Testimony of Don Brunner
On behalf of the Ohio Apartment Association
To the Joint Committee on Property Tax Review and Reform

May 22, 2024

Good morning, Chairmen Blessing and Roemer and members of the Joint Committee on Property Tax Review and Reform. My name is Don Brunner, and I am the president and CEO of BRG Realty Group of Cincinnati. BRG Realty owns and operates thousands of units in the Greater Cincinnati region, with properties in Ohio, Kentucky and Indiana. On behalf of BRG, I have been proud to serve in leadership roles with both the Greater Cincinnati Northern Kentucky Apartment Association and the Ohio Apartment Association. I am also a recent past chair of the National Apartment Association, serving as Chair for 2022.

I'm here today to provide prospective on the property tax issues faced by the owners and operators of multi-family residential rental properties in Ohio on behalf of the Ohio Apartment Association (OAA). OAA is a statewide federation of nine local apartment associations. OAA members own and/or manage approximately 500,000 rental units located in urban, suburban and rural communities across the state of Ohio. Our members typically are the owners and/or operators of multi-family apartment communities, as opposed to single-family rentals or small-scale multi-unit properties. OAA member properties are a diverse mix of older communities and new properties that we developed and built. We are proud to provide housing to residents from all walks of life and from all income levels. OAA members are also mostly Ohioans – our segment of the housing market does not have many out-of-state owners. OAA members are significant property owners in our communities, and we are important providers of housing in communities across the state. As such, OAA members have been keenly following the discussions in the General Assembly of late on housing and property tax reform.

Over the course of the last couple of years it is a fact that rental rates have been on the rise in markets across the state. However, rental rates rise when the costs of owning and managing rental properties rise. Our only "customers" are our tenants, and our revenue stream is rent – this is not a business that provides many revenue diversification options.

With that rental revenue, we must pay certain fixed costs:

- the mortgage
- our insurance policies
- utilities
- a myriad of local licenses and inspections fees
- our labor forces
- property maintenance – including landscaping, pest control, pool maintenance, appliance repairs, plumbing and electrical repairs, etc.
- and of course, property taxes.

As significant property owners in our communities, property taxes are one of the largest costs of business that OAA members face. And like all other property owners in the state, we've seen our property taxes steadily, and more recently rapidly, increase. To the point that BRG is paying approximately 25% of one of our property's revenues in a Central Ohio suburb as property taxes. And the simple fact is that we pay those taxes at a higher rate than any other residential property owner in the state.

The Department of Taxation, by rule in OAC 5703-25-10, classifies property types by use for the purposes of real property taxation as either (1) residential and agricultural; or (2) everything else – industrial, commercial, utility, etc.

Importantly, not all properties that are used for residential dwellings are categorized the same – single family homes and 2-, 3-, and 4-unit dwellings are residential, while multi-family rental dwellings are classified as commercial. OAC 5703-25-10 defines "Commercial land and improvements" as:

> The land and improvements to land which are owned or occupied for general commercial and income producing purposes and where production of income is a factor to be considered in arriving at true value, including, but not limited to, apartment houses, hotels, motels, theaters, office buildings, warehouses, retail and wholesale stores, bank buildings, commercial garages, commercial parking lots, and shopping centers.

Presumably, multi-family rental properties are considered commercial property because they generate income (though it is important to note that Ohio used to classify them as residential property). However, single family properties and 2-, 3-, and 4-unit dwellings can be rental properties that generate income. Even owner-occupied single-family properties can generate income by renting long-term to roommates or offering short-term rental space. This rule is making a distinction solely based on the number of dwelling units and not truly on the character of the property.

OAA would of course argue that the character of the income producing activity at any rental property – providing residential dwelling units – is substantially different than an individual choosing to buy a movie ticket or buy their groceries or park their car.

Some might argue that larger multi-family buildings require a higher level of governmental services, warranting their higher tax rate. This is belied by the fact that condominium units in multi-unit buildings with the same service requirements are not taxed as commercial property.

Thus, the distinction that is made between residential dwelling properties is unfair for two reasons – (1) not all residential dwelling properties are taxed the same; and (2) not all residential rental properties are taxed the same. Only multi-family residential rental properties are taxed at the higher commercial rates. The state has chosen to give homeowners and *some* renters a break on real property taxes, while charging other renters more.

According to the U.S. Census Bureau's 2022 American Community Survey,[1] 67.3% of Ohio's occupied housing units are owner-occupied and 32.7% are rental units. But those figures are only averages, they hide the fact that in many of Ohio's communities – small, large, rural and urban alike – more than half of all households are rental units, as shown by the examples in the chart below.

Ohio Community	% of rental units
East Cleveland	68.1
Warrensville Heights	62.2
Cincinnati	60.9
Whitehall	60.4
Nelsonville	59.5
Cleveland	58.8
Norwood	57.4
Bedford Heights	57.2
Zanesville	55.7
Columbus	55.2
Lima	54.3
Portsmouth	52.7

By contrast, the number of rental units in some Ohio communities – like Indian Hill, Pepper Pike, Powell, Independence, New Albany and Kirtland – are less than 10% of the housing stock, preventing older residents from downsizing (both in square footage and responsibility) in place, keeping young people and families from moving in and preventing workers from living close to their job.

The point being:

- There are renters in all of Ohio's communities.
- Renters pay property taxes indirectly as part of their rent.
- Some renters are being charged property taxes at a higher rate.

OAA believes, and has long argued, that all property that is full-time residential in character should be taxed in the same manner. While tenants may not pay property taxes directly, their cost of living is impacted by the property taxes their landlords pay. As such, I will share with you the same recommendations that OAA made to the Senate Select Committee on Housing earlier this year, either:

- Require the Department of Taxation to return multi-family apartment properties to the category of "residential and agricultural land and improvements" ("Class 1 property") under Ohio Administrative Code (OAC) 5703-25-10; or

[1] https://www.census.gov/programs-surveys/acs; The 2022 five-year American Community Survey, taken from 2017 through 2021, was released in mid-December 2022. The city rankings do not include places of less than 5,000 people because of higher margins of error from the survey for smaller places.

- Require the Department of Taxation to create a new category for <u>all</u> residential rental properties, regardless of number of units, recognizing those properties' blend of both full time residential and commercial characteristics. Rates for the new category should be higher than owner-occupied residential, but lower than commercial.

There are significant costs in owning and maintaining multi-family residential rental property, real property taxes included. Treating these properties more fairly on property taxes has the potential to free up capital to support ongoing maintenance of existing properties, reinvest in existing properties with upgrades and new amenities, and to invest in new housing units.

Thank you for your time and attention today, I'd be happy to take any questions at this time.