

Philip S. Shaw, esq.
99 Hancock Street
Cambridge, Mass. 02139

Mayor Al Vellucci
City Councillors
City Hall
Cambridge, Mass.

Dear Sirs:

This letter is to request time in which to speak before the City Council on Monday, February 8, 1971, on the subject of Rent Control. On February 3, 1971 the Interim Administrator promulgated definitions and guidelines on fair net operating income. These guidelines were distributed and will be published and applied without any public hearing or any consultation with interested citizens. A copy of the guidelines is attached.

The guidelines in their present form are objectionable in that they violate the spirit and the intent of the rent control. If these guidelines were applied as stated, almost every landlord would deserve such a substantial increase that the past inflation in rents would seem small by comparison.

The guidelines are objectionable in the following ways:

1) The standard is circular:

The standard is based on current market value. Current market value depends on the level of rent and indeed it is defined by the administrator as 5 to 7 times gross annual rental income. After one rent raise the market value would increase. This, without any rise in cost would necessitate a rise in rents which would lead to an increase in market value, which would in turn, lead to a rise in rents, ad infinitum.

If the administrator were to fix market value as of the level in March 1970, this problem could be avoided.

2) The definition of market value is wildly variable, and overly generous.

A multiplier of seven times gross rental income, while suitable for appraisal, is based on an expectation of continued inflationary pressure and cannot be used in this context.

The variation permitted in the formula is so wide as to be virtually useless.

A gross income of \$25,000 will give a fair market value of anywhere from \$125,000 to \$175,000- a variation of 40%. Using the assessment figures, an even wider variation is discovered. An assessment of \$80,000 will yield a fair market value of \$200,000 or of \$320,000 - a variation of 60%.

The variation in Cambridge assessment figures is too well-known to discuss here, It is enough to say that assessments are eccentric and any rule of thumb is apt to be useless in altogether too many cases.

3) The ratio used - 10 to 15 percent - is extremely variable and outrageously high. In comparison with other standards now being used the lower or 10% figure is at the upper limits of such standards; the 15% figure is so outrageous as to produce absurd results like the following:

Let us assume that gross rental income based on the March rents is \$10,000. Using the multiplier of 7, we get a \$70,000 fair market value. Net income is 15% of fair market value according to the standard. Net income is gross income minus expenses. Fifteen per cent of \$70,000 is \$10,500 which is \$500 greater than gross rental income. This entirely ludicrous result is based, of course, on the extremes of the standard; but it is definitely permitted.

4) The Administrator would have us use the 7 "times" multiplier for apartment houses that are well kept up. A return close to 10% is called for because the risk is less for a well maintained property. According to him, a badly maintained property presumably would have a multiplier of 5 and a rate of return of 15%.

This approach, of course, rewards the landlord for maintaining his property badly and encourages him to let his property deteriorate.

Let us apply these figures to our hypothesized gross rental income:

	<u>Well maintained building</u>	<u>Badly maintained building</u>
Gross Rental Income	\$10,000	\$10,000
Fair Market Value	70,000	50,000
Rate of Return	10%	15%
Net Income	7,000	7,500

We can see that the net income for a badly-maintained building is greater than that for a well-maintained structure. More importantly, the amount available to pay for expenses is so small that it scarcely covers taxes, let alone fuel or upkeep. In the example, we chose a gross rental income without stating how much expenses were or how much money the landlord was making. It is safe to say, however, that regardless of previous level of profit, he now "deserves" a substantial increase over the March level of rent - about 30%.

5) It is useful to compare the results that would obtain under the standards in current use elsewhere.

a) Brookline's present standard is the most generous one currently in use. There the multiplier (rule of thumb) used is 5.5 times gross rental. Fair market value, however, is based on assessment which closely approximates market value and was given at 100% in 1967-68.

The formula used in Brookline states: Net income should equal the debt service rate (currently 11%) as a ratio of fair market value. The way I understand it, landlords who were making more than 11% in March, 1970 will have their rents reduced to 11%. All those landlords who were making less than 11% in March are given increases only to cover the actual increases in cost since March and to maintain their previous profit rate. For example, a landlord who was making 8% on the fair market value will not be allowed an increase that would give him a return greater than 8%. Thus, the Brookline formula is considerably less generous to landlords than the present Cambridge giveaway.

b) New York's present standard gives a landlord 8 1/2% on fair market value and allows a 2% deduction for depreciation as an expense. This formula was recently enacted and was designed to correct those problems that had arisen under the older formula.

The New York standard probably does not even reach the lowest limit set by the Cambridge standard, since a 2% deduction of depreciation as an expense is not equal to a 2% increase in the rate on fair market value.

c) Boston's present standard is based on operating ratio: net income as a pre cent of gross income. The rule applied is that operating ratio should not be more than 45% and it ranges down to 40% for badly maintained buildings. Although these are only rules of thumb, the Cambridge standard ranges from a 50% ratio (which only obtains using the lowest of both figures) to an absurd 105% ratio. Using the guidelines, the Cambridge standard probably gives a 70 to 75% ratio which is so inordinately high as to lead one to believe that the Administrator seeks to frustrate the intent and spirit of the act.

I submit that the council adopt resolutions ordering the City Manager to:

- 1) Hire a competent full-time administrator forthwith
- 2) Order the interim administrator to a) cancel the present standard, b) to hold a public hearing on standards as soon as possible, and c) to halt all individual hearings until a sueful standard and appropriate forms are drawn up.

Thank you for your consideration.

Very truly yours,



Philip S. Shaw

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CITY OF CAMBRIDGE

MODEL CITIES PROGRAM

639 MASSACHUSETTS AVENUE
CAMBRIDGE, MASS. 02139
TEL. 868-8740

February 11, 1971

Mr. Alfred E. Vellucci, Mayor
Cambridge City Hall
795 Massachusetts Avenue
Cambridge, Massachusetts 02139

Dear Mayor Vellucci:

The City Demonstration Agency, meeting in regular session on February 10, 1971, voted to go on record as supporting the proposition to have the City Manager carry out his duty by appointing a full-time Rent Control Administrator without any further delay and in the interim have the temporary Rent Control Administrator (1) declare a moratorium on any further individual rent control hearings, (2) abandon the temporary standard of "fair net operating income", and (3) hold a public hearing to develop a more equitable standard as soon as possible.

Very truly yours,

Wallace R. Brown
Chairman of the Board

/ams

cc: Philip M. Cronin
John H. Corcoran

Read at 7:40 PM



CITY OF CAMBRIDGE
MASSACHUSETTS

September 28, 1970

ALFRED E. VELLUCCI
MAYOR

TO THE HONORABLE THE CITY COUNCIL:

Pursuant to City Council Order of September 17th, 1970,
that a Blue Ribbon Committee be appointed to advise the
City Manager in the selection of an Administrator of Rent
Control, please be advised that the following individuals
are hereby appointed to said committee:

Mrs. Marie Watson, 225 Walden Street

- Mr. Luke Agneta, Vice-President of the CEOC and Chairman
of the CEOC Housing Convention, 379 Cambridge Street
- Mr. Carl Barron, President of the Cambridge Property Owners
Association, 2A Trowbridge Street
- Mr. George Fantini, State Street Bank & Trust Company,
8 Leonard Avenue
- Mr. Leonard Jones, Model Cities Board & Cambridge Housing
Convention, 1054 Cambridge Street
- Mr. Robert Jones, Niles Realty Company, 18 Brattle Street
- Mrs. Janet Rose, Model Cities Board, 16 Pine Street
- Reverend Daniel Sheehan, 134 Norfolk Street

Respectfully submitted,

Alfred E. Vellucci

Alfred E. Vellucci
Mayor

Cambridge, Mass.
February 11, 1971

Mr. Paul Healy
City Clerk
Cambridge, Mass.

Dear Mr. Healy,

I am writing to request that I be allowed to present some of my thoughts on the subject of rent control at the special City Council meeting scheduled for tonight. I hope at that time to present a reasonably detailed rent control plan for the city of Cambridge which hopefully will get rid of many of the objections which ~~has~~ have been advanced with respect to ~~the~~ other plans which have been put forward.

I presented the gist of this plan at the public Rent Control hearing held at Rindge High School auditorium in December, but I didn't get to speak until the end of the meeting, by which time most people had left. Accordingly, if it is not asking too much I would like to request that I be allowed to speak sometime between 8:00 and 8:30, which would allow me to respond to some of the things that had been said by the initial speakers, but would not be so late that either the people or the reporters would be gone. If I am not interrupted, it would not take longer than fifteen minutes. However, I don't mind being interrupted, and am hoping to open the floor for questions (if the mayor permits me to do so) following my talk, so it might run longer than that.

I realize that it may be impossible to honor this request, but hope that you will do your best. I look forward to seeing you tonight.

Sincerely,



David Williams

CAMBRIDGE, MASS.

FEB 11. 4 38 PM '71

RECEIVED BY
OFFICE OF CITY CLERK

WILLIAM H. WALSH
ATTORNEY AT LAW
801 CAMBRIDGE STREET
CAMBRIDGE, MASSACHUSETTS 02141

354-3366

February 11, 1971

Cambridge City Council
City Hall
Cambridge, Massachusetts

To the Honorable City Council:

My name is Attorney William H. Walsh. I reside at 28 Hurlbut Street Cambridge, and I practice law from my office at 801 Cambridge Street, Cambridge.

Tonight I am here as attorney for a new association which has been formed in Cambridge called the Cambridge Taxpayers Association (C.T.A.). At a meeting which we had last night, a discussion of rent control, its administration, and application to tax-payers was discussed in length. As a result of this discussion a series of proposals have been made. Let me start out by first stating that the proposals which we are going to suggest tonight are based on what we feel will be the only equitable solution to a long series of events which has caused and is causing serious financial harm to many tax-payers.

I would like to call to the attention of this honorable board that Massachusetts General Laws 842, namely the rent control act, was passed by the City Council on the 17th day of September, 1970, to become effective on the 17th day of October, 1970. Due to the lack of foresight of our City Fathers in adopting the rent control act with such great haste, administrative recourse was not technically provided until the first day of December, 1970. As a result of this, Mr. Cronin, the acting rent control administrator, had publicly stated that no roll-backs would be allowed prior to that date. There were also exemption certificates granted to real estate tax-payers who showed that it would be a great hardship on them to have their rents rolled back. These exemption certificates stated that the rents would be "temporarily adjusted pending formal hearing to the November 1st level." They were on City of Cambridge stationery and signed by the then Executive Director, Joseph A. Spadafora, Esquire.

Then somewhere about the middle of December at the cries of certain tenant organizations, the City Council urged Mr. Cronin, the acting director, to withdraw these exemptions and Mr. Cronin so did as of the first day of January, 1971. All during the period of time prior to January 1st, few if any hearings were held. By late January the wheels of the administrative process started to roll regarding rent adjustments and eviction hearings. During this period of time there was a question as to what procedural efforts or procedural devices should be used at these quasi-judicial hearings. Although I have never seen any official letter to this effect, I have heard

repeatedly from hearing officers that these were not to be considered formal hearings but rather informal hearings and that the hearing officer's part was to be that of a determiner of fact. This rule was to apply to both rent adjustment hearings and eviction hearings. As a result of this, a client of my firm, Mary Manganaro, who owns property on Pearl Street in Cambridge, came to our office complaining that two of her tenants had rolled back their rents in November and December, despite the fact that she had an exemption certificate. In late November I went to the rent control office, then located at 57 Inman Street in Cambridge, and asked for a hearing for an eviction. I was told by the young lady in charge that no certificates were available. I then proceeded to take my recourse by way of the district court. I have attached to this letter a copy of a decision by Justice Haven Parker of the Third District Court of Middlesex County. This case holds that despite the fact of Massachusetts General Laws 842, that a landlord is not violating this chapter because his rental agreement was subsequent to the effective date of the said act. The court went on to state that this is a situation in which the defendant seeks to abrogate a contract which was entered into by all the parties previous to the passage of the act, yet on countless occasions, hearing officers and employees of the rent board who knew of this discussion, advised tenants to roll back rents to the March level.

It is, therefore, my contention that since this issue of roll-back was not argued before the Supreme Court and since by virtue of the rent control act that the district court has original jurisdiction over all matters, that the decision in Manganaro vs. Davis and Whitney, ejection No. 4787 and 4788, is binding on the City of Cambridge and that this City Council tonight should instruct the acting rent control administrator and legal counsel for the rent control board that all tenants are liable to repay to their landlords all moneys rolled back during this period of time.

If the City Council tonight chooses to once more ignore the tax-payers, our recourse is to deduct all loss of legal rentals from our real estate bill and to ask for an abatement on our taxes and if we fail to get this, we will appeal to the State Tax Appellate Board. I am not just talking of a few isolated tax-payers, I am talking about a tax-payers' strike in protest to the continued discriminatory action of this council against them.

I would like to point out to this honorable body that the taxes for 1970 were increased in the sum of \$18.00, which represents an increase of 19.69% or a minimum 5% increase. But what this council for one reason or another seems to be ignoring is that this roll-back for the month of December and January represents a double taxation against the tax-payers. Let me explain further.

I am not arguing the merits of the legality of rent control. The Supreme Court has decided this in the affirmative. But what I am saying tonight is that you councillors have nearly increased the tax rate 20%; you have rolled back the rents which in some cases amount to between 3% to 10% decrease in income; you have gone forward and raised the cost of water 30%; you have raised firemens' and policemen's pay 8% for 1971; you are negotiating an increase with the Department of Public Works, and the City Manager has

stated that all city employees will receive the same 8% raise as the Fire Department and the Police Department, the budget for the School Department has increased 1.7 million dollars or an increase of \$5.66 on the tax rate, the teachers and the school committee are still negotiating a contract which may amount in a further hike in taxes, you have created a rent control board with a cost of another minimum \$2.00 to \$2.25 on the tax rate and you will sometime before August set a tax rate which from all this evidence will raise another minimum 20% and for which the tax-payer will be requested to pay retrospectively back to January, 1971.

On the third day of February, 1971 a formula for determining a fair net operating income was devised and made public. This formula first of all made an assumption that all owners' values would be determined at 100% equity rather than consider mortgages and their effect on the real estate mortgage. Now as this honorable council must know and understand, mortgages today are at a very high rate of interest and second mortgages and improvement loans are liable to extremely high interest rates so the landlord with a mortgage had to be judged on this formula despite the fact that his interest and principal payments were definitely a determining factor on his rents.

As a second method of determining fair market value, five to seven times the gross annual income from 1969 would be multiplied. Again this was based not on present incomes but on incomes as of 1969. Is this truly a realistic figure since all costs have spiralled so high since 1969? Would any of you City Councillors be willing to accept pay salary of 1969 instead 1971?

Thirdly net income is said to be between 10% and 15% of the market value and that the higher the quality of the property, the lower the multiplier. This reflects the risk factor. Page 2 of the Landlord's Supporting Statement asks "What is the year of your building?" The reason for such a question is this. If a building is built around the turn of the century, there is a greater risk factor. It is normal to assume that more repairs will be needed more often than in a newer or recently renovated building. But considering the fact of what you are allowing as a risk factor, you are surely limiting a landlord and telling him that he must make all necessary precautions to stay within 15% of the fair market value which, remember, is based on your 1969 income. Now I ask you councillors, can anyone get a plumber or electrician for the same price that they did in 1969? Can anyone obtain any labor services that they did in 1969 for the same price? The formula as suggested went on to give what is considered the correct percentage of increase in cost of heat for 1970 without taking into account because of ecology many buildings now are switching to No. 4 fuel. It speaks of utilities. How many of your councillors realize that on to your electric and gas bills there is a fuel charge. On your formula you show water to be \$10.00 to \$30.00 per unit per year. That is fine if you only have one or two people living in a building. Have you considered the effect of a 30% increase that went into effect on January 1st of this year?

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Cambridge City Council
February 11, 1971

On your janitorial fees you state that \$40.00 to \$60.00 per unit per year should be the cost. I say to you that the cost of labor today would make those figures more appropriately \$60.00 to \$80.00 per unit per year. On insurance, the formula states that 1½% to 3% of gross income. Insurance has gone up despite the notation that there is little increase. Would you take into consideration the man who bought a house in 1970-1971 -- a wooden frame multiple dwelling? Do you counsellors sincerely believe that 1½% to 3½% will cover his insurance needs today?

Continuously you have given into the tenants' associations without regard to the tax-payers' ever-increasing costs. Tonight we, the taxpayers are demanding the following:

1. that all hearings continue, that no further violation of the due process of law be placed against any taxpayers in the city.
2. while the formula given by the board is not the most perfect formula and while we the taxpayers could find many ways to improve this, that this present formula as given by the rent control administrator continue in operation and that the City Council hereby allow the rent control administrator to promulgate the administrative rules of the board without any further political interference.
3. that since the rent control administrator has the power to promulgate such rules and regulations as he deems necessary, that a published list of (a) administrative procedures before the board be given by him to all interested parties, (b) what is actually necessary in a supporting statement signed by a landlord should be considered an affidavit (c) that a full time appraiser be hired by the City to determine what is a fair market value (d) that in order to avoid harrassment of the landlord that a C.P.A. be appointed by the City to verify supporting statements of landlords (e) that better security be given to private information divulged by the landlord taxpayer.

Now members of the City Council if you proceed tonight to stop rent adjustment hearings, to politically interfere with the formula set by the rent control board, or in any other way cause prejudice to the taxpayers of this city, a tax strike in Cambridge is inevitable.

I think you should consider and repeat, especially here tonight, that the rent control law is not purely a tenants' law nor a political vehicle to obtain votes. We all realize that there are more tenants than landlords but we also must realize that it is the landlord taxpayer who has kept Cambridge on the "go" and will in the future be the backbone of the city.

Very truly yours,

William H. Walsh

William Holland Walsh
Attorney, Cambridge Taxpayers
Association



CITY OF CAMBRIDGE

1746 CAMBRIDGE STREET
CAMBRIDGE, MASSACHUSETTS 02139

TEL: 492-4462 / 4463 / 4464.

RENT CONTROL ADMINISTRATION

February 3, 1971

DETERMINATION OF "FAIR NET OPERATING INCOME"

A fair net return on investment should range within 10%-15%. Investment should be taken as the current market value of the property.

With a well-maintained property there is less risk involved and the return should be on the lower end of the scale.

A property in poor condition involves more risk and merits a higher rate of return.

To determine the Market Value of the property :

- 1) Assessed valuation is generally between 25% and 40% of market value.
- 2) Between 5 and 7 times gross annual income equals market value.
- 3) Net income should be between 10% and 15% of market value.
- 4) As a rule of thumb, market value equals three times assessed value.
- 5) Re: 2) - the higher the quality of the building, the higher the multiplier to be used, i.e. 7.

Analysis of Landlord's Supporting Statement

1. HEAT
Smaller buildings - #2 oil - 5% increase in 1970
Larger buildings - #5 oil - 45% " "
 #6 oil - 78% " "
Heating cost in smaller buildings is 10%-30% of gross income.
Heating cost in larger buildings is 1½%-10% of gross income.

2. UTILITIES

Less than 2% of gross income. —percentage a far a —
(\$20 - \$30 per unit per year) utilities are constant

3. WATER \$10 - \$30 per unit per year.

Figures dependent on number of occupants in unit.

4. GAS. Rise of 7% in 1970.

5. JANITORIAL

\$40 - \$60 per unit per year.

If janitor is provided with apartment, add to gross income estimated income from that unit. Deduct janitorial expenses.

6. REAL ESTATE TAXES

20% - 25% of gross income.

Tax rate: 1969 - \$91.40 per \$1,000 of assessed evaluation.
1970 - \$109.40 " " "

This represents an increase of 19.69%.

Gross income has to go up 5% to cover this tax increase.

7. INSURANCE

1½% - 3% of gross income. This has not gone up substantially over the last year.

* Frequently insurance is bought on a three - year basis.

8. MANAGEMENT

Allow flat rate of 7% of gross income - this figure recommended by the Boston Real Estate Board.

Owner-managed should be allowed the management fee.

9. MAINTENANCE AND REPAIRS

Many of these may be considered as capital improvements.

e.g. New boiler)
roof) 20 year life.
bathroom)

New stove)
water heater) 10 year life.
refrigerators)

Furnishings 7 year life

10. MORTGAGES

Principal and interest - not an expense.
Consider the fair return on the entire
investment as if the landlord owned the
property outright.

The above are ONLY guidelines. Consider the actual
expenses which the landlord presents and substantiates
as the best evidence.

SUMMARY

- 1) 5-7 times gross income from 1969 equals market value.
- 2) Compute proposed annual income.
- 3) Proposed annual income less 1970 expenses equals
proposed net income.
- 4) Proposed net income divided by market value equals
rate of net income.

CRONIN'S LAW: THE HIGHER THE RENTS, THE HIGHER THE INCREASES!



Ever since the City Council passed "rent control" in ~~September~~ the performance of the government has been to sabotage its own law one way after another. Now Rent Control administrator PHILIP M. CRONIN has invented a definition of "fair net operating income" that will insure rent increases for all Cambridge tenants. In some cases our rents may double! All rent rollbacks will be undermined. It means that landlords can petition for just about any rent increase they want.

Cronin's new standard says:

"A fair return on investment should range within 10 - 15%. Investment should be taken as the current market value of the property."

This standard is completely phoney and circular in its logic.

Investment has nothing to do with market value. If a landlord buys a building for \$100,000 he makes a down payment of \$20,000 or \$30,000 and takes a mortgage for the rest. His investment is \$20,000 - \$30,000. It is not \$100,000! There's a hell of a difference between 10% of \$20,000 and 10% of \$100,000 as allowable profit!

A building's market value is going to be defined as 5 to 7 times its annual rental income. Cronin gives the landlord a 10-15% return on "market value". In other words a 10 - 15% return on 5 - 7 times the old rents. The higher the rent, the higher the increase!

HOW CRONIN'S FORMULA WILL "WORK"

Let's look at a 5-year-old building with 14 apts at 23 Mellen Street, owned by Mr George Economy. We'll use Cronin's formula to compute the "proposed annual income" (NEW RENTS) that will be allowed for this building.

First we have to compute the building's "market value". Cronin sets this at 5 to 7 times the building's 1969 gross rental income. Since 23 Mellen is a newer building, its figure will be 7 times (because Cronin says, "the higher the quality of the building, the higher the multiplier to be used").

In 1969 23 Mellen took in \$33,480. Multiply this times 7.
 $7 \times \$33,480 = \$234,360$ - and this is the building's "market value" as defined for the City by Cronin.

Now we can compute the "proposed annual income". When Mr Economy petitions the "Rent Control" Office for a rent increase, he's talking about his "proposed annual income". Cronin says this should be high enough to allow a "proposed NET income" equal to 10 to 15 per cent of the building's "market value". This is what gives the landlord his "FAIR NET OPERATING INCOME".

Cronin's standard says that in this profit range of 10-15%, the lower rates go to buildings in good shape and the higher rates go to those in bad shape -- to make up for the "risk" of owning rotten buildings! (Not a word about the risk we take living in them.) 23 Mellen is in pretty good shape - let's say the "Rent Control" Office allows poor Mr Economy only 12% on it.

Now PROFIT is INCOME minus EXPENSES. Translating into Croninese, we say Proposed Net Income is Proposed Annual Income minus 1970 Operating Expenses. "Operating expenses" includes taxes, water, maintenance, etc, but not mortgage payments.

23 Mellen's operating expenses in 1970 were \$16,215. Now Mr Economy can ask a "proposed annual income" on this building great enough to allow him a rental profit of 12% of the "market value" - - -

12% of \$234,360 (mkt value) is	\$28,123.	(PROFIT plus
add his expenses which were	\$16,215.	EXPENSES equal
so he can now collect	<u>\$44,338.</u>	proposed annual
		INCOME.)

(The formula can be stated: proposed net income = proposed annual income minus 1970 operating expenses divided by the market value. In the case of 23 Mellen,

$$12\% = \frac{x - \$16,215.}{\$234,360.} \quad x = \$44,338.$$

THIS IS HOW MR ECONOMY CAN RAISE HIS RENTS to get a new total of rental income \$44,338. He got \$33,480. in 1969, and Cronin's standard would allow him to get \$10,858. more in rents for 1971. Broken down for the 14 apartments over 12 months, this means that each tenant would get a rent increase of \$65.00 a month! This is a 26 - 45% increase for the tenants at 23 Mellen Street!

THIS STANDARD MEANS THE END OF RENT CONTROL

Cronin's new profit formula is designed to insure the landlords' profits and give them the free reign they've always had, but now under the cloak of "rent control". This standard will completely undermine all gains won by tenants from the new law and turn rent control into a tool of landlords for raising rents.

The reason for rent control is to restrict rents. It is part of a larger need to control prices while people's real wages are being eaten away by inflation and unemployment. The only way to enforce rent control is to freeze all rents. In Cambridge rents should be reduced 25% or more to compensate for the superprofits that landlords have exploited from the tenants of the city in the past few years.

The landlords cry: "Who will invest in housing? Who will build new housing if we are restricted?" Our answer is this: The landlords have done a lousy job of building new housing and that's why we're in the mess we're in now. Further government support of the landlords, like that given by Cronin and furnished by the tax laws (profits Cronin doesn't begin to compute) can only keep the housing situation going in the same direction it has been going, downhill! The only real solution to the housing crisis is real control of rents across the nation to give tenants the relief they need today. The government must directly build (not through incentives to private developers), within the next five years, the 20 million units of housing that were called for in President Eisenhower's 1960 Commission on National Goals, and have never been built.

The Cambridge Tenants Organizing Committee incorporates these goals into its program:

- 1) No Rent Increases, No Evictions
- 2) Decent Housing For All People! Build 15,000-20,000 low rent housing units in greater Boston every year!



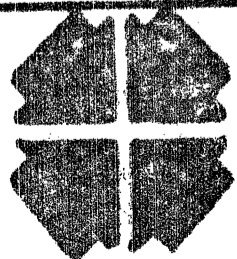
Come to the City Council Monday
(7 P.M.)

DEMAND: 1) FIRE CRONIN

2) RESCIND THE PROFIT STAM

3) NO RENT INCREASES, NO EVICT.

**CAMBRIDGE
TENANTS' ORGANIZING
COMMITTEE**



595 MASS AVE Rm 201 354-2064

CRONIN'S LAW: THE HIGHER THE RENTS, THE HIGHER THE INCREASES



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 $7 \times \$33,480 = \$234,360$ - and this is the building's "market value" as defined for the City by Cronin.

Now we can compute the "proposed annual income". When Mr Economy petitions the "Rent Control" Office for a rent increase, he's talking about his "proposed annual income". Cronin says this should be high enough to allow a "proposed NET income" equal to 10 to 15 per cent of the building's "market value". This is what gives the landlord his "FAIR NET OPERATING INCOME".

Cronin's standard says that in this profit range of 10-15%, the lower rates go to buildings in good shape and the higher rates go to those in bad shape -- to make up for the "risk" of owning rotten buildings! (Not a word about the risk we take living in them.) 23 Mellen is in pretty good shape - let's say the "Rent Control" Office allows poor Mr Economy only 12% on it.

Now PROFIT is INCOME minus EXPENSES. Translating into Croninese, we say Proposed Net Income is Proposed Annual Income minus 1970 Operating Expenses. "Operating expenses" includes taxes, water, maintenance, etc, but not mortgage payments.

23 Mellen's operating expenses in 1970 were \$16,215. Now Mr Economy can ask a "proposed annual income" on this building great enough to allow him a rental profit of 12% of the "market value" - - -

12% of \$234,360 (mkt value) is	\$28,123.	(PROFIT plus
add his expenses which were	\$16,215.	EXPENSES equal
so he can now collect	\$44,338.	proposed annua
		INCOME.)

(The formula can be stated: proposed net income = proposed annual income minus 1970 operating expenses divided by the market value. In the case of 23 Mellen,

$$12\% = \frac{x - \$16,215.}{\$234,360.} \quad x = \$44,338.$$

THIS IS HOW MR ECONOMY CAN RAISE HIS RENTS to get a new total of rental income \$44,338. He got \$33,480. in 1969, and Cronin's standard would allow him to get \$10,858. more in rents for 1971. Broken down for the 14 apartments over 12 months, this means that each tenant would get a rent increase of \$65.00 a month! This is a 26 - 45% increase for the tenants at 23 Mellen Street!

THIS STANDARD MEANS THE END OF RENT CONTROL

Cronin's new profit formula is designed to insure the landlords' profits and give them the free reign they've always had, but now under the cloak of "rent control". This standard will completely undermine all gains won by tenants from the new law and turn rent control into a tool of landlords for raising rents.

2340	65
5	65
11700	65
	95
	195
	390
	195
	2340

The reason for rent control is to restrict rents. It is part of a larger need to control prices while people's real wages are being eaten away by inflation and unemployment. The only way to enforce rent control is to freeze all rents. In Cambridge rents should be reduced 25% or more to compensate for the superprofits that landlords have exploited from the tenants of the city in the past few years.

The landlords cry: "Who will invest in housing? Who will build new housing if we are restricted?" Our answer is this: The landlords have done a lousy job of building new housing and that's why we're in the mess we're in now. Further government support of the landlords, like that given by Cronin and furnished by the tax laws (profits Cronin doesn't begin to compute) can only keep the housing situation going in the same direction it has been going, downhill! The only real solution to the housing crisis is real control of rents across the nation to give tenants the relief they need today. The government must directly build (not through incentives to private developers), within the next five years, the 20 million units of housing that were called for in President Eisenhower's 1960 Commission on National Goals, and have never been built.

The Cambridge Tenants Organizing Committee incorporates these goals into its program:

- 1) No Rent Increases, No Evictions
- 2) Decent Housing For All People! Build 15,000-20,000 low rent housing units in greater Boston every year!



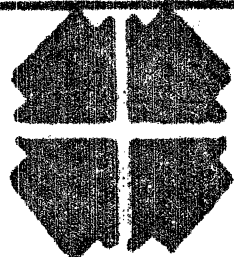
Come to the City Council Monday
(7 P.M.)

DEMAND: 1) FIRE CRONIN

2) RESCIND THE PROFIT STAMP

3) NO RENT INCREASES, NO EVICTI

**CAMBRIDGE
TENANTS' ORGANIZING
COMMITTEE**



595 MASS AVE Rm 201 354-2064

Cambridge Tenants Organizing Committee
 595 Mass. Ave., Cambridge 354-2064

SUMMARY OF ANALYSIS: The formula promulgated by Rent Control Administrator Philip M. Cronin on Feb. 3, "Determination of "Fair Net Operating Income"", reduces not to a formula for determination of profitability of investment but rather to a formula guaranteeing a minimum 3.5% rent increase in all Cambridge rental apartments this year. The possible rental increases under this formula go as high as 5.4%. The formula is also totally circular and will guarantee an increase every year. In addition, the formula increases the real profit rate (net income/investment) of all Cambridge Rental properties.

ANALYSIS

Cronin's formula says that "a fair net return on investment should range within 10-15%." He then defines investment as the market value of the building, rather than as the amount of money the landlord has actually invested in the property. Market Value is then defined as 5-7 times the 1969 gross annual income (sum of all rents collected). Cronin further says

" 5) Re: 2) - the higher the quality of the building, the higher the multiplier to be used, i.e. 7."

On the 10-15% return:

"With a well-maintained property there is less risk involved and the return should be on the lower end of the scale.

"A property in poor condition involves more risk and merits a higher rate of return."

Cronin's formula for Rate of Net Income (what he also calls a "fair net return" is:

$$\text{RATE OF NET INCOME} = \frac{\text{PROPOSED ANNUAL INCOME} - \text{EXPENSES(1970)}}{\text{MARKET VALUE}} \quad (1)$$

To simplify this mathematical analysis, the following algebraic terms will be used:

- a) from Market Value = 5-7 x Gross Annual Income(1969)
 $MV = mI(1969)$

where MV=Market Value, m= market value multiplier(5-7), and I(1969)=Gross Annual Income

- b) Let R= Rate of Net Income(to fall between 10-15%)
- c) Proposed Annual Income is the new rent collection the landlord petitions for. It is therefore composed of the old rent collection(I(1969)) and the additional collection for the rent increases asked by the landlord(I').

$$\begin{aligned} \text{Proposed Annual Income(PAI)} &= \text{Old Rent Collection} + \text{Increases} \\ \text{PAI} &= I(1969) + I' \end{aligned}$$

- d) Expenses(1970) is to be composed of operating expenses and real estate taxes but not to include debt service(mortgage payments). We can define as a general principle that the 1970 expenses are some percentage of the 1969 Gross Annual Income.

$$\text{Expenses(1970)} = eI(1969)$$

where e is the ratio of Expenses to Gross Annual Income.*

* This analysis will be done using e in its algebraic form. From studies done by the Institute of Real Estate Management in Chicago, the ratio of all operating expenses(excluding debt service) to Gross Annual Income for 1969 in Boston is 67.5%. Since rent collections in Cambridge are higher, the ratio(e) is probably lower. Also studies done of New York City by George Sternli for a large sample(the Inst. of Real Estate Mngmt. sample is small) show that for all type buildings in New York City, the ratio of operating expenses to Gross Income falls between 52-74%.

Thus if we substitute in equation(1) the algebraic terms we get:

$$(2) \quad R = \frac{PAI - E(1970)}{MV}$$

R= Rate of Net Income
PAI= Proposed Annual Income
E(1970)= Expenses(1970)
MV= Market Value

Substituting into (2), $PAI = I(1969) + I'$, $MV = mI(1969)$, and $E(1970) = eI(1969)$, we get

$$(3) \quad R = \frac{I(1969) + I' - eI(1969)}{mI(1969)}$$

Our object here is to solve the equation for I' , the allowable rent increase. Thus multiplying both sides of the equation by $mI(1969)$ we get

$$(4) \quad RmI(1969) = I(1969) - eI(1969) + I'$$

Transposing the first two terms of the right hand side of equation (4),

$$(5) \quad RmI(1969) + eI(1969) - I(1969) = I'$$

Factoring the left side of equation (5) for $I(1969)$ and then switching sides for readability we get the equation for the yearly increase in rent collection, I' , allowed by this formulation

$$(6) \quad \text{Increase in Rent Collection} = I' = (Rm + e - 1) I(1969)$$

Since the percentage rent increase is just the rent increase divided by the old rent collected the percentage rent increase allowed by this formulation is

$$(7) \quad \% \text{ Rent Increase} = \frac{I'}{I(1969)} = Rm + e - 1$$

Cronin's formulation thus reduces to a rigged rent increase, as will be clear in a minute. This formulation has nothing at all to do with real profit rate, which can only be defined as the ratio of net income divided by the actual investment made by the landlord. Equation(7) says quite graphically that the landlord gets a rent increase when

$$(8) \quad Rm + e - 1 > 0 \quad > \text{ means "is greater than"}$$

Since e , the expense ratio, is approximately 60%, or .6* equation (8) becomes

$$(9) \quad Rm + .6 - 1 > 0$$

$$(10) \quad Rm - .4 > 0$$

$$(11) \quad Rm > .4$$

Thus if $Rm > .4$, the landlord gets an increase. But this is true always! For Cronin R is between 10-15% (.10 - .15), while m , the market value multiplier, ranges from 5-7. The worst theoretical formulation uses the lowest values of R and m (impossible in Cronin's formulation, since for a slum building, R is high and m is low, and for a new building R is low and m is high; compensate for one another). But take this worst of theoretical formulations: $R = .10$, $m = 5$

$$(12) \quad Rm - .4 > 0 ?$$

$$(13) \quad (.10)5 - .4 > 0 ?$$

YES! Thus the landlord is guaranteed an increase. Every landlord in Cronin's formulation is guaranteed an increase!

HOW GREAT WILL THE INCREASE BE?

Equation (13) tells us that a rent increase is guaranteed. How much will it be? The % Rent Increase depends on three variables: R, m, and e. Repeating equation (7), the percentage rent increase is

$$(7) \text{ \% Rent Increase} = Rm + e - 1$$

The expense ratio, e, of 1970 Expenses to 1969 Gross Annual Income, will, of course, vary for all buildings. But statistically*, according to the footnote below based on Real Estate Board data, e = .70 (average). Thus

$$(14) \text{ \% Rent Increase} = Rm + .70 - 1 = Rm - .30$$

Note that the higher e is, the higher the rent increase!

CASE STUDIES FOR TYPICAL BUILDINGS

a) Slum Building (worst deal for landlord)
R = .13 m = 5

$$\text{\% Rent Increase} = .13 \times 5 - .30 = .65 - .30 = .35$$

35% Rent Increase

b) Slum Building (Best deal for landlord)
R = .15 m = 5

$$\text{\% Rent Increase} = .15 \times 5 - .30 = .45$$

45% Rent Increase

c) New Building (0-10 yrs. old) worst deal
R = .10 m = 7

$$\text{\% Rent Increase} = (.10) \times 7 - .30 = .40$$

40% Rent Increase

d) New Building (best deal)
R = .12 m = 7

$$\text{\% Rent Increase} = .12 \times 7 - .30 = .54$$

54% Rent Increase

e) Average Age Building, Decent Condition
R = .13 m = 6

$$\text{\% Rent Increase} = .13 \times 6 - .30 = .48$$

48% Rent Increase

THUS UNDER CRONIN'S FORMULA LANDLORDS WOULD GET GUARANTEED RENT INCREASES OF 35-54%

* Expense Ratio, e

The Institute of Real Estate Management of the National Association of Real Estate Boards says that in 1969 operating expenses in Boston were 67.5% of gross income for low-rise non-elevator buildings, the typical type in Cambridge. This figure may not be accurate, as the study sample is low, but it is clear that oper. exp. throughout the country fall in the .52-.74 range. We will accept their figures for the purpose of this analysis.

Since Cambridge Rents are higher than Boston, let the ratio be 65%. In a study done by Emily Achtenberg of Urban Planning Aid for the Dec. 13 Rent Control Hearing it was estimated that an 11.8% increase in rents between April, 1969, and October, 1970 (1½ years). On a one year basis 8% would be required. For this paper I have defined e as

$$e = \frac{E(1970)}{I(1969)}$$

From above, $\frac{E(1969)}{I(1969)} = .65$ and this ratio is to be maintained by raising rents 8%. Therefore,

in 1970,

$$\frac{E(1970)}{I(1970)} = .65 \text{ (ratio maintained; } I(1970) = 1.08I(1969) \text{ (8\% higher).}$$

Thus our expense ratio, e,

$$e = \frac{E(1970)}{I(1969)} = \frac{.65 I(1970)}{I(1969)} = \frac{.65 (1.08) I(1969)}{I(1969)} = .65(1.08) = .70$$

WHAT HAPPENS TO THE REAL PROFIT RATE?

The intention of Rent Control is to control rents to relieve tenants from the tremendous economic burden placed on them by the shortage of housing and the severely high rents. Some people, perhaps, believe its intent is to protect the already too-high 1969 profit rate of landlords. Clearly there is a contradiction between these two interests. Which interest does Cronin uphold? Let's look at what happens to the real profit rate:

$$(15) \quad \text{Profit Rate} = \frac{\text{Net Income}}{\text{Investment}} = \frac{\text{Gross Annual Income (I)} - \text{Oper. Exp. (E)} - \text{Mortgage Pay}}{\text{INVESTMENT (INV)}}$$

Expenses includes taxes (real estate). Rewriting the above,

$$(16) \quad \text{PR} = \frac{I - E - \text{MP}}{\text{INV}}$$

To see how profit rate has changed we evaluate PR for 1969 and 1971 (proposed). Mortgage payments are the same for both years.

$$\text{PR}(1969) = \frac{I(1969) - E(1969) - \text{MP}}{\text{INV}}$$

$$\text{PR}(1971) = \frac{I(1971) - E(1971) - \text{MP}}{\text{INV}} \quad (16)$$

$$I(1971) = I(1969) + I'$$

$$\text{from eq. 6, } I' = (R_m + e - 1) I(1969)$$

$$\text{Therefore } I(1971) = (R_m + e) I(1969)$$

and since E(1971) is to be taken as E(1971) from footnote pg. 3, E(1971) = .70 I(1969). Thus, since E(1969) = .65 I(1969),

$$E(1971) = E(1969) + .05 I(1969)$$

and substituting into (16),

$$\text{PR}(1971) = \frac{(R_m + e) I(1969) - E(1969) - .05 I(1969) - \text{MP}}{\text{INV}}$$

Rearranging,

$$\text{PR}(1971) = \frac{(R_m + e - .05) I(1969) - E(1969) - \text{MP}}{\text{INV}}$$

Thus the difference in the profit rates lies in the first term of the above expressions, the factor of the term I(1969)

$$\text{PR}(1971) - \text{PR}(1969) = \frac{(R_m + e - .05) I(1969) - E(1969) - \text{MP}}{\text{INV}} - \frac{I(1969) - E(1969) - \text{MP}}{\text{INV}}$$

Since the denominators are the same this simplifies to,

$$\text{Difference in Profit Rates} = \frac{(R_m + e - 1.05) I(1969)}{\text{INV}}$$

As we have seen on the previous page, $R_m + e$ has a minimum value of 1.35. Thus as a minimum, the increase in the profit rate is

$$\text{Increase in Profit Rate} = \frac{.30 I(1969)}{\text{INV}}$$

THUS NOT ONLY DOES CRONIN'S FORMULATION GUARANTEE 35-54% RENT INCREASES, BUT IT ALSO INCREASES THE PROFIT RATE (REAL) OF ALL BUILDINGS IN CAMBRIDGE!

Analysis by Robert Pearlman
February 7, 1971

DETERMINATION OF "FAIR NET OPERATING INCOME"

A fair net return on investment should range within 10%-15%. Investment should be taken as the current market value of the property.

With a well-maintained property there is less risk involved and the return should be on the lower end of the scale.

A property in poor condition involves more risk and merits a higher rate of return.

To determine the Market Value of the property:

1. Assessed valuation is generally between 25% and 40% of market value.
2. Between 5 and 7 times gross annual income equals market value.
3. Net income should be between 10% and 15% of market value.
4. As a rule of thumb, market value equals three times assessed value.
5. Re: 2) - the higher the quality of the building, the higher the multiplier to be used, i.e. 7.

12

38a

Communication from Philip S. Shaw, Esq.,
99 Hancock St., Cambridge requesting time
in which to speak before the City Council
on Monday, February 8, 1971, on the subject
of Rent Control

February 8, 1971

*Returned to Special
Meeting of the City
Council on Feb 11
at 7 PM.*

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