Submitter: Kevin Geraci

On Behalf Of:

Committee: Senate Committee On Housing and Development

Measure: SB611

SB 611 Rent Control - Oregon Bill Update

I have worked in the rental housing industry, namely for banks, financing MF properties for 32 years.

Rent control isn't working in Portland (or really any City in America). If the state wants to achieve the goal of 36,000 new housing units per year, we cannot pass this bill. More rent control, particularly on new construction and renovated properties will disincentivize new development and renovation of existing units which will lead to our housing stock in the State to degrade to the point of not being unlivable; and every year, more housing, particularly housing under market rents will vanish from neighborhoods.

SB 611 will drive small and large rental owners out of the market and hamstring much needed multifamily developments and prevent sub-par properties from being renovated and upgraded, as with this level of rental increases the owners will never recoup their investments. As well the current multi-family housing stock in Portland is old, much of it in need of renovation--rent control necessary will degrade the quality of the MF assets--just look at SFO and LA.

Rent prices are set by several factors. debt on the property, utility costs, insurance, cost of maintenance and capex invested, payroll, and local tax burdens--the latter being particularly important in Multnomah County. All of these costs are only increasing. On new construction and renovated properties (properties vacated to complete a full exterior/interior renovation) need a min. of a 7 yr. waiver where they can raise rents to recapture their investments. Thereafter, rental increases should be tied to the regional CPI index, similar to what we have now with a min. of 5% increase allowed regardless of the CPI and the max at whatever the CPI is that past year.

Further, buildings that are marginally livable now where the owners are selling, need to have more liberal guidelines, if you spend $25,000/door on need infra-structure and unit upgrades and the rent is $1,200/month that is just $432/ increases for the 1st year, $445/ 2nd year, etc. The investment will never be recaptured within the life of the improvements--even considering appreciation of 5%/yr.--therefore all the existing rental properties in Portland and the State will literally be 'junk' in 10-15 years as no one will spend the money to improve the properties--you think you have a housing shortage now!

Example of a 12 unit apartment building with $1,500/month rent (inc. any utility sur-charges)
$216,000 potential gross rent
$10,800 year for lost rent/vacancy (5%)
Net Income is $205,200
40% of the gross goes to taxes, maintenance, payroll, management, utilities and other expenses($82,080) (on avg.)
Net remainder is $123,120
Assuming the owner put 35% down ($875,000) to purchase the property at say $2,500,000 (a great deal if he could find it) his mortgage payment on a loan of $1,625,000 is $95,928/yr. at 4.50%
You're talking very little profit here at the end of the day per year $27,000 +/- 3% cash on cash...and that is before taxes, tenant improvements, capex, replacement roofs, siding, appliances, , etc....so the 3% cap on rental increases will not pencil for any new buyers. Period. And will cause current owners not to spend any money on their buildings, so to say apartment owners are 'raking in the cash and over charging tenants' and there needs to be a limit...go buy a building yourself and tell me how you feel after the first year! This change in the law is nonsense and so far from reality. If the property is owned free and clear or has a smaller mortgage, the rent increases might work, but the avg. leverage on MF properties in the State is likely 55-65% and this new law will assure the number of MF living units in this State will decrease and deteriorate to the point of being unlivable which will push more people out of the State and certainly the City and literally create neighborhood slums.