Fiscal Recovery for Hoboken
Through Modernization of Rent Control Law

Executive Summary

Hoboken can generate new property tax revenues and licensing fees of up to $28 million over the next five years by making adjustments to the rent control regulations that will not increase the rents of one existing tenant. Hoboken's rent control ordinance constrains improvements for the City's 8200 rent controlled apartments, which are spread over 1450-buildings *(SEE NOTE 1)*.

The tables below demonstrate a massive fiscal opportunity based on conservative assumptions and given the adoption of standard current rent control policies. This program also reduces administrative and legal costs and provides numerous indirect and collateral benefits.

The simple principles are:

a) rent control should continue to protect current and future residents of Hoboken;
b) multi-family properties should pay municipal fees for the municipal services required to operate a rent control office
c) new tenants to Hoboken, who predominately move in from other cities and have high incomes, should not be subsidized by single family homeowners in the form of below-market rents
d) Hoboken should encourage renovation of older multi-family housing to generate maximum value and property taxes.

Program Components

1) Modernize registration fee structure
Currently Hoboken charges $25 per building, which generates a maximum of just $31,000 in rent control registration fees, but many buildings do not pay to register. It is also believed that many buildings do not file the now-required vacancy decontrol form, for which no fee is charged.
A new fee structure should be adopted that requires:
- $50 to file vacancy decontrol form upon turnover (approximately 1000 apartments per year are vacated)
- $50 per building and $15 per unit.
NEW ANNUAL REVENUE: + $214,000

2) Encourage Gut Rehabs of Older Apartments
Currently Hoboken does not permit an apartment to be decontrolled greater than 25% of the former tenant's rent. Because so many apartments have been occupied for lengthy tenures, this constrains the property owner's ability to perform significant rehabilitation of the unit when it is vacated.

A fee of $1000 should be adopted for a Gut Rehab Decontrol, allowing an apartment to move to a market rent that will then fall under rent control at its new price.
Hoboken's rental turnover is expected to be at least 12.5% per year, meaning that 1000 apartments will be vacated. At least 500 of these will be suited for a Gut Rehab
NEW ANNUAL REVENUE: +$500,000
It is expected that the average construction costs for a rehabbed apartment will exceed $40,000 *(SEE NOTE 2)*. Several city construction permits and inspection fees will be required of each significant renovation, amounting to approximately $700 per apartment.
NEW ANNUAL REVENUE: +350,000

3) Assess Apartment Values Based on Revenue

Newly renovated apartments are expected to generate an average of at least $1000 more per month, generating a revenue impact of $60 million per year to local real estate owners. Hoboken should use the instance of a Gut Rehab Application to generate a new assessment on the property. At the current tax rate, $60 million in additional revenue will result in new taxes of $2.6 million per year. If the current policy continues, the recent property tax increases will result in constrained increases that are passed along to existing tenants and will certainly be challenged with tax appeals on the basis that income properties are not expected to absorb increases unless revenues are increased.
NEW PROPERTY TAX OPPORTUNITY: +2.6 Million (compounding annually)

4) Streamline Rent Control Administration

Hoboken is beset by litigation that threatens to undermine the real estate market and the property tax base of multi-family properties (see summary below). A new registration requirement and base year eliminates the rent control office from maintaining files that it acknowledges have been corrupted through a lack of regulatory controls. Establishing the rental base for each current tenant as January 1, 2007 provides several benefits *(SEE NOTE 3)*:

- reduces requirement of a five-person rent control office to three or two persons;
- reduces legal fees associated with litigation that will no longer have a basis;

PERSONNEL SAVINGS: $100-150,000 per year
LAWYER FEES SAVINGS: $100,000 (based on current litigation proceeding)
IMPACT OVER 4 YEARS *(SEE NOTE 4)*:

Registration fees:	$856,000
Construction permits and fees:	$1,400,000
New property tax opportunity:	$26,060,000
Reduction in costs:	$600,000
TOTAL DIRECT FISCAL IMPROVEMENT	**$29,016,000**

NOTES

1: these statistics are gathered from census data. The Hoboken rent control office does not provide statistics on rent controlled properties, saying that it has not conducted a census but relies on voluntary reports from property owners.
2: This represents a significant boost to the local economy, as 500 apartment renovations per year at $40,000 each will help suppliers, tradesmen, restaurants and other local businesses who are hurting as a result of the reduced construction volume in the city over just last year.
3: a 2-year maximum look back for rent control rent calculations protects tenants from fraud well into their tenancy but removes the opportunity for them to cynically exploit the current and any potential future policy and regulatory conundrums. Prior tenants will not be able to look back, alleviating Hoboken administrators from providing services to former residents on “fishing” expeditions.
4: Four years was chosen because it is expected that the number of apartments requiring rehabs will be reduced over time, because when rehabbed apartments are vacated it will be unlikely that the property owner will achieve increases of greater than 25% of the rent and therefore will not pay the $1000 Gut Rehab Fee or perform the associated work.

INDIRECT AND COLLATERAL BENEFITS

A) Clears title clouds and prospective harm to tax base (incalculable savings)

B) Resolves litigation, preserving rent control ordinance and obviating prospective municipal liability (see below)

C) Limits tax appeals to conventional valuation issues (incalculable savings)

D) Provides a balance of tax fairness, spreading tax increases to multi-family properties rather than concentrating them in single family homeowners

E) Encourages maintenance of the rental housing stock, as many owners convert buildings to condominium to reduce liability threats and increase investment returns.