



City of Cambridge

7.

IN CITY COUNCIL

December 18, 1989

COUNCILLOR WALTER J. SULLIVAN

ORDERED: That all items currently pending before the City Council with the exception of those items currently listed under "Unfinished Business" and not acted upon by the end of the 1989 legislative session be placed in the files of the City Clerk without prejudice, subject to recall by any member.

In City Council December 18, 1989.
Adopted by the affirmative vote of nine members.
Attest:- Joseph E. Connarton, City Clerk.

A true copy;

ATTEST:-

Joseph E. Connarton, City Clerk.

DISSENTING OPINION

JUN 30 PM 1:40
CAMBRIDGE MA.

REGARDING THE FINDINGS AND RECOMMENDATIONS
OF THE RENT CONTROL COMMITTEE

During 1988 the Rent Control Committee (RCC) held several hearings relating to the issue of capital expenditures in rent controlled properties. Testimony was heard from, among others, Michael Rosenberg, the Assistant City Manager for Community Development.

Mr. Rosenberg concluded that a voluminous number of rent controlled properties were deteriorating and/or distressed and that substantial capital expenditures would be required to maintain habitable apartments. His testimony and report supported his finding that the current condition of rent controlled properties and the issue of deterioration of the housing raises serious questions about the future of affordable housing in Cambridge.

In a report dated November 15, 1988 Mr. Rosenberg found

"Although the scope of the problem is not entirely clear, the Community Development Department (CDD) has collected data which indicates that over 60% of the buildings inspected by qualified rehab specialists from the Community Development Department and non-profit housing organizations in the past two years involve rehab costs of over \$25,000 per unit."

Mr. Rosenberg recognized there are two levels of analysis for deteriorating properties. The first relates solely to repairing individual code violations. The second level of analysis compliments the violation level with a concern toward the long-term usefulness and habitability of the dwelling-unit or the building.

The violation level, as confirmed by Mr. Rosenberg, does not necessarily address causes or even flagrant problems and can undermine the progression of rehabilitation by concentrating on treatment of the symptoms rather than the causes. As a corollary, one should consider the medical field. Early detection and treatment of the cause of medical problems is the goal in medicine, not mere treatment of symptoms. If treatment of the cause is delayed by concentration on the symptoms, the stage of incurability is more readily reached.

Revisions of Basis for Rent Adjustments

The system of useful lives assigned to capital improvements must be revised. Refrigerators do not break down on the tenth anniversary of their purchase. Roofs do not lose their usefulness on a specified date. Overall values of a dwelling unit are increased by capital improvements, and reverting back to pre-adjustment rents is not consistent with time generated values. Removing the interest rate part of the adjustment should occur.

Adjustments should continue for at least the life of a loan taken out for making the capital improvement. Owners should receive adjustments based on actual interest rates paid.

3. Adjustments for Cited Code Violations.

Capital improvements are often needed to remedy code violations and also to remedy secondary damages. The Rent Control Board should not continue a policy of denying adjustments for these, except in the event of a finding of deliberate or gross negligence.

4. Adjustments for Follow-Up Work and High Work Costs.

Either to perform additional work on the same system or structure to remedy some contractor's work, at times Owners have to duplicate previous work. When this happens, the Rent Board disallows the previous adjustment even though the Owner has expended the money. An Owner should not have to be the victim of this issue.

It has also been learned that Hearing Examiners or the Board will deny requested increases based on a finding that the cost paid by the Owner for the work was "too high", or based on numerous other claims. These practices contribute toward the other disincentives for capital expenditures. The Board should instruct Hearing Examiners to be sure that no adjustments are denied to property owners where the cost incurred was within the standard paid in the industry.

Stemming Massive Rent Increases

Provided encouragement of private monies for capital improvements is effectuated, the next issue to handle is how to avoid massive rent increases.

We recommend the use of the Revolving Loan Fund, the Housing Trust Fund and the Linkage Fee to supplement rents of tenants who are unable to pay the increases because of their financial status. To this end, the Board should employ a standard similar to HUD requirements.

The proposal of Councillor David Sullivan relies heavily upon distinguishing between large and small landlords. The courts require rent boards to allow a fair net operating return on investments. We can not base City policy on an unconstitutional distinction. The overall financial worth of a landlord is not a justifiable counter-argument as a matter of law.

Mr. Rosenberg's testimony was supported by the testimony of Peter [redacted] of the Neighborhood Association of Housing Services. He affirmed the City is experiencing a serious disinvestment of property.

Funding Necessary Capital Investment

In addition to the Revolving Loan Fund suggested in Mr. Rosenberg's report and in Councillor David Sullivan's Findings and Recommendations, we must adopt changes which will encourage the property owners themselves to make capital expenditures. Public funding alone will not suffice. If we do not dramatically amend the rent adjustment process as an incentive for capital expenditures by private landowners, the number of distressed and deteriorating buildings will completely deplete the affordable housing in Cambridge. This is one issue on which we all agree. The current condition of rent controlled buildings viewed along with the statistics as to the low numbers of units for which adjustments have been applied are evidence in part of the need for changing the rent adjustment process.

We all agree our policy should not be to encourage gold plating. However, the City need to decide an issue of policy: whether to act to encourage capital improvements on Cambridge rent controlled properties or whether to take a piecemeal approach and allow our buildings to fall to pieces. We propose the following:

Proposed Changes

Creation of the Adjustment Review Board

When Ms. Drury testified before the Committee, she recognized that the Community Development Department had more expertise pertaining to the condition of properties. Furthermore, the fact that safety and lives are at stake, as is the economic future of this City, mandate involvement by additional city agencies. I propose we adopt a program of prospective rent adjustments, with each application to be reviewed by an Adjustment Review Board containing:

- a. a hearing examiner from the CRCB;
- b. a person from the Community Development Department; and,
- c. a building inspector from Inspectional Services.

The Adjustment Review Board shall draft the application for the rent adjustment and implement a procedure for inspection after completion of the work. The tenant, if any, should object prior to the inspection. The on-site inspection should be dispositive of the issue of completion. There should be a 60 day time limitation.

Furthermore, such a distinction shows an unreasonable reliance on the size of buildings as opposed to a more reasonable primary concern about the tenants and their safety.

Conclusion

Based on the testimony heard by and reports submitted to the Committee, it is apparent the City's future for affordable housing is at stake.

The capital expenditure needed just to totally rehab the approximate 5,500 units of distressed properties known as of today would cost \$231,000,000.00 -- and no new housing unit would have been created.

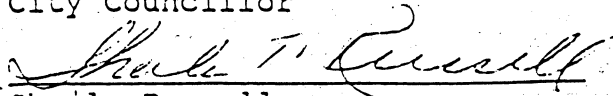
The need to implement the impact fee to subsidize part of the capital expenditure will accordingly cause an increase in the cost of construction of new housing in Cambridge and thus create an added demand and need for rent controlled units.

Two hundred and thirty-one million (231,000,000.00) dollars is more money than the city of Cambridge has. The safety and even lives of many Cambridge residents are at stake. Arguments for caps on adjustments and other proposals which are contrary to incentives for privately supplied capital expenditures do not withstand a weighing of the balances. We must encourage rent adjustment applications and ensure a fair rate of return to owners through the rent adjustment process.

Respectfully submitted by,



William H. Walsh
City Councillor



Sheila Russell
City Councillor

City of Cambridge

In City Council January 23, 1989

The Committee on Rent Control conducted a series of public hearings in the Sullivan Chambers, City Hall on June 28, August 2, September 27 and October 20, 1988. The purpose of these public hearings was to discuss and receive testimony on the issue of capital improvements in rent controlled buildings with particular attention to the following areas:

- spreading capital rent increases over time;
- adequate maintenance of rent controlled buildings, including financing for necessary improvements;
- establishing a city revolving loan fund especially for small landlords;
- possible restriction of "optional upgrades";
- and,
- solutions for "distressed" buildings.

Councillor David E. Sullivan, Chairman of the Committee opened the first public hearing outlining the agenda and stated he had decided to schedule these hearings due to the significant rent increases recently granted by the Rent Control Board based upon landlord claims for major renovation work on their properties. He further stated his concern with what appears to be a very high construction cost for repairs and questioned whether in some cases major repair work was completed when only minor work

needed to be done; only to seek large rent increases from the Board.

Throughout the public hearings, the Chairman requested testimony from all interested individuals wishing to be heard on these issues.

Appearing before the committee were:

Michael Turk - 24 Prescott Street- Cambridge, MA - Co-President of the Cambridge Tenants Union voiced his concern over the substantial rent increases granted by the Rent Control Board and stated that his research has indicated in many cases such increases had been granted to very large property owners. Mr. Turk outlined for the committee the profiles of "big" landlords (see appendix A). Furthermore he stated that some policy changes may need to occur at the Rent Board centering around code enforcement repairs being allowed as the only repairs eligible for rent adjustments. He further stated that increased enforcement by the Board is necessary to prevent units from remaining vacant beyond the allowed 120 days.

Mr. Turk questioned whether or not the banks within the community work assisting property owners to rehabilitate their homes, pursuant to the "Community Re-investment Act."

Also he stated the City should establish a "revolving loan fund to assist property owners in completing repairs.

Councillor Sheila Russell stated she believed part of the reason why construction and rehabilitation costs were so high was due to the cost of the craftsman involved.

Councillor William Walsh stated he believed the examples offered by Mr. Turk were exceptions to the rule.

Also speaking before the Committee was Mr. Robert Edbrooke, 20 Prescott Street, Cambridge, CTU Co-President, who stated major enforcement problems rest with the Rent Control Board. He stated that too many vacant units exist throughout the City. Furthermore, a rent cap could be instituted in phases so that adjustments for rehab work could be granted over time. He further stated that if a building is maintained in a prudent way, there should be no need for large scale rent increases.

Also speaking before the Committee was Peter Levine, 65B Dana Street, Cambridge, representing Students for Public Interest Law who stated he has been appearing before the Rent Control Board on behalf of tenants who had received large rent adjustments. He stated landlords should not be allowed to violate even the spirit of the law. Furthermore, he informed the committee that a certain amount of "gold plating" has gone on under the guise of major rehab due to needed code enforcement repairs.

Councillor Walsh questioned how many cases Mr. Levine had actually worked on before the Board.

Mr. Levine responded by stating between 15 or 20 cases.

Councillor Walsh questioned whether or not it was more or less expensive to have maintenance work done by outside help.

Mr. Levine responded by stating it was less expensive.

Councillor Duehay stated he was concerned with landlords having their own maintenance company to do repairs at a higher hourly cost than normal.

Councillor Duehay questioned what rent control system works better than Cambridge.

Mr. Levine responded by stating he believed Berkeley and San Diego, California.

Furthermore, Councillor Duehay voiced concern over the lack of attention to properties being given by some landlords who claim they had been denied rent adjustments.

Also speaking before the Committee at the meeting of August 2 was Richard Cleary, Esquire, 15 Brookford Street, Cambridge, Vice President of the Cambridge Civic Association who stated the Civic Association supports the concept of spreading the costs of capital improvements over an extended period of time and the expansion of a city maintained revolving loan fund.

Also speaking before the Committee was Carol Sibley, 41 Lee Street, Cambridge, who outlined the problems she experienced as a former tenant of 21 Lee Street where she had been a resident for 6 years prior to the property being purchased by Resource Capital Group. She stated her rent had increased and she received several eviction notices due to the major repairs which ultimately took place on the premises.

Also speaking before the Committee was Neil Rohr, 279 Pearl Street, Cambridge, who outlined for the Committee certain rent controlled

properties with significant rent increases based upon the regulations of the Rent Board (see appendix B). He stated that adjustments were given to properties located at 32 Chathan Street, 164 Harvard Street, 355-365 Prospect Street and 115-117 Pleasant Street. He further stated that research should be done into where the landlords are obtaining the money for repairs. If it comes from a lending institution, then rent adjustments should be equal to interest charged.

Also speaking before the committee was Thomas Forest of Auburn Street, Cambridge, who stated he was an accountant in the construction business and outlined the capital outlay picture between a developer, banker and contractor. He believes that tenants should have access to financial records of the developer/contractor.

Vice Mayor Wolf stated that she believed proper monitoring of each rehab project was essential to prevent excess cost.

Also speaking before the committee was William Noble, 38 Green Street, Cambridge, who stated that he has been involved in the rehab issue since 1982 and explained the case of Chestnut Hill Realty which owns some 200 units in Cambridge. He further stated that "optional upgrades" equal a form of vacancy decontrol and that the Removal Permit Ordinance was not the way to address the issue.

Vice Mayor Wolf stated that a process needs to be established which would provide for continual upgrading of older property without hurting long term tenants.

At this time the Committee heard from Christopher Burns, Comptroller for Resource Capital Group who stated that he believed as a policy issue, the City needed to decide whether or not it wants capital improvements done on Cambridge properties.

He further informed the committee that many costs related to repairing property are not considered by the Rent Board. He stated that often times a entire year could go by before the Board would grant an adjustment. Furthermore, he stated that Resource Capital Group has renovated both market rate and low and moderate housing.

Councillor David Sullivan stated he believes the real question is which capital improvements does the City want to encourage and clearly the City should discourage "gold plating." He further voice concern over an earlier statement by a previous speaker regarding an \$18.00 per hour charge to do minor repairs in buildings by a company called Peerless Property Services.

Mr. Burns responded by stating that Peerless Property Services was a separate company which handles t he maintenance work on their buildings. He further stated that these complaints were made to the Rent Board and they answered them in full by submitting hundreds of documents with only one \$1.25 hourly rate not accountable.

Councillor Duehay questioned why a previous speaker, Ms. Sibley had received 4 eviction notices from his company.

Mr. Burns responded by stating that was done due to her withholding rent and that eviction is the only mechanism left when the tenant and landlord can't resolve the difference.

Beginning with the meeting of September 27th, the Committee began receiving testimony from City Officials including Michael Rosenberg, Assistant City Manager for Community Development who submitted a memorandum regarding the Capital needs in rent controlled properties (see appendix C). He stated that the present housing stock in Cambridge is deteriorating and presents a serious problem with providing affordable housing for the future. Furthermore, he stated that the challenge of the 1990's will be to find a way to preserve these buildings.

In response to questions from Councillor David Sullivan, Mr. Rosenberg stated his department has tried to work where possible with non-profit groups in an effort to purchase and rehab distressed buildings. Furthermore he stated that many local banks are in fact making long term loans for the rehabilitation of rent control property.

Councillor David Sullivan stated he believes another survey needs to be done before buildings are determined to be distressed. He further questioned the standards used to determine the kind of upgrading to be done on properties.

Furthermore, Councillor David Sullivan questioned what could be done to encourage banks to provide additional loans to restore the housing stock.

Mr. Rosenberg responded by stating his department continues to encourage banks to actively participate in the rehabilitation process.

Councillor Walsh questioned Mr. Rosenberg relative to the number and cost of units his and other agencies were involved in rehabilitating. Mr. Rosenberg responded by stating some 59 units were rehabed at an approximate cost of \$2.5m due to their poor condition.

Councillor Walsh questioned the average rent per unit before and after the rehab.

Mr. Rosenberg reponded by stating that rents prior to rehab were in the \$300 range and some where btween \$500-600 after rehab.

At this time the Committee heard from Paul Jefferson from the Small Property Owners Association who read a prepared statement and spoke against any further spreading out of capital rent adjustments.

Also speaking against this issue was Peter Sheinfeld also from Small Property Owners Association who stated the small property owner is lost in the paper shuffle at the Rent Control Board. He further stated the small property owner does not have a lot of money and should be able to receive a small profit on their investment.

Councillor Duehay questioned whether or not Mr. Sheinfeld had any specific suggestions in this area.

Mr. Sheinfeld responded by stating he would like to see the Rent Control Board study the issue because it is very complicated.

The Committee heard from David P. Sullivan, Huron Avenue, Cambridge, who stated he would be opposed to any delays in recovering capital improvement costs, a 15 year recovery period is too long.

At this time the Committee heard from Peter Daly of the Neighborhood Association of Housing Services who stated what the City is experiencing is a "dis-investment" in property. The banking community is cooperating within their legally approved guidelines and many non-profit groups are working together to address the housing stock. However, he stated that some property is just too old for repairs to be done.

Councillor Duehay stated the Committee needed a definition of minimum repairs vs. what needs to be done for long term preservation as well as on the issue of optional upgrades.

The meeting of October 20, 1988, the Committee resumed receiving testimony from Assistant City Manager for Community Development, Michael Rosenberg who at the request of Councillor David Sullivan responded to a memorandum submitted by Michael Turk which responded to Mr. Rosenberg's previous memorandum on the subject of capital needs in rent controlled properties (see appendix D). Mr. Rosenberg stated he found the memo "personally offensive" since it gave the impression that the Community Development Department, among other things, supports gentrification. He further stated that the properties which were outlined in his memo, were a result of inspections done on a series of housing units by a variety of

housing rehabilitation experts.

Councillor David Sullivan requested Mr. Rosenberg provide to members of the general public the back up documentation on the cases outlined in his memo.

Mr. Rosenberg stated that although he would not have any objection in releasing any data relative to the memo, but in fairness felt that possibly the property owners in question should be asked for their approval and maybe sign a release.

Councillor David Sullivan stated he had no doubt that significant capital needs are in fact present in rent controlled properties and that it is very important to document the actual cost as outlined in the Rosenberg memo.

Councillor Duehay stated that although the memo discussed in detail the issue of capital needs, it failed to address other issues which has been on the committee's agenda and he requested a full report on the remaining issues be submitted to the full City Council.

Councillor Duehay questioned why is more not being done in terms of home rehabilitation by city and non-profit corporation.

Mr. Rosenberg responded by stating it is due to a lack of personnel and financial resources.

Councillor Walsh questioned whether or not the City could offer any incentives to property owners wishing to rehab their units.

Mr. Rosenberg responded by stating that current Rent Board Regulation #77 should be explored as well as continuing the rent stream beyond the 15 year period.

Councillor Walsh questioned the time line for a home rehabilitation including the loan and work process.

Mr. Rosenberg responded by stating that the process takes anywhere from 6 to 12 months. At this time he outlined the various steps of the process for the Committee.

Councillor Walsh questioned whether or not there was a way to prevent further deterioration of buildings throughout the City.

Mr. Rosenberg responded by stating that many homes are 40 or 50 years old and in very poor condition; it is simply a function of time. Some units, he said may not be able to be preserved.

Councillor Russell questioned an earlier comment by Mr. Turk regarding the property located at 201-215 Putnam Avenue; specifically had the property owners been forced to rehab it.

Mr. Rosenberg responded in the negative.

At this time, the Committee heard from Margaret Drury, Executive Director of the Rent Control Board who outlined the rationale for some of the rent adjustments granted to large property owners pursuant to Regulations 72 and 76. Councillor David Sullivan raised a series of

questions centering around these rent adjustments and inquired as to whether or not such things as landscaping and other non-code related improvements would be computed into rent adjustments.

Ms. Drury responded that to her knowledge landscaping costs have never been denied by the Rent Board. Ms. Drury further stated in response to a question from Councillor Russell that the Board allows for capital improvements as long as no violation of the Removal Permit Ordinance exist.

Councillor Walsh questioned if Ms. Drury concurred with Mr. Rosenberg's memo regarding the current condition of housing stock in Cambridge.

Ms. Drury responded by stating she believed that Mr. Rosenberg was in a better position to determine the condition of properties and that the Board does have a distressed building policy. She further stated that to qualify under this policy, buildings must be in extremely poor condition, and that a plan would need to be presented to the Board which would convince them the only way to save any of the units would be to do a total renovation which may require the removal of some units, from being under Rent Control. This happened only 5 times to her knowledge.

Councillor Walsh questioned whether or not Ms. Drury supported the idea of spreading rent increases out over a longer period of time.

Ms. Drury responded by stating there were many proposals on this issue but said since many improvements are small in nature, they would be unaffected by a cap on such increases.

Councillor Walsh further questioned if a cap on increases would only cause further property deterioration.

Ms. Drury responded by stating she believed a cap could cause some capital improvements to stop.

Councillor Walsh made a series of inquiries relative to the possibility of creating incentives for owners of rent controlled property to do repairs.

At this time Councillor David Sullivan requested that Ms. Drury provide percentage increase on individual rent adjustments versus dollar amounts as outlined in her memorandum dated August 2, 1988.

Ms. Drury responded by stating she was uncertain it could be done, but she would look into it.

Also addressing the Committee at this time was Linda Levine of 26 Mt. Auburn Street, John Natale, representing the Small Property owners. Dawna Provost-Carrette, Small Property Owners, Queenie Boyajian of 37 Mt. Vernon Street and Alice Salamon of 46 Mt. Vernon Street, all of whom spoke in opposition to a cap on rental adjustments.

Councillor David Sullivan questioned the definition of a small property owner. Ms. Provost-Carrette responded by stating 1 to 10 units.

At this time, the hearings on the subject matter were concluded. The hearing was adjourned at 8:20 p.m.

For the Committee

Councillor David E. Sullivan

City of Cambridge

FINDINGS AND RECOMMENDATIONS

The Committee on Rent Control has held this series of hearings for the past several months to explore related issues concerning capital expenditures in rent controlled buildings. These issues include promoting necessary investment to retain these buildings in service, while stemming the massive rent increases that have threatened in some cases to render the buildings unaffordable. These connected problems must be solved soon if rent control is to continue to serve the needs of Cambridge's low and moderate income residents.

1. Funding necessary capital investment.

The Committee heard testimony about substantial unmet capital needs in rent controlled buildings. The Community Development Department (CDD) has particularly called attention to the condition of 5,000 to 6,000 units primarily in wood frame buildings, at one point estimating the cost of rehabilitating the 224 units actually surveyed as exceeding \$9 million. The Cambridge Tenants Union has disputed both the number of units in issue and the cost of the necessary investment. It is unnecessary for the Committee to resolve this disagreement, because everyone seems to agree that substantial additional capital investment is needed.

It is clear to us that the private market cannot meet these needs, at least without massive, across-the-board rent increases or runaway condominium conversions. We are unwilling to tolerate these alternatives, because either would make a substantial part of Cambridge's housing stock unaffordable to our low and moderate income residents. (The Committee does recommend enhancing the availability of conventional financing by using the

investment of the city's own funds and the Community Reinvestment Act to encourage banks to lend to rent control landlords.)

It follows that, to keep these buildings in service, additional public resources are necessary. The Committee proposes establishing a low-interest Revolving Loan Fund to help small landlords finance the necessary work. Availability of these funds should be conditioned on careful supervision of the work to ensure its necessity and cost effectiveness, carefully phased rent adjustments to assure future affordability, and participation by the building's tenants.

Although some sources for capitalizing this fund already exist, the Committee recommends devoting some of the revenues realized from the proposed affordable housing development impact fee, although much of this fee's revenue should also be targeted to providing new affordable housing. We note that an order requesting the CDD to draft a home rule petition seeking state authority for such a fee passed the City Council 8-1 on November 21, 1988. (The City Manager should also examine whether the part of the City's present stabilization funds can be used for this purpose.) The CDD has recommended an initial capitalization of \$2 million; the actual amounts will be determined by the city's Affordable Housing Trust Board, in conjunction with the city's budget process.

In addition, the Committee recommends additional non-profit ownership of rent controlled housing. This possesses several advantages: stability, eliminating incentives for deliberate disinvestment (see below), affordability, and hopefully improved landlord-tenant relations. In our view, the ideal form of such ownership, where it meets the needs of existing tenants, is the limited equity cooperative, and in this regard we commend the increasing success of the city's Resident Cooperative Ownership program. Of course, the resources discussed above, including the Revolving Loan Fund, especially need to be available to these non-profit owners as well.

2. Combatting deliberate disinvestment.

The Committee also finds that a certain amount of disinvestment in rent controlled buildings reflects some owners' deliberate financial decisions. Their goal is to cause these buildings to become sufficiently "distressed" that they can be removed from rent control, thus allowing the substantial economic rewards of condominium conversion or demolition. Their methods often include failure to make necessary improvements and repairs, and the gradual depopulation of the building to eliminate complaints.

The city must adopt a coordinated strategy of preventing such deliberate disinvestment. Partly in response to the Committee's previous report of May 9, 1988, the Rent Control Board has made significant progress in enforcing the Full Occupancy Ordinance, although more needs to be done.

The Inspectional Services Department must improve its enforcement of the housing code in response to complaints, and must avoid inadvertently cooperating with deliberate disinvestment methods when it rushes to condemn buildings, thus clearing them of tenants. Finally, in extreme cases when other approaches fail, the City and the Housing Authority must stand ready to take buildings by eminent domain, as already provided in the Full Occupancy Ordinance, preferably for re-sale to their tenants as limited equity cooperatives.

3. Stemming massive rent increases.

The Committee heard significant tenant testimony about problems posed by substantial rent increases, mostly from capital adjustments and chiefly in larger buildings owned by bigger landlords. The Rent Control Board currently sets no limits on these increases from individual rent adjustments, and does not examine the purposes of the capital expenditures.

Although relatively few in number, these massive capital rent increases do displace low and moderate income tenants when they occur. The first table attached to the Rent Control director's August 2, 1988 memorandum shows for the 1988 fiscal year median capital rent adjustments in the vicinity of \$20 per month, but shows a few such increases in large buildings of as much as \$170 per month.

To limit the displacement produced by these sudden, huge increases, the

Committee recommends that the Rent Control Board, by regulation, limit individual capital increases in the monthly rent to 20 percent per year. Of course, the landlord would still recover his costs eventually, as required by law and the Constitution. This is similar to the "cap" now imposed by the Board on general rent adjustments. (To offset the effects of this "cap," the Rent Control Board should re-examine its present policy of reducing maximum rents at the end of a capital rent adjustment's amortization period.)

We also recommend restricting this limit to landlords who own more than ten units. The Small Property Owners Association testified that its members own ten or fewer units, and such small landlords are unlikely to have the same access to conventional financing as larger owners, who are also often able to self-finance. Furthermore, small owners are more likely to own the smaller, wood frame buildings especially in need of capital investment. The Board has already established a precedent for classifying owners by size in its interest rate regulations, and a similar classification here is plainly legal in view of the above considerations.

On the subject of interest rates, the Rent Control Board should re-examine the currently allowed rates, to ensure that they are no higher than the market requires, especially for "large" landlords. Otherwise, landlords will in effect be receiving an incentive to perform unnecessary capital work in order to increase profits.

Finally, the Committee heard of a few instances of "gold plating," work that is widely agreed to be unnecessary to keep the building in service, such as landscaping or lobby chandeliers. We also received testimony indicating less-than-arms-length arrangements between a landlord and a contractor who charged more than the market price for work. The Rent Control Board should adopt regulations to end these abuses, which severely harm some low and moderate income tenants without benefitting the building in the long term.

In conclusion, the Committee realizes that the recommendations it has made here do not provide a panacea, and that other improvements can no doubt be made in the city's housing policies. We do believe, however, that our suggestions will begin to address substantial problems that threaten the future of low and moderate income residents in our city's rent controlled housing.

For the Committee,

A handwritten signature in cursive script that reads "David E. Sullivan". The signature is written in dark ink and is positioned above the printed name and title.

David E. Sullivan
Chairman

LANDLORD PROFILES

A.

In 1986 two landlords filed a substantial percentage of all petitions for capital rent adjustments. These landlords are Harvard University and Alex Steinbergh. The following list indicates the various properties at which they sought rent increases in that year. Regulation 72 petitions are included as well, since oftentimes capital rent adjustments are contained within the Regulation 72 petitions. (Regulation 72 petitions are marked by asterisks.)

Harvard University

- 25 Wendell Street
- 1-2 Athens Terrace
- 3 Athens Terrace
- 2 Holyoke Street
- 64 Oxford Street
- 85-95 Prescott Street
- 15-15½ Ware Street
- 17 Ware Street, #1
- 9-13A Ware Street *
- 27 Everett Street #5
- 50-52 Trowbridge Street
- 472-474 Broadway *
- 18-20 Ware Street *
- 472-474 Broadway
- 1306 Mass. Ave. #202-205
- 20 Ware Street, #20
- 4-6 Mt. Auburn Street
- 17 Sacramento Place, #1
- 64 Oxford Street *
- 50-52 Trowbridge Street *
- 22-24 Prescott Street *
- 17 Everett Street, #31 (Reg. 75)
- 1 Waterhouse Street, #2
- 15½ Ware Street
- 1306 Mass. Ave.
- 85-95 Prescott Street *
- 81-83 Putnam Avenue
- 95 Prescott Street, #36
- 20 Mt. Auburn Street
- 16 Prescott Street
- 8 Plympton Street, #32, 45, 56, 59, 62
- 12-12½ Grant Street
- 76 Hammond Street

(Five other Regulation 72 petitions were filed, then withdrawn to circumvent Regulation 78, and refiled once more. Regulation 72 petitions for these properties are listed only once.)

Alex Steinbergh

60 Ellery Street
117 Pleasant Street
115 Pleasant Street
6-8 Clary Street
355-365 Prospect Street
1247-1369 Cambridge Street/353 Prospect Street
7-9 Gerry Street *
1247-1269 Cambridge Street/353 Prospect Street *
6-8 Clary Street *
60 Ellery Street *
100-116 Willow Street (Reg. 75)
1800-1802 Mass. Ave./2-4-6 Arlington Street
1800-1802 Mass. Ave./2-4-6 Arlington Street *
15 Ellery Street *
100A-102 Hampshire Street *
117 Pleasant Street *
115 Pleasant Street *
25 Highland Avenue
21 Lee Street *
183-189 Third Street *
16 Chauncy Street *
205-211 Harvard Street *
100-116 Willow Street *
205-211 Harvard Street
288-290 Harvard Street *
100A-102 Hampshire Street

(B)

NEW MAXIMUM RENTS AND SERVICES

RA686-340 205-211 Harvard St

Services Incl.

#ROOMS	EX	C	L	E	G	A	H	W	F	P	A	R	K	N	G	PRESENT RENT	INCR	NEW MONTHLY MAX	APPROVED ADDITIONAL CHARGES	
																			T	S
5										X					\$1018	\$450	\$1468			
6										X					\$735	\$276	\$1011			
4										X					\$589	\$162	\$751			
4										X					\$550	\$166	\$716			
5										X					\$697	\$450	\$1147			
4										X					\$560	\$162	\$722			
4										X					\$617	\$134	\$751			
5										X					\$697	\$172	\$869			
4										X					\$560	\$301	\$861			
4										X					\$633	\$155	\$788			
5										X					\$697	\$167	\$864			
4										X					\$589	\$134	\$723			

rents listed above have been adjusted downwards to account for services and/or expired or replaced capital improvements as shown in the addendum attached to the Computer Report.

CAMBRIDGE RENT CONTROL BOARD

NOTICE OF GENERAL ADJUSTMENT RENT

12 Units

PURSUANT TO 1987 GENERAL ADJUSTMENT (REG. 104)

August 24, 1987

PROP NO: 5924 205-211 HARVARD ST 02139

OWNER/MGR: RESOURCE CAPITAL GROUP
 1000 MASS AVE
 CAMBRIDGE MA 02138

This property is classified within class A, subclass 2 and each unit receives a 2 percent increase in maximum rent level. This adjustment was based in part on a 1987 assessed value of \$523600 for the residential portion of the buildings.

The Board sets fuel consumption standards of .97 gallons of oil or 1.35 ccf of gas per heated sq. ft. per year and makes no allowance for consumption above these standards. The heating efficiency quotient for this buildings was calculated to be 1.55 ccf per square foot.

ER NO	HOUSE NO	UNIT ID	...S E R V I C E S ...					PREV. RENT	A2 ADJ	NEW MAX RENT	APP ADDL		
			H RMS	CKG T	HOT GAS	FURN ELC	WTR				PKG	MO	CHRG
1	205	A	5	X			X	X	1095	22	1117	0	0
2	205	B	6	X			X	X	827	17	844	0	0
3	205	C	4	X			X	X	651	13	664	0	0
4	207	A	4	X			X	X	612	12	624	0	0
5	207	B	5	X			X	X	774	15	789	0	0
6	207	C	4	X			X	X	622	12	634	0	0
7	209	A	4	X			X	X	679	14	693	0	0
8	209	B	5	X			X	X	774	15	789	0	0
9	209	C	4	X			X	X	622	12	634	0	0
10	211	A	4	X			X	X	695	14	709	0	0
11	211	B	5	X			X	X	774	15	789	0	0
12	211	C	4	X			X	X	651	13	664	0	0

CAMBRIDGE RENT CONTROL BOARD
 PROPERTY RECORD SUMMARY
 ...as of 26-Jun-85...

12 Units

Notes:

PROP NO: 5924 205-211 HARVARD ST

02139

RA:

OWNR/MGR: CESAZ & CAZLOS HERNANDEZ

SER NO	HOUSE NO	UNIT ID	RMS	...S E R V I C E S ...				GA84C PKG RENT	RA RENT	TEMP RENT	MAX RENT	APP ADDL	
				H CKG	T GAS	ELC	WTR					HOT FURN	NO CHRG
1	205	A	5	X			X	579	0	0	579	0	0
2	205	B	6	X			X	579	0	0	579	0	0
3	205	C	4	X			X	466	0	0	466	0	0
4	207	A	4	X			X	432	0	0	432	0	0
5	207	B	5	X			X	553	0	0	553	0	0
6	207	C	4	X			X	441	0	0	441	0	0
7	209	A	4	X			X	491	0	0	491	0	0
8	209	B	5	X			X	553	0	0	553	0	0
9	209	C	4	X			X	441	0	0	441	0	0
10	211	A	4	X			X	504	0	0	504	0	0
11	211	B	5	X			X	553	0	0	553	0	0
12	211	C	4	X			X	466	0	0	466	0	0

CITY OF CAMBRIDGE
 RENT CONTROL BOARD
 NOTICE OF MAXIMUM RENT
 AUGUST 24 1979

PROPERTY NUMBER 05924

PROPERTY ADDRESS 205-211 HARVARD ST
 CAMBRIDGE MA 02139

TO ANTHONY S PUOPOLO TRUSTEE
 919 EASTERN AVE
 MALDEN MA 02148

THIS PROPERTY CONTAINS CONTROLLED RENTAL UNITS. ALL CONTROLLED UNITS IN THIS PROPERTY ARE CLASS A AND RECEIVE A 9.5 PERCENT INCREASE IN MAXIMUM RENT. ALL HEATED CONTROLLED UNITS IN THIS PROPERTY ARE CLASS G74 (SUBCATEGORY H-5) AND RECEIVE AN ADDITIONAL 4 PERCENT INCREASE IN MAXIMUM RENT.

SERVICES PROVIDED

APT SER NO	HOUSE NO	UNIT ID	H N O C O T O P O A F B E W K R L D H L A K F O R E E T G I U O M A C E A N R R S T T R S G N						AUG 1979 MO MAX RENT	CLASS A ADJ	HEAT CLASS G74 ADJ	NEW MO MAX RENT	APPROVED ADDITIONAL MONTHLY CHARGES FURN	PKG	
			1	2	3	4	5	6							
001	205	A	1	3	X	X	X								
002	205	B	2	4	X	X	X								
003	205	C	3	2	X	X	X								
004	207	A	1	2	X	X	X								
005	207	B	2	3	X	X	X	359	34	16	409				
006	207	C	3	2	X	X	X	286	27	13	326				
007	209	A	1	2	X	X	X								
008	209	B	2	3	X	X	X								
009	209	C	3	2	X	X	X	286	27	13	326				
010	211	A	1	2	X	X	X	327	31	14	372				
011	211	B	2	3	X	X	X	359	34	16	409				
012	211	C	3	2	X	X	X								

9/27/88
C



CITY OF CAMBRIDGE
COMMUNITY DEVELOPMENT DEPARTMENT
City Hall Annex - Inman & Broadway - Cambridge, Mass. 02139

498-9034

M E M O R A N D U M

TO: Chairperson David Sullivan
Committee on Rent Control

FROM: Michael H. Rosenberg, Assistant City
Manager for Community Development

SUBJECT: Capital Needs in Rent Controlled Properties

DATE: September 27, 1988

Issue:

1. Deterioration of multi-family rent controlled property presents a serious threat to the continued use of these buildings as affordable housing.
2. The challenge is to meet the extensive capital needs of these wood-framed, older buildings and keep rents affordable.

Background:

1. Community Development Department report, a survey of buildings evaluated by the City's and non-profits' rehab specialists, gives an indication of the capital needs of a sample of buildings. The average cost to rehab a unit is \$41,259. The cost of rehabbing all the structures surveyed is \$9,242,045.
2. The older (circa 1900), wood frame buildings need major rehabilitation in order to continue use over the next thirty years. Systems need to be replaced, structural problems corrected, surfaces replaced and energy-related improvements made. This is not, strictly speaking, bringing the building up to code - that is repairing only glaring health and safety violations - but is ensuring the continued life of the building. In many cases, dealing solely with corrections of health and safety violations is not cost efficient, does not deal with the real causes of the violations and rarely serves the purpose of the overall upgrading of the property.
3. City's rehab programs (Rental Rehab, 312, NAHS) and the CHA's Mod Rehab Program are geared for a moderate level of rehab. The higher capital needs of the buildings require extensive layering of resources, but do produce upgraded affordable housing. Over \$2,300,000 of public funds have been allocated to multi family projects in the past four years. This represents

the rehab of 197 units. Additionally the City allocates approximately \$240,000 annually to support the administration necessary to implement the multi family rehab programs. (See list of Distressed Properties preserved through City/non profit intervention.)

4. Owners are reluctant to participate in rehab programs primarily because of the lack of financial incentive. Although Neighborhood Apartment Housing Services and the City's Rental Rehab program have been successful at assembling financing packages from a variety of sources, both private and public, owners are hesitant to assume the high debt level needed for capital improvements. In fact, the amount of debt incurred in the process of rehab may be in excess of the value of property under rent control and make the property unmarketable except at a low price.

5. The Reg. 77 process which allows the Rent Control Board to make a determination of operating and capital adjustments for properties participating in a non profit rehab program on a prospective basis, has worked as a way to involve conventional lenders in rehab projects.

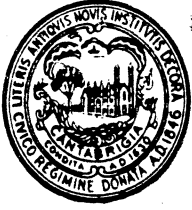
6. We are seeing buildings for which there are no easy resolutions. Reg. 47 may not work to preserve as many units as previously possible due to the soft condo market. These "stuck" buildings tend to have high acquisition prices as well as high rehab costs.

Solutions:

1. Increase capacity of non-profit agencies to acquire and rehab distressed multi-family properties. These properties could be held by the non-profit agencies as rental properties or converted, at some point, to limited equity coops. Responsible non-profit ownership will help keep units affordable over the long run, maintain a high quality of housing and allow tenants more input to decisions related to their housing. Additionally, the use of large amounts of public subsidy may be more justified in projects with non-profit ownership ensuring the affordability over the long run.

2. Identify significant resources for low interest revolving loan fund. Different sources discussed have been a fee on certain rent controlled units, condo conversion fee, linkage funds (clearly not substantial enough) and City revenue.

3. Adequate financial incentives that will encourage the participation of owners in multi family rehab programs must be identified. The incentives might include expansion of the Reg. 77 process, allowing adjustments for capital costs to remain in rents for life of the rehab loan or a longer time period and additional return on capital improvements.



CITY OF CAMBRIDGE
COMMUNITY DEVELOPMENT DEPARTMENT
City Hall Annex - Inman & Broadway - Cambridge, Mass. 02139

498-9034

COMMUNITY DEVELOPMENT DEPARTMENT REPORT ON DISTRESSED BUILDINGS

The following list of distressed properties was assembled from doing a review of properties that the Community Development Department and housing non-profits have evaluated over the last two years. This is not meant to be an exhaustive list, but only to indicate that a significant number of properties are in need of major rehabilitation.

Part II represents a number of buildings that have gone through extensive and expensive rehabilitations. The units remained affordable due to participation in City or non-profit programs and the subsidy and technical assistance attached to those programs.

Part III is a fairly sketchy list of buildings in the last phase of distressed properties - that is, either vacant, boarded, scheduled to be demolished or actually demolished.

Part IV lists buildings that were distressed and were exempted, in part, from rent control through a variety of routes.

<u>I. Distressed Properties</u>	<u># of Units</u>	<u>Cost Per Unit</u>
<u>Address</u>		
Second Street	4	\$ 75,000
Portland Street	8	77,000
Elm Street	6	35,000
Cambridge Street	5	35,000
Andrew Street	4	50,000
7th Street	6	35,000
Charles Street	5	30,000
Charles Street	5	40,000
Mullins Street	16	32,000
Hurley Street	4	30,000
Hurley Street	6	50,000
Cambridge Street	27	25,000
Richdale Avenue	7	71,000
River Street	6	60,000
Prospect Street	6	50,000
Franklin Street	12	45,000
Auburn Street	18	46,000
Schwartz Properties	59	36,255
Pleasant Street	6	35,000
Putnam Avenue	14	25,000
Western Avenue	<u>14</u>	<u>25,000</u>
Totals	224	\$882,955

Total Costs to rehab all structures \$9,242,045

Average Cost per unit \$ 41,259

II. Distressed Buildings

(Affordability preserved through non-profit/City participation)

Spring St.	6	28,500
Western Ave.	6	58,000
Norfolk St.	6	43,000
Laurel St.	6	40,000
Cambridge St.	9	27,700
Berkshire St.	8 (11)	62,500
Brookline St.	6	50,000
Marcella St.	<u>12</u>	<u>35,000</u>
Totals	59	\$344,700

Total Costs to rehab all structures \$2,486,300

Average Cost per unit \$ 42,141

III. Miscellaneous Distressed Buildings

(Empty, boarded, Board of Survey demolish order pending or implemented)

Plymouth St.		
Elm St.		
Cambridge St.	12	
River St.	6	Demolished
Putnam Ave.	6	Demolished
Cherry St.	5	
Cedar St.	4	
Hampshire St.	20+	
Cogswell Ave.	18	(Pending Board of Survey report)
Gerry St.	7	
Roberts Rd.	4	

IV. Distressed Buildings (New construction status granted or other approvals)

Windsor St.	6	
Cambridge St.	4	
Craigie Arms	60	rent control units converted to 50 units
Trowbridge St.	15	rent control units converted to 8 units/2 units sold to CHA
Pearl St.	<u>15</u>	rent control rooms converted to 4 units

Totals 100

D
1

Cambridge Tenants Union
1151 Massachusetts Avenue
Cambridge, Mass. 02138
October 20, 1988

Committee on Rent Control
Cambridge City Council
City Hall
795 Massachusetts Avenue
Cambridge, Mass. 02139

Dear Councillors:

At the last meeting of the Committee on Rent Control, Michael Rosenberg, Assistant City Manager for Community Development, presented a memorandum that dealt with the subject of capital needs in rent-controlled properties and contained a list of what purported to be distressed buildings.

We find this list both inaccurate and misleading. This is especially troubling in that the list has been used by Mr. Rosenberg to substantiate claims by his agency that the city's housing stock should be gentrified. Mr. Rosenberg couches his argument in different terms: "dealing solely with corrections of health and safety violations . . . rarely serves the purpose of the overall upgrading of the property". (p. 1 of memorandum) His intent, though, is clear: encouragement of the broadest possible scope of work, oftentimes entailing reconfiguration of units and common areas, which results in the creation of housing units affordable to a few. By contrast, a more limited scope-of-work would be consistent with maintaining decent and affordable housing, and could more readily be brought into place.

An examination of Mr. Rosenberg's list of distressed buildings, in particular Parts I and III, reveals the extent to which sloppy and unprofessional fact-gathering may be used to advance the position staked out by the agency.

It should be noted that it is not easy to analyze the list, primarily because Mr. Rosenberg has failed to provide full street addresses for any of the properties. Nonetheless, in some cases it is possible to figure out which property is indicated.

In Part I, Mr. Rosenberg has put together a list of distressed buildings containing 224 units which, he claims, "gives an indication of the capital needs of a sample of buildings." (p. 1 of memorandum) A closer look at some of these properties reveals the following:

- (1) 125 Portland Street (8 units).
This is a brick structure which was severely damaged by two fires, the second of which occurred when a workman involved in the construction of a larger development that surrounds 125 Portland Street dropped a hot coal on the roof of the building. Both the development project and the building at 125 Portland Street are owned by U.S. Trust, a bank which describes itself as a "billion dollar bank".
- (2) 160-164 Richdale Avenue (7 units).
This property was owned by Richard Farrington. In 1985, in papers filed in court, Farrington claimed to own 17 income-producing properties in Middlesex County. His unwillingness to rehabilitate the property under rent control led to a finding by the Rent Board that he had violated the Full Occupancy Ordinance. Shortly afterwards he sold the property to Francis Branley, another major landlord in the Cambridge area.
- (3) 201-215 Putnam Avenue (14 units).
This property was owned by the Cambridge Electric Company (CELCO), and was recently acquired by the tenants after many years of struggle and conflict with CELCO. The tenants (now the new owners) have not sought to have the property undergo a major rehabilitation. Instead, it is the Community Development Department which has pressed them to accept a level of rehab they believe is unnecessary and unwarranted.
- (4) 201-215 Putnam Avenue (14 units).
The same property as (3) above, but this time listed by Mr. Rosenberg as 14 units on Western Avenue.
- (5) Schwartz Properties (59 units).
These are owned by the Riverside Cambridgeport Community Corporation (RCCC). Capital improvements have been made to many of these units already. The level of rehab that the Community Development Department would like to impose on these properties is far higher than that regarded as necessary or warranted either by the property management committee of RCCC or by the Schwartz properties tenant association.
- (6) 216-222 Franklin Street (12 units).
This property is one of the Schwartz properties owned by RCCC. It has been double-counted.
- (7) 215-217 Auburn Street (18 units).
This is one of the Schwartz properties owned by RCCC. It has been double-counted.

(8) 26 Pleasant Street (6 units).

This property is one of the Schwartz properties owned by RCCC. It has been double-counted.

All told, these entries account for 138 units, or about 62 percent of all units in Mr. Rosenberg's survey in Part I. Further investigation may uncover whether there are discrepancies in the other entries, once their actual addresses are ascertained. In any event, it is clear that the figures presented by Mr. Rosenberg for the total cost of rehabbing all the structures in the survey, as well as the average cost of rehabbing units, lack foundation in fact. And there is no basis for assuming that this sample is representative of larger categories of buildings.

In Part III, Mr. Rosenberg has constructed a list of what he terms "buildings in the last phase of distressed properties -- that is, either vacant, boarded, scheduled to be demolished or actually demolished." (p. 3 of memorandum)

Upon closer inspection, the list can be shown to describe the following:

(1) 1017-1027 Cambridge Street (18 units).

This property was demolished after a Board of Survey was conducted. When the Board of Survey took place, the building had been recently damaged by two fires, both relatively minor. At first the Board of Survey recommended that half of the structure might be saved, then changed its view.

(2) 74-76 Putnam Avenue (6 units).

Damaged by fire after two years of efforts to get the landlord, Richard Valenti, to secure the property and to comply with the Full Occupancy Ordinance, failed. Inspectional Services allowed the building to be demolished without obtaining required sign-offs from other agencies.

(3) 237-245 River Street (6 units).

Properties were owned by Resource Capitol Group (Alex Steinbergh). He obtained removal permits from the Rent Board to allow him to proceed with new development for which he subsequently did not obtain the public financing he had sought. Units were occupied up until the time of the removal permit proceedings and Rent Board decision.

(4) 63-63R Cedar Street (4 units).

A Full Occupancy proceeding and City Council concern led to sale of vacant property to Santino Ferrante, who claimed he would be able to rehabilitate the property under rent control by constructing additional units on the site. Neighbors balked at proposal, and one of the abutters pur-

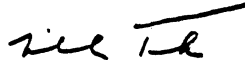
chased property, then sought removal permits from Rent Board. The permits were denied; new owner was encouraged to rehabilitate the property under rent control.

- (5) 1-7 Hampshire Place and 2-8 Hampshire Place (24 units).
A Board of Survey was conducted last year, but no order to demolish was issued; rather, repair and rehabilitation was called for. Contrary to what Mr. Rosenberg implies, the building is currently occupied in full by tenants. The owner is trying to demolish the building. His representatives have already gone before the Historical Commission to obtain their approval. Representatives for the owner would not state what plans, if any, the owner has for the site if he succeeds in demolishing the property.
- (6) 22-32 Cogswell Avenue (18 units).
A Board of Survey was conducted last spring. It found that the building required repair and rehabilitation, not demolition. Those life-safety repairs cited by the Board of Survey have yet to be made. Again, contrary to what Mr. Rosenberg has implied, the building is currently occupied by tenants, except where the owner/developer, Francis Finigan, gutted units in order to obtain a new construction exemption from the Rent Board--unlawfully. The owner/developer has circulated plans to convert the property to condominiums.
- (7) 7-9 Gerry Street (7 units).
While the building had problems with its foundation, in other respects it was hardly a distressed building. The building was occupied by tenants until removal permits were granted to the owner, Resource Capitol Group. Resource Capitol Group had acquired the property from Louis DiGiovanni, another major landlord/developer in Cambridge.
- (8) 15½-17½ Roberts Road (4 units).
This building was just demolished. It was acquired several years ago by Thomas Costagliola of Infinity Construction. Other major landlord/developers had had an interest in the property in past years. After several Full Occupancy complaints were filed, Mr. Costagliola applied to the Rent Board for removal permits in order to demolish the property. He plans to build a townhouse development on the site. Neighbors on Roberts Road strongly opposed the demolition and supported rehabilitation of the property instead. The permits were granted.

Once again it is apparent that Mr. Rosenberg's shorthand description of these properties is thoroughly off the mark. These

properties tended to be occupied until agency action--in general, that of the Rent Board--made vacating seem imminent and inevitable. In the main, the owners of these properties have ample resources to carry out the rehabilitation of these buildings; in many cases, the owners are also developers. And I find deeply offensive Mr. Rosenberg's characterization of properties as empty and boarded where tenants now make their homes.

Respectfully submitted,



Michael Turk,
Co-chair



CITY OF CAMBRIDGE

678 MASSACHUSETTS AVENUE
CAMBRIDGE, MASSACHUSETTS 02139

TEL 498-9077

RENT CONTROL BOARD

D. MARGARET DRURY, EXECUTIVE DIRECTOR

To: Rent Control Subcommittee
Cambridge City Council

From: D. Margaret Drury,
Executive Director

Date: August 2, 1988

Re: Information on Magnitude of Rent Increases through
Individual Rent Adjustments

Attached are charts containing information about amounts per unit of rent increases resulting from individual rent adjustments. A total of 458 rent adjustments, all of the rent adjustments completed since the 1987 general adjustment in August of 1987, are included. The information is divided into the three categories of rent adjustments: Reg. 72 adjustments for operating expenses and capital improvements, Reg. 75 adjustments for capital improvements only, and Reg. 76 adjustments for capital improvements completed within the last twelve months. The information is also sorted by large and small properties, with small properties defined as building with less than 35 units.

The rent adjustments for ninety five properties increased some unit rents \$100 or more per month. Approximately 25 of those 95 properties have had prior individual rent adjustments.

NUMBER OF UNITS WITH RENT INCREASE SINCE 87 GA,
EFFECTED BY RA'S AFFIRMED DURING 8/20/87 - 7/30/88

RENT INCREASE SINCE 87GA (\$/mo)

RA TYPE	<10	20	30	40	50	60	70	80	90	100	110	120	130	140	150	160	170	180	190	200	210	220	230	240	250	260	270	280	290	300<	
72	-1146	15	66	58	62	21	17	22	13	12	25	25	6	9	3	1	5	2	2	3	3	4	0	2	2	2	0	1	1	0	2
75	-1164	114	31	24	16	16	11	9	6	5	3	0	2	1	2	5	3	1	1	0	0	0	2	4	0	1	0	2	1	1	6
76	-1471	298	68	59	81	103	29	10	6	7	3	1	3	4	3	2	2	5	0	0	1	1	3	1	0	1	2	1	0	0	16

NUMBER OF UNITS WITH RENT INCREASE SINCE 87 GA,
EFFECTED BY RA'S AFFIRMED DURING 8/20/87 - 7/30/88
CATEGORIZED BY SMALL AND BIG PROPERTY

Following table shows number of units from properties with units<35 (small property)

RENT INCREASE SINCE 87GA (\$/mo)

RA TYPE	<10	20	30	40	50	60	70	80	90	100	110	120	130	140	150	160	170	180	190	200	210	220	230	240	250	260	270	280	290	300<		
72	-1	62	14	66	56	22	13	17	22	13	12	25	25	6	9	3	1	5	2	2	3	3	4	0	2	2	2	0	1	1	0	2
75	-1	93	63	30	24	16	16	10	8	5	2	3	0	2	1	2	3	1	1	1	0	0	0	2	4	0	1	0	2	1	1	6
76	-1349	225	65	55	48	32	22	8	5	7	3	1	3	4	3	2	2	5	0	0	1	1	3	1	0	1	2	1	0	0	16	

Following table shows number of units from properties with units>34 (big property)

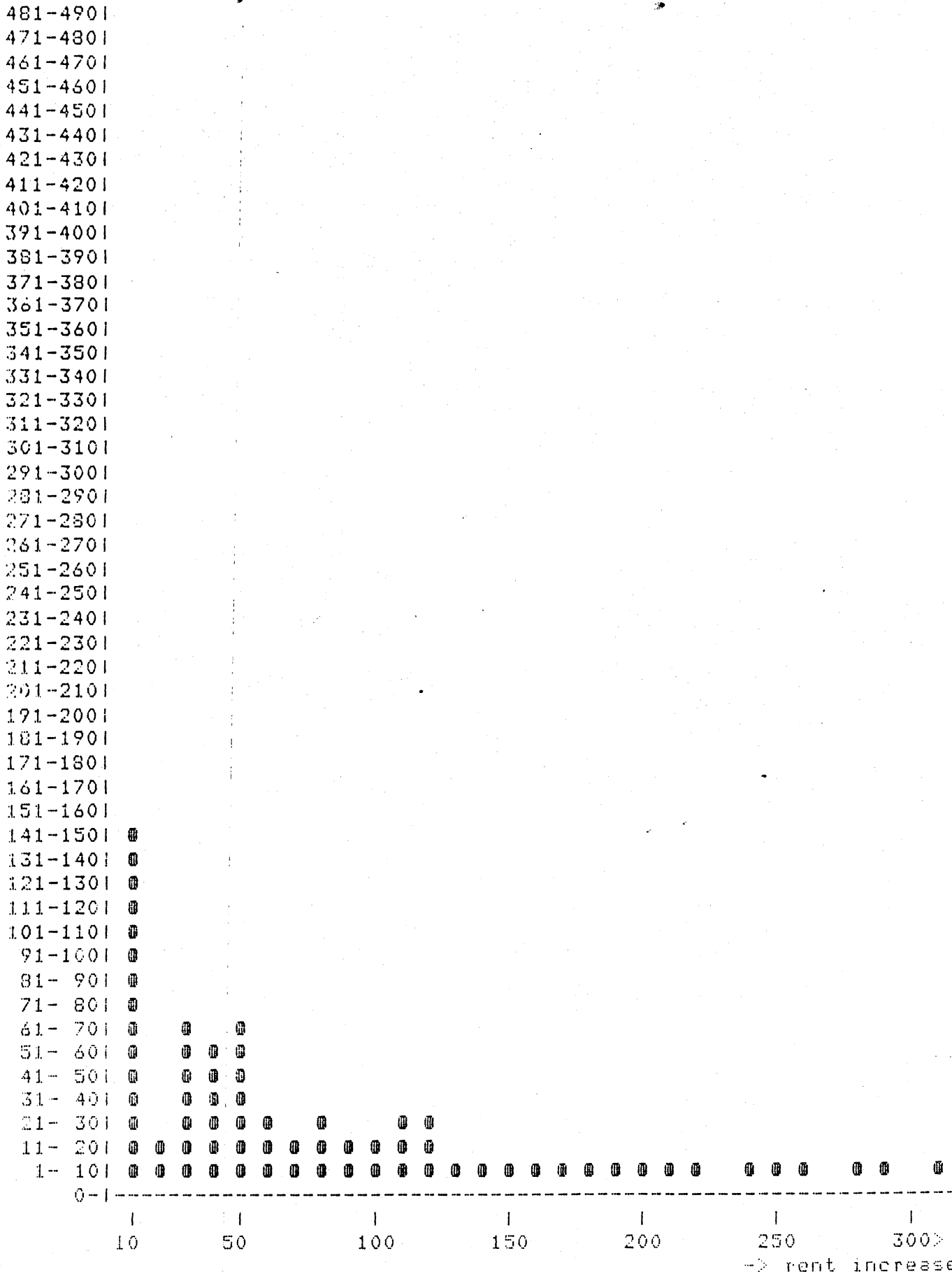
RENT INCREASE SINCE 87GA (\$/mo)

RA TYPE	<10	20	30	40	50	60	70	80	90	100	110	120	130	140	150	160	170	180	190	200	210	220	230	240	250	260	270	280	290	300<	
72	-1	84	1	0	2	40	8	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
75	-1	71	51	1	0	0	0	1	1	1	3	0	0	0	0	2	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0
76	-1122	73	3	4	33	71	7	2	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

: median

#UNITS WITH RENT INCREASE BY RA2 AFFIRMED DURING 8/20/87 - 7/30/88

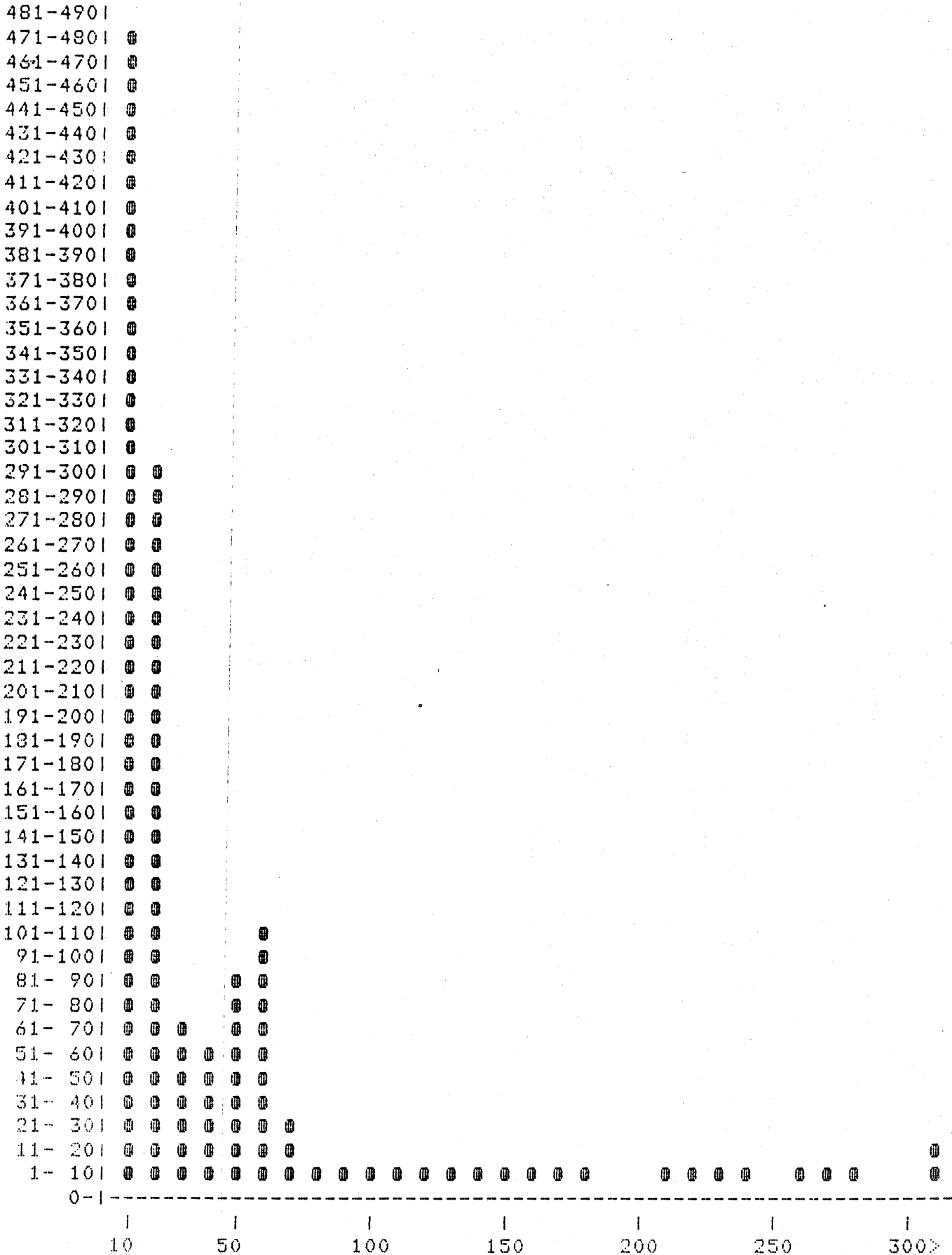
#units



-> rent increase (\$/mo)

#UNITS WITH RENT INCREASE BY RA6 AFFIRMED DURING 8/20/87 - 7/30/88

#units

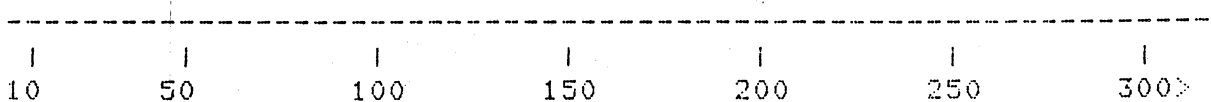


-> rent increase (\$/mo)

#UNITS WITH RENT INCREASE BY RAS AFFIRMED DURING 8/20/87 - 7/30/88

#units

- 481-4901
- 471-4801
- 461-4701
- 451-4601
- 441-4501
- 431-4401
- 421-4301
- 411-4201
- 401-4101
- 391-4001
- 381-3901
- 371-3801
- 361-3701
- 351-3601
- 341-3501
- 331-3401
- 321-3301
- 311-3201
- 301-3101
- 291-3001
- 281-2901
- 271-2801
- 261-2701
- 251-2601
- 241-2501
- 231-2401
- 221-2301
- 211-2201
- 201-2101
- 191-2001
- 181-1901
- 171-1801
- 161-1701
- 151-1601
- 141-1501
- 131-1401
- 121-1301
- 111-1201
- 101-1101
- 91-1001
- 81- 901
- 71- 801
- 61- 701
- 51- 601
- 41- 501
- 31- 401
- 21- 301
- 11- 201
- 1- 101



-> rent increase (\$/mo)



CITY OF CAMBRIDGE

CAMBRIDGE, MASSACHUSETTS 02139

TEL. 498-9011

EXECUTIVE DEPARTMENT

ROBERT W. HEALY

City Manager

RICHARD C. ROSSI
Deputy City Manager

November 28, 1988

To the Honorable, the City Council:

In response to a request from the City Council Committee on Rent Control, enclosed is a communication from Michael Rosenberg, Assistant City Manager for Community Development.

Very truly yours,

Robert W. Healy
City Manager

RWH/mbf
Enc.



CITY OF CAMBRIDGE
COMMUNITY DEVELOPMENT DEPARTMENT
City Hall Annex - Inman & Broadway - Cambridge, Mass. 02139

498-9034

To: David Sullivan, Chairperson
Committee on Rent Control

From: Michael H. Rosenberg *MHR*

Re: Distressed Properties

Date: November 15, 1988

This report is intended to address a number of issues related to the discussion of deteriorated multi-family properties including:

- 1) the Community Development Department's analysis and approach to properties needing significant capital improvements
- 2) response to Cambridge Tenants Union charges about data collection, rehab approach and the effect of City's and non-profits rehab programs
- 3) identification of solutions to the problem.

I. The City's multi-family rental stock is experiencing significant deterioration. Although the scope of the problem is not entirely clear, the Community Development Department (CDD) has collected data which indicates that over 60% of the buildings inspected by qualified rehab specialists from the Community Development Department and non-profit housing organizations in the past two years involve rehab costs of over \$25,000 per unit. (See Attachment A).

The long term danger of ignoring that these 5000-6000 units located primarily in wood frame buildings are deteriorating is that, over time, the buildings will become uninhabitable. The loss of these units will cause the displacement of the low-moderate income tenants who are now living in the properties.

Clearly, the definition of the rehab needs of a building is key in determining whether the City has a "distressed" building problem. The Department bases its rehab estimates on both the restoration of the long term viability of the building and the standards required by the State Building Code. This is a different approach to property improvement than simply repairing existing code violations as defined by Article II of the State Sanitary Code. The violations approach is a short term fix that deals with the

specific problem at hand i.e. a pipe is leaking, patch it. The violations approach does not look at the overall durability of the plumbing system. The question of whether there will be ongoing leaks and other plumbing problems causing further property damage because the system has not been substantially improved in eighty years is not addressed by the violations approach. Often the code enforcement approach leads to repeated efforts to deal with symptoms of the problem rather than the problem itself. If the buildings are to continue in service as decent housing, then a comprehensive rehab strategy must be adopted. The tour of buildings in different stages of deterioration conducted for the Council on November 10, 1988 illustrated this comprehensive approach to rehab which the Community Development Department prefers (See Attachment B).

The choices related to solutions to the problem of distressed buildings are not easy. Obviously, the costs associated with the comprehensive rehab of these buildings are large, and without subsidized financing, may result in large rent increases that present serious hardships to tenants. Owners, particularly smaller property owners, up to this point, have not had sufficient incentives to undertake major rehab efforts. In addition, small property owners need greater technical assistance in dealing with the rent control process in general. But if the problem is not addressed, the housing stock will continue to deteriorate and affordable units will be lost.

- II. The major charge the Cambridge Tenants Union raises in its letter of October 20, 1988, is that the City, via the Community Development Department and housing non-profits' rehab programs, is promoting gentrification in the neighborhoods. In fact, the intent of all Community Development Department's housing programs is to stabilize ownership by low-moderate income owners, prevent dislocation of existing tenants and, generally, expand affordable housing opportunities.

The Home Improvement Program (H.I.P.) (small scale rehab in 1-4 unit owner occupied structures) supports low and moderate owners in helping bring their properties up to code, and, therefore, resist market pressures to sell properties. The multi-family rehab programs administered and funded by CDD (312, Rental Rehab, Neighborhood Apartment Housing Service) have successfully renovated multi-family structures while, at the same time, ensuring the units remain affordable to existing tenants. In no instance has an existing tenant been displaced by a rehab process involving CDD or the housing non-profits.

Attached, you will find an updated list of deteriorated properties (See Attachment C). The criteria for inclusion on this list is simply the cost of the rehab necessary to bring the units up to current housing standards as defined by the State Building Code. We have not attempted to identify in each building where the

fault, if any, for the deterioration of the structure lies. We believe the deterioration in most cases, is caused not by neglect or willful damage, but by the age and type of the stock and the lack of ongoing capital investment. The dollar amounts associated with the necessary rehab are estimates (with the exception of the nine projects completed or in progress for which we have actual costs). Some of these estimates are based on property reviews performed two years ago. Needless to say, construction costs have increased in this period. The list of properties and the dollar amounts are presented to demonstrate that the problem of distressed buildings is real and serious rather than to pinpoint exactly how much it will cost to repair each unit. Three of the 'Schwartz' properties (215-217 Auburn/45 River, 216-218 Franklin, 220-222 Franklin Street) were inadvertently listed twice in the original list. They have been deleted and additional properties recently reviewed by the rehab staff have been added. This is not a definitive list of all multi-family distressed properties in the City, but includes only structures that the Community Development Department or non-profits have had dealings with.

III. The following are general recommendations which will begin to address the problem of distressed properties:

1. Establish a low interest Revolving Loan Fund (RLF) to be used to assist small property owners in undertaking necessary rehab while minimizing rent increases for low and moderate income tenants. The Fund should be capitalized initially at \$2,000,000 allowing the rehab of 100 units (assuming \$40,000 level of rehab and 50% conventional financing).
2. Encourage non-profit ownership, rehab and management of rent controlled property. Cambridge's non-profit agencies have demonstrated capacity to deal with seriously distressed properties. Non-profit ownership ensures affordability of the units as well as ensuring the long term maintenance of the property. Additional resources must be made available to the non-profits for acquisition and rehab of distressed properties.
3. Designate a Blue Ribbon Committee to examine and make specified recommendations to Council on:
 - Identifying realistic sources of funding for RLF as well as for acquisition and rehab of multi family properties by non-profit agencies. Some sources that need to be explored in greater detail are impact fees, users fees for rent control units and fees for exemption of ordinance condo units
 - Identifying incentives including regulatory changes that will encourage small property owners to make capital improvements

- Streamlining Rent Control processes relating to adjustments for rehabilitation

Identification of appropriate incentives and streamlined rent Control process will allow the Revolving Loan Fund to be used successfully.

Attachment A:

Housing Conditions Report

<u>Cost of Capital Improvement</u>	<u>Number of Structures</u>	<u>Number of Units</u>	<u>Average Cost per Unit</u>	<u>Total Cost</u>
1. Less than \$25,000 per unit	29 (35%)	194 (33%)	\$17,334	\$ 3,362,876
*2. \$25,000 or more per unit (See below)	55 (65%)	386 (67%)	\$37,688	\$14,547,568
Totals:	84	580	\$30,880	\$17,910,444
<hr/>				
*2. Properties surveyed	46	319	\$36,830	\$11,748,845
Properties preserved by City/non-profits	<u>9</u> 55	<u>67</u> 386	<u>\$41,772</u> \$37,688	<u>\$ 2,798,700</u> \$14,547,545

Attachment B:

"Distressed" Building Tour

On November 10, 1988 the Community Development Department conducted a tour of a number of deteriorated multi-family properties. The purpose of the tour was to illustrate the conditions present in buildings that have been defined as "distressed" as well as to explain the Community Development Department approach to the rehab needs in these properties. The packet of information about the buildings toured is attached.

Councillors Duehay, Russell, Walsh and Wolf were accompanied on the tour by Michael Rosenberg, Susan Schlesinger and Angelo Oliveri from the Community Development Department; Peter Daly, Executive Director of Homeowners Rehab, Inc. and Neighborhood Apartment Housing Services, Bea Phear, Housing Program Manager from Just-A-Start and Sally Powers from the Assessors Office.

122 BERKSHIRE STREET
CAMBRIDGE, MASSACHUSETTS

This large handsome eight-unit brick building has very serious structural problems and needs replacement of all systems. Both Inspectional Services and the tenants, represented by Cambridge/Somerville Legal Services, initiated litigation against the owner for numerous code violations. In April 1986, JASDCD was appointed Receiver to manage the property and to arrange for rehab, with long-term (ten year) affordability and guaranteed housing for the current tenants as the goal.

A complex plan has been arranged which includes:

- Removal from Rent Control of two units (top floor)
- Reconfiguration of the building to eleven units
- Housing Subsidy for eligible tenants
- Rehabilitation costs (low bid) of \$587,300.00 (\$53,400 P.U.)
- A financing package from six sources

Construction is expected to begin shortly after Christmas. Tenants will be temporarily relocated with assistance by the Cambridge Housing Authority and will return to affordable, appropriately sized, safe apartments by Christmas 1990.

	<u>Current</u>	<u>Projected</u>
Total Units	8	11
Rental Income	\$ 903.00 month	\$ 8,655.00
Building Value	\$210,000.00	\$800,000.00
	No affordability Provision	Ten year Affordability Agreement

REHAB EXPENSES (based on Bids)
122 BERKSHIRE STREET
CAMBRIDGE, MASSACHUSETTS

A. General Requirements	\$ 54,000
Slab	5,772
Masonry	5,600
Rough Carpentry	33,000
Finish	38,300
Waterproofing	300
Insulation	12,300
Roof and Skylights	15,400
Doors	22,700
Windows	25,000
Foundation Windows	2,500
Blueboard and Skim	52,000
Flooring	25,860
Special Ties	4,500
Architectural Equipment	9,000
Plumbing	45,600
Heating	38,500
Electrical	68,000
Tub Surround	<u>1,100</u>
Total	\$ 459,432
B. Demolition	\$ 47,500
Paint	<u>27,000</u>
Total	\$ 74,500
Rehabilitation Total	\$ 533,932
10% Contingency	<u>53,393</u>
<u>Total</u>	\$ 587,325

75-77 SEVENTH STREET
CAMBRIDGE, MASSACHUSETTS

The owner of this small woodframe, six-unit property, purchased in May 1987 for \$92,000.00, approached Just-A-Start for guidance in refinancing and assistance with renovations. There are currently three vacancies and the low rental income does not support maintenance of the property. Just-A-Start has estimated renovation costs of \$255,000.00 (\$42,500 P.U.) that include structural work, installation of heating systems, new wiring and plumbing, fire exits and roof repair.

The owner is hoping to use Rental Rehab funds for renovation; however there is a question about the availability of the federal or state rental subsidies necessary to support the debt that would be generated. He has been cooperative and eager to restore his building to health and safety compliance and to offer housing to low and moderate income people.

CAMBRIDGE STREET
FIRE DAMAGED PROPERTIES
CAMBRIDGE, MASSACHUSETTS

Properties that suffer damage from fires are also at risk of being removed from the City's stock of affordable housing. The reason for this is two-fold: inadequate insurance coverage and the strict code requirements that are triggered by City inspections after the fire has occurred

It is rare to find a small multi-family property that is insured at replacement value and, quite often, they are insured at levels substantially below that is needed. If such a property is damaged significantly by fire, repairs must be more through financing that will generate large rent increases.

Cambridge has also lost properties that have had only moderate fire damage. However once City inspectors enter these properties and identify other deficiencies, they often require either significant reconstruction or demolition. Both of these will result in lost units.

1204-1210 CAMBRIDGE STREET
CAMBRIDGE, MASSACHUSETTS

Number of units - 9

Rehab costs - \$295,370.00 (Bid price, \$39,000 P.U.)

Work includes: replace heating, plumbing, electrical systems, new roof, exterior replacement of clapboard, painting.

Owner participating in Rental Rehab Program.

Costs:

Rehab - \$295,370 (Bid price)

Refinance 1st mortgage \$58,234.00

Total Project Costs - \$333,607.00

Financing:

Bank - \$283,950.00

Rental Rehab Loan - \$68,500

160-164 RICHDALe AVENUE
CAMBRIDGE, MASSACHUSETTS

This property is a seven (7) unit wood frame building containing two and three bedroom units. It currently suffers from a combination of problems: A foundation wall that is caving in, a main girder that is undersized and a lack of capital improvements particularly on the exterior shell that is accelerating the deterioration. This building is distressed and with only 2 of 7 units occupied and will likely become completely vacant.

The owner approached CNAHS looking for assistance in packaging a rehab plan. CNAHS called for a complete gut with structural improvements as well. The cost was estimated to be in excess of \$500,000 (\$71,428 P.U.). These costs would require rents that were not affordable to low or moderate income families. CNAHS was not able to access sufficient below market funds to generate afford rents and consequently withdrew from the project.

MULLINS COURT
CAMBRIDGE, MASSACHUSETTS

Number of units - 15

Cost to rehab - \$700,000 (estimate, \$46,600 P.U.)

Work includes: replace all major systems, new bathrooms, kitchens
extensive exterior work.

The owner has attempted to participate in the Rental Rehab program.
However a lien of over \$1,000,000 due to lead paint suit is making the
packaging of this project difficult.

22-32 COGSWELL AVENUE
CAMBRIDGE, MASSACHUSETTS

Number of units - 18 (2 vacant)

Rehab costs - \$924,286 (estimate, \$51,349 P.U.)

Work includes: upgrading of structural elements, replacement of windows, electrical, heating, plumbing systems, correction of stairwell's lack of fire separation.

Community Development Department reviewed this property in accordance with the "Distressed Property" regulations on July 20, 1988. The Department's findings are as follows:

1. The building is in need of substantial rehabilitation in order to correct major structural problems as well as other existing code violations.
2. The existing structural framework for the most part, can be repaired and reinforced rather than demolished and rebuilt.
3. Given the estimated rehab cost per unit of \$51,000., it may be possible for more than six units to be available for low and moderate income residents.
4. In order to formulate a specific, workable plan for maintaining a larger portion of units for low and moderate income tenants than proposed by the owners, clearer information on the existing debt and the incomes of existing tenants needs to be collected.

280 WESTERN AVENUE
WEST ARMS COOP
CAMBRIDGE, MASSACHUSETTS

RCCC, with assistance from the City, purchased this and two other buildings from the same owner in 1984. The buildings were run as rental property until the rehab and financing plans were developed that allowed conversion to limited equity coops or condos. This six unit project involved substantial rehabilitation including replacement of all systems, new roof, correction of structural problems and reconfiguration of the units to create three useable bedrooms rather than one.

RCCC, the City and the tenants worked together for over a year to develop the rehab plan and form a housing coop. The costs and financing are as follows:

Costs:	\$ 90,000	Acquisition
	<u>374,900</u>	Development
	\$ 464,900	Total Project Costs

Financing:

\$ 250,000	Harvard HELP Fund Low Interest Loan
90,000	CNAHS Low Interest Loan
84,900	City of Cambridge CDBG Low Interest Loan
18,000	EOCD Abandonment Grant
10,000	Charlesbank Homes Grant
7,000	Weatherization Low Interest Loan
5,000	Cambridge Historic Commission Grant

61-67 BROOKLINE STREET
CAMBRIDGE, MASSACHUSETTS

This property contained five - two bedroom apartments and one store. During the 1970's the store and two units became vacant due to uninhabitable conditions. During the 1980's, the other three became vacant. The owner attempted to get conventional financing but was turned down due to the extensive rehab needed and the low rents (average 90/mo.).

CNAHS put together a package that completely gutted the property along with providing new windows, roof and siding. The units were reconfigured so the property now consists of five three bedroom units and one two bedroom unit. All six units were leased to low and moderate income families through the Cambridge Housing Authority Mod Rehab Program. This Program insures that needy families will live in these units.

The rehab costs of this project were \$320,000 (\$53,333 P.U.). Cambridge Savings Bank provided \$240,000 of this while CNAHS provided \$90,000 at a below market interest rate.

In addition, the owner was able to realize tax benefits that might not be available today.

Attachment C:

I. DISTRESSED PROPERTIES

	<u>#UNITS</u>	<u>COST PER UNIT</u>
Second Street	4	\$75,000.00
Portland Street	8	\$77,000.00
Elm Street	6	\$35,000.00
Cambridge Street	4	\$35,000.00
Andrew Street	4	\$50,000.00
Seventh Street	6	\$35,000.00
Charles Street	4	\$30,000.00
Charles Street	5	\$40,000.00
Mullins Court	16	\$32,000.00
Hurley Street	4	\$30,000.00
Hurley Street	6	\$50,000.00
Cambridge Street	27	\$25,000.00
Richdale Avenue	7	\$71,000.00
River Street	6	\$60,000.00
Prospect Street	6	\$50,000.00
Swartz Property (6 Struc.)	59	\$36,255.00
Putnam Avenue	14	\$25,000.00
Western Avenue	14	\$25,000.00
Sixth Street	4	\$25,000.00
Third Street	4	\$25,000.00
Eighth Street	7	\$30,000.00
Windsor Street	4	\$25,000.00
Gore Street	4	\$60,000.00
Jefferson Street	6	\$25,000.00
Third Street	4	\$45,000.00
Union Street	4	\$30,000.00
Webster Avenue	6	\$30,000.00
Elm Street	6	\$30,000.00
Bristol Street	8	\$25,000.00
Cambridge Street	4	\$45,000.00
Second Street	4	\$60,000.00
Broadway (Norfolk)	4	\$50,000.00
Pearl Street	4	\$40,000.00
Elm Street (2 Struc.)	14	\$30,700.00
Marcella Street	6	\$35,000.00
Thorndike Street	8	\$40,000.00
Seventh Street	4	\$25,000.00
Windsor Street	6	\$25,000.00
Elm Street	4	\$40,000.00
Eighth Street	4	\$60,000.00
Total Units	319	Total Costs to Rehab \$11,748,845.00

Average Cost per unit \$36,830.24

II. Distressed Properties

(Affordability preserved through City and non-profit participation)

	<u># UNITS</u>	<u>COST PER UNIT</u>
Spring Street	6	\$ 28,500
Western Avenue	6	\$ 58,000
Norfolk Street	6	\$ 43,000
Laurel Street	6	\$ 40,000
Cambridge Street	9	\$ 27,700
*Berkshire Street	11	\$ 53,400
Brookline Street	6	\$ 50,000
Marcella Street	12	\$ 35,000
Hunting Street	<u>5</u>	<u>\$ 45,000</u>
	67 units	\$2,798,700

Average cost per unit - \$41,772.00

Total cost to Rehab all structures - \$2,798,700.00

- * Project involves reconfiguration of 8 units to 11 units; bid price is \$587,300 for 11 units.

City of Cambridge

1. S-879
Comm. from Joseph E. Connarton, City Clerk,
transmitting the report of Councillor David
Sullivan, Chairman, Committee on Rent Con-
trol, after a series of public hearings to
discuss & receive testimony on the issue of
capital improvements in rent controlled bldg.'s.

12/28/89 Placed on file
without prejudice
See Order # 7 of
12/18/89

In City Council,

January 23, 1989

1/23/89 - Clerk's Report by P. Walsh