

**THE ECONOMIC IMPACTS OF THE
RENT CONTROL ORDINANCE PASSED
ON MAY 20, 2014 BY THE CITY OF
NEWARK, NEW JERSEY**



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EXECUTIVE SUMMARY

The City of Newark recently amended its rent control ordinance in an attempt to tie rental increases to the changes in the Consumer Price Index (CPI) and to require greater rehabilitation investments when a unit becomes vacant to qualify for a rent increase in excess of the CPI. As shown in this report, rent control under the former ordinance succeeded in keeping average rents significantly lower than otherwise would have prevailed while allowing sufficient opportunities to reinvest and improve apartment communities. The recent changes in Newark's rent control ordinance threaten to upset this delicate balance, and are likely to adversely affect apartment communities and have negative economic and fiscal impacts on Newark.

The newly passed ordinance will have the following impacts:

- The newly passed ordinance will decrease annual investments in apartment communities by **\$25.2 million per year**. This significant decrease in annual spending will result in the following economic impacts (Table 3.4, page 19):
 - City of Newark: **\$39.4 million** in lost total economic impacts; **381 total lost jobs**; and **\$18.4 million** in lost total wages and salaries
 - State of New Jersey: **\$46.1 million** in lost total economic impacts; **405 total lost jobs**, and **\$19.8 million** in lost total wages and salaries.
- The reduced apartment quality will result in decreases in aggregate property values of apartment communities subject to rent control of between **\$648 million and \$659 million** (Table 4.1, page 20), which translates into lower assessed values of between **\$605 and \$615 million** (Table 4.2, page 21).
- The lower assessed values will translate into lower annual property tax revenues of between **\$17.9 and \$18.2 million** for the City, School District, and County (Table 4.2, page 21).
- If the entire reduction in assessed value is passed onto other residential property owners, this will result in a **12 percent increase** in the average residential property tax bill, or approximately **\$605 to \$615 per year for the average residential property owner** (Page 21).
- Over the long-term, the newly passed ordinance could also lead to an eventual reduction in the number and quality of rent-controlled units, which may have a negative effect on neighboring property values, and further erode the tax base.
- The newly passed ordinance will also make it difficult for individuals that work in Newark to find safe, quality housing, thereby making it difficult for employers to retain employees. This will have spillover impacts across the wider Newark economy.

1.0 INTRODUCTION

1.1 PURPOSE OF THE REPORT

Econsult Solutions, Inc. (ESI) was commissioned by the Newark Apartment Owners Association, Inc. (NAOA) to measure the economic and fiscal impacts of recent changes in the City of Newark's rent control ordinance. The City of Newark recently amended its rent control ordinance in an attempt to tie rental increases to the changes in the Consumer Price Index and to require greater rehabilitation investments when a unit becomes vacant to qualify for larger rent increases. As shown in this report, rent control under the former ordinance succeeded in keeping average rents significantly lower than otherwise would have prevailed in the city while allowing sufficient opportunities to reinvest and improve apartment communities.

The recent changes in Newark's rent control ordinance threaten to upset this delicate balance, and are likely to adversely affect apartment communities, reduce employment opportunities, and have a negative fiscal impact on Newark's municipal budget. In the long run, the changes in the rent control ordinance will have a harmful and lasting effect on the quality and quantity of housing in the City and on the condition of neighborhoods throughout the City. The goals of protecting existing tenants from rapid rent increases while maintaining a stock of affordable housing may not be well served by the recent changes in Newark's rent control ordinance.

1.2 NEWARK'S RENT CONTROL ORDINANCE¹

Apartments in Newark have been subject to rent control since 1973. Under the current ordinance, owner-occupied dwellings (1 to 4 units), newly constructed units, and subsidized housing are all exempt from rent control. This leaves roughly 27,600 rental apartments throughout Newark subject to rent control.²

Prior to the most recent changes, Newark's rent control ordinance established limits on rent levels and rent increases, and other limitations for all properties identified as being subject to rent control. While a unit was occupied, property owners could only increase rents by a maximum of 4 to 5 percent, depending on the size of the apartment building. Property owners could appeal for rent increases provided they could prove: financial hardship, capital improvements of greater than \$2,000, increases in property tax rates, or substantial rehabilitation of the property. If a unit became vacant, a property owner could seek up to a 25 percent increase from the previous rent by spending at least \$100 per room for rehabilitation.

¹ Please see Appendix A for additional details on Newark's current rent control ordinance.

² Please see Appendix B for additional details on the number of rent controlled units in Newark.



The Newark City Council recently passed significant changes to the City's rent control ordinance, which went into effect on June 20, 2014. Two major changes in particular will have devastating effects on Newark apartment communities:

- The investment threshold for eligibility for rent increases for vacant units increased dramatically. Under the new ordinance, a vacant unit becomes eligible for a rent increase of up to 20 percent only if an investment of at least \$5,000 per room is made. This stands in stark contrast to the prior requirement of \$100 per room in the previous version of the ordinance. Moreover, even if the threshold is met, rents are limited to a maximum of a 20 percent increase compared to the 25 percent allowed in the previous version of the ordinance.³
- The newly amended ordinance also purports to limit rent increases to the percentage increase in the Consumer Price Index (CPI).⁴ If the CPI increases by more than 4 percent, allowed rental increases will be capped at 4 percent. In the prior version of the ordinance, rent was allowed to increase 4 to 5 percent annually depending on the number of units in the building and market conditions.

These changes will make it even more difficult for apartment communities to continue to maintain quality housing services in the future because the financial incentive for reinvestment will be significantly reduced. Over time, lower investment in apartment communities will undermine the viability of the apartment communities.

1.3 BROADER ECONOMIC AND FISCAL IMPACTS OF RECENT RENT CONTROL CHANGES

The recently adopted changes in Newark's rent control ordinance change the investment dynamic for apartment communities. Apartment communities require continued reinvestment to maintain the quality of life in the community as well as the soundness and safety of the structures. Reinvestment can only occur if it makes sense for all members of the apartment community, housing providers and residents alike. As is shown in the analysis that follows, the recent changes will reduce investment in Newark apartment communities. The effects of the changes will extend well beyond its negative impacts on apartment communities. The changes in the ordinance will result in less economic activity, lower local employment and reduced property

³ The previous rent control ordinance, while successful in keeping rents lower than market, had a negative impact on the apartment community through lower investment, reduced employment generated by the industry, and lower tax revenues for the city. Notwithstanding, the newly passed ordinance has even a more devastating effect on the housing industry by drastically reducing the incentive to invest in apartment communities, as well as exacerbating the negative spillovers associated with lower investment.

⁴ The newly passed ordinance is poorly drafted and does not specify the CPI index, nor does it identify the database it purports to use. In addition, it fails to specify how to calculate the CPI relative to a rent increase. For the purpose of this study, CPI for the northern NJ index and the CPI-U databases have been used to calculate the percentage change in CPI over an annual basis to determine annual increases.

values within the City, which, in turn, will have a detrimental impact on the City's finances. In the short run, reduced investment in residential multi-family properties means less economic activity across a wide range of business sectors, especially construction but also in supportive industries such as manufacturing, transportation, and retail. The lower quality housing will also make it difficult for individuals to find safe, quality housing in the City and difficult for local employers to retain employees. This, in turn, will decrease employment opportunities available to local residents, reduce local economic activity, and lower tax revenues for the City of Newark.

The changes in rent control will directly lower the value of apartment communities which will lower property tax revenues that help pay for essential city services. But the adverse impacts do not end there. Because the changes in the City's rent control ordinance will reduce housing investment, it will result in deteriorating apartment communities, which also will lower the property value of rent controlled apartment buildings. To the extent that this is properly accounted for in property assessments, this further reduces the local property tax base and has a commensurate reduction in the annual property tax revenues generated for the City as well as for Newark Public Schools and other essential municipal services.

In the long run, disinvestment will ultimately result in fewer below-market units. Disinvestment and vacancy is likely to have a negative effect on neighboring properties, reducing their value and further eroding the local property tax base. For the wellbeing of residents, apartment communities, neighborhoods, and indeed the City of Newark, it is crucial that the City's rent control ordinance does not result in disinvestment in Newark's affordable housing.

1.4 OVERVIEW OF REPORT

This report provides a conceptual and empirical framework for assessing the impacts of changes in the newly passed rent control ordinance on Newark's apartment community, Newark's economy, and on the City's municipal finances. This is accomplished first by understanding, conceptually, and then using actual data for the City, how rent control affects rents in Newark and how those rental impacts affect the investment decision making among apartment owners and potential investors.

Rent control has direct impacts on decisions regarding maintenance and capital investment in controlled buildings. The recent changes in the rent control ordinance will significantly change these incentives, negatively affecting apartment community investments. These decisions directly affect employment in industries supporting the apartment industry and the value of the apartment properties (Section 2). The negative impacts on the apartment industry will have spillover effects throughout the Newark economy. The broader economic impact of the recent changes in rent control, on the City economy and the broader fiscal impact on the City government can then be modeled using standard input-output modeling techniques (Section 3). Finally, the short term and long-term effects of the recent changes in the ordinance, on the local property tax base and annual property tax revenues to the City and the District are considered (Section 4).

The impact estimates for Newark's economy and for the City's finances indicate that the recent changes in rent control inevitably will reduce investment in housing, lower apartment quality, reduce employment, and adversely affect City revenues needed for key services such as education, safety, infrastructure and recreation. Finally, it is important to keep in mind property disinvestment has adverse impacts on neighborhoods and the overall quality of life in neighborhoods. These spillovers only add to the adverse impacts of the newly passed rent control ordinance. It is therefore crucial to balance the need for predictability and stability in rents for existing tenants and the need to sustain investment in supplying quality housing. The newly passed rent control ordinance fails to do either.

1.5 ABOUT ECONSULT SOLUTIONS, INC.

This report was produced by Econsult Solutions, Inc. (ESI). ESI is a Philadelphia-based economic consulting firm that provides businesses and public policy makers with economic consulting services in urban economics, real estate economics, transportation, public infrastructure, development, public policy and finance, community and neighborhood development, and planning, as well as expert witness services in support of litigation. Its principals are nationally recognized experts in urban development, real estate, government and public policy, planning, transportation, non-profit management, and business strategy and administration, as well as litigation and commercial damages. Staff members have outstanding professional and academic credentials, including active positions at the university level, wide experience at the highest levels of the public policy process, and extensive consulting experience.



2.0 RENT CONTROL AND APARTMENT COMMUNITIES

2.1 OVERVIEW

In order to quantify the broader economic consequences of the changes in Newark's rent control ordinance, one must first begin by understanding the extent to which apartment communities are affected by the ordinance, and how investment decisions change in response to the ordinance. Specifically, how does the ordinance affect the flows into apartment communities? This section relies on standard real estate economic theory, as well as on actual pro-forma data on rent controlled apartment units in the City, to identify and quantify the impacts.

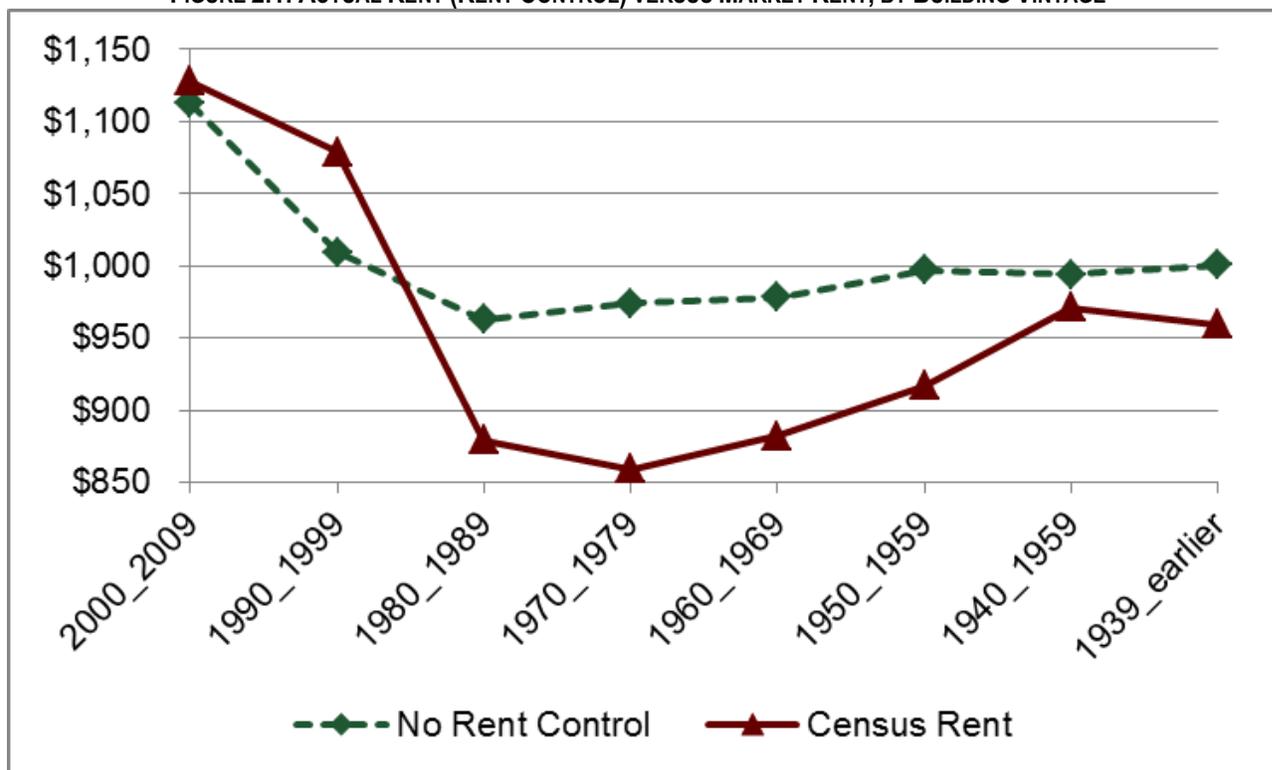
2.2 THE IMPACT OF RECENT CHANGES IN RENT CONTROL ON RENTS

In theory, rent control seeks to provide stability and predictability in rents for residents while providing incentives for continued reinvestment in the apartment community. From a purely practical perspective, rent control effectively has resulted in lower rents than those prevailing in an unrestricted market. Studies have investigated whether rent controls do actually result in rents below what they would have reached in the absence of rent controls. These studies have generally reached the conclusion that rent controls do indeed keep rents measurably below the levels they would have otherwise attained in the absence of rent control.⁵

To determine if there exists a "rent gap" in Newark as well as to estimate the size of the gap between actual rents and the rents that would have resulted in the hypothetical uncontrolled free market (i.e. no rent control), we developed a statistical model that essentially allows the comparison of the rent of apartments subject to rent control with those that are not subject to rent control. The estimation framework statistically controls for the age of the building and community factors that impact rents. The data is based on the American Community Survey for all municipalities in New Jersey. The regression model is discussed in detail in Appendix C.

Figure 2.1 compares the average rents by apartment vintage in the absence of rent control (dotted line) to the average rent for Newark from the American Community Survey (solid line). Our analysis found that across all building vintages subjected to rent control, rents would be between 6.9 percent (for buildings built between 1940-1949) and 17.3 percent (for buildings built between 1970-1979) higher if there was no rent control (Table 2.1).

⁵ Down, Anthony. "Residential Rent Controls: An Evaluation." The Urban Land Institute.

FIGURE 2.1: ACTUAL RENT (RENT CONTROL) VERSUS MARKET RENT, BY BUILDING VINTAGE

Source: American Community Survey (2012), ESI (2014)

TABLE 2.1: PERCENTAGE REDUCTIONS IN RENTS DUE TO RENT CONTROL BY BUILDING VINTAGE

Building Vintage	Percentage Reduction
Built 2000 to 2009	N/A
Built 1990 to 1999	N/A
Built 1980 to 1989	-13.9%
Built 1970 to 1979	-17.3%
Built 1960 to 1969	-15.1%
Built 1950 to 1959	-13.1%
Built 1940 to 1949	-6.9%
Built 1939 or earlier	-8.7%

Source: ESI (2014)

In order to translate the rents for individual units into the aggregate impacts for apartment communities in Newark, aggregate rent data by apartment vintage was obtained from the American Community Survey. Under Newark's current rent control ordinance, an apartment that is occupied by a resident that receives subsidized housing from the federal government is not subject to rent control. In addition, units in owner occupied buildings of four units or less are not subject to rent control. Data from the American Community Survey and the American Housing

Survey was used to adjust the aggregate market rents to account for these factors and to arrive at an estimate of the aggregate rents collected from rent-controlled apartments.⁶ All told, the previous version of rent control has resulted in apartment rents that average 13.7 percent lower than would have been in a hypothetical uncontrolled market. In other words, if there were no rent control in Newark, average rents in currently rent-controlled apartments would be 13.7 percent higher.⁷ Please see Appendix C for additional details.

It is important to note that not all residents paid rents that were 13.7 percent lower than market rents. In the past, Newark's rent control ordinance prevented rents from rising at rapid rates for current residents, but rents could increase as much as 25 percent after a resident left and modest investments were made in the unit. Thus, at any given time, some residents may be paying rents that are roughly equal to market rents while other, long standing residents may be paying rents that are considerably below market. Thus the previous rent control ordinance protected longstanding tenants who may have fixed incomes but, upon turnover and with investment, increased rents.

2.3 THE IMPACT OF CHANGES IN RENT CONTROL ON APARTMENT COMMUNITIES

The changes in Newark's rent control ordinance are likely to lead to changes in the level and timing of investments in apartment communities. This includes investments undertaken when units become vacant (decontrol-related investments) as well as routine apartment and apartment community maintenance, and apartment community capital investments. These changes are likely to lead to negative impacts to the quality of individual apartments, the apartment communities, and immediate neighborhoods surrounding apartment communities.

IMPACT ON REINVESTMENT DECISIONS AND TIMING

Newark's previous rent control ordinance allowed for limited decontrol for vacant apartments provided the apartment community invests a certain amount in the unit. Under the newly passed rent control ordinance, the investment threshold for vacant units has increased dramatically. Under the new ordinance's language, an apartment community must invest \$5,000 per room, as opposed to \$100 per room in prior to the most recent changes. For an average apartment of four rooms, this translates into an investment of at least \$20,000 compared to \$400. Even if the investment threshold is met, rents can only rise 20% above the previous rent as opposed to 25% under the previous version of the ordinance. It is important to note that for the average rent-controlled apartment, the required investment amount in the newly passed ordinance is equal to an astonishing 1.7 times the current annual rental income generated by the unit.

This enormous increase in the required threshold investment, coupled with the lower increase in rents purportedly tied to CPI is likely to alter the investment decisions of apartment communities, making it less likely that the apartment communities will make the required investment and also

⁶ Please see Appendix B for additional details.

⁷ Although rents would be higher without rent control, the quality of the apartments would also be improved in the absence of rent control.

lead to longer time horizons between investments. This will lower housing quality as apartment communities defer making regular maintenance, and halt investment for improvements.

Each year the apartment community can decide whether or not they should make the required investment to generate the increased rents when units become vacant. For most communities the driving factor as to whether or not to make the investment is the expected return that would be generated by the investment. We assume that the investment is triggered when the investment will generate a sufficient rate of return, which for the purposes of this analysis, is assumed to be 9 percent⁸, which is equal to the fair rate of return as defined by the current rent control ordinance.⁹ To analyze the impact on investment decisions and timing, the internal rate of return that would be generated by the investment was calculated. If the internal rate of return for the investment is below the threshold level, the apartment community defers the investment and if the IRR is above the threshold level, the apartment community will make the investment.

According to the newly passed rent control ordinance, if an apartment community meets the required investment threshold on a vacant property they are allowed to increase the base rent of the apartment by up to 20 percent. For the purposes of this analysis, it is assumed that the increase in rents triggered by an investment is equal to the difference between the market rent and the current rent for the apartment. For example, if in a given year, the rent for the apartment is 18 percent below market rents, it is assumed the rent will increase by 18 percent, but if rents are 22 percent below market rents, rents will only increase by 20 percent.

It is assumed that in year 1, the market rents are equal to \$1,060 per month¹⁰, increasing by an average of 3.6 percent¹¹ year and that the rent-controlled rents are \$984 per month, increasing by 2.0 percent¹² year.

⁸ Please see Appendix D for additional information on typical IRR for apartment investments.

⁹ Please see the current rent control ordinance (Appendix A), section 19.2.2.

¹⁰ Average rent for apartments built between 1990-2013 from the American Community Survey for Newark, New Jersey.

¹¹ The constant average growth rate (CAGR) of the average rent for apartments built between 1990-2013 from the American Community Survey for Newark, New Jersey over the 2005-2013 period.

¹² Under the current rent control ordinance, apartment communities can increase rents by an amount equal to change in consumer price index (CPI). For the purposes of this analysis we use the Federal Reserve Bank's CPI target of 2.0 percent.

TABLE 2.2: INVESTMENT RETURNS

Year	IRR	Rent Increase
1	-5.1%	12.7%
2	-2.6%	14.5%
3	-1.0%	16.3%
4	2.3%	18.2%
5	4.5%	20.0%
6	4.9%	20.0%
7	5.4%	20.0%
8	5.8%	20.0%
9	6.2%	20.0%
10	6.6%	20.0%
11	7.0%	20.0%
12	7.5%	20.0%
13	7.9%	20.0%
14	8.3%	20.0%
15	8.8%	20.0%
16	9.2%	20.0%
17	9.7%	20.0%
18	10.2%	20.0%
19	10.6%	20.0%
20	11.1%	20.0%

Source: ESI (2014)

As illustrated in Table 2.2, the internal rate of return generated by the mandatory investment does not exceed the threshold level of 9.0 percent until year 16. This suggests that apartment communities are likely to only invest in their communities once every 16 years. The apartment community can also increase the rate of return generated by the investment by delaying the investment one additional year. For example, in year 20, the rate of return on the investment is 11.1 percent. This provides incentives for the apartment community to keep delaying the investment.

Given the market conditions in Newark, it is likely that the apartment communities will only make the required level of investment, at most, once every 16 years. Assuming an average investment of \$20,000 per unit, this is equivalent to an average investment of \$1,250 per unit per year.¹³

¹³ \$1,250 = \$20,000 / 16 years.

Under the previous version of rent control, the investment threshold was \$100 per room or \$400 for the average apartment. However, in reality, the average investment by apartment communities was \$1,900 per unit per year.¹⁴ As a result, it is likely that the smaller, yet more frequent investment under the old ordinance would result in more investment over the same time horizon.

This suggests that it is likely that the new rent control ordinance will result in a decrease in both the amount and frequency of investment by apartment communities. This will lead to a reduction in both the quality of apartment units and the residents' living conditions. It is important to note that the public has shown an interest in and preference for the more frequent updates that have historically occurred under the previous version of the rent control ordinance. In addition, the reduced aggregate investments will lead to reduced economic impacts while the lower apartment quality will result in lower property values and reduced property taxes for the City.

2.4 RENT CONTROL CHANGES AND APARTMENT COMMUNITY REINVESTMENT

Apartment community reinvestment takes three forms –annual routine property maintenance, increased capital investments, and the decontrol-associated unit-level reinvestment discussed above. The level of each type of reinvestment is driven by different factors. The annual spending on routine maintenance is typically based on the annual rents generated by the property, the level of capital investments is related to the market value of the property and the decontrol associated reinvestment is based on the investment timing decisions of the apartment communities.

To estimate the level of each type of investment we developed an individual pro-forma model¹⁵ for each of the following scenarios:

- The newly adopted rent control ordinance¹⁶;
- The proposal put forth by NAOA, which is similar to the previous rent control ordinance, however owners have conceded that annual rent increases are capped at 3 percent for buildings containing 7 or more rental units;
- The previous rent control ordinance.

The pro-forma models are based on the following assumptions:

- Rents increase at the following maximum rate per year: current ordinance 2.0 percent¹⁷; NAOA proposal 3.0 percent, and old ordinance 4.0 percent;
- Maintenance spending is equal to 4.3 percent of annual rents;

¹⁴ The average decontrol related investment spending by apartment communities was estimated based on capital spending by apartment communities in Newark, New Jersey.

¹⁵ Please see Appendix E for additional details on the pro-forma models.

¹⁶ Please see Appendix A for details of the current rent control ordinance.

¹⁷ Under the current rent control ordinance, apartment communities can increase rents by an amount equal to change in consumer price index (CPI). For the purposes of this analysis we use the Federal Reserve Bank's CPI target of 2.0 percent.

- Annual community-wide capital investment is equal to 0.5 percent of market value;
- Market values were estimated using the following capitalization rates (cap rates):¹⁸ current ordinance: 9.0 percent, NAOA proposal 8.5 percent; old ordinance 8.5 percent. The higher capitalization under the current ordinance reflects the fact that the reduced property investments will likely result in lower quality apartment communities;
- The decontrol-related investments were estimated using the following average annual per unit values: current ordinance \$1,250; NAOA proposal \$1,900; and old ordinance \$1,900.

ANNUAL MAINTENANCE SPENDING

Apartment communities in Newark spend approximately 4.3 percent of their annual rents on routine maintenance. Under the current rent control ordinances, rents will average approximately \$421.1 million per year and will generate an average of \$17.9 million in annual maintenance spending per annum. As illustrated in Figure 2.3, the NAOA proposal and the old rent control ordinance will result in slightly higher rents, which, in turn, will generate a higher level of maintenance spending than under the current ordinance. Maintenance spending under the NAOA proposal will result in an average of \$22.0 million in maintenance spending and under the previous rent control ordinance; maintenance will average \$22.1 million per annum. In stark contrast to the NAOA proposal or the previous ordinance, the newly passed rent control ordinance will result in a reduction in maintenance spending per year of between \$4.0 million and \$4.2 million (Table 2.3).

TABLE 2.3: ESTIMATED MAINTENANCE SPENDING

<i>Maintenance Expenses (Millions \$)</i>	Newly Passed Ordinance	NAOA Proposal	Previous Ordinance
Average Annual Rents	\$421.1	\$516.0	\$519.6
Maintenance Spending as % of Rent	4.3%	4.3%	4.3%
Annual Maintenance Spending	\$17.9	\$22.0	\$22.1
Difference		\$4.0	\$4.2

Source: ESI (2014)

¹⁸ The cap rates utilize in the analysis represent a weighted average of the cap rates of apartment communities listed for sale in Newark, New Jersey on loopnet.com (<http://www.loopnet.com/xNet/MainSite/Listing/Search/SearchResults.aspx#/Newark,NJ/Multifamily/For-Sale/c!ARUAAAE>) as of September 22, 2014.

COMMUNITY-WIDE CAPITAL INVESTMENT

On average apartment communities in New Jersey invest between 0.5 percent and 1 percent of their market value in capital investments every year.¹⁹ Under the newly passed rent control ordinance we estimate that the average aggregate market value of the apartment communities subject to rent control amounts to approximately \$1,516 million (\$1.5 billion)²⁰, which will support an average of \$7.6 million in community-wide capital investments per annum. We estimate that the increased market value under the NAOA proposal will result in maintenance spending of \$10.9 million and under the previous rent control ordinance, community-wide capital investments will average \$10.8 million per annum. The newly passed rent control ordinance will result in a reduction in annual community-wide capital investments of between \$3.2 and \$3.3 million (Table 2.4).

TABLE 2.4: ESTIMATED COMMUNITY-WIDE CAPITAL INVESTMENT

<i>Community-wide Capital Investment Expenses (Millions \$)</i>	Newly Passed Ordinance	NAOA Proposal	Previous Ordinance
Average Annual Market Value	\$1,516.8	\$2,175.8	\$2,165.0
Capital Spending as % of Market Value	0.5%	0.5%	0.5%
Capital Spending	\$7.6	\$10.9	\$10.8
Difference		\$3.3	\$3.2

Source: ESI (2014)

DECONTROL-RELATED INVESTMENTS

Although one might think that increases in the investment threshold to obtain significant rent increases upon vacancy would increase investment, the opposite will in fact be the case. The higher thresholds for investment needed to be eligible for larger rent increases are not likely to generate sufficient return to justify capital improvements in apartment communities. As discussed above, under the newly passed rent control ordinance, decontrol-related capital investments will average \$1,250 per unit, which is significantly below the historic decontrol-related spending by apartment communities, which averaged \$1,900 per unit per year.

Under the newly passed rent control ordinance, the annual decontrol-related investments would amount to \$34.5 million in capital investments, compared to \$52.4 million under the alternative rent control scenarios (Table 2.5). All told, the newly passed rent control ordinance will result in a

¹⁹ Seneca, Joseph et. al. (2012). "The New Jersey Apartment Industry: Economic Impact Analysis and Sector Profile." Rutgers University Edward J. Bloustein School of Planning and Public Policy. June 2012. (<http://www.njaa.com/pdf-downloads/bloustein-study/apartment-impact-analysis.pdf>).

²⁰ Please see Table 4.1 on page 21 for property value calculations.

staggering reduction in annual decontrol-related capital investments of approximately \$17.9 million per annum.

TABLE 2.5: ESTIMATED DECONTROL RELATED CAPITAL INVESTMENT

<i>Capital Investment Expenses (Millions \$)</i>	Newly Passed Ordinance	NAOA Proposal	Previous Ordinance
Average Annual Spending per unit	\$1,250	\$1,900	\$1,900
Estimated Number of Rent-controlled Units	27,600	27,600	27,600
Aggregate Spending	\$34.5	\$52.4	\$52.4
Difference		\$17.9	\$17.9

Source: ESI (2014)

3.0 NEGATIVE ECONOMIC AND FISCAL IMPACTS FROM PROPERTY DISINVESTMENT

The decline in citywide reinvestment as a result of the newly passed changes to the City of Newark's rent control ordinance represents a loss of economic activity within the City. The reduction in economic activity has a multiplier effect, because it represents an amount of economic activity that would have, in turn, supported additional economic activity. The purpose of this section is to explain how property disinvestment translates into less economic activity, fewer jobs, and lower tax revenues generated within the City. Quantifying these impacts requires the use of industry standard input-output modeling approaches and related economic and fiscal impact estimation techniques.

3.1 ECONOMIC AND FISCAL IMPACTS FROM PROPERTY DISINVESTMENT

Housing construction and reinvestment is an important component of any healthy local economy. Not only does it represent an increase in population and a vote of confidence in a location, but it also means a significant amount of new construction and major renovation work, which puts people to work, supports a number of ancillary industries, and provides a temporary boost in local tax bases and therefore, in local tax revenues.

Conversely, the magnitude of loss associated with property disinvestment has a negative multiplier effect throughout a local economy. Construction and renovation activity supports additional economic activity, and similarly, a loss of construction and renovation activity represents an additional loss in economic activity in supportive industries. Property disinvestment therefore represents its own loss of economic activity, with spillover consequences. Less people are put to work on a construction or renovation project and additional ancillary economic activity is lost as a result.

3.2 INPUT-OUTPUT METHODOLOGY

Using the annual maintenance and capital expenditures discussed above, the IMPLAN modeling system generates indirect and induced economic impacts. IMPLAN uses industry and geography-specific multipliers to estimate the relationships between businesses in various sectors, and the expansionary effect that increased activity in one industry has on other industries in the region. Spending on maintenance and capital services will increase spending in intermediary industries (i.e. paint supply wholesalers, landscaping machinery manufacturers, design services, etc.), as well as increase personal income and household spending. Those increases in additional spending are referred to as indirect (intermediary industries), and induced (household purchases) spending.²¹

²¹ See Appendix F for a detailed description of Input-Output Modeling with IMPLAN.

3.3 ECONOMIC AND FISCAL IMPACT ESTIMATES

ANNUAL MAINTENANCE

The newly passed rent control ordinance reduces the incentives to maintain and improve apartment communities. Based on the reduction in maintenance expenditures expected as a result of changes in the rent control ordinance, ESI estimates that reduced annual maintenance expenditures will lower economic activity in Newark by \$6.4 million, with a corresponding reduction in employment of 75 jobs and \$2.8 million in lost wages per year. For the state as a whole, economic activity will decline by \$7.7 million, with a loss of 78 jobs and \$3.0 million in wages (See Table 3.1).

TABLE 3.1 – ECONOMIC IMPACT OF REDUCED ANNUAL MAINTENANCE EXPENDITURE ON THE NEWARK AND NEW JERSEY ECONOMY

Economic Impact within Newark	Expenditures	Employment	Labor Income
Direct Impacts	\$4.1	61	\$1.9
Indirect and Induced Impacts	\$2.3	14	\$0.8
Total Impacts	\$6.4	75	\$2.8
Economic Impact within New Jersey	Expenditures	Employment	Labor Income
Direct Impacts	\$4.1	61	\$1.9
Indirect and Induced Impacts	\$3.6	17	\$1.1
Total Impacts	\$7.7	78	\$3.0

Source: IMPLAN (2014) and ESI (2014)

COMMUNITY-WIDE CAPITAL INVESTMENT

The newly passed rent control ordinance will also reduce the incentive to make community-wide capital improvements. The reduced capital spending will also result in negative economic impacts. The negative annual impact is estimated to total \$5.1 million in economic activity, reducing employment by 35 jobs and wages by \$2.5 million in Newark, and \$5.8 million in economic activity, with a loss of 38 jobs and \$2.7 million in wages throughout New Jersey (See Table 3.2).

TABLE 3.2 – ECONOMIC IMPACT OF ADDITIONAL ANNUAL CAPITAL EXPENDITURE ON THE NEWARK AND NEW JERSEY ECONOMY

Economic Impact within Newark	Expenditures	Employment	Labor Income
Direct Impacts	\$3.3	23	\$1.8
Indirect and Induced Impacts	\$1.8	12	\$0.7
Total Impacts	\$5.1	35	\$2.5
Economic Impact within New Jersey	Expenditures	Employment	Labor Income
Direct Impacts	\$3.3	23	\$1.8
Indirect and Induced Impacts	\$2.5	15	\$0.9
Total Impacts	\$5.8	38	\$2.7

Source: IMPLAN (2014) and ESI (2014)

DECONTROL-RELATED CAPITAL INVESTMENT

The newly passed rent control ordinance will also reduce the incentive to make improvements to individual units. The very high thresholds for investment needed to be eligible for larger rent increases are not likely to generate sufficient return to justify improvements to individual units. Thus decontrol-related capital investments are expected to fall as a result of the changes. The reduced capital spending will also cause significant negative economic impacts. The negative annual impact is estimated to total \$27.9 million in economic activity, reducing employment by 271 and wages by \$13.0 million in Newark, and \$32.6 million in economic activity, reducing employment by 289 jobs and wages by \$14.0 million throughout New Jersey (See Table 3.3).

TABLE 3.3 – ECONOMIC IMPACT OF ADDITIONAL ANNUAL DECONTROL-RELATED CAPITAL EXPENDITURE ON THE NEWARK AND NEW JERSEY ECONOMY

Economic Impact within Newark	Expenditures	Employment	Labor Income
Direct Impacts	\$17.9	195	\$9.2
Indirect and Induced Impacts	\$10.0	76	\$3.9
Total Impacts	\$27.9	271	\$13.0
Economic Impact within New Jersey	Expenditures	Employment	Labor Income
Direct Impacts	\$17.9	195	\$9.2
Indirect and Induced Impacts	\$14.7	94	\$4.9
Total Impacts	\$32.6	289	\$14.0

Source: IMPLAN (2014) and ESI (2014)

AGGREGATE REDUCED ECONOMIC IMPACTS

All told, the reduced maintenance, community-wide capital spending, and decontrol-related investments will cause significant annual negative economic impacts. The negative annual impact is estimated to total \$39.4 million in economic activity, reducing employment by 381 jobs and wages by \$18.4 million in Newark, and \$46.1 million in economic activity, reducing employment by 405 jobs and wages by \$19.8 million throughout New Jersey (See Table 3.4).

TABLE 3.4 – AGGREGATE ECONOMIC IMPACT ON THE NEWARK AND NEW JERSEY ECONOMY

Economic Impact within Newark	Expenditures	Employment	Labor Income
Direct Impacts	\$25.3	279	\$12.9
Indirect and Induced Impacts	\$14.1	103	\$5.4
Total Impacts	\$39.4	381	\$18.4
Economic Impact within New Jersey	Expenditures	Employment	Labor Income
Direct Impacts	\$25.3	279	\$12.9
Indirect and Induced Impacts	\$20.8	126	\$6.9
Total Impacts	\$46.1	405	\$19.8

Source: IMPLAN (2014) and ESI (2014)

NEGATIVE FISCAL IMPACT FROM PROPERTY DISINVESTMENT

The reduced maintenance and capital spending resulting from the changes in the rent control ordinance, as well as the loss of indirect and induced spending it generates, will lower the revenue from a variety of statewide taxes. While there are a number of smaller taxes that may be affected, we focus on personal income, general sales, and corporate income (business) taxes. Through these major taxes, the economic losses associated with the newly passed rent control ordinance will result in a loss of \$2.2 million in tax revenue annually to the state of New Jersey (see Table 3.5).

TABLE 3.5 – FISCAL IMPACTS OF REDUCED MAINTENANCE CAPITAL EXPENDITURES

Fiscal Impacts within New Jersey	\$ Millions
Income Tax	\$0.9
Sales Tax	\$1.0
Business Tax	\$0.3
Total	\$2.2

Source: IMPLAN (2014) and ESI (2014)

4.0 NEGATIVE FISCAL IMPACTS FROM REDUCED PROPERTY VALUES

4.1 OVERVIEW

In addition to the lower economic activity associated with property disinvestment, the newly passed rent control ordinance will reduce the property value of apartment communities. If this lower value is accurately reflected in property assessments, the local property tax base will shrink and thus reduce the annual property tax revenues generated to the City as well as to the Newark Public Schools District. Elimination of rent control would lead to an increase in market value of units currently subject to rent control, which would increase the annual property tax revenues for the City, County, and School District.

Over the long term, the proposed changes could also lead to an eventual reduction in the number of rent controlled units, which may have a negative effect on neighboring properties, reducing their value and further eroding the local property tax base.

4.2 FISCAL IMPACT FROM DECLINES IN PROPERTY VALUE

As discussed above, the changes in the rent control ordinance are projected to reduce the aggregate value of apartment communities in Newark. It is estimated under the current ordinance the aggregate market value of rent controlled apartments is \$1,517 million (\$1.5 billion). The loss in market value compared to the alternative rent control scenarios will be between \$648 million and \$659 million (Table 4.1). In other words, the aggregate property values of the apartment communities will be between \$648 and \$659 million higher under the previous rent control ordinance and NAOA proposed changes, respectively.

TABLE 4.1: ESTIMATED AGGREGATE MARKET VALUE

<i>Estimated Market Value (Millions \$)</i>	Newly Passed Ordinance	NAOA Proposal	Previous Ordinance
Estimated Average Aggregate NOI	\$136.5	\$184.9	\$184.0
Cap Rate	9.0%	8.5%	8.5%
Market Value	\$1,516.8	\$2,175.8	\$2,165.0
Reduction in Market Value		\$659.0	\$648.2

Source: ESI (2014)

The lower property values of apartment buildings in Newark will translate into reduced assessed values and reduced property tax revenue for the City. The lower property values resulting from the new rent control ordinance will result in \$41.8 million in annual property tax revenue compared to the approximately \$60.0 million and \$59.7 million in property taxes that will be

generated under the alternative rent control scenarios (Table 4.2). The \$18.2 million and \$17.9 million in additional annual property tax revenue under the alternative rent-control scenarios are broken down as follows: \$8.8 to \$9.0 million to City of Newark, \$5.3 to 5.4 million to the School District, \$3.4 to \$3.5 million in County taxes, and \$0.4 million in other taxes.

TABLE 4.2: ESTIMATED ASSESSED VALUE AND PROPERTY TAX LOSSES

<i>Property Taxes (Millions \$)</i>	Newly Passed Ordinance	NAOA Proposal	Previous Ordinance
Estimated Market Value	\$1,516.8	\$2,175.8	\$2,165.0
Assessed Value to Property Value Ratio ²²	93.34%	93.34%	93.34%
Assessed Value	\$1,415.8	\$2,030.9	\$2,020.8
Reduction in Assessed Value	2.953%	2.953%	2.953%
Property Tax Rate ²³	\$41.8	\$60.0	\$59.7
Total Property Taxes		\$18.2	\$17.9
Reduction in Property Tax Revenue	\$1,516.8	\$2,175.8	\$2,165.0

Source: ESI (2014)

The reduction in assessed value that will result under the newly passed ordinance will amount to between \$648 and \$659 million. If the entire reduction in assessed values is passed along to the 29,518 residential parcels²⁴ in the City, this will result in an assessed value increase of approximately \$20,500 per residential parcels.²⁵ The additional \$20,500 in assessed value per residential parcel will translate into an additional \$605 to \$615 in property taxes for the average residential parcel, an average increase of 12 percent.

4.3 LONG-TERM EFFECTS ON APARTMENT SUPPLY

According to state law, new apartment units are not subject to rent control for a thirty-year period. This means that the direct impacts of changes to Newark's rent control ordinance on new properties are relatively small since it doesn't take effect for a long time period. Still, the changes in rent control will reduce the future value of an apartment property and hence have a small negative effect on apartment investment. Rent control and the recent changes in the ordinance are likely to have indirect impacts on supply in three ways that are of more concern.

²² Source: http://www.state.nj.us/treasury/taxation/pdf/lptval/2013/2013tev_essex.pdf

²³ Source: <http://www.state.nj.us/treasury/taxation/pdf/lpt/gtr13ess.pdf>

²⁴ Source: <http://www.state.nj.us/treasury/taxation/pdf/lpt/AvgResAsmt/2014AvgResAsmt.pdf>

²⁵ Based on an average residential parcel assessed value of \$173,035. Source: <http://www.state.nj.us/treasury/taxation/pdf/lpt/AvgResAsmt/2014AvgResAsmt.pdf>

First, rent controlled properties occupy land in desirable areas, reducing the supply of well-located land, which has an associated positive effect on land prices. Higher land prices adversely affect the supply of new apartments.

Second, because maintenance and capital expenditures are lower for rent-controlled units, they are likely to be less well maintained and less attractive. The overall appearance of rent-controlled properties may contribute adversely to the desirability of the neighborhood, reducing the market rent and ultimately the value of properties. Development of new units only occurs when the value of the new properties exceeds the value of the revenue stream that can be generated. To the extent that rent controlled properties reduce the overall attractiveness of a neighborhood, rent control also will adversely affect the supply of new housing.

Finally, the availability of a supply of below market housing provides a housing alternative, reducing the demand for market rate housing. While some tenants in rent-controlled units may not be able to afford market rate housing, many tenants in rent-controlled units could afford market rents. By siphoning off the demand for market rate housing, the market rate rents are lower, and investment in new units is correspondingly lower.

4.4 LONG-TERM EFFECTS ON NEIGHBORHOOD STABILITY

In the long run, if rental streams are insufficient to warrant new reinvestment in existing properties, the quality of housing will decline until the units are no longer fit for habitation. Abandonment of properties is a clear sign of neighborhood decline. More importantly, it is well documented that vacant properties adversely affect the value of neighboring properties. As neighbors perceive neighborhood decline, they stop investing in their own properties, and perhaps more importantly stop investing in the social fabric of this neighborhood. This results in a vicious cycle of disinvestment and decline. Neighborhoods move from stable communities with good services and affordable housing to unappealing, disconnected collections of declining houses with transient populations with little or no hope for future improvement.

Many American cities are experiencing rebirth and renewal. The economic forces driving decentralization and decline of American cities have largely run their course. As cities have returned to economic and social health, there clearly are pressures that undermine housing affordability. However, efforts to assure housing affordability need to be consistent with the need for continued reinvestment in the affordable housing stock. Unless rental streams are sufficient to warrant reinvestment in communities, the city of Newark and its residents will not share in the continuing rebirth of our central cities. This will deprive residents and property owners of the benefits of renewed urban prosperity and the City will continue to struggle to provide the funds for quality basic services such as education, security, and housing.

There were clearly significant economic costs associated with Newark's prior rent control ordinance, but the ordinance has been effective in keeping much of Newark's housing affordable while encouraging sufficient investment to maintain apartment communities. The recent changes to the rent control ordinance threaten to seriously disrupt the balance between affordability and reinvestment and will likely undermine the viability of many of Newark's apartment communities, neighborhoods, and the city itself.

5.0 CONCLUSION

The recent changes in the Newark's rent control ordinance upset the balance between providing rent stability and sufficient incentives to reinvest in apartment communities to assure a continued supply of affordable housing and to ensure stability of Newark's neighborhoods. Limiting rent increases to the CPI in conjunction with a dramatic increase in the required threshold investment for larger rent increases upon vacancy will result in disinvestment, declining quality of apartment communities, and adverse impacts on Newark's neighborhoods. Moreover, these changes will have significant negative impacts on employment and economic activity in Newark and will diminish the city's tax base and tax revenues, putting greater pressure to reduce essential public services such as education, safety and recreation.

ESI estimates that the recent changes in the ordinance will:

- Reduce capital improvement investment in apartment communities by \$3.3 million annually;
- Reduce decontrol-related investments by \$17.9 million annually;
- Reduce annual maintenance expenditures in apartment communities by at least \$4.0 million; and
- Lower the quality of living in apartment communities.

Reduced maintenance and investment will have negative economic and fiscal impacts for Newark. Specifically,

- \$34.4 million in economic activity will be lost;
- 381 jobs will be lost;
- Earnings will decline by \$18.4 million;
- Property tax revenue will fall by approximately \$18 million after assessed values adjust;
- Other tax revenue will fall by \$2.2 million.

These economic and fiscal impacts do not tell the whole story, however. Disinvestment undermines neighborhoods. When one sector of a neighborhood, such as apartment communities, declines, there are negative spillovers across the entire community. Households and firms stop investing in the community and a vicious cycle of decline ensues.

Newark would be prudent to adopt a more balanced approach to rent control such as the proposal suggested by the NAOA, which lowers the annual increases to 3 percent which is significantly lower than the increases of 4 to 5 percent that were available in previous version of the rent control ordinance. In addition, the NAOA proposal promotes reinvestment and new investment by allowing the market to set the rent upon vacancy and thereafter limiting rent increases during the remaining tenancy to 3 percent per year. The prior version of the ordinance was successful in protecting existing residents from large rent increases, keeping rents below market, but retaining incentives to invest. The NAOA proposal enhances the protection for existing residents while preserving investment incentives.

APPENDIX A – NEWARK'S CURRENT RENT CONTROL ORDINANCE

Title

AN ORDINANCE AMENDING TITLE 19, CHAPTER 2, RENT CONTROL REGULATIONS, RENT CONTROL BOARD, OF THE REVISED GENERAL ORDINANCES OF THE CITY OF NEWARK, NEW JERSEY, 2000, AS AMENDED AND SUPPLEMENTED, BY ADDING PROVISIONS RELATING TO MAJOR NEW IMPROVEMENTS AND CERTAIN OTHER AMENDMENTS.

Sponsors: Council Members Baraka/ James

Body

WHEREAS, the Municipal Council is desirous of amending certain provisions of the Revised Ordinances of the City of Newark, more specifically, Title 19, Chapter 2, Rent Control Regulations, Rent Control Board, at the request of taxpayer tenants, and amends certain other provisions to conform to current state law and certain other amendments to clarify intent.

NOW, THEREFORE, IT IS HEREBY ORDAINED BY THE MUNICIPAL COUNCIL OF THE CITY OF NEWARK, COUNTY OF ESSEX, STATE OF NEW JERSEY, AS FOLLOWS:

SECTION 1. Title 19, Chapter 2, Rent Control Regulations, Rent Control Board, of the Revised General Ordinances of the City of Newark, New Jersey, 2000, are hereby amended and supplemented as follows:

Editor's Note: Additions are shown as **underlined and bold**. Deletions are ~~strikethroughs~~.

CHAPTER 2: RENT CONTROL REGULATIONS; RENT CONTROL BOARD

19:2-1. STATEMENT OF POLICY.

a. The Governing Body of the City of Newark does hereby declare that an emergency exists within the City of Newark with respect to the rental of housing space in dwellings by reason of the demands for increases in rent, which are hereby determined to be exorbitant, speculative and unwarranted; and



- b. This emergency has been created by housing demolitions, deterioration of a substantial portion of the existing housing stock, insufficient new housing construction, increased cost of construction and finance, and growing inflation. This has caused a substantial and increasing shortage of rental housing accommodations for families of low and moderate income and abnormally high rents; and
- c. Unless residential rents of tenants are regulated and controlled, such emergency and the further inflationary pressures resulting therefrom will produce serious threats to the public health, safety and general welfare of the citizens of the City of Newark; and
- d. The fear of being evicted without just cause and being forced to seek housing in such a market discourages Newark tenants from complaining about exorbitant increases in rent and about the continued deterioration of housing, and this fear thus contributes to these harmful conditions; this warrants legislative action by the Governing Body; and
- e. Under the police powers granted to the City of Newark and in order to protect the health, safety and welfare of the citizens of the City of Newark, it is necessary to regulate, control and stabilize rents and create a Rent Control Board for the City of Newark.
- (R.O. 1966 C.S. § 15:9B-1)

19:2-2. DEFINITIONS.

As used in this Chapter:

Available for rent to tenants shall mean housing fit for habitation as defined by the statutes, codes and ordinances in effect in the State of New Jersey, County of Essex and City of Newark, and offered for rent, whether occupied or unoccupied.

~~**Capital improvement** shall mean any improvement which permanently enhances the value of the property, is not merely routine repair or maintenance, and is recognized by the Internal Revenue Service for allowances and depreciation for Federal income tax purposes.~~

Completion of Construction shall mean the issuance of a Certificate of Occupancy pursuant to the "State Uniform Construction Code Act" P.L. 1975, c.217 (N.J.S.A. 52:27D-133)

Constructed shall mean constructed, erected or converted, but excludes rehabilitation of premises rented previously for purposes without an intervening use for other purposes for a period of at least two (2) years prior to conversion. Mere vacancy shall not be considered an intervening use for the purpose of "newly constructed multiple dwelling."

Dwelling shall mean any building, structure, trailer or land used as a trailer park, rented or offered for rent to one (1) or more tenants, or family units. A dwelling shall also mean one (1) or more buildings, structures or trailers with a common owner and operated as a single complex, and which are situated on a common lot or on adjacent lots as described in the Tax Map of the Tax Assessor of the City of Newark.

Equity shall mean the actual investment in cash by the landlord in the purchase price of the property, as well as those payments that he/she has made to any lender that reduce the lender's claim against the property.

Exemptions shall mean dwellings to which this chapter shall not apply. Exempt dwellings include all public housing; owner-occupied one (1), two (2), three (3) or four (4) family housing space units; any motel or hotel space rented on a day-to-day basis to transients; and any dwelling, building or structure, or portion thereof, rented for commercial use. Also exempted are those units which have been rehabilitated by the Federal and State Rental Rehabilitation Programs as administered by the U.S. Department of Housing and Urban Development, the New Jersey Department of Community Affairs or the New Jersey Housing Mortgage Finance Agency and will be receiving Section 8 rent subsidies or Federal housing vouchers. In these units, rents will be allowed to be raised, but will not exceed the fair market rents as established by the United States Department of Housing and Urban Development. These units will be exempt only during the unit's tenure in the Section 8 subsidy or Rental Rehabilitation Program. **Also exempted are newly constructed multiple dwellings and vacant dwellings as set forth in this Ordinance at 19:2-18.1 and 18.2, respectively.**

Fair rate of return shall mean a return of nine (9%) percent on the landlord's investment in the property, which investment shall be considered herein as the landlord's equity.

Housing services shall mean repairs, replacement and maintenance, painting, providing light, heat, hot and cold water, elevator service (where applicable), storm windows and screens, superintendent services and any other benefit, privilege or facility connected with the use or occupancy of any proportionate part of services provided to common facilities of the building in which the dwelling is contained.

Housing space shall mean that portion of a dwelling rented or offered for rent for living and dwelling purposes to one (1) individual or family unit, together with all privileges, services, furnishings, furniture, equipment, facilities, improvements and common areas connected with the use or occupancy of such portion of the property.

Housing space agreement shall mean an agreement, oral, written or implied, between a landlord and tenant for the use and occupancy of a housing space or housing services or both.

Landlord shall mean an owner, lessor, sublessor or any other person entitled to receive rent for the use and occupancy of any housing space, or an agent or successor of any of the foregoing.

Major New Improvement shall mean a physical addition or change to the dwelling, which provides all tenants in the dwelling with something not previously provided that improves the quality of life in the dwelling. A replacement of an existing physical element, such as a roof, is not a Major New Improvement, whether that element was necessary for habitability or provided an amenity not required for habitability. Such a replacement is considered a maintenance expense. A physical addition or change, which does provide something new that benefits the tenants, but is required by law to meet minimum standards of health, safety, security or habitability, is also not a Major New Improvement. A Major New Improvement must be something new that benefits the tenants, and is not required by law. A Major New Improvement for the purpose of this ordinance is not in any way related to the term 'Capital Improvement' or 'Capital Expenditure' as used in IRS regulations, even if the IRS would categorize such improvements in these ways.

Month to month tenant shall mean a tenant for a term of one (1) month whose tenancy shall automatically be extended for each succeeding month, unless terminated as provided by statute.

Multiple dwelling shall mean and include any building or structure and land appurtenant thereto containing three (3) or more apartments or rented or offered for rent to three (3) or more tenants or family units.

Notice shall mean written notice to a tenant or landlord, which is mailed to the tenant's residence or the landlord's residence or offices by regular mail, of any proceedings or determinations of the Board, unless another method of notice is specified in this Chapter.

Owner occupied shall mean any dwelling of four (4) units or less in at least one (1) unit of which the owner resides.

Periodic tenant shall mean a tenant for a period of less than one (1) year.

Period of Amortization shall mean the time during which the principal amount of the loan and interest thereon would be paid entirely through periodic payments, whether or not term of the mortgage loan is for shorter period concluding with a balloon payment.

Rent shall mean the consideration and shall include any bonus, benefits or gratuity demanded or received for or, in connection with, the use or occupancy of housing space or the transfer of a lease of such housing spaces, including, but not limited to monies demanded or paid for parking, pets, the use of furniture, subletting, security deposits and damage and cleaning deposits.

Repair shall mean to reconstruct a building to a sound condition or good state after decay, injury, dilapidation or partial destruction; to remedy, heal, make right, or to mend.

Sub-Standard multiple dwelling shall mean any multiple dwelling determined to be substandard by the Public Officer.

Substantial Compliance shall mean that the dwelling is in compliance with all applicable Federal, State, and Newark health, safety, building, and property maintenance codes, statutes, regulations and ordinances, including, but not limited to the Regulations for Construction and Maintenance of Hotels and Multiple Dwellings promulgated by the State Department of Community Affairs (N.J.A.C. 5:10-1 et seq.). Substantial compliance means that the dwelling and each housing space are free from all heat, hot-water, water, air conditioning, elevator, and all health, safety and fire violations, as well as ninety percent (90%) qualitatively free of all other violations. If a rent increase or surcharge is challenged by a tenant on the basis of lack of substantial compliance, the burden is on the landlord to prove that the building is in substantial compliance. Substantial Compliance also includes full compliance with the Landlord Identity Disclosure Act (N.J.S.A. 46:8-27 et seq.). Nothing in this section impairs the right of a tenant to seek and receive an appropriate rent reduction for diminishment of services.

Tenant shall mean a tenant, subtenant, lessee, sublessee, or any other person entitled under the terms of a housing space agreement to the use or occupancy of any housing space.

(R.O. 1966 C.S. § 15:9B-2; Ord. 6 S+FC, 4-16-86 § 1; Ord. 6 S+FG, 9-6-95 § 1; Ord. 6 S+FM, 2-21-96 § 1)

19:2-3. RENT INCREASES.



19:2-3.1. Determination of Rents.

The establishment of rents between a landlord and tenant in all housing spaces shall hereafter be determined by the provisions of this Chapter. At the expiration of a lease or at the termination of the lease of a periodic tenant, **no landlord may request or receive an increase greater than the Consumer Price Index (CPI) for the previous twelve (12) months for the New Jersey area, as established by the Federal Bureau of Labor Statistics'. In no case shall the allowable rent increase exceed 4%. The allowable annual increase will not be permitted, if the dwelling is not in substantial compliance and/or if the landlord has not met the registration requirements as specified in this Ordinance (19:2-9.8).**

percentage increase in rent which is greater than five (5%) percent for dwellings of forty nine (49) units or less, or four (4%) percent for dwellings of fifty (50) units or more, without first petitioning the Rent Control Board. (R.O. 1966 C.S. § 15:9B-3; Ord. 6 S+FC, 4-16-86 § 1)

19:2-3.2. Increases Limited.

The rents for any housing space shall not be increased more than the percentages stated above in any consecutive twelve (12) month period irrespective of the number of different tenants occupying the housing space during the twelve (12) month period, any change of ownership of the landlord or vacancy of the housing space.

(R.O. 1966 C.S. § 15:9B-3; Ord. 6 S+FC, 4-16-86 § 2)

19:2-3.3 Parking Fees.

The landlord shall report and register all on-site parking fees with the Rent Control Department. Parking fees should be specifically included as being covered under all provisions of the rent control ordinance.

19:2-3.4 Substantial Compliance and Registration Compliance for any Rent Increase.

No annual rent increase, major new improvement surcharge, tax surcharge, or hardship increase is allowed, if the dwelling is not in Substantial Compliance and/or has not met registration requirements as specified in this ordinance (19:2-9.8).

19:2-4. RENT REBATE.

The landlord shall rebate to the tenant any amount of rent collected in excess of that permissible pursuant to the terms of this Chapter by crediting the tenant with the amount of excess rent paid over a period not to exceed fourteen (14) months, or in the event the tenant is no longer in occupancy, by refunding within a one (1) month period. (R.O. 1966 C.S. § 15:9B-4)

19:2-5. TAX SURCHARGE.



19:2-5.1. Formula for Surcharge.

A landlord may seek a tax surcharge from a tenant because of an increase in municipal property taxes. The tax surcharge shall not exceed that amount authorized by the following provision: The landlord shall divide one-twelfth ($1/12^{\text{th}}$) of the annual increase in the present property tax over the property tax of the previous year by the total monthly rent roll, and that product shall be multiplied by the monthly rent paid by each tenant to establish the amount of surcharge that each tenant shall be required to pay. The tenant shall not be liable for a tax surcharge exceeding the tenant's percentage of the entire rent roll for the dwelling.

(R.O. 1966 C.S. § 15:9B-5)

19:2-5.2. Petition for Surcharge.

a. Any landlord seeking a surcharge shall petition the Board for approval and shall give notice to the tenant and the Board, at least thirty (30) days prior to the increase sought, of the calculations involved in computing the tax surcharge, including the present property tax for the dwelling; the property tax for the dwelling for the previous year; total rent rolls of all units, occupied or unoccupied in the dwelling; the percentage of the increase over the total rent roll; the rent of the tenant; and the percentage of his/her present rent compared to the total rent roll.

b. Prior to making a determination on a landlord's petition for a tax surcharge, the Board shall obtain a report from the Division of Inspections and Enforcement to determine whether there are any outstanding code violations on the subject property. In the event that the report reveals outstanding code violations, the Board shall deny the landlord's application or defer action on the application until the landlord has abated the violations and proof of same has been submitted to the Board.

(R.O. 1966 C.S. § 15:9B-5; Ord. 6 PSF-B, 5-16-12)

19:2-5.3. Payment of Surcharge.

The tax surcharge each tenant is liable for shall be paid in equal monthly payments only after the landlord gives the tenant one (1) month prior notice of the increase as required by statute.

(R.O. 1966 C.S. § 15:9B-5)

19:2-5.4. APPEALS.

Any party dissatisfied with the ruling of the Rent Control Board on a Tax Surcharge Application may appeal the matter to the Municipal Council.

19:2-6. TAX DECREASES.**19:2-6.1. Apportionment.**

If the municipal property taxes are decreased in a given year due to either a decrease in the property tax rate or a lowering of the assessed evaluation of the property by the municipality, then the tenants are entitled to a tax decrease. Apportionment of such decrease shall be in the same manner as apportionment of tax surcharge under subsection 19:2-5.1.

(R.O. 1966 C.S. § 15:9B-6; Ord. 6 S+FC, 4-16-86 § 3)

19:2-6.2. Tax Appeal, Reduction.

In the event a tax appeal is taken by the landlord and the landlord is successful in the appeal and the taxes reduced, the tenant shall receive seventy-five (75%) percent of the reductions as applied to its tax portion, after deducting all reasonable expenses incurred by the landlord in prosecuting the appeal.

(R.O. 1966 C.S. § 15:9B-6; Ord. 6 S+FC, 4-16-86 § 3)

19:2-6.3. Rebates.

The landlord shall be deemed to have received his/her rebate upon his/her receipt thereof from the receiver of taxes, or upon the execution of any agreement with the landlord. The tenant must receive notice within fourteen (14) days from when the landlord receives his/her notice of successful appeal. The landlord must notify the tenants within thirty (30) days of the time the landlord receives his/her rebate of the amount he/she has received with the computations on how much the tenant is entitled to. The amount due the tenant shall be forwarded to the tenant within the same thirty (30) day period.

(R.O. 1966 C.S. § 15:9B-6; Ord. 6 S+FC, 4-16-86 § 3)

19:2-7. MAJOR NEW IMPROVEMENTS CAPITAL IMPROVEMENTS; ADDITIONAL RENT.**19:2-7.1 Computation of Increase.**

The landlord may seek additional rent (surcharge) for a Major New Improvement(s) made by him/her in the dwelling or attributable to the dwelling. The landlord shall compute the average cost of the Major New Improvement(s) per year of useful life by dividing the cost of the completed Major New Improvement(s) by the number of years of useful life of the improvement(s) provided that the period shall not be less than one (1) year. The useful life is the actual number of years that the major improvement(s) is expected to last before needing replacement. The burden of proof is on the landlord to establish the useful life of the improvement(s). If the Major New Improvement(s) lowers the landlord's operating costs, the annual cost savings must be subtracted from the annual Major New Improvement(s) surcharge. The landlord is required to disclose all expected cost savings that will result from the Major New Improvement(s).

No increase shall be permitted for Major New Improvement(s) affecting more than ten (10) rental units, unless the total cost thereof exceeds two thousand (\$2,000.00) dollars. No increase shall be permitted for Major New Improvement(s) completed more than twenty-four (24) months prior to the date upon which notice to the Board of the improvements has been provided by the landlord. In no case will a Major New Improvement(s) rent increase be granted if the dwelling is not in substantial compliance and/or if the landlord has not met the registration requirements as specified in this Ordinance (19:1-10).

19:2-7.1. — Computation of Increase.

— In addition to the percentage of rent increase and tax surcharge herein provided for, the landlord may seek additional rent for capital improvements made by him/her in the dwelling or attributable to the dwelling. The landlord shall compute the average cost of this improvement per

~~year of useful life by dividing the cost of the completed capital improvement by the number of years of useful life of the improvement allowed by the Internal Revenue Service for the capital improvement, provided that the period shall not be less than one (1) year. Capital improvements shall not include painting, whether exterior or interior. No increase shall be permitted for capital improvements affecting more than ten rental units unless the total cost thereof exceeds two thousand (\$2,000.00) dollars. No increase shall be permitted for capital improvements completed more than twenty four (24) months prior to the date upon which notice to the Board of the improvements has been provided by the landlord. (R.O. 1966 C.S. § 15:9B-7; Ord. 6 S+FC, 4-16-86 § 4)~~

19:2-7.2. Increase Prorated.

The amount of the monthly increase which a landlord may charge shall be prorated among all tenants benefiting from the improvements by dividing one-twelfth (1/12th) of the annual cost of the capital improvements by the total monthly rent roll of the units affected by the improvement in the dwelling, occupied or unoccupied, and that product shall be multiplied by the monthly rent paid by each tenant to establish the amount of capital improvement increase that each tenant shall be required to pay.

(R.O. 1966 C.S. § 15:9B-7; Ord. 6 S+FC, 4-16-86 § 4)

19:2-7.3 Applicability; Notification.

No tenant shall be liable for a Major New Improvement(s) increase if he/she receives no benefit from the improvement nor, if he/she benefits, shall he/she be liable for an increase exceeding the percentage of rent paid by him/her as calculated above, and all such rent increases shall be charged for no period greater than the useful life of the improvements. The landlord shall notify the Board and tenants at least sixty (60) days before the effective date of the increase. The notice to the Board shall, on forms provided by the Board, include the amount of increase, a description of the improvement, and the figures used to compute the increase. The Board or a tenant may request a hearing within thirty (30) days of receipt of notice from the landlord. After approval by the Board of a Major New Improvement surcharge, the landlord shall give to each tenant one (1) month prior notice of the effective date of the capital improvement major new improvement surcharge as required by statute.

(R.O. 1966 C.S. § 15:9B-7; Ord. 6 S+FC, 4-16-86 § 4)

19:2-7.3. — Applicability; Notification.

~~— No tenant shall be liable for a capital improvement increase if he/she receives no benefit from the improvement nor, if he/she benefits, shall he/she be liable for an increase exceeding the percentage of rent paid by him/her as calculated above, and all such rent increases shall be charged for no period greater than the depreciation period of the improvements. The landlord shall notify the Board and tenants at least sixty (60) days before the effective date of the increase. The notice to the Board shall, on forms provided by the Board, include the amount of increase, a description~~

of the improvement, and the figures used to compute the increase. The Board or a tenant may request a hearing within thirty (30) days of receipt of notice from the landlord.

—After approval by the Board of a capital improvement surcharge, the landlord shall give to each tenant one (1) month prior notice of the effective date of the capital improvement surcharge as required by statute.

(R.O. 1966 C.S. § 15:9B-7; Ord. 6 S+FC, 4-16-86 § 4)

19:2-7.4 APPEALS.

Either landlord or tenant may appeal the findings or order of the Rent Control Board regarding a Major New Improvement application to the Municipal Council by filing a notice of appeal with the City Clerk. The appeal shall be based upon the record of the Rent Control Board below, and no additional testimony shall be taken.

19:2-8. LANDLORD HARDSHIPS.

19:2-8.1. Appeal for Increase.

In the event a landlord claims an inability to obtain a fair rate of return because of the application of the rent increase limitation set forth herein, or because of extraordinary expenses with respect to the operation, repair and maintenance of the rental units, the landlord may appeal to the Board for a hardship rent increase.

(R.O. 1966 C.S. § 15:9B-8; Ord. 6 S+FC, 4-16-86 § 5; Ord. 6 S+FD, 12-18-91 § 1).

In no case will a Hardship Appeal be granted if the dwelling is not in substantial compliance and/or has not met the registration requirements as specified in this ordinance.

19:2-8.2. Code Violations.

a. *Inspection; Abatement.* The procedure outlined in Section 19:2-13 shall be followed. Within thirty (30) days after a hardship appeal has been filed, supported by all the information, which the Board may require for a determination, the Board may request that the property be inspected by the Division of Inspections and Enforcement for code violations. The inspection reports shall be made and filed with the Board within thirty (30) days thereafter.

In the event the inspection reveals the property is not in substantial compliance with Newark codes, the Board shall deny the increase. In the event the inspection reveals the dwelling is in substantial compliance, but there are code violations, the Board may deny the increase or conditionally grant the increase subject to the landlord abating the violations within a reasonable time. However, in no event shall this period of time exceed ninety (90) days.

~~In the event that the inspection reveals code violations the Board may deny the increase or conditionally grant the increase subject to the landlord abating the violations within a reasonable period of time. However, in no event shall this period of time exceed ninety (90) days.~~

b. *Failure to Comply; Refund to Tenants.* In the event that such abatement has not taken place within the aforesaid period prescribed by the Board, the Board shall revoke any such conditional increase, and the landlord shall be required to restore to the affected tenants all of the

additional monies collected pursuant to the increase. The restoration of monies shall be in the form of either a direct refund of all monies collected or a deduction from the next month's rent.

c. *Definition.* As used in this section, code violations shall mean any violations of the existing building (construction), fire, plumbing, electrical or housing codes of the City of Newark then in effect. Violations which the Board may rely upon in implementing this section shall be only those violations which were found to have been in existence at the time of the original inspection as requested by the Board.

(R.O. 1966 C.S. § 15:9B-8; Ord. 6 S+FC, 4-16-86 § 5; Ord. 6 S+FD, 12-18-91 § 1)

d. Nothing in this section diminishes the requirement in 19:2-8.1 that the dwelling be in substantial compliance with all Federal, State, and Newark codes as defined in 19:2-3 prior to granting a hardship increase.

19:2-8.3. Submission of Records.

The landlord shall submit proof of expenses for operation, maintenance and repairs, including, but not limited to taxes, insurance, fuel, utilities, maintenance and repairs, and reasonable superintendent and/or management fees, as well as expenses for vacancies, which have been held available for rental, to substantiate any hardship increase application and such proof shall be supported by affidavits that the expenses are complete, reasonable and necessary. Amounts allowed for vacancies and for management costs shall be fully documented, and in no event shall allowable expenses in either category exceed five (5%) percent of the landlord's gross income. This affidavit shall also describe any business, family or social relationship between the parties financing the purchase of the building and the landlord. The Board shall consider the proofs and expenses for a period not to exceed sixteen (16) months, but not less than twelve (12) months prior to the date of the landlord's application.

(R.O. 1966 C.S. § 15:9B-8; Ord. 6 S+FC, 4-16-86 § 5; Ord. 6 S+FD, 12-18-91 § 1)

19:2-8.4. Fees not Applicable.

No attorney's fees, accountant's fees or application fees incurred by a landlord in connection with any application to the Board shall be included in determining whether a landlord is entitled to any rent increases.

(R.O. 1966 C.S. § 15:9B-8; Ord. 6 S+FC, 4-16-86 § 5; Ord. 6 S+FD, 12-18-91 § 1)

19:2-8.5. Impartial Appraisal.

Whenever a relationship other than a business relationship is found to exist between the parties financing the purchase of the building and the landlord, or for other good cause, the Board may require that the value of the property be appraised by an appraiser to be approved by the Board. The cost of appraisal shall be included as a separate cost in the application fee and paid for by the applicant when so required by the Board at the rent control hearing.

(R.O. 1966 C.S. § 15:9B-8; Ord. 6 S+FC, 4-16-86 § 5; Ord. 6 S+FD, 12-18-91 § 1)

19:2-8.6. Apportionment of Increase.

Any increase awarded to the landlord pursuant to this Section by the Board shall be apportioned among the tenants in the following manner: The monthly increase shall be divided by the total monthly rent roll and that product shall be multiplied by the monthly rent paid by each tenant to establish the amount of increase that each tenant shall be required to pay.

(R.O. 1966 C.S. § 15:9B-8; Ord. 6 S+FC, 4-16-86 § 5; Ord. 6 S+FD, 12-18-91 § 1)

19:2-8.7. Time Period for Increase.

a. No increase pursuant to this Section shall be authorized with respect to a rental unit more than once in any twelve (12) month period, nor shall the Board conduct a hearing with respect to an application for such a rent increase for a rental unit more than once within a twelve (12) month period.

b. The Board shall take into account rent increases of any kind, including capital improvement increases, during the past twelve (12) months in determining whether to grant an increase, and the amount and terms thereof.

(R.O. 1966 C.S. § 15:9B-8; Ord. 6 S+FC, 4-16-86 § 5; Ord. 6 S+FD, 12-18-91 § 1)

19:2-8.8 Cost not Applicable.

Owners and landlords operating multiple dwelling units shall be prohibited from claiming the cost of repairing the roof as a hardship leading to a rent increase.

(R.O. 1966 C.S. § 15:9B-8; Ord. 6 S+FC, 4-16-86 § 5; Ord. 6 S+FD, 12-18-91 § 1)

[Note: No change in sections 19:2.9 through 19:2-14]

19:2-15. APPEAL JUDICIAL REVIEW.

A landlord or tenant aggrieved by any action, regulation or determination of the Board may appeal in a court of appropriate jurisdiction; **or following the appeal to Municipal Council regarding a Major New Improvement or a Tax Surcharge application. Either landlord or tenant may appeal the findings or order of the Rent Control Board regarding a Major New Improvement application to the Municipal Council by filing a notice of appeal with the City Clerk. The appeal shall be based upon the record of the Rent Control Board below, and no additional testimony shall be taken.**

(R.O. 1966 C.S. § 15:9B-14)

[Note: No change in sections 19: 2-16 or 19:2-17]

19:2-18. NEW CONSTRUCTION, VACANT PROPERTIES, SUBSTANTIAL REHABILITATION AND SUBSTANTIALLY REHABILITATED VACANT UNITS.

19:2-18.1 New Construction.



a. *Application to Rent Control Board for Exemption.* **The provisions of the Rent Control Ordinance, which limit the periodic or regular increases in base rentals of dwelling units shall not apply to Newly Constructed Multiple Dwellings for a period of time not to exceed the period of amortization of any initial mortgage loan obtained for the multiple dwelling, or for thirty (30) years following completion of construction, whichever is less.** The owner of housing space or dwelling being rented for the first time shall not be restricted in the rent he/she charges for a period of five (5) years. However, prior to occupancy by any tenant and after applying for and receiving a Certificate of Occupancy from the City of Newark (certifying that the building conforms to the Zoning Ordinances of the City of Newark, the Uniform Construction Code of the City of Newark and State of New Jersey and all applicable health and housing codes in the City of Newark and State of New Jersey), the landlord of any newly constructed dwelling shall apply to the Rent Control Board for a Certification that the dwelling is granted **an** ~~five (5)~~ **year** exemption from any restrictions in the rent that the landlord may charge. The application to the Rent Control Board shall include a bona fide copy of the Certificate of Occupancy, without which the application shall not be acceptable and may not be acted upon by the Rent Control Board. The unrestricted initial rent that shall be charged shall also appear on the petition. If the application is acceptable, the Rent Control Board must show, within thirty (30) days of receiving the application, why the landlord is not eligible for the ~~five (5) year~~ exemption, otherwise, the ~~five (5) year~~ exemption shall be deemed to have been granted. ~~Any subsequent rental increase after the five (5) year exemption period, however, shall be subject to the provisions of this chapter; at least ninety (90) days prior to the expiration of the five (5) year exemption from rent charge restrictions, the landlord shall notify the tenants and the Rent Control Board that the tenancy shall be subject to rent charge restrictions upon the expiration of the exemption period.~~ The ~~five (5) year~~ exemption period shall begin on the first day of occupancy by a tenant or thirty (30) days after the landlord's application is received by the Rent Control Board, whichever occurs first. (R.O. 1966 C.S. § 15:9B-17)

b. In the event that there is no initial mortgage financing, the period of the exemption from rent control shall be thirty (30) years from the completion of the construction.

19:2-18.2 Vacant Properties.

a. *Exemption.* Dwellings which become vacant after the effective date of this Section and remain vacant for a minimum of eighteen (18) months or dwellings which are already vacant on the effective date of this Section shall be exempt for a period of five (5) years from any restrictions in the rent that the landlord may charge, if the Rent Control Board determines that the cost of reconstruction or rehabilitation during a twelve (12) month period has exceeded fifty (50%) percent of either the undepreciated cost or the fair market value of the dwelling and that the dwelling has received a Certificate of Occupancy and meets all applicable State and municipal health and housing codes.

b. *Completion Prior to Application.* The substantial rehabilitation shall be completed prior to the date of application to the Rent Control Board for exemption under this section.

c. *Time Limit for Submission.* Petitions for an exemption under this Section shall be submitted no later than two (2) years from the date of the acquisition of the first permit from the City of Newark for the substantial reconstruction or rehabilitation.

d. *Requirements for Valid Petition.* The petition forms provided by the Office of Rent Control shall require that the owner submit some tangible evidence as to the undepreciated cost or the fair market value of the dwelling. The petition shall also require a written description of the reconstruction or substantial rehabilitation of the building, as well as a bona fide copy of a Certificate of Occupancy for the dwelling issued by the City of Newark, certifying that the substantially rehabilitated building conforms to the Zoning Ordinances of the City of Newark, the Uniform Construction Code of the City of Newark and State of New Jersey and all applicable health and housing codes of the City of Newark and State of New Jersey, without which the petition shall not be valid and may not be acted upon by the Rent Control Board. A continued Certificate of Occupancy shall not be allowable for these purposes. The unrestricted initial rent that shall be charged shall appear on the petition, as well as a sworn and notarized affidavit executed by the landlord stating that he/she did not in any way, manner or method evict the prior tenants from the dwelling in question for the purpose of being considered under this section.

e. *Notification of Tenants.* At least ninety (90) days prior to the expiration of the five (5) year exemption from rent control, the landlord shall notify the tenants and the Rent Control Board that the tenancy shall be subject to rent charge restrictions upon the expiration of the exemption period. (R.O. 1966 C.S. § 15:9B-17)

19:2-18.3 Substantial Rehabilitation.

Dwellings which are substantially reconstructed or rehabilitated shall not be restricted in regard to the initial rent charged if the Rent Control Board has made the following determinations:

a. The Board shall determine that the cost of reconstruction or rehabilitation during a twelve (12) month period exceeds fifty (50%) percent of the fair market value of the property. The fair market value shall be established by an appraisal issued by a member of an appraisal institute such as the American Institute of Real Estate Appraisers, The Society of Real Estate Appraisers, The American Society of Appraisers, or the Independent Order of Fee Appraisers.

b. The Board shall determine that the reconstruction or rehabilitation shall have been completed in accordance with the requirements of the Uniform Construction Code.

The petitioner shall submit copies of all permits required for the rehabilitation of the building, including, but not limited to electrical, plumbing and construction permits issued by the Construction Official, as well as a detailed rehabilitation or reconstruction plan, a copy of which shall have been filed with the Construction Official on the date of the application for the permits described herein. Where the substantially rehabilitated building involves no more than four (4) apartment units a plan shall not be required.

c. The Board shall determine that a Certificate of Occupancy has been issued by the City of Newark certifying that the building has been rehabilitated in accordance with the plan submitted to the Construction Official by the applicant and certifying that the substantially rehabilitated building conforms to the zoning ordinances of the City of Newark, the Uniform Construction

Code of the City of Newark and the State of New Jersey, as well as all applicable housing codes and health codes of the City of Newark and State of New Jersey.

The Board's determination shall take into account an inspection conducted by a representative from the Department of Neighborhood and Recreational Services after the date of the application.

The plan referred to herein shall include a description of the property improvements, a cost estimate and a construction completion schedule.

d. The Board shall further determine that the items described in the rehabilitation plan do not consist of items involving repairs that would be undertaken on an ongoing basis or annual basis in regard to the normal maintenance of the building. If the Board determines that any of the costs of the rehabilitation involve normal maintenance, those costs shall be disallowed in computing the cost of rehabilitation.

e. The substantial rehabilitation shall be completed prior to the date of application to the Rent Control Board for an exemption under this Section.

f. Petitions for an exemption under this Section shall be submitted no later than two (2) years from the date of acquisition of the first permit from the City of Newark for the substantial reconstruction or rehabilitation. The unrestricted initial rent that shall be charged shall also appear on the petition.

g. The application shall be certified as being accepted by the Administrator within fourteen (14) days of its receipt. Any application, which does not contain a plan, a Certificate of Occupancy or other documents required by the Administrator shall be returned to the applicant within fourteen (14) days. Any application that is not certified as accepted in writing by the Administrator shall be presumed to be denied by the Administrator. An applicant may file a request for a hearing before the Rent Control Board from the decision of the Administrator.

h. Any application that is accepted by the Rent Control Board Administrator shall be submitted to the Board in accordance with the procedures outlined in Section 19:2-13. In addition, the petitioner shall give each tenant one (1) month prior notice of the effective date of any unrestricted rental increase approved by the Rent Control Board.

(R.O. 1966 C.S. § 15:9B-17; Ord. 6 S+FU, 2-17-88)

19:2-18.4 Substantially Rehabilitated Vacant Apartment Units.

a. *Maximum Rent Increase.* Apartment units which become vacant and in which the landlord spends a total amount of money equal to or in excess of five thousand (\$5,000.00) dollars multiplied by the number of rooms in the apartment for the purpose of rehabilitating the apartment unit may have their rent increased up to a maximum of twenty (20%) percent of the prior actual rent charged for each apartment.

~~a. *Maximum Rent Increase.* Apartment units which become vacant and in which the landlord spends a total amount of money equal to or in excess of one hundred (\$100.00) dollars multiplied by the number of rooms in the apartment for the purpose of rehabilitating the apartment unit may have their rent increased up to a maximum of twenty five (25%) percent of the prior rent.~~

b. *Application for Increase.* The application for an increase shall be supported by an affidavit describing the amount expended on each room of the apartment and stating that such expenses are reasonable, necessary and complete for the purpose of rehabilitating the apartment unit. Expenses described in this application shall not be used to support any other application before the Board.

c. *Notice of Application Posted.* A notice of any application for a rent increase under this section shall be posted in a conspicuous place in the apartment building by the landlord on the date of the application.

d. *Objections Heard.* The determination to grant such increase shall be made by the Administrator, unless an objection is filed by the prior tenant. If an objection is duly filed by the prior tenant, the application shall be set down for a hearing before the Board.

e. *Calculation of Credit.* In calculating the total amount spent on rehabilitation, credit may be given to the landlord for labor provided by him/her. The amounts credited for labor may equal up to one hundred (100%) percent of the actual cost of materials for painting and plastering, and up to fifty (50%) percent of the cost of materials and equipment for all other types of rehabilitation work.

f. *Inspection; Abatement of Violations.* An inspection by the Division of Inspections and Enforcement in the Department of Neighborhood and Recreational Services of the City of Newark shall be completed prior to granting an application. Any code violations found to exist, including the absence and/or inadequacy of required smoke and fire alarm devices, shall be abated prior to granting the application.

g. *Number of Increases Limited.* The landlord may be granted only one (1) increase under this section for the same apartment unit in any twelve (12) month period.

h. *Unlawful Entry; Penalty.* Any landlord, who shall gain access to an apartment by forcibly evicting a tenant contrary to the provisions of *N.J.S.A. 2A:18-61.1 et seq.* for the purpose of vacating and rehabilitating the apartment shall be guilty of an unlawful entry and detainer, as defined in *N.J.S.A. 2A:39-2*, and may be subject to treble damages pursuant to *N.J.S.A. 2A:39-8*. (R.O. 1966 C.S. § 15:9B-17)

19:2-18.5 City Auction Manual Required Notice.

In all auction manuals prepared for use by the Office of Property Management there shall be included the following notice:

NOTICE TO PROSPECTIVE HOMEOWNERS

Pursuant to the provisions of this act, person(s), who acquire City-owned dwellings **(if the dwellings are not Sub-Standard Multiple Dwelling or Newly Constructed Multiple Dwelling)** in the City of Newark shall be exempted for a period of five (5) years from any restrictions in the rent that the landlord may charge provided that:

- a. The dwelling was vacant as of December 17, 1983; or
- b. The dwelling became vacant after December 17, 1983, and remained vacant for a minimum of eighteen (18) months; and

c. The prospective homeowner's rehabilitation costs during the twelve (12) month period after the sale have exceeded fifty (50%) percent of the cost or fair market value of the dwelling and the dwelling is in conformance with all local and State health and housing codes and regulations as prescribed by the Revised General Ordinances of the City of Newark 19:2-18.2.

(R.O. 1966 C.S. § 15:9B-17; Ord. 6 S+FU, 2-17-88)

19:2-18.6 Application Submission.

All applications for rent control exemption must be made through the Rent Control Board, City Hall, Newark, New Jersey.

(R.O. 1966 C.S. § 15:9B-17; Ord. 6 S+FU, 2-17-88)

19:2-19. VIOLATIONS.

a. Violation of any provisions of this Chapter or misrepresentation of facts before a hearing of the **Rent Control** Board, shall be punished, **upon conviction** by a fine of not more than five hundred (\$500.00) dollars or imprisonment for not more than ninety (90) days or both. A violation affecting more than one (1) housing space shall be considered a separate violation as to each housing space.

b. Alternatively, **upon conviction**, the Board Municipal Court may impose a monetary penalty not to exceed five hundred (\$500.00) dollars for a violation of any provision of this Chapter after a notice and an opportunity to be heard are provided to the parties before the Board.

(Ord. R.O. 1966 C.S. § 15:9B-18)

19:2-20. LIBERALLY CONSTRUED.

This Chapter being necessary for the welfare of the City and its' inhabitants, shall be liberally construed to effectuate the purposes thereof.

(R.O. 1966 C.S. § 15:9B-19)

19:2-21. EXTENSION.

All rent for the rental of housing space and services in dwellings to which this Chapter is applicable are hereby controlled at the rent level received by the landlord, as of the first date that this Chapter was adopted, on September 4, 1985, and no rental increases shall hereafter be instituted, except as provided in this Chapter as amended and supplemented. This Chapter shall continue in full force and effect from October 19, 1988.

(R.O. 1966 C.S. § 15:9B-20; Ord. 6 S+FM, 9-4-85 § 1; Ord. 6 S+FU, 12-1-88 § 1)

19:2-22. LIMITATION ON INCREASES.

a. Since an immediate rent increase of more than twenty-five (25%) percent above the prior monthly rent may be considered unconscionable and imposes a hardship on a tenant, the Board shall not grant increases exceeding twenty-five (25%) percent in any one (1) year for any tenant.

b. For the purpose of determining whether the rent increase exceeds twenty-five (25%) percent of the monthly rent, all increases pursuant to Section 19:2-3, Rent Increases, 19:2-7, ~~Capital Improvements~~ **Major New Improvements** and 19:2-8, Landlord Hardships, occurring within twelve (12) months prior to the effective date of the increase shall be added to determine if that amount exceeds twenty-five (25%) percent of the prior monthly rent.

(R.O. 1966 C.S. § 15:9B-21)

19:2-23. APPLICATION AND INSPECTION FEES.

The following fees shall be charged for rent control applications and inspections, which shall be payable by the applicant upon presentation of the application:

- a. ~~Capital Improvement~~ **Major New** Improvement applications
(19:2-7)..... \$25.00
- b. Hardship applications
(19:2-8)..... \$5.00 (Per
Apartment) Maximum..... \$1,000.00
- c. Late registration fee for any building not registered at least ninety
(90) days prior to any application for increase (fee to be waived, if building
was registered within ninety (90) days after landlord accepted title
to premises)..... \$100.00
- d. Inspections..... \$5.00 (Per Room)
Maximum..... \$100.00
- e. Rent rebate applications (19:2-4); prevailing party to be reimbursed for fee
by unsuccessful party..... \$15.00
- f. Rent decrease for decrease in services (19:2-12); prevailing party to be reimbursed for fee by
unsuccessful party.... \$15.00
- g. New construction, vacant properties, substantial rehabilitation, and substantially rehabilitated
vacant units (19:2-18) applications..... \$25.00
- h. Tax or utilities surcharge applications (19:2-5,
19:2-17)..... \$15.00
(R.O. 1966 C.S. § 15:9B-22)

19:24. LEASING OF PREMISES LOCATED IN EXEMPTED MULTIPLE DWELLINGS; EXEMPTION STATEMENT AND NOTICES

The owner of any multiple dwelling exempted from a rent control or rent leveling ordinance pursuant to this act, shall, prior to entering into any lease with a person(s) for tenancy of any premises located in the multiple dwelling, furnish the prospective tenant(s) with a written statement that the multiple dwelling in which the premises is located is exempt from rent control or rent leveling for such time as may remain in the exemption period. Each lease offered to a prospective tenant(s) for any dwelling unit therein during the period the multiple dwelling is so exempted shall contain a provision notifying the tenant(s) of the exemption.

19:24.1 Statement of Owner's Claim of Exemption; Filing; Contents; Notice of Termination

The owner of any multiple dwelling claiming an exemption from a rent control or rent leveling ordinance pursuant to this act shall file with the Municipal Construction Official, at least thirty (30) days prior to the issuance of a Certificate of Occupancy for the newly constructed multiple dwelling, a written statement of the owner's claim of exemption from

an ordinance under this act, including therein a statement of the date upon which the exemption period so claimed shall commence, such information as may be necessary to effectively locate and identify the multiple dwelling for which the exemption is claimed, and a statement of the number of rental dwelling units in the multiple dwelling for which the exemption is claimed. The owner shall, at least thirty (30) days prior to the date of the termination of the exemption period afforded pursuant to this act, file with the Municipal Construction Official a notice of the date of termination of the exemption period for the affected multiple dwelling.

SECTION 2. If any provision of this ordinance or application thereof to any person(s) or circumstance is judged invalid by a court of competent jurisdiction, the invalidity shall not affect other provisions or applications of the ordinance that can be given effect without the invalidated provision or application, and to this end the provisions of this ordinance are declared severable.

SECTION 3. The ordinance shall take effect upon final passage in accordance with the laws of the State of New Jersey.

STATEMENT:

This ordinance hereby amends and supplements Title 19, Chapter 2, Rent Control Regulations, and Rent Control Board to include provisions relating to Major New Improvements and other amendments to clarify intent in order to conform the ordinance with current State law.

APPENDIX B - AGGREGATE RENT CALCULATIONS

In order to estimate the number of rent-controlled units in Newark data from the American Community survey on the number of apartment units by building, vintage (year built) was used (see Table B.1). Under Newark's rent control ordinance, the following types of properties are exempt from rent control:

- An apartment that is occupied by a tenant that receives subsidized housing, and
- Owner-occupied one (1), two (2), three (3), and four (4) unit buildings.

According to data from the Department of Housing and Urban Development's (HUD) Picture of Subsidized Housing (POSH) dataset, there are 26,644 units in Newark that currently receive some form of rent subsidy. Data from the American Housing Survey, specific for Newark New Jersey were used to estimate the number of apartments in each vintage that receive subsidized rent. We used data from the American Community Survey on tenure by building size to estimate the number of buildings with four or less units that are owner-occupied. All told, we estimate that there are approximately 27,600 rent-controlled units in Newark New Jersey (see Table B.1).

TABLE B.1 – NUMBER OF RENT-CONTROLLED UNITS BY APARTMENT VINTAGE

Building Vintage	Total Number of Renter Occupied Units	Subsidized Units	Owner Occupied of 4 units or less	Total Rent Controlled Units
2000-2009	8,703	1,378	1,338	-
1990-1999	4,524	3,355	440	-
1980-1989	4,574	321	436	3,818
1970-1979	8,068	4,134	545	3,389
1960-1969	9,745	2,756	658	6,331
1950-1959	9,278	3,905	1,432	3,941
1940-1949	9,608	2,986	1,483	5,139
Before 1939	16,026	7,809	3,197	5,020
Total Units	70,526	26,644	9,529	
Rent Controlled Units²⁶	57,299	21,911	7,751	27,637

Sources: American Community Survey (2014), HUD POSH Dataset (2014), American Housing Survey (2009), ESI (2014)

Aggregate rent data by apartment vintage obtained from the American Community Survey was used to estimate the average rent of rent-controlled apartments. Using data from the American Housing Survey specific for Newark and the Department of Housing and Urban Development's (HUD) Picture of Subsidized Housing (POSH) dataset, the average subsidized rent that each

²⁶ Includes units with a building vintage in the following categories: 1980-1989; 1970-1979; 1960-1969; 1950-1959; 1940-1949; and 1939 and earlier.

subsidized apartment pays was estimated. This was used to calculate the portion of the aggregate rent received from subsidized apartments (Table B.2).

TABLE B.2– SUBSIDIZED UNITS AND RENTS BY APARTMENT VINTAGE

Building Vintage	Percent of Total Subsidized Units	Subsidized Units	Average Rent for Subsidized Units	Aggregate Rent from Subsidized Units
2000-2009	5%	1,378	\$1,261	\$1,738,000
1990-1999	13%	3,355	\$1,116	\$3,744,000
1980-1989	1%	321	\$1,030	\$330,100
1970-1979	16%	4,134	\$944	\$3,901,300
1960-1969	10%	2,756	\$845	\$2,329,100
1950-1959	15%	3,905	\$866	\$3,383,300
1940-1949	11%	2,986	\$806	\$2,407,400
Before 1939	29%	7,809	\$911	\$7,110,600
Total		26,644		\$24,943,800
Rent Controlled Units		21,911		\$19,461,900

Source: American Housing Survey (2009), HUD POSH Dataset (2014) and ESI (2014)

The estimated subsidized rents (Table B.2) and the rents generated by owner-occupied 2-4 unit buildings from were subtracted from the aggregate rents by apartment vintage from the American Community Survey to arrive at an estimate of the non-subsidized rent (Table B.3). This is the aggregate rent collected from rent-controlled apartments. All told, it is estimated that the aggregate rent generated by rent-controlled apartments in the City of Newark is equal to \$24.9 million per month or \$299 million per year (Table B.3).

TABLE B.3: PERCENTAGE AGGREGATE, SUBSIDIZED AND NON-SUBSIDIZED RENTS BY BUILDING VINTAGE

Building Vintage	Aggregate Rent	Subsidized Rent	Rents from Owner Occupied 2-4 Unit Buildings	Non-Subsidized Rent
Built 2000 to 2009	\$ 9,390,500	\$ 1,738,000	\$ -	\$ 7,652,500
Built 1990 to 1999	\$ 4,643,800	\$ 3,744,000	\$ -	\$ 899,800
Built 1980 to 1989	\$ 4,081,900	\$ 330,100	\$ 387,100	\$ 3,364,700
Built 1970 to 1979	\$ 6,670,800	\$ 3,901,300	\$ 474,300	\$ 2,295,200
Built 1960 to 1969	\$ 8,549,800	\$ 2,329,100	\$ 572,900	\$ 5,647,800
Built 1950 to 1959	\$ 8,402,400	\$ 3,383,300	\$ 1,351,800	\$ 3,667,200
Built 1940 to 1949	\$ 8,958,900	\$ 2,407,400	\$ 1,399,900	\$ 5,151,500
Built 1939 or earlier	\$ 14,965,300	\$ 7,110,600	\$ 3,065,900	\$ 4,788,700
Monthly Rent for Properties Subject to Rent Control²⁷	\$ 51,629,100	\$ 19,461,900	\$ 7,252,000	\$ 24,915,200
Annual Rent	\$ 619,549,200	\$ 233,542,600	\$ 87,024,100	\$ 298,982,500

Sources: American Community Survey (2014), HUD POSH Dataset (2014), American Housing Survey (2009), ESI (2014)

The average rent-controlled monthly rents by apartment vintage were then estimated. The average rent (weighted by the number of units in each vintage) was calculated to be \$902 per month (Table B.4).

TABLE B.4— SUBSIDIZED UNITS AND RENTS BY APARTMENT VINTAGE

Building Vintage	Number of Rent-Controlled Units	Aggregate Rent Controlled Rents	Average Rent-Controlled Rents
2000-2009	N/A	N/A	N/A
1990-1999	N/A	N/A	N/A
1980-1989	3,818	\$3,364,682	\$881
1970-1979	3,389	\$2,295,189	\$677
1960-1969	6,331	\$5,647,800	\$892
1950-1959	3,941	\$3,667,261	\$930
1940-1949	5,139	\$5,151,579	\$1,002
Before 1939	5,020	\$4,788,777	\$954
Average Monthly Rent			\$890
Weighted Average Monthly Rent²⁸			\$902

Sources: American Community Survey (2014), ESI (2014)

²⁷ Includes units with a building vintage in the following categories: 1980-1989; 1970-1979; 1960-1969; 1950-1959; 1940-1949; and 1939 and earlier.

²⁸ The weighted average monthly rent was calculated by weighting the average rent for each building vintage by the number of rent-controlled units in each vintage.

APPENDIX C - REGRESSION ANALYSIS

The regression model regressed average market rent against a vector of dummy variables that controlled for the year the unit was built, a dummy variable that indicated if the municipality had rent control, a vector of interaction terms between the building vintage dummy variables and the rent control dummy variable, the median income of each municipality, and a vector of dummy variables for the county that the municipality is located in.

Market rents differ with the age of the unit, with rents typically declining as the building ages. To control for differences in rents across building ages, average rents by building vintage from the American Community Survey for each municipality in New Jersey was used.

The results of the regression analysis (Table 2.1) and the estimated rent-controlled rent from Table B.3 were used to estimate the difference between the market rent and current rents from the regression model (Figure 2.1). All told, in the absence of rent control, rents would be \$3.4 million per month higher, or approximately \$41.0 million annually. This represents an increase of 13.7 percent (Table C.1). In other words, if there were no rent control in Newark, average rents in currently rent-controlled apartments would be 13.7 percent higher. On the other hand, the quality of the apartments would also be improved in the absence of rent control.

TABLE C.1: RENT REDUCTIONS DUE TO RENT CONTROL BY BUILDING VINTAGE

Building Vintage	Aggregate Rents Under Rent Control	Percentage Reduction in Rents Due to Rent Control	Aggregate Rents Assuming No Rent Control	Difference
Built 2000 to 2009	\$ 7,652,500	N/A	\$ 9,390,500	N/A
Built 1990 to 1999	\$ 899,800	N/A	\$ 4,643,800	N/A
Built 1980 to 1989	\$ 3,364,682	-13.9%	\$ 3,907,122	\$ 542,440
Built 1970 to 1979	\$ 2,295,189	-17.3%	\$ 2,776,836	\$ 481,647
Built 1960 to 1969	\$ 5,647,800	-15.1%	\$ 6,650,867	\$ 1,003,068
Built 1950 to 1959	\$ 3,667,261	-13.1%	\$ 4,218,115	\$ 550,854
Built 1940 to 1949	\$ 5,151,579	-6.9%	\$ 5,532,374	\$ 380,795
Built 1939 or earlier	\$ 4,788,777	-8.7%	\$ 5,247,806	\$ 459,029
Monthly Rent for Properties Subject to Rent Control²⁹	\$ 24,915,288		\$ 28,333,122	\$ 3,417,834
Annual Rent	\$ 298,983,452		\$ 339,997,462	\$ 41,014,010.16

Source: American Community Survey (20120, ESI (2014)

²⁹ Includes units with a building vintage in the following categories: 1980-1989; 1970-1979; 1960-1969; 1950-1959; 1940-1949; and 1939 and earlier.

APPENDIX D – INTERNAL RATE OF RETURN (IRR)

The Internal Rate of Return (IRR) can be thought of as the interest rate earned by money invested in the project. The return on a development project is compared to the return on other possible uses for the money. Because development is generally very risky, returns need to be higher than other, less risky investments. What constitutes an acceptable return for a development project depends on the return of alternative investments, the riskiness of the proposed development, and the skill, experience and risk tolerance of the developer. Returns in normal times in the range of 15 percent to 20 percent would not be considered unusual.

The table below shows returns for average annual yields for selected alternatives, arranged in the approximate order of their liquidity and risk, from high-liquidity/low-risk to low-liquidity/high-risk (Table D.1).

TABLE D.1: COMPARATIVE INVESTMENT RETURNS

Investment Type	Average Return	Cited	Source
Savings Account	1%	ING Direct	ING Direct
Treasury Bills	3%	10 Yr Yield 4/10/14	US Treasury
Stocks	9%	1962-2011 Geometric Average	Historic data, see for example Damodarn Online http://pages.stern.nyu.edu/~adamodar
Corporate Project	14%	Mean self-reported hurdle rate	Meier and Tarhan, "Corporate Investment Decision Practices And the Hurdle Rate Premium Puzzle" (2006)
Private Equity	11% - 17%	Selected Funds, 1980s-2000s	Harris et al, "Private Equity Performance: What Do We Know?" (2011)
Real Estate	14%	Average Expected Return, Northeast Region	Ciochetti et al, "A Structured Approach to Estimating Return and Volatility for Commercial Real Estate" (2003)

APPENDIX E – PRO-FORMA MODELS

To estimate the impact that the changes in the rent-control ordinance will have on apartment communities, pro-forma models were developed for each of the following scenarios:

- The newly passed rent control ordinance³⁰;
- The proposal put forth by NAOA, which is similar to the previous rent control ordinance, however owners have conceded that annual rent increases are capped at 3 percent for buildings containing 7 or more rental units;
- The previous rent control ordinance.

The pro-forma models are based on data obtained through a small survey of that was sent out to a number of Newark apartment communities specific for this report. The survey included data on the characteristics of the individual apartment communities and the revenue and expenses generated by each community. The data was used to model operating activity and capital investments of apartment communities.

The pro-forma models covered 20 years and are based on the following assumptions:

- In year 1, rents are \$984 per month;
- Rents increase at the following maximum rates per year: current version of the ordinance 2.0 percent,³¹ NAOA proposal 3.0 percent, and previous version of the ordinance 4.0 percent;
- The average apartment tenure is 3 years;
- The decontrol-related improvements occur once every 16 years under the current version of the ordinance and every 3 years under the NAOA proposal and the previous version of the ordinance;
- Maintenance spending is equal to 4.3 percent of annual rents in year 1 and increase at 2.0 percent per year;
- The decontrol-related investments were estimated using the following per unit values: current ordinance \$1,250; NAOA proposal \$1,900; and old ordinance \$1,900.
- Annual community-wide capital investment is equal to 0.5 percent of market value;
- Market values were estimated using the following capitalization rates³²: current ordinance: 9.0 percent, NAOA proposal 8.5 percent; old ordinance 8.5 percent. The higher capitalization under the current ordinance reflects the fact that the reduced property investments will likely result in lower quality apartment communities;

³⁰ Please see Appendix A for details of the current rent control ordinance.

³¹ Under the current rent control ordinance, apartment communities can increase rents by an amount equal to change in consumer price index (CPI). For the purposes of this analysis we use the Federal Reserve Bank's CPI target of 2.0 percent.

³² The cap rates utilize in the analysis represent a weighted average of the cap rates of apartment communities listed for sale in Newark, New Jersey on loop.net (<http://www.loopnet.com/xNet/MainSite/Listing/Search/SearchResults.aspx#/Newark,NJ/Multifamily/For-Sale/c!ARUAAAE>) as of September 22, 2014.

According to the newly passed rent control ordinance, if an apartment community meets the required investment threshold on a vacant unit, they are allowed to increase the base rent of the apartment by up to 20 percent. For the purposes of this analysis, the increase in rents triggered by an investment is equal to the difference between the market rent and the current rent for the apartment. For example, if in a given year, the rent for the apartment is 18 percent below market rents, we assume the rent will increase by 18 percent, but if rents are 22 percent below market rents, rents will only increase by 20 percent.

The market rents in year 1 are equal to \$1,060 per month³³ and increase by an average of 3.6 percent year.³⁴ The annual increase is equal to the compound average growth rate (CAGR) over the 2005-2013 period of rents for apartments built between 1990 and 2010 from the American Community Survey (Table E.1).

TABLE E.1: AVERAGE MARKET RENTS³⁵

Year	Average Market Rent
2013	\$1,023
2012	\$1,015
2011	\$1,075
2010	\$1,006
2009	\$1,027
2008	\$973
2007	\$892
2006	\$834
2005	\$769
CAGR 2005-2013	3.63%

Source: American Community Survey (2012), ESI (2014)

As was illustrated in Table 2.2, apartment communities will likely only make the required level of decontrol-related investment a maximum of once every 16 years. Assuming an average investment of \$20,000 per unit, this is equivalent to an average investment of \$1,250 per unit per year.³⁶ Under the previous version of rent control, the investment threshold was \$100 per room or \$400 for the average apartment. However, in reality, the historic average decontrol-related

³³ Average rent for apartments built between 1990-2013 from the American Community Survey for Newark, New Jersey.

³⁴ The constant average growth rate (CAGR) of the average rent for apartments built between 1990-2013 from the American Community Survey for Newark, New Jersey over the 2005-2013 period.

³⁵ Includes units with a building vintage in the following categories: 2000-2010 and 1990-1999.

³⁶ \$1,111 = \$20,000 / 18 years.

investment by apartment communities averaged \$1,900 per unit per year.³⁷ For purposes of this analysis, the decontrol-related investment average \$1,250 per-unit per-year under the recently passed ordinances and \$1,900 under the NAOA proposal and the previous version of the ordinance.

The pro-forma models are presented in Tables E.2 (current version of the ordinance), Table E.3 (NAOA proposal) and Table E.4 (previous version of the ordinance). The average NOI for each scenario is estimated at: 33.9 percent under the recently passed version of the ordinance, 37.5 percent under the NAOA proposal, and 37.1 percent under the previous version of the ordinance.

The pro-forma models were developed for an individual apartment. The aggregate values were arrived at by multiplying the results of the pro-forma models by the number of rent-controlled apartments (Table B.1). The results presented in the report represent the average impacts over the 20-year horizon.

³⁷ The average decontrol related investment spending by apartment communities was estimated based on capital spending by apartment communities in Newark, New Jersey.

TABLE E.2: CURRENT ORDINANCE PRO-FORMA

Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Vacancy Decontrol	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1	\$0	\$0	\$0	\$0
Annual Rent	\$11,701	\$11,935	\$12,174	\$12,417	\$12,666	\$12,919	\$13,177	\$13,441	\$13,710	\$13,984	\$14,263	\$14,549	\$14,840	\$15,136	\$15,439	\$15,748	\$18,898	\$19,276	\$19,661	\$20,054	\$20,455
Expenses																					
Administrative	\$249	\$254	\$259	\$264	\$269	\$274	\$280	\$286	\$291	\$297	\$303	\$309	\$315	\$322	\$328	\$335	\$341	\$348	\$355	\$362	\$369
Payroll	\$1,505	\$1,535	\$1,565	\$1,597	\$1,629	\$1,661	\$1,694	\$1,728	\$1,763	\$1,798	\$1,834	\$1,871	\$1,908	\$1,946	\$1,985	\$2,025	\$2,065	\$2,107	\$2,149	\$2,192	\$2,236
Maintenance	\$498	\$508	\$518	\$529	\$539	\$550	\$561	\$572	\$584	\$595	\$607	\$619	\$632	\$644	\$657	\$670	\$684	\$697	\$711	\$726	\$740
Security	\$578	\$590	\$602	\$614	\$626	\$638	\$651	\$664	\$677	\$691	\$705	\$719	\$733	\$748	\$763	\$778	\$794	\$810	\$826	\$842	\$859
Utilities	\$1,612	\$1,644	\$1,677	\$1,711	\$1,745	\$1,780	\$1,815	\$1,852	\$1,889	\$1,926	\$1,965	\$2,004	\$2,044	\$2,085	\$2,127	\$2,169	\$2,213	\$2,257	\$2,302	\$2,348	\$2,395
Marketing and Turnover Costs	\$311	\$317	\$324	\$330	\$337	\$344	\$350	\$357	\$365	\$372	\$379	\$387	\$395	\$402	\$411	\$419	\$427	\$436	\$444	\$453	\$462
Management fees	\$356	\$363	\$370	\$377	\$385	\$393	\$400	\$408	\$417	\$425	\$433	\$442	\$451	\$460	\$469	\$479	\$488	\$498	\$508	\$518	\$528
Insurance	\$383	\$391	\$399	\$407	\$415	\$423	\$432	\$440	\$449	\$458	\$467	\$476	\$486	\$496	\$506	\$516	\$526	\$537	\$547	\$558	\$569
Taxes--Real Estate	\$1,847	\$1,884	\$1,922	\$1,960	\$2,000	\$2,039	\$2,080	\$2,122	\$2,164	\$2,208	\$2,252	\$2,297	\$2,343	\$2,390	\$2,437	\$2,486	\$2,983	\$3,043	\$3,104	\$3,166	\$3,229
Decontrol Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$20,000	\$0	\$0	\$0	\$0
Total Annual Expenses	\$7,339	\$7,485	\$7,635	\$7,788	\$7,943	\$8,102	\$8,264	\$8,430	\$8,598	\$8,770	\$8,946	\$9,125	\$9,307	\$9,493	\$9,683	\$9,877	\$30,522	\$10,732	\$10,947	\$11,166	\$11,389
NOI	\$4,362	\$4,450	\$4,539	\$4,629	\$4,722	\$4,816	\$4,913	\$5,011	\$5,111	\$5,214	\$5,318	\$5,424	\$5,533	\$5,643	\$5,756	\$5,871	-\$11,624	\$8,543	\$8,714	\$8,888	\$9,066
NOI as % of Rent	37.3%	37.3%	37.3%	37.3%	37.3%	37.3%	37.3%	37.3%	37.3%	37.3%	37.3%	37.3%	37.3%	37.3%	37.3%	37.3%	-61.5%	44.3%	44.3%	44.3%	44.3%

TABLE E.3: NAOA PROPOSAL PRO-FORMA

Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Vacancy Decontrol	\$0	\$0	\$0	\$1	\$0	\$0	\$1	\$0	\$0	\$1	\$0	\$0	\$1	\$0	\$0	\$1	\$0	\$0	\$1	\$0	\$0
Annual Rent	\$11,701	\$12,052	\$12,414	\$14,161	\$14,586	\$15,023	\$15,761	\$16,234	\$16,721	\$17,542	\$18,068	\$18,610	\$19,524	\$20,110	\$20,714	\$21,731	\$22,383	\$23,054	\$24,186	\$24,912	\$25,659
Expenses																					
Administrative	\$249	\$254	\$259	\$264	\$269	\$274	\$280	\$286	\$291	\$297	\$303	\$309	\$315	\$322	\$328	\$335	\$341	\$348	\$355	\$362	\$369
Payroll	\$1,505	\$1,535	\$1,565	\$1,597	\$1,629	\$1,661	\$1,694	\$1,728	\$1,763	\$1,798	\$1,834	\$1,871	\$1,908	\$1,946	\$1,985	\$2,025	\$2,065	\$2,107	\$2,149	\$2,192	\$2,236
Maintenance	\$498	\$508	\$518	\$529	\$539	\$550	\$561	\$572	\$584	\$595	\$607	\$619	\$632	\$644	\$657	\$670	\$684	\$697	\$711	\$726	\$740
Security	\$578	\$590	\$602	\$614	\$626	\$638	\$651	\$664	\$677	\$691	\$705	\$719	\$733	\$748	\$763	\$778	\$794	\$810	\$826	\$842	\$859
Utilities	\$1,612	\$1,644	\$1,677	\$1,711	\$1,745	\$1,780	\$1,815	\$1,852	\$1,889	\$1,926	\$1,965	\$2,004	\$2,044	\$2,085	\$2,127	\$2,169	\$2,213	\$2,257	\$2,302	\$2,348	\$2,395
Marketing and Turnover Costs	\$311	\$317	\$324	\$330	\$337	\$344	\$350	\$357	\$365	\$372	\$379	\$387	\$395	\$402	\$411	\$419	\$427	\$436	\$444	\$453	\$462
Management fees	\$356	\$363	\$370	\$377	\$385	\$393	\$400	\$408	\$417	\$425	\$433	\$442	\$451	\$460	\$469	\$479	\$488	\$498	\$508	\$518	\$528
Insurance	\$383	\$391	\$399	\$407	\$415	\$423	\$432	\$440	\$449	\$458	\$467	\$476	\$486	\$496	\$506	\$516	\$526	\$537	\$547	\$558	\$569
Taxes--Real Estate	\$1,847	\$1,903	\$1,960	\$2,236	\$2,303	\$2,372	\$2,488	\$2,563	\$2,640	\$2,769	\$2,852	\$2,938	\$3,082	\$3,175	\$3,270	\$3,431	\$3,534	\$3,640	\$3,818	\$3,933	\$4,051
Decontrol Expenses	\$0	\$0	\$0	\$5,710	\$0	\$0	\$5,710	\$0	\$0	\$5,710	\$0	\$0	\$5,710	\$0	\$0	\$5,710	\$0	\$0	\$5,710	\$0	\$0
Total Annual Expenses	\$7,339	\$7,504	\$7,673	\$13,773	\$8,247	\$8,435	\$14,383	\$8,871	\$9,074	\$15,042	\$9,546	\$9,766	\$15,757	\$10,278	\$10,516	\$16,532	\$11,072	\$11,329	\$17,372	\$11,933	\$12,211
NOI	\$4,362	\$4,548	\$4,741	\$388	\$6,339	\$6,589	\$1,378	\$7,363	\$7,647	\$2,500	\$8,522	\$8,845	\$3,767	\$9,832	\$10,198	\$5,199	\$11,311	\$11,725	\$6,815	\$12,979	\$13,449
NOI as % of Rent	37.3%	37.7%	38.2%	2.7%	43.5%	43.9%	8.7%	45.4%	45.7%	14.3%	47.2%	47.5%	19.3%	48.9%	49.2%	23.9%	50.5%	50.9%	28.2%	52.1%	52.4%

TABLE E.4: PREVIOUS VERSION OF THE ORDINANCE PRO-FORMA

Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Vacancy Decontrol	\$0	\$0	\$0	\$1	\$0	\$0	\$1	\$0	\$0	\$1	\$0	\$0	\$1	\$0	\$0	\$1	\$0	\$0	\$1	\$0	\$0
Annual Rent	\$11,701	\$12,169	\$12,656	\$14,161	\$14,675	\$15,209	\$15,761	\$16,334	\$16,927	\$17,542	\$18,180	\$18,840	\$19,524	\$20,234	\$20,969	\$21,731	\$22,520	\$23,338	\$24,186	\$25,065	\$25,976
Expenses																					
Administrative	\$249	\$259	\$264	\$269	\$274	\$280	\$285	\$291	\$297	\$303	\$309	\$315	\$321	\$328	\$334	\$341	\$348	\$355	\$362	\$369	\$377
Payroll	\$1,505	\$1,565	\$1,596	\$1,628	\$1,661	\$1,694	\$1,728	\$1,762	\$1,797	\$1,833	\$1,870	\$1,907	\$1,946	\$1,984	\$2,024	\$2,065	\$2,106	\$2,148	\$2,191	\$2,235	\$2,280
Maintenance	\$498	\$518	\$528	\$539	\$550	\$561	\$572	\$583	\$595	\$607	\$619	\$631	\$644	\$657	\$670	\$684	\$697	\$711	\$725	\$740	\$755
Security	\$578	\$601	\$613	\$626	\$638	\$651	\$664	\$677	\$691	\$705	\$719	\$733	\$748	\$763	\$778	\$793	\$809	\$826	\$842	\$859	\$876
Utilities	\$1,612	\$1,676	\$1,710	\$1,744	\$1,779	\$1,815	\$1,851	\$1,888	\$1,926	\$1,964	\$2,003	\$2,044	\$2,084	\$2,126	\$2,169	\$2,212	\$2,256	\$2,301	\$2,347	\$2,394	\$2,442
Marketing and Turnover Costs	\$311	\$324	\$330	\$337	\$343	\$350	\$357	\$364	\$372	\$379	\$387	\$394	\$402	\$410	\$419	\$427	\$435	\$444	\$453	\$462	\$471
Management fees	\$356	\$370	\$377	\$385	\$392	\$400	\$408	\$416	\$425	\$433	\$442	\$451	\$460	\$469	\$478	\$488	\$498	\$508	\$518	\$528	\$539
Insurance	\$383	\$399	\$406	\$415	\$423	\$431	\$440	\$449	\$458	\$467	\$476	\$486	\$496	\$505	\$516	\$526	\$536	\$547	\$558	\$569	\$581
Taxes--Real Estate	\$1,847	\$1,921	\$1,998	\$2,236	\$2,317	\$2,401	\$2,488	\$2,579	\$2,672	\$2,769	\$2,870	\$2,974	\$3,082	\$3,194	\$3,310	\$3,431	\$3,555	\$3,684	\$3,818	\$3,957	\$4,101
Decontrol Expenses	\$0	\$0	\$0	\$5,710	\$0	\$0	\$5,710	\$0	\$0	\$5,710	\$0	\$0	\$5,710	\$0	\$0	\$5,710	\$0	\$0	\$5,710	\$0	\$0
Total Annual Expenses	\$7,339	\$7,632	\$7,823	\$13,888	\$8,377	\$8,583	\$14,504	\$9,010	\$9,232	\$15,171	\$9,695	\$9,936	\$15,894	\$10,437	\$10,698	\$16,677	\$11,241	\$11,524	\$17,525	\$12,114	\$12,421
NOI	\$4,362	\$4,537	\$4,833	\$273	\$6,298	\$6,626	\$1,257	\$7,324	\$7,695	\$2,371	\$8,484	\$8,904	\$3,631	\$9,797	\$10,271	\$5,054	\$11,279	\$11,814	\$6,661	\$12,951	\$13,555
NOI as % of Rent	37.3%	37.3%	38.2%	1.9%	42.9%	43.6%	8.0%	44.8%	45.5%	13.5%	46.7%	47.3%	18.6%	48.4%	49.0%	23.3%	50.1%	50.6%	27.5%	51.7%	52.2%

APPENDIX F – ECONOMIC AND FISCAL IMPACT MODEL METHODOLOGY

HISTORY

The modern input-output system can be attributed to Wassily Leontief. In his thesis, “The Economy as a Circular Flow” (1928), he outlined the economy as an integrated system of linear equations relating inputs and outputs. This framework soon gained popularity, and became a widely accepted analytical tool. In 1936, Leontief produced the first input-output analysis of the US. Leontief’s work became the US Department of Commerce’s Bureau of Economic Analysis’s (BEA) standard benchmark for US production in the 1950’s. Leontief received a Nobel Prize for his work in 1973.

In 1976 the USDA Forest Service became required to submit five-year management plans to the federal government concerning the socio-economic effects of resource use. Through extensive surveying, the impacts of each industry could be determined at local levels. This directly resulted in the creation of IMPLAN software for measuring economic impacts. By the late 1980’s the University of Minnesota began to offer the software to a wider audience. Seeing the need to update economic databases and improve the existing software, the Minnesota IMPLAN Group (MIG) was formed in 1993. Using a similar methodology to the USDA Forest Service, MIG was able to provide quality input-output modeling software to a wider range of users with frequent database updates.

APPLICATION

The use and application of multipliers are fairly basic and intuitive. Multipliers, in their most basic form, are the result of an algebraic analysis expressing how two inputs are interconnected in the production of an output. The result of the equation generates a multiplier that is broken down into direct, indirect, and induced effects. In a generalized example: if the multiplier for good “X” to good “Y” is 3, then the direct of good “X” on “Y” is 1, with indirect and induced effects of 2. Essentially, every unit of good “X” supports 2 units of good “Y”.

When implemented on a large, complex scale, such as that of the US economy or any subsection of it, multiplier effects across industries can be complicated. However, the same general concept comes into play. Each industry has largely different and varied inputs into other industries. The quantity of the output is largely decided by the scale and efficiency of the industries involved. As a result, the sum of those inputs equates to an output product plus a value added/component. By arranging these inputs and outputs by industry in a matrix, and performing some algebra to find the Leontief inverse matrix, each industry’s effect on final demand can be estimated. Additionally, the direct, indirect, and induced effects can also be determined. Direct effects include direct purchases for production, indirect effects include expenses during production, and induced effects concern the expenditures of employees directly involved with production. Using building construction as an example, the direct effects would include materials, brick, steel, and mortar, the indirect effects would involve the steel fabrication, concrete mixing, and the induced effects

would consider the construction workers purchases from their wages. While impacts vary in size, each industry has rippling effects throughout the economy. By using an input-output model, these effects can be more accurately quantified and explained.

IMPLAN is one of several popular choices for regional input-output modeling. Each system has its own nuances in establishing proper location coefficients. IMPLAN uses a location quotient to determine its regional purchase coefficient (RPC). This represents the proportion of demand for a good that is filled locally; this assessment helps determine the multiplier for the localized region. Additionally, IMPLAN also accounts for inter-institutional transfers (e.g. firms to households, households to the government, etc.) through its social account matrix (SAM) multipliers. IMPLAN takes the multipliers and divides them into 440 industry categories in accordance to the North American Industrial Classification System (NAICS) codes. A comprehensive breakdown of a region's multipliers by industry can be shown.

Despite the usefulness of input-output modeling, there are some shortcomings to the system. Notably, input-output models ignore economies of scale. Input-output models assume that costs and inputs remain proportionate through different levels of production. Further, multipliers are not generally updated on a timely basis; most multipliers are prone to be outdated with the current economy. If the multipliers are sourced from a year of a recession economy, the multipliers may not accurately represent the flows from an economic boom period. Additionally, the multipliers may not capture sudden legal or technological changes, which may improve or decrease efficiency in the production process. Regardless, I-O models still serve as the standard in the estimation of local and regional impacts.

ECONOMIC IMPACT MODEL METHODOLOGY

The methodology and input-output model used in this economic impact analysis are considered standard for estimating such expenditure impacts, and the results are typically recognized as reasonable and plausible effects, based on the assumptions (including data) used to generate the impacts. In general, one can say that any economic activity can be described in terms of the total output generated from every dollar of direct output. If an industry in a given region sells \$1 million of its goods, there is a direct infusion of \$1 million into the region. These are referred to as direct output.

However, the economic impact on the region does not stop with that initial direct expenditure. Regional suppliers to that industry have also been called upon to increase their production to meet the needs of the industry to produce the \$1 million in goods sold. Further, suppliers of these same suppliers must also increase production to meet their increased needs as well. These are referred to as indirect output. In addition, these direct and indirect outputs require workers, and these workers must be paid for their labor. These wages and salaries will, in turn, be spent in part on goods and services produced locally, engendering another round of impacts. These are referred to as induced expenditures.

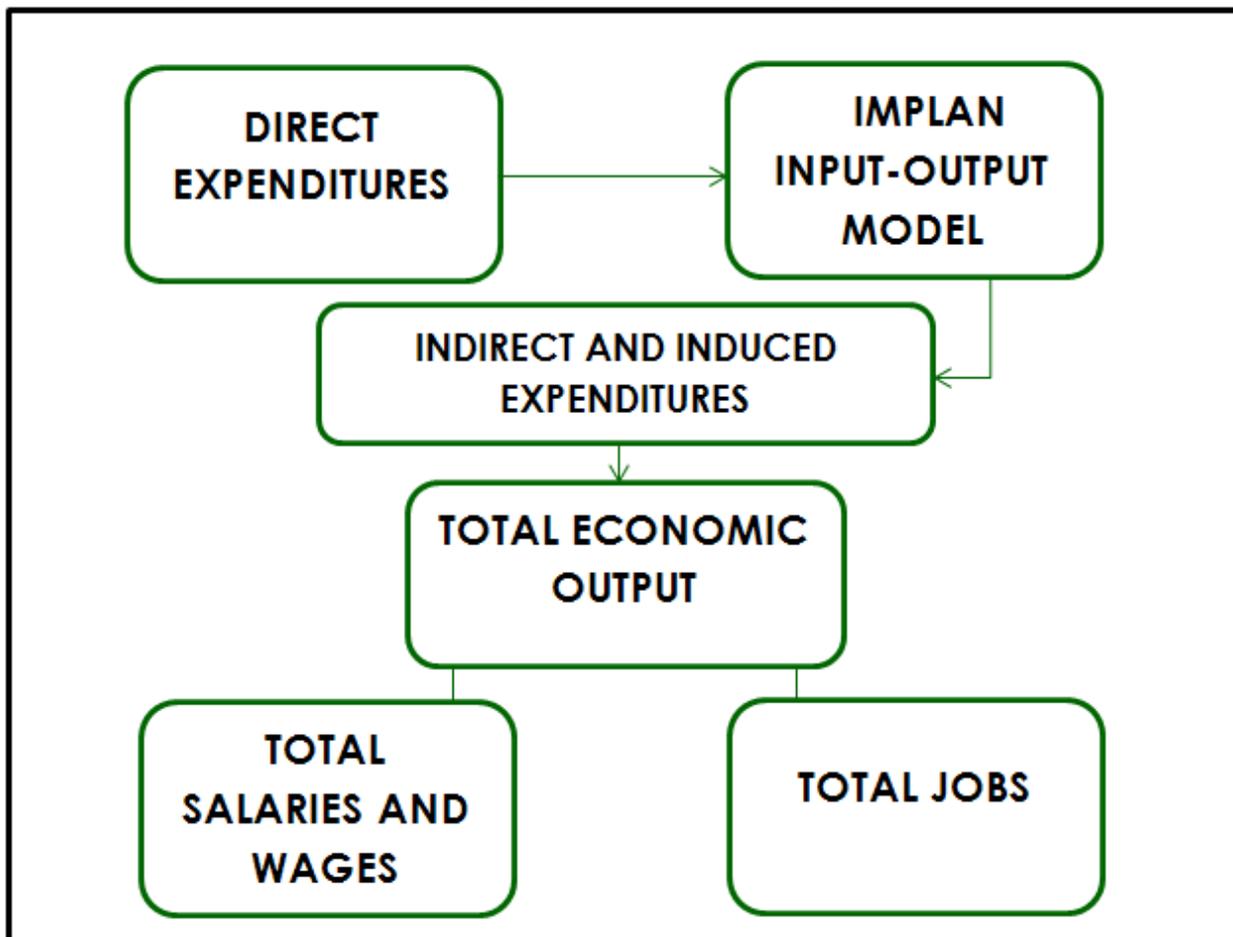
Direct output is fed into a model constructed by Econsult Solutions and based on IMPLAN data. The model then produces a calculation of the total expenditure effect on the regional economy. This total effect includes the initial direct expenditure effect, as well as the ripple effects described, the indirect and induced expenditure effects.



Part of the total expenditure effect is actually the increase in total wages and salaries (usually referred to as labor income), which the model can separate from the expenditure estimates. Direct payroll estimates are fed into the “household” industry of the input-output model. Impacts of this industry are estimated using the personal consumption expenditure breakdown of the national input-output table and are adjusted to account for regional consumption spending and leakages from personal taxes and savings. The direct, indirect, and induced labor income represents a component of the total economic impact attributable to wages and salaries. Finally, the model calculates the total expenditures affecting the various industries and translates this estimate into an estimate of the total labor (or jobs) required to produce this output.

In short, the input-output model estimates the total economic activity in a region that can be attributed to the direct demand for the goods or services of various industries. This type of approach is used to estimate the total economic activity attributable to the expenditures associated with various types of spending in the region (see Figure A.1 and Table A.1).

FIGURE F.1 – FLOWCHART OF INPUT-OUTPUT METHODOLOGY FOR ESTIMATING ECONOMIC IMPACT



Source: Econsult Solutions, Inc. (2014)

TABLE F.1 – GLOSSARY OF TERMS FOR INPUT-OUTPUT MODELS

Multiplier Effect – the notion that initial outlays have a ripple effect on a local economy, to the extent that direct output lead to indirect and induced output.

Economic Impacts – total expenditures, employment, and labor income generated.

Fiscal Impacts – local and/or state tax revenues generated.

Direct Output – initial outlays usually associated with the project or activity being modeled; examples: one-time upfront construction and related expenditures associated with a new or renovated facility, annual expenditures associated with ongoing facility maintenance and/or operating activity.

Direct Employment – the full time equivalent jobs associated with the direct output.

Direct Labor income – the salaries and wages earned by employees, contractors, and proprietors as part of the direct output.

Indirect Output – indirect and induced outlays resulting from the direct output; examples: vendors increasing production to meet new demand associated with the direct output, workers spending direct labor income on various purchases within the local economy.

Indirect Employment – the full time equivalent jobs associated with the indirect output.

Indirect Labor income – the salaries and wages earned by employees, contractors, and proprietors as part of the indirect output.

Total Output – the sum total of direct output and indirect output.

Total Employment – the sum total of direct employment and indirect employment.

Total Labor income – the sum total of direct labor income and indirect labor income.

Source: Econsult Solutions (2013)

FISCAL IMPACT MODEL METHODOLOGY

The IMPLAN model provides estimates of the economic impact of a new project or program on the regional economy. It does provide only a rough estimate of the combined fiscal impact of the increased economic activity on state and local governments. Consequently, Econsult has constructed a model that takes the output from the IMPLAN model and generates detailed estimates of the increases in state and local tax collections that arise from the new project. Those revenues are in fact a part of the total economic impact of a new project that is often ignored in conventional economic impact analyses.

The IMPLAN model provides estimates of direct, indirect, and induced expenditures, labor income, and employment within the defined region. The Econsult fiscal impact model combines the IMPLAN output with the relevant tax types and tax bases associated with the jurisdiction or jurisdictions for which fiscal impact is being modeled. Specifically, the estimated labor income supported by the direct, indirect, and induced expenditures generated by the model are used to apportion the net increase in the relevant tax bases and therefore in those tax revenue



categories. The resulting estimates represent the projected tax revenue gains to the jurisdiction or jurisdictions as a result of the increased business activity and its attendant indirect and induced effects.

SOURCES

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