



Memo

To: Mayor and City Council

From: David Cristeal Housing Manager; Jeff Ulysse Director of Economic Development; Tracey Douglas, City Administrator

Date: October 16, 2024

Re: Summary of Main Points/Concerns on the City 's draft Rent Stabilization Ordinance from a meeting with multi-family property developers and owners

Brad Frome, RISE Investment Partners, along with property owners and developers Robert Gilbane (Gilbane Co.), Josh Wooldridge (NRP), Jair Lynch (Jair Lynch Real Estate Partners) and Chris Mrozinski (PREIT) requested a meeting with the Mayor, motion makers, and Ward 3 council members to express their concerns about the draft Hyattsville Rent Stabilization Ordinance. They indicated that developers would have significant reservations about future development in Hyattsville and cited case studies of communities across the country who have been negatively impacted due to the longer-term implications from similar policies. They stated that the Rent Stabilization Ordinance, in its current form, will be a disincentive to current and future developers of multifamily housing and that there will be limited private investment in Hyattsville (outside of government subsidized affordable housing projects) and therefore, a reduced amount of future market rate apartment developments. They also noted historical studies that point to a lack of maintenance and capital expenditure in existing properties due to the impacts of rent stabilization policies and locally like Takoma Park and Montgomery County which have resulted in a significant reduction or elimination of new housing construction. In addition, they noted that rent stabilization, with its associated negative impacts, isn't targeted to renters who have a demonstrated need and instead benefit every renter regardless of their income nor need for affordable housing. They also suggested that the BID would be impacted as developers would be less interested in adding a tax on top of the negative impacts of a new stabilization policy.

Specific concerns raised are cited below:

- The draft Ordinance would include, under most circumstances, market-rate rental properties of 5 or more units once they are 15 years or older. Developers assert that they

will struggle to attract needed private investment with that rolling 15-year provision as investment decisions are based on the long-term value of a project that expands well past the 15 year time frame and noted that competitive environment that exists nationwide to attract such investment (Prince George's County's adopted legislation exempts market-rate rental properties built after 2000).

- The draft Ordinance caps rent at the Consumer Price Index – Urban (CPI-U), with no adjustment percentage to allow higher increases. Developers assert that operating costs, to include utilities, insurance, labor and interest rates often exceed the CPI-U as they have most recently. They also noted that after a spike in rental rates, as with most prices that spiked during the pandemic, rental rates have subsequently leveled out and are driven far more by the availability of housing (which rent stabilization would negatively impact as it is often a deterrent to new investment). As this is the case, what would be the alternative source of funds necessary for upkeep and longer term, capital expenses? (Prince George's County's adopted legislation allows the lesser of the CPI-U +3% or 6% (would allow a higher rent as long as the CPI-U is less than 6%)).
- The draft Ordinance fair return, vacancy decontrol and rent banking provisions potentially incentivize landlords to not renew leases and inhibit reinvestment in current properties/investment in future properties. (Prince George's County's legislation outlines basic parameters of these provisions but leaves details, including process to future, to be developed regulations by the Department of Permits, Inspection & Enforcement's (DPIE's) Director but allows for rent banking at lease renewal and separates out the concept of substantial improvements as a separate vehicle to exceed rent caps).
- The draft Ordinance calls for giving authority to an "Arbitrator", hired by the City, who would consider fair return petitions as well as consider, after the fact, a request to be recouped for investments in the condition of a property. Developers questioned the transparency and subjective nature of an Arbitrator's decision-making process (Prince George's County's legislation lists a specific numerical formula to determine the adequacy of a right of fair return petition).

Recommendation: The group recommended that the City pause its efforts to let the County's legislation take affect and based on that performance, consider whether its own rent stabilization ordinance is worth considering. As a number of these developers currently own property in the City, to include two that are currently under construction, they stated they would not have been able to obtain financing for these projects if this ordinance was in effect and they would have had serious reservations in pursuing an investment in the City. They also cited the City's estimated annual cost of \$238,000 to set up the program was low considering the administrative lift/burden and suggested that the amount could be saved if the City paused to see how the County's legislation worked).

Attendees:

Developer/Owner Representatives:

Brad Frome (RISE Investment)

Chris Mrozinski (PREIT)

Bobby Gilbane (Gilbane)

Josh Wooldridge (NRP)

Jair Lynch

City of Hyattsville:

Mayor Croslin

Council President Solomon

Councilmember Redmond

Councilmember Schaible

Councilmember Straub

City Administrator Douglas

Acting CBED Director Ulysse

Housing Manager Cristeal