

Good Morning,

My name is Reuben Stone and I am the co-owner and founder of Stone & Browning Property Management based here in Barre. I appreciate the opportunity to speak here today and be a part of this discussion as well as a resource for your committee.

The three main issues I'd like to comment on are:

- Rent control measures
- Eliminating the No Cause Notice, and replacing it with a Good Cause notice
- The implementation of a state wide rental registry program

I would like to give thoughts briefly on the three subjects and allow time for questions from the committee.

Rent Control (know your demographic and one size does not fit all)

The Vermont Housing Needs Study (page 10 section 3-19) provides the overview of the current housing stock in Vermont. 50% of the housing inventory falls in the 2-9 unit family category. My company manages roughly 1,000 units and our average unit count per property is about 4.

I have provided you all with a quick breakdown of a 4 unit property, that my company recently acquired the management contract for, in order to show you exactly what the financial model for this property looks like.

“Reference Financial Model”

50% of your Vermont property owner demographic owns 2-9 units in a property. The majority being around the 4 units mark. This property that I have outlined for you is somewhat stabilized and has a professional management company in place to help control vacancy and expenses.

As you can see, this property does not produce much cashflow, and does not account for circumstances outside of normal operation. This assumes residents are paying, costs are steady, and there is normal turnover, and minimal collection issues. This is not a business where all is well, all of the time.

Property insurances over the last 3-5 years have increased significantly and in some cases even doubled. Property taxes, depending on the municipality, have increased 15-40% with another comparable increase expected next year.

This model does not account for large Capital Improvement items like roofs, boilers, IRC work, and major unit renovations.

The NCSL study drew the following comparison, “Rent control provides stability like a mortgage.” The piece that is missing is investment properties are financed through commercial mortgages which need to be adjusted every 5-7 years. When adjusted, they will adjust to current market conditions. What you are seeing now is property owners that purchased buildings 3-5 years ago and received low financing, which freed up some additional cash flow to make investments back into their properties, and now are having their cash flow squeezed. This squeeze is the result of a very different rate environment coupled with property tax hikes, revenue loss during evictions, rising costs in labor and material, new regulatory costs.

As you can see, the majority of your demographic is not “swimming in it.” Over the decades, the few that have been able to be resourceful, treat their residents with respect, provide a great service, build a cushion to ride out the not so favorable times, and had a little luck with some favorable market conditions, have been rewarded (and they should be). The rest have given up and moved on.

Compare this to capping the property tax increases across the state. That would never work because economies change and each municipality’s needs are different. You need the ability to make the hard decision to adjust as needed or else you would face even larger state deficits.

Eliminating the No Cause Notice and Replacing with a Good Cause Notice

This one for me boils down to perspective. In concept it sounds great, in practice this is going to cause many challenges. The reason I say it boils down to perspective, is the majority of property owners I know, in addition to my company, use the no cause notice as a last ditch effort, only when we feel the relationship has run its course and is no longer fruitful for either party. The resident/landlord dynamic is a relationship and it needs to be on solid ground in order for all parties to find value. But sometimes there are irreconcilable differences. Think of this like a divorce between married partners. Sometimes the relationship has just run its course and both parties need to move on for the better of the relationship and those around them. Our companies, and most property owners I know, are hyperfocused on retention in today’s world. There are too many unknown variables coming down the line, but the one thing we can control as property owners is occupancy rates. We want residents to consider our units their homes, put down roots, and stay for the long haul. This no cause notice is also used as a protective measure for other residents in the building. By removing this notice, you will be hurting the very people you are trying to protect. There are challenges with Vermont’s current non-payment notices and breach of contract notices. Mainly around the length of time it takes from beginning to end. As a resident if you are living next to a drug dealer, you want that individual out as soon as possible. When these types of things do not happen in a time efficient manner, you as a resident feel unsafe and unprotected.

The Implementation of a State-Wide Rental Registry Program

I have more questions than objections to this. I would just ask the following:

1. How is this going to be funded? Keeping in mind costs across the board are increasing dramatically in all sectors. Additional costs will result in rent increases to some degree.
2. What are the objectives of the program and how are you going to measure program success? This cannot be a “set it and forget it” item. Accountability for both code enforcement officials and property owners needs to be there and it needs to be consistent from official to official, to property owner to property owner.

If you do not have clear answers to these things, the program is not ready to be implemented.

It seems as though there has been a common thread in all of the testimony and research. Protect the many tenants and stop privileging the few landlords. The phrase “many tenants” refers to the masses of the renter demographic and I agree, as well as the many landlords that I associate with, that these tenants need to be protected. It’s only a few renters that make our jobs as property owners unenjoyable and inequitable, just as it’s the “few landlords” that make the tenants’ perception of the landlord-tenant dynamic “unbalanced”. However, the “many landlords/property owners” I know, want to provide the best housing they possibly can, are passionate about playing a major role in people’s lives, and genuinely try their hardest to do the best job possible. A collective punishment is unjust. Hold individuals accountable. This goes both ways.

Income		
# of units		4
Montly Rent Roll		\$4,370.00
Annual Rent		\$52,440.00
Vacancy	5%	\$2,622.00
Gross Profit		\$49,818.00
Expenses (45-55% of income)		
Insurance		\$1,700.00
Repairs and Maintenance		\$4,000.00
Water and Sewer		\$1,500.00
Property Taxes		\$8,500.00
Manamgmt fees	8%	\$3,985.44
Plowing and Lawncare		\$2,000.00
Included utilities if any		\$1,500.00
Trash and Recycle		\$1,500.00
Total Expenses		\$24,685.44
Net income (Gross profit - expenses) and before debt service		\$25,132.56
Annual Debt Service		\$22,762.00
Cash Flow		\$2,370.56