Henry Investment Partners

To: The Judicial Proceedings Committee
Maryland Senate

From: Leigh Henry, [another Apartment Developer leaving Maryland]

Date: February 14, 2025

RE: Senate Bill SB -0651 ["Good-Cause Eviction"]

I feel like this "Good-Cause Eviction" legislation is greatly misunderstood (maybe deliberately) by some politicians looking for no-cost, feel-good legislation and misrepresented by Renters Alliance.

Why would a landlord want to evict a tenant who is paying rent? Or who complies with their obligation under the lease to inform the Landlord about any issues in their unit, especially issues relating to water?

The reason is simple: some renters refuse to follow the rules.

So, if someone wants to party all night (when we don't have staff at the property), their neighbors have a choice: move out or take off work and testify against a neighbor whom they might fear.

The police will not act. They will not issue citations for violations. So, to evict the tenant, someone with actual knowledge must be willing to testify. So, for the tenant who wants a safe, clean, calm place to live, it is easier to just move out. And then that places the Landlord in the position of moving someone else into a terrible situation.

Alternatively, rent-paying tenants could be dealing drugs. Or engaging in prostitution. Or smoking nonstop in a "smoke-free" building. (We have experience with these events – in new Class A buildings).

The Renters Alliance position that Landlords do this to avoid an appliance repair, etc., makes no sense. How will a Landlord re-lease the unit without working appliances? Even an appliance replacement is cheaper than turning a unit. And why doesn't the tenant call DHCA – the number is on the summary sheet to their lease?

The Renters Alliance wants to extend historically reserved for owners to tenants that will enable tenants to hold over without penalties. That violates the contractual and long-established constitutional rights of a landlord.

Always interesting to me that the properties cited for failure to maintain a property always have a heavy percentage of renters receiving vouchers. The County can address issues at these properties through inspections but doesn't. The new thing is some bizarre thing with consumer protection – DHCA has the tools it needs to protect tenants – it just seems like a way to build another bureaucracy so war can be waged against MF managers on many fronts. The state offers free legal representation to tenants who feel they have been singled out. Does this work? It seems like it would be a powerful tool.

It is the most vulnerable who this will hurt as properties become less safe.

This is just one of many increasingly oppressive regulatory schemes targeted at multifamily. The result is that Montgomery County has been "redlined" by lenders and all multifamily developers who we know are no longer willing to develop in Montgomery County. The economic impact on the state and local economy will be significant.

I have been watchfully curious as to whether the Civic Federation supports this. It is yet another piece of legislation that has halted planned, zoned multifamily development in the County while we now focus on AHS or NOW.

When we first started developing in Montgomery County and Gaithersburg, we were flanked by IBM, Lockheed Martin, and the U.S. Humane Society headquarters. It was then the major ***Economic Engine*** for the State of Maryland. But – like like the lead dogs pulling a sleigh in the snow, when they went off course – they pulled the State of Maryland with them.

Now, we are flanked by a solar panel field, an empty office buildings, a half empty adult medical daycare facility, and schools so terrible that our residents move out rather than send their children there.

Montgomery Perspective confirmed this month what we as apartment Developers have seen -- Rent Control has now 'Redlined" the County. We have canceled 800 units, and, like our fellow developers, are shifting to Virginia and the Carolinas. That is thousands of construction and permanent jobs, housing units, payroll and tax revenues the County and Maryland won't see – but Virginia will.

Based on the results of the last six years and its *lasting impact on Maryland,* is this the kind of unchecked power that should be given to Montgomery County?

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THE WALL STREET JOURNAL

Wall Street Landlords Loved These D.C. Suburbs. Rent Control Ended That.

Montgomery and Prince George's counties limit rent increases to the lower of either 6%, or 3% plus the inflation rate

By Rebecca Picciotto Dec. 23, 2024 5:30 am ET

An apartment complex in Prince George's County, Md. The county's law restricting rent increases is considered among the strictest in the country. PHOTO: GRAEME SLOAN/BLOOMBERG NEWS

Wall Street's landlords have long embraced two Maryland counties next to Washington, D.C. Multifamily buildings in these suburbs cater to a steady stream of federal employees, making their rental properties some of the most attractive in the U.S. to institutional investors.

That all changed this summer.

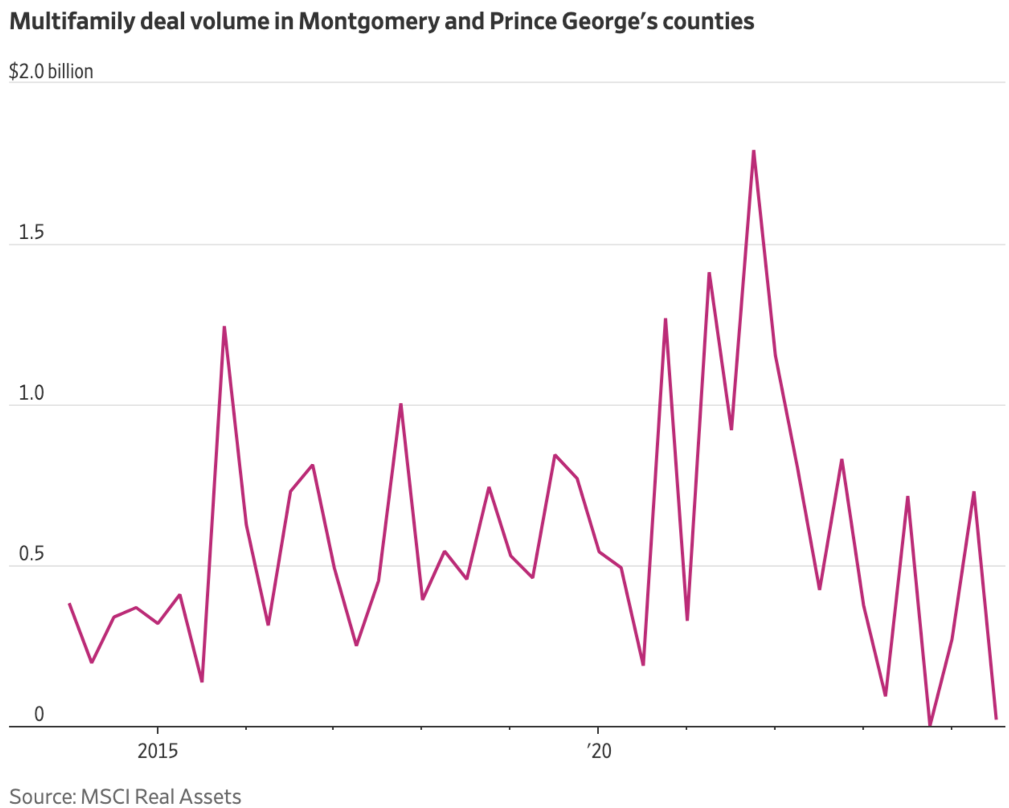
In July, Montgomery County and Prince George's County enacted laws that limit rent increases to either 6%, or 3% plus the inflation rate, whichever is lower.

Because the new laws restrict rent increases not just on apartments where tenants are living but also on vacant units, they are considered among the strictest in the country.

Multifamily transaction volume in both counties was down 13% in the first three quarters of 2024 compared with the same period in 2023, according to data from MSCI Real Assets.

“There’s no question that [the rent restrictions] had more than a chilling effect,” said Scott Melnick, president of Montgomery County-based brokerage Melnick Real Estate Advisors.

Apartment owners expect the new legislation will curb their ability to finance redevelopment and upgrades on existing properties, since they don’t know whether they can succeed in getting an exemption.



More than the specific features of the rent laws, institutional investors have been deterred by the perception of a more aggressive regulatory environment and its uncertainties.

“There are so many unanswered questions that right now, everything is really, just truly on pause,” said Christine Espenshade, vice chairman of multifamily capital markets at real-estate firm Newmark.

Many of the country’s largest institutional investors are multifamily owners in the Maryland counties that are now subject to the new rent regulation measures, including [Equity Residential](), UDR, Starwood Capital Group and Blackstone.

Investors tend to strongly oppose rent restrictions and haven’t welcomed the regulations in Maryland.

“The goal should be creating more units of affordable housing,” said Barry Altshuler, Equity Residential’s executive vice president of investments. “Numerous studies have shown that rent control does not accomplish that goal.”

Elected officials in the Maryland counties are hardly alone in feeling the heat to address housing costs. Nationwide, tenants experienced double-digit rent hikes amid the pandemic.

In July, President Biden called on Congress to pass national rent control that would force corporate landlords to cap their rent increases at 5% or else forfeit their federal tax breaks. Capitol Hill didn’t adopt that proposal but local jurisdictions continue to experiment with rent control as voters demand lower housing costs.

Montgomery County Council member Natali Fani-González, who sponsored the county’s new rent law, said she received a flood of phone calls when she took office at the end of 2022. Her constituents were incensed by 15% and 20% rent increases over that year, after pandemic-period rent moratoriums expired. Those increases were roughly in line with the nationwide rise in rents.

Montgomery County Council member Natali Fani-González said her constituents were incensed by 15% and 20% rent increases over 2022.

The Maryland policies include exceptions for some developers and landlords. They don't apply to new construction, for example, and landlords can petition for exemption if they prove their renovation expenses require higher rent hikes.

Even so, these landlords have other worries. President-elect Donald Trump's proposals to cut the federal workforce could also threaten a key driver of the area's rental demand.

Local real estate outposts are reeling from the drop-off in business. CBRE Group typically transacts dozens of deals between the two counties each year. This year, it has completed only eight multifamily transactions in Montgomery County and six in Prince George's County, according to the firm's internal data.

MONTGOMERY PERSPECTIVE

Yup, We're Redlined

February 4, 2025 *By Adam Pagnucco.*

Every now and then, when I program a post for publishing, I know it's going to throw a rock into the soup. Normally, the splash hits a few local folks and maybe a handful of others around the state.

But my Monday morning post **Has MoCo Been Redlined by the National Real Estate Industry?** has gone national.

And the message is yeah MoCo, you *are* redlined.

The table was set by my friend Jonathan Robinson, a national political data cruncher and a well-known MoCo housing supporter.

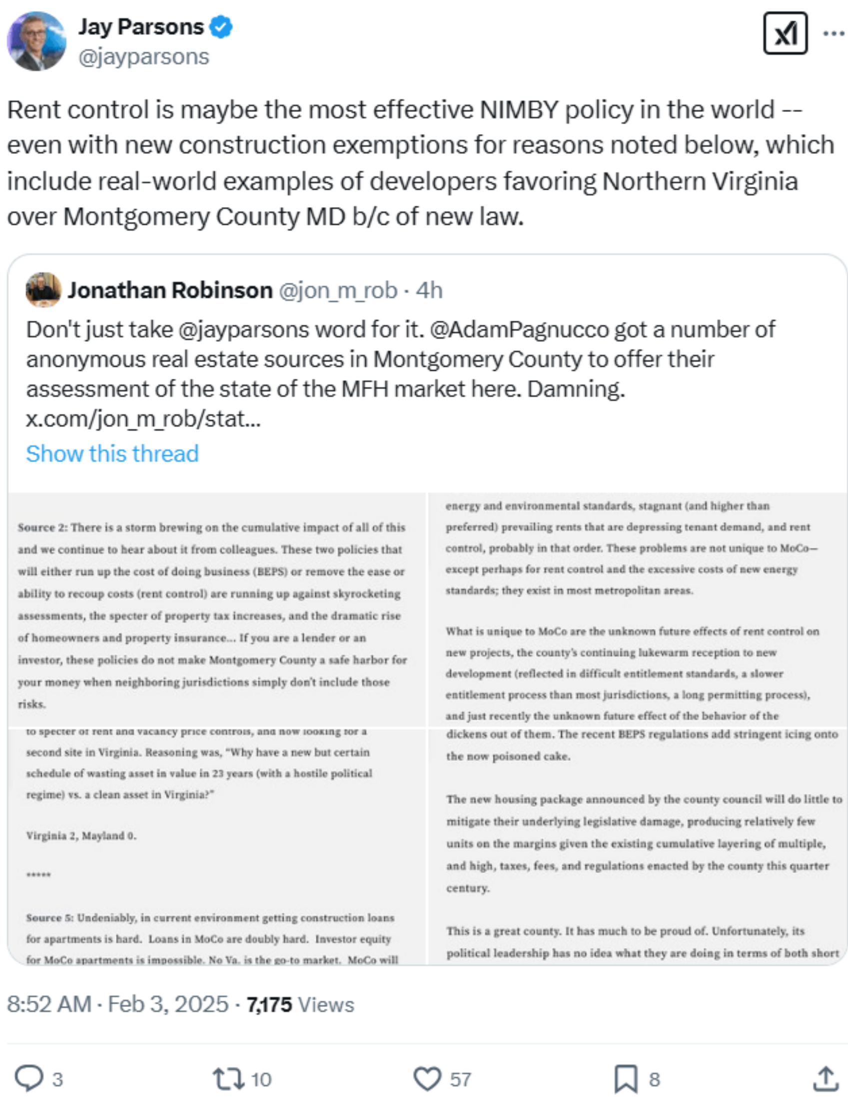
He **posted my column on X** and tagged Jay Parsons, the national real estate writer whose account of the multifamily housing industry's conference in Las Vegas formed the basis of my first post.

Here is how Parsons **referred to us**:

> *Regulatory risk is MUCH bigger variable than ever. Some groups are even trying to figure out how to model future regulatory risk that could torpedo pro formas and exit strategies as occurred in places like St. Paul, MN, and Montgomery County, MD. Some coastal cities (LA, SF, OAK, NYC, DC's Maryland suburbs) have been redlined by many institutions that previously favored gateway cities, for both development and acquisitions. "Gateway adjacent" markets (i.e. Orange County, Northern New Jersey) and politically stable suburbs remain favored.*

After Robinson tagged him, Parsons [chimed in](),

> *"Rent control is maybe the most effective NIMBY policy in the world — even with new construction exemptions for reasons noted below, which include real-world examples of developers favoring Northern Virginia over Montgomery County MD b/c of new law."*



Of course, Parsons is right. Look no further than [Takoma Park](), which has seen no new multifamily buildings constructed since it established rent control more than 40 years ago.

Next came Ryan Smyth, the Senior Director of Acquisitions for Stoneweg, an apartment investment firm whose U.S. office is in St. Petersburg, Florida. Smyth **claims to have "personally sourced and closed" more than $770 million in assets around the country**.

Smyth **wrote**,

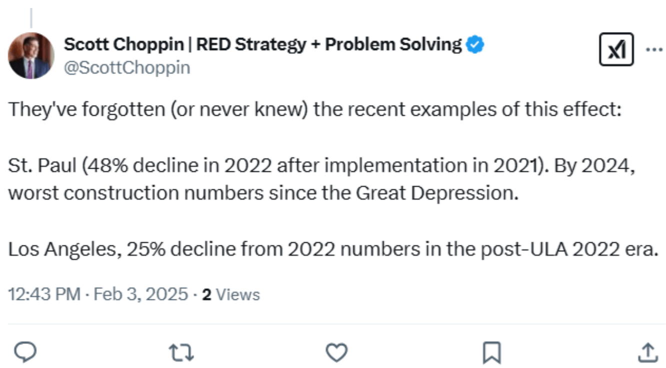
> *"As a Swiss investor, we're looking at the DMV for new multifamily investment. Montgomery County and PG County were immediately crossed off as potential markets for investment. It's widely known in the industry that both those counties are a no-go going forward."*

Parsons replied, "Agree with you. They're basically redlined. When rent control is proposed in a city, developers warn 'we won't build' and advocates recklessly say 'they're bluffing.' And then people wonder what went wrong? Well…"

That's not all. Now comes **Scott Choppin**, the CEO and Founder of Urban Pacific Group, an urban infill developer based in Long Beach, California. (Urban infill is what many MoCo politicians say they want.) Choppin **claims to have completed 27 projects with a pipeline of $250 million more**.

Choppin **wrote**,

> *"They've forgotten (or never knew) the recent examples of this effect: St. Paul (48% decline in 2022 after implementation in 2021). By 2024, worst construction numbers since the Great Depression. Los Angeles, 25% decline from 2022 numbers in the post-ULA 2022 era."*



See, here's the thing: our politicians ***did*** know about St. Paul, where the establishment of rent control drove building activity into nearby Minneapolis, because **I wrote about it months before our rent control law was passed**.

As a matter of fact, I wrote more than 20 posts about rent control in the months leading up to the vote and even wrote **a cumulative lessons learned post** in case county leaders missed a few. (It happens!) So our leaders knew all about what rent control would do and they approved it anyway.

To their credit, Council Members Gabe Albornoz, Marilyn Balcombe, Andrew Friedson and Dawn Luedtke **voted no**. But the rest of them absolutely own the red line that now surrounds us.

Montgomery County's leadership likes to believe that we are an example for other local jurisdictions. And on this issue, YES WE ARE – but not in a way our leaders might enjoy. The national real estate industry agrees.