

**Hypothetical Effect of Rent Controls
on Valuation and Assessment of Class 4C Properties (Apartment Buildings)
in Township of Teaneck**

Purpose of the Report

The Tax Assessor has been requested by the Township Manager to provide a report quantifying the property tax implications of Teaneck's current Rent Control Ordinance.

Function of the Report

The report will be used by the Local Governing Body to assist in their deliberations regarding the efficacy of extending the current provisions.

Date of Report

This report was prepared on February 2, 2010. The time period examined for effect was Calendar Year 2008, the latest year for which the Tax Assessor has rental information.

Overview

Rent controls have been enacted by many municipalities throughout the country, including Teaneck, as a means to moderate and/or limit annual rent increases on tenants. Proponents have touted them as an indirect means of providing affordable housing within a particular community (a desirable social goal), with little or no cost to the community at large (a desirable political goal). Opponents have derided rent controls as disproportionately burdening rental property owners for a societal goal that the entire community should be bearing. They contend that rent controls are a disincentive to reinvestment in the property which depresses property values and actually imposes a covert cost on all properties.

The covert cost argument is based on alleged distortions in the allocation of property taxes caused by the controls. The reasoning is that rent controls, which have the stated purpose of limiting rents, also limit a building's value and ultimately reduce its tax obligation - thereby increasing the tax obligation of every other property. This has a certain logic as properties in New Jersey are assessed based on their market value and for income producing properties, market value is based on Net Operating Income. Therefore, the lower the income a property generates, the lower its assessed value. Since the tax rate is determined by dividing the amount to be raised by the aggregate assessed value of the township, anything that lowers the aggregate assessed value has the effect of increasing the tax rate. This higher tax rate is then applied to all assessed values in the township, and all other property owners end up paying more each year. (It should be noted, however, that a municipality's county tax obligation is also based on aggregate assessed value. Anything that increases the aggregate assessed value may potentially increase the municipality's share of county taxes. It is not possible to estimate what impact this possibility

may have on Teaneck as there are too many variables to account for, including growth rates in the 69 other Bergen County municipalities.)

Methodology

In order to determine whether existing rent controls actually impose a covert cost on all property owners, it is necessary to first examine the provisions of Teaneck's current rent control ordinance. Theoretically, the more restrictive the provisions, the greater the distortion in rents and the larger the effect will be.

After examining the provisions of the rent control ordinance, it is then necessary to examine actual rent rolls from a selection of different apartment buildings in Teaneck. (There are 59 apartment buildings containing 5 or more units in Teaneck. 8 rent rolls are analyzed representing approximately 14% of the 59 properties.) These actual rent rolls will be compared to market rents for similar units to determine if the restricted rents differ significantly from potential market rents.

After considering the results of the analysis of 8 different rent rolls, conclusions will be drawn regarding the average effect on a rental apartment property. This average, (which will be expressed as a percentage) will then be applied to the aggregate assessed value of all affected Class 4C (rental apartment buildings) to determine what the aggregate assessed value of this property class would theoretically be, sans rent control. The revised aggregate assessed value of this property class will then be added to the aggregate assessed values of all other property classes for Tax Year 2008 to determine the revised total aggregate assessed value of the Township. The revised aggregate value will be divided into the 2008 budget to determine a revised tax rate, which will then be applied to the average assessed value of a Class 2 property (1-4 family dwelling) for 2008 to determine the tax impact to a typical homeowner.

Teaneck Rent Control Provisions

According to Ordinance No. 4175 and Chapter 29C of the Township Code, the following provisions apply to rent controlled buildings:

- Fair Rental may be increased by a maximum of 5% per year if heat is supplied
- Fair Rental may be increased by a maximum of 4% per year if no heat supplied
- Vacancy decontrols are in effect, however, rent cannot be increased by more than 15% over the prior Fair Rental rate.

Fair rent is defined as the rent that was on file with the Township as of June 1, 2004. If no rent was on file, whatever rent was being actually charged as of June 1, 2004 is considered to be Fair Rent.

Based on a comparison with neighboring communities, Teaneck's rent control provisions are considered to be minimally restrictive and generally favorable towards landlords. The annual permitted increases of 4 and 5% are at or above typical market rent increases for the area, and the existence of vacancy decontrol insures that over time, most units will have rents that are at, or near, market levels.

Market Rent Determinations

In order to remain as objective as possible, Market Rent will be based on HUD's determination of Fair Market Rent for Bergen County rental apartments for use in the Section 8 housing voucher program for 2008. HUD's website, (www.huduser.org/portal/datasets/fmr/html) lists the following for the Bergen-Passaic, NJ HUD Metro FMR Area for Year 2008:

Fair Market Rent:

2 Bedroom Apartment	\$1,256
1 Bedroom Apartment	\$1,120
Studio Apartment	\$1,001

Block 201 Lot 3 810-824 CEDAR LANE

BUILT 1960 18 UNITS

HEAT INCLUDED

# BRS	MO. RENT	MKT RENT	DIFF.	RENT ADJ TO MKT
2	1192.15	1256	63.85	1256
2	1248.07	1256	7.93	1256
2	1292	1256	-36	1292
2	1286.66	1256	-30.66	1286.66
2	0	0	0	0
2	1263	1256	-7	1263
1	1162	1120	-42	1162
1	1134	1120	-14	1134
1	1055	1120	65	1120
1	970	1120	150	1120
1	0	0	0	0
1	1076.3	1120	43.7	1120
1	950.33	1120	169.67	1120
1	1164.23	1120	-44.23	1164.23
1	1003	1120	117	1120
1	1048	1120	72	1120
1	1112	1120	8	1120
1	1077.41	1120	42.59	1120
TOTALS	18034.15	18600		18773.89

% DIFF 0.0410188

Block 609 lot 3 709-721 CEDAR LANE
 BUILT 1930's 28 APT UNITS/3 OFFICES/1STORE
 HEAT INCLUDED

# BRS	MO. RENT	MKT RENT	DIFF.	RENT ADJ TO MKT
1	1014	1120	106	1120
1	1175	1120	-55	1175
STUDIO	800	1001	201	1001
1	1017	1120	103	1120
2	1300	1256	-44	1300
2	1315	1256	-59	1315
1	1150	1120	-30	1150
1	1023	1120	97	1120
2	1207	1256	49	1256
1	1092	1120	28	1120
2	1183	1256	73	1256
2	1266	1256	-10	1266
1	0	0	0	0
2	1250	1256	6	1256
2	0	0	0	0
2	1186	1256	70	1256
2	1136	1256	120	1256
2	1360	1256	-104	1360
2	1335	1256	-79	1335
2	1278	1256	-22	1278
2	1295	1256	-39	1295
2	1286	1256	-30	1286
2	1315	1256	-59	1315
2	1353	1256	-97	1353
2	1370	1256	-114	1370
2	1375	1256	-119	1375
2	1590	1256	-334	1590
2	1415	1256	-159	1415
TOTALS	32086	31585		32939

% DIFF 0.026585

Block 2915 Lot 6 815-821 RED ROAD
 BUILT 1940'S 48 UNITS
 HEAT INCLUDED

# BRS	MO. RENT	MKT RENT	RENT DIFF.	RENT ADJ TO MKT
1	942	1120	178	1120
1	1004	1120	116	1120
1	903	1120	217	1120
2	1181	1256	75	1256
2	0	0	0	0
1	935	1120	185	1120
1	800	1120	320	1120
1	920	1120	200	1120
2	1251	1256	5	1256
2	1375	1256	-119	1375
1	995	1120	125	1120
1	970	1120	150	1120
1	979	1120	141	1120
1	941	1120	179	1120
2	1258	1256	-2	1258
2	1334	1256	-78	1334
1	978	1120	142	1120
1	959	1120	161	1120
1	907	1120	213	1120
2	975	1256	281	1256
2	1295	1256	-39	1295
1	832	1120	288	1120
1	888	1120	232	1120
1	903	1120	217	1120
2	1263	1256	-7	1263
2	1327	1256	-71	1327
1	947	1120	173	1120
1	896.75	1120	223.25	1120
1	909	1120	211	1120
1	975	1120	145	1120
2	1350	1256	-94	1350
2	1316	1256	-60	1316
1	1000	1120	120	1120
1	1003.31	1256	252.69	1256
1	903	1120	217	1120
2	1250	1256	6	1256
2	1250	1256	6	1256
1	988	1120	132	1120
1	855	1120	265	1120
1	975	1120	145	1120
2	1196	1256	60	1256
2	1350	1256	-94	1350
1	998	1120	122	1120
1	975	1120	145	1120
1	883	1120	237	1120
1	975	1120	145	1120
2	1235	1256	21	1256
2	1350	1256	-94	1350
TOTALS	49695.06	55088		55746

% DIFF 0.121761

Block 3001 Lot 6 780 GRANGE ROAD

BUILT 1945 14 UNITS

HEAT INCLUDED

# BRS	MO. RENT	MKT RENT	DIFF.	RENT ADJ TO MKT
1	1000	1120	120	1120
1	1023.35	1120	96.65	1120
1	1002.25	1120	117.75	1120
1	1096.33	1120	23.67	1120
1	825.9	1120	294.1	1120
1	1096.33	1120	23.67	1120
1	1096.33	1120	23.67	1120
1	829.81	1120	290.19	1120
1	1101.42	1120	18.58	1120
1	1096.33	1120	23.67	1120
1	1096.33	1120	23.67	1120
1	1057.37	1120	62.63	1120
1	840.75	1120	279.25	1120
1	972.18	1120	147.82	1120
TOTALS	14134.68	15680		15680

% DIFF. 0.109328

Block 3212 Lot 18 194 FORT LEE ROAD
 BUILT 1940± 16 UNITS
 HEAT INCLUDED

# BRS	MO. RENT	MKT RENT	RENT DIFF.	RENT ADJ TO MKT
1	815	1120	305	1120
STUDIO	850	1001	151	1001
1	930	1120	190	1120
1	933	1120	187	1120
1	1017	1120	103	1120
1	945	1120	175	1120
1	1004.17	1120	115.83	1120
1	1050	1120	70	1120
STUDIO	900	1001	101	1001
1	975	1120	145	1120
1	850	1120	270	1120
1	1017	1120	103	1120
1	1050	1120	70	1120
STUDIO	850	1001	151	1001
1	841.67	1120	278.33	1120
1	959	1120	161	1120
TOTALS	14986.84	17563		17563

% DIFF 0.171895

Block 3408 Lot 6 80-86 BERGEN AVENUE
 BUILT 1943 30 UNITS
 HEAT INCLUDED

# BRS	MO. RENT	MKT RENT	RENT ADJ	
			DIFF.	TO MKT
1	0	0	0	0
1	0	0	0	0
1	876	1120	244	1120
1	892	1120	228	1120
1	876	1120	244	1120
1	915	1120	205	1120
1	876	1120	244	1120
1	876	1120	244	1120
1	890	1120	230	1120
1	955	1120	165	1120
1	899	1120	221	1120
1	876	1120	244	1120
1	1007	1120	113	1120
1	1006	1120	114	1120
1	876	1120	244	1120
2	899	1120	221	1120
2	958	1256	298	1256
1	1375	1256	-119	1375
1	955	1120	165	1120
1	890	1120	230	1120
1	998	1120	122	1120
1	1025	1120	95	1120
1	1007	1120	113	1120
2	1070	1120	50	1120
2	1077	1256	179	1256
1	1290	1256	-34	1290
1	876	1120	244	1120
1	1025	1120	95	1120
1	915	1120	205	1120
1	892	1120	228	1120
TOTALS	27072	31904		32057

% DIFF 0.184139

Block 5003 Lot 3 34 STATE STREET
 BUILT 1935 40 UNITS
 HEAT INCLUDED

# BRS	MO. RENT	MKT RENT	DIFF.	RENT ADJ TO MKT
2	1244	1256	12	1256
2	1537	1256	-281	1537
STUDIO	790	1001	211	1001
1	1075	1120	45	1120
1	1028	1120	92	1120
STUDIO	0	0	0	0
1	1180	1120	-60	1180
2	1649	1256	-393	1649
2	1309	1256	-53	1309
STUDIO	0	0	0	0
1 SMALL	866	1001	135	1001
1	948	1120	172	1120
1	1088	1120	32	1120
STUDIO	936	1001	65	1001
1 SMALL	988	1001	13	1001
2	1030	1256	226	1256
2	1179	1256	77	1256
STUDIO	784	1001	217	1001
1	988	1120	132	1120
1	1135	1120	-15	1135
1	991	1120	129	1120
STUDIO	937	1001	64	1001
1	1122	1120	-2	1122
2	1593	1256	-337	1593
2	1564	1256	-308	1564
STUDIO	658	1001	343	1001
1 SMALL	983	1001	18	1001
1	0	0	0	0
1	1018	1120	102	1120
STUDIO	864	1001	137	1001
1	1224	1120	-104	1224
2	1231	1256	25	1256
2	0	0	0	0
STUDIO	757	1001	244	1001
1 SMALL	904	1001	97	1001
1	1078	1120	42	1120
1	1023	1120	97	1120
STUDIO	1003	1001	-2	1003
1	1175	1120	-55	1175
2	1466	1256	-210	1466
TOTALS	39345	40252		42072

% DIFF 0.06931

Block 5010 Lot 1 72-132 WALRAVEN DRIVE
 BUILT 1940'S 72 UNTIS
 HEAT INCLUDED

# BRS	MO. RENT	MKT RENT	RENT ADJ		# BRS	MO. RENT	MKT RENT	RENT ADJ	
			DIFF.	TO MKT				DIFF.	TO MKT
2	1264	1256	-8	1264	2	1056	1256	200	1256
2	1248	1256	8	1256	2	1051	1256	205	1256
2	1150	1256	106	1256	2	1264	1256	-8	1264
2	1250	1256	6	1256	2	1275	1256	-19	1275
2	1047	1256	209	1256	2	1180	1256	76	1256
2	1260	1256	-4	1260	2	1243	1256	13	1256
2	1264	1256	-8	1264	2	1199	1256	57	1256
2	1225	1256	31	1256	2	1250	1256	6	1256
2	1275	1256	-19	1275	2	1275	1256	-19	1275
2	1268	1256	-12	1268	2	1172	1256	84	1256
2	0	0	0	0	2	1250	1256	6	1256
2	1250	1256	6	1256	2	1096.15	1256	159.85	1256
2	1275	1256	-19	1275	2	1275	1256	-19	1275
2	1264	1256	-8	1264	2	1250	1256	6	1256
2	1250	1256	6	1256	2	1275	1256	-19	1275
2	1275	1256	-19	1275	2	1275	1256	-19	1275
2	1238	1256	18	1256	2	1275	1256	-19	1275
2	1224	1256	32	1256	2	1081	1256	175	1256
2	1275	1256	-19	1275	2	1264	1256	-8	1264
2	1264	1256	-8	1264	2	1275	1256	-19	1275
2	1275	1256	-19	1275	2	1275	1256	-19	1275
2	1236	1256	20	1256	2	1264	1256	-8	1264
2	1275	1256	-19	1275	2	1275	1256	-19	1275
2	1275	1256	-19	1275	2	1257	1256	-1	1257
2	1275	1256	-19	1275	2	1072	1256	184	1256
2	1264	1256	-8	1264	2	1258	1256	-2	1258
2	1262	1256	-6	1262	2	1201	1256	55	1256
2	1239	1256	17	1256	2	1260	1256	-4	1260
2	1250	1256	6	1256	2	1275	1256	-19	1275
2	1275	1256	-19	1275	2	1264	1256	-8	1264
2	1263	1256	-7	1263	2	1130	1256	126	1256
2	1224	1256	32	1256	2	1225	1256	31	1256
2	1248	1256	8	1256	2	1245	1256	11	1256
2	1094	1256	162	1256	2	1191	1256	65	1256
2	1057	1256	199	1256	2	1185	1256	71	1256
2	1275	1256	-19	1275	2	1236	1256	20	1256
SUBTOTAL	43353	43960		44219		43894.15	45216		45445
TOTALS					ACT RENT	87247.15		MKT RENT	89664
								% DIFF	0.027701

Analysis of Rent Rolls

Block 201 Lot 3:

Building contained a total of 18 units, 2 of which were vacant at the submission of the rent roll. Analysis indicated that 6 of the 16 rented units were renting above market level rent for the specific unit type and 10 were rented below market level. The 6 units rented at or above market level rent are left as is, as they presumably would be unaffected by any change in rent control restrictions. Only those units renting for less than market rent would be subject to an increase, and are increased to market levels as indicated by HUD.

The actual rent roll reported a total rent of \$18,034.15 on a monthly basis. When those units which are rented below market levels are increased to market level rents, the total projected rent roll is \$18,773.89 per month. This indicates that the rents collected at this building could theoretically be at a minimum of **4.1%** higher in the absence of rent controls.

Block 609 Lot 3:

Building contained a total of 28 apartments, 3 offices and 1 store. Only the apartment rents are listed. There were 2 vacancies at this building as of the reporting date as indicated by a "0" in the rent column. 16 of the apartments were rented above market rent level and remain unadjusted. The remaining 12 units have had rent increases projected to market levels. The actual rent roll totals \$32,086 per month, the projected rent roll totals \$32,939, indicating an increase of **2.7%** in the absence of rent controls.

Block 2915 Lot 6:

Building contained a total of 48 apartment units, only one of which was vacant. 10 of the 47 rented units were above market rent levels while the remaining 37 units were rented below market level. After increasing the below market rents to market level and leaving the above market rents as is, a **12.18%** difference was seen between actual rents collected and rents which could theoretically be collected if all units were at market rent level.

Block 3001 Lot 6:

Building contains 14 units, all of which were rented, and all of which were found to be below the market rent levels as determined by HUD. Actual rents collected total \$14,134.68, while projected rents at market level total \$15,680, a difference of **10.93%**.

Block 3212 Lot 18:

Building contains 16 units, all of which were rented, and all of which were found to be below the market rent levels as determined by HUD. Actual rents collected total \$14,986 while potential rents total \$17,563, a difference of **17.19%**.

Block 3408 Lot 6

Building contains 30 units, one of which is a super's unit with no rent, and one of which was vacant. Both are assigned 0 rent for this analysis. The remaining units were all found to be rented at levels below market rent. Actual rents total \$27,072 while projected rents total \$32,057, a difference of **18.41%**.

Block 5003 Lot 3

A 40 unit building with 4 vacant units. 12 units were found to be rented above market rent while 24 units were below market level. The actual rent collected totaled \$39,345 while projected rents totaled \$42,072, a difference of **6.93%**.

Block 5010 Lot 1

A 72 unit building with one vacant unit. Actual rents totaled \$87,247.15 while projected rents totaled \$89,664, a difference of **2.77%**.

Conclusions

A sampling of eight rent rolls from buildings located throughout the township and under different owners were analyzed to determine the difference between actual rents collected and market rents. Presumably, all units could be raised to at least market rents if the units were not subject to rent controls. The analysis indicated that the actual rent rolls were lower than projected market rents by between 2.7% to 18.41%, and the average difference was 9.4%, meaning that on average, actual rents collected were 9.4% below market rents.

The actual value of these buildings would be estimated based on the Net Operating Income they generate (income left after deducting stabilized annual operating expenses) therefore, a 9.4% decrease in gross rent collections does not translate into a direct 9.4% reduction in property value. Increasing the rent at a property will have a corresponding effect of increasing the operating expenses of the building due to the fact that several expense items are based on a percentage of the total rent collected. Management and maintenance also have to be more intensive as tenants are more demanding when paying market rents. Vacancy rates are also likely to increase as rents increase, resulting in further reduced collections. Also to be considered is that the building will theoretically have a higher tax obligation further reducing the net operating income.

Considering all of the preceding, it is my opinion that, on average, apartment building values are currently 5% lower than market value due to the presence of rent controls in Teaneck Township.

Tax Implications

The tax implications of the preceding conclusion are estimated by increasing the aggregate assessed value of all Class 4C properties (5 apartment units+) that fall under the rent control ordinance by 5%. (There is one, recently constructed building which does not fall under the ordinance, its value will be subtracted from the aggregate of 4C properties.) This projected aggregate will be added to the actual aggregate value totals of all other property types. The adjusted total will be divided into the amount to be raised by taxes to determine a revised tax rate which is applied to an average assessed value for a Class 2 (1-4 family home).

2008 Aggregate Assessed Value Class 4C properties:	\$198,441,100
less 2008 Assessed Value Non-Rent Controlled Apt. Bldg:	(\$5,580,400)
Total Aggregate Assessed Value of Properties Affected by Rent Cont:	\$192,860,700
Adjustment Factor (5%):	\$9,643,035
Adjusted Aggregate Assessed Value Class 4C:	\$202,503,735
Net Valuation Taxable all other Properties:	\$5,900,940,994
(Incl 2008 Assessed Value Non-Rent Controlled Apt. Bldg) (and Public Util Prop incl. in Net Val. Taxable)	
Adjusted Net Valuation Taxable All Properties:	\$6,103,444,729
2008 Amount to be Raised by Taxes:	\$133,791,136.96
Adjusted 2008 Tax Rate:	\$.02192
Average 2008 Assessed Value Class 2 Property:	\$464,800
Adjusted Average Taxes 2008:	\$10,188
Actual 2008 Tax Rate:	\$.02197
Actual Average Taxes 2008 Class 2 Property:	\$10,212
Difference	\$24

Note from Tom Abbott:

The math in this report is seriously flawed. A proper analysis would show that the actual average saving to home owners would be \$12 a year - not \$24.