August 20, 2020.

Charmain Westerfield and Chariman Petire, as well as all the members of the Judiciary committee I want to thank you for your time and the opportunity to present to you today some vital information regarding small business property owners and the impacts from Governor Beshear's executive order 2020 – 257, March 25, which put a moratorium on any evictions for non-payment of rent. My name is Jesse Brewer and I am in the business of owning and managing residential rental property.

As many of you are aware Congress passed the Cares Act on March 27th 2020 (Public law 116 – 336) in which tenants in properties with federally back mortgages such as Fannie Mae, Freddie Mac or other federally insured mortgage products, could not be charged late fees, interest or other penalties In addition to that tenants in these properties that have the same type of loans could also not be evicted. These types of loans are much larger in size than an average property loan. For example, a Fannie Mae apartment loan typically starts at around $2,500,000 loan balance. That means after taking out the down payment portion, properties with this size of loan typically sold for $3,000,000 or so more dollars, which is generally secured by larger regional companies. Also, the federal government had a very easy streamlined process for payment deferrals from property owners with these types of loans if they needed it because of the eviction moratorium.

One of the biggest issues with the Governor's executive order is that it was put for all rental properties, regardless of size or loan type. This means a property owner with a single-family home or a small four-unit apartment building cannot evict someone for non-payment of rent. Typically, these types of properties are secured by local community type bank loans who do not offer an easy streamlined payment deferral process, which is roughly 2/3 of all investment property mortgages.

What has happened is the Governor has created a burden on these small business owners that have tenants refusing to pay their rent. These small business owners still have to meet their many obligations such as mortgages, city property taxes, county properties taxes, state property taxes, utilities, maintenance and upkeep, property insurance and all the other expenses that come with being in the business of owning property.

There have been several housing groups that want to cite statistics saying that roughly 44% of all renting households are at risk of being evicted from their homes. I can tell you first-hand that number is grossly inflated. In a letter to Governor Beshear from The Kentucky Equal Justice Center (attached in your packet) the KJEC sites that 44% of Kentucky households that rent their homes are at risk of eviction. They estimate that this is 221,000 out of the 502,000 households that rent. Between the members of the apartment associations of Louisville, Lexington, and Cincinnati they own and manage 155,000 rental units, which is 31% of all Kentucky renting households. In order for the KJEC number to be accurate that would mean between Louisville, Lexington and Cincinnati that roughly 68,000 households would be up for eviction once the moratorium is lifted, which I can tell you is far from accurate. We estimate that the at risk is closer to 3-4%, which would be approximately 4,650 households between our associations or when applied statewide is closer to 15,000 households.

Keep in mind this is statewide and given that Kentucky averages about 3,543 evictions per month (based on statistics from 2017 – 2019) and there is a 4 month moratorium now, the number can conclude that we are about on par with a normal pre-pandemic year. While we understand that this is could potentially be a lot of people it is far below the KJEC estimations and what the KJEC letter fails to mention is that the number that would be evicted is far less than that because property owners first choice is to not evict but rather work to keep people in their homes. An eviction is very costly to a property owner and can typically cost 25 – 30% of the total annual revenue that is generated from that annual lease agreement, once you consider the legal costs, missed revenue cost, the cost to bring the rental home back up to par condition to get it ready for a new tenant as well as the utility and other associated cost, it quickly adds up.

In your packet I've also attached an article from the Courier Journal dated July 30th, and on page 2 of that article it states "During his media briefing on Tuesday, Gov. Andy Beshear said he believes the number of at risk Kentuckians is much lower than previously thought, saying most who were struggling have reached payment plans with their landlords." Most property owners want to work to keep residents in their homes and during these times have been working with people while they wait for things such as unemployment and stimulus money.

I can tell you from personal experience that I have had multiple residents that have been in the unemployment backlog waiting for their payments to start and once they started they came in and caught their rental obligations up. On the other hand, I can tell you I have had other residents who refuse to cooperate. They claim that Governor Andy Beshear's orders mean they do not have to pay their rent and there is nothing legally we can do about it. They have received their stimulus money as well as their unemployment from the state of Kentucky and the Federal government. In a lot of cases they are making more money from their unemployment payments than they previously did while working. There are others, who receive social security, who have had zero change in their income who have decided to not pay their rent because of the Governor's executive mandate.

I have witnessed these same people go purchase new vehicles and television sets or go on beach vacations because they feel they are entitled to free rent, but we all know that it is not free and that someone will have to pay for it and right now that person is the small business owner who is unfairly placed with the burden of the Governor's unfunded mandate created by the eviction moratorium.

Previously you were sent a graph that breaks down what each dollar of rent typically would pay for. This information was provided from the National Apartment Association and it is pretty eye opening. For every dollar of rent, on average, it gets allocated as such:

- 39 Cents pays for the mortgage on the property. This would include principal and interest payments due to the lender.
- 27 cents on every dollar covers expenses for people maintaining the property, supplies to maintain the property and other people related expenses
- 10 cents of every dollar are spent on capital expenditures. This would include a new roof, HVAC, or water heater type expense. This is important to maintain quality and safe living conditions.
- 14 cents of every dollar go towards property taxes assessed by the cities, counties, and the state of Kentucky itself.

- 9 cents of every dollar get returned to the property owners as their earnings on the investment.

Once you see the breakdown of the rental dollar and all it goes to pay you can see that there are a lot of expenses that go against the revenue that comes in; however, the eviction moratorium that has been unfairly put in place has created an unfunded housing mandate placed on the backs of small business owners who are not receiving any type of relieve or guarantees from the state on these expenses, but are expected to shoulder the burden and provide housing for those who chose not to pay for it. As a small business owner urge all of you to do take the measures needed to protect all of our small business owners as they are the backbone of our economy and a vital part to our future recovery and growth.