Submitter: Kevin Geraci

On Behalf Of: Portland

Committee: Senate Committee On Housing and Development

Measure: SB611

Part II
I ran out of space in Part I of my testimony.  The final point I wanted to make is that with rising cap rates and rising interest rates; the value of MF properties is going to decline dramatically.  Therefore, properties financed at banks even at 65-70% LTV 1-3 years ago, will not appraise at a value to cover their current loan amounts.  And therefore, many of these properties as they come up for refinance over the next 1-3 years (most MF housing is financed on 5 yr. fixed rates), the owners will need to put cash-into the transaction just to finance the properties at a rate and term refinance, which will further exacerbate the housing situation in the State. And those owners who cannot come up with the cash to refinance the buildings, will have no alternative but to sell the property; new owners will likely vacate the properties, renovate and then take all the rents to a much higher market rent.  Much higher than prior existing rents would have been if the landlords were not hamstrung with this very restrictive SB 611 ordinance and could capture some of the additional investment they put into their properties.  So you will be inflating the rent on existing housing, not restricting the rent...this bill will have unintended consequences that I believe the lawmakers are not envisioning as their level of sophistication in the nuances of commercial real estate is perhaps insufficient to recognize.  It is hoped that lawmakers will listen closely to the testimony you are going to hear from real estate professionals and leave the Bill as it is.  Bottomline is that landlords raise rent not just to make additional profits on their investments, but to operate their properties in a way to make a reasonable profit and make them profitable enough to get bank financing when indeed they need to get that.  And there is competition as well, the rent can only be raised to a point where a competitor's property is a better value. However, restricting rental increases at this low level-particularly after owners have invested large sums of capex in order that the properties can be properly maintained (which much of the affordable housing in the State desperately needs) with no ability to recapture this investment, will lead to property deterioration or the properties will be sold to an investor who will vacate the property, make needed improvements and then raise the rent significantly higher than it was before. Therefore this Bill will raise rental rates higher than if you were to leave the present Bill as-is.