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**The latest truths about methodically opportunistic Home Properties**
by Wayne Goldstein
Chair, MCCF Historic Preservation Committee

In three columns I wrote about Home Properties in October 2007 and July 2008, I documented the amoral behavior of this large Real Estate Investment Trust (REIT). By amoral, I mean that the company is only interested in maximizing its profits and will do whatever it is allowed to do or thinks it can get away with, regardless of the impact on others. I described the anguish experienced by hundreds of senior residents of the Pavilion Apartments in Rockville when Home Properties sold out to a condo converter for enormous profits in 2005, leaving Montgomery County and the state of Maryland holding the bag and scrambling to help these displaced long-time residents, including dozens of developmentally-disabled adults.

I believe the following quotes from the company's 2006 Annual Report help sum up that sentiment: "Significant Repositioning Experience and Expertise Acquiring and repositioning mature C to B- apartment properties is a core competency of Home Properties. Among East Coast public REITs, we are unique in our repositioning approach, experience and capabilities… To secure the maximum returns from repositioning communities, we employ a very disciplined approach to the post-acquisition rehabilitation and revitalization process requiring a minimum 9% return on our repositioning investments which is often greatly exceeded.

"… Where feasible, we will add in-unit washers and dryers which bring a high return on investment. A typical apartment makeover takes approximately two weeks to complete which minimizes loss of rental income… Our overall objective in repositioning is to upgrade properties that were C to B- level when acquired to the B to B+ level, which over time significantly increases the property's rental income, NOI and market value. The strong concentration of our portfolio in prime supply-constrained real estate markets further enhances the value our repositioning investments create."

Home Properties then gave examples of a Florida property where it had achieved "Compound annual rental growth rate: 10.7%" and a New Jersey property with "Compound annual rental growth rate: 9.9%." When it bought the Falkland Apartments in 2003, it announced that it expected to earn a 7.1% return for the first year. That return has only jumped up, perhaps as much as the same 10% compound annual growth rate that it bragged about in 2006.

Clearly, Home Properties has an established formula to maximize income far in excess of normal market returns by rapidly raising rents after making superficial improvements. The company originally tried to get the Department of Housing and Community Affairs (DHCA) to give it a waiver to put 1/2 of the MPDUs required for its Falkland North project in the other two sections, meaning it would have only had to build half of the units. Home Properties also tried to get DHCA to give it permission to abandon the 35 low- and moderate income "bond units" in Falkland North as tenants were moved out of those units in preparation for the new project. DHCA denied permission for both efforts of Home Properties to weasel out of its legal obligations. In exchange for receiving tax-advantaged mortgages through the county, Home Properties was obligated to keep 20% of the units for lower income tenants until 2014. DHCA instead required that the bond units could be transferred to the other Falkland sections.

In my third column, I made a big deal about the phoniness of Home Properties' promise to provide 282 affordable units to replace the 182 existing units in Falklands North and to add 100 more. Others made a big deal of the sincerity of Home Properties' promise for exactly 282 "new" affordable units, including the attorneys who represent the company. In December 2007, they wrote: "In total, this program will result in the provision of 282 affordable units in connection with the project, replacing 182 non-restricted units." Washington Post opinionist Marc Fisher, in a characteristic burst of uninformed arrogance, wrote in June 2008: "That's why a coalition of religious groups called Action in Montgomery negotiated a promise from the developer to set aside 282 units -- two-thirds of them in the proposed buildings and the rest at the company's other properties in the county -- for moderate-income families."

Guess what? Two weeks ago, when Home Properties made a presentation to the Silver Spring Urban District Advisory Committee, it passed out a packet with different numbers. It announced that the size of the project would be reduced by about 60 units, to 1000. This would result in a reduction in the legally mandated MPDUs from 133 to 125, a loss of 8. It also reduced the other units by 9, again based on the reduction in the size of the project. However, Home Properties' original promise was to provide the 282 "affordable" units, 100 more than the 182 that would be lost. That total is now down to 265. I had criticized the fact that 49 of the units (now reduced to 46) would be 5 miles away in its Woodleaf Apartments in White Oak.

I have since learned that Home Properties now receives and would continue to receive full market rent for all of these units because the Housing Opportunities Commission pays the difference between the market rent and what the tenant can afford. A promise to provide affordable housing where there is no loss of capital based on the construction of the unit and no loss of income based on the rental of the unit is no promise at all. By eliminating the pretense of these 46 units, which don't increase the amount of affordable housing any more than does a portable federal government housing voucher, the number of so-called affordable units being offered by Home Properties is now down to 219, just 37 more than what exists today in Falkland North. So much for this solemn promise.

Another misrepresentation concerns how much of the Falklands is contained in Falkland North. Home Properties glibly states it's 1/3$^{rd}$ of the units and 1/3$^{rd}$ of the land. However, Falkland North contains 41% of the land and 41.5% of the undesignated units, when one removes the twelve units in the Cupola Building in the Falkland South section, historically designated since 1985. These Falkland North numbers are as close to 1/2 of the Falkland Apartments as they are to 1/3$^{rd}$ of them.

Home Properties has purchased eight garden apartment complexes in Montgomery County since 2003. Six of those, including the Falkland Apartments, were purchased for a total of $293.6 million by transferring partnership interests to Home Properties. This means that this large and profitable REIT did not pay any county or state real estate transfer taxes on what were purchases of real estate. It's quite legal, but based on requirements imposed on the rest of us to pay 1.1% in transfer taxes for real estate, the county and state lost out on $3.2 million in such taxes.

It's just another example of the numerous ways that methodically opportunistic Home Properties games the system to its financial advantage. I have yet to see any supporters of Home Properties' Falkland North project directly confront and respond to any of these examples of amoral or bad behavior. They dare not do so because they couldn't handle the internal moral crisis it would create for them. At least they have a conscience which they feel compelled to hide from.

*The views expressed in this column do not necessarily reflect formal positions adopted by the Federation. To submit an 800-1000 word column for consideration, send as an email attachment to waynemgoldstein@hotmail.com*