

"Federation Corner' column
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Does Home Properties treat Montgomery County like home?

by Wayne Goldstein

"Home Properties, a company based in Rochester, New York, knows nothing and cares nothing about the history of Silver Spring, Maryland. They're not from here. They do not live here. Their only reason for being here is to strip mine Silver Spring for profit." So testified a Home Properties' tenant, who lives at the Falklands, at a public hearing before the Montgomery County Historic Preservation Commission (HPC) on 8/15/07 concerning historic designation of the mid '30s 450-unit Falklands garden apartment complex that occupies three of the four corners at 16th Street and East-West Highway, on the western edge of Silver Spring's Central Business District (CBD), two blocks from the Silver Spring Metro Station.

Home Properties has a proposal to build 1,059 new apartments and 60,000 square feet of retail, including a new grocery store, on what is called the Falkland North section - which has 150 units - nine acres adjacent to the railroad tracks. The entire Falklands is already temporarily protected from demolition by having been placed on the county's Locational Atlas and Index of Historic Sites in 2003. It has also been found eligible for placement on the National Register of Historic Places. At this time, the process has begun to place the entire Falklands on the county's Master Plan for Historic Preservation, which, if successful, would require any major changes to the Falklands to be reviewed and approved by the HPC. It is a certainty that the HPC would never allow the demolition of these historic buildings to construct what would be the largest apartment complex in the Silver Spring CBD, where thousands of new apartments and condominiums have already been approved or constructed in the last 5 years. In fact, Home Properties is now building 247 apartments in a 14-story building at 1200 East-West Highway, a few blocks from the Falklands.

Since 1998, Home Properties has been on the list of the 50 largest apartment owners in the U.S. For 2007, it was ranked 30th in the nation, owning 36,954 apartments, down from its 2003 high of 49,837 apartments, when it was ranked 17th. It now owns primarily garden apartment complexes in Delaware, D.C., Florida, Illinois, Maine, Maryland, Massachusetts, New Jersey, New York, Pennsylvania and Virginia. On the same day in 2003 when Home Properties announced it had purchased the Falklands apartments, it also announced it had sold 1,119 apartments as part of its plan to leave its original market in upstate New York, where it remains headquartered. In 2006, it sold 5,046 apartments it owned in the Detroit, Michigan area, leaving that market as well. It enters or leaves markets based on changes in corporate strategy.

Home Properties has already had a big impact on Montgomery County. In July 1999, as part of the company's largest purchase in its history of 3,722 apartment units, it bought the Pavilion Apartments on Montrose Road in Rockville, calculating that the average price of each apartment was \$48,500. The 432-unit Pavilion was valued at about \$20 million. The average initial rate of return for this deal, after management fees and overhead, was 10%. In November 2005, Home Properties bought the Pavilion for \$117.2 million, or about \$271,200 per unit, to a condominium converter. Net proceeds were \$86.6 million, representing a profit of \$67.5 million. It appears that Home Properties sold it for more than quadruple what it paid in less than 6-1/2 years.

If this company had taken these huge profits and run, leaving the county for other opportunities, that would have been an end to that story. However, that did not happen, and it was instead the beginning of a very troubling story for the Pavilion's tenants who would be displaced and for the county and the state that both scrambled to help the tenants and to pass a law to provide some protection for the 50 developmentally disabled adults who lived there.

A sampling of news accounts included this:

" 'There are many senior citizens and group home people who are longtime residents that are afraid of being put out of their apartments... There are no affordable apartments in the area to move to.' 'They're really frightened out of their wits. It's a terribly anxious time.' '...The building's impending sale jeopardizes a program that provides four residential counselors who offer 24-hour support to 19 developmentally disabled Pavilion residents... Many developmentally disabled renters living in the apartment complex face eventual eviction if the building converts. Parents of those residents have lobbied county and state legislators to extend protections to their children...'

"One delay may be that Home Properties, a real estate investment trust, is interested in reinvesting the proceeds of the sale into other apartment properties in Aspen Hill for tax purposes... Dozens of tenants at the Pavilion feared the loss of their apartments after the new building owner sent out letters last week asking them for detailed financial information within four days... The "heavy handed" letter went far beyond the scope and intent of state and county laws intended to protect qualified renters from displacement during such condo conversions, [a county housing official] said... Condo conversion bill signed into law. Developmentally disabled residents receive rental protections... The legislation is the result of the conversion to condominiums of the Pavilion Apartments in Rockville, where a community of developmentally disabled adults faced displacement because they were not covered under state law."

This new state law allowed all but one of the 50 developmentally disabled residents living there to receive an additional three-year lease to stay in their apartments. Since then the condo conversion company has gone bankrupt in 2007 and the Pavilion, renamed the Monterey, has been purchased by the lender who plans to continue the conversion. Apparently, Home Properties was also able to avoid any capital gains tax on this sale by buying two apartment complexes, Peppertree Farm and Cinnamon Run, adjacent to each other on Bel Pre Road near Georgia Avenue in Silver Spring. Thus, of all of the parties to the sale of the Pavilion, only Home Properties enjoyed every possible benefit, including avoiding public criticism that was apparently only directed at the now-defunct condominium converter. The Falklands tenant whose testimony I quoted at the beginning of this column also said: "As a resident of [the Falklands], I know firsthand that Home Properties will not be governed by common sense, common decency or the common good that must be governed by the decisions of this [HPC] commission on behalf of people who have an investment in this community that goes beyond profit."

When Home Properties bought the Falklands in September 2003, its press release stated: "The total purchase price equates to approximately \$130,800 per apartment unit... The property is currently 91% occupied, based on economic occupancy, with monthly rents averaging \$1,008... The property is located in a park-like setting with many mature trees and a brook that bisects a section of the property, in contrast to the urban landscape and high-rise buildings that are numerous in the area... Management anticipates a 7.1% initial first year unleveraged return on this acquisition."

According to Home Properties' website, rents now appear to be even higher, making its return on investment that much better. The company, like every Falklands' owner in the last 25 years, voluntarily profits from below-market rate financing provided through the county's Housing Opportunities Commission in exchange for Home Properties' renting 20% of its apartments to low income individuals. Montgomery County has been very, very good for Home Properties, while some county residents have suffered greatly from their profit-minded decisions and many county and state legislators and officials have scrambled to deal with serious problems created by those decisions.

Now Home Properties, having taken so much from the county and given so little in return, wants even more. It wants the county government to ignore the overwhelming evidence of the significant historic value of the Falklands, including its unique environmental setting. It wants the county government to allow the loss of housing that has remained affordable for the 70 years since the Falklands were originally constructed as garden apartments to affordably house middle-class federal government workers. Those affordable

apartments that would be lost would only be partially replaced with smaller MPDU apartments in tall buildings looking out on other tall buildings instead of trees. It wants the county government to allow it to make this very profitable garden apartment complex even more profitable with a highrise. It wants the county government to do all of this so that Home Properties can pass through more profits to its stockholders.

The founding twin brothers of Home Properties are lionized in their hometown of Rochester for the large headquarters building they built to revitalize that city center, the historic buildings they renovated, and the affordable housing projects they still personally manage. Home Properties does not treat Montgomery County as its home, because it only reserves that care and concern for Rochester. Instead, Home Properties treats Montgomery County like a colony that supplies it with large profits. They'll stay here only as long as there are such profits to be made.