MARYLAND BUILDING INDUSTRY ASSOCIATION
11825 West Market Place | Fulton, MD 20759 | 301-776-6242

November 20, 2023

Re: OPPOSITION TO Bill 43-23

Dear Counsel Chair Rigby and Members of the Howard County Council:

The Howard County Chapter of the Maryland Building Industry Association (MBIA) writes in opposition to Council Bill 43-23 which authorizes the county to assign the right of first purchase to third parties. MBIA represents over 100,000 individuals and companies across the state and our members are directly affected by this measure.

MBIA recognizes the importance of addressing the need for affordable housing, However, this bill will increase the costs of housing by adding to the holding period for the developer while first purchasers decide whether or not to pass on the deal. If someone wants to deploy capital to purchase a building and are not approved by the county this bill gatekeeps legitimate businesses out of purchasing by increasing their time horizon and closing costs. This increases the costs of sale for all buildings that are not purchased by the participants min this program.

This bill also fails to take into account the structure of some forms of property sales in which only part of a building is included in the sale. If a condominium sells 30% of its properties, for example, it is not clear from the bill text whether or not these properties would be sold directly or if the first purchasers will have the opportunity to buy. The bill also fails to take into account the buyer pulling their offer within the 180 day period. If the seller loses the deal they will not be compensated for additional expense and time. These costs will be passed on to renters and purchasers further exacerbating price increases. The program also deters non participants from making offers since the property owner will no longer be able to accept during the 180 day waiting period. This will deter sellers when the point of the program is for building sales to generate more affordable housing units in the county.

For these reasons, MBIA respectfully requests the Council vote against CB 43-2023. Thank you for your attention to this vital issue and your continued support of the local home building industry. If you have any questions about these comments and would like to discuss MBIA's position further, please do not hesitate to contact our government affairs team at aandelsman@marylandbuilders.org.

Best regards,

Alex Andelsman, Director of Legislative and Regulatory Affairs

Cc: Counsel Chair Christiana Rigby
Vice-Chair Deb Jung
County Executive Calvin Ball
Councilmember Opel Jones
Councilman David Yungmann
Councilmember Liz Walsh

Respass, Charity

From:	Council Web Inquiry <councilmail@howardcountymd.gov>
Sent:	Friday, November 17, 2023 6:54 PM
To:	CouncilMail
Subject:	CB43-2023 & CB44-2023
Follow Up Flag:	Follow up
Flag Status:	Flagged

[Note: This email originated from outside of the organization. Please only click on links or attachments if you know the sender.]

Name	Jim Greenfield
Email	jgreenfield@columbiabuildersinc.com
Number	443-324-4732
Address	6420 Autumn Sky Way Columbia, Maryland. 21044
Subject	CB43-2023 & CB44-2023
Message	As a landlord in Howard County since 1980 and at times owning over 150 rental properties (50 detached SF homes & 100 townhomes) I would like to present some scenarios that the above two bills present to our group. Historically, our landlord philosophy has been to seldom raise rents and thus minimize re-rent costs. Long ago we figured out that keeping tenants that took care of our property made economic sense. We will not bore you with our proformas on that issue. We have slowly sold off much of our rental portfolio but the remaining tenants have leasing dates that average myriad years. Below, we will describe how each bill impacts landlords similar to our group. CB43-2023: We see this bill as placing the County in a position of the right of first purchase. This appears on its face as a cloud on title but we will let the lawyers handle that aspect. For our group this has huge impact on resale value as the sales process could be drastically slowed. As an example, without CB43-2023, if we decide to sell one of our rental properties, we would rehab it to the extent necessary then offer it to the market place. Even in slow times, our properties sell fast. Potential buyers (we always have 3 to 4 real ones) come in and we strike a deal, the contract is signed and settlement is set up. We have never gone more than 30 days on the market before a contract is signed. We believe this proposed legislation infringes on our property rights. Not sure everyone has thought this through. Hopefully our example sheds some light on how we, as landlords in Howard County view this. Sure am open to you changing our minds with facts that would do so. CB44-2023: Parts of this bill really doesn't work for us. We do not mind rent controls if there are caveats to raise rents above the typical rent controls. An example would be when propriety taxes go up, that increase should be able to be passed on outside the calculated rent control increase limitation. I guess the same would go for utilities. Rent increases are usually due to market conditions but also for the deterioration of the physical asset. Our per house turnover costs run about 20K to 25K per home. We have to set up a sinking fund for this future expense. Rent increases help us do that. Taking that ability aware seriously changes things. Not done yet. To quote from above:" Historically, our landlord philosophy has been to seldom raise rents and thus minimize re-rent costs." This results in tenants staying a reasonably long time as our tenants. We have a townhouse group of 5 homes and the length of tenure is tabulated below. Why is this important? Look at the actual rents vs. market rents. BillCB44-2023 as we understand it has the caveat of limiting rent increases for a new tenant based upon the prior tenants' rental amount. As an extreme example, our tenant at 10362 College Square has been a tenant for 19 years. His rent is $2,060 with market rents being at least 3000/mos. We will spend over 40K to rehab that home before re-renting. If we are limited to a rent increase based off this tenant's rent, this home will be sold and there goes

more of Howard County's rental stock. If you care to look at the other tenant examples, the table allows you to do so. Lucky for us, we had two tenants buy homes so we had two new tenants at market rents Again help us understand how these examples make that aspect of this bill fair and just? Unit Start Date End Date Years Monthly Rent Market Rent Variance (-) = Below Market 10362 College Square 06/16/2005 06/30/2024 19 $2,060.00 3,000.00 (940) 10368 College Square 07/15/2018 07/31/2024 6 $2,159.00 3,000.00 (841) 10366 College Square 05/01/2022 05/31/2024 2 $2,600.00 3,000.00 (400) 10364 College Square 06/01/2023 05/31/2024 1 $3,200.00 3,000.00 200 10372 College Square 07/01/2023 06/30/2024 1 $3,000.00 3,000.00 0 Thank you for your time. You seldom hear from our group as we are low profile. Can't be that way on these two proposed bills. Jim Greenfield Columbia Builders Inc. PO Box 999 Columbia, MD 21044 443-324-4732 (Cell) jgreenfield@columbiabuildersinc.com

Bruce A. Harvey
Written Testimony 11/20/2023
Howard County Council
Bill CB43-2023 – Housing Commission Assignment Right

My name is Bruce Harvey, and I am President of Williamsburg Homes. I live on Elmwood Road in Fulton, MD. I am writing as opposed to Council Bill CB43 allowing the Housing Commission to assign its Purchase Rights for multi family housing to other entities.

The right of the Housing Commission to match purchase offers for multi-family properties is in its infancy. To add other non-profit entities currently is premature. The Right to Purchase that was previously passed already builds complexity into an owner trying to sell their property. A potential acquirer must now factor in extra time and expense to allow for the Right to Purchase to be reviewed by the County. Now additional entities will be brought into the process, making it even more likely that the private bidder will have to write off their due diligence costs. This will have the impact of fewer offers from private entities as well as lower values.

I strongly encourage you to vote no on CB43-2023.

Respass, Charity

From: Steve Breeden <sbreeden@sdcgroup.com>
Sent: Monday, December 4, 2023 5:33 PM
To: CouncilMail
Subject: [BULK] Howard County Rent Cap and Right of First Refusal Bill comments

Follow Up Flag: Follow up
Flag Status: Flagged

All,
Rather than spend time testifying tonight, I am sending this summary of my feeling on Rent Caps.

Also, here is a link to more information, if you really want to better understand what you are doing with this subject. I do this every day. You guys don't. It is complicated, so I am hopeful you will be educated, and not just hear the hype or play politics.

Thanks
Steve

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https://www.bloomberg.com/news/articles/2023-11-20/does-building-new-housing-cause-gentrificatio

From: Steve Breeden
Sent: Wednesday, November 8, 2023 10:45:13 AM
To: Delorenzo, Carl <cdelorenzo@howardcountymd.gov>; Facchine, Felix <FEFacchine@HowardCountyMD.gov>
Subject: FW: It's All About Supply

Carl and Felix,

This is not that complicated. See below.

But first, my reflection on what is being asked of landlords. And why would anyone want to try to build more apartments in this county with this kind of support from the county? The main reason I can think of is our 9 generations of family living in this county and trying to do what's right for the county long term, way after the misguided folks passing this flawed legislation are out of office. They won't care either, as they will have moved on.

Among other issues, your bill does not reflect how apartments are actually renovated by many landlords like us. We don't typically go out an borrow millions of dollars to renovate units. Rather, we do them a few at a time when tenants move out and we can renovate the vacant units. Why would anyone (other than the county and other entities that don't have to pay attention to economics-we use our OWN money) want to throw out tenants and have extra vacancy to renovate? So, we do them a few units at a time, and increase the rent on those units to try to get a return on the nicer units. So, do we need to crawl to the county every month to ask for a rent increase for those units?

Also, you say this does not apply to project less than 20 years old. A good start, but again, in practice it does not work. I know you don't do this for a living, but I do. Let's assume that we went out and borrowed $50,000,000 to do a 200 unit project 10 years ago, (a typical project) at $300,000 per units. If we borrowed that money (we will assume that the rest of the cash to cover the remaining cost comes from out of our pockets (yes, in this case probably $10-12,000,000 as the banks require cash equity in the deal).
If we borrowed that $50M at a rate of 3.25% interest, for 30 years our payment would be $217,603 per month (don't take my word for it, download Karls Mortgage app on your phone and follow along). Typically apartment owners fix the rate upon stabilization for 10 years. Now, let's supposed that loan is coming due now. And let's assume todays rate would be 6.25%. The $50M loan balance has been paid down to about $39M (some financing costs will be incurred and maybe we would like to take some money out for rehab, or try to get some of the $10-12M cash back, but we will skip that for this analysis). So now we need to refinance $39M. Since we already have been paying for 20 of the 30 year loan term, we would

like to get this paid in 20 years. SO, $39M at 6.25% for 20 years gives us a new payment of $285,062. That does not let us reduce rents.

Or, if we had to ignore the 10 years of payments we already have made and do ANOTHER 30 year loan, the same amount borrowed would give is a payment of $240,129 per month.

And we have not even started on the increasing expenses, including the REAL ESTATE TAXES that are a big part of our cost, or the fact that the MIHUS are reducing the revenue by at least $1000 per month for each of those units (200 units x 10% x $1000 x 12 = $240,000 per year), and increasing turnover costs (paint and carpet, general upkeep, new appliances, management costs etc. which have skyrocketed like everything else during inflationary times). Let's also not forget that we were not ALLOWED to increase rent during COVID. (That doesn't get mention in the rent GOUGING bill spin for some reason).

If the owner can't cover the mortgage expense, they have to cut costs, which is how SLUMS are created, and why this legislation does not work. If you think it can't happen in wonderful Howard County, you might want to think again. Dundalk was THRIVING in the 50's with Beth Steel. Look at it today. The same thing can happen right here.

So, in light of all this, and with the administration (yes, for whatever reason the plan approval process has come to a crawl-which YOU could control if you wanted) and council doing everything in its power to stop the construction of new apartment supply, we are the ones who are GOUGING. I take particularly offense to this. I am happy to show how this actually works, with numbers, as you guys just don't get it. Why have you chosen our industry to try to solve the high costs we all have to endure to live in such an expensive county and state.

And, now that you know how the numbers actually work, you realize that this bill may force private owners to sell their project if they can't make the numbers work in this higher rate environment. You are even making that almost impossible by opening up the ability to tie up a project for up to 6 months to any Tom, Dick or Harry who claims to have the tenant's best interest in mind. Real buyers won't do the work required to make offers, or wait around for 6 months to see if they can buy a project. They will simply look elsewhere where rent cap and right of first refusal don't exist. Unfriendly to business Howard County will be off their radar.

I know you think you are doing the right thing for the renters in this county, and certainly politically to entice the few renters who actually vote, but it has been proven over the last 50 years that rent caps DO NOT WORK.

Thanks for reading. Happy to meet with you. See below also.

Steve

08 Nov | **Read Online**

Together with

Good morning. Renters in certain US cities are experiencing rent relief due to increased apartment construction. Converting office buildings into apartments is becoming increasingly challenging due to financing and stagnant rental markets. Meanwhile, companies should secure logistics space quickly before rents rise due to construction decline.
Today's issue is sponsored by RYSE—the automated smart shade tech company revolutionizing smart buildings.

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MARKET SNAPSHOT

S&P 500 GSPC	**4,378.38** Pct Chg: 0.3%	**FTSE NAREIT** FNER	**658.54** Pct Chg: -1.4% ;

10Y Treasury TNX 4.569% Pct Chg: -2.0%	**SOFR** 1-month 5.32% Pct Chg: 0.0%

*Data as of 11/07/2023 market close.

A TALE OF TWO MARKETS

Apartment Surge Cools Rents in Major Cities, Yet Outside the Sun Belt Supply Remains Muted

Photographer: Bing Guan/Bloomberg

Renters in some of the fast-growing US cities are enjoying some relief as the supply of new apartments increases, leading to a decline in rental prices.

It's all about supply: The apartment narrative in 2023 is really about supply. Despite high demand for apartments, it has not been sufficient to match the rapid pace of construction, which is at its highest level in over 50+ years. This increase in supply, initially triggered by the steep rental growth and minimal vacancies of the previous two years, has led to a tale of two markets. More specifically, those saturated and those scarce. Rental rates are moderating quickest in areas where apartment construction is expanding rapidly.

Where supply is going: Of 21 markets with rent growth over 4%, nearly all had construction rates below the U.S. average, while the 10 markets with declining rents had high construction activity. For instance, Boise City experienced a 6.2% rent reduction alongside a 5.3% rise in apartment supply, with approximately 1,600 new units. Major cities such as Austin, Phoenix, and Atlanta each added over 16,000 units, leading to rent reductions in those areas.

Where supply isn't going: In regions outside the Sun Belt, the apartment market is quite different due to restricted growth in new apartments, pushing rents upward. For example, Rochester, NY, with just 233 new units, saw a rent surge of 5%. Springfield, MA's rents increased by 9% amid no increase in housing supply. Contrastingly, Midland-Odessa, TX, tied to the fluctuating energy sector, faced a substantial 14% hike in rent prices.

On the plus side: Wages are rising faster than rents, a positive trend continuing for 11 months straight and expected to extend into the next year. This reversal of the previous trend, where rent increases outstripped wage growth, could expand rental affordability and demand. It may also enable renters with middle to higher incomes to upgrade to newer, more expensive apartments, which in turn frees up older, more affordable units for others.

➥ THE TAKEAWAY

Big picture: Apartment rent growth is at a standstill, with only a slight 0.1% uptick and a notable 0.56% month-to-month drop as of October 2023, the most since the financial crisis. This trend is set to continue with a steady supply of apartments until early 2025. However, a predicted construction slowdown could tighten supply, potentially nudging up occupancy and rent growth, albeit not to the extremes of the recent inflationary spike of 2021 and early 2022. All eyes are on the first half of 2024, which will be pivotal for the rental market.

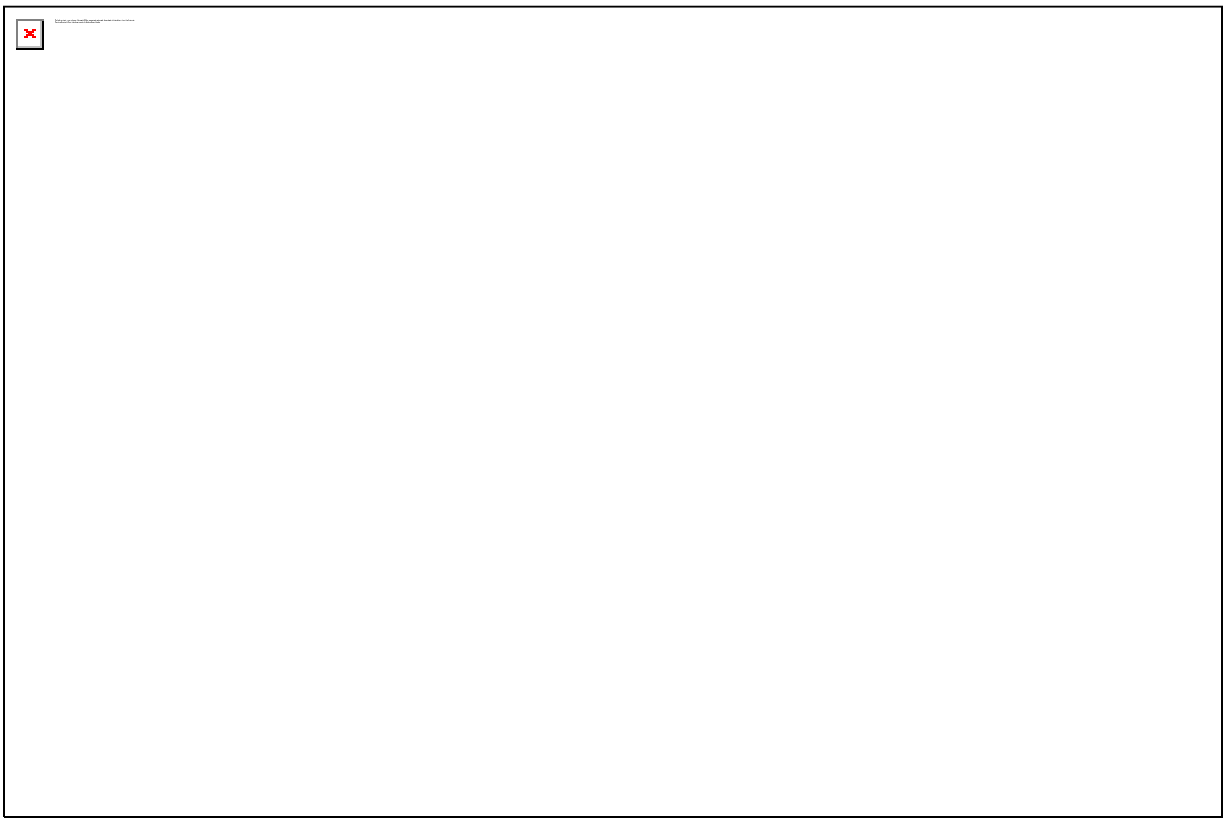
TRENDING

- **Cut in half**: Commercial and multifamily mortgage loan originations in the US fell by 49% in 3Q23 compared to the previous year.
- **The Art of Growing Wealth**: Former President Donald Trump's wealth rose $500M to $3.1B after his presidency ended, per the latest Bloomberg Billionaires Index rankings.
- **Discount deluge**: Assets from Signature Bank's loan sale could sell at 15–40% below their original face value, potentially lowering CRE values.
- **High-stakes plunge**: Austrian entrepreneur Rene Benko is losing control of Signa Holding, owner of the Chrysler Building, amidst the current real estate crisis.
- **Freddie Mac probe**: Meridian Capital Group is suspended from working on Freddie Mac (FMCC) deals, impacting their large CRE mortgage brokerage business.
- **Pickleball paradise**: PURE Pickleball plans to co-develop a world-class facility in Scottsdale, AZ, creating the largest pickleball facility in the state and one of the largest in the world.

- **Pointing north**: Compass (COMP) is well-positioned with a luxury focus, cutting-edge technology, and modern agent training, but faces legal actions challenging broker commissions.
- **Teaming up**: A Related Group JV will acquire a waterfront co-op in North Bay Village, with plans to build luxury units on the 3-acre site. The purchase price is $47.7M.
- **On the bright side**: Hudson Pacific Properties (HPP) expects to lose $100M this year due to entertainment labor strikes, but predicts a significant upswing in activity when the strikes end.
- **Moving the needle**: The highest-priced apartment property in LA County, Chatsworth, just sold during a slow period for CRE deals to IMT Residential.
- **Ransomware rampage**: Major US mortgage lender Mr. Cooper suffered a cyberattack on Oct. 31, leading to the temporary shutdown of key systems, including mortgage payments.

CONVERSION CHALLENGE

Turning Empty Offices Into Apartments Is Getting Even Harder



'It's like building a ship inside of a bottle,' says a developer whose company is converting Minnesota office buildings into apartments. (WSJ)

Cities aiming to transform vacant office spaces into apartments face tough financial headwinds, stagnant rental demand, and other conversion challenges.
Easier said than done: Last year, only 3,575 apartment units were created through office conversions, less than 1% of all new apartments built. However, there's hope for increased conversions this year as office vacancies

continue to rise and government support is provided. The process is difficult, with slowing rent growth making conversions less attractive to investors even as construction loans get pricier.

Costly conversions: The financial landscape for developers looking to convert office spaces to residential apartments has become increasingly hostile. Rising construction loan costs and high-interest rates make funding harder to secure and more expensive to repay. Even with approved plans, the prolonged permitting process and hefty renovation demands, including demolition and environmental compliance, add to the cost and risk, leading to project delays.

Case in point: Examples like One Camelback in Phoenix and a Dallas office tower conversion attempt illustrate the precarious nature of these endeavors, with some facing the threat of foreclosure due to financial difficulties. These cases highlight that, while potentially profitable under certain conditions, office-to-apartment conversions are not a guaranteed solution to housing shortages.

➥ THE TAKEAWAY

Zoom out: Converting offices to apartments reveals a nuanced challenge in urban redevelopment: not all space is equally adaptable. Experts suggest repurposing other types of real estate, like strip retail spaces, may offer more practical and impactful results in addressing housing needs. Converting 10% of existing strip retail in the US would yield over 700K housing units, reports Enterprise Community Partners.

QUICK HITS

📖 READ: Prospective residents of multifamily evaluate properties before even seeing their units and expect expert management, innovative spaces and services, and a strong sense of community.

🎧 LISTEN: CRE investors expose how they're creatively financing and stress-testing deals to profit in today's market in this Best Ever CRE Roundtable session.

💼 TALENT: We are sourcing candidates for an Apartment Manager position based in the Wilmington, Delaware metro area (in-person). Early career is fine, but some multifamily property management experience is preferred.

SECURE YOUR SPACE

Prologis Forecasts Shrinking Industrial Spaces and Rising Rents in Upcoming Year

Prologis reports that most U.S. markets are experiencing a squeeze in logistics real estate, forecasting substantial hikes in lease renewals in the near term.

Demand dynamics: Despite a rise in the national vacancy rate to 4.8% in Q3 2023 due to new spaces entering the market, this figure remains lower than the historical average of 6.1%. Prologis attributes this tight market to consistent consumer demand and the steady flow of goods, which keeps the need for warehouse space robust. The situation is set to tighten further, signaling tough times ahead for tenants facing lease renewals amid climbing rents.

Rental rate trends: The past four years have seen a dramatic 85% increase in rental rates, and while the growth rate is stabilizing, it's still substantial. Prologis anticipates around 7% growth in rent for 2023, with certain markets potentially seeing increases of 10% or more. Yet, some areas, like Southern California and Houston, have seen stabilization or even a decrease in rental rates.

Leasing slowdown: The leasing landscape has become cautious due to higher interest rates affecting customers' capital expenditure and inventory decisions, leading to slower leasing activities. This cautious approach resulted in a decrease in net absorption of logistics space, even though the market's demand remains historically high. Prologis' Industrial Business Indicator points to a significant annual demand for logistics space, despite the slowdown.

➥ THE TAKEAWAY

Act now: Prologis cautions that the current bump in logistics space availability is temporary and urges clients to secure spaces quickly. With speculative construction slowing down, an upcoming shortage and rental rate spikes are anticipated. Despite the addition of new space in Q3 2023, tighter conditions are expected by the end of the year, with a slight uptick in vacancies providing only brief relief before the market contracts again in 2024.

CHART OF THE DAY

The DC area has seen a **sharp drop** in new apartment construction. Construction starts in Q3 were at their slowest since 2010, with only 891 units starting compared to 2,712 units last year. Only one project totaling 112 units began construction.

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