

Position on Rental Increases

Restrictions on Annual Increases: Policy and Context

In New Jersey, rent control was adopted as consumer protection, not as a means to provide affordable housing. The distinction is critical to Bloomfield's review of its rent control ordinance, because it has an obligation to set a rent increase level that allows the property owner to sustain the value of their investment.

Rental increases that do not allow the property owner to keep up with increased costs of operation serve to deprive property owners of their property and should be corrected to restore order in the marketplace and to encourage investment and reinvestment in multi-family properties as rentals.

Because costs change at unpredictable rates, we believe the principles of annual increase limits should be variable, increasing with the actual costs associated with maintaining and operating the real property. This leaves the property owner and the tenant on an honest and even footing: a rent is established and annual rent increases keep pace with annual cost increases.

Establishing a Methodology

There are three basic methods of increase in use today:

- set by an elected or appointed body based on politics;
- fixed to an objective measure or index such as CPI.
- set by an independent body based on analysis;

Prices that are fixed based on political influences are improper because they are subject to non-objective influences, predominately that tenants are more numerous than owners and represent more votes. Too, it is unnecessarily burdensome on lay council people and rent leveling board members to study economic data to review conditions and set increases, especially on an annual basis. A fixed increase, such as Bloomfield's historic figure of 3.5-4% is more predictable and manageable as a long-term committed political solution.

Currently many municipalities in New Jersey set maximum increases at the rate of increases for CPI. (as a side matter, there is no contemplation of a downward adjustment in rent control ordinances: the ordinances limit rent increases, they do not speak to reductions). CPI as a base for increases is not a completely unfair methodology, as it asks the tenant to pay an increase for rent that is like the increases for all other expenses. But typically prices for goods measured in the CPI do not reflect the proportion of expenses borne in the maintenance and operation of an apartment complex. The HPI, or Housing Price Index, is a measure of sale prices of homes, and is a poor reflection of management costs.

The most professional rent-regulating regime in the world is in Manhattan. The Rent Guidelines Board, a committee of owners, economists and renters, study, at great expense, the actual costs of operating apartment complexes and on an annual basis they set rent increases for one and two year periods.

New York is in the same CPI region as the urban areas of New Jersey, so they share a CPI increase standard. It follows that they also would experience similar cost increases related to managing apartment complexes. Bloomfield has neither the means nor the expertise to enact any such method, but it could simply adopt the NY increase, which, depicted below demonstrates that costs of operating residential real estate truly grow faster than the indexes available:

Rent Increases Tied to Indexes

Effect of various indexed increases based on an initial rent of \$800 in the year 2000.

Year	NYC*	CPI+	Wage^	3%	Property Tax<
2000:	\$800	800	800	800	800
2001:	\$816	822	821	824	842
2002:	\$849	835	827	848	898
2003:	\$865	854	838	874	946
2004:	\$905	877	877	900	1015
2005:	\$936	907	910	927	1088
2006:	\$962	936	986	955	1164
2007:	\$1003	962	1040	983	1228
2008:	\$1033	999	1062	1013	1273
2009:	\$1079	995	1038	1043	1315
2010:	\$1111	1011	1047	1074	1368
2011:	\$1140	1041	1079	1106	1396
2012:	\$1183	1063	1113	1139	1424
2013:	\$1207	1079	1146	1173	1453
2014:	\$1255	*	1179!	1208	1482
Total %	57%	35%	47%	51%	85%

SOURCES

* NY Rent Guidelines Board (attached)

+ Department of Labor/Borough of Labor Statistics

! 2014 estimated increase in wages

(<http://www.shrm.org/hrdisciplines/compensation/articles/pages/2014-salary-increase-budgets.aspx>)

^ New Jersey Wage increase <http://lwd.dol.state.nj.us/labor/lpa/industry/incpov/pci.htm>

< New Jersey Department of Community Affairs (tax increases limited to 2% in 2011)