October 28, 1992

TO: Robert W. Healy

FROM: The Housing Cabinet

RE: Recommendations for Program for Low Rent Properties

The deterioration of the housing stock in the rent controlled buildings with the lowest rent structures has been identified by the City Council as one of the critical problems facing the City. Properties with a majority of units where the rent is $200 or less per unit often have very poor living conditions for tenants and do not provide the property owner adequate income to operate the unit responsibly and finance the necessary level of rehabilitation. The challenge facing the City is how to design a program which encourages owners to make the needed repairs to their properties and does not cause displacement of current tenants through rent increases which are not affordable to them.

Low Rent Buildings: Common Characteristics

The first step in designing a rehabilitation plan for the low rent buildings has been to collect from data possessed by the City relevant information related to these buildings. The attached memorandum outlines in more detail the information assembled by the Rent Control Board.

We are focussing here on the 66 buildings that have one or more units renting for $200 or less per month. There are 163 such units in those 66 buildings. From the original list of 142 buildings, Rent Control staff have eliminated buildings for a variety of reasons. For example, buildings were eliminated if only one unit rents for $200 or less, where the remaining units in the building all rent for significantly more than $200 per month. We have excluded those buildings from consideration here on the theory that the issues are quite different where the low rent units are an anomaly in the building. Staff have also identified units where pending rent increases or other Rent Control processes are likely to result in higher rents or a change in status for the units. In addition, units which have been recently demolished or exempted from Rent Control have been eliminated from the list. After the exclusions, we are left with 66 buildings that have low rent units. Those 66 buildings have a total of 412 units, with many of the additional units in the building renting for just over $200 per month.

Based on our general information about these buildings, we believe they have a number of common characteristics which are critical when a specific program design is being considered. These important characteristics are:

The majority of the properties are owned by small property owners - those owning twelve or fewer units. In general, small property owners tend to be less sophisticated in dealing with both the Rent Control Board and lenders.

One-third of these properties are owner occupied.

These buildings are located primarily in the eastern part of the City in CDGB neighborhoods. The majority of the residents of these neighborhoods have low or moderate income.

These units are located in smaller buildings with 83 percent of the units located in buildings with six or fewer units. These buildings are likely to be wood-framed.

Approximately 58 percent of the units are family-sized, that is, apartments with four or more rooms. The City has identified affordable units for low and moderate income families as a critical need.

In general the properties have not had individual rent adjustments or significant adjustments for capital improvements; 85 percent of the properties have less than $2000 of capital improvements in their rent structure. This is likely to mean that the properties have very significant rehabilitation needs.

Based on the City's databases and on some information from City interaction with the properties, we have developed an overall picture of the properties. While the information presented here does give a general overview of what we think are the characteristics of a majority of the properties, we need more specific information to design a program that will actually address the needs of the property owners and tenants.

DEVELOPMENT OF PROGRAM DESIGN

We are proposing as the next step of the process that the City Council's Rent Control Committee communicate with property owners and tenants about the City's need for information from them in order to develop a program that is responsive to their issues. The Committee would send a letter to the property owners and to the tenants of each unit in the building. The letter would indicate that the City is in the process of looking at the issues faced by building owners and tenants in buildings that have one or more units that rent for $200 or less per month. It would say that in order to design a program that could address these buildings, the City needs more information from them. The key pieces of information relate to the conditions of the buildings, the ability and willingness of tenants to pay more rent for improved conditions, the existing level of debt on the buildings and the barriers the owners and tenants see to participating in a program.

It is important that the letter not create unreasonable expectations on the part of tenants and landlords about the availability of publicly subsidized resources to address these properties. The kind and level of funds necessary have not been identified as of yet. We need to do the data collection in order to know the level of resources required and the kind of resources that would be necessary. For example, if landlords are willing to guarantee long term affordability by renting only to low income tenants, we could look for public resources of one kind or another. If property owners are not willing to guarantee long term affordability in return for capital, then private funds would have to be used. (The use of solely private funds would mean very large increases for units that needed significant rehabilitation.) But the kind of resources that are necessary cannot be identified until we have collected information from owners and tenants about the needs of the buildings and about their circumstances.

The letter from the Committee would not ask the owners and tenants to provide information directly to the Committee but would ask them to participate by responding to a questionnaire to be sent out to them by a nonprofit housing agency. It is our experience that individuals will be far more reluctant to provide confidential information to the City than to another nonpublic entity. We will be asking property owners to give information about the debt on their buildings and about their ability to access capital. We will be asking tenants to give income information. We need to be able to promise confidentiality to get this information from tenants and property owners, and the City may not be able to make the same guarantees of confidentiality that a private entity can make. The information, however, can be used by the City in the aggregate to help determine what kind of program can address the needs of the buildings, the owners and the tenants.

Some examples of the kind of information the City would need are:

(1) What are the conditions in the buildings?

(2) What are the barriers to making improvements where the property owners or tenants indicate that improvements are necessary?

(3) Are the tenants willing and able to pay increased rent if improvements are made? If so, how much of an increase?

(4) Are landlords willing to rent only to low income tenants in return for receiving publicly subsidized funds?

(5) What level of existing debt do the buildings carry which would affect the availability of financing?

We would expect the nonprofit entity, in cooperation with the City, to draft a survey form to be sent to property owners to gather this information. We would also propose that a survey be sent to tenants which would inquire about the level of work that is needed in their building and inquire about their ability and willingness to pay a rent increase for improved living conditions. We would not ask tenants to indicate in which unit of the building they reside but only which property it is. Tenants may be more willing to give income information if they do not have to identify themselves. At this point in the program, we do not need any particular tenant's income information. Instead, what we need is a profile of what the range of incomes is and how that correlates to the conditions of the buildings. That information will be important in program design since if the majority of tenants are low income, we need to design a program that would not make the rents unaffordable to low income persons.

Although we propose sending the survey to tenants as well as property owners, there is a risk that property owners may not be enthusiastic about having their tenants surveyed if the property owner is not interested in responding to or participating in a program. However, we were concerned that we not just contact property owners because the tenants are also an important part of any program design.

Once the survey information has been gathered, we would expect to share that information with the Council through its Rent Control Committee. The Committee may at that point want to hear from any tenants or landlords from the target buildings who are willing to work with the Committee. Depending on the information that is learned from the survey and from any public participation with the Committee, the next steps would be to identify a few buildings and to perform the next level of analysis to refine a program design.

The steps would be:

(1) Perform a rehabilitation assessment of a small number of buildings to produce actual rehabilitation costs. (The assessment would be based on the standards for rehabilitation that were recently adopted by the Rent Control Board and reviewed by the Council's Committee on Housing and Community Development);

(2) Assess the credit-worthiness of the property owner and the bankability of the loan to determine if the use of bank resources is feasible;

(3) Determine the income levels of tenants to determine what level of rent increase is affordable for them;

(4) Assess the property owner's willingness to accept rental restrictions for long term affordability in return for

publicly subsidized resources; and

(5) Determine, based on the needs of owners and tenants, the mechanics of how the City will work with property owners and tenants to manage the rehabilitation process and the process for approval of rent increases for the properties.

The actual identification of potential resources, both public and private, will then be critical. The resources include the capital necessary to rehabilitate the property and preserve affordability as well as the staff resources to implement the program and provide the intensive technical assistance that we assume will be necessary to work with these properties.

At this point, if we have been able to identify a modest level of appropriate resources, a Pilot Program which would deal with a small number of properties could be implemented. A Pilot Program would allow us to test the program design and evaluate the overall effectiveness of the efforts. A successful model which has been tested will then allow us to seek a larger level of resources from both public and private sources. This is especially important because there are numerous buildings in the City with units renting for somewhat more than $200 per month that pose similar issues to these properties. The experience gained through the Pilot Program will be important in assessing and addressing the needs of those buildings.

DESCRIPTIVE DATA CONCERNING SELECTED LOW RENT UNITS

On July 22, 1992, a list of controlled units with rents of $200 or less was run from data in the Rent Control database. That list contained 326 units in 142 buildings.

In formulating the initial program design proposal, we have reviewed the properties and units and determined that many of those included should not now be included as "low rent units". Examples of the reasons for exclusion include:

- Properties which have been demolished, converted to commercial space, or are otherwise exempt from the provisions of the Rent Control Act **(number of properties = 33)**

- Properties which have had or are awaiting a rent adjustment or a special case which could significantly impact the rents or the status of the building **(number of properties = 22)**

- Properties in which the low rent unit(s) are an anomaly, for example because the other rents in the property are substantially higher than the low rent unit(s)
  (number of properties = 15).

- Properties which, because of the history of the property, should be excluded, including a history of litigation, non-registration, etc.
  (number of properties = 7).

Following the exclusion of these categories of properties, a total of 66 properties remain which contain 1 or more low rent units. The total number of units in these properties is 412. Statistical data about these properties and units is located in the attached charts.

# UNITS OWNED BY OWNER	# PROPERTIES	% PROPERTIES
4-6	39	59.0%
7-9	8	12.1%
10-12	5	7.6%
13-15	4	6.1%
16-18	1	1.5%
19-25	4	6.1%
26-35	1	1.5%
36+	4	6.1%
TOTAL	66	100.0%

# OF PROPERTIES WITH REGULATION 72 RA	% WITH 72 RA	NEVER HAD 72 RA	% WITHOUT 72 RA
26	39.4%	40	60.6%

HEATED PROPERTIES	% HEATED	UNHEATED PROPERTIES	% UNHEATED	TOTAL
10	15.2%	56	84.8%	66

PROPERTIES WITH RES.EX.	% WITH RES.EX.	PROPERTIES WITHOUT RES.EX.	% WITHOUT RES.EX.	TOTAL
22	33.3%	44	66.7%	66

$ VALUE OF ANNUAL CAPITAL IMPROVEMENTS BUILT INTO RENTS	NUMBER OF PROPERTIES	% OF PROPERTIES
$ 0	39	59.1%
1 - 999	11	16.7%
1,000 - 1,999	6	9.1%
2,000 - 2,999	6	9.1%
3,000 - 3,999	0	0.0%
4,000 - 4,999	3	4.5%
5,000 - 5,999	1	1.5%
TOTAL	66	100.0%

SIZE OF BUILDING	# PROPERTIES	% PROPERTIES
4	21	31.9%
5	8	12.1%
6	26	39.5%
7	1	1.5%
8	3	4.5%
9	1	1.5%
10	1	1.5%
13	2	3.0%
15	1	1.5%
19	1	1.5%
22	1	1.5%
TOTALS	66	100.0%

NEIGHBORHOOD	# OF PROPERTIES	% OF PROPERTIES
1	24	36.4%
3	16	24.2%
4	6	9.1%
5	6	9.1%
6	4	6.1%
7	4	6.1%
9	5	7.5%
11	1	1.5%
TOTALS	66	100.0%

NUMBER OF ROOMS	NUMBER OF UNITS	PERCENTAGE OF UNITS
2 rooms	4	3%
3 rooms	63	39%
4 rooms	67	41%
5 rooms	21	12%
6 rooms	7	4%
7 rooms	1	1%
TOTAL	163	100%

7.

CITY OF CAMBRIDGE
CAMBRIDGE, MASSACHUSETTS 02139

TEL. 349-4300
FAX. 349-4307

EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
Deputy City Manager

November 2, 1992

To The Honorable, The City Council:

Attached is a report from the Housing Cabinet with recommendations concerning the design of a program for the rehabilitation of rent control properties with units renting for $200 or less per month. I would ask that the Council refer the report to the Council's Rent Control Committee. This report responds to the Council's order of August 3rd.

Very truly yours,

Robert W. Healy

Consent Agenda # 7 S-818

Report from the Housing Cabinet with recommendations concerning the design of a program for the rehabilitation of rent control properties with units renting for$200 or less per month.

In City Council,

November 2, 1992

Referred to the Rent Control Committee

Copy sent to Rent Control Committee 11/4/92 ae