

"Federation Corner" column
The Montgomery Sentinel - October 18, 2007

What Home Properties won't bring to Silver Spring

by Wayne Goldstein

Last week I described the negative impact that Home Properties has had on Montgomery County that has also had a very positive impact on its bottom line. This week I will look at what Home Properties has given to its home of Rochester, NY that it won't give to Silver Spring. Through a separate company, one of the twins who founded Home Properties has managed Fight Village Apartments in downtown Rochester since 1978, an apartment community of 246 apartments where 236 of them -96%- have a section 8 HUD subsidy. This interest in affordable housing is a vestige of what Home Properties used to do. According to its 1998 Annual Report:

"In 1998, we earned \$5.5 million in fees from development activities supported by the Low-Income Housing Tax Credit (LIHTC) Program, an increase of 52%. This was achieved despite an increasingly competitive environment for tax credit allocations... We now own and manage affordable housing developments in New York, Pennsylvania, Ohio and Indiana. In 1999, we will start construction on two projects in New Jersey and also expect to expand into Maryland. To our knowledge, we are the only public apartment REIT [Real Estate Investment Trust] which supplements its earnings through tax credit development. Home Properties is committed to affordable housing and has the development expertise, financial resources, and management skills to continually expand this business... During 1998, we secured tax-exempt bond financing totaling \$34 million for four developments in three different states."

Despite this exceptional expertise in the affordable housing industry, the company announced in 2000 that "the development of affordable housing has been a successful and rewarding business for Home Properties since it merged with the Conifer organization on 1/1/96." However, since affordable housing activities then accounted for 2% of earnings, Home Properties decided to sell that business because it "required a disproportionate allocation of financial and management resources."

Conifer Realty's web site states: "In 1996, Conifer merged its operations with Home Properties, Inc., a public [REIT]. During the following five years, the company grew considerably with the development and acquisition of approximately 5,000 multi-family units. In December of 2000, the Conifer management team purchased the affordable housing division from Home Properties. The resulting private company now concentrates its affordable housing development in New York, New Jersey, Pennsylvania, Maryland, and Ohio. Presently, Conifer has over 25 projects consisting of approximately 2,500 units in various stages of the development process in addition to nearly 8,000 apartment units under property management."

Ironically, Home Properties sold the rest of its affordable housing in September 2003, the same month that it bought the historically affordable Falklands with its 20% of low income tenants. In Silver Spring, the company has tried to avoid much of its Moderately Priced Dwelling Unit (MPDU) obligation for its proposed project at the Falklands by offering to put half the MPDUs in the remaining Falklands apartments, which are already affordable. However, the county government has refused to go along with this bad faith effort by Home Properties to replace even fewer of the affordable units that would be lost if the Falkland North section were allowed to be demolished. It even filed its plan just in time to avoid having to comply with last year's new 10% workforce housing requirement.

Home Properties also has experience in the adaptive reuse of historic buildings. It combined this reuse with affordable housing with Chevy Place: "Chevy Place is a 77-unit, mixed-income apartment development on an urban renewal site in the City of Rochester. Eighty percent of units are market-rate apartments; 20 percent are affordable at 50 percent of area median income. The site included an art deco, historic landmark building

which was converted into a coffee bar and bistro. It was acquired in 1998 from the City of Rochester; renovations and the new construction were completed in 2000." "The Hallman's Chevrolet building [Chevy Place] is faced with black structural glass and stainless steel. It also retains its huge arched window, neon signs and clock, and interior details. The building itself is from the early 1900s but Hallman gave it this Streamline Art Deco facelift in 1936." Conifer Realty now owns the apartment complex.

Before Home Properties created Chevy Place, it created Piano Works: "Completely restored in 1990 for mixed office and retail use, Piano Works offers 187,000 square feet of leasable space on three floors. Piano Works was originally constructed in 1905 to manufacture pianos. A combination of modern function, elegant suites and historical charm, add to the amenities." "The original buildings of the Aeolian Piano Corporation are still in use today as a shopping center and office complex called Piano Works Mall." Piano Works is now owned by one of the twin brother's companies.

Home Properties' acquisition strategy: "Typical candidates for acquisition are well located, over 20 years old, built with brick exteriors, and possibly needing \$3,000 to \$5,000 per unit in improvements. We feel we can continue to achieve better long-term results with less risk by acquiring, upgrading, and repositioning mature properties, rather than by building or buying newer properties at prices which approach their replacement values. By increasing services and catching up on deferred maintenance, we can successfully raise rents and/or occupancy levels. We believe that solidly constructed and well located older communities with new roofs, new windows, remodeled kitchens and bathrooms, and added amenities, like community centers, offer lasting value - and perhaps have a brighter long-term outlook than many more recently constructed properties."

There is anecdotal evidence that Home Properties did a minimal, inadequate job in improving apartments at the historic Falklands, yet still enjoyed increased profitability from rising rents. This is a far different approach than it took with the historic Hallman's Chevrolet building and the historic Aeolian Piano Corporation building. But then, the Falklands is in Silver Spring and the other buildings are in Rochester, where Home Properties also built its downtown 14-story headquarters building known as Clinton Square in 1990. " [The twin brothers] did the community a favor,' said Bruce Russell, president of the Rochester Downtown Development Corp., who says their projects renewed interest in building in the city. Developer Gary Stern says the success of Chevy Place motivated him to build a group of loft apartments across the street from the complex. '[They] are great guys,' Stern said. 'They step up to the plate and make things happen. We need more corporate people in this town like them.' "

"[One brother] says they have an interest in keeping Rochester vibrant. 'Any area needs a strong cultural hub,' he said. Don't expect a flurry of new Rochester construction or acquisitions, they say. But they would entertain the idea of another downtown apartment complex--even though it runs counter to their business strategy. 'It would have to be in Rochester... And only in Rochester.' " As it turns out, Home Properties has decided that home is not the only place to build apartment complexes, although the motivation to do so in Silver Spring is far different and far more profitable than in Rochester.

It is clear that Home Properties will not voluntarily provide affordable housing in Silver Spring nor voluntarily restore historic buildings. Ten years ago, Home Properties embraced affordable housing opportunities, just as it embraced adaptive reuse of historic properties. Today, it only wants the quickest and easiest ways to make as much money as possible. That's what it will bring to Silver Spring if it is allowed to take away the Falklands.