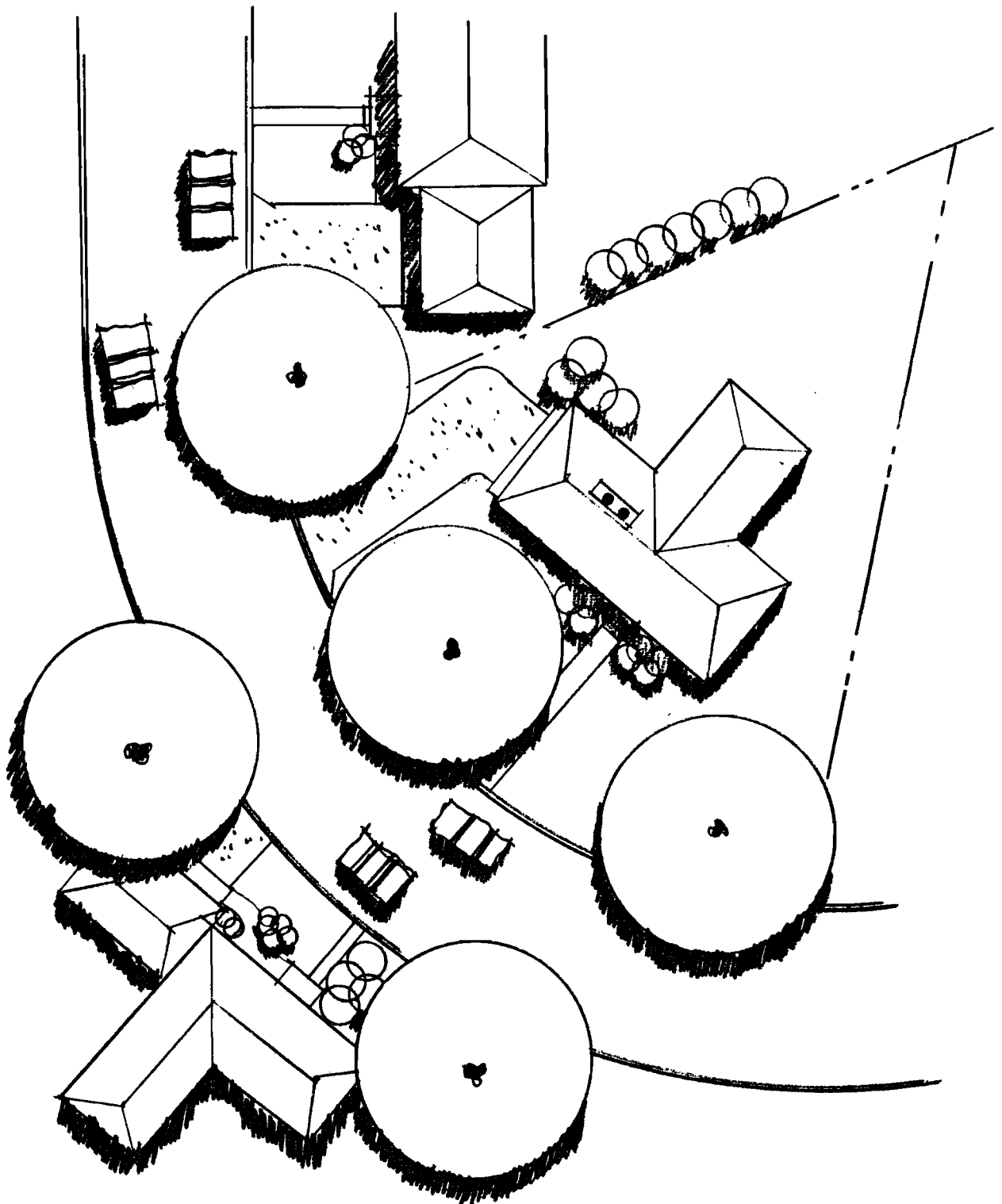


CITIZENS
LEAGUE
REPORT

Making Better Use Of Existing Housing: A Rental Housing Strategy For the 1980s



CITIZENS LEAGUE REPORT

**BETTER USE OF EXISTING HOUSING :
A Rental Housing Strategy for the 80s**

**Prepared by
Rental Housing Supply Committee
David Ziegenhagen, Chairman**

**Approved by
Citizens League Board of Directors
May 19, 1982**

**Citizens League
84 South Sixth Street
Minneapolis, MN 55402
338-0791**

TABLE OF CONTENTS

MAJOR IDEAS.	i
INTRODUCTION	1
FINDINGS ABOUT RENTAL HOUSING PROBLEMS.	3
FINDINGS ABOUT ONE STRATEGY FOR SOLVING RENTAL HOUSING PROBLEMS	9
CONCLUSIONS	17
RECOMMENDATIONS	21
FOOTNOTES.	25
WORK OF THE COMMITTEE.	29

MAJOR IDEAS IN THIS REPORT

There are several ways communities can increase the supply of rental housing by making more efficient use of their existing housing stock.

Adding small rental units to existing single-family houses is the strategy that holds the greatest potential for expanding the supply of rental housing quickly and inexpensively. If each of the suburban communities in the region permitted one of every 10 houses to add a rental unit, about 28,000 rental units would be added to the region's supply of rental housing. Adding about two such units per block in the suburbs would produce nearly 60,000 new rental units, or approximately one-third of the 178,000 housing units the Metropolitan Council says the region will need in the 1980s.

Renting out a room in single-family homes, without making structural alterations, is also a way to increase the supply of rental housing quickly and inexpensively. Nearly all communities in the metropolitan area permit the renting out of rooms in single-family houses, attaching only a few minor conditions to the privilege.

Adding units to existing apartment buildings is another strategy for producing more rental housing. Our estimate is that roughly 5,300 such units could be created in existing apartment buildings just in the two central cities.

Making habitable residential buildings that have been vacant for long periods of time could increase the supply of rental housing too. According to the 1980 census there are approximately 1,800 rental units in the region that have been vacant for more than six months. Finally, permitting people to add pre-manufactured, free-standing 'ECHO' housing units on their land could increase housing supply.

There are many advantages to making more efficient use of the existing housing stock.

The housing supply, especially for single individuals or very small families, could be increased, which presumably would put downward pressure on rent prices. Elderly people living alone could find help paying bills, doing yard work, or maintaining their homes by renting or otherwise sharing space in their homes. Young people might be able to overcome the financial obstacles to buying or retaining home ownership if they shared space with renters. Land could be saved by crea-

ting new units without building new buildings. Energy could be saved by creating new units in buildings that are already served by utilities. Money could be saved by eliminating the need for additional expenditures for public infrastructure associated with new construction.

Demographic trends suggest that building lots of new apartments for young people would be unwise.

Demographic data indicate that the demand for apartments will increase, because the number of people entering the 20s age group during the 1980s (the age at which many people are looking for an apartment) will be greater than the number that entered this age group during the 1970s. The data also indicate, however, that this demand will likely be temporary, because the number of people entering their 20s in the 1990s will be 100,000 fewer than will do so in the 1980s.

The continuing demand will be for housing people in their 30s. This age group will continue to grow dramatically through the remainder of the century.

Considering this information the housing strategy that seems to make the most sense is one that handles much of the demographic 'bubble' (represented by the 20s age group growth and decline in the 1980s) using existing housing stock and conserves resources for new capital investment in solutions that meet the needs of the growing market of people in the 30s and beyond (who typically want single-family houses.) Especially attractive for this market is a solution involving building new, small units that will attract people in the 45 and over age group out of their single-family housing, so that these can be made available to young families.

It is possible to make more efficient use of the existing housing stock, and to even add rental units to existing single-family homes, without jeopardizing the livability of neighborhoods.

The real controversy over potential neighborhood impact surrounds the proposal to add small rental units to existing single-family homes. The other strategies do not carry the threat of increased density of cars, people, or other impacts which many people attach to the idea of adding units to single-family homes.

Communities can, however, control the impact of modifications in single-family homes, by permitting such modifications only under specific conditions. For example, communities could permit additions only when the owner agrees to occupy one of the units in a house where a unit is added, when one off-street parking space per dwelling unit can be provided, when exterior alterations would not alter significantly the character of a neighborhood, when the accessory unit would be clearly subordinate in size to the principal dwelling unit, and when sewer and water facilities are adequate to accommodate projected increases in housing occupancy.

It is also possible for communities to permit neighbors to directly control the number of new rental units that are added to existing single-family houses in their neighborhoods. City officials could set a ceiling on the number of new units that could be added in a given geographic area, and then give each household there a portion of a 'right' to make an addi-

tion. Neighbors would then need to obtain portions of conversion 'rights' from one another in order to amass a single total right to add a unit. This plan could be thought of as a transfer of development rights for residential development, a strategy now commonly used for commercial development and historical preservation.

Communities should take steps to promote more efficient use of their existing housing stock.

Clearinghouses should be established, by private organizations, individuals or public agencies, to assist in making more efficient use of space that already exists. The Minnesota Housing Finance Agency and other public agencies should consider making available for this strategy, the financial and technical assistance that is now provided for encouraging new construction of housing. The Metropolitan Council should also take special steps to encourage communities to make more efficient use of their existing housing stock.

INTRODUCTION

How to supply decent, affordable rental housing will be a major issue for the Twin Cities area throughout the 1980s. Demographic data indicate a bulge in the 20s age group during this decade. A number of factors, chief among them high interest rates, indicate that new construction of rental housing will be limited in the decade. With demand increasing and supply constrained, more and more people are likely to face limited choices with regard to housing and face higher rents.

This report explains how communities, by making more efficient use of their existing housing stock, can minimize for some renters the problems of limited choices and high prices and, at the same time, realize a number of opportunities for communities in general. Land and energy can be saved, and incomes of homeowners can be supplemented with rental income, for example. In addition, elderly people can get help maintaining their homes by renting out space in them. Moreover, the report explains how communities can accomplish these ends without jeopardizing the livability of neighborhoods or the safety of renters.

The report should not imply that all the housing problems of the Twin Cities area can be solved by making better use of the existing residential stock. We know that some people will

not be adequately served by the relatively small units that can be created in existing residential buildings. Other strategies, some of which may involve new construction, will be needed to satisfy the needs of some people. Also, there are other issues related to housing, (such as the extent to which government should support home ownership, and whether or how the public should provide housing subsidies), which communities will need to debate in the future, but which this report does not address directly.

Still, we believe this report provides an answer for many renters and for many communities. It shows how tens of thousands of rental units can be added to the housing supply cheaply and quickly, without changing significantly the character of neighborhoods.

The report begins with a section describing the current conditions and problems we found with rental housing. The next section describes what we learned about expanding the supply of rental housing within the existing housing stock, the subject we were directed to investigate. Finally, the report includes our conclusions and recommendations about how communities can make more efficient use of their existing housing stock.

FINDINGS ABOUT RENTAL HOUSING PROBLEMS

Vacancy rates in multi-family housing in the Twin Cities metropolitan area have been declining steadily in recent years, leaving renters with limited choices when they try to rent housing.

A six percent vacancy rate is considered by housing experts as the minimum required for normal market choice. As Table 1 indicates, vacancy rates have been falling recently below the six percent level.¹

Several apartment owners and managers we talked with indicated that in recent months they have seen an increase in apartment vacancies. One property manager said that he has had waiting lists for ten years and is now starting to have trouble finding renters.² In the opinion of these property managers, part of the increase in vacancies is due to renters doubling up with friends or staying at home with their parents. These choices may be due to rising rent levels, although, according to the U.S. Department of Labor's Consumer Price Index and to the most comprehensive study of rent levels conducted locally, rents are not rising as rapidly as other prices.³

The supply of housing has been tight partly because fewer rental units have been built in recent years, compared to the early years of the past decade.

TABLE 1

THIRD QUARTER 1981 VACANCY RATES: MULTI-FAMILY UNITS

Year	Vacancy Rate	Vacancy Rate
1975	7.5	12,713
1976	6.4	10,948
1977	6.6	11,519
1978	6.1	10,538
1979	6.9	12,282
1980	5.7	10,322
1981	5.7	10,455
1981 4th qtr.	5.0	9,221

SOURCE: Metropolitan Council

Table 2 illustrates the very dramatic decline in the number of new units constructed since the mid-1970s. The table overstates additions to the rental housing stock in recent years, due to the fact that many of the multi-family building permits drawn during this period have been for condominiums, not rental units. The data prior to 1980 do not distinguish condominiums from apartments.

TABLE 2

MULTI-FAMILY (CONDOS AND APARTMENTS) BLDG. PERMITS ISSUED FOR NEW CONSTRUCTION

Year	Number of Permits Issued	Year	Number of Permits Issued
1970	11,358	1976	2,368
1971	13,597	1977	5,214
1972	13,565	1978	3,352
1973 ²	3,721	1979	3,908
1974	3,444	1980	3,285*
1975	1,089	1981 est.	4,500

* 1363 condos., 1922 apts.

SOURCE: Metropolitan Council⁴

It is possible that there has been either no net addition to the rental housing stock in recent years, or only a very slight addition, considering the impact of conversions of apartments to condominiums. Table 3 indicates that in 1979, 2,049 apartments were converted to condominiums. If another 2,000 conversions occurred in 1980, and only 1,922 apartments were added to the housing stock through new construction (the same number as were added in 1980, according to Table 2), then there was no net addition of apartments due to new construction.

A considerable percentage of condominiums, however, remain available for rent. One estimate is that somewhere between 35 and 50 percent of all condominiums are available for rent.⁵ Considering this phenomenon, there may have been more rental units available in 1980 than in 1979.

TABLE 3

**IMPACT IN CENTRAL CITIES AND SUBURBS OF CONDOMINIUM
CONVERSION ON THE MULTI-FAMILY HOUSING STOCK (1970 TO 1980)**

	CENTRAL CITIES			SUBURBAN COMMUNITIES		
	New Units Built	Converted Units	Net Increment	New Units Built	Converted Units	Net Increment
1970	4,681	32	4,649	6,620	0	6,620
1971	2,779	12	2,767	10,764	0	10,764
1972	4,210	18	4,192	9,212	387	8,825
1973	1,068	534	534	2,142	346	1,796
1974	1,033	42	991	1,961	589	1,372
1975	442	28	414	463	650	(-187)
1976	913	37	876	1,079	48	1,031
1977	1,166	120	1,046	3,859	861	2,998
1978	581	171	410	2,221	719	1,502
1979	1,382	708	674	2,526	1,341	1,185
Totals	18,255	1,702	16,553	40,847	4,941	35,906
Share of New Units Built	30.9%			69.1%		
Share of Conversions		25.6%			74.4%	

SOURCE: Twin City Conversions of the Real Estate Kind, CURA, 1981

Another reason supply has been tight is that people are forming smaller households.

Table 4 indicates the downward trend in the number of persons per housing unit. Table 5 illustrates the same phenomenon by indicating the significant expansion of one and two-person households. Table 6 indicates that the percentage of husband-wife households is declining, as more divorces occur and people marry later. Table 7 indicates that the percentage of households with children is declining, as more people decide not to have children or to have them later in life.

TABLE 4

**HOUSEHOLD SIZE
(Persons Per Housing Unit)**

	1970	1980	1990	2000
Minneapolis	2.69	2.34*	--	--
St. Paul	2.70	2.30	--	--
Fully Developed Suburbs	3.37	2.65	--	--
Metro Area	3.16	2.65	2.58	2.57

*1978

SOURCE: Metropolitan Council Housing Market Survey,
June, 1981

A third factor that might be contributing to the tight rental supply is the difficulty renters are having becoming homeowners.

The data regarding this phenomenon are very limited, but a 1980 survey conducted by the U.S. League of Savings Associations showed that first time buyers constituted 34.8 percent of all home buyers, in the Twin Cities area in 1977, but only 23.4 percent of all home buyers in 1979.⁶

The Metropolitan Council has estimated that it takes an income of \$28,000 to \$33,000 to buy a townhouse, condominium, or existing home in the low \$60,000s, the median price for such homes in the Twin Cities area. Probably no more than 12 percent of the region's renters today could qualify to buy a \$60,000 home, according to the Council.

New homes are even farther out of reach. Possibly less than five percent of the region's renters have the mid-\$30,000s income needed to buy a median-priced home in the \$70,000 range.⁷

The conversion of rental units to condominiums or cooperatives for ownership has not significantly reduced the number of available rental units.

TABLE 5

CHANGE IN NUMBER OF VARIOUS SIZE HOUSEHOLDS
BY LOCATION—1970 TO 1977

Number of Persons in Household	5-County SMSA	Percent Change	Central Cities	Percent Change	Outside Central Cities	Percent Change
1	44,000	43.5	14,600	19.7	29,600	109.2
2	38,800	25.0	1,700	2.0	37,100	51.7
3	16,100	17.9	-2,600	-6.6	18,800	37.5
4	19,000	21.9	-5,400	-18.4	24,500	42.5
5	-900	-1.5	-4,800	-26.8	3,800	9.1
6	-10,500	-30.6	-4,300	-41.0	-6,000	-25.3
7 or more	-16,700	-54.6	-5,800	-53.7	-11,000	-55.5

SOURCE: Annual Housing Survey: 1977, Minneapolis, St. Paul, MN SMSA. U.S. Department of Commerce and U.S. Department of Housing & Urban Development, June, 1980.

In the metropolitan area between 1970 and 1980 approximately 59,102 new multi-family units were constructed, while only 6,643 rental units were converted to condominiums and another 993 were converted to cooperatives (see Table 3). Approximately 75 percent of the condominium conversions occurred in the suburbs.

It seems likely that the formation of smaller households has reduced the availability of rental units to a greater extent than has the removal of units from the rental market through conversions.

Some renters are also paying a high percentage of their income for rent and/or are living in crowded conditions.

Most of the people in need of assistance are people living alone.

TABLE 6

PERCENTAGE OF HUSBAND-WIFE FAMILIES
WITH AND WITHOUT CHILDREN—1970 TO 1978

Area	1970 %	1974 %	1978 %
Fully developed area	64	58	56
Minneapolis-St. Paul	57	53	50
Suburbs	77	67	66
Developing Suburbs & Balance of Region covered by Polk	82	78	71
TOTAL	67	62	60

SOURCE: R.L. Polk & Company, 1981

The Metropolitan Council has calculated that 47,529 renter households (about six percent of all households and 18 percent of all rental households in the Twin Cities region) are in need of housing assistance because their income is at or below 80 percent of the median income for households of the same size in the region, and they are paying more than 25 percent of their income for rent and/or they are living in places where there are more than 1.25 people per room.

TABLE 7

PERCENTAGE OF HOUSEHOLDS WITH
CHILDREN⁸—1970 TO 1978

Area	1970 %	1974 %	1978 %
Fully developed area	41	36	33
Minneapolis-St. Paul	34	31	30
Suburbs	53	44	39
Developing Suburbs & Balance of Region Covered by Park	64	59	54
TOTAL	45	41	39

SOURCE: R.L. Polk & Company, 1981

The Council's calculations also indicate that in nearly every community surveyed, including Minneapolis and Saint Paul, well over half of the households in need of assistance are single individual households. About half of these are under age 62.⁹

The testimony we received indicated that the perception of who needs housing assistance the most varies from commu-

nity to community. According to the chairman of the Fridley Planning Commission, the people most in need there are elderly residents. In contrast, according to Ruby Hunt, a member of the Saint Paul City Council when she spoke to us, the people most in need there are low-income families. A third view came from a member of the Cottage Grove City Council, Patty Armstrong. She said the people most in need are young people, just graduating from high school. They want to start their first households, but are unable to find housing in the City of Cottage Grove.¹⁰

Other people we visited with expressed special concern about low-income families. There is concern that their problems will get worse as more single people double up, moving from single bedroom units they occupy now to the multiple bedroom apartments families need.

Compared to prices for other items, rent prices for most renters have not increased significantly in recent years.

Tom Gillaspy, the state demographer, has calculated that, when adjustment for inflation, the median rent level in Minnesota actually went down slightly (1.4 percent) between April 1970 and April 1980.¹¹ His calculations are based upon the final 1980 census data. The U.S. Department of Labor's Consumer Price Index indicates that in the Twin Cities metropolitan area between February 1981 and February 1982 rents increased 8.4 percent, compared to an increase of 17.4 percent for all items combined.¹²

The demand for housing is growing as the children of the "baby boom generation" enter their 20s and 30s.

The Metropolitan Council has estimated that the region will need to add about 178,000 households to its housing stock during the 1980s.

The Council's June 1981 report, *Twin Cities Housing Need in the 1980s and 1990s*, notes that this estimate is within a very wide range of estimates. The interim forecast, which will be revised when the necessary supplements to the 1980 census become available, is a range from 44,000 to 254,000 units. The report notes that "although the range is very wide, either extreme could occur without drastic changes in the way people form households." The low forecast is based on the way people formed households in the 1960s. The high forecast is simply a continuation, rather than a leveling out of the 1970s trends. Economic conditions will be the decisive force in determining how much people will have to change their housing preferences, if at all.¹³

There will be a larger demand for housing people in their 20s during the 1980s than existed during the 1970s. This

demand will, however, tail off after 1990.

The Metropolitan Council estimates that about 405,000 people will turn 20 in the 1980s, 15,000 more than did in the 1970s, expanding the demand for housing among the people who have historically looked for rental opportunities.

The number of people entering their 20s will decline sharply in the 1990s, however, with 100,000 fewer entering this age group during that decade than will during the 1980s.¹⁴

There will be even larger demand to house people in their 30s during the 1980s, and this demand will continue into the 1990s.

The Council estimates that 113,000 more people will turn 30 during the 1980s than did in the 1970s. An additional 393,000 persons will reach that age in the 1990s, continuing the demand for housing this age group into that decade.¹⁵

If recent trends in household size and location continue, the greatest demand will be for smaller (one and two person) households in the suburbs.

Table 5 indicates that between 1970 and 1977 the number of one-person households grew by 109 percent in the suburbs, in contrast to 19.7 percent in the central cities. The number of two-person households grew by two percent in the central cities and by 51.7 percent in the suburbs.

Trends in job creation also indicate that if the people taking the new jobs created in the region are to live close to where they work, then the bulk of new housing units will have to be created in the suburbs.

The Metropolitan Council has calculated that between 1975 and 1979 the number of jobs in the suburbs grew by 163,024, while the number of jobs in the two cities of Minneapolis and Saint Paul combined grew by just over 16,000.

The Council has projected that between 1980 and 1990 about 85 percent of the job growth will occur in the suburbs. The Council expects 136,000 new jobs to be created there and about 20,000 to 30,000 new jobs to be created in the two central cities.¹⁶

Neither the Greater Minneapolis Chamber of Commerce nor the Saint Paul Area Chamber of Commerce have data that could be used to evaluate the Council's expectations regarding job growth.

The City of Minneapolis has projected an increase of 35,000 jobs in the city by 1990. The City of Saint Paul has not made projections of job growth in the decade. In summary, while estimates of job growth vary somewhat, the clear indication

is that the large majority of new jobs will be created in the suburbs.¹⁷

A number of factors suggest it is unlikely that large numbers of new rental units will be constructed during the next several years.

The primary obstacle to new construction of rental units is high interest rates. Interest rates that have prevailed during recent years force builders of rental units to charge rents that are higher than the rental market can bear.

According to the director of development for one of Minnesota's largest home building companies, interest rates would have to come down to nine or ten percent before his company would build rental units for anything but a luxury market. The cost of borrowing money today is so high that, in order to make a profit, developers would need to charge rates that are beyond the level most people are willing to pay.¹⁸

The same report comes from just about everyone knowledgeable about housing. James Solem, executive director of the Minnesota Housing Finance Agency, and Tom Fulton, executive director of the Minneapolis-Saint Paul McKnight Family Housing Fund, share these views. Both men are working to find ways to help builders, buyers, and renters overcome cost obstacles that exist today.¹⁹

Richard Law, a partner with the accounting firm of Peat, Marwick, Mitchell & Co., with special knowledge about housing investments, also told our committee that the big problem for housing construction now is high interest rates. Law explained that from an income tax standpoint, the incentives to invest in real estate of any kind are as great now as they have ever been. The 1981 Economic Recovery Act shortened the depreciation periods for real estate from 20 to 30 years down to 5 to 15 years. New provisions also make it possible to accelerate depreciation over the 5 to 15 year period.²⁰

The new tax laws provide greater incentive, through depreciation schedules, to invest in rehabilitating older buildings rather than to invest in new construction.

One of the primary reasons for investing in real estate is to get a tax shelter (reduce income subject to taxation) as a result of claiming depreciation on a property. An investor's taxable income can be reduced \$1 for every dollar a property depreciates in value.

The 1981 Economic Recovery Act provides that an investor can write off to depreciation up to \$40,000 per unit for rehabilitation of low income residential properties over a five year period. In contrast, the fastest an investor can write off an investment in new construction is 15 years.

For example, if an investor invests \$40,000 in rehabilitating a property, he can deduct from his taxable income \$8,000 per year (five year write-off period). If that investor is in the 50 percent tax bracket, he can effectively reduce his tax obligation by \$4,000 per year. The money he makes when he sells the property will be taxed, but it will be at the capital gains rate, which is lower than his normal tax rate, thereby providing additional tax shelter.

Investors in rehabilitation can also get tax credits, deductions in one year from actual income tax as compared to deductions in taxable income spread over several years. The value of the credit varies. For buildings between 30 and 39 years of age, the credit is worth 15 percent of the investment. For buildings that are at least 40 years old, the credit is worth 20 percent of the investment. For buildings that have been certified as historic structures, the credit is worth 25 percent of the investment.

The ability of public agencies to subsidize development of rental housing through the sale of tax-exempt revenue bonds is limited by high interest rates and uncertainties about federal requirements under such programs.

For over a decade public agencies in Minnesota and across the country have been helping people buy houses and builders construct residential developments by making mortgage money available to them at below market rates.

Public agencies have done this by selling revenue bonds, which permit the buyers to enjoy a tax exemption on the income they earn from this investment. This tax exemption enables governments to borrow money and then lend it to buyers and builders at below market rates.

By the end of the 1970s this technique for subsidizing housing was becoming popular in the Twin Cities metropolitan area. Since 1978, eight cities in the metropolitan area have assisted in the creation of over 2,400 new multi-family housing units. Mortgage loans were also made for the purchase of over 3,300 single family houses.²¹

The ability of governments to assist development through this means depends, however, largely upon interest rates. The higher interest rates go, the higher the rents public agencies must charge in order to repay the people who bought the mortgage revenue bonds. At some point public agencies, even with the benefits of tax-exempt financing, have the same problems that private developers have with market rate financing: a need to charge rents beyond a level most renters are willing to pay.

Solem indicated that the Minnesota Housing Finance Agency is able to reduce monthly rents only slightly through the use of mortgage revenue bonds—not to a level acceptable to most

people now.²²

Federal legislation passed in 1980 has also limited the usefulness of tax-exempt financing for housing. The new law has, according to local officials, made it practically impossible to finance producers or consumers of single family homes this way. Multi-family construction is easier to do, but uncertainty regarding federal requirements for serving low and moderate-income people in such programs has discouraged the use of tax-exempt financing for apartments so far.²³

Attempts are being made by some people to change the law to make it easier to use the tax-exempt financing tool. It is not clear yet how the federal government will respond.

The federal government is expected to cut back on the amount it spends on housing assistance, and give money to renters, instead of to building owners. This is likely to discourage new construction as well.

Today there are about 29,000 subsidized housing units in the Twin Cities metropolitan area. More than 60 percent of these units were added to the region during the decade of the 1970s. Local officials are sure that this growth trend will be reversed in the 1980s.²⁴

One reason a change is expected is that the federal government plans to discontinue subsidizing construction of housing for low-income people. During the 1970s the federal government gave developers money to pay the operating costs of rental housing so that rents could be kept down to no more than 25 percent of renters' incomes. Under this arrangement, developers could construct housing with the certainty that they would be able to pay their expenses and make a profit, practically regardless of what tenants could pay in rent.

The new policy being proposed by the President's Commis-

sion on Housing is to give housing assistance directly to renters, in the form of housing vouchers, and let renters look for housing on the open market. Consequently, instead of being able to "lock in" income through federal assistance programs, developers will have to compete with other property owners for tenants and income.

At the same time as it is changing the way housing assistance is delivered, the administration is also reducing the amount it spends on housing assistance. The government has already increased to 30 percent the amount of a person's income that must be spent on housing to qualify for assistance. Moreover, while it is not clear just how much money will be allocated, the new voucher program is not expected to be an entitlement program, in which all who meet certain eligibility guidelines receive money. Instead, money will be distributed as it is appropriated each year by Congress.²⁵

Finally, even if interest rates come down, money may not be available for housing to the same extent or under the same terms that it was available in the past.

In the future housing will compete directly with other investments. Thrift institutions that have been the primary lenders of mortgage money may not be able to attract savings deposits as they could in the past. Those institutions that do lend money for housing will, it appears, be more careful about the terms under which it is lent. The typical deal involving the fixed rate 30-year mortgage appears to be giving way to loans for shorter periods of time and whose interest rate can vary during the period of the loan.

Also, there are a number of people, including Anthony Downs of the Brookings Institution, saying that housing may be consuming too much of the nation's capital. They suggest that more capital needs to be available for industrial purposes in order to revive the nation's economy.

FINDINGS ABOUT ONE STRATEGY FOR SOLVING RENTAL HOUSING PROBLEMS

Better Use of the Existing Housing Stock

Some housing experts say the community should not build large amounts of new rental housing units, even if economic conditions permitted it.

The demographic data indicate that the rapid increase in demand for rental housing in the 1980s will be a temporary phenomenon. The Twin Cities area will experience a bulge in the 20s age group during the 1980s, the group most likely to desire rental space, but the size of this population will decline rapidly after 1990.

Solem, of the Housing Finance Agency, and Charles Ballentine, senior housing planner with the Metropolitan Council, both suggest that many young people are flexible enough to find housing opportunities in the existing housing stock (staying home with their parents or moving into apartments with friends, for instance), and that a major public investment in rental housing to accommodate them may be unnecessary and ill-advised.²⁶

Potential seems to exist to satisfy some of the demand for housing in the 1980s by making more efficient use of the existing housing stock.

The trends in household size, and data on household occupancy, suggest that space is available for more people in the existing housing stock.

The average number of persons per household declined in the 1970s from 3.16 in 1970 to 2.65 persons in 1980, according to Metropolitan Council studies. (See Table 4.)

Studies by the Minneapolis City Planning Department confirm this trend. City planners found that the average household size in Minneapolis decreased from 2.69 in 1970 to 2.34 in 1978. In 1978 the same number and type of housing units housed a population almost 60,000 persons smaller than the 1970 population.²⁷

There are at least five ways to make more efficient use of the existing housing stock.

One way is to rent out rooms or share space in existing single family houses.

We surveyed 93 communities in the Twin Cities metropolitan area for information about zoning provisions that would relate to the use of the housing space. Fifty-one communities, including all those within the first ring suburbs and the two central cities, responded.

We found that almost all communities (45 of the 51 that reported) permit the owners of single family homes in areas zoned for single family purposes to rent out rooms in their homes, provided no structural alterations are made.

Over half of the communities (30) that reported do not have any restrictions beyond limiting the number of roomers in a house. Several communities (12) require that homeowners continue to occupy their home if they rent out rooms in it. Three communities require that renters be related by blood to the homeowners.

The U.S. Census Bureau's 1977 Housing Survey also indicates that rooms are available for more people in the existing housing stock. For example, the Bureau's survey indicates that in 1977, in the five-county Twin Cities metropolitan area, there were 295,700 owner-occupied single-family houses with three or more bedrooms.²⁸ At the same time, there were only 158,100 owner-occupied housing units that included two or more children under the age of 18.²⁹ Consequently, even if all the families with two or more children lived in houses with three or more bedrooms, which may not be the case, there would still be 145,600 houses with three or more bedrooms, and possibly at least one extra bedroom.

This strategy seems especially attractive to some people because it would cost very little to make a unit available, for no construction would be required.

Another way would be to add rental units to existing single-family homes.

Many communities permit people to modify their single-family homes to add a rental unit, although there are more

conditions attached to such modifications than to the renting of space. The conditions vary, depending primarily upon whether the house is located in an area zoned strictly for single family purposes or for greater density.

Fifteen communities permit the addition of rental units to single-family homes in areas zoned for single family dwellings, provided a special use or conditional use permit is obtained. More communities, though (just over half of those reporting), either prohibit such modifications of single-family structures in areas zoned for single-family uses, or require rezoning before such modifications can occur.

The requirement for rezoning, as compared to obtaining a special use or conditional use permit, is significant, for it is generally more difficult to get a rezoning approved. In Minneapolis, for example, both changes require public hearing. In order to get a hearing on a rezoning, however, the applicant must obtain consent to the change from two-thirds of the property owners affected by the change. Also, once the hearing has been granted, it is incumbent upon the applicant to prove that the change is necessary and warranted. The applicant must also demonstrate that the amendment is for the benefit of the public generally and not simply for the benefit of the applicant. The city is under no obligation to grant the change. In contrast, anyone who applies for a conditional use permit can get a public hearing, and in such cases it is incumbent upon the city to grant the permit unless it can prove the permit should not be granted.

There may be houses, at least in the two central cities, in areas that are not zoned for only single-family use, however, and which would not be subject to the same restrictions regarding the addition of rental units. In Minneapolis, for example, we have calculated, using the City Planning Department's data, that there could be at least 10,027 single-family houses in areas that are not zoned for single-family use only. Almost 7,000 of these units have three or more bedrooms, and almost 2,500 are headed by people over the age of 65. Saint Paul officials estimate that there are about 15,000 houses in areas where existing zoning would permit the addition of rental units to single-family structures.

The cost of making modifications in single-family houses has been estimated by our resource guests at between \$3,000 to \$7,000.

It might also be possible to add rental units in existing apartment buildings.

This strategy would probably have the most potential in the two central cities. In both Minneapolis and Saint Paul there are many apartment buildings with large basements which might be converted to additional rental units.

Jim Larson, president of Stevens Court, Inc., and a developer

and owner of residential property in Minneapolis, estimates that he could add about 29 more units within the existing multi-unit structures he owns. Larson estimated the cost of such additions at \$15,000 to \$20,000 per unit.³⁰

Mel Gregorson, who manages nine buildings in Minneapolis, thinks he could add 19 units to one building he operates. J.Z. Kleinman, of Kleinman Realty in Minneapolis, also thinks adding units to existing buildings is possible, and a good idea. Kleinman and others who manage properties like his, estimate the cost of adding units at between \$5,000 to \$10,000 per unit. One property owner also suggested that these conversions could be financed out of current cash flow. He suggested that the delays and expenses associated with borrowing money would not be an obstacle to modifications the way they are for building new buildings. (This would be true only where there is a small mortgage or a mortgage with a low rate of interest).

We also talked with several property managers in the suburbs about the possibility of adding units to existing buildings. They indicated that buildings in the suburbs are newer and have less extra space than buildings in the central cities. While additions could occur in the suburbs, the potential is not as great as it seems to be in the central cities.³¹

Without knowing how many multi-unit structures there are in the metropolitan area, it is difficult to estimate just how many housing units could be added to the existing stock this way. We do, however, know the number of such structures in the two central cities, and can make a rough estimate of the potential in these locations.

In the two central cities combined there are 1,849 structures with five to nine units. There are 1,798 structures with 10 to 19 units, 874 structures with 20 to 49 units, and 183 structures with 50 or more units. Ken Ford, director of planning for the Housing Division of Saint Paul's Department of Housing and Economic Development, suggests that perhaps 50 percent of the five to nine unit structures could take additional units in the basement, and 65 percent of the 10 to 49 unit structures could take additional units.³²

He did not make a guess about the percentage of the 50-plus unit structures, assuming that they might need all their extra space for storage.

Using Ford's estimates, and assuming that each structure he thought could take additional units could take in two such units, we calculated that it might be possible to create an additional 5,318 one-bedroom units in existing apartment buildings in the two central cities. Undoubtedly, there are such buildings in the suburbs where additional units could be created.

A fourth way to find more space in the existing housing

stock would be to make habitable those residential buildings that now stand vacant.

At the time the 1980 census was taken, there were in the seven-county Twin Cities area 1,792 rental housing units that had been vacant for more than six months. Many of these units may include more than one bedroom.³³

Sol Jacobs, director of Inspections for the City of Minneapolis, indicated that there are now approximately 350 residential buildings boarded up and vacant in the city. There are about 650 units in these buildings. The Department now supervises the demolition of about three to four such buildings each month, according to Jacobs.³⁴

A fifth way to make more efficient use of housing resources would be to permit homeowners to install ECHO housing units on their lots.

ECHO is an acronym that stands for Elder Cottage Housing Opportunity, according to Leo Baldwin, a specialist in housing who works for the U.S. Senior Federation. ECHO housing units are small modular housing structures that can be installed in the back yard of a single-family house, for example, and then moved when they are no longer needed. Baldwin explained the ECHO housing idea at a conference on assessor housing units, held March 20 at the University of Minnesota.

He said the concept was pioneered in Australia, and has recently started to attract interest in the United States. Three companies are now manufacturing ECHO housing units in the U.S. Typically, ECHO houses cost about \$18,000. One company, in California, manufactures the units, leases them to people who want them, installs the houses, and then removes them when they are no longer needed.

ECHO houses are generally intended to enable senior citizens to live near younger people and avoid moving into institutional settings.

Baldwin suggested that three features should be included in an ordinance associated with ECHO housing units. First, the houses should be movable; second, they should be permitted only on a conditional use basis; and third, he suggests they be designed for elderly and handicapped people.

The most controversial of these strategies for making more efficient use of the existing housing stock is to add rental units to existing single-family houses in areas zoned for single-family purposes only.

Proponents of this strategy use the following arguments to support their position:

- **Permitting these modifications would provide cash flow for senior citizens, thereby enabling them to maintain their homes and stay in them longer.**

By adding a rental unit to his home, an older person might be able to find someone to live with him and share operating expenses. This improved cash flow position seems to be the primary benefit to homeowners. Tax advantages do not seem significant.³⁵

This benefit could also be achieved by simply renting out space to another person. Structural modifications would not be required. Lutheran Social Services, a social services agency in Minneapolis, is operating a program called "Share-A-Home" that matches young people looking for rental space, with older people who have extra space and would like help around the house.

- **Modifying single-family homes to add rental units could permit renters to become homeowners.**

Presumably prospective owners of a single family house could, if they had a rental unit in the house, rely upon rental income to help pay the mortgage or operating expenses. This rental income might be just enough to make the difference between being able to buy a house or not.

- **Modifying single-family homes to rental units might give renters more choice in terms of housing, and put downward pressure on rents.**

Presumably the bulk of new units created through this strategy would be relatively small. They would not accommodate families, but they certainly would accommodate the large number of single people who need housing. Also, by increasing the supply of housing, this strategy would also put downward pressure on rents.

- **Permitting these modifications could also enable cities to control what is likely to occur in any case.**

Several people have told us that rental units are already being added to single-family homes, illegally. They suggest that cities should expect this to continue as the cost of housing increases and the supply does not increase substantially through new construction. Proponents of permitting these modifications suggest that cities should face the issue head-on. If they ignore it, the additions will occur without regard for the various interests of homeowners, neighborhoods and renters.

- **Adding rental units in single-family homes, (and other methods of putting more people into existing residential structures) promotes efficient use of existing public**

services and facilities.

This is one reason public officials could support better use of the existing housing stock. It would enable more people to use existing parks, schools, and streets. The tax base of a community would be expanded. The economic vitality of neighborhood commercial and retail businesses would also be supported.

- **Permitting the addition of rental units to single-family homes would encourage people who make these modifications to observe safety and building codes.**

It is likely that the modifications will occur, regardless of whether they are permitted or not. People are already adding rental units to their houses, illegally. When such modifications are prohibited people undoubtedly are reluctant to have their houses inspected, or to seek the advice of city employees knowledgeable about building codes and safety requirements. If the modifications were permitted, people would be more likely to observe code requirements.

People concerned about permitting others to add rental units to their homes point to several potential disadvantages:

- **Too many modifications could change the character of single-family neighborhoods.**

Our survey of communities in the metropolitan, to which 51 communities responded, indicated that 27 communities think the most serious problem with creating rental units in existing single-family houses is that they would change the character of single-family neighborhoods. There seems to be a particular concern about the possibility that owners of rental property would be absentee landlords who would not keep up the property. Ruby Hunt, a city council member in Saint Paul when she met with us, suggested that a lot of the public opposition in that city could be overcome if the city required the owners of houses that are modified to add a rental unit to continue to occupy part of the house.³⁶ She also mentioned that, however, it is the opinion of the city attorney that this requirement would be unconstitutional.

- **Adding rental units in single-family homes could create problems by increasing traffic and parking congestion.**

Eight of the communities that responded to our survey indicated this as the main reason for opposing the addition of accessory rental units. The assumption behind this opposition is that all occupants of rental units would drive cars and that the neighborhoods where rental units would be created do not have adequate off-street parking for such cars.

These assumptions may not be valid in all cases. A number of renters, at least in the central cities, do not have cars or would not need them if they could use public transportation. In the suburbs many houses have two-car garages and large driveways which could provide off-street parking spaces.

- **Adding rental units to single-family homes might also encourage building code violations.**

Eight communities in our survey said this is the most serious problem with permitting these modifications. The concern is that basement apartments, for example, would not have adequate ventilation or would not enable an occupant to get out quickly in case of fire. There is also concern about the adequacy of exits from third floor apartments.

Proponents of permitting adding rental units suggest that it is not difficult to add window space to basement units, or exits from third floors.

- **Adding units to single-family homes might also affect the aesthetic characteristics of a neighborhood.**

The concern here is primarily with exterior alterations to a house, which could involve a fire exit from a third floor apartment, for example, or multiple entrances visible from the street.

- **Adding rental units in single-family houses might reduce the number of single-family houses available for young families.**

Officials are working in both Minneapolis and Saint Paul, and perhaps other cities, to find ways to provide housing that would attract people in the 45 and over age group out of their large single-family homes to space that is more energy efficient and sized for their housing needs. If such housing can be built and if enough people can be convinced to move into it, more single-family housing would be available to young families.

Some officials interested in this strategy are not particularly enamored with the idea of modifying single-family houses in ways that would permit the existing occupant to stay in them, with perhaps one or two renters. This may not expand the family housing stock.³⁷ Other people do not think this potential effect is justification for opposing modifications to single-family houses. They think communities should do everything they can to solve housing problems. If some people want to build new units and try to attract people to them, they should have to market this strategy as an alternative to any others that exist.

As Solem sees it, "the community needs to reuse its existing housing." Adding rental units to single-family homes is one way to do this. Another way is to build new units for elderly singles and couples in order to make their homes available to families. Both ways should be pursued, and the specific circumstances of buildings and neighborhoods will sort out the balance.³⁸

The potential to add rental units to existing single-family houses is substantial.

The potential is substantial, considering just the suburbs, where 70 percent of the region's single-family homes are located. If the suburban communities in the region each permitted one of every ten houses to add a rental unit, about 28,000 rental units would be added to the region's housing supply (based on 1977 count of houses). Modifying one in ten houses amounts to modifying about one house per city block assuming 300-foot-long blocks, 60-foot frontages, and ten houses per block (five on each side of the street). Adding two units per block would produce nearly 60,000 new rental units, or approximately one-third of the 178,000 housing units the Metropolitan Council says the region will need in the 1980s.

Communities in other states, as they have looked for ways to make more efficient use of the existing housing stock, have focused on adding rental units to single-family houses, and on regulations designed to control the impact of such modifications.

Some communities regulate the size of new units, presumably to preserve the character of existing neighborhoods.

Weston, CT, for example, requires that the new units be "clearly subordinate in size to the principal dwelling unit" and stipulates that the new units cannot exceed 600 square feet of floor area. Portland, OR, stipulates that new units cannot exceed 25 percent of the floor area of the principal dwelling. Typically, new units are sized between 400 and 800 square feet.

Some communities have tried to control density and impact on neighborhoods by restricting the number of units that can be added to any structure, by restricting modifications to houses on large lots, or by restricting them according to the age of a structure.

Westport, CT, limits additional rental units to one per structure. Portland, although it does not limit additions based on lot size, restricts them to houses with at least 2,000 square feet of floor space. Westport restricts additions to buildings constructed prior to 1971. Portland stipulates that

they cannot occur in houses that have added floor area within the last five years.

Some communities restrict exterior alterations or appearance.

Babylon, NY, Weston, and Portland all stipulate that no more than one entrance can be visible from the front of the structure.

Requiring off-street parking and owner-occupancy of one of the units in a modified single-family house is another way communities have tried to control density and impact on neighborhoods.

The policy options with regard to off-street parking appear to be: a) require zero spaces per unit [Portland]; b) require one space per unit [Babylon]; or c) require that spaces be available in number consistent with the character of the neighborhood [Lincoln, MA].³⁹ Another option, although not one that appears to have been adopted anywhere, would be to require one space per unit, with a waiver provision for occupants who demonstrate that they do not need access to a car.

With regard to owner-occupancy, Westport and Babylon require it, Weston does not. Portland requires owner-occupants to receive a permit to add a rental unit, but owner-occupancy is not required after the modification has been completed. The City of Fairfax, VA, permits two dwelling units on the same single-family lot, but requires owner-occupancy of one and requires the owner to verify that the second dwelling unit is for a relative or family member. The city's zoning ordinance permits that a fine of up to \$1,000 per day can be assessed for violation of this requirement.

Some people are concerned that legalizing rental units in single-family houses will lead to speculators' buying single-family houses, adding the rental unit, and then moving out. There is suspicion that absentee landlords will not maintain properties well which would be harmful for neighborhoods. As a result, there is support for requiring owner-occupancy.

There has been discussion, in the Twin Cities and elsewhere, over whether it is constitutional to require owner-occupancy. Some people feel it would be a violation of equal protection privileges in the U.S. constitution to permit an owner-occupant to use his property in a certain manner (to add a rental unit to it) and to deny that permission to an absentee property owner.⁴⁰ Patrick Hare, a planning consultant in Washington, DC, suggests that requiring owner-occupancy would be constitutional if, in a zoning ordinance, "single-family owner-occupied units" are defined as a land use.⁴¹

The uncertainty about the constitutionality of requiring

owner-occupancy is likely to remain until a court resolves the issue. At this time, neither the Babylon nor the Portland ordinance, both of which require owner-occupancy, has been challenged on this basis.

Another issue that communities are advised to address as they consider ways to permit adding rental units to single-family houses is the method of approving them.

One option is to make additions a matter of right, that goes with the property. Under this arrangement, any property owner would have a right to add a unit to his house, if he lives in a zoning area where this is permitted.

Another option is to make additions contingent upon receipt of a special permit, which requires public hearings and notification or consent of neighborhood residents. Under this arrangement, proposed additions would be evaluated on a case-by-case basis and permission would go with the property owner only. It would not extend to new property owners if the property changed hands. Babylon follows this procedure.

A third option would be to permit neighborhoods to decide for themselves some or all of the conditions related to adding rental units, including the number that should be permitted. Neighborhood organizations or block clubs might be given this authority.

The City of Plainfield, NJ, does not permit rental units in single-family houses, as a matter of right, but it does have a program operated by the city, to add units to the homes of senior citizens.

In Plainfield the initiative to modify houses came from the city government. In the other communities mentioned so far, the city simply passed a regulation or ordinance permitting the initiative to be exercised by existing homeowners.

Plainfield city officials have approached senior citizens about the possibility of adding rental units to their homes. The city has added the units, and advertised for renters to move into the homes. The modifications were financed with interest-free city loans.⁴²

In the Twin Cities metropolitan area, discussions have occurred over how to make more efficient use of existing housing (space and buildings), but little action has been taken to promote this.

The City of Saint Paul has drafted guidelines stating when it would make exceptions to its zoning code to permit rental units in single-family houses, but it has not adopted zoning ordinance changes. The city reviews proposals for such modifications on a case-by-case basis.

Today, someone who wants to add a rental unit to a single-family house located in an area zoned for single-family houses only, must receive a zoning change. The city's new guidelines indicate the conditions that must be met for rezoning to be approved.⁴³

Someone who wants to add a rental unit to a single-family house located in an area zoned for duplexes or greater density may do so if that structure meets the lot size, floor area, and off-street parking standards for duplexes. If the structure does not meet these standards, the person must get a variance before additions can occur. The city guidelines stipulate the conditions that must be met before a variance can be approved. These conditions are somewhat less restrictive than are those that apply to rezoning applications.

In Minneapolis, a "Mansion House" conditional use ordinance, which outlines when rental units in single-family houses would be permitted, has been drafted. The ordinance has not been adopted, however.

Under the proposed ordinance, modifications would be restricted to areas now zoned for duplexes or greater density. In addition, new units would have to have at least 500 square feet of living space; one screened off-street parking space would be required; major exterior alterations, such as fire escapes would be prohibited; the lot size minimums would be the same as those for townhouses (with certain exceptions).⁴⁴

The ordinance would give the City Council authority to approve the conditional use permits. Owner-occupancy would not be required.

A conscious effort was made to limit the number of houses to which rental units could be added. Concern exists that if many additions occur, property values would increase to a point where any use other than multiple units would be uneconomical.

The City of Minneapolis recently passed a zoning ordinance change that makes it permissible to add rental units to existing apartment buildings without, at the same time, adding parking for every unit in the building.

Prior to the change, property owners that added a rental unit to a building were required to add enough parking facilities for the building to bring it into conformance with the current zoning code. Often this meant adding spaces for units besides those being added to the building. The city recently changed this provision in the ordinance to make it legal to add units without adding parking spaces. Additions would still require a zoning variance, however, if the building already included the maximum number permitted for its lot size.

One developer suggested to us three changes she would like to see Minneapolis make, in order to promote more efficient use of the existing housing stock. These changes have not been adopted by Minneapolis or other cities as far as we know.

Irene Taddiken, a real estate agent and the proprietor of a home rehabilitation company in Minneapolis, suggested that the city: 1) reduce the lot size requirements in its zoning code for two-family units; 2) make it permissible to have kitchens on the third floor of a single-family house; and 3) make it permissible to have uncovered fire exits from the third floor of houses. Today, such exits must be enclosed.

Taddiken said these changes would make it much easier for people to add a rental unit to their house. She recognizes that these are controversial changes, likely to be resisted by some people. She suggested that the city permit decisions about these changes to be made on either a case-by-case basis, or on a neighborhood-by-neighborhood basis.⁴⁵

The City of Cottage Grove is making zoning ordinance changes that will permit higher density in the new parts of its community, shifting to indicate dwelling units per acre rather than the kind of units that must exist.

Today, Cottage Grove's zoning code, like that of most cities, indicates the kind of buildings that are permissible in certain parts of the city. For example, in an area zoned 'R1' single-family houses with a minimum lot size of 10,000 square feet are to be predominant structures. These conditions permit two-and-a-half to three dwelling units per acre, according to the city official we talked with.⁴⁶

The city now plans to change the zoning code to regulate units per acre instead of building characteristics. Instead of having a single-family zoning category, the city would have a low-density category, which would allow up to eight units per acre. A medium-density area would be designated for up to 10 units per acre. A higher-density area would permit up to 20 units per acre.

These changes have been proposed as a way to give developers much more flexibility in the way they arrange streets and in the kinds of structures they build. These also came about because the City Council recognized the high cost of land and wanted to promote higher-density living.

The existing federal tax code fails to encourage, as much as it could, the efficient use of the existing housing stock.

Someone who plans to sell his home someday might be dis-

couraged from adding a rental unit to it, considering the increased capital gains taxes he would pay on the rental portion of the house.

People who sell their homes (without a rental unit in it) do not pay any capital gains taxes on the income received from the sale, provided they invest in other property of equal or higher value. People 55 years of age or older who sell a home can take a one-time exclusion of up to \$125,000 from capital gains taxes. In either case, they have a way to avoid paying capital gains taxes on the sale of their property.

In contrast, if a person adds a rental unit to his house, and later sells the home, he must pay 100 percent of the capital gains tax on that portion of the value of the house associated with the rental unit. There is no way to avoid paying capital gains taxes.

Tax deductions associated with depreciation of rental units also figure into whether a person would want to add a rental unit to his house. Under existing tax provisions, it makes more sense for someone looking for tax deductions to sell his existing home and buy a new one and add a rental unit to it, than it does for someone who has owned a house for several years to add a rental unit.

Under the present law, the rewards for adding a rental unit are greater for recent buyers than for people who have owned their home for a long time, because the depreciation that can be excluded from taxable income is calculated based upon the original purchase price of a home. If, for example, a person bought a home for \$50,000 ten years ago, and now wants to modify it for rental use and claim depreciation deductions, the value of depreciation is based on \$50,000, not on the current market value of the property.

Such a person looking for depreciation deductions would be smart to sell his current home, and buy a more expensive property in today's market, because then the amount of depreciation deduction would be calculated on a higher base value.

These implications in the existing tax code suggest that adding a rental unit makes more sense for someone interested primarily in improving their monthly cash flow position than it does for someone looking for income tax shelters or someone thinking about selling his home some day.

Table 8 summarizes the potential additional rental units within the existing housing stock. See following page.

TABLE 8

**POTENTIAL ADDITIONAL RENTAL UNITS
WITHIN THE EXISTING HOUSING STOCK**

STRATEGY	UNITS CREATED
a. Rent space in single-family houses (with three or more bedrooms)	145,600
b. Convert single-family houses in Minne- apolis and Saint Paul, in areas zoned for duplexes or greater density	27,027
c. Convert one of every ten suburban single-family houses	28,000
d. Convert two of every ten suburban single-family houses	56,000
e. Add rental units to existing apartment buildings in Minneapolis and Saint Paul	5,318
f. Rehabilitate rental units vacant six months or more	1,792

CONCLUSIONS

Today, some renters have limited housing choices and are paying a high percentage of their disposable income for rent. The expected growth in demand for rental housing and the constraints on construction of new units suggest that these problems could become severe in the future.

Some renters in the Twin Cities metropolitan area have had increasingly limited choices in terms of housing in recent years. The multi-family vacancy rate in the Twin Cities area, as measured by the Metropolitan Council has been going down steadily for several years and, as of January 1, 1982, was below the six percent level considered necessary for normal market choice.

This increasingly tight market is due primarily to three factors: a) fewer new apartment units have been built in recent years; b) people are staying in the rental market longer [unable to buy new houses]; and c) people are taking up more space [as the number of people in each household declines].

Some renters are also experiencing problems with high rents. While it is true that rent has not increased as rapidly as other prices in recent years, and that it has actually gone down slightly in the last decade when adjusted for inflation, there are still about 48,000 low-income rental households (households with incomes below 80 percent of the median for families of similar sizes) paying more than 25 percent of their incomes for rent. The problems are especially severe for the roughly 19,000 low-income families in the region, for they need the large spaces that cost more.

These problems, of limited choice and high percentages of incomes going for rent, could become more severe in the future. Demographic data indicate that the Twin Cities area can expect a bulge in the 20s and early 30s age groups during the 1980s. Housing building permit data indicate that new construction of rental housing is down, and housing experts and developers are nearly unanimous in their agreement that construction of new rental housing will be very limited in the foreseeable future. As the availability of rental housing declines, rent prices can be expected to go up, expanding the number of people experiencing problems with high rents, and intensifying the problems for people already feeling the pinch.

There is some evidence that the vacancy rate may have started to rise in recent months. Property owners and managers are starting to see their units remaining vacant for relatively longer periods of time. Some suggest that more renters are doubling up with friends or staying home with parents.

We believe that this increase in vacancy, if it is occurring, will be slight and a temporary phenomenon. Demand for housing is going to increase substantially during the 1980s, and it is very unlikely that construction of new units will keep pace with demand.

The Twin Cities area can minimize these problems and, at the same time, realize a number of opportunities if it makes more efficient use of its existing housing stock.

The housing supply for single individuals in need of housing assistance could be more than doubled if the region made more efficient use of its existing residential buildings. The increase in supply should put downward pressure on rents for these people. Well over half of the people in need of housing assistance today are, according to the Metropolitan Council, single individuals.

At the same time, *elderly people living alone* in single-family houses *could find help* paying bills, doing yard work, shoveling snow, or getting other home maintenance accomplished if they rented or otherwise shared space in their homes.

In addition, *young people might be able to overcome the financial obstacles to buying* or retaining ownership of houses if they could share space with renters. Moderate-income people, regardless of age, could supplement their income by renting out space, too.

Also, there are opportunities for communities generally. *Energy could be saved*, for most of the new units would be created in buildings that are already heated. *Land could be saved*, for new units would be created without taking land out of agricultural production. *Money would be saved*, for the new units would be created without expenditures being made for the infrastructure associated with new construction: schools, streets, utilities and sewers, for example. Furthermore, the creation of additional units should put

downward pressure on the prices of existing units.

Suburban communities should be particularly aggressive in pursuing ways to make more efficient use of their existing housing stock. Existing projections of job growth in the 80s indicate that the majority of it will occur in the suburbs. If the people working at these jobs are to live and shop close to where they work, new housing units will be needed in the suburbs. Moreover, most of the potential for making more efficient use of existing housing lies in the suburbs, simply because nearly two-thirds of the housing units in the region are in the suburban areas.

We do not want to imply that the answer to all housing problems of the region lies in getting more people to live in existing residential buildings. There are large families in need of lots of space who would not be accommodated in the new, relatively small, units that would be created in existing buildings. Other strategies will be needed to make decent housing affordable for these people.

In 1978 the Citizens League recommended construction of smaller units that would attract people in the 45-and-over age group, thereby making the single-family houses these people now occupy available for younger families.⁴⁷

This strategy for new construction still makes sense to us. Moreover, we do not think it is inconsistent or incompatible with our recommendation to make more efficient use of the existing housing stock. Both strategies should be pursued.

Still, there is no mistaking the solution to the housing problems of many people could live in the existing housing stock, and that there are many advantages for the community generally in making better use of existing structures. Considering the difficulties associated with new construction, we think it is essential to make more efficient use of the existing housing stock.

Therefore, we think the following six strategies for using the existing housing stock more efficiently should be promoted.

Renting out space in single-family homes.

This is probably the cheapest way to put more people into existing homes. It is also the fastest way. No structural alterations would be required. And the entire region can do it. Nearly all communities permit the renting out of rooms in single-family houses, attaching only a few minor conditions for the privilege.

In the five-county metropolitan area there may be at least 140,000 empty bedrooms (just in houses with three or more

bedrooms), which could be rented out. These rooms could house fully 34 percent of all the people who will turn 20 in the 1980s.⁴⁸

Adding rental units to single-family homes in areas zoned for duplexes or greater density dwellings.

There are at least 10,000 such houses in Minneapolis alone. Saint Paul officials estimate that approximately 15,000 exist in the city in areas where zoning would permit such modifications. Adding a small rental unit to each of these houses can be expected to cost roughly \$3,000 to \$10,000, which is less expensive than building new apartment units.⁴⁹ Adding units to such houses is also not likely to affect significantly the character of neighborhoods, for they are already zoned for higher density.

Adding units to existing apartment buildings.

This strategy is likely to produce fewer units than the first two strategies, but adding units to apartment buildings can still increase the supply of housing. Our estimate is that roughly 5,300 units could be added to existing apartment buildings in the two central cities. The cost per unit may be anywhere from \$5,000 to \$20,000, but some property managers claim they could finance such modifications with current revenue, and would not have to borrow money. This would make it possible to add units relatively quickly and inexpensively. Such modifications would not significantly affect the character of the neighborhoods in which they are located, for they are already relatively high-density areas. There is also support for this strategy among apartment owners and managers.

Making habitable, residential buildings vacant for long periods of time.

According to the 1980 census, there are approximately 1,800 rental units in the seven-county metropolitan area that have been vacant for more than six months. In Minneapolis, according to City Inspector Sol Jacobs, there are reported to be 650 residential units in buildings that are vacant and boarded up. The 1980 census indicates Saint Paul has 315 such units. We think all communities should have a program that gets these buildings and units back in habitable condition.

Permitting homeowners to install ECHO housing units on their land.

Although we have not investigated this strategy in detail, it does seem to be another way to make more efficient use of existing housing resources, in this case, land. We have been told that there may be many small suburban homes located on large lots which have adequate space for an ECHO unit. We suggest communities investigate the details of implement-

ing this strategy.

Adding rental units to single-family houses in areas zoned for single-family purposes only.

Modification of such houses is the most controversial strategy for making more efficient use of the existing housing stock, but it is also the strategy that holds the greatest potential for adding units within the existing housing stock. Approximately 63 percent of the housing units in the region are in single-family structures.

It is especially important that suburban communities permit such additions to occur. Nearly 70 percent (279,600 out of 407,000 in 1977) of the single-family houses in the region are located in the suburbs, most in areas zoned for single-family purposes only.

If each of these communities permitted one of every 10 houses to add a rental unit, about 28,000 rental units would be added to the regional housing supply. Modifying one in 10 houses amounts to adding a unit in about one house per city block, assuming 300-foot-long blocks, 60-foot frontages, and 10 houses per block (five on each side of the street). Adding two units per block would produce nearly 60,000 new rental units, or approximately one-third of the 178,000 housing

units the Metropolitan Council says the region will need in the 1980s.

Adding two units per block in these suburban communities would not disrupt the character of their neighborhoods, for few cars would be added, and it would go far toward addressing the housing problems of many people.

Opportunities exist for many people to benefit from making more efficient use of the existing housing stock. Renters may have more choices, and possibly reduced rent levels. Homeowners may improve their cash flow situations. Older people may be able to stay in their homes longer. These are a few of the opportunities.

In urging communities to make more efficient use of their housing, however, we are mindful of the potential dangers. Renters need safe housing options. We do not want to see new units added to the point that housing values make it uneconomical to retain single-family houses, nor do we want to see parking and street congestion increase to the point that long-time neighborhood residents move away. Steps must be taken to avoid these potential problems as communities pursue the opportunities inherent in making more efficient use of existing housing.

RECOMMENDATIONS

The following steps should be taken to promote each of the strategies we have identified for making more efficient use of the existing housing stock.

Clearinghouses should be established to provide services to renters and to property owners.

Clearinghouses could be established by private companies, churches, senior citizens' federations, public agencies, or individuals. They could be financed initially with a foundation grant or loan, and financed on a continuing basis from fees charged to landlords and tenants.

Clearinghouses could provide many services, but their essential function would be to *educate homeowners to the opportunities they have to make more efficient use of their properties*. Clearinghouses could, for example, inform homeowners about the privileges many now have to share space in their homes. Many people today are probably unaware of the privileges they have. Clearinghouses could also *provide information about the advantages and disadvantages of adding rental units to their homes*.

Clearinghouses could *provide matching services*, designed to bring together people with space to share with those who need space. Part of this service might involve the preparation of a handbook describing the rights and responsibilities of tenants and landlords. Many homeowners have never been landlords, and they will need assistance to understand what is involved, including the legal implications.

Clearinghouses could also *provide information about the tax and financial implications* of adding rental units to single-family houses, or renting out space.

A clearinghouse might also negotiate the sale by a homeowner of a portion of his house to someone who wants to share space. This could be a way to finance a new rental unit and a way for a homeowner to recover some of the equity in his home, without having to sell his entire property and move out.

Clearinghouses might also *provide advice about contractors* who provide services needed to modify a house to add a living unit.

Finally, clearinghouses might *provide first aid training for tenants* who are living with elderly people who may need emergency medical assistance.

We believe these kinds of services would be especially effective in facilitating modification of single-family homes, and the sharing of space in homes. Some of these services are already available for owners and tenants of apartment buildings, but a clearinghouse might be able to provide them with information, too. A clearinghouse might be able to provide information about buildings that have been vacant for long periods of time, but we assume a city agency or department would most appropriately handle this responsibility.

The Minnesota Housing Finance Agency, and other public agencies and municipalities, should consider making low-interest loans to assist people in adding apartments to their homes, adding units to existing apartment buildings, or rehabilitating units that have been vacant for long periods of time.

We believe the cost of these strategies for making more efficient use of existing buildings would be relatively low. Still, the existence of a loan program for this purpose would encourage people to make space available, and to do so in a manner consistent with building safety standards.

The Metropolitan Council should identify and implement strategies to encourage communities to make more efficient use of existing residential buildings.

We can envision one strategy that could be used. It would be similar to, or part of, the one used by the Council now to encourage communities to promote the construction of housing for low and moderate-income people. Other strategies may also exist.

Under the current arrangement, the Council allocates state and federal grants for such things as sewers and parks, partly on the basis of how well communities are doing in providing housing opportunities. The Council maintains a point system which it uses to rank communities in the region in terms of housing performance. This ranking is updated each year. Performance in terms of making more efficient use of the existing housing stock could be considered when rankings are

determined.

We are especially hopeful that the Council will find and implement strategies that encourage suburban communities to make more efficient use of their housing stock. We do not mean to imply that we think new rental units should only be added in the suburbs. We think central city neighborhoods could provide more housing, too. We recognize, however, that the central cities are already providing the largest share of rental units. Also, we think the greatest potential for adding units is in the suburbs. Nearly 70 percent of the region's single-family houses are in the suburbs. Furthermore, these communities have larger lots and larger driveways and garages for off-street parking than do the central cities. These features would minimize the impact of new units. We believe a substantial number of rental units could be added to the Twin Cities housing stock in the suburbs, without any damaging impact on neighborhoods. These are the reasons why we think the Metropolitan Council should give particular encouragement to suburban communities.

To permit the addition of rental units in single-family houses in areas zoned for single-family purposes only, without jeopardizing the safety of occupants or the livability of neighborhoods, communities should adopt ordinances that permit additions under the following conditions and procedures:

CONDITIONS

When the owner agrees to occupy one of the units in the modified structure.

We believe it is important to retain the owner-occupied character of single-family neighborhoods. We believe homeowners generally tend to take an interest in the quality of their neighborhoods and feel a responsibility to maintain their properties in a way that supports that quality. We also believe that by requiring owner-occupancy, public officials will be able to gain widespread public support for ordinances to permit people to add units to their homes—support which might not exist without this requirement.

We recognize the division of opinion regarding the constitutionality of requiring owner-occupancy, but we do not feel it is our obligation to settle that question.

When one off-street parking space per dwelling unit can be provided.

We believe it is important to minimize on-street parking in most neighborhoods, to preserve their character as low-

density areas and preserve the use of the street for moving vehicles.

When exterior alterations would not alter significantly the character of a neighborhood.

We think communities should be sensitive to the aesthetic character of their neighborhoods. They should set standards as to what exterior alterations are acceptable. Different communities might want to control different features of appearance. We do not think any single provision should apply to all neighborhoods or communities.

When the accessory unit(s) would be clearly subordinate in size to the existing principal dwelling.

Again, we think communities should set their own standards with regard to the size of new units. Some may want to require that new units be "clearly subordinate to the principal dwelling." Other communities may want to be more specific and define size in terms of square footage. Our principal recommendation is that accessory units be clearly accessory. We do not endorse, for example, the conversion of single-family houses into duplexes (where both units are the same size). We want to preserve the essential single-family character of single-family neighborhoods. We also think that modifications should be made in a way that makes it relatively simple to restore the structure to single-family use, if such modification is desired. We think a requirement that accessory units be subordinate to the principal unit is consistent with this objective.

When sewer and water facilities are adequate to accommodate projected increases in housing occupancy.

Adequacy would have to be determined by a building inspector or another official. We assume that facilities which meet the existing building code would be acceptable. We would leave it to each community, however, to address this matter.

PROCEDURES

Three different procedures could be followed for permitting people to add rental units to their single-family houses. Two of these are commonly understood and are used today to regulate land use. The third procedure is new. To our knowledge, it has not been tried anywhere before. We think it merits experimentation.

The procedures differ in terms of the number of times elected officials need to take action on proposals for new units, and in terms of the potential number of houses that would be modified.

Zoning Text Change

Under this procedure, a community would revise the text of its zoning ordinance to permit rental units in single-family houses in single-family zones, under specific conditions. Once the ordinance was passed, homeowners could add units to their houses without coming back to the city council for approval. Single-family homes with rental units in them would be permitted uses. The city council would be involved in just one decision. Once it changed the zoning code, it would not have to get involved again. Under this procedure, the number of houses that could add rental units would be limited only by the conditions in the zoning ordinance.

Special or Conditional Use Permit

Under this procedure, a community would revise the text of its zoning ordinance to permit rental units in single-family houses under specific conditions. Once the ordinance was passed, however, homeowners could not add units to their houses without coming to the city council for approval. If they could meet the conditions outlined in the ordinance, the city council would be required to permit the additions. By requiring council review, however, the officials would have regular opportunities to inspect the modifications and work with homeowners on details. Following this procedure would involve the council again and again in decisions dealing new new units, however. As with a zoning text change, the number of houses that could add units under this procedure would be limited only by the conditions in the zoning ordinance.

Exchange of Accessory Unit Rights^{5 0}

This is the new method, but conceptually similar to the sale or transfer of development rights, which is now commonly done. Under the exchange procedure, a community would revise the text of its zoning ordinance to permit accessory units under specific conditions. City officials would then allocate to each homeowner a percentage or share of a right to create an accessory unit. Each homeowner would have to obtain from one or more of his neighbors their shares in order to amass one total right, before he could add an accessory unit to his house.

City officials would presumably determine the maximum number of units that could be added in any designated geographical area, and then divide evenly among all the homeowners in that area the right to add these units. Officials might, for example, decide to permit five units for every 20-house area. Each house could be given one-fourth accessory unit share. Any homeowner who wanted to add a unit to his house would have to obtain shares from three of his

neighbors before he could add a unit to his house. He could possibly obtain them by loan, trade, purchase, gift, or lease.

This procedure would give neighborhoods the primary control over the number of units that could be added in their areas. This procedure would be more flexible than a zoning change plan that applied uniformly to all neighborhoods. The plan would permit the addition of rental units to single-family houses, while retaining the character of single-family neighborhoods, principally as defined by the people who live in them. Also, it would involve a way to compensate those who do not add units for the impact of changes in their neighborhoods due to the additions of units by others, and it would provide limited involvement by city councils beyond the central policy judgments of when to permit new units, and how many to permit.

As we already mentioned, this idea of exchanging accessory unit rights is new, but it is similar to transferring development rights, which is now commonly done. The City of Denver, CO permits property owners there to sell development rights they are not using to other property owners in the city. The Denver plan might be a model which communities here could adopt (or revise and then adopt) as a procedure for permitting modifications in single-family houses.

Two different methods exist in Denver for the exchange of development rights, one for the Central Business District (CBD) [with a slight variation depending upon whether a building is an historic landmark] and one for the area outside the CBD.

Within the CBD if you own a building that has less floor area than the maximum allowed in the zoning area where the building is located, you can sell your excess floor area rights to another property owner whose land is adjacent to yours or separated by a street or alley. If you own property that has been classified by the city as an historic landmark you can sell your development rights to any other property owner in the CBD.

In either case the price for the rights is whatever the market will bear. In the case of sales of development rights by owners of historic landmarks, the buyers of the rights cannot start to use them (to build) until the historic landmark has been rehabilitated and occupied.

Outside the CBD people that own property can also sell development rights, but only to the owner of adjacent properties. Let's say, for example, you own a duplex in a zoning area where 20-unit buildings are permitted. Assume further that you don't want to convert your house to a 20-unit structure, but you don't mind if your neighbor builds a building that has more than 20 units in it. You would have

the right to sell your 18 excess units to your neighbor, for whatever he were willing to pay. You could not, however, sell your rights to the fellow two doors down from you.

The city keeps track of who owns what development rights by recording exchanges or sales when the buyer of development rights comes into city offices to get a building permit to add to his own buildings. When the buyer applies for a building permit to add floor area beyond the amount permitted on his zoning lot he must show proof of having acquired development rights from someone else.

The city prevents a person from selling development rights twice by combining the sellers property with the buyers property into one zoning unit, when a sale is verified. Once you have sold your development rights to the neighbor on your left, for example, your lot is combined with his (for zoning purposes but not for tax purposes), on the city's property records. If the neighbor on your right came into city hall and said he had purchased your development rights and wanted to add floor area to his building the city officials would be able to tell him that you had already sold your rights to someone else.

Whereas property owners can only sell their rights to one neighbor, they can acquire development rights from more than one adjacent property owner. As long as someone is willing to combine his zoning lot with yours, you can acquire his development rights.

The policy regarding transfer of development rights by his-

toric structures has been in place since January, 1982. The policy regarding the transfer of development rights by non-historic structures has been in place since 1978. (In 1980, the city permitted property owners in the CBD to sell rights to owners of property separated by a street or alley. Prior to that time they could sell only to owners of immediately adjacent property.)

The policy has been enthusiastically received in the downtown area. It has worked as it was intended, to enable development of the downtown, and to preserve historic structures. It is used less frequently in the areas outside the CBD than it is used inside the CBD.

There is no review of sales by a policy making body. There is only a record keeping function, which begins when a buyer of development rights comes in for a building permit. The city clerk/recorder records the sale, and then transmits the application for building permit to the zoning administrator to verify that the proposed development is consistent with the zoning ordinance. The fact of sale is also recorded on the property title.

The only apparent problem which has come up with the policy is that some people have purchased properties that they intended to expand, only to find out that the excess development rights they thought applied to the property they purchased had already been sold to someone else. The problem is that the buyers' title search did not involve a thorough review of the property title. The title lawyers missed the fact that the development rights had already been sold.

FOOTNOTES

¹Since 1975 the Metropolitan Council has published data quarterly on housing vacancy rates for communities in the seven-county metropolitan area. The 1981 data covers 630,000 housing units, approximately 87 percent of the estimated 730,000 housing units in the region. The vacancy rates are calculated from records of the Northern States Power Company. Housing 'vacancy' is determined by inactive NSP electrical service at the close of a quarter.

²Testimony to CL Committee: Tom Warner, President, Warner Holding Company, February 9, 1982.

³*Consumer Price Indexes*, Minneapolis-Saint Paul, December 1981; *Annual Average, 1981*, U.S. Department of Labor, Bureau of Labor Statistics; *Update Activity Rent Analysis*, The Apartment Guide, Edina, February 1, 1982.

⁴The major reduction in production of multi-family units after 1972 was due to the national recession and changes in federal tax policies that removed previous advantages of investment in rental housing. This, according to Chuck Ballentine, Senior Housing Planner, Metropolitan Council.

⁵ *"Twin City Conversions of the Real Estate Kind,"* Barbara Lukermann and others, Center for Urban and Regional Affairs, University of Minnesota, 1981.

⁶*Profile of the Minneapolis-Saint Paul home buyer: "Home Ownership, Coping with Inflation,"* U.S. League of Savings Association, 1980.

⁷ *"Housing Affordability in the Twin Cities Metropolitan Area,"* Metropolitan Housing Market Study, Metropolitan Council, June, 1981.

⁸Table 7 includes husband-wife households that have children as well as husband-wife households that do not have children.

⁹Metropolitan Council's application to the U.S. Department of Housing and Urban Development for approval of the Council's 1981 revised areawide housing opportunity plan. The number of households officially recognized as needing assistance is different now than it was when the Council made its calculation, for the federal government has increased to 30 percent the amount of personal income that must be spent on housing, before a person is eligible for housing assistance.

¹⁰Testimony to CL committee: Patty Armstrong, Council member, City of Cottage Grove; Dick Harris, Chairman, Fridley Planning Commission; Ruby Hunt, Council member, City of Saint. Paul, January 12, 1982.

¹¹Telephone conversation between staff and Tom Gillaspay, state demographer. Also, Gillaspay's calculations were mentioned in a Minneapolis Tribune article on Sunday, April 18, 1982.

¹²*Consumer Price Indexes*, Minneapolis-Saint Paul, February 1982, U.S. Department of Labor, Bureau of Labor Statistics.

¹³*"Twin Cities Housing Need in the 1980s and 1990s,"* Metropolitan Housing Market Study, Metropolitan Council, June, 1981, p. 1.

¹⁴*Ibid*, p. 7.

¹⁵*Ibid*, p. 7.

¹⁶Testimony to CL committee by Chuck Ballentine, Senior Housing Planner, Metropolitan Council, December 1, 1981. Also,

see *Metro Monitor*, Vol. III, No. 2, April 1982, p. 4.

¹⁷ Telephone conversations between CL staff and staff at Greater Minneapolis Chamber of Commerce, Saint Paul Area Chamber of Commerce, and Minneapolis Downtown Council. Also see, *Metro Monitor*, Vol. III, No. 2, April 1982, p. 4.

¹⁸ Telephone conversation between CL staff and Don Jacobsen, Director of Development, Bor Son Construction Company.

¹⁹ Conversations between CL staff and Jim Solem, Executive Director, MN Housing Finance Agency, and CL staff and Tom Fulton, Executive Director, Minneapolis-Saint Paul McKnight Family Housing Fund.

²⁰ Testimony to CL committee: Richard Law, Partner, Peat, Marwick, Mitchell, December 15, 1981.

²¹ Guy Peterson, Housing Specialist, Metropolitan Council.

²² Testimony to CL committee: James Solem, Executive Director, MN Housing Finance Agency, October 21, 1981.

²³ The primary element of uncertainty regarding federal requirement is, according to Monty Acker of the Minnesota Housing Finance Agency, the length of time units in buildings financed with below market public revenue bonds must be available for low and moderate income people.

²⁴ Testimony to CL committee: Nancy Reeves, Director, Metro Housing & Redevelopment Advisory Committee, Metropolitan Council, December 15, 1981.

²⁵ Testimony to CL committee: Nancy Reeves, Director, Metro Housing & Redevelopment Advisory Committee, Metropolitan Council, December 15, 1981; "Reagan Rent Subsidy Plan Criticized," *New York Times*, November 29, 1981; "Housing Vouchers for the Poor," *The Urban Institute, Policy and Research Report*, Vol. 10, No. 4, Winter, 1980.

²⁶ Testimony to CL committee: Jim Solem, Director, Minnesota Housing Finance Agency, October 21, 1981; Chuck Balentine, Senior Planner, Housing, Metropolitan Council, December 1, 1981.

²⁷ "Plan for the 1980s, Housing," City of Minneapolis, June, 1979.

²⁸ "Annual Housing Survey: 1977," Minneapolis-Saint Paul standard metropolitan statistical area, U.S. Department of Commerce, Bureau of the Census, p. D-01.

²⁹ *Ibid*, p. D-02.

³⁰ Testimony to CL committee: James Larson, President, Stevens Court, Inc., January 5, 1982.

³¹ Telephone conversations between CL staff and a) Debbie Maves, Northco Company of Minneapolis, b) Sue Kaster, Mid-continent Management Company of Saint Paul, c) Tom Hirsch, Hirsch-Newman Management Company, Bloomington.

³² Minneapolis City Planning Department, and Saint Paul Department of Planning and Economic Development, Housing Division.

³³ "Minnesota Population and Housing Characteristics," 1980 complete count census data, Minnesota Analysis and Planning System, University of Minnesota, Table for Development Region 11.

³⁴ Conversation between CL staff and Sol Jacobs, Director of Inspections, City of Minneapolis.

³⁵ See page 11 in the report for further discussion of the tax implications of conversions.

³⁶ Testimony to CL committee: Ruby Hunt, Council Member, City of Saint Paul, January 12, 1982.

³⁷ Conversations between CL staff and Tom Fulton, Executive Director, Minneapolis-Saint Paul McKnight Family Housing Fund.

³⁸Conversation between CL staff and Jim Solem, Director, Minnesota Housing Finance Agency.

³⁹Contacts:

Planning & Zoning Commission
Westport Town Hall
110 Myrtle Avenue
Westport, CT 06880

Lawrence McDermott
Office of Planning
10555 Main Street
Fairfax, VA 22030

First Selectman
Susan Hutchinson
Town Hall
56 Norfield Road
Weston, CT 06883

Bruce Halperin
City Planner
Bureau of Planning
621 SW Alder
Portland, OR 97205

Jim Lyons
Administrative Assistant
Dept. of Planning & Development
Town of Babylon, NY
200 E. Sunrise Highway
North Lindenhurst, NY 11757

⁴⁰Conversations between CL staff and Clayton LeFevre, Attorney, LeFevre, Lefler, Kennedy, O'Brien, and Drawz. Also, testimony to CL committee by Parker Trostel, former Alderman, City of Minneapolis, November 3, 1981.

⁴¹Telephone conversation between CL staff and Patrick Hare, Patrick Hare & Associates, Planning Consultants, Washington, D.C.

⁴²"*Legalizing Single Family Conversions*," Tri-State Regional Planning Commissioner, New York, NY, January, 1981.

⁴³Ken Ford, Housing Division, Department of Planning & Economic Development, City of Saint Paul.

⁴⁴Testimony to CL committee: Parker Trostel, former Alderman, City of Minneapolis, November 3, 1981.

⁴⁵Testimony to CL committee: Irene Taddiken, Sole Proprietor, Home Restoration Enterprises, February 9, 1982.

⁴⁶Telephone conversation between CL staff and Patty Armstrong, Council member, City of Cottage Grove.

⁴⁷Citizens League Statement, "*Recommended Strategy for New Housing Construction*," March 15, 1978.

⁴⁸The 1977 Annual Housing Survey covers the five county area, excluding the counties of Scott and Carver.

⁴⁹The cost to construct a new 750 square foot, one bedroom apartment is about \$45,000 to \$50,000, according to Gary Asher, a specialist in investment Real Estate with Coldwell Banker. See *Corporate Report*, April 1982, p. 44.

⁵⁰Telephone conversation between CL staff and Charles Funyama, Denver Zoning Department and Harriet Hoag, Denver City Planning Department.

WORK OF THE COMMITTEE

The Rental Housing Supply Committee was formed primarily in response to the work done in early 1981 by a Citizens League committee on Rent Control. That committee, while restricting itself to the issue of rent control, suggested that there was an urgent need for the League and others in the community to give attention to larger issues of housing affordability. In its report, the rent control committee said, 'there are some signs which indicate that the financial burden question will emerge as a far more serious issue in the 1980s than many persons now recognize.'

Assuming that one way to ease problems of affordability is to expand the supply of housing, the Citizens League formed the Rental Housing Supply Committee. The charge to the Committee indicates that it was directed specifically to look first for ways to expand the supply of housing within the existing housing stock.

"The Twin Cities metropolitan area faces a growing problem with a lack of rental housing. The availability of rental housing units is being squeezed by a combination of a lack of new construction, the conversion of existing rental units to condominiums and by the creation of new households.

The assignment for this committee is to find ways to make more rental housing available. The committee's primary task shall be to develop findings, conclusions, and recommendations on improved utilization of the existing housing stock. If the committee desires it also may explore the potential for expanding the supply of rental housing through new construction.

The committee work should involve:

- Reviewing the factual information on household size, including trends in occupancy.
- Reviewing the increased pressure on the existing supply of rental housing.
- Reviewing the ordinances and regulations which limit the use of dwelling units in certain areas.
- Reviewing whether options for elderly people would be improved if they were not forced to choose only between staying alone in older, larger homes and moving to

higher density dwellings.

- Evaluating the benefits and the likely problems attached to opening new rental opportunities in traditionally non-rental situations.
- Reviewing the resistance to changing ordinances concerning the use of residential dwellings."

The following persons served as resource guests for the committee during its work. The League and the committee are grateful to these people for their assistance.

Patty Armstrong, councilwoman, City of Cottage Grove
Chuck Ballentine, senior planner, Housing, Metropolitan Council
Will Bracken, builder, Northco Company
Sandra Butler, member, Mendota Heights Planning Commission
Mary Farrell, realtor, Dan Dolan Realtors
Ken Ford, principal planner, Department of Economic Development, City of St. Paul
Dick Harris, chairman, Fridley Planning Commission
Riley Housley, builder, Kelrob Corporation
Ruby Hunt, councilwoman, City of St. Paul
Jim Larson, president, Stevens Court, Inc.
Rick Law, partner, Peat, Marwick, Mitchell
Barbara Lukermann, planning consultant, Hubert H. Humphrey Institute of Public Affairs
Nancy Reeves, director, Metro Housing & Redevelopment Advisory Committee, Metropolitan Council
Kent Robbins, director, Housing Development, Whittier Alliance
Jim Solem, director, MN Housing Finance Agency
Irene Taddiken, sole proprietor, Home Restoration Enterprises
Blair Tremere, director, Planning & Community Development, City of Plymouth
Parker Trostel, former alderman, City of Minneapolis

The committee began its work on October 20, 1981 and held its last meeting on May 4, 1982. Meetings were held by-weekly at the Bishop Whipple Federal Building near Fort Snelling. A total of 15 meetings were held. Detailed minutes of each meeting were kept and can be obtained upon request at the Citizens League office. The following people participated in

the committee deliberations on a regular basis.

David Ziegenhagen, Chairman
Duane Bojack
Joan Christensen
Ann Copeland
Dennis Daniels
Dan Feidt
Garry Hesser
Sally Hofmeister

David Ordos
Christopher Owens
Steve Rood
Susan Sands
Deborah Schmedemann
Gordon Stephenson
Patrick Stevens
Peter Thoreen

Carl Johnson
Ann Kerr
Sandra Krebsbach
J. Dudley Moylan
Patrick O'Leary
Norma Olson

Mark Thorson
Thomas Warner
Ann Webb
John Whitaker
Cecil Young

Staff support for the committee was provided by Brad Richards and Donna Keller of the League staff. This report was printed by Joann Latulippe.

WHAT THE CITIZENS LEAGUE IS

Formed in 1952, the Citizens League is an independent, nonpartisan, nonprofit, educational corporation dedicated to understanding and helping to solve complex public problems of our metropolitan area.

Volunteer research committees of the Citizens League develop recommendations for solutions after months of intensive work.

Over the years, the League's research reports have been among the most helpful and reliable sources of information for governmental and civic leaders, and others concerned with the problems of our area.

The League is supported by membership dues of individual members and membership contributions from businesses, foundations and other organizations throughout the metropolitan area.

You are invited to join the League, or, if already a member, invite a friend to join. An application blank is provided for your convenience on the reverse side.

OFFICERS

President
B. Kristine Johnson

Vice Presidents
Allen Saeks
Wayne H. Olson
Francis M. Boddy
James R. Pratt
Jean King

Secretary
Verne C. Johnson

Treasurer
Medora Perlman

STAFF

Executive Director
Curt Johnson

Associate Director
Paul A. Gilje

Research Associates
Robert de la Vega
David Hunt
Laura Jenkins
Bradley Richards

Director, Membership Relations
Bonnie Sipkins

Director, Office Administration
Hertha Lutz

Support Staff
Paula Ballanger
Donna Keller
Joann Latulippe
Diane Sherry
Vera Sparkes

DIRECTORS

Ronnie Brooks
Debra Pukall Christensen
Charles H. Clay
John J. Costello
Earl Craig
Rollin H. Crawford
Richard J. FitzGerald
David Graven
Howard Guthmann
Randall Halvorson
Judith Healey
James W. Johnson
Steve Keefe
Ted Kolderie
Andrew R. Lindberg
Luverne Molberg
John W. Mooty
Charles Neerland
Hazel Reinhardt
Mary Rollwagen
Duane Scribner
Clarence Shallbetter
Gordon Shepard
Thomas H. Swain
Carol Trusz
T. Williams
Willie Mae Wilson
Lois Yellowthunder

PAST PRESIDENTS

Charles S. Bellows
Francis M. Boddy
Allan R. Boyce
Charles H. Clay
Eleanor Colborn
Rollin H. Crawford
Waite D. Durfee
John F. Finn
Richard J. FitzGerald
*Walter S. Harris, Jr.
Peter A. Heegaard
James L. Hetland, Jr.
Verne C. Johnson
Stuart W. Leck, Sr.
Greer E. Lockhart
John W. Mooty
Arthur Naftalin
Norman L. Newhall, Jr.
Wayne H. Olson
*Leslie C. Park
Malcom G. Pfunder
Wayne G. Popham
James R. Pratt
Leonard F. Ramberg
Charles T. Silverson
Archibald Spencer
Frank Walters
*John W. Windhorst

*Deceased

WHAT THE CITIZENS LEAGUE DOES

RESEARCH PROGRAM

- Four major studies are in progress regularly.
- Each committee works 2½ hours per week, normally for 6-10 months.
- Annually over 250 resource persons made presentations to an average of 25 members per session.
- A fulltime professional staff of seven provides direct committee assistance.
- An average in excess of 100 persons follow committee hearings with summary minutes prepared by staff.
- Full reports (normally 40-75 pages) are distributed to 1,000-2,000 persons, in addition to 3,000 summaries provided through the CL NEWS.

CL NEWS

- Four pages; published every other week; mailed to all members.
- Reports activities of the Citizens League, meetings, publications, studies in progress, pending appointments.
- Analysis, data and general background information on public affairs issues in the Twin Cities metropolitan area.

PUBLIC AFFAIRS ACTION PROGRAM

- Members of League study committees have been called on frequently to pursue the work further with governmental or nongovernmental agencies.
- The League routinely follows up on its reports to transfer, out to the larger group of persons involved in public life, an understanding of current community problems and League solutions.

COMMUNITY LEADERSHIP MEETINGS

- Held from September through May.
- Minneapolis breakfasts are held each Tuesday at the Grain Exchange Cafeteria, 7:30 - 8:30 a.m.
- Saint Paul lunches are held every other Thursday at the Landmark Center, noon to 1 p.m.
- South Suburban breakfasts are held the last Friday of each month at the Lincoln Del, 4401 W. 80th Street, Bloomington, 7:30 - 8:45 a.m.
- An average of 35 persons attend each of the 64 meetings each year.
- The programs attract news coverage in the daily press, television and radio.

QUESTION-AND-ANSWER LUNCHEONS

- Feature national or local authorities, who respond to questions from a panel on key public policy issues.
- Each year several Q & A luncheons are held throughout the metropolitan area.

PUBLIC AFFAIRS DIRECTORY

- A directory is prepared following even-year general elections and distributed to the membership.

INFORMATION ASSISTANCE

- The League responds to many requests for information and provides speakers to community groups on topics studied.

Citizens League non-partisan public affairs research and education in the St. Paul-Minneapolis metropolitan area. **84 S. 6th St., Minneapolis, Mn. 55402 (612) 338-0791**

Application for Membership (C.L. Membership Contributions are tax deductible)

Please check one: ☐ Individual (\$25) ☐ Family (\$35) ☐ Contributing (\$45-\$99) ☐ Sustaining (\$100 and up)
Send mail to: ☐ home ☐ office ☐ Fulltime Student (\$15)

NAME/TELEPHONE

ADDRESS

CITY/STATE/ZIP

EMPLOYER/TELEPHONE

POSITION

CL Membership suggested by

(If family membership, please fill in the following.)

SPOUSE'S NAME

SPOUSE'S EMPLOYER/TELEPHONE

POSITION

Citizens League non-partisan public affairs
research and education in the St. Paul-
Minneapolis metropolitan area. **84 S. Sixth St.,**
Minneapolis, Mn. 55402

Nonprofit Org.
U.S. POSTAGE
PAID
Minneapolis, MN
Permit No. 414