Approved Monday, February 11, 1991
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Senator Dan Thiessen, Chairperson, at 11:00 a.m./~~p.m.~~ on Wednesday, February 6, 1991 in room 519-S of the Capitol.

All members were present except:

Committee staff present:
Don Hayward, Assistant Revisor
Tom Severn, Research Department
Chris Courtwright, Research Department
Marion Anzek, Secretary

Conferees appearing before the committee:
Mayor Joseph E. Steineger, Jr. - Kansas City, Kansas, Wyandotte County
Jack Brand, Attorney, Lawrence Apartment Association
Mike Reecht, State Director, Government Affairs - A.T. & T.
Mel Davis, Apartments Owner and Vice-Chairman, Wichita Housing Task Force

Chairman Thiessen called the meeting to order at 11:08 a.m. and said we will continue with hearings on SCR1606 and SCR1611, and said we have (1) conferee that was on the agenda for PROPONENTS from yesterday, which we will hear first, then we will hear the OPPONENTS. The Chairman recognized Major Joseph E. Steineger Jr., Kansas City, KS.

> SCR1606: A PROPOSITION to amend section 1 of article 11 of the constitution of the state of Kansas, relating to the taxation of property.

> SCR1611: A PROPOSITION to amend section 1 of article 11 of the constitution of the state of Kansas, relating to the taxation of property.

Mayor Joseph E. Steineger, Jr. said he would be addressing SCR1606. He said many of their citizens are low-incme or senior citizens living on fixed incomes and they cannot incur even modest increases in their tax bills without severe financial stress. The changes in classificatin have forced residential property owners to take on an increase of over 35% in taxes between 1988 and 1989.

On December 7th, 1989 their Council adopted a resolution recognizing that reappraisal and reclassification had resulted in an unacceptable shift in the tax burden being imposed on the citizens of their city, and proclaimed reducing property taxes as a priority for local government operations.

He asked the committee members to adopt a constitutional amendment that puts inventories back on the tax roles. Mayor Steineger introduced Nancy Zielke, Finance Director of Kansas City, Kansas. (ATTACHMENT 1)

Committee members asked Mayor Steineger, if Wyandotte had Internal Revenue Bonds (IRB's) and if they have, in lieu of payments. Mayor Steineger said they do have IRB's, General Motors Nancy Zielke said General Motors is "in lieu of" and they have a 15% a year growth in payments of IRB's.

THE FOLLOWING CONFEREES ARE OPPONENTS.

Jack Brand, Attorney representing Lawrence Apartment Association. He said they strongly oppose the portion of the proposed Constitutional Amendment that would raise the classification % on multi-family residential real property to 15%

He said, there are many thousands of citizens who live in KS multi-family rental properties, ranging from students to the elderly. Using a different classification % for multi-family residents designates them as second class citizens paying a disproportionate share of real property taxes because of their place of residency. (ATTACHMENT 2, includes Appendix A, B, C, D, E & F)

A Committee Member asked Mr. Brand if the people living in apartments received any reductions as a result of reappraisal and classification. Mr. Brand said no because the owner has an increase in taxes every year.

Mike Reecht, State Director, Government Affairs, A.T.& T. said the breakup of the Bell System is six years past, and during that time, competition has flourished in the long distance segment of the telecommunications market. This was the main purpose of the breakup to foster competition in a market that for 100-odd years had been allowed monopoly status.

He said, they believe this is not the time to put further strain on their budget. Interexchange telecommunications companies are required to compete with private networks for business, and if tax rates are different, then the interexchange carrier cannot compete on a level playing field.

Mr. Reecht offered a proposed amendment to SCR1606, and to SCR1611. (See ATTACHMENT 3) pages 4 and 5.

Mel Davis, Apartment Owner, Wichita, KS and Vice-Chairman of the Wichita Housing Task Force. He said he objects to the proposed legislation that re-classified multi-family residential property of more than four units from 12% to 15%, while leaving all other residential property at 12%, and he said, his objection was on the grounds of equity.

He said, already the renter is penalized by legislation that allows him no tax shelter from interest or ad valorem taxes, as benefits the homeowner, and to increase his rent through higher taxes than is paid by his home-owning neighbor is indeed cruel and unjust.

He said, perhaps the legislature was too generous to residential housing in the original Constitutional Amendment. Perhaps the 125 classification rate should be changed, but if that is the solution, he asked the legislature to retain the linkage of identical classification rates for all residential property, be it single or multi-family. (ATTACHMENT 4)

Chairman Thiessen said we would continue the hearings on SCR1606 and SCR1611 tomorrow, and he adjourned the meeting at 11:48 p.m.

2-6-91
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GUEST LIST

COMMITTEE: SENATE ASSESSMENT & TAXATION

DATE: WED. 2-6-91

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
D. Derek Seacat	2515 Webster Dodge City Ks	Peoples Nat Gas
David W. Slater	321 Benton Satanta	Peoples Nat Gas
Alan Borchers	806 Labrador - Garden City	Peoples Natural Gas Co
Don Tanner	P.O. Box 441 Cimarron Ks	Peoples Natural Gas Co
Mike Moody	P.O. Box 452 Meade KS	Meade Chamber
Kevin Allen	Topeka	Ks. Motor Car Dealers
Mary E Turkington	Topeka	Ks. Motor Carriers Assoc
Janet Stubbs	Topeka	Home Builders Assn. of Ks
Pam Somerville-Taylor	Topeka	Ks Motor Car Dealers Assoc.
Carol Deason	Topeka	KPL
Jerry C Coonrod	Lawrence	KG&E
Robert Wilson	Omaha, Ne.	Peoples Natural Gas Co.
Treva Potter	Topeka	Peoples Nat. Gas
Debbie Wasserman	Wichita	Peoples Natural Gas
Chris Wilson	Topeka	KGFA
Cedric Moeye	Topeka	SHL
Frances R Wolf	Topeka	Wolf Topeka
Carl Daugherty	Columbus	Empire District Elec.
Michelle Lester	Topeka	John Peterson & Associates
Wendell Strom	Topeka	AARP - CCTF
Jim McBride	Topeka	Observer
Harold Pitts	Topeka	AARP-CCTF
Bob Ann	Lawrence	Lawrence Apt. Assoc.
John W. Brand Jr.	Lawrence	Lawrence Apt. Assoc
RuthAnnetta Hall	Wichita	Leg. Intern/Sen Daniels

2-6-91
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GUEST LIST

COMMITTEE: SENATE ASSESSMENT & TAXATION DATE: 2-6-91

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Bob Corkins	Topeka	KCCI
Mel Davis	Wichita, Ks.	Mel Davis
Joseph E. Steineger	Kansas City, Ks	City of KC
Nancy Zielke	Kansas City, Ks	City of KC
Mike Reichard	Garden City, KS	Leadership G.C.
Alan Fankhauser	"	"
Tim B. Cruz	" "	"
[illegible]	Topeka	Intern.
Kathleen Clements	Garden City, KS	Leadership GC
Jan Kinderknecht	Garden City	Leadership GC
Rhonda Magnuson	" "	" "
Marlene Atkinson	" "	" "
Amy A. Campbell	Maple Hill, KS.	Sen. Jack Steineger
GEORGE PUCKETT	WICHITA	KANSAS RESTAURANT & HOSPITALITY ASSN.
JIM LUDWIG	TOPEKA	KPL
Cathy Holdeman	Wichita	City of Wichita
Don Schnacke	Topeka	KIOGA
Jim Yonally	Overland Park	NFIB
Dan Hermes	Topeka	DOR
George Barbee	Topeka	Ks Consulting Engrs
Bill Henry	Topeka	KS Engineering Society
JANICE MARKUM	TOPEKA	DOR
Kirby L. Stegman	Topeka	DoR
KENNY KOCH	"	S W BELL
Mike Reecht	Topeka	AT&T

2-6-91
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GUEST LIST

COMMITTEE: SENATE ASSESSMENT & TAXATION DATE:

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Jim Davis	919 Congress Ave Austin, TX	AT&T
FRANCES Kastner	Topeka	Ks Food Dealers Assn
Steve Jones	Wichita	Boeing
STAN SIMON	2135 POTOMAC TOPEKA	STAN SIMON & ASSOCIATES
Lucky DeFries	Topeka	Kan. Apt. Leg. Comm. Martin Tractor Co.
Russ Bishop	Houston, Texas	Panhandle Eastern
Jack Glaves	Wichita	" "
Pat Wiechman	Apt Council of Topeka	ACT
CLARENCE J. MALONE	TOPEKA	FRATERNAL HOMES
Ed Cole	Hugoton	Peoples Nat Gas
Vern Schrieder	Hutchinson, Ks	Peoples Nat Gas Co
KAREN FRANCE	TOPEKA	KAR
LISA GETZ	WICHITA	KS ASSO. FOR SMALL BUSINESS
Mary Ellen Conlee	Wichita	" "
Leroy Jones	Lenexa	B.L.E.
PAT BROWN	GARDEN CITY	PEOPLES NAT GAS
CLIFF SMITH	GOODLAND (USA)	PEOPLES NAT GAS
Jerry Heiland	Dodge City	" " "
Howard L. Hamlin	Garden City	" " "
DANNY L. ROSE	" "	" " "
Dean Gomez	Dodge City	" " "
Mike GERMANN	Wichita	The Boeing Company
R.D. Randall	Wichita, Ks	KIOGA
Jim Maag	Topeka	KBA
Jacque Oakes	Topeka	Ks. Ind. Auto Dealers Assn
Don Carlson	Topeka	" " "

2-6-91
1 4

GUEST LIST

COMMITTEE: SENATE ASSESSMENT & TAXATION DATE: 2-6-91

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
[illegible] Humphrey	KMHA Topeka	
Ron Smith	KBA Topeka	
Dan Haas	Overland Park	KCPL
Grant Cook	Wichita Ks.	
Betty Cook	" "	
Roger M Grund Sr.	Wichita, KS	Home Owners Trust
Arthur L. Gould	Goddard, Ks	

City of Kansas City, Kansas
Joseph E. Steineger Jr., Mayor

Executive Chamber
One Civic Center Plaza

Kansas City, Kansas 66101
Phone (913) 573-5010

February 6, 1991

Senator Dan Thiessen
Chairman of Senate Committee on Assessment and Taxation
State Capitol Room 519-S
Topeka, Kansas 66612

Dear Chairman Thiessen
and Members of the Senate Assessment and Taxation Committee:

The City of Kansas City, Kansas appreciates the opportunity to appear before you this morning in regard to Senate Concurrent Resolution 1606. The residents of our community have felt severe impacts from reappraisal and classification, with the city losing 68.4 million dollars due to the inventory exemptions. The impact of this removal of 14% of our county's tax base has resulted in increased property taxes for residential as well as commercial property owners.

You must realize that many of our citizens are low-income or senior citizens living on fixed incomes and they cannot incur even modest increases in their tax bills without severe financial stress. Yet the changes in classification have forced residential property owners to take on an increase of over 35% in taxes between 1988 and 1989. Commercial property owners have experienced increases anywhere from 75% to 500%. Such increases will and have had severe negative impacts on many businesses in Kansas City, Kansas. In a survey of our small businesses last Fall, 40.7% of the respondents stated that there was a dire need for some kind of modification or lowering of property taxes.

Our citizens and businesses have cried out for relief from the increased property taxes. On December 7th, 1989 our Council adopted a resolution recognizing that reappraisal and reclassification had resulted in an unacceptable shift in the tax burden being imposed on the citizens of our city, and proclaimed reducing property taxes as a priority for local government operations.

ATT. 1-1
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I come before you today asking that you adopt a constitutional amendment that puts inventories back on the tax roles and give the citizens of my community and of the state the relief they so desperately need. Without the inclusion of inventories general property taxes are levied against too small of a tax base, thus enhancing some of the tax shifts created by reclassification and resulting in real property taking too much of the tax burden and making the average citizen and small businessman pay more than their share.

Respectfully submitted,

Joseph E. Stieneger, Jr.

Joseph E. Stieneger, Jr.
Mayor

c: Kansas City, Kansas City Councilmembers

My name is Jack Brand and I am appearing on behalf of the Lawrence Apartment Association. We strongly oppose that portion of the proposed Constitutional Amendment that would raise the classification percentage on multi-family residential real property to 15%.

The proposed change for multi-family residential is premised on four false conclusions.

The first is that classification has brought about lower apartment real property taxes. The Fisher report, while noting that collecting data proved "unusually difficult" concluded that taxes on apartments in Johnson and Sedgwick Counties had declined substantially. On April 30, 1990, the Douglas County Assessor's office suggested that many appraisals of apartment complexes in the five largest counties were too low because of "clerical errors" resulting from computer software problems and the lack of adequate information. He suggested that correction of these errors would raise Douglas County apartment appraisals by 54%. A copy of this report is marked Appendix A. Thus, the Fisher conclusion may well be based on clerical and computer errors.

Second, the proposed change is premised on the false conclusion that 1988 taxes on apartments must have been about right. Appendix B shows the percent nationally that real estate taxes, on the average, bear to gross possible total income. That figure is 7.8%, for 1988. Nationally, real estate taxes comprise 17.2% of total expenses. Appendix C shows these figures for Topeka, Kansas. The figure is 12.8% in Topeka. In Topeka apartment real estate taxes comprise 25.9% of total expenses; compared to the national average of 17.2%. Appendix D shows the rankings of American cities based on the percent of real estate taxes to gross possible total income. Out of 116 American cities shown by the Institute of Real Estate Management in 1988, Topeka had the twelfth highest apartment real estate taxes. Only in the states of Minnesota, Wisconsin, Michigan, Iowa, Oregon, New York and New Hampshire were apartment real property taxes higher. These conclusions are clearly supported by the Fisher report which found, wherever it looked, that in 1988 in Kansas, multi-family was assessed higher, and in many places appreciably higher, than single family. Thus, in 1989, apartment taxes may have gone down because the 1988 taxes were too high. The

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object of reappraisal was fairer appraisals. There is ample evidence that the 1988 appraisals on apartments were too high. Raising multi-family's classification figure says lets get back to 1988 figures, even if they were wrong.

The third false conclusion is that apartment owners in the long run pay real estate taxes and apartment renters do not pay such taxes. Nothing could be farther from the truth. The expenses in operating multi-family housing directly determine the rents that are charged for such housing. Real estate taxes are a significant part of these expenses--in Kansas more than elsewhere. Expenses determine rents. I have attached as Appendix E a trend analysis from the <u>1988 Manual of the Institute of Real Estate Management</u>. It shows the relationship between rents and expenses in the United States from 1973 to 1987. As you can see from the chart when expenses go up then rents go up. When expenses go down, rents go down. Small expense increases dictated small rent increases. Large expense increases dictated large rent increases. Ask someone in the apartment industry if expenses determine rents. And if you don't accept their word, study this chart.

Finally, implicit in all of this is the premise that by raising apartments there will be money to lower the rate on commercial property. Apartments account for only 0.67% of Kansas' assessed valuation. Raising the multi-family number would be only window dressing.

Classification was studied by and recommended to the legislature by the Kansas Tax Review Committee in June of 1984. This committee held some six hearings statewide. They thoroughly considered the matter. They recommended that apartments and single family be taxed under the same classification. They rejected the concept that there should be two classes of residency in Kansas and that residents of apartments should bear a proportionately heavier real estate tax burden.

There are many thousands of citizens who live in Kansas multi-family rental properties. They range from young students to the elderly. Using a different classification percentage for multi-family residents designates them as second class citizens paying a disproportionate share of real property taxes because of their place of residency. Tenants in Kansas should not be second class citizens. All Kansans should be treated and taxed alike.

REPORT ON THE VALUATION OF LARGE SCALE MULTI-FAMILY RESIDENTIAL PROPERTY FOR THE 1989 TAX YEAR

PREPARED BY

DONALD GORDON CKA
DOUGLAS COUNTY APPRAISER

OVERVIEW

This paper addresses the methodology used in the generation of Market Value[1] estimates for the 1989 tax year. It will show not only the problems caused by the software used for the valuation run, but the problems caused by the information provided to the office of the appraiser for valuation purposes. The conclusion will show why the Market Value estimate for 1989 should be adjusted to insure an equity in the appraisal of real property in Douglas County.

Computer Software problems:

As part of the Statewide reappraisal, Douglas County contracted with Cole Layer Trumble (CLT) to purchase a package of computer programs to aid the Appraiser in the mass appraisal of real property in Douglas County as required by State Statute. As part of the package, a set of programs were included to calculate the Income Approach to Value[2]. The counties which did not already have an in house data processing system were provided help in the purchase of an IBM System 36 processor and the version of the mass appraisal software by CLT. The state also has a System 36 and is able to test the programs and advise the smaller counties of problems. The five largest counties in Kansas, which had an existing computer system, were sold custom versions of the programs. This was a major problem since errors were not reported to each of the major counties when discovered by the State and the programs themselves are different between the small system 36 and the larger IBM 4381 such as in Douglas County. It is this lack of communication, along with insufficient operating documentation, that led to the errors that caused many large scale multi-family apartments to be inaccurately valued. The problems in the programming, distribution of software fixes and lack of reports on errors have plagued all five of the large counties. Listed below are the findings after a review of the software programs, hearing files, and other documentation on the appraisal of multi-family properties.

1) The age of the complex was not being taken into account in calculating the expenses. This resulted in an inaccurate valuation of all apartments using the income approach. It only stands to reason that as a project ages its operating expense increasesd. Because of an error in the set up of the program, apartment age was not considered. This was often pointed out by owners and tax reps during the informal hearings in the spring of 1989. Because the cause of this problem was not known during the informal hearings, adjustments were made to many apartments using manual methods.

Some owners who pointed out this error in the expense calculation received benefit of the adjustment. This problem was fixed last month by CLT.

2) Calculation of the total number of rental units in a complex. The original design of the software program did not match the instructions provided in the training program or manuals. The original software program was designed to obtain the total number of apartments from the first data collection card. In the courses taught by the Department of Revenue, Property Valuation Division, it was explained that each card should reflect only the units described on that card, that the software program would total these up. This was fixed last month after calling CLT. Because of the confusion, some parcels, which could have been valued using the income approach were valued only using a cost value since income was far below a reasonable estimate.

3) A problem was discovered concerning the entry of data on efficiency units[3] into the system. Because the system was set by CLT not to allow an entry of a "0" bedroom unit, all efficiency units were entered as 1 bedroom units by the input staff. This was done without approval of supervisors. One can only surmise the input operator did this to keep up production. This caused the projected income to be higher than actual. In some cases the reviewing appraiser was forced to use cost value since the income value was out of a reasonable range. Once again only someone appealing the value would get the relief of a manual adjustment.

Problems with information submitted by owners:

1) Some owners and management companies submitted information on income and expenses. Mastercraft, Meadowbrook and other properties owned or managed by them refused to give any information on rents, unit counts, or expenses. Apartment owners associations advised their members not to provide any income or expense information. Other owners submitted information which was not representative of the true operation of the property. This caused errors in the preliminary valuation run and forced some estimation to be made with no basis in fact. Through the hearing process and throughout the summer of 89, additional data has been obtained and analyzed.

Conclusion:

Attachment 1 lists the major apartment complexes in Douglas County, The Market Value used for the generation of the 1989 tax billing, the corrected 1989 market value, and the % change in value after the corrections were made. It is the Appraisers opinion that the values listed under the heading "CORRECTED 1989 VALUE" should be implemented for the 1989 tax year.

Owners of the affected parcels should be sent an adjusted tax bill. It is the opinion of the county counselor that this is possible under KSA 79-1701(a) and KSA 79-1701(h). The office of the Appraiser has taken steps to insure that an open line of communication is maintained between other Counties, the State, and CLT regarding errors or changes in the software. Progress is being made towards getting the cooperation of the owners in submission of income and expense information needed for the annual valuation run.

END NOTES

1. Property Assessment Valuation; International Association of Assessing Officers. "Market Value is the most probable price expressed in terms of money that a property would bring in terms of money that a property would bring if exposed for sale in the open market in an arm's-length transaction between a willing seller and a willing buyer, both of whom are knowledgeable concerning all uses to which it is capable of being used."

2. Real Estate Investment/ Stephen A. Pyhrr; John Wiley & Sons, 1988. " A method by which the present value of a future income stream may be expressed in present day dollars." It is based on using existing operations and management of many similar projects to project the operation and hence the income stream property of the property under study.

3. Efficiency units are defined as a living unit in which the sleeping area is not in a separate room. It may have a half wall separating the sleeping area from the living/kitchen area. Often they will rent for $75 to $100 less than a one bedroom apartment in the same complex.

Douglas County Apartments
Appraised Value and Corrections

Project No.	1989 Market Used For Taxes	Corrected 1989 Value	Percent Change
1	659,300	817,700	24%
2	319,100	407,500	28%
3	308,900	599,100	94%
4	195,100	375,400	92%
5	85,900	111,600	30%
6	2,290,300	1,875,600	-18%
7	1,622,600	1,338,700	-17%
8	138,700	233,100	68%
9	126,700	229,500	81%
10	212,500	289,600	36%
11	1,585,500	2,475,000	56%
12	1,802,700	3,321,300	84%
13	168,800	420,000	149%
14	63,000	95,500	52%
15	172,000	199,400	16%
16	123,700	144,800	17%
17	323,100	400,000	24%
18	190,000	150,100	-21%
19	724,700	1,446,700	100%
20	915,100	2,291,600	150%
21	968,700	1,452,100	50%
22	262,900	745,700	184%
23	268,000	435,000	62%
24	434,300	756,900	74%
25	727,500	1,928,900	165%
26	662,700	808,500	22%
27	332,100	409,600	23%
28	274,200	338,200	23%
29	271,300	315,300	16%
30	67,900	78,200	15%
31	739,300	517,900	-30%
32	76,480	96,300	26%
33	116,600	129,200	11%
34	192,900	270,100	40%
35	127,500	101,600	-20%
36	80,100	101,800	27%
37	88,700	116,500	31%
38	285,800	204,400	-28%
39	127,500	176,800	39%
40	172,700	151,500	-12%
41	142,500	161,100	13%
42	125,000	174,900	40%
43	113,800	101,200	-11%
44	155,800	177,500	14%
45	404,900	1,072,500	165%
46	443,700	491,800	11%
47	250,000	279,500	12%
48	85,300	74,400	-13%
49	113,200	160,900	42%

50	291,900	233,400	-20%
51	568,800	1,110,800	95%
52	684,500	1,062,400	55%
53	656,100	486,100	-26%
54	138,700	233,100	68%
55	60,200	79,700	32%
56	120,300	159,300	32%
57	3,061,700	7,101,000	132%
58	977,800	1,424,300	46%
59	162,000	212,100	31%
60	103,400	116,800	13%
61	236,600	362,100	53%
62	244,600	344,900	41%
63	125,400	183,200	46%
64	811,300	1,122,400	38%
65	212,000	634,100	199%
66	67,153	276,000	311%
67	66,938	276,000	312%
68	269,000	381,700	42%
69	202,500	341,200	68%
70	321,200	546,300	70%
71	1,693,900	2,052,200	21%
72	135,400	122,100	-10%
73	46,500	55,300	19%
74	107,400	160,600	50%
75	138,700	233,100	68%
76	138,700	233,100	68%
77	212,000	634,100	199%
Totals	31,993,771	49,227,900	54%

GARDEN TYPE BUILDINGS
UNFURNISHED

MEDIAN INCOME AND OPERATING COSTS

SELECTED REGIONS
U.S.A. AND CANADA

TOTAL U.S.A.: 3,016 BUILDINGS 531,752 APARTMENTS 438,530,508 RENTABLE SQUARE FEET

CANADA: 79 BUILDINGS 12,564 APARTMENTS 11,060,041 RENTABLE SQUARE FEET

	TOTAL U.S.A.							CANADA						
	BLDGS.	% OF GPTI			$/SQ.FT.			BLDGS.	% OF GPTI			$/SQ.FT.		
INCOME		MED	LOW	HIGH	MED	LOW	HIGH		MED	LOW	HIGH	MED	LOW	HIGH
RENTS-APARTMENTS	(3014)	97.5%	96.3%	98.5%	5.59	4.71	6.63	(79)	97.7%	96.1%	98.6%	6.02	5.49	6.94
RENTS-GARAGE/PARKING	(335)	1.4	.6	2.6	.08	.04	.16	(28)	2.1	.5	4.5	.15	.04	.30
RENTS-STORES/OFFICES	(30)	1.1	.6	2.1	.07	.04	.12	(1)	1.4			.09		
GROSS.POSSIBLE RENTS	(3013)	97.7%	96.6%	98.6%	5.60	4.71	6.67	(79)	98.3%	97.4%	99.1%	6.02	5.49	7.08
VACANCIES/RENT LOSS	(3015)	9.1	5.0	14.7	.54	.29	.87	(79)	5.4	.9	13.4	.37	.07	.74
TOTAL RENTS COLLECTED	(3014)	88.1	81.9	92.7	4.91	4.08	5.96	(79)	92.2	83.8	97.9	5.60	4.76	6.67
OTHER INCOME	(2804)	2.5	1.6	3.6	.14	.09	.21	(71)	1.8	1.1	2.7	.11	.07	.18
GROSS POSSIBLE INCOME	(3015)	100.0%	100.0%	100.0%	5.77	4.85	6.89	(79)	100.0%	100.0%	100.0%	6.17	5.70	7.26
TOTAL COLLECTIONS	(3014)	90.9	85.3	95.0	5.08	4.23	6.17	(79)	94.6	86.4	99.1	5.72	4.86	6.74
EXPENSES														
MANAGEMENT FEE	(2900)	4.5	3.9	4.9	.26	.21	.32	(71)	4.4	3.8	4.7	.27	.23	.31
OTHER ADMINISTRTVE.**	(2931)	6.6	3.9	9.4	.39	.23	.55	(73)	5.4	2.3	7.5	.35	.12	.51
SUBTOTAL ADMINIST.	(3005)	11.1%	8.2%	13.9%	.65	.48	.82	(79)	8.6%	5.4%	11.5%	.53	.35	.69
SUPPLIES	(2707)	.4	.2	.8	.02	.01	.05	(70)	.3	.2	.5	.02	.01	.03
HEATING FUEL-CA ONLY*	(1364)	.7	.3	1.4	.04	.02	.08	(25)	.7	.4	1.2	.04	.02	.07
CA & APTS.*	(637)	3.9	2.9	5.6	.26	.17	.37	(22)	3.6	2.5	6.1	.30	.18	.36
ELECTRICITY--CA ONLY*	(2635)	1.8	1.2	2.5	.10	.07	.14	(59)	1.6	.8	2.1	.09	.05	.13
CA & APTS.*	(331)	2.6	1.5	5.9	.13	.08	.40	(19)	1.8	1.3	5.4	.11	.08	.43
WATER/SEWER--CA ONLY*	(136)	1.0	.5	2.0	.06	.02	.13	(11)	.4	.3	.6	.03	.01	.04
CA & APTS.*	(2860)	2.8	1.9	4.0	.16	.12	.23	(65)	2.9	1.7	4.4	.17	.11	.27
GAS----------CA ONLY*	(1015)	.5	.2	1.3	.03	.01	.10	(21)	.6	.5	2.1	.05	.03	.14
CA & APTS.*	(781)	1.6	.9	2.3	.10	.06	.15	(15)	1.9	.9	2.3	.12	.05	.15
BUILDING SERVICES	(2533)	1.1	.7	1.7	.06	.04	.10	(49)	1.4	.8	1.9	.08	.05	.12
OTHER OPERATING	(1288)	.6	.2	1.8	.04	.01	.10	(35)	.5	.1	1.3	.03	.00	.09
SUBTOTAL OPERATING	(3015)	9.0%	6.6%	11.9%	.51	.38	.70	(78)	8.6%	5.6%	11.5%	.54	.29	.77
SECURITY**	(1225)	.4	.2	.7	.02	.01	.04	(22)	.3	.2	.5	.02	.01	.04
GROUNDS MAINTENANCE**	(2919)	2.1	1.4	3.0	.12	.08	.18	(76)	1.8	1.2	2.5	.11	.07	.15
MAINTENANCE-REPAIRS	(2986)	3.4	1.8	5.7	.19	.10	.32	(78)	4.7	3.1	7.5	.28	.21	.45
PAINTING/DECORATING**	(2942)	2.2	1.3	3.5	.13	.08	.21	(78)	1.9	1.3	2.7	.12	.08	.19
SUBTOTAL MAINTENANCE	(3015)	8.4%	6.0%	11.6%	.49	.35	.68	(79)	8.7%	7.2%	12.0%	.53	.41	.77
REAL ESTATE TAXES	(3002)	$\boxed{7.8}$	5.7	10.1	.45	.31	.61	(79)	8.8	5.8	11.7	.55	.36	.86
OTHER TAX/FEE/PERMIT	(1639)	.1	.1	.4	.01	.00	.02	(40)	.2	.1	.6	.01	.00	.04
INSURANCE	(3000)	2.4	1.7	3.2	.13	.10	.19	(77)	1.4	.8	2.7	.09	.06	.16
SUBTOTAL TAX-INSURNCE	(3011)	10.6%	8.4%	13.3%	.61	.47	.78	(79)	11.4%	8.3%	16.1%	.71	.55	1.03
RECREATNL/AMENITIES**	(1750)	.4	.2	.8	.02	.01	.05	(40)	.9	.4	1.6	.07	.02	.09
OTHER PAYROLL**	(2375)	4.9	3.1	6.9	.28	.18	.39	(61)	3.6	2.1	6.1	.22	.14	.36
TOTAL ALL EXPENSES	(3013)	45.2%	39.1%	52.1%	2.62	2.19	3.13	(79)	43.3%	37.9%	50.3%	2.73	2.33	3.32
NET OPERATING INCOME	(3015)	44.1%	35.2%	52.4%	2.47	1.77	3.34	(79)	47.4%	39.9%	55.8%	2.89	2.29	3.74
PAYROLL RECAP**	(2667)	9.2	6.9	11.5	.53	.41	.67	(69)	7.1	4.5	10.5	.45	.29	.62

FOOTNOTE: For a description of Utility Expense (*) and Payroll Cost (**) reporting, and an explanation of the report layouts and method of data analysis, refer to the sections entitled *Guidelines for the Use of this Data* and *Interpretation of a Page of Data*. For definitions of the income and expense categories, refer to the Appendix.

GARDEN TYPE BUILDINGS

2-8

INSTITUTE OF REAL ESTATE MANAGEMENT
1988 FIGURES

GARDEN TYPE BUILDINGS
UNFURNISHED

MEDIAN INCOME AND OPERATING COSTS

SELECTED METROPOLITAN AREAS
U.S.A.

	TAMPA-ST PETER., FL							TOPEKA, KS			TRENTON, NJ		
	47 BUILDINGS 9,630 APARTMENTS 7,478,516 RENTABLE SQUARE FEET							10 BLGS. 1,119 APTS. 918,221 SQ.FT.			5 BLGS. 1,398 APTS. 1,029,797 SQ.FT.		
	BLDGS.	-----% OF GPTI------			----$/SQ.FT.----			BLDGS.	% GPTI	$/SQFT	BLDGS.	% GPTI	$/SQFT
		MED	LOW	HIGH	MED	LOW	HIGH		MED	MED		MED	MED
INCOME													
RENTS-APARTMENTS	(46)	96.1%	95.5%	97.2%	5.63	4.77	7.25	(10)	96.6%	4.84	(5)	99.3%	7.01
RENTS-GARAGE/PARKING	( )							(4)	.7	.04	( )		
RENTS-STORES/OFFICES	( )							( )			(1)	.7	.06
GROSS POSSIBLE RENTS	(46)	96.1%	95.5%	97.2%	5.60	4.77	6.83	(10)	96.6%	4.87	(5)	100.0%	7.01
VACANCIES/RENT LOSS	(46)	8.8	6.8	12.2	.55	.31	.84	(10)	11.3	.60	(5)	3.8	.23
TOTAL RENTS COLLECTED	(46)	87.4	83.6	90.7	4.98	4.16	6.51	(10)	85.4	4.74	(5)	96.1	6.17
OTHER INCOME	(46)	3.9	2.8	4.5	.23	.15	.31	(10)	3.6	.16	(2)	1.7	.12
GROSS POSSIBLE INCOME	(46)	100.0%	100.0%	100.0%	5.94	4.99	7.33	(10)	100.0%	4.93	(5)	100.0%	7.13
TOTAL COLLECTIONS	(46)	91.4	88.0	93.2	5.28	4.43	6.66	(10)	88.9	4.79	(5)	96.2	6.29
EXPENSES													
MANAGEMENT FEE	(46)	4.6	4.4	4.8	.31	.23	.36	(10)	4.4	.23	(5)	4.9	.35
OTHER ADMINISTRTVE.**	(46)	6.6	5.6	8.0	.42	.30	.58	(10)	7.8	.38	(3)	5.6	.35
SUBTOTAL ADMINIST.	(46)	11.3%	10.2%	13.7%	.72	.56	.96	(10)	12.6%	.58	(5)	8.8%	.70
SUPPLIES	(44)	.3	.2	.5	.02	.01	.03	(9)	.2	.01	(4)	1.1	.04
HEATING FUEL-CA ONLY*	(11)	.3	.2	.5	.01			(6)	.7	.03	(1)	3.3	.24
CA & APTS.*	( )				.18			(1)	.2	.01	(2)	9.2	.56
ELECTRICITY--CA ONLY*	(41)	2.2	1.8	2.4	.13	.10	.16	(6)	2.5	.11	(5)	1.8	.13
CA & APTS.*	(4)	2.7			.12			(4)	2.7	.15	( )		
WATER/SEWER--CA ONLY*	(3)	.3			.03			( )			(1)	4.1	.29
CA & APTS.*	(43)	3.4	2.5	4.2	.22	.18	.27	(10)	2.4	.12	(4)	5.5	.38
GAS----------CA ONLY*	(32)	.4	.2	.4	.02	.01	.03	(2)	2.5	.14	(1)	2.5	.18
CA & APTS.*	(5)	.3			.02			(1)	2.0	.10	(1)	1.6	.10
BUILDING SERVICES	(24)	1.9	1.3	2.5	.10	.07	.13	(10)	1.3	.05	(3)	2.0	.18
OTHER OPERATING	(25)	3.4	2.5	3.8	.23	.14	.28	(6)	1.0	.06	(1)	2.5	.22
SUBTOTAL OPERATING	(46)	9.0%	7.7%	10.7%	.50	.45	.69	(10)	9.8%	.47	(5)	11.8%	1.18
SECURITY**	(29)	.6	.4	.9	.04	.03	.05	(2)	.2	.01	( )		
GROUNDS MAINTENANCE**	(45)	3.1	2.1	3.4	.19	.14	.25	(10)	1.4	.07	(4)	2.6	.14
MAINTENANCE-REPAIRS	(46)	2.5	1.8	3.5	.17	.10	.23	(10)	4.3	.21	(5)	11.2	.92
PAINTING/DECORATING**	(44)	2.0	1.2	2.4	.13	.08	.15	(10)	2.0	.10	(5)	1.4	.17
SUBTOTAL MAINTENANCE	(46)	8.3%	6.1%	9.6%	.50	.37	.63	(10)	7.7%	.39	(5)	16.6%	1.15
REAL ESTATE TAXES	(46)	10.6	8.7	11.0	.60	.47	.77	(10)	$\boxed{12.8}$	.65	(5)	11.5	.79
OTHER TAX/FEE/PERMIT	(37)	.2	.2	.3	.02	.01	.02	(6)	.3	.01	(3)	.5	.03
INSURANCE	(46)	3.3	1.9	3.9	.18	.12	.24	(10)	2.1	.10	(4)	3.7	.15
SUBTOTAL TAX-INSURNCE	(46)	13.4%	11.4%	15.1%	.82	.58	1.02	(10)	14.2%	.76	(5)	15.7%	1.03
RECREATNL/AMENITIES**	(12)	.4	.3	.5	.02	.02	.04	(8)	.4	.02	(3)	.6	.05
OTHER PAYROLL**	(41)	4.7	4.1	6.3	.32	.25	.35	(10)	5.3	.27	(4)	5.6	.47
TOTAL ALL EXPENSES	(46)	47.8%	44.8%	51.3%	2.77	2.37	3.50	(10)	49.5%	2.48	(5)	58.5%	3.89
NET OPERATING INCOME	(46)	42.2%	37.1%	47.1%	2.58	1.72	3.22	(10)	40.5%	2.35	(5)	38.2%	2.46
PAYROLL RECAP**	(46)	9.5	8.6	11.6	.62	.52	.68	(10)	8.6	.47	(3)	7.1	.56

FOOTNOTE: For a description of Utility Expense (*) and Payroll Cost (**) reporting, and an explanation of the report layouts and method of data analysis, refer to the sections entitled *Guidelines for the Use of this Data* and *Interpretation of a Page of Data*. For definitions of the income and expense categories, refer to the Appendix.

GARDEN TYPE BUILDINGS

APPENDIX C

2-C

AMERICAN CITIES COMPARISON OF
REAL ESTATE TAXES ON APARTMENTS

City	Real Estate Taxes as a Percent of Gross Possible Taxable Income (GPTI)	Rank based on Real Est. Taxes as a percent of GPTI
Abilene, TX	9.2	46
Akron, OH	10.5	29
Albany-Troy, NY	12.0	15
Albuquerque, NM	5.2	100
Allentown-Beth, PA	8.2	54
Ashville, NC	7.3	72
Atlanta, GA	6.6	82
Augusta, GA	4.1	113
Austin, TX	9.6	41
Baltimore, MD	7.4	70
Birmingham, AL	4.5	109
Boston, MA	8.4	54
Buffalo, NY	12.3	14
Cedar Rapids, IA	16.9	3
Charleston, SC	7.5	68
Charleston, WV	7.9	64
Chattanooga, TN	11.3	19
Chicago, IL	10.5	29
Charlotte, NC	6.8	81
Cincinnati, OH	5.9	88
Cleveland, OH	7.3	72
Colorado Springs, CO	7.3	72
Columbia, SC	6.3	87
Columbus, OH	6.6	82
Dallas, TX	8.5	52
Dayton, OH	5.5	93
Daytona Beach, FL	10.1	32
Denver, CO	8.2	57
Des Moines, IA	14.2	8
Detroit, MI	10.6	26
El Paso, TX	8.4	54
Eugene, OR	18.0	1
Evansville, IN	11.1	21
Fayetteville, NC	9.6	41
Flint, MI	10.0	36
Ft. Worth, TX	9.2	46
Fresno, CA	7.3	72
Gainesville, FL	10.0	36
Gary-Hammond, IN	9.6	41
Grand Rapids, MI	10.1	33
Greensboro-H Pt, NC	5.8	89
Greenville, SC	7.4	70
Green Bay, WI	11.8	16
Hamilton, OH	3.8	114
Harrisburg, PA	7.2	76
Hartford, CT	8.0	61
Houston, TX	9.0	48
Huntsville, AL	5.7	91
Indianapolis, IN	7.9	64
Jackson, MS	11.4	18
Jacksonville, FL	9.8	40
Kalamazoo, MI	10.6	26
Kansas City, MO	8.5	52
Knoxville, TN	10.7	25
Lancaster, PA	8.2	57
Lansing, MI	13.7	11
Las Vegas, NV	4.9	101
Lexington, KY	4.9	101
Little Rock, AR	4.9	101
Los Angeles, CA	4.6	107
Louisville, KY	5.4	96
Lincoln, NE	11.3	19
Macon, GA	6.6	82
Madison, WI	13.9	9

City	Real Estate Taxes as a Percent of Gross Possible Taxable Income (GPTI)	Rank based on Est. Taxes as a percent of GPTI
Manchester, NH	13.9	9
Memphis, TN	7.1	78
Miami, FL	10.5	29
Milwaukee, WI	14.9	15
Minneapolis-S Pl, MN	16.7	4
Mobile, AL	5.3	98
Montgomery, AL	4.2	112
Nashville, TN	6.9	80
New Orleans, LA	5.4	96
Newark, NJ	10.9	23
Newport News, VA	5.5	93
Norfolk, VA	5.7	91
Oakland, CA	7.2	76
Odessa-Midland, TX	10.1	32
Oklahoma City, OK	4.6	107
Omaha, NE	10.4	31
Orange County, CA	3.4	115
Orlando, FL	8.7	50
Oxnard-Ventura, CA	6.6	82
Peoria, IL	10.9	23
Philadelphia, PA	8.0	61
Phoenix, AZ	8.0	61
Pittsburgh, PA	9.4	45
Portland, OR	14.8	6
Providence, RI	10.0	36
Raleigh-Durham, NC	6.5	86
Reno, NV	4.3	111
Richmond, VA	5.8	89
Roanoke, VA	6.7	82
Rochester, NY	14.5	7
Sacramento, CA	7.7	66
St. Cloud, MN	17.9	2
St. Louis, MO	9.6	41
Salt Lake City, UT	5.7	91
San Antonio, TX	8.9	49
Saginaw, MI	9.9	38
San Bernardino, CA	8.1	60
San Diego, CA	5.3	98
San Francisco, CA	4.6	105
San Jose, CA	3.4	116
Santa Barbara, CA	4.4	110
Seattle, WA	7.7	66
Savannah, GA	8.6	51
Sioux City, IA	12.6	13
S. Berd/Ft. Wayne, IN	7.5	68
State College, PA	5.5	93
Stockton, GA	7.2	76
Tacoma, WA	8.3	56
Tampa-St. Peter, FL	10.6	26
Topeka, KS	12.8	12
Trenton, NJ	11.5	17
Tucson, AZ	9.9	38
Tulsa, OK	4.8	104
Washington, DC	4.6	104

Historical Overview of Operating Experience

The four tables on this page provide a brief overview of the variations in operating experience over the past fifteen years. The data are grouped by building type for all unfurnished buildings in the U.S. sample.

Five columns of data appear for each building type (left to right): Gross Possible Apartment Rents (Rents); Gross Possible Total Income (GPTI); Total Actual Collections (TAC); Total All Expenses (TAE); and Net Operating Income (NOI).

All figures are reported in Dollars per Square Foot of Rentable Area. All figures from 1973 to 1976 are averages. All figures from 1977 to 1987 are medians.

Table 17: ELEVATOR BUILDINGS

Year	Rents	GPTI	TAC	TAE	NOI
1973	3.66	3.97	3.85	2.04	1.81
1974	3.30	3.57	3.42	1.89	1.53
1975	3.55	3.80	3.64	2.03	1.62
1976	3.75	4.04	3.87	2.15	1.59
1977	3.63	3.85	3.71	2.14	1.53
1978	3.94	4.13	4.04	2.24	1.69
1979	4.20	4.49	4.32	2.34	1.96
1980	4.58	4.82	4.65	2.53	1.99
1981	5.31	5.59	5.37	2.89	2.48
1982	6.04	6.29	6.12	3.10	2.96
1983	6.68	7.02	6.73	3.31	3.31
1984	7.24	7.64	7.40	3.53	3.74
1985	6.91	7.26	6.75	3.55	3.33
1986	7.27	7.57	7.10	3.58	3.48
1987	7.51	7.80	7.36	3.95	3.41

Table 18: LOW-RISE, 12-24 UNITS

Year	Rents	GPTI	TAC	TAE	NOI
1973	2.32	2.38	2.27	1.18	1.09
1974	2.38	2.45	2.33	1.18	1.14
1975	2.50	2.58	2.47	1.26	1.21
1976	2.63	2.69	2.57	1.36	1.21
1977	3.09	3.17	3.03	1.54	1.42
1978	3.32	3.37	3.28	1.61	1.59
1979	3.62	3.73	3.52	1.74	1.73
1980	3.96	4.03	3.84	1.86	1.90
1981	4.43	4.48	4.24	2.06	2.18
1982	4.86	4.94	4.68	2.26	2.34
1983	5.22	5.33	5.03	2.31	2.70
1984	5.53	5.62	5.37	2.36	2.84
1985	5.73	5.86	5.60	2.52	2.94
1986	6.04	6.21	5.64	2.72	2.98
1987	6.21	6.21	5.95	2.77	3.16

Table 19: LOW-RISE 25+ UNITS

Year	Rents	GPTI	TAC	TAE	NOI
1973	2.41	2.48	2.34	1.16	1.18
1974	2.54	2.63	2.48	1.26	1.23
1975	2.71	2.80	2.61	1.39	1.22
1976	2.85	2.94	2.78	1.45	1.33
1977	3.18	3.29	3.09	1.61	1.51
1978	3.30	3.41	3.24	1.64	1.57
1979	3.72	3.83	3.58	1.75	1.79
1980	4.02	4.12	3.88	1.95	1.93
1981	4.52	4.65	4.45	2.13	2.19
1982	4.96	5.10	4.83	2.32	2.37
1983	5.25	5.43	5.05	2.40	2.64
1984	5.73	5.94	5.57	2.62	2.93
1985	5.90	6.11	5.55	2.68	2.85
1986	5.82	6.00	5.48	2.73	2.79
1987	5.93	5.96	5.46	2.72	2.73

Table 20: GARDEN TYPE BUILDINGS

Year	Rents	GPTI	TAC	TAE	NOI
1973	2.31	2.38	2.23	1.10	1.13
1974	2.49	2.58	2.38	1.22	1.16
1975	2.65	2.73	2.52	1.31	1.21
1976	2.78	2.87	2.67	1.40	1.27
1977	2.96	3.04	2.86	1.47	1.41
1978	3.14	3.23	3.04	1.51	1.52
1979	3.42	3.54	3.32	1.62	1.66
1980	3.74	3.86	3.60	1.73	1.81
1981	4.12	4.24	4.00	1.93	2.00
1982	4.53	4.67	4.37	2.07	2.24
1983	4.79	4.94	4.58	2.18	2.33
1984	5.06	5.21	4.80	2.31	2.44
1985	5.26	5.43	4.91	2.45	2.44
1986	5.44	5.61	5.03	2.51	2.48
1987	5.59	5.77	5.08	2.62	2.47

A2 THE WALL STREET JOURNAL THURSDAY, JANUARY 17, 1991.

ONOMY

Developers Of Apartments Face Adversity

By JIM CARLTON
Staff Reporter of THE WALL STREET JOURNAL

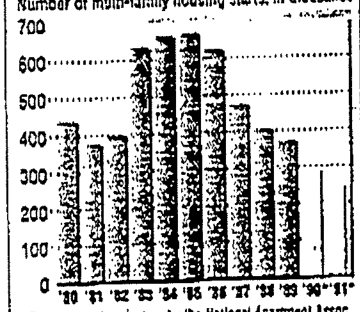
PHOENIX, Ariz.—C. Preston Butcher, president of Lincoln Property West, a major apartment developer, appraises the industry in the wake of Congress's Tax Reform Act of 1986 and declares "our industry has just been shut down. It's as close to zero as you can get."

Mr. Butcher's bleak assessment came at the annual conference of the National Multi Housing Council, a trade group of apartment builders and owners. The conference took place here last week. It was not an upbeat affair. The National Apartment Association, another industry group, estimates that 1990 starts on multifamily units stood at 290,000, down from the 1980s peak of 669,000, reached in 1985. The NAA forecast an additional 14% drop this year to 250,000 starts, a depressed level that builders believe will continue for the next three years. They may be too optimistic—October starts dropped to an annual rate of 177,000, the lowest level since data gathering started 31 years ago. Moreover, a November recovery in the figures is considered an aberration.

Industry officials feel their business has been been hammered by Congress, which

Apartment Slump

Number of multi-family housing starts, in thousands



*Estimate and projection by the National Apartment Assoc.
Source: U.S. Commerce Dept.

first fostered a huge construction glut by offering investors tax breaks in 1982, then initiated a bust by eliminating the breaks retroactively in 1986. Investing in apartments has crashed, but the glut still persists, depressing rents in many parts of the country. To compound the problem, growth in household formations is shrinking, recession is generating layoffs among renters nationwide, and banks are now cutting down on apartment lending for either new units or refinancing of existing projects. That tightening of credit is made even more acute because many owners

ects. That tightening of credit is made even more acute because many owners need to refinance five-year to seven-year mortgage loans, and can't meet the banks' demands for 30% to 40% equity to back refinanced loans.

"Right now, I think, is the darkest hour in [multi-family] real estate that I have seen in my life," said Thomas W. Lewis, Southwest regional partner of Trammell Crow Residential, an Atlanta-based developer loosely affiliated with Dallas-based Trammell Crow Co.

Boon for Renters

Of course, the glut and other trends are a short-term boon for renters. In some of the most depressed markets, such as Phoenix and Denver, rents have dropped as much as 15%. In many other national markets, said Deborah L. Brett, senior vice president of the Real Estate Research Corp. in Chicago, rent increases have slowed to about 4% annually from the 6% to 7% increases landlords were enjoying in the mid-1980s. Generally speaking, industry officials said, landlords need at least 6% to break even. [illegible] may last only for another year or two, because the basic response of big developers has been to slash construction of apartments, and small developers have just gone out of business.

"If you had 100 [competitors] in 1985, you will see 70 guys in 1995," said Kelley A. Bergstrom, president of Chicago-based JMB Properties Co., and chairman of the Multi Housing Council.

"I think you've got a lot of people who just want to survive the next three years," said William H. Elliott, chairman and chief executive officer of Angeles Corp. in Los Angeles. "The problem is a lot of them are being taken right to the brink because the finances are killing them."

Ronald A. Ratner, president of Forest City Development in Cleveland, said his firm will build 2,500 apartments this year and as few as 300 in 1992, compared with an annual average of 3,000 to 4,000 units for the past six years.

Trammell Crow Residential, which has started more new units than any other developer in each of the past five years, according to Builder magazine, is planning to start no more than 4,000 units this year, said J. Ronald Terwilliger, managing partner of the concern. That compares with 12,000-plus new units in each of the last two years and a peak of 15,000 new units in 1986. The company has also fired 200 of its 550 employees in development and construction, and Mr. Terwilliger won't rule out further personnel cuts.

Mr. Terwilliger said the cutbacks are attributable to a shortage of credit, which he said isn't all bad in view of overbuilding. "From 1984 to 1989, the banks just opened their checkbooks," he said. "I think it's very positive for our industry that the credit crunch has occurred."

Lincoln Property West, based in Foster City, Calif., is curbing its investment in both multifamily and warehouses to only $60 million this year after investing $100 million in 1990, $200 million in 1989, and $500 million in 1986, said Mr. Butcher, its president. Mr. Butcher said his company also began retrenching for the slowdown two years ago, laying off 25% of its work force. Although Lincoln Property West has backed away from the development end of its business, Mr. Butcher said it is re-emphasizing management of existing assets.

As if there weren't enough problems, many large apartment owners and builders have to deal with the credit crunch. Owners are faced with paying off low-interest, short-term construction and development loans that they took out five to seven years ago and that are now coming due.

The problem is that it has become difficult to obtain refinancing, even if a company maintains a relatively low loan-to-value ratio, says Mr. Bergstrom of JMB. In many cases, adds Duncan L. Matteson, president of Matteson Investment Corp. in Menlo Park, Calif., lending institutions are requiring 30% to 40% equity before they will give out any money, compared with 10% to 15% before.

Lenders have been taking heavy losses on apartment loans in states with depressed markets, including Arizona and the Northeast states. Under pressure from federal regulators to reduce their real estate portfolios, banks and thrifts—traditional lending sources for multifamily housing—have reduced lending drastically. Commercial banks, for example, increased their lending in multifamily housing by only 0.65% from the first to second quarters of 1990, compared with a full-year rise of 9.08% from mid-1989 to mid-1990, according to a report by the Roulac Group of Deloitte & Touche. In addition, the Federal Home Loan Mortgage Corp. recently withdrew from part of the market, as a result of unexpected loan losses.

As bad as things are, the industry still fares better than some other real estate sectors, and the basic law of supply and demand offers hope for a recovery.

The value of apartment property rose 3.3% during the 12 months preceding November. Although trailing the inflation rate, it was still far better than 0.8% for office buildings, 0.6% for warehouse and 0.3% for retail, according to the Liquidity Fund, a publication of the National Real Estate Index in Emeryville, Calif.

The far-worse glut in office buildings and other commercial markets is leading some well-heeled investors back into the apartment market, which analysts say is positioned to recover fully within the next five years as a diminishing supply of new housing stock pushes vacancies down and rents up.

In California, where the oversupply is quickly being consumed by an annual influx of more than 500,000 new state residents, rents should increase 20% by 1994, or about 7% a year beginning this fall, compared with the current annual increase of 2% to 3%, said Mr. Matteson, of Matteson Investment. In weaker markets, such as Arizona and the Northeast, though, rents are not likely to increase significantly for some time.

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AT&T

TESTIMONY ON BEHALF OF AT&T

WITH REGARD TO SCR 1606 AND 1611

MIKE REECHT

The breakup of the Bell System is six years past, and during that time, competition has flourished in the long distance segment of the telecommunications market. That was the main purpose of the breakup -- to foster competition in a market that for 100-odd years had been allowed monopoly status.

I appreciate the opportunity to share with you today AT&T's views of how tax policy should now be adjusted to reflect this fundamental market change, and offer an amendment to accomplish this proposal.

Put briefly, now that long distance companies compete fully for customers, both among themselves as well as with manufacturers of telecommunications equipment, the time has come to change our classification from "utility" to "business".

Kansas currently classifies the property of both AT&T and the local service providers as public utilities. In reality, they are two different businesses. A local exchange company has an assigned service territory with a captive customer base while an interexchange carrier, like AT&T, competes for every customer's long distance business. For example, if you move to Kansas City, you must order local service from the local exchange company assigned to that area -- you have no other choice. On the other hand, for long distance service you can choose from among the twenty-three long distance carriers listed in the phone book.

To continue classifying long distance companies as utilities works against the effort to foster competition in the telecommunications market. Here is an example of what I mean.

Long distance companies compete strenuously to win private network contracts serving large corporations. Also competing for this growing business segment are manufacturers of telecommunications equipment, who bid their network equipment as an alternative to our network service. Of course, the manufacturers are not classified as utilities, and therefore, their prices do not reflect those increased tax costs. Thus, they have a competitive advantage over long distance companies in winning the contracts.

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Although I recognize this is not the time to put further strain on our budget, I do believe it is important to consider proper tax policy regardless of the dollars. Interexchange telecommunications companies are required to compete with private networks for business. If tax rates are different, then the interexchange carrier can not compete on a level playing field.

The action I am proposing would not alter the legal status of AT&T as a public utility in the state of Kansas. I am simply suggesting that perpetuation of the utility classification for competitive long distance companies is no longer appropriate or productive. Competition has greatly benefited consumers as long distance rates have decreased since the breakup. Given appropriate and nurturing treatment by multiple levels of government, increased competition will continue to benefit the consumers in Kansas.

PROPOSED AMENDMENT TO SCR 1606

Amend SCR 1606 by inserting the following language after the words "railroad real property," as it appears on page 2, line 25, and before the word, "which," on that same line:

> "and interexchange telecommunications carrier real property of any carrier that does not provide basic local exchange telephone service"

and by inserting the following language after the word "property," as it appears on page 3, line 2, and before the word, "which," on that same line:

> "and interexchange telecommunications carrier personal property of any carrier that does not provide basic local exchange telephone service"

PROPOSED AMENDMENT TO SCR 1611

Amend SCR 1611 by inserting the following language after the words "railroad real property," as it appears on page 2, line 25, and before the word, "which," on that same line:

> "and interexchange telecommunications carrier real property of any carrier that does not provide basic local exchange telephone service"

and by inserting the following language after the word "property," as it appears on page 2, line 38, and before the word, "which," on that same line:

> "and interexchange telecommunications carrier personal property of any carrier that does not provide basic local exchange telephone service"

February 6, 1991

Chairman Theissen, and members of the Senate Tax Committee:

My name is Mel Davis of 549 Tallyrand, Wichita, Kansas. I own and operate 288 apartment units in Wichita. Although I am vice-chairman of the Wichita Housing Task Force, I appear here today representing no person or organization except myself.

I object to the proposed legislation that re-classifies multi-family residential property of more than four units from 12% to 15%, while leaving all other residential property at 12%. I object strictly on the grounds of equity. To create a special class for rental real estate used as a residence that would make it different from other real estate used as a residence, would be unfair to the occupant, who, ultimately, must pay the tax.

Although I recognize the problems that you face as a legislator in your never-ending quest for funds, such a classification variation of housing rates places a severe penalty on the members of our community least likely to afford it...the renter. Already the renter is penalized by legislation that allows him no tax shelter from interest or ad valorem taxes, as benefits the home-owner. Now, to increase his rent through higher taxes than is paid by his home-owning neighbor is indeed cruel and unjust.

I have heard that the justification for this inequity is that multi-family owners have enjoyed a windfall from classification. In my own case, and I suspect in the vast majority of cases, reappraisal wiped out such potential windfalls, and didn't even begin to cover the increased costs I, and others in this field, have absorbed. As an illustration of this last point, for the decade of 1980 to 1990, while the Cost of Living escalated by 59%, the average apartment rent in Wichita raised by 19%! In my apartment complex, rents escalated a miniscule 11% during that entire decade. There is no room left for more absorption. I can assure you that future increases in costs must be and will be passed through to the tenant.

As a member of the largest School Board in Kansas, I am painfully aware of the dilemma of increasing demand for services and decreasing revenues, and am sympathetic to your plight. Perhaps the legislature was too generous to residential housing in the original Constitutional Amendment. Perhaps the 12% classification rate should be changed, but if that is the solution, I implore you to retain the linkage of identical classification rates for all residential property, be it single or multi-family. The rationale that guided you and your predecessors when you created this legislation is no less appropriate today than it was then.

Finally, then, for the sake of decency and fairness, please do not attempt to solve our state's fiscal problems on the backs of our most desperate citizens...the voiceless, under-represented, young and old economically distressed apartment dweller, who would like to own a home and enjoy the benefits that go with it, but simply can't afford it. How can we, in the name of justice, increase his burden to lighten ours...and how long will he remain voiceless in the face of such inequity?

Thank you for your consideration.

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