SOUTHERN MANAGEMENT COMPANIES

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Federal Housing Finance Agency
Office of Multifamily Analytics and Policy
400 7th Street, SW, 9th Floor
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Dear Sir or Madam:

Southern Management Companies (SMC) is a privately-owned property management firm with a significant residential portfolio in Maryland and Virginia. Founded in 1965, we currently operate more than 25,000 residential units, employ over 1,200 people, generate more than $87 million in salaries and benefits, and provide $46 million in state and local tax revenue for the jurisdictions in which we operate. On behalf of our President and CEO, Suzanne Hillman, and the entire SMC team, I am pleased to respond to this agency's May 30 *Request for Input* on potential tenant protections for multifamily properties backed by Fannie Mae and Freddie Mac.

As one of the largest providers of workforce housing within our region, SMC respects this agency's concerns about the rising costs of living in communities across the country, as well as its willingness to solicit and receive public input on proposed solutions. SMC is different than REITs and hedge funds that buy and sell properties without regard to the surrounding community and residents. We are long-term operators, having managed and maintained the apartment communities we originally acquired since inception. We are stakeholders committed to our properties and the surrounding communities. We believe in providing safe, clean places for people to call home. We know that the best way to maintain our apartment homes is to become part of the fabric of the communities where we operate.

Recognizing the toll that housing insecurity inflicts upon communities like ours, SMC goes to extraordinary lengths to help our residents balance their housing costs with other living expenses. At the outset of the COVID-19 pandemic, SMC was one of the first housing providers to voluntarily pause rent increases. We also continued our robust credit counseling services to work with those residents impacted by the current inflationary environment. We offer payment plans, debt forgiveness plans and other programs (including job fairs, safety events and access to mental health services) intended to help our residents remain in their communities.

That being said, we must express our respectful but vehement opposition to a pair of failed policies that lead to disinvestment in multifamily housing, degradation of existing properties and the gentrification of middle-class and working-class communities. **The first is rent control**, which has been attempted by county and municipal governments across the United States and consequently cited by *Forbes Magazine* as one of the top 10 failed economic policies of the 20th century.

<u>The first unintended but inevitable outcome of rent control is housing disinvestment</u>. Even in the best economic conditions, the rental housing sector operates on very low margins. As a property manager known for prioritizing building maintenance, residential safety, and generous employee benefits, SMC only receives pennies on every dollar of gross revenue we earn. We of course have to make our mortgage payments, pay our substantial tax obligations and insurance costs, pay our workforce, pay for rising utilities, taxes and all related costs of operating a viable business.

We are only able to uphold these principles of responsible building management, while covering our mandatory operating costs, by having the flexibility to respond to changing economic and market conditions. If a potential housing provider is restricted from generating sufficient revenues to manage their properties, pay their employees and contractors, and satisfy their investors, they simply will not invest within that community.

Such was the case after St. Paul, Minnesota passed, via ballot initiative, a sweeping rent control ordinance that was initially hailed by advocates as a national model. According to data produced by the city, there were only 200 residential building permits in that city through April 2022, compared to 1,391 at that same point in April 2021. As housing supply has dried up while housing demand continues to soar – an obvious prescription for housing inflation - the St. Paul City Council has virtually gutted the ordinance to avoid further aggravating its housing crisis.

Similarly, a 2018 study concluded that San Francisco's rent regulations caused a decrease in housing supply that led to soaring rents on the city's then-available housing stock.[1] Landlords removed rental units from the market and converted them to condos, tenants in common, or redeveloped them to avoid the impact of rent stabilization.[2] A 2012 study on the fiscal impact of rent regulation in Cambridge, Massachusetts, found that rent-regulated properties were valued at a discounted rate when compared with non-rent-stabilized properties and that the repeal of rent stabilization caused an almost immediate market correction of the significant decrease in values. The repeal of rent regulation resulted in an average 12% increase in valuation.[3] Valuation of real property is the single-most driving factor in obtaining favorable financing and attracting investors. Valuation is much more meaningful to lenders and investors than rental income in and of itself.

[1] Pastor, Carter, Abood, *Rent Matters: What are the impacts of Rent Stabilization Measures* (Oct. 2018 – USC Dornsife Program for Environmental and Regional Equity) (the "Dornsife Study") P. 12.

[2] *Id.*

[3] Autor, Palmer and Pathak. 2012 *Housing Market Spillovers: Evidence from the End of Rent Control in Cambridge Massachusetts*. (Working Paper 18125. National Bureau of Economic Research)

Thus, the very introduction of national rent stabilization policy will have an immediate and adverse impact on our ability to refinance our existing portfolio and to retain and attract investors.

The second unintended outcome is housing deterioration. Again, it is essential to remember that residential property ownership and management is a business, and one that operates on small profit margins. At a time when operating costs are soaring, companies such as Southern Management simply must have the same latitude as any other business to align its revenues with expenses. Further, over sixty percent (60%) of our communities, are workforce housing, which is naturally occurring affordable housing for families making less than 65% of the AMI (Area Median Income). The only way to provide affordable housing for those communities is to through older apartment buildings (typically constructed prior to 1985), which are much more costly to maintain.

Without that basic flexibility, and hampered by artificial pricing constraints, it will inevitably become impossible for property managers to sustain investments in maintenance, improvements, and amenities that residents have come to expect. This has significant effects upon everything from the quality of life of those property residents, to the property values within surrounding neighborhoods.

Finally, gentrification becomes inevitable. Throughout our region, Southern Management is a proud, longtime provider of workforce housing in an age of luxury apartments, condominiums, and townhouses. It remains our mission to provide safe, attractive and well-managed properties at affordable prices.

However, evidence has confirmed that it is simply impossible to maintain such affordable price points in a rent-controlled environment. It becomes far more attractive to tear down the workforce housing and build brand-new, class-A apartments (for which developers received all kinds of tax breaks, from green credits to transit credits, to credits for including a bare minimum amount of affordable units). Additionally, virtually every viable piece of rent regulation in the United States exempts new construction, further incentivizing property owners to focus on new builds, rather than maintaining existing workforce housing. Please do not make it impossible for us to continue operating the kind of ethical, sustainable, cost-effective housing this region needs.

As you can imagine, the buyers of such properties tend to be in the luxury housing space, offering properties and rates that are prohibitively out of reach for most residents. While it is a lucrative business model for a few, it comes at the price of displacement for longtime community residents who are already financially vulnerable, and it permanently changes the culture of proud, historic communities.

The second policy that is fatally flawed is the so-called **"just cause"** prerequisite for the removal of troublesome residents. While the name and thumbnail description of the policy sound appealing, it is based upon two crucial misunderstandings of the realities of the housing industry and, yields unintended but destructive consequences.

The first misunderstanding regards the interests of the management companies themselves. Advocates of "just cause" policies assume they have an interest in removing residents from their homes when, in fact, the precise opposite is true. We have every financial incentive to keep dependable people in their apartments. This, due to the rising and unbudgeted costs associated with turning a unit over for a new occupant – such as upgrading fixtures, painting walls, replacing carpets and making repairs attributable to natural "wear and tear." In addition to being the right approach to property management, it is also the most the most economically pragmatic.

Second, the policy compromises the safety of residents because it impedes the ability of property managers to remove residents who are engaging in unsafe and illegal activities. Consider the typical example of a resident who is aware that such behavior is occurring in a neighboring unit, and appropriately reports it to the management team.

Under customary "just cause" policies, such whistleblowers would be required to come forward, in front of residents they just reported, and restate their complaints in a hearing for the sake of "due process." It would require a resident who is fearful of retribution to take time off of their hourly wage job (uncompensated) and endanger themselves by testifying against suspected drug dealers and gang members. We cannot ask our residents to take on that level of burden to keep our communities safe.

Rather than simply serve as a voice of opposition to bad rental housing policies, the SMC team welcomes the opportunity to work with this agency in support of constructive policies that balance the quality of life for our residents, the economic imperatives of our industry and the vibrancy of the communities we call home. We look forward to further discussion and engagement on this front, and until then thank you for this chance to lend input.

Regards,

Gabrielle M. Duvall