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 'Schwarts' 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 <u>RLF</u> 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 ordinanced 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.

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, JASCDC 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.

	Current	Projected
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		1,100
		Total	$ 459,432
B.	Demolition		$ 47,500
	Paint		27,000
		Total	$ 74,500
Rehabilitation Total			$ 533,932
10% Contingency			53,393
		Total	$ 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 occured

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.

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
	374,900	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

	#UNITS		COST PER UNIT
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

(Affordablility preserved through City and non-profit participation)

	# UNITS	COST PER UNIT
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	5	$ 45,000
	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.

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.

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.

Attachment A:

Housing Conditions Report

Cost of Capital Improvement	Number of Structures	Number of Units	Average Cost per Unit	Total Cost
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
*2. Properties surveyed	46	319	$36,830	$11,748,845
Properties preserved by City/non-profits	9	67	$41,772	$ 2,798,700
	55	386	$37,688	$14,547,545

7.

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.

Agenda Item No. 7S-731

Re: enclosed copy of a report from the Asst. City Manager for Community Development Re: distressed rental properties as requested by the City Council Committee on Rent Control.

In City Council,

November 28, 1988

11-28-88

Referred to the Committee on Rent Control on motion of C. D. Sullivan.

Copy sent to Councillor David Sullivan, Chair, Rent Control Committee 12/9/88