Agenda Item 1

THE MARYLAND-NATIONAL CAPITAL PARK AND PLANNING COMMISSION

Department of Park and Planning, Montgomery County, Maryland
9500 Brunett Avenue•Silver Spring, Maryland 20901

June 12, 2003

AGENDA DATE: 6/19/03

MEMORANDUM

TO: The Montgomery County Planning Board

FROM: Jerry Bush, Administrative Supervisor JB

SUBJECT: Park House Rent Increase – FY04

STAFF RECOMMENDATION: Approval of proposed schedule of rents which includes:

- a 5.4% increase in the rental rates for occupied units that are at or below the adjusted fair market value rent for each unit.
- an additional 3% increase for those units that continue to be rented below fair market value.

Executive Summary

Staff presents its annual recommendation on park house rent adjustments to the Planning Board for your consideration and approval. For 2004, staff recommends a **5.4% increase** in park house rents for occupied units. 5.4 % is the 2004 voluntary rent increase limit established by the Montgomery County Executive's Office (MCEO).

The attached schedule of rents for 2004 (Attachment 1, Circle Pages 5-6) reflects the recommended 5.4% increase in rental rates for most units along with a commensurate increase in the adjusted fair market rental values ("market value") established by Legum & Norman ("L&N"), the Commission's rental management company for residential units. This is consistent with our practice of performing full market surveys every five years and adjusting the market rental values in the intervening years using the MCEO voluntary guideline. The last market survey was performed by L&N in 2001.

A selected number of occupied units that have rental rates below the adjusted fair market value will experience an additional 3% increase as a catch-up provision approved by the Planning Board in June 2002. To ensure that the catch-up provision is serving to close the gap between current rental rates and market values at an actual 3%/year, the 3% increase is a factor of the newly adjusted market values for 2004, not the current 2003 rental rate. For those units that are currently rented at a rate in excess of fair market value, there will be no increase until such time as the market value catches up to their current rental rate.

Despite the above-recommended rent increase, park houses remain relatively affordable. In the near future, and in support of the Housing Montgomery initiative, staff will begin work on a formal policy statement, for Board review and approval, that supports and promotes the affordability of park housing and its use for low and moderate income tenants, special needs populations, or group housing for specific populations.

Background

Park house rent increases are implemented on an annual basis near the beginning of each fiscal year. In recent years, the amount of the increase has been established by applying the voluntary annual rental increase limit ("guideline") established by the Montgomery County Executive's Office ("MCEO").

Formal market surveys are conducted on five-year cycles to assess the current fair market rental value ("market value") for each unit. These surveys take into consideration rental rates for comparable units, market trends, as well as the features and relative condition of each unit. The most recent market survey was conducted by Legum & Norman in 2001.

Based on the results of the market surveys, a new market value is established for each unit. In most cases, the new market values are higher than those previously observed as well as the actual rental rates being paid by the tenants. In some cases where there have been major improvements or repairs performed to the unit since the last market survey, the difference between current rental rates and new market value can be substantial.

Between cycles, the market value for each unit is adjusted on an annual basis in accordance with the MCEO guideline. For 2004, the MCEO has recommended a maximum increase of **5.4%**. Accordingly, the market values for 2003 will be increased by 5.4% for 2004.

The MCEO guideline is also applied each year in establishing the proposed increases in the actual rents ("rental rate") being paid by the tenants. The effect of such a practice is that, absent some form of catch-up provision, any rental rates that are below market value as a result of the last market survey will remain so indefinitely, until such time as the unit is vacated and brought up to market rate.

Last year, staff recommended, and the Planning Board approved, a catch-up provision whereby any unit that was being rented below market value could be assessed up to an additional 3% annual increase until such time as the rental rate caught up to market value, including any allowable discounts for employees. Therefore, the recommended FY04 increases for selected units will be in excess of 5.4%.

For the above affected units, the actual percentage increase in addition to the base 5.4% increase will be more than 3% of the current rental rate. To ensure that the catch-up provision is serving to close the gap between current rental rate and market value at an actual 3%/year, the 3% increase is a factor of the newly adjusted fair market value for 2004, not the current 2003 rental rate.

Even with the 3% catch-up provision, rental rates for four non-employee and six employee-occupied units will not reach the full, adjusted market value (minus 7% payroll deduction discount for employees) prior to the next market survey in 2006.

Employee and Non-Employee Discounts

As explained above, a number of the rental rates for 2004 will continue to lag behind the adjusted market value for the units due primarily to the disparities that arise as a result of the market surveys conducted every five years.

Per Practice 6-50 all non-employee occupied units are to be rented at full market value. Employee occupied units are allowed an across-the-board discount of 7% off market value due to the savings the Commission realizes by collecting the rents through payroll deduction. Other discounts have been allowed for park related duties associated with living in the unit, and other factors including nuisance factors for units in busy park areas or tenant provided maintenance of the unit over and above what is normally required in the lease.

Rent discounts for employees totaling more than 20% are considered a taxable fringe benefit and are prohibited under Practice 6-50. Last June when the annual rent increase recommendation was brought to the Board, there were two employee occupied units with rent discounts in excess of 20%. Board action at that time corrected the situation by increasing the rental rates for the two units to a level 20% below market value. With the 3% catch-up provision, those two units will be at 17% of market value for 2004.

Staff has determined that no current employee tenants are eligible for rent discounts in excess of 7% and, and therefore will continue to apply the 3% catch-up provision to the above two units as well as any others that have rent discounts in excess of 7%.

The two non-employee occupied units that, last year, were 33% and 47% below market were vacated over the past year. One was demolished due to its severely deteriorated condition. The other will be rented at market value per Practice 6-50. A few other non-employee occupied units continue to be rented at below market rental rates and will be assessed the 3% additional rent increase to gradually reduce or eliminate the gap. For FY04, these few units are receiving discounts of 12% or less.

Park House Affordability and the Housing Montgomery Initiative

On March 6, 2003, the Planning Board met with Department staff to review a new initiative, Housing Montgomery that calls for an increase in the supply of affordable housing to our current and future workforce. The menu of options (to increase the supply of housing) that represents the framework of this new initiative resulted from the findings of several studies, conducted by staff, that focused on the affordable housing problem in Montgomery County, what was being done to address the problem, and what future strategies would have the potential for increasing the supply of affordable housing in the near term.

One of those studies, Park Houses as Affordable and Special Needs Housing, examined the current use of park houses and their potential as affordable housing or small group homes for special needs housing. Specifically, the study recommended the following.

1. Develop a formal policy statement for Montgomery County park houses that:

    a. continues to give priority to Commission low and moderate-income households.

b. targets low and moderate-income households when non-Commission employees rent park houses.
c. defines affordable housing according to HUD and Moderately Priced Dwelling Unit (MPDU) standards.
d. establishes a formal process to review the status of park houses and make decisions about whether to raze an individual unit.

2. Actively seek special needs tenants as houses become available for new occupants, especially if there are no qualified Commission employee tenants. Permit special needs tenants the choice of paying current rents or paying a discounted rent in return for reduced landlord services.

3. Include park houses in assessments of Montgomery County's supply of affordable housing.

4. Consider the feasibility of creating group homes for specific populations, such as teachers, in large park houses.

In preparing for this park house rent increase to the Planning Board, staff discussed if a rent increase at this time was premature in view of the staff recommendation above to revise the current policy/practice on park houses. Staff concluded that it was not premature in view of the fact that park house rents, as identified in the staff study for Housing Montgomery, are already very affordable by virtue of the modest nature of most of the units.