Prince Georges Property Owners Association, Inc.

Lisa Miller
President
Prince George's Property Owners Association, Inc.
P.O. Box 1652
College Park, MD 20741

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January 5, 2012

The Honorable Andrew Fellows
5807 Bryn Mawr Road
College Park, MD 20740

Dear Mayor Fellows:

The saying "Timing is everything" applies here to rental property owners in College Park on many levels. I am told approximately 65 citations have been issued with regards to registration for Rent Stabilization. I am writing to share some of the concerns of PGPOA's members related to the implementation of the City's Rent Stabilization registration policy, in addition to where owners stand on a number of fronts.

The Rent Stabilization statute was approved in June of 2005; however, a fully appointed and functioning board has not been in continuous existence until recently. The statute gives *only* the Board permission to act on the statute as well as be available for petitions. Registration was not actively pursued, again until recently.

This delay in implementation and the ambiguity of the process to petition the Board leaves our members confused. For example, if a landlord charged rents above the rent ceiling from 2006 until 2010 and felt they were entitled to do so based on a reasonable rate of return or hardship, there was no legal mechanism to "petition" the Board since no such legal Board existed.

The statute "grandfathered" rental properties in use at the time the legislation was passed in 2005 and permitted for annual CPI increases for rent. In the most recent rental registration notice, there is no mention of this or what the acceptable measure for CPI is.

The registration does not provide for any CPI increases or direction on how to apply it and is therefore, not compliant with the law and confusing to users. This further fosters the notion that "grandfathering" should be as of when the statute was pursued and the board was in place. If the City is intent on moving forward with enforcement, it should clarify that enforcement begins now, or when a Legal Board was appointed, and enforcement will look to future leases, not those that are currently in effect.

We are still unclear as to how the Board plans on treating the definition of a reasonable rate of return. Our members read a report by Dr. Basu that purports to "define a reasonable rate of return in a residential rental context" and by implication a reasonable rate of return for single family houses in College Park. The Basu assessment and conclusion that capitalization rates are a good basis for determining reasonable rates of return for single family houses are at best novel and at worst incorrect. The only evidence offered in the analysis that capitalization rates of about 6% are reasonable comes from Real Capital Analytics, Inc. Real Capital Analytics provides statistics for what they refer to as "All Property Types". These property types are commercial property types, including apartments, hotels, industrial, offices, retail, development sites, senior housing and care, but notably, not single family houses. Statistics and analyses that apply to single family housing data/statistics would clearly be more relevant. For example, relevant analyses could have included US Department of Housing and Urban Development (HUD) annual Fair Market Rents for the Washington Metropolitan Area for residences with between 1-bedroom and 6-bedrooms. These HUD rents are used widely by federal, state and county governments to set policy related to fair rates of return for single family housing owners. In College Park, however, the rent for a four-bedroom unit was arbitrarily selected for all housing regardless of size. Another possibility could be to consider real estate related securities. Examples here include Real Estate Investment Trusts (REITs). One popular investment grade security of this type is Annaly Capital Management, which has a current yield of about 14.5%. Other REITS have yields as high as 20% or more. Although REITs do not invest in single-family housing stock, the point here is that one can look at the segment of the real estate market that Basu did and come away with a very different conclusion about what constitutes a reasonable rate of return. In sum, we are not proposing either of these possibilities. We are suggesting that the issue of reasonable rate of return be considered in light of the relevant real estate market segment in the Washington Metro Area.

These are our most pressing issues. We would respectfully request that you and the Council provide more clarity on these points and reframe from pursing compliance to the Board's registration requirements to avoid unnecessary legal wrangling. It is our hope that as the Council studies this issue, they will find that the combination of the massive increase in the number of rental units in College Park, the continued downward pressure on home values due to economic pressures, and the huge increase in short sales and foreclosures, deems the rent control ordinance is at best unnecessary and at worst counter productive. It would be unfortunate if due to the timing of these citations we find ourselves back in court or fighting over ballot initiatives when you are at the point of reviewing the statute's continued need. It is unknown what your decision will be regarding the sun setting of this statute, but timing is such that it seems prudent to not push us into legal battles *until* that decision is made.

**Our members are committed to working with you, the Council and other leaders to find *real* and *meaningful* ways to address the unique challenges of a college town.** I truly believe this can be done but it must be *your* choice to make this happen. I believe this is a critical juncture for the future relationship between rental property owners and the Mayor and Council. I have a saying I use frequently. "What is the worst that can

happen if I _____ (fill in the blank)." In this case "try working with PGPOA to solve some of its most pressing issues." We would very much like that opportunity. I see no downside in trying.

As you may know, we have planned a "Lead Paint Information Seminar for Home Owners" that is scheduled for January 9th, 5:45 – 6:45 pm at the Hampton Inn in College Park. Property owners have for many years now dealt with lead paint issues but there is a glaring lack of education directed towards home owners who may be experiencing similar issues. As this date is quickly approaching we would like to talk to you and the Council about helping publicize this public service event further on your website and through your individual list-serves.

In the true spirit of cooperation, PGPOA has dropped its pending lawsuit against the City. The heart of this case focuses on the issues I raised in this letter. I am hopeful we can resolve these issues through constructive dialogue rather than through the court system or other negative pursuits. There has been a longstanding battle with the Mayor and Council versus the property owners. You have a new Board in place. It seems to be an appropriate time to try a new, positive, productive direction in working *together* to improve College park. I look forward to hearing back from you shortly.

Sincerely,

Lisa Miller, President
Prince George's Property Owners Association, Inc.

Electronically sent on January 5, 2012 at 4:27 PM to:
Mayor Fellows, Joe Nagro and the PGPOA, Inc. Board

Certified Mail Return Receipt on January 11, 2012 to:
Mayor Fellows

CC: Joe Nagro; City Manager
4500 Knox Road; College Park, MD 20740