OREGON LOCUS

Responsible Real Estate Developers and Investors

an affiliate of Smart Growth America's national developer coalition

Executive Director
Mike Kingsella
mkingsella@locusdevelopers.org

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Senate Committee on Human Services
900 Court St.
Salem, OR 97301

Re: Oppose HB 2004A—bill will hurt new construction

Dear Chair Gelser, Vice Chair Olsen, and Members of the Committee:

As the Oregon affiliate of Smart Growth America's coalition of responsible developers and investors, Oregon LOCUS supports policies that encourage walkable, smart growth development that is economically, environmentally and socially sustainable. In any discussion of housing policies, it's critical that new housing production not be discouraged or made more expensive. While supply is not the only consideration for housing costs, it is central to long term affordability.

That is why new construction is *consistently and adequately* exempt in existing rent regulation law, whether at the local level in cities such as New York and Washington, DC or in state statutes, such as California and New Jersey.

New housing projects have several consistent parameters for getting developed: the initial private investor financing/construction, lease-up and operating performance *and* the first sale, as most development is not held long-term. Investors and equity partners must agree to finance the project with acceptable rates of return that are driven by expenses and expected rent income; projects must then be leased up and show several years of stable income against operating expenses and then—just as important in the initial go/no-go decision—potential buyers must be able to finance the purchase of the new housing project. Most of the financing for long-term multifamily buyers comes from major institutional investors, most prominently, teacher and public employee retirement funds.

The typical period for the development, first sale and buyer's initial hold period is fifteen years total, so the minimum exemption in HB 2004A should be fifteen years.

Any rent regulation applied to new housing will diminish available financing for long-term buyers due to the increased inherent risk, which appraisers and lenders address by increasing a project's capitalization rate. That will negatively impact the ability for developers to find buyers, which in turn affects the developer's ability to access initial equity and investor financing, thus reducing new housing development overall. A clear exemption for new construction covering the length of that *entire* develop/first sale cycle—fifteen years—does not have that negative impact.

Oregon LOCUS opposes HB 2004A due to the inadequate exemption for new construction, which will reduce needed housing production at all levels of affordability.

Sincerely,

Mike Kingsella
Executive Director