLE reports that the president of the Branch Brook Tenants Association will stress an appeal to a higher court. No date has been set for the appeal.

BLOOMFIELD. The rent control ordinance was extended in July, with the new law going into effect beginning August 24. Provisions of the ordinance will allow a 6% annual increase in rents rather than the former 5%.

*BORDENTOWN TOWNSHIP. A rent control ordinance was introduced by the Township Committee on October 23. The ordinance, as proposed, would be retroactive to June 1, 1979. The measure would establish a rent review board to determine if an increase is warranted; allow apartment owners a maximum increase of 80% of the cost of living allowing additional increases for emergency repairs, and cover apartment complexes with more than 6 units. A public hearing is scheduled for November 27.

BRADLEY BEACH. Senior citizens in this city, population 4,000, complaining of rent increases, prompted the BRADLEY BEACH City Commissioners to bring the subject of rent control to a public hearing on September 11. The Mayor said he was 90% in favor of the ordinance which would establish a five member board to pass on rent increases in affected dwellings. Premises being rented for the first time would be exempt as well as five or few units. The rent leveling board, as proposed by the Commissioners, would consist of a landlord, a tenant, and three other residents all of whom would serve two year terms. The Commissioners are proposing a real estate tax surcharge provision that would allow landlords to pass a pro-rated portion of tax increases to tenants. Landlords would also be required to return a portion of any property tax reduction or tax-appeal caused rebates. The ordinance would require all qualifying landlords to apply to the board for any increase, and tenants could apply for any rent decrease. An application for a particular rental unit may only be made once a year. Violations of the ordinance would be punishable by fines of up to \$500 or 30 days in jail. The ordinance would require reapproval by the Commissioners each year.

*At a hearing on October 2, the Commissioners decided to postpone their final decision on the ordinance for 3 months to study the issue further. All three Commissioners said they believe senior citizens need some kind of relief from rising rents but fear the code's administrative expenses would require additional taxes to support it.

CHERRY HILL. A rent control ordinance was effected on November 24, 1975. Rent increases are restricted to 90% of the housing-rent residential component of the Consumer Price Index for the Philadelphia, Pennsylvania Metropolitan area. There are provisions to petition the Rent Control Board for rent increases of twice the CPI percentage allowed for capital improvements and hardships.

*CLIFFSIDE PARK. Rent control was first imposed in December 1976. Rent increases are limited to 5% per year. There is a vacancy decontrol provision, but upon re-rental the dwelling is subject to the provisions of the rent control ordinance. Landlords may seek tax surcharges from tenants because of an increase in municipal property taxes, to be paid in 12 equal monthly installments. Successful tax appeal rebates to landlords are passed on to tenants after landlord's expenses have been deducted. Landlords may also apply for hardship increases and capital improvement surcharges. The rent control ordinance is administered by a five member rent control board.

CLIFTON. On March 21, 1979, the City Council removed all rent controls on vacated apartments. On April 3, 1979, the City Council passed a resolution allowing higher annual rent increases. The Council voted 6-1 to set up an annual increase formula utilizing the Consumer Price Index. Under the new guidelines, a landlord can hike rents by 75% of the CPI as long as the increase does not exceed 5% of the tenant's current rent. The previous annual increase allowed increases of one-half of the CPI with no percentage limit. The Council also gave unanimous final approval to an ordinance allowing landlords an even higher rent increase if their operating expenses exceed 60% of their gross receipts. Under the previous rent control law, landlords could apply for a hardship increase if they could not pay their taxes or mortgages.

As utility costs continue to rise, more and more property owners are asking that they be allowed to pass these increases along to their tenants even though their present rent control ordinances do not address this situation. Property owners in CLIFTON received permission from the rent leveling board to increase the current rent base for buildings of from four to eight units for the next 3 years. The decision was based on escalating fuel costs and maintenance expenses. The Board will ask the City Council to approve a

a total vacancy decontrol provision for landlords of small apartments with an increase of 5% each year for 3 years. Landlords who do not provide heat will be entitled to the current rate only. Landlords in larger buildings will get the current rent base without the 5% cap to allow increases for fuel and maintenance.

*The amendment was brought before the City Council in early October and a decision is expected at their November 20 meeting. If approved, the amendments will go into effect December 3.

***DOVER.** Tenants from an apartment complex in DOVER have submitted a petition with 215 signatures to the Township Committee calling for rent controls. The action was prompted by what tenants call "skyrocketing rents and poor building management." No action has been taken as yet.

EDISON. A number of New Jersey cities have filed suits claiming that their local rent control ordinances are unconstitutional and do not allow for a fair return on their investments. Among these cities is EDISON. Owners of a 20-unit complex filed suit on August 27 in Superior Court claiming that EDISON's rent control ordinance is unconstitutional. The Rent Control Board in EDISON stated that a number of suits are now pending against the current ordinance, but court dates have not yet been set.

A number of amendments were proposed to the Town Council on October 2. The current law allows for a 3.5% increase yearly on the anniversary of the apartment and provides for larger increases for a landlord who proves hardship or upgrades his buildings, but it makes no mention of reasonable returns on investment. The ordinance does not have a vacancy decontrol provision, but does allow landlords to pass tax surcharges on to tenants. No decision has been made on the amendments.

***ELIZABETH.** On October 16 the City Council decided to extend the current rent control ordinance until December 15 while a new and substantially different ordinance is considered. Currently there is a 5.5% limit on rent increases, but realtors and owners are now seeking a 7.5 to 10% limit, plus passthrough of taxes and fuel adjustments, and decontrol when apartments become vacant. The Mayor and Council President are not in favor of rent control.

EVESHAM. On January 16, 1979, the Township Council voted 3-2 to reject rent controls.

FAIR LAWN. On May 25, County Court Judge Harvey Smith ruled that effective June 1, 1979, all new leases in the city will be based on the local ordinance which was adopted in 1975 and restricts landlords from raising rents more than 3% per year.

The ordinance states that at the expiration of a tenant's lease, no landlord may request or receive a rent increase which is greater than 3% of the maximum rent. There are provisions for annual increases in leases that extend for more than 1 year. Tax surcharges for the tax year may be added to the maximum rent, or added to the percentage increases allowed on a proportionate basis. Landlords are also allowed to seek additional rental for major capital improvements or services according to the ordinance.

FLEMINGTON. A rent control ordinance, which expired December 31, 1978, provided for annual rent increases of 5% in apartments where heat is supplied and 2.5% where it is not. The tenants' organization would like this reinstated, but the Borough Council is firmly against rent controls. The Council is, however, monitoring rent increases to see if they are extreme, and landlords have agreed not to raise rents any higher than 4.5% annually.

***FORT LEE.** Increases are based on the Maximum Allowable Percentage (MAP) consisting of the operating costs adjustment, plus tax adjustment, plus utilities adjustment, plus prior year carryover, if any, for dwellings in which the landlord provides all utilities for the tenants. For all other dwellings the MAP consists of operating costs adjustment, plus tax adjustment, plus prior year carryover, if any. If the MAP in any calendar year exceeds 6.5% for dwellings where utilities are supplied, the MAP for the calendar year is limited to 6.5%, and if the MAP in any calendar year exceeds 5% where utilities are not furnished, the MAP is limited to 5% and the excess percentage constitutes the previous year carryover for the subsequent calendar year. The seven member Rent Leveling Board may grant a rental increase where the landlord is not earning a fair and reasonable return. There is no vacancy decontrol provision. Landlords may also apply for capital improvement increases or for an increase for major additional services by submitting written applications to the Rent Leveling Board.

A Council ordinance requires landlords seeking help from rent controls to project their hardships 1 year in advance and submit their expected operating cost figures and debt service payments to the Rent Leveling Board. The proposal, made up to comply with a decision made by the New Jersey Supreme Court last October, will award hardships by adjusting tenants' base rents instead of adding a temporary surcharge. However, if the Board sees that a landlord has incurred a one-time extraordinary expense, a surcharge may still be awarded. The Supreme Court had determined the Borough's rent controls inadequate in the past since there was usually a lag between the hardships awarded by the Board and the landlords' losses.

FRANKLIN. The rent ceiling in FRANKLIN is 3.5%. In December 1978, the Township Council approved a vacancy decontrol amendment to the present township ordinance. The new amendment allows landlords of housing complexes consisting of more than 3 units to increase the rent on a vacant apartment to whatever price the market will bear.

***FREEHOLD.** A rent control ordinance has been introduced in the City Council.

GLOUCESTER TOWNSHIP. A rent stabilization ordinance was established in June 1977. The ordinance requires landlords seeking a rent increase to first receive a Board-approved rent based on an average of all the rents charged for a particular style apartment.

HAMILTON TOWNSHIP. In HAMILTON Township, a community of 9,000 persons with about 500 rental units located 20 miles from Atlantic City, the Township Committee voted 4-1 to adopt a rent control ordinance on July 16, 1979. The ordinance went into effect August 15 and requires landlords to roll back rents to March 1, 1979, levels. Rent increases are now based on the CPI, and are monitored by a Rent Review Board consisting of two landlords, two tenants, and three citizens. Landlords may add surcharges, if approved, for increased taxes, higher costs of operation, and capital improvements, and they are also expected to file annual reports on their rental rates, surcharges, rebates, and other data. The ordinance has a sunset clause and is set to expire automatically on July 15, 1981, "unless otherwise extended."

HASBROUCK HEIGHTS. The Rent Leveling Board turned down a proposal for a parity clause in the rent leveling ordinance which would have given landlords the right to rent vacated apartments at levels equal to similar apartments in the same complex. The 1979 rent leveling ordinance does not allow for rate increases when vacant units are filled. The ordinance limits landlords to rent increases of 5% annually, determines all rent hikes, and must be renewed every 12 months. Landlords are allowed to pass tax increases on to tenants in the form of rent increases above the allowed percentages. They may also apply for additional increases on the basis of hardships or improvements to their property.

***HAZLET.** The rent control ordinance applies only to the nine mobile home parks. The ordinance was originally adopted in November 1975 and allows for increases for major capital improvements as long as the increase does not exceed 15% of the tenants present rent.

HIGHLAND PARK. The *Home News*, New Brunswick, reported on August 22, 1979, that the HIGHLAND PARK Property Owners Association is challenging the constitutionality of the city's rent control ordinance. Court proceedings began September 18 but a decision has not yet been announced.

The Borough Council recently voted to table the proposal for a fuel surcharge after tenants, who represent about 41% of the Borough's population, held a meeting with the Council to fight it. At that time, Borough Attorney Lawrence Lerner warned the Council that imposing rent control without allowing owners to add the surcharges could be declared restrictive and arbitrary.

*Under a new Council proposal there would be a surcharge on the area of each apartment which would be limited to 90% of the increased cost of fuel. The surcharge would be adjusted annually, based on actual increases in the cost of fuel. Also the rent index would be based on the shelter portion of the CPI instead of the housing portion formerly used in order to protect the tenant from having to pay fuel cost-related increases twice. The Council also proposes to tie maintenance requirements to rent increases. No decisions have been made on the proposed amendments, and it appears that landlords are still unhappy with the ordinance.

The current ordinance, amended in May 1979 and put into effect in September, allows for an 8.45 increase of total rents where heat is supplied by landlords and 5.04% where it is not.

HILLSBOROUGH. The Township Committee refused to adopt rent control legislation at their July 17 meeting, and instead opted for a Housing Council approach. This Council concept involves negotiations between the landlord and tenant over rent increases and other issues, with the Housing Council acting as a mediator if necessary.

*Tenants, claiming that the Housing Council approach is not working, have called for rent controls to be instituted.

***HOBOKEN.** The local ordinance allows landlords to increase rents 7.5% per year or an amount equal to the CPI rise over the past year, whichever is lower. If a landlord can show hardship, he is allowed to raise rents much higher.

IRVINGTON. Rent control was first instituted in IRVINGTON in 1977. Rent increases are limited to 5% annually. Landlords receiving a 5% annual increase are not entitled to receive any tax surcharge increases in rents, but tax reductions are to be passed on to tenants at the rate of 50% after landlord's expenses have been deducted. Landlords may seek increases for major capital improvements, but such increases must be approved by the seven member Rent Leveling Board. Hardship increases must be granted by the Board also.

LAKEMOOD. The first rent control ordinance in the state of New Jersey was adopted in LAKEMOOD in 1971 during a housing shortage, which the Township Committee, in its ordinance, labeled "a serious public emergency." The ordinance pegged the limit on annual rent hikes to the rise in the CPI. Because of the inflationary rise in the CPI, the ordinance was amended in 1977 limiting annual increases to 3.5%. The ordinance provides for tax surcharge pass-throughs, but hardship increases must be approved by the Rent Control Board.

LINDEN. Rent increases are limited to 5% annually. The ordinance was to expire on September 16, but has been extended in its present form until such time as the City Council proposes amendments and acts on them. One of the proposed amendments is to include a vacancy decontrol provision. A decision is expected in late November.

LITTLE FALLS. The present ordinance allows for a 3.6% increase in rents per year unless an emergency hardship exists. The Township Committee first adopted a rent control ordinance in 1973 and bases allowed increases on the Cost of Living Index computed by the Federal Commerce Department. Because of this type of increase computation, the Township's rent control laws were unaffected by the 1978 Supreme Court decision in the Fort Lee case, which struck down that city's rent control laws because they limited annual rent increases to 2.5%.

Landlords asking that the Township's rent-leveling ordinances be declared unconstitutional have filed suit in Superior Court in Passaic County. The suit is still pending.

LOD. The rent control ordinance instituted on June 21, 1979, covers dwellings with four or more units and limits rent increases to 6% annually. If a landlord cannot meet his annual mortgage and maintenance costs out of an annual gross rental income, he may appeal to the seven member Rent Leveling Board for an increase. Landlords may also seek additional rental for any major capital improvement or any substantiated increase in the services rendered to the tenants.

LYNHURST. Rent control was first enacted on June 28, 1973. Rent increases are limited to 10% annually. Any landlord seeking an increase in rent shall notify the tenant by certified mail of the calculations involved in computing the increase, including the CPI at the date of the entry of the lease, the CPI 90 days before the expiration of the lease, the allowable percentage increase and the allowable rental increase. Landlords may seek tax surcharges from tenants due to increases in municipal property taxes; tax appeal reductions are passed on to tenants at a rate of 50% after deducting expenses incurred by the landlord in prosecuting the appeal; tenants are entitled to a tax rebate in the event of a reduction in municipal property taxes. Landlords may seek additional rental for major capital improvements or services and in the event that a landlord cannot meet his mortgage payments and maintenance, he may appeal to the Rent Leveling Board for increased rental. The Board consists of five members serving for 3 years.

MEDFORD. Tenants have proposed a rent control ordinance to the Township Committee, but the Committee is reluctant to implement any form of rent control.

METUCHEN. The rent stabilization law adopted in 1973 limits rent increases to 7.5% annually and is based on the CPI at the date of entry of the lease, the CPI 120 days before the expiration of the lease, the allowable percentage increase, and the allowable rental increase. Landlords may seek a percentage of any tax surcharges.

The Rent Board is currently reviewing recommendations dealing with utility rent surcharges and requests to include vacancy decontrol in the present ordinance. A decision is expected in late November.

MONTCLAIR. On November 6, citizens voted to repeal a rent control ordinance that was adopted by the Town Commissioners in June. The vote was 62 to 38% against the ordinance.

On June 26 the MONTCLAIR Town Commission adopted an ordinance to regulate, control, and stabilize rents and to establish a rent leveling board within the town. The 3-2 vote created an ordinance which was to take effect immediately using the housing component of the CPI as a guide for rent increases.

Within 2 weeks of the passage of rent control, almost 4,200 signatures were collected on petitions requesting the Town Commission to reconsider its vote by repealing the measure or placing it on the ballot as a public question. The petitions were certified by the Town Clerk on July 17, but the Town Commission refused to budge from its 3-2 vote.

NEW BRUNSWICK. Rent control was first implemented in July 1975. Rent increases are limited to 3.5% and there are no vacancy decontrol provisions. Landlords may seek a tax surcharge from a tenant because of an increase in municipal property taxes and in the event of a successful tax appeal, the tenant shall receive 50% of the reduction after the landlord had deducted all expenses incurred from the appeal. Landlords may apply for hardship increases from the seven member Rent Leveling Board and may also seek capital improvement surcharges or major maintenance surcharges. The ordinance remains in effect until amended or repealed.

NORTH PLAINFIELD. The present ordinance restricts landlords to rent increases totaling 50% of the Federal Consumer Price Index. The original 1972 ordinance permitted rent increases

of 100% of the CPI. The Borough Council members limited the increase in 1975 because inflation and the rising CPI caused extremely high rent increases.

***NUTLEY.** The present ordinance set a 6% maximum on annual increases and is due to expire at the end of December. The Tenants' Association in NUTLEY is circulating petitions calling for a 5% rent ceiling and 3% when the tenant is required to supply his own heat. The petition also asks that rent control laws be made applicable to two and three family homes. Landlords are asking that rent controls not apply to an apartment that is voluntarily vacated.

***PASSAIC.** Rent control was first enacted in September 1979. Rents are allowed to be increased 4% annually on apartments where heat is not provided and 5% where heat is supplied. Capital improvement increases and hardship increases must be approved by a seven member Rent Leveling Board. The ordinance does contain a vacancy decontrol provision.

PATERSON. On September 11, the City Council unanimously rejected an administrative proposal allowing landlords to pass along one half of their increased fuel charges. The current ordinance applies to two unit or more dwellings unless the landlord occupies one of the two units he owns. Increases are limited to 3.8% annually and the ordinance allows for pass-through of capital improvement costs and a percent of property tax surcharges. An 11-member board has been established to hear hardship cases. Rent control was first implemented in 1975.

PENNINGTON. The Borough Council agreed in September that a rent control ordinance for the Borough was not in order at this time due to rising taxes and maintenance and landlords' need to maintain a reasonable return on their investments.

PENNSAUKEN. A December 1978 rent control ordinance was repealed by the PENNSAUKEN Council on March 12, 1979. One Council member termed the ordinance unconstitutional and detrimental to the best interest of the township. The original rent control guidelines proposed in early May 1978 were initially intended to combat the effects of inflation on the cost of rental housing in PENNSAUKEN.

***PLEASANTVILLE.** Voters rejected a non-binding voter referendum concerning rent control on the November 6 ballot 64 to 36%. In July rent control was rejected by the City Council by a 5-2 vote, which caused tenants living in this Atlantic City-area town to request that the question be placed on the ballot.

PRINCETON. The Borough's rent leveling ordinance has been in effect since 1974. The Borough Council recently set up a committee to study the law and its influence on rents and to determine if the existing law is effective. No date has been set for the completion of the study.

Under the current law, rents under \$350 are held at a base level with increments allowed according to the CPI. Other rent increases for apartments must be approved by the rent leveling board.

RANDOLPH. A newly revised rent leveling ordinance which went into effect in January 1979, allows landlords a 6% annual rent hike on rental units, permits a maximum 10% surcharge on rents to pay for building and grounds improvements, provides a hardship appeal clause enabling landlords to temporarily raise rents in the face of severe financial difficulty, and institutes "vacancy rent parity," or the partial lifting of controls on apartments voluntarily vacated by tenants.

RIDGEFIELD. Rent control was adopted in December of 1977 for a 2 year period. Rent increases are limited to 4% per year and controls are lifted for 1 year when apartments are vacated and leased to new tenants. The Rent Board is currently considering passthroughs of increased fuel costs to tenants.

ROSELLE. In November 1978, the Borough Council extended the rent control ordinance limiting rent hikes to 4.6% per year.

SECAUCUS. In June 1979, the Mayor stated that the Borough has no plans to enact a rent control ordinance. The Mayor said that neither he nor anyone on the Borough Council has even suggested investigating the possibility of such an ordinance. The majority of the residents in SECAUCUS live in privately owned one and two family homes.

SOMERS POINT. In this town with a population of 10,000 and 1,600 rental units, the City Council voted down a rent control ordinance on July 12 by a slim 4-3 margin. The proposed law would have pegged rent increases to the CPI for the preceding year, and rolled back rents to their April 10 levels. It also provided for passthrough of capital improvement costs, taxes and utility increases upon approval of the rent control board. Despite the close vote, it appears that there is little support for rent control in the town, and the issue is not expected to be brought up again in the near future.

SPRING LAKE HEIGHTS. According to a gentleman's agreement, rent increases are restricted to 5% each year, and increased taxes are listed as the only passthrough of costs permitted to exceed that amount.

VENTNOR. A non-binding public question was rejected on the November 6 ballot 59 to 41%. In September the City Commission in VENTNOR ordered the drafting of a rent leveling ordinance that would place a 20% cap on rent increases and limit them to once a year. There is presently a gentleman's agreement between landlords and the Commission not to increase rents any more than 20% of the current rent per year.

There appears to be a housing shortage in this city located just next door to Atlantic City. The year-around population is approximately 12,000 but increases to 25,000 during the summer months due to legalized casino gambling in Atlantic City.

***VOORHEES.** Tenants complaining of 17% rent increases have prompted a special township panel to consider rent control for the town. No date is set for a decision.

WAYNE. In August, a Superior Court Judge refused to declare the WAYNE Township rent leveling law unconstitutional after a suit was filed by an attorney representing the landlords who claim that the law deprives them of making a fair profit on their rental units. The ordinance currently bases rent increases on 1972 rent levels plus one-half of the current CPI.

WEST CALDWELL. On August 20, the WEST CALDWELL Town Council adopted a rent control ordinance that became effective September 1 and will remain in effect for 3 years, but reviewed annually. Base rental levels are rolled back to March 31, 1979, levels, annual increases are limited to 3% where heat is not supplied by landlords and 4% where heat is supplied, and rents can be adjust upward for capital improvements based on a square foot factor. The ordinance includes all rental units except two and three unit, single-family, owner-occupied dwellings. The ordinance also calls for the establishment of a nine-member rent leveling board.

WEST DEPTFORD. The Township Committee in WEST DEPTFORD adopted a controversial rent control ordinance on mobile home rents late in August. The ordinance became effective immediately. Landlords desiring to raise rents will be required to notify the tenant and chairman of the three member Rent Control Board at least 30 days before the planned increase. Calculations involved in computing the lease would include the CPI at the date of the entry of the lease, the CPI 120 days before the expiration of the lease, the allowable percentage increase, and the allowable rental increase. Under the provisions, normal rent increases could be automatic if they meet the formula and do not draw tenants' objections within 10 days after tenants receive notice of the new figures. In the event of a hardship or capital improvement request, the landlord would have to schedule a hearing in front of the Board before an increase would be granted. Landlords who desire to pass on future utility increases or real estate taxes would have to allow reductions to his tenants if those rates drop in any calendar year.

WEST NEW YORK. A recent court case upheld the constitutionality of the WEST NEW YORK rent control ordinance which presently allows for a 2.5% increase in rents except in cases of proven hardships suffered by a landlord. Capital improvement costs are also passed through to tenants, but the question of a fuel surcharge passthrough is still pending before the Council.

NEW MEXICO

The "Fair Rent Act," HB 520, was introduced before the state legislature in the 1979 session, but failed to pass. The measure would have enabled incorporated municipalities or counties to create fair rent commissions which could establish maximum rents; violators of the provisions of the act would be fined up to \$100 for each offense.

NEW YORK

CROTON. In July, the village of CROTON's Board of Trustees removed from rent controls a 31-unit apartment building, the only rent controlled building in the village.

***FREEPORT.** The village presently has a Landlord-Tenant Relations Committee which was established in 1976. Tenants complaining of excessive rent increases have made it known to the FREEPORT Board that they would like some form of rent control. So far no action has been taken.

***HEMPSTEAD.** Senior citizens have asked the town board to institute rent stabilization in the unincorporated areas of the town. HEMPSTEAD's presiding Supervisor said he would study the idea to determine whether or not he should support it.

LONG BEACH. The City Council voted unanimously in June to extend rent control to protect tenants against excessive increases in rent caused by speculation of the expected arrival

of casino gambling. Council members reported that tenants were driven out of their apartments by sharp rent increases around Atlantic City, New Jersey, and this move by the Council would prevent such an occurrence in LONG BEACH. The new law will limit rent increases in all multiple dwellings having 60 to 99 housing units, which affects approximately 1,500 apartments. The previous law only covered buildings containing 100 or more apartments.

Rents will be frozen at their May 1, 1979, levels, with increases limited to 6% for a 1 year lease, 8% for a 2 year lease, and 10% for a 3 year lease. There are provisions for higher increases if operating costs go up or if there is a hardship situation, but these increases must be approved by the Nassau County Rent Guidelines Board.

NEW YORK CITY. The NEW YORK CITY Rent Guidelines Board voted in near record maximum allowable rent increases for 250,000 rent-stabilized apartments on June 27. This action increased rents for tenants whose leases took effect on July 1. The Board's decision allows rents to be increased by 8.5% if leases are renewed for 1 year, 12% for 2 year renewals, and 15% for 3 year renewals. An additional 5% can be charged when a tenant moves into a vacant rent-stabilized apartment. The Board also voted to consider additional rent increases if the price of heating oil rises more than 15% above June 1979 prices over the next year. Not since the increases of 1969 have such large increases been granted.

On April 1 a 3 year extension of rent control was approved for the City through 1982.

ROCKLAND COUNTY. On June 26 in this county on the northwest outskirts of New York City, the Rent Guidelines Board voted for new rent increases for 1, 2, and 3 year leases or lease renewals. The new guidelines went into effect on July 1 and only pertain to new leases or lease renewals. Rents will not automatically jump as a result of the change unless a new lease is signed. The increases will affect about 4,000 tenants in Spring Valley, a city with a population of about 18,000. This is the only city in ROCKLAND COUNTY to enforce New York's Emergency Tenant Protection Act. For gas heated apartments, the Board approved guidelines of 9.5, 12.5, and 15% for 1, 2, and 3 year leases. For oil heated apartments, guidelines call for 11.5, 13.5, and 15% hikes. In addition, new tenants must pay an additional 4% increase on a 1 year lease in either case.

VALLEY STREAM VILLAGE. On September 10, the VALLEY STREAM VILLAGE Board voted not to adopt a rent stabilization law that would have covered approximately 625 apartments in the village.

VILLAGE OF PELHAM. The PELHAM Village of Board of Trustees voted unanimously on July 9 to eliminate rent control in the village. Rent decontrol was expected to begin November 1 for the village's approximately 30 rent controlled apartments, but the village failed to publish legal notice informing the residents of a public hearing on the elimination of rent control 20 or more days prior to the session on June 19. Another public hearing was held on October 16, but only three persons attended. Mayor William Connolly said the rent control decision will be formally announced at the next village meeting.

Tenants can anticipate a 2 year transition period before controls are lifted completely. Landlords, according to state law, must offer rent control tenants a 2 year lease with limited rent increases. Rents can increase as much as 15% the first year and up to 5% the second year. If a landlord fails to offer a transitional lease, then state law requires that the rent remain at the rent controlled level during the transition period.

WESTCHESTER COUNTY. A majority of the county's Rent Guidelines Board agreed on new rent schedules on July 10. The new guidelines, retroactive to July 1, permit landlords to raise rents 9% on a 1 year lease, 11% on a 2 year lease, and 13% on a 3 year lease. There is also a provision allowing landlords to add 6% to the guidelines rates on leases for new tenants.

Upon announcement of the new rent increases, there was immediate criticism from all quarters. The criticisms focused mainly on the process by which the Board arrived at the guidelines and the composition of the Board. Two of the Board's nine members were absent due to illness, while a third seat has been vacant for almost 3 years because the County Board of Legislators has failed to appoint anyone to fill the vacancy. In addition, three of the six members who were present and voted are holdovers whose terms have expired.

OHIO

Dennis Kucinich, Mayor of CLEVELAND, proposed an ordinance calling for a 4 month rent freeze and the formation of a five member Fair Rent Commission to determine rent increases based on "fair rate of return." Owners would have 60 days to register their units. If an owner failed to register, renters could withhold payment of rents. Council President George Forbes referred the issue to 10 of 16 standing committees in the City Council, and made it known in July that the proposal would go no further.

*OKLAHOMA

In NORMAN, City Councilman Rod Talley has called for the establishment of a rent control ordinance. The Council held hearings with tenants complaining of excessive rent increases. Council members are studying rent control ordinances of other states to aid in deciding if an ordinance should be adopted in NORMAN. The city, home of the University of Oklahoma, is currently experiencing an extremely tight rental housing market situation with reports that some people are now living in their automobiles.

OREGON

There is a push by mobile home park tenants to place a statewide rent control measure before the Oregon voters in 1980. According to the Capital Journal in Salem, the rent stabilization initiative would roll all residential rents back to April 1979 amounts and then allow increases based on actual increased costs in the maintenance and operation of the rental unit. It would prohibit a reduction in service to tenants unless rent is reduced proportionately.

According to the organizer of the petition, the legislation would protect tenants from arbitrary rent increases while allowing landlords a reasonable return on their investments. Twenty-five signatures are needed to file the initiative with the Secretary of State. After a ballot title has been prepared by the Attorney General and approved by the Oregon Supreme Court in case of a challenge, approximately 55,000 signatures will be needed to place the measure on the 1980 general election ballot.

A petition being circulated in EUGENE to get a rent control bill on the November ballot has been temporarily withdrawn.

On the state level, a measure to control rents on mobile homes (HR 2633) was referred to committee. It was not scheduled for hearing, and was thus tabled for the 1979 session. A bill to impose statewide rent control met a similar fate in 1977.

PENNSYLVANIA

A measure (HB 100) to freeze rents at January 1, 1979, levels underwent legislative findings on April 24, 1979. The bill will move no further. A similar measure was killed last year by the Democratic legislative majority.

RHODE ISLAND

Resolution S 734, which would establish a special legislative commission to study the feasibility of statewide rent control, went through the Senate Judiciary Committee favorably and passed in the Senate in the 1979 legislative session. The bill was then sent to the House Judiciary Committee, where it was never acted on. The Legislature convenes next in January 1980, at which time the bill can be picked up by the House committee as a carry over.

TEXAS

According to a ruling by the Texas Supreme Court and effective September 1, 1979, landlords must act with diligence to repair conditions affecting the physical health or safety of a tenant unless the tenant, his family or guests cause the condition; a tenant has legal remedies to force landlords to make repairs providing he is not delinquent on rental payments, gives the landlord written notice of the condition and gives him a reasonable time to make repairs; tenants have the right to terminate their lease without going to court and to receive a partial refund on their rent, or they can obtain a court order requiring the landlord to make repairs and/or give some financial compensation; retaliation by the landlord, such as raising the rent or evicting the tenant, is prohibited, however, justifiable rent increases are allowed; landlords may terminate rental agreements by giving tenants written notice and agreeing to demolish the property to close the rental unit. According to the News in Garland, Texas, the bill was the result of several months of discussion among groups representing both landlords and tenants.

A rent control initiative was tabled by the EL PASO Council in 1977. The issue of rent control has not been raised seriously since that time.

VERMONT

Measure H 412, which would authorize municipalities to enact rent control ordinances, was introduced in the Vermont House in the 1979 session. The bill was referred to the House Municipal Corporations and Elections Committee. No action has been taken yet, but the bill will be carried over to the next session which begins on January 8, 1980. If not voted on then, the measure will die.

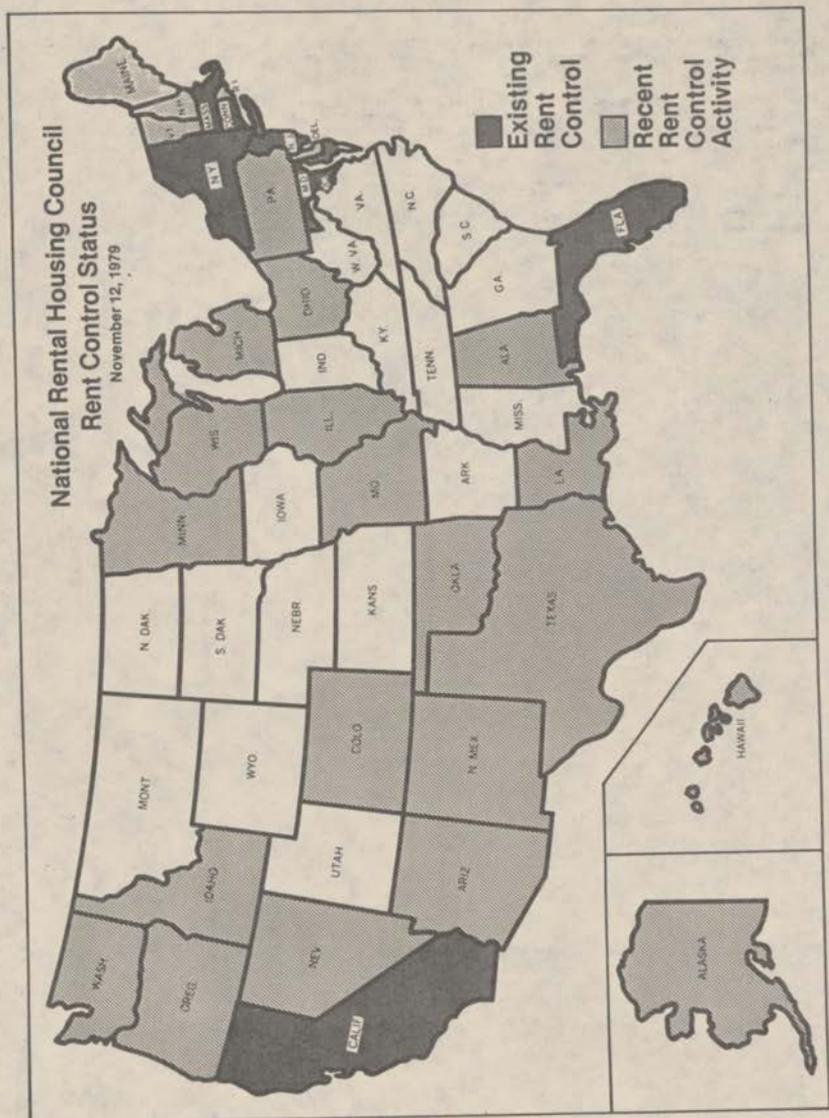
WASHINGTON

A local citizen in BELLEVUE, with the help of the SEATTLE Tenants Union, is organizing residents in an effort to put rent control on the ballot, according to the Journal American in BELLEVUE, Washington.

Senate bill 2624 was introduced in Washington's 1979 legislative session. This bill would have prohibited the regulation by local governments of the rent to be charged for privately owned family or multiple unit residences. It dies in the Senate's Local Government Committee.

WISCONSIN

A rent control initiative was rejected by voters in MADISON in September 1977, and the issue has not been seriously discussed since then.



National Rental Housing Council

1800 M Street, N.W., Suite 285-N • Washington, D. C. 20036 (202) 659-3381

D. C. - MULTIFAMILY HOUSING -- NEW UNIT AUTHORIZATIONS

Years	Total Units	Non-subsidized	Subsidized By Type					Public Housing
			Section 202	Section 236	Section 221D3	Section 8		
1970	1,346	154	-	636	222	-	-	334
1971	520	40	-	268	212	-	-	-
1972	359	168	-	191	-	-	-	-
1973	1,450	851	-	599	-	-	-	-
1974	-	-	-	-	-	-	-	-
1975	120	120	-	-	-	-	-	-
1976	1,168	269	-	722	-	-	177	-
1977	843	104	140	271	-	-	328	-
1978	698	-	-	-	-	-	698	-

Compiled by the National Rental Housing Council based on data provided by the Metropolitan Washington Council of Governments, July 1979.

Dr. FRANCIS. There are 7 States plus the District of Columbia which now have portions of a State under rent control.

Mr. WILSON. What are those seven?

Dr. FRANCIS. The Northeast, the map I have given you, shows it.

Mr. WILSON. Yes.

Dr. FRANCIS. New York City and the environs have had rent control since World War II. It's the classic example of all the horror stories of what rent control can do to a city.

Mr. WILSON. Does every city in the State of New York have rent control?

Dr. FRANCIS. No.

Boston in the Massachusetts area has had rent control since the Nixon Wage and Price Controls of 1971.

Connecticut has a form of rent control which is for rent accommodations which they attempt to deal with the rent levels on a negotiated basis.

New Jersey has had rent control since around 1971, and about half of the bureaus and cities in New Jersey now have rent control.

Maryland has rent control in one fashion or another; Montgomery County. Baltimore just voted for rent control, and it was overthrown by the courts on a procedural matter this past month.

Mr. WILSON. They also elected a mayor and city council who were opposed to rent control.

Dr. FRANCIS. Yes; the procedures to put it into effect were faulty, at least as far as the judge was concerned.

Florida has rent control. Again in the Miami Beach area there is a statewide law on rent control which governs the nature of rent control in Florida, and the Miami Beach area has reinstated rent control on an emergency basis, and it will be contested.

Mr. WILSON. Is that the only city in Florida that has it?

Dr. FRANCIS. California, as you probably know, in the wake of Proposition 13, has widespread rent control in major cities, Los Angeles, San Francisco, Santa Monica, San Jose, and it is being now contested on a statewide basis.

There is a petition being circulated to establish some form of statewide rent control on a criteria basis which will set forth the conditions under which rent control can be instituted.

There is the Tom Hayden-Jane Fonda Campaign for Economic Democracy in California which has set forth a program to constantly harass city councils and voters with repetitious rent control ordinances, and there was an attempt there to sort of control this by establishing criteria so the voters wouldn't be harassed by repeat rent control ordinances.

If they are turned down, it is brought up in six months; and it is bleeding the developer and owner to death. We find the voters will turn it down and a lot of pressure is put on city councils, and they vote it into place simply in response to what they receive as voter requirements, but when it goes to the voters the voters turn it down.

Mr. WILSON. What about Texas?

Dr. FRANCIS. In El Paso there was rent control discussed. It has not been widespread in Texas, however. This map shows essentially rent control, and I could go down a whole list of them. It is being raised as an issue all around the country, particularly in the

Southwest and in the West because of the great migration from the North Central and Northeastern areas to the West and Southwest and put a lot of pressure on rental properties.

The whole matter of rent control is simply a social issue which is an attempt to abrogate the realities of economic conditions, and we have heard an awful lot of this in the testimony today. I don't dispute that there is a lot of social pressure to hold back inflationary conditions as far as housing is concerned.

Housing is an inflexible product. People don't move around. One can change from hamburger to hot dogs; it is very hard to change one's home location, but the simple fact is that rents have increased only three-quarters of the consumer price index over the last decade.

If one looks into it, rents are the best deal in town. The cost of a single family home has skyrocketed, gone well over the CPI over the last decade where, as I said, rents have kept down below the CPI.

Most landlords would like to see a stable tenancy. I would rather not see a turnover as most of the people here testified. They would like to see a stable tenancy in which they can count on rents each month, good tenants who will take care of properties; and therefore they would prefer not to raise rents to a point where rents would drive out the tenant, but they are being caught with the constantly increasing costs, and as we all know, the cost of fuel has gone up 80 percent in one year.

The cost of maintenance and all of those other costs are putting a lot of pressure on the landlords. What the landlord has found is that he has been caught almost, because of his own consideration for the tenant, and his consideration for the economic conditions, when rent control comes in he finds himself now in a sense in the aviation sense behind the power curve; and he has not raised rates and he is forced to pay high utility bills, and rent control says we are now going to control the costs that you have, the revenue that you can have to meet those costs.

I would like to give you a couple of examples of the impact of rent control.

It affects operating costs, the regulatory system delays; but for example, in expenditures for maintenance and repair in five selected cities, two with rent control and three without, from 1968 to 1977, a range of percentages in New York, the average expenditures invested in maintenance and repair, percent of gross income in New York was 6.5 percent. That had rent control.

In Boston it has been 7.2 percent in the last decade. Prior to rent control, however, Boston had 10 percent of its gross income devoted to maintenance and repair, so that it has dropped 2.87 percent since the imposition of rent control.

Baltimore, which has not had rent control during this decade, uses 8.1 percent; Chicago, 7.7 percent, and San Francisco, 9.4 percent, so you see the cities with rent control there is an average amount of money devoted to maintenance and repair, something less than a percent to 2 percent as compared to those cities without rent control.

That is an example of the impact that rent control has comparing one type of city with another over the last decade. As far as the

taxes are concerned, as we have heard, revenue reduction is a result of reevaluation of property down, so that it lowers the property tax with a consequence to the community that the property tax base either decreases or there is a shift to other properties.

CAMBRIDGE, MASS.: IMPACT OF RENT CONTROL

As an example, and I can send you a copy of this study done in Cambridge, Massachusetts, 22 percent of gross income was devoted to taxes in Cambridge prior to rent control. After rent control this has increased to 30 percent, because rent control has kept down revenues and, therefore, a greater percentage has to be devoted to taxes.

When it reached 30 percent, a law was passed limiting it to this 30 percent so if, therefore, revenues drop below, no more than 30 percent of this revenue can be devoted to property taxes which means the property has to be re-evaluated down, and the shift has to go to commercial properties.

The declining tax base in Cambridge, Massachusetts, in the four-year period 1972 to 1975, there has been a decrease in assessed value of property of \$3 million in the City of Cambridge, Massachusetts, which has rent control.

[The study referred to follows:]

RENT
CONTROL
HIGHLIGHTS

EFFECT ON PROPERTY VALUATIONS
AND ASSESSED VALUATIONS FOR
AD VALOREM TAXATION

OR

"A
PROBABLE
PREDICAMENT"

BY

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Rent Control has been a subject of great debate since the beginning of time. Unfortunately, the labels of pro or con, advocate or antagonist, opponent or proponent have often times been unfair and misleading as there appears to be a great deal of middle ground available to resolve the question of any housing improprieties and the needs of the elderly and indigent.

The vision of a new nationwide housing crisis is on the horizon due to declining residential development in the public and private sectors and a still expanding population. In light of this pending dilemma it is obvious that a full and judicious analysis of the past and present experiences of rent control must be made to ensure a fair and equitable solution for all. It may be paradoxical that at a time of expanding reliance on the real estate tax to absorb the social and economic costs of government, that restrictions are being implemented on one segment of this revenue, i.e. residential multi-family dwellings.

In all the articles, panels, seminars and deliberations on rent control, the effects on property values have never been fully explored or explained. The best and obvious source of this information lies within the confines of assessors offices, lending institutions, and realty firms.

Rent Control has primarily been promoted in communities where the tenants represent the majority of the electorate. Therefore, assessors have been reluctant to get involved because of possible jeopardy to their appointed or elected positions. Also, assessors are reluctant to exploit the economics of the situation for fear of expanding the appeals process with subsequent maximum valuation reductions. The lending institutions are concerned about the effect on deposits, and realtors decry the publicity because of the harmful effect on the market as a whole. Too few want to get involved excepting those that seemingly benefit. And yet, at this crucial time in an inflationary and recessionary economy, interested parties must come forward as statesman to exercise the responsibilities of government for all on a fair and equitable basis.

At a time when there is a public clamor for equality and professionalization in the assessing field, it is my conviction that the assessor be involved in governmental policies. The property tax is second only to the federal income tax and social security levies as a producer of revenue. In Massachusetts, the property tax accounts for approximately 56% of the revenues necessary to administrate local government and in many communities such as Cambridge the actual amount raised is in excess of 70%. The over reliance on the property tax to absorb the increased cost of government goes unabated and the assessors office assumes the wrath of a concerned public. Therefore the assessors office being a most important and critical agency in any community or locality must not be defensive but speak out to the issues----with integrity----to explain the facts to the public.

The assessor as a public official owes a responsibility to the public to open the doors and discuss issues. One of these issues is Rent Control. Where did it come from? How did it get here? It has been kicked around since the beginning of time. However, for this article we will examine it in our time constraints.

On January 30, 1942, President Roosevelt signed into law the Emergency Price Control Act as national legislation. The responsibility for rent control was transferred from the federal government to state government in 1950. Almost everywhere in the United States, Rent Control ended early in the 1950's with New York City being the notable exception. New York City assumed the responsibility of rent control in 1962.

The New York City rent control saga is a story in itself. However it is suffice to say that the national calamity of the 1906 San Francisco earthquake destruction of some 3400 acres of buildings in the heart of the city has been overshadowed by the abandonment in NYC of approximately 800,000 housing units (with 35,000 to 50,000 housing units annually) and the delinquency of 500 million dollars in real estate taxes (highest since the depression).

There are many facets of the rent control discussion and debate. This article however will concern itself with the economic implication and the effect on assessed valuation with emphasis in the Commonwealth of Massachusetts.

In 1969, the Massachusetts State Legislature passed enabling statute chapter 842, that allowed communities with 50,000 or more population to adopt rent control. This enabling legislation was originated as a temporary measure intended to expire in April 1975. However it continues on. By a vote of the elected officials, five communities adopted rent control. It is interesting to compare the ratio of tenants to owner occupants:

COMMUNITY:	Boston	Brookline	Cambridge	Lynn	Somerville
OWNER PERCENTAGE:	27	27	23	46	34
RENTAL PERCENTAGE:	73	73	77	54	66

*By votes of local elected officials, Lynn has removed rent control and Boston and Somerville have allowed for vacancy decontrol. (1975-76)

The Cambridge City Council after many public meetings and much debate and study, adopted chapter 842 rent control in March of 1970 and all rents were rolled back to September of 1969. A Rent Control Administrator was appointed, Public Hearings were held and individual adjustment hearings began. The administrator allowed increases in rent on the basis of a percentage return on investment. The militants on both sides agreed to disagree and resultant court cases negated the rent adjustments with all increases returned to the tenants.

As a result, the Rent Control administrator resigned on February 4, 1972. A rent control board with two tenant representatives, two landlord representatives and an attorney chairman was appointed on February 10, 1972.

On January 1, 1973, the Rent Control Board rolled all rents back to September 1, 1967 levels and allowed an increase of 30% from that point i.e. (\$100.00 rental in 1967-\$130.00 sometime in 1973). The owners of property in 1967 could fill out applications for the increase (this took several months). Owners of property after 1967 had to request a hearing (some have taken more than one year). During this period, there were no rental increases for at least three years in spite of abnormal increases in real estate taxes, heating costs and other operating expenses.

A further increase of 1.15% was allowed in March 1974 and an 11% increase in the middle of 1975 (plus a fuel adjustment increase if applied for). Also individual hearings for both sides could be applied for.

It is quite important here to point out that the rent adjustments were inadequate and too late to recoup increased operating expenses. The 30% increase was promulgated in spite of a Rent Control Board study that indicated on adjustment of 36.5% was necessary to ensure a fair net income. Also, approximately 45% of property owners could not qualify for the 30% adjustment because of the strict documentation required. Subsequent increases were also inadequate and after the fact. Also there was no allowance for reserve for replacement for capital improvements necessary to maintain properties.

It seemed quite obvious that the Rent Control increases were not timely enough and adequate enough to offset the increased tax rate and escalating operating costs.

Where did the beleaguered property owner go for relief? Where else? The assessors office received approximately 500 appeals annually. And in spite of declining net incomes and values, the Board of Assessors had to increase the percentage of taxation on gross income. As tax rates expanded, the percentage of gross income for taxation climbed annually from 22% in 1969 to 30% in 1973-76. This reflected a 35% increase in the tax percentage and a substantial decrease in net income from the property owner. The Board has stabilized the percentage at approximately 30% as any additional amount becomes confiscatory and would lead to zero maintenance and eventual foreclosure and abandonment. The percentage of gross income for taxation is the highest in the Commonwealth (residential property). The percentage was 22% prior to Rent Control. The State average is approximately 22% now. The national average is approximately 16%. The abatements on rent controlled units have averaged \$600,000.00 per year since 1971. The assessors policy has eliminated continual Appellate Board hearings, saving the city hundreds of thousands of dollars in expert and legal fees and removed the pending disaster of foreclosure and abandonment. The abatements have been granted annually on a consideration basis in anticipation of eventual market level rents. However, in 1976 the Board began reducing assessments permanently with a written agreement by the owner that there would be no further appeals for three years pro-

viding that economic conditions remained substantially the same. The balance of these cases will be disposed of in 1977. Within three years the present revaluation program should be completed with equality for all. The total reduction in assessed valuations to accommodate the reduction in values will amount \$4,000,000.00 in 1976-77.

It is important that we have an overview of the financial structure of the city during this period to fully understand the problem. Let us take a look at the budgetary needs of the city:

1960	\$20,216,887.92
1965	\$26,413,855.96
1970	\$40,606,412.13
1975-76	\$86,920,336.15
1976-77	\$90,846,608.00

Now let us examine assessed valuations for real property for the same period:

<u>YEAR</u>	<u>ASSESSED VALUATION</u>	<u>ANNUAL INCREASE</u>	<u>ANNUAL DECREASE</u>
1960	\$212,886,400.00		
1965	\$241,612,200.00	\$5,745,960.00	
1970	\$279,799,900.00	\$7,636,740.00	
1971	\$280,701,900.00	\$ 902,000.00	
1972	\$281,758,900.00	\$1,057,000.00	
1973	\$277,001,700.00		\$(4,757,200.00)
1974	\$277,020,200.00	\$ 18,500.00	
1975	\$277,088,800.00	\$ 68,600.00	
1976	\$278,404,800.00	\$1,316,000.00	

*The development of the Regency Hyatt Hotel, American Telephone and New England Telephone and the Draper Laboratory facility have been responsible for holding assessed valuations for the past two years. The valuations for these properties have exceeded the reductions in valuations for multi-family dwellings.

The annual growth rate in the sixties was approximately three percent which is consistent with the urban areas. A continuation of this

growth would have produced a 1976 value of approximately 344 million dollars instead of the value of \$278,000,000.00 (a 66 million dollar difference). We see an actual decrease of approximately 3½ million dollars in assessed valuations since 1972. Incredible as it may seem in this inflationary economy, the real estate tax base has experienced the first major decrease since the depression.

We should also take a look at the tax rate for the same period:

<u>YEAR</u>	<u>TAX RATE (PER THOUSAND)</u>
1960	\$ 68.70
1965	72.00
1970	109.40
1971	132.40
1972	149.00
1973	152.00
1974 (six month period)	185.30
1975 (Fiscal Year)	179.80
1976 (Fiscal Year)	179.50
1977 (Fiscal Year)	

What have we seen thus far:

1. Increased Budgets.
2. Reduction in assessed valuation.
3. Escalation in tax rate.
4. The increasing cost of government is a major contributing cause of increased rents.
5. Increase in percentage of gross income for taxation.
6. Rent adjustments not consistent with increased operating cost.
7. Abatements of \$600,000.00 annually (average).

Has All This Effected Property Values?

Let me try to explain it in the proper content, i.e. the appraisal process within the market. The market value of real property is created, maintained, changed, adjusted or destroyed by the interplay of four forces. These are social ideals and standards, economic adjustments and standards, political and governmental regulations, and physical or natural forces. They set the standard for the variables in real estate market values. The market will bear out the changes. The application of the three approaches of value--cost, market data, and income---are based on the following:

1. The current cost of reproducing a property less loss in value from deterioration and functional and economic obsolescence (accrued depreciation).
2. The value indicated by recent sales of comparable properties in the market.
3. The investment value that the property's net earning power will support, based upon the capitalization of income.

COST APPROACH

We are not going to dwell on this approach as the depreciation factor is found within the market and this will be recognized in the other approaches. However, I should note that the proponents of rent control claim that there is no deterrent to new building as new units are exempt. However, it is illogical to assume that a developer would locate in Cambridge and pay 30% of gross income for taxes when a far lesser amount is available elsewhere. This is borne out by the fact the private development is at a standstill. Less than 9% of units built 1970-1973 were under private construction.

1970-1973---Cambridge Building permits

Total Subsidized Units Built under Rent Control	2906
Total privately financed units built during same time.	266

The number of building permits from 1974 to date is _____

This supports the statement of Professor John Kain of Harvard University "If rent control forces the return on housing below a competitive return, it will cause landlords to disinvest and to shift their entrepreneurship and capital to other sectors and to uncontrolled communities".

MARKET DATA APPROACH

The market data approach to value, or comparable sales approach, utilizes evidence from the real estate market; that is, sales of similar properties to learn what buyers and sellers are doing, what they are exchanging in terms of money. On the basis of a detailed analysis of market sales of multi-family dwellings one can arrive at values by developing comparable square foot, room, or unit values plus gross income multipliers. Current sales should produce values of similar properties on the relationship of sales prices and gross income. It is customary in laymens terms that income producing properties generally sell for approximately six times the gross income. In the 1960's, Cambridge properties according to competent real estate appraisers were selling for approximately 6.5 gross economic income. This was the level in which properties could be acquired as a prudent and reasonable investment. What has happened since the implementation of rent control. The gross income multipliers began to recede. In the early stages of rent control, properties were sold at 6 or 7 times income but as time progressed, the multipliers declined. The notable exception was in the smaller complexes of 4 to 6 units where possible conversion to owner occupied facilities of lesser units (duplex, townhouse etc.) without control were offered. Also another inequity surfaced as speculators with higher than market rents in 1967 were frozen in and granted a 30% increase while many long term landlords with market or less than market level rents were penalized. This policy only expanded the inequities and created roller coaster type of rents within the same area and even within a building, due to skewing of rents. In some cases this allowed some to sell at normal conditions while others were saddled with disproportionate incomes and lesser values.

For the purpose of this study, I have explored the sales of multi-family dwellings as listed in the Real Estate Transfer Directory, Natick Mass. for 1976. The results are as follows:

	<u>Sale #1</u>	<u>Sale #2</u>	<u>Sale #3</u>
<u>ADDRESS:</u>	308 Brookline	322 Brookline	65 Dana
<u>DATE:</u>	12/75	1/76	1/76
<u>GRANTOR:</u>	Chiara	Acquarius Rlty.	Lark Inv.
<u>GRANTEE:</u>	Nichol Rlty.	Caslo Rlty.	65 Dana Rlty.Tr.
<u>NO UNITS:</u>	12	6	33
<u>GROSS INCOME:</u>	\$ 24,588	\$	\$ 61,929
<u>SALE PRICE:</u>	\$ 47,000	\$ 55,000	\$121,000
<u>GROSS INCOME MULTIPLIER:</u>	1.92		1.95
<u>PRICE PER UNIT:</u>	\$ 3,917	\$ 9,166	\$ 3,667
<u>PREVIOUS SALE:</u>	over 20 yrs.	11/74 \$36,000	12/65 \$145,000

	<u>Sale #4</u>	<u>Sale #5</u>	<u>Sale #6</u>
<u>ADDRESS:</u>	1 Garden	19-21 Wendell	226 Banks
<u>DATE:</u>	12/75	4/76	4/76
<u>GRANTOR:</u>	Garden Ct.	Wendell St. Tr.	Zellick
<u>GRANTEE:</u>	Donald Estey	West Hill Rlty.	Wossen.
<u>NO. UNITS:</u>	38	36	6
<u>GROSS INCOME:</u>	\$ 69,703	\$ 70,700	\$
<u>SALE PRICE:</u>	\$275,000	\$235,000	\$ 97,000
<u>GROSS INCOME MULTIPLIER:</u>	3.95	3.32	
<u>PRICE PER UNIT:</u>	\$ 7,237	\$ 6,528	\$ 16,167
<u>PREVIOUS SALE:</u>	over 20 yrs.	9/55 \$108,000	9/62 \$ 24,500

	<u>Sale #7</u>	<u>Sale #8</u>	<u>Sale #9</u>
<u>ADDRESS:</u>	132 Sherman	Cambridge	154 Magazine
<u>DATE:</u>	3/76	12/75	3/76
<u>GRANTOR:</u>	Dublin Rlty.	Goldsmith	Northgate Comm.
<u>GRANTEE:</u>	Rem. Rlty.	Fox	Richard Farringt
<u>NO UNITS:</u>	16	6	22
<u>GROSS INCOME:</u>			\$ 45,312
<u>SALE PRICE:</u>	\$175,000	\$ 48,675	\$115,000
<u>GROSS INCOME MULTIPLIER:</u>			2.5
<u>PRICE PER UNIT:</u>	\$ 10,938		\$ 5,228
<u>PREVIOUS SALE:</u>	Built 1972-73		1969

There are a minimum of sales and gross income multipliers recede as values decline. The market activity is not healthy.

The market generates the conclusion. It has been our experience that multi-family dwellings (6 units or more) are now selling at an average of 3.2 times gross income.

INCOME APPROACH TO VALUE

The income approach is concerned with the present value of the future benefits of property ownership. Income property is valued and purchased on the basis of income and expenses and anticipated return. Recent Appellate Board cases involving a well known real estate management firm is illustrative of lower in values, reductions in assessed valuations and a loss in revenue to be absorbed by the rest of the community.

5 Properties---Well Managed

GROSS INCOME		NET INCOME BEFORE R.E. TAX		FAIR MARKET VALUE	
1971	1974	1971	1974	1972	1974
88,000	92,000	56,000	54,000 Tax 25,000	365,000	334,000
57,000	58,000	38,000	34,000 Tax 17,000	235,000	201,000
53,000	56,000	31,000	30,000 Tax 16,000	190,000	174,000
48,000	47,000	29,000	26,000 Tax 14,000	185,000	161,000
89,000	91,000	56,000	45,000 Tax 27,000	350,000	268,000

*The income and expenses are actual. The actual rent becomes the economic rent under rent control. Using the capitalization of income with a capitalization of rate of 16.27.

Property #1, the least effected economically, will be used to explore the change of values.

The subject property contains 31 units in a brick story apartment complex located on Massachusetts Avenue in the Harvard Square area of Cambridge. The units have excellent maintenance, janitor, large rooms with full kitchens and dining rooms and are heated by owner.

The monthly rents on January 1, 1975 were are follows:

1 bedroom	\$178.00 to \$212.00
2 bedroom	283.00 to 338.00 (900 sq. feet)
3 bedroom	341.00 to 354.00 (1300 sq. feet)

Average rent \$267.00 per month (\$8277.00 gross)

Gross Rent January 1, 1975 \$99,300.00

What happened in the Appellate Board Hearing? Based upon the percentage of assessment city wide and the current fair market value,

the results were as follows:

Assessed Valuation	\$166,300.00
Appellate Reduction	<u>\$ 56,800.00</u>
New assessed valuation	\$109,500.00
1976 loss in actual tax revenue-----	-\$10,212.64

Does that explain the loss? Not fully! The Board of Assessors requested several management firms to equate market rentals for this property based upon rentals in non-controlled areas similar to Cambridge. We took the average of these monthly rental estimates as follows:

1 bedroom	\$325.00
2 bedroom	395.00 (900 s.f.)
3 bedroom	500.00 (1300 s.f.)
Total Monthly Income	\$12,105.00
Gross Income	\$145,260.00
Increase in Net Income	\$ 45,960.00

How does this relate to the values since 1969? We examined the net income and capitalized the values as follows:

	<u>1969</u>	<u>1971</u>	<u>1974</u>	<u>1976</u>
Actual Gross Income	\$ 88,000	\$ 88,000	\$ 92,000	\$
Potential Gross Income				\$145,260.00
Fair Market Value	\$572,000	\$365,000	\$334,000	\$620,000.00
Gross Income Multiplier	6.48	4.15	3.63	4.26

An assessed value predicated on the basis of fair market rental and the appellate decision would have been approximately \$200,000.00 with a tax revenue of \$35,160.00 or a difference of \$16,272.00 to be raised by the balance of the taxpayers.

Other appeals, too numerous to mention here, plus our own appraisal evaluations also support this condition. The actual disparities are even greater than illustrated here.

Is rent control the sole culprit of declining values? Of course not! The changing social and economic factors nationally, regionally and locally all effect values. However sales of similar properties in surrounding non-rent control communities are approximately 5 times gross income or 40% greater than Cambridge.

In my opinion based upon the market analysis, the values of property have been adversely effected by rent control. When units are insufficient to absorb increased operating costs, then values have to decline. Is this only true of Cambridge? The following are indicators.

Summary of Rent Control Seminar by The Institute for Professional and Executive Development Inc.---"Assessors and tax collectors face shrinking net incomes from residential rental properties and reduction in new and rehab construction. This is causing decreasing assessed values, a declining tax base and declining tax revenues."

Statement from the analysis and impact of the Rent Control Program in Lynn by office of the Mayor David L. Phillips---"In addition, multiple family structures have begun to decrease in value. For example, the median sales price per unit of rental housing in 1971 was \$8,750.00. In 1972 since the adoption of rent control, the median sales price for rental housing units was \$7,791. Further, the median sales price for 1973 was \$7,763."

Real Estate Research Corporation "On New York City"---"In that year (1973 to 1974), the estimated values of rent controlled properties declined between 22 and 31 per cent, and that of the rent-stabilized properties dropped between 8 and 18 per cent (depending upon what capitalization rate is used to estimate value). Further deterioration in profitability will result in still lower market values in the future."

Business Week on New York City---"But today, this vital tax base, the city's largest source of revenue, is showing obvious signs of decay--and housing accounts for 47% of the property tax revenues of the city with rental apartments paying about 31%."

Wall Street Journal---"Homeowners and taxpayers organizations should constantly remind the politicians that artificially lower rents for tenants mean higher taxes for everybody else".

The tax assessor of Bloomfield, New Jersey has prepared a report showing that the effect of rent control in New Jersey from 1971 to 1975 has resulted in a yearly increase in apartment assessment.

You can go on and on-----economists claim that rent control is a cause of, rather than a solution to, a housing crisis.

Professor Assar Lindbeck--author of the Political Economy of the New Left---"In many cases rent control appears to be the most efficient technique presently known to destroy a city---except for bombing".

Professor Gunnar Myrdal, Nobel Laureate---"Rent Control has in certain western countries constituted, maybe, the worst example of poor planning by governments lacking courage and vision".

Professor F.A. Hayek, Nobel Laureate--"If this account seems to boil down to a catalogue of inequities to be laid at the door of rent control, that is no mere coincidence, but inevitable".

Recently, I engaged in a rent control discussion with a well known public official and confidant of the governor of the Commonwealth who informed me that I didn't understand the issue as this was a people problem. I quickly reminded him if that was so, then this was a problem of all the people not just a few.

We have to be aware that there are some in our society (elderly and indigent) that are unable to cope with inflationary costs and there plight is the responsibility of all.

There are unfortunately donkeys in the real estate industry who want to reap the benefits of this capitalistic system without contributing to society as a whole. It is to my dismay that these individuals too easily dismiss the problems of society by soliciting votes thru dollar contributions, rather than active community participation. There are those absentee landlords that neither want to share some of the costs or some of the problems of the urban areas as they retreat to suburbia. Too many of these types do not want any solutions.

Also, there are individuals on the tenant side that look to reap a harvest for themselves in lower rents, and some that use rent control as a vehicle to espouse their own social thoughts of government and neither one wants an equitable and fair solution. Some in our society do not really care for people as a whole but are only interested in themselves and their own philosophies.

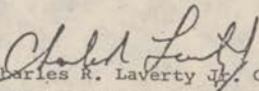
It should neither be the intent of government to allow profiteering by a few at the expense of our citizenry or to allow some to have urban town houses while acquiring ownership residence in suburbia at the expense of the urban taxpayer.

However there has to be a compromise to protect those in need and still allow the economic system to be for the benefit of all. I am sympathetic to many elected officials (including Cambridge where a city Councilor earned \$6500.00 per year during 1970-1975 for countless hours of labor) who must hear both sides and try to do what is best for their constituents. It is unfortunate that I have been polarized as an opponent of intervention as I have always recognized the problem and have offered viable alternatives as follows:

1. To those communities with rent control---decontrol apartments as they became vacant. An emergency must be existent.
2. The legislation of a grievance board empowered to handle the problem cases as they arise. There are unscrupulous landlords and unruly tenants that must abide by rules, regulations and human ethical morality. A board authorized to adjust rents, enforce maintenance, adjudicate evictions and legally handle housing problems will settle the troublesome matters without having a blanket restriction that is harmful to the taxing entity as a whole. If a rent control ordinance can be passed, then proper Grievance Board Legislation can also be passed.

3. A code enforcement program that would inspect all apartments annually. The units would have to be brought up to code standard before being leased again.
4. A Leased Housing Program sponsored by the municipality to assist those who are unable to compete in our society. The City of Cambridge is now spending approximately one million dollars in the direct costs of rent control (abatements and administration) one third of this figure allotted for a leased-housing program would be far less costly to the city and allow future progress.

I would strongly suggest that Government take adequate studies to ensure that there is a housing crisis and the need for some administrative control of housing. If it is proven that a crisis does exist, than I would suggest the alternatives offered here that allow for protection of the elderly, indigent, provide for the penalizing of speculators, gougers and unruly tenants without imposing a costly rent control board that may stifle the economy of an entire community.


Charles R. Lavery Jr. CAE, CMA
Principal Assessor
Cambridge, Massachusetts

RESUME (BRIEF)EDUCATION:

Boston College--B.S.P.A. degree--1956,
Massachusetts Institute of Technology--
Sloan School of Management--Third Annual
program for urban executives--Cert. 1970

ASSESSING
EXPERIENCE:

Principal Assessor City of Cambridge
1967 to present--Chairman 1968, 1970, 1973,
1975

PROFESSIONAL
DESIGNATIONS:

Certified Massachusetts Assessor (CMA)
(#37) January 1973--Certified Assessment
Evaluator (CAE) (#492) November 1973--
International Association of Assessing
Officers--Massachusetts Accredited Assessor
(MAA) 1976----Associate Member of Society
of Real Estate Appraisers

APPRAISAL
EDUCATION:

Many courses, schools and seminars in various
aspects of assessment-appraisal admin-
istration--Dean of Annual Assessors School
at University of Massachusetts 1975--Associ-
ate Dean of Annual Assessors School, Univer-
sity of Massachusetts 1972-1974--Chairman or
Co-Chairman State Education Program (AMA)
1973-1975

LECTURING
EXPERIENCE:

Lectured before County, State, and Inter-
national Assessing Conferences, Local Civic,
Community, and Fraternal Organizations and
Groups including Rent Control and its effect
on property valuation before legislative
committees of Massachusetts Legislature, Cal-
ifornia Legislature, Institute for Profession-
al and Executive Development--Washington D.C.,
and Northeast Regional Assessors Conference
1972-1976

ARTICLES:

Articles on Income Approach to Value, Tax
Exempt Property, Massachusetts Tax Problems,
Economic Conditions of Cambridge and various
articles on Housing Crisis and Rent Control
1970-1975

ORGANIZATIONS:

President Middlesex Assessors Association-
1976--Executive Board of Massachusetts Assess-
ors 1972-1976--Vice President Cambridge Chamber
of Commerce-1976--Vice President Cambridge Econ-
omy Club-1976-1977--plus many Business, Civic,
Community and Fraternal Organizations

RENT CONTROL:

Appointed Blue Ribbon Committee--by City Manager
to study housing crisis in 1969, and have appear-
ed before numerous organizations and written sev-
eral articles on rent control.

Dr. FRANCIS. Of course, the tax delinquencies increase with rent control as we have all heard. It has doubled in Boston after imposition of rent control. In New York City the rent control that has been in existence since World War II has brought a 6 percent delinquency rate since 1965 which is the highest in 40 years.

This compares to Baltimore of 2.2 percent, so it is three times the delinquency rate. Abandonment, this is the most insidious consequence of rent control, and one that creeps up on a community. It takes time. You don't see it, but boarded up apartments in the City of New York, South Bronx is a classic example of many of the consequences of rent control.

I won't sit here and say it is the only reason, but it certainly has been a major contributor. There have been studies which have demonstrated that there has been a transfer of payment in the 40 percent of rent control of New York City between property owner and tenant of \$20 billion.

This is the nature of the subsidy between the property owner and the tenants, \$20 billion. Now, that is \$20 billion that somebody else didn't have to use to subsidize tenants, and I think it has been an example of how in a sense the city, a city can collude with a socially oriented law to deprive a property owner of adequate return on property to subsidize the majority of its population.

That is what rent control does. The city doesn't have to tax to subsidize these people, but use the property owner to provide this subsidy. In 1970 to 1976, 6,000 of the 6,700 units that were abandoned in the City of Boston were rent control units. What we don't have as a result of rent control is what we call the filter down process.

When you control properties, you then fix the community in those properties. You tell somebody it is desirable to stay where you are. Since you have got a good deal of equity, there is no reason to go out and buy something, and no reason to go out and move.

The person with two or three youngsters after 15 years or so will find that their youngsters have gone off to college or gone off and gotten married, and they have a two or three-bedroom apartment paying \$200 or \$250 a month, they couldn't buy anything as good, and they have all this extra room, so why move?

You are depriving the young family of renting it because it is such a good deal for the older people to keep. The community gets fixed into its condition. Therefore, you end up with misallocation of housing. In the City of New York, I think there has been an example of a person cited here, a person who moved away to Florida and kept the apartment as a temporary quarters when they returned to the city for a few months. Why bother to give up an apartment when you can rent it for such a little amount and maintain it and certainly sublease it.

It is illegal but it is being done in the City of New York. What has it done to the housing supply? In the City of Boston prior to rent control, 1960 to 1969, 68.6 percent of the new construction was privately financed. In the decade since rent control, it has dropped to 28.5 percent. In 1976 it was only 6 percent of new construction which was privately financed in a city of which almost two-thirds was privately financed prior to rent control.

I gave you a chart which I prepared. It's in the material that I gave to you.

[NOTE.—The chart appears on p. 193.]

I did this chart six months or so ago for another reason. But what it does indicate here is the nature of the new starts, the permits. I went to the Metropolitan Washington Council of Governments, got the figures, and broke them down by subsidized and non-subsidized.

If you look at the subsidized in 1970, which you must remember in 1970 you had the post-1968 civil disturbances to contend with, and there was a fear of starting any kind of construction in the City of Washington. Following the overcoming of that anxiety, we see that non-subsidized started to increase in numbers per year until 1973, just prior to rent control, 851 units with non-subsidized new starts as compared with 599.

Since rent control, if you will notice, the non-subsidized units have dropped off and in 1978, figures available show there were no non-subsidized units constructed or permits issues in the City of Washington as compared with Section 8 housing which is subsidized housing, which has increased from a small amount to 6989 units, so all of the units in the City are now subsidized units.

It's a classic example of what happens when one puts in rent control, and this can be replicated all around the country. Let's face simple facts of life. Buildings are not put up and rented for altruistic reasons, but for basic economic reasons; and when one interferes with the nature of the economic process by which these buildings are built and rented and financed, they are not going to be done.

Money will flow to other areas and with Treasury Bills and certificates of deposit yielding 10 or 11, 12 percent, why would anybody invest money in property which is threatened with zero return on investment or at best 8 percent, so money is going to flow into the areas where it is going to get the most assured rate of return where the risk is minimized and one can talk all day about the exemption of new construction.

The City of New York, when it first instituted rent control 30 years ago or reimposed it, exempted new construction, and about 10 years later on, they included the new construction under a rubric called Rent Stabilization, so they didn't call it rent control so they couldn't say they went back on their word that the city gave, but they changed the nature of the law and new construction was all included with that.

Mr. WILSON. What about Boston?

Is new construction in Boston still exempt?

Dr. FRANCIS. It is exempt. People just don't trust governments, and there is a very good reason, because one government is not going to commit another government. One city council can't commit another city council, so what a city council in 1975 does, a city council in 1980 can change, so the risk in consideration is not going to induce investments in multi-family housing.

It's a social issue we are faced with here, and I was interested in listening to the two days of testimony that you have had. It is simply a matter of solving a problem, and the problem has to be

solved through the private sector. It has to be solved in a way that would encourage private investment.

We must devise new tax laws which would make investments in multi-family housing feasible and go back to the prior 1976-78 depreciation concepts to make it a viable profitable process, or else it is just not going to be done.

Mr. WILSON. Mr. Chappell?

Mr. CHAPPELL. What you are saying, Doctor, is not only true in housing but in so many other areas of our economy today. And that is that the real function of government is to create the atmosphere in which you can have reasonable competition; isn't that right?

Dr. FRANCIS. Yes, sir.

Mr. CHAPPELL. Rather than to direct and decide what is to be a specific percentage of profit. If you deviate from that, ultimately you are going to get into problems, because you lose the incentive under the free enterprise system. The incentive to build and to invest is devoid, isn't that essentially correct?

Dr. FRANCIS. Essentially what you are doing, you are saying we are going to take tax dollars and we are going to use these tax dollars in a way that will in a sense compete with private enterprise. When we subsidize, we distort markets, as you well know.

Mr. CHAPPELL. Isn't my premise right, though, that the function of government is to provide the atmosphere, the economic atmosphere, in which you get competition in the marketplace and, therefore, that has the effect of controlling the prices? And it also affords the opportunity to get a fair return on one's money. But when you start to control it you either have to control all the way or not at all.

That is about what you get into; isn't that correct?

Dr. FRANCIS. That is exactly correct, and there is a movement afoot in this country to do just that with housing. What a lot of people would like to see, and the young gentleman who testified earlier would like to see housing become a form of public utility in which the terms and conditions of tenancy will be controlled by governments, all profits will be controlled. There would be a rating structure, the same as we do with the electric and gas companies, and so on.

We say any investment will be controlled, any pricing will be controlled and, therefore, all production will be controlled, but unfortunately when you talk about renting it isn't the same as the public utility. Half of the rental units in the United States today are four-unit complexes or fewer.

You have got the Mom and Pop rental group where you get a lot of people who take their life savings and invest them in small complexes. They live in one and they fix it up and take care of it. That is their life savings going into this thing, so it is very hard to make this a public utility; but those are the people who want to have rent control as a concept.

What you are saying is exactly right, you can't have it both ways and expect the private sector to go in and compete with the public sector when the public sector calls the shots, so if you want private sector investment you are going to have to allow the private sector to get a decent profit and take the risk and understand what risks

are being taken, but if the nature of the risks are changed, if the rules of the game are changed during the time a person has taken the risk, if the risks are one set of risks when the investment is made and half way down the line somebody changes the rules of the game, the risks that you thought you were taking aren't really those risks but those other risks, and you will have your greater return controlled.

Then you have changed the name of the game half-way through the game.

Mr. WILSON. Dr. Francis, I have two questions.

One, we have to face the fact that people who are making the minimum wage or close to it are the people that are making less than \$10,000 or \$12,000 a year. We had testimony yesterday from the landlord sector that said you couldn't build an apartment house in Washington now, where you could have a two-bedroom apartment rent for less than \$500 a month.

Socially that creates a serious problem.

Dr. FRANCIS. But we have not addressed the problem in its macro sense. You have got three jurisdictions here. You are talking about Washington, D.C., Maryland, an area in which 3 million people live that work in another area. Some live in Prince George's County that work in Arlington and so on, so we are talking about a large area.

What one has to then say is, given the nature of the economic structure of Washington, the greater Washington area, where can we put housing which is economically at a level that people who are going to have this kind of economic level can afford to rent?

You are talking about land costs, zoning restrictions, and a whole host of other things local in nature. What do we do about your transportation system? Not a word has been mentioned about the transportation system, but the guts of the issue is you have got to put housing where all of those other factors will make sense and landlord costs will be able to be met and somebody is going to be willing to invest because of the future of the property.

What will the property look like 30 or 40 years from now? People aren't going to put up a \$2 million to \$3 million apartment building and wonder what is going to be the nature of the neighborhood.

Are we going to rezone it and put a baseball field in there or something like that? People will put property where they think it is going to continue to be viable as a rental property unit over the lifetime of the property, so you have to integrate the whole and say, okay, how is our transportation system going to mesh with our housing needs?

How are we going to mesh this where people can work, and how are we going to mesh this with where industry locates and tie the whole thing together and this is one of our basic problems in this country, particularly in an area like Washington where you have three jurisdictions.

You have a Metro system that is just going to be inadequate to the needs because maybe it is not going in the right directions and isn't being finished when it is needed. This is part of the problem, sir. I feel we have got to look at it in its totality, not just let's keep downtown Washington available through artificial means to people that probably can't live in downtown Washington anymore.

The nature of the town has changed. It's not the bucolic little town it was 30, 40 years ago.

Mr. WILSON. But you do agree that there is some social responsibility to people who simply cannot pay the housing cost?

Dr. FRANCIS. I think there is an interim responsibility.

Mr. WILSON. Particularly the aged.

Dr. FRANCIS. I think there is an interim responsibility in that if someone, as I mentioned, since housing is inflexible, in that certain people are in a sense tied into a community, tied into an area, there ought to be in some form or other a communitywide subsidy to maintain those people but not to try to perpetuate the economic conditions, to abrogate the reality of 1979-1980 through 1990, do not abrogate that.

Recognize there are certain people who need to be helped because they are of a different era, different time, different economic condition. Recognize that as a community, subsidize them and help them, the retired, the aged living in a community they have always lived in. But by attempting to abrogate the reality of economic progress, we are simply going to make their life very unhappy, we are going to make a lot of other people's lives very unhappy and, as a nation, infringe upon our ability to produce for the future.

After all, what we are living for is our children and our children's children.

Mr. WILSON. Have the condominium conversion laws been tested in the Supreme Court?

Dr. FRANCIS. Not that I know of.

Mr. WILSON. Do you follow that?

Dr. FRANCIS. Yes, they are going to be, when the right set of circumstances comes along they are going to be, I know that, because we are as much concerned about it as anybody else. They are going to have to be.

Mr. WILSON. Have the rent control laws been tested in the Supreme Court?

Dr. FRANCIS. About 30, 40 years ago, 1922 or 1923. The police powers of the community—and it is an emergency measure, this is the wrinkle, unfortunately, because New York is the only community with long-term rent control, the courts have never found the right case or been willing to recognize that the emergency has not ceased to exist. One can talk about an emergency—

Mr. WILSON. Do you know when that trial was?

Dr. FRANCIS. I can cite it for you. I do not have it in front of me. It was in 1922, 1923.

Mr. O'NEILL. Carrick-Cantrell was the case in 1922.

Mr. WILSON. Are there plans by your organization or others to test the rent control laws again?

Dr. FRANCIS. Probably not the rent control laws.

Mr. HOWAR. I also serve as the chairman of the National Association of Realtors Committee on Rent Control. The Fort Lee, rent control law in Fort Lee, New Jersey, was taken up through the State Supreme Court in New Jersey and appealed to the Supreme Court but they declined to hear it. We have not had a case in the past 40 years come up to the Federal Supreme Court on rent control.

Mr. WILSON. Thank you.

Thank you very much, Dr. Francis.

Mr. CHAPPELL. Sir, let me be sure I understand what you are saying.

You are saying, as all of us I think agree, that you have to take care of the low income people who simply cannot take care of themselves. There has to be a subsidy of some sort, is that what you are saying?

Dr. FRANCIS. Right.

Mr. CHAPPELL. But you are saying that the subsidy ought to be accepted by a responsible government and should not be imposed upon the landowner?

Dr. FRANCIS. Precisely.

Mr. CHAPPELL. Let's talk about supply and demand at that point.

If you are to the point where the demand is so great and supply is so low, which is obviously the case here, how do you get in and balance the supply so that our system itself works properly, so that the rents will be competitive? How are you going to keep from being excessive is what I am asking?

Dr. FRANCIS. As I said, it is a combination of creating or revising the laws relating to depreciation of rental properties. Let's face one thing.

Mr. CHAPPELL. You are speaking of the Federal tax laws primarily?

Dr. FRANCIS. Right, Federal laws.

A rental property is put into existence for a series of reasons, not all of which is to provide housing. It is put into existence to provide opportunities for investment, to provide opportunities for developers to make a profit building, and for developers to make a profit developing; that is why it is done.

The idea, the objective is to produce something that can be rented at a reasonable rate and provide a cash return. It is produced to provide an opportunity for capital to realize a return on its investment. Therefore, you have to create the climate in which all this can be done at a level at which people can afford to pay.

Now, given the cost of land, given the cost of money, given the cost of materials and labor, it is very difficult to do this without some form of advantage to the developer and investor in other ways than simply producing the housing; this is how it is basically done.

Mr. WILSON. Tax advantages?

Dr. FRANCIS. Sure.

Prior to 1976 when the laws were changed, this was more advantageous. But we have changed the laws to the point where we have made it so disadvantageous and we have coupled that with an attempt to fight inflation with an abnormally high cost of money which is a very large part of any investment in any property, as you well know. Then we have coupled this with the inflationary impact, the Davis-Bacon impact on wages, the impact of the high cost of lumber, other competitive products, on the cost of building the apartment.

So I say what you have to do is, you have to free up money. For one thing, you have to make the investment more attractive in the way of making it a more advantageous investment, and you have to encourage, through the community development block grant

program and other programs, communities to encourage private investment through revised zoning laws and revised land use laws. But if we do not do that at the local level, then it is certainly not going to be any good to encourage it otherwise.

So it is a combination of Federal laws, State laws, and the climate in which risk is limited and in which the investment is encouraged. That is how you are going to have more housing.

Mr. CHAPPELL. Do I assume then that the reason we are getting into this is to discover for ourselves what our participation ought to be with the City of Washington?

Mr. WILSON. Yes, that is correct.

Mr. CHAPPELL. And to inquire as to whether or not their tax base is such that we ought not to do certain things in certain areas unless they do what they can to improve their tax base? Is that essentially what we are here for?

Mr. WILSON. That is correct.

Thank you very much.

Dr. FRANCIS. Yes, sir.

Mr. WILSON. Is Barbara Valentine present?

[No response.]

Mr. WILSON. Is Patrick Furey here?

[No response.]

[NOTE.—Mr. Furey's prepared testimony appears on pp. 327-335.]

THURSDAY, NOVEMBER 29, 1979.

WITNESS

EVELYN ONWUACHI, TENANT, AND MEMBER, HOUSING COALITION AND THE EMERGENCY COMMITTEE TO SAVE RENTAL HOUSING

Mr. WILSON. Our next witness is Evelyn Onwuachi.

Do you represent just yourself or an organization.

Ms. ONWUACHI. I am a member of the citywide Housing Coalition and the Emergency Committee to save Rental Housing. They are tenant rights groups.

Mr. WILSON. Are you paid?

Ms. ONWUACHI. No, we are all volunteers.

Mr. WILSON. Would you tell us where you live?

Ms. ONWUACHI. I live at 524 9th Street, Northwest, in the District. I have been a District tenant for ten years.

Mr. WILSON. Is that a big apartment house or a small one?

Ms. ONWUACHI. We have 24 units in the building; relatively small building.

Mr. WILSON. What is your occupation?

Ms. ONWUACHI. I am a housing counselor. We do default counseling, also work with tenants.

Mr. WILSON. Who are you employed by?

Ms. ONWUACHI. Housing Counseling Services.

Mr. WILSON. Is that a District of Columbia agency?

Ms. ONWUACHI. United Way organization.

Mr. WILSON. I see. That is privately-funded. We all give to the United Way. That is what funds your organization?

Ms. ONWUACHI. Right.

Mr. WILSON. Thank you, ma'am.

Ms. ONWUACHI. Okay. I am a District tenant and I am sold on the concept of rent control. The housing crisis which created the need for rent control reached such horrendous proportions that the United Nations felt it necessary to call a world conference in June 1976. The following was reported out of the conference, and I quote:

"Land, because of its unique nature and the crucial role it plays in the human settlement, cannot be treated as an ordinary asset, controlled by individuals and subject to the pressures and inefficiencies of the market."

The people in this city seriously need the protection of our present rent control law to safeguard our rights to safe and sanitary housing we can afford. Through compromises piled up on loopholes tenants are forced to carry the full burden, not only of an economic system of guaranteed inflation and unemployment, but also of this landlord-oriented system of guaranteed profit.

Real estate/banking interests allege that those of us who have been diligently working for authentic rent controls categorize all landlords as rent-gouging slum lords and deny the effects of inflation upon landowners. That's simply not true. Although some landlords are certainly not blatant exploiters, many others clearly are real estate ripoff artists.

Over the last two years I have worked with over 70 different tenants' associations in fighting their landlords' hardship petitions for rent increases. Not once have I seen a landlord's original petition stand up under scrutiny of the tenants. But no matter how sincere the landlord, all who invest in real estate for profit are first and foremost trying to be good business people.

Mr. WILSON. Could I ask a question, Evelyn? Do you mind if I call you that since I have difficulty pronouncing your last name?

We have had many questions and different answers about this hardship petition. You have participated probably in more of those than anyone else. Would you give us just a rough judgment as to how many of those petitions have been settled in favor of the landlords and how many have been settled in favor of the tenants?

Ms. ONWUACHI. Okay. What I am going to do is try to explain why the group of tenants I work with usually win when they go down and fight. Hardly ever do they stop the rent increase completely.

I have two cases out of the 70 I mentioned where the tenants were successful in keeping the landlord from getting any type of increase at all. That is when the landlords tried to use the scheme of the negative cash flow where they refinanced the property under a scheme that the tenants exposed, showed that the landlord got this new debt service as a way of raising their rents to evict their tenants in order to do a condominium conversion.

Those are the only two cases where we ever stopped the landlord petitions. In all other cases the rent increases were granted; again, never in the amount the landlords originally petitioned for.

The reason the tenants had to organize to fight the landlords is because they were trying to get an illegally high rent increase, using the process and hoping the tenants would not challenge the increase. Usually when the tenants call us, we encourage them.

One of the things we have been able to do is work with tenants, showing them how to go through that process and defend themselves and how to stop the really large rent increases their landlords attempt to get.

Mr. WILSON. Do you generally work with low-income tenant groups?

Ms. ONWUACHI. That is my own personal preference. We get calls through our tenant hotline at the Coalition from tenants all over the city. But when I choose to represent or work with a group of tenants, they have to be low-income people. It is more because I know without some help in preparing their case they are probably not going to win at the Rental Accommodations Office.

What is going to happen is, they are going to be up against the landlord's attorney and they are not going to be able to deal with the problems arising from that. Okay.

I will continue reading. Again, all who invest in real estate for profit are first and foremost trying to be good business people and that means making the maximum profit the market will bear, regardless of its effect upon tenants. And in this city, with the 1 percent vacancy rate, nonexistent code enforcement, and with decent low-cost rental units seemingly impossible to find, the potential for exploitation is grave.

Inflation costs obviously do affect the pockets of landlords as well as tenants. It is just that the pockets of most District tenants are so very small in comparison, whereas the average tenant has only a minimal budget margin for survival, most absentee landlords in the District, with their suburban homes and fat bank accounts, have lucrative profit margins and should be required to share the cost of the economic squeeze.

Low and moderate income tenants in D.C. and all over this country, with their incomes slipping, simply cannot pay any more and are forced to demand less rent, more control. Rent control is good for tenants. It protects them from exorbitant increases but rent control is also good for the District as a whole. It helps insure a stable community, built upon justice and fairness. It discourages speculation and encourages responsible landlords.

Renters and homeowners alike are hurt by unchecked profiteering and speculation in the housing market. Inflated costs in housing caused by real estate speculation leads to inflated property taxes. Rent control encourages good maintenance and helps to preserve existing housing. Better housing, lower rents, and a healthy local economy are good for everyone in this area.

Rent control came to D.C. less than five years ago in response to a severe housing shortage which existed alongside rampant inflation. As the vacancy rate dropped and cost of housing increased, more and more people were unable to afford decent housing. The courts have noted this fact, agreeing that rent control is a legitimate method for cities to deal with the housing crisis.

There is very little available rental housing in the District. In many places landlords are converting existing apartments into condominiums, thereby making it very hard to find an apartment. While the number of rental units decreases, the number of people looking for apartments increases. Interest rates were recently raised in an effort to discourage borrowing and to fight inflation,

but what this really does is make the cost of buying a home even more out of the reach of many Americans.

District renters include many who cannot buy their own home, as well as those many who choose not to buy a home. A substantial number of tenants in D.C. are former homeowners who have chosen to remain in the community even after selling their homes. Many of the senior citizens, tenants in the District, are on fixed incomes, unable to absorb continuous rent increases.

Young people make up another large segment of the tenant population. Many of these people will be future homeowners. But unlike many of their parents, they will not be able to afford to buy or own a house under the present economic conditions.

Where a person lives is not like other commodities. Housing is a necessity. Tenants are not like other consumers. If your landlord raises your rent beyond your means, you cannot just move the way you can buy a different brand of toothpaste.

D.C. rent control law protects tenants, it limits the amount a landlord can raise the rent each year. Yet it guarantees the landlord the right to a regulation rent increase. Rent control is fair. It is good for the District, it helps tenants, it helps homeowners, it helps the local economy and it does not hurt decent fair landlords.

We tenant activists want to encourage public debate of the merits of rent control and the other essential features of a comprehensive plan to ease the housing crisis. Anyone who claims rent control is bad for the District does not know enough about rent control.

One of the things I would like to do now is actually go through some of the points raised by the people who have spoken before me, and I want to speak in the way of rebuttal.

First of all, with regard to the innuendos that rent control is what causes the lack of new housing construction, that rent control is one of the things that has prevented, like what you are saying, the insurance companies from investing in D.C., it is just that we understand that the real estate industry has a criterion. The highest and best use is supposed to be the guideline on how you invest your capital. In D.C., the highest and best use is condominium conversion. They are going to realize the maximum profit in that way. That is why you have people not wanting to invest in rental property.

One of the things we want to point out is that the insurance companies are in fact investing in the highest and best use in D.C. We have 3900 Tunlaw Road, Northwest, where John Hancock Insurance Company has financed and again lent money for people to buy condominiums. Then we have the Webster House at 1743 T Street, Northwest, financed by Prudential.

Mr. WILSON. Are those new construction projects or conversions?

Ms. ONWUACHI. I do not know. I just know they are buildings able to be financed because of their being able to get money, only it is because it is the highest and best use for that money.

Mr. WILSON. If they are financed, they are probably conversions.

Mr. O'NEILL. They are condominium purchaser loans to individuals.

Ms. ONWUACHI. So it is just an indication that when it reflects the highest and best use for those properties, they are going to be able to borrow the money.

One of the things that has been said——

Mr. CHAPPELL. Is that by zoning? Are you saying that by using the zoning process the piece of land would be zoned for its highest and best use?

Ms. ONWUACHI. I think the real estate industry determines what is the highest and best use. One of the factors is location, another may be zoning. It depends on what those factors are that make them decide what is going to happen in that community.

In D.C., location is probably the bottom line for most of the investment that happens in the city. Location right now indicates that the best places to spend a lot of the money, put money into, are areas where there are condominium conversions or apartment buildings that can be converted to condominiums. That is the bottom line.

The thing about abandoned properties in D.C., we want to make sure when you do get the information about where these properties are that you also look at them carefully because I think you are going to see that the properties that are abandoned or that appear to be abandoned because they are boarded up are either District-owned properties or HUD-insured properties which cannot be blamed on rent control.

The HUD-insured properties are exempt from the rent control ceiling. Those properties, there is an investigation now in the District, as to why HUD has allowed those properties to get into such disrepair and again the schemes landlords have used to extract exorbitant profits, not because they were interested in providing housing for people but interested in making a profit.

We talked about the declining population in the District. I think Mr. Natcher mentioned losing 4,000 school kids a year. According to the community development block grant application filed in CD-5, that the District Government filed with HUD, between 1970 and 1977 the population decreased from 750,000 to 690,000, but the number of households increased.

I think what we have and what we see reflected is people are choosing not to have large families, there are fewer people going to school.

Mr. WILSON. Don't you think maybe they are choosing not to put their children into the D.C. school system?

Ms. ONWUACHI. There may be people and there may be a lot of reasons why they choose not to send their kids to public schools, but we have to recognize that is not an indication that we have a declining population simply because of rent control. There are a lot of other factors that come to bear. In fact, the number of households, they are smaller households but there are more households in the District now than in 1970.

There was a charge that there was a declining maintenance. I believe someone quoted in fact the annual report of the Rental Accommodations Commission. I have a copy of that report and I want to quote:

"The Chief of the Housing Inspection Branch, Thomas Butler, told staff of the Rental Accommodations Office that he believes the

general level of compliance with the Housing Code has improved in recent years."

Mr. Butler cited four factors and one of those, the second one, and I will quote again:

"The District's rent control laws which have made rent increases contingent upon substantial compliance with the Housing Code, have resulted in better code compliance."

Mr. Butler noted that the opportunity tenants have to challenge rent increases on the basis that their building is not in substantial compliance with the Housing Code have served as an incentive for landlords to comply with the Code.

Then the other thing is that there is another section that is part of this annual report that points to increased costs. Repairs and maintenance, increased costs was something like 25 percent. So the landlords have reported that they are spending more money on repairs and maintenance. If it is not true, that that information has to be made available so they can go back and reassess the rent increases passed on because the landlords have reported that they spent this money on repairs and maintenance.

Another charge, I think concern over the tax base and the concern that the administrative cost of rent control are going to be borne by homeowners and therefore people are not going to want to buy in the District. One of the things that needs to be pointed out is that the trend now in rent control, the more moderate forms of rent control, is to make those programs self-sustaining. One way is for the office to become self-sustaining and self-supporting, that the agencies now charge an increased fee.

In D.C. we as tenants have asked the city to increase that rate to 109 per unit. Again, all those costs, while initially borne by the landlord, will be passed on to the tenants. The tenants I think are going to appreciate the fact that the office can run more efficiently because it is adequately funded. I do not think the argument then that people are going to be afraid of tax base erosion because of rent control is a valid one.

Mr. Pursell said—he wanted to know whether or not rent control was a fair process to tenants. Again I have been to RAO for a great number of years with tenants. Over the last two years we have seen marked improvement in the way cases are handled, the way that people are treated as individuals when they come in for a hearing, things like that. I think we see that it is a fair process that just needs to be funded so that it is more equitable for landlords who claim they need more time, data needs to be processed faster. There has to be a way of improving that process at RAO. That is only going to come when the office is going to be staffed properly.

It was mentioned that the city paid \$400,000—John O'Neill—\$400,000 for fuel oil. I mention that the city has a program, 5313 program, where the city is allowed to come in when there is severe and serious Housing Code violations that affect the habitability of the unit and affect the safety of the inhabitants, the city can go in and order those repairs made. The city has done that on numerous occasions.

What happened, though, is that the city has never assessed the landlords or the owners of those properties to recoup that money,

right now HUD issued a directive to the city to give back the almost \$400,000 that they have stolen from the CD block grant money to pay for private landlord repairs, and the city has never gotten the money back.

Mr. WILSON. Who has stolen the \$400,000?

Ms. ONWUACHI. HUD, Federal payments under the community block grant development money misused and used to make those repairs. What was supposed to happen was the city was supposed to assess the landlords at tax time and get that money back, and they have not done that, not even once, and that is another real problem that the city has to address, that favors these landlords.

Also there was mentioned that they won't lend to rent-control properties. The property I have worked with—and I am going to talk about it a lot—it is 1439 T Street, N.W., the one property where the tenants, the properties where the tenants were able to stop the rent increase completely. The landlord could go to an S&L and get refinancing on the property.

He did a paper transaction, bought the property for \$10. Later he hired an attorney, five months later in fact, who informed him that you don't buy real estate and pay cash, that you use that to leverage other money. So he went to the bank and refinanced the property at \$150,000. He now had an increased debt service or an increased cost that he could pass on to his tenants. He never made any repairs in the building.

None of the money, not one penny of the money, was used in that property, and what we were able to stop the rent increase was only because we were able to show that none of the money went to benefit the tenants at that building, that actually their rent increase that was being proposed was money used to leverage other property, and the landlord that was responsible for the scheme is still using that money to leverage other properties, and we have watched him go from building to building trying to leverage money to buy another building. Usually he forces a small landlord out of business so that they can have control over the property to leverage more property. It is just a scheme to speculate in the housing market in D.C. He was able to get financing from the S&L because he came to them with a carefully laid-out scheme that they were able to agree with.

He also had as an attorney or his representative a former hearing examiner, who under the loopholes in the law that could benefit that landlord, so when I heard Mr. Gray mentioning he paid a lawyer to represent him and he couldn't even get a rent increase on a property recently bought I should say to him he needs to get in touch with another lawyer because he is getting crude.

I already mentioned the money for repairs and maintenance. Capital improvements—right now under the provision in the law, landlords can get money for capital improvements. It is just that what they have to be able to show is that the improvements are going to benefit the tenants. The reason for this is we are one of the groups that lobbied heavily for a limit on the amount of capital improvements and that they have the prior approval of the rent administrator before they are granted is that we have had buildings where tenants are being forced out because the landlord wanted to get rid of them pointblank.

He could rent to people if he would pay more money, if he could get rid of the present tenants. They wanted to put in wall-to-wall carpet and chandeliers, and a building that had for years been milked, no repairs had been made, the pipes were eroded and that was one cost that could be passed on, and legitimately passed on to the tenants. But when the landlord wanted to make the repairs for the chandeliers, it was time to be concerned, and one of the things that we saw was that this landlord, Mazzinetti, worked in the New Hampshire Avenue corridor and the only reason for getting the property was to speculate on the property. What he has been able to do is to force the tenants out. If he can raise their rents and force them to leave, great.

If that does not work, he tries to say that he is going to do a condo conversion. If that does not work, he makes threats against the tenants. We have a landlord here who—in fact in a building where tenants were still living on the fourth floor, there was a tenant who could not even walk. This man turned off the elevator.

We had to go to court, and because most of the tenants had left the building at this point, there were four tenants left at that time, the courts would not even force this tenant's right to decent, safe and affordable housing. It is only because there were so few people left in the building that they did not want to force the landlord to pay any more money, but the effect was that this landlord was able to get rid of all the tenants, and now has permission to convert that building to a condominium. With all these illegal efforts that he made initially—

Mr. WILSON. You are going to have to hurry a little.

Ms. ONWUACHI. For a substantial rehab, I have a couple of buildings. Maybe I will just put together a file and submit that on the properties, where with one rehab the scheme was to take a vacant unit and apply for a petition for a substantial rehab. Usually what happens at RAO, if there is no challenge to a hardship petition increase, it is granted automatically. We have two cases now where we are waiting on an appeal. This 1820 Swann Street, N.W., where the landlord raised through an illegal substantial rehab petition for a vacant unit where there was no one living, raised the rent from \$117 to \$307, rented that unit, and then because of another loophole in the law, that allows the landlord to raise the rents of a unit to the highest comparable unit, once that unit is vacant, he was able to raise other rents in the building, whenever the apartments were vacant, so he was able to get the rents up for at least I think it was about 16 units in this building, up to the \$300 level, by making one illegal petition for a vacant unit in the building for substantial rehab.

It is the same thing. We have seen this repeating. There is another building at 1630 R Street and another at 1725 New Hampshire. We would like to submit documents on those.

Someone mentioned the number of cases, the eviction cases, because landlords were supposedly filing these nonpayment-of-rent cases. I think that one of the things that could happen is that you could ask the D.C. Landlord and Tenant Court for their records, the type of cases they hear.

One thing that happens in D.C. is that when the rent is 25 days late, the landlords can file a paper for nonpayment of rent. There

is no requirement that the rents be 30 days late or anything. You are 5 days late and you can file for nonpayment of rent. That creates this 10,000-a-month case backlog. You need to look at, too, how many of those cases actually have tenants challenging them, and how many of the landlords don't even show up in court, because they know that the tenants have paid the money by then, and they just waste the court's time. Again, it makes it look on paper like there are a lot of people getting ripped off through tenants not paying their rent, and that is not the case at all. Maybe I should stop.

Mr. WILSON. Would you please read that United Nations quote to us again.

Ms. ONWUACHI. It was the Habitat Conference held in June 1976. "Land, because of its unique nature, and the crucial role it plays in human settlement, cannot be treated as an ordinary asset, controlled by individuals and subject to the pressures and inefficiencies of the market."

Mr. WILSON. Do you believe that?

Ms. ONWUACHI. I think we have come to the point where we realize that that is true.

Mr. WILSON. Do you know that is in direct variance with the Constitution of the United States?

Ms. ONWUACHI. I don't know how much variance it is. I think that we do have to come to the recognition—

Mr. WILSON. The Constitution guarantees private property rights.

Ms. ONWUACHI. I think one of the things is that it guarantees that right. I think there is also a changing perspective about how you are going to treat that private right, and how it is going to be weighed against the public welfare at some point.

Mr. WILSON. That is all I have. Mr. Chappell.

Mr. CHAPPELL. Ms. Onwuachi, let me ask you this. I think we all understand the problems of the tenant, and in particular we understand the problems of low income people who simply cannot pay rent beyond a certain point. I understand there are those who have to be subsidized. All that I have heard you say, though, does not address the issue of how we get additional housing, new housing. I have not heard you address that.

Ms. ONWUACHI. That is because I am talking about rent control. Rent control is not going to build new housing. The only thing rent control can do is preserve the existing housing stock. New housing, I don't know, the industry has told us time and time again that they have abdicated their responsibility, that they cannot build low-cost housing, that they cannot build housing to meet the needs of the people who live in the District right now. I think then there is only one other place to turn to, that it is going to have to be a responsibility of the government, because to me it is a basic need that we cannot just forget about.

We spend money for the highways, we spend money for schools, different things.

Mr. CHAPPELL. We also spend a pile of money on housing. The question is; how much more are we supposed to spend? Let me ask where you think the responsibility should lie, with the City of Washington government or the Federal government?

Ms. ONWUACHI. I do not think right now that D.C. has the financial resources to start building housing in the present economic situation.

Mr. CHAPPELL. Should it be part of the responsibility of the City of Washington?

Ms. ONWUACHI. I think that building housing has to be part of a comprehensive plan, and that it has to be a national plan. That most local governments would not be able to build enough housing to meet local needs by themselves. That they are still going to have to rely, and in D.C. particularly, heavily on the federal payment.

Mr. CHAPPELL. How many housing units, public housing units, does D.C. have? Does the record show that already, Mr. Chairman?

Mr. WILSON. I believe around 12,000 units.

Mr. O'NEILL. Over 12,000 units.

Mr. CHAPPELL. Public housing in the City of Washington?

Mr. WILSON. They have a waiting list of about 10,000.

Mr. CHAPPELL. Those are subsidized by the Federal government, right?

Ms. ONWUACHNI. Public housing is, yes.

Mr. Chappell. Are you suggesting the way to go to get new housing is by getting the City of Washington, subsidized by the Federal Government, to build more units? Is that the way you think you are going to get it?

Ms. ONWUACHI. No, I am saying that the only way—and again with the concurrence of the industry—that it cannot build housing for low and moderate income people, that the only way we are going to get that housing is for the government to help build that housing. The industry created the housing shortage. It is not going to build more housing. There is the law of supply and demand. They are going to be able to have better profits if there is a shortage. Their interest is in seeing that there is always a housing crisis. We are going to have to address that not by saying that rent control is the complete answer. Rent control will preserve what we have right now, but we are going to have to build more housing. I think that we are going to have to take a lot of time and energy to figure out how.

Mr. CHAPPELL. All of us understand we have to build more housing. I am trying to find out how that is going to be done.

Ms. ONWUACHI. I don't have those answers.

Mr. CHAPPELL. And what part this committee is going to have to play to finance whatever procedure comes along. That is the reason we are having this hearing. Let me ask the question before you give me an answer: Do you perceive that it would be better if you could encourage in some way the private sector to build and that the rental be subsidized, or do you prefer and believe that the better route would be to have more public housing units?

Ms. ONWUACHNI. What we have been seeing is that the subsidy programs have not worked, and subsidies, how long are they going to last? If the subsidies run out, what are we going to have then?

Mr. WILSON. What subsidies are we talking about?

Ms. ONWUACHI. I think he is speaking of things like Section 8 or direct rent subsidies, subsidies that go to the landlord, that don't go to build more housing. I think if we are going to use subsidies they should be subsidies for construction or subsidies for public housing

rehab or modernization, things like that. I think clearly we have to move, that we stop seeing public housing as a charity, stop looking at it as negative.

In the community no one wants to live in public housing. I think it is one real alternative.

Mr. CHAPPELL. To be clear in my mind, are you saying that public authority ought to build and own the housing units, or are you saying that we ought to find a way for the private sector to build more housing, and subsidize in part the people who cannot pay the rent? Which is the better way?

Ms. ONWUACHI. In the short term we can look to subsidies as helping low-income people in D.C. I do not think that is a long-term solution, and I think the long-term solution is building more housing, and if it is owned by the public, great. That is my position. I know it is not called public housing, because co-ops and tenants own it—

Mr. CHAPPELL. If the private sector doesn't feel it is going to get a proper return on its money and therefore will not invest, you feel it then has to be done directly by government itself, is that correct?

Ms. ONWUACHI. What I see happening in D.C. is that private industry is making more than the rate of return on its investment.

Mr. CHAPPELL. What is a fair profit for investment?

Ms. ONWUACHI. The law says a fair rate of return is 8 percent of the assessed value. The industry says a fair rate of return is some percentage on their actual investment. I think if we were to look at what the actual investment is when a property is bought, if you put \$5,000 down to buy a \$100,000 building, you should get the 8 percent on the \$5,000, not on the new mortgage or whatever you refinance or the new assessment, and that is the way the industry works.

Mr. WILSON. Somebody has to pay the interest costs.

Mr. CHAPPELL. Who is going to pay the interest?

Ms. ONWUACHI. More than likely the tenants are going to pay the interest. In D.C. that is who pays.

Mr. CHAPPELL. If debt service is not to be considered in arriving at the 8 percent rate of return, as I heard someone say—

Ms. ONWUACHI. That was a misconception.

Mr. CHAPPELL [continuing]. Then how does the tenant pay it? How do you get the increase if the law does not permit debt service to be included?

Ms. ONWUACHI. In D.C. when there is a debt service in there, and general accounting principles point to that, and in most other instances there are a great many tax benefits available. One of the things that happens is that the debt service when it is generated and when a landlord is in negative cash flow, that debt service can be passed on directly to those tenants.

Now, if we are talking about rent increases relating to some kind of debt service, the debt service that they acquired, if it were before rent control remains constant. The only way it is going to change, there is no reason to get a rent increase based on debt service, unless that debt service changes. The only time it increases is if the building is sold or refinanced.

Mr. WILSON. The debt service is not included in the first place?

Ms. ONWUACHI. Not in the first place, because right now the rent increase they are getting is based on the fact that their costs have increased. The debt service remains constant unless it has been refinanced. Unless it changes, it is going to be the same thing. There is no reason to grant a rent increase based on an increase in debt service.

Mr. WILSON. But the original debt service is not included?

Ms. ONWUACHI. The base year that we talk about is 1973 rents. A landlord who is satisfied with whatever percentage, rate of return before rent control, there is no reason for me in fact to even guarantee him the 8 percent. The law has allowed those people who were satisfied with whatever rent increase, whatever amount they were charging to cover their debt service in the past, to do that, and whatever they were collecting in 1973 reflects that amount of debt service in there, in the cost that I am sure they were having their tenants pay. They have spoken to that before.

Mr. CHAPPELL. Let me ask you this: If you had \$100,000 that you wanted to invest, and you had the opportunity to invest it at 12 percent just by going down and putting it in a bank that is protected pretty much by the government, and you know it is going to be a sound investment at 12 percent, or you had the opportunity to invest it at 8 percent in the housing market, which would you take?

Ms. ONWUACHI. I do not think that is a question that should be directed to me, because, first of all, I am not going to be motivated by profit incentive. If I were going to use this \$100,000 to what I consider its best use—

Mr. CHAPPELL. You wouldn't want to answer the question, then?

Ms. ONWUACHI. No, because I wouldn't use the money to make more money—

Mr. CHAPPELL. You would give it away?

Ms. ONWUACHI [continuing]. Just because of a profit motive. Ask John O'Neill. If I had \$100,000, I would help buy the building I am living in for the tenants there or for other properties owned that could be bought. I would use that money to leverage those properties for the tenants living there.

Mr. CHAPPELL. Do you believe that investments are proper? Is it proper for you to put \$500 in a bank and get interest on it? Is that all right?

Ms. ONWUACHI. I think that for people who choose to do that, that is their prerogative, and it is proper for them.

Mr. WILSON. Are you saying that you do not believe in the profit motive? Is that what you are saying?

Ms. ONWUACHI. I am saying that when we are talking about housing, that is not my preference to make a profit on housing. I think there are enough people here who represent the industry who could speak to that. I am not one of those people who want to make a profit on housing.

Mr. WILSON. I am trying to get at a basic business point.

Ms. ONWUACHI. I am not a business person. I am concerned because I am a tenant. I live in D.C. I need a place to live just like my neighbors need a place to live. To me you take out the profit motive and they have a place to live. I am not going to sit here now and say that is what I would do with housing. I refuse.

Mr. WILSON. Who do you think should pay for it?

Ms. ONWUACHI. Probably the government is the only one left that is not going to try to make a profit on housing. From my position, that is where the responsibility comes for providing that housing.

Mr. WILSON. I think you are being very honest and I appreciate it, but do you believe that people should not make a profit on housing?

Ms. ONWUACHI. Right now looking at the present economic situation, that profit margin is going to have to decrease. As long as we are in the inflationary trend—

Mr. WILSON. Do you believe that people should make a profit?

Ms. ONWUACHI. There is no reason in my mind to guarantee them a profit when everyone else is told to squeeze up and tighten up their belts. We are suffering, and to me they can share that responsibility. They can share that burden as much as a tenant can. I don't see all that being passed on to the poor tenants.

Mr. WILSON. I think we have a philosophical strata here. Thank you very much, Ms. Onwuachi.

Is Father O'Malley here?

[No response.]

[NOTE.—Father O'Malley's prepared statement appears on p. 326.]

Is Calvin Peake here?

[No response.]

THURSDAY, NOVEMBER 29, 1979.

WITNESS

JOSEPH DAVIS, REPRESENTATIVE, GRAY PANTHERS

Mr. WILSON. I know that Mr. Joseph Davis is here. You have waited two days for this.

Mr. DAVIS. You are telling the truth.

Mr. WILSON. Mr. Davis represents the Gray Panthers. Mr. Davis, we kind of qualified the other witnesses. You are not here in a paid capacity?

Mr. DAVIS. No, sir. I work my tail off trying to help the tenants, and so do my friends in the organizations I am in. I am testifying for the Gray Panthers of metropolitan Washington, an activist group of men and women who are dedicated to protecting the rights and livelihood of old people. Now, the Gray Panthers is not only a local organization. It is an organization nationwide with about 30,000 people, and chapters all over the country.

Mr. WILSON. How many members in your chapter?

Mr. DAVIS. About 500, something like that, dues-paying members. I am a retired mechanical engineer from the National Bureau of Standards. I have been in the field of housing research and housing legislation for over 10 years, and understand the problems of the renters and the homeowners. Consequently, I feel well qualified to speak about rent control in the District of Columbia. As a citizen active in the affairs of old people since 1970, I have the entire

history of the rent control in D.C. I have been in John O'Neill's hair ever since 1974.

I must say that this rent control law, while not the best law in the world, is a good law, and any attempt to weaken it would be disaster for the District of Columbia. The law came to the District in 1974. Ever since 1974, it has just been weakened step after step. The landlords have taken to the courts. They have cut out things. It was considered one of the strongest laws in the nation when it first started, and now it is only considered a moderate law.

The first thing that happend, Luke Moore has wakened it by certain things, like cutting out some of the things, the 12½ percent. There was a law there, and I cannot remember it too well, but everything was based on February 1, 1973, and it was changed to 12½ percent based on that. He cut that out. He cut other things out as time went on.

Contrary to the stories by the landlords and developers, both sides have an avenue for redress. Both tenants and landlords can appear before the Rental Accommodations Commission and state their case. Of course, because the landlords have more money and more legal availability, they have an advantage on their side. You have heard this a number of times, while we have been testifying here.

Landlords have been known to be given permission to raise rents 10, 20, 30 and 40 percent. The landlord owning 1650 Kenyon Avenue in D.C. was able to raise his rent by 53 percent.

Mr. WILSON. Was that as a result of improvements he made?

Mr. DAVIS. No. He went to the Rental Accommodations Commission and got it.

Mr. CHAPPELL. What was the rent to begin with?

Mr. DAVIS. I really don't know.

Mr. CHAPPELL. What was it when it ended up? You do not know what that was?

Mr. DAVIS. Ms. Onwuachi would probably know.

Mr. WILSON. She just left.

Mr. DAVIS. I cannot tell you. It went up something like from \$100 to \$300.

Mr. CHAPPELL. It would be helpful if we knew what the rent was after the increase.

Mr. DAVIS. The point I am trying to make is that they got a 53 percent increase. That is the point.

Mr. WILSON. From \$100 to \$153.

Mr. CHAPPELL. I am trying to find out what the profit was to begin with.

Mr. DAVIS. I am just trying to say to you folks that these people do have redress in the Rental Accommodations Commission. I am not going to go down the list of various cities that have rent control. I think that Dr. Francis gave those. Los Angeles has it, New York City, Miami Beach and cities throughout the New Jersey area. Both Baltimore and San Diego have rent control laws by the initiative procedure. That is being challenged in both places. You might be interested in knowing that some jurisdictions like Montgomery County outside of Washington have abandoned rent control, but they are kind of sorry. The landlords started to gouge

the people and now they are thinking of coming back and instituting another rent control law.

There is absolutely no substance to the claim by the realty interests that condominium epidemic was caused by rent control. Over and over again these people have said that rent control has caused the condominium epidemic. That is not true. They have this epidemic in Chicago, in Tulsa, Oklahoma, and in many other cities of the country where there is no rent control. The epidemic is greater in Chicago than in Washington, D.C., and they have no rent control.

It isn't only the old people that are affected but it's the young people. Young people in these apartment buildings cannot buy a place. They are just thrown out of their buildings. The Gray Panthers not only support it because of the old people, but the young people. We see their problems too.

Mr. WILSON. Mr. Davis, we have a very important vote on the House Floor. I passed the first one. We will be back in about five minutes.

[Short recess.]

Mr. WILSON. Please proceed, Mr. Davis.

Mr. DAVIS. Let me point out that the early history of control in the District, we had a lot of problems with the Rental Accommodations Commission. There were terrible delays. There was considerable ineptitude. The principal cause of this was shortage of funds. It is a deliberate attempt by the city to sabotage rent control.

Mr. WILSON. By whom?

Mr. DAVIS. I think this really happened with Mayor Washington and those people. They did not want rent control. It is an established fact now. Rent control is here, and the Rental Accommodations Commission is working better. They are more apt to do their job well. I think the fact is they need more money. This is one thing that has been left out. I think Evelyn Onwuachi said you need more staff. The landlords complain bitterly about having to wait a long time for settling of their cases. This is absolutely true. Tenants have the same problem, but the time is short now, the delay time is shortened, and it is much better.

Let me say also—and you have heard this many times, but let me amplify it—the people in the District of Columbia are suffering terribly. It is not only the old folks, but it is the young folks, too. Out Connecticut Avenue and Adams-Morgan and those places, old people are being thrown out of their homes. I have heard of cases, and I can't prove it, of suicides. Sometimes these old people will sit around in their houses with their packages and boxes waiting around for the inevitable to happen.

The statement was made here in this room that people refuse to buy, did not buy because of poverty. That isn't true at all. These people are poor out Connecticut Avenue. Some of them are widows of our people who worked in the government. I have an example, a personal example.

My wife has a friend that lived in the Warwick Apartments for 45 or 50 years. She was asked to move. She was asked to pay \$57,000 for her condominium. She didn't have \$57,000, so she looked around town. With the low vacancy rate there is, there is no place to go, so she had to go to Sun City. She found a condominium

down there fortunately for \$30,000, but my wife and her just cried on each others shoulders at Dulles Airport that day when she had to leave. My wife has another friend that is in an apartment now that is having to move and go into an old ladies home.

We talk about people that are poor and middle-income people. It's getting so now because of inflation, many, many people are being forced to poverty level.

Let me speak about some of the remarks made by the landlords.

Mr. CHAPPELL. Could I ask one question?

Mr. DAVIS. Yes, sure.

Mr. CHAPPELL. Are you a landlord or a tenant?

Mr. DAVIS. Do I look like a landlord? I am all dressed up today. I am not a landlord. I am an old guy—

Mr. CHAPPELL. Do you own your own home?

Mr. DAVIS. I own my own home, that is true.

Mr. CHAPPELL. So you are not a tenant?

Mr. DAVIS. I am not a tenant. People have asked me this question many times. I am a member of the Gray Panthers that has worries about problems of the old people. Not many people are worrying about these problems. You know how it is with fixed incomes and so on. Old people don't have enough to eat. Some of them might be freezing to death in the city.

Mr. WILSON. Mr. Davis, could I interrupt and ask you a question, because I feel you may be a little less emotional about the landlord-tenant conflict than some of our other pro-tenant witnesses. Nobody is more sympathetic to the problems of the aged than I am. I have a tremendous number of senior citizens in my district. It was always my battle cry when I was in the state legislature. We are on the same track, so let's address this for a minute as to how to help these people.

The previous representatives of the various tenant organizations have been very strongly opposed to any idea of rent subsidies. That would be the easiest way to deal with senior citizens. Certainly it is much easier to establish needs with senior citizens. Do you have any observation about a rent subsidy program?

Mr. DAVIS. I personally think the rent subsidy program is a copout for the landlords.

Mr. WILSON. I don't understand that.

Mr. DAVIS. All right, the landlords make the same profits. They live out in these beautiful homes in Bethesda.

Mr. WILSON. Are you interested in helping the old people or in making sure the landlords do not make any money?

Mr. DAVIS. You haven't let me finish, sir. If I could go on, I am 70 years old and I have seen things happen in this country that amaze me. I have seen everything given to private industry, and things like public housing and those things are dirty words. The banks are making money. Everybody has to make the money. I would say this, I would say temper this, and have kind of a melding of the two. Have private industry and government too. I would say if we had a different climate in our country, instead of this awful penchant for private industry and everything, the government could loan the landlords 3 percent money to build buildings or something like that. This may shock you, but we used to have

this in the New Deal days. Ever since Eisenhower's times everything is private industry.

Mr. CHAPPELL. Where can Government get money for 3 percent?

Mr. DAVIS. They have it for armaments and all that kind of thing.

Mr. CHAPPELL. They do?

Mr. DAVIS. Oh, yes, they do. It is 45 percent of the budget.

Mr. WILSON. What?

Mr. DAVIS. It is true.

Mr. CHAPPELL. The defense of this country is 24 percent of your budget.

Mr. DAVIS. I am not against the defense of the budget. It is 45 percent.

Mr. CHAPPELL. Twenty-four.

Mr. DAVIS. It is not.

Mr. CHAPPELL. Yes, it is 24 percent. Those are the actual statistics, but we don't need to argue that.

I didn't mean to interrupt you, Mr. Chairman.

Mr. WILSON. I am glad you pointed that out. You are on that subcommittee.

Mr. CHAPPELL. I serve on that subcommittee.

Mr. DAVIS. It is all in the way you look at it. If you include Social Security and all that stuff—

Mr. CHAPPELL. The social programs are up now to 56 percent.

Mr. DAVIS. But the social security—

Mr. CHAPPELL. Defense is 24 percent. We have reversed it in the past 25 years.

Mr. DAVIS. How come in 1968 in this pie-shaped thing that went around the country, it said 40 percent? Now it says 24. Why do they do this? Because they took Social Security out.

Mr. CHAPPELL. Out of what?

Mr. DAVIS. They added, I mean. They added social security to this budget for human needs, and it should not be in there. Social Security is a little fund of its own, a revolving fund of its own. They put Veterans Administration in there. It used to be—this is what is going on with the public. They are told now it is 24. It is really 45, but I really do not want to argue with you about that.

Mr. CHAPPELL. I agree with you. We are on another subject here.

Mr. DAVIS. Yes.

Mr. CHAPPELL. Let me ask you, do you believe in the free enterprise system?

Mr. DAVIS. Yes, I do.

Mr. CHAPPELL. You believe in the profit motive?

Mr. DAVIS. As long as it does not go whole-hog.

Mr. CHAPPELL. As long as the profits are what you think they ought be?

Mr. DAVIS. Well, that is my privilege, yes.

Mr. CHAPPELL. I am not trying to be humorous, but that is what Americans tend to believe, that the profit motive is good, as long as we agree with the particular percentage of profit that is being made.

Mr. DAVIS. Right.

Mr. CHAPPELL. Is that not about the sense of it?

Mr. DAVIS. All right.

Mr. CHAPPELL. So we get down to a philosophical question of whether or not government has the right or the responsibility under the free enterprise system, if we believe in it, to start setting what ought to be the rate of profit for any individual or any business. The function of government as I see it is to create the atmosphere in which that profit is ultimately going to be controlled at the marketplace by competition. Now, if that is a valid premise, and I think you would agree with that—

Mr. DAVIS. I am not so sure I agree with everything you say, but that is your privilege and it is my privilege.

Mr. CHAPPELL. Which parts do you not agree with?

Mr. DAVIS. I do not agree that everything has to be on a profit motive, and I do not believe either that laissez-faire works all the time. I do not believe that competition works. I could cite examples where General Electric and those people have ganged together and controlled profits. I know the Swift Co. and those companies control the meat prices and so on.

Mr. CHAPPELL. Do you agree that if those companies do control the prices, their actions are illegal?

Mr. DAVIS. Well, they do it, but they get slapped on the wrist, that is all, but I do not want to get into a philosophical argument with you, because I cannot answer you.

Mr. CHAPPELL. But I think we are into a philosophical posture here.

Mr. DAVIS. Yes.

Mr. CHAPPELL. Because we are trying to figure out from a philosophical base what part we ought to play here as members of the Appropriations Committee.

Mr. DAVIS. Will you let me finish?

Mr. CHAPPELL. Yes, but let me complete my statement and then we will come back, because I would like to see if we can get an exchange here that would be helpful to us in trying to decide how much Federal dollars ought to flow to the City of Washington towards its housing base and towards other things—how much ought to go there and why—and whether or not there ought to be any consideration given to whether there are procedures within the city that tend to cut down the tax base and therefore throw more burden upon the Federal Government. These are the things we are trying to resolve, and what I am interested in, as is the chairman of the subcommittee, is how are you going to get additional housing units.

Mr. DAVIS. First of all let me say categorically that rent control has not hurt the city a bit. As a matter of fact, I think that if they do away with rent control, and weaken it seriously, you might have some serious problems on the streets of the District of Columbia. That is my privilege to say that.

Let me say, too, I have not gotten to that part of my testimony yet, I have not had enough time or the money. The landlords have all the cash and we have a couple of rickety typewriters and so on, to prove that the tax base will not be hurt, but I will mention that a little bit later, but let me finish what I am trying to say.

I am trying to say let us go back to the time before Eisenhower, when everything was not for private industry. Back in the New Deal days there were concessions made to social programs. We had

the SEC, social security, and all that stuff. These things are all considered bad today. As a matter of fact, they are trying to take the social security away from us today. They are nipping at it piece by piece, but let us forget that, and let us talk about having a climate or a situation where they would lend money to the landlords instead of the banks loaning the money to the landlords, but let the Government loan money to the landlords at 3 or 4 percent. That is kind of a revolutionary idea. What is wrong with that? I cannot understand why people look so askance when I mention it.

Mr. WILSON. Because the Federal Government has to borrow it at 12 percent.

Mr. DAVIS. Not from the Government.

Mr. WILSON. The Government has to borrow it. What do we do now?

Mr. CHAPPELL. We are in deficit right now, about \$800 billion. We are going to pay \$59 billion in interest this year, and we have to add to the deficit another \$66 billion this year, which we have to go out and borrow, and we are going to borrow it at 12 percent or so.

Mr. DAVIS. I know that we are in great trouble in this country, and I am just kind of casting around with a couple of new ideas, but I just say that if you do away with rent control, you are going to have trouble in the District of Columbia.

Furthermore, let me say that the tenants groups and people like the Gray Panthers and other housing organizations are not particularly happy about being called in here. It is as though we have committed some horrible crime or something, by having rent control, when rent control is being established in cities all over the country. It is the newest thing. Let me point out, too, somebody made a remark about the utility companies being controlled by public utility commissions. Years ago people fought against public utilities being controlled. If they were not controlled, Peppo and all those outfits would be making terrible profits, big profits, but right now they are making adequate profits. They still get their 12 or 14 percent for their stockholders, so it is not wrong to think that rent control is the wave of the future, until we can do something else better. It is not wrong.

Let me add some other things. I have not said anything about some benefits that the landlords have. I am sure that their assessments are not as high as the homeowners' assessments. Homeowners' assessments have gone up in Mount Pleasant something like 70 percent in the last 5 or 6 years. I do not know the exact time limit, but it was 70 percent. They have gone up 40 percent, 20 percent, but I am sure that these apartment buildings have not had their assessments raised by over 10 percent. The office buildings, many of them, have not had any assessment increases at all. Why do you gentlemen not look at that?

I just want to end by saying this—

Mr. CHAPPELL. Mr. Chairman, have we looked into that?

Mr. WILSON. Yes.

Mr. CHAPPELL. Have we reflected that?

Mr. WILSON. I think it is correct that the private home assessments have gone up faster than the assessments on multiple-family apartments. According to information from the District's Office of

Real Estate Assessment, private home assessments have increased 90.6 percent from 1975 to 1978 while apartment properties have decreased 15.3 percent during this same period. I will place this information in the record.

[The information follows:]

District of Columbia real estate tax assessment

Single family and condominium owner:	
1978.....	\$4,208,873,554
1975.....	2,208,339,356
Increase of 90.5 percent.....	+2,000,539,198
Apartment properties:	
1978.....	\$1,226,536,721
1975.....	1,448,281,126
Decrease of 15.31 percent.....	-221,744,405

Mr. DAVIS. Private home assessments have gone up much faster.

Mr. WILSON. I am sure you are probably more conversant with this than I am, but the District does provide homestead exemptions that nullify a lot of the increases in assessments. Is it not the first \$9,000?

Mr. DAVIS. I am not familiar with that.

Mr. WILSON. You live in a private residence in the District?

Mr. DAVIS. Yes, I do. I just watch my assessments go up every year.

Mr. WILSON. Where do you live?

Mr. DAVIS. 47th Street.

Mr. CHAPPELL. They are going up too much everywhere.

Mr. DAVIS. Yes. This is a problem we are having all over the country. In a report of the District of Columbia by the Rental Accommodation Commission they stated the bulk of decline in the rental units is attributed to demolition, the sale of one-to-four-unit structures for ownership use and conversion to condos and cooperatives, so it is not rent control at all. Gentlemen, please look at our side. You have had people here, tenants and tenants associations here yesterday, but you do not have them here today. You have a few, but a lot of them have gone. Furthermore, we do not have the manpower or womanpower to get the statistics together. If you like, we will try and get some statistics to you, but it has got to be a fair proposition.

Mr. WILSON. Thank you, Mr. Davis. I would like to say for the record that we did not call you here; you called us.

Mr. DAVIS. That is right.

Mr. WILSON. Secondly, some of us are very concerned about the propriety of the amount of Federal dollars that are paid to keep the District of Columbia running, and all we want to do is to be sure that the District itself is not doing things that restrict its ability to provide services for its citizens. That is all we are trying to do, and I think that is a legitimate concern. I come from a district where people do not make nearly as much money as they make here in the District, and it is their tax money and the tax money from people all over the country that is being spent to partially support the District, so it is a legitimate question for me to ask: Is the District itself doing what it should do to maintain a

healthy economy? That is all. We do not mean any insult. I voted for home rule.

Mr. DAVIS. Do not blame it on rent control.

Mr. WILSON. Thank you very much.

Mr. DAVIS. There are other things that you could pick on.

Mr. WILSON. Thank you very much, Mr. Davis.

THURSDAY, NOVEMBER 29, 1979.

WITNESS

LOUISE SISSMAN, COPRESIDENT, VAN NESS TENANTS ASSOCIATION, INC.

Mr. WILSON. Is Mrs. Louise Sissman here?

Mrs. SISSMAN. My name is Louise Sissman. I am an economic consultant, and copresident of the Van Ness Tenants Association, Inc.

Mr. WILSON. That is not a paid position?

Mrs. SISSMAN. It certainly is not. I have a negative flow.

Mr. WILSON. A negative cash flow from that position?

Mrs. SISSMAN. Right.

Mr. WILSON. But you are a professional economic consultant?

Mrs. SISSMAN. I am. I have my undergraduate degree in economics from Cornell University, my doctorate from Columbia University in economics, and for many years I was an economist at the Federal Reserve Board, the Office of Price Administration, I was a business specialist for the Office of the House Expediter, and then a negotiator for the State Department.

Mr. WILSON. Are you now retired?

Mrs. SISSMAN. No, I am doing economic consulting, when they do not take all my time for this.

Mr. WILSON. I see.

Mrs. SISSMAN. Now with the Tenants Association, we have a number of committees.

Mr. WILSON. Does the Van Ness Tenants Association involve one building?

Mrs. SISSMAN. At the moment we are two buildings.

Mr. WILSON. How many units?

Mrs. SISSMAN. A total of 1,200 units in the buildings.

Mr. WILSON. The two buildings?

Mrs. SISSMAN. The two buildings. Originally there were three. We have now the east and the south. Before we also had the north building. The north has gone co-op, so the two remain.

Mr. WILSON. Was there a struggle over whether it went co-op or not?

Mrs. SISSMAN. Oh, was there a struggle, and bitter recriminations about it.

Mr. WILSON. Who won?

Mrs. SISSMAN. The converter.

Mr. WILSON. I get mixed up. Some people talk about co-ops, some about condominiums, and sometimes they are talking about the same thing and sometimes they are not.

Mrs. SISSMAN. The difference is in the structure of it, and the degree of control and who controls. Also, under the condo, one owns his individual apartment as though it were a private home. In a co-op he owns a share of stock in the association, and there are certain ramifications taxwise with regard to that. Also with regard to the degree of control.

Mr. WILSON. Are there pending applications on the remaining two buildings to be converted?

Mrs. SISSMAN. The certificates of eligibility were filed on April 5 for the other two buildings. They were stopped dead by the freeze, so they just hang there.

I should explain that we have a committee, of which I am the chairman, which concerns itself with civic affairs dealing with housing per se. That is how I have come to be in this whole thing. We are interested in what other organizations do, housing organizations. We work with them. We follow developments with these other organizations, and we also cooperate in a lot of their work.

When I was first told about these hearings, I thought that this was going to be mainly dealing with the social implications of the rent control, so I prepared a very brief paper on that. Then yesterday, when you adjourned, I went home and drew up a few more notes, because I noticed the testimony went off at an angle, so I went back to economics, and if you will bear with me I will read these very quickly.

The first part in the main covers a lot of what was said before, so consider that underscoring but I will have some figures to insert.

I started off by saying thank you for the opportunity to present to you the position of many thousands of tenants living in the District of Columbia who are deeply concerned by the proposal to introduce legislation limiting control over rent in the District of Columbia.

I represent both directly, as Co-President of the Van Ness Tenants Association, Inc. covering some 800 renters, the difference of figures that I gave you before is renters as opposed to the total number of units, and indirectly, through my work with senior citizens and displaced tenants of all ages, a large number of residents of this city.

Renters always have constituted a very large proportion of this city's population. They include single people, young families, single parent households, minority groups, students, and senior citizens, all segments of the city's population who usually have limited financial means and desperately need the protection of rent control.

There is distress of near panic proportions among hundreds of Washington tenants. Even with rent control in existence, people are badly frightened by the ever-escalating cost of shelter. The situation is especially hard for senior citizens who came here years ago to work for the Federal Government or to accompany spouses who so served. Many have lived in the same unit for 20 to 25 years.

Removing rent controls is not the answer. Many tenants are having great difficulty even in meeting current rents. With unregulated rent increases, these charges are bound to rise. As one person put it to me, "I'll soon have to choose between shelter and food."

They cannot escape this pressure by buying either condominiums or houses since, with today's highly inflated real estate prices, they haven't the resources. The average Civil Service annuity is \$7,848 annually, or the equivalent of \$654 a month. In 1977, 35 percent of the household budget was spent for shelter. In that year, Washington had 54,173 annuitants or survivor annuitants.

Nor is there escape by moving to other rental units. First, with uncontrolled rent rises, other units will also increase rent levels. But, worst of all, there are no alternative rental units. Rental housing is truly an endangered species. It is well known that there is a shortage of rental units here, but just how severe this crisis is in Washington is not well known.

Just a month ago, in the middle of October 1979, we made a complete survey, not a sample survey, but a complete survey covering every apartment building in the area reaching from the District line to Calvert Street and from Wisconsin to Connecticut Avenues in the Northwest. This differs very much from the study which was made by the realtor's economist. We did not take a sample as they did.

We contacted 12,903 rental units and found a vacancy rate of 3/100ths of 1 percent. In other words, 4 vacancies out of 12,903 units.

We queried tenants as to what they did when the cost of their shelter was increased or threatened by increase due to condominium conversion. And I hasten to add that major increases in cost of shelter, whether due to conversion or to lack of rent controls, are just as disastrous. The replies were heart-rending. Universally they said: "We cannot go back to our former communities. We have broken our old ties because we have lived here so long. Our roots are here. We have long established friendships here and long established relationships with our churches, our doctors, and our shopping marts. To leave here would be traumatic."

So, what have they been doing? I'll cite just a few examples from the several hundred reports I have had from interviews with these people. A few found relatives who, reluctantly, agreed to take them into their own homes. A few downgraded the quality of their living quarters, moving to much smaller units, but these were among the lucky ones.

One woman—

Mr. WILSON. When was this survey made?

Ms. SISSMAN. October of this year, October 16, to be exact, is when we started, and we are still working on it.

This woman was able to care for herself and her apartment, but with the higher rents she entered a nursing home although she had no physical disabilities requiring nursing care. A few doubled up with others in the same plight. All these people had to surrender their long cherished possessions to make the adjustment.

There is universal sheer, stark terror among hundreds of others who see no escape. There have been suicides; many have become so distraught that their physical and mental health has been affected. Some have been so discouraged that they just died. Washington doctors can attest to the many cases of illness and death which they feel were induced by the great anxiety over the problem of shelter.

But what is the situation with the landlord? For a number of years the law has allowed him to make automatic increases in rents. In addition, he also is protected by the ability to secure further increases based on hardship. As the Report of the Emergency Condominium and Conversion Commission of the D. C. Council reported in September 1979:

"In many cases . . . rents are increasing faster than tenant incomes. . . ." But the landlord has a further means of raising rents since, whenever an apartment unit becomes vacant, he may raise the rent of such vacant apartment to the highest level of any comparable unit in the building.

In most cases the real hardship of the landlord is that he resents his inability to take advantage of the monopoly position in which he finds himself in today's tight housing market. The situation is not unlike that with respect to oil.

Surely the Congress will balance the health and hardship of the District's tenants against the profits of the landlords and recognize its obligation to the citizens of this city. In choosing between people and profits, we earnestly and respectfully hope you will choose people.

Then I said you will note that the preceding testimony which I had prepared for the hearing schedule yesterday, I dealt exclusively with the situation as it currently exists in Washington. Since the hearings have been carried over today, I should greatly appreciate it if you would allow me a short time to point out the others and erroneous implications of Mr. O'Neill's testimony given yesterday.

On page 1 of his testimony, he listed the rent increases allowed since 1972. The figures he cited were the ceilings set for automatic increases. He ignored the allowed increases under hardship petitions. According to the D.C. Rental Accommodations Commission, over 22,900 renter households have been allowed hardship increases. This means one out of every 8 renter households has been affected.

The amounts of those increases have been large. Between the middle of March, 1978, and the end of the year, the average increase approved was 31 percent, and the Rental Accommodation Office reports that the apparent trend for the rest of 1979 is of growing size of hardship rent increases.

Mr. O'Neill also fails to note that whenever there has been a turnover in an apartment residency, the rent for the new tenant is charged, not the rent of the vacating tenant, but the rent charged for the highest comparable unit in the same building. This applies even to tenants changing units in the same building.

I am sorry Mr. O'Neill failed to note that, and that is repeating what I said before. Often these increases amount to raises of \$100 a month, sometimes close to 30 percent of the older rate. This can mean a very sizable increase in revenue to the landlord if, as Mr. O'Neill states, there is a 30 percent annual tenant turnover factor in the District.

Now, this turnover must apply to studies made before the middle of 1978, because there is not any turnover like that. Mr. O'Neill lists the maximum allowable direct increases under the D.C. law and comes up with an average increase of less than 5 percent from 1972 to 1979.

The implication is that the landlord receive a 5 percent return on his investment, but this is really an increase of 5 percent over what he received in earlier years. In effect what concerns Mr. O'Neill is the fact that there we have a body of investors in monopoly positions who cannot be given free reign to gouge the public. He envies the oil companies who could do so.

Mr. O'Neill's complaints go beyond rent controls. He objects to the fact that landlords cannot sell their buildings without offering to sell to tenant associations. Mr. O'Neill should explain why he objects to the so-called right of first refusal whenever an owner decides to sell.

Since this right merely requires that the tenants pay the same price as that offered by any would-be purchaser, why should he object?

The landlord gets the same return, unless there is some sweetheart arrangement whereby the other purchaser provides a kick-back or the original owner sells under an arrangement whereby he not only sells the building but manages to retain control under some special arrangement. This requires explanation.

Of course, as any realtor will tell you, this attack on rent control is but the opening gun on the removal of all restraints on housing, a move which will lead to the longed-for right to go gung-ho for wholesale conversions from cooperatives to condominiums.

I submit to you that this condominium disease is threatening not only to the District but to the country as a whole. You know even better than I do how devastating this is to the people of this country, and how from city to city and State to State people are demanding protection from the legislatures. Do not let the District be among the last to be assured help from their governing bodies.

Rather, let us show that we have been in step with the times and will continue to be there. Then today I made some more notes.

These are going to be short. I have been hearing all along how much should a landlord get, I mean, the implication, what should he be guaranteed in return for his investment. After all, he is investing money.

Well, when I went to school we were taught that venture capital meant just that. You invested it and you took a risk, and the risk might be in a grocery store or in a steel mill or in a steamboat. The same thing with an apartment house.

The landlord hopes to make a good return and he takes his chances, and not like with Chrysler, if he gets in trouble please come bail me out.

Mr. WILSON. Don't you think you are kind of asking for it both ways? If you invest in a utility stock, well, you are sort of entitled to expect a certain rate of return.

Ms. SISSMAN. I am entitled to hope for a certain return.

Mr. WILSON. But certainly, though, if the government is interfering with the market forces, it is exactly the opposite. You are saying that he ought to be able to go broke, but we are going to keep him from making any profit.

Ms. SISSMAN. No; we are saying we are going to keep him from making money. He has to take his chances. He is investing.

Mr. WILSON. There aren't many of them taking chances right now.

Ms. SISSMAN. Right.

Mr. WILSON. As a Ph.D. and an economist, do you have any idea why they are not taking chances?

Ms. SISSMAN. Yes; because they have alternatives. Without taking chances, they can get tremendous returns.

Mr. WILSON. What are those alternatives?

Ms. SISSMAN. Going into the condominium market. The returns are simply fantastic.

Mr. WILSON. Building new condominiums?

Ms. SISSMAN. No; I am not thinking at the moment of new condominiums, although they make great returns there, but especially in buying up the older buildings and converting them into condominiums.

Mr. WILSON. Do you think that rent control has speeded that process along?

Ms. SISSMAN. I don't think that rent control speeded the process along. I just think it was there for the taking, and so they went after the place where they were assured the greatest return with the least risk.

Mr. WILSON. Do you think they should not be allowed to convert to condominiums?

Ms. SISSMAN. No; I think that the condominium controls should exist.

Mr. WILSON. In other words, you think they should not be allowed to convert?

Ms. SISSMAN. Right.

Mr. WILSON. Let us say your view prevails, that rent control stays in effect; and property owners are not allowed to convert to condominiums so that preserves the existing housing stock exactly as it is.

Do you think there is any need for additional housing?

Ms. SISSMAN. I certainly do.

Mr. WILSON. How do you propose that additional housing come about?

Ms. SISSMAN. For one thing, I think now this is something I realize is beyond the jurisdiction of your committee, unfortunately, because I think that you would give us a fair break on this, but it has to do with the tax laws.

After all, when you sell a building outright you have capital gains, a maximum of 8 percent on the profit.

If you take it, get your income from rents, you can go up to 70 percent. Now, that I think is something that has thrown the whole market out of kilter.

I would like to see the same tax bracket, the same tax schedules for both the sale of the buildings and for rentals.

Mr. WILSON. What about in the District itself?

If that worked, that would be a national remedy, and in some areas of the country there is no need for a remedy because they are not sick. But what about in the District itself?

How would you encourage more units to be constructed in the District?

Ms. SISSMAN. Well, I think that if you continue to retain the freeze on these condominium conversions, you are going to have people with more money jingling in their pockets and say, well, I

got to find someplace to put it, so they will be encouraged, that will be one of the avenues where they can put their money. They can put it in buildings.

Mr. WILSON. They can't borrow money to build an apartment building in Washington.

Ms. SISSMAN. Well, I question that, although unfortunately I am not in the position to be able to go out and testify or to check it out.

Mr. WILSON. If you were going to invest a million dollars in an apartment house would you do it in Washington, D.C. or would you do it in Dallas, Texas?

Ms. SISSMAN. Look, I have to study the market. I can't answer you on that.

Mr. WILSON. Would you do it on a building with rent control or a building without it?

Ms. SISSMAN. As a matter of fact if it has rent control I would at least have some definite idea of what I could anticipate getting from those apartments, not just a vague figure that I have dreamed up. The landlords have pretty good ideas but it is not as close as when you have rent control. Then you have got it right there.

Mr. WILSON. In other words, you really believe rental property should be treated as a utility?

Ms. SISSMAN. I do. I think it is a necessity of life, just as much as—

Mr. WILSON. So are groceries.

Ms. SISSMAN. It is getting so we are learning to have to do without them.

Mr. WILSON. What you are saying—and it is more interesting coming from you than it would be coming from some of the others because of your background and education—but you are really pretty much saying that a very rigidly controlled economy rather than a market economy is the answer?

Ms. SISSMAN. Well, in troublesome times like this with this runaway inflation we need drastic measures, measures which I would not have been interested in a number of years ago, but we are in chaos.

Mr. WILSON. Do you agree with rent controls?

Ms. SISSMAN. We are in chaos.

Mr. WILSON. You really don't have an answer to how we could get people to build apartment houses in Washington, do you?

Ms. SISSMAN. Well, my first answer is—

Mr. WILSON. Assuming that we are not going to change the law for the whole country when there are areas of the country that don't need it.

Ms. SISSMAN. I know but my first answer would be to retain the freeze on the condominiums so that it becomes less attractive to go into that.

Mr. WILSON. But assume we will do that and leave rent control like it is, then what? Are we just not going to ever have any more apartments built in this city?

Ms. SISSMAN. Oh, yes; I think you will.

Mr. WILSON. Why?

Ms. SISSMAN. Because there is a lot of money to be made in those apartments. When you have such a tight market as that, as I

showed you there, 3/100ths of 1 percent, when a new building goes up people rush down to look it over, because they want to move in a lot of cases.

Mr. WILSON. Mrs. Sissman, this is a rich city, and there is a lot of capital here and there are a lot of people that like to make money here, and I just can't help but believe that if they thought they could make money, they would go ahead and build the buildings.

Ms. SISSMAN. When they have other alternatives such as condominiums?

Mr. WILSON. Well, we are assuming that they are not going to be able to convert. If we assume that they are not going to be able to convert to condominiums, and you believe that we should have new rental stock, then it seems to follow economically that you should not create an atmosphere where they can make a lot of money building new condominiums. But they are afraid to build new apartments.

Ms. SISSMAN. Let them build new condominiums. I am not objecting to that.

Mr. WILSON. That is right, but you just said that that is the reason they won't invest in new apartments. Do you want people to build new apartments in Washington?

Ms. SISSMAN. Yes; and I also want them to build new condominiums.

Mr. WILSON. They are building new condominiums, but they are not building new apartments.

Ms. SISSMAN. All right; well, then, you will just have the new condominiums, and you say it is a rich city that will take people who can afford it, and they will buy that and little by little we have the trickle down theory of housing.

Mr. WILSON. Well, you really don't think they are going to build any more apartment houses, and I don't think they are.

Ms. SISSMAN. This is crystal ball gazing.

Mr. WILSON. We have a pretty good little history over the last 18 months. There has not been a single permit issued, not one, and this is a big rich city.

Ms. SISSMAN. Look, the same thing is true for the whole country.

Mr. WILSON. No; it is not. It is not true in Houston, Dallas, San Antonio or Jacksonville, Florida, or Jacksonville, Mississippi, Memphis, and it's not true in Lexington, Kentucky, is it, Mr. Natcher?

Mr. NATCHER. No.

Mr. WILSON. Right.

Ms. SISSMAN. I had a chart I forgot to bring with me which showed building starts, and they showed that they were down across the country.

Mr. WILSON. That is a result of the very recent extremely high interest rates brought about by the Federal Reserve Board, as you know, but before that happened we still had the stagnation in this city.

I don't want to dominate the questioning. We do appreciate your testimony very much.

Ms. SISSMAN. But one thing I do feel that you should give some thought to treating housing at least as well as people seem to want to treat Chrysler.

Thank you.

Mr. WILSON. That would mean heavy subsidies or loan guarantees.

Ms. SISSMAN. Yes.

Mr. WILSON. I am not sure that is what you mean.

Mr. Natcher?

Mr. NATCHER. No questions, Mr. Chairman.

Mr. WILSON. Mr. Chappell?

Mr. CHAPPELL. I would like to observe that one of the heaviest subsidies by the Federal Government in the whole country is in the housing industry.

Ms. SISSMAN. Yes, but apparently it is not enough.

Mr. CHAPPELL. That is not on a guaranteed loan basis.

Mr. WILSON. That is a cash transfer.

Mr. CHAPPELL. So I think there is a tremendous investment on the part of government in the housing industry, and the question is whether it is enough or whether we are going the right road.

Let me ask you this. As an economist, assume you are advising me as your client and I have \$10,000 invested in Sears Roebuck stock, and I now have the opportunity to buy stock in Montgomery Ward. Assume further that the stock in Montgomery Ward is going to give me twice the return; would you advise me to change, to convert to Montgomery Ward stock?

Ms. SISSMAN. From one to the other? I couldn't begin to answer that, unless I completely analyzed it.

Mr. CHAPPELL. Let us assume though that everything else is equal, and on the new stock I can get twice the earnings with exactly the same type of security; would you advise me to make the conversion?

Ms. SISSMAN. Well, are you going to assume that the management is going to be equal?

Mr. CHAPPELL. I am assuming everything is equal.

Ms. SISSMAN. Then everything being equal, but you know, other things never are equal.

Mr. CHAPPELL. My assumption is that they are. Under those circumstances you would advise me to convert, wouldn't you?

Ms. SISSMAN. Yes.

Mr. CHAPPELL. If you were advising me as a client down in Richmond, Virginia, and let's assume there is no rent control or otherwise in Richmond, and I own rental apartments and I want to convert them to condominiums because my return is just as safe—we assume it is just as safe in every respect—but now I can get twice the return on my investment.

As an economist, are you going to advise me to convert or not?

Ms. SISSMAN. I didn't get the first part of the question, from what to what?

Mr. CHAPPELL. Convert from apartment complex to condominium.

Ms. SISSMAN. Well, and the return is going to be double?

Mr. CHAPPELL. Yes, ma'am.

Ms. SISSMAN. Well, naturally you try to go for the double, absolutely.

Mr. CHAPPELL. What is the difference between Richmond, Virginia and Washington, D.C? The only difference I see is rent control.

Why would you advise me, again from your testimony, that it would be wrong to convert in Washington, D.C. where we have rent control?

Ms. SISSMAN. Taking it here, I don't know the situation in Richmond, you said?

Mr. CHAPPELL. We just made that an assumption. I don't know either.

Ms. SISSMAN. My paper was in two parts. One was a social issue, and one was economic. I know the social situation in Washington. I don't know it in Richmond, and it's the social issues which are very important in Washington.

Mr. CHAPPELL. I agree with you, and I agree that we have a problem that has to be solved.

I agree that we have a problem that can cause panic with our elderly citizens and all other renters, and especially those in the middle and lower income areas. I recognize the problem and am totally sympathetic to the problem.

The only concern I have is how we can best solve it. We know right now that we are not getting any new rental unit starts in Washington, D. C.

The lenders, according to the testimony, will not lend money because the market is not good enough and you have the restraint of rent controls. They simply will not lend the money.

That being the case, and it is not within our jurisdiction to say to the City of Washington, to remove rent control—it is not within our jurisdiction to do that, so that is not our purpose here—but we are trying to find out if it is truly so restrictive that you cannot get lenders to invest in new housing starts. Then the question is should we not say to our taxpayers, well, we don't believe we better invest quite so much in the City of Washington, especially if they are not willing to improve their tax base with reference to housing which will allow them to pay a reasonable share of the costs of operating the city.

What we are really coming down to—we realize the social implications and the economic situation—and the thing that concerns me is we are almost in a monopolistic market but, why? You are going to remain in that monopolistic situation until we find some way to get competition in the marketplace, and the only way is through some kind of incentive.

You compared it to the oil situation. We have boxed ourselves in as beautifully as you can imagine, because we didn't provide incentives to the people in this country to produce oil.

We said if you have old oil you can only sell it for \$5.25 a barrel. If it is new oil, you can sell it for \$9.50, but that is all you can do. And while we were saying this, the true market was far, far higher than that. And we simply encouraged our big internationals to get involved in all of the overseas markets and didn't provide the incentive at home to produce oil, and now we come up with a shortage.

Now, if we are akin to that same situation in the housing market, why should we make the same mistake we made in oil? Why can't we find some way to encourage investors to build the new units and devise some method by and through which subsidies, in some areas, would have to be a central thing? Somehow or

another you have to provide the investor with the incentive to build or he is not going to do it.

Ms. SISSMAN. Well, are you implying that we should give subsidies?

Mr. CHAPPELL. I don't like subsidies at all, but I think you can't ask the private sector to subsidize somebody else directly. You can ask him to do it through his tax dollars and back through the government, but you can't ask the landowner, the landlord, to subsidize the tenant just because you have a social problem.

The social problem has to be shared through a larger constituency, and when you go the route that you are going here, if it is so oppressive that he cannot get a reasonable return on his money—

Ms. SISSMAN. What do you call a reasonable return?

Mr. CHAPPELL. Then you are making the landlord to subsidize the tenants.

Ms. SISSMAN. What do you call a reasonable return?

Mr. CHAPPELL. I don't know. I would say this. If I had the alternative of investing in government securities at 12 percent and investing in housing in Washington, D.C. with an 8 percent return, I would take the government security, wouldn't you?

Ms. SISSMAN. Well, I think that another—

Mr. CHAPPELL. I believe you would, too, wouldn't you?

Ms. SISSMAN. Well, yes, except for this.

Mr. CHAPPELL. I know you would.

Ms. SISSMAN. Now, wait a minute. There is one thing that I think the realtors don't realize. We have had riots in this city. We have had looting and burning, because people have been desperate for this in this situation.

Mr. CHAPPELL. We agree with that and we understand that and the problems. But what is the answer?

Ms. SISSMAN. If they had any sense they would realize that they would have, it has not all got to be thrown on the individual; they should make their contribution.

Mr. CHAPPELL. We either have to change our form of government—and that was brought up here earlier—and take the position that all land is owned by the government and each of us just happens to be a tenant of it, under certain restrictions by government; or we have to stay with the philosophy of the free enterprise system and the constitutional mandate that reserves the right to own private property, including land. We have to do it one way or another.

Mrs. SISSMAN. We do agree. But the very fact that we have laws, we restrict and we limit things that can be done and place limits on things.

Mr. CHAPPELL. That is what we are talking about here today.

Mrs. SISSMAN. Right.

Mr. CHAPPELL. Without getting down to whose jurisdiction it is, we are talking about whether or not the City of Washington has so restricted the private sector in its investments in rental units that they simply are not building them any more, and therefore you have a monopolistic situation, and there are no new units coming on the market.

It might have been a better proposition if the city had said to these fellows, "Look, we will let you convert to condominiums one unit for every rental unit you put up." That might have been a better situation than to out-and-out restrict them. I do not know whether that is better or not. I am not trying to suggest that it is. But there has to be a better answer than we have, because it is obvious the investments in rental housing are not being made. No units are being built.

How do we build them? Is the government going to build them?

Mrs. SISSMAN. Well, I have the feeling that the Congress is being politely blackmailed, that the money is being held off very deliberately until a situation will arise that the Congress will do something. Whereas, if the Congress says, look, you get going, we are staying out of this, they would come through.

Mr. CHAPPELL. Who do we say "get going" to?

Mrs. SISSMAN. The investors.

Mr. CHAPPELL. How do we tell the investor?

Mrs. SISSMAN. You don't tell them, you just wait.

Mr. CHAPPELL. How are we going to say to them to go and invest their money at 8 percent, when they can get 12 or 13 percent; how are we going to do that? As an economist, give us advice here as Members of Congress; as an economist, tell us how we are going to do that?

Mrs. SISSMAN. Well, for one thing, I think there should be some tax abatement on new buildings.

Mr. CHAPPELL. Excellent, I think that is an excellent point. That is a good constructive point. Now what else?

Mrs. SISSMAN. I think there have to be certain subsidies.

Mr. CHAPPELL. Okay, that is a good point?

Mr. WILSON. What kind of subsidies?

Mrs. SISSMAN. Well, you would have to think very long and hard. You are asking me whether a subsidy paid to the tenant or subsidy paid to the builder; isn't that correct, sir?

Mr. WILSON. Yes.

Mrs. SISSMAN. Really, we are in a very bad spot there because if we pay it to the tenant, particularly as this city, like other cities but more than a great many other cities, has a very disparate population of people who are hard-pressed.

You will notice that I took this Northwest section which is supposed to be the Gold Coast. The people—and I talked about Van Ness, which is supposed to be a luxury apartment. The panic in that building is unbelievable.

Mr. WILSON. All right. But let's talk about those people that are the widows who are receiving \$8,000 a year.

Mrs. SISSMAN. No, no, those are not those; that is only the survivors and that is the average paid.

Mr. WILSON. To the retirees?

Mrs. SISSMAN. To the retirees.

Mr. WILSON. All right. Let's talk about the retirees.

The question in my mind that has evolved during these hearings is whether or not—and we all agree that we have a responsibility to them, particularly to the retirees and to the elderly, the question in my mind is, what is the best economic way to deal with that? If they had an income of say \$8,000, and the city would

decide on a policy that they should not have to spend more than 25 percent, or \$2,000, for housing and the city will pick up the slack; what is wrong with that idea?

Mrs. SISSMAN. The problem there is—I am talking at this moment of the people in my area—they consider this the equivalent of going on welfare.

Mr. WILSON. Oh, my.

Mrs. SISSMAN. Direct welfare.

Mr. WILSON. They want help but they do not want to be helped; isn't that correct?

Mr. CHAPPELL. You cannot say the same thing from the private sector, can you?

Mrs. SISSMAN. No. But if you give it through the subsidy for the putting up of the building, then you do not go back to the individual—

Mr. WILSON. The building is already up.

Mrs. SISSMAN. You have to put a means test on it.

Mr. WILSON. It is going to be a a hard problem to solve. If people have to be helped by the government, but they do not want to be helped by the government, it is tough to see how you get there from here.

Mrs. SISSMAN. I know that. I do not know how you get around that pride.

Mr. WILSON. Thank you very much. You have been our best witness.

Mrs. SISSMAN. Thank you.

THURSDAY, NOVEMBER 29, 1979.

WITNESS

SISTER BERNADINE KARGE, O.P., J.D., CATHOLICS CONCERNED FOR THE ELDERLY

Mr. WILSON. Our next witness is Sister Karge. Is she here?

Sister KARGE. Yes.

Mr. WILSON. Very well, Sister. How do you pronounce your name?

Sister KARGE. Kar-ge.

[Sister Karge's prepared statement follows:]

TESTIMONY

presented on behalf of

CATHOLICS CONCERNED FOR THE ELDERLY

Prepared and presented by

Sister Bernadine Karge, O.P.
November 28, 1979

D. C. Appropriations Subcommittee
Room 2358 Rayburn Building

My name is Sister Bernadine Karge, O.P., J.D. I am a resident of the District of Columbia, an experienced social worker and have recently received a degree in law from Howard University. I am grateful for the opportunity to be with you today to testify on behalf of a group called Catholics Concerned for the Elderly, for which I am the staff person. This group is comprised of members of parishes in northwest Washington covering the area west of Rock Creek Park from Foggy Bottom to Chevy Chase Circle. This area generally coincides with Ward 3 and portions of Wards 1 and 2. I represent approximately 10,000 persons who are concerned for the needs of the elderly, especially the housing needs of the elderly in that area.

The conversion of rental units to condominiums or cooperatives has impacted greatly on the Ward 3 area. 47% of all the condominium conversions that have occurred in the District of Columbia have occurred in Ward 3. This means the loss of 3094 rental units in Ward 3 out of 6596 units converted in the last 5 years in the entire city.¹ An additional 5563 units in Ward 3 are threatened by conversion if the present applications for certificates of eligibility for condominium conversion are processed and issued and if the issued certificates of eligibility for condominium conversion and certificates of exemption for cooperative conversion are acted upon. This would mean the loss of an additional 31% of the rental units in Ward 3 alone!²

This loss of rental housing plus the fact that 25% of the city's elderly, i.e. persons 60 years of age and over live in Ward 3 make the situation of disastrous proportions for the elderly tenant.³

What does all this have to do with the effect of rent control on rental housing?

Under the District of Columbia's moderate rent control program, elderly tenants can have affordable rental housing---provided that they can find an apartment to rent. Retired persons living on fixed incomes are able to live independently in the community and meet the annual increases allowed the landlord.

Let me give you a few illustrations: In one parish I work in, west of Georgetown, 25% of the parish community are 60 years of age or older. Two years ago an 80 year old widow who had lived in a one bedroom apartment for 26 years received word that her building was being converted to a condominium. Fortunately, she was able to relocate in the same general area, even though the rent was \$50 more than she had paid in her previous apartment. Since the move to her new apartment even under rent control, her rent has been increased annually making her present rent \$100 more than she was paying two years ago. She is able to manage even though she is paying more than 25% of her income for housing. She is content to be in her old neighborhood.

This past summer, another widow living in a parish in the Cleveland Park area that has an elderly population of more than 60%, was not quite as fortunate when she received word of the conversion of her building. She had hoped to live out her days in her Connecticut Avenue apartment that she had "retired" to 12 years ago. Being unable to buy and unable to find another apartment anywhere in the city, she moved to a retirement home in the District this past fall. She claims she's doing the best she can although she misses her friends, her neighbors, her church.

The problem of displacement and the lack of rental housing is not limited to D.C. A year ago, a retired woman who was then renting along upper Connecticut Avenue decided to move to Montgomery County rather than risk another displacement along Connecticut Avenue as many of her friends had experienced. Within six months in Montgomery County, she was again faced with the conversion of her building. Being unable to buy and not wanting to move again, she was permitted to remain as a tenant for 3 years.

The classic filtering down of apartments to persons of lower income brackets has all but ceased in D.C. The conversion of rental units and the absence of new rental housing stock have taken away the possibility of anything to filter down to! The vacancy rate in the metropolitan area is almost nonexistent.

In addition to the financial aspects of housing, there are also the psychological and human factors that must be considered. The majority of the elderly in the parishes I represent are retired government employees who have lived in their buildings from 10 to 30 years or longer. They are and have been taxpaying citizens and voters in the District of Columbia. They can continue to be independent, contributing members in society if the laws are sensitive and responsive to their needs. The cost of providing unnecessary nursing or retirement homes for these elderly would be an excessive burden on the city's resources as well as on the individual's resources.

The problem of the loss of rental housing stock is a national phenomenon. Cities with rent control as well as cities without rent control e.g. Chicago, Denver, Detroit, Houston, have experienced major condominium conversions, and the loss of rental housing. The solution to the problem, however, is local. In its September, 1979, Final Report to the City Council of the District of Columbia, the Emergency Condominium and Cooperative Conversion Commission expressed their concern that the City Council continue the rent control program. The elimination of rent control would not significantly lessen the conversion problem.⁴

I agree with the Commission's recommendations and further exhort the Commission's view that the City Council, not the federal government, with all due respect for this subcommittee's authority, has the responsibility and the capability, with due regard for property rights, to assure that the private rental housing market does not abandon lower income households in the quest for higher profits.⁵

Thank you.

S. Bernadine Karge, OP
D.C. Appropriations Subcommittee Hearings
Room 2358 Rayburn Building
November 28, 1979

Mr. Chairman:

If I may add a postscript to the testimony that I have already given and respond to a question that was raised yesterday by a member of the subcommittee, namely, How many cases before the Rental Accommodations Committee are decided in favor of the landlord and how many are decided in favor of the tenant?

I would like to briefly describe the facts of a case with which I am familiar in which you might say that a decision was made for the tenant and a decision was made for the landlord.

This case involved a three bedroom single family residence that was purchased in the 1930's for approximately \$8,000. The most recent tax assessment on the premises was upwards of \$40,000.

In September, the landlord filed a Hardship Petition at the Rental Accommodations Office. The tenant had moved into the building during the time of rent control and had been paying rent in excess of the rent legally allowed under the Rental Housing Act. The tenant was awarded a refund of about \$700 for the two and a half year period that he had paid excess rents. However, under the rate of return allowed the landlord, a decision was made allowing the landlord to increase the rent \$220 per month effective one month after the RAO's decision. By February, 4 months after the landlord filed the Hardship Petition, the landlord was collecting rent that allowed an 8% return on the assessed tax value.

From this example you can see that the Rental Housing Act as interpreted by the Rental Accommodations Office protects the rights of the tenant as well as the rights of the landlord. In this instance you might say that the tenant won the battle, but lost the war.

Respectfully submitted,

Sister Bernadine Karge
November 29, 1979

FOOTNOTES

1. "Condo Log," September 30, 1974 to May, 18, 1979
D.C. Department of Housing and Community Development
See Appendix-- Tables 2, 3.
2. See Appendix--Table 4.
3. 73,700 out of 300,296 elderly lived in Ward 3 in 1970.
Source: Who are the Aging in the District of Columbia? *Statistics
by Ward and ANC* prepared by D.C. Providers Council for Services
to the Aging, 2201 P Street NW, Washington, D.C. 20037
April, 1978.
4. Final Report of the Emergency Condominium and Cooperative Conversions
Commission to the Council of the District of Columbia, September, 1979
p. 112.
5. Ibid.

APPENDIX Table 2

Where Are the Condominium Conversions?

Table 2: Number and Percentage of Units with Condominium Registrations by Ward, September 30, 1974 to May 18, 1979.

Ward	Number of Units Converted	Percent of Total Conversions
City Total	6596	100%
Ward 1	854	13%
Ward 2	1636	25%
Ward 3	3094	47%
Ward 4	13	#
Ward 5	0	0
Ward 6	153	2%
Ward 7	838	13%
Ward 8	8	#

= less than 0.5%

Source: "Condo Log," September 30, 1974 to May 18, 1979, D.C. Department of Housing and Community Development.

APPENDIX Table 3

What Percentage of the Rental Stock Has Been Converted?

Table 3: Number and Percentage of the 1970
Rental Stock with Condominium
Registrations by Ward, September 30,
1974 to May 18, 1979.

Ward	Number of Rental Units in 1970 ¹	Number of Converted Units ²	Percent of Rental Units Converted
City Total	198,973	6596	3.3%
Ward 1	32,884	854	2.6%
Ward 2	41,549	1636	3.9%
Ward 3	26,185	3094	11.8%
Ward 4	14,314	13	0.1%
Ward 5	16,785	0	0.0%
Ward 6	22,095	153	0.7%
Ward 7	21,025	838	4.0%
Ward 8	24,136	8	0.0%

1

Source: U.S. Census of Population and Housing 1970,
PHC (1) - 226, Table H-1.

2

Source: "Condo Log," September 30, 1974 to May 18, 1979, D.C.
Department of Housing and Community Development.

APPENDIX Table 4

Where is Rental Housing Threatened by Conversions?

Table 4: Number and Percentage of Rental Units with Certificates of Eligibility for Condominium Conversion, Applications for C's of E for Condominium Conversion, and Certificates of Exemption for Cooperative Conversion, by ward, as of May, 1979.

Ward	Units Covered by Certificates of Eligibility for Condominium Conversion ¹		Units Covered by Applications for Certificates of Eligibility for Condominium Conversion		Units Covered by Certificates of Exemption for Cooperative Conversion ²		Total Number of Units Threatened by Conversion	Percent of Units Threatened by Conversion
	Number	% of Total	Number	% of Total	Number	% of Total		
City Total	11,270	100%	5767	100%	1700	100%	18,237	100%
Ward 1	1649	15%	371	6%	373	31%	2393	13%
Ward 2	5614	50%	2831	49%	377	21%	8822	48%
Ward 3	3436	30%	1685	29%	442	27%	5563	31%
Ward 4	219	2%	0	0%	0	0%	219	1%
Ward 5	136	1%	0	0%	0	0%	136	1%
Ward 6	120	1%	109	2%	0	0%	229	1%
Ward 7	0	0%	684	12%	0	0%	684	4%
Ward 8	96	1%	87	2%	8	1%	191	1%

¹ Does not include units with Certificates of Eligibility which have registered as condominiums.² Does not include units which are also covered by Certificates of Eligibility for condominium conversion.

Source: "Condo Log" - September 30, 1974 to May 19, 1979, and "Coop Log" - April 13, 1977 to May 4, 1979, D.C. Department of Housing and Community Development.

Sister KARGE. Good afternoon, my name is Sister Bernardine Karge. I am a resident of the District. I work as a social worker in the Mt. Pleasant area as a staff person, and I recently received a law degree from Howard University.

During my law career I participated in the D.C. Law Students in Court program; I worked with the Rental Accommodations Commission Office. I have had experience in Landlord-Tenant Court.

I am grateful for the opportunity to be with you today to testify on behalf of a group called—for which I am presently the staff person—this group called Catholics Concerned for the Elderly.

The area in which I work encompasses parishes in Northwest Washington covering the area west of Rock Creek Park from Foggy Bottom up to Chevy Chase Circle. It generally coincides with Ward 3 and portions of Wards 1 and 2 of the city.

I represent approximately 10,000 persons concerned about the need for the elderly, especially their housing needs. We have heard testimony here the last few days as to the number of condominium conversions. The statistics show 47 percent of all the condominium conversions occurring in the District of Columbia have occurred in Ward 3. This means the loss of 3,993 rental units in Ward 3 out of the total number of units converted of almost 7,000 in the last 5 years.

An additional 5,563 units in Ward 3 are threatened by conversion if the present applications for certificates to convert to condominium and co-op are issued and acted upon. This would mean—

Mr. WILSON. This is roughly the same territory that Mrs. Sissman presented testimony on?

Sister KARGE. It includes hers, but extends beyond, yes.

This would mean the loss of an additional 31 percent of the rental units in Ward 3 alone. This high condominium conversion relates to the fact that many of the buildings along the Connecticut and Wisconsin Avenue corridors were considered luxury rentals. The rents have been upped gradually to get over—for instance, in one building that has 300 units with almost entirely elderly, the luxury rental for a 1-bedroom is \$292, so theirs is 294, just very, very close.

This loss of rental housing, plus the fact that 25 percent of the city's elderly, defined as persons 60 years of age and over, make the situation in Ward especially disastrous for the elderly tenant.

There has been talk about the population of D.C. decreasing. That may be true, but while the general population has decreased, the population of the elderly, 65 and older, has increased in the last five years.

Mr. WILSON. Because people are living longer?

Sister KARGE. Yes. And they desire to stay where they have lived and remain in their neighborhood. Many of these people, as Mrs. Sissman said, are retired government employees and choose to remain in their neighborhoods.

What does all of this have to do with the effect of rent control on rental housing? Under the District of Columbia's moderate rent control program, elderly tenants can have affordable rental housing, provided they can find an apartment to rent. Retired persons living on fixed incomes are able to live independently in the com-

munity and meet the annual increases allowed the landlord. I would like to give you a few illustrations of this.

In one parish that I work in, west of Georgetown, 25 percent of the parish community is over 60 years old. Two years ago an 80-year-old woman who had lived in a 1-bedroom apartment for 16 years received word that her building was being converted to a condominium. Fortunately, she was able to find a simple apartment within the neighborhood, even though her rent was increased \$50, the comparability rate that has been brought out before. She was subjected to, in addition to that, the cost of moving and relocating. Since the move to her new apartment, even under rent control, her rent has been increased annually, making her present rent \$100 a month more than she was paying 2 years ago for a 1-bedroom apartment.

Mr. WILSON. What was that amount?

Sister KARGE. The apartment she lived in for 26 years was \$169. Today she is paying \$275, plus utilities. She is able to manage even though she is paying more than 25 percent of her income for housing, but she wants to do that because it is her neighborhood, with her friends, her church, whatever.

Mr. WILSON. Do you think she would object to a rent subsidy?

Sister KARGE. I do not know, I would have to ask her. She is a very independent woman, and would like very much to manage on her own. Even though she has to dip into her savings and assets, she is very—I should not say very happy, but gets a certain pride in having a grip on her own life.

Mr. WILSON. She does not want that onus of receiving a welfare check?

Sister KARGE. No, she has not said that. I would have to ask her.

This past summer another widow living in a parish in the Cleveland Park area that has an elderly population of more than 60 percent, was not quite as fortunate when she received word of the conversion of her building. She had hoped to live out her days in her Connecticut Avenue apartment that she had retired to 12 years ago. However, no apartments were available in the Northwest corridor or anywhere in the city. A professional social worker worked with her for months to help her relocate. Finally, this fall she was able to move into a retirement home in the District. She claims she is doing the best she can, although she misses her friends, her neighbors, et cetera.

The problem of displacement and the lack of rental housing is not limited to D.C. A year ago a retired woman who was then renting along upper Connecticut Avenue decided to move to Montgomery County rather than risk another displacement along Connecticut Avenue as many of her friends had experienced. She moved last February. Within 6 months she was again faced with conversion of her building.

Being unable to buy, the elderly are unable to get mortgage money, they are unable to come up with the down payment and unable to afford 2 or 3 times the price of rent. They are able to manage their present rent with yearly increases but cannot afford a doubling or tripling of that. So this woman who is now in Montgomery County presently is permitted to remain in her apartment as a tenant for 3 years. When she is approximately 70, she will

again be faced with the need to move unless the laws are changed to help her.

The classic filtering down of apartments to persons of lower-income brackets has all but ceased in D.C. The conversion of rental units and the absence of new rental housing stock have taken away the possibility of anything to filter down to. The vacancy rate in the metropolitan area is almost nonexistent.

There are buildings along the Connecticut Avenue corridor that have vacant apartments, but they are not available vacant apartments. They are buildings that do not rent the apartments out once a tenant moves away or dies, as is the case with a lot of the elderly. This is to have fewer tenants in the building when it comes time to convert for the number of tenant consents to fall within that rent category. This has been identified by Mrs. Sissman's report and other testimony that we have heard.

In addition to the financial aspects of housing, there are also the psychological and human factors that must be considered. The majority of the elderly in the parishes I represent are retired government employees who have lived in their buildings from 10 to 30 years or longer. They are and have been taxpaying citizens and voters in the District of Columbia. They can continue to be independent, contributing members in society if the laws are sensitive and responsive to their needs.

The cost of providing unnecessary nursing or retirement homes for these elderly would be an excessive burden on the city's resources as well as on the individual's resources. I am sure that it is less expensive to administer the rent control program or something else that would allow these elderly and others in the city to remain tenants than it would be to supply alternate housing.

You have mentioned, Mr. Chairman, a number of times the amount of taxes that your constituents pay to support the District of Columbia. But I think that must be viewed in perspective in relationship to the amount that the District of Columbia residents pay, as well as the amount that our tax money goes to support people coming into the District from other States, visitors and people who are here on a short-term student basis or short-term work assignment, or elected officials.

Mr. WILSON. I do not want to nit-pick but I will talk about that one with you.

Sister KARGE. Okay.

Another thing I would suggest this committee look into very closely is the increase in the tax base that has occurred since the condominium conversions and since 1969, the last 10 years. In Ward 3 alone, with 6,000 units converted, the tax base must be substantially increased. I am sure that that has swelled the coffers to more than they were 10 years ago.

The problem of the loss of rental housing stock is a national phenomenon. Cities with rent control as well as cities without rent control, for example, Chicago, Denver, Detroit, Houston, have experienced major condominium conversions, and the loss of rental housing. The solution to the problem, however, is local.

In its September 1979 final report to the City Council of the District of Columbia, the Emergency Condominium and Cooperative Conversion Commission expressed their concern that the City

Council continue the rent control program. The elimination of rent control would not significantly lessen the conversion problem.

I agree with the Commission's recommendations and further exhort the Commission's view that the City Council, not the Federal Government, with all due respect for this committee's authority, has the responsibility and the capability, by working with the citizens of the District, to assure that the private rental housing market does not abandon lower-income households in the quest for higher profits.

Part of the community that needs to be continued or the education that has to be developed that has surfaced in the testimony in the last few days is the acquaintance with the Rental Housing Act.

I put an addendum in my testimony relating to one of the committee member's questions yesterday. I think that this case that I will speak about in a minute points up the points that are available to the District if people, landlords as well as tenants, are familiar with the Rental Housing Act and are able to invest in the process.

Yesterday, the question was asked, how many cases before the Rental Accommodations Committee are decided in favor of the landlord and how many are decided in favor of the tenant? That is a difficult question to answer in terms of how many.

I would like to briefly describe the facts of a case with which I am familiar in which you might say that a decision was made for the tenant and a decision was made for the landlord.

This case involved a 3-bedroom, single-family residence that was purchased in the 1930s for approximately \$8,000. The most recent tax assessment was upwards of \$40,000. This is \$10,000 more than its previous assessment.

In September the landlord filed a hardship petition at the Rental Accommodations Office. The tenant had moved into the building during the time of rent control and had been paying rent in excess of the rent legally allowed under the Rental Housing Act. The tenant was awarded a refund of about \$700 for the 2½-year period that he had paid excess rents. However, under the rate of return allowed the landlord, a decision was made allowing the landlord to increase the rent \$220 per month.

Mr. WILSON. An increase of \$220 or an increase to \$220?

Sister KARGE. No, an increase of \$220, and that became effective one month after the decision.

I would also like to add that the tenant was paying all of the utilities, heat, electricity, or everything else. So it was pure rent he was paying. By February, 4 months after the landlord filed the hardship petition, the landlord was collecting rent that allowed an 8 percent return on the assessed tax value.

From this example you can see that the Rental Housing Act as interpreted by the Rental Accommodations Office protects the rights of the tenant as well as the rights of the landlord. In terms of who received a favorable decision, the tenant won the battle but lost the war.

As is evident from this, in terms of what can be done about this, it seems we are at a point in history when a new concept in property ownership must be dealt with. The landlord-tenant relationship could be paralleled with the collective bargaining relation-

ship that we see in labor-management relations. One of the committee members brought this question up yesterday.

Mr. WILSON. How do I address you? I do not have anything but Baptists in my district. Do I call you Sister?

Sister KARGE. That is fine.

Mr. WILSON. This is totally redundant, but if we do what you suggest, nobody is going to build any buildings because they have to go through the collective bargaining process with the tenants.

Sister KARGE. Well, I do not know about that. I am not a trained economist, I am not a financier.

Mr. WILSON. But you are intelligent, you are a lawyer, you have logic.

Sister KARGE. Right. But I have to work with our group of people who have expertise in the financial aspect. What has to happen, I believe, is similar to what had to happen over a hundred years ago in the Dred Scott decision when a whole new concept of property right was put before the people of the United States and the constitutional interpretation of property rights.

Mr. WILSON. Boy, that decision resulted in a lot of folks getting killed at Gettysburg and places like that.

Sister KARGE. Well, that is oftentimes necessary to be involved, then if necessary to shed blood. I do not think we have to come to that yet in terms of the landlord-tenant relationship, but I think the property concept that investing money in property, that is used for housing which is a necessity of life, cannot be equal to the certificate of deposit or something else that is a risk that is taken and an investment gotten without any other—

Mr. WILSON. What you are talking about is just a change in the entire capitalistic system. Everybody is entitled to an opinion.

Let me ask you, because I perceive that you are not a prejudiced person, but Mr. Gray's problem back there, did you hear his testimony this morning?

Sister KARGE. I heard a portion of it. I have dealt with tenants in Southeast, so I am familiar.

Mr. WILSON. But really, the tenants that you deal with are not likely to kick in a wall; you are dealing with elderly people who have pride, and that sort of thing; is that correct?

Sister KARGE. Yes. But I have dealt with tenants in the Southeast too, so I am aware of that situation.

Mr. WILSON. I wish you would call this lady, the first case you talked about, and ask her. It seems to me to be so much more logical. I recognize the social responsibility but I also believe very strongly in our system, in our economic system in the country. I recognize the social responsibility to the elderly and to the poor and to people who are displaced, but it seems to me there would be more logical ways to do it and ways that would certainly be more beneficial to the tenants.

Some day, though, if these property owners just feel that they are not getting a fair return, even though you are representing a different sort of tenant than in the Southeast, some day those apartments are going to get run down and you are going to have serious complaints about that. Some day the economics are just not going to be there to maintain those buildings at a rent that these people can pay.

So does it not make sense for those of us who are still young and able to pay taxes, to subsidize in some way these people who, because of events beyond their control, are caught in an unfortunate circumstance?

Sister KARGE. I think it is a matter of degree, in terms of our system. I believe in the capitalist economy and the right to a reasonable profit. But I think we can subsidize and subsidize, but I think what I am proposing is more of a preventive type thing, where we can allow people to have control of their own life without more government intervention.

Mr. WILSON. My God, the government intervention is controlling the rent. It seems to me to be less bureaucratic to send them a check every month than to go through all this.

Sister KARGE. Well, that may be true but there is also the side that with government interventions there is a whole segment of society that can operate independently and can continue to do so, which would call for less government intervention down the line.

Mr. WILSON. The thing about these hearings that has really been more surprising to me than anything else has been the schism and the lack of anybody to want to try to find a ground on which there could be agreement. It has been an "us against them" attitude; not just you, not just your side, but both sides. It has been just very incredible.

Sister KARGE. That is why we need the collective bargaining arena to share our views and resources and come out with something.

Mr. WILSON. But somebody has to spend the money to build the apartment, somebody has to spend the money. They are not going to spend the money if they have to go to the tenants to vote for a rent increase. They are not going to do it. You cannot make them do it. The idea that you could make them do it just won't work unless you change the Constitution.

Sister KARGE. We let them convert the new condominium conversion that is going up in the high area on 16th Street on every block.

Mr. WILSON. That is private property.

Sister KARGE. Why don't we let the new construction handle the condominium, the people who are demanding condominiums, and let the rental stock stay as it is.

Mr. WILSON. We talked about that. That is a very good point. That could well be the case if the present laws stay in effect in the District without alteration. That is exactly what is going to happen. What it also will mean is there will be no new apartments because more money can be made with condominiums and they will build new condominiums.

Sister KARGE. There is a lack of land in D.C. also. Most of these that have gone up are in-fills.

Mr. WILSON. I do not agree with that. I have spent a lot of time looking at schools and housing in Southeast with Mr. Moore. There are a lot of places where condominiums can be built, where our school population is declining rather dramatically, and there are a lot of schools that can be closed and should be closed. So there is a lot of land.

Sister KARGE. Then I think we have to find the solution to the building of new rental buildings and not have the solution come from a hearing like this. We have no authority.

But in the sense we have to find something new that has not been thought of yet. Rent control has caused hard feelings in terms of the developers, they claim they have been restricted and everything else, the whole mortgage money situation, we are dealing with other factors beyond their control.

Mr. WILSON. I notice you referred to Houston, the city nearest to me, so I feel compelled to tell you that twice as many units are being built in Houston as are being converted to condominiums.

Sister KARGE. Then I guess we will all have to move to Houston.

Mr. WILSON. I think that might be the answer. Mr. Stokes yesterday was talking about his district, that it was down to 300,000 people. And he said nobody knows where the people are going, and I said I know where they are going, they are going down there where there is work. I sometimes think that also enters into some of these things. We try to create an artificial population level. There is nothing in the law that says New York City has to stay at 7.5 million people if it doesn't have the economy to support it. There is nothing that says Washington, D.C., has to have 700,000 people if there is high unemployment. We would be better off dealing with a program especially for the people of working age, to help them transfer to an area where they could find meaningful work and do better for their families.

Sister KARGE. For those who are mobile.

Mr. WILSON. And for those that are not, perhaps it would be appropriate for the government to help?

Sister KARGE. They would have to speak to that.

Mr. WILSON. If you don't mind, would you please call that lady and ask her if she would be really offended if the government supplemented her rent by, say \$100 a month.

Sister KARGE. Yes, I will.

Mr. WILSON. Thank you.

Sister KARGE. You are welcome. Thank you.

THURSDAY, NOVEMBER 29, 1979.

WITNESS

MILTON O. MCGINTY, LANDLORD

Mr. WILSON. Our next witness is Mr. Milton O. McGinty, a landlord. Mr. McGinty, would you just sort of qualify yourself by telling us how many units you operate.

Mr. MCGINTY. Yes. I currently operate 93.

Mr. WILSON. Do you own them?

Mr. MCGINTY. I do. I started out in 1973 when I bought 42 and then shortly after that I bought 28.

Mr. WILSON. Where are they?

Mr. MCGINTY. The first one, the 42-unit building, is right at 16th and Somerset Place, the Sheridan, two 14-unit buildings out on

Naylor Road, S.E., and a building of 23 units at Kansas Avenue near Georgia Avenue, between Georgia and 13th Street.

Mr. WILSON. Are your tenants generally working poor, working middle class, or welfare?

Mr. MCGINTY. I can answer that question because in the early discussion I just took the time to go through my list of tenants in my mind, and I determined that I actually have 91 tenants in the 93 units, and of those there are 13 who are retired people, which is 14 percent of the tenants, and it is my observation that they are the only ones who might have a problem. Some of them are government retirees, and seemingly have a nice income. Others might not be so prepared to pay increases in rent, but most of my tenants, they range from custodial people to college professors, but overall, they are I would say moderate-income people, and they do not apparently have difficulty at least paying the rents that I have to charge.

I was going to start by saying that my main occupation is remodeling contractor. I have my own business, and I bought my first units in 1973-74, with the intent, after 15 or 20 years, I would have them paid for, and I would then be in a position to have some income in my retirement years. However, within months after I had purchased these buildings, the rent control law came into effect. Now, I had increased the rents when I bought the buildings. I had made a projection before I bought them, and they were very low. I increased them. For example, on Luzon Avenue and 16th Street when I bought them it was something like \$130 a month including all utilities. I increased them to \$147 a month including all units when I bought the building. Similar rents out Southeast which were a bit lower at the time.

Under rent control I was told I would have to return the rents to what they were at the time I bought the building, which of course destroyed my projection. I followed the procedures available, and I appealed to the Rent Control Commission at the time, to be allowed to maintain my rents. I was granted hearings. I was granted two hearings the same day on my two requests, because I only owned at that time the two properties, and they were very interesting hearings. It was almost like an alley fight as they argued back and forth, without there being any medans of anyone questioning what anyone said. There were interruptions and all that sort of thing. That I understand is no longer the case, but in any event I submitted at that time that my rents were low, were relatively low, and my assumption was that if my rents were not astronomical, that my rents would be accepted. In the one case my request was rejected totally. I was told I must return thee rents to \$130-some a month. In the other case there was never a response. The examiner did not have the time to respond, which meant in effect that all I could do would be to appeal again.

I then had no choice but to go to court, and that too was long and involved, but as it turned out, I was able to prevail. I was able to maintain the rents that I had asked for, which were still low.

Since that time I have taken advantage of the annual increases that have been allowed, but the fact is there remains a question in my mind which I think is the most significant one, that no one ever asked, How high are your rents? They say, How much are you

making? They don't say if you are charging \$200 for your apartment that is too much. They only say, How much are you making? And I might be charging \$250, and that is all right as long as my percentage of profit is not too high. So I must assume that the question—and this is perhaps a major point that I would want to make—for two days I heard the term "rent control" a thousand times, and in my experience it is not rent control—it is profit control. No one questions the amount of rent, at least in my experience. They only question whether I am making more than they think that I should make.

The irony of that is that these annual increases are based on your increase in expenses. This means that if I am very efficient, and I am able, and I try to do that to the point that I do some of the minor work myself. I am not a mechanic but I can change a faucet washer. If I am efficient and keep my costs at a minimum, then my increase is also limited. On the other hand, if I am not efficient, I am inefficient, and my costs go up, then I can have a maximum increase as provided under the formula.

This last increase, for example, in my building on 16th Street, I was not able to take full advantage of the increase because my costs had not increased enough, partly because I had done perhaps say too much work myself. The other buildings I was able to take the maximum increase, so it comes down to this. It is a matter of profit, not rent.

Another aspect of this rent control—I use the term myself out of habit—that has been very exasperating and painful to me is not the money. It is the fact that the control that I need over the building to handle the property has been diluted by this law. For example, when I went into the business, I assumed that my rights would be at least equal to those of the tenant. I assumed that if he wanted to leave my building at any time, he could give me 30 days' notice and he could leave. I also assumed that I would have that same right, that if I for some reason, for any reason, felt that I no longer wanted him as a tenant, I could give him 30 days' notice. Under this law I cannot do that, even if I have a written lease that is supposed to end at the end of the year. I cannot say you must leave in 30 days.

The only solution that I have in removing a tenant is to go to court, and prove that he has violated some aspect of this agreement. I have had to do that, and it is not very easy.

Mr. WILSON. We have had conflicting testimony on that.

Mr. MCGINTY. In what sense? What has been the conflict?

Mr. WILSON. Some of the tenant people have said that they did not have that much protection.

Mr. MCGINTY. I will give you an example of my experience. I wrote an article about this that appeared in The Washington Star as it happened. There was a tenant there who had a cat in the apartment. I knew she had the cat. I walked in there and I would see it in the hallway. I asked her to remove the cat because this is against the agreement. She refused. I then went through the business of giving her 30 days' notice to remove the cat. The problem was if I go to court, I were to go to court with her, and she were to appear in court, and I were to say she had a cat and she were to say, "I do not have a cat," how can I prove it? There is no way.

Having been to court on other occasions, and it was stated as I said before during these hearings, that the atmosphere in the court is very, shall we say, partial to the tenant. Recently I was even subjected to a tenant on the witness stand insulting me without comment by the judge. I know that unless I can prove it, the probability is that the tenant will prevail.

Mr. WILSON. What happened to the cat case?

Mr. MCGINTY. Well, the fact was that I was able to eject her because she did not pay her rent on time. Even in that I had to serve her, you see, and I ended up having to go out to where she worked and surprise her, walked in on her, gave her the notice, and she tried to give it back to me, literally fought me back out the building and threw the summons after me, and when we went to court she testified that she had not received the notice. Fortunately, the judge, a very enlightened man, Judge Brayman, I told him what had happened, and he said, "Madam, you were served," and in that manner I got her out of the building.

Now as a landlord I have no interest in evicting anyone who is a good tenant, because every time I change tenants I have a loss. I have got to fix up the building. Therefore, the only reason why I would ever want to evict a tenant would be if the tenant was a problem. Not only can the tenant be a problem to me, but the tenant can be a problem to the building, to other tenants, and this has happened—people throwing trash and all this sort of thing, and I am not able to control it.

In one case I went to court and went through two jury trials and spent \$2500 in order to evict one tenant. Those legal costs went onto my overall costs, and in the following year when I had my annual increase this in effect was paid by all tenants, and this should not be.

Therefore I suggest, and I realize again that this hearing is not supposed to analyze the rent control law in that regard, but overall it adds up to a cost to a building that should not be there.

I was going to read this. I have not read it. One of the problems of the law, for example, is that by going back to 1973 and starting from scratch, starting from whatever the rents were at that time, and then, as has been stated here, being able to increase rents if there is a vacancy, what this has amounted to is that I charge different rents for identical units in the same building. I also end up charging more rent in an inferior building. There is no logic there, but I have no choice.

Finally, in terms of what this rent control law has done to me, I might say a person, for example, asks the question, Why do you remain in it? Well, I have no choice because I am self-employed. My only future in essence is in real estate. I have got to work within the circumstances, and hope that I am successful.

Also, because I am a remodeling contractor, I have some knowledge of remodeling. This year I became aware of a broker who told me of a 63-unit building in the Southeast area that was vacant and had been vandalized. I considered buying the building. My idea would be to buy it as is, go in there, rehab it, and then I would rent it. I was laboring under the misapprehension that because the building had been vacant for a number of months, that it would not be subjected to rent control, so I took the time and went to the

trouble of spending days there, going through it. Almost every radiator had been removed, almost every refrigerator, every window broken, et cetera, but I saw some potential there in rehabbing the building.

Early this year I made an offer on the building, which was rejected. He felt it was too low. Then later in the year, about August, he decreased his price. I never met the man. All of this was through a broker, but he decreased his price. The broker called me again. I went back out to the building. I went through every unit in the building, upon the roof. I made another offer. He rejected it, but he was prepared to make a counteroffer. He made a counteroffer.

I felt as though I might be able to accept that, and I talked to my bank about a loan. The bank was receptive. I was literally in the act of typing my proposal to the bank, giving them the general details, cost and what I expected it would be, and what the returns I expected would be, when suddenly I realized I was about to say that the building was not subject to rent control. I realized I was about to make that statement based on what I had heard from reading newspapers, et cetera. I had never really been told this by an authority, so I stopped in the middle of my letter and I tried to call the Rent Control Commission. I was not successful that day, but I continued.

A day or two later I got the Rent Control Office. I questioned them about the law as it relates to unoccupied buildings, and I was informed at that time that if it were vacant but were not vacant on, and—I think now I believe it was January 1977—it was not vacant before or on that date, it would be subject to rent control.

The only way that I could rehab that building, ordinarily I would have to go in there, rehab the building and charge the same rents plus the annual increase that had been charged prior to the building being vacated. The only other solution would be to rehab it to the point of putting say 50 percent or more into it as compared to the assessed value, I believe. Then I could increase the rents 125 percent, but it was not going to cost me that much.

For example, I estimated I could rehab it for \$50,000, and in order for me to take advantage of the 125 percent increase, I might have to put \$250,000 into the building, which would not make sense. Therefore, I could not consider the building. I could not rehab the building.

Mr. WILSON. Is it still vacant?

Mr. MCGINTY. It is still vacant as far as I know. It is on Newcomb Street, S.E. I have the two contracts that I submitted with me.

In summary, I would say that I am not really opposed to rent control in the sense that if someone is charging far more rent than he should charge, based upon all of the circumstances, I am not opposed to there being somebody or some means or some commission to prevent that, but what I have experienced is not rent control—it is profit control and it is landlord control. I suggest that there be other means of arriving at what we all want to arrive at, which is suitable housing for everyone.

I might also say that I do recognize the fact that housing is very limited in the area, because I no longer, if I have a vacancy—and I

might also say that I have very few vacancies. I have a very small turnover, which I have heard stated here, which is true, but I get so many phone calls that I no longer take them at the office. I would get nothing else done. I know there is a shortage, but I don't feel as though what is being done now is the solution.

Mr. WILSON. Thank you very much.

THURSDAY, NOVEMBER 29, 1979.

WITNESS

RONALD P. KIRBY, ERKILETIAN CONSTRUCTION COMPANY

Mr. WILSON. Is Mr. Myron Erkiletian here?

Mr. KIRBY. If you will allow me to speak on behalf of Mr. Erkiletian. He had to leave. I have some material as well as some photographs. I will be brief.

My name is Ronald P. Kirby. I am an employee of Mike Erkiletian of Erkiletian Construction Corporation in Alexandria, Virginia. My role with Erkiletian Construction Corporation is working with condominium conversions in the Virginia-Maryland area. I am going to read Mr. Erkiletian's comments if I may.

[Mr. Erkiletian's statement follows:]

ERKILETIAN CONSTRUCTION CORP.,
Alexandria, Va., November 28, 1979.

My name is Mike Erkiletian, a Builder-Developer-Owner of 3,000 rental apartment units in the Washington Metropolitan area. Our investment goal has been to build apartments of good quality, for long term ownership as rental property, thus we have been able to build and operate "model communities" at moderate rentals.

I am here to show you with facts and actual financial statements, how rent control, since 1973 has brought down, our fine Stanton Hill apartment community, (which we jointly own with a black family) to financial ruin and a rapidly deteriorating physical plant, due to insufficient rental income.

I have before you photographs and financial statements of two almost identical projects our group owns, comparing their financial lives. Stanton Hill Apartments in Southeast Washington, which is under D.C. rent control and Glen Willow Apartments (Seat Pleasant, Maryland) which has no rent control, were both built by our construction company in 1965. Both have almost identical physical plants, large room sizes, modern kitchens, with dishwashers & disposals, heat and air conditioning and swimming pool, using the same sub-contractors and materials and serve low and moderate income black families of \$13,500 per family 1979 income, and using the same property management company.

Both projects from 1964 thru 1975 had moderate rentals (\$150 plus electricity for a 2BR in 1966), were well maintained, with capital expenditures being made annually and were able to generate approximately a 10% return per annum to the owners.

Due to rent control between 1973 thru 1978, Stanton Hill was only able to raise rentals only 22.6 percent while operating expenses increased to 67.7 percent. Glen Willow during the same time period had rental increases of 45.1 percent versus 77.7 percent increase in operating expenses.

Between 1973 thru 1978 Stanton Hill's annual gain dropped dramatically from \$131,060 in 1975 to a loss of \$31,057 in 1975 and break-even in 1978 and in 1979. Glen Willow had maintained its modest profit throughout that entire time period.

Not only has Stanton Hill not made a profit distribution to its investors since 1976, it has not had funds to make the normal capital expenditures, e.g., 2 or 3 new roofs annually that we make in all of our other communities to keep our physical plant up.

Stanton Hill has used all of its funds for maintaining services e.g., air-conditioning, heat, hot water, appliance repair replacement and has just barely survived.

Stanton Hill needs rehabilitation of at least \$500,000 just to bring it marginally up to standards or to put it back to the model community it once was \$3,000,000

(approximately \$8,000/apt). At Glen Willow we were able to receive an FHA 223 (F) rehabilitation loan which enabled us to bring the community to top physical condition, extending its viable life for many years. In 1977 we were not able to receive an FHA 223 (F) rehabilitation loan for Stanton Hill because, economically, our rentals were too low!

Stanton Hill does not qualify for any of the "hardship" rent increases provided in the D.C. Rent Control Act. The rent increases based on an 8% rate of return, based on the value of net income prior to mortgage payment, in fact this formula barely covers our debt service.

Example.—D.C. assessor values Stanton Hill at \$3,698,000 (excluding mortgage) times 8 percent equals \$296,000 as against actual mortgage per payment of \$332,000 per year.

The formula for capital improvements pass thru allows only a 10 percent rent increase on the actual capital expended on rehabilitation—no financial institution would loan us the \$500,000 to \$3,000,000 at such a low return plus the uncertainties of future rent control, rental increases would be allowed. Would you invest \$500,000 into a community, if under current laws, it would take you 10 years just to get your investment back? I doubt it.

The bitter irony here, is that Glen Willow, under the free market place, with rentals being only 10% more annually than Stanton Hill, (in 1979 \$23 per apartment per month), paying only 21.8 percent of their annual income, is alive and well with a bright future, while Stanton Hill is in financial ruin.

The city's assessors office has recognized the physical deterioration through a reduction in both market value and assessed value of \$652,000 in the past four years (1976: \$4,350,000, 1980: \$3,698,000) during rapidly increased values in all other areas. Stanton Hill's real estate taxes have decreased some 13.9 percent since 1970 whereas Glen Willow has increased 4.4 percent during the same period.

In June 1979, Stanton Hill increased 9.4 percent as allowed in the D.C. rentals. Rent Control Act. Every nickel of excess funds were immediately plowed back into badly needed capital repairs. The tenants contested the rental increase on grounds that 1,416 code violations were in existence.

Incredibly the Rental Accommodation Commission, hearing examiner ruled on October 19th to (1) refund some \$44,000 in rents back to June 1, 1979 rent level and (2) to have rents reduced back to the October 1977 levels. Yes, back to 1977 rents—a reduction of \$15,000 per month on a project that just barely breaks even in monthly operations without taking into account capital repairs.

By October 24th, per a letter from the D.C. inspection 1,042 were abated, of the remaining 374 violations—113 items were for screens (not required in an air conditioned building, which were supplied anyway) and 261 items in which the city inspectors were unable to enter apartments to inspect. We presented the October 24 D.C. inspection of substantial abatement of violations to the hearing examiner to allow us an immediate rent increase on October 29. We heard nothing except on November 15th we received a letter from the D.C. inspectors department retracting its Oct. 24th letter "because it contains inaccurate information". We have yet to receive details or a time period in which we will receive the new list of code violations.

In November we lost \$26,246, hereafter, we will lose at least \$15,000 per month and we are coming into the expensive heating season.

We are blocked in every direction, the tenants are euphoric with their short term victory, even though we have had several meetings with a tenant representative and their counsel explaining their and our plight.

We do not have the funds to subsidize the operating losses, let alone any capital repairs.

In short, we have only two alternatives (1) to board up the project or (2) to go condominium through a 51% tenant consent conversion.

As evidenced by comparing Glen Willow and Stanton Hill apartment, rent control has caused rapid physical deterioration, is about to displace 1,200 people, and we would lose our entire investment—the death of a fine rental community, ironically the exact opposite of the goals ascertained by the proponents of rent control.

STANTON HILL APARTMENTS - 412 UNITS
CASH FLOW SUMMARY - 1968 - 1978 + 1979 - 8 MONTHS

October 2, 1979

	1968	1969	1970	1971	1971	1973	1974	1975	1976	1977	1978	1979 (Jan-Aug)
1 INCOME:												
1 Gross Pot.-Current Pd. Per Unit (412)	1,550.77	1,550.77	1,550.77	1,550.77	1,550.77	1,550.77	1,550.77	1,550.77	1,550.77	1,550.77	1,550.77	1,550.77
2 Prv. Pd. Rents Collect.	N/A	N/A	11,782	11,943	21,015	21,066	21,266	21,320	21,359	21,421	21,507	21,550
3 Prv/Prs Pd. Rents Uncol.	98,304	(112,661)	(111,282)	(123,040)	(120,919)	(103,379)	(144,261)	(210,510)	(239,688)	(303,056)	(355,108)	(462,019)
4 Net Change In Col. Rent	N/A	N/A	1,708	(11,680)	366	1,691	(7,832)	(33,392)	(4,104)	3,388	3,806	(9,441)
5 Loss Due to Vacancy	(15,261)	(19,501)	(18,653)	(9,546)	(8,483)	(71,582)	(8,965)	(8,458)	(11,819)	(19,722)	(18,136)	(11,384)
6 Loss Due to Uncol. Rent	(12,613)	(6,970)	(6,923)	(11,763)	(11,336)	(16,411)	(13,976)	(18,472)	(19,204)	(28,627)	(20,458)	(6,770)
10 Total Rental Loss for Pd.	(26,875)	26,471	(25,576)	(21,348)	(19,819)	(21,993)	(22,940)	(26,930)	(31,022)	(48,349)	(38,594)	(18,154)
11 Firs./Other Receipts	N/A	N/A	2,287	6,102	7,927	8,436	16,565	16,460	18,681	20,059	28,402	14,536
12 Total Rent Collections	676,137	708,099	743,645	783,638	818,533	859,847	919,481	942,014	971,211	972,753	1,037,587	743,781
13 Laundry/Other Concessions	13,621	9,075	10,436	11,688	9,531	11,702	12,685	10,460	15,556	18,742	18,929	12,972
14 Total Oper. Receipts	689,758	717,174	754,081	795,326	828,064	871,549	932,166	952,474	986,767	991,495	1,056,516	756,753
15 Per Unit (412)	1,674	1,741	1,830	1,930	2,010	2,108	2,263	2,332	2,357	2,400	2,600	1,837
16 OPERATING EXPENSES												
17 Admin/Office Expense	1,616	2,164	2,510	2,535	3,885	2,598	3,472	3,676	3,883	3,633	3,975	3,784
18 Adver./Other Promotion	1,099	1,413	985	936	1,022	2,288	5,675	2,856	7,381	7,836	7,927	6,493
19 Furniture Rental	-	-	-	-	-	104	-	-	-	-	-	-
20 Ins.-Casualty/Liability	6,698	6,300	5,300	9,416	10,709	10,944	18,387	4,818	8,330	32,218	49,974	23,161
21 Laundry/Uniforms	993	336	403	376	368	378	722	673	668	648	594	664
22 Legal/Audit	2,708	6,030	5,285	7,148	6,083	8,864	7,155	9,600	10,556	13,143	14,372	11,145
23 Misc. Expense	2,751	145	30	67	-	-	-	-	-	-	-	-
24 Management	20,318	28,130	30,163	31,813	35,123	34,702	37,287	38,103	38,511	39,660	43,061	50,270
25 Payroll Costs	72,749	67,526	69,137	81,244	90,089	94,402	97,845	103,319	108,172	109,555	113,864	87,392
26 Fuel Operation Contract	4,296	5,096	4,275	4,360	5,291	5,430	5,227	7,491	6,600	6,868	5,338	3,181
27 Refuse/Pest Control	10,179	10,220	10,749	13,351	15,847	18,410	18,297	20,219	20,367	19,589	20,866	13,978
28 Repairs/Maintenance	51,498	62,823	67,679	68,544	75,991	90,885	101,488	84,560	110,257	122,400	161,352	103,542
29 Supplies	2,114	1,027	1,234	1,175	1,177	1,311	2,400	1,726	2,474	2,528	2,755	1,780

October 2, 1979

Stanton Hill Apartments

Cash Flow Summary (Continued)

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979 (Jan. - Aug.)
1. Taxes and Licenses	80,272	89,164	91,972	91,315	85,640	90,739	75,932	86,027	53,455	74,139	79,319	51,077
2. Utilities	62,270	39,661	65,816	76,988	80,636	77,197	115,026	105,964	146,184	216,438	229,463	189,685
3. Vehicle Expense	136	1,742	11,579	11,499	571	777	662	20	274	340	340	345
4. Total Oper. Disbursements	143,678	130,567	169,367	180,821	166,947	168,133	191,620	192,011	199,913	290,917	309,132	241,107
5. Per Unit (412)	349	317	411	441	405	408	465	466	485	706	751	586
6. Net Depr. Recalats	1,358	324,552	322,965	404,522	247,632	628,234	246,004	473,070	403,916	309,238	340,236	243,166
7. Per Unit (412)	3	788	788	982	601	1,524	598	1,148	980	748	828	591
8. Replacement Expenses	887	911	924	982	1,014	1,061	1,078	1,128	1,188	1,248	1,289	1,335
9. Reserve for Replacements	-	-	-	-	-	-	-	-	-	-	-	-
10. Capital Expenses	-	-	-	4,000	(483)	-	-	-	-	-	-	-
11. Net Rpts. Before Debt Svc.	365,358	375,362	392,965	400,522	418,118	428,734	444,045	473,070	403,936	309,238	320,321	233,935
12. Debt Service:												
13. First Trust	194,462	276,125	282,000	282,000	282,000	323,583	341,940	341,940	341,940	341,940	341,940	227,960
14. Snd Trust/Ground Rent	-	-	282,000	282,000	282,000	323,583	341,940	341,940	341,940	341,940	341,940	227,960
15. Total Debt Service	194,462	276,125	564,000	564,000	564,000	647,166	683,880	683,880	683,880	683,880	683,880	455,920
16. Net Rpts. After Debt Svc.	169,896	99,237	(10,965)	(16,478)	(146,882)	(218,432)	(239,835)	(210,810)	(280,944)	(374,642)	(363,559)	(222,985)
17. Other Discalts	(10,500)	(2,225)	-	88	904	2,633	(199)	4,777	1,510	2,655	10,142	4,915
18. Other Disbursements	(10,500)	(2,225)	-	88	904	2,633	(199)	4,777	1,510	2,655	10,142	4,915
19. Net Gain or Deficit for Pg.	32,894	20,087	(10,965)	(16,478)	(146,882)	(218,432)	(239,835)	(210,810)	(280,944)	(374,642)	(363,559)	(222,985)
20. Owner's Bal. Beg. of Pg.	3,000	14,275	3,988	4,257	16,379	25,100	10,374	2,004	21,066	4,103	(26,954)	(29,587)
21. Distribution to Ownership	(151,429)	(197,500)	(110,895)	(116,257)	(128,500)	(122,000)	(105,276)	(112,000)	(80,000)	-	-	-
22. Owner's Bal. End of Pg.	4,275	3,988	4,257	6,379	25,100	10,374	2,004	21,066	4,103	(26,954)	(29,587)	(26,661)
23. Net Gain/Deficit for Pg.	32,894	20,087	(10,965)	(16,478)	(146,882)	(218,432)	(239,835)	(210,810)	(280,944)	(374,642)	(363,559)	(222,985)
24. Per Unit (412)	79	49	(27)	(40)	(357)	(530)	(582)	(512)	(684)	(911)	(882)	(544)
25. Net Gain/Deficit for Pg.	32,894	20,087	(10,965)	(16,478)	(146,882)	(218,432)	(239,835)	(210,810)	(280,944)	(374,642)	(363,559)	(222,985)
26. Per Unit (412)	79	49	(27)	(40)	(357)	(530)	(582)	(512)	(684)	(911)	(882)	(544)

Glen Hill Apartments - 152 Units

October 2, 1979

Cash Flow Summary - 1971 - 1978 + 1979 - 8 Months

	1971	1972	1973	1974	1975	1976	1977	1978	1979 (Jan-Aug)
1 INCOME:									
2 Gross Pot.-Current Pd.	2,259,285	2,697,261	3,008,501	3,519,988	3,982,506	4,022,509	4,232,999	4,477,522	4,777,522
3 Per Unit (152)	14,861	17,748	19,800	23,158	26,200	26,461	27,849	29,451	31,461
4 Prv. Pd. Rents Collect.	35,422	56,160	67,954	41,116	52,073	93,380	142,092	104,483	35,200
5 Prv/Prs Pd. Rents Uncol.	(36,504)	(54,779)	(70,403)	(37,212)	(52,840)	(97,813)	(142,169)	(98,647)	(36,240)
6 Net Change In Col. Rent	(182)	(619)	(2,450)	3,904	(767)	(4,433)	(117)	5,836	(740)
7									
8 Loss Due to Vacancy	(1,044)	(3,403)	(2,823)	(986)	(15,422)	(6,955)	(18,113)	(12,300)	(4,445)
9 Loss Due to Uncol. Rent	(2,793)	(5,264)	(2,872)	(3,008)	(9,656)	(11,133)	(18,179)	(15,471)	(2,777)
10 Total Rental Loss for Pd.	(3,837)	(6,767)	(5,395)	(3,994)	(125,058)	(28,097)	(36,292)	(27,771)	(7,215)
11									
12 Fines/Other Receipts	1,714	3,233	2,985	3,323	3,582	7,111	9,032	7,626	4,349
13 Total Rent Collections	277,271	289,108	303,449	333,172	346,263	376,889	396,544	433,224	307,673
14									
15 Laundry/Other Concessions	4,296	4,314	5,086	6,195	2,499	5,947	6,304	6,620	5,029
16 Total Oper. Receipts	281,567	293,422	308,535	339,367	348,762	382,836	402,848	440,844	312,702
17									
18 OPERATING EXPENSES	(1,855)	(1,350)	(2,050)	(2,233)	(2,294)	(2,518)	(2,450)	(2,807)	(2,020)
19 Admin/Office Expense	389	406	332	690	509	681	495	508	528
20 Adver/Other Promotion	410	249	203	392	3,527	4,055	(1,291)	6,685	2,562
21 Furniture Rental	-	-	-	21	62	10	10	26	-
22 Ins. - Casualty/Liability	5,953	6,271	4,636	5,897	4,169	4,464	3,205	13,272	5,862
23 Laundry/Utilities	108	164	148	283	284	428	281	203	-
24 Legal/Audit	3,218	2,590	3,042	2,732	2,216	3,628	5,272	2,351	1,632
25 Misc. Expense	-	-	-	-	458	29	-	-	-
26 Management	11,268	11,737	12,341	13,576	13,950	15,164	16,114	17,584	12,503
27 Payroll Costs	21,150	23,637	28,697	31,572	37,750	35,261	34,957	38,256	29,856
28 Pool Operation Contract	4,282	5,077	4,720	4,062	4,795	4,428	4,500	4,200	3,450
29 Refuse/Pest Control	5,035	5,300	6,642	5,456	5,306	4,943	5,389	4,818	3,642
30 Repairs/Maintenance	32,512	35,882	41,388	45,709	46,004	54,491	50,112	92,716	49,266
31 Supplies	554	448	763	1,914	1,467	936	479	177	363

October 2, 1979

Glen Willow Apartments

Cash Flow Summary (Continued)

	1971	1972	1973	1974	1975	1976	1977	1978	1979			
								(Jan-Aug)		9	10	11
1. Taxes and Licenses	36,039	36,115	35,091	51,804	35,048	36,659	40,323	39,515	26,820			
2. Utilities	29,639	33,389	36,237	42,167	52,749	60,247	74,193	89,177	67,677			
3. Vehicle Expense	-	-	-	-	312	476	103	25	30			
4. Total Oper. Disbursements	65,678	69,504	71,328	93,974	88,109	97,382	114,619	128,727	94,527			
5. Per Unit (152)	432	457	469	618	580	647	761	854	622			
6. Net Oper. Receipts	(13,179)	(33,337)	(34,029)	(22,625)	(2,166)	(5,623)	(1,320)	(10,212)	(10,212)			
7. Per Unit (152)	(87)	(220)	(224)	(149)	(14)	(37)	(9)	(67)	(67)			
8. Replacement Expenses	823	879	882	1,007	-	1,033	909	854	713			
9. Reserve for Replacements	-	-	-	-	3,000	1,334	16,320	-	-			
10. Capital Expenses	-	-	-	-	136,195	135,609	131,095	29,750	106,378			
11. Net Rpts. Before Dbt. Svc.	131,029	133,557	134,029	153,093	136,195	135,609	131,095	29,750	106,378			
12. Debt Service:												
13. First Trust	102,000	102,022	102,000	102,000	102,000	102,000	101,940	102,000	68,000			
14. 2nd Trust/Ground Rent	-	-	-	-	-	-	-	-	-			
15. Total Debt Service	102,000	102,022	102,000	102,000	102,000	102,000	101,940	102,000	68,000			
16. Net Rpts. After Dbt. Svc.	29,029	31,534	32,029	51,093	34,195	33,609	29,095	27,750	40,379			
17. Other Receipts	-	-	407	823	773	263	-	880	316			
18. Other Disbursements	(1,160)	-	-	-	-	(712)	-	(7,110)	(540)			
19. * Net Gain/Deficit for Pd.	28,869	31,534	32,436	51,893	35,968	35,154	30,095	28,520	40,145			
20. Owner's Bal. Beg. of Pd.	3,606	8,424	8,468	4,124	5,615	7,583	15,143	9,255	24,775			
21. Distribution to Ownership	(26,000)	(31,321)	(35,779)	(50,424)	(33,000)	(45,600)	(34,984)	(6,000)	(24,000)			
22. Owner's Bal. End of Pd.	8,454	8,468	4,124	5,615	7,583	15,143	9,255	24,775	40,929			
23. * Net Gain/Deficit for Pd.	30	207	213	342	250	350	181	143	264			
24. Per Unit (152)	200	136	140	225	164	229	119	94	173			

Stanton Hill and Glen Willow Apartments

Trends & Summary

I. TRENDS

A. Income - Gross Potential

Stanton Hill - For the period 1971 through 1978, the gross potential increased 32.9%. This was an average annual increase of 4.1%.

Glen Willow - For the same period, the gross potential increased 59.7%, or an average annual increase of 7.5%.

Comment - Even with comparable periods of Federal rent controls and local County controls, the Glen Willow project has achieved annual increases almost double those at Stanton Hill.

B. Total Operating Disbursements

Stanton Hill - For the period 1971 through 1978 total operating expenses increased 88.4%. This was an average annual increase of 11.1%.

Glen Willow - For the period 1971 through 1978 operating expenses increased 106.0% for an average annual increase of 13.3%.

Comment - Annual operating expense increases while almost equal at both projects have been further offset at Glen Willow by larger rent increases.

C. Cash Flow

Stanton Hill - Since 1975 there has been a constant erosion of cash flow available for debt service as expenses have outpaced the rent increases allowable under rent control. The deficits in 1977 and 1978 were the first over the life of the project.

Glen Willow - Over the past eight years a constant cash position has been maintained as rents were adjusted to reflect market conditions and absorb the inflationary impact on operating expenses.

II. OPERATING EXPENSES

While operating expenses have increased almost equally at both projects, there have been substantial changes at Stanton Hill beyond the control of management and the owners.

Insurance

Stanton Hill - Premiums have increased from \$9,416. in 1971 to \$49,524. in 1978. An increase of 500%. This substantial increase is the result of the inability to place coverage with private carriers due to the loss experiences and excessive claims at the project.

Glen Willow - Annual costs are about double the 1971 period, in fact have stabilized over the past few years.

Legal and Audit

Stanton Hill - While legal and collection fees have doubled due to rising costs of attorney and other collection fees, this expense at Glen Willow has actually declined on the average over the same period.

Refuse/Pest Control

Stanton Hill - This service has increased almost 6% a year, while the annual costs at Glen Willow are equivalent to that expense in 1971.

Real Estate Taxes

Stanton Hill - Real Estate Taxes have in effect declined over the past several years. This situation is largely the result of the assessors opinion that the property has substantially declined in market value. Utilizing the income approach to value, the assessor has seen the erosion of net operating income (marginal income increases on the average with excessive operating expense increases). The bottom line is reduced net operating income which when capitalized indicates a declining market value.

Glen Willow - On the average, total market value has increased approximately 5% - 6% per year based on assessments in file. Assuming similar treatment utilizing the income approach to value the assessor acknowledged a rising income stream with a minimum of deferred maintenance. Taxes have remained somewhat stable due to reductions in the tax rate, and not assessments.

Utilities - Both projects have experienced comparable increases in total utilities for the 1971 - 1978 period. In effect total utility costs have tripled since 1971, however, the rate of increase at Stanton Hill has been excessive in recent years. Utilities increased 34% in 1976, and 48% in 1977, at Glen Willow for the same periods, increases of 23% and 20% are observed. Needless to say, the Stanton Hill utilities have made a substantial impact on available cash for major repairs and capital improvements of a deferred nature.

III. ALTERNATIVES - As Mandated by Current Rent Control

General Rent Increases - The series of rent restrictions upon termination of Federal rent controls has seriously effected the financial viability of Stanton Hill. Between 1971 and 1974 gross potential increased approximately 4% a year, while between 1975 and 1978 the potential has increased less than 3% a year on the average. These increases were hardly sufficient to offset increased expenses, and has impaired the ability of the owner and managing agent to make needed capital improvements and establish a long needed program for deferred maintenance.

Rent Increases Based on 8% Rate of Return - Per the established formula, a project can increase rents to generate an 8% rate of return (no debt service). Stanton Hill, since the implementation of D. C. rent control has not been able to qualify for an increase based on this formula, nor was Stanton able to receive an increase under the Judge Moore ruling. Between 1975 and 1976 income increased less than 1%. For comparison, total expenses increased 16.5% for this period. The 8% rate of return formula simply offered no relief, until the most recent 12 month period when a 6.8% rate of return was computed. The general operating cost ratio was implemented instead.

Negative Cash Flow - This alternative rate of return formula (includes debt service) offers no relief as the project has not experienced a negative cash flow over the most recent 12 month period. The procedure offers little relief as rents can only be increased 1/4%.

Capital Improvements Pass-Through - Upon approval by the rent administrator and amortized over the life of the improvements (IRS guidelines) rents can be increased a maximum of 10% over the current rent ceiling. As projected at this moment it is anticipated that \$400,000 - \$500,000 would be needed for capital improvements (see enclosed detail). It is simply not feasible to invest an average \$450,000 over the next year or so, and get a return

of the \$45,000 (by way of rent increases) per year at no interest for the next 10 years. There would be a loss of value adjusting for inflation, and the improvements would certainly be needed again after the 10 year period.

Substantial Rehabilitation - At a minimum of 50% of the assessed value, approval by the rent administrator, amortized over useful life, and not to exceed 125% of current rent ceiling. For many of the reasons above, it is not foreseeable to be feasible.

HUD Programs - Under Section 223(f) of the National Housing Act, HUD insures mortgages for refinancing of existing multifamily projects originally financed with or without federal mortgage insurance. HUD will insure mortgages on existing multifamily projects which do not require substantial rehabilitation.

Under this program, Glen Willow has been refinanced with a 9-1/2%, 35 year mortgage at a loan to value ratio of 70%. With the completion of needed capital improvements, the project will have more favorable financing, and the residents will now have units and common areas in top notch condition.

Briefly, Stanton Hill could qualify for this program, however, the rents are too low to make the financing and HUD requirements feasible. Effectively rent control has eliminated a program which has been approved for Glen Willow, and which has been widely used in other projects in the Washington area to upgrade properties under favorable financial terms.

Condominium Conversion - The second section of this report under "Preliminary Analysis and Budget" investigates numerous demographic trends regarding the existing tenants at Stanton Hill. Of paramount importance is the ability of current residents to afford their units under a conversion situation. A review of those residents moving in since 1978 indicates average annual incomes of \$14,000 (similar to the Glen Willow residents). The Stanton Hill residents are paying 18.9% of their total income for rent, a ratio below government projections for the metro area. On the other hand, residents at Glen Willow, moving in for the same period are paying 21.5% of their income to rent, where rents are set by the market. Based on assumed unit pricing and mortgage terms, a comparative purchase vs. rent analysis is indicated by unit type. The overall conclusion from this after tax summary is that the net monthly cost to a tenant under a purchase situation would slightly exceed the current rent level. (This analysis excludes appreciation of purchase price).

IV. CONCLUSION:

Upon review of the possible alternatives it appears that the current D.C. rent control laws will offer no viable relief to Stanton Hill, its tenants and owners. With the elimination of any assistance from HUD programs or from any relief by the District of Columbia, it would appear that preliminary investigations should be made with respect to a condominium conversion. Given the existing income stream of a large majority of the existing residents, within defined mortgage terms, this appears to be a positive alternative to pursue. This review should be conducted in light of current D.C. condominium conversion restrictions, the conventional condo financing market, and the impact on current (and low income) residents and owners alike.

RECEIVED
 DISTRICT OF COLUMBIA
 APPEALS
 DIVISION

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BEFORE THE DISTRICT OF COLUMBIA
 RENTAL ACCOMMODATIONS COMMISSION

DREYFUSS BROTHERS, INC.,)	
MANAGEMENT AGENT,)	
STANTON HILL APARTMENTS)	
)	TP-3138
Appellant)	TP-3158
)	
v.)	
)	
STANTON HILL TENANT)	
COUNCIL, et al.)	
)	
Appellees)	

NOTICE OF APPEAL

Notice is hereby given that Dreyfuss Brothers, Inc., Management Agent for the Stanton Hill Apartments (hereinafter referred to as "Landlord") appeals to the District of Columbia Rental Accommodations Commission from the decision of the Rental Accommodations Office on the two above-captioned cases.

Portions of Decision Appealed From:

This appeal is taken from only the following portions of the joint decision:

1. That the 9.4% rent adjustment of general applicability implemented by Landlord on June 1, 1979 be rescinded;
2. That all amounts of such increase collected by Landlord to date be returned to each tenant, plus 5.25% compound interest thereon;
3. That the Landlord submit a calculation of each tenant's refund to the Rental Accommodations Office.
4. That beginning with the next date rent is normally due (which is November 1, 1979), rents for each rental unit at

the Stanton Hill Apartments be reduced to the October 31, 1977 rent level for such rental unit and remain at that level until Landlord has substantially abated the housing violations outstanding at the apartment complex.

5. That the rental units and common areas at the Stanton Hill Apartments were not in substantial compliance with the Housing Regulations of the District of Columbia at the time of the August 7, 1979 hearing in this matter and are not currently in substantial compliance with the Housing Regulations.

6. That substantial violations of the Housing Regulations affecting the health and safety of the tenants currently exist at the Stanton Hill Apartments.

Grounds For Appeal and Errors Asserted:

The grounds for this appeal are as follows:

1. The above decisions and rulings of the Hearing Examiner in the joint decision of October 19, 1979 were contrary to the clear weight of the admissible evidence on the record. The record contains signed reports by Housing Inspectors of the District of Columbia noting that 1,155 of the 1,416 violations originally noted for the Stanton Hill Apartments (or well over 80% of these violations) were cancelled or abated. ^{1/} Mr. Russell D. Pearsall, a Supervisory Housing Inspector with the District of Columbia Department of Housing and Community Development has certified that, after review of these reports, it is his expert opinion that the housing violations originally noted for the Stanton Hill Apartments have been substantially abated (see Exhibit A, attached).

^{1/} A total of 1,042 of the violations were abated and another 113, relating to screens, were cancelled.

2. Section 208(a)(1)(A) of the Rental Housing Act of 1977, D.C. Code §45-1689, specifically provides that evidence of substantial non-compliance with the Housing Regulations may only be established by official housing code violation notices or such other evidence as may be permitted by regulations adopted by this Commission. There are presently no published regulations establishing other methods of proof of substantial non-compliance and no such regulations have ever been published. Therefore the only admissible evidence on this subject is housing violation notices. (Similarly, notations of abatement on any notices, in accordance with established Department of Housing and Community Development procedures, in proof of abatement of violations.) In spite of this express statutory restriction, the Hearing Examiner improperly admitted into the record as documentary evidence of substantial non-compliance, the results of a written survey distributed and completed by the tenants. The Hearing Examiner also improperly allowed individual tenants to testify as to their belief that housing violations existed in the common areas and in their rental units.

3. The Hearing Examiner improperly relied on the survey reports and the oral testimony of tenants to find that substantial housing violations continued to exist on the premises. This contravened the written reports prepared by the District of Columbia housing inspectors. The written reports of the inspectors clearly showed that the Stanton Hill Apartments had been brought into substantial compliance with the housing regulations within the time period permitted under both the Rental Housing Act and the notices of violation.

4. Section 208(a)(1)(A) of the Rental Housing Act provides that non-compliance with the Housing Regulations may not invalidate a rent adjustment if the non-compliance is the

result of tenant neglect or misconduct. The uncontroverted evidence in the record established that a major portion of the recurrent repair needs at the Stanton Hill Apartments are the result of vandalism by tenants and their invitees. The Hearing Examiner erred as a matter of law in not overruling the challenge to the rent adjustment on this basis.

5. Section 208(d) of the Rental Housing Act provides that any tenant who does not grant reasonable access to Landlord for the purposes of repair may not challenge a rent adjustment on the basis of non-compliance with the Housing Regulations. The uncontroverted evidence in the record established that Landlord's correction of the housing violations noted has been substantially hindered by difficulties of access to tenant apartments. The Hearing Examiner erred as a matter of law in not overruling the challenge to the rent adjustment on this basis.

6. The Hearing Examiner's ruling that rents be rolled back to their October 31, 1977 levels clearly exceeded the scope of his jurisdiction. This ruling also invalidated the 1978 rent adjustment. The 1978 rent adjustment is the subject of TP-2030 which was previously remanded to the Rental Accommodations Office by this Commission. A rehearing in accordance with this Commission's order of remand has been held by the Rental Accommodations Office but no decision has yet been released. The decision in TP-2030 will necessarily effect the decision in the two instant cases since the decision in TP-2030 will affect the base rent to which a 9.4% rent increase is to be applied. Therefore, a challenge to no more than the 1979 rent adjustment was properly before the present Hearing Examiner.

7. The Hearing Examiner violated Landlord's right to due process of law by his conduct of the hearing. As the record

of the Hearing reflects, the Hearing Examiner, over the objections of Landlord, repeatedly abandoned his adjudicative role as an impartial finder of fact and attempted to elicit testimony from witnesses which was favorable to the position of petitioners. The Hearing Examiner repeatedly took over questioning of witnesses and extended the scope of those witnesses' testimony far beyond that elicited by the party presenting the witness. The conduct was so repeated and so flagrant that in no way can the Hearing Examiner's conduct be considered as clarifying evidence already presented.

8. The Hearing Examiner consistently solicited testimony from randomly selected members of the audience on his own accord, most of whom were not placed under oath, in areas specifically reserved for expert testimony by qualified housing inspectors of the District of Columbia.

9. The Hearing Examiner violated Landlord's right to due process of law by selecting members of the audience to testify. This was done after both Landlord and Petitioner had rested their cases, and most of these witnesses were not even placed under oath.

10. The Hearing Examiner did not conduct the proceedings in conformity with the District of Columbia Administrative Procedure Act, D.C. Code §1-1501, et. seq., as more specifically set out in paragraphs 1 through 9 above.

11. The Hearing Examiner acted arbitrarily and capriciously in conducting the hearing, as more specifically set out in paragraphs 1 through 10 above.

12. The findings of the Hearing Examiner from which this appeal is taken are contrary to the clear weight of that evidence which was properly admitted into the records. Those findings are not supported by substantial, competent evidence in the record.

WHEREFORE, Landlord requests that the Hearing Examiner's decision be reviewed and, for the reasons expressed in the accompanying Motion for Stay, that the effectiveness of the Hearing Examiner's orders concerning a refund of the 1979 rent increase and rollback of rents to the October 31, 1977 levels be stayed pending the resolution of this appeal by the Rental Accommodations Commission.

Respectfully Submitted,

William M. Harvey

Stanley J. Wrobel

Aronoff, David, Harvey & Hagner
1120 Nineteenth Street, N.W.
Suite 800
Washington, D.C. 20036
(202)467-6900

Counsel for Appellant
Dreyfuss Brothers, Inc.
Management Agent for Stanton
Hill Apartments

CERTIFICATE OF SERVICE

I hereby certify that on October ____, 1979, a copy of the foregoing Notice of Appeal and Request for Stay, with accompanying Memorandum, was sent by first class mail, postage prepaid, to Vaughn Wallace, 2619 Naylor Road, S.E., Apartment 1, Washington, D.C. 20020, representative for petitioners, Stanton Hill Tenant Council, et al.

Stanley J. Wrobel



DISTRICT OF COLUMBIA RENTAL ACCOMMODATIONS OFFICE
 MUNSEY BUILDING, SUITE 439 1329 E STREET, N. W.
 WASHINGTON, D. C. 20004

October 19, 1979

(202) 724-5600

Tenant Petitioners

Stanton Hill Tenants' Council
 c/o John H. Stockton
 3046 Stanton Road, S.E.
 Washington, D.C. 20020

In Re: TP # 3138 & 3158
 3040 thru 3098 Stanton Road, S.E.

Landlord Respondent

Dreyfuss Brothers, Inc.
 c/o Stanley J. Wrobel
 Aronoff David Harvey & Hagner
 1120 19th Street, N.W.
 Washington, D.C. 20036

RENT ADMINISTRATOR'S DECISION

Jurisdictional and Procedural History

The above referred matter came before Hearing Examiner, Gerald J. Roper of the District of Columbia Rental Accommodations Office (RAO), on August 7, 1979, pursuant to Tenant Petition Complaint 3138 which was filed on May 16, 1979.

Notice of the time, date and place of the hearing was furnished to the parties in accordance with Section 3.11 of the Regulations.

Present at the hearing representing the tenant petitioners were Mr. John Stockton, Ms. Viola Dortch and Mr. Vaughn Wallace. Appearing in behalf of the landlord respondent were Mr. William M. Harvey, Esquire and Mr. Stanley Wrobel, Esquire. Also present were a number of tenants and officers of the Dreyfuss Brothers Company.

Counsel for the respondent, Mr. Stanley Wrobel objected to proceeding with TP 3138 without consolidating TP 3158 which was filed in the name of Mr. Arthur Whitaker, the Hearing Examiner overruled the objection and proceeded with TP 3138.

Description of the Property

The property is described as a multi-unit structure. The property is located on Square No. 5879, Lot No. 0011.

Issues

The issues presented by the petitioner which were consolidated and considered by the Examiner are:

1. Whether the present rent is higher than the rent ceiling for the subject rental units.
2. Whether the rent should be reduced because the landlord has substantially decreased the services which were previously available as part of the monthly rent.
3. Whether the subject rental units are in substantial compliance with the District of Columbia housing regulations.
4. Whether the landlord of the subject housing accommodation is properly licensed pursuant to Housing Regulations of the District of Columbia.
5. Whether the rent should be reduced because tenants did not receive proper notice of the rent increase.

Law and Regulations

Section 102(a), Law 2-54, defines the term "base rent" as that rent legally charged or chargeable on October 31, 1977 for the rental unit which is to be the sum of rent charged on February 1, 1973 and all rent increases authorized for that rental unit by prior rent control laws or any administrative decision issued thereunder, or any rent increases authorized by a court of competent jurisdiction.

Section 205(d), Law 2-54, provides that within not more than ninety (90) days following the effective date of this act, each landlord of any rental unit not exempted by this act shall file with the Rent Administrator, on a form approved by the Rent Administrator, a new registration statement for each housing accommodation in the District of Columbia for which he or she is receiving rent or is entitled to receive rent.

Section 206(a), Law 2-54, provides that except to the extent provided in section 206(b) of the act, no landlord of any

Law and Regulations (cont'd)

rental unit subject to the act may charge or collect rent for such rental unit in excess of the amount computed by adding to the base rent not more than one (1) of the following percentages, whichever is applicable:

- (1) two percent (2%), if the rent covers the cost of no fuel or utilities;
- (2) seven percent (7%), if the rent covers the cost of heat and hot water;
- (3) eight percent (8%), if the rent covers the cost of heat, hot water and general purpose electricity, but does not cover air conditioning and other cooking fuel;
- (4) nine percent (9%), if the rent covers the cost of heat, hot water, general purpose electricity, and other cooking fuel but does not cover air conditioning; or
- (5) ten percent (10%), if the rent covers the cost of heat, hot water, general purpose electricity, other cooking fuel and air conditioning.

Section 208(a)(1), Law 2-54, provides that the rent for any rental unit shall not be increased above the base rent unless (A) the rental unit and the common elements are in substantial compliance with the Housing Regulations (B) the housing accommodation is registered in accordance with §205(d) of the act; (C) the landlord of such housing accommodation is properly licensed pursuant to the Housing Regulations if such regulations require his or her licensing; (D) the manager of such accommodation, when other than the owner, is properly registered pursuant to the Housing Regulations if such regulations require his or her registration; (E) notice of such increase complies with §208(g) and §904 of the act.

Section 208(2)(2), Law 2-54, provides that where the Rent Administrator finds that there have been excessive and prolonged violations of the Housing Regulations affecting the health, safety and security of the tenants or the habitability of the housing accommodation in which such tenants reside and that the landlord has failed to correct such violations, the Rent Administrator may roll back the rents for the affected rental units to an amount which shall not be less than the February 1, 1973, base rent for such rental units until such time as the violations have been abated.

Law and Regulations (cont'd)

Section 211, Law 2-54, provides that if the Rent Administrator determines that the related services or related facilities supplied by a landlord for a housing accommodation or for any rental unit therein are substantially increased or decreased, the Rent Administrator may increase or decrease the rent ceiling, as applicable, so as to proportionally reflect the value of the change in services or facilities.

Evidence Considered

The evidence considered in this matter consists of the following:

1. Tenant Petition Complaint
2. Landlord Registration Form
3. Copies of letters sent to petitioner(s) and respondent(s) by the RAO regarding the subject complaint.
4. Verifying documentation which was submitted to support the petition.
5. Testimony adduced at the hearing.
6. Tenant survey reports, photographs, letters from the D.C. License and Permit Branch.

Summary of Testimony

At the hearing, the petitioners through their representatives Mr. John Stockton, Ms. Viola Dortch and Mr. Vaughn Wallace alleged that the landlord was not registered with the RAO in accordance with Section 205 of the law (D.C. Law 2-54). In support of this allegation, two letters from officials of the District of Columbia Licensing and Permit Division were proffered which stated that 3040-3098 Stanton Road, S.E. did not have the requisite certificate of occupancy or housing business license. With regard to the rent issue, the petitioners claimed that the Section 206(b) rent increase implemented in April effective in June 1, 1979 was illegal because it was implemented within twelve (12) months of last increase in TP 2030 and the outstanding housing code violations cited in April and May inspection survey reports. Copies of the reports were entered into the record. In further support of the violations photographs of the housing accommodation and a report from the D.C. Environmental Health Administration, concerning violations of the swimming pool were proffered.

The petitioners further alleged that the landlord has reduced the services to the rental accommodation by not providing adequate maintenance and repairs of the magnitude necessary in

Summary of Testimony (cont'd)

maintaining a housing accommodation as large as Stanton Hills. Several tenants testified to the reduction in services per se. Ms. Beatrice Belton, testified that, laundry room services and facilities have declined as well as the trash removal services and maintenance of the common areas of the housing accommodation. Mr. John Stockton, corroborated Ms. Belton's testimony and added that through the assistance of the "Mayor's Office of Community Services" a housing survey was obtained for each rental unit. The survey was circulated, and retrieved by the Association, and then sent to management. The survey's listed the housing and environmental services desired and general comments of the overall condition of the tenants' individual rental units and common areas. The Associations overall position as to the reduction in service was that, these conditions have existed for well over four (4) years, and although the landlord has made some repairs with respect to the housing violations, the repairs were cosmetic and reoccurring.

A key witness for the petitioner's, Mr. Kenneth Nelson testified that he is currently residing with relatives at 3074 Stanton Road, prior thereto he was a tenant at 3068 Stanton Road. During his tenancy Mr. Nelson stated he had been employed by management (Dreyfuss Brothers) as a maintenance man for approximately nine (9) months. During the nine months there were one to three persons employed beside himself, that work was done through assignments based upon work request of the tenants. Thus, with the number of employees and requests for maintenance by the tenants it's virtually impossible to accomplish the work the same day it was requested. Generally, the requests were filled in two weeks from the time it was given to management. Mr. Nelson also testified that further delays were the result of the unavailability of equipment and supplies and on occasion supplies directed to Stanton Hills Apartments were transferred to other properties managed by Dreyfuss. Further Mr. Nelson stated that, during his employment the laundry and trash room facilities were located in separate areas of the basement in each building. However, just prior to his termination of employment the laundry and trash room were one in the same.

At the conclusion of the petitioners case, counsel for the respondent moved to strike the rent increase issue, the reduction in service issue and the issue pertaining to the licensing of the property. The motion was predicated upon failure to present a prima facie case and the Rent Administrator's Decision in TP 2030.

Summary of Testimony (cont'd)

In rebuttal to the petitioners case Mr. Gary Chandler of Dreyfuss Company testified that he prepared the Landlord Registration Forms and the rent increase notices for the subject rental accommodation. According to the records and files used in preparing the registration, Mr. Chandler categorically denied the property was improperly licensed with the District of Columbia. Mr. George Allen, vice president of the management company testified among other things that he received all the housing code violation reports issued by the Housing Department and forwarded them to the property manager. The housing code violations in question represented approximately 1433 violations of which two-thirds are purportedly abated. Mr. Allen, also testified that since 1973 the property has continuously deteriorated as a direct result of tenants abuse and vandalism. Notwithstanding, the property is budgeted for five employees and some work is performed by outside independent contractors.

Mr. Frank Himmelfrab, the property manager testified that presently there are eight employees serving the subject property however the number of employees does vary. Mr. Himmelfrab, further testified to the procedure for handling tenants' complaints. As to the delay in providing maintenance and repairs, Mr. Himmelfrab denied that the reason was due to lack of equipment or supplies or supplies designated for Stanton Hills going to other properties managed by Dreyfuss Brothers. However, Mr. Himmelfrab readily admitted that the delays in repairs were the direct result of gaining entrance to the tenants' rental units and dogs kept by tenants. As to the trash removal and laundry room issue, Mr. Himmelfrab, stated that, the allegations were completely false that trash is removed on a regular basis and the laundry room facilities are adequate notwithstanding vandalism.

Evaluation of Evidence

The evidence considered herein is given equal weight and consideration except where noted. The Hearing Examiner ruled early in the proceeding that TP 3158 would not be consolidated with the instant matter and that a separate hearing would be held at a later date. At that hearing, the Hearing Examiner ruled that since the issues raised in TP 3158 were similar to those raised in the instant matter and there being no additional evidence to be considered then TP 3158 should be considered as part of TP 3138. This Examiner is of the same opinion with one

Evaluation of Evidence (cont'd)

exception, that in the event the parties in TP 3158 are in dispute with this decision based upon the application of the facts with the law then a show cause proceeding shall be scheduled.

The Landlord Registration Forms on file with the RAO shows that each housing accommodation which makes up the Stanton Hill Apartment, 3040-3098 Stanton Road S.E. is registered in accordance with the law and has the requisite occupancy permits and housing business licenses for the 1978 licensing year. However, the Licensing and Permit Division of the District of Columbia has indicated in two letters dated August 6, 1979 that the subject housing accommodation does not have the requisite certificate of occupancy permits or housing business licenses.

The evidence further shows that the landlord through its management agent, Dreyfuss Brothers Incorporated implemented a 9.4 percent rent increase pursuant to Section 206(b) of the law (supra) in April, 1979 effective June 1st. The evidence also shows that the District of Columbia Housing Division issued a series of housing code notices totaling approximately 1143 housing code violations in May and June 1979 ^{1/}. There have been several reinspections to determine whether the violations have been abated. The record is unclear as to how many of the violations have been corrected. The testimony of the respondents is that well over 50 percent have been abated by the Housing Division where as the petitioners claim that although repairs and maintenance have been made there has been no where near 50 percent of the violations abated. The evidence also shows that, the District of Columbia Environmental Health Administration issued a notice of violations in and around the swimming pool area in June which closed down temporarily.

The evidence shows that regarding the issue of reduction in services, management admitted the property is deteriorating, that the operating expense has been at a deficit and that the budget for Stanton Hills Apartment calls for 5 full time employees. The evidence also shows that the budget calls for outside contractors to perform maintenance and repairs as they arise notwithstanding the period prior to the

^{1/} See D.C. Housing Code Reports, Notice Numbers 424213, 424220, 464341, 846212, 846213, 846214, 846219, 846230, 846247, 846256, 846495, 846826, 846805, 846924, 846477, 846478, 847398 and 847603.

Evaluation of Evidence (cont'd)

housing code reports (1978-1978 etc...) personnel has been restricted to 2 to 3 employees as the maintenance work force for the entire 30 building housing complex.

The evidence shows also that through the assistance of the "Mayor's Office of Community Assistance" the petitioner obtained a housing survey report which was circulated among the members of the Tenants' Association, approximately 150 tenants responded by completing the survey and listing their problems and complaints with their rental unit and housing accommodation. The reports were forwarded to management as package of the tenants complaints. There was also testimony as to the nature of problems described as decreased or reduced services, to-wit: laundry and trash room facilities, and the unreasonable time between when tenants request repairs and the actual repairs being made. As to the value of the diminution in services the petitioners have requested that such value be determined by the Hearing Examiner.

As to the rent increase issue, the evidence shows that the landlord last took a 7 percent rent increase (prior to the 9.4 percent increase) pursuant to section 206(a) of the law. In TP 2030 the Hearing Examiner ordered a refund of \$5.40 for each rental unit based upon a finding of decrease in services, the Examiner stated in her order that she would retain jurisdiction over the case to determine whether there were substantial housing code violations at the time the landlord implemented the 7 percent Section 206(a) rent increase in May, 1978. Thus, from the decision in TP 2030 the evidence shows that the last rent increase was approximately 12 months ago.

The evidence also shows that management began in July, 1979 to abate the housing violations cited in the housing code reports. To date according to Supervising Housing Inspector Survey of D.C. Housing Division these violations have not be completely abated.

Findings of Fact

After careful evaluation of all relevant materials, the Hearing Examiner makes the following findings of fact.

1. The subject housing accommodation located, 3040 - 3098 Stanton Road, S.E. was registered with the RAO on March 30, 1978.

Findings of Fact (cont'd)

2. The subject property described in # 1 above has the requisite certificate of occupancy permits and housing
3. The District of Columbia Licensing and Permit Division has indicated in two separate letters dated August 6, 1979 that the subject properties under the ownership name of Stanton Road Associates Incorporated have not been issued nor pending the requisite Certificate of Occupancy Permits or Housing Business Licenses.
4. The landlord of Stanton Road Associates through their managing agent Dreyfuss Brothers Incorporated implemented a Section 206(b), 9.4 percent rent increase May 1, 1979, effective June 1, 1979.
5. The agent also had implemented a previous rent increase pursuant to Section 206(a) in May 1978.
6. During the period prior to May 1979 management employed on a regular basis two to three employees designated as the maintenance personnel.
7. It has taken management up to two weeks to respond to tenants' request for maintenance and repairs.
8. According to management, the operating budget for the subject housing accommodation calls for five full time maintenance personnel.
9. During the period May and June 1979 the District of Columbia Housing Division served upon the managing agent the following housing code reports Notice Numbers: 424213, 424220, 464341, 846212, 846213, 846214, 846219, 846230, 846247, 846256, 846495, 846826, 846805, 846924, 846477, 846478, 847398 and 847603 these violations total approximately 1143 housing code violations.
10. Management began in July 1979 to abate the violations cited in # 9 above by using the maintenance staff and independent contractors.
11. The District of Columbia Environmental Health Administration issued a notice dated June 21, 1979 totaling nine health violations in and around the swimming pool area, temporarily closing the pool to the public.

Findings of Fact (cont'd)

12. The laundry room facilities operated by an independent contractor selected by management has deteriorated, in addition to the trash room facilities.

Conclusions of Law

In all matters before this administrative agency the petitioning or moving party has the burden of proof, the burden is a preponderance of the evidence. In the case at hand the burden was not met as it relates to the petitioners allegation of proper registration and licensing with the District of Columbia. A review of the RAO registration files indicates clearly that the subject properties are registered inclusive of the required licenses and permits. Accordingly this matter shall be dismissed.

The Examiner, further concludes that, the findings support a violation by the landlord of Section 208(a) of the law which provides in certain part that the rent shall not be increased above the base rent (October 31, 1977) unless the rental unit and common elements are in substantial compliance with the Housing Regulations . . . evidence of such substantial non-compliance shall be limited to housing code violation notice(s) issued by the District of Columbia Department of Housing and Community Development. Here, the nature and number of the violations cited in May and June not only constituted substantial noncompliance but directly affects in a great number of rental units the health and safety of the tenants. Accordingly, the landlord improperly implemented the section 206(b) 9.4 percent rent increase effective June 1, 1979. Therefore, that rent increase should be rescinded immediately and returned to each tenant plus 5.25 percent interest compounded over the period June through October 1979. Further, the rent beginning the next date rent is normally due should be reduced to the base rent level of October 31, 1977 as indicated on the Landlord Registration Forms until such time as the landlord has substantially abated the housing code violations.

As to the reduction in services allegation, the Examiner concludes that there is insufficient evidence to conclude that the landlord has violated Section 211 of the law which provides, in part that the Rent Administrator may grant an adjustment in the rent ceiling where there is evidence of the landlord's substantial decrease in service. A substantial decrease has not been defined by law. However, in this Examiner's opinion there has been no substantial decreases in service or facilities to warrant a reduction in rent.

Conclusion of Law (cont'd)

Here, the facts will support a prolonged delay in providing maintenance and repairs and managements neglect in applying pressure to the contractor responsible for the laundry room facilities/equipment. In fact management has now employed eight employees to accomplish the work necessary to bring the property up to housing code compliance. Accordingly, there is sufficient evidence in the record which would negate a conclusion of reduction in service. Thus, the Examiner would urge the following recommendations; (1) the implementation of a better system of responding to tenants' request for maintenance, so that the time can be shortened (2) that management and the vending contractor responsible for providing the laundry room facilities get together on providing more suitable laundry equipment and; (3) that management provide a better means of disposing of trash and trash collection.

ORDER

Therefore, it is hereby ORDERED this 19th day of October, 1979 that:

The Landlord respondent, Stanton Hill Associates Incorporated or their agent Dreyfuss Brothers Incorporated shall immediately refund to each tenant of the Stanton Hill Apartment Complex 3040 through 3098 Stanton Road, S.E. all rents charged and collected pursuant to the Section 206(b) 9.4 percent rent increase implemented May 1, 1979 effective June 1, 1979 plus interest computed at 5.25 percent compounded thereon.

It is FURTHER ORDERED that,

The landlord or agent named above shall submit to the RAO the computation of each rental units' refund based upon the above period and formula no later than

It is FURTHER ORDERED that,

The rents for all the rental units of the Stanton Hill Apartments shall be reduced to the October 31, 1977 base rent level as indicated on the Landlord Registration Form until such time as the landlord has produced evidence to-wit: a certified statement from the Department of Housing that the housing code violations cited in Notice Numbers: 424213, 424220, 464341, 846212, 846213, 846214, 846219, 846230, 846247, 846256, 846495, 846826, 846805, 846924, 846477, 846478, 847398 and 847603 have been substantially abated.

ORDER (cont'd)

It is FURTHER ORDERED that,

The issues regarding improper landlord registration and licensing, improper notice of rent increase and the issue regarding the substantial decrease in service be DISMISSED WITHOUT PREJUDICE.

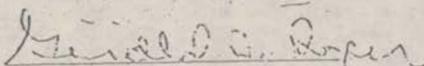
It is FURTHER ORDERED that,

This decision is effective immediately. Its effectiveness shall not be stayed by filing an appeal with the Commission.

Any party who believes that this decision is not supported by the evidence before the Hearing Examiner or that the law was applied incorrectly may request a review by the Rental Accommodations Commission. A review must be requested by filing a Notice of Appeal on or before November 5, 1979. The Notice must set forth the specific reasons for appeal which must be based on the evidence in the record or the application of the law. Address any Notice of Appeal to:

Chairman
D.C. Rental Accommodations Commission
421 - 8th Street, N.W.
Washington, D.C. 20004

The failure of the party to file a timely appeal shall result in the waiver of the right to have this decision reviewed by the District of Columbia Court of Appeals.



Gerald J. Roper
Hearing Examiner
Rental Accommodations Office

GJR/dj

October 24, 1979

Dreyfuss Brothers, Inc.
4100 Cathedral Ave., N.W
Washington, D.C. 20016

Housing Regulation Division
#21 M Street, Northeast
Washington, D.C. 20002

Gentlemen:

Review of inspectional records of this office indicate the following abatements at the Stanton Hills Apartment Complex:

Case #	Violations pending	Abated
424213	234	111
846230	167	100
845477	2	2
424220	340	285
846247	2	2
846478	2	2
464341	131	92
846256	20	20
847398	2	2
847603	7	2
845212	67	55
947495	2	2
847213	128	104
846826	4	4
845214	124	118
846805	49	34
846219	134	106
846924	1	1

Of the remaining unabated items, one hundred thirteen (113) are for screening and have not been cancelled or abated at this time. It is the policy of the Housing Regulation Division not to require that screens be provided when air conditioning that is adequate to serve the entire dwelling is being provided and is in good working order.

Section 2603 of the Housing Regulations require that all openings to the external air be provided with screens from March 15, through November 15.

It has been impossible to this date to reinspect all pending violations due to the inability of inspectional personnel to gain entry to all apartments cited, these violations remain in an open status.

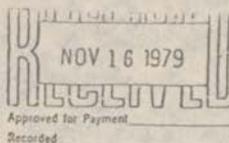
Of the 1416 items cited at this time of subject deficiency list, 1042 have been abated, of the remaining items, 113 items are for screening, as well as another 261 items remain unabated. Based on this performance, I feel a substantial number have been abated. I certify the above to be true.

Very truly yours,

Russell D. Pearsall



GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
WASHINGTON, D.C.



November 15, 1979

Dreyfuss Brothers, Inc.
4100 Cathedral Ave., N.W.
Washington, D.C. 20016

Reply To
Housing Regulation Division
21 M St., N.E.
Washington, D.C. 20002

Gentlemen:

My purpose in writing this letter is to inform you that my letter of October 24, 1979 addressed to you with respect to the status of housing violation notices at Stanton Hill Apartments is hereby retracted. For the purpose of further clarification, a copy of the letter I am referring to is attached. The letter was retracted because it contains inaccurate information with respect to pending, abated and cancelled items.

A reinspection of these violation notices listed on the attached letter will be conducted as soon as possible to ascertain their correct status.

Sincerely yours

Russell D. Pearsall
Russell D. Pearsall
Supervisor, Area #8

cc:

Rental Accommodations Office
Rental Commission
Mr. Stockton, Tenant Representative

Mr. KIRBY. Mr. Erkiletian is a builder-developer-owner of 3,000 rental apartment units in the Washington metropolitan area. Our investment goal has been to build apartments of good quality, for long-term ownership as rental property, thus we have been able to build and operate "model communities" at moderate rentals.

I am here to show you with facts and actual financial statements how rent control, since 1973 has brought down our fine Stanton Hill apartment community, which is in Southeast Washington, which we jointly own with a black family, by the way, who has majority interest, to financial ruin and a rapidly deteriorating physical plant, due to insufficient rental income.

I have before you photographs and financial statements of two almost identical projects our group owns, comparing their financial lives. Stanton Hill Apartments in Southeast Washington, which is under D.C. rent control and Glen Willow Apartments—Seat Pleasant, Maryland—which has no rent control, were both built by our construction company in 1965. Both have almost identical physical plants, large room sizes, modern kitchens, with dishwashers and disposals, heat and air conditioning and swimming pool, using the same subcontractors and materials and serve low and moderate income black families of \$13,500 per family 1979 income.

Mr. WILSON. Both properties?

Mr. KIRBY. Both properties, and using the same property management firm, by the way. Both projects from 1964 through 1975 had moderate rentals—\$150 plus electricity for a 2-bedroom in 1966—were well maintained, with capital expenditures being made annually and were able to generate approximately a 10 percent return per annum to the owners.

Due to rent control between 1973 through 1978, Stanton Hill was only able to raise rentals only 22.6 percent while operating expenses increased to 67.7 percent. Glen Willow during the same time period had rental increases of 45.1 percent versus 77.7 increase in operating expenses.

Between 1973 through 1978, Stanton Hill's annual gain dropped dramatically from \$131,060 in 1975 to a loss of \$31,057 in 1977 and breakeven in 1978 and in 1979. Glen Willow has maintained its modest profit throughout that entire time period.

Not only has Stanton Hill made a profit distribution to its investors since 1976, it has not had funds to make the normal capital expenditures; for example, two or three new roofs annually that we make in all of our other communities to keep our physical plant up.

Stanton Hill has used all of its funds for maintaining services; for example, air conditioning, heat, hot water, appliance repair and replacement, and has just barely survived.

Stanton Hill needs rehabilitation of at least \$500,000 just to bring it marginally up to standards or to put it back to the model community it once was, \$3 million—approximately \$800 per apartment. At Glen Willow we were able to receive an FHA 223(F) rehabilitation loan which enabled us to bring the community to top physical condition, as evidenced by the photographs, extending its viable life for many years. In 1977 we were not able to receive an FHA 223(F) rehabilitation loan for Stanton Hill because, economically, our rentals were too low.

Stanton Hill does not qualify for any of the "hardship" rent increases provided in the D.C. Rent Control Act. The rent increases based on an 8 percent rate of return, based on the value of net income prior to mortgage payment; in fact, this formula barely covers our debt service. For example, the D.C. assessor values Stanton Hill at \$3,969,000, excluding mortgage. Times 8 percent, this amounts to \$296,000 versus actual mortgage repayment of \$322,000 per year. By the way, that is a 7¾ percent interest loan.

The formula for capital improvements passthrough allows only a 20 percent rent increase on the actual capital expended on rehabilitation—no financial institution would loan us the \$500,000 to \$3 million at such a low return plus the uncertainties of future rent control, rental increases would be allowed. Would you invest \$500,000 into a community if under current laws it would take you 10 years just to get your investment back? I doubt it.

The bitter irony here is that Glen Willow, under the free marketplace, with rentals being only 10 percent more annually than Stanton Hill—in 1979, \$23 per apartment per month—since D.C. rent control, with tenants of the same \$13,500 per family income, paying only 21.8 percent of their annual income, is alive and well with a bright future, while Stanton Hill is in financial ruin.

We do not have the funds to subsidize the operating losses, let alone any capital repairs.

In short, we have only two alternatives (1) to board up the project and put out 412 families—

Mr. WILSON. Could you do that under the law?

Mr. KIRBY. We certainly could, with 6 months' notice.

Mr. WILSON. Just empty it?

Mr. KIRBY. Right. And as Mr. Lawson has done on some of his properties, or to go to the condominium route through a 51 percent tenant consent conversion.

As evidenced by comparing Glen Willow and Stanton Hill apartment, rent control has caused rapid physical deterioration, is about to displace 1,200 people, and we would lose our entire investment—the death of a fine rental community, ironically the exact opposite of the goals ascertained by the proponents of rent control.

I am sorry Mr. Looney was not here because I would like to give him some facts and figures. If someone knows where to reach him, I will send them to him. He indicated there has been no facts or figures presented to the committee.

Mr. WILSON. We know how to reach Mr. Looney.

Mr. KIRBY. Mr. Chairman, if I could take the committee's time—

Mr. WILSON. I want to ask you one thing. Are they going to let you convert that property?

Mr. KIRBY. We are trying what we feel is a unique approach, and that is what I would like to get into next. We are coming from a different perspective now. I am on the National Board of Trustees of Communities Association Institute. I am also president of the local Washington metropolitan chapter. This institute is made up of five interest groups, homeowners, builder-developers—and I am a builder-developer member—property managers, public officials in the category of insurance agents, lenders, et cetera.

We instituted a program with HUD 18 months ago to study the decaying urban, what is happening in our urban communities over Father Barony's suggestion. The program is called UNCAP, Urban Neighborhood Community Association Project. The manual is currently being edited by HUD, will be distributed some time in January or February.

I would suggest the committee, as well as the local jurisdictions, might want to get a copy of that. Basically we are taking the approach of Stanton Hill to form a partnership. The owners want out. They don't want to board up. The tenants want their community. They want it to be upgraded. There is not enough rent coming in, and rent has gone back to 1977 levels.

By forming a partnership with the tenants association and the owners and the District of Columbia, we hope to convert a self-conversion to the tenants thereby keeping displacement at a minimum through a number of various programs, basically financial, to keep the mortgage payments down as close as possible to their current rents through subsidized programs which you have been talking about here recently.

I think this is one program that is well worthwhile looking into. I don't believe in the welfare. I don't believe in someone who is going to receive something and not give something. I think that if people are out there willing to work for it, worth together, then they should receive help. One example, there is a program called FLIP, Mortgage Flexible Loan Insurance Program.

This is a program in which they bet on future income for the younger people, subsidize up to 30 percent the first year, and it graduates until after 5 years people pay the mortgage.

The lender gets his return. The property is sold, and that subsidy might be in the way of a subsidy provided by the District of Columbia. We are not going to give it to them. If you sell your property you the purchaser, you pay us back at passbook rate savings. That is one example.

For people like the elderly who are sitting there with a fixed income, I think it is very important that some sort of a program be developed for them, long-term leasing program. Let an investor come in and buy certain units for the elderly at a fixed rate of rental with a subsidy to the investor, so he gets his return. Again, you are not throwing out a lot of money for a large subsidy on a large project.

Those are just some thoughts and ideas. I don't want to take the committee's time to go through all of this program, but there are a lot of things that can be done to solve this problem if people work together, instead of, as we say, the adversary relationship we have had in the last two days on this committee. Sit down and work it out.

That is it on my testimony. I am sorry, there is one page missing in the thing that I have got here that I missed, if I may, on page 3.

The city's assessor's office has recognized the physical deterioration through a reduction in both market value and assessed value at Stanton Hill of \$652,000 in the past four years, 1976, the value by the city assessor's office, \$4,350,000 and 1980, \$3,698,000. This is during rapidly increased values in all other areas. Stanton Hill's

real estate taxes have decreased some 13.9 percent since 1970 whereas Glen Willow has increased 4.4 during the same period.

In June 1979, Stanton Hill increased rentals 9.4 percent as allowed in the D.C. Rent Control Act. Every nickel of excess funds were immediately plowed back into badly needed capital repairs. The tenants contested the rental increase on grounds that 1,416 code violations were in existence.

Mr. WILSON. Were some of those tenant-inflicted?

Mr. KIRBY. Yes.

Mr. WILSON. Deliberately?

Mr. KIRBY. I don't know. That would be hearsay. I might add that one crack in the sidewalk is one violation. Two cracks is two violations, et cetera. Some of the violations are valid violations after inspecting the property myself.

Incredibly the Rental Accommodation Commission, hearing examiner ruled on October 19 to (1) refund some \$44,000 in rents back to June 1, 1979, and that is just for June to October; (2) to have rents reduced back to the October 1977 level. Yes, back to 1977 rents, a reduction of \$15,000 per month on a project that just barely breaks even in monthly operations without taking into account capital repairs.

By October 24, per a letter from the D.C. inspection 1,042 were abated, of the remaining 374 violations, 113 items were for screens which are not required in an air conditioned building, which were supplied anyway, and 261 items in which the city inspectors were unable to enter apartments to inspect, because the tenants wouldn't let them back in.

Mr. WILSON. Why not?

Mr. KIRBY. You have to ask a tenant. I don't know. I can only speculate.

We presented the October 24, D.C. inspection of substantial abatement of violations as evidenced by the documents to the hearing examiner to allow us an immediate rent increase on October 29. We heard nothing except on November 15 we received a letter from the D.C. inspectors department retracting its October 24 letter "because it contains inaccurate information". We have yet to receive details or a time period in which we will receive the new list of code violations.

In November we lost \$26,246; hereafter, we will lose at least \$15,000 per month and we are coming into the expensive heating season.

We are blocked in every direction, the tenants are euphoric with their short term victory, even though we have had several meetings with a tenant representative and their counsel explaining theirs and our plight.

We do not have the funds to subsidize the operating losses, let alone any capital repairs.

In short, we have only two alternatives (1) to board up the project or (2) to go condominium through a 51 percent tenant consent conversion.

As evidenced by comparing Glen Willow and Stanton Hill apartments, rent control has caused rapid physical deterioration, is about to displace 1,200 people, and we would lose our entire invest-

ment, the death of a fine rental community, ironically the exact opposite of the goals ascertained by the proponents of rent control.

Mr. WILSON. Were the tenants impressed with their plight.

Mr. KIRBY. The tenant leaders are. They understand the problem. They did not at first believe that the property was losing money. Now they do. Now, there is some real concern. We are not talking about a real poor low income project here. We have got a lot of government employees there, some making upwards of \$25,000, \$30,000 a year. Some people are making \$9,000, \$10,000, \$11,000 a year, with the average being \$13,500.

They are intelligent people gainfully employed. We are talking about a small minority of people in the job that may be undercutting some of the things that they have tried to do. That is just a speculation on my part, so it's a bleak picture.

Mr. WILSON. It really is.

Mr. KIRBY. Here is a very nice community, as you can see by the photographs, and the white community not more than four miles away built at the same time is a very nice community, but the leaders understand the plight. Whether the rest of the community does, I don't know.

Mr. WILSON. But you feel certain that if this HUD program does not work, you are going to have to board up?

Mr. KIRBY. There are no other alternatives, unless we can find someone who wants to put up \$3 million or \$500,000 and not expect a return for five years.

Mr. WILSON. We are talking about 1,200 apartments?

Mr. KIRBY. No; 412 apartments, 1,200 people.

Mr. WILSON. Thank you very much. That is very impressive testimony.

I am sure we will make this data available to those who have been doubtful.

Is Mr. Levy here, Mr. Sidney Levy?

[No response.]

THURSDAY, NOVEMBER 29, 1979.

WITNESS

L. CURTIS SMITH, LANDLORD

Mr. WILSON. I believe you are Mr. L. Curtis Smith. You are the next to the last witness.

Mr. SMITH. I come to you as a small investor in the District, and I am a Foreign Service officer, Department of State.

I came here ten years ago, en route to a Foreign Service post only after some 28 years as a pilot travelling all over the world, all over the United States, and attempting to invest in nearly every area where we travelled over a 26-year period.

When I came here ten years ago, I considered doing the same. I purchased a nine-unit apartment building in 1972. It's an excellent building, even today. I don't come with horror stories about people kicking holes in the walls. I have excellent tenants, and they seem

to feel that I am a reasonable landlord. They don't contest my requests for rent increases.

I have taken advantage of every automatic increase, and I have twice filed and received increases under a hardship petition, so-called 8 percent return. During the 26 years, and travelling prior to 1968, I invested in numerous properties throughout the United States as a secondary supplement to my income. I must say that those investments without exception have produced a reasonable return through the years, and Tuesday evening I took a quick glance through those records and found that they have produced over a quarter of a million dollars in taxes through the years.

The return on the property in the District of Columbia, which we had hoped would be the beginning of a series of investments—at one time we had entertained the thought of building in the District of Columbia—that is, an investment building, a rental building, but the experience in the District of Columbia has been the extreme opposite of the investments we made over a period of 26 years in the far West and in the Southwest.

The building in the District of Columbia has lost approximately \$25,000 since 1972 in terms of normally accepted accounting practices, not in accordance with the rules formulated by the District of Columbia for its own purposes.

In any event, however, the building has been negative in terms of its return. Every year since I purchased it, it has never produced a positive return.

Mr. WILSON. Have you been unable to convince the Rental Accommodations Office?

Mr. SMITH. As you have heard in these two days, that one can have an 8 percent return and concurrently have zero return under normal accounting practices.

Mr. WILSON. Right.

Mr. SMITH. In fact, that has been the situation with this building.

Mr. WILSON. How about your cash flow?

Mr. SMITH. Cash flow has been approximately minus \$1,500 a year which the other properties throughout the United States, I have used them to cover that.

The upshot of this is that we have long since tossed out of our minds any plan for building an apartment building in the District. There is no incentive. We have found that there is no incentive to continue with the management and ownership of this building, because \$1,500 a year is not an incentive to continue.

I might indicate to you that the figures I have quoted very briefly, I withdrew from my Federal income tax returns Tuesday evening to prepare for these hearings, and they were so atrocious a few years ago that the Internal Revenue Service asked me to come in and have a chat, because they didn't believe the income figures.

They considered the expense figures to be normal, but they couldn't believe the very low income figures, so I was audited three years ago and I was audited again a year later. This results only from their concern that income cannot possibly be that low in comparison with expenses on a nine-unit building.

In summary, I merely want to indicate that 10 years ago we came to the District of Columbia with the hope that for retirement

we would find an investment climate similar to that which we have found in the far West, and in the Southwest.

Starting in 1974 en route to Cambodia, we stopped in Washington to check on this property and the recent legislation that we had heard so much about, and we found that the District really has destroyed any possibility of our building another building, because the incentives had been removed.

We are, therefore, going to dispose of this building one way or another. We are not going to continue to spend \$1,500 a year on it, above expenses. In contrast to our hopes and aspirations ten years ago, we will leave the District next year and dispose of the building in one way or another, and I say that to indicate that, of course, there is no market for purchasers, there are not many buyers who are interested in a minus return on the investment.

We will return to an area of the United States where the meteorological and investment climate is more conducive to this.

Thank you.

Mr. WILSON. Well, that was very impressive, Mr. Smith. What is your assignment now?

Mr. SMITH. Here in Washington, at the Department of State.

Mr. WILSON. What Bureau are you in?

Mr. SMITH. I am just completing four years in the Bureau of Near Eastern and South Asian Affairs, Iran, for example.

Mr. WILSON. I see. Do you have anything to tell us about that?

Mr. SMITH. No, I don't; no comment.

Mr. WILSON. I think your testimony is profound, and maybe something will change.

Mr. SMITH. Perhaps.

Mr. WILSON. Thank you very much.

THURSDAY, NOVEMBER 29, 1979.

WITNESS

JOSEPH NEY, LANDLORD

Mr. WILSON. Our last witness is Mr. Joseph Ney, a landlord. Mr. Ney, you may proceed.

[Mr. Ney's statement follows:]

I am indeed delighted that the United States Congress is finally taking note of the effect of rent control in the District of Columbia.

As the owner of three real estate properties in D. C., I have had considerable involvement with rent control regulations, the personnel of the Rental Accommodations Office, the financial impact of rent control on myself as owner and also the "new attitude" of tenants which has surfaced most notably over the last few years.

One property is commercially zoned and has been constantly rented under the laws of supply and demand with no government interference; no disputes regarding rents between myself and the tenants; and, not a dollar spent on legal fees.

The other two properties are rental apartment units, about which I will summarize the course of events as they relate to rent control.

One property has 18 units and is located about 500 feet from a Metro stop in a middle-class neighborhood. It has a HUD insured mortgage and as such is subject to rent control by HUD. HUD exempts all subsidized projects from local rent control, but controls insured projects and does pre-exempt local control when the property appears in financial jeopardy.

I purchased the property in April of 1975 and paid approximately one-third down. At that time the rents had only been raised about \$20.00 per unit over a ten year period. HUD's regulations were such that I could not apply for a rent increase during this period of swiftly rising utility costs until the property was legally in my name. Because of some bureaucratic delays, together with some lack of cooperation on the part of the seller, I did not gain legal title until November of 1977—at which time I applied for and was granted a rent increase. Upon gaining title, I immediately filed a registration statement as required by the RAO and gave a 30 day notice of the HUD approved rent increase.

A tenant complained of an excessive rent raise and today, nearly two years later, the RAO has not yet permitted HUD's rent increase to stand nor have they finally decided what the maximum permissible rent is.

I have spent nearly two months of time over the last two years trying to resolve the rent control problem associated with this property without marked success. HUD suggested I engage an attorney, which I have done, and as such I have been billed over \$2,000.00 in 1979 alone.

The tenants are obviously aware they have a splendid deal. I hardly ever have a vacancy as a tenant will "smuggle" in a friend or relative without notice to take over the apartment. Under D.C. law an owner cannot evict tenants even if their lease expires. In effect, the owner then has little control over his own property.

To date, I have never taken a cent out of the property, even though HUD's authorized a rather obsolete six per cent profit. The shocking part is that I have had to liquidate other assets in order to keep the property from going under—to the tune of nearly \$25,000.00.

Certainly rent control by both RAO and HUD is grossly unfair to the owner because the effect of each agency's policies is to be mutually exclusive to the other. The result to the owner is that he is precluded by one or the other agency to benefit from any major concepts designed by either agency to afford relief to the owner. Certainly it is obvious that HUD insured projects should be exempted from local rent control so as to not have double regulations.

While I spent nearly two man-months trying to resolve the rent control disputes, I'm sure I required more than that from HUD and RAO. At one meeting between RAO and HUD on this property, seven high-level officials spent nearly one day trying to resolve a controversy on a small rent increase. At the very low figure of \$20.00 per hour, I estimate far more than \$10,000.00 worth of government time has been expended on the HUD approved, but RAO contested, rent increase.

My other property is a 25 unit building in D.C.'s Embassy District between Connecticut and Massachusetts Avenues, N.W. Briefly, the building is about 55 years old, of excellent construction, and had been owned for the entire time by the seller from whom I purchased it. The seller had done little preventive maintenance over the years and as such much of the original plumbing equipment, etc. must be replaced.

Professional plumbers, as well as the D.C. Plumbing Inspection Office, have told me that such a job is indeed extensive—requiring walls to be opened and floors to be torn up. According to these professionals, it is not reasonable to undertake a rehabilitation project of this size with the building occupied.

Even though the leases have long expired, I cannot really remedy the problem, which admittedly needs attention. I have tried without success to resolve the problems with the tenants who, of course, do not want to move.

The tenants have been on a rent strike for nearly six months as the case has not yet been heard by the court because of housing deficiencies which they will not permit me to remedy because it means relocation for them.

The rents are ridiculously low—some lower than \$1,800.00 per year and substantially less than ten per cent of their income.

The tenants have three lawyers to represent them against me employing one delaying tactic after another so they will not have to vacate the premises.

The economics are such that they pay one-quarter to one-half rent per month less than other units in the area. A large two bedroom unit with porch rents for about \$265.00 per month while those less than a block away *not* subject to rent control, because the owner owns less than four units, is up to \$1,100.00 per month.

Because the entire building's equipment needs rehabilitation, I cannot reasonably repair existing vacant units. I must let these nine units sit idle until the adjacent units are vacated.

Because of the fast rising oil heating costs, operation and maintenance costs now exceed rental income. A petition for substantial rehabilitation has been filed with RAO who has a policy of not approving rehabilitation which requires displacement of tenants. If, however, my petition is not approved, I will then serve notice of a

discontinued use of the building and board-up my property in one of Washington's most desirable neighborhoods.

I have obviously never taken a cent from the property, but have had to liquidate other assets to "support my habit," namely, my apartment building to the tune of nearly \$100,000.00 in the last one and one-half years to keep the building afloat.

Rent control helps those the most who don't need help—such as those in this building. I have only one senior citizen, a former high-level federal retiree. Nearly all of the remainder of the tenants are professionals.

The tenants offered by buy my building at less than I paid for it and have also offered to vacate the premises so I can repair it—if I pay them \$7,500.00 per unit to move.

This is an example of what rent control has accomplished in the District of Columbia. The number of rental units is shrinking monthly and will continue to do so. I plan to take 25 units off the market myself within sixty days if my petition is not approved.

The D.C. Council has apparently absolved themselves and the D.C. government for responsibility for adequate housing in D.C. and placed this heavy burden on the backs of the apartment owners who can no longer bear it. It is indeed a short sighted policy.

The District of Columbia City Council is composed of members who are inexperienced and naive and who believe that a vote against rent control is a death blow to their aspiring political careers. It is now left to the Congress to recognize the resultant problems and to eliminate all funds for the Rental Accommodations from the D.C. budget. In more ways than one, it is a colossal waste of the taxpayer's money.

Thank you for the opportunity of expressing my opinion.

Mr. NEY. Mr. Chairman, several things I have been very impressed with the last eight or ten hours, I guess, of your hearings.

One is the seemingly intense interest of the committee Members themselves.

After fighting city hall for several years, it is a little bit refreshing to see that someone is sincerely interested in the root of the problem, not just whether or not an increase can be made or not.

I also very much am surprised. I learned a tremendous amount myself in the last two days, not the least of which was the fact that it seems that the tenants in supporting organizations have this great erroneous concept in their minds that the landowners or the multiple family owners in the District of Columbia are tycoons.

My books are open for anyone who wants to inspect them, so far as the amount of money that I have made.

Mr. WILSON. Let Mr. Looney look at them.

Mr. NEY. Yes, sir; he can look at them. I was trying a novel approach. In fact, I was hoping they would take me up on it, but they backed off very quickly.

The other thing is since we have this problem of the elderly, and believe me, I too feel sympathetic and share your concern with this, the fact that we are in effect, our contemporary society is raping our old society insofar as their ability to survive and their incomes are concerned. The real people the rent control is designed to help in the District is not doing much for these folks at all.

In fact, I would like to take a couple of minutes here.

Mr. WILSON. I would like to make an observation, and I am not going to do this very much. I had the feeling with Sister Karge and with Mrs. Sissman that perhaps in the Northwest area it is a different situation than where Mr. Gray is a landlord; that perhaps it is holding their rents down and thereby benefitting those people.

Mr. NEY. I can comment on it, because I have a building there in a little more prestigious area than that. I have ten pieces of real estate, three of which are in the District of Columbia, or at least

two of those are unfortunately. And I have a little different vantage point. I don't pretend to be skilled in the area of real estate investment, and so forth, I have learned a lot, and I purchased in 1975 an 18-unit building which had a 4 percent mortgage on it.

It was built in 1947 and had 18 units, 15 of which were two-bedroom units. I knew the builder, who had become the owner of Quality Inns. His name was Steward Bainum, and he held the building and it had been absentee management and the rents stayed atrociously low. It was taken on in 1969 by another builder, and he paid \$150,000 for this property, and I bought it for \$150,000 in 1975, the same thing that he had purchased it for.

He was getting in financial trouble. He had to get out of the building. Basically, the building is designed for a moderate family. It's 500 feet from the Takoma Park subway and on the District line itself. It is such a stable tenancy there, I can't ever detect a vacancy, because the tenants, if they have to move out, they come in at night, the new ones, and I don't even know it, and the check will still basically come through and there is no way that I can really control who the tenants are in the building, because they want to capitalize on this very low rent that they have.

In a period of 10 years, 1965 to 1975, rents were raised a grand total of about \$18. This property, of course, is a HUD insured property. As such, it means that the rents are always approved and controlled by HUD, so you are not free, even though you are the owner, you are not free to regulate the rents yourself.

You have to do it in supportive evidence from HUD. Even under HUD's system, I wish to remind you, and I thought the gentleman that had the unpleasant experience of trying to buy the larger property, he is absolutely right. Under all the regulations they have, it's not price control in effect. It is profit control. If you need a lawn mower and it is \$129.95 at Hechinger's, you are foolish to buy it when next week it is on sale for \$99.95. It is unamerican and uneconomic as you can imagine.

What happened in this particular case, as I said, I finally recognized that HUD has a regulation that when you purchase a building under HUD Insurance you cannot raise rents unless it is in your name. From a legal standpoint they call it transfer of fiscal assets. It took approximately 32 months for this bureaucracy to transfer this into my name at which time I could not apply for a rent increase despite extremely rapidly rising utility costs.

I had, I think, 400 percent one year in water alone. I couldn't believe it, so I finally got the property in my name and applied to HUD for a rent increase, and they granted it in a matter of 20 days and gave notice, registered any statement downtown with the RAO, and lo and behold, one tenant complains. The first rise in rent in several years.

He complained, and they went through the normal proceedings, and the Commissioner who heard the case could not find my registration statement, despite the fact that I had the cancelled check, I had it, a copy stamped in.

He said, "Well, our files don't reveal it," sort of suggesting that I was counterfeiting this. They went on to hold, even though HUD approved the rents, HUD had approved them a bit in excess of what RAO would have allowed during this same time and they said

that during that 32 months that you didn't apply for a rent increase under HUD, you could have applied for it under us.

HUD says no, you can't do it, because you are caught here, and we can't do it because it's a technical point that we have. You can't raise your rents until it is in your name.

I went through the order series of appeals and the RAO Commission said we will make you refund the first month in triple damages for the amount which we think you can charge and what HUD approved you to charge, plus the difference in rent from that point down to the time of the hearings.

Well, that was about 18 months ago, and so they still have not resolved exactly what the rent situation is on the property. I went back to HUD. HUD said, "We don't really want to pre-empt those properties. HUD has the prerogative to pre-empt properties that are HUD insured."

Mr. WILSON. That is what I understood earlier.

Mr. NEY. They are HUD insurance, but they have been very reticent to try to fight the local government, but they do have the authority, so they pre-empted it last spring and again this summer.

I have estimated my time pretty accurately and spent 34 man days just on trying to get a few dollars rent increase on this property. At \$20 an hour I think I have now cost the local government over \$10,000, and I am sure I have cost the Federal Government over \$5,000 trying to get a few dollars rent increase.

Mr. WILSON. You have gotten the increase, though?

Mr. NEY. I have gotten part of the rent increase, not because the RAO would permit them but because HUD pre-empted. What has happened in there, I still can't get a vacancy in the property, because the people know they still have basically the best deal.

Mr. WILSON. What are the rents out there?

Mr. NEY. They were \$126 for two-bedroom apartments. I furnish all of the utilities, and I have gotten them up to \$196 furnishing all of the utilities. What has happened during this process is in order to keep the building, it's a clean building, the halls will look very similar to these. I have not taken any profit myself, and did most of the work myself, and this is why the rents were done.

I went out there and did it physically, because I couldn't afford to pay anybody else. I learned I was cutting my own throat so I sold another property and put almost \$25,000 into this property and have never taken the first penny out of it, and that is over a period of not quite five years, so I have a commercial property downtown which operates on supply and demand and never had a problem basically with it.

So I decided I would purchase an apartment unit which is about 300 feet from my building to live in. It's 25-units in one of the choice prime areas of the District, two doors from Joseph Hirshhorn and Bancroft Place. The Phelps Place townhouses are \$450,000, townhouses now. This may sound incredible but the same owner had the buildings 55 years ago and he was 77 and got caught under rent control.

He said, "I cannot keep it any longer. I paid off the building, my tenants are almost like my family. I never raised the rents, but when we hit the fast escalating utility costs I was caught." At 77 he bailed out so two months after I purchased the building I went

into the tenants and I had a meeting, called the meeting, and I said:

"My purpose is not really to change the atmosphere but maintain it as much as I can in the manner it has been done."

Mr. WILSON. You are going to live there yourself?

Mr. NEY. Yes, sir; 300 feet from my office. I called the tenants and said, "Let's have a meeting about the future of the building."

In summary, I said, this is what I paid for the building; this is how much I paid down; I didn't buy these with 5 and 10 percent down. This is the exact economics of the building, so I went to a profile of the tenants and I had one senior citizen, excuse me, two senior citizens in this building, one of whom has since died.

We had a very interesting meeting; the accountant was there.

I said, "I have no secrets. You can check anything you want. The building is obviously in need of substantial rehabilitation. Our plumbing system is shot. Heating system is 28 years old and we have 55 year old plumbing."

"You turn on some of the water spigots and you get a trickle. Almost every bathroom in the place, I say this here in public, beneath the commode, in the ceiling below there is falling plaster."

The lead bends have been leaking. I said, "We need a lot of work done. If we do, I will guarantee you we will not convert to condominiums for three years, if you will approve among you a fifty percent rent increase."

"If you do that, then we will put the money in escrow and we will decide on how, mutually, we would spend it in order to improve the building."

They met and decided this was certainly something they did not want because it was going to mean extreme rent increases. At that building they were paying, some of the tenants were paying \$122 a month last year. Now, that is in the record. Some of them today are paying in the \$130s.

I have a couple in the \$140s. I collected a little bit on their income. They are paying four percent of their income for rent. I don't hardly think there is a person with possibly one or two exceptions in the building paying over 25 percent of their income for rent.

So they nixed my idea completely. It just happened we had four immediate vacancies. So I applied under the D.C. law for a substantial rehabilitation for existing vacant units. These people left voluntarily on their own. I hired an architect, had drawing made, and so forth, submitted them December 1 of last year, 1978. I was assured, I even went through Mr. Willie Kinder at the RAO. I almost had to check it all, to cross the t's and dot the i's to make sure I wouldn't stumble. He said fine, there is no way; we can't disapprove it.

Well, it was put off and I said finally, "Look, it has been three months and I really need the approval." He said, "Come in tomorrow and I will give it to you." I went in and he said, "I am really sorry; unfortunately the Commission now has made an interpretation that you can no longer do that. It has to be a plan for all of the units, not just the existing vacant ones, that the tenants maybe, even though their units are not directly affected, they are

going to be indirectly affected so they have the right to a hearing and your tenants are requesting a right to the hearing."

So four months later I appear in May, drawings in hand; by this time I wise up. I have a lawyer here, architect over here; I look like a bureaucrat coming in with his entourage. We sit down, but it was not heard. Why? Because the tenant said, "His plans are not complete because he doesn't have the common areas in the basement done," and so forth. Obviously a delaying tactic. They continued the case.

Well, it has come back where it was finally dismissed. So I went and filed it again. It was supposed to come up December 17th. In the meantime the tenants, when the rent increase was coming last July 1st, under the 9.4 percent, the tenants went and called for a housing inspector. The housing inspector came and revealed a number of housing violations. Many of them were cracked. We had one broken window, a ball or something had gone through, a goodly number of hairline cracked windows. As such, they put all their money together; we finally petitioned the court and they put all their money in an escrow account, which meant from July all the way through I had rent on the four units in that building.

I have maintained the building out of my pocket. I had nine vacant units which I will not rent. Fortunately I am one of those who had other property to liquidate. I wouldn't rent them because if I rent them I couldn't afford to get them out and I had to open up every bathroom and every kitchen wall in the project, and also put in a new heating system.

So it was economically unreasonable to do one apartment when I couldn't do the ones below it.

So the tenants went on a rent strike. I was in court this morning. That is the reason I missed my appearance. We went to the Judge finally two weeks ago, the Judge called us into the pre-trial hearing and said, "Okay, discuss the issues. The owner admittedly has violations on the property," which I did. Some of them we tried to fix and they wouldn't let us in. But the major ones were relating to the plumbing which we wanted to fix but it would have meant that the tenants had to vacate the premises.

The Judge says, "Look, he is trying to fix them but you won't let him because you still oppose him. He is in a corner. You have boxed him in from the right and from the left; he is on his knees. What do you want to do with him?"

This is actually what he said. They said, "We are not quite certain."

What could the Judge say?

He said, "I suggest you go out and settle with the owner."

They came back out and said, "Okay, we will take half of the money in escrow and you pay us \$7500 and we will permit you to fix each unit." "Permit you to fix the unit."

The other alternative was, "We will pay you," and they offered a sum which was less than I paid for it two years ago. I thought, "Well, that is not too good either."

So you are struggling to find out exactly what should happen in such a circumstance. It seemed so grossly unlikely to happen in our society. So I have to laugh at it because if you don't you can't survive.

So what proceeded—the Judge said, “Come back in two weeks so we can see what kind of progress is made in the negotiations.”

We went back in yesterday. The Judge said, “Look, I don’t really want to hear this case because if I hear it——” and they requested a jury trial, and he says, “and I find for you, the plaintiff,”—myself—he says, “Next month they can come back and do the same thing under D. C. law.”

He says, “I cannot order them out.”

RAO says they are going to continue the case on for a year. So I said my petition is still pending. It probably will come up the 17th or 18th of December for rehabilitation.

He said after that is decided then I am in a position to do something.

So I said, “Okay, Your Honor, let’s do it this way——” this is after the third negotiation, six hours yesterday.

He came back and I said, “We will pull, withdraw our substantial rehabilitation petition if the tenants are going to oppose it and we will decide the case now, whatever I am entitled to from this escrow account, give me today.”

November 30th, tomorrow, each of these tenants will be served with a notice to vacate for 180 days. I have to support that building. After which I leave it vacant for one year. I did some quick arithmetic. It is cheaper for me to take that route than it is to operate that building or to go through the methodical process. The way the RAO lined up things, we can go on appeal, then reprimand on appeal and back and forth and I could still be in the same position one year later that I am today.

So I chose to have them do it. Immediately the tenants come back. The judge said, “Go back and see if he means that.”

They came back and lowered their demand to \$3,000 and would vacate the premises. Something is wrong in a situation such as this. I invite any of them, the so-called organizations, to find out who is the loser in this case on either of my properties.

I have taken out of my pocket in the last year and a half over \$100,000 and put into this building and not taken one cent back, so we may find out if we really look into this situation who is the real gainers. Are they the capitalists supposedly who own the building, or the renters who are coming down on the best deal here? Several things which I would like to call attention to because obviously the prepared testimony will speak for itself. But the whole idea, the whole concept is grossly inefficient downtown.

I challenge anyone to tell me differently that it is. Several things are basically maybe not obvious that are brought out. We have in the District of Columbia a HUD-insured project which is also under local rent control here. We have a very unusual situation.

Every opportunity to raise rents that HUD gives me is flattened by RAO and the hardship petition I can’t take under HUD because they will not let a fast escalation of rents go up.

So I am completely boxed in with it. All they will do is fuss back and forth. But nothing is resolved so far as actually getting to the point of the problem.

Several things that I would like to mention. It has cost me about \$7,000 a tenant over the last 16 months to have the right to repair the violations which exist on my property, not the cost of repairing

them, to have the right to repair them; to have access to them because they blocked the door on several occasions.

All they have to do is run down to the RAO and they are received very well as to exactly what their rights are. I was faced with three attorneys. The tenants had three attorneys representing the tenancy there.

Like I said, the six percent under HUD in this situation is a complete fallacy.

There is no way you can even reach six percent.

Insofar as the condominium is concerned—no, one more point. HUD come out and made their annual inspection of the property. They said, "You have a remarkable property, very clean and all this. However, your system is old; you are going to need a new boiler, new this, new that," and gave me an estimate of \$235,000.

I said, "That's fine. How do we handle it?"

I have written them six times since they sent this out in July and they have yet to send me the first reply. That is the state of affairs.

I would like to say, kind of in conclusion here that it is the most disastrous thing in general to control; it is just unbelievable. I think if you want to create a shortage, control it; whether it be petroleum or housing, control it. The more you control it, the more shortage you have.

I assure you if we don't reach an agreement, I will have 25 units boarded up, notices to vacate in the District of Columbia on Bancroft Street.

Mr. WILSON. I may apply for one of those vacancies.

Mr. NEY. Strangely enough, the black workers and white workers, whoever came in and worked in the building said, "Why don't you rent them?"

I told them and their eyes were as wide as saucers. They said, "We don't have this; we don't have that."

Mr. WILSON. Then they are not on Bancroft Place, either. Thank you.

THURSDAY, NOVEMBER 29, 1979.

WITNESS

JEROME SHUMAN, CHAIRMAN, RENTAL ACCOMMODATIONS COMMISSION

[CLERK'S NOTE.—See pp. 22-40 For Mr. Shuman's previous testimony.]

ADDITIONAL REMARKS OF COMMISSION CHAIRMAN

Mr. WILSON. Mr. Shuman, you wanted to make—I hope—a brief rebuttal. You are the only person being allowed a rebuttal so I hope you will respond by making it short because I have a very important meeting at 5:30 and I have to learn what it is about before then.

You are just going to respond to the things that Mr. O'Neill said about you personally, aren't you?

Mr. SHUMAN. I would like to respond to those, but I had anticipated making just a few additional remarks. I will not take more than approximately ten minutes if that is permissible.

Mr. WILSON. I wonder if we could do that in the morning?

Mr. SHUMAN. May I take five minutes?

Mr. WILSON. Yes. And we are watching the clock.

Mr. SHUMAN. The first thing I would like to respond to—

Mr. WILSON. Let me ask you one thing. I will take a minute and give you an extra minute. Are you partial to the tenants?

Mr. SHUMAN. No, I am not. I would like to respond to what I think has happened. Mr. O'Neill has probably taken his distastefulness for the rent control law and then personalized it. I regard myself as a public official with a public responsibility and with a duty to be objective and a duty to implement this law, no matter whether I favor the law or whether I don't favor the law. It is my duty to carry that law out to the best of my ability. Moreover, I am only one person on that commission.

Mr. WILSON. You are a public member, aren't you?

Mr. SHUMAN. I am a public member and I regard myself as such.

I view the other members, whether landlord or tenants, as also representing the public interest. It is my feeling that the responsibility and the reason for the composition of the commission is not to bring a bias, but rather to bring a different viewpoint and a different degree of expertise because landlords may be aware of certain problems that tenants are not aware of and tenants may be aware of certain problems that landlords are not aware of.

Moreover, in terms of my own participation, I brought with me this morning all of the decisions of the commission for the two years that I have been on the commission. I compiled those decisions last night. You will find that in most of those cases, in at least probably ninety percent, my vote was along with the majority. Also, we have a great percentage of cases where both the landlords, public members and the tenant members all concur in the decisions.

In each instance my position in terms of the discussions has been with respect to the law; it is not with respect to what the ultimate effect will be on tenants or what the ultimate effect will be on landlords, but rather in terms of the law passed by the city council, the implementing regulations and the relevant court decisions.

Mr. O'Neill in his testimony constantly referred to me as Doctor. I corrected him after the hearing; I am not a doctor, rather I am just an ordinary citizen.

ATTORNEYS ON COMMISSION

My professional occupation is that of a law professor. He suggested that we should have attorneys on the commission. It should be noted that two of the public members, including myself, are attorneys.

I think his charge of bias is very serious with respect to me as an attorney and as a person with a public responsibility.

PROBLEMS LANDLORDS HAVE EXPERIENCED

Now, I would like to just make two other points. In terms of the discussions that I have heard, I think there are two areas that are very important. One is that many of the problems that the landlords have experienced, and I agree they have experienced a lot of problems based on the testimony today and based on what I have seen generally, have nothing to do with rent control. The second point that needs to be made is that there is a basic lack of understanding of the law. A good example of that is with Mr. O'Neill, who is in a very high position and represents a lot of landlords in one way or the other and his testimony indicated a thorough misunderstanding or lack of understanding with respect to the law.

Many of the problems that were related that could be easily solved just by an understanding of the law and what the law involves.

I could go through, if time would permit me, just a few examples to illustrate the point.

In the first category of attributing problems to rent control that have nothing to do with rent control, I think Mr. Gray's case is a good example.

EXAMPLES OF LANDLORD PROBLEMS

Mr. Gray talked about going to court. First we have nothing to do with what happens in the landlord and tenant court. The cases from the commission do not go to the landlord and tenant court; rather they are appealed to the Court of Appeals with respect to either findings of fact or conclusions of law.

The second point is he talked about the tenants not paying rent and then defending on the grounds of code violations. Now, that defense came long before the Rent Commission. There are two basic cases that created that situation. One of them is Brown versus Southhall Realty Company. The other is Javins versus First National Realty Company.

The Javins case became the landmark case throughout this country. In that case, Judge Wright wrote the opinion and he said that the traditional rule applying to tenants should no longer exist and there is an implied warranty of fitness and the standard for that implied warranty of fitness is coexistent with the housing code.

So Judge Wright took the position in that case that if the building does not come up to the code standard, there is a breach of the implied warranty and the tenant is no longer under an obligation to pay rent.

That is the reason that the tenant can go to court and use that as a defense.

Law 2-54, the current rent control law, has no provision which tells the tenants they do not have to pay rent if there are code violations.

If there are code violations under the law, the only thing that can happen is that it can be used as a bar to the implementation of a rent increase, not to the granting of a rent increase. There are cases that have come up from the Rental Accommodations Office, hearing examinations to the commission and the commission has clearly said that this law does not bar a landlord from having a

rent increase; it merely bars the implementation while there are substantial code violations.

TENANTS DAMAGING PROPERTY

Mr. WILSON. You think that people do actually damage their apartments in order to avoid paying rent?

Mr. SHUMAN. I would have no doubt that that happens, but I also think what landlords should be aware of is, Section 208 of the law. Section 208(a)(1)(A) of the law, says that if the destruction—or if the housing codes or violations are the result of tenant misconduct or of action by the tenants, it will not serve in any way as a bar to a rent increase.

CAPITAL IMPROVEMENTS RATE INCREASES

I heard another person compare the two buildings, one building in the District of Columbia and one building in Maryland. He talked about the difficulty with the capital improvements increase. That problem should not exist in the situation he described.

I pointed out to him that what he needs to do is to read the provision of the law dealing with capital improvements.

Mr. WILSON. He is getting ready to board up that building if he can't get—

Mr. SHUMAN. But he thinks that there is a problem that doesn't really exist. He has an illusory problem. It is because of not being familiar with section 210 of the law. It is not because the law would bar the capital improvement; it is because he doesn't understand what is here.

He talked about the ten percent limitation, but there are two provisions in Section 210. There is provision (a)(1)(A) and there is provision (B) and (2)(A) underneath that.

All right, section (a) talks about capital improvement. It says provided that the improvement would protect or enhance the health, safety or security of the tenants or the habitability of the housing accommodations.

That is the first section.

Now then, he jumps down to the second section. There is an "or" in the language of the law (B), "The improvement will effect a savings in the use of energy by the housing accommodation or is intended to comply with applicable environmental protection regulation."

Then provided that any savings on energy are passed on to the tenants, and the amortized cost will not increase rents over ten percent. That is when you are talking about that type of capital improvement.

In addition to that, if you don't come under that provision, there is position B, which talks about a finding by the Rent Administrator. Both provision (1)(A) and provision (2)(B) do not involve the ten percent limitation that he thinks exists.

The point I am trying to make is that many of the problems that landlords are having and attribute to the rent control law either have nothing to do with the rent control law, or exist because they do not fully understand that law and what they can do under it.

Mr. WILSON. I feel you have effectively rebutted the partiality remark which is all I really ought to let you do for the record.

AWARENESS OF RENT COMMISSIONER

Did you learn anything in the last two days, Mr. Shuman?

Mr. SHUMAN. Yes indeed, I learned quite a bit. I learned quite a bit. I took a lot of notes in terms of things that we may do to make the law operate better or to make the people aware that the law can be and is being implemented in a fair and unbiased manner. But I think that there is a breakdown in terms of understanding about this law.

Mr. WILSON. I have one other question, and we will close our hearing with this, but if you want to come back and see me any time tomorrow or next week and clear this up, fine, my time will be available.

RENTAL PROPERTY AS A PUBLIC UTILITY

Do you feel rental property should be treated as a public utility?

Mr. SHUMAN. No, I do not.

Mr. WILSON. All right. Thank you, Mr. Shuman.

PREPARED STATEMENTS

Before we adjourn, we will place in the record statements received by the Committee from witnesses who could not be here to present their testimony.

[The statements follow:]

STATEMENT IN SUPPORT OF RENT CONTROL BY VIOLA M. BOWEN, CHAIRPERSON, ADVISORY NEIGHBORHOOD COMMISSION 8B

Mr. Chairman, I am pleased to have the opportunity to submit this statement in support of rent control, because the present rent control act will expire in September 1980. Advisory Neighborhood Commission is deeply concerned about the discontinuance of rent control and feel that it is very important for the District government to maintain rent control as a weapon against displacement.

Rent control protects both the landlords and the tenants. Once a year landlords are permitted to take "an automatic rent increase" if they meet the basic requirements, simply by giving a 30-day notice to the tenants. They do not need to file a petition with RAO to get an automatic increase. These increases are as follows:

2 percent if the rent does not cover the cost of utilities.

7 percent if the rent covers the cost of heat and hot water.

8 percent if the rent covers the cost of heat, hot water, and general purpose electricity; but not air-condition or cooking fuel.

9 percent if the rent covers the cost of heat, hot water, general purpose electricity, and other cooking fuel; but not air-conditioning.

10 percent if the rent covers the cost of heat, hot water, general purpose electricity, other cooking fuel, and air-conditioning.

There are indications that this privilege has been abused by some landlords.

A few days ago the D.C. Rent Control Board approved an increase of 3.5 to 7 percent starting January 1 to offset the fast rising cost of oil heating for tenants in an estimated 57,000 apartments and other rental units. It is obvious that these tenants have been paying for service that they did not get for more than 2 months due to the unusually warm weather. Quite often services for tenants are decreased rather than increased.

Under the rent control act tenants have the right to challenge the rent increase, if they feel the landlord failed to meet the basic requirements. Also as a tenant in D.C., you have the right to live in housing free of code violations. This right, too, has been disregarded by some landlords.

In a city that is fast becoming a place for upper and middle class people, we feel that rent control must be continued, so that the lower and moderate income people can have a place to live. Housing is the major problem and concern in our area. Our neighborhoods have been disrupted by forced displacement. Around us we see apartment units standing vacant . . . a terrible waste, considering the serious shortage of housing.

People who have lived all of their lives in my part of the city are being forced to migrate outside the District, because of the lack of safe and affordable housing. And many who came here when they were forced out of other parts of the city are now being forced to move again. We are very disturbed by this problem. We resent being pushed out of the District by the high cost and poor quality of housing.

There is no way that I can cover all of the housing problems we are facing, but I will give you three of the most serious problems: (1) displacement, (2) substandard housing, and (3) high rents.

I appreciate the opportunity to submit this statement in support of rent control on behalf of Advisory Neighborhood Commission 8B. If you need further information, please feel free to contact us.

**OFFICE OF SOCIAL
DEVELOPMENT****Archdiocese of Washington**2800 OTIS STREET, N.E.
WASHINGTON, D. C. 20018
PHONE: (202) 529-2550

From: Father Sean O'Malley, OFM. Cap.

To: Representative Charles Wilson Chairman House Appropriations
Subcommittee on the District of Columbia

Re: Rent Control

Mr. Chairman and members of the committee. While we fully recognize the legal rights of this committee to hold hearings on such subjects as Rent Control we believe it is appropriate for such hearings to be held. We feel strongly that the Government of the District of Columbia is fully capable of resolving its problems and obtaining any information that this committee might deem necessary. This holds especially true on issues as controversial and essential to the District's present housing program as Rent Control is.

There seems to be a growing popularity in some quarters to criticize the government of the District of Columbia. We hope that this tendency will not flower into one of ignorance of their presence. While most municipal governments have the luxury of being able to pass laws and legislate without having to wait for thirty days before seeing their efforts reach fruition District legislators do not. Acceptance of our city budget has successfully been delayed by elected officials who are not from the District of Columbia nor whom necessarily share or understand the interests and problems of our citizenry. We sincerely hope that Home Rule is not to become part of a trade off pressed on the city by interests which do not correspond to those of the thousands who have lived and struggled to survive in Washington for so long.

The citizens of the District of Columbia while not yet able to have elected voting representatives sit in the bodies which levy taxes and make essential decisions in regards to domestic and international affairs for this nation, are able to elect their mayor and city council members. We strongly urge you not to ignore them and continue to support the efforts of their elected representatives.

Finally, we feel it was unfortunate that by and large citizens of the District learned of this hearing fortuitously. We hope that any future hearings will provide equal opportunities for all community groups, races, and classes to be represented without distinction.

TESTIMONY BEFORE CONGRESSIONAL SUBCOMMITTEEON DISTRICT OF COLUMBIA

PRESENTED BY PATRICK W. FUREY, ESQUIRE
LAW FIRM OF FUREY, DOOLAN AND ABELL
FOR WIRE PROPERTIES, INC.

Carver Terrace is a rental facility located near the 21st Street and "I" Street area, Northeast Washington, adjacent to the National Arboretum. The development contains 1244 rental units, located in 101 identical three-story buildings. The District of Columbia has placed a value of \$7,460,000 on Carver Terrace for real estate tax assessment.

The development was built in 1945 by Wire Properties, Inc. to meet the demand for low-cost housing after the Second World War. It was not federally financed or subsidized. For over 35 years the development has provided the City with low-cost rental housing. Today it is faced with a serious financial crises caused by the tremendous increase in operating costs and the imposition of rent control in the District of Columbia. Although it appears impossible to stop the increase in operating costs, some relief can be obtained by revision of the District of Columbia rent control law.

I have enclosed with my statement the financial report on Carver Terrace for the fiscal year ending September 30, 1973 and the report for the current year. The total expenditures in 1973 were \$1,245,000. The total expenses estimated for the next fiscal year are \$2,500,000. This represents an increase of over 100 percent. You will also note that the 1973 statement includes an annual mortgage payment which has now been paid off. The net profit in 1973 after the payment of debt service was \$283,000. The net profit for the current year came to \$229,000.

Since the enactment of the District of Columbia rent control law, the management of Carver Terrace has taken advantage of every opportunity to increase the rents under the law. A hardship petition was filed in November of 1975 and it took seven months to increase the rent 10 percent. The filing of a hardship petition is a very cumbersome process and very costly to the landlord, since it is often necessary for the landlord to retain legal counsel to properly present a case before the Commission. All hardship petitions are based on the operation of the rental facility for 12 prior months before filing the petition. It does not take into account projected cost increases, and this is the problem that faces Carver Terrace today.

The cost of No. 2 heating oil used at Carver Terrace was \$.4397 a gallon in November 1978. In November 1979 the same fuel oil cost \$.9076 a gallon. The cost of this heating oil for the last fiscal year was \$380,000. The projected cost for the next 12 months is \$800,000. Although the City Council passed a law allowing for rental increase to offset the heating oil cost, the law does not come close to solving the problem. At Carver Terrace the rental increase will provide an additional \$184,000 in rental income for the next 12 months, but the increase in the cost of heating oil is \$400,000.

The increase in heating oil is only one item of the operating expense schedule. Carver Terrace is over 35 years old, and a substantial repair and replacement program should be initiated immediately. However, no lending institution is willing to provide Wire Properties, Inc. with the funds needed for capital improvements. Today the development could not produce sufficient income to service a mortgage. If Carver Terrace is to survive, it has to have the ability to raise the rents to meet these tremendous increases in operating costs and the need for capital improvement. If the District of Columbia is to continue under rent control, major changes have to be made in the law. One of these changes is to allow a

hardship petition to be based on projected expenses, rather than on 12 prior months of operation. If the landlord is too high on his projected expenses, the law could provide for the tenant to receive a rebate on the rental payments. This would provide only a partial solution to the problem. Obviously, vacancy decontrol would also provide some help to the landlord.

The present rent control law has caused a severe shortage in housing available to the citizens of the District of Columbia. Carver Terrace provides a very important rental facility for this community, and it wants to stay in operation. However, unless there is an immediate response by the City Council to change the District of Columbia rent control law, it may be forced to close down. I hope my testimony has been helpful to the Committee, and the management of Carver Terrace is prepared to provide any further information requested on the operation of this rental facility.

CARVER TERRACE - 1244 UNITS
STATEMENT OF RENTAL INCOME & EXPENSE
SEPTEMBER 30, 1973

	Estimated This Year	Actual This Year	Last Year	Estimate Next Year
INCOME - RENTS	\$1,547,085.	\$1,547,359.89	\$1,489,056.	\$1,640,733.
Less Vacancies & Collections	38,585.	18,653.45	13,947.	32,833.
NET RENTS	<u>\$1,508,500.</u>	<u>\$1,528,706.44</u>	<u>\$1,475,109.</u>	<u>\$1,607,900.</u>
EXPENSES & EXPENDITURES				
Taxes: - Real Estate	160,554.	160,551.80	156,199.	170,000.
- Other	2,400.	2,454.01	2,341.	2,400.
Court Cost	420.	593.00	414.	600.
Insurance	23,332.	23,331.00	23,320.	223,320.
Utilities: - Oil	132,000	132,496.34	131,529.	140,000.
- Gas	21,000	21,082.11	20,424.	22,000.
- Electricity	114,000.	133,195.52	114,051.	134,000.
- Water & Sewer	72,000.	76,687.06	65,619.	78,000.
Maintenance Repairs, Supplies & Services (incl. Labor)				
See attached	380,000.	(1) 436,243.12	356,683.	420,000.
Capital Expenditures	30,000.	21,560.98	17,115.	30,000.
Inventory Increase (decrease)		1,670.50	(626.)	
Trash & Garbage	42,800.	44,516.60	38,764.	46,000.
Loan Payments: - Interest	31,720.	✓ 31,718.76	40,469.	22,970.
- Principal	175,000.	174,999.96	175,000.	175,000.
Income: - Washers & Dryers	(4,400.)	(4,949.83)	(4,997.)	(5,000.)
- Other	(8,400.)	(10,672.30)	(10,633.)	(9,600.)
(1) Outside Painting=\$47,463.00				
TOTAL EXPENDITURES	<u>\$1,172,426.</u>	<u>\$1,245,478.63</u>	<u>\$1,125,672.</u>	<u>\$1,249,690.</u>
NET FROM OPERATIONS	336,074.	283,227.81	349,437.	358,210.
FOR INCOME TAX PURPOSES				
Add Back: - Cap. Expenditures	30,000.	21,560.98	17,115.	30,000.
- Loan Principal	175,000.	174,999.96	175,000.	175,000.
Subtract: - Depreciation	(190,000.)	(191,390.00)	(191,940)	(190,000.)
- Inventory Increase (decrease)		1,670.50	(626.)	
INCOME FOR TAX PURPOSES	<u>\$ 351,074.</u>	<u>\$ 290,069.25</u>	<u>\$ 348,986.</u>	<u>\$ 373,210</u>

CARVER TERRACE
MAINTENANCE REPAIRS, SUPPLIES & SERVICES
AND CAPITAL EXPENDITURES

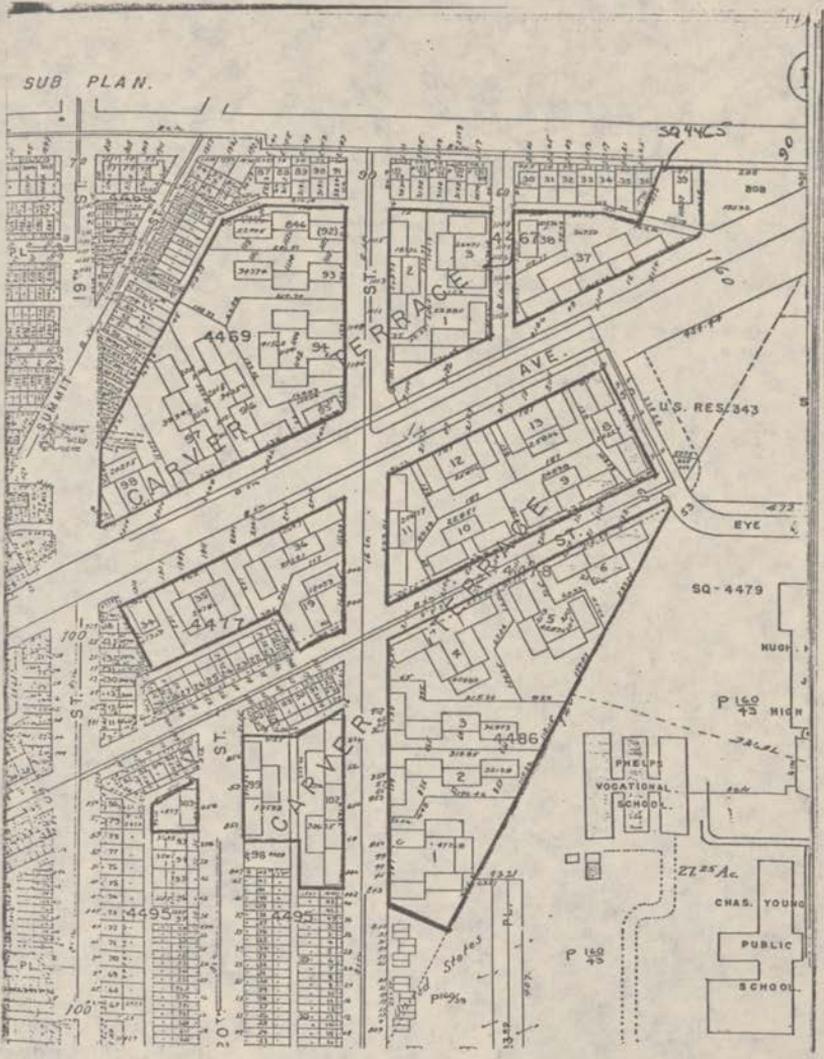
	Fiscal Year Ended			
	9/30/73	9/30/72	9/30/71	9/30/70
Painting - Outside & Halls	\$ 47,462.61	\$ ---	\$ ---	\$ 1,885.
Inside	57,631.02	51,116.	61,861.	52,000.
Electrical incl. Hall Lights	4,692.50	4,116.	4,708.	4,964.
Plumbing - Regular	40,258.85	35,974.	34,469.	30,302.
- Water Meters & Refrigerators	3,448.16	205.	4,051.	3,365.
Shades	5,330.32	4,910.	7,062.	7,669.
Carpentry, Flooring	30,560.80	23,974.	32,435.	23,127.
Oil Burners (see Below)	26,918.57	29,866.	27,821.	30,916.
Cleaning - Yards & Halls	56,788.62	62,438.	61,899.	54,460.
Linoleum	2,550.22	2,611.	1,722.	2,127.
Yard Maintenance	15,873.67	18,170.	7,834.	7,896.
Cement work - sidewalks, etc.	1,495.00	3,410.	1,270.	2,450.
Snow Removal	----	1,310.	1,429.	2,634.
Inventory (Over) Short	----	----	----	(2,077.)
Roof & Chimney Repairs	4,856.00	410.	259.	585.
Outside Lights	----	----	1,909.	----
Telephone, Transportation, Uniforms	8,238.25	7,148.	6,848.	6,927.
Overhead: Superintendent, clerks, Vacations, Xmas Bonus, Shop & Security Guards	82,851.68	71,825.	70,492.	50,409.
Other - Plastering, Moveouts, Glass Fire Ext. Spray, Fences, Ads. Exterminating, etc.	22,245.02	19,219.	15,554.	17,745.
Payroll Taxes & Insurance	27,243.83	20,281.	17,285.	13,952.
Income taxes - Fire Insurance	(2,202.00)	----	(2,386.)	----
<u>TOTAL REGULAR MAINTENANCE</u>	<u>\$436,243.12</u>	<u>\$356,683.</u>	<u>\$356,522.</u>	<u>\$311,336.</u>
Refrigerators	\$ 18,348.00	\$ 11,004.	\$ 13,493.	\$ 15,812.
Oil Burners system (see above)	----	----	3,912.	135,254.
New Equipment	1,853.98	1,362.	962.	11,706.
Parking areas	----	----	2,100.	----
Fences	----	1,034.	5,965.	----
Roofs - incl. three.	1,359.00	3,715.	5,985.	4,775.
<u>TOTAL CAPITAL EXPENDITURES</u>	<u>\$ 21,560.98</u>	<u>\$ 17,115.</u>	<u>\$ 32,417.</u>	<u>\$167,547.</u>
<u>TOTAL OF BOTH</u>	<u>\$457,804.10</u>	<u>\$373,798.</u>	<u>\$388,939.</u>	<u>\$478,883.</u>

CARVER TERRACE - 1244 UNITS
STATEMENT OF RENTAL INCOME & EXPENSE
YEAR ENDED SEPTEMBER 30, 1979

	Estimated <u>This Year</u>	Actual <u>This Year</u>	<u>Last Year</u>	Estimate <u>Next Year</u>
<u>INCOME - RENTS</u>	2,399,184.	2,449,944.	2,274,086.	2,629,896.
Less Vacancies & Collection	71,974.	109,496.	62,167.	120,896.
<u>NET RENTS</u>	<u>2,327,210.</u>	<u>2,340,448.</u>	<u>2,211,919.</u>	<u>2,509,000.</u>
<u>EXPENSES & EXPENDITURES</u>				
Taxes: Real Estate	136,528.	136,532.	136,530.	136,532.
Other	10,000.	11,064.	9,519.	11,000.
Court Cost	4,800.	5,158.	4,633.	5,200.
Insurance	44,600.	44,450.	44,031.	44,452.
Utilities: Oil	380,000.	413,381.	368,796.	800,000.
Gas	50,000.	50,666.	49,251.	52,000.
Electricity	268,000.	248,608.	257,268.	268,000.
Water & Sewer	180,000.	170,621.	174,327.	180,000.
Maintenance Repairs, Supplies & Services (incl. Labor)	740,000.	872,741.	685,260.	900,000.
Capital Expenditures	100,000.	71,851.	165,286.	80,000.
Inventory Increase (decrease)	-	58,866.	3,186.	-
Trash Disposal	50,000.	49,412.	48,304.	54,000.
Income: Washers & Dryers	(6,000.)	(8,346.)	(4,881.)	(8,400.)
Air Condition	(20,000.)	(10,937.)	(20,247.)	(12,000.)
All Other	(2,400.)	(2,751.)	(2,405.)	(3,000.)
<u>TOTAL EXPENDITURES</u>	<u>1,935,528.</u>	<u>2,111,316.</u>	<u>1,918,858.</u>	<u>2,507,784.</u>
<u>NET FROM OPERATIONS</u>	391,682.	229,132.	293,061.	1,216.
<u>FOR INCOME TAX PURPOSES</u>				
Add Back: Cap. Expenditures	100,000.	71,851.	165,286.	80,000.
Subtract: Depreciation	(64,000.)	(63,619.)	(63,922.)	(68,000.)
Assets Salvaged			(84.)	
Inventory Increase (Decrease)		58,866.	3,187.	
<u>INCOME FOR TAX PURPOSES</u>	<u>427,682.</u>	<u>296,230.</u>	<u>397,538.</u>	<u>17,216.</u>

MAINTENANCE REPAIRS, SUPPLIES, SERVICES
and CAPITAL EXPENDITURES
SEPTEMBER 30, 1979

	FISCAL YEAR ENDING			
	9/30/79	9/30/78	9/30/77	9/30/76
Painting: Outside & Halls	27,478.	2,732.	2,020.	1,120.
Inside Apts.	114,124.	94,629.	95,056.	95,923.
Electrical	10,101.	7,832.	7,772.	5,050.
Carpentry & Hardware	69,563.	52,300.	51,420.	54,520.
Flooring (Parquet)	28,339.	-0-	-0-	-0-
Plumbing: Regular	57,283.	54,168.	50,693.	51,721.
Water Meters	3,773.	431.	427.	595.
Refrigerators	4,938.	5,491.	3,295.	3,972.
Employee Fring Benefits	35,926.	35,846.	32,323.	21,840.
Shades and/or Venitian Blinds	5,755.	4,315.	4,807.	5,573.
Oil Burners	52,755.	50,205.	45,898.	36,413.
Yard and Hall Maintenance	106,857.	101,791.	99,875.	97,756.
Water Proofing and Drainage,water line	-0-	3,007.	393.	4,200.
Linoleum repairs	6,125.	4,306.	3,685.	4,576.
Cement Work	1,030.	125.	-0-	-0-
Roof Repairs	14,177.	3,899.	9,014.	6,964.
Te. phone,Transportation & Uniforms	10,428.	8,907.	10,700.	9,005.
Payroll Taxes & Insurance	70,328.	48,117.	39,111.	34,008.
Plastering,Move-outs,glass,Fire Extinguishers,spray,fences & other misc. repairs	75,386.	64,508.	55,319.	34,379.
Snow removal	4,173.	5,232.	1,177.	395.
Fire jobs not Reimbursed	2,888.	-0-	-0-	-0-
Reimbursement for Fires	-0-	(7,231.)	-0-	(6,031.)
Rent Control & MOBA	1,278.	1,459.	354.	8,305.
Parking areas, etc.	-0-	2,800.	-0-	-0-
Special Plastering Work	48,217.	30,820.	-0-	-0-
Overhead: Super.,clerks,vacations, Xmas bonus,shop,security guards	121,819.	109,571.	103,699.	85,416.
Sick pay	-0-	-0-	-0-	-0-
Total Repairs, Supplies & Services	<u>872,741.</u>	<u>685,260.</u>	<u>617,038.</u>	<u>557,700.</u>
Sinks & Cabinets	10,344.	15,501.	8,514.	11,304.
Refrigerators	24,255.	11,778.	16,212.	20,304.
New Equipment	3,923.	5,049.	1,586.	5,379.
Roofs	3,747.	-0-	-0-	5,554.
Electrical Havy Up	1,500.	101,956.	61,937.	-0-
Oil Burners,Heat Timers & Pumps	6,311.	25,500.	23,200.	16,504.
Aluminum Windows	21,457.	-0-	-0-	-0-
New Parking Areas	-0-	-0-	-0-	9,175.
Ranges	314.	685.	798.	-0-
Fences	-0-	2,815.	-0-	-0-
Total Capital Expenditures	<u>71,851.</u>	<u>165,286.</u>	<u>112,247.</u>	<u>68,220.</u>
TOTAL BOTH	<u>944,592.</u>	<u>850,546.</u>	<u>729,285.</u>	<u>625,920.</u>



TESTIMONY
on
RESTRUCTURING RENT CONTROL
before the
APPROPRIATIONS SUBCOMMITTEE
on the
DISTRICT OF COLUMBIA
of the
UNITED STATES HOUSE OF REPRESENTATIVES

Submitted by:

Jason Douglas
Director

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of Moral Order
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RESTRUCTURING RENT CONTROL

by

Jason Douglas

The time is long overdue for the consumer tyranny of rent control in the District of Columbia to be overthrown. Not by removing government regulation -- which is a moral imperative for urban housing in short supply, but -- by restructuring it to conform with time-honored principles of utility regulation.

Producers of rental housing need to exercise their moral and legal right to "equal protection of the laws" under the Fourteenth Amendment, that is, equal to the standard of protection enjoyed by other investors in public utilities.

I say "other investors" because medium and low priced rental housing is no less a public utility or monopoly than water or gas or electricity. Plural ownership does nothing to alter the monopoly nature of rental management in a producer's market.

If plural owners or individual investors are ever to escape the political oppression of rent control, they should first concede the monopoly aspect of housing scarcity. This is a precondition for legal redress under the Fourteenth Amendment comprehending fiscal minorities as well as the familiar categories of race, creed, color and national origin.

Clearly, constitutional redress is the only escape from the legalistic embrace of rent control. It is a plain and simple fact that consumer voters outnumber producers of rental housing many fold. And it is an historical fact that the consumer majority in the District of Columbia has ignored moral and legal responsibility which inherently accompanies the democratic privilege of universal suffrage.

For evidence -- just ask the three producers on the nine-member Rental Accommodations Commission who are refusing to attend its meetings. The appearance of any one producer member would legalize continued oppression of all producers by an unholy majority of three consumer plus three so-called 'public' members.

The three producers have finally come to realize -- in the words of one consumer member -- "the rent control commission is not the place to argue over whether or not you like rent control", as reported in The Washington Post for January 12th.

The place to argue is in court and the constitutional issue is "equal protection of the laws". But the consumer member is plainly mistaken as quoted -- "Commission members have got to realize the only way to work out differences is to be there (at commission meetings)."

At commission meetings differences are seldom worked out; their resolution is arbitrarily inflicted upon a numerically helpless minority. The boycott alone, however, is only a temporary holding action.

For restructuring to conform with the principles of utility regulation, producers should go to court as a political necessity. There, they should plainly concede the monopoly nature of rental scarcity.

Following that concession, they morally and legally may invoke utility regulation as a logical standard for "equal protection of the laws". For example:

- Utilities are virtually guaranteed 13 percent interest on capital investment whereas rent control allows no more than 8 percent.

- Utilities may deduct the cost of debt services from gross income whereas rent control allows no such deduction -- although current lending rates are as high as 14 percent.

- Utilities are allowed prompt if not automatic pass-through of increased energy costs whereas rent control involves almost endless red tape and months if not years of bureaucratic procrastination.

o Utilities may pass-through the accumulation of reserves for future development of production in order to anticipate consumer needs whereas rent control allows no such pass-through.

So far in this discussion I have avoided emotive words like "landlord" and "tenant" because their historical image is inflammatory. Accordingly, the current lack and loss of rental housing in the District of Columbia is basically a problem of attracting many, many individual investors from all walks of life whose hard-earned savings will produce new as well as continuing shelter for many more numerous consumers.

It is a fairly simple fiscal problem which has been handled equitably for generations in the case of traditional utilities. But under rent control the fiscal need to attract investors has been inexorably confounded with government responsibility for poverty assistance.

In good part that responsibility has been transferred willy-nilly to a helpless minority class of individual investors in rental housing. The transfer is clearly unconstitutional and particularly incompatible with the legal principles of government responsibility illustrated in Section 8 in the U.S. Housing and Community Development Act of 1974:

o Section 8 provides rental subsidies for poor to moderate income consumers, whose income does not exceed a figure that is 80 percent of the median income in their communities, to select modest apartments, and for the government to assist in payment of rents.

o Prospective consumers pay no more than 25 percent of their monthly income for rent, with the government paying the difference.

o Subsidies are intended to encourage investors to rehabilitate rental housing and to start new housing.

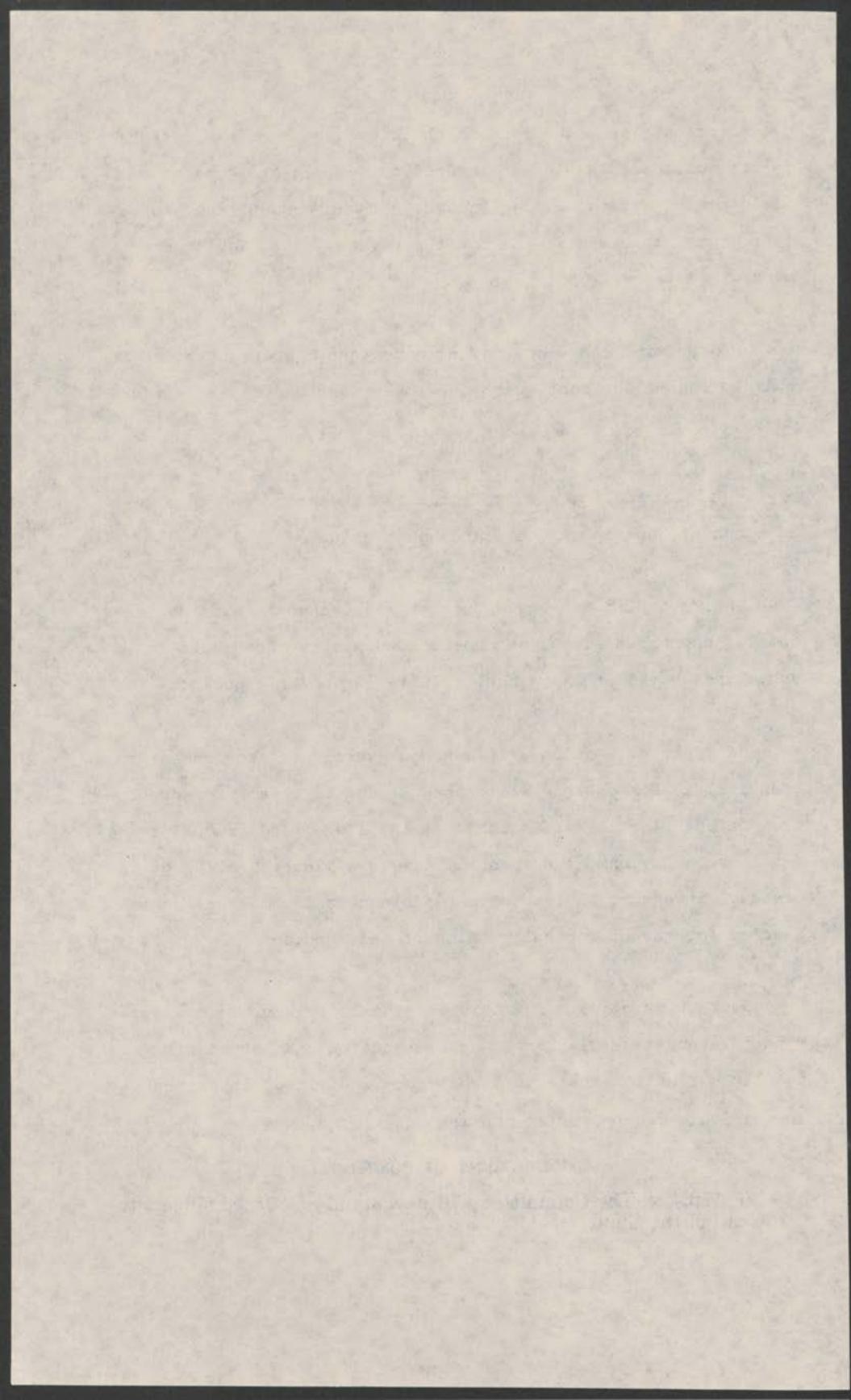
o Unlike public housing and other approaches to housing the poor, the program allows consumers to disperse throughout an urban area rather than gather in festering poverty pockets.

Manifestly, Section 8 is a sound exercise of government responsibility for poverty assistance. Just as clearly, rent control in the District of Columbia is an illegal and immoral transfer of such government responsibility to a minority class of individual investors -- from whom repentance and compensation is exacted for the historical sinning of landlordism.

Restructuring of rent control is no less a moral imperative than government regulation of rental housing. Restructuring is equally a fiscal necessity to reattract individual investors before private sector rental housing just fades away.

ADJOURNMENT OF COMMITTEE

Mr. WILSON. The Committee will now stand adjourned subject to the call of the Chair.



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