

July 21, 2022

Via email

Montgomery County Council
100 Maryland Avenue, 5th Floor
Rockville, MD 20850
Attn: Council President Gabe Albornoz

Re: Proposed Rent Control Bill and BEPS Compliance

Dear County Council President Albornoz,

The county council is again considering a new rent control bill (Bill 22-22), and I would like to share the impact that passing such legislation could have on the ability of multifamily providers to make the retrofits necessary to meet the Building Energy Performance Standards (BEPS) soon to be established for buildings across the County.

Multifamily properties have one main source of revenue; rent collections. That revenue is used to offset both operating expenses and help pay for longer-term capital improvements, all designed to ensure the building lives up to the standards of our residents, with leftover income distributed to the lenders and then investors who trusted us to manage their funds. These leftover funds are not extravagant, per the National Apartment Association's 2021 Survey of Operating Income and Expenses, it is often just \$0.09 per dollar of rent¹. By restricting future revenue growth to an arbitrary 4.4% figure as proposed in Bill 22-22, we are going to have to scale back capital improvements, reduce expected returns to investors, as well as reduce operating expenses, as the impacts of inflation are going to far outweigh the potential revenue growth. While we appreciate that the bill currently lists an endpoint for this latest round of rent control, we do not believe the Council will hesitate to extend it yet again, as they have done repeatedly over the last 27 months.

In addition to the challenges posed by rent control in a normal environment, we are facing an enormous hurdle in Montgomery County in the form of the Building Energy Performance Standards (BEPS), which may end up being the single most transformative law impacting the building environment in the history of this County. Compliance with BEPS, especially in the case of a Zero Net Carbon target, appears likely to require full building electrification of all multifamily properties and has been estimated to cost \$13.90/square foot on average². We anticipate these costs will fall disproportionately on older properties, including workforce and Class B/C housing, and in many cases, the costs could be a good bit higher. Electrification for a building is not as simple

¹ https://www.naaahq.org/sites/default/files/naa-documents/dollar_of_rent_2022.pdf

² Steven Winter Associates; *Building Energy Performance Standards Development – Technical Analysis Montgomery County, MD*, Page 10; February 2022

as plugging the system into an outlet and turning off the gas—entirely new heating and cooling systems will be needed in many cases, along with increasing the amount of electricity required to operate each building—all such costs would be borne by housing providers. This is work that will already displace other capital improvements over the next 20 years, but if we cannot expect adequate rent growth to eventually help cover these high retrofit costs, then we will be left with few options.

Multifamily properties would be squeezed on the revenue side with rent control and the expense side with BEPS—such a situation would tell any real estate investors in Montgomery County to focus their efforts instead on single family home developments, rather than multifamily, or to leave the County altogether.

As you know, many critical industries in the County have faced rising costs and must now share those rising costs with consumers to ensure the firms can stay afloat; this includes property management firms and our suppliers, but also grocery stores, which have never faced the same kinds of proposed price caps that have increasingly been used when regulating housing. We are all facing the same issues with rising costs but targeting our industry with price controls is not the solution.

The County Council needs to take seriously the practical realities of multifamily development and management and allow us to do what we do best; manage our own revenue and expenses to best address resident needs, now and into the future.

Thank you for your consideration.

Regards,

Luke Lanciano
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Co-Chair of AOBA's Maryland Government Affairs Committee
Manager of Sustainability and Energy Management, Bernstein
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