

Rental Housing Review

Presentation by Landlord Stakeholders:

- Landlord Association
- National Association of Residential Property Managers
- Spokane Housing Ventures
- Smaller Scale Landlords

Facts: Importance of rental housing

Importance of Private Housing:

- 47% of housing are rental properties
- Avg of 2.5 persons per household – 99,944 people in rentals
- 19.9% (42,201) people in poverty concentrated in rental housing
- Investment in rentals exceeds \$3 BILLION
- Property taxes \$39 million, utilities \$33 million (10% of City budget)
- Rental Income generated is over \$297 million (12% of Spokane GDP)

YET:

Dwindling pool of rentals (govt and private)	Low profitability
Ageing infrastructure	High cost to provide rental housing
Confrontational problem resolution – litigation focused	More governance – mandatory registration and inspections
Little support for landlords	No investment incentives

Representing Landlord Stakeholders:

- Landlord Association: Alexander Scott and Steve Corker
- National Association of Residential Property Managers: Eric Bisset
- Spokane Housing Ventures: Patty Webster
- Spokane Housing Authority: Cicely Bradley
- Small Scale Landlord: Heleen Dewey, Chris Bornhoft

Economics of Renter Properties									
	Owner	Renter	Total						
Single Unit	44,443	15,948	60,391						
Two-to-four Unit		8,188	8,188						
Five-plus Unit		15,480	15,480						
Total Renter Properties	44,443	39,616	84,059						
	53%	47%							
				Property Values					
	Renter Properties	Avg \$	Total \$						
Single Unit	15,948	115,000	1,834,020,000						
Two-to-four Unit	8,188	55,000	450,340,000						
Five-plus Unit	15,480	50,000	774,000,000						
Total Renter Properties	39,616		3,058,360,000						
				Property Taxes		Utilities		City Income	
	Renter Properties	Avg / yr	Total / yr	Avg / mth	Total / yr	Total / yr			
Single Unit	15,948	2,000	31,896,000	100	19,137,600	51,033,600			
Two-to-four Unit	8,188	750	6,141,000	50	4,912,800	11,053,800			
Five-plus Unit	15,480	750	11,610,000	50	9,288,000	20,898,000			
Total Renter Properties	39,616		49,647,000		33,338,400	82,985,400			
% of City 2016 Budget			6%		4%	10%			
				Rental income					
	Renter	Avg / mth	Total / yr						
Single Unit	15,948	800	153,100,800						
Two-to-four Unit	8,188	500	49,128,000						
Five-plus Unit	15,480	500	92,880,000						
Total Renter Properties	39,616		295,108,800						
% of City 2016 Budget			36%						
				\$ M					
GDP 2008 City of Spokane			17,640						
Real Estate and Rental and Leasing			2,041					12%	

<http://econpost.com/gdp/spokane-washington-gdp-table-2008>

Facts: Profit myth Single Family Residence					
Single Family Home			Profit /yr	Cash on Cash return	
Property Value			120,000		
Loan	70% of property value	70%	84,000		
Building Value	Say 80%	80%	96,000		
Rent	Monthly rent say		850	10,200	10,200
Vacancy Rate			3%	(255)	(255)
Property Management			8%	(816)	(816)
Taxes	City Taxes		2,000	(2,000)	(2,000)
Insurance			500	(500)	(500)
Repairs - annual	1% of property value	1%	960	(960)	(960)
Repairs - structural repairs	Replace house in 27 years	27	3,556	(3,556)	
Interest Rate	Est 5%	5%	4,200	(4,200)	(4,200)
(Loss) / Profit \$				(2,087)	1,469
(Loss) / Profit on Property Value %				-1.74%	1.22%

Facts: Profit myth Apartment					
Apartment - 2 bedroom			Profit /yr	Cash on Cash return	
Property Value			70,000		
Loan	70% of property value	70%	49,000		
Building Value	Say 80%	80%	56,000		
Rent	Monthly rent say		600	7,200	7,200
Vacancy Rate			3%	(180)	(180)
Property Management			8%	(576)	(576)
Taxes	City Taxes		2,000	(2,000)	(2,000)
Repairs - annual	1% of property value	1%	560	(560)	(560)
Repairs - structural repairs	Replace house in 27 years	27	2,074	(2,074)	
Interest Rate	Est 5%	5%	2,450	(2,450)	(2,450)
(Loss) / Profit \$				(640)	1,434
(Loss) / Profit on Property Value %				-0.91%	2.05%

Why do landlords invest in residential property?

- Capital appreciation – long term, repurpose property
- Got the property cheap – e.g. inheritance, foreclosure
- Alternative investment at stage of life
- Alternative investment compared to economic conditions

Increase profit by better Management :

- Increase rent over time
- Increase rent – better property condition
- Reduce Vacancies
- Good tenants – pay rent on time, take care of property, no damage
- Reduce costs by not repairing short term
- Reduce costs by not doing long term replacements
- Operate and sell before major improvements are required

Major concerns

Much of Spokane's rental woes are about high poverty, ageing infrastructure and high reliance on privately provided accommodation (landlords)

Poverty - 19.9% of people living below the poverty line, assuming that these people rent, and 44% of rental properties are to those under the poverty line.

Large number of aging properties - rental properties will become re-purposed if unprofitable or too cumbersome leading to further housing pressures

Poor data collection - by existing public agencies don't capture accurate complaints data so unknown full extent of the renter/landlord or property condition problems

Ineffective agencies - existing systems in place and in effective. It is more cost effective to strengthen existing systems rather than bring in new systems

Rent increases - Additional costs pushed to the tenant or less rental housing

No incentive programs - encourage housing investment

No mediation systems - Problem resolution is limited, combative, costly and takes a long time

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Specific concerns

1. Low income, low
2. More ageing properties
3. Less rental properties
4. Lack of affordable housing
5. Bad Neighborhoods
6. Bad Landlords
7. Bad Tenants
8. Existing compliance systems don't work
9. Mandatory inspections are ineffective, costly and won't resolve issues

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1. Low income

Population - 212,067

Low household income levels (Spokane \$43,694 US \$51,939)

Unemployment 6.4%

High poverty (19.9% Persons below poverty line 42,201)

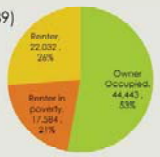
High proportion of rentals (47% Rented properties 39,616)

Low home ownership (Spokane 53%, US 63.8%)

30% of owners pay 30%+ for housing costs (2014)

52% of renters pay more than 30% of Household income for rent (2014)

44% of renter units live under poverty line



Conclusions:

- Need for economic growth, more jobs, job security, higher paying jobs

2. More Ageing Properties

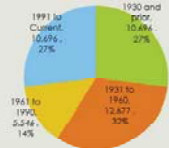
39,616 rentals

60% of rentals are over 55 years old

73% of rentals are over 25 years old

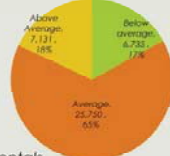
17% of properties are "below average"

No data on "not suitable for rental"



Property complaints data non existent:

2014 - 5 of 39,616 properties (Code enforcement)



Conclusions:

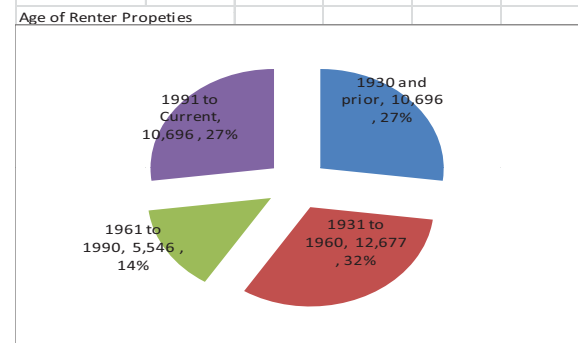
- Ageing properties cost more to repair
- Rents must include some costs toward repairs
- Unprofitable properties will be repurposed
- Eventually older houses will be decommissioned as rentals
- What support is available to keep the properties as rentals (tax breaks)

Population Demographics		
	Spokane County	City of Spokane
Population		
Persons below poverty line	76,910	42,201
Est: Households below poverty line	30,764	17,584
Est: % of rental units occupied by households under poverty line		44%

Population	484,318	212,067
Per capita income	26,235	24,848
Median household income	50,249	43,694
Household income under \$50k	50.0%	55.0%
Persons below poverty line %	16.4%	19.9%
Poverty Children (under 18)	20.0%	25.0%
Poverty Seniors (65 and over)	9.0%	12.0%
Number of households	187,603	85,300
Persons per household	2.5	2.4
Number of housing Units	206,106	95,947

Source: <https://censusreporter.org/profiles/16000US5367000-spokane>

Age of Rental Properties		
	Renter	Pct.
1930 and prior	10,696	27%
1931 to 1960	12,677	32%
1961 to 1990	5,546	14%
1991 to Current	10,696	27%
	39,616	100%



3. Less Rental Properties available

LESS: Private Housing available as owners sell out

- Increase in housing prices means properties can be sold after recession
- Rental Property Investment is high risk and low return
- Housing stocks is ageing - increased repair costs
- Increased business risks due to more compliance
- Rents are not keeping up with operating and replacement costs
- Improved economy means landlords are more selective
- Landlords move to more friendly investment environments (S. Valley)

Conclusions:

- Increasing cost of repairs of older properties
- Relatively low rents, few property condition complaints
- Very little new housing in City of Spokane
- Fewer rentals as older properties are not profitable and are retired
- Incentives to keep property stocks available
- Landlords will be more selective in tenant quality

4. Less Affordable Housing

LESS: Govt. owned housing – reliance on Private Housing

MORE: Demand for Affordable Housing from Impoverished 19.9%

- Increase in levels of poverty – All Ages 2015 - 76,910 or 16.32%, City of Spokane 19.9%
- Rent 1 bed West Central \$463, Hillyard \$442 (12% of GHI)
- Rent 2 bed West Central \$599, Hillyard \$648 (18% of GHI)
- Rent 3 bed West Central \$805, Hillyard \$799 (22% of GHI)
- Rent 4 bed West Central \$907, Hillyard \$898 (24% of GHI)

MORE: Demand for Agencies such as Spokane Housing Ventures, Charities

Conclusions:

- Fight poverty / Increase jobs / Assist home buyers / Increase govt. assistance / Encourage private housing by supporting Landlords and reducing obstacles

Investment in Residential rentals is ECONOMIC driven:

5. Bad Neighborhoods

Vacant properties (foreclosures, inability to repair)

Damaged buildings (boarded up properties)

Illegal habitation (squatters)

Illegal activities (drugs, prostitution)

Rubbish (streets, verges, houses)

Unsafe neighborhoods

Gangs

High home ownership and secure tenants strengthens community

Conclusions:

- Lack of pride and social cohesion, Unsocial behavior, more property damage, more lawlessness, health and safety, property prices decrease, owners won't invest in housing
- Empower Code Enforcement and Police to deal with these issues

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6. Bad Landlords

No Empirical Data about the number type and nature of complaints.

Take action on the few bad landlords already known to the City

Legislation and Code Enforcement systems available but ineffective

- Legislation (Landlord Tenant Act)
- Many services and avenues (unknown?)
- Issues are not reported but the systems are in place

Conclusions:

- Focus on a few bad landlords will require broad expensive solutions that don't fix the underlying issues
- City to provide support and work with Landlord Association
- Landlords training
- Make mediation available.

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7. Bad Tenants

No Empirical Data about the number type and nature of complaints.

Difficulty to force tenants to comply (privacy, legislation)

Expensive to enforce compliance or evictions

Long time to resolve and terminate tenants

Limited ability to recover damages from tenants

Few support avenues available to Landlords

Can't manage tenants behavior – health, hygiene

Tenants can't pay for damage

Tenants can't afford to move – themselves or possessions

Conclusions:

- Landlords cannot absorb costs. Reduced quality of buildings or reduced amount of buildings for rent. Costs will be passed back to tenants
- tenant training. Make mediation available.

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8. Existing Systems Ineffective

Landlord Tenant Act - provides remedies and support (litigation based)

Code Enforcement – limited data, jurisdiction, resources

Building department – limited data, jurisdiction, resources

Police – unable to resolve behavior issues

Fire Department – process allows for inspections but many recurring issues

Health Department – reporting and information systems exist

Courts – expensive, takes a long time, credit history, angry people, damage to property and people, public humiliation

Mediation limited and expensive

Very few options but to go to court

Conclusions:

- Refocus and empower code existing enforcement systems to deal with major issues
- "Pareto principle" – 80% of problems are resolved with 20% effort
- Implement training and mediation for Landlords and Tenants.
- Reduce costs and time to resolve unlawful detainer actions

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9. Mandatory Inspections are ineffective, costly and won't resolve issues

No Empirical Data about the number type and nature of complaints.

No register of issues, bad landlords and bad tenants

Mandatory inspections cannot resolve behavioural problems, poverty

Who will undertake inspections? What will be inspected? When will the inspections be done?

What about tenant privacy?

What are the Costs? For the City of Spokane / For the Tenant / For the Landlord

Costs will eventually be passed on to tenants

More stringent screening of tenants, industry register of problem tenants / eviction registers

Landlords will reduce number of rental properties or affordable rentals

Conclusions:

- Refocus and empower existing systems. Implement training and mediation.
- Costs will be passed onto Tenants
- Tenants will have less privacy in the home

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Conclusions for Spokane

1. Lack of accurate data on tenant / landlord / building issues
2. Low income, high poverty and high unemployment
3. High reliance on private rentals, low home ownership
4. Rental investment over \$3billion, 10% of City taxes and utilities revenue
5. Rental income is 12% of Spokane's GDP
6. Increasing costs will be passed to tenants
7. Look for ways to encourage and landlords to continue investing
8. Look for ways to avoid costly evictions
9. Implement low cost and accessible mediation
10. Rental properties are ageing and will reduce as repairs compliance increases
11. Build good neighborhoods which provide social cohesion
12. Lack of accurate data on tenant / landlord / building issues
13. Existing agencies are ineffective to resolve problems

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