

## Communication from Public

**Name:** Michael Capkanis

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**Comments for Public Posting:** My comment is more universal in nature. I would like to start with a question. IF, every time society experiences some economic discomfort, the knee-jerk reaction of elected officials is to foist the costs upon housing providers, WHAT are the long-term ramifications for the housing market/crisis in LA? Yes the price of an apartment unit is high in LA. As are ALL home prices in general. But PRICE is not the problem. It is but one manifestation of the problem... That problem is a lack of supply. The housing crisis in Los Angeles is an economic one, and one would be hard-pressed to find an expert to disagree with the above. The business of being a housing supplier is.... a business (gasp!) And, it's hard to come back quickly from 500,000 home deficit California, when, rather than stimulating new home creation, politically expedient "solutions" in fact dis-incentivize investment. And, as a business, housing is not exempt from the basic economic principles of all businesses. There is top line (revenue), costs/expenses, and bottom line (profit). Certainly, we want sharp business minds helping to solve our housing shortage, yet what savvy investor would put huge sums at risk in the toxic environment we are creating? "My costs can vary with market forces, but my gross revenue is capped?! - Preposterous. Nevada, here I come." As a primer; I AM NOT A LANDLORD! I am the "lord" of nothing! The banks own my properties. I am heavily leveraged. I survive on a tight margin. My properties represent to sum total of the life's work of two well-educated senior adults. I management my investment in housing as best I can. Excellent customer service, continuous maintenance. It is by NO MEANS "passive" income. It's is 24/7 hard work. I DO NOT CONTROL THE PRICE OF RENT! Market forces do. That's not an excuse or a fairy tale. It is reality. Ignore it at your peril. The price of rent is a function of the price of apartment buildings, which in turn is a function of the price of rents. It's an ecosystem. A commercial multi-family business is priced like any business - by revenue! For example; when one seeking to buy a Starbucks, one only cares about how many cups of coffee it sells and at what margin. The price of an apartment building is priced much the same way - but using "proforma" rents vs actual rents. (If the average rent for 2 bedroom apartment in Korea Town is \$2500, \$2500 is deemed the proforma for this area.) So – if one were seeking to invest in a

10-unit building in K-Town, all 2-bedroom units, here's how appraisers/realtors would figure the selling price: Multiply the proforma rent by the number of units in the building. In this case,  $2500 \times 10 = 25,000$ . Then times 12 to find the annualized gross income.  $25,000 \times 12 = 300,000$ . Then times the local GRM (Gross Rent Multiplier). In many areas the GRM is approximately 15. So,  $300,000 \times 15 = \$4.5\text{m}$ . Now tell me? How much flexibility does the new owner have to significantly change the price of rent? The rent amount is baked into a much larger system. A SYSTEM THAT CAN ONLY BE IMPACTED BY SUPPLY. Reduce the demand for a particular unit and its price will stagnate. Do that on a large scale and all rents will stagnate... and soon, so will the price of buildings. And a scenario of lessening prices unfolds. The perverse effects of attacking price will result in LESS SUPPLY, as well as apartments poorly maintained, a bureaucratic regulatory swamp increasing in size, scope and expense, a diminished tax base, apartment owners seeking to hide -- AND NO SOLUTION. I am completely in favor of elevating the impoverished... providing housing, counseling, and treatment to the homeless... and affordable housing to our young people, and the working class. I just don't see how our effort to squash the housing economy accomplishes any of these worthy goals. Rather I see it as anathema to American values that we would unfairly place the costs of societal problems solely on the backs of a politically un-connected minority of citizens (housing providers)... whether the results work or not. If our government believes that housing is a basic human right (as I do), then government should directly attack the problem and stimulate housing creation or become landlords themselves. Tax ALL citizens, evenhandedly, to construct or encourage the building of low income housing. I would be an even prouder American! Please allow me do my best work; providing well maintained, market driven housing to my tenants. But DO NOT attempt to run MY business. You are not good at it - and many will suffer the result. Sincerely, Michael Capkanis