



# MASON-McDUFFIE Investment Co. of Nevada

MORTGAGE BANKERS

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March 24, 1981

Ms. Barbara Weinberg  
Nevada Housing Coalition  
1440 Haskell Street  
Reno, Nevada 89509

RE: Proposed Rent Control Legislation

Dear Ms. Weinberg:

It is our understanding that there is legislation pending in the Nevada Assembly pertaining to proposed rent controls for mobile home and apartment rental housing in Nevada. As a company directly involved in providing and arranging financing for rental housing of all types, we feel obligated to render an opinion regarding this proposed legislation.

Oftentimes, rent controls have proven to exacerbate rather than remedy the situation, insofar as rental housing is concerned. This has been proven time and again in areas such as New York, Boston, and Washington, D.C. More recently, rent controls were enacted in portions of the Los Angeles area, the direct result being the virtual elimination of new construction in the effected areas. A recent survey, conducted in the greater Seattle area, indicates that rent controls in that city would also prove to be detrimental to the existing and future supply of rental housing.

Past experience has shown that in areas subject to rent controls, the existing supply of rental housing is allowed to deteriorate which, of course, results in a reduction in supply. When landlords are not allowed to increase rents as an offset to the continual increase in operating expenses, the return on investment was consistently reduced, ultimately to a point wherein the incentives to continue to own and manage the project were eliminated.

As I am sure you are aware, we are now in an economic environment in which there is little or no incentive for a developer to construct additional rental housing units. Economic or market rents have not kept pace with the increase in construction costs and the profit margin on operations is marginal, at best. That construction which has occurred over the past few years has, by and large, been financed either through subsidies from State



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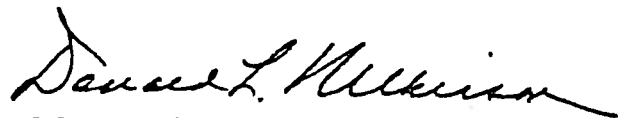
and Federal agencies or through utilization of a commitment to insure the mortgage from the Federal Housing Administration. However, a portion of the budget reductions being proposed by the Reagan administration would directly effect the availability of programs and dollars from these agencies for the construction of additional rental housing.

If rent controls are enacted and allocations to the various Federal or State programs are significantly reduced, it is our opinion that we would quickly reach a crisis stage in the supply of rental housing in Nevada. At this writing, the number of vacant rental housing units in the Reno area is approximately 5% of the overall supply. Typically, such a vacancy factor would warrant the construction of additional housing units. However, a prudent developer would not find sufficient incentive to develop additional rental units in the area, if rent controls were enacted, and the availability of financing from traditional institutional lenders would be even more restricted. The developer could not anticipate a satisfactory return on his time and investment and the lender would face the prospect of a default on his mortgages, resulting from reductions in cash flow. If the incentives to develop and finance new rental housing are removed, the obvious and direct result would be a rapid depletion in the availability of rental housing.

We would urge the members of the legislature and various tenant groups to carefully consider the results of their actions, if some form of rent control is enacted. While we recognize and appreciate the frustration of the tenant, we do not believe that rent controls will provide a solution to the problem.

Very truly yours,

MASON-McDUFFIE INVESTMENT CO. OF NEVADA



Donald L. Wilkerson  
President

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