



Scott Bruton, PhD, Director

## Rent Stabilization Regulation Overview

Department of Housing and Community Affairs (DHCA)

- **Bill 15-23, Landlord-Tenant Relations – Rent Stabilization**
  - Enacted by County Council on July 18, 2023, signed into law by County Executive on July 23, 2023.
  - Executive Regulations were approved by the County Council on July 23, 2024
- **Purpose:**
  - Establish protections against rent increases above a threshold for certain rental units;
  - Set the base rental amount for certain rental units;
  - Provide exemptions from rental increase restrictions for certain units;
  - Permit certain rental increases to fund capital improvements;
  - Permit certain rental increases to achieve fair returns;
  - Require landlords to submit annual rent and other data for certain units; and
  - Generally amend County law concerning rents and landlord-tenant relations.

- The annual rent increase allowance is the lesser of the consumer price index for Urban Wage Earners (CPI-U) for the Washington Metropolitan Statistical Area, plus 3% or 6%. **(CPI-U + 3% ≤ 6%)**
- DHCA will publish the allowable rent increase and CPI-U annually. The rent increase remains in effect for 12 months, beginning July 1 and ending June 30 of the following year.
- **Effective July 23, 2024, to June 30, 2025, the CPI-U is 3.3%, so the maximum rent increase allowance is 6%.**
- All lease renewals for the rent-stabilized units effective July 23, 2024, and later must be amended or voided to comply with the rent stabilization law.
  - If the notice is amended, the landlord may keep the original effective date of increase.
  - If the notice is voided, the landlord must allow a new 90-day period for a new notice.

- **New Lease or Lease Renewal**
  - No more than one increase per 12-month period.
  - Multi-year Lease: the annual rent increase allowance governing the first year applies to the following lease years.
  - Unused rent increases allowances may be banked for future increases.
  - Banked Amount: the dollar amount of an annual rent increase allowance that a landlord did not use to increase the rent for a regulated unit.
    - Example:
      - Your current rent is \$1200
      - The allowable rent increase is 6%, which is \$72
      - Your landlord decides to only increase rent by 5%, which is \$60
      - The unused \$12 is “banked” for future use

- At lease renewal, a landlord may not increase the rent of a regulated unit by more than:
  - Base rent (amount currently paid for the unit); plus
  - Rent increase allowance (CPI-U +3% or 6%); plus
  - Any banked amount; and
  - The total increase may not exceed 10% of the base rent
- **General Increase Notice Requirements**
  - Notice of a rent increase must be in writing and delivered by US mail or in person with a signed receipt at least 90 days before the effective date of the rent increase.
  - Notice must contain a 2-year lease renewal offer.
  - Notice must list the current rent, the new rent, the percentage of increase, and the effective date of the proposed increase.
  - For the comprehensive list of the notice requirements, please see the OLTA handbook.

- **Vacant and Previously Vacant Units**

- Units vacant after the regulation effective date, July 23, 2024: the landlord can increase rent up to the banked rent amount or to no more than the base rent at the time the unit became vacant plus any allowable increase.
  - Example:
    - A tenant paying \$1200 moves out of their unit on August 1, 2024.
    - The landlord would like to rent the unit to a new tenant with a lease starting August 15, 2024.
    - The allowable rent increase for July 23, 2024 – June 30, 2025, is 6% (6% of \$1200 is \$72).
    - The landlord may charge up to \$1272 in rent for the new lease.
- Units vacant prior to the regulation effective date, July 23, 2024: the landlord may set the base rent upon the unit's return to the market. After the unit is leased, rent for the subsequent lease or lease renewal must follow the regulation.
  - Example:
    - A tenant paying \$1200 moves out of their unit on July 1, 2024.
    - The landlord would like to rent the unit to a new tenant with a lease starting August 15, 2024.
    - Since the unit became vacant before the regulation's effective date, the landlord may set the new base rent at their discretion.
    - All following rent increases must comply with the rent stabilization regulation.

- A landlord may not increase rent by any amount while the property is designated Troubled or At-Risk.
- The current Troubled and At-Risk property designation list is in effect until the new list is issued on September 1, 2024.
- If a property is on the Troubled or At-Risk list as of the effective date of July 23, 2024, when the County Council approved the rent stabilization regulation, the landlord cannot increase the rent.
- The new Troubled and At-Risk property designation list will be available on September 1, 2024.
- If your property was designated as Troubled or At-Risk between July 23, 2024, and September 1, 2024, you cannot increase rents on any lease renewals during this period. The lease term renewed during this period will remain unchanged, with no increase until the lease expires.
- If your property achieved a compliant status on September 1, 2024, you may increase the rents on lease renewals according to the rent stabilization regulation on all leases after that date.

- If a landlord of a Troubled or At-Risk property meets the following conditions, the Director must change their designation to Compliant.
  - Troubled Properties:
    - Correct all violations and verify with DHCA;
    - Submit a corrective action plan (as defined in COMCOR 29.40.01.02(a)) that meets DHCA approval;
    - Submit two quarters of maintenance logs under COMCOR 29.40.01.04(k)(3); and
    - A reinspection of the property under COMCOR 29.40.01 does not result in a designation as Troubled or At-Risk.
  - At-Risk Properties:
    - Correct all violations and verify with DHCA; and
    - A reinspection of the property under COMCOR 29.40.01 does not result in a designation as Troubled or At-Risk.
- If the landlord cannot meet the conditions required to remove their Troubled or At-Risk designation, the landlord may submit a fair return application to demonstrate their financial inability to maintain habitability.
  - Fair Return Approval: The landlord may increase rents of regulated units by the amount approved in the application while the property is still designated as Troubled or At-Risk.
  - Fair Return Denial: The landlord is not permitted to increase the rent of regulated units while being designated as Troubled or At-Risk.



## **A unit is exempt from rent control if it meets one of the following conditions:**

- A newly constructed unit that has been offered for rent for less than 23 years
- A unit owned by a natural person or the trust/estate of a decedent who owns 2 or fewer rental units within the County
- A unit subject to a regulatory agreement with a governmental agency that restricts the unit to low- and moderate-income tenants (LIHTC, AMI restricted units, NOT tenant-based programs like HCVP)
- A unit that has undergone a substantial renovation within 23 years
- A licensed facility where the primary purpose is the diagnosis, cure, and treatment of illnesses
- A facility owned or leased by a 501(c)(3) nonprofit group if the primary purpose of the organization is to provide temporary shelter for qualified clients
- Owner-occupied group house
- A religious facility (church, parsonage, mosque, synagogue, rectory, etc.)
- A transient lodging facility (Airbnb)
- An accessory dwelling unit (ADU)
- A school dormitory
- A licensed assisted living facility or nursing home

- Capital improvements are permanent structural alterations to rehabilitate or improve a housing accommodation and do not include ordinary maintenance and repair.
- A landlord may petition the Director for a limited surcharge to cover the costs of capital improvements.
  - Surcharge: An additional amount temporarily added to the monthly base rent if DHCA approves the Capital Improvement Petition. It is not part of the annual increase or base rent and does not change over the years.
- Examples of capital improvement include, but are not limited to:
  - Replacing a roof or elevator
  - Installing new windows
  - Installing new appliances
  - Repairing HVAC or plumbing system

- **Filing:**
  - The landlord must file a petition, along with supporting documents.
- **Notice to Tenants of Filing:**
  - The landlord must notify affected tenants within 5 days of filing.
- **Petition Processing:**
  - Within 30 days of receipt, DHCA will notify the landlord if the petition is complete or incomplete. If incomplete, the landlord has 10 days to provide the missing information, or the petition may be denied.
- **Preliminary Decisions:**
  - Within 60 days of receiving a complete petition, DHCA will approve or deny with a preliminary decision.
- **Material Change:**
  - Any material changes require a Supplement to be submitted. Within 30 days of receipt, DHCA will approve or deny the Supplement, including any revisions to the recommended surcharge.
- **Final Reconciliation:**
  - Upon completion of the capital improvements, the landlord must file a Final Reconciliation Package with actual costs, supporting documents, and a revised calculation of the surcharge. DHCA will approve or deny the surcharge within 30 days of receipt.
- **Notice to Tenants of Decision:**
  - The landlord must notify affected tenants within 5 days of receipt of the decision.

- **Capital Improvements Prior to Petition:**

- A landlord may not recover the cost of capital improvements made prior to the approval of a Capital Improvement Petition unless the improvement was necessary for the health and safety of the tenants. The landlord must file a Petition no later than 30 days after the completion of the work.

- **A Capital Improvement Petition must certify:**

- The improvements are capital improvements;
- The improvements are intended to comply with Federal, State, or County law;
- The improvements do not include costs for ordinary repair or maintenance;
- The improvements will protect or enhance the health, safety, and security of the tenants or the habitability of the housing;
- The improvements will result in energy cost savings passed on to the tenants, aiming for net energy savings or compliance with applicable law;
- The basis under the federal Internal Revenue Code for considering the improvement depreciable;
- Estimated costs of the improvements, including interest and service charges;
- Dollar amounts, percentages, and time periods;
- The planned phasing schedule for the improvements, if applicable.

- **The Petition must include calculations for:**
  - The estimated total cost of a capital improvement;
  - The surcharge for each unit and the percentage increase above the base rents;  
and
  - The estimated duration of the surcharge.
- **Total cost of a Capital Improvement:**
  - Equals the sum of the cost incurred in accordance with COMCOR 29.58.01.04(i);
  - Any interest to be accrued on a loan in accordance with COMCOR 29.58.01.04(j);  
plus
  - Any service charges incurred in accordance with COMCOR 29.58.01.04(k).

- **Cost Information:**

- The total interest and service charge cannot exceed the loan amount used for capital improvements.
- The costs of the improvement must be accompanied by evidence. Total costs are reduced by grants, subsidies, and credits for the improvements.
- Interest on a loan is based on the documented fixed or variable rate, or an average 52-week Wall Street Journal U.S. Prime Rate if no documentation exists.
- For loans with variable rates, interest must reflect the actual rate during the loan term. Changes must be documented in a Certificate of Continuation.
- Service charges include various fees associated with the loan, supported by loan documents or other credible evidence.
- The duration of a rent surcharge for improvements is calculated as the improvement cost divided by monthly permitted surcharges, rounded to the nearest month. The final month's surcharge cannot exceed the remainder of this calculation.
- A Capital Improvement Petition must include documents verifying the total cost and must be updated until completion.
- The petition must list each affected rental unit, detailing current rents, proposed surcharges, and percentage increases.
- An authorized surcharge must be implemented within 12 months, but not before 12 months following any previous rent increase, unless the unit remains uninhabitable post-improvement.
- A landlord may request a surcharge extension 90 days before the expiration, documented in a Certificate of Continuation.

- **Certificate of Continuation:**
  - Must state the total approved cost of capital improvements, including any changes in interest.
  - Should detail the actual amount received from the implemented surcharge, including estimated collections before expiration, and provide an explanation for any discrepancies.
  - Must calculate the additional months needed, under current conditions, to fully recover the capital improvement costs by extending the surcharge duration.
  - Must notify tenants by first-class mail and email within 5 days of applying for a Certificate of Continuation.
- **Review and Decision:**
  - DHCA reviews the Certificate of Continuation and notifies the landlord of approval or denial.
  - If approved, the landlord must inform affected tenants promptly.
  - If a decision is not made before the surcharge's expiration, the landlord can extend it for the specified months requested in the Certificate of Continuation.
  - If denied, the landlord must refund the excess surcharge to tenants and cease further collections.
- **Other Points:**
  - An approved surcharge can only be extended once through a Certificate of Continuation.
  - Following a denial of a Capital Improvement Petition, the property must wait six months before filing another petition.

- **What is a Fair Return?**
  - Landlords have a right to a fair return on their rental property. If the net operating income is not maintained due to higher operating expenses, they may petition for a rent increase above the annual rent increase allowance.
- **Fair Return is calculated using the Gross Income minus Permitted Operating Expenses for the Current Year**
  - Gross Income:
    - annual scheduled income for the property based on the rents and fees the landlord was permitted to charge at the time of the Fair Return Application.
  - Permitted operating expenses:
    - include utilities paid by the landlord, administrative expenses, management fees, payroll, maintenance-related material and labor costs, property taxes, licenses and government fees, and insurance costs.
  - Current Year:
    - the calendar year (January 1 to December 31) or the fiscal year (July 1 to June 30) immediately prior to the date the Fair Return Application is filed.



- **In calculating Gross Income for the Current Year, the Base Year Net Operating Income must be adjusted by the annual rent increase allowance since the Base Year.**
  - Base Year – the year immediately prior to the year the unit became a regulated unit.
  - Net Operating Income – the rental housing's Gross Income minus operating expenses for the applicable period.
- **Any Fair Return Application must identify a requested rent increase based on:**
  - Actual operating expenses to be offset through a fair return rent increase; or
  - Returns on investments equal to real estate investment risk premium of 3% plus the annual yield on the 10-year US Treasury Note, with the gross cost basis being the assessed value of the property as of July 1, 2023, increased annually by the CPI-U.

- **Fair Return Rent Increases:**

- Rent increases are determined as a percentage of the Current Year's rents, and each unit is subject to the same percentage increase.
  - An increase of 15% or less can be assessed within 12 months of the date of issuance or at the lease renewal, whichever is later.
  - For an increase of more than 15%, the landlord must spread it out over consecutive years.
  - If the unit is vacant, a landlord may implement a rent increase of more than 15% in one year or upon the vacancy of the unit, provided the unit became vacant as a result of voluntary termination by the tenant or a termination of the tenancy by the landlord for just cause.

- **Application Requirements:**

- All units must be properly registered and licensed with DHCA.
- All banked rents must have been applied to regulated rental units before applying for a fair return.
- The application must include all required supporting documents for review, including documentation of operating and maintenance expenses for both the Base Year and the Current Year.
- Applicant must submit information to demonstrate the rent necessary to obtain a fair return

- **Application Process**

- Landlords are required to inform tenants within 5 business days of applying.
- Within 30 days of receipt, DHCA will notify the landlord if the Application is complete or incomplete. If incomplete, the landlord has 10 days to provide the missing information to avoid denied application.
- Applications must be reviewed, and a decision issued within 60 days of submission receipt.
- Landlord must notify tenants of the decision within 10 business days.
- Any rent increase awarded must be clearly identified in the lease or renewal.

- **Fair Return Rent Increase Duration**

- An approved Fair Return increase remains in effect for 12 months. An annual rent increase is not permitted for those 12 months, but the landlord may charge a capital improvement surcharge at the same time.
- Properties with an approved Fair Return application may not apply for another application for at least 24 months post-approval. Properties with a denied application may not reapply for at least 12 months post-denial.

- **What is Substantial Renovation?**

- A landlord may petition for a 23-year exemption from rent stabilization for an existing building if they conduct substantial, permanent renovations that enhance the building's value and cost at least 40% of the building's value.

- **Required Application Documents:**
  - Detailed plans and specifications showing the total cost of the renovations
  - Copies of all applications, if any, filed for required building permits for the proposed renovations or copies of all required permits if they have been issued,
  - Documentation of the value of the rental housing building, and
  - A list of rental units to be renovated and their current rent.
- **Notice to Tenants of Filing:**
  - A landlord must notify all tenants by first-class mail and email within 5 days of applying.
- **Petition Processing:**
  - Within 30 days of receipt, DHCA will notify the landlord if the petition is complete or incomplete. If incomplete, the landlord has 10 days to provide the missing information, or the petition may be denied.
- **Preliminary Decision:**
  - Within 30 days of receiving a complete petition, DHCA will approve or deny with a preliminary decision. Upon receiving preliminary approval, the landlord must notify affected tenants within 10 business days.
- **Material Change:**
  - Any material changes require submitting a Substantial Renovation Application Supplement, which DHCA will approve or deny within 30 days of receipt.
- **Final Reconciliation:**
  - Upon completion of the substantial renovations, a landlord must submit a final Substantial Renovation Application Reconciliation Package. Within 30 days of receipt, DHCA must notify the landlord of the decision confirming the final approval of the Substantial Renovation Application and effective date.

- **Total Cost of Renovations:**
  - Equals the sum of any costs to be incurred to make the renovation; plus
  - Any interest that must accrue on a loan taken; plus
  - Any service charges to be incurred in connection with any loan taken by the landlord to make the improvement or renovation.
- **Limits on Interest and Service Charges:**
  - The calculations can only include the portion of any loan that is directly related to the renovation costs.
- **Determining Costs Incurred:**
  - Costs must be determined based on invoices, receipts, bids, quotes, work orders, or other evidence.
- **Calculating Interest on a Loan:**
  - The total compensation paid by the landlord to the lender over the loan's amortization period, based on either a documented loan agreement or the average Prime Rate if no agreement is available.
- **Calculating Interest on a Variable Rate Loan:**
  - The calculation of total payable interest should be based on the loan's initial rate.
- **Calculating Service Charges for a Loan:**
  - Must cover various costs like points, loan origination and processing fees, trustee's fees, escrow setup fees, loan closing fees, title insurance fees, survey fees, legal fees for both lender and borrower, appraisal fees, environmental and lender inspection fees, and any other charges specified by the lender. These expenses must be backed by a loan agreement or other evidence.

- **Determining Whether a Substantial Renovation is Intended to Enhance the Value of the Rental Housing**
  - The Director evaluates if a proposed substantial renovation will increase the value of the rental building by considering:
    - The current condition of the rental housing.
    - Whether this condition affects tenants' health, safety, or security.
    - If maintenance or repairs could fix existing issues instead.
    - Whether the proposed renovations are optional or purely cosmetic changes.
- **Implementation of a Substantial Renovation Exemption**
  - The substantial renovation exemption starts when DHCA approves the Substantial Renovation Application Reconciliation Package.
  - If the landlord is found in violation of Chapters 8, 26, or 29 of the Code, the exemption begins after the Department confirms that the violations are resolved.
  - After the substantial renovation exemption is approved, it must be implemented within 12 months. However, if there are existing tenants in the rental unit, landlords must wait until the current lease term ends before beginning.

- **Application Fee:** No more than the landlord's actual cost for a credit check and other relevant expenses for the application. (MD Code Sec. 8-213).
- **Pet Fee:** Refundable pet deposit up to \$300 and a \$25 monthly pet fee per pet. The pet deposit must be returned in full within 45 days after the end of the tenancy unless pet-related damages occur. DHCA will increase the maximum allowable deposit and monthly pet fee annually by CPI-U.
- **Lost key Fee:** May not exceed more than the cost of the actual duplication costs plus \$25.
- **Lock Out Fee:** May not exceed \$25. DHCA will increase the maximum allowable fee annually by CPI-U.
- **Secure Storage (accessible by tenant only):** No fee allowed for storage located within, attached to, or associated with a unit.
- **Internet or Cable Television:** If a tenant opts in for service, the fee must not exceed the actual cost to the landlord divided by the number of rental units in the property.
- **Motor Vehicle/Motorcycle Parking Fee:** For an existing parking fee, a landlord cannot increase the fee by more than the CPI-U and no more than once in 12 months. If a landlord has not charged a parking fee before, they must apply to DHCA to do so. The new parking fee cannot be more than 10% of the lowest base rent for a regulated unit at the property.
- **Bicycle Parking Fee:** A landlord may charge for bicycle parking under County Code Section 29-35A. A landlord may not collect a bicycle fee if they do charge a fee for motor vehicle parking.



- **Exceptions**

- A landlord may charge fees for optional services that individual tenants choose to enroll in. Such fees are not regulated. Examples of optional fees could include, but are not limited to:
  - Gym membership
  - Swimming pool pass
  - Dog park or pet spa
- An optional service cannot include any service that impacts the entire community.
- A landlord cannot charge a fee for any service required to ensure unit access, maintenance, or lease compliance.

- **Implementation**

- New fees cannot be charged during the lease term unless they are for optional services chosen by the tenant.
- Fees can only be increased once every 12 months and require a 90-day written notice.
- Landlords of units subject to rent stabilization must comply with the set limits on the allowable fee charges by October 21, 2024, 90 days after the law and regulation went into enforcement on July 23, 2024

# Thank You

For more information, please call MC311 at 240-777-0311.