

CAN Housing Quality

Multi-resident exceptions

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Multi-resident exceptions

Under the current UDC, multi-resident rental units that are not used for that purpose for 90 days cannot resume operation as a conforming use.

Three proposals in this area are of recent interest:

- conversion of a 2-unit rental property for use as an Auxiliary Dwelling Unit
- exceptions to 90-day continued-use rule for conforming multi-tenant rentals
- exceptions to HPC standards for business operators

1. a.) Market Value and b.) Auxiliary Dwelling Units

Existing UDC language defines ADU requirements

Assertion: non-conforming 2-unit properties cannot be sold at fair market value.

Assertion: owner-occupied w/ADU is superior to a vacant house in the West End

Discussion backup -- 205 West End (estimates)

	Financed, no imprv
house price	77000
improvement	0
morgtage	\$61,600
rate	4.00%
years (same as deprec)	27
total dept (w/interest)	\$100,831
tax value	86400

Market price of \$500/unit for 2-unit rentals in West End

Profitable if self-financed and managed, incentive to neglect maintenance

[Spreadsheet link here](#)

water		\$660
mgmt fee	5%	\$503
insurance (yr)	\$350	\$350
gardening	\$750	\$750
maint @ inflation	2.00%	\$1,728
property tax	2.00%	\$1,728
avg prnpl pmt		\$2,281
EXPENSES		\$8,001
rent/mo	\$839	
INCOME (rent)		\$10,068
EBITDA		\$2,067
amortization (avg)		\$1,453
EBITD		\$614
depreciation		\$2,852
EBIT		0
20% pass-thru excl		0
taxable income		\$0
income tax (est rate)	0.5	\$0
PROFIT		\$614
Investment		\$15,400
ROI		4.00%

- 4.0% ROI minimum for ref only

1a. Market Value

Alternative business decisions exist:

- Improve the property (up to 30% tax credit already available)
- Sell the property at a loss
- Abandon the property
- Sell the property (see ADU operator, next)

Note:

- Market value is relative to comparable units, and condition
- Tax value is relative to comparables (and should encourage improvement)
- The non-conforming use rule is in place to discourage this type of business

Multi-tenant rental operators accept these risks to continue their business

1b. Auxiliary Dwelling Units -- West End focus

How do we feel about vacant vs owner-occupied?

- We prefer owner occupied, single family homes
- We don't mind landlord loss on capital

We prefer more a aggressive posture to force this issue

- Keep assessment up to neighbors, enforce code
- Revoke licenses, and non-conforming waivers

Owner-occupany is preferred

- ADU language special exception exists
- Remedies are not strong enough to support this (license denial is needed)

West End (<i>excluding Poplar and Race</i>)	700
Registered rentals	176
Multi-tenant properties	72
Vacant properties *	9+
Other	524

Seller cannot guarantee ADU special exception to a buyer -- decided case-by-case

Support early ADU application by buyer IF city can revoke rental licenses

2. 90 day rule vs practical improvement schedules

Continuing use exceptions **are** a community compromise for multi-tenant rentals

Delay tactics are a common method landlords use to avoid compliance

- 90 day period can already be used to complete work OR appeal for extension
- schedule surprise extension must be appealed within current deadline
- *Intent is not the same as compliance -- documentation is imperative*

The 90 day period exists as a measure of operator respect for the community

- the West End historic district provides subsidies for redevelopment
- it is possible this rule is applied too broadly, outside of the Historic District

Better process may be needed, but the rule should continue in the Historic District

Support fair recognition of schedule risk, with clear documentation

3. Exceptions to HPC rules for Business Hardship

The right to appeal a decision is fair and reasonable for any property owner

Business owners are different

- their incentive is return on investment
- they profit from community residents
- their community incentives vary (not all operators live in Dorchester Co.)
- some rely on external contractors vs integrated maintenance skills
- capitalization varies (e.g. leveraged vs private, market vs break even)

The community has no choice but to assume a well-structured business

Discussion backup -- 203 Choptank

Market price of \$500/unit for 2-unit
rentals in West End

Low capital cost helps margin here.
Management fees and maintenance are
free variables

[Spreadsheet link here](#)

house price	35000				35000	35000
improvement	0					50000
mortgage	\$28,000				\$0	\$50,000
rate	4.00%					
years (same as deprec)	27					
total debt	\$45,832				\$0	\$81,844
tax value	71000					
water		\$660			\$660	\$660
mgmt fee	5%	\$346			\$315	\$542
insurance (yr)	\$350	\$350			\$350	\$350
gardening	\$750	\$750			\$750	\$750
maint @ inflation	2.0%	\$1,420			\$1,420	\$2,420
property tax	2.0%	\$1,420			\$1,420	\$1,700
avg prnpl pmt		\$1,037			\$0	\$1,852
EXPENSES		\$5,983			\$4,915	\$8,274
rent/mo	\$577				\$525	\$903
INCOME (rent)		\$6,924			\$6,300	\$10,836
EBITDA		\$941			\$1,385	\$2,562
amortization (avg)		\$660			\$0	\$1,179
EBITD		\$280			\$1,385	\$1,383
depreciation		\$1,296			\$1,296	\$1,296
EBIT		0			\$89	\$87
20% pass-thru excl		0			\$18	\$17
taxable income		\$0			\$0	\$0
income tax (est rate)	0.5	\$0			\$0	\$0
PROFIT		\$280			\$1,385	\$1,383
Investment		\$7,000			\$35,000	\$35,000
ROI		4.0%			4.0%	4.0%

3. Exceptions to HPC rules for Business Hardship

The HPC has worked to deliver new guidelines that are approved by the state

- uniform simplification for homeowners and businesses
- acceptance of alternative materials

The historic preservation district is a Cambridge asset

- Participation in the historic trust program provides incentive to redevelop
- Risking our participation risks potential for increased tax revenue over time

Hardship is subjective, but analysis raises doubts regarding this case

- No effective remedy (deny license) , so 'death by 1000 cuts' appeal strategy

Strongly protest relief for HPC compliance for 203 Chopank

SUMMARY -- Multi-resident exceptions

The ability to deny a rental license for non-compliance of any type is a significant gap in enforcement capability for the City of Cambridge

- No final resolution exists -- this encourages delaying tactics and appeals
- This is an attack on effective city management and procedures

Incentives exist to improve properties -- the city needs to encourage improvement

1. Conversion of a 2-unit rental property for use as an Auxiliary Dwelling Unit
 - ADU practices today are satisfactory -- but unenforceable (license denial)
2. Exceptions to 90-day continued-use rule for conforming multi-tenant rentals
 - Process for extensions are unsatisfactory -- and ultimately unenforceable (license denial)
3. Exceptions to HPC standards for business operators
 - Not responsible for business plan errors -- weak remedies/perpetual appeals (license denial)

The ability to deny a rental license is key to a realistic discussion of rules