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An Opposition to the Restriction of Housing

On Monday, August 17th, the Rochester City Council directed the City Attorney to draft an ordinance, similar to that instituted by the City of Winona, to regulate the number of homes allowed to have rental certificates on each city block. This action was of great surprise to organizations representing those citizens with significant interest in the ramifications of such an ordinance, as none of these organizations were informed by the city that this action was of interest to the Council. The Rochester Multi Housing Association is one of those organizations. We represent an industry that brings life and commerce to the city through the provision of rental housing. We are intensely adverse to such an ordinance as it has a multitude of adverse effects to Rochester's citizens, commerce, and image. This letter is an outline to the Rochester Multi Housing Association's opinion of a proposed institution of a '30% rule.'

Motivation

The City of Winona brought forth the proposal of a '30% rule' in response to a high frequency of complaints from citizens in and around the Winona State campus area. The citizens were frustrated with the quantity of rental properties in the area that provided housing for students of the college as a large number of those properties, in the opinion of the citizens, were outlets of disturbance, disorderly conduct, littering, and violence by way of frequent parties. The citizens and the city believed that the way to combat this problem was by limiting the amount of homes that could receive rental certificates, thereby reducing the number of homes that could be sources of problems. In this case, there was a specific, defined problem and an action to attempt to address that problem.

The city of Rochester is considering adopting a similar ordinance. While the general public will not know how constrictive the proposed ordinance will be until it is drafted by the City Attorney, an equally pressing question is the motivation behind this proposal. To our understanding, pressure is being put on one member of the City Council from his constituents in the Slatterly Park area, to bring the ordinance to Rochester. However, we have not yet heard what the problem is and what the city has tried in order to resolve it; all we've heard so far is that the councilman is '...tired of those bad landlords.' However, the issues raised by this area were addressed with the creation of a Landlord Ordinance in 2010. This

lengthy measure was drafted by the City Attorney, resembled similar ordinances implemented in suburbs of the Twin Cities, and tapped the citizens of Kutzky Park for input, in order to address noise and disorderly conduct complaints. Being a part of those discussions, it became quickly apparent that there was a deficit of specific, defined problems that needed to be addressed, but rather a general distaste for the rental community and a desire to stifle that industry's ability to conduct business in certain areas of town. Nevertheless, the ordinance was passed. With this new proposal, similar questions remain. What, specifically, is the driving force behind this proposal? What specific problem(s) need to be addressed? What has the city done to try to remedy those problems? How will this ordinance resolve those problems? More importantly, what undesired consequences will such an ordinance have on a city as unique as Rochester?

Benefit of Rentals in Community

Housing Need

Rochester is a unique city for many reasons; one of those is its housing needs and cycle. The term 'transient' has a negative connotation in many peoples' opinions. Many associate the term with nomadic or itinerant. They envision troubled souls, or a proverbial John Rambo type. However, Rochester is unique with its quantity of transient citizens. Every year, thousands of good, law-abiding people come to our great city for employment, education, or medical care. These short-term citizens stay for 1-5 years and then a large quantity of them leave. This creates an unusual housing need not found in the stereotypical city dynamic. Also unique about this structure is the makeup of the group. It is dynamic and diverse, comprised of multi nationals; families, couples, and individuals; blue collar and white collar; and covers all different classes. Some of these people want to purchase a home while they live in Rochester. However, as the socioeconomic view of home ownership changes, a majority of these people prefer to rent due to the freedom and ease it provides. This diversity in citizens needing housing creates a need for equally diverse housing options offered to these consumers.

Apartments are offered in varying styles, sizes, and rent amounts, from luxury to affordable housing. Similarly, single family homes provide the same options, but with absence of a multifamily setting. A recent study commissioned by the Mayo Clinic, Olmsted County, and others, revealed the area's drastic shortage of projected housing in both the market rate and affordable housing markets. The quantity of single family homes currently available, as well as the future units that will be available, are vital to the supply of housing for existing and future citizens.

Regulation

There are currently numerous ordinances in effect in the City of Rochester. The goal of these ordinances is to regulate behavior, increase safety, and preserve a standard of living in Rochester. While many of the housing ordinances are enforceable against owner-occupied homes and rental homes, the city enforces them against rental properties in a disproportionate manner. This may be due to enforcement being on a complaint based system and neighbors are reluctant to file complaints on those homes that are owner-occupied. It may be due to the city's somewhat derisive view of rental properties. Whatever the case may be, these ordinances have been tools for the city to meet the previously mentioned goals.

Additionally, there is an entire section of ordinances directly developed for rental property. Through these, the city can enforce compliance of the ordinances by way of rental certificate allocation. For example, the landlord ordinance created a legal pathway for the city to remove an investor's ability to offer rental property in Rochester if the property has numerous violations. Every other year, the city can enter each unit of a rental property to ensure building code compliance as well as compliance with city ordinances such as: overcrowding, approved use, habitability, etc. Taking this into account, the city absolutely has more tools when attempting to preserve a standard of living in a neighborhood if a problematic property is a rental than when it is owner-occupied.

Commerce

Owning investment property is more than just purchasing property and collecting rent. Each rental unit is a life source to hundreds of vendors in Rochester. Investment property owners provide revenue streams to: builders, carpet installers, electricians, plumbers, maintenance companies, cleaning companies, remodelers, painters, supply stores, real estate agents, management companies, and also the city in the form of property taxes and rental certificate fees. This distribution is a major economic driver for our city and its small businesses and should be promoted rather than restrained. Just as the housing bubble greatly affected our economy, so too does the unnecessary regulation of the rental market.

Consequence of Proposed Action

The '30% rule' that Winona has implemented was designed to address a specific problem but we at the RMHA believe that a similar ordinance in Rochester would have 3 significant and unintended consequences: strain on housing, increased cost on taxpayers, and an uninviting and deleterious city image.

Strain on Housing

Affordability is important to any consumer, especially when the product/service represents a substantial quantity of the consumer's monthly income. Rent levels in Rochester have been increasing over the last 8 years, usually around 5% or more on an annual basis. In the last couple of years, this increase has been even greater with some properties increasing rents at 10% or more. This has been due to the larger increase in demand vs. supply of housing options. As simple supply and demand curves show us, reduction in supply, with stable or increasing demand, leads to a shift in the curve and prices increase. The proposed ordinance would be an artificial, government controlled reduction in supply that would ultimately lead to a significantly exaggerated shift in the supply curve, ultimately leading to drastic rent increases in both single family home and apartment rentals. Those most affected by this change would be citizens on fixed incomes, such as seniors, the working class, and the economically disadvantaged. Does the city want to remove diversity in housing opportunities? Do we feel it is fair to prevent this group from having a living experience in a single family home? Should these citizens be limited to multifamily properties?

The impact of this ordinance would also affect the real estate market. Home sales have been on the rise in Rochester over the last few years. A driving force of this market has been individuals purchasing single family homes as investment properties. Further, the homes purchased for this purpose range from luxury to affordable as there is demand for such a wide spectrum of options. The proposed ordinance would all but halt any further purchases of single family homes for this purpose. With this deficit of purchasing, the supply of homes on the market would increase and be represented of the supply and demand curve in a negative shift to the left, leading to longer days on market and lower sales prices. The Slatterly Park area would be damaged by an increase in low home sales and foreclosures. Investors would not purchase in the area and home values would sink. The converse of this is ironically expressed in the Kutzky Park area. The pop of the housing bubble in the first part of the 2000's led to a large quantity of foreclosures in this neighborhood. Many homes were derelict and housing prices were suffering. Today, the Kutzky Park area has one of the lowest days on market averages of the city and housing prices have increased drastically, in some cases doubling. This is due to investors. They recognized the future desirability of the proximity to the Mayo Clinic system and began purchasing properties in that area. Now, the majority of many of the neighborhood's streets are comprised of investment properties. The competition in that industry is the reason for Kutzky Park's current success and the process would have been greatly elongated without investors. Further, removing their ability to rent homes in that area will lead to a sudden oversupply of available homes, reducing home prices and setting back the progress that has been made.

Increased Cost to Taxpayers

As an ever developing city, Rochester is experiencing economic growth and prosperity as well as increased expenditure. One of the increasing expenditures is our legal cost. As seen in Winona, the unlawful restriction of property rights brings with it a heightened sense of preservation for our lawful right. As we saw recently, the Minnesota Supreme Court refused to rule on the constitutionality of the '30% rule' under the guise that the original parties bringing the suit are no longer affected by the ordinance. At this point, the ruling by the appellate court holds precedence and the ordinance is allowed to still be in place. An implementation of this rule in Rochester would bring with it further legal strife. It appears to be counterproductive to introduce a legally questionable law, sold to be an aid to citizens, but force the citizens to challenge its constitutionality by bringing suit against their city who will use the citizens' tax dollars to defend that law. We believe this law should not even be considered until the inevitable legal battle is pursued, and paid for, in some other city.

An Image of Rochester

The citizens of Rochester care about our image and all have an interest in preserving it. We house the leader in the medical field. We are a shining example of cultural diversity. We are also compassionate to our citizens. Rochester published the City of Rochester Core Value Statements & Standards on its website. Under the 'Customer Focus' heading, it states that Rochester will 'Identify, plan for, and support customer needs.' Currently, the city has not developed a plan for meeting the projected housing needs of its future citizens. Rochester has proceeded with fervor and enthusiasm into the support role for the DMC project in anticipation of all the benefits that will come from it: increased tax revenue, increased

citizenship, increased resources, etc. However, it has no road map to handle the significant strain on housing. Ample numbers of permits are being issued to builders for multifamily projects, but all consumers do not want to be forced into a box. As discussed previously, renters have discerning needs and many of those renters seek single family home options. Now we, the city, sit behind the driver's wheel of housing, eyes closed and ready to yank the wheel rather than identify the obstacles ahead of us. Instead, let us meet this core value and identify, plan for, and support our customer needs.

Another core value and standard of Rochester states that we will 'Treat every customer well.' The law that is proposed does not meet this standard. The limitation of property rights sends a distinct message that the city will begin choosing who can win and who cannot in the game of property investment. It states that single family home owners that occupy their home have more significance to the City Council than those who operate theirs as investments. More importantly, the passing of such a law sends the message that Rochester is no longer an all-inclusive city, but rather that the city views renters as second class citizens. Just as Kutzky Park owes a debt of gratitude to investors for the preservation of that neighborhood, the City of Rochester owes the same debt to each citizen that has come to our city to work, learn, or to live, regardless of whether they decide by their own choice to own or rent a home in this town.

Proposal to Re-read

In 2010, new ordinances were adopted by the City of Rochester in response to the complaints of citizens in the Kutzky Park area. These ordinances went further to control behavior of tenants, and penalize investors for non-compliance. Since the adoption of those ordinances, a very limited number of problems have been addressed through the means established within them. Due to the broad and encompassing nature of the ordinances currently in place, the continued existence of problems can be due to only two reasons: there have been only a few problematic investors or the city is not using the tools at their disposal to address complaints from citizens against problematic investors. If there were identifiable problems remaining, why create additional regulation yet again? If there were a sudden increased frequency in the amount of speeders on our roads, would the solution be to restrict the amount of cars allowed to be driven?

Rather than adopt new ordinances in the form of infringement on property rights, we should review the complaints citizens have issued and current ordinances. We need to specifically identify a problem before we can fix it. I believe that there are ways that we can improve the current process to be more efficient and effective, ultimately reducing the reluctance of city officials to address complaints received from citizens. This can be achieved through possible amendments to current ordinances, but mainly in restructure of the oversight process. The way to adjust unwanted behavior is to unbalance the risk vs. reward scale of the offender. If there are existing problems with select investment property owners, making the risk of violation or of being caught significantly greater than the quantity of reward can deter that owner from continuing with the unwanted behavior. The current oversight of existing ordinances addressing unwanted behavior is clumsy and inefficient. Slight changes can be made to the process to correct this problem.

Closing

The rental market provides a great benefit to the city, and an invaluable service to its current and future citizens. It brings housing solutions for tenants, controllability for city enforcement, and a fuel source for small business. By constraining it with no clear reason other than contempt for rentals by a small, but vocal, group, we only serve to limit our city's potential by missing the mark on meeting our citizens' needs and hindering its productivity. Before creating more laws, we need to identify if any specific problems truly exist and then ensure we do not have the tools in existing ordinances to address those problems, for further regulation of this industry would be counterproductive to the goals for Rochester, and the needs of its citizens. Another of Rochester's values and standards is to 'Seek and consider input from our customers to continually improve services.' While the major organizations representing citizens directly impacted by this proposal were not consulted or made aware of such a plan, the RMHA requests that no further action is taken in this matter without fulfilling the standard mentioned above.

Respectfully,

Thomas Hill

Relations

Rochester Multi Housing Association