

Get Real

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Rent Control: Does It Really Solve High Rent Problems?

Host: Ron Phillips

Welcome to the Get Real podcast. Your high octane boosted in the trenches. Tell it like it is reality therapy for personal business and real estate investing success with your host entrepreneurs, Angela Thomas and Ron Phillips. It's time to get real.

- Ron:** Hey everybody. Welcome back to the Get Real podcast. I'm Ron Phillips here with Heather Marchant again. Man, this is so on this program we talk about real estate, we talk about business, we talk about life and kind of how they all merge. And boy today we're going to talk about all three. We may piss some people off. But I think the majority of the folks, I hope this is eye opening to everybody on here because a lot of you listening are own real estate or want to own real estate or own businesses. And we're going to talk about today this, this should concern everyone who is a capitalist and not a socialist. I, I'm just guessing Heather, most of the people who listen to this show are not socialists. We may have a few. Yeah, I'm pretty sure we wouldn't attract socialists with our content.
- Ron:** So you're listening, you're probably going to get pissed off today. I'm just going to warn you that that's likely going to happen. So you're ready for that. So funny. Last night I was, I was in bed and I was reading Facebook, which is by the way, not a good thing to do right before bed for so many reasons, but not the least of which you don't want to get pissed off right before bed, anywhere. Especially right now with all of this craziness going on with, with our politics. But a friend of both of ours and a client of ours posted an article and I, I'm not, I wasn't floored because this isn't really shocked me coming out of California anymore. Nothing really shocks me coming out of California anymore. But this is over the top. And this article, there's three articles we're gonna talk about today, but this basic concept is that that, and there was a massive movement.
- Ron:** So I think most people, hopefully this opens people's eyes to what's really going on. There is a concerted national movement, but they're smart. They're not making a national play. They're doing it city by city, but this is well funded, well organized and it is to take away private property rights through rent control and all kinds of other things, other regulations for landlords. But this one actually blew my mind. I mean Heather make one of them. Where do we live? Is turning into friggin the Soviet Union or something. I don't even know. Not even like Russia today. This is like old 1980s styles. Soviet Union.
- Heather:** The stuff I read about as a kid that I thought would never happen on American soil. It's crazy.
- Ron:** Ludicrous. So headline of this story that our mutual buddy hosted LA leaders' way, a new idea to halt rent hikes, which you know, if you're a tenant sick of paying rent and

having your rent increase just out of the gate, you're going, yes, that's exactly what should be happening, right? This is for me next if force landlords to sell their buildings, are you freaking kidding me right now? You're gonna force landlords to sell their buildings. This is, the story just goes nuts. So there's the city Councilman Gill Sedeo, and his idea to keep rates low in his district is to force this landlord in Chinatown. So there's one particular building of, they're talking about here to sell his building to the city

Heather: With eminent domain. It's crazy.

Ron: So this dude's agency, they oversee sidewalk repairs, street, repaving, you know, it's the board of public works, right? So they want to use, this committee wants to use eminent domain to take 124 unit apartment building from this guy, Thomas Bots,

Heather: Who's been towing the line and following the rent control laws for 30 years. Right? So if you're, you're spending all this time working to control your rents for 30 years and then say, okay, I'm ready to raise my rents. I've done what you've asked. And then to say, you know what, we're just, we're just going to take your building.

Ron: Remember that investment you made? Remember that deal we struck 30 years ago? You remember that, where you've ran all of your numbers and you thought, yeah, I'll go on this ride with you. I'll provide some low income housing and I'm going to do it all on the auspices that in 30 years the building is mine. I will have paid for the whole thing. I'm out of your silly loan that you gave me and the deal says I can raise my rents to market rent. It's my building, right? You'll do whatever I want. Now this is all over 59 units too. So you only supposed to keep 59 of the units affordable. Now he has the ability to raise his rents and they're saying, Oh no, wait a second. We don't think, we don't think you should be able to do that now after 30 years.

Heather: Well one thing that is so strange to me is that they had this deal for 30 years and there was no plan to unravel it at the end. Right? Cause he obviously he's gonna want to raise rents and they said, well, homelessness, these people aren't gonna be able to afford it. But where, where's the plan? You know, for a 30 year plan, you should have had some kind of issue for gradually increasing rents the last few years or something.

Ron: Well, and this Sedeo guy, he wasn't even around 30 years ago. So here comes new dude, right? He's like, I'm elected now. I'm going to, or I'm on this committee now. I'm gonna. I'm just going to change the rules on this guy. I mean, this is so un-American. I can't even tell you. We have one of the main things of being an American and being free is to own your property, property rights and the government should not be able to take your property because they think they know what to do better with it than you do

Heather: Mind blown. I can't, I can't even believe that it's not, he's not, wasn't laughed out of the meeting.

Ron: Well, in California, listen, you people who are listening in California, I seriously do not understand how you keep electing these people. Yeah, this is insane to me. Now, I, I didn't, I didn't tell Heather I was going to talk about this, but this, I just saw this the other day. Grant Cardone and did a an interview on a news channel. I can't remember what I saw it and I posted it on Facebook and I just, he moved away from California. He loves California. He's lived there for years and years, but they kept raising the taxes. And so finally he was like, look, that's enough. I mean the sunshine and the weather is only worth so much. So he picks up moves to Florida where they have zero state income tax. At the time he had, I can't remember, he had like 12 employees or something at the time. He was having a hard time growing his business because he's getting the crap taxed out of him the whole time. And he moved down to Florida and now he has 150 employees. He's grown massively. Yeah. And he attributes it to the fact that he can use the money that he was giving to the government to expand his enterprise. And what does that do?

Heather: It's, it's not rocket science to, and he said, I mean I'm, I might as well offer more jobs to people and grow an economy in that aspect than just be robbed in taxes year after year.

Ron: So here's, here's the next one, right. Here's the next book. So right after that, this was a good segue into this article about New York City. I mean, it's, so this thing starts off by saying, by every measure, 2019 was terrible for those in the business of owning and selling multifamily properties. Now everywhere else like multifamily is booming, so to have, while everyone else was booming, to have your city suck during 2019 but that should tell everyone, yeah, the dollar value of purchases across all boroughs fell 40% four 0% in one year. That's crazy. It's astronomical. Yeah. Why, why, here it is. Apartments fell out of favor for investors last year as they digested new York's new rent law, which governs about 1 million apartments in the city. The overhaul took direct aim at landlord's income by making it almost impossible to raise rents, remove units from state regulation or even recoup the cost of capital improvements. Ridiculous. Why would a city, why would New York City do this? I mean if you were them, what would you tell everyone else? The reason you are doing this? Yes,

Heather: To help people be able to afford housing because you need to be able to have affordable housing to grow an economy, right? So people can move in and live in your city and afford to live there. I mean, but obviously they don't think through the long term impact because if you can't afford to have capital improvements on your property, you're going to end up having a rundown apartment building that's an eyesore and your whole city is going to start deteriorating like you see in movies for crying out loud or the Soviet Union.

Ron: So let's, let's just define capital improvements for a second. Okay. Maybe somebody listening who doesn't own apartments and they, they don't do their taxes this way and they don't know what a capital improvement is. Capital improvement is. You have a building and it ages, right? Buildings, buildings, age, like if you bought it, I mean some of these buildings in New York city go read the old and there's just things that need to be

updated and improved to keep your building from falling apart, literally falling apart crumbling, right? When you spend that money, it's a capital expenditures where it says here that they, they remove to recoup the cost of capital improvements. That means on my taxes, when I spend money to improve my building, I can't expense it. I can't recoup the money that I'm putting into the property to make it better for the people who these morons are saying they're trying to help.

Heather: You're welcome. You can live with less cheaper rent, but in a building that's going to start crumbling.

Ron: Here's the other problem, right? In capitalistic society everywhere, but especially when capitalism is involved, it is a supply and a demand thing. If you have no supply or low supply, what happens to the prices? People, they go up, you have more supply, then the prices naturally decline. So let's run through the logic real quick. What we've done here by enacting these these laws is make apartment buildings fall out of favor for investors. Guess who buys apartment buildings? Investors buy apartment buildings. Unless you're in California, in which case the government is now forcibly buying apartment buildings and I can see now in New York they're going to go, Oh, that's a really good idea. Maybe we'll just start forcibly buying these things and then we'll run them as well as we run the DMV and the people will have worse housing than they have now.

Heather: Yeah, I think we should have a blood pressure cuff on you, Ron. Just for this conversation,

Ron: This kind of stuff is so insane,

Heather: But you know what Ron? It sounds good. That's the thing for a politician to stand up in front of her microphone and explain how he's the hero and saving people money, then he, it's, it just sounds better than being able to explain the logic behind, but eventually your building will deteriorate and all of that. It doesn't sound as sexy is the word we used the other day as to say, guess what? I just saved you money. Right. I mean, as a politician, that's that's what you gotta do. Stay elected.

Ron: I don't know, maybe I'm old fashioned, but I think the way you stay elected is to tell people the truth. The truth is that if you do something dumb like this, it hurts the very people that you claim you care about helping. That's in reality what happens, because let's go through this for just a second. I own an apartment building in New York city and they just handcuffed me. Now I cannot, I can't change the pricing, which means I can't sell my building buildings went down 40% I'm not going to sell now. Right. I can't increase the value of my building by by raising rents or making improvements to the property. So my people are gonna live in the squalor because I can't, I can't expense any of the repairs, so I'm not going to make them as an investor, it makes zero sense financially to do that.

Ron: Right? It makes no sense for outside money to come in and buy dilapidated buildings and fix them up now either because I can't raise the rents. It completely demolishes the in the investor market for this type of real estate investment. And so when the money goes away, it's just like grant Cardone's money going away to Florida. That tax revenue that the state of California was getting now moved, it's gone. And that's exactly what happens to the money that would be invested or injected into New York City when you do dumb things like this. Yeah. All for the sake of power and getting elected, which you are absolutely right.

Heather: Yeah. It's, it's really unnerving that it, that it can continue and is going to continue. Right. I think, and I think a constituents aren't educated in the long term effects of it. They see the short term, it's a short term thing, a long term thing in the first few years, maybe the capital expenditures won't be needed. Maybe 10 years, you know, they, the investor can get by without making repairs, but eventually it's gonna it's gonna hurt and then there's going to be, Oh well shoot, what are we going to do now? You know, go back and change the law

Ron: In both of these markets. So I think there's, there's another, there's another thing that I think most people in the, in the country, maybe most of the people listening to this say is, I'm just not going to invest in New York. I'm not gonna invest LA and I'm probably not gonna invest in Seattle. Those places are complete socialist and I'm not going to invest there. This is a national movement and you're not going to hear about what's happening in Indianapolis and in Cleveland and in Cincinnati and all over the Midwest and the South. This is a nationally run, very well-funded and organized group or multiple groups who are going about making these changes in cities and they're doing it because landlords are disorganized, right? We're, we're not a big, in most of these marketplaces, we're not a strong group where we can actually go in and say, Hey, wait a second, this is what's going to happen.

Ron: And there's, they're ramming this stuff through and supposedly it's good for everybody. That's not exactly what happens because when, when you actually start doing rent control, you have those negative things that are already talked about. But if I own property and I can no longer rent it on the regular open market, well then I'm just going to find another solution. And in some of these markets like New York and LA and other places, it may be can make benefit me to knock the thing down, build something that I can rent office space. Maybe they may move me to start renting Airbnb or some other kind of non-controlled forms of accommodations, you know? And how does that help anybody? Airbnb's more expensive and we need more offices than condos. Who knows? No, maybe I sell these on owner finance to people condo them out. And does that help people who can't buy it? Doesn't, it uses the supply again, which, which increases, folks, that increases the price. So what's, what's the actual solution here in these marketplaces where there's not enough property? What's the freaking solution? That's not, it's not rocket science. You just need more property. Oh, you why Heather? Why is it so, why are there not more units being built in, in Southern California, in LA?

Heather: Well, the laws, I mean we don't have our investors.

Ron: It was to build something there. Yeah.

Heather: It kind of perpetuates itself with all of the problems. It's just gonna make it worse. Not better. So we, I mean, one with our clients, I'm always saying like the areas we have don't have there, they are landlord friendly states is what we call it, you know, so versus tenant friendly like this where they're looking out for the tenants first and not the landlords. So,

Ron: So if you're in one of those markets, which right now most of the markets, you know, unless you're in Chicago, most of the markets in the Midwest and South, that even along the East coast, South of the, you know, crazy areas, they are, they're, they're pretty friendly and even out in the West and some areas in the West are friendly as well. Yeah. But they won't be for long unless we all wake up, man, we've got to wake up, we've got to come together and we've got to start fighting this stuff. And we have to get a little bit more vocal because the opposition side is incredibly vocal. And when they come to town, they're not making little, little signs with banners. These are professionally made signs. They picket, they do all this stuff there.

Heather: Yeah. The, it's being educated and paying attention to the local proposed laws to make sure that you're not missing out, especially on an area where you own property. But to prevent that from happening.

Ron: So a friend of mine and well Caleb, you guys know Caleb cause he's been on the, he's been on the program before, bought a property here in Charleston and the thing was thing was a crap hole. I mean it was, it was horrible. These people were living in this place and I walked through it. I'm like, I can't believe that people actually live this way. Yeah. Now the rents in this, you can't find rents as low as this place was being rented in this area. Okay. If you can't find it, rents on these two bedroom units were between \$250 a month and like \$550 a month. You can't find anything in Charleston anywhere for those prices. Right. But there's a reason why they were charging those rents because it was uninhabitable. The city had actually come in this city that cares, right? If they'd actually come in and look at those units, I would assume they would condemn the place.

Ron: That's crazy. But for me, like there's no way that I would feel comfortable owning a building like that and having people live there. But for me to want to go in there and buy that building, I have to inject hundreds of thousands of dollars into that building to make it so that it is a livable of a nice place and a safe place for people to live. There was junk all over the outside of property, the dumpster, it was overflowing and there was crap, people that dumped all over the place. Beds and mattresses and all kinds of crap everywhere. So we bought it and we go fixing this thing up, right? Complete new roof. We, we put, we painted the exterior, we, you know, we put in new HVACs and all, all new stuff. Make things look really, really nice. New flooring, new kitchens, granite countertops, all this stuff.

Ron: In this place that was a complete rundown trash hole. And we've raised the rents to market reds and guess what? Half the people stayed and why did they stay? Where else are they going to go, where else are they going to go? They had, they had, they were paying nearly now they're living basically for free. They wanted the, they looked at what we were doing to the units and they said, Oh my gosh, I can get that for seven 50 to 800 bucks and there's nowhere else I could go and get and, and actually get rent for this, but also get a nice place with upgraded everything now. And I could move like literally across the hall and you guys would redo this unit and move somebody else in. And now we've, we've gotten rid of the people who were making all the mess and the nasty. And honestly, people if, if, if I buy a building and someone is trashing it out and living like, like a subhuman, I don't really care where they go.

Ron: I don't care until you learn how to treat property, I don't want you in my property. Yeah, I don't care what you pay in rent, but go learn how to actually take care of something. The people who stayed appreciate the fact that we increased the value of the property. They appreciate the fact that we actually renovated it and that it's now livable and that their kids don't have to live in squalor anymore. Yeah, no kidding. But if take away the incentive for me to do that by taking away the tax incentives for me to put in capital improvements and to be able to raise rents on a property like that, I will never buy it. Yeah.

Heather: Why would you? It doesn't mean it wouldn't if you're not gonna make a profit in the end. I, I was thinking as you shared that, that I used to run the books for my dad's real estate business in my early twenties and I lived in an apartment building my father owned, and everyone knew eventually that my dad owned the building. I kept it quiet because everyone assumes they're making hand over fist and that you, you know, your, your parents are like just raking it in because they take, they said, okay, well you have, I think it was about 180 ish tenants. It was a college town. So they were renting to college girls. And you have, you know, each of them paying, I don't remember what the rent was, seven 50 or something per tenant. And they added up that money and assumed, yeah, I mean that's how much money they're making. I'm like, you have no idea. I do my dad's books, you know, I mean the, the amount of expense in owning a property. So I think at the root of this too is also the idea and notion that investors are just killing it and that you can just reduce their income and it's no problem and that they'll be just fine because they're ultra wealthy or well off. And so I remember seeing that and seeing the disconnect and not being able to really explain it as, you know, the owner's daughter. But it's,

Ron: I probably need to see the income. They don't have any idea what the expenses and they don't understand what kind of a capital injection it takes to actually make it. So, okay. I, I wasn't given the property by somebody. I wasn't given the money to inject in the property by somebody that's actually, you know, I did my day job and I saved my money up and I went and put it into a property to make it better for other people. And, and now, you know, there's an education process, I guess that needs to occur. And that's why I'm telling people we need to actually voice. We're usually quiet, the loud,

angry people out there, the eat the rich crowd that are following Bernie Sanders and all of his lunacy that we've got to get at least loud enough that people can hear the other side. We don't have to be angry like them, but we do have to say, look, this is not what's being, this is actually the opposite of what's being reported here.

Ron: It doesn't work that way. And it's really unfortunate that so many people are being blinded by this and blindsided by it because they just are disconnected. We as landlords or potential landlords, friends of people who are landlords, whoever you are out there, business owners, just because it's not happening to your business right now, doesn't mean it's not going to happen to your business because this, this whole movement, this is just one little piece of it. It affects all business owners, and not just Coke a Cola, but all us little guys. Right. And I think it's really important as Grant Cardone did the other day, to educate the public about what really happens when you allow business owners, including landlords to keep more of their money. We keep some of it for ourselves, but we invest a ton of it into human capital and capital expenditures, which creates more jobs, which creates better places for people to live and everything else. Yeah. And if you can't tell, I do get a little bit passionate about this.

Heather: I love it. Well, I think, I think a lot of it is just people misinformed or not paying attention, you know, just doing their thing. I don't really like watching the news anymore. So paying attention to the news, the pertinent news, I guess, what affects your business?

Ron: Yeah, it's hard to listen to the news and not be when you're a positive person and not be drugged down to that level. You need to pay attention a little bit. Yeah, a little bit. Enough that we can try to educate people about how things really really operate because there's a big disinformation campaign. And unfortunately it's working really well. So, so we've got we've got to get over it a little bit. It started and start moving in this direction ourselves. So would, that is probably enough ranting for today, Heather. You're right. I probably should, you know, go put the blood pressure cuff on.

Ron: Well there's thank John for posting the article and I'll just make sure I share it and help to bring the, bring awareness to the issue rather than thanks John for keeping me up last night. That was really great. All right everybody. So if you enjoyed the episode, give us a thumbs up if you didn't just move along negative comments or anything like that. But go ahead. If you want to make sure you subscribe, make sure you share us with your, your your friends. Don't keep us a secret. You can find us at GetRealEstateSuccess.com you can find our main company at RPCInvest.com that's R P Capital where we help people invest like this. And obviously we watch out for you as well. So anyway, until next time, thanks. See you later.

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