PERMANENT RENT STABILIZATION AND PROTECTION ACT OF 2024
County Council of Prince George's County, Maryland
Bill 055-2024

FAIR RETURN POLICY

Section I — Introduction

The following are the policies adopted by the Department of Permitting, Inspections and Enforcement (DPIE) to implement Regulation 13.146.00 — Fair Return of the Permanent Rent Stabilization and Protection Act of 2024 ("PRSA").

The PRSA was enacted by County Council Bill 055-2024 and is incorporated in Sections 13-138, 13-144, 13-145, 13-146, and 13-147 of the Prince George's County Code. Regulations for the PRSA are effective as of February 1, 2026.

Section II — Overview

This policy outlines the process an Owner/Landlord must follow to apply to DPIE to request to increase the rent for unit(s) regulated under PRSA in an amount that exceeds the annual rent increase allowance prescribed in PRSA to obtain a Fair Return on the regulated unit(s).

If DPIE approves a request for Fair Return, the Owner/Landlord may increase the rent charged to a tenant of a regulated unit by an amount greater than normally allowed by PRSA (the "Fair Return Rent Increase").

Fair Return is defined as follows:

> **Fair Return**" means a return on investment: (1) sufficient to offset operating expenses; and (2) commensurate with returns on investments in other enterprises having comparable risks, which is deemed commensurate if an investment's actual annual return (defined as Net Operating Income divided by Cost Basis) is at least the sum of the actual average 10-year United States Treasury Rate for the annual return period, plus 3% [Section 13.146.00(B)].

DPIE will review rent increase applications for a Fair Return as described below. Applications will not be accepted or reviewed by DPIE prior to February 1, 2026.

Tenant Rights

Upon request of a tenant with an active lease for a regulated unit, the Owner/Landlord must make available the Application for Fair Return and approval issued by DPIE which authorizes a Fair Return Rent Increase.

Section III — Applying for a Fair Return Rent Increase

DPIE published the Fair Return Workbook and Application (the "Application") which is available at the following website: Permanent Rent Stabilization and Protection Act (PRSA). The Application provides Owners/Landlords with the formal method for supplying the information necessary and applying to DPIE for approval of a Fair Return Rent Increase. The Application requires a certification and attestation from the Owner/Landlord that the information submitted is accurate and supported by back-up documentation that is available for review upon request.

Applications must be submitted to DPIE and include the following:

1. A completed and certified Fair Return Workbook and Application submitted as a signed PDF and in the original Excel format.
2. Documentation that supports the calculation of Cost Basis (see Section IV, Step Two)
3. Documentation that details the rents charged for regulated units (see Section IV, Step Four)
4. Documentation that details the Operating Expenses used for regulated units (See Section IV, Step Four)
5. Submission of the required Application Fee to DPIE per Section VI below.

The Owner/Landlord must maintain back-up documentation supporting the Fair Return calculation provided in the Application and save the documentation for a period of at least seven (7) years from the date of the Application. This information must be made available upon request by DPIE and must be provided to DPIE within 15 days.

A property that includes both regulated units and unregulated units must maintain accurate records to support the Fair Return Rent Increase requested for regulated units.

Subsequent Applications for a Fair Return Rent Increase for a regulated unit(s) will be considered no more than once every 24 months if the prior Application was approved, and no more than once every 12 months if the prior Application was denied.

The Fair Return Rent Increase approved by DPIE may only be charged to regulated units upon lease renewal or execution of a new lease. The Fair Return Rent Increase may not take effect until after the application for a Fair Return is approved in writing by DPIE.

At the time of approval of an Application, the building(s) and all units therein must not be in violation of Subtitles 4 or 13 of the Prince George's County Code.

Section IV — Calculation of Fair Return Rent Increase

Fair Return and the allowable Fair Return Rent Increase will be calculated in accordance with the formulas and information included in the Application. Amounts used in the calculation of Fair Return are for regulated units only. In the event that a property includes both regulated units and non-regulated units, the amounts provided by the Owner/Landlord in the Application must be adjusted to reflect only the pro-rata amounts associated with the regulated units.

The calculated Fair Return Rent Increase (if approved by DPIE) represents the maximum one-time amount that may be added to the rent charged for a regulated unit(s) in addition to the Annual Rent Increase Allowance prescribed by Regulation 13.144.00.

The Application must use the following Five Step process to determine the allowable Fair Return Rent Increase for regulated units.

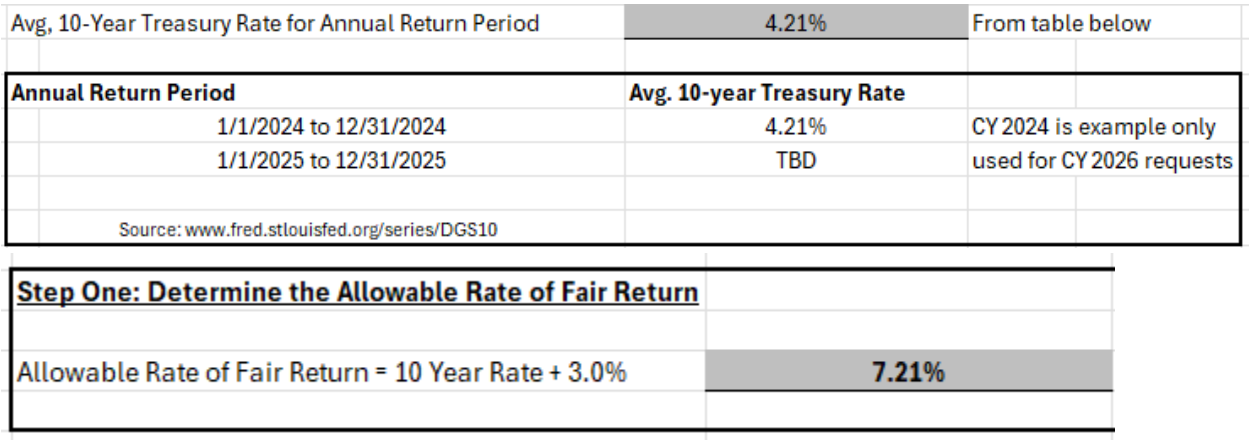
Step One – Determine the Allowable Rate of Fair Return

The Allowable Rate of Fair Return is determined by adding 3.0% to the Average 10-Year U.S. Treasury Rate for the applicable Annual Return Period. The Annual Return Period is

the calendar year period (January 1 to December 31) which precedes the year in which the Application is submitted.

DPIE will update the Application annually in early January to provide the previous calendar year's Average 10-Year U.S. Treasury Rate using data published by the U.S. Federal Reserve at fred.stlouisfed.org/series/DGS10. Using the previous calendar year data (included in a separate worksheet), the Application automatically calculates the Average 10-Year Treasury Rate for the Annual Return Period.

The screenshot below is from the Application and illustrates the calculation of the Allowable Rate of Fair Return for the Annual Return Period.



Avg, 10-Year Treasury Rate for Annual Return Period	4.21%	From table below

Annual Return Period	Avg. 10-year Treasury Rate	
1/1/2024 to 12/31/2024	4.21%	CY 2024 is example only
1/1/2025 to 12/31/2025	TBD	used for CY 2026 requests
Source: www.fred.stlouisfed.org/series/DGS10		

Step One: Determine the Allowable Rate of Fair Return	
Allowable Rate of Fair Return = 10 Year Rate + 3.0%	**7.21%**

Step Two: Calculate Cost Basis

The Owner/Landlord provides the following amounts since the time of property purchase to determine the Cost Basis:

a. Original Purchase Price;
b. Debt Assumed at Purchase (if any);
c. Closing Costs at the time of purchase;
d. Capital Improvements Since Purchase (so long as not already used to justify a Capital Improvement Surcharge under PRSA); and
e. Depreciation claimed for Tax Purposes since Purchase.

To determine the Cost Basis, the amounts in (a), (b), (c), and (d) will be added together, and then reduced by the amount in (e). Supporting documentation (as detailed above in Section III) must be submitted with the Application to DPIE.

The screenshot below is from the Application and illustrates a hypothetical/sample calculation of Cost Basis.

Step Two: Calculate Cost Basis		
a) Original Purchase Price	$	12,500,000.00
b) Debt Assumed at Purchase (if any)	$	-
c) Closing Costs	$	150,000.00
d) Capital Improvements Since Purchase	$	-
e) Less: Depreciation Claimed (enter as positive #)	$	1,000,000.00
Cost Basis	**$**	**11,650,000.00**

Step Three: Determine Maximum Allowable Net Operating Income

The Cost Basis (determined in Step Two) is divided by the Allowable Rate of Fair Return (determined in Step One) to calculate the Maximum Allowable Net Operating Income that will be used in determining any Fair Return Rent Increase permitted to achieve the Fair Return. The Application automatically calculates the Maximum Allowable Net Operating Income.

The screenshot below is from the Application and illustrates a hypothetical/sample calculation of Maximum Allowable Net Operating Income.

Step Three: Determine Maximum Allowable Net Operating Income (Allowable NOI)		
a) Cost Basis	$	11,650,000.00
b) Allowable Rate of Fair Return		7.21%
Max. Allowable Net Operating Income	**$**	**839,965.00**

Step Four: Determine Actual Net Operating Income

The Owner/Landlord provides actual property-level income and operating expenses to determine the Actual Net Operating Income for the Annual Return Period (the prior calendar year of January 1 through December 31). As noted below, the use of an alternative time frame for the Annual Return Period must be approved by DPIE as a Special Exception.

Net Operating Income (NOI) is the gross revenue a property produces minus operating expenses, not including any debt service, depreciation or amortization.

Gross revenue shall include Gross Potential Rental Income based on rents as of December 31 of the Annual Return Period for 100% of regulated units. The Application will reduce the Gross Potential Rental Income by 10% to provide for an imputed vacancy and delinquency loss. A vacancy and delinquency loss of greater than 10% will not be used for the purposes of calculating a Fair Return Rent Increase.

Other income or consideration received in connection with the use or occupancy of the regulated units for the Annual Return Period will be added to Gross Potential Rent.

Operating Expenses shall include costs of operation and maintenance of the regulated unit(s) for the Annual Return Period , including:

a) Management expenses;
b) Administrative expenses;
c) Utility Costs that are not paid by residents
d) Normal Maintenance and Repair expenses;
e) Real Property Taxes
f) Insurance
g) License, Registration and other Public Fees, unless such fees are a result of violations under Chapter 4 or 13 of the Prince George's County Code;
h) Legal expenses;
i) Other Reasonable Operating Expenses.

Operating expenses shall <u>not</u> include depreciation, amortization, mortgage principal or interest payments or other debt service costs and costs associated with obtaining financing.

Additionally, Capital Improvements are not an allowable operating expense since these expenditures are included in calculation of the Cost Basis (see Step 2).

Supporting documentation (as detailed above in Section III) must be submitted with the Application to DPIE.

The screenshot below is from the Application and illustrates a hypothetical/sample calculation of Actual Net Operating Income.

Step Four: Determine Actual Net Operating Income (Actual NOI)		
a) Gross Potential Rental Income (as of December 31)	$	1,750,000.00
b) Other Income (for Annual Return Period)	$	50,000.00
c) Economic Vacancy Allowance (10%)	$	(180,000.00)
c) Effective Gross Income	$	1,620,000.00
d) Less: Operating Expenses (for Annual Return Period)	$	800,000.00
Actual Net Operating Income	**$**	**820,000.00**

Step Five: Calculate Allowable Fair Return Rent Increase

If the Actual Net Operating Income (determined in Step 4) is less than the Maximum Allowable Net Operating Income (determined in Step 3), a Fair Return Rent Increase may be requested. The Application automatically calculates the Allowable Fair Return Rent Increase.

The screenshot below is from the Application and illustrates a hypothetical/sample calculation of Allowable Fair Return Rent Increase.

Step Five: Calculate Allowable Fair Return Rent Increase		
a) Maximum Allowable NOI	$	839,965.00
b) Actual NOI	$	820,000.00
c) Eligible for Fair Return Rent Increase? (Yes/No)		Yes
Allowable Fair Return Rent Increase		**1.14%**

Special Exception for Alternative Annual Return Period

An Owner/Landlord may request that DPIE approve the use of an Annual Return Period instead of the January 1 to December 31 time period. A request for a Special Exception must be submitted and approved by DPIE prior to the submission of an Application.

Section V — DPIE Review of Applications for a Fair Return

The submission of the Application does not constitute approval of a Fair Return Rent Increase. Only upon receiving written approval from DPIE of the Application may the Fair Return Rent Increase be applied to the rent charged for a regulated unit.

In reviewing the Application, DPIE maintains the ability to challenge, accept or reject the documentation provided by the Owner/Landlord.

DPIE will only accept and review complete Applications. If the Application is determined to be incomplete, DPIE will notify the Owner/Landlord and explain the reason(s) for the determination. The application will be returned to the Owner/Landlord. The Owner/Landlord must submit a new application for review.

DPIE will endeavor to review and make a determination whether an Application is approved or disapproved within 60 days. However, during times of a high volume of requests, current staffing of the PRSA and funding limitations, this timeline may be extended at DPIE's discretion.

As noted above, DPIE retains the right to request additional information to support an Application. DPIE's review of additional information will not be subject to the 60-day review period referenced above.

As a general matter, if additional information is not provided within 30 days of DPIE's request, then the Application will be rejected.

If DPIE does not approve an Application, the Owner/Landlord may not reapply for a Fair Return Rent Increase for a period of 12 months from the date of disapproval.

Section VI — DPIE Fees for Review of an Application for Fair Return

Application Fee — DPIE will charge an initial fee to review an Application for a Fair Return Rental Increase. This fee must be submitted at the time of the submission of the Application. The Fair Return Application Fee is detailed at:

https://momentumhome.princegeorgescountymd.gov/fee-schedule/

Approval Fee — If a Fair Return Rental Increase is approved, DPIE will charge an additional fee before the approved rental increase may take effect. The Fair Return Approval Fee is detailed at:

https://momentumhome.princegeorgescountymd.gov/fee-schedule/

Section VII — Updates to Policy

This policy (including the associated Excel Workbook) may be updated by DPIE as necessary for the effective administration of PRSA. Substantive policy updates will be issued for public comment for a period of at least 15 days. Unless otherwise specified, any changes to the policy will be applicable only for new and renewed leases occurring after the issuance date of the updated policy.

EFFECTIVE DATE

The effective date of this Policy and Procedures shall be February 1, 2026.